Finding an Alternative Path: IPO Business Model Targets

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Abstract

IPO firms have strong incentives to provide forward-looking information, yet they do not provide forecasts in their SEC filings due to litigation and regulatory risk. We search for evidence of IPO firms using an alternative path to provide forward-looking information. We find that one-third of their roadshow presentations contain business model targets, or estimates of future steady-state expense and profit margins. While they have no defined time horizon, these targets are optimistic relative to realizations five and ten years post-IPO. Despite the inaccuracy, the market responds at and after IPO as if the targets influence market expectations. When firms provide targets, there is more consensus in analyst forecasts, although analyst models include more pessimistic values than the targets. Our evidence suggests market participants find forward-looking information from firms useful even when incentives to manipulate are high, which informs the debate for changes to IPO disclosure regulation. Further, we highlight business model targets as a form of forward-looking information that has been overlooked by research.

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1. Introduction

Forward-looking firm disclosures are invaluable for investors estimating firm value. Disclosing firms receive market benefits but also face the risk of lawsuits or penalties for misleading information. In the initial public offering (IPO) setting, limited public information makes firms' forward-looking disclosure particularly valuable, but firms often consider forecasts too risky to provide in their prospectus given the lack of legal safe harbor protection.[1] We ask whether IPO firms find an alternative disclosure path to avoid litigation risk yet still meet the market demand for forward-looking information. Specifically, we examine IPO firms' roadshow slide decks for quantitative forward-looking disclosures, providing evidence on their existence, accuracy, and use by capital market participants.

IPO firms face a disclosure tradeoff with elevated stakes. They have many reasons to provide forward-looking disclosures. There is typically little public information about IPO firms, so investor demand is high for anything to help forecast future performance. In general, firms willing to disclose receive greater liquidity and lower cost of capital (e.g., Diamond and Verrecchia 1991). Further, IPO firms that credibly convey strong expected future performance can secure a higher market price, which means greater funds from investors and positive media and market attention (e.g., Clarkson et al. 1992). IPO firms' historical performance is often limited and generally reveals negative profitability, so providing positive forward-looking disclosure is one potential way to encourage higher market expectations and pricing.

[1] We focus on the US IPO setting, but IPO forecasts do occur in international settings, some of which require them (e.g., see Table 1 of Gounopoulis 2011 for a summary of this prior literature). As discussed in Section 2.2, our study differs from prior studies by examining a setting long thought to be forecast-free and by identifying a fundamentally new form of firm guidance (targets) provided via an unexplored channel (roadshows).

However, IPO firms in the United States operate in a strict legal environment. The SEC carefully monitors firm disclosure to ensure that all material information is documented in official filings. IPOs are explicitly excluded from the PSLRA safe harbor laws for forward-looking statements because there is little relevant historical information to provide disciplining context (15 U.S.C. § 77z-2(b)(2)(D)). In response, legal counsel often advises IPO firms to not provide forecasts, and the consensus is that IPO firms do not include forecasts in their prospectuses (e.g., Feldman 2021; Duhigg 2021). This concern has even led some firms to avoid an IPO entirely, instead following advice from practitioners who tout special purpose acquisition companies (SPAC) as a way to go public yet still provide revenue and earnings forecasts with better legal protection (see Blankespoor et al. 2022; Dambra, Even-Tov, and Munevar 2023).[2]

This tradeoff leaves firms in the quandary of being restricted from providing the very information that would enable a successful IPO. However, statements from the legal field imply two disclosure adjustments might help IPO firms avoid forecast-related litigation risk while still providing some forward-looking disclosures. First, they can adjust the form of their disclosure. Legal articles recommend to call any forward-looking information "models" rather than projections and linking generic "Year 1, 2, 3" rather than specific calendar years to those models.[3] By disclosing an input to valuation models rather than a revenue or earnings forecast for next year, IPO firms might avoid a substantial portion of legal risk while still providing investors with valuable information about their future prospects.

[2] While some practitioners suggested IPO firms are not allowed to forecast, "nothing about law forbids their inclusion" in a prospectus (Coates 2023). The lack of IPO forecasts is likely motivated by the risk of being sued for including positive forecasts in the prospectus that are then not met. However, even some SPACs have now been sued for providing optimistic forecasts that misled investors (Ericson et al, 2021).

[3] https://www.americanbar.org/groups/business_law/resources/business-law-today/2023-september/financial-projections-in-fundraising-how-early-stage-mitigate-risk/

Second, IPO firms can provide forward-looking information in the roadshow presentation rather than the filed S1 prospectus. The roadshow is an informal presentation given during the weeks before the offering date. To observe it, investors must either attend the invitation-only presentation or access the video and slides available online during the roughly two-week roadshow period. The roadshow is usually not filed with the SEC nor maintained by the firm in a repository afterward, and in-person participants typically cannot keep physical copies of the slide deck (Arcella et al., 2011). Thus, this disclosure channel is treated as an oral communication, and issuers may equate its lower accessibility with less legal risk.[4] Consistent with the viability of this alternative, Coates (2023, p.391) claims that IPO firms routinely provide forward-looking information in the roadshow and "[a]s long as the forward-looking information can be conveyed in that setting, there are no strong reasons why anyone would want to include that information in the prospectus" given the greater legal risk from providing rather than omitting positive forecasts in the prospectus.[5]

Our goal is to capture empirical evidence to inform regulators, practitioners, and researchers about the state of IPO firms' forward-looking information. This information will put a spotlight on current practice and provide input for potential future regulation changes of IPO firm disclosure. Using slide decks for 942 IPO roadshows from 2011 through 2020, we find that 37.6% of firms include quantitative forward-looking financial information in their IPO roadshows. In contrast to ubiquitous next-year or next-quarter earnings forecasts for mature companies (Hirst, Koonce, and Venkataraman 2008; Finno and Brusch 2014), forward-looking metrics in the IPO

[4] Consistent with roadshows having less legal risk, we find that information from roadshow presentations is referenced in only two of the eighty-eight class action lawsuits that allege inaccurate or misleading IPO disclosures against our sample firms. See Section 5.5 for additional information.

[5] Blankespoor, Hendricks, and Miller (2023) find a lower proportion of forward-looking words in the roadshow presentation than in the prospectus, providing tension to the question of whether IPO firms provide forward-looking information in the roadshow.

roadshow – often called "targets" – most often describe the firm's expected equilibrium business model at an unspecified time in the future. This is consistent with legal advice to avoid the appearance of forecasts even if forward-looking information is provided.

1,634 financial targets are disclosed, for an average (median) of 4.6 (5.0) financial targets disclosed per slide deck conditional on providing a forecast. The most common targets provided are margins; from 13% to 21% of firms provide targets for each of the following items divided by revenue: gross profit, research & development (R&D) expense, EBITDA, sales & marketing (S&M) expense, general & administrative (G&A) expense, and operating profit. 9% of firms provide revenue growth targets, but these are typically the expected steady-state revenue growth rate, not revenue growth for next year. This evidence indicates that many IPO firms are providing a different form of forward-looking disclosure than mature firms, and through the alternative channel of the roadshow presentation.

We first assess the targets' nature and accuracy. Not surprisingly, firms typically provide targets that indicate an improvement over their current financial position: increased profit ratios and reduced expense ratios. For example, the median firm predicts a 44 percentage point improvement in their operating profit ratio. These targets exceed not only the IPO firm's current operating performance but also the majority of industry peers'. Firms frequently do not meet these targets, with the average firm missing the target by 7 to 46 percentage points in their most recent filing, depending on the target metric. Firms are less accurate for target metrics farther down the income statement; 23% of firms are more than 10 percentage points off their gross profit targets while 88% are more than 10 percentage points off their operating profit targets. When we limit to firms still operating five (ten) years after IPO, 79% (59%) are more than 10 percentage points off their operating profit targets.

Further, this inaccuracy tends to be optimistic; firms make less revenue and have higher expenses than they target. The bias is less prominent for metrics higher on the income statement. For revenue growth, about one-third of firms have higher revenue growth than the IPO target (from 27% to 35% across the most recent year, five years after IPO, and ten years after IPO). The gross profit ratio target is the least biased; slightly more than half of firms have a higher gross profit than targeted, ranging from 48% to 63%. Moving down the income statement, though, only 8% to 16% of firms have a lower R&D expense ratio than targeted, and only 3% to 8% of firms have a higher operating profit ratio than targeted. Even using the low-end of the target range, only 13% of our sample firms ever meet or exceed the targeted operating profit ratio during *any* of their post-IPO years. Thus, even when firms provide long-term business model targets rather than short-term performance guidance, they seem to respond to incentives to provide a more positive outlook of the firm's prospects, similar to optimistic performance forecasts documented in other settings (e.g., Armstrong et al. 2007; Cassar 2010; Blankespoor et al. 2022).

To investigate investor response to targets, we examine the relation between target provision and IPO price formation. Investors might respond to inaccurate targets if they are unaware of the bias, or if the targets provide information about the expected business model despite optimistic inaccuracies (Stein 1989). As described by Kripke (1970), "The management is in the best position to make an initial estimate [of a projection for the future]; on the basis of it the professional or investor could then make his own modifications." Till (1980) posits that even inaccurate firm forecasts are valuable for investors because 1) they are an estimate of the future direction of the firm from the most informed party – management – and 2) the disclosure of them is a positive signal of management's confidence in predicting good news.

We find a positive and significant correlation between the number of targets firms provide in their IPO roadshow and both the absolute and signed price change around the IPO. The positive correlation exists for the overall price revision (i.e., initial offer price to first day closing price), and its subcomponents: price update (initial to final offer price) and initial returns (final offer to first day closing price). This is consistent with investors viewing firms' targets as positive news about the firm's prospects and thus current value. The results hold including controls for firms' financial performance, shares retained by management, firm age, the quality of advisors (i.e., VCs, auditors, and underwriter), and year and industry fixed effects.

If investors incorporate firm-provided business model targets into their expectation of firm value, long-run returns should adjust if firms fail to meet the targets. Essentially, we can use the targets to construct a realization surprise variable that should correlate with returns. For each of the seven target metrics, we construct target distance measures for the three post-IPO years that equals the realized value in each year less the IPO targeted value. Consistent with investors allowing IPO firms some time to reach their targets, we find no relation between target distance and market-adjusted returns from the IPO through the filing of the firm's first 10K, including control variables and year and industry fixed effects. However, we find a positive (negative) and significant relation between the profit (expense) ratio target distance metrics and adjusted returns from IPO through the second and third years, except for the operating profit margin. Essentially, returns increase (decrease) as firms' realized profit (expense) margins grow relative to the IPO targets, suggesting that investors use the targets to form expectations of firms' long-run business models and adjust their firm value estimates when realizations deviate from these expectations.

To more fully assess the effects of providing these disclosures, we turn to analysts as market participants with visible expectations. We find that analysts are highly likely to include

firms' target metrics, with 86% to 100% of our sample analysts discussing each metric for which firms provide a target. The analysts' forecasted values are generally more pessimistic than firm-provided targets, although analysts typically only forecast about 3 years ahead. While analysts do not seem to naively rely on the firm provided targets, we find significantly reduced analyst dispersion for one-, two- and three-year-ahead earnings forecasts when firms provide more targets in the IPO roadshow suggesting that analysts use the targets to inform their earnings forecasts about the firm. The results are robust to the inclusion of control variables and year and industry fixed effects. The combined evidence suggests analysts find firms' targets informative.

In our final set of tests, we seek to validate our belief that firms use roadshow targets in place of the more traditional forecasts commonly provided by public firms. Specifically, we examine the relation between target disclosure during the IPO roadshow and the decision to issue forward-looking guidance in the first year as a public company. We find that 82.5% of firms that presented targets during their IPO roadshow also issued forward-looking guidance within their first year, compared to just 29.6% of firms that did not provide targets. This strong association supports the idea that target disclosure is part of a broader strategy to provide investors with forward-looking information, with firms using the IPO roadshow as an initial platform for such disclosures before transitioning to more conventional guidance mechanisms once public.

Overall, we find a unique form of quantitative forward-looking information in IPO roadshows: business model targets. These targets seem to be optimistic, yet investors and analysts appear to find them helpful, even if adjustments are required. We acknowledge that these are descriptive correlations rather than causal evidence that investors or analysts are influenced by managers' targets specifically. We include control variables, but it is difficult to rule out that investors and analysts might instead be responding to correlated qualitative information provided

alongside targets. Still, given targets' salience and low processing cost relative to qualitative information, and anecdotal analyst mentions of firm targets, it is likely these metrics are a meaningful part of the information investors and analysts use.

