The Voluntary Disclosure of Profits Forecasts in UK IPOs Prospectuses, its Determinants and Implications.

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Abstract:

This study examines the differences between IPOs that voluntarily disclose earnings forecasts in their prospectuses and those that do not. Using a sample of 166 UK IPOs listed between 1992-2002, we investigate whether forecasters have different firms' characteristics than non forecasters and whether they perform differently in the short and medium term. The results support the hypotheses that forecasters are firms that are closer to their financial year-end, have lower past profit variability, and higher growth prospect than non forecasters. However, the initial and after market returns of forecasters are not better than that of non forecasters. We also find evidence that optimistic forecasters, ceteris paribus, significantly underperform conservative forecasters and non forecasters in the mid term. Moreover, at the time of going public, investors can use earnings predicted by time series models to asses the performance of forecasters IPOs.

JEL classification: G32

Keywords: Initial public offerings, voluntary disclosure, forecast accuracy,

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Introduction:

Since publishing a profit forecast in IPOs prospectuses is voluntary in the UK, it is important to understand why some firms voluntarily release such a forecast while others do not. The incentives behind releasing a voluntary disclosure are directly related to two areas in the literature; (i) the signalling literature, and (ii) the voluntary disclosure literature. However, as suggested by How & Yeo (2000), the degree to which this literature can be generalized into an IPO context remains "largely unexplored". There is a scarcity in the research that addresses the issue of the voluntary disclosure and its implications for companies going public. This scarcity is more acute in research that tackles the UK market. Hence, the lack of enough information about the voluntary disclosure in an IPO context was the main motivation behind this paper

The aim of this paper is threefold: Firstly, to shed some light on the incentives behind the voluntary inclusion of profits forecasts in UK IPOs prospectuses. The paper intends to provide potential investors with a better understanding of the following issues: why some firms disclose profit forecasts and other firms withhold it? Is the disclosure a signal of good news? Are forecasters in a better position than non forecasters? Should investors subscribe more to forecasters than to non forecasters?

Secondly the paper addresses the impact of disclosure on the initial and after market returns. Do forecasters have lower underpricing and better after market performance than non forecasters?

Thirdly, the paper compares the initial and aftermarket returns of firms that issue inaccurate and optimistic forecasts to firms that issue accurate and conservative forecasts and to non forecasters. In other words, we are testing two arguments (i) optimistic forecasters, all else equal, underperform conservative forecasters in the mid term; (ii) optimistic forecasters, all else equal, underperform non forecasters in the mid term. Put it another way: Optimistic forecasters may be better off if they do not issue a forecast rather than issuing a misleading forecast.

Our study differs from the one by Keasy & McGuines (1991) in many aspects. First, the sample we use is more recent and covers a longer period than their sample. Besides, while they restricted their sample to IPOs that were listed in the USM market, our sample covers the Main and the Aim markets. In addition, the comparison we run, to investigate differences in the characteristics between forecasters and non forecasters, is not only based on a univariate analysis as the Keasy & McGuinnes's one, but also on a logistic regression and it uses an additional set of variables to the ones they used. This paper is, to the best of our knowledge, the first one that uses UK data to thoroughly investigate differences between forecasters and non forecasters, especially in terms of the post issue performance. In addition, it contributes to the earnings forecast accuracy literature in terms that the paper is the first one that uses UK data to examine the impact of the

accuracy and bias of the forecast disclosed on the disclosing firms' initial and aftermarket returns[1].

We use a sample 166 IPOs that went public between 1992-2002. The sample consists of 83 forecasters matched with 83 non forecasters. The matching was on the basis of the: year of issue, size, market, and industry. Our findings support the hypotheses that forecasting firms have lower past profit variability, higher growth prospects but not better news than non forecasters. When investigating the implications of voluntarily disclosing a profit forecast, our results indicate that forecasters are not more subscribed, less underpriced or have a better first year post issue performance than non forecasters. However, we find that optimistic forecasters underperform conservative forecasters. They also underperform non forecasters in the first year after the issue. Additionally, the results reveal that forecasters that issue optimistic forecasts, compared to the forecast predicted by a random walk model with a drift or to that predicted by a combination of a random walk model and a random walk model with a drift, significantly underperform conservative forecasters and non forecasters in the first year after the issue.

The paper is organized as follow: section one provides a review of the research background and the institutional framework. Section two describes the sample selection and the data collection processes. Section three deals with the results and discussions related to the decision of providing a profit forecast. Section four includes the results and discussions related to the implications of voluntarily disclosing a profit forecast. Section five concludes the paper.

1-1Research background:

The signalling literature is based on the idea that in the absence of symmetric information only entrepreneurs know the true quality of their projects. Nevertheless, because of the moral hazard problem, entrepreneurs can not directly transfer their information to other market participants. However, without information transfer, the market may fail (Akerlof 1970). To prevent such a failure, entrepreneurs may take some actions that reveal, or "signal" their quality. For the signal to be credible, low quality firms should not be able to mimic it. In other words, it should be too costly for low quality firms to imitate this signal. Various signalling mechanisms are discussed in the literature. Leland & Pyle (1977) introduced the percentage of equity retained by entrepreneurs as a credible signal of the quality of the firm. Hughes (1986) extended the L& P signalling model by adding to the equity retained by insiders, the direct disclosure of future cash

[1] Keasey & McGuines (1991) investigated the impact of the information content on the initial pricing and the underpricing level. They defined the information content as the difference between the forecast disclosed and that expected by a time series forecast, and the difference is divided by the time series forecast. They did not take the actual numbers of earnings into account.

flows. In Titman & Trueman's model (1986) high quality firms signal their values through their choice of a high quality investment banker or auditor.

In countries where publishing a profit forecast in IPOs prospectuses is voluntary, disclosing such a forecast can work as a credible signal. This is because it is costly for low quality firms to try to imitate it. If they try to do so, then they will incur: the litigation costs in case of failing to meet the forecast (as suggested by Hughes); the reputation cost of withholding bad news (Skinner 1994)[2]; and the cost represented by the penalty imposed by the market itself where firms that overstate their forecasts underperform other firms (Firth, 1997; Firth, 1998; Jelic et al., 2001; How & Yeo, 2000).

In summary, from a *signalling point of view*, the voluntary disclosure of earnings forecast constitutes a credible signal of favourable information. Accordingly, forecasters, ceteris paribus, are deemed as higher quality firms or as firms with more favourable information than non forecasters.

According to the *voluntary disclosure models* discussed by Verrecchia (1983), Jovanovic (1982), and Lanen & Verrecchia (1987), when the manager is concerned about maximizing the value of the firm (no conflict of interest between mangers and current shareholders) and when disclosing information is costly[3], he/she will disclose favourable news and withhold bad news. Under these models, no news is interpreted as bad news. On the other hand, Trueman' s model (1986) suggests that by the act of disclosure[4] managers can impart information about their abilities to predict changes in the future performance of the firms they manage. This increases the market value of the firm. Therefore, managers are motivated to disclose good news as well as bad news.

The empirical studies in the voluntary disclosure literature suggest that the motivation behind the voluntary disclosure is (i) to correct for any unrealistic (too high or too low) analysts' forecasts (Ajinkya &Gift, 1984); (ii) to get external finance in the future (Frankel et al.,1995); (iii) to pre-empt bad news (Skinner, 1994); and(iv) to lower the cost of capital (Leuz & Verrecchia, 2000).

The *voluntary disclosure literature* reveals that firms may, for many reasons, disclose not only good news but also bad news. Hence, a voluntary disclosure is not always a signal of good news. In addition, the absence of this disclosure does not indicate that the withholding firm has bad news. Bearing in mind that firms consider the IPO process as a window of opportunity, does this hold in an IPO context? Do firms disclose bad news, and others withhold good news? Or forecasters are always firms with better news and higher quality than non forecasters? Most of

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[2] Skinner (1994) referred that money managers and financial analysts respectively may not like holding and following stocks if the firm has a reputation that it withholds bad news.

[3] The model assumes that there are fixed proprietary costs associated with the voluntary disclosure.

[4] Assuming that the disclosure is not costly.

the prior research related to earnings forecasts disclosed in IPOs prospectuses, focuses on the accuracy of the forecast disclosed and its implications on the initial and after market returns. Only a few papers examine the act of disclosure and its implications on the initial and aftermarket returns. Below is a short summary of these papers.

Clarkson et al. (1992), using a sample of 121 Canadian IPOs (70 forecasters), were not able to find any significant differences between forecasters and non forecasters with regard to the: age, size, auditor quality, underwriter prestigious, industrial sectors, debt to equity ratio, terms of offering, year of offering, and retained ownership. However, they find that publishing a profit forecast is a value relevant signal. Besides, they report that forecasters have better news than non forecasters, and perform better in the long run.[5]

Using a sample of 194 (121 forecasters) UK IPOs listed in the USM between 1984-1986, Keasey & McGuinness (1991) found that there is no significant difference between forecasters and non forecasters in terms of the: nature of news they have, age, industry, leverage, past earnings variability, length of forecast variable, and the size of the firm. In addition, their results reveal that the act of disclosure does not affect neither the initial pricing[6] nor the underpricing level.

Using a sample of 258 Canadian IPOs, Jog & McConomy (2003a) found no significant difference between forecasters and non forecasters with regard to the: age, ownership retention, average IPO price, auditor quality, and the underwriter reputation. However, non forecasters tend to be (marginally) significantly larger. Their results reveal that non forecasters experience a higher degree of underpricing than forecasters but not a worse post issue performance. When splitting the sample into small and big, Jog & McConomy found that the higher underpricing level experienced by the non forecasters group seems to be driven by the higher degree of underpricing experienced by small non forecasters firms compared to large non forecasters firms. They also found that while small non forecaster tend to have worse long run performance than large non forecasters, small forecasters do not have worse long run performance than large forecasters. Moreover, small non forecasters tend to underperform small forecasters. Accordingly, they concluded that, with the exception of some cases where the firm will incur

[5] While the performance of non forecasters tend to be in line with (underperform) that predicted by the martingale model (exponential growth expectation model, mechanical forecast, and the overall average scaled ex post earnings realization), the post issue performance of forecasters do outperform (fit well) that predicted by the martingale model, mechanical forecast, and the overall average scaled ex post earnings realization (exponential growth expectation model).

