



Predicting Stock Prices: The Role of Profitability, Operating Performance, Capital Expenditure and Growth Opportunity Before and After Spin-Offs

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ABSTRACT

In the last few decades there has been an increase in the number of merger and acquisition (M&A) deals. However, there is a relatively new trend to divest a company's operating activities. This research focuses on spin-off as a divestment method which is defined as the separation of a subsidiary or division from the parent company by creating a new, independent company. The aim of this research is to assess the parent company's share price response to the spin-off announcement and measure the long-term performance of the parent company that is carrying out the spin-off. The population of this research is manufacturing companies listed on the Indonesia Stock Exchange (BEI) for the period 2010 - 2023. The sampling technique used was purposive sampling and a sample of 32 companies was obtained with 192 observation consisting of 3 (three) years before the spin-off and 3 (three) years after the spin-off. The analysis method used is multiple linear regression using SPSS Ver 22. The research results show that profitability and growth opportunity influence share prices before the spin-off event, whereas after the spin-off event only the growth opportunity variable influences share prices. The operating performance and capital expenditure variables have no effect on share prices either before the spin-off event or after the spin-off event. The abnormal return value is smaller in the event after the spin-off.

INTRODUCTION

In recent decades, there has been a significant increase in merger and acquisition (M&A) agreements. This trend is driven by several factors, including synergy, economies of scale, improved efficiency, business alignment, and diverse market access, particularly evident in 2022. According to data from KPPU, there were 300 notifications in 2022, representing a 22% increase from 2021. The accompanying graph illustrates a consistent annual rise in M&A activities (KPPU, 2022). However, there is also a relatively new trend of companies divesting their operational activities, either by separating the company or creating independent subsidiaries. While M&As create opportunities for geographical and business segment expansion, divestitures often aim to streamline the company. The most common type of divestiture is known as a spin-off.





Cusatis et al. (1993) indicate that divestiture motives often relate to mitigating negative synergies between the parent and subsidiary companies, addressing market undervaluation of the parent company due to diversification discounts, or reducing agency costs and overhead. Alexander Tübke (2023) outlines various divestiture methods, including equity carve-outs, buy-outs, sell-offs, split-ups, and spin-offs. This study focuses on spin-offs, defined as the separation of a subsidiary or division from the parent company to create a new, independent entity, with shareholders retaining proportional equity interests. Spin-offs do not dilute equity or transfer ownership from current shareholders, nor do they involve cash transactions (Uddin, 2010; Hamid, 2010). The primary impact of spin-offs is the reduction of the parent company's asset base, with assets becoming part of the new, independent subsidiary (Uddin, 2010; Hamid, 2010).

The study will specifically examine non-pure spin-offs, where the parent company transfers some assets and liabilities to the subsidiary. Spin-offs are unique among divestiture methods because shareholders retain direct ownership, indicating motivations beyond shedding poorly performing divisions. Hite & Owers (1983) describe spin-offs as a form of merger that can mitigate negative impacts of over-diversified businesses. Like mergers, spin-offs can enhance shareholder wealth around the announcement. Veld & Veld-Merkoulova (2009) provide evidence that spin-off announcements are associated with positive short-term abnormal returns. Spin-offs can offer tax benefits, reduce overhead and agency costs, and lead to more efficient asset use, enhancing operational performance. Qian (2007) argues that spin-off transactions can reduce agency conflicts, leading to significant long-term performance improvements and better corporate governance. Schipper & Smith (1983) show that spin-offs can eliminate diseconomies and inefficiencies, achieving operational efficiency through focused business activities. Krishnaswami (1999) notes that spin-offs can reduce information asymmetry regarding the profitability and efficiency of different subsidiaries. Research indicates that spin-offs can create shareholder value by improving corporate governance and reducing agency problems in European markets (Uddin, 2010; Hamid, 2010).

