Does Warrant Strategy Along with IPO Provide Better Performance?

Yuli Soesetio[1(✉)], Dyah Arini Rudiningtyas[2], and Retno Nur Habibah[1]

[1] Department of Management, Faculty of Economic and Business, Universitas Negeri Malang, Malang, Indonesia
yuli.soesetio.fe@um.ac.id

[2] Department of Accounting, Faculty of Economic, Universitas Islam Malang, Malang, Indonesia

Abstract. An Initial Public Offering (IPO) can provide limited benefits for companies in the short to medium term. This study aims to evaluate the use of the Package IPO (PIPO) and Shares-only IPO (SIPO) strategy that accompanies the IPO process of companies listed on the Indonesia Stock Exchange (IDX). The sample used in this study was all companies that carried out IPOs for the period 2010–2016 as many as 155 companies. Using Paired Sample T-test and Wilcoxon Signed Rank Test the results showed that in the short-term there was a significant difference in financial performance of leverage (DER) and working capital (CR) before and after the IPO, but only in the medium-term CR performance did not show a significant difference. Meanwhile, the use of warrant inclusion strategies provides quite diverse results. When the company uses the SIPO strategy, it shows a significant difference in the company's performance in the short- and medium-term. In contrast, the use of other strategies during IPOs in the short- and medium-term does not show a difference in performance.

Keywords: Initial Public Offering · PIPO · SIPO · CR · DER

1 Introduction

Initial Public Offering (IPO) is the most common activity to be carried out as well as being the last alternative for companies to get funds without interest in the capital market [1]. In addition, the company's purpose of conducting an IPO is to obtain new sources of funding, improve the debt structure, improve the ability of going concern, improve the company's image, and increase the value of the company [2–4].

The selection of an IPO strategy is one of the determining factors for the company's success after the IPO in the future both in the short, medium, and long term. Shares-only IPO (SIPO) is an IPO strategy where the company will only sell shares at the time of the IPO [5]. SIPO is the most common and most widely used strategy by IPO companies. During 2010–2016 from a sample of 121 companies that IPO on the Indonesia Stock Exchange (IDX), 99 (82%) companies used the SIPO strategy. How & Howe [6] mshowed that of the sample of 394 companies that IPO in Australia from 1979 to 1990, 260 (66%) were using SIPO.

D. T. Kurniawan and I. Zutiasari (Eds.): BISTIC 2022, AEBMR 245, pp. 130–139, 2023.
https://doi.org/10.2991/978-94-6463-178-4_14

Package IPO (PIPO) is an IPO strategy where the company will sell shares to the public by including warrants as a sweetener [6]. There are various reasons why companies use the PIPO strategy. First, by using warrants, companies signal that they are committed to keeping the share price at a minimum at the same rate as the exercise price of the warrants in seasonal offerings. From an agency-cost perspective, the use of the package IPO strategy can be seen as a signal to the public that the IPO offer price is underpriced [6]. IPO companies that sell warranted shares generally have the characteristics of a smaller size, younger age and are riskier than companies that sell shares-only [7].

IPO activities can provide short-term, medium-term, and long-term benefits to the company's financial performance. In the short term, an IPO provides significant benefits for the company [8]. In general, the company will use the proceeds from the IPO to expand, improve the capital structure, increase investment in subsidiaries, pay off part of the debt, and increase working capital [9].

The topic of financial performance before and after the Initial Public Offering (IPO) is still interesting to discuss due to some of the results of previous research that are still inconsistent. According to Cahyani & Suhadak [10], Khatami et al. [11] there were differences in CR before and after the IPO, while the results from Soesetio & Rudiningtyas [12] proved that there was no significant difference in CR before the IPO and after the IPO. According to Cahyani & Suhadak [10], Soesetio & Rudiningtyas [12], there are differences in DER before and after conducting an IPO, while in the research of Khatami et al. [11] There was no significant difference in the mean value of DER between before and after the IPO.

This research is expected to add to the existing literature on the selection of an IPO strategy to support financial performance after conducting an IPO. It is also expected to be a consideration for investors to choose the right company that is associated with the value of the company. In this article, Sect. 2 reviews the literature. Section 3 describes the data and methodology. Section 4 presents the empirical results and explains the empirical results and Sect. 5 concludes the results of the study.

