

ANTICIPATED AND ACTUAL USE OF CAPITAL RAISED IN MALAYSIAN IPO MARKET

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Abstract: This study investigates the anticipated and the actual use of capital raised from initial public offering (IPO) in Malaysia. The descriptive analysis shows that companies anticipate the use of capital mainly for growth opportunities (47%), working capital (27%), debt repayment (12%) and listing expenses (13%). Further analysis indicates that 54% of IPO companies have dedicated more than 50% of the amount of capital raised for growth opportunities. Very few companies planned to use the capital raised for research and development (R&D) and marketing activities. The regression results also confirm that the anticipated use of capital for R&D and marketing have no significant relationship with total amount of capital raised. In addition, a content analysis of the chairmen's statements and the section dedicated for actual use of capital raised in the annual reports reveal that majorly 73 out of 121 companies' exhibit changes in the anticipated use of capital raised. Therefore, this study concludes that relevant parties in the IPO process (e.g., regulators, issuers, financial intermediaries and investors) should pay close attention to the anticipated and actual use of capital raised.

Keywords: Anticipated use, actual use, growth opportunities, working capital, debt repayment, IPO proceeds

I. INTRODUCTION

As a company's investment scale increases, the need for additional capital becomes paramount. Initial public offerings (IPOs) provide good opportunities for companies, especially those faced with insufficient capital, to raise additional financial resources to meet the increase in a company's investment scale or to undertake new projects (Welbourne and Cyr, 1999). Raising capital via an IPO has dual purposes. Firstly, it helps a company to raise additional capital and reduce its debt to equity ratio. Secondly, it allows a company to pursue opportunities with high-growth prospects (Pagano, Panetta, and Zingales, 1998; Rock, 1986). During the IPO process, the security

market regulators require a company to comply with regulatory guidelines on disclosure by providing a prospectus. A prospectus is a mandatory document that discloses the idiosyncratic aspects of a business an investor wants to invest in (Bhabra and Pettway, 2003; Hanley and Hoberg, 2010). The prospectus provides the necessary information that may help investors to make investment decisions and analysts to make accurate forecasts to minimise information asymmetry between the management and investors (Bhabra and Pettway, 2003). However, the information available in the prospectus is too voluminous to the extent that prospective investors find it difficult to comprehend (Hanley and Hoberg,

2010). As a result, Hanley and Hoberg (2010) identify four vital areas that prospective investors should pay attention to, i.e., the prospectus summary, Management Discussion and Analysis (MD&A), risk factors and anticipated use of capital raised. Out of these four vital areas, the 'anticipated use of capital raised' is the smallest section in the prospectus compared to other sections (Hanley and Hoberg, 2010). With this evidence, one may argue that the information on the anticipated use of capital may not be relevant to either prospective investors or issuers. However, the theoretical assumption of Beatty and Ritter (1986) and Rock (1986) on the information asymmetry model demonstrates that the manner by which issuers disclose the anticipated use of capital is associated with the ex-ante uncertainty about the true value of the issuer and IPO underpricing. In addition, the signalling model of Trueman (1986) indicates that disclosure of the future level of investment that the proceeds will be used for can reduce information asymmetry. However, issuers are discrete on the disclosure of intended use, even if the disclosure can help to reduce information asymmetry that may arise between the management and prospective investors (Ahn and Nam, 2013).