[6] Keasey & McGuinness (1991) used the book to market value as a measure for initial pricing which is as suggested by How &Yeo (2000) a measure of the growth prospects rather than the value of the firm

very high proprietary costs or expect to have very bad future earnings, firms are better off if they issue a forecast than if they do not. This holds especially for small firms

Bilson et al. (2003), using a sample of 154 Australian IPOs listed between 1990-1997, found that forecasters tend to be 3 times older than non forecasters, have lower past profit variability, no losses in their three years pre listing, and less underpriced. However, they underperform non forecasters in the long run. Bilson et al. attributed this underperformance to the difficulties associated with valuing a non forecaster company at the time of the issue. Though, when calculating the CAR based on the median rather than the mean, Bilson et al found that forecasters outperform non forecasters. This made them conclude that the results achieved when using the mean are mainly driven by the long run performance of a small number of the non forecasters group. A caution is in order when interpreting the Bilson et al.'s results because they are based on a univariate rather than a multivariate analysis. i.e. other factors which are known in the literature to have an impact on the underpricing and the long run performance of IPOs were not taken into account (e.g. size, age, underwriter, auditor..).

How & Yeo (2000) used a sample of 158 Australian IPOs which went public between 1991-1997. Their results revealed that publishing a profit forecast does in fact increase the initial value of the firm. However, this holds only when they measure the value of the firm using the book to market ratio and not the market capitalization after the IPO[7]. How & Yeo could not find any significant difference between the long run performance of forecaster and non forecasters.

1-2Institutional framework:

The UK Listing Authority (UKLA), which is a division of the Financial Services Authority, sets the "Listing Rules" and holds the responsibility for supervising the listing process. The "Listing Rules are the requirements that companies have to meet in order to be listed on the market. According to these rules, any company seeking listing on the market should issue a prospectus. The prospectus should be reviewed and approved by the UKLA (5.1).
Similar to the Canadian and Australian markets but unlike the Singaporean, Malaysian, and New Zealand markets, publishing a profit forecast in UK IPOs prospectuses is up to the management decision. In other words, there is not any mandatory requirement for IPOs managers to disclose profit forecasts in the IPOs prospectuses. However, once this forecast is to be disclosed, the listing rules require that it should be stated in an explicit manner (12.22) along with the main

[7] When using the market to book ratio, How & Yeo (2000) found that Alpha, which represents the equity retention ratio, was insignificant, and the Growth variable was the most significant variable. This made them conclude that the book to market ratio works as a proxy for the growth potential rather than for the value of the firm.

assumptions on which the issuer has relied when formulating it (12.27). Additionally, the profit forecast must be reported by the sponsors and the auditors or the reporting accountants. The sponsor should report that "the forecast has been made after a due and careful enquiry by the issuer" (12.19), and the accountants must report whether "the profit forecast has been properly compiled on the basis stated", and whether "the basis of accounting is consistent with the accounting policies of the issuer" (12.24). These reports must be included in the listing particulars.

Worth noting is that the listing rules state that if the actual profits tend to differ by 10% or more from the forecast, an explanation of the difference should be included in the annual report (12.43). However, there is not any rule that states certain sanctions or legal liabilities in case of a major difference between the forecast and the actual profits. The lack of this rule may make investors reluctant to invest in a forecasting firm. Though, the empirical research that investigated the profit forecast accuracy in the UK reveals that UK IPOs managers tend, in general, to be conservative (Dev & Webb, 1972; Ferris & Hayes, 1977; Keasey & McGuinness, 1991).

2-Sample selection and data collection :

The sample data comes from firms that were listed on the London Stock Exchange during the period 1992–2002. After excluding trust companies, introductions, hybrid issues, companies which transferred from one market to another, and companies with missing prospectuses or annual reports, our study comprises 152 IPOs that disclosed profit forecasts. The main criterion for choosing these firms is that they published explicit forecasts of profits, dividends, or earnings per share for the year ending after the date of the prospectus. The forecasters sample is compared to a sample of non forecasters. The main restriction in including a non forecaster in the control sample is that this non forecaster did not disclose any profit forecast, profit estimate, or financial projection in its prospectus. Since the number of non forecasters in each year is far greater than the number of forecasters, comparing forecasters to the whole set of non forecasters is cumbersome. A more convenient approach is to select a sub sample of non forecasters. To avoid any bias in the selection process, we follow some previous papers, (Ruland et al. (1990); Lev & Penman (1990); Jaggi & Grier (1980)) in adopting a matching approach. Accordingly, we matched each forecaster with a similar year, size, market, and industry non forecaster. We tried to carry the industry matching on the basis of 3- digit industry code, however this entailed loosing a large number of observations. Consequently, 2-digit industry code matching was adopted. Despite adopting a 2-digit industry code, the matching process itself, involves loosing some observations. i.e. no similar size, market and industry non forecaster is available to match each forecaster. Accordingly, our final sample consists of 83 forecasters matched by 83 non forecasters. Table (1) shows the distribution of the firms over the sample period.

We hand collected the data related to retained ownership, size, age, growth, leverage, past profit variability, underwriter, auditor, venture capitalist, good news and bad news, and profit forecast from the prospectuses. Actual profits, are collected from the annual reports of the forecasters firms. Caution is exercised when comparing forecast numbers to actual ones. I.e. if the forecast is profit before taxation, the actual should be the profit before taxation. Table (2) defines all the variables used in the paper.

Data for the oversubscription (undersubscription) level is extracted searching the http://global.factiva.com website. Daily and monthly returns for the firms in question and for the FTSE all share index are collected from datastream.

Insert table (1)

Insert table (2)

3- Results and discussion:

3-1 Results and discussion: the determinants of the voluntary disclosure

3-1-1Descriptive statistics:

The descriptive statistics of the sample is reported in table (3). The table shows that forecasters are older companies, with lower equity retention, higher growth prospect, higher leverage, and lower past profit variability than non forecasters. However, the tests statistics reveal that, apart from the past profit variability and the growth, none of the differences between forecasters and non forecasters is statistically significant[8].

The sample distribution in terms of the auditor quality, underwriter reputation, and venture capitalist backing is shown in table (4). The table shows that the percentage of IPOs audited (underwritten) by a highly reputable auditor (underwriter) and backed by a venture capitalist is the same between forecasters and non forecaster. The Chi – square test confirms the insignificant differences between forecasters and non forecasters in terms of the underwriter reputation, auditor quality, and venture capitalist backing.[9]

Similar to Bilson et al. (2003) I used a dummy "loss before the IPO" as a measure of the riskiness of the IPO. The table shows that only 10.2 % of the forecasters have loss in there three years pre listing compared to 18.42 % for non forecasters. This indicates that non forecasters

8 We have few companies that were created to acquire other subsidiaries. These companies do not have enough trading history, and no pro forma is provided for the acquirer and acquirees together. Accordingly we had to drop these companies in tests that uses accounting data.

9 We also investigated whether small forecasters are less underwritten, audited or backed by venture capitalist than small non forecasters, we did not find any supporting evidence to this argument. However, we found that large forecasters turn out to be more audited by high quality auditor than large non forecasters. The difference is significant at 10% level of significance

did avoid publishing a forecast because they had loss in their three years pre listing and they are afraid that the market may not take this forecast as a credible one. However the test statistic did not lend credence to this proposition. The Chi – square reveals that the difference is not statistically significant.

Insert table (3)

Insert table (4)

According to the signalling literature discussed earlier, one would expect that forecasters are firms with good news and non forecasters are firms with bad news. To test whether forecasters have better or worse news than non forecasters, we compare the actual earnings for the first financial year after the IPO with the one that is expected by the market and deflate the difference by the absolute actual. Since the IPO is new to the market and it has not been followed by analysts yet, we followed Clarkson et al. (1992) by using earnings expected by a random walk model to proxy for the market expectations. Because this model does not take into account the growth prospect of the company, we also use the earnings expected by a random walk model with a drift and that expected by a combination of a random walk model and a random walk with a drift as another proxies for market expectations.

Table (5) panel A reveals that when using the random walk model with a drift (average of the random walk model and the random walk with a drift) 47.8% (47.8 %) of the forecasters have bad news, compared to only 42.8% (41.9%) of the non forecasters. However, when using the random walk model, only 19% of the forecasters have bad news compared to 21.21% of the non forecasters. Though, the differences are not statistically significant. Table (5) Panel B shows differences in the mean and median of the news that forecasters and non forecasters have. With the exception of the model which uses the random walk to proxy for the market expectations, forecasters appear to have worse news rather than better news than non forecasters. Though no matter which proxy we used, the nature of the news does not differ significantly between forecasters and non forecasters[10]. Our results are consistent with that by Keasey & McGuinness (1991) where the authors could not find a significant difference in the nature of the news that forecasters and non forecasters have.

When splitting the sample into two sub samples: small and large[11], small forecasters turn out to have better news than small non forecasters. The result is significant at a 10% level of significance but only when applying the random walk model. On the other hand large forecasters tend to have worse news than large non forecasters, though the difference is statistically insignificant. For brevity reasons results are not reported.

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[10] The results are the same whether the deflator used is the absolute actual, total assets after listing or the market capitalization

[11] Firms in quintiles 1 and 2 are considered to be small firms accordingly they are assigned a value of zero, and firms in quintiles 3 and 4 are assigned a value of 1

Insert table (5)

3-1-2Multivariate analysis:

1-Logistic regression:

To test the joint ability of the independent variables to explain the forecast decision, the following logistic regression is used:

$$Fore = ß_0 + ß_1 Und + ß_2 Aud + ß_3 VC + ß_4 lnage + ß_5 lnretain + ß_6 Sdmc + ß_7 Growth + ß_8 leve + ß_9 Gnave$$

The voluntary disclosure literature examined the impact of these variables on the decision of voluntarily disclosing a forecast. However, no conclusive evidences were documented.

