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JDE Peet's IPO: Classic Story, Classic Investment Case

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Previous IPO we discussed was TeamViewer AG which started trading on September 25th, 2019. Teamviewer priced its IPO at EUR 26.25 per share, with Permira funds selling a 42% stake in the company.

Since our recommendation on October 23, 2019 shares of TeamViewer performed extremely well (both before and especially after COVID-19 crisis developments). At the current market price of about EUR 46 per share, shares returned 95%.

We believe that recent IPO of coffee maker JDE Peet's provides investors a classic story and classic investment opportunity.

JDE Peet's started trading at Euronext on May 25, 2020. Company raised approximately EUR 700 mil by issuing 22.2 mil new shares while existing shareholders sold an additional 49.2 mil shares at an IPO price of EUR 31.5 per share. Funds manages by Soros Fund Management LLC have subscribed for an aggregate amount of EUR 761 million, taking approximately 33% of IPO shares.

Mondelez international will retain a 23.4% stake while Acorn Holdings (JAB) will retain a 62.2% stake. JDE Peet's free float post IPO will therefore be 14.4% percent only.

At the current market price of EUR 37 per share, company has a market capitalization of EUR 18.3 billion and an Enterprise Value of about EUR 24.1 billion, valuing the company at an EV/Adj EBITDA multiple of x15. Assuming a 70% free cash flow conversion rate (according to IPO prospectus), JDE Peet's has a Free Cash Flow Yield of 6.15%.

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We believe that participation of Soros Fund Management in the IPO (33% of IPO shares), low free float, reasonable valuation multiple and attractive free cash flow yield make JDE Peet's shares an attractive investment.

In addition to this, current dislocations in the market due to COVID-19 crisis make the company extremely attractive due to the defensive nature of its products and sector. Investors do not have many investment opportunities of such kind in current market environment, and we believe that shares warrant a higher valuation multiple. Expansion of valuation multiple to x18.5 and an annual growth of 5% in Adj EBITDA could value the shares at EUR 65 in three years, providing a 75% upside potential or an approximately 25% annual return.