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The Relationship Between Financial Performance, Underwriter Reputation and IPO Underpricing

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A B S T R A C T

The purpose of this study is to empirically demonstrate the influence of the Current Ratio (CR), Return on Assets (ROA), and underwriter reputation on IPO underpricing levels on the IDX for the 2016-2025 period. The sample size for this study was 427 IPO companies. The results of multiple linear regression analysis in this study showed that the CR variable is not affecting IPO underpricing. This is suspected because potential investors do not consider the CR value, which reflects the company's short-term prospects, but rather long-term prospects such as the ROA variable and the underwriter's reputation. This is empirically proven through research findings that show ROA variables have an impact and that underwriter reputation have an effect on IPO underpricing.

INTRODUCTION

An IPO is a deliberate action taken by a company to transition from a privately operated firm to an enterprise whose shares are available to the public. According to Hartono (2017:34), companies that want to expand their business need additional capital to meet their capital requirements. An IPO is part of a company's efforts to raise capital to expand its business. In line with this, the Indonesia Stock Exchange (IDX) sets annual targets for companies to conduct IPOs as part of its efforts to further develop the Indonesian capital market (idnfinancials.com).

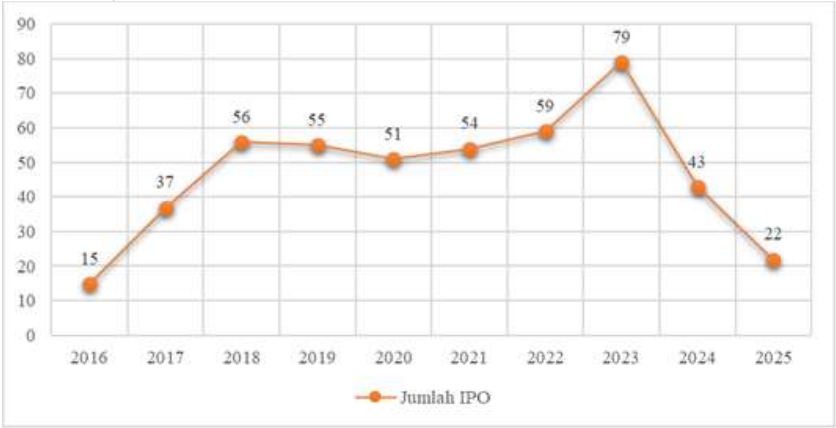

Figure 1. Number of Companies Go Public in the Period 2016-2025

Source: idx.co.id, Listing Activity

Based on Figure 1, the number of companies go public fluctuated during the period from 2016 to 2025. In 2016, only 15 companies conducted IPOs. This number continued to increase significantly, reaching 37 companies in 2017 and rising to 55 companies in 2018. However, from 2019 to 2021, the number of companies conducting IPOs remained relatively stable at around 51 to 56 companies. The upward trend reappeared in 2022 and peaked in 2023 with 79 companies conducting IPOs. This indicates that 2023 recorded the largest number of IPOs throughout the entire observation period. After that, there was a decline in 2024 with 43 companies conducting IPOs. In 2025, only 22 companies conducted IPOs, while the IDX targeted 66 companies to conduct IPOs (idnfinancials.com). This means that the IPO target has not been achieved in accordance with the IDX's target.

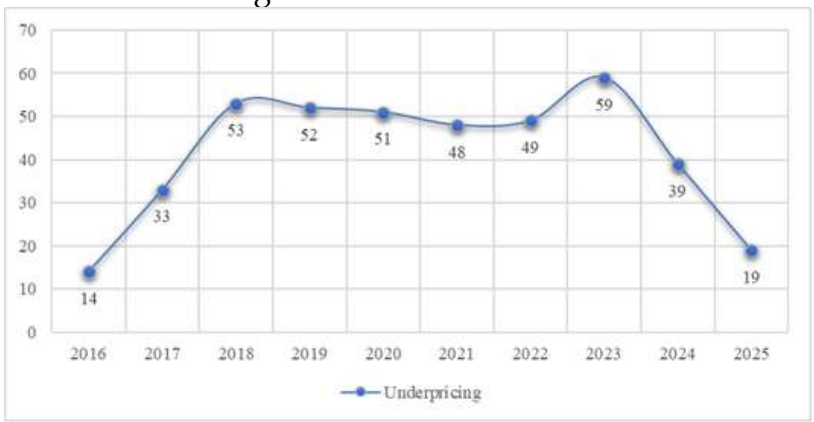

Figure 2. Number of Underpricing Cases in the Period 2016-2025

Source: idx.co.id, Listing Activity

According to the IDX data presented in Figure 2, it can be seen that firms going public generally encounter underpricing. Of the 471 companies that conducted IPOs between 2016 and 2025, a total of 417 companies were affected by underpricing or 88.54 percent, while 54 companies, or 11.46 percent, did not experience underpricing. The high percentage of underpricing indicates that the phenomenon of underpricing during IPO is still dominant in the Indonesian capital market, highlighting the need for deeper analysis of the factors that contribute to underpricing.

