The effect leaving money on the table at IPO has on future performance for Tech companies.

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Abstract

The definition of a successful Initial Public Offering (IPO) is a point of fervent debate among analysts in the financial sector. Many analysts are of the opinion that a successful IPO is defined by the size of the IPO pop in price on the first day. Other analysts believe that if there is a large pop in price then money is left on the table as the company under prices the IPO and misses out on potentially raising more money.

This is even more prevalent when a company is in a new industry like technology, social media or internet. Companies in these industries are new and often have no profits but a rapidly expanding user base with the possibility of large future revenues and profits. These companies are difficult to value using traditional revenue or profit based metrics. Therefore pricing an IPO is more difficult for these types of companies and their IPOs are often under priced in the hope of a pop.

The purpose of this study is to investigate whether an IPO pop is beneficial in the long term to companies in aforementioned industries. This study focuses on the following companies that went public between 2011 and 2015; LinkedIn, Facebook, Twitter, GoPro, Alibaba and Box Inc.

To implement this study, data was collected from the share price of each company after their IPO. Their performance is measured against one another and analysed in tandem with the amount that each company under priced their IPO.

The results indicate that although an IPO is an important part of a company’s growth and has an impact in the short term, the longer term share price is affected by revenues, profits and growth prospects that are announced at earnings reports. Therefore leaving money on the table does not help share price performance in the long term.
Chapter 1: Introduction

Initial Public Offerings (IPO) consistently provide an air of excitement and occasion within the finance community. An IPO is a significant stage in a company’s growth, raising considerable capital to fund future growth. They are additionally regarded as a long awaited “payday” for the founders, venture capitalists and angel investors who gain significantly from their investment of innovation, expertise and resources.

Social Media sites, such as LinkedIn, Facebook and Twitter have revolutionised the world, particularly how people connect and communicate with each other. Hundreds of millions of people across the globe utilise these sites daily, accessing real time news, researching employment opportunities and promoting organisations, such as businesses, sports clubs and charities. Such sites are now an integral part of how the world communicates, both socially and professionally.

Naturally, this intense level of global interest in Social Media sites generates immense interest and excitement when these companies go to IPO. Such interest flows not only through the financial community, but across society in general.

Other technology companies such as Alibaba, Box and GoPro are new companies that have also excited investors and consumers alike. Alibaba is a Chinese internet company that has billions of sales in China and is moving towards USA. GoPro has taken the personal camera market by storm after smart phones had made many personal cameras obsolete. Box is an innovative company in the new cloud storage industry.

Therefore this research study will be of interest to a wide section of society, providing benefit to many, including shareholders and managers in pre-IPO companies, investors who trade shares at IPO’s and organisations dealing generally with IPOs, such as underwriting banks, stock exchanges and the financial community as a whole.
The outcome of IPO’s are fervently debated as individual opinion on what constitutes success, differs considerably. One aspect surrounds the amount of capital that was “left on the table” at individual IPOs. Simply, this dictates how companies under-price their IPO shares. Thus, the amount that is forgone by setting the IPO price below the level that the market is willing to pay. This dissertation aims to answer the underlying research question. “Does the amount money left on the table at IPO affect future performance for Tech companies?”

Although, extensive research has been conducted concentrating upon IPO under-pricing, LinkedIn, Facebook, Twitter, GoPro, Alibaba and Box are relatively new companies with very recently completed IPO’s. Thus little research, specific to this particular industry has been conducted. Box’s IPO expressly, was completed less than six months ago ensuring the fresh and current spine of this research.

The literature review in chapter 2 will provides an understanding of the IPOs of each company and how analysts reacted. Due to the current nature of the topic, much of this secondary information was sourced from online media reports.

Chapter 3 outlines the most appropriate method of researching this topic and what research strategies lend itself to this type of research.

To fully answer the research question above, the analysis of each company’s financial performance will be contained in chapter 4, data results and findings. Conclusions are made in chapter 5 based on the findings of chapter 4 and this leads to a final conclusion of this dissertation.
2.1 Initial Public Offering Description and Purpose

Geddes (2003) describes an Initial Public Offering (IPO) as a company’s endeavour to list on the stock exchange and sell its shares to the public for the first time. Espinasse (2011) denotes that an IPO is primarily utilised to raise capital and finance future development. He offers additional objectives, such as increasing company profiles, attaining market prestige and reducing company gearing levels. Koba (2013) concurs with this while also adding that public company status allows the recruitment and rewarding of employees through offering stock options, which should incentivise individuals to work for the good of the business. He also confirms how a public company can utilise its stocks as payment in the acquisition of another company, similar to Facebook’s acquisition of WhatsApp in February 2014 (Koba, 2013). Facebook paid WhatsApp $4 billion in cash, $12 billion in common stock and $3 billion in restricted stock (Kepes, 2014).
2.2 Under-Pricing and “Money left on the table”

Ritter (2014) defines money “left on the table” as “the difference between the closing price on the first day of trading and the offer price, multiplied by the number of shares sold”. This occurs as a result of under-pricing an IPO.

Many companies undergoing IPOs choose to “leave money on the table”, issuers contentment with such protocol leaves financial economists confused. “Contentment at selling an article for one-third of its subsequent value is a rare quality” is a statement by Brealey and Myers (1996, p. 389), describing an IPO that tripled in value on its first day of trading. Loughran and Ritter (2002) assess why the issuers/owners of the shares of a company do not become concerned when their money is “left on the table”. Their prospect theory surmises that an issuer’s total wealth increases when money is “left on the table” as issuers generally sell only a small portion of their shares at IPO. The larger portion of existing shares increases in value by a greater amount than that “left on the table”, thus resulting in a net wealth gain for the issuers.

Karlis (2000) identifies how IPO under-pricing remains much more prevalent in Internet companies, likely due to the fact that they are more difficult to value than companies in more established industries. As online companies remain relatively new, they are often unique and difficult to compare against other companies. Established industries can value their companies by a mixture of present earnings and future discounted cash flows, whereas often new internet companies are unprofitable. Thus, it is difficult to predict their future cash flow.
The IPOs of LinkedIn, Facebook, Twitter, GoPro, Alibaba and Box Inc. were difficult to value, with much media coverage and often contrasting opinions. These IPO’s were between 2011 and 2015 and varied substantially in relation to funds raised.

**Table 1: Overview of Companies’ IPOs**

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Amount Raised</th>
<th>IPO Pop%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LinkedIn</td>
<td>2011</td>
<td>$352.8m</td>
<td>84-109 %</td>
</tr>
<tr>
<td>Facebook</td>
<td>2012</td>
<td>$16bn</td>
<td>1-11 %</td>
</tr>
<tr>
<td>Twitter</td>
<td>2013</td>
<td>$1.82bn</td>
<td>73-73%</td>
</tr>
<tr>
<td>GoPro</td>
<td>2014</td>
<td>$425m</td>
<td>19-31 %</td>
</tr>
<tr>
<td>Alibaba</td>
<td>2014</td>
<td>$25bn</td>
<td>36-38 %</td>
</tr>
<tr>
<td>Box</td>
<td>2015</td>
<td>$175m</td>
<td>44-66 %</td>
</tr>
</tbody>
</table>
2.3 LinkedIn: Company Background and IPO reaction

LinkedIn is a professional social networking website allowing people and companies to connect with one another. It is utilized by people in employment acquisition and by companies who require personnel with specific skills. LinkedIn was founded in 2002, going live on the internet in 2003. Membership is strongly increasing annually with 300 million current members.

November 2003 witnessed LinkedIn achievement of Series A Financing to a value of $4.7 million through venture capital investor, Sequoia Capital (LinkedIn, 2003) following months of meetings with venture capitalist companies. The founding team, established by then Chief Executive Officer Reid Hoffman, agreed terms with Sequoia Capital. The round, worth $4.7 million had an estimated ‘pre-money’ valuation of $10-15 million (Hower, 2011).

Subsequently, LinkedIn raised an additional $10 million in Series B funding, in October 2004. Greylock, the early state venture capital firm that has produced the largest number of initial public offerings, led the investment (LinkedIn, 2004). Two years later, LinkedIn secured a further Series C funding round worth $12.8 million from Bessemer Venture Partners, the oldest venture capital practice in the United States and the European Founders Fund (EFF) (LinkedIn, 2007). This was shortly followed by two further funding rounds, $53 million from Bain Capital Ventures in June 2008 and $22.7 million from Goldman Sachs, The McGraw-Hill Companies, SAP Ventures as well as a re-investment by Bessemer Venture Capital Partners. The valuation for the Series D transpired at just over $1 billion for the $75.7 million raised (LinkedIn, 2008b).
By 2011, LinkedIn had aligned itself with substantial Venture Capitalists, each maintaining their own characteristics, strengths and connections. This platform aided in the creation of an impressive management team, assisting the growth of the company dramatically particularly regarding the public marketplace. LinkedIn’s objective, to raise $352 million, was achieved by issuing shares. By floating the business on the Stock Exchange and allowing shares to be available to other investors, LinkedIn was able to convert the value of their stake in the business into cash.

In May 2011, LinkedIn issued an initial public offering of $45 per share in an attempt to raise $352 million in capital (Dembosky, 2011). On May 19th, 2011 LinkedIn commenced trading on the New York Stock Exchange.

The first day of trading saw the initial IPO price of $45, rising by 109 percent to rest at $94.25 by close. Thus, LinkedIn’s initial estimate of company value, based on their preliminary share price of $45 increased substantially from $3 billion to approximately $9 billion after first day of trading (Woo et al., 2011).
Quinn (2011) heralded LinkedIn’s IPO as a success with its share price more than doubling on the first day of trading. Similarly Lynley (2011) described LinkedIn’s IPO as the best of 2011, based on the increase in share price since the actual IPO date.

Contrastingly, many analysts suggest LinkedIn left too much money on the table. Blodget (2011) believes LinkedIn were swindled out of approximately $130 million by the underwriting banks. While he recognises some money is generally “left on the table”, he feels $130 million was undoubtedly too much. He argues that the bank’s important clients who received under-priced shares, made enormous profits, naturally earning the banks good will among these clients, ultimately benefitting the banks in the future (Blodget, 2011).

Staats (2011) agrees commenting how the banks hugely misjudged the value of the company despite raising the price from $32 to $45 in the weeks preceding the IPO. Peter Thiel, an experienced investor and co-founder of PayPal, invested in LinkedIn and Facebook at the beginning. He also believes that LinkedIn’s IPO was mispriced with the banks mismanaging the IPO pricing. He supplements that in future similar IPOs such as Facebook’s, there must be more pressure placed on bankers to be “less hostile” (Dembosky, 2011).
2.4 Facebook: Company Background and IPO reaction

Facebook is an online social networking website founded in 2004. Its mission is ‘to give people the power to share and make the world more open and connected’ (Facebook, 2014), with over 1.3 billion monthly active users.

Regardless, it still took until 2009 for Facebook to start making profits (Johnson, 2009). Additionally, it resisted takeover offers from many large companies such as Google, Yahoo and Microsoft (Carlson and Jacobs, 2014).

Despite founder Mark Zuckerberg’s desire to keep the company private, as Facebook became larger and more profitable, pressure grew for the company to go public. A Securities and Exchange Commission (SEC) rule stating that a company with more than five hundred shareholders must publish the same records as public companies on a quarterly basis. Consequently, Facebook may end up having some of the negatives of going public without any of the positives (Sloan, 2012). Thus, Facebook filed for an IPO on February 1st 2012.

Facebook’s IPO took place on May 18th 2012. 421.2 million shares were sold at $38 each to institutional investors through the lead underwriting bank Morgan Stanley, among others. They initially planned to sell only 337.4 million shares but increased this by 25% just days before the IPO (Isidore, 2012). They raised $16 billion in cash and market capitalisation settled just under $100 billion (Schaefer, 2012).
However, due to technical glitches with the NASDAQ stock exchange, there were delays on the public trading of Facebook shares. Further technical complications in processing orders hampered the first day of trading of Facebook shares, where a record volume of 567 million shares were traded (Pepitone, 2012). NASDAQ’s CEO Robert Greifeld condemned technical issues with the software that handles the buy and sell orders for the problems (Mehta, 2012). Facebook shares finished the day at $38.23, just 23 cent above the IPO price, representing a gain of less than 1%.

