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Characteristics and behavior of newly listed firms: Evidence from the Asia-Pacific region

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Abstract

We examine the size, profitability and delisting experience during 1980–1999 of new lists in the Pacific Basin countries. We also examine the impact of the legal environment on post-listing behavior. We find that new lists are more numerous in common law countries. They are smaller than seasoned firms, regardless of legal regime. New lists are more profitable in civil law countries, but this is due to the high profitability of Japanese new lists. Asian new lists have lower rates of delisting compared to U.S. firms. The delisting frequency of seasoned firms exceeds that of new lists for our sample countries.

JEL classification: G24; G32

Keywords: Survival; Listing; Profitability

1. Introduction

In a recent study, Fama and French (2004) report that after 1979, firms newly listed on major U.S. stock exchanges experience low profitability for at least five years post-listing. They further document that after 1994, new lists tend to be less profitable than listed firms. They conclude that the market for new lists has changed over the last 25 years, with firms now being listed earlier in their life cycle. The pruning of new firms in the U.S. now appears to occur during the post-listing period rather than prior to their initial public offering.

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Yet we do not know whether this trend of earlier exchange listing is merely a U.S. phenomenon or is part of a more general trend in global equity markets. What is the international experience regarding the profitability and survival of newly listed firms? In this study we explore this issue by examining the characteristics of new lists on a number of foreign stock exchanges.

Specifically, we examine the market for new lists in the countries of the Asia-Pacific region from 1980 to 1999. Our choice of the markets in which to examine the subsequent profitability and survival of newly listed firms deepens our understanding of the listing process for several different reasons. First, the countries included in our sample represent some of the most important equity markets in the world.[1] Second, the choice of sample countries allows us to examine the behavior of public firms across a number of different economic environments. Taiwan, Hong Kong, South Korea and Singapore are referred to as the East Asian Tigers and experience high growth throughout our sample period. The Japanese economy enjoyed high rates of growth and profitability for the first half of the sample period, but suffered economic recession with the collapse of its bubble economy in 1990. Our remaining sample countries of Indonesia, Malaysia and Thailand were at the center of the East Asian financial crisis of 1997–1998, providing further variability in the kinds of economic conditions across which we examine new lists.

Finally, LaPorta et al. (1997) argue that the relative lack of protection provided to minority investors in civil law countries hinders the search for new capital by firms in these nations and limits the development of their national capital markets. By separating our sample into common and civil law countries, we are able to examine the extent to which the legal environment actually impacts the kinds of firms that elect to list on public exchanges and the nature of their subsequent profitability and delisting experience.

This study makes several important contributions to our understanding of the process by which firms obtain external equity capital and their subsequence performance. By examining an international sample of new lists, it provides insight into the long-run profitability of new firms. It also offers useful data for regulators and policy makers seeking to establish new markets or to redesign existing exchanges. Finally, it provides another look at how differences in investor legal protections might influence the growth of both firms and external capital markets.

We obtain a number of interesting results. We find that there is an increase in the number of new lists within common law countries from 1980 to the mid 1990s. This increase, however, is less evident among civil law countries. We detect a trend over the sample period towards new lists that are larger in absolute size for firms located in both legal regimes. But when the size of the new lists is standardized by the mean value of seasoned firms, the relative size of new lists declines over our sample period. Further, this decline occurs within both legal regimes.

We also obtain a variety of findings regarding the profitability and delisting experience of the Pacific Basin new lists. The new lists exhibit greater profitability in their year of issue than seasoned firms. They tend, however, to become less profitable in subsequent years. These patterns appear robust to the legal regime of the listing firm. We also find that the delisting rate for our sample is much lower than that reported for the U.S. The rate of delisting is higher for seasoned firms than new lists in the Asia-Pacific region. Finally, we determine that, in general, the maturity of a firm prior to its listing matters little to its ultimate survival likelihood.

[1] The capitalization of the Japanese stock markets represents approximately 11% of the global value of traded equities while that for Hong Kong is about 3%.