CHAPTER I

INTRODUCTION

1.1 Background of the Study

The rapidly developing environment has been one of the challenges faced by most companies as they must maintain and improve their business. Companies should strive for a competitive advantage to survive and continue to operate among competitors. The funds are needed for a company to carry out operations and carry out its respective business strategies. Companies can obtain competitive advantages such as advanced technology, high-quality products, and superior human resources through internal and external funding (Goenawan & H. Wasistha, 2019). Internal funding is obtained through the operations of the company itself, one of which is retained earnings. External funding can be obtained through the combination of debt and equity. Sometimes, the funds sourced from internal companies and loans may not be enough to finance the company's activities. Therefore, the funds obtained from the sale of shares to the public can be used as an alternative for further funding the company (Khatami, Hidayat, & Sulasmiyati, 2017).

According to Ibbotson & Ritter (1995), most companies begin by raising equity from a few investors. When it grows and needs more equity, it may generally find it desirable to go public by selling stock to many investors. For a company to sell its shares to the public (go public), the company should first conduct Initial Public Offering (IPO). IPO has been the option in great demand by companies to obtain additional external funding, namely through the sale of shares to the public.

The company's decision to develop its business through an IPO is motivated by a variety of financial and non-financial factors. Regardless of the motivation, the choice to conduct an IPO will always affect the company's finances, accounting, and operations. Generally, by going public, the company will collect a relatively large amount of funds. An IPO is considered as viable option for raising finance, particularly for companies with high investment needs a high proportion of debt in the capital structure and strong growth potential.

Figure 1.1 shows the uptrend of global companies doing IPO starting from 2018 to 2021 Q2. The increasing number describes a large number of companies aiming to improve their financial performance by obtaining funds from selling their shares to the public. The global pandemic since 2020 has affected the company funding strategy. Going public has been selected by the company as the way to raise capital resulting in an increase in the number of companies doing IPO in Q3 2020.

Figure 1.1 Global Initial Public Offering Activity
Source: PricewaterhouseCoopers (2021)

According to UU No. 8 Year 1995 about Capital Market, “Public Offering is a Securities offering activity carried out by an Issuer to sell Securities to the public based on the procedures regulated in this Law and its implementing regulations". As it has been stated in the regulation, companies in Indonesia should firstly go public to be able to sell their shares to the public. The diagram in Figure 1.2 shows the number of companies in Indonesia that goes IPO starting from Q1 2018 to Q2 2021. As stated by Indonesia Stock Exchange (IDX), the public offering trend in Indonesia is in line with the prospect of better economic growth. Looking for fresh funds on the stock exchange is the selected option for companies in Indonesia, especially during the pandemic situation that causes pressure on economic conditions. Indonesia has been one of the countries with the highest number of IPO in the ASEAN region during the first semester of 2021 with a total of 22 transactions generating US$0.5 billion (Azka & Utami, 2021).

Figure 1.2 Initial Public Offering in Indonesia
Source: Indonesia Stock Exchange (2021)

IPO has great potential in influencing company performance. The injection of additional capital may drive up the financial performance after IPO (Rudianto, 2021). Financial performance is a summary of a company's finances that is examined using financial ratios to indicate the company's operational performance over a certain period. Financial ratios are the tool for analysis that are used to help the interested parties to obtain an understanding of the financial health of the company. The information provided in the fundamental financial statements is of the highest concern to stakeholders who incorporates multiple comparative performance indicators of the company. Ratio analysis comprises approaches for measuring and analyzing financial ratios to examine and monitor the performance of a company. The income statement and balance sheet are the essential inputs for ratio analysis. Financial ratios are then divided into five categories, namely liquidity ratio, profitability ratio, leverage, turnover ratio, and market value ratio.

According to Sulaksana & Supriatna (2019), profitability, liquidity, and turnover ratio of companies has increased after IPO. Meanwhile, the leverage ratio has decreased. These conditions illustrate that the IPO activity conducted by companies has brought good results for the company's financial performance. Rudianto (2021) stated that the liquidity ratio after companies conduct IPO has increased, meanwhile, the profitability and leverage ratio has decreased compared to the condition before the companies conduct IPO. The table below shows the comparison of the financial performance of companies that are conducting the IPO during 2019.

