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THE IMPACT OF IPO LISTING ON COMPANY FINANCIAL PERFORMANCE: EVIDENCE FROM SAUDI ARABIA

**Thesis Submitted in Partial Fulfillment of the Requirements for the master's degree in
Finance.**

Master of Science in Finance

College of Business

Effat University

By: Nada Binmahfouz

Advisor

Prof. Ahmed BenSaida

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جامعة عفت
EFFAT UNIVERSITY

أثر إدراج الاكتتابات العامة الأولية على الوضع المالي للشركات: دراسة حالة من المملكة العربية السعودية

رسالة مقدمة لاستكمال متطلبات الحصول على درجة (الماجستير) في (علوم المالية)

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DECLARATION OF AUTHENTICITY

I [Nada Binmahfouz], declare that all of the materials presented in this paper are my own work, or fully and specifically acknowledged wherever adapted from other sources. I understand that if at any time it is shown that I have significantly misrepresented material presented to Effat College of Business at Effat University, any degree or credits awarded to me on the basis of that material may be revoked.

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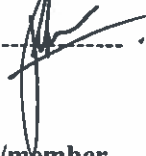
Deanship of Graduate Studies and Research

This thesis, written by Nada Binmahfouz under the direction of her thesis supervisor and approved by her thesis committee, has been presented to and accepted by the Dean of Graduate Studies and Research on The Impact of IPO Listing on Company Financial Performance Evidence from Saudi Arabia in partial fulfillment of the requirements for the degree of Master of Science in Finance.

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Abstract

This study critically examines the impact of Initial Public Offerings (IPOs) in the transformation of private companies into public entities within Saudi Arabia's dynamic economic framework. IPO listing is a way to gain more capital for developing private companies to meet capital requirements for growth. Saudi Arabia has an increasing trend of IPOs as part of Vision 2030, however, there is not conclusive evidence about the impact of IPOs on financial performance of newly listed companies. By employing data from 49 non-financial companies that went public during 2017-2021, this study tries to revisit the impact of IPO using Panel OLS based on the Hausman test. The study finds that IPO positively impacts Total Assets (TA) and Profit Margin (PM) of the companies while negatively impacts Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) , Return on Assets (ROA), Asset turnover (ATO) and Return on Equity (ROE). These findings are true for non-financial companies. This study may be helpful in guiding the investors before taking any decision to buy stocks in primary stock market based on their investment strategies and outcomes. The positive impact on Total Assets may be a reason to lower ROA, ROE and EBITDA. The findings also indicate that companies first focus on assets building and then move to ear profits. The same study may be employed in financial sector or other sectors of the stock exchanges.

Keywords: IPO, Saudi Arabia, Financial Performance, Non-Financial Companies, Vision 2030, Total Assets, Profit Margin, EBITDA, Return on Assets, Asset Turnover, Return on Equity, Panel OLS.

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Chapter 1: Introduction

Initial Public Offering (IPO) is the process whereby privately owned companies list their shares on a stock exchange that is made available to the general public for purchase, with expectations that capital will be generated (Ritter, 1998). The issuance of shares allows the company to gather capital while also providing the opportunity for the general public to invest and earn returns on that investment. In other words, IPO is the selling of securities to the public in a primary market that deals with fresh stock issues for the first time by an organization. Typically, an IPO is launched by companies to enable asset trading, increase capital, monetize existing stakeholders, or gain publicity (Ashford and Curry, 2023). By the financial objectives of Vision 2030, Saudi Arabia is witnessing a massive transformation with a huge leap in the demand for IPOs. This reflects the efforts made by Saudi Arabia to strengthen its economy and increase the contribution of non-oil-related industries towards the Gross Domestic Product (GDP) (Economy Middle East, 2022). The IPO market in Saudi Arabia has seen significant growth, particularly in the context of the country's Vision 2030. Vision 2030 is a strategic framework aimed at reducing Saudi Arabia's dependence on oil, diversifying its economy, and developing public service sectors such as health, education, infrastructure, recreation, and tourism (Vision 2030, 2021). One of the primary goals of Vision 2030 is to create a thriving economy by enabling private sector growth, attracting foreign investment, and fostering innovation. The Saudi government has been actively encouraging companies to go public as part of this broader economic reform agenda. The Saudi Stock Exchange (Tadawul) has become a key player in these efforts, facilitating numerous high-profile IPOs that have drawn significant domestic and international investor interest.

The Saudi corporate sector has undergone significant changes in recent years, driven by the Kingdom's Vision 2030 initiative. This initiative aims to reduce the country's dependence on

oil and diversify its economy through the development of various sectors, including technology, healthcare, tourism, and manufacturing (Albassam, 2015). The corporate landscape in Saudi Arabia is characterized by a mix of large family-owned conglomerates and an increasing number of publicly listed companies. The government has implemented various reforms to encourage private sector growth, foreign investment, and the participation of small and medium-sized enterprises (SMEs) in the economy (Ramady, 2010). Additionally, the introduction of the Saudi Arabian General Investment Authority (SAGIA) and the Capital Market Authority (CMA) has played a pivotal role in creating a more business-friendly environment (Ramady, 2010). The Kingdom boasts of a high growth rate among the G20 nations and despite the market volatility in 2022, the stock market of Saudi Arabia remained relatively resilient. By the end of Q3 2022, the economy grew by 8.8% with an estimated market capitalization of publicly traded companies totaling around 2,706 billion dollars by January 2023. However, the end of 2022 noted a dip in the stock exchange of Saudi Arabia by 7.1% with the Tadawul All Share Index (TAS) slipping. Irrespective of this, the overall trend of the Saudi stock market has been positive in 2022 with Saudi Arabia being a dominant force in listings (Hamman & Al-Mehdar Law Firm, 2023).

The significance of IPOs in Saudi Arabia is further underscored by landmark events such as the IPO of Saudi Aramco, the world's largest oil company, which raised \$25.6 billion in 2019, making it the largest IPO in history (Reuters, 2019). This monumental event not only highlighted the capacity of the Saudi market to handle large-scale public offerings but also marked a significant step towards the country's economic diversification goals. The successful listing of Saudi Aramco on Tadawul has paved the way for other state-owned and private enterprises to consider IPOs as a viable strategy for capital raising and expansion (Hammad & Al-Mehdar, 2023). Moreover, the increased activity in the IPO market is reflective of the

broader efforts to enhance the transparency and governance standards of Saudi companies, aligning them with international best practices.

Historically, the performance of companies post-IPO has been a mixed bag, with some studies indicating an improvement in financial health and others suggesting a decline or no significant change (Jain & Kini, 1994). This inconsistency in findings underscores the need for region-specific research, given that market conditions, investor behavior, and regulatory frameworks vary significantly across different geographies. In the case of Saudi Arabia, the recent economic reforms, including the introduction of new regulations in the capital market, have further necessitated this study. This research aims to fill the gap in the literature by providing a comprehensive analysis of the financial performance of companies listed on Tadawul before and after their IPOs. It seeks to understand whether companies experience significant changes in key financial indicators, such as profitability, liquidity, and leverage ratios, following their public offering. Such an analysis is essential not only for potential investors and financial analysts but also for corporate executives and policymakers in Saudi Arabia, providing them with insights into the consequences of going public in this unique market.

1.1 Problem Statement

Despite the significant role of Initial Public Offerings (IPOs) in capital markets globally, there remains a substantial gap in understanding their impact on the financial performance of companies, especially in emerging markets like Saudi Arabia. The Saudi Arabian Stock Exchange (Tadawul) presents a unique context, influenced by the country's distinct economic structure, evolving regulatory environment, and ambitious economic diversification plans under the Vision 2030. Existing literature predominantly focuses on Western and other developed markets, offering limited insights into how IPOs affect companies

in emerging markets, particularly those undergoing rapid economic transformations like Saudi Arabia. This research seeks to address the critical gap in understanding how going public impacts the financial health of companies in this specific market context. There is a need for empirical evidence on whether IPOs in the Saudi market lead to significant changes in key financial metrics such as profitability, liquidity, and leverage ratios. Such an analysis is imperative for investors, corporate executives, and policymakers within the region, who currently rely on studies and models developed in markedly different market conditions. Furthermore, the unique economic landscape of Saudi Arabia, marked by its heavy reliance on oil revenues and recent shifts towards diversification, makes it a compelling case study for understanding the broader implications of IPOs. The Vision 2030 initiative is not only a national economic strategy but also a cultural and social transformation plan, which has implications for corporate governance, investor relations, and market dynamics. The gap in targeted research on the Saudi market means that the current understanding of IPO impacts may be based on assumptions and models that do not fully account for these contextual nuances.

The lack of targeted research on the Saudi market hinders effective decision-making for a range of stakeholders, including companies contemplating an IPO, investors seeking growth opportunities, and regulatory bodies aiming to foster a robust capital market. Thus, this study will investigate the post-IPO financial performance of companies listed on Tadawul, aiming to fill a vital knowledge gap and contribute to a more nuanced understanding of the financial dynamics in emerging markets like Saudi Arabia.

