Canadian Acquisitions of U.S. Divested Assets

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ABSTRACT

This paper investigates the impacts on both the selling and acquiring firms in cross-border divestiture transactions between U.S. and Canadian firms. This research addresses questions regarding the degree of synergy resulting from these transactions and the extent to which Canadian and U.S. firms benefit from these sales. The empirical analysis in the paper examines 62 U.S. firms, which sold units to Canadian firms over the 1980-1995 interval, 32 Canadian firms that were acquirers in those transactions, and a subsample of 23 matched-pairs transactions. The methodology employed includes both percentage and dollar abnormal returns. We find gains to U.S. divestor/selling firms of similar magnitudes to those in prior studies of sell-offs by U.S. firms. The gains to Canadian acquirers are larger than those previously identified for buyers in domestic sell-offs. These gains are both economically material and statistically significant. However a wide range of outcomes is observed, particularly for sellers.

JEL: F3

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I.   INTRODUCTION

During the past decade, numerous studies have examined the motives underlying corporate restructuring and its consequences. This literature reflects the increasing use of restructuring strategies internationally and a desire by both researchers and practitioners to better understand the causes and implications of this activity.

We extend earlier research into the motivations for, and consequences of, various restructuring strategies and the involvement of firms in sell-offs. While sell-offs are conceptually the simplest form of restructuring, existing research has not yet provided a complete analysis of this activity in the international and cross-border arena. The purpose of this study is to examine the valuation consequences for U.S. divesting firms and Canadian acquiring firms of engaging in cross-border divestitures, and to consider policy and strategic issues associated with these transactions.

These two neighboring economies are clearly prominent in matters associated with international economics and finance. There is a greater volume of international trade between the U.S. and Canada than between any two other countries. Along with this flow of commerce comes a high level of Foreign Direct Investment (FDI). Corporate acquisitions (including the purchase of units divested by foreign firms) comprise one of the major channels for FDI. Given the extent of both Canadian/U.S. commerce in general and FDI in particular, it is not surprising that sell-offs frequently involve one firm in Canada, and another in the U.S. Only recently has this link between FDI, restructuring, and corporate acquisitions been formally recognized in the research literature.[1] This paper contributes to the nascent literature on international restructuring by conducting a systematic investigation using cross-border Canadian/U.S. divestitures. We first examine the question; "Do Canadian purchases of U.S. divested assets create shareholder wealth?" Once we get an answer to this question, we then explore the following questions: 'Are Canada/U.S. cross-border asset sales different from purely domestic ones? and "How are the gains from divestitures shared between U.S. sellers and Canadian buyers?"

The remainder of the paper is organized as follows. Section II reviews the relevant literature. Testable hypotheses are developed in Section III. Section IV addresses empirical dimensions of the paper, including the sample examined, data employed, and methodology used. Section V reports and interprets the empirical results, with a summary and conclusion in Section VI.

II.   BACKGROUND AND LITERATURE REVIEW

Numerous studies have focused on the motives and valuation effects of primarily domestic sell-offs as a vehicle for corporate restructuring. Examples include Datta and Datta (1996, 1995), Lang, Poulsen, and Stultz (1995), Kaplan and Weisbach (1992), Kaplan (1989), Hite, Owers and Rogers (1987), Klein (1986), Jain (1985), Alexander, Benson and Kampmeyer (1984), and Rosenfeld (1984). These studies generally support that sellers gain at the announcement of a sale. This finding may be interpreted as supporting the view that divestitures are associated with the redeployment of assets to

higher valued uses, thus creating synergy. If this is the case, the sell-off will result in a gain in the combined value of both firms involved in the transaction.[2] Sell-offs can also be viewed as partial acquisitions from the buyer's perspective, subject to several important differences. In the case of acquisitions of whole-firms, there is the potential (and often the actuality) of a competitive auction market for target firms. The market for acquisitions of parts of firms (i.e. divisions, subsidiaries, or Strategic Business Units [SBUs]) is quite different. These transactions are typically conducted outside the public market arena and are usually monopsonistic in nature, involving a single buyer negotiating the purchase of a divested asset. Additionally, sell-offs are motivated in some instances by the seller's need to raise cash.[3] These factors, in combination, would predict that both the acquiring firm as well as the selling firm would share in the gains from transactions involving acquisitions of business units.[4]

