

Summary of Paper: [Torpedo Your Competition: Strategic Reporting and Peer Firm IPO](#)

What is this Study About?

This study examines how incumbent firms in an industry strategically adjust their financial reporting to counter the competitive threat posed by a peer firm's Initial Public Offering (IPO). The researchers analyzed how these actions influence the IPO firm's success and the long-term market dynamics.

What are the major findings of the study?

- Incumbent firms manage earnings downward and issue pessimistic disclosures during a rival's IPO process.
- These strategies lead to lower valuation multiples for the IPO firm, resulting in reduced offer prices, less capital raised, and increased likelihood of withdrawal.
- Incumbents that engage in such practices experience improved profitability and market share growth post-IPO, while IPO firms face reduced investment, cash hoarding, and lower profitability.

Why is the study important to accounting professionals?

The findings underscore the strategic use of financial reporting as a tool for influencing market competition. For regulators, accountants, and auditors, this highlights the importance of monitoring and addressing earnings management practices to ensure market fairness and transparency.

What is the impact on professional practice and society at large?

The research identifies a cost of going public, as strategic disclosures by incumbents can deter competition, distort capital markets, and concentrate market power among established firms. Addressing these practices could improve market efficiency and foster a more competitive environment, benefiting stakeholders. The study also identifies a significant limitation of the current IPO valuation model, which is based on peers' valuation multiples. The findings suggest that investors should pay close attention to incumbent firms' strategic financial reporting behavior and adjust their IPO valuation models accordingly.