Political Connections and Seasoned Equity Offerings

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Abstract

This study examines the impact of political connection on seasoned equity offerings. Using seasoned equity offerings (SEOs) from 2001 to 2018 in the USA, we find that politically connected issuers enjoy lower SEO flotation costs than their non-connected counterparts. Our empirical evidence is robust to controls for firm characteristics, corporate governance features, propensity score matching models, and an instrumental variable approach. Moreover, connected issuers conducting primary offerings and those operating in high corrupt states benefitted more from their political connections. Overall, our evidence is consistent with the view that political connection reduces the cost of raising external capital.

Keywords: Seasoned Equity Offerings; Political Connections; Gross Spread; Shareholder Value; Event Study; SEO Proceeds.

JEL classification: G12; G14; G24; G32

1. Introduction

A stream of research in finance and economics has provided insights on how firms can potentially benefit from their political connections. Indeed, researchers have established that political connections can affect a firm's investment decisions, further improving its competitive advantage and value. Specifically, extant studies provide evidence that political connections can affect mergers and acquisitions decisions and outcomes (Brockman, Rui, and Zou, 2013; Ferris, Houston, and Javakhadze, 2016; Croci et al., 2017), share repurchase decisions (Nnadi, Sorwar, and Roddy, 2019), corporate performance (Goldman, Rocholl, and So, 2009; Civilize, Wongchoti, and Young, 2015), Securities Exchange Commission enforcement (Correia, 2014) , access to bank loans (Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004), litigation outcomes (Firth, Rui & Wu, 2011; Lu, Pan, and Zhang, 2015; Correia, 2014; Jia, Mao, and Yuan, 2019; Yu and Yu, 2011), corporate employment (Faccio and Hsu, 2017; Bertrand et al., 2018), top executive pay (Chizema et al., 2015), and IPO under-pricing (Gounopoulos et al., 2017).

Despite the extensive research on the impact of political connections in the business world, as demonstrated above, the effect of political connections on seasoned equity offering (SEO) is still unknown.

This study seeks to fill this gap by examining the association between political connections and SEO flotation costs in terms of gross spreads and SEO announcement stock returns. We focus on seasoned equity offerings for two reasons. First, SEO gross spreads constitute by far the larger share of the total costs of equity issuance. For example, raising capital through SEO costs the average issuer between 5.1% and 7.1% of the total proceeds (e.g., Lee and Masulis, 2009; Lee et al., 1996). Moreover, Butler, Grullon, and Weston (2005) document that gross spreads represent over 76% of the total costs of raising capital through SEOs. Therefore, SEO gross spreads amount to a substantial capital loss to issuing firms (Lee and Masulis, 2009).

Second, while seasoned equity offerings announcement is mostly unpredicted (Dutordoir, Strong, and Sun, 2018), it can harm shareholder's wealth. For example, extant studies (see, e.g., Denis, 1994; Lee and Masulis, 2009; Kim, Li, Pan and Zuo, 2013, Hao, 2014; Li et al., 2016) estimate SEO announcement effects in the USA and find a negative impact of SEO announcements on firm value. In addition, some scholars (see, e.g., Slovin, Sushka, and Lai, 2000; Gajewski and Ginglinger, 2002; Hauser, Kraizber, and Dahan, 2003; Liu et al., 2016) studied SEO announcements in non-USA markets (e.g., China, France, Isreal, United Kingdom) and reached a similar conclusion. Therefore, using SEOs as an empirical setting allows us to estimate whether political connections affect shareholders' value directly.

We argue that political connections might be negatively associated with SEO gross spreads. The rationale for our argument is based on several reasons. First, politically connected firms have preferential access to finance (Claessens et al., 2008) and cheaper cost of bank loan (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004). As a result, politically connected firms might only follow through with their SEOs if the negotiated investment bankers' fee is satisfactory.

Second, prior literature suggests that politically connected firms facing legal action enjoy lower penalties and increased forbearance (see, e.g., Firth, Rui & Wu, 2011; Lu, Pan, and Zhang, 2015; Correia, 2014; Jia, Mao, and Yuan, 2019; Yu and Yu, 2011). Therefore, since stock issues might attract lawsuits (DuCharme, Malatesta, and Sefcik 2004), investment bankers might view the presence of former politicians on corporate boards as insurance from SEO-related lawsuits.

Third, extant literature (see, e.g., Hillman, 2005; Okhmatovskiy, 2009; Ferris, Houston, and Javakhadze, 2016; Tihanyi et al., 2019; El Nayal, van Oosterhout and van Essen, 2019) suggests that association with former politicians enable firms to gain non-public information

concerning regulations and the economy at large. Pham (2019) argues that this sensitive information enables politically connected firms to hedge against economic policy uncertainties. Therefore, SEO underwriters might consider politically connected issuers to be less risky compared with non-connected issuers. Besides, underwriters might view underwriting SEOs by politically connected issuers as an opportunity to associate with former politicians to indirectly gain access to non-public information about how to navigate government bureaucracies.

Fourth, politically connected directors might play a key role in aligning managers' interests with their shareholders. For instance, politically connected directors are mainly independent of the management; they might be able to prompt the CEO to protect shareholders interests during significant business decisions such as seasoned equity offerings, which, if not properly conceived, could destroy corporate value and tarnish outside (e.g., former politicians) directors reputation.

Using a large sample of USA SEOs completed between 2001 and 2018, we examine the association between political connections and SEO gross spreads. First, we partition seasoned equity issuers into politically connected and non-connected boards using the information about the background of board members, following Goldman, Rocholl, and So (2009) and Houston et al. (2014). We find that political connection is associated with lower underwriting gross spreads. The magnitude of the coefficient suggests that ceteris paribus, SEO gross spreads are 36 to 38 percentage points lower when an issuer is politically connected. Moreover, our subsample analysis shows that the effect of political connections on SEO gross spreads is higher in primary issues.

We also examine the relationship between political connections and SEO announcement returns. We anticipate that political connections might have two opposing effects on SEO

announcement stock returns. The first explanation is based on the adverse selection theory (Myers and Majluf, 1984) that suggests that when there is asymmetric information regarding the value of firms' assets in place, the market perceives SEO announcements as signaling firm overvaluation. As a result, potential investors intend to undervalue the firm's equity (Bo, Huang, and Wang, 2011). However, political connections exacerbate the information asymmetry between managers and investors since they exhibit low-quality earnings reports (Chaney, Faccio, and Parsley, 2011) and inaccurate analyst earnings forecasts (Chen, Ding, and Kim, 2010). Therefore, investors might find it difficult to assess the exact financial health of politically connected issuers. Besides, Lee and Masulis (2009) argue that poor accruals quality leads to more moral hazard and adverse selection. Therefore, the market reaction to SEO announcement by politically connected issuers might be more negative than that of non-connected issuers.

On the other hand, the market reaction to SEO announcements might reflect the added value of political connections. For example, political connections provide connected firms with relaxed regulatory oversight (Ferris, Houston & Javakhadze, 2016), preferential access to resources and information (Hillman,2005; Okhmatovskiy, 2009; Tihanyi et al., 2019; El Nayal, van Oosterhout and van Essen, 2019), and the knowledge about how to sail over government bureaucracies (Goldman, Rocholl, and So, 2009). This research evidence suggests that political connections may help issuers to navigate through SEO-related regulations. Moreover, former politicians on issuers' boards might signal to the market that political networks might provide connected issuers with economic rents (Chen et al., 2011) and government protections. Therefore, the market reaction to SEO announcement by politically connected issuers might be less negative than that of non-connected issuers.

However, the effect of political connections on SEO announcement stock returns remains an open empirical issue. Therefore, we estimate the impact of political connections on SEO

announcement returns in univariate and multivariate settings. Our results show that politically connected issuers experience less negative market reactions to their seasoned equity offer announcements than their non-connected counterparts. The results suggest that the market is more likely to factor in the added value provided by former politicians on issuers' boards while reacting to their SEO announcement. Also, our subsample analysis shows that the market reaction to SEO announcements by politically connected issuers is higher in primary issues.

We further find that political connections are more valuable to issuers that operate in states with a high level of corruption, consistent with Boubakri et al. (2012) and Brockman, Rui, and Zou (2013). Our empirical results continue to hold after controlling for possible endogeneity issues. For example, it is plausible that the effect of political connections on both SEO gross spreads and announcement stock returns is due to omitted variables. Therefore, we employ the instrumental variable approach and find that the effect of political connections on both SEO gross spreads and announcement returns remained unchanged. We continue to find supportive evidence when employing the propensity score matching approach to address potential endogeneity issues. We further consider the possibility that good governance affects the cost of raising external equity (e.g., Tompkins and Huang, 2010; Kim and Purnanandam, 2014). Therefore, in the spirit of Kim, Li, Pan, and Zuo (2013), we control for various corporate governance features, and our results continue to hold.

In addition, we conduct several robustness checks to lessen the concern that our findings might be driven by factors omitted in our analysis. One possibility is that the political environment where an issuer mainly operates might explain our results. Given that Republican Party members are more compassionate to business interests (Hersch and McDougall, 2000; Lux, Crook, and Woehr, 2011), issuers that mainly operate in Republican governed states might have lower SEO flotation costs. It is also possible that issuers defending shareholder class action lawsuits might have higher costs of seasoned equity issuance. Also, firms that depend

on government contracts might have lower costs of seasoned equity issuance. We control for an issuer political environment, government contract dependence, and issuers defending shareholder class action lawsuits to address these possibilities. We verify that the effect of political connections on the SEO flotation costs remains robust after including all these additional control variables.

This paper makes several contributions to the literature. First, it contributes to the literature on the effect of political connections on the costs of raising external capital. Prior studies have examined the impact of political connections on the cost of bank loans (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004) and access to finance (Claessens et al., 2008). More closely related to our paper, Boubakri et al. (2012) examine the impact of political connections on the cost of equity capital and find that political connection is associated with a lower cost of equity capital. While Boubakri et al. (2012) focused on the rate of returns offered to equity investors, we examine the effect of political connections on SEO gross spreads and the market reaction to SEO announcements. Our results complement the findings of Boubakri et al. (2012) by showing that politically connected issuers enjoy lower SEO flotation costs in terms of lower gross spreads and less negative SEO announcement effect.

Second, our study extends the literature on the determinants of SEO gross spreads. Lee and Masulis (2009) find that the information asymmetry between managers and outside investors is positively associated with SEO gross spread. Whereas Butler, Grullon, and Weston (2005) document that stock market liquidity is associated with lower SEO gross spread, our work provides new evidence on the determinants of SEO gross spreads. We find a significant difference in the offer price discounts paid to investment bankers by politically connected and non-connected issuers. Specifically, we find that political connection is associated with lower SEO gross spreads.

Our study also contributes to the literature on the determinants of SEO announcement stock returns. Consistent with prior literature (see, e.g., Kim, Li, Pan and Zuo 2013; Dutordoir, Strong, and Sun, 2018), we find that SEO announcement is negatively associated with firm value. However, when we partitioned issuers into politically connected and non-connected issuers, we find that politically connected issuers experienced a less negative market reaction to their SEO announcement than non-connected issuers. To our knowledge, this is the first study to examine the association between political connections and SEO announcement returns.

This paper is presented as follows. Section 2 discusses the relevant literature. While section 3 describes the data and the variables. Section 4 reports the results on the impact of political connections on SEO flotation costs in terms of gross spreads and announcement returns. We test the robustness of our findings in section 5. Also, section 6 presents additional analysis and robustness checks. While section 7 concludes our paper.

2. Related Literature

2.1 Political connections and Initial Public Offerings

This section reviews prior literature on the impact of political connections on corporate access to equity capitals. Extant literature on the role of political connections on equity capital focuses mainly on the initial public offerings. For example, Gounopoulos et al. (2019) study 792 IPOs in the USA over the years 2000-2016 and find that firms with active political strategies are associated with a 23% increase in audit charges. However, the scholars also posit that the association between political connections and audit fees during IPOs is weakened by high corporate governance quality and reinforced among firms with high financial reporting quality. Francis, Hasan, and Sun (2009) examine 423 Chinese firm IPOs over the years 1994–1999 and find that, unlike non-connected firms, politically connected firms have relatively lower under-pricing, higher offering price, and lower fixed costs during the initial-public

process. Also, Gounopoulos et al. (2017) study 1578 IPOs in the USA between 1998 and 2013 and find that politically connected firms incur less under-pricing.

