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Factors affecting business valuations for IPO purposes: A case study of Airbnb

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1 Abstract

The subject company, Airbnb, managed to file its Initial Public Offering amid a global epidemic, which raises several inquiries. The purpose of the current research is to conduct a detailed analysis of Airbnb to discover the key moving factors in its business valuation for IPO purposes. For comparative reasons, the multiple-case study methodology was implemented, which demonstrates the path of four additional companies` IPO decisions under unpredicted circumstances, such as Covid-19 or the Great Recession in 2008. The first step was to explore the different types of business valuation methodologies employed for IPOs, which revealed the only discrepancy from the academic literature. Secondly, factors affecting valuations itself were investigated by looking through each company`s relevant filings with the SEC authorities. Furthermore, to conclude whether the IPO process of Airbnb was successful, the overall capital market appreciation was examined for each company to reveal the possible causing factors. Finally, the choice to go public was reviewed for potential benefits and drawbacks of Airbnb, with particular emphasis devoted to the underlying unprecedented circumstances.

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2 Introduction

The author aimed to choose a topic for her dissertation that is relatively modern and overlaps her personal interests, so that she could examine its relevance and impacts from a variety of perspectives in order to conclude and answer the core research objectives.

The subject company, that the author has chosen to guide her along this project, has managed to become one of the most valued and appreciated accommodation provider company in the world. Its presence has shaped the traditional lodging service sector in the past decade and has been developing steadily ever since.

2.1 Background information

Airbnb, Inc. (hereinafter also referred to as the Company or Airbnb) is a global community-based lodging platform that provides hospitality and renting services. The marketplace approach of the company links hosts and guests online through a variety of accommodation types and forms, such as private rooms, full homes, villas, treehouses, igloos, and experiences that are all listed on their website for tourists to rent. Airbnb has no rental properties of its own, it simply acts as an intermediary between those who intend to sublet spaces and those who wish to rent spaces (Rawes & Lacoma, 2021).

Despite everyone`s doubts, Airbnb has filed its Initial Public Offering (hereinafter mentioned as IPO) in December 2020. This action brings up several inquiries that in the author`s opinion was worth investigating with the main focus on factors affecting business valuations for IPO purposes concentrating on one specific corporation at its core. The author was intended to demonstrate her findings via a case study of Airbnb.

In the past few years, the pandemic has severely disrupted the economic environment, mainly the tourism industry. However, the subject company had still managed to file for its long-awaited IPO in December 2020, leaving behind with its debut market capitalization some of the major hotel chain companies, such as Hilton Worldwide or Marriott International combined (Ponciano, 2020).

Covid-19 has transformed and influenced all facet of everyday life. By March 2020, it had evolved to be a global epidemic that had caused social, but most significantly, economic disruption around the planet. Businesses had to face with serious consequences due to state of emergencies and new legislations in force concerning social distances and obligatory lockdowns forcing people to close physical stores and work remotely from their home. Enterprises had to change their strategies, their core business focus, and principals to fight against the epidemiological phenomenon in order to be able to continue going concern. Some industries` operation though, were completely put on hold as the nature of their businesses are directly associated with people, such as among other business from the tourism and hospitality sector.

2.2 Aims and Objectives

The aims and objectives of the current dissertation is to conduct a detailed analysis of Airbnb to discover the key moving factors in its business valuation for IPO purposes.

The author gave attention to the current situation and circumstances derived from the Covid-19 pandemic and its possible effect on the corporation`s decisions. The author has chosen a company to be the demonstration of this project, that is very much under the scope of those corporations that people would not just doubt to survive such unpredictable circumstances as Covid-19 but would definitely question to have the proper resources to file for an IPO.

The purpose is to identify and reveal those factors, terms and conditions in the subject company`s life that could make such actions possible and feasible and therefore serve as an example to other businesses in similar situations, even during pandemics and economic downturns.

A detailed analysis was essential in terms of financial position and business valuation of the subject corporation to be able to understand the main moving factors of its decision and path for a traditional IPO. From its financials and IPO preparation analysis the author aimed to investigate the type of valuation method implemented. Answers were trying to address whether the company`s IPO process resulted in success or in failure after trading in the stock exchange compared to other similar IPOs in the sector or business world. Furthermore, other subsidiary questions were also looked into, such as the benefits and drawbacks of filing an IPO, as well as the timing of entering the stock market in the midst of a pandemic.

In order to introduce a comprehensive picture for the final outcome though, the author has investigated other particularly meaningful elements in addition to the financial information and valuation techniques put in place such as among other things: the business model and strategic issues of the company, management and marketing issues and last, the current competitive advantage on the market of the chosen corporation.

2.3 Brief Description

In the following, throughout the literature review section the author has discussed some essential concepts, theories, and findings based on accurate academic literature related to the discipline of economics and finance, business valuation and initial public offerings. After the Literature Review, Chapter 3 describes the methodology that assisted the author to conduct the Research Analysis which is presented in Chapter 4 introducing and analysing findings in a sophisticated manner. In Chapter 5 the final conclusions will be presented summarized and compared with those illustrated in Chapter 2. Finally in Chapter 6 recommendations regarding the final outcomes and the presented research questions can be found.

3 Literature Review

3.1 Economic outlook and the Stock Market

The author found it important to point out some basic terminology terms concerning the economy and stock market phenomenon. As regards of the global economic outlook throughout the past couple of years, it can be stated that it undoubtedly had its ups and downs. One major contributor was the disruption of global and local supply networks, as well as the direct damage to enterprises across many industries, that was caused by the Covid-19 outbreak and the public health response.

The National Bureau of Economic Research (NBER) defines a recession as "a severe drop in economic activity that affects the whole market and lasts more than a few months, as measured by real GDP, real income, employment, industrial output, and wholesale-retail sales.” A downturn is also characterized as a period in which companies cease to expand, GDP declines for two quarters in a row, unemployment increases, and housing prices decrease (Bauer, 2019).

In June 2020 the National Bureau of Economic Research reported that the U.S. expansion in terms of monthly economic activity from 2009 which ended in February 2020, and that the global economy outlook was officially in the midst of a worldwide recession (National Bureau of Economic Research, 2020). According to the International Monetary Fund`s (IMF) data, in 2020 global Gross Domestic Product growth has plummeted of -3.1%, while U.S. GDP experienced a decline by -3.4% that can all be derived from the impacts of Covid-19.

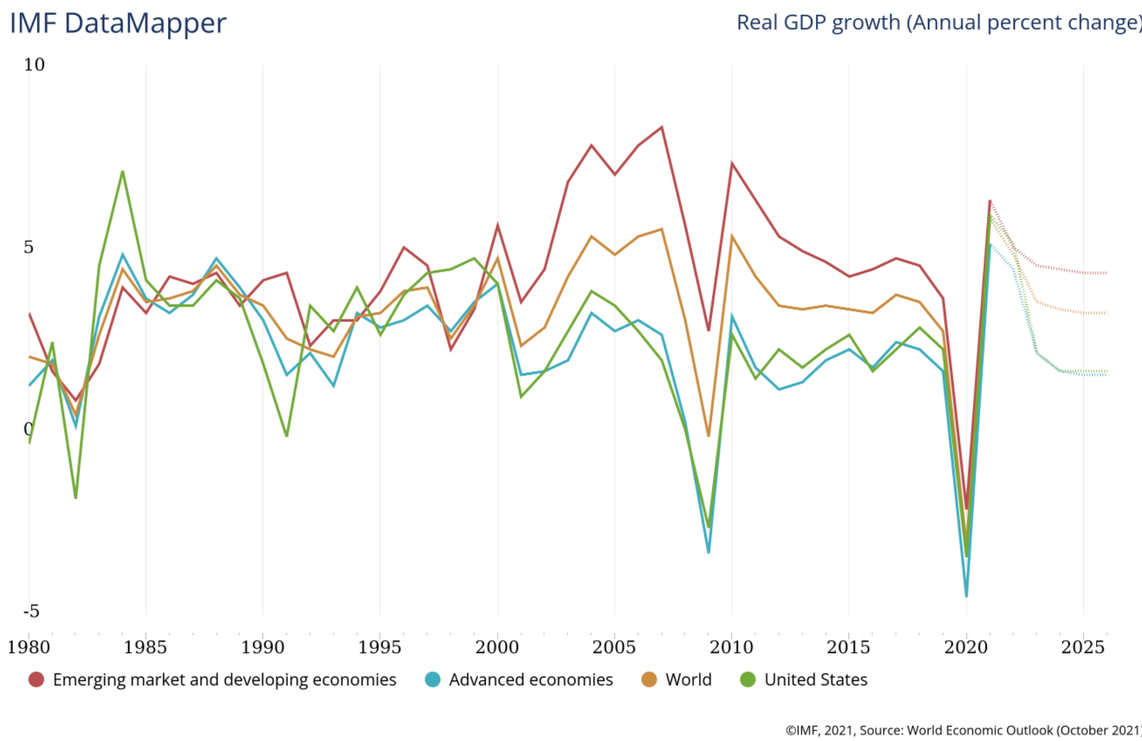

Figure 1:Real GDP growth Source: World Economic Outlook (October2021)

Throughout the history, economic recessions have taken place for a number of reasons, but they are most typically described as an outcome of unresolved economic problems, such as increasing interest and inflation rates or anything else that reduces corporate profitability and increases unemployment rates in the overall market (Bauer, 2019).

However, the Covid-19 pandemic varies from previous recessions given that it was not driven by debt and overspending, a housing boom, or aggressive economic expansions (FXCM Market Limited, 2020). In theory, according to Paul Krugman who is a New York Times` columnist and Nobel Prize-winning economist, the recovery should be easier than it was during the Great Recession, but it is expected to take longer depending on the time frame and severity of the virus internationally (Bokat-Lindell, 2020). However, as it is shown in the chart, there was a robust surge in terms of GDP as the first vaccines were brought to the market before the end of 2020. Due to the vaccinations, the overall economic outlook improved along with optimistic prospects.

For the purposes of the current project however, the question that is needed to be addressed is the following: how equity markets react to such economic downturns in real life.

First and foremost, the definition of the stock market needs to be clarified. Stock markets are public electronic marketplaces, whereby stocks and other financial instruments are traded by individuals or institutional investors. Stocks, also called shares, represent a specific ownership proportion of a corporation, that provide voting rights as well as fractional claim on corporate earnings in the form of capital gains and dividends. The stock market is commonly represented by the Standard & Poor’s 500 (a.k.a. S&P 500), which is a weighted market capitalization index of the 500 most important listed U.S. companies (Friedberg, 2020).

Share prices are determined by supply and demand forces of the market as transactions take place between buyers and sellers. These stock prices are influenced by many things, where the strength or weakness of the underlying economy is a crucial factor to consider (Bauer, 2019).

In the world of finance, a rising market with usually favourable economic conditions is referred to as a bull market. A bullish market is defined as a rise in the price of a company's stock. Investors typically have a positive sentiment and feel that the rise will continue in the long run during these situations (Kramer, 2021).

Conversely, when economic activity declines along with high unemployment rates, dropping consumer spending and deteriorating earnings, stock values fall as well. A market sentiment like this is defined as a bear market. On the other hand though, bear markets might be a great buying opportunity for those possessing higher risk tolerance associated with investing. Some real-life examples from the history`s most remarkable bear markets are the Great Depression and Great Recession, as well as the burst of the dotcom bubble which was a huge rise in US technology stock values in the late 1990s, fuelled by Internet-based businesses (Kolakowski, 2021). The value of equity markets skyrocketed throughout the dotcom boom, but when it burst in 2001, many investors were left with enormous losses, and several Internet companies went bankrupt, sending tech shares into a bear market (Hayes, 2019).

3.1.1 Stock Market during COVID-19

The most recent world-wide bear market, which began in March 2020, was sparked mostly by falling corporate earnings as a result of ongoing concerns about the impact of the COVID-19 epidemic on the global economy. Surprisingly nonetheless, markets recovered more quickly than projected due to the optimism about vaccinations and a global economic recovery (Kolakowski, 2021).

It is essential to mention though, that among others the pandemic has overturned the stock market as well. It created winners and losers among individuals as well as among the leading S&P 500 sectors too (Whittaker, 2020). Travel, entertainment, and hospitality were all put on hold as a result of the global health crisis, which had a significant impact on the underlying economy (Friedberg, 2020). In opposition, some sectors were and still flourishing. For example, “the information technology sector grew by almost 35%, consumer discretionary is up 22.2% and communication services are up 9% as the epidemic has accelerated the shift to working, learning, and playing at home via the internet “- Roger Ibbotson, a Professor at Yale school of Management says.

The questions might be justified though, as per why the equity market and S&P 500 showed rising trends even amid a global pandemic situation. The reason can be derived from the fact that generally the stock exchange does not represent the whole economy. Lots of smaller, private companies, that do not trade on the stock exchange have been forced to close down due to the pandemic and its accompanied restrictions. In order to provide an answer to the question, a few major and profitable technology firms, such as Amazon, Facebook, and Google, were driving the stock market's upward trajectory (Friedberg, 2020).

3.2 Business Valuations

Business valuation, or defining the value of a company, is a complex process, especially in the current global situation. Value can refer to a quantity or a number, but it is mostly used in finance to determine the value of an asset, a firm, and its financial performance. By definition, “value implies the monetary, material, or assessed worth of an asset, good, or service”. Comparing a company's various values and valuations to those of other companies can assist in deciding whether to invest in a specific company (Kenton, 2021). The value of a firm, however, is also influenced by its customer loyalty base, online presence, future potential, and brand awareness (Josep, et al., 2017).

The literature usually applies three basic approaches to value a business- the cost and/or asset-based, the market and the income approaches. When conducting a cost and/or asset-based valuation approach, the focus is on the fair market value of the company`s book value and net assets. The market approach is based on market comparables. Under this approach the company is valued compared to similar companies and therefore creating more representative pricing multiples. The last approach is the income approach, which basically converts future expected cash flows into present values. This approach is mostly represented by the Discounted Cash Flow (DCF) method (Dannible& Mc Kee, LLP, 2018).

Valuation is a quantitative procedure of establishing the economic worth of an asset or a company under specific assumptions. Overall, a company can be valued on its own on an absolute basis, which is attempting to determine an investment`s intrinsic value based on solely fundamentals (dividends, cash flow, growth rate etc.), or on a relative or comparable basis, which compares it to other similar companies, assets, or industry benchmarks (earning multiplies, ratios etc.) (Chen, 2020).

Under the two main basis of valuation (absolute or relative), there are various subcategories. The fact that under which method the valuation is conducted itself is depending on the size, maturity, and economic outlook of the specific company, as well as the industry it operates in.

Of course, some certain external factors need to be assessed when completing a business valuation, such as various risk factors. Many definitions exist when it comes to risks. In theory, risk is the possibility of the actual result being different from the expected one. This assumption is very important in the world of finance and especially when trying to measure risks regarding investors of public corporations listed on the stock exchange.

In relation to the risks assumed by stock exchange investors, there are two types, namely systematic and unsystematic risks. Systematic risks are macro in nature and related to the overall market, which is uncontrollable by the organisation such as interest rate risk, inflationary risk, market risk or certain economic recession periods, such as Covid-19, that the world is currently experiencing. On the other hand, unsystematic risks are micro in nature, controllable and specific for the organisation such as liquidity or insolvency risk, financial and credit risk, or operational risk etc. An investor can get rid of unsystematic risks by creating a diversified portfolio or investing in market indexes, such as S&P 500.

Apart from systematic and unsystematic risks, there are several additional factors that need to be considered when conducting a business valuation. For instance, some external factors such as: the expectation of the economy, and the industry the company operates in, as well as its competitive environment. Internal determinants include the nature, size, and competitive position of the firm among its peers, as well as the company's financial growth prospects and the quality of its management (Josep, et al., 2017). Today`s time globalisation and the rapid technological advancements, however, have resulted in changing economic reality and in altering valuation methods in relation to the significance of the components affecting a company’s value.

3.2.1 Business valuation for IPO purposes

A business valuation may be used for a variety of reasons. Among others, valuations can be linked to strategic planning, buying, or selling decisions, liquidation purposes or mergers and acquisitions, as well as to determining its IPO debut to the public market (Hayes, 2021).

In order to list a company on the public stock exchange a proper business valuation needs to be completed. The IPO price is established based on fundamental valuation methods. In order to reach a fair market value, a mixture of methods can be used, that among others are the Discounted Cashflow method, Comparable Company Analysis or Industry Rules of Thumb, Earning Multipliers, Book Value etc (La Monica, 2021). The valuation method, that is best for the company`s current situation is typically reliant on why the valuation is needed, which industry is the company operating in and the size of the business etc (Indeed Editorial Team, 2021).

Normally, the IPO price is a good representation of the demand for the company on the public market. The price at which an IPO is sold is the amount of money that investors are willing to pay for the firm (Paytm Money Limited, 2021). After the IPO debut, the share price is influenced by a variety of variables, including the overall state of the economy and market conditions. Fluctuations and variations in the share price are reflected correspondingly in the company`s value (market capitalization) (Paytm Money Limited, 2021). (See more on this subject below in section 3.4.1.1).

According to literature the most favourable method of valuing the initial public offering price of a company is by the aforementioned Discounted Cash Flow (DCF) method. The DCF method is an intrinsic valuation approach, and it is used to assess the value of an investment/ asset depending on its future expected cash flows while discounting them back to today`s value by using the company`s Weighted Average Cost of Capital (WACC) (CFI Education Inc., n.d.). Following the DCF method the second most favourable way to estimate the IPO price is based on relative valuation methods by applying market multiples, comparables and benchmarks while the analyst compares the subject company to other similar business. Some state that the methods mentioned early are interchangeable and therefore often used together in order to provide better outcomes (Ferraro, 2020).

3.2.2 Start-up valuations

Before going public, a corporation is considered to be private. As a private company, they possess limited number of shareholders, including early investors such as the founders, family, and friends, as well as professional investors such as venture capitalists and/ or angel investors.

When a business believes that it is mature enough to meet the requirements of the Securities and Exchange Commission`s (SEC) legislation, it will begin to promote its desire to go public. This stage of development usually occurs when a company has reached a private valuation of $1 billion or more, commonly known as unicorn status, a term that was first determined by venture capitalist Aileen Lee in 2013. Since the publication of Lee`s article, namely "Welcome to the Unicorn Club: Learning from Billion-Dollar Startups", the usage of this term became widely applicable for start-ups in the information technology sectors combined with extremely high valuations while doubting their underlying finances (Chen, 2021).

A start-up is an organization, that is working towards innovation, development or improvement of products or services. Start-ups normally have scalable business models with high potential employment and wealth generation. In terms of valuation, there is no conventional process for valuing start-ups, unlike for traditional cash-generating and profit-making firms. When it comes to estimating start-ups` value, it's essential to consider both risks and the opportunities they may hold. With small or no historical financial success at all, a start-up's value is mostly determined by its growth potential rather than its past performance (Graphics & Vihar, 2019).