The existing evidence on the gains to acquirers of divested units in sell-offs is, however, inconclusive. Sicherman and Pettway (1992) examine matched-pairs of buyers and sellers in divestitures, and find that, on average, both parties gained. Hite, Owers and Rogers (1987) show that buyers gain, but with gains of smaller magnitudes than those to sellers. Sicherman and Pettway (1987) report significant gains for buyers acquiring related units in divestitures, but no significant gains for buyers of unrelated units. Jain (1985) finds positive but statistically insignificant returns to buyers. Finally, Rosenfeld (1984) reports an equal division of gains between buyers and sellers.

In recent years, a literature examining cross-border whole-firm acquisitions has developed. Most studies have examined the effect of U.S. firms acquiring foreign domiciled whole-firms. Doukas and Travlos (1989) find that the majority of these transactions do not result in significant valuation changes for the acquiring firms, with the exception of positive returns from acquisitions representing the first entry of the U.S. firm into the target firm's economy. Results in Lin, Madura and Picou (1994) support substantial variations in acquiring firms' abnormal returns according to the domicile of the foreign target firm. In contrast to the results for U.S. firm's domestic acquisitions, U.S. firm's acquisitions of German firms are associated with positive abnormal returns, while U.S. firm's acquisitions of British and Canadian targets are associated with negative abnormal returns.[5] On the other hand, Markides and Oyon (1998) find that U.S. acquisitions in Britain and Canada create no value while U.S. acquisitions in Continental Europe create significant value.

Kang (1993) is the first to examine matched-pairs of firms involved in international whole-firm acquisitions. In his analysis of U.S./Japanese transactions he finds that, in contrast to purely domestic transactions, both firms gained. His finding for whole-firm transactions is conceptually similar to Pettway, Sicherman and Spiess's (1993) results on Japanese acquisitions of both entire U.S. firms and units divested by U.S. firms. For whole-firm acquisitions, they report that both Japanese buyers and U.S. sellers gain significant wealth upon the announcement of the cross-border transactions. For divestitures, their results indicate that Japanese buyers experienced positive abnormal returns of a similar magnitude to the returns noted for acquirers in other (primarily domestic) divestiture studies. They also find that U.S. seller's gains are substantially larger than U.S. firm's gains noted in studies of primarily domestic

transactions. U.S. firms fare better when selling to non-U.S. firms than when selling to domestic acquirers.

A number of theories posit international market segmentation, market imperfections and informational asymmetries as impediments to international financial and product market integration. These factors could cause divested units sold across international borders to have different values than units sold in entirely domestic transactions. Hence, these transactions have potentially different valuation consequences for both sellers and acquirers. In this context, the Blumberg and Owers (1996) findings for U.S. sellers in cross-border divestitures are surprising. They find little evidence that U.S. firms fare better when selling to foreign firms as opposed to selling to U.S. acquirers. However, their overall results included a wide range of outcomes for U.S. firms selling to firms domiciled in different countries. More relevantly to this study, in the subsample of transactions involving sales to Canadian firms, U.S. divesting firms experienced on average a positive but statistically insignificant abnormal return at the announcement of the divestiture.

III.   HYPOTHESES

Findings of prior research into sell-off restructuring in cross-border transactions appear to support that both parties experience gains in value, with gains to sellers being greater than those to buyers. This paper analyzes the division of gains between Canadian buyers and U.S. sellers in sell-off transactions. In addition, where information and data are available for both firms in particular transactions, it further examines a subsample of "matched pairs" of Canadian buyers and U.S. sellers. Finally, it measures and analyzes the effects of the cross-border divestitures on transacting firms in terms of both percentage and dollar abnormal returns.

