News Management around Equity Private Placements

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ABSTRACT

Private placement is the sale of securities to a limited number of qualified institutions or high-wealth investors. Although private placement is favorable for firms raising capital, it is relatively easy for managers to exploit it to benefit specific investors. Using a sample of Taiwanese private placements covering 2006 to 2010, we use both quantitative and qualitative variables to examine the determinants of the valence and tenor of media coverage around private placement announcements and study whether managers strategically perform news management. The results show that issuers will engage in news management around private placement announcements to facilitate the issue process. This phenomenon is more obvious if no insiders are participating in the placements. Voluntarily released news is more forward-looking and positive. These types of news provide investors with the issuers' anticipated future prospects and are relatively easy to create. The results also suggest that private placements are useful for resolving adverse selection and moral hazard problems through media power.

Keywords: Equity Private Placements, News Management, Information Asymmetry, Adverse Selection, Moral Hazard
JEL Codes: G14, G32

I. Introduction

Private placement, the sale of securities to a limited number of qualified institutions or high-wealth investors, has become an important financing vehicle, especially for small businesses, because of its quick and simple issue process (Fenn 2000; Krishnamurthy et al. 2005). In addition to being useful for a variety of corporate objectives, such as growth financing, recapitalizations, deleveraging, shareholder liquidity, structured investments and acquisition financing, private placements can also help reduce information asymmetry (Allen and Phillips 2000; Cronqvist and Nilsson 2005; Hertzel and Rees 1998) and enhance monitoring (Hertzel and Smith 1993; Wruck 1989).

Information asymmetry is a very important issue in the capital market. It is a common phenomenon that can hinder the normal operation of financial markets, and everything possible must be done to eliminate it and thus enhance transparency. The media is the vehicle through which information about firms coming from many channels, such as company press releases, security analysts, and media workers (Deephouse 2000), is delivered to investors. Though this process may substantially reduce information asymmetry between managers and investors, the financial literature suggests that managers tend to manipulate the media to achieve specific goals, even self-interest. For example, Ho et al. (2010) note that opportunistic behavior is observed in Taiwanese firms conducting initial public offerings (IPOs), and find that issuers are also inclined to influence investors' views on firms' future prospects (except those concerning earnings management) by disclosing their operational advantages and strategic plans. One common approach is releasing news to the media. Through news management, firms can enhance their public image to facilitate equity issues. In another IPO study, Jang (2007) finds that firms hype the media in the IPO process. She shows that the volume and tenor of media-provided information increases noise traders' demand for newly listed shares, leading to both a greater IPO underpricing and a higher trading turnover. Lang and Lundholm (2000) find that issuers increase corporate disclosure activity during the six-month period before a seasoned equity offering (SEO), especially for the categories of disclosure over which managers have greater discretion. They suggest that the purpose of disclosure is not only to reduce information asymmetry but also to hype their stock to reduce cost of capital.

Although private placement is favorable for firms raising capital, it is relatively easy for managers to exploit it to benefit specific investors, as shares are placed with

selected investors. Accounts of such exploitation are pervasive in the private placement literature. For example, Wu (2004) and Barclay et al. (2007) discuss managerial self-dealing in private placements, and He et al. (2011) find that private placement issuers appear to pursue income-increasing earnings management around private placements. Unlike in developed countries, almost 70% of Taiwan equity trading volume is generated by individual investors who tend to be less informed, lack professional experience or training and, therefore, inclined to follow market information. Thus, several questions emerge. In private placement financing, how do the two mechanisms for reducing information asymmetry—media disclosure and private placements complement each other? What is the role of the media in private placements? Since both the media and private placements have the same function of mitigating information asymmetry, does managerial manipulation of the media appear among the other capital raising alternatives also exist in private placements?

In this study, we investigate news management around private placement announcements using a sample of private placements announced between January 2006 and December 2010 by firms listed on the Taiwan Stock Exchange (TSE) and the Gre-Tai Securities Market (OTC). Following the method used by Brockman et al. (2008), we employ *SRET* and *GN* as proxies for the valence of media coverage. Thus, *SRET* equals the three-day abnormal returns around news reports. If *SRET* is positive (negative), the news is classified as good news (bad news) and *GN* is equal to 1 (0). However, both *SRET* and *GN* are measured under the efficient market hypothesis that the stock price has fully and instantaneously reflected publicly available information.

To make our research more robust, we also adopt a measure, *TENOR*, to analyze managers' information disclosure around the event date. *TENOR* being measured by content analysis is also used by Deephouse (2000) and Pollock and Rindova (2003) that read and judge the tenor of statements released in news reports. As suggested by Pollock and Rindova (2003), in a market with many professional investors, media-provided information will have a systematic impact on investor behavior. DeFleur et al. (1992) also suggest that audience memory is substantially stronger for news stories reported by newspapers. Although some news is authored on the media's own initiative rather than by a company source, Deephouse (2000) argues that the media are unlikely to report on a firm if the firm has not taken any action. Therefore, most news must come from company press releases, transmitted verbatim or edited by the media. We therefore consider that media-provided information, such as news published in popular newspapers and on the Internet, is the most appropriate object of a study on managerial disclosure behavior around private placement announcements.

Although many research designs are based on the efficient market hypothesis (eg.

Brockman et al. 2008), abnormal return anomalies occur in most emerging markets, such as the Taiwan stock market. Research also shows that stock prices in emerging markets are strongly affected by political events and rumors because this information is relatively opaque, and most investors are noisy traders in this environment (Morck et al. 2000; Ho et al. 2010). For robustness purposes, we use both quantitative (*SRET* and *GN*) and qualitative (*TENOR*) variables to measure the valence or tenor of media coverage. All research methodologies have advantages and disadvantages. The quantitative method used by Brockman et al. (2008) is easy to conduct, but it has more restrictions when applied to a less developed capital market. The qualitative method used by Deephouse (2000) can provide more direct evidence, but it requires more time for news reading, and its judgments of tone are subjective. Our study contributes to the development of methodologies for use in the literature on financial news management. For researchers working with data drawn from developing financial markets, the findings using both qualitative and quantitative variables provide robust support for their conclusions.

Our study also adds to the private placement literature concerning news management. The literature on information disclosure, such as studies on IPO underpricing (Pollock and Rindova 2003; Jang 2007), generally regards the tenor of media coverage as a determinant of certain financial events. By contrast, our research examines the determinants of media coverage in private placements; we use the valence and tenor of media coverage as the outcome variables. Moreover, the extant private placement literature focuses on the determinants and consequences of private placement decisions, such as the motives for choosing private placements (Brooks and Graham 2005; Cronqvist and Nilsson 2005; Sharpe and Woo 2005; Wu 2004), the announcement effects and pricing in private placements (Wruck 1989; Hertzel and Smith 1993; Anderson et al. 2006),[2] the reasons for long-run stock and operating underperformance following private placements (Hertzel et al. 2002; Chou et al. 2009; Marciukaityte et al. 2005), and investor identity in private placements (Barclay et al. 2007; Krishnamurthy et al. 2005; Wruck and Wu 2009). We expand the topic's research domain by investigating if managers manipulate the media to facilitate private placements.

The results show that issuers will engage in news management around private placement announcements to facilitate the issue process. Before announcements, firms strategically release good news to create an atmosphere favorable for conducting private

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[2] This kind of literature discusses why private placements are always offered at a discount and exhibit positive abnormal returns around the announcement date.

placements and continue releasing an even greater volume and ratio of good news following the announcement. This phenomenon is more obvious if no insiders are participating in the placements.

Unlike the research on SEOs (Lang and Lundholm 2000), our results show that managers have no incentives to affect private placement pricing because private placement itself has the function of reducing adverse selection. However, firms' motivation to release information favorable to the issue of equity remains substantial. Furthermore, as private placements with a strategic purpose provide issuers with great opportunities to release good news, private placements can reduce the moral hazard problems

The rest of this paper is organized as follows. Section II discusses Taiwan's regulatory environment and market characteristics. Section III reviews the relevant literature on private placements and disclosure. Section IV details this paper's research methodology. Section V contains the study's sample descriptions and empirical results. Section VI discusses the results, and our conclusions are presented in Section VII.

