

# The **CORPORATE LIFECYCLE**

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BUSINESS,  
INVESTMENT, AND  
MANAGEMENT  
IMPLICATIONS

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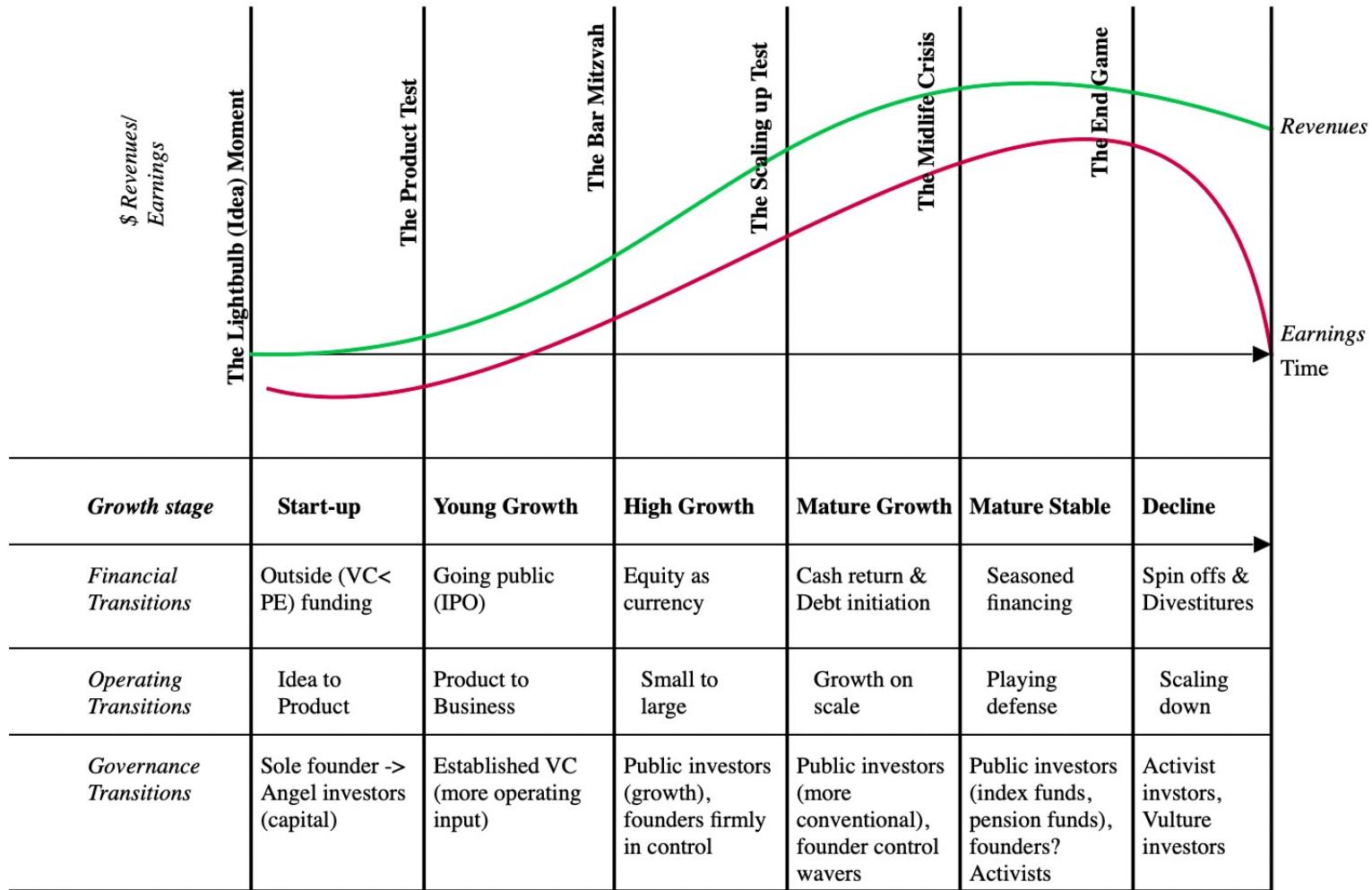
**ASWATH  
DAMODARAN**

# THE CORPORATE LIFE CYCLE – TRANSITIONS

*Aswath Damodaran*



# THE TRANSITIONS



# 1. YOUNG BUSINESS FINANCING — VENTURE CAPITAL

## Pre-Seed & Seed

This is usually the first capital raised by a start up, as it works on converting idea to product

## Series A

Funding of much greater magnitude than seed money for firms further along the idea-to-product transition.

## Series B

Funding for businesses that are generally working on developing business models, and have user/customer activity.

## Series C

Funding for businesses that have business models that are producing results, but want to scale up.



## VC Terms

In return for providing capital, VCs get a share of ownership of the firm, based upon pricing.

## VC Pricing

VCs price young firms based upon activity metrics (users, downloads, subscribers) or multiples of forward revenues or earnings.