Jog & McConomy (2003a) mentioned that small, more risky firms may have wanted to publish a forecast but they were prevented from doing so by their underwriter, auditor, or VC. Additionally, Gerard et al. (2003) found that venture capitalist backed IPOs tend to issue less forecast than non venture capitalist backed IPOs. Consequently, one would expect that the higher the reputation at stake that the underwriter, auditor and VC have, the less is the probability that the IPO will publish a forecast. On the other hand the signalling literature implies that high quality companies may use a combination of different signals to impart their favourable information. These signals could be: using a prestigious underwriter, using a high quality auditor, getting backed by a venture capitalist, retain more equity by insiders, and voluntarily provide a profit forecast. Accordingly, one would expect forecasters to have high quality underwriters, auditors and to be more backed by venture capitalists than non forecasters. Due to these different views, we are not able to predict the signs of these variables in the logistic regression.

Since young firms do not have enough operating history, their ability to publish accurate forecasts is questionable[12]. Therefore, they may opt out of voluntarily publishing a forecast. Moreover, even if these firms were able to publish accurate forecasts, the market may not consider the forecasts disclosed by these firms as accurate as they are. More precisely, the market may discount forecasts provided by small firms (credibility problem (Bilson et al., (2003)) so that the firms may end up with less disclosure's benefit than what they expected. That is to say, the benefit resulted from such a disclosure may be outweighed by the costs associated with it, thus we expect *forecasters to have longer operating history than non forecasters.*

[12] While some papers found that the age of the firm has a negative impact on the forecast error (Jaggi 1997 and Jelic et al. 1998), other papers found that the age of the firm has no significant impact on the forecast accuracy (Keasey & McGuinness 1991 and Lee et al. 1993)

Past profit volatility is used in the literature to proxy for the riskiness of the firm. In general, the higher the volatility of previous earnings is, the more risky, and less stable the firm is. Hence, the more difficult is to forecast its profits. Accordingly we expect that *firms with higher past profit variability will avoid disclosing forecasts.*

A high level of leverage is deemed to be associated with a high variability of earnings. Consequently, it is difficult for highly leveraged firms to accurately forecast its future earnings (Firth & smith 1992; Chan et al.1996; Jaggi1997). Therefore we expect that *forecasters have lower leverage than non forecasters*.

Under the Leland & Pyle (1977) model, the presence of a high ownership concentration is associated with less adverse selection problem, therefore, less demand to corporate disclosure. Moreover, one can argue that if the ownership concentration is high, the insiders may be reluctant to issue a profit forecast because if the forecast turns out to be inaccurate, their returns will be dramatically affected. On the other hand, as discussed earlier, higher equity retention can be used along with the voluntary disclosure to signal the value of the firm. These contradicted views make us not able to predict the sign of the retained equity variable in the logistic regression.

Skinner & Sloan (2002) documented that the share prices deterioration in case of missing a forecast is more severe for growth firms than it is for value firms. Bearing this in mind along with the fact that growth firms are expected to come back to the market more frequently, the costs of failing to meet a forecast[13] are higher for these firms than it is for value firms. Accordingly, we propose that *growth firms will opt out of publishing a forecast.*

As mentioned earlier, the signalling hypothesis and the no news/ bad news models of voluntary disclosure postulate that firms with favourable information will signal it. Therefore we expect forecasters to have better news than non forecasters. On the other hand, the Trueman's voluntary disclosure model along with the empirical evidence on the voluntary disclosure posit that forecasters may not have better news than non forecasters. Accordingly, we are not sure about the expected sign of the good news coefficient in the logistic regression.

The results of the logistic regression which are reported in table (**6)** are consistent with the univariate analysis. Table (**6)** shows that forecasters are older firms with less equity retained, lower past profit variability, higher growth prospects, higher leverage, more reputable underwriter and auditor and less backed by venture capitalist than non forecasters. However,

[13] These costs include the deterioration in shares prices in case of missing the forecast, and the cost of not being able to raise extra capital in the future due to the reputation issue.

only the variables growth and past profit variability have a significant impact on the decision of providing a forecast[14]. Consequently, we can conclude that the variables growth and past profit variability do affect the decision of voluntarily disclosing a forecast.

The log likelihood of the model is (-79.52) which is lower than the log-likelihood when only the constant was included (-87.082) However**,** the log-likelihood is still high which indicates that a lot of observations are not explained by the model[16]. The Pseudo R2 is 8.68%, so we only know 8.68% of what makes the firm make a decision whether or not to disclose a profit forecast.

Overall, the univariate and multivariate analysis reveals that having a high past profit variability is more likely to affect the decision to whether or not a firm will publish a profit forecast, where high past profit variability firms will avoid publishing a forecast. Moreover, in contrast to our expectations, growth firms turn out to be more likely to issue a forecast than value firms. Our explanation for this is that growth firms may have disclosed more information in order to get a better access to the financial markets in the future.[17] Apart from these two variables, there is not any significant difference in the characteristics of forecasters and non forecasters. These insignificant differences do not improve our understanding of the decision of issuing a voluntary forecast however it is consistent with the literature (Clarkson et al., 1992; Keasey and McGuinness, 1991; Jog & McConomy, 2003a).

Insert table (6)

3-2 Results and discussion: The implications of publishing a voluntary disclosure:

3-2-1 Oversubscription:

As discussed earlier, according to the signalling literature, publishing a voluntary profit forecast is one of the signalling mechanisms that companies may use to impart favourable information to the market. In addition, since the voluntary disclosure models introduced by Verrecchia (1983), Jovanovic (1982), and Lanen & Verrecchia (1987) propose that no news is interpreted as bad news, one would expect investors, ceteris paribus, to subscribe more to forecasters than to non forecasters. In contrast to expectations, the figures in table (7) show that there is no significant difference in the subscription level between forecasters and non forecasters. Accordingly, investors do not perceive firms that voluntarily disclose profits forecasts as having better news

[14] The interpretation of the coefficient is very similar to that in a multiple regression where it represents the change in the logit of the outcome variable associated with a one unit change in the predictor variable where the logit of the outcome is the natural logarithm of the odds of y occurring. Fields p.180

[16] The log likelihood is an analogous to the error sum of squares in multiple regressions. Accordingly the lower the log-likelihood is the more the model is fitting the data Field p.177.

[17] Frankel et al. (1995) suggest that the firm's disclosure policy may be a long run rather than a short run policy. Accordingly, firms may disclose more information now to get external finance in the future.

than firms that do not.[18] Or investors do not oversubscribe to forecasting firms because they are less optimistic about their future performance bearing in mind that these firms may have managed their earnings before going public. Accordingly, they will underperform in the long run Teo, Welch, and Wong (1998).
Worth noting is that the level of subscription is only available for 24% of the sample this casts doubt on the validity of any conclusion drawn.

3-2-2Underpricing:

The literature documented the existence of abnormal returns earned by IPOs investors in the first day of trading, or what is called "the underpricing". According to Loughran et al. (1994) the underpricing phenomenon is a common phenomenon between all countries that have stock markets. However, the degree of underpricing differs between different countries. Many theories tried to explain the phenomena. Explanations rest on: asymmetry information, signalling, litigations, agency conflict and irrationality. Following the asymmetry information explanation introduced by Rock (1986) and Beatty and Ritter (1986), we expect that disclosing profit forecast will reduce the ex ante uncertainty about the value of the firm. Accordingly, it will reduce the level of underpricing. Therefore, we expect forecasters firms to have lower level of underpricing than non forecasters.

We measure the underpricing for company (i) as the difference between the closing price on the first trading day and the offer price. To control for the effect of the market movements between the date of the prospectus and the first day of trading we substratct from this difference the difference between the market index at the end of the first trading day and the market index on the last day of subscription for company i. The last day of subscription is taken to be one week prior to the offer for firms which do not specify this date clearly[19].

In contrast to the findings of Bilson et al. (2003) and Jog and McConomy (2003a), Table (7) shows that the level of underpricing for forecasters is higher than that for non forecasters. However, the difference is not statistically significant. When splitting the sample into small and big, the level of underpricing is almost equal between small and big firms. Nevertheless, while small forecasters are less underpriced than big forecasters, small non forecasters are more underpriced than big non forecasters. They are even more underpriced than small forecasters. This higher underpricing level experienced by small non forecasters is consistent with the finding of Jog & McConomy who reported that when small companies choose not to issue a

[18] We also investigate whether investors subscribe more to forecasting firms that issue optimistic forecasts compared to time series forecasts than to conservative firms. Our results show that investors seem to subscribe more to conservative forecasters than to optimistic forecasters. Nevertheless, the difference is not statistically significant. For brevity reasons, we did not report all the univariate analysis related to the oversubscription level.

[19] Most firms which specify the last day of subscription specify it as one week prior to the offer.

forecast they have to leave more money on the table. Though, the differences are not statistically significant.

Insert table (7)

In addition to the univariate analysis we run the following multiple regression model:
MAIR= Fore= ß0+ ß1Und + ß2 Aud+ ß3 VC+ ß4 lnag+ ß5 lnret+ ß6 lnmc+ ß7 Growth+ ß8 Hot issue+ ß9MSent+ ß10 forecast+ ß11 market
The variables included are drawn from the literature and are all explained in table (2).

The results of the multiple regression models are reported in table (8). Consistent with the univariate analysis, the table shows that forecasters have higher level of underpricing than non forecasters. Though the difference is statistically insignificant. In addition, large firms seem to be less underpriced than small firms. However, this does not hold when we run the regression for forecasters only. Therefore, the sign of the size effect is mainly driven by the high level of underpricing experienced by small non forecasters as shown in the univariate analysis. Similar to the univariate analysis, the size effect is statistically insignificant. Unexpectedly, the higher the equity retained by insiders the higher is the underpricing. The effect of the retained equity is positive and significant in all regressions[20]. This contradicts the implication of the signalling model introduced by Leland & Pyle (1977) where higher equity retention reduces the asymmetry information surrounding the IPO. Besides, the positive sign implies that the higher the equity retained by existing shareholders the more is the wealth transfer to new shareholders which is exactly the opposite of what is expected. The age and the underwriter variables have the expected sign and they are statistically significant at 10% level of significance. Since growth firms are usually firms at their earlier stages, once the variable growth is taken into account, the age is not significant any more. That is to say the growth variable dominates the age one. The growth variable has a positive and significant impact on the underpricing level in all regressions. This is consistent with the asymmetry information explanation for underpricing where growth firms are associated with more ex ante uncertainty, accordingly will be more underpriced. As expected, firms that went public during a hot issue period are significantly more underpriced. Moreover, the higher is the market sentiment before going public, the higher is the underpricing. Though the coefficient lacks for the statistical significance The auditor, venture capitalist and the market variables have the wrong sign. However, they are statistically insignificant in all regressions[21]. All results are adjusted for heteroscedasticity and the multicollinearity test reveals that the data does not suffer from a multicollinearity problem.