Facebook’s market capitalisation fell from over $90 billion to less than $70 million, seven trading days later. Therefore, the company lost over $20 billion or 24% of its value in just over a week, representing the largest fall in value of any company post IPO in such a small time period. To place in this in perspective, computer technology company Dell’s IPO was the previous record holder for largest value reduction post IPO. It lost $3.62 billion demonstrating how drastic Facebook’s devaluation really proved (Schaefer, 2012).
Notably, Facebook’s IPO was much larger than LinkedIn’s as it raised $16 billion compared to a relatively meagre $300 million. However, Water (2012) described it as a disaster. Particularly as NASDAQ’s systems could not handle the volume of orders and ultimately the share price fell. Moorhead (2012) believed that Facebook’s IPO strategy was inherently flawed, resulting in it being viewed as one of the biggest ever technological IPO blunders. Stock (2013) labelled Facebook’s IPO as a catastrophe, hampering subsequent IPO’s. Other companies, naturally afraid to fail like Facebook significantly under-priced and left a lot of “money on the table”. Sloane (2012) agrees, outlining that Twitter may learn from Facebook’s mistakes and do the opposite.

Connelly (2012) and Karlgaard (2012) offer several reasons for Facebook’s disappointing IPO. Their opinion focuses on founder, Mark Zuckerberg’s lack of professionalism and respect in wearing inappropriate clothing to corporate pre-IPO functions. Additionally, Yarow (2012) indicates that a combination of NASDAQ’s technical problems, an overvalued price and a large supply that easily met demand, resulted in Facebook’s unsuccessful IPO. Contrastingly, he does comment upon Facebook’s point of view. He reiterates the positive aspects of the IPO in that it raised substantial capital.
Nocera (2012) interestingly refers to the IPO as a brilliant disaster. He recognises that it was a travesty for short-term investors who failed to make the expected post IPO gain and that NASDAQ’s handling of stock orders was disastrous (Nocera, 2012). However, he believes long-term investors should be content as the company raised $16 billion in cash which they can use to develop and compete with internet companies, such as Google who maintain substantial available funds (Nocera, 2012). He confirms how Wall Street have the public convinced that successful IPOs include significant price rises which make money for institutional investors, underwriting banks and ordinary stock traders at the expense of company’s raising money (Nocera, 2012). He continues stating that stereotypically unsuccessful IPOs involve companies raising substantial capital, without benefitting investors (Nocera, 2012).

Roth (2012) however, believes Facebook was fairly valued as the IPO price was near to the closing price, constituting a successful IPO. Spitzer (2012) argues that the IPO was not mispriced and was successful, as it maximised the amount of money raised for the company, the ultimate aim of an IPO.
Worstall (2012) praises the underwriters, Morgan Stanley for doing a good job for their clients despite Wall Street Journal articles criticising the bank for allowing Facebook to sell too many shares at such a high price. Facebook paid Morgan Stanley a fee to work for them and they obliged selling what Facebook wanted. Morgan Stanley had a duty to Facebook and performed well for them despite attaining negative attention for themselves. Hempton (2012) agrees with Facebook’s success adding that investors lost money due to naive and complacent views on Wall Street that IPO’s are always under-priced, therefore profits are easily attained.

Many investors that lost money on Facebook shares on its first day of trading blamed Facebook, the underwriters or NASDAQ but Matthews (2012) argues that investors only have themselves to blame as they willingly bought stocks, they were not forced into it. Gallagher (2012) surmises that Facebook maximised the money for itself by minimising Wall Street’s gain, a success for the company which upsets Wall Street investors.
Katsenelson (2012) claims that Wall Street is compromised and underwriting banks have a conflict of interest. The underwriters are supposed to be working for the company going public but seem to attend more to their best clients by supplying under-priced stocks, that can be sold a day later for massive profits (Katsenelson, 2012). Katsenelson (2012) describes this IPO as a success as the company got a fair price for their shares and Wall Street investors failed to make enormous unjust profits. Kitces (2013) believes perspective on what makes an IPO successful has been lost among the hype surrounding Social Media IPOs, such as Facebook and Twitter.

After LinkedIn’s IPO left so much “money on the table”, Facebook board member, Peter Thiel confirmed that there would be more pressure on underwriting banks to get a higher price in the future. This appears to be true of Facebook’s IPO which took an opposite approach to that of LinkedIn.

Due to the negativity surrounding Facebook, the next big IPO, Twitter acted oppositely reverting to a similar style to LinkedIn, where price “popped” and substantial funds were “left on the table”. Facebook’s IPO has been viewed negatively across many media outlets while Twitter’s was viewed as successful as its price “popped” 73% on its first day of trading. This is despite the fact Facebook received better value for their sale of shares.
2.5 Twitter: Company Background and IPO reaction

Twitter’s IPO was dubbed as anti-Facebook where the core strategy focused upon avoiding the problems associated with Facebook’s IPO (Vara, 2013).

Twitter is an online social networking and micro-blogging service created in 2006, that enables users to send and read short 140-character text messages, called "tweets". The company mission is “giving everyone the power to create and share ideas and information instantly, without barriers”.

Since creation, Twitter has grown exponentially to over 241 million monthly active users and approximately 500 million tweets sent each day (Twitter, 2014). Despite these attributes, Twitter’s remains non-profitable. Twitter’s net loss of $645 million in 2013, was largely due to $594 million spent in research and development, which should help grow the company and increase future revenue (TwitterInc, 2014).

Still a relatively young enterprise, Twitter is only beginning to add more revenue streams (Edwards, 2013). As it was growing and remaining non-profitable simultaneously, an Initial Public Offering in 2013 was viewed as a positive step to raise capital, ensuring future growth and creation of revenue streams.

Additionally, the stock market experienced renewed flotation activity in 2013. Facebook and LinkedIn’s record high share prices generated extensive interest in the social networking sector around the time of Twitter’s IPO filing in September (Thompson, 2013).
Twitters IPO took place on November 7th 2013. 70 million shares at $26 per share were sold. $1.8 billion in cash was raised and the company’s market capitalisation was $14.2 billion. These shares were sold to institutional investors through Goldman Sachs, the lead underwriter for the Twitter IPO.

Requests were made to buy shares from the institutional investors who held the 70 million shares. High level of demand determined the price that Twitter shares began trading at $45.10, $19.10 above the initial IPO price. This meant that institutional investors who bought at $26 and sold at around $45 enjoyed significant profit gains in one day.

Conversely, Primack (2013) argues how Twitter left too much money on the table. He surmises that if Twitter had priced their shares at $45, they would have had $1.3 billion more in cash. This is not necessarily true. Often companies, who set a high IPO price, generate unhappiness in potential investors ultimately leading to price falls. Twitter chose to reduce this risk by aiming to maintain a conservative price, avoiding a similar IPO fate to their competitors, Facebook.

Twitter shares closed the final day at a price of $44.90, providing the company with an impressive market value of $24 billion. Thus, the company essentially gained $10 billion in value in one day.
It may be suggested that by commencing with a low IPO price, the shares were provided with ample room to rise sharply, keeping investors happy. Thus the company leaves $1.8 billion of cash on the table but gains $10 billion in equity which may be recognised as a worthwhile trade-off.

Essentially, the main consensus of media outlets confirmed the success of Twitter’s IPO in comparison to the failure of Facebook’s (Green, 2013).

Similar to both LinkedIn and Facebook’s IPO, opinions on the level of success of Twitter’s IPO has widely varied. Nesto (2013) believes Twitter’s was more successful than Facebook’s botched IPO due to four key differences. Twitter’s choice of stock exchange was NYSE which conducted test IPOs to ensure there were no technical problems, ultimately proving a better choice than NASDAQ (Nesto, 2013). Twitter’s IPO was timed with record stock market highs while Facebook’s was just after a downturn.
Moreover Facebook went public with more maturity and profitability than Twitter, who at an earlier stage of development and had greater potential for growth. Additionally, the fact that Twitter’s IPO was second gave them the benefit of learning from Facebook’s mistakes. Barr (2013) and Green (2013) believe the success of Twitter was a result of respect for the IPO process, where Twitter engaged with investors on their IPO roadshow to answer any questions. The Irish Independent (2013) described the IPO as a bumper launch while Gelles (2013) depicted it as a smooth start with work to do in maintaining its large valuation.

Gaudin (2013) believes Twitter’s success can pave the way for other internet IPOs in the future, particularly after some companies refrained from IPOs after the Facebook debacle. Contrasting Willard (2013) was disappointed that Twitter left over $1 billion “on the table” and labelled the event as a catastrophe. He felt that money could have been utilised more effectively to fund long-term growth. Vara (2013b) said an error was made in under-pricing the IPO, which ultimately lead to lost company capital which was gained by investors and banks.

However, Twitter believed the extra money was not worth forgoing the good will that would be gained with investors, facilitating easier fundraising in the future. Senior Twitter employees “tweeted” their delight at the IPO outcome despite other analysts saying they lost substantial funds (The New York Times, 2013). Altman (2013) disagrees, understanding the need of an IPO pop of 15-20% but believing Twitter’s 75% pop, was wastage of $1 billion. Shefrin (2013) described the event as a failure, not just for Twitter but for ordinary investors. Important clients of the underwriting bank bought stock at $26 and trading started at $45.10 resulting in an enormous profit in one day. However, the closing price of $44.90 confirms that ordinary investors lost money. Ausick (2013) suggests that the IPO was a success for the underwriter’s best clients who made nearly as much as the company itself and questions whether the IPO should be considered a success for the company.
2.6 GoPro: Company Background and IPO reaction

Kellegher (2015) described 2014 as a significant year for Tech IPOs as fifty-three tech companies went public. One of the more high profile companies, GoPro commenced their initial public offering in June 2014, raising $427 million by selling 17,800,000 shares, individually priced at $24 (GoPro, 2014).

The company GoPro was founded by Nick Woodman in 2012 and funded by the combined efforts of both Woodman and his parents to the modest figure of $265,000. Originally, he aspired to create a method by which athletes could photograph themselves in action and began by developing straps for attaching existing cameras to peoples’ arms. Evolving over time, Woodman advanced to designing and producing both cameras and mobile video recorders (Mac, 2013). With notable continuous growth, the company currently boosts the best-selling camera in the world (Cade, 2013).
The company received its first external funding of $88 million in 2011 from Riverwood Capital, Steamboat Ventures, Sageview Capital, Walden International and US Venture Partners (Chapman, 2013). Subsequently in 2012, GoPro received $200 million from Foxconn for an 8.8% share stake in the company (Mac, 2012).

After these initial investments, GoPro filed for IPO with the Securities and Exchange Commission (SEC) in February 2014, completing its IPO the following June.

While GoPro differs from the others under review in this study in the production of physical goods, its future as an online content and media business strongly relates to the other internet companies observed.

Similarly to the aforementioned companies, opinion was divided on how successful GoPro’s IPO proved. Shares opened at $28.65 and finished at $31.34, an increase of over 30% in one day. The Canadian Press (2014) described this IPO as a success due to the increase in share price and Bloom (2014) concurs, detailing the IPO as impressive. Nevertheless, Imtiaz (2014) cautions that although Facebook’s IPO may have been overpriced, a lot of money was left on the table by the GoPro board and therefore the IPO was possibly undervalued.
The purpose of an IPO is to increase a company’s capital in order to maintain and grow the company. Willard (2014) strongly criticises this failing of GoPro’s IPO, referring to it as amateur for choosing to leave money on the table. He also disagrees with GoPro CEO’s statement alluding to the idea that he wanted to share the wealth at the IPO.

GoPro’s IPO was the largest by a Consumer-Electronics company since Duracell’s IPO, twenty-three years ago in 1991. This industry is difficult as large established companies such as Apple and Samsung dominate the market with many devices and smart phones that can supersede the abilities of standalone devices, such as cameras (Jarzemsky, 2014).

Although some analysts believed GoPro left money on the table, they did price their IPO at a level that valued their company at nearly $3 billion. As the company had sales of approximately $1 billion in 2013, this gives them a sales multiple of three. Other camera manufacturers, such as Canon and Nikon traded at sales multiples of approximately one. GoPro are justifying the higher value based on future growth in media where they will aim to become more like an internet company, similar to Facebook, Twitter and Google’s YouTube (Solomon, 2014). They plan to develop a platform for uploading and sharing videos taken with GoPro cameras where users can interact and discuss content (Picker, 2014). Companies like these generally have higher sales multiples. For example at the time of GoPro’s IPO, Twitter and Facebook maintained sales multiples of thirty and twenty respectively.

Contrastingly, GoPro maintained high profitability and produced tangible products prior to their IPO, unlike Twitter. Therefore, Quittner (2014) suggested that GoPro’s price seemed very reasonable when compared to Facebook and Twitter’s ratios.

Although GoPro was one of the most eagerly anticipated IPOs of the year (Red Herring, 2014), 2014 will be most remembered for the world’s largest ever IPO with Chinese company, Alibaba raising approximately $25 billion in September 2014 (Mac, 2014).
2.7 Alibaba: Company Background and IPO reaction

Alibaba’s core business is an online sales marketplace, often compared to US equivalents Amazon and EBay and mainly based in China (Quittner, 2014). It also owns parts of many other companies whose businesses include mobile phones, social networking, online payments, software, sports teams among others (Wright, 2014).

