

THE INTENDED USE OF FUNDS AND IPOs MARKET PERFORMANCE IN INDONESIAN CAPITAL MARKET

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Abstract

Specific information on the IPO prospectus can affect the stock's market performance, both the initial returns and the long-term performance. The disclosure of the purpose of IPO proceeds to: acquisition, investment, group financing, debt repayment and working capital, as a specific form of information is indicated to affect both initial return and long-term stock returns. We conducted a test of 148 IPOs on the Indonesia Stock Exchange in the period 2006–2013. Data analysis was performed using OLS and probit regression. The test results show that there is a negative relationship between the intention of the acquisition and debt repayment with underpricing. The results also show that IPOs with the purpose of the debt repayment is positively related to the long-term market performance. The age of the company has a negative effect on IPOs with the purpose of acquisition and debt repayment, while the size of the company proxied by total assets is positively related to the intentions of group financing and debt repayment.

Keywords: IPOs, intended use of proceeds, short-term market performance, long-term market performance.

Introduction

Information asymmetry influences transaction incentives in the capital market. Healy and Palepu (2001) argues that lack of information can encourage undervalued capital markets against good investment opportunities and overvalued on poor investment opportunities. The greatest information asymmetry occurs in the Initial Public Offerings (IPO) event. In the initial public offering of stocks, information about the company is relatively limited in terms of publication and tends to focus on sophisticated investors. The lack of public information on the IPO resulted in common investors facing high investment uncertainty (Ibbotson, Sindelar, & Ritter, 1988; Clarkson, 1994).

Lack of handling of information asymmetry, therefore, will be a disincentive for investors and increase the potential for market failure. One solution to reducing information asymmetry is the regulation of the capital market authority on the necessity of a company to disclose all material private information. Information disclosure will increase efficiency and incentives for investors. Disclosure also increases the endogeneity of process within the market as it involves multiple market participants (Verrecchia, 2001). Based on the disclosure of information, investors, especially unsophisticated investors, can moderate the risks through investment in information and utilize the services of capital market support institutions, both information intermediaries and financial intermediaries institutions (Healy & Palepu, 2001).

Rock (1986) states that, at the time of the IPO, the information gap between investors precludes issuers from selling stocks at their fair value. The imbalance of ownership of information, irrespective of good or bad quality of issuers, causes sophisticated investors to always outperform unsophisticated investors. Sophisticated investors will be able to avoid investment in non-qualified issuers and dominate investment in quality issuers. This process will ultimately eliminate unsophisticated investors and become a disincentive for investment in the capital market. Issuers and underwriters overcome this by setting lower bid prices on IPOs than the intrinsic value of stocks, known as underpricing. Through underpricing of stocks, it can be ascertained that unsophisticated investors still gain profit.

Ritter (1998) gives a slightly different explanation of underpricing. The impresario hypothesis states that systematically the issuers and underwriters fix the IPO price below the intrinsic value to leave the good taste for investors in the form of a high initial return. Based on the impresario hypothesis, in the long run, as more information about the company reveals, the market will be better understand the true value of the company. This understanding encourages correction of stock prices and results in the lower long-term market performance of IPO stocks; known as the phenomenon of long term IPO underperformance (Walker & Yost, 2008).

One form of disclosure in the IPO process is about the issuer's plan for the use of proceeds in the

stock offering prospectus. Capital market authorities require issuers to describe the use of IPO proceeds as detailed as possible. Through the disclosure of the plan to use the IPO proceeds, all investors are informed about the proportion of the use of funds for various purposes, such as: long-term investment, debt repayment, and additional working capital. Furthermore, investors can also obtain information about the use of proceeds for specific purposes such as acquisitions and financing of a subsidiary (group financing). In other words, disclosure of the proceeds plan can reduce the information asymmetry in the primary market, and on both the underpricing and long-term market performance of IPO stocks. Leone, Rock, and Willenborg (2007) state that disclosure of plans to use IPO proceeds can reduce ex-ante uncertainty and assist investors in estimating values in the secondary market. This study aims to examine the effect of the disclosure of intended use of IPO proceeds on underpricing and long-term market performance of IPO in the Indonesian Stock Exchange (IDX).

