

## Alternative Accommodations

# Airbnb files IPO in face of profitability challenges

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In its prospectus to become a publicly traded company, the short-term rental platform notes risks from growing competition, the pandemic and turbulence in the tourism sector.



By [Katie Burke](#)

SAN FRANCISCO—Airbnb filed its long-awaited plans to go public as the arranger of short-term private property rentals stares down a pandemic that’s one of the largest threats to the global hospitality industry—and its own prospects of profitability.

The San Francisco-based company filed a prospectus with the Securities and Exchange Commission for its planned initial public offering. It said its business model, pitting the lower costs of individuals’ homes against hotels with fixed costs from the ownership of high-maintenance commercial buildings, is able to withstand any disruption dealt by the coronavirus, which has contributed to the firm’s falling revenue and losses as the tourism industry sputters.

The offering caps almost two years of attempts Airbnb has made to convince investors that the short-term travel market, in which users rent private property instead of hotels, will redefine the hospitality industry, which it called one of the world’s largest and most antiquated.

“We believe that the lines between travel and living are blurring and the pandemic has accelerated the ability to live anywhere,” the Airbnb filing says. “Our platform has proven adaptable to serve these new ways of traveling.”

Airbnb, founded in 2008, has grown its online platform to list rooms, entire homes and apartment buildings, and even private islands, treehouses and an Airstream trailer overlooking the Pacific Ocean. Wall Street and industry analysts have said the company could achieve valuation of about \$30 billion through an IPO.

Airbnb's IPO, which has been speculated to come as soon as next month, could be one of the largest in recent years of a startup looking to redefine a long-standing business sector. The decision follows public offerings in the past two years that have taken the high-valuation companies out of their Silicon Valley bubbles and tested them against broader market demand.

The company first announced plans to go public in 2019 alongside a herd of other Silicon Valley "unicorns," a startup valued at more than \$1 billion based on funding rounds, with high valuations and the promise of future profitability.

"These unicorns have been billed as disrupting the industry and Silicon Valley investors, at least for a while, have been really gung-ho on disruptors," said Ari Ginsberg, a professor of entrepreneurship and management at the New York University Stern School of Business. "The bad news is, if they aren't careful, they can be a big disappointment when they hit the market, like WeWork. The moment an IPO is announced, potential investors are questioning the company's value and taking a closer look at profits and what could go wrong."

Ride-hailing app Uber, for instance, tapped the public market in late 2018 when it had a valuation of \$120 billion based on investment rounds. Its stock price fell almost 10% on its first day of trading, and it was valued at \$86.8 billion Monday evening.

Coworking giant WeWork planned to go public last year but withdrew its intention after high-profile criticism by potential investors who questioned then-CEO Adam Neumann's business practices and the company's inability to articulate a path to profitability. Its valuation was more than \$47 billion when it announced its plans for an IPO but that fell to less than \$3 billion after months of scrutiny.

For Airbnb, the potential list of things that could go sideways is long and tied to some things that aren't in its control, including a global health crisis.

The company reported a net loss of almost \$675 million in 2019 on revenues of more than \$4.8 billion. In the first nine months of 2020, losses grew to nearly \$697 million on revenue of \$2.52 billion, a steep decline the company attributes to the global pandemic and its related financial turbulence.

Last quarter was a brightening spot, however, with Airbnb reporting it made almost \$220 million in net income on revenue of \$1.34 billion—a nearly 20% decrease compared to the same time last year, but far healthier than its traditional hotel counterparts including large chains such as Hilton or Marriott. Marriott, for instance, reported an \$18 million loss in the third quarter, compared to \$67 million profit in the year-earlier period.

Thanks to a surge in rural bookings and long-term stays, Airbnb has been able to post a sizable rebound in the aftermath of serious cuts it made back in April and May of this year. It was forced to lay off nearly 2,000 employees—about 25% of its workforce at the time—and pulled back several investments in an effort to preserve resources. It also cut \$800 million from its marketing budget, let go of nearly 500 freelancers and raised \$1 billion at the beginning of the outbreak in April and the sudden drop in business.

