85-11 **Pettway, Richard H., and Robert C. Radcliffe.** 1985. “Impacts of New Equity Sales upon Electric Utility Share Prices.” *Financial Management*, 14(1): 16-25.

http://www.blackwellpublishing.com/journal.asp?ref=0046-3892&site=1

Abstracts

When a firm sells a new equity issue, share prices may be influenced by two forces: (i) information implicit in management's announcement that more equity capital is needed, and (ii) liquidity or price pressures caused by the temporary increase in the supply of shares offered for sale. This study measures the relative size of each of these forces in the sale of new equity capital by electric utilities from 1973 through 1980. The analysis of 366 new equity sales finds the existence of a statistically significant negative information effect. During the twenty-day period surrounding the public announcement, cumulative abnormal returns were -- 1.6% when evaluated against a broad market portfolio and -- 1.2% when evaluated against a portfolio of other utilities that were frequent sellers of equity. There appears to be some information leakage prior to the AD. but the largest abnormal returns occur on the day of the announcement and the next day. Between the AD and the SD. prices continue to slip; however, declines in CAR are greater around the AD than around the SD. In fact, just alter the SD there is a price recovery for three days, indicating the presence of a small liquidity effect caused by the additional supply of new equity shares. After this increase of less than .4%, abnormal returns continue their previous downward pattern. Over the entire period from fourteen days before the AD to thirty days after the SD. the results indicate a significant decline due to information effects of 3% compared to a broad market index and 1.5% compared to a utility index. In summary, the objective of this paper has been to measure the effects of new equity sales upon share prices of the most frequent sellers of new equity capital, public utility firms. The major finding of this study is that an electric company's sale of new equity shares is likely to have a significant negative information effect upon share prices. A liquidity effect is present, but it is very small in...