

Fire Sale Discount: Evidence from the Sale of Minority Equity Stakes

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Abstract

Most empirical studies estimate the impact of fire sales either without the benefit of market prices from frequent trades, as with aircraft sales, or without observing transaction prices, as with the forced sales of equity securities by mutual funds facing outflows. We observe both by studying firms' sales of minority equity stakes in publicly listed third parties. We estimate the distressed sale discount to be about 8% while controlling for liquidity and for industry, or about double the 4% estimated for equity sales by distressed mutual funds. The discount becomes 13–14% if the stake sold is more than 5% of the firm or is sold as a block. Prices recover after distressed sales.

JEL classification: G12, G14, G32, G34

Keywords: Fire Sale, Liquidity, Distressed Sale, Price Recovery

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