

A Study on the Determinants of the Successful IPO

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Abstract. The process of a company's IPO application passing the SEC's review and successfully raising funds from the public by issuing shares on the stock exchange signifies that the company has become a public company and its shares can be listed and traded on the stock exchange. However, the IPO process is actually quite complex, and there are numerous roles involved in the IPO, and a small mistake related to the conduct of the IPO can result in the company not being able to go public. The Securities and Futures Commission (SFC) has some basic requirements for the issuance conditions of the proposed listed company, which gives the proposed listed company an order to ensure that its business system is complete and has the ability to operate independently directly to the market, so that it can have a more definite answer to the success or failure of the IPO. Based on this, the article clarifies the meaning of IPO, and the conditions that the company needs to have and its importance, and lists several factors one by one, such as pricing, efficiency, cost, and stock offering.

1 Introduction

Nowadays, Initial Public Offering (IPO) is still one of the effective ways for enterprises to obtain financing and expand their business scale, which refers to the first time an enterprise sells its shares to the public. At the same time, the IPO audit is to select companies for initial public offerings, and to select and approve high-quality companies to go public, so that they can obtain better financing channels and methods, and to promote the virtuous cycle of the capital market. Usually, the shares of a listed company are sold through brokers or market makers in accordance with the terms agreed in the prospectus or registration statement issued by the corresponding Securities and Futures Commission, and once the IPO is completed, this company can apply for listing and trading on a stock exchange or quotation system. Therefore a limited liability company should be changed to a stock corporation before applying for an IPO.

The ability of an enterprise to generate sustainable and stable earnings from its future business activities is called sustainable profitability [1]. Among them, IPO pricing, efficiency, cost and stock issuance are also the key judgement criteria for determining whether an enterprise can make an initial public offering. The work of IPO is actually more complex, and there are numerous roles involved in its IPO, which, by way of generalisation, include the company and its directors, the reporting accountant, the sponsor, the company's lawyers, the sponsor's lawyers and so on, with their respective responsibilities and divisions of labour [2]. The Securities and Futures Commission has some basic requirements for the proposed listed companies to issue conditions, broadly divided into the non-financial

information and financial information, which allows the proposed listed companies to have an order, to ensure the integrity of its business system, with the ability to operate independently directly to the market, so that the success of the IPO has a more definitive answer [3].

2 The purpose of an IPO

For listed companies, an IPO can provide the company with a rich source of capital and access to more financial support, for example, to support its business expansion and innovation. As the company's business expands and develops, the original capital may not be able to meet the company's future development needs. Through a public offering, the company can attract investors by way of equity exchange, thus obtaining a large amount of capital for investment in production expansion, R&D innovation and market development. By issuing shares to the public, an IPO can bring the company wide exposure and media attention, and the company can increase its market capitalisation and enhance its corporate awareness and reputation, which is usually accompanied by various promotional activities and advertisements. These promotional activities allow more potential customers and industry players to learn about the company's business model, development strategy and core competencies, which will in turn increase the recognition of and trust in the company.

For investors, IPOs provide an investment opportunity whereby investors can purchase company shares at a lower price and expect higher returns in the future. IPOs also provide investors with the opportunity to diversify their investments, enabling them to

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participate in the development of different industries and enterprises. It is important to note that stock prices may fluctuate or become over-hyped during the IPO process and investors should remain calm and make investment decisions based on their own risk tolerance. Companies can obtain financial support and market recognition through IPOs, and investors can participate in the growth of emerging companies through IPOs. However, investors need to carefully assess risks and make informed investment decisions when participating in IPOs.

Going public is a way of financing, which can help enterprises to develop rapidly. After the listing of the enterprise valuation and value can be rapid development, the company can expand the scale of production to improve its productivity, reduce their company's business risks, improve core competitiveness to get better development, to achieve a virtuous cycle; at the same time, the listing is also conducive to expanding the visibility of the enterprise, increase the company or enterprise in the same kind of product advantage, to obtain the trust of consumers, so that the product is easier to sell.

