IPO Underpricing Analysis: Underwriter Reputation as A Moderating Variable

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ABSTRACT

Research Aims: This study investigates the impact of company qualities and financial performance on underpricing (initial return) in firms undergoing initial public offerings from 2020 to 2023, with underwriter reputation moderating in this relationship.

Design/methodology/approach: The study employed purposive sampling as the sampling strategy. The analysis technique used in this research is to use SEM (Structural Equation Modelling) analysis.

Research Findings: The study's findings suggest that profitability and finance leverage have a detrimental impact on underpricing. Company Size and Company Age have no impact on underpricing. Underwriter reputation can influence the impact of Return On Assets on Underpricing, but it does not affect the impact of Age, Size, and Equity Ratio of the Company on underpricing. Firm size, age, return on assets, debt-to-equity ratio, and underwriter reputation are the variables that lead to under-pricing.

Theoretical Contribution/Originality: The implications of this study relate to the initial market offering activities of companies preparing to go public and other stakeholders who are interested in investigating the factors that influence initial returns. These stakeholders include potential investors considering an initial public offering, companies planning to go public, and researchers conducting further studies on this subject. This study has limitations because it only uses four independent variables: Company Size, Company Age, Return On Assets (ROA), and Debt to Equity Ratio (DER), as well as one moderating variable, namely Underwriter Reputation on the level of stock underpricing. This does not include several aspects, including Return on Equity (ROE), Current Ratio, Earnings Per Share (EPS), Price-Earnings Ratio (PER), Auditor Reputation, Inflation, and Proceeds. Future researchers can explore a wider sample, various types of companies, and more moderating variables.

Keywords: Firm Size, Firm Age, Return On Assets, Debt To Equity Ratio, underpricing, Underwriter Reputation.

Introduction

Business development in Indonesia is progressing rapidly every year. In Indonesia, the emergence of various sorts of firms during globalisation has increased competition. Therefore, with business growth and competition among entrepreneurs, every company needs to continue improving its strategy and performance to keep its
existence in the public eye. The company aims to develop its business and earn as much profit as possible. Regarding the goal of the business, today's companies are still looking for more than moving on a small scale but on a large scale. For that reason, the company's additional funding needs are a problem that will remain in all its operational activities.

Every company must be eager to do business expansion. To do that, the company needs much capital. The need for capital cannot be met by relying solely on funds from the internal part of the company. Still, the company must be able to find a source of capital from the external part of a company, i.e., in the capital market. One way to get extra funds to develop business for the company is by going public. Stepping on the Indonesian stock exchange could be a doorway for companies so that people can buy company shares. A capital market is a means that can be used by an issuer or company that needs funds to develop a business (Abi, 2016). The funds are offered in the capital market through several corporate corporate actions, including the initial public offering (IPO).

![Graph showing data of companies doing an IPO on the Indonesian Stock Exchange in 2020-2023](Source: IDX.co.id, 2024)

**Figure 1. Data of Companies doing an IPO on the Indonesian Stock Exchange in 2020-2023**

See Figure 1. There has been an increase in the Company's IPOs from 2020 to 2023 and a significant increase in 2023. The expansion of a company and the funding of its numerous expenses, including operations, debt repayment, and research and development, can be facilitated by a First Public Offering, an alternative method of raising capital (Badru, 2021). Companies that do go public can earn profits but also get consequences. Therefore, public companies must comply with the principle of openness. At the time of an IPO, the company must provide information that investors can use for indicators of investment decision-making. The investor does this to determine if the company to be invested has good prospects in its operations so that the information can be found in the prospectus.
In the primary market, the underwriter sets the price of a stock by deciding the share price for companies conducting an IPO (Pranyoto et al., 2019). As a result, this generic offer will materialise, also known as under-pricing, overpricing, or the actual price. Under certain circumstances, underwriters are encouraged to sell the shares at a discounted price to reduce the risk. The under-pricing of a stock happens when its secondary market price exceeds its initial public offering (IPO) price on the first day.

