Who controls the company after the IPO?

Name: _____ Class: _____ Date: _____

When a company sells new shares in its IPO, its existing owners end up with a smaller part, even if they sell nothing. In this lesson you will measure that and see how some owners keep control anyway.

What to do

1. Read the four company cards below with a partner.
2. In Part C of your worksheet, work out each largest holder's part before and after.
3. In Part D, describe the share classes and lock-ups.
4. The exit ticket is on page 2 of your worksheet.

Part A. Warm-up: the founder's slice (made-up numbers)

The founder owns 60 of 100 shares. The company sells 50 new shares. The founder sells nothing.

A1. Founder's part before: _____%. After: _____%.

A2. Does the founder still have more than half? _____

Part B. Three words

Write each definition in your own words.

1. Dilution

   _____

2. Lock-up

   _____

3. Controlled company

   _____

Part C. Before and after

Part after = holder's shares ÷ shares after the offering × 100.

Focus Media: Ms. Chee's shares 11,250,000 ÷ shares after 20,000,000 × 100 = _____%. The filing says: 56.25%.

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Little West: Veg House's shares 5,000,000 ÷ shares after 8,750,000 × 100 = _____%. The filing says: 57.1%.

C1. Does each holder still have more than half after the offering? Focus Media _____ Little West _____

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Part D. Classes and lock-ups

1. D1. Entrata: which class carries the most votes, and who holds it?

_____

_____

2. D2. Entrata: what rule makes Class B's extra votes end?

_____

_____

D3. vVARDIS: lock-up for the co-founders _____ days; for other holders _____ days.

3. D4. vVARDIS: why is the co-founders' part of the votes larger than their part of the economic rights?

_____

_____

Advanced (optional): the underwriters' option

If the underwriters buy 562,500 extra shares, Little West would have 9,312,500 shares.

1. Veg House's part: 5,000,000 ÷ 9,312,500 × 100 = _____%. Does it match the filing's 53.7%?

_____

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Exit ticket

1. In your own words, what is dilution?

2. A made-up holder has 30 of 50 shares, and the company sells 25 new shares. What part does the holder have after?

3. What is a lock-up, and how long does it often last?

4. Name one way a holder can keep control of the votes after owning a smaller part of the company.

Word bank

Dilution	When new shares make each existing owner's part smaller.
Control	Having more than half of the votes, enough to elect the board.
Lock-up	An agreement not to sell shares for a set time after the IPO.
Share class	A group of shares with the same rules, such as Class A or Class B.
Economic rights	A holder's part of a company's value and payouts, separate from votes.

Sentence starters

- Before the offering, ____ held ____%; after it, ____% because ____.
- ____'s lock-up lasts ____ days, according to its ____ (filing).
- At ____, the votes after the offering are controlled by ____.

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student page

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