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The Share Price Behavior of the IPO Surrounding the Expiration of the Lockup Period. Evidence from IPOs with No Analyst Positive Recommendations

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Abstract: This study investigates-the share price performance of the IPOs surrounding the expiration of the lockup period in the Malaysian stock market. The study explores whether the IPOs without analysts' positive recommendations give a significant positive share price performance in situations of the negative effect of the expiration of the lockup period. The IPOs sample of 281 companies was taken from the period of January 2000 to December 2014. The study applied event study methodology to investigate the performance of the IPO share price. The study found that the IPOs without analysts' positive recommendations gave an insignificant positive share price performance in the event window of (-10, +10) surrounding the expiration of the lockup period. Whilst, the longer event window (-30, +30) shows a significant positive share price performance surrounding the expiration of the lock-up period.

Keywords: *Analysts' positive recommendations, lockup period, IPOs*

1. Introduction

Initial public offerings (IPOs) are a venue for the founder and investors to create paper wealth that can be converted into cash at a future date (Bessler & Thies, 2007; Ritter & Welch, 2002). While, analysts' recommendation exerts a tremendous impact on today's stock market by reducing investors' uncertainty over public listed firms' fair value as well as promoting market efficiency (Beyer, Cohen, Lys & Walther, 2010). As such, the analysts' recommendations can influence the price of a company especially pertaining to that of an IPO (Loh & Stulz, 2011; Fang & Yasuda, 2014; Mathew & Yildrim, 2015). Consequently, positive analysts' recommendations will lead to a positive market reaction (Micheally & Womack, 1999; McKnight et al., 2010; Fang & Yasuda, 2014). Therefore, IPOs and analysts' recommendations are becoming increasingly important in the modern financial market.

There are many studies on IPOs and analysts' recommendations. The literature on IPOs is mainly on these four problems: a) the underpricing of the IPOs – a situation where the share price of the newly listed company is higher than the offering price on the listing day (Loughran & Ritter, 2004; Abdul Rahim & Yong, 2010; Ahmad-Zaluki & Kect, 2012); b) the long run underperformance of the IPO (Corhay, Teo, & Rad, 2002; Goergen, Khurshed, & Mudambi, 2007; Su & Bangassa, 2011); c) the 'hot- issue' IPO market - a period where the stock market is very bullish and positive with unusually high initial return for new listing companies, thus the potential new listing company would take this opportune time to go public for the benefit of a higher initial return (Bradley, Clarke, & Jr; 2012; Chang, Kim & Shim, 2013); and d) the IPO market reaction surrounding the expiration of the lockup period (Bradley, Jordan, Roten, & Yi, 2001; Brav & Gompers, 2003; Rashid, Abdul-Rahim, & Yong, 2014).

There are many empirical studies on IPOs and analysts' recommendations. Rajan & Sarvaes (1997) were among the first to study analyst behavior with respect to IPO performance. They attempt to explain IPO anomalies (optimism, under-pricing and long-run share price underperformance) by investigating the reliability of the analyst following. They assert that an optimistic earnings forecast leads to IPO under-pricing; and that the under-pricing is positively related to analysts following the IPOs. In addition, they recorded that the most optimistic analyst underperformed the NYSE/AMEX index, while the least optimistic analyst outperformed the indices in the long run. The finding is consistent with studies done by Cliff & Denis (2004). However, there are limited studies that combined the studies of IPOs and IPOs with no analysts' positive recommendations. The need to study a combination of IPO and IPOs with no analysts 'positive recommendations is critical. This study will explore the share price performance of the IPOs with no analyst's positive recommendation surrounding

the lock-up period.

Malaysian IPOs are subject to many of the Bursa Listing requirements. One of the requirements is the lockup period. The lockup period in the developed market like the U.S. or the U.K. is voluntary. The lockup period is where all of the insiders (usually the underwriters of the IPO and the founder of the company) cannot sell their shareholding for a given period of time. Once the lockup period expires, the insiders are free to sell their stock holdings in the newly listed firm. The expiration of the lockup period presents the first opportunity for the insiders to sell their shares on the stock markets. As the insiders are the major shareholders and hold more stocks than the public, the sales of the insiders may increase the supply of the shares and may have a major impact on the IPO shares. According to (Aggarwal et al., 2002) the expiration of the lockup period will lead to the supply curve shifting outward due to the over-supply of shares from the insiders, which eventually will lead to a share price decline.

