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Market Reaction to IPO Proceeds Used for Debt Repayment

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ABSTRACT

This study examines whether the disclosure of the intended use of IPO proceeds for debt repayment generates market reactions among companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange during 2023–2025. The study employs an event study approach to investigate whether information regarding the intended use of IPO proceeds for debt repayment contains information content that influences investor reactions. The research sample consists of 24 companies selected using purposive sampling based on IPO prospectuses disclosing debt repayment as one of the intended uses of proceeds. Market reaction is measured using Cumulative Abnormal Return (CAR) over two observation periods, namely five days and ten days after the IPO listing date. Data analysis includes descriptive statistics, the Shapiro–Wilk normality test, the One-Sample Wilcoxon Signed Rank Test, and the Wilcoxon Signed Rank Test. The findings indicate that the intended use of IPO proceeds for debt repayment generates a significant market reaction during both observation periods. However, no significant difference is found between the market reactions observed within five days and ten days after the IPO. These findings suggest that investors respond to information regarding debt repayment shortly after the listing date, and such reactions remain relatively stable during the early post-IPO trading period.

INTRODUCTION

The capital market plays a crucial role in promoting economic growth by providing companies with access to long-term financing while offering investors opportunities to participate in corporate ownership. One of the primary financing mechanisms in the capital market is the Initial Public Offering (IPO), through which private companies become publicly listed by offering shares to investors for the first time. In Indonesia, IPO activity has remained an important source of corporate financing despite fluctuations in the number of annual IPOs. The Indonesia Stock Exchange (IDX) recorded 79 IPOs in 2023, representing the highest annual IPO record in the history of the Indonesian capital market. Although the number of IPOs declined to 41 companies in 2024 due to global economic uncertainty, IPO activity remained relatively active with an additional 26 IPOs in 2025. During the same period, the number of capital market investors increased substantially, indicating stronger public participation in the Indonesian capital market [1], [2], [3].

As IPO activity remains active and the number of capital market investors continues to increase, the availability of reliable public information has become increasingly important for investment decision-making. Because newly listed firms have limited market histories, investors primarily rely on IPO prospectuses as the principal source of publicly available information when evaluating firm fundamentals, future prospects, and corporate strategies. Among the mandatory disclosures contained in IPO prospectuses, the intended use of IPO proceeds is particularly important because it informs investors how firms plan to utilize the funds raised from public offerings. Previous studies have shown that disclosures regarding the intended use of IPO proceeds contain valuable information that influences investor perceptions, IPO pricing, and subsequent stock performance [4], [5], [6].

Among various categories of IPO proceeds allocation, debt repayment represents an interesting financing strategy because it may generate different perceptions among investors. From a corporate finance perspective, using IPO proceeds to repay debt may improve capital structure by reducing leverage and interest expenses, thereby enhancing financial flexibility [7]. However, investors may also perceive debt repayment as providing fewer immediate growth opportunities than allocating IPO proceeds to business expansion, research and development, or capital investment. Consequently, the disclosure of debt repayment in IPO prospectuses is expected to contain information that influences investor perceptions and generates market reactions during the early post-listing period.

According to Signaling Theory, information disclosed by a company serves as a signal that helps investors evaluate the firm's future prospects [8]. Therefore, the intended use of IPO proceeds disclosed in the prospectus may influence investor perceptions and investment decisions. In addition, the Efficient Market Hypothesis argues that publicly available information is rapidly incorporated into stock prices, particularly under the semi-strong form of market efficiency [9]. Consequently, if information regarding the intended use of IPO proceeds contains information value, investors are expected to respond through stock price movements shortly after the IPO. Such market reactions are commonly examined using the event study approach, which evaluates whether an event contains information reflected in abnormal stock returns around the event date [10].

Previous studies have documented mixed evidence regarding the role of IPO proceeds disclosure. Tang and Zhou [5] demonstrated that information disclosed in the "Use of Proceeds" section significantly affects IPO underpricing, indicating that investors consider the intended allocation of IPO funds during the pricing process. Similarly, Ranganathan and Veeraraghavan [6] found that more specific disclosures regarding the intended use of IPO proceeds influence investor responses, suggesting that the quality of disclosure plays an important role in reducing information asymmetry during the IPO process. Furthermore, Hammer et al. [11] showed that firms disclosing debt repayment as an intended use of proceeds subsequently experienced substantial deleveraging after the IPO, highlighting the informational value of prospectus disclosures regarding financing decisions.