Table 1.1 Financial Ratios of Companies Before and After Initial Public Offering

Company	Ratio	Year			
		2015	2016	2018	2019
CLEO	Current Ratio	0,70	0,59	1,64	1,17
	Return on Equity	0,01	0,20	0,1	0,17
	Asset Turnover	0,27	1,28	1,11	1,05
MDKI	Current Ratio	1,09	2,12	7,02	7,05
	Return on Equity	0,04	0,36	0,04	0,04
	Asset Turnover	0,95	0,96	0,45	0,38
GMFI	Current Ratio	2,30	2,24	1,68	1,23
	Return on Equity	0,29	0,33	0,04	(0,01)
	Asset Turnover	1,07	1,03	0,73	0,71

Source: Indonesia Stock Exchange, prepared by writer (2021)

From Table 1.1, it can be seen that there are several differences in the situation experienced by the three companies mentioned after conducting IPO in 2017. PT Sariguna Primatirta Tbk (CLEO) has conducted IPO in 2017 with the reason to acquire new machinery to support the operation of company, and also to increase the working capital. The comparison of the financial performance of CLEO two years before and after IPO has shown an increase in liquidity, profitability, and turnover ratio which indicate the IPO has brought a good change to the financial performance. However, PT Emdeki Utama Tbk (MDKI) and PT Garuda Maintenance Facility Aero Asia Tbk (GMFI) have experienced a different situation. MDKI conducted IPO in 2017 with the reason to expand its business by setting up new factories for the development of new products and to increase the working capital. The comparison of the financial performance of MDKI for the two years before and after the IPO has shown that the company experienced an increase in liquidity, followed by a decrease in profitability ratio and turnover ratio. GMFI also conducted IPO in 2017 to raise funds to acquire new assets to improve the capacity in Line Maintenance and Repair & Overhaul and increase the working capital. The comparison of the financial performance of GMFI two years before and after the IPO has shown a decrease in liquidity, profitability, and turnover ratio.

Due to the inconsistency of results from previous research regarding the comparison of financial performance of companies before and after Initial Public Offering, further research is needed to be done. Therefore, the writer decided to do the research study about "**Comparative Analysis of Financial Performance of Manufacturing Companies After Initial Public Offering**".

1.2 Problem Limitation

As there are several limitations in time and resources, the writer will limit the problem's discussion. This research will focus only on several categories mentioned below:

1. Sample of the research will be limited to manufacturing companies listed on Indonesia Stock Exchange that have conducted Initial Public Offering during 2017.
2. The observation period for the comparative study is two years before Initial Public Offering and two years after Initial Public Offering.
3. Financial performance measurement is limited to Current Ratio, Return on Equity, and Total Asset Turnover.

1.3 Problem Formulation

Based on the background mentioned above, the problems are formulated as follows:

1. Is there any significant difference of Current Ratio after the companies conducted Initial Public Offering?
2. Is there any significant difference of Return on Equity after the companies conducted Initial Public Offering?
3. Is there any significant difference of Total Asset Turnover after the companies conducted Initial Public Offering?

1.4 Objective of the Research

Based on the formulated problems mentioned above, the objectives of this research are:

1. To analyze whether there is difference of Current Ratio of companies after conducting Initial Public Offering.
2. To analyze whether there is difference of Return on Equity of companies after conducting Initial Public Offering.
3. To analyze whether there is difference of Total Asset Turnover of companies after conducting Initial Public Offering.

1.5 Benefit of the Research

This research has provided several benefits, namely:

1.5.1 Theoretical Benefit

This research is expected to gain theoretical benefits as mentioned below:

1. For writer

   This research is expected to accommodate deeper knowledge and understanding to the writer regarding the differences of financial performance of the companies before and after Initial Public Offering.

2. For academics

   This research is expected to contribute to give deeper understandings and knowledge development regarding the knowledge of financial performance of companies before and after Initial Public Offering.

1.5.2 Practical Benefit

This research is expected to gain practical benefits as mentioned below:

1. For companies

    This research is expected to be used as a consideration material to improve the financial performance of the companies that will increase the confidence of investors to invest in the company.

2. For public

    This research is expected to provide information regarding the financial performance of companies before and after Initial Public Offering and become consideration of investing purpose.