

**EFFECT OF SEASONED EQUITY OFFERING ON FINANCIAL PERFORMANCE OF  
FIRMS CROSS-LISTED IN EAST AFRICA SECURITY EXCHANGES**

**BY**

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**DECLARATION**

**STUDENT'S DECLARATION**

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

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**SUPERVISOR'S DECLARATION**

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

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## **DEDICATION**

This work is particularly dedicated to my dear family for believing in me and their relentless support and encouragement in my studies. Your encouragement and support has brought me this far.

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## **LIST OF ABBREVIATION**

<b>AMEX</b>	-	America Exchange
<b>CEO's</b>	-	Chief Executive Officers
<b>DSE</b>	-	Daresalam Securities Exchange
<b>GDP</b>	-	Gross Domestic Project
<b>IPO</b>	-	Initial Public Offer
<b>KCB</b>	-	Kenya Commercial Bank
<b>KSE</b>	-	Kigali Securities Exchange
<b>NSE</b>	-	Nairobi Securities Exchange
<b>NYSE</b>	-	NewYork Stock Exchange
<b>SEO</b>	-	Seasoned Equity Offerings
<b>SPSS</b>	-	Statistical Package for Social Sciences
<b>ROA</b>	-	Return on Assets
<b>TAR</b>	-	Trading Activity Ratio
<b>UK</b>	-	United Kingdom
<b>USE</b>	-	Uganda Securities Exchange
<b>US</b>	-	United States of America



## **ABSTRACT**

The main objective of the study was to establish the relationship between seasoned equity offerings and financial performance for firms cross-listed at the East Africa Securities Exchange. Financial performance of firms after seasoned equity issues has received little attention 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 87 firms that were listed in the east Africa securities exchanges as at 31<sup>st</sup> December 2014, from which a sample of 7 firms was drawn. These were those that were cross listed and had issued SEOs. The study used secondary data from published audited annual reports of accounts for the sample firms and these were obtained from the Securities Exchange. Financial data from balance sheets, profit and loss accounts and cash flow statements were used to calculate and analyze EPS, liquidity, leverage and market capitalization. The study used a regression model to analyze the relationship between seasoned equity offerings and financial performance of firms. Control variables in the regression model. 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, market capitalization 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 East Africa cross-listed firms whose findings cannot be generalized for all firms' hence further studies can be to include firms in other economic blocks to compare the findings.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

A seasoned equity offering (SEO) is a new equity issue by an already publicly traded company. Secondary offerings may involve shares sold to existing shareholders thus not diluting shareholding or and sold to new shareholders thus diluting the shareholding. The firm can either choose to issue seasoned public offerings in form of right issue, public offerings and private placement where rights issue and bonus is the issuance of additional shares to the existing shareholders, public offering is the issuance of shares to the general public and private placement is the issuance of shares to private investors (Gatundu, 2007).

Modigliani and Miller (1958) presented the irrelevance of capital structure. Without market imperfections capital structure should not matter and the value of a company should not be affected whether the company issues equity, debt, or hybrid financing. Therefore, when a company issues equity in a SEO, the value of the firm should not be affected assuming that the issue announcement does not convey any additional information related to firm prospects. However, in reality market imperfections do exist: transaction costs, taxes and asymmetric information play a role in financial decisions that companies face. The pecking order theory assumes that a company's managers and investors are subject to asymmetric information. The managers of a company are more aware of the company's true value, including growth prospects that need financing and risk(Myers, 1984). The issue of additional equity may be used to finance investment projects with positive NPV and thus improve performance of the firm.

The security exchange markets play an important role in the process of economic development. They help mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated (Loughran & Ritter, 2002). East Africa Security Exchanges consist of companies listed on multiple East African bourses. Firms like Kenya Airways, East African Breweries Ltd (EABL), Jubilee Holdings Ltd (JHL), and Kenya Commercial Bank (KCB) among others. The Nairobi Securities Exchange (NSE) was formed in 1954, and is one of the active capital markets in Africa with 64 listed companies and has more than 20 brokerage firms and investment banks. Dar Es Salaam Securities Exchange (DSE) was incorporated in September 1996 as a private company limited with 8 listings, 2 of which are cross-listed from the NSE. The Uganda Securities Exchange (USE) was launched in 1996 and started trading in 1998 and has 17 companies listed inclusive of the cross lists, whereas Kigali Stock Exchange was incorporated in 2009 and currently has 4 companies listed (NSE, 2013).

### **1.1.1 Seasoned Equity Offerings**

Seasoned equity offerings (SEOs) are an important source of funding for exchange-listed companies. However, they do not receive as much attention as initial public offerings (IPOs), in which a non-listed company raises equity by listing in a stock exchange. A seasoned equity offering or secondary equity offering (SEO) is a new equity issue by an already publicly traded company (Bayless & Chaplinsky, 1996).

A firm may issue SEOs for a number of reasons. One is to alter the ownership structure of the firm by introducing new investors. Seasoned public offering will expand the shareholders of the firm thus may alter the ownership of the firm. Two is to finance new investments. The firm may be seeking capital to finance new investments and expand and develop its business. Bayless and

Chaplinsky (1996) presented the level of demand for capital as a major determinant of the equity issuance decision. Finally a firm can issue seasoned public offerings to alter the leverage of the firm. Through seasoned public offering, the equity financing of the company raises compared to debt if other factors are held constant and thus may alter the leverage of the firm. However, seasoned equity offerings are the least preferable way of attracting cash and companies will only be inclined to do so when the benefits outweigh the costs or if it is the only viable alternative available to raise new funding.

