The Macro-Determinants on the Successful IPOs

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Abstract. This paper examines the macro determinants of successful IPOs, focusing on the impact of underwriter selection, pricing strategy and social media on post-IPO company growth. This paper also illustrates the importance of selecting a reputable underwriting brokerage firm when the companies are sturcturing and executing an IPO and how that reputation can affect pricing and how their reputation affects pricing and long-term share price performance. It also examines the IPO pricing process and highlights the importance of accurate pricing to prevent underpricing and ensure equity stability. Furthermore, the paper examines the role of social media in shaping investor sentiment and provides insight into how positive media coverage affects a company's share price in the short and long term. Overall, the aim of this paper is to analyse the key factors influencing IPO success and provide insights into how companies can navigate the complexities of IPOs to maximize post-IPO growth and profitability.

1 Introduction

The transition from private to public listing is an important milestone for any company. For most companies and managers, going public is a once-in-a-lifetime experience. Typically, shares of a listed company are sold through brokers or market makers on the terms and conditions set out in a prospectus or registration statement filed with the securities regulator; once the IPO is completed, the company can usually apply to be listed and traded on a stock exchange or quotation system.

This phenomenon was introduced in the USA at the end of the 1990s during the dotcom bubble. Founders set up companies with their own capital and hoped to raise funds through IPOs during the boom. Share prices generally rose in the early stages of an IPO. In the US, most shares raised in IPOs are traded on the NASDAQ market. Companies in many Asian countries also use similar methods to raise capital to expand their operations.

There are many reasons for companies to go public other than to raise additional capital (which is the most obvious reason). These include potential reductions in the cost of company capital, facilitating mergers and acquisitions, the ability of the public and entrepreneurs to hold diversified portfolios, liquidity of shares at relatively low cost, facilitating effective monitoring of companies, obtaining market certification and the need for management recapitalization. Ultimately, a company's motivation to go public may depend on factors such as market conditions, shareholder sentiment and information asymmetries.

For companies planning an IPO, there are many factors to consider. These include the key decision of when to list, the selection of underwriters, the determination of the offer price, price stabilization and the issue of how to structure the corporate governance of the newly listed company. All these issues have been analyzed in a number of academic publications. However, several years after the IPO (3-5 years later), some of the macro decisions made by the company during the preparation and execution of the IPO may have a significant short-term impact on the company's future growth, some of which may lead to significant profits and prestige, while others may lead to company losses.

By collating, analyzing and summarizing the recent literature, this paper seeks to examine the key macro factors in corporate IPOs that have a positive impact on corporate growth (more successful IPOs) in the subsequent three years. These include the choice of investment banks and other intermediaries, pricing, price stabilization and the influence of international media on corporate IPOs.

In summary, the paper follows the IPO process, first analyzing the influence of selected underwriters on the success of the IPO, followed by a second part examining pricing issues, the core of the IPO and subsequent price stabilization decisions. Finally, the impact of social media on a company's short-term performance pre-IPO and post-IPO at the macro level. By synthesizing these three core elements of the IPO process, which elements and decisions are most likely to drive a company's short-term expansion and profitability post-IPO? It aims to answer the question.

2 The pricing process

The IPO price is the price at which a company's shares are sold to accredited investors and institutional

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investors immediately before they are traded on the stock exchange. The public offering price is designed to induce investors to buy shares. Investment banks that underwrite a company's IPO determine the IPO price based on several variables, including analysing the company's growth potential, comparing it with related companies and determining market demand conditions.

The law of supply and demand applies to the way in which companies and their underwriters determine the price of an IPO. Essentially, underwriters attempt to determine how much investors are willing to pay per share if a company decides to go public. Company executives and their investment banks determine the amount of new shares by deciding how much capital they want to raise and how much ownership they are willing to give up.

Ideally, the closing price of the shares is relatively close to the opening price on the day of the IPO. This indicates that the shares are priced correctly, corresponding to the price investors are willing to pay, and that the company is appropriately valued.

