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BOW Finance Newsletter
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Issue II

Investment Banking: GoodRx IPO

GoodRx Holdings: (NASDAQ: GDRX) (Stock Price of GDRX as of 10/2/20: US $48.75)

Type of deal: IPO

Industry: Tech/Healthcare

Leading Advisors: Morgan Stanley, Goldman Sachs, JP Morgan

Time Announced: 9/14/2020

First Trading Day: 9/23/2020

IPO Price: US $33 per share

Opening Price: US $46 per share

IPO Valuation: US $12.7 billion

About GoodRx:
GoodRx is based in Santa Monica, California and was founded in 2011 with a mission to make drug prices more transparent and cut down patients' prescription medication costs. Through GoodRx's free website and mobile app, users gain access to prices of prescription medications they need at pharmacies near them, as well as a list of discounts available for their medication. GoodRx changed the healthcare landscape for the 28 million uninsured Americans since insurance was the main method of lowering medication costs. Since 2011, the company has expanded into additional verticals, including a telemedicine marketplace feature where patients can compare the costs of different telemedicine providers. It generates revenue from advertising, referral feeds, and a subscription service. The company ranks No. 20 on the 2020 CNBC Disruptor 50, a list of the most ambitious startups that are identifying unexploited niches in the market, developing revolutionary new technology, and changing the world.

Discussion:
GoodRx disrupted the pharmaceutical industry by helping Americans receive healthcare at an affordable price and be informed consumers. It is the most downloaded healthcare app with 4.9 million monthly active customers that on average receive a 70% discount on their prescription medication. In total, GoodRx has generated $20 billion in savings for its customers.

In addition to its drug pricing services, last September, GoodRx acquired telemedicine provider HeyDoctor and added other providers to form a telemedicine marketplace. As a result of the Covid-19 pandemic, people are reluctant to visit doctors and pharmacies in-person and eager to find alternative ways to receive medical help. Telemedicine (remotely seeing healthcare providers) has especially boomed. GoodRx fulfilled this new online demand, as customers can compare costs of telemedicine clinics, make a telehealth appointment on the platform, see a physician, and then get medications delivered directly to their homes. Over 1,000 customers use GoodRx's telemedicine platform each day.

Originally valued at an initial IPO list price of $33 per share, GoodRx's stock rose 53% on its first day of trading, and its market cap reached $19.4 billion from a previous total company valuation of $12.7 billion. The company is selling 23.4 million shares, and stockholders are selling 11.2 million. Aside from the IPO, private equity fund Silver Lake has agreed to buy $100 million stock in a private placement at the final IPO price.

Even in the midst of a recession, investors are pouring money into IPOs as low interest rates have cut bond returns and sent investors searching for return in more profitable areas. IPOs have already generated $95 billion this year, putting 2020 on track to be the most profitable year for IPOs since the dot-com bubble of 2000. Additionally, the coronavirus increased the attractiveness of healthcare technology companies to investors and raised valuations, providing an extremely favorable market climate for GoodRx to enter into an IPO and raise more capital. GoodRx plans to use the IPO proceeds to grow their existing business and potentially acquire other companies, although it currently has no binding commitments. As part of their IPO, GoodRx launched a new philanthropic initiative, GoodRx Helps. The company took over one million shares from the IPO and dedicated the proceeds to charities that align with their values. The company has consistently generated profits since 2016, uncommon for tech start-ups going public, with a compounded annual growth rate (CAGR) of 57%. In the first half of 2020, revenue grew 48%, and the company is positioned for growth as health concerns increase in the wake of the pandemic.

M&A: Nvidia Acquiring ARM

Type of Deal: M&A

Industry: Tech

Acquirer: Nvidia Corp (Ticker: NVDA) (Stock Price of NVDA as of 9/28/20: US $515.78)

Target: Arm Holdings, owned by SoftBank Group Corp. (Ticker: 9984) (Stock Price of 9984 as of 9/28/20: ¥6,341.00)

Time announced: September 13, 2020

Goal for closing: March 2022

Underwriters: **Zaoui & Co., Raine Group** and **Morrison & Foerster** (SoftBank). **Morgan Stanley** and **Latham & Watkins** (Nvidia).

Purchase Price: US $40 billion (stock and cash payment, in addition to bonus payments dependent on Arm Holdings reaching performance targets)

Acquisition Rationale/Discussion:

1. **Industry Background:** Nvidia produces chips used to power popular gaming platforms such as Nintendo Switch, data centers, and AI calculations. The company generated record sales during the pandemic due to increased demand for their products. Nvidia passed Intel Corp. to become the most valuable semiconductor company in the United States. Nvidia is interested in acquiring Arm Holdings as the latter dominates the smartphone chip market. Around 90% of the world's smartphones operate with chips designed or blueprinted by Arm Holdings. Arm Holdings is currently owned by SoftBank, a Japanese conglomerate holding company.
2. **Nvidia Market Dominance:** The acquisition of Arm Holdings would result in Nvidia controlling the majority of the semiconductor industry. Should the deal be approved, Nvidia would adopt Arm Holdings' customer base, allowing them to expand their market share and influence the trajectory of the industry. This would solidify Nvidia's position as the leading company in the semiconductor market.
3. **SoftBank's incentive:** When SoftBank bought Arm Holdings four years ago, the company was criticized for paying too much. This transaction would make SoftBank one of Nvidia's largest shareholders and allow the company to profit off of selling Arm Holdings. SoftBank stock already improved by 20% this year.
4. **Risk:** Due to the international nature of the companies involved, the deal will require regulatory approval from China, the United Kingdom, the European Union, and the United States. Investors are particularly nervous about the implications of rising US-China tensions, especially involving tech companies, on the likelihood of a quick approval process. Additionally, firms previously partnered with Arm Holdings are concerned that the acquisition may impact the ability of Arm Holdings to remain as a neutral, global, industry-wide provider.
5. **Brief Analysis:** Although the deal seems incredibly appealing for Nvidia, I fear that this union will create monopoly-type conditions within the industry that may incite widespread criticism from partner companies and from international governments.