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[20] The result is unexpected but it is consistent with the finding of Kaesey & McGuinness (1991) who found that retained equity is positively and significantly related to the "discount variable" or the underpricing of non forecasters firms.

[21] Since the market variable is highly correlated with auditor, VC, Lnmc, growth, & retained the sign of the market variable is affected by the inclusion of these variables.

Insert table (8)

We also investigate the differences in the underpricing level within the forecasters group. We split the forecasters sample into optimistic or conservative forecasters and accurate or inaccurate forecasters. Optimistic forecasters are identified based on the sign of the forecast error, while accurate and inaccurate forecasters are identified based on the size of the absolute forecast error. Contrary to what is documented (Firth, 1997; Firth, 1998; Chen et al., 2001; Jog & McConomy, 2003a) the univariate analysis shows that conservative and accurate forecasters have lower level of underpricing than optimistic and inaccurate forecasters. The difference in the level of underpricing is statistically significant between accurate and inaccurate firms. This means that providing accurate forecasts was beneficial to forecasters in a way that they were able to leave less money on the table. However, providing conservative forecasts rather than optimistic forecasts did not help in reducing the underpricing level. Though, the benefit of providing such a forecast may not be observable over the short term.

The results of the multivariate analysis for forecasters firms only are displayed in table (9). The results are consistent with the univariate analysis where inaccurate (optimistic) forecasters have significantly (insignificantly) higher level of underpricing than accurate (conservative) forecasters. We also compare the underpricing level of optimistic, conservative, accurate, and inaccurate forecasters, to that of non forecasters. The figures which are reported in table (10) show that there is no significant difference in the level of underpricing of any of these sub samples and the non forecasters sample.

Insert table (9)

Insert table (10)

3-2-3One year performance:

Similar to the underpricing phenomena, a large body of evidence showed that IPOs tend to underperform matching firms that did not go public in the long run. However, unlike the underpricing phenomena, the long run underperformance is not common in all countries. [22] In the UK, Levis (1993) reported that UK IPOs underperform in the third year after the issue in a range of -8.1% and -23% depending on the benchmark used. Espenlaub et al. (2000) reported that the three years buy and hold abnormal returns ranges from -15.9% to -28.15%. Kurshed et al. (2002) reported a long run underperformance of -20.76%.

In this section we analyse differences in the after market performance between forecasters and non forecasters. Based on Jog and McConomy's (2003a) argument about the independence of the third year performance from the act of disclosing a forecast and bearing in mind that the

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[22] Kim et al. (1995), Dawson (1987), Loughran et al. (1994), Hwang & Jayaraman (1995) and Ben Naceur (2000) documented positive post issue performance for Korean, Hon Kong, Swedish, Japanese, and Tunisian IPOs respectively.

forecast horizon in the UK is even shorter than it is in Canada[23], we limit the investigation of the differences in the post issue performance to the first year after the issue only[24].

We measured the long run performance using the cumulative abnormal returns (CAR) which is calculated as follow: for each firm (i) we calculate the monthly abnormal returns in the event month(t) $ARit = Rit - Rmt$ where Rmt is the monthly return of FTSE all shares index. Then the average of the abnormal returns is calculated for all firms in the event month (t) $AARt = 1/nt\sum_{i=1}^{n} ARit$ where (n) is the number of IPOs in the event month t. The cumulative abnormal returns for one year are equal to $CAARt = \sum_{t=1}^{12} AARt$

We did not adopt a matching firm approach to measure the long run performance because the aim of the study is to compare the post issue performance of forecasters and non forecasters rather than to reassess the post issue performance of UK IPOs. Accordingly, since forecasters and non forecasters are matched on the basis of size and industry, comparing them to the same benchmark will reflect the differences in their performance[25].

When using the BHAR the results are consistent with the CAR results. Therefore, and for brevity reasons, we report the results which are related to the CAR only. Table (11) panel A displays the univariate analysis of the first year after market performance of the full sample (both forecasters and non forecasters). The panel reveals that forecasters (-9.38) underperform non forecasters (-0.73) in the first year. Though, this underperformance is not statistically significant.

When splitting the sample according to the size, we find that small firms did not underperform large firms. This holds for the forecasters and non forecasters respectively. Moreover, and in contrast to the findings of Jog & McConomy, small forecasters underperform small non forecasters (though not statistically significant). Results in panel A show a first year CAR of -7.64% for small forecasters compared to 4.78% first year CAR for small non forecasters. The performance of small forecasters, however is not the main reason behind the underperformance

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[23] The average forecast horizon is 57 days.

[24] We examined whether the forecast disclosure or the accuracy and the bias of the forecast disclosed affect the second, and third year CAR, we find that none of the variables has an impact on the second, and third year post issue performance.

[25] Jog and McConomy did not use a matching firm approach arguing that if forecasters and non forecasters are compared to the same benchmark, this will reflect the differences in their long run performance. However, in their sample forecasters and non forecasters were not matched which means that, using a different benchmark may have changed their results especially that they reported that non forecasters are (marginally) larger than forecasters.

of the forecasters group, big forecasters do also underperform big non forecasters. Though, this difference is statistically insignificant.[26]

Insert table (11)

To control for other factors which are known in the literature of having an impact on the post issue performance of IPOs, we run the following multiple regression model:

$CAR = ß_0 + ß_1 Und + ß_2 Aud + ß_3 VC + ß_4 lnage + ß_5 lnret + ß_6 lnmc + ß_7 Growth + ß_8 MAIR + ß_9 market + ß_{10} forecast$

Variables are explained in table (2).

The results of the multivariate analysis are displayed in table (12). The results are very consistent with the univariate analysis where the forecast variable has a negative sign in all regressions however it is insignificant. Accordingly, we can conclude that there is no significant difference between the post issue performance of forecasters and non forecasters. This is consistent with How & Yeo (2000) Jog and McConomy (2003a), but inconsistent with Bilson et al. (2003). Table (12) also reveals that IPOs underwritten by reputable underwriters significantly (10% level of significance) outperform those underwritten by non reputable underwriters. Inconsistent with the findings of Levis (1993) and Kurshed et al. (2002), but consistent with Brown (1999) and with the univariate analysis, the size effect has a negative and significant impact on the after market performance. This holds in all the regressions implying that large firms underperform small firms. Another unexpected effect is the effect of the underpricing where firms with higher underpricing significantly outperform those with lower underpricing. This raises the issue of whether the underpricing is a signal of high quality as suggested by Welch (1989), Allen & Faulhaber (1989), and Grinblatt & Hwang (1989). However, this result does not hold in the second, and third year post issue performance, where the effect of underpricing is negative and insignificant. None of the remaining variables which are: growth, market, audit quality, venture capitalist, age, and equity retained by insiders, has a significant impact on the post issue performance.

Insert table (12)

Previous research (Firth, 1997; Firth, 1998; Jelic et al., 2001; Jog & McConomy, 2003a), documented that optimistic forecasters underperform conservative forecasters in the long run[27]. Additionally, How & Yeo (2000) reported that forecasters with inaccurate forecasts

[26] Similar to Bilson et al. (2003) we investigated whether the first year post issue performance is different between forecasters and non forecasters when the CAR is based on the median rather than the mean. The results reveal that the first year performance for forecasters is (-0.0162) compared to (-0.0163) for non forecasters.

[27] While Firth (1998) did not find any difference in the performance between optimistic and conservative forecasters after the first year, Jelic et al. (2001) and Jog & McConomy (2003a) reported that the difference persists till 15 months, 24 months after the issue, respectively.

underperform forecasters with accurate forecasts. Though, the underperformance does not extend beyond the announcement window. Accordingly, comparing the performance of forecasters to non forecasters without taking into account the accuracy and bias of the forecast disclosed may be misleading. In other words, forecasters may have not outperformed non forecasters because of the effect of inaccurate and optimistic forecasts. To address this issue, the forecasters sample is split into optimistic and conservative forecasters and accurate and inaccurate forecasters. Panel B represents a univariate analysis of the differences in the post issue performance between optimistic and conservative forecasters and between accurate and inaccurate forecasters. Consistent with the literature, optimistic forecasters significantly underperform conservative forecasters at 5% level of significance[28]. In contrast to the significant effect of the forecast bias on the first year performance, the forecast accuracy did not have a significant effect on the post issue performance. The results of the multiple regression of the first year post issue performance for forecasters only are shown in table (13) and they are in line with that obtained by the univariate analysis.

Insert table (13)

Accordingly, the accuracy and bias of the forecast should be taken into account when testing the long run performance of forecasters and non forecasters. Table (14) represents the results of the multiple regressions which compare the performance of non forecasters to the performance of optimistic, conservative, accurate, and inaccurate forecasters consecutively. The table reveals that optimistic forecasters significantly underperform non forecasters in the first year. However, conservative forecasters, and accurate forecasters do not outperform non forecasters.

