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Core Focus: Divesting and Long-Term Performance

A Study on the Swedish Market 1996-2005

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Abstract:

I have studied 41 Swedish firms that have divested some part of their operation between 1995 and 2005. To each divesting firm I have matched a non divesting firm based on size and market-to-book. For each pair I have calculated any abnormal or excess return for both operational performance and stock price performance to see if there are any general patterns. I find a statistically significant underperformance on operational profitability of divesting firms compared to non divesting firms for the two and three years following the divestment. These results show an opposite view to previous research. In contrast to my results on operational profitability, and in line with previous research, I find a statistically significant outperformance on the market-to-book ratio for divesting firms compared to non divesting firms three years following the divestment.

Keywords: divestment, long-term performance, core business, CAR, BHAR

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1 Introduction

In recent years more and more companies have turned their strategy into focusing on their core business, thus increasing their specialization as a response to a more competitive and globalized environment. One way for firms to specialize is by divesting parts of the business that do not generate the anticipated synergies. The divestment phenomenon, just as most management trends, started in the US in the 1980s as a response to the diversification wave two decades earlier. One reason was according to Markides (1996) that diversified firms had over diversified, with a weakened profitability as a consequence, and now had to divest non core business to increase their profitability and share price. This trend also reached Europe and Sweden, the latter my market of study.

Using the study on long-term performance of divesting firms by Hanson and Song (2003) as a guide, I have studied 41 Swedish companies doing divestments during the period between 1995 and 2005. Each firm was matched against a control firm based on size and market-to-book ratio to measure any abnormal return. I have analyzed both operational profitability and stock price performance from two years prior to the divestment until three years after the event.

The results on operational profitability suggest that divesting firms outperform their control firms prior to the divestment. The divestments seem to halt this outperformance and change it into an under performance following the divestment. These results contradicts both theory and previous research on US and UK firms, and make me wonder why this is the case. However, only a few of the results are statistically significant, which makes generalizations doubtful. Anyway, one explanation might be the characteristics of the firms, e.g. Swedish firms are in general smaller and thus more integrated than the larger and more diversified US and UK firms. It seems more costly to divest a business that is closer to the core business than some parts with fewer synergies. Therefore, it might be more costly for Swedish firms to divest than for their US and UK counterparts. Another reason might be the relatively small size of the Swedish market, compared to the US, which makes it harder to find matching control firms.

The results from the analysis on stock price performance are more in line with theory and previous research. Swedish divesting firms slightly underperform their control firms prior to the divestment, but then after it divesting firms seem to outperform control firms. However, the results are far from significant making any generalizations dubious. The fact that my sample only consists of 41 companies compared to almost 200 in other, similar studies is the major weakness of this thesis. One way to solve this problem and increase the sample size would be to perform the study on Nordic rather than Swedish data.

1.1 Purpose

I want to find out if the current debate and discussion about companies' focus on core business really is sound and if there are any gains to make from such a strategy. The purpose of this thesis is to investigate and empirically test the performance of Swedish firms that choose to focus on their core operations by divesting some part of their business. I intend to look at a firms' operational performance as well as their stock price performance. The link between these two measures is that stock prices are based on expectations on future profits. Hence, expectations of a good (bad) operational performance should yield a good (bad) stock price performance.

1.2 Research Contribution

A large part of the previous literature in the field corporate takeovers have been focused on mergers and acquisitions and their implications and relatively little has been written on divestments, even though they are somewhat interlinked. Some authors even use the word de-merger for divestments thus meaning that a divestment is a merger in reverse. However, since the change in the corporate strategy trend from diversifying to stronger focus on core activities more and more scholars have shown interest in and written about divestments.

While most divestment studies measure the stock price reaction around the announcement there are only a few that measure stock performance in a longer perspective. This distribution is rather natural since according to the efficient market hypothesis that prevails today, there should be no abnormal stock return after an immediate adjustment to new information. However, there are studies that anyhow indicate abnormal stock return in the longer run. Further, these long-term studies also look at the operational profitability and in general document an increase in profitability for firms after a divestment. The contribution of my thesis is that it enriches the pool of long-term studies both on stock price performance and operational profitability.

Another way in which my thesis will contribute is its focus on Swedish data. Previous studies on divestments as a whole have mainly observed US data and very few have looked at European or especially Swedish data. My thesis is, as far as I know, the first study that combines these two categories thus measuring the long-term performance on Swedish divesting firms.

Finally, I will try to build upon, and compare my results to, a thesis that measured the short-term performance (announcement reaction) on Swedish divesting firms. My result on operational performance will thus be some form of check to the announcement reaction in the short-term study. Though, due to

problems with obtaining data I will only analyze a subset of the set of firms used in the previous study. Hopefully, I can still bring some new insight to the findings in that study.

1.3 Outline

Chapter 1 begins with what can be seen as a summary of the entire thesis. It is followed by the purpose of the thesis and the contributions of the findings in this thesis to the previous research within the field. In Chapter 2 the theoretical framework that the analysis is built upon is presented along with a description of previous research. The theory and previous research is then together with the purpose merged into the hypothesis for the thesis. Chapter 3 describes the methods that I use to evaluate the performance of the sample firms and Chapter 4 describes the selection process of the sample firms. Along with the selection I also describe the characteristics of the sample firms in that chapter. In Chapter 5 the results of the analysis is presented and discussed. Finally, Chapter 6 presents the conclusions of the findings and a more elaborate discussion of their implications. Also in the last chapter some shortcomings of my work are discussed and some suggestions for future research.

2 Theoretical Framework and Hypothesis

2.1 Diversification and Refocusing

Focusing on core business is a well known mantra in the business world of today. It became more frequent in the 1980s as a response to the diversification wave of the 1960s. In the 1980s, at least American firms, started to undo their previous diversifying strategy by divesting unwanted units. Kaplan and Weisbach (1992) present evidence that the most cited reason for divestitures is to change corporate focus or strategy. Other and less frequent cited reasons are to finance an acquisition or a leveraged buy-out (LBO); poor performance; antitrust; needing cash; defending against a takeover; and receiving a good price.

2.1.1 The Divestment Phenomenon

A divestment is essentially a sale by an organization of one part of itself to another party. There are different kinds of divestments and among the most frequently used are ordinary divestment, spin-off and equity carve-outs. In an ordinary divestment the divesting firm is selling a part of itself (most often a single asset, a unit, a division or a subsidiary) to another company. In a spin-off the divested part is organized as a new standalone company and the ownership is distributed to the owners of the divesting firm. Finally, an equity carve-out is like a spin-off but where the ownership of the new company is offered through an initial public offering (IPO).

Researchers have divided divestments into two categories; voluntary and involuntary. The theory also states that the two categories should yield different stock price reactions. For voluntary divestments, which is the most frequent type, the market reaction should be positive, or at least not negative, since positive or zero NPV projects is what the management of the divesting firm seeks in order to maximize shareholders' wealth (Boudreaux 1975). On the contrary, for involuntary or forced divestments, i.e. by some antitrust authority or other judicial system, the market reaction should be negative. Boudreaux (1975) argue that such forced divestments are negative NPV projects for the divesting firm because it has to sell a profitable business, if the authorities have done their job. Throughout this paper I will regard all divestments as the same regardless of its type or if it is voluntary or involuntary. Since voluntary divestments are the lion's share of all divestment I do not expect the involuntary divestments to affect the outcome of my study.

Markides (1996) present ideas regarding the diversification and divestment trends by saying that all firms have a limit on how much they can diversify profitable, and that this limit depends on firm specific

characteristics. Further, he states that firms that have diversified beyond the limit suffer by lower profitability and lower market value. Also, the author claims that the market for corporate control is the most important factor why over-diversified firms reduce their diversification to return to equilibrium. Markides continues to say that even though “we cannot rule out the possibility that in the 1980s the costs of over-diversification became so great that firms voluntarily undertook the necessary restructuring, it is unlikely that they did so without some outside impetus.” (p.29) The impetus was in this case a more active market for corporate control. Markides’ results from a questionnaire survey of 149 Fortune 500 firms show that 72 percent of the CEOs claim that they restructured as a precaution not to be a takeover target. Hence, they were afraid of the market for corporate control even if they were not actual targets. As a consequence of the divestment strategy both the firms’ market value and their profitability will improve.

2.1.2 Value Creation from Divestments

According to Hanson and Song (2003) value is created from divestments for three main reasons; (1) eliminating negative synergies; (2) mitigating agency problems, information asymmetry and debt overhang; and (3) the divested unit is worth more to someone else.

Firstly, negative synergies emerge for example from operations that are unrelated to the core competences of the firm and thus interfere with those operations (John and Ofek 1995). Other negative synergies may come from a failed acquisition and the resources it takes to integrate that into the old business (Kaplan and Weisbach 1992), or businesses that constantly lose money due to low efficiency or organizational structure and use resources better allocated elsewhere in the organization. Hanson and Song (2003) claim that as these negative synergies are removed by divestments, “gains arises from improved efficiency in other parts of the firm.” (p.323) Hence, the expected outcome, according to the authors, would be improved long-term operational and thus stock price, performance. The gains also becomes larger the more unrelated the divested assets are to the seller’s core business (John and Ofek 1995).