Yunus (2019) states that the primary goal of spin-offs is to enhance company value, which in turn improves the performance of the involved business entities. Poerwokoemo's (2017) study shows a decline in profitability (ROA) post-spin-off, indicating reduced performance for banks undergoing spin-offs (Razak et al., 2016). Hasibuan A. Syawaluddin (2021) also finds significant differences in the financial performance of PT. Bank BJB Syariah before and after the spin-off, as indicated by ROA. Dasilas A (2011) shows a significant decline in the parent company's ROA post-spin-off, suggesting a negative relationship between abnormal return and ROA, implying that spin-offs are aimed at improving profitability. Dasilas A (2011) also notes a decrease in operating performance for U.S. companies post-spin-off, but an increase for European companies, measured by the EBITDA/TA ratio, indicating long-term benefits from divestiture. Regression analysis by Dasilas A (2011) shows a positive and statistically significant relationship between EBITDA/TA ratio and abnormal return.

The spin-off event highlights the influence of growth opportunities on shareholder returns. Pratiwi (2016) finds that growth opportunities have an irrelevant contribution to shareholder returns (CAR), as companies with high growth opportunities often engage in M&A for overinvestment, thus not paying dividends. Conversely, company size (SIZE) has a relevant but negative contribution to shareholder returns (CAR). Chemmanur & Yan (2004) argue that increased company performance and efficiency result from the disciplinary effect of spin-offs on management, as spin-offs heighten the risk of losing managerial control, motivating management to work harder and improve operational efficiency. This can also lead to performance improvements due to the capabilities of the new management team (Thompson, 2014; Thomas et al., 2014). This study aims to investigate the value and performance implications of spin-offs in Indonesian manufacturing companies. The research seeks to assess the stock price response of parent companies to spin-off announcements, measure long-term performance of parent companies involved in spin-offs, analyze differential market reactions to diversified spin-off activities, and conduct multiple regression analysis to identify factors explaining market responses to spin-off transactions.





LITERATURE RESEARCH

A. Theories

The research employs three main theories: the Efficient Market Hypothesis (EMH), Signalling Theory, and Agency Theory. The EMH, as proposed by Fama (1970), suggests that stock prices reflect all available information. This implies that stock prices should quickly react to new information, including spin-off announcements, which can alter investor expectations instantaneously. According to Fama & French (1992), the market quickly adjusts to new information, thereby integrating it into stock prices. This study leverages EMH to understand how quickly and accurately the stock market reacts to spin-off announcements, reflecting the new valuations of the companies involved.

Signalling Theory, developed by Ross in 1977, posits that executives with superior information about their companies are incentivized to share this information with potential investors to boost stock prices. By communicating positive signals, companies can differentiate themselves from those with poorer performance (Ang & Robbert, 1997). This theory is relevant for analyzing how companies use spin-offs to signal financial health and growth potential to the market. Additionally, Agency Theory explores the relationship between principals (owners) and agents (managers), focusing on the misalignment of incentives and information asymmetry (Semadeni & Cannella, 2011). Spin-offs can reduce these issues by improving managerial incentives and reducing informational discrepancies between managers and investors (Krishnaswami & Subramaniam, 1999). This study examines how spin-offs impact the agency dynamics within firms, potentially leading to better performance and reduced agency costs.

B. Spin-off

A spin-off involves separating a subsidiary from its parent company, transferring ownership to the parent company's shareholders. The subsidiary's shares are distributed pro-rata to existing shareholders as dividends, without generating cash for the parent (Tubke, 2004). Spin-offs are typically motivated by the desire to eliminate inefficiencies in the parent company (Gertner et al., 2002). They can reduce agency conflicts, improve operational performance, and enhance shareholder wealth (Hite & Owers, 1983; Sudarsanam, 1999). The process includes preparing a spin-off plan, shareholder approval, asset and liability separation, and legal endorsement by a notary (UU PT Pasal 135). This restructuring aims to improve corporate performance and value.

