The Truth About "IPO Valuation"

- There's no such thing as "IPO valuation!"
- It's **not** a "valuation methodology" in the same way the DCF, public comps, or precedent transactions are valuation methodologies
- Instead, it's an analysis that *relies upon <u>the output</u>* from those other methodologies…
- …and tells you different things

The “IPO Valuation” Model

- **Here:** Going to take a look at a simplified model for a Korean company (Kakao) that was considering an IPO

- **Focus:** The numbers, what the model tells you – don’t have time to explain the process in detail here

- **Plan:** 1) Explain the rationale / setup, 2) Show you one way to model the transaction, 3) Show you an alternate way to model it

The “IPO Valuation” Model

- **Problem:** A lot of models I’ve seen online and in other sources give a misleading idea of IPO models

- **Typical:** Start with the “offering price” and the # of shares the company plans to issue

- **Easier** to understand the model, but…

- That’s not really how *companies* think about the process

The "IPO Valuation" Model

- **Step 1:** How much capital do we want to raise?
- **Step 2:** *At what valuation* can we raise it?
- **Ex:** If you want to raise $1 billion…
  - **Valuation of $3 Billion:** Sell less of the company
  - **Valuation of $2 Billion:** Sell more of the company

The “IPO Valuation” Model

- **Step 1:** Determine capital to raise, and the fees
- **Step 2:** Determine valuation and other terms
  - Almost always based on *forward* multiples (e.g., if we’re in 2015, the 2016 multiple; if we’re in 2035, the 2036 multiple) of the public comps
- **Step 3:** Back into the shares issued, offering price, etc.

Alternate IPO Model

- Base it on the **offering price** and **shares sold** instead

- **Problem:** How do you know the offering price in advance? Must be based on valuation multiples…

- **But:** Somewhat easier to understand the flow of this model, and the Primary vs. Secondary vs. Greenshoe

- **Look** at the “Alternate-IPO-Model” tab in Excel