

**THE RELATIONSHIP BETWEEN SEASONED EQUITY
OFFERINGS AND FINANCIAL PERFORMANCE OF FIRMS
LISTED AT THE NAIROBI SECURITIES EXCHANGE**

BY

NELLIE MUTHONI KIAMA

D61/63916/2010

**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER, 2013

DECLARATION

This research project is my original work and has not been presented for any award of degree or diploma in any other university.

Signed.....

Date.....

NELLIE MUTHONI KIAMA

D61/63916/2010

This management research project has been submitted for examination with my approval as the University Supervisor.

Signed.....

Date.....

DR. FREDRICK OGILO

LECTURER,

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY OF NAIROBI

ACNOWLEDGEMENTS

I thank the almighty God for the blessings and patience that has seen me through this project. My appreciation goes to all who gave me moral support. I will be eternally grateful to my supervisor Dr.Fredrick Ogilo for the guidance, encouragement and support he gave me throughout my study. Special thanks go to my colleagues, friends and classmates who encouraged me in many ways to complete this project. I also thank the Library staff who always provided the necessary reference material for my study.

Most importantly I would like to thank my dear parents, brothers, sister and best friend George Ourwat for their unending support up to the successful completion of this project. May God bless you.

DEDICATION

This project is dedicated to my family: My dear parents Peter and Mary Kiama and my siblings Boniface, William, George and Jacqueline for your love, support and presence in my life.

ABSTRACT

The main objective of the study was to establish the relationship between seasoned equity offerings and financial performance for firms listed at the Nairobi Securities Exchange. Financial performance of firms after seasoned equity issues has received little attention in Nairobi Securities Exchange studies hence this study will add to the body of existing knowledge. The study was causal in nature and the research analyzed all data selected within a specified period of time. The population for the study consisted of all 21 firms that had issued seasoned equity as at 31st December 2012, from which a sample of 10 firms was drawn. The study used secondary data from published audited annual reports of accounts for the sample firms and these were obtained from Nairobi Securities Exchange and Capital Market Authority. Financial data from balance sheets, profit and loss accounts and cash flow statements were used to calculate and analyze return on assets ratio, asset growth, firm size, leverage and growth opportunities. The study used a regression model to analyze the relationship between seasoned equity offerings and financial performance of firms. Control variables namely asset growth and leverage were used in the regression model. F-test was used to determine the fitness of the regression model in analyzing the relationship. The coefficient of determination was used to explain how much of the variations in financial performance were explained by seasoned equity offerings. The results of the study showed an insignificant but positive relationship between seasoned equity offerings and financial performance. The study also showed a significant positive relationship between financial performance, asset growth and leverage. It can be concluded that firms which invest resources towards increasing asset base show greater improvement in financial performance. Seasoned equity offers are important especially as far as raising capital for growth, expansions or acquisitions is concerned. The study recommends that firms to use equity issues in increasing asset base and growth since this translates to improved financial performance. Policies regarding equity issues should be reviewed and made flexible to encourage firms to participate in equity issues. The study concentrated on listed firms whose findings cannot be generalized for all firms hence further studies can be to include non listed firms to compare the findings.

TABLE OF CONTENTS

DECLARATION	ii
ACNOWLEDGEMENTS	iii
DEDICATION	iv
ABSTRACT	v
LIST OF TABLES	viii
LIST OF ABBREVIATIONS	ix
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 Seasoned Equity Offerings	2
1.1.2 Financial Performance	3
1.1.3 Seasoned Equity Offerings and Financial Performance.....	4
1.1.4 Nairobi Securities Exchange	5
1.2 Research problem	6
1.3 Objectives of the study	8
1.4 Value of the study.....	8
CHAPTER TWO: LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical Review.....	9
2.2.1 Market Timing Theory.....	9
2.2.2 Pecking order theory	10
2.2.3 Free cash flow theory.....	12
2.3 Determinants of Seasoned Equity Offerings	13
2.4 Empirical Review	13
2.5 Summary of Literature Review	17
CHAPTER THREE: RESEARCH METHODOLOGY	18
3.1 Introduction.....	18
3.2 Research Design.....	18

3.3	Population	18
3.4	Sample and sampling design	18
3.5	Data collection.....	19
3.6	Data analysis	19
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS		21
4.1	Introduction.....	21
4.2	Descriptive statistics	21
4.3	Regression analysis	21
4.4	Interpretation of results.....	25
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....		27
5.1	Introduction.....	27
5.2	Summary of findings	27
5.2.1	Relationship between seasoned equity offerings and financial performance.....	27
5.2.2	Factors affecting financial performance	28
5.3	Conclusion	29
5.4	Limitations of the study	29
5.5	Recommendations	30
5.6	Suggestions for further research.....	30
REFERENCES		32
APPENDIX I: Companies Listed on the NSE by sector		37
APPENDIX II: SEASONED EQUITY ISSUES.....		40
APPENDIX III: REGRESSION DATA		41

LIST OF TABLES

Table 4.1: Descriptive statistics of model variables.....	21
Table 4.2: Predictor variables correlation matrix.....	22
Table 4.3: Model summary of SEO's on financial performance.....	23
Table 4.4: ANOVA for SEO's on financial performance	24
Table 4.5: Coefficients of the model	24

LIST OF ABBREVIATIONS

CMA: Capital Market Authority

EMH: Efficient Market Hypothesis

IPO: Initial Public Offering

NPV: Net Present Value

NSE: Nairobi Securities Exchange

ROA: Return on Assets

SEO: Seasoned Equity Offerings

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Ross, Westerfield and Jordan (2003) define a seasoned equity offering (SEO) as a new equity issue of securities by a company that has previously issued securities to the public. The funds raised from selling equity can be used to finance investments and increase liquidity position of the company thus improving access to capital as well as transferring wealth from new shareholders to existing shareholders. An alternative use of proceeds to increasing investment is recapitalization where firms use the proceeds to repay debt obligations. Financial theory suggests that financing by equity presents the most costly means of attracting capital. The decision by a firm's management to attract funds by issuing equity is undertaken if funds cannot be attracted in any other way or if the shares are overvalued such that the benefits of an issue outweigh the costs (Frijins, Navissi, Rad and Tsai, 2006).

Due to market inefficiencies, there is asymmetric information between investors and insiders in the firm which results in equity being mispriced. Myers and Majluf (1984) theorize that managers have privileged information over investors about the firm regarding cash flows, retained earnings, sales prospects and the need for capital and research expenditure which causes a firm to be overvalued. When the market is inefficient, financing policy becomes relevant in that when equity prices are high, existing shareholders benefit by issuing overvalued equity and when prices are low, debt becomes preferable (Baker and Wurgler, 2000). Consistent with this timing hypothesis,

firms issuing IPOs and SEOs have poor subsequent performance. While some managers may use proceeds from SEOs to invest in value adding activities, Jensen (1986) finds that other managers may retain excess cash from proceeds to invest in negative net present value projects and in this case the issuance of seasoned equity may affect financial performance adversely.

The Nairobi securities exchange (NSE) founded in 1954 has provided a platform for many firms to be publicly listed through IPOs and to raise additional equity by method of rights offers. Firms which are already listed are viewed by investors as less risky since their operations are open to public scrutiny. NSE is regulated by the capital markets authority and has gone through various changes including automation. Seasoned equity issue by way of rights offers has gained popularity with major firms such as Kenya Airways, KCB, and KPLC actively turning to this method to raise additional capital. Although empirical studies show poor post issue performance, these firms have recorded oversubscriptions and therefore it would important to study firms listed to determine whether the same findings hold in Kenya.

