

Determinant on Underpricing at the Initial Public Offering: Evidence Indonesia Stock Exchange

Dirvi Surya Abbas*, Abdul Rauf, Imam Hidayat, & Djenny Sasmita

Universitas Muhammadiyah Tangerang, Jl. Perintis Kemerdekaan 1 No.33, Cikokol, Kota Tangerang, Banten 15118, Indonesia

Abstract

The purpose of this study is to see how company size, earnings per share, profitability, financial leverage, and underwriter reputation affect underpricing during the initial public offering of companies listed on the Indonesia Stock Exchange (IDX). This study's object was selected utilizing a purposive sample approach with numerous provisions. Non-banking firms that conducted initial public offerings (IPOs) on the Indonesia Stock Exchange (IDX) between 2015 and 2019 were researched. Ninety-eight non-banking firms were collected as study samples from a total of 141. This is due to the fact that there are six banking businesses, sixty-two companies do not meet the requirements for inclusion in this study data, and thirteen companies do not exhibit underpricing. Two firms were relisted and delisted. Based on the findings of data analysis research, low earnings per share will also make investors not interested in buying shares of the company. So the company's level of uncertainty will increase. Underwriters also know more and more complete information about the market so that issuers are needed to determine primary market prices and investors to consider investing in the capital market. Meanwhile, the level of underpricing cannot be measured by the level of ROA generated by a company and the distrust of investors towards the financial statements produced by companies that conduct IPOs. DER cannot be used as a benchmark in considering the initial return expected by investors based on the findings of data analysis research. The author assumes investors' incompetence in analyzing a company's performance and relies solely on the stock price offered. The phenomenon of stock price underpricing caused by limited information about companies conducting initial public offerings (IPOs) motivates the authors to conduct this research to determine whether the information available in financial statements and information surrounding investors can be used as benchmarks in determining investment decisions and calculate a stock's initial rate of return.

Keywords: Financial fundamentals; Underwriter's reputation; Underpricing; Initial Public Offering.

1. Introduction

Internal company finance is frequently insufficient to carry out business expansion. As a result, external assistance is required to satisfy these funding requirements. The firm can employ an alternate participation method by selling company shares to the public or going public (Albada, 2020; Nadeem, 2020).

Go public is an activity in which issuers sell shares or other securities to the public in accordance with the processes outlined in the Capital Market Law and its implementing rules (Rudy, 2020). Companies aim to go public and sell their shares to the general public for a variety of reasons, including to raise capital, expand their business, make it easier to buy other companies, and inform management and the public about the company's value (Eka, 2013). The proceeds from the IPO are also being used to pay down debt, which is expected to enhance the capital structure and improve the company's financial condition.

Before shares are sold on the secondary market (stock exchange) during the process of going public, they are first sold on the primary market (primary market). The main market is where corporations perform initial public offerings (IPOs) (Kristiantari, 2013a). An initial public offering (IPO) is a requirement for issuers selling their stock on the stock exchange for the first time (Tutuncu, 2020). An initial public offering (IPO) is carried out by a business to receive funds from the public, where the funds are used for corporate purposes and must conform with the legislation on issuing shares to the public, with Law No. 8 of 1995 regulating the Capital Market being the applicable law in Indonesia.

* Corresponding author.

E-mail address: abbas.dirvi@gmail.com

The primary market share price is decided by an agreement between the firm (issuer) and the underwriter (underwriter), where the price of the securities is contained in the prospectus, whereas the secondary market price is determined by the demand and supply mechanism (Fajriyah, 2018). The fundamental issue that corporations confront when conducting stock offerings is selecting the price in the primary market (Leow, 2020). It is difficult to determine the price of an initial public offering since everyone has different interests. As a party in need of finances, issuers prefer a somewhat high initial share price. Because of the high share price, the issuer receives the most additional funds to expand its firm. The underwriter, on the other hand, desires a low share price. Because if the underwriter is unable to sell all of the shares, the underwriter will purchase all of the unsold securities. As a result, the underwriter will attempt to decrease the stock price by taking advantage of the issuer's lack of knowledge about market circumstances (Adriansyah, 2016). This disparity in market knowledge is referred to as information asymmetry between the underwriter and the issuer. As a result of this knowledge imbalance, underpricing occurs (Rudy, 2020).