Alibaba was founded in 1999 by Jack Ma and received early investment from Goldman Sachs, SoftBank and GGV Capital (Konrad, 2014). Subsequently, the company received a further $82 million in 2004 in strategic investments funds to aid development of new e-commerce systems to grow the company (Zhang, 2014). In 2005, Alibaba formed a strategic partnership in which Yahoo paid $1 billion for a 40% stake of the company (Voigt, 2012) and Alibaba took control of Yahoo’s Chinese operations (Alibaba, 2015). Many years later in 2012, Alibaba repurchased half of Yahoo’s shares in their company in a deal estimated to be worth $7.1 billion.

Alibaba’s first IPO was in 2007 on the Hong Kong Stock Exchange. It raised $1.93 billion by selling 858.9 million shares at HK$13.50 ($1.73) per share. The price popped and closed at HK$39.50 ($5.06), representing a jump in price of HK$26 ($3.33) (Munroe, 2007). Oliver (2007) described the IPO as successful, highlighting that the $1.5 billion was the most raised by an e-commerce business since Google raised $1.67 billion in 2004.
Contrastingly, Masnick (2007) believes the underwriting banks mispriced the IPO by undervaluing the company by nearly two thirds.

He understands the virtue of under-pricing an IPO but considers leaving over $2 billion on the table to be to the detriment of a company trying to raise money (Masnick, 2007). Founder and chairman Jack Ma elaborated after the IPO, confirming to reporters that they had left money on the table to share with others (Kwok, 2007).

Pointedly prior to the 2007 IPO, Dealbook (2007) worried that the IPO may be priced too highly as Alibaba increased the range from HK$10-12 to HK$12-13.50. These fears escalated the price earnings (PE) ratio which was over 106, in comparison to Google’s which was 90 at their 2004 IPO and was just above 50 at the time of Alibaba’s IPO in 2007.

The difficulty of pricing an IPO for an internet company is highlighted in this example where extremely contrasting views exist as to whether the price was too high before the IPO or too low after.
In May 2014, Alibaba filed for IPO in the United States in preparation for selling shares later that year (Osawa, Demos And Winkler, 2014). The price range leading up to the IPO was $60-66 per share. The company was selling 320.1 million shares suggesting they would raise over $21 billion at the higher end of the price range (CNBC, 2014). If so, Alibaba would surpass Visa’s 2008 IPO which raised nearly $18 billion and become the largest IPO in the history of the United States.

The underwriters also had the option of buying an additional 15%, which if exercised would raise a totalled IPO amount of $24.3 billion, eclipsing the largest IPO in history of $22 billion by the Agricultural Bank of China (Zucchi, 2015). Four days prior to the IPO, Alibaba raised its price range to $66-68 per share after high demand from investors during its IPO roadshow (Mac and Solomon, 2014).

On September 18th 2014, Alibaba launched their IPO raising $21.8 billion by selling their shares at the top of their range at $68 per share, therefore becoming the largest US IPO and just short of the world’s largest (Baker, Toonkel And Seetheraman, 2014).

On the first day of trading, the share price opened at $92.70, representing a 36% rise from the IPO price and also leaving nearly $8 billion on the table. The price of shares sharply reached $99, subsequently falling and closing the day at $93.89, just slightly above the opening price (Udland, 2014).

Krantz (2014) believes the IPO was under-priced and the as the $8 billion left on the table wasted too much for the company and its investors. Pointedly, it was the most money left on the table by any US IPO, approximately equal to the combined money left by Visa, United Parcel Service and Corvis who now hold the record for second, third and fourth most money left on the table at a US IPO respectively.
It also dwarfs Twitter’s offering of $1.3 billion who left the fifth largest amount of money on the table at a US IPO, just behind Corvis.

However it is important to note that due to Alibaba’s size, a sizeable amount of money was going to be left on the table. While Alibaba’s IPO was arguably under-priced by 30%, Twitter’s was under-priced by 75%. Therefore Alibaba’s IPO was priced better than Twitter’s, with more money left on the table due to the size of Alibaba’s IPO.

However, Tully (2014) argues that the IPO was a disaster with fees paid to the underwriting banks and money left on the table, costing the company $10 billion to raise $25 billion which equates to 40% fees for raising finance. He admits that it was successful for favoured clients who made billions in just one day and the institutional investors of the underwriting bank who made copious amounts of money on fees and will make even more on commission from their favoured clients in the future (Tully, 2014).
Learmonth (2014) analyses the success of the IPO from the perspective of different shareholders. Yahoo made $8.3 billion from selling some of their shares at the IPO but they were worth $11.3 billion a day later. This is obviously a negative for Yahoo and their share price fell approximately 3% on the day after Alibaba’s IPO. However, Alibaba’s under-pricing led to a pop in price and Yahoo’s remaining 16.3% share in Alibaba is more valuable than prior to the IPO.

Contrastingly another major shareholder, Softbank decided not to sell any of its 32.4% stake which is now worth $74 billion. Although Jack Ma left a lot of money on the table when selling his personal shares, the IPO could be noted positively from his point of view due to the intangible benefits of having the honour of presiding over the largest IPO in history and becoming China’s wealthiest person. He still retains 8% of the company which has greatly increased in value post IPO.

The smooth progression of the IPO resulted in a positive day for the New York Stock Exchange, having now completed two large tech IPOs with Twitter and Alibaba and challenging NASDAQ as the initial preferred choice of exchange for tech IPOs.
Learmonth (2014) recognises that money was left on the table and the IPO under-priced, but believes it was wise to be cautious as the complex ownership structure and legal issues in China may dissuade investors if combined with a high price.

Back (2014) confirms that Alibaba were keen to avoid a first day decline, therefore marketed their company to investors as a bargain, appropriately pricing it low. The IPO price was twenty-five times the projected 2015 earnings per share which was conservative based on other Chinese internet companies, Tencent Holdings and Baidu whose ratios were twenty-one and twenty-seven respectively. Although he describes the IPO as successful, he warns that sales will need to increase to match the company’s new valuation.

On Monday, September 22nd the option for the extra 15% of shares sold was exercised and this increased the amount raised from $21.8 billion to $25 billion, overtaking the Agricultural Bank of China’s $22 billion IPO as the world’s largest ever IPO. The increased supply affected the price which fell below $90 and the opening trade price of $92.70 (Mac, 2014).

Naturally, 2014 is noted as an exceptional year for tech IPOs, who raised more money than the previous three years combined (PWC, 2014). However, this was mainly due to the highlight of the year, Alibaba’s IPO and could have been greater if companies such as Airbnb, Dropbox, Uber, Pinterest, Snapchat, Spotify and Box Inc. had commenced their anticipated IPOs (Kellegher, 2015). These IPOs are now expected in 2015 which is hugely anticipated to be a busy period for tech IPOs (Pozin, 2014).
2.8 Box Inc: Company Background and IPO reaction

Box Inc was 2015’s first technology IPO after their stock market debut on January 23rd (Pisani, 2015). The company was founded in 2005 by Aaron Levie and Dylan Smith to aid individuals and companies in storing files and information in the cloud.

Mark Cuban provided the first external funding with an investment of $350,000 in 2005. In 2006, after a disagreement between himself and Aaron Levie, Cuban sold his stake in Box to Draper Fisher Jurvetson (DFJ), a venture capital firm, who invested $1.5 million in the company. Box received further investment from DFJ in 2008 along with funding from U.S. Venture Partners (USVP) which totalled $6 million. They received another $7.1 million in 2009 from DFJ and USVP which was used to purchase Increo Solutions. These venture capital firms along with Scale Venture Partners invested $15 million in 2010. DFJ continued to invest in Box in 2011 when it combined with more Silicon Valley investors to provide $48 million in February and $81 million in October.

Box was valued at over $1 billion in 2012 after receiving $125 million in Series E funding from General Atlantic. The company was subsequently valued at $2 billion after receiving $100 million in funding from international investors in 2013.
Box filed for IPO in March 2014 as they wanted to raise $250 million (Solomon, 2014) but announced in May that there was no IPO date set and it may be delayed as there was little appetite in the market for technology stocks (MacMillan, Demos And Ovide, 2014).

The delay in the IPO affected Box’s cash reserves as they burned copious amounts marketing and salespeople in attempts to boost sales. This prompted the raising of $150 million in investment from TPG and Coatue Management in July 2014 with the IPO anticipated to take place between September and November. This funding valued the company at $2.4 billion (Spector And MacMillan, 2014).

Saitto and Picker (2014) reported that Box were waiting until after Alibaba’s IPO to go public and despite the fact that Alibaba’s stock price soared at IPO, sentiment turned negative soon after. This led Box to wait until 2015 to IPO when they announced that they would have their IPO on January 23\textsuperscript{rd} and sell 12.5 million shares at a price between $11-13. This would help the company to raise approximately $187 million including the underwriters option to purchase an additional 15\% of shares.

This price only valued Box at just over $1.5 billion meaning they were being valued at 37\% less than July’s valuation after the last private investment. Wilhelm (2015) believed that this was a wise move by Box who were not leaving too much money on the table. He elaborates that this was due to Box’s unprofitability, its long tough road to IPO and a desire for the IPO to go smoothly.

Levy (2015) agrees, explaining why January 2015 was the right time to complete the IPO, ten months after the original filing. Box’s financial health was much improved despite still making losses, as revenues sharply increased and losses began reducing. The market environment was also not considered suitable for Box’s IPO. The improved market conditions
in 2015 in conjunction with Box’s greater financial performance contributed to January 2015 maintaining increased suitability for the IPO.

Box announced that their IPO price at $14, slightly above their range of $11-13 which Konrad (2015) believed was due to Box’s hope for a big IPO pop which might explain their low company valuation of $1.7 billion. Box raised $175 million by selling 12.5 million shares at $14 each. On its first day of trading, the share price opened at $20.20, a 44% increase from the IPO price and closed at $23.23, a 66% gain (Picker and Massa, 2015). The opening price of $20.20 valued the company at just over $2.4 billion approximately equal to the July valuation. However at the end of the day, the company maintained a valuation of $2.7 billion which begs the questions if Box left too much money on the table. In an interview with Fortune, CEO Aaron Levie was asked if he regretted leaving so much money on the table. He avoided a direct response stating that he could not ‘comment on the dynamics of the pricing process’ (Primack, 2015).
Tully (2015) argues that Box left $120 million on the table and that it was only a success because Wall Street wants IPOs to pop and allow powerful investors to gain most from IPOs. Mitchell (2015) believes the IPO was a great success, not only for Box but also for the enterprise software market and tech stocks after a difficult past year. Apple’s CEO Tim Cook agreed, also speaking positively about Box and their IPO (Decambre, 2015).
2.9 Summary

It is clear that opinions are divided when it comes to defining the success of an IPO and how to value companies beforehand, especially in the tech sector where profits may be small or nonexistent but the future is bright. The complexity of IPO pricing is surmised in a Tweet by Box CEO Aaron Levie (2013) ‘IPOs: If your stock shoots up, you left money on the table. If it drops, you screwed investors. If it's flat, you're boring’.

There is always difficulty in pricing an IPO for a tech business and the company will always face criticism on some aspect regardless of the outcome as has been demonstrated above. The next chapter will look to ascertain if we can analyse the financial performance of the above mentioned companies after their IPO and find a correlation between how they priced their IPO and how successful they fared in the future. This will attempt to determine the best method for company to price their IPOs.
Chapter 3: Research Methodology

3.1 Introduction

This dissertation will detail the research methodology chosen, inclusive of design, data collection and analysis methods in addition to the pre-emption of research limitations often encountered throughout the research process.

The intention of this research is to focus upon the Initial Public Offerings of Tech companies and to evaluate the outcomes of setting share prices lower than market expectations (“leaving money on the table”) and how this may affect future financial performance. The analysis and research will focus upon companies such as LinkedIn, Facebook, Twitter, GoPro, Alibaba and Box but will prove beneficial for all tech companies that may embark on the IPO process in the future.

3.2 Research Questions

Saunders, Lewis and Thornhill (2007) describe the research question as a key driver behind the research process. Therefore it is important that the research questions are clearly defined in accordance with the objectives of the research. For the purposes of this research the following questions have been formulated to identify and assess the benefits, if any, of “leaving money on the table” at the IPOs of Tech companies.

What is the main objective of an IPO?

The reasoning behind this question is to allow the researcher to gain an understanding how successful an IPO is, based on whether it fulfils its main objective?

