
Company's Return after Initial Public Offering (IPO) Case Study- SAIDAL-

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Résumé:

The present research paper aims to identify and analyze SAIDAL's return ratios, as well as to make a comparison between these crucial elements in the estimation of the company's financial performance for two periods: the first concerns the period prior IPO, and the second one concerns the period post IPO.

An Initial Public Offering, could bring numerous benefits to the company, such as better awareness, lower cost and return improvement. All of that, is confirmed along this study and reflected in its results that show a positive increase in the magnitudes studied, such as the evolution of the investments, the turnover and the net profit over the period 2017- 2019.

Keywords: Initial Public Offering, Return ratios, SAIDAL, Economic return (ROA), Financial Return (ROE).

Jel Classification Codes: XN1, XN2.

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1. Introduction:

The introduction to the article should contain a preface to the topic, and then introduce the research problem and make the appropriate assumptions, in addition to determining the research objectives and methodology of the study.

The main objective of any business leader is to make a profit by carrying out the various profitable investments. Thus, he must look for the best management plan to reach an efficient level of return.

However, this objective can be achieved after a comprehensive study of the company, starting with a relevant financial analysis to be able to estimate the return which represents a core tool for monitoring and evaluating financial performance for the company. This analysis will also help executives to make decisions at convenient time, such as acquiring new equipment, or opening up its share capital through the IPO. This decision represents a very important step in the firm's life, when it faces great opportunities to diversify its capital needed to finance its investments, and gives good image about its reputation, and all of that will favor strategies of external growth and management control. Nevertheless, this listing has constraints such as time consumption, additional costs, and dealing with risks that encounter in the financial market.

SAIDAL, the Algerian pharmaceutical company, has been listed on the stock exchange since 1999, with the objective of ensuring its sustainability, guaranteeing a financial autonomy, and safeguarding its financial balance despite the risks of the financial markets.

Therefore, this paper is presented to assess the company's return before and after its Initial Public Offering (IPO), and tries to answer the following major research problem: **How does the IPO affect the SAIDAL's Return?**

For realizing this study, we have supposed the following hypothesis which assumed that **the IPO will promote the SAIDAL's return.**

At the outset, we have started our research with a theoretical framework of corporate return, which includes a study of IPO and its effects. Then, we have analyzed the situation of SAIDAL prior its IPO in 1999 and post IPO, by calculating the return ratios and the impact of its quotation on magnitudes, such as the evolution of its investments, turnover, production and its net profit, during the period of the three years prior to this decision and the three years post IPO. We have chosen the period 2017-2019 because of the COVID19 pandemic so that our statistics are not affected by the pandemic.

1. Return Analysis:

If a firm wants to survive, it must consider the return as its first requirement, whatever the conditions under which it operates. Before evaluating the company's return, we have perceived that it beneficial to start by presenting first some notions about return and the ratios that could help in the estimation of the company's

return.

1.1. Definition of return:

According to Armand Dayan, "Return is generally linked to profit. It represents the ability of an enterprise to realize a result on the basis of an investment" (Dayan, 2004, p. 111).

According to Gérard Melyon: 'Return is the ability to achieve a profit or a result. That, to estimate the return of an undertaking, it is necessary to reconcile the result obtained with the means used to obtain that result, that is to say, with the capital invested therein' (MELYON, 2007, p. 166). Indeed, the concept of return appears in the first analysis very simple: capital generates profit, and so the ratio of capital to profit translates the rate of return.

2.2. Estimating return:

The company may consider return from different points of view because of the multitude of variables that can be used, for our study we will opt for return ratios, which means: the economic and financial return ratios.

2.2.1. Definition of return ratios:

The ratio method is widely used by external analysts, particularly bankers, because it relies on the balance sheet and the income statement, which are good tools for analyzing financial structure, management and return. (Amelon, 2004, p. 127).

Profit ratios are considered to be an essential element in measuring the performance of a company, and a significant component in estimating an enterprise situation.

The ratio is a rapport between two quantified components of the company's economy. It is expressed as a percentage or as a relative value. Ratios are used in budgetary control as summary items, in particular in scoreboards (Lochard, 2020, p. 21)

Though, **Return** is a rapport between a form of profit and an activity or between a form of profit and a means used to generate it. Return can be negative or positive, as it can express an objective. This notion is used in the case of budgetary control. (Lochard, 2020, p. 21).