1.2 Significance of Research

Saudi Arabia has been making significant strides toward the development of its capital market by promoting investment opportunities in recent years. The listing and IPO trends in

Saudi Arabia reflect the growth and development of the Saudi financial sector. The financial market in Saudi Arabia has noted an increase in IPO over the recent years, with 11 of the 13 listings from the MENA region coming from Saudi Arabia in Q3, 2023. The listings momentum has noted 44% growth in Q2 2023 as compared to Q2 2022 (Arab News, 2023). In addition to this, in Q3 2022, Luberef subsidiary Saudi Aramco Base Oil Company achieved the largest IPO with an estimated 1.3 billion dollars which was more than double what was collected through all Saudi offerings in the quarter (Hammad & Al-Mehdar, 2023). With this increase, it is essential to understand the impact of IPO on stock prices in the Kingdom as it would develop the knowledge available on the subject. Moreover, the practical knowledge developed can aid investors in Saudi Arabia to make informed investment decisions. The significance of this research also lies in its potential to inform policy decisions within the Kingdom. As Saudi Arabia continues to implement its Vision 2030, understanding the financial outcomes of IPOs can help shape regulatory frameworks that promote healthy market practices and investor confidence. This research can provide empirical data to support the design of policies that encourage more companies to go public, thereby increasing market depth and liquidity. Additionally, by analyzing the financial performance of companies post-IPO, the study can highlight potential areas of improvement in corporate governance and investor relations practices among newly public firms.

1.3 Purpose of Study

The purpose of this study is to gain an in-depth understanding of IPOs in Saudi Arabia with a focus on their impact on the issuing company. With the growth in demand and increased investors' interest in the Saudi stock market, the study seeks to understand, analyze, and

interpret findings associated with the factors that influence the impact of IPO on stock prices of issuing companies in the context of the Saudi Arabian market. By examining a range of financial metrics before and after the IPO, the research seeks to identify patterns and trends that can inform both theoretical understanding and practical applications. Additionally, this study will contribute to the existing literature by offering insights specific to the Saudi market, which can be compared and contrasted with findings from other regions. The ultimate goal is to create a knowledge base that supports informed decision-making by all stakeholders involved in the IPO process.

1.4 Research Questions

The objective of the study is to measure the impact of IPO on firm performance in case of Saudi Arabia which has mixed findings globally and it is necessary to visit the context of this region where IPOs are increasing. Based on the objectives of the study, this study aims to address the following questions:

Does Initial Public Offerings (IPOs) affect the financial performance of companies listed on the Saudi Arabian Stock Exchange (Tadawul) in terms of key financial metrics?

1.5 Hypothesis Development

This research aims to investigate the effect of Initial Public Offerings (IPOs) on the long-term financial performance of companies listed on the Saudi Arabian Stock Exchange (Tadawul). The hypothesis is formulated based on the premise that an IPO can have significant implications for a company's financial health. Following hypothesis are tested in this study:

H1 : There is a significant impact of IPO listing on Assets Turnover of Saudi companies.

H2 : There is a significant impact of IPO listing on Total Assets of Saudi companies.

H3 : There is a significant impact of IPO listing on EBITDA of Saudi companies.

H4 : There is a significant impact of IPO listing on Return on Assets of Saudi companies.

H5 : There is a significant impact of IPO listing on Profit Margin of Saudi companies.

H6 : There is a significant impact of IPO listing on return on Equity of Saudi companies.

These hypotheses will guide the empirical investigation, with the research analyzing financial data to ascertain whether IPOs are, indeed, a catalyst for improved long-term financial performance in Saudi Arabian companies.

Chapter 2: Literature Review

2.1 Introduction

Initial Public Offerings (IPOs) play a crucial part of the path to development for the companies, as they can raise funds from the public by selling some portion of their shares on the stock exchange platforms. This process largely determines the company's state of affairs, and it greatly affects the financial aspects such as profitability, leverage, liquidity, and market valuation. Being aware of such market effects is absolutely necessary for firms that are considering an IPO in KSA, a country where the local capital market continues its active and accelerated development. This article offers theoretical considerations relating to financial impact after IPOs, using findings from the global and Saudi Arabia situation adjacent to the country.

From a legal perspective, the process of IPO shares marks the creation of a joint stock company while raising investment capital that can fund the organization. This chapter review the literatures under different headings to cover all aspects related to IPO.

2.2 Economic Impact of IPOs

The creation of such a company offers shares to the widest market investors which provides capital to the organization for its development. The listing of an IPO requires an estimate of the share price that is confronted with the expectations and assessments of the investors. The subsequent stock exchange valuation of company shares is based on a variety of market factors. These factors influence the demand and supply on the trading floor. The price is determined based on the issue price as well as the number of shares offered (Małachowski and Santos, 2021).

The main beneficiaries in the primary capital market are companies that go public to raise capital and attract investors to make profits. However, the economy as a whole gains an indirect benefit from this process as well. These benefits are reflected in economic growth favorable to the nation, an increase in innovations, and the creation of a strong as well as robust economic infrastructure (Pešterac, 2020). An emerging capital market in Saudi Arabia provides a diverse base for both local and foreign investors. The strong support offered by the Saudi stock market in terms of size, reach, and diversity further aids investment opportunities in the Kingdom (Narayanan, 2023).

2.3 Behavioral Finance and IPOs

With the emergence of behavioral finance studies, the psychological facts associated with the financial behavior of investors are being considered (Hens and Bachmann, 2011). Behavioral Finance studies are more concerned about the behaviors of investors where they act irrationally based on different behavioral aspects. It is assumed that investors, as irrational traders, are willing to bid for stocks at prices exceeding their intrinsic values, and that issuers are biased in evaluating the true value of their offerings (Ljungqvist, 2007). Such irrational behaviors are called sentiments of the investors and are known to have a general attitude toward the value and future returns of financial instruments that are based on their emotional as well as cognitive biases (Cathy, 2008; Ibrahim and Benli, 2022). Extensive literature suggests that IPO, in general, tends to be underpriced in the short-run followed by underperforming of the benchmark for three to five years post-offering date (Ibbotson, 1975; Aggarwal and Rivoli, 1990; Ritter, 1991; Espenlaub et al. 2000; Lyn and Zychowicz, 2003; Lee et al. 2011; Tomasz and Joanna, 2012) that is, excess returns are negative and significant after this period following the offering date.

2.4 Short-Term Performance of IPOs

Studies have also concluded that over the five years, underperformance was less dynamic and less sensitive to the benchmark applied. Consequently, the evidence for long-term returns of IPOs is less evident as compared to short-term returns. Information on short-term returns is essential as it provides new and useful information to various users such as finance professionals and students. It provides additional evidence of post-listing returns and decision-making. Whereas the long-term return performance of IPOs is essential for decisions on asset allocation, estimation of risks and return, and efficient management of portfolio (AlShiab, 2018).

2.5 Stock Market Dynamics and IPOs

An increase in the supply of shares in the form of new shares would negatively impact the equilibrium price of stocks that are close substitutes for the new share or IPO stock. IPO portfolio rebalancing strategies are applied by investors in case of such a negative cross-stock effect (Braun and Larrain, 2009). In addition to this, certain factors significantly influence the pricing of Initial Public Offering (IPO) stocks in the market. These factors encompass various elements, including corporate governance, the reputation of the underwriter, the industry of operation, investor sentiment, the distribution system, and the overall market atmosphere (Xiao-Lian Wang, 2007).

2.6 Profitability

Studies conducted by Chemmanur and Guo (2011) of the short-term profitability fall after an IPO are revealing. This is two-fold, meaning that there are two important factors to consider. Firstly, the all-time expense like underwriting fees and legal cost can be a burdensome barrier to finance your startup. Secondly, there is the possibility for the "investment by managers." This means that big capital input can lead to an overinvestment in unprofitable ventures that

won't perform as well as planned which in turn will result in a momentary decrease in profitability. Nonetheless, Brau et al. (2016) bring forth a proposition according to which IPOs have long-run ramifications. Companies can enjoy persistent high profit levels as a result of the newly achieved access to capital. Therefore, such capital will enable them to invest into the business areas that need improvement such as research and development projects and expansion plans for profit maximization in the long term.

Al-Barrak (2005) demonstrates the single-company approach of Saudi IPOs and how placing the company on the market showed a reduced in profit side. However, it's necessary to note that the described case may not represent the entire situation for Saudi market at all. A larger group sample size research is needed more before assertions about IPOs and profitability in Saudi Arabia can be generalized. Alanazi et,al. (2011) solve this problem by examination of larger set of Saudi companies with no change in profitability being found after the IPO. Consequently, profitability impact might differ according to both the company- specific features and the ones which are common for the industry. Thereafter, there would be need for further probe into the relationship and influence of such factors in the Saudi environment so that a clearer view of profitability in that market could be seen.

2.7 Leverage and Liquidity

Zingales (1998) shows the influence of IPO action on the leverage of a company, and leverage is the ratio of debt to equity. Companies frequently leverage debt financing jointly with equity raised at IPO, which might change the company's balance sheet and render it more liquid . Although capital investment is a major advantage of public trading, in this case, one should learn to deal with debt effectively. Extremely high leverage of funds makes a company less risk-resistant; therefore, companies must be very careful in their debt management so as to be able to maintain a good financial background.