Regulation of Indonesian Capital Market Supervisory Agency (Bapepam) number IX.C.2 Kep-51/PM/1996 and number IX.C.3 Kep-43/PM/2000, stipulates the obligation of issuers to disclose material information in the initial public offering (IPO) prospectus. One of the things that must be disclosed is the plan of the use of proceeds. The obligation to disclose a plan for the use of the proceeds includes the obligation to disclose the use of proceeds according to its objectives, including for debt repayment, group financing, and acquisitions of other companies. There are three main purposes for the use of IPO proceeds, which include: long-term investments, debt repayments, as well as investments in working capital. The use of IPO proceeds for long-term investment purposes may include: acquisition of long-term assets, group financing, and acquisitions of other business entities either through the purchase of assets or stocks. The repayment of part or all of the debt includes the use of IPO proceeds to pay off the debts of the company, subsidiaries, or other companies in one business group. Debt repayment of subsidiaries and other companies in one group is generally done through the addition of equity participation. While the use for working capital includes cash, inventory, as well as to increase the ability to financing operational costs.

Disclosure intended use of proceeds is part of efforts to reduce the amount of information asymmetry in the primary market. Disclosure is a mechanism that companies can use to mitigate the information gap problem that becomes the basic charac-

teristic of the relationship between the company and its investors (Healy & Palepu, 2001). Core (2001) argues that information asymmetry influences investors' perceptions of the risks of investing and therefore impacts on expected returns and equity costs. Balatbat and Berthinshaw (2008) finding state that underpricing to be unrelated to the extent of disclosure of use of proceeds. But, according to Leone *et al.* (2007) disclosure specifically to IPO activities may reduce ex-ante uncertainty because based on the disclosure of information investors can estimate firm value in the secondary market. However, the variation of information content, which is positive or negative, can be judged differently by both issuers and investors (Balatbat & Bertinshaw, 2008; Kim, Krinsky, & Lee, 1993; Hovakimian & Hutton, 2010).

Uncertainty of firm value in the secondary market is closely related to the underpricing phenomenon. Therefore, almost all theories about IPO stocks underpricing are associated with information asymmetry (Aggarwal, Leal, & Hernandez, 1993, Ritter & Welch, 2002), both between companies and investors and among investors. One popular explanation of underpricing is the theory of the winner's curse (Rock, 1986). According to Rock, there are two groups of investors, namely informed investors and uninformed investors. Informed investors, with better information ownership, will always benefit in the primary market irrespective of the good or bad quality of the issuer. Such investors will be able to avoid investing in bad issuers and dominate investment in good quality issuers. On the other hand, uninformed investors are always at a disadvantaged position and therefore may lose the incentive to invest in the primary market. To provide incentives to investors in general, the issuers together with underwriters do underpricing.

Underpricing as an incentive for investors in the primary market explained differently by the impresario hypothesis (Ritter, 1991). The impresario hypothesis explains that issuers set lower IPO prices (underpricing) to give investors a good impression. With the consequences of losing some money (leave money on the table) so that corporate image will be upgraded. Underpricing, therefore, can be viewed as "advertising costs" for new stocks. The consequence of this hypothesis is that after entering the secondary market, information about the company becomes more and more open and the real value of the company will be revealed. In the long run, this will be seen in the decline of the returns difference of the company's stock with the returns of the comparison (the abnormal return), one of which is the market returns, known as the long-term IPO underperformance.

Due to the disclosure nature that minimizes information asymmetry, its impact on underpricing, as well as long-term market performance, IPO stocks can be predicted. Specifically, if the intended use of IPO proceeds provides positive information then the issuer is motivated to set the IPO stock price not much different from the intrinsic value, and vice versa. Therefore underpricing can be lower or higher with disclosure of intended use of proceeds.

According to Jeanneret (2005), the company that plans to utilize IPO proceeds for debt repayment is basically making improvements to its financial flexibility and capital structure. Therefore such companies will exhibit low underpricing level followed by improved long-term market performance. Companies planning to use IPO proceeds for long-term investments also convey information about increasing information asymmetry and agency problems in the future and should, therefore, offer a high level of underpricing and be addressed with poor long-term market performance. The relationship between disclosure of the use of proceeds for investment to underpricing and long-term market performance can be moderated if the long-term investment objective is the acquisition and the financing of companies in the group. This moderation is the impact of potential synergies and value enhancement post-acquisition activities and group financing. In the case of the intended use of IPO proceeds with capital motive or for working capital, (Gumanti, Nurhayati, & Maulidia, 2015; Badru, Ahamd-Zaluki, Husin, & Nordin, 2016; Andriansyah & Messinis, 2016) state that the utilization of funds for working capital is perceived as risky due to low investor control over operational activities. Therefore such intention will increase the level of underpricing.

