Determinants of IPO Underpricing on the Indonesia Stock Exchange: A Quantile Regression Approach for the Period 2021-2025

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Abstract

Background: Underpricing is a global phenomenon that occurs in every country, including Indonesia. The underpricing phenomenon indicates that the efficient conditions of the capital market are not fully met under the EMH. This phenomenon also prevented the company from obtaining the full amount of proceeds and left money on the table.
Objective: This research aims to examine the impact of DER, ROE, NPM, company size, underwriter reputation, number of underwriters, ownership concentration, and managerial ownership on IPO underpricing on BEI during the 2021-2025 period
Research Methods: The study employs Quantile Regression at the median quantile (0.5) with Huber-Sandwich standard errors. This method was selected because it is non-parametric and does not require normality assumptions, making it more robust to the characteristics of IPO data. The research sample consists of 248 companies selected via purposive sampling.
Research Results: The model is statistically significant. Individually, DER has a significant positive effect, while NPM and UNUM have significant negative effects on underpricing; the remaining five variables show no significant impact. Additional analysis under market euphoria conditions reveals heterogeneity in market responses, in which the debt risk signal (DER) loses statistical relevance, while NPM and UNUM become increasingly dominant.
Originality/Novelty of Research: These findings confirm signaling theory under normal market conditions and contribute to the Behavioral Finance literature by demonstrating that investors respond to prospectus signals selectively and asymmetrically during instances of extreme underpricing.
Keywords: Underpricing, Initial Public Offering, Quantile Regression, Signaling Theory, Emerging Market

Introduction

Underpricing is a capital market anomaly consistently observed across various countries, in both emerging and developed markets (Oliveira, Rodrigues, & Juca, 2023). This phenomenon occurs when the closing price on the first day of secondary market trading exceeds the offering price established during the bookbuilding process, resulting in a positive initial return for investors (Tewu, Eliakim, & Elisabet, 2025). This condition contradicts the Efficient Market Hypothesis (EMH), which posits that all public information should already be reflected in stock prices (Fama, 1970), and indicates that issuing companies fail to maximize capital proceeds through the offering process (Sabaria, Khairunisa, & Hamsiah, 2023).

In Indonesia, this phenomenon was widely documented during the 2021-2025 period; 259 companies conducted IPOs on the Indonesia Stock Exchange (IDX), with 182 of them, approximately 70%, experiencing underpricing, a trend observed in every year of that period (Table 1). The enthusiasm in the Indonesian capital market garnered global recognition in the EY Global IPO Trends report, with the IDX ranking 6th globally in 2023 and 10th in 2024 by number of IPOs (Bursa Efek Indonesia, 2023a, 2024). This period was selected because it encompasses the expansion phase driven by post-COVID recovery policies (2021-2023) and the subsequent normalization phase following the official end of the pandemic on June 21, 2023 (Bursa Efek Indonesia, 2022, 2024; Presiden Republik Indonesia, 2023).

Table 1. Underpricing Company for the 2021-2025 period

Code	Year	Underpricing
DCII	2021	25%
TAPG	2021	35%
BIKE	2022	34%
GOTO	2022	13%
SAGE	2023	35%
BREN	2023	25%
MHKI	2024	35%
AADI	2024	20%
RLCO	2025	35%
CDIA	2025	35%

Source: Indonesia Stock Exchange (IDX), processed by author

Empirical evidence indicates that the majority of IPO companies experience underpricing on their first day of trading, suggesting that this phenomenon is not determined solely by market mechanisms but also by the company's internal and external factors (Tewu et al., 2025; Wenehen, Ekananda, & Safitri, 2025). Specifically, a combination of the firm's financial performance and capital structure, underwriter-related characteristics, and internal corporate governance through ownership structures has been widely documented to exert a significant influence on the level of underpricing. (Natsir, Ngadiman, & Pranadipta, 2024; Perkasa & Maiyaliza, 2024; Sari, Fariana, & Rachma, 2024; Tewu et al., 2025). On one hand, financial metrics such as profitability and leverage signal the company's fundamental strength and creditworthiness, which directly affect investor valuations (Perkasa & Maiyaliza, 2024; Sari et al., 2024).

On the other hand, the reputation and composition of the underwriting team serve as credible external signals that help reduce ex-ante uncertainty (Perkasa & Maiyaliza, 2024; Tewu et al., 2025), while the concentration and managerial shareholdings within the firm's ownership structure signal stronger long-term commitment from controlling shareholders and management, thereby signaling corporate quality (Natsir et al., 2024).

This study seeks to identify these factors through eight independent variables: DER, ROE, NPM, firm size, underwriter reputation, number of underwriters, ownership concentration, and managerial ownership, which can be theoretically explained through Signaling Theory (Spence, 1973).

Previous studies have produced numerous findings on IPO Underpricing, but they have yielded inconsistent results regarding its determinants. Perkasa & Maiyaliza (2024) found a significant negative effect of DER on underpricing, while Wenehen et al. (2025), Safitri (2025), Yandes (2023), and Dwijaya & Cahyadi (2021) found no significant effect. Regarding ROE, Desiyanti, Hanum, Chrismondari, & Yuliza (2023) reported a significant negative effect, whereas Yandes (2023) found no significant relationship. For NPM, Sari et al. (2024) reported a significant negative effect, whereas Octafian et al. (2021) found no significant effect. Concerning firm size, Meilina & Imelda (2024) and Kennedy, Sitompul, & Tobing (2021) reported a significant negative effect, while Wenehen et al. (2025), Perkasa & Maiyaliza (2024), and Desiyanti et al. (2023) found no significant relationship. Tewu et al. (2025), Safitri (2025) and Kuswandi, Lubis, & Viverita (2025) found a significant negative effect of underwriter reputation, whereas Wenehen et al. (2025) and Devano (2025) reported insignificant results. The number of underwriters has been found to exert a significant negative effect by Tewu et al. (2025) and Sahoo & Sahoo (2022). Arora & Singh (2025) reported a significant negative effect of ownership concentration, while Teti & Montefusco (2022) found no significant relationship. Regarding managerial ownership, Aisyah (2025) found a significant positive effect, whereas Natsir et al. (2024) documented a significant negative effect on initial returns in the IDX context.