The objective of this study is to assess the firm's financial performance and consider the reputation of underwriters of companies conducting IPOs. This information can serve as a signal for potential investors who will purchase IPO shares. According to Muhani et al. (2020), to minimize underpricing, investors can assess a company's performance using financial and non-financial information contained in the prospectus, which can help potential investors make rational investment decisions. A firm's financial performance may be evaluated using a set of financial ratios that reflect its financial condition, including liquidity, activity, leverage, profitability, and market ratios (Hanafi, 2016:36-37). In this study, the assessment of financial performance focuses on liquidity ratios and profitability ratios.

This study uses CR as a proxy for liquidity ratio. When a company conducts an IPO, CR becomes one of the signals for potential investors to assess the firm's financial condition. This aligns with the signaling model within information asymmetry theory, which suggests that firms communicate signals to prospective investors to narrow the information gap between them. This means that companies with high CR are considered to reflect good liquidity. This condition reduces the need for companies to offer discounts to investors, as reflected in the decline in IPO underpricing rates. Thus, the higher the CR, the lower the potential for underpricing in IPOs. These empirical findings are supported by research by Adiputra et al. (2023) and Mahardika & Ismiyanti (2021) which shows that a high CR value reduces IPO underpricing. This is because potential investors see companies with high liquidity as financially stable, thereby able to meet their short-term obligations and increase investor confidence. However, research by Isynuwardhana & Febryan (2022) shows that CR has an insignificant extend on IPO underpricing, because liquidity ratios are considered less important to potential investors. This is due to the tendency of potential investors to consider factors that better reflect the company's long-term prospects, such as profitability.

The next variable examined in this study is the profitability ratio. This study uses ROA as a proxy for profitability. Firms that report a high ROA are perceived as having strong financial performance, which can boost investor confidence and ultimately contribute to lowering the degree of IPO underpricing. This means that ROA is a signal given by companies to potential investors to measure the firm's financial performance. This aligns with the signaling model of information asymmetry theory (Jamaani & Alidarous, 2019), which explains that firms convey signals to prospective investors to lessen the disparity of information possessed by issuing firm and information possessed by investors.

This finding is supported by research by Muhani et al. (2020), which identified a inverse connection between ROA and underpricing. This means that issuing companies with high ROA values will send positive signals to potential investors and increase their confidence in the issuing company, as reflected in a decrease in the underpricing rate. Similarly, research by (Hastari & Ariyani, 2025; Mahardika & Ismiyanti, 2021; Tanoyo & Arfianti, 2022), showed that issuing companies with high ROA have a tendency to perform lower underpricing. This is the reason why potential investors believe in the issuing firm's capacity to generate profits. This is because a high ROA value sends a reassuring signal for investors about the firm's potential going forward. However, other studies such as Chen et al., (2021) and Zhang & Neupane (2024) show that under certain conditions, such as unstable economic conditions, ROA can actually correlate positively with the level of underpricing. This is because potential investors become more cautious when investing and demand larger discounts as compensation even though the company shows good financial performance, which results in increased IPO underpricing.

The third variable examined in this research refers to the underwriter reputation, which is assumed to affect the rate of IPO underpricing. Underwriters with strong reputations help mitigate the rate of underpricing during the IPO phase because investors tend to believe that companies that use reputable underwriters are companies of good quality. A good underwriter reputation increases the confidence of potential investors because it is considered capable of determining stock prices more accurately and reflecting their fair value (Ariyani & Gumanti, 2025). This finding is supported by the research of Wijaya & Kufepaksi (2023), which shows that the underwriter reputation exerts a significantly influences IPO underpricing negatively. This suggests that underwriter credibility plays an important role in shaping investor trust, as investors generally perceive offerings handled by reputable underwriters to have undergone rigorous and reliable evaluation prior to being introduced to the public market.

Similarly, research by (Arora & Singh, 2019; Bandi et al., 2020; Jamaani & Ahmed, 2020; Neghab et al., 2023; Ong et al., 2020) found that when issuing companies choose reputable underwriters, they can effectively send positive signals that will reduce IPO underpricing. This means that the presence of reputable underwriters acts as a certification of company value, which can reduce concerns about company quality and decrease the degree of IPO underpricing. The aim of this study is to provide empirical findings on the influence of CR, ROA, and underwriter reputation on IPO underpricing among companies listed on the IDX from 2016 to 2025. This period was chosen to represent the dynamics of underpricing, both before the pandemic, during the pandemic, and in the economic recovery phase after the Covid-19 pandemic.

