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"IPOs OF RESTAURANT COMPANIES AFTER THE PANDEMIC"

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Abstract (in italian)

In questa tesi, dopo un'introduzione teorica riguardante le Offerte Pubbliche Iniziali (IPO), in cui vengono trattati il processo di quotazione negli Stati Uniti, nonché i benefici e costi riguardanti la quotazione in borsa, l'impiego dei capitali raccolti, la divulgazione di informazioni e il fenomeno dell'underpricing, si procede all'analisi della quotazione in borsa di aziende operanti nel settore della ristorazione negli Stati Uniti.

Lo scenario in cui tali catene di ristoranti si sono trovate ad operare è quello della pandemia, una sfida per l'economia nel suo complesso, ma ancora di più per il settore ristorativo, per tale motivo l'obiettivo di questa tesi consiste nell'analizzare la quotazione in borsa di tali aziende nel contesto della pandemia. Le aziende oggetto di studio sono state divise in due gruppi, uno contenente quelle quotate nel periodo precedente alla pandemia, mentre le altre in quello successivo. Questa divisione ha lo scopo di identificare possibili differenze a seguito dello sconvolgimento che la pandemia di COVID ha causato.

INTRODUCTION

In 2020, the world was profoundly affected by the **COVID** pandemic, an unprecedented event which has caused the global economic system to slow down, some countries have held up better than others, while some other have fallen into recessions. But among the effects that the pandemic has caused, there are not only economic ones, but the social consequences have also been severe, many aspects of our life changed, numerous industries have dealt with the consequences, however one of the most impacted was the restaurant industry. With people under lockdown and unable to leave their homes, eating out has become nearly impossible. This situation was a challenge for restaurants, many have shut down due to the inability to do properly their business, especially those who survived the crisis were found to be the most profitable or competitive ones.

In the background described earlier, there has been lots of analysis of the effect of the pandemic on the economy, but "Surprisingly, however, analysis of initial public offerings (IPOs) during the pandemic remains a largely unexplored topic. This is perhaps due to the general perception that IPOs were not as negatively impacted as the other workings of financial markets. In fact, anecdotal evidence seems to suggest that, despite the severe negative economic effects of the pandemic, the IPO market witnessed an incredible expansion" (Ahmed S. Baig a, Mengxi Chen 2022: 2), indeed "In the so-called "IPO frenzy", more than $150 billion was raised by new firms in 2020, which marks it as one of the best years for IPOs since the dot-com boom era in the late 1990s.1,2 This growth was primarily driven by the record surge in high-technology and healthcare IPOs" (Ahmed S. Baig a, Mengxi Chen 2022: 2,3). To fill this gap, the companies in this paper are going to be analyzed, considering the IPO, in the post-pandemic scenario, as a way for restaurant companies to emerge among competitors in the market, for finance the growth of the business and its competitiveness.

The objective of this thesis is to analyze and draw the reader's attention to the effect of COVID19 pandemic to the reason behind restaurant companies going public, the differences in pre and post pandemic financial and non-financial disclosures, the phenomenon of underpricing, the phases of book building and pricing of the issued securities.

CHAPTER 1 - THEORY AND LITERATURE ABOUT IPO

1.1 The process of going public in the US

IPO stands for “**Initial Public Offering**” and it’s the process through which a company sell its own shares for the first time to the public. The company goes from being privately owned to publicly owned by a larger pool of investors, this increases the potential capital available for the firm (a valid statement only if the shares sold in the market are newly issued and not sold by previous shareholders).

The IPO process, as described later, is not easy and it’s costly, so not all firms can take this route; firstly, the company must choose the market in with to proceed with the IPO, a decision made concerning the situation of the company, until now the United States has been the favorite market for capital raising, but now, also because of the high cost of listing, new markets are emerging, like the Asians.

After the market decision by the management and shareholders, an initial valuation of the company is conducted with the assistance of financial advisors. The next step consist of selecting the underwriters for the offering and their representatives, who will act as intermediaries to assist the company in the IPO process and facilitate the sale of shares to the public. Their role is critical to an effective listing because their power and credibility could affect the valuation of issued securities, thus changing the effective capital collected by the company, which represents the purpose of the operation.

If a company intends to sell its own securities through an IPO, it is required to disclose certain documentation to the public, this obligation exist to guarantee transparency and information symmetry in the market, but “Despite the best efforts of the SEC to ensure that information about an offering is freely and accurately available before the initial public offering, the SEC registration process does not completely eliminate the uncertainty surrounding the prospects of a company going public”(Timothy G. Pollock 2016:360). The documentation that must be compiled depends on quantitative variables about the company that intends to be listed on the stock exchange; based on the size of the company some information could be omitted if the company is classified as: Emerging growth company (if it has total annual gross revenues of less than $1.235 billion during its most recently completed fiscal year) or a Smaller Reporting Companies (if it has public float of less than $250 million or it has less than $100 million in annual revenues and no public float or public float of less than $700 million).(SEC.gov) In the ordinary case and in case of an Emerging growth company, the company must file the SEC form S-1, containing the information necessary to an investor who intends to participate at the capital of the company to make responsible decisions concerning the valuation and the future growth of the business. In case of Smaller Reporting Company, a form 1-A must be filed, which contain much less information compared to form S-1, allowing even quite small companies to be listed without incurring a high cost of producing information, certainly investing in them is much riskier given the greater information asymmetry.

The S-1 form have some obligation regarding the disclosure, for instance the number of shares offered in the IPO, the risk associated with the business, the underwriters' information, and some financial information (which include documents such as the income statements, the balance sheet, and the cash flow statement) must be disclosed. However, non-GAAP indicators could be disclosed, according to the willingness of the company to share more information to investors about its own situation. Some of this optional information includes non-GAAP disclosure, for example "non-GAAP earnings information plays a significant role in the valuation of IPOs, even after controlling for standard GAAP financial information and other IPO characteristics" (Nerissa C. Brown, Theodore E. Christensen, Thomas D. Steffen, Andrea Menini 2022: 4) and adjusted EBITDA. In addition to financial information, a company may also disclose operational documentations about its own business, for example considering the restaurants industry, some examples can be the average cost of opening a new restaurant, the revenue and cost per restaurant, the demographics about the clients and so on.

After the filing of the S-1 form, if the company wishes to make some corrections or adjustments to the offering, it can be done multiple times with the SEC form S-1/A, which consist of amendment to the original proposal.

