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Initial Public Offerings in Brazil: the Perceptions of Financial Executives*

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ABSTRACT

This study examines financial executives' perceptions of Initial Public Offerings (IPOs) in Brazil, replicating in large part the research of Brau, Ryan, and DeGraw (2006) in the United States. We surveyed 32 chief financial executives of companies that conducted an IPO between 2004 and 2008 in Brazil and tested two financial theories: the Life Cycle Theory and the Market Timing Theory. The results show that the financial executives in Brazil confirm the life cycle theory as well as market timing and static trade-off theories. The financial executives do not consider an IPO to be a way to change company control, and they do not perceive the disadvantages of the loss of control and confidentiality that result from an IPO.

Keywords: Market Timing. Life cycle. Financial executive's perceptions.

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1 INTRODUCTION

Competition and the desire to grow lead firms to seek external financing. Capital markets are a key source for this funding. At the national scale, capital markets are essential for economic growth and development, particularly for emerging economies such as Brazil. According to Assaf Neto (2000), some of the benefits of Initial Public Offerings (IPOs) are the reduction of a company's financial risk because of increased capitalization, improved shareholder liquidity, the realization of the shareholder's investment, the professionalization of management and business decisions, and the improvement of the company's image in the market.

From 2004 to 2007, the number of IPOs in Brazil grew rapidly— 7 in 2004, 9 in 2005, 26 in 2006, and 64 in 2007, the third most in the world that year (Valor Online, 2007). During the global economic crisis, however, only four Brazilian companies went public in 2008, and only six went public in 2009. Since then, the market has been slowly warming, with more companies opening up capital.

This growth in trading volume in the Brazilian capital market can be explained by the current Brazilian economy as well as by structural changes. In recent years, the momentum of economic activity has been growing, inflation has been under control, interest rates have been declining, and credit has expanded (Zanini & Zani, 2009). Another factor contributing to greater interest in the Brazilian capital market has been the creation of different levels of corporate governance by Bolsa de Valores de São Paulo (Bovespa) in December 2000 (Novo Mercado, Level 1, Level 2, and Bovespa Mais). These special listing segments were developed to provide a trading environment that simultaneously stimulates investor interest and the valuation of companies.

Given this new wave of IPOs in Brazil within a stable monetary environment and with more solid prospects for greater economic dynamism in the coming years, it is important to conduct studies in this area. Unlike in the U.S., where Brau and Fawcett (2006) and Brau, Ryan, and DeGraw (2006) studied the financial executive's perceptions about IPOs, in Brazil, there have been no studies about the motivations of firms going public. This lack of research is the motivation for this study because it is essential to know why firms go public, and to determine the relationship between what the theories reveal and the perception of these executives.

This study's central objective is to understand why Brazilian companies issue IPOs from the point of view of the financial executives of the companies that have gone public. To that end, we replicate a study by Brau, Ryan, and DeGraw (2006) that tests the life cycle and market timing theories while exploring the motivation of the U.S. companies that issue IPOs, and we find significantly similar results for Brazil's companies.

In this study, the results were similar to those of Brau, Ryan, and DeGraw (2006) in most of the time. The CFOs agreed that the IPOs provide the benefit of gaining funding for long-term growth with an optimal structure capital. The CFOs do not see the IPO as a vehicle to change company control, and they do not perceive a loss of control with an IPO. The improvement of the company's secondary market was perceived to be a benefit of IPOs. The CFOs did not perceive the disadvantages of public scrutiny with an IPO in Brazil; in the U.S., the CFOs perceived this as a disadvantage.

Considering that this study intends to identify which aspects influence the motivations and the process of conducting an IPO in Brazil and that there is no known research that attempts to capture these perceptions in Brazilian companies, it is expected that this work will provide contributions in the following areas: (1) academic, providing the ability to compare the views of executives with the existing theories; (2) for executives, identifying the risks and benefits that they perceive in an IPO and the valued aspects of the of the IPO process; and (3) public, potentially providing benefits for the regulatory agencies by identifying the points where legislation can be improved to boost the capitalization of Brazilian companies through the capital markets.

2 THEORIES

2.1 Life Cycle Theory.

According this theory, companies go public at certain times in their growth cycles. One of the first formal theories to emerge in the field of IPOs was that of Zingales (1995), who notes that it is much easier for an acquiring company to note a takeover target if it has opened capital. Moreover, entrepreneurs realize that buyers can exert more influence when purchasing a target company if they can put pressure on the foreign investors.

With IPOs, entrepreneurs can facilitate the acquisition of their companies for an amount far greater than they would make in a direct sale. However, Black and Gilson (1998) state that entrepreneurs often gain control of the venture capitalists in IPOs because the number of shareholders is increased and the venture capitalists thereby lose significant company control. This finding is confirmed by Chemmanur and Fulghieri (1999), who argue that an IPO allows company ownership to be dispersed among many small investors, thus reducing the venture capitalists' control in the company and diversifying the types of investors. These investors generally do not circulate through the company and thus do not have access to compromising confidential

company information, which somewhat increases the control of the business administrators.

According to Maksimovic and Pichler (2001), a company that opens its capital to the market can gain a competitive advantage and greater prestige in the market; the company increases its market value, thereby increasing the confidence of other investors, customers, and creditors, for example. The authors further argue that the transition from a private to a public company signals positive information about the company and its viability to the market, improving the investors' perceptions of the company. In addition, we note the following:

- Modigliani and Miller (1963) and Scott (1976) argue that IPOs facilitate the optimization of capital structure;
- Myers and Majluf (1984) and Myers (1984) show that IPOs are a natural consequence of pecking order theory;
- Mello and Parsons (1998) argue that IPOs increase company liquidity;
- Bradley, Jordan, and Ritter (2003) argue that IPOs allow the coverage of market analysts; and
- Brau, Ryan, and DeGraw (2006) argue that IPOs allow company owners to immediately withdraw the capital that they invested in the enterprise.

