Analyzing IPO Underpricing Drivers: Evidence from Profitability, Market Value, and Leverage in Indonesia's Market

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ABSTRACT
This study investigates the effect of profitability, financial leverage, and market value on stock underpricing in companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange from 2018 to 2022. Using a quantitative approach and multiple linear regression analysis, data were obtained from 189 companies selected through purposive sampling. The findings reveal that profitability, financial leverage, and market value simultaneously influence underpricing. Partially, profitability and market value have a significant negative effect on underpricing, while financial leverage shows no significant effect. The negative effect of profitability aligns with signaling theory, suggesting that high profitability signals low risk and strong performance, thus reducing the need for aggressive underpricing. Similarly, high market value indicates stronger investor perception and reduces uncertainty, leading to lower underpricing. Conversely, the insignificance of financial leverage implies that investors may not perceive debt levels as critical in IPO pricing, especially in regulated capital markets. This research contributes to the ongoing debate regarding the inconsistent effects of firm-specific financial indicators on underpricing across different contexts. The results highlight the contextual nature of IPO pricing decisions and suggest that market perception and external regulatory factors may moderate traditional financial indicators.

1. Introduction

Initial public offerings (IPOs) remain a critical focus in financial research, particularly due to the recurring phenomenon of underpricing, whereby firms offer their shares below intrinsic market value, resulting in high initial investor returns. Numerous studies have explored the determinants of IPO underpricing, emphasizing firm fundamentals, market sentiment, and information asymmetry as significant factors (Abbas et al., 2022; Afik & Svetlana, 2021; Diah Wulandari & Kushindrajati Aprilia, 2023). In the context of emerging markets such as Indonesia, these relationships are complicated by volatility, evolving regulatory frameworks, and heterogeneous investor behavior. Recent empirical evidence highlights how profitability, financial leverage, and market value influence IPO pricing decisions, especially in transitional economies (Gauvin & Power, 2019; Mahardika & Ismiyanti, 2021). Nonetheless, there is ongoing debate regarding the magnitude and consistency of these variables' impact across different financial ecosystems.

Prior literature reveals mixed findings concerning the role of financial and operational metrics in IPO pricing models. Some research suggests that higher profitability mitigates underpricing due to reduced perceived risk and greater investor confidence (Abbas et al., 2022), while others argue that factors like underwriter reputation or corporate transparency may overshadow financial ratios (Hu et al., 2021). Financial leverage also elicits conflicting interpretations; some scholars posit that high leverage heightens risk and increases underpricing, whereas others find negligible or context-dependent effects (Ahmed et al., 2023; Arora & Singh, 2019). Similarly, market value is often considered a proxy for firm size and visibility, with higher values associated with reduced underpricing due to enhanced investor trust and broader market recognition (Guo et al., 2025). These contradictions underscore the necessity for market-specific empirical validation, particularly in under-studied IPO environments like Indonesia (Drooduin, 2023).

Signaling theory serves as a foundational framework for interpreting how firms communicate quality in the face of information asymmetry. It posits that observable indicators—such as profitability, capital structure, and firm valuation—are strategically used to signal firm quality to the market (Syihab et al., 2022). Profitability, for example, is interpreted as a signal of sustainable earnings and operational efficiency, thus attracting investor interest. A higher profitability ratio reduces uncertainty and suggests strong fundamentals, decreasing the need for large initial discounts. Financial leverage, in this context, can either serve as a positive signal of strategic debt utilization or a negative signal of excessive risk, depending on context and investor interpretation. When well-managed, leverage indicates financial discipline and long-term planning. However, excessive leverage may increase perceived default risk, leading to investor hesitancy and a demand for higher IPO discounts. Market value, as a cumulative outcome of investor expectations and firm fundamentals, often serves as a robust signal of legitimacy and growth potential. High market value indicates broader recognition and reduces concerns over asymmetric information.

IPOs represent a strategic transition from private to public ownership, offering firms capital access, visibility, and legitimacy in the financial marketplace. The phenomenon of underpricing arises from the need to ensure full subscription and maintain aftermarket momentum, particularly under uncertainty. This study seeks to examine the determinants of underpricing among non-financial companies that conducted initial public offerings (IPOs) on the Indonesia Stock Exchange during the 2018–2022 period. This timeframe was selected due to a notable surge in IPO activity and the introduction of regulatory reforms that may have influenced underpricing behavior. The exclusion of financial sector firms from the sample is intended to eliminate industry-specific complexities, given the distinct characteristics inherent to financial institutions.

