Two Essays on Shelf-registered Corporate Equity Offerings

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ABSTRACT

This dissertation consists of two essays. The first provides evidence that the recent revival of shelf equity offers is related to changes in how firms use shelf registration. During 1990-2003 firms that make shelf filings have no immediate intent and low probability of issuance, lower pre-filing returns relative to non-shelf issuers, and often have been certified in prior SEOs. The evidence indicates that the way firms now use shelf offerings resolves the under-certification problem responsible for the shelf demise in the 1980s (Denis, 1991) and results in smaller market penalties and lower underwriter fees relative to non-shelf offerings. This allows firms with greater uncertainty to take advantage of the shelf option to defer or abandon offers. Additionally, firms often use universal shelf filings and choose between debt and equity offerings based on the prevailing relative market conditions.

The second essay examines offer price discounting of traditional and shelf-registered seasoned equity offerings (SEOs). The results indicate that relative to traditional SEOs, shelf discounting during 1982 - June 2004 is similar in magnitude, is influenced by the same factors, and has increased similarly over time. Prior studies attribute the time-series increase of seasoned offer discounting to pre-offer short sale constraints (Rule 10b-21; adopted in 1988). This study provides insights about the effect of Rule 10b-21 by exploiting the fact that shelf-registered offerings were exempt from this regulation until September 2004. The analysis uses the shelf exemption as a control in testing the Rule’s effect, and the elimination of the exemption as an “out-of-sample” test. The results suggest that Rule 10b-21 is not associated with the increase in seasoned offer discounts. The gradual increase in discounting over the past two decades is largely due to a shift in the composition of issuers toward firms that have greater stock volatility and pre-offer price uncertainty.
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# Table of Contents

Abstract...............................................................................................................................................ii  

Acknowledgements..........................................................................................................................iii 

Table of Contents..............................................................................................................................iv 

List of Tables..................................................................................................................................vi 

List of Figures..................................................................................................................................viii 

Chapter 1:  
The revival of shelf-registered corporate equity offerings.....................................................1  

1. Introduction.......................................................................................................................................1 

2. Sample description..........................................................................................................................5 

   2.1 Data...........................................................................................................................................5 

   2.2 Shelf and non-shelf equity offers since 1990...........................................................................6 

3. Explanations for the revival of shelf equity offerings.................................................................7 

   3.1 Easing of eligibility requirements............................................................................................7 

   3.2 Changing Characteristics of Shelf Issuers.............................................................................8 

   3.3 How firms use shelf registration.............................................................................................9 

      3.3.1 The shelf deferral option...............................................................................................9 

      3.3.2 Reduced need for certification.......................................................................................11 

      3.3.3 Choice of registration method.......................................................................................13 

   3.4 Cost comparison........................................................................................................................14 

      3.4.1 Market penalties.............................................................................................................14 

      3.4.2 Direct costs (~underwriter fees)...................................................................................20 

   3.5 How firms use universal shelf offers......................................................................................23 

4. Conclusions.....................................................................................................................................24 

References for chapter 1....................................................................................................................27
# List of Tables

Tables for Chapter 1:

Table 1  
The number and total proceeds of traditional SEOs and shelf offers…………………29  
Table 2  
Descriptive statistics..........................................................30  
Table 3  
Number of days between filing and offer dates……………………………31  
Table 4  
Shelf filings that lead to equity offerings……………………………………32  
Table 5  
Reducing the need for certification...........................................33  
Table 6  
Factors that influence the choice between shelf and non-shelf offers…………………34  
Table 7  
Market penalty at filing..........................................................35  
Table 8  
Determinants of the market reaction at the filing of equity offers…………………37  
Table 9  
Market penalty at the offering..................................................38  
Table 10  
Direct Costs of shelf and non-shelf offers…………………………………39  
Table 11  
Determinants of the direct costs of equity offers……………………………40  
Table 12  
Stock returns and interest rates prior to universal equity and debt offers………….41

Tables for Chapter 2:

Table 1  
Descriptive Statistics...........................................................69  
Table 2  
Descriptive evidence on offer price discounting..................................70  
Table 3  
Discounting relative to closing prices and closing quotes..........................71  
Table 4  
Factors that influence seasoned offer discounts....................................72  
Table 5  
The effect of Rule 10b-21 on discounting......................................73  
Table 6  
Discounting around the 2004 elimination of the shelf exemption to Rule 10b-21……75  
Table 7  
Pearson correlations..............................................................76
Table 8  
Factors and discounting over time.................................................................79
Table 9  
Time-series determinants of discounting......................................................82
Table 10  
Cross-sectional differences in discounting between procedures.....................84
Table 11  
Discounting of integer and non-integer offers within groups of positive pre-offer returns.................................................................85
Table 12  
Explaining cross-sectional differences between procedures............................86
List of Figures

Figures for Chapter 1:

Figures 1-2
Market volatility and the number of shelf and non-shelf equity offers…………………..42

Figures 3-4
Market volatility and the number of shelf and non-shelf equity offers…………………..43

Figure 5
Cumulative density functions (CDF) of direct costs…………………………………..44

Figures for Chapter 2:

Figure 1: Transaction price and offer price increments for non-shelf offers……………88

Figure 2: Transaction price and offer price increments for shelf offers…………………..89