# Airbnb IPO: A Huge Success under Pandemic

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**Abstract.** This paper mainly describes the IPO of travel company Airbnb. While the travel industry around the world has been decimated by the coronavirus, with industries large and small either going bankrupt or having their funding disrupted, Airbnb has surprisingly survived. That is the story it is trying to sell to Wall Street in its roadshow. But the question is how did Airbnb survive the pandemic? The dramatic turnaround does not entirely mask its previous struggles with revenue growth. These include two of Airbnb's biggest challenges during the pandemic: a shortage of cash flow and competitive pressure from bookings. The second reason is why Airbnb chose to go public in the middle of the pandemic, and the risks are enormous: employee and shareholder stock maturities, and cash flows are desperately short. It remains to be seen how Airbnb managed to go public in a highly uncertain economic environment like the pandemic, contrary to other big companies that went public during the boom. The third chapter is about the pros and cons of IPO on Airbnb and its influence. Secondly, after the epidemic, what kind of development will Airbnb IPO have in the future, what kind of development, marketing strategy and whether Airbnb IPO is a right choice will be given, which will give favorable suggestions for Airbnb.

**Keywords:** IPO; Airbnb; COVID-19 pandemic.

## 1. Introduction

Airbnb, a service that connects travelers with hosts, offers free housing and offers users a variety of accommodation options. Airbnb's service grew a staggering 7,800 percent in 2011. Founded in August 2008, Airbnb is headquartered in Golden Hill, California, USA. According to its website and media reports, the social platform offers visitors millions of unique opportunities to live in 191 countries and 65,000 cities, whether in apartments, villas, castles or kindergartens. Airbnb's "eBay of Housing" Times magazine on February 28, 2015 was worth $20 billion. Airbnb has already paid half of the billions of dollars it has raised, according to sources. Many Asian investors, as well as big private-equity groups, have been attracted to Airbnb. The investors cannot be named, but one of the things these investors have is loyalty. Airbnb's previous sponsors include TPG, T. Rowe Price, Dragonet, Founders Fund, Sequoia Capital and Russia.

short-term rental service in the US Foreign media reported on November 1, 2016, that Airbnb has informed its Chinese customers that it will store their personal data locally. The short-term rental website Airbnb, based in Jinshan, made its first profit on January 27, 2017, and its revenue increased by more than 80%. Airbnb said it will strictly prohibit abuse of the platform's evaluation system, such as "brushing", and will take measures such as lowering listings, fines, permanent removal and account suspension if merchants and hosts are found to have violated the rules. On August 19, 2020, Airbnb announced that it had filed to go public. On May 24, 2022, the website of Airbnb released a letter from Airbnb to Chinese users. Airbnb is officially shutting down its business in China. Among them: Airbnb China Ying will completely shut down nearly 150,000 housing listings and experience services in China, and only retain outbound business; It is expected to be completed this summer. On June 3, 2022, Airbnb launched its migration program to help hosts in China transfer their listings, reviews and other data to other platforms with one click. Tujia had accessed more than 90% of its high-quality listings that afternoon. Airbnb's products and business are mature. No matter it is the client or the back-end supply chain system, only a handful of mature types were developed at that time. Airbnb's idea is to rent a home from an individual rather than from a hotel. The concept behind

Airbnb is to rent a property directly from a homeowner as opposed to a hotel. Renting out underutilized or abandoned properties can generate extra income, and rental rates are sometimes less expensive than hotel rates. On Thursday, Airbnb, the world's largest provider of shared accommodation, debuted on Nasdaq under the ticker symbol ABNB at $68. Its shares opened at $146 and closed at $144.71, up 112.8%. By the close of trading, Airbnb had a market capitalization of $86.3billion, the largest IPO in the US this year, that is more than twice the size of Marriott, the largest hotel chain in the world. As of 2022, Airbnb had 54 million active customers and a total of 247 million visitors.

