

Forward-Looking Disclosure of Customer Metrics in IPO Prospectuses and IPO Performance

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Abstract

Disclosing forward-looking customer metrics is critical in providing investors valuable information about a company's future financial performance. However, the lack of a comprehensive, broadly applicable measurement framework for such forward-looking customer metric disclosures has limited their use in theory and practice. This article addresses this gap by presenting a measurement framework that combines two textual analysis methods: BERT and a dictionary-based approach. It applies the proposed measurement framework to 7,862 initial public offerings (IPO) prospectuses from 2,674 IPOs between 1997 and 2019. The results reveal an upward trend in the disclosure of forward-looking customer metrics over the years, with significant variation across industries. The telecommunications, shops, and business equipment sectors have the highest levels of disclosure. Importantly, the results indicate that disclosing more forward-looking customer metrics is associated with improved IPO performance. Specifically, higher levels of disclosure increase first-day returns and trading volume.

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