Source: IDX.co.id, 2024

Figure 2. Percentage of Underpricing of Shares that IPO on the Indonesia Stock Exchange in 2020 – 2023

From the picture it can be seen in the last few years, the Underpricing phenomenon has been relatively high. Underpricing is not advantageous for public companies since it raises suboptimal money. Overpricing will negatively impact investors by reducing their potential initial return. Earnings from the spread between the primary market price of a share and its secondary market sale price are known as the initial return. Issuers may face challenges in achieving future improvements in stock price due to underpricing as well.

Underpricing in initial public offerings (IPOs) has been the subject of research into the effects of business size, company age, return on assets (ROA), debt-to-equity ratio (DER), and underwriter reputation. Nevertheless, the results remain inconsistent. You can see the mismatch in the research findings in the table and in the Research Gap description that follows:
Moving from previous research results on factors that influence underpricing still yields differential findings and inconsistencies, motivating researchers to research again to obtain empirical evidence that can benefit stakeholders. This research will examine two types of firm factors: financial and non-financial. Two critical metrics in corporate finance are ROA and debt-to-equity ratios. Also, non-financial factors for a corporation include the underwriter's reputation, the company's age, and the size of the enterprise. Although the results of the different research cited above led to the selection of these variables for re-examination, discrepancies persist. Given this, it is clear that we need to go deeper into what caused the prime stock bidding underpricing rate.

**Literature Review and Hypothesis Development**

**Asymmetry theory**

Our attention now turns to examining the potential impact of the underpricing phenomenon on IPO prices. Higher levels of information asymmetry are associated with higher levels of IPO underpricing (Lu & Bren, 2024). They identify two different forms of information asymmetry: insider-outsider and outsider-insider. Insiders refer to managers and shareholders within the firm, while outsiders refer to external investors. Their empirical findings suggest that both types of information asymmetry contribute to increased IPO underpricing. Their findings could be due to a variety of things, including adverse selection, risk management, and herding behavior, which will be discussed more in this study. Katti & Phani (2016) also indicated that information asymmetry is the main reason for IPO underpricing. Overall, information asymmetry creates uncertainty and increases investment risk, which may reduce investors' motivation to pay higher investment costs.
Initial Public Offering

According to Wikipedia, an initial public offering (IPO) or stock market launch, is the first sale of stock by a company to the public. It can be used by either small or large companies to raise expansion capital and become publicly traded enterprises. Many companies that undertake an IPO also request the assistance of an investment banking firm acting in the capacity of an underwriter to help them correctly assess the value of their shares, that is, the share price. According to Presiden et al. (2019) Initial Public Offering (IPO), better known as go public, are the activities of the sale of initial shares by a company to the public in the capital market.

Underpricing (Initial Return)

Underpricing is the occurrence of shares at the IPO having a lower value than the share price in the secondary market, while the opposite situation is called overpricing (Apriliani et al., 2021). This indicates that the stock price at the time of the initial bid will be lower than the share price in the secondary market. Underpricing occurs when the stock's value at the end of the first day on the secondary market is much higher than the offer price during the initial public offering (IPO). The first return is the difference in prices. Issuers and underwriters mutually agree on the stock price before the public offering. As stated by Arman (2012). One side believes that the issuer, who needs the money, should demand a high price for the main stock, and the other side believes that the underwriter, who is reducing its risk, should want a low price.

Company Size To Underpricing

In 2018, Mayasari et al. When a business decides to go public, the organisation's size significantly draws in investors. Large companies with high assets have better corporate conditions because they have better control over market conditions; information about large companies with higher assets is more accessible to obtain and is not vulnerable to economic fluctuations, thus able to cope with economic competition. Therefore, investors could judge this as a bad signal and lead to underpricing. Mayasari et al. (2018) report that the findings agree with Hapsari & Mahtud (2012), who found that underpricing is affected by a company's size. In contrast to the findings of Purbarangga & Yuyetta (2013), which found no statistically significant relationship between company size and underpricing, this analysis finds a correlation between the two.

H1: Stock Underpricing is Significantly Affected by Company Size.