1.1.1 Seasoned Equity Offerings

According to Abraham and Harrington (2011) SEOs are issues of stock by a firm that has already completed a primary issue. They are a means to raise funds through the sale of stock rather than the issuance of additional debt. The offering for common stock may be done using a rights offer or a cash offer. SEOs differ from IPOs in that they are made by firms that have matured beyond the IPO with a significant track record of financial performance and with shares already actively trading in the equity market. Firms issue

seasoned equity mainly to raise capital for investment projects such as acquisitions, capital expenditures, research and development. The decision to issue seasoned equity is motivated by various factors among them availability of debt, a firm's current cash flow and investment opportunities at hand. Long term debt affects future cash flows which in turn affects liquidity which prompts managers to issue seasoned equity.

McLaughlin, Safieddine, & Vassudevan (1996) find that firms with more investment and growth opportunities seek financing through equity issuance to avoid debt which is tied to periodic interest payments. SEOs could help firms to finance good investment opportunities and help them grow. They add value to shareholders by way of improving capital structure of firms to an optimal level so as to balance the benefits of the tax shield and the costs of financial distress. Managers often view the equity offers as an effective way of increasing firm size. Thus according to Jensen (1986) managers have various incentives to grow their firm size beyond optimal size since their compensation is dependent on asset size rather than profitability. If the proceeds of the offer are well utilized, shareholder wealth as well as financial performance of firms may improve.

1.1.2 Financial Performance

Financial performance refers to how well a firm uses the assets from its business in order to generate revenues and realize its economic goals (Venkatraman and Ramanujam 1986). It is the firm's overall financial health over a given period of time as measured by various financial indicators. Company managers are particularly concerned with the efficiency of asset utilization in an effort to improve the performance of their firms. When firms issue equity, it is expected that the proceeds will be used to invest in

opportunities that improve a firm's financial condition. The rising pressure exercised by shareholders and limited resources available makes the firms to search for ways to increase efficiency of assets in order to expand in growth and to attract investors.

Companies use financial indicators to measure, report and improve performance. The ratios of return are considered among the most important indicators used by firm managers and include return on assets, return on equity and return on investment. Barber and Lyon (1996) advocate for return on assets (ROA) as the preferred measure of financial performance. ROA is the general purpose financial ratio used to measure the relationship of profit earned to the investment in assets required to earn that profit. This study will use ROA as a measure of firm performance.

1.1.3 Seasoned Equity Offerings and Financial Performance

Prior empirical work regarding firm performance has shown mixed results. Healey and Palepu (1990) examined changes in earnings and changes in risk for a sample of 93 issuers and found no earnings change relative to the prior year's earnings either before or after adjusting earnings to an industry mean. In contrast, Hansen and Crutchley (1990) found a negative relationship between financial performance as measured by ROA and SEOs in their sample of 109 issuing firms during 1975-1982. Friday, Howton and Howton (2000) found a positive relationship between firm performance and SEOs conducted by 200 US real estate investment trusts in the period 1990-1996. These results contrasted with industrial firm results where performance changes were found to be negative following a SEO.

Patel, Emery and Lee (1993) found decline in performance of long term cash flow performance of publicly traded firms. Focusing on a signaling explanation they found that issuers still perform better than other firms in their industries. Loughran and Ritter (1997) and McLaughlin, Safiedddine, & Vassudevan (1996) examined changes in operating performance for large samples of seasoned equity issuers. Both studies found a decline in performance subsequent to the issue. Among equity issuers, firm performance has been found to be negatively related to high book to market ratios and large offering size. Smaller firms were also found to have larger post issue declines implying that firm size affects firm performance.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) was founded in 1954 and was then known as the Nairobi Stock exchange. NSE is the principal stock exchange for the Kenyan market. It was constituted as a voluntary association of stock brokers registered under the societies Act. Through the years the NSE has developed in terms of technology with trading of shares being automated and development of the all share index which is an overall indicator of market performance. In 2011, its name was changed to the Nairobi Securities Exchange in line with its strategic plan to support clearance and settlement of equity, debt derivatives and bonds (NSE, 2013).

The NSE is licensed and regulated by the Capital Markets Authority Kenya. Essentially the stock market is one of the closely observed economic phenomena since market indicators determine stock performance. Market indicators quantify movement in stock prices and act as a standard in evaluating returns on money invested in the stock

exchange. The NSE comprises of 60 listed companies which been reclassified to identify them with various sectors in the economy (NSE, 2013).

1.2 Research problem

Following Myers (1984) issuance of SEOs by firms generally aims at strengthening capital structure and to finance investments opportunities that require large funds which cannot be financed internally such as expansions or acquisitions. Announcements of SEOs should therefore come as good news to investors since it would be seen that the firm has identified value adding projects to invest in. However as seen in studies of (Asquith and Mullins, 1986; Eckbo and Marsulis, 1992) SEO announcements are followed by a share price drop which is inconsistent with the efficient market hypothesis (EMH) which advocates that if capital markets are efficient share prices should be correctly priced with no under or overpricing (Fama, 1970). The equity decision has implications on growth of firms in that use of proceeds obtained can improve growth and financial performance if positive NPV projects are invested in or lead to deterioration of firm performance due to presence of free cash flows or if the proceeds are used to finance debts. As seen in studies of Loughran and Ritter (1997) and McLaughlin et al. (1998) SEO firms tend to perform poorly in the long run. However these results for mature stock markets cannot be generalized for emerging markets due to institutional differences.

The Kenyan stock market has recently witnessed listed firms actively raising capital through seasoned equity offers by way of rights offerings instead of using debt which is more costly due to interest factors and adverse selection problems involved. Banks such as DTB and KCB have recorded oversubscriptions of 17.8% and 14.6% respectively.

Financial performance of any firm is largely driven by the ability of managers to utilize assets efficiently and invest in value adding activities while maintaining sound liquidity levels. The aspect of whether proceeds generated by these equity offerings are used solely to improve shareholder wealth and improve financial performance of firms has received little attention in NSE studies.

Njoroge (2003) studied the impact of rights issue announcements on share prices of companies listed at the NSE. Her study was based on a sample of six rights issues made in the period 1996-2002. Using the market model, the results documented a negative abnormal return prior to the announcement day of the rights issue. Gatundu (2007) studied the effect of announcement of secondary equity offerings on stock prices of firms listed at the NSE. Using an event study the results showed that announcement did not shock the market significantly. Mwangangi (2011) conducted a study on the market reaction to SEO announcements and the effect of size of issue size on stock prices. Using event study methodology the study concluded that the offering did not experience a significant reaction to the announcements and that the size of the offering did not have any significant impact on stock returns. From the reviewed studies financial performance of firms conducting SEOs has received little attention hence this study seeks to address this gap by conducting a study on the relationship between SEOs and firm performance. In particular the study sought to answer the following research questions: What is the relationship between seasoned equity offerings and financial performance? And what other factors may influence financial performance apart from SEOs?

1.3 Objectives of the study

- i) To establish whether there exists a relationship between the seasoned equity offering decision and financial performance of firms listed at the NSE.
- ii) To investigate other factors that may have an influence on financial performance for firms listed at the NSE.

1.4 Value of the study

The study will benefit management of firms in planning how and when to issue seasoned equity so as to invest in projects that will improve shareholder wealth and financial performance of their firms. Shareholders will be enlightened on how performance of firms is affected by SEO decisions and can come up with strategies to monitor the use of proceeds whenever SEO announcements are conducted. Investors will benefit from the study by understanding firms motives of issuing SEOs and will be able to make rational investment decisions.