Secondly, divesting a unit may be an efficient way to raise more capital in an environment with agency problems, information asymmetry and debt overhang. According to Lang et al. (1995) and their financing hypothesis, implying that managers pursue their own objectives and value size and control over shareholders’ good, “management has little incentive to sell assets unless it needs to raise funds and cannot do so cheaply on capital markets.” (p.5) The reason for management to raise funds are to reduce the costs of financial distress, pay dividend to shareholders to avoid a takeover, or to invest in projects that management rather than shareholders favor. The sale would benefit shareholders since the announcement communicate that the firm have used the least costly way to finance itself. Lang et al. (1995) also point out that the shareholders’ gains are dependent on how the proceeds from the sale are

used. If they are used to pay down debt or is distributed to shareholders, either by dividends or share buy-backs, the market reaction is more favorable than if the proceeds are kept within the firm. Hanson and Song (2003) states that by reducing the agency problems and information asymmetries a divestment produce a onetime gain, in contrast to removing negative synergies, which affects long-term performance. However, the authors point out that “when managers retain funds from an asset sale and use them to pursue their own objectives, which is likely if managers value firm size and control, long-term performance might actually suffer.” (p.323) Hence, with a self-dealing and empire building manager divestments may even reduce long-term performance.

Further, Bergh et al. (2008) argue that there are gains to be made from reducing information asymmetries by divestment, but that the size depends on the implementation strategy. The authors’ hypothesis is that “knowledge about the restructured assets and the restructuring firm’s diversification strategy is not distributed equally between managers and owners, and that managers select restructuring implementation alternative to transform the information differences into financial gain.” (p.134) They find that spin-offs are the most profitable and efficient way to reduce information asymmetries. In that way you transfer assets to the capital market and at the same time increase transparency in the divesting firm.

While the two previously presented reasons for value creation in divestments originates from seller, the third originates from the buyer (Hanson and Song 2003). The gains from allocating resources in a more efficient way, by selling assets that are worth more to someone else, are captured by the seller through efficient bargaining (Hite et al. 1987). Lang et al. (1995) call this view, the efficient deployment hypothesis, which suggests that “managers only retain assets for which they have a comparative advantage and sell assets as soon as another party can manage them more efficiently irrespective of their financial situation; stockholders benefit from asset sales equally of whether managers re-invest the proceeds or pay them out.” (p.4) One reason why some assets are worth more to someone else than the current owner is that the divested unit is a better fit to the buyer’s organization than to the seller’s (John and Ofek 1995). Hence, the buyer thinks it can create positive synergies with the purchased assets and its existing business and this gain is transferred to the seller.

A very extensive list of sources of gains from divestments is presented by Kaiser and Stouraitis (1995). Some of the types have already been mentioned above such as the fit of the unit being divested; undo previous diversification; raising cash; bondholder wealth expropriation (the debt overhang problem); and reduce agency costs. However, the authors also claim divestments gains come from tax/regulatory factors; takeover defense; reduction of bureaucracy; management wage and decision flexibility; change in economic environment; and merger motivations. Regulatory issues why firms divest assets may for

instance be to escape some regulations created by a foreign subsidiary. Divestments as a takeover defense are best exemplified by the “scorched earth” approach, in which the firm’s crown jewels are sold to prevent a raider from taking over. However, this approach as a value enhancing strategy may be questioned since these actions often are forced (compare with the discussion previously on involuntary divestments).

2.2 Empirical Evidence

2.2.1 Short-term

The majority of the short-term studies have documented a statistically significant positive abnormal return indicating that divesting units from the parent unleashes hidden shareholder value. One such study was made by Fridberg and Nylin (2006) where they analyzed stock price reactions to announcements on divestments/spin-offs/equity carve-outs undertaken by Swedish listed companies between 1995 and 2006. They found that these actions led to positive abnormal return of 0.8-1.5% following the announcements.

By examining a number of studies on price reactions to divestment announcements Markides and Berg (1992) try to establish which divestments are good and which are bad, thus which increases and decreases shareholders’ wealth respectively. They list a number of factors, both internal and external, why companies divest. Their conclusion is that companies only should divest units based on strategic reasons. Especially, companies “should divest units that are not interrelated and are not closely related to the firm’s core business” (p.14). Markides and Berg also discourage divestments that are not based on strategic logic, such as getting rid of an unprofitable unit, boosting stock price or to fool the capital market. A divestment should not be a goal in itself but rather a mean to a more efficient organization.

Lang, Poulsen and Stulz (1995) find that the stock price reaction to assets sales is positive but it is also significantly larger if the proceeds of the sale are paid out either to shareholders or debt holders. Their evidence supports their financing hypothesis that “management sells assets to obtain funds to pursue its objectives when alternative funding is either too expensive given its objectives or unavailable.” (p.22)

In the study by Kaiser and Stouraitis (1995) on European¹ data they find that short-term stock price reaction is positive and consistent with similar US studies. However, their main finding is when looking at midterm stock price reactions (60 days post announcement in their case) were they discover that for Swedish and UK firms the stock price improves substantially during that time. These results contradict those for US where Jain (1985) looked at stock price reactions to divestment announcement up to 120 days post announcement and found no significant return at all.

¹ Included in their sample are companies from France, Germany, Sweden and the UK.

2.2.2 Long-term

In one of the few studies on long-term performance following divestment announcement Hanson and Song (2003) find that for US companies divesting firms underperform control sample firms two years preceding the divestment. This is true regardless if the performance measure is buy-and-hold abnormal return, market-to-book ratio or return on assets. Further, Hanson and Song find that divesting firms outperform control sample firms three years following the divestment. Their explanation to this is that a divestiture remove negative synergies and thus improve both operational and stock price performance.

John and Ofek (1995) find support for their hypothesis that firms divest units to increase their focus and improve the performance of the remaining business. Hence, to focus on core business is a good strategy that also pays off in real value terms. The authors document a significant operational performance three years following the divestiture. However, the improvements are only present for companies that divest to increase their focus. Finally, John and Ofek claim that the focusing argument seems to better explain divestitures than arguments as finding a better fit or to repay debt.

Markides (1996) investigated diversification and refocusing among Fortune 500 firms during the 1980s and found that firms that refocused, thus divesting a part of its organization, were more diversified and less profitable than their counterparts. Apart from finding significant positive abnormal return of about two percent following the divestment announcement, Markides also found this stock market return to be higher for highly diversified and less profitable firms. Hence, the firms that are most in need of a change gain the most. Markides further observed profitability improvements following a divestiture but that the full effect is not recognized until three to four years after the sale.

Another study that confirms the profitability improvements is a study by Haynes, Thomson and Wright (2002) on profitability following a divestment on UK firms during the late 1980s and early 1990s. Their results suggest that divestments have a substantial positive effect on the divesting firm following a divestment that is statistically significant.

2.3 Hypotheses

To conclude the theory and empirical evidence, what is suggested is that in general divesting firms underperform their non-divesting counterparts up until the divestment. But by divesting non-core operations firms remove negative synergies and accordingly outperform their counterparts after the sale. Since I have decided to measure both operating performance and stock price performance I also have divided the general hypothesis into two corresponding parts. My hypotheses are accordingly:

*H1: Swedish divesting firms underperform their non-divesting counterparts on **operational** performance prior to the divestment but outperform their counterparts after the divestment.*

*H2: Swedish divesting firms underperform their non-divesting counterparts on **stock price** performance prior to the divestment but outperform their counterparts after the divestment.*

3 Method

Numerous scholars have over the years looked at the short-term (up to five days post announcement) stock price performance following divestment announcements while only very few studies have looked at the long-term (more than one year) performance. The most plausible explanation is that doing event studies and analyzing stock market abnormal return over a longer period (one to five years) rather than shorter (a couple of days) is not as straight forward as it might seem at first glance.

According to Fama (1998) the advantage of short-term studies are the fact that daily returns are expected to be zero and so the model for expected returns is less biased. Fama continues to say that the general assumption of the short-term studies is market efficiency and that there is very little or no lag in the price reaction following the divestment announcement. Long-term studies on the other hand are plagued with methodological problems.

Many scholars (e.g. Fama 1998, Mitchell and Stafford 2000) describe and discuss the measurement problems involved. Some authors even say that such anomalies can be attributed to chance, since according to the efficient market hypothesis there should be no abnormal return in the long run.

First, there is a bad model problem meaning that any asset pricing model is only a model trying to predict expected return and thus cannot describe the future returns accurately. This bad model problem also increases with the length of the post event window where returns are measured. Second, there is a problem of how to measure the abnormal return.

3.1 CAR

Basically there are two alternatives to assess the long-term stock price performance; cumulative abnormal return (CAR) and buy-and-hold abnormal return (BHAR).² To calculate the long-term CAR the monthly abnormal returns are summed, rather than the daily abnormal returns when short-term periods are measured. Define R_{it} as the simple return in month t for asset i , $E(R_{it})$ as the expected, or benchmark, return in month t for the same asset and $AR_{i,t} = R_{i,t} - E(R_{i,t})$ as the abnormal return in month t . Finally, the CAR is calculated as follows:

$$CAR_{i,\tau} = \sum_{t=1}^{\tau} AR_{i,t}$$

² See Barber and Lyon (1997) and Mitchell and Stafford (2000) for more detailed discussions.

