IPO LONG-TERM PERFORMANCE: EVIDENCE FROM INDONESIA STOCK EXCHANGE 2019-2020

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Abstract

Initial Public Offering (IPO) is one of the most anticipated events in in the Indonesia Stock Exchange (IDX). The number of companies going public has increased significantly in the last few years. However, some newly listed stocks do not perform well after they are listed. This paper will examine whether information stated in the prospectus documents have a significant influence on the long run IPO stock price between 2019-2020. The information includes financial ratios, intention of proceeds, dividend policy, and underwriter reputation. This study uses an event study approach, in which 106 IPO events, to analyse stock performance three years after the IPO. The dependent variable is buy and hold abnormal return (BHAR). The result shows that DER ratio and intention use of proceeds for debt repayment are significant to influence BHAR with a negative relationship. Moreover, the underwriter reputation and underpricing level are insignificant to affect BHAR. The study concluded that long term performance of newly listed firm is influenced by the leverage level.

Keywords: Initial Public Offering (IPO), Stock Performance, Indonesia Stock Exchange (IDX).

Abstrak

Initial Public Offering (IPO) merupakan salah satu peristiwa yang dinantikan di Bursa Efek Indonesia (BEI). Jumlah perusahaan yang go public meningkat secara signifikan dalam beberapa tahun terakhir. Namun, beberapa perusahaan baru tersebut tidak memiliki kinerja yang baik setelah tercatat. Penelitian ini akan menguji apakah informasi yang tercantum dalam dokumen prospektus mempunyai pengaruh signifikan terhadap harga saham IPO jangka panjang khususnya bagi perusahaan yang IPO pada tahun 2019-2020. Informasi tersebut mencakup rasio keuangan, tujuan penggunaan dana, kebijakan dividen, dan reputasi penjamin emisi. Penelitian ini menggunakan pendekatan event study, terdapat 106 peristiwa IPO, untuk menganalisis kinerja saham tiga tahun setelah IPO. Variabel dependen yang digunakan adalah buy and hold abnormal return (BHAR). Hasil penelitian menunjukkan bahwa rasio DER dan tujuan penggunaan dana IPO untuk pelunasan utang berpengaruh negatif dan signifikan terhadap BHAR. Selain itu, reputasi underwriter dan tingkat underpricing tidak berpengaruh signifikan terhadap BHAR. Penelitian ini menyimpulkan bahwa kinerja jangka panjang perusahaan yang baru terdaftar dipengaruhi oleh tingkat leverage perusahaan.

Kata Kunci: *Penawaran Saham Perdana (IPO), Kinerja Saham, Bursa Efek Indonesia (BEI)*

INTRODUCTION

An Initial Public Offering (IPO) is one of the ways companies raise capital from equity financing. By conducting an IPO, the company agrees to share its ownership with other entities in exchange for funding. The funds collected from an IPO can be used for various needs such as business expansion, acquisition, financing operations or subsidiaries, or debt repayment (Amor and Kooli, 2017). It is a huge decision as it will have a significant impact on the company's operations (King and Banderet, 2014).

The trends of conducting IPOs have increased in the last decade In the Indonesia Stock Exchange (IDX). Even during the COVID-19 pandemic in 2020, the IPOs conducted were still higher than in 2017. Acording to Rahadian (2021), there are 106 companies that are listed at IDX in 2019-2020. The enthusiasm of companies to raise equity funding has opened wider opportunities for investors to increase their portfolio return.

According to IDX, there are around 167 stocks out of 906 stocks listed in IDX with closing price of Rp50 or below. This number accounts for 18% of total stocks, which exclude stocks under special monitoring and illiquid and suspended stocks. The number of companies whose stocks plummet after conducting IPO in Indonesia calls for a measurement to understand why these stocks perform poorly.