Chemmanur and Guo (2011) pin-point on IPOs as a method that can increase a firm's liquidity by offering better options of capital. This enables acquiring capability to make investments in divisions to be more impactful such as growth projects, research, and development as well as potential acquisitions. High liquidity gives rise to far more financial flexibility as well as spurring proper future direction setting. The research on the effect of IPOs on leverage and plugging liquidity suggest the same with respect to the regions. According to Chemmanur and Guo (2011), in foreign locations companies experienced higher leverage arising from debt financing and at the same time robust liquidity due to raising of equity variously during the initial public offerings.

The IPO impacts on Saudi Arabia's leverage and liquidity as a whole were mostly unexplored, since the specific research is extremely limited. While Zingales (1998) describes the pool of increased leverage, the study on Saudi companies is required, directly observing. An analysis of interactions between leverage, liquidity, and risk management can be a foundation for formulating strategies of the Saudi companies contemplating IPO issuance.

2.8 Market Valuation

Musfiroh et al. (2020) ask the question about the effect IPOs have on the market value of a company. Superior post-IPO performance is usually positively associated with sustained growth in share price, representing higher valuation level as investors are reassured by the prospects of the company. When a market value moves up, that can mean advantages such as being able to get financing more easily when you plan a new project. Chemmanur and Guo (2011) outline the possible effects of public offering on the long-term trajectory of the issuer. The capital which an upstart company will access through an IPO could then be used in carrying out its research & development, expansion initiatives, and possible acquisitions. These

placements can improve the product's range, access new markets and any other long-term wealth creation intention for the shareholders.

The IPO of Saudi Aramco, the world's biggest oil producer, proved the value of IPOs in the context of Saudi stock market, particularly in terms of the market valuation. The open financial data state the case for the remarkable upsurge of market capitalization caused by listing the company on Tadawul. Therefore, the fact that this type of capital can be harnessed by Saudi firms to increase their market capitalization and attract investors is clearly highlighted.

Despite the fact that only a few studies are there on the subject about how IPOs influence long-term prospects for company growth based in Saudi Arabia, this system of Chemmanur and Guo (2011) is really useful. Additionally, surveys oriented specifically to the Saudi situation can examine how companies spend IPOs generated income on the execution of strategic objectives and attainment of competitive advantages which are sustainable.

2.9 Pre-IPO Financial Health

To Chennamur and Guo (2011), pre-IPO financial health is a dominant indicator of a firm's performance upon completing the IPO. Companies with better circumstances, less debt, and an effective production in place before their IPO launches may discover that they can benefit even more from the same process. Such companies may well show a track record of business excellence and generate additional investor interest. Analyzing pre-IPO financial health is completely essential for IPO planning as well as for investors who will decide to invest in stock. The external market condition also has a huge influence according to Brau et al. (2016), which also plays a key role on the performance of the IPO.

The state of economy and current investors' psychology can have a huge impact on the results of an IPO. Companies that go public when there is a bull market, which is typically

accompanied with the perception of elation and rising stock market prices, typically receive high initial offering prices. This means more financial access to the listed companies from the capital market that stipulates their expansion desires. On the other hand, bearish markets with dropping stocks prices and sentiments of negative investor attitude is not a favourable environment for companies to be coming out and go public. Undeniably, such periods pose a challenge, as entering the stock market becomes difficult to new issuers, and they may end up selling their shares for a lower price than they want, which in the end may limit the amount they raise. Identifying and understanding of prevailing market policies is vital for companies that are deliberating doing an IPO.

Companies should prudently examine the prevailing market environment and the mood of investors before they choose the right moment to bring in their offerings, which thus offers them the best chance of success. A bullish market during the launch of your company's IPO will improve the way investors will perceive it, thus ending up with a higher valuation and funds that will be used for the realization of future projects. Alternatively, teams are looking to go public during these time periods might be possibly better off by delaying their IPOs until market conditions are more convenient. This strategic approach can be beneficial for companies as it enables them to maximize the favorable outcome of their IPO as well as set the course for future growth.

According to Chemmnur and Guo (2011), pre-IPO financial health is a crucial issue, which may predict post-IPO performance. Successful firms with a pristine track record of good performance before IPOs usually get more benefit if they decide to go public. These companies can show a historical profitable business and attract more money from investors. Pre-IPO financial health analyzation is a while-and-so essential issue for companies interested to go public, as well as for investors who want to make investment decisions. The success of an IPO

is not determined only by internal factors like physical health and financial health but also by the trends and conditions of the external environment as pointed out by Brau et al. (2016). Two key factors significantly influence the outcome: the prevailing state of the stock market, which includes its overall health, and investor sentiment.

2.10 External Market Conditions

The intricacy of IPO brings the importance of the right underwriter down to earth, which creates the basis of Musfiroh et al (2020) conclusion. Seasoned investment banks with a proven track record of public offering transactions have a lot to offer in this regard, which greatly influences the journey toward success for a company. In addition to valuation, underwriters are also great where the evaluation process is concerned. Using marketing strategies of different kinds, the underwriter can amplify the enthusiasm around the IPO, thus penetrating the large of investors and stimulating a good auspice. Consequently, with the increased investor interest there is higher demand for the company's shares, this then leads to an increased offering price, finally culminating in a higher valuation of the company. Try to envision a business entity with a breakthrough new technology and little background in handling public marketplace. An experienced underwriter can develop a story that narrates the company in a more appealing manner for investors, which may lead to a higher valuation than the company could get if it were to raise capital itself. Besides the valuation; the analysts turn out to be of great assistance to the company during the complicated IPO process.

The road to an IPO is packed with rules, laws and minute details. A person who has been an underwriter for a long time because of the experience that they have - the wisdom and skills - can lead through the difficulties, guaranteeing a brilliant and successful IPO. They may go ahead with the prospectus just as well. On top of it, they will be familiar with all sort of regulatory requirements. Successful business will concentrate on core tasks. Therefore,

selecting an underwriter of good name is not only a ticking a box exercise that a company going for listing of shares does; it is a strategic decision that can may a difference in the company's financial status after listing the shares. Companies that are taking a step forward with an initial public offering can raise their chances of being successful, receiving the required capital from public market thanks to the valuation expertise and process leadership service provided by expert underwriters.

2.11 Underwriter Selection

The majority of the reported studies are about the influence of IPOs on company's financial performance during the short period after the IPO. The research projects that are carried out along for a long period of time should be implemented, especially in the context of KSA, to trace the influence through the years. In other words, looking at how companies fare from a financial perspective following IPO is what gives us the needed foundations for knowing the ultimate results of going public.

Khawla Ritter (2017) paying special attention to the issue of industrial effects indicate the necessity of more educational decisions on how IPOs are affecting the companies in various sectors of the Saudi Arabian economy. Whilst some generalizations can be drawn, the explicit impacts of going public mainly differ with industries the company participates in. You must start with thorough research to fill this knowledge gap. Analyzing the Saudi Arabia-specific data across sectors is essential; the obtained insights will help companies opening IPOs in the Kingdom to establish a more confident decision-making process.

2.12 Regulating Equity Segments

Jamaani (2022) investigates how regulating the equity segments of Tadawul stock exchange affects the IPO outcomes of the listed companies. Analyzing listing conditions, disclosure

standards, and investors' rights regulations can contribute to a much better understanding for legislators trying to design a robust IPO process. Establishing proper regulations can help to create a vigorous IPO market that profits companies, investors, and Saudi economy through its impacts. The single factor of a decrease in profitability following an IPO can't be associated(tied) with Saudi Arabia alone. This situation reflects on what foreign researchers found and to suggest that this is a tendency in different parts of the world.

An investigation by Bhaumik et al. (2017) regarding companies from India that went public shows the similarity with the Saudi Arabia case. Their study related two underlying factors that are directly linked to the short-term decrease in profitability of the initial public offering process. One-time recourses related to the IPO process itself may be substantial. Over and above the underwriting fees of investment banks, which manage the IPO and compensation of the legal and accounting team, which prepare the prospectus and fulfill the regulations, companies are obliged to cover the direct costs of going public. Such sizable upfront costs can put pressure on profitability in the short term, even if the end results are substantially positive as far as the initial investment is concerned. One of the perils associated with the large amount of money raised on the IPO can turn out to be the managerial overinvestment. In this case, company management could be lured to put the IPO funds into some activities that are not strategic and productive as it was planned on doing. These profitable but short-lived spending patterns that harm short-term profit position is the reason for funding the long-term objective of getting returns. If we consider the example of Saudi Arabian, the study of international literature done by Musfiroh et al. (2020) in Southeast Asia also indicated the gains in long-term profitability that may result from IPOs. Those results may indicate that the availability of money may result in the more around the globe as long as there is no recession in a short span of time.

2.13 Great Future on Stock Exchange

Kamaludin & Zakaria (2019) considers a situation where a business having been successful for quite a long time and prospects of a great future is about to be listed on a stock exchange. Should the stock market have a bullish trend with solid optimism and rising stock prices, then the IPO is a great chance to manifest its growth. Investors are in overwhelming trust and rearing to take on risks during bull markets. This equals a greater prospect for the item soaring in demand, thereby making the initial offering price of the company's shares go up. A higher offer price in turn implies easier access to capital for the firm by allowing to realize its expansion projects and achieving of secured market leadership. Brau et al. (2016) embrace this idea telling in their research that there exists a positive connection between extent of bullish markets and availability of funds for listing companies. The described situation shows how beneficial the favorable market conditions can change the IPO success, in comparison with the unfavorable market conditions.

