BOW Finance Newsletter

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M&A: McCormick Acquires Fona

Type of Deal: M&A

Industry: Consumer and Retail

Acquirer: McCormick & Company Inc. (NYSE: MKC) (Advisor: Morgan Stanley & Co.) (Price of MKC as of 2/2/21: US $90.75)

McCormick & Company Inc. is a Fortune 1000 company that manufactures, markets and distributes spices, seasonings, condiments and other flavorings.

Target: Fona International LLC (Advisor: Houlihan Lokey)

Fona creates flavors for some of the largest food, beverage and nutritional companies in the world.

When: December 30, 2020.

Purchase Price: US $710 Million

Acquisition Rationale:

1. Growing demand for new flavors and cooking more: Due to Covid-19, there has been an increased need to stay home, resulting in an increase in cooking and eating meals at home. McCormick is best known for its spices and flavorings, which are in higher demand with the global stay-at-home orders.

2. Pandemic health & wellness trend: Consumers are becoming more focused on healthy eating throughout the pandemic. Fona includes many organic flavors for health and performance nutrition which will allow McCormick to meet the growing demand for clean, healthy, and flavorful eating and cooking, which they didn't have prior.

3. Market presence: Fona will complement McCormick's products and allow them to have a greater and more prominent presence within the food industry. This is one of the many flavor technology companies that McCormick is acquiring. Evidently, they are making a huge effort to grow their presence and technology capacity in the industry.

4. Expands technology capabilities: McCormick has turned to artificial intelligence to reduce the time it takes to develop new ingredients. The acquisition of Fona's research and development teams will help McCormick scale its technology use.

https://www.themiddlemarket.com/latest-news/mcormick-buys-fona-for-710m

https://www.fooddive.com/news/mccormick-buys-natural-flavorings-company-fona-international-for-710m/592730/

https://finance.yahoo.com/news/mccormick-acquires-fona-international-llc-123000155.html#:~:text=HUNT%20VALLEY%2C%20Md.%2C%20Dec,%2F%20%2D%2D%20McCormick%20%26%20Company%20Inc.&text=Kurzius%20added%2C%20%22FONA%20will%20be,flavor%20platform%20in%20the%20Americas.

M&A: Twitter to Acquire Revue

Type of deal: M&A

Industry: Social Networking

Acquirer: Twitter

Target: Revue

Time Announced: January 2021

Purchase Price/Time Closed/Type of Financing: Undisclosed

Background:

Social networking giant Twitter has recently announced that it will acquire Revue, a newsletter publishing company. Revue provides a means for writers to display their perspectives in a newsletter format as well as an email-based avenue for reaching countless viewers. With only six employees, this startup has significant room for growth in the coming quarters.

Acquisition Rationale:

1. Offset Pandemic Losses: While Twitter has historically relied heavily on advertising revenue, the pandemic has significantly strained this source of income. The acquisition of Revue reflects an effort to compensate for such losses by expanding the scope of the business.

2. Steady Stream of Revenue: By incorporating newsletter services into Twitter's platform, the tech powerhouse has entered the realm of subscription revenue. By "subscribing" to the service, users are committing to pay twitter at regular intervals for the foreseeable future. This model therefore denotes a sense of consistency as well as a long-term user base.

3. Increased Engagement: Since writers' pay will be related to the number of subscribers, the new addition will create financial incentive for users to reach high levels of engagement on the site. The implications of this are twofold: not only will highly active users maintain their high engagement, but also such activity will likely attract new users to the app as well.

4. Competitive Advantage: This newfound monetary incentive will allow Twitter to better compete with sites such as Tiktok that already provide financial compensation for a large following base and frequent user interaction. Additionally, by lowering Revue's pre-existing revenue cut from 6% to 5%, Twitter allows its writers to retain more of their earnings.

IPO: DoorDash

Type of deal: IPO

Industry: Online food ordering

Time announced: December 8th, 2020

Time closed: December 11th, 2020

Stock price: DoorDash offered 33 millions shares of its Class A common stock at US $102 a share. The company was listed on the New York Stock Exchange on December 9, 2020 under the symbol "DASH". Stock price as of Jan 27th: US $193.07

Advisors: Goldman Sachs and J.P. Morgan acted as lead book running managers while Barclays, Deutsche Bank, RBC Capital Markets, and UBS Investment Bank acted as book running managers for the offering. SoftBank is the largest shareholder with about a **20% stake**, followed by Sequoia, which owns 16%.