Of course, there are pros and cons to everything, and going public has many disadvantages for companies: (1) Transparency of the company's operations and a higher degree of regulation. Business information may be known by competitors, including the company's financial information, development strategy, core sensitive data, etc. (2) Equity dilution, there may be a risk of loss of control. (3) The risk of the company's development being kidnapped by shareholders. After listing, the company faces pressure from shareholders as well as various analysts. In order to meet market expectations, there is a great deal of pressure and incentive to make decisions to maximise short-term profits, while ignoring the company's long-term development objectives and strategies. (4) High costs, including: (i) Intermediary costs. Including counselling (packaging) fees before listing, consulting fees during the listing process, and maintenance costs after listing, etc.; (ii) Tax costs. Usually, in the process of restructuring and reorganisation, enterprises usually need to pay a large amount of back taxes due to previous financial management irregularities; (iii) Tax costs. Usually, in the process of restructuring and reorganisation, enterprises usually need to pay a large amount of back taxes due to previous irregularities in financial management, etc.; (5) Risk of share price volatility and manipulation by brokerage firms. (6) Legal and regulatory risks.

The common problem of declining business performance after an IPO is also known as the "IPO effect". In this context, studying the focus of enterprises on pricing, efficiency, cost, and stock issuance can effectively help them solve the relevant problems or make countermeasures in advance, reduce the failure rate of IPOs, and be of great practical significance to the smooth listing of enterprises.

3 Determinant 1: Pricing

The level of the IPO price determines the success of the IPO, and also relates to the fundamental interests of the participating entities. Underpricing will directly affect the fund-raising effect of the listed entity, while overpricing will increase the cost of the investors and the risk of the underwriters, so it is necessary to achieve a dynamic balance between the interests of the issuer, underwriters, quoting institutions, and investors [4].

The main factors affecting IPO pricing are market environment, company fundamentals, investor sentiment, and regulatory policies and market mechanisms. The degree of convergence between IPO listing price and issue price is the criterion for evaluating the effectiveness of IPO pricing. Through the observation and reflection on the fundamentals and market performance of listed companies since the opening of GEM, it is found that the IPO process has led to a significant difference between IPO pricing and stock valuation, firstly, the stability of the capital structure is different; secondly, the fundamentals are different; and thirdly, the pricing motives are different, which indicates that the IPO pricing process should fully consider the impact of IPO to the fundamentals, and promote the marketisation of issue pricing, with the issuers and underwriters taking into account the fundamentals of the market [5]. Issuers and underwriters should determine the issue price based on fundamentals and market demand, and investors should determine the value of the company based on the fundamentals after the issue and decide whether to participate in the subscription. If companies do not price their IPOs reasonably, IPO price suppression and premiums will occur. A premium is when an IPO is priced significantly higher than the initial market price of the listing. When a premium occurs, existing shareholders will earn a profit as the issuer sells at a price higher than the value of the stock itself [6].

IPO depression refers to the fact that the price of a first issue is lower than its real value, which is mainly manifested by the fact that the price of the first issue is much lower than the closing price on the day of listing, which allows investors to make excess returns on the first day of listing. Market incompleteness and information asymmetry are one of the main reasons for IPO price depression [7]. In the IPO market, investors who have information are usually able to use their information advantage to purchase stocks with investment value, while investors who do not have information can only make investment decisions based on the behaviours of other subjects, and thus may purchase stocks with lower value. In the IPO process, the issuing enterprise will give the right to price the new shares to the investment bank, and the investment bank because of the information advantage, often tends to set the issue price of the new shares below its value, which not only reduces the investment bank's own risk, but also facilitates the smooth issuance of the new shares, and at the same time for the investment bank and its investors to provide the excess rate of return, which has formed the IPO suppression of the price.

IPO firms want to minimise IPO bid suppression because it represents the value that firms fail to capture, also known as "money left on the table". In other words, IPO firms generally consider high levels of IPO bid suppression to be undesirable, and therefore lower IPO bid suppression is often seen as a key indicator of better IPO performance. In empirical studies, a direct indicator of IPO efficiency is the degree of IPO suppression, which can be measured by the return on new shares of listed companies on the day of listing, or by the excess return on new shares. From past experience, it can be concluded that the phenomenon of IPO suppression is prevalent in China's stock market, both in terms of the decisions made by listed companies and the tactics used by underwriters, which suggests that the result is that the risk of IPOs is relatively low, and that companies that want to go public can generally qualify for listing through IPOs.