Based on the previous explanation, the determinants of IPO underpricing appear to be complex, as reflected in the inconsistent findings reported by prior studies, and this will be the first gap in this research. In the Indonesian context, no prior study has simultaneously integrated these eight variables into a single IPO analytical model. Although these variables have been examined separately in previous studies, no study has examined them in a single model. Therefore, this study aims to examine the effects of DER, ROE, NPM, company size, underwriter reputation, number of underwriters, ownership concentration, and managerial ownership on IPO underpricing on the Indonesia Stock Exchange during the 2021-2025 period.

Literature Review

Signaling Theory

Signaling Theory (Spence, 1973) posits that under conditions of information asymmetry, corporate insiders attempt to convey credible signals to investors to reduce uncertainty. In the context of an IPO, a company's financial variables serve as signals regarding the issuer's fundamentals: the Debt-to-Equity Ratio (DER) signals leverage risk (Devano, 2025); Return on Equity (ROE) and Net Profit Margin (NPM) signal profitability and business prospects (Mahfud & Puspitasari, 2025; Octafian, Wijayanti, & Masitoh, 2021; Sari et al., 2024); and firm size signals transparency and stability to the market (Wenehen et al., 2025).

Meanwhile, underwriter characteristics also act as signals to investors: underwriter reputation signals the issuer's credibility (Kuswandi et al., 2025), while a large number of underwriters reflects broader risk distribution through underwriting syndication (Kennedy et al., 2021; Sahoo & Sahoo, 2022). Regarding ownership, ownership concentration signals the majority shareholders' ability to discipline management (Ahmed, Fathy, & Samak, 2024; Arora & Singh, 2025), whereas managerial ownership reflects the long-term commitment of insiders to the company's prospects (Aisyah, 2025). Collectively, these signals influence investor perceptions and impact the level of underpricing.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) was proposed by Fama (1970). In this theory, we assume all information is reflected in the stock price. EMH was divided into three levels: weak, semi-strong, and strong. In the semi-strong form, the EMH assumes that all publicly available information, including company financial statements, prospectus disclosures, underwriter characteristics, company statements, and company structure, is already reflected in stock prices. But in practice, when a company does an IPO or Initial Public Offering, it still has underpricing. This phenomenon indicates that public information may not be fully reflected in the IPO price.

Based on the theoretical foundations of Signaling Theory (Spence, 1973) and the Efficient Market Hypothesis Fama (1970), as well as the review of prior empirical studies on the determinants of IPO underpricing, this study develops a conceptual framework that integrates eight independent variables: DER, ROE, NPM, company size, underwriter reputation, number of underwriters, ownership concentration, and managerial ownership as explanatory variables (Ahmed et al., 2024; Mahfud & Puspitasari, 2025; Sahoo & Sahoo, 2022; Teti & Montefusco, 2022). The conceptual framework of this study is presented in Figure 1.

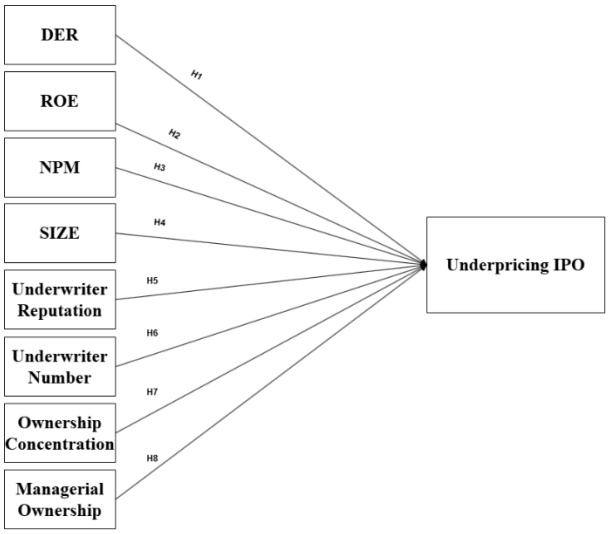


Figure 1. Conceptual Framework

Underpricing

An initial public offering is the process by which a company offers its shares to the public, in accordance with the OJK Regulations (Otoritas Jasa Keuangan, 2019). Based on that definition, an IPO is a process by which a company opens its ownership to the public and raises additional capital. IPO is not a simple process; as a result, Bursa Efek Indonesia imposes strict regulations on any company that wants to list on the IHSG. Every company should provide its financial reports and prospectuses for a few previous fiscal years, decide which broker will represent it, and conduct bookbuilding to determine the final price of the IPO (Bursa Efek Indonesia, 2025). In IPO practice, many companies have been underpriced, suggesting market inefficiency, contrary to the EMH. Underpricing is not just reflected in the gap between the company's set price, but also indicates the enthusiasm and optimism of investors for the company.