Government bodies such as the capital market authority (CMA) can use information from this study to formulate policies governing the issuance of seasoned equity. The regulator will gain information that can be used to enhance the protection of minority investors and shareholders.

The study will also benefit scholars and academicians by adding to existing knowledge on SEOs. Scholars will learn more on the effects of seasoned equity issuance and they will be equipped with current knowledge which will open up future areas of research on the subject.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the theories and literature review on studies that have been done in the past on SEOs and performance. The chapter detailed the theories related to seasoned equity offerings and performance as well as determinants of SEOs. An empirical review of the study and a summary of the chapter were also presented.

2.2 Theoretical Review

Existing literature points out various theories that explain the decision by firms to issue seasoned equity. The main theories considered in this section included market timing theory, pecking order theory and the free cash flow theory.

2.2.1 Market Timing Theory

Baker and Wurgler (2002) describe equity market timing as the practice of issuing shares at high prices and repurchasing them at low prices with the intention of exploiting fluctuations in the cost of equity relative to other forms of capital. Market timing is often regarded as an important motivation to repurchase and issue shares and is regarded as an explanation for the findings of long run abnormal returns following corporate equity transactions. Baker and Wurgler (2000) investigate the time series variation of equity issues share in total new capital issues and find that peaks in equity issue volume occur at times of high past aggregate market values just before periods of low market returns.

Baker and Wurgler (2002) elaborate four sources of distinct evidence for market timing of equity issues: Firstly, firms tend to issue equity when market value is high relative to

book value and past market values and repurchase equity when market value is low. Secondly, analyses of post issue performance reveals successful market timing due to low post issue returns. Thirdly, analysis of earnings forecasts and realizations around equity issues suggest that firms tend to issue equity at times when investors are over-optimistic about earnings prospects. Lastly, a survey by Graham and Harvey (2001) indicates that managers will tend to issue equity if stock prices are high or have previously risen.

In capital markets that are inefficient, market timing benefits existing shareholders more than the incoming or exiting shareholders. The effect of market timing on security issuance depends on the degree of a firm's financial constraints. Firms that tend to issue equity when their shares are overvalued often have sufficient financial flexibility which means that market timing is possible when firms are less financially constrained (Dong et al., 2012).

2.2.2 Pecking order theory

According to Myers and Majluf (1984) the order of any firm's financing choice should be firstly retained earnings or internal finances, risk free debt, risky debt and equity as a last resort. If a firm is constrained to issuing equity and if the value of the assets in place is higher than the market realizes, the firm may avoid issuing equity to prevent harming current shareholders. This in turn makes external equity an expensive form of financing. An announcement of an equity offering leads to lower stock prices as the market rationally assumes that the value of the firm's assets in place is lower than previously thought. This may lead firms with correctly valued assets in place to avoid a project if it must be financed with external equity.

The adverse selection model of Myers and Majluf (1984) outlines information asymmetry as the reason why managers of firms issue securities to finance investments instead of debt. In the financial market investors tend to pay less for the shares than their true value claimed by the firm due to information asymmetry present between the issuers and investors. When insiders have better information than investors on firm value, firms of better than average quality will find that investors price their securities below the value perceived by their insiders. Miller and Rock (1985) further add that SEO issuance may signal a fall in earnings which may be interpreted negatively by investors resulting in lower stock prices. Managers are often aware of the firm's cashflows, its retention of earnings, sales prospects and the need for capital and research expenditure which motivates them to select the optimal method of financing.

If managers act rationally and have the firm's best interests at heart they will invest the acquired funds in positive NPV projects and improve firm performance. The amount of capital for these investments may have to be obtained externally through debt. Excessive debt may alarm existing shareholders given that the tax deductibility of interest on debt is substantially offset by the risk of financial distress and bankruptcy in the event that the firm's future cash flows are insufficient to meet fixed payments of interest and principal. High quality firms will reject profitable investment projects if they have to finance them by selling overpriced securities. In presence of information asymmetry, the market value of the firm is lower than it should be with symmetric information, other things equal.

2.2.3 Free cash flow theory

Agency cost-based models propose that changes in capital structure influences the incentives of corporate managers. The free cash flow model of Jensen (1986) presents the difference in interests between manager and shareholders regarding excess cash flows. Managers would often want to retain the excess cash flow even when they do not have any positive NPV projects to invest in. Debt normally commits the firm to pay out cash as opposed to equity issues such as IPOs and SEOs which increase free cash flow available to managers. The free cash flow ends up being detrimental to the firm since the managers may not use it to increase shareholder wealth.

Capital structure is one of the means of controlling managerial behavior. A major problem for a shareholder is how to force managers to pay out cash flows rather than retain them. Using debt reduces cash flow available to managers for spending and forces them to pay out future cash flows. However, shareholders cannot force the payment of dividends and therefore the theory predicts that announcements of SEOs has a negative effect on stock returns and performance since it increases the free cash flow available for poor spending. An empirical prediction of the free cash flow theory is that the change in performance following the equity issue is negatively related to the existing free cash flow. The theory also predicts that as long as the number of positive-NPV opportunities is limited, these firms will experience a decline in operating performance subsequent to issuing equity.

2.3 Determinants of Seasoned Equity Offerings

Bayless and Chaplinsky (1996) present the level of demand for capital as a major determinant of the equity issuance decision. Equity issues occur at times when adverse selection costs are at their lowest. This normally occurs when the economy is booming and firms have promising investment opportunities. In such periods firms are able to signal their value and intent to investors more precisely. Firms with higher growth opportunities issue equity to meet their investor needs.

Firms with higher leverage seek to avoid higher costs of financial distress and are more likely to issue equity. If firms seek to maintain a target leverage ratio then high leverage is likely to be associated with a desire to issue equity (McLaughlin et al, 1996). Firm size is another determinant of equity issue since investors are more likely to be well informed of larger companies. Therefore the asymmetric information problems are likely to be less severe for such firms. Among high growth firms, smaller firms have a tendency to issue equity while for low growth firms, larger firms are the ones that tend to issue equity.

2.4 Empirical Review

Healy and Palepu (1990) studied a sample of 93 large SEO firms by examining changes that occur around SEOs in firm risk, leverage, and earnings levels. They found no evidence of actual earnings changes or changes in analysts' forecasts. However, they found a significant increase in both asset and equity betas subsequent to the offer. Their study concluded that the information conveyed by equity offerings pertains to changes in risk, rather than changes in earnings levels.

Loughran and Ritter (1997) studied the operating performance of firms conducting SEOs on New York Stock exchange market. Using a sample of 1,338 SEOs from 1979-1989 they found that the median profit margin decreased from 5.4% in the fiscal year of the offering to 2.5% four years later. The median return on assets fell from 15.8% to 12.1%. The declines were found to be much larger than for corresponding non issuing firms matched by asset size, industry and operating performance. While these patterns were both large for large and small issuers, the post issue deterioration was more severe for smaller issuers.

Spies and Affleck-Graves (1995) examined a sample of 1,247 US firms making SEOs during the period 1975-1989. They found that the firms substantially underperformed a sample of matched firms from the same industry and of similar size that did not issue equity. The underperformance existed even after controlling for trading system, offer size, the age of the issuing firm and book to market ratio.