2 Literature Review

2.1 Initial Public Offering (IPO), Package IPO (PIPO) & Shares-Only IPO (SIPO)

According to Cahyani & Suhadak [10], the sale of shares by the company for the first time is called an Initial Public Offering (IPO) or better known as going public. The company's goal of conducting an IPO is to obtain new sources of funding, improve the debt structure, increase the ability to go concerned, improve the company's image, and increase the value of the company [2]–[4]. IPO will improve the credibility and image of the company and tend to be relatively easier to obtain access to funding [13].

Package IPO (PIPO) is a term given to companies that use inclusion (options or warrants) at the time of offering [6]. While a Shares-only IPO (SIPO) is a company that only uses ordinary shares in its offering [5]. How & Howe [6] summarizes some of the differences in the characteristics of IPO companies using PIPO and SIPO strategies based on agency-cost hypothesis and signaling hypothesis. They concluded that PIPO companies are younger, smaller, and riskier than SIPO companies. In addition, PIPO

companies have greater agency fees than SIPO companies. In addition, companies that use the PIPO strategy tend to have greater information asymmetry than SIPO companies.

IPOs have great potential in influencing the company's performance, one of which is financial performance because of the potential for a relatively large amount of capital increase so that the company's financial performance will be better than before the IPO.

2.2 Financial Performance

Analysis of a company's financial performance through financial ratios can give an idea of the good or bad situation or financial position of a company, especially if the ratio figure is compared with the comparative ratio figure used as a standard [14]. Basically, ratio analysis can be grouped into five categories, profitability, liquidity, solvability, activity, and market [15]. The measurement of financial performance can be seen in several indicators. One of the indicators used is the financial statements of the company. According to Wirajunayasa & Putri [16], financial performance is the achievement of the company in a period that describes the company's financial health condition with indicators of capital adequacy, liquidity and profitability.

IPO activity has the potential to affect the company's performance, one of which is financial performance because of the relatively large amount of capital addition activities. The increase in capital makes the company's financial performance better than before [14]. Munisi [17] through a study conducted, concluded that the IPO process provides benefits in improving the financial performance of companies listed on Dares Salaam stock exchange. Lee et al. [18] prove that the current ratio increased and leverage decreased after the airline companies conducted an IPO.

3 Method

This study used a paired sample t-test and a wilcoxon signed rank test to see the company's financial performance before and after conducting an IPO on companies that use PIPO and SIPO strategies in the short and medium term.

3.1 Operationalization Variables

3.1.1 Current Ratio (CR)

Current ratio (CR) is a measure of the company in generating cash and its equivalents, managing the company's working capital, including fulfilling commitments to pay current liabilities on current assets owned [19]. Following Soesetio & Andrian [20], CR is calculated using the formula:

$$\text{CR} = \frac{\text{Current asset}}{\text{Current liability}}$$

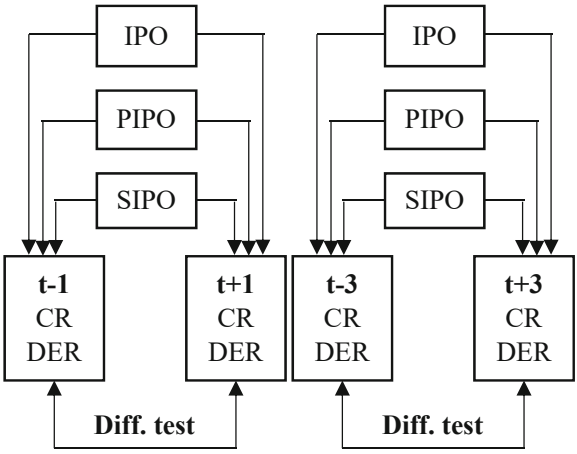

Fig. 1. Research Framework

3.1.2 Debt to Equity Ratio (DER)

Debt to equity ratio (DER) is a comparison between total debt and capital owned. The higher the value of this ratio indicates that the company relies more on funds sourced from debt than the capital accumulated in the company [21]. Following Thoriq et al. [22], DER is calculated using the formula (Fig. 1).

$$\text{DER} = \frac{\text{Total debt}}{\text{Total equity}}$$

3.2 Population Dan Sample

The research population is all companies that conducted IPOs on the Indonesia Stock Exchange in 2010–2016 amounting to 155 companies. Through the use of purposive sampling, consideration of medium-term analysis, 3 years after the IPO and the availability of data obtained a sample of 121 companies where 22 companies used the PIPO strategy, and 99 companies used the other.