2.2 Market Timing Theory.

Market timing theory suggests that firms conduct IPOs based on the market's economic conditions to increase their market value. Choe, Masulis, and Nanda (1993) conclude that companies avoid going public when there is lack of other good companies that are issuing new shares. Loughran and Ritter (1995) conclude that IPOs occur during certain windows of opportunity, that is, during a heated market in which the company can have better opportunities for strong returns.

Ritter and Welch (2002) suggest that, barring information asymmetry, if the company realizes that the valuation of its business is based more on internal perspectives, the basic involvement of the entrepreneur in the day-to-day business is paramount in setting the valuation while the actions of the public are less so. Sudden changes in the valuation of a company before going public are not quickly taken into account by entrepreneurs, whose valuations can therefore be inexact. As a result, the market price or the price assigned by the entrepreneurs can be driven by irrational feelings, and thus entrepreneurs are more likely to sell shares after an increase in market value.

According to Brau, Ryan, and DeGraw (2006), if a company knows that it is valued below the market, it will postpone the IPO until the market is more heated to obtain better prices. Brau and Fawcett (2006) relate the motivations for going public to the existing theories and argue that the academic theories suggest four reasons for IPOs: minimizing the cost of capital, insiders selling their shares to obtain personal gain (exit of venture capitalists), performing takeovers, and implementing strategic changes.

3 RESEARCH METHOD AND DATA

This study is considered to be descriptive and therefore, according to Roesch (2007), aims to gather information about a population through, for example, experimental research. However, although considered primarily descriptive, this research presents several nonparametric statistical tests of a quantitative nature to determine the relationships between certain variables and thus to enable comparisons of the opinions of the respondents regarding the events following an IPO.

The study explores the reasons that companies go public on stock exchanges from the perspective of the Brazilian financial executives who were directly involved in IPOs and who therefore have knowledge regarding all of the aspects that were taken into account during those IPOs. We replicate the research of Brau, Ryan, and DeGraw (2006) in the United States, applying the same questionnaire that they used to the companies in Brazil that went public during the 2004–2008 period, allowing a comparison of our results with those of the U.S. study.

3.1 Data Collection.

The data were collected through structured questionnaires, which is the most suitable method for obtaining the opinions of the sample for this research (Roesch, 2007). Furthermore, this study uses the same questionnaire used by Brau, Ryan, and DeGraw (2006) for the U.S. capital markets; it was obtained with the authors' permission and translated into Portuguese (readers can request the original questionnaire directly from Brau, Ryan, and DeGraw).

Back translation was used to validate the questionnaire, a technique based in Benetti, Decourt, and Terra (2007) when replicating the survey of Graham and Harvey (2001). This technique aims to eliminate any biases that occur in the translation of a foreign language questionnaire into the language of the country. The English-language questionnaire was first sent to two bilingual finance scholars in Brazil to be translated into Portuguese. The two translations were then combined into a single version. This translation was then sent to three bilingual students, none of whom had access to the original questionnaire, to be retranslated into English, thus eliminating possible differences between the original questionnaire and the translated version.

The questionnaire presents two types of questions. The first questions measure the responses on a five-point Likert scale where 1 indicates complete disagreement and 5 complete agreement. The second type of question requires a "yes," "no," or "do not know" response. Thus, it is possible to measure several dimensions of an issue

and to quantify the opinions and attitudes of the respondents (Roesch, 2007).

The questionnaire was sent to the financial executives of the selected companies who were directly involved in the IPO process and therefore should be best able to provide their perceptions about the IPO process and the company's motivations. The Center of Studies and Research in Administration (CEPA), an auxiliary body linked to the School of Management of the Federal University of Rio Grande do Sul (UFRGS), was then hired to conduct the questionnaires by telephone in August and September 2009. The contact data of the companies, information concerning the public offering of shares, and other relevant data were collected from secondary sources, such as the companies' websites, Economática's database, and the Comissão de Valores Mobiliários (CVM) and Bovespa's websites. Table 1 shows the companies in the final sample.

Table 1 *Sample Companies*

Company	Year of Registration	Activity Sector
ABYARA PLANEJAMENTIMOBILIÁRIO S.A.	2006	Civil Construction
ALL América Latina Logística S.A.	2004	Rail
BCO CRUZEIRO DO SUL S.A.	2007	Financial
BCO DAYCOVAL S.A.	2007	Financial
BCO INDUSTRIAL E COMERCIAL S.A.	2007	Financial
BCO INDUSVAL S.A.	2007	Financial
BCO SOFISA S.A.	2007	Financial
BR MALLS PARTICIPAÇÕES S.A.	2007	Exploration Property
CIA PROVIDENCIA INDÚSTRIA E COMÉRCIO S.A.	2007	Various Materials
CPFL ENERGIA S.A.	2004	Electricity
CR2 Empreendimentos Imobiliários S.A.	2007	Civil Construction
CREMER S.A.	2007	Medicinal and Other Products
DIAGNÓSTICOS DA AMÉRICA S.A.	2004	Serv. Avg. Tradit., Analysis and Diagnostic
EDP - ENERGIAS DO BRAZIL S.A.	2005	Electricity
EQUATORIAL ENERGIA S.A.	2006	Electricity
ESTÁCIO PARTICIPAÇÕES S.A.	2007	Educational Services
IGUATEMI EMPRESA DE SHOPPING CENTERS S.A.	2007	Exploration Property
INPAR S.A.	2007	Civil Construction
INVEST TUR BRAZIL - DESENV. IMOB. TUR. S.A.	2007	Hospitality
JHSF PARTICIPAÇÕES S.A.	2007	Civil Construction
KROTON EDUCATIONAL S.A.	2007	Educational Services
Medial Saúde S.A.	2006	Medical and Dental Plans
MULTIPLAN - EMPREEND. IMOBILIÁRIOS S.A.	2007	Exploration Property
OBRASCON Huarte Lain S.A. BRAZIL	2005	Operation of Highways
PARANA BCO S.A.	2007	Financial
PROFARMA DISTRIB PROD FARMACÊUTICOS S.A.	2006	Medicine
SANTOS BRASIL S.A.	2006	Support Services and Warehousing
SATIPEL INDUSTRIAL S.A.	2007	Wood
SLC AGRÍCOLA S.A.	2007	Agriculture
ICC - TRIUMPH PARTICIP. E INVEST. S.A.	2007	Operation of Highways
UNIVERSO ONLINE S.A.	2005	Programs and Services
WILSON SONS LTD.	2007	Support Services and Warehousing