LITERATURE REVIEW

Information Asymmetry Theory

Information asymmetry theory states that managers have more complete information about the prospects and risks of a company than parties related to the company (Hayat et al., 2021). The information asymmetry between company management and investors leads to differences in views or perceptions between the two parties (Ariyani, 2023). In addition, Jamaani & Alidarous (2019) explain that the theory of information asymmetry has several models, including 1) Principal-agent, which states that underwriters give lower prices to issuing companies, 2) Ex-ante uncertainty, which states that investors demand lower prices from companies as ex-ante compensation, 3) Book-building, which argues that institutional investors possess greater information superiority relative to underwriters and issuing firms, so institutional investors demand underpricing, 4) Signaling, which proposes information asymmetry exists across IPOs firms and investors, 5) Certification, which states that there is information asymmetry exists across IPOs firms and investors, 6) Winner's Curse, which states that there is information asymmetry exists across IPOs firms and less-informed investors, and 7) Entrepreneurial Wealth Losses, which states that there is information asymmetry occurs among IPOs firms and investors who demand that entrepreneurs sell shares more cheaply to reduce their wealth.

This study uses the signaling model of information asymmetry theory, which illustrates the relationship between an imbalance of information occurs between potential investors and IPOs companies (Jamaani & Alidarous, 2019). This means that issuing firms send signals to possible investors through prospectuses regarding the future performance of the issuing firms to reduce information asymmetry. Brigham & Houston (2024:33) also emphasize that signaling is a signal given by companies to prospective investors regarding the company's prospects.

Initial Public Offerings

According to Hartono (2017), the initial phase when a company first offers its shares to the public is called an IPO. Brigham & Houston (2024) likewise explain that an IPO represents the initial sale of shares by a privately owned firm to the public. In essence, witch a privately held company can offer its stocks publicly, commonly referred to as going public. Companies that conduct an IPO will obtain funds from external investors that can be used by the company to support business growth, settle existing debts, or pursue other strategic objectives. The advantages of going public include the ease of raising capital in the future, increasing shareholder liquidity, and the company's market value being known (Hartono, 2017).

When companies announce initial public offerings, stock prices often decline (Brigham & Houston, 2024). The phenomenon of underpricing often occurs during IPOs because companies offer shares at low prices (Hartono, 2017). Thus, investors who purchase shares at the initial offering tend to earn substantial initial returns. In summary, underpricing denotes to the condition in which a firm’s sets its IPO price below its true market value to attract potential investors, allowing them to gain high initial returns when the shares begin trading.

Company Fundamentals

Company fundamentals are an analysis using company financial data to determine the intrinsic value of a company (Hartono, 2017). Sudana (2015) emphasizes that company fundamentals, or internal factors that affect stock prices, include profitability, operating leverage, industry group, company size, company management, and so on. In conclusion, the definition of company fundamentals is an analytical tool which indicates or represents the company projected future financial prospects and performance.

Current Ratio

Current Ratio (CR) is a proxy for a liquidity ratio designed to evaluate how effectively a company has the ability to use its current assets to pay its short-term obligations as they become due (Hanafi, 2016:37). CR is one of the positive signals given by the issuing firms to prospective investors throughout the IPO. The effect of CR on underpricing can be explained through the signaling model of information asymmetry theory. According to (Brigham & Houston, 2024:33), signaling is an effort by the company to provide information to potential investors as a signal regarding the firms future outlook. The CR value in the issuing company's prospectus provides a positive signal to potential investors. Companies with high CR are considered to have good corporate liquidity. This implies that a higher CR reflects a stronger capacity of the company to fulfill its current liabilities, as the issuer's current assets exceed its current liabilities. Such financial strength ultimately contributes to lowering the amount of IPO underpricing.

This finding is consistent with the conclusions of the study conducted by Adiputra et al. (2023) and Mahardika & Ismiyanti (2021), which demonstrated that the CR value exerts a substantial negative influence on IPO underpricing. This indicates that high company liquidity sends a encouraging signal for prospective investors suggesting that the firm has stable financial conditions. This is because the issuing firm possesses the capacity to pay off its short-term debt, thereby increasing investor confidence, which in turn contributes to a decline in the extent of IPO underpricing.

