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IPO underpricing in Italy

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Abstract

This article analyses the first-day return of 182 IPOs listed on the Italian Stock Exchange from 1985 to 2001. It finds a significantly mean positive underpricing (21.87%)

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Notes

¹Loughran and Ritter ([2000](#)) showed that US IPOs significantly underperform both the market and comparable firms in the first three years after listing, and similar results are reported in other countries (a cross country survey is contained in Giudici and Paleari, [2001](#)). A significantly overperformance is highlighted in emerging countries. Yet, detecting long-run abnormal performance raises several methodological concerns (Ritter and Welch [2002](#)).

²Booth and [1992](#) hypothesized that the reputation of the underwriter is important for the success of the IPO. More recently, [2003](#) and [2004](#) found that the reputation of the underwriter is important for the success of the IPO. Welch ([1999](#)) also found that the reputation of the underwriter is important for the success of the IPO.

³See [2003](#) and [2004](#) for a discussion of the importance of the reputation of the underwriter. [1999](#) and [2003](#) also find that the reputation of the underwriter is important for the success of the IPO. [1999](#) and [2003](#) also find that the reputation of the underwriter is important for the success of the IPO. [1999](#) and [2003](#) also find that the reputation of the underwriter is important for the success of the IPO. [1999](#) and [2003](#) also find that the reputation of the underwriter is important for the success of the IPO.

⁴In this case the investment bank requires that insiders agree to refrain from selling their stock in the aftermarket for a period of time following the IPO.

⁵The new issue process is regulated by a public authority, CONSOB, which performs a role that is comparable to the SEC in USA, and by a private company, Borsa Italiana SpA that manages the Stock Markets in Italy. CONSOB (<http://www.consob.it>) has to be informed in advance of the offering conditions and has to certify that the issuer provides adequate information to the public (collected in an officially approved prospectus). Borsa Italiana (<http://www.borsaitalia.it>) deliberates the admission to the listing, after having verified all the necessary requirements.

⁶Until 1997 income realized by newly listed small- and medium-size firms (issuing new shares) had been levied at a reduced rate equal to 21%. In 1997 a further tax reform allowed all Italian companies to apply a reduced tax rate equal to 19% (dual income tax) at the income deriving from new equity capital raised or ploughed-back profits. In order to induce firms, particularly SMEs, to go public a particular disposal has been introduced for companies newly listed on stock markets: for three years the relief of 19% can be reduced to 7%.

⁷Details about general characteristics and ownership structure of the Italian listed companies may be found in the CONSOB and Borsa Italiana SpA Internet pages (see note 5). Although in the last years the number of listed companies has not significantly increased, a relevant turnover has considerably reset the stock market outline.

⁸In the second period the privatization process in the banking sector has been relevant; nevertheless, shares held by the Government are still significant.

⁹In fact, the 'separati' and 'large buy' in the 1980s by

¹⁰For example, support a mean age equi by Vandem (1999) for the Netherla

¹¹Coone .0% for the Australian market, Goergen ([1998](#)) 76.4% and 62.6% for the German and UK market

respectively, Roosenboom et al. ([1999](#)) 64.6% for The Netherlands.

¹²Among the 182 sample firms, only five were acquired by outside bidder companies in the three years following the IPO.

¹³As the t-test implies a normal distribution of the stochastic variable and this may not be justified in this case, the tests were validated through use of the Tchebyceff inequality.

¹⁴<http://www.istat.it>

¹⁵Derrien and Womack ([2003](#)) stated that the auction mechanism is associated with less underpricing and thus more efficient, since this procedure is able to incorporate more information from recent market momentum into the pricing of the IPO. Kandel et al. ([1999](#)) examined the IPO auctions in Israel; they stated that in cases of auctioned IPOs investors gain information about the elasticity of the demand for stock, revising the prices of securities according to the new information. In this case the underpricing is entailed by the uncertainty about the demand elasticity, which is assumed to be important to determine the stock value.

¹⁶Note that in Italy the offer price has never been set beyond the maximum file limit.

¹⁷In other words, when volatility increases, one expects a higher divergence of opinion among investors. Therefore, the most optimistic investors should be more willing to purchase IPO shares. As a consequence, intermediates may reduce the initial underpricing.

¹⁸According to the literature, the offer price with higher underpricing is associated with larger underpricing. The uncertainty about the future performance of the offerings may lead to larger underpricing for larger offerings. The uncertainty about the future performance of the offerings may lead to larger underpricing for larger offerings.

¹⁹A study by  (the NM) has shown that the underpricing of IPOs with new listings is higher than that of IPOs with existing listings.

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