II. Regulatory Environment and Market Characteristics in Taiwan

A. Taiwan's Regulatory Environment for Private Placements

In Taiwan, the most essential regulations with respect to private placements are covered by the Securities and Exchange Act (from Article 43-6 to Article 43-8). Such regulations state that a public company may structure a private placement among "accredited investors" only upon shareholder approval. Upon the date on which such shareholders' resolution has been passed, the private placement may be conducted in installments within one year. Accredited investors refer to financial institutions (banks, bills finance corporations, mutual funds and insurance companies, etc.), wealthy investors (natural persons, legal persons, or funds meeting the specified entry requirements), and insiders (directors, supervisors and executives of a company or its affiliates). There are no limitations on the number of financial institutions, but the number of other investors is limited to 35.

As for the pricing of private placements, no applicable regulations on the size of discount have been available in Taiwan until 2005. However, starting from 2005, in the case that the price of privately placed shares is lower than 80% of the reference price,[3] the offering company is required to seek and disclose an independent expert's

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[3] The reference price refers to the highest of the average stock price for either the one, three, or five

opinion on the reasonableness of the discount amount. Since 2010, the price of private placements securities has been further restricted to 80% of the reference price in the case that any insiders intend to participate in a private placement. In addition, there are no restrictions on the amount of a private placement in Taiwan.

Upon the sale of privately placed shares, the offering company must disclose relevant information as required in the Market Observation Post System (MOPS) within 15 days. This disclosure comprises information on the number of shares offered, the offering price, the purpose, and investors of the offering. In addition, there are resale restrictions. In principle, investors are not allowed to resell privately placed securities within three years. Should investors intend to transfer the securities in their possession within three years, there will be certain restrictions applicable to the buyers and the number of shares to be transferred. Upon expiration of the said three-year holding period, if the company intends to register the privately placed shares, it is required to file with the competent authority for retroactive process of public issuance procedures.

B. Market Characteristics in Taiwan

Some of the market characteristics unique to Taiwan have made research on the news management around private placement announcements very important. Unlike in developed countries, where stock markets consist mainly of institutional investors, most Taiwanese stock market participants are individual investors, who had almost 70% of trading value in 2011. Taiwan's stock markets are generally considered "shallow plate" markets and are characterized by smaller firms, less transparency, high turnover rates, high return volatility, high P/E ratios, and high systematic and liquidity risks. According to Lin and Chang (2009), moreover, from 1998 to 2006, 57% of Taiwan's listed firms were family controlled.

Small businesses often consider higher fixed issuing costs a barrier to financing, and their information asymmetry is more severe as well. Thus, private placements have become vital ways for small firms to raise capital. Individual investors tend to be less informed and less professionally experienced than institutional investors. They are also more inclined to be influenced by news and thus to exhibit biases toward risk and irrational investment decisions.

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business days, or the average stock price for the thirty business days before the price determination date.

III. Literature Review

Verrecchia (2001) suggests that information asymmetry reduction is an important starting point for understanding the efficiency of disclosure choices and incentives. We thus begin by exploring the relationships between information asymmetry and private placements and the media.

A. Information Asymmetry and Private Placement

In the private placement literature, a key hypothesis on the factors behind firms' choices of financing methods is the information hypothesis. Myers and Majluf (1984) propose that, due to information asymmetries, overvalued firms prefer equity financing. Ritter (1991), Loughran and Ritter (1995), Spiess and Affleck-Graves (1995) and Baker and Wurgler (2002) also suggest that firms can exploit windows of opportunity (during which investors are overoptimistic about a firm's prospects) to issue equity, in what is known as the'management-timing' theory. Conversely, when information asymmetry problems emerge, firms cannot be valued accurately. Undervalued firms with valuable investment opportunities but insufficient capital tend to refrain from issuing equity in the public market, leading to underinvestment (Myers and Majluf 1984). Hertzel and Smith (1993) suggest that this type of underinvestment problem could be mitigated if managers conveyed their private information to the market.

Cronqvist and Nilsson (2005) believe that like underwriters' certification in insured rights offerings, private placements also reduce adverse selection problems (Eckbo and Masulis 1992; Myers and Majluf 1984). Firms prefer to disclose private information to investors who have long-term interests in the firms. Furthermore, as the equity-holding risk borne by private placement investors is higher than that held by underwriters, the signal conveyed by the former is more reliable. Thus, firms with more severe information asymmetry and undervaluation are more likely to choose private placements to raise capital.

Aside from adverse selection problems, firms tend to prefer private placements to public offerings when they are concerned about moral hazard costs (Cronqvist and Nilsson 2005). Klein et al. (1978) point out that any party of firms cooperating on investment projects may violate contracts out of self-interest. To avoid this kind of risk, firms often enter into business relationships (e.g. product market agreements, joint ventures, strategic alliances) with their block owners in order to reduce contracting and monitoring costs—namely, moral hazard costs (Allen and Phillips 2000; Williamson 1979; Cronqvist and Nilsson 2005; Folta and Janney 2004). This is also an important reason why firms choose private placements.

These types of risk—adverse selection and moral hazard—may occur when information asymmetry is present, and private placement is one of the countermeasures managers can use to resolve them. Private equity shares are often offered to informed investors in order to signal firms' favorable qualities.

B. Information Asymmetry and Media

One of the media's functions is to provide intelligence about our environment (Lasswell 1949). Media present investors' evaluations of firms while also shaping those impressions by providing the information in either positive or negative terms (Golan and Wanta 2001; Deephouse 2000; Pollock and Rindova 2003). Sources of media information include company press releases, stakeholders, governments, specialized rating agencies, and media workers (Deephouse 2000; Einwiller et al. 2010). The media integrate and report the assessments offered by these information sources to investors. Therefore, the media provide a counteracting mechanism that reduces investors' uncertainty about firms; the media mitigate information asymmetry in capital markets by offering investors a consolidated source of information (Akerloff 1970; Fombrun and Shanley 1990; Deephouse 2000).

Nevertheless, firms must also rely on the news media to convey information to their investors, especially the kind of information that is not easily experienced or inspected or that would lack credibility if conveyed by the firms themselves (Einwiller et al. 2010). In Taiwan's stock markets, individual investors account for about 70% of all investors. Although firm managers use a variety of instruments to disclose information about their firms, such as regulated financial reports, management forecasts, conference calls, analysts' presentations, and internet sites (Healy and Palepu 2001), news reports are individual investors' primary information source about firms.

C. Private Placement and Media

Managers disclose information about their firms for two main reasons: to mitigate information asymmetry and to hype their stock and thus reduce the cost of capital (Coller and Yohn 1997; Lang and Lundholm 2000; Verrecchia 2001; Schrand and Verrecchia 2005). Many studies find that equity issuers perform opportunistically. For example, Ho et al. (2010) find that insiders conduct news management to hype the stock prices of IPO firms before the offering and gradually sell off their stakes afterwards. Pollock and Rindova (2003) find that the level of media-provided information is negatively associated with IPO underpricing and positively related to first-day trading turnover. Lang and Lundholm (2000) find that issuers increase their corporate disclosure activities during the six-month period before SEOs and show that

the disclosure goal is not only to reduce information asymmetry but also to hype their stock.

Similar kinds of manipulation have been found in private placement events. He et al. (2011), studying the earnings management of U.S. firms conducting private placements between 1989 and 2001, find that private placement issuers appear to inflate reported earnings in the year preceding the issue to present a blueprint of their prospects. Because investors are not likely to recognize such income-increasing manipulation, the issuers gain direct monetary benefits by placing equity privately with more favorable terms.

Although both private placements and the media provide a mechanism for reducing information asymmetry, Hoffman and Ocasio (2001) suggest that firms must strategically manage the media because they can influence public perception. The foregoing insights lead us to pose three interesting research questions:

(i) Do managers conduct news management around private placement announcements?

(ii) When insiders (managers) participate in private placements, do they change their disclosure activities for self-interested incentives?

(iii) Whether information asymmetries are reduced around private placements through news management?

IV. Sample Selection and Research Methodology

A. Sample Selection

Since we are interested in understanding how firms strategically manage news, our focus is on news reports around private placements. First, we choose equity private placements announced between January 2006 and December 2010 by firms listed on the Taiwan Stock Exchange (TSE) and the Gre-Tai Securities Market (OTC). Then we collect news reports around the announcement for each private placement. Data about the characteristics of the private placements were collected from companies' annual reports and Taiwan's Market Observation Post System. Directorship, financial, and return data were obtained from the Taiwan Economic Journal database. We excluded private placements left incomplete after an announcement or conducted by financial firms, and deleted observations with incomplete data. News reports were obtained from the InfoWinner Plus database.