Nowadays, due to the technological start-up boom and the associating bullish investor sentiment, unicorns have grown extremely. There were more than 800 unicorns listed worldwide as of October 2021 (CBINSIGHTS, n.d.). Many new unicorns are tech-based, and many are U.S. or China based companies. These companies typically gain their unicorn status between four and seven years of operation. Popular former unicorns, that entered the unicorn status is Uber, Lyft, Facebook, Google and Airbnb (Tatum, 2021).

3.3 Staying private

Before examining the going public decision in depth let`s have a look at some basic elements concerning the possible benefits and drawbacks of operating as a private company. Private corporations have limited number of investors to whom they must report. They have the priority and the control to choose their investors as well as to maintain their core focus and strategy rather than concentrating on quarterly filings and meeting investors` expectations. In summary, remaining private means that the ownership stays in private hands.

On the other side, according to Mike Ser, who is an active trader, entrepreneur, and co-founder of Ser Man Traders, privately held companies may not have the ability to attract highly competent professionals through stock incentives and compensations in the executive team. Also, without trading on the stock exchange, companies will not be able to use their stock as their currency to acquire other companies. Furthermore, existing shareholders will not have such freedom for liquidation when remaining private, especially when the subject company is not very well-known. After becoming a public company however, those investors who hold significant stake in the company, will be very much involved and vocal about how they believe the business should operate (Fontinelle, 2019).

3.4 Going Public

Exploring the option to go public nowadays brings up various obstacles owing to the overall economic outlook, market volatility, rapidly changing regulations and expanded investor scrutiny of corporate governance and financials. In general, raising capital on the public market to fund future expansion and growth strategies can be enticing; however, it is crucial to conduct a thorough and rigorous analysis beforehand (Deloitte Development LLC., 2020).

Initial public offerings (IPOs) have a unique role in finance, owing to the fact that it provides the first opportunity for public capital market participants to appraise a set of corporate assets. From the standpoint of economic efficiency, the valuation of initial public offerings (IPOs) is particularly essential; the IPO is the first opportunity for management of such (usually young) firms to receive price signals from the public capital markets. Such indicators can either validate or contradict management's beliefs about the firm's future growth potential with real-world implications (AAgrawal, et al., 2007).

3.4.1 Initial Public Offering- the traditional way

An initial public offering happens when a private company becomes public by selling its shares on the stock market for the first time. This is referred to as primary offerings as well. An IPO is a type of equity financing, in which a certain proprietorship of a company, in the form of shares, is given up by the founders in favour for capital. It is the direct opposite of debt financing (Mcfarlane, 2021).

In order to become a publicly traded company, a firm must go through a prolonged IPO process, which includes filing a registration statement with the Securities and Exchange Commission typically using Form S-1 (PitchBook Blog, 2021). A detailed explanatory document that provides information about the company intending to go public is named as the prospectus, which is a very important part of the registration statement.

Public offerings need to be underwritten by authorized institutions (e.g., investment banks) with financial specialists on board, who work closely with the issuing organization to ensure that all regulatory requirements are satisfied. Underwriters help determine the initial offering price of the securities. Afterwards underwriters purchase securities from the issuer in order to reach investors through their distribution network, therefore being able to attract large institutional investors to the deal (Divine, 2021). The underwriter also assures that a certain number of shares will be sold at the initial price, and that any surplus will be purchased. These underwriting roadshows assist in generating investor interest and educating potential buyers for the company (Banton, 2022).

3.4.1.1 Public Offering Price

This paragraph can be linked with the previously discussed “Business valuation for IPO purposes” (See: 3.2.1), found under the Business valuation subchapter (See: 3.2). The public offering price (POP) is the price at which a new issue of shares is offered to the public during an IPO by the investment bank. Underwriters must establish a POP that is low enough to catch investor`s attention but high enough to assure that the company will generate enough money through the new issue. When determining the public offering price, underwriters consider various factors, including the company's financial performance, the strength of its financial statements, growth prospects, and investor sentiment. Certain qualitative components, such as the public's impression of a firm or the presence of well-known and qualified individuals on the Board of Directors, can occasionally cause the share price to rise above the public offering price, especially in the early days following an IPO (Kagan, 2020).

Good reputation and brand recognition can serve as beneficial attributes, since IPOs for such companies will draw prospective investors` attention much easier, therefore requiring much less marketing efforts. On the other hand, it may come with more pressure as financial experts, investors and government organisations all examine every move of the subject company (Mcfarlane, 2021).

Apart from the demand for a company`s securities, additional factors such as industry comparables, growth forecasts, and the company's equity story influence an IPO valuation. One of the challenges of investing in IPOs is that such companies typically had not published a lot of financial information or trading history, making standard research difficult (Gad, 2021).

It is worth mentioning that lots of times IPOs are for companies that are going through a transitory growth phase, which implies that their future valuations are subject to further uncertainty (Kagan, 2021).

In any case though, some significant elements need to be addressed that influence the price and therefore the valuation of an IPO:

- The number of shares sold in the IPO
- Growth prospects of the subject organization
- Financial performance of the subject company
- Company`s business model
- Demand from potential investors for the company`s shares
- Current market price of similar companies listed
- Stock market trends in general (Paytm Money Limited, 2021).

3.4.2 Alternative methods of IPO

An initial public offering, or IPO, was the typical way to go public for many years. However, some other methods of going public have recently gained favour, such as direct listing and special purpose acquisitions (hereinafter mentioned to as SPAC).

SPAC- Special purpose acquisitions

Rather than going public through a traditional IPO, private companies prefer to enter the stock market through a merger with a SPAC, which is a publicly traded fund dedicated to bringing private companies public through mergers. A SPAC is formed when a group of investors raises capital through an IPO in order to purchase or gain control of another operating firm. In general terms, the SPAC becomes listed via an IPO, selects another firm to purchase, and then forms a new, publicly traded company after the transaction is completed (Tzabouras, 2021). The target company's acquisition must be approved by the shareholders and the regulator and must be completed typically in two years after the SPAC goes public.

SPAC listings do not specify their takeover strategies from before, i.e., investors do not know in advance which company will the SPAC ultimately overtake. Experts usually refer to it as risky investments therefore and recommend this option to those having a high appetite and tolerance towards risk. SPACs are usually faster and more cost efficient (all fees are paid before the target company gets involved) than the traditional IPO process and offer more security and less scrutiny to the company itself that is trying to go public, however on the other hand, as mentioned before investors are subject to high uncertainty (Tzabouras, 2021).

When the coronavirus disrupted the market and the traditional IPO preparations, SPACs experienced an exponential rise. One rationale is that SPAC`s value is dependent upon how much it raised from investors, making it less vulnerable to market fluctuations (PitchBook Blog, 2021). In the past three years SPACs have grown rapidly. According to an article posted on U.S. NEWS 59 SPACs were formed in 2019 as compared to 428 as of 13 September 2021 (Divine, 2021).

Direct Listing

When a private firm goes public by offering existing shares to investors directly on the stock exchange without an intermediary, it is called as direct listing (also known as a direct public offering or direct placement). Direct listing is a less expensive alternative to an IPO for companies that cannot afford underwriting, do not want share dilution (insiders are offering outstanding shares directly to new investors), or wish to circumvent lockup periods.[1] Direct listings allow stockholders to sell their shares in a company once it goes public, without undergoing the holding period they usually would with an IPO (Kagan, 2020). However, without an intermediary (underwriter), there is no guarantee that the shares will sell (Seth, 2021).

Prior to the direct listing the corporation is obligated to follow compliance with documentation processes toward state regulators but there is no necessity for registering with the SEC (Kenton, 2020). Further benefits of listing directly apart from lower banking fees is having more control over the stock price. However, a direct offering is usually only possible for companies with a well-known brand, a compelling business model and large market capitalization (e.g., Spotify, Slack, Roblox, Coinbase) (La Monica, 2021).

Direct listings save the business time and money by eliminating the necessity for a roadshow or underwriter (an underwriter typically obtains 5-8% of the capital raised during an IPO). However, removing the safety net that underwriters and lock-up periods always carry risks and can lead to more volatile post-listing trading price (Kagan, 2021). On the contrary, according to Marcus New, who is the creator and CEO of a private equity trading platform, InvestX, due to the tremendous market demand towards recent direct listings, employing an underwriter to guarantee a specific level of investor interest was "unnecessary" (Divine, 2021).

[1] A lock-up period is meant to prevent insiders from selling their shares for a restricted period (usually 180 days) after the IPO in order to reduce selling pressure in the early stages of a firm's life as a publicly listed corporation.

3.5 Determinants of a successful IPO

In the following section the author has intended to gather relevant academic literature that explores the determinants of becoming a successful public company.

A report named "Guide to go public" written by the Ernst Young (EY) company in 2018 defines five critical success factors in the IPO process that institutional investors take into consideration the most:

1. "Strong management team
2. Compelling equity story
3. Fair pricing
4. Right timing
5. Be "IPO ready" to meet capital market requirements and investor expectations" (EYGM Limited, 2018)

When deciding what it takes to become "IPO ready" the aforementioned report states four key elements. First of all, the subject company needs to assess its capital-raising options and strategies. Secondly, an IPO readiness assessment is crucial, and early preparation that begins far before the actual IPO (12-24 months) is essential in order to build the most competent IPO and management team from professionals. The company has to understand that keeping investors and shareholders satisfied is a key component during an IPO. Investors make their decisions based on quantitative (financials) and qualitative (strategy and execution, corporate governance, quality of management etc.) information as well as they watch similar companies for comparison purposes. Lastly, current investors` concerns need to be addressed thoroughly in order to gain their trust more effectively (EYGM Limited, 2018).

Although the financial and economic condition due to Covid-19 might not be the perfect timing for raising capital, it may be the ideal time to start preparing for an IPO or for any other strategic purposes. The management team can begin the IPO value journey while waiting for capital markets to stabilize. After bearish markets it is very likely to experience a bullish sentiment, therefore an effective IPO readiness assessment and preparing can give a huge advantage for those who are ready to capitalize on improved equity market conditions.

Daniel Klauser, a Capital Market Advisory Leader at PricewaterhouseCoopers has recently discussed some important elements that can make an IPO more likely to success:

- "A large and expanding addressable market

- A unique and differentiated business model
- A compelling product or service, preferably with a competitive or first-mover advantage
- Strong earnings with considerable, long-term, and visible revenue growth projections
- Profitable margins and positive cash flow generation
- An experienced management team
- Strong financial, operational, and regulatory controls" (Klausner, 2021).

Overall, it can be said that an IPO is a difficult task for any company to plan, execute, and manage. The more prepared a business is, the more efficient and cost-effective the process will be (Gurley, 2015).

3.6 Determinants of an IPO failure

On the other hand, there is also a huge possibility that an IPO will not succeed the way the promoter of the company has imagined doing so. The overall economic outlook and the market sentiment unavoidably affect the valuation and the debut of any company wishing to list on the stock exchange as well as a downturn in market condition can strongly affect post-IPO trading.

The listing price is the one, determined by the underwriter and the offering price is the one at which shares can be acquired by the institutional and accredited investors via the underwriters before they begin to trade on the stock exchange. When the latter happens, shares get quoted at opening price instead. The difference between the prices results in immediate gain or loss for investors, and it is often a good indication for future trading prospects. When expectations regarding the company are not met and supply exceeds demand, opening prices are likely to drastically fall (Gerber, 2016).

It is important to mention that investment banks, i.e., underwriters determine the listing and offering price, not the overall market. Well-known underwriters have huge power and distributional channels to grant that all shares are going to be sold during the IPO process. Investment banks and their clients have the priority to buy those shares, before the general public, that might become an issue in some cases and cause uncertainties in terms of investor sentiment. Also, some investors` aim is to quickly capitalize on the IPO while the market is hot, which could result in a negative effect on the share price itself, unless if the company has a huge well-known potential for future growth (Price, 2019).

Looking at the subject company`s prospectus, various factors can be detected in order to identify the possible determinants of an unsuccessful IPO. For instance, it is very likely to experience a negative response from the general market, when a prospectus clearly states that the main reason for the capital raising is for exiting the company, especially when it is combined with a highly valued offering price. Another red flag indicator could be a sharp improvement in terms of key financial measures just before the IPO. Management might be manipulating the numbers in order to attract investors on purpose by using unadjusted metrics, that would of course become obvious when looking at the financial statements and therefore quickly result in an IPO failure (Siddhartha, 2020).

On the long-term, if the company does not manage to achieve its anticipated growth in terms of revenue and market share, that could disappoint investors and result in failure as well.

3.7 Setting the right price

Correct pricing has a big role in whether an IPO succeeds or fails. The IPO process is complicated, and valuation and pricing are critical components. The lead underwriter provides an in-depth assessment of the promoter company based on the following two approaches:

The income approach values a firm depending on what it is able to deliver for its shareholders and the market approach evaluates the firm based on its value the market is prepared to pay for it. Under these approaches there are some specific business valuation tools/ models that can be used for the purposes of creating a fair price. As mentioned before under the section of "Business valuation for IPO purposes" a fair valuation will always consider the combination of the two approaches, which can be embedded by using the Discounted Cash Flow or Discounted Dividends method (in case of dividend payments) under the income approach, or peer group/ similar transaction multipliers under the market approach. By the rule of thumb, the preliminary listing price of the IPO includes a discount in order to boost interest, which can be tested during the so-called Roadshow. The roadshow is crucial in promoting the offering to potential investors. This is the time when the company intending to go public is able to win over large influential investors by a persuasive equity story, which is pitched by a competent management team which creates interest and therefore increases the overall IPO valuation. After the road show the final offering price is determined, which can be however affected by external factors as well, which is outside the scope of the roadshow`s potential success or failure. For instance, the overall stock market sentiment and economic condition, as well as the other IPOs during the same period are crucial determinants (EYGM Limited, 2018).

3.8 IPOs in challenging times

3.8.1 Covid-19 pandemic

Figure 2: Numbers of IPOs from 2000-2020 p.a. Source: Stock Analysis

According to a report about global IPO trends in today`s time made by EY, there are some key elements affecting investors` perceptions for IPOs. The most important are the overall capital market volatility, the recovery of underlying economic activities and of course, the Covid-19 pandemic (EYGM Limited, 2020).

Paul Go, an EY Global IPO Leader said that "although the market sentiment can be fragile, the scene is set for a busy last quarter to end a turbulent 2020 that has seen some stellar IPO performance", which implies that despite of the current market conditions there were some successful IPOs during the end of 2020. He also mentioned that "irrespective of the uncertainties, businesses that have adapted and excelled in the 'new normal' should continue to attract IPO investors". In the report it is stated that out of the 18 unicorn IPOs in the whole year, 12 were launched in the third quarter of 2020.

Rachel Gerring, an EY Americas IPO Leader stated that since June 2020, America's IPO activity has increased; proceeds in the third quarter of 2020 have surpassed full-year IPO proceeds for the first time since 2014. September has set a new record for technology IPOs on US Stock Markets, with the biggest number of offerings in a single month in over two decades. The IPO pipeline is building as companies prepare for a public offering amid market confidence (EYGM Limited, 2020).

Cooley LLP, a Global Law Firm located in the U.S. stated 10 crucial factors to consider when conducting IPOs during the pandemic, in which among others the most important ones are providing detailed Covid-related disclosures and conducting proper due diligence processes, so as investors are fully informed about all disruptions and risk factors that will or may affect business operations. Furthermore, companies should rethink their analyst models that show their financial performance accurately in the light of the epidemic situation as well as the need to adjust their key metrics and KPIs. Preparation of financial statements and their auditing are crucial and must adjust to the virtual world as well as the need to draw companies` attention to the virtual roadshow processes with its benefits and hurdles equally. The firm states the importance on best-in-class governance policies that involves diverse and experienced board of directors that protects stakeholders (Cooley LLP, n.d.).

According to an article on TechCrunch.com, companies` IPOs will continue to grow exponentially in the coming years. However, the industry now has a greater understanding of SPACs and direct listings, as well as alternate funding options. Companies have greater alternatives for growth and exit strategies from the moment they are founded. In 2020, public investors appear to have a better understanding of current revenue data and future growth potential for technology companies (Eldon, 2020).

3.8.2 Financial crisis

Compared to the fast improvement that can be detected in terms of the capital markets in the third quarter of 2020 due to the vaccine rollouts and the time when the 2008 financial crisis occurred there is a huge difference. The global financial crisis had a huge adverse effect on IPOs during the last years of 2000. IPOs dropped by 60% in both deal numbers and capital raising in 2008 compared to 2007. Investors` appetite and the willingness to list companies were undermined due to the overall market volatility. Except for a very few numbers of large and strong companies that managed to approach the public market, IPO activity was plunged severely. Jim Turley, Chairman and CEO, Ernst & Young emphasizes though that in every bad thing there is something good. More specifically he mentions, that “A crisis is a terrible thing to waste.” He implies that many successful, market-leading businesses were created during difficult economic circumstances. Organizations that go through a comprehensive IPO preparation during these difficult times will be among the first ones to enter the public markets when they recover (EYGM Limited, 2009).

During 2008 there were only 29 U.S. IPOs, yielding all together $26.4 billion, which was 43% lower as compared to 2007. If Visa Inc V.N. had not gone public that year, 2008 would have been the worst IPO year since 1990, although it was the slowest since 2003 with Visa's debut. Other larger firms launched IPOs as well, as previously indicated, but overall, 2008 proved to be a difficult year for IPOs, with 110 cancellations (Eldon, 2020).

3.9 Theories on why companies go public

With the assistance of Deloitte`s and Ernst and Young`s report studies that give corporations intended to go public a very comprehensive and extensive guide about different strategic considerations and tips, the author will try to identify all the possible drawbacks and benefits an IPO may hold. Also, an article published in Journal of Entrepreneurial Finance examining the reasons why firms go public is also applied to strengthen the fact that a line can be drawn between benefits and actual motivations why companies go public (Brau, 2010).

3.9.1 Motivating factors and benefits of IPOs

Before companies decide to proceed to become a public corporation along with the extensive public scrutiny it means, there are certainly some critical factors to consider. The procedure can completely change the way the business operates and on top of all, there is continuous pressure to sustain growth patterns and fulfil investors` demand. That is undoubtedly a key point to consider before deciding whether to step on the path of becoming a publicly traded company or not (Deloitte Development LLC., 2020).

The report from Deloitte concludes that there are several advantages of an IPO, starting with the increased capital the business can obtain through the process that can be used as currency for mergers and acquisitions in the future, as well as the improved financial position it results in. Similarly, EY`s report also stresses the opportunity -as a key advantage of IPOs- to access capital markets to raise cash through equity and bond offerings, that facilitates shares to serve as new liquid M&A currencies. Also, Mikkelson, Partch, and Shah (1997) documents that US IPOs normally experience a large increase in assets after the IPO, that explains future growth expansion plans as a motive for the IPO itself (Mikkelson, et al., 1997).

