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Disclosure of IPO Proceeds and Survival of Malaysian Listed Companies

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***Abstract*—**This study examines the information disclosure of the use of IPO proceeds on the survival of 423 Malaysian listed companies from 2000 to 2014. Conforming to the declining pattern of total listed companies with active status in the Malaysian market, especially among the Main Market participants, this study estimates the role of the IPO proceeds, i.e., the proportion of IPO proceeds and time frame of proceeds' utilization to the survival of the Malaysian listed companies post-IPO. This study estimates the companies' survival using the Kaplan-Meier (K-M) survival analysis model and found 69.03 percent three-year, 59.81 percent five-year and 53.18 percent seven-years of companies' survival post-IPO. Further investigation reveals that companies should be able to distribute their proportion of IPO proceeds to each categories (growth opportunities, debt repayment, and working capital) equally, for higher survivability and longer median survival time. The time frame of proceeds utilization exhibits that companies with longer time frame (more than 24 months) utilizing growth opportunities and debt repayment have better survivability and longer median survival time. Contradictory, companies with lesser than 24 months utilizing working capital have better survivability and longer median survival time.

Keywords—IPO proceeds, Growth Opportunities, Debt repayment, Working capital, Survival

I. INTRODUCTION

The first stage of companies raising capital through equity is a company's engagement in an initial public offering (IPO). This stage requires the company to issue shares to the general public for the first time (Che-Yahya & Matsuura, 2021). Apart from fuelling the growth, going public is also one way for a company to convince shareholders of its prospective survivability in the long-run (Dzieczkowski, 2020). The survivability will indicate a company's competitiveness to overcome the brutal market conditions and signify the company's ultimate performance through its long period of survival post-IPO (Baluja, 2018).

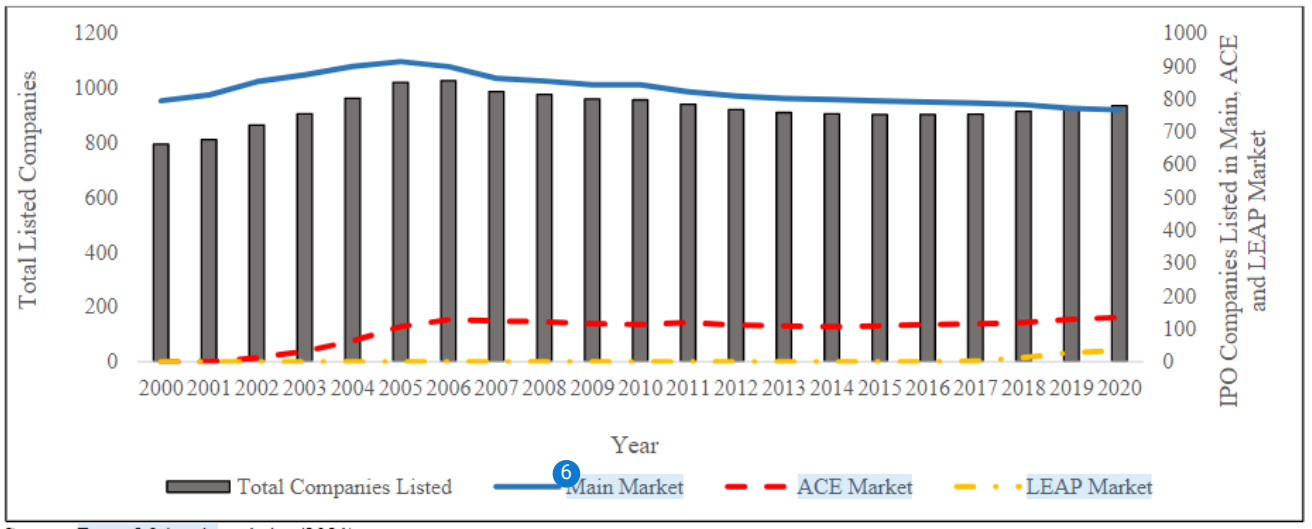
There are two possible ways of measuring companies' survival, either through survival rate or survival time (Cleveset al., 2016). Despite the two, analyzing survival revolves around the outcome of companies having to survive for a specified time until an event occurs. Specifically, the period of companies' survival starts from the day they are listed until the companies are delisted, acquired, or even failed to fulfil the listing requirements. Accordingly, survival is a direct measure and an assessment of companies' long-term sustainability, offering a clear test of whether the companies have performed ultimately to remain as public listed companies over the long run (Lamberto & Rath, 2010).

