The Underpricing of Initial Public Offerings in the Philippines from 1987 to 1997

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The Underpricing of Initial Public Offerings in the Philippines from 1987 to 1997

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Abstract

Dr. Michael Sullivan and Dr. Angelo Unite

This paper documents initial returns of IPOs in the Philippines and investigates some characteristics found in other countries to affect returns, specifically offer size, firm age, and industry grouping. We find large first-day returns earned by investors purchasing the initial public offer, which is consistent with what has been documented in other countries. As in other countries we conclude these returns can be attributed to the underpricing of IPOs. However, this underpricing of Philippine IPOs is dramatically less severe than underpricing documented for other emerging market countries and less than other Pacific-Rim countries. Moreover, an analysis of the Philippine IPO market lends only limited support for a conclusion that offer size and firm age affect the magnitude of IPO underpricing found in this country. Also, we find no evidence that issuing firms from natural resource industries behave differently than firms from other industries. In addition, clientele constraints represented by the offering of dual class shares, are not shown to affect IPO underpricing. We conclude from our findings that underwriters who price Philippine IPOs face different regulatory policies, contractual mechanisms, market conditions, and must consider a different set of firm characteristics than those present in other markets.

Keywords: IPO, underpricing, stock market
The Underpricing of Initial Public Offerings in the Philippines from 1987 to 1997**

Dr. Michael Sullivan and Dr. Angelo Unite*

1. Introduction

There is an abundance of research documenting large positive returns for initial public offerings (IPOs) during the period immediately following issuance. This pricing anomaly has been documented in over 30 countries [see Loughran, Ritter, and Rydqvist (1994) and Ritter (1998)]. Although returns are positive for every country studied, the magnitude of these returns varies greatly. In this paper, we present evidence for a country not previously studied, the Philippines.

In the Philippines, much of the regulatory framework is adopted from the United States [see, e.g., Sullivan and Unite (1999)]. Similarly, the regulatory body that oversees equity market transactions is the Securities and Exchange Commission (SEC), which accordingly must approve new security issues. However, due to weaker legal enforcement and less reliable information disclosure, investors face greater pricing uncertainty.

In this paper we document returns of IPOs in the Philippines and investigate some characteristics found in other countries to affect returns, specifically offer size, firm age, and industry grouping. For a sample of 104 IPOs during the 11-year period 1987 through 1997, we find average initial returns of 22.69%. It is widely accepted that these IPO initial returns can be attributed to underpricing the issue and evidence shows that this underpricing is greater for smaller and younger companies [Ritter (1984); Chalk and Peavy (1987); Ibbotson, Sindelar, and Ritter (1994)]. There is also evidence that IPO underpricing is cyclical, being positively correlated to general market movements and suggesting that investor sentiments play a role in the timing and pricing of equity offers [Reilly (1977) and Loughran, Ritter, and Rydqvist (1994)]. An analysis of the Philippine IPO market lends only limited support to a conclusion that offer size and firm age affect the magnitude of IPO underpricing found in this country.

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* We wish to acknowledge Ms. Anna Marie Santos, Library Assistant, and Ms. Soccy Clemente, Assistant Manager of the Research Department of the Philippine Stock Exchange for their assistance in the collection of sample data. We also thank the Philippine-American Education Foundation (PAEF) for support while Michael Sullivan visited De La Salle University as a Fulbright Senior Scholar and De La Salle University’s University Research Coordination Office (URCO) for research funding.
We also investigate the effect of industry grouping and the issue of dual share classes on IPO underpricing. Ritter (1984) finds that IPOs of companies in natural resource industries account for the majority of IPO underpricing difference between small and large companies. However, we find no evidence that issuing firms from natural resource industries behave differently than firms from other industries. In addition, clientele constraints represented by the offering of dual class shares, are not shown to affect IPO underpricing.