Examination of the subsamples of Canadian buyers and U.S. divestors will provide the basis for testing hypotheses relating to the overall valuation consequences of cross-border divestitures. In addition, hypotheses based on the creation of synergy-related gains (and the division of any such gains) will be tested using the matched-pairs subsample.

Drawing on findings in prior studies, we hypothesize that while both sellers and buyers experience positive abnormal returns from divestiture transactions, the majority of gains accrue to the sellers. In other words, our initial null hypothesis is that there is no difference between the magnitude and distribution of gains in cross-border divestitures and those of purely domestic divestitures. As a secondary hypothesis, we examine the extent to which the valuation gains accrue to the sellers as opposed to the acquirers. Absent the effects of the factors mentioned previously (market segmentation, market imperfections, informational asymmetries), we would expect that the gains would accrue primarily to the selling firms, as in domestic transactions.

IV.   EMPIRICAL METHODS

A. Sample Selection and Description

The sample covers the period 1980-1995, and was gathered by identifying Canadian acquisitions of assets divested by U.S. firms from the rosters in the Mergers and Acquisitions Quarterly. Additional requirements for inclusion in the sample are that the equity of both firms be publicly traded in their respective countries, and that detailed information regarding the transactions (such as identifiable announcement dates) be reported in the financial press, specifically the *Wall Street Journal* and the wire services found on the *Lexis/Nexis* database. Furthermore, for a firm to be included in the sample, daily returns data on its common stock must be available for a period starting 251 trading days prior to the announcement of the sale and ending 10 days after the announcement. Data on the U.S. firms were obtained from CRSP (Center for Research in Security Prices). Data on the Canadian firms were obtained from TSE (Toronto Stock Exchange) Western. [6]

The data requirements necessary for the statistical methodology employed have a major impact on the size of the final subsamples of Canadian buyers, U.S. sellers, and matched-pairs of firms. Of the 62 U.S. divestor firms for which data is sufficient, there is a subset of 32 Canadian firms with available data. There is sufficient information and data to examine matched-pairs of firms in 23 transactions. The data analysis thus examines samples of 62 U.S. sellers, 32 Canadian buyers, and 23 matched-pairs of transactions. Descriptive statistics on the equity value (size) of the sellers and buyers are provided in Table 1.[7]

B. Statistical Methodology

The methodology begins with the well-established event-analysis techniques. We then make the appropriate extensions to this methodology to conduct the dollar abnormal returns and matched-pair aspects of the study. Outlines of the methodology follow.[8]

For each firm, least-square regressions are performed using daily stock market returns (from day -251 to -51 relative to the announcement date defined as day 0) and contemporaneous returns of the appropriate country's stock market index. The regressions' intercept and slope coefficients are then used to estimate the expected daily stock returns over the subsequent period (from day -50 to day +10 relative to the announcement date of the cross-border divestiture). These estimates are then used as "benchmark" to determine the extent of the firm's daily stock returns above or below expected levels (referred to as abnormal returns) for various days surrounding the announcement of the divestiture. Finally, the daily abnormal stock returns are standardized and tested for statistical significance using econometric adjustments developed in Dodd and Warner (1984).

Table 1
Descriptive statistics on firm size ($)

Univariate descriptive statistics for transactions involving Canadian acquisitions of American divested business units between 1980 and 1995. All figures are in U.S. $.

Panel A. Entire Sample

VARIABLE	N	MEAN	MIN	MAX	STD DEV
Equity value of American firms	59	3,387,700,000	15,354,750	28,180,000,000	6,265,300,000
Equity value of Canadian firms	31	1,700,700,000	12,981,311	7,860,300,000	2,110,900,000

Panel B. Matched-Pairs

VARIABLE	N	MEAN	MIN	MAX	STD DEV
Equity value of American firms	23	2,983,000,000	33,664,500	25,620,000,000	5,801,200,000
Equity value of Canadian firms	23	1,690,100,000	12,981,311	7,860,300,000	2,182,500,000
Combined equity value	23	4,673,100,000	365,190,000	25,640,000,000	5,664,000,000