To the extent that publicly listed companies can raise continuous capital from their offerings, some may also face difficulties to survive in the long-run, especially due to the high uncertainty in an IPO market (Shari, 2019). Indeed, how long companies can survive once publicly listed remains uncertain and risky for both issuing co and investors. Companies that failed to survive longer may be due to the undersubscription of shares, forcing the companies to incur losses. The implication extends even after the public listing. The companies are drowned with high leverage because they failed to raise additional capital during their public life to finance their investments (Pour & Lasfer, 2013). As a result, investors who desire to acquire a favourable long term investment will be left frustrated from having to incur losses as the companies' value starts to decline. This may influence prospective investors to lose confidence in companies listed in the stock market, discouraging potential investments in the market (Luo, 2009).

Accordingly, this study observes a declining trend of total listed companies with active status in the Malaysian market since 2006 and only started to incline in 2017, following the establishment of the LEAP market. Figure 1 shows that the number of Main Market participants with active status is steadily reducing over the years. It is a concern as, according to Bursa Malaysia (2021), under the "Selection of FTSE Bursa Malaysia KLCI Constituents", the benchmark index (i.e., KLCI) of the Malaysian stock market performance relies on the performance of the Main market participants' performance. A continuous decline in the number of Main market participants may portray the stock market's underperformance. In return, the underperformance may discourage investors from making potential investments in the market (Luo, 2009). While companies cannot secure their desired capital, it may lead to a potential negative impact on their long-term performance and ability to survive.

While there is a substantial empirical literature body examining the short-term and long-term performance of companies post-IPO (Abdul-Rahim & Che-Embi, 2013; Amor & Kooli, 2017; Che-Yahya & Matsuura, 2021; Kumar & Sahoo, 2021; Loughran & Ritter, 2004; Mehmood et al., 2021; Wang & Wang, 2021), the attention on studies of companies' survival time can only be seen to grow recently, especially in the emerging markets (Iwasaki & Kočenda, 2019). Although companies' survival time seems to be

consistent with the examination of post-IPO performance, the examination of companies' survival time represents an unambiguous companies' performance measurement, which is the inclusion of time element during the estimation (Chancharat et al., 2012). As opposed to the studies on short-term and long-term performance that relies on stock returns for a proxy to companies' post-IPO performance at a specified point of time, Shumway (2001) states that the advantage of conducting studies using the survival analysis model is that it incorporates time-varying covariates that change with time for a higher accuracy of long-run post-IPO prediction.



Source: Bursa Malaysia website (2021)
Fig. 1. Listed companies in all three markets of Bursa Malaysia (Main Market, ACE Market and LEAP Market)

Numerous studies on the survival of companies post-IPO from the developed markets, usually adopting on the role of companies' characteristics (company size and age) and issuance characteristics (underwriter reputation, venture capitalist and issuance size), have been widely explained (Espenlaub et al., 2012; Kooli & Meknassi, 2007; Lamberto & Rath, 2010; Peristiani & Hong, 2004). As far as the review of limited literature is concerned, Amor and Kooli (2017), and Wyatt (2014) are the only studies found to consider the information of IPO proceeds as the determinant of companies' survival. In the Securities Commission of Malaysia (SCM) 9th Revision Prospectus Guidelines (P.G.) Part II Division 1, the application of companies to go for public listing includes requirements for the companies to mandatorily disclose information on the expected amount of IPO proceeds raised during the exercise of IPO. They are the disclosure of both the proportion of proceeds for utilization and the time frame of the proceeds to be fully utilized for several categories, which are the growth opportunities, debt repayment and working capital. The objective of the mandatory requirement is to serve as protection for investors' interest through information transparency and to ensure a stable stock market (SCM, 2020).

