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Sustainable IPO Proceeds' Disclosure and Survival of Companies

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Abstract

We examine the sustainable disclosure of IPO proceeds on 423 companies' survival in the Malaysian market from 2000 to 2014. Using survival analysis, we find that the companies' survival can be predicted by the proportion of IPO proceeds and their time frame, with debt repayment being the critical driver of companies' survival. We provide empirical support for securities regulators to include strategic use and timeframe of the utilization of IPO proceeds in their information disclosure requirements to protect investors' interests and improve companies' post-IPO survival.

Keywords: Sustainable IPO Disclosure; IPO Proceeds; Survival Analysis; Malaysia

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1.0 Introduction

Given that the initial public offering (IPO) is the first stage in which companies issue their shares to the public, the lack of transparency in disclosing IPO proceeds' information is a common issue in stock markets that can disrupt investors' interests and companies' future success. Past studies show that the use of IPO proceeds affects companies' underpricing (Ljungqvist & Wilhelm, 2003; Leone et al., 2007; Goergen et al., 2021), IPO decisions (Chemmanur et al., 2018) and post-IPO performance (Andriansyah & Messinis, 2016; Ahmad-Zaluki & Badru, 2020). However, to date, little is known about how the strategic use and time frame of utilizing the IPO proceeds can influence companies' post-IPO survival. Although companies' survival seems consistent with post-IPO performance, examining companies' survival represents a clear-cut measurement of performance that includes companies' time to survive. Wyatt (2014) finds that higher sustainable disclosure of IPO proceeds' information increases Australian companies' chance of survival. Alternatively, Amor and Kooli (2017) find that the United States (US) companies prioritizing debt repayment overvalue their shares, causing adverse market reactions and decreasing their odds of survival. To our knowledge, the academic literature has yet to explore the role of the time frame to utilize the IPO proceeds on companies' post-IPO survival.

Although studies in the developed markets (Wyatt, 2014; Amor & Kooli, 2017) employ IPO proceeds in their examination, these studies only highlight the information on the proportion of IPO proceeds allocated to certain activities. In contrast, we use both the proportion of IPO proceeds and the time frame to utilize the IPO proceeds as potential factors to the companies' survival. We suggest that the potential

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factor to companies' survival is the "sustainable IPO disclosure of time frame of proceeds utilization" for numerous reasons. Firstly, information asymmetry is higher in IPO market due to its weaker regulatory structure than in developed markets (Mehmood et al. 2021), therefore, disclosed information can increase investors' confidence. Second, it can serve as a commitment mechanism by companies' management to reduce time-varying agency costs in achieving the proposed business strategy in raising capital. Thirdly, the availability of data in Companies Announcements reported in the Malaysian market makes it possible for this study to examine the effect of IPO proceeds on companies' survival. Finally, securities regulators often emphasize the sustainable disclosure of timely and sufficient information for IPO, and one of the Securities Commission of Malaysia (SCM) initiatives in this area is to acknowledge the strategic element of time in companies' corporate strategy to ensure the companies' post-IPO survival.

Commonly, three sustainable IPO proceeds' disclosure are growth opportunities, debt repayments and financing on working capital (Ahmad-Zaluki & Badru, 2020). The proportion and time frame of utilizing the IPO proceeds allocated to each category varies according to each company's strategy. Companies with a higher prioritization of IPO proceeds for growth opportunities may encourage greater and prolonged participation from investors for sustainable investments. Varghese et al. (2020) posit that companies should prioritize investments to create value and raise sufficient capital. Thus, we hypothesize that a higher sustainable disclosure for growth opportunities positively influences companies' survival. In contrast, debt repayment and working capital signal stagnant future cash flows and uncertain future directions from vague disclosures that reduce investors' confidence (Andriansyah & Messinis, 2016; Amor & Kooli, 2017). Therefore, we hypothesize that a higher sustainable disclosure for debt repayment and working capital negatively influences companies' survival. We test our hypotheses using the survival analysis approach.

