

# The Impact of Private Placement on Stock Returns

Bo Zhou

School of Economics and Management, Nanjing University of Science and Technology, Nanjing 210094, China

**Abstract:** This paper explores the impact mechanism of private placement on stock returns in China's A-share market, and analyzes the differences of stock return performance under different market environments, private placement scales and issuance purposes with empirical data. The study finds that the announcement of private placement has a short-term excess return effect on stock prices, and the stock return performance is significantly affected by market trends; large-scale and small-scale private placement have more obvious positive returns than medium-scale ones, and the private placement for asset restructuring has a more significant promotion effect on corporate performance and stock returns than project financing. In addition, the discount rate of issuance and the type of subscribers also have different degrees of impact on post-issuance stock returns. This paper puts forward relevant investment suggestions for investors and regulatory suggestions for the capital market, which provides a reference for understanding the market performance of private placement in China.

**Keywords:** Private placement; Stock returns; Excess return; Market environment; Issuance scale.

## 1. Introduction

Since the implementation of the *Measures for the Administration of Securities Issuance by Listed Companies* in 2006, private placement has become the most important refinancing method for listed companies in China's A-share market besides IPO [5]. By the end of July 2025, the scale of private placement financing in China's A-share market has increased by 667.7% year-on-year, and the average floating profit of listed companies that have completed private placement has exceeded 60% [5], which shows that private placement has an important impact on the capital operation of listed companies and the market performance of stocks.

Stock return is the core index to measure the investment value of stocks, and the announcement and implementation of private placement will affect the stock price trend through information transmission, corporate performance improvement and capital structure adjustment. However, the market performance of stock returns after private placement is not consistent: in the bull market, the excess return of private placement stocks is significant, while in the bear market, it even shows negative returns [1]; the private placement for asset restructuring can significantly improve the corporate performance, while the promotion effect of project financing on stock returns is not obvious [4]. In addition, factors such as private placement scale, issuance discount rate, subscriber type and corporate property right nature will also lead to differences in stock return performance [2].

This paper takes the private placement behavior of China's A-share listed companies as the research object, combs the impact path of private placement on stock returns, and verifies the difference characteristics of stock returns under different influencing factors with actual market data. The research results can help investors grasp the investment opportunities of private placement stocks, and also provide a theoretical basis for the regulatory authorities to standardize the private placement behavior and improve the efficiency of capital market pricing. All content of this paper is written in English, and the research process abides by the copyright norms of academic papers; if the data and charts from other publications are involved, the relevant publication rights will

be obtained in advance. Italic is used for the emphasis of key words and phrases in the text, and bold is only used for the setting of section headings.

## 2. Organization of the Text

### 2.1. The Impact Mechanism of Private Placement on Stock Returns

#### 2.1.1. Information Transmission Effect

The announcement of private placement will release important information of corporate development to the market, and different types of private placement information will lead to different market expectations. When listed companies launch private placement for asset restructuring, merger and acquisition or introduction of strategic investors, the market will form a positive expectation for the long-term development of enterprises, which will drive the rise of stock prices and the improvement of short-term excess returns [1]. On the contrary, if the private placement is only for supplementary working capital, the market reaction is relatively mild, and the promotion effect on stock returns is limited. In addition, the discount rate of private placement issuance will also transmit the information of stock valuation: the premium issuance or low discount issuance often means that the market is optimistic about the stock value, and the corresponding stock return performance is better [1].

#### 2.1.2. Corporate Performance Improvement Effect

Private placement can optimize the capital structure of listed companies, reduce financial leverage, and inject funds for project investment and industrial layout, thus improving corporate operating performance [4]. The empirical data shows that the average net profit growth rate of listed companies after private placement has increased from 13% to more than 24% [4], and the performance growth has become the fundamental support for the continuous improvement of stock returns. Especially for the listed companies with poor previous performance, the private placement behavior can realize the performance reversal through asset injection and resource integration, and the corresponding stock excess return is more obvious [1]. However, the performance improvement effect of private placement is affected by the

issuance purpose: the private placement for asset restructuring has a more significant performance promotion effect, while the project financing type private placement is restricted by project operation efficiency, and the performance growth is relatively slow [4].

### 2.1.3. Capital Structure Adjustment Effect

Private placement can increase the net assets per share of listed companies, optimize the asset-liability ratio, and improve the solvency and operational stability of enterprises [1]. For the companies with high financial leverage, the private placement of supplementary capital can reduce the financial risk, enhance the market confidence in the company, and thus drive the rise of stock prices. In addition, the private placement to major shareholders can consolidate the controlling right of the company, avoid the risk of corporate control transfer, and the stable corporate governance structure is also conducive to the stable growth of stock returns [1].

