

# **Capital Market Reaction to Equity Private Placement, Relative Capital Structure Change and Firm Value: Australian Evidence**

Oraluck Arsiraphongphisit\*

Faculty of Business and Economics, Monash University  
PO Box 197 Caulfield East, Victoria 3145, Australia  
Telephone: 613 9903 1461, Fax: 613 9903 2422  
Email: Oraluck.A@BusEco.monash.edu.au

Mohamed Ariff

Faculty of Business and Economics, Monash University  
PO Box 197 Caulfield East, Victoria 3145, Australia  
Telephone: 613 9903 1809, Fax: 613 9903 2422  
Email: Mohamed.Ariff@BuseEco.monash.edu.au

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## **Abstract**

Received theories, namely optimal capital structure, pecking order and signalling, suggest a likely change in the value of a firm at the time financing decisions are disclosed to the market. This paper reports new findings of such a significant change in a firm's value employing equity private placement as a proxy for changes in capital structure by 10-40 percent. It takes a new direction in research by using an idea of *relative capital structure*, which is the change in a firm's capital structure relative to its industry median ratio. Abnormal return to a firm adjusting its capital structure in value-increasing financing decisions closer to the industry ratio is positive compared to the abnormal returns when the ratio is adjusted away from industry median. In addition, theory-suggested firm-specific variables are found to be significantly correlated with the changes in the values of firms, particularly during event window close to disclosure of financing decisions. These findings, consistent with theories, would appear to suggest that the industry relative ratio is a likely surrogate for optimal capital structure decisions for Australian firms.

Key words: Optimal capital structure; Relative capital structure; Industry benchmark; Value-increasing capital structure adjustment; Value-decreasing capital structure adjustment

\*Contact author

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