



CONSEQUENCES SIGNALING OF THE COMPANY'S PROSPECTUS ON *INITIAL RETURN* AT IPO IN INDONESIA STOCK EXCHANGE

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Abstract

This study aims to analyze the effect of auditor reputation, share offering value, liquidity, profitability, *earnings per share* and *financial leverage* on *initial returns* with the *underwriter's* reputation as Moderation Variables. The population in this study are all companies listed on the Indonesia Stock Exchange and conducted an IPO for the 2015-2019 period. The research sample was obtained through *purposive sampling method* and resulting in 76 companies. The analysis technique used to analyze the data is regression analysis multiple and *Moderated Regression Analysis* (MRA). The results showed that (1) Reputation underwriter has a significant effect on *initial return*; (2) the share offering value has no significant effect to *initial return*; (3) liquidity has a significant effect on *initial return*; (4) profitability significant effect on *initial return*; (5) *earnings per share* has a significant effect on *initial return*; (6) *financial leverage* has a significant effect on *initial return*; (7) *underwriter's* reputation managed to moderate the influence of auditor reputation, stock offering value, liquidity, profitability, *earnings per share*, and *financial leverage* on *initial returns*. The *underwriter* acts as an intermediary between companies that are conduct an IPO with investors in the primary market. A qualified *underwriter* will be more professional in role as an intermediary so as to make the best offer for both parties.

Keywords: Auditor's reputation, Stock Offer Value, Liquidity, Profitability, *Earning per share*, *Financial Leverage*, *Initial Return*, *Underwriter's* Reputation.

I. Introduction

Several researchers (Sundarasan, 2019; Wasiuzzaman et al., 2018) who have done research on the problem of *Initial Return* at the time IPO said that the problems arose deep environment of initial public offering (IPO) on basically comes from the difference between the prices IPO offer and first day closing price which is commonly referred to as the *Initial Return* (Ritter, 1998). IPOs have long been the subject of debate and substantial interest among researchers because of the problem internal (company specific) and uncertainty external environment around the IPO. One of the cause of the emergence of this uncertainty is due due to lack of information signaling the company's prospectus to investors (Sundarasan, 2019).

In general, companies that do the process of *going public*, the company's shares first traded in the primary market. Primary market is a market for sale of shares by companies who issued the shares before the shares sold through the stock exchange. Offer of shares by premiere to the public

through this known primary market as an *initial public offering* (IPO). After stock traded in the primary market, then stocks can be traded on the secondary market. In it is this market that funds are raised through sales new securities. The flow is from buyers of securities (savings sector) to publishers securities (investment sector) (Horne and Wachowich, 2013). In the primary market, shares are sold at emission price, so the issuing company emission only obtains funds from the sale (Subayo, et al 1999: 116).

Initial Public Offering (IPO) or an offering initial shares made by the issuer company is one way companies earn funds from the community. IPO is the first step for determine the viability of public companies. The amount of funds received by the issuer is a multiplication between the number of shares offered with price per share. There are two possibilities against the share price after the offer. First is the initial share price is greater than the price that happens when the stock starts traded is referred to as *overpricing* and that is the second is called *underpricing*, which is a

condition that occurs if the initial share price is less than the price shares that occur when these shares start traded in secondary markets (Firth and Smith, 1992). Investors expect it to be the occurrence of *underpricing* because if it happens *underpricing*, the investor will get the *initial return* and vice versa if there is *overpricing* then investors do not get an *initial return*. Investors invest with a view to get the *initial return* (Darmaji and Fachruddin, 2001).

At the time of the IPO the company had to make a prospectus which is a provision set by BAPEPAM. Prospectus represents a combination of company profiles and reports annual which makes it an official document used by a corporate agency for provides an overview of the shares offered for sale to the public. Information prospectus consists of financial information and non-financial information. Financial information is financial statements consisting of balance sheets, reports profit and loss calculations, cash flow statements and explanation of financial statements. Non information finance is information other than financial statements such as independent auditors, underwriters (*underwriter*), legal consultant, company age, the company's line of business, the proportion of ownership shares and other relevant information. Information disclosed in the prospectus will assist investors in making that decision rational regarding the risk of the shares offered by listed companies (Kim, et al 1993: 195-211).

Information disclosed in the prospectus is an interesting phenomenon for the financial researchers both abroad and at domestic, to empirically examine behavior investors in making investment decisions in the capital market. When the company does IPO, the price of shares sold in the primary market determined by agreement between corporate issuers and underwriters (*underwiter*) while the prices that occur in the secondary market after the company conducts an IPO determined by existing market mechanisms through force demand and supply of these shares in the market capital.