Despite the relevance of the anticipated use of capital, it is rare to find studies that analysed the intended use of IPO proceeds and whether issuers really use the capital as anticipated. Therefore, this study examines the anticipated and actual use of capital raised in Malaysian IPO market. In Malaysia, IPO financing is a major source of raising capital and one of the main objectives of the Securities Commission's (SC) amendment to the MESDAQ IPO guidelines in 2005/2006 is to encourage young, vibrant, technology-based and high-growth companies to raise capital. Thus, one would expect that the anticipated use of IPO proceeds should be related more to growth opportunities, such as capital expenditure and research and development (R&D) as well as business expansion. In addition,

there were several cases of misappropriation of IPO proceeds in Malaysian IPO market (e.g., Kiara Emas Bhd, Plantation and Development Bhd, Energro Bhd and FTEC Resources Bhd) (Mohd-Sulaiman, 2008; Securities Commission Bulletin, 2010, 2011, 2012). All these events motivate this study to examine the anticipated and actual use of IPO proceeds in the Malaysian IPO market through a content analysis of the prospectuses and the annual reports following the IPO. This allows the study to investigate whether issuers are accountable to investors in terms of not breaking promises.

Furthermore, unlike prior studies that have used the post-IPO accounting information in the annual reports to disclose the anticipated use of capital at the time of IPO and the actual use of capital, this study uses the pre-IPO anticipated use as disclosed in the prospectuses and the actual use of capital raised as disclosed in the annual reports of issuers that undertook the IPO. In line with the aim of the study, the empirical analysis through a simple mean and frequency distribution and a multiple regression technique reveal that companies have a variety of anticipated uses of capital. The result shows that 54% of the companies in this study dedicated more than 50% of the capital raised for growth opportunities. A breakdown of growth opportunities into various segments indicates that only a few companies have an allocation for R&D and the highest allocation for growth opportunities is for capital expenditure (CAPEX) and business expansion. Others are for working capital and debt repayment. These findings concur with the basic tenets in finance theories that companies raise capital not only to finance growth opportunities, but for other purposes as well (Myers and Majluf, 1984; Ritter and Welch, 2002).

In order to shed more light on whether the anticipated use of capital is in line with the actual use, evidence shows that there are many cases of changes in the actual use compared

to the anticipated use of capital raised, underutilization of capital raised and non-disclosure of the actual use of capital raised. The implication of this deviation is that it may affect the company's performance (Chemmanur and Fulghieri, 1999). This becomes important given that the post-IPO operating performance, like sales growth, capital expenditure and profitability of Malaysian IPO companies, has declined (Tapa and Mazlan, 2013).

The remaining sections of this study are structured as follows: Section 2 provides the literature review; Section 3 discusses the data collection method to achieve the objectives of the study; Section 4 presents the results and discussion; and Section 5 concludes the study.

II. LITERATURE REVIEW

Financing and investment decisions remain the two dominant decisions in corporate finance literature (Kim and Weisbach, 2008). These two decisions are inseparable because adequate financial capital is crucial for investment decisions (Babich and Sobel, 2004; Bond and Meghir, 1994; Modigliani and Miller, 1958; Morellec and Schürhoff, 2011; Myers and Majluf, 1984; Subrahmanyam and Titman, 1999). In fact, studies on entrepreneurship have regarded adequate financial capital as the "lifeblood" of a growing business; however, very few entrepreneurs have had sufficient capital to finance their investments (Chemmanur and He, 2011; Deeds, DeCarolis, and Coombs, 1997). Therefore, the means through which an entrepreneur can raise capital or the need for additional resources remains a crucial decision in the entrepreneurial life cycle (Latham and Braun, 2010). This is because an entrepreneur has the option of raising capital through interest-bearing means (e.g., a bank loan) and non-interest bearing means (e.g., equity offerings). However empirical literature has shown that companies do not follow either strategy (Graham and Harvey, 2001; Helwege and Liang, 1996). Thus, an IPO remains the most popular way of raising capital by an