The expiration of the lockup period creates a huge amount of supply in the IPO shares which are ready to be sold. The selling of the IPO shares upon expiration of the lockup period will lead to an indiscriminate selling by the insiders which will transmit a negative signal to the market (investors assume a no-confidence issue towards the firm) which will subsequently lead to a negative market reaction; vice versa (Brau & Fawcett, 2011; Liu & Ritter, 2011). Empirical evidence has shown that there were negative abnormal returns surrounding the end of the expiration of the lockup period (Ofek & Richardson, 2000; Field & Hanka, 2001; Brav & Gompers; 2003; Wan-Husin, 2005).

Problem Statement

The study investigates the IPOs without the analysts' positive recommendations during the period of the expiration of the IPO lockup duration in Malaysia. The lockup period has a negative effect on share price performance (Ofek & Richardson, 2000; Field & Hanka, 2001; Brav & Gompers, 2003; Wan-Hussin, 2005; Mohamed-Arshad, Taufil, & Ahmad Zaluki 2016) but the analysts positive recommendations should positively influence the price of a company's stock (Beyers et al., 2010; Kaplanski & Levy, 2017; Barniv, Chen & Li., 2020). Therefore, it is interesting to study whether the IPOs without the analysts' positive recommendations could compound or exaggerate the negative effects of the expiration of the lockup period. Can the IPOs without analysts' positive recommendations give a significant negative share price performance surrounding the expiration of the lockup period? As such, this study is to investigate the effect and impact of the IPOs with no analysts' positive recommendations on the share price performance of the Malaysian IPOs around the expiration of the lockup period.

However, according to the efficient market hypothesis (EMH) of the semi-strong, the share prices reflect all available information making an abnormal return on share price is not possible. In other words, the stock market always trades at its fair value due to the same level of information distribution. As the expiration of the lockup period is known information in the IPOs, the nature of the business and the analyst recommendation is publicly available information, the market should ignore this information. Hence, the IPO firms should not experience any significant abnormal return during the expiration of the lockup period. Nonetheless, empirical evidence has shown significant abnormal returns on riskier assets (Brau & Fawcett, 2011; Brav & Gompers, 2003; Bradley et al., 2012).

Therefore, the research question is developed as follows:

- Is there any significant share price performance in Malaysian IPOs without analyst recommendations surrounding the expiration of the lockup period?

Research Objective

The general objective of this study is to examine the performance of the IPOs share price surrounding the expiration of the lockup period in response to the IPOs without analysts' positive recommendations. Hence, the research objective is:

- To examine whether there are significant IPOs share price performances in the IPOs without the analyst recommendation surrounding the expiration of the lockup period.

Significance of Study

According to Busse & Clifton Green, (2002); Chan & Hameed, (2006) and Jia et al., (2017), the information that the analysts provide seems to promote market efficiency by helping investors to accurately value companies, especially in picking an undervalued mispriced stock. Therefore, theoretically, analysts' recommendations could reduce the pooling equilibrium effect of information asymmetry as the analysts' recommendation could help investors allocate their capital Stiglitz & Grossman, (1982). The absence of analyst recommendations can worsen the information asymmetry thus leading to price distortion. Consequently, it is important to-investigate the non-analysts positive recommendation on the Malaysian IPO share price performances. This means the study could distinguish the impact and effect of the non-analysts' positive recommendations on the Malaysian IPOs share price behavior surrounding the expiration of the lockup period. Hence, the study could establish how the non-analyst's recommendation has a contributing effect on the share performance of the IPOs during the expiration of the lockup period.

The regulators of the financial market will benefit from the findings of these studies. The findings on the analysts' and non-analysts' behavior surrounding the expiration of the lockup period will help the policymaker to have some effective policies to control especially the analysts' behavior in the stock market.

2. Research Methodology

This study covers the period from January 2000 to December 2014 of the Malaysian stock market. This period covers all the phases of the market. They are the bearish market phase, the consolidation market phase and the bull market phase. The study will take the daily closing of the IPO share price for its event study calculations. The sample taken is the IPOs listed from the year of January 2000 till December 2014. The sample of the IPO companies in this study is taken from the ones participating in the incentive scheme arranged by the Bursa Malaysian Stock Exchange joint effort with the Capital Market Development Fund program (CBRS) and from the DataStream compilation from the investment banks, stockbroking companies or the independent research house. All the samples are examined surrounding the expiration of the lockup period.

