Control as a motivation for underpricing: a comparison of dual and single-class IPOs

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Abstract

We find that dual-class firms experience less underpricing than single-class firms and explore several hypotheses which explain this phenomenon. Compared to single-class firms, dual-class companies have slightly higher post-IPO institutional ownership and experience fewer control events. Although dual-class firms achieve a lower underpricing cost, they trade at lower prices relative to earnings and sales than single-class IPOs. This pricing differential, combined with evidence that dual-class managers earn higher compensation and that dual-class shares are common among media and entertainment industry IPOs, suggests that dual-class ownership structures protect private control benefits.

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