MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

October 2, 2019

IPO – A Sign of Things to Come in the Broader Market?

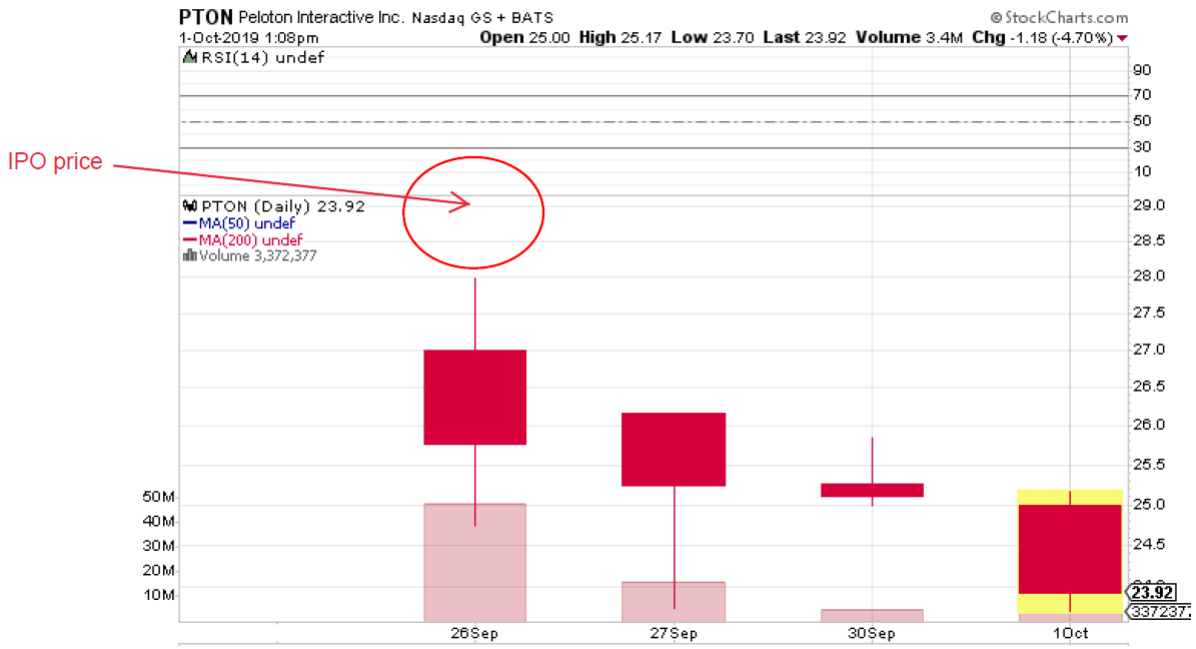
Before I get into our regular Monday (I mean Wednesday) piece, I wanted to bring up some timely data that we need to be paying attention to. Remember, while we've been saying that we are cautiously optimistic, we are also realistic with how things can turn out. Impeachment discussions are in full swing in the House of Representatives which should cause a lot of controversy and volatility. We reduced equity exposure earlier this week by 5% with another 3% or 4% likely to come. The reason behind that decrease is because of continued soft data coming from around the world and is starting to bleed through to the US economy. Take a look at the Purchaser's Manager Index (PMI) below. It printed the lowest number since 2009, but more importantly it is below 50, which as you know means contraction in manufacturing. It's one more crack in the wall of our cautious optimism, and though it's not the end of the world it does cause concern. Keep in mind, most of the US economy is service related, but this number is not good!

Let's add to the global economic slowdown by looking at the latest high-profile IPOs to start trading over the last few months. What makes these so special? In our opinion, large multi-billion dollar valuations and losing hundreds of millions or billions in profits (losses).

Our first poster child is UBER. It priced it's IPO at $45 and you can see that it barely touched that level since going public and now is down over 35% since going public.

The next is the related company LYFT. A fellow ride share company that is also losing a lot of money each year. They priced their IPO at $72 per share and are now trading at $39.50 a share, down almost 46% from their initial price.

Next, we have a newcomer, Peloton. While this has only been trading for a few days, it comes on the heels of another IPO that was pulled, and that was WeWork (more on that in a moment). Peloton again is losing money (which is incredible with how expensive its products are!) and was sporting (no pun intended) an $8B valuation. Today that valuation is around $6.7B (a loss to investors of $1.3B in 4 days). Take a look at the chart below to get a look at the brief trading history.



Finally, we look at the granddaddy of all the money losing private companies, WeWork. It's parent, the We Company, lost more money in 2018 ($1.9B) than they had in revenue ($1.8B). But profits are not necessary, right? Their last private equity round was valued at $47B, but by the time they started their roadshow for their IPO, valuations had gotten as low as $10B. We will never really know the valuations because no IPO was conducted to set a price, that was merely an indicated valuation of what public shareholders would have been willing to pay for it. [Note: for a very interesting take on the WeWork debacle, **click here**]

So what does this all mean? Simply put, price matters. What price you pay for something matters, whether it's houses, gold, stocks, cars, etc. For those of us old enough to remember the Dot.com bubble, where earnings didn't matter because ultimately those companies would grow their way to profitability (or so the theory went). You know, household names like ***Homegrocer.com, Webvan*** and ***Pets.com*** (note sarcasm).

Keep in mind, that not all Dot.com companies went bust. Real companies with real businesses managed to grow through that period, like ***Amazon, Priceline*** and ***Ebay***. Today, the above companies don't represent all companies going public and there are many that have done very well (mostly names you haven't heard of yet). The couple that you probably have heard of are ***Beyond Meat*** and ***Pinterest***, that are up 450% and 40% respectively since their IPOs.

With the availability of capital to private companies like it is, there has been less reason for companies to access the public markets. The bad part of that is in many cases there hasn't been fiscal responsibility because money has been so easy to get to finance money losing businesses. Private equity investors may begin to consider what price they pay and demand better run companies that produce a profit and provide better transparency to their investors.

We continue to be vigilant, and should it become necessary to make changes prior to our traditional month end, we of course will. We still remain ***cautiously optimistic*** and pleased with the adjustments made this week to reduce the risk in portfolios.

Visit our Blog

DISCLAIMER

MADISON PARK™
CAPITAL ADVISORS
INDEPENDENT TRUSTED PERSONALIZED