The firm can either choose to issue seasoned public offerings in form of right issue, public offerings and private placement where rights issue is the issuance of additional shares to the existing shareholders, public offering is the issuance of shares to the general public and private placement is the issuance of shares to private investors. Stock exchange markets provide a trading platform on which publicly quoted firms and the government can offer their securities for sale to investors (Nzai, 2014)

The Leland and Pyle (1977) signaling effect implies that sales of shares by better-informed investors signal that they believe shares are overpriced. According to Miller and Rock (1985) Seasoned Equity Offering issuance may signal a fall in earnings which may be interpreted negatively by investors resulting in lower stock prices this is because managers are often aware of the firm's cash flows, its retention of retained earnings

### **1.1.2 Financial Performance**

The organizational performance incorporates both financial performance and non-financial performance such as market share, customer satisfaction and new products among others. Datta (2006) proposed four possible types of measurement for organizational performance, that is:

outcomes (turnover, absenteeism and job satisfaction); organizational outcomes (productivity, quality and service); financial accounting outcomes (return on assets and return on equity) and capital market outcomes (stock price, growth and stock returns). The idea behind this model is that outcomes are hierarchical in that, outcomes at one level impact on those at the next level. According to Bresman and Nobel (2009), the success of an organization is gauged from several indicators both qualitative and quantitative. These include: financial performance, meeting customer needs, building quality products and services, encouraging innovation and creativity and gaining employee commitment. The extent to which an organization succeeds in these areas determines its performance. Performance measures can be cost oriented or non-cost oriented and can also be internal or external

The financial performance of institutions is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies. The common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency (Li, 2006).

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Berger, 2001). There are many different ways to measure financial performance, but all measures should be taken in aggregation.

Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales.

### **1.1.3 Seasoned Equity Offering and Financial Performance**

Loughran and Ritter (1997) examined the operating performance of firms conducting seasoned equity offerings in the US capital market. The results of the study showed a substantial improvement in operating performance of issuing firms prior to the offering, but then deteriorates. Issuing firms had improvements in profitability before the offering and declines in profitability after the offering. The study had sought to determine whether the post-issue operating performance of issuers deteriorate relative to comparable non-issuing firms. A sample consisting of all seasoned equity offerings of operating companies during 1979 through 1989 on the NYSE, AMEX, and Nasdaq stock exchanges was used. The operating performance of issuing firms was measured by numerous accounting measures such as the median profit margin, the median return on assets (ROA), and the median operating income to assets ratio. In contrast 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.

Munene K. (2006) in a study of the relationship between profitability and sources of financing of quoted companies at the NSE found a weak positive relationship between capital structure and profitability of firms. The study population consisted of the 48 companies quoted at the NSE between 1999 and 2004. Karanja (2006) in a study to evaluate post rights issue Effect on firms' share price and traded volumes found most firms experiencing decrease in share price after the issue at least in the very short run. These differences in the abnormal returns after the issues were robust to controlling for the offer size, the firm's leverage, and the market to book ratio and other

firm's attributes. The researcher recommended that firms that announce rights issue must consider information asymmetry as this highly determines the firm's share prices after successful rights issue. On the population, Karanja evaluated 9 firms out of the 14 firms that had announced rights issue and he did an analysis 90 days after the rights issue.

In a research on the effects of rights issue on stock returns by Olesaya(2010) and he investigated companies listed at the NSE. Olesaya used event study methodology in his study. He used market model which is a statistical model that relates the returns of any given security to the return of the market portfolio to measure and analyze the abnormal returns. In this study, Olesaya assumed that the abnormal returns reflect the stock market's reaction to the announcement of rights issue. The findings of this study show negative abnormal returns prior to announcement of rights issue, positive abnormal returns during the announcement and negative results thereafter.

Gachuhi (2013) conducted a study to establish the effect of bonus issue announcement on stock prices of companies quoted at the NSE Results of the study showed that abnormal returns after bonus issue were significantly higher than abnormal returns before bonus issue. Results also indicated that actual stock returns were significantly higher after bonus issue than before the bonus issue. It was concluded that the market return is a good predictor of stock returns and that market return had a positive and significant relationship with the actual returns.

#### **1.1.4 East Africa Stock Exchanges**

The Exchange is a central place for trading of securities by licensed brokers/dealers. It provides a credible platform for raising of capital; through the issuance of appropriate debt, equity and other instruments to the investing public. In this way, the Exchange provides essential facilities for the

private sector and government to raise money for business expansion and enables the public to own shares in companies listed on the Exchange (USE, 2015)

The Nairobi Stock Exchange (NSE) was registered under the Societies Act (1954) as a voluntary association of stockbrokers and charged with the responsibility of developing the securities market and regulating trading activities. Business was transacted by telephone and prices determined through negotiation. By 1968, the number of listed public sector securities was 66 of which 45% were for Government of Kenya, 23% Government of Tanzania and 11% Government of Uganda this period, the NSE operated as a regional market in East Africa where a number of the listed industrial shares and public sector securities included issues by the Governments of Tanzania and Uganda (the East African Community). However, with the changing political regimes among East African Community members, various decisions taken affected the free movement of capital which ultimately led to the delisting of companies domiciled in Uganda and Tanzania from the Nairobi Stock Exchange.