Company Age to Underpricing

The longevity of the issuing company and the public's ability to absorb its information are indicated by age. Companies with a younger year of incorporation will be riskier compared to older companies established in the past few decades in
the stock market. This is due to the lack of historical financial information for analysts to look into the company and determine the financial health of the company. Ramadana (2018) all found that underpricing is affected by a company's age. The level of underpricing is not statistically affected by the company's age, contrary to Wei & Marsidi (2019).

H2: Stock Underpricing is Significantly Affected by Company Age.

**Return On Assets (ROA) to Underpricing**

The percentage of a company's earnings that is returned on its assets is called return on assets (ROA). One way to evaluate a business's profitability is to examine its return on assets or ROA. Suppose the return on assets (ROA) is good. In that case, investors will see the company in a better light and be willing to pay a higher price for its primary shares, which causes the company's undervaluation to decrease. The study's results, in line with those of Prastica (2012), indicate that underpricing positively correlates with ROA. As ROA increases, underpricing becomes more prevalent. Contrary to what Wijayanto (2010) and Putra & Damayanthi (2013) found, this analysis shows that ROA does not significantly affect underpricing.

H3: The Underpricing is Significantly Influenced by the Return On Assets.

**Debt to Equity Ratio (DER) to Underpricing**

Improving the company's financial performance is the goal of financial debt management. Expanding the firm will be challenging if the company is solely dependent on capital or equity. More capital will be needed for this. Debt had a crucial influence at that time. One measure of leverage is the debt-to-equity ratio, or DER. The debt-to-equity ratio in a venture capital organisation increases as the DER value rises. In 2015, Kasmir made this bold statement. The research by Wahyusari (2013) indicated that the Debt to Equity Ratio (DER) positively affected underpricing. However, the research by (Lestari & Sulamisiani, 2017) indicated that the DER did not significantly affect underpricing.

H4: The Underpricing is Significantly Influenced by the Debt to Equity Ratio.

**Underwriter Reputation as Moderating To Underpricing**

Research by Mandasari et al. (2020) states that underwriters who have a high reputation are willing to provide high prices as a consequence of the quality of the guarantee provided, so as to reduce the level of underpricing. Underwriters with a high reputation have greater confidence in the success of the shares offered to be absorbed by the market and a good underwriter reputation will provide a good signal to the market. Some Chinese researchers have found that underwriter and VC reputation affects the underpricing rate of initial public offerings (IPOs) Wang et al. (2009), while other researchers have failed to find such an effect Guo & Zhao (2006).

Moderating variables in this context are variables that affect the strength or direction of the relationship between two other variables. In this case, underwriter
reputation is considered a moderating variable for the relationship between stock underpricing and other factors that may influence the initial public offering (IPO) process.

H5: Underwriter Reputation can moderate Company Size on Stock Underpricing.
H6: Underwriter Reputation can moderate Company Age on Stock Underpricing.
H7: Underwriter Reputation can moderate Return On Assets on Stock Underpricing.
H8: Underwriter Reputation can moderate Debt to Equity Ratio on Stock Underpricing.

**Operational Variables**

The independent, dependent, and moderator factors were selected based on the title of the study, and here is the explanation:

Table 3. Operational and Measurement Variables

<table>
<thead>
<tr>
<th>No</th>
<th>Variables</th>
<th>Measurement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Company Size (X1)</td>
<td>SIZE = Total Assets</td>
<td>Lindrianasari et al. (2023)</td>
</tr>
<tr>
<td>2</td>
<td>Company Age (X2)</td>
<td>AGE = Year of IPO – Year of Establishment</td>
<td>Meidiaswati et al. (2019)</td>
</tr>
<tr>
<td>3</td>
<td>Return On Assets (X3)</td>
<td>ROA = ( \frac{Profit\ After\ Tax}{Total\ Assets} )</td>
<td>Razafindrambinina &amp; Kwan (2013)</td>
</tr>
<tr>
<td>4</td>
<td>Debt To Equity Ratio (X4)</td>
<td>DER = ( \frac{Total\ Liabilities}{Total\ Equity} )</td>
<td>Lestari &amp; Sulasmiyati (2017)</td>
</tr>
<tr>
<td>5</td>
<td>Underpricing (Y)</td>
<td>( UP = \frac{\text{Closing Price } - \text{Offering Price}}{\text{Offering Price}} ) \times 100%</td>
<td>Agustine &amp; Sutrisno (2019)</td>
</tr>
<tr>
<td>6</td>
<td>Underwriter Reputation</td>
<td>UW = dummy variable</td>
<td>Safitri (2013)</td>
</tr>
<tr>
<td></td>
<td>(Moderating Variable - Z)</td>
<td>1 for the 20 most active brokers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0 for those not included</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data Processed by the author (2024)

