New Equity Issuers' Performance and Earnings Management

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Abstract
This study proposes the “issue-by-performance” hypothesis, suggesting that public firms would consider their past stock performance to conduct new equity financings. In this context, firms are likely to stop financing by equity if they perform poorly after the last issue. Using a sample of identifying the frequencies of firms' new issues, this study finds that good pre-issue stock performance does drive firms to reissue equity. Frequent issuers perform well after the first and subsequent issues but poorly after the last issue. These results support the hypothesis. In addition, I discover that firms tend to manage earnings aggressively around the last issue but not around other issues, implying that issuers have a dim view of their future would inflate earnings to raise more funds.

Key Words: Seasoned Equity Offerings (SEOs); Private Placements of Equity (PPEs); Earnings Management; Long-run Performance