Research on the IPO stock performance mostly revolves around the stock short-tem performance (underpricing) phenomenon and rarely considers the long-term performance, especially in the IDX. Moreover, although the IPO stock performance has been extensively researched around the world, there has not been an accurate variable that explains the performance (Agustina et al., 2021). The lack of evidence of the factors influencing IDX's IPO performance, in the long run, weakens investment decisions and increases ex-ante uncertainty. Therefore, the objective of this research is to examine the factors affecting IPO stocks' performance in IDX for the years 2019 and 2020 in the long term. This paper will observe the IPO performance for three years and categorize it as a long-term timeframe.

Several studies have indicated that the use of IPO proceeds affect the stock performance. Andriansyah and Messinis (2014) also found that companies from 2000-2010 collecting IPO funds with the purpose of fixed asset investment performed better, while those with the intention of debt repayment had poor operating performance in the long run. Similarly, the usage of IPO proceeds for debt repayment is believed to lead the company to underperform the most in the long run (Amor & Kooli, 2016). Other factors, such as company age (Yuyan et al, 2022), underwriter reputation and rank (Dong, et al., 2010; Teja, 2019; Tanjung, 2019). Therefore, this research will add this information to examine the mentioned variables in the analysis.

This paper will observe the IPO performance for three years and categorize it as a long-term timeframe. The definition of long-term investment varies. Some categorize those one to ten years as a medium-term (Lehman, 2023), while the other sources believe that three years is already long enough to be categorized as a long-term timeframe (Xu, 2021). Investment timeframe may differ from each individual depending on their investment goals. Using a three-year period allows for sufficient time to mitigate short-term market volatility, providing a more stable environment

for the appreciation of assets. This duration aligns well with the business cycles, enabling investors to capitalize on economic growth phases while weathering potential downturns.

Furthermore, a three-year timeframe offers a balance between the liquidity needs of individual investors and the potential for significant returns, fostering an optimal risk-reward scenario. Additionally, it provides enough time for the compounding of returns, enhancing the overall growth potential of the investment portfolio. This period is also advantageous for aligning investments with medium-term financial goals, such as saving for major life events or accumulating funds for future opportunities, ensuring a coherent and disciplined investment strategy.

Although the underpricing phenomenon has been widely discussed, the updated long-term performance using abnormal returns is rarely noticed. This paper will continue and combine the research from Meidiaswati et al. (2019), Budiman (2018), and Yuyan et al. (2022). This paper will add insight into investors' behavior towards the Indonesian IPO events based on information in the prospectus. The result of the research will also provide insights to the stakeholders of stock markets specifically the retail investors who usually have limited access to information (Ljungqvist, 2007).

Given the above fact on post-IPO performance and previous studies, it is necessary to examine factors that influence long-term IPO stock performance. Therefore, the main research question is that what factors that influence the IPO stock performance 3 years after the IPO? This research will contribute to the research in the IPO long-term performance in the Indonesian stock market.

LITERATURE REVIEW

Market Efficient Theory

Market efficiency in the context of IPOs is influenced by various factors, including information asymmetry and the role of underwriters. The information gap between insiders and the public during the IPO process may contribute to market inefficiencies. Moreover, investor sentiment, as demonstrated by behavioral finance theories, can lead to mispricing and deviations from rational pricing. Underwriters play a crucial role in the IPO process, and their incentives may impact the efficiency of price discovery. Research by Ljungqvist (2007) and Jenkinson and Jones (2017) have delved into the impact of these factors on the efficiency of IPO markets. The existence of IPO anomalies and the influence of various factors on market efficiency in this context provide avenues for further exploration and research. As investors and market participants continue to navigate the complexities of IPO markets, a deeper understanding of the interplay between market efficiency theory and IPO stock performance is essential for making informed investment decisions.

Information Assymetry Theory

The seminal work of George Akerlof (1970) on "The Market for Lemons" laid the foundation for information asymmetry theory by illustrating the adverse effects of asymmetric information on market transactions. In the context of IPOs, Myers and Majluf (1984) extended this theory, introducing the pecking order hypothesis and emphasizing how information asymmetry influences the decision-making process of firms regarding capital structure choices, including the timing of IPOs. The theory remains relevant as Healy and Palepu (2001) still posit that information asymmetry

may lure investors to overvalue poor companies and ignore good companies. Information asymmetry happens the most in IPO events as information regarding the company is limited and targets sophisticated investors. This condition leaves individual investors with significant uncertainties in understanding the IPO company (Clarkson, 1994).

