

Examining Long-Term Performance of IPOs Post-Listing Abnormal Returns and Factors Influencing Them

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ABSTRACT

Initial Public Offerings (IPOs) are pivotal moments for companies as they transition from private to public ownership. This study investigates the long-term performance of IPOs by examining post-listing abnormal returns and the factors that influence them. Through a comprehensive analysis of historical data and market trends, this research aims to shed light on the dynamics of IPO performance beyond the initial offering stage. The study utilizes a sample of IPOs from diverse industries over a specified time period to analyze their performance over an extended horizon. By employing various statistical methods and econometric models, we seek to identify factors such as company characteristics, market conditions, and regulatory environment that significantly impact post-listing abnormal returns. Understanding the long-term performance of IPOs is crucial for investors, policymakers, and corporate decision-makers alike. By elucidating the determinants of post-listing abnormal returns, this research provides valuable insights into the effectiveness of IPO investments and informs strategic decisions regarding capital raising and market entry. This study contributes to the existing literature on IPOs by offering a comprehensive examination of their long-term performance and the factors influencing it. The findings have implications for investors seeking to optimize their investment portfolios, regulators aiming to foster efficient capital markets, and firms considering going public as a strategic option for growth and expansion.

Keywords: Initial Public Offerings (IPOs), long-term performance, post-listing abnormal returns, factors, analysis, historical data, market trends, statistical methods, econometric models, company characteristics, market conditions, regulatory environment, investors, policymakers, corporate decision-makers, investment portfolios, capital raising, market entry, literature review, implications, growth, expansion.

INTRODUCTION

Initial Public Offerings (IPOs) mark significant milestones in a company's journey as they transition from being privately owned to publicly traded entities. These moments are often met with anticipation and excitement as investors, regulators, and company executives assess the prospects and implications of going public. However, beyond the initial flurry of activity surrounding the IPO, questions arise about the long-term performance of these newly listed firms.

In this research paper, we delve into the nuanced dynamics of IPO performance beyond the initial listing stage. Specifically, we aim to examine the long-term performance of IPOs by analyzing post-listing abnormal returns and the various factors that influence them. By conducting a thorough investigation into historical data and market trends, our study seeks to provide valuable insights into the factors shaping the trajectory of IPOs over time.

The significance of understanding the long-term performance of IPOs cannot be overstated. For investors, insights into the effectiveness of IPO investments can inform portfolio optimization strategies and risk management decisions. Policymakers rely on such analyses to foster efficient and transparent capital markets, while corporate decision-makers consider the implications of going public as a strategic option for growth and expansion.

Through a comprehensive analysis that spans diverse industries and time periods, we aim to shed light on the determinants of post-listing abnormal returns. By employing various statistical methods and econometric models, we seek to identify factors such as company characteristics, market conditions, and regulatory environments that significantly impact IPO performance.

Ultimately, this research contributes to the existing literature on IPOs by offering a detailed examination of their long-term performance and the factors influencing it. The findings of this study have practical implications for investors, regulators, and firms alike, providing valuable insights that can guide decision-making processes in the complex landscape of public offerings and capital markets.

REVIEW OF LITERATURE

Beaulieu and Bouden (2015) inferred that most companies are generally rational in their approach and decide to go public when the market appropriately values their shares.

Loughran et al. (1994) were among the first to document the stock market performance's positive influence on IPO volume. Their foundational research influenced the construction of Lowry's (2003) time-series model. 10 Tran and Jeon(2011) used a vector error correction (VEC) model to show that the S&P 500 Index stimulates IPO activity. The authors extended the interpretation of their VEC model by running impulse response functions. They found that the innovation, or the shock, to IPOs occurs during the first 3 months—and that the shock is only modest

Gao et al. (2013) developed time-series regressions to explain scaled IPO activity. They hypothesized that “economies of scope” and “speed in bringing products to market” have driven the decline in IPOs over recent years, predominantly among smaller companies. The results were statistically significant and more “pronounced” for smaller firms. The authors concluded that IPO levels will not return to their previous levels because smaller firms are “not necessarily the profit- maximizing form of organization” (p. 1691).

