

## COMPETITOR FIRMS' STOCK-PRICE REACTION TO PRIVATE EQUITY PLACEMENT ANNOUNCEMENTS: EVIDENCE FROM CHINA

M.M. Fonseka and G.L. Tian

*Department of Accounting & Finance, Xi'an Jiaotong University  
No. 28, Xianning West Road, Xi'an 710049, Shaanxi, P. R. China  
Corresponding author: mohanfonseka@yahoo.co.uk*

This paper examines whether the information conveyed by private equity placement (PEP) decision transfers to non-applying firms within the same industry. This study particularly investigates the impact of firm's announcements of application, withdrawal, rejection, approval, and completion of PEPs while examining the cross-sectional differences of the market performance of their industry counterparts both in the short run and in the long run. PEP data were collected manually from CSRC's monthly Bulletin from 2006 to 2010. The sample includes 518 firms that applied for PEP (615 firm-year observations) and 428 firms that successfully completed the process (488 firm-year observations) firms. The final sample contains 2,548 competitor firm observations and PEP proceeds and financial data were obtained from CSMAR-seasonal equity offering and CSMAR-financial databases. We used event study and regression analyses methods. The study reveals that there exists an intra-industry reaction; competitors experience a decrease in stock prices in response to the announcements of application, approval, and completion of PEPs and an increase in stock prices around the announcements of withdrawal or rejection of applications. This study further documents that competitor's experience a decrease in the long-term stock performance following private placements. Moreover, short-term effect of discount on PEP of competitor firms' cumulative average abnormal returns (CAAR) is negative. However, it is positively affected long-term stock returns and abnormal stock returns of competitor firms. In the context of information spill over, the competitive effect dominates the contagion effect. Higher discounts associated with PEP issues benefit-issuing firms to raise required amount of funds for their potential investment projects. Besides, industry level discount also have a positive impact on stock-price performance of industry counterparts in the long-run. Our overall results suggest the existence of "competitive effect" both in the short run and in the long run. However, we find little evidence that there is a contagion effect associated with private equity announcement information.

**Keywords:** Announcement effect, China, Competitive effects, Competitor firms, Contagion effects