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Decomposition of Intended Use of Initial Public Offering Proceeds: Evidence from Malaysia

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Abstract: The main objective of this study is to find out what Malaysian initial public offering (IPO) issuers indicate the intended use of IPO's proceeds is for, and the use that has the greatest allocation. It also investigates whether or not the allocation of the proceeds of the IPO to each intended use differs across industries. In order to achieve the objectives of the study, a manual content analysis of the prospectuses of 221 IPO issuers during the period from 2005 to 2015 was undertaken. The data were analyzed using descriptive statistics, one-way analysis of variance (ANOVA), the Independent Samples t-Test and the Wilcoxon Rank Sum test. The results show that the issuers state a number of uses as their intended use of the IPO's proceeds (business expansion, capital expenditure, debt repayment, research and development (R&D) and working capital). However, the uses that received the highest amounts and the greatest percentages of the IPO's proceeds were capital expenditure, followed by debt repayment and business expansion. Further analysis through the Independent Sample t-Test and Wilcoxon Rank Sum test reveals that the pattern of the allocation of IPO proceeds for a specific use is influenced by the industry classification of the issuers. Specifically, a statistically higher mean score for R&D is found in technology industries as compared to other industries. Therefore, it would be interesting if future studies can investigate how the intended use of IPO proceeds affect subsequent IPO's performance.

Keywords: capital expenditure; debt repayment; use of IPO proceeds; Malaysia

JEL Classification: G11, G18, G32

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Introduction

Initial public offerings (IPOs) have been a major method for raising capital on the Malaysian equity market (Ahmad-Zaluki, Campbell, & Goodacre, 2011; Badru, Ahmad-Zaluki, & Wan-Hussin, 2017). In recognition of IPO financing being a major means of rasing capital, the Malaysian IPO market was ranked among the top 10 in the world in terms of IPO proceeds raised and the world's third largest IPO in 2012 (Kok & Ngui, 2012; Venkat & Gangopadhyay, 2012), as well as being among the rapid growth markets in 2019 (Ernst & Young, 2019). In fact, Malaysian companies still deem IPOs as a viable proposition for raising funds (The Star, 2019). However, what IPO issuers identify as their intended use of the proceeds from an IPO has received little attention in the literature.

Although academic literature considers the intended use of IPO proceeds as information that can signal the motivation of a company for an IPO and its future prospects (Amor &Kooli, 2017; Andriansyah & Messinis, 2016; Badru, Ahmad-Zaluki, & Wan-Hussin, 2019ab; Ferris, Hao, & Liao, 2013), there is no clear-cut evidence on how issuers allocate the proceeds raised from investors during an IPO sale. Chapter 5 of the Malaysian Securities Commission (SC) Equity Guidelines requires the content of an application for equity offerings to include the total proceeds and how the proceeds will be utilized, but IPO issuers have discretion as to the amount to be allocated to each portion. Chapter 5, section 5.03(6) of the SC Prospectus Guidelines on Equity require IPO issuers to disclose the intended use of the IPO's proceeds. Therefore, this study investigates how IPO issuers allocate the proceeds raised and the category of use that has the greatest allocation. In addition, the study examines whether or not significant differences exist in terms of the allocation across industries.

Based on the content analysis of the prospectuses of 221 IPO issuers during the period from 2005 to 2015, the results show that the common uses of an IPO's proceeds are for business expansion, capital expenditure, debt repayment, research and development (R&D) and working capital. Despite the various uses highlighted by IPO issuers, it has been found that virtually all companies designated an allocation for working capital (95.20%), 64.71% of companies designated an allocation for capital expenditure, while business expansion received 43.89%, and debt repayment and R&D each received 42.53%. However, in terms of the uses that received the greatest allocation from the proceeds raised, the results reveal that most IPO issuers allocated a greater portion of their proceeds for capital expenditure, compared to other uses of the proceeds. Additional results show that there was a significant difference among IPO companies in terms of the amount and percentage of the proceeds allocated for their intended use. These results therefore indicate that companies' IPO motivation in the Malaysian IPO market was to finance the future investment and future growth of assets. The current study is different from prior IPO studies in the Malaysian IPO market (Abdul-Rahim & Che-Embi, 2013; Jelic, Saadouni, & Briston, 2001), because it investigates the specific items that issuers disclose as the intended use of the IPO's proceeds and the amount allocated to each use. Therefore, this study uses the information in the prospectus to find out the intended use of the IPO's proceeds, rather than making use of accounting information in the annual report, which is regarded as ex-post IPO information.