3.2 BHAR

However, for an investor that holds a security for a long post-event period the CAR method does not truthfully correspond to the investor's experience of the stock return. This is because the CAR method does not account for compounding³, which is an important effect if you hold a stock for longer periods. In that case it is better to compound long-term returns as in the BHAR approach (Barber and Lyon, 1997). It is calculated by multiplying the return on the sample firm i and then subtract a buy-and-hold investment in the benchmark asset/portfolio.

$$BHAR_{i,\tau} = \prod_{t=1}^{\tau} [1 + R_{i,t}] - \prod_{t=1}^{\tau} [1 + R_{benchmark,t}]$$

Barber and Lyon (1997) claim that both measuring methods come with statistical problems where those for the CAR are more severe than for the BHAR. The authors document that CARs only are biased predictors of BHARs, which in the end might lead to incorrect inferences. Due to all these problems there is no general solution on how to measure long-term stock market performance, some scholars favor the CAR model and some favor the BHAR model. I therefore chose to calculate both BHARs and CARs for the sample.

3.3 Financial Ratios

As benchmark asset/portfolio Barber and Lyon recommend to use a control group that is matched on size and market-to-book ratio rather than a market index. In their survey they find that abnormal long-term returns are biased if calculated with a market index while calculated using size and market-to-book matched control firms yields well specified tests. Hanson and Song (2003) use the Barber and Lyon method. The matching for each divesting firm with a control firm is done by first finding all firms within 80 to 120 percent of the divesting firm's market value of equity and then chose the control firm with closest market-to-book ratio. Therefore, I analyze and compare sample firms' and control firms' market-to-book values and how they evolve during the investigation period, just as Hanson and Song (2003) did. This ratio may differ a lot between companies depending on the industry the firm operates in and if the firm is growing fast or not. Generally, a fast growing firm has a higher market-to-book value than a more slowly growing company. A company has a high market-to-book value because investors expect profits to grow and become larger in the future than they are today.

³ Compare arithmetic and geometric means.

To measure the operational performance I chose to analyze the same variable as Hanson and Song (2003) to get comparability. The variable chosen is the firms' earnings before interest, tax and depreciations (EBITD) over total assets (TA) thus $EBITD/TA$. EBITD is a commonly used and accessible profit measure and by setting that in relation to total assets I get a yield that is comparable between firms.

4 Data Sample

4.1 Sample Selection

The base of the data sample in this survey is the dataset that Fridberg and Nylin (2006) used in their survey on short-term price reactions to divestment announcement. In Table 1 their results on short-term price reactions are displayed. They identified 120 divestment transactions, with a minimum value of 25 million USD⁴, done by Swedish companies listed on the Stockholm Stock Exchange during the time between 1st of July 1995 until the 31st of December 2005. These 120 transactions were done by 62 companies of which 20 companies did more than one divestment during the period.

TABLE 1. RESULTS FROM DIVESTMENT ANNOUNCEMENT RETURNS (FRIDBERG AND NYLIN, 2006).

Base Sample	Market Model		
	1-day	2-day	5-day
Max	32.8%	30.0%	25.4%
Min	-5.7%	-10.9%	-15.8%
Mean (Sample Aggregated CAR)	1.0%	0.8%	1.5%
Median	0.1%	0.1%	0.7%
% Positive Returns	52.5%	51.7%	56.7%
% Negative Returns	47.5%	48.3%	43.3%
t-values (observed)	3.07	2.64	5.58
t-values (critical 1% level)	2.36	2.36	2.36

For the companies doing more than one divestment I only consider the first one. In most cases companies that did more than one divestment these were clustered in time. Hence, I chose to regard these sell-offs as a strategic program from the company's view, even though I have not received any such information, and thus measure the effect from the first one. This constraint is done to limit the correlation and effects of previous acquisitions if I were to evaluate all of the company's divestments.

I then collected accounting data, market capitalization and daily stock prices from two years before until three years after the divestment for the sample firms. For the accounting data and the market capitalization I set the fiscal year of the divestment as year zero. Hence, data one year prior to the divestment is data from the end of the fiscal year one year prior to year zero. For stock prices I chose the day of the announcement as event date and calculate abnormal return relative to that date.

⁴ Approximated with an exchange rate of 8 SEK/USD.

I matched each sample firm with a control firm, also listed on the Stockholm Stock Exchange, in the same way as Hanson and Song (2003) did by first group firms within 80 to 120 percent of the market capitalization of the divesting firm. Then as control firm I chose the firm with closest market-to-book ratio to the divesting firm within that group. A limitation that I have chosen is that a firm cannot be a control firm to two divesting firms unless the years relative to the divestments do not overlap. For example if firm A does a divestment in year 1997 and is matched with control firm C then firm C is restricted from being a control firm to a firm that does a divestment before year 2003. As control firms I also allow divesting firms but only to the point where they follow the limitations just stated above.

Since some of the firms, both divesting and control, did not have data for the whole period I chose to include only firms that had data for at least four out of the six years. All in all, this reduced my sample of divesting firms from 62 to 41 firms, which will be referred to as the “41 sample”. However, since I could not get complete information on all of these firms, e.g. some firms were delisted or merged or the control firm lacked some information, I also made a sub sample of firms with complete information, including the corresponding information for the control firms. This sub sample contains 29 firms and will be referred to as the “29 sample”. In Table 2 I present the selection process and the remaining number of firms. For a list of the firms in each sample see Appendix.

TABLE 2. SELECTION PROCESS DESCRIPTION.

Elimination Description	Remaining Sample
<i>Initial transaction sample</i>	<i>120</i>
Number of divesting firms	62
Divesting firms with less than four years of data*	56
Divesting firms without a matching firm	45
Divesting and matching firms with less than six years of data* (<i>41 sample</i>)	41
Divesting and matching firms with data* for all six years (<i>29 sample</i>)	29

* Stock prices, operational profitability and market-to-book values.

4.2 Sample Description

In Table 3 the distribution of the divestments each year and their total value is presented for both the full sample and the complete sample. The distributions of number of divestments are fairly even distributed but the values of the transactions differ quite significantly. The large variance in the divested unit’s value is a result of the limited number of transactions. In the paper by Hanson and Song (2003) their sample size was 213 with the number of divestments for each year running up to 34 divestments, which is almost

as many as I have in my whole sample. The total value of the divested assets is about \$11.1 billion for the full sample and about \$5.8 billion for the complete sample.

TABLE 3. DISTRIBUTION AND TOTAL VALUE OF THE DIVESTMENTS DURING THE SAMPLE PERIOD.

Year	41 Sample		29 Sample	
	Number	Value (million \$)	Number	Value (million \$)
1996	5	1 733	1	1 172
1997	3	449	3	449
1998	3	1 117	3	1 117
1999	4	1 286	1	29
2000	4	499	3	372
2001	7	754	6	617
2002	3	420	3	420
2003	3	241	3	241
2004	8	4 452	6	1 422
2005	1	108	0	0

Table 4 present the descriptive statistics of the divestments and the divesting firms in both samples. There is a significant difference in both the mean value and the median value of the divestments between the two samples. Divestments in the “41 sample” had a mean value of \$270 million (median \$127 million) which can be compared with \$190 million (\$100 million) reported by Hanson and Song (2003); \$368 million (\$236 million) reported by John and Ofek (1995). Further, while there is almost no difference between the smallest divestments in each sample there is a great difference between the largest divestments. In the “41 sample” the largest divestment is Gambro AB’s sale of Gambro Healthcare Inc. to DaVita Inc. for \$3 005 million in 2004, while the largest divestment in the “29 sample” is valued at \$1 172 million. That divestment is in the real world actually two, but since they are done by the same company the same year I treat them as one (for an explanation I refer to my discussion in the previous part). In the “41” (“29”) sample there are six (five) companies that do more than one divestment the same year (for specification thereof see Appendix).

TABLE 4. DESCRIPTIVE STATISTICS OF THE DIVESTMENTS.

	41 Sample	29 Sample
Number of Divestments	41	29
Total Value of Divestments (million \$)	11 059	5 839
Mean Value of Divestments (million \$)	270	201
Median Value of Divestments (million \$)	127	70
Largest Divestment (million \$)	3 005	1 172
Smallest Divestment (million \$)	25	27
Divesting Firm's Mean Equity Market Value* (million \$)	2 106	2 229
Divesting Firm's Median Equity Market Value* (million \$)	786	752
Mean Relative Value of Divestments	0.13	0.09
Median Relative Value of Divestments	0.16	0.09

* Values are recalculated from SEK to USD based on an exchange rate of 8 SEK/USD.

The divesting firm's equity was valued at \$2.1 billion (\$0.79 billion)⁵ for the "41 sample" and \$2.2 billion (\$0.75 billion)⁶ for the "29 sample". These values can be compared with \$7.8 billion (\$2.4 billion) reported by Hanson and Song (2003); \$4.6 billion reported by John and Ofek (1995). The differences are most certainly attributed to the fact that the Swedish stock market is smaller than the American and thus the pool of large firms is smaller. It is therefore harder to find a matching control firm to large Swedish firms than it is for corresponding American firms. Further, the relative values of the divestments are 0.13 (median 0.16) and 0.09 (0.09) for the "41 sample" and the "29 sample" respectively. These numbers differ quite a lot from 0.27 (0.05) that Hanson and Song (2003) report.

⁵ Assuming an exchange rate of 8 SEK/USD

⁶ Ibid.

