Module 1 – Raising Equity Capital

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Overview

This summary covers the key topics from Chapter 23 of *Berk & DeMarzo* – Raising Equity Capital.

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1. Sources of Equity Financing

- **Angel Investors**: Early investors, often using convertible notes or SAFEs.
- **Venture Capitalists (VCs)**: Raise funds from limited partners to invest in startups.
- **Private Equity Firms**: Buy and manage mature private or public firms (via LBOs).
- **Institutional Investors**: Pension funds, endowments, insurance companies.
- **Corporate Investors**: Invest for strategic reasons beyond financial returns.

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2. Venture Capital Terms

- **Preferred Stock**: Often used in VC funding rounds; can be convertible.
- **Funding Rounds**: Series A, B, etc., each with distinct terms.
- **Key Concepts**:
  - Pre-money and post-money valuation
  - Ownership dilution
  - Liquidation preferences (e.g., 2x)
  - Anti-dilution clauses
  - Exit strategies (e.g., IPOs, M&A)

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3. The Initial Public Offering (IPO)

- **IPO**: First sale of shares to the public.
- **Underwriting**:
  - Firm commitment vs. best-efforts
  - Lead underwriter and syndicates
  - Auction vs. book-building
- **IPO Documents**: Registration statement, prospectus.
- **Valuation**: Cash flow multiples or comparables.
- **IPO Puzzles**:
  - Underpricing
  - Cyclicality
  - High issuance costs
  - Long-run underperformance

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4. Seasoned Equity Offering (SEO)

- **SEO**: Issuance of new shares by public firms.
- **Types**:
  - Cash Offer
  - Rights Offer (protects existing shareholders)
- **Market Reaction**:
  - SEO announcements often lead to stock price drops.

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Resource	QR Code
Slides (Module 1)	

Resource	QR Code
T/F Questions	
Numeric Questions	
Multiple Choice	
Long-form Questions	

Notes

Feel free to annotate this sheet during class or while solving problems.