

Analysis of the Company's Financial Performance before and after the Company Conducts an Initial Public Offering

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Abstract: This research was conducted on the basis of knowing the company's financial performance before and after the company conducted an IPO. IPO is an alternative source of corporate funding to develop its business so that company performance can increase. The benefits of the company doing an IPO are obtaining new sources of funding available in large quantities, improving the company's image and increasing company value. The focus of the problem in this study is whether there are significant differences in financial performance before and after the company conducted an IPO in 2018. The results of this study indicate that the current ratio (0,7461), quick ratio (0,7901), debt equity ratio (0,8851) has increased level after companies do IPO. Debt ratio (0,6157) return on investment (0,7209) and return on equity (0,15323) has decreased after companies do IPO, This can be seen from the results of statistical tests which show that the value of t is greater than t table, which means that H₀ is rejected. There is no difference in the debt ratio before and after the company has conducted an IPO. This can be seen from the results of statistical tests which show that the value of t is greater than t table, which means that H₀ is accepted.

1 INTRODUCTION

Judging from the number of companies that have gone public in Indonesia, this indicates that Indonesia has experienced a significant development. This is certainly a sign that people are starting to implement an open economy and are ready to compete. One of the intermediaries that is often used is the capital market as an official stock trading venue (Chughtai, Asma Rafique; Azeem, Aamir; Amara; Ali, 2000). The main reason for a go-public company is to offer its shares which are driven by the company's capital needs, where the capital is used to meet the company's operational costs. But the most important reason why a company offers its shares to the public is, the desire of the company to grow the company. This is of course accompanied by a large capital requirement as well (Sha, 2017).

The activity of a company to sell its shares to the public through the capital market is usually called a public offering. When a company sells its shares for the first time it is called an Initial Public Offering (IPO) or by another name Go Public (Husaini, 2012). Companies that are going to go public are required to fulfill a number of mandatory requirements for

information disclosure of the period before and after the Initial Public Offering (IPO). Corporations may raise capital in the primary market by way of initial public offerings (IPO). The IPO are a type of public offering in which shares of stock in a company usually are sold to institutional investors that in turn sell to the general public, on a securities exchange, for the first time (Seng, Yang, & Yang, 2017). The main IPO methods are book-building, auction method, and public offer. IPO literature and assert that many factors are related to the uncertainty of IPO pricing. the level of underpricing is determined by various firm specific attributes (Gumanti, Lestari, & Abdul Mannan, 2017). These implicit and explicit attributes that could reflect the firm future prospect amongst others include ownership structure, industry membership, length in operation, size of the firm, issue size, reputation, the quality of management, etc (Abdulla, Dang, & Khurshed, 2016).

An IPO can be viewed as an information-releasing event that changes the information structure of a company, especially with regards to its relationship with lenders. One of the most important motives for firms to go public is to gain access to external financial markets. As a result, research has examined the impact of a firm's listing

decision on its financial policies post-IPO. For example, it is well-documented that immediately after going public firms rely less on debt financing because they can raise capital in the equity markets. However, little attention has been devoted to the question of how a firm's debt maturity evolves after the IPO. This is a significant omission because debt maturity is also an important capital structure decision jointly determined with leverage (Djaddang & Ghozali, 2017). It is important for the shareholders of an IPO firm to know whether there will be a change in the debt maturity structure post-IPO for there are costs and benefits of switching between debts of different maturities. For instance, while short-term debt typically has lower interest rates, is relatively easier to negotiate, and requires less collateral than longterm debt, it exposes the firm to the refinancing and liquidity risks (Abdulla et al., 2016).

The choice to make a company go public is accompanied by both benefits and consequences. The benefits obtained are that there is a large amount of new funding sources available, increasing the company's image which also affects the company's value. As for the consequences borne by the emiten, the company is obliged to become a transparent and professional company and must comply with all applicable capital market regulations by regularly reporting the company's annual report (Rimbani, 2013).

2 LITERATURE

Whether or not the company's performance can be assessed from its financial performance, financial performance has a very important role. This means that if the financial performance is good, it will attract other investors to invest. Financial performance interprets the achievement of the company's success for the activities that have been carried out. Company Performance Can be done by analyzing company performance through financial statement analysis using financial ratios (Erna Alliffah, 2018).

