Subsidiary takeovers in Japan:
Economic roles and valuation effects

ABSTRACT

This paper documents the economic roles and valuation effects of subsidiary takeovers, focusing on transactions between listed firms in Japan. We find that, unlike mergers of whole firms, subsidiary takeovers normally occur between firms in different industries. Moreover, acquiring firms in subsidiary takeovers are smaller than selling firms, the opposite of firms engaging in whole-firm mergers. An event study finds that abnormal returns to acquiring and selling firms both increase with transaction size, consistent with anticipated efficiency gains from subsidiary trades. For firms selling off a subsidiary in the core business, however, abnormal returns correlate negatively with transaction size.

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