

**Chapter 14: Venture Capital, IPO, and SEO**

\***Bill Gates'** shares in **Microsoft** right after the **IPO** were worth **\$350 million**.

\*Right after the **IPO of Apple Computer**, the shares owned by the two founders, Steve Jobs and Steve Wozniak, were worth **\$414 million**.

***\*Google Story***

Google began as a research project in 1996 by Larry Page and Sergey Brin, two Ph.D. students at Stanford University.

**The first funding** for Google as a company was secured in the form of a **\$100,000** contribution from Andy Bechtolsheim, co-founder of Sun Microsystems.

**six months later**, a much larger round of funding was announced, with the major investors being rival **venture capital firms** Kleiner, Perkins, Caufield & Byers and Sequoia Capital.

**Google's IPO** took place on 2004. 19.6 million shares were offered at a price of \$85 per share.

**Google's share price is surging to \$500 by 2007.**

**In a 2006, Forbes** reported Sergey Brin' net worth of \$14.1 billion, and Larry Page's net worth of \$14.0 billion.

**Venture Capital**

Equity capital provided to a promising new business is called venture capital. Venture capital is provided by wealthy individuals, investment companies, and some pension funds. The big payoff for the entrepreneur and venture capitalist is when the firm goes public.

**IPO**

If the developing business is going well, it is time for the original investors to cash in by selling stock to the investing public for the first time, called an initial public offering (IPO).

When newly issued shares are sold to the investor public, it is called a primary issue (money raised by the firm). When original shareholders sell a number of their shares in an IPO, it is called a secondary offering (money raised goes to the selling stockholders).

## **Arranging a Public Issue**

Before the IPO, an underwriter is selected to :

- 1-assist in arranging the procedural requirements and provide advice (pricing and timing)
- 2-to buy the issue from the firm
- 3-to advertise (road show) and sell the issue to the investor public.

### **The spread**

The underwriter pays a fixed price to the firm for the stock then sells the stock to the public for, hopefully, a higher amount. **The difference is called the spread.** If it is too risky to offer a firm commitment, the underwriter may sell the stock for the firm at the best price, called a best efforts underwriting. In best effort arrangement, the underwriter is not obligated to sell all the shares.

### **The prospectus**

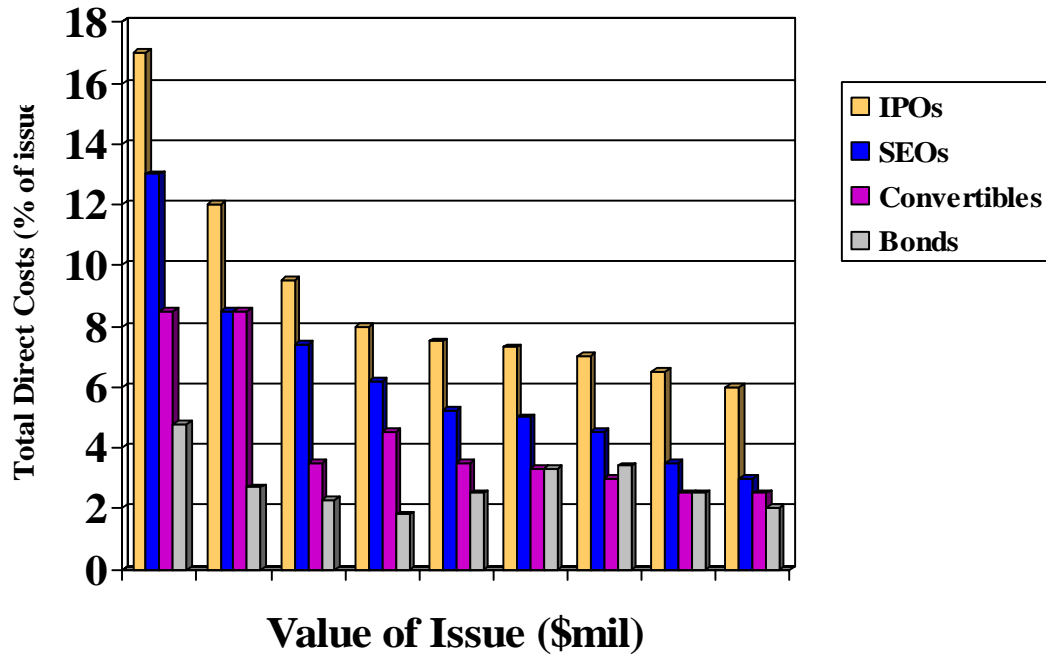
Before a public offering is made, the firm must be in compliance with laws enforced by the Capital Market Authority (CMA) . A registration statement detailing the facts of the company and issue is filed with the CMA. A summary of the registration statement called a prospectus.

### **Underpricing**

In order to sell all the stock quickly, under pricing or selling the securities below the true value of the security, is practiced by the underwriter. Averaging about 16 percent, under pricing is a significant cost of a stock underwriting.

**Cost of issuance (flotation costs):**

- 1- direct cost: the spread, administrative, legal, accounting, registration fees
- 2- indirect cost: underpricing



## **SEO**

After the IPO, additional common stock issues may be sold by businesses seeking financing. This is called a seasoned offering. The stock may be offered to existing shareholders, called a rights issue, or sold to the general public.

## **Right Issue**

In a rights issue, current shareholders would be able to purchase additional shares at a price below current market price.

## **Market Reaction to Stock Issues**

Market reaction to stock offering is usually negative as the market believe that the stock is overvalued.

## **Private Placement**

Instead of a public offering of securities, a firm may negotiate a private placement of the securities with a small number of investors, such as an insurance company.

Since the investor has purchased a security with little or no marketability, the yield demanded by the investor will likely be higher.