Financial Ratio is defined as the activity of comparing the numbers written in financial statements by sharing one number with another. In analyzing financial ratios, it can be used as a reference for company development, which is seen from if the financial condition has decreased, the company must evaluate and improve its performance in the future. This means that if the company is good, then the company is able to settle its debts and

can improve efficiency in processing assets that increase company profits.. The financial ratios used in this research are Current Ratio, Quick Ratio, Debt Ratio, Debt Equity Ratio, Return On Investment, Return On Equity (Lili Sari et al., 2013).

2.1 Current Ratio

Current Ratio can be determined by comparing current assets with current debt. Current Ratio (CR) is a ratio that measures the ability of a company's current assets to meet short-term liabilities with current assets owned. If the Quick Ratio is used, the number 100% is considered to have shown good short-term financial conditions (Erna Alliffah, 2018). Quick Ratio (QR), namely the ability of current assets to pay current liabilities. This ratio provides a better indicator of the company's liquidity compared to the current ratio, due to the omission of elements of inventory and prepayments as well as substandard assets from the ratio calculation. Quick Ratio is a ratio that shows the company's ability to meet its liabilities or current liabilities with current assets regardless of company value (Kurniawan, Arifati, & Andini, 2016). The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables (Someshwari & Mahadevappa, 2013). The current ratio compares all of a company's current assets to its current liabilities. These are usually defined as assets that are cash or will be turned into cash in a year or less, and liabilities that will be paid in a year or less (Chughtai, Asma Rafique; Azeem, Aamir; Amara; Ali, 2000).

2.2 Debt Ratio

Debt ratio measure how much company assets financed by creditors. This debt ratio can be used to test how far the company uses the money it borrows. The use of the amount of the company's debt depends on the success of revenue and the availability of assets that can be used as debt collateral and how much risk is assumed by management (Tumandung, Murni, & Baramuli, 2017). The results of the DR calculation, creditors prefer a low debt ratio because the lower the debt ratio the greater the protection against creditors' losses in the event of liquidation.. It is different with shareholders who want more leverage to increase their expected profit. Companies with debt ratios

above the industry average are a danger sign because it will be difficult for companies to borrow additional funds without having to raise equity first (Asmirantho & Yuliawati, 2015). an increase in the leverage ratio should result in lower agency costs outside equity and improve firm's performance, all other things being equal. From the analysis above, there is an inverse relationship between leverage (DR) and firm performance (Anarfo, 2015). profitable firms are capable to raise their debt ratio more than those less profitable companies. The financial

leverage theory demonstrates that the problem is dichotomous because earnings as well as risk increase with increasing debt

ratio. While earnings are something positive risk is regarded as a negative consequence. Or we want to maximise profit and minimise risk. M & M's propositions depend on perfect capital markets, but borrowing is costly and inconvenient for many individuals. The most serious capital market imperfections are often those created by the government like taxes (Svendsen, 2003).

2.3 Debt Equity Ratio

Debt Equity Ratio Adding debt to the balance sheet if the cost of debt is lower than equity is expected to increase profitability and increase share prices, thereby increasing shareholder welfare and increasing company growth (Raharjo & Muid, 2013). The conservative vertical financial rule stipulates that the amount of foreign capital cannot exceed own capital by a ratio not exceeding 1: 1. For creditors, the greater the DER value, the greater the risk of failure that may occur in the company. For companies, the lower the DER value, the higher the funding that comes from the owner and the greater the safety limit for the borrower in case of loss or depreciation of assets (Agustine, 2013).

2.4 Return on Investment

Return on Investment is the net earning power ratio. Return on Investment is the ability of capital invested in all assets to generate net profit. ROI is a measure of the company's overall ability to generate profits with the total number of assets available in the company. This increase in profit has a positive effect on the company's financial performance in achieving the goal of maximizing company value which will be responded positively by investors so that the demand for company shares can increase

and can increase the company's stock price (Priatinah, 2012).

2.5 Return on Equity

Return on equity The higher the income the company gets, the better the position of the owner of the company. Return on Equity (ROE) is a ratio that shows how much capital contributes to creating net income. ROE (Return On Equity) compares net income after tax with the equity that has been invested by the company's shareholders (Rusli & Dasar, 2014). Return on equity (ROE) or also often called by Return On Common Equity, in bahasa Indonesia is often translated as Rentability of Own Share (Rentability of Own Capital). Investor to buy the shares will be attracted to this profitability ratio, or part of total profitability that can be allocated to shareholders. As known, shareholders has residual claim on obtained profits. Profit obtained by the company firstly will be used to pay any interest of debts, then preference share, and then (if any) will be given to common shareholders. Return on equity (ROE) is the profitability ratio to measure the company ability to generate profit based on share capital owned by the company (Rosikah et al, 2018).