More specifically, Ahmad-Zaluki and Badru [12] found that allocating IPO proceeds to debt repayment was negatively associated with IPO initial returns, whereas allocations for growth opportunities and working capital were positively associated with IPO initial returns. Likewise, Ben Amor and Kooli [13] reported that firms identifying debt repayment as the primary use of IPO proceeds exhibited the weakest long-run post-IPO stock performance. In contrast, Meidiaswati et al. [14] suggested that the intended use of IPO proceeds was associated with IPO underpricing and long-

term stock performance, while Sudarmaji et al. [15] documented significant abnormal returns during the early trading days following IPOs. Furthermore, Fuadi and Pasaribu [16] found that post-IPO stock performance was influenced by firm characteristics and information disclosed in IPO prospectuses. Although previous studies consistently demonstrate that IPO proceeds disclosure contains valuable information for investors, the empirical findings remain inconclusive regarding how the intended use of proceeds, particularly debt repayment, influences investor reactions.

Despite the growing literature, three important gaps remain. First, previous studies have predominantly examined IPO proceeds in relation to IPO underpricing, initial returns, or long-term stock performance rather than short-term market reactions following IPO listings. Second, empirical evidence specifically concerning debt repayment as the intended use of IPO proceeds remains limited, particularly in emerging capital markets. Third, evidence from the Indonesian capital market remains scarce despite its rapidly growing IPO activity in recent years.

Therefore, this study contributes to the existing literature in three ways. First, it specifically investigates market reactions to debt repayment as the intended use of IPO proceeds, an issue that has received relatively limited attention in previous studies. Second, it provides empirical evidence from the Indonesian capital market, where IPO activity has increased substantially in recent years. Third, unlike prior studies emphasizing IPO underpricing, initial returns, or long-term performance, this study evaluates short-term market reactions using Cumulative Abnormal Return (CAR) over five-day and ten-day post-IPO observation windows. By comparing these two observation windows, this study also provides evidence on whether investor reactions remain stable or continue to evolve during the early post-IPO period, thereby extending the understanding of how debt repayment disclosure is incorporated into stock prices.

Based on the theoretical framework and empirical findings discussed above, the intended use of IPO proceeds disclosed in the prospectus is expected to influence investor perceptions and generate market reactions following the IPO. Therefore, the hypotheses of this study are formulated as follows: H1: The intended use of IPO proceeds for debt repayment generates a significant market reaction after the IPO.

Furthermore, investors may continue processing publicly available information during the post-listing period, potentially leading to differences in market reactions over different observation windows. Therefore, the second hypothesis is formulated as follows:

H2: There is a significant difference in market reactions between the five-day and ten-day post-IPO observation periods.

METHODS

This study employed a quantitative approach using the event study method to examine market reactions to the intended use of Initial Public Offering (IPO) proceeds for debt repayment. The event study approach was selected because it enables researchers to evaluate whether a particular event contains information reflected in stock price movements around the event date [10]. Market reactions were measured using Cumulative Abnormal Return (CAR) over two observation periods, namely five trading days (CAR5) and ten trading days (CAR10) after the IPO.

The population of this study consisted of all companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX) during the 2023–2025 period. Samples were selected using a purposive sampling technique, in which sample selection is based on predetermined criteria aligned with the research objectives [17]. The selection criteria were as follows: companies conducted

IPOs on the Indonesia Stock Exchange during 2023–2025, companies disclosed debt repayment as one of the intended uses of IPO proceeds in their prospectuses, and companies had complete daily stock price data during the observation period. Based on these criteria, 24 companies were selected as the research sample.

This study employed secondary data obtained from IPO prospectuses, daily stock prices, and the Indonesia Composite Index (IDX Composite). IPO prospectuses were used to identify companies allocating IPO proceeds for debt repayment, while daily stock prices and market index data were used to calculate abnormal returns during the observation period.

The event date ($t = 0$) was defined as the IPO listing date on the Indonesia Stock Exchange. Market reactions were observed over two post-event windows consisting of five trading days (CAR5) and ten trading days (CAR10) after the IPO listing. The selection of these observation periods aimed to evaluate whether investors responded immediately after the IPO and whether such reactions changed during the subsequent trading days.

Market reaction was measured using Cumulative Abnormal Return (CAR). Daily stock return was calculated using the following equation:

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}} \quad (1)$$

where R_{it} denotes the actual return of stock i on day t , P_t is the closing price on day t , and P_{t-1} is the closing price on the previous trading day.