C. Abnormal Returns

Abnormal Return (AR) refers to the excess return over the expected normal return, reflecting the performance beyond the risk-adjusted expectation. Estimation models for AR include mean-adjusted, market, and market-adjusted models (Brown & Warner, 1985). The mean-adjusted model uses historical average returns, while the market model estimates expected returns using actual data from the estimation period. The market-adjusted model assumes the best estimate for a security's return is the current market index return. Abnormal return is the difference between actual and expected returns (Hartono, 2017). It is classified into AR, Average Abnormal Return (AAR), Cumulative Abnormal Return (CAR), and Cumulative Average Abnormal Return (CAAR), each providing insights into stock performance and event impact (Handoko, 2016).

D. Return on Assets

Return on Asset (ROA) is a key profitability ratio used to evaluate a company's performance. ROA measures a company's efficiency in generating profits from its assets, both from its equity and debt. It indicates past profitability and predicts future gains. According to Brigham (2001), ROA is the ratio of net income to total assets, reflecting post-interest and tax earnings. Horne and Wachowicz (2005) highlight ROA's role in assessing the overall effectiveness in profit generation from available assets, calculated as net income after tax divided by total assets. A higher ROA indicates better performance, as it reflects higher returns on investment (Wild, 2005). This metric is crucial for analyzing financial health and operational efficiency (Riyanto, 2010).





E. EBITDA

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is a profitability metric that compares companies across industries. Introduced in the 1980s, EBITDA helps investors assess a company's short-term debt repayment ability by dividing EBITDA by interest expenses (McConnell, 2004). Its advantage lies in being unaffected by accounting and financing decisions (Uğurlu & Aksoy, 2006). EBITDA measures financial performance by excluding the impact of capital structure, tax policies, and depreciation. Investors and analysts favor EBITDA for comparing companies internationally, as it eliminates tax policy distortions specific to one country. According to Uğurlu & Aksoy (2006), the EBITDA/TA ratio is crucial for predicting financial distress, with a higher ratio indicating better asset productivity and financial health.

F. CAPEX

Capital expenditure (CAPEX) involves funds used by a company to acquire or upgrade physical assets like buildings, machinery, and equipment, yielding economic benefits over a year or more (McConnell et al., 2001). CAPEX aims to enhance or expand fixed assets, improving long-term profitability by boosting production capacity and business investments. Riyanto (2010) views CAPEX as funds invested in company assets, while Horne & Wachowicz (2005) emphasize its future profit potential, treating it as a capital expense rather than a current period expense. Gitman & Zutter (2015) state that CAPEX supports operational expansion, asset replacement, and long-term commitments for future benefits. CAPEX figures are found in the cash flow statement under investments, reflecting purchases of fixed assets.

METHOD

A. Types of research

This study is an explanatory or causal research, aimed at elucidating the relationships between independent variables and the dependent variable within a research framework. Ferdinand (2014) notes that causal research seeks to understand cause-and-effect relationships among various variables, concepts, and strategies developed in management. This research specifically tests hypotheses formulated in the conceptual framework to determine the relationships between profitability (X1), operating performance (X2), capital expenditure (X3), and growth opportunity (X4) on abnormal return (Y). By examining these variables, the study aims to provide a comprehensive understanding of how these factors influence abnormal returns.

B. Population and Sample

The population for this study consists of all manufacturing sector companies listed on the Indonesia Stock Exchange from 2010 to 2023. The sampling technique used is purposive sampling, which, according to Sugiyono (2019), involves selecting samples based on specific criteria. The criteria for selecting samples in this research are: manufacturing companies listed on the IDX from 2010 to 2023, companies that publish financial statements as of December 31 for each year within this period, companies that announced spin-off transactions between January 1, 2010, and December 31, 2023, parent companies located in Indonesia, and manufacturing sector companies that provide the necessary financial data for the study.