The price of shares traded at the time of the initial public offering (IPO) tends to differ between the primary and secondary markets.(Nadeem, 2020). Overpricing occurs when the share price displayed on the secondary market on the first day (closing price) is lower than the price set on the primary market (offering price) (Peng, 2020). Underpricing occurs when the share price indicated on the secondary market on the first day (closing price) is greater than the share price established on the main market (offering price) (Diva, 2018). Underpricing is a loss for issuers because the funds collected during the initial public offering (IPO) are insufficient (Souitaris, 2020). The amount of loss sustained by the issuer is the difference between the price achieved in the secondary market and the price established in the primary market. This, however, is a benefit for investors and is generally referred to as initial return. Investors will be very interested in a company if it is underpriced. The greater the degree of underpricing, the greater the initial return anticipated by investors (Mulyati, 2016). Overpricing is another occurrence that occurs during an initial public offering (IPO). This occurs when the stock price in the primary market is greater than the price in the secondary market. In contrast to underpricing, overpricing will help issuers while harming investors because they will not receive an initial return. Underpricing by firms doing initial public offerings is more typical on the Indonesian stock exchange than overpricing (IPOs).

The following chart depicts the evolution of initial public offerings (IPOs) on the Indonesia Stock Exchange from 2015 to 2019.

Tabel 1. Development of Initial Public Offering (IPO) for 2015-2019 Period

Year	Company	Underpricing		Truepricing		Overpricing	
		Total	%	Total	%	Total	%
2015	17	15	88.23	1	5.88	1	5.88
2016	15	14	93.33	0	0	1	6.67
2017	36	33	91.67	0	0	3	8.33
2018	58	54	93.10	0	0	4	6.90
2019	55	51	92.73	1	1.82	3	5.45
Total	181	167	92.26	2	1.10	12	6.63

According to table 1, every company that conducted an initial public offering (IPO) experienced underpricing on average, as evidenced by the 181 companies that conducted an IPO in 2015-2019, there were 167 companies that experienced underpricing or around 92.26 percent, 12 companies that experienced overpricing or around 6.63 percent, and 2 companies that did not experience underpricing and overpricing or a combination of the two. According to table 1.1, there are variances in the amount of underpricing each year, indicating that the performance of firms performing initial public offerings (IPOs) in Indonesia is still poor. Due to the fact that many firms that perform initial public offerings (IPOs) on the Indonesia Stock Exchange are underpriced.

Many factors can influence underpricing. For starters, underpricing is done on purpose to attract investors to buy shares of companies that have recently gone public on the primary stock market, as well as to provide benefits to underwriters, and other factors that influence the level of underpricing, namely due to information asymmetry. This can occur between issuers and underwriters, as well as investors. To lessen information asymmetry (the information gap), the corporation offers a prospectus with concise written information about the company. A propectus is any written material in conjunction with a public offering with the intent of convincing other parties to acquire shares, according to Capital Market Law No. 8 of 1995. The prospectus's purpose is to convey information about the company's current state to potential investors, so that investors may learn about the company's future prospects and

become interested in purchasing securities issued by the issuer (Mulyati, 2016). The prospectus can help investors make better informed judgments since it offers financial and non-financial information about the company's current situation.

The size of a corporation reflects its capacity for creating cash flow and its ability to obtain more information. Company size is a metric that defines the size of a business, as measured by its total assets (Aini, 2013). As a result, the size of the company has a significant impact on the extent of underpricing. According to the findings of the study (Fadila & Utami, 2020), business size has a negative impact on underpricing. While the study's findings (Santoso, 2019) demonstrate that the size of a corporation has a beneficial impact on underpricing. However, research (Aini, 2013; Prastica, 2012) suggest that the size of a company has little bearing on underpricing.