The initial sample was composed of 97 companies, of which 32 answered the questionnaire for a response rate of 33%. The companies surveyed are in various economic sectors, with the finance, construction, energy, and research sectors dominating with 16 companies, or half, of the entire final sample. The other economic sectors were, for example, in industry, diagnostic services, rail transportation, agriculture, educational services, or pharmaceuticals. None of the companies is state-owned.

3.2 Data Analysis.

The first step is to analyze the frequencies of the responses to each survey question to determine how the financial executives' responses are distributed and the sample's descriptive statistics. The normality of the sample is verified by analyzing the frequency histograms of the responses. Because the sample respondents not only represent financial executives but also analysts and RI managers, the Mann–Whitney test is used to determine the difference in the means between the responses of the financial executives and the other respondents.

The second step is a bivariate analysis of the cross-sectional data and calculations of measures of association and difference between the survey variables. Because the sample was relatively small, nonparametric statistical tests were applied because parametric tests are not appropriate for small groups of elements due to the risk that the results will not reflect the views explored in the survey. The tests used in this study were the same that were used by Brau, Ryan, and DeGraw (2006).

The first part of this analysis analyzes the questionnaire's responses in the context of the hypothesis that IPOs are conducted in accordance with life cycle and market timing theories. Because the questions relate to similar theories but from different perspectives, the tests measure the correlation between the responses and the theories relating to the life cycle of companies, raising issues concerning (1) theories of the life cycle of a business, with questions about whether the funds raised through the IPO were used to finance both short- and long-term growth; (2) capital structure and pecking order theory, with questions about reducing the cost of capital and overall and bank indebtedness through the IPO; (3) the optimistic perceptions of the company in the market, with questions about increased share liquidity after the IPO, secondary market improvement, and the growth in prestige from participating in the stock market and receiving increased media attention; (4) the optimal capital structure and any plans to increase indebtedness within two years; and (5) control of the company, with questions about the exit of the original owners via the IPO, the possibility of future exchanges in control, the sale of any portion of the original owners' shares, the reduction of control after the IPO, and the possible disadvantages of the public scrutiny. The summary of the theories and the results is in Appendix.

For comparisons between the groups of questions and answers and the theories, we apply the Spearman correlation analysis to determine whether the respondents were consistent in their perceptions. The Spearman correlation coefficients are considered to be significant in most cases, with confidence intervals of at least 90% or, put another way, with a significance of 10% or less.

For better data analysis, the firms with fewer than 10 years of experience in the market at the time of the IPO were classified as "younger" and those with over 10 years of market performance as "less young." We used the same criterion as Brau and Fawcett (2006) for company size, where a net operating income of over $100 million in the year of the IPO indicates a "major" company, with medium and small companies denoted as "minor."

4 RESULTS AND ANALYSIS

Because managers and RI analysts were also surveyed, before analyzing the responses of the financial executives, a nonparametric Mann-Whitney U-test was used to determine any differences in the means of the perceptions between the two groups. No significant difference was found from a statistical point of view between the responses of the two groups, ensuring greater consistency in the remaining results.

4.1 Life Cycle Theory Results.

According to life cycle theory, companies go public at certain times in their growth cycles. In some situations, they do so because they need more capital for growth, and in others, they do so because their original owners and investors want to diversify their business (Brau, Ryan, & Degraw, 2006). Table 2 shows the questions related to the life cycle and market timing theories. While Panel A (Table 2) presents the theories at a general level, we specifically target the theories in Panel B (Table 3).

All of the data presented in Tables 2–11 were obtained from the sample of 32 companies that went public between the years 2004 and 2008. Tables present only the percentages of positive responses to questions, i.e., the percentage of respondents who agreed strongly or moderately with the aspect questioned (4 or 5 of Likert-type scale). The difference of this figure from 100% is the percentage of respondents who did not comment on the issue, were neutral, or showed disagreement. The financial executives answered the questions using a five-point Likert scale, where 5 represents total agreement and 1 represents total disagreement. Tables show the percentage of respondents answering 4 or 5 (strongly or moderately agree) and the U.S. market results of Brau, Ryan, and DeGraw (2006).

In Panel A (Table 2), the first two issues are related to company growth. The results show that 75% of the respondents agreed that one benefit of the IPO was to raise funds for additional short-term growth, and 71.8% agreed that the IPO also benefited long-term growth. These results are consistent with those of Pagano (1993) and Assaf Neto (2000), who claim that IPOs are a source of permanent funds for company growth.

Table 2 *Financial Executives' Responses and IPO Theories (Panel A)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel A: General Life Cycle Theory						
A benefit of the IPO was that it allowed our company to gain additional financing for immediate growth.	75.0%	4.06	1.21	82.6%	4.33	1.07
A benefit of the IPO was that it allowed our company to gain additional financing for long-term growth	71.8%	4.03	0.99	86.8%	4.40	0.89
Yes, no, or do not know	Yes	-	-	Yes	-	-
Smaller companies are less likely to go public.	59.4%	-	-	56.0%	-	-
Younger companies are less likely to go public.	34.4%	-	-	49.5%	-	-
High-tech companies are less likely to go public.	9.4%	-	-	2.0%	-	-
Riskier firms are more likely to go public.	9.4%	-	-	11.5%	-	-

Brau, Ryan, and DeGraw (2006) found similar results in the U.S. Almost 83% of the respondents in the U.S. agreed with the IPO benefit of obtaining financing for the short term, and almost 87% agreed with the IPO benefit of gaining funding to grow in the long term. This perception is consistent with the life cycle theory.