Initial Return can be affected by a number variables within the company (Junaeni, et al 2013). Several variables can be categorized as a financial variable in a company is profitability, earning per share and financial leverage. Apart from that the *initial movement return* can also be influenced by non variables finance such as auditor reputation, bid value stocks and *underwriters* (Hulu, 2017). In this study the researchers also made *underwriter's* reputation variable as a variable moderation, namely variables that will strengthen or weaken the influence of independent variables against dependent. Reasons for choosing a variable The underwriter's reputation is due apart from being one of the determinants of

the IPO share price, the *underwriter* also a motor in the IPO process.

Underwriter who are the insiders bridge the interests of these issuers and investors is thought to have a high effect on height low level of *underpricing*. Issuer can provide positive signals to potential investors by using the services of an *underwriter* who good quality. In this study to test regression with moderating variables, researcher using an interaction test called *moderate regression analysis* (MRA). Testing using This moderated regression analysis is an application specifically multiple linear regression where in the regression equation contains an element of interaction (Ghozali, 2013). In Haska's research (2017) states that the *underwriter's* reputation can afford moderate the relationship between investment risk and the value of the stock offering against the *initial return*.

II. Literature review

a. Signaling Theory

Signal theory (*signaling theory*) for the first time developed by (Ross, 1997). *Signaling theory* explain that good financial statements is a signal or a sign that the company too has been operating properly. Managers are obliged give a signal about the condition of the company to the owner as a form of responsibility over the management of the company (Ross, 1997). This signal in the form of information about what has been done by management to realize the wish owner. Signals can be promotional or informational others stating that the company better than other companies. Purpose of the theory *Signaling* is increasing the value of a company when making a stock sale. Company that is of good quality will deliberately deliver signal on the market, so the market is expected to differentiate good quality companies and bad. For the signal to be effective, it must be responded to by the market and perceived as good, as well not easily imitated by a quality company bad (Megginson, 1997).

Welch and Ritter (2002) also reveal the concept of signal theory in the *underpricing* phenomenon. *Underpricing* is stated as a mechanism that is done by the company to give signals to investors on the quality of the company. Therefore it can be concluded that companies companies that have good quality with deliberately *underpricing* stocks so the company will have sales success shares at the IPO and at the stock offering next. Michael (1999) found that auditor reputation also provides a positive signal for company. This will cause an increase demand in the IPO which is the effect of *informational signaling*. Apart from that at the time of the IPO Usually the *underwriter* will lower the share price prime, this is done to reduce risk *overpricing*. Therefore, this theory predicts if the

issuance value decreases, then the rate *underpricing* will increase and will have an effect to *Initial Return* (Kurniawan and Haryanto, 2014).

b. Initial Public Offering (IPO)

Initial Public Offering (IPO) is a requirements that must be done for the issuer. This is the first time selling its shares on the Stock Exchange. The company's decision to become a *go company public* is a decision that is not without calculations because the company is faced with some beneficial consequences (*benefits*) and disadvantages (cost). Reason done *going public* is because of impulse upon capital needs (*capital need*). Going company *public* is a company that experiences rapid growth. Because of that growth rapidly, companies are required to be able provide funds for expansion and for new investment purposes. At the time of the company decided to do an IPO (*Initial Public Offering*), an important problem faced is the determination of the initial offering price.

Determination on the initial price (*Offering Price*) shares of a company for the first time to public (*going public*) is not easy to do. There are many things or factors that are should be considered, such as: auditor reputation, value stock offering, liquidity, *earnings per share*, profitability, *financial leverage*, market conditions, and others).

c. Initial Return

Initial return is the rate of return earned by investors during the period from the moment shares purchased on the primary market at a price closing on the first day (Haymans, 2012: 77). This period is usually about 3 weeks at most, even just 1 week. Average level initial return of at least 9.45% in the year 1995. According to Gautama, et al (2015) *initial return* will happen if on the first day traded on the secondary market its share price turned out to be higher than the purchase price in the primary market. The definition above explains that *initial return* which is successfully obtained when buying shares on *offering price* and selling it at the closing price on the first day.

Offering shares in the primary market is the result an agreement between the issuer and the *underwriter*. After making an initial offering, shares traded on the secondary market where the price shares are determined by the strength of the offering and demand for shares among investors. Percentage the difference in stock prices in the secondary market compared with the share price at the initial offering be a measure of the *initial return*. If share price on the secondary market on the first day stock trading was significantly higher compared with the bid price on the market initial then the stock is *underpricing*. *Initial return* is the profit earned shareholders for the difference in share prices therefore investors tend to love the height of their *underpricing* order get that *initial return*.

d. Prospectus of the Company

The prospectus provides information regarding companies, recent and historical financial reports, profit projections, and the dividend percentage promised, comparative analysis with industry similar, and the purpose of using the funds. According to (Trisnawati, 1999) prospectus is one the main source of information used by investors to decide whether to invest in an issuer or some other place.