Earnings per share is the profit a corporation receives per share. Companies that produce excessive earnings per share make it difficult for the firm to grow swiftly since all of the company's earnings are distributed to shareholders, leaving the company with no further capital to develop. This increases the company's uncertainty, which raises the amount of underpricing of shares. Earnings per share have a beneficial influence, according to study (Fadila & Utami, 2020; Retnowati, 2013). While the study's findings (Santoso, 2019) indicate that earnings per share have no influence on underpricing.

Profitability is a measuring ratio widely employed in analyzing a company's potential to make profits, according to (Oktavia, 2019). Profitability is increased by utilizing Return on Assets, where Return on Assets is a comparison of total profit after depreciation versus total asset owned by the company. According to the findings of study (Kristiantari, 2013b; Oktavia, 2019), profitability has no influence on underpricing. While the study's findings (Nuryanti, 2018) indicate that profitability has an influence on underpricing.

Financial leverage is the practice of supporting a portion of a company's assets with securities that carry a fixed interest rate that is higher than the cost of regular shares (Arora, 2019; Mehmood, 2020; Ong, 2020). According to the findings of study (Enika, 2013; Santoso, 2019), financial leverage has no influence on underpricing. While the study's findings (Nuryanti, 2018) indicate that financial leverage has an influence on underpricing.

The underwriter is the party who enters into an agreement with the issuer to undertake a public offering for the benefit of the issuer, with or without the commitment to purchase the remaining unsold securities (Gusni, 2019; Li, 2019). The presence of an underwriter's reputation can be utilized to lessen the degree of uncertainty that cannot be shown by the prospectus's material. According to the findings of study (Aini, 2013; Oktavia, 2019), underwriter reputation has little influence on underpricing. While study (Kristiantari, 2013b; Nuryanti, 2018; Prastica, 2012) suggest that underwriter reputation influences underpricing.

Previous academics have conducted extensive study on the phenomena of underpricing, yet there are still numerous variations in conclusions about the elements that drive it. The study is driven by the need to learn more about the impact of financial variables such as profits per share, profitability, financial leverage, and business size on underpricing during the initial public offering (IPO) on the Indonesia Stock Exchange. These factors were chosen for re-examination since they were always included in earlier studies by each researcher. And, based on previous research, there are still inconsistencies in research results, indicating the need for a re-examination of the effect of company size, earnings per share, profitability, and financial leverage variables by adding one variable, namely underwriter reputation, with the hope that the underwriter reputation variable will close the existing research gap during this.

Based on the description above, it raises several research problem formulations, namely: a) How is the effect of company size on underpricing at the time of the initial public offering (IPO)?; b) How is the effect of earning per share on underpricing at the time of Initial Public Offering (IPO)?; c) How does profitability affect underpricing during an initial public offering (IPO)?; d) How does financial leverage affect underpricing during an initial public offering (IPO)?; and e) How does the underwriter's reputation affect underpricing during the initial public offering (IPO)?

In connection with the problems that have been formulated above, the objectives of this study are: a) To determine the relationship between company size and underpricing at the time of the initial public offering (IPO); b) To determine the relationship between earnings per share and underpricing at the time of the initial public offering (IPO); c) To determine the effect of profitability on underpricing at the time of the initial public offering (IPO); d) To determine the effect of financial leverage on underpricing at the time of the initial public offering (IPO); and e) To determine the effect of the underwriter's reputation on underpricing at the time of the initial public offering (IPO).

As a consequence of this, it is possible to deduce that prior investigations yielded different results. The author thinks that the disparity in results is due to discrepancies in the study's samples. The author has other motivations for performing this research. Because of the inefficiency of the market, all accessible information is sometimes valuable and sometimes ignored by investors when making investment decisions. Furthermore, the author assumes investors' inexperience in analyzing a company's performance and is solely reliant on accessible stock prices. The phenomenon of stock price underpricing caused by limited information about companies conducting initial public offerings (IPOs) motivates the authors to conduct this research to determine whether the information available in financial statements and information surrounding investors can be used as benchmarks in determining investment decisions and calculate a stock's initial rate of return.