The next phase involves pricing the shares: the Book building is the process through which the underwriters of the offering (the investment bank) test the waters for possible new investors, typically institutional investors, like investments, insurance, and pension fund, in this phase "The public reputation of investment banks has long played an important role in stabilizing market transactions. Because of a lack of reliable information about companies before the Securities Acts of 1933 and 1934, the participation of a reputable bank as lead underwriter of an offering was critical for the deal to succeed" (Timothy G. Pollock 2016:364). The scope of this research is to create a book, consisting of the demand of shares and the price that the institutional investors are willing to pay and the shares offered by the seller; then, after matching the offering and demand, a final price per share is determined, the one that will be offered to the public on the scheduled date of the IPO. The variation from the original price could be seen in the various amendments (S-1A) of the original form S-1, if the interest of investors increases, also the price per share increase, leading to higher evaluation of the company. At the end of this long process the shares of the company are issued in the IPO date and begin to be traded in the secondary market among investors.

1.2 IPO's benefits and cost

In this paragraph are shown the benefits that an IPO could provide to the company, and the cost related especially to the IPO process. By reviewing the literature regarding IPOs, Lowry et al. (2017) give a list of 10 reasons why a company decide to go public, these benefits can be summarized as follows:

- **Raising capital**: the primary reason why a company goes public is to raise the capital necessary for sustainable growth or debt restructuring, by selling securities for the first time in the public to new investors.
- **Liquidity**: Thanks to the circulation of shares in the market, initial and future shareholder will be able to liquidate their investment in the secondary market, reducing the risk of being stuck with the investments and consequently increase its appealing for new investors.
- **Obtain visibility and credibility**: through an IPO the company gains visibility from investors and stakeholders in the market, while increase the credibility by disclosing more information, that could be mandatory (SEC documentation) or voluntary disclosure, about the business and the current situation of the firm.
- **Granting incentives to employees**: since the company is listed on the market, it becomes possible to grant incentives in the form of stock options to the management of the firm, increasing the willingness of managers to do their best in their job while pursuing the business object.

But there are also risk and cost of going public, as follows:

- **Risk related to the fluctuation of the shares in the market**: when the shares of the company are publicly traded, there is the risk that their price could fall below the intrinsic value. Consequently, it becomes less favorable to sell new shares in the market to raise capital.

- **Risk related to financial disclosure:** it is the risk of giving sensitive information to the public, with the possibility of giving knowledge about your competitive advantage to competitors, with the probable result of losing it.
- **Cost related to the IPO process**: the IPO process is costly, especially recently in the US.
- **Cost related to financial disclosure**: after a company goes public, it must disclose more information to investors, this could result in more cost for making them.

1.3 The use of proceeds

One of the most important sections of the SEC S-1 for really understanding what's the reason why a company goes public, is the "use of proceeds", it contains the information concerning the use of capital raised with the IPO. In this thesis the use of proceeds from the IPO of a sample of restaurant companies is going to be analyzed, with the purpose of knowing the way in which the capital raised is spent, considering the type of restaurants business and the timing of the offering, distinguishing from pre and post pandemic IPO.

Some of the typical usage of the money raised are:

- **Financing the business growth**: the capital raised with the offering is used to finance the growth of the business, either by providing the capital to the existing one, or for expanding in new ones, perhaps by pursuing the M&A route.
- **Debt restructuring**: the capital raises could be used to repay some of the outstanding debt (and maybe borrow at better conditions due to favorable economic conditions), changing the leverage of the firm.
- **Shareholder's and management compensation**: the capital raised from the selling of securities during the IPO is used to repurchase shares from the initial shareholders or to undertake an incentive plan addressed to the management, by granting them stock option.

1.4 The underpricing phenomenon

In the IPO context, underpricing happened when the price of the underwriters, underestimate the actual price (Underpricing is defined as the difference between the offering price and the closing price of the first trading day), it is a very important concept because it is relevant in opposite ways to the various stakeholders who are involved in the IPO (The firm, the underwriters and the investors).

In academic literature “Theories of IPO underpricing are generally categorized as based on or not based on information asymmetry”, for those that follow the asymmetric information theory, “underpricing is needed to allow uninformed investors to break even on average” and “helps compensate investors for the costs of information production”, for those that don’t follow asymmetric information theory are “based on agency problems, issuer complacency, and underwriter power”; “Agency theories posit that, while issuers want to minimize underpricing, underwriters have an incentive to increase underpricing, because they can allocate hot IPO shares for quid pro quos (Reuter, 2006; Nimalendran, Ritter, and Zhang, 2007). Issuer complacency and underwriter power thus provide opportunities for underwriters. Issuers are more tolerant of underpricing when they are more complacent” (Rongbing Huang and Donghang Zhang : 34).

The various stakeholders involved in the IPO have opposite perspectives about the gain and losses originate from underpricing, in fact “setting a higher stock price meets the IPO firm’s expectations by generating more cash from the offering, selling shares in an IPO to investors at a price that generates low levels of underpricing is a violation of investors’ expectations that some underpricing (historical averages suggest 11–15 percent, Ritter and Welch, 2002) will occur” (Timothy G. Pollock 2016:365), on the underwriter perspective “Selling repeat buyers an offering that generates little underpricing decreases trust in the underwriter and increases uncertainty about its motivations, loyalties and competence”(Timothy G. Pollock 2016: 365).

Therefore, the price should be balanced between guaranteeing capital to the issuing company and credibility to the underwriter. In this paper the phenomenon of underpricing is going to be analyzed on restaurant companies, trying to find out if there are evidence of underpricing and the reason why it is originated.

1.5 Restaurants companies’ disclosure for the IPO

Focusing on restaurants companies, there are crucial information that a firm has or should disclose, with the objective to reduce asymmetric information and put investors in a position to properly evaluate a company; for this reason, these financial and non-financial information are reported in the SEC documentation for the IPO.

Firstly, to properly quantify a restaurant company is necessary to know the number of restaurants or sales hubs owned or franchised by the company, then the expected growth in new restaurants or hubs is needed for the valuation of the long-term business of the company. Subsequently to properly quantify the previous information, companies also communicate financial information about the single units, for example the AUV (average unit volume) and the unitary profit with the aims to calculate the future financial performance. Another key financial metric is organic sales growth, which indicates the increase or decrease in the sales of the existing business. All these information put together allow you to calculate sales for future years as follows: (existing restaurants * AUV) * (organic growth %) + (new restaurants * AUV) per every year.

Among non-GAAP information that could be disclosed there are adjusted EBITDA and adjusted earnings. Adjusted EBITDA could be disclosed by itself or presented with the way in which is calculated (**ADJUSTED-EBITDA =** Net income-interest income + interest expense + Depreciation and amortization + Stock-Based compensation + Loss on disposal of property and equipment + Impairment of long-lived assets + Other expense). It represents EBITDA with some adjustments to provide a clearer picture of the company's business, making it easier to compare with other companies in the sector.

