

# Firm location determines equity issuance

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## **Seasoned equity offerings less common for rural firms**

A new study in the journal *Financial Management* reveals that firms in rural areas are less likely to issue equity than firms in urban areas. In addition, rural firms that do issue equity use lower-quality underwriters.

Tim Loughran, Professor of Finance at the University of Notre Dame, compared equity issuance by firms in urban areas, defined as the 10 largest metropolitan areas of the U.S., and rural areas, defined as at least 100 miles from the center of any metropolitan area of 1,00,000 people or more.

Seasoned equity offerings are significantly less common for rural firms. Similarly, firms with lengthy drives to the nearest major airport are less likely to issue equity.

Rural companies have few potential purchasers of stock located nearby. Therefore, the marginal investor for an equity offering by a rural firm is likely to be located quite a distance away. This puts the equity investor in a rural offering at a more significant information disadvantage to insiders than an equity investor in an urban company's offering.

Also, underwriters used by rural firms and firms located far from major airports tend to be less prestigious. This evidence is consistent with the assertion that the location of a firm's headquarters affects its ability to issue equity and plays a role in the ability of the firm to select quality underwriters for any offerings.

"Firms from rural areas are less likely to conduct a follow-on offering, even after adjusting for firm size, prior stock returns, book-to-market ratios, and other factors," the authors conclude. "Geographic location is closely related to information asymmetries."

Source: Wiley-Blackwell

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