**Research Model**

This study aims to shed light on the factors contributing to a phenomenon by analyzing its causes and effects. An exhaustive examination of the variables under study is required to deduce their interrelationship in this study. The source is Creswell (2012). There are six variables used in the study, namely 4 (five) free variables, 1 (one) bound variable, and 1 (One) moderation variable. Free variables in this study are company characteristics, namely size (X1) and age of the company (X2), then variables of corporate financial performance, namely return on assets (X3) and debt to equity ratio (X4) as well as there are moderating variables namely underwriter reputation (Z) while the bounded variable in this research is underpricing (Y) for businesses who plan to go public on the Indonesian Stock Exchange between 2020 and 2023.
To gather information for the hypothesis test, the researchers in this study consulted the company's financial reports and the official website of the Indonesia Stock Exchange (www.idx.co.id). The company in question had already gone public. I apologize for the slight delay; my prior meeting ran over schedule. To find out the price of the first day's sale of the stock that is not available on the BEI official site, you can refer to the issuer's prospectus and www.idnfinancials.com.

Table 1. Company Sampling Criteria

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Businesses planning an IPO on the Indonesian Stock Exchange between 2020 and 2023.</td>
<td>243</td>
</tr>
<tr>
<td>2</td>
<td>A company that did not underprice when it went public.</td>
<td>(47)</td>
</tr>
<tr>
<td>3</td>
<td>In the year that the firm goes public, if its financial report is negative.</td>
<td>(17)</td>
</tr>
<tr>
<td></td>
<td>A company that uses a currency other than the rupiah in the financial report during the initial public offering, as stated in the company's prospectus</td>
<td>(7)</td>
</tr>
<tr>
<td>4</td>
<td>Outlier - Companies that have extreme and unrepresentative underpricing values</td>
<td>(21)</td>
</tr>
<tr>
<td>5</td>
<td>Number of samples used</td>
<td>151</td>
</tr>
</tbody>
</table>

Source: Data Processed by the author (2024)

Data Analysis Method
The statistical program SmartPLS 3 for structural equation modelling least squares (SEM-PLS) data analysis is central to this investigation. Also, in contrast to CB-SEM, SEM-PLS makes less stringent assumptions about data distribution. Assumptions such as minimum sample size, homogeneity, and multivariate data normality are necessary for CB-SEEM estimates. Since the estimation results are similar, SEM-PLS can stand in for CB-STEM. Despite non-adherence to the multivariate normalcy assurance and small sample sizes, SEM-PS can generate estimates. Here is a representation of the equation:
\[
UP = a + b_1 \text{SIZE} + b_2 \text{AGE} + b_3 \text{ROA} + b_4 \text{DER} + b_5 \text{SIZE} \times \text{UW} + b_6 \text{AGE} \times \text{UW} + b_7 \text{ROA} \times \text{UW} + b_8 \text{DER} \times \text{UW} + e
\]

Result and Discussion

Descriptive Statistics

Data from ROA, DER, Company Size, Company Age, Underwriter Reputation, and Underpricing Stock's maximum, lowest, average, and standard deviation values are described using descriptive statistics.