CHAPTER 2 – EMPIRICAL ANALYSIS OF RESTAURANT COMPANY IPOs

2.1 Description of the companies analyzed in the paper

This paragraph contains the description of the restaurant chains analyzed in the paper, in the following table (table 2.1) it is possible to see the US companies that are going to be analyzed in the paper, they are sorted in chronological order of listing and all of them belong to the restaurant industry and they are divided into two sub-groups based on the IPO timing compared to the covid pandemic. It is also reported the date of the first trading day and the market in which the company is listed. It also contains the number of restaurants that the company have dividing between company owned restaurants and franchised ones, finally it shows revenues, a key value for quantifying the company in quantitative terms together with the number of restaurants.

	Company	*First Trading Day and market of listing*	*Number of restaurants*	*Revenue*
Post-Pandemic	**Sweetgreen Inc.**	18/11/2021 - NYSE	140	$303 mln as 9/26/2021
	Portillo's Inc	21/10/2021 - NASDAQ	67	$455 mln as 12/27/2020
	First Watch Restaurant Group Inc	01/10/2021 - NASDAQ	335+88 franchisee	$483 mln as Q2 2021
	Dutch Bros Inc	15/09/2021 - NYSE	206+264 franchisee	$327 mln in 2020 fiscal year
	Krispy Kreme Inc	01/07/2021 - NASDAQ	8275 point of access	$1122 mln in

				2020 fiscal year
	Muscle Maker Grill Inc.	13/02/2020 - NASDAQ	11+20 franchisee	$4,9 mln in 2019 fiscal year
	Kura Sushi Usa Inc.	01/08/2019 - NASDAQ	22	$51,7 mln in years ended August 2018
Pre-pandemic	**Fat Brands Inc.**	23/10/2017 - NASDAQ	-	$10 mln in 2017 fiscal year
	Chipotle Mexican Grill Inc.	26/01/2006 - NYSE	496	$627.7 mln in 2005 fiscal year
	Domino's Pizza, Inc.	13/07/2004 - NYSE	576+4344 franchisee+ 2553 international	$1,333.3 mln in 2003 fiscal year

Table 2.1

Description of the company analyzed in the thesis

As can be seen in the table 2.1 the companies analyzed are listed on the NASDAQ (6 companies) and on the NYSE (4 companies), among the post pandemic group the size of the restaurant companies based on the number of restaurants and total revenue is greater than the last 3 companies of the pre pandemic, that were listed in the years immediately prior to 2020, not counting though Chipotle Mexican Grill and Domino’s Pizza, which were quoted rather earlier than the others and now are among the largest chains in the united states.

2.2 The Book building of the issued securities

The following analysis consists of observing the evolution of the price and shares offered, before the first trading day, with the purpose of seeing the book building process. It is indicated the names of the companies, the day they were listed on the stock exchange, their sec documents containing the date, the number of shares offered and options and their price. All the data comes from the SEC documentation.

Sweetgreen Inc. First trading day 18/11/2021:

- S-1 25/10/2021
- S-1A 09/11/2021 12500000 shares offered+1875000 option at a range between $23 and $25
- S-1A 17/11/2021 12500000 shares offered+1875000 option at $25
- S-1MEF 17/11/2021 500000 offered+75000 options at $28

Portillo's Inc First trading day 21/10/2021

- S-1 27/09/2021
- S-1A 29/09/2021
- S-1A 06/10/2021
- S-1A 12/10/2021 20270270 shares offered+3040540 options at $20
- S-1A 15/10/2021 20270270 shares offered+3040540 options at $20
- S-1A 20/10/2021 20270270 shares offered+3040540 options at $20

First Watch Restaurant Group Inc. First trading day 01/10/2021

- S-1 07/09/2021
- S-1A 22/09/2021 9459000 shares offered +1418850 options at $20

Dutch Bros Inc First trading day 15/09/2021

- S-1 20/08/2021
- S-1A 07/09/2021 21052632 shares offered +3157894 options at $20
- S-1A 13/09/2021 21052632 shares offered +3157894 options at $20

Krispy Kreme Inc. First trading day 01/07/2021

- S-1 01/06/2021

- S-1A 25/06/2021 26666667 shares offered +4000000 options at $24
- S-1MEF 30/06/2021 2745098 shares offered +411764 options at $17

Muscle Maker Grill Inc. First trading day 13/02/2020

- S-1 26/11/2019
- S-1A 16/12/2019
- S-1A 27/12/2019 1000000 shares offered +150000 options from $5 to $7
- S-1A 10/01/2020 1600000 shares offered +240000 options at $5
- S-1A 13/01/2020 1600000 shares offered +240000 options at $5
- S-1A 27/01/2020 1600000 shares offered +240000 options at $5
- S-1A 07/02/2020 1600000 shares offered +240000 options at $5

Kura Sushi USA Inc. First trading day 01/08/2019

- S-1 03/07/2019
- S-1A 16/07/2019
- S-1A 22/07/2019 2900000 shares offered + 435000 options at $16
- S-1A 30/07/2019 2900000 shares offered + 435000 options at $16

Fat Brands Inc. First trading day 23/10/2017

- 1-A 06/09/2017 2000000 shares offered at $12
- 1-A/A 27/09/2017 2000000 shares offered at $12
- 1-A/A 29/09/2017 2000000 shares offered at $12
- 1-A/A 02/10/2017 2000000 shares offered at $12
- 1-A/A 03/10/2017 2000000 shares offered at $12

Chipotle Mexican Grill Inc. First trading day 26/01/2006

- S-1 25/10/2005
- S-1A 05/12/2005
- S-1A 23/12/2005 7878788 shares offered +1181818 options at $17,5
- S-1A 10/01/2006 7878788 shares offered +1181818 options at $17,5
- S-1A 12/01/2006 7878788 shares offered +1181818 options at $17,5
- S-1A 23/01/2006 7878788 shares offered +1181818 options at $20

Domino's Pizza, Inc. First trading day 13/07/2004

- S-1 13/04/2004

- S-1A 19/05/2004 24062500 shares offered +3609375 options at $17
- S-1A 14/06/2004 24062500 shares offered +3609375 options at $17
- S-1A 21/06/2004 24062500 shares offered +3609375 options at $17
- S-1A 09/07/2004 24062500 shares offered +3609375 options at $17
- S-1MEF 12/07/2004 183343 shares offered at $14