McLaughlin et al. (1996) analyzed a sample of 1296 industrial firms listed in the NYSE that issued seasoned equity during the period 1980-1991 for changes in operating performance. Their sample of SEO firms exhibited significant improvements in operating performance prior to the issue. However they experienced a sharp, significant decrease in profitability following the SEO in both industry-adjusted and unadjusted comparisons. In addition to that, they reported that the decline in profitability was greater for firms that had higher free cash flow, and that SEO firms that invested in new fixed assets performed better. They also found firm size, leverage and growth opportunities to be determinants of the decision to issue additional equity.

Ngatuni, Capstaff and Marshall (2007) found clear evidence of long-run underperformance following rights issues in the UK using a sample of 818 rights issues over the period 1986-1995. Over the 5-year post issue period under study, the average return on firms making rights issues was 41.8 percentage points below the average return on non issuing firms matched by size and book to market.

Slovin, Shushka and Lai (2000) studied wealth effects around the announcement of rights issues and placings by UK firms over the period 1986-1994. Using a sample of 200 insured rights, 20 uninsured right issues and 76 placings, they found an average 2-day excess return of -2.9% around announcements for insured rights and - 5% for uninsured rights. In contrast, they found positive average returns for placings. They also found that placings can be used as an alternative method by firms seeking other financing needs.

Cai and Loughran (1998) examined Japanese firms conducting 1389 SEOs during 1971-1972 and find that they significantly underperform various benchmarks over a subsequent five year period. This poor stock performance is accompanied by a deterioration of the matching-firm adjusted operating performance. These results from the Japanese financial markets were found to be inconsistent with an agency explanation for the new issues puzzle. These findings were supported by Kang, Kim and Stulz (1999) who found post SEO underperformance using Japanese data.

Friday et al. (2000) examine the operating performance of 200 US real investment trusts following SEOs made in the period 1990-1996. The sample showed flat to increasing levels of operating performance changes prior to the SEO and flat industry adjusted performance changes following the SEO. These results contrasted with industrial firm results where performance changes are found to be negative following a SEO. They attributed the difference to the structural differences in REITs that limit the levels of internal capital available to REIT managers.

Local studies in the area of SEOs have been done by Njoroge (2003) who studied the impact of rights issue announcements on share prices of companies listed at the NSE. Her study was based on a sample of six rights issues made in the period 1996-2002. The study examined whether the average abnormal returns surrounding the rights issue announcement was statistically different from zero. Using the market model, the results documented a negative abnormal return prior to the announcement day of the rights issue. Abnormal returns on the event date were insignificantly negative implying that the announcement did not bring any surprises to the stock market.

Gatundu (2007) studied the effect of announcement of secondary equity offerings on stock prices of firms listed at the NSE. He conducted an event study with a sample based on 10 companies that had made equity offerings in the period 1996-2006. The results of the study showed that abnormal returns were insignificant and hence the announcement did not shock the market significantly.

Mwangangi (2011) sought to answer whether the market reacts to announcements of SEOs and whether size of the issue influences the stock prices. Using event study methodology she analyzed a sample of 23 companies listed at the NSE that had issued SEOs in the period 2001-2010. The study concluded that the offering did not experience a significant reaction to the announcements and that the size of the offering did not have any significant impact on stock returns.

2.5 Summary of Literature Review

The theories of seasoned equity issuance predict a negative performance for firms that issue seasoned equity due to negative signals that are issued to investors. In contrast the literature reviewed highlighted mixed results as far as financial performance of SEO issuing firms is concerned. Some studies showed no change in earnings for seasoned issuers while others presented either a positive or negative change in financial performance. The results obtained from the studies above cannot be generalized for emerging stock markets such as the NSE due to differences in policies, structures and regulations.

SEOs by way of rights offers have become the most preferred and popular method of raising capital for expansions and growth of firms listed at the NSE. The financial performance of SEO firms at the NSE has received little attention with existing studies focusing on stock price performance of SEO firms. This study therefore sought to fill this gap by establishing the relationship between SEOs and financial performance of listed firms at the NSE.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the methodology that was employed in the research project. It detailed the research design, population under study, sampling technique used, nature of the data collected and data analysis method.

3.2 Research Design

The study was a causal study. Causal studies are used to explore the relationship between variables and their main purpose is to determine causes for the current status of phenomena under study (Mugenda, 2003). The design was useful in this study which was seeking to establish the relationship between SEOs and firm performance. The research analyzed all data selected within a specified time period.

3.3 Population

The population for the study comprised of all 21 firms that issued seasoned equity at the NSE as at 31st December 2012. (Appendix 2).

3.4 Sample and sampling design

The sample consisted of 11 companies that had issued seasoned equity for the period 2000-2008 both years included. Purposive sampling was be used. This is where the sample is selected deliberately by the researcher because it possesses required characteristics for the study (Cooper and Schindler, 2006). The sample chosen enabled the researcher to analyze listed firms that had conducted SEOs to determine whether there existed a relationship between SEOs and financial performance.

3.5 Data collection

The study used secondary data collected from CMA and NSE since it was readily available. Data was obtained from published financial statements of the sample firms listed during the period under study. Financial data from cash flow statements, balance sheets and profit and loss accounts was used to calculate and analyze financial ratios. Data requirements included names of listed firms that had issued equity, time of issue, market capitalizations and share price at the end of the firm's financial year end.

3.6 Data analysis

The research was quantitative in nature hence descriptive and inferential statistics was used. Once the data was collected and checked for completeness it was then analyzed. Data from the field was coded according to the themes researched on the study. Analysis was done with the aid of the statistical package for social sciences (SPSS). Descriptive statistics generated such as percentages, mean scores and proportions were presented in tables and figures.

The regression model that was used in the analysis was similar to the one used by McLaughlin et al. (1998) and was of the form:

$$ROA = b_0 + b_1FSIZE + b_2GRW_OPP + b_3 AG + b_4LEV + \varepsilon$$

Where:

ROA_{ij} = Return on Assets

b_0 = Constant (y intercept)

FSIZE = Firm size

GR_OPP = Growth opportunities

AG = Asset growth

LEV = Firm leverage

ε = Error term

Return on Assets was measured by Net income divided by total assets. Asset growth was derived as change in gross property plant and equipment divided by the book value of assets. Firm size was calculated as the natural log of book value of assets. Growth opportunities were represented by market to book value of equity. Leverage was represented as total liabilities divided by total assets of the firm. The F- test was used to test the significance of the model.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter detailed the data analysis, findings and interpretations of the research study. Descriptive statistics and regression analysis are respectively discussed. Analysis results and findings are also discussed.

4.2 Descriptive statistics

Table 4.1 below gives a summary of the descriptive statistics of regression data.

Table 4.1: Descriptive statistics of model variables

	FP	GRWTH	FSIZE	AG	LEV
Mean	.0380	1.9560	22.2000	.1080	.9400
Std. Error of Mean	.02939	.37018	.72725	.04271	.06532
Median	.0100	2.1250	23.0000	.0350	.9000
Mode	.01	.12 ^a	24.00	.03	.90
Std. Deviation	.09295	1.17061	2.29976	.13506	.20656
Variance	.009	1.370	5.289	.018	.043
Range	.31	3.52	7.00	.35	.70
Minimum	-.05	.12	18.00	.00	.70
Maximum	.26	3.64	25.00	.35	1.40
Sum	.38	19.56	222.00	1.08	9.40
N	10	10	10	10	10

Source: Computation from raw data obtained from CMA and NSE

4.3 Regression analysis

Regression analysis was used to test the relationship between financial performance and seasoned equity offerings. Financial performance was the dependent variable while seasoned equity offers (represented by firm size and growth opportunities) were the

independent variables. Other independent variables considered as control variables were asset growth, pre issue ROA and leverage of the firms.