We contribute in two ways. First, we provide new evidence of forward-looking disclosure by IPO firms at a time when there are renewed calls for regulators to consider encouraging forward-looking disclosure from IPO firms. For example, Rose (2023) says "it is an apt time to reflect on the wisdom of the IPO safe harbor exclusion," and Damodaran et al. (2021) says "preventing companies from forecasting the future only allows others, less scrupulous and informed, to fill in the empty spaces with their own details."[6] SPACs became a popular alternative funding path in part because of the common perception that IPO firms couldn't (and thus didn't) provide forecasts without substantial legal risk. We provide large-sample evidence that more than one-third of IPO firms provide business model targets in the roadshow, and that investors and analysts appear to use them. This confirms the desire of firms and investors for more forward-looking disclosure, yet reinforces the legitimate concerns of IPO firms' tendency to optimism. Our evidence is useful for those debating what IPO firms disclose and should be encouraged to disclose to investors. We also highlight the roadshow's importance as a supplemental IPO disclosure, and we deepen researchers' understanding of firms' forward-looking disclosure choices in the face of significant information frictions and litigation concerns.

Second, we highlight a unique form of forward-looking disclosure. The forecasting literature is deep yet primarily focuses on short-term forecasts of future performance like earnings

[6] The role of forward-looking information in IPOs has been a recurring topic of interest. For example, commentators urged the SEC decades ago (SEC 1977) to encourage projections in IPOs because the lack of historical information on which to base an investment decision made forward-looking information especially valuable. Similarly, several members of the 2003 NYSE/NASD IPO Advisory Committee recommended that issuers provide projections in the filed prospectus and that a statutory safe harbor be provided to limit liability concerns (NYSE/NASD 2003).

or revenue (e.g., Hirst, Koonce, and Venkataraman 2008) and occasionally examines long-term performance and growth forecasts (Armstrong et al. 2007; Blankespoor et al. 2022). In contrast, we unveil evidence of firms predicting their equilibrium business model using margin ratios. These ratios have long been a part of fundamental analysis, but the focus is typically on using them to predict future performance (e.g., Nissim and Penman 2001). For firms not in their steady-state business model, though, investors need to predict the future model. IPO firms are an obvious example of developing firms, but even mature firms can undergo dramatic shifts that require firms and investors to revisit the business model. For example, the recent advancements in generative AI have the potential to fundamentally shift many industries, reinforcing the importance of predicting target margins in a variety of contexts (e.g., Eloundou et al. 2024).

2. Background and Motivation

2.1 IPO Regulation of Disclosure

The SEC regulates the IPO process to reduce information asymmetry between issuers and investors. Firms file a prospectus (Form S1) with the SEC, which includes a wide range of information about the firm's historical performance, risk factors, intended use of proceeds, and governance structure, and is intended to include all material information for potential investors (e.g., Leone et al. 2007; Hanley and Hoberg 2010; Loughran and McDonald 2013). After filing an S1 that includes a proposed price range for its shares, the IPO firm presents to potential investors at a series of roadshows, with one bona fide roadshow recording made publicly available online during the registration period (SEC 2005). These roadshows are a critical component of the IPO process because they enable issuing firms to directly showcase their management team and promote their business strategy to potential investors (Skonnard 2018). When preparing the roadshow presentation, legal counsel advises management to ensure roadshow statements are

factually accurate and consistent with the filed prospectus (Arcella 2011; Latham and Watkins 2024). Because the 2005 Securities Offering Reform classifies roadshows as an oral communication, as opposed to a written communication or a free writing prospectus, firms are not required to file the roadshow presentation, slide deck, or other visual aids with the SEC.

2.2 IPO Firms and Forward-Looking Information

The inclusion of forward-looking projections in SEC filings has a long and varied history. Dating back to the Securities Act of 1933, the SEC initially prohibited the inclusion of forward-looking information in SEC filings, fearing their inclusion "would lead to undue reliance by investors who would tend to attribute an unjustifiable degree of certainty to any statement contained in a filing reviewed by the SEC, regardless of caveats." (Hiler 1987, p. 1118). This stance softened over time, and the SEC conducted public hearings in 1972 to reconsider the role of estimates, forecasts, and projections in SEC filings (SEC 1972; Gonedes, Dopuch, and Penman 1976; Till 1980). After a multi-year process, the SEC released a policy statement in 1976 that "[s]ince investors appear to want management's assessment of a company's future performance, and since some managements may wish to furnish their projections through Commission filings, the Commission will not object to disclosure in filings with the Commission of projections which are made in good faith and have a reasonable basis, provided that they are presented in an appropriate format and accompanied by information adequate for investors to make their own judgments" (SEC 1976). The SEC shifted shortly after in 1978 to not only allow such projections, but "to encourage companies to disclose management projections both in their filings with the Commission and in general" (SEC 1978, p. 53,247) by proposing for comment a safe-harbor rule related to such projections.

The safe harbor rules resulting from this process, Rule 175 under the Securities Act of 1933 and Rule 3b-6 under the Securities Exchange Act of 1934, were adopted to insulate financial projections from liability. However, the SEC acknowledged in 1994 that firms did not feel protected by the safe harbor rules, and US Congress adopted the Private Securities Litigation Reform Act (PSLRA) in 1995 that, among other things, provided firms more protection when making forward-looking statements.[7] While the PSLRA seems to have resulted in more forward-looking statements in general, communications associated with "initial public offerings" are explicitly excluded from the protections afforded by the safe harbor for forward-looking statements under the PSLRA (PSLRA 1995).[8]

This exclusion exposes issuers to significant liability if forward-looking statements prove inaccurate, resulting in an environment where lawyers strongly caution issuing firms against providing such information while marketing the IPO (Latham and Watkins 2024). While this exclusion does not technically prohibit IPO firms from providing forecasts when going public, Rose (2021) writes that issuers "uniformly choose not to." This statement is consistent with Feldman (2021), who reviews IPO filings over the prior three years and finds that "no IPO company has actually provided financial projections, other than vague narrative disclosure in

[7] The PSLRA, relative to Rules 175 and 3b-6, made it more difficult for investors to win a lawsuit alleging that forward-looking statements were misleading through several different channels. First, it raised the standards for plaintiffs by requiring them to specify each statement they believed was misleading and explaining why it was false or misleading at the time it was made. They must also provide facts that create a strong inference the company acted with "scienter" (intent to deceive, manipulate, or defraud). Second, it implemented an automatic stay of discovery until a motion to dismiss is resolved, reducing the litigation burden on companies by enabling them to avoid the expenses and disruption of discovery unless the court finds the lawsuit to have a credible basis.

[8] A frequently cited explanation for why IPOs are excluded from the PLSRA is that they do not have an established history of earnings (SEC 1977). Without historical information, investors may base their entire investment decision on the speculative forward-looking information that issuers might provide if granted safe harbor protection. If forward-looking information is especially at risk for bias in the IPO setting, then providing safe harbor exclusion to IPO firms could conflict with the SEC's mission of protecting investors.

response to the SEC's management discussion and analysis rules regarding trends in liquidity and financial condition."

While the regulatory environment is set up to discourage IPO firms from directly providing forward-looking information to investors, investors frequently seek this information to estimate a company's future growth and performance. In practice, this is often thought to occur on analyst days when management meets with financial analysts of the syndicate banks in advance of the roadshow to discuss the company and provide "management's projections for the next several years" (Latham and Watkins, p.4). Rose (2023, p. 1823) similarly notes that issuers "do convey their forecasts to analysts with the knowledge that the analysts will then convey information about their forecasts to potential IPO investors in private conversations," although analysts typically do not publish anything publicly until 25 days after the IPO.[9]

Coates (2023) raises the possibility that investors not only receive forward-looking information about IPO firms indirectly via analysts, but that such information is also routinely presented at IPO roadshows. In doing so, he acknowledges that "[i]t is a fair question as to why those kinds of forecasts are not included in an IPO prospectus, and whether they should be, but nothing about law forbids their inclusion (Coates 2023, p. 391). In light of the above, and motivated by increased discussion about the appropriateness of IPO disclosure rules (Damodaran et al. 2022; Rose 2023), we seek to understand whether IPO firms are using the roadshow setting as an alternative disclosure path to meet the market demand for forward-looking information.

[9] The JOBS Act effectively eliminated the quiet period for post-IPO research on emerging growth companies ("EGCs"), making it possible that affiliated analysts for some firms in our sample could publish their research prior to this time. However, Latham and Watkins (2024, p. 12-13) highlight that "other considerations under federal securities laws with respect to the distribution of research around the time of an offering continue to apply. Accordingly, for both EGC and non-EGC IPOs, a 25-day research quiet period is still typically followed by members of the underwriting syndicate."

In many countries outside the United States, an alternative disclosure path is seemingly unnecessary since firms often voluntarily include earnings forecasts in their IPO prospectuses (or are even required to do so in certain jurisdictions). For example, prior research indicates that IPO firms provide relatively accurate projections, with forecast errors below 10% in Hong Kong, the UK, and Greece (Jaggi 1997; Keasey and McGuinness 1991; Gounopoulos 2011). In contrast, IPO firms in countries such as Canada and Australia exhibit sharply higher forecast errors that exceed 30% (Clarkson et al., 1992; Hartnett and Romcke 2000). Notably, it is not only the magnitude, but also the direction of the forecast errors that varies across studies, with some findings suggesting optimistic forecasts and others pessimistic. Overall, prior research presents mixed evidence regarding the usefulness of traditional IPO earnings forecasts disclosed in the prospectus. Differences in regulatory environments and broader market structures further complicate efforts to generalize these findings to the US setting.

3. Sample selection and descriptive statistics

3.1 Sample selection

We first obtain a sample of initial public offerings completed between 2011 and 2020. Consistent with prior research we exclude limited partnerships, unit offerings, filings less than $10 million, blank check holding companies, and firms with missing or incomplete financial information. For each of these firms, we attempt to capture the slide deck used during their IPO roadshow presentation. These slide decks can be downloaded from RetailRoadshow.com during the 1-2 week viewing period prior to the IPO date. We obtain our sample of decks by either manually downloading the slide deck during the viewing window or by obtaining it from an online data provider. Our final sample is 942 firms.

3.2 Descriptive statistics

We examine each slide in our sample firms' roadshow presentations. The slideshows generally begin by describing the firm's market opportunity, its products and/or services, and its key management, and then conclude by highlighting the firm's operating and financial performance. For the subset of firms that provide business model targets (targets hereafter), they are overwhelmingly disclosed during the discussion of the firm's operating and financial performance and are generally found on the final few slides of the presentation. For each target, we manually capture the specific financial metric, the dollar amount or percentage being targeted, and the slide number on which it is disclosed. Appendix A includes examples of these targets, taken from two firms in our sample.

Panel A of Table 1 presents detailed information about the sample firms in our study and the extent of targets in their roadshow presentations. Our sample ranges from a low of 43 firms in 2017 to a high of 163 firms in 2020. 354 firms (37.6% of the sample) provide financial targets during the roadshow presentation. These 354 firms provide a total of 1,634 targets, corresponding to an average (median) of 4.6 (5.0) targets per disclosing firm.

Panel B of Table 1 reveals significant variation in disclosure practices across industries. The Business Equipment industry has the most disclosing firms, with 76.2% providing financial targets (182 out of 239 firms). This is followed by Consumer Non-Durables at 70% and Telecommunications at 66.7%. In contrast, the Healthcare industry has the most firms in our sample (380), but only 6.1% of firms provide business model target disclosures.

4. Empirical Results

4.1 Business model targets - Metrics

We begin by identifying the most common targets disclosed, focusing on those that account for at least five percent of total targets provided (5% * 1,634 targets = 81.7). As shown in Table 2, the seven metrics most frequently disclosed are: 1) gross profit as a percentage of revenue, 2) R&D expense as a percentage of revenue, 3) EBITDA plus stock compensation expense as a percentage of revenue, 4) S&M expense as a percentage of revenue, 5) G&A expense as a percentage of revenue, 6) EBIT as a percentage of revenue, and 7) year-over-year revenue growth.[10] No other individual metric appears even half as many times as the least common of these seven metrics. To ensure adequate statistical power of our tests, we focus our remaining analyses on these seven metrics that combine to account for 62.5% (= 1,022 / 1,634) of the total targets identified in our sample.