entrepreneur or a yet to be listed company (Ahn and Nam, 2013; Autore, Boulton, Smart, and Zutter, 2014; Chahine and Filatotchev, 2008; Clementi, 2002; Jensen and Meckling, 1976). Among the benefits of an IPO are that it brings the company into the spotlight, increases the company's legitimacy and transforms it to a publicly listed company. The increase in legitimacy occurs due to the fact that the IPO provides the company the needed capital and resources for survival and growth (Chahine and Filatotchev, 2008; Clementi, 2002). An IPO allows a company to achieve a greater market share than its competitors in the product market that still remain private company (Autore et al., 2014; Chemmanur and He, 2011). Such market share includes gaining additional credibility from suppliers and customers, hiring high quality employees with a compensation package in the form of stocks and stock options and easy access to acquiring relative companies in the same industry. An IPO creates avenues for companies to have easy access to capital to overcome borrowing constraints and opportunities for entrepreneurs to reap the fruits of their labor and transfer part of the risk to risk-neutral investors (Clementi, 2002; Latham and Braun, 2010).

The decision to go public makes it easy for companies to raise capital for a variety of purposes and among the basic tenets in finance theories is that companies raise capital not mainly to finance growth opportunities, but for other purposes as well (Myers and Majluf, 1984; Ritter and Welch, 2002). Similarly, Pastor and Veronesi (2005) argue that the occurrence of IPO waves can be associated with the presence of growth options. The next section discusses the empirical evidence on the anticipated use of IPO proceeds so as to identify the need for capital raising activities.

According to Clementi (2002), capital generated from an IPO sale, assists companies to embark on growth opportunities and a company with many growth opportunities may consider capital raising activities as a

means to enhance its growth opportunities and future development (Loughran, Ritter, and Rydqvist, 1994). These include expansion of existing assets or building of new facilities, debt repayment, exploiting mispricing, wealth transfer from new to existing shareholders and allowing greater liquidity of the company and insider shares (Booth and Booth, 2010; Kim and Weisbach, 2008; Pagano et al., 1998). A cross-country analysis by Kim and Weisbach (2008) using changes in accounting items as shown in the post-IPO financial statement after offering to predict what companies state as motives for going public, reveals that companies issue IPOs mainly for investment purposes and to exploit mispricing. Using similar post-IPO information, Pagano, Panetta, and Zingales (1996) studied a sample of 139 Italian companies, including manufacturing and holding companies between 1982 and 1992. They find that an IPO decision is for reducing cost of credit and controlling shareholders from cashing out their investment. Using the sample, but with the exclusion of holding companies, Pagano et al. (1998) show that companies' IPO decision is to reduce leverage because the companies had engaged in greater investment and growth opportunities before the IPO. Carpenter and Rondi (2006) also provide similar evidence. In addition to the evidence provided by the Italian studies, Hill (2008) reports that 80% of companies listed on the London Stock Exchange go for IPOs for capital restructuring purposes, such as debt repayment and dividend payment, while 12% of companies' intention is for investment purposes and 8% for working capital purposes.

Other studies have also used the survey method to investigate the intended motives for an IPO. For instance, Brau and Fawcett (2006), through a survey response of 336 chief financial officers (CFOs) of U.S. companies, identified two main reasons for an IPO decision. On the one hand, it is to create a market for which the company has a currency of its share for acquisition or when the company runs out of private equity and on the other hand, it is to

establish market price for high valuation of the company. By using pre-IPO information as disclosed in the prospectuses, Leone, Rock and Willenborg (2007) find that the main anticipated use of capital for a sample of 782 U.S. IPOs is debt repayment, because it has the highest percentage of 68%. Similarly, Pastor, Taylor and Veronesi (2009) document that the use of capital raised for a data set of 7,183 U.S. IPOs between 1975 and 2004 is for debt repayment. On the contrary, Balatbat and Bertinshaw's (2008) study of Australian IPOs shows that a large number of IPO (111 and 166 out of 172) companies disclosed their anticipated use of capital for working capital and offering expenses.