Table 4. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>UP</td>
<td>0.0945</td>
<td>0.7129</td>
<td>0.30602649</td>
<td>0.150239615</td>
</tr>
<tr>
<td>ROA</td>
<td>0.0001</td>
<td>0.7814</td>
<td>0.09468543</td>
<td>0.114761437</td>
</tr>
<tr>
<td>ROE</td>
<td>0.0246</td>
<td>21.8375</td>
<td>1.620850993</td>
<td>2.464258189</td>
</tr>
<tr>
<td>SIZE</td>
<td>15815944474</td>
<td>21537900000000</td>
<td>999151000000</td>
<td>28414100000000</td>
</tr>
<tr>
<td>AGE</td>
<td>1</td>
<td>63</td>
<td>16.29801325</td>
<td>12.2756098</td>
</tr>
<tr>
<td>UW</td>
<td>0</td>
<td>1</td>
<td>0.278145695</td>
<td>0.449576696</td>
</tr>
</tbody>
</table>

Source: Data Processed by the author (2024)

Table 4 shows that the range of known values for Underpricing is from 0.0945 to 0.7129. We know the ROE can go as high as 0.7814 and as low as 0.0001. The standard deviation of the average ROA is 0.114761437, and it is 0.09468543. The size of the company might be as small as 15815944474 or as large as 21537900000000. With a standard deviation of 2841410000000, the company's average size is 999151000000. The company's age might take on values between 1 and 63. A standard deviation of 12.2756098 indicates that the corporation has an average age of 16.29801325. As far as is known, the Underwriter's reputation can take on values between zero and one. A standard deviation of 0.449576696 indicates that the average Underwriter is 0.278145695.

Convergent Validity Test

Convergent validity is a component of SEM-PLS's measurement model, often known as the outer model. At the same time, covariance-based SEM is known as confirmatory factor analysis (CFA) (Sholihin & Ratmono, 2013). To determine convergent validity for reflective constructs, an external model (measurement model)
must meet two criteria: (1) loading above 0.7 and (2) a significant p-value (<0.05) Hair et al. in (Sholihin & Ratmono, 2013). However, the loading criteria above 0.7 are frequently unmet in some circumstances, particularly for newly constructed surveys. As a result, loading values between 0.40 and 0.70 should still be regarded as acceptable (Sholihin & Ratmono, 2013). Table 5 shows the loading values for each indicator.

Table 5. Validity Test with Outer Loading

<table>
<thead>
<tr>
<th></th>
<th>AGE (X2)</th>
<th>AGE (X2)* UW (Z)</th>
<th>DER (X4)</th>
<th>DER (X4)* UW (Z)</th>
<th>ROA (X3)</th>
<th>ROA (X3)* UW (Z)</th>
<th>SIZE (X1)</th>
<th>SIZE (X1)* UW (Z)</th>
<th>UP (Y)</th>
<th>UW (Z)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE (X2)</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGE (X2)* UW (Z)</td>
<td>1.042</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DER (X4)</td>
<td></td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DER (X4)* UW (Z)</td>
<td></td>
<td>0.754</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA (X3)</td>
<td></td>
<td></td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA (X3)* UW (Z)</td>
<td></td>
<td></td>
<td></td>
<td>1.159</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE (X1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE (X1)* UW (Z)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.190</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UP (Y)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>UW (Z)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Data Processed SmartPLS 3 (2024)

Figure 4. Validity Test based on Outer Loading

Source: Data Processed SmartPLS 3 (2024)
According to Ghozali in Harjanti et al. (2024), a loading factor value of 0.6 - 0.7 is considered sufficient and acceptable. Figure 4 and table 5 show that the loading factor value on all constructs of company age, company size, ROA, DER and the moderating effect of underwriter reputation has a value > 0.7. Therefore, all indicating qualified validity based on outer loading values. As a result, all indicators for the variables listed above have been declared legitimate for further investigation and analysis.