The survival time of companies carries positive implications because as long as the companies are listed on the Stock Exchange, they can raise capital publicly from the investors. This will enable the companies to finance investment opportunities with high positive net present value and achieve better long-term performance (Andriansyah, 2017). The positive implications of survival extend to other parties such as the investors. Companies that can survive longer in the aftermarket will shape a good sentiment from investors as it indicates security for the investors to execute appropriate investments strategies for potential capital appreciation in the long-run (Baluja, 2018). The survival time of companies is also crucial to policymakers as they can assess the effectiveness of the rules and guidelines being imposed in the capital market (Gémar et al., 2016). In the context of the Malaysian market, for instance, Bursa Malaysia has developed a framework for the public listed companies with a provision stipulating that companies facing financial difficulties or insufficient level of operations to be under Practice Note 17 (PN17), rule 8.04 of Main Market listing and Guidance Note 3(GN3), rule 8.04 of ACE Market listing. This framework serves as a platform that extends the survival time of the companies listed in the Malaysian market (Shari, 2019).

II. METHODOLOGY

A. Sample Selection

The population in this study comprises all IPO companies issued in the ACE and Main Market from the beginning of 2000 to 31 August 2014. There were a total of 527 companies. This study excludes offered by Real Estate Investment Trust (REITs), financial institutions and insurance companies due to the financial statement format of presentation and regulatory framework differences. This study also excludes companies with missing values and outliers. After excluding 104 companies, the final sample is 423 companies.

B. Measurement of Variables

Companies' survival is the dependent variable of this study. This study defines surviving companies as companies that are actively trading and are at their ultimate performance post-IPO. Companies encountering any hiccups (e.g. failure to adhere to listing requirements) along their journey as listed companies are indicated as non-surviving companies. In line with past studies (Espenlaub et al., 2012; Neneh & Smit, 2014; Pour, 2015; Pommet, 2017), the companies' survival is the companies' time-to-survive, which is the duration from companies' listing date until the end time that the companies have survived, expressed in months. In measuring the companies' survival time, this study requires to include not only the companies' time-to-survive but also the binary variable ("1" or "0") as a denotation of survive or otherwise. Table I summarizes the measurements of all variables in this study.

TABLE I MEASUREMENTS OF VARIABLES IN THIS STUDY

No.	Variables	Notation	Definition	Measurements
1.	Companies Survival Time	ST	Time-to-Survive (months) Binary variable ("1" or "0")	$= Ln_i(t_{1,i} - t_{0,i})$ = IF, Censored = "1" IF, Non-censored = "0"
2.	Proportion for Growth Opportunities	POPG	IPO proceeds for growth activities (%)	$= \frac{GROPP_i}{TOTPRO_i} X\ 100$
3.	Proportion for Debt Repayment	POPD	IPO proceeds for relieving, reducing or retiring indebtedness (%)	$= \frac{DERE_i}{TOTPRO_i} X\ 100$
4.	Proportion for Working Capital	POPW	IPO proceeds for working capital and daily activities (%)	$= \frac{WOCA_i}{TOTPRO_i} X\ 100$
5.	Time Frame for Growth Opportunities	TFG	Growth opportunities utilization (months)	$= TF_{g,i}$
6.	Time Frame for Debt Repayment	TFD	Debt repayment utilization (months)	$= TF_{d,i}$
7.	Time Frame for Working Capital	TFW	Working capital utilization (months)	$= TF_{w,i}$

