Product Life Cycle and Initial Public Offerings

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RESEARCH QUESTION

How firms' product life-cycle (PLC) influences their trade-off between benefits and costs of going public?

MOTIVATION

Based on theoretical models:

PLC → affects → IPO benefits and costs → impact → IPO decision and performance

BENEFITS
Raising capital
Visibility
Grab market shares

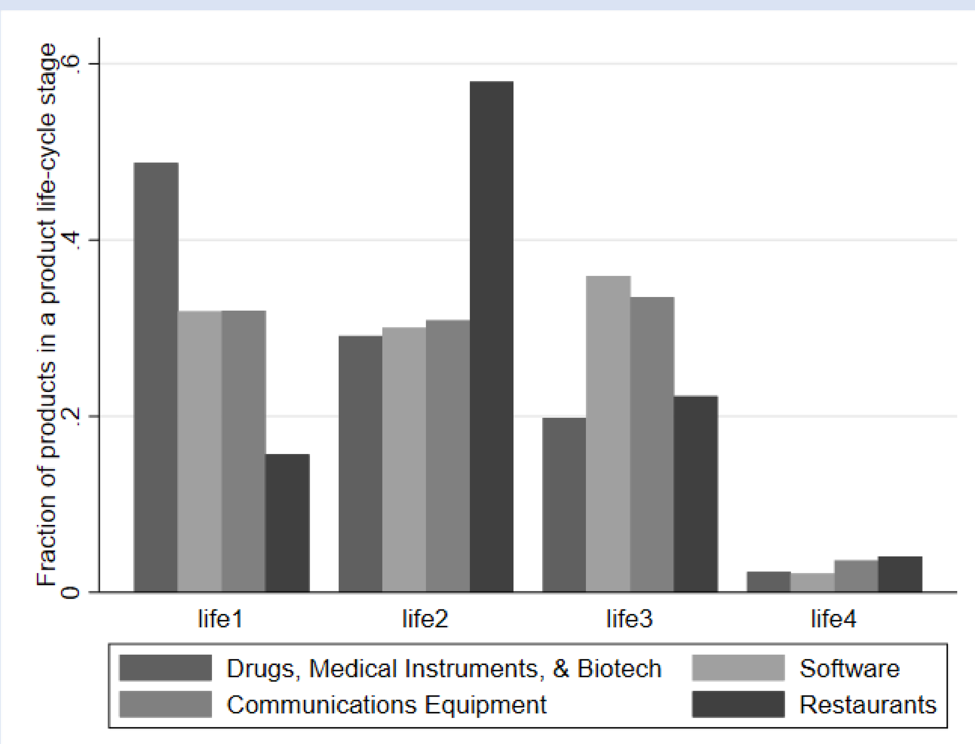
COSTS
Confidentiality
Financial transparency
Quality of innovation
Board's influence

THE GAP: no empirical evidence

ANALYSIS

1) MEASURE PLC

- Textual analysis of S-1 registration statements

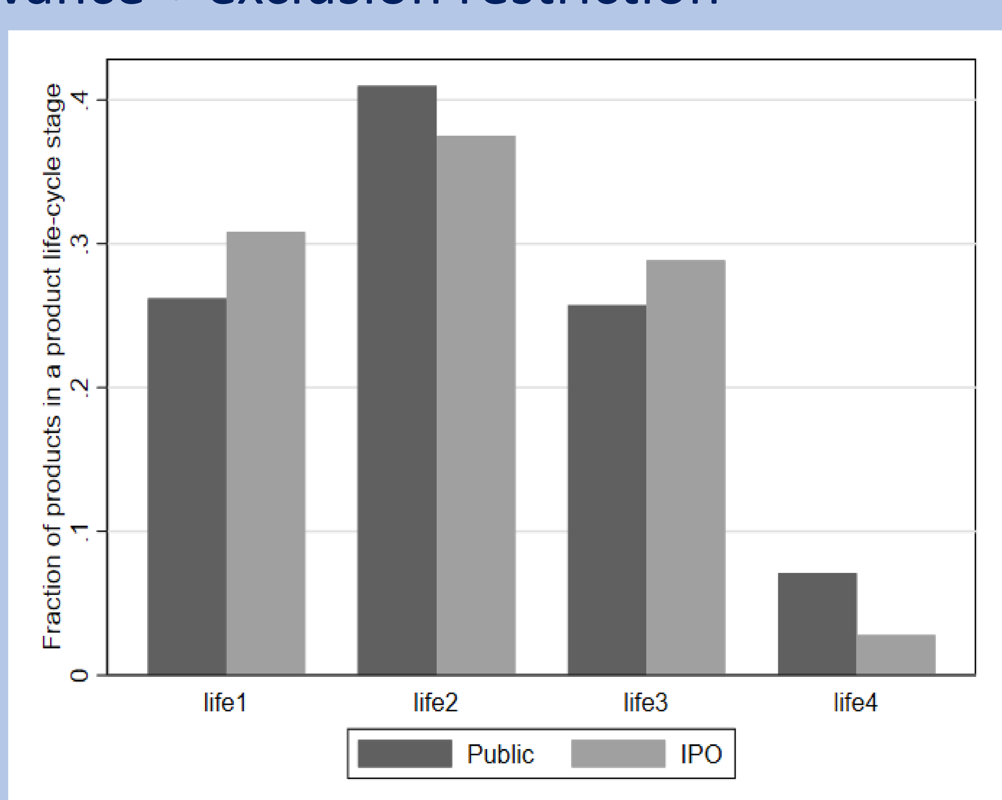


2) ANALYZE HOW PLC AFFECTS:

- The going public decision (proceed or withdraw)?
  Innovative PLC withdraws less
- The fraction of equity offered at IPO?
  Innovative PLC offers less
- IPO underpricing?
  Innovative PLC underprices more
- Post-IPO seasoned equity offering?
  Innovative PLC performs more SEOs
- Post-IPO dividend payout?
  Innovative PLC pays less dividends

3) INSTRUMENTAL VARIABLE APPROACH

- Average product life cycle of similar public firms
- Relevance + exclusion restriction



4) DIFFERENCE IN DIFFERENCES APPROACH

- American Investor Protection Act
- Exogenous shock to the trade off between benefits and costs of IPO
- After AIPA, innovative PLC faces lower costs

	(1) *1(IPO_Effective)*	(2) *Underpricing*	(3) *SharesOffered/SharesAfter*
*life1*Post*	-0.137	-0.349***	0.115**
	(0.108)	(0.127)	(0.057)
life1	0.261***	0.381***	-0.218***
	(0.093)	(0.131)	(0.051)
life3	0.046	0.133	-0.018
	(0.081)	(0.101)	(0.041)
life4	-0.236	-0.167	0.030
Observations	3,297	2,577	2,408
R-squared	0.127	0.273	0.227
Controls	YES	YES	YES
IPO Year	Controlled	Controlled	Controlled
Industry	Controlled	Controlled	Controlled

CONTRIBUTION

Firms with diverging PLC differently weigh the importance of raising capital through IPO, information asymmetry with investors, and revealing information to competitors.