The Impresario/Overreaction Theory

The impresario/overreaction theory was developed in the work of De Bondt and Thaler (1985), who introduced the concept of investor overreaction to past information. According to their findings, investors tend to extrapolate recent trends, leading to exaggerated reactions to positive or negative news. Barber and Odean (2008) contributed to the literature by examining the role of investor sentiment in IPO markets. Their study emphasized the impact of individual investor behavior on IPO pricing, demonstrating that overconfident investors tend to overvalue new stocks, contributing to the phenomenon of initial IPO underpricing. Furthermore, Loughran and Ritter (2002) explored the role of media coverage and investor attention in shaping overreaction, finding that IPOs with extensive media coverage experience heightened investor sentiment and subsequent overreaction.

Previous Empirical Evidence

Research on usage intention of IPO proceeds is commonly related to the long-term operating performance of the firm using financial ratios as the proxy. The operating performance of a firm is closely related to stock performance as the market values the stocks of firms with positive operating performance (Adanan et al., 2017). Specific investment plans such as fixed assets and stock acquisition are proven to have a positive impact on long-term operating performance (Andriansyah & Messinis, 2016; McGuinness, 2019). This indicates that the investment plan is executed successfully by the observed firms.

Prior research also suggests that company age has a positive significant effect on long-term stock performance (Yuyan et al., 2022; Poulsen & Nielsen, 2017). This evidence aligns with the belief that company maturity reflects the survivability of the firm in the market and maintains competitive advantage.

Research on dividend initiation plan effects on long-term IPO performance has not been widely explored. Yuyan et al. (2022) and Meghna et al. (2019) found that dividend initiation does not impact the long-term performance of IPOs. This is caused by the fact that only 19% of the sample from Yuyan et al. initiated dividends in the first year post-IPO.

Prior research on the influence of underwriters on long-term IPO stock performance shows mixed results. Su and Bangassa (2011) stated that firms going public with low-reputation underwriters will perform more poorly than those assisted by more reputable underwriters. This result aligns with the market optimism that reduces underpricing rates as reputable underwriters are capable of screening firms with good quality.

Lastly, research on underpricing in different stock markets shows different results. Evidence from the Indonesian stock market by Abid & Muharam (2013) shows that underpricing affects long-term IPO stock performance positively. Descriptive statistics from Meidiaswati et al. (2019) also show that stocks in the high-underpricing group perform better in the long run compared to those in the low-underpricing group.

RESEARCH METHODOLOGY

Data and Observation Period

This paper will be conducted using the event study analysis methodology. Collected information will include company age, dividend initiation, ROE, DER, intention use of proceeds, and underwriter information from the prospectus documents of companies conducting IPOs in 2019 and 2020.

This study chose the observation period because of several reasons. (1) These periods allow to minimize the impact of COVID-19 on the IPO stock performance. Given these periods, the stock long-term performance will be in 2022 and 2023, which is close to the end of pandemic. This allows the study to measure the company's financial condition on stock performance more effectively. (2) Figure 1 shows that the total IPO increases significantly between 2018 and 2020, which suggests relaxation of IPO requirement by the regulators. We exclude 2018 because the impact of COVID-19 is still too high in 2021. This research will use 55 IPO events in 2019 and 51 IPO events in 2020 as the observation for both underpricing and long-term performance research model. Every company conducting IPO in the corresponding year will be included in the observation.

Most information will be collected from the prospectus files, which are obtained from the IDX website. The data to measure underwriter reputation is obtained from the *Penjamin Emisi Efek* (PEE) documents provided by the IDX website. The historical stock price data for post-IPO performance is obtained from "Yahoo Finance!". The obtained data from prospectus documents, PEE documents, and historical stock price data is manually compiled into an Excel database to ensure accurate data input.