2. Literature Review and Hypotheses Development

The underpricing variable is connected to signaling theory in this study. Company information, according to (Diva, 2018), is a signal for investors in investment choices since it is a picture of the company's future potential. Investors will perceive the firm as good if it offers a high price for the first shares, so that when traded, the price will climb and there will be underpricing. As a result, good businesses tend to underprice as a signal to investors. Despite losses during the first public offering, the underpricing phenomena provides a significant signal for investors and can then be offset by the company's future performance. In contrast to less good organizations, they will not send a signal since they know they will not be able to compensate for the losses caused by underpricing (Mulyati, 2016). Underpricing, along with other signals (business size, profits per share, profitability, financial leverage, and underwriter repute), are positive signals that issuers attempt to provide to demonstrate the firm's soundness at the time of the initial public offering (IPO) (Ruud, 1993).

2.1. Company Size and Underpricing

Firm size is a metric that indicates the size of a company and is represented by the total assets it possesses (Aini, 2013). According to (Prastica, 2012), the firm's size indicates the amount of assets possessed by the company. The more the firm's assets, the larger the company. Large-scale businesses have less uncertainty since they are not impacted by the market but may alter market circumstances. This would lessen information asymmetry in large organizations, lowering the degree of underpricing relative to small enterprises, where information is not as widely disseminated. As a result, the size of the company has a significant impact on the extent of underpricing. According to the findings of the study (Fadila & Utami, 2020), business size has a negative impact on underpricing. While the study's findings (Santoso, 2019) demonstrate that the size of a corporation has a beneficial impact on underpricing. However, research (Aini, 2013; Prastica, 2012) suggest that the size of a company has little bearing on underpricing. The following hypothesis is offered as a result of this.

H1: *How does company size affect underpricing at the time of the initial public offering (IPO)?*

2.2. Earning Per Share and Underpricing

According to (Zaki, 2009), earnings per share is the amount of profit made from each outstanding share during a specific time period and is used by corporate management to decide the amount of dividends to be given. Earnings per share, according to (Retnowati, 2013), contains information about the company's ability to generate income, which can help investors assess the company's ability to generate good cash flow in the future. Earnings per share describes the amount of rupiah earned by each share of common stock or profit net per share of common stock. One of the reasons investors acquire stock is to receive dividends; if the firm's earnings per share are low, the corporation is less likely to give dividends. As a result, investors will favor firms with high earnings per share over stocks with low profits per share; low earnings per share tend to cause stock values to decline. Meanwhile, high profits per share will entice more investors to purchase the company, resulting in high stock prices, which may effect underpricing. Earnings per share have a beneficial influence, according to study (Fadila & Utami, 2020; Retnowati, 2013). While the study's findings (Santoso, 2019) indicate that earnings per share have no influence on underpricing. The following hypothesis is offered as a result of this.

H2: *How does earning per share affect underpricing at the time of Initial Public Offering (IPO)?*

2.3. Profitability and Underpricing

Profitability is a measuring ratio widely employed in analyzing a company's potential to make profits, according to (Oktavia, 2019). Profitability is quantified using the Return on Assets ratio, which compares total net income after taxes to total assets owned by the firm. Because the underwriter feels certain to sell the company's shares at a high price and believes all shares offered will be sold, great profitability can reduce the degree of underpricing. Return on assets is a commonly used metric for determining a company's profitability level. A high ROA sends a strong signal to investors that the investment will be successful and low risk. According to the findings of study (Kristiantari, 2013b; Oktavia, 2019), profitability has no influence on underpricing. While the study's findings (Nuryanti, 2018) indicate that profitability has an influence on underpricing. The following hypothesis is offered as a result of this.

