Long-run IPO Returns

Jay Ritter, who has studied long-run returns on U.S. IPOs, reports for the years 1970-2009 the following percentage returns during the first five years after issue. In almost each of the years after issue the IPO stocks underperformed those of similar-sized firms and of firms with similar size and book-to-market ratios. Over the 5 years after issue the IPO stocks on average underperformed those of similar-sized firms by 3.4% a year and they underperformed stocks that were matched in terms of both size and book-to-market ratio by 2.2% a year.

	Year after issue					Compound return
	1	**2**	**3**	**4**	**5**	**per year**
IPO firms	6.70%	5.2	10.7	18.5	12.6	10.6
Size-matched	11.50%	13.3	14.2	16.9	14.1	14.0
Difference	-4.80%	-8.2	-3.5	1.6	-1.5	-3.4
IPO firms	7.20%	7.1	11.3	18	10.9	10.8
Size and book/market matched	9.00%	12.7	11.6	18.4	13.5	13.0
Difference	-1.90%	-5.7	-0.3	-0.4	-2.6	-2.2

Note: First-year returns are calculated from the end of the first day of trading.

Source: Jay Ritter’s Web site at http://bear.warrington.ufl.edu/ritter/ipodata.htm