Insert table (14)

As suggested by Jog and McConomy, optimistic forecasters may have underperformed because they are penalized by the market or because they had poor earnings in their first year after going public. Following Jog & McConomy we identified firms that their actual post issue earnings were less than their previous year earnings by more than 10%. This screening process results in identifying 13 poor performers' forecasters and 14 poor performers' non forecasters. Out of the 13 poor performers' forecasters only one case was an optimistic forecaster. At a first glance, this makes us more inclined to adopt the possibility that optimistic forecasters underperform non forecasters because they are penalized by the market rather than because they have poor post issue earnings. Further investigation of this issue requires a univariate and multivariate analysis. Panel A table (15) presents the univariate test of the post issue performance of poor performers' forecasters and non forecasters. In contrast to the findings of Jog & McConomy, poor performers' forecasters do not underperform poor performer's non forecasters. This is supported by the results of the multivariate analysis where we restricted the

[28] As expected, the effect of the forecast bias on the post issue performance is restricted to the first year only

sample to include poor performers' forecasters and non forecasters only[29]. Our results are inconsistent with the finding of Jog & McConomy that poor performers are worse off if they publish a forecast and fail below it than if they opt out of publishing a forecast. However, since we have only one case optimistic poor performer, we can not draw any meaningful conclusion[30].

Insert table (15)

Since failing below past year earnings is not the reason behind the underperformance of optimistic forecasters, we conclude that the market guarantees that those who cheated, or provided inaccurate forecasts are penalized. Stated differently, it's pay me now or pay me later, there is no free lunch. Firms with inaccurate forecasts had to leave more money on table at the time of going public, while firms with optimistic forecasts had to pay the price later with worst first year performance than firms with conservative forecasts.

Bearing this in mind, if at the time of going public investors were able to judge that the forecast is optimistic they should anticipate that if they invest in this company, ceteris paribus, they will earn lower post issue returns than is the case if they invest in a conservative forecaster or in a non forecaster. Despite its importance to potential investors, this conclusion is an ex post conclusion. I.e. at the time of going public investors may not be able to identify optimistic firms. Hence, taking into account that i) optimistic forecasters underperform conservative forecasters and non forecasters in the first year; ii) optimistic forecasters my not be identified at the time of the issue, investors may prefer investing in a non forecaster company rather than in a forecaster one. This argument may also stand behind the insignificant differences in the level of subscription between forecasters and non forecasters.

Trying to find out what investors can do at the time of the issue, we identified forecasters that issued an optimistic forecast compared to a random walk forecast, a random walk with a drift forecast, and a combination of a random walk and a random walk with a drift forecast. The multivariate analysis shown in table (16) reveals that firms that issue optimistic forecasts compared to forecasts predicted by a RW with a drift model, and to that predicted by a combination of a RW model and a RW with a drift model significantly underperform non forecasters in the first year after going public. Accordingly, if an investor is facing a decision whether to invest in a forecaster or a non forecaster IPO where the two companies have similar firms characteristics and operate in the same industry, he would be better off if he invests in the non forecaster company if the forecaster one issued an optimistic forecast compared to the

[29] We also identified poor performers as firms that fail below 10% of the earnings expected by a random walk with a drift, and a combination of a random walk with a drift and a random walk. Applying any of these models, poor performers' forecasters did not underperform poor performers' non forecasters.

[30] Since we have only 13 poor performers' forecasters, and 14 poor performers' non forecasters, the number of observations is not enough to rely on the results obtained by the multivariate analysis.

forecast implied by a RW with a drift model or to that implied by a combination of a RW and a RW with a drift model[31].

Insert table (16)

Finally, since forecasters do not have better news, higher level of subscription, lower underpricing, or better post issue performance than non forecasters, it is still not clear why they voluntarily disclose a forecast and incur the cost associated with it? One final issue to examine is that forecasters are IPOs near their financial year end, while non forecasters are not. In other words, it is far easier to disclose a forecast for the next financial year end, when only 2 months are left than when 10 months are left. If it is the case, this means that forecasters issue a forecast because it is easier for them to accurtely predict it. That is to say, they can signal that they have favourable news with lower cost than a non forecasters. The cost is low because when only two months are left, firms should be able to forecast in a way that they do not bear litigation cost (i.e. they can disclose accurate forecasts); they are not penalized by the market (they should be able to issue accurate and not optimistic forecasts); and they bear low proprietary cost (competitors already know more about this company than a company that is at the beginning of its financial year). To check this possibility, we calculate the number of days from the day at which the prospectus is published (information becomes public) till the financial year end. As expected, forecasters are firms near their financial year end. This makes us wonder whether investors are sophisticated enough to realize that forecasting firms do not have better news than non forecasting ones (as documentd by Keasey & McGuinness, 1991) but they are firms near their financial year end. Accordingly, all else equal, they do not oversubscribe to forecasting firms.

Table (17) shows that while the average number of days from the date at which the prospectus is published till the year end is 57 days for forecasters, it is 232 days for non forecasters. The difference is highly significant.

Insert table (17)

Summary & conclusion:

This study examines the voluntary discourse of profit forecasts in UK IPOs prospectuses. A main issue that it addresses is: why some IPOs disclose a forecast and others do not? We collect a sample of 83 UK IPOs listed on the main and alternative markets. This sample is matched with a control sample of 83 non forecasters that went public in the same year, and have the same size, market, and operate in the same industry as forecasters. We find that firms with higher past profit variability and lower growth prospects opt out of disclosing a forecast. However, inconsistent with the signalling theory predictions and with the voluntary disclosure models of "no news, bad news", forecasters do not have better news than non forecasters.

[31] When restricting the sample to include forecasters only, forecasters that issued an optimistic forecast compared to the forecast predicted by a combination of a RW and a RW with a drift model, significantly underperform those that issued a conservative one

When investigating the implications of voluntarily disclosing a forecast, contrary to our expectations, we find that inventors do not subscribe to forecasters more than to non forecasters. We pointed out three possibilities behind this result i) investors fear that the forecasting company managed its earnings before going public; ii) investors fear that the forecasting company is an optimistic one; and iii) investors may have made their own analysis which made them conclude that forecasting firms disclose a forecast because they are close to their financial year end (based on prospectus information) rather than because they have favourable information (based on K & M, 1991 findings that forecasters do not have better news than non forecasters).

We do not find any evidence that disclosing a profit forecast reduces the ex ante uncertainty associated with the going public process. In other words, forecasters do not have lower underpricing than non forecasters. Though, consistent with Jog & McConomy, small forecasters have lower level of underpricing than small non forecasters. However, the results are not statistically significant. When splitting the sample to optimistic and conservative forecasters, and accurate and inaccurate forecasters, we find that inaccurate forecasters had to leave more money on the table than accurate forecasters. The difference is statistically significant. In addition, accurate (inaccurate) and conservative(optimistic) forecasters have, ceteris paribus, lower (higher) level of underpricing than non forecasters, though the differences are not statistically significant.

The third issue we investigate is the differences in the first year post issue performance between forecasters and non forecasters. Though we can not find any significant difference in the first year post issue performance between forecasters and non forecasters, optimistic forecasters tend to significantly underperform conservative forecasters and non forecasters. This underperformance is not because these firms had poor realized earnings but mainly because they are penalized by the market. Pay me now or pay me later. Interestingly, while investors may not be able to distinguish optimistic and conservative forecasters at the time of the issue, they can avoid investing in an IPO with an optimistic forecast compared to that predicted by a RW with a drift model, and to that predicted by a combination of a RW and a RW with a drift because such firms significantly underperform conservative forecasters and non forecasters in the first year after going public.

Since there is no direct payoff from voluntarily disclosing a forecast, it is still not clear why firms incur the cost associated with it. As a final step, we check the possibility that forecasters are firms near their financial year-end; we find a highly significant evidence that lends credence to this argument.

Bearing in mind that disclosing a forecast is not, in any term, beneficial to firms that voluntarily disclosed it (higher subscription, lower underpricing, better post issue performance) two areas

of future research are worth investigating, these are: does disclosing a forecast pay indirectly in terms of the number of analysts following and the accuracy of the forecast they provide? Do IPOs that disclose a forecast manage their earnings before going public that is why they did not outperform non forecasters?

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Table (1)

The sample distribution by year

Year of issue	Forecasters only	Forecasters matched by non forecasters
1992	2	2
1993	21	14
1994	39	38
1995	14	6
1996	30	40
1997	22	32
1998	6	12
1999	5	8
2000	6	6
2001	4	4
2002	2	4
Total	151	166(83 Forecasters and 83 non forecasters)

Table (2)

Summary of explanatory variables

Market	A dummy variable that takes a value of 1 if the company is listed in the main market and zero if it is listed in the AIM.
Forecast:	A dummy variable coded 1 if the company issued a forecast, and zero otherwise
LnRetain	The natural logarithm of retained equity which measures the percentage of shares retained by existing shareholders. Retained equity is measured as: (1-(number of shares issued / number of shares issued and fully paid))*100
LnMC	The size of the firm is measured as the natural logarithm of the market capitalization. The market capitalization is calculated as the product of the number of shares issued and fully paid and the offer price and it is adjusted for inflation. (Total assets and gross proceeds are also used as a robustness check, results were not different than the one obtained when using the market cap).
Lnage	The natural logarithm of the age of the company. The age is measured as the length of the operating history measured from the date of incorporation till the date of going public.
Growth:	Growth is measured, similar to How & Yeo (2000), as one minus the ratio of the net tangible assets per share divided by the offer price.
UND	A dummy that takes a value of one if the underwriter is a reputable one and zero otherwise. To rank the underwriters, following How & Yeo (2000), we used the percentage of the Pound value of the IPOs underwritten by a certain underwriter to the Pound value of IPOs in the sample. The most reputable underwriters are: UBS limited, Lazard brothers & Co limited, Schroder & Co Limited, Nat West, Barclays de Zoete Wedd Limited, Baring Brothers, Kleinwort Benson limited, Robert fleming, Cazenove & Co, Merryle Lynch, SBC Warburg, Morgan Stanley, Charterhouse Tilney, Beeson Gregory, and Numis securities Limited
Aud	A dummy variable coded one if the firm is audited by one of the big 8 auditors, and zero othorwise. Big 6 are defined as in Lee et al. (2002): Coopers & Lybrand, Peat Marwick, Price Waterhouse, Arthur Andersen, Ernst & Young, Touche Ross (they are only six after the merger of Arthur young, & Ernst and Whinney).
VC	A dummy that takes the value of one if the company is backed by a venture capitalist and zero otherwise. To define venture capitalist backed IPOs, using the prospectuses, we identified major shareholders who own more than 3 %, then we checked whether these major shareholders are members of the British Venture Capitalist Association (BVCA)
Goodnews	Defines the nature of the news: (Actual earnings before interest and taxation – earnings expected by a random walk model) / Absolute Actual. We replace the random walk model with a random walk with a drift and with a combination of a random walk and a random walk with a drift. The drift is equal to the average of the growth rate in the three years pre listing earnings.
MAIR	The market adjusted initial returns calculated as defined in the underpricing section.