5 Results

5.1 Results for the “41 Sample”

In Table 5 the abnormal returns and the excess financial ratios for the “41 sample” are presented. The BHAR and CAR are calculated according to the methods in chapter 3. The excess financial ratios are changes in the market-to-book ratio and return on assets over the same period as the stock price performance is measured. They are computed by first calculating the change in each ratio for each firm relative to the year of the divestment. Finally, the excess ratio is calculated by subtracting the change in the control firm’s ratio from the change in the divesting firm’s ratio.

TABLE 5. ABNORMAL RETURNS AND EXCESS FINANCIAL RATIOS.

		Year Relative to Divestiture				
		-2 to 0	-1 to 0	0 to 1	0 to 2	0 to 3
BHAR	<i>Mean</i>	-0.082	0.048	0.010	0.071	0.015
	<i>Median</i>	-0.150	0.035	-0.071	-0.042	0.021
	<i>t-statistics</i>	-0.52	0.42	0.13	0.55	0.05
CAR	<i>Mean</i>	-0.053	-0.001	-0.012	0.061	0.008
	<i>Median</i>	-0.105	0.065	-0.050	-0.035	-0.037
	<i>t-statistics</i>	-0.47	-0.01	-0.19	0.62	0.05
sample size		37	40	40	37	33
Excess M/B	<i>Mean</i>	-0.848	-0.501	0.646	1.306	0.989
	<i>Median</i>	-0.24	-0.16	0.07	0.30	0.38
	<i>t-statistics</i>	-1.31	-1.27	1.05	1.40	2.77
Excess EBITD/TA	<i>Mean</i>	0.051	0.055	-0.051	-0.082	-0.098
	<i>Median</i>	0.019	0.021	-0.009	-0.027	-0.050
	<i>t-statistics</i>	1.38	1.46	-1.37	-1.83	-1.90
sample size		41	41	41	35	29

5.1.1 Stock Price Performance

The values for mean (median) BHAR reported in Table 5 show that in the two years prior to the divestment divesting firms stock price underperform their control firms by 8.2 (15.0) percent. However, with a t-value of -0.52 it is far from statistically significant. Comparing these results to those reported by Hanson and Song (2003) with a mean (median) of -12.6 (-3.6) percent and a t-value of -2.33 the mean (median) are of the same sign and somewhat the same size but it is a big difference in significance. Just as for Hanson and Song's results the underperformance of Swedish divesting firms prior to the divestment seems to switch into an outperformance closer to and following the divestment. In the two years following the divestment divesting firms outperform non divesting firms by 7.1 percent, though the median is minus 4.2 percent. Neither in this case are my results significant. A difference in my results from those reported by Hanson and Song is that the shift from underperformance to outperformance comes earlier, in the year prior to the divestment in my case compared to post divestment in their case. One reason might be that Swedish investors might anticipate the divestment earlier and thus revalue the firm earlier, but it is not likely. The most reasonable explanation is chance because of the low t-value, which in turn is a consequence of the limited sample.

In addition to the BHAR analysis I also calculated the CARs for the sample. Those values show similar characteristics as the BHAR values. Also these values indicate an underperformance of divesting firms relative to non divesting firms in the years prior to the divestment and a shift into outperformance following the divestment. For the period from two years prior to the divestment up until the divestment the mean (median) stock price performance of non divesting firms was 5.3 (10.5) percent better than for divesting firms. Further, during the two years following the divestment the mean return on divesting firms' shares were 6.1 percent better than for non divesting firms.

A remark on the stock price performance is that neither the BHARs nor the CARs are statistically significant enough to tell us if divesting firms outperform non divesting firms during the investigation period. The t-values for the BHAR calculations range from -0.52 to 0.55 and the corresponding values for the CAR calculations are -0.47 to 0.62. In comparison to Hanson and Song's result my t-values are slightly smaller, but nor did they have statistically significant results except for one period.

5.1.2 Financial Ratios

For the excess financial ratios the results are somewhat ambiguous and not as straight forward as expected. On the one hand, the results for the Excess M/B variable indicate that firms that divest some part of its operations underperform their non-divesting counterpart up until the divestment and that they outperform their control firms in the years following the divestment. On the other hand, the results from

the analysis of the changes in return on assets (EBITD/TA) between divesting and control firms show a picture that to some extent is contradictory to both theory and previous research.

As can be seen in Table 5 the mean Excess M/B during the two years prior to the divestment is -0.848, which mean that the change in the market-to-book ratio during those years is greater for control firms than for divesting firms. Even though the results are not statistically significant, possibly due to the low number of observations, they point toward underperformance. Comparing my results to those found by Hanson and Song (2003) it is worth noting that the Swedish divesting firms perform much worse prior to the divestment compared to their control firms than American divesting firms do. Hanson and Song (2003) document a mean Excess M/B of 0.085 in their study from two years prior to the divestment up until the year of the divestment. Yet, the following improvements of the market-to-book ratio for divesting firms relative to their control firms are similar in both studies. I recognize an increase in excess values from -0.848 (median -0.24) to 0.989 (median 0.38), statistically significant at the one percent level, the three years following the divestment. Even though the largest excess is for the two years following the divestment, 1.306, that result is not statistically significant.

These results are also illustrated in Table 6 where I present the individual ratios for both divesting firms and control firms. Some aspects concerning the M/B ratios are worth mentioning. First, there is not much of a difference in the ratios two years prior to the divestment. This is of no surprise since the firms are matched on M/B at that moment. That it is a rather good match is shown by the tests of difference that show that the two variables cannot be said to be different from each other. Second, the change in the ratios expressed by the Excess M/B ratio is traced back to the progression of the different individual ratios. Divesting (matching) firms' M/B ratio first declines (increases) from 2.464 (2.494) two year prior to the divestment, to 1.943 (2.821) at the year of the divestment. Thereafter, the ratio increases (decreases) to 2.936 (1.919) three years after the event. Third and finally, the difference between the M/B ratios is only statistically significant for the last year of the analysis. Comparing my results to those of Hanson and Song (2003) mine are very much in line with theirs even though they document statistically significance in the difference test to a larger extent and also that both sets of American firms increase their M/B ratio during the whole period compared to only divesting firms in my sample.

The results from the analysis of the changes in return on assets (EBITD/TA) are as mentioned above not as expected. My results suggest a different picture than both theory and previous research depict, but it is worth noting that neither result is statistically significant. For both periods up until the divestment, divesting firms increase their profitability more than control firms do, which is shown in Table 4 by means of 0.051 and 0.055 respectively for Excess EBITD/TA for the two first periods.. These means can

be compared to the means that Hanson and Song (2003) got for the same periods of -0.011 and -0.001. Hence, my results are of the opposite sign and significantly larger. The latter can be said regarding all Excess EBITD/TA values in my study compared to theirs. Further, looking at the years following the divestment the results are the other way around, namely that control firms increase their profitability more than divesting firms. That is true for all three periods. Another difference to the pre-divestment period is that these results, at least for the two longest time spans after the divestment, are significant at the ten percent level. These results indicate that Swedish divesting firms perform worse instead of better relative to their control firms in the years around the divestment. However, since the Excess EBITD/TA ratio measure relative performance it might be the case that divesting firms still improve their profitability but that control firms improve even more. In Table 4 the progression of each ratio can be followed. There the patterns of the increase (decrease) prior to the divestment for divesting (control) firms and the corresponding changes after the event are shown. For example the mean profitability for divesting firm increases from 12.5 percent in year -2 to 18.7 percent in year 0 and thereafter it decreases to 11.1 percent three years after the divestment. The corresponding progression for control firms is that the profitability first increases from 15.2 percent to 16.4 percent leading up to the divestment year and then it continues to increase to 18.7 percent in the last year studied. In comparison to Hanson and Song's results the mean profitability for divesting firms first dropped from 14.8 percent to 13.5 percent from year -2 to year 0 and then increased to 15.4 percent in year 3. At the same time, the mean for the control firms decrease during the entire period from 15.5 percent in year -2, via 14.3 percent in year 0, to 13.8 percent in year 3.

Also worth noting are the median values that are quite stable over the whole period for both types of firms. Finally, neither test of difference are significant, but for the difference in EBITD/TA two and three years after the divestment they are very close to be significant at the ten percent level with the pairwise t-test.

TABLE 6. FINANCIAL RATIOS.

		Year Relative to Divestiture					
		-2	-1	0	1	2	3
M/B Divesting	<i>Mean</i>	2.464	2.450	1.943	1.951	2.365	2.936
	<i>Median</i>	1.71	1.65	1.62	1.66	1.70	1.99
M/B Matching	<i>Mean</i>	2.494	2.827	2.821	2.183	2.064	1.919
	<i>Median</i>	1.48	1.73	1.87	1.69	1.83	1.69
test of difference	<i>pairwise t-stat</i>	-0.13	-0.65	-1.09	-0.85	1.12	2.76
	<i>Wilcoxon z-stat</i>	-0.05	-0.60	-1.61	-0.77	0.19	2.31
EBITD/TA Divesting	<i>Mean</i>	0.125	0.130	0.187	0.128	0.100	0.111
	<i>Median</i>	0.120	0.144	0.147	0.127	0.115	0.126
EBITD/TA Matching	<i>Mean</i>	0.152	0.160	0.164	0.154	0.154	0.180
	<i>Median</i>	0.146	0.136	0.132	0.142	0.126	0.141
test of difference	<i>pairwise t-stat</i>	-1.29	-1.34	0.78	-0.97	-1.63	-1.64
	<i>Wilcoxon z-stat</i>	-1.21	-0.88	0.08	-0.32	-0.75	-1.22
sample size		41	41	41	41	35	29

5.1.3 Comparison with Previous Findings

My results on operational profitability contrast both the main theories and most of the previous findings. For example Hanson and Song (2003); John and Ofek (1995); Haynes, Thomson and Wright (2002); and Markides (1996) all report profitability improvement for divesting firms that outperform non-divesting firms after the divestment. However, Markides (1996) states that such improvements might take up to four years until realized.