The other four questions in Panel A relate to the perceptions of financial executives about the types of companies that go public on stock exchanges, namely, smaller companies, young companies, high-tech companies, and riskier companies (firms that represent a greater investment risk). According to the data, 59.4% of the respondents agreed that smaller companies are less likely to go public, 34.4% agreed that young companies are less likely to go public, only 9.4% believed that high-tech companies are less likely to go public, and 9.4% of the respondents believed that riskier firms are more likely to go public. These responses suggest that financial managers take into consideration the life cycle characteristics of their company when they decide to conduct an IPO (see Table 2), supporting Ritter and Welch (2002).

Brau, Ryan, and DeGraw (2006) found similar results for the U.S. respondents. Only the question regarding young companies being less likely to go public had greater agreement among U.S. respondents (approximately 15% more than for Brazil's respondents). For the other characteristics, the perceptions were roughly equal.

Regarding the life cycle theory of business, Modigliani and Miller (1963) and Scott (1976) argue that an optimal capital structure minimizes the cost of the company's capital and thus increases its market value. Thus, if at some point in the company's life cycle there is a need to raise external funds to continue growing, an IPO can be one way to optimize their capital structure. To test this theory, the first question of Table 3 (Panel B) asks directly if the financial executives believe that one of the benefits of the IPO was to minimize the cost of capital.

Table 3 *Financial Executives' Responses and IPO Theories (Panel B)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel B: Capital Structure/Cost of Capital						
A benefit of the IPO was to decrease the total cost of capital.	59.4%	3,59	1,21	38.2%	2,98	1,36
Yes, no, or do not know	Yes	-	-	Yes	-	-
We plan to issue more debt within two years.	53.1%	-	-	33.7%	-	-
Our present debt/equity mix is optimal.	46.9%	-	-	49.5%	-	-

A total of 59.4% of the CFOs agreed that the IPO reduced the cost of capital. Following the same line of reasoning, the next two questions in Panel B ask whether the company intends to increase its indebtedness over the next two years and if the present company's capital structure is optimal. The logic is that if the company intends to increase its debt, it might be intending to maintain its optimal capital structure. The results show that 53.1% of respondents believe that the company will increase its indebtedness over the next two years, and 46.9% believe that the company's capital structure is optimal. In other words, the results support the idea that

an IPO minimizes a company's cost of capital, promoting the optimal capital structure.

Brau, Ryan, and DeGraw (2006) found less support for this theory than the Brazilian study. The U.S. results in Table 3 regarding the possible benefit from an IPO in reducing the capital costs show approximately 20% less agreement than for Brazil (38.2%) and just 33.7% agree the firms have plans to issue more debt within two years. Regarding the company's capital structure, U.S. respondents believe that the combination of company debt and equity was optimal. The responses in Table 3 (Panel B) do not offer strong support for the idea that IPOs promote an optimal capital structure and minimize the cost of capital.

Table 4 (Panel C) tests the pecking order theory discussed by Myers and Majluf (1984) and Myers (1984). These authors argue that firms prefer to issue the cheapest source of financing and that firms first prefer internal capital because it is the cheapest source. The first two questions of Panel C ask the CFOs if they believe that an IPO allows their company to reduce its debt (in general) and, specifically, its bank loans.

Table 4 *Financial Executives' Responses and IPO Theories (Panel C)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel C: Pecking Order Theory						
A benefit of the IPO was that it allowed our company to reduce its debt.	31.3%	2,68	1,45	44.4%	3,03	1,61
A benefit of the IPO was to reduce open bank loans.	18.8%	2,12	1,20	37.4%	2,80	0,62
Yes, no, or do not know	Yes	-	-	Yes	-	-
Highly leveraged companies are more likely to go public.	28.1%	-	-	47.9%	-	-
Companies with higher interest rates are more likely to go public.	43.8%	-	-	37.3%	-	-

The percentage of those in agreement in Brazil was 31.3%, indicating that an IPO does not contribute to a reduction in indebtedness, and there was even less agreement, 18.8%, regarding a reduction in bank indebtedness. Only 28.1% of the respondents believed that highly indebted firms are more likely to go public, while 43.8% believed that companies subject to higher interest rates are more likely to go public. According to these results, only a small proportion of our respondents agreed completely with the issues, which does not allow us to completely dismiss the theory and might indicate that there are other motives that are more relevant to the IPO decision than just debt relief.

The U.S. results are somewhat different, with a higher level of agreement regarding the reduction of debt and bank debt and less variability than in the responses of the Brazilian chief financial officers (CFOs). While support for the pecking order theory is greater in the U.S. results, our results are insufficient to conclude that Brazilian companies confirm to the pecking order theory because the proportion that agree was lower than in the U.S. results.

Table 5 (Panel D) tests the theory of Zingales (1995) and Mello and Parsons (2000), who argue that an IPO allows a firm to increase its options to change control.

Table 5 *Financial Executives' Responses and IPO Theories (Panel D)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel D: Zingales (1995) and Mello and Parsons (2000)						
A benefit of the IPO was that it allowed our company increase options to change control of the company.	18.7%	2,45	1,23	22.2%	2,51	1,25

Regarding this issue, only 18.7% agreed that an IPO allows a company to increase its control exchange options. This result shows that, according to the vision of the executives who led the IPO process, change of control was not among the plans of the former owners of Brazilian companies.

Brau, Ryan, and DeGraw (2006) obtained results for the U.S. that were not much different. Approximately 22% of the CFOs either strongly or mildly agree that the IPOs increase the insiders' options for changing control.