The extent of the firm's total unexpected change in value may also be calculated and tested using refinements in Dennis and McConnell (1986). Due to the difference in size between bidders and targets in mergers, Malatesta (1983) argued that the appropriate metric for determining the impact of mergers on security holders' wealth is the change in dollar values of securities due to the merger. Using this line of reasoning, Dennis and McConnell (1986) examined the dollar abnormal gains to bidders and targets in mergers. They found that the division of gains was more equitable than indicated by the percentage abnormal returns. Hence, an examination of the dollar abnormal returns to the firms involved in cross-border divestitures will add understanding regarding the valuation effects of these transactions over and above that provided by the percentage metrics.

The dollar abnormal returns are calculated in a manner similar to that used by Dennis and McConnell (1986). Cumulative abnormal returns (CAR) are first calculated by cumulating each firm's daily abnormal stock returns over a given interval. The CAR for each firm is then multiplied by the market value of the firm's common equity as of 6 trading days prior to the divestiture announcement. Hence, over the interval T_{1j} to T_{2j} of length $n = (T_{2j} - T_{1j} + 1)$ the dollar abnormal return (DAR) is defined as follows:

DAR = (n-day CAR) x (stock price as of day-6) x (shares outstanding as of day-6) (1)

In our analysis, we present results for the two-day (-1,0) interval relative to the announcement date of the divestiture.[9]

V. RESULTS

A. Percentage Abnormal Returns
1. U.S. Seller and Canadian Acquirer Entire Samples

The percentage wealth effects of cross-border divestitures are provided in Tables 2 and 3. More specifically, Table 2 reports the mean abnormal return (MAR) and the percentage of positive abnormal returns (%POS) for individual days around the announcement of the divestiture for the entire sample of U.S. sellers and Canadian acquirers (Panel A) and the matched-pair subsamples (Panel B). For the sample of 62 U.S. divestor firms, the MAR are of similar magnitudes to those found in prior studies of purely domestic divestitures. The day -1 MAR is 0.93%, and the day 0 MAR is also 0.93%. The day -1 MAR is statistically significant at the 5% level or better. In contrast to most prior divestiture studies, we find that the magnitude of abnormal return gains to acquirers is similar to that for sellers. The 32 Canadian acquirers exhibit a day -1 MAR of 0.80% (t-statistic of 1.98), and a day 0 MAR of 0.89% (t-statistic of 2.02). Both days' MAR are significant at better than the 10% level or better.

Table 3 presents the mean cumulative abnormal return (MCAR) and the percentage of positive cumulative return (%Positive) for selected intervals, with results for the entire sample in Panels A and C and for the matched-pairs in Panels B and D. The mean cumulative abnormal returns (MCAR) in Panel A indicate that American sellers gain 1.86% over the (-1,0) announcement window (statistically significant at the 10% level or better), and 3.13% over the (-10,0) announcement window (statistically significant at the 5% level or better). In Panel C, Canadian acquirers have MCAR of 1.56% (significant at the 5% level or better) over the (-1,0) window, and MCAR of 1.97% (not statistically significant at the 10% level or better) over the (-10,0) window. In addition, the proportion of firms with positive abnormal announcement returns is higher for the Canadian acquirers than for their American seller counterparts over every event window examined. Note that these percentages differ somewhat from the findings of prior studies. For example, Hite, Owers and Rogers (1987) found 55% of sellers and 51% of buyers experienced positive abnormal returns over the (-1,0) event window. The relative magnitudes of these outcomes suggest that U.S./Canadian divestitures generate more consistently positive outcomes for both parties to the transactions, especially for Canadian acquirers. Finally, Panels A and C of Table 3 indicate that both Canadian acquirers and U.S. sellers exhibit consistently positive and significant MCARs over a number of longer intervals surrounding the announcement date of the cross-border divestiture.

Table 2
Event study results for selected days

Daily abnormal returns are calculated using a market model employing a 200-day estimation period ending 51 days prior to the announcement date of divestiture. Mean Abnormal Returns (MAR), the percentage of positive returns, (with significance based on the two-tailed binomial sign test), and the t-statistic on the MAR (based on Brown and Warner (1985)) are also presented.