Several studies have been conducted to examine the relationship between plans of the use of proceeds, underpricing, and long-term stock market performance of IPO stocks. Leone *et al.* (2007) found a negative relationship between the specific intended use of IPO proceeds and underpricing, particularly the use of proceeds for debt repayment and research activities. Gumanti *et al.* (2015) found that, in the Indonesian capital market, disclosure of intended use of IPO proceeds for additional working capital has no effect on underpricing. But Andriansyah and Messinis (2016) show that post issue performance can be explained by firm motivation to IPO issue with the capital motive being the critical driver of good performance. Amor and Kooli (2017) find that there is no relationship between the disclosure of the main use of IPO funds for investment with the long-term market performance of IPO stocks; on the contrary,

there is a strong negative relationship between the disclosure of the main uses for debt repayment and long-term market performance. Autore, Bray, and Peterson (2009) found that disclosure of purpose-specific use of proceeds in SEO demonstrates higher long-term market performance than non-specific ones.

Research Method

Sample and Data

The population is the entire IPO on the Indonesia Stock Exchange (formerly the Jakarta Stock Exchange) during the period 2006–2013. The sample of the study was 148 IPO companies obtained by purposive sampling technique based on research objectives. The sample criteria are as follows:

1. Companies doing IPO 2006–2013
2. Full IPO prospectus is available
3. Full monthly stock price during 36 months post IPO can be acquired.

The number of samples is equivalent to 89% of IPOs during the observation period.

Secondary data are obtained by documentation techniques, from: Indonesia Stock Exchange (IDX), Indonesian Capital Market Directory (ICMD), Indonesian Capital Market Library (Icanel), and The Wallstreet Journal. The data being used are: data relating to companies conducting IPOs (i.e. plan of use of proceeds, age, asset value, sales, total proceeds obtained through IPO) described in the initial offering prospectus, stock price, as well as the Composite Stock Price Index 2006–2016 (adjusted to the IPO year).

Operational Definitions

Market Adjusted Initial Returns (MAIR) is used as an underpricing proxy, and is calculated by subtracting the initial returns of a stock with the returns of the market on the same day. Initial returns are the first day returns of stocks traded in the primary market. It is calculated as the difference in closing stock price on the first trading day on the secondary market with IPO stock price divided by IPO stock price, that is:

$$IR_i = \frac{P_{i,1} - P_{IPO}}{P_{IPO}} \quad (1)$$

Description:

$IR_{i,t}$ = Initial returns of stock i

$P_{i,1}$ = First trading day closing price of stock i

P_{IPO} = IPO price

MAIR can be calculated as follow:

$$MAIR_i = IR_i - R_{mt} \tag{2}$$

Description:

MAIR_i = Market adjusted initial returns of stock *i*
 IR_i = Initial returns of stock *i*
 R_{mt} = Market returns of the same trading day

Abnormal returns estimated using market adjusted abnormal returns:

$$AR_{i,t} = R_{i,t} - R_{mt} \tag{3}$$

In this study the long-term market performance of an IPO is measured by Buy-and-Hold Abnormal Returns up to 36 months after the IPO date (BHAR36). BHAR36 is the level of abnormal returns if an investor buys shares during an IPO event and holds them for 36 months afterwards. BHAR36 is calculated as follow:

$$BHAR36_{i,t} = \left[\prod_{t=1}^{36} (1 + r_{i,t}) - 1 \right] - \left[\prod_{t=1}^{36} (1 + r_{mt}) - 1 \right] \tag{4}$$

Description:

R_{i,t} = Monthly returns of stock *i* at time *t*
 R_{mt} = Monthly market returns at time *t*