H3: *How does profitability affect underpricing during an initial public offering (IPO)?*

2.4. Financial Leverage and Underpricing

Financial leverage is the practice of supporting a portion of a company's assets with securities that carry a fixed interest rate that is higher than the cost of regular shares (Santoso, 2019). The debt-to-equity ratio, also known as the debt-to-equity ratio, is a ratio used to calculate the proportion of total debt to total equity. The lower this percentage, the greater the company's capacity to pay off debts with its own money (Santoso, 2019). Companies that have an initial public offering with a low Debt to Equity Ratio will have their shares sought after by investors, causing the company's stock price to rise and underpricing to occur. According to the findings of study (Enika, 2013; Santoso, 2019), financial leverage has no influence on underpricing. While the study's findings (Nuryanti, 2018) indicate that financial leverage has an influence on underpricing. The following hypothesis is offered as a result of this.

H4: *How does financial leverage affect underpricing during an initial public offering (IPO)?*

2.5. Underwriter's Reputation and Underpricing

According to Capital Market Law No. 8 of 1995, an underwriter is a party who enters into a contract with an issuer to execute a public offering for the benefit of the issuer, with or without the obligation to purchase the remaining unsold shares (Aini, 2013). That the Underwriter's reputation is seen to be a factor in investors' decision to purchase stock in a firm. According to (Nuryanti, 2018), highly reputed underwriters are more aware of the performance of the company performing the Initial Public Offering (IPO) that employs its guarantee services, because the underwriter may use the company's quality to sell the firm's shares at a higher profit. When more and more firms go public and employ the services of an underwriter from a certain underwriter company, it demonstrates that they are happy with the services offered. This is due to the underwriter's ability to accurately anticipate stock values in the future, hence minimizing underpricing. According to the findings of study (Aini, 2013; Oktavia, 2019), underwriter reputation has little influence on underpricing. While study (Kristiantari, 2013b; Nuryanti, 2018; Prastica, 2012) suggest that underwriter reputation influences underpricing. The following hypothesis is offered as a result of this.

H5: *How does the underwriter's reputation affect underpricing during the initial public offering (IPO)?*

3. Research Method

This study's object was selected utilizing a purposive sample approach with numerous provisions. Non-banking firms that conducted initial public offerings (IPOs) on the Indonesia Stock Exchange (IDX) between 2015 and 2019 were researched. Ninety-eight non-banking firms were collected as study samples from a total of 141. According to table 1.1, every company that conducted an initial public offering (IPO) experienced underpricing on average, as evidenced by the 181 companies that conducted an IPO in 2015-2019, there were 167 companies that experienced underpricing or around 92.26 percent, 12 companies that experienced overpricing or around 6.63 percent, and 2 companies that did not experience underpricing and overpricing or a combination of the two. Based on the sampling criteria above, it can be seen that the number of companies that conducted initial public offerings (IPOs) in that period were 181 companies, 6 companies were included in banking companies so that they were not included in the criteria, 62 companies were excluded because they were incomplete in presenting financial statement data, 13 the company was excluded because the company did not occur underpricing, 2 sample companies were excluded because the company experienced relisting & delisting.

Table 2. Operational Variables

Variable	Operational Variables	Proxy
Underpricing	Underpricing occurs when the stock price on the first day of trading in the secondary market is greater than the initial offering price.	$IR = \frac{\text{Closing Price} - \text{Offering Price}}{\text{Offering Price}} \times 100\%$
Firm Size	The entire assets of a corporation define its size, which is expressed by its company size.	$\text{Size} = \text{Log Natural} (\text{Total Asset})$
Earning Per Share	EPS is information regarding a company's capacity to create revenue.	$EPS = \frac{\text{Net Income After Tax}}{\text{Number of shares outstanding}}$
Profitability	Profitability is a ratio to assess the company's ability to seek profit.	$ROA = \frac{\text{Net Income After Tax}}{\text{Total Asset}} \times 100\%$
Financial Leverage	The capacity of a firm to pay its obligations with its overall assets is referred to as financial leverage.	$DER = \frac{\text{Total Debt}}{\text{Equity}}$
Underwriter's Reputation	Underwriter reputation is a scale that measures the quality of underwriters in a company's stock offering.	Based on the ratings of 50 Indonesia Stock Exchange underwriters: Underwriter with a listing on the Indonesia Stock Exchange = 1, Underwriters who are not publicly traded on the Indonesia Stock Exchange = 0

Before using the regression model to test the hypothesis, the classical assumptions must be tested to confirm that the model fits the requirements. The assumptions that must be satisfied in the regression model based on ordinary least squares are referred to as the classical assumption test (OLS). The normality test, autocorrelation test, heteroscedasticity test, and multicollinearity test are the standard assumption tests employed in this work. Furthermore, hypothesis testing will be performed, beginning with an analysis of the R2 Test (Coefficient of Determination), followed by an examination of the F-test, and ultimately the t-test.