The often quoted rationale behind a divestment is to focus on profitable core business and to get rid of unprofitable business, but this view come under fire according to the empirics in this thesis. How come Swedish divesting firms underperform their control firms, while American and UK firms doing similar divestments outperform their relative peers respectively? The reasons why my results differ might be several. Firstly, it might be the characteristics of the firms studied. The divestments in the study on US firms by Hanson and Song (2003) was done during the 1980s thus undoing the conglomerate wave in the 1960s. These companies might then have been so large and diversified that divestments really made the

firm focus more on the core, thus increasing profitability. At the same time such a conglomerate wave and a reverse thereof did not exist in Sweden. Swedish firms are hence smaller and more integrated to begin with, and it is more costly for them to divest some parts of their business compared to their American counterparts. If this is the case the profitability improvements might for Swedish firms even take longer than the three to four years that Markides (1996) claims.

Secondly, I do not account for if the divestments are voluntary or involuntary. Since most divestments are voluntary I assume that my sample is representative of the universe of divestments. This might be an incorrect assumption in this case since in the aftermath of the dotcom hype, in the middle of my investigation period, there are some views that those divestments undertaken at that time were so called fire asset sales. Such divestments are forced rather than voluntary and because of that they might not be value enhancing in the way voluntary divestments are. They might have been done only to save what was able to be saved. Looking at the divestments during the specific period in my sample I count to 18 divestments in the 41 sample and 13 in the 29 sample. Looking more closely at which these firms are I count 8 industrial; 4 IT/telecom; 3 medical; and 3 others. From this it is hard to draw any conclusions other than that they seem to well represent the categories at the Stockholm Stock Exchange as a whole. For a further analysis one must look at the cited reason behind each one of these transactions.

Comparing my results on long-term performance with the short-term performance study made by Fridberg and Nylin (2006) both are in line with theory and previous finding. However, their results are statistically significant. They document immediate positive gains at divestment announcement of 0.8-1.5%, see Table 1. Hanson and Song (2003) and Bergh et al. (2008) describe these gains as one-time gains due to reduction of information asymmetries and mitigation of agency problems. The sale thus increases the transparency by communicating the market value of the assets. Before the sale investors might not know the true value of the assets because of management discretion and therefore discount the value with some risk adjustment factor. However, when the true price is revealed there are no uncertainties anymore.

Further, trying to explain the long-term gains that I find indications of, and link those to the short-term study are not easy, especially since my results point in different directions. To start with the stock price performance, that, if not statistically significant, at least indicates that divesting firms underperform matching firms prior to the sale and then outperform them the period thereafter. One explanation theory suggests is that the gains come from removing negative synergies. If that is the case then operational profitability would increase after the sale. However, my results point towards a weakened operational profitability, both relative and absolute, after the divestment. This behavior is more in line with the theory

of self-dealing and empire building managers. Such managers use the funds from the sale to pursue their own objectives rather than using them to pay down debt or distribute to shareholders. Then long-term performance would decline even if the sale generates a one-time gain. Though, I do not know how the proceeds have been used by the companies in my sample. Therefore, I cannot state anything about the behavior of the managers in my sample.

5.2 Results for the “29 Sample”

Since I do not have full information on all of my 41 sample firms and their control firms, I wanted to see if there are any differences in the results between firms with complete information and firms that do not have all the required information. I have therefore created a sub sample consisting of the 29 companies and their matching firms of which I have complete information during my investigation period. The reason information is missing for some companies might for example be that they have been delisted, or that the same has happened to the matching firm. Another reason might be that the control firm also is a sample firm that does a divestment to close to the first divestment of which is a matching firm. Thus, I want to reduce any such bias from my analysis and results.

The results are presented in Table 7 and Table 8 in the Appendix. As can be noted the last columns in those two tables are the same as in Table 5 and 6, respectively. It is because the samples are the same for that period. In general, there are no major differences between the “41 sample” and the “29 sample”. The most notable difference is that the significance levels are generally lower in the sub sample than for the “41 sample”, much because of fewer observations in the sub sample.

5.2.1 Stock Price Performance

The results from the analysis of the stock price performance between divesting firms and non divesting firms are again presented through the BHAR and CAR calculations. The results in the sub sample do not deviate much from those in the original sample. The pattern is the same with first a negative abnormal return and slightly increasing thereafter. The most notable difference is for the year just prior to the divestment where for the sub sample the mean (median) BHAR value is 0.117 (0.069) compared to 0.048 (0.035). The corresponding values for the mean (median) CAR values are 0.038 (0.081) for the sub sample in comparison to -0.001 (0.065) for the original sample. Also for the last period, zero to three years following the divestments, the signs on the mean values are reversed in the “29 sample” compared to the “41 sample”.

5.2.2 Financial Ratios

Comparing the Excess M/B between the two samples the median values are almost the same in the two samples while the mean values in the sub sample are lower than in the original sample. Also the significance levels are lower in the sub sample except for the value two years after the divestment. Even though the mean value is lower, 0.453 compared with 1.306, it is now significant at the five percent level.

For the Excess EBITD/TA values in the sub sample they show no significant difference to the values in the original sample. The only things that differ are the significant levels, which indeed are lower.

6 Conclusion

The purpose of this thesis was to investigate if it is a profitable long-term strategy for firms to divest some part of their operations to focus more on their core businesses. In my analysis I used both stock market performance and a measure of the operational performance (EBITD/TA). In addition to this I also analyzed the progress of the M/B ratio. The analysis was conducted on Swedish firms during the late 1990s and the beginning of the 2000s. To measure the abnormal return and profitability I assigned a control firm, based on size and the M/B ratio, to each divesting firm. All in all I had 41 divesting companies that matched my selection criteria.

Regarding the stock price performance, my results, though not statistically significant, point towards underperformance of the divesting firms prior to the divestment but outperformance following the divestment. The mean BHAR is increasing from minus 8.2 percent in the two years leading up to the divestment to 7.1 percent in the two years after the divestment. It seems like the divestment is a turning point for the stock price underperformance. Hence, investors might believe that a divestment is a good way to get rid of negative synergies and also that there are money to be made longer after the announcement than previously thought. My results on stock price performance following divestments are in line with theory and previous research, but it is important to note that they are far from statistically significant. Consequently, my results back Hypothesis 2, that the stock return on divesting firms underperform non divesting firms prior to the divestment and outperform them after the divestment, but since the results are not statistically significant I cannot surely state that this is the case.

The results from the analysis of the operational performance are very interesting, and contradict both the main theories and most of the previous research. My results indicate that divesting firms outperform control firms prior to the divestment and then underperform control firms after the divestment, with as much as ten percentage points from year zero to year three. However, since I measure relative performance it might be the case that divesting firms still increase their profitability but not as much as control firms. My analysis of the profitability each year does in fact point towards a decrease in absolute profitability for divesting firms following the divestment. Hence, the results of my analysis of the operational performance do not support the Hypothesis 1, that divesting firms underperform control firms prior to the divestment and outperform them after it.

The results from my analysis of the Excess M/B ratio are those that are most in line with theory and previous studies. The M/B ratio of divesting firms prior to the divestment show a quite large underperformance compared to non divesting firms. The divestment also seems to halt this

underperformance and turn it to an outperformance for the years after the divestment. However, these results might be due to mean reversion, which is that the M/B ratio fluctuates around some mean value and deviations from it are always reverted. But to make such an analysis more than five years have to be studied.

What is interesting about most of my findings are that they may seem economically significant but that they are not statistically significant. Usually when doing econometrical studies it is the other way around. Studies might find statistically significant evidence for something that in economical terms are not that important. There is an ongoing debate about the trade-off between economic significance (size of effect) and statistical significance (t-value). Ziliak and McCloskey (2004) find acceptance among researchers for their point: “fit is not *the same thing* as scientific importance; a merely statistical significance cannot substitute for the judgment of a scientist and her community about the largeness or smallness of a coefficient by standards of scientific or policy oomph.” (p. 332) Their paper imply that economic scientist rely too much on t-values and at the same time fail to interpret the size, or economic significance, of the results.

Trying to apply Ziliak and McCloskey’s reasoning on my results might be interesting since the interpretations of most of my tests have a clear economic effect but the t-values are too small to acknowledge statistical significance. Take the Excess EBITD/TA ratio as an example. That ratio indicated a relatively large weakened performance for divesting firms compared to non-divesting firms but the t-values were somewhat too small to make the change statistically significant.

Looking at my thesis from an economic scientists point of view, there are some obvious drawbacks with my study and the biggest of them all is the sample size. With only 40 companies, in comparison to about 190 companies in the American study, the generalizations that can be drawn from the results are small. This is also shown in the very low significant levels for most of my results. Also the measuring problems of the stock price performance that come with the relatively long time span as Fama (1998) pointed out can be questioned. Further doing the research on the Swedish market, which is very small relative to the US or the UK market, certainly reduce the number of control firms available. This might create the problem that divesting firms and control firms are more different in my sample compared with the corresponding American sample.