Table 2 also provides information about the nature of these targets. For the most frequently disclosed target metric, i.e., gross profit ratio, the median target is 70% and the interquartile range spans 57% (Q1) to 80% (Q3). The penultimate column of Table 2 provides information about where these targets stand in relation to the distribution of industry peers' actual performance, where peers are all publicly traded firms in the same industry and year for each IPO sample firm. Table 2 shows that our median IPO firm's gross profit target is at the 81st percentile of peers' actual gross profit ratio distribution; half of the gross profit targets provided fall below the 81st percentile

[10] A minority of firms exclude stock-based compensation (SBC) when providing their financial statement line-item operating expense financial target ratios (i.e., R&D, S&M, G&A expense). Unfortunately, 10-K filings do not provide SBC by financial statement line item (e.g., SBC included in R&D expense), making it impossible for us to exclude that amount when calculating firms' post-IPO performance for the stated metrics. Because median SBC accounts for only 1.8% of firm revenue for our sample firms, and the sum of average operating expense targets exceed 50% of firm revenue, this is not generally a material exclusion. Nonetheless, in untabulated analyses, we re-perform our accuracy and bias analyses (Sections 4.2 and 4.3) after excluding SBC proportionally across expense categories and find that inferences are the same as tabulated findings.

and half exceed that threshold. The median placement within the revenue growth and the other profitability ratio distributions (i.e., EBITDA and operating profit) are also all in the top tercile, and the expense ratio targets (i.e., R&D, S&M, and G&A) are in the middle tercile. Combined, the evidence suggests that firms providing these targets envision significantly better future operating performance relative to their peers' current performance.[11]

The final column of Table 2 details the extent to which the IPO firm's performance must change in the future to achieve the target (i.e., target minus current). For gross profit, we calculate this as the gross profit ratio that the IPO firm discloses as a long-term target in their IPO roadshow minus that firm's historical gross profit ratio (based on their most recent financial information at IPO).[12] As shown in Table 2, the median difference is 2.1%, which means the median firm in our sample aims to improve its gross profit ratio by 210 basis points to achieve its long-term target.

For the expense targets, firms predict future cost efficiencies. The R&D expense ratio has a median difference of -6.9%, implying that the median firm plans to decrease its R&D expenditure relative to revenue by 690 basis points in the future. Firms target even greater future cost efficiencies for their S&M expenses (= -15.4%, or 1,540 basis points) and G&A expenses (= -10.5%, or 1,050 basis points). The combination of targeting higher gross profits and lower operating costs as a percent of revenue combine to create business model targets that anticipate

[11] Most public firms do not disaggregate their selling, general, and administrative (SG&A) expenses, so Compustat only provides aggregated SG&A, which prevents us from determining S&M and G&A expense ratio distributions. However, 146 of the firms in our sample provide targets for both of these ratios. We thus add them to form an SG&A expense target ratio and examine it relative to the aggregate SG&A expense of industry peers in the year these firms go public. As shown in Table 2, the median aggregated SG&A target is in the 44th percentile.

[12] When targets are given as a range (median range = 2%, average range = 2.91% in our sample), we use the midpoint of the two numbers. When targets are given as a boundary (e.g., "operating profit target: > 20%"), we use the stated boundary as a point-estimate. Occasionally, targets are also issued with the words "low", "mid", or "high" attached to a percentage (e.g., "operating profit target: high single digit"). In these cases, we seek to anchor on the mid-point of such language and thus use 2 to reflect "low", 5 to reflect "mid", and 8 to reflect "high". Altering our interpretation to reflect the low-end (i.e., 1, 4, and 7) or high-end (i.e., 3, 6, and 9) of this terminology yields the same inferences as those tabulated in our paper.

future firm profitability ratios to significantly exceed current ones. The median increase in operating profit (EBITDA plus stock compensation expense) as a percent of revenue is 43.5% (12.2%).

Finally, we find that the median firm anticipates year-over-year revenue growth to slow by 4.9% in the long-term. This finding is different than the other six metrics, as firms on average expect this metric to deteriorate rather than improve over the long-run. Though voluntary disclosure of expected declining sales growth may seem surprising, these are typically small, high-growth firms, and both firms and investors would naturally expect a decline in sales growth percentages as firms mature and prior year revenue levels increase. In fact, a long-run 4.9% decrease in year-over-year sales growth relative to the IPO level could often still be a difficult target to achieve.

Together, Table 2 provides the first empirical evidence about the detailed, forward-looking quantitative information that IPO firms share through their roadshow presentations. In contrast to other settings where firms often provide forward-looking information by issuing forecasts of earnings, revenues, or other financial statement performance line-items for near-term future periods, we find that these firms provide long-run, steady-state targets about financial ratios. These ratios provide insight into the anticipated business models that IPO firms envision when going public and add to the broader understanding of the information content in IPO roadshows of US firms (Blankespoor et al., 2017; Blankespoor et al., 2023; Coates 2023). The existence of targets in roadshows also disproves the common belief that IPO firms never provide forward-looking quantitative information (e.g., Clarkson et al. 1992; Gounopolis 2011; Feldman 2021; Duhigg 2021). Consistent with the roadshow being seen as a disclosure channel with lower legal risk, we

do not find evidence of these targets in firms' filed prospectus when we examine a random 5% of firms that provide targets in the roadshow.[13]

4.2 Business model targets - Accuracy

We next examine the accuracy of firms' business model targets. An inherent difficulty is that these targets are provided without a defined horizon, which means we do not know the exact comparison window. Rather, the targets are included in slide decks that have headers indicating "long-term target", "target model", "steady state goal", and similar verbiage that points to an extended and undefined horizon. Ritter's (1991) seminal paper titled "The long-run performance of initial public offerings" uses a three-year horizon to define "long-term" whereas Gompers and Lerner (2003) use a five-year horizon in their paper titled "the really long-run performance of initial public offerings." While most other IPO studies examining long-run performance similarly use horizons between three and five years, we cannot be certain what horizon these firms intend when using this language.[14] Thus, we examine target accuracy using three different horizons: 1) maximum, 2) five-year, and 3) ten-year. These three horizons have different strengths and weaknesses, which we highlight below.

First, we examine target accuracy over each firm's maximum horizon, or their most recently reported 10-K filing as of December 31, 2023. Our sample firms went public between 2011 and 2020, and the average maximum horizon is 5.02 years. The horizon varies across firms, and a disadvantage of this measure is that some firms are included whose maximum horizon is less than the typical long-term horizons of three to five years. However, an advantage is that this approach does not impose an ad-hoc definition of "long-term" and retains the most observations

[13] In Section 5.5, we analyze post-IPO class action lawsuits brought against issuing firms to better understand whether IPO roadshows serve as a lower-risk disclosure channel.

[14] Fewer than 3% of the firms providing financial targets in their IPO roadshows specify a target horizon. Of these, we find that the average, median and mode are 4.63, 5, and 5 years.

possible. To measure target accuracy using the maximum horizon, we use Compustat to calculate the target measure from the firm's most recent 10-K filing and then subtract the target value from the IPO roadshow. We use the absolute value of this difference to capture the unsigned deviation from the targeted amount for each of the seven metrics of interest.

Panel A of Table 3 presents the results examining this absolute target accuracy, with statistical significance assessed through both t-tests (for average errors) and Wilcoxon rank-sum tests (for median errors). For revenue growth, we find that the average error is a statistically significant and economically large 14.1%. The median error is similarly large and statistically significant at 10.8%. The remaining columns in Panel A provide information about the distribution of these absolute target errors, revealing that only 26.2% of firms (= 16.7% + 9.5%) are within 5% of their intended target with the remaining 73.8% of firms (= 17.9% + 33.3% + 22.6%) being more than 5% from their long-run revenue growth target. We find similarly large deviations regardless of which metric we choose to examine, with each average and median error being statistically different from zero (p-values < 0.01). While each of the errors are significant, the average and median error for gross profit is closest to zero, and it is the only metric where more than 50% of the firms are within a 5% error rate. In general, deviations are greater for metrics farther down the income statement.

Panel B of Table 3 repeats the analysis, using a five-year horizon, i.e., each firm's first 10-K after their five-year IPO anniversary. We have to exclude about 50% of firms because they went public during the latter part of our sample or delisted within five years of IPO. However, this approach allows us to use an extended horizon that is generally agreed upon to reflect "long-run." As shown, the inferences relating to target accuracy are similar when using a five-year horizon to those drawn when using the maximum horizon in Panel A. In particular, the average and median

errors are all economically large and statistically different from zero (p-values < 0.01). Table 3 Panel C reports the same analysis using a ten-year horizon. As shown, the average and median errors are again all economically large and statistically different from zero (p-values < 0.05). Overall, the business models that firms envision at IPO and communicate to investors during their roadshow presentations are substantially different from the outcomes across a range of future windows.

4.3 Business model targets - Bias

We next examine whether these targets are also biased. Firms may issue conservative targets if they are concerned about the litigation or reputational costs associated with portraying the firm in an overly optimistic manner. On the other hand, firms that are raising capital have a clear incentive to portray the firm optimistically to maximize proceeds from selling their shares. To examine whether bias exists, we repeat the Table 3 analyses using signed measures of target accuracy, i.e. actual reported post-IPO value minus IPO target value. Positive (negative) values thus indicate the firm operates at a level above (below) the target value in the future.

For the revenue growth and profitability ratios, positive differences mean increased profitability, holding everything else constant, and negative differences in the expense ratios mean increased profitability. To facilitate interpretation, we include a column in Table 4 labeled "Profit Contributing" that reflects the percent of firms whose performance in relation to the target increases firm profitability. In other words, this is the sum of the percent of firms with positive differences for the revenue growth and profitability ratios and the percent of firms with negative differences for the expense ratios. We use bold font in Table 4 to emphasize where actual performance in relation to the financial target increases firm profitability.

Panel A of Table 4 presents the results using the maximum horizon. For revenue growth, we find that the average (median) error is –7.0% (–6.7%). These differences are both economically large and statistically different from zero (p-values <0.01). A median difference of –6.7% indicates the median firm's most recently reported revenue growth is 670 basis points *below* their stated revenue growth target. Given the median firm was 4.9% *above* their stated revenue growth target when going public (Table 2), this indicates that revenue growth rates for many firms slow substantially after going public. As shown in the Profit Contributing column, 27.4% of firms report revenue growth that would result in increased firm profitability relative to the target, holding all other things constant (i.e., the actual value exceeded the target). 47.6% of firms providing revenue growth targets reported a year-over-year revenue growth that was more than 7.5% below their desired long-term performance level. Overall, the most common outcome in our sample is that firms substantially underperform their stated long-term revenue growth target.

Panels B and C of Table 4 repeat this analysis, using five- and ten-year horizons. As shown in Panel B, the average error for year-over-year revenue growth is –1.2% which is not statistically different from zero. However, Panel C reveals that the average error falls to –13.1% after ten years (p-value < 0.05). Revenue growth targets in particular seem difficult to achieve as time progresses given the difficult increasing or even maintaining sales growth percentages as firms mature and prior year revenue levels increase.

Panels B and C also find that the gross profit ratio is never statistically different from zero when using the five- or ten- year horizon, providing some indication that firm management can provide relatively unbiased long-run estimates of their direct product costs. However, this is in strong contrast to the three operating cost ratios (R&D expense, S&M expense, and G&A expense) which all indicate management's targets are overly optimistic over both five- and ten-year

horizons. Considering the above, it is thus not surprising that the long-term firm profitability ratio targets also exhibit optimistic bias. Panel B reveals that the average operating profit and EBITDA ratio errors are –28.9% and –9.3% over a five-year horizon, improving only slightly to –20.7% and –7.6% over the longer ten-year horizon.

We next relax several assumptions to assess the robustness of the conclusions that most firms do not meet their targets. First, we use the low end of their target range instead of the midpoint as the threshold.[15] Second, we examine how many, if any, years the firm meets the target rather than examining discrete and fixed horizons. Specifically, we estimate 1) the proportion of firms that ever exceed the lowest part of the range in *any* year after going public, and 2) the percentage of years wherein firms exceed the low end of the range.

Panel D of Table 4 provides the results. Focusing on revenue growth, we find that 95.2% of firms providing a revenue growth target exceed the low-end of the range in at least one year. This high percentage is perhaps not surprising, though, given that Table 2 showed firms provide revenue growth targets that are significantly lower than their current levels (i.e., they target a lower steady-state revenue growth.) However, we also find that firms exceed the lower end of the revenue growth targets in only 60.5% of the firm-years (= 279 / 461) indicating that many firms do not consistently stay above the low end of the target. Overall, the majority of these firms exceed revenue growth targets during the initial post-IPO years but do not maintain target revenue growth levels during horizons commonly considered "long-term."