3 REASEARCH METHODS & RESULT

This research uses an event study research type (event study). Based on the research objectives, namely to describe the company's financial performance before and after carrying out an IPO on the IDX in 2018 seen from the current ratio, quick ratio, debt ratio, debt equity ratio, return on investment and return on equity. Researchers use secondary data in the form of company financial statements in the form of balance sheets, company profile income statements and other data. Samples taken based on purposive sampling technique obtained 55 companies that conducted Initial Public Offering (IPO) in 2018.

Descriptive statistical analysis technique aims to provide a description of the research subject based on the variable data obtained and the group of subjects studied. Descriptive statistics in presenting data through tables, graphs, pie charts, pictograms, calculation of mode, median, mean, calculation of data distribution through the calculation of the average and standard deviation and calculation of percentages. At this stage, the researcher will

conduct a descriptive statistical analysis by testing the value of the current ratio, quick ratio, debt ratio, debt equity ratio, return on investment, and return on equity before and after the company conducts an IPO (Initial Public Offering).

Normality Test The normality test is used to determine the data used in the study to follow or approach the normal distribution. If the data are not normally distributed, then non-parametric statistical tests are used. The criteria for testing the normality test are as follows: The number of significance (sig) > 0.05, then the data is normally distributed. While the significance number (sig) < 0.05, the data is not normally distributed.

T test (Paired Sample T-Test) T test or paired two-sample test is a parametric statistical test used to test whether there are differences between two related samples. Data came from two different measurements or observation periods taken from paired subjects. This study aims to determine whether there are differences in the company's financial performance before and after carrying out an IPO (Initial Public Offering) in 2018.

Descriptive Statistical Analysis Current Ratio (CR) before conducting an IPO, seen from the standard deviation value, was 0.7107, whereas when IPO had been conducted, it was 0.7461, this shows the increase in the company's current assets so that the company is better able to pay its short-term debt.

Descriptive Statistical Analysis Quick Ratio (QR) before conducting an IPO seen from the standard deviation value is 0.7296, while when it has conducted an IPO of 0.7901 this shows that the company's Quick Ratio Level after carrying out an IPO is better than before the company conducted an IPO, which shows an indication that the company is able to pay its short-term debt which is fulfilled with more liquid current assets.

Descriptive Statistical Analysis Debt Ratio (DR) before conducting an IPO seen from the standard deviation value was 0.6925, while when having an IPO it was 0.6157, this shows that the Debt Ratio Level has decreased when it has conducted an IPO. Reduced risk for creditors if all debts are related to all assets owned by the company.

Descriptive statistical analysis of the Debt Equity Ratio (DER) before conducting an IPO can be seen from the standard deviation value is 0.8056, while when IPO has been carried out is 0.8851, this shows that the Debt Equity Ratio level has increased. Based on this explanation, the conclusion is that the increased risk for the owners of the company's capital can be seen from the amount of debt on their own capital guaranteed by the company. The higher

the Debt Equity Ratio, the greater the financial risk that is borne by the company.

Descriptive Statistical Analysis of Return On Investment (ROI) before carrying out an IPO is seen from the standard deviation value is 0.17312, while when having an IPO it is 0.17209 this shows that the rate of return on investment has decreased because the proportion of the decline in company profits is lower than the decrease in assets. company owned.

Descriptive statistical analysis of Return On Equity (ROE) before carrying out an IPO is seen from the standard deviation value is 0.16362, while when it has conducted an IPO of 0.15323 this shows that the rate of return on equity (ROE) has decreased so that it indicates a decrease in net income associated with owner's equity. The higher the value of Return On Equity, the greater the profit of being the owner of the capital (Table 1).

Table 1: Classical Assumption Test Results, Normality Test Results.

information	Asymp. Sig
CR (Before)	0.126
CR (After)	0.157
QR (before)	0.165
QR (after)	0.198
DR (before)	0.276
DR (after)	0.045
DER (before)	0.146
DER (after)	0.065
ROI (before)	0.178
ROI (after)	0.059
ROE (before)	0.178
ROE (after)	0.089

Source:Processed data

Based on the table above, the asymp sig in all variables is greater than the predetermined level of significance value, namely 0.05, thus it can be concluded that the data is normally distributed.