Based on the formula, we can get the percentage of underpricing for each company on the first listing day. Need to know whether BEI has set the maximum limit up, or the maximum percentage by which companies' prices can increase on one day, also known as Auto Reject Atas (ARA) (Bursa Efek Indonesia, 2023b). With these conditions, every company has a limitation on price increases each day.

Table 2. Maximum Daily ARA

Price Range	% ARA
< 200	35%
200 – 5000	25%
> 5000	20%

Debt to Equity Ratio and Underpricing

DER measures the proportion of debt relative to equity in a firm's capital structure. Under Signaling Theory, the value of DER will give a signal to the investor about how risky the company is. A high DER value will create a risky perception in investors of the company, and it will make the company set a conservative price and have the potential to increase the underpricing (Devano, 2025). The previous research had found various empirical studies; (Perkasa & Maiyaliza, 2024) found that DER is significantly negative to the underpricing phenomenon; on the other hand, Wenehen et al. (2025), Safitri (2025), Dwijaya & Cahyadi (2021), and Yandes (2023) had found that DER didn't have a relationship with underpricing. Theoretically, a high DER reflects the substantial financial risk burden borne by the company, which can logically influence investor perceptions of valuation uncertainty at the time of the initial public offering. This risk perception is what logically has the potential to influence investors' assessment of the fairness of the offering price, such that DER has the potential to influence the level of underpricing.

H1: Debt to Equity Ratio has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Return on Equity and Underpricing

ROE measures a firm's ability to generate profit from shareholders' equity. In the context of Signaling Theory, a higher ROE signals strong managerial performance and profitability, and creates more value for its shareholders. The previous study had found various results for ROE. Desiyanti et al. (2023) reported a significant negative effect of ROE on underpricing, while Yandes (2023) found no significant relationship between ROE and underpricing. This reflects that superior profitability performance can logically shape investor perceptions of the company's future value and reduce their uncertainty in assessing the fairness of the offering price, such that ROE has the potential to influence the level of underpricing.

H2: Return on Equity has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Net Profit Margin and Underpricing

NPM reflects the proportion of revenue that translates into net profit, indicating overall operational efficiency. Under Signaling Theory, a higher NPM signal gives the signal to the investor if the company has been efficient in managing its own revenue. A previous study found various results: Sari et al. (2024) found a significant effect of NPM on underpricing, whereas Octafian et al. (2021) found no significant effect between NPM and IPO underpricing. This efficiency signal can logically shape investor confidence in the company's ability to sustain profitability going forward, thereby having the potential to influence investors' assessment of the offering price and, in turn, the level of underpricing.

H3: Net Profit Margin has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Firm Size and Underpricing

Firm size will reflect the company size, operational scale, and the maturity of the company. Larger firms or big companies are also associated with greater public visibility, more accessible information for investors, and reduced market uncertainty. According to signaling theory, firm size serves as a credibility and transparency signal. Big firms are perceived as more established and less risky. Based on previous studies, empirical studies have found various results. Meilina & Imelda (2024) and Kennedy et al. (2021) documented a significant negative effect of firm size on underpricing, while Desiyanti et al. (2023), Perkasa & Maiyaliza (2024), and Wenehen et al. (2025) found no significant relationship between firm size and underpricing IPO. This perception of stability and lower risk can logically reduce the information uncertainty faced by investors in valuing the company at the time of the offering, such that firm size has the potential to influence the level of underpricing.

H4: Firm Size has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Reputable underwriter and Underpricing

Reputable underwriters will give a signal of higher-quality certification to the market. Under Signaling Theory, the involvement of a prestigious underwriter reduces investor uncertainty regarding the issuing firm's quality. The empirical studies have found various results between underwriter reputation and underpricing. Kuswandi et al. (2025), Safitri (2025), and Tewu et al. (2025) found a significant negative effect of underwriter reputation on underpricing, while Devano (2025) and Wenehen et al. (2025) found no significant relationship between underwriter reputation and underpricing IPO. In this research, this variable will be measured by the frequency with which the investor is involved in IPOs; this method is recommended by Teja (2021) because it is more reliable for explaining underwriter reputation and underpricing compared to other methods. This certification effect can logically shape investor confidence in the quality of the offering, such that underwriter reputation has the potential to influence the level of underpricing.

H5: Underwriter Reputation has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Number of Underwriters and Underpricing

The number of underwriters is described as how many underwriters are involved in an IPO. The larger the number of underwriters, the more it will signal to the investor that it reflects the distribution of information risk across multiple parties. Previous research by Sahoo & Sahoo (2022) and Tewu et al. (2025)

found a significant negative effect of the number of underwriters on underpricing. This distribution of risk across a larger underwriting syndicate can logically strengthen investor confidence in the credibility of the offering, such that the number of underwriters has the potential to influence the level of underpricing.

H6: Number of Underwriters has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Ownership Concentration and Underpricing

Ownership concentration refers to the proportion of shares held by major shareholders. The major shareholders will be institutional, personal, or managerial. The company with majority ownership has the power to make decisions for the company (Lewellen & Lewellen, 2025). Under Signaling Theory, higher ownership concentration gives a signal of stronger long-term commitment from dominant shareholders. Arora & Singh (2025) reported a significant negative effect of ownership concentration on underpricing, while Teti & Montefusco (2022) and Ahmed et al. (2024) found no significant relationship between ownership concentration and underpricing. This commitment signal can logically shape investor confidence in controlling shareholders' long-term commitment to firm performance, such that ownership concentration has the potential to influence the level of underpricing.