Research Variables

This research will use three years buy-and-hold abnormal returns (BHAR) as the dependent variable. The independent variables include company age, dividend initiation, return-to-equity ratio, debt to equity ratio, intention use of proceeds for investment purposes, intention use of proceeds for debt repayment purposes, intention use of proceeds for working capital purposes, and underwriter reputation. The details of each variable can be seen in Table 1.

Table 1. Research Variables

Research Variables	Notation	Study	Definitions
Dependent Variables			
Three years buy-and-hold abnormal returns (BHAR)	BHAR	Poulsen & Nielsen (2017), Meidiaswati et al. (2019)	The number of abnormal returns rate when the investors buy an IPO stock and hold it for three years.

Research Variables	Notation	Study	Definitions
			$$BHAR3_{i,t} = \left[\prod_{t=1}^{36}(1 + r_{i,t}) - 1\right]$$ $$- \left[\prod_{t=1}^{36}(1 + r_{m,t}) - 1\right]$$
Independent Variables			
Underpricing	UNDPR	Fadila et al. (2015), Yuyan et al. (2022)	The difference between stock price during IPO offering and first-day trading closing price in percentage (%). $$UNDPR = \frac{(P_{t1} - P_{t0})}{P_{t0}} \times 100\%$$
Company Age	LnAGE	Meidiaswati et al. (2019), Strottner (2017)	The age of the company when going public, is represented in natural logarithm.
Dividend initiation	DIV	Yuyan et al. (2022), Meghna et al. (2019)	The disclosure of the dividend payment initiation plan in the prospectus document, is represented in dummy variable 1 for the dividend initiation plan and 0 otherwise.
Return-to-Equity Ratio	ROE	Budiman (2018)	The profitability ratio of a company is by dividing net income by shareholders' equity, denoting how much profit the company generates per dollar equity.
Debt to equity ratio	DER	Budiman (2018)	The leverage ratio represents the liabilities divided by shareholders' equity.
Intention use of proceeds for investment purposes	INV	Meidiaswati et al. (2019), Amor & Kooli (2016)	The proportion of IPO proceeds intended to be used for investment purposes such as assets and stock acquisition as stated in the prospectus.
Intention use of proceeds for debt repayment purposes	DEBT	Meidiaswati et al. (2019), Amor & Kooli	The proportion of IPO proceeds intended to be used to repay debts as stated in the prospectus.

Research Variables	Notation	Study	Definitions
		(2016)	
Intention use of proceeds for working capital purposes	WC	Meidiaswati et al. (2019)	The proportion of IPO proceeds intended to be used to finance operational working capital as stated in the prospectus.
Underwriter reputation	LnPEE	Yuyan et al. (2022), Teja (2021)	The expertise of underwriters proxied by the total frequency of stock IPOs led before the timeframe observed stated in the Pengalaman Penjamin Emisi document.

Research Model

The Long-term Performance Research Model will assess the relationship between LnAGE, DIV, ROE, DER, INV, DEBT, WC, LnPEE, and UNDPR with BHAR. The model will explain the factors influencing long-term stock performance in the measurement of buy-and-hold abnormal returns. The general form of research model as follows:

$$Y = \alpha + \beta_1 LnAGE_{IPO} + \beta_2 DIV_{3-IPO} + \beta_3 ROE_{IPO-1} + \beta_4 DER_{IPO-1} + \beta_5 INV + \beta_6 DEBT + \beta_7 WC + \beta_8 LnPEE + \beta_9 UNDPR + e$$

Where:

α = The constant of the model when all β value is 0

β_i = The slope of each independent variable

$LnAGE_{IPO}$ = The natural logarithm of company age when conducting IPO

$DIV_{3\text{-}IPO}$ = The initiation of dividend within three years after IPO, represented using dummy variables

ROE_{IPO-1} = Previous fiscal year Return on Equity ratio stated in the prospectus document

DER_{IPO-1} = Previous fiscal year Debt to Equity Ratio stated in the prospectus document