Certainly, the return of a firm evaluates the performance of the investment resources provided by capital providers. Therefore, it is a favored assessment tool for financial analysis.

2.2.2. The different return ratios:

There are several types of return ratios, but only some of them are significant, such as:

- ❖ **Economic return (return on assets ROA)** measures the overall return of the company and reveals the gain to be shared between shareholders and financial creditors (bankers and bondholders). It considers itself by reporting the result that the latter will receive from the sums they have made available. (Guyvarc'h, 2019, p.

81). This ratio permits to compare undertakings in the same sector of activity regardless of their financial structures. Economic return can be calculated as follows:

$$\text{Economic return (ROA)} = \frac{\text{Net income}}{\text{Total Assets}}$$

- ❖ **Financial return (Return on equity ROE)** measures the profit achieved in relation to the capital committed by shareholders, which depends on the level of return on capital invested, and also on the financial capacity of the firm to create funding for its maintenance and growth. (André, 1999, p. 135). Financial return measures shareholder remuneration. This ratio is important to encourage shareholders to lend their funds to the company, and it is calculated as follows:

$$\text{Financial return (ROE)} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

- ❖ **Financial leverage:** In finance, leverage refers to the impact of a firm's debt structure on the return of its own funds.

This ratio measures the favorable or unfavorable effect of debt on equity return (Guerrien, dictionnaire d'analyse économique, 1997, p. 290).

Leverage determines the maximum amount of debt an enterprise can incur, without putting its equity at risk. It also illustrates the impact of the financial structure on the financial return of the company. In this stage, the company must determine the leverage and present it to the partners by the following formula:

$$\text{Financial leverage} = \frac{(\text{Return on capital employed} - \text{After-tax cost of debt}) * \text{Net debt}}{\text{Equity}}$$

2. The Initial Public Offering (IPO):

Being quoted on the stock exchange is considered an action that can provide liquidity to the company.

3.1. Definition of the stock exchange:

According to Olivier Picon "The stock exchange is a place of exchange. There are two types of exchange: a labor exchange and a commodity and raw materials exchange, but the word alone refers to the place where trading and negotiating take place in securities. In an abstract definition, the stock exchange means: the market for these securities regardless of any particular location" (Olivier, 2000, p. 12).

The stock exchange refers to the securities issuance and trading market, this capital market offers companies a tool to obtain savings by organizing meetings between economic entities with surpluses and entities needing to finance the deficit of their activities, and thus the stock exchange contributes into the economic development.

The functioning of financial markets is based on the activity of two segments:

- ❖ **The primary market:** it is the market for the issuance of new securities (bonds, shares), it includes all public offerings and private placement, its role is to finance investment. It is also called the "new home market" (M. Fleuriet, 2000, p. 23)
- ❖ **The secondary market or stock market:** it refers to the second-hand market. This segment permits to liquidate securities issued on the primary market and thus enables shareholders to sell their securities whenever they wish. (Le Saout, 2006, p. 129).

3.2. The benefits of the IPO:

There are many reasons for listing a company.

- ❖ **The stock exchange represents an alternative source of funding,** to meet financing needs when increasing production capacity, improving productivity, or executing new projects. Therefore, this action reduces the cost of the company's bank debt and decreases the cost of capital.
- ❖ **Increase the company awareness** by ensuring the permanent visibility of the listed company at both the national and the international levels. This increased and recurring visibility, will upsurge the company opportunities to attract attention and bring future partners or new customers. It also facilitates the company's relations with institutional stakeholders. (Tunis, 2014, pp. 2-4).
- ❖ **Strengthening the equity of the company** is done by calling on its shareholders and at any time, even if the company faces an unfavorable economic situation or the financing is not exercised under the best conditions. That is why, it is preferable for the company to finance itself by opening its capital when it is in favorable conditions (i.e.: when the economic ratios of this company are good). So, the financing process will be carried out on the best conditions of return.
- ❖ **The company's ongoing return assessment** through the pricing of its listed securities as its information is continuously disseminated. Also, the listed companies will benefit from a specific tax exemption.

3.3 .The impact of the IPO on the company's performance:

The introduction may have undesirable effects on business such as:

- ❖ **Underperformance of listed companies:** Studies on the IPO of companies have shown a decline in the listed company's performance, and all opinions have converged on time effects, agency conflicts and signal effects.
- ❖ **An increase in agency costs:** This theory considers that managers are agents of shareholders within the company,

Their main mission is to manage the company well, in order to increase the interests of shareholders in addition to their main functions.

