DO PRIVATE EQUITY-BACKED IPOS ADD MORE VALUE FOR THE INVESTORS?

Master Thesis

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ABSTRACT

Initial public offerings of companies backed by private equity sponsors have been documented to circumvent the two most common anomalies in an IPO process: initial underpricing and long-term underperformance. The analysis of newly issuing companies on the Swiss and Frankfurt Stock Exchange during 1998-2016, shows that private equity-backed IPOs are only moderately underpriced and exhibit lower initial returns when compared to a control sample of non-sponsored IPOs. Depending on the employed methodology for calculating long-term returns, the results are partially ambiguous; yet the three-year mean buy-and-hold abnormal returns reveal that private equity-backed IPOs significantly outperformed the market and the comparable non-sponsored sample of IPOs.

Executive Summary

Topic and objective

The main subject of this thesis is the analysis of initial public offerings' performance, with an emphasis on private equity-backed IPOs.
Theory suggests that given the many advantages of private equity ownership, the IPOs of companies backed by financial sponsors show lower initial underpricing and better share price performance in the aftermarket, when compared to similar non-sponsored new issues.

Methodology and results

The study addresses this question by analyzing a sample of private equity-backed new issues floated on the Swiss and Frankfurt Stock Exchange during 1998-2016, and comparing it to a sample of non-sponsored similar transactions.
At first, initial underpricing for each IPO in the sample is calculated as the percentage change from the IPO offer price to the closing price on the first trading day. In the following, the long-term performance is analyzed in event time for several holding periods with the use of different abnormal return metrics and measured against broad market indices and sector indices depending on the setting.
The results for the sample of private equity-backed IPOs indicate an absence of significant discount on the initial IPO price range and moderate initial returns. Furthermore, the buy-and-hold abnormal returns point to significant outperformance over the selected benchmark indices and the sample of non-sponsored IPOs for a three-year holding period.

Final Remark

The thesis in hand provides the reader with an overview of the private equity industry, in attempt to justify the superior aftermarket performance of public companies as an advantage resulting from previous private equity-ownership. The research questions are analyzed by relating and discussing results from the empirical research by means of broadly accepted theories and concepts on general IPO process' anomalies. Furthermore, suggestions and guidelines for further research on this topic are presented and discussed.