[15] We use "low end of the range" to reflect the lowest performance threshold implied by the range for each of the seven targets. In other words, for the revenue growth and profitability ratios, that is the literal low end of the range. However, for the expense ratios, the lowest performance threshold is instead the high end of the provided range. For this analysis, we thus use the actual low (high) end of the range for the revenue growth and profitability (expense) ratios.

For the other six financial targets of interest, the gross profit ratio is the only metric where the majority of firms (= 68.2%) exceed the low end of the range. This finding is consistent with Panels B and C that showed 58.4% and 63.2% of firms exceed the midpoint of the financial targets at five- and ten- year post-IPO horizons. The other Panel D findings are also consistent with prior Table 4 panels; firms generally do not exceed the targets. In particular, less than one-third of firms *ever* meet the low-end of these other five commonly provided financial targets even a single time. Of these, G&A expenses appear to be the most biased target with only 8.2% of firms ever reporting a ratio for that expense that falls at or below the high-end of the target range. Similar to the revenue growth and gross profit ratios, the proportion of firm-years where firms meet the low target is lower than the proportion that do so at least once. Firms that exceed the target a single time are often not able to sustain that level of performance moving forward. Taken together, our findings provide consistent evidence that the long-run business targets provided by management are not only inaccurate (Table 3), but also optimistic (Table 4).

5. Additional Analyses

5.1 Business model targets and IPO price formation

We next ask whether investors seem to use the business model targets. If investors are unaware of target inaccuracies, they would respond to the targets as useful information about the firm's prospects. Or, even if investors are aware of the target's biases, they might find them at least partially informative about firms' goals. However, investors who observe the bias may instead completely disregard the presence of targets or even respond negatively if this is a signal of management deceit. We examine the relation between business model targets and the absolute price revision using the following pooled OLS regression:

$$Abs(Revision_i) = \beta_0 + \beta_1\, Target\ Count_i + \beta_2\, Assets + \beta_3\, Revenue_i + \beta_4\, ROA_i + \beta_5\, Tech_i + \beta_6\, R\&D\_Intensity_i + \beta_7\, BTM_i + \beta_8\, PctRetained_i + \beta_9\, Nasdaq_i$$

$$+ \beta_{10}\, Firm\_Age_i + \beta_{11}\, VC_i + \beta_{12}\, Big4_i + \beta_{13}\, Underwriter_i + Fixed\ Effects + \varepsilon_i \quad \textbf{(1)}$$

where *Abs*(*Revision)* is the absolute value of the percentage change between an issuing firm's closing price per share on its first day of trading on the secondary market and the price per share initially proposed. We use the absolute value of total price revision to allow positive or negative revisions to investor beliefs. *Target Count*$_i$ is a count variable that reflects the number of business model targets issued during the firm's IPO roadshow presentation. We use the number of business model targets as our primary variable because each metric potentially provides new information to investors.

We also include several control variables in Equation (1) that prior literature identifies as determinants of IPO pricing. In particular, we follow Barth, Landsman and Taylor (2017) and include controls for firm assets (*Assets*), revenue (*Revenue*), age (*Age*), profitability (*ROA*), research intensity (*R&D*), auditor quality (*Big4*), book-to-market ratio (*BTM*), high-technology firm (*Tech*), ownership retention (*Retained%*), venture capital (*VC*), exchange listing (*Nasdaq*), and underwriter reputation (*Underwriter*). Appendix B provides more details about the construction of each variable. All financial information necessary to calculate these variables relates to the most recently completed fiscal year prior to IPO. We also include industry (Fama-French 12) and year fixed effects.

Panel A of Table 5 provides the results of estimating Eq. (1). Consistent with business model targets providing investors with new information, the coefficient for *Target Count* in Column 1 is 0.035 (p-value = 0.046). This finding is consistent with investors behaving in a way in which the business model targets disclosed by the firm provide value-relevant information that was not originally incorporated into the proposed offer price. To gain further insight into this result, we decompose *Abs(Revision)* into two components: the change from the proposed to the final offer

price, *Abs(Price_Update),* and the change from the final offer price to the closing price on the first trading day, *Abs(Initial_Returns)*. As shown in Columns 2 and 3, the coefficients between *Target Count* and each of these two subcomponents are positive and statistically different from zero.[16]

Panel A findings combine to indicate that business model targets provide new information to investors during IPO price formation. Because this is a voluntary disclosure, theory suggests that firms would be unwilling to provide this information unless it had potential to revise investor beliefs in a positive manner (Milgrom 1981; Verrecchia 1983). Based on this reasoning, we thus modify Equation (1) by replacing *Abs(Revision)* with signed *Revision* and predict a positive coefficient for *Target Count*. Panel B of Table 5 provides the results from estimating this modified version of Equation (1). Consistent with our prediction, Column 1 reveals the coefficient for *Target Count* is 0.046 (p-value = 0.018). Decomposing this result again into *Price_Update* and *Initial_Returns*, we continue to find a positive coefficient on *Target Count* in both Columns (2) and (3). Taken together, Table 5 findings suggest that investors perceive business model target disclosures as providing new value-relevant information about the IPO firm (Panel A), and firms may provide these disclosures in an attempt to revise investor beliefs in a positive manner.

5.2 Business model targets and long-run stock performance

If investors use the business model targets when pricing IPO firms, a firm's post-IPO performance relative to these targets would be informative about long-run stock returns. To examine this, we estimate the following pooled OLS regression:

$$BHAR_{i,t} = \beta_0 + \beta_1\, Target\ Distance_{i,t} + \beta_2\, Assets_i + \beta_3\, Revenue_i + \beta_4\, ROA_i + \beta_5\, Tech_i + \beta_6\, R\&D\_Intensity_i + \beta_7\, BTM_i + \beta_8\, PctRetained_i + \beta_9\, Nasdaq_i$$

[16] Prior literature finds that information revealed during bookbuilding is not fully impounded into the offer price (Benveniste and Spindt 1989; Hanley 1993; Lowry and Schwert 2004). This suggests that even if institutional investors incorporate the information revealed by the firm disclosing the business model targets fully into their limit orders, underwriters may choose not to fully impound this information into the final offer price. In that case, institutional investors' perceptions would "spill over" into the revision during the first day of trading. As such, although we include *Abs(Price_Update)* as a control variable in Column (3) to account for this spill-over effect, we caution against making conclusions about which investors are incorporating the information into price.

$$+ \beta_{10}\, Firm\_Age_i + \beta_{11}\, VC_i + \beta_{12}\, Big4_i + \beta_{13}\, Underwriter_i + Fixed\ Effects + \varepsilon_i \quad \textbf{(2)}$$

where $BHAR_{i,t}$ is defined as firm i's buy-and-hold adjusted stock market return from the closing price on its first day of trading through the day of the firm's t^{th} 10-K filing. $Target\ Distance_{i,t}$ is defined as firm i's actual target metric performance as reported on its t^{th} 10-K filing minus the disclosed long-run target in the firm's IPO roadshow presentation. This is defined the same as Table 4's signed accuracy measure but with different horizons. Control variables are the same as those in Equation (1).

Table 6 provides the results from estimating Equation (2) for each firm's first, second, and third 10-K filings post-IPO and each target metric. Rows 1, 2, and 3 focus on year-over-year revenue growth. In Row 1, the coefficient for $Target\ Distance_{t=1}$ is not statistically significant (coefficient = 0.075, p-value = 0.732). However, moving forward in time, Columns 2 and 3 indicate that $Target\ Distance_{t=2}$ and $Target\ Distance_{t=3}$ are both positive and statistically significant (p-value < 0.01). Together with our Table 5 findings, this pattern is consistent with valuations reflecting the firm's equilibrium revenue growth targets at IPO, but those valuations evolving over time to place increased weight on actual performance relative to those targets rather than taking the stated targets as expected performance.

Rows 4-6 repeat the regressions from Rows 1-3, using gross profit ratio as the target of interest. As shown, we again find that the coefficient for $Target\ Distance_{t=1}$ (i.e., the first year post-IPO year) is not statistically significant (= 0.294, p-value = 0.151) but that the coefficient for $Target\ Distance_{t=2}$ and $Target\ Distance_{t=3}$ (second and third years post-IPO) are both positive and statistically different from zero (p-values = 0.021, 0.055). This same pattern of distance from stated target increasing in importance over time also appears for the R&D expense ratio (Rows 7-9), the S&M expense ratio (Rows 10-12), and EBITDA margin ratio (Rows 19-21). For the R&D expense

and S&M expense ratios, a negative (positive) value indicates that the firm's profitability is better (worse) than it was targeted to be, holding all else constant. Thus, the negative coefficient on those regressions is consistent with the general positive relation assumed between firm profitability and stock returns (Ball and Brown, 1968).

The only two exceptions to this pattern are G&A expense ratio (Rows 13-15) (where remaining distance is significant in year 3 but not year 2) and operating profit margin (Rows 16-18) (where remaining distance is insignificant in all three years). Taken together, Table 6 indicates that the remaining distance to target measure is statistically different from zero in the predicted direction for most of target metrics in the second and third years post-IPO but not the first.[17] These findings are consistent with investors shifting their reliance away from the stated targets and towards actual performance relative to those targets as the firm matures and has opportunities for its performance to meet or miss those targets.

5.3 Business model targets and analyst forecast properties

We next examine financial analysts as a market participant with more visible expectations of IPO firms, and consider whether firms' business model targets shape analyst forecasts. To do so, we randomly select one affiliated and one unaffiliated analyst report for each IPO firm that discloses business model targets during their roadshow presentation. We examine affiliated and unaffiliated analysts separately because prior studies find that affiliated analysts provide more positive coverage relative to unaffiliated analysts (e.g., Qian, Shao, and Liao, 2024; Weber et al., 2023). We focus our examination on three properties of analyst reports: 1) coverage – is the

[17] If the market is not using target values to set initial expectations, then this relation would be driven by the raw realizations rather than the difference between realization and target. However, when we repeat these analyses using the actual realizations rather than actual minus target, we find weaker results in the second and third years post-IPO. In particular, only two (i.e., revenue growth and gross profit margin) and four (i.e., revenue growth, gross profit margin, R&D margin, and S&M margin) of the coefficients on the actual realizations are statistically significant in the predicted directions in years two and three. Thus, the market seems to incorporate target values into expectations.

business target metric disclosed by the firm present in the analyst's forecasting model?, 2) horizon – how far into the future do the analysts forecast the business target metric?, and 3) proximity – how close are the analyst forecasts to the firm's stated targets?

Table 7 provides the results associated with these analyses. Columns 1-3 focus on coverage, 4-6 on horizon, and 7-9 on proximity. Focusing first on coverage, we find that affiliated analysts have higher coverage across all metrics with some of the differences being statistically significant. For example, revenue growth is covered 100% of the time by affiliated analysts but only 92.9% by unaffiliated analysts, resulting in a significant difference of 7.1%. The EBITDA ratio also has a gap, with affiliated analysts covering it 98.1% of the time, compared to 87.3% for unaffiliated analysts, a difference of 10.8%. The operating profit ratio is present in 97.5% of affiliated reports versus 92.5% in unaffiliated ones, a difference of 5.0%. While other ratios like gross profit, R&D expense, S&M expense, and G&A expense have smaller differences (ranging from 2.0% to 3.1%), the overall trend indicates that affiliated analysts provide more comprehensive coverage of these metrics than unaffiliated analysts.

We next examine analyst horizon to understand how far into the future analysts are projecting IPO firm performance. Columns 4-6 provide these results, revealing consistent evidence that affiliated analysts provide forecasts for longer horizons than unaffiliated analysts. For instance, in the first row, affiliated reports have a horizon of 3.45 years compared to 2.99 years for unaffiliated ones, resulting in a significant difference of 0.46. This trend is seen throughout, with differences ranging from 0.34 to 0.63, all of which are statistically different from zero. These results suggest that affiliated analysts tend to provide longer forward-looking analyses than their unaffiliated counterparts.

Columns 7-9 of Table 7 examine proximity, which examines how closely the firm's stated long-term target aligns with the analyst's final year forecast. The results indicate meaningful differences for both the affiliated and unaffiliated analyst on six of the seven ratios, with only revenue growth showing differences less than 1%. Thus, it does not appear that either group of analysts are simply taking the business model targets provided by management and using them in their final year forecasts. Comparing the two analyst groups with one another, we find some evidence that the affiliated analysts forecast amounts closer to firm targets. For example, affiliated (unaffiliated) analysts are 2.7 percentage points (3.9 percentage points) below the manager's gross profit ratio projection, resulting in a statistically significant difference of 1.2 percentage points between the groups (p-value < 0.05). Similarly, affiliated analysts are 2.2 and 2.1 percentage points closer to the manager's operating profit ratio and EBITDA ratio than unaffiliated analysts, respectively (p-values < 0.10), but affiliated and unaffiliated analysts are between 8 and 20.9 percentage points below managers' targeted ratios. Together, Columns 7-9 combine to indicate that while there are some differences between affiliated and unaffiliated analyst forecasts, the larger differences exist between the manager-provided targets and analyst forecasts.