According to its S-1 filing, Airbnb raked in more than \$29.42 billion in gross booking value for nights and experiences throughout the first nine-month period in 2019. In 2020, however, that dropped to just under \$18 billion for the same time.

### **Long-term potential**

**STR**, which is owned by the CoStar Group and is the parent company of Hotel News Now, estimates it could take up to five years for the hospitality sector to fully recover. Revenue per available room, a key metric for hotels, bottomed out after an 80% drop this spring, and average daily rates are estimated to be down by about 21% for the remainder of the year for hotel properties across the country.

Airbnb said its gross daily rate was about \$145.75 in June, while STR data shows the average nightly rate for U.S. hotels that same month was \$92.15.

The company said it had more than 4 million hosts and 7.4 million available listings of homes and experiences, about 5.6 million of which were active listings, in more than 220 countries, as of 30 September. It said about 76% of the active listings had been booked over 12 months as of 30 September.

Airbnb provided optimistic picture for investors complete with color images and growth in its virtual experience business, a segment that offers anything from a cooking class with a Michelin-starred chef to a holiday singalong with a Broadway star. Even so, the pandemic has slapped a glaring warning label on the company's pitch to future investors, and Airbnb listed it as the first risk factor among its concerns of potential problems.

"Our financial performance is dependent on the strength of the travel and hospitality industries," the company said in its prospective. "The outbreak of COVID-19 has caused many governments to implement quarantines and significant restrictions on travel or to advise that people remain at home where possible and avoid crowds, which has had a particularly negative impact on cross-border travel." It said that the decline in air travel has also hindered growth.

"This has led to a decrease in our bookings and an increase in cancellations and associated claims brought against us," the S-1 reads. "We expect that COVID-19 will continue to materially adversely impact our bookings and business in 2020 and beyond."

Airbnb's decline this year was most severe in the second quarter, which was the first full quarter of the pandemic, related to booked nights and experiences. The company reported a 67% decline in the second quarter this year compared to last year. That improved to a 28% decline in the third quarter compared to that of the year earlier.

"This improvement was driven by stronger results in North America and Europe, in particular with resilience in domestic and short-distance travel with more people gravitating toward Airbnb stays within driving distance of their homes," the S-1 reads.

Pandemic aside, the company pointed to a litany of other factors that could impede its future profitability. It said its growth will hinge on its ability to attract and retain hosts that list on their platform; any "further or continued disruption in the travel or hospitality industries;" competition from the likes of traditional hotel chains, Google's travel search operations and other short-term-rental service providers; local laws and regulations that would hinder its geographical expansion and operations; among other factors.

While the pandemic has ravaged most of the hospitality industry, NYU's Ginsberg said Airbnb will benefit from something that can withstand most short-term disruptions: its credibility.

"From the beginning, Airbnb has avoided a lot of the public relations issues other unicorns faced, and while they have competitors, Airbnb is the industry leader," he said. "They have been constantly adapting and it has gotten to the point where they don't even need to market themselves. If you're thinking of renting someplace, you're going to go to Airbnb before anywhere else."

What's more, the durability of the travel industry is largely expected to carry the company through, especially after it raises any IPO-related cash.

"Airbnb noticed that while hotels were suffering and had to close, people still needed to get away," Ginsberg said. "All of a sudden, Airbnb knew there was a growing demand for people that just wanted to travel without going anywhere, and the industry hadn't come to a total standstill. Airbnb has tremendous reach

that can supply this new kind of demand, so while some parts of its portfolio may be down, there are other parts that can carry them forward. It's pandemic proof."

Katie Burke is a staff writer for [CoStar News](#), published by CoStar Group. CoStar Group is the parent company of STR, and HNN is a division of STR. This story has been edited to HNN style.