Other studies that have used pre-IPO information, as disclosed in the prospectus, reveal that there are several motives for an IPO. For example, Rydqvist and Hogholm (1995) used information disclosed in the prospectus for a sample of Swedish family companies between the period of 1970 to 1991 to identify the motives for an IPO. They find IPO decisions do not relate to growth opportunities; it is for original owners to cash out and to exploit market timing (mispricing) to benefit from increases in expected stock price. This result concurs with the studies of Zingales (1995) and Mello and Parsons (1998), where an IPO decision is considered as an exit strategy used by initial owners of the company to maximize the value of IPO proceeds. In contrast, Black and Gilson (1998) note that if the company is backed by venture capitalists, IPOs could serve as a channel or an opportunity for venture capitalists to cash out their investment rather than as a form of exit for the original owners in order to regain control from venture capitalists. All these findings provide evidence of the various uses companies can anticipate for IPO proceeds. In addition, a number of survey analyses have provided different results from that of the content analyses of the prospectus information. Although the survey approach seems to be the best because it provides ex-ante motivation for going public, surveys are time consuming

and costly (Andriansyah and Messinis, 2016). In light of the aforementioned argument, this study relies on the prospectus information to identify the anticipated use of IPO proceeds and the annual reports to investigate whether the actual use of capital is commensurate with the anticipated use, using a sample of Malaysian IPOs.

III. DATA COLLECTION AND METHODS

Two primary sources of data collection are used in this study. First, is the prospectus and second is the annual report. The primary means of communicating information about a company in the IPO market is the prospectus; therefore, the prospectus is used to collect data for the anticipated use of capital; while the annual report is used to collect information on the actual use of capital. The anticipated and actual use of capital is extracted through a manual content analysis of each classification of anticipated use of capital. Figure 1 shows

Based on Figure 1, there are different classifications of anticipated use and the amount allocated to each classification varies across the two IPOs. However, for comparative and clarity purposes, this study groups the classification of anticipated use into growth opportunities, debt repayment and working capital. The anticipated use of capital for growth opportunities includes capital expenditure (CAPEX), research and development (R&D) and business expansion. Similarly, the actual use of IPO proceeds is traced till the final amount of capital raised is fully utilized. Notably, companies have different durations before the final amount of capital is utilized fully. For instance, on average, it takes a period of two to four years for IPO companies to utilize the amount of capital raised during an IPO. As a result, this study restricts the IPO years from 2005 to 2011 in order to examine whether there is any deviations between the anticipated use of capital and the actual use of IPO proceeds. The study period starts from

Figure 1 Illustration of anticipated use of capital raised

Hovid Berhad			
The purpose of the issue is to raise RM22.528 million from the public issue to be utilized in the following manner:			
Repayment of bank borrowings	RM14.0m	62%	Debt repayment
Payment of listing expenses	RM1.6m	7%	Listing expenses
Working capital	RM6.928m	31%	Working capital
Total	RM22.528m	100%	
Kawan Food Berhad			
The purpose of the IPO is to raise RM10.32 million from the public issue to be utilized in the following manner:			
Purchase of machinery	RM4m	39%	Capital expenditure (CAPEX)
Working capital	RM4.32m	42%	Working capital
Estimated share issue expenses	RM2m	19%	Listing expenses
Total	RM10.32m	100%	

a typical illustration of the anticipated use of capital as disclosed in two of the prospectuses examined in this study.

2005 because there was an amendment to the MESDAQ listing requirements to encourage young and vibrant companies to raise capital

on the Exchange. The drive is to promote quality companies on Bursa Malaysia and to continue to leverage on the uniqueness of the MESDAQ Market as a fund raising platform for young and dynamic companies that represent the engine of economic growth for Malaysia. The total number of IPOs is 241, out of which the number of downloadable prospectuses is 225. However, the exclusion of Real Estate Investment Trusts (REITs) (20), Finance (4), Close-ended funds (1) and Special Purpose Acquisition Companies (SPAC) (1) and unavailability of anticipated use of IPO proceeds information in the prospectus result in a final sample of 179 IPOs. The exclusion of IPOs in certain industries is in line with prior IPO studies that such IPOs' regulatory requirements are different from the general population of IPOs (Ammer and Ahmad-Zaluki, 2016). As for the actual use of capital raised, out of 179 IPOs, only 121 annual reports subsequently disclose this information. Thus, the final sample to investigate the actual use of capital is 121 annual reports.