However, the IPO price is not necessarily a good indicator of the value of the shares. Broad market interest in shares is unpredictable and the terms of an IPO differ from a company's long-term presence in the market.

Therefore, by keeping the share price close to the IPO price before and after the IPO public offering, the company can give investors the impression that the company's share price is relatively stable, that it will not suffer significant losses and that there is some upside potential. At this point, the company can stabilize its share price.

This was usually done within 25 days of the IPO to prevent the IPO price falling below the 'offer price'. The company stabilizes the price by buying and selling shares. Investment banks legally intervene in the market, buying shares to raise the price or selling shares to bring the price closer to the offer price. This allows other stock market participants to believe that the share price will not fall quickly and, in some cases, that they can be trusted to hold the company's shares for a long time.

When pricing IPOs, the most common problem is underpricing of IPOs, with inappropriate pricing leading to lower returns and long-term consequences. The average underpricing in developed countries such as Japan, the UK and Denmark is 44.7%, 7.4% and 25.9% respectively, while similar figures for developing countries such as Saudi Arabia, Argentina and Pakistan are 239.8%, 4.2% and 22.1% respectively. Therefore, at the IPO price level, avoiding IPO underpricing is an important factor for a successful IPO.

Research on IPO pricing has intensified since 2018. This includes topics such as information asymmetry, agency issues, the legal, regulatory and social environment, and behavioural finance. Misuse of these factors is also a major reason for the undervaluation of IPOs.

One of the main reasons for IPOs being undervalued is information asymmetry: there is a gap in knowledge about the value and long-term potential of a company between the issuer and potential investors in an IPO. Issuers and insiders have detailed information about the company's operations, financial health and future growth plans, while external investors do not have this inside information. Faced with such uncertainty, issuers may be inclined to reduce the price of their shares to encourage investors to take the risk of buying shares to ensure the success of the IPO.

Previous research has shown that agency problems are mainly related to the relationship between underwriters, issuers and investors. Underwriters sometimes priorities maximizing their own interests and those of the institutional investors with whom they do business at the expense of the interests of the issuing company. As a result, underwriters may deliberately underprice IPOs in order to secure large profits for investors, and earn higher fees while strengthening their relationships with investors.

In terms of the legal, regulatory and social environment, different countries and regions may have different rules governing the issuance of securities and different criteria for listing. These factors may affect the extent of disclosure by issuing companies, regulatory requirements for fair dealing and public expectations of fairness in the pricing of IPOs, which may lead to undervaluation.

Furthermore, behavioural finance focuses on the irrational, subjective biases and psychological factors behind investment decisions. Underwriters and issuers may assume that investors are sceptical about new shares due to excessive conservatism or misjudged market sentiment, and may set the IPO price low to attract investors. Risk aversion in the market may also lead issuers and underwriters to adopt more conservative pricing strategies to ensure the success of the IPO.

These four main factors may lead issuers to choose an issue price below the theoretical market value to ensure a successful IPO, resulting in an undervaluation. The issue of IPO underpricing can also be analysed from two aspects: this paper further examines the impact of underwriter selection and social media on IPO pricing and the subsequent impact on IPO performance.

3 Selecting a reputable underwriter

Underwriters play a pivotal role in orchestrating the success of an IPO, shouldering the responsibility for pricing, marketing, and positioning the offering to investors on a global scale. The diversity of underwriters, each bringing their own expertise and network to the table, can introduce layers of complexity to the process. For instance, the involvement of multiple underwriters, including lead underwriters, co-managers, and syndicate members, can create a diversified selling approach. This diversification not only spreads the selling pressure across various parties but also mitigates the risk associated with the offering, especially in scenarios involving large offerings or challenging market conditions. In such cases, the collaborative efforts of underwriters help distribute the workload, manage investor demand effectively, and navigate volatile market dynamics with greater resilience. Overall, the strategic allocation of underwriting responsibilities contributes to the overall success and stability of the IPO process, providing crucial support to issuers in achieving their fundraising objectives amidst evolving market conditions.