**Discriminant Validity Test**

Table 6. Discriminant Validity Test: HTMT

<table>
<thead>
<tr>
<th></th>
<th>AGE (X2)</th>
<th>DER (X4)</th>
<th>ROA (X3)</th>
<th>SIZE (X1)</th>
<th>UP (Y)</th>
<th>UW (Z)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE (X2)* UW (Z)</td>
<td>0.085</td>
<td>0.031</td>
<td>0.032</td>
<td>0.034</td>
<td>0.042</td>
<td>0.046</td>
</tr>
<tr>
<td>DER (X4)* UW (Z)</td>
<td>0.009</td>
<td>0.030</td>
<td>0.028</td>
<td>0.026</td>
<td>0.023</td>
<td>0.022</td>
</tr>
<tr>
<td>ROA (X3)* UW (Z)</td>
<td>0.063</td>
<td>0.039</td>
<td>0.038</td>
<td>0.038</td>
<td>0.033</td>
<td>0.033</td>
</tr>
<tr>
<td>SIZE (X1)* UW (Z)</td>
<td>0.160</td>
<td>0.258</td>
<td>0.244</td>
<td>0.244</td>
<td>0.158</td>
<td>0.158</td>
</tr>
<tr>
<td>UP (Y)</td>
<td>0.085</td>
<td>0.074</td>
<td>0.074</td>
<td>0.074</td>
<td>0.057</td>
<td>0.057</td>
</tr>
<tr>
<td>UW (Z)</td>
<td>0.042</td>
<td>0.040</td>
<td>0.064</td>
<td>0.083</td>
<td>0.049</td>
<td>0.049</td>
</tr>
</tbody>
</table>

Source: Data Processed SmartPLS 3 (2024)

Discriminant Validity HTMT (Heterotrait-Monotrait Ratio of Correlations) is one of the methods used to evaluate construct validity in the PLS (Partial Least Squares) SEM test. This method is used to measure the extent to which a construct can be distinguished from other constructs in the model, as well as to check whether different constructs have a lower correlation with each other than the correlation between indicators in the same construct. If the HTMT value is much lower than 0.9 and lower than the internal correlation, this indicates that the constructs in your model have good validity and can be distinguished well from each other. This supports the validity of your constructs. in table 6 The discriminant validity test of the HTMT approach yields a value <0.9, which indicates that the validity of the approach has been qualified.

**Reliability Test**

Table 7. Reliability Test based on Outer Loading
Table 7 explains that latent variables that have one indicator will produce Cronbach’s alpha (CA), Composite reliability (CR) and AVE values of 1. The optimal AVE value is greater than 0.5. All AVE values greater than 0.5 indicate that you have qualified validity based on AVE. All known composite reliability (CR) values are greater than 0.7 indicating that you have qualified for reliability based on CR. The reliability test uses Cronbach’s alpha (CA) values and the optimal CA value is greater than 0.7. Total known CA values are greater than 0.7, indicating reliability according to Cronbach’s alpha.

**R Square**

R-Square to measure how much endogenous variables are affected by other variables. R-square is used to measure relationships between variables.

Table 8. R-Square

| UP (Y) | 0.219 | 0.169 |

Underpricing has an R-Square value of 0.219, this indicates that ROA, DER, company size, company age, and underwriter reputation are able to explain or influence underpricing by 21.9%, while the remaining 78.1% is influenced by other factors. A fairly low adjusted R2 value indicates that the independent variables in the model have a limited explanatory effect on the dependent variable. However, having a low adjusted R2 is not a big deal. A low adjusted R2 value does not necessarily mean that the model is not suitable for explaining the dependent variable (Stock and
This result does not have a large gap with various other studies such as those conducted by Naiborhu et al. (2019) which indicated that underwriter reputation followed by company age, company size, leverage ratio, and board size explained 28.6% of the variation in underpricing.