Furthermore, to achieve the aim of the study, which is to identify the anticipated and the actual use of capital raised during IPOs, the data is analyzed based on the aggregate mean value of each anticipated use and simple percentage and frequency distribution of the anticipated use for each company. In order to gain additional insight on the significance of each anticipated use to the amount of capital raised, a multiple regression technique is conducted to test whether the anticipated use is related to the amount of capital raised. The regression model is presented in Model 1 below:

$$\begin{aligned} \text{NETPROCEEDS}_i = & \beta_0 + \beta_1 \text{R\&D}_i + \beta_1 \text{CAPEX}_i + \\ & \beta_1 \text{EXPANSION}_i + \beta_1 \text{MARKETING EXPENDITURE}_i \\ & + \beta_1 \text{DEBT REPAYMENT}_i + \beta_1 \text{WORKING CAPITAL}_i \\ & + \varepsilon_i \end{aligned}$$

Where NETPROCEEDS is the total proceeds less estimated listing expenses, R&D is the anticipated amount allocated for research and development divided by total proceeds, CAPEX represents the anticipated amount allocated to capital expenditure divided by total proceeds, EXPANSION is the anticipated amount allocated for business expansion and acquisition divided by the total proceeds, marketing expenditure is the anticipated amount allocated to marketing and promotion divided by total proceeds, DEBT REPAYMENT is the anticipated amount allocated to debt repayment divided by total proceeds and WORKING CAPITAL represents the amount allocated to working capital divided by the total proceeds. is the error term.

IV. RESULTS AND DISCUSSION

Panel A of Table 1 presents the industry classification of IPOs by the years of listing. As shown in the Table, the IPO years of 2005 and 2006 have the highest number of IPOs listed. In particular, the technology industry has the highest number of companies in these two years. This implies that the SC's motive of encouraging young, high technology-based and high-growth companies to raise capital through IPOs is achieved. In fact, a look at Table 2 shows that most of the IPOs are on the MESDAQ market, which is responsible mainly for technology and high-growth companies.

This evidence indicates that companies have exploited the amendment to MESDAQ requirement guidelines on the listing of companies on Bursa Malaysia. Further details shown in Panel B of Table 1 indicate that the MESDAQ Market has the highest number of companies compared to the other three markets, i.e., ACE, Main Board and Second Board.

i. Sample characteristics

Panel A of Table 2 reports the characteristics of the 179 IPOs during the period of 2005 to

Table I: Classification of 179 IPOs across years of listing**PANEL A:** Industry Classification

Industry Classification	IPO Year							Sub Total
	2005	2006	2007	2008	2009	2010	2011	
Construction	0	0	1	0	0	2	2	5
Consumer Products	6	1	2	2	4	4	1	20
Industrial Products	16	8	3	6	3	6	4	46
Plantation	0	1	2	0	0	0	0	3
Technology	25	15	2	2	1	3	4	52
Trading Services	11	6	10	9	3	7	7	53
Total Sample	58	31	20	19	11	22	18	179

PANEL B: Distribution of IPOs by Listing Board

YEAR	ACE	MAIN	MESDAQ	SECOND	TOTAL
2005	0	7	40	11	58
2006	0	4	20	7	31
2007	0	9	3	8	20
2008	0	4	8	7	19
2009	2	8	0	1	11
2010	6	16	0	0	22
2011	9	9	0	0	18
TOTAL	17	57	71	34	179

