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DO THE COMPANY GET HIGHER PROFITABILITY AFTER INITIAL PUBLIC OFFERING (IPO)?

Agustinus Kismet Nugroho Jati *
STIE Perbanas Surabaya, Indonesia

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Abstract
The Indonesia Stock Exchange is a place that facilitates the investors and issuers in terms of investments. One of the steps that can be taken by the company to increase the company's capital is with Initial Public Offering (IPO). This research is examining the profitability of the company (net profit margin, operating profit margin, and return on equity) after the company IPO 2013-2017. We examine 45 companies who conduct the Initial Public Offering (IPO) in Indonesian Stock Exchange during 2013 until 2017. We used Wilcoxon signed rank method to catch the differences and analyze the data in three years before and three years after initial public offering (IPO). The research results show that after initial public offering, most of the company return on equity rises compared to before IPO.

Keywords: Initial Public Offering, Profitability, Indonesian Stock Exchange.

Introduction
The Indonesia Stock Exchange is a place that facilitates interests between investors and issuers in terms of investing. Activities of the Indonesia Stock Exchange are very crowded, there are almost every day the activity carried out by large companies related to stocks, bonds, and derivatives (options, warrant, right, mutual funds) so that it can be seen that the value of shares, bonds and derivatives traded on the Indonesian Stock Exchange will increase. The number of companies that conduct transactions on the Indonesia Stock Exchange is intended for companies to get the needs of the capital from investors, because in their operations the company capital may not enough if only relying on internal capital or from retained earnings, but also needs capital from the external as well [9]. Some of the company decided to conduct IPO because the founder of the company wanted to diversify the shares owned or the company could use the funds from IPO as the last option to financing the company [3], while other reasons are due to debt, having greater bargaining with banks, diversifying risks, monitoring functions, investor recognition, and changes in company control [10]. If the company gets capital from the bank, the risk that will be borne by the company is greater because the funds are illiquid and there are interest rates charged to the company, whereas if the company seeks funds through the Indonesia Stock Exchange, the funds obtained are liquid and there are no interest rates, thus easing the burden of the company. One thing that can be taken by the company in increasing the company's capital is Initial Public Offering (IPO), where the company sells its shares first to the public so that the funds obtained can be used to run the company's operational activities by dividing funds on the assets and liabilities that support company activity, so that from the activity rotation the company generates profitability. The company's profitability is one of the attractiveness of investors in investing in the Indonesian stock exchange.

The indicators that can be used by investors in measuring the level of profitability are Gross Profit Margin (GPM), Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). Net Profit Margin (NPM) which is used to measure the profitability of a company, is the company's ability to generate net income based on the company's sales [8]. Operating Profit Margin (OPM) which is used to measure profitability, is the company's ability to generate operating profit based on the company's sales [1] and Return on Equity (ROE) which is used to measure profitability, is the company's ability to generate net income based on its own capital. The ROE value is increasing, indicating an increasing level of profit as well, so it can be seen the level of efficiency in the company's capital [8]. Research [7] on constructions industry from 2000-2008, excluding 2004. Using a comparison between before and after the IPO shows the results of the study found that the ratio that have a significant difference is Gross Profit Margin (GPM), Operating Profit Margin (OPM) and Net Profit Margin (NPM). While the ratio does not have a significant difference, namely Return on Equity (ROE), Return on

Investment (ROI), and Return on Assets (ROA). Research [2] conducted a study of 10 companies that conducted Initial Public Offering (IPO) in 2009. Using quantitative methods with a statistical analysis approach showed the results of the research that there was an increase in the Current Ratio (CR), Quick Ratio (QR), Cash Ratio, Return on Investment (ROI) and Return on Equity (ROE) after an Initial Public Offering (IPO). Then there was a decline in the value of Fixed Assets Turnover (FATO), Total Assets Turnover (TATO), Debt Ratio (DR), and The Debt Equity Ratio (DER) after the Initial Public Offering (IPO).