COMPANY	TIMING FROM THE FIRST S-1 TO THE FIRST TRADING DAY	INITIAL PRICE	LAST PRICE
SWEETGREEN, INC.	24	$23 - $25	$28
PORTILLO'S INC	24	$20	$20
FIRST WATCH RESTAURANT GROUP INC	24	$20	$20
DUTCH BROS INC	26	$20	$20
KRISPY KREME INC	30	$24	$27 (S-1MEF)
MUSCLE MAKER GRILL	79	$5 - $7	$5
KURA SUSHI USA	29	$16	$16
FAT BRANDS	47	$12	$12
CHIPOTLE MEXICAN GRILL INC.	93	$17.5	$20
DOMINO'S PIZZA, INC.	91	$17	$14 (S-1MEF)

Table 2.2

Timing and Book building of the IPOs analyzed

As can be seen in table 2.1 it is displayed the difference between the date of the IPO and the date of the filing of the first S-1 sec documentation, the following values are derived: Sweetgreen, Inc. (24), Portillo's Inc (24), First Watch Restaurant Group Inc (24), Dutch Bros Inc (26), Krispy Kreme Inc (30), Muscle Maker Grill (79), Kura Sushi Usa (29), Fat Brands (47), Chipotle Mexican Grill Inc. (93), Domino's Pizza, Inc. (91). The average of the post- and pre-pandemic group can immediately be derived, it's 25.6 of the post-pandemics compared to 67.8 of the pre-pandemics, it is evident that the time taken between the first S-1 and listing is much shorter in the post-pandemic group. Then in the table are shown the differences between the price of the first form s-1 and the last price of the last form; among these values, companies such as Krispy Kreme, Muscle Maker and Domino's pizza suffered a decrease in the price per share offered in the IPO; the share of Muscle Maker in the second amendment S-1A were priced between $5 and 7$ dollar, then in the next amendment it was priced 5$; Krispy Kreme and Domino's pizza instead have suffered share price depreciation in the latest S-1MEF, by adding additional shares to the offering the underwriters with a discount to the previous price. Sweetgreen instead has experienced an appreciation in the latest S-1MEF (from $25 to $28) and Chipotle in the latest amendment (from $17.5 to $20).

2.3 The use of proceeds in restaurants companies

With the analysis of the proceeds of restaurants companies that went public after the pandemic, it can be observed that Krispy Kreme and First Watch Restaurants Group used the proceeds for debt restructuring, with the purpose of reduce the leverage, additionally with a small amount of the proceeds Krispy Kreme bought its own shares from executive officers, pay withholding taxes and the remaining for general corporate purposes. Dutch Bros used them to repurchase its own common stock from the operative company itself (Dutch Bros OpCo), from old shareholders and from the continuing members, Dutch Bros OpCo then used the funds to repay the outstanding borrowings under the Senior Secured Credit Facility and the remaining for general purpose. Portillo's Inc. used the proceeds to do both indirectly like Dutch Bros, increasing the capitalization and financial flexibility by creating a public market for their Class A common stock for facilitate the future access to the public capital market, then by buying shares of Portillo's OpCo. (The operative company controlled by Portillo's Inc), which it then used for the repayment of the outstanding borrowings under the Senior Secured Credit Facility. Finally, Sweetgreen used the proceeds to improve the capitalization, efficiency, and the growth capability of the company, finally the proceeds that are not used will be invested in investment-grade, interest- bearing instruments.

In the pre-pandemic subgroup Chipotle Mexican Grill received nothing from the IPO, as the shares sold are those of the shareholders. The intentions of FAT Brands are unknown as the company has chosen the simplified documentation. Muscle Maker is very detailed in its disclosure, it used the proceeds for funding the growth of the business, through opening new stores, acquisitions, franchise sales program and technology improvement. The intentions of Kura Sushi USA are like Muscle Maker, with the addition of repaying all the entire term loan and invest in short-and intermediate-term interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the United States government. Domino’s Pizza received only one third of the proceeds from the IPO, as the remaining is being sold by previous shareholders, and with these proceeds it redeems aggregate principal amount of Domino’s Inc.’s senior subordinated notes and accrued interest but pending such use they will be invested in short term securities.

The information discloses in each S-1 or S-1A are essential for really understanding the purpose of the IPO, as an initial superficial analysis you can check out the number of words written in each paragraph of the section “use of proceeds”, as follows: Sweetgreen, Inc. (410)- Portillo's Inc (600) First Watch Restaurant Group Inc (501) - Dutch Bros Inc (1030) – Krispy Kreme Inc (852) - Muscle Maker Grill (456) - Kura Sushi Usa (515) - Domino's Pizza, Inc. (324), Chipotle Mexican Grill Inc. and Fat Brands are not included because the first will not receive any proceeds from the offering and the other don’t discloses this information (because of the simplified documentation). In the Post-Pandemic the average words used are 678, versus the average of the Pre-Pandemic group of 431, the sample is small for come to conclusions, but the disclosure is more specific in the post-pandemic group.

The use of proceeds is also associated with the underpricing phenomenon as an “increased specificity with respect to how an issuer plans to spend an investor’s cash for long-term investment (i.e., capital expenditures or R&D) is also associated with less underpricing” (Andrew J. Leone, Steve Rock, Michael Willenborg 2003, 22). By analyzing some of the company individually, Sweetgreen have the least detailed plan for the use of proceeds, it includes the actual funds obtained with the IPO and a sensitivity analysis with respect to the offering price, it also includes some possible uses of the funds, but nothing certain and it even the possibility to invest the unused funds in short term securities. Surely the fact that some money may remain unused is a warning regarding the company's reasons for going public and the fact that the company invested them in short term securities does not create shareholder value, since individuals could directly invest on their own, without the company as an intermediary. On the other hand, a company like Portillo’s disclosed in detail what he intends to do with the proceeds, as Sweetgreen it contains the obtained funds and a sensitivity analysis with respect to the offering price, but the use of the funds is precisely planned, buy shares of the operative company which will decrease the debt, it also includes the funds that will obtain if underwriters fully exercise their options and the respective use of these additional funds.

In the Post-Pandemic group can be noted that 2 of 5 companies (Dutch Bros and Krispy Kreme) used the proceeds for buying shares from original shareholders, Dutch Bros bought shares from the Continuing Members () and the Pre-IPO Blocker Holders (refers to the Pre-IPO Owners that held their interests in the company through the Blocker Companies immediately prior to the IPO), Krispy Kreme repurchase shares of common stock from certain of the executive officers. Portillo’s instead remunerates the shareholders only if the underwriters exercise their option to purchase additional shares of Class A common stock to purchase LLC Units from certain Pre-IPO LLC Members.