Our literature review indicates that managers have two incentives to manage news. Managers may disclose good news preceding a private placement announcement in

order to issue shares at relatively high prices. For example, Lang and Lundholm (2000) suggest that firms change disclosure policies to increase the proceeds from SEOs. Managers may also release good news to ensure the placements' success following the announcement. We analyze news published within a 30-day window preceding the private placement announcement; this is the 'pre-announcement sample'. We also analyze news published within a 30-day window following the announcement; this is the 'post-announcement sample'. The total sample consists of 322 private placements, including 709 news reports in the pre-announcement sample and 910 news reports in the post-announcement sample.

B. Research Methodology

In this study, we employ logistic regressions and ordinary least squares (OLS) to analyze the determinants of the valence and tenor of the media coverage.

(a) Dependent Variables

Two sets of measures, the valence and tenor of the media coverage, serve as dependent variables. The first set includes *SRET* and *GN*, and it is used for insider trading by Noe (1999) and Cheng and Lo (2006) and for repurchasing shares by Brockman et al. (2008). The two measures reflect the valence of the media coverage from the market's point of view. The second set consists of *TENOR*, used for media reputation by Deephouse (2000) and for initial public offerings (IPOs) by Pollock and Rindova (2003) and Jang (2007). This measure reflects the tenor of media coverage from the media readers' point of view.

The first two dependent variables, *SRET* and *GN*, are continuous and dummy variables, respectively. If the three-day abnormal return (*SRET*) around a news report is positive (negative), the news is classified as good news (bad news), and *GN* is equal to 1 (0). The three-day abnormal returns reflect the information content of news reports, which are calculated in the market-adjusted return model as the excess returns over the value-weighted stock index in the three-day window [-1, 1] around news reports.

The third dependent variable, *TENOR*, is a continuous variable. We employ the Janis-Fadner coefficient of imbalance (Deephouse 2000; Janis and Fadner 1965; Pollock and Rindova 2003) as a proxy to calculate each sample firm's media coverage tenor. The formula is as follows:

$$TENOR = \begin{cases} (P^2 - PN)/V^2, & \text{if } P > N; \\ 0, & \text{if } P = N; \\ (PN - N^2)/V^2, & \text{if } P < N, \end{cases}$$

where P is the number of positive articles, N is the number of negative articles, and V is the total number of articles within 30-day periods before and after the private placement announcement. The coefficient occurs between -1 and +1, where +1 represents all good news, and -1, all bad news.

To measure the tenor of media coverage (*TENOR*), we collect and conduct a content analysis on 1,619 news reports available in the InfoWinner Plus database, which covers public disclosures in popular newspapers and on the Internet. As in prior research (Deephouse 2000; Pollock and Rindova 2003), each article is coded as positive, negative, or neutral. A positive (negative) article implies that the tone of the statement is considered favorable (unfavorable) for stock prices, and we define this as good (bad) news. A neutral article means that the tone of the statement is considered to have almost no impact on stock prices or is equally positive and negative. If multiple pieces of news about the same firm are published on the same day, we keep only the most extensive version of the reports because these multiple reports are usually generated from the same underlying disclosure. Of these, 709 articles come from the pre-announcement period and 910 from the post-announcement period.

Thus, *GN* represents the relative ratio (or frequency) of good to bad news, whereas *SRET* and *TENOR* reflect the magnitude of the news.

(b) Independent Variables

The independent variables are based on prior research on information disclosure and private placements. These variables cover three dimensions: firm characteristics, private placement characteristics, and measures of discretionary disclosure.

a) Measures of firm Characteristics

Firm characteristics expected to influence the valence and tenor of media coverage include firm size, market-to-book ratio, return on equity (*ROE*), financial conditions, and the momentum effect. Firm size (*LnMKT*) denotes the natural logarithm of market value by the end of the fiscal year before the date of the private placement announcement. In general, information about large firms is easier to collect than that about small firms; thus, information asymmetry is relatively high in small firms. Studies suggest that firm size is positively related to management earnings forecasts for repurchasing shares (Brockman et al. 2008) and stock-based incentives (Nagar et al.

2003). We assume that small firms will release a greater ratio of good news to enhance their popularity around private placement announcement. Market-to-book ratio (*MB*) is defined as the ratio of market value to book value of equity by the end of the fiscal year prior to the announcement date (Folta and Janney 2004). A firm with higher *MB* reflects higher growth opportunities but is relatively difficult to evaluate. In a firm with higher *MB*, a greater proportion of its value consists of intangible assets, while a lower *MB* implies a greater proportion of tangible assets. Information asymmetry is more severe in firms whose intangible assets are worth more. This kind of firm is thus more likely to be undervalued (Hertzel and Smith 1993; Tan et al. 2002). Therefore, we assume that firms with higher *MB* will tend to release a greater ratio of good news to enhance the public perception of the firms' growth prospects.

We employ two variables, *ROE* and *Distress*, to capture firm performance. Here, *ROE* denotes return on equity in the fiscal year prior to the announcement date. The literature shows that firms' disclosures increase with firm performance (Lang and Lundholm 1993). Furthermore, *Distress* is a dummy variable, defined as 1 if a firm suffers two consecutive years of negative earnings before the announcement date or faces a threat to its operations (e.g. bankruptcy or restructuring), and 0 otherwise. Because a private placement is often the only feasible financing channel for firms in financial distress (Krishnamurthy et al. 2005), managers of such firms should try to attract investors who can help them overcome their financial problems; we assume that financially distressed firms tend to release a greater ratio of good news in order to do this. Finally, the variable *ABRET* is used to control for the momentum effect, which denotes cumulative abnormal returns over the period beginning 90 days and ending two days before the private placement announcement.

b) Measures of Private Placement Characteristics

The variables for the characteristics of private placements include offering size, offering purpose, managerial participation, ownership concentration, and changes in ownership concentration. Offering size (*LnProceeds*) denotes the natural logarithm of the total proceeds issued in the private placement and displays messages about offering quality and stability to investors (Pollock and Rindova 2003). *Purpose* is a dummy variable. If the funds are to be used for financial purposes, *Purpose* is equal to 1; if the use is strategic, *Purpose* is equal to 0. A financial purpose is either working capital or debt reduction, and a strategic purpose is either the introduction of strategic investors or ensuring the rights of business control. Since firms often develop a cooperative relationship with investors through private placements (Cronqvist and Nilsson 2005; Janney and Folta 2003), private placements with a strategic purpose convey a more

positive signal about the firms.

Three variables are relevant to firm insiders and ownership concentration. The variable *Managers* is equal to 1 if a director, supervisor, or senior management is among the buyer(s) of a private placement, and 0 otherwise. For the information hypothesis, an increase in managerial holdings is a positive signal. Because managers know more about firm value, their participation in private placements signals firm undervaluation. However, under some circumstances, placements to managers will convey less positive information, as, for example, when managers engage in self-dealing or are overoptimistic about a firm's outlook, which could harm the interests of non-participating shareholders (Hertzel & Smith 1993; Heaton 2002; Malmendier and Tate 2005; Wong and Zhang 2009; Wruck and Wu 2009).

In the private placement literature, Nagar et al. (2003) propose that, because equity ownership offers managers incentives to disseminate information to investors, managers' disclosure activities increase with insider ownership. Brockman et al. (2008) find that managerial incentives to change the flow of information are positively related to managerial holdings in a firm. For example, when the level of equity-based compensation granted to managers increases, managers are more likely to release bad news before a share repurchase to buy back stocks at lower prices (Barclay and Smith Jr 1988). Moreover, Wruck (1989) suggests that increases in ownership concentration in private placements convey positive signals to the market about improvements to the monitoring mechanism. Thus, we define ownership concentration (*Ownership*) as the percentage of shares held by the managers and block holders with 5% or greater ownership. $\Delta Ownership$ is defined as the change in ownership concentration before and after the private placement announcement.

c) Measures of Discretionary Disclosure

To examine issuers' discretionary disclosure behavior, we employ the dummy variable *Discretion*, set at 1 if a news report mentions additional detail or a managerial quote about an offering firm and 0 otherwise. Lang and Lundholm (2000) find that managers tend to release more news with additional detail or managerial quotations before SEOs to facilitate the issues. We thus assume that any news containing these detailed statements has likely been voluntarily released by the issuer. To conduct the *TENOR* regression, we use the variable *DiscretionRatio*, the ratio of discretionary news for each private placement.