H1: *Current ratio has a negative effect on IPO underpricing on the IDX for the period 2016-2025.*

Return on Assets

Return on Assets (ROA) ratio is a measure of profitability used to assess how effectively a company utilizes its total assets to produce net income (Hanafi, 2016:42). The influence of ROA on IPO underpricing can be interpreted through the signaling model of information asymmetry theory. According to Jamaani & Alidarous (2019), the signaling model explains that IPO firms send signals to potential investors to reduce informational imbalance that exists between the company and potential investors. Brigham & Houston (2024:33) emphasize that signaling is a signal given by the issuing firm provides potential investors with signals containing insights into the company's future outlook. IPO companies send positive signals to potential investors through the ROA value stated in the prospectus. Companies with high ROA values are considered to have good

profitability. This indicates that companies with a higher ROA reflects improved effectiveness to generate net income from its assets, as the profits produced exceed the value of the firm issuer's total assets. Such strong performance tends to attract prospective investors and motivates them to purchase shares at a more appropriate valuation.

This is in line with research (Hastari & Ariyani, 2025; Mahardika & Ismiyanti, 2021; Muhani et al., 2020; Tanoyo & Arfianti, 2022), which found that ROA has a negative and significantly impact on IPO underpricing. Consequently, as the ROA value ascends, the more positive the signal it gives to potential investors, thereby reducing IPO underpricing.

H2: *Return on Assets has a negative effect on IPO underpricing on the IDX for the period 2016-2025.*

Underwriter Reputation

According to Tandelilin (2017:74-75), an underwriter serve as a securities firm that signs an agreement with the issuing company to facilitate the public offering. Issuers conducting an IPO can choose to use reputable or non-reputable underwriters. Ariyani & Gumanti (2025) show that employing reputable underwriters has been demonstrated to lower the level of underpricing. Although issuers must spend more than when using non-reputable underwriters, the use of reputable underwriters increases potential investors' trust in issuers. This is in line with the explanation by Jamaani & Alidarous (2019) that the signaling model of information asymmetry theory explains that issuing companies transmit positive signals to prospective investors to lessen the information gap among issuing companies and potential investors. Brigham & Houston (2024:33), also emphasize that signaling involves step implemented by companies to communicate signals to potential investors through the information they have about the company's prospects. IPO companies use reputable underwriters as additional guarantees of the quality of issuers, which strengthens the positive signals from the stock offering.

This is in line with research (Ariyani & Gumanti, 2025; Arora & Singh, 2019; Bandi et al., 2020; Jamaani & Ahmed, 2020; Neghab et al., 2023; Ong et al., 2020; Tanoyo & Arfianti, 2022; Wijaya & Kufepaksi, 2023) that underwriter reputation had a negative impact and significant on IPO underpricing. Specifically, by analyzing 3.457 companies in the United States from January 1979 to November 2018, Neghab et al. (2023), were able to demonstrate that the involvement of reputable underwriters can reduce the likelihood of underpricing following an IPO. These findings indicate that firms employing reputable underwriters are better able to deminish the extent of underpricing amid the IPO process. This means that potential investors believe that reputable underwriters have the ability to analyze market conditions and evaluate the feasibility of issuers, where their credibility acts as a signal that encourages investor confidence in setting reasonable stock prices and serves as a guarantee of the quality of issuers.

H3: *The reputation of underwriters has a negative effect on IPO underpricing on the IDX for the period 2016-2025.*