2011. As it can be seen from the Table, the average age that a company goes public is four years, while the maximum age is 37 years. In addition, the offer price at which a company issues its shares is as low as RM0.16 and as high as RM3.61. The mean initial return is 11% with standard deviation of 44%, meaning that investors that buy IPO shares at the offer price and sell at the first day closing price can earn a return of 11%. The initial return reported in this study is below that documented by prior literature in the Malaysian IPO markets (e.g., Ammer and Ahmad-Zaluki, 2016 at 21%; Yong and Isa, 2003 at 94.91%). Furthermore, companies raised as much as RM951 million and as low as RM4.5 million during the IPO. The average gross amount of capital raised

after deduction of listing expenses is RM34.48 million and the maximum amount is RM916 million, while the minimum amount is RM3 million.

ii. Results on the anticipated use of IPO proceeds

Panel B of Table 2 displays the descriptive statistics of the anticipated use of IPO proceeds of the sampled IPOs in this study. From the Table, there are seven different categories of anticipated use of capital raised during the IPO, i.e., R&D, CAPEX, business expansion, marketing expenditure, debt repayment, working capital and listing expenses. On average, CAPEX (RM5.2 million), business

Table II: Descriptive statistics of 179 IPOs during 2005-2011**Panel A:** Characteristics of 179 IPOs during 2005-2011

Variables	Mean	Std. Deviation	Minimum	Maximum
Company age at IPO (years)	4.24	6.14	0.00	37.00
Offer price	0.79	0.57	0.16	3.61
Initial return	11%	44%	-78%	264%
Gross proceeds (RM millions)	34.48	98.45	3.00	916.00
Total proceeds (RM millions)	37.26	102.20	4.50	951.00

Panel B: Statistics of the anticipated use of capital raised

Anticipated use of amount of capital raised	Mean		Std. Deviation		Minimum		Maximum	
	RM	%	RM	%	RM	%	RM	%
Research and development (R&D)	1.81	11	3.64	15	0.00	0	36.00	88
Capital expenditure (CAPEX)	5.82	19	14.67	21	0.00	0	115.70	90
Business expansion	8.87	16	60.16	22	0.00	0	798.80	89
Growth opportunities	17.00	47	69.38	25	0.00	0	908.80	96
Marketing expenditure	0.51	1.7	2.45	5.7	0.00	0	27.60	47
Debt repayment	8.79	12	58.20	21	0.00	0	760.00	93
Working capital	8.62	27	17.36	19	0.00	0	156.00	89
Listing expenses	2.78	13	3.93	6.8	0.00	0	37.00	38

Note: The amounts in ringgit (RM) are in millions. Growth opportunities represent the addition of anticipated use of amount of capital raised for R&D, CAPEX and expansion, while initial returns is calculated using first day closing price minus offer price divided by offer price and Gross proceeds is total proceeds minus listing expenses.

expansion (RM8.87 million), debt repayment (RM8.79 million) and working capital (RM8.62 million) have a larger allocation of the capital raised. Specifically, A-RANK Berhad (listed in 2005 on the Second Board) allocate as high as RM798.8 million (89%) of IPO proceeds for business expansion. Similarly, HAPSENG Plantation Holdings Berhad (listed in 2007 on the Main Market) planned to use RM760 million (93%) of IPO proceeds for debt repayment. Likewise, INS-BIO Science (listed in 2005 on the MESDAQ Market) planned to use RM36 million (88%) of the capital raised for R&D. In contrast, XIDELang Holdings Ltd (listed in 2009 on the Main Board) planned to use RM27.60 million (47%) of IPO proceeds for marketing expenditure. More importantly,

Malaysian Marine Heavy Eng Holdings (listed in 2010 on the Main Board) planned to use RM908.80 (96%) of the IPO proceeds for growth opportunities. These statistics imply that on average, companies allocate a larger amount of capital for growth opportunities than other anticipated uses. Growth opportunities, which are defined in line with prior IPO studies, include R&D, CAPEX and business expansion (Wyatt, 2014). The average allocation of the amount of capital raised for growth opportunities is 47% and the highest allocation is 96%, implying that the amount of capital raised is mostly anticipated to be used for investment purposes, which are expected to have a significant impact on the performance of IPO companies thereafter. However, this