The rest of the paper is organized as follows: Section 2 presents the literature review; Section 3 describes the research method; Section 4 presents the results and discussion; and Section 5 concludes the paper.

Literature Review

An IPO remains the most popular way for an entreprenuer to raise capital (Ahn & Nam, 2013; Autore, Boulton, Smart, & Zutter, 2014). According to Chemmanur and He (2011) and Pastor and Veronesi (2005), the occurrence of waves of IPOs can be associated with the presence of growth options. A company with a lot of growth opportunities may consider capital raising activities as a means of enhancing its growth options and future development (Loughran, Ritter, & Rydqvist, 1994; Subramanyam & Titman, 1999). In fact, the basic tenet in the finance theory is that companies raise capital not only to finance growth opportunities, but for other purposes as well (Myers & Majluf, 1984; Ritter & Welch, 2002). These include the expansion of existing assets in place, diversification, debt repayment, exploiting mispricing, wealth transfer from new to existing shareholders and greater market liquidity (Kim & Weisbach, 2008; Pagano, Panetta, & Zingales, 1998). Therefore, the decision to go public makes it easier for companies to raise capital for several purposes. The signalling theory contends that when issuers provide detailed information about how the capital that is to be raised from equity offerings would be expended, the quality and the future value of the company can be predicted (Trueman, 1986; Welch, 1989). For instance, Trueman (1986) documents that the disclosure of the intended use of IPO proceeds, such as for capital expenditure, can signal a company's quality, whereas Leland and Pyle (1977) suggest that the intended use of proceeds for debt repayment and working capital might convey unfavorable signals. This implies that the disclosure of information related to the intended use of IPO proceeds is important.

A comprehensive study by Kim and Weisbach (2008), through the examination of changes in accounting items as disclosed in financial statement after the offerings, has used the financial information to predict the intended use of IPO proceeds. They find that companies issue equity offerings for investment purposes, which include capital expenditure and R&D, as well as to exploit mispricing. Several studies have also used a similar approach to find out the motivation for an IPO in other jurisdictions. For instance, Pagano, Panetta, and Zingales (1996), through a sample of Italian manufacturing and holding companies between the period from 1982 to 1992, found that the intended use of IPO proceeds was mainly for debt repayment. In essence, it was to reduce the cost of credit and for the controlling shareholders to cash-out. Another study by Pagano et al. (1998) that excluded holding companies, found similar evidence that the intended use of IPO proceeds was for debt repayment. In contrast to the two aforementioned studies in the Italian context, Carpenter and Rondi (2006) provide evidence of a dual class of Italian IPO issuers. This includes the "old-style" and "new-style" IPO issuers. The authors found that the old-style IPO issuers were issuers with little motivation for chasing growth opportunities and used the proceeds for wealth diversification purposes. This type of issuer seeks to exploit the hot primary market, whereas the new-style IPO issuers are issuers that use the proceeds raised to finance prospective growth opportunities and debt repayment, in order to realign the company's capital structure.

Corroborating the prior evidence from the Italian IPO markets, Hill (2008), through a descriptive analysis, documented that 80% of companies listed on the London Stock Exchange use IPO proceeds for debt repayment; 12% use the proceeds for capital expenditure; and 8% use the proceeds for working capital purposes. Similarly, in the case of US IPOs, Leone, Rock, and Willenborg (2007) documented that 68% of a sample of 782 US IPO issuers indicated that their intended use of the proceeds was for debt repayment. In fact, they further showed that out of 222 issuers that were specific, in terms of disclosing their intended use of the IPO's proceeds in the prospectus, 108 issuers indicated their intended use of the proceeds would be for debt repayment. Pastor, Taylor, and Veronesi (2009), through a larger data set of 7,183 US IPOs over the period from 1975 to 2004, report that IPO proceeds were mostly used for debt repayment rather than to finance growth opportunities. These findings suggest that the most identifiable use for IPO proceeds in the US, the UK and the Italian IPO markets is for debt repayment, in order for IPO issuers to de-leverage their companies and realign their capital structure.

