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The Survival and Success of Canadian Penny Stock IPOs

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Abstract


This paper provides the first large-scale analysis of the economic effect of allowing small emerging firms to access the stock market. We analyze the survival and success of Canadian newly listed companies based on an original sample of 2,373 issues from 1986 to 2003, composed essentially (86%) of penny stock IPOs. The proportion of issuers without revenues (positive earnings) is 45% (71%) and the median shareholders' equity before the IPO is CAN\$310,000. We show that the failure rate of these microcap IPOs is surprisingly lower than the one observed in the U.S. for larger IPOs. We evidence that the differences between the survival rates are linked to the class of minimum listing requirements in which the company is situated at the IPO, but we find few effects of these requirements on success, estimated by the graduation to a senior exchange. Several variables mitigate the role of listing requirements.

Keywords: small business finance, initial public offering, survival, success, minimum listing requirements

JEL Classification: G38, G32, K22

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