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BEHAVIORS OF COMPANIES AFTER INITIAL PUBLIC OFFERING THE CASE OF TURKEY

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Abstract

Companies that went public have some aims such as finding fund for their new investments and being more recognized. On the other hand, investors have some purposes in the market for instance getting dividend and capital earnings. After the initial public offering (IPO), some companies show good performance while the others have lower performance, and so it causes loss for investors. In the process of IPO, companies announce their future strategies to the investors. This study aims to determine companies' performances after IPO and whether they could be able to fulfill their strategies and plans as they promised before. Therefore, nonfinancial companies which went public between 2006 and 2012 are analyzed. The data is obtained from prospectus and financial statements of these companies. The results of the analysis show that the companies which perform activities according to their plans become successful and maintain their profitability. Thus, this causes positive effects on stock prices of these companies. On the other hand, other companies which could not be able to fulfill their plans have lower profitability. Their stock prices were affected negatively and this lead to investors' lost. The results of the study emphasizes that it is necessary to ensure a balance between both companies and investor benefits.

Keywords: Initial Public Offering, Borsa Istanbul, Company, Profit, Investor Right

1. Introduction

Initial public offering of companies has remarkable results. These benefits can be considered in terms of general structure of economy, companies and investors. Initial public offering provides significant benefits to companies by providing long term and safe fund-raising, advertising, institutionalization, development of cooperation and providing cost savings. On the other hand, the benefits of investors from initial public offering can be described as dividend and capital gain.

Moreover, with initial public offering fund inflow to companies occurs, companies invest with these funds, domestic production increases and economy grows. Growing economy leads to government gain more income and public services improve qualitatively and quantitatively. Also social welfare increases and income distribution becomes more regular.

While initial public offering provides positive contributions to all parties, conflicts may occur between companies and investors. These potential conflicts for companies can be considered as sharing managerial authority and a decrease in earnings per share.

In terms of investors, there are two main problems. The first one is high price setting for initial public offering of the company and the other one is the profit decreasing up to the mark after initial public offering. In both cases, investors lose, especially when the profits are lower than expectations or in case of any interference, profits are decreased deliberately, thus rights of investors are removed which make investors vulnerable.

Some studies claim that, there are some problems in terms of protecting rights of investors after initial public offering. Teoh *et al.* (1998, 1974), Peristiani and Hong (2004), Ozturk (2013), Ritter (1991) and Loughran and Ritter (1995)'s studies state that there are significant decreases in profits of companies after initial public offering. The reason for this may be some accounting transactions and also poor economic conditions may have a role in some cases.

2. Purpose and Method

Purpose of this study is to analyze post-initial public offering financial performances of nonfinancial companies which were offered to public between 2006 and 2012 and to determine how a public offered company is managed and how this is resulted through the case study.

Initial public offering prospectuses and financial statements of companies after initial public offering were used in order to reach the determined goals. Also reports of some governmental agencies, comments of related investors concerning stock exchange on web pages, newspapers and reports of intermediary firms were used.

3. Some Financial Data of Companies after IPO and Development of Stock Prices

Performance of companies after initial public offering is very important for investors. Because of this performance, companies determine to pay dividend; therefore as the profitability of company increases, stock prices are also increase.

Sales and profitability ratios of companies after initial public offering were cited from Ozen (2016). The author found that profitability rates and profit margin in most of the nonfinancial companies decreased significantly compared to pre-initial public offering period. In Table 1, Return on Assets (ROA), Return on Equity (ROE), change in Average Net Sales and change in Average Net Profit of companies are presented. Three-year averaged of related data of companies before and after initial public offering were used while calculating the growth rate.

According to Table 1, the ROA decreases after the initial public offering in 21 companies while ROE decreases in 23 companies out of 31 companies. The reason for this decrease in ROE might be explained by higher increase in equity compared to net profit. According to Table 1, all of the companies except one increased their average sales. Furthermore, net profit growth rates after initial public offering indicate that companies were not successful enough. According to the table, average net profits of 14 companies decreased. The increase in depreciation expenses could be the reason for this result. On a note side, only one company indicates a decrease in all categories in Table 1 which is X15.

