

The long-run abnormal returns and the subsequent SEO characteristics of profit-exempted IPO firms in Taiwan

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ABSTRACT

The deregulation of IPO requirements changes the industrial structure. Focusing on Taiwan's unique profit-exempted IPO requirements, this study confirms that deregulation not only leads to IPO clustering, but also to a concentration in chemical and bio-pharmaceutical industry. The profit-exempted IPO issuers actively release optimistic information about future growth and take advantage of overvaluation to increase IPO revenue by misleading investors into mispricing the IPO. This results in poor long-run abnormal stock returns when stock price reverses after the IPO to correct the mispricing. In addition, some profit-exempted companies continue to use mispricing to raise equity capital and issue new shares after the IPO. For profit-exempted IPO companies, the characteristics of seasoned equity offerings within three years after IPO are significantly different from other companies. They are more likely to issue shares after IPO with shorter interval, larger size, and more frequent than non-profit exempted IPO firms. This study finds that the phenomenon of profit-exempted issuers raising capital is more consistent with the market timing theory.

Keywords:

Initial public offerings, Market timing, Mispricing, Price reversal, Seasoned equity offerings.