According to Fama (1970) sharing information into three types, namely (1) price change information in the past (*past price charges*), (2) information available to the public and (3) information that is available to the public and private (*public and private information*). In this research information the company's prospectus can be seen from several useful variables for investors to determine investment options in certain issuers. These variables include auditor reputation, share offering value, share offering percentage, profitability, *earnings per share*, *financial leverage*, and *underwriter's reputation*.

e. Auditor's Reputation

Auditors have the main duty to carry out an audit of financial statements companies according to established audit standards Indonesian Accountants Association. Base on decision Minister of Finance RI No.859 / KMK.01 / 1987, wrong one condition in the process of *going public* is financial reports that have been audited by the office public accountant. Companies that will *go public* must meet the requirements of that report The last two financial years are *unqualified opinion* . Such an audit is necessary for the public acquire a certainty that reports financial statements are free from material misstatements, so that this can be used as information required in order to retrieve decisions by potential investors (Lestari, et al 2015).

f. Share Offer Value

The share offering value aims to obtain shows the scale of the stock offering at the time of the IPO. Share offering benefits in the capital market, among others: Can get funds relatively large and accepted at once (no with terms), the cost of *going public* is cheaper, relatively easy process, dividend distribution based on profit, community participation usually isn't get into management. Companies are being demanded more open, so that this can spur the company to increase professionalism. Give opportunities for the community to participate owning company stock, so it can reduce social inequality. Give opportunities for cooperatives and company employees to buy shares. Issuers will be better known by the community.

g. Liquidity

Liquidity (*current ratio*) is a ratio to measure the company's ability to pay short-term obligations or immediate debt matures when they are fully billed (Kasmir, 2014: 119). In other words, how much many current assets are available to cover short-term obligations that are due soon. Stock liquidity is a convenience that can be obtained by someone in withdrawing the shares through the buying and selling process on the stock exchange without reducing price. This liquidity (*current ratio*) shows the level of security (margin of safety) of term creditors short, or the company's ability to finance these debts. Liquidity (*current ratio*) too high indicates excess cash or other current assets compared to those needed now or the level of liquidity that is lower than current assets and vice versa (Munawir, 2010: 72). Thus more and more the bigger the current ratio, the smaller the *initial return* (Ardiansyah, 2004).

h. Profitability

Profitability (profitability) is ability the company makes a profit through operations its business by using its asset funds owned by the company. Febriani (2013) profitability is the company's ability earn a profit in relation to sales, total assets and own capital. Another understanding also states that profitability (profitability) show the company's ability to produce profit and measure the level of efficiency operations and efficiency in using assets owned (Pahlevi, 2014).

i. Earning per share

Earning per share (earnings per share) being shared is one important information for investors in the capital market for taking investment decisions. *Earning per share* (EPS) is the net income available to outstanding common stock. *Earning per Share* (EPS) describes the amount of rupiah earned for each share of common stock or net income per common stock. The amount of that profit available to shareholders is an advantage after deducting income tax. Growth positive *earnings per share* earn a share greater profits in the future over every share it owns.

j. Financial leverage

According to Kim, et al (2001), theoretically *financial leverage* shows a risk companies and conditions of uncertainty. The size the company's *financial leverage* will show the greater the *financial risk* or risk company failure to return loan so that it can affect determination of a fair share price at the time of the IPO (Pahlevi, 2014). In this study, a proxy was used *debt to equity ratio* (DER) in calculating *financial leverage*. Reasons for using DER in measure *financial leverage* because DER is more shows the level of debt risk which will be covered by the company's equity.

k. Underwriter's reputation

The *underwriter* function at the time of the IPO, namely guarantee the sale of shares according to the type guarantee agreed upon and determine the price the right offer together with the issuer. They also give advice on things it is necessary to pay attention to the issuer and how and when is the right time to bid. *Underwriters* are judged on their abilities to provide an offer with an *initial return* which is high for investors. *Underwriter* with high reputation has more confidence on the success of the absorbed stock offering by the market.

l. Hypothesis

Referring to the various opinions above, The research hypotheses are: (a) Auditor's reputation has a significant effect on the *initial return* on during the IPO, (b) The value of the stock offering has an effect significant to the *initial return* at the time of the IPO, (c) liquidity has a significant effect on the *initial return* at the time of IPO, (d) profitability has an effect significant to the *initial return* at the time of the IPO, (e) *earning per share* has a significant effect on *initial return* at IPO, (f) *financial leverage* has a significant effect on the *initial return* on during IPO, (g) Underwriter's reputation moderates the influence of the auditor's reputation, share offering value, liquidity, profitability, *earnings per share*, and *financial leverage* against *initial return* at the time IPO.

III. Research methodology

This type of research is research fundamental or basic research with using a quantitative approach. Research fundamentals in business aim to generate more knowledge and understanding of various phenomena draw and build theory based on results research. Positivism approach as a science knowledge and scientific research to acquire truth (Sekaran, 2016). This research was conducted on the Indonesia Stock Exchange (IDX) through the official website www.idx.co.id. The stipulation of the Indonesia Stock Exchange as a place of research taking into account that the Indonesia Stock Exchange is one of them center for sale of shares of companies that go public at Indonesia. When the study was conducted in months August 2020.

