

ANALYST(S)

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Companies followed by Edward Jones mentioned in this report:

Facebook (FB - Buy; \$240.28)

Prices and opinion ratings as of market close on 7/17/20 and are subject to change. Source: Reuters, Edward Jones.

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Initial public offerings (IPOs) tend to attract a lot of investor interest, especially when the company is well-known. However, that excitement isn't always matched by investment returns, and investors should always do their homework before making an investment decision. Homework is particularly important when you're familiar with the company because you know its products. Though familiarity can mean comfort, investors need to be more skeptical.

IPO Excitement Fades Fast

The stock price of an IPO tends to rise on the day it begins trading. According to a study of IPO performance, the average first-day return has been 18%.* However, investors who bought shares at the end of the first day didn't always fare well. Although IPOs gained an average of 7.4% in their first year, they underperformed similar companies.*

During the 15-year period of the study, IPO underperformance was comparably poor.*

- **Prices lower after six months and one year** - The stock prices of IPOs dropped from the first-day closing price during the IPOs' initial six months, and the prices were down an average of 3.7% at the end of their first year, compared with a 9.0% return for similar size companies. The average IPO price decline contrasts sharply with the performance of similar companies, whose stock prices gained over the same time period.*
- **Underperformance over three and five years** - Longer-term studies have consistently shown IPOs underperform over three and five years after their initial offering.

IPO stock prices can be extremely volatile, since frequently there is little financial information about the companies and many are not profitable. In many cases, investor excitement drives short-term changes in their stock prices as the initial demand outstrips the supply of shares, but the excitement appears to fade quickly after the first day, since the stocks have underperformed similar companies.*

Familiarity Isn't Enough

Recently, many consumer-facing technology companies have had IPOs. Many provide familiar services and products, and yet their investment performance was similar to the overall IPO performance of the past 10 years. Stock prices generally rose sharply on the first day of trading, but thereafter, in almost every case, the stock had fallen below the closing first-day price by the end of six months. High volatility and a falling stock price isn't generally the recipe for attractive investor returns.

*Source: Professor Jay Ritter, "Returns on IPOs during the five years after issuing, for IPOs from 1980-2015"; "Initial Public Offerings: Updated Statistics"; <http://bear.warrington.ufl.edu/ritter/>.

The price performance of 27 consumer-facing technology companies following their IPOs between 2011 and 2020 is illustrated in **Figure 1** (below). On average, these stocks experienced a 35.2% price increase on the first day of trading, reflective of the excitement-driven demand often associated with high profile IPOs. However, in the three-month and six-month periods following the first-day close, these stocks, on average, experienced declines of roughly 3% and 14%, respectively.

Figure 1. Price Performance of 27 Technology IPOs between 2011 and 2020

Company	Ticker	IPO Date	IPO Price	First-Day Price Change	First-Day Close	Price Change 3	Price Change
						Months After	6 Months
						After First-Day Close	After First-Day Close
LinkedIn	LINKD	5/18/2011	\$ 7.33	109.4%	-16.1%	-23.6%	
Pandora	P	06/15/2011	\$ 17.42	8.9%	-40.9%	-39.9%	
Groupm	GRPN	11/04/2011	\$ 26.11	30.6%	-6.4%	-61.8%	
Zynga	ZNGA	12/16/2011	\$ 9.50	-5.0%	37.2%	-41.5%	
Yelp	YELP	03/02/2012	\$ 24.58	63.9%	-36.2%	-10.5%	
Splunk	SPLK	04/19/2012	\$ 35.48	108.7%	-17.7%	-11.2%	
Facebook	FB	05/18/2012	\$ 38.23	0.6%	-50.2%	-38.4%	
Twitter	TWTR	11/07/2013	\$ 44.90	72.7%	21.0%	-31.7%	
Zulily	ZU	11/15/2013	\$ 37.70	71.4%	6.0%	-7.7%	
King Digital Entertainment	KING	03/26/2014	\$ 19.00	-15.6%	-11.1%	-30.3%	
GrubHub	GRUB	04/04/2014	\$ 34.00	30.8%	0.3%	4.7%	
GoPro	GPRO	06/26/2014	\$ 31.34	30.6%	159.4%	111.9%	
Alibaba	BABA	09/19/2014	\$ 93.89	38.1%	16.4%	-9.9%	
GoDaddy	GDDY	04/01/2015	\$ 26.15	30.8%	7.8%	-3.6%	
Etsy, Inc.	ETSY	04/16/2015	\$ 30.00	87.5%	-43.9%	-63.2%	
Shopify, Inc. Class A	SHOP	05/21/2015	\$ 25.68	51.1%	13.8%	9.9%	
Fitbit, Inc. Class A	FIT	06/18/2015	\$ 29.68	48.4%	34.4%	-6.3%	
Zillow	Z	07/31/2015	\$ 27.50	78.9%	-25.6%	-22.2%	
Square, Inc. Class A	SQ	11/19/2015	\$ 13.07	45.2%	-23.6%	-28.1%	
Match Group, Inc.	MTCH	11/19/2015	\$ 14.74	22.8%	-29.2%	-6.3%	
trivago N.V. Sponsored ADR Class A	TRVG	12/16/2016	\$ 11.85	7.7%	1.3%	56.0%	
Snap, Inc. Class A	SNAP	03/02/2017	\$ 24.48	44.0%	-12.8%	-41.7%	
Spotify Technology SA	SPOT	04/03/2018	\$ 149.01	12.9%	13.2%	18.7%	
Lyft Inc Class A	LYFT	03/29/2019	\$ 87.24	-10.3%	-16.1%	-52.6%	
Uber Technologies, Inc.	UBER	05/10/2019	\$ 42.00	-1.0%	-4.6%	-35.0%	
Peloton Interactive Inc.	PTON	9/25/2019	\$ 27.00	-4.6%	0.0%	-9.2%	
Casper Sleep Inc	CSPR	2/5/2020	\$ 14.50	-6.9%	-56.0%	NA	

Source: FactSet. Edward Jones does not follow any of these companies, except for Facebook (**Buy**). Past performance is no guarantee of future results.

Familiarity isn't enough. Even if you know the company's products and think they're great, make sure you've done your homework about the company's prospects and valuation before making an investment. While it's a positive sign for markets when companies go public, buying the stock isn't always a good investment choice.

Key Considerations for the First Days of Trading

If, after considering the price risk associated with IPOs at the outset of public trading, you decide to still purchase the stock, there are a few key considerations that we believe the prudent investor should understand:

1) Opening price will likely be different than the official IPO price. New issues can experience extreme volatility in the first few hours and days of trading in the secondary market. When the

company's stock opens for secondary trading and becomes more widely available for individual investors, it is possible the price will be significantly different than the IPO price set by the security underwriters. In addition, new issues often do not begin trading at the moment the market opens.

2) Use a limit order. Once you understand the risks of purchasing a stock during its first public trading days, and have determined that the investment is suitable for your portfolio, you should determine the highest price you are willing to pay for the stock.

3) Orders are not accepted until after the IPO is priced. Edward Jones typically does not accept orders until after the IPO has been priced. Thus, orders are generally not accepted until the morning the new issue is to begin trading. In addition, Edward Jones is not permitted to accept market orders for any IPO prior to its trading in the secondary market.

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David Heger, CFA

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Buy (B) - We believe the valuation is attractive and total return potential is above average over the next 3-5 years compared with industry peers.
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	BUY	HOLD	SELL
Stocks	50%	46%	4%
Investment Banking Services	4%	0%	0%

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3-Year Rating and Price History for: Facebook (FB.O) as of 07/15/2020



Source: Reuters