Hypothesis Test Results, T test (Paired T-TEST) between the average (mean) Current Ratio in the first treatment (before) IPO is 1.2229, while the average (Mean) of the second treatment (after) IPO is 2, 2249 shows that the probability value (pvalue) of the current ratio in the sig column (2- tailed) is smaller than the predetermined level of significance (α), which is 0.05. It can be concluded that H_0 is

rejected, meaning that with a 95% confidence interval there is a difference in the current ratio before and after the company conducts an IPO.

The results of the paired sample test between the average (mean) quick ratio in the first treatment (before IPO) were 1.2315, with the average (mean) quick ratio in the second treatment (after IPO) was 2.2295, indicating that the probability value (p-value) of the quick ratio in the sig (2-tailed) column is smaller than the predetermined level of significance (α), which is 0.05. It can be concluded that H_0 is rejected, meaning that with a 95% confidence interval there is a difference in the quick ratio before and after the company has conducted an IPO. This shows that there is a difference in the quick ratio after the company has conducted an IPO.

The results of the paired sample test between the average (mean) debt ratio in the first treatment (before IPO) were 0.5674, with the average (mean) debt ratio in the second treatment (after the IPO) was 0.354, indicating that the probability value (p-value) of the debt ratio in the sig (2-tailed) column is greater than the predetermined level of significance (α), which is 0.05. It can be concluded that H_0 is accepted, meaning that with a 95% confidence interval there is no difference in the debt ratio before and after the company has conducted an IPO. This shows that there is no difference in debt ratio after the company has conducted an IPO.

The results of the paired sample test between the average (mean) debt equity ratio in the first treatment (before IPO) was 2.2282, with the average (mean) debt equity ratio in the second treatment (after the IPO) was 1.2320, indicating that the value The probability (p-value) of the debt to equity ratio in the sig (2-tailed) column is smaller than the predetermined level of significance (α), namely 0.05. It can be concluded that H_0 is rejected, meaning that with a 95% confidence interval, there is a difference in the debt to equity ratio before and after the company conducted an IPO.

The results of the paired sample test between the average (mean) return on investment in the first treatment (before IPO) were 0.0760, with the mean return on investment in the second treatment (after IPO) of 0.0579, indicating that the probability value (The p-value) of the return on investment in the sig (2-tailed) column is smaller than the predetermined level of significance (α), which is 0.05. It can be concluded that H_0 is rejected, meaning that with a 95% confidence interval there is a difference in return on investment before and after the company conducts an IPO.

The results of the paired sample test between the average (mean) return on equity in the first treatment (before the IPO) were 0.565, with the average (mean) return on equity in the second treatment (after the IPO) was 0.085, indicating that the probability value (p-value) of return on equity in the sig (2-tailed) column is smaller than the predetermined level of significance (α), which is 0.05. It can be concluded that H_0 is rejected, meaning that with a 95% confidence interval there is a difference in return on equity before and after the company conducts an IPO. It can be said that there is a difference in return on equity after the company has conducted an IPO.

4 CONCLUSIONS

Judging from the results of hypothesis testing using the t test, the t value of the current ratio, quick ratio, Debt Equity Ratio, Return On Investment, Return On Equity is greater than t table, meaning that there is a significant difference before and after the company conducts an IPO. So it can be concluded that testing the hypothesis which states that there is a significant difference in the current ratio before and after the company has conducted an IPO can be accepted.

Judging from the results of hypothesis testing using the t test, the t value of the debt ratio was smaller than the t table, meaning that there was no significant difference before and after the company conducted an IPO. So it can be concluded that the testing of the hypothesis which states that there is a significant difference in the debt ratio before and after the company has conducted an IPO is rejected.

For the company, it should be able to increase the liquidity ratio and profitability ratio in order to increase the profit that will be generated by the company, and the company should be able to reduce its debt ratio so that the company can guarantee all its long-term debt with all the assets owned by the company. For companies that have not conducted Initial Public Offering (IPO), it is hoped that this research will become a reference for companies to conduct Initial Public Offering (IPO) as an alternative for companies in improving the company's financial performance. For future researchers, it is hoped that they can make a better contribution, for example by adding a research period or research variables to measure company performance before and after conducting an Initial Public Offering (IPO).

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For Investor Who wants to invest, they should know about the real price of share, and how invest safely. Based on these research findings, it can suggest that it is necessary for any companies to pay attention to the increased financial ratios, as a reference and the basis of consideration for investors in investing in the company.

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