IPO ANALYSIS

"Birkenstocks were fancy enough for Barbie, will it be the same for NYSE?"

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BIRKENSTOCK®

Table of contents

Company overview

"Since 1772, Birkenstock has epitomized quality and comfort, born from the innovative idea of a German cobbler named Johann Adam Birkenstock to create a shoe with a flat bottom. The brand gained prominence in the 1960s with iconic models such as 'Madrid' and 'Arizona' making its mark in the American market. Initially embraced by niche communities like hippies, physicians and science professors, Birkenstock experienced a transformative moment when it was featured in a Barbie movie last summer. Now the icon sandal has become a worldwide brand into the footwear market.
Within this industry, Birkenstock's main listed competitors on NYSE are Allbirds, Skechers, Crocs, Steven Madden and Nike. The pivotal moment in this narrative, paving the way for the IPO, occurred when the company, in 2021, transitioned from being a wholly family-owned entity to being under the management of the private equity firm L Catterton, supported by LVMH. The total amount of the deal's value was approximately €4bn with a co-investment of Financière Agache[1]. The transaction was aimed to pursue global growth ambitions (especially in China and India) by taking advantage of the expertise and know-how of the new partners in the international fashion industry. Despite facing some difficulties due to the global pandemic crisis, revenue remained stable in 2020. The company finally rebounded in 2022, reporting a net income of €187.1 million .
Beyond numbers, Birkenstock has also improved their e-commerce facilities (as one of the main goals of Catterton) and has empowered their brand-awareness in the fashion industry. Moreover, during summer 2023 a compelling marketing move occurred; as a matter of fact, the sandal's feature in the Barbie movie boosted sales and Birkenstock popularity before the already arranged IPO for October 2023.

Main reasons to IPO

Firstly, as Birkenstock is controlled by a private equity fund with a majority stake, the ultimate goal of these funds is a profit exit, often achieved through an IPO. Indeed, after implementing organizational efficiencies and expanding the business, including improvements to its e-commerce, L Catterton is ready to exit its initial investment. Despite the IPO market slowing for over a year, the fund remains strong in the industry, conveying confidence in investors, especially after the successful IPO of the online beauty retailer Oddity Tech's on the Nasdaq in July 2023. A second motivation is evident directly from Birkenstock's IPO prospectus, which conducts a market analysis revealing that the average number of sandals owned by an American Birkenstock customer is 3.6 pairs. Consequently, the company sees the listing as a significant opportunity to capitalize on additional global growth prospects in a footwear market with overall retail sales of 350 billion. According to the company's analysis, Birkenstock has just under 1% market penetration, making this opportunity an additional space for growth. Finally, a third motivation, according to IPO analyst Angelo Bochanis of Renaissance Capital, could stem from comparing Birkenstock to its comparable, which have shown excellent stock performance over the last year, potentially providing an additional boost to the listing.

Offering structure

In an initial public offering, Birkenstock priced its shares at $46 ahead of its first day of trading on October 11th. A week prior, the range the company set was from $44 to $49, supposedly reflecting demand for its shares as the company geared towards a revival in the US IPO market. The set price

[1] Bernard Arnault's family office.

provided the company a market valuation of $8.6bn. Birkenstock's public debut was supposed to raise about $1.5 billion: a third of the proceeds going to repay the company's debt and the rest to L Catterton. Taking into account stock options and other rights, on a fully diluted basis, the company would have an initial market value of $9.3bn.

Market reaction

Birkenstock: unable to fulfill its wish to revive the stock market

Birkenstock Holding Plc closed 12.6% down on Wednesday for the worst first-day showing in a US IPO of $1 billion or more in more than two years. Reasons for this appear to be bad market timing, which counteracted the company's conservative pricing strategy, and its reliance on anchor investors [2](Gould et al.). According to the Journal, "it is rare for large companies, especially well-known brand names such as Birkenstock, to sink on their first day of trading. It's an outcome issuers and their underwriters assiduously try to avoid" (Cohan).

Overestimated sales growth and poor market timing

While Birkenstock has had double-digit growth and successfully boosted its margins, investors concluded the growth was not sufficient to justify its premium valuation of $8 billion. The company's revenue grew $770.9 million in FY 2020 to $1.3 billion in FY 2022, at a 29.5% compound annual rate. According to its IPO prospectus, the company's net profit rose by about $91 million within that time frame. However, Barron's reports that David Trainer, CEO at investment research firm New Constructs, believes that an $8 billion valuation would only be accurate if it had tripled its 2022 revenue to more than $3.8 billion.

Birkenstock seems to have overestimated the impact of a sales boost from the trend in casual post-pandemic workplace footwear and Barbie, the Hollywood blockbuster, where Margot Robbie swaps her heels for a light pink pair of Birkenstock. Lastly, although the product was popularized because of its "functionality and orthopedic support, it has since been trying to rebrand as a luxury product and, therefore, more vulnerable to lowering levels of discretionary demand.

