

## Returns on IPOs during the five years after issuing, for IPOs from 1970-2002

Updated on April 2, 2003

Prof. Jay R. Ritter, University of Florida

These tables show that IPOs have underperformed other firms of the same size (market cap) by an average of 4.2% per year during the five years after issuing, not including the first-day return. The underperformance relative to other firms of the same size and book-to-market ratio has averaged 2.4% per year.

**Table 1**  
**Percentage returns on IPOs from 1970-2002 during the first five years after issuing**

	First six months	Second six months	First Year	Second year	Third year	Fourth year	Fifth year	Geometric Mean years 1-5
IPO firms	6.3%	0.0%	6.6%	5.0%	9.1%	13.7%	11.6%	9.2%
Size-matched	4.6%	5.3%	10.2%	13.8%	14.2%	16.3%	12.4%	13.4%
Difference	1.7%	-5.3%	-3.6%	-8.8%	-5.1%	-2.6%	-0.8%	-4.2%
No of IPOs	7,428	7,362	7,381	7,427	6,522	5,565	4,759	
IPO firms	6.7%	0.2%	7.1%	7.5%	9.8%	13.1%	9.7%	9.4%
Size & BM- Matched	2.4%	4.4%	7.6%	11.6%	12.9%	16.5%	10.8%	11.8%
Difference	4.3%	-4.2%	-0.5%	-4.1%	-3.1%	-3.4%	-1.1%	-2.4%
No. of IPOs	7,026	6,982	6,999	6,888	6,045	5,135	4,366	

The returns are measured from the closing market price on the first day of issue until the sixth-month or one-year anniversary. All returns are equally weighted average returns for all IPOs that are traded on Nasdaq, the Amex, or the NYSE at the start of a period. Each year, the portfolios are rebalanced to equal weights. If an issuing firm is delisted within a year, its return for that year is calculated by compounding the CRSP value-weighted market index for the rest of the year. For the size-matched returns, each IPO is matched with a nonissuing firm having the same market capitalization (using the closing market price on the first day of trading for the IPO, and the market capitalization at the end of the previous month for the matching firms). For the size & BM-matched returns, each IPO is matched with a nonissuing firm in the same size decile (using NYSE firms only for determining the decile breakpoints) having the closest book-to-market ratio. For the IPOs, book-to-market ratios are calculated using the first recorded post-issue book value and the post-issue market cap calculated using the closing market price on the first CRSP-listed day of trading. For nonissuing firms, the Compustat-listed book value of equity for the most recent fiscal year ending at least four months prior to the IPO date is used, along with the market cap at the close of trading at month-end prior to the month of the IPO with which it is matched. Nonissuing firms are those that have been listed on the Amex-Nasdaq-NYSE for at least five years, without issuing equity for cash during that time. If a nonissuer subsequently issues equity, it is still used as the matching firm. If a nonissuer gets delisted prior to the delisting (or the fifth anniversary), the second-closest matching firm on the original IPO date is substituted, on a point-forward basis. For firms with multiple classes of stock outstanding, market cap is calculated based using only the class in the IPO for the IPO. For nonissuing firms, each class of stock is treated as if it is a separate firm. The sample size is 7,850 IPOs from 1970-2002, excluding IPOs with an offer price of less than \$5.00, ADRs, REITs, closed-end funds, and unit offers. Returns are measured through December 31, 2002. For partial event-years that end on this date, the last partial year is deleted from the computations. In other words, for an IPO that issued on March 15, 2001, it's first-year return is included, but not the second-year return.

**Table 2****Percentage returns on IPOs from 1970-1979 during the first five years after issuing**

	First six months	Second six months	First year	Second Year	Third year	Fourth year	Fifth Year	Geometric mean years 1-5
IPO firms	-7.5%	-6.9%	-13.8%	-19.1%	-0.1%	27.3%	32.7%	3.3%
Size-matched	-3.0%	-1.8%	-4.8%	-5.3%	14.1%	28.1%	21.7%	9.9%
Difference	-5.8%	-7.5%	-11.0%	-14.6%	-14.2%	-1.9%	10.2%	-6.6%
No. of IPOs	396	394	396	643	634	621	580	
IPO firms	-1.0%	-0.1%	-0.3%	1.0%	10.2%	27.8%	27.0%	12.5%
Size & BM- Matched	0.9%	5.1%	7.2%	1.0%	17.8%	31.3%	21.5%	15.3%
Difference	-1.9%	-5.2%	-7.5%	0.0%	-7.6%	-3.5%	5.5%	-2.8%
No. of IPOs	205	204	205	273	275	271	254	

Nasdaq did not start until February 1971, and CRSP did not carry Nasdaq firms until December 1972.

**Table 3****Percentage returns on IPOs from 1980-1989 during the first five years after issuing**

	First six months	Second six months	First year	Second year	Third year	Fourth year	Fifth year	Geometric mean years 1-5
IPO firms	4.5%	-0.2%	4.9%	11.0%	12.3%	-0.4%	6.8%	6.8%
Size-matched	3.5%	2.6%	5.7%	14.9%	13.0%	5.5%	9.4%	9.6%
Difference	1.0%	-2.8%	-0.8%	-3.9%	-0.7%	-5.9%	-2.6%	-2.8%
No. of IPOs	2,394	2,386	2,394	2,356	2,208	2,014	1,829	
IPO firms	4.3%	-0.4%	4.3%	10.9%	12.1%	-0.4%	6.7%	6.6%
Size & BM- Matched	-0.6%	0.1%	-1.1%	10.6%	8.3%	3.4%	10.1%	6.2%
Difference	4.9%	-0.5%	5.4%	0.3%	3.8%	-3.8%	-3.4%	0.4%
No. of IPOs	2,368	2,360	2,368	2,330	2,184	1,992	1,809	

**Table 4****Percentage returns on IPOs from 1990-2002 during the first five years after issuing**

	First six months	Second six months	First year	Second year	Third year	Fourth year	Fifth year	Geometric mean years 1-5
IPO firms	8.4%	0.7%	9.2%	5.3%	8.7%	20.5%	10.2%	10.7%
Size-matched	5.8%	7.3%	13.8%	16.1%	15.0%	21.2%	12.5%	15.9%
Difference	2.6%	-6.6%	-4.6%	-10.8%	-6.3%	-0.7%	-2.3%	-5.2%
No. of IPOs	4,638	4,582	4,591	4,428	3,680	2,930	2,350	
IPO firms	8.3%	0.5%	9.0%	6.2%	8.4%	21.0%	10.2%	10.8%
Size & BM- matched	4.0%	6.7%	12.3%	12.8%	15.3%	24.2%	10.1%	14.8%
Difference	4.3%	-6.2%	-3.3%	-6.4%	-6.9%	-3.2%	0.1%	-4.0%
No. of IPOs	4,453	4,418	4,426	4,285	3,586	2,872	2,303	