To overcome the sample size and a potential topic for future studies would be to look at the performance of divesting firms on the Nordic market instead of only the Swedish. Another extension would be to look more closely at how the proceeds from the divestments were used. Then it might be a possibility to determine if for example Swedish managers are more of empire builders than American managers.

7 References

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8 Appendix

TABLE 7. ABNORMAL RETURN AND EXCESS FINANCIAL RATIOS FOR THE “29” SAMPLE.

		Year Relative to Divestiture				
		-2 to 0	-1 to 0	0 to 1	0 to 2	0 to 3
BHAR	<i>Mean</i>	-0.023	0.117	0.013	0.058	-0.022
	<i>Median</i>	-0.113	0.069	-0.144	-0.023	0.022
	<i>t-statistics</i>	-0.13	0.74	0.15	0.37	-0.07
CAR	<i>Mean</i>	-0.017	0.038	-0.004	0.065	-0.010
	<i>Median</i>	-0.103	0.081	-0.129	-0.018	0.044
	<i>t-statistics</i>	-0.12	0.32	0.32	0.55	-0.05
sample size		26	28	28	28	28
Excess M/B	<i>Mean</i>	-0.148	-0.267	0.029	0.453	0.987
	<i>Median</i>	-0.23	-0.16	0.07	0.30	0.38
	<i>t-statistics</i>	-0.58	-0.67	0.20	1.73	2.77
Excess EBITD/TA	<i>Mean</i>	0.059	0.065	-0.056	-0.077	-0.098
	<i>Median</i>	0.024	0.021	-0.018	-0.027	-0.050
	<i>t-statistics</i>	1.17	1.29	-1.17	-1.48	-1.90
sample size		29	29	29	29	29

TABLE 8. FINANCIAL RATIOS FOR THE “29” SAMPLE

		Year Relative to Divestiture					
		-2	-1	0	1	2	3
M/B Divesting	<i>Mean</i>	2.764	2.755	2.124	2.048	2.479	2.518
	<i>Median</i>	1.62	1.79	1.62	1.75	1.77	1.99
M/B Matching	<i>Mean</i>	2.586	2.457	2.093	1.988	1.996	1.919
	<i>Median</i>	1.44	1.77	1.84	1.61	1.78	1.69
test of difference	<i>pairwise t-stat</i>	0.73	0.70	0.10	0.21	1.56	2.76
	<i>Wilcoxon z-stat</i>	0.42	0.71	-0.42	0.34	0.96	2.31
EBITD/TA Divesting	<i>Mean</i>	0.125	0.122	0.188	0.129	0.103	0.114
	<i>Median</i>	0.121	0.146	0.169	0.139	0.136	0.126
EBITD/TA Matching	<i>Mean</i>	0.152	0.155	0.158	0.152	0.148	0.180
	<i>Median</i>	0.154	0.130	0.132	0.140	0.126	0.141
test of difference	<i>pairwise t-stat</i>	-0.94	-1.13	0.76	-0.70	-1.18	-1.64
	<i>Wilcoxon z-stat</i>	-0.85	-0.75	0.29	-0.03	-0.12	-1.22
sample size		29	29	29	29	29	29

Divesting Firm: Company Name
 Divestment Date: x (if other divestment that year) Deal Value (million \$): y (if other divestment that year)
 MV_{T-2} (million SEK): The market value at the end of the year of the divesting firm two years prior to the divestment.
 M/B: The market-to-book ratio for the divesting firm in year -2 to +3 relative to divestment.
 EBITD/TA (%): The operational profitability for the divesting firm in year -2 to +3 relative to divestment.
 Control Firm: Company Name*
 MV_{T-2} (million SEK): The market value at the end of the year of the control firm two years prior to the divestment.
 M/B: The market-to-book ratio for the control firm in year -2 to +3 relative to divestment.
 EBITD/TA (%): The operational profitability for the control firm in year -2 to +3 relative to divestment.
 *The star marks if the control firm is also a divesting firm.

29 Sample

Divesting Firm:	Active Biotech					
Divestment Date:	2001-07-03			Deal Value (million \$):		70
MV _{T-2} (million SEK):	1 726 637					
M/B:	1.62	1.80	1.60	0.66	7.11	7.59
EBITD/TA (%):	-0.66	-26.23	7.20	-38.83	-62.19	-46.46
Control Firm:	Karlshamns					
MV _{T-2} (million SEK):	1 491 000					
M/B:	1.80	1.77	1.99	2.04	2.04	2.02
EBITD/TA (%):	16.83	9.66	17.47	17.18	16.67	13.73
Divesting Firm:	Assa Abloy					
Divestment Date:	2000-03-06 (2000-08-10)			Deal Value (million \$):		180 (81)
MV _{T-2} (million SEK):	20 734 660					
M/B:	7.64	6.63	5.73	4.26	2.77	2.78
EBITD/TA (%):	21.86	21.24	24.92	15.31	13.95	9.64
Control Firm:	WM-Data					
MV _{T-2} (million SEK):	21 368 940					
M/B:	10.28	12.88	5.64	3.37	1.96	3.23
EBITD/TA (%):	28.63	19.38	8.74	3.93	-12.98	10.78
Divesting Firm:	Atlas Copco					
Divestment Date:	2004-08-30			Deal Value (million \$):		704
MV _{T-2} (million SEK):	34 551 930					
M/B:	1.71	2.49	2.75	4.18	4.38	7.95
EBITD/TA (%):	4.05	19.02	23.22	28.85	20.62	24.36
Control Firm:	Tele2					
MV _{T-2} (million SEK):	33 868 640					
M/B:	1.18	1.86	1.23	1.08	1.54	2.15
EBITD/TA (%):	10.79	11.91	14.89	13.38	3.72	8.91
Divesting Firm:	B&B Tools					
Divestment Date:	2001-02-09			Deal Value (million \$):		188
MV _{T-2} (million SEK):	2 756 689					
M/B:	1.51	1.58	1.32	1.62	1.32	1.77
EBITD/TA (%):	15.50	14.60	19.27	7.22	12.67	10.69
Control Firm:	Tornet Fastighets					
MV _{T-2} (million SEK):	3 482 649					
M/B:	0.85	1.03	0.91	0.84	0.95	1.20
EBITD/TA (%):	7.77	7.91	9.73	10.02	8.40	10.15

Divesting Firm:	Boliden					
Divestment Date:	2003-09-08			Deal Value (million \$):	54	
MV _{T-2} (million SEK):	2 967 613					
M/B:	1.17	0.48	0.54	0.41	1.83	3.17
EBITD/TA (%):	-9.86	9.72	6.39	14.90	21.98	43.75
Control Firm:	Öresund Investment					
MV _{T-2} (million SEK):	3 125 429					
M/B:	1.24	1.22	1.32	1.61	0.98	1.20
EBITD/TA (%):	10.96	15.17	14.44	19.45	55.03	32.64
Divesting Firm:	Cardo					
Divestment Date:	2002-07-25			Deal Value (million \$):	211	
MV _{T-2} (million SEK):	4 589 996					
M/B:	1.47	1.32	1.56	2.07	2.04	1.99
EBITD/TA (%):	17.36	16.13	16.90	12.40	13.61	9.26
Control Firm:	Castellum					
MV _{T-2} (million SEK):	4 472 207					
M/B:	1.23	1.21	1.17	1.56	2.08	1.38
EBITD/TA (%):	9.53	9.86	12.49	9.76	9.60	14.16
Divesting Firm:	Cloetta Fazer					
Divestment Date:	2001-07-27			Deal Value (million \$):	51	
MV _{T-2} (million SEK):	787 912					
M/B:	1.08	1.81	1.78	1.75	1.52	2.10
EBITD/TA (%):	13.55	32.71	23.97	22.19	20.71	19.00
Control Firm:	Wallenstam					
MV _{T-2} (million SEK):	844 550					
M/B:	0.93	1.26	1.87	1.69	2.05	2.11
EBITD/TA (%):	8.59	7.08	6.70	10.15	8.07	14.05
Divesting Firm:	Elekta					
Divestment Date:	1998-05-08			Deal Value (million \$):	33	
MV _{T-2} (million SEK):	1 611 900					
M/B:	1.91	1.35	0.71	1.05	1.11	2.12
EBITD/TA (%):	4.94	-2.47	-0.70	3.42	10.13	14.11
Control Firm:	Strålfors					
MV _{T-2} (million SEK):	1 483 500					
M/B:	1.92	2.18	1.80	1.84	1.16	1.44
EBITD/TA (%):	24.26	22.43	16.96	13.81	13.82	13.90
Divesting Firm:	Fabege					
Divestment Date:	2004-03-30			Deal Value (million \$):	395	
MV _{T-2} (million SEK):	4 806 644					
M/B:	0.78	0.90	1.14	1.36	1.52	1.04
EBITD/TA (%):	8.54	7.78	9.43	9.06	9.82	9.03
Control Firm:	Hufvudstaden					
MV _{T-2} (million SEK):	5 753 998					
M/B:	1.20	1.53	1.93	1.27	1.41	1.15
EBITD/TA (%):	6.90	6.46	9.21	19.05	20.41	16.88
Divesting Firm:	Gunnebo					
Divestment Date:	1999-11-08			Deal Value (million \$):	29	
MV _{T-2} (million SEK):	1 344 894					
M/B:	1.43	1.37	1.25	1.32	1.77	1.60
EBITD/TA (%):	15.98	15.56	17.24	12.67	11.30	10.89
Control Firm:	Rottneros					
MV _{T-2} (million SEK):	1 287 391					
M/B:	1.13	0.55	1.84	0.85	1.16	0.82
EBITD/TA (%):	2.45	15.15	14.72	49.08	12.62	8.56