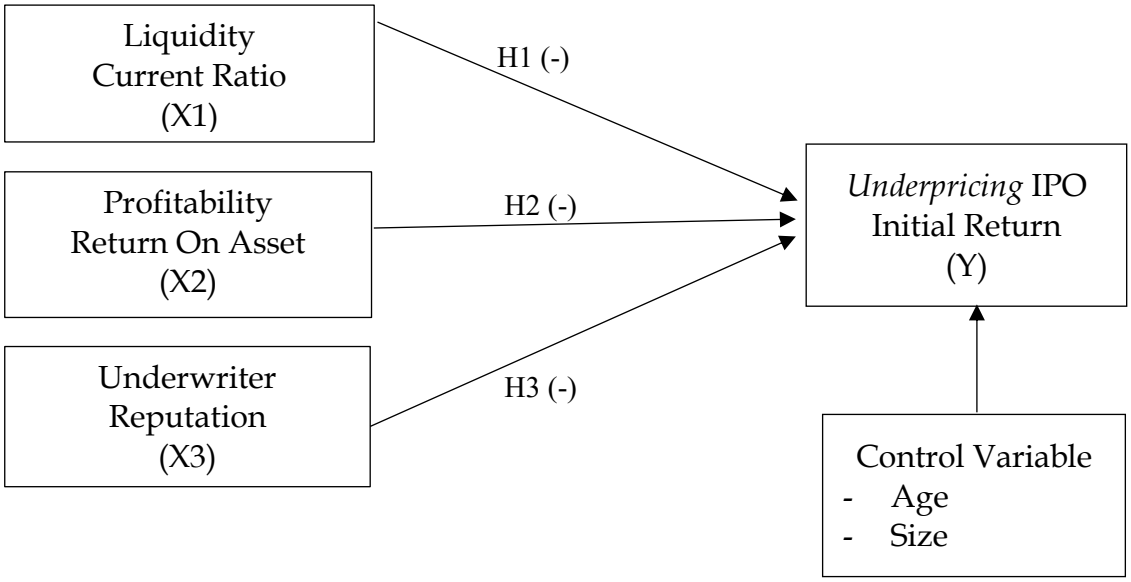

Figure 3. Conceptual Framework

METHODOLOGY

Quantitative methods are utilized in this research to examine the effect of independent variables consisting of firm's financial performance, proxied through CR, ROA, and underwriter reputation on the dependent variable, IPO underpricing, with control variables consisting of firm size and age. A causal relationship was chosen in this study to offer empirical evidence and to clarify the causality relationship among the CR, ROA, underwriter reputation in relation to IPO underpricing.

This study uses cross-sectional data from 2016 to 2025. Furthermore, this study utilizes secondary data as its source, namely the financial performance of IPO companies and the reputation of underwriters used by IPO companies based on the top twenty reputable underwriters ranking issued by the Indonesia Stock Exchange.

The population of this study comprises 471 firms that undertook IPOs on the IDX during the period of 2016-2025. In this study, the sampling method adopted was purposive sampling. The standards for choosing the companies in this study are companies that conducted IPOs between 2016 and 2025 on the IDX; companies with complete data; companies that did not experience relisting; and companies that used the rupiah in their financial reports.

Based on the sample criteria, the research sample consisted of 427 issuers that conducted IPOs between 2016 and 2025 and met the sample criteria.

Table 1. Research Sample Determination Process

Year	IPO Companies	Incomplete Data	Relisting	Dollar Currency	Sample Size
2016	15	(2)	(0)	(2)	11
2017	37	(2)	(0)	(3)	32
2018	56	(3)	(0)	(2)	51
2019	55	(3)	(0)	(2)	50
2020	51	(2)	(1)	(2)	46
2021	54	(2)	(0)	(3)	49
2022	59	(1)	(0)	(1)	57
2023	79	(0)	(0)	(5)	74
2024	43	(2)	(0)	(3)	38
2025	22	(1)	(0)	(2)	19
TOTAL	**471**	**(18)**	**(1)**	**(25)**	**427**

Data Processed in 2025

An IPO underpricing with the proxy Initial Return (IR) is the dependent variable in this study. Underpricing is a phenomenon of low prices that occur when a company goes public to attract potential investors to buy IPO shares by providing high initial returns.

CR, ROA, and underwriter reputation is an independent variable examined in this research. CR reflects a firm's capacity to fulfill its current debt using its current assets. ROA is a measure of the firm's effectiveness in generating net earnings from the total assets it controls. The reputation of the underwriter is the perception of prospective investors regarding the credibility and ability of the underwriter in conducting the IPO so that potential investors trust the quality of information and the share price offered by the company.

Control variables are variables that are controlled or kept constant so that the effect of independent variables on dependent variables is not influenced by external factors that are not being studied (Sugiyono, 2020:82). In this study, the author uses the control variables of age, with reference to the study by Rau et al. (2024) and size, with reference to the study by Terentia & Riswan (2025). Firm age refers to how long an issuing firm has been operating or established before going public.. Age can be calculated from when the issuer company was established until the issuer company conducted an IPO. According to Rau et al. (2024) compared to older companies, younger companies have a higher rate of underpricing. Company size is generally assessed based on total assets its owned or the gross proceeds generated. According to Terentia & Riswan (2025), the natural logarithm of the company's total assets is what is known as firm size, where companies with larger assets are considered to be larger in size. Larger companies tend to have a more stable structure, more transparent information, and a better reputation in the eyes of potential investors, resulting in lower underpricing compared to smaller companies.

Table 2. Variable Measurement

Variable	Variable Measurement	Symbol
Variabel Independen		
Current Ratio	Current assets divided by current liabilities	CR
Return on Asset	Net income divided by total assets	ROA
Underwriter Reputation	Dummy variable 1 = underwriter ranked in the top 20 on the IDX 0 = not included in the top 20 on the IDX	UND
Variabel Kontrol		
Age	Year of IPO minus the year the company was founded	AGE
Size	Ln(total assets)	LNSIZE
Variabel Dependen		
Underpricing IPO	[Closing price on the first day of trading - company's initial offering price) : company's initial offering price]	IR

Multiple Regression Model

This research applies multiple linear regression to examine the strength of the effect exerted of CR, ROA, and underwriter reputation on IPO underpricing, with age and size as control variables. The model used in this study is formulated as follows:

$$\mathbf{IR = \alpha + CR_{x1} + ROA_{x2} + UND_{x3} + Age_{x4} + LnSize_{x5} + \mathit{e}}$$