It is interesting to see that 4 of 5 companies of the Post-Pandemic group (Portillo's Inc, First Watch Restaurant Group Inc, Dutch Bros Inc and Krispy Kreme Inc) and 2 of the Pre-Pandemic group (Kura Sushi Usa and Domino's Pizza, Inc.) had intentions to reduce the leverage. Indeed “deleveraging is an important driver of going public” (Andrew J. Leone, Steve Rock, Michael Willenborg 2003, 22), this statement is true especially after the pandemic, which led to very high interest rates that can become unsustainable for the company and so debt restructuring becomes an interesting way to invest the funds obtained from the IPO. Another consequence of deleveraging with IPO funds is that when “companies disclose plans to use the proceeds to pay off debt we document that their IPO has lower first-day returns” (Andrew J. Leone, Steve Rock, Michael Willenborg 2003, 22) and by seeing the performance of Sweetgreen, which did not implement a deleveraging, it make sense to have the greatest first day performance.

2.4 The underpricing of the issued securities

As described in the theory underpricing happens when the offering price is below the closing price of the first trading day. In the following table (table 2.3) are represented the offering price and the performance of the first trading day between the closing price and the opening price.

	Company	***Offering price***	***Opening price***	***variation from offering price***	***Closing price***	***Performance of the first trading day***
Post-Pandemic	**Sweetgreen, Inc.**	28	52	86%	49,5	-5%
	Portillo's Inc	20	26	30%	29,1	12%
	First Watch Restaurant Group Inc	18	21	17%	22,13	5%

	Dutch Bros Inc	20	32,5	63%	36,68	13%
	Krispy Kreme Inc	17	16,3	-4%	21	29%
Pre-pandemic	**Muscle Maker Grill**	5	4,7	-6%	3,86	-18%
	Kura Sushi Usa	16	14,89	-7%	19,61	32%
	Fat Brands	12	10,17	-15%	9	-12%
	Chipotle Mexican Grill Inc.	20	45	125%	44	-2%
	Domino's Pizza, Inc.	14	12,84	-8%	12,39	-4%

Table 2.3

As can be seen in the graph below, the phenomenon of underpricing is well demonstrated by the post pandemic sub-group, all of them experienced a closing price that is well above the offering price (with an average of 50% larger than the offering price), in 4 of 5 also the opening price is above the offering price. In the Pre-pandemic sub-group, the situation is different, only 2 of 5 companies experienced underpricing (with an average of 17% larger than the offering price, but mainly attributable to the 150% of Chipotle Mexican Grill Inc.).

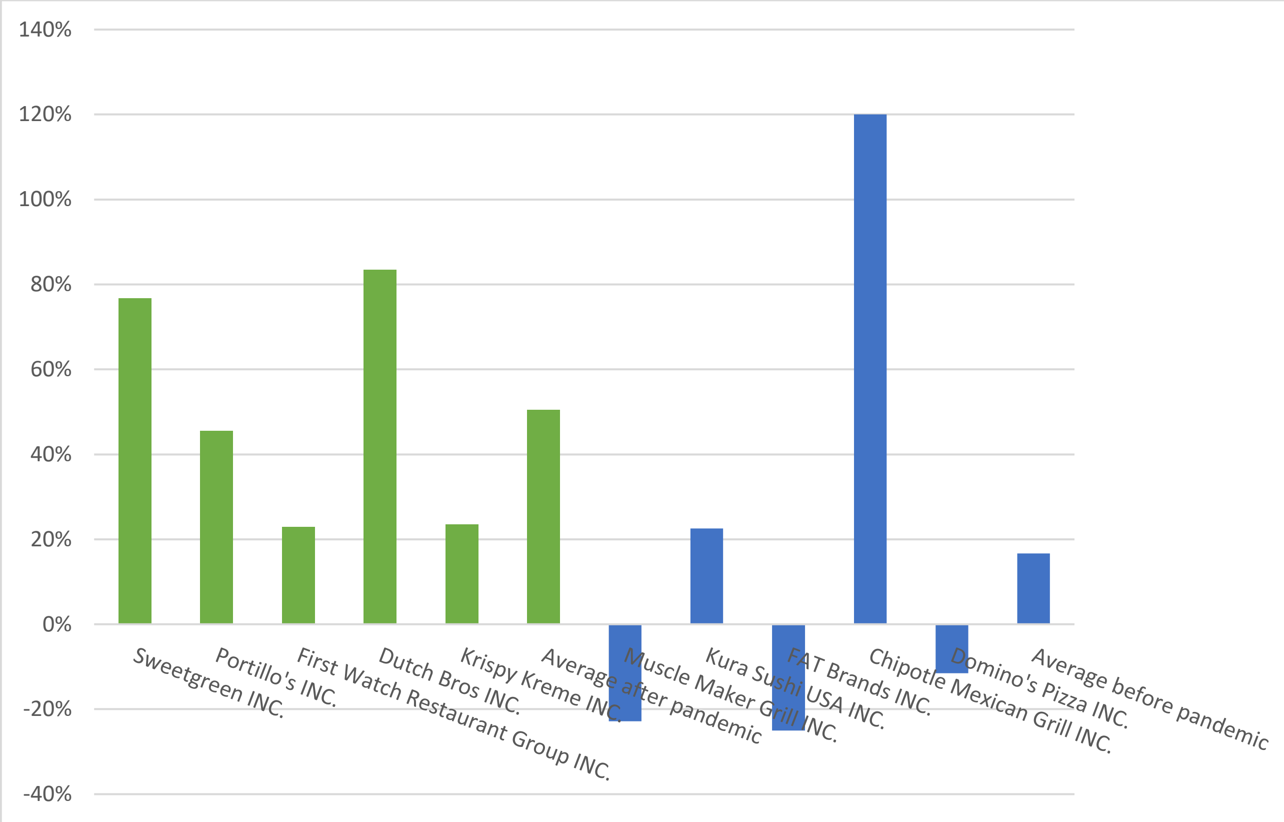


Figure 2.4

Underpricing and overpricing on the company analyzed

Considering the volatility (calculated on the standard deviation of the maximum and minimum price of the first trading day) the post-pandemic subgroup experienced a greater volatility compared to pre-pandemic (4,7 compared to 2,46). These results are in line with the IPO in the overall market, "results suggest that as the pandemic increases in severity before an offering, the IPO firm experiences greater underpricing and more post-offering return volatility on average" (Ahmed S. Baig a, Mengxi Chen 2022: 10).

The phenomenon of underpricing in restaurants companies could be explained by the return of investor's interest after the pandemic, during which restaurants companies suffered the most. However, this interest did not last long, surely who buy shares at the offering gained a lot thanks to underpricing, but if we see the performance of the stock price one year after the IPO in the chart 2.3, we can see how on average the post-pandemic group declined by 40%, compared to -3% of the pre-pandemic group.

