

## Accepted Manuscript

Initial public offerings, subscription precommitments and venture capital participation

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PII: S0929-1199(17)30247-X  
DOI: <https://doi.org/10.1016/j.jcorpfin.2018.01.010>  
Reference: CORFIN 1348  
To appear in: *Journal of Corporate Finance*  
Received date: 21 April 2017  
Revised date: 31 December 2017  
Accepted date: 12 January 2018

Please cite this article as: Hans Jeppsson , Initial public offerings, subscription precommitments and venture capital participation. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. Corfin(2017), <https://doi.org/10.1016/j.jcorpfin.2018.01.010>

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### Abstract

Past empirical research has shown that subscription precommitments by large blockholders can help certify firm value in new equity issues and influence the subscription decisions of small, relatively uninformed investors. This paper examines the role of insider participation by venture capitalists in initial public offerings and the association with price revisions during the bookbuilding period, the likelihood of completing the IPO and ownership retention in the post-IPO period. Using a hand-collected sample of 311 U.S. venture-backed firms going public during 2003-2016 and controlling for endogeneity in the choice to participate in the IPO, this study finds support for the certification role by venture capitalists during the IPO process. Insider participation in the S-1 filing is associated with smaller offer price revisions and positively associated with the offering being completed. A detailed analysis of ownership data in the post-IPO period documents that insider participation in the IPO is associated with a continuing role as shareholders in the years after going public, which is consistent with the certification hypothesis. This paper sheds new light on the role of venture capitalists in the IPO process.

*JEL-classification:* G24, G32

*Keywords:* Initial public offering (IPO); Venture capital; Insider buying; Certification; Subscription precommitments; Price revision; Withdrawal

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