What are the advantages and disadvantages of under-pricing an IPO?
By seeking information, this allows the researcher to analyse if the advantages of under-priced outweigh the disadvantages, to determine the overall benefits of under-pricing an IPO.

**What effect did under-pricing/over-pricing have on the six companies researched both in the short term and long term?**

This is an important question that aids the researcher in identifying the effect under pricing had on the specific companies researched in the tech sector.

**Which company had the most successful IPO and which had the least successful, and why? How is an IPO is deemed successful?**

This question aims to express why an IPO is successful in relation to the companies researched and what factors need to be considered when determining how to measure the success of an IPO.

### 3.3 Proposed Methodology

This report will commence by utilising the research onion (Appendix One), which allows a systemic and brief outline of the process of research methodology, required by this study. Such a process is expansive, involving the appropriate selection of philosophies, approaches, strategies, choices and time horizons in addition to suitable data collection and analysis techniques. Each choice will be detailed and substantiated throughout this report.

### 3.4 Research Philosophy

When conducting any research, one must primarily choose the appropriate research philosophy. This is the overall approach which determines how the research will be conducted to its very underpinnings (Saunders, Lewis and Thornhill, 2007). Once chosen,
each option maintains certain assumptions with regard to future choices, such as strategy and research methods (Saunders, Lewis and Thornhill, 2007).

Saunders, Lewis and Thornhill (2007) detail the existence of three primary epistemological approaches in research philosophy: Positivism, Realism and Interpretivism.

**Positivism** refers to an approach that is generally adopted by those researchers who seek to understand social or business phenomena through reasonable factual means, utilising logical approaches in investigation, such as precision.

Positivism normally involves the researcher choosing an observable social reality to study, to make largely generalised determinations. Thus, the researcher develops into an objective evaluator, facilitated to impartially deduce data without bias or preconception (Saunders, Lewis and Thornhill, 2007).

Moreover, positivism prioritises a densely regulated, controlled and organised methodology, allowing both duplication and measurable interpretations to facilitate statistical analysis. Positivism assumes that the researcher will remain completely objective of the research subject, neither affected nor influenced by its findings (Saunders, Lewis and Thornhill, 2007).

This approach tends to be more scientific in nature and is usually but not always used with a quantitative approach. It is based on a factual “black and white” system which does not correlate accurately with business as business deals with people and people are generally not always “black or white”. For this reason, business research is typically not conducted completely with positivism.

**Realism** is a philosophical position, relating to our senses and what they determine to be reality. It assumes a scientific approach to the pursuit of knowledge and determines that objects exist independently of human realisation (Saunders, Lewis and Thornhill, 2007).
There are two types of realism; direct realism and critical realism. Direct realism relates to the world as accurately portrayed by what we experience through our senses whereas critical realism is the belief that our senses can deceive us, as particular views are often not objective. The difference proves that direct realists believe what they view is correct while critical realists believe what they view is what they think is correct, however others may have a different viewpoint.

**Interpretivism** relates to recognising that situations can be interpreted differently. The utilisation of positivism in the business and management industry has induced much controversy, largely due to its interpretation of “laws” in the same way as physical sciences in the complex social world of business and management. Interpretive research is recognisable in advocating that it is necessary for the researcher to understand differences between humans in our role as social actors. This emphasises how individuals interpret the social roles of others in accordance with our set of meanings. The philosophy lends itself towards business situations where there is a human element involved.

There is no philosophy that is greater than any other but different philosophies are better depending on the type of research. This research involves measuring human opinions and how they interpret the success of an event therefore an interpretive philosophy is most relevant. The research involves interpretation of events and perceptions within the Tech and IPO sector. Thus this approach is applicable to the study because “Interpretivism is an epistemology that advocates that it is necessary for the researcher to understand differences between humans in our role as social actors” (Saunders, Lewis and Thornhill, 2007).
3.5 Research Approach

The subsequent element of the research process, is determining the appropriate approach each study requires. There are two main options: deductive and inductive research.

**Deductive** research focuses upon the relationship between research and theory. Research is directed by the hypotheses and ideas developed through theory. It searches to explain relationships between variables.

The quantitative strategy is generally considered deductive research. Theory develops into the theoretical framework that will ultimately guide the entire research process for each study, including organizing model for the research questions or hypotheses and procedure the development of research hypotheses and data collection and analysis methods.

Researchers adopting the deductive approach are compelled to comprehend the actions and interpretations of individuals (social actors). Thus, to develop an understanding of the world from individualised viewpoints which prove intensely circumstantial and therefore, usually non-generalizable (Saunders, Lewis and Thornhill, 2007).

An **inductive** approach involves collecting data, analysing the data and developing a theory based on the observations of the empirical data analysis (Saunders, Lewis and Thornhill, 2007). The qualitative strategy is generally considered inductive research. This approach recognises that a rigid methodology may be constraining. Thus, a more flexible structure that allows changes as the research progresses, can be beneficial. It is important to be aware that lack of stringency may result in inductive approaches leading to confusion and time wastage should research become off topic. Therefore, it is critical that research is monitored to ensure relevancy. This approach also emphasises attaining an understanding of what meanings humans attach to events.
For the purpose of this study, the approach favoured is deductive. The use of in-depth quantitative analysis into the financial statements and other key metrics of the companies being researched ensure the deductive research approach is more suitable for this research study. The study’s requirement for mathematical analysis of share price directs heavily towards a deductive research approach.

3.6 Research Strategy

Saunders, Lewis and Thornhill, (2007) illustrate research strategy as a guide by which researchers may begin to answer the research questions outlined initially. It is a sort of plan used to direct the research process.

Numerous research strategies are available, including experiments, surveys, case studies, action research, grounded theory, ethnography and archival research. Inclusively, Saunders, Lewis and Thornhill (2007) discredit the use of one strategy over another as no strategy is superior. However, some are more appropriate to certain research.

**Experiments** study casual links to evaluate whether a change in one independent variable produces a change in another variable.

**Surveys** are an economical way to obtain data which can be distributed to a sample that is representative of the population. It is usually a list of questions that recipients answer and the results are easy to compare as they all have the same questions and often have a limited choice of answers.

Robson (2002) defines **case study** as ‘a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence’.

**Action research** is research in action rather than research about action. The individual conducting the research is often involved in the action. This strategy is often used by
employees doing research on the company where they work and where their actions in work affect the research.

**Grounded theory** emphasises gathering data from ‘on the ground’. It starts with observation and interviews to identify a situation. This strategy is generally compatible with qualitative research.

**Ethnography** is used to describe the social world. The researcher analyses the situation from the perspective of the participants. This strategy takes a lot of time and is rarely used in business.

Due to the analytical nature of the topic, Experiments is a strategy that can be implemented in the analysis of companies share price performance. In particular, a quasi-experimental strategy works best for this research. The data will be observed to find what correlation IPO under pricing has with future stock performance.

### 3.7 Research Choice

Research choice, the subsequent onion layer, describes the chosen methods within both quantitative and qualitative research.

**Qualitative research** refers to when the researcher makes claims of knowledge based on constructivist perspectives (Creswell, 2003). Qualitative research design includes participative inquiry, grounded theory studies, phenomenology, case studies and ethnographies. Qualitative research usually focuses upon the spoken words and in-depth experiences of study participants rather than data quantity in collection and analysis (Bryman, 2006).
**Quantitative research** is one in which the researcher primarily uses post positivist claims for developing knowledge for example; cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurements and observations, and the test of theories (Creswell, 2003). Quantitative research design strategies include predetermined data instruments, surveys and experimental studies. Contrastingly to qualitative research, it places greatest emphasis upon the quantity of data that is collected and analysed (Bryman, 2006).

For the purpose of this paper, the research will adopt a quantitative research approach. Given the nature of the topic area, the researcher believes a single data collection technique, in other words a mono-method is to be employed for the data collection. Data will be collected from the company’s financial reports and analysed to find new information

### 3.8 Time Horizon

The researcher has now arrived at the next aspect of the research process, the time horizon of the study. Saunders, Lewis and Thornhill describe two primary time horizons types: longitudinal studies and cross-sectional studies.

**Longitudinal** research refers to studies conducted over substantial time periods, usually inclusive of observing changes throughout. This is not possible in short term studies due to time restriction. Contrastingly, **cross-sectional** studies are suitable to facilitate short term research into specific phenomenon within a certain time limit (Saunders, Lewis and Thornhill, 2007).

The time period restraints on this study direct to a cross sectional horizon. Cross sectional studies absorb data collection from more than one case at a particular time, thus qualitative or
quantitative data can be collected with more than one variable considered. Similarly described by Saunders, Lewis and Thornhill (2007) as “the study of a particular phenomenon (or phenomena) at a particular time.” Therefore the study’s investigation into “money left on the table” at social media and technology IPOs, is an exploration into the current financial data surrounding the topic.

3.9 Data Collection Method

The chosen research method for this study is quantitative, due to its investigative and exploratory nature. This is additionally emphasised by the chosen research techniques, numerical. Thus, again a quantitative approach proves more pertinent to the specific area of interest.

Once the researcher has interpreted this quantitative data on social media and technology IPOs, he will proceed to develop theories relating to the topic.

Often the researcher will find it appropriate to utilise existing data sources, usually available publicly. These secondary sources of data are available through both internal (company and industry specific organisational websites) and external (previous and relevant research papers or journal articles) resources. Examples of these for this research are financial reports of the companies in question and share price movement after the IPO.

3.10 Sampling Selection

Sampling and selection are principles and procedures utilised to identify, choose and gain access to relevant data sources. A sample, as a small subsection of a larger population, is hopefully representative to deduce comparable and honest data about the larger population. Two methods of sampling are available: Probability or representative sampling and non-probability or judgmental sampling (Saunders, Lewis and Thornhill, 2007).
The sampling choice selected for this research is non-probability. As there are many technology companies, it is unfeasible to analyse every one due to both financial and time restrictions.

Comparatively, non-probability (non-random) sampling induces a spectrum of diverse techniques of selection established through independent judgement. Saunders, Lewis and Thornhill (2007) feel that this sampling method may be most suitable in the exploratory research phase.

Six high profile technology and social media companies that have had an IPO recently will be selected as samples.

The research will use convenience sampling as the companies analysed will be high profile and current with data widely available. Saunders, Lewis and Thornhill (2007) notes that while widely utilised, convenience sampling is favourable to prejudice and bias beyond the control of the researcher, as the only criteria for choice is the ease of selection and availability. Thus, the probability of achieving less than complete representative findings is high which induces criticism.

3.11 Research Ethics

Throughout the research process, ethical issues will be provided with intense consideration and reflection. Given the nature of the financial services industry, confidentiality from the
researcher is an essential requirement and information of a classified nature shall not be disclosed. Saunders, Lewis and Thornhill (2007) detail research ethics are an inclusive respect for both the rights of the research participants and the individuals who will ultimately be influenced by its completion. These reasons play a part in the decision to use a quantitative method as obtaining interviews with people would be difficult as they may be worried about confidentiality.

It is important to review the integrity of the data collected and ensure it is not manipulated in any way that may skew the research.

3.12 Research Limitations

In anticipating and attempting to determine research study limitations throughout the process, the researcher is facilitated to generate resolutions to such issues, thus reducing their overall impact.

The most probable, relevant and significant limitation this study will encounter is due to its short time period, namely time management. This research study will be conducted over a short time frame. In collaboration with the researcher’s demanding schedule, the time management aspect of this study must be meticulously planned and implemented.

Additionally, the lack of available external funding ensures that the study will require rigid budgetary control, particularly regarding data collection.
Chapter 4: Data Analysis

4.1 Introduction

This chapter will analyse the stock performance of each company using market data obtained from Morning star and Yahoo Finance. The information will be illustrated using various graphs created using the share price.

Each company will have its own analysis containing their individual stock performance over different time periods after their IPOs. Finally, the companies will be compared and contrasted against each another to analyse their stock performance in tandem with their IPO outcome to ascertain the correlation between what is deemed positive on IPO day and long-term success.

4.2 Linked: Post IPO Share Price analysis

The first company to IPO was LinkedIn and after an initial day-one pop, their IPO was heralded a success. Here the events will be examined the events preceding the IPO and how successfully LinkedIn performed subsequently.