According to Jensen, the IPO will lead to an increase in agency costs, due to a reduction in the percentage held by managers; it will create a conflict between the new shareholders and the former executive shareholders. (Jensen M.C., 1976). Thus, according to this theory, the lower the retention rate of executive shareholders, the worse the company's performance.

❖ **The signal effect:** The company's underperformance could be also explained by the asymmetry of information that characterizes the environment during an IPO, which will negatively affect the process, and lead to undervaluation or suboptimal investment policies.

Any financial decision could be perceived as a signal by the company, reflecting on the market's perception of the choice of the tool.

When dividend changes, this represents a signal about the future level of profits. And in the case where the capital is reduced, this means a perception of a signal on the level of the share value, if the managers consider that the company is currently overvalued. (Pierre, 2014, p. 56).

❖ **The choice of the introduction period:** According to Pagano's study, it confirms the existence of a timing for launching, because the choice of the IPO is very important for companies seeking financing. And it is still better to grow at all levels than a long-term IPO, because there are companies that show strong growth prospects after the IPO, but they are recording a decline in economic performance and investment spending. (Parano M., 1998).

3.4. Undervaluation of securities at listing:

Undervaluation can be defined as the difference between the equilibrium price setting the price of the introduction differs from the true equilibrium price.

Several studies have confirmed that there is an underestimation of the issue prices of securities. And this reflected in the positive difference between the first equilibrium price and the offer price.

Aggarwal and Rivoli (Aggarwal, 1990), and others have studied the performance of newly listed securities over the long term. Their results indicated that there is a long-term underperformance of these securities. As Ritter says: "The issue price is not as low as claimed, but the first price quoted is overestimated" (Ritter, 1991).

3. Analysis of SAIDAL's Return:

4.1. Company overview:

SAIDAL is an industrial group specialized in manufacturing generic pharmaceutical products for human use in Algeria. It is considered as the leader of the pharmaceutical industry in Algeria and an important industrial center in the Mediterranean zone. This group has very large production capacity, and a specialized team of executives in drug development, as well as many distribution centers.

SAIDAL is a joint-stock company, founded in April 1982 with a capital of 2,500,000,000 Algerian dinars, listed on the stock exchange since 1999, its capital is 80% State-owned and the remaining 20% is held by institutional investors and individuals through the stock exchange (SAIDAL, 2020). Its turnover in 2020 is 9,124,251 thousand dinars. The net result for the financial year 2020 is 255,901 thousand dinars. (maghreb emergent, 2020).

4.2. Analysis of SAIDAL’s Return Before and After the IPO:

The quantitative and comparative analysis of the company’s return is carried out using the main ratios that define return, which are derived from the SAIDAL accounting documents. This analysis will be divided into two main parts during the year of the IPO in 1999.

We will choose the era: 1996-1997-1998 for studying the first period, these three years precede the introduction into the financial market of the company. And the era: 2017-2018-2019 for studying the second period, which represents the last three years before the COVID19 pandemic.

4.2.1. Economic return:

We will analyze the economic return before the IPO and After it.

a. Economic Return (ROA) Prior the IPO:

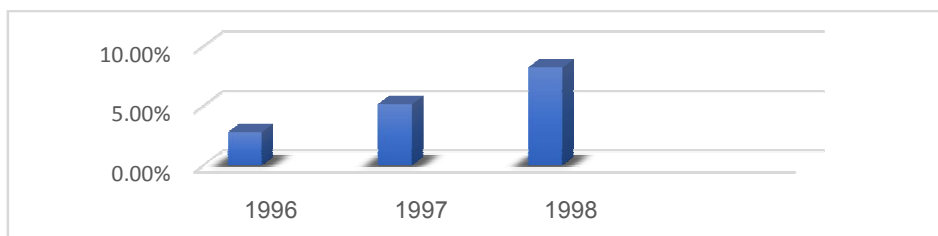
Table 1: Changes in Economic Return (ROA) over the period 1996 -1998

Year	1996	1997	1998
Net Income	244,566,280	401,150,364	569,006,067
Fixed assets	6,988,871,000	6,087,208,000	5,605,287,000
Working Capital Requirement (WCR)	1,758,941,000	1,684,681,000	1,314,274,000
Economic Return (ROA)	2.79%	5.16%	8.22%

Source: prepared by the researcher, based on the SAIDAL reviews

These data are illustrated in FIG. 1 below.