C. Methodology

This study adopts the Kaplan-Meier (K-M) model for its survival analysis. The K-M model estimates companies' survivability non-parametrically (non-normality of data). Following Ahmad and Jelic (2014) and Baluja (2018), this study not only analyzes the survival rate in an overall outlook (full sample) but also by the stratification of independent variables. In this case, the K-M survival rates and median survival time are stratified for each IPO proceeds category (POPG, POPD, POPW, TFG, TFD, and TFW) for a seven-year observation period. The K-M survival analysis model is a preferred test to describe companies' survival rate as it holds no assumption on the normality of data (Cleves et al., 2016). Equation 1 defines the K-M model.

$$S(t_i) = S(t_{i-1})\left(\frac{n_i - d_i}{n_i}\right) \quad (1)$$

III. FINDINGS AND DISCUSSIONS

A. Kaplan-Meier Survival

Define Using the K-M model, this study estimates the companies' survival rates and the median survival time (ST) over seven years, from 2000 to 2014, between full sample (Panel A), proportion of IPO proceeds (Panel B) and time frame of proceeds utilization (Panel C). The survival rates across panels vary substantially. Table II reports the survival time (ST) median in months. Following Espenlaub et al. (2012), and Ahmad and Jelic (2014), this study uses 50 percent for the median ST to show how long (in months) the companies fall below 50 percent post-IPO. In Panel A, any value in the parentheses indicates the minimum ST, i.e., the remaining time from the IPO companies' listing year to the end of this study's observation period (August 2021).

TABLE II KAPLAN-MEIER SURVIVAL: FULL SAMPLE AND STRATIFICATION OF IPO PROCEEDS CATEGORIES

Categories	No. of Companies	Cumulative Survival Rates (%)							ST
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
Panel A: Full Sample									
Total	423	81.80	74.23	69.03	62.88	59.81	56.26	53.18	
Panel B: Proportions of IPO Proceeds									
Growth Opportunities (%)									
(0 – 50)	248	83.06	73.79	71.37	64.11	60.89	58.06	55.24	
(51 – 100)	175	80.00	74.86	65.71	61.14	58.29	53.71	50.27	
Debt Repayment (%)									
(0 – 50)	374	81.28	74.06	68.45	62.83	59.63	56.42	53.73	
(51 – 100)	49	85.71	75.51	73.47	63.27	61.22	55.10	48.98	
Working Capital (%)									
(0 – 50)	308	81.17	76.30	70.13	64.61	61.69	57.79	54.86	
(51 – 100)	115	83.48	68.70	66.09	58.26	54.78	52.17	48.70	
Panel C: Time Frame of Proceeds Utilization									
Growth Opportunities (months)									
(0 – 12)	182	86.26	77.47	73.63	65.93	62.09	58.24	54.40	
(13 – 24)	168	75.60	70.24	64.88	57.74	54.76	52.38	49.99	
(> 24)	73	84.93	75.34	67.12	67.12	65.75	60.27	57.50	
Debt Repayment (months)									
(0 – 12)	403	81.64	74.19	68.73	62.53	59.31	55.83	52.84	
(13 – 24)	17	82.35	76.47	76.47	70.59	70.59	64.71	58.82	
(> 24)	3	100.00	66.67	66.67	66.67	66.67	66.67	66.67	
Working Capital (months)									
(0 – 12)	293	80.89	74.74	68.60	62.80	59.39	55.97	53.23	
(13 – 24)	101	82.18	72.28	71.29	63.37	61.39	58.42	54.46	
(> 24)	29	89.66	75.86	65.52	62.07	58.62	51.72	48.03	