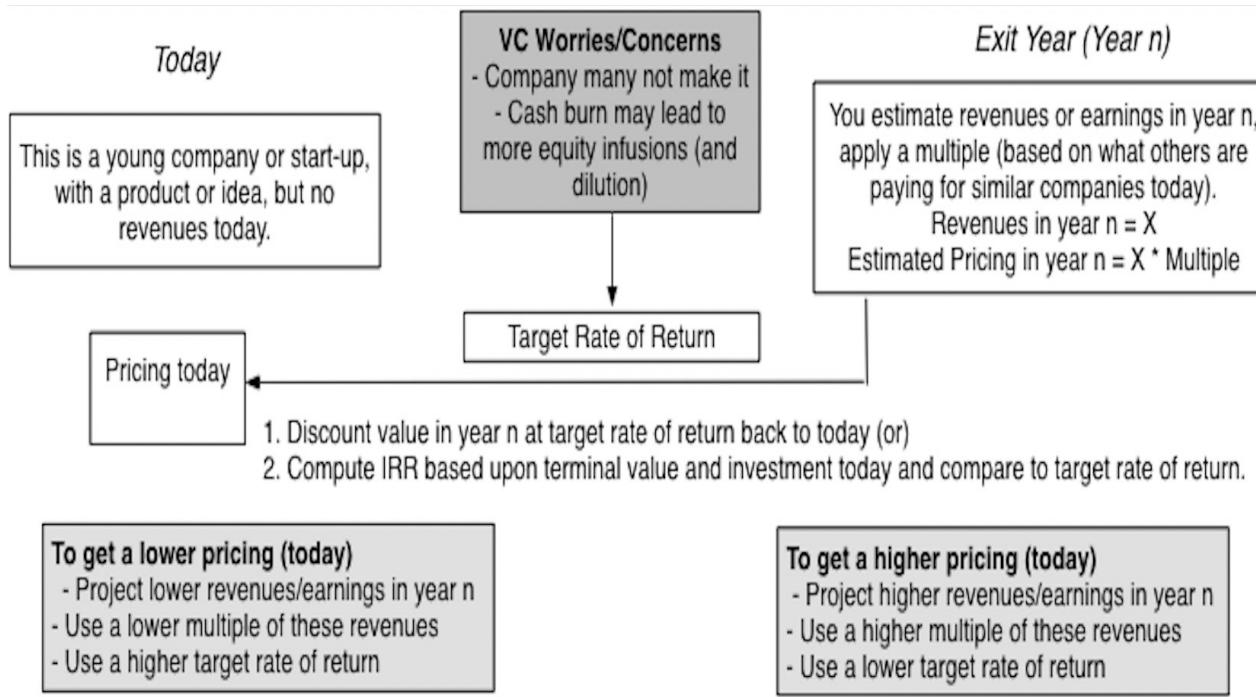
## VC Rounds

A growing firm can have multiple rounds of financing from VCs at each stage, with each round commanding a different pricing.

## VC Up & Down Rounds

A new round that occurs at a higher (lower) price than a prior one is an up (down) round. Up and down rounds can sometimes alter the terms of prior rounds.