## 2. What is IPO

A public offering in which shares of a firm are offered to institutional and retail (individual) investors is known as an initial public offering (IPO) or stock offering [1]. One or more investment banks often underwrite IPOs and prepare for the equities to be listed with one or more securities exchange. After an IPO, shares can theoretically be traded freely on the open market. Institutional investors and individual (public) investors both purchase IPO shares. A corporation will have to distribute a prospectus to potential buyers before to making a formal offering. The prospectus requires the company to disclose basic information, historical background, business details, financial performance and details of the share sale. In addition, companies are required to provide compliance documents issued by third parties, such as accountants' reports. When a company sells its securities on an exchange, the cash paid by public investors to purchase the newly issued shares goes directly into the company's accounts. Or, as part of a large initial public offering, into the hands of any private investor who chooses to sell all or part of his stake. Thus, an IPO gives a company access to a broad market of potential investors to fund its own future development, debt repayment, operating costs, etc.

While companies enjoy the benefits of an initial public offering, they also need to take risks. This is mainly due to the upfront costs involved in meeting the legal, accounting, compliance and other requirements of an IPO, such as paying commissions or professional fees to guarantors, lawyers, accountants, industry consultants, printers and other parties. The continued need for legal, compliance, accounting, and information dissemination (such as the preparation of annual reports) after listing also makes this a high ongoing cost.

## 3. Airbnb

Airbnb, which stands for "Air Bed and Breakfast," is a firm that provides short-term rentals of homes or rooms. Through their official website or mobile app, tourists may browse and book distinctive properties all around the world. When the founder of Airbnb moved to San Francisco in 2007, the business concept he had in mind for Airbnb took shape. The American Industrial Design Community Conference happened to be taking place in San Francisco at the time, which made them want to provide a bed and breakfast for the attendees [2]. The company's initial goal was to give participants with short-term lodging, breakfasts, and social events in order to address the issue that the majority of participants find it challenging to reserve hotel rooms due to a lack of availability [3]. In 2008, the company was founded as a privately owned firm based in San Francisco, California, USA. Airbnb is a company that specializes in offering short term rentals of houses or rooms and makes money by taking a percentage of the transactions from tenants and landlords. She does not own most of the properties the company's website or software and is grabbing money as a second landlord. Airbnb made its initial public offering (IPO) on December 10, 2020, at a price of $68 per share, Airbnb shares were initially priced at $68 a share, but soared to $146 a share at the opening bell. The company's shares closed the day at $144.71, giving it a market value of about $86.5 billion, more than double its IPO valuation a day earlier. The listing comes at a time when the travel industry has been hit hard by a trend toward fewer trips during the public health crisis. The company's revenue fell nearly 19% last quarter to $1.34 billion in 2020 compared to the same period in 2019 [4]. But the company still managed to make a profit of $219m, with intermittent earnings in other quarters.

## 4. How to Survive under Pandemic

Profitability is an increasingly direct demand of investors, and this brings more "pressure" to Airbnb. Even with the pandemic hitting, Airbnb is still struggling to prove its profitability. In 2017 and 2018, Airbnb reported positive EBITDA, including $200 million in 2018, according to public information. That gave it a good base to pursue a listing in 2019, but also led to a loss in 2019 as the hype to go public generated soaring marketing expenses. Airbnb had expected to break even in 2020, but the pandemic disrupted everything. According to the results, Airbnb's EBITDA in 2020 was 3.446B. Although business is improving, Airbnb is still in the red for the year. Referring to the data disclosed by Airbnb, short-term rentals in rural areas increased by 25% month-on-month in July, among which, the global booking volume of Airbnb platform exceeded 1 million nights on July 8, the best performance since March [5]. Although demand and orders for Airbnb continue to rise, Airbnb is still in survival mode and not out of danger. While the market is recovering, there is also the possibility of further declines ahead. The CEO of Airbnb also stated that although Airbnb's business response was higher than expected, he did not want to be too optimistic and create false expectations [6].

To survive, Airbnb first opted to slim down by drastically reducing its operations and laying off employees. In early May, Airbnb advertised a 25 percent layoff, and CEO Brian Chesky said the company had stopped investing in its smaller but promising hotel business, or hotel expansion [7]. This comes just over a year after Airbnb announced its acquisition of HotelTonight last April. The deal, which could total $465 million, was the largest acquisition by the short-term rental giant at the time, as Airbnb gradually introduced boutique and independent hotel brands to its platform. Airbnb hopes that through the expansion, more content and products can meet the needs of varied consumers or the same kind of consumers for different accommodation products, which will help to transform the existing stock of customers into greater benefits. And, the new housing with different attributes will also help to attract more customers, increase the number of users and bring more transactions. In response to the uncertainty caused by the pandemic, Airbnb has decided to temporarily halt its hotel expansion. However, this will further reveal the disadvantage of Airbnb in the competition with Booking and Expedia in the field of hotel and accommodation. In 2018, the number of Booking hotel rooms is 22 million, while only 200,000 hotel rooms can be booked on Airbnb platform, a difference of more than 100 times. This decision may make Airbnb lose some time to catch up and consolidate its territory.

