

Dividend Initiations and IPO Long-Run Performance

Authors : Nithi Sermsiriviboon, Somchai Supattarakul

Abstract : Dividend initiations are an economically significant event that has important implications for a firm's future financial capacity. Given that the market's expectation of a consistent payout, managers of IPO firms must approach the initial dividend decision cautiously. We compare the long run performance of IPO firms that initiated dividends with those of similarly matched non-payers. We found that firms which initiated dividends perform significantly better up to three years after the initiation date. Moreover, we measure investor reactions by 2-day around dividend announcement date cumulative abnormal return. We evidence no statistically significant differences between cumulative abnormal returns (CAR) of IPO firms and cumulative abnormal returns of Non-IPO firms, indicating that investors do not respond to dividend announcement of IPO firms more than they do to the dividend announcement of Non-IPO firms.

Keywords : dividend, initial public offerings, long-run performance, finance

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