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Explanations of Cycles in Seasoned Equity Offerings: An Examination of the Choice between Rights Issues and Private Placements

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Abstract

A feature of the Australian equity market is that, unlike all other equity markets, private placements and rights issues are used more frequently than public offerings. This study examines time-variation in these types of seasoned equity offerings (SEOs), to examine choice between them, and to enhance our understanding of the reasons for time-variation in SEOs. Time-variation in information asymmetry, the demand for capital, and investor sentiment, together with market timing, are explanations for this cyclicity in SEO issuance; although the drivers of time-variation differ across SEO types. Time-variation in the demand for capital has a statistically and economically significant impact on time-variation in private placements, while time-variation in investor sentiment has a statistically and economically significant impact on the prevalence of rights issues. Market timing and information asymmetry do not have explanatory power for variation in SEO activity.

Keywords: SEO; Rights issue; Private placement; Information asymmetry; Demand for capital; Investor sentiment; Market timing.

JEL Classification: G1

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