1.1 Hypothesis Development

The Effect of Profitability, Financial Leverage, and Market Value on Stock Underpricing in IPO Companies

The phenomenon of stock underpricing in Initial Public Offerings (IPOs) has long attracted the attention of financial researchers. Numerous studies have found that certain variables significantly contribute to the level of underpricing. For example, profitability is believed to have a negative effect on underpricing because it reflects high firm quality, thus reducing the need to lower share prices during the IPO process (Boucher et al., 2023; Hahn et al., 2013; Panda & Deb, 2024; Yu et al., 2019). Financial leverage has also been found to significantly affect underpricing, where higher leverage signals greater risk, prompting firms to offer lower prices (Afik & Svetlana, 2021; Wang et al., 2025; Xie & Wang, 2025). In addition, market value is considered a crucial factor as it reflects investors’ perceptions of a firm’s growth potential (Rossovski et al., 2024).

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However, conflicting findings highlight the complexity of this issue. Some studies argue that profitability and financial leverage do not have a significant impact on underpricing. For instance, research by (Abbas et al., 2022)(Mahardika & Ismiyanti, 2021) shows that these variables are not statistically significant. In the context of the Indonesian market, other studies have pointed out that factors such as underwriter reputation and broader market conditions may play a more dominant role in determining underpricing levels (Hu et al., 2021). Regarding market value, findings by Deng et al. (2024) and Ochiai & Nacher (2022) even suggest that there is no significant relationship between market value and underpricing. This debate demonstrates that the influence of financial variables on underpricing is not universal and is highly dependent on the structure of the local capital market and firm-specific characteristics. Based on this context, this study formulates the hypotheses

Hypotheses 1: Profitability, Financial Leverage and Market Value Affect Stock Underpricing in IPO Companies.

The Effect of Profitability on Stock Underpricing in IPO Companies.

A company's profitability is often considered a fundamental indicator that can influence stock prices during an Initial Public Offering (IPO). Various studies support this view, showing that more profitable companies tend to experience lower underpricing because investors perceive them as lower risk. For example, Malini (2023) found that Return on Assets (ROA) significantly reduces underpricing. Similar results were also found by (Abbas et al., 2022). Other research, such as Jamaani et al.(2024) and Sahoo & Raj (2022), shows that accrual-based profitability consistently influences underpricing, indicating the importance of financial information quality. Even in international contexts, Michala (2019) noted that IPO companies backed by private equity and with high profitability tend to experience lower underpricing. Additional findings from Kim et al. (2024) and Chan et al. (2023) further reinforce the idea that profitability can reduce the uncertainty of intrinsic value, thus lowering the need for aggressive underpricing strategies.

However, not all research results are consistent with this hypothesis. Some studies have found that profitability does not significantly affect underpricing. For instance, Shuwaikh et al. (2023), Panda & Deb (2024), Jamaani et al. (2024), Sahoo & Raj (2022) found no significant relationship between profitability and the level of underpricing. This debate highlights that although profitability is often regarded as a quality signal that reduces underpricing, in practice there are many contextual factors that can mediate or obscure its effect—such as underwriter reputation, market conditions, and stock allocation mechanisms.

Hypotheses 2: Profitability affects the underpricing of shares in IPO companies.

The Effect of Financial Leverage on Stock Underpricing in IPO Companies

Financial leverage has long been viewed as a potential signal of firm risk in the context of Initial Public Offerings (IPOs), making it a key determinant in underpricing decisions. Several studies support this hypothesis by suggesting that higher leverage intensifies perceived risk, compelling issuers to offer stocks at lower prices to attract investors. For instance, studies by Mahardika & Ismiyanti (2021), Lambey (2021), and Drooduin (2023) empirically demonstrate the significant influence of leverage on IPO pricing behavior. Further support is offered by (J.-C. Kim et al., 2025) who link debt-to-equity ratios to investor risk aversion.