RESEARCH RESULT AND DISCUSSION

Descriptive Statistics

Based on descriptive statistical tests, the data description presented in Table 3 is as follows:

Table 3. Descriptive Statistic Results

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
IR	427	-0,405	2,9837	0,296	0,281
CR	427	0,037	41,472	2,572	4,488
ROA	427	-0,056	0,732	0,073	0,134
AGE	427	1	64	16,90	12,089
LNSIZE	427	20,473	31,036	26,173	1,736

Processed Data (IBM SPSS 25), 2025

The summary descriptive statistics for the variables in the research across 427 firms that carried out IPOs on the IDX during the period 2016-2025 are presented in Table 3. In accordance with the findings of the descriptive statistical test of the Initial Return of IPO companies, the average value obtained was 0,296. Indicating that, on average, the sampled IPO firms experienced underpricing.

CR, as a proxy for the liquidity ratio, obtained an average of 2,572. This means that the capability of IPO companies to fulfill short-term liabilities averaged 2,572. According to Kasmir (2015:135), this average value is considered healthy because it is above the CR standard value of 2, meaning that on average, companies have sufficient liquidity to meet their short-term obligations. The standard deviation value of 4,488 indicates that there is a considerable disparity between the minimum and maximum CR values of companies. The average profitability is seen from the ROA proxy of 0,073. This means that the average company that conducted an IPO on the IDX in the 2016-2025 period was able to generate profitability.

Table 3 shows the companies conducting IPOs average age is 17 years from the year of establishment, the minimum age is 1 year and the maximum age is 64 years. This indicates a considerable variation in the longevity of firms opting to go public in Indonesia. Moreover, the average firm size at the time of the IPO is around IDR 1 trillion, with sizes ranging from IDR 778.9 million to IDR 30.1 trillion, highlighting a substantial disparity in the scale of businesses undertaking IPOs.

Table 4. Descriptive Statistics for Underwriter Reputation Variables

Category	Description	Number of Companies	Percentage
1	Reputable Underwriter	149	34,89%
0	Non-reputable Underwriter	278	65,11%
Total		**427**	**100%**

The reputation of underwriters is the perception of potential investors regarding the credibility of underwriters, which is measured using dummy variables. According to the descriptive statistical results tests in Table 4, only 34.89% or 149 IPO companies use reputable underwriters, while 65.11% or 278 IPO companies employed non-reputable underwriters. This indicates that reputable underwriters are still underused in Indonesia.

Hypothesis Testing

Based on hypothesis testing with multiple linear regression, the results of the regression are shown in Table 5 as follows.

Table 5. Multiple Linier Regression Results

Variabel	Prediction	Model 1	Model 2
Constant		0,333	0,265
		(17,005)	(1,191)
CR	Negative	-0,002	-0,002
		(-0,556)	(-0,497)
ROA	Negative	-0,243	-0,227
		(-2,419)***	(-2,210)**
UND	Negative	-0,044	-0,049
		(-1,542)*	(-1,650)*
AGE	Negative		-0,003
			(-2.178)**
LNSIZE	Negative		0,004

Variabel	Prediction	Model 1	Model 2
			(0,491)
R-Squared		0,021	0,032
Adj. R-Squared		0,014	0,020
F-Stat		2,998*	2,761*

Processed Data (IBM SPSS 25), 2025

Note : ***The symbols ***, ** and * indicate that the correlation is significant at the 1%, 5%, and 10% levels (1-tailed), respectively.***

Model 1 in Table 5 indicates that CR exhibits a negative yet statistically insignificant influence on IPO underpricing. These contradict the findings of by Adiputra et al. (2023) and (Mahardika & Ismiyanti, 2021), who revealed that CR negatively influence IPO underpricing. This finding suggests that CR does not affect IPO underpricing. These results align with the research carried out by Isynuwardhana & Febryan (2022), which found that CR does not significantly affect IPO underpricing. The results of the study are not influential, presumably because the CR value for prospective investors only provides an overview of the short-term prospects of the issuing company, so that the CR value receives less attention from prospective investors. This is because prospective investors who buy IPO company shares do not only look at short-term prospects, but also long-term prospects. Therefore, it is suspected that the long-term prospects of IPO companies receive more attention from potential investors, such as the profitability firm's profitability and the reputation of its underwriters, which better reflect the long-term growth and profitability prospects and quality of the company compared to the CR value as a condition of the company's short-term liquidity.