Maksimovic and Pichler (2001) argue that an IPO can be derived from strategic intentions, such as capturing on publicity and first-mover advantage (Maksimovic & Pegaret, 2001). An IPO will also boost the business`s visibility and publicity that might create further opportunities to expand, develop and innovate.  Pagano, Panetta and Zingales (1998) contend that going public may boost investor confidence and listing on a major Stock Exchange draw portfolio manager`s attention significantly (Pagano, et al., 1998). According to EY's "Guide to Going Public" report, publicity boosts customers, suppliers and employee perceptions of the company and helps brand with them as well (EYGM Limited, 2018).

If the stock performs well on the stock exchange, the company may require additional funding, which is simple to obtain through secondary offerings. The Rule 144 of the Securities Act of 1933[2] contains some important points and restrictions regarding the liquidation of management`s shares but overall, an IPO can be a benefit for those insiders of the company, that desire to sell their stock and leave the company.

Entering the public market enables exit strategies for major shareholders, like venture capitalists and private equity firms that sponsor start-up companies for a finite period of time (usually less than 10 years) and require to liquidate their funds at the end of that period. In correspondence to this, an article published in Journal of Entrepreneurial Finance comes across with the theory of Brau, Francis and Kohers (2003), who imply that IPOs can provide a cash-out for professional investors (Brau, et al., 2003).

Going public provides greater transparency and larger capital reserves, making it easier for the market to establish the company's value. Stock-based compensation and other incentive reimbursement methods enhance the business`s ability to attract, retain and reward top talent and key employees. In addition to all the aforementioned benefits of an IPO, EY`s report notes the ability to benchmark and compare operations against the competitors is also an important attribute. According to Holmstrom and Tirole (1993) and Schipper and Smith (1986), publicly traded stock enables companies to offer competitive compensation programs which means that companies will provide more stock-based compensation plans for their employees after the IPO (Holmstorm & Tirole, 993), (Schipper & Smith, 1986).

An article published in the Journal of Finance in 2006 conducts a complex research and analysis concerning initial public offerings by looking through relevant literature and academic theories that

[2] The first federal securities law passed after the Great Depression in 1929. It was created to protect investors by requiring more transparency in presenting financial information in order to avoid misrepresentation, fraud and manipulation.

reveal four motivations for going public which are in line with the ones previously discussed (Brau & Fawcett, 2006).

First and foremost, the cost of capital terminology that is supported by Scott`s (1976) and Modigliani and Miller`s (1963) research, which claims that companies decide to take on public offerings when external equity will lower their cost of capital, which therefore increase the value of their company (Scott, 1976), (Modigliani & Miller, 1963).

The second motivating factor is that IPOs allow insiders, early investors and venture capitalists to cash out and exit from the company- argues Zingales (1995), Mello and Parsons (2000) and Black and Gilson (1998) (Zingales, 1995), (Mello & Parsons, 2000), (Black & Gilson, 1998).

Furthermore, the following important element is that IPOs enabling merger and acquisitions possibilities. Brau, Francis and Kohers (2003) contend that IPOs are significant because they provide public shares for a company that may be utilized as "currency" in taking over other companies (Brau, et al., 2003).

Finally, the article concludes that IPOs may serve as strategic initiations. According to Chemmanur and Fulghieri (1999), initial public offerings (IPOs) widen and diversify a firm's ownership base (Chemmanur & Fulgieri, 1999). In addition to this as per Maksimovic and Pichler (2001), corporations go public to gain a first-mover advantage on the market. They also claim that going public can boost a company's awareness and public repute (Maksimovic & Pegaret, 2001).

The article furthermore assumes that an IPO is perceived by younger, VC-backed, high-tech companies as more of a strategic reputation-building move than a funding decision (Brau & Fawcett, 2006).

An article published by McKinsey & Company derives two factors as inescapable components of the going public decision throughout the history (Erdogan, et al., 2016). Firstly, if the maximum number of shareholders permitted as a private company is exceeded, the company has no other choice but to go out to the public market. Before 2012, when the US JOBS Act[3] has increased the threshold to 2000, the SEC obligated companies having more than 500 shareholders to submit their financial statements and accounts. The second driving force is the desire for liquidation by early stakeholders, whose sponsorship time typically expire over a seven-to-ten-year period, therefore often push IPOs.

[3] The JOBS Act (Jumpstart Our Company Startups Act) is a legislation that aims to stimulate small business funding in the United States by simplifying several of the country's securities restrictions.

Behavioural Finance is a subfield of behavioural economics that posits that psychological factors and biases influence investors' and financial practitioners' behaviours. Investor irrationality and biases can be the source of market anomalies in the stock market, such as sharp spikes or decreases in stock prices, according to the behavioural finance literature (Hayes, 2021).

A market survey exhibited by Szyszka (2013) approaches corporate behavioural finance in exploring the motives for Initial Public Offerings. Theoretically, in an efficient equity market, it should not matter when the company decides to go public because at any time it should get the right price for its stock valuations. In real life though, fully efficient equity markets rarely exist, especially in times of unpredictable conditions, such as we currently experience due to Covid-19. Szyszka argues that management through corporate timing is likely to exploit outstanding performance periods and translate it into high company valuations that is supported by biased investor and analyst extrapolation. However, the interplay of corporate timing and biased extrapolation may result in disappointing post-IPO operational figures and a dive in stock price (Szyszka, 2013).

Correspondingly, in an anonymous survey performed by Brau and Fawcett (2006), in which Chief Financial Officers were interviewed to reveal IPO decision motives stated that after the desire to raise capital when exceeding a company`s debt-capacity levels and internal financing means, the second main driver for listing on the stock exchange is to capitalize on the firm`s good historical performance (Brau & Fawcett, 2006).

According to Potnicki and Szyszka (2014), the present market situation may influence the speed of the IPO. The average duration between the formal decision to go public and the IPO day is much shorter in times of hot markets than in times of cooler markets. Hot IPO markets are characterized by an oddly high volume of offers, severe underpricing, regular oversubscription, and, at times, concentration in specific sectors. Cold IPO markets, on the other hand, have substantially less issuance, underpricing, and oversubscription (Plotnicki & Szyszka, 2014).

3.9.2 Drawbacks of IPOs

Deloitte`s and EY`s report studies confirm that there are several disadvantages as well, that have been already partly discussed in a previous section named “Staying private”. These must be weighed against the advantages before the going public decisions.

First of all, public corporations are subject to full transparency and strict disclosure requirements in terms of financials and business operations that results in the loss of confidentiality and privacy. There are rigorous reporting obligations quarterly and annually to the SEC, that enable external analysts and parties to evaluate the firm's operation which can potentially pressure public companies to focus on short-term results rather than long-term results.

Furthermore, public offerings dilute existing shareholders` ownerships that lowers controlling levels in the company. New investors hold voting rights, that can influence largely the company's future and possibly limit management`s freedom to act. There is continuous pressure to meet shareholders` expectations and deliver their promises, while serving corporate governance duties accordingly.

Additionally, the going public procedure is time-consuming, and expensive both in the initial periods and the ongoing supplementary expenditures in relation with the SEC rule compliance and requirements as a listed company (generation of financial reporting documents, investor relation department, audit and accounting fees). And last, as a result of public offerings, the company and its directors are subject to greater legal exposure in terms of duties such as loyalty, accountability or accurate reporting responsibilities (Deloitte Development LLC., 2020), (EYGM Limited, 2018).

3.10 Timing of an IPO

Before the going public decision, a crucial issue needs to be addressed: is the market ready for the specific company to go public?

Economic forecasts, internal and international political events, global and local trends, interest rates, and inflation can all have an impact on the market. A corporation that could readily raise public money in a bull market, may face significant opposition in a bear market. When the market is down, the value of newer, less-established companies and those in "riskier" industries tends to suffer the most. An IPO may provide a windfall of wealth if it is timed to coincide with a rising market.

As mentioned before going public requires a long-term strategy and preparation. Adequate pre-public planning is inevitable for trading on the stock exchange as well as for demonstrating underwriters the IPO readiness of a company. From the moment a firm embarks on an IPO journey the better prepared it is, the faster it will be able to respond to capital market opportunities.

Moreover, promising and effective IPO readiness can boost investors` perceptions and attitude concerning the company (Deloitte Development LLC., 2020).

The IPO process is costly, complicated, and time-consuming. External advisors, such as lawyers, investment bankers, and accountants need to assist the procedure. Preparing for an IPO can take a year or more. Business and market conditions can shift dramatically over this period, and an IPO may no longer be appropriate, therefore continuous caution is crucial (Davis, 2019).

The article cited before discussed some theoretical approaches concerning the timing of an IPO (Brau & Fawcett, 2006). It mentions firstly that executives usually exploit bull markets to capture appealing stock prices. Correspondingly, Loughran and Ritter (1995) agree that companies embark on the IPO journey to utilize opportunities that offers the most attractive offering prices (Loughran & Ritter, 1995). In addition to this, according to Choe, Masulis, and Nanda (1993) corporations intend to go public when they reach a specific stage in their business growth cycle, and they require external equity sources to continue to develop. Considerable factor of timing is the overall attractiveness of the IPO market. Choe, Masulis, and Nanda (1993) claim that businesses choose to go public when other good firms are currently issuing (Choe, et al., 1993).

An article published by U.S. NEWS disputes how Coronavirus affects upcoming IPOs in 2020 (Whittaker, 2020). It clearly declares that a firm needs to determine whether there is any appetite and enthusiasm for it based on its business model, past performance and future growth prospects. The subject company has to measure whether the current circumstances are appropriate in the boarder market or not.

Scott Rostan, founder and CEO of Training the Street, a New York-headquartered company, says that the coronavirus pandemic resulted in IPO market conditions that have never been seen before. He predicted three phases for the IPO market. In order to see how the numbers of IPOs took place during 2020, see the below representative chart. Firstly, in the beginning of the pandemic, a “red alert” phase was experienced (March until May), when the overall negative economy and healthcare outlook worldwide significantly depressed the market proceeds resulted in bearish sentiment. Afterwards, when testing became more widespread and controllable with fewer local restrictions, the IPO window opened back up (June until August). According to Rostan though, during this phase only those companies, with strong business models and demonstrable growth prospects were able to survive. Lastly, things got back to its normal pace (September until December) as the pandemic passes by effective vaccinations brought into the market- Rostan says (Whittaker, 2020).

Figure 3: Numbers of IPOs in 2020 Source: Stock Analysis

It is essential to mention though, that overall, it is extremely difficult to actually be able to select the right moment for an IPO that would in essence maximize company`s value while raising equity at the minimal cost. Even top managers might lack or misjudge information of the timing and the overall market itself, that can be originated from biased financial decisions or interpretation (Helwege & Liang, 2004).

3.11 Life as a public company

It is vital to preserve a solid relationship with the members of the financial experts analysing the firm's performance once it goes public and after, as they will play a key role in maintaining market interest in the company (Deloitte Development LLC., 2020).

An IPO is an incredibly significant milestone in a company`s lifetime and it is a part of a complex transformational period of becoming a publicly traded company from a privately held corporation. Things may grow more challenging once companies go public, as investors have increased expectations and external consultants provide less support. Management must be well-prepared for what comes after the IPO. The "real struggle" of becoming a public corporation begins with aftermarket trading. Continuous compliance with the new capital market requirements, as well as the company's expectations for keeping its promises, is required. In order to achieve an ideal investor diversity on the long-term, an aftermarket strategy should involve proactive actions to achieve share price stabilization. Effective communication is key for the management team towards the investment community as well as towards the financial media as corporate performance and behaviour have always been under the spotlight. Changes in the information contained in the financial data must be addressed in market communication. Today`s stock market is a fast-moving environment that requires highly adaptable and responsive participants. Enterprises put forth a lot of effort to make their businesses ready for the public trading, but the road to long-term success demands meticulous planning and commitment (EYGM Limited, 2018).

4 Research Methodology

Throughout the current project the case study methodology has been utilized. A case study is a form of methodology that entails acquiring extensive information on a specific issue, while arranging, interpreting, and presenting it in a narrative format. In essence, a case study report is very much alike a story. The subject of the case study could be an individual, a family, a work group, a school, an organization, or a program (Marrelli, 2007).

When using case study as methodology, the steps are the same as for any other type of research. The first step is to define if it is a single case study or otherwise to identify a group of similar cases that can then be included in a multiple-case study (Heale & Twycross, n.d.).

The current project, which is about understanding and discovering the factors affecting business valuations for IPO purposes is presented through a case study of Airbnb, that had recently filed for its IPO.

The following research questions were addressed with the assistance of a thorough analysis in the form of a case study of the subject company.

- Type of business valuation implemented for IPO purposes
- Factors affecting business valuations regarding the IPO decision
- Did the IPO process result in success or failure compared to similar IPOs?
- What are the benefits and drawbacks of filing an IPO in the middle of a pandemic? Was the IPO timed correctly?

4.1 Data collection

Case study research can be performed using any combination of data collecting approach (Rowley, 2002). The researcher can look beyond quantitative statistics to comprehend behavioural or qualitative factors (Zainal, 2007). Typically, a case study employs two or more of the following data sources: direct detailed observations of meetings, interviews, quantitative records/documentation of a group`s performance as well as important moments in a corporation`s history (Rowley, 2002).

By collecting qualitative and quantitative information about the study, the author acquires a more in-depth understanding of the phenomenon (Heale & Twycross, n.d.). Case studies, which include both quantitative and qualitative data, assist in explaining both the process and outcome of a phenomena by allowing for thorough observation and analysis of the cases under examination (Tellis, 1997).

For the purposes of the current project qualitative and quantitative data have been gathered and processed from a financial point of view. Qualitative research applies subjective assessment to appraise a corporation's value or prospects built on non-quantifiable information, such as among others management skills, internal policies and strategies, recent or anticipated research and development intentions, workforce relations and culture, brand recognition and competitive advantage on the market (Smith, 2021).

The author has carried out a detailed qualitative analysis to arrive to conclusions with the assistance and careful study of recent news reports, related academic journals and trade publications. In order to gain an insight of the company`s business model and operations the author is going to closely investigate its SEC filings and prospectus. The management discussion and analysis (MD&A) for example is a very important section of a corporation`s filings that can help discover key components.

Quantitative analysis is distinctive from qualitative analysis. While conducting quantitative analysis the author has focused on numerical information found in financial reports, such as the financial statements (Balance Sheet, Income Statement, Cash Flow), that are provided due to the transparency obligations derived from being a public company.

Quantitative analysis is used in many fields, but under the current project the author has concentrated on the financial industry, analysing the subject company`s past, current and projected financial position that impacted its decision to file for an IPO (Kenton, 2020).

4.2 Case study categories

Case studies are classified into numerous types as declared by Yin (1984): descriptive, explanatory and exploratory (Yin, 1984).

Firstly, descriptive case studies are meant to showcase a complete description of a phenomenon and natural occurrences that appear within the entity under consideration. The researcher's purpose is to describe the data as it has happened. This category is frequently used in business research to describe its culture or subculture.

Secondly, explanatory case studies closely investigate the information on both surface and deep levels to clarify causation in relating to the main research question/ problem. Sought to address "how" and/or "why" questions with minimal influence over the events occurring on behalf of the researcher (Business Research Methodology, n.d.).

Finally, the exploratory case studies are designed to investigate any pattern in the data that drives the researcher`s curiosity. Commonly, aim to learn answers to “what” and/or “who” inquiries. Preliminary fieldwork and small-scale data collecting may also be undertaken in this case study after the research questions are presented (Zainal, 2007).

4.3 Case study planning

It is critical to choose the unit of analysis (the entities or individuals that will best address the research question). The objective of the study and theoretical environment must all influence the case selection. However, there will also be additional limits, such as accessibility for resources (if the data required can be gathered), and time available for conducting the research itself (Rowley, 2002).

Unlike during a questionnaire for example when random sampling is used, case study research is based on purposive sampling. According to Stake (2005), typicality, diversity, accessibility, and learning opportunity are essential selection characteristics in a purposive sample.

Before selecting the scope of the study, it is critical to develop a knowledge base about the topic area in order to identify the factors that may impact the problem of interest.

The researcher might decide to analyse the subject cases at a single moment in time, before, during, or after a particular event or set of occurrences, or over a longer period of time in a case study. The time duration will be determined by the research question (Stake, 2005).

4.4 Advantages and limitations

Even though case studies are widely recognised in the academic literature and offer certain advantages, such as presenting integrated quantitative and qualitative data from real-life situations and providing deeper insights into the topics, they are frequently criticized. For starters, case studies are frequently condemned for lacking rigor and for the potential of interpreting data in a biased manner from the researcher`s side.

A typical complaint concerning the case study technique is that by definition, case studies most commonly rely on a single entity or individual, which makes reaching generalizable conclusions difficult (Tellis, 1997).

Some challenges may appear associated with data analysis and also, they are frequently criticized for being overly long. According to Yin, they are difficult to undertake by being labour and time intensive both concerning data collection and drafting the case study narrative (Yin, 1984).

4.5 The implemented case study technique

The main research objectives have been analysed based on an exploratory, multiple-case study research with the focus on one company at its core, with the assistance of obtaining both qualitative and quantitative data in relevance to explore and allow an in-depth knowledge and interpretation regarding the main objectives. For both, secondary data sourced from the subject company`s SEC filings and other official platforms focusing on providing financial information, metrics and calculations of publicly traded companies (Refinitiv Workspace Software, website of Nasdaq and NYSE, Yahoo Finance, MarketWatch etc.) have been applied and analysed. Throughout the research progress, the applied methodology filter has been utilized, in terms of obtaining secondary quantitative data and converting it to qualitative conclusions regarding the objectives.

For the purposes of the current dissertation, factors affecting business valuations have been identified for one particular event, which is the initial public offering through an exploratory case study of Airbnb.

Before analysing the subject company itself the author has conducted a complex overview of the academic literature review related to the topic and the research objectives in order to be able to comprehend final outcomes and findings in a more efficient way.

In the next chapter, which is the Research Analysis itself, the author performed detailed study on Airbnb, in order to understand the moving factors of its decision for the IPO by exploring the business valuation methods that was put in place for the offering. Subsidiary questions are addressed by focusing on whether the IPO journey resulted in success or in failure in the stock exchange, as well as by investigating the timing of the IPO itself and its impacts.

Case studies are distinct from statistical analysis due to the fact that case studies investigate the realm of the real and causation that can be useful to develop hypotheses. These hypotheses may support existing literature and theories. With statistical research methods a phenomenon is investigated extensively, while with a case study it is analysed intensively. In order to identify however what factors could be general to the phenomena it is important to conduct a multiple case study. Conducting a detailed analysis about the context of the case study allows generalisation to other similar cases. A multiple case study research that concentrates on cases that are different in some ways, but which have similar conclusions strengthen the debate for generalisation (Cuellar & Widdowson, 2014).

In order to be able to generalize findings, and conclude in a more sophisticated way, the researcher has decided that apart from analysing the subject company thoroughly, other businesses need to be taken into account as well. For comparative purposes four more companies have been analysed additionally. Out of these four, two conducted their IPOs during the pandemic, more specifically in 2020 or in early 2021, DoorDash and Wish. DoorDash operates an online food ordering and delivery platform, and Wish is an online retailer that links people with merchants by offering different kind of products. Both companies conducted their IPOs during the pandemic along with Airbnb therefore the underlying economic outlook in times of the filing was the same and comparable.

