

Jetblue airways ipo valuation essay sample

[Finance](#), [Market](#)



As a leader of airways industries, JetBlue is successful because of professional services and a good management team. In 2002, JetBlue became a public company. Despite the fact that US airline industry had witness 87 new airline failures over the previous 20 years, Jetblue overcame difficulties and expressed confidence in the bright future.

Before going public

Before going public in 2002, JetBlue has outstanding advantage in the whole industries. Because of the good performance by management team (CEO: David Neelman, President and COO: David Barger , CFO: John Owen), JetBlue provided good services which include new aircraft, leather seat, free live TV at every seat and high quality customer services. As the same time, the JetBlue is also a Low-fare leader in southwest airlines. For these impacts, the company has played a significant role in the airline industries. As a result, in 2002 company decide to raise funding from public and issue 5, 500, 000 shares from public. Being a public company:

The most important thing for JetBlue is that they need consider whether it is beneficial to be a public company. It is no denying that company will raise capital from public in the future and this could also increase liquidity and credibility for JetBlue. On the other hand, issuing stock as incentives can also be a good method to promote employee in an efficient and effective way. However, it also has some disadvantage such as reporting obligation and the expensive costs. Considering with the timing, the company decided to issue share after the 911 attack. In fact, after the 911 attack, the whole economy in American is not good, so at that moment, the airline industry enter a recover time to operate. So the timing is suitable for JetBlue to issue the IPO.

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Because the economy in American is in a growth recession, they believed that it was a good opportunity to introduce the company to public.

Initial public offering (IPO)

Initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time. Through this process, a private company transforms into a public company. Under the assumption that market is fully efficient, there are many ways to value the JetBlue share such as free cash flow method and relative valuation. In the JetBlue case, it is can be seen that JetBlue has a very good operation in the same industry as a Low-fare leader in southwest airlines. So it is very hard to choose a benchmark to value the JetBlue share in the same industry. As a result, it is suitable for JetBlue to use free cash flow method when do the IPO valuation.

The free cash flow separate in free cash flow to free cash flow to equity (FCFE) and free cash flow to firm (FCFF). FCFF is often used by analysts in an attempt to determine the value of a company, this is a measure of how much cash can be paid to the equity shareholders of the company after all expenses, reinvestment and debt repayment. On the other hand, FCFE is a measurement of a company's profitability after all expenses and reinvestments. It's one of the many benchmarks used to compare and analyse financial health. The aim of JetBlue is to decide the value of equity and then value the shares. So it is more accurate for company to use FCFE to value the IPO shares. Table 1. 1 show the calculation of WACC which use as the discount rate. (Calculation of cost of equity and cost of debt is necessary)