Chart 1 demonstrates the LinkedIn’s stock price performance from their IPO to the current day (May 8th, 2015). The red dotted lines indicate the release of an earnings report and it is clearly visible that these have a significant impact on share price. Table 2 shows the share price movement on the day of an earnings report and the following day. Earnings reports are often released in the afternoon with limited time before the stock market closing. Therefore much of the movement occurs in after-hours trading, explaining why the closing price is not equal to the opening price of the following day. There is also significant movement the day after the earnings report rationalising its inclusion in the table.
Table 2: LinkedIn – Price Movement after Earnings Reports

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Open Price - Earnings Day</th>
<th>Closing Price - Earnings Day</th>
<th>Open Price - Day after Earnings</th>
<th>Closing Price - Day after Earnings</th>
<th>Price Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>256.40</td>
<td>252.13</td>
<td>252.13</td>
<td>205.21</td>
<td>-20%</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>234.21</td>
<td>237.97</td>
<td>237.97</td>
<td>263.40</td>
<td>12%</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>198.46</td>
<td>202.90</td>
<td>224.24</td>
<td>228.96</td>
<td>15%</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>186.74</td>
<td>180.64</td>
<td>196.21</td>
<td>201.78</td>
<td>8%</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>157.38</td>
<td>161.22</td>
<td>160.64</td>
<td>147.73</td>
<td>-6%</td>
</tr>
<tr>
<td>Q4 2013</td>
<td>214.56</td>
<td>223.45</td>
<td>210.19</td>
<td>209.59</td>
<td>-2%</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>244.10</td>
<td>247.14</td>
<td>241.59</td>
<td>224.11</td>
<td>-8%</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>206.99</td>
<td>213.00</td>
<td>233.47</td>
<td>235.58</td>
<td>14%</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>196.61</td>
<td>201.67</td>
<td>184.75</td>
<td>175.59</td>
<td>-11%</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>126.12</td>
<td>124.09</td>
<td>140.80</td>
<td>150.48</td>
<td>19%</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>106.93</td>
<td>106.85</td>
<td>115.40</td>
<td>106.78</td>
<td>0%</td>
</tr>
<tr>
<td>Q2 2012</td>
<td>95.90</td>
<td>93.51</td>
<td>105.66</td>
<td>108.51</td>
<td>13%</td>
</tr>
<tr>
<td>Q1 2012</td>
<td>107.00</td>
<td>109.41</td>
<td>118.00</td>
<td>117.30</td>
<td>10%</td>
</tr>
<tr>
<td>Q4 2011</td>
<td>76.50</td>
<td>76.39</td>
<td>82.37</td>
<td>89.96</td>
<td>18%</td>
</tr>
<tr>
<td>Q3 2011</td>
<td>86.22</td>
<td>87.50</td>
<td>81.00</td>
<td>82.37</td>
<td>-4%</td>
</tr>
<tr>
<td>Q2 2011</td>
<td>104.23</td>
<td>95.52</td>
<td>100.01</td>
<td>91.36</td>
<td>-12%</td>
</tr>
</tbody>
</table>

From the table above, it can be ascertained that the share price has significant movement. This movement of price, from opening on earnings day to closing the following day, can be large. The price can move up or down as much as 20% in a matter of 24-48 hours. Although the earnings report in Quarter 3 2012 shows little movement, it is important to note that there was an 8% price increase during after-hours trading before the price fell back down to its previous day level.

Considering both the table and Chart One, we can see the volatility that surrounds earnings reports. The chart shows that the stock usually has an exaggerated response to these reports and after a big increase, the price usually falls back slightly. Contrastingly if there is a sharp drop the price usually rises afterwards.

The price at the end of the day is the equilibrium between buyers and sellers, especially with new internet and technology companies that are constantly gathering users but maintain small
or non-existent profits. Therefore, it can be extremely difficult to value a company correctly. Investors are often buying in the expectation of future gains which are hard to predict. Earnings reports give a more concrete idea of how the company is performing and help investors value the company more accurately.

Charts 2-5 allow closer observation of the stock price movement with just four quarters per chart.

Chart 2 demonstrates Quarter 2 in 2011 to Quarter 1 in 2012. After the IPO pop, the share price fell dramatically before reaching new highs prior to the first post IPO earnings report. As the price may have been inflated due to the initial excitement of a new company going public, it fell sharply once the first earnings report was released as performance did not match the high expectations of investors. The share price moved up and down without any concrete direction before reaching a high point for that period just before the following earnings report.

Another report below market expectations resulted in a further steep decline before improving slightly before the Quarter 4 earnings report. This statement exceeded expectations and the share price rose by nearly 20%, continuing to rise up to the following report. Another positive performance resulted in a 10% growth after Quarter 1 2012 earnings were released. However despite the increase and strong performance, prices fell afterwards. This is possibly due to the impending Facebook IPO where many investors were selling their LinkedIn shares in order to buy Facebook shares in the hopes of a similar pop in price at IPO and a large quick return on investment.
Chart 3: LinkedIn Share Price for Q2 2012 - Q1 2013
Chart 3 provides detail on Quarter 2 in 2012 to Quarter 1 in 2013. Overall, the share price crept up slowly after the decline due to Facebook’s IPO but fell just before the Quarter 2 2012 earnings report. After the report was released, the share price increased strongly. However, both positive and negative movement were noted during that quarter and so there was minimal change in the share price between the Quarter 2 and Quarter 3 reports.

After Quarter 3 earnings, there was minimal change (excluding the previously mentioned after-hours trading) due to neutral financial performances. The share price moved slowly upwards to a record high of 127.20 in the days preceding the Quarter 4 report release. This report revealed strong financial figures and thus resulted in a big jump in share price, creating a new high. Following on from an impressive Quarter 4 performance, the share price continued to steadily rise throughout the following three months, resulting in new highs almost weekly. This culminated in a record high of over $200 just before 2013’s Quarter 1 earnings report was released. This statement was less impressive than investors had hoped and the share price fell sharply, continuing to fall in the following weeks.

Chart 4 shows Quarter 2 in 2013 to Quarter 1 in 2014. Prices steadily rose after the sharp decline from $200 after Quarter 1’s earnings report and reached the $200 mark again, breaking new highs just before the release of the Quarter 2 report. The positive report ensured the share price increased dramatically and continued to slowly grow consistently, creating further record high share prices.

LinkedIn’s Quarter 3 report was released just before Twitter’s IPO and this, in conjunction with a poor report, resulted in a sharp decline in price. Share price continued to fall slightly throughout the next three months before the Quarter 4 report. Similarly due to another negative report, prices fell sharply again, continuing to fall up to the 2014 Quarter 1 report announcement. The stock price plummeted over 40% from its record high set in September 2013.
Despite posting a reasonable earnings report, lower than expected forecasts resulted in a further decrease after the earnings report for Quarter 1. However, shortly after the post report decline, the share price started to slowing increase again.

Chart 5 shows Quarter 2 in 2014 to Quarter 1 in 2015. The slow growth which followed the last earnings report continued, resulting in sharp price increases to just over the $200 mark again after the announcement of a greater than expected Quarter 2 report. Price continued to rise for six weeks before decreasing for the same period coming up to Alibaba’s IPO, maintaining the share price around $200 again just before the Quarter 3 earnings report. Another strong performance announcement resulted in an approximately 15% increase to just over $230. Prices only slightly deviated from $230 over the next three months, going slightly above and below the mark before settling just above $230 preceding the announcement of the 2014 Quarter 4 report.

Subsequently strong Quarter 4 earnings increased the price to a new record high of over $260 per share. The price gradually reduced before the 2015 Quarter 1 results. Despite good sales and profits, a bad outlook for the future intimidated once eager investors and the share price dropped by over $50. This manifested in a 20% decline, resulting in a share price of just over $200. The share price further dipped below $200 in the days following the report and has struggled to rise above $200 since.

Over the past four years and sixteen Earning Reports, LinkedIn’s share price has steadily risen despite many negative spikes. The current price is four times the IPO price and twice the opening trading price.

The company continues to grow and mature and despite frequent volatility, the share price should reflect a fair valuation as more information is available on their financial status. This is compared to the IPO when information was limited and valuing a growing company in its infancy proved difficult.
Chart 5: LinkedIn Share Price for Q2 2014 - Q1 2015
4.3 LinkedIn: Market Comparison analysis

In isolation, LinkedIn’s share price growth since its IPO is impressive. However, to gather a fairer evaluation, a comparison is required. Chart 6 demonstrates LinkedIn’s stock performance in relation to XLK, a technology Exchange Traded Fund (ETF), the S&P 500, an American Market Index based on the 500 largest companies listed in America and SOCL, a Social Media ETF.

The graph commences on May 19th, the first day of public trading for LinkedIn shares. It demonstrates the percentage increase in price, since the start date, for each share. The SOCL ETF only began on the 15th November 2011 and thus, will also be represented from that period.

The chart illustrates how inconsistent the pricing remained for the first nine months as valuation of a new and growing company proved difficult. It performed both better and worse than the other funds during the first nine months. However after about a year, LinkedIn was comfortably beating the market and other funds. It continues to grow stronger than the market despite some sharp declines.

As a Social Media company, LinkedIn performs well above the Social Media Index which generally behaves inferiorly to the technology index and the S&P 500. However as a major component of the Social Media Index, it is no surprise that LinkedIn’s performance often correlates to the Index. When LinkedIn’s share price spikes upwards, so does SOCL and when it falls, SOCL also corresponds. However, the SOCL index price responds less strongly than LinkedIn’s.

The S&P 500 and technology index contain more mature companies whose price increases are more linear than younger social media companies whose price fluctuations can be quite volatile due to the uncertainty of how these newer companies should be valued.
Chart 6: LinkedIn Market Comparison Analysis
4.4 LinkedIn: Summary

Essentially, the price is determined by agreement between buyers and sellers. When a company is going public, information is limited and the agreed price is at best an educated guess. As we see with LinkedIn, price movements can be erratic and volatile especially at times when earning reports are released.

Each time a statement is released, more information is available and investors can make a more informed estimate on price. This can help explain why there are such sudden movements in price after earnings reports. If a company is undervalued, the share price will sharply increase to the level with which the new information justifies. Comparably, the price will fall if the company was overvalued, which on becomes evident once the financial reports are released. This is a self correcting mechanism that brings share prices closer to their true value when new information is provided. As time moves on with more financial information becoming available and the company maturing, the price should become easier for the market to gauge.

It is obvious that LinkedIn’s share price performance has been impressive thus far. However, further evaluation will occur, comparing other companies against LinkedIn, later in the chapter. These contrasts will also outline how this performance and company valuations are related to the IPO pricing and what conclusions can be drawn from this analysis.
4.5 Facebook: Post IPO Share Price analysis

Facebook’s IPO occurred about one year after LinkedIn’s, in May 2013. However in contrast to LinkedIn, many observers felt Facebook’s IPO was a failure. This was mainly due to the share price being maintained just above the IPO price with the underwriting bank, Morgan Stanley buying shares. The following charts and analysis will analyse Facebook’s performance since the IPO and ascertain whether the supposed failure of an IPO affected their future.

Chart Seven detail the stock price performance since the IPO to the current day (May 8th, 2015). Table Two below demonstrates the share price movement on the day of an earnings report and the following day.

**Table 3: Facebook – Price Movement after Earnings Reports**

<table>
<thead>
<tr>
<th></th>
<th>Open Price - Earnings Day</th>
<th>Closing Price - Earnings Day</th>
<th>Open Price - Day after Earnings</th>
<th>Closing Price - Day after Earnings</th>
<th>Price Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>84.32</td>
<td>84.63</td>
<td>84.10</td>
<td>82.41</td>
<td>-2%</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>76.90</td>
<td>76.24</td>
<td>76.85</td>
<td>78.00</td>
<td>1%</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>80.18</td>
<td>80.77</td>
<td>75.45</td>
<td>75.86</td>
<td>-5%</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>69.74</td>
<td>71.29</td>
<td>75.96</td>
<td>74.98</td>
<td>8%</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>63.45</td>
<td>61.36</td>
<td>63.60</td>
<td>60.87</td>
<td>-4%</td>
</tr>
<tr>
<td>Q4 2013</td>
<td>54.61</td>
<td>53.53</td>
<td>62.12</td>
<td>61.08</td>
<td>12%</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>50.00</td>
<td>49.01</td>
<td>47.16</td>
<td>50.21</td>
<td>0%</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>26.32</td>
<td>26.51</td>
<td>33.54</td>
<td>34.36</td>
<td>31%</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>27.85</td>
<td>27.43</td>
<td>28.01</td>
<td>28.97</td>
<td>4%</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>30.98</td>
<td>31.24</td>
<td>29.15</td>
<td>30.98</td>
<td>0%</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>19.25</td>
<td>19.50</td>
<td>24.13</td>
<td>23.23</td>
<td>21%</td>
</tr>
<tr>
<td>Q2 2012</td>
<td>27.75</td>
<td>26.85</td>
<td>23.19</td>
<td>23.71</td>
<td>-15%</td>
</tr>
</tbody>
</table>
Similarly to LinkedIn, some significant price changes occurred after earnings reports were released. These indicate that investors react strongly to new financial information as it becomes available.

