



The Influence of Fundamental Factors on IPO Performance: Evidence from the Indonesian Capital Market

Ditry Hastari^{1*}, Vivi Ariyani²

PSDKU Manajemen, Universitas Katolik Widya Mandala Surabaya

Coressponding Author: Ditry Hastari ditry.hastari@gmail.com

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ABSTRACT

This study aims to examine the effect of Return on Assets (ROA), Debt to Total Asset Ratio (DAR), and Age on IPO performance. The population of this research includes companies that conducted Initial Public Offerings (IPOs) on Indonesia Stock Exchange (IDX) during the 2015-2023 period, with total sample of 396 companies. The type of data used is cross-sectional. The result show that ROA has significantly but weak negative effect on IPO performance, which may be attributed to the credibility of issuing company in generating profits and the transparency of financial information presented to potential investors. Age has significantly negative effect on IPO performance, as length of the time a company has been established reflects the amount of information availability regarding the company. This explains that the higher level of ROA and the older age of the company conducting the IPO, is able to reduce the level of underpricing

INTRODUCTION

An initial public offering, also known as an IPO, is the first offering of a company's shares to the public (Hartono, 2017:36). From 2015 to 2023, there has been an increase in the number of companies conducting IPOs in Indonesia. A significant increase occurred from 2020 to 2023 during the Covid-19 pandemic and the transition to the new normal (Bloomberg, 2023). This increase is believed to be due to the need to raise funds to support operations and business development. Companies that conduct IPOs aim to increase equity capital, create a public market, and improve the company's overall position in the market (Ritter & Welch, 2002). Darmadji & Fakhrudin (2011:63) also emphasized that IPOs also aim to obtain funds to pay off some of the debt and increase investment in subsidiaries, which are expected to improve the company's solvency.

Companies conducting an IPO provide fundamental information about the company in the issuer's prospectus. According to Sudana (2015:100), the fundamental factors of a company that often attract investors' attention are profitability, financial leverage, operating leverage, industry group, company size, and company management. Internal factors of a company are easier for potential investors to see because they are reflected in the prospectus published by the issuing company. Issuing companies with good fundamental performance will significantly influence IPO performance. According to Hartono (2017:36-37), a phenomenon that often occurs when companies conduct IPOs is underpricing. Ritter & Welch (2002) emphasize that underpricing is a good signal from management, so management offers a discount during the initial offering. This means that issuing companies that experience underpricing are quality companies. This is done as an effort by management to attract investor interest and create high demand on the first day of trading.

Many studies have been conducted to examine the fundamental factors of companies that influence IPO performance. Research conducted by Drooduin (2023); Mahardika & Ismiyanti (2021); Sartika et al. (2022) found that profitability, proxied by ROA, has a significant negative effect on IPO performance. This means that the higher the ROA value, the lower the IPO company's performance. A high ROA value indicates that management is capable of managing assets well so that the company is able to generate high profits from the utilization of its asset management. This is a good signal given by the company to potential investors that the issuing company is of high quality, thereby reducing information asymmetry. The reduction in the level of information asymmetry indicates the transparency of information provided by the company to investors. As a result, the share price paid is close to its fair value.

Research conducted by Mazumdar & Saha (2021) and Rathnayake et al. (2019) shows that solvency, with the DAR proxy, has a significant positive effect on IPO performance. This means that the higher the DAR, the higher the IPO performance of the issuing company. According to Sartika et al. (2022), high debt usage can result in stock prices that tend to be underpriced because it will affect the high uncertainty of returns that will be received by investors. High debt is considered to be more risky in terms of default. This is perceived as a negative signal by investors in assessing stock prices. If debt usage is high, the higher the risk of uncertainty, so investors tend to ask for a price discount to compensate for the risk of uncertainty.

Research conducted by Ilbamys (2023) and Mahardika & Ismiyanti (2021) found that the age of a company has a significant negative effect on underpricing. This means that the older the company, the smaller the underpricing will be. According to Rathnayake et al. (2019), long-established companies have more publicly available information than newly established companies. This means that long-established companies have a lower level of information uncertainty than new companies. The amount of publicly available information about a company prior to its IPO determines the level of underpricing that the company will experience (Beatty & Ritter, 1986). This means that if more information about the company is available, it will reduce the information asymmetry between managers and investors. Thus, in turn, reduces uncertainty risk and lowers the level of underpricing. This study aims to examine the impact of company fundamentals on IPO performance, focusing on the company fundamentals of ROA, DAR, and Age on the performance of IPO companies on the IDX during the period 2015-2023.

