



A Study of the Anomalies of Initial Public Offerings on the Tehran Stock Exchange

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Abstract: Developed stock exchanges offer between 300 to 400 Initial Public Offerings (IPOS) annually; however, companies going public often experience an underpricing anomaly noted in previous research that is often found to be associated with “hot” IPO markets. This study uses a survey methodology to examine for IPOS anomalies and why they occur including underpricing and a long-run price underperformance anomaly. Survey results show that there is no under pricing in the Tehran Stock Exchange (TSE); however, overpricing has been noticed. In addition, long-run price underperformance has been reported six months after an IPO, suggesting that there is inaccessibility to information for investors at the time of an IPO. A review of the variables that are associated with IPO underpricing suggests a relationship between industry type and under pricing. Moreover, there is a relation between earnings before taxes for three years before an Initial Public Offering (as an index of quality, risk, and reputation of the firm), and the percentage of issued equity in the long run (as an index of agency cost) and long-run price underperformance.

1. Introduction

Initial Public Offerings (IPOS) are often not for newly-established, firms since most firms have been in operation for at least three years. Hence the term "initial" in IPOS refers to the first time that a firm enters the stock exchange and offers shares to external shareholders. This is the time that the company's managers realize that being listed in the stock exchange contributes to the attraction of capital in terms of new shareholder equity capital, as well as lower borrowing