In the case of Australian IPOs, Balatba and Bertinshaw (2008) reported that a large number of IPOs sampled (111 out of 172) indicated the use of IPO proceeds was for working capital; and 166 out of 172 used the proceeds for listing expenses. Other studies, such as Rydqvist and Hogholm (1995), in the case of Swedish family-owned companies, and Kim, Krinsky, and Lee (1993), in the case of Korean IPOs, have found that companies' decisions to go public did not relate to growth opportunities; instead, it was to allow the original owners to diversify their portfolios and to exploit mispricing. In the context of the Indonesian equity market, Andriansyah and Messinis (2016) concluded that the need for capital is the main motivation for an IPO; while it is optional for debt repayment and fixed assets. However, Meidiaswati, Sasikirono, and Novitasari (2019) documented that IPO issuers raised capital through IPOs mainly to engage in long-term investments (acquisition and business expansion); while others were for debt repayment and working capital purposes. Likewise, in Thailand, Sherif, Komenkul, and Xu (2016), by constructing a disclosure index, found that IPO issuers' prospectuses disclosed that the intended use of IPO proceeds was mainly for investment (business expansion, working capital and general corporate purposes); and debt repayment. Chin-Chi (2020), by using a sample of Taiwanese companies that have engaged in reverse merger transactions, found that 48% of the companies stated that the intended use of the proceeds was for investment (acquisition, business expansion, capital expenditure and R&D); 40% for recapitalization (debt repayment and working capital); and 12% for general corporate purposes (non-specific uses).

In the Malaysian equity market, Adanan, Bustamam, and Saidin (2017) used a sample of 62 IPO companies between the period from 2012 to 2015, and reported that IPO companies' intended use was for investment, debt repayment and working capital purposes; however, there was no empirical justification for the results reported. Other studies in Malaysia, like those by Abdul-Rahim and Che-Embi (2013) and Jelic et al. (2001), using a sample of 384 IPOs from 1999 to 2008, and 182 IPOs from 1980 to 1995, have found that most IPO issuers used the proceeds for growth opportunities. However, both authors' definitions of growth opportunities include working capital, which

is in contrast to what is obtainable in other IPO-related studies, such as those by Amor and Kooli (2017), Andriansyah and Messinis (2016), Wyatt (2014) and Leone et al. (2007). Growth opportunities include investment in capital expenditure, expansion and R&D. In line with this classification, the present study investigates what issuers disclose as their intended use of IPO proceeds through the information provided in the prospectus. The use of prospectus information to find out the intended use of IPO proceeds distinguishes the current study from prior IPO studies because those studies (e.g., Kim & Weisbach, 2008; Pagano et al., 1998) made use of accounting information in the annual report, which is regarded as ex-post IPO information. Thus, this may undermine the genuine intended use of the IPO's proceeds. This is because the information has fused the intended use of the IPO's proceeds with their actual use. In light of the foregoing limitations, the present study investigates the intended use of IPO proceeds as disclosed in each prospectus. Thus, this study hypothesises that:

H1: The use of IPO proceeds is mainly for growth opportunities (business expansion, capital expenditure and R&D).

Research Method

Sample selection

The sample of the study consists of IPOs issued on Bursa Malaysia over the period from 2005 to 2015. This happens to be the period before there was an increase in the number of Malaysian companies seeking cross-listing abroad and drop-in listing locally (Mung, 2016). The study selected 2005 as the starting year because there was a regulatory amendment to the listing requirement, to encourage young and vibrant companies to go public in that year (Badru, Ahmad-Zaluki, & Wan-Hussin, 2016). These types of companies were expected to be high growth companies. The total number of IPOs for the period was 301. The current study excluded some IPOs, such as IPOs that are SPACs (5); finance (10); REITs (16); and Close-ended Funds (1), due to different regulatory requirements (Abdul-Rahim & Che-Embi, 2013; Ahmad-Zaluki, 2012; Badru & Ahmad-Zaluki, 2018). Other IPOs which were exempted were IPOs with a mixed use of the proceeds, which were IPOs that combined the proceeds from rights issues, restricted and public issues or offers for sale. This resulted in a final sample of 221 IPOs.

