INVESTMENT VALUATION OF HIGH GROWTH FIRMS: PRACTICAL CASE ANALYSIS

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Abstract. High growth companies as a unique economic group play an important role in the economic and social spheres of a particular state. D. Birch, the pioneer of the phenomenon of high growth companies, emphasized the special significance of this small group of companies in creating additional jobs. The selection criteria for high growth companies are revenue growth rates exceeding 20% and the duration of growth, which should be at least 5 years. High growth companies are of interest to a wide range of economic entities in conditions of global economic uncertainty and the crisis of the national economy: from state authorities to investors. Investors are seeking the best performing stocks, investing in which would improve their current financial position. Shares of high growth companies that demonstrate faster revenue growth rates compared to other companies are considered as promising investment targets. The study covers practical case analysis of Airbnb, which is an American high growth company.

Keywords: High growth companies   Gazelles   Growth stocks   Investments   Investment valuation

High growth companies (HGCs) are those that demonstrate outpacing revenue growth rates compared to other companies in the analyzed industry or in the country as a whole. High growth companies have both economic (maintaining high growth rates in the context of a national economic crisis) and social significance (generation of additional jobs). D. Birch was the first to study high growth companies as a significant economic phenomenon, assessing their role in creating additional jobs in the economies of the United States and other countries. Nowadays there is a separate group of companies that demonstrate outpacing revenue growth rates (more than 20%) and other financial indicators over several subsequent financial periods (3-5 years or more) in the economies of most steadily developing countries. Airbnb can be classified as HGC.

Airbnb is an online platform for posting ads for private housing for rent around the world. Even before the initial public offering (IPO), the company was very well known, so the news of the IPO generated excitement among potential investors in the stock market. As a result, Airbnb's IPO became one of the most successful on the global stock market, despite the fact that at the time of the IPO, the company's financial statements had a number of unfavorable analytical indicators, for example, negative EBITDA for the financial periods preceding

2021, a net loss based, etc. Such indicator values can be explained by the "youth" of the company. Retail investors began to actively invest in the shares of a dynamically developing company, thus, for investors, the company's reputable brand turned out to be a more significant criterion for investing than the results of its operations presented in the financial statements.

Airbnb's initial public offering attracted everyone's attention on the US stock market at the height of the global pandemic in 2020, and therefore on the world market, the company managed to raise $ 3,510 million, which made its placement the most "profitable" on the market at that time. At the current stage (September 15, 2024), the company's value is $72,059.70 million, which is due to the current share price, which has settled at $117.75 (Table 1).

Enterprise Value (EV), $ million	72,059.70
Current market value of shares (September 15, 2024)	117.75
Number of shares outstanding, $ million	642.87
Market capitalization, $ million	75,697.94
Total debt, $ million	1,842.32
Cash and cash equivalents, $ million	5,480.56
Net debt, $ million	(3,638.24)

Table 1. Market valuation of a company

The weighted average cost of capital was 8.3%, which is the average among companies in this industry (Table 2). The company's free cash flows were discounted at the resulting rate, which took a positive value for the analyzed period (2023-2028).

Equity ratio	97.8%
Gear ratio	2.2%
Risk-free rate (Rf)	2.23%
Beta (leveraged)	1.44
Equity risk premium (ERP)	4.24%
Country risk premium (Country premium)	0.00%
Cost of equity	8.34%
Interest expense	171.69
Total cost of debt	1,842.32
Cost of debt	9.32%
Tax rate	27.00%
Weighted average cost of capital (WACC)	8.3%
Equity ratio	97.8%

Table 2. Calculation of the discount rate

Accordingly, a positive value was obtained in terms of discounted cash flows, which contributed to obtaining a positive result in terms of the fair value of the company. To determine the terminal value, the multiplier method (EV / EBITDA) was used. Since the company's EBITDA takes a positive value from 2021, the assumption was integrated into the financial model that EBITDA will maintain the dynamics of the last three financial periods (2021-2023) and take a positive value. Based on the results of the investment valuation carried out using

the discounted cash flow method (Table 3), the fair value of the high growth company Airbnb for 2027 was determined, which amounted to $ 88,181.44 million. Consequently, the fair value of one Airbnb share is $ 142.83, that is, the share price at the moment is underestimated by 121%.

	2023	2024	2025	2026	2027
EBITDA	2,373.05	2,526.40	2,689.67	2,863.49	3,048.54
Unlevered FCF	4,837.49	4,007.44	5,010.49	6,387.54	8,278.95
FCF+TV	4,837.49	4,007.44	5,010.49	6,387.54	106,832.94
TV					98,553.98
WACC					8.3%
EV/EBITDA multiple					32.3
Enterprise value (EV)					**88,181.44**
EV (net of net debt and non-controlling interests)					91,819.68
Value of one share					142.83
Conclusion: Airbnb stock is currently undervalued by **121%**					

Table 3. Determining the fair value of high growth Airbnb

Nowadays the company's share price remains quite volatile, as of September 15, 2024, the share price decreased and amounted to $ 117.75, which is lower than the initial cost (at the time of the IPO, the price of one share was set at $ 139.25). During the best periods of trading, the share price reached $ 200, but later the price fell sharply, which suggests the speculative nature of this increase in value. At the same time, according to the investment assessment carried out taking into account the author's adjustments, in the long term, the upward trend will still continue and the company's shares can be regarded as a profitable financial investment.

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