In addition, CR is suspected to be general information for potential investors because it can be seen in historical financial reports that are generally known to the public, so there is no significant information asymmetry. A high liquidity level does not always imply the efficiency or quality of a company, but can be caused by unproductive current assets. This means that this study finds that liquidity ratios with CR proxies are not a major consideration for potential investors in assessing the potential for underpricing during the IPO is conducted. This is not in line with the signaling model of information asymmetry theory, which states that firms convey signals to prospective investors about their company's prospects to reduce information asymmetry (Brigham & Houston, 2024:33). Although the CR value can be a positive signal regarding the firm's liquidity capability, The study's findings revealed that the CR value was not considered by potential investors because there were other factors that potential investors considered more relevant in making investment decisions.

Model 1 in Table 5 indicates that the financial performance variable of profitability, proxied by ROA, significantly negatively impacts on IPO underpricing. This result aligns with previous studies by (Hastari & Ariyani, 2025; Mahardika & Ismiyanti, 2021), which found that the greater the ROA value, the lower the underpricing rate. This indicates that investors assess companies with good financial performance as having better prospects, so they are more inclined to purchase the shares at a reasonable value, thereby lowering the rate of underpricing. Moreover, the findings of this study are aligned with those of previous research (Hastari & Ariyani, 2025; Muhani et al., 2020; Tanoyo & Arfianti, 2022), which found that ROA negatively affects underpricing. This indicates that as a firm becomes more effective at generating earnings from its assets, the rate of underpricing tends to decline. The research findings of this study validate the signaling theory described by Jamaani & Alidarous (2019) that issuing firm's send positive signals to potential investors to reduce information asymmetry. Information on company profitability, proxied by ROA, becomes a positive signal for potential investors, thereby reducing information asymmetry. This signal is received and responded to by potential investors who assess that the firm has the ability to produce earnings from its assets, thereby providing a positive signal regarding the performance of the firm that issued the stock and reducing the rate of IPO underpricing.

Model 1 in Table 5 also found that there is a difference between companies that use reputable underwriters and those that do not. Issuing companies that employ underwriters with excellent reputations are in a better position to reduce the level of IPO underpricing compared to companies that do not use reputable underwriters. This finding is in line with the research by Ariyani & Gumanti (2025), which found that the the underwriter's reputation significantly negatively impacts IPO underpricing. This means that companies send a positive signal through the utilization of reputable underwriters to enhance the confidence of prospective investors that the issuing firms is of high quality, thereby decreasing underpricing compared to companies that use non-reputable underwriters. This finding is also supported by research (Arora & Singh, 2019; Bandi et al., 2020; Jamaani & Ahmed, 2020; Neghab et al., 2023; Ong et al., 2020) which cloncluded that underwriter reputation negatively and significantly impact IPO underpricing. This means that the reputable underwriter used by the issuing firms becomes a signal of the company's quality to convince investors, thereby reducing underpricing.

The empirical research, which added the control variables of age and company size to model 2, showed results consistent with model 1, namely that profitability, proxied by ROA, significantly and negatively impacts the extent of IPO underpricing. This means that the longer an IPO company has been established, the more it increases the more it strengthens potential investors' trust in the firm's quality, ultimately contributing to a decline in IPO underpricing. Similarly, the addition of the control variable of underwriter reputation negatively and significantly impact on the extent of underpricing. This means that by adding of the age and size control variables in model 2 explains that the

reputable underwriter employed by the issuing company serves as a sign of the firm's quality to attract investors, which in turn lowers underpricing.

The study's results align the signaling theory of Brigham & Houston (2024:33) and Jamaani & Alidarous (2019) that IPO companies send positive signals to potential investors through the employ of reputable underwriters, indicating that the issuing companies are of high quality. This is because reputable underwriters possess capability to assess the feasibility of IPO companies more accurately before they are offered to the public. Thus, the presence of reputable underwriters indicates that the issuing company is of high quality, thereby reducing the level of underpricing. However, the significance level of the causal relationship of reputable underwriters on IPO underpricing is relatively weak at 10%. This is thought to be because during the research period from 2016 to 2025, only 34.89% of IPO companies used reputable underwriters, as shown in Table 4. This means that many companies still choose to use non-reputable underwriters. This is thought to be due to the high cost of reputable underwriters.

Table 6. Multiple Linear Regression Results for Companies Experiencing Underpricing

Variabel	Prediction	Model 1	Model 2
Constant		0,391	0,434
		(20,750)	(1,955)
CR	Negative	0,000	0,0000001086
		(0,058)	(0,000)
ROA	Negative	-0,184	-0,072
		(-1,829)**	(-2,547)**
UND	Negative	-0,072	-0,049
		(-2,639)***	(-1,721)***
AGE	Negative		-0,002
			(-0.045)**
LNSIZE	Negative		0,000
			(0,491)
R-Squared		0,028	0,037
Adj. R-Squared		0,021	0,024
F-Stat		3,596**	2,825**