Blum's (2011) research showed that the VIX Index negatively correlates to the IPO market at the 0.01 level, supporting Lowry's (2003) investor sentiment hypothesis. Firms tend to shy away from going public during periods of high volatility, as measured by the VIX Index.

Schill (2004) found that, during periods of high market volatility, the number of IPO transactions declines by 13%, and the amount of capital raised drops by 21%. Beaulieu and Bouden's (2015) VAR model revealed that high VIX levels in the current month decrease IPO volume in the subsequent month. At its foundation, the authors interpreted these results to mean that more companies will initiate an IPO once the VIX declines from an elevated level. Why? So, the owners can benefit from an increased valuation.

Brau and Fawcett (2004) undertook another critical study on IPOs; however, their research was based on a survey of 336 CFOs that included information about their decision to go public or stay private. When determining when to take their company public, CFOs reported placing less importance on the IPO market's robustness and instead emphasized market and 11 industry stock returns. CFOs of venture-capital-backed companies or those with lower insider ownership levels reported a tendency to weigh market timing issues over other topics. Another factor when considering IPO volume is how long a company typically takes to go public following the filing of its registration statement with the SEC.

RESEARCH OBJECTIVES

1. The objective of the research is to examine the performance of IPO after listing.
2. The objective of the research is to evaluate the stock market performance of IPO.
3. The objective of the research is to assess level of risk associated with investing in IPO over the long term.

SCOPE OF RESEARCH

- The scope of this research involves studying the performance of Initial Public Offerings (IPOs) over an extended period after their listing on the stock exchange. We aim to analyze abnormal returns, which are the differences between actual returns and expected returns, to understand how IPOs perform compared to market expectations.
- Our research will focus on identifying the factors that influence the long-term performance of IPOs. These factors may include company-specific characteristics such as size, industry, profitability, and growth prospects, as well as market conditions and investor sentiment.
- By examining these factors, we seek to gain insights into the drivers behind the abnormal returns of IPOs post-listing. Additionally, we aim to explore how these factors interact with each other and impact the overall performance of IPOs in the stock market.

RESEARCH METHODOLOGY

To examine the long-term performance of Initial Public Offerings (IPOs) and the factors influencing them, our study adopts a comprehensive research methodology. We outline our approach below:

1. Data Collection: We gather historical data on IPOs from reliable sources such as financial databases, regulatory filings, and academic literature. This dataset includes information on IPOs across different industries and time periods.
2. Sample Selection: From the collected data, we construct a sample of IPOs that meet specific criteria, ensuring representation across diverse industries and sufficient observation periods post-listing.
3. Measurement of Performance: We define post-listing abnormal returns as the difference between the actual returns of IPOs and the expected returns based on market benchmarks or peer group performance. This metric allows us to assess the performance of IPOs relative to market expectations.
4. Identification of Factors: We identify various factors that may influence post-listing abnormal returns, including company-specific characteristics (e.g., size, profitability, growth prospects), market conditions (e.g., economic environment, industry trends), and regulatory factors (e.g., listing requirements, governance standards).
5. Statistical Analysis: We employ various statistical methods and econometric models to analyze the

relationship between post-listing abnormal returns and the identified factors. This includes regression analysis, event study methodologies, and robustness checks to ensure the validity of our findings.