Together, Table 7 provide evidence that both affiliated and unaffiliated analysts generally provide their own forecasts of the business model targets IPO firms disclose in their roadshow, but analysts tend to focus on shorter time periods and do not reach the firm's targeted levels of long-run performance.

5.4 Business model targets and analyst dispersion

While Table 7 displays evidence that analysts do not perfectly match the firm's long-term stated targets in their own projection models (which are generally shorter-term in nature), firm disclosure of targets might promote convergence of analyst expectations about the firm's future

performance (e.g., Stein, 1989; Fischer and Verrecchia, 2000). To examine this possibility, we estimate the following pooled OLS regression:

$$\begin{aligned} AnalystDisp_{i,t} = {} & \beta_0 + \beta_1\, Target\ Count_{i,t} + \beta_2\, Assets_i + \beta_3\, Revenue_i + \beta_4\, ROA_i \\ & + \beta_5\, Tech_i + \beta_6\, R\&D\_Intensity_i + \beta_7\, BTM_i + \beta_8\, PctRetained_i + \beta_9\, Nasdaq_i \\ & + \beta_{10}\, Firm\_Age_i + \beta_{11}\, VC_i + \beta_{12}\, Big4_i + \beta_{13}\, Underwriter_i + Fixed\ Effects \\ & + \varepsilon_i \end{aligned} \quad \textbf{(3)}$$

where *AnalystDisp* is the standard deviation of analysts' earnings forecasts for the firm's t^{th} year after going public scaled by the stock price twenty-five days after going public. We choose this stock price timing to coincide with the end of the IPO quiet period as analyst forecasts will not have typically been issued or incorporated into stock price yet.[18] We use the analysts' first forecasts after the firm goes public because this is when analysts are likely to place the greatest weight on IPO disclosures. Because analysts provide multi-year forecasts in most instances, we can examine dispersion over horizons that extend more than a year. $AnalystDisp_{t=1}$, $AnalystDisp_{t=2}$, and $AnalystDisp_{t=3}$ thus reflect analyst dispersion regarding the firm's first, second, and third fiscal years using the analyst's first issued forecast following the firm's IPO. $Target\ Count_i$ is as previously defined, i.e., the number of business model targets issued during the firm's IPO roadshow. Control variables are also as previously defined.

Panel A of Table 8 provides the results of estimating Equation 3 using $AnalystDisp_{t=1}$, $AnalystDisp_{t=2}$, and $AnalystDisp_{t=3}$ as dependent variables in Columns 1, 2, and 3. As shown, Column 1 estimates the *Target Count* coefficient as –0.002 (p-value = 0.062), suggesting that target disclosure is associated with lower analyst dispersion after going public. Columns 2 and 3 yield similar inferences for longer-term analyst forecasts. In particular, the *Target Count* coefficient in Column 2 and Column 3 is –0.002 and –0.003 (p-values < 0.01). This finding is

[18] As noted in Footnote 10, a 25-day post-IPO quiet period relating to research dissemination continues to exist in practice even after the JOBS Act effectively eliminated this constraint.

consistent with analysts using the targets to inform their forecasts about the firm's performance, and thus combines with Tables 5 and 6 to provide additional evidence that the business model targets are shaping market participant behavior around the time of their release.

5.5 Business model target provision – Validation of assumptions

Our goal is to examine whether IPO firms find an alternative disclosure path to avoid litigation risk yet still meet the market demand for forward-looking information. Our analysis is thus motivated by two underlying principles that we now consider more fully: 1) IPO roadshows provide firms a less risky channel to disclose information, and 2) IPO firms seek to provide forward-looking information to investors. To better understand the risk associated with IPO disclosure channels, we search Stanford Law School's Securities Class Action Clearinghouse for lawsuits filed against IPO firms in our sample. We find a total of 475 lawsuits filed against 333 of our sample firms. Of these lawsuits (which extend for the entire duration of the firm as a public company), eighty-eight allege that IPO firms in our sample provided misleading or inaccurate information in their written IPO disclosures. In stark contrast, we find only two instances (Apigee Corporation and Rocket Fuel) where lawsuits reference specific information from an IPO firm's roadshow presentation when describing the allegations of inappropriate disclosure. Notably, neither case involves specific references to the business model targets presented in the firms' roadshows, but both of these lawsuits include additional allegations about the written IPO disclosures. Thus, no lawsuits were brought forward against improper or misleading IPO roadshow information alone, but several dozen lawsuits allege improprieties based entirely on the written disclosures. While admittedly descriptive, our findings are consistent with the premise that oral roadshow presentations provide IPO firms with a less risky disclosure channel relative to written SEC filings.

We next more fully consider whether target provision relates to IPO firm desires to provide investors with forward-looking information. To do so, we consider whether firm management provides forward-looking guidance at least once during the first year after going public.[19] We then perform a cross-tabulation to explore how the decision to provide information after firms go public relates to the decision to provide financial targets during the IPO roadshow presentation. The motivation behind this analysis is that firms that do *not* wish to provide investors with forward-looking information will not do so even when they are public and the safe harbor provisions more broadly apply. In contrast, firms that seek to provide this information will do so. Our expectation is that the firms providing targets will be more likely to provide forward-looking guidance as public firms relative to IPO firms that did not provide targets.

Panel A of Table 9 provides the results in a two-by-two matrix. As shown, substantially more firms provide forward-looking management guidance (n = 466) than provide financial targets during the IPO roadshow (n = 354). This is consistent with firms feeling less restricted in providing forward-looking information in the post-IPO environment. Furthermore, and consistent with the idea that the firms providing targets during their roadshow presentation seek to communicate forward-looking information to investors, we find that 82.5% (=292/354) of these firms also provide forward-looking guidance after going public whereas only 29.6% (=174/588) of firms that did not provide targets during the roadshow issue guidance afterwards.

While Panel A indicates that a firm's desire to provide investors with forward-looking information is a strong determinant of target provision, it is interesting to consider whether this

[19] Because data providers often exclude guidance for newly listed firms (Allee et al., 2021), we manually review all 8-K filings for the sample firms indicated to not provide guidance during the first year as a public firm. Consistent with this prior research, we find a significant number of firms (i.e., 229 firms) provided guidance during the first year but are not shown by IBES as having done so. After considering the union of IBES and our manual data collection efforts, we find that 466 of the 942 firms in our sample provide guidance in the first year after going public.

finding is robust to the inclusion of other potential factors. We thus perform a multivariate analysis by estimating the following negative binomial regression:

$$\begin{aligned} \textit{Target Count}_{i,t} = {} & \beta_0 + \beta_1\, \textit{Post-IPO Guidance}_{i,t} + \beta_2\, \textit{Assets}_i + \beta_3\, \textit{Revenue}_i \\ & + \beta_4\, \textit{ROA}_i + \beta_5\, \textit{Tech}_i + \beta_6\, \textit{R\&D\_Intensity}_i + \beta_7\, \textit{BTM}_i + \beta_8\, \textit{PctRetained}_i \\ & + \beta_9\, \textit{Nasdaq}_i + \beta_{10}\, \textit{Firm\_Age}_i + \beta_{11}\, \textit{VC}_i + \beta_{12}\, \textit{Big4}_i + \beta_{13}\, \textit{Underwriter}_i \\ & + \textit{Fixed Effects} + \varepsilon_i \end{aligned} \quad \textbf{(4)}$$

where *Target Count* is as previously defined. *Post-IPO Guidance* is an indicator variable that takes the value of one if the firm issues post-IPO forward-looking guidance during the first year; zero otherwise. All other variables are as previously defined.

Panel B of Table 9 provides the results of estimating Equation 4. Column 1 provides estimates from a baseline specification with only the variable of interest and fixed effects included, while Column 2 incorporates the full set of firm and offering characteristics. Across both specifications, the *Post-IPO Guidance* coefficient is positive and statistically significant. Focusing on Column 2, the coefficient estimate is 0.342 (p-value = 0.011). This result implies that firms providing forward-looking guidance in the first year after their IPO disclose approximately 41% (= exp(0.342) – 1) more targets in their IPO roadshow presentation, providing further evidence that firms seeking to provide investors with forward-looking information use the roadshow presentation to provide such information during the IPO process.

Panel B also reveals that *Revenue, PctRetained, VC,* and *Underwriter* (*Assets, R&D Intensity*, and *BTM*) are also positively (negatively) associated with the number of business model targets provided in the roadshow. The positive and statistically significant coefficients for venture capital (*VC*) backing and the percentage of shares retained by pre-IPO shareholders (*PctRetained*) suggest that these stakeholders may influence disclosure practices in ways that enhance IPO pricing. Both VCs and other pre-IPO shareholders have strong economic incentives to support disclosures that increase firm visibility and perceived value, as a higher offer price directly benefits

their equity holdings. Further, prior research indicates that venture capitalists are much more likely than other shareholders to sell shares shortly after the IPO and thus have a strong incentive to support disclosures that enhance firm visibility and the offer price (Field and Hanka, 2001). Together, Table 9 findings align with theoretical expectations that key pre-IPO stakeholders promote enhanced disclosure to attract favorable IPO pricing and provide evidence consistent with IPO firms using the IPO roadshow presentation as an alternative disclosure path to meet the market demand for forward-looking information during the IPO process.

6. Conclusion

We ask whether IPO firms respond to investor demand for forward-looking information despite greater litigation risk by adjusting the form and channel of their forward-looking disclosure. We examine firms' roadshow presentation slides and find that more than one-third of IPO firms provide forward-looking information in the form of business model targets, or expected equilibrium expense and profit margin ratios with no defined horizon. Firms frequently do not meet these targets within ten years of their IPO, and the inaccuracy tends to be optimistic. However, there is also evidence of the targets' usefulness. First, targets higher up the income statement – e.g., equilibrium revenue growth and gross profit margin – are less inaccurate and less biased. Second, the market appears to reward firms for providing more targets in the IPO. And, long-run returns correlate with the difference between realized performance and the targets, suggesting investors use the target values as their expectations going forward. Third, analysts seem to use the targets as a starting point for their valuation estimates. Anecdotally, they mention firms' targets, and nearly all analyst reports in our sample include the same metrics that firms forecast. Further, analyst earnings forecasts are less dispersed for firms that provide the targets. While

analysts don't assume firms will reach their target metrics in the two to three years post-IPO and use more pessimistic values in their models, the targets appear to be valuable for analysts.

We contribute in two ways. First, our evidence speaks to the recent academic and practitioner debate about whether regulators should encourage more forward-looking disclosure from IPO firms. Our evidence suggests that concerns about IPO firms being optimistic are reasonable; even in a highly litigious environment where IPO firms find an alternative disclosure path, their targets seem optimistic. However, our evidence also suggests that despite this optimistic inaccuracy, market participants use and value the information. Second, our evidence further broadens the rich management forecasting literature in accounting and finance. Most studies focus on performance forecasts, yet we uncover evidence of firms providing information about their expected future business model. This could be useful information for firms anticipating a change in structure due to internal or external factors. Thus, our study provides foundational knowledge to spur future research in both these relevant areas.