(c) Models of Analysis

Using the above variables, we test the effects of firm characteristics, private

placement characteristics, and discretionary disclosure on the valence and tenor of media coverage. Our models are as described below.

$$SRET = \beta_0 + \beta_1 LnMKT + \beta_2 MB + \beta_3 ROE + \beta_4 Distress + \beta_5 ABRET$$
$$+ \beta_6 Ln \Pr oceeds + \beta_7 Purpose + \beta_8 Managers \qquad (1)$$
$$+ \beta_9 Ownership + \beta_{10} \Delta Ownership + \beta_{11} Discretion$$

$$\Pr(GN) = \beta_0 + \beta_1 LnMKT + \beta_2 MB + \beta_3 ROE + \beta_4 Distress + \beta_5 ABRET$$
$$+ \beta_6 Ln \Pr oceeds + \beta_7 Purpose + \beta_8 Managers \qquad (2)$$
$$+ \beta_9 Ownership + \beta_{10} \Delta Ownership + \beta_{11} Discretion$$

$$TENOR = \beta_0 + \beta_1 LnMKT + \beta_2 MB + \beta_3 ROE + \beta_4 Distress + \beta_5 ABRET$$
$$+ \beta_6 Ln \Pr oceeds + \beta_7 Purpose + \beta_8 Managers \qquad (3)$$
$$+ \beta_9 Ownership + \beta_{10} \Delta Ownership + \beta_{11} DiscretionRatio$$

V. Empirical Analysis

A. Descriptive Statistics

Table 1 presents the summary statistics of all variables used for our samples. Since we use two different measurement perspectives for the information content, we show both results in panels A and B. Panel A reports the descriptive statistics of the sample from the market view (*SRET/GN*), the observations for which are collected on the date the news was published. Panel B reports statistics from the media readers' view (*TENOR*), the observations for which are obtained on the private placement date. Because the results are similar and as the results in Panel B are more realistic in reflecting the characteristics of the offering firms and private placements, we discuss only the results in Panel B. For the pre-announcement sample in Panel B, we start with the characteristics of the offering firms. The sample firms' average market value is NT$4.99 billion.[4] Their average market-to-book ratio is 1.685. Their average return on equity (*ROE*) is -39.6%. Moreover, 43.5% of the firms are under financial distress. The momentum effect (*ABRET*) is -0.022.

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[4] NT$ denotes New Taiwan Dollar. US$1 was around NT$30 in November 2012.

We then focus on the characteristics of the private placements. The average proceeds issued in the private placements of our sample is NT$549 million. In addition, 83.9% of private placement proceeds are raised for financial purposes. Managers and block holders possess an average of 42.6% of shares before private placements, and the average change in total percentage holdings is 2.4%. Moreover, 67.7% of private placements involve manager participation, and 15.9% of news reports provide additional detail or managerial quotations about the sample firms.

For the post-announcement sample in Panel B, the statistics are the same as those for the pre-announcement sample, except for the tenor of media coverage. We discuss our main concern, the results on the valence and tenor of media coverage, in Panels A and B together. For the pre-announcement sample, the average abnormal return (*SRET)* around news reports is 0.4%. The average *GN* is 54.4%, indicating that more than half of news reports are good. The average tenor of the media coverage (*TENOR*) is 0.137, similar to the result for *GN*, reflecting a greater ratio of good news. Moreover, the average volume of media coverage (*VOLUME*)[5] is 2.199. For the post-announcement sample, the average *SRET, GN, TENOR*, and *VOLUME* are 0.9%, 60.5%, 0.202, and 2.826, respectively. The evidence thus shows that firms

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[5] For ease of interpretation, we use the volume of media coverage (*VOLUME*) to assess the disclosure frequency of news reports, denoting the total number of articles published in popular newspapers and on the Internet within 30-day periods before and after the announcement date.

able 1. Summary Statistics

	Pre-announcement Sample						Post-announcement Sample					
	Freq.	Mean	Std. Dev.	Min.	Median	Max.	Freq.	Mean	Std. Dev.	Min.	Median	Max.
Panel A: Market's Views												
SRET	709	0.004	0.022	-0.093	0.002	0.095	910	0.009	0.026	-0.089	0.004	0.095
Good news	386	0.019	0.017	0.000	0.013	0.095	551	0.023	0.020	0.000	0.018	0.095
Bad news	323	-0.013	0.013	-0.093	-0.010	0.000	359	-0.014	0.015	-0.089	-0.009	- 0.000
GN	709	0.544	0.498	0.000	1.000	1.000	910	0.605	0.489	0.000	1.000	1.000
MKT (NTD mil)	709	18,424	47,649	73	3,081	248,915	910	10,839	29,008	73	2,395	248,915
MB	709	1.815	1.774	0.180	1.250	11.550	910	1.762	1.755	0.180	1.220	11.550
ROE	709	-0.257	0.787	-6.527	0.004	0.874	910	-0.295	0.827	-6.527	-0.017	0.874
Distress	709	0.298	0.458	0.000	0.000	1.000	910	0.332	0.471	0.000	0.000	1.000
ABRET	709	0.014	0.377	-1.632	0.013	1.149	910	0.021	0.377	-1.632	0.016	1.149
Proceeds (NTD mil)	709	1,992	4,059	1	306	22,278	910	1,553	3,382	1	299	22,278
Purpose	709	0.702	0.458	0.000	1.000	1.000	910	0.677	0.468	0.000	1.000	1.000
Managers	709	0.657	0.475	0.000	1.000	1.000	910	0.596	0.491	0.000	1.000	1.000
Ownership	709	0.385	0.162	0.099	0.386	0.993	910	0.394	0.159	0.099	0.386	0.828
△Ownership	709	0.020	0.083	-0.307	-0.003	0.576	910	0.024	0.098	-0.437	-0.001	0.576
Discretion	709	0.303	0.460	0.000	0.000	1.000	910	0.389	0.488	0.000	0.000	1.000

Table 1. Summary Statistics (continued)

	Pre-announcement Sample						Post-announcement Sample					
	Freq.	Mean	Std.	Min.	Median	Max.	Freq.	Mean	Std.	Min.	Media	Max.
Panel B: Media Readers' Views												
TENOR	322	0.137	0.771	-1.000	0.000	1.000	322	0.202	0.681	-1.000	0.240	1.000
VOLUME	322	2.199	3.208	0.000	1.000	25.000	322	2.826	3.541	0.000	2.000	34.000
MKT (NTD mil)	322	4,990	21,053	73	906	248,915						
MB	322	1.685	1.687	0.180	1.180	11.550						
ROE	322	-0.396	0.917	-6.527	-0.105	0.874						
Distress	322	0.435	0.497	0.000	0.000	1.000						
ABRET	322	-0.022	0.389	-1.632	-0.016	1.149						
Proceeds (NTD mil)	322	549	1,913	1	133	22,278						
Purpose	322	0.839	0.369	0.000	1.000	1.000						
Managers	322	0.677	0.468	0.000	1.000	1.000						
Ownership	322	0.426	0.176	0.099	0.412	0.993						
ΔOwnership	322	0.024	0.104	-0.437	0.002	0.576						
DiscretionRatio	322	0.159	0.281	0.000	0.000	1.000	322	0.268	0.336	0.000	0.000	1.000

This table presents summary statistics of all variables used for our samples. The pre-announcement sample refers to a 30-day event window preceding the private placement announcement; the post-announcement sample refers to a

30-day event window following the announcement. Panel A reports descriptive statistics from the market's views. *SRET* is the 3-day abnormal return around news reports. *GN* is equal to one (zero) if *SRET* is positive (negative), and the news is classified as good news (bad news). Panel B reports descriptive statistics from the media readers' views. *TENOR* is the tenor of media coverage. *VOLUME* is the total number of articles published in popular newspapers and on the Internet within 30-day periods before or after the announcement date. Variables used in both panels include: *MKT* is the market value by the end of the fiscal year before the private placement announcement date. *MB* is the ratio of market value to book value of equity by the end of the fiscal year prior to the announcement date. *ROE* is return on equity in the fiscal year prior to the announcement date. *Distress* is defined as 1 if a firm suffers two consecutive years of negative earnings before the announcement date or faces a threat to its operations, and 0 otherwise. *ABRET* is the cumulative abnormal returns over the period beginning 90 days and ending 2 days before the announcement date. *Proceeds* is the total proceeds issued in the private placement. *Purpose* is equal to 1 if the funds are to be used for financial purposes; if the use is strategic, *Purpose* is equal to 0. *Managers* is equal to 1 if a director, supervisor or senior management is among the buyer(s) of a private placement, and 0 otherwise. *Ownership* is the percentage of shares held by the managers and block holders with 5% or greater ownership. $\Delta Ownership$ is the change in ownership concentration before and after the private placement announcement. *Discretion* set at 1 if a news report mentions additional detail or a managerial quote, and 0 otherwise. *DiscretionRatio* is the ratio of discretionary news for each private placement.

tend to have a larger ratio of good news and a larger volume of media coverage after the announcement than before it.