The CMA was constituted in January 1990 through the Capital Markets Authority Act (Cap 495A) and inaugurated in March 1990. The main purpose of setting up the CMA was to have a body specifically charged with the responsibility of promoting and facilitating the development of an orderly and efficient capital market in Kenya. NSE was registered as a private company limited by shares in 1991. Share trading moved from being conducted over a cup of tea, to the floor based open outcry system, located at IPS Building, Kimathi Street, Nairobi. In 2004, following the successful signing of an MOU between the Dar-es-Salaam Stock Exchange, the Uganda Securities Exchange and the Nairobi Securities Exchange, the East African Securities Exchanges Association was formed.



The NSE On September 11, 2006 implemented live trading on its own automated trading systems trading equities. In 2007 the NSE implemented its Wide Area Network (WAN) platform. With the onset of remote trading, brokers and investment banks no longer required a physical presence on the trading floor since they would be able to trade through terminals in their offices linked to the NSE trading engine. In February 25, 2008 the Nairobi Stock Exchange introduced the NSE All-Share Index (NASI). July 6, 2011 saw the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited.

The Uganda Securities Exchange (USE) was established in 1997 as a company limited by guarantee, and was licensed in 1998 by the Capital Markets Authority to operate as an approved securities exchange. The Exchange is governed by a Governing Council whose membership includes licensed broker/dealer firms, investment advisors, a representative of investors and a representative of issuers. Its mission is to create an efficient and secure East African market place that will enhance the competitive strength of the local capital market in Uganda. In January 1998 it listed of USE's first security, the Ushs. 10 billion 4 year East African Development Bank (EADB) Bond. In March 2001, the first ever cross border listing in the East African market occurred with the listing of East African Breweries Ltd (EABL) on the Uganda Capital Market. EABL is ranked among the top 10 companies on the Nairobi Stock Exchange (NSE) in terms of capitalization. In 2003 October 23rd, they launched the USE All Share Index.

The DSE was incorporated in 1996 to provide a responsive securities exchange that promotes economic empowerment and contributes to the country's economic development through offering a range of attractive and cost-effective products and services. It commenced operations in 1998 with a listing and trading of the first equity. In 2004 it had the cross listing of the first foreign company.

Trading is conducted through an Automated Trading System (ATS) which was deployed in 2006 with a new three tier Central Depository System. This is an electronic system which matches bids and offers using an electronic matching engine. The ATS is integrated with the CDS to facilitate automated validation of securities holdings and straight through processing of securities transactions. Some incentives to issuers include; reduced corporation tax from 30% to 25% for three successive years subsequent to listing of a company that have issued at least 25% of its shares to the public and Tax deductibility of all Initial Public Offering (IPO) costs for the purposes of income tax determination. All IPO costs are accepted by the Tanzania Revenue Authority (TRA) as acceptable expenses used in the generation of income and profits, and therefore are taken into consideration when determining profit for tax purposes.

## **1.2 Research Problem**

Issue of additional equity should indicate that the firm is expanding and thus needs more capital for the expansion. Loughran and Ritter (1997) looked at the operating performance of firms conducting seasoned equity offerings in the US capital market. The study sought to determine whether the post-issue operating performance of issuers deteriorate relative to comparable non-issuing firms. A sample consisting of all seasoned equity offerings of operating companies during 1979 through 1989 on the NYSE, AMEX, and NASDAQ stock exchanges was used. The operating performance of issuing firms was measured by numerous accounting measures such as the median profit margin, the median return on assets (ROA), and the median operating income to assets ratio. The results of the study showed a substantial improvement in operating performance of issuing firms prior to the offering, but then deteriorates. Many of the issuing firms had improvements in profitability before the offering and declines in profitability after the offering. This was unlike Kiama (2010) findings that there was no significant relationship between SEOs and performance. The study was only

limited to firms at the NSE. Kiama concluded that other factors like asset growth and leverage affect financial performance. However according to 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 all stakeholders since it would be seen that the firm has identified value adding projects to invest in. these projects with positive NPVs will lead to asset growth of the firm which will lead to improved performance.

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 Kiama (2010). 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 with many studies like Gachuhi 2013, Kiruri 2009, Gatundu 2007 and Kakiya 2007 who conducted research on SEOs focused on stock return and share prices. This study therefore sort to address the gap by studying the effect of issuing additional shares through SEOs on the performance of the cross listed firms at the East Africa Exchanges.

### **1.3 Research Objective**

The general objective of the study was to determine the effect of seasoned equity offering on financial performance of firms listed in East Africa stock exchanges.

### **1.4 Value of the study**

The findings of this study are of valuable to various stakeholders including the investors, company's management, The Government, stock exchanges, stock market regulators and scholars. The study also provides insights into SEO strategy of raising additional capital for financing expansion in order to enhance performance, thus, influence decision making. The management of

the firms are enlightened to understand if their strategies are reaching the desired objectives and what the financial firms need to putting in place to safeguard their existence.

The government, stock market regulators and stock exchanges would find useful information that would help them in formulation of policies that will lead to more profitable firms. This is because as the financial sector grows the government has to come up with policies that address the various challenges within the sector so as to facilitate faster growth with minimum drawbacks. This area of effect of SEOs on financial performance is still suffering from a lack of information. Research in the various components in this area would help to unearth hitherto of information asymmetry that would go a long way in facilitating further understanding of the effect of SEOs on financial performance. It would also act as a source of reference materials to scholars.

## **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 financial 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 irrelevance of capital structure theory, static and dynamic trade-off theory and the pecking order theory and signaling theory.