C. Data analysis technique

The data analysis technique employed in this study involves paired sample t-tests and regression analysis to identify variables influencing stock price reactions to spin-off announcements, utilizing SPSS 22 for statistical analysis. Descriptive statistics, as explained by Purnomo (2016), provide a summary of the data, illustrating the mean, median, maximum, and minimum values of the variables. This approach helps in understanding the data distribution before proceeding with more complex analyses.

The study also conducts classical assumption tests, such as normality, multicollinearity, autocorrelation, and heteroscedasticity tests, to ensure the validity of the regression model. The normality test checks if the data distribution is normal using the P-P Plot of Regression Standardized Residuals (Purnomo, 2016). Multicollinearity, assessed using VIF and Tolerance values, ensures no perfect linear relationship between independent variables (Ghozali, 2013). Autocorrelation is tested using the Durbin-Watson statistic to detect residual correlations across observations (Basuki & Prawoto, 2019). Heteroscedasticity is checked by analyzing





the pattern of data point distribution in a scatterplot (Purnomo, 2016). Finally, multiple regression analysis evaluates the linear relationships between independent and dependent variables, examining factors like profitability, operating performance, capital expenditure, growth opportunities, and firm size in relation to abnormal returns.

RESULTS AND DISCUSSION

1. Descriptive Statistical Test

Table 1. Descriptive Statistics (Before Spin-off)

	N	Minimum	Maximum	Mean	Std. Deviation
Abnormal Return	96	-1.21	1.04	-.1408	.53467
Profitabilitas	96	-.18	.27	.0649	.06403
Operating Performance	96	-.17	.34	.1163	.07997
Capital Expenditure	96	-.02	.26	.0663	.05686
Growth Opportunity	96	.01	7.32	1.7670	1.80967
Size	96	19.72	31.34	27.8264	2.52497
Valid N (listwise)	96				

Table 2. Descriptive Statistics (After Spin-off)

	N	Minimum	Maximum	Mean	Std. Deviation
Abnormal Return	96	-1.73	2.60	-.0336	.44387
Profitabilitas	96	-.21	.31	.0450	.08121
Operating Performance	96	-.18	.42	.0943	.09606
Capital Expenditure	96	-.27	.56	.0604	.10739
Growth Opportunity	96	.05	8.74	1.8868	2.02571
Size	96	20.18	32.45	28.3553	2.61120
Valid N (listwise)	96				

Based on Tables above, the findings reveal detailed statistics for variables such as Abnormal Return, Profitability, Operating Performance, Capital Expenditure, Growth Opportunity, and Size across two periods: before and after spin-off events in Indonesian manufacturing firms from 2010 to 2023. For instance, Abnormal Return ranged from -1.21 to 1.04 before spin-off and -1.73 to 2.60 after spin-off, indicating varying impacts on stock performance. Profitability, measured from -0.18 to 0.27 before and -0.21 to 0.31 after spin-off, showed fluctuating trends across companies. Operating Performance, Capital Expenditure, Growth Opportunity, and Size also exhibited varying ranges and averages, highlighting the diverse impacts of spin-off events on these financial metrics. These tables provide a comprehensive overview of the data distribution and central tendencies observed in the study period.





2. Multiple Linear Regression Analysis

Table 3. Multiple Linear Regression Analysis (Before Spin-off)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.928	.597		1.553	.124
	Profitabilitas	4.652	1.849	.502	2.516	.014
	Operating Performance	-1.905	1.502	-.253	-1.268	.208
	Capital Expenditure	.615	.972	.066	.633	.528
	Growth Opportunity	-.078	.037	-.252	-2.131	.036
	Size	-.038	.022	-.184	-1.727	.088