The companies which went to public might find new funds and make new investments. Financial statements are analyzed in order to understand whether companies made investments after initial public offering or not. Table 2 is prepared according to the obtained data and indicates the growth in quantities of the company's assets before and after two years from initial public offering. Meanwhile, instead of nominal data, index is used in order to hide the names of the companies in the study.

According to the Table 2, all of the companies increased their assets after initial public offering. The highest increase is in company X6 with 1,782 index value. Company X16 with 779 index value and company X19 with 540 index value become the highest amounts respectively. Company X15 that will be analyzed as a sample case in this research increased its assets from 100 to 180. This increase is quite a few lower compared to the averages of other companies. In average, companies in the study increased their assets from 100 to 335. However, Company X15 increased its assets far below the average.

Table 1. ROA, ROE and average net sale and net profits of companies

Company No	Changing on ROA %	Changing on ROE %	Changing on Average Net Sales (000 TL)	Changing on Average Net Profit (000 TL)
X1	3.03	1.48	23,133	3,766
X2	-1.19	6.56	298,538	147,057
X3	-1.76	-20.09	846,520	11,266
X4	-4.11	-45.76	134,719	4,919
X5	2.25	-12.74	325,474	-46,782
X6	-1.96	-7.32	4,775	-17
X7	-1.11	-2.59	18,239	425
X8	-1.87	-1.19	917,067	33,923
X9	-2.65	-9.70	30,566	-1,809
X10	0.57	-7.40	100,313	692
X11	-19.13	-40.01	-5,592	-992
X12	0.48	-0.37	407,876	2,515
X13	-5.04	-9.70	21,768	2,551
X14	8.35	-5.20	577,605	372,901
X15	-16.22	-38.58	-82,395	-10,573
X16	-1.37	-14.32	61,782	-2,323
X17	-0.48	0.78	9,161	-102
X18	5.88	9.39	11,301	2,340
X19	-12.09	-19.22	3,934	-1,507
X20	-20.51	-83.93	42,790	-14,410
X21	0.45	-0.45	243,058	19,068
X22	1.26	0.60	6,115	846
X23	-12.36	-21.22	8,034	-2,627
X24	-10.86	-21.12	106,369	-10,371
X25	2.37	11.21	37,532	766
X26	-7.72	-15.50	22,528	-453
X27	5.53	5.22	840,982	88,568
X28	-1.23	-3.41	1,399,978	8,220
X29	3.34	-84.53	3,821	85
X30	-2.15	3.31	2,488,591	-138,712
X31	-8.15	-26.37	542,281	-3,386

Source: Ozen (2016, p.144)

Performance and profitability of companies in their activities influence also stock prices. In Table 3, stock prices of companies after initial public offering period are presented as indexed. Since some companies went to public in less than five years, stock prices for the last one or two years are not included to this research. According to Table 3, number of stocks where prices increased in the last year after initial public offering is amounted as 13. While stock prices of 17 companies decreased, only data for one company could not be reached. This indicates that investors generally could not get the expected incomes from initial public offering. Company X15 remains at lowest stock price in the initial public offering period. This company becomes the only one whose return of assets, return on equity, net sales and net profits decreased simultaneously.

Table 2. Assets of companies before and after IPO (As indexed)

Company No / Term	T-2	T-1	T+1	T+2	Company No / Term	T-2	T-1	T+1	T+2
X1	100	141	150	173	X17	100	223	226	232
X2	100	105	118	172	X18	100	147	280	422
X3	100	138	173	213	X19	100	408	481	540
X4	100	176	271	332	X20	100	120	108	117
X5	100	125	207	240	X21	100	105	103	127
X6	100	1,002	1,596	1,782	X22	100	227	384	390
X7	100	289	477	624	X23	100	131	138	149
X8	100	171	205	236	X24	100	129	190	277
X9	100	142	254	336	X25	100	143	226	259
X10	100	167	184	239	X26	100	154	380	388
X11	100	253	429	366	X27	100	138	125	109
X12	100	156	236	297	X28	100	155	259	271
X13	100	107	180	204	X29	100	114	165	210
X14	100	140	222	432	X30	100	98	97	103
X15	100	60	104	181	X31	100	126	183	178
X16	100	199	440	779	Average	100	187	277	335

