

# IPO Underpricing and Information Asymmetry in Switzerland

Bachelor Thesis



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Major field of study: Banking & Finance

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## **Executive summary**

### **1 Problem**

When companies go public, equity that is sold in an initial public offering (IPO) tends to be underpriced. The result is a notable price jump on the first day of trading. The discount on going public shares is documented in almost every equity market around the globe, this implies that firms leave considerable amounts of money on the table.

### **2 Research objective**

This bachelor thesis empirically investigates whether information asymmetry explains the underpricing phenomenon in Switzerland. To accomplish the objective, at first explanation approaches based on underpricing theory are compiled. In a second step information about Swiss IPOs is collected and converted to a database which will be used for the estimation of the relation between underpricing and information asymmetry.

### **3 Proceeding**

After a brief introduction regarding the underpricing phenomenon the first part of the thesis deals with a focused survey of the literature on IPO underpricing. Proposed principle theories - especially asymmetric information models - are presented and commented. In connection with the proceedings empirical evidence is discussed. At the end of part one, main conclusions are summarized.

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Part two of the thesis consists of a proper empirical investigation. On the basis of 88 Swiss IPOs conducted during the time period of 1997 and 2008 a multivariate data analysis by means of regression is elaborated. Furthermore the unique institutional setting of Switzerland is analysed and linked with the outcome of the estimation. In a final step the findings are submitted and compared to other empirical results.

## **4 Results**

The analysis of 88 Swiss IPOs shows that information asymmetry contributes significantly to the explanation of underpricing. Shares which feature high volatility during the first ten trading days after the IPO, by trend have higher underpricing. Consequently there is a statistical coherence between uncertainty about the future market price and the underpricing phenomenon.

Another influential coefficient of underpricing is market atmosphere. Results point out that the development of a reference equity portfolio between the issue price fixing date and the first day of trading affect the extend of underpricing. During periods of positive market atmosphere which is mirrored by rising index prices, more underpriced offerings are observed.

In general a decrease of average initial returns over time in Switzerland is detected. This matter of fact is attributed to changes of the institutional setting. Over the years the Swiss IPO market experienced a boost in terms of rivalry. New banks want to establish themselves and try to reduce underpriced offers by generating more earnings for their going public clients. Moreover rising supplies enhance learning effects of the market and lead to more exact pricing.

Additionally corporate government concepts provide more informative stock prices and thereby reduce the asymmetric information problem between issuers and investors.