Data for the above variables was generated for 10 companies listed in the NSE that spanned the years 2001 to 2008 (Refer appendix ii). The data was subjected to a regression analysis, the findings of which are discussed below:

Table 4.2: predictor variables correlation matrix

		FP	GRWTH	FSIZE	AG	LEV
FP		1				
GRWTH	Pearson Correlation	-.342	1			
FSIZE	Pearson Correlation	-.195	.614	1		
AG	Pearson Correlation	.802**	-.439	-.467	1	
LEV	Pearson Correlation	.601	-.524	-.510	.370	1

Source: Computation from raw data obtained from CMA and NSE

A correlation matrix was used to check the concept of multi-collinearity that is if there was a strong correlation between two predictor variables (correlation coefficient > 0.8). As shown in table 4.2 above, none of the variables was found to be strongly correlated with each other. Thus a model of the predictor variables (firm size, growth opportunities, asset growth and leverage) could be used in forecasting of financial performance of SEO firms listed at the NSE during the period.

Table 4.3: Model summary of SEO's on financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.942 _a	.887	.796	.04197	.887	9.787	4	5	.014

Source: Computation from raw data obtained from CMA and NSE

From table 4.3 above, the study used correlation coefficient (r) to check on the magnitude and the direction of the relationship between the independent and dependent variable. Coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) and P- value were used to check on the overall significance of the model. Correlation coefficient of 0.942 indicates a strong positive correlation between the dependent and independent variables. On the other hand coefficient of determination (R^2) of 0.887 shows that 88.7% of the variation in the firm performance (ROA) is explained by the changes in firm size, growth opportunities, asset growth and leverage leaving 11.3% unexplained.

The regression model obtained for this study can therefore be used to forecast financial performance. The adjusted R square of 79.6% also shows that the model is a good estimate of the relationship between the variables. The P-Value of 0.014 is less than 0.05, which shows that there is a significant relationship between the dependent and independent variables used in the study.

Table 4.4: Anova for SEO's on financial performance

Model	Sum of Squares	df	Mean Square	F	Sig.
1	.069	4	.017	9.787	.014 ^a
	.009	5	.002		
	.078	9			

Source: Computation from raw data obtained from CMA and NSE

Significance F on table 4.4 demonstrates the usefulness of the overall regression model at a 5% level of significance. Since the p-value of the F test is less than alpha ($0.014 < .05$), it was concluded that the regression model was fit to explain changes in financial performance for the firms under study. Table 4.3 also clearly indicates that the regression accounted for a significant number of variations in financial performance; 0.069 out of 0.078; the rest of the variations being accounted for by other factors external to the model (Residual) as indicated by the sum of the squares (SS). Residual (or error) represents unexplained (or residual) variation after fitting a regression model. It is the difference (or left over) between the observed value of the variable and the value suggested by the regression model.

Table 4.5: Coefficients of the model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.657	.214		-3.065	.028
GRWTH	.002	.016	.026	.127	.904
FSIZE	.018	.008	.448	2.188	.080
AG	.566	.121	.823	4.689	.005
LEV	.242	.083	.538	2.906	.034

Source: Computation from raw data obtained from CMA and NSE

Table 4.5 depicts the numerical relationship between the independent variable and the predictor variables in the following resultant equation:

$$FP = -0.657 + 0.002GRWTH + 0.018FSIZE + 0.566AG + 0.242LEV$$

Using P-Values to test on the individual significance; a predictor variable is said to be linearly related with the response variable if its P-Value < 0.05 (5% significance level). The findings in table 4.5 show that asset growth and leverage have a significant linear relationship with firm financial performance. The coefficients and their signs are of particular importance.

The regression coefficients shows that b_0 (the value of financial performance when growth opportunities, firm size, asset growth and leverage were all rated zero) is equal to -0.657. A unit increase in growth opportunities led to an increase in financial performance by 0.002 units. Likewise a unit increase in firm size led to increase in financial performance by 0.018 units. A unit increase in asset growth led to increase in financial performance by 0.566 units while a unit change in leverage led to increase in financial performance by 0.242 units.

4.4 Interpretation of results

From the model summary in table 4.3, the correlation coefficient indicated a strong positive relationship between financial performance and the independent variables put together (firm size, growth opportunities, asset growth and leverage). Significance F from ANOVA table 4.4 shows that the regression model was fit to explain changes in financial performance for the firms under study. The coefficients of the model in table 4.5

indicated the existence of a positive and significant relationship between asset growth, leverage and financial performance for the firms under study while firm size and growth opportunities had a positive but insignificant effect on financial performance.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarized the analysis in chapter four and underlined the key findings. It also drew conclusions and implications from the finding. Limitations of the study were discussed. Finally, recommendations and suggestions for further studies were outlined.

5.2 Summary of findings

This study was conducted with the aim of establishing the relationship between SEOs and financial performance. The study focused on firms listed in the Nairobi Securities Exchange. To achieve the above objective, a regression analysis was conducted whereby financial performance represented by ROA was regressed against firm size and growth opportunities along with other control variables; asset growth and leverage for a period 2001-2011. Data for both the dependent and predictor variables were obtained from the financial statements of the firms available from CMA and NSE databases. The two sets of data were then subjected to a regression analysis.

5.2.1 Relationship between seasoned equity offerings and financial performance

From the results of the study in chapter four, it was found that there is a strong relationship between the independent variables (Growth opportunities, firm size, asset growth and leverage) used in the model and the dependent variable (ROA). The

correlation coefficient of 0.940 from the model summary in chapter four (table 4.3) indicates a strong positive correlation between the dependent and independent variables taken together. When the analysis of the relationship between the individual independent variables and financial performance was carried out, SEOs as represented by firm size and growth opportunities were found to have a positive relationship with financial performance. The relationship was however found not to be significant as indicated by their p levels of 0.080 and 0.904 which were more than 0.05.

The difference in information between managers and investors plays a key role in equity issues. Firms listed at the NSE are larger and tend to be under scrutiny by investors, analysts and the public and hence do not suffer from information asymmetry. As a result, the size impact is likely to have a low impact on performance of such firms. Firms with growth opportunities at hand tend to show improvements in performance in the long run. This is because the returns on investments are likely to increase shareholder wealth.

5.2.2 Factors affecting financial performance

With reference to coefficients of the model in chapter four (table 4.5) other factors found to have a significant impact on financial performance at 5% level of significance included asset growth and leverage as indicated by their p values of 0.005 and 0.034 respectively. This implies that firms should focus on investments that increase their plant, property and equipment base since this translates into improved financial performance. Firms can utilize equity issue proceeds to invest in productive assets such as modern equipment and machinery which saves on costs and increases overall performance. Firms using debt may

utilize these funds to invest in positive NPV projects which increase shareholder wealth and ultimately improve financial performance.

5.3 Conclusion

From the findings above, there is no significant relationship between seasoned equity offerings and financial performance. The firms under study were considered to be large firms which do not suffer from high information asymmetry. As a result, the size effect after equity issues would not have a significant impact on performance. Other factors found to affect financial performance included asset growth and leverage. Firms that focus their resources on asset growth are likely to show improvements in financial performance. The absence of free cash flow available for managers to invest in poor projects means that firms that focus on expansions and acquisitions for growth eventually increase shareholder wealth and improve firm performance.