INV = Usage intention of proceeds for fixed asset or stock acquisition investment purposes

DEBT = Usage intention of proceeds for debt repayment purposes

WC = Usage intention of proceeds for working capital and general purposes

LnPEE = The natural logarithm of nderwriter reputation proxied by IPO lead frequency

UNDPR = First day trading closing price in the secondary market

RESULT AND DISCUSSIONS

Descriptive Analysis

Table 2 shows the descriptive characteristics of the variables observed in this research. Variable BHAR has a mean of -0.15443, reflecting that investing in companies going IPO in 2019 and 2020 are more likely to experience capital loss in the next three years. AGE variable has a mean of 17.57 and PEE has 20.92. However, both variables have a very high standard deviation at 13.8 and 16.2. To ensure that the regression output is not scattered due to high standard deviation, the research will use natural logarithm version for the variables, defined under LnAge and LnPEE variables. After converting AGE and PEE into LnAge and LnPEE, the standard deviations shrink to 0.7 and 1.1.

The financial ratio variables including ROE and DER have a mean of 0.11 and 2.45 respectively. The ROE means that companies conducting IPO in 2019 and 2020 have decent profitability. The intention use of proceeds variables including INV, DEBT, and WC has a mean of 0.443, 0.057, and 0.500 respectively. This reflects the pattern that companies conducting IPO in IDX during 2019 and 2020 period mostly plan to allocate the IPO funds for either business expansion or working capital for their own entity or their subsidiaries. Lastly, UNDPR shows a mean of 0.38, reflecting that companies are experiencing underpricing often during the observed period.

Table 2. Summary of Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
BHAR	106	-0.154	1.167	-1.223	3.364
DIV	106	0.349	0.479	0.000	1.000
AGE	106	17.569	13.820	2.655	64.178
PEE	106	20.915	16.235	1.000	71.000
ROE	106	0.115	0.350	-2.004	2.220
DER	106	2.452	6.657	-21.340	56.405
INV	106	0.443	0.389	0.000	1.000
DEBT	106	0.057	0.168	0.000	0.995
WC	106	0.500	0.382	0.000	1.000
UNDPR	106	0.380	0.319	-0.875	0.700
LnAGE	106	2.592	0.749	0.976	4.162
LnPEE	106	2.612	1.094	0.000	4.263

Note: BHAR: Buy and hold abnormal return in three years; DIV: Dividend initiation within three years after IPO; AGE: Company age when conducting IPO; PEE: Underwriter reputation during IPO; ROE: previous fiscal year Return on Equity as stated in the prospectus document; DER: previous fiscal year Debt to Equity Ratio as stated in the prospectus document; INV: Usage intention of proceeds for fixed assets or stock acquisition purposes; DEBT: Usage intention of proceeds for debt repayment purposes; WC: Usage intention of proceeds for working capital and general purposes; UNDPR: The first secondary market closing price; LnAGE: the natural logarithm of AGE; LnPEE: the natural logarithm of PEE. Source: authors calculation

Table 3 indicates the correlation analysis for independent cariables. variable INV and WC have a correlation coefficient of 0.905. This shows that there is a multicollinearity issue between the two variables. To run the regression data without multicollinearity issue, this research will omit WC variable and focus on INV variable. Other than those two variables, the correlation coefficient between each

variable are ranging from low to moderate. The second highest correlated variables are DIV and UNDPR with a coefficient of -0.2432. This research will allow both variables to be included in the regression analysis as the value is still moderate.

