Exercise Set: Raising Equity Capital

Start-up valuation

You initially funded your start-up company by contributing $250,000 for 250,000 shares of stock. Since then, you have sold an additional 500,000 shares to angel investors. You are now considering raising even more capital from a venture capital limited partnership (VC). This VC would invest $4.5 million and would receive 750,000 newly issued shares.

1) What is the implied share price of the current funding round?
2) What is the valuation of the firm at the funding round price (i.e. post-money valuation)?
3) What percentage will you own? What is the value of your shares?
4) What percentage of the firm will the VC end up owning?

iRadio

You are an investment banker preparing your PowerPoint presentation for the upcoming road show for a client in the satellite radio industry, iRadio. Last year, iRadio had sales of $300 million and EBITDA of $50 million. You have identified the following information for the two closest competitors, XM Satellite Radio and Sirius, which have recently gone public:

Company	$\frac{\textit{Enterprise Value}}{\textit{EBITDA}}$	$\frac{\textit{Enterprise Value}}{\textit{Sales}}$
XM Satellite Radio	22.3	5.3
Sirius	24.8	7.6

XM, Sirius, and iRadio all have no debt. After the IPO, iRadio will have 50 million shares outstanding. Determine the comparable multiple valuations that should be included in the presentation.

5) Determine the comparable multiple valuations that should be included in the presentation.
6) What is your conclusion?