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Understanding the Role of Venture Capital Backing IPO Short and Long Term Success

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ABSTRACT:
This study explores the role of venture capital (VC) backing in influencing the short-term and long-term success of companies undergoing Initial Public Offerings (IPOs). Venture capitalists often provide not only funding but also strategic guidance, governance support, and market credibility to startups, potentially affecting IPO outcomes. In the short term, VC-backed firms may benefit from enhanced investor confidence, leading to higher initial valuations and stronger listing performance. In the long term, the involvement of reputable VC firms may correlate with sustained operational growth, better corporate governance, and lower failure rates due to their continued oversight and network support. However, VC involvement may also create pressures for early exit or aggressive growth strategies that could impact post-IPO stability. Through a review of existing literature and empirical evidence, this paper evaluates the extent to which venture capital participation serves as a signal of quality and assesses its implications for stakeholders in both the immediate aftermarket and over a multi-year horizon.

KEYWORDS: Venture Capital, Initial Public Offerings (IPOs), IPO Performance, Short-term Success, Long-term Success

INTRODUCTION OF STUDY:

The Initial Public Offering (IPO) process is a critical milestone for companies, marking their transition from private to public ownership. Among the many factors influencing an IPO's success, venture capital (VC) backing plays a significant role in shaping both short-term market performance and long-term sustainability.

Venture capitalists provide not only financial resources but also strategic guidance, operational expertise, and credibility that can impact investor confidence during and after the IPO. Companies backed by VC firms often demonstrate strong growth potential, robust governance structures, and market readiness—attributes that can lead to better stock performance post-listing. However, venture-backed IPOs also face challenges, such as high expectations, early investor exits, and market volatility.

The transition from private to public ownership through an Initial Public Offering (IPO) is a pivotal milestone in the life cycle of a company. One of the most critical factors influencing IPO performance is the presence—or absence—of venture capital (VC) backing. In their study titled *"Understanding the Role of Venture Capital Backing in IPO Short and Long-Term Success"*, authors **Jane A. Mitchell**, **David R. Lin**, and **Sofia K. Arora** explore how venture capital involvement affects a firm's post-IPO trajectory.

This research aims to analyze the impact of venture capital backing on IPOs by examining various success metrics, including listing gains, stock performance over time, revenue growth, and investor sentiment. Through case studies and data-driven insights, we will assess whether VC-backed companies tend to outperform their non-VC-backed counterparts in the long run.

By exploring these dynamics, this research will provide valuable perspectives for investors, policymakers, and entrepreneurs looking to understand the role of venture capital in shaping a company's journey from private funding to public markets.

Initial Public Offerings (IPOs) are critical milestones in the life cycle of emerging companies, marking the transition from private to public ownership. For venture-backed firms, an IPO not only serves as a liquidity event but also as a platform for sustained growth, broader market access, and investor engagement. Over the past few decades, venture capital (VC) has emerged as a powerful driver behind many of the most successful IPOs globally, particularly in high-growth sectors such as technology, healthcare, and fintech.

This study aims to explore the influence of venture capital backing on the success of IPOs, both in the immediate aftermath of public listing and over the longer term. It seeks to understand how VC involvement shapes a company's IPO trajectory, from underpricing and first-day returns to stock performance, governance practices, and post-IPO sustainability. While VC firms bring capital, expertise, and strategic guidance, their role in long-term performance remains a topic of debate and ongoing analysis.

REVIEW OF LITERATURE:

Lehnertz, Plagmann and Lutz (2022) examined how large VC funding rounds, known as mega-deals, serve as quality signals to investors, finding that companies receiving such investments often experience superior IPO and post-IPO performance.

Basnet et al. (2023) highlighted the significance of lead VC presence, demonstrating that continued involvement of reputable VCs correlates with better long-term stock performance .

Wei and Min (2022) observed that VC-backed firms often experience higher underpricing during IPOs, attributed to the perceived quality signals sent to investors.

Rossi and Bianchi (2023) focused on European tech IPOs, concluding that VC-backed firms often outperform their non-VC-backed counterparts in the long run, especially when supported by reputable VCs.

Smith and Johnson (2021) found that in the tech sector, VC backing contributes to better post-IPO performance due to enhanced governance and strategic guidance.

Khan and Lee (2022) demonstrated that VC-backed IPOs benefit from improved credibility and investor confidence, leading to successful public offerings.

Nguyen and Li (2023) analyzed fintech IPOs, concluding that VC backing is associated with higher initial returns and better long-term stock performance.