#### **2.2.1 Irrelevance of Capital Structure Theory**

Modigliani and Miller (1958) famously present the idea of the irrelevance of capital structure. Without market imperfections capital structure should not matter and the value of a company should not be affected whether the company issues equity, debt, or hybrid financing. Therefore, when a company issues equity in a SEO, the share price should not be affected assuming that the issue announcement does not convey any additional information related to firm prospects. However, in reality market imperfections do exist: transaction costs, taxes, asymmetric information, and bankruptcy costs play a role in financial decisions that companies face. Moreover, companies are not necessarily able to borrow at a risk-free rate, like the Modigliani-Miller model assumes. The issue of season public offering should therefore not affect the value of the firm and so its performance. However with market imperfection, the issue of additional shares conveys

additional information to the investors and other stake holders and their reaction to the additional information will affect the performance of the firm

### **2.2.2 Static and Dynamic Trade-off Theories**

Trade-off theories take into account market imperfections, including taxes and bankruptcy costs. The static trade-off theory states that companies have an optimal capital structure, which is a trade-off between the interest tax shields achieved from high leverage, and the costs of financial distress (e.g. Myers, 1984). The dynamic trade-off theory was developed to explain the deficiencies in the static trade-off theory (e.g. Barnea et al., 1987). It states that the optimal capital structure can be achieved by adjusting the debt-to-equity ratio, but that it is not always optimal to make these adjustments immediately after a deviation from the optimal target structure, but only when the costs of adjustment are lower than the costs of having a suboptimal capital structure (Leary and Roberts, 2005). According to the dynamic trade-off theory, companies gradually adjust towards their optimal capital structures. Both the static and dynamic trade-off theories suggest that raising equity through a SEO does not convey negative information about the company, but that issuing companies are merely moving towards their optimal capital structures. Therefore issuance of SEOs is a mere adjustment of a firm on its debt-to-equity ratio to achieve optimal capital structure

### **2.2.3 Pecking Order Theory**

Introduced by Myers (1984), the pecking order theory is based on the assumption that a company's managers and investors are subject to asymmetric information. The managers of accompany are more aware of the company's true value, including growth prospects and risk. Managers are more willing to use retained earnings to finance investment because in this way they do not face scrutiny from investors to the same extent as if they would issue debt or equity. This is because debt can be raised without board approval, whereas equity cannot. Moreover, taxes and transaction costs favor

funding investments with retained earnings and debt over issuing equity.

Raising equity can also convey negative information to investors: an equity issue can be considered as a sign that the stock is overvalued. Because of this, firms adjust their dividend policies to anticipate future investment needs. However, due to reluctance to change dividend policy constantly and changes in cash flow and investment requirements, retained earnings might be more or less than the investment needs. Consequently excess cash will be used to pay off debt prior to repurchasing shares; and if external financing is needed firms issue the safest security first that is first straight debt, then convertibles, and only finally equity if necessary. Eckbo and Masulis (1995) report supporting evidence about corporate funding sources: according to the authors internal equity has remained the dominant funding source for US nonfinancial corporations, and that debt dominates equity as an external funding source.

#### **2.2.4 Signaling Theory**

Signaling Theory suggests that an issuer, through the action of pricing an issue, signals the quality of the Firm. Proponents of signaling theory also argue that security issuers of high quality firms are more likely to set a relatively higher price, while the opposite is expected from low quality firms. Low quality firms run the risk of offer failure if they attempt to imitate the high quality firm's pricing strategy. Investors understand this, so they view new stock sales as a negative signal.

The Leland and Pyle (1977) signaling effect implies that sales of shares by better-informed investors signal that they believe shares are overpriced. Miller and Rock (1985) further added 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 cash flows, its retention of earnings, sales prospects and the need for capital and research expenditure which motivates them to

select the optimal method of financing. An equity issue may signal a need for cash, and thus unexpected decrease in operating cash flows. The signaling theory is also based on information asymmetry and it explains the reactions of investors to seasoned equity offerings.

### **2.3 Determinants of Financial Performance**

Financial performance refers to the act of performing financial activity. It refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Berger, 2001). There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales and the market size.

Datta (2006) proposed four possible types of measurement for organizational performance, that is: operational outcomes (turnover, absenteeism and job satisfaction); organizational outcomes (productivity, quality and service); financial accounting outcomes (return on assets and return on equity) and capital market outcomes (stock price, growth and stock returns). The idea behind this model is that outcomes are hierarchical in that, outcomes at one level impact on those at the next level. The financial performance of institutions is usually measured using a combination of financial ratios analysis e.g. (ROA, ROE, EPS, Quick ratio, acid test ratio, debt equity ratio) benchmarking, measuring performance against budget or a mix of these methodologies. The



common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial.

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

## **2.4 Empirical Review**

Scholars have documented research, findings and conclusion of seasoned public offering and performance of the firm both internationally and locally.

### **2.4.1 International Studies**

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.

Spieß 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 under performance 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 placing by UK firms over the period 1986-1994. Using a sample of 200 insured rights, 20 uninsured right issues and 76 placing, 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 placing. They also found that placing 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.

#### **2.4.2 Local 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. 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.

Karanja (2006) evaluated post rights issue Effect on firms' share price and traded volumes. The objective of the research was to evaluate the effects of post rights issue on the firms share price and traded volumes. On the population, Karanja evaluated 9 firms out of the 14 firms that had announced rights issue. He did an analysis 90 days after the rights issue and noted that most firms that announce rights issue usually experience a decrease in the share price after the issue at least in the very short run. Karanja recommended that firms that announce rights issue must consider information asymmetry as this highly determines the firm's share prices after successful rights issue. This showed that differences in the abnormal returns after the issues are robust to controlling for the offer size, the firm's leverage, and the market to book ratio and other firm's attributes. Hence

the evidence suggests that firms selling shares to current owners through rights offer did not appear to be timing their issue to exploit over-valued equity while firms selling to new owners were. The findings support the notion that the pattern of underperformance is tied to market timing.