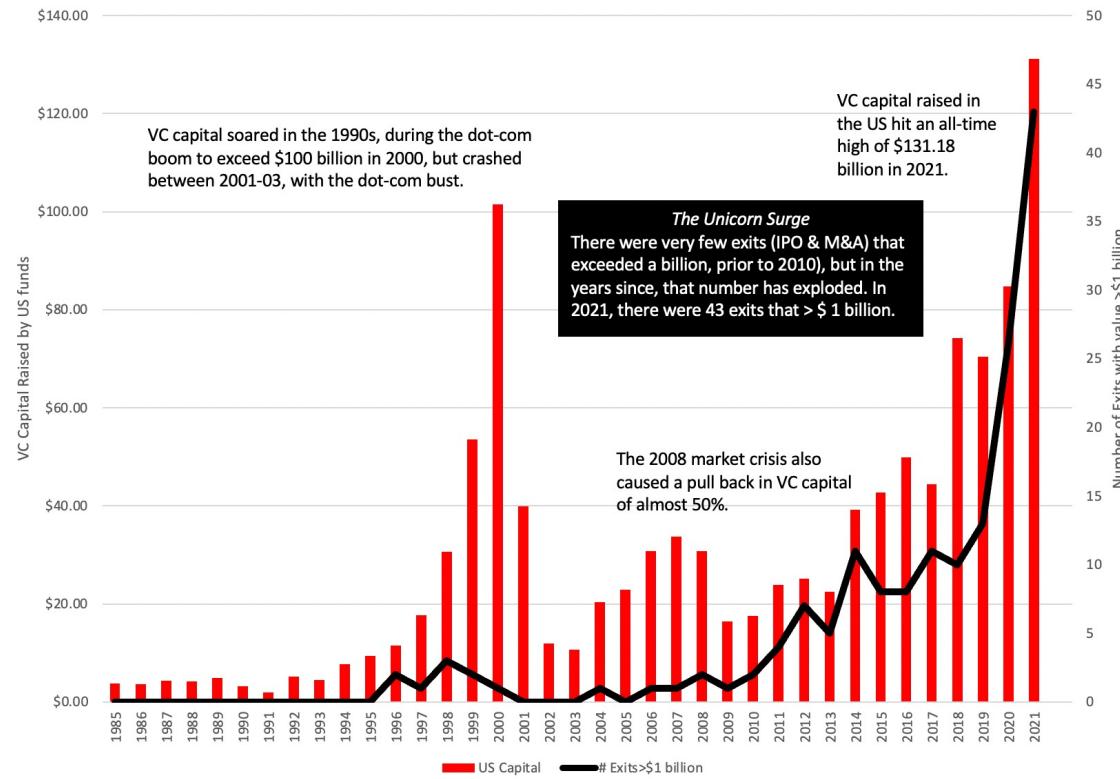




- **Pre-money versus Post-money value:** Venture capitalists often draw a distinction between **pre-money valuation of a business (the value prior to the venture capitalist investing) and a post-money valuation of the same business** (after the venture capital infusion).
  - There is an **element of judgment** involved here, leading to different approaches to differentiating between the two estimates.
  - If you are working with an **existing pricing of a business**, the post-money pricing is estimated by adding the capital infusion to the pricing.
  - Alternatively, the venture capital pricing described in the last section is **considered a post-money pricing**, and netting out the capital provided from it, yields the pre-money pricing.
- **VC Protections:** When venture capitalists invest in a young business, they are hoping for upside, but they are also concerned about the downside. Many venture capital investments provide protection against ownership loss, by adjusting ownership shares of existing venture capitalists to reflect the lower value on the down round.

WITH SPECIAL  
FEATURES . . .





# VC FUNDING OVER TIME



- **Globalization:** Venture capital, historically centered in the United States, is now accessible globally, albeit with differences in accessibility.
- **Investor make-up:** In its original form, the venture capital game was institutional, but it has opened up to individual and retail investors, with innovations made possible by technology.
- **Corporate venture capital:** The flows from corporate venture capital have increased in the last two decades because of two developments.
  - The first is the **growth in the health care and technology businesses**, where mature companies have discovered that the most efficient ways for them to invest is to put their capital into young companies, with promising technologies, rather than spend the same money on internal R&D.
  - The second is that the winners in these businesses have also **accumulated unprecedented amounts of cash** on their balance sheets, giving them capital to invest in a multitude of businesses.