We contribute to the small but growing literature on employing survival analysis methods in emerging markets. Iwasaki and Kocenda (2019) examine the survival of service companies in emerging European economies using ownership, operating performance, financial indicators, and democracy index as determinants of companies' survival. For the Malaysian market, Shari (2019) uses the Kaplan-Meier test; however, his application of the methodology is limited to a descriptive statistical analysis as the determinants of companies' survival are not considered. Ahmad et al. (2021) reveal ex-ante strategic prospectus information's importance in predicting companies' long-term survival. In contrast, we suggest the potential influence of the sustainable IPO proceeds' disclosure on companies' survival, specifically in the Malaysian market. Therefore, we examine the influence of each category (growth opportunities, debt repayment and working capital) of IPO proceeds' proportion and time frame to utilize the proceeds on companies' survival post-IPO.

2.0 Literature Review

2.1 Survival of Companies

Each study defines surviving companies differently. Schultz (1993) and Suárez and Utterback (1995) define surviving companies as companies that are at their ultimate performance. Schultz (1993) posits that surviving companies should perform substantially with the ability to continuously fulfil the listing requirements. Hensler et al. (1997) define surviving companies as those with current share prices at par or higher than their IPO offer price or its first-day market price. Peristiani and Hong (2004) suggest that surviving companies must portray a healthy financial performance (e.g., positive return on assets) as a sign of the companies' stability in the long-run. Espenlaub et al. (2016) and Shari (2019) mention that surviving companies also go through market transfer. The studies argue that since it is challenging during the exercise of IPO for companies to qualify their listing in a primary or competitive listing market (e.g., Main Market), companies will perform at their best level to receive approval from the policymakers for market transferring (e.g., from the Access, Certainty, Efficiency (ACE) Market to Main Market). Ahmad et al. (2021) and Ahmad and Jelic (2014) define surviving companies that are continuously traded but are not merged or acquired. However, it is apparent that each study's definition of surviving companies relies on the structure of the designated market. More specifically, Shari (2022) reveals that in the Malaysian market, surviving companies are those that can fulfil the listing requirements, un-merged nor un-acquired, and possess a financial condition at a satisfactory level. Thus, referring to the aforementioned, we define surviving companies as companies that hold an active status and are at their ultimate performance post-IPO.

2.2 Sustainable IPO Proceeds Disclosure and Survival of Companies

In the Securities Commission of Malaysia (SCM) 9th Revision Prospectus Guidelines (P.G.) Part II Division 1, the application of companies to go for public listing, includes requirements for the companies to disclose sustainable information about the IPO proceeds. That is, the disclosure of the proportion of IPO proceeds for utilization to several activities and the time frame of the proceeds to be fully utilized. The objective of the mandatory requirement is to serve as protection for investors' interests through information transparency and to ensure a stable stock market (SCM, 2020).

The sustainable information disclosed about how will the raised proceeds be utilized also transmit information on the future directions of companies. Suppose the information on the IPO proceeds is disclosed with greater transparency. In that case, companies can gain investors' confidence and release credible signals to the public on their IPOs (Kao & Chen, 2020). Companies that are transparent in their information disclosure portray a controllable agency conflict that needs to be borne by the companies, which results in better performance in the long-run (Varghese et al., 2020). Since sustainable information disclosure on the IPO proceeds allows the public to be informed on the companies' future directions, prior studies suggest that it could also influence the companies' estimation of their IPO pricing, performance post-IPO, as well as survival (Ahmad-Zaluki & Badru, 2020; Balatbat & Bertinshaw, 2008; Dambra et al., 2021; Ferris et al., 2013; Wyatt, 2014).