A clear example of this is the ability of the banks with the impeccable reputation and expertise in IPOs to shape the financial health of a newly listed company as Musfiroh et al. (2020) observe. This is useful for companies to clinch higher valuations as underwriters can use their skills to effectively market the IPO to investors. Besides, they can supervise how applicants can handle the complex IPO procedures. Companies considering going public, which mean offering their stocks to the investors, should carefully choose a reliable underwriter.

The majority of present research considers short-term impacts of an IPO on a company financial performance. The continuity of longitudinal studies especially in the case of Saudi Arabia comes to the fore for the purposes to highlight the cost of the chronic effects in the long run. Researching businesses circumstances of financial performance over a significant period after IPO is an important part of figuring the entire magnitude of long-term results.

Al-Tally (2014) investigates of the role of IPOs in the Saudi companies and related industry must be conducted in a step wisely fashion and based on the findings of Ritter (2017) on the effect of industries. Although trends can be generalized, the precise picture of outcomes from going public diverges in addition from company to company, depending on sector. To fill this gap, in-depth research on Saudi Arabia about specific data from certain industries is of cardinal importance. This investigation can provide helpful information that can enumerate principles for the companies in the Kingdom that are considering the IPOs.

The next stage, further investigation should be conducted to determine the correlation between the pre-IPO financial state of the company and the post-IPO performance of it in the case of Saudi Arabia. This lays the foundation which Chemmanur and Guo (2011) built upon. By investigating the financial statements of Saudi corporations prior to and after going public, it is possible to determine visible indicators of successful performance. This type of data can help companies in Saudi Arabia improve their comparative financial base before IPO, so as to maximize the chances of their success.

Exploring how the leadership of Tadawul regulates company's initial public offerings (IPO) and the effects it had on those companies can be a topic for research. Identifying criteria for issuance, the information disclosure guidelines, and the protection standards of investors can provide policymakers knowledge to develop a successful IPO market. Healthy IPO markets can be promoted through well-managing regulation which benefit companies, investors, and the general Saudi economy.

The possibility of a short-run drop in profitability post-IPO which is one of the ideologues of wider international research findings. Bhaumik et al. (2017) thereby emphasizes similar patterns from Indian companies having the problem of one-time expenses, managerial overinvestment and short-term profitability constraining, multiple regions.

Besides, the Saudi market, IPO represents other profitable gains in the long-term. Let's hold on to the international research findings here. Musfiroh et al. (2020) used companies under public listing in Southeast Asia region, where the observation was similar to what was found in Saudi Arabia. While the short term influence of profitability can be affected by factors like one-off expenses (as was done in the example given earlier), the research suggested that IPOs have been found to improve the long-run profitability (as opposed to the short-term one of profitability) in almost all the geographical regions studied. The positive relationship between IPOs and long-term profitability (as previously defined) may be attributed to A good IPO gives the company access to an ocean of investor funds beyond its normal cash reserves and thus enables it to undertake a number of growth initiatives that will in the long be executed to its benefit. The injection of capital may result to geographical expansion not by branching to newer markets but through the establishment of a totally new market. Maglad (2021) investigates the scope of customers, increases volume of sales and, consequently, total profits.

Higher volumes of R&D funding enable the companies to develop novel goods and services which may attract fancy customers in the market and enable to gain competitive advantage. Through these unique offerings the company can earn higher margins because of the premium prices commanded. A large sum of money can be collected through the IPO, which could be used to buy new technology and clean up the work process. This situation may bring about cost savings, better performance, and eventually greater profits in the end.

Musfiroh et al. (2020) provide the following long term benefits seen in Southeast Asian organizations as they study the area further. Research in this regard emphasizes that enterprises that utilize IPO proceeds wisely for growing activities and benefiting firm operation can continue enjoying profit margin rises in the years after their companies have been listed in the stock market. This maintains consistency with bull market and post-IPO profitability findings

of Brau et al. (2016) which states that profitability is improved thanks to the financial resources companies acquire mushrooming due to bull market activity. Nevertheless, profitability is just a crucial aspect of analyzing the effectiveness of the offering. Through the analysis of IPO's impacts on leverage, liquidity, analyst ratings, lock-up periods, and institutional investor participation, this chapter seeks to clearly reveal this phenomenon.

Research by Chemmanur and Guo(2011) points a continuous line related to countries. In general, the companies irrespective of their locations tend to enhance their leverage levels (debt-to-equity ratio) by going for an IPO. This happens as initial public offerings (IPOs) usually employ a mixed method of equity financing (selling shares) and debt financing (borrowing loans). Though this increased leverage comes along with a problem of financial risks, it may also be seen as a guarantee of better liquidity. Capitalization through an initial offering will yield companies increased financial versatility. This creates the conditions in which they can invest in expansion projects, innovation, and economic liaisons, a move that contributes to their long-term finances.

The Forbes Ibbotson Associates report reiterated briefly the influence of broker or analyst recommendation on an IPO. Companies that earn a best analyst rating will most likely have a good first trading day on the exchange. Thus, shows the key importance of IR in the IPO process. By a continuous development of effective communication strategies and creating strong ties with financial analysts, companies will be able to guide analyst' perception which in turn will influence the IPO performance.

Lock-up periods as Lockhart and Ritchey (2003 study) suggest, are one the protection devices that minimize risk during crisis period after IPO. This shelf life doesn't allow big investors (founders, venture capitalists) to sell their shares for a specific time later. For this, multiple aims exist. First, it offsets insider trading woes. Lock-up periods avoid a scenario where key

shareholders may be privy to information not known to the general public and they therefore are unable to sell stock based on this knowledge. As a result, a more fair playing field is guaranteed. Furthermore, the lock-in period introduces the much-needed stability to the fluctuation of stock rates during the initial post-IPO phase. This restriction prevents dramatic sales of securities in short time and, hence, contributes to the formation of relative stability by helping to withstand possible manipulation. According to Chemmanur and Fulghieri (2014) Following the examination of institutional investors (such as pension funds and mutual funds) in depth, it can be seen that they play a critical role in the success story of IPOs. This implies that the involvement of more of this type of investors enhances the overall success of the IPO. Institutional investors of high caliber are instrumental in giving significant signs to the market and they do so by directly influencing the rest of them through the decisions that they take, which usually leads to the success of the IPO.

2.14 Research Gaps

The exiting literature on the IPO consequences majorly studies short-term outcomes. This project recommends a long-term study to observe the financial impact of IPOs on the Saudi market. When reinvesting and acquiring new assets or starting new businesses, understanding the financial implications of IPOs over time is crucial for helping companies in Saudi Arabia to identify and capitalize on growth opportunities.

While some studies highlight overall tendencies, intrinsic facets of particular industrial fields can be discovered by taking on an industry-specific analysis. IPOs play major part in saving, growing, and expanding and hence, the impact of IPOs should be analyzed on the companies that fall in different sectors within Saudi Arabia as suggested by Khawla Ritter (2017). A more substantiated description of this link can be deduced by studying the correlation between a company's financial soundness before the IPO and its performance during the IPO campaign

in the Saudi market. Chemmanur and Guo's study (2011) contributes to the knowledge base allowing for the research to dive deeper in this specific field. The effect of Tadawul's regulations on the stocks of the firms which are listed in the Stock Exchange of Saudi Arabia has been rarely investigated. Proceeding the under study IPO conditions, disclosure standards and investor rights descriptions can surely be useful for policymakers in order to design a robust process of IPO, as pointed out by Jamaani (2022).

This chapter has undertaken the review of the existing literature on the influence of Initial public offerings(IPOs) on a company's financial situation. Although the immediate picture might suggest such a decline in global trends; in the long term, the opposite can be observed correlated with positive impacts on market valuation and profitability gains. In particular, the case of Saudi Arabia as a host jurisdiction to an IPO needs further research to the depth of its financial impact considering all elements involved. By filling out the existing knowledge gaps and using the internal as well as the external factors as a valid input, businesses can draw detailed and well-informed decisions regarding IPOs and this can boost long-term financial health.

Chapter 3: Methodology

The methodology for this research is designed to provide a robust and comprehensive analysis of the impact of Initial Public Offerings (IPOs) on the financial performance of companies listed on the Saudi Arabian Stock Exchange (Tadawul). The study employed quantitative data analysis.

3.1 Study Sample

The sample includes non-financial companies that went public on Tadawul between 2017 and 2021. The focus on non-financial companies is to ensure consistency in the financial metrics and to avoid the distinct financial structures and regulations that apply to financial institutions. Companies are selected based on the availability of complete financial data for at least 1 year before and after the IPO. The sample consists of 49 non-financial sector companies conducting IPOs listed on the Tadawul Stock Exchange in the 2017-2021 period. A list of the companies is provided as an Appendix to this study.