Market return was calculated using the Indonesia Composite Index (IDX Composite) as follows:

$$R_{mt} = \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}} \quad (2)$$

where R_{mt} represents the market return on day t , $IHSG_t$ is the IDX Composite on day t , and $IHSG_{t-1}$ is the IDX Composite on the previous trading day.

Abnormal return was calculated using the Market Adjusted Model, which assumes that expected return is equal to market return.

$$AR_{it} = R_{it} - R_{mt} \quad (3)$$

where AR_{it} represents the abnormal return of stock i on day t .

Subsequently, cumulative abnormal return (CAR) was calculated by summing abnormal returns over each observation period:

$$CAR_i = \sum_{t=1}^n AR_{it} \quad (4)$$

where CAR_i represents the cumulative abnormal return of stock i , and n denotes the observation period consisting of five or ten trading days after the IPO listing.

Data analysis was conducted in several stages. Descriptive statistics were first employed to describe the characteristics of the research data. The Shapiro–Wilk test was subsequently performed to examine data normality. Since the data were not normally distributed, hypothesis testing was conducted using the One-Sample Wilcoxon Signed Rank Test to determine whether significant market reactions occurred during the five-day and ten-day observation periods. Furthermore, the Wilcoxon Signed Rank Test was employed to examine whether market reactions differed significantly between the two observation windows. All statistical analyses were performed using IBM SPSS Statistics version 26 with a significance level of $\alpha = 0.05$.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics were employed to provide an overview of the characteristics of the research data prior to hypothesis testing. The descriptive statistics present the minimum, maximum, mean, and standard deviation of the five-day cumulative abnormal return (CAR5) and ten-day cumulative abnormal return (CAR10), providing preliminary information regarding the distribution and variability of market reactions among the sampled companies [18].

Table 1. Descriptive Statistics

Descriptive Statistics					
Variable	N	Minimum	Maximum	Mean	Std. Deviation
CAR_5	24	-0.3607	1.2337	0.1912	0.3026
CAR_10	24	-0.424	1.826	0.2144	0.455
Valid N (listwise)	24				

Based on the descriptive statistics results, this study analyzed 24 companies that conducted Initial Public Offerings (IPOs) on the Indonesia Stock Exchange during the 2023–2025 period and allocated a portion of their IPO proceeds to debt repayment. Descriptive statistics were employed to provide an overview of the characteristics of cumulative abnormal returns during the five-day (CAR5) and ten-day (CAR10) post-IPO observation periods.

For the five-day observation period, the average cumulative abnormal return (CAR5) was 0.1912, with a minimum value of -0.3607 , a maximum value of 1.2337, and a standard deviation of 0.3026. The positive mean indicates that, on average, investors responded favorably to companies allocating IPO proceeds for debt repayment during the initial trading days following the IPO. However, the standard deviation exceeded the mean value, indicating considerable variation in market reactions across the sample firms. This suggests that while several companies experienced strong positive market responses, others received relatively weak or even negative reactions during the early post-listing period.

During the ten-day observation period, the average cumulative abnormal return (CAR10) increased to 0.2144, with a minimum value of -0.4240 , a maximum value of 1.8260, and a standard deviation of 0.4550. Compared with the five-day observation period, the higher average CAR indicates that cumulative market reactions continued to increase as the observation window was extended. Nevertheless, the larger standard deviation also suggests greater variability in investor

responses across companies. This finding implies that, in addition to the information disclosed regarding the intended use of IPO proceeds, stock price movements during the later trading days may also have been influenced by firm-specific characteristics, overall market conditions, and investor sentiment.

Overall, the descriptive statistics indicate that the average cumulative abnormal return remained positive throughout both observation periods. This finding provides preliminary evidence that companies allocating IPO proceeds for debt repayment generally received favorable market reactions following the IPO. Nevertheless, the relatively high dispersion of CAR values indicates that investor responses were not homogeneous across all sample firms. Therefore, further statistical analysis was conducted to determine whether the observed market reactions were statistically significant and whether significant differences existed between the five-day and ten-day post-IPO observation periods.