Table 1: Sample Distribution by Market and Industry

INDUSTRY	ACE	MAIN	MESDAQ	SECOND	TOTAL
Construction	0	6	0	0	6
Consumer Products	1	14	0	9	24
Industrial Products	5	20	10	16	51
Property	0	5	0	0	5
Plantation	0	6	0	0	6
Technology	10	2	44	0	56
Trading and Services	12	35	17	9	73
Total	28	88	71	34	221

Note that before August 2009, there were three listing boards of the Bursa Malaysia, namely the Main Board, the Second Board, and the MESDAQ. In August 2009, the Main Board and the Second Board were combined to become the Main Market, and MESDAQ was renamed as the ACE Market.

Table 2: Sample Distribution by Industry and Year

	INDUSTRY							
Year	**Construction**	**Consumer**	**Industrial**	**Property**	**Plantation**	**Technology**	**Trading**	**Total**
2005	0	6	16	0	0	25	11	58
2006	0	1	8	0	1	15	6	31
2007	1	2	3	0	2	2	10	20
2008	0	2	6	0	0	2	9	19
2009	0	4	3	0	0	1	3	11
2010	1	4	6	1	0	3	7	22
2011	1	1	4	1	0	4	7	18
2012	1	1	1	1	1	0	6	11
2013	0	2	2	2	0	0	5	11
2014	1	1	1	0	2	1	6	12
2015	1	0	1	0	0	3	3	8
Total	6	24	51	5	6	56	73	221

Table 1 summarizes the distribution of the final sample by market and industry. The market with the highest number of IPOs is the Main Market, followed by the MESDAQ Market. Notably, the MESDAQ is a market for young, high technology and high growth companies; thus, most companies in this market are from the technology sector. This evidence is consistent with Ahmad-Zaluki and Kect's (2012) claim that the MESDAQ Market is for technology-based companies and these types of companies are high-risk investment companies with limited operating track records, but can provide investors with higher returns to compensate for the increased risks.

The year 2005 had the highest number of IPOs and most of the IPOs were in the technology sector (Table 2). Based on this evidence, it can be concluded that the SC's motive of encouraging young, vibrant and high growth companies to raise capital through IPOs was a good policy.

Data collection and Analysis

To achieve the objectives of the current study, information on the intended use of the IPO's proceeds was hand-collected from the prospectuses. The prospectuses were downloaded from the Bursa Malaysia Website. Then, a content analysis was conducted manually to identify the intended use of the proceeds of each IPO issued during the period of the study. Although Wyatt (2014) and Leone et al. (2007) used the most disaggregated classifications of intended use for the proceeds of an IPO, some of these classifications proved difficult to identify in Malaysia's capital market. Therefore, this study classified the intended use of an IPO's proceeds in accordance with the classifications found in the prospectus. However, for a comparison of the current study's results with earlier IPO studies (e.g., Balatbat & Bertinshaw, 2008; Subrahmanyam & Titman, 1999; Wyatt, 2014) on the projection of IPO proceeds, we aggregated the use of the proceeds for capital expenditure, R&D and business expansion as the use of the proceeds for growth opportunities. In addition, to make the results meaningful, one-way analysis of variance (ANOVA) was conducted to test whether or not significant differences existed in the intended use of the IPO's proceeds among the companies.