LITERATURE REVIEW

IPO performance refers to the price movements and trading activity of a company's shares after they are listed on the stock exchange. There is a common reaction on the IPO day, namely that the share price on the market may be underpriced, overpriced, or fairly priced at the price offered by the company to the public. A common phenomenon in Indonesia on IPO day is underpricing. According to Hartono (2017:36), underpricing is a phenomenon where the share price becomes lower both during the initial offering and when launching the initial offering. Although underpricing generally occurs during the initial offering, it does not rule out the possibility of overpricing and fair pricing during the initial offering.. Pranyoto et al. (2019) explain that overpricing is a situation that occurs when the initial offering price is higher than the closing price on the first day on the secondary market. Pranyoto et al. also explain fair pricing, which is a condition that occurs when the initial offering price is the same as the closing price on the first day on the secondary market.

Hanafi (2016:314) explains the theory of asymmetry, which states that parties related to a company do not have the same information about the company's prospects and risks. Management has better information than external parties such as investors regarding internal company information. This difference in information between management and investors can cause uncertainty, which leads to a transfer of wealth from company owners to investors. Jamaani and Alidarous (2019) argue that the asymmetry theory consists of several models, including: (1) Principal-agent; (2) Ex-ante Uncertainty (3) Book-building; (4) Signaling; (5) Certification; (6) Winner's Curse; and (7) Entrepreneurial Wealth Losses.

This study uses the signaling model of asymmetry theory and the ex-ante uncertainty model of asymmetry theory as theories that explain IPO performance. In the signaling model, it is assumed that IPO companies have private information related to future cash flows and know their current value, which is unknown to investors. According to Jamaani and Alidarous, the ex-ante uncertainty model refers to the uncertainty of information experienced by investors prior to the IPO.

Management has more information than investors about the issuing company, meaning that information asymmetry can occur among parties related to the company, who do not have the same information about the company's prospects and risks. This is confirmed by Jamaani & Alidarous (2019), who explain the signaling model asymmetry theory, that IPO companies have private information related to future cash flows and know its current value, which is unknown to investors. In this case, profitability with ROA proxies becomes a signal shown by the company to potential investors. A high ROA indicates that the issuing company is of high quality because it is able to generate high profits. This is a good signal for potential investors because it reduces uncertainty, thereby lowering the level of underpricing on the IPO day. This is in line with research conducted by Drooduin (2023); Mahardika & Ismiyanti (2021); Sartika et al. (2022), who found that the higher a company's ROA, the lower the level of underpricing on IPO performance.

H1: ROA has a negative effect on the IPO performance of companies on the IDX for the period 2015-2023.

A high DAR indicates that the company uses more debt to finance investments in its assets. This means that most of the assets owned by the company are obtained from the use of debt. According to Sartika et al. (2022), high debt usage can result in stock prices that tend to be underpriced because it will affect the high uncertainty of returns that will be received by investors. When a company has high debt, information asymmetry can exacerbate risk perception. High debt usage is considered more risky, especially if information related to

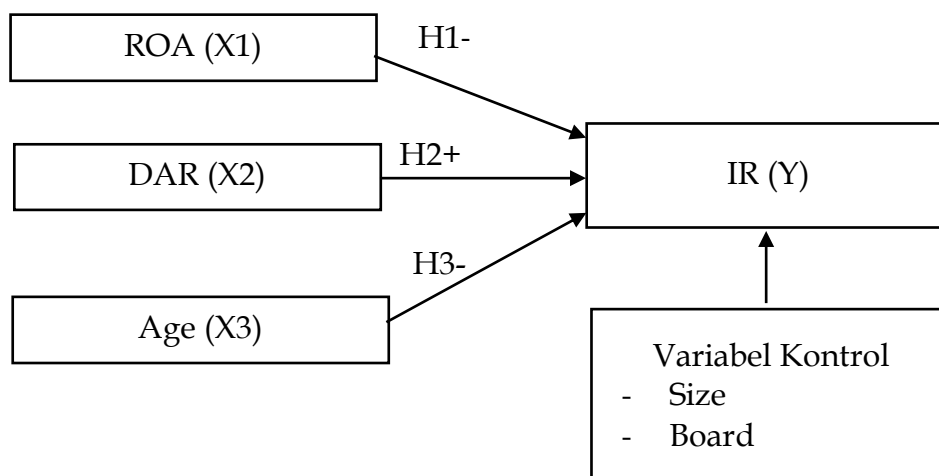
debt payments is not transparent. This will be a negative signal for potential investors because it is difficult to assess whether the debt is used productively or burdens the company. This causes companies to offer discounts at the time of IPO as compensation for the risk of uncertainty, so that the DAR influences the level of underpricing. This is supported by research by Mazumdar & Saha (2021) and Rathnayake et al. (2019), which found that the debt-to-equity ratio has a significant positive effect on IPO performance.