Table III: OLS results on the association between anticipated use and IPO proceeds raised

Variables	Coefficient	t-statistics
R&D	150.05	1.64
CAPEX	197.19	2.45**
Expansion	264.43	3.32***
Marketing expenditure	192.67	1.31
Debt repayment	288.19	3.51***
Working capital	184.87	2.27**
Constant	-150.26	-2.25**
R-square (%)	11	
Adjusted R-square (%)	8	

Notes: *** and ** represent significance at 1% and 5%, respectively.

depends on the relative positive effect of R&D and CAPEX because investment in R&D and CAPEX is expected to increase company value (Wyatt, 2014). These types of companies are likely to raise large amounts of capital. A look at the regression results presented in Table 4 reveals that anticipated use of capital raised for CAPEX, business expansion, debt repayment and working capital, is significantly related to the amount of capital raised. Therefore, it can be concluded that companies have broad anticipated use for the capital raised; however, the most important uses are for CAPEX, business expansion, debt repayment and working capital.

This finding is consistent with Chemmanur and Fulghieri (1999) and Subrahmanyam and Titman (1999) who indicate that capital motives of IPOs are for fixed assets investment and working capital. This is also consistent with Kim and Weisbach's (2008) study of 38 countries between 1990 and 2003, which reveals that the most anticipated use of capital raised is for investment opportunities and this is expected to have a positive effect on the performance of the company. However, Kim and Weisbach (2008) used post-IPO accounting information. This makes the

present study different from the earlier study because the findings of the present study are based on pre-IPO information available in the prospectuses. By implication, most young and vibrant companies whose internal source of capital is insufficient to cater for their investment opportunities use IPO as a means of raising capital because of the increase in their companies' investment opportunities. This is in line with the assertions of finance theories that financing for growth opportunities is one of the main reasons for going public (Bancel and Mittoo, 2009; Ritter and Welch, 2002).

In addition, non-tabulated statistics indicate that 54% of companies in this study have allocated more than 50% of the amount of capital raised for growth opportunities and these companies are associated with higher average initial returns at 15.47% compared to others at 5.68%. This is consistent with the information asymmetry model of IPO initial returns that growth opportunities have a high degree of ex-ante uncertainty and are associated with higher initial returns (Wyatt, 2014). Further analysis as shown in Table 4, indicates that only 17 and 23 companies have an allocation for R&D and marketing expenditure respectively, while almost all companies use part of the proceeds

Table IV: Allocation of anticipated use of capital raised

Anticipated use	RM (millions)	Proportion to Total Proceeds (%)	Number of companies	Proportion to total number of companies (%)
Research and development (R&D)	323.98	4.86	17	9.50
Capital expenditure (CAPEX)	1041.59	15.62	108	60.33
Business expansion	1587.05	23.79	84	46.92
Marketing expenditure	91.97	1.38	23	12.85
Growth opportunities	3044.59	45.64	158	88.27
Debt repayment	1572.86	23.58	72	40.22
Working capital	1542.30	23.12	172	96.09
Listing expenses	497.99	7.47	177	98.88
Total Proceeds	6669.96			

for list expenses and working capital. This implies that Malaysian companies are not R&D oriented. It is notable to see that 23% of the amount of capital raised is anticipated for working capital and 23 out of 177 companies have allocated more than 50% of the capital raised for working capital. In addition, 24% of the amount of capital raised is for debt repayment.

iii. The actual use of the amount of capital raised

Unlike the Australia Securities and Investment Commission (ASIC), the Bursa Malaysia listing requires IPO issuers to explain in the annual reports how the capital raised from a public issue is applied. This is similar to the US SEC requirement that IPO issuers in the US must explain in their S-R Form filings how the capital is utilized. A typical format of how this is structured in the annual report is shown in Appendix A.