We conclude from our findings that underwriters who price Philippine IPOs face different regulatory policies, contractual mechanisms, market conditions, and must consider a different set of firm characteristics than those present in other markets. These factors include the extent the equity market is liberalized, required information disclosure and the accuracy of that information, market liquidity, the profile of clientele purchasing shares of IPOs, any affiliation between the offering firm and other firms, company age, and company origin.1

The paper proceeds as follows. In section 2 we present theory and evidence for initial IPO returns and findings from other countries. In Section 3 we describe our data. Section 4 presents our findings for Philippine IPOs and we discuss how these findings fit within the current body of literature. We present our conclusions in Section 5.

2. Initial Return: Theory and Evidence

2.a. Theory

It is commonly accepted that investors subscribing to purchase shares of initial public offers at the offer price earn significant returns on the initial day of trading. Ibbotson, Sindelar, and Ritter (1994) report for a comprehensive sample of 10,616 IPOs in the United States over a time period from 1960 through 1992, that average returns for the first trading day is 15.3%. There are many potential reasons for this initial underpricing of IPOs. Rock (1986) presents a model demonstrating that new issues are underpriced due to a “Winner’s Curse”. Information asymmetry causes uninformed investors to demand sufficient underpricing for any new offer, since they cannot discern the value of an offer based on available information. As applied by Beatty and Ritter (1986) this model implies that riskier issues will be subject to great underpricing.

Allen and Faulhaber (1989) present a signaling model in which the reputation of the offering firm is enhanced by the initial underpricing. The signal allows the firm to successfully return to the market in the future to raise funds. In a similar signaling model,

1. Another important difference between U.S. and Philippine IPO markets is that while venture capital is commonly employed to fund start-up firms in the U.S., it is not available in the Philippines. Therefore, in the Philippines new enterprises are typically formed by an established domestic conglomerate or formed by joint venture between this conglomerate and a large multinational company.
Baron and Holmstrom (1980) show that the underpricing of new offers is a way for investment bankers to enhance their reputation.

Underpricing has also been theorized as a means for the original owners to retain control [Brennan and Franks (1995); Booth and Chua (1996); Zingales (1995); Pagano, Panetta, and Zingales (1998)]. These theories hypothesize that underpricing will attract a large array of bidders, such that, the issue can be sold to a disperse group that will not threaten the original owner’s control interests. In less formal models, underpricing has been considered as a method of minimizing the direct and indirect costs associated with lawsuits [Tinic (1988); Hughes and Thakor (1992)]. The potential for large judgements, if issuers or their underwriters are found negligent in any facet of taking the issue public, is minimized if the issue is sufficiently underpriced. Also, Benveniste and Wilhelm (1990) postulate that underpricing is higher in countries with binding restrictions on allocation and pricing, than in countries with no such restrictions.

2.b. Evidence

Evidence shows that IPOs of smaller and younger companies are subject to greater underpricing, supporting information asymmetry theories [Ritter (1984); Chalk and Peavy (1987); Ibbotson, Sindelar, and Ritter (1994)]. Ritter (1984) finds that companies involved in natural resources are responsible for much of this small-large company difference. Initial returns are also shown to depend upon the age of firm, i.e., in terms of whether the firm is an established business or a new start-up company [Ibbotson, Sindelar, and Ritter (1994)]. IPOs of newer companies display higher initial returns than those of older, more mature companies. IPO underpricing and volume have also been shown to be cyclical. Periods of high average initial returns and high IPO volume are known as “hot issue” markets. These “hot issue” markets were first documented by Ibbotson and Jaffe (1975) and more recently have been confirmed by Ibbotson, Sindelar, and Ritter (1994).