Figure 1: Economic Return (ROA) Evolution over the period 1996- 1998



Source: based on the data in Table 1

Comment: According to the results exposed in Table 1 and Figure 1, we notice that return increased year after year over the period of the study. This increase, could be a result of the rapid turnover of economic assets caused by the decrease in working capital requirements.

b. Economic Return (ROA) Post IPO:

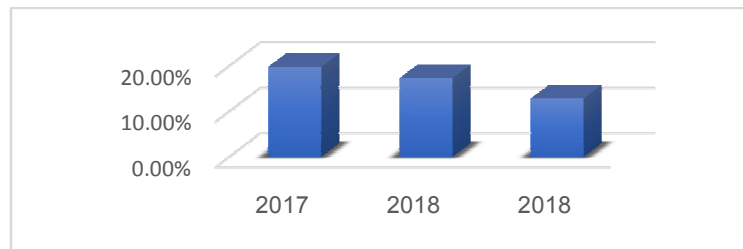
Table 2: Economic Return (ROA) Evolution over the period 2017-2019

Year	2017	2018	2019
Net income	1376295647.88	1174214390.98	793514004.08
Fixed assets+ WCR	7068715920.14	6806609953.78	6193189703.75
Economic Return (ROA)	19.74%	17.25%	12.81%

Source: prepared by the researcher based on the SAIDAL reviews

The following figure illustrates this evolution.

Figure 2: Economic Return (ROA) Evolution over the period 2017 -2019



Source: based on the data in Table 2

Comment: Table 2 and Figure 2 illustrate that the company's economic return has decreased, from 2017 to 2019, due to the continuous increase in the Working Capital Requirement and the increase in fixed assets. This increase is justified by the intensive expansion.

4.2.2. Financial return (ROE):

The return of SAIDAL will be analyzed before the IPO and after it.

a. Financial Return (ROE) preior IPO:

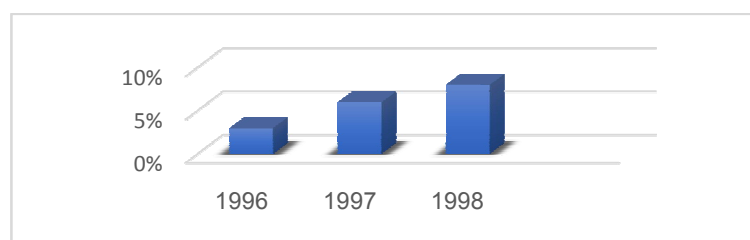
Table 3: Changes in Financial Return (ROE) over the period 1996-1998

Year	1996	1997	1998
Net income	244,566,280	401,150,364	569,006,067
Equity	7,289,572,000	6,539,987,000	7,162,423,000
Financial Return(ROE)	3%	6%	8%

Source: prepared by the researcher based on the SAIDAL reviews

The data in the above table are illustrated in Figure 3

Figure 3: Changes in Financial Return (ROE) over the period 1996-1998



Source: based on the data in Table 3

Comment: Table 3 and Figure 3 show that capitals return increased by 3% between 1996 and 1997, followed by an increase of 2% between 1997 and 1998. The decrease over this period is about 5%.

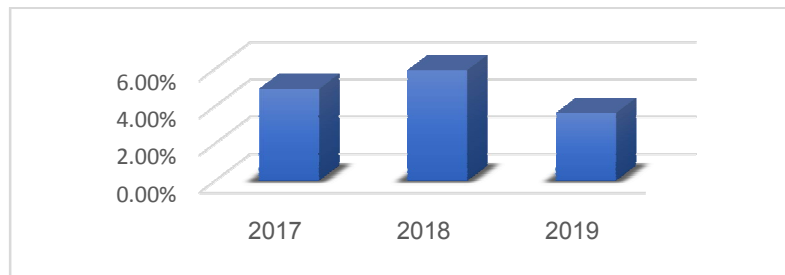
b. Financial Return (ROE) Post IPO:

Table 4: Financial Return (ROE) Evolution over the period 2017-2019

Year	2017	2018	2019
Net income	1376295647.88	1174214390.98	793514004.08
Equity	27931531057.74	19796410396.58	21776278416.42
Financial Return (ROE)	4.93%	5.93%	3.64%

Source: prepared by the researcher based on the SAIDAL reviews.