The population used in this study is a company go public that listed on the Indonesia Stock Exchange for the period 2015 - 2019 and conduct an initial public offering or IPO. The sampling technique with using *purposive sampling method*, namely sampling technique with consideration certain. And obtained as many as 76 companies meet the sample criteria. The type of data used in this study is secondary data derived from annual financial report data companies listed on the Indonesia Stock Exchange who have conducted IPOs during 2015 - 2019. The research

method used is non-participant observation methods by reading, collect and record data and information required in the annual report obtained through www.idx.co.id.

Operational definition

1) Initial return (Y)

Initial Return is an advantage obtained by shareholders due to price differences shares purchased in the primary market (during IPO) with the selling price of the shares concerned on the first day at secondary market. The *Initial return* variable is measured by way the difference from the closing price of the first day at secondary market (*closing price*) with prices IPO deals (*Offering Price*) then divided by the bid price at the IPO.

$$IR = \frac{CP - OP}{OP} \times 100\%$$

2) Auditor's reputation

KAP is a *dummy* variable, this variable determined using that scale based on the auditor's reputation, namely: 1 for the issuer who use *Big-four* category auditors, 2 for issuers that use KAP in the second tier category, and 0 for issuers using outside KAP *big-four* and *second tier* categories.

3) The value of the share offering

The value of the share offering can be calculated by the *offer price* is multiplied by the amount shares issued (*shares*) then in log so the value is less biased.

$$NPS = (\text{Shares} \times \text{Offer Price})$$

4) Liquidity

Kasim (2014: 119) says that liquidity (current ratio) is the ratio for measure the company's ability to pay short-term obligations or immediate debt matures when they are fully billed.

$$\text{Current Ratio} = \frac{\text{Aktiva Lancar}}{\text{Hutang Lancar}} \times 100\%$$

5) Profitability

Return on assets (ROA) is a ratio that is used to measure the effectiveness of the company in making a profit with take advantage of assets owned.

$$ROA = \frac{\text{Net Income After Tax}}{\text{Total Asset}} \times 100\%$$

6) Earning per share

Earning Per Share is a ratio shows the share of earnings for each share, EPS describes the profitability of that company drawn on each sheet. Value of *earnings per share* can be measured by *Net Income after tax* divided by the number of shares outstanding.

$$EPS = \frac{\text{Net Income After Tax}}{\text{Jumlah Saham yang beredar}}$$

7) Financial leverage

Financial Leverage is an acquisition assets with funds obtained from creditors or preferred shareholder by rate certain returns. This variable is measured by *Debt to Asset Ratio* (DAR), which is

the ratio of total debt against *assets* owned by the company.

$$DAR = \frac{\text{Total Kewajiban}}{\text{Total Aktiva}} \times 100\%$$

8) Underwriter's reputation

The *underwriter's* reputation will be measured by rank the *underwriters* with values from 0 to 9 based on the *total trades value* issued by IDX through the *factbook* annual.

Data analysis method

In testing the hypothesis in research, model The analysis used is *Moderated Regression Analysis* (MRA). This test aims to know the effect of independent variables (free) to the dependent variable (dependent) and the effect after moderation. The first stage is multiple regression carried out in the absence moderating variable. The second stage is carried out with the interaction between the moderating variables and independent variable. The equation is as following.

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e \dots (1)$$

$$Y = a + \beta_1 X_1.Z + \beta_2 X_2.Z + \beta_3 X_3.Z + \beta_4 X_4.Z + \beta_5 X_5.Z + \beta_6 X_6.Z + e \dots (2)$$

IV. Research Results and Discussion

Multiple Linear Regression Analysis

In this study the data were processed using SPSS version 21. The following are the results of multiple regression analysis the independent variable and the independent variable after is moderated *underwriter's* reputation variable against dependent variable:

Table 1 Multiple Regression Test

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	24,08	4,42		-5,448	0,000
(X1)	0,814	0,299	0,079	2,722	0,008
(X2)	-0,004	0,005	-0,011	-0,817	0,417
(X3)	0,989	0,188	0,447	5,27	0,000
(X4)	31,224	1,999	0,868	15,618	0,000
(X5)	0,013	0,004	0,193	3,56	0,001
(X6)	-5,545	1,124	-0,474	-4,933	0,000

Source: data processed by researchers, 2020

From table 4.1 above, it can be formed regression equation model used in This research is as follows:

$$Y = 24.083 + 0.814 (X1) - 0.004 (X2) + 0.989 (X3) + 31.224 (X4) + 0.013 (X5) - 5.545 (X6) + e$$

Where:

Y = *Initial Return*

X1 = Auditor's reputation

X2 = Shares Offer Value

X3 = Liquidity
X4 = Profitability
X3 = *Earning per share*
X4 = *financial leverage*

Moderated Regression Analysis

Testing the moderating variable in this study, using a *moderated regression analyzer*. Result moderation regression analysis equation in the study this can be seen in table 2 below:

Table 2 Moderation Regression Test

	Unstandardize d Coefficients		Stand ardize d Coefficients	t	Sig.
	B	Std. Error	Beta		
(Const ant)	- 1,352	0,207		- 6,527	0,000
X1.Z	0,110	0,064	0,031	1,708	0,092
X2.Z	0,020	0,003	0,437	6,452	0,000
X3.Z	0,024	0,007	0,377	3,613	0,001
X4.Z	- 0,154	0,089	- 0,031	- 1,72	0,090
X5.Z	0,005	0,001	0,442	4,085	0,000
X6.Z	- 0,360	0,138	- 0,195	- 2,602	0,011

Source: data processed by researchers, 2020

From table 2 above, a model can be formed regression equation used in the study these are as follows:

$$Y = 1.352 + 0.110 X1.Z + 0.020 X2.Z + 0.024 X3.Z - 0.154 X4.Z + 0.005 X5.Z - 3.360 X6.Z + e$$

Where:

Y : *Initial Return*

X1.Z: Interaction between Auditor's Reputation and *Underwriter's* reputation

X2.Z: Interaction between NPS and Reputation *Underwriter*

X3.Z: The Interaction between Liquidity and Reputation *Underwriter*

X4.Z: Interaction between Profitability and Reputation *Underwriter*

X5.Z: Interaction between EPS and Reputation *Underwriter*

X6.Z: Interaction between *Financial Leverage* and *Underwriter's* reputation

Determination Coefficient

The coefficient of determination can be seen in Table 3 the following:

Table 3 Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,998 ^a	0,996	0,995	0,18626

Source: data processed by researchers, 2020

Result of the coefficient of determination of the value of R Square in table 3 of 0.996. The meaning is that there is the influence of independent variables (auditor reputation, share offering value, liquidity, profitability, *earning per share*, *financial leverage* and reputation auditors, share offering value, liquidity, profitability, *earning per share* *financial leverage* with underwriter's reputation) on the variable tied to *underpricing* by 99.6% while the remaining 0.4% is influenced by other variables which were not examined in this study.

F test

The F statistical test aims to find out the feasibility of the model used to test the influence of all independent variables on the dependent variable is *underpricing*.

Table 4 F test results

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	533,434	6	88,906	2562,64	,000 ^b
Residual	2,394	69	0,035		
Total	535,828	75			

Source: data processed by researchers, 2020

From the results of the ANOVA test or, the F-count is obtained amounting to 2562.64 with a significance level of 0.000. Since the 0.000 significance level <0.05 or 5%, then this means that the model used *fit (fit)*. Regression models can be used for predict the *initial return* or it can be said that the independent variables together (simultaneous) has a significant effect on the variable bound.

T test

The t statistical test was carried out to test the effect an independent variable partially in explain the variation in the dependent variable.

Table 5 t test results

	Unstandardized Coefficients		Stand ar dize d Coefficients	t	Sig.
	B	Std. Error	Beta		
(Const ant)	-24,08	4,42		-5,448	0,000
(X1)	0,814	0,299	0,079	2,722	0,008
(X2)	-0,004	0,005	-0,011	-0,817	0,417
(X3)	0,989	0,188	0,447	5,27	0,000
(X4)	31,224	1,999	0,868	15,618	0,000
(X5)	0,013	0,004	0,193	3,56	0,001
(X6)	-5,545	1,124	-0,474	-4,933	0,000
X1.Z	0,11	0,064	0,031	1,708	0,092
X2.Z	0,02	0,003	0,437	6,452	0,000

X3.Z	0,024	0,007	0,377	3,613	0,001
X4.Z	-0,154	0,089	-0,031	-1,72	0,090
X5.Z	0,005	0,001	0,442	4,085	0,000
X6.Z	-0,36	0,138	-0,195	-2,602	0,011

Source: data processed by researchers, 2020

From table 5 it can be seen the significance value partially for each variable independent. For the auditor reputation variable, liquidity, ROA, *earnings per share* and *financial leverage* can be seen as having a significant value 0.008, 0.000, 0.000, 0.001, and 0.000 respectively, which is less than 0.05 or 5%, that is auditor reputation variable, liquidity, ROA, *earnings per share* and *financial leverage* have an effect significant to *Initial return*. Whereas for the variable value of the stock offering has a value of 0.417 which means greater than 0.05 or 5% means the value of the share offering does not have that effect significant to the *initial return*. Furthermore, by adding the moderating variable, namely *underwriter's* reputation makes reputation variable auditors, share offering value, liquidity, ROA, *earning per share* and *financial leverage* has significant values below 0.10 or respectively 10% means that the *underwriter's* reputation variable is capable modifying the effect of the auditor's reputation variable, liquidity, ROA, *earnings per share* and *financial leverage* against *Initial return*.