Other variables used in this study include: DACQUI= dummy variable for acquisition, which is 1 if part or all of the IPO funds are used for the acquisition of both assets and stocks, and 0 otherwise; DINFIN= dummy variable for group financing which is 1 if part or all of IPO funds used to finance subsidiaries or other company in the group either in the form of capital investment, debt repayment, or working capital investment; INVEST= proportion of IPO proceeds to be used for long-term investments in the form of: capital goods, investments in subsidiaries, or acquisitions; DEBREP = proportion of IPO proceeds to be used for short-term and long-term repayment of both parent and subsidiary debts; WORCAP = proportion of IPO proceeds to be used for investments in working capital and financing operating costs for both parent and subsidiary companies; LNAGE= natural logarithm of company age at IPO, LNTAS= natural logarithm of total company asset at IPO; LNSE= natural logarithm of company sales at IPO; LNPROC= natural logarithm of IPO proceeds.

Model of Analysis

This research is explanatory research that aims to analyze the relationship between variables and explain the influence between variables through

hypothesis testing. The tests were performed by linear regression including testing of the effect of proceeds-intended-use on underpricing and long-term market performance, with the following models:

$$MAIR = \beta_0 + \beta_1 DACQUI + \beta_2 DINFIN + \beta_3 INVEST + \beta_4 DEBREP + \beta_5 WORCAP + \beta_6 LnTAS + \beta_7 LnPROC + \beta_8 LnAGE + e \tag{5}$$

$$BHAR36 = \alpha_0 + \alpha_1 DACQUI + \alpha_2 DINFIN + \alpha_3 INVEST + \alpha_4 DEBREP + \alpha_5 WORCAP + \alpha_6 LnTAS + \alpha_7 LnPROC + \alpha_8 LnAGE + e \tag{6}$$

In addition, testing of factors that influence the plan of the use of proceeds, with the models:

$$DACQUI = \gamma_0 + \gamma_1 LnTAS + \gamma_2 LnSLE + \gamma_3 LnAGE + e \tag{7}$$

$$DINFIN = \eta_0 + \eta_1 LnTAS + \eta_2 LnSLE + \eta_3 LnAGE + e \tag{8}$$

$$INVEST = \delta_0 + \delta_1 LnTAS + \delta_2 LnSLE + \delta_3 LnAGE + e \tag{9}$$

$$DEBREP = \theta_0 + \theta_1 LnTAS + \theta_2 LnSLE + \theta_3 LnAGE + e \tag{10}$$

$$WORCAP = \zeta_0 + \zeta_1 LnTAS + \zeta_2 LnSLE + \zeta_3 LnAGE + e \tag{11}$$

Models (7) and (8) are estimated using probit regression whereas other models are estimated using OLS.

Results and Discussion

Descriptive

Table 1 shows that the number of samples obtained covering 89% of IPOs during the period 2006–2013. In general, it can be said that the interest of companies in Indonesia to raise funds through the capital market is increasing, although still lower than Singapore, Thailand and Vietnam. The low number of local investors, which is about 400,000 or equivalent to 0.16% of the population, is a factor inhibiting the interest of issuers. Macroeconomic factors also become a constraint of interest of issuers to conduct IPO. This is evident from the sharp decline of IPO stock issuers in the crisis period of 2008 and 2009. Therefore, the final sample of 148 companies is obtained.

Table 1
Population and Sample

Year	IPOs	Sample	Percentage
2006	13	8	62%
2007	24	21	79%
2008	19	14	74%
2009	12	10	83%
2010	23	20	87%
2011	24	23	96%
2012	22	22	100%
2013	30	30	100%

Table 2
Descriptive

	Minimum	Maximum	Mean	Std. Deviation
DACQUI	0.00	1.00	0.10	0.31
DINFIN	0.00	1.00	0.28	0.45
INVEST (%)	0.00	100.00	60.48	33.06
DEBREP (%)	0.00	100.00	15.62	23.89
WORCAP (%)	0.00	100.00	22.87	28.41
MAIR (%)	-63.81	122.85	23.20	30.13
BHAR36 (%)	-130.10	1470.46	10.49	179.52
T. ASSETS (million IDR)	38,820	44,990,000	3,116,430	6,026,521
SALES (million IDR)	2,942	17,860,373	1,513,067	2,909,331
PROCEEDS (million IDR)	22,500	12,253,264	730,770	1,338,602
AGE (years)	1.10	90.42	19.84	14.04
Valid N (listwise)	148			

There were 15 companies (10%) that disclose the acquisition plan using IPO proceeds. Included in this category were companies that acquire others by the purchase of assets or through the purchase of stocks. Forty-one companies (28%) planned to use IPOs proceeds for the purpose of financing companies in the same business group, either subsidiaries or other companies in the same parent company. The average underpricing, measured using MAIR, is 23.2%. IPOs in Indonesia are generally underpriced, with 83% issuers producing positive MAIR. The BHAR36 mean value is 10.49%; lower long-term market performance of stocks can be said to be common in Indonesia.