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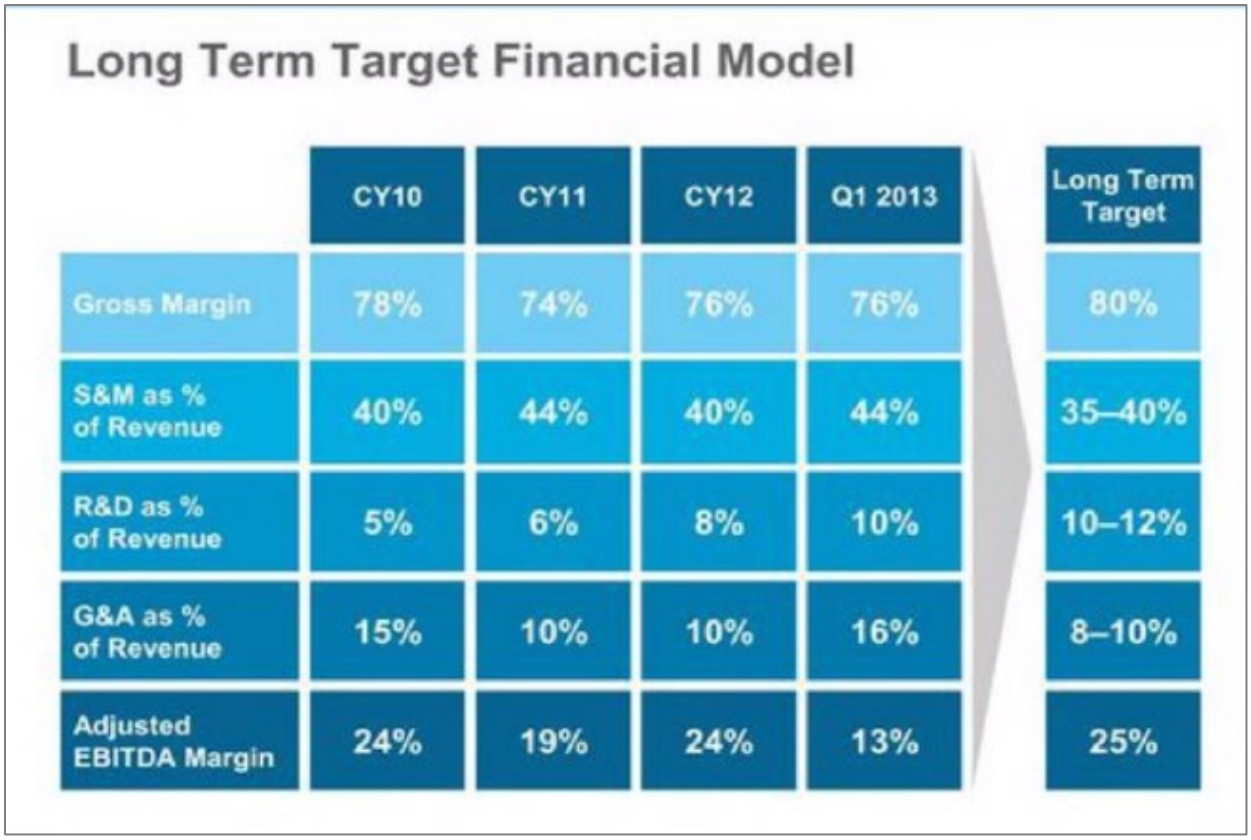
Appendix A: Roadshow Presentation Excerpts: Cvent, Zillow



Long Term Target Financial Model

	CY10	CY11	CY12	Q1 2013	Long Term Target
Gross Margin	78%	74%	76%	76%	80%
S&M as % of Revenue	40%	44%	40%	44%	35–40%
R&D as % of Revenue	5%	6%	8%	10%	10–12%
G&A as % of Revenue	15%	10%	10%	16%	8–10%
Adjusted EBITDA Margin	24%	19%	24%	13%	25%

Attractive Financial Model

Percentages of Revenues	2008	2009	2010	Q1 2011	Target Model
Revenue	100%	100%	100%	100%	100%
Cost of Revenue	40%	23%	16%	16%	14-16%
Sales and Marketing	71%	55%	49%	49%	30-34%
Technology and Development	142%	64%	35%	27%	13-15%
General and Administrative	54%	31%	22%	16%	9-11%
Adjusted EBITDA Margin	(116%)	(28%)	0%	9%	30-35%

Appendix B: Variable Definitions

Abs(Initial_Returns)	Absolute value of the percentage change between a firm's closing price on its first day of trading and the final offer price.
Abs(Price_Update)	Absolute value of the percentage change between a firm's final offer price and the midpoint of the initially proposed offer price range.
Abs(Revision)	Absolute value of the percentage change between a firm's closing price on its first day of trading and the midpoint of the initially proposed offer price range.
$AnalystDisp_{i,t}$	The standard deviation of analysts' earnings forecasts for the firm's t^{th} year after going public scaled by the stock price twenty-five days after going public. Analysts' earnings forecasts are limited to the first forecast issued by each unique analyst after the firm goes public.
Assets	Log of total assets in the year prior to IPO.
$BHAR_{i,t}$	A firm's buy-and-hold stock return from the closing price on its first day of trading through the day of the firm's t^{th} 10-K filing.
Big4	An indicator variable equal to one if the firm's auditor at the time of the IPO is Deloitte, EY, KPMG, or PricewaterhouseCoopers.
BTM	The issuer's book value of equity divided by its market value of equity. The book value of equity is calculated inclusive of the proceeds from the IPO, based on the midpoint of the initially proposed pricing range. The market value of equity is also calculated using the midpoint of the initially proposed pricing range.
Firm Age	Log of the number of years from the firm's founding date to IPO.
Initial Returns	The percentage change between a firm's closing price on its first day of trading and the final offer price.
Nasdaq	An indicator variable equal to one if the firm is listed on Nasdaq, or zero otherwise
PctRetained	The percentage of post-IPO shares held by pre-IPO shareholders.
Post-IPO Guidance	An indicator variable equal to one if the IPO firm provides forward-looking guidance within the first year of going public, or zero otherwise
Price Update	The percentage change between a firm's final offer price and the midpoint of the initially proposed offer price range.
R&D Intensity	Research and development expenditures divided by total assets for the year prior to IPO.
Revenue	Log of total revenue in the year prior to IPO.

Revision	The percentage change between a firm's closing price on its first day of trading and the midpoint of the initially proposed offer price range.
ROA	Net income divided by total assets in the year prior to IPO.
Target Count	Number of business model targets issued during the firm's IPO roadshow presentation.
Target Distance$_{i,t}$	A firm's actual target ratio performance as reported on its t^{th} 10-K filing minus the disclosed long-run target in the firm's IPO roadshow presentation.
Tech	Indicator variable equal to one if the firm is in SIC code 3571, 3572, 3575, 3577, 3578, 3661, 3663, 3669, 3671, 3672, 3674, 3675, 3677, 3678, 3679, 3812, 3823, 3825, 3826, 3827, 3829, 3841, 3845, 4812, 4813, 4899, 7371, 7372, 7373, 7374, 7375, 7378, or 7379, or zero otherwise
Underwriter	The Carter-Manaster ranking of the firm's lead underwriter, as obtained from Jay Ritter's data library.
VC	Indicator variable equal to one if the firm is venture-capital backed, or zero otherwise.

Table 1. Final Sample

Panel A: Financial targets in IPO firm roadshows, by IPO year

Year	Roadshow slide decks	Decks disclosing	% of Decks with financial	Total financial targets	Average financial targets disclosed per	Median financial targets disclosed per
2011	52	26	50.0%	135	5.2	5.0
2012	74	44	59.5%	222	5.0	5.0
2013	113	58	51.3%	254	4.4	5.0
2014	127	53	41.7%	213	4.0	5.0
2015	105	31	29.5%	145	4.7	5.0
2016	48	18	37.5%	90	5.0	5.0
2017	43	20	46.5%	84	4.2	4.0
2018	95	29	30.5%	129	4.4	5.0
2019	122	30	24.6%	154	5.1	5.0
2020	163	45	27.6%	208	4.6	5.0
Total	942	354	37.6%	1,634	4.6	5.0

Notes: Table 1 details information relating to the distribution of our sample firms. See Section 3.1 for additional information about the sample selection process.

Panel B: Financial targets in IPO firm roadshows, by Fama-French 12-industry classification

Industry	Total	Disclosers	Non-Disclosers	% of Decks with financial targets
Consumer Non-Durables	20	14	6	70.0%
Consumer Durables	11	4	7	36.4%
Manufacturing	31	18	13	58.1%
Oil & Gas	33	11	22	33.3%
Chemicals	6	3	3	50.0%
Business Equipment	239	182	57	76.2%
Telecommunications	9	6	3	66.7%
Utilities	8	3	5	37.5%
Wholesale and Retail	75	48	27	64.0%
Healthcare	380	23	357	6.1%
Finance	44	7	37	15.9%
Other	86	35	51	40.7%
Total	942	354	588	37.6%

Notes: Panel B details the industry composition of our sample firms. See Section 3.1 for additional information about our sample selection process.

Table 2. Financial Targets – Descriptive Statistics

				Financial Target ("Target")			Relative to Industry	Target - IPO Value
Rank	Frequency	Metric	Calculation	Q1	Median	Q3	Median	Median
1	198	Gross Profit Ratio	$\frac{\text{Gross Profit}_t}{\text{Revenue}_t}$	57.0%	70.0%	80.0%	81st Percentile	2.1%
2	163	Research & Development Expense Ratio	$\frac{\text{R\&D Expense}_t}{\text{Revenue}_t}$	12.0%	15.0%	18.0%	66th Percentile	-6.9%
3	157	EBITDA Ratio	$\frac{(\text{EBITDA + Stock Comp Expense})_t}{\text{Revenue}_t}$	19.0%	22.5%	30.0%	83rd Percentile	12.2%
4	153	Sales & Marketing Expense Ratio	$\frac{\text{Sales \& Marketing Expense}_t}{\text{Revenue}_t}$	20.0%	28.0%	34.0%	44th Percentile††	-15.4%
5	147	General & Administrative Expense Ratio	$\frac{\text{General \& Administrative Expense}_t}{\text{Revenue}_t}$	7.0%	8.5%	10.0%	44th Percentile††	-10.5%
6	120	Operating Profit Ratio	$\frac{\text{EBIT}_t}{\text{Revenue}_t}$	20.0%	20.0%	23.0%	91st Percentile	43.5%
7	84	Revenue Growth Ratio	$\frac{\text{Revenue}_t}{\text{Revenue}_{t-1}} - 1$	7.0%	12.5%	20.0%	72nd Percentile	-4.9%

Notes: Table 2 provides a listing of the most common financial targets provided in IPO firm roadshow presentations and descriptive statistics about those targets. Table 2 also provides the calculation used when comparing the firms' actual performance to the stated target. †† denotes that the industry comparison is performed for combined S&M and G&A expenses because Compustat aggregates them (xsga). See Section 4.1 for additional information.

Table 3. Financial Targets – Target Accuracy

Panel A: Long-term financial target accuracy (unsigned) : Most recent 10-K value minus IPO financial target value

	Number	Average Error	Median Error	< 2.5%	2.5% < x < 5%	5% < x < 10%	10% < x < 20%	> 20%
Revenue Growth	84	14.1% ***	10.8% ***	16.7%	9.5%	17.9%	33.3%	22.6%
Gross Profit Ratio	198	7.1% ***	4.8% ***	29.3%	23.2%	24.7%	15.2%	7.6%
R&D Expense Ratio	162	11.2% ***	8.7% ***	17.9%	11.1%	30.9%	28.4%	11.7%
S&M Expense Ratio	153	11.2% ***	9.2% ***	11.1%	19.6%	26.8%	26.8%	15.7%
G&A Expense Ratio	147	10.0% ***	8.4% ***	9.5%	16.3%	40.1%	25.2%	8.8%
Operating Profit Ratio	119	45.7% ***	32.0% ***	4.2%	4.2%	3.4%	11.8%	76.5%
EBITDA Ratio	156	14.6% ***	10.1% ***	18.6%	15.4%	15.4%	21.2%	29.5%

Notes: Panel A of Table 3 presents the unsigned accuracy of firms' actual post-IPO performance relative to their stated long-term target from the IPO roadshow presentation. This error is calculated by taking the absolute value of the firms' actual post-IPO performance minus the stated long-term target. For this panel, actual performance is taken from the firm's most recent 10-K filed prior to 12/31/2023. See Section 4.2 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Panel B: Long-term financial target accuracy (unsigned) : Five-year post-IPO 10-K value minus IPO financial target value

	Number	Average Error	Median Error	< 2.5%	2.5% < x < 5%	5% < x < 10%	10% < x < 20%	> 20%
Revenue Growth	46	17.0% ***	9.3% ***	15.2%	21.7%	15.2%	17.4%	30.4%
Gross Profit Ratio	89	7.6% ***	4.6% ***	29.2%	23.6%	25.8%	10.1%	11.2%
R&D Expense Ratio	73	8.3% ***	7.2% ***	19.2%	13.7%	35.6%	26.0%	5.5%
S&M Expense Ratio	67	10.0% ***	7.6% ***	17.9%	20.9%	17.9%	29.9%	13.4%
G&A Expense Ratio	65	7.8% ***	7.2% ***	12.3%	20.0%	46.2%	16.9%	4.6%
Operating Profit Ratio	53	29.1% ***	27.9% ***	13.2%	0.0%	7.5%	13.2%	66.0%
EBITDA Ratio	75	12.8% ***	10.6% ***	21.3%	9.3%	18.7%	25.3%	25.3%