Figure 4: Financial Return (ROE) Evolution over the period 2017-2019



Source: based on the data in Table 4

Comment: Table 4 and Figure 4 illustrate the evolution of equity return that has recorded continuous growth over this period. That means, the use of debt has been beneficial for the company.

4.2.3. Leverage:

Leverage is analyzed before and after the introduction.

a. Leverage Preior IPO :

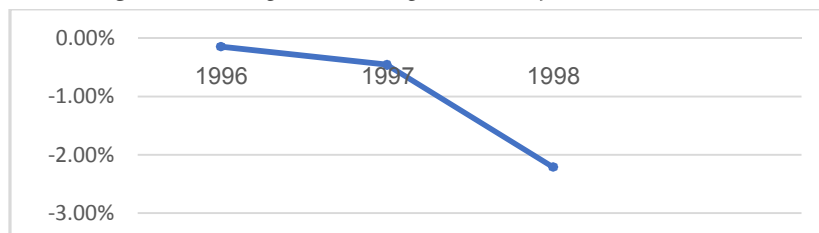
Table 5: Changes in Leverage over the period 1996-1998

Year	1996	1997	1998
Financial Return (ROE)	3.36%	6.13%	7.94%
Economic Return (ROA)	3.50%	6.59%	10.15%
Leverage effect	-0.14%	-0.45%	-2.20%
Debt	1,876,915	1,772,437	787,584

Source: prepared by the researcher based on the SAIDAL reviews

We will show this data in the following chart

Figure 5: Changes in leverage over the period 1996-1998



Source: based on the data in Table 5

Comment: As can be noticed from Table 5 and Figure 5, there was a decrease in debt between 1996 and 1997 with a percentage of 5%, this decrease led to a multiplication of the leverage effect, the latter recorded a continuous decrease between the two years 1997 and 1998.

b. Leverage Post IPO :

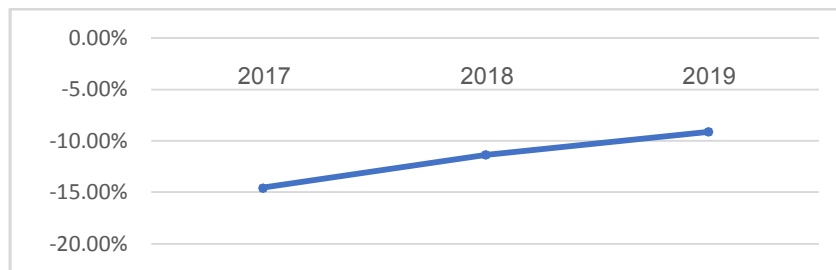
Table 6: Changes in Leverage over the period 2017-2019

Year	2017	2018	2019
Financial Return (ROE)	4.93%	5.93%	3.64%
Economic Return (ROA)	19.47%	17.25%	12.81%
Leverage effect	-14.54%	-11.32%	-9.17%
Debt	13318697612	12971323612	12464710757

Source: prepared by the researcher based on the SAIDAL reviews

The data in the above table are illustrated in Figure 6

Figure 6: changes in leverage over the period 2017-2019



Source: based on the data in Table 6

Comment: We notice that the increase in the positive leverage during this period, reflects the positive contribution of external funds. So, debt has been beneficial for the company.

4.2.4. Analysis of the impact of the IPO on the company:

In this section we will analyze the variation of certain financial performance indicators over the first three years before the company's listing on the stock exchange, namely: investments, turnover, production for the year, gross operating surplus, net profit.

a. Investment analysis:

Table 7: Investment Evolution over the period 1996-2019

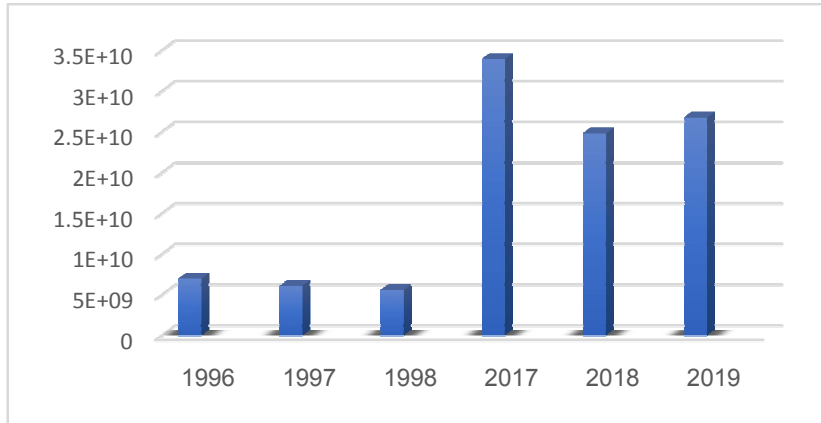
Year	1996	1997	1998	2017	2018	2019
Amount	6,988,871,000	6,087,208,000	5,605,287,000	33,959,354,465.81	24,830,612,573.08	26,773,207,679.36
Period	1997-1998	1998-1999	1999-2017	2017-2018	2018-2019	1997-2019
Evolution	-13%	-8%	506%	-27%	8%	283%