The multiple linear regression analyses conducted before and after spin-off events, as presented in Tables above, reveal significant insights into the factors influencing Abnormal Return (AR) in Indonesian manufacturing firms. Before spin-off, the regression equation ($AR = 0.928 + 4.652 PROF + (-1.905) OP + 0.615 CE + (-0.078) GO + (-0.038) SIZE$) shows that Profitability positively influences Abnormal Return, while Operating Performance, Growth Opportunity, and Size exert negative effects. After spin-off, the equation ($AR = 2.719 + 2.527 PROF + (-1.775) OP + (-0.409) CE + 0.066 GO + (-0.096) SIZE$) indicates similar trends, with Profitability positively affecting AR, and Operating Performance, Capital Expenditure, and Size negatively impacting AR. Growth Opportunity shows a positive influence post-spin-off. The coefficients elucidate that changes in these financial metrics significantly affect Abnormal Return, providing crucial insights for understanding firm performance dynamics in response to corporate events like spin-offs.

Table 4. Multiple Linear Regression Analysis (Before Spin-off)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.719	.643		4.226	.000
	Profitabilitas	2.527	2.380	.303	1.062	.292
	Operating Performace	-1.775	1.861	-.287	-.954	.343
	Capital Expenditure	-.409	.489	-.085	-.837	.405
	Growth Opportunity	.066	.032	.280	2.048	.044
	Size	-.096	.022	-.440	-4.293	.000

Based on the results presented, the hypothesis testing for various independent variables influencing Abnormal Return (AR) before and after spin-off events is detailed as follows: Before spin-off (Table 19), Profitability shows a significant influence on AR (Sig. = 0.014 < 0.05), supporting H1a acceptance and H01a rejection. Operating Performance, Capital Expenditure, and Size do not show significant effects on AR (Sig. > 0.05), leading to H2a, H3a, and H4a rejections respectively, while Growth Opportunity significantly impacts AR (Sig. = 0.036 < 0.05), thus supporting H4a acceptance and H04a rejection. After spin-off (Table 20), only Size significantly influences AR (Sig. = 0.000 < 0.05), supporting H4b acceptance and H04b rejection, while Profitability, Operating Performance, and Capital Expenditure do not exhibit significant effects (Sig. > 0.05), leading to H1b, H2b, and H3b acceptances respectively and H02b, H02a, and H03b rejections. These findings provide insights into how specific financial metrics affect stock prices in the context of corporate events like spin-offs.





3. The Effect of Profitability on Stock Prices Before and After the Spin-off Event

The research findings indicate that profitability significantly influences stock prices through abnormal returns before a spin-off event, as evidenced by a Sig. value of $0.014 < 0.05$ and a coefficient of 4.652, suggesting a positive relationship where higher profitability leads to increased abnormal returns and, consequently, higher stock prices (citation). This contrasts with Dasilas's findings (2011), which found a significant negative correlation between abnormal returns and Return On Assets (ROA), indicating that lower ROA results in higher abnormal returns and lower stock prices, prompting companies to pursue subsidiary separations to enhance profitability. However, post-spin-off, profitability no longer affects stock prices significantly (Sig. > 0.05), aligning with Poerwokoesoemo's observations of varying ROA performance pre- and post-spin-off (citation). This suggests that short post-spin-off periods, industry conditions, and ineffective post-spin-off performance may explain the lack of profitability's influence on stock prices, supported by studies on long-term performance improvements post-spin-off (Chemmanur & Yan, 2004; Lehtonen, 2008).

4. The Effect of Operating Performance on Stock Prices Before and After the Spin-off Event

The research findings indicate that operating performance does not significantly affect stock prices measured by abnormal returns both before and after a spin-off event, resulting in the rejection of hypotheses H2a and H2b. This contrasts with Dasilas A's (2011) study, which found a statistically significant positive relationship between abnormal returns and operating performance at a 5% significance level, suggesting a positive impact (citation). This aligns with Desai's (1999) and Hite & Owers's (1983) observations that mergers and acquisitions, akin to spin-offs, can enhance operational performance through synergies and operational efficiencies, although Sharma & Ho (2002) note significant changes in labor and overhead costs post-merger without substantial operational performance differences pre- and post-merger. Uddin (2010) further supports this by highlighting spin-offs' potential to create value through operational and informational efficiencies, tax advantages, and improved corporate governance (citation).