Liu, Tang, and Tian (2013) examine the value of political capital in the Chinese IPO market between January 1, 2004, and December 31, 2010. The authors find that political connection is positively associated with the probability of IPO approval of entrepreneurial firms in China. The scholars further show that shareholders value politically connected executives than external sources of political connections such as politically connected sponsors and PE investors. Later studies by Li and Zhou (2015) and Bao, Johan, and Kutsuna (2016) also find that politically connected firms in China are more likely to have their IPOs approved.

In addition, Fan, Wong, and Zhang (2007) investigate the Post-IPO performance of partially privatized firms in China between 1993 and 2001. They find that partially privatized firms with politically connected CEOs underperform those without politically connected CEOs in terms of stock returns, earnings growth, sales growth, and change in returns on sales. In another Post-IPO performance level study, Liu, Uchida, and Gao (2012) study the performance of 627 Chinese A-share IPOs that went public on both the Shanghai and Shenzhen stock exchange between 2000 and 2007. The scholars find that politically connected firms enjoy higher stock returns in the three years following their IPOs. Also, Wu, Li, and Li (2012) further show that CEO political connections with the central government play a more significant role in IPO performance than political connections with regional governments.

2.2 Political connections and equity investors rate of returns.

In contrast with previous studies, Boubakri et al. (2012) examine firms' cost of equity capital from 26 countries between 1997 and 2001. Using 1248 firm-year matched observations, they find that politically connected firms enjoy a lower cost of equity capital than their non-connected peers in terms of the rate of return required by equity investors.

Overall, extant literature suggests that the cost of engaging in initial public offerings and the rate of returns offered to equity investors is different between politically connected and non-connected firms. However, the impact of political connections on seasoned equity offerings (SEOs) is still unknown.

3. Data and SEO sample description

3.1 SEO sample construction

Our sample of U.S. common stock seasoned equity offerings is taken from the Securities Data Company (SDC) New Issue database over the period 2001-2018. The sample criteria require issuers to be listed on either the NYSE, Amex, or NASDAQ stock exchange. Since SEOs by firms in heavily regulated industries might be driven by regulatory concerns, we exclude firms in the utility and financial industry (SIC codes 4900–4999 or 6000–6999) following Dutordoir, Strong, and Sun (2018). Consistent with prior literature (e.g., Butler, Grullon, and Weston, 2005; Lee and Masulis, 2009; Bradley and Yuan, 2013), we exclude Real Estate Investment Trusts (REITs); limited partnerships; unit issues; simultaneous international offerings; spin-offs; rights and standby issues; closed-end funds; reverse leverage buyouts (LBOs); unit investment trusts, and SEOs with offer prices less than $3. As a result, our final sample consists of 3336 SEOs with available financial data on the Thomson Reuters DataStream and proxy statements on the EDGAR database.

3.2 Measuring Political Connections

Goldman, Rocholl, and So (2009) posits that a firm is likely to be politically connected if at least one board member holds, or formerly held, any of the following positions: President, presidential (Vice-Presidential) candidate, member of the House of Representatives, Senator, Cabinet secretary/deputy secretary/undersecretary or assistant secretary, Governor, United

Nations representative, Ambassador, Mayor, staff member to the White House, presidential campaigner or political party appointment, appointed member of a presidential committee or council and Director/Deputy Director/Commissioner to a federal department or agency including: the Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), Office of Management and Budget (OMB), Internal Revenue Service (IRS), Nuclear Regulatory Commission (NRC), Social Security Administration (SSA), Civil Rights Centre (CRC), Food and Drug Administration (FDA), and Securities and Exchange Commission (SEC) etc.

Therefore, we focus on the explicit political connections of equity issuing firms consistent with Goldman, Rocholl and So (2009) and Houston et al. (2014). Specifically, we construct indicator (binary) variables to measure whether an issuer is politically connected using data from individual issuer proxy statement.

For robustness check, we further employ an alternate proxy, the total number of former politicians on issuer board scaled by the total number of board directors (see, Chizema, Liu, Lu, and Gao, 2015).

3.3 Sample statistics

Table 1 presents both the time-series distribution and the summary statistics of the sample. To mitigate the possible effect of outliers, we winsorize all continuous variables at the 1% and 99% levels. Panel A indicates that observations tend to be evenly spread across the years, and there is no substantial clustering. At the same time, Panel B shows that, on average, politically connected issuers comprise 11.18% of the observations. The ratio of former politicians to the total number of directors is 1.48%. Also, the rate of connected issuers whose party affiliation of the internal political directors is similar to that of the USA president is 34.58%. While the

rate of connected issuers whose party affiliation of the internal political directors is similar to that of the sitting governor in the state where their headquarters is located 37.27%.

[Please Insert Table 1 About Here]

Panel C presents the issuer and offer characteristics. We find that, on average, politically connected issuers are less likely to be registered in the NASDAQ stock exchange. Consistent with prior studies (e.g., Houston, Jiang, Lin, and Ma, 2014; Ferris, Houston & Javakhadze, 2016), we find that, on average, politically connected firms are larger and hold less cash compared with non-connected firms. Also, politically connected issuers tend to have a large board size and more independent directors than non-connected issuers. Consistent with Goldman, Rocholl, and So (2013), panel C also shows that politically connected issuers depend more on government contracts. Also, politically connected issuers mainly operate in more religious states

4. Empirical findings

4.1 Political Connections and SEO Gross Spread

SEO gross spread is the offer price discount paid to investment bankers for their risk-bearing services, and it comprises selling concessions, underwriting fees, and management fees. SEO gross spreads are an essential source of revenue for investment banks. It is, therefore, interesting to investigate whether investment banks might factor in the connections former politicians provide by charging connected issuers lower gross spreads.

Panel A of Table 2 presents the univariate analysis of SEO gross spreads between politically connected issuers and non-connected issuers. For the full sample, column 1 shows that the average gross spread is 4.5%, whereas the subsample results (column 2 and 3) show that gross spreads are lower for politically connected issuers (3.4498) than non-connected issuers (4.6749) and the difference (-1.2251) is statistically significant at the 1% levels. When

we examine different types of seasoned equity issuance, we find that politically connected issuers have lower gross than non-connected issuers regardless of the type of stock issue.

The univariate analysis suggests that political connections are associated with lower gross spreads. We now seek to determine, in a multivariate setting, whether the effect of political connections on SEO gross spreads will survive when we control for other determinants of SEO gross spreads. The main regression is:

Gross Spread (%) = F (Political Connections Measure, Offer Characteristics, Issuer Characteristics$_{-1}$, Industry and Year fixed effects) ………………………………………………………………… *(1)*

In equation (1), the dependent variable is the gross spreads. The main independent variable of interest is the political connections indicator variable, connected issuers, which takes the value of one if an issuer has a former politician on its board and zero otherwise. We do not expect political connections to be the only determinant of SEO gross spreads. Therefore, we control various offer- and issuer-specific determinants of SEO gross spread found in the literature. We include leverage, ROA, Tobin's Q, Capex. Following prior literature (e.g., Butler, Grullon, and Weston, 2005; Lee and Masulis, 2009), we also control the economy of scale effect by including offer size (log of proceeds). Also, we further control for the effect of information quality by including firm size (log of total assets), secondary offers, tangible assets, and stock return volatility (e.g., Brav and Gompers, 2003; Lee and Masulis, 2009; Gao, 2011). We also mitigate possible market microstructural effects (see Grullon and Weston, 2005) by including a dummy variable that equals one if an issuer is listed in the NASDAQ stock exchange and zero otherwise.

[Please Insert Table 2 About Here]

Panel B of Table 2 presents our baseline results. Column (1) shows that the coefficient on the connected issuers' variable is negative and statistically significant at the 1% percent level.

We further control for industry fixed in column (2), and our results remain unchanged. Specifically, SEO gross spreads are 36 to 38 percentage points lower when politicians are on the board. Hence, our main result that political connections are negatively associated with an issuer's gross spreads persists after controlling for other factors known to affect issuer gross spreads.

Kim and Weisbach (2008) noted that primary issues raise capital for the firm and increase the number of shares outstanding, while secondary issues do not raise capital for the firm and keep the number of shares outstanding constant. Therefore, it is interesting to examine whether the effect of political connections on SEO gross spreads is equally important for all types of equity issuance. We, therefore, run the regressions separately for primary, secondary, and combined issues (columns 3, 4, and 5, respectively). We find that the coefficient on the political connection variable, connected issuers, is negative in all subsamples (columns 3 through 5) and statistically significant at the 5% percent level in primary issues (column 3). This result suggests that the effect of political connections is higher when SEOs involve raising capital for the firm than when it involves issuing shares for some shareholders.

However, the coefficients on the control variables are generally consistent with the findings in the SEO literature (see Butler, Grullon, and Weston, 2005; Lee and Masulis, 2009). For example, the coefficient on the log of total assets (Firm Size) is negative and statistically significant (p-value<0.01). Also, consistent with the argument that secondary offers lower information asymmetry (Lee and Masulis, 2009) and lessens the adverse selection associated with the sale of primary stocks (Ljungqvist and Wilhelm 2003), we find that the coefficient on the percentage of secondary shares offered (Secondary) is negative and statistically significant at the conventional levels. However, the coefficient on the stock return volatility indicator (volatility) is positive and statistically significant at the 1% level across the alternative

regression specifications. Thus, consistent with the idea that information asymmetry between managers and investors increases SEO gross spreads.

Consistent with an economy of scale effect, columns 1 and 2 shows that the coefficient on the log of proceeds is negative. The regression coefficient on Tobin's Q is also negative and statistically significant at the 1% level. The coefficient ranges from -0.0881 to -0.0889 across columns 1 and 2. Thus, consistent with the idea that higher growth firms are more attractive underwriters' clients (see Lee and Masulis, 2009). Overall, this section confirms our hypothesis that political connection is associated with lower SEO gross spreads.

4.2 Political Connections and SEO announcement return

This section examines the market response to seasoned equity offerings by politically connected boards and non-connected boards. Following Lease, Masulis and Page (1991), Corwin (2003), and Kim, Li, Pan, and Zuo (2013), we compute SEO announcement returns using the market-adjusted model. Specifically, we calculate SEO announcement returns by subtracting the daily returns of the USA market index from the issuers' daily stock return around SEO announcement date (0) and summing the differences. Following prior literature (e.g., Dutordoir, Strong, and Sun, 2018; Kim and Purnanandam, 2014; Kim, Li, Pan, and Zuo, 2013), we use the filing dates from the SDC database as the offer announcement date.

We examine SEO announcement returns over the day before and after SEO announcement day (-1, +1). In addition, we also take into account the possibility that firms might announce SEOs after stock market closure (see, Lease, Masulis and Page, 1991; Dutordoir, Strong, and Sun, 2018) by further estimating SEO announcement returns over the two days (0, +1) and three days (0, +2) windows around SEO announcement day (event day 0). Panel A of Table 3 presents the CAR around seasoned equity offerings announcement period and test of the difference between politically connected and non-connected boards.

Consistent with prior studies (e.g., Kim, Li, Pan and Zuo, 2013; Li, Liu, and Veld, 2019), the average SEO announcement stock returns for the full sample in column 1 ranges from -1.43% to -2.01%. The negative CAR suggests that the market, in general, view SEO announcement as unpleasant news. However, the negative market reaction is smaller for politically connected issuers than non-connected issuers. In particular, the result in event window (-1, +1) shows that the cumulative abnormal returns are 1.00% (p-value<0.01) lower for non-connected boards. The two days (0, +1) event window suggests that SEO announcement returns are 0.94% (p-value<0.01) lower for non-connected issuers. Also, the three-day (day 0 through day + 2) show that SEO announcement returns are 1.10% (p-value<0.01) lower for non-connected issuers. This result suggests that politically connected issuers' SEO announcement stock returns are less negative than those of non-connected issuers.