H7: Ownership Concentration has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Managerial Ownership and Underpricing

Managerial ownership refers to the percentage of the company's shares owned by the board of commissioners and the board of directors Aisyah (2025). Companies that managers have large ownership in will avoid putting the stock price at high underpricing, because it will impact the company's cash flow (Sukmawati & Pasaribu, 2017). Under signaling theory, the largest number of managerial ownership in the company will give a signal of long-term commitment of the managers to the future company prospects. The previous study had found various results. Aisyah (2025) had found a significant positive effect of managerial ownership on underpricing, whereas Natsir et al. (2024) had found that managerial ownership has a significant negative effect on underpricing. This commitment signal can logically shape investor confidence regarding managers' long-term commitment to the company's future performance, such that managerial ownership has the potential to influence the level of underpricing.

H8: Managerial Ownership has a significant effect on Underpricing at the median quantile ($\tau = 0.5$).

Research Methods

This study employs a quantitative approach with an explanatory design and a cross-sectional nature, utilizing secondary data (Creswell, 2009; Sekaran & Bougie, 2010). Financial variable data were obtained from corporate annual reports, while data regarding underwriters and ownership structures were sourced from company IPO prospectuses (Aisyah, 2025; Devano, 2025). Data collection was conducted using the documentation method, involving the identification, review, and compilation of documents relevant to the research objectives (Sekaran & Bougie, 2010).

The study population consists of all 259 companies that conducted an IPO on the Indonesia Stock Exchange (IDX) during the 2021-2025 period. The sample was selected using purposive sampling (Campbell et al., 2020) based on three criteria: first, the company conducted an IPO between 2021 and 2025; .second, the company does not belong to the financial sector (due to differences in financial statement structures), which resulted in 5 companies being excluded; and third, the company's prospectus contains complete financial statement data, which resulted in 6 companies being excluded. Following the application of these criteria, a final sample of 248 companies across various industrial sectors was obtained.

To ensure a clear understanding of the variables used in this study, the operational definitions of each variable are presented in Table 3.

Table 3. Variable Definition Operational

Variable	Measurement	Source
UP	(First day listing closing price - Offering Price) / Offering Price x 100%	Ahmed et al. (2024)
DER	Total Liabilities / Total Equity × 100%	Wenehen et al. (2025)
NPM	Net Proft / Revenue x 100%	Octafian et al. (2021)
SIZE	Ln (Total Aset)	Wenehen et al. (2025)
UREP	Underwriter reputation is measured by participation frequency in IPOs during 2021–2025, classified into quartiles; underwriters in the fourth quartile are categorized as reputable (1) and others as non-reputable (0).	Teja (2021)
UNUM	Total number of underwriting firms involved in the IPO.	Tewu et al. (2025)
OCON	Percentage of shares owned by the largest shareholder divided by total outstanding shares on the IPO date.	Teti & Montefusco (2022)

Variable	Measurement	Source
MOWN	Percentage of shares owned by members of the board of directors and board of commissioners divided by total outstanding shares on the IPO date.	Aisyah (2025)

Data analysis was conducted using Quantile Regression at the median quantile ($\tau = 0.5$) because the research data did not satisfy the normality assumption using Kolmogorov-Smirnov and Jarque-Bera tests consistently rejected the hypothesis of residual normality, and this condition proved to be an inherent characteristic of IPO data rather than a result of outliers (Ahmed et al., 2024; Gujarati & Porter, 2009; Koenker & Hallock, 2001). All 248 observations were retained because companies exhibiting extreme underpricing represent a genuine phenomenon in the Indonesian capital market; excluding such observations solely for statistical reasons would introduce selection bias (Koenker & Hallock, 2001). Estimation was performed using EViews 14 with Huber Sandwich Standard Errors, the Epanechnikov kernel sparsity method, and the Hall-Sheather bandwidth method, allowing the model to be formulated as follows:

$$\mathbf{QUP}(\mathbf{0.5} \mid \mathbf{X}) = \boldsymbol{\alpha}(\boldsymbol{\tau}) + \boldsymbol{\beta 1}(\boldsymbol{\tau})\,\mathbf{NPM} + \boldsymbol{\beta 2}(\boldsymbol{\tau})\,\mathbf{ROE} + \boldsymbol{\beta 3}(\boldsymbol{\tau})\,\mathbf{DER} + \boldsymbol{\beta 4}(\boldsymbol{\tau})\,\mathbf{SIZE} + \boldsymbol{\beta 5}(\boldsymbol{\tau})\,\mathbf{UREP} + \boldsymbol{\beta 6}(\boldsymbol{\tau})\,\mathbf{UNUM} + \boldsymbol{\beta 7}(\boldsymbol{\tau})\,\mathbf{OCON} + \boldsymbol{\beta 8}(\boldsymbol{\tau})\,\mathbf{MOWN} + \boldsymbol{\varepsilon} \quad \text{.....(1)}$$

In addition to testing at the 0.5 quantile, this study conducts supplementary testing at the 0.7 quantile as a robustness check to explore market response heterogeneity when underpricing is at extreme levels (Ahmed et al., 2024). Unlike OLS, which requires normality and homoscedasticity, Quantile Regression is more robust against violations of these assumptions (Ahmed et al., 2024; Koenker & Hallock, 2001). Nevertheless, a multicollinearity test using VIF is still performed, as multicollinearity affects the stability and precision of coefficient estimates (Gujarati & Porter, 2009), with a VIF threshold of < 5 applied based on Hair et al. (2021).