Market Updates

1. **Equities** stocks were volatile last week as investors continued to digest current events. For example:

- Coronavirus vaccine coming later than hoped (by mid-2021 at the earliest)
- Jobs data coming out worse than expected
- Low expectations for new fiscal stimulus package
- Ruth Bader Ginsberg's death
- Trump's hospitalization

Small-cap and cyclical stocks were hit the hardest by vaccine news. However, starting late last week and beginning this week, stocks climbed up again, and some companies, especially tech picks such as Facebook and Amazon are showing big gains since the March trough. Still, there are many challenges ahead, especially the presidential election. Moreover, these big tech stocks seem like the **most vulnerable** to Biden's tax plan.

Also see: **Palantir, Asana IPO.**

2. **Bonds & Rates**: interest rates likely to remain low for a while. US Treasury yields slid last week.

US first-time applications for jobless benefits for the week ending Sep. 19 rose by 4,000 to 870,000, which is higher than the consensus estimate of 850,000. This statistic underlies the continued weakness in the labor market and economy as a whole. Without rapid recovery in unemployment, the US economy may struggle to return to pre-COVID strength. Current news and stocks headwinds also contribute to people flocking to more "safe" assets.

3. **Currency**: Dollar, Yen, and Yuan ended stronger last week. Euro and Pound are shaky as concerns grow over resurgence in COVID in Europe.

4. **Commodities**: S&P 500's Materials sector is doing well, climbing 16% this quarter. Bets on economic recovery in the longer term are fueling gains in market shares

Recent Market Trend

Housing & Homebuilding Market Trends

Summary: Growth for US homebuilders is supported by low mortgage rates and release of pent-up demand from city-dwellers looking for more space. The new-home market can take a greater share of total housing demand due to depressed resale supply and a growing preference for new spaces with floor plans more conducive to current living arrangements.

1. Historically low interest rates is a significant tailwind.

Low interest rates are a significant catalyst for the overall housing market since it keeps affordability in check despite rising home prices. Moreover, the uncertain economic outlook prevents rates from moving much higher near-term.

Key terms:

- Low interest rates: The lower the interest rate, the more willing people are to borrow money to make big purchases (such as houses). When there is less interest, consumers have more money to spend, which can create a ripple effect of increased spending throughout the economy.

2. Virus and WFH shifts away from cities to single-family living

There is the current demographic trend where older millennials are reaching the "new normal" age for home ownership away from cities as they start families. This trend is exacerbated by virus fears. Furthermore, as WFH (work from home) increasingly becomes an option for many, there is less need to live near job centers, and thus more consideration for affordable housing options elsewhere.

Single-family permits and housing starts continue to rebound from 2Q bottom and should accelerate through year-end. Single-family building permits gained 11% since last year, and single-family housing starts rose 15% from last year.

Key Terms:

- Housing permit: official approval issued by local government that allows you or your contractor to proceed with a construction project on your property.
- Housing start: new residential construction projects that begin during any particular month. They are considered a key economic indicator, and a start is counted when construction begins on the foundations of a residential structure.

3. While demand is high, inventories are low

New and existing home inventories are hovering atnear cycle lows. That means there's a low supply of homes for sale, which drives higher prices across the industry. This is especially due to the repressed resale inventory, as homeowners are reluctant to let potential buyers into their homes in the current environment. The depleted existing-home market cannot possibly satisfy the current demand: existing-home inventories declined for 13 consecutive months.

4. Thus, the new-home market is in a good position to grow

US homebuilder confidence is at an all-time high (supported by low interest rates, undersupply of inventory, and high demand and preference for single-family homes). Since existing-home inventories are at such low levels, buyers have to turn to new communities. New houses are also better suited for pandemic stay-at-home living (with more conducive floor plans, embedded technology, health/wellness features, etc).

The monthly new-home sales absorptions gained 23% in June (to 2.6 per community), the highest level since at least 2016. This was widely felt across the US.

Key Terms:

- Absorption rate: in the real estate market, it is used to evaluate the rate at which available homes are sold in a specific market during a time period. It's calculated by (# of homes sold in time period) / (total # of available homes).

Advice Column: What I Wish I Knew

Advice from upperclassmen who have been through the finance recruitment process

Networking tips:

- Don't be afraid to reach out to Duke students you may not know for a coffee chat! You'll find that they're more than willing to help you throughout the recruitment process
- Make sure to put "Duke" in the subject line of cold emails
- When scheduling a time to speak, list all the times that you're available throughout the week to make it easiest for the network-ee to choose a time
- Always send a follow-up 'thank you' email after networking
- At the end of a networking call, don't be afraid to ask the person you're networking with to connect you with someone else at the firm (and again in the thank you email after the call)
- Create a networking spreadsheet of all the people you've spoken to, when you spoke to them, the firm they work at, what division they're in, etc.
- Make sure to have an elevator pitch prepared
- Have a working list of 6-7 questions you're planning to ask on calls
- Take notes on all calls, so you can refer to them before an interview

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