Notes: Panel B of Table 3 presents the unsigned accuracy of firms' actual post-IPO performance relative to their stated long-term target from the IPO roadshow presentation. This error is calculated by taking the absolute value of the firms' actual post-IPO performance minus the stated long-term target. For this panel, actual performance is taken from the firm's first 10-K filed following their five-year IPO anniversary. See Section 4.2 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 3. Financial Targets –Target Accuracy, continued

Panel C: Long-term financial target accuracy (unsigned) : Ten-year post-IPO 10-K value minus IPO financial target value

	Number	Average Error	Median Error	< 2.5%	2.5% < x < 5%	5% < x < 10%	10% < x < 20%	> 20%
Revenue Growth	13	16.2% ***	10.9% ***	7.7%	15.4%	15.4%	30.8%	30.8%
Gross Profit Ratio	19	12.0% ***	6.9% ***	10.5%	21.1%	36.8%	10.5%	21.1%
R&D Expense Ratio	17	11.4% ***	9.5% ***	29.4%	5.9%	17.6%	35.3%	11.8%
S&M Expense Ratio	14	5.4% ***	3.2% ***	35.7%	28.6%	21.4%	7.1%	7.1%
G&A Expense Ratio	14	8.2% **	3.9% ***	35.7%	14.3%	28.6%	14.3%	7.1%
Operating Profit Ratio	17	21.0% ***	13.6% ***	11.8%	17.6%	11.8%	17.6%	41.2%
EBITDA Ratio	16	10.2% ***	4.7% ***	25.0%	25.0%	6.3%	25.0%	18.8%

Notes: Panel C of Table 3 presents the unsigned accuracy of firms' actual post-IPO performance relative to their stated long-term target from the IPO roadshow presentation. This error is calculated by taking the absolute value of the firms' actual post-IPO performance minus the stated long-term target. For this panel, actual performance is taken from the firm's first 10-K filed following their ten-year IPO anniversary. See Section 4.2 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 4. Financial Targets – Target Bias

Panel A: Long-term financial target accuracy (signed) : Most recent 10-K value minus IPO financial target value

				Profit	Percentage below forecast			Percentage above forecast		
	Number	Average Error	Median Error	Contributing	<-7.5%	-7.5%<x<-2.5%	-2.5%<x<0%	0%>x>2.5%	2.5%>x>7.5%	> 7.5%
Revenue Growth	84	-7.0% ***	-6.7% ***	**27.4%**	*47.6%*	*11.9%*	*13.1%*	**3.6%**	**7.1%**	**16.7%**
Gross Profit Ratio	198	-1.7% **	-1.0% *	**47.5%**	*21.7%*	*16.7%*	*14.1%*	**15.2%**	**21.7%**	**10.6%**
R&D Expense Ratio	162	10.6% ***	8.7% ***	**8.0%**	**0.0%**	**4.3%**	**3.7%**	*14.2%*	*22.8%*	*54.9%*
S&M Expense Ratio	153	9.8% ***	8.5% ***	**15.0%**	**3.3%**	**7.8%**	**3.9%**	*7.2%*	*23.5%*	*54.2%*
G&A Expense Ratio	147	9.9% ***	8.4% ***	**2.0%**	**0.0%**	**2.0%**	**0.0%**	*9.5%*	*31.3%*	*57.1%*
Operating Profit Ratio	119	-45.7% ***	-32.0% ***	**2.5%**	*89.9%*	*5.9%*	*1.7%*	**2.5%**	**0.0%**	**0.0%**
EBITDA Ratio	156	-13.2% ***	-9.1% ***	**15.4%**	*52.6%*	*19.2%*	*12.8%*	**5.8%**	**7.1%**	**2.6%**

Notes: Panel A of Table 4 presents the signed accuracy of firms' actual post-IPO performance relative to their stated long-term target from the IPO roadshow presentation. For this panel, actual performance is taken from the firm's most recent 10-K filed prior to 12/31/2023. This signed error is calculated by taking the firms' actual post-IPO performance minus the stated long-term target. Bold font is used to ease interpretation of our findings and reflect that some of the financial targets correspond with expense ratios while others reference revenue growth or profitability ratios. Whereas positive differences indicate increased profitability for the revenue growth and profitability ratios, holding everything else constant, the opposite is true for the expense ratios. The bold font thus reflects where actual performance in relation to the financial target increases firm profitability ("Profit contributing"), holding all else constant. See Section 4.3 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Panel B: Long-term financial target accuracy (signed) : Five-year post-IPO 10-K value minus IPO financial target value

				Profit	Percentage below forecast			Percentage above forecast		
	Number	Average Error	Median Error	Contributing	<-7.5%	-7.5%<x<-2.5%	-2.5%<x<0%	0%>x>2.5%	2.5%>x>7.5%	> 7.5%
Revenue Growth	46	-1.2%	-4.2% *	**34.8%**	*39.1%*	*19.6%*	*6.5%*	**8.7%**	**6.5%**	**19.6%**
Gross Profit Ratio	89	1.6%	1.4%	**58.4%**	*12.4%*	*18.0%*	*11.2%*	**18.0%**	**21.3%**	**19.1%**
R&D Expense Ratio	73	7.2% ***	7.2% ***	**16.4%**	**2.7%**	**4.1%**	**9.6%**	*9.6%*	*28.8%*	*45.2%*
S&M Expense Ratio	67	8.9% ***	7.6% ***	**19.4%**	**0.0%**	**10.4%**	**9.0%**	*10.4%*	*19.4%*	*50.8%*
G&A Expense Ratio	64	7.6% ***	7.2% ***	**7.7%**	**0.0%**	**3.1%**	**4.6%**	*7.7%*	*36.9%*	*47.7%*
Operating Profit Ratio	53	-28.9% ***	-27.9% ***	**7.5%**	*83.0%*	*3.8%*	*5.7%*	**7.5%**	**0.0%**	**0.0%**
EBITDA Ratio	75	-9.3% ***	-8.1% ***	**24.0%**	*52.0%*	*12.0%*	*12.0%*	**9.3%**	**6.7%**	**8.0%**

Notes: Panel B of Table 4 shows the signed accuracy of firms' actual post-IPO performance relative to their stated long-term target from the IPO roadshow presentation. This signed error is calculated by taking the firms' actual post-IPO performance minus the stated long-term target. For this panel, actual performance is taken from the firm's first 10-K filed following their five-year IPO anniversary. Bold font is used to ease interpretation of our findings and reflect that some of the financial targets correspond with expense ratios while others reference revenue growth or profitability ratios. Whereas positive differences indicate increased profitability for the revenue growth and profitability ratios, holding everything else constant, the opposite is true for the expense ratios. The bold font thus reflects where actual performance in relation to the financial target increases firm profitability ("Profit contributing"), holding all else constant. See Section 4.3 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 4. Financial Targets –Target Bias, continued

Panel C: Long-term financial target accuracy (signed) : Ten-year post-IPO 10-K value minus IPO financial target value

				Profit	Percentage below forecast			Percentage above forecast		
	Number	Average Error	Median Error	Contributing	<-7.5%	-7.5%<x<-2.5%	-2.5%<x<0%	0%>x>2.5%	2.5%>x>7.5%	> 7.5%
Revenue Growth	13	-13.1% **	-10.7% **	**30.8%**	*61.5%*	*7.7%*	*0.0%*	**7.7%**	**15.4%**	**7.7%**
Gross Profit Ratio	19	-1.2%	4.0%	**63.2%**	*26.3%*	*5.3%*	*5.3%*	**5.3%**	**42.1%**	**15.8%**
R&D Expense Ratio	17	10.2% ***	9.5% ***	**11.8%**	**5.9%**	**0.0%**	**5.9%**	*23.5%*	*5.9%*	*58.8%*
S&M Expense Ratio	14	3.5% *	2.6% *	**21.4%**	**7.1%**	**7.1%**	**7.1%**	*28.6%*	*21.4%*	*28.6%*
G&A Expense Ratio	14	8.2% **	3.9% ***	**0.0%**	**0.0%**	**0.0%**	**0.0%**	*35.7%*	*28.6%*	*35.7%*
Operating Profit Ratio	17	-20.7% ***	-13.6% ***	**5.9%**	*58.8%*	*23.5%*	*11.8%*	**0.0%**	**5.9%**	**0.0%**
EBITDA Ratio	16	-7.6% **	-3.3% **	**25.0%**	37.5%	18.8%	18.8%	**6.3%**	**12.5%**	**6.3%**

Notes: Panel C of Table 4 shows the signed accuracy of firms' actual post-IPO performance relative to their stated long-term target from the IPO roadshow presentation. This signed error is calculated by taking the firms' actual post-IPO performance minus the stated long-term target. For this panel, actual performance is taken from the firm's first 10-K filed following their ten-year IPO anniversary. Bold font is used to ease interpretation of our findings and reflect that some of the financial targets correspond with expense ratios while others reference revenue growth or profitability ratios. Whereas positive differences indicate increased profitability for the revenue growth and profitability ratios, holding everything else constant, the opposite is true for the expense ratios. The bold font thus reflects where actual performance in relation to the financial target increases firm profitability ("Profit contributing"), holding all else constant. See Section 4.3 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Panel D: target accuracy (signed) : 10-K value minus IPO financial target value - All years and using the low end of the target range

	Firms providing Targets	**Firms that meet Target at least once**	**% of Firms that meet Target at least once**	**Post-IPO firm-years**	**Post-IPO firm-years where actual exceeds Target**	**% of post-IPO firm-years where actual exceeds Target**
Revenue Growth	84	80	95.2%	461	279	60.5%
Gross Profit Ratio	198	135	68.2%	969	623	64.3%
R&D Expense Ratio	163	48	29.4%	805	154	19.1%
S&M Expense Ratio	153	49	32.0%	742	146	19.7%
G&A Expense Ratio	147	12	8.2%	723	32	4.4%
Operating Profit Ratio	120	15	12.5%	595	51	8.6%
EBITDA Ratio	157	49	31.2%	801	165	20.6%

Notes: Panel D of Table 4 shows the extent to which firms meet or beat the stated target after going public. Columns 1-3 (4-6) report this information at the firm level (firm-year level). The target used in this analysis will differ from that used in Panels A-C for some firms. In particular, for firms providing a range forecast, we use the low-end of the target range for revenue growth and the profitability ratios and the high-end of the range for the expense ratios. By doing so, the target is set to reflect the least demanding threshold for this analysis. See Section 4.3 for additional information.

Table 5. Financial targets and IPO price formation

Panel A: Business model targets and IPO price formation

	(1)	(2)	(3)
Variables	*Abs(Revision)*	*Abs(Price_Update)*	*Abs(Initial_Returns)*
Target Count	0.035**	0.005*	0.020**
	(0.046)	(0.094)	(0.030)
Assets	-0.007	-0.003	-0.004
	(0.655)	(0.407)	(0.678)
Revenue	0.013	0.003	0.009
	(0.388)	(0.444)	(0.307)
ROA	0.009	-0.004	0.009
	(0.635)	(0.632)	(0.458)
Tech	-0.037	0.003	-0.009
	(0.438)	(0.782)	(0.793)
R&D Intensity	0.026	-0.003	0.019
	(0.412)	(0.751)	(0.391)
BTM	-0.048*	-0.012*	-0.010*
	(0.082)	(0.060)	(0.072)
PctRetained	-0.019	-0.046***	0.057
	(0.755)	(0.007)	(0.161)
Nasdaq	0.010	0.005	0.001
	(0.799)	(0.595)	(0.967)
Firm Age	-0.020	0.007	-0.024**
	(0.215)	(0.273)	(0.044)
VC	0.148***	0.030**	0.087***
	(0.000)	(0.023)	(0.001)
Big4	0.011	0.006	-0.005
	(0.776)	(0.674)	(0.853)
Underwriter	0.012	-0.002	0.012
	(0.313)	(0.555)	(0.127)
Abs(Price_Update)			0.336***
			(0.003)
Fixed Effects	Year, FF12	Year, FF12	Year, FF12
Observations	939	939	939
Adjusted R-squared	0.142	0.045	0.167