In contrast, a substantial number of studies challenge the significance of leverage in determining underpricing. For example, Gauvin & Power (2019) and Ahmed et al. (2023) report that leverage shows no significant relationship with IPO pricing behavior in the Indonesian context. Similarly, Arora & Singh (2019) find no significant effect of financial leverage on sharia IPO underpricing. Further evidence from Keefe (2021) reject the relevance of financial leverage as a determinant. This ongoing debate highlights the complex role of financial leverage in IPO pricing decisions. While some studies view it as a powerful risk signal, others argue its impact is overshadowed by market dynamics, firm-specific characteristics, or institutional settings, thus requiring a more nuanced, context-sensitive interpretation. Therefore, the proposed hypothesis is

Hypotheses 3: Financial leverage affects the underpricing of shares in IPO companies.

The Effect of Market Value on Stock Underpricing in IPO Companies

Market value is often seen as an important indicator in determining stock prices during an IPO because it reflects investor perceptions of a company's growth potential and liquidity. Hypothesis H4 states that market value has an effect on the level of stock underpricing during an IPO. Several studies support this hypothesis. A study by Sun et al. (2024) found that expected post-IPO liquidity, which reflects market value, contributes to higher underpricing, as firms and investors negotiate the "liquidity value" of post-IPO shares as part of the offering price (Sun et al., 2024). Similar results were found by (Guo et al., 2025), who emphasized that increased liquidity after an IPO encourages companies to set lower initial prices as an incentive for investors (Zhang et al., 2023).

Furthermore, Zhou et al. (2023) noted that high market value reduces perceived risk from investors, thus lowering the need for firms to offer price discounts. Moreover, positive media sentiment further enhances investor confidence and mitigates informational asymmetry, amplifying the credibility of firms with high market value and reducing IPO underpricing pressure (Singh et al., 2024). Stronger market regulation also limits opportunistic behavior, reinforcing investor trust in IPO pricing fairness (Duong et al., 2021).

However, not all studies support the significant influence of market value on underpricing. Some research shows the opposite. Zou et al. (2020) found that market value or firm valuation does not have a significant effect on the level of IPO underpricing. Sahoo & Raj (2022) even stated that qualitative factors such as market leadership and brand image are more influential on underpricing than firm size or market value. Arora & Singh (2019) noted that Auditor and underwriter reputation significantly reduces IPO underpricing by increasing investor confidence. Research by Ahmed et al. (2023) and Ong et al. (2020) also confirmed that firm size and underwriter reputation are more decisive in determining underpricing levels than market value. Likewise, findings by Sonu (2022) showed that Quality of financial reporting has a significant and stronger effect on IPO underpricing compared to other firm-level characteristics(Sonu, 2022).

The debate between these two research groups highlights that while market value is considered an important indicator in determining underpricing, other factors such as investor behavior, information quality, and market regulation can strengthen or weaken its influence. Therefore, the impact of market value on underpricing is contextual and cannot be explained linearly without considering other supporting variables.

Hypotheses 4: Market value affects the underpricing of shares in IPO companies.

1.2 Conceptual Framework

The conceptual framework in this study describes the schema of the relationship between independent variables and dependent variables.

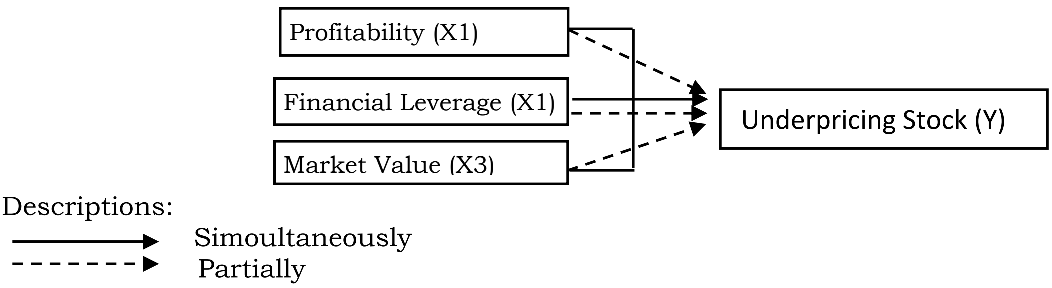

Figure 1. Conceptual Framework

2. Method

This study employs a quantitative research approach. The population consists of companies that conducted Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX) during the 2018–2022 period, totaling 276 companies. The sample was selected using a purposive sampling technique, resulting in 189 companies that met the specified criteria. Data collection was conducted using the documentation method. The data were obtained from prospectuses downloaded through the official IDX website (www.idx.co.id) and the official websites of the respective companies. The sampling criteria used in this study are outlined and presented in the table 1.