H2: DAR has a positive effect on the IPO performance of companies on the IDX for the period 2015-2023.

Company age refers to how long the issuing company has been established. According to Ravinayake et al. (2019), long-established companies have more publicly available information than newly established companies. This explains that long-established companies have a lower level of information uncertainty than newly established companies. The more information available to the public, the lower the uncertainty, thereby reducing the level of underpricing. This is confirmed by the ex-ante uncertainty asymmetry model theory, which states that the amount of publicly available information about a company prior to its IPO determines the level of underpricing that the company will experience (Beatty and Ritter, 1986). This means that the older the company, the more potential investors assume that the company is experienced and of high quality, thereby reducing underpricing. Long-established companies have greater transparency and easier access to information. This makes the company appear more stable and less risky, thereby reducing underpricing. This is supported by research by Ilbamys (2023); Mahardika & Ismiyanti (2021) found that the age of a company has a significant negative effect on underpricing.

H3: Age has a negative effect on company IPO performance on the IDX for the period 2015-2023.

Conceptual Framework



Picture 1. Conceptual Framework

METHODOLOGY

The subject of this study is companies that conducted IPOs on the Indonesian capital market between 2015 and 2023. The criteria for companies to be included in the sample for this study are companies that conducted IPOs and reported prospectuses between 2015 and 2023 on the Indonesia Stock Exchange, used the rupiah as the currency in their financial reports, and did not conduct a secondary offering of shares after previously being private companies. This was determined to avoid bias, as the companies had already conducted an IPO. Based on the criteria, sampling was carried out using purposive sampling to obtain a sample that was in line with the research objectives. From a total population of 423 companies, a sample of 396 IPO companies that met the criteria was obtained.

The research was conducted using a quantitative approach with an explanatory method. This study explains the influence between independent and dependent variables in accordance with the hypothesis. The data analysis technique used in this study was regression analysis to test the relationship between independent and dependent variables.

The data used in this study was cross-sectional data. The data collection method used in this study was quantitative, analyzing documents based on facts and data stored in the form of documentation. The study used secondary data, namely the prospectuses of IPO companies listed on the Indonesia Stock Exchange (IDX) for the period 2015-2023.

The independent variables used in this study are profitability with a proxy of return on assets (ROA), leverage with a proxy of debt to total asset ratio (DAR), and firm age. The dependent variable used in this study is initial return (IR). The two control variables studied are firm size and board of commissioners (BOARD). The measurements of the variables used in this study are presented in Table 1 below:

Table 1. Variable Measurement

Variable	Variable Measurement	Symbol
Independent Variable		
Return on Assets	Net income divided by total assets	ROA
Debt to Total Asset Ratio	Total debt divided by total assets	DAR
Firm Age	Ln (the year in which the issuer conducted the IPO - the year the issuer was established)	AGE
Control Variable		
Firm Size	Ln (Total assets issuer)	SIZE
Board of Commissioners	Total number of commissioners reported on prospectus	BOARD
Dependent Variable		
Initial Return	[(Closing price on the first trading day - the company's issuance price) : the company's offering price for issuance] x 100%	IR

This study aims to examine the effect of independent variables consisting of ROA, DAR, and firm age on the dependent variable of IPO performance, with control variables consisting of firm size and board of commissioners (BOARD).

Multiple Regression Model

The regression equation model used to test the research variable is presented as follows.

$$IR = \alpha + ROA_{x1} + DAR_{x2} + Age_{x3} + Size_{x4} + Board_{x5} + e$$

RESULT AND DISCUSSION

Descriptive Data

Based on the statistical test result, descriptive data was obtained and presented in table 2 bellow:

Table 2. Descriptive Data

Variable	Minimum	Maximum	Mean	Std. Dev.
IR	-0,4048	2,9837	0,3149	0,2913
ROA	-0,5201	0,7814	0,0740	0,1341
DAR	0,0003	2,7069	0,5480	0,3231
AGE	1	64	17,5328	12,8918
SIZE	20,4734	31,0358	26,3571	1,7512
BOARD	1	7	2,7778	1,0797

Table 2 shows descriptive statistics of the research variables in 396 companies that conducted IPOs on the IDX from 2015 to 2023. During this period, companies that conducted IPOs experienced an average initial return of 31,49%.