4. Results and Discussion

The next stage is to compute the variables contained in the study using the research approach utilized on the 98 sample firms used for research. Company size, earnings per share, profitability, financial leverage, and underwriter reputation were collected from the annual report and the company's annual financial report, which were retrieved from www.idx.co.id. The following are the findings of data testing performed in this study using SPSS 25 software:

4.1. Statistic Descriptive

The descriptive statistical (table 3) provides an overview of the sample in terms of the variables employed in this study.

The following is the interpretation of the dependent and independent variables based on the descriptive statistical test findings in the table 3:

The difference between the closing price of shares in the main market and the offering price on the secondary market on the first day is then divided by the offering price to determine underpricing. Each company's level of underpricing

ranges from 0.45 to 70.00. The standard deviation is 23.67341, while the average amount of underpricing is 46.5329. The firm with the stock code PZZA has the lowest underpricing, while the companies with the stock codes MKNT, TGRA, SHIP, MPOW, HELI, NICK, BPTR, DIGI, CITY, PAMG, FUJI, and REAL have the most underpricing.

The size of a company can be as small as 14.22 or as large as 30.25. A firm with the MAPB stock code has the smallest company size value, while a company with the WSBP stock code has the largest company size value. With a standard deviation of 3.36608 and an average business size of 25.8031,

Earnings per share may be as little as 0.00 and as high as 202.11. A firm with the SHIP stock code has the lowest earning per share value, while a company with the HOKI stock code has the largest company size value. Earnings per share averaged 22.5323, with a standard deviation of 35.28339.

Profitability, as measured by return on assets, ranges between 0.04 to 82.32. A firm with the CSIS stock code has the lowest return on assets value, while a company with the HOKI stock code has the best return on assets value. With a standard deviation of 8.91127 and an average return on assets of 6.2199.

The debt to equity ratio, which measures financial leverage, has a minimum value of 0.00 and a maximum value of 4.81. A firm with the POLA stock code has the lowest debt to equity ratio value, while a company with the GLVA stock code has the highest debt to equity ratio value. With a debt-to-equity ratio of 0.7745 on average and a standard deviation of 0.79108.

The underwriter repute has a value ranging from 0.00 to 1.00. With an underwriter reputation score of 0.8163 on average and a standard deviation of 0.38921.

Table 3. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
IR	98	.45	70.00	46.5329	23.67341
SIZE	98	14.22	30.25	25.8031	3.36608
EPS	98	.00	202.11	22.5323	35.28339
ROA	98	.04	82.32	6.2199	8.91127
DER	98	.00	4.81	.7745	.79108
RU	98	.00	1.00	.8163	.38921
Valid N (listwise)	98				

4.2. Regression Data Test

The normality test findings show that the residuals test has a significance value of $0.200 > 0.05$. As a consequence, it is reasonable to conclude that the data used in this analysis was distributed on a regular basis. In this regression model, the Durbin Watson value is 1.840. This indicates that the regression model is autocorrelation-free. Because the probability value of firm size, profits per share, profitability, financial leverage, and underwriter repute is more than the preset significance threshold of 0.05 or 5%, all independent variables in the regression model do not display heteroscedasticity. None of the independent variables in the regression model show signs of multicollinearity. Tolerance levels greater than 0.01 and VIF values less than 10 for all independent variables indicate this.

The significant value for the F test in the table above is 0.000, which is less than the preset significance threshold of 0.05. This implies that the model utilized in this investigation is workable. The Adjusted R Square value is known to be 0.262. This suggests that firm size, profits per share, profitability, financial leverage, and underwriter repute account for 26% of the underpricing factors. The remaining 74% can be explained by variables other than the independent variable.