Table 1. Sampling Criteria

No	Sampling Criteria	Total
1	Companies conducting Initial Public Offerings (IPOs) on the Indonesia Stock Exchange (IDX) during the 2018–2022 period.	276
2	Companies listed in the financial sector of IDX during the investigation period.	(15)
3	Non-financial sector companies whose stock prices did not experience underpricing.	(34)
4	Non-financial sector companies whose prospectuses were not fully available.	(1)
5	Non-financial sector companies that incurred losses or reported negative equity in their financial statements during the last fiscal year before conducting an Initial Public Offering (IPO)	(37)
	Amount of Sample	**189**

Source: Author analysis

Operationalization of Variables

Underpricing is an indication of setting an excessively low price during the initial issuance of shares that are traded for the first time. In this study, the level of underpricing is measured using the initial return.

$$Initial\ Return = \frac{Close\ Price - IPO\ Price}{IPO\ Price} \times 100\%$$

In this study, profitability is measured using Return on Assets (ROA). ROA is selected as a proxy for calculation because it reflects the efficiency of a company's asset utilization in generating profits. Net income after interest and tax.

$$ROA = \frac{Net\ Income\ after\ Interest\ and\ Tax}{Total\ Asset}$$

The calculation of financial leverage in this study uses the Debt to Asset Ratio. This ratio is employed because it is considered capable of illustrating a company's ability to fulfill its obligations and assessing the level of credit risk associated with the company.

$$Financial\ Leverage = \frac{Total\ Liabilities}{Total\ Asset}$$

The market value variable in this study is measured using the price-to-book value (PBV) ratio. The selection of PBV as a measurement for the market value variable.

$$PBV = \frac{Share\ price}{Book\ Value\ of\ Shares}$$

Data Analysis Technique

The data analysis method used in this study is multiple linear regression analysis, which aims to examine the influence of profitability, financial leverage, and market value on stock underpricing. Multiple linear regression analysis is employed to determine whether two or more independent variables (X) have a significant impact on the dependent variable (Y). In this study, the independent variables include profitability, financial leverage, and market value, while the dependent variable is underpricing.

The multiple linear regression analysis is conducted using the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Description

α = *Constant*
Y = *Underpricing*
β_1 = *First regression coefficient*
X_1 = *Profitability*
β_2 = *Second regression coefficient*
X_2 = *Financial Leverage*
β_3 = *Third regression coefficient*
X_3 = *Market value*
ε = *error term*

3. Results

3.1 The descriptive statistics

The descriptive statistics in Table 2. provides a year-wise summary of underpricing, profitability, financial leverage, and market value for IPO firms between 2018 and 2022.

Table 2. Descriptive Statistics of Non-Financial Sector Companies IPOs in 2018-2022

Year	Underpicing			Profitability			Financial Leverage			Market Value		
	Min	Max	Avg	Min	Max	Avg	Min	Max	Avg	Min	Max	Avg
2018	0,01	0,70	**0,50**	0,00	0,39	**0,08**	0,04	0,98	**0,52**	0,89	139,83	**11,00**
2019	0,01	0,70	**0,50**	0,00	0,61	**0,07**	0,05	0,98	**0,52**	0,46	178,91	**12,24**
2020	0,10	0,70	**0,40**	0,00	0,54	**0,08**	0,05	0,92	**0,54**	0,01	96,94	**7,41**
2021	0,01	0,35	**0,24**	0,00	0,33	**0,08**	0,01	0,96	**0,55**	0,69	197431,77	**5355,30**
2022	0,01	0,35	**0,23**	0,00	0,70	**0,13**	0,02	0,96	**0,51**	1,11	71,07	**11,23**
Overall	**0,01**	**0,70**	**0,37**	**0,00**	**0,70**	**0,09**	**0,01**	**0,98**	**0,53**	**0,01**	**197431,77**	**1056,86**

Source: Author analysis

Overall, the average level of underpricing was 0.37, indicating that IPO shares were typically priced below their first trading price by 37% on average. The highest average underpricing occurred in 2018 and 2019, both at 0.50, suggesting significant initial returns for investors during those years. However, underpricing sharply declined to 0.24 and 0.23 in 2021 and 2022, respectively, indicating greater pricing efficiency or possibly more conservative investor sentiment.

