

EXPLAINING THE INFORMATION
CONTENT AND COMPLETION RATES
OF ON-MARKET REPURCHASE
PROGRAMS CONDUCTED IN
AUSTRALIA

by

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ABSTRACT

This dissertation investigates on-market repurchase programs conducted in Australia and explores whether conditions of transparency in the Australian environment are conducive to firms wishing to signal undervaluation of their shares. A sample consisting of 789 programs that are announced over the period 2000 – 2010 are identified and information contained in relevant repurchase disclosures to the market, including program announcements, completion notices and daily trading notices are hand collected for investigation.

In this study I examine the share price reaction around the period of a program announcement and the subsequent completion of a program as well as the number of shares repurchased. Share returns are examined by employing an event study methodology and the determinants of the share reaction is established using multiple regression analysis. Tobit regression analysis is employed to investigate the determinants of program completion rates.

Results demonstrate that program announcements are accompanied by positive abnormal returns and announcement returns are greater for ‘initial’ programs than for ‘repeat’ programs. Of interest, firms which indicate an unlimited duration earn a greater market response to announcements than firms indicating a fixed period duration. Examination of program completions reveal that completion notices are not accompanied by returns significantly different from zero, a result that is consistent with the notion that they do not impart new information to the market.

Examination of announcements demonstrate that the fraction of shares sought or repurchased in a program is not a determinant of announcement returns and firms do not earn a repurchase reputation from prior programs. This finding undermines the importance of program size as a potential cost of false signalling in the Australian environment. Instead, I find evidence that program duration is used by the market as a signal of firm quality. Results demonstrate a negative association between announcement returns and intended program length, consistent with the notion that the shorter the period of time a firm intends to execute a program the more credible a signal to the market that its shares are undervalued. Investigation of completion rates demonstrate that firms are more likely to achieve their repurchase targets if a shorter program length is indicated in an announcement and also the sooner a program is terminated ahead of time.

Evidence shows that completion rates are increasing with the range in price a firm pays for its shares and is consistent with the notion that firms repurchase shares out of management's disagreement with the market over the valuation of its shares rather than to arrest falling share prices. A concern that is often raised in connection with on-market repurchases is that stocks with volatile share prices are particularly suited to firms wishing to acquire shares at 'cheap' prices to the benefit of non-selling shareholders, however I find that the transparency of on-market repurchase programs conducted in Australia are effective in deterring firms from engaging in opportunistic behaviour.

DECLARATION

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide and where applicable, any partner institution responsible for the joint-award of this degree.

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G.P. GOULD

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