Notes: Panel A of Table 5 presents the results from an OLS regression of unsigned price changes associated with the IPO process on various firm and offering characteristics. *Abs(Revision)* is the absolute value of the percentage change between the price per share initially proposed for the offering and the closing price per share after its first day of trading on the secondary market. *Abs(Price_Update)* is the absolute value of the percentage change between the price per share initially proposed for the offering and the final offer price. *Abs(Initial_Returns)* is the absolute value of the percentage change between the final offer price and the IPO firm's closing price per share after its first day of trading on the secondary market. *Target Count* is the number of business model targets provided in an IPO firm's roadshow presentation. See Appendix B for all other variable definitions. Standard errors are clustered by year-quarter. p-values are provided in parentheses below the coefficients. *** designates two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 5. Financial targets and IPO price formation, continued

Panel B: Business model targets and signed IPO price formation

	(1)	(2)	(3)
Variables	*Revision*	*Price Update*	*Initial Returns*
Target Count	0.046**	0.012*	0.015*
	(0.018)	(0.052)	(0.080)
Assets	-0.005	0.000	-0.005
	(0.751)	(0.983)	(0.580)
Revenue	0.018	0.007*	0.002
	(0.261)	(0.078)	(0.823)
ROA	0.025	-0.004	0.029
	(0.264)	(0.678)	(0.119)
Tech	-0.034	-0.023	0.021
	(0.617)	(0.253)	(0.545)
R&D Intensity	0.040	-0.009	0.048**
	(0.331)	(0.460)	(0.039)
BTM	-0.030	-0.001	-0.006
	(0.323)	(0.887)	(0.413)
PctRetained	0.070	0.028	0.028
	(0.311)	(0.200)	(0.503)
Nasdaq	-0.004	-0.015	0.015
	(0.943)	(0.317)	(0.546)
Firm Age	-0.045**	-0.021***	0.000
	(0.026)	(0.006)	(0.981)
VC	0.148***	0.038**	0.065**
	(0.006)	(0.027)	(0.012)
Big4	0.009	0.009	-0.016
	(0.853)	(0.644)	(0.505)
Underwriter	0.040***	0.019***	0.005
	(0.005)	(0.000)	(0.600)
Price_Update			0.831***
			(0.000)
Fixed Effects	Year, FF12	Year, FF12	Year, FF12
Observations	939	939	939
Adjusted R-squared	0.175	0.184	0.316

Notes: Panel B of Table 5 presents the results from an OLS regression of signed price changes associated with the IPO process on various firm and offering characteristics. *Revision* is the signed percentage change between the price per share initially proposed for the offering and the closing price per share after its first day of trading on the secondary market. *Price_Update* is the signed percentage change between the price per share initially proposed for the offering and the final offer price. *Initial_Returns* is the signed percentage change between the final offer price and the IPO firm's closing price per share after its first day of trading on the secondary market. *Target Count* is the number of business model targets provided in an IPO firm's roadshow presentation. See Appendix B for all other variable definitions. Standard errors are clustered by year-quarter. p-values are provided in parentheses below the coefficients. *** designates two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 6. Distance to targeted performance and post-IPO stock returns

Financial Target	Estimation	Dependent variable	*Target Distance* $_{t=1}$		*Target Distance* $_{t=2}$		*Target Distance* $_{t=3}$		Remaining Controls	Fixed Effects	Observations	Adjusted R-Squared
Revenue Growth Ratio	(1)	$BHAR_{t=1}$	0.075	(0.732)					Included	Year, FF12	83	0.342
	(2)	$BHAR_{t=2}$			1.636***	(0.006)			Included	Year, FF12	80	0.270
	(3)	$BHAR_{t=3}$					1.469***	(0.006)	Included	Year, FF12	74	0.037
Gross Profit Ratio	(4)	$BHAR_{t=1}$	0.294	(0.151)					Included	Year, FF12	198	0.059
	(5)	$BHAR_{t=2}$			1.423**	(0.021)			Included	Year, FF12	187	0.231
	(6)	$BHAR_{t=3}$					3.106*	(0.055)	Included	Year, FF12	173	0.157
R&D Expense Ratio	(7)	$BHAR_{t=1}$	-0.581	(0.143)					Included	Year, FF12	160	0.136
	(8)	$BHAR_{t=2}$			-1.653*	(0.078)			Included	Year, FF12	153	0.251
	(9)	$BHAR_{t=3}$					-1.496*	(0.079)	Included	Year, FF12	138	0.165
S&M Expense Ratio	(10)	$BHAR_{t=1}$	-0.035	(0.935)					Included	Year, FF12	149	0.093
	(11)	$BHAR_{t=2}$			-1.305*	(0.059)			Included	Year, FF12	140	0.282
	(12)	$BHAR_{t=3}$					-1.503**	(0.041)	Included	Year, FF12	128	0.255
G&A Expense Ratio	(13)	$BHAR_{t=1}$	0.301	(0.508)					Included	Year, FF12	142	0.128
	(14)	$BHAR_{t=2}$			-0.102	(0.937)			Included	Year, FF12	135	0.259
	(15)	$BHAR_{t=3}$					-2.548*	(0.083)	Included	Year, FF12	124	0.237
Operating Profit Ratio	(16)	$BHAR_{t=1}$	0.019	(0.716)					Included	Year, FF12	117	-0.052
	(17)	$BHAR_{t=2}$			0.205	(0.172)			Included	Year, FF12	110	0.246
	(18)	$BHAR_{t=3}$					0.505	(0.215)	Included	Year, FF12	102	0.107
EBITDA Ratio	(19)	$BHAR_{t=1}$	0.002	(0.995)					Included	Year, FF12	157	0.112
	(20)	$BHAR_{t=2}$			2.336***	(0.002)			Included	Year, FF12	153	0.174
	(21)	$BHAR_{t=3}$					1.426***	(0.001)	Included	Year, FF12	139	0.149

Notes: Table 6 presents the results from an OLS regression of post-IPO abnormal returns on various firm and offering characteristics. *BHAR* is the firm's buy-and-hold abnormal stock returns measured from the closing price on its first day of trading through the day of its t^{th} 10-K filing, where t = 1, 2, or 3. *Target Distance* is defined as the firm's actual performance for the indicated financial target as reported on its t^{th} 10-K filing minus the long-run financial target disclosed in the firm's IPO roadshow presentation. Standard errors are clustered by year-quarter. p-values are provided in parentheses to the right of the coefficients. *** designates two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 7. Financial targets and analyst forecast properties – Affiliated vs. unaffiliated analysts

	Coverage			Horizon			Proximity		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Affiliated	Unaffiliated	Diff	Affiliated	Unaffiliated	Diff	Affiliated - Target	Unaffiliated - Target	Diff
Revenue Growth Ratio	100.0%	92.9%	7.1% **	3.45	2.99	0.46 ***	0.2%	0.7%	-0.5%
Gross Profit Ratio	97.0%	93.9%	3.1%	3.56	2.99	0.57 ***	-2.7%	-3.9%	1.2% **
R&D Expense Ratio	95.7%	93.3%	2.4%	3.47	2.93	0.54 ***	**4.2%**	**4.1%**	0.1%
S&M Expense Ratio	96.7%	94.1%	2.6%	3.52	2.91	0.61 ***	**8.4%**	**8.4%**	0.0%
G&A Expense Ratio	95.9%	93.9%	2.0%	3.48	2.95	0.53 ***	**4.0%**	**4.3%**	-0.3%
Operating Profit Ratio	97.5%	92.5%	5.0% *	3.29	2.95	0.34 ***	-18.7%	-20.9%	2.2% *
EBITDA Ratio	98.1%	87.3%	10.8% ***	3.71	3.08	0.63 ***	-8.0%	-10.1%	2.1% ***

Notes: Table 7 presents information relating to the initial analyst forecasts after firms go public. We randomly select one affiliated and unaffiliated analyst for each IPO firm and examine analyst forecast properties of the metrics that IPO firms provided financial targets for during their roadshow presentation. Columns 1-3 present results relating to coverage, examining the proportion of analyst reports in which the metric is forecast at least one period into the future. Columns 4-6 present results relating to proximity, measured as the analyst's final year forecast minus the IPO firm's stated financial target. Columns 7-9 present results relating to horizon, examining the number of years that the analyst forecasts into the future. Bold font is used to ease interpretation of our proximity findings in Columns 4-5 and reflect that these numbers correspond to financial targets that are expense ratios rather than revenue growth or profitability ratios. Whereas negative differences indicate the firm's stated target would lower firm profits for the revenue growth and profitability ratios, holding everything else constant, the opposite is true for the expense ratios. The bold font used for the expense ratios thus reflects where positive values suggest lower estimated future firm profitability relative to the firm's stated targets, holding all else constant. See Section 5.3 for additional information. *** denotes two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 8. Financial targets and Analyst Dispersion

	(1)	(2)	(3)
Variables	*Analyst Disp* $_{t=1}$	*Analyst Disp* $_{t=2}$	*Analyst Disp* $_{t=3}$
Target Count	-0.002*	-0.002***	-0.003***
	(0.062)	(0.002)	(0.004)
Assets	0.001	0.000	0.000
	(0.547)	(0.739)	(0.768)
Revenue	-0.006***	-0.002**	-0.002***
	(0.003)	(0.032)	(0.009)
ROA	-0.009	0.000	0.000
	(0.197)	(0.978)	(0.915)
Tech	0.000	-0.006***	-0.009***
	(0.980)	(0.006)	(0.001)
R&D Intensity	-0.012	0.000	0.001
	(0.126)	(0.992)	(0.771)
BTM	-0.003	-0.003	-0.002
	(0.353)	(0.292)	(0.423)
PctRetained	-0.008	-0.011***	-0.012**
	(0.179)	(0.004)	(0.013)
Nasdaq	-0.001	0.002	0.001
	(0.885)	(0.217)	(0.730)
Firm Age	0.000	-0.000	-0.002
	(0.928)	(0.792)	(0.157)
VC	0.011**	0.000	-0.003
	(0.048)	(0.946)	(0.506)
Big4	-0.005	-0.001	0.002
	(0.496)	(0.818)	(0.578)
Underwriter	-0.002	-0.002*	-0.003**
	(0.270)	(0.068)	(0.029)
Fixed Effects	Year, FF12	Year, FF12	Year, FF12
Observations	900	867	776
Adjusted R-squared	0.143	0.186	0.209

Notes: Table 8 presents the results from an OLS regression of analyst EPS dispersion on various firm and offering characteristics. *AnalystDisp*$_{t=1}$, *AnalystDisp*$_{t=2}$, and *AnalystDisp*$_{t=3}$ is the defined as the variance of analysts' fiscal earnings forecasts for the firm's 1st, 2nd, and 3rd fiscal years after going public scaled by the stock price. *Target Count* is the number of business model targets provided in an IPO firm's roadshow presentation. See Appendix B for all other variable definitions. Standard errors are clustered by year-quarter. p-values are provided in parentheses below the coefficients. *** designates two-tailed statistical significance at 1%, ** at 5%, and * at 10%.

Table 9. Financial target provision

Panel A: Business model targets and post-IPO management guidance

	Post-IPO Guidance = No	Post-IPO Guidance = Yes	Total
Pre-IPO Targets = No	414	174	588
Pre-IPO Targets = Yes	62	292	354
Total	476	466	942

Notes: Panel A of Table 9 presents a cross-tabulation of firms' business model targets before their initial public offering (rows) and their provision of management guidance during the first year following IPO (columns). See Section 5.5 for additional information.

Table 9. Financial target provision, continued

Panel B: Business model targets and post-IPO management guidance

	(1)	(2)
Variables	*Target Count*	
Post-IPO Guidance	0.512***	0.342**
	(0.002)	(0.011)
Assets		-0.225***
		(0.001)
Revenue		0.263***
		(0.007)
ROA		-0.041
		(0.806)
Tech		0.123
		(0.344)
R&D Intensity		-1.022***
		(0.006)
BTM		-0.518***
		(0.010)
PctRetained		0.372**
		(0.028)
Nasdaq		-0.075
		(0.392)
Firm Age		0.009
		(0.928)
VC		1.038***
		(0.000)
Big4		-0.024
		(0.843)
Underwriter		0.117***
		(0.007)
Fixed Effects	Year, FF12	Year, FF12
Observations	942	942
Pseudo R-squared	0.429	0.524

Notes: Panel B of Table 9 presents the results from negative binomial regressions of IPO roadshow target counts on various firm and offering characteristics. *Target Count* is the number of business model targets provided in an IPO firm's roadshow presentation. *Post-IPO Guidance* is a binary variable that takes the value of one if the IPO firm provides forward-looking guidance within the first year of going public, zero otherwise. See Appendix B for all other variable definitions. Standard errors are clustered by year-quarter. p-values are provided in parentheses below the coefficients. *** designates two-tailed statistical significance at 1%, ** at 5%, and * at 10%.