## AND TRENDS...

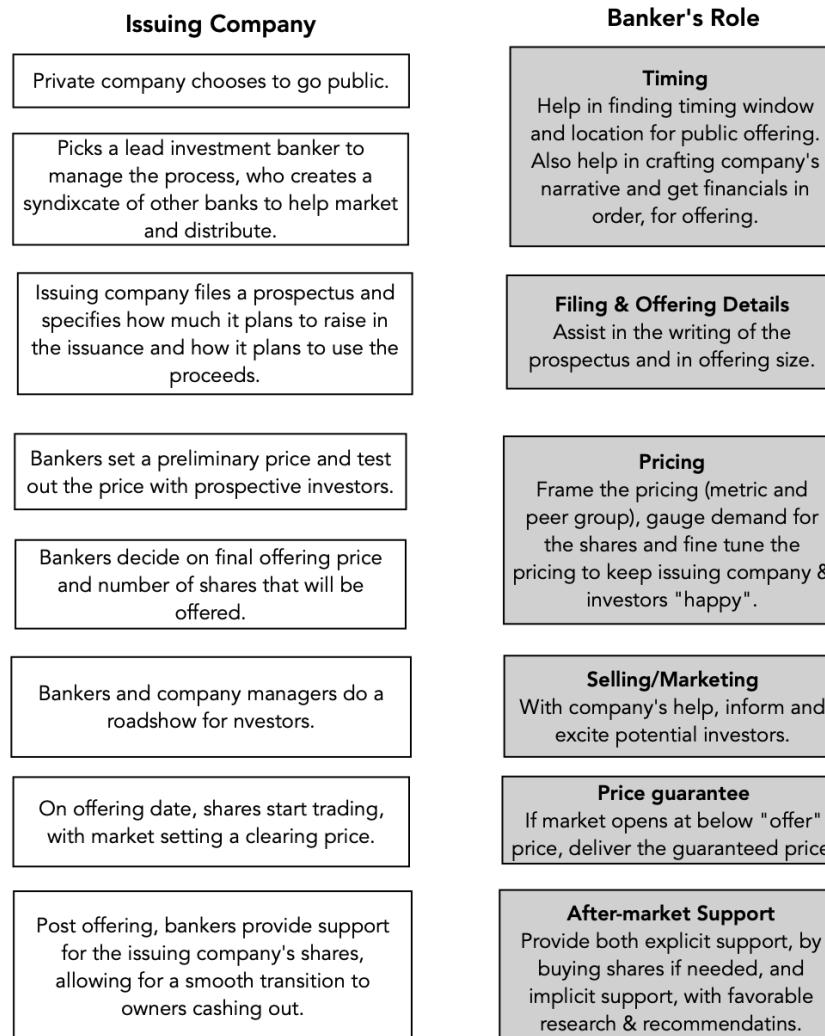


- For some ambitious firms, the option to go public becomes a consideration, when public equity markets are **offering better pricing terms** and the need for liquidity is higher.
- There are at least two costs to going public that must be weighed into the decision.
  - The first is that the **information disclosure** requirements for firms in public markets tend to be more onerous than for those in private businesses.
  - The second is that the **pressures on the firm to match or beat investor expectations** on a short term (quarterly, semi-annual) basis on metrics (user numbers, revenues, earnings) can not only add to the stresses of managing a firm, but can, at least in some cases, lead to decisions that are damaging to the firm in the long term.