Research [4] examines the influence on post-issue stock performance based on the IPOs of technology companies listing on the NASDAQ from 2002 to 2013. Using content analysis of prospectuses, then combining the data with market data using regression analysis. The authors find that after the GFC technology companies disclose more intellectual capital-IC information. While [6] using comparative methods, shows a significant difference, financial performance before and after going public in the Return on Equity, Primary Ratio, Capital Adequacy Ratio, Capital Ratio, Credit Risk Ratio and Deposit Risk Ratio. The ratio that shows no significant difference before and after going public is Quick Ratio, Banking Ratio, Loans to Deposit Ratio, Net Profit Margin and Return on Assets. Research [5] conducted a study with a sample of 527 companies that entered the WSE that conducted IPOs between 1991 and 2012 and the data was collected from the NOTORIA database, which contained financial documents of companies listed on the Warsaw Stock Exchange (WSE). Using comparative or comparative methods, shows results that Operating Profit Margin (OPM) and Net Profit Margin (NPM) before and after the IPO show the same value, while Return on Assets (ROA) and Return on Equity (ROE) indicate a decrease after the IPO. Based on several different research results, the authors are interested in conducting research with different samples, and different periods. This is to examine the difference in Net Profit Margin (NPM), Operating Profit Margin (OPM), and Return on Equity (ROE) after the company conducts Initial Public Offering (IPO). Based on the discussion of the results of previous studies mentioned above, the proposed hypothesis is:

H_1: Net Profit Margin (NPM) is higher after the Initial Public Offering (IPO).
H_2: Operating Profit Margin (OPM) is higher after the Initial Public Offering (IPO).
H_3: Return on Equity (ROE) is higher after the Initial Public Offering (IPO).

Methods

The data in this study are all companies that conduct Initial Public Offering (IPO) in 2013-2017. The data collected using purposive sampling technique, with the following criteria: (1) Conducting an Initial Public Offering (IPO) in 2013-2017, (2) Having the company's annual financial report for three years before and after conducting an IPO, (3) Not delisted from the Exchange during the research period. There are 112 companies that conducted Initial Public Offering (IPO) on the Indonesia Stock Exchange (IDX) in 2013-2017, 45 companies met the criteria and had complete data. This study took a sample of companies that conducted Initial Public Offering (IPO) during 2013-2017 in the Indonesia Stock Exchange. From this data, the company profitability based on profitability ratios is compared in terms of three years before IPO and three years after IPO.

The data used is secondary data because it originates in the company's financial statements, such as profit / loss statements, financial position (balance sheet), cash flows and relevant data from companies that conduct Initial Public Offering (IPO). To examine differences in net profit margins (NPM), operating profit margins (OPM), and return on equity (ROE) before and after the Initial Public Offering (IPO) in 2013-2017 using the non-parametric difference test, Wilcoxon signed rank. The reason for choosing a non-parametric difference test is because to see the difference in the variables that used before and after the Initial Public Offering (IPO). The research framework that underlies this research can be described as follows:

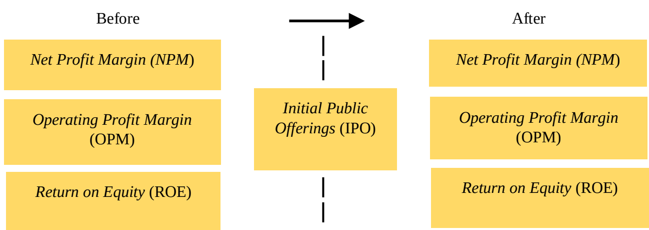

Fig. 1: Research Framework

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Table 1. The Measurement of Variables

Variables	Proxy	Measurement
Profitability	Return on Equity (ROE), Net Profit Margin (NPM), and Operating Profit Margin (OPM)	$ROE = \frac{\text{Earning after Interest and Tax}}{\text{Equity}}$ $OPM = \frac{\text{Operating profit}}{\text{Sales}}$ $NPM = \frac{\text{Earning after Interest and Tax}}{\text{Sales}}$

Results and discussion

This study analyzes and tests the data so that a clear meaning is obtained from the phenomena that occur, then a conclusion is drawn according to the relevant theory. This study uses historical data obtained through intermediary media from different data sources. The data comes from literature and other sources related to the discussion.

Descriptive Analysis

Descriptive analysis is used to provide an overview of the variables in this study, namely Net Profit Margin (NPM), Operating Profit Margin (OPM), and Return on Equity (ROE). In table 2 is the result of a descriptive test.

Table 2. Descriptive Analysis Results

Variables	N	Before				After			
		Minimum	Maximum	Mean	Std. Deviation	Minimum	Maximum	Mean	Std. Deviation
NPM	135	-0.3277	1.0250	0.1189	0.1518	-0.6420	1.9780	0.1289	0.2865
OPM	135	-0.7986	0.7540	0.1547	0.1731	-0.4321	0.7340	0.1610	0.1760
ROE	135	-1.9350	1.9650	0.1631	0.3613	-0.2548	2.1340	0.2100	0.1870