4.3. Discussion

4.3.1. Firm size Decreases Underpricing

According to the findings of this study, the larger the firm, the lower the amount of stock underpricing. Firm size is defined as the size of a company as measured by nominal size values such as total wealth or total assets, total book value, number of employees, and so on. Firms with significant total assets will be known to many investors, therefore

information about these companies will be extensively disseminated in the community. The degree of ambiguity in the future will be reduced due to the amount of information accessible in the community. Because the company's degree of uncertainty in the future is low, the level of underpricing of shares will be low as well. The findings of this study are consistent with previous studies (Eka, 2013; Kristiantari, 2013a; Santoso, 2019), which found that firm size has a substantial influence on underpricing. According to studies (Aini, 2013; Prastica, 2012), the scale of a corporation has minimal influence on underpricing.

Table 4. Regression data test

Model	Coefficients ^a				Sig.	Variance Inflation Factor		
	Unstandardized Coefficients		Standardized Coefficients	t		Glejser test	Toleranc e	VIF
	B	Std. Error	Beta					
1 (Constant)	6.311	3.225		1.957	.053	.382	.422	2.370
SIZE	-.243	.114	-.286	-2.126	.036	.892	.249	4.010
EPS	.452	.163	.485	2.774	.007	.154	.364	2.748
ROA	.019	.351	.008	.055	.957	.781	.937	1.067
DER	.290	.620	.042	.467	.642	.548	.979	1.022
RU	2.402	.648	.327	3.708	.000	.248	.422	2.370
Durbin Watson test	1.840							
One-Sample Kolmogorov-Smirnov Test	.200							
R test	.547 ^a							
R Square test	.300							
Adjusted R Square test	.262							
Std. Error of the Estimate	2.45665							
Sum of Squares	237.600							
F test	7.874							
Sig.	.000 ^b							

Table 5. Summary of Research Hypotheses

Hyp	Hypothesis Statement	Coef. Value	P > z	Model
1	Are Firm size has a negatively effect on underpricing.	t-statistic -2.126 sig. 0.036	Hypothesis Accepted	Underpricing = 6.311 -
2	Are Earning per share has a positively effect on underpricing.	t-statistic 2.774 sig. 0.007	Hypothesis Accepted	0.243SIZE + 0.452EPS +
3	Are Profitability has a positively effect on underpricing.	t-statistic .055 sig. 0.957	Hypothesis Denied	0.019ROA + 0.290DER +
4	Are Financial leverage has a negatively effect on underpricing.,	t-statistic .467 sig. 0.642	Hypothesis Denied	2.402UR + ε
5	Are Underwriter's Reputation has a positively effect on underpricing	t-statistic 3.708 sig. 0.000	Hypothesis Accepted	

4.3.2. Earning per share Increases Underpricing

According to the findings of this study, the bigger the earnings per share, the greater the amount of stock underpricing. Earnings per share refers to the amount of rupiah earned per share. Companies that produce excessive earnings per share make it difficult for the firm to grow swiftly since all of the company's earnings are distributed to shareholders, leaving the company with no further capital to develop. Low earnings per share will also discourage investors from purchasing the business's stock, increasing the amount of corporate instability. Companies with a high

amount of uncertainty in the future will have a higher level of stock underpricing. The findings of this study are consistent with previous research (Eka, 2013; L & Priantinah, 2017), which shown that earnings per share (EPS) has a considerable influence on underpricing. While the findings of the study (Santoso, 2019) suggest that earnings per share have no effect on underpricing.