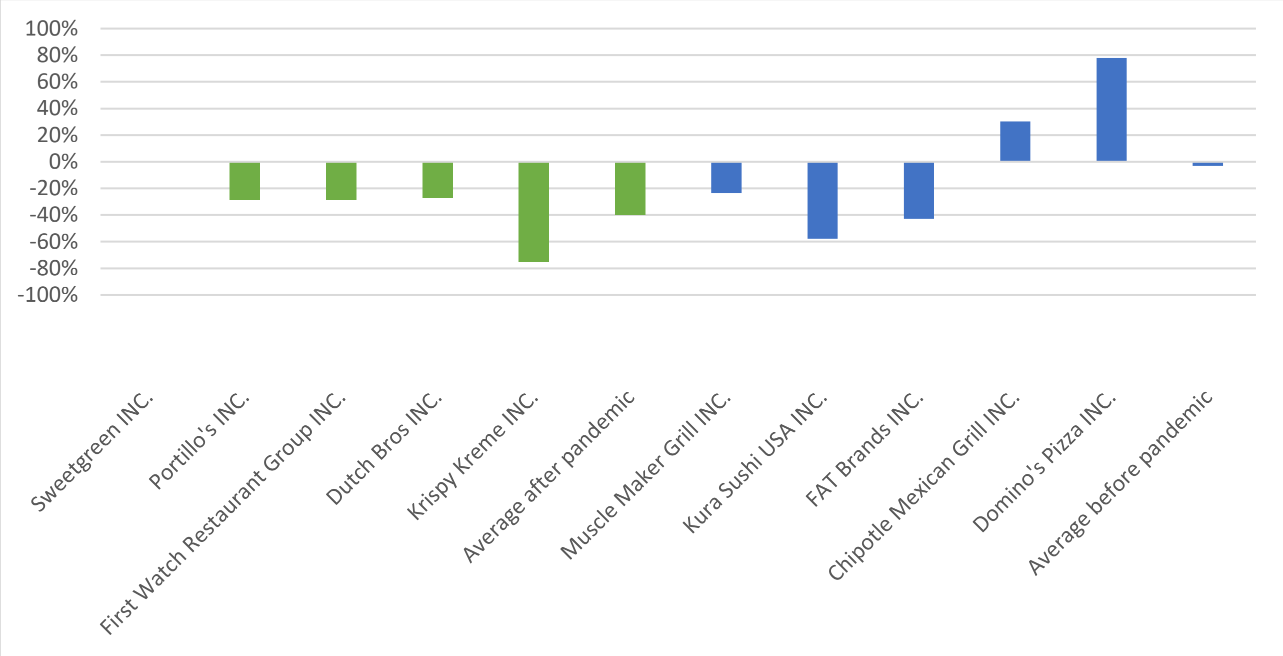


Chart 2.5

Performance one year after the IPO

Among the reasons to explain this phenomenon there are "regulations, underwriter-issuer agency conflicts, underwriter power, and issue complacency can explain many of the patterns observed in IPO underpricing" (Ahmed S. Baig a, Mengxi Chen 2022: 10). Concerning the regulations, they are all companies that are listed in the US, so is the same, except for FAT Brands Inc, listed with Form 1-A, which is used for smaller offerings under Regulation A with relatively reduced disclosure requirements. All the other companies use the Form S-1, most of them are listed as emerging growth companies, except for Krispy Kreme, Fat Brands, Chipotle Mexican Grill and Domino's Pizza.

2.5 Analysis on the effect of covid pandemic on IPO's disclosure

Firstly, by reading all the S-1 and their amendments it can be seen how information and images inherent to the business of the firm are reported on the first pages of the documents in all of the post-pandemic group and only in one of the pre-pandemics one. This alone trivially shows how the intention to give more than just financial information is becoming prevalent in disclosure for IPOs.

Company	Digital-	E-commerce	Online	Mobile	Cloud	Remote work	Internet

Sweetgreen, Inc.	247	1	34	55	6	2	10
Portillo's Inc	29	1	16	12	7	0	4
First Watch Restaurant Group Inc	16	0	6	6	1	3	5
Dutch Bros Inc	38	4	12	16	0	0	6
Krispy Kreme Inc.	54	78	3	9	2	1	10
Muscle Maker Grill Inc.	10	0	9	6	0	0	3
Kura Sushi Usa Inc.	4	0	5	4	0	0	5
Fat Brands Inc.	0	0	0	0	0	0	0
Chipotle Mexican Grill Inc.	0	0	4	0	0	0	5
Domino's Pizza, Inc.	0	0	3	0	0	0	3

Table 2.6

Number of words mentioned in each S-1

One of the possible effects on companies' disclosure caused by the covid pandemic is the digitalization of the business and the consequent rise of new business models based on modern technologies. The way in which this phenomenon will be analyzed in this paragraph is through searching for words inherent to digitization such as: "Digital", "E-Commerce", "Online", "Mobile", "Cloud", "Remote-Work", "Artificial intelligence", "Internet". By examining in the table 2.3 how many times these words are citate in the last S-1/S-1A of the companies analyzed, emerges a significant difference between the Pre and Post pandemic groups, the average of the Pre-Pandemic group is 12,2 compared to the average of the post-pandemic group of 138,8. Among the IPOs after the pandemic emerges Sweetgreen with 355 words and First Watch Restaurant Group with only 37 words. Focusing on why Sweetgreen has this high number of words, by reading the prospectus summary in the S-1, it turns out these precise words: "*We strongly believe in harnessing the power of technology to enhance the Sweetgreen experience.*

We have designed our digital platform to allow us to have a direct relationship with our customers, so that we can deliver a personalized experience and provide the convenience of multiple channels" (Sweetgreen Form S-1A 2021, 3), this approach has allowed the company to increase its shares of digital revenue from 30% in 2016 to 75% in 2020 during the pandemic. It makes sense that words like "Remote work" are citate only in post-Pandemic disclosure, considering that working from home is an innovation which was brought out mainly by the pandemic, even though, however, working from home in an industry such as the restaurant business, becomes almost impossible given materiality of business and proximity to the customer.

Focusing in the disclosures on operational activities all the restaurant company analyzed report the number of restaurants, but the financial characteristics of each restaurant are disclosed differently, for instance Sweetgreen, which is the last company to be listed among those examined, reports the count of existing restaurants during the time and the forecast of future openings, the average unit volume during time, the Restaurant-Level Profit and the cost of opening new restaurants; it is very complete compared for example to Domino's Pizza, the first company to be listed among those examined, which only do not disclose information about the financial of each restaurant but only the difference of total revenue between franchised and company owned restaurants.