Sdmc	Past profit variability measured as the standard deviation of the three years pre listing earnings and deflated by the market capitalization after adjusting it for inflation.
Leve	The leverage is measured as: total debt / total asset (total assets are adjusted for inflation).
Hotiss	A dummy coded 1 if the company went public in a hot issue year and zero otherwise. We define the year as a hot issue year if the number of IPOs in this year is higher than the average number of IPOs over the sample period.
MSent	Market sentiment is measured as the standard deviation of the daily returns of FTSE all shares index over 40 days before going public
Opt	Forecasters with negative forecast errors are coded with one (optimistic), and those with positive forecast errors are coded with zero(conservative). The forecast error is measured as (Actual- Forecast)/ ABS Forecast
Acc	Acc stands for the accuracy of the forecast. The accuracy is measured by the absolute forecast error of each forecaster deflated by the issue price
Following losses	A dummy that takes the value of one if the company made a loss in its three years pre listing earnings, zero otherwise.
Poor performers	A dummy coded 1 if the actual profit of the company is less than its past year earnings by more than 10%, zero otherwise
Opt RW	Forecasters with optimistic forecasts compared to forecasts expected by a random walk model are coded one, and zero otherwise.
Opt RW with a drift	Forecasters with optimistic forecasts compared to forecasts expected by a random walk model with a drift are coded one, and zero otherwise.
Opt average	Forecasters with optimistic forecasts compared to forecasts expected by a combination model of a random walk model and a random walk model with a drift are coded one, and zero otherwise.

Table (3)

Univariate tests of differences in firms' characteristics between forecasters and non forecasters

AGE:

	N	Mean	Median	Minimum	Maximum	Std.Deviation	Parametric test	Non parametric
Forecasters	83	13.61	7.62	0.40	101.30	17.38	T=1.05	Z=0.88
Nonforecasters	83	11.82	6.66	0.22	77.35	14.97	(0.29)	(0.38)
RETAIND								
Forecasters	83	59.67	59.98	0.00	89.59	17.34	T=0.22	Z=0.27
Nonforecasters	82	60.29	62.13	0.00	95.89	18.98	(0.82)	(0.79)
LEVERAGE								
Forecasters	81	0.81	0.72	0.06	4.69	0.60	T=0.40	Z=0.45
Nonforecasters	76	0.77	0.74	0.17	2.70	0.37	(0.69)	(0.66)
Growth								
Forecasters	78	0.83	0.94	-0.83	1.00	0.29	T=2.13**	Z=1.42
Nonforecasters	76	0.71	0.92	-1.03	1.00	.44	(0.03)	(0.15)
Past profit variability : measured as Sd def Mc								
Forecasters	71	0.08	0.06	0.007	0.53	0.08	T=1.79*	Z=1.84*
Nonforecasters	71	0.12	0.08	0.002	0.67	0.12	(0.07)	(0.06)

P values are between brackets.

**, * significant at 5%, and 10% respectively.

Table (4)

The distribution of forecasters and non forecasters in terms of: Auditor quality, underwriter reputation, venture capitalist baking, and loss before the IPO

Auditor quality

	non forecaster	forecaster	Total
Low quality	50	50	100
High quality	33	33	66
Total	83	83	166

Chi Square: 0.000(1)

Underwriter reputation

not highly reputable	55	53	108
highly reputable	28	30	58
Total	83	83	166

Chi Square: 0.106(0.745)

Venture capitalist backing

Non VC backed	47	48	95
VC backed	36	35	71
Total	83	83	166

Chi Square: 0.025(0.875)

Following losses

following profit	62	70	132
following loss	14	8	22
Total	76	78	154

Chi Square: 2.096(0.148)

P values are reported between brackets.

Table 5

The nature of the news of forecasters and non forecasters

Panel A: Good news/ bad news: using dummy variables analysis.

Good news based on RW as a proxy for market expectations

	non forecaster	forecaster	Total
good news	52	59	111
bad news	14	14	28
Total	66	73	139

Chi Square:0.089(0.765)

Good news based on RW with a drift as a proxy for market expectations

good news	36	36	72
bad news	27	33	60
Total	63	69	132

Chi- Square:0.328(0.567)

Good news based on the average of RW and RW with a drift as a proxy for market expectations

good	36	36	72
bad	26	33	59
Total	62	69	131

Chi Square:0.458(0.499)

P values are between brackets.

**, * significant at 5%, and 10% respectively.

Panel B: Good news/ bad news, using means and medians analysis.

	Mean	Median	Std.Deviation	Parametric test	Non parametric
Good news using RW					
Forecasters	0.39	0.32	1.12	T=0.66	Z=0.38
Nonforecasters	0.25	0.27	1.01	(0.51)	(0.70)
Good news using RW with a drift					
Forecasters	-1.83	-0.11	11.01	T=0.88	Z=0.03
Nonforecasters	-0.55	-0.19	2.64	(0.38)	(0.97)
Good news using a combination of RW & RW with a drift					
Forecasters	-0.73	0.11	5.62	T=0.74	Z=0.11
Nonforecasters	-0.17	0.04	1.55	(0.46)	(0.92)

Table 6

Logistic regression

	1	2	3	4
Und	0.101	0.123	0.099	0,21
	(0.783)	(0.743)	(0.792)	(0,59)
Aud	0.161	0.138	0.137	0,26
	(0.654)	(0.702)	(0.706)	(0,50)
VC	-0.423	-0.499	-0.517	-0,35
	(0.250)	(0.199)	(0.186)	(0,39)
leve			0.198	0,05
			(0.698)	(0,92)
goodnews		-0.503	-0.505	-0,03
		(0.166)	(0.163)	(0,52)
lnretain			-0.004	-0,60
			(0.740)	(0,29)
lnag		0.001	000	0,27
		(0.947)	(0.970)	(0,24)
Constant	0.046	0.298	0.339	1,34
	(0.890)	(0.448)	(0.692)	(0,60)
growth				1,21
				(0,03) **
sdmc				-4,96
				(0,03) **
Number of observations	170	133	133	126
LR chi^2=	1.460	3.403	3.689	15.992
Prob > chi2 =	(0.692)	(0.638)	(0.815)	(0.069) *
Pseudo R^2	1.11%	2.6%	2.8%	8.68%
Log likelihood =	-86.755	-85.78	-85.64	-79.527
Restricted Log likelihood	-87.082	-87.082	-87.082	-87.082
Log likelihood				

difference test (Block Chi Square)	1.460	1.943	0.287	12.233
P Value of Block Chi^2	(0.692)	(0.378)	(0.866)	(0.069) *
Percentage of correct predictions	58%	60.3%	58.8%	67.2%
Percentage of correct predications by Naïve model	53.4%	53.4%	53.4%	53.4%

Und is a dummy that takes the value of one if the company is underwritten by a highly reputable underwriter, and zero otherwise. Aud is a dummy coded one if the firm is audited by a high quality auditor, zero otherwise. VC is a dummy that takes the value of one if the firm is backed by a venture capitalist and zero otherwise. Leve stands for the leverage measured as total debt/total assets. Growth measures the growth prospect of the company and calculated as one minus the ratio of the net tangible assets per share divided by the offer price. Sdmc stands for the past profit variability measured as the standard deviation of earnings deflated by the market capitalization. Goodnews stands for the nature of the news that companies have, where the proxy for the market expectation is an average of the RW and a RW with a drift. Lnretain is the natural logarithm of retained equity. Ln age is the natural logarithm of the age of the company.

Table 7

Univariate analysis of the subscription level and underpricing level

Level of subscription

	N	Mean	Median	Minimum	Maximum	Std. Deviation	Parametric test	Non parametric
Forecasters	18	4.89	3.00	0.15	18	4.81	T=1.48	Z=1.09
Nonforecasters	23	2.81	2.15	0.73	12.90	2.96	(0.15)	(0.27)
Underpricing (all firms)								
Forecasters	79	12.36	7.44	-9.79	100	16.85	T=0.49	Z=0.48
Nonforecasters	78	11.08	6.25	-15.61	100	16.24	(0.62)	(0.63)
Underpricing: small firms only								
Forecasters	45	11.22	7.42	-6.41	47.70	12.58	T=0.37	Z=0.06
Nonforecasters	42	12.43	8.85	-15.37	100	18.28	(0.72)	(0.95)
Underpricing: big firms only								
Forecasters	34	14.11	7.44	-9.79	100	21.32	T=1.02	Z=0.67
Nonforecasters	36	9.50	5.16	-15.61	47.16	13.65	(0.31)	(0.50)
Underpricing: small forecasters versus big forecasters								
Big	34	14.11	8.10	-6.41	100	21.57	T=0.75	Z=0.32
small	45	11.19	7.22	-9.79	47.70	12.72	(0.45)	(0.75)

Underpricing: Small non forecasters versus big non forecasters

Big	36	9.65	5.18	-15.61	47.16	13.82	T=0.81	Z=0.46
small	42	12.66	8.92	-15.37	100	18.37	(0.42)	(0.64)

Underpricing: Small versus big all firms:

Big	70	11.82	7.27	-15.61	100	18.01	T=0.03	Z=0.24
small	87	11.90	7.62	-15.37	100	15.63	(0.97)	(0.80)

Underpricing: Optimistic versus Conservative forecasts

OPT	9	24.71	14.58	-4.57	100	32.41	T=1.20	Z=0.99
Conserv	60	11.55	7.11	-9.79	69.08	14.34	(0.26)	(0.32)

Underpricing: Accurate versus Inaccurate forecasts

Inaccurate	36	17.49	6.48	-4.57	34.02	17.89	T=2.12**	Z=0.79
Accurate	33	8.75	8.02	-9.79	100	9.18	(0.04)	(0.43)

P values are between brackets.