Divesting Firm:	Hexagon					
Divestment Date:	2001-02-15			Deal Value (million \$):	27	
MV _{T-2} (million SEK):	1 879 368					
M/B:	1.34	1.10	1.05	1.10	1.50	2.35
EBITD/TA (%):	11.74	15.59	14.68	11.43	11.51	16.57
Control Firm:	Hallex					
MV _{T-2} (million SEK):	2 207 303					
M/B:	1.48	0.94	1.07	1.11	1.64	1.89
EBITD/TA (%):	16.23	15.68	11.66	11.85	12.38	16.52
Divesting Firm:	IFS					
Divestment Date:	2000-04-12			Deal Value (million \$):	41	
MV _{T-2} (million SEK):	2 958 132					
M/B:	5.21	9.40	1.48	1.38	0.78	1.96
EBITD/TA (%):	11.59	0.53	1.16	-2.11	-13.96	8.46
Control Firm:	Lindex					
MV _{T-2} (million SEK):	3 409 999					
M/B:	5.31	3.64	2.88	1.50	2.14	1.96
EBITD/TA (%):	25.01	24.86	25.83	13.95	21.65	21.52
Divesting Firm:	Incentive					
Divestment Date:	1996-01-24 (1996-07-25)			Deal Value (million \$):	87 (1 085)	
MV _{T-2} (million SEK):	16 366 438					
M/B:	1.49	1.62	2.32	1.93	1.70	1.34
EBITD/TA (%):	20.14	13.43	18.58	47.43	15.94	13.51
Control Firm:	Sydskraft					
MV _{T-2} (million SEK):	17 615 852					
M/B:	1.28	1.73	1.65	2.10	1.94	1.64
EBITD/TA (%):	12.75	12.79	12.71	17.74	11.13	10.20
Divesting Firm:	Medivir					
Divestment Date:	2003-06-18			Deal Value (million \$):	27	
MV _{T-2} (million SEK):	472 936					
M/B:	1.31	1.06	3.31	2.34	2.03	3.75
EBITD/TA (%):	-21.45	-9.67	-5.97	-31.07	-13.00	-49.66
Control Firm:	VLT					
MV _{T-2} (million SEK):	437 888					
M/B:	1.23	1.06	1.38	1.63	1.25	1.56
EBITD/TA (%):	15.38	9.36	13.21	15.27	21.26	13.21
Divesting Firm:	Modern Times Group					
Divestment Date:	2004-07-05			Deal Value (million \$):	60	
MV _{T-2} (million SEK):	4 710 597					
M/B:	2.50	4.67	4.42	4.07	5.97	5.33
EBITD/TA (%):	6.69	13.56	23.23	28.84	22.51	24.12
Control Firm:	Höganäs					
MV _{T-2} (million SEK):	5 629 464					
M/B:	3.08	2.66	2.76	2.30	2.33	1.69
EBITD/TA (%):	17.52	20.73	19.74	16.07	17.06	18.03
Divesting Firm:	Munksjö					
Divestment Date:	1997-02-28			Deal Value (million \$):	27	
MV _{T-2} (million SEK):	1 885 115					
M/B:	1.15	1.79	1.71	1.19	1.38	1.04
EBITD/TA (%):	31.94	14.46	17.34	17.26	13.87	20.64
Control Firm:	Bilia					
MV _{T-2} (million SEK):	1 647 099					
M/B:	1.44	2.18	2.37	1.11	1.52	1.44
EBITD/TA (%):	7.29	9.26	10.33	10.80	8.00	10.28

Divesting Firm:	NCC					
Divestment Date:	2004-06-14			Deal Value (million \$):	30	
MV _{T-2} (million SEK):	5 685 821					
M/B:	0.75	0.96	1.41	2.28	2.99	2.08
EBITD/TA (%):	8.48	3.78	7.10	9.23	11.32	11.24
Control Firm:	JM					
MV _{T-2} (million SEK):	4 918 523					
M/B:	1.38	0.91	1.53	2.61	4.27	3.03
EBITD/TA (%):	5.66	5.24	7.94	15.58	23.57	27.93
Divesting Firm:	OMX ⁷					
Divestment Date:	2004-01-27			Deal Value (million \$):	29	
MV _{T-2} (million SEK):	3 496 102					
M/B:	1.73	2.93	2.63	2.76	3.25	6.20
EBITD/TA (%):	7.09	0.60	13.65	18.46	14.21	13.43
Control Firm:	Nobia					
MV _{T-2} (million SEK):	3 719 649					
M/B:	1.44	1.62	2.58	2.92	4.09	2.42
EBITD/TA (%):	16.66	15.60	19.55	18.30	22.83	19.17
Divesting Firm:	Q-Med					
Divestment Date:	2003-02-10			Deal Value (million \$):	160	
MV _{T-2} (million SEK):	4 301 972					
M/B:	9.73	4.69	3.30	3.72	5.59	8.49
EBITD/TA (%):	10.46	4.62	137.59	26.78	10.70	24.93
Control Firm:	Clas Ohlson					
MV _{T-2} (million SEK):	5 265 917					
M/B:	9.06	5.98	6.81	7.86	7.09	6.59
EBITD/TA (%):	40.98	42.63	37.66	36.25	34.78	34.44
Divesting Firm:	SAPA					
Divestment Date:	2001-04-03 (2001-08-21)			Deal Value (million \$):	112 (118)	
MV _{T-2} (million SEK):	6 499 515					
M/B:	2.36	1.46	1.33	1.51	1.69	1.78
EBITD/TA (%):	18.89	20.55	11.83	10.70	14.20	12.59
Control Firm:	Latour Investment					
MV _{T-2} (million SEK):	6 854 574					
M/B:	2.90	3.04	3.07	2.55	2.29	2.34
EBITD/TA (%):	16.21	28.48	21.52	12.69	10.60	22.99
Divesting Firm:	Scania					
Divestment Date:	2002-01-28 (2002-02-01)			Deal Value (million \$):	81 (43)	
MV _{T-2} (million SEK):	41 600 000					
M/B:	2.65	2.38	1.98	2.22	2.50	2.73
EBITD/TA (%):	16.15	11.48	12.78	13.91	17.36	16.92
Control Firm:	Industrivärden					
MV _{T-2} (million SEK):	34 652 329					
M/B:	2.57	2.10	1.13	1.38	1.90	0.85
EBITD/TA (%):	9.36	9.65	22.31	-0.91	8.45	59.75
Divesting Firm:	Securitas					
Divestment Date:	1998-11-27 (1998-12-28)			Deal Value (million \$):	39 (89)	
MV _{T-2} (million SEK):	13 579 780					
M/B:	6.68	6.99	7.25	5.83	5.96	5.73
EBITD/TA (%):	22.71	22.17	22.90	16.97	19.03	16.54
Control Firm:	SSAB*					
MV _{T-2} (million SEK):	14 545 257					
M/B:	1.22	1.30	0.87	1.50	1.03	1.04
EBITD/TA (%):	16.60	15.24	12.91	9.52	18.34	11.85

⁷ No stock price data for year -2 in BHAR and CAR calculations.

