Demand-supply mismatch and shareholder value: Evidence from excess inventory announcements

Abstract

This paper documents that excess inventory announcements, an indication of demand-supply mismatch, are associated with an economically and statistically significant negative stock market reaction. Over a two-day period (the day of the announcement and the day before the announcement) the mean (median) the stock market reaction ranges from -6.79% to -6.93% (-4.51% to -4.79%) depending on the benchmark used to estimate the market reaction. The percent of sample firms that experience negative market reaction ranges from 73% to 74%. When excess inventory is at the announcing firm’s customers, the market reaction is more negative than when the excess inventory is at the announcing firm. The stock market reaction is less negative for excess inventory announcements made by larger firms but more negative for firms with higher growth prospects and with higher debt-equity ratios. Excess inventory situations leads to higher stock price volatility and lower operating profitability.