Munene K. (2006) studied the relationship between profitability and sources of financing of quoted companies at the NSE. The study population of the 48 companies quoted at the NSE between 1999 and 2004 and they concluded that there is a weak positive relationship between capital structure and profitability of firms quoted at the NSE between 1999 and 2004 and therefore other factors contribute to firm capital structure.

Kakiya (2007) conducted a study on the effects of Announcements on stock returns, the researcher computed a 5 day moving average to observe the trend of stock returns following earnings announcement. Daily market adjusted abnormal and cumulative abnormal returns were computed and a further t-test done to determine the effect of earnings announcement on stock returns and results interpreted. The findings from the study were that trends in stock returns are dependent on event announcement. Traded volumes are not significantly affected by announcement. Earnings announcement had a significant effect on stock returns when CAR was evaluated indicating market inefficiency but AR was not significant for individual companies. From the findings of the study, it was concluded that the Nairobi Stock exchange is not semi-strong form efficient. The researcher analyzed all companies and was testing the efficiency but this research has narrowed down on effect of rights issue on company's share performance and only companies that have done rights and those that form part of the NSE 20 share index formed the target population.

Gatundu (2007) sought to determine the effects of secondary equity offering on stock returns of firms quoted on the Nairobi Stock Exchange in Kenya. Specifically the study examined the effect of

announcement of secondary equity offerings on stock prices as well as the impact of the announcement on trading volume before and after the secondary issue. A sample of 10 companies that had issued secondary shares between January 1996 and December 2006 was selected. The research was an event study around the date of seasoned equity issues. Stock returns was measured using daily cumulative abnormal returns (CARs), where abnormal return was defined as actual return less expected return. Data was analyzed using a simple times series model. The study established that the price movement in the periods prior to and after the announcement dates resulted in increased abnormal returns for the shareholders. The abnormal returns were however very small and this meant that the details of a secondary issue or rights issue did not shock the market in a significant way. From the averages carried out in the data analysis the amount of shares traded was more at the post announcement period than in the pre announcement period for most companies involved in the study

Olesaaya (2010) conducted a research on the effects of rights issue on stock returns investigating companies listed at the NSE. Olesaya used event study methodology in his study. He used market model which is a statistical model that relates the returns of any given security to the return of the market portfolio to measure and analyze the abnormal returns. In this study, Olesaaya assumed that the abnormal returns reflect the stock market's reaction to the announcement of rights issue. The findings of this study show negative abnormal returns prior to announcement of rights issue, positive abnormal returns during the announcement and negative results thereafter.

Gachuhi (2013) conducted a study to establish the signaling effect of bonus issue announcement on stock prices of companies quoted at the NSE. The study was concerned with the establishment of the information content of bonus issue announcement on share performance at the NSE. A sample of 10 firms out of 62 companies listed in the NSE was selected. Secondary data collected from the

NSE was used. Abnormal returns on the individual stocks and the trading activity ratio (TAR) were used to measure the variables under study. Results of the study showed that abnormal returns after bonus issue were significantly higher than abnormal returns before bonus issue. Results also indicated that actual stock returns were significantly higher after bonus issue than before the bonus issue. It was concluded that the market return is a good predictor of stock returns and that market return had a positive and significant relationship with the actual returns.

Kiama (2013) sort to establish the relationship between seasoned equity offerings and financial performance for firms listed at the Nairobi Securities Exchange. Financial performance was defined as how well a firm uses the assets from its business in order to generate revenues and realize its economic goals. Financial performance was measured using the rate of returns on assets (ROA). The study used secondary data from published audited annual reports of accounts of the sampled firms which was obtained from Nairobi Securities Exchange and Capital Market Authority. The sample comprised of 10 out of 21 firms that had issued seasoned equity as at 31st December 2012. The research findings showed an insignificant but positive relationship between seasoned equity offerings and financial performance. Results also indicated a significant positive relationship between financial performance, asset growth and leverage.

Nzai (2014) examined the effects of the announcement of seasoned equity offerings on the price performance of stocks. This was a descriptive study based on 10 of the 14 firms that offered seasoned equity during the period 2014 and 2013. Stock performance was measured using stock return which is a market indicator and comparison was made between the period before the announcement day and the period after. He found that stock returns of seasoned equity issuing firms decreased after the announcement of the equity issue though the reduction was not significant. The study used event study methodology. The study however did not put into consideration other

factors affecting stock returns and the performance of equity offering like firm performance which greatly affects the performance of a firm's equity

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. 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.

## **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 market such as the East Africa stock exchanges due to differences in policies, structures, regulations and cross listing.

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 East Africa stock exchanges 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 effects of SEOs on financial performance of listed firms at the East Africa securities exchanges.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

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

### **3.2 Research Design**

The research adopted a descriptive study to evaluate the effect of seasoned equity offering on financial performance. Descriptive research is a process of collecting data to answer questions concerning current status of the subjects in the study. It determines and reports the way things are with the subjects (Mugenda & Mugenda, 2008). Descriptive statistics such as mean and standard deviation will be evaluated for the pre and post issuance period to determine the influence of SEO.