4.3.3. *Profitability not Increasingly or Decreasingly Underpricing*

This study's findings failed to demonstrate the influence of ROA on underpricing. This is because the extent of underpricing cannot be evaluated by a company's ROA and investors' scepticism in financial statements supplied by firms conducting IPOs. This is due to investors' perceptions that issuers utilize earnings management practices to improve their performance. As a result, at the time of the IPO, it did not depict the issuer's true ROA because a big ROA as provided in the prospectus does not always indicate strong firm performance. As a result, the findings of this study contradict signaling theory. The findings of this study are consistent with the findings of (Nuryanti, 2018), who found that profitability as measured by ROA has a substantial influence on underpricing. While the outcomes of the study (Kristiantari, 2013b; Oktavia, 2019) show that profitability has no effect on underpricing.

4.3.4. *Financial leverage not Increasingly or Decreasingly Underpricing*

This study's findings failed to demonstrate the influence of DER on underpricing. This is due to the fact that the size of the DER value reflects the company's capacity to pay short-term and long-term debt with its own resources. However, when a firm goes public, investors only see the DER ratio from the debt side, hence DER cannot be used as a benchmark in determining the first return expected by investors. Thus, the findings of this study contradict signaling theory and information asymmetry theory, which suggest that management's disclosure of financial statements will boost investor confidence by looking at the DER ratio that they will receive an initial return when underpricing happens. According to the findings of study (Nuryanti, 2018), financial leverage has an influence on underpricing. While the study's (Enika, 2013; Santoso, 2019) findings indicate that financial leverage has no influence on underpricing.

4.3.5. *Underwriter's Reputation Increasingly Underpricing*

According to the findings of this study, underwriters with good reputations are more prepared to take risks by establishing high rates than underwriters with low reputations. Underwriters are also becoming more knowledgeable about the market, allowing issuers to calculate primary market pricing and investors to contemplate engaging in the capital market. According to the findings of study (Kristiantari, 2013b; Nuryanti, 2018; Prastica, 2012), underwriter reputation influence on underpricing. While study (Aini, 2013; Oktavia, 2019) suggest that underwriter reputation no influences underpricing.

5. Conclusion

The purpose of this study is to investigate the influence of the independent variables company size, profits per share, profitability, financial leverage, and underwriter reputation on underpricing at the time of the Indonesia Stock Exchange's initial public offering (IPO) for the 2015-2019 timeframe. The purposive sampling approach was used to acquire a sample of 98 firms from a population of 181 companies who had initial public offerings on the IDX between 2015 and 2019. According to the data testing results, business size has a strong negative influence on underpricing, in contrast to profits per share and underwriter repute, which have a significant positive effect on underpricing. In contrast to profitability and financial leverage, which are proven to be minimal contributors to underpricing. The data show that firms with significant total assets are known by many investors, therefore information about the company is extensively disseminated in the community. According to the conclusions of data analysis study, poor earnings per share will also discourage investors from purchasing the company's shares. As a result, the amount of corporate uncertainty will rise. Underwriters are also aware that market information is becoming more detailed, which necessitates issuers determining the main market price and investors considering participating in the capital market. Meanwhile, the extent of underpricing cannot be evaluated by a company's Return on Assets or investors' scepticism of financial statements given by firms doing IPOs. The Debt Equity Ratio cannot be utilized as a benchmark in determining the initial return expected by investors based on data analysis study findings.

The following are some of the limitations of this study. First, because this analysis only covers a five-year period, the sample of firms completing initial public offerings is small. Second, the study's findings partially failed to demonstrate that business size, profits per share, profitability, financial leverage, and underwriter repute all had an influence on underpricing. Third, the independent variable's potential to explain the dependent variable is still restricted. The Adjusted R Square value of 0.262 demonstrates this. This suggests that firm size, profits per share,

profitability, financial leverage, and underwriter repute account for 26% of the underpricing factors. The remaining 74% can be explained by variables other than the independent variable.

The findings of this study can at the very least inspire and motivate additional investigation. Taking into mind the current constraints, it is hoped that future study will enhance factors such as: a) using data after the financial crisis; and b) the company's excellent performance before to and during SEO does not reflect the company's basic condition. Investors are advised to base their investment decisions on the offer prospectus and evaluate financial factors (e.g., the manager's credibility); and c) earnings management using income increasing discretionary accruals will increase the company's performance at the time of the IPO but decrease the company's performance in subsequent periods.

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