IPO pricing is therefore a complex process involving a variety of factors such as the book value of the company, operating performance, growth prospects, number of shares issued, industry characteristics and market volatility. The process of quantifying these factors can vary significantly depending on the methodology chosen by the pricer. Companies need to consider all factors together to ensure that the offering is both successful and in the interests of all parties.

4 Determinant 2: efficiency

In less than 30 years since the initial public offering (IPO) was introduced as an entry point to the securities market, the regulators have carried out nine IPO suspensions and restarts due to unpredictable conditions arising in the market. After the latest restart, the relevant authorities in China have introduced a series of reform measures, which have led to a significant improvement in the efficiency of IPOs in China.

IPO efficiency can also be referred to as primary market efficiency or issue market efficiency. In the existing literature, there is no clear and consistent definition of the concept of IPO efficiency, primary market efficiency or issuance market efficiency, and IPO efficiency usually refers to the IPO suppression rate. The research on IPO efficiency by foreign scholars mainly focuses on the analysis of the excess return of new shares, and considers that the standard for measuring the efficiency of IPO is the excess return of new shares (also known as the phenomenon of IPO price suppression, which is a common phenomenon existing in the process of new share issuance) [8].

IPO efficiency can be explained by behavioural finance in terms of the investor sentiment hypothesis and speculative bubble theory, as information disclosure becomes fuller and fuller, investors become more informed about listed companies and optimistic investors' evaluation of stocks subsequently decreases, which leads to a decrease in demand, and a decrease in demand results in a decrease in the price of the stock so that due to a change in the investor structure leading to a decrease in the market's overall expectations, its stock in

the long run will perform. The result is a decline in stock price. IPO efficiency is high when the shares of listed companies are underwritten by underwriters with foreign equity participation. According to the literature, through the study of IPO efficiency, it is found that company size, gearing ratio, individual investor's shareholding ratio, listing interval, company's profitability and stock expansion variables are important factors affecting the efficiency of IPOs, and the magnitude of IPO price suppression is related to the lagged risk of IPOs as well as whether or not to issue additional shares in the future, the greater the lagged risk, the higher the degree of IPO price suppression, and the higher the likelihood of future issuance, the higher the degree of suppression [9]. The higher the possibility of future issuance, the higher the degree of price suppression. Therefore, the institutional defects of the stock issuance market, the operation of the secondary market and the speculative behaviour of investors are the main reasons for the high initial yield of IPOs.

IPO efficiency is related to three factors in the market, which are the intrinsic value of the company, the issue price in the primary market, and the secondary market price after the listing. It is also affected by a variety of factors, for example, the stability of the market environment is the primary factor affecting IPO efficiency. In the case of high market volatility and uncertainty, investors' willingness to subscribe to the IPO will be reduced, thus affecting the smooth implementation of the IPO. A stable market environment helps investors form reasonable expectations and promotes the success of IPOs. The level of corporate governance is directly related to the efficiency of a company's internal management and decision-making [10]. A high level of corporate governance can enhance a company's credibility and increase investor confidence, thus improving the efficiency of an IPO. Effective boards of directors, supervisory boards and incentives are important components of corporate governance. Issuer quality is a direct reflection of IPO efficiency. Good issuers usually have stable profitability, good market prospects and a healthy financial position [11]. All of these factors enhance investor confidence in the issuer and increase the subscription multiple and financing efficiency of an IPO. Investor sentiment is an important factor affecting the IPO market. When market sentiment is high, investor enthusiasm for subscribing to IPOs increases, driving the success of IPOs. On the contrary, when market sentiment is low, investors' willingness to subscribe to IPOs decreases, which negatively affects the efficiency of IPOs. Through the certification effect, venture capital can reduce corporate uncertainty and enhance the efficiency of IPO and post-IPO performance.