Chart 7 demonstrates how Facebook’s share price struggled for over a year before a sharp increase, after a positive earnings report in July 2013, triggered an upward trend that has continued to current day.
Charts 8-10 provide further detail of the stock price breakdown and movement, with just four
quarters per chart.

Chart Eight demonstrates Quarter 2 in 2012 to Quarter 1 in 2013. After the IPO, Facebook’s
share price fell dramatically by over 30% to approximately $26. It recovered slightly,
increasing to $29 before the Quarter 2 earnings report was released. However investors were
not impressed with the outlook for Facebook and subsequently the price dropped 15%.

Facebook’s price reduced further in the following days, eventually reaching a low of $17.73,
less than half of the IPO price of $38. The price recovered slightly before the Quarter 3
results and increased by 20% after an impressive earnings report. Nevertheless, this 20%
gain was lost after two weeks, following consistent declines.

Positively, the share price responded significantly with a 50% rise over the following two
months. This time also included the expiration of the “lock up” period, meaning that shares
held by insiders were free to be sold which usually results in a drop in share price due to the
law of demand and supply. Simply, there was an increased supply of Facebook shares
available therefore, price was expected to fall but due to positive investor sentiment, the price
continued to rise.

Despite the recent increase in price, Quarter 4’s earning report failed to impress investors and
there was minimal stock price movement. Furthermore some days later, shares fell in value
and continued to drop slowly over the following three months.

Although there was a small increase in Facebook’s share price after strong numbers in 2013’s
Quarter 1 results, the price fell days later, consistently declining at a slow rate over the next
month.
Chart 9 provides detail of Quarter 2 in 2013 to Quarter 1 in 2014. A strong financial performance announcement at the Quarter 2, 2013 earnings report resulted in a sharp increase of over 30%. The share price continued to rise following the release of the earnings report, soon surpassing the IPO price of $38. Further growth ensued, generating new record high share prices on an almost weekly basis. The share price doubled in value throughout the extremely strong quarter, giving the impression that Facebook had resurged after struggling with its valuation struggled for over after its IPO.

Quarter 3 earnings were neutral, causing only a small negative effect on share price which responded positively and grew slightly to create further new highs. Although the share price declined slightly before the Quarter 4 results were announced, the stock price soon soared again by over 12% upon the release of the financial statement, creating yet another new high. Facebook’s valuation continued to grow and create new high prices but subsequently fell down to the same level gained after the 12% spike post the Quarter 4 results. The share price decreased by 4% after the 2014 Quarter 1 results but recovered in the following days.

Chart 10 shows Quarter 2 in 2014 to Quarter 1 in 2015. The price grew slowly to just below $70 per share before Quarter 2 earnings were released. A strong report resulted in a large spike of 8% creating a new record high of just over $75. After a brief dip, the price regained its strength and rose above $75 again, steadily increasing towards a new high of just over $80 before the Quarter 3 results were announced.

Nevertheless following weaker than expected earnings, Facebook’s share price fell 5%. However the price slowly grew, making a small increase after the Quarter 4 earnings report. The price grew considerably over the following three months, creating another record high of over $85 before coming down to $84 before the Q1 earnings report for 2015 was announced. Mixed results caused a price decline which continued until the current level of $78.
4.6 Facebook: Market Comparison analysis

If observed in isolation, performance is mixed due to a poor start but a strong resurgence. To achieve a better understanding of how the stock performed, it is important to examine it in comparison to other funds.

Chart Eleven shows Facebook’s stock performance in relation to XLK, the S&P 500 and SOCL. The graph demonstrates how Facebook underperformed against the market for the first year but upon regaining its strength, outperformed the market which it continues to do. It is notable that SOCL only outperformed the S&P 500 and XLK in correlation to Facebook recording large growth in stock price because Facebook is a major holdings of SOCL.

4.7 Facebook: Summary

Facebook’s share price performance was poor following the IPO with its value more than halving in the subsequent months. It took over a year for the price to regain the IPO level. However despite an initial slow start, strong growth has continued to today and the price now stands at over double the IPO price.

Further comparison with LinkedIn and other related companies is included at the end of this chapter. This detail is needed to give a full evaluation of Facebook’s share price performance. The earnings reports have a key impact on share price and a few positive earnings reports were required to restore the price above the IPO level and sustain growth.

Investors were unsure of how Facebook would monetise its user-base especially on mobile devices and this, alongside an IPO with some glitches, spooked investors early on, hence driving the price down. However as more information was available through earnings reports, investors saw a truer value of Facebook and its price rose. Facebook is still in its relative infancy and thus, more revenue and profit growth is needed to justify its high valuation. It is still difficult to value accurately but this will improve with time as more financial information is available.
4.8 Twitter: Post IPO Share Price analysis

Twitter’s IPO was intended to be opposite to Facebook’s and after the share price popped by over 70%, this desire appeared to be executed perfectly. Twitter’s IPO was more reminiscent of LinkedIn’s which also popped its share price. Analysis and charts, below, indicate how the share price performed subsequently.

Chart 12 visualises how Twitter’s share price has changed since their IPO in November 2013, outlining the big changes which occurred post earnings reports. Table Three details the percentage movement in stock price after each earnings report. The Twitter price is more volatile than that of Facebook or LinkedIn, with earnings reports causing intense declines of 26% and strong growth of 21%.

**Table 4: Twitter – Price Movement after Earnings Reports**

<table>
<thead>
<tr>
<th></th>
<th>Open Price - Earnings Day</th>
<th>Closing Price - Earnings Day</th>
<th>Open Price - Day after Earnings</th>
<th>Closing Price - Day after Earnings</th>
<th>Price Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>52.16</td>
<td>42.27</td>
<td>40.21</td>
<td>38.49</td>
<td>-26%</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>42.04</td>
<td>41.26</td>
<td>46.12</td>
<td>48.01</td>
<td>14%</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>50.02</td>
<td>48.56</td>
<td>42.25</td>
<td>43.78</td>
<td>-12%</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>38.11</td>
<td>38.59</td>
<td>47.01</td>
<td>46.30</td>
<td>21%</td>
</tr>
<tr>
<td>Q1 2014</td>
<td>40.53</td>
<td>42.62</td>
<td>37.66</td>
<td>38.97</td>
<td>-4%</td>
</tr>
<tr>
<td>Q4 2013</td>
<td>67.16</td>
<td>65.97</td>
<td>50.61</td>
<td>50.03</td>
<td>-26%</td>
</tr>
</tbody>
</table>

The chart clearly illustrates that earnings reports create a very significant effect for Twitter’s share price. Twitter is a newer company and it is hard to value as it is not yet profitable. Investors react strongly to earnings reports for Twitter causing large movement both up and down. This volatility demonstrates the uncertainty in the market around how to value Twitter.
Charts 13 and 14 provide closer detail of Twitter’s share price movement after earnings reports are released with three quarters per chart.

Chart 13 illustrates Quarter 4 2013 to Quarter 2 2014. It demonstrates that after the IPO pop, price continued to rise to a peak of over $73, nearly tripling the original IPO level. However, price fell before the Quarter 4 earnings report to just above $65. This is due in part to very high expectations for Twitter following the growth of price following the IPO. Subsequently when the earnings report for Quarter 4 failed to meet investors’ high expectations, the price crashed down 26%.

Price continued to fall, declining below the original opening day price of $45. Notably, the share price was at just $40 before the earnings were released for Quarter 1 in 2014. Another negative earnings report forced the price into another decline, which concluded with a record low of about $30 a few weeks later. This negative result was contributed to by the expiration of the “lock up” period which, as previously detailed, usually decreases the share price. The price responded over the following two months and reached $38 just before Quarter 2 earnings were released.

Quarter 2 earnings brought about Twitter’s first positive earnings report, leading to a 21% increase, which restored the share price to over the opening day price of $45 as investors started to regain belief in Twitter’s ability to monetise their large base of users.
Chart 14 shows Quarter 3 2014 to Quarter 1 2015. The share price continued its growth, remaining around $50 until the Quarter 3 earnings were announced. More negative results instigated a sharp 12% decline in share price which settled at just over $40. However, price continued to reduce slowly throughout the three months before beginning to respond slightly before the next earnings report was released.

2014 Quarter 1 results impressed investors, leading to a 14% increase in share price. This brought the price level above the first trading day price of $45 once again. The price consistently grew marginally over the next three months, reaching $50 before the Quarter 1 results for 2015.

However, a poor performance released with the Quarter 1 earnings report caused another sharp decline of 26% bringing the share price to the high thirties where it remains today, resting below the $45 it maintained on day one.

4.9 Twitter: Market Comparison analysis

A comparison of Twitter’s stock performance against XLK, SOCL and S&P 500 illustrates how it performed within the wider market. Chart 15 details the journey Twitter’s share price has taken since their IPO.

The company’s price is very volatile, when investors were positive about Twitter, the stock price outperformed the other funds significantly but when investors were negative, the price greatly underperformed the other indices.

As Twitter is a major holding in SOCL, their price movements mirror one another. However, Twitter’s changes are considerably more exaggerated. The S&P 500 and XLK have generally outperformed Twitter, apart from Twitter’s initial surge in the months following its IPO.
Chart 15: Twitter Market Comparison Analysis
4.10 Twitter: Summary

Despite many people suggesting Twitter had a successful IPO due to the sharp increase in value and continued post IPO growth, stock performance has suffered after numerous poor earnings reports. Investors are losing confidence in Twitter and the fact that the current price level is below opening trading, over a year later, is a poor reflection on the company. Twitter’s price volatility has been evident throughout the last two years, indicating that investors are still unsure of how to value the company. If there is positive news about Twitter, the stock market gets excited and prices rise dramatically. Comparably, when bad press occurs, price drastically falls.

Due to its popularity in media and social life, Twitter is a well-known company and maintains interest around its share price. Twitter has a large base of users and although it is currently unprofitable, many investors are monitoring the stock in recognition that should the company monetise its users successfully, there will be huge returns available. Twitter remains a risk for investors but there is also the possibility of great returns.

Further comparison of Twitter’s performance against other similar companies, such as Facebook and LinkedIn, is included at the end of this chapter.
4.11 GoPro: Post IPO Share Price analysis

GoPro’s IPO happened less than a year ago and has had four quarterly earnings reports since then. These earnings reports have been critical in the movement of its share price. Table 5 below shows the significant impact the earnings report had on the share price. It has big negative and positive effects.

Table 5: GoPro – Price Movement after Earnings Reports

<table>
<thead>
<tr>
<th></th>
<th>Open Price - Earnings Day</th>
<th>Closing Price - Earnings Day</th>
<th>Open Price - Day after Earnings</th>
<th>Closing Price - Day after Earnings</th>
<th>Price Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>45.87</td>
<td>47.02</td>
<td>52.01</td>
<td>52.96</td>
<td>15%</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>52.77</td>
<td>54.37</td>
<td>47.96</td>
<td>47.12</td>
<td>-11%</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>68.79</td>
<td>68.25</td>
<td>80.70</td>
<td>77.10</td>
<td>12%</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>45.10</td>
<td>47.97</td>
<td>41.97</td>
<td>40.97</td>
<td>-9%</td>
</tr>
</tbody>
</table>

Chart 16 illustrates how the share price has moved over the past year and how the release of the earnings reports for Q2 2014 to Q1 2015 shaped its price journey.

After an initial IPO pop, GoPro’s share price continued to rise and reached $48, double the IPO price of $24 shortly after its IPO. The price remained at $48 just before the first post IPO earnings release. The 2014 Quarter 2 results caused a sharp decline of about 9% despite a positive earnings report. Investors had extremely high expectations for a company that doubled its value in just over one month. The high expectations of investors was not met and share price fell despite an albeit positive report.

GoPro’s share price rebounded quickly after this initial decline and grew back above $48 creating a new record high. The price growth continued as new price highs were created every few days as its stock price reached a peak of just under $94. In the weeks leading up to the Quarter 3 results price started to fall and was $70 before earnings were released. These three months was a volatile and erratic time as price spiked upwards and dipped severely throughout.
A positive Quarter 3 report initiated a 12% jump in share value which continued in the following days to bring the price back above $80. However over the following few months, the share price consistently dropped back to just above $50 before the 2014 Quarter 4 earnings report was released.

Investors were not impressed with the Quarter 4 earnings and price fell 11% to below $47 which indicated GoPro had lost half of its value since its peak price four months previously and the price was below the price it reached just weeks after IPO. Price remained steady throughout the next three month hovering above the $40 mark.