Table 2 shows an average profitability value with a ROA proxy of 7,40%. This means that, on average, companies that conducted IPOs during the period from 2015 to 2023 were able to manage their assets effectively to generate profits.

The average solvency value with a DAR proxy of 58,40% means that, on average, companies that conducted IPOs in the 2015 to 2023 period financed most of their assets using debt. Looking at the minimum value of 0,03% and the maximum value of 270,69%, it shows that there is an imbalance in the use of debt among the companies studied. On average, companies have a board of commissioners consisting of 3 people (2,7). There are companies that have a board of commissioners consisting of 7 people and some companies only have a board of commissioners consisting of 1 person.

Hypothesis Testing

After the descriptive statistics of the data were known, hypothesis testing was carried out using multiple regression analysis. The testing was conducted to determine the effect of independent variables on dependent variables, and the results are presented in Table 3 below:

Table 3. Summary of Regression Result

Variable	Prediction	Model 1	Model 2
Constant		0,385 (9,205)	0,261 (1,162)
ROA	-	-0,196 (-1,766)*	-0,204 (-1,876)*
DAR	+	0,028 (0,610)	0,002 (0,638)
AGE	-	-0,003 (-2,208)**	-0,002 (-2,067)**
SIZE	+		0,010 (0,272)
BOARD	-		-0,052 (-3,811)***
R-Squared		0,023	0,059
Adj. R-Squared		0,016	0,046
F-Stat		3,113**	4,811***

Notes:

The t-value is presented in brackets. ***, ** and * respectively indicate significant correlation coefficients at the 1%, 5% and 10% levels (1-tailed)

Model 1 Table 3 shows that ROA has a negative and significant effect on IPO performance. This is thought to occur because the information on company profitability provided to the public is consistent with the information possessed by the company. Information disclosure by regulators and high media exposure make public information relatively easy to access and understand by potential investors, thereby reducing the information asymmetry that occurs between issuers and potential investors. A high ROA indicates that the company is performing well because it is able to generate high profits. This is a positive signal for investors because the company's good credibility can reduce uncertainty risk. With minimal risk, investors do not need to purchase shares at a high discount from the company, thereby reducing underpricing. Thus, these findings support the signaling model of information asymmetry theory, which explains that the higher the ROA, the lower the level of underpricing. This finding is in line with research conducted by Drooduin (2023) and Sartika et al. (2022), who found that ROA has a negative effect on IPO performance.

However, although the results are statistically significant, the effect of ROA in this study is relatively weak. This is likely because ROA is not the only variable that affects underpricing; there are other factors such as company age and board. This explains that if information about the profitability of the issuing company is supplemented with information about the company's age and board, it will reduce information asymmetry and lower underpricing.

Table 3 model 1 shows that DAR has a positive but insignificant effect on IPO performance. This study is not in line with the research by Sartika et al. (2022), which found that DAR has a negative effect on IPO performance, as well as the findings of Mazumdar & Saha (2021), which found that DAR has a significant positive effect on IPO performance. Furthermore, the results of this study also cannot support the signaling model information asymmetry theory, which explains that DAR reflects the financial risks faced by companies. This is presumably because debt is not an indicator that investors prioritize when purchasing shares. This study is not in line with the signaling model of information asymmetry theory, which explains that DAR reflects the financial risk faced by companies. This sends a signal that makes investors tend to avoid involvement in the primary market for fear of suffering large losses due to overpricing.

In addition, there is an imbalance in the DAR value in the research sample. DAR shows the proportion of company assets financed by debt. There are 45.5% of the total sample companies that use less than 50% debt to finance their assets. The remaining 54.5% of the total sample companies use more than 50% debt to finance their assets. For example, PT Mandiri Herido Adiperkasa Tbk. has a low debt ratio of 0.03%, which means that almost all of the company's assets are financed by its own capital (equity). Meanwhile, PT Multi Makmur Lemindi Tbk. has a debt ratio of 98.84%, which means that almost all of the company's assets are financed by debt.

Table 3 model 1 shows that age has a negative and significant effect on IPO performance. This finding is in line with research conducted by Ilbamys (2023), which found that company age has a significant negative effect on underpricing. This shows that the longer a company has been established, the more information is available to the public. This is in line with the ex-ante uncertainty model of information asymmetry, which refers to the uncertainty experienced by investors prior to an IPO. Prospective investors tend to have different views on companies that are going public based on the age of the company. Newly established companies are thought to have a high level of ex-ante uncertainty due to the lack of historical information that can be reported in the prospectus. This raises concerns among investors, causing them to demand risk compensation in the form of stock discounts. Meanwhile, long-established companies are considered to have lower levels of information uncertainty than new companies because they have more historical and credible information that can reduce ex-ante uncertainty, which in turn reduces the level of underpricing.