3.3 Data Types and Sources

The secondary data used in this study is in the form of a company prospectus report published when conducting an initial offering of shares as well as the company's financial statements 1 and 3 years after the IPO.

4 Result and Discussion

4.1 Current Ratio Before and After IPO

The results of the liquidity ratio study using the Current Ratio (CR) in this study showed that CR had a significant difference between one year before and one year after the IPO.

Table 1. Different test

Variable	Different test	Mean		t	Sig (2-tailed)
		Before	After		
DER	1 year before vs 1 year after IPO	2.430	1.592	4.431	0.000***
DER	3 years before vs 3 years after IPO	3.709	2.044	2.655	0.009***
DER	1 year before vs 1 year after PIPO	1.025	1.290	1.445	0.149
DER	3 years before vs 3 years after PIPO	5.490	1.394	2.094	0.036**
DER	1 year before vs 1 year after SIPO	2.742	1.659	5.639	0.000***
DER	3 years before vs 3 years after SIPO	3.313	2.188	2.026	0.046**
CR	1 year before vs 1 year after IPO	1.480	2.155	-3.923	0.000***
CR	3 years before vs 3 years after IPO	1.749	1.954	-0.727	0.469
CR	1 year before vs 1 year after PIPO	1.300	1.751	-2.711	0.007***
CR	3 years before vs 3 years after PIPO	3.157	1.632	-0.179	0.858
CR	1 year before vs 1 year after SIPO	1.520	2.245	-3.491	0.001***
CR	3 years before vs 3 years after SIPO	1.436	2.026	-3.159	0.002***

Note: *, **, *** significant at 10%, 5%, 1%

This result supports the results of a study conducted by Cahyani & Suhadak [10] which states that there are differences in CR before and after the company conducts an IPO. The implementation of the IPO carried out by the company in the short term is able to make a significant difference in the company's ability to meet its short-term debt. It can be concluded that the implementation of the IPO has an impact on the company's current ratio (CR). The condition of the company's liquid assets is still abundant in the short term after the IPO. However, in the medium term, the abundant liquidity is utilized by the company to gradually improve the capital structure. It is evident that there is no significant difference in CR in the medium term before and after the IPO (Table 1).

In the medium term, which is 3 years after the IPO, it shows that the company's CR has fallen again so there is no significant difference between the CR 3 years before the IPO and 3 years after the IPO. These results support the findings of Yusmaniarti et al. [23] who found that there were no significant differences in CR before and after the IPO. This shows that the implementation of the IPO in the medium term is only able to improve the capital structure and debt structure but is not able to improve the company's liquidity. This result proves that at the time of the IPO, the allocation of funds from the IPO is more widely used to repay debt in the long term, as can be seen from the results that there is a significant difference in DER 3 years before and after the IPO.

4.2 Debt Equity Ratio Before and After IPO

The results of the financial performance research on solvency ratios using the Debt-to-Equity ratio (DER) show that the DER ratio has a significant difference in one year before and after the IPO. The difference in DER 1 year before and after the IPO indicates

that the implementation of the IPO has a better effect on the company's performance on the additional funds obtained by the company. The improvement in the performance of debt under management is improving in accordance with the optimal targets that apply generally in a company. These results support the findings by Cahyani & Suhadak [10] and Wahyono [24] who found that there were differences in DER's financial performance before and after the IPO.