The company initially opted for an investment bank. Investment banks were very important in the IPO process as they played the role of sponsor, corporate broker and underwriter. Most companies choose several investment banks to participate in different financial markets and benchmark their reputation and size. In addition, they may also consider how global the underwriting brokerage firm is so that it can adequately promote and support the company in multiple financial markets. The investment bank assists the firm in obtaining regulatory approval for the IPO.

Underwriting brokerage firms include one or more lead underwriters and several co-underwriters. The lead managing brokerage firm assists the company in preparing the registration statement, conducting due diligence, organizing roadshows and managing sales by allocating shares and recommending the final price and size of the IPO. Co-managers are usually involved in the issuance process but not in book-building and stabilization activities.

The selection of the lead manager is crucial to the successful structuring and realization of a company's planned IPO. In particular, the lead manager should promote the dissemination of information relevant to the value of the company to potential IPO investors and endeavor to obtain endeavor to obtain private information.

Where individual investment bankers have social relationships with investment fund managers, managers are more likely to offer above-average offer prices and achieve lower IPO returns. The impact of such social network relationships is more pronounced when the accounting quality of the issuer is low or the size of the investment bank is small. Such relationships reduce IPO underpricing and help individual investment bankers to effectively share a range of information related to IPO pricing [1].

The reputation of an underwriter plays an important role in the success of an IPO [2]. IPO companies with reputable underwriters have, on average, lower market-adjusted initial returns. Reputable underwriters reduce undervaluation of IPOs by reducing the time between offering and listing, selecting good companies to underwrite and bridging the information gap between issuers and investors.

However, information asymmetry problems may exist between IPO underwriters and issuers when underwriters deliberately underprice the latter in order to enrich themselves personally [3]. Some underwriters take advantage of their own market knowledge and position by receiving fringe benefits from investors. They seek this in return for undervalued offerings or large allocations of IPO shares.

Third-party allotments to support a company's IPO have led to significant undervaluation of IPOs, as some investors tend to buy shares at a higher discount. However, reputable underwriting brokers can mitigate this undervaluation for such reasons.

Company management can achieve a relatively high return on their shares in the primary market by engaging a reputable underwriting company [4]. Thus, the shares of companies with reputable underwriters are less likely to be undervalued in an IPO. It is also found that companies underwritten by reputable underwriters had higher levels of R&D, higher sales growth and lower levels of earnings management in the year prior to the IPO. Such companies also have higher post-IPO stock market performance [5].

In 5% of the 1,507 acquisitions by US-listed companies between 1985 and 2014, the lead underwriter of the target company at the time of the IPO later became the lead acquirer. Despite the similarity between acquisitions by the same adviser and those by other advisers, all other factors being equal, acquirers with the same adviser have a cumulative abnormal three-day return (CAR) that is 2.048 percentage points higher [6].

Acquisitions with the same adviser outperform acquisitions with other advisers due to higher synergies. This may be because the same adviser has a better understanding of the potential synergies between the target and the acquiring company, which may lead to more efficient integration of resources, optimization of business processes and greater economic benefits. The study also shows that the performance of acquisition announcements by the same adviser declines as the age and growth of the target company increases. This is because existing synergies may diminish over time, or because the target company's business situation may change and synergies may be more difficult to realize.

4 Social media

Analysing the impact of social media platforms and media coverage on IPOs has become a major focus of academics, practitioners, and regulators in recent years. As technology continues to advance and communication becomes increasingly decentralized, the role of social media in shaping market sentiment cannot be overstated. At the stage when a company is fulfilling its IPO, positive media coverage is often assumed to have a causal impact on the short- and long-term valuation of the company's share price [7]. However, the dynamics of this relationship are complex and multifaceted. Social media platforms provide a forum for both professional analysts and individual investors to express their opinions, influencing market perceptions and potentially affecting investor behaviour. Moreover, the speed and reach of social media can amplify the impact of both positive and negative news, leading to rapid fluctuations in stock prices [8]. Consequently, understanding the interplay between social media discourse, traditional media coverage, and investor sentiment is essential for accurately assessing the implications for IPO pricing and market performance.