Referring to Panel A of Table II, out of 423 companies, 81.80 percent of companies remained survived in the first year of listing. About 18.20 percent of companies have difficulties surviving in the first year post-IPO. In the third-year post-IPO, the survival rate of companies falls to 69.03 percent, which is by 30.97 percent from the first-year of listing. The survival rate plunges lower in the fifth year of listing, at 59.81 percent and the seventh year of listing, at 53.18 percent. The results show that it takes 101 months for half of the companies in this study's sample (50 percent) to be non-surviving companies. To compare, the survival rates reported in this study are relatively lower than both developed and developing markets in past studies (Ahmad & Jelic, 2014; Chou et al., 2013; Espenlaub et al., 2016; Kooli & Meknassi, 2007; Schultz, 1993). This study also found that the survival rates are lower than the survival rate of companies found in the recent studies conducted in the Malaysian market by Ahmad et al. (2021) and Shari (2019) throughout the seven years observation. To justify, the definition of surviving companies in past studies to that of surviving companies applied in this study is dissimilar, i.e., this study defines surviving companies as actively traded companies at their ultimate performance. In contrast, past studies define surviving companies as continuously traded companies regardless of their performance. Thus, this study highlights that it is crucial to understand that companies' survivability reported in all studies should vary according to the definition of surviving companies each study exclusively adopts.

Panel B reports the K-M model stratified by the proportion of IPO proceeds categories and the time frame of proceeds utilization categories. Firstly, Panel B exhibits that the survival rate of companies with POPG below 50 percent is continuously higher than companies with POPG above 50 percent throughout the observation period except on the second year post-IPO. This study reports that, on average, companies with higher POPG experience greater difficulties in maintaining their listing status in the long-run than companies with POPG below 50 percent. In other words, companies with a primary objective to grow and expand their business are less likely to survive in the long-run. Consequently, it takes 14 months lesser (median ST) for half of the companies with POPG above 50 precent to face challenges as publicly listed companies compared to those with minimal emphasis to grow. Accordingly, it is identifiable that most companies (248 companies compared to 175 companies) allocate their POPG below 50 percent upon listing. While past studies find companies listed in Bursa Malaysia majorly allocating their raised IPO proceeds to growth activities (Abdul Rahman & Che-Yahya, 2019; Ahmad-Zaluki & Badru, 2020; Badru, 2021), this study contradictorily finds that Malaysian listed companies regularly allocate their POPG below 50 percent.

Secondly, Panel B shows that the survival rate of companies above 50 percent of POPD is moderately higher than companies below 50 percent of POPD for the first five years post-IPO (85.71 percent to 61.22 percent, and 81.28 percent to 59.63 percent). For the remaining two years, the survival rate of companies above 50 percent of POPD (55.10 percent to 48.98 percent) subsequently turns lower than companies below 50 percent of POPD (56.42 percent to 53.73 percent). Companies with high POPD usually can sustain in the early years of listing but will face difficulties in the long-run when their debt starts to pay off (Paleari et al., 2008). They take advantage by accessing further financing in the future, resulting in excess debt and potential business failure. To overcome a shorter survival time, most companies listed in the Malaysian market (374 out of 423 companies) allocate a lower POPD (below 50 percent), elongating the companies' median ST by 22 months than those above 50 percent of POPD.

Thirdly, Panel B also shows that companies above 50 percent of POPW have a higher survival rate only in the first year of listing by 2.31 percent compared to companies below 50 percent of POPW. In comparison, companies below 50 percent of POPW takes over from the second year to the seventh year post-IPO (76.30 percent to 54.86 percent and 68.70 percent to 48.70 percent). Since working capital is defined as IPO proceeds utilized for unspecified activities (SCM, 2020), companies with high POPW face challenges creating value to sustain in the long-run, indicating an unclear future direction for their prospects. Statistically, companies that prioritize their allocation of IPO proceeds to the working capital survive a shorter time by 25 months. Similar to POPG and POPD of Panel A, this study reveals that companies majority limit their POPW to be below 50 percent (308 companies compared to 115 companies).

Panel C of Table II also reports companies' survival rate and survival time by stratifying the time frame of proceeds utilization categories. For the first three years post-IPO, Panel C exhibits that the survival rate of companies with TFG in the first 12 months is continuously higher (86.26 percent to 73.63 percent) than companies with TFG longer than 12 months (84.93 percent to 67.12 percent). However, the remaining four years of observation exhibit those companies with TFG longer than 24 months (67.12 percent to 57.50 percent) can survive better than those with TFG lower than 24 months (57.74 percent to 49.99 percent). Although a majority of the companies (182 companies) choose to allocate a shorter TFG (0 month to 12 months), 73 companies with TFG longer than 24 months have a longer median ST by 49 months. While companies that aim to fulfill investors' short-term expectations and desire of a quick return struggle and require more time for profit generation and sustainability (Leone et al., 2007), companies with a longer time frame to grow have the benefit to strategize and enhance their value in the long-run properly.