The last earnings report for GoPro was Quarter 1 in 2015. It was positive and price increased to around the $50 mark and has remained at that level since.
4.12 GoPro: Market Comparison analysis

Chart 17 shows how GoPro’s share price compared with the Technology Index, XLK and the S&P 500. GoPro have always outperformed the market as their share price has grown massively but the gap has reduced as GoPro’s valuation halved. The chart illustrates how volatile the company’s valuation is.

4.13 GoPro: Summary

GoPro has had a tumultuous year in relation to its stock price. Once again it is clear how difficult the market find to value new and fast growing companies. Although the company has sales and profits, the company is valued much higher than these sales and profits represent. GoPro’s entrance to the online media content business presents great opportunity to grow exponentially.

This possibility of future gains inflates GoPro’s price but when doubts occur in the minds of investors, price can plummet. LinkedIn can still be proud of their first year’s public performance as it has doubled in value. This ignores the fact that it has also halved in value but the stock market will often over exaggerate prices of new, exciting and fast growing internet and technology companies. Eventually the stock market usually corrects itself as more information is provided through quarterly earnings reports and its current value appears more realistic when comparing it against its IPO price and how the market in general is performing.
4.14 Alibaba: Post IPO Share Price analysis

Alibaba had their IPO in September 2014 and have had 3 earnings reports since that. Table 7 below shows the price movements right after earnings reports were released and unlike the other companies analysed, there is not much volatility.

Chart 18 shows how the price has moved since IPO. It had a large pop at IPO and rose up to $100 just before Q3 2014 earnings. A positive report gives the company’s price a decent increase of 8%. That growth continued afterwards and reached a peak of just under $120. However since the peak just after the IPO, the price has steadily fallen back to $100 just before the 2014 Q4 earnings was released.

A less impressive report caused a small decrease in share price and the decline continued for a few days. The rate of decline slowed and the price stayed around $85 up until the release of 2015 Q1 earnings. These earnings were neutral and had a limited effect on share price. The share price remains just above $85 today.

Table 6: Alibaba – Price Movement after Earnings Reports

<table>
<thead>
<tr>
<th></th>
<th>Open Price - Earnings Day</th>
<th>Closing Price - Earnings Day</th>
<th>Open Price - Day after Earnings</th>
<th>Closing Price - Day after Earnings</th>
<th>Price Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2015</td>
<td>88.83</td>
<td>86.00</td>
<td>87.82</td>
<td>87.06</td>
<td>-2%</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>90.53</td>
<td>89.81</td>
<td>89.60</td>
<td>89.08</td>
<td>-2%</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>100.43</td>
<td>106.07</td>
<td>108.48</td>
<td>108.67</td>
<td>8%</td>
</tr>
</tbody>
</table>

The share price has settled back to a level near where it was on the opening day of trading. It was inflated for a while as investors got excited after the world’s largest every IPO. Investors got spooked by uncertainty regarding Alibaba’s handling of difficult Chinese regulations.
Chart 18: Alibaba Share Price History
4.15 Alibaba: Market Comparison analysis

Chart19 shows how Alibaba has performed compared with the S&P 500 and technology index XLK. It shows how initial excitement inflated the price and Alibaba grew much higher than the market comparisons. However after time when the stock price deflated, Alibaba’s stock was underperforming against the market and continues to do so today.

4.16 Alibaba: Summary

It is too early to tell how Alibaba is performing but we can see that it is also quite volatile and despite an IPO pop, its price has returned below the first trading day price. A comparison against the other companies in this research is at the end of this chapter. Further time is needed to fully evaluate how Alibaba’s performance has been
Chart 19: Alibaba Market Comparison Analysis
4.17 Box: Post IPO Share Price analysis

Box is the most recent IPO in this research. Its IPO was in January 2015 and has had just one earnings since that. Chart 20 shows the movement in price since its IPO. Box achieved a large first day pop but its lofty valuation lasted just a couple of days as it went from a peak of over $23 down to below $17. It regained some of its value before Quarter 1 earnings were released moving up to $20. Investors were not happy with their first earnings report and price fell approximately 10%. The price fell further to $17 and has remained there since

4.18 Box: Market Comparison analysis

Chart 21 shows the comparison of Box’s performance versus S&P 500 and the technology index XLK. In its short existence on the stock market Box has mostly underperformed against the market excluding the initial pop it received after its IPO.

4.19 Box: Summary

It is difficult to comment much on Box’s performance so far as it has just recently gone public. Although it enjoyed a first day pop in price, its subsequent performance has not lived up to its early valuation. Further comparison against the other companies in the research is at the end of this chapter but at this early stage, it is too difficult to give a full evaluation.
Chart 21: Box Market Comparison Analysis
4.20 Comparison of all companies

All companies have been analysed individually and now we can analyse them together to see how they compare and contrast against one another. It is clear from analysing each company individually that these types of companies are extremely difficult to value especially with traditional valuation metrics.

Three common metrics that are used to value companies are:

- Price/Earnings (P/E)
- Price/Book (P/B)
- Price/Sales (P/S)

Table 7: Price/Earnings for each company

<table>
<thead>
<tr>
<th>Company</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>TTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNKD</td>
<td>555.6</td>
<td>588.2</td>
<td>1000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>FB</td>
<td>NA</td>
<td>1666.7</td>
<td>92.6</td>
<td>70.9</td>
<td>76.4</td>
</tr>
<tr>
<td>TWTR</td>
<td>NA</td>
<td>NA</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>GPRO</td>
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<td>NA</td>
<td>NA</td>
<td>69.9</td>
<td>55.9</td>
</tr>
<tr>
<td>BABA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>58.8</td>
<td>49.3</td>
</tr>
<tr>
<td>BOX</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>—</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>13.7</td>
<td>15</td>
<td>18.6</td>
<td>18.6</td>
<td>19.1</td>
</tr>
</tbody>
</table>

Price/Earnings ratio is a measure of valuation by dividing the share price by the earnings per share. A high P/E ratio indicates that a company is overvalued or that it has low profits at the moment but the price remains high as future growth and profits are expected.

The table above shows that these companies have extremely high P/E valuations. LinkedIn’s P/E has increased from a massive 555.6 to 1000 and when you compare this with the S&P 500, it shows how overvalued the company is but that valuation is based on what investors believe will happen in the future when they believe earnings will be much higher. LinkedIn does not currently have a P/E ratio as it is making a loss and has no earnings.
Facebook’s P/E ratio was an enormous 1666.7 after its IPO in 2012 as despite very small profits, investors believed its earnings would grow. Investors were right to an extent as earnings have grown and hence the P/E ratio has fallen in recent years. At 76.4 it is still much higher than the S&P as investors in Facebook believe there is further growth in the company in the future.

Twitter has never had any profits and therefore does not have a P/E ratio. A company with no profits is difficult to value and that is why Twitter’s price fluctuates so much. Twitter has an enormous number of users and Investors believe that if Twitter can monetise this, they will be very valuable.

GoPro’s P/E ratio has been slightly more normal. This is because it has profits and unlike the other companies mentioned, it actually sells physical goods. Its P/E ratio is however still much higher than the S&P 500 and this is due to Investor’s belief that GoPro’s earnings will increase as they start to monetise their online content and have extra revenue stream except for selling cameras.

Alibaba also has a high but reasonable P/E ratio. Although the company is new to the US stock market, it has been trading for many years and has had an IPO in Hong Kong eight years ago. Alibaba is more mature than the other companies and also has large profits. Alibaba is massive in China and as the country develops further, Alibaba will expect Chinese sales to increase. Alibaba is not as big worldwide but has the potential grow strongly in the US and other markets. This leaves plenty of potential for growth and is the reason why the company’s P/E ratio is much higher than the S&P 500.

Like Twitter, Box has no profits yet and therefore has no P/E ratio. Box is a new company and plans to grow strongly by spending money on research and development before it starts making profits. Therefore Box’s valuation is a speculative estimate on what investors think box can achieve in the future.
The P/E ratio is useful in determining companies valuations if they have profits. As companies mature and become more established, profits grow as less is spent on marketing, research and development and revenues tend to increase if going successfully. P/E ratios will then reduce and normalise.

The early signs of this is happening with Facebook, Alibaba and GoPro as their profits grow and become more stable.

The second metric mentioned above is the Price/Book ratio. This measures the companies’ valuations against its Assets or Book value. It divides the price per share by its assets per share.

Table 8: Price/Book ratio for all companies

<table>
<thead>
<tr>
<th>Company</th>
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<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>TTM</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>FB</td>
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<td>5.4</td>
<td>9</td>
<td>6</td>
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</tr>
<tr>
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</tr>
<tr>
<td>GPRO</td>
<td>NA</td>
<td>NA</td>
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<td>9.6</td>
</tr>
<tr>
<td>BABA</td>
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<td>NA</td>
<td>11.7</td>
<td>9.8</td>
</tr>
<tr>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>7.6</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>2</td>
<td>2.1</td>
<td>2.6</td>
<td>2.7</td>
<td>2.8</td>
</tr>
</tbody>
</table>

The table above shows how each company’s P/B ratio compares to the market. The S&P 500’s P/B has grown from 2 to nearly 3 since 2011. This means that companies on average are worth 2-3 times the value of their assets.

As the companies in the research are internet based, they do not hold as many assets as a typical manufacturing company would. Therefore their P/B is higher. All the companies being evaluated here have downward trends in their P/B ratios indicating that as they grow and mature as a company, they are increasing their assets. As time moves on and the companies have more assets, their P/B’s will move closer to the S&P 500’s P/B.
The third metric often used to value companies is Price/Sales (P/S). It measures how valuable a company is in relation to its sales. This is achieved by dividing share price by sales per share.

**Table 9: Price/Sales ratio for all companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>TTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNKD</td>
<td>12.6</td>
<td>13.3</td>
<td>16.9</td>
<td>12.7</td>
<td>10.3</td>
</tr>
<tr>
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<td>11.3</td>
<td>17.5</td>
<td>16.7</td>
<td>15.8</td>
</tr>
<tr>
<td>TWTR</td>
<td>NA</td>
<td>NA</td>
<td>18.1</td>
<td>15.5</td>
<td>16.2</td>
</tr>
<tr>
<td>GPRO</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>5.6</td>
<td>4.1</td>
</tr>
<tr>
<td>BABA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>22.2</td>
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</tr>
<tr>
<td>BOX</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>1.3</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>1.2</td>
<td>1.3</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Again, it is obvious that the companies above have much higher ratios than the S&P 500. In 2011, the average company would be valued at just over its level of sales. This has grown to nearly double a company’s sales.

The companies being analysed all have ratios around the mid teens with the exception of GoPro. As mentioned earlier GoPro is the only company that produces physical goods. This means that they have much higher costs of sales as they have high production costs.

The other companies do not produce goods and hence have much lower costs and much higher profit margins.

We can see that these traditional methods of valuation do not exactly work well while companies are in their infancy. We can see that the numbers are more meaningful after a number of years and will become more useful and valid in the future as the companies grow and develop. Due to the limitations of these metrics in early stages, new metrics have been invented for internet companies such as sales per user, sales per click and others. Discounted Future cash flow is also sometimes used as future revenues are predicted. While more metrics provide more information which is useful, these are not fully accurate and valuing these companies can still be an educated guess based on what people think may happen.
Chart 22 shows the comparison of price movement of the six companies starting at the time of the first IPO which was LinkedIn’s in 2011. The chart spans approximately four years.

LinkedIn’s impressive rise is visible as it outperforms all other companies. It has suffered a few crashes in price but it usually rebounds to rise again.

Facebook’s initial struggle is represented and shows how it had a negative growth for over a year before responding strongly to have the second highest growth since its IPO.

Despite having an impressive start when Twitter was outperforming a resurgent Facebook, Twitter has experience mostly negative growth and has currently the worst stock market performance of the companies analysed.

GoPro’s price journey has been interesting which is visible from the huge spike on the graph. Despite the enormous fall in share price it suffered, GoPro is still nearly 70% up on its first day price.

Alibaba’s time on the chart is short but it does show the initial price inflation that quickly deflated soon afterwards. The stock price has remained in negative growth for the last few months.

Box’s short time since IPO is barely visible but we can see it is in negative territory and is only slightly better than Twitter’s poor performance.

To get a better understanding of how the companies compare, chart 23-25 shows the share price growth of each company starting together from their IPO dates over four, two and one year time periods.
Chart 24: Price Movement after IPO - 2 Years
Chart 25: Price Movement after IPO - To date
Charts 23-25 above show each company fared during their first few months and years. Chart 23 shows the one year graph and shows how GoPro are the best performer in their first year despite its recent slump.

Facebook had the worst first year of all the companies but Chart 24 shows the two year chart that illustrates Facebook’s resurgence where its growth turned positive and it outperformed the S&P 500 by the end of its second year as a public company.

