

New Technology, Inc.

Capitalizing For Growth

Why not structure your new business so that you're capitalized to accept venture capital investment, ready for growth, with options for employees, and prepared for a public offering?

Let's work backwards:

At the time you go public, you'll have revenue of \$100 million and earnings of \$18 million.

Of course it won't be exactly that, but let's assume.....

With a price/earnings multiple of 25, you'll be worth \$450 million pre-IPO.

Let's raise \$100 million in the IPO, to give you a post-financing value of \$550 million.

Since Wall Street wants a digestible price, let's price your IPO at \$20. That means that you sold 5 million shares in the IPO and had about 22.5 million shares outstanding pre-IPO.

Who owned that stock?

Let's work backwards still.

A year before you went public, you raised one last round of venture capital. You raised \$15 million in a round with a pre-money value of \$90 million.

This means that at the close of this financing, your Company was worth \$105 million (15 + 90); basically the same Company that was worth \$450 pre-IPO. So, at the time of this financing, your per share price was \$4.67.

In connection with this financing you sold 3,211,991 shares of Series C Preferred Stock at \$4.67 per share, raising \$15 million

Before this financing you had 19.288 million shares outstanding. Your company was worth \$90 million.

Let's throw in your option plan here. Over the course of the growth of the Company, and as a means of recruiting your headcount of 310 people at the time of IPO, you granted 400 options, each covering an average of 15,000 shares of Common Stock

Many people left the Company with their options unexercised; you fired a few; some purchased their vested options on the way out; some didn't. The bottom line is that these 310 employees collectively have a claim on 6 million shares. Maybe a CEO you recruited single handedly has a claim on 1.5 million of these shares.

The good news for them is that they collectively have stock (still subject to much vesting) now valued at \$120 million at the IPO.

If your underwriters priced your stock right, it could be worth 4 times that much in just another year. In any case, the employees stock is locked up for several reasons and they won't be selling anytime soon.

So now we've worked our way backwards to 13.288 million shares about two years pre-IPO

Time for another venture round. How about this one at a pre-\$ value of \$30 million raising \$6 million?

So the per share price is \$2.71. Since you raised \$6 million, you sold 2,214,022 shares.

The 11,073,978 shares outstanding were worth \$30 million and were owned by the founders, early partners and original venture investors.

Before this second round of financing, you raised money in a first stage venture round selling Series A Preferred Stock. You sold 4 million shares at \$1.00 each raising \$4 million. Your pre-\$ value for this first round was about \$7 million. Not bad.

Of course the 7 million-odd shares you had outstanding prior to the first venture round included your dad, your uncle Jimmy and your first boss who made some money when Facebook went public. It also included the business plan consultant, your lawyer 😊, and your first landlord.

But still, you started your Company with your two co-founders and each of the three of you now has 2 million shares worth about \$40 million.

Congratulations!!

<u>Stakeholder Group</u>	<u>No. Shares</u>	<u>Price Per share</u>	<u>Value</u>	<u>Paid</u>	<u>Gain</u>	<u>Percentage Ownership</u>
Three Founders	6,000,000	\$ 0.001	\$ 120,000,000	\$ 6,000	\$119,994,000	21.82%
Angels and Friends	1,073,978	\$ 0.500	\$ 21,479,560	\$ 536,989	\$ 20,942,571	3.91%
Series A Preferred	4,000,000	\$ 1.000	\$ 80,000,000	\$ 4,000,000	\$ 76,000,000	14.55%
Series B Preferred	2,214,022	\$ 2.710	\$ 44,280,440	\$ 6,000,000	\$ 38,280,440	8.05%
309 Employees @ \$2.00	4,500,000	\$ 2.000	\$ 90,000,000	\$ 9,000,000	\$ 81,000,000	16.36%
CEO @ \$2.00	1,500,000	\$ 2.000	\$ 30,000,000	\$ 3,000,000	\$ 27,000,000	5.45%
Series C Preferred	3,211,991	\$ 4.670	\$ 64,239,820	\$ 14,999,998	\$ 49,239,822	11.68%
Subtotal	22,499,991			\$ 37,542,987	\$412,456,833	81.82%
IPO	5,000,000	\$ 20.000	\$ 100,000,000	\$ 100,000,000	\$ -	18.18%
Total	27,499,991		\$ 549,999,820	\$ 137,542,987	\$412,456,833	100.00%