Based on table 2, the lowest Net Profit Margin (NPM) before the Initial Public Offering (IPO) was negative 32.77%, then the highest Net Profit Margin (NPM) before the Initial Public Offering (IPO) is 102.50% owned by telecommunication company in 2010. This large percentage of NPM was due to the company's other income in 2010. The lowest Net Profit Margin (NPM) after the Initial Public Offering (IPO) was negative 64.20% by oil and gas industry in 2016. This negative score is due to a decrease in company sales in 2016. The highest Net Profit Margin (NPM) after an Initial Public Offering (IPO) is 197.80% in 2016 by investment company. This large NPM is because of an increase in company sales in 2016. Based on table 2, we can see the lowest Operating Profit Margin (OPM) before the Initial Public Offering (IPO) was negative 79.86% by retail company in 2010. Then the highest Operating Profit Margin (OPM) before the Initial Public Offering (IPO) is 75.40% by telecommunication tower provider company in 2011. This positive value of OPM is because of an increase in sales and operating profit of the company in 2011. The lowest Operating Profit Margin (OPM) after the Initial Public Offering (IPO) of negative 43.21% by online retail company in 2015. These negative conditions are due to a decrease in sales and an increase in general and administrative expenses in 2015. Then the highest Operating Profit Margin (OPM) after the Initial Public Offering (IPO) of 73.40% again by telecommunication tower provider company in 2013. The positive percentage of OPM was due to an increase in company sales in 2013.

The lowest Return on Equity (ROE) before the Initial Public Offering (IPO) was negative 193.50%. The negative conditions were due to the large operating expenses in 2010. Then Return on Equity (ROE) has the highest value before the Initial Public Offering (IPO) is 196.50% owned by mining company in 2011. This large percentage of ROE was due to an increase in net profit in 2011. The lowest Return on Equity (ROE) after the Initial Public Offering (IPO) was negative 25.48%. The negative percentage of ROE was due to the large amount of funds given to capital owners in 2013. Then the highest Return on Equity (ROE) after the Initial Public Offering (IPO) is 213.40% owned by online retail company in 2015. The large percentage of ROE was due to an increase in net income and equity in 2015.

Wilcoxon Test and Discussion
To testing hypotheses of the research, we using Wilcoxon signed rank test and testing variables Net Profit Margin (NPM), Operating Profit Margin (OPM), and Return on Equity (ROE). The results show in table 3 as follows:

Table 3. Wilcoxon Signed Rank Test Results

Variables	N	Sig. (2tailed)	Z	Information
NPM-before → NPM-after	135	0.578	-0.570	no differences
OPM-before → OPM-after	135	0.279	-1.082	no differences
ROE-before → ROE-after	135	0.001	-6.846	higher

Net Profit Margin (NPM) Before and After Initial Public Offering (IPO)
The average value of Net Profit Margin (NPM) is performed using a different test Wilcoxon signed rank with a significant level of 0.05, it can be seen that the Net Profit Margin (NPM) shows that the significance result is 0.578> 0.05, which means that H_0 is accepted, so that it can be concluded that the Net Profit Margin (NPM) is not higher after the company conducts Initial Public Offering (IPO), this has an indication that there is no increase in net profit generated after the Initial Public Offering so that the Initial Public Offering (IPO) has no effect significant to Net Profit Margin (NPM) because of the mean data showing an increase not too large before and after the Initial Public Offering (IPO), from 11.89% to 12.89%. There is no significant increase in net profit after the company carries out an Initial Public Offering (IPO) because the company cannot suppress sales costs and costs in the production, personnel and marketing divisions so that it causes a large value on sales costs and decreases or stays in profit clean. The IPO does not continue to make the company efficient because the purpose of the Initial Public Offering (IPO) is to seek capital and other motives for the company to conduct Initial Public Offering (IPO) is to realize Good Corporate Governance (GCG) so that the organizational structure and ownership of the company are managed by professionals and parties that are not related to the company so that the survival of the company is better. Some research shows that the company's motive for going public is related to alternative financing sources for the company's investment program. This can be a positive signal for investors because investments especially related to the company's expansion plan give the impression of a good and developing company. And some other companies go public because of risk diversification, monitoring, investor recognition, and changes in company control. While several other companies conduct IPOs with the aim of acquisition. Another condition that encourages companies to go public is the company life cycle where if the company is in an industrial condition that reaches maturity stage, the company must have the strategy to survive in the industry. The company's motivation to go public differs from country to country, depending on economic conditions, institutional differences, capital market developments, and regulations that apply to a country.

