Available online at www.sciencedirect.com
SCIENCE DIRECT®
Journal of Financial Intermediation 15 (2006) 254–280
Journal of Financial Intermediation
www.elsevier.com/locate/jfi

Explaining the diversity in shareholder lockup agreements [☆]

Marc Goergen [a,*], Luc Renneboog [b], Arif Khurshed [c]

[a] *The University of Sheffield Management School and European Corporate Governance Institute (ECGI), 9 Mappin Street, Sheffield S1 4DT, UK*
[b] *Department of Finance and CentER, Tilburg University, and European Corporate Governance Institute (ECGI), PO Box 90153, 5000 LE Tilburg, The Netherlands*
[c] *Manchester Business School, University of Manchester, Oxford Road, Manchester, M13 9PL, UK*

Received 24 September 2004
Available online 1 December 2005

Abstract

This paper investigates whether shareholder lockup agreements in France and Germany mitigate problems of agency and asymmetric information. Despite minimum requirements in terms of the length and percentage of shares locked up, lockup agreements are not only highly diverse across firms but also across the different shareholders of a single firm as most firms have different agreements in place for executives, non-executives and venture capitalists. The diversity across firms and types of shareholders can be explained by firm characteristics—such as the level of uncertainty—as well as the type and importance of each shareholder within the firm.

JEL classification: G24; G34

Keywords: Initial public offerings; Lockup agreements; Underpricing; Asymmetric information; Agency costs; Valuation

☆ We acknowledge financial support from the Nuffield Foundation (grant SGS/00624/G), the European Commission Key Action "Improving the socio-economic knowledge base" through contract No. HPSE-CT-2002-00146, and the EC's NEWGOV project (coordinated by the RSCAS at the European University Institute).

* Corresponding author.
E-mail addresses: m.goergen@shef.ac.uk (M. Goergen), luc.renneboog@uvt.nl (L. Renneboog), arif.khurshed@mbs.ac.uk (A. Khurshed).

1042-9573/$ – see front matter
doi:10.1016/j.jfi.2005.10.001

1. Introduction

Lockup contracts[1] are agreements that prevent the initial shareholders of IPO firms from selling a specific percentage of their shares over a certain period following the admission of their firm to the stock exchange. Thus, at the IPO, pre-IPO shareholders can not only signal their commitment via the percentage of ownership retention after the IPO ('*putting* their money where their mouth is') but also by locking up their share stakes for a specific period ('*keeping* their money where their mouth is') (Brau et al., 2005). One of the interesting features of lockup contracts is that they are frequently voluntary arrangements. For example, although the UK and US[2] stock markets do not impose any generally applicable minimum lockups, most firms that go public have lockups in place. Even for the markets that require minimum lockups, such as the Euro New Markets (EuroNM) of Continental Europe, the original shareholders often agree to a larger proportion of their shares being locked up and to lockup periods that exceed the minimum requirement.

Another interesting feature is the diversity of lockup contracts across countries and across firms in terms of their contractual characteristics. The US is at one extreme of the spectrum with very short lockup periods. Over the last decade, there has been an increasing trend in the US towards standardization in terms of the lockup duration which tends to be 180 days for most firms (see Bradley et al., 2000). Whereas the (voluntary) US lockup contracts are mostly standardized, the lockup contracts on the Continental European markets are frequently mandatory and the lockup periods are also more varied and longer. At the other end of the spectrum are the lockup contracts of UK firms with an average duration of about 600 days and with an even greater diversity of expiry dates (Espenlaub et al., 2001).

The third interesting feature of lockup agreements is that the US studies have found evidence of a negative share price reaction on the day of their expiry (e.g., Bradley et al., 2000; Field and Hanka, 2001; and Brav and Gompers, 2003). This evidence contradicts the efficient market hypothesis (EMH) as the IPO prospectus contains all the details of the lockup agreement (including the expiry date) and there should therefore be no significant price change at the expiry. Contrary to the studies on US data, Espenlaub et al. (2001) do not find significant abnormal returns around the expiry for a sample of UK IPOs. Since there appear to be price differences across countries, it would be interesting to examine price reactions to lockup expiries in other countries, such as Germany and France.

This leads us to the following three research questions. *Do firm and shareholder characteristics influence the choice of the lockup contract, and if so, in what way?* This paper is the first one that can discern the lockup length and the percentage of shares locked up by shareholder type for a sample of IPOs on the German *Neuer Markt* and the French *Nouveau Marché*. In the US, such detailed data are typically not available as the prospectuses usually only state the number of shares which will be available for trade after a certain date.[3] By examining the lockup length and the percentage of shares locked up for different types of shareholders, this paper makes an

[1] A lockup agreement is called *engagement de conservation* in French and *Veräußerungsverbot* or *Marktschutzvereinbarung* in German.

[2] Certain shareholders of US issuing firms may still be subject to restrictions concerning the sale of their shares (see Table 1). However, Field and Hanka (2001) find that 91% of the shares owned by the initial shareholders are locked up after the IPO via lockup contracts and another 4% are prohibited from selling by SEC Rule 144.

[3] The only other studies on French and German lockup contracts are Ducros (2001) and Nowak and Gropp (2000), both unpublished, which use data aggregated at the firm level. Neither study clearly states how firms with more than