Source: Calculated by using Prospectuses of 31 Companies from Borsa Istanbul (www.borsaistanbul.com) and Yearly Financial Reports from Public Disclosure Platform (www.kap.org.tr/en/)

Table 3. Stocks prices (As indexed)

Company No / Term	T+0	T+1	T+2	T+3	T+4	T+5	Company No / Term	T+0	T+1	T+2	T+3	T+4	T+5
X1	100	57	72	59	97	126	X17	100	62	30	26	26	N/A
X2	100	87	74	85	69	98	X18	100	135	123	111	239	N/A
X3	100	93	81	108	62	63	X19	100	72	34	27	85	N/A
X4	100	134	132	83	70	N/A	X20	100	59	60	24	23	N/A
X5	100	88	97	71	53	47	X21	100	95	104	106	151	N/A
X6	100	123	54	15	N/A	N/A	X22	100	106	66	51	67	N/A
X7	100	45	86	59	60	N/A	X23	N/A	N/A	N/A	N/A	N/A	N/A
X8	100	145	170	122	210	336	X24	100	102	125	22	119	111
X9	100	95	55	42	71	113	X25	100	124	91	57	36	36
X10	100	119	151	60	132	138	X26	100	80	84	65	80	129
X11	100	314	77	23	N/A	N/A	X27	100	60	97	146	130	140
X12	100	58	46	42	N/A	N/A	X28	100	161	170	108	81	N/A
X13	100	50	14	52	84	103	X29	100	59	89	67	76	N/A
X14	100	138	239	316	157	164	X30	100	102	140	222	221	277
X15	100	89	41	19	11	5	X31	100	129	172	74	270	211
X16	100	136	80	16	29	12							

Source: Calculated by Using Mynet Finance Data

In Table 3, X15, X23 and X24 companies operate in transportation sector and whereas in 2010 Company X15, in 2009 Company X23 and in 2006 Company X24 went to public, Company X24 went to public in 2006. Company X24's stock price decreased from 100 to 22 in T+3 period which is known as the period during the 2008 global financial crisis. As demonstrated in the table, stock price Company X24 increased after 2008 financial crisis. Company X23 was delisted long before the business period and therefore its stock price data could not be obtained. However, stock price of Company X15 decreased constantly after initial public offering and declined to 5% level of initial public offering price in the last year.

4. Practices of Companies after IPO: Sample Case

According to Tables, it can be seen that Company X15 had a very poor performance in post-initial public offering period and assuming that TL 100 which is invested to this company decreased to TL 5. These examples affect the confidence of investors in a negative way for stock investments. In the last decade in Turkey, it is stated that the number of stock investors

fluctuated between 1,000,000 and 1,100,000 and the number of share investors could not go beyond to 1,100,000 investors.

Company X15, Company X23 and Company X24 in the study operate in the same sectors. That's why, first of all, the situation of this sector in Turkey is analyzed and then Company X15 is selected as case study in this paper.

4.1. Developments in the Sector of Sample Company

Company X15, Company X23 and Company X24 operate in transportation sector. The foreign trade data is the main indicator which reflects the sector much better, since realizing foreign trade without transportation activities is not possible.

Table 4 indicates foreign trade volume of Turkey between 2010 and 2015. Export of Turkey which was \$113.8 billion in 2010, reached to \$143.8 billion in 2015. However, import which was \$185.5 billion in 2010, increased to \$207.2 billion. We can see that foreign trade of Turkey increased stably except the year 2015. Remarkable fluctuations in foreign exchange rates in 2015 led the export and import volumes to be lower. Therefore, it would not be surprising to expect an increase in the incomes of domestic logistic companies depending on the developments in foreign trade.