Furthermore, a robustness test was conducted on model 1 by adding the control variables of size and board. The test showed consistent results, namely that ROA had a negative and significant effect on IPO performance, DAR had a positive but insignificant effect on IPO performance, and age had a negative and significant effect on IPO performance. In addition, it was found that size has a positive but insignificant effect on IPO performance. This means that company size does not directly affect IPO performance, but only serves to control the influence of other major factors in the regression model. Meanwhile, board has a negative and significant effect on IPO performance. This means that the more board members a company has, the more it can increase the confidence of potential investors. This is because the board of commissioners can supervise the company's operational system well, thereby reducing information asymmetry. This is in line with the research conducted by Ariyani et al. (2025), which found that the number of board members can reduce the level of underpricing in a company's IPO performance.

This study conducted a robustness test by grouping the samples based on the median total asset value. The regression results for both groups are represented in table 4 below:

Table 4. Result of Firm Size-Based Regression test

Variable	Prediction	Small Firm	Large Firm
Constant		-0,572 (-1,220)	1,757 (3,141)
ROA	-	-0,136 (-1,054)	-0,215 (-1,077)
DAR	+	0,111 (1,937)*	-0,105 (-1,425)
AGE	-	-0,003 (-1,900)*	-0,002 (-1,371)
SIZE	+	0,038 (2,060)**	-0,042 (-2,037)**
BOARD	-	-0,031 (-1,386)	-0,053 (-3,098)***
R-Squared		0,080	0,107
Adj. R-Squared		0,056	0,084
F-Stat		3,345***	4,607***

Notes:

The t-value is presented in brackets. ***, ** and * respectively indicate significant correlation coefficients at the 1%, 5% and 10% levels (1-tailed)

Based on Table 4, it explains that in the small company group, solvency with DAR proxy has a positive and significant but weak effect on IPO performance. This means that potential investors pay more attention to financial risks in the small company group, which is related to financial health and company sustainability in the long term. The variable age has a significant negative effect on IPO company performance because age is a signal of credibility. This means that the younger the age of the IPO company, the greater the IPO underpricing, which is consistent with the results in the total sample. The size of the IPO company, with smaller companies having a greater impact on increasing IPO underpricing, while in the large company group, companies with high values are able to reduce IPO underpricing. The control board variable has a significant negative effect on IPO performance. This means that a large number of board members is more suitable for large companies than for small companies, as it relates to the amount of costs incurred by the company for the remuneration of the board of

commissioners. This result is consistent with the effect of the board on IPO performance in the total sample.

CONCLUSION AND RECOMMENDATION

The purpose of this study is to examine the effect of Return on Assets (ROA), Debt to Total Asset Ratio (DAR), and Age on the IPO performance of companies on the Indonesia Stock Exchange for the period 2015-2023. The empirical results of this study found that ROA had a significant but weak negative effect on the IPO performance of companies on the Indonesia Stock Exchange for the period 2015-2023 due to the good credibility of the issuing companies in generating profits and the transparency of financial information presented by the companies to potential investors. The significance is weak because there are other factors such as age and board that affect IPO performance.

DAR has no effect on the IPO performance of companies on the Indonesia Stock Exchange for the period 2015-2023 because DAR is not an indicator that investors prioritize when purchasing shares in Indonesia. In addition, there is an imbalance in the company's debt ratio, which means that DAR does not affect IPO performance.

Age has a significant negative effect on the IPO performance of companies on the Indonesia Stock Exchange for the period 2015-2023 because the period since the company was established reflects the amount of information available about the company. This reduces the risk of uncertainty that causes high levels of underpricing.

ACKNOWLEDGEMENT

The researchers did not include data from 2024 because the ROA data was too extreme. This is suspected to be because 2024 is a presidential election period, which causes policy uncertainty due to changes in economic policy, campaign promises, and potential regulatory reshuffles that affect company performance. Further research could add dependent variables of post-IPO performance such as Market-Adjusted Abnormal Return (MAAR) and Cumulative Abnormal Return (CAR) to examine IPO performance over a longer period of time. Additionally, the period before and after the pandemic could be separated to more accurately explain the occurrence of underpricing.

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