The solvency ratio using the Debt-to-Equity Ratio (DER) shows that the DER ratio has a significant difference of 3 years before and 3 years after the IPO. This study rejected H0 which stated that there was no difference in the financial performance of DER 3 years before and 3 years after the IPO. The results are in accordance with the Pecking Order Theory which states that financing on the company begins with retained earnings, debt, and the issuance of shares. This stock issuance is carried out because the company needs funds to improve its capital structure and to avoid excessive burdens due to debt accumulation that occurs before the IPO process.

4.3 Current Ratio Before and After PIPO

The results of the liquidity ratio study using the Current Ratio (CR) show that there is a difference in CR between 1 year before and 1 year after the IPO in companies that use the PIPO strategy. The rising CR average indicates the company is better able to meet its maturing debt repayment obligations as well as sufficient working capital to sustain business operations. Based on the results of the study, it shows that the CR ratio is able to strengthen the purpose of implementing the IPO, that is to meet the company's short-term liquidity so as to keep the company away from financial distress [19, 25]. Based on the results of the study, it shows that companies that do PIPO have more current assets so that in the short term the company's ability to pay short-term liabilities and support business survival is getting better because there are more and more and more improving the value of current assets owned.

But surprisingly, in just 3 years after the IPO, liquidity conditions are decrease again. Companies that conduct IPOs accompanied by warrants generally have the characteristics of a smaller size, younger age and are more risky than companies that sell shares alone [7]. Therefore, after the implementation of the IPO, the funds raised were mostly used to pay long-term debts and gradually increase working capital while being supported by the proceeds of collecting funds from warrants several periods later. This can be seen from the results that there is a significant difference in DER 3 years before and after the IPO in companies that use the PIPO strategy.

4.4 Debt Equity Ratio Befeore and After PIPO

The results of the research on financial performance of solvency ratios using the Debt-to-Equity Ratio (DER) showed that the DER ratio did not have a significant difference 1 year before and 1 year after PIPO. This proves that the company is improving the company's condition so that it looks fit and proper in the eyes of potential investors in preparation before conducting an IPO in the hope of successfully absorbing the maximum funds from the IPO, which is actually the performance condition of companies that choose the PIPO strategy displays the inoptimal performance after the IPO, it mean that the

company has not been able to better fulfill its long-term obligations [25]. The company prefers to use IPO funds to accumulate IPO funds in the form of current assets, this can be seen from the results of the CR there is a difference in 1 year before and after PIPO, which has increased.

The implementation of PIPO in the medium term is only able to improve the capital structure but is not able to improve the company's liquidity. This can be seen from the DER ratio which has experienced a fairly drastic decline so that it shows the condition that the company's capital composition is greater than the company's total debt [24].

Companies that choose the PIPO strategy have worse DER and CR performance compared to SIPO. This can be observed from the comparison of short-term DER and medium-term CR which shows that there is no difference better than the comparison period whose performance does not support the improvement of the company's performance in the future. In addition, PIPO strategy selection shows that the company needs more funds in the longer term to support the company's longer performance. Schultz [7] argues that an IPO that includes warrants is a type of "phased financing".

4.5 Current Ratio Before and After SIPO

There are significant differences in CR before and after the IPO in the short and medium term in companies that use the SIPO strategy. IPO companies that sell warrantless shares generally have the characteristics of a larger size, more mature age and are safer than companies that sell warranted shares [7]. In the context of signaling hypothesis companies using the PIPO strategy will show a higher level of information asymmetry than SIPO companies [6]. Therefore, at the time of the IPO implementation, the company is better able to manage and utilize the funds from the IPO. This hasl is reflected in the increasing CR condition and the declining DER condition.

4.6 Debt Equity Ratio Before and After SIPO

There are significant differences in DER before and after the IPO in the short and medium term in companies that use the SIPO strategy. This result proves that the DER ratio has a significant difference 3 years before and after the IPO. These results are in accordance with the average condition of DER which has decreased significantly providing a difference in performance 3 years before and 3 years after SIPO. The lower the DER ratio, the better the company will pay its long-term obligations because the composition of debt is smaller than the total capital. So that in the DER ratio difference test obtained results there was a difference in performance. The results of the study showed that the DER ratio was able to strengthen the purpose of implementing SIPO, that is to improve the company's capital structure. The main purpose of the company's IPO is focused on improving the company's debt structure so that debt capacity rises again [24]. In addition, the company able to fund the company's operations derived from debt. This is evidenced by the descriptive statistics that the leverage ratio improves after the IPO process.