For partial testing, this study employs t-statistics with Huber Sandwich Standard Errors instead of OLS standard errors; this method yields consistent estimates even when data are non-normal and exhibit heteroscedasticity (Koenker & Bassett, 1978; White, 1980). For simultaneous testing, the Quasi-Likelihood Ratio statistic developed by Koenker & Machado (1999) is used in place of the OLS F-statistic, with the model deemed significant if Prob(Quasi-LR stat) < 0.05. Goodness-of-fit is assessed using Pseudo R^2, which measures the proportion of reduction in weighted absolute deviations; this metric cannot be directly compared to OLS R^2 because the two measure different dimensions (Koenker & Machado, 1999).

Results and Discussion

Results

This study examines the determinants of IPO underpricing on the Indonesia Stock Exchange using quantile regression. Underpricing is measured as the percentage difference between the first-day closing price and the offering price. The model incorporates eight independent variables: Debt to Equity Ratio (DER), Return on Equity (ROE), Net Profit Margin (NPM), firm size (SIZE), underwriter reputation (UREP), number of underwriters (UNUM), ownership concentration (OCON), and managerial ownership (MOWN). Descriptive statistics were examined before regression estimation

Table 4. Descriptive Statistics

Variable	*Mean*	*Median*	*Max*	*Min*	*Std.Dev*	*Skew*	*Kurtosis*
UP	0.1641	0.2098	0.3515	-0.3484	0.1700	-0.5560	2.3560
DER	2.5425	0.9423	85.5523	-49.8173	8.6145	4.6749	52.9202
ROE	0.1936	0.1608	6.1059	-11.9340	0.9843	-6.4905	100.123
NPM	0.1374	0.0800	18.2603	-7.8117	1.4697	6.4405	102.003
SIZE	24.3907	25.2224	30.6756	13.8478	3.6116	-1.4846	4.6423
UNUM	1.8790	1.0000	13.0000	1.0000	1.6838	3.4330	17.6943
UREP	0.5120	1.0000	1.0000	0.0000	0.5008	-0.0484	1.0023
OCON	0.5567	0.5591	0.9563	0.1944	0.1924	-4.8905	1.8516
MOWN	0.1961	0.0314	0.8792	0.0000	0.2764	1.2140	2.9291

Source: Data processed by author

The underpricing variable shows a minimum value of -34.48% and a maximum of 35%, with a mean of 16% and a median of 20%, indicating that the majority of the sample experienced underpricing. The data distribution tends to be left-skewed, with a larger gap between the minimum and median values than between the maximum and median values. DER, ROE, and NPM exhibit extreme kurtosis in the 50–100 range, with very large extreme values; DER records a maximum of 8,555% and a minimum of -4,982%, which indicates high dispersion that renders the mean unreliable as a measure of central tendency and reinforces the relevance of using median estimates via Quantile Regression.

Regarding UREP, 51.2% of the sample utilized reputable underwriters, meaning nearly half of the sample was not backed by highly reputable underwriters. UNUM ranges from 1 to 13 with a median of 1,

indicating that the majority of companies relied on only one underwriter during the IPO process. Meanwhile, OCON shows a very wide variation, ranging from 19.44% to 95.63%, and MOWN ranges from 0% to 87.92%, reflecting the high heterogeneity of ownership structures among the companies conducting IPOs during the study period. A multicollinearity test was conducted to detect whether there is a high correlation among the independent variables in the model. In this study, multicollinearity was assessed using the Variance Inflation Factor (VIF). The results of the multicollinearity test are presented in Table 5.

Table 5. Multicollinearity Test

Variabel	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.007712	66.55833	NA
DER	1.690006	1.17270	1.07838
ROE	0.000134	1.16139	1.11797
NPM	5.690005	1.06631	1.05703
SIZE	9.640006	50.57181	1.08074
UNUM	4.460005	2.44830	1.08801
UREP	0.000474	2.09412	1.02173
OCON	0.003582	10.72212	1.14000
MOWN	0.001702	1.683560	1.118426

Source: Data processed by author

Prior to quantile regression estimation, a multicollinearity test was conducted using the Variance Inflation Factor (VIF) method to ensure that no linear relationships exist among the independent variables. The results show that all variables yield centered VIF values close to 1, which falls well below the threshold of 5 recommended by Hair et al. (2021). This indicates the complete absence of multicollinearity among all independent variables in the model, confirming that the model is appropriate for further analysis.

The results of the quantile regression estimation at the median ($\tau = 0.5$) are presented in Table 6. The regression coefficient of each independent variable, along with the corresponding t-statistic and probability value, are reported to determine the significance of each variable's effect on IPO underpricing

Table 6. Quantile Regression

Variabel	Coefficient	Std. Error	T-Stat	Prob.
C	0.201739	0.122020	1.653323	0.0996
DER	0.002019	0.000852	2.368635	0.0187
ROE	-0.005090	0.008165	-0.623368	0.5336
NPM	-0.015370	0.005611	-2.739040	0.0066
SIZE	0.003256	0.003869	0.841577	0.4009
UNUM	-0.018273	0.008130	-2.247581	0.0255
UREP	-0.037977	0.040291	-0.942558	0.3469
OCON	-0.043300	0.090004	-0.481085	0.6309
MOWN	-0.019474	0.081393	-0.239252	0.8111
Pseudo R-Square	0.059633	Prob Quasi LR Stat		0.034578

Source : Data processed by author

Based on the Quantile Regression estimation results at the median quantile ($\tau = 0.5$), the model is simultaneously significant in explaining the phenomenon of IPO underpricing, with a Prob(Quasi-LR Stat) value of 0.034578, which falls below the 5% threshold. The Pseudo R^2 value of 0.0596 reflects the proportion of the reduction in weighted absolute deviations achieved by the full model compared to the restricted model.

