Performance of Newly Listed Firms: Evidence from Japanese Firm and Venture Capital Data*

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Abstract

This paper investigates the effect of Initial Public Offering (IPO) on firms' performance. To single out causal impact on firms' performance running from being listed, we employ propensity-score matching difference-in-differences estimation. Using a unique firm-level panel dataset that allows us to identify newly listed firms and firms keeping unlisted status, we find that newly listed firms showed better performance than their counterpart of never-listed firms prior to IPO while the difference in the performance partly diminished after IPO. This implies that firms' distorted behavior originating from, for example, empire building motives prevents newly listed firms from performing. This result is mainly driven by the sample firms going public during "hot market". Using the information on Venture Capitals (VCs) investment, we also find that the participation of VCs in investments exacerbates such negative impact of IPO on firms' performance. The adverse impact on the firm performance is more sizable among IPO firms which are invested by VC syndicate consisting of smaller number of less heterogeneous VCs, or not including foreign VCs. These results suggest that the timing of going public, and the composition of VC syndicates are related to the post-IPO performance of newly listed firms.

JEL Classification: G24, G32, D24, L25

Key words: IPO; Firm Performance; Venture Capitals; Distorted Firm Behavior

You can find the full paper here.

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