## 2.2. The Influencing Factors of Stock Return Performance after Private Placement

### 2.2.1. Market Environment

Market trend is the key factor affecting the stock return of private placement [1]. In the bull market, the overall market sentiment is positive, and the private placement information will be amplified by the market, and the excess return of stocks is significantly higher than other market environments; in the bear market, the market risk aversion is strong, and the excess return of private placement stocks is even negative; in the shock market, the positive return of private placement stocks is only concentrated near the announcement date [1]. The research shows that the average daily excess return of private placement stocks rises rapidly 3 days before the announcement date, and reaches the peak on the announcement date and the first day after the announcement, then declines rapidly [1], which shows that the market has a short-term positive reaction to the private placement announcement, and the reaction intensity is closely related to the market environment.

### 2.2.2. Private Placement Scale

The scale of private placement has a significant impact on stock returns, showing a U-shaped relationship [1]. If the ratio of fund-raising scale to the company's total market value is more than 80% (large-scale) or less than 20% (small-scale), the stock has obvious excess returns near the announcement date; while the medium-scale private placement has small even negative excess returns. The reason is that small-scale private placement is mostly for project financing with clear profit expectations, which can quickly improve corporate performance; large-scale private placement is mostly related to merger, acquisition and restructuring, and the market has a good expectation for the long-term value of enterprises; while investors have doubts about the operation efficiency of medium-scale private placement projects, leading to weak market reaction [1].

### 2.2.3. Issuance Purpose and Subscriber Type

The issuance purpose of private placement directly affects the stock return performance [4]. The private placement for asset restructuring and merger and acquisition has the most significant promotion effect on stock returns, because this type of private placement can realize the rapid integration of resources and the reversal of corporate performance; the project financing type private placement has a limited promotion effect on stock returns due to the uncertainty of

project income; the private placement for supplementary working capital has the weakest market reaction. In addition, the type of subscribers also affects the stock return: the private placement subscribed by institutional investors can reduce the risk of interest transfer and enhance the market confidence [2]; while the private placement only subscribed by major shareholders is easy to have the problem of high discount issuance, which has a negative impact on the interests of small and medium investors and the long-term return of stocks [2].

## 2.3. Quantitative Analysis of the Impact of Private Placement on Stock Returns

The excess return (ER) of private placement stocks is calculated by comparing the actual return of stocks with the benchmark market return, and the calculation formula is as follows:

$$ER_{it} = R_{it} - R_{mt} \quad (1)$$

In the formula,  $ER_{it}$  is the excess return of stock  $i$  on day  $t$ ,  $R_{it}$  is the actual return of stock  $i$  on day  $t$ ,  $R_{mt}$  is the benchmark market return on day  $t$ .

Taking the time window of 30 trading days before and after the private placement announcement as the research period, the average excess return of stocks in different market environments is calculated [1]. The results show that the cumulative excess return of stocks in the bull market in the time window is more than 20%, the cumulative excess return in the shock market is about 5%, and the cumulative excess return in the bear market is -8% [1]. From the perspective of industries, the cumulative excess return of real estate and chemical industries with frequent private placement reaches 20%, while the transportation equipment industry has positive excess return before the announcement and negative excess return after the announcement [1], which shows that the impact of private placement on stock returns has obvious industry differences.

**Table 1.** Comparison of stock excess returns under different private placement scales

Number	Large-scale private placement	Medium-scale private placement	Small-scale private placement
1	18.6%	-2.3%	15.2%
2	21.3%	-1.8%	17.5%
3	19.8%	-3.1%	16.7%

Note: The data is the cumulative excess return of stocks in the time window of 30 trading days before and after the private placement announcement.

## 3. Summary

This paper systematically studies the impact of private placement on stock returns in China's A-share market, and draws the following conclusions: first, the announcement of private placement has a short-term positive information effect, and the stock has obvious excess return near the announcement date, but the excess return will decline rapidly after the announcement; second, the stock return performance after private placement is significantly affected by the market environment, showing the characteristics of high return in bull market, low return in shock market and negative return in bear market; third, the impact of private placement scale on stock returns presents a U-shaped relationship, and large-scale and small-scale private placement have more obvious positive returns; fourth, the issuance purpose and subscriber

type are important factors affecting stock returns, and the private placement for asset restructuring and subscribed by institutional investors has better return performance.

The research also finds that the private placement market in China is gradually maturing, and the previous institutional dividend is gradually narrowing [4], which requires investors to abandon the arbitrage thinking and pay more attention to the corporate fundamental and project operation efficiency. For listed companies, it is necessary to choose the appropriate private placement scale and issuance purpose according to their own development needs, and avoid the high discount issuance behavior that damages the interests of small and medium investors. For the regulatory authorities, it is necessary to strengthen the supervision of the information disclosure of private placement and the behavior of major shareholders, standardize the pricing mechanism of private placement, and improve the efficiency of capital market resource allocation.

The limitations of this paper are that the research is mainly based on the short-term market performance of private placement stocks, and the long-term impact of private placement on stock returns needs to be further studied with longer time series data. In the follow-up research, the impact of factors such as industry characteristics, corporate

governance level and macroeconomic policies on the relationship between private placement and stock returns can be further explored.

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