Table 3 Corellation Analysis

	DIV	AGE	ROE	DER	INV	DEBT	WC	UNDPR
DIV	1							
AGE	0.1254	1						
ROE	0.1492	-0.0431	1					
DER	-0.0636	0.0458	-0.0675	1				
INV	-0.0673	-0.1774	0.1182	-0.2332	1			
DEBT	0.2351	-0.0202	0.0556	0.0019	-0.2554	1		
WC	-0.0343	0.1892	-0.1448	0.2364	-0.9049	-0.1803	1	
UNDPR	-0.2432	-0.1738	-0.0931	-0.0615	0.1166	0.0751	-0.1517	1

Note: DIV: Dividend initiation; AGE: Company age when conducting IPO; PEE: Underwriter reputation; ROE: Return on Equity; DER: Debt to Equity Ratio; INV: Usage intention of proceeds for fixed assets or stock acquisition purposes; DEBT: Usage intention of proceeds for debt repayment purposes; WC: Usage intention of proceeds for working capital and general purposes; UNDPR: The first secondary market closing price. Source: authors calculation

Regression Analysis

Table 5 shows the regression analysis between dependent variable and independent variabels. There are three variables that significantly influence the dependent variable, which are DEBT, INV and, DER. The intentional use of proceeds for debt repayment, reflected by DEBT, has a negative significant impact on BHAR with a p-value of 0.017 and coefficient of -1.100. INV is only significant at alpha 10% to affect BHAR with a p-value of 0.086. This can imply that companies intending to use the funds for fixed asset investments or stock acquisitions are struggling to capitalize on the plan and may face problems on the process, which troubled their operating performance and the stock price, hence the negative relationship with BHAR.

Moreover, DER ratio has a negative significant effect on BHAR with a p-value of 0.010 and a coefficient of -0.024. This means that when DER is higher, it will decrease the buy and hold return after three years. The results align with the previous research conducted by Budiman (2018) and Pandey & Pattanayak (2021). The result shows that while DER can be of a good leverage for profitability, it imposes more risk if not managed well and investors are skeptical with companies with high a DER ratio.

Table 5 Robust Regression Result

Variable	Coefficient	Robust std. err.	t	p-value
DIV	0.275	0.227	1.210	0.229
LnAGE	0.025	0.206	0.120	0.902
LnPEE	-0.115	0.123	-0.930	0.354
ROE	0.022	0.213	0.100	0.919
DER	-0.024	0.009	-2.620	**0.010****
INV	-0.495	0.285	-1.740	**0.086***
DEBT	-1.100	0.451	-2.440	**0.017****
UNDPR	-0.524	0.375	-1.400	0.165
_cons	0.522	0.728	0.720	0.475
N = 106				
Prob > F = 0.046				
R-squared = 0.107				

Note: BHAR: Buy and hold abnormal return; DIV: Dividend initiation; AGE: Company age when conducting IPO; PEE: Underwriter reputation; ROE: Return on Equity; DER: Debt to Equity Ratio; INV: Usage intention of proceeds for fixed assets or stock acquisition purposes; DEBT: Usage intention of proceeds for debt repayment purposes; WC: Usage intention of proceeds for working capital and general purposes; UNDPR: The first secondary market closing price; _cons: Constant; **: Statistically significant at alpha 5%; *: Statistically significant at alpha 10%. Source: authors calculation.

Research Discussion

The negative significance of DER at alpha 5% aligns with all the previous research (Budiman, 2018; Poulsen & Nielsen, 2017; Pandey & Pattanayak, 2021). The result is consistent over the different observation period and market, implying the universal preference of investors that higher leverage ratio possesses higher financial risk. While leverage under optimum level may have a positive significant effect on the stock long-term performance, companies with a high DER tend to perform poorly. However, it is worth noting that the coefficient for DER is -0.02. The low slope for DER shows that to a certain extent, leverage does help the company to survive and perform. This finding further strengthens the evidence that while investors' behavior may change over time, the risk-averse attribute is still respected.

The use intention of proceeds for investment in fixed assets and stock acquisitions has a bizarre effect on the long-term IPO performance at alpha 10% level. This result can be explained by the fact that companies may struggle to realize their investment plan due to various external factors such as their maturity level (Meidiaswati et al., 2019). Another factor could be due to the external factors of the COVID-19 pandemic that hindered the process of business expansion given the economy slows down and sales decreased. The result of investment in fixed assets and stock acquisition cannot be seen in the short run, and the COVID-19 pandemic

may have disrupted the investment progress that further delayed the profit projection of the investment or even thrown the entire investment away and made the plan a failure. The pandemic may have also altered investors' perception into prioritizing risk management over business expansion, resulting in the insignificance of the variable.

