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※新股初次上市後長期表現與盈餘操控和承銷商信譽分析※
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The Long-Run Underperformance of IPOs, Earnings Management and Underwriter Reputation

Abstract

Recent studies have documented that various factors such as discretionary accounting accruals, underwriter reputation, venture capital backing, and firm size will affect the long-run performance of IPOs. However, it is not clear whether the return predictability of these attributes are the manifestation of one phenomenon, or independent results. We do the univariate and multivariate analyses on these factors to trace the sources of return predictability. We find that these previous identified effects are not the same phenomenon, though correlated to some extent. The results show that a confluence of these determinants is more important than any individual factor in explaining the IPO long-run performance. We also identify a subset of IPOs that outperform their benchmark. To our knowledge, this is the first study to find such result.

新股初次上市後長期表現與盈餘操控和承銷商信譽分析

中文摘要

Ritter (1991) 和 Loughran and Ritter (1995)發現美國初次上市之新股，在上市後的五年內，股價表現明顯不佳。而後續的一些研究結果發現上市公司的盈餘操控程度、承銷商信譽、是否有創投資金投入和公司大小均影響新股初次上市後的長期股票報酬。本文旨在串聯這些實證的研究結果以進一步進行交叉分析。本研究發現上述之各種因素雖然相關，但其對新股初次上市後的長期股票報酬各有一定程度的影響力。綜合各項因素對股價的解釋能力要比單一因素來的高。我們也發現有一些初次上市的新股，其長期表現相當亮麗，過去的文獻均未對此著墨。

Ritter (1991) and Loughran and Ritter (1995) document the long-run underperformance of initial public offerings (IPOs) and suggest that investors may be periodically overoptimistic about the prospects of young companies making their début in the public-equity markets. Recent studies have focused on identification of factors that affect the long-run performance of newly public firms. Size of the newly-public firm and the effect of venture-capital backing (Brav and Gompers (1997)), underwriter reputation (Carter, Dark and Singh (1998), Logue, Rogalski, Seward and Foster-Johnson (2002)) and discretionary accrual effect (Teoh, Welch and Wong (1998)) are among the various factors associated with IPO long-run performance examined in the recent literature.[1]

Prior research has not studied these determinants of IPO long-run performance in combinations and it is not evident from prior research whether these effects are independent or overlapping, and whether these attributes affect the entire sample or sub-samples only. Moreover, each of the prior studies uses a different sample period and methodology to examine the long-run performance of IPOs. Thus it is difficult to make direct comparisons across studies because it is not evident whether the differences are being driven by different samples, sample periods, and/or methodologies. Finally, empirical evidence regarding the underwriter reputation effect is mixed (Carter, Dark and Singh (1998), Logue, Rogalski, Seward and Foster-Johnson (2002)). The question of underwriter reputation and its relation with the long-run performance of IPOs, if any, is not unambiguous. The objective of our study is to resolve these issues.

Is it likely that the various attributes identified in earlier studies are independent? Venture capitalists are routinely represented on the boards of the new business venture and their close association is over a relatively longer time horizon than the association of investment banking houses with the prospective IPO firm. On the other hand, investment banking houses routinely evaluate businesses. Arguably, higher quality investment banking houses possess relatively greater valuation experience and expertise. As for the IPO firm, it has the incentive to dress up its earnings if doing so can fetch better valuation. However, underwriters and venture-capital firms are professional certification agents with independent

1 Brav and Gompers (1997) examine the performance of newly public firms, with and without the backing of venture-capitalists, and find that the underperformance is limited to small nonventure-backed IPOs only. Teoh, Welch and Wong (1998) study the effects of earnings management by firms going public. They document that IPOs' underperformance is attributable to the unusually high discretionary accounting accruals in the IPO-year. Carter, Dark and Singh (1998) examine the effects of underwriter reputation on the long-run outcome of IPOs and document a less severe underperformance for IPOs brought to the market by more prestigious underwriters. In contrast, Logue, Rogalski, Seward and Foster-Johnson (2002) revisit this question and do not find evidence to support the impact of underwriter reputation on the long-run performance of IPOs.