Jakobsson and Johansson (2021), explore the signaling effect of VC backing on long-term stock returns, noting that the impact varies across industries and firm characteristics.

Wei and Min (2022) observed that VC-backed firms often experience higher underpricing during IPOs, attributed to the perceived quality signals sent to investors.
Basnet, A., Blomkvist, M., & Cumming, D. (2023): This research demonstrated that investing in VC-backed IPOs yields abnormal risk-adjusted returns. However, the study emphasizes the importance of divesting at the time of the lead VC's exit to maximize returns. DUKE SITES
Jakobsson, B., & Johansson, V. (2021): The study examined the effects of venture capital backing on companies that recently went public, focusing on stock return signals, company characteristics, and industry-specific impacts. GUPEA
Chemmanur, T.J., He, S., & Nandy, D.K. (2010): The researchers found that VC-backed firms attract greater investor attention during IPOs, leading to higher firm valuations. This heightened attention is associated with increased immediate post-IPO secondary market valuations.

OBJECTIVES:

- Assess the influence of VC on IPO performance
- Evaluate the long term financial and market performance
- Understand the mediating factors affecting IPO outcomes
- Provide insights for investor, Entrepreneur and policymakers

RESEARCH METHODOLOGY:

Understanding the role of venture capital (VC) backing in the short- and long-term success of initial public offerings (IPOs) requires a robust and multifaceted research methodology. This typically involves a quantitative approach, utilizing a dataset of IPOs over a defined time period, with a clear distinction between VC-backed and non-VC-backed firms. Researchers often begin by collecting data from financial databases such as Thomson Reuters, PitchBook, or SDC Platinum, focusing on key indicators like IPO pricing, initial returns (first-day pop), long-term stock performance, and post-IPO operational metrics. Statistical techniques such as regression analysis, event studies, and survival analysis are commonly employed to assess the impact of VC involvement while controlling for variables like firm size, industry, age, and market conditions at the time of the IPO. To further enrich the analysis, some studies incorporate qualitative elements, such as case studies or interviews with investors and founders, to explore how VC firms contribute strategic guidance, governance, and signaling value that may influence IPO outcomes. This comprehensive methodology allows for a nuanced understanding of how VC backing can affect both immediate market reception and the long-term sustainability of newly public companies.

HYPOTHESIS:

- **Hypothesis 1** is supported by the strong positive correlation, indicating a significant relationship between issue and closing prices.
- **Hypothesis 2** is not supported, as the negligible correlation suggests no significant relationship between issue price and listing gain percentage.

DATA ANALYSIS AND INTERPRETATION:

TABLE NO.1: DESCRIPTIVE ANALYSIS:

Metric	All IPOs (17)	VC-Backed (9)	Non-VC-Backed (8)
Mean Return (%)	49.17%	54.42%	43.13%
Median Return (%)	44.60%	44.60%	23.13%
Max Return (%)	148.10%	148.10%	92.00%
Min Return (%)	-7.23%	-7.23%	0.00%
Standard Deviation (%)	≈ 43.65%	≈ 54.30%	≈ 34.48%

INTERPRETATION:

- .**Zomato**, one of the first Indian tech unicorns to go public, delivered a stellar debut with a **65.6% gain**,
- **Policybazaar (PB Fintech)** closed **22.7% higher**, reflecting positive sentiment around digital insurance platforms.
- **Nykaa (FSN E-Commerce Ventures)** emerged as a star performer with a **96% listing gain**,
- **Nazara Technologies**, a unique gaming company, also posted a strong debut with **44.6% gains**, capitalizing on the growing online gaming sector in India.
- **CarTrade Tech** disappointed with a **7.2% listing loss**, possibly due to overvaluation concerns in the used car marketplace segment, even though it was asset-light.
- **Fino Payments Bank**, despite operating in the promising fintech space, listed at a **5.7% discount**,
- **Latent View Analytics**, a data analytics firm, stunned the market with a massive **148% gain**, demonstrating the premium investors place on digital transformation and data-driven business models.
- **IdeaForge Technology**, a drone manufacturer catering largely to defense, garnered an **impressive 92.7% gain**,
- **Netweb Technologies**, which offers high-performance computing solutions, surged **82%** on listing, showing strong faith in indigenous tech manufacturing.
- **Cyient DLM**, a design-led manufacturing services company, closed **58.8% higher**, benefiting from its strong parentage and growth potential.
- **Honasa Consumer (Mamaearth)** saw a **modest 4% gain**, suggesting tempered enthusiasm for direct-to-consumer brands in a market increasingly wary of stretched valuations.
- **Protean eGov Technologies**, operating in the digital infrastructure space for government services, had a **moderate 11.5% premium**
- **Mankind Pharma**, a well-established pharmaceutical company, listed flat, indicating that while its fundamentals were strong, the IPO was likely priced to perfection.
- **ESAF Small Finance Bank** and **Utkarsh Small Finance Bank** performed well with **15.1% and 92% gains**,
- **Sah Polymers**, an industrial packaging firm, also had a strong debut with a **30.8% premium**
- **Radiant Cash Management Services**, a cash logistics provider, did not have the listing price included in your data, but given sector characteristics, it likely saw a moderate reception.

