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Tech IPO's: The Classic Risk/Return Tradeoff?

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ABSTRACT

In the last decade, Tech IPO's have garnered tremendous attention as a surefire method to increase wealth. Are Tech IPO's an exception to the classic risk-return tradeoff? Our paper attempts to answer this question by analyzing the differences between the offer, opening and subsequent market prices at various intervals. We use data of IPO listings from 2000 to 2020 from IPOScoop.com, an independent research firm that track the offer price and initial price movement following a stock's offering. SCOOP ([Wall] Street Consensus Of Opening [Day] Premiums) ratings. These "star" ratings were generated by IPOScoop.com and were based upon investor opinion/outlook for these companies following their opening day on the public market.
We filtered this listing for tech stocks with Global Industry Classification Standard Code (GICS code 45). We focus on consensus "star" rating in relation to the company's cash flow from financing, EBIT, market capitalization, percentage held by institutions, trading volume, revenue, pre-opening premium, and market prices into our model. These variables did not result in significant predictive power for one year returns. The predictive power of our model was significantly improved by adding returns at the three month and six months intervals. At the three months interval, returns tended to stabilize, and was highly predictive of one year returns. Moreover, our model predicted long-term returns with a comparable level of accuracy using six months intervals. The great variability in price movements made it difficult to determine any one particular stock's likely returns, but we find that tech stock volatility tended to stabilize three to six months after issuance. Although further research is required to build a stronger case for this assertion, the primary beneficiary of a tech IPO appears to be the investment banks who manage the IPO with their underwriting syndicate.

Key words: IPO, volatility, placement, tech, star ratings

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