IPO Underpricing: The Owners' Perspective

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ABSTRACT

Most corporate finance textbooks include a chapter on raising capital, giving particular attention to initial public offerings (IPOs). For IPOs, underpricing is defined as the percentage change from the offer price to the closing price on the first trading day. Textbooks universally treat underpricing as the indirect cost of issuance; however, this fails to account for the share issuance decision. Because owners do not typically sell all (or even most) of their shares, underpricing overstates the wealth lost by preexisting owners. I provide simple, real-life examples for instructors to use in courses such as corporate finance, entrepreneurship, or alternative investments.

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