Accordingly, we are interested in the sustainable information disclosure of the proportion of IPO proceeds and time frame of proceeds utilization. We find that Amor and Kooli (2017) and Wyatt (2014) are the only studies considering the sustainable information of proportion

of IPO proceeds to several activities to explain companies' survival using the cox proportional hazard and logit method. Amor and Kooli (2017) examine 1,140 companies in the U.S. market from 1996 to 2012, whereas Wyatt (2014) examines 241 companies in the Australian market from 1994 to 2000. Each study has different sets of findings. Wyatt (2014) found growth opportunities, debt repayment and working capital have a positive and significant influence to companies' survival. In contrast, Amor and Kooli (2017) only found debt repayment to negatively influence companies' survival. Therefore, we fill in the gap by suggesting the potential influence of sustainable information disclosure, i.e., the proportion of IPO proceeds and time frame to utilize them to several categories on companies' survival in the Malaysian market.

3.0 Methodology

3.1 Data and Sample

From 527 companies, our study employs 423 companies listed in the Main Market and the ACE Market of Bursa Malaysia from January 2000 to August 2014. Following Mohd-Rashid et al. (2014) who highlight the importance of including similar characteristic companies for reflective findings, we exclude 25 companies under Real Estate Investment Trusts (REITs), financial institutions and insurance companies, and 79 companies issuing IPOs through secondary share offerings. We began in 2000, as during this period, the SCM took over the prospectus registration process from the Registrar of Companies (ROC). The SCM required a more robust and detailed information disclosure on the IPO proceeds by requiring the monetary value of proceeds (i.e., proportion) to each utilization category (e.g., growth opportunities, debt repayment, or working capital) and the time frame of proceeds utilization. The sample period ends in August 2014 to cater to a minimum of seven-year observation of companies' survival until the end of August 2021 (latest observation) (refer to Figure 3.1).

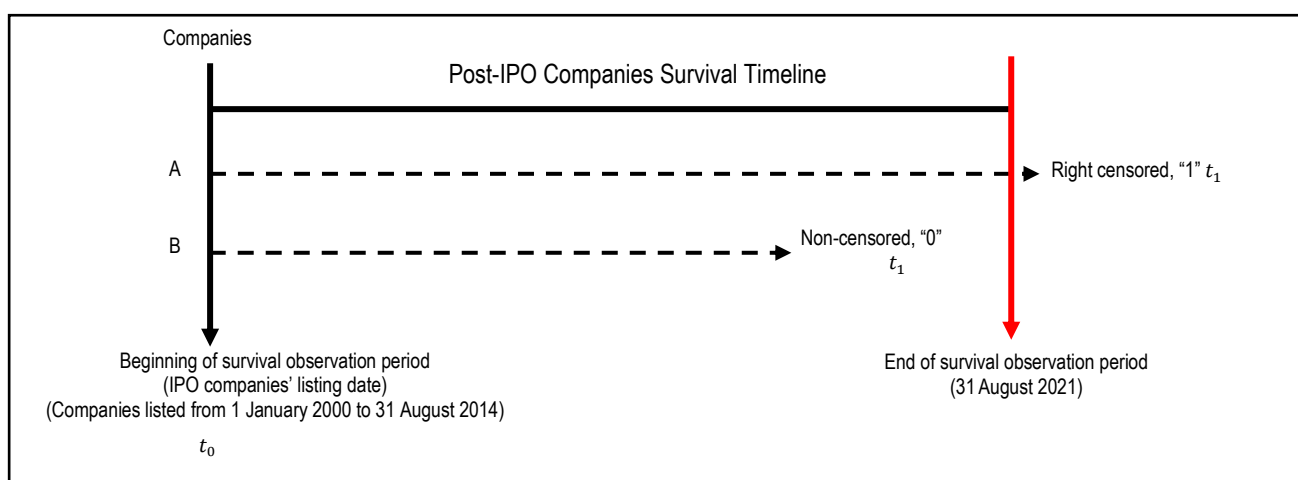


Figure 3.1 Timeline of Companies' Survival Observation Period

3.2 Measurement of Variables and Model

First, we define surviving companies as holding an active status and strictly adhering to all regulatory requirements and criteria post-IPO. In contrast, non-surviving companies are companies that fail to comply with the listing requirements, merged or acquired or those that are listed in the Practice Note (PN) 17 or Guidance Note (GN) 3 frameworks. We include two estimations to measure companies' survival, which are the companies' time-to-survive and the binary variable to cater for the censored observation. The companies' time-to-survive is the duration from IPO companies' listing date until the end time that the companies have survived, expressed in months. Next, we denote whether an observation is a censored observation or not. For instance, companies that are surviving from their listing date until the end of observation period (31st August 2021) are considered as right censored data and will be denote as "1" or "0" if otherwise (refer to Figure 3.1).

