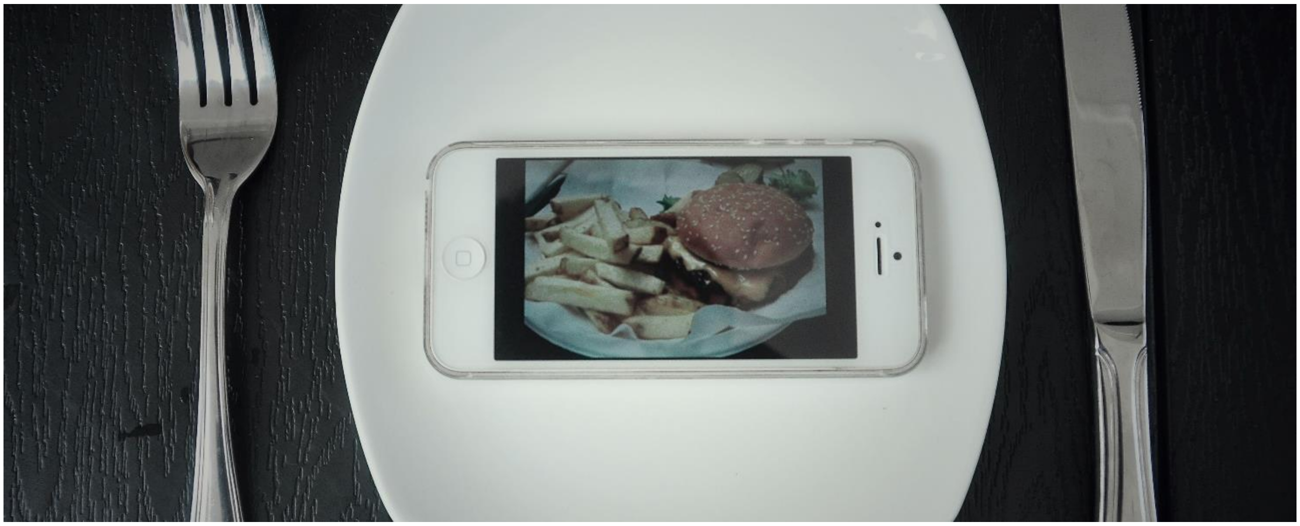

DOORDASH

A DASHING MISPRICED IPO –by Sylvia Blount

DoorDash (NYSE:DASH) absolutely shattered expectations during its recent IPO debut, while leaving some people questioning whether public markets are irrational or the bankers completely missed the target. DoorDash hit the floor of the NYSE Wednesday at $182 per share, dusting the initial public offering price of $102 per share and eventually closing at $189.51. The opening trade valued the meal delivery company at a whooping $58 billion.

Looking at the last private valuation of $16 billion, profitless DoorDash is certainly taking advantage of the market appetite for growth stage companies. But, did investors in fact bite the manchineel that the bankers of record cunningly offered? Did existing shareholders leave money on the table?

Whenever a company goes public, pricing is a daunting task for investment bankers. The costs of a potential underpricing are often hidden but nevertheless tangible. Obviously, a slight underprice is acceptable as bankers do not want to end up with excess "inventory" to sell, hence a lower IPO price would guarantee that all shares are successfully allocated.

"DoorDash is the epitome of underpricing in 2020."

Given all of the explosive IPO launches of recent months - Snowflake, C3.ai and Airbnb to name a few – disproportionate underpricing should be *the* hot issue over the mere excuse of an over enthusiastic market. Underwriters should know the market better than most and the IPO price should reflect this.

DoorDash starts trading on the NYSE with the ticker DASH.

DoorDash is the epitome of underpricing in 2020. On its first trading day, December 9th, the Company's stock jumped by almost $88 compared to the IPO price, closing at $189.51. This implies an underpricing of 86%.

Interestingly, a study by Ritter on more than 13,000 U.S. initial public offerings from 1960 to 2019 found an average underpricing of 16.9% for firm-commitment offerings. Meaning, underwriters are typically off by approximately 20% on average on the IPO day. If we consider 20% to be an acceptable underpricing (a quite generous percentage given historical data), then DoorDash bankers missed the target by 66%, leaving $21 billion on the table.

Many institutional investors and investment bankers argue that underpricing is in the interest of the issuing company because it could enhance the issuer's ability to raise capital down the road. However, following this logic, only uninformed investors who cannot determine whether a stock is worth investing in are subject to the so-called winner's curse. While institutional investors who bought the stock at the IPO price realize incredible returns.

Hence, the real question is: Why aren't existing shareholders outraged at selling stock for much less than it is worth? If DoorDash had sold 33 million shares at the market price of $189.51 rather than $102, it would have netted an additional $3 billion.

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The answer might be simply that the owners are happy *enough* with the fact that the stock jumped in price and consequently, added to their wealth. As a result, the cost of underpricing becomes virtually irrelevant to them.

Certainly, there is no lack of evidence of irrationality in the market. The IPO bonanza that we have witnessed in the market recently will most likely be short-lived. As a comparison, if we look at the peak of the dot.com bubble in early 2000, IPOs raised a combined amount of $65 billion recording an average first-day underpricing of 70%. At the time, this translated into a value of $37 billion that first-time issuers failed to capture.

Comparing what happened back then to what is happening today, suggests that the current level of underpricing for new IPOs such as Doordash could be a sign of a new bubble in the making. In a similar way to the dot.com bubble, in fact, there seems to be a mania for tech companies that represent the "new normal" and will allegedly change the way we live and shop (i.e. pets.com and eToys.com among others), but with little consideration for market demand and financial sustainability.

Looking at DoorDash's financial performance and current price per share, it is questionable whether the company will be able to justify its market capitalization throughout the next 12 months.

Despite signs of *irrational exuberance* and questionable financial forecasts, DoorDash's bankers should have known better. After all, the underwriters' job is to price the stock, not to value it. The onus of the valuation is on the investors. The role of the brokerage firms that represented DoorDash in the IPO was to raise as much capital as possible; ultimately, what counts in an IPO is what investors are willing to pay. So, how could the bankers miss the target so egregiously? Either they did not have the finger on the pulse of the market or they themselves became the unaware victims of the upcoming "pandemic bubble."

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