Normality Test

Table 2. Shapiro–Wilk Normality Test Results

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
CAR_5	0.194	24	0.02	0.831	24	0.001
CAR_10	0.263	24	<0.001	0.729	24	<0.001

Based on the results of the Shapiro–Wilk normality test, the significance values for CAR5 and CAR10 were 0.001 and < 0.001, respectively. Since both significance values were lower than the 0.05 significance level, the null hypothesis of normality was rejected. These results indicate that the cumulative abnormal return data for both observation periods were not normally distributed. The non-normal distribution suggests that market reactions varied considerably across the sampled firms following the IPO. Such variation may reflect differences in firm characteristics, investor perceptions, and market conditions during the post-listing period. Consequently, the assumption of normality required for parametric testing was not satisfied. Based on these findings, non-parametric statistical tests were employed for hypothesis testing. Specifically, the One-Sample Wilcoxon Signed Rank Test was used to examine whether cumulative abnormal returns during the five-day and ten-day observation periods were statistically significant, while the Wilcoxon Signed Rank Test was applied to examine whether significant differences existed between the two observation windows.

Hypothesis Testing

Table 3. One-Sample Wilcoxon Signed Rank Test Results H1

One-Sample Wilcoxon Signed Rank Test Summary		
	CAR 5	CAR 10
Total N	24	24
Test Statistic	270.000	245.000
Standard Error	35.000	35.000
Standardized Test Statistic	3.429	2.714

Asymp. Sig.		<0.001		0.007	
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Based on the results of the One-Sample Wilcoxon Signed Rank Test presented in Table 3, the significance values for CAR5 and CAR10 were <0.001 and 0.007, respectively. Both values were lower than the significance level of 0.05, indicating that cumulative abnormal returns during both observation periods were statistically significant. These findings indicate that companies allocating IPO proceeds for debt repayment generated significant market reactions during both the five-day and ten-day post-IPO observation periods. Therefore, Hypothesis 1 (H1) is supported, suggesting that the intended use of IPO proceeds for debt repayment contains information that is considered relevant by investors following the IPO.

Table 4. Wilcoxon Signed Rank Test Results H2

Ranks				
		N	Mean Rank	Sum of Ranks
CAR_10 – CAR_5	Negative Ranks	16 ^a	11.56	185.00
	Positive Ranks	8 ^b	14.38	115.00
	Ties	0 ^c		
	Total	24		
a. CAR_10 < CAR_5				
b. CAR_10 > CAR_5				
c. CAR_10 = CAR_5				

Test Statistics ^a	
	CAR_10 – CAR_5
Z	-1.000 ^b
Asymp. Sig. (2-tailed)	0.317

a. Wilcoxon Signed Rank Test

b. Based on positive ranks

Based on the Wilcoxon Signed Rank Test results presented in Table 4, sixteen companies exhibited lower CAR values during the ten-day observation period than during the five-day observation period, while eight companies showed higher CAR values over the longer observation period. No identical CAR values were observed between the two observation windows. The Wilcoxon Signed Rank Test produced an Asymp. Sig. (2-tailed) value of 0.317, which exceeded the significance level of 0.05. Therefore, Hypothesis 2 (H2) is not supported, indicating that there was no statistically significant difference in market reactions between the five-day and ten-day post-IPO observation periods for companies allocating IPO proceeds to debt repayment.

The implications of these findings are further discussed in the following section.

Discussion

Market Reactions to the Intended Use of IPO Proceeds for Debt Repayment

The findings indicate that the market responded significantly to the disclosure of the intended use of IPO proceeds for debt repayment by companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange. This finding suggests that information regarding the allocation of IPO proceeds constitutes relevant information considered by investors when evaluating newly listed firms. Therefore, the disclosure of debt repayment in IPO prospectuses contains information content capable of influencing market reactions during the early post-listing period.

In addition to the significant market reaction, the descriptive statistics revealed that the average cumulative abnormal return remained positive during both the five-day and ten-day observation periods. This finding suggests that investors generally perceived the allocation of IPO proceeds for debt repayment positively. From a corporate finance perspective, debt repayment may signal improvements in capital structure by reducing leverage and interest expenses, thereby enhancing the firm's financial flexibility and long-term financial stability [7]. Consequently, investors may interpret this financing strategy as an indication of stronger financial prospects following the IPO.

These findings support the event study framework proposed by MacKinlay [10], which states that if an event contains relevant information, the market will respond through stock price movements around the event date. In this study, the intended use of IPO proceeds disclosed in the prospectus represents one of the key pieces of information available to investors before trading begins. The significant market reaction observed during the post-IPO period therefore indicates that investors incorporated this information into their investment decisions.

The findings are also consistent with Signaling Theory [8], which argues that information disclosed by firms serves as a signal for reducing information asymmetry between managers and investors. The disclosure of debt repayment as one of the intended uses of IPO proceeds may signal management's commitment to strengthening the firm's financial condition through lower leverage and reduced financing costs. Such signals may increase investor confidence regarding the firm's future performance, thereby contributing to favorable market reactions following the IPO.