Results and Discussion

Table 3 presents the results of the classification of the intended use of the IPO's proceeds as disclosed in the prospectus. This table is divided into panels A and B. Panel A presents the frequency statistics of the IPOs with the designated allocation, proportionate to the sample. Panel B shows the ringgit amount allocated to each use of the proceeds. Based on the results in Panel A, 99% of the samples in the study of the Malaysian IPO market allocated a certain portion of the total proceeds for listing expenses. The amount allocated for listing expenses was only 5% of the total amount of the proceeds. In addition, 95% of the companies allocated a certain portion of the proceeds for working capital, while only 64.71% allocated a portion of the proceeds for capital expenditure. This suggests that the most common identifiable uses were for listing expenses, working capital and capital expenditure. Others were for R&D (42.53%); acquisition and expansion (43.89%); and debt repayment (42.53%). This was in contrast to the study by Hill (2008), which showed that 80% of companies listed on the London Stock Exchange used the proceeds from an IPO for debt repayment; 12% for capital expenditure; and 8% for working capital purposes. Likewise, Balatbat and Bertinshaw (2008) reported that 65% of Australian IPOs indicated the proceeds would be used for working capital and 97% for covering the expence of the offering . On this basis, it can be concluded that a larger percentage of the Malaysian IPOs allocated a certain amount of the proceeds from the IPO to working capital and capital expenditure during the period of study.

Going by the amount in ringgit and the percentage allocation of the IPO's proceeds, the results in Panel B of Table 3 indicate that the total amount generated by an IPO varies on a yearly basis. In general, the total amount of proceeds raised in the period from 2005 to 2015 was RM20060.15million . The highest amount raised was during the year 2012, estimated at RM6218.08million . This result is consistent with the global ranking of Malaysia during this period as a major IPO financial hub in terms of the IPO proceeds (Kok & Ngui, 2012; Venkat & Gangopadhyay, 2012). Examples of companies that contributed to the success story are Felda Global Ventures Holdings Berhad and Integrated HealthCare Holdings Berhad. In contrast, the lowest amount raised from IPOs was in 2009, estimated at RM269.10 million. This period is a reflection of the economic turbulence in the global arena. For this reason, companies were unable to raise substantial amounts of capital during that particular period. Indeed, several studies have stressed that the global financial crisis did not only reduce the amount a company could raise in the IPO market; it also reduced the venture capitalists' participation in IPO financing. For example, Block and Sandner (2009) found that the financial crisis was associated with a 20% decrease in the average amount of funds raised per funding round. This led to most companies postponing their funding and expansion plans until the capital market stabilized. The implication of this is that a financial crisis can lead to a severe "funding gap" for the financing of technology developments and innovation. More importantly, investors are likely to shun IPOs in such periods because of the poor aftermarket initial returns.

The results in Panel B also show that issuers presented a variety of intended uses for the IPOs' proceeds. These included investment in R&D, capital expenditure, expansion, marketing and promotion, debt repayment, working capital and listing expenses. Howev-

er, the most identifiable uses varied on a yearly basis. For instance, over the period from 2011 to 2013, a larger allocation of IPO proceeds was dedicated to capital expenditure, estimated at 40%, 50% and 46%, respectively, of the total proceeds. Similarly, in 2010, 59% of the capital raised was allocated to business expansion. In addition, a substantial proportion of the IPO proceeds was allocated for working capital purposes in the years 2006 (32%), 2008 (34%) and 2009 (32%), while the intended use of IPO proceeds for debt repayment was allocated a higher amount in 2005 (43%), 2007 (36%), 2014 (36%) and 2015 (91%). Therefore, it is evident that the biggest motive for IPOs was to raise substantial amounts of capital for growth opportunities, particularly for capital expenditure. This is consistent with the hypothesis that the main use of IPO proceeds is to fund growth opportunities. These findings indicate that companies have spent most of the funds raised on capital expenditure, which is consistent with the investment financing explanation of the IPO issuers. In addition, the use of the proceeds for capital expenditure can serve as a reflection of the insiders' optimistic views of companies, which may likely attenuate the stock price performance (Kim et al., 1993). In fact, low quality companies may also consider the use of proceeds for capital expenditure as a direct cost to mimic a high quality company. For a high quality company, the use of proceeds for capital expenditure can improve the company's value through increased production capacity, but it is of no value to a low quality company (Welch, 1989)[1].