Panel A. Entire Sample

| | American Firms | | | Canadian Firms | | |
| | Sellers (N=62) | | | Acquirers (N=32) | | |
DAY	MAR	%POS	t-STAT	MAR	%POS	t-STAT
-5	.0044	58.1	1.098	-.0003	45.4	-0.108
-4	.0003	40.3	0.041	-.0007	45.4	-0.221
-3	-.0027	43.5	-0.756	.0002	54.3	0.088
-2	-.0008	38.7*	-0.185	.0044	55.9	1.524
-1	.0093	51.6	2.419**	.0080	58.8	1.975*
0	.0093	51.6	1.016	.0089	55.9	2.021**
+1	.0120	46.7	1.290	.0068	50.0	1.382
+2	-.0061	42.9	-1.717*	-.0026	41.2	-0.787
+3	-.0011	47.6	-0.240	.0015	59.4	0.365
+4	.0046	34.9**	-0.927	-.0013	60.0	-0.465
+5	.0029	46.0	-0.744	-.0006	48.5	-0.155

Panel B. Matched-Pair Sample

| | American Firms | | | Canadian Firms | | |
| | Sellers (n=23) | | | Acquirers (N=23) | | |
DAY	MAR	%POS	t-STAT	MAR	%POS	t-STAT
-5	.0021	56.5	0.436	-.0006	52.4	-0.131
-4	-.0108	30.4*	-2.225**	.0006	47.8	0.159
-3	-.0049	34.8	-0.776	.0001	60.9	0.028
-2	.0007	34.8	0.122	.0052	59.1	1.527
-1	.0132	65.2*	2.699***	.0145	77.3***	2.887***
0	-.0033	47.8	-0.485	.0121	60.9	2.215**
+1	-.0068	26.1 **	-1.293	.0130	63.6	1.814*
+2	-.0018	39.1	-0.544	-.0025	40.9	-0.540
+3	-.0010	43.5	-0.211	-.0045	52.4	-0.958
+4	-.0013	34.8	-0.256	-.0034	60.9	-0.922
+5	-.0008	56.5	-0.179	-.0005	61.9	-0.103

*   significant at the 10% level using a two-tailed test
**   significant at the   5% level using a two-tailed test
***   significant at the   1% level using a two-tailed test

Table 3
Event study results for selected intervals

Daily abnormal returns are calculated using a market model employing a 200-day estimation period ending 51 days prior to announcement date of the divestiture. Mean Cumulative Abnormal Returns (MCAR), the percentage of positive returns (with the significance based on the two-tailed binomial sign test), and the t-statistic on the MCAR (based on Brown and Warner (1985)).

Panel A: American Firms (Sellers): Entire Sample (N=62)

Interval	(-1,0)	(-5, 0)	(-5, +5)	(-10, 0)	(-20, 0)	(-30, 0)	(-40, 0)	(-50, 0)
MCAR	.0186	.0198	.0320	.0313	.0193	.0389	.0241	.0358
% Positive	58.1	48.4	51.6	58.7	60.3	55.6	42.9	49.2
t-statistic	1.675*	1.117	1.621	2.189**	1.000	1.368	0.904	1.196

Panel B: American Firms (Sellers): Matched-pair Sample (N=23)

Interval	(-1,0)	(-5, 0)	(-5, +5)	(-10, 0)	(-20, 0)	(-30, 0)	(-40, 0)	(-50, 0)
MCAR	.0099	-.0030	-.0146	.0134	.0237	.0208	.0113	.0369
% Positive	60.9	47.8	47.8	56.5	60.9	52.2	43.5	43.5
t-statistic	1.002	-0.239	-0.239	0.985	1.047	0.767	.0391	0.959

Panel C: Canadian Firms (Acquirers): Entire Sample (N=32)