Second, we measure the sustainable disclosure of IPO proceeds using the information we manually collect from each prospectus. To transform the monetary value of the IPO proceeds for each category into a percentage, we divide the total IPO proceeds for each category by the total IPO proceeds raised by a company. Accordingly, considering that majority of companies disclosed their time frame of utilizing the IPO proceeds in months, we suggest that each time frame for each IPO proceeds' category be standardized in months. This study also includes other determinants that are worth noting and found to be commonly significant in past studies. They are initial performance (INPER), quality of company (QUALITY), risk of company (RISK), shareholders retention (RETAIN) and market sentiment (MARSEN) (Kooli & Meknassi, 2007; Pour & Lasfer, 2013; Liu & Li, 2014; Cirillo et al., 2017; Che-Yahya & Abdul-Rahim, 2019; Mohd-Rashid et al., 2019).

We adopt the parametric survival analysis method, the Accelerated Failure Time (AFT) model. Unlike the commonly employed survival mode: the Cox Proportional Hazard (COX) model, which does not specify the underlying distribution and is suitable for proportional impact rather than explanatory purposes (Falck, 2007), the AFT model focuses on specifying the survival distribution, making explanatory

predictions on survival time to be more accurate. We test our hypotheses using the AFT model because it focuses more on the time-to-survive rather than the probability of failure by specifying its underlying distribution. Typically, the AFT model is expressed in terms of a log-linear function in which the survival time will be transformed into the natural logarithm. The exponential estimated coefficient $\exp(\sum\beta_i X_i)$ acts as an 'acceleration' or 'deceleration' factor, whereby the effect of the covariates acts as to extend or shrink the length of the survival time. The AFT regression model for this study is specified as follows:

$$\ln(ST_i) = \alpha + \beta_1 GROPP_i + \beta_2 DERE_i + \beta_3 WOCA_i + \beta_4 INPER_i + \beta_5 RISK_i + \beta_6 QUALITY_i + \beta_7 RETAIN_i + \beta_8 MARSEN_i + \epsilon_i$$

Where, $\ln(ST)$ is the natural logarithm of time-to-survive (in months), i is i th company, α is constant term, β is coefficient of the respective independent variable, POP is proportion of IPO proceeds for G, D, W, which are growth opportunities, debt repayment and working capital, TF is time frame to utilize the IPO proceeds for categories as previous, INPER is initial performance, RISK is risk of company, QUALITY is quality of company, RETAIN is shareholders retention, HOT is market sentiment, and ϵ_i is error term.

4.0 Findings and Discussions

4.1 Determinants of Companies Survival Time using the AFT Model

The AFT model results are presented in Table 1. We present the standard coefficient estimation, the time ratio, and the related significance level (i.e., 1%, 5%, and 10%). The time ratio is the exponentiated coefficient, whereby a time ratio with the value of above (below) one for any independent variable should accelerate (decelerate) the companies' survival time (Cleves et al., 2016). Overall, the regression model exhibits a statistically significant likelihood ratio (LR) with a chi-square of 38.33 and a p-value of 0, indicating that the model is well-fitted. Eleven independent variables in total are regressed in the same model. We find six independent variables to have a statistically significant impact on the companies' survival time, at the significance levels of 1% (MARSEN), 5% (POPD, INPER and QUALITY) and 10% level (POPG and TFD).