B. Further Analysis of the Valence, Tenor, and Volume of Media Coverage

Panel A of Table 2 shows that the average abnormal returns (*SRET*) around news reports during the pre- and post-announcement periods are 0.4% and 0.9%, respectively, and that the difference between them is statistically significant at the 0.01 level. In Panel B of Table 2, we conduct a Chi-square test of difference to look for differences in news valence between the pre- and post-announcement periods. The results show that the frequency of good news is greater for news published after private placement announcements than it is for news published before (61% versus 54%, respectively).

Panel C of Table 2 reports the tenor (*TENOR*) and volume (*VOLUME*) of media coverage around private placement announcements. The average *TENOR* is 0.137 and 0.202 for the pre- and post-announcement samples, respectively. Although they are both statistically significantly different from zero at the 0.01 level, the difference between the two average *TENOR*s of the pre- and post-announcement samples is statistically insignificant. The average volume of media coverage is 2.199 and 2.826 for the pre- and post-announcement sample, respectively, for a statistically significant difference at the 0.05 level.

Taken together, the results show that the magnitude and frequency of good news during the post-announcement period are greater than those during the pre-announcement period.

C. Analysis of News Categories around Private Placement Announcements

(a) Techniques of News Management

Since the magnitude and frequency of good news after private placement announcements are greater, what is the source of these news reports? As the literature suggests that managers have incentives to skilfully change the content of information flows (Lang and Lundholm 2000; Brockman et al. 2008; Ho et al. 2010), we examine the characteristics of news reports to investigate whether strategic managerial behavior occurs in private placements. Following the approach in Ho et al. (2010), we classify news reports into six categories: 1) Sales/Financials, 2) Industry/R&D, 3) Strategy/Policy, 4) Financing, 5) Regulation/Law, and 6) Others. Panel A of Table 3 reports the frequency of news reports and the tenor of media coverage across different categories over the announcement periods.

Table 2. Valence, Tenor and Volume of Media Coverage during Pre- and Post-announcement Periods

Panel A: Abnormal Returns around News Reports during Pre- and Post-announcement Periods

		SRET	
	N	Mean	t-statistic
Pre-announcement period (1)	709	0.004	4.835***
Post-announcement period (2)	910	0.009	9.943***
Diff (2-1)		0.005	3.700***

Panel B: Chi-Square Test of Difference between News Valence and Period Type

	Good news	Bad news	Total
Pre-announcement period	386 (54%)	323 (46%)	709
Post-announcement period	551 (61%)	359 (39%)	910
Total	937	682	1619
Chi-square test of difference	6.095**		

Panel C: Tenor and Volume of Media Coverage during Pre- and Post-announcement Periods

	TENOR			*VOLUME*		
	N	Mean	t-statistic	N	Mean	t-statistic
Pre-announcement period (1)	322	0.137	3.185***	322	2.199	12.299***
Post-announcement period (2)	322	0.202	5.324***	322	2.826	14.323***
Diff (2-1)		0.065	1.139		0.627	2.356**

The table reports the valence, tenor and volume of media coverage during pre- and post-announcement periods. The pre-announcement period refers to 30 days preceding the private placement announcement; the post-announcement period refers to 30 days

following the announcement. Panel A reports the change in *SRET* between the pre- and post-announcement periods. *SRET* is the 3-day abnormal return around news reports. Panel B reports Chi-square test of difference between news valence and period type. A piece of news is classified as good (bad) news if *SRET* is positive (negative). Panel C reports changes in the tenor and volume of media coverage between the pre- and post-announcement periods. *TENOR* is the tenor of media coverage. *VOLUME* is the total number of articles published in popular newspapers and on the Internet within 30-day periods before or after the announcement date. *** and ** indicate significance at the 1% and 5% level, respectively.

Table 3. Changes in Frequency of News Reports and the Tenor of Media Coverage across News Categories

Panel A: Frequency of News Reports and the Tenor of Media Coverage across News Categories

Category	Good News		Neutral News		Bad News		All News		Tenor of Media Coverage	
	N	Fre	N	Freq.	N	Freq.	N	Freq.	TENO	t-stat.
Sales/Financials										
Pre-announcem	145	228	27	30	117	132	253	390	0.144	1.856*
Post-announce	137	196	27	33	125	133	249	362	0.094	0.663
Industry/R&D										
Pre-announcem	30	58	7	9	2	3	33	70	0.651	7.379**
Post-announce	32	70	13	18	3	4	37	92	0.546	6.593**
Strategy/Policy										
Pre-announcem	42	64	14	20	5	5	50	89	0.477	6.951**
Post-announce	71	141	12	14	4	5	76	160	0.749	12.915*
Financing										
Pre-announcem	21	29	28	38	5	5	47	72	0.134	3.316**
Post-announce	80	127	85	100	5	5	140	232	0.288	9.663**
Regulation/law										
Pre-announcem	3	5	2	2	5	7	10	14	-0.071	-0.695
Post-announce	1	1	2	2	5	5	7	8	-0.313	-1.504
Others										
Pre-announcem	22	29	22	42	3	3	38	74	0.138	4.099**
Post-announce	13	13	25	40	3	3	37	56	0.041	1.904*

Panel B: Changes in The Tenor of Media Coverage (TENOR) between Pre- and Post-announcement Periods

Category	N	Mean	Std. Dev.	Min.	Median	Max.	t-stat.
Sales/Financials	293	-0.061	0.898	-2.000	0.000	2.000	-0.856
Industry/R&D	54	-0.043	0.770	-1.000	0.000	1.000	-0.445
Strategy/Policy	108	0.271	0.828	-1.000	0.653	1.250	4.134***
Financing	155	0.278	0.577	-1.250	0.000	2.000	

							5.895***
Regulation/law	15	-0.083	0.864	-1.000	0.000	1.000	-0.347
Others	62	-0.127	0.579	-1.000	0.000	1.000	-1.612

This table reports changes in frequency of news reports and the tenor of media coverage across news categories. Panel A reports the frequency of news reports and the tenor of media coverage. N is the number of private placements. Good (bad) news implies that the tone of news is considered to be favorable (unfavorable) for stock price of private placement firms. *TENOR* is the tenor of media coverage. The pre-announcement period refers to 30 days preceding the private placement announcement; the post-announcement period refers to 30 days following the announcement. Panel B reports changes in the tenor of media coverage (*TENOR*) between pre- and post-announcement periods. *** and * indicate significance at the 1% and 10% level, respectively.

During the pre-announcement period, the highest reporting frequency appears in the Sales/Financials category, with 390 pieces of news, followed by the Strategy/Policy category, with 89 news reports. The Financing category has 72 news reports, followed by the Industry/R&D category's 70 pieces; the lowest frequency of news is in the Regulation/Law category (with 14 pieces). During the post-announcement period, the Sales/Financials category still has the highest reporting frequency, followed by the Financing category, with the largest increase in frequency (totalling 232 news reports). The category with the second-largest increase in the number of news reports is the Strategy/Policy category, with 160 news reports. Most of the frequency increases are in good news. The news reports in other categories experience either a small increase or decrease.

The large increases in news frequency in the Strategy/Policy and Financing categories over the announcement periods imply the possibility of news management on the part of private placement firms. Ho et al. (2010) suggest that news in the Strategy/Policy category offers managers the opportunity to bias media coverage because it is easy to do by offering only a blueprint of a firm's future outlook. Therefore, the voluntary release of news in this category is the most frequently used method by which offering firms seek to improve investors' evaluation of the firms' future. News in the Financing category provides further opportunities for managers to engage in news management by emphasizing the benefits of the offerings or the possibility/success of introducing strategic investors. News in the other categories is more difficult to create, however, thus the lack of large volume increases for these types of news.