First, shareholder sentiment factors on social media are analyzed. Opinion leadership on social media not only has a strong influence on IPO pricing and execution in the early stages, but also on people's investment enthusiasm in the long term. Previous research literature has shown that extracting social media sentiment before and after an IPO can be used as a proxy variable for individual investor valuations.

The rapid growth of social media has not only changed the way people communicate, but also the way people Underwriter reputation make investment decisions, with platforms such as StockTwits developing into influential forums where both professional and novice investors share their views, trading strategies and stock forecasts [9]. Such platforms provide rich insights into investor sentiment and capture changes in market perceptions in real time.

The overload of information and differing opinions that circulate on social media can lead to excitement about certain stocks, causing investors to make emotional and irrational trading decisions. This temporarily boosts share prices, but may ultimately lead to market adjustments over time as actual share prices do not match exaggerated expectations.

Theoretical predictions in previous studies suggest that excessive optimism by sentiment investors may lead to an initial over- lead to valuation, followed by a long-term reversal; analysis of a 2021 study confirms the validity of this observation [10]. In these two papers, excessive optimism can lead to higher IPOs on the first day and lower long-term performance, and sentiment measures that use machine learning techniques to classify posts on social media platforms suggest that more optimistic sentiment leads to higher turnover in the short term after listing There is agreement that this suggests that informed investors are selling overpriced IPOs to emotional retail investors.

From the perspective of post-IPO companies, it is also clear that those companies that initially generated significant enthusiasm continue to generate positive sentiment. This sustained optimism is reflected in both intensive and extensive margins. Institutional investors and companies considering an IPO can use insights from social media sentiment analysis to gauge their potential reputation in the market.

Sentiment factors on social platforms have a significant impact on the probability of success of an IPO, as the mood of these people, especially small investors, can easily be changed by various trends in media coverage. Media coverage of a company's IPO is therefore also an important factor that indirectly affects the effectiveness of an IPO.

The impact depends on factors such as the quality of financial reporting, protection of shareholder rights, media outreach and trust in the media [11]. This is because extensive media coverage reduces information asymmetry in financial markets and underpricing of IPOs is associated with a bias in favor of positive information over negative information in media coverage.

The above effects of media coverage tend to be lower in countries with higher quality financial reporting, greater shareholder protection and tighter media controls. Conversely, in countries with high media exposure and high levels of media trust, the effects of media coverage tend to be amplified. Furthermore, the effects of media coverage are moderated in IPOs where the tone of media coverage is very different. Furthermore, IPOs with higher pre-IPO media coverage have lower post-IPO price volatility. This may be due to the fact that the greater media coverage has led to a better understanding of the company by market participants and the market has not had to adjust the value of the shares as much after the IPO.

5 Conclusion

This paper summarizes the findings of previous research on the macro factors that contribute to the success or failure of initial public offerings (IPOs). It critically discusses the persistent problem of IPO underpricing and outlines the main factors: information asymmetry, agency inter-mediation issues, market context and behavioral finance implications. Furthermore, the paper suggests that the choice of underwriters by issuers and the role of social media can have a significant, albeit indirect, impact on the success of an IPO. Appropriate decision-making and action can mitigate the problem of undervaluation and increase IPO returns. The paper suggests that investors should choose an underwriting brokerage firm with a strong social network among financial intermediaries and a good reputation, which is more likely to help reduce IPO underpricing. Increased pre-IPO media coverage contributes to a more transparent market environment, reducing information asymmetry and fostering pricing that better reflects the company's true value. Consequently, this alignment often leads to lower initial returns for investors. Thus, while media coverage significantly shapes investor perceptions, understanding its interplay with broader market dynamics is crucial for gauging its lasting impact on IPO performance.

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