CONCLUSION

In this thesis, after a briefly description of the topic concerning IPO in the theoretical part which includes: the process of going public, the benefit and cost of an IPO, the underpricing phenomenon, the use of proceeds and finally the disclosure, the IPO of restaurant companies have been studied using the topics of the theory mentioned earlier in cases of real stock market listings of restaurant chains. It emerges that restaurant companies after the pandemic used the proceeds mostly for debt restructuring and stock repurchasing, have high level of underpricing but tend to disclosure more information.

In conclusion, by putting ourselves in the position of an investor who intends to participate in the IPO of a restaurant company after the pandemic, we will find ourselves in a better position than in the past. Certainly, the disclosure is more accurate as not only financial information are reported, but also more operational and business-related information, however we must be careful in investing in companies in the restaurant industry, in fact, the thesis research show how big underpricing is followed by negative performance after IPO in the post pandemic companies analyzed, so it must be realized that the restaurant industry is quite risky.

Appendix

- **Sweetgreen Inc.** is an American fast casual restaurant chain that serves salads, during the pandemic has strongly invested in a more digital business model which led the company to have 75% digital revenue in fiscal year 2020. It went public in 2021 as an emerging growth company in the NYSE. At the time of the listing Sweetgreen owns and operates 140 restaurants, with total LTM revenue of $303 mln as 9/26/2021, the AUV is .

  Mission statement: "*Building healthier communities by connecting people to real food*"

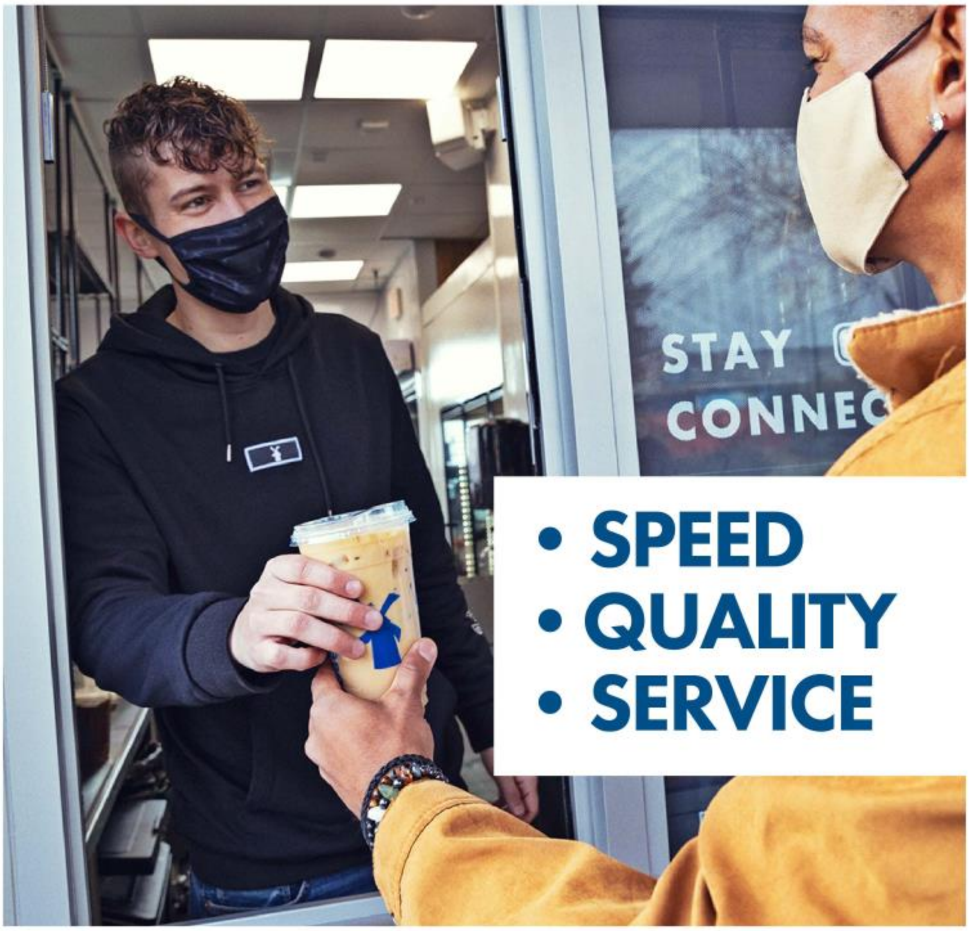
- **Portillo's Inc.** serves iconic Chicago Street food through high-energy, multichannel restaurants designed to ignite the senses and create a memorable dining experience, the average restaurants generates profit by drive-thru sales ($3.4 Mln in 2019), dine-in sales ($4.4 Mln in 2019) and delivery sales ($500,000 in 2019) . It went public in 2021 as an emerging growth company the NASDAQ. At the time of the listing Portillo's owns and operate 67 restaurants, with total revenue in 2020 fiscal year of $455 mln as 12/27/2020. Purpose statement: "*We relish the opportunity to create lifelong memories by igniting the senses with unrivaled food and experiences*"

- **First Watch Restaurant Group Inc.** is an award-winning Daytime Dining restaurant concept serving made-to-order breakfast, brunch and lunch using fresh ingredients. It went public in 2021 as an emerging growth company in the NASDAQ. At the time of listing, First Watch Restaurant Group owns and operates 335 restaurants and 88 operated by our franchisees, with total LTM revenue of $483 mln as Q2 2021, with an average AUV of 1.6 million in fiscal 2019.

  Mission statement: "*Making Days Brighter At Every Opportunity*"

- **Dutch Bros Inc.** is a publicly held drive-through coffee chain in the United States which went public in 2021 as an emerging growth company in the NYSE. As of 6/30/2021, 206 were company-operated and 264 were franchised. The total revenue in 2020 fiscal year is 327 mln, with an average AUV of approximately $1.7 million in 2020.

  Mission statement: "*We are a fun-loving, mind-blowing company that makes a massive difference one cup at a time*"



- **Krispy Kreme Inc.** is an American multinational doughnut company and coffeehouse chain, it has a multi-channel business "*via (1) our Hot Light Theater and Fresh Shops, (2) delivered fresh daily through high-traffic grocery and convenience stores ("DFD"), (3) e-Commerce and delivery and (4) our new line of packaged sweet treats offered through grocery, mass merchandise and convenience retail locations*" (Krispy Kreme Form S-1 2021, 2), which went public in 2021 in the NASDAQ. The total revenue in 2020 was $1122 mln with 8275 global points of access.