5.4 Limitations of the study

The study was unable to obtain data for all the 11 sampled firms, managing to obtain data from only 10 firms. Uchumi Ltd was excluded from the analysis since during the period under study the firm had been delisted from the NSE. In addition, out of 60 listed firms, only 12 had SEO's during the study period. This consisted of a limited population for the purposes of research. The study also covered a short period of time yet for better results the time period could be extended to 10 years to capture the effect of the variables more comprehensively.

The study used regression analysis while other methods could have been considered to enhance good interpretation of the factors in consideration. Lastly the study was limited to the NSE and hence the findings cannot be generalized for other developing countries in the East African Region as well as the African stock market.

5.5 Recommendations

SEOs are important to any firm if the proceeds of the issue are used to invest in projects which eventually bring growth to a firm. The study recommends that more firms participate in seasoned equity offers as a way of raising capital for major expansions, asset growth or acquisitions which may require heavy funding. In this way firms will be assured of improvement in performance as well as high growth. For policy makers, regulations regarding equity issuance need to be reviewed in order to be flexible enough to encourage more firms to participate in seasoned equity issues.

5.6 Suggestions for further research

Further investigation may be done to establish if the relationship between seasoned equity offerings and financial performance would change if other or more SEO proxies such as firm age and ownership concentration were used. Further research can be conducted on the determinants of SEOs to find out what motivates the issuance of SEOs. The study may be replicated using a different methodology and incorporating a larger period of time. A study can be conducted on long term stock performance surrounding SEOs using methodologies such as the BHAR (Buy and Hold Average Return). Further research can

also be done on the effect of SEOs in SACCOs and other non listed firms to determine whether the findings are the same as in this study.

REFERENCES

- Abraham, R., & Harrington, C. (2011). Seasoned equity offerings: Characteristics of firms. *International Journal of Business, Humanities and Technology*, 1 (3), 26-33.
- Baker, M., & Wurgler, J. (2000). The equity share in new issues and aggregate stock returns. *Journal of Finance*, 55 (5), 2219-2257.
- Baker, M., & Wurgler, J. (2002). Market Timing and capital Structure. *Journal of Finance*, 57 (1), 1-32.
- Barber, M.B & Lyon, J.D. (1996). Detecting abnormal operating performance: The empirical power and specification of test statistics. *Journal of Financial Economics*, 41, 359-399.
- Bayless, M., & Chaplinsky, S. (1996). Is there a window of opportunity for seasoned equity issuance? *The Journal of Finance*, 51 (1), 253-278.
- Cai, J., & Loughran, T. (1998). The performance of Japanese seasoned equity offerings. *Journal of Finance*, 6, 395-425.
- Cooper, R.D., & Schindler, S.P. (2006). *Business Research Methods* (9th ed.). McGraw Hill.

- Dong, M., Loncarski, I., Horst, J., & Veld, C. (2012). What drives security issuance decisions? Market timing, Pecking order or both? *Financial Management*, 637-663.
- Eckbo, E., & Masulis, R. (1992). Adverse selection and the rights offer paradox. *Journal of Financial Economics*, 32 (3), 293-332.
- Fama, E. (1970). Efficient Capital Markets: A review of theory and empirical work. *Journal of Finance*, 25, 383-417.
- Friday, S., Howton, S., & Howton, W. (2000). Anomalous evidence on operating performance following seasoned equity offerings: The case of REITs. *Financial Management*, 29 (2) 76-87.
- Frijns, B., Navissi, F., Rad, T. & Tsai, L. (2006). Stock price performance of seasoned equity offerings: completed vs. withdrawn. *Managerial Finance*, 32 (3), 234-246.
- Gatundu, S. (2007). Effects of secondary equity offers on stock returns for firms quoted at the NSE. *Unpublished Research Project. University of Nairobi. Kenya.*
- Graham, R., & Harvey, C. (2001). The theory and evidence of corporate finance: Evidence from the field. *Journal of Financial Economics*, 61, 187-243.
- Hansen, S., & Crutchley, C. (1990). Corporate Earnings and Financings; An empirical analysis. *Journal of Business*, 63 (3), 347-371.

- Healy, P., & Palepu, G. (1990). Earnings and risk changes surrounding primary stock offers. *The Journal of Accounting Research*, 28 (1), 25-48.
- Jensen, M. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *The American Economic Review*, 76 (2), 323-329.
- Kang, J., Kim, C., & Stulz, M. (1999). The under reaction hypothesis and the new issue puzzle: Evidence from Japan. *Review of Financial studies*, 12 (3) 519-534.
- Loughran, T., & Ritter, J. (1997). The operating performance of firms conducting seasoned equity offerings. *The Journal of Finance*, 52 (5), 1823-1850.
- Maina, C. (2003). Impact of rights issue announcements on stock prices: The case of companies listed at the NSE. *Unpublished MBA Research Project, University of Nairobi, Kenya*.
- McLaughlin, R., Saffiedine, A., & Vasudevan, .G. (1996). The operating performance of seasoned equity offers: Free cashflow and post- issue performance. *Financial Management*, 25 (4), 41-53.
- McLaughlin, R., Saffiedine, A., & Vasudevan,.G. (1998). The Information Content of Corporate Offerings of Seasoned Securities: An empirical analysis. *Journal of Financial Management*, 27 (2), 31-45.
- Miller, M., & Rock, K. (1985). Dividend policy under asymmetric information. *Journal of Finance*, 40, 1031-1051.

- Mugenda, M.(2003).Research Methods: Quantitative and Qualitative Approaches. Nairobi: Acts press.
- Mwangangi, M. (2011). The information content of seasoned equity issue announcements for firms quoted at the NSE. *Unpublished MBA Research Project. University of Nairobi, Kenya.*
- Myers, S., & Majluf, N. (1984). Corporate financing and investment decisions when firms have information those investors do not. *Journal of Financial Economics*, 13 (2), 187-221.
- Myers,S. (1984). The Capital Structure Puzzle. *The Journal of Finance*, 39 (3), 575-592.
- Nairobi Securities Exchange (2013). Retrieved June 20, 2013 from site:
<http://www.nse.co.ke/listed-companies/list.html>
- Ngatuni, P., Capstaff, J., & Marshall, A. (2007). Long term performance following rights issues and open offers in the UK. *Journal of Business Finance and Accounting*, 34 (1) & (2), 33-64.
- Patel, A., Emery, D., & Lee, Y. (1993). Firm performance and security type in seasoned offerings: An empirical examination of alternative signaling models. *Journal of Financial Research*, 16 (3), 181-193.
- Ross, S., Westerfield, R., & Jordan, D. (2003) *Fundamentals of corporate finance* (6th ed.).McGraw Hill.

Slovin, M., Sushka, M., & Lai, K. (2000). Alternative floatation methods, adverse selection, and ownership structure: evidence from seasoned equity issuance in the U.K. *Journal of Financial Economics*, 57, 157-190.

Spiess, D., & Affleck-Graves, J. (1995). Underperformance in long-run stock returns following seasoned equity offerings. *Journal of Financial Economics*, 38, 243-267.

Venkatraman, N. & Ramanujam V. (1986). Measurement of Business Performance in Strategy Research: A Comparison of Approaches. *The Academy of Management Review*, 11 (4), 801-814.

APPENDICES

APPENDIX I: Companies Listed on the NSE by sector

Agricultural Sector

Eaagads Ltd

Kapchorua Tea Co. Ltd

Kakuzi

Limuru Tea Co.Ltd

Rea Vipingo Plantations Ltd

Sasini Ltd.