Table 1
Multiple Regression Using AFT Model

Independent Variables	Coefficient	z-test	Time ratio
Main Independent Variables			
POPG (%)	-0.0042*	-1.85	0.9958
POPD (%)	-0.0058**	-2.28	0.9943
POPW (%)	-0.0029	-1.29	0.9971
TFG (months)	-0.0005	-0.12	0.9995
TFD (months)	0.0146*	1.57	1.0147
TFW (months)	-0.0019	0.46	1.0019
Other Independent Variables			
INPER (%)	0.002**	2.35	1.002
RISK (times)	-0.0033	-0.10	0.9967
QUALITY (Ln)	-0.0014**	-2.09	0.9986
RETAIN (%)	-0.0032	-1.12	0.9968
MARSEN (D)	-0.2916***	-4.12	0.7470
C	2.4521	3.25	11.613
Observation	423		
Time at Risk	1682.86		
Log-likelihood	-394.33		
LR(Prob>chi) ²	38.33***		
RAMSEY Reset	0.81***		

Notes: This table exhibits the estimation results of the Accelerated Failure time (AFT) model. POP (TF) represents the proportion of IPO proceeds (time frame of proceeds utilization), while the following alphabets G, D, and W represent growth opportunities, debt repayment and working capital, respectively. INPER represents the initial performance using the opening price; QUALITY represents the company's quality, measured by the company's market capitalization; RISK represents the company's risk, measured by the over-subscription ratio; RETAIN represents the shareholders retention upon listing; MARSEN represents the market sentiment, measured using the dummy value of 1 for hot market and 0, otherwise. Significant levels at 1%, 5%, 10% denote as ***, **, *, respectively.

Table 1 demonstrates a significantly negative relationship between POPG and ST at the 10% level, suggesting that companies prioritizing POPG shorten ST, indicating that POPG works effectively as a signalling tool to ST. As expanding business activities can be expensive, the companies may face difficulties in convincing investors of their sustainable growth prospects from the long-term costs (Jeanneret, 2005). Therefore, investors concerned about the companies' prospects, especially those relating to research and development (R&D) activities, will perceive it as a negative signal to their performance post-IPO (Ahmad-Zaluki & Badru, 2020). This creates uncertainty among the investors due to the long-run potential high cash flow volatility. Due to the weak regulatory structure of emerging markets, including the Malaysian market (Mehmood et al., 2021), investors are more likely to be speculative and react adversely by not investing in such companies. Thus, this negatively signals companies' survivability, increasing the conflict of interest between the shareholders and the management while shortening the post-IPO ST.

A larger negative impact on ST if companies in the Malaysian market prioritize POPD can be identified from the significant level of 5% (compared to POPG, at 10% level). We find POPD to shorten ST post-IPO. We provide similar evidence to Amor and Kooli (2017) that companies stating debt repayment as the primary use of proceeds may be viewed as opportunistic to the market. When the companies' stocks are overvalued, they issue equity to benefit from refinancing their debt, making their future cash flow stream stagnant (Leone et al., 2007). Busaba et al. (2001), where companies that declare debt repayment as their intended use of proceeds are more likely to withdraw in the pre-market by 14%. This creates concerns among investors about other companies with the same intention of using the raised IPO proceeds to repay debt. Therefore, we confirm that companies with high POPD can negatively signal ST, increasing the agency cost between parties and shortening the companies' survival time post-IPO. Such actions may not be in the interest of shareholders, and thereby these induced agency costs result in reducing the survival time of these companies.

Table 1 also shows TFD has a significant influence on ST at 10% level. Specifically, companies that choose to pay their debt in a longer term can extend their survival time post-IPO. According to Lei et al. (2021), reputable companies with longer maturing debt can perform better in the long-run from the optimal level of cash holdings. This can reduce the impact on companies' financial risk over the long-run. Jeanneret (2005) finds that companies increasing debt in their capital structure have better long-term performance, as premature liquidity disciplines the firm's management in continuously improving the companies' value. Instead of repaying their debt over a shorter term, these companies can utilize the excess capital to generate additional income for investment purposes. This finding supports the signalling and agency theory that the information on TFD can signal companies' survival time post-IPO and reduce the conflict of interests between the companies' management and shareholders.