On the contrary, the other two companies that were chosen to be included in the current project had conducted their IPOs in 2008 during the financial crisis, namely Visa and RackSpace. Visa is a multinational financial services company that enables electronic transactions worldwide. Visa went public in 2008 and deemed to be one of the most successful IPOs ever. The last company that was selected is named RackSpace which is a cloud computing company and conducted its IPO first in 2008. It was then taken private by a private equity firm in 2016 and performed later its second IPO in 2021.

5 Research Analysis

As discussed throughout the literature review there are different ways of raising capital. Companies can raise capital by borrowing money for a defined period and pay it back on installments which are subject to different interest rates. The current dissertation's major focus is equity issuing, which is the other technique of raising capital. In equity financing, on one hand shareholder`s dilution can be observed, but on the other hand, proprietors can raise capital without issuing debt, thus keeping the company`s debt-to-equity ratio low.

As previously mentioned, when the company offers its shares to the general public for the first time is called the IPO. The company is obligated to become fully transparent by filing its registration statement (S-1 From) with the SEC and disclose several documentations to the public in order to become a quoted business on the stock exchange. One of the most important documents is the so-called prospectus, which has been discussed before in this project.

In this current project the author intends to reveal key factors influencing business valuations for IPO purposes, which is going to be showcased through a multiple case study research focusing on a company at its core, called Airbnb.

Some key areas that need to be focused on, when investigating a company`s IPO is for instance the company`s plan to do with the money raised from the IPO, or the investment banks participating in the underwriting procedure, as well as the underlying business model and growth potential. Also, the management structure and competency need to be scrutinized. Additionally, the company provides financial information that can help gain insights about the financial performance through the past few years. Lastly risk factors pertaining the company need to be examined in order to reveal some key factors concerning past and future operations.

In the following, a thorough analysis is going to be demonstrated regarding the subject company's path on an IPO, which is going to be followed by some other cases and examples through companies that went pubic under the same or close to the same circumstances in order to be able to conclude and generalize on a more sophisticated way. The main objective is to investigate factors affecting business valuations for IPO purposes, i.e., motivating factors that made directors decide to take the company public as well as the attributes of business valuations that took place for the purposes of the initial public offering itself.

For the purposes of the current project the author has used the Form S-1, which includes the Registration and the Prospectus of each company as well as the relevant annual or quarterly Financial Statements to guide her through the research analysis.

5.1 AIRBNB

5.1.1 Company introduction

The company was incorporated on 27th June 2008, when Nathan Blecharczyk, a software engineer joined the two designers who invented the fundamental idea of Airbnb when they creatively addressed the problem of saturated accommodation and hotel market during a busy period in San Francisco in 2007 by opening their own apartment for strangers. The concept was also motivated by the desire to find easier ways to pay their rent. The two designers, who founded the original idea of Airbnb in 2007, Brian Chesky and Joe Gebbia, treated their first guests like old friends giving a long-life unique experience and therefore revolutionized the meaning of traditional hosting and matched Airbnb with the meaning of “live like a local”. Paul Graham, a Y- Combinator investor, mentored the three designers by offering financing and training in exchange for ownership of the company.

Firstly, the company was incorporated under the name of AirBed & Breakfast, Inc., which was then changed to Airbnb Inc. on 15th November 2010 and has been operating under the latter as a community-based global platform that provides lodging, rental, and hospitality services.

The Company collaborates with hosts through the listing creation procedure, providing a variety of tools to help them manage their listings, including scheduling, community assistance, host protections, pricing recommendations, and feedbacks. Its guest platform includes configurable wish lists for travelers in the planning stages of their trip, in-app guest-to-host communications, and a mechanism for guests to submit reviews. The company's technology supports global payment capabilities, multilingual community safety and assistance, and city-specific product needs. (Refinitiv Database, n.d.) Also, the platform provides business intelligence analytics to its hosts to help them manage their marketplaces, such as price insights and occupancy optimization. It uses machine learning to enable important areas ranging from fraud detection to tailored and real-time community help (Airbnb Inc, 2019).

Market Opportunity

Airbnb has accumulated some very impressive numbers since its inception. As of June 30, 2021, Airbnb had more than 4M hosts and 5.6M active listings on its website, in more than 100K cities (September 20, 2021) and more than 220 countries and regions worldwide (June 30, 2021).

Statistics, which were reported in October 2020 showed that more than $110B revenue was generated in over 1B guest arrivals all time (September 20, 2021).

In 2016 Airbnb launched its new business line, called Airbnb Experiences. More than 50k Experiences were listed in 1k+ cities, which was reported in an article written on the 28th of July 2020.

Airbnb calculates its total serviced addressable market ("SAM") to be $1.5 trillion, including $1.2 trillion for short-term stays and $239 billion for experiences. The business estimates that the total addressable market (TAM) for short-term stays is $3.4 trillion, $1.8 trillion for short-term stays, $210 billion for long-term stays, and $1.4 trillion for long-term stays, which is based on pre-pandemic figure from 2019 (Airbnb, Inc., 2020).

Product developments/ diversifications

Airbnb used to emphasis only on low-end customers, but during the years it has gradually expanded to include high-end customers as well. On Airbnb, houses in different price levels can be found, including low-cost, medium-cost, and high-cost possibilities. As mentioned before its listings involve private rooms, entire houses, apartments, villas, treehouses, cottages, igloos etc (Ma, 2018).

Airbnb also launched a new “category” of homes called Airbnb Plus, which features a collection of only the best residences, with hosts that have a reputation for excellent reviews and attention to detail (Airbnb, Inc, 2022).

In order to fulfil everyone’s expectations the company introduced a collection of immaculate, expertly built homes with top-of-the-line facilities, utilities, and personal trip organizers. This feature is called Airbnb Luxe. When booking an Airbnb Luxe home, one will be assigned a personal trip planner who will help to plan the perfect five-star vacation (Airbnb,Inc, 2022).

Apart from different types and categories of accommodations, Airbnb also allows businesses to find the best place to stay while traveling for business purposes by providing homes and boutique hotels all over the world with all of the facilities required (Airbnb for Work, 2022).

Recently the company came up with a huge development, which is offering not just accommodations but experiences. Airbnb launched its feature to host experiences in 2016, created and led by locals from all over the world, delivering unique and authentic experiences that goes beyond usual expectations. As the pandemic hit, and Airbnb realized the demand for the means of belonging virtually, they developed and launched Online Airbnb Experiences only in 14 business days, which action can be deemed to be the first signs of reacting to Covid-19 proactively (Merara, 2020).

Airbnb.org is a non-profit organization which links disaster victims with hosts who are willing to provide a free place to stay. It is an independent, publicly funded non-profit organization that collaborates with other non-profits to provide emergency housing to people in need. Thousands of participants have taken part in the initiative since its inception in 2012. Airbnb.org as a separate entity so that they can expand on these activities and assist many more people. Airbnb is funding the expenses of managing Airbnb.org, allowing community contributions to go further towards helping those in need (Airbnb.org, 2022).

Business model

Airbnb does not hold any inventories, since the company works as an intermediary between guests and hosts. The company operates a global marketplace, providing accommodations and experiences to people.

Airbnb anticipates that its business model stays competitive due to a big variety of factors, such as the scope and scale of stays and experiences offered on the platform (selection of listings), along with its worldwide presence and geographic areas it reaches. Furthermore, due to its brand recognition and loyalty Airbnb receives from the guests and the hosts, it manages to remain one of the most competitive lodging service portals among all the Online Travel Agencies. Airbnb`s favorable competitive landscape is also derived from the functionality and extensibility of its platform (community support, payment, host protections etc.) and to its organic traffic.

The majority of the company`s revenue can be originated from the service fees, that Airbnb collects from guests and hosts. Service fees can vary based on different factors, such as type of the host/ listing (Airbnb Plus, Airbnb Luxe) as well as on the underlying geographic location the Airbnb service is used or the duration of the stay. Normally, Airbnb charges approximately a fee of 3% on hosts and 12% on guests. The total service fees charged and recognized as revenue upon check -in is roughly 15% of the booking price set by the host for his/her listing. Apart from the service fee approximately 4% is collected for tax purposes.

The last couple of years Airbnb added another model for professional hosts, who frequently operate property management or hospitality businesses by applying application programming interfaces to activate their premises on the Airbnb website. For these professional hosts, Airbnb has devised a different model, whereby host bear the entire fee of approximately 14% and guest do not pay anything.

The company has five stakeholders, namely its employees, shareholders and on the other side its guests, hosts and the community where they live. The company strives to operate with the intention of serving all of its stakeholders at the same rate. The business model is established on the success of hosts and guests, who serve the community accordingly and therefore generate bookings repeatedly and Airbnb`s revenue is obtained by this recurring activity.

Strategy

The company introduced its growth strategy for the long term in its prospectus, which is continuous investment in its key strengths, such as investing in growing the extent and quality of hosting by adapting to the changes in travelling behaviors due to the pandemic (remote working, longer stays etc.). The company plans to innovate and create new tools and services to educate hosts on becoming the best and highest quality host ever. The company intends to continue to invest in its brand by educating new hosts and guests about the uniqueness and advantages of the company, as well as by developing a unified marketing strategy that will be supported by product launches introducing new features to prospective stakeholders. Airbnb plans to further expand their global market and presence, by market development and penetration as well. They plan to localize their products by cooperating local governments and communities to revise laws and legislations in the favor of short-term rentals. Continuous innovation of the platform is a key component of the long-term growth strategy which is based on focusing on the improvement of the overall host and guest experience both online and in physically. The company anticipates that they will continue to design new opportunities for connection as the world and travelling behavior of the people change by combining new technologies with their design expertise.

Management team

A significant component of a successful IPO story is having qualified and professional executives in the management team who can prepare the firm for the lengthy IPO process while also being able to endure the intense scrutiny it will face.

As an online marketplace, Airbnb is highly reliant on qualified technical and engineering personnel. The ability to retain and attract such professionals, as well as the executives Airbnb currently has on its team, will always be a big contributor to success. The majority of the management team had little experience operating a publicly listed firm at the time of the IPO, which might provide future challenges in terms of success and regulatory compliance. At the same time however, Airbnb's founders, Brian Chesky, Joe Gebbia, and Nathan Blecharczyk, have been instrumental in the company's success, thus any limitation or loss affecting them would have a significantly negative impact on the company's performance.

Risk factors Summary

The company is subject to several uncertainties and risks that need to be taken into consideration.

First and foremost, as previously mentioned, the pandemic and the following economic downturn had adversely affected the business and will continue to do so in the coming future. Covid-19 is a systematic risk, it is inherent to the market overall, and falls outside of the control of the company itself.

Given the company`s nature, it has incurred net losses each year from the moment it was incorporated, and therefore it is subject to the risk of reaching profitability at all.

The industry the company operates in is extremely competitive, that could lead future declines in being able to retain existing or attract new hosts and guests, which would result in negative impact concerning business operations

The company draws attention to its big amount of indebtedness of $1.9B as of September 30, 2020.

The company is estimated to realize a cost of $2.8B at the time of the issuance relating to stock-based compensation**.** This service-based vesting condition expenditure was satisfied on November 25, 2020, for which the liquidity-based vesting condition is expected to be fulfilled in relation with this offering.

The company might be exposed to larger income tax liabilities. Airbnb received a notice from the IRS proposing an adjusted increase regarding their U.S. taxable income for the year 2013, which is approximated to enhance income tax expenditure by roughly $1.35B plus penalties, which is more than its reserves by around $1B.

Due to the normal course of the business, Airbnb is involved in legal proceedings, claims and government investigations relating to among others: safety issues, regulatory, discrimination, pricing, consumer/ property rights or commercial matters. The outcome of these matters could adversely affect the operations of the business in terms of damage awards, fines or penalties or discouraged guests/ hosts using Airbnb. Airbnb strives to address these problems by creating new rules to improve safety, trust, discrimination issues and so forth. Airbnb has faced multiple legal challenges as cities claim that Airbnb`s business model violates local zoning laws and regulations by evading paying appropriate taxes and by driving up housing prices for locals. There is no doubt that Airbnb pushes regulatory and legal limits by being a disruptive company. The regulatory restrictions vary widely across the world, where some areas and big cities imposing much stricter rules than others.

Due to the global presence of the company, a substantial amount of the bookings and revenue are translated into foreign currencies (40), therefore the company`s financial performance is susceptible to fluctuations in currency exchange rates (Airbnb, Inc., 2020).

Resilient model

Airbnb`s business line has been materially adversely affected as the coronavirus hit the world at the beginning of 2020.

However, during summertime, a decent rate of rebound was noticed that proved the business model`s resilience. People wished to travel but due to lockdowns and restrictions they could not do so internationally, therefore domestic travel perceived a surprisingly fast rebound. These travelling patterns were characterized by mostly longer stays as remote working became the new norm of everyday life. The company strongly believes that the gap between travelling, and living is likely to vanish since the global pandemic has accelerated the possibility to live anywhere and work from anywhere (Airbnb, Inc., 2020).

As soon as Airbnb realized the need for domestic and short-term distance travel, it quickly updated its customer profile on its website and mobile apps by marketing accommodations available for longer periods in rural areas, therefore it has proved to be a highly resilient and adaptive business model as such. Also, the wide range of accommodations available allow people to find the best-suited option that meet their needs.

Airbnb`s core idea was born after the Great Recession of 2008, when people were trying to find cost-efficient ways for living. The company believes that the need for people to earn extra income in any possible way, will continue to motivate them for hosting even after the coronavirus.

To support hosts and guests during extraordinary times the company applied its extenuating circumstances policy that enables hosts and guests to cancel reservations that are disrupted by natural disasters, pandemics, or other emergencies. Due to the large numbers of cancellations and severely disrupted earnings by hosts Airbnb introduced a 250-million-dollar worth fund and an additional $7M for Superhosts for those, whose cancellations happened on or before 14th March 2020 with a check-in date between 14th March 2020 and 31st May 2020. In practice, this meant that qualifying hosts were entitled to collect 25% of the money they would have received from visitors if they had followed the host's cancellation policy.

Key business metrics

`	2015	2016	2017	2018	2019	2020
Nights and Experiences Booked (M)	72	126	186	250	327	193
YoY Change %		74%	48%	35%	31%	-41%
Gross Booking Value in $Bn	8.10	13.92	20.97	29.44	37.96	23.90
YoY Change %		72%	51%	40%	29%	-37%

Table 1:Airbnb key business metrics for the whole year

Airbnb uses two basic operational metrics which are the most relevant to its business operations. One of the key metrics of Airbnb is Nights and Experiences Booked that drives financial performance. It is the total number of nights booked for stays and the total number of seats booked for experiences in a given period, net of cancellations and alterations that incurred in that period. Another key metric is Gross Booking Value (GBV), which is the dollar value of bookings on the platform in a period including of host earnings, services fees, cleaning fees and taxes, minus the cancellations and alterations incurred in that period. GBV is s driver indicator for revenue, since it is recognized upon check-in (Airbnb, Inc., 2020).

Pre-pandemic times the company experienced year-over-year growth in Nights and Experiences Booked as well as in Gross Booking Value. The Covid-19 pandemic however, materially adversely effected these business metrics due to cancellations and alterations relating to travelling activities. Given the numbers above, it can be observed that despite of the pandemic, 2015 to 2020 Nights and Experiences Booked still increased by 167% which is however a downturn comparing to pre-pandemic times, from 2015 to 2019, when Nights and Experiences Booked increased by 352%. Similarly, the same pattern can be observed concerning the GBV, which amounts to be a 195%

growth from 2015-2020, in contrast to the 369% growth from 2015-2019. Nights and Experiences Booked were down by 41% in 2020 as compared to 2019, and GBV was similarly down by 37%.

Q3	2019	2020	2021
Nights and Experiences Booked (M)	251	147	227
YoY Change %		-41%	55%
Gross Booking Value in $Bn	29.42	17.99	35.60
YoY Change %		-39%	98%

Table 2:Airbnb key business metrics ending in the 3rd quarter

As of 30th of September 2021, Nights and Experiences Booked amounted to be 227.2M which is an indication of 55% of increase from 146.9M in the same period in 2020.

Likewise, GBV stood at $35.6 billion for the nine months ended in 2021, which indicates a 98% increase from $18 billion in the same period in 2020.

This large improvement in key business metrics in 2021 may be attributed to the company's resilient business model and the growth in domestic and short distance traveling as compared to 2020.

Restructuring plan

Some serious cost cutting measures were implemented by the company to protect its business from the overall market disruptions due to the Covid-19. After the outbreak of the pandemic, the company invited the Board of Directors for a meeting, whereby they realigned some strategic principles. First of all, Airbnb raised 2B dollars in debt financing in April 2020 prior to its IPO. Secondly, the company reduced its full-time workforce by approximately 25%, which means approximately 1800 employees. Airbnb reduced its executive`s salaries for six months and announced that there will be no employee bonuses as such for the whole year of 2020. Furthermore, the company suspended all optional marketing programs and other expenses as well as all facilities build-outs and reducing capital expenditures. These measures resulted in charges as stock-based compensation expenditures in 2020 with the amount of $135- 150M. Airbnb anticipates that these measures helped the company to prudently manage its business through the pandemic.

In connection with the aforementioned measures, Airbnb redefined its strategic priorities in order to tackle the difficulties caused by the pandemic by focusing more on individual hosts and brand marketing by placing a halt on new investments.

Financials

	as of 31 December						as of 30 September		
$M	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2019**	**2020**	**2021**
Revenue	919	1,656	2,562	3,652	4,805	3,378	3,698	2,519	4,460
Costs and expenses:									
Cost of revenue			648	864	1,196	876	903	666	861
Operations and support			396	609	815	878	903	548	622
Product development			401	579	977	2,753	694	691	1,057
Sales and marketing			872	1,101	1,622	1,175	1,185	546	835
General and administrative			327	479	697	1,135	490	421	619
Restructuring charges	-	-	-	-	-	151	-	137	112
Total costs and expenses	1,043	1,789	2,643	3,633	5,307	6,968	3,872	3,009	4,106
Income (loss) from operations	(124)	(133)	(81)	**19**	(502)	(3,590)	(174)	(490)	**354**
Interest income	4	12	32	67	86	27		24	9
Interest expense	(8)	(12)	(16)	(26)	(10)	(172)		(108)	(435)
Other income (expense), net			7	(12)	14	(947)		(116)	(300)
Income (loss) before income taxes	(131)	(136)	(59)	47	(412)	(4,682)		(689)	(372)
Provision for (benefit from) income taxes	5	11	11	64	263	(97)		7	34
Net loss	(135)	(147)	(70)	(17)	(674)	(4,585)	(323)	(697)	(407)

Table 3:Airbnb Income Statement

Airbnb generated $4.8B revenue in 2019 and $3.4B in 2020, which is a 30% drop and due to the covid-19 impacts. Previous years Airbnb realized year over year revenue growth, which was actually slowing down substantially. From 2015 to 2016 YoY revenue growth was 80%, from 2016 to 2017 it was 55%, from 2017 to 2018 it amounted to be 43%, and last from 2018 to 2019 it became 32%. The company states in its prospectus that this trend is expected to slow even further in the future, since revenue growth is influenced by many factors, such as the growing competition, the upcoming regulatory issues, the ability for customer attraction and retention, the ability to maintain brand awareness and overall perception by the public, effectiveness of cost handling and managing matters, innovation, product launches etc.