## 5. Airbnb IPO

Airbnb management announced their strategy to address slowing sales growth in early 2020: the company would deliberately scale back ancillary activities and try to invest energy and money in the company's core strengths. However, even before the coronavirus pandemic put the travel and leisure industry on its back, Airbnb CEO Brian Chesky surprised everyone by announcing that his online vacation rental company would go public in December 2020 [8]. One of the company's strengths is that it is already a well-known brand in the travel industry and has established a strong brand image and loyal customer base. So when the company's sales in the nine months leading up to 2019 and 2020 are compared to those of its main competitors, Airbnb's decline is minimal, even though everyone's sales are down. Its competitors include booking.com and Expedia. One of the main targets of Airbnb's listing was let employees and investors cash out. Employees' shares in the company expire this year. If Airbnb continues to resist calls to go public, employees may lose the opportunity to cash out. In addition, Airbnb needs to go public to raise money to ease the cash crunch. "More than 32.5 million units were lost from March to April, and not only do they have to return rent to travelers, they also have to subsidize landlord losses. In the end, the successful initial public offering brought in the cash needed to meet its growing demand

### 5.1 Advantages

2020 has been a memorable year for the entire travel and accommodation industry. In the data of November 2020, the recovery data publicly released by each household is very encouraging, with mucosolver home stone increasing by 40% compared with the same period last year, and Tujia home stone recovering to 90%. The IPO of Airbnb, the originator of the domestic home stone industry, is hot. But has the shadow of the pandemic really lifted? Will 2021 be a smooth time for the travel industry? What are the changes and trends? This will be analyzed from three aspects: user demand, market change and investment perspective [9]. 2020 was a special year for the entire travel market and people around the globe. On October 1, the pent-up tourism demand of users was released in a wide range, bringing considerable growth data for the tourism and accommodation industry, and the tourism consumption momentum gradually gathered. According to a survey by the Tourism Research Institute, recent sporadic outbreaks of the virus have not had much impact on individuals' willingness to travel, and will usher in a prosperous and safe winter. Looking back to 2020, users' travel and accommodation needs also changed a lot after the epidemic education. In the third quarter of this year, Airbnb's revenue rebounded and the company became profitable. But Airbnb's overall trajectory of declining revenue and continued uncertainty over the coronavirus pandemic make it unlikely that the company will be able to sell Wall Street its typical tech startup story of rapid growth.

In its initial public offering, Airbnb may fetch as much as $3 billion and be valued at over $30 billion. In a time when the hotel industry has been severely harmed this year and faces uncertainty regarding its future, the IPO will test investor demand for stocks related to the industry. According to reports, Morgan Stanley and Goldman Sachs are in charge of Airbnb's IPO, which will result in the company being listed on Nasdaq. In the third quarter of this year, Airbnb earned $219 million on revenue of $1.34 billion. That is down from $1.65 billion a year earlier by over 19%. The corporation has periodically seen numerous other successful quarters, such as the second and third quarters of 2018 and the third quarter of 2019. Despite generally having a net loss. Airbnb's revenue rebounded in the third quarter of this year, allowing the company to turn a profit. But Airbnb's overall trajectory of declining revenue and continued uncertainty over the coronavirus pandemic make it unlikely that the company will be able to sell Wall Street its typical tech startup story of rapid growth. Overall, on $4.81 billion in sales, the business reported a net loss of $674 million in 2019. The business reported a net loss of about $697 million on revenues of $2.52 billion in the first nine months of 2020. (down from $3.7 billion in the same period last year) [10]. The coronavirus's effects, which earlier this year hindered both business and pleasure travel, are probably to blame for the fall.

