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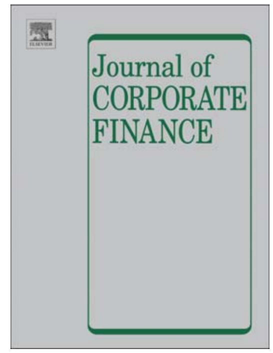

Media News and Earnings Management prior to Equity Offerings

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Media News and Earnings Management prior to Equity Offerings

Salim Chahine*, Sattar Mansi, Mohamad Mazboudi

Abstract

We examine whether media news reflect the extent to which issuing firms manage their earnings prior to their equity carve-outs (ECOs). We posit that managers will strategically respond to media requests prior to their equity offerings in order to signal their type and differentiate themselves from others. We find that media news at the time of the ECO is negatively related to earnings management during the year prior to the ECO date. However, when we examine the nature of media news (informative vs uninformative), we find that earnings management is negatively (positively) related to informative (uninformative) media news. Moreover, while price revision is positively related to both informative and uninformative media news, ECO underpricing is positively related to uninformative media news and negatively related to informative media news. This suggests that uninformative news induces investor sentiment during the first day of trading, whereas informative news reduces the asymmetric information between issuing firms and outside investors. Consistently, we document that long-run ECO performance decreases with earnings management and uninformative news, but is positively related to informative news. Our results highlight the importance of the nature of news in media coverage for issuers seeking to differentiate themselves from those managing their earnings prior to equity offerings, evidence consistent with signaling.

JEL classification: G32, G34, M41

Keywords: Media News; Earnings Management; Equity Offering; Signaling; Price Revision; Underpricing.

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