Table 1: Year wise summary of Non-financial sector companies went for an IPO in Tadawul

Year of Initial Public Offering	Number of Companies
2017	19
2018	8
2019	5
2020	1
2021	16
Total Sample	49

Financial performance data is collected from Bloomberg, which is extremely user-friendly, saves significantly more time than financial reports and contains all the data and information required to evaluate the process. IPO data is collected from Tadawul database. The primary focus of this research is on key financial metrics that will be described as follows:

- Operating ratio: This ratio is used for company's operating efficiency.

$$\text{Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)} = \text{Operating Income} + \text{Depreciation} + \text{Amortization}$$

- Asset Management Ratio: This ratio, also known as the activity ratio, measures the effectiveness of a company in managing its assets. We used Total Asset Turnover, calculated as follows:

$$\text{Total Assets (TA)} = \text{Total Liabilities} + \text{Total Equity}$$

$$\text{Asset Turnover (ATO)} = \text{Sales} / \text{Average Total Assets}$$

- Profitability Ratios: These ratios evaluate a company's ability to generate profit. In this study, we will use the following:

$$\text{Return On Equity (ROE)} = \text{Net Income} / \text{Common Equity}$$

$$\text{Return on Assets (ROA)} = \text{Net Income} / \text{Total Assets}$$

$$\text{Profit Margin (PM)} = \text{Net Income} / \text{Sales}$$

$$\text{Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)} = \text{Operating Income} + \text{Depreciation} + \text{Amortization}$$

In this research, the methods employed for data analysis include descriptive statistics, correlation analysis. As each company has different year of IPO listing so a paired sample t-test cannot be applied to compare the means of financial ratios before and after the IPO. OLS panel regression method is used to analyze the relation between IPO and other financial ratios and this technique is employed in the literature by the study of Anakpo et al.,(2022), Zulfikar et al.,(2018), Bruderl et al.,(2015).

3.2 Study Variables

The dependent and independent variables are summarized in Table 2 for readers to conceptualize the whole study.

Table 2: Dependent and Independent variables employed in the study.

Hypothesis	Dependent Variable	Independent Variable	Control Variables
H1	Assets Turnover	IPO	Total Assets, EBITDA, ROA
H2	Total Assets	IPO	EBITDA, Profit Margin, Asset Turnover
H3	EBITDA	IPO	Profit Margin, Total Assets
H4	Return on Assets	IPO	EBITDA, Profit Margin, Asset Turnover
H5	Profit Margin	IPO	EBITDA, ROA, ROE
H6	Return on Equity	IPO	EBITDA, Profit Margin

3.3 Econometric Model

In order to analyze the IPO effect on performance we used the following model specifications on companies financial performance measures. The model used in this study is employed by authors in the literature (Chi and Wang 2022; Elsaid and Bekhet 2022; Ahmed 2021; Azimi and Shah 2022; Ashraf and Zheng 2022; Hooi and Pahlavani 2022) in case of panel data. This study has used six different performance measures so six equations will be employed to measure the association with the IPO. Following are six econometrics model employed in this study:

$$ATO_{it} = \beta_1 + \beta_2 IPO_{it} + \beta_3 \ln(TA)_{it} + \beta_4 \ln(EBITDA)_{it} + \beta_5 ROA + \varepsilon \quad \text{Eq. (1)}$$

$$TA_{it} = \beta_1 + \beta_2 IPO_{it} + \beta_3 PM_{it} + \beta_4 EBITDA_{it} + \beta_5 ATO + \varepsilon \quad \text{Eq. (2)}$$

$$\ln(EBITDA)_{it} = \beta_1 + \beta_2 IPO_{it} + \beta_3 \ln(TA)_{it} + \beta_4 PM_{it} + \varepsilon \quad \text{Eq. (3)}$$

$$PM_{it} = \beta_1 + \beta_2 IPO_{it} + \beta_3 \ln(ROE)_{it} + \beta_4 \ln(EBITDA)_{it} + \beta_5 ROA + \varepsilon \quad \text{Eq. (4)}$$

$$ROE_{it} = \beta_1 + \beta_2 IPO_{it} + \beta_3 PM_{it} + \beta_4 \ln(EBITDA)_{it} + \varepsilon \quad \text{Eq. (5)}$$

$$ROA_{it} = \beta_1 + \beta_2 IPO_{it} + \beta_3 \ln(ATO)_{it} + \beta_4 \ln(EBITDA)_{it} + \beta_5 PM + \varepsilon \quad \text{Eq. (6)}$$

Where IPO is Initial Public Offering, which is an intercept dummy variable that takes 1 for firms after the IPO and 0 before the IPO. TA stands for Total Assets, ATO stands for

Assets Turnover, ROA stands for Return on Assets, ROE stands for return on Common Equity. Panel OLS is employed as multiple entities are observed over multiple periods of time. It has advantages as it combines cross sectional and timer series data which results in maximum available information, controls heterogeneity, more statistical power and reliability of the results (Baltagi, B. H., 2013). Moreover, E-Views is used as a tool of analysis in this study.

Chapter 4: Results and Discussion

4.1 Data Analysis

The descriptive statistics provide an overview of the distribution and characteristics of the variables in the dataset. Table 3 presents descriptive statistics for several financial variables across a sample of observations. Asset Turnover, has an average value of 0.746 with a standard deviation of 0.622, indicating moderate variability in the efficiency of assets utilization across the sample. The minimum and maximum values are 0.015 and 3.195, respectively, suggesting a wide range of asset turnover rates observed in the dataset. Total Assets (Mil), the second variable, exhibits substantial variability with an average value of \$43,863.423 million and a standard deviation of \$278,887.84 million. The minimum and maximum values are \$25.143 million and \$2,492,924 million, respectively, reflecting significant differences in the scale of assets among the observations. EBITDA demonstrates substantial variability, with an average of \$18,335.247 million and a standard deviation of \$122,825.09 million. The minimum and maximum values are -\$87.803 million and \$1,235,695 million, respectively, indicating a wide range of earnings before interest, taxes, depreciation, and amortization across the sample.

Profit Margin has an average of 7.505%, indicating the average percentage of revenue that translates into profit. However, the standard deviation of 57.23 suggests considerable variability in profit margins across the sample, with some companies experiencing negative margins. Finally, ROE and ROA, the last two variables, indicate the return on equity and return on assets, respectively. The average ROE is 16.916%, while the average ROA is 7.674%. Both metrics exhibit variability, with standard deviations of 23.042 and 9.157, respectively, suggesting differing levels of profitability and asset utilization across the observations.

Table 3: Descriptive Statistics of the variables under study.

Date: 04/25/24 Time: 19:49 Sample: 2016 2023						
	BS_TOT_AS	EBITDA	RETURN_O	PROF_MARG	ASSET_TUR	RETURN_C
Mean	43863.42	18335.25	7.673699	7.505210	0.745908	16.91558
Median	896.6474	81.06860	7.236600	11.28735	0.694350	11.80355
Maximum	2492924.	1235695.	40.09450	112.7825	3.194500	179.9161
Minimum	25.14320	-87.80340	-32.70500	-704.5487	0.014500	-90.90540
Std. Dev.	278887.8	122825.1	9.157438	57.23000	0.621805	23.04209
Skewness	7.166863	7.281865	0.032653	-7.618935	1.178367	1.801746
Kurtosis	55.43596	57.97636	5.337515	82.59352	4.711114	15.97403
Jarque-Bera	41616.04	45013.48	69.72010	91942.50	108.1469	2311.711
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	14825837	6123972.	2348.152	2521.751	228.2479	5176.167
Sum Sq. Dev.	2.62E+13	5.02E+12	25576.90	1097217.	117.9256	161936.1
Observations	338	334	306	336	306	306

Table 4 presents the Bivariate correlation matrix. EBITDA is positively correlated with Total Assets with the coefficient of 0.97. Likewise ROA is positively correlated with Total Assets with the coefficient value of 0.225. Similarly Profit Margin is positively correlated with Total Assets by 4.9. Asset Turnover is positively correlated with Total Assets by 0.01. ROE is positively correlated with Total Assets by .113. Due to high correlation among the independent variables, this study did not use all the variables in the same model. However, where missing variable biased may create the problem then correlated variable can be used.

Table 4: Bivariate correlation matrix of variables under study

	BS_TOT_AS	EBITDA	RETURN_O	PROF_MARG	ASSET_TUR	RETURN_C
BS_TOT_AS	1.000000	0.971858	0.225340	0.049583	0.011907	0.116137
EBITDA	0.971858	1.000000	0.253249	0.049483	0.027327	0.129575
RETURN_O	0.225340	0.253249	1.000000	0.420355	0.596132	0.837447
PROF_MARG	0.049583	0.049483	0.420355	1.000000	0.064568	0.254703
ASSET_TUR	0.011907	0.027327	0.596132	0.064568	1.000000	0.610520
RETURN_C	0.116137	0.129575	0.837447	0.254703	0.610520	1.000000

Table 5 provides the results of Fisher's transformation applied to various financial variables, alongside their respective unit root test coefficients. These coefficients are crucial indicators of stationarity, a fundamental concept in time series analysis. Asset Turnover, Total

Assets, Current Ratio, Price to Book Ratio, ROE, and ROA exhibit statistically significant coefficients in the unit root tests, denoted by three asterisks (***). These results suggest that these variables are stationary, indicating that they do not possess a unit root and their behavior remains relatively consistent over time.