The univariate test suggests that the market reaction to SEO announcement is less negative for politically connected issuers than non-connected issuers. However, politically connected issuers tend to be larger, use more leverage, and hold less cash. Therefore, our result in table 4 could be due to confounding effects between political connections and SEO announcement returns, and as such misleading. To mitigate this concern, we examine the association between political connections and SEO announcement returns while controlling for these likely confounding effects in a multivariate setting. The main regression is:

CAR = *F(Political Connections Measures, Offer Characteristics, Issuer Characteristics$_{-1}$, Industry and Year fixed effects)* ……………………………………………………………. *(2)*

Panel B of Table 3 presents the results from the multivariate regression analysis on the association between political connections and SEO announcement returns. The dependent variable in columns 1 through 3 is the three days CAR (-1, +1), two days CAR (0, +1), and the three days CAR (0, +2), respectively. The dependent variable in columns 4 through 6 is the

two-day CAR (0, +1). The main independent variable of interest is the political connections indicator variable, connected issuers, which takes the value of one if an issuer has a former politician on its board and zero otherwise. We control for various offer- and issuer-specific characteristics, as well as year and industry-fixed effects. We include cash holding (cash), tangible, ROA, Capex, leverage, percentage of secondary offers. We also consider a firm's growth potential (proxied by Tobin's q), level of firm risk, and asymmetric information (proxied by stock return volatility and the natural log of total assets). Given that larger proceeds relative to issuers size might signal firm overvaluation (following Dutordoir, Strong, and Sun, 2018), we also include the ratio of offering proceeds to total assets (relative offer size). Finally, we include a dummy variable that equals one if an issuer is listed in the NASDAQ stock exchange and zero otherwise.

[Please Insert Table 3 About Here]

Columns 1 through 3 shows that coefficients on the political connection's indicator are positive and statistically significant at the conventional levels. As a result, our evidence supports the notion that SEO announcement stock returns of politically connected issuers are less negative than those of non-connected issuers. Consistent with prior (e.g., Lee and Masulis, 2009; Kim, Li, Pan and Zuo, 2013; Kim and Purnanandam, 2014; Dutordoir, Strong, and Sun, 2018; Li, Liu, and Veld, 2019) studies on SEO returns, the R-squares (column 1 through 3) are less than 10%, and the controls variables are largely insignificant.

Columns 1 through 3 provide evidence that political connection is associated with less negative SEO announcement returns. However, the question that needs to be addressed is whether the market will respond to SEO announcements by connected issuers similarly in all types of equity issuance. Since companies issue new stock to probably invest in value maximizing projects, we predict that the effect of political connections on SEO announcement

returns might be higher when SEOs help firms to raise capital than when insiders decide to issue stock through secondary offers.

We, therefore, run regressions separately for primary, secondary, and combined issues (specifications (4), (5), and (6), respectively). We find that the coefficient on the political connection indicator, connected issuers, is positive and statistically significant (p-value<0.05) for the primary issues subsample. The magnitude of the coefficient indicates that ceteris paribus, the presence of former politicians on issuers board, is associated with 0.80% higher CAR. However, the effect of political connection on issuer CAR in secondary and combined issues is positive and insignificant. Our result supports the argument (Bradley and Yuan, 2013) that, unlike secondary issues, primary issues signal to the market that industry prospects are promising. Overall, columns 4 through 6 suggest that the effect of political connections on SEO announcement returns is higher in primary offers than in secondary offers.

5. Robustness Checks

We conduct several sensitivity tests to assess the robustness of our finding in the previous section that political connections affect the cost of seasoned equity issuance.

5.1 Alternative measure of political connectedness

So far, we provide evidence that politically connected issuers enjoy lower gross spreads and less negative market responses to SEO announcements. However, in our baseline regressions, we employed a dummy variable, *Connected Issuers*, to denote whether an issuer has a former politician on its board during the SEO announcement period. Although the use of a dummy variable helps to mitigate the effect of outliers in our baseline results, it is also plausible that our results are sensitive to our measure of political connections. In the spirit of Chizema, Liu, Lu, and Gao (2015), we mitigate this concern by employing an alternate proxy,

PContinous, the total number of former politicians on the issuer board scaled by the total number of board directors.

[Please Insert Table 4 About Here]

In Table 4, we repeat our main regressions using this new proxy for political connections. Columns 1 and 2 show that politically connected issuers generated higher returns than non-connected issuers around SEO announcement period. Turning to SEO gross spreads, Columns 3 and 4 show that political connections are associated with lower gross spreads. Overall, this section supports our evidence that political connections are associated with lower gross spreads and less negative SEO announcement returns.

5.2 Can economic downturns drive our results?

We further check the robustness of our main results by excluding observations during the year 2008. The intuition behind it is that the financial crisis resulted in a decline in firm value; thus, issuers might not negotiate favorable terms with investment bankers, unlike in the normal period. Therefore, investment bankers might charge higher fees during the financial crisis. Also, equity issuance around the financial crisis might signal to the market that a company's condition is critical, and the stock returns around SEO announcement period might be more negative than in the normal period.

Politically connected firms have cheaper access to bank loans (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004) and more likely to be bailed out than non-connected firms (Faccio, Masulis, and Mcconnell, 2006; Blau, Brough and Thomas, 2013; Banerji, Duygun and Shaban, 2018). Therefore, one might argue that SEO flotation cost is higher for non-connected firms simply because politically connected firms might have obtained government bailouts or cheaper bank loans during the financial crisis and issued few equities in the year 2008. In contrast, non-connected firms might

focus more on their only option, equity issuance, during the financial crisis since they are less likely to receive both government bailouts and low costs of bank loans.

Importantly, we address this concern since Table 1 suggests that politically connected firms issued fewer equities in 2008. Specifically, Table 1 shows that out of 98 SEOs conducted in 2008, 19 SEOs (19%) were issued by politically connected firms, whereas non-connected firms issued 79 SEOs (81%).

[Please Insert Table 5 About Here]

In Table 5, we repeat our main regressions, excluding the observations in the year 2008. The results in columns 1 and 2 show that politically connected issuers generated higher returns than non-connected issuers around SEO announcement period. When focusing on SEO gross spreads, Columns 3 and 4 show that the effect of political connection on SEO gross spreads is negative and statistically significant at the conventional levels. Overall, the results are consistent with our main evidence that political connection is associated with lower gross spreads and less negative SEO announcement returns.

5.3 Propensity Score-Matching Method.

Our results thus far indicate that political connection is associated with both lower gross spreads and less negative SEO announcement returns. However, a particular concern is that the findings might be affected by potential endogeneity issues. Therefore, we employ the propensity score matching approach to adjust for possible endogeneity issues due to the observable differences in the characteristics between politically connected and non-connected issuers. For instance, politically connected issuers in the sample tend to be larger. As such, politically connected issuers might have less asymmetric information than non-connected issuers that tends to be smaller, thereby creating a possible endogeneity problem that might result from sample selection bias. We use the propensity score matching approach to eliminate

this potential sample selection bias. Rosenbaum and Rubin (1983) document that the propensity score matching approach can efficiently eliminate sample selection bias because it deals with distributing the covariates between a treatment group and control group and, finally, creating matched balanced samples with characteristics similar to those of the treatment group.

Consistent with Schweizer, Walker, and Zhang (2019), the propensity score is estimated by probit regression of the binary variable for political connections on a vector of characteristics identical to that in Tables 2 and 3. The probit regression includes year and industry fixed effects. Both the treatment and the control firms are from the same (2-digit SIC) industry and must have announced seasoned equity offering in the same year. We match firms using a one-to-one nearest neighbor technique. Precisely, we match politically connected issuers to non-connected issuers with the closest propensity score in a given year. Panel A of Table 6 presents the parameter estimates for the probit regression used in calculating the propensity score. Column 1 and 3 shows that the firm characteristics of politically connected and non-connected issuers are statistically different before implementing the propensity score matching technique. Whereas column 2 and 4 shows that the sample is well balanced after implementing the propensity score matching technique. Specifically, politically connected issuers' characteristics are not statistically different from those of non-connected issuers after matching.

[Please Insert Table 6 About Here]

Therefore, we re-assess the association between political connections and the cost of issuing seasoned equity using the matched balance sample. We include all the covariates in our main analysis, as well as industry and year fixed effects. Panel B of Table 6 presents the results from the multivariate regression analysis on the association between political connections and SEO flotation costs. Columns 1 and 2 show that the market response to seasoned equity

announcements by politically connected issuers is less negative. Whereas columns 3 and 4 show that politically connected issuers paid lower gross spreads to the investment bankers. Taken together, this section reinforces our main findings that politically connected issuers enjoy a lower cost of issuing seasoned equity offerings.

5.4 Instrumental Variable Approach

In addition to the propensity score matching approach, we further lessen concerns about the potential endogeneity of the political connection using the instrumental variable approach. Despite controlling for various issuers and offering specific characteristics, it is still plausible that our results are driven by omitted variables related to both political connections and our dependent variables. Therefore, we address potential endogeneity issues using the instrumental variable approach. In particular, we specify the industry % of connected firms, defined as the percentage of firms with a politically connected board in a firm's industry group, as an instrument for political connections. This choice is motivated by previous studies (e.g., Kim and Zhang, 2016; Lin et al., 2018) that prove that industry % of connected firms is a valid instrument for political connectedness. Also, there is no clear rationale and evidence that industry political activeness directly affects SEO flotation costs other than political connections. Therefore if industry political activeness is a good instrument for political connectedness as documented by Kim and Zhang (2016) and Lin et al. (2018), we would expect that the variable industry % of connected firms might be positively correlated to the political connections of each firm within the industry.

Table 7 presents the results of the IV-regressions. In the first stage regressions, we predict the presence of former politicians on corporate boards using a probit model. We include a complete set of the control variables and the instrumental variable (industry % of connected firms). Columns 1 and 4 show that the coefficient on the instrumental variable, *industry % of connected firms*, is positive and statistically significant at the 1% level, suggesting that industry

political activeness is a good predictor of political connections. We then use the first-stage fitted values for political connectedness in the second-stage regression. Columns 2 and 3 show that the instrumented value of political connections is positive and statistically significant at the conventional levels, suggesting that politically connected issuers generated higher stock returns around SEO announcement period than non-connected issuers. Also, column 5 shows that the instrumented value of political connections is negative and statistically significant at the 5% level, suggesting that political connections are associated with a lower gross spread. Overall, this result supports our earlier evidence on the impact of political connections on SEO flotation costs.

[Please Insert Table 7 About Here]

5.5 Controlling for Other Forms of Corporate Governance

Prior studies (e.g., Tompkins and Huang, 2010; Kim and Purnanandam, 2014) provide evidence that good corporate governance is associated with a lower cost of raising external equity. Therefore, it is plausible that the impact of political connections on SEO gross spreads and announcement returns is an indirect effect of good corporate governance, since politically connected issuers might have good governance than non-connected issuers. We address this concern by re-examining our baseline regression while controlling for various corporate governance features.

In the spirit of Kim, Li, Pan and Zuo (2013) we include the percentage of outside directors, CEO duality, and board size. Also, Faccio, Marchica, and Mura (2016) provide evidence that a firm's leverage and risk level is lower when the CEO is a female than when the CEO is a male. Therefore, we include a dummy variable that takes the value of one if the CEO is a female and zero otherwise. Walters, Kroll, and Wright (2007) find that CEO tenure affects firm performance whereas Serfling (2014) document a negative association between CEO age and

stock return volatility. Therefore, we control for CEO tenure and age. We also consider the ratio of the total number female directors to the total number of directors, since gender diversity improves informativeness of stock prices (Gul, Srinidhi, and Ng, 2011) and corporate governance quality (Evgeniou and Vermaelen, 2017).

[Please Insert Table 8 About Here]

In Table 8, we repeat our main regressions controlling for issuer and offer-specific characteristics as well as corporate governance features. In column 1 and 2, we include the corporate governance features in our main analysis and find that politically connected issuers generated higher CAR around SEO announcement period than non-connected issuers. We further employ the three days CAR (0, +2) as the dependent variable in column 3 and 4 and find that the effect of political connections on SEO announcement returns remained positive and statistically significant. When focussing on issuer gross spreads, column 5 and 6 show that the coefficient on the political connection indicators is negative and statistically significant at the conventional levels. Overall, this section suggests that the impact of political connections on SEO gross spreads and announcement returns is not an indirect effect of corporate governance.

6.0 Alternative explanations and robustness

Our analysis so far suggests that political connection is associated with lower SEO flotation costs in terms of lower gross spreads and less negative market reactions to SEO announcements even after we control for possible endogeneity issues. To further examine the robustness of our main result, we proceed to address a remaining concern that political connections may be associated with some factors omitted in our earlier multivariate setting, which could independently affect SEO flotation costs. To lessen such endogeneity problems, we conduct several additional tests. Specifically, we examine whether issuer political

environment, social factors, government contract dependence, shareholder class action lawsuits, state corruption level, and religiosity might explain the association between political connections and SEO flotation costs.