At the individual variable level, out of the eight independent variables tested, three were found to have a significant effect on underpricing. DER has a significant positive effect (coefficient 0.002019, p-value 0.0187), meaning that higher corporate leverage leads to a greater degree of underpricing. NPM has a significant negative effect (coefficient -0.015370, p-value 0.0066), indicating that higher profitability is associated with lower underpricing. UNUM also has a significant negative effect (coefficient -0.018273, p-value 0.0255), showing that a higher number of underwriters involved results in a lower level of underpricing.

Meanwhile, ROE (p = 0.5336, coefficient -0.005090), SIZE (p = 0.4009, coefficient 0.003256), UREP (p = 0.3469, coefficient -0.037977), OCON (p = 0.6309, coefficient -0.043300), and MOWN (p = 0.8111, coefficient -0.019474) do not show a significant effect on underpricing at the median of the distribution. Based on these results, the equation model can be formulated as follows:

QUP(0.5|X) = 0.2017(0.5) + 0.002019(0.5) DER - 0.005090(0.5)ROE - 0.015370(0.5)NPM + 0.003256(0.5)SIZE - 0.018273(0.5)UNUM - 0.037977(0.5)UREP - 0.043300(0.5)OCON-0.019474(0.5)MOWN ……..…… (2)

To check the robustness of the model and explore the heterogeneity of investor behavior, an additional estimation was conducted at the 0.7 quantile. This quantile was selected because it is relevant for observing investor behavior under conditions of high underpricing and can represent market euphoria and hype.

Table 7. Comparison Quantile Regression

Variable	Quantile 0.7		Quantile 0.5	
	Coefficient	Prob.	Coefficient	Prob.
C	0.261340	0.0091	0.201739	0.0996
DER	0.000643	0.4978	0.002019	0.0187
ROE	0.003458	0.6102	-0.005090	0.5336
NPM	-0.023021	0.0000	-0.015370	0.0068
SIZE	0.004359	0.1709	0.003256	0.4009
UNUM	-0.029550	0.0000	-0.018273	0.0255
UREP	0.004089	0.8639	-0.037977	0.3469
OCON	-0.025569	0.6855	-0.043300	0.6309
MOWN	0.014377	0.7490	-0.019474	0.8111

Source : Data processed by author

Discussion

The model was found to be simultaneously significant, with a Prob(Quasi-LR Stat) of 0.034578 (< 0.05); this means that, in this model, at least one independent variable has a significant effect on the dependent variable. The Pseudo R^2 value of 5.96% indicates that the model explains a portion of the variation in underpricing, while the remainder is attributable to factors not included in the model. This relatively low Pseudo R^2 value does not indicate model failure; low determination values are commonly observed in financial economics research utilizing cross-sectional data (Ahmed et al., 2024; Gujarati & Porter, 2009), consistent with findings by Yandes (2023), who reported a value of 5.53%, and Wenehen et al. (2025), who reported 6.25%.

Debt Equity Ratio significantly affects underpricing at the median quantile (τ = 0.5).

The results show that DER has a coefficient of 0.002 (p = 0.019), indicating a significant effect on IPO underpricing at α = 5%; **H1 is therefore accepted.** This positive coefficient indicates that an increase in the debt-to-equity ratio is associated with a higher level of underpricing on the first day of trading. This pattern can be interpreted through the framework of Signaling Theory (Spence, 1973): a firm's capital structure conveys a signal to investors, whereby a high DER signals greater financial risk. Consequently, investors demand a higher expected return, which drives higher underpricing in IPO shares. This finding is consistent with Perkasa & Maiyaliza (2024) in terms of the significance of DER on underpricing, but differs in the direction of the effect, Perkasa & Maiyaliza (2024) found a negative direction, whereas this study finds a positive one. This difference in direction may be attributable to differences in sample characteristics and study period; in this study, the presence of issuers with extremely high DER and negative equity produced a positive relationship consistent with investor risk perception in the Indonesian capital market during 2021-2025. This result also differs from Wenehen et al. (2025), Safitri (2025), and Dwijaya & Cahyadi (2021), who found no significant effect of DER on underpricing.

Further analysis at the upper quantile (τ = 0.7) shows that DER loses its statistical significance under conditions of extreme market euphoria (p = 0.498), in contrast to its significant positive effect at the median. This suggests that under conditions of extreme demand, investors become less attentive to leverage-based risk signals, consistent with irrational or FOMO-driven behavior during periods of extreme underpricing. This shift indicates heterogeneous market response along the underpricing distribution: at the median, investors appear to rationally price in financial risk, whereas at the upper quantile, this signal is overshadowed by other considerations, namely profitability (NPM) and underwriting-syndication strength (UNUM), both of which strengthen at τ = 0.7 (see Sections 4.3 and 4.6). This pattern provides empirical evidence of the value of the Quantile Regression approach, which offers a complementary lens to conditional-mean estimation such as OLS by capturing effects across different points of the underpricing distribution (Koenker & Hallock, 2001).

Return on Equity does not significantly affect underpricing at the median quantile (τ = 0.5).