In Panel A of Table 3, the tenor of media coverage (*TENOR*) is significantly positive in all but the Regulation/Law category during both pre- and post-announcement periods, indicating that offering firms have a greater ratio of good news in most news categories. For the pre-announcement sample, the two categories with the largest *TENOR* are the Industry/R&D category (0.651) and the Strategy/Policy category (0.477). For the post-announcement sample, the Strategy/Policy category has the largest *TENOR* (0.749), followed by the Industry/R&D category, with 0.546 of *TENOR*. However, the ratio of good news declines in the Industry/R&D category and other news categories, except the Financing category, which has the second-largest increase in the ratio of good news, with 0.288 of *TENOR*. By contrast, the ratio of good news is relatively small in the Regulation/Law category, with -0.071 and -0.313 of *TENOR* before and after the announcement, respectively. This result is consistent with Ho et al. (2010), as this kind of news often refers to violations of regulations or laws.

We also examine the changes in the tenor of media coverage (*TENOR*) between the pre- and post-announcement periods. Panel B of Table 3 shows that the Strategy/Policy and Financing categories experience an increased ratio of good news after the announcements and that the increase is statistically significant at the 1% level. These results provide further support for the argument that offering firms prefer to release the two categories of news to bias media coverage.

(b) Another Technique of News Management

Aside from releasing news in the Strategy/Policy and Financing categories, issuers also engage in news management by releasing more forward-looking news. Ho et al. (2010) find that equity issuing firms tend to disclose more forward-looking news when anticipating positive prospects. To examine this argument, we divide the news into forward-looking and historical reports. If a piece of news is related to the future (past), it is classified as a forward-looking (historical) report. If it contains both forward-looking and historical statements, it is a neutral report. Table 4 presents the summary statistics. During the pre-announcement period, about 41.89% of good news reports are forward-looking while only 5.16% of bad news reports refer to the future. During the post-announcement period, the ratio of forward-looking reports increases to 52.19% in the good news category, while the ratio declines to 5.81% in the bad news category. These results reveal that offering firms seem to disclose their prospects by releasing more forward-looking good news, especially during the post-announcement period. The significant difference between good and bad news categories in the ratio of forward-looking reports also implies that private placement firms tend to disclose forward-looking news when the firms' prospects are positive but delay releasing the negative news.

Table 4. Summary Statistics of Forward-looking and Historical News Reports

	Good News			Bad News		
	Forward-Looking	Historical	Ratio of Forward-Looking	Forward-Looking	Historical	Ratio of Forward-Looking
Pre-announcement	173	226	41.89%	8	143	5.16%
Post-announcement	286	250	52.19%	9	146	5.81%

This table reports the frequency of forward-looking and historical news reports. The

pre-announcement period refers to 30 days preceding the private placement announcement; the post-announcement period refers to 30 days following the announcement. Good (bad) news implies that the tone of news is considered to be favorable (unfavorable) for stock price of private placement firms. Forward-looking (historical) news means that a piece of news is related to the future (past). Ratio of forward-looking news = the number of forward-looking news reports/ the total number of forward-looking and historical news reports.

D. Discretionary News Releasing

To examine whether issuers adjust their disclosure activities around private placement announcements, we distinguish between discretional and non-discretional news report statements. Panel A of Table 5 reports the chi-square test of difference showing whether discretionary behavior differs between pre- and post-announcement periods. The proportion of *Discretion* is 39% for the post-announcement sample, significantly larger than that (30%) for the pre-announcement sample, indicating that the frequency of news reports voluntarily released is substantially higher during the post-announcement period. We further examine the association between the good/bad news type and the discretion in the released news. In Panel B of Table 5, the proportions of discretional statements in the good and bad news reports differ insignificantly during the pre-announcement period. However, about 42% of good news is voluntarily released by the private placement issuers following the announcement, while only 34% of bad news is voluntarily disclosed, a difference statistically significant at the 1% level. These results mean that the substantially large increase in the number of good news reports during the post-announcement period is strongly attributable to the voluntary disclosure behavior of the issuers. Thus, private placement firms engage in news management to achieve their fund-raising goals.

E. Regression Analysis

This section examines the impacts of the firm and private placement characteristics and of discretionary disclosure on the valence and tenor of media coverage around the private placement announcement. The valence and tenor of media coverage are used as the dependent variables in the regression analysis and will be discussed accordingly.

Table 5. Discretionary Disclosure around Private Placement Announcements

Panel A: Chi-Square Test of Difference between Discretion Type and Period Type

	Discretion	Non-discretion	Total
Pre-announcement	215	494	709
	(30%)	(70%)	
Post-announcement	354	556	910
	(39%)	(61%)	
Total	569	1050	1619
Chi-square test of difference	12.861***		

Panel B: Chi-Square Test of Difference between Discretion Type and News Type during Pre- and Post-announcement Periods

	Pre-announcement			Post-announcement		
	Discretion	Non-discretion	Total	Discretion	Non-discretion	Total
Good news	113	273	386	233	318	551
	(29%)	(71%)		(42%)	(58%)	
Bad news	102	221	323	121	238	359
	(32%)	(68%)		(34%)	(66%)	
Total	215	494	709	354	556	910
Chi-square test of difference	0.442			6.736***		

The table reports discretionary disclosure around private placement announcement. The pre-announcement period refers to 30 days preceding the private placement announcement; the post-announcement period refers to 30 days following the announcement. Panel A reports Chi-square test of difference between discretion type and period type. A piece of news is classified as discretion news if it refers to additional detail or managerial quote about an offering firm and non-discretion otherwise. Panel B reports Chi-square test of difference between discretion type and news type during pre- and post-announcement periods. Good (bad) news implies that the tone of news is considered to be favorable (unfavorable) for stock price of private placement firms. *** indicates significance at the 1% level.

(a) *SRET* as Dependent Variable

Model 1 of Table 6 presents the OLS regression results based on equation (1). The coefficient of firm size (*LnMKT*) is significantly negative for the pre-announcement sample, suggesting that small firms tend to have a greater ratio of good news. The coefficient of market-to-book ratio (*MB*) is statistically positive at the 5% level for the pre-announcement sample, indicating that firms with high growth opportunities tend to have a greater ratio of good news. The coefficient of *ABRET* is significantly positive for the pre-announcement sample, corroborating the operation of the momentum effect by which investors keep earning positive abnormal returns around news reports following a period of good stock; it also implies that, when releasing news around the announcement date, firms that enjoy good stock performance in one period will get favorable responses. The coefficient of changes in ownership concentration ($\triangle$*Ownership*) is statistically negative at the 10% level for the pre-announcement sample, indicating that, when the percentage of participating insiders decreases in private placements, firms tend to have a smaller ratio of good news. However, the results concerning changes in ownership concentration in Model 1 are inconsistent with the argument in Krishnamurthy et al. (2005) about firm quality certification,[6] suggesting the possibility of managerial news management, which will be discussed in Section VI.

The coefficient of proceeds raised (*LnProceeds*) is significantly positive at the 10% level for the post-announcement sample. Large issue proceeds suggest the availability of investment opportunities and will reduce the degree of information asymmetry by prompting more investors to assess a firm; thus, the raising of large proceeds is associated with more positive information. On the other hand, managers of offering firms may have incentives to release good news to facilitate raising large proceeds. Additionally, the coefficient of *Discretion* is statistically significant at the 1% level only for the post-announcement sample, supporting the view that managers tend to

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[6] Krishnamurthy et al. (2005) suggest that affiliated investor participation in private placements is a certification of firm quality because affiliated investors have lower information costs and know more about firm value.

voluntarily release good news following the announcements.