About DoorDash

DoorDash is an American food delivery company based in San Francisco, California. It operates in more than 4,000 cities across the United States, Canada, and Australia. It was launched in Palo Alto, California in 2013 by four Stanford students. As of January 2021, it had the largest food delivery market share in the United States. It accounted for 50% of all food delivery sales in October 2020, as compared to 26% for Uber Eats, 16% for GrubHub and 7% for Postmates, according to the DoorDash IPO filing.

Discussion:

- DoorDash's IPO was one of the most highly anticipated IPOs of 2020. Its stock began trading on December 9th at $182 per share, and closed at $189.51 (**up 85%**). The offering was expected to raise $3.4 billion, giving the food-delivery company a valuation of **$32.4 billion**.
- The food delivery space is crowded with a few big names and has been consolidated in recent years: GrubHub (GRUB) merged with Seamless in 2013; Uber (UBER) launched Uber Eats in 2014 and acquired Postmates last year; DoorDash itself acquired Square-owned Caviar in 2019.
- The coronavirus pandemic has certainly boosted the performance of DoorDash and other food delivery apps as people spend most of their time at home and limited indoor dining is allowed across the US. The company reported $1.9 billion in revenue for the nine months ended Sept. 30, up from $587 million during the same period last year.
- DoorDash stock took a small dip at the end of December 2020 and during the first few trading days of 2021 but has steadily climbed back to its IPO level in the last few weeks. However, it is difficult to predict how the stock will perform in the long-run. Many investors are skeptical of the company's long-term profitability. In 2019, DoorDash had a net loss of $533 million over the nine-month period. Despite the growth in revenue, the company still reported a net loss of $149 million over the same period in 2020. The food delivery space has relatively low barriers to entry, intense competition and therefore, it is uncertain if DoorDash will be able to turn revenue into profits once the pandemic pull-forward in demand has subsided.

Market Updates

Quick Updates:

1. Stocks

- *US stock market and 3 major indexes- DOW, Nasdaq and S&P500 - plummet to their worst month since October* due to the slower-than-anticipated rollout of vaccine coupled with volatile trading trends
- *Short-sellers lose a net of $54 billion since start of 2021 due to targeted short squeeze feedback loops**

2. Bonds & Rates

- *In the first month alone, developing countries sell bonds worth $100 billion as pandemic continues*
- *Investment-grade bonds suffer as US Treasury yields rise in anticipation of economic recovery*

3. Currency

- *Surge in trading of Dogecoin (a 'meme-coin') and other cryptocurrencies by Reddit users causes Coinbase outage*
- *Sterling outperforms US Dollar owing to strong phase-3 trials of Novavax vaccine*

4. Commodities

- *Biden attempting to suspend new oil and gas leases on federal land big step in transition to a cleaner long-term economy*
- *Carbon offset credits centre of a fast-growing market under Biden's climate*
- *Silver futures rise 7% as the Reddit forum, WallStreetBets, dapple in metals*

***Short squeeze feedback loop:**
The short-seller anticipates the price of a stock to fall, and therefore sells borrowed stock now, intending to buy it back later for less and return it with some interest to the lender. If the stock price instead rises, short-sellers are forced to buy the shares they borrowed at a higher price to curb losses. This rise in demand of the stock, against its total supply, further raises the value of the shorted stock, triggering more short sellers to cover their positions and creating more demand in a cyclical fashion.

Analysis and Discussion:

GameStop vs. Hedge Funds: Mania or Fair Game?

In the midst of the COVID-19 pandemic, the brick-and-mortar-reliant video games retailer GameStop suffered loss of revenue and location closures as consumers stayed home with lower disposable income. But in a dramatic turn of events, the once declining company saw its stock prices increase over 1,500 percent by January 27 over the course of just two weeks. This is thanks to a Reddit forum of individual high-risk traders called **r/WallStreetBets**, where a certain user by the name of **Keith Gill (u/DeepF--ingValue)**, posted his journey buying what he believed to be a heavily undervalued GameStop stock.