Table 4. Foreign trade of Turkey (Billion \$)

	2010	2011	2012	2013	2014	2015
Export	113,883	134,907	152,462	151,803	157,610	143,844
Import	185,544	240,842	236,545	251,661	242,177	207,236
Total Foreign Trade	299,428	375,749	389,007	403,464	399,787	351,080

Source: TurkStat (2016)

In parallel with the increase in foreign trade volume of Turkey, vehicles that land, sea, air and railway transportation systems have also increased which are presented in Table 5. Table 5 indicates that number of all kinds of vehicles and equipments of transportation that would be used for the purpose of foreign trade increased from 2010 to the end of 2015. This is also coherent with consistently increasing foreign trade volume of Turkey.

Road equipment numbers which was 3,293,516 in 2010 reached to 4,351,477 at the end of 2015, thus increase rate is about 32%. Ships in seaways reached to 1,886 with 6% of increase and the number of wagons used in freightage in railway transportation became 16,782 with about 4% of increase. Number of planes used for freightage and passenger transportation in airways increased to 389 from 349. Also the increase in number of planes is about 40%.

When these data are considered, some significant problems could not be observed in the sector of Company X15. That's why, the companies in the sector has been successful in general.

Table 5. Transportation equipments in Turkey

Type / Years	2010	2011	2012	2013	2014	2015
Road	3,293,516	3,534,811	3,764,752	3,931,629	4,104,621	4,351,477
Water	1,777	1,832	1,879	1,909	1,888	1,886
Rail (Available Wagon)	16,189	16,583	16,833	17,201	17,532	16,782
Air	349	346	370	385	422	489
Total	3,295,642	3,553,572	3,783,834	3,951,124	4,124,463	4,370,634

Source: Ministry of Transport (2015), Turkish State Railways (2015), Directorate General of Civil Aviation (2016), TurkStat (2016)

4.2. Analyzing the Activities of Sample Company after IPO

Company X15 which provides domestic and foreign transportation services went to public in 2010 and float rate of the company was planned as 26.4%. Announcements of the company caused a great excitement among investors. The company announced that large scaled

business plans and projects were created in order to invest in Turkey and overseas, thus great successes would be obtained in both Turkey and international arena. The company declared its financial strategy as working with high cash on hand, not using credits and paying high dividend to all investors. After IPO, the company announced the opening of new offices in different countries and different transportation network projects with international markets. Because of these positive developments, 100 unit of stock price increased to 227 and float rate of the company increased from 26.4% to 47%. The company management sold great amount of the stocks with higher prices than the IPO prices during this process.

After IPO, about 13 million of tangible assets were purchased in the same year and about 58 million of tangible assets were purchased after one year. These purchases are necessary for the company to maintain their activities. Some selected data of the company such as its equity, tangible assets and net profitability are presented in Table 6. The company had TL 4.8 million of profit in 2010, however on year after company's net profit decreased dramatically and fell to the level of TL 12.9 million (about \$4.5 million) in 2014. The company did not send its financial statements to stock exchange and announced them in 2015.

According to Table 6, net tangible assets of the company increased to TL 69 million in second year of initial public offering and it became to decrease in the following years. Same as net profit and net tangible assets, equity of the company also decreased to TL 28.6 million from TL 48.9 million. As a result, the reason of this loss is not only the company fell to conduct its activities but also there were no coherence between the investment plans and financial implementations.

Table 6. Some elements of financial situation of sample company (TL)

	2010	2011	2012	2013	2014	2015
Net Intangible Asset	13,432,723	69,079,718	59,663,348	63,996,394	55,129,982	Delisted
Equity	48,940,077	42,200,539	33,984,342	28,819,489	28,643,371	Delisted
Net Profit	4,812,382	-7,305,835	-4,183,163	-9,226,352	-12,877,353	Delisted

In 2011, it was announced that the company would open important transportation centers in the country, transportation network between Turkey and a continent would be active again and new constructions would be realized. Similarly, it was announced that the company had expansion plans in 2012. The company states working together with other related parties in these external activities. In this process, stock price of the company continued to decrease and selling the stocks to the public continued to increase.

In spite of the project news, financial media stated that the company sold its ship at the end of 2012. In the same news, there were some comments that transportation companies in stock exchange cancelled some external activities with their licenses, but the companies in the same sector out of stock exchange continued to grow.