stakes in their own reputation. Systematic inability to detect managed earnings could affect their reputation capital. Moreover, their reputation capital would be adversely affected if their impact as a certification agent were to be subsumed by that of another agent. Nonetheless, dressed-up earnings are not quite transparent and the need to assess firm quality may not necessarily translate into success in detecting the size of accruals in earnings. For instance, Teoh and Wong (2002) suggest that analysts appear unable to detect earnings that contain a large accruals component. Thus, it is feasible that the underwriter reputation and the venture capital effects are separate and independent and that either one or both of these certification agents are unable to detect the level of earnings management by the firm going public.

Could the various attributes identified in earlier studies be manifestations of the same effect? Barry, Muscarella, Peavy and Vetsuypens (1990) document that small nonventure-backed firms go public with lower tier underwriters and may have fewer and lower quality analysts following the firm in the post-IPO period. Since asymmetric information is likely to be more prevalent for small firms, it is possible that the impact of the discretionary accrual component of earnings is more pronounced for smaller firms. If both venture capitalist and prestigious investment banking houses are able to detect the level of earnings management, then each of these attributes may be overlapping. Studying their association with the long-run performance of IPOs in isolation would lead to similar conclusion for each. Therefore, there is reason to believe that firm size, venture capital backing, underwriter reputation and the level of discretionary accruals have overlapping influence on the long-run performance of IPOs.

We combine these separate strands of research to examine the relation between size of the newly-public firm, venture capital backing (VC), underwriter reputation (REP), level of earnings management (DA) and the IPO long-run returns. We find that these factors examined in the previous literature are related. Issuers with high DA are usually smaller, nonventure capital-backed IPOs marketed by less prestigious underwriter. However, the abilities of DA, REP and VC to predict IPO long-run performance are not the manifestation of one phenomenon. The return spread between extreme portfolios generated from two or three factors combined is larger and more significant than that from individual factors. That is, each individual factor has its own contribution to IPO long-run returns. Accordingly, our results suggest that a confluence of the previously identified determinants of IPO long-run performance is more important than the effect of any individual factor.

We also qualify findings in previous studies. The DA effect documented in Teoh, Welch and Wong (1998) is strong in both small and big IPOs, and is primarily due to the underperformance of high DA IPOs. This proves that DA is an important factor in newly-listed firms. Though it's unlikely that all IPO firms manipulate earnings prior to going public, it is plausible that high DA proxy the deteriorating business fundamentals where investors tend to ignore (Chan, Chan, Jegadeesh and Lakonishok (2002)). Regarding underwriter reputation, we don't see a REP effect for the full sample, a finding similar to Logue, Rogalski, Seward and Foster-Johnson (2002). However, once we split the sample into small and big sub-samples, we find that big IPOs with low reputation underwriters severely underperform. So, the underwrite reputation works only for large IPOs. One possible reason is that large issuers tend to choose prestigious investment bankers to guarantee the success of IPOs and obtain their professional advice (Krigman, Shaw and Womack (2001)). If a big IPO chooses a less prestigious underwriter, it is a strong signal that the issuer may have bad information. Finally, though VC effect is stronger in smaller IPOs in the univariate analysis, it is very helpful in predicting IPO long-run returns for both small and big IPOs in multivariate analysis. Since the return predictability of VC is more robust than that of REP, it suggests that venture capitalists seem to be more important than underwriters for firms to go public (Hellmann and Puri (2002))

One interesting result we find in this study is that VC-backed IPOs with low DA outperform the benchmark in the long-run. Past literature has documented the IPO long-run underperformance only, and ignored the opportunity of making positive returns in investing IPOs. To our knowledge, this is the first paper to identify a subset of IPOs which can increase rather than hurt investors' wealth.

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