**, * significant at 5%, and 10% respectively

Table (8)

Multivariate analysis of the underpricing level (full sample)

	1	2	3	5	6	7
Const	15.49	6.99	-0.23	-0.18	-0.64	-6.14
	(1.49)	(0.59)	(-0.018)	(-0.02)	(-0.04)	(-0.39)
Market	1.02	4.14	5.35	5.30	4.55	6.15
	(0.28)	(0.93)	(1.11)	(1.210)	(1.21)	(1.37)
Forecast	1.97	2.67	2.18	2.18	2.22	2.33
	(0.59)	(0.76)	(0.60)	(0.610)	(0.61)	(0.63)
hotiss	9.70	9.64	10.34	10.32	10.32	11.96
	(2.51)**	(2.57) **	(2.53)**	(2.61)**	(2.61)**	(2.33)**
LNRETAIN	1.62	1.85	1.88	1.88	1.83	1.97
	(2.92)**	(3.03) **	(3.06)**	(3.01) **	(3.09)**	(2.83)**
LNMC	-0.68	-0.071	-0.03	-0.02	-0.02	-0.09
	(-1.54)	(-0.15)	(-0.05)	(-0.04)	(-0.03)	(-0.21)
Ln AGE	-1.93	-2.11	-2.14	-2.14	-1.90	-1.86
	(-1.55)	(-1.72)*	(-1.54)	(-1.54)	(-1.24)	(-1.21)
UND		-8.62	-9.05	-9.05	-9.22	-9.63
		(-1.84)*	(-1.84)*	(-1.83) *	(-1.80)*	(-1.79)*
Growth			7.04	7.05	6.89	6.70
			(2.57)**	(2.55)**	(2.52)**	(2.42)**
AUD				0.21	0.19	0.26
				(0.06)	(0.06)	(0.08)
VC					1.96	2.06

					(0.53)	(0.55)
Msent						6.88
						(1.02)
R^2	7.94%	10.27%	12.12%	12.14%	12.71%	12.85%
R^2Adjustd	3.57%	5.72%	6.37%	6.48%	5.16%	5.72%
F	1.93	2.36	2.32	2.05	1.86	1.77
	(0.08)	(0.03)	(0.02)	(0.04)	(0.05)	(0.06)
N	156	156	145	145	145	145

The dependent variable is the market adjusted initial return. Market is a dummy coded one if the company is listed in the main market and zero otherwise. Foreacst is a dummy equal to one if the company is a forecaster and zero otherwise. Hotiss is a dummy stands for IPOs that went public in a hot issue year. Lnretain is the natural logarithm of retained equity. Lnmc is the natural logarithm of market capitalization. Ln age is the natural logarithm of the age of the company. Msent stands for the market sentiment. Und is a dummy that takes the value of one if the company is underwritten by a reputable underwriter, and zero otherwise. Aud is a dummy coded one if the firm is audited by a high quality auditor, zero otherwise. VC is a dummy that takes the value of one if the firm is backed by a venture capitalist and zero otherwise. Leve stands for the leverage measured as total debt/total assets. Growth measures the growth prospect of the company and is calculated as one minus the ratio of the net tangible assets per share divided by the offer price

T statistics are reported between brackets.

**, * significant at 5%, and 10% respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (9)

Multivariate analysis of the underpricing level (forecasters only):

	1	2	3	5	6	7
Const	-2.20	22.76	-65.36	-52.72	-49.01	-50.64
	(-0.28)	(0.85)	(-1.09)	(-1.00)	(-0.97)	(-1.01)
Market	-0.56	2.55	6.26	4.09	0.33	5.11
	(-0.10)	(0.41)	(0.87)	(0.680)	(0.06)	(0.73)
hotiss	12.52	12.88	15.84	16.45	16.48	20.40
	(2.20)**	(2.33)**	(2.57)**	(2.57)**	(2.59)**	(2.55)**
LNRETAIN	1.56	1.63	2.68	2.47	2.23	2.41
	(2.62)**	(3.08)**	(2.61)**	(2.82)**	(2.65)**	(2.77)**
OPT	17.45	17.15	11.41	12.36	12.59	11.85
	(0.99)	(0.985)	(0.78)	(0.84)	(0.88)	(0.87)
ACC	6.38	6.96	10.42	8.77	6.43	7.12
	(1.64)	(1.76)*	(2.24)**	(2.11)**	(1.63)*	(1.74) *
LNMC		1.63	3.04	2.18	1.67	0.91
		(0.91)	(0.88)	(0.72)	(0.58)	(0.34)
Ln AGE		-0.77	-0.57	-0.17	-2.25	-1.06
		(-0.34)	(-0.26)	(- 0.07)	(-0.76)	(-0.38)
UND			-19.78	-19.72	-20.17	-20.99
			(-1.78)*	(-1.83)*	(-1.89)*	(-1.95)‡‡
Growth			17.08	16.61	17.72	15.43

			(2.14)**	(2.16)**	(2.15)**	(1.96)‡‡
AUD				6.88	7.89	8.92
				(1.08)	(1.18)	(1.27)
VC					9.53	9.028
					(1.64)	(1.63)
Msent						16.64
						(1.49)
R^2	17.18%	17.80%	27.69%	28.95%	31.44%	33.67%
R^2Adjustd	10.61%	8.367%	15.86%	15.80%	17.21%	18.37%
F	2.61	1.89	2.34	2.20	2.21	2.20
	(0.03)	(0.09)	(0.02)	(0.03)	(0.03)	(0.02)
N	69	69	65	65	65	65

Opt is a dummy coded one if the company issued an optimistic forecast, zero otherwise. Acc stands for the accuracy of the forecast where inaccurate forecast are coded with one and accurate are coded with zero.

T statistics are reported between brackets.

(‡‡),**,(‡),* (marginally) significant at 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table(10)

Multivariate analysis of the underpricing level (non forecasters compared to: accurate forecasters, inaccurate forecasters, conservative forecasters, and optimistic forecasters)

	Accurate Forecasters	Inaccurate Forecasters	Conservative Forecasters	Optimistic Forecasters
Const	17.21	-8.91	8.36	-1.30
	(1.79)	(-0.54)	(0.90)	(-0.07)
Market	3.78	11.47	1.87	13.58
	(1.27)	(1.71)	(0.67)	(1.8)
Hotiss	5.78	13.56	7.57	12.26
	(1.56)	(2.22)**	(2.17)**	(1.74)*
LNRETAIN	1.43	2.20	1.38	2.17
	(2.48)**	(2.84)**	(2.95)**	(2.01)**
Forecast	-4.21	7.52	-0.44	10.56
	(-1.59)	(1.42)	(-0.15)	(1.02)
LNMC	-0.37	-0.03	-0.11	-0.32
	(-1.19)	(-0.06)	(-0.28)	(-0.79)
Ln Age	-3.12	-3.01	-2.42	-4.08
	(-1.63)	(-1.60)	(-1.56)	(-1.56)
UND	-3.47	-12.86	-4.67	-11.64
	(-1.42)	(-1.80)*	(-1.93)**	(-1.56)
Growth	4.52	6.88	5.23	6.88
	(1.91)‡‡	(2.53)**	(2.29)**	(2.35)**
AUD	-4.90	-0.20	-2.16	-1.06
	(-2.00)**	(-0.06)	(-0.89)	(-0.25)
VC	-3.87	1.03	-0.79	-1.33
	(-1.44)	(0.24)	(-0.28)	(-0.28)

Msent	1.88	8.22	0.55	7.33
	(0.33)	(1.14)	(0.001)	(0.86)
R^2	13.57%	16.25%	11.61%	15.01%
R^2Adjustd	3.87%	7.30%	3.77%	2.87%
F	1.40	1.82	1.48	1.24
	(0.18)	(0.06)	(0.14)	(0.28)
N	110	115	136	89

T statistics are reported between brackets.

(‡‡), **, (‡) , * (marginally) significant at 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (11)

Univariate tests of first year post issue performance

Panel A: One year post issue performance: Forecasters and non forecasters:

Forecasters versus non forecasters:

	N	Mean%	Median%	STD Error	
Forecasters	77	-9.38	-6.93	4.87	T=1.13 (0.26)
Non forecasters	80	-0.73	-11.44	5.84	Z=0.29 (0.77)
Small forecasters versus small non forecasters:					
Forecasters	44	-7.65	-6.08	6,32	T=1.24 (0.22)
Non forecasters	44	4.78	-7.09	7.81	Z=0.72(0.47)
BIG forecasters versus BIG non forecasters:					
Forecasters	33	-11.69	-8.95	7,72	T=0.36 (0.72)
Non forecasters	36	-7.48	-16.13	8,77	Z=0.32 (0.75)
BIG non forecasters versus small non forecasters:					
Big	36	-7.48	-16.13	8.77	T=1.05 (0.30)
Small	44	4.78	-7.09	7.81	Z=1.26 (0.21)

P values are reported between brackets.

**, * significant at 5%, and 10% level of significance respectively.

Panel B: One year post issue performance (forecasters only)

Optimistic versus conservative based on actual (ex post information)

	N	Mean%	Median%	STD Error	
Optimistic	8	-39.07	-16.32	13.56	T=1.98**(0.05)
Conservative	58	-6,43	-3,53	5,81	Z= 2.09** (0,03)

Optimistic Versus conservative based on RW (ex ante Information)

Optimistic	50	-12,63	-9,22	6,34	T= 0.36 (0,72)
Conservative	15	-7.77	-9,72	11.93	Z=0.11(0.91)
Accurate versus inaccurate					
Inaccurate	33	-11,15	-9,72	7,19	T= 0.138 (0.89)
Accurate	33	-9,62	-1,19	8.42	Z=0.34 (0,73)
BIG forecasters versus small forecasters					
Big	33	-11.69	-8.96	7.72	T=0.41 (0.68)
Small	44	-7.65	-6.08	6.32	Z=0.50 (0.61)

P values are reported between brackets.