In contrast, the unit root test coefficients for EBITDA and PE Ratio do not display statistical significance, suggesting the presence of a unit root. This implies that EBITDA and PE Ratio series may be non-stationary, potentially exhibiting trends or other forms of long-term dependence. Moreover, the variables with changes over time, indicated by Δ (Delta), namely Δ EBITDA, Δ PE Ratio, Δ Profit Margin, and Δ ROA, also demonstrate statistically significant coefficients. These findings suggest that the first differences of these variables are stationary, indicating that they exhibit a more stable behavior over time compared to their original series. In essence, the unit root test results provide insights into the stationarity of the financial variables analyzed. Stationary variables are crucial for accurate modeling and forecasting in time series analysis, while non-stationary variables may require additional transformations or differencing to achieve stationarity and improve the reliability of statistical analyses and forecasts.

Table 5: Unit Root Tests of variables under study

Variables	Fisher test
Asset Turnover	234.673***
Total Assets (Mill)	201.095***
Current Ratio	212.866***
EBITDA	109.977

Δ EBITDA	330.168***
PE Ratio	52.495
Δ PE Ratio	265.177***
Profit Margin	60.423
Δ Profit Margin	472.523***
Price to Book Ratio	225.135***
ROE	213.877***
ROA	49.043
Δ ROA	169.568***

Note: ***, **, * denotes significance at 1%, 5% , and 10%.

The results of testing Hypothesis 1 are described in Table 6 which presents the effects of the panel regression analysis, the effects of initial public offerings (IPOs) on property values, and other independent variables. In this study, the Hausman test is used to determine the suitability of the problem identification panel regression model. Asset turnover works as a variable when considering IPO and other factors such as the natural logarithm of total assets, earnings before interest, taxes, depreciation and amortization, and ROA. The results show that IPO and ATO have an insignificant relationship with each other with the coefficient of -0.0002 a standard error of 0.031, yielding a t-value of -0.009, which is not significant ($p = 0.993$). Therefore, the IPO has little impact on ATO. In contrast, Total Assets presents a negative correlation with ATO, as shown by the coefficient of -0.498 ($p < 0.001$), a finding supported by the study of Ahmad-Zaluki et al (2021) & Malachowski et al.,(2021). Likewise, ROA has a

significant association with asset turnover with a coefficient of 0.024 ($p < 0.001$); This finding is also supported by Testa et al.'s (2017) and Pesterac , (2020) research. This finding indicates that ROA always has a positive relationship with asset turnover. In addition, the goodness of fit of the model is measured by the R-squared value of 0.941 indicating that approximately 94.1% of the variation in the feature value is explained by the independent variables included in the model. In addition, the value of the F-test statistic is 72.94, corresponding to a probability less than 0.001, indicating that all regression models are significant. The Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC), which provide a measure of the relative goodness of fit of the model, are also provided.

Table 6: This table presents the results of fixed effect panel regression as suggested by Hausman test. IPO is independent variable while Asset Turnover is the dependent variable.

Dependent Variable: ASSET_TURNOVER				
Method: Panel Least Squares				
Date: 04/23/24 Time: 19:45				
Sample: 2016 2023				
Periods included: 8				
Cross-sections included: 49				
Total panel (unbalanced) observations: 289				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.081677	0.260299	7.997250	0.0000
IPO	-0.000282	0.031083	-0.009063	0.9928
LOG_TOTAL_ASSET	-0.498789	0.108256	-4.607480	0.0000
LOG_EBITDA	-0.009659	0.076654	-0.126009	0.8998
RETURN_ON_ASSET	0.023858	0.002478	9.628329	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.941421	Mean dependent var	0.773000	
Adjusted R-squared	0.928514	S.D. dependent var	0.624402	
S.E. of regression	0.166945	Akaike info criterion	-0.578114	
Sum squared resid	6.577490	Schwarz criterion	0.094275	
Log likelihood	136.5375	Hannan-Quinn criter.	-0.308692	
F-statistic	72.93796	Durbin-Watson stat	1.230108	
Prob(F-statistic)	0.000000			

Table 7 presents the results of Hypothesis 2 which states that there is an association of IPO and Total Assets of the companies. Panel OLS is employed as suggested by the Hausman

test, which focuses precisely on the relationship between initial public offerings (IPOs) and total assets. While total assets are used as variables in this regression model, IPO and other independent variables include the EBITDA, Profit Margin, and Assets Turnover. The analysis shows that IPOs have a positive relationship with total assets with a coefficient of 0.090 ($p < 0.001$). This means that IPOs are associated with an increase in total assets; This is a finding supported by Kuria et al (2014). Similarly, EBITDA exhibits a positive relationship with total assets with a coefficient of 0.635 ($p < 0.001$); this shows that higher EBITDA is associated with larger assets, findings supported by authors: Mey et al., (2020). Additionally, Profit Margin showed a negative correlation with total assets with a coefficient of -0.001 ($p = 0.001$); This indicates that higher profits are associated with smaller assets; This finding is also supported by Choiriyah et al., (2020). Additionally, Asset Turnover has a negative correlation with total assets with a coefficient of -0.296 ($p < 0.001$), indicating that higher assets are associated with smaller assets, whereas findings supported by Rajagukguk et al., (2021). When evaluating the goodness of fit of the model, the total R-square value of 0.719 shows that approximately 71.9% of the variance of all assets is explained by the independent variables included in the model. Additionally, R-squared in statistics and R-squared in statistics can provide insight into the proportion of variance explained within and between groups, respectively.

Table 7: This table presents the results of random effect panel regression as suggested by Hausman test. IPO is independent variable while Total Assets is the dependent variable.

Dependent Variable: LOG TOTAL ASSETS				
Method: Panel EGLS (Cross-section random effects)				
Date: 04/23/24 Time: 19:53				
Sample: 2016 2023				
Periods included: 8				
Cross-sections included: 49				
Total panel (unbalanced) observations: 289				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.887759	0.059278	31.84601	0.0000
IPO	0.090003	0.016796	5.358525	0.0000
LOG_EBITDA_	0.634528	0.023661	26.81790	0.0000
PROF_MARGIN	-0.000932	0.000287	-3.249552	0.0013
ASSET_TURNOVER	-0.296259	0.023163	-12.79014	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.182461	0.7652
Idiosyncratic random			0.101084	0.2348
Weighted Statistics				
R-squared	0.719640	Mean dependent var	0.657666	
Adjusted R-squared	0.715691	S.D. dependent var	0.238902	
S.E. of regression	0.120543	Sum squared resid	4.126660	
F-statistic	182.2455	Durbin-Watson stat	0.982817	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.867877	Mean dependent var	3.002053	
Sum squared resid	25.86890	Durbin-Watson stat	0.156781	

Table 8 shows the results of the regression analysis conducted to evaluate the relationship between initial public offerings (IPOs) and the natural logarithm of EBITDA with Hausman's recommendations. In this model, EBITDA is the dependent variable, while IPO is included with other independent variables such as profit margin and natural logarithm of total assets. The analysis shows that there is a significant negative relationship between IPO and EBITDA with a coefficient of -0.1260 ($p < 0.001$). This shows that IPOs are associated with a

decline in EBITDA, a finding supported by Patin et al (2020). Additionally, Profit Margin has a positive relationship with EBITDA with a coefficient of 0.002 ($p < 0.001$); this indicates that higher profits are associated with greater EBITDA, a finding supported by Ledley et al (2020). Moreover, Total Assets show a positive relationship with EBITDA with a coefficient of 0.902 ($p < 0.001$), indicating that larger assets are associated with larger EBITDA, research support is obtained from Al Ani's et al., (2023). The total R-squared value is 0.610, indicating that approximately 61.0% of the variation in EBITDA is explained by the independent variables included in the model. Additionally, R-squared in statistics and R-squared in statistics can provide insight into the proportion of variance explained within and between groups, respectively.

Table 8: This table presents the results of random effect panel regression as suggested by Hausman test. IPO is independent variable while EBITDA is the dependent variable.