### **3.3 Research Population**

The population for the study comprised of all cross listed firms that have issued seasoned equity at the East Africa stock exchanges as at 31st December 2014. There are 64 companies listed at the Nairobi Stock Exchange with 8 cross listed, 27 in Daresalaam Stock exchange with 7 cross listed. 17 in the Uganda stock exchanges out of which 8 are cross listed. In total there are 87 listed firms in East Africa stock exchanges out of which 8 are cross listed.

### **3.4 Sample and Sampling Design**

The study used a census which is a study of all items in the target population. Saunders et al. (2009) argued that census is highly recommended especially where it is practical to do so since it eliminates errors that are associated with sampling. The study focused on all cross listed companies that have issued seasoned equity for the period 2005 to 2014 both years included. Out of the 8 cross listed firms only 7 seven have issued seasoned equity offering. This includes; East African Breweries Limited, Jubilee Holdings Limited, Kenya Airways, Equity Bank Limited, KCB Group, Centum Investments and Uchumi Supermarket Ltd. The data points were therefore 42 given 7 companies for a period of 3 years before the issue and 3 year period after the issue.

### **3.5 Data Collection Method**

The study used secondary data collected from Capital Market regulatory and Stock Exchanges Authorities in the respective countries which is readily available. Data was obtained from published financial statements of the cross listed firms for the period under study. Financial data from statement of financial position and statement of comprehensive income were used to calculate and analyze financial ratios. Data requirements included; size of issue, time of issue, market capitalizations and earnings per share (profitability) at the end of the firm's financial year end liquidity and leverage levels of the firms.

### **3.6 Data Analysis**

The research is quantitative in nature hence descriptive. Once the data was collected and checked for completeness it was then analyzed. Analysis was done with the aid of the statistical package for

social sciences (SPSS). Descriptive statistics such as percentages, mean scores and proportions was generated to assist in analyzing.

Regression method of analysis was also employed and to show the relationship between the variables. The model is as indicated below;

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$$

Y → Earnings per Share (EPS ratio – Financial Performance)

$\beta_0$  → Constant (y intercept)

$X_1$  → Liquidity level

$X_2$  → Leverage Level

$X_3$  → Market capitalization

These will be measured as follows;

Earnings per Share =  $\frac{\text{Earnings Attributable to Shareholders}}{\text{Number of outstanding Shares}}$

Current / Liquidity Ratio =  $\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$

Leverage / Gearing ratio =  $\frac{\text{Total Debt}}{\text{Total Equity}}$

Size / Capitalization = Logarithm of all assets of each company

## CHAPTER FOUR: DATA ANALYSIS

### 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**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	EPS	8.0295	21	8.90443	1.94311
	EPS2	9.1305	21	12.53778	2.73597
Pair 2	Liquidity	2.0905	21	1.61235	.35184
	Liquidity2	1.4067	21	.63077	.13765
Pair 3	Leverage	.6567	21	.32964	.07193
	Leverage2	.5986	21	.52068	.11362
Pair 4	Size	9.8767	21	.80240	.17510
	SIze2	10.0029	21	.84127	.18358

Source: Researcher (2015)

The research findings in table 4.1 above shows that on average EPS increased from 8.0295 to 9.1305, liquidity reduced from 2.0905 to 1.4067, leverage reduced from 0.6567 to 0.5986 and market capitalization increased from 9.8767 to 10.029. The STD deviation increased showing that it increased in volatility (the opposite shows the variable is more stable). This can be attributed to the increased investments in projects with positive NPV with the new cash from the subscription thus increasing earnings, reducing debt and maximizing shareholders wealth. Liquidity and leverage are reducing due to extra capital from SEOs as there is no dilution in capital

**Table 4.2 Paired t-test of significance**

	Paired Differences					t	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 EPS - EPS2	-1.10095	11.65749	2.54387	-6.40738	4.20547	-.433	20	.670
Pair 2 Liquidity - Liquidity2	.68381	1.43892	.31400	.02882	1.33880	2.178	20	.042
Pair 3 Leverage - Leverage2	.05810	.37866	.08263	-.11427	.23046	.703	20	.490
Pair 4 Size - SIZe2	-.12619	.24001	.05237	-.23544	-.01694	-2.409	20	.026

**Source: Researcher (2015)**

From the table 4.2 above, there is a significant difference between liquidity and size as measured by market capitalization before and after the SEOs since their p values ( $0.042 < 0.05$ ,  $0.026 < 0.05$ ) are less than the 0.05 significance level. There is no significant difference between leverage and EPS before and after SEOs since their p values are greater than 0.05 significance level

### 4.3 Regression analysis

**Table 4.3 Model Summary before SEO**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.367 <sup>a</sup>	.134	-.018	8.98573

**Source: Researcher (2015)**

From table 4.3, 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 0.367 indicates a weak positive correlation between the dependent and independent variables. On the other hand coefficient of determination ( $R^2$ ) of 0.134 shows that 13.4% of the variation in the firm performance (EPS) is explained by the changes in Size, Leverage, and Liquidity. The coefficient of determination (R Square) is 0.134. This is a poor goodness of fit. However since the intention is comparison we will only compare with the value after the issue. The regression model obtained for this study can therefore be used to forecast financial performance.

The adjusted R square of 18% also shows that the model is a good estimate of the relationship between the variables.