**Hypothesis Test**

<table>
<thead>
<tr>
<th>Path Coefficient</th>
<th>Original Sample (O)</th>
<th>P Values</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIZE (X1) -&gt; UP (Y)</td>
<td>0.037</td>
<td>0.384</td>
<td>Not Significant</td>
</tr>
<tr>
<td>AGE (X2) -&gt; UP (Y)</td>
<td>0.067</td>
<td>0.205</td>
<td>Not Significant</td>
</tr>
<tr>
<td>ROA (X3) -&gt; UP (Y)</td>
<td>-0.312</td>
<td>0.001</td>
<td>Significant</td>
</tr>
<tr>
<td>DER (X4) -&gt; UP (Y)</td>
<td>-0.255</td>
<td>0.009</td>
<td>Significant</td>
</tr>
<tr>
<td>SIZE(X1)*UW(Z) -&gt; UP (Y)</td>
<td>0.017</td>
<td>0.456</td>
<td>Not Moderating</td>
</tr>
<tr>
<td>AGE(X2)*UW(Z) -&gt; UP (Y)</td>
<td>-0.027</td>
<td>0.356</td>
<td>Not Moderating</td>
</tr>
<tr>
<td>ROA(X3)*UW(Z) -&gt; UP (Y)</td>
<td>-0.155</td>
<td>0.038</td>
<td>Moderating</td>
</tr>
<tr>
<td>DER(X4)*UW(Z) -&gt; UP (Y)</td>
<td>-0.008</td>
<td>0.475</td>
<td>Not Moderating</td>
</tr>
</tbody>
</table>

Source: Data Processed SmartPLS 3 (2024)

**The Impact of Firm Size on Underpricing**

Check out the 9th table. That underpricing is positively impacted by the corporation's size (r=0.037). P-Values of 0.384 are larger than the significance level of 0.05. Hence, H1 is rejected, even if it is not statistically significant. This study's findings align with those of Purbarangga & Yuyetta (2013), who found that underpricing is unrelated to company size and that other variables, like stock liquidity, investor demand, and market sentiment, might have a greater impact. Mayasari et al. (2018) and Hapsari & Mahfud (2012) both found that underpricing IPO is affected by firm size, but this study contradicts both. They claim that investors are less likely to be scared off by substantial discounts on the IPO price since big companies have more information available to them.

**Age of the Company's Impact on Underpricing**

It may be inferred that H2 was rejected based on the data analysis results, which indicated a positive influence on underpricing IPO shares with a coefficient value of 0.067 and not significant with P-Values of 0.205 greater than the significance of 0.05. According to certain studies, underpricing initial public offerings (IPOs) does not positively impact a company's age. This is consistent with the study conducted by Khatimah & Khalid (2024). As a result, elements including ownership structure, management style, and information quality might have a greater bearing on the degree of underpricing. This, however, contradicts the findings of Inkasari (2019) research, which indicates that a company’s age affects the underpricing of its stocks.
The Effect of Return On Assets on Underpricing

Assets with higher returns typically have lesser underpricing. This is presumably because more prosperous businesses do not need to offer significant discounts on their initial public offering (IPO) prices because they are more trusted by investors and have greater prospects. In this instance, ROA may be viewed as a performance and quality indicator of the business that influences the price of the initial public offering. With a coefficient value of -0.312 and a significant P-value of 0.001, less than the significance threshold of 0.05, the statistical analysis results in Table 9 above explain the negative influence of ROA on underpricing, leading to the conclusion that H3 is acceptable. This investigation supports the findings of Zainuddin et al. (2022), who discovered that Return On Asset affects Underpricing. When the ROA falls, the demand for the stock rises, and the stock price rises as a result. Investors assume that a high ROA indicates that the company’s performance is also good, therefore they are willing to pay a high price for the company’s initial shares. The investigation’s findings, however, run counter to earlier research by Khatimah & Khalid (2024), Nadia & Daud (2017), and Wijayanto (2010), which found no relationship between underpricing and asset return.

Debt to Equity Ratio's Impact on Underpricing

Table 9’s statistical analysis explains how the Equity Ratio damages Underpricing, with a coefficient value of -0.255. It is also significant, with P-Values = 0.009 < 0.05, meaning that H4 is accepted. By comparing liabilities to equity, companies can utilize the DER to determine how much leverage has been used. Excessive leverage indicates that the company poses a significant risk to investors. High stock prices when traded can be caused by the high interest of investors in the stock, which will cause high underpricing of the stock, and this will certainly lead to a greater initial return on the stock. This study is consistent with Sanjaya’s 2022 research but deviates from Pranyoto et al. (2019) assessment, which maintains that the debt-to-equity ratio does not affect Underpricing.