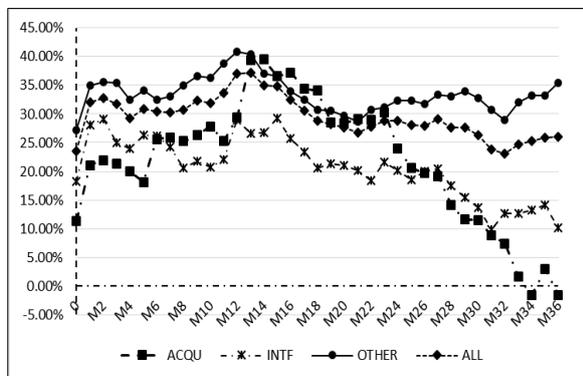


Figure 1. CAAR36 of acquisition, inter-group financing, other uses IPOs

Compared with other specific use plans of the proceeds, the acquisition yields the lowest initial returns (Figure 1). The low underpricing of the acquisition IPO is due to perceptions about the relatively low level of investment risk through the purchase of assets and other companies' stocks, caused by post-acquisition synergies. IPOs with plans for the use of proceeds for internal financing of the group are also perceived to be less risky than other fund usage plans. However, there are differences in long-term performance characteristics of stocks for both plans of use of the proceeds, as measured by the

36 month cumulative average abnormal returns (CAAR36). While long-term stock performance for the purpose of using proceeds for group financing shows a downward trend beginning in the second post-IPO month; this is not the case of acquisition IPOs. The increase in abnormal returns in the period to one year after the IPO occurs. This is related to the synergy of acquisition results that can be formed in a relatively short time. In the long run, the impact of synergy begins to fade and issues arising from the acquisition show an impact on stock performance (Davidson, 1988; Datta, 1991).

The characteristics of the use of IPO proceeds, which are dominant in debt repayment purposes (DEB) are similar to those used for acquisitions (figure 2). This can be seen in the low underpricing and market performance that tends to increase in one year after the IPO. This can be attributed to an increase in reserve borrowing capacity as well as a decrease in corporate financial risk that drives stock-market performance. However, unlike the acquisition, in the long term the accumulation of returns is not much different from the initial returns. This condition is different from the IPO with the main goal of long-term investment (INV). Characteristics of long-term investment and high risk of Indonesian business are interpreted by investors as the high risk of investing in issuers with a primary motive for long-term investment. Interests in buying stock encouraged by companies doing high underpricing (26.46%). However, as more information about the company's intrinsic value revealed, long-term IPO market performance with the primary goal of long-term investment declining (24.09%).

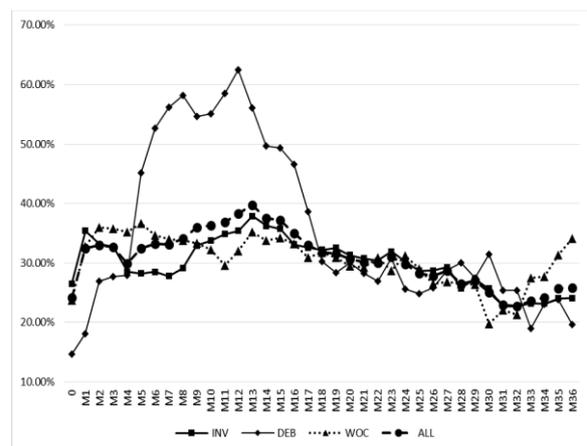


Figure 2. CAAR36 by the dominant use of proceeds

The grouping of issuers into high and low underpricing, based on the average initial returns, shows the difference in cumulative average abnormal returns (CAAR) in both. Long-run stock market performance of IPO stocks in the high underpricing

group showed an average increase in average abnormal returns (AAR) of 0.46% within three years after IPO (Figure 4). The phenomenon of IPO groups with high underpricing is in contrast to the low underpricing group which actually shows a 0.38% decrease in AAR. CARs from the high underpricing group have an increasing tendency, but not for low underpricing groups. Consequently, there are significant differences in the long-term market performance of high underpricing IPO groups (with CAAR 68.01%) and low underpricing groups (with CAAR -6.74%) at α 1%.

