

Séminaires sur la recherche en gestion Management Research Seminar Series

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Centre's Distinguished Speaker Series present:

Walid Busaba, PhD
Ivey Business School

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Do Underwriters Overprice IPOs to Avert Potential Withdrawal by the Issuers?

This presentation sheds a new light on the intermediary role of underwriters, by examining how the underwriters handle difficult-to-sell IPOs. It argues that when faced with the potential of losing a deal due to withdrawal, an underwriter might find it optimal to price an offering above what investors would otherwise be willing to pay. But to ensure investor participation, the underwriter would commit to supporting the stock price in the aftermarket. Empirical analysis provides supporting evidence. Overpricing is more pronounced in issues priced exactly at the lower boundary of the preliminary price range, especially when the ex-ante withdrawal probability is higher or when the lower boundary represents a smaller percent drop from the range's midpoint, and price support is higher in offerings identified as aggressively priced to avert withdrawal. An alternative specification reveals that selection by the underwriter to complete an offering that would otherwise be withdrawn is associated with higher both overpricing and price support.

About the Speaker

Walid Busaba is an Associate Professor of Finance, and the former Bank of Montreal Professor, at the Ivey Business School. Prior to Ivey, Professor Busaba was on the faculty at the Eller College of Business of the University of Arizona and a visiting faculty at the Carlson School of Management of the University of Minnesota. He received a Ph.D. in Finance (with Outstanding Academic Performance Award) from Boston College, and his prior industry experience was in Auditing and Financial Management. Professor Busaba's research focuses on investment banking, corporate finance, and financial contracting. His current research examines the intermediary role of underwriters, the timing of initial public offerings, and the determinants of the maturity and renegotiation of late 19th Century mortgages. Professor Busaba's research has been supported by grants from the Social Sciences and Humanities Research Council of Canada, published in the leading finance journals, and presented at the annual meetings of the major finance associations.



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