## 2. PUBLIC EQUITY – INITIAL PUBLIC OFFERINGS..



Figure 4.6: The Banker-led Going Public Process

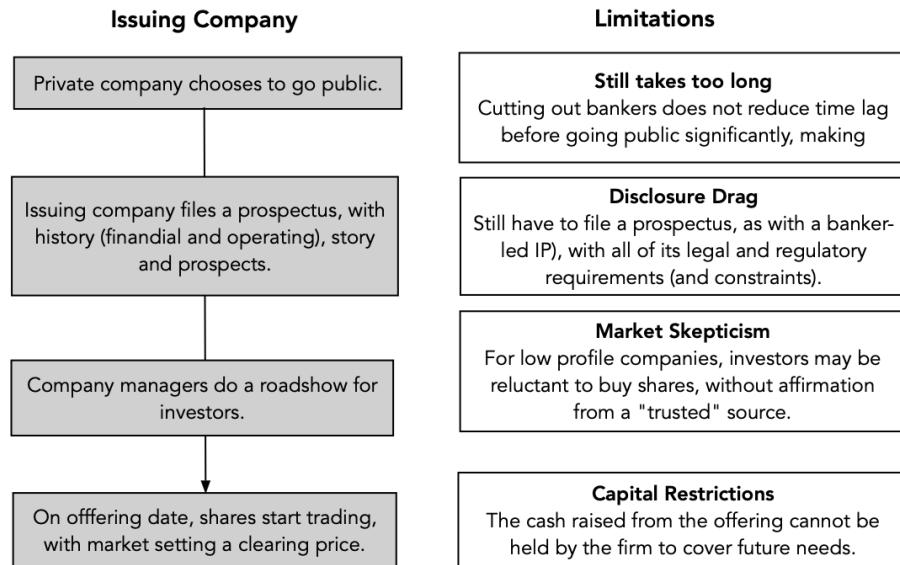


# THE IPO PROCESS: THE BANKER-LED IPO



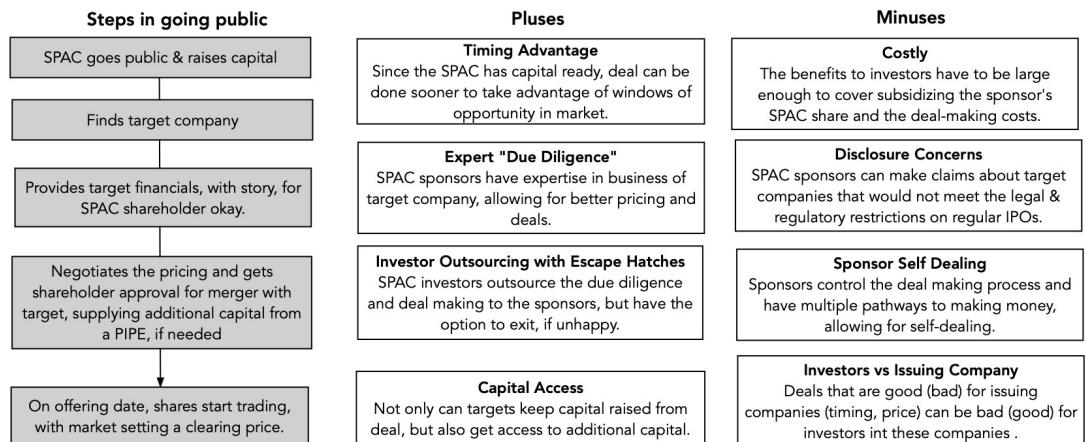
# THE IPO PROCESS — DIRECT LISTING

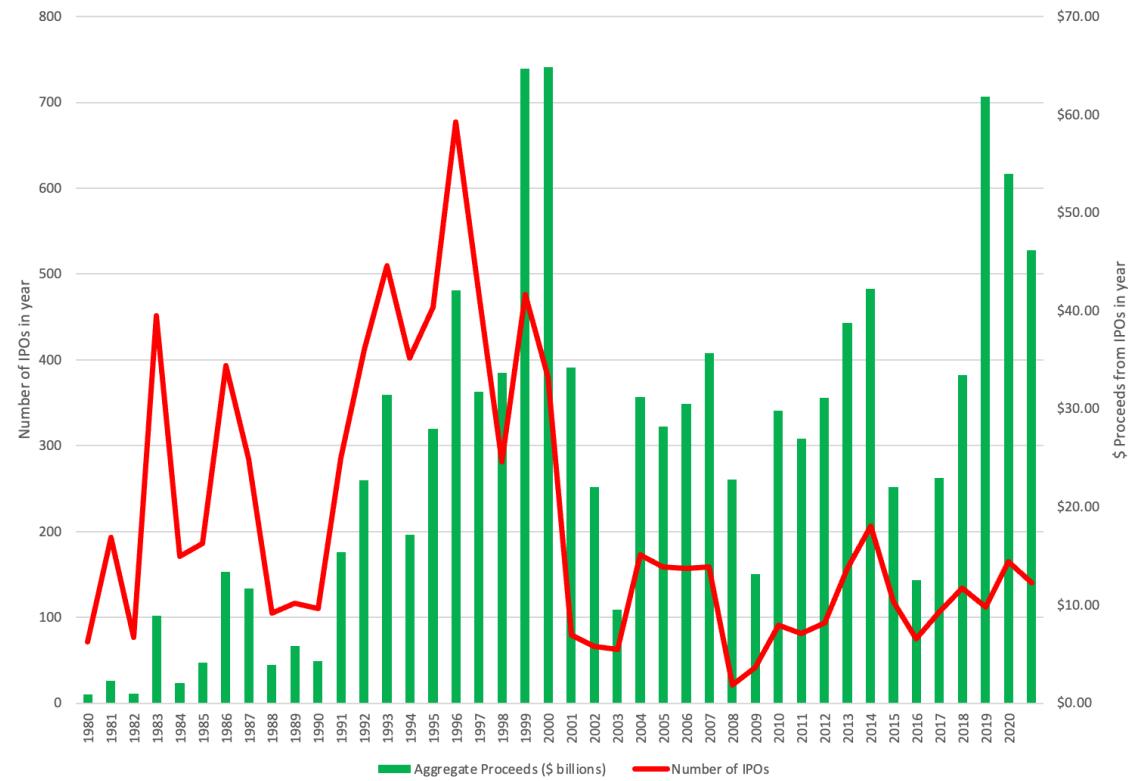
Figure 4.7: Going Public - A Direct Listing



