

Krispy Kreme Starts Trading Today. Should You Invest?

The doughnut chain was valued at \$2.78 billion in its IPO listing. Here's what to know before adding shares to your portfolio.



Photographer: Angus Mordant/Bloomberg

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July 1, 2021 at 1:01 PM EDT

Updated on July 1, 2021 at 4:02 PM EDT

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Krispy Kreme doughnuts are hard to resist. But should you pick up the company's shares or pass on them?

The purveyors of sweet, glazed treats hit public markets Thursday after raising \$500 million in an initial public offering this week. That was below the \$640 million the company had initially hoped for. Shares opened at \$16.30, or 4.1% below the IPO price of \$17 in morning trading in New York, before surging and closing at \$21, or 24% above the IPO price.

The Charlotte, North Carolina-based chain is going public at a frenzied moment for IPOs. Companies have raised nearly \$350 billion in the first six months of this year, according to Bloomberg data. That is well above the previous \$282 billion record set in the second half of last year.

At the same time, stock prices are reaching all-time highs and retail investors continue to drive interest in – and prices of – meme stocks. Similar to many meme stocks, Krispy Kreme has a serious, early-2000s nostalgia factor and a loyal fanbase.

Yet the company struggled to turn a profit even before the Covid pandemic. Some analysts are skeptical about the firm's valuation, given its losses and competition from rivals. Food companies such as Oatly Group AB have seen their shares pop and stay up after going public this year. Oatly is still up 51%. But Krispy Kreme certainly does not fit into the health-conscious space Oatly occupies.

So does the company belong in your portfolio? Here are factors to consider before you invest:

How is the company doing?

This is not Krispy Kreme's first time in the public markets. The company made its market debut in 2000, during the dot-com bubble. Shares initially soared back then before facing some serious turbulence, even dropping to around \$1 a share. Prices recovered somewhat and German conglomerate JAB Holdings Co. ultimately paid about \$1.35 billion to acquire the company in 2016.

Since then, the chain has expanded its e-commerce business and acquired firms such as digitally oriented Insomnia Cookies. But Krispy Kreme has struggled with profitability.

Restaurants focused on breakfast meals and coffee have been particularly hard hit by the pandemic, given that lockdowns caused disruptions to commutes and school drop offs. Any path to getting back into the black will mean consumers returning to their normal routines as the vaccine rollout continues.

Betting on a return to the pre-Covid status quo is what is driving a lot of the lofty valuations in the sector. “For 15 months, stocks have been rallying in anticipation of the restaurant recovery,” Bloomberg Intelligence analyst Michael Halen said. For Krispy Kreme, going public now is a matter of taking advantage of the optimism in the market. “They see it as a good time to cash in,” he added.

What’s the case for buying?

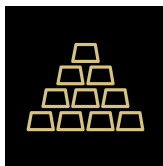
If you see a meme stock in the making. We are living in the year of the retail investor. Organized campaigns on social media platforms like Reddit have seen some companies surge in value as day traders buy up shares. We’ve seen it with nostalgic throwbacks such as GameStop Corp. and AMC Entertainment Holdings Inc. Could Krispy Kreme be next?

Halen is skeptical. “Typically the WallStreetBets crowd likes more heavily shorted stocks,” he said, referring to the group of Reddit traders that organized some of the most notable buying campaigns earlier this year. But a number of online commentators have already predicted that millennial nostalgia could be enough to push Krispy Kreme into meme territory.

If you believe experiences will bounce back. Prior to the pandemic, consumers had increasingly embraced social-media friendly activities such as going to concerts, eating at Instagram-ready restaurants and traveling to photogenic destinations for that perfect TikTok shot. Krispy Kreme is betting the trend will continue as lockdowns lift. Its flagship store in Times Square has interactive elements such as a “glazed waterfall” that allows customers to see doughnuts made in real time. As the company says in its prospectus, “the sights, smells, sounds and taste of the experience cannot be replicated at scale,” which might help the company to differentiate itself.

If you expect the economy to get worse. Treats such as doughnuts, cookies and ice cream are usually popular even during hard times. “Indulgence foods have proven to be recession-resistant historically,” the company says in its prospectus, with the category growing 4% during the global financial crisis and 4.3% during the current pandemic. An investment in a snack-based company could be seen as a hedge against a future downturn.

If potential trumps current results. Rather than relying on repeat customers for business, Krispy Kreme counts more on the “special occasion” crowd. According to the company, consumers visit Krispy Kreme on average fewer than three times per year. If customers can be convinced to stop by more often, there may be room for growth.



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If brand names matter to you. Even though Krispy Kreme is a household name, the company has been pushing to raise its profile with a number of campaigns and promotions. One highlight: The company offered a free doughnut to anyone who’s been vaccinated. The effort may have increased awareness of the brand. Krispy Kreme-related content was viewed more than 38 billion times on social media in 2020, up from under two billion in 2016, according to the firm’s prospectus.

...and what are the reasons to steer clear?

If a high valuation concerns you. Right before going public, the doughnut chain’s implied valuation was nearly \$4 billion. David Trainer, CEO of investment research firm New Constructs, thinks that figure is inflated and that it

assumes the company will grow its profits by some 700%. “Investors are not getting any value here because the best case scenario is already priced in,” he said.

If you have loss aversion. Since its acquisition by JAB in 2016, Krispy Kreme has grown its e-commerce business, which now makes up almost one fifth of U.S. sales. But as mentioned above, the company has continued to lose money. Many startups are loss making as they attempt to grow, invest in their products and attract new customers. But Krispy Kreme is no startup.

If you see competitors everywhere. Krispy Kreme has to remain competitive with a plethora of fast food brands to be successful. But unlike some of its competitors, the company offers a limited product selection.

“Many of our competitors offer consumers a wider range of products,” the company states in its filing. “Many of our competitors or potential competitors have substantially greater financial and other resources than we do which may allow them to react to changes in pricing, marketing and the quick service restaurant industry better than we can.”

If you think healthy eating could limit treat purchases. No doubt you’ve seen the growing range of vegan and vegetarian options at supermarkets and restaurants. With only so much shelf (and stomach) space to go around, can Krispy Kreme thrive alongside new, healthier products? The company touts Insomnia’s efforts to diversify with “vegan cookies.” But had you heard about them before reaching the end of this article?

(Adds closing price in second paragraph.)

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