Further analysis of Panel B of Table 3 shows that a larger percentage of the total proceeds raised over the period from 2005 to 2015 was dedicated to capital expenditure (32%), followed by debt repayment (29%) and expansion (19%). This evidence concurs with Kim and Weisbach's (2008) findings of a sample 38 countries between 1990 and 2003, where79% of the capital raised was from primary offerings and the most intended use of IPO proceeds was for investment opportunities. In contrast to the aforementioned study are the studies by Leone et al. (2007) and Pastor et al. (2009), where they reported that the most indicated use for the US IPOs' proceeds was for debt repayment. IPO issuers in the Malaysian equity market also allocated 13% of their total proceeds to working capital, unlike Australian IPOs that dedicated a substantial proportion of their proceeds (34%) to working capital (Balatbat & Bertinshaw, 2008; Wyatt, 2014).

To provide additional insights into the distribution of the intended use of IPO proceeds, Table 4 shows the mean of each intended use of the proceeds, according to the industry classification of the companies. First, the study employed the ANOVA test to find out whether or not there were significant differences among companies in terms of amount in ringgit and the percentage of IPO proceeds allocated to each use. Based on the ANOVA results, there were significant differences among companies in terms of amount of ringgit and the percentage of proceeds allocated to each use of the IPO's proceeds, except for the intended use of IPO proceeds for debt repayment that was insignificant in terms of the amount of ringgit. This may imply that the amount of ringgit apportioned for debt repayment does not vary across companies. In addition to the ANOVA test, another test was conducted in order to gain a fuller knowledge of whether or not the mean values of the intended use for the IPO proceeds are different across

[1]Welch (1989) defined high quality company as a company with superior information in a perfectly competitive capital market.

Table 3: Classification of Intended Use of IPO Proceeds

Panel A:Number of companies																		
	R&D		CAPEX		EXPAN		MRKT		DEBT		WORKCAP		LISEXP		GWRT			
	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%	(n)	%		
	94	42.53	143	64.71	97	43.89	30	13.57	94	42.53	210	95.20	219	99.09	198	89.59		
Panel B: Allocation of IPO proceeds																		
IPO YEAR	R&D		CAPEX		EXPAN		MRKT		DEBT		WORKCAP		LISEXP		GWRT		TP	
	(RM)	%	(RM)	%	(RM)	%	(RM)	%	(RM)	%	(RM)	%	(RM)	%	(RM)	%	(RM)	
2005	(138.86)	7	(252.68)	12	(155.81)	8	(18.00)	1	(895.58)	43	(471.43)	23	(137.51)	7	(565.35)	27	2,069.88	
2006	(57.66)	10	(88.35)	15	(92.95)	16	(8.76)	1	(98.18)	17	(187.13)	32	(57.79)	10	(247.71)	42	590.80	
2007	(12.90)	2	(145.95)	19	(68.68)	9	(1.00)0		(276.64)	36	(209.55)	27	(50.80)	7	(228.53)	29	765.52	
2008	(61.37)	7	(49.82)	6	(152.62)	18	(9.20)	1	(219.01)	26	(286.27)	34	(53.21)	6	(273.01)	33	831.50	
2009	(8.85)	3	(14.90)	6	(75.70)	28	(37.06)	14	(12.70)	5	(84.88)	32	(35.01)	13	(136.51)	51	269.10	
2010	(14.99)	1	(311.93)	19	(999.58)	59	(17.95)	1	(33.65)	2	(193.24)	11	(111.75)	7	(1,344.45)	80	1,683.09	
2011	(29.36)	7	(177.97)	40	(41.72)	9	(0.00)	0	(37.10)	8	(109.80)	25	(51.93)	12	(249.04)	56	447.88	
2012	(35.36)	1	(3,119.92)	50	(1,667.65)	27	(20.48)	0	(780.83)	13	(339.69)	5	(254.15)	4	(4,843.40)	78	6,218.08	
2013	(6.00)	0	(1,438.35)	46	(94.60)	3	(60.00)	2	(955.01)	30	(465.23)	15	(126.30)	4	(1,598.95)	51	3,145.49	
2014	(3.50)	0	(638.59)	36	(448.50)	25	(0.00)	0	(641.06)	36	(143.95)	8	(101.42)	6	(1,090.59)	61	1,977.02	
2015	(15.50)	1	(75.93)	4	(11.00)	1	(5.30)	0	(1,824.37)	91	(60.58)	3	(69.11)	3	(107.73)	5	2,061.79	
2005-2015	(384.34)	2	(6,314.39)	32	(3,808.81)	19	(177.75)	1	(5,774.13)	29	(2,551.75)	13	(1,048.98)	5	(10,685.26)	54	20,060.15	