Discussion

Auditor reputation has an effect on initial return at the time of IPO

The test results show that the hypothesis first received. The significance value of the reputation variable auditors of 0.008 which is smaller than the level the significance of the research that has been determined, namely 0.05. This means that the auditor's reputation has significant influence on *initial return*. And value a regression coefficient of 0.814 indicates direction positive relationship to the dependent variable. Could stated that the auditor's reputation variable partial has a significant effect on the direction of the relationship positive for *initial return*.

In line with *signaling* theory, auditors are high reputation can be used as a signal or instructions on the quality of the company, which auditors high reputation has more commitment major in maintaining audit quality so that the company reports that have been checked by a highly reputable auditor will provide greater confidence in investors will be the quality of the information presented in the prospectus and company financial reports. This is meaningful the use of highly reputable auditors will reduce uncertainty in the future come. Low uncertainty associated with a low *initial* rate of *return* (Chang et al., 2008; Firth and Smith, 1992).

The results of this study are consistent with research Sundarasan (2019), Nasirwan (2012), Hapsari (2012), Lestari (2015), Kurnia (2017), and Wiguna (2015) indicates that the auditor's reputation is influential significant to the *initial return*. But the result This study is different from Pahlevi's research (2014), Purwanto (2014), Kristiantari (2012) and Daljono (2000) who says that reputation auditor has no influence on *initials return* due to that investors don't consider the auditor's reputation in assessing issuers conducting IPO.

The value of the stock offering has an effect on initial return at IPO

The test results show that the hypothesis the second was rejected. The value of the significance of the value variable stock offering of 0.417 which is greater than the level of research significance that has been defined that is 0.05. This means the value of the stock offering has no significant effect on *initial return*. And the regression coefficient value is -0.004 indicates the direction of the negative relationship with dependent variable. It can be stated that the variable share offering value is not partially significant effect with the direction of the negative relationship to the *initial return*.

The results of this study are in line with the research Junaini and Agustian (2013), Suyatmin and Sujadi (2006), shows that the share offering value has no significant effect on *initial return*. However, the results of this study are different from research Haska (2017), Emilia, et al (2008), Huda (2013) and Wijayanto (2010) who say that the share offering value has an influence which is significant to the *initial return* due that investors assess the proportion of that stock being offered more will give you possibilities get more profit. With the higher the share offering value the more open possibilities for investors others to invest in the company.

Liquidity affects the initial return at the time of the IPO

The test results show that the hypothesis the third is accepted. The significance value of the liquidity variable amounting to 0,000 which is smaller than the level of significance research that has been determined is 0.05. This matter means that liquidity has a significant effect to the *initial return*. And the regression coefficient value amounting to 0.989 indicates the direction of a positive relationship the dependent variable. It can be stated that liquidity variable is partially influential significant with the direction of a positive relationship to *initial return*.

Based on the *signaling* theory, namely for address the problem of low ratings against *initial return*, then a quality company can provide signals for investors to indicates that the company has good quality (Hapsari, 2012). So it's getting high liquidity (current ratio) of a company means the

smaller the risk of failure of the company in fulfilling its short-term obligations. So, the greater the level of liquidity (current ratio) the smaller the *Initial Return* (Suyatmin and Sujadi, 2006).

In line with Oktavia's research (2019), Pahlevi (2014), Suyatmin and Sujadi (2006) states that the findings regarding the effect of the current ratio on the *initial return* is positively significant. Same result too mentioned by Aisyah (2009) who stated that the current ratio has a positive effect significant to the *initial return*. This is reinforcing that a high current ratio will increase investor confidence in ability company in fulfilling term obligations in short which will have a positive impact on *initial return* at the time of the IPO of the shares.

However, it is different from Pakpahan's research and Sembiring (2015), Aini and Nur (2013) and Wijayanto (2010) which says that current ratio does not have a significant effect on *initial return*. This is due to purpose companies in going public are for long-term goals, so the company's liquidity which shows the company's capabilities in pay less short-term obligations investors pay attention to investing in the market capital.

Profitability has an effect on initial return at the time of the IPO

The test results show that the hypothesis fourth accepted. The value of the variable significance profitability of 0.000 which is smaller than the level the significance of the research that has been determined, namely 0.05. This means it has profitability significant influence on *initial return*. And value a regression coefficient of 31.224 indicates direction positive relationship to the dependent variable. Could stated that the variable profitability partial has a significant effect on the direction of the relationship positive for *initial return*.

Signal theory emphasizes its importance information issued by the company against investment decisions of parties outside the company. ROA variable as the profitability ratio on This research has shown an effect significant positive on the *initial return* rate. Companies that have a good ROE ratio will can create positive signals for potential investors. The signal will be a high ROA profitability ratio considered by potential investors as good management existing capital towards operational activities company (Haska, 2017).