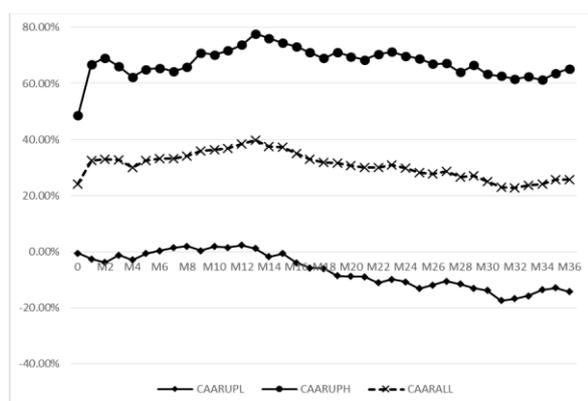


Figure 3. CAAR 36 of high and low underpricing groups

Intended Use of Proceeds and Underpricing

The classical assumption test shows that the Kolmogorov Smirnov test significance value is above 5%, which indicates there is no violation of the normality assumption. For all variables the VIF values are below 10 and the Tolerance are above 0.1, indicating that there is no multicollinearity. Significance values of the Spearman Rank test between all independent variables and residuals are above 5%.

The test results show that the disclosure of information on the use of IPO proceeds in the prospectus is sufficiently considered by the investor (Table 3). Although other plans for the use of proceeds have no effect, information on the acquisition plan is negatively correlated with MAIR. These results are consistent both in tests with control variables and without control variables. The test results also show consistency in the overall sample and samples that do not consider the data during economic crisis. Investors consider the company's acquisition plan from IPO proceeds as a positive signal related to risk and make investors interested in investing. This encourages issuers to sell stocks at prices that are not too much different from its intrinsic value.

The use of IPO proceeds for debt repayment has a negative effect on underpricing in the sample that excludes financial crisis data. This can occur because

debt repayment can have implications for decreasing financial risk of issuers. The decline in financial risk can be interpreted as a positive signal regarding the company's financial condition in the future. Meanwhile, information on the utilization of IPO funds for group financing and general long term investment has no effect on MAIR on testing with or without control variables. These results indicate that the proportion of IPO fund utilization for general investment and group financing activities, in general, is not a major consideration of IPO stock pricing.

Initial returns are also negatively influenced by the age of the company. The older the IPO company's age the more information the market has, the less likely it is to get a high price difference during the first day of stock trading. Age is also related to quality. The longer the life of the company, the longer the company survives in its business environment, the higher the ability of management in managing their business (Clarkson, 1994). It defines issuer's quality. Signaling theory explains that a good quality IPO issuer can bear the greater loss of money on the table and will, therefore, establish a low underpricing.

Proceeds of IPO negatively affect underpricing. Ritter (1984) argues that IPO proceed is related to issuer risk; issuers with higher risk tend to raise funds in relatively lower amounts. Therefore, the higher the proceeds, the lower the risk of the issuer, and result in the lower underpricing. This finding is in line with the results of studies by Guo, Lev, and Shi, (2006), and Pande and Vaidyanathan (2009).

Intended Use of Proceeds and Long-term Market Performance

Table 4 shows test results of long-term stock returns, measured by BHAR36. The results indicate that the intended use of IPO funds for the purpose of: acquisition, long-term investments, and investment in working capital consistently do not affect long-term returns either in sample with or without control variables. The results of the analysis are also consistent in the full sample and sample group that do not take into account the economic crisis data.

The positive relationship between the use of funds for debt repayment and long-term market performance occurs because the decrease in financial leverage results in a decrease in the company's financial risk. Reduced debt due to repayment using IPO funds also resulted in a decrease in the financial burden of the issuer. The reduced financial burden can improve the company's financial performance. This improvement in financial performance can have an impact on the better market performance.