Interval	(-1,0)	(-5, 0)	(-5, +5)	(-10, 0)	(-20, 0)	(-30, 0)	(-40, 0)	(-50, 0)
MCAR	.0156	.0149	.0198	.0197	.0254	.0250	.0406	.0420
% Positive	74.2**	61.3	58.1	65.6	60.6	68.7**	73.5**	67.7*
t-statistic	2.159**	1.762*	1.678	1.454	1.215	1.086	1.619	1.412

Panel D: Canadian Firms (Acquirers): Matched-Pairs (N=23)

Interval	(-1,0)	(-5, 0)	(-5, +5)	(-10, 0)	(-20, 0)	(-30, 0)	(-40, 0)	(-50, 0)
MCAR	.0260	.0311	-.0106	.0417	.0647	.0574	.0933	.1108
% Positive	82.7***	60.9	65.2	73.9**	73.9**	73.9**	69.6**	78.3**
t-statistic	2.892***	2.259**	-0.226	2.647**	2.610**	2.137**	3.017***	3.140**

*   significant at the 10% level using a two-tailed test
**   significant at the 5% level using a two-tailed test
***   significant at the 1% level using a two-tailed test

2. U.S. Seller and Canadian Acquirer Matched-Pair Samples

As mentioned previously, the sample of U.S. sellers and Canadian acquirers includes 23 matched-pair transactions with sufficient data to permit examination of both parties to the transaction. The daily mean abnormal returns (MAR) for these firms are presented in Panel B of Table 2. American sellers realize a day -1 MAR of 1.32% (significant at the 1% level), with Canadian buyers realizing a MAR of 1.45% on the same day (also significant at the 1% level). In panel B of Table 3, American sellers receive MCARs over the (-1,0) window of 0.99%, with 60.9% of the firms exhibiting positive returns (neither figure, however, is statistically significant). In contrast, in Panel D of Table 3 Canadian acquirers earn MCARs over the same interval of 2.60%, with 82.7% of the firms exhibiting positive returns (both figures for Canadian acquirers are significant at the 1% level). These findings differ notably from those of previous studies. To our knowledge, no prior studies have found gains to acquiring firms exceeding those to sellers. This finding is important not only from an academic research standpoint, but also for potentially strategic and policy-making perspectives. We further examine this division of gains in the following presentation of the dollar returns.

B. Dollar Abnormal Returns

Table 4 presents the dollar wealth effects of Canadian/U.S. cross-border restructuring activities for the entire samples (Panels A and B) and matched-pair samples.[10] Overall, the results support the conclusion that Canadian buyers fared well when acquiring assets sold by American firms. In Panel C, the average DAR to American sellers was $21,998,304, while in Panel D the DAR to Canadian buyers totaled $23,193,709 (significant at the 10% level). These results are notable, particularly given the relative sizes of the typical transacting parties in our sample as reported in Table 1. This size differential implies that the Canadian firms capture a much greater share of the total wealth created in cross-border restructuring transactions than would be expected based solely on the relative size of the firms. Finally, Panel E reports that the average value created for these transactions totaled $45,192,013.

Table 5 partitions the matched-pair sample according to the outcomes to each party to the transaction. Panel A reports results for the 12 transactions where both parties experienced positive DARs over the (-1,0) event window. The average combined DAR totaled $107,690,000, representing an average gain of 2.27% of the combined equity value of the transacting firms.

Table 4
Dollar abnormal returns

Dollar Abnormal Returns (DAR) are calculated following Dennis & McConnell (1986). The DAR is calculated by multiplying the two-day (-1,0) cumulative abnormal return (CAR) with the stock price at day -6 and the number of shares outstanding at day -6. t-statistics are in parentheses.