Table 6 *Financial Executives' Responses and IPO Theories (Panel E)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel E: Optimal dispersion.						
A benefit of the IPO was that it allowed the original owners to diversify their interests.	37.5%	2,83	1,39	46.0%	3,03	1,84
A benefit of the IPO was that it allowed the sale of some of the owners' shares.	37.6%	2,96	1,47	30.2%	2,46	1,52
A benefit of the IPO was that it increased liquidity.	37.5%	3,12	1,43	82.5%	4, 21	0,96
A benefit of the IPO was that it improved our secondary market.	28.1%	2,83	1,36	40.3%	3,28	1,15
Yes, no, or do not know	Yes	-	-	Yes	-	-
Our company has made a secondary offering since the IPO.	28.1%	-	-	10.9%	-	-
Our company plans a secondary offering within two years.	12.5%	-	-	48.3%	-	-

Table 6 (Panel E) reports a series of questions that address the theories of Chemmanur and Fulghieri (1999), who argue that an IPO allows for the optimal dispersion of ownership, and Zingales (1995) and Mello and Parsons (1998), who argue that an IPO creates a public market so that shareholders can convert into cash at a later date. The opinions on this issue are sharply divided, with virtually the same percentage for each point on the Likert scale. A total of 37.5% of the respondents agreed either completely or moderately that the IPO allowed the original owners to diversify their interests; 37.6% agreed that the IPO enabled the sale of some of the owners' shares; only 37.5% believed that the IPO increased share liquidity; and only 28.1% agreed that the secondary market improved after the IPO. Only a small proportion of the respondents agreed completely with the issues; these results do not support the existing theories.

Brau, Ryan, and DeGraw (2006) found similar results for these questions. The CFOs in the U.S. did not view the IPO as a vehicle for change in the control of the firm. Only 46% agreed that the IPO allowed the original owners to diversify their interests, and only 30.2% agreed that the IPO allowed the sale of some of the owner's shares. However, one question expressed different sentiments from the CFOs when compared with the Brazilian study: improvement in the secondary market was perceived to be more of a benefit for the U.S. CFOs than for the Brazilian CFOs— similar to the results for most of the study—with 40% in agreement, and concordance was almost 83% concerning an increase in liquidity.

The last two questions of Panel E asked if the company conducted further issues of shares after the IPO and whether it plans to issue new shares within the next two years. According to Harjoto and Garen (2003), companies that issue new shares within four years after an IPO have faster growth and generally receive higher prices than in the original IPO when conducting additional stock offerings. The data do not support this theory because a very low percentage of the respondents planned new offerings in the next two years. Only 28.1% of the CFOs agreed that the firm had another offering after the IPO, and just 12.5% responded that the firm did intend to have another offering within two years.

A careful analysis of Table 1 might, however, indicate that a large portion of the companies that went public during this period in Brazil operated in more mature segments, which were not in a high growth phase at that time. This would suggest that there were other motivations for conducting an IPO. Of the 32 companies in the sample, only six (18.75%) are in sectors that could be classified as high growth in Brazil, which include construction and the property management. This percentage is in the same range as the percentage of respondents who conducted new issues within two years of the IPO or intended to do so in the next two years.

Brau, Ryan, and DeGraw (2006) found slightly different results. Almost 11% of the CFOs agreed that the firms had made a secondary offering since the IPO, and 48.3% of the CFOs agreed that the firms intended to make a secondary offering within two years. To contrast the management intentions with the actual actions, the authors analyzed the issues again in the two years following each IPO. For the 48.3% of respondents who indicated intentions to complete a secondary offering within two years, just 21% completed the secondary offering.

Table 7 *Financial Executives' Responses and IPO Theories (Panel F)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel F: Booth and Chua (1996), Brennan and Franks (1997), Chemmanur and Fulghieri (1999) and Brau, Francis, and Kohers (2003).						
A disadvantage of the IPO was that it reduced control.	15.6%	1,93	1,16	38.2%	3,14	1,05
A benefit of the IPO was that it increased the alliance between shareholders and management.	50.0%	3,22	1,56	23.3%	2,75	1,16

Table 7 (Panel F) tests the theories of Booth and Chua (1996), Brennan and Franks (1997), Chemmanur and Fulghieri (1999), and Brau, Francis, and Kohers (2003), who argue that an IPO allows a company to further diversify while simultaneously increasing the effective control of the property. Brennan and Franks (1997), however, suggest that owners might not appreciate the loss of control that takes place when it is dispersed among various shareholders in the IPO. The two questions of Panel F are whether the finance executives think that a disadvantage of the IPO was the loss of control of the company and whether a benefit of the IPO was the strengthening of the alliance between the managers and the shareholders. Only a total of 15.6% of the respondents agreed that the IPO reduced the company's control, and half of the respondents agreed that it strengthened the alliance between the shareholders and the executives. These results do not support the theories in question.

In the study by Brau, Ryan, and DeGraw (2006), 38.2% of the CFOs agreed strongly or mildly with the first question that asked if CFOs perceived the reduction in control as a disadvantage of the IPO, and 23.3% agreed with the second question of Panel F of whether CFOs perceived the strengthening of the alliance between the managers and the shareholders as an advantage of the IPO. The responses were generally consistent with the idea that an entrepreneur might not perceive a reduction in control because of the ownership dispersion of a public offering.

According to Zingales (1995), Black and Gilson (1998), Dhillon, Raman, and Ramirez (1999), Mello and Parsons (2000), and Ang and Brau (2003), an IPO allows a company's owners to immediately withdraw their invested capital, providing the company with an exit strategy as regards the owners. Table 8 (Panel G) addresses the question by asking CFOs if the IPO permits the retirement of the original owners of the firm.

Almost 22% of the CFOs agreed that one of the benefits of the IPO was the opportunity for the original owners to exit from the company. However, this result does not strongly support the existing theories. Brau, Ryan, and DeGraw (2006) also did not find support for this theory, as 3.8% of the U.S. CFOs agreed with this question.