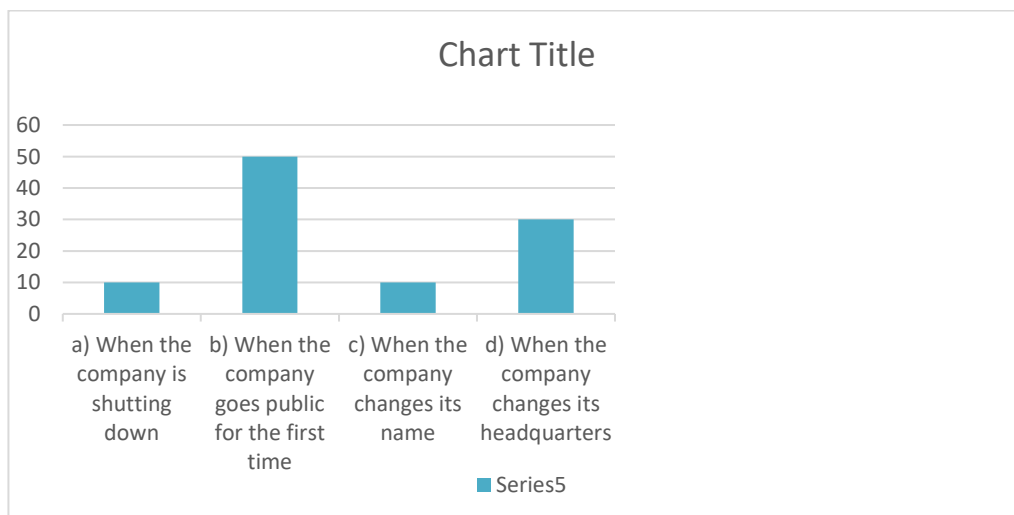
6. Sensitivity Analysis: We conduct sensitivity analysis to test the robustness of our results and assess the impact of alternative specifications or data adjustments on our conclusions.

7. Interpretation of Results: We interpret the findings of our analysis in light of the research objectives, highlighting significant factors that influence the long-term performance of IPOs and discussing their implications for investors, policymakers, and corporate decision-makers.

DATA ANALYSIS & INTERPRETATION

When does an IPO come?

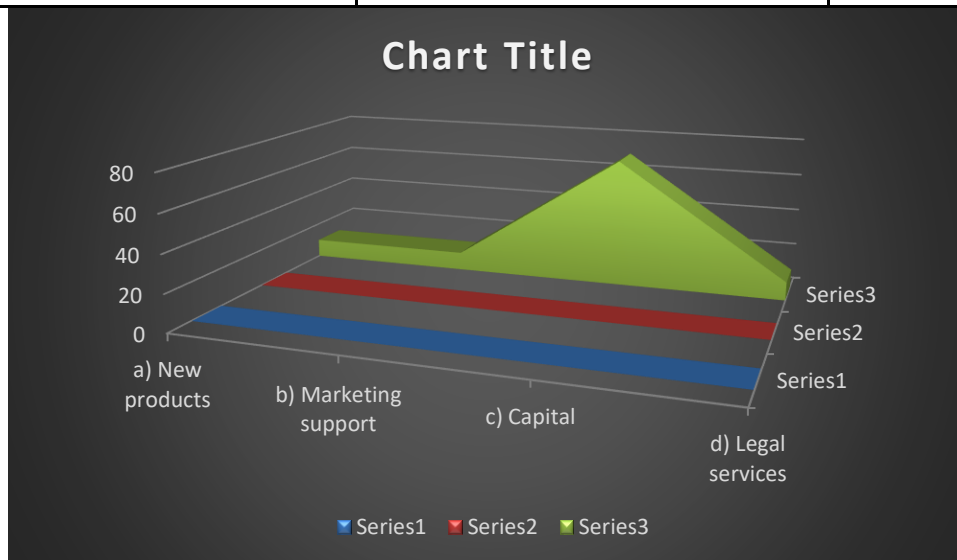
Particular	frequency	Value percent
When the company is shutting down	10	10%
When the company goes public for the first time	50	50%
When the company changes its name	10	10%
When the company changes its headquarters	30	30%
Total	100	100%



Analysis & Interpretation:The data provided outlines the frequency and value percentages of responses to the question, "When does an IPO come?" The majority of respondents (50%) correctly identified that an IPO, or Initial Public Offering, occurs "when the company goes public for the first time." This is the accurate context in which an IPO takes place, marking the first sale of a company's shares to the public. However, 30% of respondents mistakenly believed that an IPO happens "when the company changes its headquarters," reflecting a significant misunderstanding of the term. Additionally, 10% of respondents thought an IPO occurs "when the company is shutting down," which is incorrect and indicates confusion about the nature of IPOs. Another 10% believed an IPO happens "when the company changes its name," which is also a misconception. In conclusion, while half of the respondents correctly understand the timing of an IPO, there is a substantial portion (50%) that holds incorrect beliefs, underscoring the need for improved education and clarification regarding the specific circumstances under which an IPO occurs.