Table 3
Regression Result on MAIR

	FULL SAMPLE		SAMPLE EXCLUDING ECONOMIC CRISIS	
	Model 1	Model 1A	Model 2	Model 2A
(Constant)	26.220*** (3.758)	156.666*** (2.864)	30.675*** (3.748)	166.289*** (2.759)
DACQUI	-14.111* (-1.693)	-14.434* (-1.755)	-19.102** (-2.045)	-19.010** (-2.080)
DINFIN	-7.548 (-1.338)	-4.409 (-0.781)	-8.698 (-1.451)	-5.646 (-0.961)
INVEST	0.050 (0.548)	0.041 (0.461)	0.005 (0.050)	0.001 (0.007)
DEBREP	-0.165 (-1.334)	-0.231* (-1.806)	-0.163 (-1.174)	-0.256* (-1.724)
LNAGE		-9.899*** (-2.897)		-10.370*** (-2.763)
LNTAS		2.612 (1.062)		3.670 (1.369)
LNPRO		-6.622** (-2.534)		-7.855*** (-2.775)
R^2	0.057	0.158	0.073	0.191
F	2.526**	3.679***	2.439**	3.924***

Table 3 reports the results from OLS regressions of MAIR for 2006–2013 of full sample and sample excluding data on the year of economic crisis. T-statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

As in underpricing, the age of the firm shows a negative relationship with long-term market performance. The negative relationship between age and long-term market performance suggests that companies that are already at maturity stage of the company's life cycle, tend to face difficulties in realizing new investment opportunities and focus more on maintaining operational capabilities. This will lead to the weaken growth of companies and result in the decline in long-term market performance. This result is also supported by the negative relationship between the proceeds of the IPO and the long-term market performance. The negative relationship between the two indicates that there are difficulties for the issuer to implement its investment plans.

The positive effect of total assets on long-term market performance is due to large companies tend to face a lower business risk. Large companies have greater ability to fund new investments and to form profitable business portfolios. Large companies also have a greater ability to absorb the losses faced due to the failure of their new investment. The resilience to business uncertainty causes large companies to tend to be able to maintain their performance in the long run. These results are in line with the findings of Sasi-kirono, Sumiati, and Indrawati (2018).

The IPO Proceeds is negatively related to the long-term performance. The amount of proceeds is related to the business risks faced by the company.

The greater the proceeds, the greater the company's business risk. Increased business risk can result in the company's failure to realize the IPO targets that have been promised to investors. Failure to perform well will ultimately lead to a deteriorating market performance in the long run.

Determinants of Intended Use of Proceeds

The age of the company has a negative effect on the decision to use IPO funds for the acquisition and debt repayment, but it is positive on the proceeds. It occurs because mature companies, in general, have diversified their business widely so that they have very diverse business units. Therefore, the need to acquire new business units is getting smaller. Companies at the maturity stage also rely more on equity funding. These tendencies are caused by mature companies generally showing a steady rate of business growth. Therefore, the use of high leverage will increase financial risk for the company. The low use of debt ultimately causes the need to pay off debt is also low. More mature companies, because of their experience, generally also exhibit (exhibit) higher reliability in finding attractive business opportunities with large funding needs. Large funds are also needed by mature companies to maintain their business ecosystem, for example through more advanced CSR initiatives as well as for research and development activities.

Table 4
Regression Result on BHAR36

	FULL SAMPLE		SAMPLE EXCLUDING ECONOMIC CRISIS	
	Model 3	Model 3A	Model 4	Model 4A
(Constant)	-8.852 (-0.212)	-52.423 (-0.158)	-32.512 (-0.715)	74.439 (0.215)
DACQUI	0.143 (0.003)	-4.020 (-0.810)	-18.396 (-0.354)	-6.939 (-0.132)
DINFIN	-49.694 (-1.481)	-50.928 (-1.487)	-34.375 (-1.032)	-30.796 (-0.912)
INVEST	0.110 (0.201)	0.235 (0.435)	0.121 (0.207)	0.222 (0.379)
DEBREP	1.712** (2.332)	1.403* (1.811)	2.108*** (2.730)	1.977** (2.314)
LNAGE		-40.667* (-1.963)		-26.656 (-1.235)
LNTAS		41.789*** (2.802)		36.848** (2.390)
LNPRO		-38.087** (-2.404)		-40.113** (-2.465)
R^2	0.060	0.129	0.087	0.148
F	2.249*	2.886***	2.830**	2.870***

Table 4 reports the results from OLS regressions of BHAR36 for 2006–2013 of full sample and sample excluding data on the year of economic crisis. In each group, the analysis was performed for data with and without control variables. T-statistics are in parentheses. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively. The classical assumption test shows that the Kolmogorov Smirnov test significance value is above 5%. For all variables the VIF value is below 10 and Tolerance is above 0.1, and the significance value of the Spearman Rank correlation between independent variables and residuals is above 5%.