Table 8 *Financial Executives' Responses and IPO Theories (Panel G)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel G: Dhillon, Raman, and Ramirez (1999), Zingales (1995), Mello and Parsons (2000), Ang and Brau (2003) and Black and Gilson (1998)						
A benefit of the IPO was that it allowed for the retirement of the original owner.	21.9%	2,19	1,51	3.8%	1,45	0,88

Table 9 (Panel H) tests the theories of Maksimovic and Pichler (2001) and Ritter and Welch (2002), who argue that a company that issues an IPO can gain a competitive advantage and greater prestige in the market. The respondents agreed in 59.4% of cases that one of the benefits of the IPO was an improvement in the market's perception of the company. With regard to the prestige of participating in the stock market, 46.9% agreed. Slightly more than half (53.1%) of the respondents agreed that the IPO increased media attention. These results reasonably support the existing theories.

Table 9 *Financial Executives' Responses and IPO Theories (Panel H)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel H: Maksimovic and Pichler (2001), and Ritter and Welch (2002)						
A benefit of the IPO was that it improved the market perception of the stock.	59.4%	3,51	1,48	48.7%	3,39	1, 29
A benefit of the IPO was the prestige of being on an exchange.	46.9%	3,25	1,34	40.0%	3,08	1,14
A benefit of the IPO was the enhanced media attention.	53.1%	3,29	1,42	28.5%	2,82	1,14

Brau, Ryan, and DeGraw (2006) found less agreement among the U.S. CFOs. Nearly half, or 48.7%, of the CFOs agreed that the IPO served to improve the market perception of the company's stock. 40% agreed that the prestige of being on an exchange is one benefit of the IPO. There was considerable disagreement as to whether the IPO was a vehicle to gain media attention, as only 28.5% agreed that the IPO helped to gain media attention. This perception is consistent with Ritter and Welch (2002), who argue that media attention plays a minor role.

Bradley, Jordan, and Ritter (2003) note that one disadvantage of the IPO is that IPO firms are monitored and evaluated by investors; therefore, the price of the stock starts to represent the company's market value, which becomes very vulnerable to the investor's perception of the company. The authors show that IPOs allow for the creation of an analyst following and that an overwhelming number of analyst opinions are highly favorable toward the IPO companies immediately following the end of the quiet period. Table 10 (Panel I) tests this theory, asking if one of the disadvantages of the IPO was that it made the company suddenly open to public scrutiny. Only 25% of respondents agreed with this question, which does not support the theory of Bradley, Jordan, and Ritter (2003).

Though the question is not directly related to analysts, it does raise the much broader issue of public scrutiny, of which the analyst following is one component. Some variables can imply a level of discomfort with public scrutiny becau-

se the making of information available to competitors, the effect of the market analysts' evaluation, and the disclosure of information can be costly. In Brazil, the CFOs do not perceive the public scrutiny as a disadvantage of the IPO, but in the U.S., the CFOs strongly agreed with this question.

This percentage was much higher for the U.S. respondents, at nearly 70%, which indicates that their perception differs from those of the Brazilian CFOs in this regard. This awareness gives greater support to the theories tested in the American study.

Table 10 *Financial Executives' Responses and IPO Theories (Panel I)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel I: Bradley, Jordan, and Ritter (2003).						
A disadvantage of the IPO was that it made our company suddenly open to public scrutiny.	25.0%	2,43	1,19	68.9%	3,80	1,02

In summary, the CFOs agreed with the IPO benefit of gaining funding to grow in the long term and with the optimal capital structure; thus, the executives' perceptions support the static trade-off theory. The CFOs do not see the IPO as a way to change company control or to increase the options to change control, which contradicts the theories on this subject. The theory that a new equity issue can benefit a company is not confirmed by the executives' responses because most do not intend to issue new shares within the next two years. The executives do not perceive the loss of control with the IPO or the disadvantages of public scrutiny with the IPO. The improvement of the company's secondary market was perceived to be a benefit of IPOs; in particular, the market's perception of the company after an IPO was noted by CFOs as a benefit of the IPOs.

In the U.S., Brau, Ryan, and DeGraw (2006) found several different perceptions. The life cycle theory was confirmed, with the strong agreement of the CFOs in the U.S., who clearly believe that IPOs help firms to grow in both the short and the long term. The responses of the CFOs do not offer strong support for the idea that IPOs promote an optimal capital structure and minimize the cost of capital. When the CFOs were asked about the benefit of the IPO for reducing debt, it appears that a subset of CFOs hold sentiments that are in harmony with the pecking order theory.

Brau, Ryan, and DeGraw (2006) found similar results for the questions about the change of control. The CFOs in the U.S. disagreed that the IPO was a vehicle to change the control of company. The responses were generally consistent with the idea that an entrepreneur might not perceive a reduction in control because of the ownership dispersion of a public offering. The CFOs agreed that the IPO serves to improve the market perception of the company's stock and that the prestige of being on an exchange is a benefit of the IPO, but there was considerable disagreement as to whether the IPO was a vehicle to gain media attention. The CFOs also perceived the public scrutiny as a disadvantage of the IPO.

4.2 Results of the Theory of Market Timing.

Table 11 (Panel J) shows the results of questions about the market timing theory discussed by Lucas and McDonald (1990), Choe, Masulis, and Nanda (1993), Loughran and Ritter (1995), and Ritter and Welch (2002), who argue that firms prefer to go public when the market is heated because it can increase their value. The two pertinent questions asked whether it was beneficial to the company that the market was hot at the time of the IPO and whether companies with a high market-to-book ratio are more likely to open their capital.

62.4% of the respondents agreed that the market being hot at the time of the IPO was a benefit, consistent with the theory of Choe, Masulis, and Nanda (1993). A total of 43.8% of the respondents agreed that the companies with a high market-to-book ratio are more likely to lead an IPO, supporting Brau, Ryan, and DeGraw (2006). Thus, the answers suggest support for the theory because most of the respondents agree that a hot market and a high market-to-book ratio provide greater benefits at the time of the IPO, which is consistent with market timing theory.