The results of this study are in line with the research Banerjee (2015), Haska (2017), Febriani (2013) and Pahlevi (2014) said that the level high profitability in a company issuers, will attract investors, this because high profits reflect the company has the profit-generating performance good, so the share price was determined at the time of the IPO will be high, where under this condition

it will be reduce the *initial return* rate. However, it is different from the results of Darpius' research (2019), Antoni (2015), Wiguna (2015) and Isbenun (2010) say that the profitability ratio is not has a significant effect on *initial return* shows investors believe if the financial statements of companies that do *Initial Public Offering* (IPO) on the Indonesia Stock Exchange contains cheating with the *mark up* for show better performance. Therefore The investor doesn't consider the ROA presented in the prospectus, but tends to refer on ROA in the years prior to the company is doing an IPO. Thus investors can find out whether these financial statements it is true on the *mark-up* or not.

Earning per share has an effect on initials return at the time of IPO

The test results show that the hypothesis fifth is accepted. The significance value of the variable earning per share of 0.001 which is smaller than the level the significance of the research that has been determined, namely 0.05. This means that *earning per share* has significant influence on *initial return*. And value a regression coefficient of 0.013 indicates direction positive relationship to the dependent variable. Could stated that variable *earning per share* basis partial has a significant effect on the direction of the relationship positive for *initial return*.

The impact of *earnings per share* on *initial return* indicates that the company with high *earnings per share* giving a signal great expectations for investors about the future of his investment. This hope and belief usually manifested in an investor's interest for buy shares in the primary market or at the time of IPO.

High investor interest can result the occurrence of excess demand (oversubscribed) against stocks with high *earnings per share* at primary market so underwriters have to do allotment of shares to investors who order. The rationing is of course done proportional. As a result of the rationing done by underwriters in primary market then investors acquire fewer shares than they are order / ask.

A positive signal that was picked up by investors especially long-term investors are pictured of *earnings per share* encourages them to willing to buy more shares when listing on Indonesia Stock Exchange to cover the shortage of their orders in the primary market. They willing to buy even at a higher price high when compared to the IPO price *initial return* becomes positive. Shares purchased long-term investors at the time of listing on the IDX on The first day generally comes from term investors short and the speculators who buy stock in primary market and then wanted immediately realize profits in the form of capital gains in fast time by selling its current stock listing on the Indonesia Stock Exchange.

The results of this study are in accordance with the research Vonna (2018), Herbanu (2017), Huda (2013) and Wijayanto (2010) concluded that *earnings per share* is related positively and significantly against the bid price at the IPO and the market price shares after the IPO. However, the results of this study different from the research results of Aisyah (2009), Antoni (2015), Wiguna (2015), and Emilia, et al (2008) which states that *Earning per Share* has no significant effect on initial return on the IDX.

Financial leverage affects the initial return at the time of IPO

The test results show that the hypothesis sixth is accepted. The value of the significance of the *financial variables leverage* (DER) of 0.001 which is smaller than the level of research significance that has been defined that is 0.05. This means *financial leverage* has a significant effect on the *initial return*. And the regression coefficient value is -5.545 indicates the direction of the negative relationship with dependent variable. It can be stated that the variable *financial leverage* is partially influential significant with the direction of the negative relationship to *initial return*.

The research results show that there is influence between *financial leverage* that measured by *financial leverage* against the level the *initial return* that occurred during the IPO, it shows that investors consider *financial value leverage* in investment decisions did. *Financial leverage* can provide signals to investors about capabilities company to pay its debts with assets which he owns. If *financial leverage* is high, indicates a high company risk as well. Thing it proves the existing theory, that with the value of high *financial leverage* uncertainty survival of a company for the times front is high, this will have an effect on the level investor confidence is decreasing and level the *initial return* is getting higher.

The results of this study are in line with the results research Darpius (2019), Wiguna (2015), Pahlevi (2014), Zirman and Darlis (2013), Wahyusari (2013) and Wulandari (2011) who stated that *financial leverage* calculated by *financial leverage* has a significant effect on *initial return*. However different from that research conducted by Ningrum and Widiastuti (2017), Kristianti (2013), Retnowati (2012), Witjaksono (2012) which states that *financial leverage* has no effect on *initial returns*.

The underwriter's reputation moderates the influence auditor reputation, share offering value, liquidity, profitability, earnings per share, and financial leverage against the initial return on during the IPO

The seventh hypothesis proposed in This research is a reputation *underwriter* moderate the effect of auditor reputation, value stock offering, liquidity, profitability, *earnings per share* and

financial leverage against the *initial return* significantly. The test results are obtained for this hypothesis shows that result based on significance value, *underwriter's* reputation managed to moderate the effect of auditor reputation, value stock offering, liquidity, profitability, *earnings per share*, and *financial leverage* against the *initial return*.