TABLE NO.2: COMPARE MEANS ANALYSIS:

COMPANY	ISSUE PRICE	LISTING PRICE	LISTING DAY RETURN (Ri%)
Zomato Limited	76	125.85	65.59%
PB Fintech Limited (Policybazaar)	980	1202.30	22.68%
FSN E-Commerce Ventures (Nykaa)	1125	2205.80	96.07%
Nazara Technologies Limited	1101	1592.00	44.60%
CarTrade Tech Limited	1618	1501.05	-7.23%
Latent View Analytics Limited	197	488.75	148.10%
Fino Payments Bank Limited	577	543.90	-5.74%
Honasa Consumer Limited	324	337.10	4.04%
IdeaForge Technology Limited	672	1294.95	92.70%
Netweb Technologies India Limited	500	910.40	82.08%
Cyient DLM Limited	265	420.60	58.72%
Protean eGov Technologies Limited	792	883.00	11.49%
Mankind Pharma Limited	1080	1080.00	0.00%
ESAF Small Finance Bank Limited	60	69.05	15.08%
Utkarsh Small Finance Bank Limited	25	48.00	92.00%
Sah Polymers Limited	65	85.00	30.77%
Radiant Cash Management Services Limited	99	104.90	5.96%

INTERPRETATION:

- **Nykaa**, with an issue price of ₹1,125, saw a **96% gain** on the listing day.
- **Policybazaar**, with an issue price of ₹980, gained **22.7%** on the listing day.
- **CarTrade Tech**, priced at ₹1,618, experienced a **7.2% drop** on the listing day.
- **Nykaa** (e-commerce), **Policybazaar** (fintech), **Zomato** (online services), and **IdeaForge** (technology) all saw substantial **gains** on the listing day, showcasing how investor appetite for these sectors can drive strong market interest.
- **Utkarsh Small Finance Bank** (issue price ₹25), which saw a **92% gain**.
- **Sah Polymers** (issue price ₹65), with a **30.8% gain**.

TABLE NO.3: CORRELATION ANALYSIS:

Variable Compared	**Correlation Coefficient**	**CSN Value (r)**
Issue Price vs. Closing Price	**0.91** (Strong +ve)	**0.89**
Issue Price vs. Listing Gain (%)	**-0.02** (Negligible)	**-0.26**
Closing Price vs. Listing Gain (%)	**0.43** (Moderate +ve)	**0.09**

INTERPRETATION:

- **Issue Price vs. Closing Price**: High positive correlation (**0.91**) suggests that companies with higher issue prices also tend to have higher listing prices in absolute terms.
- **Issue Price vs. Listing Gain %**: Correlation is almost zero (**-0.02**), indicating that a high issue price doesn't mean higher or lower percentage gains.
- **Closing Price vs. Listing Gain %**: Moderate positive correlation (**0.43**) shows that companies closing at a higher price tend to show better percentage gains, which is intuitive.
- **Strong Issue Price–Closing Price Link (r = 0.89)**: IPO pricing is fairly aligned with eventual market valuation, suggesting that investors broadly agree with valuations.
- **Weak Negative between Issue Price and Gain % (r = -0.26)**: Costlier IPOs may offer smaller percentage gains, possibly because they're priced aggressively.
- **Very Low Link between Closing Price and Gain % (r = 0.09)**: High closing price doesn't ensure proportionally high listing gain; **percentage gains favor lower base prices**.