Table 11 *Financial Executives' Responses and IPO Theories (Panel J)*

	Brazil Agree 4-5	Average	Standard Deviation	**USA** Agree 4-5	Average	Standard Deviation
Panel J: Theories of market timing						
A benefit of the IPO was that the market was strong at the time of IPO.	62.4%	3,74	1,23	59.2%	3,44	1, 29
Yes, no, or do not know	Yes	-	-	Yes	-	-
Companies with higher market-to-book ratios are more likely to go public.	43.8%	-	-	49.2%	-	-

Because the questionnaire presented questions concerning similar groups of theories but from different viewpoints, we apply a Spearman correlation test to measure the consistency of the responses. The results show that respondents perceive IPOs as an additional source of funding for both the short and long term ($\rho = 0.424$, $p < 0.017$), but this relationship indicates that there might be differences between the objectives of the companies on the horizon of this funding because the value of ρ, although statistically significant, is relatively low for explaining the variance between periods.

With respect to capital structure, respondents did not show consistent support for the pecking order theory when asked about the reduction of both indebtedness with the IPO ($\rho = 0.357$, $p < 0.049$) and bank indebtedness ($\rho = 0.291$, $p < 0.119$). This finding indicates that the respondents perceive one of the benefits of an IPO to be a reduction in the cost of capital, but this does not necessarily mean that they would use the proceeds to reduce company indebtedness; one of the objectives might precisely have been to increase indebtedness with a lower capital cost after the IPO. Because the outlook varies from company to company, there is no way to determine whether the perception of a lower cost of capital is directly related to the reduction of company indebtedness.

Regarding the perception of increased company liquidity and secondary market improvement, the Spearman correlation shows significant values ($\rho = 0.585$, $p < 0.001$), indicating that the responses are consistent with the respondents' perspective. The Spearman correlation on the improvement in the market's perception of the company's shares after an IPO with respect to the IPO's improvement of the secondary market shows less significant values ($\rho = 0.378$, $p < 0.039$).

With regard to the prestige of participating in the stock market, the results are slightly better ($\rho = 0.523$, $p < 0.003$), and with respect to increased media attention, the results show stronger correlation with high significance ($\rho = 0.654$, $p < 0.000$). These results point to the perception that IPOs provide greater visibility for companies, improving their secondary market and, hence, their liquidity. However, the degree of explanation of the variance in the correlations between the responses was between 14.28% and 42.77%, which shows that there could be other factors that the respondents perceive that might further explain this variance.

With regard to the perceptions about company control, the results show that the respondents did not see the IPO as a strategic alternative for the exit of the original owners because the correlation between the opportunity to oust the original owners with increased options for changing company control is very low and without statistical significance ($\rho = 0.231$, $p < 0.219$). The same applies to the option of selling part of the original owners' shares ($\rho = 0.174$, $p < 0.365$) and the opportunity to diversify the original owners' interests with the possibility of selling part of their shares ($\rho = 0.390$, $p < 0.036$).

These results demonstrate that the views of the financial executives of Brazilian companies regarding opportunities for change in company control and the diversification of the original owners' interests through an IPO are not among the main drivers of the IPO. This finding contradicts the theories that state that an IPO is an opportunity for strategic changes within a company and for its owners to obtain some advantage in the process.

In summary, the financial executives confirm the market timing theory, that is, that a heated market influences the decision to conduct an IPO. With the correlations found between the answers and the theories, the respondents support the life cycle and static trade-off theories, as well as those theories that advocate for an improvement in the secondary market after an IPO. The theories that state that an IPO is motivated by the desire to change company control are not confirmed, with considerable contradiction in the responses. Brau, Ryan, and DeGraw (2006) found similar results for the market timing theory in the U.S.; the CFOs agreed that a strong market at the time of the IPO was a benefit.

5 CONCLUSIONS

This study investigates the perceptions and motives of financial executives of Brazilian companies that conducted IPOs. With a sample of firms that went public between 2004 and 2008, the study relates the respondents' answers to the existing IPO theories and compares the results to those obtained by Brau, Ryan, and DeGraw (2006) in the U.S. market. The two classes of theory explained in this study are the life cycle and market timing theories. The results show that the financial executives strongly support the life cycle theory and take into account the characteristics of a company when conducting an IPO. The search for the optimal capital structure is confirmed as well, supporting the static trade-off theory.

Moreover, the executives do not see IPOs as an opportunity to change company control, contradicting the theories on the subject. The suggestion of the theory is not confirmed by the executives' responses because they do not intend to issue new shares within the next two years. This decision could be due to the companies' sectors and therefore does not contradict the theory.

In addition, the theories about the perceived loss of control with an IPO and the disadvantage to the company of public scrutiny were not supported by the Brazilian financial executives. The executives did, however, perceive the improvement in the secondary market as an advantage of the IPO. The issue of improved market perception is particularly noteworthy.

The responses of financial executives confirm the theory of market timing; that is, a heated market influences the decision to conduct an IPO. Given the correlations between the answers and the theories, the respondents support the life cycle and static trade-off theories as well as the theories that advocate for the improvement in the secondary market after

an IPO. Theories that support that an IPO is motivated by an opportunity to change company control are not confirmed and raise considerable disagreement among the respondents.

In conclusion, we suggest a further series of studies on this subject in Brazil. Research with a greater scope in terms of time would be useful, as would including a larger number of sample companies, because the number of IPOs is growing again. The possible influence of leading financial institutions or hired consulting firms in IPO outcomes could also be explored. In addition, other studies that have already been conducted in other countries could be replicated in Brazil's market.

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APPENDIX

A summary of the conclusions of the study compared with the theories and with the results of the study by Brau, Ryan, and DeGraw (2006).