Divesting Firm:	Sifo Group/ Cision ⁸					
Divestment Date:	2000-03-27			Deal Value (million \$):	70	
MV _{T-2} (million SEK):	576 422					
M/B:	2.97	7.19	2.07	2.28	1.19	1.31
EBITD/TA (%):	22.39	29.34	29.19	11.29	9.52	6.90
Control Firm:	Sardus					
MV _{T-2} (million SEK):	585 000					
M/B:	2.67	2.40	2.13	2.25	2.64	3.33
EBITD/TA (%):	40.38	29.03	20.55	20.97	20.03	20.48
Divesting Firm:	Sigma/ Teleca					
Divestment Date:	2001-05-04			Deal Value (million \$):	51	
MV _{T-2} (million SEK):	5 167 160					
M/B:	11.76	5.73	2.33	0.88	1.14	1.26
EBITD/TA (%):	25.76	34.09	9.12	16.52	1.59	7.24
Control Firm:	Intenia International					
MV _{T-2} (million SEK):	5 730 839					
M/B:	8.93	5.38	2.63	0.79	0.92	2.47
EBITD/TA (%):	-4.92	-0.83	7.04	2.56	1.50	-4.18
Divesting Firm:	Skanska					
Divestment Date:	1998-08-31			Deal Value (million \$):	956	
MV _{T-2} (million SEK):	35 211 260					
M/B:	2.40	2.02	1.74	2.03	2.23	1.47
EBITD/TA (%):	12.05	18.71	11.39	18.35	21.33	6.68
Control Firm:	Atlas Copco*					
MV _{T-2} (million SEK):	30 341 480					
M/B:	2.56	3.23	2.13	2.49	1.78	1.75
EBITD/TA (%):	19.19	24.66	18.77	19.75	20.09	18.06
Divesting Firm:	SSAB					
Divestment Date:	2004-11-12			Deal Value (million \$):	204	
MV _{T-2} (million SEK):	10 247 424					
M/B:	1.05	1.28	1.23	1.82	2.71	1.92
EBITD/TA (%):	11.55	14.71	32.16	30.84	31.57	44.92
Control Firm:	Tietoenator					
MV _{T-2} (million SEK):	9 904 880					
M/B:	2.35	3.78	3.46	4.97	2.98	2.40
EBITD/TA (%):	26.56	27.02	42.14	26.22	15.93	6.37
Divesting Firm:	Svedala Industri					
Divestment Date:	1997-10-15			Deal Value (million \$):	54	
MV _{T-2} (million SEK):	4 053 212					
M/B:	1.48	1.72	1.62	1.34	1.75	1.87
EBITD/TA (%):	18.35	15.95	17.00	13.29	11.29	6.60
Control Firm:	Custos					
MV _{T-2} (million SEK):	4 589 945					
M/B:	1.44	1.31	1.02	0.67	0.85	1.27
EBITD/TA (%):	11.51	12.99	13.09	15.43	9.12	7.69
Divesting Firm:	Teliasonera					
Divestment Date:	2002-08-20			Deal Value (million \$):	85	
MV _{T-2} (million SEK):	145 558 000					
M/B:	2.60	2.34	1.39	1.56	1.53	1.57
EBITD/TA (%):	29.09	14.61	1.55	17.28	17.70	17.11
Control Firm:	Investor					
MV _{T-2} (million SEK):	119 128 610					
M/B:	1.96	1.82	0.89	1.19	1.32	0.79
EBITD/TA (%):	19.00	11.47	4.16	3.17	11.79	54.42

⁸ No stock price data for year -2 in BHAR and CAR calculations.

(Not included in CAR and BHAR calculations)

Divesting Firm:	Lundbergsföretagen					
Divestment Date:	1997-03-17			Deal Value (million \$):		368
MV _{T-2} (million SEK):	3 787 238					
M/B:	0.68	0.83	0.64	0.47	0.64	0.86
EBITD/TA (%):	7.68	8.25	22.96	10.27	9.12	8.42
Control Firm:	SILA					
MV _{T-2} (million SEK):	4 229 996					
M/B:	0.93	0.69	0.64	0.58	0.56	0.48
EBITD/TA (%):	1.60	10.01	12.67	11.02	5.37	8.30

41 Sample

(In the 41 sample all firms in the 29 sample are also included)

Divesting Firm:	ASG					
Divestment Date:	1996-03-11			Deal Value (million \$):		183
MV _{T-2} (million SEK):	1 014 446					
M/B:	1.54	1.26	1.19	1.10	1.03	
EBITD/TA (%):	10.92	11.20	13.31	23.55	6.59	
Control Firm:	Lindab					
MV _{T-2} (million SEK):	821 300					
M/B:	1.45	1.72	2.26	2.68	1.63	
EBITD/TA (%):	18.70	19.39	18.44	22.00	20.94	

Divesting Firm:	Capio ⁹				
Divestment Date:	2004-09-01			Deal Value (million \$):	25
MV _{T-2} (million SEK):	5 353 707				
M/B:	2.09	1.75	1.91	2.58	
EBITD/TA (%):	10.01	16.23	17.05	18.66	
Control Firm:	Billerud				
MV _{T-2} (million SEK):	5 960 390				
M/B:	1.84	1.96	2.07	2.19	
EBITD/TA (%):	24.07	21.90	18.00	3.17	

Divesting Firm:	Esselte					
Divestment Date:	1999-03-10			Deal Value (million \$):		186
MV _{T-2} (million SEK):	5 302 014					
M/B:	1.80	1.32	0.85	0.63	0.65	
EBITD/TA (%):	13.41	23.74	5.31	10.58	8.92	
Control Firm:	Bure Equity					
MV _{T-2} (million SEK):	5 700 472					
M/B:	1.45	1.51	1.56	1.29	1.05	
EBITD/TA (%):	21.94	13.60	10.01	28.19	3.12	

Divesting Firm:	Gambro ¹⁰				
Divestment Date:	2004-12-07			Deal Value (million \$):	3 005
MV _{T-2} (million SEK):	16 706 297				
M/B:	0.84	1.04	1.80	1.62	
EBITD/TA (%):	12.04	13.60	7.62	12.15	
Control Firm:	Autoliv				
MV _{T-2} (million SEK):	17 255 250				
M/B:	0.99	1.48	1.69	1.71	
EBITD/TA (%):	14.64	16.58	16.62	15.46	

⁹ No stock price data for year 3 in BHAR and CAR calculations.

¹⁰ No stock price data for year 2 and 3 in BHAR and CAR calculations.

Divesting Firm:	IBS				
Divestment Date:	2005-03-17		Deal Value (million \$):	108	
MV _{T-2} (million SEK):	1 016 891				
M/B:	1.79	1.75	1.60	2.21	1.09
EBITD/TA (%):	10.70	12.29	53.65	4.59	7.82
Control Firm:	Ballingslöv International				
MV _{T-2} (million SEK):	841 991				
M/B:	1.81	2.26	3.03	3.31	2.65
EBITD/TA (%):	16.34	18.34	19.55	16.80	19.30
Divesting Firm:	Perstorp ¹¹				
Divestment Date:	1996-12-11		Deal Value (million \$):	108	
MV _{T-2} (million SEK):	5 777 746				
M/B:	1.77	1.77	1.85	2.51	
EBITD/TA (%):	16.60	19.32	16.60	12.33	
Control Firm:	Mariebergs Tidningar				
MV _{T-2} (million SEK):	5 013 453				
M/B:	1.58	1.28	1.48	1.35	
EBITD/TA (%):	11.72	14.93	6.50	14.15	
Divesting Firm:	SAAB				
Divestment Date:	2001-01-15 (2001-11-12)		Deal Value (million \$):	86 (51)	
MV _{T-2} (million SEK):	8 200 406				
M/B:	1.74	1.38	1.49	1.41	1.56
EBITD/TA (%):	7.67	11.02	10.26	9.00	9.54
Control Firm:	Gräninge				
MV _{T-2} (million SEK):	9 329 613				
M/B:	2.13	1.83	2.35	2.77	2.54
EBITD/TA (%):	9.73	10.35	12.12	11.74	11.71
Divesting Firm:	SEB ¹²				
Divestment Date:	1999-06-21		Deal Value (million \$):	511	
MV _{T-2} (million SEK):	58 938 835				
M/B:	2.11	1.65	1.83	1.76	1.51
EBITD/TA (%):	0.96	1.13	1.27	1.89	0.89
Control Firm:	Swedbank*				
MV _{T-2} (million SEK):	63 513 060				
M/B:	2.32	2.56	2.13	2.18	1.83
EBITD/TA (%):	5.87	5.08	4.27	3.61	3.32
Divesting Firm:	Spectra-Physics ¹³				
Divestment Date:	1996-05-21		Deal Value (million \$):	140	
MV _{T-2} (million SEK):	1 664 995				
M/B:	1.28	1.06	1.66	1.66	
EBITD/TA (%):	18.80	10.86	15.51	19.75	
Control Firm:	N&T Argonaut				
MV _{T-2} (million SEK):	1 407 609				
M/B:	1.23	1.17	1.71	1.31	
EBITD/TA (%):	6.98	5.55	7.58	17.08	

¹¹ No stock price data for year 2 and 3 in BHAR and CAR calculations.

¹² No stock price data for year 3 in BHAR and CAR calculations.

¹³ Ibid.

Divesting Firm:	Stora Kopparbergs ¹⁴				
Divestment Date:	1996-07-05			Deal Value (million \$):	130
MV _{T-2} (million SEK):	27 855 226				
M/B:	1.15	0.86	1.02	1.08	
EBITD/TA (%):	12.50	21.42	11.02	11.62	
Control Firm:	Investor				
MV _{T-2} (million SEK):	28 590 160				
M/B:	1.55	1.72	2.07	1.94	
EBITD/TA (%):	11.15	13.23	18.10	-2.47	
Divesting Firm:	Swedish Match				
Divestment Date:	1999-05-31			Deal Value (million \$):	560
MV _{T-2} (million SEK):	12 284 280				
M/B:	4.13	5.86	2.14	3.21	5.02
EBITD/TA (%):	27.92	23.93	57.01	16.08	18.09
Control Firm:	Europolitan Vodaphone				
MV _{T-2} (million SEK):	12 382 390				
M/B:	10.22	26.05	33.85	10.07	4.67
EBITD/TA (%):	33.31	58.23	69.71	59.89	50.88
Divesting Firm:	Trelleborg ¹⁵				
Divestment Date:	2000-06-22			Deal Value (million \$):	127
MV _{T-2} (million SEK):	6 952 570				
M/B:	0.63	0.87	0.74	0.82	
EBITD/TA (%):	8.39	12.60	13.41	10.53	
Control Firm:	NCC*				
MV _{T-2} (million SEK):	6 668 812				
M/B:	0.69	1.10	0.76	1.03	
EBITD/TA (%):	7.47	9.13	13.01	1.02	

¹⁴ No stock price data for year 3 in BHAR and CAR calculations.

¹⁵ No stock price data for year 2 and 3 in BHAR and CAR calculations.