Source: prepared by the researcher based on the SAIDAL reviews

Comment: SAIDAL has increased its investments between 1999 and 2017 with a rate of 506%. Nevertheless, its investments grew by 283% between 1997 and 2019. In terms of investments accomplished after the company IPO, they have multiplied their amounts four times despite the decline in the years preceding the introduction.

The following figure illustrates the increase in investments accomplished by the company during the period 1997 and 2019.

Figure 7: Investment Evolution over the period 1996- 2019



Source: based on the data in Table 7

Comment: Figure 7 shows the situation of investments accomplished between 1996 and 2019, which are growing with an increasing rate, especially in the period following the IPO. And here, we can see that the public offering has raised interesting funds which have facilitated the financing of investments.

b. Turnover analysis:

Table 8: Turnover Evolution over the period 1996-2019

Year	1996	1997	1998	2017	2018	2019
Amount	2,929,35	3,600,17	4,365,43	10,265,894 7	10,317,577	9,392,75
	3,059	2,156	9,234	71.06	775.54	0 935.10
Period	1997-	1998-	1998-	2017-2018	2018-2019	1997-
	1998	1999	2017			2019
Evolution	23%	21%	135%	1%	-9%	221%

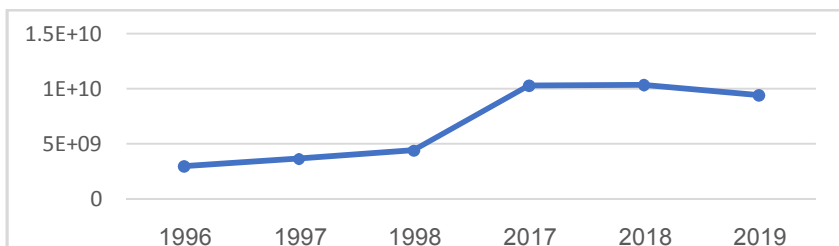
Source: prepared by the researcher based on the SAIDAL reviews.

Comment:

SAIDAL recorded an increase in its turnover during the period 1996-2019, with a rate of more than 135% between 1998 and 2017.

We plot the following chart to illustrate the evolution of the Turnover.

Figure 8: Turnover Evolution over the period 1996-2019



Source: based on the data in Table 8

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Comment: Figure 8 shows positive revenue growth in the prior IPO period with a somewhat low growth rate. After listing, the company strengthened its position on the pharmaceutical market as a leader despite the covid pandemic¹⁹, it maintained its growth policy by producing the corona vaccine in Algeria.

c. Production Analysis over the period 1996-2019:

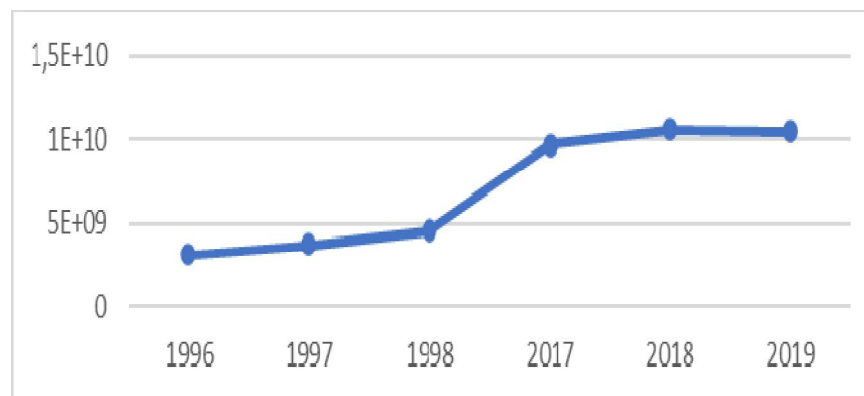
Table 9: Production Evolution over the period 1996-2019

Year	1996	1997	1998	2017	2018	2019
Production of the financial year	3,117178762	3,696293,474	4,541,570689	9,707,567809.9	10,589,699,874.49	10,478,685942.18
Period	1997-1998	1998-1999	1999-2017	2017-2018	2018-2019	1997-2019
Evolution	19%	23%	114%	9%	-1%	236%

Source: prepared by the researcher based on the SAIDAL reviews.