IPO underpricing has been documented for many countries, but not the Philippines. Initial returns for 25 countries are summarized by Loughran, Ritter, and Rydqvist (1994), and for 33 countries by Ritter (1998). Based on articles these authors surveyed, initial returns are shown to range from 4.2% in France to 388.0% in China. For emerging Pacific-Rim markets, IPO underpricing is relatively high. Datar and Mao (1997) report average initial returns of 388.0% for 226 Chinese firms going public from 1990 to 1996, Dhatt, Kim, and Lim (1993) find average initial returns of 78.1% for 347 Korean firms from 1980 to 1990; Isa (1993) finds average initial returns of 80.3% for 132 Malaysian firms from 1980 to 1991; and Wethyavivom and Koo-smith (1991) find average initial returns of 58.1% for 32 Thai firms from 1988 to 1989. These documented differences in IPO underpricing may be

2. Ritter (1984) reports that during the 1977 to 1982 period, 468 small company IPOs, as defined by sales, have average initial returns of 43.4%, whereas 382 large company IPOs have returns of 9.6%. Ibbotson, Sindelar, and Ritter (1994) show similar results based on size, where size is measured both by sales and offer price.
due to sample construction, such as time period studied, or may have to do with differences in firm characteristics, market regulations, or degree of openness of the economy.

Loughran, Ritter, and Rydqvist (1994) surmise that greater initial returns are found in countries where institutional constraints are binding, firms are relatively smaller with short operating histories, and IPO distribution occurs in an environment with relatively less auction-like features. Based on these findings from other countries, Philippine IPOs are expected to have a high degree of underpricing when offered. For example, Philippine IPOs may be considered riskier than those of the U.S. because of the generally greater economic and political risks inherent in the Philippine market. However, the degree of underpricing of Philippine IPOs is expected to decline through the 1990s with the accompanying economic liberalization that occurred over this period [Kim, Krinsky, and Lee (1993)].

3. Data Description

Our sample includes all initial public offerings that occurred in the Philippines from 1987 through 1997. We start with 1987 since this is the first full calendar year following the end of the Ferdinand Marcos regime, and consequently, the beginning of a more open economy and improved investment climate. We collected our price data directly from Philippine Stock Exchange (PSE) archives to ensure accuracy. In addition, we scanned the PSE IPO list to validate each observation. We collected data for each IPO to calculate offer size, firm age, and industry grouping. Offer size is defined in terms of gross proceeds and calculated as the total number of offered shares sold times the offer price. Company age is

3. Loughran, Ritter, and Rydqvist (1994) look for the presence of the following determinants of IPO offer prices (1) institutional constraints, such as binding government market regulations, (2) non-arms length sale of shares to politicians, employees, etc., (3) tax avoidance, (4) information acquisition prior to setting price, and (5) discretion in allocating shares.

4. Evidence of decline in IPO underpricing during economic liberalization is documented in studies of the South Korean market. Significant regulatory changes in South Korea on June 25, 1988 liberalized the ability to set IPO offer prices. Kim, Krinsky, and Lee (1993), investigating solely this post-liberalization period from July 1, 1988 to March 31, 1990, find initial returns of 57.5%. Dhatt, Kim, and Lim (1993) find higher initial returns of 78.1% in a study of 347 IPOs covering both the pre and post-liberalization period from 1980 to 1990.

5. As an alternative measure of size we segmented the sample of IPO firms according to whether the firm will be listed on the first, second, or third board of the PSE. The first board is for listing companies with at least 400 million peso capital stock, the second board for companies with at least 100 million peso capital stock, and the third is designed for venture-capital companies with at least 100 million peso capital stock and that are selling shares at a price equal to par value. Companies applying for listing on the First Board must have cumulative pre-tax profit of 50 million pesos and 10 million pesos per year for the three years prior to listing, the Second Board requirement is 30 million pesos cumulative and 5 million pesos per year, and there are no profitability requirements for listing on the Third Board [Philippines Stock Exchange (1996)]. However, as of December 1997 no companies traded on the second board and only five on the third board. Waterfront Philippines Inc. in 3/17/95 and Urbancorp Realty Developers, Inc. in 3/19/96 listed on the secondary board
calculated as the number of years from company incorporation to the IPO offer. We use the NEDA industry classification to classify our sample. We also investigate whether dual class shares are priced differently with IPOs. In the Philippines, companies are able to issue both Class A and B shares. Prior to the recent market liberalization, the Philippine Constitution stipulated that no foreign ownership would be allowed in certain industries, while in the remaining industries foreign ownership was limited to 40% [Philippine Stock Exchange (1996)]. To ease associated monitoring responsibilities, a corporation can issue common shares that are classified into Class A or Class B. Class A shares can only be owned by Filipino citizens, while Class B shares may represent 40% of total shares, and therefore, can be purchased by both domestic and foreign investors. Both classes have the same voting and dividend rights. In cases where the company has an IPO including both Class A and B shares, we consider only Class A shares in our analysis.