Profitability remained consistently low across all years, with average values ranging from 0.07 to 0.13, reflecting limited earnings relative to assets for IPO firms. The profitability peak in 2022 (0.13) suggests slight improvement in firm performance post-pandemic. Despite low profitability, firms continued to go public, implying that earnings were not the main attraction for IPO investors. Financial leverage remained moderate and stable, with average values hovering around 0.51 to 0.55, indicating a balanced capital structure with nearly equal proportions of debt and equity. This stability suggests firms maintained conservative financing to reduce perceived risk during IPO issuance. The slight increase in leverage in 2020 and 2021 may reflect financing strategies to cope with pandemic-related disruptions. Market value, in contrast, fluctuated dramatically across the years. The average market value skyrocketed in 2021 to 5,355.30 due to an outlier with a maximum market value of 197,431.77, likely reflecting a major IPO event. Excluding 2021, the average market value across other years remains relatively low, under 13, indicating a concentration of smaller firms. This extreme variation in market value implies that while most IPOs were from smaller companies, rare high-profile listings significantly distorted overall averages.

3.2 Multiple Linear Regression Test Results dan Hypotheses testing

The regression analysis in Table 3. Exhibit the influence of profitability, financial leverage, and market value on IPO underpricing.

Table 3. Multiple Linear Analysis Test Results

No	Independent Variables	Coefficient	t-value	sig
1	Profitability	-0,0465	-2,1532	0,0326
2	Financial Leverage	0,0487	1,0525	0,2939
3	Market Value	-0,0635	-3,1365	0,002
Variable Dependency: Underpricing				
Constant = 0,3648			a = 0,05	
R Square = 0,0669			F-statistic = 6,0226	
			Sig, F = 0,0006	

Source: Author analysis

Multiple linear regression model:

$$\mathbf{Y = 0{,}365 - 0{,}046X1 + 0{,}049X2 - 0{,}064X3 + e}$$

H1: Profitability, Financial Leverage and Market Value Affect Stock Underpricing in IPO Companies.

The dependent variable in the model is underpricing, with the constant value recorded at 0.3648. The model's R Square is 0.0669, indicating that approximately 6.69% of the variation in underpricing can be explained by the independent variables. Although the R Square value is relatively low, the model is statistically significant overall. This is evidenced by the F-statistic value of 6.0226 and a significance level (Sig. F) of 0.0006, which is below the 5% threshold, suggesting that the model reliably predicts underpricing. Therefore, H1 that “Profitability, Financial Leverage and Market Value Affect Stock Underpricing in IPO Companies” is accepted.

H2: Profitability affects the underpricing of Shares in IPO companies

Looking at individual variables, profitability has a coefficient of -0.0465 and a t-value of -2.1532, with a significance level of 0.0326. This result indicates that profitability has a significant negative effect on underpricing at the 5% level. In other words, as a company's profitability increases, the level of underpricing tends to decrease. This supports signaling theory, suggesting that more profitable firms are perceived as less risky and hence offer less underpricing. Therefore, H2 that “Profitability affects the underpricing of Shares in IPO companies” is accepted.

H3: Financial leverage affects the underpricing of shares in IPO companies

Financial leverage has a coefficient of 0.0487 and a t-value of 1.0525, with a significance level of 0.2939. This variable is not statistically significant, implying that financial leverage does not have a meaningful impact on underpricing in this model. Therefore, H3 that “Financial leverage affects the underpricing of shares in IPO companies” is rejected.

H4: Market value affects the underpricing of shares in IPO companies

Market value, however, shows a significant negative relationship with underpricing, having a coefficient of -0.0635 and a t-value of -3.1365. The significance level for market value is 0.002, indicating strong statistical support for its influence. This suggests that higher market value reduces the need for underpricing, possibly due to increased investor confidence. Therefore, H4 that "Market value affects the underpricing of shares in IPO companies" is accepted.