Table 6. Regression Results

	Model 1: SRET		Model 2: GN		Model 3: TENOR	
	Pre-announcement	Post-announcement	Pre-announcement	Post-announcement	Pre-announcement	Post-announcement
Intercept	0.009	0.024	0.270	2.262	-0.646	-0.230
	(0.052)*	(0.000)***	(0.604)	(0.000)***	(0.050)**	(0.356)
LnMKT	-0.002	- 0.003	-0.066	-0.236	0.027	-0.020
	(0.008)***	(0.000)***	(0.345)	(0.001)***	(0.552)	(0.525)
MB	0.001	0.000	0.045	0.005	0.054	0.033
	(0.033)**	(0.636)	(0.368)	(0.901)	(0.032) **	(0.053)*
ROE	-0.002	0.001	-0.135	0.097	0.023	-0.047
	(0.312)	(0.450)	(0.298)	(0.364)	(0.715)	(0.276)
Distress	-0.004	-0.001	-0.210	-0.213	-0.062	-0.105
	(0.143)	(0.760)	(0.356)	(0.254)	(0.547)	(0.231)
ABRET	0.019	- 0.003	1.536	-0.366	0.293	0.155
	(0.000)***	(0.323)	(0.000)***	(0.090)*	(0.010)**	(0.144)
LnProceeds	0.001	0.001	0.071	0.081	0.068	0.117
	(0.195)	(0.051)*	(0.267)	(0.198)	(0.070)*	(0.000)***
Purpose	0.000	-0.000	0.055	-0.434	0.042	-0.117
	(0.891)	(0.806)	(0.760)	(0.010)***	(0.673)	(0.150)
Managers	-0.000	-0.002	-0.036	-0.212	0.079	-0.073
	(0.838)	(0.190)	(0.837)	(0.181)	(0.398)	(0.345)
Ownership	0.007	0.003	0.043	-0.184	0.124	0.046
	(0.281)	(0.680)	(0.940)	(0.726)	(0.668)	(0.842)
ΔOwnership	-0.019	-0.012	-2.014	-0.220	-0.003	-0.899
	(0.085)*	(0.291)	(0.075)*	(0.772)	(0.995)	(0.016)**
Discretion	0.003	0.007	-0.110	0.401		
	(0.172)	(0.000)***	(0.551)	(0.006)***		
DiscretionRatio					0.405	0.407

					(0.006)***	(0.000)***
N	709	910	709	910	322	322
Adjusted	0.107	0.025	0.033	0.009	0.089	0.151
Concordant			62%	62%		

This table reports the regression results of valence (SRET and GN) and tenor (*TENOR*) of media coverage on firm characteristics, private placement characteristics and variables about discretionary disclosure. The pre-announcement period refers to 30 days preceding the private placement announcement; the post-announcement period refers to 30 days following the announcement. *SRET* is the 3-day abnormal return around news reports. *GN* is equal to one (zero) if *SRET* is positive (negative). *TENOR* is the overall tenor of media coverage. *LnMKT* is the natural logarithm of market value by the end of the fiscal year before the private placement announcement date. *MB* is the ratio of market value to book value of equity by the end of the fiscal year prior to the announcement date. *ROE* is return on equity in the fiscal year prior to the announcement date. *Distress* is defined as 1 if a firm suffers two consecutive years of negative earnings before the announcement date or faces a threat to its operations, and 0 otherwise. *ABRET* is the cumulative abnormal returns over the period beginning 90 days and ending 2 days before the announcement date. *LnProceeds* is the natural logarithm of the total proceeds issued in the private placement. *Purpose* is equal to 1 if the funds are to be used for financial purposes; if the use is strategic, *Purpose* is equal to 0. *Managers* is equal to 1 if a director, supervisor or senior management is among the buyer(s) of a private placement, and 0 otherwise. *Ownership* is the percentage of shares held by the managers and block holders with 5% or greater ownership. Δ*Ownership* is the change in ownership concentration before and after the private placement announcement. *Discretion* set at 1 if a news report mentions additional detail or a managerial quote, and 0 otherwise. *DiscretionRatio* is the ratio of discretionary news for each private placement.

(b) *GN* as Dependent Variable

Model 2 of Table 6 presents the logistic regression results based on equation (2). The coefficients of the statistically significant variables have the same signs as those in Model 1. We will discuss only the extra statistically significant variables. The coefficient of *Purpose* is significantly negative for the post-announcement sample. When firms raise funds for strategic purposes, they convey information about their prospects. Such firms thus tend to have a large ratio of good news afterwards.

Although we find some extra statistically significant variables in the *GN* regression, the signs are indifferent from those in the *SRET* regression. Thus, the results for *SRET* and *GN* regressions are robust.

(c) *TENOR* as Dependent Variable

Model 3 of Table 6 presents the OLS regression results based on equation (3). The dependent variable, *TENOR,* reflects the media readers' measurement of the tenor of media coverage. The coefficient of *MB* is significantly positive for both the pre- and post-announcement periods. For the pre-announcement sample, the coefficient of *ABRET* is significantly positive. The coefficient of *LnProceeds* is positive and statistically significant for both the pre- and post-announcement samples. Moreover, the coefficient of changes in ownership concentration ($\triangle OWNERSHIP$) is statistically negative at the 5% level for the post-announcement sample. The coefficient of *DiscretionRatio* is statistically significant at the 1% level for both the pre- and post-announcement samples. For the tenor of media coverage as reflected by the media readers' views (*TENOR*), news voluntarily released by the issuers is significantly positive during both the pre- and post-announcement periods. Thus, for media readers, issuers' voluntary disclosure behavior is pervasive during both the pre- and post-announcement periods.

The results of the *TENOR* regression are therefore consistent with those in the *SRET* and *GN* models. The results of our study are thus robust.

VI. Discussion

Since the results in Section V suggest the possibility that managers of private placement firms manipulate the media to facilitate their offerings, we seek in this section to answer the three questions raised at the end of the literature review.

A. The Valence and Tenor of Media Coverage during the Pre- and Post-announcement Periods

In Table 1, the average *SRET* and *TENOR* are positive, and *GN* is larger than 0.5 during the pre-announcement period, indicating that, on average, private placement firms tend to have a greater ratio of good news during the pre-announcement period. This result is even more significant for the post-announcement sample. In Table 2, the average *SRET*, *GN*, and *TENOR* for the post-announcement sample are all substantially higher than those for the pre-announcement sample, and the average number of news reports is also significantly greater during the post-announcement sample. These results suggest that firms release a higher ratio and volume of good news during the post-announcement period.

The stronger post-announcement results may indicate that managers have asymmetric incentives between the two different event periods. During the post-announcement period, managers have a very strong incentive to release good news in order to ensure the success of the offerings, while they have a weaker incentive to release good news to affect the pricing of private placement shares during the pre-announcement period. Despite the restrictions on the pricing of private placements, firms can issue private placement shares at any price meeting the market demand as long as they can provide an independent expert opinion on the reasonableness of the pricing. Therefore, the efforts made during the pre-announcement period may simply have little power to increase the price of private placement shares. This argument can be supported by referring to the price discount of private placements in our sample, reported in Panel A of Table 7. As suggested by the literature, we measure the discount as:

$$DISCOUNT = (P_{10} - P_0) / P_{10}$$

where P_{10} is the share price 10 days after the private placement announcement date, and P_0 denotes the placement price.

The results in Panel A of Table 7 show that the mean discount is 14.3%, while 55% of private placements are offered at a discount higher than 20%, indicating that over half of private placement shares are offered at fairly high discounts. These results show that the pricing of private placement is fairly flexible. Since efforts made by management to increase the price of privately placed shares do not help raise more proceeds, private placements thus offer a mechanism for reducing the probability of management timing in equity issues. We thus conjecture that releasing good news during the pre-announcement period is intended more to facilitate the issue of private placement shares than to increase their price.

To further explore this phenomenon, we divide the full sample into two groups: sample firms with changes in the tenor of media coverage greater than zero ($\triangle TENOR > 0$) and firms with changes in the tenor of media coverage less than or equal to zero ($\triangle TENOR \leqq 0$). We examine whether private placement discounts differ between 'Positive' and 'Non-positive' changes in the tenor of media coverage sub-samples. If the private placement discounts for the Positive $\triangle TENOR$ are significantly greater than those for the Non-positive $\triangle TENOR$, we may conclude that an increased tenor of media coverage pushes stock prices up after the announcements, facilitating private equity offerings.

