BOW Finance Newsletter

October 19th, 2020
Issue III

Investment Banking: Snowflake IPO

Type of Deal: IPO

Industry: Cloud Computing- Tech

CEO: Frank Slootman

Underwriters: Goldman Sachs, Morgan Stanley, J.P. Morgan, Allen & Co and Citigroup

Stock Exchange: NYSE

Ticker: SNOW

Date: September 16, 2020

IPO Initial price: $120/share

What is Snowflake?

Snowflake is a cloud-based data-warehousing startup from Silicon Valley. It was founded in 2012 and has been wildly successful since. Snowflake is backed by Salesforce (CRM) and Warren Buffett's Berkshire Hathaway and it received $1.4B of funding. It was the fastest growing business application in 2019 by usage according to a research firm Okta. They had 56 large customers this year who spend over $1 million annually, doubling the number they had one year ago. It is considered a "unicorn startup," which is fitting considering its steep growth in such a short amount of time.

The IPO:

Initially, Snowflake had its IPO price at $75. They ended up raising it to $120 days before the IPO. Snowflake went public with a valuation of $30 Billion. Based on this it was the most valuable software startup ever to go public. Snowflake's shares opened at $120 per share when it IPO'd and upon hitting the market it was more than double the per-share price; it was up to $245 per share.

Consequences:

Snowflake's CEO, Frank Slootman, is not upset about the mispricing, but it is objectively unfortunate for the company to have missed out on so much money. According to CNBC, they left $3.8B on the table because of their low pricing, the most in 12 years. Most would agree, they clearly should have priced higher, but it is much easier to know this after the IPO. The CEO argues that he chose to price low because he "wanted to bring on the group of investors that they wanted" and the low price really encourages their investments.

What makes Snowflake special?

Warren Buffett often shys away from young technology companies, so what convinced him to invest more than half a billion dollars into its IPO? Snowflake offers an essential part of many business' technology infrastructure but in a new fashion. It produces database software that can be used in the cloud and it is the only standalone company offering such software to run no matter which cloud product is running. There isn't really a company like it within the market.

M&A: Twilio Acquiring Segment

Type of deal: IPO/M&A

Industry: Technology

Acquirer: Twilio

Target: Segment

Underwriters: Morgan Stanley and Co LLC for Twilio and Qatalyst Partners for Segment

Time Announced: October 2020

Time Closed: Q4 2020

Purchase Price: 3.2 billion dollars (All Stock)

About Twilio:
Led by CEO Jeff Lawson, Twilio provides companies with a means of virtually connecting with their customers. Having facilitated a trillion interactions this past year alone, Twilio is one of the most prominent digital communication platforms.

About Segment:
Under CEO Peter Reinhardt, Segment allows companies to accumulate customer data in an effective, organized manner. Many companies rely on Segment for a better understanding of their customer base.

Rationale/Discussion:

- *Cost-Saving Synergies*
  - Twilio's mission lies in promoting effective communication between businesses and customers. To do so, such companies need an adequate understanding of their customer bases. Once Twilio acquires Segment, these two necessary steps (learning about customers and connecting with them) can be combined into one simple purchase.
- *Permanent Pandemic Effects*
  - By forcing us to rely on our screens, the Covid crisis sped up the transition to technology. The efficiency of telehealth visits and zoom calls will foster a permanently greater demand for efficient virtual communication. The recent upward trend in Twilio stock is therefore not temporary. Rather, this upward trajectory reflects our changing world. And this deal is just what the company needs to meet such a changing demand.
- Surpassing Competitors
  - Several of Twilio's current competitors include Cisco, IMImobile, and Avaya. Once it acquires Segment's ability to understand a customer base, Twilio will outperform its original competitors. Skeptics argue that the newly improved Twilio will then become competitors with the more established Microsoft and Adobe. Twilio, however, will focus more on the technological framework, whereas Microsoft and Adobe are better known for their implementations of the underlying framework. Twilio will therefore likely form its own market rather than merely join another pre-existing market.

Market Updates

Brief Market Updates:

- The stock markets in the last two weeks were largely driven by three major forces: disappointing employment data, stalling stimulus package negotiation, and news that President Trump and his wife tested positive for COVID-19.

- The US added a lower-than-expected 661K jobs in September, a big slowdown in recovery. The economy was expected to have bounced back in Q3 from a record 31% plunge in Q2. However, 12.6M Americans are still unemployed.

- Congress still has not agreed to a new stimulus package. Stocks rose briefly after comments from House Speaker Nancy Pelosi and President Donald Trump regarding further fiscal aid. Both Republicans and Democrats said they would not support the White House's $1.8 trillion proposal. Treasury Secretary Steve Mnuchin said finalizing a stimulus package ahead of the election "would be difficult".