GameStop had been popular among short-selling hedge funds such as Citron Research and Melvin Capital, which provided the users incentive to defeat the Wall Street vets at their own game, all while making a profit. Indeed, as the stock price went from $20 at the start of the year to $350 on January 27, the hedge funds lost $6 billion dollars. As the short-sellers were forced to close, prices rose even more in what Jim Cramer described as the "(short) squeeze* of a lifetime."

E-trade platforms like Robinhood restricted buying the stock in a controversial decision that was **criticized by both ends of the ideological aisle**. Robinhood CEO says the decision was to "prudently manage risk and deposit requirements" which were mounting from the unprecedented volume of trade in a concentrated number of stocks. In a rare case of **bipartisan agreement**, the Right views the move as collusion with the elites whereas the Left as suppression of democracy and **need for improved regulation**.

Consequences

The boom in mobile day trading and individual investing has a consequence on titanic corporations on Wall Street that have historically enjoyed an unrelenting grip on the movement of the markets and subsequently all of its profit. However, up until January 2021, corporate financiers perceived individual trading as "dumb money" and paid it no heed. **Robinhood's mission statement to "democratize finance for all"** may have initially seemed harmless to Wall Street, but as the crowd rallies and leverages social media, zero-commission brokers, and an ability to take risks, suddenly that message becomes all too concerning for the Wall Street establishment.

Short-selling and its ramifications

There have long been calls to make shorting stocks illegal, and its ethical dimensions are worth noting: should our economy allow failing businesses and economic crises to make some on Wall Street rich? Corporate leaders (most notably Elon Musk), the ones that must fail to make a short successful, are uncomfortable with the idea and even go as far as to point at European countries where shorting is restricted and periodically prohibited. Although shorting can seem contingent on job losses and shortcomings, it has been **academically studied and noted** as a healthy tool to restrict overvalued stock prices, root out fraudulent businesses and mitigate financial bubbles.

So what is to come?

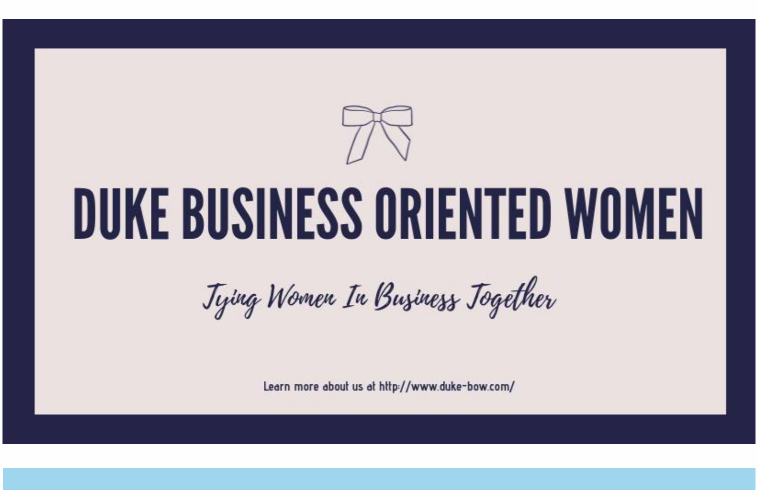
"All manias die out," says Jeremy Spiegel, professor of finance at Wharton. Now that the groundwork has been laid, what could be the next Wall Street mania?

Advice Column: What I Wish I Knew

Advice from upperclass(wo)men who have been through the finance recruitment process:

S&T Recruitment Tips!

1. Keep a "Market Journal" that tracks certain equities/commodities/currency/etc. in the market over a period of time
2. Refer to **WSJ Markets** every day (free WSJ subscription with Duke email!)
3. Look at **"5 Things to Know"** by CNBC (and log in Market Journal)
4. Understand themes of how the market behaved over time, not just what happened on one day
5. While you're getting ready in the morning, ask Alexa to tell you what's going on in the news
6. Come prepared to your interview with a stock pitch that you've been rehearsing



Disclaimer: These articles are written by Duke students and only represents the opinions and understandings of the writers. In addition, please do not all talk about the same transactions and news when conversing with firm representatives visiting campus - this is designed as an overview of the industry and to help you think more in depth about finance.

Writers: Caroline Kincaid, Taylor Shabani, Emma Swill, Alexandra Medow, Hannah Nguyen, Ivy Zhang, Kendall Dees, Christine Yang
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