Based on Appendix A, this study is able to identify that 10 out of 121 companies are unable to explain how the remaining balance of amount raised was applied. Similarly, 73

out of 121 companies exhibit changes in the anticipated use of capital raised from the IPOs. These changes include transfer of amount allocated for growth opportunities to working capital and vice versa, under-utilized amount allocated for growth opportunities to working capital, increase in capital expenditure, reduction in the amount allocated for growth opportunities to working capital, under-utilized allocation of listing expenses to working capital and reduction of amount allocated for working capital to listing expenses. In addition, there are also cases of general statements that the capital raised from IPOs has been utilized as anticipated without any clarification in the annual report. Furthermore, on average, IPO company takes three years to fully utilize the capital raised from an IPO. The highest number of years that a company needs to fully utilize the capital raised from an IPO is five years, while some companies take one year to fully utilize the amount of capital raised. These results indicate that IPO companies spent a long time to execute their investment plans, and at times, companies deviate from the anticipated use of IPO proceeds. As such, these may have implication on the manner by which investors would react to such information.

Chen, Ding, Jia and Wu (2015) argue that when issuers break promises, the market will react negatively to such information and this will reduce the information credibility. Therefore, market reaction to IPO issuers that change their investment plans and the subsequent performance of such companies may be a course of concern.

V. CONCLUSION

At any stage in a company's lifecycle, the internal financing arrangement may be insufficient to maximize the available investment opportunities. As such, companies tend to look for external financing sources, i.e., IPOs. An IPO is the most popular way used by young and vibrant companies to raise huge amounts of capital. It is expected that by raising capital, companies will have greater incentives to embark on value maximizing investment decisions. One way to achieve this aim is to allocate a higher amount of anticipated use of capital raised for growth opportunities. This study finds that different IPOs have different growth opportunities and needs for capital raised. Such growth opportunities include RandD, CAPEX and business expansion. However, only CAPEX and business expansion are found to have a significant relationship with the amount of capital raised. This result is consistent with arguments in the literature that companies raise capital to finance growth opportunities. It further indicates that Malaysian companies are not research- oriented. In addition, debt repayment and working capital are found to be significantly related to the amount of capital raised. Similarly, the level of IPO initial returns for IPO companies that designate more than

50% of capital raised to growth opportunities is higher than IPO companies that have less than 50% designated for growth opportunities. This implies that IPOs with a large amount of money allocated to growth opportunities may be a promising investee for prospective investors. As such, investors can use the anticipated use of capital information as an investment selection criterion. In fact, issuers of IPOs can also use this as a signalling mechanism in the IPO market.

It is worth noting that some IPOs allocate more than 50% of capital raised for working capital purposes. Therefore, it would be very interesting if future studies examine why such an amount is allocated for working capital purposes. Further details on the actual use of capital suggest that issuers do change their anticipated use after being listed on Bursa Malaysia. While some changes in use are approved by the regulatory authorities, in some annual reports where changes have occurred, there is no clear information in this regard. Therefore, it would be interesting if future studies investigate market reaction to such information and the differences between the market reaction to companies that seek approval from regulatory authorities and those that do not provide this information. In addition, future studies can also examine post-IPO accounting information from the cash flow statement and balance sheet in order to match them with the anticipated use of capital raised. In sum, the results suggest that the anticipated use of IPO proceeds is very vital information in the prospectus that all parties in the IPO process need to pay attention to. It also highlights to regulatory authorities that evidence of Bait and Switch behaviour exists in the Malaysian IPO market.

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APPENDIX A shows the format used in investigating the actual use of capital raised

Anticipated use	Proposed amount allocated to each anticipated use (RM)	Actual use (RM)	Proposed time frame for utilization	Deviation in anticipated use (RM)	Explanation
Total					

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