6.1 Political Environment

Existing work on the corporate political strategy literature suggests that politicians in the Democratic Party are often sympathetic to labour and environmental concerns, whereas Republican Party members are more compassionate to business interests (Hersch and McDougall, 2000; Lux, Crook, and Woehr, 2011). Consistent with this notion, Giuli and Kostovetsky (2014) find that firms score higher on Corporate social responsibility when their headquarter is in Democratic governed states rather than Republican-leaning states. However, higher corporate social responsibility is associated with fewer negative reactions to SEO announcements (Feng, Chen, and Tseng, 2018; Dutordoir, Strong, and Sun, 2018). Given this finding, one potential explanation for our results could be that connected issuers are less likely to operate in Republican governed states resulting in fewer SEO flotation costs. To address this possibility, we control for issuers whose corporate headquarters are in the republican governed states. We also consider issuers' political connections to the current government around the SEO announcement period by controlling for connected issuers (*Dir&Pres. Same Party*) whose directors are in the same political party as the USA president. In addition, we consider whether the party affiliation of the internal politically connected director is similar to that of the sitting Governor by controlling for connected issuers (*Dir.&Gov. Same Party*) whose directors are in the same political party as the Governor in the state that their headquarter is located. In Panel A of Table 9 which contains these three additional controls, we continue to find that political connection is associated with lower SEO flotation costs.

[Please Insert Table 9 About Here]

6.2 Social Factors

In Panel B of Table 9, we assess whether social factors and, in particular, the level of corruption and the degree of religiosity in the states in which issuers operate influence the relationship between political connections and seasoned equity offerings. Prior empirical evidence (e.g., Boubakri, Guedhami, Mishra, and Saffar, 2012; Ang, Ding, and Thong, 2013; Brockman, Rui, and Zou, 2013) suggests that political connection adds little to the value of a company in countries with low levels of corruption. Ang, Ding, and Thong (2013) further posit that a corrupt political environment increases the prospect that firms' connected politicians are willing and able to extract rents from the public and competitors on behalf of their firms. Given these findings, we expect connected issuers that operate in more corrupt states to benefit more from their political connections.

To test for this possibility, we run the regressions separately for issuers that operate in high and low corrupt states. We use state corruption ranking by the University of Chicago to determine states with high corruption. We also bisect the sample at the median values of religiosity. Following Chantziaras et al. (2020), we obtain the religious ranking of the state in which the issuer's headquarters are located from the Pew Research Centre. Columns 1 through 4 of panel B report the results for issuers in states with high and low levels of corruption. Columns 5 through 8 report the results for firms in states with high and low levels of religious ranking. Consistent with the arguments above, we find that SEO flotation costs are lower for politically connected issuers in more corrupt states (columns 1 and 2). In less corrupt states, column 3 and 4 suggests that political connections affected only the gross spread. Also, columns 5 through 8 show that political connection is beneficial to connected issuers irrespective of the degree of religiosity in the state they operate. Overall, this evidence suggests that politically connected firms generally enjoy lower SEO flotation costs in states with high-level of corruption.

6.3 Government Contract Dependence

Existing literature (e.g., Diltz, 1990; Larson and Picou, 2002; Palkar, Larson, and Larson, 2011) documents a positive market response to government contract announcement. While Esqueda, Ngo, and Susnjara (2019) examined 5814 firms in the USA from 1980 to 2013 and find a lower cost of equity capital for government contractors. The scholars argued that there is a net risk reduction when firms have the government as a significant customer, as more stable cash flows have a more substantial effect than any increase in risk due to greater information asymmetry and agency costs. Therefore, one possible source of bias in our analysis is that most politically connected issuers might be government contractors, thereby experiencing a reduction in net risk and resulting in lower SEO flotation costs. In other words, government contract dependence could be the factor driving both political connections and lower SEO flotation costs.

To understand whether our results are driven by government contract dependence, we include an additional variable in our analysis. Following Brogaard, Dene, and Duchin (2020), we obtain contractual data from the USAspending.gov website, which provides data from the Federal Procurement Data System (FPDS). Government contract dependence (*Gov. Contract*) is the log of one plus the dollar volume of total contracts. As columns 1 and 2 of table 10 show, our main findings on the effect of political connections on SEO flotation costs survives after controlling for government contract dependence.

6.4 Shareholder Class Action Lawsuits

Firms can sometimes be under censure for misleading the market, resulting in the SEC imposing enforcement actions or shareholders seeking redress through a shareholder class action lawsuit (Humphery-Jenner, 2012). However, Gande and Lewis (2009) document negative stock price reactions to shareholder-initiated class action lawsuits. While Chava et al. (2010) document that shareholder class action lawsuit increases the defendant firm's cost of

equity capital incremental to the effect of the disclosure event. In addition, Deng, Willis, and Xu (2014) examine shareholder class action lawsuits filed in the USA between 1996 and 2006 and find that shareholder litigation is associated with reputational losses. Specifically, the scholars noted that after filing a lawsuit, defendant firms pay more loan spreads and up-front charges, experience higher financial covenants, and are more likely to have higher collateral requirements. Given these findings, one potential explanation for our results could be that most non-connected equity issuers might be under investigation around SEO flotation period, resulting in higher SEO flotation costs for non-connected issuers. Therefore, shareholder class action lawsuits could be the factor driving both political connections and lower SEO flotation costs.

To lessen this concern, we further probe the effect of political connections on SEO flotation costs by controlling for issuers defending shareholder class action lawsuits around SEO announcement period. Following Gande and Lewis (2009) and McTier and Wald (2011), we obtain the date of the lawsuit and ticker symbol from the Securities Class Action Clearinghouse (SCAC) file at Stanford University. As columns 3 and 4 of Table 10 show, our initial finding that political connection is associated with lower SEO flotation costs continues to hold after adding proxy for shareholder class action lawsuit (*Suit-Filed*). Also, we find that the coefficient on the proxy for shareholder class action lawsuit (*Suit-Filed*) is insignificant.

Finally, in columns 5 and 6 of Table 10, we include all the control variables and continue to find that political connection is associated with lower SEO flotation costs in terms of lower gross spreads and less negative market responses to SEO announcement.

[Please Insert Table 10 About Here]

7.0 Conclusion

This study shows that politically connected issuers enjoy lower SEO flotation costs in terms of gross spreads and announcement stock returns than non-connected issuers. This conclusion is based on an analysis of 3336 SEOs from 2001 to 2018 in the USA. Political connections appear to be an essential determinant of SEO flotation costs even after controlling for a set of issuer- and offer-specific determinants of SEO gross spreads and announcement returns suggested by the literature. This conclusion is robust to a battery of checks, including addressing (e.g., propensity score matching and instrumental variable method) endogeneity issues, using alternative proxies for political connections, and controlling for corporate governance features.

We further assess the possible factors behind the association between political connections and the cost of seasoned equity issuance. Specifically, we examine whether the effect can be attributed to government contract dependence. We find that politically connected issuers continue to have lower SEO flotation costs after controlling for issuers depending on government contracts. The effects of political connections on seasoned equity issuance are also independent of the issuer's political environment. Also, corporate fraud investigations do not explain the effect of political connections on seasoned equity issuance costs. However, an additional analysis suggests that state-corruption level (see. Boubakri et al., 2012; Ang, Ding, and Thong, 2013; Brockman, Rui, and Zou, 2013) and the type of equity issuance influence the effect of political connections on SEO flotation costs.

Our finding that political connections reduce SEO flotation costs is closely related to the work of Boubakri et al. (2012), finding that political connections reduce the rate of returns offered to equity investors. Additionally, Claessens et al. (2008) find that political connections provide connected firms with preferential access to finance, whereas Houston et al. (2014) and

Sapienza (2004) further show that political connection is associated with lower costs of bank loan.

Overall, our evidence is consistent with the argument that political connections reduce the cost of raising external capital. However, firms vary in their ability to build and acquire political capital (Kim, 2017); therefore, the role of other channels (e.g., firms that directly carry out government-related activities or engage in corporate lobbying) through which an issuer might gain political capital is an exciting topic for the future.

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Appendix A: Variable definitions

Connected Issuer	Equals (1) if at least one board member holds or formerly held any of the following positions: President, presidential (Vice-Presidential) candidate, member of the House of Representatives, Senator, Cabinet secretary/deputy secretary/undersecretary or assistant secretary, Governor, United Nations representative, Ambassador, Mayor, staff member to the White House, presidential campaign or political party, appointed member of a presidential committee or council and Director/Deputy Director/Commissioner to a federal department or agency including: Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), Office of Management and Budget (OMB), Internal Revenue Service (IRS), Nuclear Regulatory Commission (NRC), Social Security Administration (SSA), Civil Rights Centre (CRC), Food and Drug Administration (FDA), and Securities and Exchange Commission (SEC) etc. otherwise (0).
Pcontinous	The total number of former politicians on issuer board scaled by the total number of board directors.
Dir.&Gov. Same Party	Equals 1 if the internal political director share the same political party as the Governor in the state where the connected issuers' headquarters are located.
Dir&Pres. Same Party	Equals 1 if the internal political director share the same political party as the USA president
RelSize	The Ratio of offering proceeds to total assets.
Secondary	The Ratio of SEO shares being sold by existing shareholders to total SEO shares
LN(Proceed)	Natural log of the total amount raised in the SEO
Nasdaq	Indicator variable equals one if the SEO issuer's stock is listed at the Nasdaq stock exchange over the SEO registration period and zero otherwise, obtained from the SDC.
CAR	The market-adjusted cumulative abnormal stock return around the SEO announcement. See, Kim, Li, Pan and Zuo (2013).
Gross Spread	Underwriter's purchase price for a share of the SEOs as a percent of the offer price obtained from the SDC.
ROA	Ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets
Cash	Cash and short-term investments scaled by book value of total assets
Tobin's Q	(Market value of common equity + Total assets − Book value of common equity)/Total assets. See, Brockman, Rui, and Zou (2013)
LN(Total Assets)	Natural logarithm of total assets
Volatility	The standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date.
CAPEX	Ratio of capital expenditures to the book value of total assets
Tangible	Ratio of plant, property, and equipment to total assets
Leverage	Ratio of total debt to book value of assets
Industry % of Connected Firms	Industry % of Connected Firms is defined as the percentage of firms with a politically connected board in a firm's industry group.

Red State	Equals 1 if an issuer mainly operate in a Republican governed state and zero otherwise
Blue State	Equals 1 if an issuer mainly operate in a Democratic governed state and zero otherwise
Board Size	The number of directors on the board, measured in the year prior to the SEO announcement.
CEO Age	The natural logarithm of CEO age
CEO Tenure	The number of years CEOs of issuing firms had held their positions.
Independent Directors	The percentage of independent directors measured in the year prior to the SEO announcement.
Female CEO	Indicator variable that takes the value of 1 if the CEO is a female, and 0 otherwise.
CEO Duality	Indicator variable that takes the value of 1 if the CEO is also the chairman of the board, and 0 otherwise.
Female Proportion	The percentage of female directors measured in the year prior to the SEO announcement.
High Corruption	Equals 1 if an issuer mainly operate in a state with high corruption level and zero otherwise obtained from the University of Chicago.
Suit-Filed	Equals 1 if an issuer was defending a shareholder class-action lawsuit around SEO announcement period and 0 otherwise. We obtain data from the Securities Class Action Clearinghouse (SCAC) file at Stanford University (securities.stanford.edu)
Religiosity	Religion ranking of the state in which the issuer's headquarters are located.
Gov. Contract	The log of one plus the dollar volume of total contracts, obtained from USAspending.gov website. Similar to Brogaard, Dene, and Duchin (2020)