Next, a different pattern for companies' survival rate can be seen from the TFD whereby at the first year of listing, none of the companies with TFD longer than 24 months has trouble surviving, at 100 percent survival rate. On the other hand, 403 companies that opt for a shorter TFD (from 0 to 24 months) show almost 20 percent decrement of the first year post-IPO survival rate. Although there is a substantial drop experienced by the companies with TFD longer than 24 months (33.33 percent) in the second year, the remaining 66.67 percent are able to survive until the end of the observation period (2 companies out of 3 companies). Consequently, companies with TFD longer than 24 months show a higher survival rate on the seventh year of listing (66.67 percent) than companies

with TFD shorter than 24 months (52.84 percent and 58.82 percent). Similar to the TFG, there is a substantial difference of companies' median ST between companies with TFD longer than 24 months, at 201 months and companies with TFD shorter than 24 months at 95 months and 102 months, respectively. This study found that companies tied up with an extended term in paying off their debt survive longer than otherwise. According to Adachi-Sato and Vithessonthi (2019), companies with shorter debt repayment terms are commonly associated with higher corporate risk-taking from high-risk investments. Consequently, if the debt matures before the investments' execution, the companies cannot obtain suboptimal investment returns, shortening the companies' survival time.

Panel C also presents companies' survival rates and survival time by their TFW. Companies with TFW longer than 24 months are observable to have the highest survival rate in the first two years of listing, at 89.66 percent on the first year and 75.86 percent on the second year of listing. Starting from the third year post-IPO onwards, the remaining companies with 13 months to 24 months of TFW record the highest survival rate until the end of the observation period, at 54.46 percent. At the end of the observation period, the lowest survival rate is at 48.03 percent, possessed by companies with longer than 24 months of TFW. Concurrently, the companies with TFW within 13 months to 24 months have the longest median ST, at 107 months, while companies with TFW of more than 24 months have the shortest median ST, at 83 months. Since working capital is used commonly for general corporate purposes (Chauhan, 2019), it is preferable if the TFW is shorter to avoid uncertainty on the utilization in the long-run. Parallel to Aktas et al. (2015), decreasing the time of utilizing working capital increases companies' financial flexibility in the short-run and surge adequate cash flow in the long-run to sustain post-IPO. Accordingly, the 394 companies (293 and 101 companies) with a shorter TFW can survive longer post-IPO.

IV. CONCLUSION

To conclude, companies with the proportion of IPO proceeds below 50 percent for all categories have a higher survival rate post-IPO than those above 50 percent for all categories. A more extended companies' median ST with the proportion of IPO proceeds below 50 percent for all categories is also observable than those above 50 percent. This indicates that companies in the Malaysian market do not majorly allocate their raised IPO proceeds for any category as a way to survive longer post-IPO. Specifically, companies with POPG have the highest survival rate and median ST, while companies with POPD have the lowest survival rate and median ST. Both companies with TFG and TFD more than 24 months exhibit better survivability (longest median ST) in each category. In comparison, companies with TFW less than 24 months have better survivability at the end of the observation period. This is in line with the objective of Bursa Malaysia (2020) in promoting IPO as a platform for companies to grow their capital and business to sustain longer in the capital market.

In line with the findings of this study, it suggests that the disclosure of companies play a crucial role to ensure that companies can survive better and longer post-IPO, specifically in the Malaysian market. This can be beneficial to investors making informed investment activities. Likewise, companies should strategically allocate the raised IPO proceeds to create value and reduce the risk of financing for a longer survival time.

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