5 Conclusion

Overall, IPO activities can improve the company's financial performance, especially the balance of liquidity levels that are maintained more optimally and the decrease in solvency levels in the short and medium term after the IPO so that it is healthier and more optimal in performance. A greater decrease in the value of DER compared to the increase in the value of the company's CR shows that, the company is more using the proceeds from the IPO to improve the capital structure in order to return to normal debt capacity and reallocate the source of debt funding. However, in companies that use the SIPO strategies which is a larger, mature, and minimally risky company, there is a significant decrease in DER and a significant increase in CR both in the short and medium term after the IPO. In addition, further confirming the selection of PIPO strategies by the company shows that they need more additional funds to improve and improve the company's performance to be better than the previous period.

This study is still very limited in duration of time and analytical tools to provide strong conclusions, so that future research then can add time, variables, and other combinations of corporate actions such as rights issues and dividend distribution.

References

1. B. O. Badru, N. A. Ahmad-Zaluki, and W. N. Wan-Hussin, "Signalling IPO quality through female directors," *Int. J. Manag. Financ.*, vol. 15, no. 5, pp. 719–743, 2019, doi: https://doi.org/10.1108/IJMF-01-2018-0025.
2. N. Hadi, *Pasar Modal Acuan Teoretis dan Praktis Investasi di Instrumen Keuangan Pasar Modal*. Yogyakarta: Graha Ilmu, 2013.
3. S. G. Mun and S. C. (Shawn) Jang, "Restaurant firms' IPO motivations and post-IPO performances," *Int. J. Contemp. Hosp. Manag.*, vol. 31, no. 9, pp. 3484–3502, 2019, doi: https://doi.org/10.1108/IJCHM-08-2018-0677.
4. L. Yazdani and S. Aris, "An assessment of the performance of initial public offering (IPOs) in Malaysia," *Res. J. Financ. Account.*, vol. 6, no. 3, 2015.
5. C. Dhevi, Y. Soesetio, and D. Q. Octavio, "Profile analysis of the importance of equity financing decisions on Package IPO (PIPO) and Shares-only IPO (SIPO) in Indonesia," in *Proceedings of the 5th Sebelas Maret International Conference on Business, Economics and Social Sciences*, 2020, pp. 158–163. doi: https://doi.org/10.1201/9780429433382-16.
6. J. C. Y. How and J. S. Howe, "Warrants in Initial Public Offerings: Empirical Evidence," *J. Bus.*, vol. 74, no. 3, pp. 433–457, 2001, doi: https://doi.org/10.1086/321933.
7. P. Schultz, "Unit initial public offerings: A form of staged financing," *J. financ. econ.*, vol. 34, no. 2, pp. 199–229, 1993, doi: https://doi.org/10.1016/0304-405X(93)90018-7.
8. E. Ozen, "Behaviors of companies after initial pub-lic offering the case of Turkey," *Eurasian J. Econ. Financ.*, vol. 4, no. 4, pp. 20–28, 2016, doi: https://doi.org/10.15604/ejef.2016.04.04.003.
9. R. Pastusiak, K. Miszcynska, and B. Krzeczewski, "Does public offering improve company's financial performance? The example of Poland," *Econ. Res. Istazivanja*, vol. 29, no. 1, pp. 32–49, 2016, doi: https://doi.org/10.1080/1331677X.2016.1152559.
10. R. T. Cahyani and Suhadak, "Analisis Kinerja Keuangan Perusahaan Sebelum dan Sesudah Perusahaan Melakukan IPO (Initial Public Offering) Di Bursa Efek Indonesia (BEI)," *J. Adm. Bisnis*, vol. 45, no. 1, pp. 10–18, 2017.