Operating Profit Margin (OPM) Before and After Initial Public Offering (IPO)
The average value of Operating Profit Margin (OPM) is performed using a different test Wilcoxon signed rank with a significant level of 0.05. It can be seen that Operating Profit Margin (OPM) shows that the significance result is 0.279> 0.05, which means that H_0 is accepted, so that it can be concluded that Operating Profit Margin (OPM) is not higher after the company conducts Initial Public Offering (IPO), this has an indication that there is no increase in operating profit generated after the Initial Public Offering (IPO) so that the Initial Public Offering (IPO)) does not have a significant effect on Operating Profit Margin (OPM) because of the mean data showing an increase not too large before and after the Initial Public Offering (IPO), namely from 15.47% to 16.10%. There is no increase in operating profit after the company carries out an Initial Public Offering (IPO) because the company cannot reduce operating costs and costs in the production, personnel, marketing and financial division of the company, causing a large value on sales costs and decreases or remains in operating profit. The IPO does not continue to make the company efficient because the purpose of the Initial Public Offering (IPO) to find capital and other motives for the company to conduct Initial Public Offering (IPO) is to realize Good Corporate Governance (GCG) so that the organizational structure and ownership of the company are managed by professionals and parties that are not related to the company so that the survival of the company is better. Some research shows that the company's motive for going public is related to alternative financing sources for the

company's investment program. This can be a positive signal for investors because investments especially related to the company's expansion plan give the impression of a good and developing company. And some other companies go public because of risk diversification, monitoring, investor recognition, and changes in company control. While several other companies conduct IPOs with the aim of acquisition. Some of the company conduct IPO is to diversify the shares owned or the company could use the funds from IPO as the last option to financing the company. The company's motivation to go public differs from country to country, depending on economic conditions and regulations in a country.

Return on Equity (ROE) Before and After Initial Public Offering (IPO)

The average value of Return On Equity (ROE) is tested using Wilcoxon signed rank test with a significant level of 0.05, it can be seen that the Return On Equity (ROE) shows that the significance of 0.001 <0.05, which means that H_0 is rejected and accepted H_1, so that it can be concluded that the Return on Equity (ROE) is higher after the company conducts Initial Public Offering (IPO), this has an indication that there is a change in net income generated after the Initial Public Offering (IPO) so that Initial Public Offering (IPO) is influential significant to Return on Equity (ROE). This has an indication that there is an increase in equity after the Initial Public Offering so that the Initial Public Offering (IPO) has an effect significant to Return on Equity (ROE) because of the mean data showing an increase before and after the Initial Public Offering (IPO), from 16.31% to 21%

At the time of the Initial Public Offering (IPO) the company gets additional funds from investors, but if the company cannot utilize its capital as well as possible to conduct operational activities, it will cause the net profit generated no change or remain, decrease. The results of this study have the same results as the research [7] which found that Return on Equity (ROE) shows a significant difference in financial performance before and after going public, and has similar results with research [2] which found that there is an increase in Return on Equity (ROE) after the company conducted an Initial Public Offering (IPO). But the results of this study have differences with the results of research [6] which stated that Return on Equity (ROE) showed a decline after the Initial Public Offering (IPO).

Conclusion

Based on research that has been done using the Wilcoxon signed rank test, we obtained the results that from the three profitability ratios examine, there is a difference in company profitability before and after IPO and only Return on Equity that has a higher value after the company doing the Initial Public Offering (IPO) than before the Initial Public Offering (IPO), while the other ratios Net Profit Margin (NPM) and Operating Profit Margin (OPM) have no difference value after Initial Public Offering (IPO) than before the Initial Public Offering (IPO). These results indicate that the company after obtaining funds from the IPO, increased company sales so that it was able to get high earning after interest and taxes, in other words, the utilization of capital obtained was quite effective and efficient in its use and in line with the expectations of the company to conduct an IPO. However, the increase in sales obtained was not comparable to the net profit obtained which was indicated by no differences in NPMs, as well as an increase in operational efficiency that had not shown improvement (OPM).

For further researchers it is advisable to conduct testing with a longer period, so that the results can be more valid and can be used as a research reference. For further researchers it is advisable to get more data to facilitate researchers in getting the expected results. For further researchers it is recommended to add other profitability indicators to be tested such as: Gross Profit Margin and Return on Assets to facilitate researchers in analyzing the company's profitability so as not only to focus on net income, operating profit, sales, and own capital but also assets, gross profit and assets owned by the company.

Based on the conclusions above, the advice that can be given related to this research is the existence of updates in methods, data, variables and research periods can provide different contributions to research, especially on the variable used, so similar research can be developed and able to exceed the limitations in this study. The use of other approaches is also recommended to develop this research so the up to date research can be achieved.

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