# THE IPO PROCESS - SPACS

Figure 4.8: Going Public - The SPAC Route

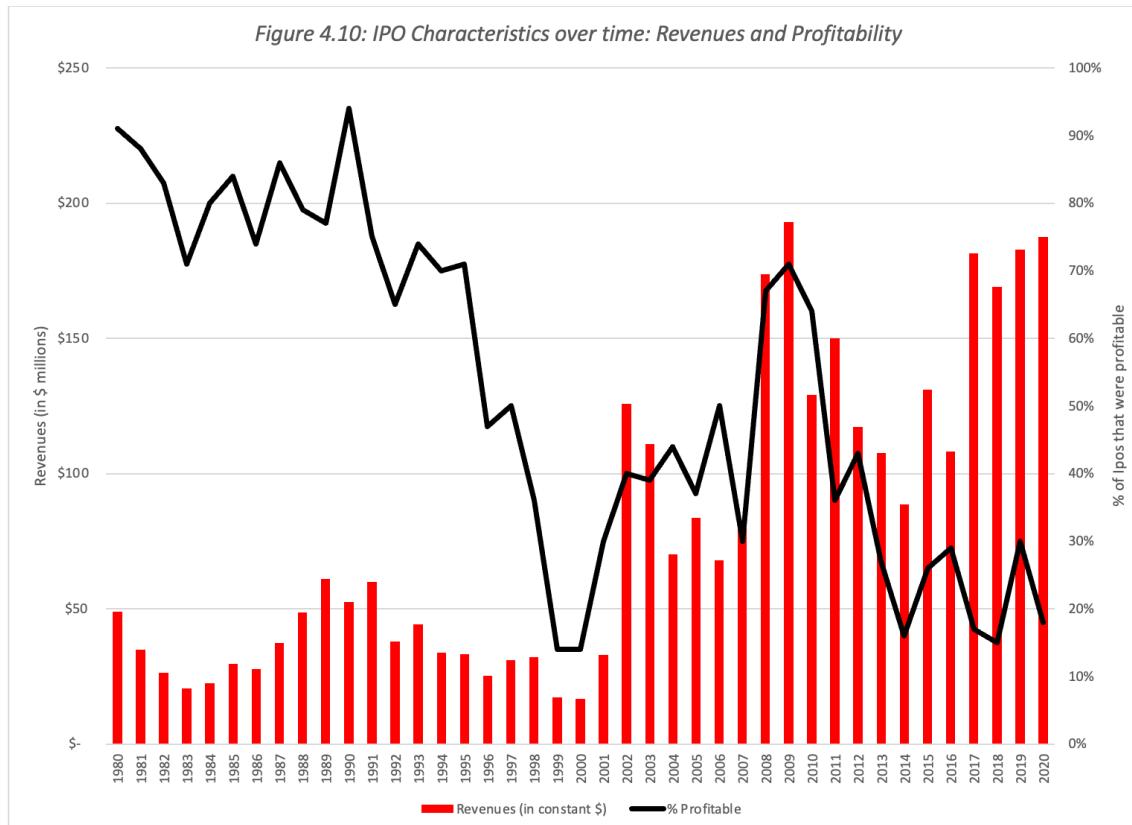




## IPO TRENDS IN OFFERINGS



# IPO TRENDS – COMPANY CHARACTERISTICS



### 3. SEASONED EQUITY OFFERINGS

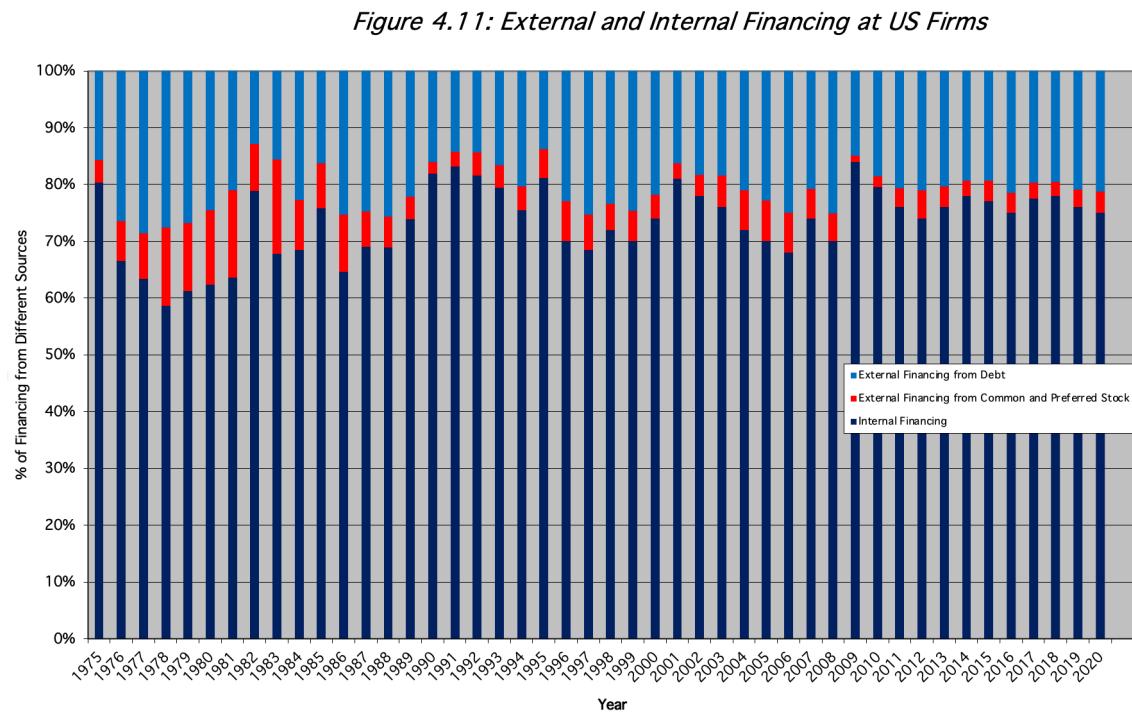
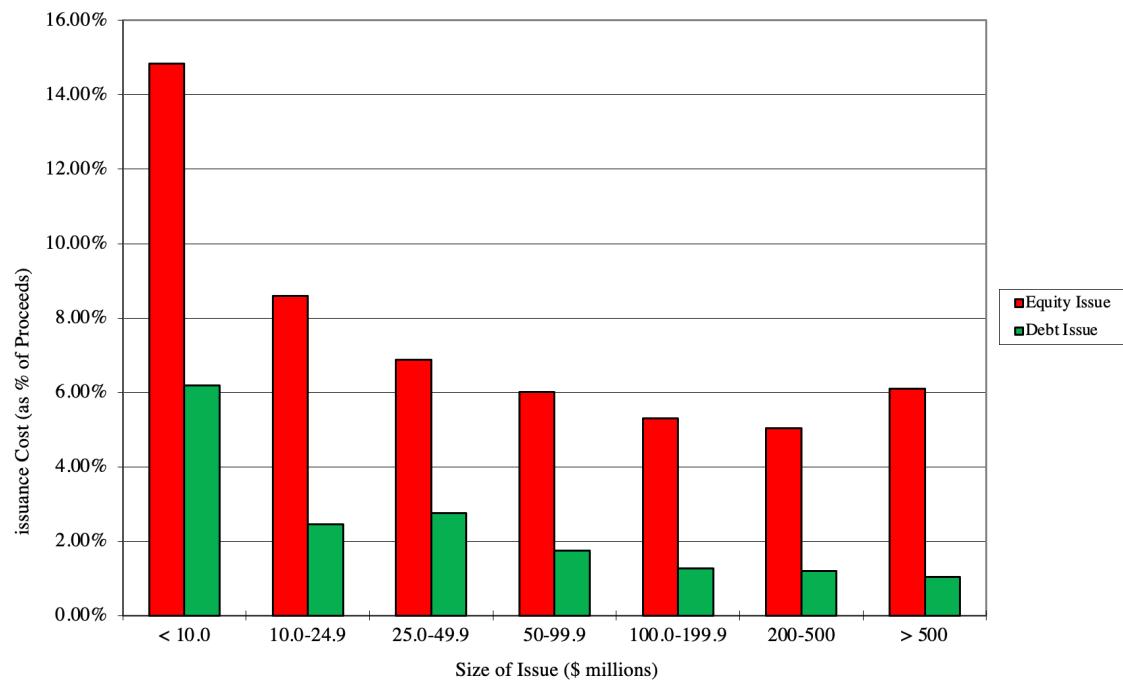