Williamson Tea Kenya Ltd

Commercial and Services

Express Ltd

Kenya Airways Ltd

Nation Media Group Ltd

Standard Group Ltd.

TPS Eastern Africa (Serena) Ltd

Scangroup Ltd

Uchumi Supermarket Ltd.

Hutchings Biemer Ltd

Longhorn Kenya Ltd

Telecommunication and Technology

Access Kenya Group Ltd.

Safaricom Ltd

Automobiles and Accessories

Car and General Kenya Ltd

CMC Holdings Ltd

Sameer Africa Ltd

Marshalls (EA) Ltd

Banking

Barclays Bank Ltd
CFC Stanbic Holdings Ltd
I&M Holdings Ltd
Diamond Trust Bank Kenya Ltd
Housing Finance Co. Ltd
Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
NIC Bank Ltd
Standard Chartered Bank Ltd
Equity Bank Ltd
Co-operative Bank of Kenya Ltd

Insurance

Jubilee Holding Ltd
Pan Africa Insurance Holdings Ltd
Kenya Re-Insurance Corporation Ltd
CFC Insurance Holdings
British American Investments Company(Kenya) Ltd
CIC Insurance Group Ltd

Investment

Olympia Capital Holdings Ltd
Centum Investment Co Ltd
Trans-Century Ltd

Manufacturing and Allied

B.O.C Kenya Ltd
British American Tobacco Kenya Ltd
Carbacid Investments Ltd
East African Breweries Ltd
Mumias Sugar Co Ltd

Unga Group Ltd

Eveready East Africa Ltd

Kenya Orchards Ltd

Manufacturing and Allied

A.Baumann Co Ltd

Construction and Allied

Athi River Mining

Bamburi Cement Ltd

Crown Berger Ltd

E.A Cables ltd

E.A Portland Cement Ltd

Energy and Petroleum

Kenol Kobil Ltd

Total Kenya Ltd

KenGen Ltd

Kenya Power & Lighting Co Ltd

APPENDIX II: SEASONED EQUITY ISSUES

COMPANY	YEAR OF ISSUE
KENYA ORCHARDS	2001
STANDARD NEWSPAPERS	2001
TOTAL KENYA	2001
EXPRESS KENYA	2003
KCB	2004
UCHUMI	2005
CFC BANK	2005
DTB	2006
OLYMPIA CAPITAL	2007
DTB	2007
NIC BANK	2007
HFCK	2008
KCB	2008
KCB	2010
TPS EAST AFRICA	2010
STANDARD CHARTERED BANK	2010
KPLC	2010
KENYA AIRWAYS	2012
DTB	2012
NIC BANK	2012
CFC BANK	2012

Source: Capital Markets Authority 2012

APPENDIX III: REGRESSION DATA

	RATIOS FROM FINANCIAL STATEMENTS				
KCB	YR-1	SEO	YR1	YR2	YR3
	2003	2004	2005	2006	2007
ROA	0.008040373	0.011308	0.01693	0.026283	0.024689
AG	0.0026735	0.0061343	0.011475	0.0108108	0.0082477
FIRM SIZE	25	25	25	25	26
INV GROWTH	1.439	1.49	2.24	4.14	4.31
LEV	0.9	0.9	0.9	0.9	0.9
CFC STANBIC	YR-1	SEO			
	2004	2005	2006	2007	2008
ROA	0.022319	0.01669	0.023288	0.021374	0.0076181
AG	0.020496	0.0045235	0.010358	0.0076562	0.026874
FIRM SIZE	24	24	24	24	25
INV GROWTH	3.31085	2.661845	2.4747	3.89998	0.8861
LEV	0.8	0.9	0.9	0.9	0.8
DTB	YR-1	SEO			
	2005	2006	2007	2008	2009
ROA	0.0179803	0.02244	0.02055	0.020063	0.020312
AG	7.611E-07	0.00009069	0.014358	0.034253	0.03403312
FIRM SIZE	24	24	24	25	25
INV GROWTH	2.42	3.53	2.812	1.59	1.411
LEV	0.9	0.9	0.8	0.9	0.9
OLYMPIA CAP	YR-1	SEO			
	2006	2007	2008	2009	2010
ROA	0.018507	0.01888	0.01888	-0.07791	-0.01496
AG	0.17426	-0.015188	0	0.11644	0.06828
FIRM SIZE	20	21	21	20	21
INV GROWTH	2.376	0.7317	0.7317	0.561	0.503
LEV	0.7	0.4	0.5	0.3	0.4
NIC	YR-1	SEO			
	2006	2007	2008	2009	2010
ROA	0.017573	0.02383	0.024302	0.02269	0.030793
AG	-0.0012415	0.000139665	0.0064148	0.0047677	0.00183118

FIRM SIZE	24	24	24	25	25
INV GROWTH	2.768	3.9	2.32	1.5	1.98
LEV	0.9	0.8	0.9	0.9	0.9
HFCK	YR-1	SEO			
	2007	2008	2009	2010	2011
ROA	0.00708903	0.009544108	0.012839	0.0129628	0.019524
AG	0.0028983	-0.00133915	0.0222823	0.00188152	0.0101059
FIRM SIZE	23	23	0.0222823	24	24
INV GROWTH	3.64	1.22	1.02	1.43	0.61
LEV	0.9	0.7	0.8	0.9	0.9
TOTAL	YR-1	SEO			
	2000	2001	2002	2003	2004
ROA	0.0205	-0.031149	0.0589314	0.065516	0.054698
AG	0.05448	0.0007535	-0.005208	-0.008058	0.013529
FIRM SIZE	23	23	23	23	23
INV GROWTH	1.87	0.88	1.04	1.62	3.61
LEV	0.8	0.7	0.4	0.5	0.6
EXPRESS	YR-1	SEO			
	2002	2003	2004	2005	2006
ROA	-0.066	-0.007584	0.007559	0.087521	0.07405
AG	-0.052347	0.00244	0.0468	0.0096495	0.295235
FIRM SIZE	21	21	20	20	21
INV GROWTH	0.4085	3.767	1.261	1.7554	2.2734
LEV	0.9	1	0.7	0.6	0.6
STANDARD GRP	YR-1	SEO			
	2000	2001	2002	2003	2004
ROA	-0.18099	0.0988	-0.01633	-0.0692	0.0797
AG	-0.02017	0.05752	0.01625	0.02338	0.30477
FIRM SIZE	20	20	20	20	21
INV GROWTH	1.2	1.1	0.5	9.42	6.7
LEV	1.4	1.2	0.8	0.7	0.7
KOL	YR-1	SEO			
	2000	2001	2002	2003	2004
ROA	-0.087218	0.0087635	0.005338	-0.0924	-0.134162
AG	-0.002076	-0.02313	0.041977	0.15273	-0.022798
FIRM SIZE	18	18	18	19	19
INV GROWTH	0.124	0.9064	3.9454	3.34	3.3
LEV	1.2	1	0.9	0.8	1

**RATIOS
DATA**

COMPANY	FP(ROA)	GROWTH OPP	CHANGE PPE	F SIZE	LEV
KCB	0.02	1.44	0.03	25	0.90
CFC	-0.01	3.31	0.04	24	0.80
DTB	0.00	2.42	0.08	24	0.90
OLYMPIA CAPITAL	-0.03	2.38	0.18	20	0.70
NIC	0.01	2.77	0.01	24	0.90
HFCK	0.01	3.64	0.03	23	0.90
TOTAL	0.03	1.87	0.00	23	0.80
EXPRESS	0.14	0.41	0.35	21	0.90
STANDARD GRP	0.26	1.20	0.34	20	1.40
KOL	-0.05	0.12	0.02	18	1.20