11. N. Khatami, R. R. Hidayat, and S. Sulasmiyati, "Analisis Kinerja Perusahaan Sebelum Dan Sesudah Initial Public Offering (IPO) di Bursa Efek Indonesia," *J. Adm. Bisnis*, vol. 47, no. 1, p. 2017, 2017.
12. Y. Soesetio and D. A. Rudhiningtyas, "Do Corporate Actions Have a Good Impact on Company's Performance?," in *Proceedings of the BISTIC Business Innovation Sustainability and Technology International Conference (BISTIC 2021)*, 2021, pp. 102–109.
13. T. Yuliarni, U. Maryati, and H. Ihsan, "Analisis Kinerja Perusahaan Sebelum dan Sesudah Initial Public Offering (IPO) di Bursa Efek Indonesia (BEI)," *J. Akunt. Manaj.*, vol. 11, pp. 25–37, 2016.
14. D. Rudianto, "Measuring the Financial Performance Prior and After the Initial Public Offering (IPO) of Companies Listed in the Indonesian Stock Exchange (IDX)," in *Proceedings of the International Conference on Strategic Issues of Economics, Business and Education*, 2020, pp. 231–237.
15. M. M. Hanafi and A. Halim, *Analisis Laporan Keu-angan. Edisi Kelima.* Yogyakarta: UPP STIM YKPN, 2016.
16. P. A. A. Wirajunayasa and I. A. M. A. D. Putri, "Analisis Kinerja Perusahaan Sebelum dan Sesudah Initial Public Offerings," *E-Jurnal Akunt. Univ. Udayana*, vol. 19, no. 3, pp. 1916–1942, 2017.
17. G. H. Munisi, "Financial performance of initial public offerings: companies listed on Dares Salaam stock exchange," *Bus. Econ. J.*, vol. 8, no. 2, 2017, doi: https://doi.org/10.4172/2151-6219.1000302.
18. S. Lee, H. Kim, and N. Lee, "A comparative analysis of financial and operational performance pre- and post-IPO: with a focus on airline companies," *Acad. Account. Financ. Stud. J.*, vol. 23, no. 3, pp. 1–14, 2019.
19. S. R. Juliana and Sumani, "Analisis Kinerja Keuangan Perusahaan Sebelum dan Sesudah Melakukan Initial Public Offering (IPO)," *J. Akunt.*, vol. 13, no. 2, pp. 105–122, 2019, doi: https://doi.org/10.25170/10.25170/jara.v13i2.476.
20. Y. Soesetio and M. F. Andrian, "Pengaruh informasi keuangan perusahaan dan profilnya terhadap underpricing," *ACCOUNTHINK J. Account. Financ.*, vol. 6, no. 1, pp. 1–16, 2021.
21. T. Morina and R. Rahim, "Faktor – Faktor Yang Mempengaruhi Initial Return Pada Initial Public Offering (IPO)," *MENARA Ilmu*, vol. XIV, no. 02, pp. 146–157, 2020, doi: https://doi.org/10.31869/mi.v14i2.1891.
22. K. N. Thoriq, S. Hartoyo, and H. Sasongko, "Faktor Internal dan Eksternal yang Memengaruhi Underpricing pada saat IPO di Bursa Efek Indonesia," *J. Apl. Manaj. dan Bisnis*, vol. 4, no. 1, pp. 19–31, 2018, doi: https://doi.org/10.17358/jabm.4.1.19.
23. Yusmaniarti, K. A. Sesba, B. Astuti, and Marini, "Kinerja Keuangan Sebelum dan Sesudah Initial Public Offering (IPO) Perusahaan yang Terdaftar di Bursa Efek Indonesia," *J. Sains Manaj. dan Bisnis Indones.*, vol. 10, no. 2, pp. 229–245, 2020.
24. B. Wahyono, "Financial performance analysis of SMEs before and after initial public offering (IPO) on the Indonesia stock exchange (IDX)," *BISE J. Pendidik. Bisnis dan Ekon.*, vol. 4, no. 2, pp. 87–91, 2018.
25. Arfandi and S. Taqwa, "Analisis Kinerja Keuangan Sebelum dan Sesudah Initial Public Offering (IPO) pada Perusahaan Non Keuangan di Bursa Efek Indonesia," *J. WRA*, vol. 6, no. 2, pp. 1347–1363, 2018.