However, based on the third quarter`s earnings result, Airbnb increased its turnover by 77% in Q3 2021 compared to Q3 2020, which was down by 32% compared to the previous Q3 of 2019.

Regarding the income (loss) from operations, Airbnb was showing negative results throughout the years, but in 2018, the company showed positive income from operations at $18.7 M. This amount declined significantly in 2019 which can be derived from the investing initiatives in China that took place that year. In 2020, loss from operations dramatically worsened even more due to the pandemic and due to the increase of $1.8B in product development expenses in 2020, which includes primarily the stock-based compensation expense related to the restricted stock units. Looking at the third quarter results, numbers obviously plunged up, which is very promising, but it is before the adjustments of the annual reports. Airbnb has granted stock incentives to employees, non-employees, and members of Board of Directors in the form of restricted stock units (RSUs). The fair value of the stock option granted was estimated using the Black-Scholes option pricing model, which requires certain variables, including the fair value of common stock, risk-free interest rates, expected stock price volatility, dividend yield of the common stock and the expected term. The fair value of the common stock is recognized as stock-based compensation expense and is distributed among the expenses on a straight-line method over the requisite period, which is four years.[4]

$M	2015	2016	2017	2018	2019	2020
Net loss	(135.4)	(147.4)	(70.0)	(16.9)	(674.3)	(4,584.7)
Adjusted EBITDA	(94.0)	(52.7)	60.2	170.6	(253.5)	(250.7)
Cash From Operating Activities			251.2	595.6	222.7	(629.7)
Free Cash Flow	(123.6)	21.1	151.0	504.9	97.3	(667.1)

Table 4: Airbnb Financials

Airbnb has incurred net losses throughout the years. In the past the company invested into massive operational growth, such as expanding its host and guest community, marketing spendings, hiring top talents and enhancing offerings and features on its platform. After the Covid strike however, the company has significantly reduced its fixed and variable costs as mentioned before (restructuring plans), though as stated it will continue to invest in its community, as well as in different improvements concerning technology infrastructure, payment solutions, trust and safety features on its website.

In 2018, the company showed positive income from operations at $18.7 M. This amount declined significantly in 2019 which can be derived from the investing initiatives in China that took place that year.

Airbnb calculated its free cash flow (FCF) by subtracting the purchase of property and equipment from net cash provided from operating activities. The company anticipates that FCF is an important metric for liquidity purposes, which inform management and investors about the amount of money available for strategic initiatives, such as business investments and acquisitions purposes. Airbnb`s FCF is influenced by the timing of GBV, since service fee collection is at the time of the booking, which is normally incurs before the actual check-ins.

FCF decreased in 2019 due to higher operating expenditures. Airbnb decided to take initiatives in terms of product diversification and growth opportunities and made significant investments to

[4] The *expected term* is calculated using a simplified method. The *risk-free interest rate* is determined using the current U.S. Treasury yield curve. The *projected volatility* is calculated using the average historical stock price volatility of publicly listed businesses in the same industry. No *dividend yield* is expected.

launch Airbnb in China, Airbnb Experiences, Airbnb Luxe etc. as well as to improve the company`s technological infrastructure. In 2020 further decline is noticed due to the pandemic and the relating impact on the travel industry.

	2018			2019			2020			2021		
$M	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
Net loss	(146.2)	(136.0)	201.9	(292.0)	(589.5)	(322.8)	(340.6)	(916.2)	(696.9)	(1,172.2)	(1,240.4)	(406.5)
Adjusted EBITDA									(230.2)			
Cash From Operating Activities	319.2	601.5	697.7	314.0	465.7	419.1	(569.8)	(826.3)	(490.6)	494.4	1,285.7	1,808.8
Free Cash Flow	287.3	555.4	630.3	277.1	398.2	319.8	(585.5)	(848.1)	(520.1)	486.7	1,270.3	1,788.0

Table 5:Airbnb Financials

However, looking at the table representing the quarterly results, we notice that there is a significant positive movement in terms of cash from operating activities and FCF in 2021. It is important to mention though, that quarterly results might be misleading as numbers get adjusted in the annual report later, although they unquestionably stand healthier in 2021 than the prior year, which might be due to Airbnb`s resilient business model and it's rebound on domestic, long-term stays.

5.1.2 Pre-IPO valuation

Airbnb has invested into its platform tremendously since its inception. Some of that investment has come from internal spending but a lot of it has come from acquiring small companies by raising external fundings. From the time of its incorporation Airbnb has raised approximately $6B through roughly 30 rounds of financing, some of which are demonstrated in the below table for illustrating purposes (Craft.co, 2022). It is clearly seen that Airbnb took on almost all the stages of fundraising rounds. Usually, companies that raise capital through a Series C fundraising are looking to penetrate international markets or considering preparing the company for an IPO, therefore needing a last boost before going public. Airbnb has reached that stage in 2013, but an IPO was yet not in the picture. The first whisperings of going public began in 2016 through the press, but Airbnb waited until 2020 to enter the public market.

	Date	Amount Raised	Post-money Valuation
Seed	2009	$20 k	$2.5 m
Seed	2009	$615 k	
Series A	2010	$7.2 m	$70 m
Series B-1	2011	$114.9 m	$1.3 b
Series B-2	2012	$2.1 m	
Series C	2013	$200 m	$2.9 b
Series D	2014	$519.7 m	$10.5 b
Series E-1	2015	$1.6 b	$25.5 b
Series E-2	2015	$100 m	
Debt	2016	$1 b	
Series F	2016	$1 b	$31 b
Unattributed	2019	201.6 m	
Unattributed	2019	$25.9 m	
Private Equity	2020	$2 b	$18 b

Table 6: Airbnb Pre-IPO funding rounds

Airbnb has acquired multiple companies every year over its entire lifetime, which were usually small tech companies that would enhance its entire value and offerings. These acquisitions include for instance Hotel Tonight Inc. and UrbanDoor Inc. which were both acquired during 2019. In order to fund such acquisitions Airbnb stated, that they may incur substantial debt or issue equity or convertible debt securities for financing purposes in the future, which will obviously have an effect in financials, but most importantly the latter would further dilute existing shareholders (Airbnb, Inc., 2020).

By 2015 the company obtained $1.6B funding against a valuation of $25.5B in its Series E-1 round. With such funding Airbnb managed to absorb its competition with the aim of becoming a travelling website where guests can book everything for a good vacation without leaving the website. Airbnb acquired Accoleo and CrashPadder in Europe, which were marketplaces for mapping and restaurant guides. In 2017 Airbnb took over an online marketplace for luxurious homes and rentals called Luxury Retreats International Holdings, from which Airbnb launched its Airbnb Luxe offering, which was previously discussed above.

5.1.3 Business valuation for IPO purposes

In order to determine the fair value for its common stock the company first estimated its enterprise value. The enterprise value was calculated using two commonly acknowledged approaches, which is the income approach and the market approach.

The income technique calculates enterprise value based on the predicted present value of future cash flows generated by the firm throughout its expected lifetime. The estimated present value is derived from applying a discount rate that indicates the risks involved with an investment in a comparable firm in a similar industry or with a related history of revenue growth.

The market approach calculates a company's worth by analyzing recent sales and/or offerings of similar investments or assets, concentrating on comparing those results to the subject company. The value multiples used in this technique are generated from the peer group's historical operational data, which is compared to the company`s operating data, and therefore clear indications can be revealed about business operations and prospects.

Financial forecasts were estimated for each valuation to be utilized in calculating the value of invested capital using both the income and the market approach. The financial forecast took into account previous results as well as predicted future financial performance. The risk of meeting this projection was considered while determining the appropriate discount rate. These estimates are inherently exposed to uncertainty since the assumptions applied are purely subjective and attributable to change as a consequence of new operating results, economic and other variables affecting our business.

Upon the offering of the Class A common stock on the Nasdaq Global Select Market, determining the fair value of the common stock will no longer be required since shares will be traded in the public markets, and share price will be determined by the overall market supply and demand forces (Airbnb, Inc., 2020).

Airbnb`s stock market debut is referred to as one of the largest and most awaited U.S. IPOs of 2020. The company initially had set a price interval from $44 to $50 per share for its IPO, which was then amened to $56 and $60 per share. At this point the company anticipated to obtain approximately $2.8B net proceeds from the IPO or $3.1B in the case of scenario if the underwriters apply the option to buy additional shares of Class A common stock. This assumption was built on an expected initial public offering price of $58 per share value which is the median of the price range ($56 and $60) initially stated on the front page of the prospectus, after subtracting expected underwriting discounts and fees, as well as projected issuing expenses due.

In 2017 Airbnb was valued as a private company at $31B in pre-pandemic times after its fundraising initiatives, which fell dramatically to $18B due to the pandemic and the $2B of expensive (9% and 11.5% interest rate) emergency debt and equity financing which was raised in April 2020 in order to support its operations (CNBC, 2020). Airbnb also stated, that $5M of this fundraising will go towards its SuperHost Relief Fund, which supports their top hosts during the pandemic (Shapiro, 2020).

After Airbnb`s underwriters sensed the demand for the shares, the initial public offering was priced at $68 per share, with 55M Class A common stock raising $3.7B capital and resulting in an initial market valuation of approximately $47B.

As can be observed, the IPO price was substantially higher than the one that was originally established, indicating favorable investor sentiment and desire for Airbnb's shares. However, the extreme upward trend did not end there. The listing price of $68 has climbed to a $146 opening price, which is the amount at which the business begun trading on the stock exchange, which was, in this instance the NASDAQ Stock Exchange. Through this initial public offering Airbnb managed to raise $3.5B (Hussain & Franklin, 2020).

The stock price skyrocketed on the IPO date with the highest trading amount to be $165, which increased the company`s valuation to be more than $100B, which shows a significant upward trend as compared to the valuation of the last private fundraising round at $18B in April 2020 (Ponciano, 2020).

During the pandemic, short-term rental websites showed a slow but remarkable resurgence as individuals yearned to travel in the midst of the epidemic. Domestic travel, as well as longer stays in rural areas, became widely popular. Airbnb announced accordingly that the new funds it has raised through $2B emergency financing would be used to boost its long-term rental business on its website (Shapiro, 2020).

The IPO represents a remarkable rebound in Airbnb's fortunes following the firm's business being severely harmed earlier this year by the COVID-19 outbreak. The company`s IPO was a long-awaited IPO, since it has already announced its intention to go public earlier in 2019, but via a direct listing, since it was not desperate to raise money for the company itself at that time. In November 2019, the company even hired a new CFO, Dave Stephenson, a former vice president at Amazon (Deagon, 2019).

However, as the Covid-19 pandemic hit business operations and main strategies dramatically, Airbnb opted to undergo a confidential traditional IPO process rather than a direct listing, which allows more flexibility by withholding information from competitors for a longer period, as compared to the traditional IPOs. In a confidential IPO the company is obligated to file a public S-1 Form, which would be only made available for investors 15 days prior to the actual IPO date.

Also, in a confidential IPO, there is no set date for the IPO and therefore it is much more flexible (Klebnikov, 2020).

5.1.4 The offering

Airbnb begun trading on the on the Nasdaq Global Select Market under the ticker symbol "ABNB" on the 10th of December 2020. The lead underwriters that assisted the company throughout its IPO process were Morgan Stanley and Goldman Sachs & Co. LLC.

Airbnb, like many other new technology businesses that have gone public in the previous decade, has elected to have various classes of shares. In fact, Airbnb provided four different types of shares. Class A shares have one vote per share, class B shares have 20 votes per share, and class C, as well as Class H shares without voting rights. Class A shares are the ones that external investors buy, Class B shares are the ones held by the founders and insiders which gives them absolute control over the company.

Airbnb introduced an appealing host endowment fund which was funded by 9.2M shares of Class H common stock issuance. This way, hosts are enabled to take part in the success of Airbnb`s business and is deemed to be a long-term investment in the host community itself, which indicates a very positive ESG phenomenon represented by Airbnb. Also, in December 2020 the company introduced the first members of the Host Advisory Board for 2021, which is going to be the advocate of hosts in the overall Airbnb experience (ideas, policies, host endowment fund investments etc.).

5.1.5 Use of Proceeds

The IPO was completed on December 14, 2020. In this IPO 55M Class A Common shares were sold at $68 per share value, including 5M Class A Common stocks in relation to the exercise of underwriters with the option to buy additional shares. In its IPO procedure Airbnb raised $3.7B in net proceeds, which is after all the deductions of underwriting discounts and fees of $79.3M and offering expenditures of $9.8M.

The company has used a part of the net proceeds raised in its IPO and further anticipates using the remaining amounts in the future for tax withholding and settlement obligation purposes that are in connection to the outstanding RSU the company has granted to its employees and certain non-employees. These amounts were expected to be about $1.6B in total.

The Company specifies that the main reason of its IPO is to “enlarge Airbnb`s capitalization, financial flexibility and to create a public market for their common stock.”

The company`s overall intention is to utilize the net proceeds from this IPO for general corporate purposes. Such general corporate purposes involve handling working capital, operating expenses and capital expenditures. Airbnb announced that they might also use a part of the net proceeds to take over or invest in other businesses, products, offerings or technologies. However, at the time of the offering Airbnb did not have such commitments.

Among other factors, future cash flows from operations or the expected growth of the business will influence the timing and amount of utilization of the net proceeds gained from the IPO. Airbnb has the intention to apply certain investment strategies, such as the short- and/ or intermediate-term capital investments, such as money market funds, interest-bearing investments or government securities (Airbnb, Inc., 2020).

5.1.6 Airbnb`s aftermarket performance

As Airbnb`s opening price was more than double than its listing price in the IPO, many wondered whether the company left money on the table by letting underwriters to offer shares at such a low price or not. Normally, underwriters should price the IPO in such way that it would be beneficial for both investors and the company itself. If the IPO is priced too low, one might think that it was due to the underwriter`s incompetence or corruption intensions.

However, literature suggests that there is such a thing as a "rational IPO price pop," especially in the fast-changing technology startup industry, due to the inherent difficulties in valuing those firms. Usually, these growing startup companies are valued based on their future growth potential, overall brand awareness and the value of their other intangible assets, such as talent and software capabilities, rather than based on more easily quantifiable tangible assets. On the day of the IPO, investors` appetite is driven heavily by the judgment of other investors. The share price can fall or rise extremely fast under this setting, explaining therefore a big shift in aftermarket performance on the first day of the IPO. In case of an overpriced IPO, the investment bank risks the aftermarket performance, resulting in a downturn in share prices and the lack of investors’ appetite for the specific shares (Cowen, 2020).

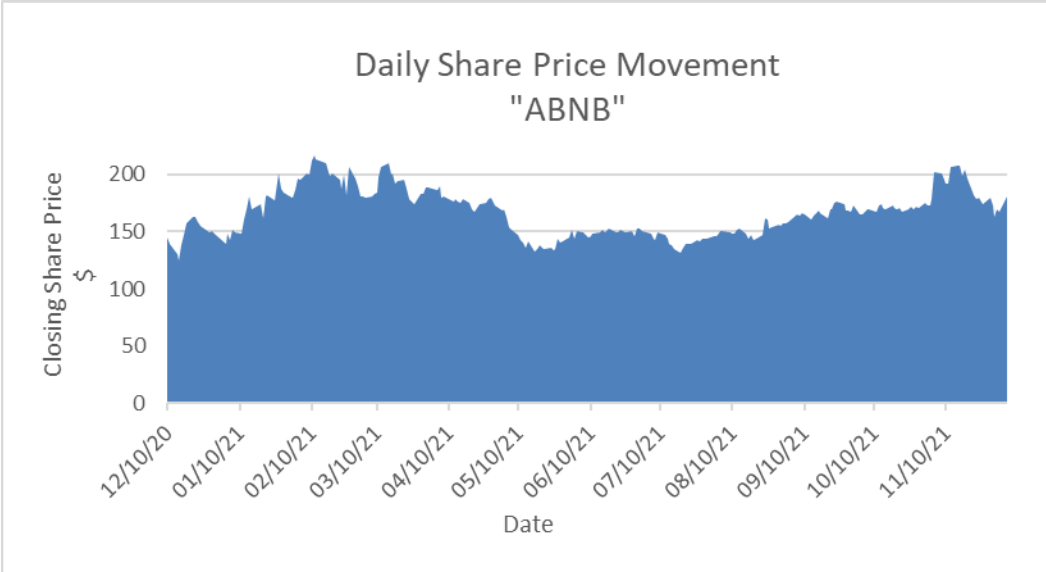

Figure 4: Airbnb Daily Share Price Movement

Airbnb`s highest trading share price was $219.94 on 11 February 2021, whereas its lowest trading share price amounted to be 121.50 on 15 December 2020.[5]

As it is seen on the chart Airbnb experienced a fall in terms of share prices during May 2021, which is due to the expiration of lock-up periods on the 17th of May 2021. Trading price was down by 6% at around $132.10 per share as opposed to the closing price on the IPO day which was $144.71.

Out of the company`s 626.19M outstanding shares, the free float which is not held by insiders amounts to be 343.03M shares.[6]

The Company's announcement of the Airbnb 2021 Winter Release, which features 50+ updates and innovations across its platform, caused the share price to surge in November 2021. Earlier this summer, Airbnb took a similar design-driven, innovation strategy by launching the Airbnb 2021 Release, which included over 100 changes to its service, in August 2021. These actions demonstrate Airbnb's ability to adjust to the world's new era of altering travel behaviors, which began after the Covid-19 outbreak. Airbnb provided an almost all-inclusive protection scheme for Hosts called AirCover, an even more advanced translation engine, and verified Wi-Fi options, to name a few (Rental Scale-Up, 2021). As a result, investors' appreciation is reflected in the rising trend in the share price in November 2021. Although the initial investor enthusiasm did not take too long,

[5] Based on data sourced from Refinitiv as of 29 December 2021.
[6] Based on data sourced from Refinitiv as of 05 December 2021.

Airbnb`s continuous efforts to adapt to the new environment proves the company`s goodwill to the overall market.

After analyzing the subject company itself, the author intended to include other companies that went public during unprecedented times, such as the pandemic and the financial crisis, in order to be able to present findings on a more precise way. All together four other companies had been taken under consideration: DoorDash, Wish, Visa and RackSpace.

Hereinafter the author referred to the chosen companies (DoorDash, Wish, Visa and RackSpace) under the corresponding paragraphs as “the company”.

5.2 DOORDASH

5.2.1 Company introduction

DoorDash was founded in 2015 and offers an online food ordering and delivery platform. It filed for its initial public offering (IPO) along with Airbnb in 2020 during the pandemic, thus the fundamental economic outlook at the time of the filing was similar. The stock began trading on the New York Stock Exchange under the ticker symbol "DASH."