Dependent Variable: LOG_EBITDA_ Method: Panel EGLS (Cross-section random effects) Date: 04/23/24 Time: 19:56 Sample: 2016 2023 Periods included: 8 Cross-sections included: 49 Total panel (unbalanced) observations: 317 Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.632642	0.120544	-5.248224	0.0000
IPO	-0.126046	0.024838	-5.074647	0.0000
PROF_MARGIN	0.001623	0.000432	3.759246	0.0002
LOG_TOTAL_ASSET	0.902063	0.039974	22.56616	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.256168	0.7087
Idiosyncratic random			0.164246	0.2913
Weighted Statistics				
R-squared	0.610298	Mean dependent var	0.485889	
Adjusted R-squared	0.606563	S.D. dependent var	0.263325	
S.E. of regression	0.170217	Sum squared resid	9.068771	
F-statistic	163.3928	Durbin-Watson stat	1.163477	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.867545	Mean dependent var	2.035640	
Sum squared resid	33.90216	Durbin-Watson stat	0.311228	

Table 9 shows the results of the regression analysis conducted to evaluate the relationship between initial public offerings (IPOs) and Profit Margin in accordance with Hausman's recommendations. In this model, Profit Margin is the dependent variable, while IPO is independent variables. The analysis shows that there is a significant positive relationship between IPO and profit margin with a coefficient of 6.46 ($p = 0.066$). This shows that IPOs are associated with the increase in profit margin, this finding is supported by finding supported by Rudianto (2021). Additionally, EBITDA and profit margin shows an insignificant relationship with each other 6.31($p=0.3809$). Moreover, ROE shows a negative relationship with Profit margin with a coefficient of -0.373 ($p = 0.0038$), indicating that ROE is associated with larger profit margin and this finding is obtained from Al Ani's et al., (2023). Moreover, ROA shows

a positive relationship with Profit margin with a coefficient of 2.615 ($p = 0.0001$), indicating that higher ROA is associated with larger profit margin and this finding is obtained from Ljungqvist (2007). The total R-squared value is 0.47, indicating that approximately 47.6% of the variation in profit margin is explained by the independent variables included in the model.

Table 9: This table presents the results of fixed effect panel regression as suggested by Hausman test. IPO is independent variable while Profit Margin is the dependent variable.

Dependent Variable: PROF_MARGIN				
Method: Panel Least Squares				
Date: 04/23/24 Time: 19:58				
Sample: 2016 2023				
Periods included: 8				
Cross-sections included: 49				
Total panel (unbalanced) observations: 289				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-18.65971	14.08054	-1.325212	0.1864
IPO	6.467090	3.504191	1.845530	0.0662
LOG_EBITDA	6.315292	7.193131	0.877961	0.3809
RETURN_COM_EQY	-0.373587	0.127870	-2.921607	0.0038
RETURN_ON_ASSET	2.615256	0.366585	7.134096	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.476993	Mean dependent var	14.98746	
Adjusted R-squared	0.361754	S.D. dependent var	24.98814	
S.E. of regression	19.96310	Akaike info criterion	8.989835	
Sum squared resid	94051.99	Schwarz criterion	9.662225	
Log likelihood	-1246.031	Hannan-Quinn criter.	9.259258	
F-statistic	4.139168	Durbin-Watson stat	2.329973	
Prob(F-statistic)	0.000000			

Table 10 presents the findings of a random-effects panel regression analysis, guided by the Hausman test, examining the relationship between Initial Public Offerings (IPO) and Return on Equity (ROE). In this model, ROE is considered the dependent variable, while IPO, alongside other independent variables including Return on Common Equity, EBITDA, and Profit Margin are included. The analysis reveals a significant negative association between IPO and ROE, with a coefficient of -16.229 and a standard error of 2.364, resulting in a t-value of -

6.86 ($p < .001$). This suggests an Initial Public Offerings are associated with lower Return on Equity and this finding is supported by Biswas et al.,(2023). Furthermore, EBITDA demonstrates a statistically significant positive relationship with ROE, with a coefficient of 5.928 ($p = .0040$), indicating that higher earnings before interest, taxes, depreciation, and amortization are associated with larger returns on equity and this finding is supported by Kludacz-Alessandri et al.,(2021). Additionally, Profit Margin exhibits a significant positive association with ROE, with a coefficient of 0.13505 ($p = .001$), indicating that higher profit margins are associated with larger returns on equity and this finding is supported by Anton et al.,(2023). Assessing the goodness-of-fit of the model, the overall R-squared value is 0.178, suggesting that approximately 17.8% of the variance in ROE is explained by the independent variables included in the model. Furthermore, both the R-squared within and R-squared between statistics provide insights into the proportion of variance explained within and between groups, respectively.

Table 10: This table presents the results of random effect panel regression as suggested by Hausman test. IPO is independent variable while ROE is the dependent variable.

Dependent Variable: RETURN_COM_EQY Method: Panel EGLS (Cross-section random effects) Date: 04/23/24 Time: 20:01 Sample: 2016 2023 Periods included: 8 Cross-sections included: 49 Total panel (unbalanced) observations: 289 Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17.51830	4.908511	3.568964	0.0004
IPO	-16.28071	2.324572	-7.003743	0.0000
LOG_EBITDA_	5.928322	2.042991	2.901785	0.0040
PROF_MARGIN	0.135055	0.041348	3.266287	0.0012
Effects Specification				
			S.D.	Rho
Cross-section random			11.42131	0.3605
Idiosyncratic random			15.21050	0.6395
Weighted Statistics				
R-squared	0.199124	Mean dependent var	8.923437	
Adjusted R-squared	0.190694	S.D. dependent var	17.26693	
S.E. of regression	15.56008	Sum squared resid	69003.10	
F-statistic	23.62011	Durbin-Watson stat	0.931411	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.175129	Mean dependent var	19.03665	
Sum squared resid	107135.7	Durbin-Watson stat	0.599896	

Table 11 presents the results of the random effects regression analysis of the Hausman test to investigate the relationship between initial public offerings (IPOs) and ROA. In this model, ROA is the dependent variable; IPO includes other independent variables, including EBITDA, Profit Margin and Assets Turnover. The analysis shows that IPO has a coefficient of -2.796 and a standard error of 0.536, with a t-value of -5.215 ($p = 0.0000$) this relationship is significant indicating the potential impact of IPOs on ROA and this finding is supported by

AlShiab, (2018). . In contrast, EBITDA, as shown by the coefficient of 2.913 ($p = 0.000$) has a statistical significant relationship with ROA. It means that EBITDA is associated with higher ROA and this finding is supported by (Braun and Larrain, 2009), Cathy, 2008; Ibrahim and Benli, (2022). Additionally, Profit Margin shows a positive relationship with ROA with a value of 0.1063 ($p = 0.000$), indicating that higher profit margin is associated with higher ROA, and this finding is also supported by AlShiab, (2018). Additionally, Asset turnover shows a significant relationship with ROA 0.10 ($p=0.0000$) it means that higher turnover is associated with higher ROA and this finding is supported by (Xiao-Lian Wang, 2007). The goodness of fit of the model is measured by the R-squared value of 0.647, indicating that approximately 64.7% of the variance in income is explained by the calculated independent variables in the sample. In addition, the value of the F-test statistic is 0.0000, which corresponds to a probability of less than 0.001, indicating that the entire regression model is significant. Additionally, Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC) are provided as measures of the model's goodness of fit.

Table 11: This table presents the results of random effect panel regression as suggested by Hausman test. IPO is independent variable while ROA is the dependent variable.

Dependent Variable: RETURN_ON_ASSET Method: Panel EGLS (Cross-section random effects) Date: 04/23/24 Time: 20:03 Sample: 2016 2023 Periods included: 8 Cross-sections included: 49 Total panel (unbalanced) observations: 289 Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.926763	1.377499	-3.576601	0.0004
IPO	-2.796697	0.536233	-5.215455	0.0000
LOG_EBITDA_	2.913157	0.524008	5.559373	0.0000
PROF_MARGIN	0.106370	0.009153	11.62106	0.0000
ASSET_TURNOVER	10.73617	0.606072	17.71435	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			3.175683	0.4792
Idiosyncratic random			3.310890	0.5208
Weighted Statistics				
R-squared	0.647078	Mean dependent var	3.333222	
Adjusted R-squared	0.642107	S.D. dependent var	5.978545	
S.E. of regression	3.593310	Sum squared resid	3666.972	
F-statistic	130.1777	Durbin-Watson stat	1.071171	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.596426	Mean dependent var	8.743435	
Sum squared resid	7415.344	Durbin-Watson stat	0.529706	

Table 12: Results of hypothesis being tested in this study.

Hypothesis	Result
There is a significant impact of IPO listing on Assets Turnover of Saudi companies.	Rejected
There is a significant impact of IPO listing on Total Assets of Saudi companies.	Accepted
There is a significant impact of IPO listing on EBITDA of Saudi companies.	Accepted
There is a significant impact of IPO listing on Return on Assets of Saudi companies.	Accepted
There is a significant impact of IPO listing on Profit Margin of Saudi companies.	Accepted
There is a significant impact of IPO listing on Return on Equity of Saudi companies.	Accepted

Chapter 5: Conclusion and Recommendations

5.1 Conclusion

This study aimed to measure the impact of IPO on firm performance. Panel OLS techniques is used to empirically analyze the impact of IPO. The recommendations of Hausman test are employed to determine the preference of fixed or random entities effect. E-Views was used in this analysis. The findings of this study provide a comprehensive analysis of financial and operating ratio and their relationships, especially with Initial Public Offerings (IPO). The findings show the position of some financial variables while addressing the controlling potential variables. IPOs generally have a small impact on asset turnover but are associated with decrease in Asset Turnover, EBITDA, return on Equity and Return on Assets. Moreover, IPO significantly results in increasing profit Margin and Total Assets. These findings highlight the complexity of the impact of IPOs on financial performance, highlighting the need for careful analysis and evaluation when assessing their impact. Overall, the findings provide useful information about the dynamics of IPOs and financial indicators, leading to a better understanding of financial markets and decision-making.