Figure 4.12: Cost of Debt and Equity Issues

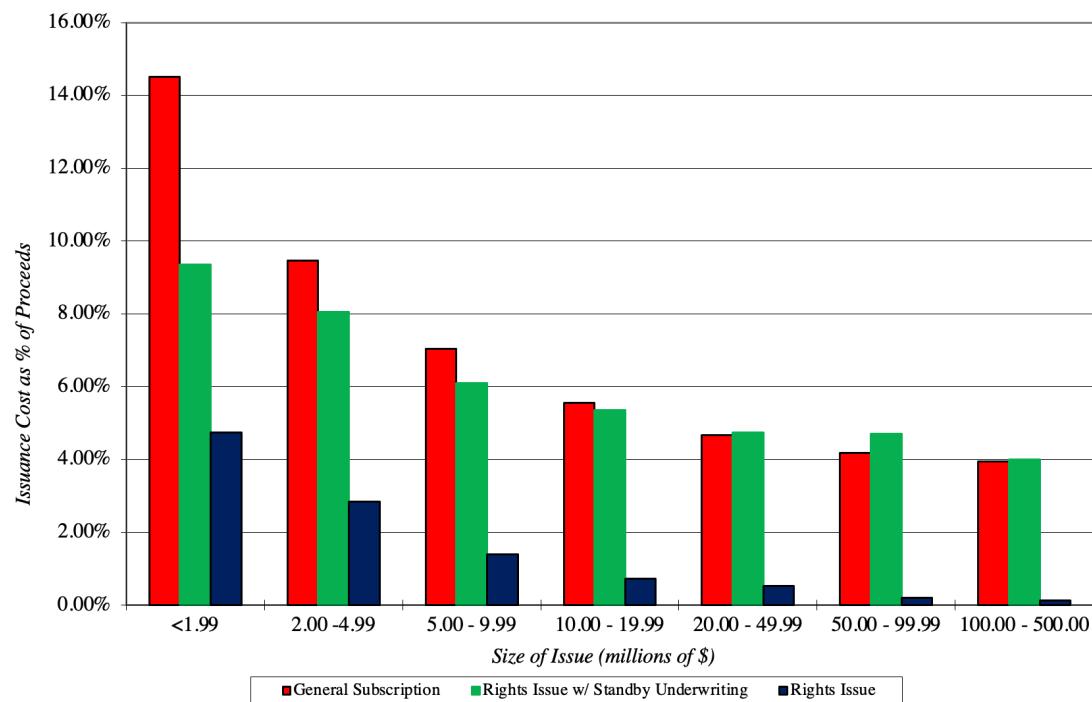


WITH ISSUANCE COSTS...



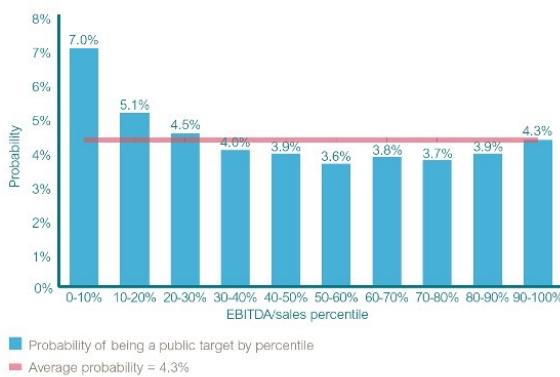
# THE RIGHT OFFERING ROUTE?