The main focus is the effect of the IPOs without positive analyst recommendations on the share price performance of the IPOs during the expiration of the lockup. As such, the study focuses on the available IPOs without analysts' positive recommendation of Malaysian IPOs before the expiration of the lockup period. To this end, the study needs to take the IPOs without analysts' positive recommendation before the expiration of the lockup period to know the impact it has on the share price before, on and after the expiration day of the lockup period. A similar method was done by Bradley et al., (2003). However, their study was during the expiration of the IPOs quiet period.

To test the study research objective, the study methodology is employed. The event study methodology uses the adjusted risk market model (Seiler, 2007), based on the sample of Malaysian IPOs which has an analysts' coverage following within the stipulated period. The share price performances of the Malaysian IPOs are not covered by the analysts and is analyzed surrounding the expiration of the lockup period in two different event windows period. which is over the short-term event window period and the long-term event window period. The short-term period is 21 trading days surrounding the expiration of the lockup period (Aggarwal et al., 2002), while the long-term period is 61 trading days' event window during the expiration of the lockup period. The FBM Kuala Lumpur Composite Index (FBMKLCI) and the daily closing share price are used. The proxy for the market return is FBMKLCI.

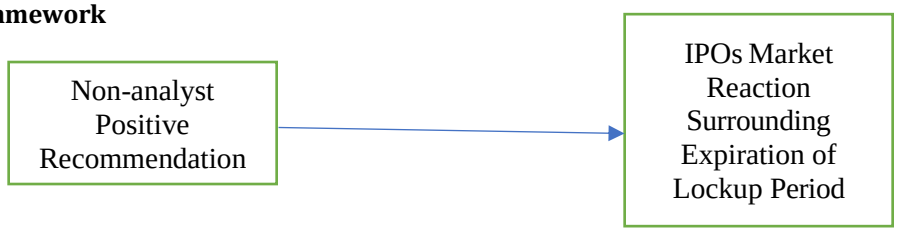
The Lock-Up Period

The expiration of the IPOs lockup period is a compulsory matter in the Malaysian stock market. The lockup period is empirically found to act as a commitment device to manage the moral hazard problem among investors and a signalling device for quality IPOs (Arthurs et al., 2009). Simply put, a lockup period is supposed to give investors a chance to evaluate the value of the firm. Hence, investors could differentiate between fundamentally good IPOs and not (Yung & Zender, 2010). However, the lockup period is also a time when substantial shareholders can sell their holding of shares for the first time. Evidently, the IPOs stock price is found to underperform during the expiration of the lockup period (Brav & Gomper, 2003; Goergen et al., 2006). Hence, due to the selling pressure from the major shareholders, it is expected that the stock price to decline during the

expiration of the lockup period. Having discussed the benefit, the analysts' recommendation has towards the public listed companies' stock price, the study tries to answer whether the analysts' positive recommendation can reduce the selling pressure surrounding the expiration of the IPOs lockup period where selling pressure is at its height.

As the study aims to examine the effect of the share price performance of the IPOs without analysts' positive recommendations surrounding the expiration of the IPOs lockup period, the study has established the theoretical framework on the impact of the IPOs surrounding the expiration of the lockup period.

Research Framework



As the expiration of the lockup period is known information in the IPOs, there should be no substantial price fluctuation because the share price's abnormal reaction on the expiration of the lockup period will be absorbed during the market listing (till the expiration of the lockup period). As such, there should be no significant share price impact surrounding the expiration of the lockup period.

Companies may announce important corporate exercises or analysts may issue positive coverage surrounding the expiration of the lockup period to influence the share price. However, the market participants will most probably discount the prospect of this announcement according to the theory of EMH of the semi-strong form. Hence, the study should not experience any significant abnormal return on its share price. This observation leads to the common hypothesis of the study, that is, there should not be any significant share price reaction surrounding the expiration of the lockup period. Therefore, the study hypothesizes that:

Hypothesis 1: There is no significant share price performance of the Malaysian IPOs without analysts' recommendations surrounding the expiration of the lockup period