4. Discussion

4.1 Profitability, Financial Leverage and Market Value Affect Stock Underpricing in IPO Companies

The results of this study reveal that profitability, financial leverage, and market value collectively exert a significant influence on IPO underpricing, thereby supporting the acceptance of the first hypothesis. These findings align with signaling theory, which posits that firms convey information to external parties through indicators such as profitability, leverage, and market valuation. When all three indicators are simultaneously strong, they significantly impact the degree of underpricing.

The influence of profitability on underpricing can be attributed to the assumption that underwriters are more likely to assign higher valuations to firms demonstrating strong financial performance and lower risk profiles, which subsequently affects the pricing of IPO shares. Similarly, the effect of financial leverage on underpricing can be understood through the notion that firms with riskier capital structures—typically those with higher debt levels—prompt underwriters to set more conservative initial offering prices to mitigate the risk of insufficient demand, thus influencing underpricing outcomes. The findings of this study are consistent with Gauvin & Power (2019) The company's leverage has a significant influence on the level of underpricing at the time of the IPO. Lastly, the relationship between market value and underpricing may be explained by the idea that companies with high market valuations are perceived as being overpriced at the time of the IPO, encouraging underwriters to adjust prices downward in anticipation of a reversion to fair value post-listing, thereby impacting the extent of underpricing. The findings of this study are consistent with Abbas et al. (2022) who found that profitability, leverage, and market value simultaneously have a significant effect on the level of stock underpricing at the time of IPO on the Indonesia Stock Exchange.

4.2 Profitability affects the underpricing of Shares in IPO companies

Statistical analysis reveals that profitability exerts a negative influence on IPO underpricing, thereby supporting the acceptance of the second hypothesis. This inverse relationship indicates that higher levels of profitability are associated with lower degrees of underpricing among firms conducting initial public offerings. This finding is aligned with the signaling theory, which posits that firms with strong financial fundamentals, such as high profitability, signal their quality to investors, thereby reducing information asymmetry and diminishing the need for substantial price discounts. In other words, when a firm demonstrates strong profitability, investors perceive it as less risky, which leads to reduced underpricing pressures.

Empirical evidence from prior studies substantiates this conclusion. For instance, (Abbas et al., (2022) found that profitability significantly reduces underpricing in Indonesian IPOs, emphasizing that financially healthy firms tend to be more transparent and less reliant on aggressive pricing strategies (Abbas et al., 2022). Similarly, Afik & Svetlana (2021) reported consistent findings across BRICS economies, where profitability had an inverse effect on IPO underpricing, reinforcing the credibility of signaling mechanisms even in emerging markets. Moreover, Lambey (2021) highlighted that profitability, as a component of firm value, correlates negatively with risk perceptions during IPOs, which in turn tempers underpricing.

These results collectively reinforce the theoretical and empirical basis for recognizing profitability as a pivotal factor in mitigating IPO underpricing, supporting signaling theory, and echoing the conclusions of scholars such as Abbas et al. (2022), Afik & Svetlana (2021), and Lambey (2021).

4.3 Financial Leverage affects the underpricing of Shares in IPO companies

Based on the research findings, financial leverage does not have a significant effect on IPO underpricing, leading to the rejection of the third hypothesis. This suggests that the magnitude of a firm's financial leverage is not a determinant of underpricing. The result aligns with signaling theory, indicating that firms do not necessarily use leverage as a credible signal to external investors during the IPO process. In theory, high leverage might signal financial risk, which could affect investor perception; however, this does not manifest significantly in pricing behavior. This finding is consistent with the study by Gauvin & Power (2019), who found that leverage had minimal effect on IPO pricing outcomes. Similarly, Abbas et al. (2022) reported that leverage was not a critical determinant in IPO underpricing on the Indonesian Stock Exchange (Abbas et al., 2022). The lack of influence may be due to investors focusing more on qualitative indicators such as underwriter reputation or market conditions. Arora & Singh (2019) emphasized the dominant role of underwriter reputation in influencing investor trust and pricing outcomes (Arora & Singh, 2019). Moreover, research by Hu et al. (2021) highlighted the importance of institutional investors' perception, which is shaped more by credibility than by financial ratios (Hu et al., 2021). The evidence also complements insights from Afik & Svetlana (2021), who found that in BRICS economies, underpricing is more sensitive to information asymmetry and market dynamics than to leverage ratios. In light of these findings, it appears that the theoretical signaling value of leverage is weak or inconsistent across contexts. Consequently, investors may discount financial leverage when assessing IPO offerings, particularly in emerging markets. The findings also mirror the conclusions of Ahmed et al. (2023), who noted that firm size had a more pronounced role in shaping capital structure effects than leverage itself (Ahmed et al., 2023).