Table 1: Sample Distribution and Descriptive Statistics

Table 1 provides summary statistics of the firm characteristics between politically connected and non-connected issuers in our sample. Panel A presents a time-series distribution of the sample. Panel B contains the nature of politically connected issues in the sample. Panel C reports the average issuer and offer characteristics of politically connected and non-connected issuers. The sample contains 3336 seasoned equity offerings between January 2001 and December 2018 in the USA. *Connected issuers* indicates whether the issuer has a former politician on its board. *Pcontinous* is defined as the total number of former politicians on issuer board scaled by the total number of board directors. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. *Board Size* is the number of directors on the board, measured in the year prior to the SEO announcement. *CEO Age* is defined as the natural logarithm of CEO age. *CEO Tenure* is the number of years CEOs of issuing firms had held their positions. *Independent Directors* is the percentage of independent directors measured in the year prior to the SEO announcement. *Female CEO* indicates whether the issuer has a female CEO, and 0 otherwise. *CEO Duality* indicates whether the CEO is also the chairman of the board, and 0 otherwise. *Female Proportion* is the percentage of female directors measured in the year prior to the SEO announcement. *Red State* indicates whether an issuer mainly operate in a Republican governed state and zero otherwise. *Dir.&Gov. Same Party* indicates whether the internal political director share the same political party as the Governor in the state where the connected issuers' headquarters are located. *Dir&Pres. Same Party* indicates whether the internal political director share the same political party as the USA president. *Suit-Filed* indicates whether an issuer was defending a shareholder class-action lawsuit around SEO announcement period and 0 otherwise. *Gov. Contract* is defined as the log of one plus the dollar volume of total contracts, obtained from USAspending.gov website. Similar to Brogaard, Dene, and Duchin (2020). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A: Time-Series Distribution of The Sample			
Year	Connected Issuers = 1	Non-Connected Issuers = 0	Obs
2001	8	137	145
2002	14	132	146
2003	17	169	186
2004	19	171	190
2005	25	130	155
2006	19	149	168
2007	22	126	148
2008	19	79	98
2009	33	186	219
2010	17	152	169
2011	24	163	187

2012		23			151		174	
2013		20			217		237	
2014		31			226		257	
2015		23			225		248	
2016		11			141		152	
2017		22			198		220	
2018		26			211		237	
Total		373			2963		3336	

Panel B: Politically Connected Issuers

	Obs	Mean	Median	Std
Connected Issuers	3336	0.1118	0.0000	0.3152
PContinous	3336	0.0148	0.0000	0.0451
Dir. & Gov. Same Party	373	0.3727	0.0000	0.4842
Dir. & Pres. Same Party	373	0.3458	0.0000	0.4763

Panel C: Issuer and Offer Characteristics

	Obs	Mean	Median	Std	Politically Connected Issuers (1)	Non-Connected Issuers (2)	Diff. (Col.1 – Col.2)	P-Value
Nasdaq	3336	0.6412	1.0000	0.4797	0.4504	0.6652	-0.2148***	0.0000
Proceeds	3336	11.6785	4.7005	57.6887	14.5437	11.3179	3.2258	0.2864
Secondary	3336	0.3225	0.0000	0.4456	0.3546	0.3186	0.036	0.1569
Total Assets	3336	12.8423	12.6492	1.7355	14.0144	12.6947	1.3197***	0.0000
CAPEX	3336	0.0598	0.0274	0.0848	0.0694	0.0586	0.0108**	0.0262
ROA	3336	-0.0676	0.0617	0.3005	-0.014	-0.0743	0.0603***	0.0000
Cash	3336	0.3194	0.1502	0.3357	0.2258	0.3312	-0.1054***	0.0000
Leverage	3336	0.2724	0.2447	0.2543	0.3143	0.2671	0.0472***	0.0005
Tangible	3336	0.2452	0.1207	0.2727	0.3125	0.2367	0.0758***	0.0000
Tobin's Q	3336	2.8487	1.9857	2.2719	2.5695	2.8838	-0.3143***	0.0082
Volatility	3336	0.0345	0.0301	0.0194	0.0325	0.0348	-0.0023**	0.0389
CEO Tenure	3336	1.7744	1.7918	0.6953	1.8315	1.7672	0.0643*	0.0892
Board Size	3336	2.0903	2.0794	0.2366	2.2302	2.0727	0.1575***	0.0000
Independent Directors	3336	1.5452	1.7918	0.5893	1.6948	1.5263	0.1685***	0.0000
Female CEO	3336	0.0222	0.0000	0.1473	0.0188	0.0226	-0.0038	0.6106
CEO Duality	3336	0.3732	0.0000	0.4837	0.504	0.3567	0.1473***	0.0000
CEO Age	3336	3.9756	3.989	0.1445	3.9922	3.9736	0.0186***	0.0082

Female Proportion	3336	0.0730	0.0000	0.0956	0.0968	0.07	0.0268***	0.0000
Blue State	3336	0.4560	0.0000	0.4981	0.5013	0.4492	0.0521*	0.0585
Red State	3336	0.5440	1.0000	0.4982	0.4987	0.5494	-0.0507*	0.0653
Gov. Contract	3336	4.7475	0.0000	6.9474	6.9107	4.4752	2.4355***	0.0000
Security Class Action Lawsuit	3336	0.0258	0.0000	0.1585	0.0589	0.0216	0.0373***	0.0029
State Corruption Level	3336	0.6361	1.0000	0.4812	0.6247	0.6375	-0.0128	0.6290
Religiosity	3336	3.9419	3.9318	0.1944	3.9734	3.9379	0.0355***	0.0008

Table 2: Political Connections and SEO Gross Spread

Table 2 Estimates the impact of political connections on seasoned equity offering (SEO) gross spread. Panel A presents the univariate analysis of the association between SEO gross spread and political connections for a sample of USA SEOs announced over the period 2001 to 2018. Panel B reports the cross-sectional OLS regression analysis of SEO gross spreads on political connections and other issuer- and offer-specific characteristics. The dependent variable is the gross spreads. Connected issuers indicates whether the issuer has a former politician on its board. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The t-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Panel A: Univariate Analysis – Gross Spreads						
		Full Sample (1)	Connected Issuers (2)	Non-connected Issuers (3)	Diff. (Col. 2 – Col. 3).	P-Value
(A)	All Issues	4.5403	3.4498	4.6749	-1.2251***	0.0000
		3057	336	2721		
(B)	Primary Issues Only	5.0935	4.0561	5.2199	-1.1638***	0.0000
		1895	206	1689		
(C)	Secondary Issues Only	2.8806	1.9298	3.0251	-1.0953***	0.0000
		750	99	651		
(D)	Combined Issues	5.0171	4.2758	5.0773	-0.8015**	0.0066
		412	31	381		

Panel B: Multivariate Analysis – Gross Spreads					
	Full Sample		Primary Issues Only	Secondary Issues Only	Combined Issues
	(1)	(2)	(3)	(4)	(5)
Connected Issuers	-0.3864***	-0.3662***	-0.3189**	-0.3609*	-0.2147
	(-4.08)	(-3.92)	(-2.80)	(-1.66)	(-1.50)
Nasdaq	-0.0412	-0.0644	-0.0840	-0.1486	0.1125
	(-0.55)	(-0.83)	(-0.87)	(-0.85)	(0.99)
Secondary	-1.2761***	-1.2781***			
	(-16.16)	(-15.88)			
LN(Proceed)	-0.0410	-0.0404	-0.1185**	0.1582	-0.5392***
	(-0.80)	(-0.79)	(-2.05)	(1.29)	(-5.14)

LN(Total Assets)	-0.5794***	-0.5776***	-0.4946***	-0.7260***	-0.2509***
	(-13.26)	(-13.35)	(-9.20)	(-7.53)	(-3.29)
Capex	-1.7459***	-1.2339**	-1.1008*	-0.1945	-1.8217**
	(-3.50)	(-2.39)	(-1.78)	(-0.14)	(-2.14)
Leverage	0.0198	-0.0293	-0.0440	0.3915	0.1931
	(0.15)	(-0.22)	(-0.29)	(1.10)	(0.87)
Cash	0.1786	0.1306	-0.0490	0.0063	0.2816
	(1.52)	(0.95)	(-0.33)	(0.01)	(1.00)
ROA	0.1544	0.2025*	0.2746**	-0.8525	0.1248
	(1.38)	(1.78)	(2.40)	(-1.23)	(0.63)
Tangible	-0.0921	0.1002	-0.0692	-0.0782	-0.0035
	(-0.48)	(0.48)	(-0.26)	(-0.20)	(-0.01)
Volatility	4.0769***	4.2865***	4.5834***	4.8897	2.5078
	(3.13)	(3.26)	(3.01)	(1.09)	(1.54)
Tobin's Q	-0.0881***	-0.0889***	-0.0604***	-0.1920***	-0.0399
	(-5.54)	(-5.58)	(-3.36)	(-4.31)	(-1.52)
Constant	12.5394***	12.5384***	12.0391***	12.7545***	10.2398***
	(28.09)	(24.55)	(17.24)	(10.86)	(14.14)
Year FE	YES	YES	YES	YES	YES
Industry FE	NO	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES
Number of observations	3,057	3,057	1,895	750	412
Adjusted R^2	0.4752	0.4782	0.3915	0.2686	0.5025

Table 3: Political Connections and SEO Announcement Return

Table 3 Estimates the impact of political connections on the stock price reaction to seasoned equity offering (SEO) announcements. Panel A presents the univariate analysis of the association between political connections and seasoned equity offering (SEO) announcement stock returns for a sample of USA SEOs announced over the period 2001 to 2018. Panel B reports the cross-sectional OLS regression analysis of SEO announcement stock returns on political connections and other issuer- and offer-specific characteristics. The dependent variable in column 1 through 3 is the CAR, measured over the window (-1, +1), (0, +1), and (0, +2) respectively, relative to the announcement day (0). While the dependent variable in column 4 through 6 is the CAR, measured over the window (0, +1) relative to the announcement day (0). Column 1 through 3 report the results from the full sample whereas Column 4 through 6 is centred around announcements of SEOs of primary, secondary, and combined issues, respectively. *Connected issuers* indicates whether the issuer has a former politician on its board. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The t-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Panel A: Univariate Analysis-CAR					
Event windows	All (1)	Connected Issuers (2)	Non-connected Issuers (3)	Diff. (Col. 2 − Col. 3)	P-Value
CAR(-1,+1)	-0.0201	-0.011137	-0.0211672	0.0100***	0.0021
	2784	284	2500		
CAR(0,+1)	-0.0143	-0.005832	-0.0152219	0.0094***	0.0000
	2784	284	2500		
CAR(0,+2)	-0.0159	-0.005941	-0.0169734	0.0110***	0.0003
	2784	284	2500		

Panel B: Multivariate Analysis-CAR						
	Full Sample			Primary Issues Only	Secondary Issues Only	Combined Issues
	CAR(-1,+1) (1)	CAR(0,+1) (2)	CAR(0,+2) (3)	CAR(0,+1) (4)	CAR(0,+1) (5)	CAR(0,+1) (6)
Connected Issuers	0.0069**	0.0076***	0.0075**	0.0080**	0.0047	0.0063
	(2.05)	(3.05)	(2.33)	(2.55)	(0.97)	(0.80)
Nasdaq	0.0031	0.0011	0.0008	0.0054	-0.0026	-0.0041
	(1.07)	(0.52)	(0.30)	(1.52)	(-0.75)	(-0.68)
Secondary	-0.0033	-0.0024	-0.0023			

	(-1.14)	(-1.13)	(-0.82)			
RelSize	0.0596**	0.0363**	0.0388	0.0478**	0.0071	0.0588
	(2.36)	(2.13)	(1.52)	(2.19)	(0.22)	(1.11)
LN(Total Assets)	0.0032***	0.0012	0.0024**	0.0011	0.0024	0.0032
	(2.91)	(1.50)	(2.35)	(1.01)	(1.62)	(0.99)
Capex	0.0068	0.0124	0.0094	0.0061	0.0263	-0.0059
	(0.31)	(0.75)	(0.46)	(0.28)	(0.86)	(-0.13)
Leverage	0.0073	0.0014	0.0019	0.0056	-0.0131	-0.0003
	(1.24)	(0.31)	(0.34)	(0.90)	(-1.56)	(-0.02)
Cash	0.0078	0.0005	-0.0008	0.0012	0.0105	-0.0231
	(1.14)	(0.09)	(-0.12)	(0.19)	(0.87)	(-1.49)
ROA	-0.0064	-0.0024	-0.0108*	0.0001	-0.0103	-0.0509**
	(-1.10)	(-0.53)	(-1.84)	(0.03)	(-0.70)	(-2.61)
Tangible	-0.0072	-0.0049	-0.0034	-0.0006	-0.0082	0.0068
	(-0.94)	(-0.84)	(-0.48)	(-0.07)	(-1.01)	(0.39)
Volatility	-0.1671**	-0.0896*	-0.1548**	-0.1198*	-0.0223	0.1395
	(-2.29)	(-1.65)	(-2.04)	(-1.72)	(-0.24)	(0.93)
Tobin's Q	-0.0008	-0.0011**	-0.0008	-0.0014**	0.0008	-0.0016
	(-1.14)	(-2.03)	(-1.13)	(-2.16)	(0.69)	(-1.03)
Constant	-0.0572***	-0.0230	-0.0469**	-0.0045	-0.0641**	-0.0216
	(-3.04)	(-1.63)	(-2.61)	(-0.24)	(-2.65)	(-0.38)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES
Number of observations	2,784	2,784	2,784	1,697	665	422
Adjusted R^2	0.0370	0.0574	0.0414	0.0772	0.0977	0.1604

