PRIVATE COMPANY VALUATION

IPO: Pricing versus Valuation

You are an investment bank, tasked with taking a company public. You first try an intrinsic valuation and arrive at an estimate of $10/share for the company. However, based upon how other publicly traded social media companies are priced, you estimate that investors are will pay $25/share for the company. Which estimate will drive your offering price choices?

a. Intrinsic value ($10/share)
b. Pricing ($25/share)

How will each of the following be affected by that choice?

a. Your fees from the offering
b. Your preferred clients (to whom you offer the share first)
c. The issuing company

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IPO: The underwriting guarantee

As the investment banker, you have offered an underwriting guarantee to the issuer, where if the shares are not bought at the offering price, you will step in and deliver the offering price. Given that guarantee, which of the following actions are you likely to take with the offering price?

a. Set it equal to the intrinsic value of $10
b. Set it equal to the pricing estimate of $20
c. Set it at a discount on the intrinsic value
d. Set it at a discount on the pricing estimate

How will each of the following be affected by that choice?

a. Your fees from the offering
b. Your preferred clients (to whom you offer the share first)
c. The issuing company

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IPO offering price… from the owner's perspective

2a. You are the founder/owner of a growing social media company and are planning a public offering. The investment bankers have valued your company at $20/share and plan to issue the shares at $8/share. Assuming that you plan to offer 100% of the company in the IPO, would you go along with the plan?

- ☐ Yes
- ☐ No

2b. Would your answer change if you were offering only 12% of the shares to the public?

- ☐ Yes
- ☐ No

Explain.

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