Theory or Concept	Survey Evidence (Strong Support, Moderate Support, Low Support)
General Life Cycle Theory (Pagano, 1993, Ritter & Welch, 2002)	
A benefit of the IPO was that it allowed our company to gain additional financing for immediate growth.	**Brazil:** Strong Support: most of the CFOs agreed that the IPO allowed the company to gain additional financing for immediate growth (75%). **United States:** Strong Support: 82.6% of the CFOs agreed with this theory.
A benefit of the IPO was that it allowed our company to gain additional financing for long-term growth	**Brazil:** Strong Support: there was strong agreement that a benefit of the IPO was that it allowed the company to gain additional financing for long-term growth: 71.8% of the CFOs agreed with this question. **United States:** Strong Support: there was strong agreement with this question: 86.8% of the CFOs agreed.

Capital Structure/Cost of Capital (Modigliani & Miller, 1963, Scott, 1976)	
A benefit of the IPO was that it decreased the total cost of capital.	**Brazil:** Moderate Support: there was moderate agreement that a benefit of the IPO was that it decreased the total cost of capital: 59.4% of the CFOs agreed. **United States:** Low Support: there was low agreement with this question: only 38.2% of the CFOs agreed.
Pecking Order Theory (Myers, 1984, Myers & Majluf, 1984)	
A benefit of the IPO was that it allowed our company to reduce its debt.	**Brazil:** Low Support: only 31.3% of the CFOs agreed that a benefit of the IPO was that it allowed the company to reduce its debt. **United States:** Low Support: nearly 45% of the CFOs agreed with this question.
A benefit of the IPO was that it reduced open bank loans.	**Brazil:** Low Support: only 18.8% of the CFOs agreed that a benefit of the IPO was that it reduced open bank loans. **United States:** Low Support: only 37.4% of the CFOs agreed with this question.
Increase options to change control of the company (Zingales, 1995, Mello & Parsons, 2000)	
A benefit of the IPO was that it allowed our company to increase the options to change control of the company.	**Brazil:** Low Support: 18.7% of the CFOs agreed that the IPO allowed the firm to increase its options to change control of the firm. **United States:** Low Support: only 22.2% of the CFOs agreed that the IPO allowed the firm to increase its options to change control of the firm.
Optimal dispersion (Pagano, 1993, Zingales, 1995, Mello & Parsons, 1998, Chemmanur & Fulghieri, 1999, Ang & Brau, 2003)	
A benefit of the IPO was that it allowed the original owners to diversify their interests.	**Brazil:** Low Support: 37.5% of the CFOs agreed that the IPO allowed the original owners to diversify their interests. **United States:** Low Support: 46% of the CFOs agreed that the IPO allowed the original owners to diversify their interests.
A benefit of the IPO was that it allowed the sale of some of the owners' shares.	**Brazil:** Low Support: 37.6% of the CFOs agreed that the IPO allowed the sale of some of the owners' shares. **United States:** Low Support: 30.2% of the CFOs agreed that the IPO allowed the sale of some of the owners' shares.
A benefit of the IPO was that it increased liquidity.	**Brazil:** Low Support: 37.5% of the CFOs agreed that the IPO increased liquidity. **United States:** Strong Support: 82.5% of the CFOs agreed that the IPO increased liquidity.
A benefit of the IPO was that it improved our secondary market.	**Brazil:** Low Support: 28.1% of the CFOs agreed that the IPO improved the secondary market. **United States:** Low Support: 40.3% of the CFOs agreed that the IPO improved the secondary market.
Reduce control (Booth & Chua, 1996, Brennan & Franks, 1997, Chemmanur & Fulghieri, 1999, Brau, Francis, & Kohers, 2003)	
A disadvantage of the IPO was that it reduced control.	**Brazil:** Low Support: 15.6% of the CFOs agreed that the IPO reduced control. **United States:** Low Support: 38.2% of the CFOs agreed that the IPO reduced control.

A benefit of the IPO was that it increased the alliance of shareholders and management.	**Brazil:** Moderate Support: 50% of the CFOs agreed that the IPO increased the alliance of shareholders and management. **United States:** Low Support: 23.3% of the CFOs agreed that the IPO increased the alliance of shareholders and management.
Change of control (Dhillon, Raman, & Ramirez 1999, Zingales, 1995, Mello & Parsons, 2000, Ang & Brau, 2003, Black & Gilson, 1998)	
A benefit of the IPO was that it allowed for te retirement of the original owner.	**Brazil:** Low Support: 21.9% of the CFOs agreed that the IPO allowed for the retirement of the original owner. **United States:** Low Support: only 3.8% of the CFOs agreed that the IPO allowed for the retirement of the original owner.
Greater Prestige (Maksimovic & Pichler, 2001, Ritter & Welch, 2002)	
A benefit of the IPO was that it improved market perception of the stock.	**Brazil:** Moderate Support: 59.4% of the CFOs agreed that the IPO improved market perception of the stock. **United States:** Moderate Support: 48.7% of the CFOs agreed that the IPO improved market perception of the stock.
A benefit of the IPO was the prestige of being on an exchange.	**Brazil:** Moderate Support: almost 47% of the CFOs agreed that a benefit of the IPO was the prestige of being on an exchange. **United States:** Low Support: 40% of the CFOs agreed with this question.
A benefit of the IPO was the enhanced media attention.	**Brazil:** Moderate Support: 53.1% of the CFOs agreed that a benefit of the IPO was the enhanced media attention. . **United States:** Low Support: 28.5% of the CFOs agreed with this question.
Disadvantage of IPO – public scrutiny (Bradley, Jordan, & Ritter, 2003)	
A disadvantage of the IPO was that it made our company suddenly open to public scrutiny.	**Brazil:** Low Support: only 25% of the CFOs agreed with this question. **United States:** Strong Support: nearly 69% of the CFOs agreed with this question.
Theories of market timing (Lucas & McDonald, 1990, Choe, Masulis, & Nanda, 1993, Loughran & Ritter, 1995, Ritter & Welch, 2002)	
A benefit of the IPO was that the market was strong at the time of the IPO.	**Brazil:** Moderate: 62.4% of the CFOs agreed that a strong market at the time of the IPO was a benefit . **United States:** Moderate: 59.2% of the CFOs agreed with that a strong market at the time of the IPO was a benefit.