Table 4: Alternative Measure of Political Connectedness

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst controlling for issuer- and offer-specific characteristics. The dependent variable in column 1 and 2 is the CAR, measured over the window (0, +1) relative to the announcement day (0). While the dependent variable in column 3 and 4 is the SEO gross spreads. We redefine political connections using an alternate proxy, *PContinous*, the total number of former politicians on issuer board scaled by the total number of board directors (see, Chizema, Liu, Lu, and Gao (2015)). *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The t-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Alternative Measure of Political Connectedness: PContinous				
	CAR(0, +1) (1)	CAR(0, +2) (2)	Gross Spread (3)	Gross Spread (4)
PContinous	0.0475**	0.0509**	-2.3143***	-2.1848***
	(2.67)	(2.11)	(-3.33)	(-3.19)
Nasdaq	0.0011	0.0008	-0.0387	-0.0626
	(0.51)	(0.30)	(-0.51)	(-0.81)
Secondary	-0.0025	-0.0024	-1.2958***	-1.2759***
	(-1.16)	(-0.83)	(-16.35)	(-15.87)
RelSize	0.0370**	0.0395		
	(2.17)	(1.54)		
LN(Proceed)			-0.0565	-0.0420
			(-1.11)	(-0.82)
LN(Total Assets)	0.0014*	0.0025**	-0.5701***	-0.5830***
	(1.66)	(2.47)	(-12.89)	(-13.46)
Capex	0.0125	0.0096	-1.7638***	-1.2479**
	(0.75)	(0.47)	(-3.52)	(-2.42)
Leverage	0.0013	0.0019	-0.0007	-0.0259
	(0.29)	(0.33)	(-0.01)	(-0.19)
Cash	0.0004	-0.0008	0.1603	0.1352

	(0.08)	(-0.13)	(1.40)	(0.98)
ROA	-0.0026	-0.0109*	0.2019*	0.2122*
	(-0.56)	(-1.86)	(1.84)	(1.87)
Tangible	-0.0049	-0.0036	-0.1003	0.1107
	(-0.86)	(-0.49)	(-0.52)	(0.53)
Volatility	-0.0898*	-0.1553**	4.5914***	4.2742***
	(-1.65)	(-2.05)	(3.43)	(3.24)
Tobin's Q	-0.0011**	-0.0008	-0.0806***	-0.0899***
	(-2.01)	(-1.12)	(-5.02)	(-5.64)
Constant	-0.0246*	-0.0482**	12.7092***	12.6062***
	(-1.75)	(-2.69)	(29.26)	(24.71)
Year FE	YES	YES	NO	YES
Industry FE	YES	YES	NO	YES
Cluster by Firm	YES	YES	YES	YES
Number of observations	2,784	2,784	3,057	3,057
Adjusted R^2	0.0569	0.0413	0.47	0.4775

Table 5: Can economic downturns drive our results?

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst excluding observations in the year 2008. The dependent variable in column 1 and 2 is the *CAR*, measured over the window (0, +1) relative to the announcement day (0). While the dependent variable in column 3 and 4 is the SEO gross spreads. ==*Connected issuers* indicates whether the issuer has a former politician on its board. *Pcontinous* is defined as the total number of former politicians on issuer board scaled by the total number of board directors. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets.== ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Multivariate Analysis-- Excluding the year 2008				
	SEO-CAR		**SEO-Gross Spread**	
	(1)	**(2)**	**(3)**	**(4)**
Connected Issuers	0.0071**		-0.3889***	
	(2.80)		(-4.04)	
PContinous		0.0477**		-2.4543***
		(2.61)		(-3.47)
Nasdaq	0.0009	0.0009	-0.0672	-0.0640
	(0.42)	(0.41)	(-0.86)	(-0.83)
Secondary	-0.0024	-0.0024	-1.2849***	-1.2827***
	(-1.10)	(-1.12)	(-15.62)	(-15.61)
RelSize	0.0372**	0.0377**		
	(2.16)	(2.19)		
LN(Proceed)			-0.0342	-0.0357
			(-0.66)	(-0.68)
LN(Total Assets)	0.0012	0.0014*	-0.5779***	-0.5827***
	(1.53)	(1.65)	(-13.22)	(-13.31)
Capex	0.01623	0.0163	-1.3039**	-1.3082**
	(0.97)	(0.97)	(-2.49)	(-2.50)
Leverage	0.0021	0.0021	-0.0320	-0.0290
	(0.47)	(0.45)	(-0.24)	(-0.21)
Cash	0.0001	0.0000	0.1071	0.1106
	(0.01)	(0.01)	(0.77)	(0.79)
ROA	-0.0031	-0.0031	0.2052*	0.2131*
	(-0.67)	(-0.68)	(1.79)	(1.86)
Tangible	-0.0064	-0.0065	0.0903	0.1000

	(-1.10)	(-1.11)	(0.42)	(0.47)
Volatility	-0.1165**	-0.1167**	3.9884***	3.9810***
	(-2.13)	(-2.13)	(2.95)	(2.93)
Tobin's Q	-0.0010*	-0.0010*	-0.0915***	-0.0922***
	(-1.85)	(-1.84)	(-5.68)	(-5.73)
Constant	-0.0151	-0.0160	12.5225***	12.5785***
	(-1.08)	(-1.15)	(24.22)	(24.33)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES
Number of observations	2705	2705	2970	2970
Adjusted R^2	0.0605	0.0603	0.4816	0.481

Table 6: Propensity Score Matching Approach

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns using the propensity score matching approach. Panel A presents the estimates for the probit model used in calculating the propensity scores. Panel B presents the results of a post-matching cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns between 2001 and 2018. The dependent variable in column 1 and is the *CAR*, measured over the window (0, +1) relative to the announcement day (0). While the dependent variable in column 3 and 4 is the SEO gross spreads. *Connected issuers* indicates whether the issuer has a former politician on its board. *Pcontinous* is defined as the total number of former politicians on issuer board scaled by the total number of board directors. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t and z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Panel A: Propensity Score Matching Process				
	SEO Announcement Stock Returns Data		**SEO Gross Spread Data**	
	Before Matching (1)	**After Matching (2)**	**Before Matching (3)**	**After Matching (4)**
Nasdaq	0.0705	0.1218	0.0628	-0.1334
	(0.57)	(0.62)	(0.48)	(-0.69)
Secondary	-0.1578	-0.0983	-0.1109	0.0166
	(-1.44)	(-0.56)	(-1.01)	(0.09)
RelSize	1.1673	0.6791		
	(1.46)	(0.49)		
LN(Proceed)			0.0928	0.1184
			(1.56)	(1.32)
LN(Total Assets)	0.3330***	0.0386	0.2942***	-0.0748
	(7.64)	(0.56)	(5.48)	(-0.89)
Capex	-0.2419	-0.2452	-0.3724	-0.2303
	(-0.34)	(-0.22)	(-0.48)	(-0.21)
Leverage	-0.3063	0.1580	-0.1452	-0.0001
	(-1.49)	(0.46)	(-0.68)	(0.00)
Cash	-0.3724	-0.0652	-0.2766	0.0754
	(-1.52)	(-0.15)	(-0.99)	(0.16)

ROA	-0.5435**	0.1567	-0.6611***	0.0369
	(-2.86)	(0.52)	(-3.33)	(0.12)
Tangible	-0.1116	-0.0163	-0.2325	0.1414
	(-0.43)	(-0.04)	(-0.80)	(0.33)
Volatility	1.4597	2.4653	2.1221	-1.5656
	(0.67)	(0.69)	(1.03)	(-0.53)
Tobin's Q	0.0765***	0.0185	0.0748***	-0.0372
	(3.61)	(0.50)	(3.32)	(-1.03)
Constant	-5.8457***	-0.7211	-5.8826***	0.6629
	(-8.64)	(-0.65)	(-8.28)	(0.59)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES
Number of observations	2,784	486	3,057	612
Pseudo R^2	0.1301	0.0039	0.1416	0.0068
P-value of χ^2	0.0000	1.0000	0.0000	1.0000

Panel B: Matched Balanced Sample Analysis

	SEO-CAR		SEO-Gross Spread	
	(1)	**(2)**	**(3)**	**(4)**
Connected Issuers	0.0160***		-0.5090***	
	(4.90)		(-4.56)	
PContinous		0.0954***		-3.0969***
		(4.36)		(-4.26)
Nasdaq	0.0069	0.0071	-0.0813	-0.0777
	(1.50)	(1.53)	(-0.56)	(-0.54)
Secondary	-0.0079*	-0.0081*	-1.0351***	-1.0362***
	(-1.72)	(-1.77)	(-6.30)	(-6.29)
RelSize	0.0095	0.0129		
	(0.25)	(0.33)		
LN(Proceed)			-0.0734	-0.0849
			(-0.68)	(-0.78)
LN(Total Assets)	0.0024	0.0028*	-0.6877***	-0.6902***
	(1.56)	(1.74)	(-8.31)	(-8.20)
Capex	-0.0184	-0.0162	-2.1922**	-2.2902**
	(-0.62)	(-0.53)	(-2.70)	(-2.80)
Leverage	-0.0119	-0.0115	0.4032	0.4024
	(-1.27)	(-1.22)	(1.24)	(1.23)
Cash	-0.0126	-0.0129	0.0496	0.0533
	(-1.01)	(-1.02)	(0.12)	(0.13)
ROA	-0.0056	-0.0054	0.4635	0.4615
	(-0.59)	(-0.56)	(1.58)	(1.56)
Tangible	0.0069	0.0069	0.5978*	0.6394*
	(0.63)	(0.60)	(1.69)	(1.81)
Volatility	0.0713	0.0736	1.6027	1.8027

	(0.77)	(0.78)	(0.67)	(0.75)
Tobin's Q	-0.0017	-0.0017	-0.0658*	-0.0655*
	(-1.41)	(-1.37)	(-1.91)	(-1.88)
Constant	-0.0409	-0.0424	13.9849***	13.9078***
	(-1.41)	(-1.47)	(12.01)	(11.75)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES
Number of observations	486	486	612	612
Adjusted R^2	0.1728	0.1624	0.5877	0.5854

Table 7: Instrumental Variable Approach

This table reports the instrumental variable regression results on the impact of political connections on both SEO gross spreads and announcement stock returns using the Industry % of connected issuers, defined as the percentage of firms with a politically connected board member in a firm's industry group as an instrument for political connections. The sample contains USA SEOs announced over the period 2001 to 2018. In the first stage we predict political connections using the Industry % of connected issuers with issuer and offer variables as well as year and industry fixed effects. The dependent variable in column 2 and 3 is the *CAR*, measured over the window (0, +1) relative to the announcement day (0). While the dependent variable in column 5 is the SEO gross spreads. Column 1 and 4 presents the first stage probit regression whereas column 2, 3 and 5 report the second-stage regression. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t and z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Instrumental Variable Approach					
	1st Stage (1)	2nd Stage CAR(0, +1) (2)	2nd Stage CAR(0, +2) (3)	1st Stage (4)	2nd Stage (Gross Spread) (5)
Political Connection		0.0151**	0.0155*		-0.7206**
		(2.33)	(1.78)		(-2.81)
Industry % of Connected Firms	4.9758***			4.5104***	
	(14.32)			(11.97)	
Nasdaq	0.0220	0.0011	0.0008	-0.0162	-0.0652
	(0.17)	(0.51)	(0.30)	(-0.12)	(-0.84)
Secondary	-0.1842	-0.0021	-0.0019	-0.1549	-1.2906***
	(-1.59)	(-0.98)	(-0.70)	(-1.37)	(-15.93)
RelSize	0.9829	0.0348**	0.0372		
	(1.15)	(2.03)	(1.44)		
LN(Proceed)				0.0856	-0.0354
				(1.39)	(-0.69)
LN(Total Assets)	0.3236***	0.0008	0.0019*	0.2855***	-0.5607***
	(7.21)	(0.92)	(1.73)	(5.15)	(-12.17)
Capex	-0.5153	0.0125	0.0096	-0.2777	-1.2534**
	(-0.67)	(0.75)	(0.46)	(-0.34)	(-2.42)
Leverage	-0.4392**	0.0019	0.0025	-0.2219	-0.0417
	(-2.06)	(0.41)	(0.43)	(-1.05)	(-0.31)