In general, investors approved of Airbnb's IPO choice. Initially, create direct finance channels. When Airbnb goes public, it can not only raise a sizable sum of money, but it can also refinance later on and use its stock for mergers and acquisitions. The most alluring source of long-term funding for businesses that can essentially meet their capital needs is listing. In addition, banks and financial institutions will have lower funding costs. Public offering and listing, which increase company brand value and market power, have a significant impact on brand communication. Listing on the enterprise brand building has a huge role, it directly improves the industry visibility of the enterprise, will attract more focus. Clients, vendors, and banks will have more faith in listed companies because of how transparent and regulated their operations and information are. Compared to unlisted corporations whose operations are opaque and unregulated, this provides them more self belief. Then these customers, suppliers and banks will have more trust in listed companies. Companies will find it easier to attract new customers, vendors will be more willing to work with you, and banks will give you higher lines of credit. Enhance the company's competitive advantage. For outstanding results and growth of good, honest and trustworthy company, its price will maintain at a high level, not only will continue at a lower cost to raise a lot of money. In order to increase the company's development potential and scale, cultivate and develop the company's competitive advantages and competitive strength, and enter the path of sustained and rapid development this will continue to expand the scale of operations and shares as a key tool of merger and reorganization.

### 5.2 Disadvantages

At the same time, there are many disadvantages that can not be ignored. First, there is the risk of a hostile takeover. Once the Airbnb public, which more vulnerable to hostile takeovers because the shares are freely traded, which means that company could suddenly be acquired by another company one day. Competitors may know business information. Every listed firm is required to disclose a significant amount of information, such as financial data, details of significant contracts, changes in equity, etc., therefore some unfavorable business information will also be made public. When competitors learn about it, it will hurt the business. The unreasonable and abnormal fluctuation of stock price will bring adverse influence to enterprise operation. The performance of the company's stock price will be influenced by the operating situation of the business after listing. On the other hand, some unusual changes in the stock price of the company could cause unnecessary problems for its own operations or even light the fuse that destroys the company.

The economic downward pressure brought by the epidemic has spread to the whole country and even the whole world. Investment projects will only be more prudent and rational for the investment community, which indicates that investors will not invest easily, and it means that enterprises cannot get investors' funds quickly or easily. In fact, 2019 is known as the winter of Beijing, 2019 the whole homestay circle, only wooden bird homestay a new financing. In 2020, the impact of the pandemic on the home stay industry made investors more wait-and-see in this area, and investment in the entire home stay market basically tightened. That makes it harder for companies to get investors to back them, which could lead to a risk of capital chain breaks. But as the impact of the pandemic fades, it is only a matter of time before these platforms' high scores catch the attention of capital.

If there is one clear sign that the coronavirus pandemic is having a significant impact on Airbnb, it is that the word "COVID-19" appears 215 times in the company's SEC filings. Airbnb is a company that helps individual homeowners rent out their homes to travelers. This year's global pandemic killed the travel industry and contributed directly to Airbnb's financial collapse. Airbnb has been adapting to the pandemic. The company has cut jobs and expenses and found other ways to attract customers. For example, employees who work from home rent on Airbnb for short periods so they can have a new workspace instead of being cooped up at home for months and months. This and other factors mean airbnb is more focused on short-term travel, which can help countries weather the storm while hoping the pandemic ends. While the pandemic has severely damaged Airbnb's prospects, it is far from its only business problems, and many of them aren't going away anytime soon. Airbnb will continue to face legal challenges as many cities ban short-term rentals on the grounds that Airbnb negatively impacts residents' quality of life.

## 6. Conclusion

Airbnb's decision to go public amid pandemic uncertainty, when most companies choose to go public during a boom, is clearly controversial. When Airbnb goes public, it will face a hostile takeover, or the negative impact of unreasonable and abnormal fluctuations in its share price on the brand. Indeed, Additionally, Airbnb stated in its prospectus that the coronavirus pandemic will continue to have a materially adverse effect on its operations, financial condition, and business: It has experienced net losses every year since its founding and may never turn a profit. Also stating that its revenue growth had slowed, Airbnb predicted that this trend would continue. In addition, the company's adjusted EBITDA and its own cash flow have been falling, and there is a good chance that trend will continue. However, facing a pandemic-induced cash crunch and the impending expiration of employee and shareholder shares, going public appears to be the only option for the company. Taken together, Airbnb's IPO was generally positive. The company opened up new financing channels, raising a significant amount of money through an IPO in anticipation of an upturn in the pandemic and gradual opening of travel policies, and allowing the company's shareholders and employees to exchange shares before they expire.

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