Online food delivery businesses were some of those businesses that the pandemic impacted beneficially. The company believes that the adoption of the online food delivery logistics is still in an early stage, which will continue to accelerate year by year in the upcoming future.

DoorDash manages a logistic platform which links merchants, consumers and those working at DoorDash. It provides Pickup, which allows customers to place prior orders, bypass queues, and pick up their orders. Merchants may use DoorDash for Work to place group orders and catering services for companies and events. Drive, its logistics offering, enables merchants to meet customer demand that they have already generated through their channels.

The Doordash Marketplace (platform) provides merchants a broad variety of services, such as customer acquisitions, delivery, insights and analytics, merchandising, promotions, payment processing and customer support. It offers customer service for all orders submitted through its local logistics platform. DashPass, a subscription product, functions as a membership program and provides users with access to merchants (Refinitiv Database, n.d.)

Due to growing consumer demand for delivery, more merchants were using the company`s platform to support both delivery and take-out, and enhanced effectiveness of its local logistics infrastructure, the firm had a considerable growth in revenue, Total Orders, and Marketplace GOV (gross order value) during the COVID-19 epidemic. However, the circumstances that have accelerated the growth of its company as a result of the COVID-19 may not persist as DoorDash expects these growth rates to drop in future quarters.

The company has made major investments in its business in order to grow into new geographic regions and improve its technological platform. Furthermore, it has invested in R&D to improve the complexity of its local logistics platform and provide a high-quality experience to merchants, consumers, and Dashers. Investments in sales, marketing, and promotions also took place in order to expand the company's brand and network of merchants, customers, and Dashers, as well as to boost the involvement of all the constituents with its platform.

5.2.2 Business valuation for IPO purposes

The corporation calculated its enterprise value first, then distributed it among the various classes of equity securities to arrive at a fair value per share of the common stock.

The enterprise value of the company was mostly determined using the latest round of equity financing prior to the valuation date. The corporation has used the income approach in a few circumstances.

Since January 2019, the firm has allocated the enterprise value of the business across the various classes of equity using the option pricing technique (OPM), more specifically a mix of probability weighted OPM and probability weighted expected return method, or PWERM. PWERM entails a forward-looking appraisal of the enterprise's potential future results.

This strategy is especially beneficial when discrete future outcomes can be predicted with a probability distribution with a high degree of certainty. The PWERM considers future events such as an initial public offering (IPO) of common stock as well as non-IPO market-based outcomes. By using PWERM to determine the fair value of the enterprise requires the firm to create assumptions and projections for both the probability of an IPO liquidity event and the value it anticipates such outcomes to deliver.

After allocating the stock to the various classes, a discount for lack of marketability, or DLOM, is applied to determine the fair value of the common stock. A DLOM is intended to compensate for a stock's lack of marketability when it is not traded on public markets. The recent sales of common stock are also taken into account when determining the ultimate common stock value.

The use of these approaches necessitates the application of highly complex and subjective assumptions, which carry high uncertainty as changes in any of these might adversely impact the valuation itself (DoorDash, Inc, 2020).

5.2.3 The offering

The company offered 33M shares of Class A Common Stock and raised $3.37B from its IPO.

DoorDash provided three different types of authorized shares. Class A shares have one vote per share, class B shares have 20 votes per share, and class C share have currently no voting power at all. After the IPO all shares of Class B common stock will be owned by Tony Xu, Andy Fang, and Stanley Tang, who are all current executives and directors of the company.

DoorDash is categorized as an emerging growth company, which means that certain public company reporting requirements are reduced in conjunction with its filings. The leading underwriters of the company`s IPO are Goldman Sachs &Co. LLC and J.P. Morgan.

DoorDash Inc debuted with an initial offering price of $102 per share, which is above its upwardly revised price range of $90 to $95. Initially the company aimed to have a price range of between $75 and $85.

As mentioned before the company has offered 33M Class A common stock at $102 per share raising $3.37B capital which results in a fully diluted valuation for the company of roughly $38B, which is more than double of the $16B, that the company reached in its latest private valuation after its financing round in June 2020.

Many believe that investment banks were not aggressive enough concerning the pricing of DoorDash`s initial offering which is supported by the fact that the company`s shares began trading at $182 per share for the public on the NYSE, which is 78% higher than its previous IPO price (Savitz, 2020).

5.2.4 Use of Proceeds

The firm completed its IPO on December 11, 2020, selling 33M shares of Class A common stock at a price of $102 per share. DoorDash obtained $3.37B in total of net proceeds after deducting $81M in discounts and commissions and roughly $19M in offering fees associated with the underwriting. The main purpose of the IPO is to increase its capitalization and financial flexibility, and to create a public market to its common stock by enabling access to the public equity markets for insiders and stockholders as well. The company stated that it intends to utilize a $200M pledge from the net proceeds as part of their "Main Street Strong" program[7] in order to support merchants, local communities and Dashers.

It also utilized some of the net proceeds to repay its convertible notes which were due in 2020. Furthermore, it utilized a part of the net proceeds from its IPO to meet tax withholding and remittance requirements relating to the vesting and/or settlement of some RSUs that it had granted to employees and certain non-employees. There are service-based and liquidity event related vesting conditions as well. The service -based vesting conditions expire over a 4-year serving period by the award-holder, the liquidity event- related performance vesting condition however expires as the initial public offering took place.

The net proceeds from this offering were intended to be used for general company purposes, such as working capital, operational costs, and capital expenditures. They announced intentions to utilize a part of the net proceeds from this offering to purchase or invest in businesses, goods, services, or technology. However, the company did not have any agreements or commitments for any significant acquisitions or investments at the time of the offering (DoorDash, Inc, 2020).

[7] The Main Street Program was established in 2020 to assist merchants with goods, initiatives, and policies that would enable them to grow their business and better own the consumer experience by developing their own digital ordering solutions.

5.2.5 Aftermarket performance

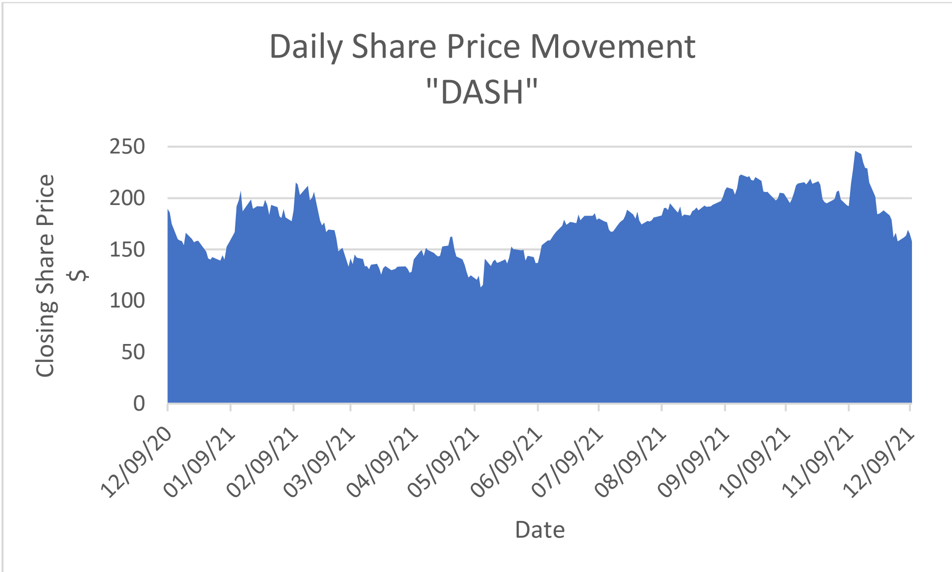

Figure 5: DoorDash Daily Share Price Movement Source: Refinitiv Database

The company`s opening price on the stock exchange was up by 78% standing at $182 compared to the offering price of $102 where it managed to almost reach $190 on its first day of trading. The company`s 52-week high and low trading price was $110.23 per share on the 12th of May 2021 and $257.25 on the 15th of November 2021 respectively.

Early lock-up periods expired on March 1, 2021, when the underwriters' main representatives agreed that the restricted period would cease in case the company is still trading over $127.50 at the time of the expiration and insiders will be eligible to sell a portion of their ownership with regards to 20% in case of Management and Board Members, and 40% in case of other insiders, hence the downward shift in terms of the share price that period. The rest of DoorDash's shares will be free after its second lock-up expires, which will happen the earlier of 180 days after its IPO or after the release of its first-quarter results report. These expirations lead to a series of selloffs throughout the year (Sun, 2021).

In the beginning of November 2021, the company announced that it will acquire the well-known European food delivery startup named Wolt for $7B, as it intends to expand its operations to new geographic areas. The Finland- based corporation has already presence in many European countries, and DoorDash will have the opportunity to penetrate those areas by joining forces with Wolt. The upwards trend in the share price is due to the news regarding this acquisition, as well as the company's release of its favorable third-quarter earnings for the year.

5.3 WISH

5.3.1 Company introduction

ContextLogic Inc. is the parent company of Wish, which is an online retailer. Geographically, Europe accounts for the majority of its income, but it also has presence in North America, South America, and other nations. The firm was founded in 2010 by former Google executive Peter Szulczewski and former Yahoo tech leader Danny Zhang and is based in San Francisco, California.

The company runs the Wish platform, which links users with merchants. Personalized products, apparels, accessories, gaming devices and equipment, cosmetics, plastic products, mobile covers, and other items are available at the store. Its tailored product feed allows customers to find products to buy by scrolling and browsing using its mobile application. The company offers a package of services to merchants, including demand development and engagement, user-generated content production, data insight, promotional and logistical capabilities, and business operations assistance.

ProductBoost is its advertising solution for merchants that aids the promotion of their items on its platform. It provides worldwide compliance, money processing, user assistance, and other services to merchants.

The business registered to list its Class A common stock under the ticker "WISH" on the Nasdaq Global Select Market. The principal underwriters for Wish's IPO are Goldman Sachs, J.P.Morgan, and BofA Securities.

According to the company's website, Wish connects more than 100 million monthly active users in over 100 countries offering approximately 150M items from over 500,000 merchants and sells roughly 2M goods every day on its e-commerce platform. Wish stated $1.7B in revenue for the nine months ended in September 2020, up by 32% from $1.3 B from the previous year. However, the company's net losses increased to $176M from $5M from the previous year (Oguh, 2020).

5.3.2 Business valuation for IPO purposes

The corporation and its representatives in the IPO have worked out a pricing for the initial public offering based on the company's historical performance, projections of its business potential and earnings prospects, as well as based on an appraisal of its management team. Consideration of the above factors with respect to market valuation of companies in related businesses were among the factors to be contemplated in determining the initial public offering price of the shares.

The Company calculated the fair value of its common shares using the market approach, which involves applying valuation multiples derived from observable valuations of comparable public firms to management's expected financial outcomes.

The Company allocated the Company's equity value across outstanding common stock (as well as including redeemable convertible preferred stock, stock warrants, and equity awards) using the Probability Weighted Expected Return Method ("PWERM").The PWERM was implemented by the Company by first establishing an array of possible future liquidity outcomes, such as the IPO, and then distributing such value to outstanding stock, warrant, and equity awards depending on the specific likelihood of each scenario occurring.

The valuation and allocation methodologies rely on assumptions, such as those relating to predicted future revenue and discount rates, value multiples, the selection of similar public firms, and the probability of future occurrences, bearing therefore high subjectivity and possible risk (ContextLogic Inc., 2020).

5.3.3 The offering

The company offered 46M shares of Class A common stock in a dual class stock offer in its IPO, Class A and Class B of common stock, which hold one and twenty voting rights respectively. This dual class stock gives greater control and power mainly for insiders holding the Class B Common Stock. Following the IPO, the founder, CFO, and Chairperson, Peter Szulczewski is endowed with the ability to control approximately 59.3% of the voting power of the outstanding capital stock.

The IPO was priced at $24 at the top of its initial range ($22 and $24), offering 46 M shares, which is the same number cited in the prospectus. Later Wish's shares began trading on the NASDAQ at $22.75 per share, down from $24. The stock closed at a price of $20.05 on a fully diluted basis, which includes options and restricted stock units as well as the outstanding shares reported in its filings, giving the company a value of about $14B. Wish's initial public offering (IPO) gained $1.1B, but shares plunged by double digits when it opened for trade on 16th December 2020 (ContextLogic Inc., 2020).

5.3.4 Use of Proceeds

The company anticipates the net proceeds from this offering to be about $1B, or approximately $1.2B, if the underwriters exercise their option, assuming a $23 per share initial public offering price, after deducting all the necessary underwriting fees.

The primary goals of the offering were to boost capitalization and financial flexibility, to create a public market for the stock, obtain additional working capital, and guide future access to the public equity markets to enable the company to carry out its business plan. Wish intends to utilize the net proceeds from its offering to fund working capital, operational costs, sales and marketing expenses, and capital expenditures in order to fund the company's growth. Furthermore, a portion of the net revenues may be used to buy related businesses, goods, services, or technology, but at the time of the offering no commitments for any particular material purchases existed. The company states that it aims to invest the net proceeds into short and intermediate term, interest-bearing liabilities investment grade securities (ContextLogic Inc., 2020).

5.3.5 Aftermarket performance

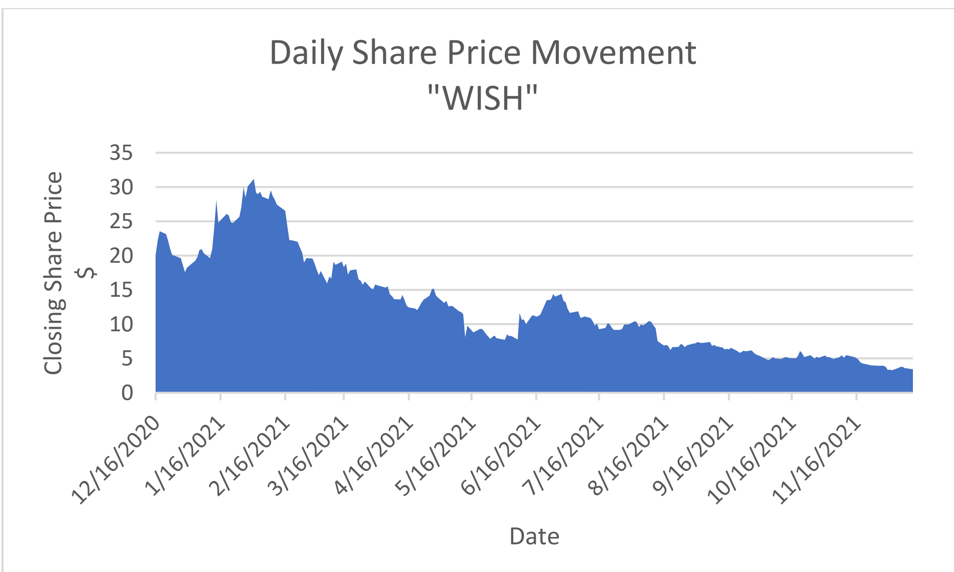

Figure 6:WISH Daily Share Price Movement Source: Refinitiv Database

The company`s highest and lowest share price was trading at $32.85, 44% up, on the 28th of January 2021 and at $2.94, 87% down from the opening price of $22.75 on the 6th of December 2021 respectively.

The stock had built up a healthy bit of momentum up until February 2021, but after the first quarterly results, which were worse than anticipated, the share price started to fall as well as due to the ease of the pandemic restrictions in March 2021, ecommerce growth slowed, leading in a significant drop in the stock price and value.

Wish specializes on cheap products, which target customers who favor affordability over big brands. Wish keeps its delivery cost substantially low, by extending delivery time to even 2-4 weeks long due to the fact that over 90% of its merchants are from China, which work with very low production costs.

The ecommerce market has been growing exponentially in the past few years, which was accelerated even more by the epidemic in 2020. Some analysts estimate a market worth as much as $6 trillion in a few years.

The year over year revenue growth rate has been slowing down from 60% (2017-2018) to 10% (2018-2019). As of 30th September 2019, 2020, and 2021 the year over year revenue growth rate was 32% from 2019 to 2020, but only 3% from 2020 to 2021. The stock started to fall dramatically, when Wish started to report revenue fall in the second quarter of 2021. Wish announced that it will focus on improving product quality, merchandise fraud and timing delivery timing for the customers, and is expecting to come back with actual revenue growth in the second half of 2022. Some key business operational metrics such as the monthly active users (MAU) and active buyers are deteriorating by 33% which is due to the cost cutting in the previously overly spent sales and marketing expenses. This is a concerning sign and must be a main reason for investors to lose their beliefs.

The parent company of Wish, ContextLogic takes responsibility for the poor financial performance and has announced a CEO succession for 2022. Wish has recently received bad press, as France has taken steps to ban the app from app stores and search engines due to violating consumer rights and fraud, which can be followed by many other European countries as well (Dillet, 2021).

5.4 VISA

5.4.1 Company introduction

Visa Inc. is a payment technology company based in the United States that enables electronic financial transactions worldwide Visa serves over 200 countries with fraud prevention, cross-border transaction services, payment security, and processing services. Electronic payments are made available to customers, merchants, financial institutions, corporations, strategic partners, and government agencies through the Company. VisaNet is a centralized, worldwide processing network that enables the firm to offer a wide range of product platforms, transaction processing, and related value-added services to financial institutions and merchants. Visa receives no income or takes any risk as a result of the interest or fees paid by cardholders. Client services, data processing, cross-border transactions, and value-added services, such as license fees, generate income for Visa (Linecker, 2022).

In 2007, prior to the IPO, the Company had undergone a global restructuring plan in order to create the new public company, Visa Inc, which combined its former regional businesses all over the world, Visa USA, Visa international, Visa Canada, and Visa Europe.

5.4.2 Business valuation for IPO purposes

The company decided that the valuation of the purchase consideration of the combined businesses is a more reliable way to evaluate the fair price of the newly created company as a whole as it had no quoted market price before. To determine the value of the contributing firms, the company used two common valuation methodologies: an evaluation of comparable companies with the assistance of a 2-year forward looking earnings multiple analysis, and a discounted cash flow analysis. The Company assessed publicly listed firms with similar industries, business models, and financial profiles as part of the comparable company research, based on forward looking net income multiples. MasterCard Inc. was the most similar firm discovered with forward net income multiple of 27 times and hence the most important input into the research. The Company applied discount rates (ranging from 12-16%) relating to returns on investments in similar companies and terminal values (11-15 times EBITDA[8]) to the estimated cash flows of the acquired areas as part of the discounted cash flow analysis. The fair value of the acquisition transaction, which consisted of all outstanding shares of the purchased regions` common stock, was determined to be about $12.6 billion on June 15, 2007, the date on which all parties entered into the worldwide restructuring agreement (Visa Inc., 2007).

[8] Earnings Before Interest, Tax Depreciation and Amortization

5.4.3 The offering

Visa Inc V.N set a new record for U.S. initial public offerings in 2008 by gaining $17.9B from its IPO by offering 406M shares as investors responded positively to its growth prospects and lack of actual vulnerability to the global financial crisis. The company, which is estimated to be the world`s biggest credit card network, managed to sell 406M shares of Class A Common stock for $44 each, which is above the initial range of $37 to $42. The company`s shares closed at $56.50 and was the NYSE`s most active stock at that time (Visa Inc., 2007).