Panel A: American Firms - Entire Sample (N=62)

Mean	Median	% Positive	Max	Min	Std Dev
4,610,177 (0.373)	1,573,754	57.6	488,490,000	-31,230,000	94,810,095

Panel B: Canadian Firms - Entire Sample (N=32)

Mean	Median	% Positive	Max	Min	Std Dev
22,713,661 (2.126)**	3,287,367***	75.0**	212,930,000	-79,510,000	58,521,198

Panel C: American Firms - Matched-Pairs (N=23)

Mean	Median	% Positive	Max	Min	Std Dev
21,998,304 (0.876)	6,692,624	60.9	488,490,000	-26,480,000	120,450,000

Panel D: Canadian Firms - Matched-Pairs (N=23)

Mean	Median	% Positive	Max	Min	Std Dev
23,193,709 (1.733)*	2,993,372**	82.6**	212,930,000	-7,951,000	64,161,006

Panel E: Total Combined Dollar Returns - Matched-Pairs (N=23)

Mean	Median	% Positive	Max	Min	Std Dev
45,192,013 (1.583)	10,531,569**	73.91**	488,780,000	-261,800,000	136,900,000

*   significant at the 10% level using a two-tailed test
**   significant at the   5% level using a two-tailed test
*** significant at the   1% level using a two-tailed test

Table 5
Dollar abnormal returns - differentiated by gains and losses

Dollar Abnormal Returns (DAR) are calculated following Dennis & McConnell (1986). The DAR is calculated by multiplying the two-day (-1,0) cumulative abnormal return (CAR) with the stock price at day -6 and the number of shares outstanding at day -6. t-statistics are in parentheses.

Panel A: Canadian Firms Gain and American Firms Gain (N=12)

	Mean	Median	Min	Max	Std. Deviation
Canadian Firms	42,282,393	6,554,143	123,212	212,930,000	79,237,761
American Firms	65,405,177	22,697,421	1,573,754	488,490,000	135,630,000
Combined	107,690,000[1]	41,705,371	5,040,058	488,780,000	149,090,000

[1]represents 2.27% of the combined equity of the firms involved

Panel B: Canadian Firms Gain and American Firms Loss (N=7)

	Mean	Median	Min	Max	Std. Deviation
Canadian Firms	18,255,875	5,101,336	1,065,721	60,782,657	24,354,251
American Firms	-46,620,000	-10,810,000	-264,800,000	-473,778	96,912,333
Combined	-28,370,000[2]	4,627,557	-261,800,000	58,800,506	106,950,000

[2]represents -0.02% of the combined equity of the firms involved

Panel C: Canadian Firms Loss and American Firms Gain (N=2)

	Mean	Median	Min	Max	Std. Deviation
Canadian Firms	-43,010,000	na	-79,510,000	-6,502,776	51,621,941
American Firms	38,497,803	na	11,681,798	6,531,808	37,923,558
Combined	-4,507,197[3]	na	-5,179,023	5,179,023	13,698,384

[3]represents -0.42% of the combined equity of the firms involved

Panel D: Canadian Firms Loss and American Firms Loss (N=2)

	Mean	Median	Min	Max	Std. Deviation
Canadian Firms	-7,857,267	na	-12,410,000	-3,305,547	6,437,104
American Firms	-14,770,000	na	-25,610,000	-3,938,368	15,324,579
Combined	-22,630,000[4]	na	-28,920,000	-16,350,000	8,887,475

[4]represents -2.09% of the combined equity of the firms involved

     Canadian buyers gained at the expense of American buyers in 7 transactions, as presented in Panel B of Table 5. In this subsample, average losses to sellers ($46,620,000) are much larger than the gains to buyers ($18,255,875), resulting in a net average combined loss in value of $28,370,000. Panel C of Table 5 shows an average combined loss in value of $4,505,193 for two transactions in which U.S. sellers gained

at the expense of Canadian buyers. Finally, in the two transactions in which both firms experienced losses, the average combined loss totaled $22,630,000.

C. Summary of Findings

The examination of U.S. sellers, Canadian buyers, and matched-pairs of U.S./Canadian firms has produced interesting findings. As in prior studies, we find gains accrue to both sellers and buyers. However, our results indicate that Canadian buyers gain to a greater extent than do the domestic acquirers of U.S. divested assets reported in prior studies. Acquirer gains of 1.56% (2.60%) for the entire (matched-pairs) samples over the (-1,0) event window are significantly greater than the gains documented in prior studies of both domestic and cross-border acquisitions. In addition, it should be noted that Canadian buyers gained in 19 of the 23 matched-pairs transactions. Of these transactions, the Canadian sellers experienced gains in 7 transactions where the American sellers experienced losses. Finally, the results for the analysis of the dollar gains confirm that these transaction result in economically significant gains to Canadian acquirers.