The underwriter's reputation has strengthened successfully the relationship between the auditor's reputation variable and the *initial return*. This positive relationship occurs because of when audited by company financial statements auditors from reputable KAP are considered resulting in a higher level of confidence for the quality of the information contained therein. The existence of an *underwriter* gives credibility for issuers in providing prospectus signals to investors. For the variable share offering value, use of a good *underwriter's* reputation and the value of the high share offering value will be convince investors that the company is indeed a company with good prospects and can be trusted. High underwriter's reputation will add to the company's credibility and give signals that the use of IPO funds will be appropriate for the purpose of using the funds in the prospectus. On the other hand, an *underwriter* company with a reputation good will more appreciate the value of the company *fair* according to company circumstances, so that the stipulation the share price will be close to the fair price and *underpricing* becomes low (Fitriani, 2019).

The underwriter's reputation has strengthened successfully liquidity (*current ratio*) to *initial return*. *Underwriters* can reduce the level of uncertainty faced by investors on share prices which is offered. If the *underwriter* has a reputation good deals and can set the bid price which is close to the fair price then the price demand for shares in the secondary market will be affect the *initial return* rate of a company (Fitriani, 2019).

The underwriter's reputation has strengthened successfully profitability (ROA) to *initial return*. Score A good ROA will create a positive signal for investors coupled with *underwriters* with a good reputation will estimate the share price the company is close to its fair price so the company does not experience large differences as well as reducing the level of uncertainty from implementation of the IPO of a company (Haska, 2017).

The underwriter's reputation has strengthened successfully *earning per share* variable relation to *initial return*. Companies that provide *earnings per share* too much will make companies have difficulty growing rapidly because all proceeds from the company's income are awarded to shareholders, so the company doesn't have additional funds to develop. This matter make

company uncertainty increase, so that will increase the *initial return* rate. The underwriter minimizes the risk of not suffered a loss so the underwriter's reputation high will affect the *financial level leverage* on a company so it will reduce the *initial return* rate (Herbanu, 2017).

The *underwriter's* reputation has strengthened successfully the relationship between *financial leverage* and *initial variables return*. The higher the *financial leverage* shows the higher the debt held company compared to total equity owned, resulting in firm uncertainty and the risk in the future will be even higher.

Uncertainty and high risk create investors want an initial price of that share offered low as compensation for risk which he took. *Underwriters* minimize risk so as not to experience loss so that reputation high *underwriters* will influence the rate *financial leverage* in a company so will reduce the *initial return* rate (Firmanah and Muharam, 2015).

Conclusion

Based on the results of hypothesis testing and discussion of the effect of the auditor's reputation, share offering value, liquidity, profitability, *earning per share*, and *financial leverage* against share price moderated by *underwriter's* reputation then the following conclusions can be drawn:

1. The auditor's reputation has a significant effect to the *initial return*. Where stated that the increasing value of the auditor's reputation, the more the *initial return* value increases, this means the use of reputable auditors height will reduce uncertainty on future. The uncertainty low is associated with the *initial* rate of *return* The low one.
2. The value of the share offering has no effect significant to the *initial return*. This matter possibly due to limitations information about the companies that are going to go *public* causes no basis relevant about how the bid price set.
3. Liquidity has a significant effect to the *initial return*. This means that the higher the liquidity (current ratio) a company means less risk the company's failure to comply short-term obligations. So, the more large level of liquidity (current ratio) increasingly Small *Initial Return*.
4. Profitability has a significant effect to the *initial return*. This means that companies that have a good ROA ratio will be able to create a positive signal for candidates investors. The ROA profitability ratio signals potential investors will be rated as good management of existing capital company operational activities.
5. *Earning per share* has a significant effect to the *initial return*. This means that companies with high *earnings per share* signal great hope for investors about the future of their investment. These hopes and beliefs are usually

manifested with investors' interest to buy shares in primary market or at the time of IPO.

6. *Financial leverage* have an influence significant to the *initial return*. This matter show that investors consider the value of *financial leverage* in investment decisions did. *Financial leverage* can provide signals to investors regarding the company's ability to pay the debt with the assets it owns.
7. The *underwriter's* reputation moderates successfully effect of auditor reputation, bid value stocks, liquidity, profitability, *earnings per share*, and *financial leverage* against the *initial return*. This means that reputation *underwriters* are able to strengthen relationships between the auditor's reputation, the share offering value, liquidity, profitability, *earnings per share*, and *financial leverage* against *initial return*. The *underwriters* acts as an intermediary between companies that do IPO with investors in the primary market. *underwriters* are quality will be more professional in its role as an intermediary so that it can do the best deals for both both parties. Here the underwriters will try to estimate the company's share price approaching its reasonable price so parties the company did not suffer major losses due to the positive difference in share prices too far.

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