

Woidtke, T. (with S. Krishnamurthy , P. Spindt and V. Subramaniam). (2005). Does Investor Identity Matter in Equity Issues?: Evidence from Private Placements. *Journal of Financial Intermediation*, 14, 210-238.

Abstract

We examine the relation between stock price performance and the identity of the investors buying the shares in private placements of equity. We find that although the shareholders not participating in the placement experience post-issue negative long-term abnormal returns, the participating investors purchase the shares at a discount and earn normal returns. For the non-participating investors, both announcement and long-term abnormal returns are significantly higher when the shares are placed with affiliated than only with unaffiliated investors. Additionally, when we exclude financially-distressed firms, we find insignificant announcement returns followed by negative long-term abnormal returns in placements to unaffiliated investors. On the other hand, consistent with affiliated investors having a certification effect, we find positive announcement returns and normal long-term returns following placements to affiliated investors. Thus, the disparity found in private placements between the positive announcement period and the negative post-issue long-term abnormal returns disappears when we control for financial distress and participating investor identity.