The results show that ROE has a coefficient of -0.005 (p = 0.534), indicating no significant effect on IPO underpricing at α = 5%; **H2 is therefore rejected**. The insignificance of ROE in this study may be attributed to several factors. First, in the context of the Indonesian capital market, which is dominated by retail investors, investment decisions on IPO shares tend to be driven more by market sentiment and short-term growth expectations than by historical equity-based profitability analysis (Fahrezy, Fachruddin, &

Syahyunan, 2024). Second, the distribution of ROE in this sample is highly extreme (skewness = -6.49; kurtosis = 100.13), reflecting that most issuers recorded relatively moderate ROE values, such that variation in ROE was not substantial enough to produce a systematic difference in investors' risk perception. Third, within the framework of Signaling Theory, an effective signal is one that clearly differentiates firm quality in the eyes of investors (Spence, 1973); as a proxy for equity-based profitability, ROE may be less able to function as a strong differentiating signal compared to NPM, which more directly represents a firm's efficiency in converting revenue into net profit. This result is consistent with Yandes (2023), who found no significant effect of ROE on underpricing, but contrasts withDesiyanti et al. (2023), who found a significant negative effect of ROE on IPO underpricing.

Net Profit Margin significantly affects underpricing at the median quantile (τ = 0.5).

The results show that NPM has a coefficient of -0.015 (p = 0.007), indicating a significant effect on IPO underpricing at α = 5%; **H3 is therefore accepted**. This negative coefficient indicates that an increase in Net Profit Margin is associated with a decrease in the level of underpricing. This finding is consistent with the prediction of Signaling Theory: firms with a stronger ability to generate net profit from each unit of revenue provide a strong fundamental quality signal to investors. This positive signal reduces investor uncertainty, allowing the offer price to be set closer to the firm's intrinsic value and resulting in lower underpricing. This result is consistent with Sari et al. (2024), who documented a significant negative effect of NPM on underpricing, but contrasts with Octafian et al. (2021), who found no such effect. This discrepancy may reflect differences in sample period and characteristics; during 2021-2025, NPM appears to have been one of the fundamental indicators considered by investors in valuing IPO shares, particularly given the high diversity in profitability profiles among newly listed post-pandemic issuers.

Further analysis at the upper quantile (τ = 0.7) shows that the negative effect of NPM strengthens under conditions of extreme market euphoria, with the coefficient increasing in magnitude from -0.015 at the median to -0.023 at τ = 0.7 (p = 0.0000). This indicates that even as demand becomes highly extreme, a company's profitability signal rather than losing relevance becomes an even stronger determinant of investor expectations. Together with UNUM, NPM's strengthening influence at the upper quantile confirms that profitability and underwriting-syndication signals remain the dominant drivers of price formation during periods of extreme underpricing, even as other signals, such as DER, lose statistical relevance. This pattern provides further empirical evidence of heterogeneous market response along the underpricing distribution, reinforcing the value of the Quantile Regression approach as a complementary lens to

conditional-mean estimation such as OLS in capturing effects across different points of the distribution. (Koenker & Hallock, 2001).

Firm Size does not significantly affect underpricing at the median quantile (τ = 0.5).

The results show that SIZE has a coefficient of 0.003 (p = 0.401), indicating no significant effect on IPO underpricing at α = 5%; **H4 is therefore rejected.** The insignificance of SIZE is likely influenced by the characteristics of the Indonesian IPO market during the 2021-2025 period. This period was marked by a sharp increase in IPO activity on the IDX, with 2023 recorded as the most active year in the exchange's listing history, involving issuers of highly varied asset scale. This heterogeneity in issuer size suggests that investors during this period may not have treated firm size as a primary determinant of IPO risk, instead being more oriented toward short-term expectations and prevailing market dynamics. This result is consistent with Wenehen et al. (2025), Perkasa & Maiyaliza (2024), and Desiyanti et al. (2023), who likewise found no significant effect of firm size on underpricing, but contrasts with Meilina & Imelda (2024), who documented a significant negative effect of firm size on initial returns.

Underwriter Reputation does not significantly affect underpricing at the median quantile (τ = 0.5).

The results show that UREP has a negative coefficient (β = -0.038, p = 0.347), indicating no significant effect on IPO underpricing at α = 5%; **H5 is therefore rejected.** This negative direction is consistent with the prediction of Signaling Theory, under which reputable underwriters are expected to provide a stronger credibility signal to the market, thereby reducing uncertainty and underpricing, yet this signal is not statistically supported in the present study. This suggests that, within the context of the Indonesian capital market during 2021-2025, investors did not place substantial weight on underwriter credibility signals during the IPO process. The Indonesian capital market remains dominated by retail investors oriented toward short-term gains, which may explain why investor behavior is more strongly driven by market euphoria than by in-depth analysis of underwriter credibility. This finding suggests that the signal conveyed by underwriter reputation may be overshadowed by the influence of investor sentiment. This result is consistent with Wenehen et al. (2025) and Devano (2025), who likewise found no significant effect of underwriter reputation on underpricing, but contrasts with Tewu et al. (2025), Safitri (2025), and Kuswandi et al. (2025), who found a significant negative effect of underwriter reputation on initial returns.

Number of underwriters significantly affects underpricing at the median quantile (τ = 0.5).

The results show that UNUM has a negative coefficient (β = -0.018, p = 0.026), indicating a significant effect on IPO underpricing at α = 5%; **H6 is therefore accepted.** This negative coefficient indicates that a larger number of underwriters involved in an IPO is associated with a lower level of underpricing. This finding is consistent with the prediction of Signaling Theory, whereby a larger underwriting syndicate signals stronger investor confidence in the issuer's prospects. As more underwriters share the risk of share distribution, the market receives a stronger credibility signal regarding issuer quality, reducing information uncertainty and distributing the risk borne by investors across the syndicate members underwriting the IPO. This result is consistent with Tewu et al. (2025) and Sahoo & Sahoo (2022), who likewise documented a significant negative effect of the number of underwriters on IPO underpricing.