Table 5
Determinants of Intended Use of Proceeds

	DACQUI	DINFIN	INVEST	DEBREP	WORCAP
(Threshold/Constant)	8.396	-11.450***	132.114***	-47.435	18.195
LNAGE	-0.643**	-0.319	2.749	-10.485***	8.610***
LNTAS	-0.154	0.454***	-2.121	3.364**	-1.642
LNSLE	0.450*	-0.048	0.759	-0.058	0.809
Nagelkerke R^2/R^2	0.118	.098	0.016	0.134	0.57
Chi Square/ F	8.547**	10.212**	0.746	7.253***	2.848**

Table 5 reports the results from regressions of determinants of the intended use of proceeds of IPOs during 2006–2013. Estimates of DACQUI and DINFIN were performed using probit regression whereas INVEST, DEBREP, and WORCAP used OLS. *, **, *** Indicate significance at the 10%, 5%, and 1% levels, respectively.

Company size is positively related to the business group financing and the debt repayment needs. Large companies generally become members of business groups or have several subsidiaries. Financing for members of a business group or subsidiary can be done through the issuance of shares by the most excellent group member or by the parent company. Large companies are generally in the stage or approaching the maturity stage in the company life cycle. Companies that are in a growth-to-maturity transition stage will realize that excessive use of debt will create a large fixed burden when the company is

at a stage of slower growth (steady growth). To anticipate this, the source of financing must be restructured from what was originally debt intensive, to equity intensive.

The level of sales is positively related to the acquisition plan. Companies with high sales are dealing with high growth potential. There are two choices for companies to expand, through greenfield projects or acquisitions. Greenfield projects encumber companies with high investment costs and a large risk of failure. Therefore, the acquisition is a choice generally taken by companies in expanding.

Conclusion and Implication

This study aims to see the relationship between the intended use of IPO proceeds and the market performance of IPO stocks, both initial and long-term returns. The results show that there is a negative relationship between the intended use of IPO funds for the acquisition and debt repayment with underpricing. The same relationship does not occur in the other intentions of IPO proceeds. The acquisition and the debt repayment plans give positive signals to investors about the quality of the company. For the same reason, the IPO with the aim of paying off debt shows the better long-term market performance.

The age of the company is negatively related to the IPO plan for the acquisition and repayment of debt, but is positive for the proceeds. The company at the maturity stage generally has a well-diversified business unit that shows high funding needs. Such companies tend to use equity funding. The size of the company proxied by its total assets shows a positive relationship with IPOs aimed at internal financing of the business group and debt repayment. The larger the size of the company, the greater the need to fund members of business groups or subsidiaries, and the stronger the drive to reduce leverage to anticipate business growth which tends to slow down.

This study shows that information about the intended use of the Proceeds of IPO can reveal information about the quality of the issuer. Such information, therefore, is very material for investors in the primary market. New issuers must be very careful in formulating the objectives of the proceeds of the public offering. Nevertheless, it must be acknowledged that the information for the purpose of proceeds is only one of material information that can be used as a proxy for quality. Other research can be directed to find other proxies about the quality of issuers. This study also shows that phenomena that occur in the advanced capital markets also occur in emerging one. To test the consistency of the findings of this study, more intense research is needed on other developing capital markets.

The low long-term market performance of the IPO with the objective of the acquisition is allegedly happening as investors realize the true value of the project. Understanding the true value of the acquisition project may be affected by several factors, such as: distortion of disclosure of information about the prospect of acquisition and incompatibility between the plan and the realization of IPO proceeds for the purpose of acquisition as disclosed in the stock offering prospectus. Further research can be directed to determine the effect of information distortion

factors and inconsistency of IPO fund utilization on IPO long-term market performance for acquisition purposes. Other studies can also be developed by testing by excluding the financial sector firms in the research sample.

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