**Table 4.4 Coefficients before SEO**

Model	Un-standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-24.203	32.560		-.743	.467
Liquidity	.441	1.510	.080	.292	.774
Leverage	-1.210	6.833	-.045	-.177	.862
Size	3.251	3.240	.293	1.003	.330

**Source: Researcher (2015)**

The regression model for the variables before the issue is as follows;

$$Y = -24.203 + 0.441x_1 - 1.210x_2 + 3.254x_3$$

According to the regression equation established, taking all factors into account (liquidity, leverage and market capitalization) before SEO constant at zero, company performance will be -24.203. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in liquidity will lead to a 0.441 increase in company performance; a unit increase in leverage will lead to a 1.21 decrease in company performance; a unit increase in market capitalization will lead to a 3.254 increase in company performance. This infers that market capitalization contribute more to company performance followed by liquidity. The negative coefficients of leverage imply inverse relationship between leverage and EPS. At 5% level of

significance, liquidity had a 0.774 level of significance; leverage showed a 0.862 level of significant, market capitalization showed a 0.330 level of significant hence the most significant factor is leverage.

**Table 4.5 Model Summary after SEO**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436 <sup>a</sup>	.190	.47	12.24005

**Source: Researcher (2015)**

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (company performance) that is explained by all the three independent variables (liquidity, leverage and earnings per share). The three independent variables that were studied, explain only 47% of the effects of seasoned equity offering on financial performance of firms cross-listed in east Africa security exchanges as represented by the  $R^2$ . This therefore means that other factors not studied in this research contribute 53%. Therefore, further research should be conducted to investigate the other factors (53%) effects of seasoned equity offering on financial performance of firms cross-listed in east Africa security exchanges

Comparing results in table 4.3 (before SEO) and table 4.5 (after SEO) it implies that the factors studied variables (liquidity, leverage and earnings per share) had an increased effect on performance of cross listed firms in east Africa stock exchanges.



**Table 4.6 Coefficients after SEO**

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-15.361	54.153		-.284	.780
Liquidity2	-9.487	7.497	-.477	-1.265	.223
Leverage2	-10.918	7.663	-.453	-1.425	.172
SIze2	4.436	5.765	.298	.769	.452

**Source: Researcher (2015)**

Table 4.6 depicts the numerical relationship between the independent variable and the predictor variables (after SEO) in the following resultant equation:

$$Y = -15.361 - 9.487x_{21} - 10.918x_2 + 4.436x_2.$$

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 is less than 0.05 (5% significance level). According to the regression equation established, taking all factors into account (liquidity, leverage and market capitalization) after SEO constant at zero, company performance will be -15.361. The data findings analyzed also showed that taking all other independent variables at zero, a unit increase in liquidity will lead to a 9.487 decrease in company performance; a unit increase in leverage will lead to a 10.981 decrease in company performance; a unit increase in market capitalization will lead to a 4.36 increase in company performance. This infers that market capitalization contribute more to

company performance followed by liquidity. The coefficients of leverage and liquidity have negative signs implying inverse relationship between leverage, liquidity and EPS. At 5% level of significance and 95% level of confidence, liquidity had a 0.223 level of significance; leverage showed a 0.172 level of significant, market capitalization showed a 0.452 level of significant hence the most significant factor is market capitalization.

#### **4.4 Interpretation of results**

From the model summary in table 4.3, the correlation coefficient indicated a positive relationship between financial performance and the independent variables put together (liquidity, leverage and market capitalization). The coefficients of the model in table 4.5 indicated the existence of a positive and significant relationship between asset market capitalization and financial performance for the firms under study while firm leverage and liquidity 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 issued by cross-listed firm and financial their financial performance. The study focused on cross-listed firms listed in the East Africa Securities Exchange. To achieve the above objective, regression analysis was conducted whereby financial performance represented by EPS (dependent variable) was regressed against firm liquidity, leverage and market capitalization (independent variable). Data for both the dependent and independent variables were obtained from the financial statements of the firms available from security exchanges. The two sets of data were then subjected to a regression analysis.

From the results of the study in chapter four, it was found that there is a relationship between the independent variables (liquidity, leverage and market capitalization) used in the model and the dependent variable (EPS). The correlation coefficient of 0.367 from the model summary in chapter four (table 4.3) indicates a 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 market capitalization was found to have a positive relationship with financial performance. Firms' market capitalization tends

to show improvements in performance in the long run. This is because the returns on investments are likely to increase shareholder wealth.

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 liquidity and leverage as indicated by their p values of 0.0029 and 0.0177 respectively. Firms can therefore 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. In conclusion, liquidity increased after the SEO and both the debt reduced and performance increased after SEO. The Companies had high debt/asset ratios and could be in danger if creditors start to demand repayment of debt. Finally, the study concluded that, earnings per share increased after the IPO.

### **5.3 Conclusion**

When comparing the firm's financial performance three years before cross-listing, and three years after cross listing, liquidity improved. This might be due to the increased cash brought in by the issue of new shares. When firms offer their shares for sale, new money is injected with the subscription of shares, whether they are fully or partially subscribed. From the results, it was evident that, after SEOs, increased availability of funds which are invested in projects with positive NPV leads to more profitability of a firm. Cross listing reduces the gearing ratio of firms. This is because there is increase in the level of equity thus relieving the firm from the threat of takeovers by the creditors. This will ensure that there is no excess control in decision making by third parties. The increase in profitability after cross listing was not commensurate with the increase in the

number of shares outstanding. There was increase in the number of shares at a higher rate than the increase in the profitability of the firm. This is what is known as the dilution effect.

