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New perspectives on initial public offerings: Bear and debt-retiring IPOs

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論 文 名　: New perspectives on initial public offerings: Bear and debt-retiring IPOs
（新規株式公開に関する新しい視点からの実証分析：株式不況時のIPOと負債返済目的IPO）

区　　分　: 甲

論　文　内　容　の　要　旨

This dissertation attempts to investigate how motivations of IPOs affect timing of initial public offerings (IPOs) and the usage of the proceeds. It is widely documented that IPOs tend to be disproportionally concentrated in bull markets (Chemmanur and He, 2011; Ritter, 1984; Yung et al., 2008). Conventional wisdom is that firms can raise more funds for future investment and pre-IPO shareholders can maximize capital gains when the stock market is going well. However, firms may experience stock price reductions after they decided to go public. Indeed, some Japanese firms have gone public after the market index declined significantly, while some companies postponed their scheduled IPOs. Importantly, firms go public for various reasons other than financing projects and realizing capital gains. For instance, Pagano et al. (1998) argue that firms go public to rearrange their capital structure; Bodnaruk et al. (2007) contend that under-diversified CEOs have an incentive to diversify their assets through an IPO; A nontrivial number of firms also have indicated that they primarily use IPO proceeds for debt retirement rather than for investment projects (Dunbar and Foerster, 2008). While a large body of literature has paid attention to IPOs in bull markets, only few studies have examined the motivation of companies going public (withdrawing IPOs) in bear markets and retiring debt at the IPO. To fill this research gap, this dissertation attempts to address the following questions: (1) Does firms' intention to rebalance capital structure affects the timing of IPOs; (2) Do CEOs' liquidity needs affect the decision to postpone their IPO? (3) Do potential underinvestment problems motivate firms to conduct debt retirement by using IPO proceeds?

After reviewing the literature on motivations of IPOs in Chapter 1, I point out objectives of this dissertation and then present main results as well as contributions.

Chapter 2 examines whether firms' capital structure and a credit crunch jointly affect the timing of IPOs. Since IPOs provide an important opportunity to raise equity capital, firms with near-term debt repayment obligations may be eager to conduct IPOs, irrespective of market conditions. Meanwhile, companies may be able to wait for bull markets, if they can expect to borrow from banks to repay

their debts (e.g., rollover loans). We investigate this idea by focusing on a banking crisis that significantly contracts bank loan supply. Our empirical analyses find that the level of short-term debt is positively associated with the probability that firms will go public in bear markets. Importantly, the positive relationship between short-term debt and bear market IPOs is only evident for firms going public after a reduction of total bank credit in the loan market. These findings suggest that a credit crunch forces firms with large short-term debt to rush into IPO markets, in order to rebalance capital structure.

Chapter 3 investigates whether CEOs' liquidity needs affect the decision to postpone an IPO in weak market conditions. Market conditions are one of the major reasons for IPO withdrawals since poor demands lead to a decline in capital gains as well as primary proceeds. However, Busaba, et al. (2001) do not find a positive relation between withdrawal decisions and secondary shares. One potential reason is that they do not take the difference in objectives across pre-IPO shareholders into account. Specifically, most CEOs' assets are not well diversified, as they disproportionally invest in shares of their own companies. Unlike CEOs, VCs have well-diversified assets because they invest in multiple start-ups. These facts indicate venture capitals may put relatively high priority on capital gains as a motive of an IPO than that of CEOs. Consistent with this conjecture, we find that only the amount of VCs' secondary shares is positively related to withdrawal decisions; we find no significant relation between CEOs' secondary shares and withdrawal decisions.

Chapter 4 examines whether IPO debt retirement can stimulate firm growth. A nontrivial number of firms have indicated that their primary motivation for IPOs was debt retirement. With respect to debt-retiring IPOs, one strand of literature posits that firms are more likely to use IPO proceeds to retire debt when they can issue overvalued stocks despite their poor investment opportunities. However, there is an alternative explanation: That is, debt may constrain firms' growth prior to the IPO, and IPO firms retire debt to mitigate the underinvestment problem. Our findings indicate that both leverage and interest burden are positively associated with the level of debt repayment during the year of the IPO. Importantly, firms that retire more debt substantially expand their firm size, compared with firms that retire bank debt less. These findings support our hypothesis.

Chapter 5 presents conclusions of this dissertation. This dissertation contributes to the IPO literature in several ways. First, previous studies have paid attention to hot market IPOs, but only a few studies have examined the motivation of companies going public in bear markets. Second, to consider the phenomenon of IPO withdrawal, we extend the existing literature by considering different IPO objectives among pre-IPO shareholders. Third, we highlight the benefits of debt retirement at the IPO by providing evidence that debt retirement can boost firm growth during the post-IPO period.