Cash	-0.4429*	0.0009	-0.0004	-0.2602	0.1165
	(-1.70)	(0.17)	(-0.06)	(-0.90)	(0.84)
ROA	-0.5682**	-0.0019	-0.0102*	-0.6389***	0.1714
	(-2.79)	(-0.42)	(-1.73)	(-3.06)	(1.48)
Tangible	-0.0635	-0.0048	-0.0034	-0.1845	0.0855
	(-0.24)	(-0.82)	(-0.46)	(-0.64)	(0.41)
Volatility	1.0859	-0.0916*	-0.1569**	1.8017	4.4273***
	(0.46)	(-1.68)	(-2.06)	(0.84)	(3.35)
Tobin's Q	0.0776***	-0.0011**	-0.0009	0.0715***	-0.0849***
	(3.48)	(-2.18)	(-1.25)	(3.06)	(-5.26)
Constant	-6.1918***	-0.0186	-0.0422**	-6.1392***	12.2848***
	(-8.68)	(-1.28)	(-2.24)	(-8.35)	(21.92)
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES
Number of observations	2784	2784	2784	3,057	3,057
Pseudo R^2 (Adjusted R^2)	0.2638	(0.0566)	(0.0410)	0.2432	(0.4768)

Table 8: Controlling for other Forms of Corporate Governance

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst controlling for issuer- and offer-specific characteristics as well as corporate governance features. The dependent variable in column 1 through 4 is the *CAR*. While the dependent variable in column 5 and 6 is the SEO gross spreads. *Connected issuers* indicates whether the issuer has a former politician on its board. *Pcontinous* is defined as the total number of former politicians on issuer board scaled by the total number of board directors. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. *Board Size* is the number of directors on the board, measured in the year prior to the SEO announcement. *CEO Age* is defined as the natural logarithm of CEO age. *CEO Tenure* is the number of years CEOs of issuing firms had held their positions. *Independent Directors* is the percentage of independent directors measured in the year prior to the SEO announcement. *Female CEO* indicates whether the issuer has a female CEO, and 0 otherwise. *CEO Duality* indicates whether the CEO is also the chairman of the board, and 0 otherwise. *Female Proportion* is the percentage of female directors measured in the year prior to the SEO announcement. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Controlling for Other Forms of Corporate Governance						
	CAR(0, +1) (1)	CAR(0, +1) (2)	CAR(0, +2) (3)	CAR(0, +2) (4)	Gross Spread (5)	Gross Spread (6)
Connected Issuers		0.0076***		0.0071**		-0.3641***
		(2.93)		(2.15)		(-3.81)
PContinous	0.0477**		0.0492**		-2.1388***	
	(2.62)		(2.03)		(-3.06)	
CEO Tenure	0.0001	0.0001	0.0009	0.0010	-0.1047**	-0.1053**
	(0.01)	(0.01)	(0.65)	(0.65)	(-2.26)	(-2.29)
Board Size	0.0035	0.0028	0.0056	0.0050	-0.0705	-0.0236
	(0.73)	(0.58)	(0.94)	(0.83)	(-0.46)	(-0.15)
Independent Directors	-0.0003	-0.0004	0.0021	0.0021	0.0299	0.0209
	(-0.10)	(-0.10)	(0.50)	(0.51)	(0.22)	(0.16)
Female CEO	-0.0024	-0.0021	-0.0019	-0.0019	0.2976	0.2968
	(-0.36)	(-0.32)	(-0.21)	(-0.21)	(1.13)	(1.13)
Female Proportion	-0.0003	-0.0008	-0.0051	-0.0054	-0.2180	-0.1881
	(-0.03)	(-0.08)	(-0.40)	(-0.42)	(-0.66)	(-0.57)
CEO Duality	-0.0013	-0.0013	-0.0002	-0.0002	0.1015	0.1055

	(-0.63)	(-0.66)	(-0.06)	(-0.08)	(1.51)	(1.56)
CEO Age	-0.0041	-0.0041	-0.0049	-0.0048	0.4127**	0.4125**
	(-0.63)	(-0.62)	(-0.58)	(-0.57)	(2.07)	(2.07)
Nasdaq	0.0012	0.0012	0.0007	0.0007	-0.0596	-0.0596
	(0.54)	(0.53)	(0.27)	(0.26)	(-0.77)	(-0.77)
Secondary	-0.0027	-0.0026	-0.0022	-0.0021	-1.2818***	-1.2862***
	(-1.24)	(-1.20)	(-0.76)	(-0.74)	(-15.73)	(-15.76)
RelSize	0.0362**	0.0357**	0.0389	0.0386		
	(2.13)	(2.09)	(1.51)	(1.50)		
LN(Proceed)					-0.0377	-0.0365
					(-0.74)	(-0.72)
LN(Total Assets)	0.0011	0.0011	0.0020*	0.0020*	-0.5849***	-0.5825***
	(1.34)	(1.28)	(1.82)	(1.79)	(-13.11)	(-13.08)
Capex	0.0129	0.0128	0.0096	0.0095	-1.2032**	-1.1890**
	(0.77)	(0.77)	(0.46)	(0.45)	(-2.34)	(-2.32)
Leverage	0.0013	0.0014	0.0021	0.0022	-0.0454	-0.0510
	(0.29)	(0.30)	(0.36)	(0.37)	(-0.34)	(-0.38)
Cash	0.0000	0.0002	-0.0015	-0.0014	0.1453	0.1383
	(0.01)	(0.03)	(-0.22)	(-0.21)	(1.07)	(1.02)
ROA	-0.0022	-0.0022	-0.0104*	-0.0104*	0.2194*	0.2118*
	(-0.49)	(-0.47)	(-1.76)	(-1.75)	(1.94)	(1.87)
Tangible	-0.0052	-0.0050	-0.0033	-0.0032	0.0994	0.0919
	(-0.86)	(-0.85)	(-0.44)	(-0.44)	(0.47)	(0.44)
Volatility	-0.0889	-0.0887	-0.1514**	-0.1509**	4.1285***	4.1386***
	(-1.63)	(-1.63)	(-1.99)	(-1.99)	(3.13)	(3.15)
Tobin's Q	-0.0010**	-0.0011**	-0.0008	-0.0008	-0.0886***	-0.0879***
	(-1.99)	(-2.01)	(-1.13)	(-1.13)	(-5.67)	(-5.62)
Constant	-0.0033	-0.0016	-0.0211	-0.0198	11.6566***	11.5313***
	(-0.12)	(-0.06)	(-0.59)	(-0.55)	(13.50)	(13.37)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES
Number of observations	2784	2784	2784	2784	3057	3,057
Adjusted R^2	0.0576	0.058	0.0423	0.0423	0.4801	0.4809

Table 9: Political and Institutional Environment

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns. Panel A presents the results whilst controlling for issuer political environment. Whereas panel B examine whether the performance of politically connected issuers is conditioned by the level of corruption and religious participation in the state where issuers locate their headquarters. *Connected issuers* indicates whether the issuer has a former politician on its board. *Pcontinous* is defined as the total number of former politicians on issuer board scaled by the total number of board directors. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. *Board Size* is the number of directors on the board, measured in the year prior to the SEO announcement. *CEO Age* is defined as the natural logarithm of CEO age. *CEO Tenure* is the number of years CEOs of issuing firms had held their positions. *Independent Directors* is the percentage of independent directors measured in the year prior to the SEO announcement. *Female CEO* indicates whether the issuer has a female CEO, and 0 otherwise. *CEO Duality* indicates whether the CEO is also the chairman of the board, and 0 otherwise. *Female Proportion* is the percentage of female directors measured in the year prior to the SEO announcement. *Red State* indicates whether an issuer mainly operate in a Republican governed state and zero otherwise. *Dir.&Gov. Same Party* indicates whether the internal political director share the same political party as the Governor in the state where the connected issuers' headquarters are located. *Dir&Pres. Same Party* indicates whether the internal political director share the same political party as the USA president. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Panel A: Political Environment.				
	CAR(0, +1)		**Gross Spread**	
	(1)	**(2)**	**(3)**	**(4)**
Connected Issuers	0.0065*		-0.3622**	
	(1.84)		(-2.83)	
PContinous		0.0366*		-1.7098**
		(1.66)		(-1.98)
Dir. & Gov. Same Party	0.0068	0.0081*	0.17989	0.0765
	(1.34)	(1.70)	(0.87)	(0.38)
Dir & Pres. Same Party	-0.0052	-0.0047	-0.1924	-0.2352
	(-1.05)	(-0.97)	(-0.96)	(-1.16)
Red State	-0.0011	-0.0011	0.0043	0.0039
	(-0.57)	(-0.57)	(0.07)	(0.06)
CEO Tenure	0.0001	0.0001	-0.1024**	-0.1013**
	(0.05)	(0.04)	(-2.22)	(-2.20)
Board Size	0.0029	0.0035	-0.0334	-0.0756

	(0.61)	(0.73)	(-0.22)	(-0.49)
Independent Directors	-0.0006	-0.0005	0.0195	0.0230
	(-0.17)	(-0.16)	(0.15)	(0.17)
Female CEO	-0.0020	-0.0021	0.2989	0.3011
	(-0.30)	(-0.31)	(1.13)	(1.14)
Female Proportion	-0.0013	-0.0008	-0.2010	-0.2295
	(-0.13)	(-0.09)	(-0.61)	(-0.70)
CEO Duality	-0.0014	-0.0014	0.1016	0.0988
	(-0.72)	(-0.71)	(1.51)	(1.47)
CEO Age	-0.0043	-0.0043	0.3994**	0.3952**
	(-0.65)	(-0.65)	(2.01)	(1.99)
Nasdaq	0.0012	0.0012	-0.0614	-0.0616
	(0.52)	(0.52)	(-0.79)	(-0.79)
Secondary	-0.0025	-0.0026	-1.2842***	-1.2826***
	(-1.17)	(-1.19)	(-15.79)	(-15.79)
RelSize	0.0353**	0.0357**		
	(2.07)	(2.09)		
LN(Proceed)			-0.0382	-0.0385
			(-0.75)	(-0.76)
LN(Total Assets)	0.0011	0.0012	-0.5794***	-0.5827***
	(1.31)	(1.37)	(-12.96)	(-13.07)
Capex	0.0132	0.0133	-1.1975**	-1.2055**
	(0.79)	(0.79)	(-2.32)	(-2.34)
Leverage	0.0015	0.0014	-0.0557	-0.0488
	(0.32)	(0.30)	(-0.41)	(-0.36)
Cash	0.0003	0.0002	0.1464	0.1545
	(0.06)	(0.04)	(1.08)	(1.14)
ROA	-0.0020	-0.0021	0.2132*	0.2206**
	(-0.45)	(-0.45)	(1.89)	(1.95)
Tangible	-0.0049	-0.0049	0.0926	0.1023
	(-0.84)	(-0.85)	(0.44)	(0.49)
Volatility	-0.0869	-0.0872	4.1997***	4.2024***
	(-1.60)	(-1.60)	(3.20)	(3.20)
Tobin's Q	-0.0011**	-0.0011**	-0.0878***	-0.0886***
	(-2.01)	(-2.00)	(-5.61)	(-5.66)
Constant	-0.0013	-0.0028	11.5668***	11.7099***
	(-0.05)	(-0.10)	(13.27)	(13.52)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES
Number of observations	2,784	2784	3,057	3,057
Adjusted R^2	0.0587	0.0584	0.4812	0.4804

Panel B: Social factors

	Corruption (High)	Corruption (Low)	Religiosity (High)	Religiosity (Low)