The first line of Panel B of Table 7 shows that the difference in private placement discounts between Positive $\triangle TENOR$ and Non-positive $\triangle TENOR$ is 0.043 and does not significantly differ from zero. However, as discussed in Section V.C, since some categories of news are easier to manipulate, we investigate whether price discounts vary with changes in the tenor of media coverage across various types of news. From the results in Panel B, we find that differences in price discounts are statistically significant between Positive $\triangle TENOR$ and Non-positive $\triangle TENOR$ in the Strategy/Policy category (Diff = 0.479) but insignificant in the

Table 7. Price Discount of Private Placements

Panel A: Descriptive Statistics of Private Placement Discounts

	N	Mean	t-stat.	Min.	Median	Max.	Std. Dev.	The number of Discount>20%		The number of Discount<0	
								N	Percentage	N	Percentage
DISCOUNT	322	0.143	6.618***	-2.141	0.224	0.712	0.387	178	55%	69	21%

Panel B: Private Placement Discounts by Changes in The Tenor of Media Coverage (△TENOR) between Pre- and Post-announcement Period

Category	△TENOR>0 (1)			△TENOR≦0 (2)			Diff (1-2)	
	N	Mean	t-statistic	N	Mean	t-statistic	Mean	t-statistic
All	129	0.169	5.254***	193	0.125	4.340***	0.043	0.987
Sales/Financials	73	0.287	4.035***	220	0.161	4.253***	0.127	1.637
Industry/R&D	22	0.600	2.556**	32	0.520	2.850***	0.080	0.272
Strategy/Policy	61	0.830	5.604***	47	0.351	2.957***	0.479	2.414**
Financing	70	0.375	2.372**	85	0.261	6.039***	0.114	0.754
Regulation/law	5	0.170	1.386	10	0.648	1.594	-0.478	0.808
Others	9	0.172	1.680	53	0.249	2.702***	-0.077	0.337

The table reports price discount of private placements. Panel A reports descriptive statistics of private placement

discounts. *DISCOUNT = (P$_{10}$ - P$_0$) / P$_{10}$.* P$_{10}$ is the share price 10 days after the private placement announcement date, and P$_0$ denotes the placement price. Panel B reports private placement discounts by changes in the tenor of media coverage across news categories. $\triangle$*TENOR* is the change in the tenor of media coverage between the pre- and post-announcement period. The pre-announcement period refers to 30 days preceding the private placement announcement; the post-announcement period refers to 30 days following the announcement. *** and ** indicate significance at the 1% and 5% level, respectively.

other categories of news, supporting the view that news in the Strategy/Policy category is used to affect firm stock price following the announcement date. When firm stock prices rise, the price of privately placed shares is lower and thus more attractive to investors, which will help firms achieve their fund-raising goals. This evidence supports the view that firms can engage in news management by releasing a greater ratio of good news after the announcement date to facilitate the private placements. Our results also provide evidence that private placements are useful in reducing the adverse selection problems, which is addressed in our first question in Section III.

B. Is Good News Supported by Operating Performance?

Good news helps firms offer equity privately at higher prices. However, what is the source of the good news? Lang and Lundholm (2000) suggest that stock prices could increase with optimistic disclosures because firms' underlying economic condition has improved or because managers hype their stock. We assume that the media release of information on offering firms' underlying economics absolves managers of any suspicion of hyping. In Table 6, the coefficient estimates on *ROE* and *Distress* are not statistically significant in any of the three regression models, suggesting that the valence and tenor of media coverage do not reflect the underlying economics of private placement firms and that managers strategically manipulate media to achieve their fund-raising goals. Although it is possible that good news of offering firms is published due to underlying economic conditions not captured by *ROE* or *Distress*, such as a new order or new patent, we find that a relatively high ratio of good news discusses the kinds of dreams for the firms' prospects discussed in Section V.C, such as the news in the Strategy/Policy and forward-looking categories. We thus conclude that managers conduct news management to facilitate private placements, in answer to the first question posed in Section III.

C. Does It Matter Whether Insiders Participate in Private Placements?

We might assume that managers participating in private placements have no incentive to hype stock price before they buy shares because higher prices are unfavorable to them. We explore this issue in the regression models in Table 6. The coefficients of *Managers* are not statistically significant in any of the three models during either the pre- or post- announcement periods. We then check another variable, $\Delta Ownership$, relevant to insider participation in private placements. The coefficients of $\Delta Ownership$ are negative and statistically significant in both the pre-announcement and post-announcement samples. These results imply that, if insiders participate in private placements, it is unnecessary for managers to conduct news management but that, if the investors are outsiders, managers will strategically release good news to attract investor attention in order to facilitate the offerings. Overall, our results suggest that managers tend to release more good news to hype stock prices in order to raise large proceeds but provide insufficient evidence that insiders change their disclosure activities for self-interested motives, which answers the second question posed in Section III.

D. Influences of Firm Characteristics on the Valence and Tenor of Media Coverage

Table 6 shows that small firms (negative coefficient of *LnMKT*) and firms with more growth opportunities (positive coefficient of *MB*) tend to have a greater ratio of good news in both the pre- and post-announcement samples. Theoretically, small firms are easily neglected by investors and have a relatively high degree of information asymmetry. Firms with more growth opportunities or intangible assets are more difficult to value, and their information asymmetry is thus more severe (Folta and Janney 2004; Hertzel and Smith 1993; Tan et al. 2002). Therefore, these firms must enhance their popularity and the public perception of their growth prospects prior to the private placement announcements. Media is no doubt an appropriate channel. It is therefore not hard to understand why these firms release a greater ratio of good news. The results also imply that managers of the offering firms are inclined to release good

news to mitigate the information asymmetry more than to hype stock prices. This result helps answer the third question posed in Section III.

E. Influences of Private Placement Characteristics on the Valence and Tenor of Media Coverage

Private placement characteristics have more impacts on the valence and tenor of media coverage than do firm characteristics. During the pre-announcement period, if firms raise larger proceeds, they tend to have a greater ratio of good news, implying that managers might perform news management to increase the proceeds from private placements. Pollock and Rindova (2003) suggest that offering size conveys the message of offering quality and stability to investors; our result is consistent with the view that firms with larger offering proceeds tend to release a greater ratio of good news.

During the post-announcement period, if firms raise larger proceeds or raise capital for strategic purposes, they tend to have a larger ratio of good news. Although larger offering sizes signal more positive information, this also means that the fund-raising task is more difficult to complete, which provides managers with the incentive to ensure the success of the offering process. Therefore, the results for the post-announcement sample might be associated with the issue of managerial news management.

Private placements with a strategic purpose often convey positive and forward-looking signals about firms, and issuers prefer to disclose more news about the content of the strategies. Evidence has been provided in Section V.C that news in the Strategy/Policy and Financing categories are reported more frequently and positively. Ho et al. (2010) have similar findings and suggest that, because positive and forward-looking news is easier to create, issuers might take advantage of this to bias media coverage, which helps firms improve their image. Our results, that private placements with a strategic purpose (i.e. through a strategic partnership) obtain better responses from the market, are not only consistent with the argument in Ho et al. (2010) but also provide evidence that private placements help reduce the moral hazard

problems mentioned in Section III.

VII. Conclusion

Using a sample of Taiwanese private placements covering 2006 to 2010, we use both quantitative and qualitative variables to examine the determinants of the valence and tenor of media coverage around private placement announcements and study whether managers strategically perform news management.

We find that issuers pursue news management around private placement announcements to facilitate the issue process. They tend to have a greater ratio of good news around the announcement date. The ratio and volume of good news are significantly higher during the post-announcement period. Before the announcement, firms strategically release good news to create an atmosphere favorable for private placements. If managers or insiders participate in private placements, however, they have no tendency to lead firm stock downwards in order to buy firm shares at low prices. Issuers continue releasing a greater volume and ratio of good news following the announcement, a phenomenon that is more obvious if no insiders participate in the placements.

Concerning news management, voluntarily released news is more forward-looking and positive and belongs to the Strategy/Policy category. These types of news provide investors with the issuers' anticipated future prospects and are relatively easy to create.

In addition, our results suggest that managerial news management around the announcement occurs more to mitigate information asymmetry than to hype stock prices, one possible reason being that almost half of our sample firms are in financial distress. For these firms, surviving and ensuring the success of their offerings are most critical at this stage.

We provide another kind of evidence that private placements are useful for resolving adverse selection and moral hazard problems through the power of media. The pricing of private placements is fairly flexible. Since any efforts made by management to increase the price of privately placed shares are not helpful in raising

more proceeds, private placements offer a mechanism for reducing the probability of management timing in equity issues. The results also free managers of the suspicion of exploiting windows of opportunity. However, issuers have already created windows of opportunity for themselves when they release good news. Moreover, our evidence shows that private placements with strategic investors release more positive and forward-looking news and receive better responses from the market, showing that private placements are favorable for mitigating moral hazard problems.

The literature has discovered the earnings management phenomenon in private placements. Our study extends the private placement literature concerning news management by using both qualitative and quantitative variables to examine issuers' potential for news management around private placement announcements. The results provide evidence that managers have incentives to affect investors' perception of firms in order to facilitate private placements. Although the media and private placements both mitigate information asymmetry in the issue process, our results suggest that the effect is obviously limited in improving the opaque condition of the capital market.

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