5. The Effect of Capital Expenditure on Share Prices Before and After the Spin-off Event

The study's hypothesis testing reveals that capital expenditure does not influence stock prices measured by abnormal returns before and after a spin-off event, resulting in the rejection of hypotheses H3a and H3b. This finding is consistent with Jorghi L Pasya and Juniarti's (2019) research, which similarly found no significant impact of capital expenditure on Cumulative Abnormal Return (citation). They argue that while increased capital expenditure can enhance a company's value, it must be accompanied by improved operational performance to translate into shareholder value. Support for these results also comes from Bambang B and Elen P (2010), who found no significant relationship between capital expenditure and firm performance, and Werner R. Murhadi (2008), who stated that capital expenditure alone cannot directly explain a company's profitability levels (citation). In contrast, Dasilas A (2011) found a negative and significant impact of capital expenditure on abnormal returns, suggesting that companies with lower new investment levels may opt to spin off subsidiaries with higher capital needs (citation). Similarly, Kim et al. (2019) highlighted that positive market responses to capital expenditure reflect expectations of future company growth, indicating its role as a signal of management's commitment to enhancing company performance and shareholder returns (citation).

6. The Effect of Growth Opportunity on Stock Prices Before and After the Spin-off Event

The study's hypothesis testing reveals that growth opportunity significantly influences stock prices measured by abnormal returns both before and after a spin-off event, leading to the acceptance of hypotheses H4a and H4b. Before the spin-off, the negative coefficient (-0.078) indicates that higher growth opportunities lead to lower abnormal returns, impacting stock prices negatively. Conversely, post-spin-off, the positive coefficient (0.066) indicates a significant positive relationship between growth opportunity and abnormal returns, suggesting higher growth opportunities lead to higher stock prices. This finding is supported by Salsabila & Pertiwi (2022), who highlight the positive correlation between growth opportunities and stock returns, emphasizing that high-growth firms exhibit smaller changes in stock prices compared to non-growth firms (citation).





7. The Effect of Size on Stock Prices Before and After the Spin-off Event

The hypothesis testing results from this study indicate that size does not influence stock prices measured by abnormal returns before a spin-off event but does so afterward. Before the spin-off, the p-value for size is greater than 0.05 ($0.088 > 0.05$), suggesting no significant relationship between size and abnormal returns. However, post-spin-off, the p-value is less than 0.05 ($0.000 < 0.05$), indicating a significant negative relationship between size and abnormal returns, with a coefficient of -0.096. This negative coefficient suggests that larger firms experience lower abnormal returns, which negatively impacts stock prices.

This finding aligns with the research by Salsabila & Pertiwi (2022), which demonstrates that company size significantly negatively affects shareholder returns in firms undergoing mergers and acquisitions. Other studies by Zhao et al. (2019), Ramdhonah et al. (2019), Setiawan & Miftahurrohmah (2021), and Nursita (2021) explain that the negative relationship between company size and abnormal returns stems from larger firms facing agency conflicts, reduced efficiency, and effectiveness due to inadequate control and supervision, leading to decreased company performance and value. Consequently, market reactions to merger and acquisition announcements involving large firms tend to be subdued, disappointing investors and resulting in reduced shareholder returns (Salsabila & Pertiwi, 2022).

8. Abnormal Returns Before and After Spin-off Events

The analysis of abnormal returns before and after the spin-off event indicates that the constant value is positive. This suggests that, assuming the absence of variables like profitability, operating performance, capital expenditure, growth opportunity, and size, the abnormal return tends to increase. The increase in abnormal return is more significant post-spin-off than pre-spin-off, aligning with Uddin (2010), who argued that corporate spin-offs provide economic benefits that enhance shareholder value. Japanese companies, for instance, use spin-offs as a growth instrument to achieve more focused business operations and increased operational efficiency, which in turn can lead to higher abnormal returns.

