ABSTRACT

A firm undertake an Initial Public Offer (IPO) moves the firm from the private to the public domain. When it was a private company, the information disclose to public is very limited. But when it is going public, all critical information such as financial statement, managementdecision and the firm risk has to be disclosed to public. A Prospectus is prepared by IPO company, Underwriter and Auditor to fulfill that requirement.

The interesting phenomenon on the IPO is underpricing where the offer price is lower than the first day of trading. From investor perpective the underpricing provide better profit/capital gain, but in otherhand the IPO company can not get optimum fund/capital due to underprice. One of the reason the underpricing occurrence is asymmetric information. The potential investor does not know the IPO company condition hence they want a significant discount on the offering price to compensate the risk.

The IPO firm disclose the Risk Factor in the prospectus to provide proper information regarding the IPO firm. Some prospectus disclose small amount of risk and some disclose as much as possible the risk of the firm. This research found generally the risk factors do not have correlation with the underpricing. The Risk of Uncertain Contract affects moderately the underpricing, where the investor want discount price if there is uncertainty in product take off. The Auditor and Profitability of the IPO company also affect the underpricing moderately. If the Auditor is the big four auditor company than the investor confidence with the IPO company, hence the undeprice is lower. When the IPO company reported good profitability in the prospectus, the investor want to buy in better price which push the price higher (lower underprice).

Key Words : Initial Public Offer, Underpricing, Risk Factors, Auditor, Profitability, Financial Leverage, Company Age,Company Size.