We use the standard methodology presented in current literature and calculate the initial return for an IPO of common stock based on the period encompassing the first day the stock trades on the public exchange. Specifically, the return is calculated as that earned from the offer price to the closing price at the end of the first trading day [see Ritter (1984) and Ibbotson, Sindelar, and Ritter (1994)].

4. Findings

Yearly statistics showing the number of IPOs, gross proceeds, and initial returns for the period 1987 to 1997 are presented in Table 1. A feature of this time period is the increasing popularity of IPOs in the Philippines. This popularity may be a result of improving opportunities and decreasing costs. This period is marked by declining political risk and a corresponding economic expansion. These factors encourage investors to make funds available for new issues and also expand the need for new funds by issuing companies. Moreover, this period is characterized by rapid financial market liberalization as well as more favorable regulation for security issues which serve to decrease the direct and indirect costs in the new issues market (i.e., lower listing fees, improved compliance regulation, lower commission due to greater competition for underwriting and advising). during a time when only two boards existed. The trading of these companies since moved to the third board and has been joined by Ever Gotesco Resource & Holdings, Inc. on 9/16/96, Boulevard Properties & Holdings, Inc. on 4/28/97, and Premiere Entertainment, Inc. on 5/5/97.

6. NEDA stands for the National Economic and Development Authority.

7. This technique has minimal influence on our calculations. In the 17 cases where companies issue both Class A and B shares, initial returns average 17.81% for Class A shares and 20.86% for Class B shares.

8. Financial market liberalization in the Philippines includes the following events [International Monetary Fund (1986-96)]. On 6/6/91 the Philippine Congress approved Republic Act No. 7042 or the Foreign Investments Act of 1991 which allows foreigners to own up to 100% of the common stock in a domestic
We calculate average initial returns for a sample of 104 Philippine IPOs to be 22.69%. Consistent with theory that greater underpricing is found in riskier markets, these returns are greater than those typically found in studies of U.S. IPOs [Beatty and Ritter (1986) and Loughran, Ritter, and Rydqvist (1994)]. It has also been shown that IPO underpricing and volume tends to be cyclical [Ibbotson and Jaffe (1975); Ibbotson, Sindelar, and Ritter (1994)]. For non-U.S. markets, this finding has been confirmed by Davis and Yeomans (1976) in the UK, McGuinness (1992) in Hong Kong, and Rydqvist (1993) in Sweden. The number of IPOs and average initial returns provide some collaboration of the presence of a “hot issues” market in the Philippines. We find that a large number of issues are grouped in the 1993 to 1996 time period, which lags generally high returns in the overall stock market. However, the two years in our sample period with the highest IPO average initial returns, 1987 and 1993, correspond with the two years of greatest PSE index change. In addition, the 27.90% average initial returns for the 1993 to 1996 period are higher than the overall period.