Figure 4.13: Issuance Costs for Public and Rights Issues

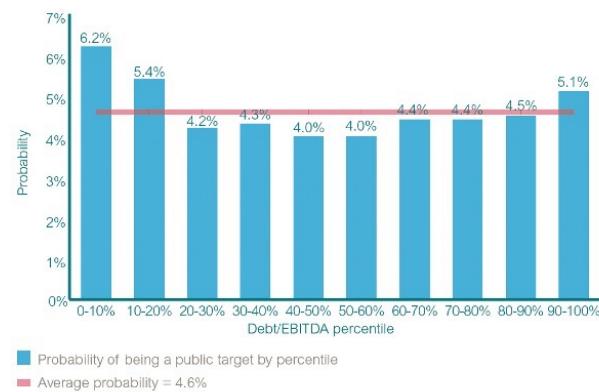


## 4. PRIVATE EQUITY: TYPICAL TARGETS

**Figure 8. PUBLIC COMPANIES:** probability of being an acquisition target by EBITDA/sales percentile prior to takeover bid

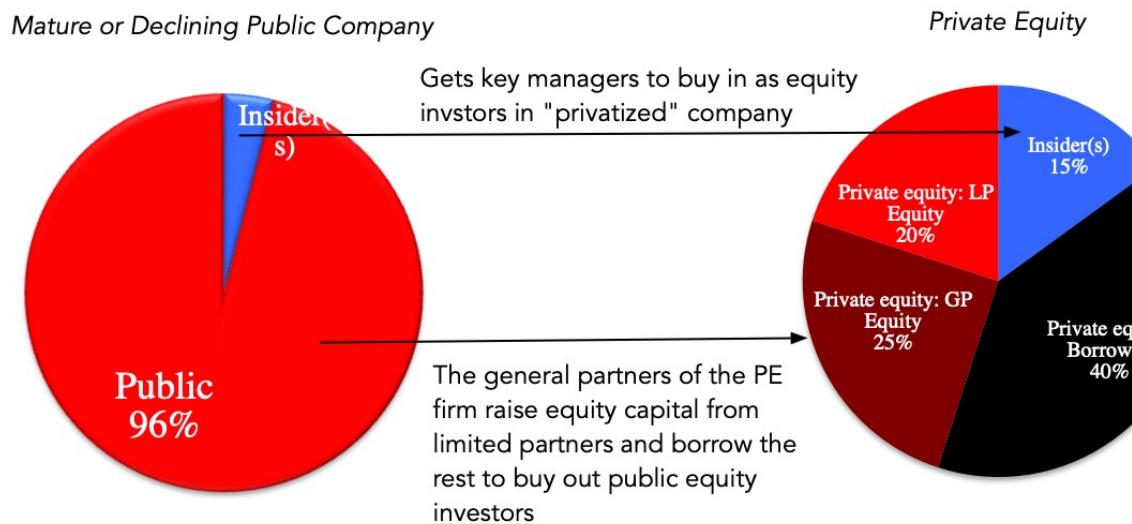


**Figure 13. PUBLIC COMPANIES:** probability of being an acquisition target by debt/EBITDA percentile prior to takeover bid



# THE PE PROCESS...

Figure 4.15: The Private Equity Process

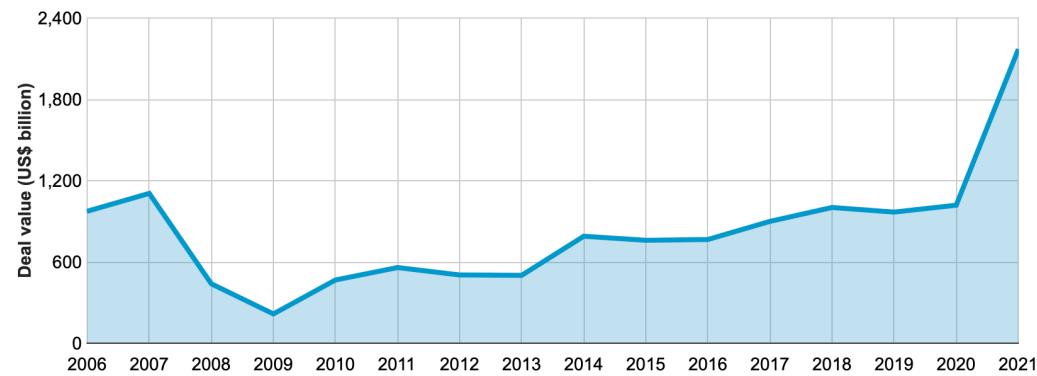


"Public" company acquired with mix of debt & equity and taken private	Run as a private company, with changes made to asset mix and operations	"Fixed" company is taken back public or sold to a public company.
Private equity investors come up with the equity portion of the transaction	Private equity investors provide "management" and "strategic" input, and receive management fees and residual cash payouts.	Private equity investors sell their equity stake in the public market at market prices.
<i>Risks</i> 1. Wrong target 2. Too high a price	<i>Risks</i> <i>If business model fails or economy weakens:</i> 1. Asset sales disappoint 2. Too much debt	<i>Risks</i> <i>Market/Sector weakness leads to poor exit values</i>

## THE PE TIMELINE



Private equity activity by value 2006 – 2021  
Target location: Global Bidder location: Global Sectors: All Sectors  
Private equity deal type(s): Exit, Buyout and Secondary Buyout



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## PE TRENDS

**Bigger deals:** As the amount of capital flowing into private equity has increased, so has its capacity to do big deals.

**Globalization:** As with venture capital and initial public offerings, private equity has evolved from a primarily US phenomenon to a more global setting.

**Flexibility on leverage:** In the early years, almost every PE buyout was accompanied by leverage, giving rise to the LBO acronym.