LinkedIn had a good first year as it grew by over 30% but it recorded even stronger growth the following years.

Alibaba and Box’s recent IPOs do not provide much information yet. Alibaba was matching LinkedIn’s performance in the first hundred trading days.

Despite having the highest growth after 33 days, Twitter’s performance subsequently fell dramatically only outperforming Facebook in the first year.

The graphs and analysis above show the performance of each company after their IPO and provides an insight into how price reacts after an IPO pop due to under pricing.

Conclusions based on this analysis follow in the next chapter.
Chapter 5: Conclusions

To conclude it is necessary to look at the research question again and ascertain if our research questions can be answered.

‘Does leaving money on the table at IPO for Tech companies help or hinder future performance?’

In the case of LinkedIn, there was the biggest IPO pop and hence the most money left on the table in percentage terms. Its IPO price was $45 and it more than doubled on its first day of trading leaving the price above $90. However negative earnings reports and lock up expiry left the share price below $60 after six months. It appears to be the case that when an IPO is underpriced, investors get excited and the price then is overpriced. The price usually falls back down to a more realistic price over time.

It appears as if leaving money on the table did help the stock price grow in the early stages but when earnings reports are released, these play a key role in finding a more accurate valuation. LinkedIn’s share price fell at the start due to poor earnings reports but after that it grew strongly.

In the longer term, the IPO becomes less relevant as current financial performance guides share price and the IPO which is in the past bears little relevance.

For Facebook, there was no money left on the table. Investors did not react well to this and the share price more than halved. Many argued Facebook made a mistake with their IPO as they were too greedy.

Similar to LinkedIn, the IPO had an effect on the share price in the short term but in this situation it had a negative effect. It took well over a year for Facebook’s share price to recover but when it did, Facebook grew strongly and continues to do so. Positive earnings
results showed investors that the company was valuable. Despite what was deemed a poor
IPO, it raised a lot of money and it is possible to suggest that this extra money earned by not
leaving money on the table aided Facebook’s future performance.

Twitter’s IPO left money on the table as its share price on the stock market was 73% higher
than what Twitter received in cash. The price moved from $26 to $45 and continued to rise in
the frenzy that often occurs when a company is underpriced as investors rush to buy the
stock. This price is usually inflated and regains a more probable valuation after time and the
release of financial information through earnings reports.

After about six months when the lock up on shares expired, Twitter’s price was just above
$30, down from a peak of nearly $75. At this stage the importance of the IPO is gone.
Current information shapes the share price such as up to date financial data and key events
like lock up expirations. Twitter’s share price improved slightly but still remains below $45
where it was on day one on the market. It can be argued that Twitter fairly priced its IPO and
that recent poor stock performance is due to an over eager stock market over inflating the
price.

GoPro had a similar experience to Twitter in that after its IPO pop, price increased
drastically. GoPro’s share price had at its peak a 230% increase in its share price. This was
clearly an inflated price and the market corrected itself as price fell to a more real figure.
Money left on the table is generally described as the difference between the IPO price and the
first day price. In this case, GoPro only left 19-31% of money on the table. Much of the
growth occurred after this and it could be argued that GoPro priced their IPO well.

Alibaba left about 37% of money on the table, which is less than LinkedIn and Twitter but
due to Alibaba’s size, they left about $10 billion on the table. After an initial growth which
often happens with underpriced IPOs, Alibaba share price fell after the post IPO excitement wore off. Aliababa’s share price has declined consistently since its early price high.

There is little information on Box as it has only recently had its IPO. What we can see is that the IPO popped and then the price fell back down similar to all other IPOs except Facebook. It was interesting that they valued their company at $2.4 billion for their last private funding round but valued themselves at only $1.7 billion. It does not seem coincidental that the market value after its first day was $2.4 billion.

It is difficult to value a company that has no profits but when a valuation has been made in private investment, it would seem to make sense to keep that valuation for IPO. Box’s share price has fallen and is currently just above its IPO price. This could show that the IPO was priced fairly.

Arguments in favour of under pricing include the opinion that leaving some money on the table is worth a greater gain in equity. However this value can be thought of as theoretical in the eyes of the shareholders as they cannot sell any stock at this inflated post IPO price. They have to wait for six months for lock up to end to sell their shares and at this point the valuation is significantly lower than the post IPO high price.

It appears that there is very little correlation between how much money is left on the table and future stock price performance. Initially stocks that are underpriced shoot up in value and then crash. After this point, share price either remains low if there are poor quarterly earnings or recovers if there is a strong financial performance.

The pricing of an IPO has a significant impact on a company’s share price in the first 3-6 months however in the long run when more information is made available, the market has an efficient way of finding a company’s true value. In the beginning if a company is valued
highly at IPO like Facebook, its share price is likely to go down initially and then recover back up to its fair value and the opposite is true when a company under prices its IPO. The share price initially rises and then falls.

This research concludes that under pricing an IPO does not help future performance as any early gains made by an IPO pop is usually eroded shortly afterwards. There is little evidence to show that under pricing hinders future performance either.

Facebook and LinkedIn are on the stock exchange the longest so it is interesting to compare their performances. They are both performing exceptionally well compared to their initial IPO price but their IPOs were opposites. This helps show how little effect the money left on the table has and if there is no long term benefit to leaving a few hundred million dollars on the table for institutional investors, what is the point?

As an IPO is used to raise money it seems a strategy like Facebook’s may be the best for companies with an upcoming IPO such as Uber, Snapchat or Dropbox. Facebook raised a lot of money and growth still occurred in the long term. Although there was not sufficient evidence to show that Facebook were helped by saving the money they did not leave on the table, it is reasonable to assume that having a few extra billion dollars in cash would help with future growth and development of the business.
Chapter 6: Recommendations for Future Research

This research provides some answers to questions posed regarding under pricing IPOs for Tech companies. It is insightful and useful for people with an interest in this area or for managers of Tech companies who plan to go public in the future.

However some advancement in future research could provide a more in depth and accurate analysis. This could be achieved by analysing much more companies over a longer period of time to include companies like Zynga, Google, Groupon and many more. Future research could also include companies who are set to IPO in 2015 such as Snapchat, Uber, Dropbox and many more.

A deeper statistical investigation using regression analysis could be used to better compare and contrast the performances of each company and the industry as a whole. This analysis could be used to make predictions of future movements of stock price.

As the industry is still relatively new and difficulties remain in valuing company’s worth, continuous research in the future is needed in this area as currently valuations are often significantly incorrect leading to a volatile and risky market with possibilities of big gains but also massive losses. Further research and analysis would help to reduce market risk in the area of tech IPO’s.

This area could also be researched in comparison to Google’s auction style IPO to investigate if this is a more effective way to price IPOs than what is usually done.

The prospect of another Tech or dot com bubble is a possibility and research comparing the current situation to previous bubbles could provide an insight to whether these hugely valued companies are worth so much or if a bubble is being created once again.
Chapter 7: Reflections on Learning

Throughout the process of writing my dissertation, I have both acquired new and developed existing skills which have proved beneficial in the completion of this academic process. Gibbs’ Reflective Cycle, demonstrated below, will be utilised to aid my reflection into each stage of the dissertation process (Gibbs, 1988). Concisely, I will illustrate how I felt throughout the process, what I learnt and how I plan to utilise these aspects to improve my future personal and professional objectives.

Ultimately, undertaking this project of writing a dissertation proved both challenging and interesting. The process began in January 2014 when I attended the Research Skills Analysis class. During the course of these lectures, I became engrossed in the academic aspects of my dissertation, namely the research onion and different methodologies that can be used to guide my choices.
Upon learning to differentiate between qualitative and quantitative research, I felt the later suited my skills and interest best despite the fact that the lecturer appeared to focus more upon and advocate a qualitative approach. I enjoyed the class, considering it both useful and insightful in demonstrating how to proceed with my research proposal which I needed to complete before May 2014 in preparation for my dissertation in August.

Nevertheless despite the positives of the class, I did find the focus upon qualitative research struggled to maintain my interest as I preferred quantitative methods. Additionally, while effective information was supplied in relation to research methodologies, the class was not helpful in deciding upon a research topic. I struggled to think of an area that would interest me in the long-term and inspire hard work and creativity. I became increasingly worried as the deadline drew closer and I could not even begin as I did not have a topic chosen.

I began to focus upon areas of the course that I considered the most fascinating, these included Theory of Finance and International Financial Institutions and Markets. Eventually, the content of these subject areas aided me to choose a topic for my dissertation. These lectures focused upon both qualitative and quantitative aspects of finance with many of the topics surrounding the areas of Initial Public Offerings (IPOs), Company Valuations and the stock market in general.

These areas interested me greatly and I began to develop an inner energy to analyse these topics with new and fresh enthusiasm. Therefore I decided to focus upon recent IPOs in the Social Media sector, namely LinkedIn in 2011, Facebook in 2012 and Twitter in 2013. I sought the opinions of my lecturers of both finance subjects and they were supportive of the idea.

At this stage I felt immensely relieved, having selected a topic with which I was contented. However, I also felt under pressure as I was compelled to begin immediately rather than allowing some time to focus my thoughts and develop a comprehensive plan for my research
design. I became angry with myself for declining to actively consider ideas from the beginning of the Research Skills class in January 2014 or even earlier, at the start of the academic year in September 2013. I strongly felt that the Research Skills class would have proven more effective if I had my topic chosen and thus, was able to relate the theory of research to my specific area. This was particularly emphasised at times when I found research theory difficult to comprehend without the opportunity to relate it to something concrete.

The dissertation officially began in June 2014 after the Research Proposal was corrected and approved. At this stage, I was appointed a supervisor and due to start writing my dissertation. However, I was away for all of June on a trip that I had planned a year earlier. Therefore, I was unable to meet my supervisor until July 2014, at which point I was also busy preparing for and attending many job interviews. When I secured my current post in the middle of July, I decided that I wanted to fully concentrate on my new position and ensure I passed my six month probation period.

Therefore, I deferred my dissertation until the May 2015 deadline. Ultimately I felt disappointed that I would not graduate with my friends and classmates. However, I also reasoned that I would be unable to commit the necessary time and enthusiasm to my dissertation while familiarising myself with a new company and post, particularly as I had minimal time left before the deadline.

I met my supervisor in February and we decided to continue with the topic from my research proposal as it still maintained my interest. However, we decided to expand the research to include new Internet companies rather than solely focusing upon Social Media. This involved adding analysis of GoPro and Alibaba’s IPOs in 2014 and Box Inc.’s IPO in early 2015.
At this point, I was settled in my job having passed my probationary period and thus, was ready and focussed to complete my dissertation. However, my mind-set had moved from an academic to a working status and so it took a while to readjust. Actually starting to write proved difficult but definitely became easier as time passed. My supervisor was extremely helpful and we met frequently to discuss progress.

For me, the literature review proved the hardest aspect as I forced myself to maintain interest in writing a lot around what other people had already written. Contrastingly, the research was much more numerical which better suited my skill set and interests.

In conclusion, the process of writing my dissertation was a challenging but also rewarding experience. I developed skills relating to both my academic and personal life. I improved my research, writing and analysis skills throughout the process. I also learned valuable life lessons in time management, organisation and the maintenance of balance between work, study and social life. I feel the experience of writing a dissertation will continue to prove useful, aiding development throughout my career and personal life.

Naturally, I would choose to approach the completion of my dissertation in a considerably more organised manner should I choose to repeat the process at any stage. I would talk to my lecturers sooner and try to decide upon a topic before the research class even commenced. I would try to plan well in advance, ensuring I had no major commitments during the time allocated for writing my dissertation. I would also begin researching and writing as soon as possible in May, not waiting for the official start date in June when a supervisor is appointed. If I had accomplished these aspects, I would have had an extra two months and starting a new job would not have had such an impact.

Nevertheless, my choice to defer had both positive and negative consequences. As I am working in a fund administration company, I sometimes encountered information relating to
my topic. This aided me to keep up to date on the current stock performance of the companies I was researching and the topic was always fresh in my mind.

However as it had been a long time since I had completed the academic aspect of my degree, I found it difficult to start researching and writing again. Similarly, while I found some of the research very enjoyable, I felt it was often difficult to allocate time to complete it. Life is always busy and extremely limited in the evenings after work. Therefore, social and family life was often sacrificed for long weekends of study. I had to plan my days carefully and allocate time to my research to ensure it was completed on time.

Ultimately, if I ever decide to complete another Masters or PhD, this experience will provide a strong base for undertaking further research. I will learn from the mistakes made during this task to ensure any future academic work is more organised and effectively completed. However I am relieved, proud and pleased to have finished the dissertation and will value all lessons that I have learnt from this experience.
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