5 Determinant 3: costs

The total cost of IPO issuance consists of two parts: direct cost and indirect cost, so the effect of registration reform on the total cost of issuance is obtained by studying the effect of registration reform on direct cost

and indirect cost. The registration system reform increases the total cost of IPO issuance due to the greater impact of the increase in the indirect cost of IPO issuance. The registration system reform will reduce the direct cost of IPO issuance, but will lead to the increase of indirect cost and total cost of IPO issuance. It shows that the registration system reform is a key system construction in China, which is related to the high-quality development of the capital market and the optimisation of the allocation of resources [12].

IPO financing cost mainly refers to the total price paid by the enterprise to achieve the purpose of raising funds through initial public offering and successful listing. Strengthening the analysis of the influencing factors related to IPO financing cost is conducive to better control of financing cost, so that the enterprises in the GEM market can better achieve the financing objectives, reduce the financing risks and costs, so that the enterprises in the GEM market can achieve better development. From the viewpoint of capital market structure, the capital market will be imperfect if there is only the main board market. However, the IPO financing cost of GEM market is relatively high, focusing on the study of IPO financing cost of GEM market can effectively increase the liquidity of investor's assets, reduce and avoid the investment risk of investors, greatly enhance the liquidity of investment resources, and improve the efficiency of capital use. The direct cost factors affecting IPO financing in GEM market mainly include issue size, average annual growth rate of operating income, profitability, gearing ratio, winning rate, etc. These factors will directly constitute the IPO direct financing cost model [13].

Indirect financing costs are generally expressed through the magnitude of price suppression on the first day of issuance. When the company's issuance scale is larger, the degree of stock pursuit and speculation is worse, and the magnitude of its price suppression is relatively smaller, which shows that there is a negative correlation between the issuance scale of the stock and the indirect financing cost. By understanding the relevant factors affecting the IPO financing cost of GEM, it can grasp the importance of studying the IPO financing cost, so as to control the IPO financing cost of GEM market, and then help the success of IPO.

6 Determinant 4: stock issuance

IPO stock offering, also called public offering of shares by shareholders of a company in an initial public offering. There are two main scenarios of stock issuance in the stock market: first, stock issuance in the initial public offering (IPO) of shares, i.e., when the company's IPO is conducted, the old shareholders sell a portion of their shares to the outside world publicly; and second, stock issuance after the company's IPO, i.e., after the company's IPO is conducted, the company's old shareholders reduce their holdings of all or a portion of their shares in a certain way. In contrast to IPO incremental offering, the shares issued in IPO stock offering come from the hands of the original

shareholders of the company rather than the company, the proceeds from the offering are attributed to the original shareholders rather than the company, and the total number of shares of the company will not be increased after the issuance, and it will not affect the shareholding of the other unissued shareholders of the company.

The purpose of a stock offering includes several main points: firstly, to avoid excessive fund-raising; secondly, to improve the efficiency of fund-raising; thirdly, to introduce a capital market monitoring mechanism; fourthly, to solve the exit problem of old shareholders; and fifthly, to promote reasonable pricing of IPOs. Overall, a stock offering is a multi-faceted solution aimed at optimising the IPO process and balancing the interests of shareholders, investors and the market [14].

One of the classifications of stock offerings is the classification based on the presence or absence of incremental offerings. Mixed offerings also help to increase the total number of shares flowing into the market, thus enabling a company's public offering to meet the minimum number of shares to be issued. The second is the classification based on the existence of over-allotment rights. In the event of weak market demand, shareholders will use the treasury shares as over-allotment rights, which demonstrates the determination of the shareholders to co-exist with the interests of the company, thus enhancing the market's confidence in the company's shares. From the investor's point of view, the establishment of the IPO stock offering system allows the old shareholders to choose the open and transparent way, which can enable investors to obtain fuller information and enhance the liquidity of the old shareholders' funds. The IPO stock offering can also bring many problems. Especially the selling behaviour of the risky investors in it, investors will certainly doubt the value of the company in the face of the transfer behaviour of the old shareholders, which will make the reduction of the company's issue price, which is not conducive to the company's financing.