Furthermore, the results support the Efficient Market Hypothesis, particularly the semi-strong form proposed by Fama [9], which suggests that publicly available information is rapidly incorporated into stock prices. Since the intended use of IPO proceeds is disclosed in the prospectus before the shares begin trading, investors are able to evaluate this information immediately. The significant market reaction observed in this study indicates that the information disclosed in the prospectus was efficiently reflected in stock prices during the early trading period.

The present findings are generally consistent with previous empirical studies. Tang and Zhou [5] demonstrated that information disclosed in the "Use of Proceeds" section significantly influences IPO underpricing, suggesting that investors consider the intended allocation of IPO proceeds when evaluating newly listed firms. Similarly, Ranganathan and Veeraraghavan [6] found that more specific disclosures regarding the intended use of IPO proceeds influence investor responses during the IPO process, indicating that the quality of disclosure plays an important role in reducing information asymmetry and shaping investor decisions. Meidiaswati et al. [14] also found that the intended use of IPO proceeds was associated with IPO underpricing and long-term stock performance, while Sudarmaji et al. [15] documented significant market reactions during the early trading days following IPOs. In addition, Fuadi and Pasaribu [16] reported that post-IPO stock performance was influenced by firm characteristics and information disclosed in IPO prospectuses.

However, the findings differ from Ahmad-Zaluki and Badru [12], who reported that the allocation of IPO proceeds for debt repayment was negatively associated with IPO initial returns. This discrepancy may be explained by differences in the measurement of investor responses. Ahmad-Zaluki and Badru [12] examined initial return, which reflects investor reactions only on the first trading day, whereas this study employed Cumulative Abnormal Return (CAR) over five-day and ten-day post-IPO observation periods. The different market environments, institutional characteristics, and observation periods between the Malaysian and Indonesian capital markets may also contribute to the differences in empirical findings.

Comparison of Market Reactions Between the Five-Day and Ten-Day Post-IPO Observation Periods

The findings indicate that market reactions to companies allocating IPO proceeds for debt repayment did not differ significantly between the five-day and ten-day post-IPO observation periods. This suggests that investors responded to the disclosed information shortly after the IPO listing, and the market reaction remained relatively stable throughout the subsequent trading days. Therefore, extending the observation window from five to ten trading days did not lead to a substantially different market response.

This finding is consistent with the Efficient Market Hypothesis (EMH) proposed by Fama [9], particularly the semi-strong form of market efficiency, which argues that publicly available information is rapidly incorporated into stock prices. Since information regarding the intended use of IPO proceeds had already been disclosed in the prospectus before trading began, investors were able to process this information immediately after the IPO. As a result, stock prices adjusted during the initial trading period, leaving little room for additional market reactions in the following days.

The findings are also in line with Sudarmaji et al. [15], who reported that market reactions surrounding IPOs were concentrated during the initial trading days following the listing. Their study suggests that investors tend to evaluate publicly available information immediately after trading begins, causing stock prices to adjust relatively quickly. Consequently, extending the observation period does not necessarily result in significantly different market reactions.

Overall, these findings imply that information regarding the intended use of IPO proceeds for debt repayment is incorporated into stock prices within a relatively short period after the IPO. This indicates that investors in the Indonesian capital market respond promptly to information disclosed in IPO prospectuses, supporting the view that prospectus disclosures play an important role in reducing information asymmetry during the early post-listing period.

CONCLUSIONS

This study examined market reactions to the intended use of IPO proceeds for debt repayment among companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange during the 2023–2025 period using an event study approach. The findings indicate that the disclosure of IPO proceeds allocated to debt repayment generated significant market reactions during both the five-day and ten-day post-IPO observation periods. However, no significant difference was observed between the two observation windows, suggesting that investors responded to the disclosed information.

The findings contribute to the IPO literature by extending previous research beyond IPO underpricing, initial returns, and long-term performance toward short-term market reactions to debt repayment disclosure. By comparing the five-day and ten-day post-IPO observation windows, this study also provides empirical evidence that investor responses were incorporated into stock prices within a relatively short period after the IPO. The findings further support the propositions of Signaling Theory and the semi-strong form of the Efficient Market Hypothesis, indicating that information disclosed in IPO prospectuses is rapidly incorporated into stock prices. From a practical perspective, the findings suggest that transparent disclosure regarding the intended use of IPO proceeds is important for reducing information asymmetry and assisting investors in evaluating newly listed companies.

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