The study's null hypothesis states that on average, firms should not experience any abnormal return on their share price due to any publicly available information surrounding the expiration of the lockup period. However, empirical evidence shows mixed results regarding the IPOs share price reaction surrounding the expiration of the lockup period. Studies on this were done in the U.S. market by Ofek & Richardson (2000), Bradley et al., (2001), Brav & Gompers (2003); Brau et al., (2004). These studies registered a significant negative share price reaction on the day of the expiration of the lockup period and surrounding the expiration of the lockup period. However, studies in European countries show insignificantly negative results of share price reactions surrounding the expiration of the lockup period. For example, Espenlaub, Goergen & Khurshed (2001) found an insignificant negative share price return surrounding the expiration of the lockup period for UK companies. While, studies by Goergen et al., (2006), Boreiko & Lombardo (2013) found an insignificant share price reaction surrounding the expiration of the lockup period for the market in France, Germany and Italy market.

In the Malaysian market, the market reaction to the IPOs surrounding the expiration of the lockup period was mixed. While, Zameni & Yong, (2017) found an insignificant positive share price reaction in IPOs surrounding the expiration of the lockup period, Mohamed-Arshad, et al., (2016) found a significant negative market reaction in the IPOs. Nevertheless, the study posits according to the EMH that if the market participants' anticipation is rational and unbiased, the market reaction of the firm, on average should not be significantly different from zero. Hence, the study should produce or exhibit no significant share price reaction of the Malaysian IPOs surrounding the expiration of the lockup period.

3. Findings

In the following Table 1, the cumulative abnormal return (CAR) of the IPOs–without the analyst's positive recommendation registered a significant positive figure. The event window for (-30, +30) gives a significant positive CAR of 4.2303% (z- stats=5.4944; p<0.01). However, the event window for (-10,+10) registered an insignificant positive CAR of 0.6490% (z-stats=0.8268 ;p>0.05). Supporting studies that show significant positive analysts' recommendations were by (Bradley et al., 2003;)-on the U.S. IPO market; Boissin & Sentis (2012) – on the French IPO market, Song et al., (2012) – on the Korean IPO market; Mohshirian et al., (2009) – the emerging market. The emerging market Mohshirian et al., (2009) study consists of 11 emerging markets which are Argentina, Brazil, China, Chile, Hungary, India, Indonesia, Israel, Korea, Mexico and South Africa.

Table 1: Event Study Results for the Analysts' Positive Recommendation and Non-Analysts' Positive Recommendation Firms

Window(s)		**Cumulative Abnormal Return**		
Non-analyst recommendation	**N**	**CAR**	**Z-stat**	**p-value**
(-30,+30)	281	4.2303	5.4944	3.92E-08***
(-10,+10)	281	0.6490	0.8268	0.4084

* significant at p<0.1, ** significant at p<0.05, significant at p<0.01

Boissin & Sentis (2012) found that the IPOs in the French market with analysts' positive recommendations outperformed the IPO without the analysts' positive recommendations by 15.7%. In a one-year period, the IPOs with analysts' positive recommendations exhibited a significant positive abnormal return of +4.29%, whilst the IPO without the analyst's positive recommendation gave a significant abnormal return of negative -11.41%. The abnormal return in Boissin & Sentis (2012) was calculated under the Buy and Hold Abnormal Return method.

Dechow et al. (2000), found that the CAR of five-year IPOs without the analysts' positive recommendation for the event window (-30,+30) showed a significant positive CAR surrounding the expiration of the lockup period. This indicates that the IPOs without analysts' positive recommendations have a significant impact on the share price performance of the IPOs surrounding the expiration of the lockup period. However, this is not the case for the event window (-10+10). Although the CAR is positive it is not significant.

The finding of the studies above shows that IPOs without analysts' positive recommendations do give a positive abnormal return. In a way, the findings of Rajan & Sarveas (1997); Dechow et al., (2000) on the performance of the IPOs with positive analysts' recommendations explain the underperformance of the IPOs with analyst positive recommendations surrounding the expiration of the lockup period.

4. Conclusion & Recommendations

In conclusion, the study finds that 1) the share price of the IPOs without analysts' positive recommendations outperformed the surrounding the expiration of the lockup period. This is evidently shown in the event window (-30,+30), where the IPOs without analysts' positive recommendations showed a significant positive CAR. The shorter period of the event window also shows a positive abnormal return in its share price, albeit not significant.

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