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## DO NEW VENTURES REALLY USE PROCEEDS AS INTENDED? PROCEEDS, LOCK-UP EXPIRATION, AND FIRM INNOVATION (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

## DO NEW VENTURES REALLY USE PROCEEDS AS INTENDED? PROCEEDS, LOCK-UP EXPIRATION, AND FIRM INNOVATION

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### Principal Topic

As firms' scale becomes enlarged, they seek ways to gain more investments. Initial public offering (IPO) can be a way to achieve this purpose. It is a great chance for companies that especially have insufficient capital because these firms can rapidly raise financial resources by issuing new shares. Before going public, the company should disclose their intended use of proceeds in their IPO prospectus according to Securities and Exchange Commission (SEC) regulations. The level of disclosure of information about the use of proceeds is up to issuer's decision. This level of disclosure is helpful for new venture to reduce information asymmetry between insiders and outsiders. While previous studies have been focused on 'proceeds' itself or 'disclosure' of use of proceeds, it is hard to find the effect of intended use of proceeds according to its relevant usage. Focusing on this point, this study will investigate whether new ventures really use the proceeds as intended. In addition, we do not focus on financial performance but managerial performance such as firm innovation. In particular, early stage of investment at the time of IPO can be a good source of competitive advantage because firms can access more chances to produce superior absorptive capacity of R&D (Nelson and Winter, 1982; Dierickx and Cool, 1989; Lieberman, 1989; Cohen and Levinthal, 1990; Kor, 2006). With this in mind, this study attempts to investigate the relationship between intended use of proceeds and firm innovation.

We also contribute literatures by looking at moderating effect of lockup expirations. We assume that lockup period act as a signal of firm for potential investors. A more detailed discussion will be continued below.

### Method

To test these hypotheses, we will use samples of all IPO firms in the U.S. from 2001 to 2004. We manually collect data from new ventures prospectus. In order to avoid reverse causality, we collect our independent variables from prospectus before IPO and dependent variables after IPO.

### Results and Implications

In the management field, the result of IPO research is mixed and most of studies focus on lock-up period and stock pricing. This study will provide unconventional view of IPO study by setting the use of proceeds as an independent variable. Also, it has managerial implication by setting a research model which examine the relationship between intended use proceeds (as an ex ante characteristic of IPO) and firm innovation (as an ex post characteristic of IPO). It is also important that how company uses money invested by expected shareholders. This plan can be a reliable source of firm's future performance estimation to potential investors. Using lock-up period as a moderator, we may better be able to explain the mechanisms how the intended use of proceeds can be weakened or strengthened by the different level of lockup periods.

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