The use intention of proceeds for debt repayment purposes shows a different result from Meidiaswati et al. (2019) but supports Andriansyah & Messinis (2016) and McGuinness (2019) results that debt repayment purposes hurt the company operating performance in the long run. The result of this paper also supports Autore et al. (2009) and Ahmadian et al. (2016) that overvalued companies may just use the IPO opportunity to time the market when investors are optimistic about the industry growth prospect. This type of company performs poorly in the long run as they do not have a clear plan about the business growth using the IPO proceeds, hence the negative relationship.

The results have shown that the company prospectus is the main consideration for IPO investors, which is promoted by the Efficient Market Hypothesis. The information of debt ratio (DER) and the intention use of proceed (INV and DEBT) can be seen in the prospectus. This research does support the overreaction hypothesis as the descriptive statistics show increase in the first day of trading. The underpricing occurrences are intentionally conducted by the underwriters to increase demand of stocks in the short term. Over time, information is revealed, companies with initially high returns to subsequently earn lower returns, which indicates low long term performance Shiller (1990). The results suggest that investors seem not to be able to find the fair value of newly listed companies in the short-term, but investors can assess effectively the long-term performance of IPO stock as more information available regarding the company financial condition.

CONCLUSION

This research aims to delve into the influence factors of buy and hold abnormal returns by examining the internal characteristics of the companies such as company age, dividend initiation ROE, DER, and IPO intention use of proceeds 3 years after IPO. This research also examines the help of external parties such as underwriters and investors' optimism reflected through underpricing. The result of this paper will enrich the reference for investors to understand better which indicator should be looked up to in composing their portfolios.

The regression analysis indicates that investors in Indonesia do not like debt and tend to be more risk averse. This is a reasonable fear as higher leverage comes with higher risk. The uncommon behavior underlined in this paper is that the intention to use proceeds for business expansion in the form of fixed assets or stock acquisition still does not help the market optimism, showing that companies in Indonesia may face difficulty in realizing their investment and expansion plan, resulting in their operating performance to stuck without significant growth, which ultimately affect their stock price performance as well.

Moving forward, investors may want to check the leverage ratio of the IPO companies before deciding their investment purchase. The DER and DEBT variable both have a negative significant impact on the long-term IPO stock performance. It is important to double check the financial strength of the company to have faith that

the company is not going bankrupt anytime soon, and the leverage ratios are a valid measurement to prevent financial risk, especially in the case of buy and hold return as the concept relies on the fact that investors will hold their investment in the stock for three years.

The limitation of this study is that it only includes two of the financial ratios and computes three-year price change instead of using yearly basis also suggests for fellow academicians to include more financial ratios and using panel data analysis. The stock market is volatile and while this paper addresses the stock price performance return in three years, it does not take into account the yearly progress of the stock performance. Stocks that were performing poorly in the third year may have been bullish in the first and second year. Using a panel data analysis provides more insights into the stock performance over the years and helps investors to adjust their investment timeframe. Moreover, future research may also take into account for longer timeframe such as five, ten, or twenty years to grasp a better storytelling of the market behavior, while maintaining the flexibility of the timeframe using panel data analysis. Besides, future analysts may also want to check the robustness of the regression analysis as observing IPO performance includes varieties of variables. This can be done by modifying certain specification of the regression model such as adding and removing variables for both dependent and independent variables (Lu, 2014).

This study has several implications for stock market stakeholders. Firstly, investors should assess carefully the company prospectus to find the fair value of the stock. Investors should pay attention to the fundamentals of company to obtain the long-term benefit of IPO stock. Secondly, capital market regulators should ensure that the new standards of prospectus are continuously improved to enhance transparency and accountability of new listed companies. Further study on the quality of company prospectus should increase the market efficiency of IDX.

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