- When President Trump tweeted that he and Melania had tested positive for COVID-19, U.S. stock fell initially but quickly rebounded throughout his recovery. Oil prices also went up with this news. With bonds and cash offering only marginal or even negative yields, stocks remain the only viable option for investors to make a profit.

- The Chinese yuan hit a 17-month high against the dollar, reflecting the country's strong economic recovery from the pandemic. Chinese investors are also bullish on the prospect of Joe Biden winning the election and diminishing trade tensions.

Recent Market Event/Trend:

Why ESG funds may not be what they claim to be

Interest in environmental, social and governance-oriented investing has soared recently. Over the past year, ESG-focused equity funds have taken in nearly **$70B of assets** while traditional equity funds have suffered almost $200bn of outflows over the same period. There are a couple of reasons driving the increased demand for ESG stocks: First is the impact of social media and the internet. When a company's business malpractices have a negative impact on stakeholders, the negative message can be amplified to such a high degree that it may have an impact on the stock price of a company. Second, going the ESG route brings about more green financing opportunities and access to cheaper capital.

However, there is growing scrutiny over ESG investment funds. Many of ESG funds have recently outperformed the markets, but regulators say that they may not be all they claim to be. The tension around ESG funds has to do with the way they are built, and there are a few strategies: exclusionary, single theme, and best-in-class.

When a portfolio manager takes an exclusionary approach to making an ESG fund, they will decide the types of companies they do not want in their portfolios. These often include weapon manufacturers, tobacco companies, casino operators, etc. Other ESG funds tie themselves to a single theme. For example, the index ticker "SHE" tracks gender diversity by including large companies with at least one woman in a key leadership role, which may include companies like Paypal, Home Depot, Netflix, etc. There are also ESG funds tied to solar energy and water, which grows sustainable use of natural resources.

ESG funds can help an investor reach their moral goals, but the funds themselves have also earned substantial financial returns in recent years. A Wall Street Journal analysis found that 75% of ESG equity funds outperformed the benchmark. That is largely driven by tech stocks, which are commonly held by ESG funds. For instance, more than half of these funds hold Microsoft stocks, and nearly half hold Alphabet stocks. It is true that a lot of these companies do have relatively strong environmental practices. For example, in January, Microsoft announced that they would be carbon negative by 2030 and remove from the environment more carbon than they have emitted since their founding by 2050. But on the other hand, many have serious drawbacks when it comes to the "social" component of ESG. For example, Facebook has come under fire for its data privacy issues, and Amazon has been criticized for the way they treat contractors and third party workers.

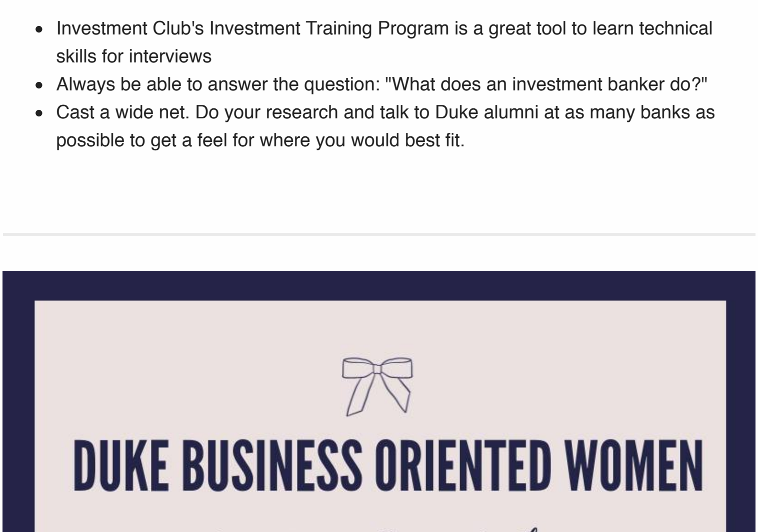
The problem is that ESG fund managers can loosen their criteria in deciding which companies to include in their portfolios. This allows more companies to qualify, even though some of them seem counter-intuitive to the overall mission of the fund. One such approach is called best-in-class. This is why when BlackRock put together their ESG funds last year, they still included major oil and gas producers because these companies showed to have done better on ESG principles than their competitors within the same industry.

Many investors are not aware of how these funds are built. They may be attracted to the fund because of the name of the ticker or the name of the fund itself without realizing that many companies under the portfolio do not seem to align with the stated goals of the fund. There is yet a standard definition of ESG or what constitutes as an ESG fund, and there should certainly be more standardization across all ESGs to prevent investors from being misled. However, this is still a step in the right direction to have Wall Street thinking about the implications of sustainability.

Advice Column: What I Wish I Knew

Advice from upperclassmen who have been through the finance recruitment process

- Investment Club's Investment Training Program is a great tool to learn technical skills for interviews
- Always be able to answer the question: "What does an investment banker do?"
- Cast a wide net. Do your research and talk to Duke alumni at as many banks as possible to get a feel for where you would best fit.



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