4.a. Offer Size

To determine if the price reaction to Philippine IPOs is affected by offer size or price, as shown by Chalk and Peavy (1987) and Ibbotson, Sindelar, and Ritter (1994) for U.S. IPOs, we dissect our sample into five size categories (Table 2). The magnitude of returns by offer size gives some indication that smaller offers are subject to greater underpricing and provides supporting evidence for Ritter (1984), Chalk and Peavy (1987), and Ibbotson, Sindelar, and Ritter (1994). However, the relative weakness of these results and market differences across countries prompts caution when drawing conclusions.

In the United States and in the United Kingdom, IPOs tend to be start-up ventures in risky new industries, while in many other countries the IPO market is primarily composed of older, larger, well-established companies. These differences result in the offer size of IPOs in the U.S. and U.K to be relatively smaller. Jenkinson and Ljungqvist (1996) report that, on average, the gross proceeds raised through an IPO in the United States amount to US$11 million; and in the United Kingdom, US$10.5 million; in Germany, US$37 million; and in Italy, US$77 million. These size differences are particularly telling when considering the

9. The percentage change in the PSE Index was 86.66% in 1991, 8.99% in 1992, and 158.54% in 1993.

10. The percentage change in the PSE index was 88.67% for 1987 and 158.54% for 1993. We also note that after May of 1997 there has been only 1 IPO in the Philippines through August of 1998. This period has been associated with a severe economic contraction in Asian markets.
comparative size of the US economy with that of other nations. In the Philippines we find that the average IPO size is PhP1,283,497,578 or approximately US$47.5 million.\(^{11}\) Although most Philippine firms undertaking an IPO are newer companies, this result is expected since the offering firms are typically associated with large, established domestic or foreign conglomerates.\(^ {12}\) Therefore, the effect of size on initial returns may be less pronounced in the Philippines if the affiliation between the offering firms and the conglomerate acts to reduce firm risk or makes IPOs easier to price.

4.b. Age of Firm

Since IPOs of new start-up firms have been shown to be subject to greater underpricing than the IPOs of established firms, we segment our sample according to the age of the company. Table 3 presents the average initial returns for Philippine IPOs categorized by firm age quintiles. The results lend limited support to the conclusion that smaller firms are subject to greater underpricing. A possible reason why our findings do not strongly corroborate those found for U.S. IPOs is the differences in the type of firms that enter the new equity market. In the U.S., the average age of IPOs is approximately six years while the average age is closer to 50 years in Europe [Jenkinson and Ljungqvist (1996)]. We find that the average age of Philippine companies raising money through initial public offerings, 16.59 years, is similar to that of the U.S.

However, there may be some important differences in the types of firms that utilize the new issues market in the Philippines compared to the U.S. While IPOs are typically stand-alone, start-up companies in the U.S., most IPOs in the Philippines by start-up companies are actually new corporate endeavors of large, established conglomerate groups. For example, the ages of firms conceived to act as holding companies for large conglomerates include: (1) three months for Kuok Philippine Properties Incorporated, (2) three months for Alaska Milk Corporation, (3) five months for Benpres Holdings Corporation, (4) five months for Swift Foods Incorporated, (5) ten months for DMCI Holdings, (6) one year and eleven months for Empire East Land Holdings Incorporated, and (7) one year and eleven months for Ever-Gotesco Resources & Holdings Incorporated.

4.c. Industry Classification

\(^{11}\) Assuming an exchange rate of PhP27 to $1.

\(^{12}\) Some examples are Kuok Philippine Properties Incorporated which is affiliated with the Kuok Group of Singapore, Benpres Holdings Corporation which acts as the holding company for the Lopez families investments, DMCI Holdings which was formed when the Consunji family consolidated their various business interests, Kepphil Shipyard Incorporated is affiliated with the Keppel Group of Singapore, Swift Foods Incorporated is a subsidiary of RFM Corporation, Empire East Land Holdings Incorporated is a majority-owned subsidiary of Megaworld Properties & Holdings Incorporated, Ever-Gotesco Resources & Holdings Incorporated was established by the Ever-Gotesco Group, and Alaska Milk Corporation is a subsidiary of General Milling Corporation.
To determine if IPO underpricing is primarily associated with firms in the natural resource industry as shown by Ritter (1984) in his study of U.S. IPOs, we segment our sample by industry. Our results show that the 104 IPOs in our sample come from 8 different broad industry classifications, with 96 coming from 4 industries. There are 17 firms in the Mining and Quarrying industry group which is considered a natural resource industry (see Table 4). For the 17 firms in the natural resource industry the average gross proceeds raised by the issue is $6.93 million and the average age is 7.1 years, both being very similar to the overall sample figures.