This IPO is the very first bright light on the 2008 IPO calendar in the United States. Year to date, only 44 agreements have been priced, a 49% decrease from the same period previous year. According to Renaissance Capital, only 22 IPOs have begun trading in 2008, which is fewer than half of the amount in the same period the previous year. And, whereas IPOs have raised $22.2B in 2008, Visa has raised 81% of that total (Krantz, 2008).

Underwriters which are represented by JPMorgan and Goldman Sachs have the option to acquire an additional 40.6M shares to fund overallotments. Visa had stated that it planned to pay underwriting fees totaling $500M.

5.4.4 Use of Proceeds

The company initially estimated its net proceeds to be approximately $15.6 B to $17.1B if the underwriters exercise their option to buy additional shares, based on the IPO offering price of $39.50 per share, which is after deducting all the underwriting related fees.

Visa intended to utilize about $10.2B of the proceeds to repurchase shares owned by its top owners, which include JP Morgan & Co JPM.N, Bank of America Corp BAC.N, National City Corp NCC.N, and Citigroup Inc C.N. The company intended to set aside $3B to pay its litigation related costs, with the remainder being used for general company reasons (Visa Inc., 2007).

5.4.5 Aftermarket performance

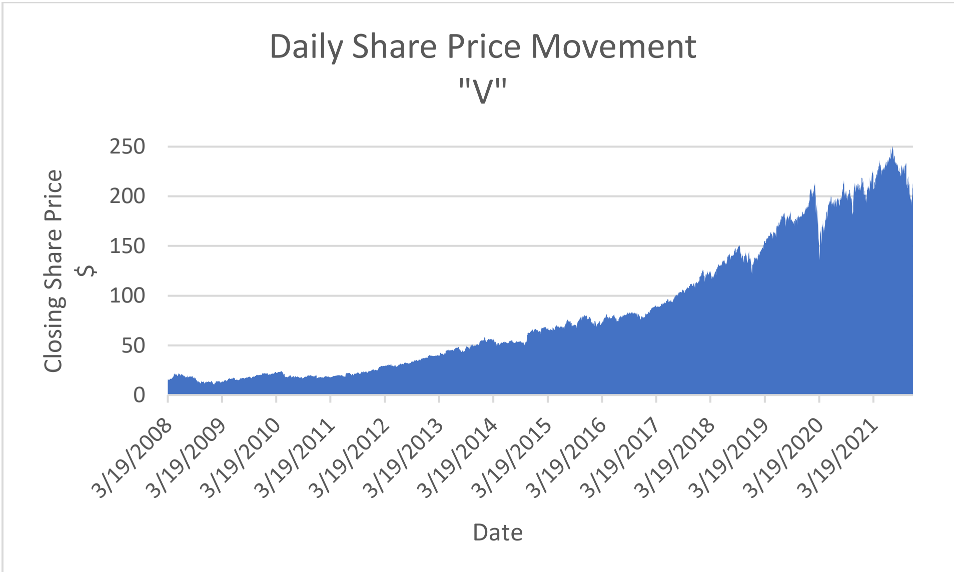

Figure 7:VISA Daily Share Price Movement Source: Refinitiv Database

Visa's initial public offering (IPO) was one of the largest in U.S. history, taking place in the midst of the Great Recession. Visa's stock has risen tremendously since its debut on the New York Stock Exchange (NYSE). The company trades at \$213.40 as of 12th December 2021, which represents an upward trend of 385% from its initial price.

Visa's initial public offering was so successful that it sold additional shares, enhancing the investment banks' profits. Visa`s success could not have come at a better time for banks, which were battling to raise much-needed capital in the midst of a credit crunch on Wall Street and a weakening economy. It assisted banks to enhance their first-quarter profitability, provided them with additional reserves for loan losses, and strengthened their capital, which is a key indicator of a financial institution's health (Luhby, 2008).

Visa's stock displays substantial selling by institutional investors, indicating that it is heavily traded, with over 10.2 million shares changing hands on an average day. Visa`s payments volume and completed transactions are improving faster than cross-border volumes as the vaccination distribution continues. Furthermore, the steady movement to e-commerce sales throughout the world is a good trend in the midst of the epidemic (Linecker, 2022).

Visa`s stock has been growing exponentially and still keeps improving, as well as it proved to be very resilient in times of uncertainty or overall worsening market conditions. NASDAQ has dropped 35% due to Covid-19 while Visa`s stock only fell by 19%, which is supporting the previous statement. Year over year revenues and net income have been growing approximately by 10% and 13% respectively, possessing an improving FCF amount of $14,5B as of 30th September 2021.

5.5 RACKSPACE

5.5.1 Company introduction

5.5.1.1 First IPO 2008

Rackspace Hosting Inc (now Rackspace Technology) is a venture backed company providing hosting services to support websites, web-based IT systems and cloud computing. The company creates, installs, and manages cloud systems on a variety of platforms.

The company launched its first IPO on 8th August 2008 which was a difficult year due to the financial crisis. Up to August 2008 that time, 12 tech companies' IPO had been already cancelled. The leading underwriters were Goldman Sachs & Co GS. N, Credit Suisse CSGN.VX, and Merrill Lynch MER.N who had the ability to obtain additional shares of 1.9M from the company. Rackspace begun trading on the NYSE under the ticker symbol "RAX" and managed to raise $187.5M.

5.5.1.2 Becoming private in 2016

The company was bought and taken private by a private-equity firm, Apollo Global Management LLC for $4.3B in 2016, which represented $32 per share. The firm is certain that this deal enhanced their position and enabled them to better serve their customers. With Apollo's help, the company delivers inventive products and services to meet consumers' changing demands throughout the time. In terms of financials, Rackspace showed slow, but upward trends, but its stock performance was not appealing. The highest closing price stood at $55 per share in 2015 but in 2016 summertime the price plunged as low as $16.76 per share. Due to highly competitive landscape (AWS, Google and Microsoft) together with the lack of investor appreciation on the stock exchange the company grounded its main reasons to engage with the takeover transaction of Apollo Global Management LLC (Lardionis, 2016).

5.5.1.3 Second IPO in 2020

In 2020 the company was again taken public, after four years of transformation as a private company under the wing of Apollo Global Management LLC. The stock began trading under the ticker symbol "RXT" on the NASDAQ stock exchange. The offering's leading underwriters were Goldman Sachs & Co., Citigroup, and J.P. Morgan.

During the transformation period, a new management system had been implemented in 2019. Rackspace Hosting began transforming from primarily hosting services to a full-service technology provider working with its previous hyper-scale rivals (Amazon Web Services, Google, Microsoft) after withdrawing from public trading on the New York Stock Exchange in 2016.

5.5.2 Business valuation for IPO purposes

5.5.2.1 First IPO

In March 2006, the firm hired a third-party valuation expert to evaluate the company's aggregate enterprise value at each valuation date using a combination of income and market approaches.

The income approach employs the discounted cash flow method to determine a company's worth based on the present value of its future economic benefits. Value signals are created using the income technique by discounting predicted cash flows to their present value at a rate of return that includes the risk-free rate for the usage of funds, the expected rate of inflation, and the risks connected with the specific investment.

The financial health and operating performance of the firm being appraised are compared to equivalent indicators of publicly listed companies in the same or similar areas of business under the market method. The market approach incorporates the examination of full company sales from the transaction market as well as private company funding rounds. The company`s predicted operating performance throughout the forecast period was utilized to generate forecasts for the income and market valuation methodologies. However, it is important to mention that these projections are always subject to uncertainty. The appropriate values would have been different if alternative discount rates or other assumptions had been employed. The Black-Scholes pricing model was applied in order to determine the fair value of the stock options of the company, which is recognized as expense in the statement of profit and loss (Rackspace Hosting, Inc., 2007).

5.5.2.2 Second IPO

Prior to the IPO, the company`s fair value estimation of the common stock was determined by involving third-party valuation specialists. The third-party valuation specialists applied the income approach to value the company`s Equity. The income approach focused on the Discounted Cash Flow method, which is based on the predicted future cash flows available for distribution to shareholders. The DCF calculation is based on precise revenue and cost predictions generated by management as part of its yearly budgeting process, and it takes into account the Company's unique financial and operational facts and circumstances. Expected future capital expenditures, the long-term growth rate, and the relevant discount rate are all important factors in the DCF calculation.

The company's valuation used the Option Pricing Method to reflect the dilution from outstanding options at the time of the second IPO, which relies on estimates of volatility and time to a liquidity event but does not need exact projections of future outcomes. Inputs were defined by the management which include the equity value, time to liquidity, projected volatility, and dividends, among others. Because the corporation only had one class of shares, no DLOM was used (Rackspace Technology, Inc., 2020).

5.5.3 The offering

5.5.3.1 First IPO

The initial public offering was priced at $12.50, which stood between the initial range of $12-16 by offering 15M shares, which gave the offering a potential $240M valuation. Rackspace used the Dutch auction method to determine the offering price of the IPO (2022 Reuters , 2008). The first day trading ended up being $10 per share, which is lower by 20% from the offering price.

In the Dutch auction method, the offering price is established after all bids have been received in order to arrive at the maximum price at which the entire offering may be sold. Underwriters attempt to obtain these proposals from potential investors, both institutional and individual, whose demand drive the final outcome.

5.5.3.2 Second IPO

Rackspace offered 33.5M shares at a price of $21 per share (the lowest of its initial range of $21-24 per share), which fell by 22% and closed on the first day of trading at $16.39 per share. The company raised $703.5M capital in its IPO which is lower to the amount that the company initially planned to raise from the second IPO attempt ($705.7M, $22.5 per share).

5.5.4 Use of Proceeds

5.5.4.1 First IPO

According to the registration statement, the company initially planned to use the net proceeds raised from its IPO to finance its growth prospects, working capital, acquisitions as well as paying off debts.

5.5.4.2 Second IPO

The company intended to use approximately $625.9 million (more than 85%) of the net proceeds from the IPO to redeem its borrowing obligations. The new capital will also go towards boosting expansion in the four core "solution areas" of which the business highlighted after rebranding in June under the name of Rackspace Technology: Cloud Optimization, Cloud Security, Cloud Native Enablement, and Data Modernization. Also, Rackspace intends to keep expanding into overseas markets, which has been a major focus in the last year (Tsidulko, 2020).

5.5.5 Aftermarket trading

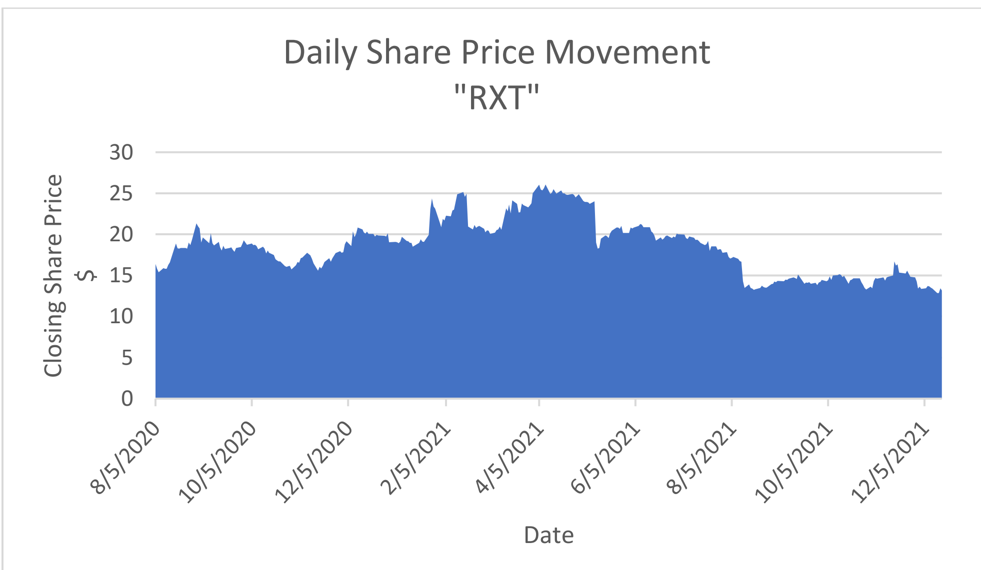

Figure 8:RackSpace Daily Share Price Movement Source: Refinitiv Database

The company's highest and lowest share prices amounted to be $26.43 as of 8th April 2021 and $12.47 as of 15th December 2020 respectively. The stock has lost -13.41 percent of its value in the last month.

Various things have been changed from the time when Rackspace was operating as a public company for the first time. In 2021 Rackspace Technology became a completely transformed company, partnering together with AWS, Google and Microsoft instead of competing with them. Rackspace also completed four acquisitions since 2016 reforming all the solutions which is according to the company`s beliefs is a great way of paving the road for significant future growth.

However, the share price showed worsening trends as the first quarter earnings of 2021 were released. After the first quarter earnings, another SEC document was filed mentioning a stock compensation in return of ownership change which investors thought that is an implication of a possible acquisitions by a big rival, sending the share prices into its highest values. During summertime however and after the second quarter earnings, when approximately 10% of the workforce was laid off along with slowing expected growth rates, the share price started to decrease again, which continued until today (Moyers-Mendoza, 2021).

6 Conclusions and Recommendations

The current project is about understanding and discovering the factors affecting business valuations for IPO purposes. The following research questions were addressed with the assistance of a thorough analysis in the form of a multiple- case study of five companies, with one company at its core focus, which is Airbnb.

- Type of business valuation implemented for IPO purposes
- Factors affecting business valuations regarding the IPO decision
- Did the IPO process result in success or failure compared to similar IPOs?
- What are the benefits and drawbacks of filing an IPO in the middle of a pandemic? Was the IPO timed correctly?

6.1 Type of business valuation implemented for IPO purposes

According to the academic literature to conduct a fair valuation for IPO purposes a mixture of valuation approaches needs to be applied. There are three basic approaches to value a business, the cost and/or asset-based approach, the market and the income approach. They can also be grouped into relative (market approach) or into absolute valuation methods (income and asset-based approach). The most favorable method of valuing an IPO of a company is by conducting a Discounted Cash Flow method, which is a technique of the income approach and aims to focus on calculating the intrinsic value of a company, by assessing the future expected cash flows throughout its expected lifetime while discounting them back to the present value with the assistance of a proper discount rate. The second most favorable way to value a company for IPO purposes is by employing the market approach, which is based on market and earning multipliers of comparable companies from the same industry. Furthermore, based on the literature, a good representation of the business valuation for IPO purposes is the Public Offering Price, which is set by the underwriters prior to that when the company starts to trade on the stock exchange (opening price). It is essential to mention that share prices are exposed to the overall investors` demand and sentiment afterwards and could not represent the real worth of the companies` shares. As a result, it is critical to base findings or investment choices on true valuation methodologies that incorporate also quantitative data rather than only qualitative determinants.

In the followings, the author explored the business valuation approaches and techniques implemented for the subject company in detail and demonstrated it in a table which represents the business valuation for IPO purposes of the rest of the companies for comparative purposes.

	Business valuation approaches	**Business valuation technique**
AIRBNB	Enterprise value (EV) using Income approach Market approach	 DCF method Comparable Company Analysis Earning multiplies/ projections Historical performance
DOORDASH	Enterprise value Option Pricing Theory	Latest round of equity financing PWERM+ DLOM
WISH	Market approach Option Pricing Theory	Comparable Company Analysis Earning multiplies Historical performance PWERM
VISA	Market approach Income approach	Comparable Company Analysis Earning multiplies/ projections DCF method
RACKSPACE **1. IPO** **2. IPO**	Enterprise value using Income approach Market approach Income approach Option Pricing Theory	 DCF method Private funding rounds Earning multipliers DCF method OPM – to reflect dilution from outstanding options

Table 7:Business valuation methods findings

Airbnb determined its enterprise value for its business valuation for IPO purposes. The enterprise value was estimated by applying two approaches, the income and the market approach which is a mixed method and in line with what the literature suggests. The income approach was supported by the Discounted Cash Flow valuation method. The discount rate applied with the DCF method was based on the risk of investment into similar companies, which are operating in a similar industry or having a history of the same revenue growth. The market approach was based on value multipliers calculated from Airbnb`s peer group`s historical data and then compared to the company`s results. Airbnb utilized industry comparatives based on certain financial and operating metrics, such as price-earnings ratios or price-sales ratios.

The table proves that in most cases a combination of business valuation approaches was implemented in conjunction with applying the income and the market approach. In every case, where the income approach was applied (Airbnb, Visa, Rackspace-both IPOs), the DCF analysis assisted the business valuation, which is very much in line with what the literature proposes. The most commonly used market approach technique for business valuations was the Comparable Market Analysis with the assistance of Earning multiplies, Earning projections and historical performances.

In the case of DoorDash, the enterprise value was based on its latest private rounds of equity financing prior to the IPO, while Rackspace (second IPO) supported its market approach by looking at similar companies` private equity funding rounds prior to entering the market.

Airbnb emphasized in its prospectus that the pricing of the offering was mainly based on the company`s future prospects. Financial forecasting took place to support the calculation of the value of invested capital based on historical performances and predicted future performance as well, which inherently includes the risk of uncertainty, therefore it was considered in applying the appropriate discount rate as well.

Since 2019 DoorDash has applied a mix of probability weighted OPM, the Probability Weighted Expected Return Method (PWERM), which includes a forward-looking appraisal of the potential future results. In order to determine the fair value by the PWERM method, assumptions and predictions needed to be created for both the probability of an IPO liquidity event and the value it anticipates delivering. A discount for lack of marketability was applied, DLOM, to conclude with the fair value of the common stock. This approach requires estimates about expected future revenues, expenses, cash flows, discount rates, market multiplies and a group of comparable companies, and futures events which all influence the final valuation. Similarly to DoorDash, Wish allocated its equity value across outstanding common stock by using the same Probability Weighted Expected Return Method. Rackspace used the Option Pricing Method to reflect the dilution from outstanding options at the time of the second IPO, which relies on estimates of volatility and time to a liquidity event but does not need exact projections of future outcomes. Inputs were defined by the management which include the equity value, time to liquidity, projected volatility, and dividends, among others. Because the corporation only had one class of shares, no DLOM was used.

Valuing a company can be difficult if that business is a start-up who derives its value from innovative ideas or future prospects and not from stable historical financial results. Traditional valuation approaches, such as discounted cash flow or dividend valuations may struggle to value such businesses since they can't readily account for the "what if" factor, that comes from the associated risk of being a start-up company. An innovative idea might work out and become immensely successful, but without the underlying fundamentals it can easily turn out to be a disappointment (Markoulis, 2016).

The PWERM is multi-step method for estimating value based on the probability-weighted present value of distinct future scenarios, which is widely used in the option pricing theory, and also as an analytical alternative of the OPM. The option pricing model is used to determine the value of multiple classes of securities in an enterprise's capital structure, hence building the flexibility of it, but it is not a method to estimate the valuation for the whole company. It is applied to allocate equity value, and therefore any value of debts should be removed.