Mission statement: "*To make the most awesome doughnuts on the planet every single day*"

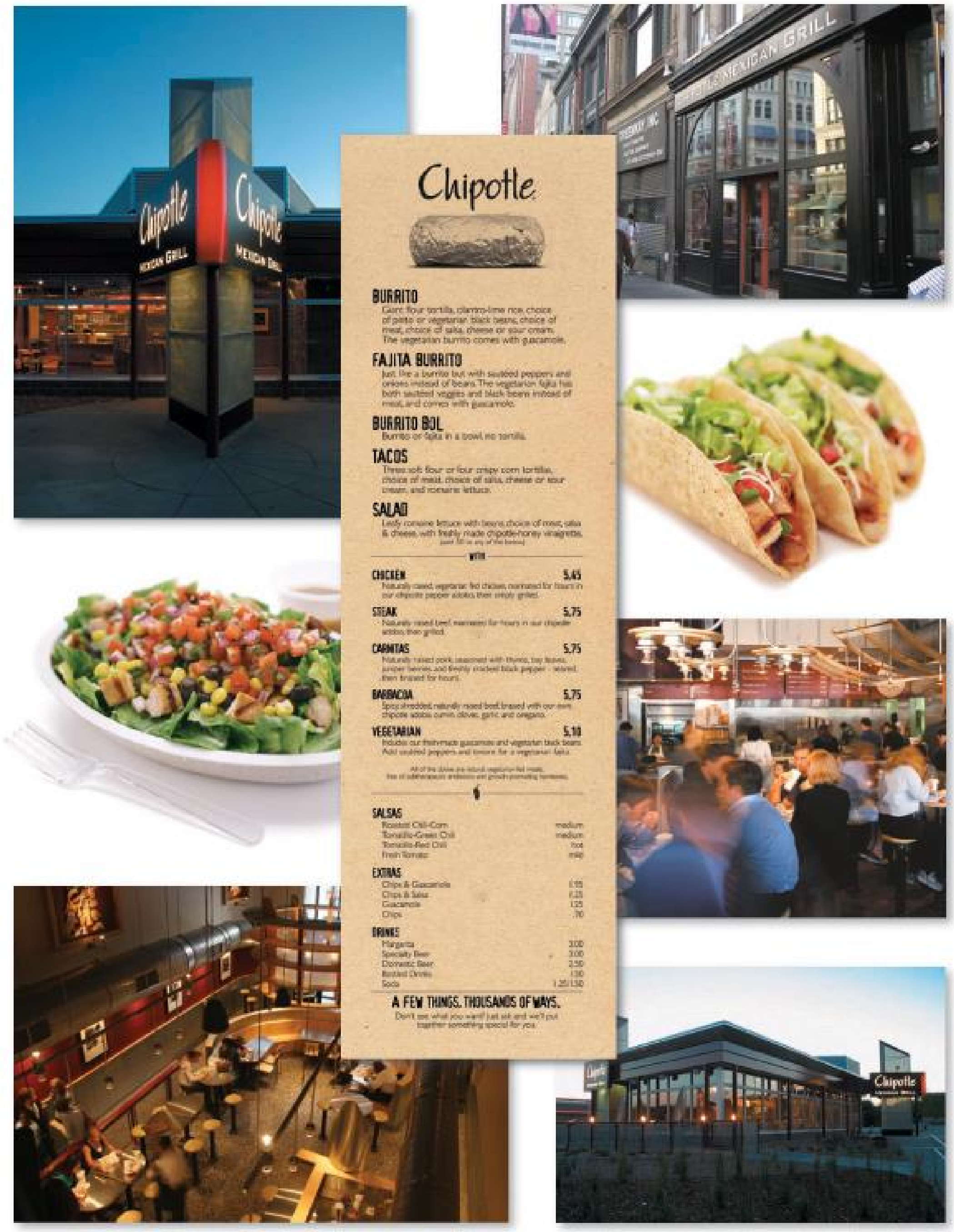
- **Muscle Maker Grill Inc.** is a fast casual and delivery-only "ghost kitchen" restaurant concept that specializes in preparing healthy-inspired, high-quality, fresh, made-to-order lean, protein-based meals featuring chicken, seafood, pasta, hamburgers, wraps and flat breads, which went public in 2020 in the NASDAQ, as a smaller reporting company and an emerging growth company, the Company announced that it has changed its name to Sadot Group Inc., effective July 27, 2023. At the time of the offering Muscle Maker owned and operates 11 restaurants and 20 franchise restaurants. The total revenue in the 2019 fiscal year was $4,9 mln.

- **Kura Sushi USA Inc.** is a subsidiary of Kura Japan, a Japan-based revolving sushi chain with over 400 restaurants. Kura Sushi USA is an innovative and tech interactive Japanese restaurant concept which have improved upon the developed innovative systems that combine advanced technology, premium ingredients, and affordable prices to enhance the unique dining experience. It went public in 2019 as an emerging growth company in the NASDAQ. At the time of the listing, it owned 22 restaurants. For Fiscal Years Ended August 31,2018 revenue was $51,7 mln, with an average AUV of $3.5 million in fiscal year 2018.

- **FAT Brands Inc.** is a leading global franchising company that strategically acquires, markets, and develops fast casual, quick-service, casual dining, and polished casual dining concepts around the world. It went public in 2017 in the NASDAQ. The total revenue in 2017 was $10 mln.

- **Chipotle Mexican Grill Inc.** is a restaurant chain which it does not want to be a "Fast food" but using high-quality raw ingredients, classic cooking methods, a distinctive interior design, and have friendly people to take care of each customer try to approach to features that are more frequently found in the world of fine dining. It went public in 2006 in the NYSE. As of March 31, 2006, it owns 496 company-operated restaurants. The total revenue in 2005 fiscal year was $627.7 Mln, with an average AUV of $1.4 Mln in 2005.

  Mission statement: "*To provide 'Food with Integrity*"



- **Domino's Pizza Inc.** is the number one pizza delivery company in the United States, based on reported consumer spending, with a leading presence internationally. It pioneered the pizza delivery business and has built the Domino’s Pizza® brand into one of the most widely recognized consumer brands in the world. It went public in 2004 in the NYSE. The store count on March 21, 2004, is 7473 restaurants, of which 576 are domestic company-owned stores and 4344 Domestic franchise stores and 2553 international stores. The total revenue of 2003 was $1,333.3 mln.

Mission statement: "*Our mission is to redefine convenience by creating inspired food, picked up in three minutes or safely delivered in 10*"

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