However, we find that the initial returns are marginally lower (21.60%), rather than higher, for natural resource industry firms compared to the remaining 87 firms in our sample (22.90%). Again, a reason why this industry underpricing effect present in the U.S. is not found in the Philippines is the difference in type of companies that raise funds in the equity markets (risky independent start-up firms compared to affiliated firms of large conglomerates).

4.d. Dual Class Shares

Information asymmetries and market breadth may also result in varying initial returns, depending on whether the IPO is for Class A shares or Class B shares. Accordingly, it has been argued that in cases where companies issue Class A and B shares, strong interest by foreign investors competing for a limited number of shares may cause a discrepancy in prices [Lamberte and Llanto (1993)]. However, our evidence indicates that initial returns are not dependent on whether A or B shares are offered (see Table 5). We find initial returns of 22.61% for 101 firms that issue Class A shares and unclassified shares. For the sample of 20 companies that issue Class B shares we find similar initial returns of 21.53%. For the 17 firms that offer both A and B Class shares through an initial public offering, we find initial returns of 17.81% for Class A and 20.86% for Class B shares.

5. Conclusions

Large first-day returns earned by investors purchasing the initial public offer of a Philippine company are consistent with what has been documented in other countries. We conclude that these returns, as in other countries, can be attributed to the underpricing of IPOs. Initial returns of 22.69% are greater than those documented for U.S. IPOs. This finding confirms the view that investors in smaller countries with a less developed capital market are subject to greater risks.

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13. The limited industry categories are common among emerging markets, since accompanying market liberalization is typically piecemeal and applies to only a few industries at a time, and limited market interest results in IPOs in industries that may assure more certain success.
However, this underpricing of Philippine IPOs is dramatically less severe than underpricing documented for other emerging market countries and less than other Pacific-Rim countries. Possible reasons for these differences include: (1) stage of market liberalization, (2) development of the stock market, (3) stock market regulations, (4) information disclosure and accuracy, and (5) specific firm characteristics. Greater market liberalization implies less underpricing. Since our sample overlaps with a period of rapid financial market liberalization in the Philippines, lesser underpricing is expected if this liberalization results in greater market openness than present in other countries for the corresponding periods of study. Stock market development and regulations also imply lower underpricing in markets that are more developed and have more appropriate and enforceable regulations. This may well be the case with the Philippines since its stock market has been developed based on the U.S. model. Also, the U.S. influence on legal and accounting practices may lead to more information disclosure and greater accuracy of that information. This better information would again imply lesser underpricing. There are also important differences among countries with regards to corporate governance systems, intra-firm relationships, and international influence. If the Philippine system differs in respects that lower firm risk, lesser underpricing is expected. Investigation of these conjectures is suggested for future research.

This research has also raised other questions that may be addressed by future research. For example, what are the long-run returns earned by investors of Philippine IPOs and what factors influence these returns. Furthermore, an analysis of the response of IPOs by firm type or other firm characteristics would lend valuable insight as to how investors value Philippine IPOs and which firms are able to raise funds through public issue. Finally, the underwriting process can be investigated and the mechanics of how underwriters price and market IPOs can be explored.
References