Companies' initial performance (INPER) is the companies' first-day return post-IPO. INPER is positively significant to ST at the 5% level. The time ratio of 1.002 associated with INPER indicates that for 1% increase in INPER, ST increases by a factor of 0.2%. Alternatively, the finding suggests that companies with a positive initial return will elongate ST. Having a high return on the first day of listing helps supply the companies with an adequate cash flow stream to pursue larger investment opportunities in the long-run. This will encourage more participation among investors, supplying the companies with funding to support their future prospects and elongate ST post-IPO. Quality of company (QUALITY) is measured by the high demand of investors (i.e., over-subscription ratio) before an IPO. This study finds that QUALITY negatively influences ST at 5% level. The time ratio of 0.9986 associated with QUALITY indicates that for 1% increase in QUALITY, ST decreases by 0.14%. Although companies with higher oversubscription can lead to a favourable outcome in the immediate aftermarket, they may face challenges in sustainable performance post-IPO (Agarwal et al., 2008). Companies often time their entrance to ensure that their initial issuance receives high participation by underpricing their shares. Over the long-run, the companies struggle to recover from the indirect costs of underpricing and begin underperforming (Kumar & Sahoo, 2021), thereby negatively impacting the companies' survival time post-IPO.

Market sentiment (MARSEN) is the market condition during investors' optimism or pessimism. MARSEN is highly significant and negatively influences ST at 1% level. The finding proposes that companies that time their entrance during hot markets decrease their survival time post-IPO. The opportunistic companies practice the bandwagon effect to benefit from investors' optimism and gain higher returns in the immediate post-IPO period (Baluja & Singh, 2016). However, during a recession, these companies are unable to maintain the listing status requirements on the stock exchange, thus resulting in shorter post-IPO survival (Hamza & Kooli, 2010; Espenlaub et al., 2012).

5.0 Conclusion

Policymakers mandate that IPO companies disclose the sustainable information of the IPO proceeds' strategic use and the time frame of utilizing them to different categories to promote higher information transparency. The information on IPO proceeds that are commonly classified as growth opportunities, debt repayment and working capital, play essential roles, especially in the emerging markets where there is higher information asymmetry between corporate managers and investors. The additional element of disclosing timelier information, such as the time frame of utilizing IPO proceeds, can assist in further overcoming such a challenge. We discovered that although companies' major intention to grow should reflect long-term wealth accumulation, the increasing long-term costs also signal companies' volatile sustainable growth, discouraging investors from subscribing to such shares issuance. Similarly, companies that intend to raise IPO proceeds to repay debts will result in stagnant cash flow with the slightest intention to create value for the companies. Thus, de-prioritizing repaying their debts, such as elongating the time frame of repaying debts, should mean that the companies are not opportunists, extending companies' survival time in the long-run. Conclusively, our findings provide new evidence that the information on IPO proceeds, which is the time frame of proceeds utilization, also has predictive power to companies' survival time.

We acknowledge several limitations that our study experiences, including the segregation of surviving and non-surviving companies definition uniquely rely on the definition used in our study and the minimum of seven-years for the survival observation period limits this

study to employ companies listed until August 2014 as its most recent sample. As the SCM enforces similar guidelines for companies to become publicly listed as other emerging markets (e.g., Indonesia Stock Exchange and Thailand Stock Exchange) our findings can be generalizable towards other emerging markets in the Asia-Pacific region; however, we recommend future studies to statistically examine the role of IPO proceeds on companies' survival in their own designated markets. The implications for emerging markets policymakers from our study are the provision of empirical evidence that supports the guidelines for reducing information asymmetry between corporate managers and investors by disclosing more detailed specifications of IPO proceeds (i.e., proportion and time frame to utilize each category) for a more efficient and transparent capital market.

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