Further analysis at the upper quantile (τ = 0.7) reveals that the negative effect of UNUM strengthens under conditions of extreme market euphoria, with the coefficient increasing in magnitude from -0.018 at the median to -0.029 at τ = 0.7 (p = 0.0000). This indicates that the larger the underwriting syndicate, the stronger the signal that share distribution risk has been broadly dispersed, which effectively reduces investor uncertainty even under highly volatile demand conditions. Together with NPM, UNUM's strengthening influence at the upper quantile confirms that profitability and underwriting-syndication signals remain the dominant determinants of investor expectations during periods of extreme underpricing, even as other signals, such as DER, lose statistical relevance (as discussed in the following section). This pattern provides empirical evidence of heterogeneous market response along the underpricing distribution, underscoring the value of the Quantile Regression approach as a complementary lens to conditional-mean estimation such as OLS in capturing effects across different points of the distribution (Koenker & Hallock, 2001).

Ownership concentration does not significantly affect underpricing at the median quantile (τ = 0.5).

The results show that OCON has a negative coefficient (β = -0.043, p = 0.631), indicating no significant effect on IPO underpricing at α = 5%; **H7 is therefore rejected**. This negative direction is consistent with the prediction of signaling theory, under which higher ownership concentration is expected to reflect stronger commitment from controlling shareholders and thereby reduce investor uncertainty, yet this signal is not statistically supported in the present study. The insignificance of OCON is likely attributable to the heterogeneous distribution of the variable across the sample (mean 55.68%, SD 19.24%, range 19.44%-95.60%), reflecting substantial dispersion in ownership concentration among issuers. This variation suggests that the signal transmitted to investors was not consistent enough to produce a systematic

difference in risk perception. This finding is consistent with Teti & Montefusco (2022), who likewise found no significant effect of ownership concentration on initial returns, but contrasts with Arora & Singh (2025), who documented a significant negative effect in the Indian capital market.

Managerial ownership does not significantly affect underpricing at the median quantile ($\tau = 0.5$).

The results show that MOWN has a negative coefficient (β = -0.019, p = 0.811), indicating no significant effect on IPO underpricing at α = 5%; **H8 is therefore rejected**. This negative direction is consistent with the prediction of Signaling Theory, under which managerial ownership is expected to signal long-term commitment and thereby reduce underpricing (Leland & Pyle, 1977), yet this signal is not statistically supported in the present study. The insignificance of MOWN can likely be attributed to the low proportion of managerial ownership across most of the sample (median 3.10%), which may not be substantial enough for investors to interpret as a credible commitment signal (Leland & Pyle, 1977), as well as the high heterogeneity of managerial ownership across firms (skewness 1.21; range 0%-87.9%), suggesting that the effect of MOWN on underpricing may be non-linear and not fully captured at the median quantile estimation. This finding contrasts with Aisyah (2025), who documented a significant positive effect, and Natsir et al. (2024), who found a significant negative effect of managerial ownership on IPO initial returns in Indonesia.

Conclusion

The results at the 0.5 quantile indicate that DER, NPM and UNUM have a significant effect on underpricing, whilst ROE, SIZE, UREP, OCON and MOWN have no significant effect. DER has a positive effect because high debt levels increase the perception of risk, meaning that companies tend to set lower IPO prices. Conversely, NPM and UNUM have a negative effect because higher profitability and a greater number of underwriters can boost investor confidence and reduce uncertainty.

At the 0.7 quantile, which reflects a state of market euphoria, the influence of the debt-to-equity ratio (DER) becomes insignificant, whilst the influence of net profit margin (NPM) and net underwriting margin (UNUM) grows stronger. This suggests that when the market is in a state of euphoria or FOMO, investors tend to pay less attention to leverage risk, but continue to consider profitability and their confidence in the underwriting syndicate.

Overall, the research supports Signalling Theory, particularly through signals relating to financial risk, profitability and risk sharing. However, investor responses to these signals are not uniform across all market conditions. These findings also indicate the presence of asymmetry and heterogeneity in investor responses, which can be captured using quantile regression and complement the OLS analysis. IPO underpricing in Indonesia is primarily influenced by leverage (DER), profitability (NPM) and the number of underwriters (UNUM). However, as market euphoria grows, investors' focus on leverage risk wanes, whilst profitability and confidence in underwriters become increasingly important.

The study has several limitations, namely that the observation period covers only 2021–2025, the ability of the eight variables to explain underpricing remains limited, and it does not yet cover all extreme quantiles. Future research is recommended to incorporate macroeconomic factors, behavioural finance, investor sentiment, offering characteristics, and corporate governance aspects, and may utilise a mixed-methods approach through interviews with investors and underwriters.

In practical terms, companies need to improve transparency regarding their profitability and debt management strategies; investors need to pay attention to profitability and leverage; underwriters can strengthen syndication structures; whilst regulators can improve investors' financial literacy and assess the disclosure of ownership information.

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Leo Kristianto: Conceptualization, Methodology, Data curation, Formal analysis, Investigation, Writing (original draft). Lufina Mahadewi: Methodology (recommending an alternative analytical technique), Supervision, Writing (review & editing).

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Declaration about Generative AI Tools

Generative AI tools were not used in the design of the research, data collection, data analysis, or interpretation of the results. AI was used only to assist with grammar and language editing and to summarize lengthy paragraphs during the drafting process.