**, * significant at 5%, and 10% level of significance respectively.

Table (12)

Multivariate analysis of the first year post issue performance (full sample)

	1	2	3	4	5	6
Const	8.92	10.38	11.14	10.97	10.87	10.33
	(3.11)**	(4.67)***	(4.73)***	(4.65) ***	(4.56) ***	(3.870)***
Market	1.19	0.61	0.74	0.93	0.83	0.90
	(1.27)	(0.64)	(0.70)	(0.85)	(0.68)	(0.74)
forecast	-0.76	-0.89	-1.15	-1.15	-1.14	-1.13
	(-1.01)	(-1.21)	(-1.44)	(-1.43)	(-1.42)	(-1.41)
MAIR	0.03	0.03	0.04	0.04	0.04	0.03
	(2.07)**	(2.54)**	(2.67)**	(2.79)**	(2.72)**	(2.64)**
LNMC	-0.62	-0.74	-0.77	-0.75	-0.74	-0.75
	(-3.47)***	(-5.36) ***	(-6.05)***	(-5.66)***	(-5.55)***	(-5.52)***
Ln AGE	-0.20	-0.17	-0.24	-0.25	-0.21	-0.19
	(-0.58)	(-0.49)	(-0.53)	(-0.55)	(-0.43)	(-0.40)
UND		1.73	1.68	1.70	1.66	1.60
		(2.06) * *	(1.80)*	(1.88) *	(1.89)*	(1.80)*
Growth			0.01	-0.03	-0.05	-0.05
			(0.019)	(-0.05)	(-0.07)	(-0.07)
AUD				-0.88	-0.88	-0.86
				(-0.99)	(-0.99)	(-0.98)
VC					0.30	0.26
					(0.34)	(0.28)
LNRETAIN						0.14
						(0.53)
R^2	8.50%	10.79%	12.13%	12.80%	12.87%	13.07%
R^2Adjustd	5.38%	7.13%	7.5%	7.52%	6.89%	6.40%
F	2.73	2.94	2.62	2.42	2.15	1.96
	(0.02)	(0.01)	(0.01)	(0.01)	(0.03)	(0.04)
N	153	153	141	141	141	141

T statistics are reported between brackets.

***, **, * significant at 1%, 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (13)

Multivariate analysis of the first year post issue performance (forecasters only)

	1	2	3	4	5	6
Const	−1.62	−1.31	−1.69	−1.74	−1.69	7.05
	(−1.09)	(−0.92)	(−0.80)	(−0.84)	(−0.82)	(0.73)
Market	0.97	0.01	0.01	0.09	−0.10	0.47
	(0.72)	(0.01)	(0.01)	(0.06)	(0.95)	(0.26)
MAIR	0.02	0.03	0.03	0.04	0.03	0.04
	(1.34)	(1.86)*	(1.99)‡‡	(1.95)‡‡	(1.74) *	(1.78) *
Opt	−4.86	−4.77	−4.70	−4.74	−4.64	−4.53
	(−2.25) **	(−2.17)**	(−2.12)**	(−2.10)**	(−1.98) ‡‡	(−1.96)**
Acc	−0.33	−0.11	−0.07	−0.03	−0.12	−0.13
	(−0.27)	(−0.091)	(−0.06)	(−0.02)	(−0.08)	(−0.09)
LNRETAIN		−0.27	−0.28	−0.27	−0.29	−0.32
		(−2.12)**	(−2.07)**	(−1.95)**	(1.77)*	(−1.88)*
UND		2.42	2.62	2.66	2.59	3.30
		(2.01)**	(1.97)‡‡	(1.97)‡‡	(1.93)‡‡	(2.02)**
Growth			0.40	0.41	0.42	−0.21
			(0.27)	(0.28)	(0.31)	(−0.14)
AUD				−0.27	−0.25	−0.91
				(−0.22)	(−0.20)	(−0.06)
VC					0.53	0.42
					(0.42)	(0.28)
LNMC						−0.53
						(−0.87)
Ln AGE						−0.16
						(−0.19)
R^2	9%	14.81%	15.50%	15.56%	15.80%	16.93%
R^2Adjusted	3.55%	6.15%	4.55%	2.82%	1.227%	−1.33%
F	1.60	1.71	1.42	1.22	1.08	0.93
	(0.18)	(0.13)	(0.22)	(0.30)	(0.39)	(0.52)
N	66	66	62	62	62	62

(‡‡), **, (‡) , * (marginally) significant at 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (14)

Multivariate analysis of first year post issue performance (non forecasters versus: accurate forecasters, inaccurate forecasters, conservative forecasters, and optimistic forecasters)

	accurate	inaccurate	conservative	optimistic
Const	8.05	11.45	10.08	9.39
	(2.62) **	(5.17) ***	(4.06) ***	(3.95) ***
Market	0.05	1.88	0.62	1.33
	(0.04)	(1.34)	(0.50)	(0.75)
Forecast	−0.55	−1.30	−0.62	−3.12
	(−0.56)	(−1.41)	(−0.78)	(−2.137) **
MAIR	0.06	0.04	0.05	0.01
	(2.64)**	(2.88)**	(2.80) **	(3.29) ***
LNMC	−0.70	−0.79	−0.75	−0.76
	(−4.16)***	(−8.25) ***	(−5.87)***	(−7.35) ***
Ln AGE	−0.10	−0.33	−0.16	−0.19

	(-0.17)	(-0.65)	(-0.34)	(-0.29)
UND	1.67	0.34	1.64	0.23
	(1.594)	(0.36)	(1.81) *	(0.19)
Growth	0.20	-0.40	0.12	-0.41
	(0.25)	(-0.49)	(0.17)	(-0.44)
AUD	-0.43	-1.42	-0.78	-1.21
	(-0.41)	(-1.47)	(-0.90)	(-1.01)
VC	0.70	-0.01	0.38	0.17
	(0.69)	(-0.002)	(0.42)	(0.14)
LNRETAIN	0.42	0.25	0.14	0.64
	(1.40)	(0.97)	(0.55)	(3.75) ***
R^2	16.37%	20.47%	15.07%	25.20%
R^2Adjusted	7.84%	12.52%	8.12%	15.35%
F	1.92	2.57	2.17	2.56
	(0.05)	(0.008)	(0.02)	(0.01)
N	109	111	133	87

***, **, * significant at 1%, 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (15)

Panel A: univariate analysis of first year post issue performance (Poor performers forecasters versus poor performers non forecasters)

	N	Mean%	Median%	STD Error	
Forecasters	11	-23,06	-13,38	13,55	T=0.82 (0.42)
Non forecasters	11	-35,94	-32,85	7,88	Z=0.62 (0.53)

Panel B: multivariate analysis of first year post issue performance (Poor performers forecasters versus poor performers non forecasters)

	Poor fore(RW)	Poor fore(RW with a drift)	Poor Fore(average RW & RW with a drift)
Const	13.52	12.67	12.70
	(5.57) ***	(4.51) ***	(4.01) ***
Market	-1.52	1.72	1.69
	(-0.69)	(1.13)	(0.95)
forecast	-0.36	-1.11	-0.48
	(-0.24)	(-0.91)	(-0.41)
MAIR	0.05	0.04	0.05
	(3.15) **	(2.65) **	(2.80)
LNMC	-0.93	-0.89	-0.88
	(-7.74) ***	(-8.34) ***	(-7.63) ***
Ln AGE	-0.97	-0.58	-0.66
	(-0.99)	(-0.69)	(-0.65)
UND	4.03	1.51	2.03

	(2.63) **	(1.29)	(1.46)
Growth	-3.15	-1.01	-1.96
	(-3.16) **	(-0.77)	(-1.41)
AUD	-2.79	-1.23	-1.58
	(-2.27) **	(-1.02)	(-1.12)
VC	4.91	0.81	1.35
	(2.255) **	(0.56)	(0.71)
LNRETAIN	0.36	0.37	0.27
	(2.38) **	(1.18)	(0.818)
R^2	63.79%	22.36%	25.97%
R^2Adjusted	49.86%	11.87%	12.76%
F	4.58	2.13	1.97
	(0.00)	(0.03)	(0.05)
N	27	85	67

T statistics are reported between brackets.

***, **, * significant at 1%, 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (16)

Multivariate analysis of first year post issue performance (non forecasters compared to optimistic forecasters using time series models)

	Optimistic(RW with a drift)	optimistic (RW)	Optimistic (average RW & RW with a drift)
Const	9.69	9.26	9.66
	(3.88) ***	(2.88) **	(3.84) ***
Market	0.931	0.70	0.95
	(0.67)	(0.56)	(0.68)
Forecast	-1.75	-1.11	-1.77
	(-1.94) **	(-1.26)	(-1.94) **
MAIR	0.06	0.05	0.06
	(2.57) **	(2.06) **	(2.58) **
LNMC	-0.72	-0.66	-0.72
	(-5.6) ***	(-3.8) ***	(-5.64) ***
Ln AGE	0.03	-0.16	0.03
	(0.05)	(-0.312)	(0.06)
UND	0.44	1.02	0.45
	(0.44)	(1.08)	(0.45)
Growth	-0.44	-0.21	-0.44
	(-0.51)	(-0.24)	(-0.52)
AUD	-1.26	-1.15	-1.26
	(-1.32)	(-1.25)	(-1.32)
VC	0.84	0.37	0.81
	(0.91)	(0.39)	(0.87)
LNRETAIN	0.17	0.15	0.17

	(0.64)	(0.57)	(0.63)
R^2	20.23%	13.16%	20.25%
R^2Adjustd	12.18%	05.6%	12.12%
F	2.51	1.74	2.49
	(0.01)	(0.08)	(0.01)
N	110	126	109

T statistics are reported between brackets.

***, **, * significant at 1%, 5%, and 10% level of significance respectively. All regressions are based on White's Heteroscedasticity consistent covariance matrix.

Table (17)

The time difference between the date of issuing the prospectus and the financial year end

	N	Mean	Median	Minimum	Maximum	Std. Deviation	
non forecaster	80	232,68	252,00	49.00	335,00	75,20	T=16.84** (0.00)
forecaster	83	58,57	44,00	2	235,00	57,37	Z=9.85** (0.00)

P values are reported between brackets.

***, ** significant at 1%, 5%, and 10% level of significance respectively.