Processed Data (IBM SPSS 25), 2025

Note : *The symbols ***, ** and * indicate that the correlation is significant at the 1%, 5%, and 10% levels (1-tailed), respectively.*

This study conducted a robust test, as shown in Table 6, on IPO companies that only experienced underpricing, namely 377 IPO companies with model 1 which does without control variables and model 2 include control variables. Both models show that IPO underpricing is consistently not impacted by CR. This means that CR variables are not taken into consideration by prospective investors when buying IPO shares. Meanwhile, ROA negatively and significantly affects IPO underpricing, as does the underwriter reputation. These results are consistent when using all three conditions during an IPO, namely underpricing, fair pricing,

and overpricing. In addition, model 2 explains that using the total sample, we found that the age variable negatively and significantly affects IPO underpricing.

Table 7. Multiple Linear Regression Results Based on Firm Age

Variabel	Prediction	Small Firm		Large Firm	
		Model 1	**Model 2**	**Model 3**	**Model 4**
Constant		0,305	-0,399	0,388	1,180
		(12,098)	(-0,859)	(12,320)	(2,276)
CR	Negative	0,001	0,002	-0,017	-0,017
		(0,351)	(0,501)	(-2,050)**	(-2,012)**
ROA	Negative	-0,311	-0,265	-0,133	-0,165
		(-2,516)***	(-2,129)**	(-0,795)	(-0,969)
UND	Negative	0,031	0,015	-0,104	-0,086
		(0,727)	(0,353)	(-2,626)***	(-2,092)**
AGE	Negative		-0,004		-0,001
			(-2.520)***		(-0,758)
LNSIZE	Negative		0,031		-0,028
			(1,644)*		(-1,481)*
R-Squared		0,031	0,065	0,056	0,070
Adj. R-Squared		0,017	0,043	0,043	0,048
F-Stat		2,236*	2,914**	4,141***	3,120**

Processed Data (IBM SPSS 25), 2025

Notes : *The symbols ***, ** and * indicate that the correlation is significant at the 1%, 5%, and 10% levels (1-tailed), respectively.*

The next robussnest test is to divide the sample group into company groups based on the mean total asset value, as shown in Table 7. Based on Model 1 and Model 2 in the small firm group, the regression analysis indicate that ROA negatively and significantly affects IPO underpricing. This means that potential investors who will buy shares in small IPO firm will expect higher profits and therefore tend to pay attention to the company's ROA value. Meanwhile, potential investors who buy shares in large firm tend to pay less attention to ROA values, but pay more attention to the underwriters used by the company. This means that large firm should engage reputable underwriters to boost prospective investors' confidence in the firm. This is evident in models 3 and 4, where the underwriter reputation variable negatively and significantly affects on IPO underpricing.

CONCLUSIONS AND RECOMMENDATIONS

Based on both the analysis and discussion results, it was observed that CR does not impact on the underpricing of IPOs firm on the IDX during the 2016-2025 period because prospective investors did not consider short-term debt repayment ability as a variable in purchasing IPO shares. However, when the sample used a division between large companies and small companies, it turned out that in the small company group, the CR value was a consideration for prospective investors in purchasing IPO shares. Meanwhile, using the total sample, ROA exerted a considerable adverse influence on the underpricing of companies' IPOs on the IDX during the 2016-2025 period. This is thought to be because prospective investors are given a positive signal by a high ROA value, which indicates that the company has the ability to generate profits, which leads to lowering the extent of IPO underpricing. Similarly, the underwriter reputation variable exerts a significant negative impact on the underpricing of company IPOs on the IDX for the 2016-2020 period. This is suspected to be because if an IPO company uses a reputable underwriter, it will demonstrate the quality of the company, which will be a positive signal for potential investors and has the potential to lower the rate of IPO underpricing. The control variable, age has a considerable negative impact on IPO underpricing. This is thought to be because long-standing companies are perceived as having greater prospects, allowing them to offer shares at a fair price. The results of this study have implications for the signaling model of information asymmetry theory, namely that CR, ROA, and underwriter reputation are positive signals given by companies to potential investors. These positive signals are able to lessen information asymmetry and lower IPO underpricing.

ADVANCED RESEARCH

This study has several limitations, namely that liquidity, as proxied by the Current Ratio (CR), does not affect IPO underpricing. This condition is suspected to be because, at the time of the initial public offering, prospective investors tend to consider the company's long-term prospects rather than its short-term liquidity conditions. Based on these limitations, future research should consider using other underpricing proxies, such as Buy and Hold Abnormal Return (BHAR), to obtain a picture of IPO performance in the long term. In addition, future research could also use independent variables that reflect the company's long-term performance, such as Earning per Share (EPS) and Price to Book Value (PBV), in order to explain the phenomenon of underpricing more comprehensively.

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