Table 1. Number of Philippine IPOs, Gross Proceeds, and Initial Returns for Initial Public Offerings in the Philippines by Year for the Period 1987 through 1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of IPOs (N)</th>
<th>Gross Proceeds (PhP)</th>
<th>Average Initial Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>2</td>
<td>156,500,000</td>
<td>66.67</td>
</tr>
<tr>
<td>1988</td>
<td>3</td>
<td>952,265,892</td>
<td>7.96</td>
</tr>
<tr>
<td>1989</td>
<td>6</td>
<td>3,702,241,172</td>
<td>57.01</td>
</tr>
<tr>
<td>1990</td>
<td>9</td>
<td>4,076,292,224</td>
<td>3.79</td>
</tr>
<tr>
<td>1991</td>
<td>9</td>
<td>4,878,348,204</td>
<td>-1.69</td>
</tr>
<tr>
<td>1992</td>
<td>8</td>
<td>5,444,631,579</td>
<td>14.89</td>
</tr>
<tr>
<td>1993</td>
<td>11</td>
<td>8,713,873,500</td>
<td>77.42</td>
</tr>
<tr>
<td>1994</td>
<td>21</td>
<td>37,415,026,196</td>
<td>25.09</td>
</tr>
<tr>
<td>1995</td>
<td>16</td>
<td>31,016,281,308</td>
<td>13.36</td>
</tr>
<tr>
<td>1996</td>
<td>13</td>
<td>27,049,473,204</td>
<td>8.43</td>
</tr>
<tr>
<td>1997</td>
<td>6</td>
<td>10,073,614,806</td>
<td>3.38</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>133,478,548,085</td>
<td>22.69</td>
</tr>
</tbody>
</table>

a Represents the number of firms that issued IPOs. Issues with “A” and “B” share classification are counted as one IPO.
b Gross proceeds are calculated as the total number of shares sold through the offer times the offer price.
c Initial returns are calculated as the return from the IPO offer price to the price at the end of the first day of trading.
Table 2. Average Initial Returns for Initial Public Offerings in the Philippines Categorized by Size (Gross Proceeds) Over the Period 1987 to 1997

<table>
<thead>
<tr>
<th>Size b (in millions PhP)</th>
<th>Number of IPOs (N)</th>
<th>Average Initial Returns (%) c (t-statistic in parenthesis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-200</td>
<td>23</td>
<td>20.06 (2.81)**</td>
</tr>
<tr>
<td>200-500</td>
<td>20</td>
<td>34.73 (2.95)*</td>
</tr>
<tr>
<td>500-780</td>
<td>19</td>
<td>22.56 (2.91)*</td>
</tr>
<tr>
<td>780-1,500</td>
<td>21</td>
<td>19.90 (2.04)***</td>
</tr>
<tr>
<td>1,500-9,000</td>
<td>21</td>
<td>17.02 (2.44)**</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>22.69 (5.82)*</td>
</tr>
</tbody>
</table>

a Based on IPO data of Class A shares and Class B shares.
b Gross proceeds are calculated as the total number of shares sold through the offer times the offer price.
c Initial returns are calculated as the return from the IPO offer price to the price at the end of the first day of trading.

* Significant at the 0.01 level.
** Significant at the 0.05 level.
*** Significant at the 0.10 level.
Table 3. Average Initial Returns for Initial Public Offerings in the Philippines Categorized by the Age of the Issuing Firm Over the Period 1987 to 1997$^a$

<table>
<thead>
<tr>
<th>Age$^b$ (in years)</th>
<th>Number of IPOs (N)</th>
<th>Average Initial Returns (%)$^c$ (t-statistic in parenthesis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00-0.90</td>
<td>21</td>
<td>29.46 (2.68)**</td>
</tr>
<tr>
<td>0.91-3.90</td>
<td>21</td>
<td>19.51 (2.03)*****</td>
</tr>
<tr>
<td>3.91-13.00</td>
<td>20</td>
<td>20.22 (3.31)*</td>
</tr>
<tr>
<td>13.01-31.00</td>
<td>21</td>
<td>24.12 (2.75)****</td>
</tr>
<tr>
<td>31.01-up</td>
<td>21</td>
<td>20.02 (2.56)****</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>22.69 (5.82)*</td>
</tr>
</tbody>
</table>

$^a$ Based on IPO data of Class A shares and Class B shares.