	CAR(0, +1) (1)	Gross Spread (2)	CAR(0, +1) (3)	Gross Spread (4)	CAR(0, +1) (5)	Gross Spread (6)	CAR(0, +1) (7)	Gross Spread (8)
Connected Issuers	0.0092**	-0.3324**	0.0037	-0.4169***	0.0080**	-0.3639***	0.0080*	-0.2918**
	(2.88)	(-2.61)	(0.91)	(-3.09)	(2.39)	(-3.04)	(1.89)	(-2.13)
CEO Tenure	-0.0007	-0.1361**	0.0016	-0.0472	0.0004	-0.0903	-0.0005	-0.1316**
	(-0.58)	(-2.32)	(0.72)	(-0.64)	(0.30)	(-1.38)	(-0.34)	(-2.19)
Board Size	0.0042	-0.0587	0.0030	0.0885	0.0017	0.0619	0.0043	-0.1267
	(0.72)	(-0.31)	(0.37)	(0.34)	(0.26)	(0.28)	(0.56)	(-0.58)
Independent Directors	-0.0020	0.0921	0.0011	-0.1340	-0.0015	-0.0639	0.0024	0.2204
	(-0.49)	(0.56)	(0.20)	(-0.59)	(-0.37)	(-0.34)	(0.46)	(1.23)
Female CEO	-0.0069	0.4141	0.0064	0.0816	0.0114	0.2551	-0.0097	0.3039
	(-0.91)	(1.21)	(0.50)	(0.21)	(1.42)	(0.50)	(-1.06)	(1.21)
Female Proportion	0.0017	-0.4458	0.0008	0.0826	0.0032	0.5633	-0.0042	-0.6583
	(0.13)	(-1.18)	(0.05)	(0.14)	(0.24)	(1.14)	(-0.30)	(-1.64)
CEO Duality	-0.0010	0.0997	-0.0015	0.0916	-0.0013	0.2820***	-0.0012	-0.0632
	(-0.44)	(1.17)	(-0.40)	(0.77)	(-0.50)	(3.08)	(-0.42)	(-0.67)
CEO Age	-0.0037	0.3859	-0.0059	0.3953	0.0034	0.1757	-0.0120	0.6030**
	(-0.48)	(1.50)	(-0.52)	(1.29)	(0.38)	(0.66)	(-1.25)	(2.22)
Nasdaq	0.0031	-0.1191	-0.0031	0.0285	-0.0016	0.0402	0.0047	-0.1973*
	(1.11)	(-1.21)	(-0.84)	(0.24)	(-0.55)	(0.40)	(1.38)	(-1.72)
Secondary	0.0004	-1.2736***	-0.0086**	-1.2975***	-0.0029	-1.3964***	-0.0035	-1.1289***
	(0.18)	(-12.63)	(-2.17)	(-9.54)	(-1.08)	(-13.32)	(-1.01)	(-8.68)
RelSize	0.0239		0.0453		-0.0034		0.0557**	
	(1.10)		(1.65)		(-0.11)		(2.68)	
Proceed		0.0159		-0.1423*		0.0145		-0.0791
		(0.24)		(-1.80)		(0.20)		-1.15)
LN(Total Assets)	0.0009	-0.6567***	0.0003	-0.4620***	0.0008	-0.6672***	0.0008	-0.5364***
	(0.84)	(-10.52)	(0.28)	(-7.90)	(0.68)	(-11.69)	(0.64)	(-8.04)
Capex	0.0196	-1.3383**	-0.0063	-1.0831	0.0274	-1.5420**	-0.0061	-0.4577
	(0.91)	(-1.95)	(-0.23)	(-1.46)	(1.14)	(-2.53)	(-0.29)	(-0.50)
Leverage	0.0097*	-0.1105	-0.0113	0.0433	-0.0028	0.1342	0.0072	-0.1229
	(1.70)	(-0.64)	(-1.48)	(0.21)	(-0.46)	(0.64)	(1.17)	(-0.71)
Cash	0.0076	0.0397	-0.0136	0.3259	-0.0066	0.1244	0.0056	-0.0079
	(1.10)	(0.22)	(-1.65)	(1.58)	(-0.66)	(0.53)	(0.84)	(-0.04)
ROA	0.0002	0.1498	-0.0065	0.3736*	0.0026	0.1342	-0.0059	0.2826**
	(0.05)	(1.03)	(-0.80)	(1.93)	(0.39)	(0.72)	(-0.95)	(2.06)
Tangible	-0.0033	0.0880	-0.0071	0.0929	-0.0075	0.3988*	-0.0019	-0.3591
	(-0.43)	(0.32)	(-0.81)	(0.30)	(-0.90)	(1.78)	(-0.26)	(-0.98)
Volatility	-0.1457**	2.9961*	0.0016	6.3309**	-0.1324	1.1630	-0.0502	6.5699***

	(-2.15)	(1.88)	(0.02)	(2.87)	(-1.51)	(0.55)	(-0.70)	(3.91)
Tobin's Q	-0.0009	-0.1152***	-0.0009	-0.0422	0.0005	-0.1201***	-0.0021***	-0.0657***
	(-1.52)	(-5.87)	(-1.07)	(-1.53)	(0.72)	(-5.28)	(-3.02)	(-3.35)
Constant	-0.0103	11.9491***	0.0290	9.9665***	-0.0321	13.0954***	0.0014	9.9365***
	(-0.30)	(9.42)	(0.59)	(6.75)	(-0.86)	(10.65)	(0.03)	(7.96)
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES	YES	YES
Number of observations	1,780	1,940	1,004	1,117	1,379	1,435	1,405	1,622
Adjusted R^2	0.0726	0.4665	0.0717	0.5291	0.0768	0.5209	0.0743	0.4343

Table 10: Controlling for Government Contract Dependence and Shareholder Class Action Lawsuits

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst controlling for Government contract dependence and issuers defending shareholder class action lawsuits. The dependent variable in column 1, 3, and 5 is the *CAR*, measured over the window (0, +1) relative to the announcement day (0). While the dependent variable in column 2, 4, and 6 is the SEO gross spreads. *Connected issuers* indicates whether the issuer has a former politician on its board. *Pcontinous* is defined as the total number of former politicians on issuer board scaled by the total number of board directors. *LN(Proceed)* is the natural log of the total amount raised in the SEO. *RelSize* is the Ratio of offering proceeds to total assets. *Secondary* is the ratio of SEO shares being sold by existing shareholders to total SEO shares. *NASDAQ* indicates whether the issuer's stock is listed in the NASDAQ stock exchange over the SEO registration period and zero otherwise. *ROA* is the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets. *Cash* is the cash and short-term investments scaled by book value of total assets. *Tobin's Q* is defined as the market value of common equity plus total assets minus book value of common equity all scaled by total assets. See, Brockman, Rui, and Zou (2013). *LN(Total Assets)* is the natural logarithm of total assets. *Volatility* is the standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date. *CAPEX* is defined as the ratio of capital expenditures to the book value of total assets. *Tangible* is the ratio of plant, property, and equipment to total assets. *Leverage* is the ratio of total debt to book value of assets. *Board Size* is the number of directors on the board, measured in the year prior to the SEO announcement. *CEO Age* is defined as the natural logarithm of CEO age. *CEO Tenure* is the number of years CEOs of issuing firms had held their positions. *Independent Directors* is the percentage of independent directors measured in the year prior to the SEO announcement. *Female CEO* indicates whether the issuer has a female CEO, and 0 otherwise. *CEO Duality* indicates whether the CEO is also the chairman of the board, and 0 otherwise. *Female Proportion* is the percentage of female directors measured in the year prior to the SEO announcement. *Red State* indicates whether an issuer mainly operate in a Republican governed state and zero otherwise. *Dir.&Gov. Same Party* indicates whether the internal political director share the same political party as the Governor in the state where the connected issuers' headquarters are located. *Dir&Pres. Same Party* indicates whether the internal political director share the same political party as the USA president. *Suit-Filed* indicates whether an issuer was defending a shareholder class-action lawsuit around SEO announcement period and 0 otherwise. *Gov. Contract* is defined as the log of one plus the dollar volume of total contracts, obtained from USAspending.gov website. Similar to Brogaard, Dene, and Duchin (2020). ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Controlling for Government Contract Dependence and Shareholder Class Action Lawsuits						
	CAR(0, +1) (1)	Gross Spread (2)	CAR(0, +1) (3)	Gross Spread (4)	CAR(0, +1) (5)	Gross Spread (6)
Connected Issuers	0.0074**	-0.3520***	0.0076***	-0.3621***	0.0075***	-0.3501***
	(2.88)	(-3.70)	(2.94)	(-3.79)	(2.90)	(-3.67)
Gov. Contract	0.0001	-0.0053			0.0001	-0.0053
	(0.49)	(-1.25)			(0.50)	(-1.25)
Suit-Filed			-0.0019	-0.0917	-0.0019	-0.0899
			(-0.32)	(-0.55)	(-0.33)	(-0.54)
CEO Tenure	-0.0001	-0.1009**	0.0000	-0.1058**	-0.0001	-0.1014**
	(-0.03)	(-2.21)	(0.01)	(-2.29)	(-0.03)	(-2.22)

Board Size	0.0027	-0.0204	0.0028	-0.0217	0.0027	-0.0186
	(0.57)	(-0.13)	(0.59)	(-0.14)	(0.58)	(-0.12)
Independent Directors	-0.0004	0.0260	-0.0003	0.0210	-0.0004	0.0262
	(-0.12)	(0.20)	(-0.10)	(0.16)	(-0.12)	(0.20)
Female CEO	-0.0021	0.2956	-0.0022	0.2941	-0.0022	0.2929
	(-0.32)	(1.12)	(-0.33)	(1.11)	(-0.33)	(1.11)
Female Proportion	-0.0008	-0.1806	-0.0006	-0.1815	-0.0006	-0.1742
	(-0.08)	(-0.55)	(-0.07)	(-0.55)	(-0.06)	(-0.53)
CEO Duality	-0.0013	0.1024	-0.0013	0.1046	-0.0013	0.1016
	(-0.65)	(1.51)	(-0.67)	(1.55)	(-0.65)	(1.50)
CEO Age	-0.0040	0.4083**	-0.0041	0.4134**	-0.0040	0.4091**
	(-0.61)	(2.06)	(-0.62)	(2.08)	(-0.61)	(2.07)
Nasdaq	0.0012	-0.0603	0.0012	-0.0584	0.0012	-0.0592
	(0.53)	(-0.78)	(0.54)	(-0.75)	(0.54)	(-0.76)
Secondary	-0.0025	-1.2973***	-0.0026	-1.2869***	-0.0025	-1.2981***
	(-1.13)	(-15.79)	(-1.20)	(-15.76)	(-1.13)	(-15.79)
RelSize	0.0359**		0.0357**		0.0359**	
	(2.11)		(2.10)		(2.12)	
Proceed		-0.0385		-0.0362		-0.0382
		(-0.76)		(-0.71)		(-0.75)
LN(Total Assets)	0.0011	-0.5807***	0.0011	-0.5816***	0.0011	-0.5798***
	(1.27)	(-13.07)	(1.30)	(-13.07)	(1.29)	(-13.06)
Capex	0.0127	-1.1735**	0.0129	-1.1846**	0.0128	-1.1692**
	(0.76)	(-2.28)	(0.77)	(-2.31)	(0.76)	(-2.28)
Leverage	0.0014	-0.0534	0.0014	-0.0494	0.0014	-0.0518
	(0.31)	(-0.40)	(0.31)	(-0.37)	(0.31)	(-0.39)
Cash	0.0004	0.1198	0.0001	0.1385	0.0004	0.1201
	(0.08)	(0.88)	(0.03)	(1.02)	(0.08)	(0.88)
ROA	-0.0021	0.2156*	-0.0022	0.2091*	-0.0022	0.2128*
	(-0.47)	(1.91)	(-0.48)	(1.85)	(-0.48)	(1.88)
Tangible	-0.0047	0.0681	-0.0050	0.0908	-0.0047	0.0671
	(-0.80)	(0.33)	(-0.86)	(0.43)	(-0.80)	(0.32)
Volatility	-0.0874	4.0471***	-0.0882	4.1597***	-0.0868	4.0681***
	(-1.61)	(3.09)	(-1.62)	(3.18)	(-1.60)	(3.12)
Tobin's Q	-0.0011**	-0.0871***	-0.0011**	-0.0877***	-0.0011**	-0.0868***
	(-2.04)	(-5.59)	(-2.00)	(-5.61)	(-2.03)	(-5.57)
Constant	-0.0119	11.2348***	-0.0121	11.1962***	-0.0123	11.2166***
	(-0.44)	(12.57)	(-0.44)	(12.51)	(-0.45)	(12.58)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES
Number of observations	2,784	3057	2,784	3,057	2,784	3,057
Adjusted R2	0.0581	0.4812	0.0581	0.4809	0.0582	0.4812