VI.   CONCLUSION

In the context of extensive evidence of the effects of domestic sell-off restructuring, and the role of cross-border divestitures in FDI, this paper examines a matched-pairs sample of firms involved in Canadian/U.S. sell-offs and investigates the effect of this international dimension on the valuation outcomes for the firms involved.

For a sample of 23 transactions where both Canadian and U.S. data were available, we examine the outcomes for U.S. firms selling corporate assets, and for their corresponding Canadian acquirers. The results for these transactions differ significantly from those of prior studies of primarily domestic transactions. We find that while gains from sell-offs are shared by both American sellers and Canadian buyers, a significant portion of the gains accrue to the Canadian buyers. This finding is robust across the analysis of both percentage and dollar abnormal returns metrics. In contrast, existing research generally supports sellers gaining to a greater extent than buyers.

These are interesting findings, and provide insights into a number of policy issues. While it appears that selling firms may experience similar gains whether selling to a domestic buyer or a Canadian buyer, the gains to Canadian acquirers are generally greater than those experienced by U.S. buyers in divestiture transactions. From a strategic perspective, we may infer that, while U.S. firms selling to Canadian acquirers experience similar gains as those selling to domestic buyers, they presumably sell to Canadian acquirers only when Canadians have the highest valuations for the asset in question. Given that previous divestiture studies have interpreted their findings as supporting the synergy/higher valued uses hypothesis, we can infer that these divested units were of greater value to Canadian than U.S. potential buyers. This inference immediately raises another question. Why (even if these units are more valuable to

Canadian acquirers, for reasons presumably related to market segmentation) doesn't competing potential Canadian bid up the unit's price until the acquisition becomes a zero Net Present Value (and associated zero abnormal return) purchase? A full examination of this question is beyond the scope of this study. However, our findings are consistent with the contention that the number of close substitutes for Canadian acquirers may be sufficiently small in number that Canadian firms capture a relatively larger share of any gains than is the case within the domestic U.S. market. Canadian firms exploring such acquisition opportunities will want to examine why and how they can be the prevailing bidder, and still create value.

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NOTES

1. See Harris and Ravenscraft (1991) and Blumberg and Owers (1990) for empirical evidence on the linkage between FDI and corporate transactions.
2. Empirical support for this hypothesis may be found in Sicherman and Pettway (1992).
3. See land, Poulsen, and Stulz (1995) for a discussion and an examination of the liquidity motive for sell-offs.
4. This is in contrast to whole-firm acquisitions where the open auction process typically drives target prices up to where they represent zero Net Present Value (NPV) investments for buyers. Studies of whole-firm acquisitions as profiled in Black (1989), Jarrell, Brickley, and Netter (1988), and Jensen and Ruback (1983) show that, on average, buyers experience small (if any) gain in shareholder value from the transactions. Bradley, Desay, and Kim (1992) found losses to acquirers in multiple bidder acquisitions and more recently, Banerjee and Owers (1992) report evidence of prevailing negative consequences for "white-knight" acquirers.
5. Zero or negative abnormal returns for acquirers are the most frequently experienced valuation consequences for U.S. firms' acquisitions of domestic whole-firm targets.
6. The TSE Western databank provides daily return and price data for firms trading on the Toronto Stock Exchanges for dates 1975 onward.
7. Sufficient information to provide descriptive statistics in Table 1 was unavailable for 3 U.S. firms and 1 Canadian firm.
8. For a more exhaustive description of the event-study methodology, see Brown and Warner (1985).
9. Results for other event windows are available from the authors upon request.

10. All figures have been converted to U.S. dollars using the exchange rate as of 2-month before the announcement date of the divestiture.

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