The Impact of Underwriter Reputation as a Moderating Variable on Underpricing and Company Size

Based on data analysis, it can be determined that H5 is rejected because the Reputation Underwriter cannot mitigate the impact of Company Size on Underpricing, with P-Values 0.450 bigger than the significance value 0.05. This study shows that underwriter reputation is not able to moderate the relationship between company size and initial return. This is because underwriter reputation may not be consistent or consistently reliable in all cases. This variability may cause underwriter reputation to be unable to provide a consistent moderating effect on the relationship between company size and initial return. This means that the use of reputable underwriters by large and small companies has no effect on determining the level of
company underpricing. Nevertheless, Pangestuti (2022) earlier research does not support this study.

**The Impact of Underwriter Reputation as a Moderating Variable and Company Age on Underpricing**

Mezhoud & Boubaker (2011) state that the company's age should influence the underpricing rate following the first public bidding. Compared to established firms, newly established firms face more uncertainties in advance. Newly established firms may be followed by financial analysts as they have released a lot of financial data beforehand. H6 is rejected because, according to the research statistics, underwriter reputation cannot moderate company age on underpricing by obtaining P-Values 0.355 > 0.05.

**The Impact of Return on Assets on Underpricing: A Moderating Variable Analysis Using Underwriter Reputation**

This research has shown that underwriter reputation can affect the relationship between asset returns and underpricing. Pangestuti (2022) asserts that the use of a reliable underwriter by the company will affect how strong the return on assets is. However, the P-Values = 0.039 < 0.05 in the statistical data indicate that H7 is accepted and supported by Pangestuti (2022) previous research.

The high reputation of the underwriter has more experience in its role as an underwriter and has certain considerations in offering shares in the primary market. This is also because the role of the underwriter in auditing the financial statements of companies that go public is able to provide adequate confidence because investors believe that the underwriter has a good reputation. In addition, investors also believe that the company will be able to improve its performance which will then be a good signal for the company.

**Debt to Equity Ratio's Impact on Underpricing: A Moderating Variable Analysis Using Underwriter Reputation**

Table 9's statistical analysis results elucidate the negative impact of the Equity Ratio on underpricing. H8 is rejected because it contradicts the findings of Pangestuti research from 2022, which indicated that the Underwriter's reputation could moderate the DER variable with the initial return. However, the Underwriter's reputation cannot moderate the DER against underpricing (P-Values = 0.473 > 0.05). When applicable, the underwriter's reputation can signal to allay doubts that the prospectus cannot disclose and to demonstrate that the issuer's confidential knowledge of the company's prospects is truthful. However, DER is also vulnerable if it is a large firm. Investors will, of course, consider the company's financial leverage statistics when making judgments.

**Conclusion**
This study attempts to determine the company-specific and financial performance elements that may impact the underpricing of shares during initial public offerings (IPOs) between 2020 and 2023. The study results were analyzed using the structural equation modeling-partial least squares (SEM-PLS) approach and the SmartPLS 3 software. The size and age of the company do not have a positive and significant impact on underpricing stocks. However, the Return On Assets and debt-to-equity ratio negatively and substantially affect depreciating stocks. The underwriter's reputation can only partially influence the relationship between return on assets (ROA) and underpricing.

This study's implications pertain to the initial market bidding activities of companies preparing to go public and other stakeholders interested in investigating factors affecting initial return. These stakeholders include potential investors considering the initial public offering, companies planning to go public, and researchers conducting further studies on this subject.

The study has limitations in that it only utilizes four independent variables: Company Size, Company Age, Return On Assets (ROA), and Debt to Equity Ratio (DER), along with one moderating variable, Underwriter's Reputation, about the underpricing rate of stocks. This includes several aspects, including Return on Equity (ROE), Current Ratio, Earnings Per Share (EPS), Price-Earnings Ratio (PER), Auditor's repute, Inflation, and Proceeds. Future researchers can explore a broader range of samples, diverse company kinds, and more moderating variables.

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