Comment: Production of the year increased significantly by 114% between 1999 and 2017. Nonetheless, we notice that the company produced more than 236%, which means an increase in its production between 1997 and 2019. We plot this chart to illustrate the evolution of the year's production over this period.

Figure 9: Production Evolution over the period 1997-2019



Source: based on the data in Table 9

Comment: Production has been increasing between 1998 and 2017, when the growth rate has decreased between 1996 and 1998. On the other hand, the production has increased in the period following the IPO, this increase is due to the purchase of new high-performance equipment to improve production. This, has resulted in an increase in the company's resources, which has allowed it to increase its investments in the bit to improve its turnover.

d. Net Profit Analysis for the period 1996-2019:

Table 10: Net profit Evolution over the period 1996 and 2019

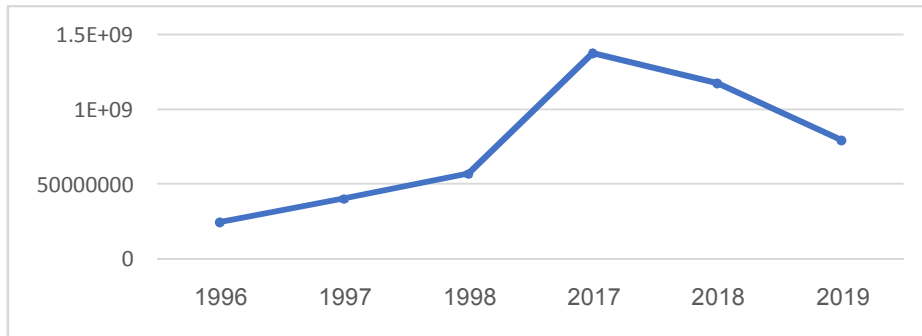
Year	1996	1997	1998	2017	2018	2019
Net Profit	244566280.00	401150364.00	569006067.00	1376295647,88	1174214390.98	79351404.08
Period	1997-1998	1998-1999	1998-2017	2017-2018	2018-2019	1997-2019
Evolution	224%	64%	42%	142%	-15%	-32%

Source: prepared by the researcher based on the SAIDAL reviews.

Comment: The net profit statistics have increased during the period 1996-2017. These statistics reflect the positive impact of the IPO on investments, which have increased, and of course this increase has affected production positively, as well as for turnover, although that the net profit was suffering from a decrease between 2017 and 2019, but it is still far from the result achieved before the IPO.

The above data can be illustrated in the following chart:

Figure 10: Net profit Evolution over the period 1996 -2019



Source: based on the data in Table 10

Comment: Figure 10 shows that net profit grew between 1996 and 1998. However, the growth rate of the curve increased between 1998 and 2017, while net profit increased after the company went public.

4. Conclusion:

At the end of this paper research, we are able to affirm the initial hypothesis asked in the introduction of the study, **'the IPO favored SAIDAL's return.'**

The results of the comparison throughout the study reinforce the assertion of our hypothesis. Indeed, it is found that the return of equity has recorded an unceasing growth over the period of 2017-2019, and the leverage effect has also shown a positive increase.

The company's investments have also increased by 506% between 1998 and 2017, and remains strong in the following years. In terms of the turnover, the latter has increased by 135% between 1998 and 2017, which led to an increase in the profit for the year with a rate of 142% between 1998 and 2017.

Despite the low market capitalization at the level of Algiers Stock Exchange, listing SAIDAL and opening its capital had a positive impact on its return as a company. This process enabled it to achieve the objectives assigned by the State – since the state is a main shareholder in it-, and to open itself to the external markets.

This study may be a basis for further studies in economics under other related research problems such as: **The implementation of a management strategy to encourage individuals to invest in its capital, using Information and Communication Technologies in order to facilitate the access to the stock market via smart phone applications.**

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