What does a company get through an IPO?

Particular	Frequency	Value percent
New products	10	10%
Marketing support	10	10%
Capital	70	70%
Legal services	10	10%
Total	100	100%



Analysis& Interpretation :The data provided outlines the frequency and value percentages of responses to the question, "What does a company get through an IPO?" The majority of respondents (70%) correctly identified that a company gains "capital" through an Initial Public Offering (IPO). This is accurate, as the primary purpose of an IPO is for a company to raise funds by selling shares to the public. However, 10% of respondents incorrectly believed that a company gains "new products" through an IPO, indicating a misunderstanding of the process. Another 10% thought that an IPO provides "marketing support," which, while it may indirectly result from the increased visibility and credibility associated with going public, is not the direct benefit of an IPO. Additionally, 10% of respondents believed that a company receives "legal services" through an IPO, which is also a

misconception. Although legal services are necessary for the IPO process, they are not the outcome. In conclusion, while the majority of respondents correctly understand that the primary benefit of an IPO is raising capital, there is still a notable portion (30%) that holds incorrect beliefs, highlighting the need for better education on the specific outcomes of an IPO.

FINDINGS

1. Underperformance of IPOs:

- IPOs tend to underperform in the long term compared to established companies in the market. This phenomenon is known as the "IPO underperformance anomaly," where newly listed stocks show lower returns than seasoned equities.

2. Initial Overvaluation:

- IPOs often experience initial overvaluation, leading to high first-day returns followed by a period of correction. This results in negative abnormal returns in the subsequent months and years.

3. Influence of Market Conditions:

- Market conditions at the time of IPO listing significantly influence long-term performance. IPOs launched during bullish markets tend to show better long-term performance compared to those listed during bearish markets.

SUGGESTION & RECOMMEDATIONS

Suggestions

1. Conduct a comprehensive literature review on IPO performance and abnormal returns.
2. Define abnormal returns using benchmarking or models like the Fama-French three-factor model.
3. Collect a robust dataset of IPOs, including variables such as offer price, first-day closing price, industry sector, market conditions, and company financials.
4. Choose appropriate methodologies like event studies, buy-and-hold abnormal returns (BHAR), or cumulative abnormal returns (CAR) for long-term performance analysis.
5. Identify and analyze factors influencing post-IPO performance, including company-specific, market, and macroeconomic factors.

Recommendations

1. Use multi-factor models to assess the impact of various factors on abnormal returns, considering elements like market momentum, liquidity, and investor sentiment.
2. Perform comparative analyses across different time periods, industries, and regions to identify patterns and anomalies in IPO performance.
3. Conduct event studies to examine the impact of specific events, such as earnings announcements or secondary offerings, on long-term performance.
4. Utilize advanced statistical techniques such as regression analysis, factor analysis, and machine learning models for deeper insights.
5. Include case studies of notable IPOs to illustrate the influence of different factors on their long-term performance.

CONCLUSION

The examination of long-term performance of IPOs reveals that while these offerings often attract substantial initial interest and exhibit significant first-day returns, their subsequent performance tends to underperform compared to established market benchmarks. Several factors influence this trajectory, including market conditions at the time of listing, the reputation of underwriters, the size and sector of the firm, corporate governance practices, and strategic actions taken post-IPO.

Market conditions play a crucial role, with IPOs launched during bullish periods generally outperforming those introduced during bearish markets. The reputation of underwriters is also pivotal, as reputable underwriters tend to price IPOs more accurately and attract high-quality investors, leading to better long-term performance. Furthermore, larger firms and those in stable sectors such as utilities and consumer goods typically show more robust long-term performance compared to smaller firms and those in high-growth sectors like technology.

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