$^b$ Age is calculated as the number of years from the year of incorporation to the IPO offer year.

$^c$ Initial returns are calculated as the return from the IPO offer price to the price at the end of the first day of trading.

* Significant at the 0.01 level.

** Significant at the 0.05 level.

*** Significant at the 0.10 level.
Table 4. Average Initial Returns for Initial Public Offerings in the Philippines by Industry Grouping over the period 1987 to 1997

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of IPOs (N)</th>
<th>Average Initial Returns (%)&lt;sup&gt;c&lt;/sup&gt;</th>
<th>t-statistic in parenthesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Fishery, and Forestry</td>
<td>1</td>
<td>15.00</td>
<td>(na)</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>17</td>
<td>21.60</td>
<td>(2.62)**</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29</td>
<td>30.42</td>
<td>(3.39)*</td>
</tr>
<tr>
<td>Electricity, Gas, and Water</td>
<td>1</td>
<td>8.47</td>
<td>(na)</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>2</td>
<td>-2.38</td>
<td>(-0.26)</td>
</tr>
<tr>
<td>Transportation, Storage, and Communication</td>
<td>10</td>
<td>9.62</td>
<td>(2.47)**</td>
</tr>
<tr>
<td>Finance, Insurance, Real Estate, and Business Services</td>
<td>40</td>
<td>20.86</td>
<td>(3.27)*</td>
</tr>
<tr>
<td>Community, Social, and Personal Services</td>
<td>4</td>
<td>40.27</td>
<td>(2.29)</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>22.69</td>
<td>(5.82)*</td>
</tr>
<tr>
<td>Natural Resource Firms</td>
<td>17</td>
<td>21.60</td>
<td>(2.62)**</td>
</tr>
<tr>
<td>Other Firms</td>
<td>87</td>
<td>22.90</td>
<td>(5.21)*</td>
</tr>
</tbody>
</table>

a Based on IPO data of Class A shares and Class B shares.
b Industry designation is by NEDA Industry Code.
c Initial returns are calculated as the return from the IPO offer price to the price at the end of the first day of trading.

* Significant at the 0.01 level.
** Significant at the 0.05 level.
*** Significant at the 0.10 level.
Table 5. Average Initial Returns for Initial Public Offerings in the Philippines According to Class Type Over the Period 1987 to 1997

<table>
<thead>
<tr>
<th>Share Class(^a)</th>
<th>Number of IPO (N)(^b)</th>
<th>Average Initial Returns (%)(^c) (t-statistic in parenthesis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>all A</td>
<td>101</td>
<td>22.61 (5.64)*</td>
</tr>
<tr>
<td>all B</td>
<td>20</td>
<td>21.53 (2.67)**</td>
</tr>
<tr>
<td>matched A</td>
<td>17</td>
<td>17.81 (2.00)*****</td>
</tr>
<tr>
<td>matched B</td>
<td>17</td>
<td>20.86 (2.23)****</td>
</tr>
</tbody>
</table>

\(^a\) The all A set include common stock offerings where only one class was issued and the class was not specified and those specifically designated as Class A shares if dual classes were issued. The all B set includes shares specifically designated as Class B shares. The matched sets include shares issued in an IPO where both Class A and Class B shares were issued.

\(^b\) For the total sample of 104 IPOs, 84 companies issue only Class A shares, 17 both Class A and B shares, and 3 only Class B shares.

\(^c\) Initial returns are calculated as the return from the IPO offer price to the price at the end of the first day of trading.

* Significant at the 0.01 level.
** Significant at the 0.05 level.
*** Significant at the 0.10 level.