Note: R&D is regarded as use of proceeds for research and development, CAPEX is the use of proceeds for capital expenditure, EXPAN is the use of proceeds for expansion, which includes land acquisition and construction, MRKT is the use of proceeds for marketing and promotion, DEBT is the use of proceeds for debt repayment, WORKCAP is the use of proceeds for working capital, LISEXP is the use of proceeds for listing expenses, GWRT is the sum of (R&D + CAPEX + EXP) and TP is the total proceeds raised during the IPO sale. In addition, all figures in Ringgit (RM) are in millions (000,000).

industries. This is because the ANOVA test cannot reveal which industries are statistically different from each other, in terms of the allocation of each IPO to each intended use of the proceeds. In this instance, the Wilcoxon Rank Sum test (Mann-Witney test) and two Independent Sample t-tests were applied[2]. To apply these tests, a dummy variable was created for each industry (e.g., a value of 1 if an IPO company belongs to the technology industry, otherwise, 0). This analysis is based on the assumption that "the intended use of IPO proceeds is different, on average, across industries." Based on this assumption, the results suggest that there is a statistically significant difference between the underlying distributions of each use of IPO proceeds across industries. For instance, it was found that the industrial products and the technology industries were the two industries that showed significant differences in terms of the amount (in ringgit) and the percentage of proceeds allocated to R&D. However, the technology industry had a statistically higher mean score for R&D compared to the other industries. With respect to capital expenditure, significant differences were found based on the percentage of proceeds allocated by the construction, properties, technology and trading and services industries. However, the construction industry had a statistically higher mean score compared to other industries. The percentage of proceeds allocated for debt repayment by industrial products and the technology industries was also found to be significantly different from other industries. Likewise, the amount and percentage of proceeds allocated for working capital by the plantation industry was statistically different from other industries, which implied that companies in the plantation industry mainly distinguish themselves in terms of the amount and the percentage of the proceeds allocated to working capital.

The implication of all these results is that the allocation of IPO proceeds is peculiar to each industry classification. For instance, when it comes to R&D investment, this is mostly found in companies operating in the technology and industrial products industries. These two industries have the same characteristics when it comes to debt repayment. However, most companies have similarities in terms of the amount allocated for capital expenditure, but the percentage of the total proceeds allocated by companies differs statistically in terms of their industry classification. Therefore, this may suggest that the impact of the intended use of IPO proceeds on events after the IPO may differ by industry. This is because the allocation of IPO proceeds for the intended purposes, in particular working capital, may be unique to the industry in which the company intends to be listed. As such, it would be wrong to conclude that it is only the use of IPO proceeds for R&D, capital expenditure and expansion that may signal an IPO's quality; this could instead be based on the industry classification of companies. On this note, this study suggests that when future studies aim to investigate the impact of the intended use of IPO proceeds on events after an IPO (e.g., IPO initial returns, post-IPO operating performance and long-run performance), it would be appropriate if this is carried out on an industry basis or by moderating them with an industry classification.

[2]For the purpose of being concise, the significance levels of results presented in Table 4 are based on the two Independent Sample t-tests. This is because the direction of the p-values under the Mann-Whitney test point to the same significance levels.