	RAW DATA FOR RATIO CALCULATIONS				
KCB	2003	2004	2005	2006	2007
NET INC	485,520,000	633,782,000	1,326,027,000	2,431,878,000	2,974,572,000
TOTAL ASS	60,385,257,000	69,600,167,000	78,315,052,000	92,526,571,000	120,479,553,000
TOTAL LIAB	54,771,404,000	61,020,008,000	68,233,061,000	80,906,265,000	107,274,893,000
SHARE PRICE	54	64	113	241	28.5
MARKET CAP(000)	80,784,000	127,744,000	225,548,000	481,036,000	56,886,000
O/STANDING SHARES '000'	1,496,000	1,996,000	1,996,000	1,996,000	1,996,000
PPE	2,351,587,000	2,722,011,000	3,414,975,000	4,067,788,000	4,565,832,000
CFC	2004	2005	2006	2007	2008
NET INC	665,454,000	552,491,000	940,140,000	924,717,000	846,593,000
TOTAL ASS	29,815,563,000	33,095,280,000	40,368,662,000	43,262,781,000	111,128,799,000
TOTAL LIABS	24,004,079,000	29,135,736,000	34,758,345,000	37,249,812,000	91,880,826,000
SHARE PRICE	58	75	89	129	60
MARKET CAP(000)	8,352,000	11,700,000	13,884,000	20,124,000	16,421,053
OUTSTANDING SHARES	144,000	156,000	156,000	156,000	273,684
PPE	823,240,000	958,111,000	1,266,966,000	1,495,241,000	2,296,530,000
DTB	2005	2006	2007	2008	2009
NET INC	294,598,000	487,830,000	739,954,000	1,126,465,000	1,354,435,000
TOTAL ASS	16,384,422,000	21,737,391,000	35,997,571,000	56,145,697,000	66,679,080,000
TOTAL LIABS	14,732,188,000	18,869,301,000	30,518,866,000	49,125,280,000	58,590,882,000
SHARE PRICE	32.25	72.5	94.5	68.5	70
MARKET CAP(000)	4,006,063	10,131,592	15,407,007	11,168,042	11,412,598

OUTSTANDING SHARES(000)	124,219	139,746	163,037	163,037	163,037
PPE	254,298,000	252,812,000	488,064,000	1,049,289,000	1,606,902,000
OLYMPIA	2006	2007	2008	2009	2010
NET INC	14,800,000	20,570,000	20,570,000	(61,361,000)	(14,580,000)
TOTAL ASS	799,684,000	1,089,380,000	1,089,380,000	787,577,000	974,479,000
TOTAL LIABS	599,113,000	414,301,000	599,113,000	230,167,000	376,275,000
SHARE PRICE	31	10	10	6.5	5.95
MARKET CAP(000)	310,000	400,000	400,000	260,000	238,000
OUTSTANDING SHARES	10,000	40,000	40,000	40,000	40,000
PPE	129,613,000	117,467,000	117,467,000	210,589,000	265,197,000
NIC	2006	2007	2008	2009	2010
NET INC	458,004,000	745,687,000	1,035,763,000	1,079,117,000	1,817,232,000
TOTAL ASS	26,062,413,000	31,281,018,000	42,619,119,000	47,558,241,000	59,013,922,000
TOTAL LIABS	23,026,171,000	26,543,285,000	37,053,369,000	40,765,987,000	50,660,693,000
SHARE PRICE	102	62.5	43.5	31.25	46
MARKET CAP(000)	8,406,284	6,181,091	12,906,119	10,198,801	16,513,898
OUTSTANDING SHARES(000)	82,415	98,897	296,692	326,362	358,998
PPE	503,173,000	506,813,000	673,997,000	798,255,000	750,530,000
HFCK	2007	2008	2009	2010	2011
NET INC	73,508,000	136,427,000	234,176,000	379,531,000	622,278,000
TOTAL ASS	10,369,255,000	14,294,368,000	18,239,359,000	29,278,396,000	31,870,916,000
TOTAL LIABS	8,922,984,000	10,641,952,000	14,165,983,000	25,020,989,000	27,153,552,000
SHARE PRICE	45.75	19.4	18	26.5	12.4
MARKET CAP(000)	5,261,250	4,573,550	4,243,500	6,095,000	2,857,270
OUTSTANDING SHARES(000)	115,000	235,750	235,750	230,000	230,425
PPE	363,742,000	349,856,000	580,907,000	600,417,000	705,208,000

TOTAL	2000	2001	2002	2003	2004
NET INC	206,509,000	(222,101,000)	360,201,000	514,963,000	577,007,000
TOTAL ASS	10,073,413,000	7,130,178,000	6,112,208,000	7,860,029,000	10,548,789,000
TOTAL LIABS	8,438,423,000	4,985,275,000	2,692,086,000	3,737,625,000	6,026,038,000
SHARE PRICE	55	19	22.75	39.75	94.5
MARKET CAP(000)	3,080,000	1,895,896	3,547,203	6,681,299	16,349,729
OUTSTANDING SHARES(000)	56,000	99,784	155,921	168,083	173,013
PPE	1519204000	1,526,795,000	1,474,326,000	1,393,145,000	1,529,433,000
EXPRESS	2002	2003	2004	2005	2006
NET INC	(56,007,000)	(68,151,000)	4,610,000	53,930,000	66,329,000
TOTAL ASS	847,919,000	810,982,000	609,808,000	616,191,000	895,619,000
TOTAL LIABS	768,030,000	799,514,000	410,729,000	363,182,000	517,976,000
SHARE PRICE	6.8	9	7.8	13.8	24.25
MARKET CAP(000)	32,640	43,200	251,043	444,153	858,547
OUTSTANDING SHARES(000)	4,800	4,800	32,185	32,185	35,404
PPE	336,141,000	338,210,000	377,903,000	386,085,000	636,421,000
STD GRP	2000	2001	2002	2003	2004
NET INC	(93,915,000)	62,842,000	(12,040,000)	(49,463,000)	77,790,000
TOTAL ASS	518,879,000	635,918,000	736,878,000	714,387,000	975,742,000
TOTAL LIABS	707,228,000	780,807,000	587,726,000	517,539,000	686,117,000
SHARE PRICE	7.04	5.5	9.4	39.75	43.5
MARKET CAP(000)	90,195	70,465,225	120,431,475	2,589,051	2,833,301
OUTSTANDING SHARES(000)	12,812	12,811,859	12,811,859	65,133	65,133
PPE	183,204,000	213,055,000	221,487,000	233,620,000	391,762,000
KOL	2000	2001	2002	2003	2004
NET INC	(7,361,000)	7,226,000	493,010	11,489,317	(15,954,440)
TOTAL ASS	84,408,000	82,455,000	92,356,393	124,336,180	118,918,376

TOTAL LIABS	103,560,000	79,381,000	83,452,504	103,919,378	114,535,603
SHARE PRICE	5	5.3	5.3	5.3	5.3
MARKET CAP	2,000,000	35,129,571	35,129,571	68,201,057	68,201,057
OUTSTANDING SHARES	400,000	6,628,221	6,628,221	12,868,124	12,868,124
PPE	38,023,000	36,070,000	39,613,270	52,505,551	50,581,209