The present study endeavors to the significance of IPO and other financial matters to the policymakers, financial and non-financial institutions, and regulatory bodies for the implementation of beneficial policies for all the stakeholders. The organizations will be able to initiate proper system of IPO S through proper governance to gain the trust of investors. The policymakers will make governance policies in terms of earnings management, or improved the IPO systems and financial problems to give support to the companies in the running of profitable business. The regulatory bodies should develop regulations that accommodate the accurate governance and development for the profitable business. These accumulated efforts

will end up in the contribution to the investors trust, business growth, economic growth, and development of the country in future.

5.1 Implications & Limitations

The implications of this study are based on the insights gained for investors in the Saudi Arabian market. The study will assist local and foreign investors in making informed decisions. Additionally, it can contribute to discussions on market efficiency in Saudi Arabia at individual and corporate levels. Companies planning IPOs in the Kingdom can benefit from the information gathered in this study and assess how IPO listing can impact the stock prices of issuing companies. Regulatory bodies and policymakers in Saudi Arabia can formulate or adjust their guidelines based on the study findings. Overall, a well-understood stock market influenced by insightful research on IPOs can contribute to the economic development of Saudi Arabia by attracting investments and fostering the growth of financial markets. When conducting the proposal for this study, we realized that the research is subject to certain limitations. Firstly, the focus on non-financial companies from 2017 to 2021 means that the findings may not be generalizable to financial institutions or to companies that underwent IPOs outside this time frame. This period-specific analysis might not fully capture long-term trends or the impact of varying economic cycles. Additionally, the reliance on publicly available financial data limits the study to quantitative analysis, potentially overlooking qualitative factors like management quality, brand reputation, and market perception, which can also influence a company's post-IPO performance.

The study also assumes the accuracy and completeness of the financial data reported by the companies, which is a common limitation in empirical financial research. Furthermore, while efforts will be made to control for external variables, such as market conditions and industry trends, the dynamic nature of financial markets means that not all external influences

can be fully accounted for. These limitations highlight the need for cautious interpretation of the findings and suggest areas for future research.

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Appendix:

List of the sample companies went public during 2017-2021.

S No	Announced Date	IPO Date	Ticker	Sector	Issuer Name	Offer Size	Year
1	11/3/2019	12/11/2019	ARAMCO AB Equity	Energy	Saudi Arabian Oil Co	110,400,000,000.00	2019
2	9/2/2021	10/11/2021	ACWA AB Equity	Utilities	ACWA Power Co	4,547,161,100.00	2021
3	8/22/2021	9/30/2021	SOLUTION AB Equity	Technology	Arabian Internet & Communicati	3,624,000,000.00	2021
4	12/30/2021	2/16/2022	ELM AB Equity	Technology	Elm Co	3,072,000,000.00	2021
5	9/30/2019	3/17/2020	SULAIMAN AB Equity	Health Care	Dr Sulaiman Al Habib Medical S	2,625,000,000.00	2019
6	4/15/2019	5/22/2019	CENOMICE AB Equity	Real Estate	Arabian Centres Co Ltd	2,470,000,000.00	2019
7	8/31/2020	10/21/2020	BINDAWOO AB Equity	Consumer Staples	BinDawood Holding Co	2,194,560,100.00	2020
8	12/1/2021	1/5/2022	JAHEZ AB Equity	Technology	Jahez International Co	1,605,225,000.00	2021
9	6/28/2021	11/15/2021	ALARABIA AB Equity	Communications	Arabian Contracting Services C	1,500,000,000.00	2021
10	9/28/2021	12/20/2021	ALMUNAJE AB Equity	Consumer Staples	Almunajem Foods Co	1,080,000,000.00	2021
11	6/6/2018	9/10/2018	LEEJAM AB Equity	Consumer Discretionary	Leejam Sports Co JSC	817,180,000.00	2018
12	3/31/2019	6/18/2019	MAHARAH AB Equity	Industrials	Maharah Human Resources Co	776,250,000.00	2019
13	3/21/2018	7/25/2018	BONYAN AB Equity	Real Estate	Bonyan REIT	651,524,000.00	2018
14	1/22/2018	5/1/2018	SEDCO AB Equity	Real Estate	Sedco Capital REIT Fund	650,000,000.00	2018
15	12/13/2017	1/18/2018	SICOSAUD AB Equity	Real Estate	Sico Saudi REIT	572,400,000.00	2017
16	1/19/2021	3/1/2021	AWPT AB Equity	Industrials	AlKhorayef Water & Power Techn	540,000,000.00	2021
17	3/7/2021	3/29/2021	THEEB AB Equity	Consumer Discretionary	Theeb Rent A Car Co	516,000,000.00	2021
18	9/29/2021	2/14/2022	EASTPIPE AB Equity	Materials	East Pipes Integrated Co for I	504,000,000.00	2021
19	12/28/2017	2/11/2018	JADWAREI AB Equity	Real Estate	Jadwa REIT Saudi Fund	474,000,000.00	2017
20	12/27/2017	3/20/2018	ALRAJHI AB Equity	Real Estate	Al Rajhi REIT	426,701,300.00	2017
21	11/29/2017	1/8/2018	ALAHLI AB Equity	Real Estate	Alahli REIT Fund 1	412,500,000.00	2017
22	4/2/2018	11/13/2018	MEFIC AB Equity	#N/A N/A	MEFIC REIT	404,568,000.00	2018
23	6/28/2021	8/4/2021	TANMIAH AB Equity	Consumer Staples	Tanmiah Food Co	402,000,000.00	2021
24	12/28/2017	8/6/2018	ALINMARE AB Equity	Real Estate	Alinma Retail REIT Fund	354,000,000.00	2017
25	8/22/2017	10/1/2017	MUSHREIT AB Equity	Real Estate	Musharaka Real Estate Income F	352,100,000.00	2017
26	5/22/2018	7/31/2019	ATAA AB Equity	Consumer Discretionary	Ataa Educational Co	348,000,000.00	2018
27	2/13/2017	6/15/2017	ALASEEL AB Equity	Consumer Discretionary	Alaseel Co	255,000,000.00	2017
28	5/30/2018	11/18/2018	NCLE AB Equity	Consumer Discretionary	National Co for Learning & Edu	247,000,000.00	2018
29	11/11/2018	3/20/2019	ALKHABEE AB Equity	Real Estate	Alkhabeer REIT	237,545,000.00	2018
30	6/15/2017	9/17/2017	OASIS AB Equity	Materials	Zahrat Al Waha For Trading Co	229,500,000.00	2017
31	1/30/2017	2/26/2017	RAYDAN AB Equity	Consumer Discretionary	Raydan Food Co	216,000,000.00	2017
32	12/31/2018	4/24/2019	MIS AB Equity	Technology	Al Moammar Information Systems	216,000,000.00	2018
33	7/13/2017	8/22/2017	MAATHER AB Equity	Real Estate	Al Maather REIT Fund	184,110,000.00	2017
34	12/4/2019	5/11/2020	SRE AB Equity	Real Estate	Sumou Real Estate Co	180,000,000.00	2019
35	8/12/2021	9/8/2021	BURGERIZ AB Equity	Consumer Discretionary	Mataam Bayt AlShatira Litwajba	119,625,000.00	2021
36	1/17/2017	2/26/2017	BAAZEEM AB Equity	Consumer Discretionary	Baazeem Trading Co	118,462,500.00	2017
37	1/4/2017	2/15/2017	ALJAZIRA AB Equity	Real Estate	Al-Jazira Reit Fund	118,000,000.00	2017
38	9/29/2021	11/29/2021	GROUPFIV AB Equity	Materials	Group Five Pipe Saudi Ltd	98,000,000.00	2021
39	12/30/2021	2/7/2022	GAS AB Equity	Energy	GAS Arabian Services Co Ltd	71,100,000.00	2021
40	1/11/2017	2/26/2017	ABOMOATI AB Equity	Consumer Discretionary	Abdullah Saad Mohammed Abo Moa	48,000,000.00	2017
41	12/2/2021	1/18/2022	ALWASAIL AB Equity	Industrials	Alwasail Industrial Co	47,500,000.00	2021
42	12/12/2021	1/6/2022	AICTEC AB Equity	Communications	Advance International Communic	44,000,000.00	2021
43	1/11/2017	2/26/2017	ALOMRAN AB Equity	Industrials	Al-Omran Industrial & Trading	33,600,000.00	2017
44	11/1/2017	4/29/2018	NBM AB Equity	Materials	National Building and Marketin	32,400,000.00	2017
45	10/14/2021	11/4/2021	ALHASOOB AB Equity	Consumer Discretionary	AL Hasoob Co	26,600,000.00	2021
46	5/17/2017	7/9/2017	ALKATHIR AB Equity	Materials	Al Kathiri Holding Co	25,389,000.00	2017
47	1/30/2017	2/26/2017	ARABSEA AB Equity	Technology	Arab Sea Information Systems C	22,000,000.00	2017
48	1/11/2017	2/26/2017	SADR AB Equity	Industrials	Sadr Logistics Co	17,550,000.00	2017
49	1/11/2017	2/26/2017	DWF AB Equity	Consumer Discretionary	Development Works Food Co	16,250,000.00	2017