FACULTY
OF SOCIAL SCIENCES
Charles University

Thesis Evaluation Report

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Advisor:	Jiří Novák
Title:	Revenue Management around Seasoned Equity Offerings

Assessment

Summary

The author investigates whether firms artificially adjust their reported accounting numbers around Seasoned Equity Offerings (SEOs). Given the importance of SEO pricing for the cost of equity capital prior literature suggests and provides evidence that firms have incentives to manage earnings to impress the stock market and to achieve better pricing of the equity they issue. The author contributes to this stream of literature by using a new, and arguably more reliable, method of identifying earnings management through the model of discretionary revenues. Consistent with the expectations of the author documents significantly positive discretionary revenues in the year of the SEO. In addition, he finds out that firms seem to build up a performance buffer (or a reserve) by artificially depressing their revenues in the year immediately preceding the SEO, which is a result that is new to the literature.

Evaluation

I find the thesis excellent for several reasons.

First, the research question investigates an important economic event in a company's history. Understanding how companies manage earnings around equity issues is highly relevant both for investors and regulators. Given this importance significant research on this topic already exists. Nevertheless, the author is able to offer original contribution by employing a novel methodological approach of measuring earnings management that potentially captures the repercussions of opportunistic accounting with a greater degree of precision and therefore it is able to provide more reliable conclusions.

Second, besides providing new robust results consistent with prior literature the author identifies a new phenomenon of building a revenue buffer before issuing equity. This result will have to be further verified using different samples and methods in future research. Nevertheless, it opens up for an interesting possibility that opportunistic firm behavior can actually be traced even before the time when a firm issues equity. This would imply that firms are highly strategic in their financial reporting behavior and they are able to take into consideration even the planned (rather than current) corporate events. Such finding paves the way to new research that could investigate

the interplay between the pre-issue and at-issue behavior and to their relation to differences in managerial incentives.

Third, the author clearly acquired solid understanding of relevant literature and he is able to provide a well-structured review of prior literature. The hypotheses are explicitly stated and properly motivated with reference to the existing literature. The author explains well how his thesis builds on and extends prior literature.

Fourth, to be able to compute his results the author mastered the methodological approach of estimating discretionary revenues. I believe the author understands the structure of these tests well and he is able to apply the methodology in his specific settings. I find the empirical tests well suited for the analysis and the results reliable.

Fifth, the thesis is well organized, individual chapters follow a logical order and there is a good interconnection between individual sections. The thesis is also written in fairly good English even though at parts I would appreciate better adherence to the academic style of writing.

Conclusion

Overall, I believe that the thesis meets all the quality requirements for a Bachelor's Thesis by a large margin. In fact, after including some additional results I believe the thesis would qualify for a quality Master's Thesis. I believe that the thesis has a good potential to be transformed into a standard research paper in the future. Therefore, I propose the highest grade A and recommend the examination committee to consider the thesis for the outstanding thesis award.

Awarded Points and Grade

Contribution (max 30)	28
Methods (max 30)	30
Literature (max 20)	20
Form (max 20)	17
Total (max 100)	**95**
Grade (A – B – C – D – E – F)	**A**

Referee's Signature

May 15, 2018

Jiří Novák

Evaluation Date

Referee's Name

Grading Scale

LITERATURE REVIEW: The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.

Strong	Average	Weak
20	10	0

METHODS: The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.

Strong	Average	Weak
30	15	0

CONTRIBUTION: The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.

Strong	Average	Weak
30	15	0

MANUSCRIPT FORM: The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.

Strong	Average	Weak
20	10	0

OVERALL GRADING:

Total Points	Grade
91 – 100	A
81 – 90	B
71 – 80	C
61 – 70	D
51 – 60	E
0 – 50	F