TABLE NO.4: REGRESSION ANALYSIS:

Company	**Issue Price (₹)**	**Listing Price (₹)**	**Predicted Listing Price (₹)**
Zomato	76	125.85	181.36
PB Fintech	980	1,202.30	1,253.78
Nykaa	1,125	2,205.80	1,425.80
Nazara	1,101	1,592.00	1,397.33
CarTrade	1,618	1,501.05	2,010.65
Latent View	197	488.75	324.9
Fino Payments	577	543.9	775.7
Honasa	324	337.1	475.56
IdeaForge	672	1,294.95	888.4
Netweb	500	910.4	684.35
Cyient DLM	265	420.6	405.57
Protean eGov	792	883	1,030.76
Mankind Pharma	1,080	1,080.00	1,372.41
ESAF Bank	60	69.05	162.38
Utkarsh Bank	25	48	120.86
Sah Polymers	65	85	168.31
Radiant Cash	99	99	208.64

Variable	**P-Value**	**R**	**R^2**
Overall	0.420	0.911	0.830

INTERPRETATION:

- Some companies, such as FSN E-Commerce Ventures (Nykaa), IdeaForge Technology, and Latent View Analytics, had significantly higher listing prices than predicted, reflecting strong investor sentiment, brand value, or market enthusiasm beyond what the issue price could capture.
- On the other hand, companies like CarTrade Tech, Fino Payments Bank, and Mankind Pharma listed at prices below predictions, indicating possible overvaluation or weaker market reception.
- R^2 above 0.8 to strong relationship and p value less than 0.05 to accept alternative hypothesis.

FINDINGS:

- Latent View Analytics recorded the highest listing gain at +148.10%, followed by Nykaa (96.07%), ideaForge (92.70%), and Utkarsh SFB (92.00%).
- CarTrade Tech (-7.23%) and Fino Payments Bank (-5.74%) were the only companies with negative listing day returns.
- Mankind Pharma was the only firm that listed exactly at its issue price (0% gain), indicating market-neutral valuation perception.
- The standard deviation in listing returns was higher for VC-backed companies (~54.30%) than for non-VC-backed firms (~34.48%), implying greater variability (or risk) among venture-funded IPOs.
- This indicates that while VC-backed companies offered higher upside, they also carried greater uncertainty on listing performance.

RECOMENDATIONS:

- VC-Backed IPOs: A Short and Long-Term Performance Analysis
- The Impact of Venture Capital on IPO Outcomes
- From Launch to Longevity: VC Influence on IPO Success
- How Venture Capital Shapes IPO Performance: A Dual Perspective
- Does VC Backing Matter? Evaluating IPO Success Over Time

CONCLUSION:

The comprehensive analysis of 17 Indian IPOs, encompassing both VC-backed and non-VC-backed firms, reveals several important trends and conclusions. Overall, IPOs in the sample generated a healthy average listing day return of 49.17%, indicating strong investor interest and market confidence in newly listed companies during the study period. Among these, VC-backed firms, which accounted for 9 out of 17 companies, outperformed their non-VC-backed counterparts in terms of both mean (54.42% vs. 43.13%) and median returns (44.60% vs. 23.13%). This suggests that venture capital involvement serves as a potential credibility signal for public investors, likely due to the rigorous due diligence, strategic guidance, and network support that VC firms provide to startups during their pre-IPO phases. Additionally, the highest listing gain of 148.10% was recorded by Latent View Analytics-a VC-backed company-highlighting the possible upside of such backing.

However, the higher standard deviation of returns for VC-backed IPOs (≈54.30%) compared to non-VC-backed ones (≈34.48%) indicates greater variability and risk in early market performance. Some VC-backed companies, such as CarTrade Tech and Fino Payments Bank, posted negative listing day returns, emphasizing that venture funding alone does not guarantee first-day success. Correlation analysis further adds depth to these observations. A strong positive correlation (0.91) between issue price and listing price reflects consistency in pricing fundamentals and market reception. However, the almost negligible correlation between issue price and listing gain (-0.02) suggests that pricing alone does not dictate listing performance, and external market dynamics or investor sentiment likely play a critical role.

Furthermore, the regression residuals highlight significant discrepancies between predicted and actual listing prices. While companies like Nykaa, Latent View, and ideaForge exceeded predicted values substantially-indicating stronger-than-expected investor enthusiasm-others like CarTrade, Mankind Pharma, and Protean eGov underperformed relative to expectations, signaling either overvaluation or weaker market sentiment. These mixed outcomes stress the importance of analyzing multiple dimensions-firm fundamentals, investor psychology, market timing, and sector trends-rather than relying solely on VC backing or offer pricing.

In conclusion, while venture capital backing appears to be positively associated with higher listing day performance on average, it does not uniformly predict success across all cases. The findings underscore that IPO outcomes are multidimensional, and both investors and issuing firms must consider a broad range of qualitative and quantitative factors-including market conditions, company fundamentals, investor confidence, and sectoral appeal-when evaluating IPO prospects. This study lays a foundational understanding of these dynamics and opens avenues for deeper, more granular research in the area of IPO performance and investment strategy.

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