Due to the investments more than TL 70 million, the company to use credits in addition to the funds which were obtained from IPO. However, the company run into debt to related parties in spite of credit debts which requires paying interest. A great amount of unrelated debts are also included in receivable account from the related parties. That's why, Stock Exchange Board of Management wanted the related company to emphasize the non-commercial credits used by the "related parties" and important transactions to be convenient for Capital Market Board (CMB) regulations in 2013. Also Capital Market Board decided that the company and its partners to be warned in written about emphasizing public disclosure regulations and taking necessary measures immediately for reinforcing the weakening financial structure due to financial debts with high costs and losing activities.

Thereafter, it was announced that the company did not have credit use policies in IPO period. However, the company used credits and gives credits to the related parties at the same time. This behavior is appreciated as a financially ineffective, incoherent and vicious behavior.

After four years from IPO, due to 2010 activities of the company, a certain amount tax fine by the treasury received. While float rate of the company was 26.40% in April 2010, stock rate of the company in public increased to 47.16% at the end of the same year. At the same time, this period meets with the highest levels of stock price of the company. Float rate reached

about 90% when the company was banned in stock exchange. Only 10% stock of the company left to the manager shareholders.

When it comes to 2014, a declaration was made that the company tries to solve its financial problems, maintains transportation activities and subsidiary companies continues to operate in full capacity. According to the financial statements of the company, although X15 company reported its equity as TL 28.6 million at the end of 2014, stock exchange board declared that equity of the company decreased to TL 1.6 million and the company did not report its different legal and financial problem to stock exchange. Stock exchange board emphasized on the following issues:

- i- X15 company did not decrease the funds to the related parties although they were warned before.
- ii- Investments were liquidated without being activated, many assets do not work.
- iii- Stock exchange was not informed about some rents and payments.

Stocks of the company were taken into watch list companies market in last quarter of 2014 for the abovementioned reasons. The company was banned from trading temporarily by being extracted from watch list companies market in 2015. However, in November 2015 permanent trading prohibition was implemented. During this process, managers resigned and sold their stock to the public and the losses continued after IPO. In 2015, the company did not announce its financial statement and general assembly meetings could not be held. Turkish CMB has filed a criminal complaint in court about some managers of the Company because of their illegal operations in 2012 and 2013. Meanwhile in mid-2016, general assembly meeting could not be held.

Until the company delisted, main shareholders sold almost all of the shares to the public. Although financial failure of the company is considered as normal, selling the shares to the public in this failure process and leaving of main partners are not regarded as a suitable behavior ethically. All in all, these developments and data show that the company could not perform the satisfactory behaviors.

5. Conclusion

Purpose of this study is to determine how nonfinancial companies went to public between 2006 and 2012 period and maintained their financial performance after IPO, as well as to what extent the plans were coherent before and after IPO. Since it is not possible to analyze the activities of 31 companies in the study, only one of them was selected as a case study. An analysis was made by collecting various data about the selected company before the IPO.

When we look at the financial performance of 31 companies in the study after their IPO, it was seen that in many of them, the profitability rates decreased. As a case study, Company X15 has the worst financial performance and in order to evaluate the situation, the transportation sector was analyzed. When general characteristics of transportation sector were analyzed, it was seen that there was not a remarkable problem in the sector for instance the number of technical equipments increased stably throughout five years.

The company reported that they made physical asset investment with significant amounts after IPO. In addition, the company announced that some transportation projects are planned in different continents. Due to these positive announcements and news, stock prices increased to the higher level in the first year. However, in later periods projects could not be realized and the company used loans by running into financial borrowings. According to the announcements, although the company has problems in their own activities, related parties go on their activities regularly. That gives the impression that Company X15 transferred its own sources to other companies. These examples cause problems in four dimensions which are (i) the investors who make investments to these companies lose their confidence, (ii) due to loss of confidence, new companies that plan to go public would not find expected amount of funds, (iii) showing interest of less amount of investors to capital markets prevents the cash transfer to these markets, (iv) economic growth slows down.

Evidences of this study show that some companies are not managed honestly and investors' right could not be protected in some cases. In order to protect investors' rights, legal process should be faster and more effective legal precautions should be taken.

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