Taken together, these studies reinforce the notion that leverage lacks predictive power in underpricing behavior. This underlines the complexity of IPO pricing mechanisms, which are influenced by multifaceted, often intangible, factors. Overall, the research affirms that while financial leverage theoretically signals risk, its practical effect on underpricing is statistically insignificant in many empirical cases.

4.4 Market Value affects the underpricing of Shares in IPO companies

Based on the findings of this study, market value has a negative effect on IPO underpricing, thereby supporting the fourth hypothesis. This inverse relationship implies that companies with higher market valuations tend to experience lower levels of underpricing during their initial public offering. The result lends support to signaling theory, which asserts that firms convey quality information to investors through observable indicators like valuation. A high market value can act as a credible signal, indicating firm strength and reducing uncertainty for prospective investors. This reduces the need for underwriters to offer the stock at a deep discount. The findings of this study are consistent with the empirical results of Abbas et al. (2022), who highlight the significant role of firm fundamentals in reducing IPO anomalies (Abbas et al., 2022). Similarly, Afik & Svetlana (2021) confirm that valuation metrics critically influence investor confidence and pricing behavior in BRICS IPOs. Furthermore, Guo et al. (2025) indicate that firms with greater value realization tend to avoid deep underpricing as the market adjusts based on perceived growth potential Guo et al.,(2025). These results align with broader observations in emerging markets, where high-value firms face less pressure to offer steep discounts to attract investor interest. Supporting this, Deng et al. (2024) suggest that increased pricing efficiency under new regulatory frameworks reduces the influence of uncertainty on IPO valuation (Deng et al., 2024). Conversely, firms with low market value may face greater scrutiny and require larger discounts to compensate for perceived risks. This pattern further underscores the signaling mechanism, where higher valuation reflects better information transparency. The study also echoes the views of Panda and Deb (2024), who emphasize firm quality as a critical determinant in IPO pricing strategy Panda & Deb, (2024). In addition, the evidence from Duong et al. (2021) indicates that market manipulation and investor perception can moderate the impact of firm value on underpricing outcomes (Duong et al., 2021). Thus, market value plays an important yet contextually moderated role in determining IPO pricing behavior. The study's contribution lies in reinforcing that high firm value, as a signal of strength, reduces the information asymmetry typically priced into IPO offerings.

5. Conclusion

This study examines the influence of profitability, financial leverage, and market value on IPO underpricing among non-financial firms listed on the Indonesia Stock Exchange during the period of 2018–2022. The findings reveal that profitability and market value both exhibit significant negative effects on underpricing, supporting the signaling theory, which suggests that firms communicate their quality and reduce investor uncertainty through observable financial indicators. Firms with higher profitability are perceived as less risky, thereby reducing the need to offer shares at discounted prices. Similarly, firms with higher market value send credible signals of their scale and growth potential, thus mitigating the pressure for underpricing. On the other hand, the results show that financial leverage does not have a statistically significant impact on IPO underpricing. This indicates that while leverage may theoretically signal financial risk, investors may not interpret it as a decisive factor in determining IPO valuations—especially in the presence of stronger qualitative and market-based signals. These mixed outcomes underscore the complexity of underpricing behavior and highlight the importance of contextual factors, such as market maturity, investor sentiment, and regulatory environment, particularly in emerging markets like Indonesia.

The findings resonate with prior studies that advocate for the contextualization of IPO dynamics. For instance, the significant impact of profitability and market value aligns with the results of Abbas et al. (2022), Panda & Deb (2024), and Rossovski et al. (2024), whereas the insignificance of financial leverage corroborates the conclusions drawn by Mahardika & Ismiyanti (2021) and Hu et al. (2021). This study contributes to the IPO literature by offering empirical evidence from Indonesia, reinforcing the relevance of signaling theory in emerging markets, and identifying which financial variables effectively reduce information asymmetry and influence investor pricing behavior.

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