In conclusion, a variety of approaches and methodologies must be evaluated in order to arrive at an appropriate business valuation for IPO purposes. As shown and proved by the current multiple-case study research, certain foundations such as the income and market approach supplemented by the DCF technique and industry comparatives are extensively employed. Regarding the subject company, the valuation methods implemented for IPO purposes, were completely in line with the academic literature. However, as it was explored throughout the research, when a firm lacks important fundamentals in terms of underlying resources, apart from the traditional approaches and techniques, option pricing models are also frequently applied to evaluate equities.

6.2 Factors affecting business valuations regarding the IPO decision

The Use of Proceeds section of the prospectus is very useful in terms of identifying factors affecting business valuations as it details how the company intends to use the capital received from the IPO. By examining each company's intentions, it can be observed that the conclusions are consistent with the academic theoretical background. Every company's primary intent with the net proceeds from the IPO was to enhance capitalization, create financial flexibility, and fund future acquisitions, as well as to support corporate purposes like working capital, operating expenses, sales and marketing-related costs, and capital expenditures. Some of the net proceeds were planned to be used by Airbnb, DoorDash, and Wish for short- and intermediate-term interest-bearing initiatives. As revealed by Airbnb's prospectus, large amounts of RSUs (restricted stock units) were awarded to employees and non-employees, with liquidation-based vesting periods set to expire, which undoubtedly played a key role in the timing and valuation of the IPO. Correspondingly, DoorDash also intended to use some of the capital raised to meet repayment obligations related to RSUs.

Rackspace and Visa stated that the net proceed are going to be utilized for paying off debt obligations, while the latter stated that more than 50% of the capital raised is going to be used to repurchase shares from its top owners, which means that the company is strongly committed in its long-term success.

Despite the pandemic, Airbnb was still one of the most anticipated IPOs in 2020 as the company has great fundamentals with a strong business model and promising growth prospects, which can be all linked with positive investor attitude and great performance on the stock exchange as well as the rising valuation the company possesses. The demand has been always high for Airbnb`s shares as rumors have been going around for a long time about an upcoming IPO. Airbnb`s shares were priced at $68 per share by the underwriters, which is much lower than the actual opening price of $146. The company possessed a valuation of $18 billion in April 2020, which was a result of taking on expensive debt financing together with the deteriorating financial results to support business operations to tackle difficulties caused by the pandemic. In comparison to that, the company`s IPO valuation has reached $47 billion, and currently has a market capitalization of more than $100 billion.

As it has been discussed in the Literature review, even despite the pandemic, that stock exchanges experienced a busy period in the last quarter of 2020 in terms of IPOs. According to Paul Go, those companies that managed to quickly adapt to the changing environment caused by Covid-19 had excellent opportunities to exploit investors` appetite and conduct a successful IPO. The positive appetite of Airbnb`s IPO can be highly explained by the hot capital market for tech companies, which is supported by the literature as M. Potnicki and A. Szyszka. They conclude that the present equity market situation influences the speed and aftermarket performance of the IPO. For instance, DoorDash and Airbnb both began trading on the stock market just one day apart, leading many to believe that their share prices were affected by one another. Companies tend to exploit hot market conditions, by reaching the unicorn status and surging into the equity market with high valuations and soaring investors` appetite. After seeing the positive attitude and the rising share prices on the first day, Wish completed its IPO one week later than Airbnb and DoorDash.

6.3 Did the IPO process result in success or failure compared to similar IPOs?

According to the literature, growth prospects of the subject corporation is one of the main factors influencing the pricing as well as the success of the IPO. However, in terms of company valuations, IPOs for firms that are experiencing a temporary growth period are exposed to even more uncertainty. In order to be able to compare the success or failure of the IPO, the author has examined other companies that conducted their IPOs under the same or similar (the financial crisis in 2008) circumstances. The below two charts are representing the daily share price movements of the discussed companies based on the closing share prices form their IPO date up to 31st of December 2021.

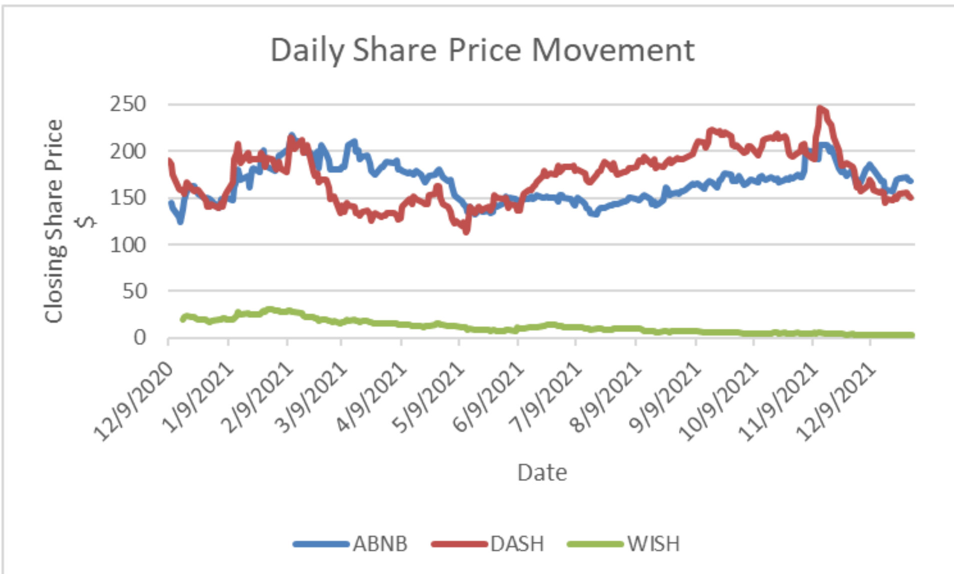

Figure 9:ABNB, DASH, WISH Daily Share Price Movement

Airbnb`s opening share price ($146) increased by 115% as compared to the offering price ($68) and even more from the initial price estimates ($47 and $58)[9], by 211% and 152% respectively. On the first day of trading Airbnb`s highest share price plunged up to $165 and then it closed at $144.71.

Looking at the above figure, it can be determined that Airbnb`s shares had been highly demanded, which is supported by the rising share prices, especially in its first few months of trading. Airbnb`s shares reached its peak on the 11th of February 2021, but then started to deteriorate as lock-up periods ended and some insiders started to sell their shares, leading to a fall of approximately 6-7%

[9] The aforementioned initial offering prices were estimated by taking the midpoint of the two initial price intervals, ($44-$50, $56-$60), the company has estimated through its IPO preparation process.

in the share price. From its IPO date up to 31/12/2021, Airbnb`s share price trades at an average of $166.46.

DoorDash opened trading on the NYSE at a price of $182 per share which is above by 78% from its initial offering price of $102. The initial offering price of $102 per share was already above its upwardly revised price range of $90 to $95, which was originally aimed to be between $75 and $85. On the first day of trading the price closed at $189.51, which then started to decrease to the point of a closing price of $138, which could be an implication of a possible overvaluation for the IPO itself. After approximately one month of trading however, in the beginning of January 2021, Doordash`s share price rose above its opening price for the first time. Since then, the company experienced its lowest trading at $110.13 on the 13th of May 2021, which might be due to the expiration of the lockup period, and its highest at $257.25 on the 15th of November 2021, when the company announced its acquisition of its European rival, named Wolt. From its IPO date up to 31/12/2021, DoorDash trades at an average share price of $173.13.

As mentioned before Wish began trading on the NASDAQ one week after Airbnb`s and DoorDash`s debut at a price of $22.75 per share, which is down from the offering price of $24. The company`s highest and lowest share price was trading at $32.85, 44% up, on the 28th of January 2021 and at $2.94, 87% down from the opening price of $22.75 on the 6th of December 2021 respectively. According to Refinitiv`s database, Wish is trading at an average of $11.91, but it is clearly observable that the company`s outlook is not the brightest as share prices have been worsening for the past few months, due to poor product quality, prolonged delivery time and falling revenues. Even though the company anticipates a rebound in revenue growth by the second half of 2022, the current outlook is not at all promising for Wish, which is demonstrated in the lack of demand and therefore drastically decreased share price.

From another standpoint of the relevant literature, Daniel Klauser, Capital Market Advisory Leader at PricewaterhouseCoopers states that among other factors a company`s IPO is more likely to succeed in case of having an expanding market along with unique business model and differentiated products/ services offered, which is led by an experienced management team that prepares the company to be IPO ready by finding the right time for entering the public market along with a compelling equity story, fair pricing showing strong growth prospects, supported by profitable margins.

In the time of the IPO, even though Airbnb`s management team had limited experience in operating a publicly traded company, the founders, Brian Chesky, Joe Gebbia, and Nathan Blecharczyk, proved to be highly competent and skilled professionals as the numbers show in Airbnb`s performance. Airbnb has a strong and resilient business model which had been proved by its highly adaptive capability during difficult times. With the quick rebound in domestic, long-term and preferably short distance stays during the pandemic Airbnb managed to become a good alternative for travelling by offering a wide variety of accommodations in uncrowded rural areas. The company reacted right away when it realized the need for the alternative way of traveling by modifying its platform and creating its customer experience accordingly. Before the surge in these traveling patterns, Airbnb redesigned its new business line by enabling to organize Online Experiences for guests due to the lockdown regulations. The firm benefits from the network effect by being able to develop its business and become more lucrative as more individuals join the platform without raising costs, as it operates an online double-sided marketplace similar to some of the most well-known industry leaders, such as Amazon or eBay. Airbnb's business strategy allows it to keep marginal expenses low because it solely acts as an intermediary between hosts and guests and does not hold any inventory. In addition, the restructuring plan that the company undertook in April 2020 also contributed to its recovery. Airbnb has a strong position in the market along with competitive advantage and significant growth prospects for the future. The company managed to grow exponentially leading it to approximate its total addressable market to be $3.4 trillion in its prospectus, comprising $1.8 trillion in short-term stays, $210 billion in long-term stays, and $1.4 trillion in experiences. Airbnb services have spread across the world by having a footprint in more than 100 000 cities in 220 countries.

Airbnb`s growth was fueled by several acquisitions that helped the company improve its offerings throughout its lifespan. Airbnb also has a diversified portfolio as it constantly tries to innovate into new areas. Revenue growth was exponential, from $919M in 2015 revenue plunged up to $4.8B in 2019, which resemble an increase of 423%. Even though revenue has slowed down in the past years, and decreased by approximately 30% in 2020, by looking at the results of 9 months ended 2020 and 2021, revenues managed to recover with an increase of around 77%, which supports the previously mentioned resilient business model supported by strong future prospects.

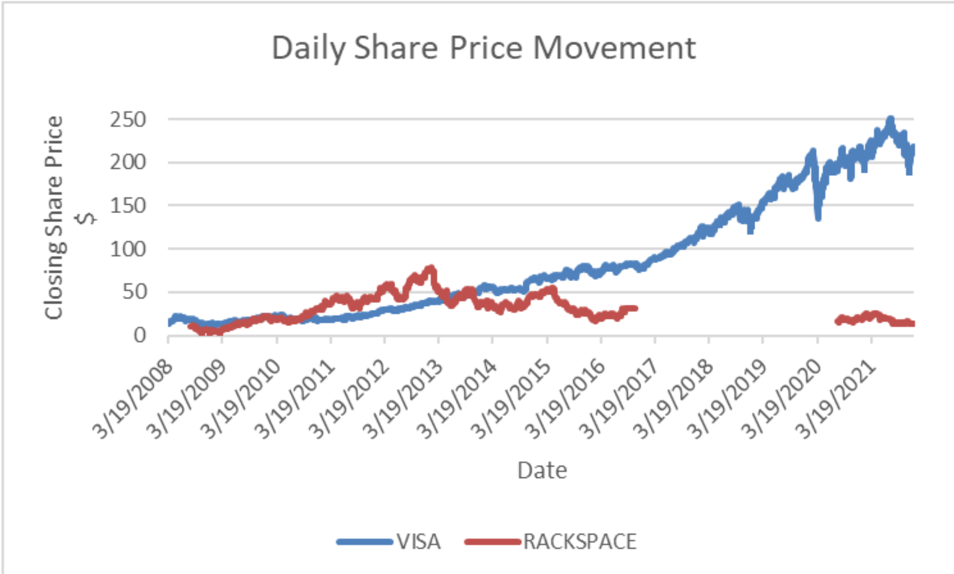

Figure 10: Visa, RackSpace Daily Share Price Movement

Visa`s IPO is considered to be one of the most successful public offerings ever, which is clearly observable in its skyrocketing share prices as well. The success was based on its huge growth potential and stable performance metrics even despite of the recession. Visa alone raised 81% of the total capital raised in IPOs in 2008. Visa opened at a price of $44 per share, which was above its initial offering price range of $37 to $42. Since its IPO Visa`s peak share price was as high as $252.67 as of 27th July 2021. During Covid-19, share prices fell by 19%, but when compared to the 35% decline in the NASDAQ during the same time period, Visa's proven to be far more robust to worsening market circumstances. Visa`s revenue and net income are showing a stable 10% and 13% year over year growth along with a $14.5B FCF as per the third quarter ended in 2021.

As mentioned earlier Rackspace has undertaken two IPOs, one in 2008, and one in 2020, after it was taken private by a private equity firm in 2016, therefore the gap showing on the chart. Rackspace`s highest share price was $81.36 as of the 24th of January 2013, but then as competitors took over the market (AWS, Google, Microsoft), share prices fell significantly. The second IPO was priced at $21 per share by the underwriters, which fell to $16.39 as the company started trading on the NASDAQ, which is an implication of a possible miscalculation of overall investor and market demand along with a high valuation. Share prices rose to $26.43 which was due to a publication which was indicating a merger with one of the big rivals, after the company became partners rather than competing with its biggest competitors after the transitory period. Since the merger has not happened yet, and it is unlikely to happen in the short run, share prices are experiencing a slow but steady fall since then, which gives an average trading of $18.17 per share for Rackspace.

Bearing in mind that Airbnb managed to raise $3.7B in its IPO, as well as looking at the share price movement it can be concluded that even though the fluctuations, Airbnb`s IPO was successful. The huge increase between the offering price and the opening price reflects huge demand for the shares, which grew even further on the first day of trading on the stock exchange. Some believe that the hot IPO market for tech companies along with huge growth prospects result in biased and soaring valuations, which might be the case with Airbnb as well as DoorDash. However, improving quarterly results supported by appropriate management strategies and initiatives for expanding and innovative purposes are the path for long-term and sustainable success, which can be sensed in the case of both companies. Wish`s poor performance is reflected in its share price, as it needs to implement product improving and customer service initiatives in order to gain investor`s trust again. As previously stated, Rackspace had a transitional period after being taken private in 2016, and then reentering the public market with a second IPO in 2020. However, share prices were declining, which might indicate a misperception of investor demand, resulting in doubtful prospects for the corporation. Visa's initial public offering (IPO) was by far the most successful of the firms studied, owing to the company's exceptionally solid and lucrative foundations and performance throughout the years.

6.4 Benefits and drawbacks of filing an IPO in the middle of a pandemic. Was the IPO timed correctly?

Nowadays IPOs are greatly affected by the overall market volatility, which is influenced by the global pandemic depending on the speed of the vaccinations spreading across the countries as well as potential new variants of the pandemic disrupting the world again. Filing an IPO in the middle of the pandemic has its advantages as well as its disadvantages. Unprecedented times carry high uncertainty, which can highly affect company valuations, share prices and overall financial performances. Companies aiming to go public in unstable market conditions should keep in mind that aftermarket performance can be affected adversely with a much higher possibility than under normal market conditions.

According to the literature, when companies stay private, the biggest benefit is that the control remains in private hands. By being a public company, there is a continuous pressure to show results and to meet investors` expectation and therefore management might concentrate more on short term interim results in order to attract investors` attention, rather than concentrating on sustainable long-term growth. An IPO is a prolonged and costly procedure, along with strict reporting requirements and transparency obligations that puts the company up for huge scrutiny.

On the other side though, public companies have the ability to attract professionals by offering stock incentives and compensations. Public corporations also give the chance for early shareholders' liquidation and exit, which often plays a vital role in decisions concerning the going public decision. With the capital raised during the IPO, the company can finance future growth expansion plans, but some believe that IPOs are for capitalizing on the publicity and first-mover advantage.

According to the literature, finding the right timing for an IPO is an extremely hard task as it requires a prolonged preparation time along with a well created and focused strategy. Apart from the so-called predictable elements of preparing for the IPO, which is for example the underwriters`, financial and legal advisors` fees, companies should not forget about the external elements which are outside the scope of the control of the specific business. These factors can be, for instance, overall market conditions being disrupted by unprecedented events, such as the Covid-19 pandemic, or an economic recession.

Looking into Airbnb`s prospectus, the author managed to reveal that the company has granted stock options for its employees and some non-employees. These so-called restricted stock units were apparently forcing the company to go public as their vesting days were about to expire in the time of the actual IPO. It is important to mention though, that there were rumors about Airbnb planning to go public from 2016 through a direct listing. Through a direct listing existing shares are offered to the public directly on the stock exchange without the need of an underwriter. This option is more favorable for those, wanting to go public by choosing a more affordable way or avoiding shareholders` dilution. During a direct listing, insiders are more likely to execute an exit strategy while through a traditional IPO apart from being guaranteed by the underwriters' companies usually raise capital for the business itself.

As revealed from the company`s SEC filings, Airbnb indebtedness has increased recently to $1.9B, which plays a main role of choosing the traditional way of going public as it allows business to raise more capital. Undoubtedly, Airbnb needed fresh capital to support its operations, hence the company raised $2B (2 times $1B) in debt financing in April 2020, which matures in 2025. The average rate of the debt financing amounts to be 8,75% and 11,25%, which is intended to be financed from the net proceeds raised through the IPO. From one side Airbnb was forced to go public in 2020 due to the vesting RSUs and indebtedness, but from the other side, the positive rebound in travelling behavior concerning domestic and long-term travel supported by its resilient business model gave a good reason for the company to try to capitalize on positive outlook even in unprecedented times. Bearing in mind the $3.7B that Airbnb was able to secure via the IPO, investors shouldn't be too concerned about the loan repayments.

The author has managed to answer the research questions proposed in terms of the current project and fulfill its aims and objectives, which were more or less in line with the academic literature. As introduced earlier, after revealing and exploring all together five companies` path to go public, the findings did not equate completely with what the theoretical literature review suggests. More specifically, the author found alterations regarding the types of business valuations implemented for IPO purposes. In the author`s opinion one rationale is that the academic literature focuses more on traditional methodologies, which are suitable for mature companies and therefore lacks the proper theoretical background concerning business valuation approaches in terms of young, start-up companies that include future growth prospects and inherent uncertainty more appropriately. The scope of the research contains start-up companies that are still in their early stage, therefore the varying results are logical. Closing on that, the author would like to point out that the theoretical background concerning business valuation methodologies used on companies for IPO purposes should vary based on their maturity and size in a more sufficient way in order to be able to efficiently make conclusions.

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