Table 4: One-way ANOVA and Independent Sample t-Test on the Average Intended Uses of IPO Proceeds by Industry

Industry	R&D	CAPEX	EXPAN	GWRT	DEBT	WORKCAP	TP
	RM (%)	RM (%)	RM (%)	RM (%)	RM (%)	RM (%)	RM
Construction	0.00 (0.00)*	32.55 (47.00)***	7.37 (10.77)	39.92 (57.40)	4.02 (6.95)	16.72 (28.73)	65.14
Consumer Products	2.39 (5.00)*	7.44 (24.00)	7.49 (19.38)	17.32 (48.38)	2.75 (8.37)	7.75 (22.03)	35.15
Industrial Products	0.47** (4.00)***	3.49 (19.76)	4.01 (14.15)	7.87 (37.91)***	20.67 (22.35)***	11.67 (26.08)	43.52
Property	0.00 (0.00)*	12.80*** (11.49)	8.00*** (6.35)	20.80*** (17.84)	15.72* (23.15)	35.27** (52.17)	75.79***
Plantation	0.00 (0.00)	405.67 (20.44)	344.75 (20.88)	750.42 (41.32)***	131.10 (26.85)	33.33** (25.11)***	948.78
Technology	3.46*** (22.13)***	2.95 (15.71)**	2.70 (14.26)	9.11 (55.10)***	0.71 (3.81)***	4.61** (27.64)	16.86*
Trading and Services	1.50 (7.22)*	42.45 (26.54)***	15.35 (14.67)	59.30 (48.43)	51.02* (14.85)	14.19 (26.15)	128.16
F-stat	4.07*** 15.87***	5.71*** 2.78***	8.72*** 0.44	7.68*** 4.23***	1.32 4.83***	2.43** 1.97*	7.10***

Note that *** is 1% significance level, ** is 5% significance level and * is 10% significance level. R&D is the use of proceeds for research and development, CAPEX is the use of proceeds for capital expenditure, EXPAN is the use of proceeds for expansion, which includes land acquisition and construction. GWRT is the average sum of (R&D + CAPEX + EXP), DEBT is the use of proceeds for debt repayment, WORKCAP is the use of proceeds for working capital and TP is the average total proceeds raised during the IPO sale. In addition, the upper row values indicate RM and lower row values indicate %.

Conclusion

The intention to raise capital is to provide incentives to companies to embark on value-maximizing investment decisions, and an important means to achieve this is to allocate a larger proportion of the intended use of the IPO proceeds to growth opportunities. In order to establish whether this notion holds, this study examined what issuers disclosed as their intended use of IPO proceeds in the Malaysian IPO market. The study used a sample of 221 Malaysian IPOs issued in the period from 2005 to 2015. Through a descriptive analysis of the IPO issuers, the results show that two common uses that IPO issuers allocate the proceeds of an IPO to are capital expenditure and working capital, followed by R&D, business expansion and debt repayment. However, the use with the largest percentage of IPO proceeds is capital expenditure, followed by debt repayment, which means that Malaysian companies' intended use of IPO proceeds revolves around capital expenditure and debt repayment. Further results through the one-way ANOVA, the Independent Sample t-Test and Wilcoxon Rank Sum test indicate that statistically significant differences exist across industries with regards to the amount of IPO proceeds raised and their allocation to the intended use of the proceeds. However, whether each intended use translates to the better performance of the IPO companies in the aftermarket is subject to future empirical consideration. This is because the extant literature has documented that the use of IPO proceeds can serve as a proxy for ex-ante uncertainties surround-

ing the value of an IPO, and investors could value them differently. The overall evidence suggests that ex-ante prospectus information can serve as a signal to convey information that reflects a company's future prospects.

Therefore, this study provides further insights for future researchers to investigate whether the intended use of IPO proceeds may provide a better explanation for events around IPO-related activities and whether issuers actually use the proceeds for the intended purpose. This is because there is an argument that the use of proceeds for capital expenditure is most likely to lead to improved performance, whereas the use of proceeds for working capital purposes may relate to the uncertainty of future cash flows, thereby negatively affecting company performance (Andriansyah & Messinis, 2016; Wyatt, 2014). For this reason, the intended use of IPO proceeds may be considered as crucial information for parties in the IPO process. Future studies can also determine the factors (e.g., issuing company characteristics and corporate governance structure) that motivate issuers to allocate certain amounts for designated purposes.

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