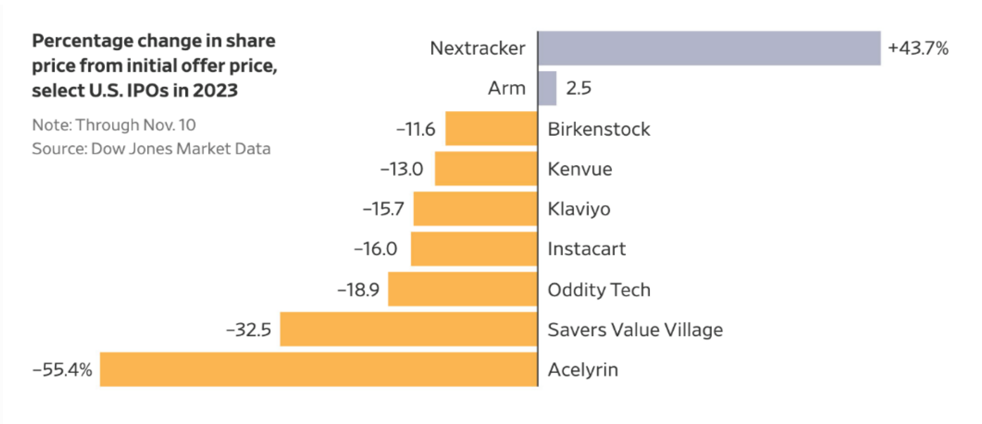
Timing is everything when it comes to an IPO: Birkenstock's investor roadshow was overshadowed by a probable US government shutdown, delayed listings in Europe, public holidays in Germany and the US, and an outbreak of war in Israel. These factors, coupled with disappointing earnings LVMH, Birkenstock's indirect backer, before the new stock was set to open trading in New York, hurt its performance. Javier Gonzalez Lastra, Investment Partner at Tema ETFs, said to Reuters that the "timing of the IPO was in a way unfortunate as it followed LVMH Q3 results, in which management stressed how European consumers had deteriorated in a significant way in Q3" (Randewich et al.).

[2] Anchor investors are typically major institutional investors that invest a sizable amount in a company right before its IPO to show trust in the company and encourage other investors.

Can Reichert successfully step-up?

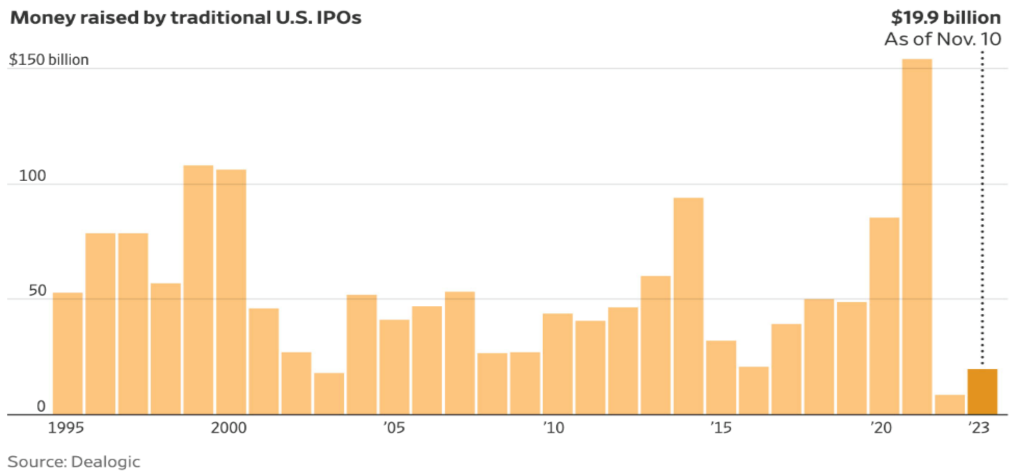
According to Birkenstock's prospectus, Oliver Reichert, the CEO of Birkenstock, is the creative mastermind behind their unique success and growth story, the driving force behind their transformation and innovation, and their supreme brand ambassador and brand custodian. He was a former reporter and CEO of a German sports TV channel called Deutsches Sportfernsehen, so he has no prior experience. He was appointed CEO because, according to Forbes, Christian Birkenstock reportedly met Reichert after his art dealer brought him along while dropping off some paintings and the three ended up grabbing beers. Longtime employee Markus Bensberg was named co-CEO to help Reichert run the company. While his lack of experience has created a lot of doubt amongst investors about his ability to navigate the US financial markets successfully, he now has a chance to show the world that he can run a publicly traded shoe company.

Birkenstock's Unexpected drop & the IPO market



In 2020, traditional U.S. IPOs raised $85 billion, and this figure nearly doubled to $150 billion in 2021 and then fell starkly by 94% to $8.6 billion in 2022, as observed in the graph below. In 2023, IPO advisers have emphasized that they believe the market is open for large companies with steady sales, but a high-profile flop like Birkenstock could discourage others considering late-2023 offerings.

As the Federal Reserve started raising interest rates, a boom in IPOs dried up around 2022. Publicly traded technology companies witnessed their share prices decline, which deterred many IPOs as private companies worried that their valuations would be lower. Additionally, investors who buy in don't want to end up with more "underwater offerings" and high interest rates are offering attractive investments with less risk. Although the IPO market is somewhat rebounding since then, the rebound is mixed. Jay Ritter, a professor at the University of Florida, commented that a big issue has been the reset in valuations for growth companies… With a company like Birkenstock, which is much more mature, there's less uncertainty. But there's still uncertainty about its ability to grow future profits.



In addition to the slowdown in offerings, newly public companies have not performed well. Of companies that went public in traditional IPOs since the beginning of 2020, more than 80% are currently trading below their initial offering price (Driebusch and Santilli) .As seen in the table at page 5, the underwhelming U.S. market debut of Birkenstock follows poor performances from chip designer Arm Holdings and grocery delivery platform Instacart, following their IPOs last month. While investors hoped the recent array of major companies going public would solidify a comeback in the IPO market, they were subject to "slumping shares and volatility". Companies looking at IPOs will likely think long and hard about coming to the public markets; therefore, the majority of companies preparing IPOs are hoping to wait until 2024.

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