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Sticky Prices: IPO Pricing on NASDAQ and the Neuer Markt

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Abstract

This paper examines the IPO pricing processes of two different markets, each of which employs bookbuilding methods for marketing the IPO shares. For each market we investigate two questions: Does bookbuilding serve mainly as a method for distributing shares, or also as a means for gathering information? And, to what extent do underwriters respond in IPO pricing to any information that they obtain through bookbuilding? We find that a direct comparison of these two markets sheds light on the bookbuilding process in each. For Nasdaq IPOs we find evidence consistent with informational rents being earned by investors for providing information during bookbuilding. On the Neuer Markt there is no such evidence. Instead, we find evidence consistent with rents being paid for information that helps underwriters to set indicative price ranges prior to bookbuilding. The two markets differ further in how underwriters respond to information in pricing IPOs. For the Neuer Markt, this response is severely constrained since underwriters do not set prices above the price ranges. We estimate the total cost of this "restriction" to be approximately one billion Euros for our sample of IPOs. While there are no such apparent restrictions for Nasdaq, we show that also on this market IPO prices are "sticky" in that underwriters respond less to information received later in the pricing process.

Keywords: Initial public offerings, underpricing**JEL Classification:** G32[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID302917_code020322530.pdf?abstractid=302917&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID302917_code020322530.pdf?abstractid=302917&mirid=1&type=2\)](#)

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