The study highlights a number of problems and reasons for stock issuance. Investors' rationality is not high, and investors in the primary and secondary markets generally have a serious speculative mentality; in the case of high price-earnings ratios and high issuance prices, IPO stock issuance does not actually expand the supply; and the "three highs" problem refers to high issuance prices, high price-earnings ratios, and high over-raising of funds in the IPO process. Therefore, in order to reasonably position the IPO stock issuance system, first of all, it should accurately grasp the positive effects it can play.

For the company to go public or not, people also have different opinions, which are determined not to go public, Huawei, Lao Gan Ma, for example, according to Ren Zhengfei's public talk, Huawei does not go public a big reason is that its employee shareholding of the equity structure, which is Huawei's key to the rise of the key factors, because once the listing of the company may need to change the company's shareholding structure. Tao Bihua, the founder of Lao Gan Ma, harbors a profound distrust of listing, and has been quoted as

saying: "He doesn't know anything about listing and financing, he only knows that once a company goes public, there's a risk of losing all the money. He believes listing is deceiving people's money, and therefore, he is resolute in his decision not to pursue going public." There began to resolutely not listed, and then did not take a few years to change the idea of listing success or plan to list, which is an example of SUNFENG and Wahaha, SUNFENG founder Wang Wei once said: "listing is nothing but to circle money, listing is susceptible to the influence of the external environment, so even if there is a shortage of money again SUNFENG will not be listed." However, several years later on 23 February 2017, SF shell Dintai new material in the Shenzhen Stock Exchange bell. Has been insisting that "resolutely not listed, Wahaha is not poor" Zong Qinghou also changed his words in November 2017 "at the appropriate time Wahaha will also consider listing". There is the beginning of the founding of the company, will be listed as a major segment of the company's development goals, although the road to listing is quite bumpy, but not listed not to let go of the company [15]. Take the announcement of the proposed listing on the New York Stock Exchange on July 17 as an example, the rumours of its listing first appeared in 2016, after which the news of its listing has never stopped. On May 11, 2017, industry rival HootSuite Live was later listed on the New York Stock Exchange in the United States, taking away the title of China's first game live stock. Since then, the company's operation has encountered various problems, including the "Lu Benwei incident", "Chen Yifa'er incident", and "black public relations incident" with Tigertooth, and other negative news, overseas promotion is unfavourable, Overseas promotion is unfavourable, unpaid wages and other storms further to the Douyu listing road dust. Although the road to listing has been opened, but the future is still difficult. Of course, there are also listed after the regret, and thus delisted.

7 Conclusion

Overall, every company has its own path to follow, and whether to go public or not is just a path in its development process, there is no absolute right or wrong. The success of an IPO can be linked to several factors, including pricing, efficiency, cost and stock issuance, in which the pricing of an IPO is often based on the observation of the company's fundamentals and thinking, and should reflect the company's intrinsic value of the appeal, but also requires a series of reasonable institutional arrangements, through the market mechanism to guide the investment sentiment, and to find out the problem, analyse the reasons and methods to ensure that the company can be successfully listed Issuance. At the current stage of the market environment, the company's own factors, the financing efforts of the IPO market and the overall stock market heat impact on the primary market allocation efficiency deviation is increasing, due to the imbalance between supply and demand in China's stock market, as well as the lack of

maturity of the market participants and other reasons, the media reports and the stock market heat has become one of the main reasons for the volatility of China's stock market. Therefore, in addition to the information of listed companies themselves, changes in market conditions will also affect the efficiency of IPO. For listed companies, they should be aware of the need to grasp appropriate listing opportunities and really use the fund-raising capital for their own benign operation, in order to promote the capital marketisation, so that resources can be reasonably optimised and used. The existence of IPO listing problems is a long-term and complex process, which requires the joint efforts of the relevant departments and enterprises, strengthening the supervision of enterprises and enhancing investor education, in order to minimise the problems in the listing process and safeguard the stability of the market and the rights and interests of investors.

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