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 the output 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.
• 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