From the findings above, there is no significant relationship between seasoned equity offerings and financial performance. 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 liquidity 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 Recommendations**

This study found out that financial performance reduced as financial leverage increased. The study therefore recommends that corporate managers should reduce financial leverage in order to enhance performance. This study further recommends that the government should adopt low interest rates regime in order to reduce the cost of borrowing given that many companies rely on external borrowing to finance their capital needs. Lowly geared firms perform better than their counterparts that are highly geared

The management of companies should adopt aggressive financing policy in order to improve performance as measured by return on assets. This study provides evidence that, the use of more short-term financing enhances return on assets compared to the use of long-term debt (financial leverage). Corporate managers should follow a conservative investment policy in order to enhance the performance of their companies. This implies that the managers should maintain a higher level of investment in liquid assets relative to non-current assets.

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.

### **5.5 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. Further comparative studies can also be done on the effect of SEOs in firms in different economic blocks in Africa like ECOWAS and SADC determine whether the findings are the same as in this study.

### **5.6 Limitation of the Study**

The study covered only 7 companies which had issued SEOs and were cross listed. This is because only a few companies are cross listed. The study also covered a short period of time, for better results if the time period could be 10 years it would help to capture the effect of the variables more comprehensively.

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**APPENDIX I: Raw Data**

<b>Name of the company</b>	Kenya Commercial Bank						
<b>Year of Issue</b>	2010	<b>Period Before</b>			<b>Period After</b>		
<b>Parameter</b>	<b>Measure</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
EPS	<u>Earnings Attributable to share holders</u>  No. of Outstanding Shares	1.49	1.89	1.84	2.43	4.56	4.69
Liquidity	<u>Current Assets</u>  Current Liabilities	1.91	1.85	2.13	1.99	2.31	1.8
Leverage	<u>Total Debt</u>  Total Equity	0.5	0.65	0.03	0.25	0.18	0.2
Size	Log of total Assets	10.76	9.72	10.66	10.81	10.70	10.50

Name of the company	Kenya Airways						
Year of Issue	2012	Period Before			Period After		
Parameter	Measure	2009	2010	2011	2012	2013	2014
EPS	<u>Earnings Attributable to share holders</u>						
	No. of Outstanding Shares	0.43	0.79	6.47	3.6	1.2	-8.85
Liquidity	<u>Current Assets</u>						
	Current Liabilities	0.31	0.32	0.32	0.92	0.87	0.4
Leverage	<u>Total Debt</u>						
	Total Equity	0.79	1.04	0.65	0.83	1.01	1.78
Size	Log of total Assets	8.45	8.44	8.14	8.46	8.44	8.14

Name of the company	East African Breweries Ltd						
Year of Issue	2007		Period Before			Period After	
Parameter	Measure	2004	2005	2006	2007	2008	2009
EPS	<u>Earnings Attributable to share holders</u>						
	No. of Outstanding Shares	8.18	7.24	35.05	11.43	11.61	1.89
Liquidity	<u>Current Assets</u>						
	Current Liabilities	2.82	3.14	3.23	2.21	1.98	2.01
Leverage	<u>Total Debt</u>						
	Total Equity	0.6	0.75	0.56	0.25	0.31	0.54
Size	Log of total Assets	10.69	10.99	10.96	11.01	11.20	11.01

Name of the company	Nation Media Group						
Year of Issue	2010	Period Before			Period After		
Parameter	Measure	2007	2008	2009	2010	2011	2012
EPS	<u>Earnings Attributable to share holders</u>						
	No. of Outstanding Shares	15.1	18.17	7.85	9.79	9.36	13.46
Liquidity	<u>Current Assets</u>						
	Current Liabilities	1.91	1.85	2.13	1.99	2.31	1.8
Leverage	<u>Total Debt</u>						
	Total Equity	0.5	0.65	0.03	0.25	0.18	0.2
Size	Log of total Assets	10.37	10.21	10.21	10.42	10.34	10.40

Name of the company	Uchumi Supermarkets Ltd						
Year of Issue	2005	Period Before			Period After		
Parameter	Measure	2009	2010	2011	2012	2013	2014
EPS	<u>Earnings Attributable to share holders</u>						
	No. of Outstanding Shares	2.78	4.81	1.47	1.03	2.78	4.81
Liquidity	<u>Current Assets</u>						
	Current Liabilities	0.59	0.92	0.91	0.72	0.59	0.92
Leverage	<u>Total Debt</u>						
	Total Equity	0.9	1.02	1.6	0.54	1.55	1.86
Size	Log of total Assets	9.42	9.42	9.48	9.96	9.93	10.02

Name of the company	Jubilee Holdings Ltd						
Year of Issue	2011	Period Before			Period After		
Parameter	Measure	2007	2008	2009	2010	2011	2012
EPS	<u>Earnings Attributable to share holders</u>						
	No. of Outstanding Shares	14.73	15.85	20.3	37.15	35.09	38.14
Liquidity	<u>Current Assets</u>						
	Current Liabilities	4.9	4.57	0.31	1.29	1.39	0.68
Leverage	<u>Total Debt</u>						
	Total Equity	0.5	0.7	0.56	0.54	0.42	0.36
Size	Log of total Assets	9.98	9.74	9.71	9.96	9.93	10.02



Name of the company	Centum Investment Ltd						
Year of Issue	2011	Period Before			Period After		
Parameter	Measure	2007	2008	2009	2010	2011	2012
EPS	<u>Earnings Attributable to share holders</u>						
	No. of Outstanding Shares	2.03	1.58	0.57	1.99	3.79	1.79
Liquidity	<u>Current Assets</u>						
	Current Liabilities	4.9	4.57	0.31	1.29	1.39	0.68
Leverage	<u>Total Debt</u>						
	Total Equity	0.5	0.7	0.56	0.54	0.42	0.36
Size	Log of total Assets	10.17	10.14	9.75	9.93	10.11	9.94