The profitability variable shows a positive constant value before and after the spin-off. This implies that every unit increase in profitability raises abnormal returns by 4.652 units pre-spin-off and 2.527 units post-spin-off. Dasilas (2011) found a significant decline in Return on Assets (ROA) for parent companies post-spin-off, suggesting that spin-offs, especially those involving unrelated business lines, can enhance parent company performance by improving operational efficiency. However, post-spin-off, the parent company's operational performance often deteriorates compared to the subsidiary, as seen in the average ROA for parent companies. Operating performance shows a negative constant value before and after the spin-off. A one-unit increase in operating performance decreases abnormal returns by 1.905 units pre-spin-off and 1.775 units post-spin-off. This suggests that abnormal returns improve post-spin-off, consistent with Uddin (2010) and Dasilas (2011), who noted that spin-offs allow for more efficient asset use, leading to enhanced operational performance. Post-spin-off, EBITDA tends to be lower than pre-spin-off, which implies lower tax burdens for the company, aligning with Sharma & Ho (2002), who observed significant tax reductions post-mergers and acquisitions.

Capital expenditure shows a positive constant value pre-spin-off, where a one-unit increase boosts abnormal returns by 0.615 units. Post-spin-off, the constant value is negative, with a one-unit increase in capital expenditure reducing abnormal returns by 0.409 units. This indicates a reduced impact of capital expenditure on abnormal returns post-spin-off. Dasilas (2011) found that a lower CAPEX/TA ratio allows parent companies to concentrate on core businesses, reducing the volatility of subsidiaries. Growth opportunity, measured pre-spin-off, shows a negative constant value, with a one-unit increase reducing abnormal returns by 0.078 units. Post-spin-off, the constant value is positive, with a one-unit increase in growth opportunity raising abnormal returns by 0.066 units. Dogru et al. (2020) and Porta et al. (2000) found that growth opportunities positively and significantly affect shareholder returns, suggesting that post-spin-off, companies have greater growth prospects, enhancing abnormal returns.

The size variable shows a negative constant value before and after the spin-off. A one-unit increase in company size decreases abnormal returns by 0.038 units pre-spin-off and 0.096 units post-spin-off. Larger companies tend to have lower efficiency and effectiveness due to reduced control and oversight, leading to decreased shareholder returns, as noted by Salsabila & Pertiwi (2022). Overall, the study reveals that abnormal returns are higher pre-spin-off than post-spin-off, contrary to Krishnaswami & Subramaniam (1999), who found that spin-off companies with higher information asymmetry experience increased abnormal returns.





This aligns with Denis et al. (2002), who noted that diversified companies face higher information asymmetry, leading to discounted valuations by investors. However, Hellström and Landmark (2020) found that spin-offs reduce information asymmetry, improving company transparency and lowering agency costs. Reduced agency costs and enhanced transparency post-spin-off can improve operational performance and lower capital costs, as highlighted by Krishnaswami & Subramaniam (1999).

CONCLUSION

The study aimed to examine the impact of profitability, operating performance, capital expenditure, growth opportunity, and size on abnormal returns before and after spin-off events in Indonesian manufacturing companies listed on the Indonesia Stock Exchange from 2010 to 2023. Using purposive sampling, 32 companies were selected for analysis over three years before and after spin-offs, totaling 192 sample observations. Statistical analysis using SPSS version 22 indicated that profitability influences stock prices before spin-off but not afterward, while operating performance and capital expenditure showed no significant effects either before or after spin-off events. Growth opportunity affected stock prices both before and after spin-off, whereas size had no impact before but did after spin-off. The study concludes that spin-off events benefit parent companies through tax advantages, reduced information asymmetry, agency costs, and conflicts. However, limitations include the short observation period and the use of year-end abnormal returns, suggesting future research should consider longer-term impacts and average annual abnormal returns for a more comprehensive analysis of spin-off effects.

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