International Business Strategy (Financial Strategy)

Class 13 (May 26)

Contents

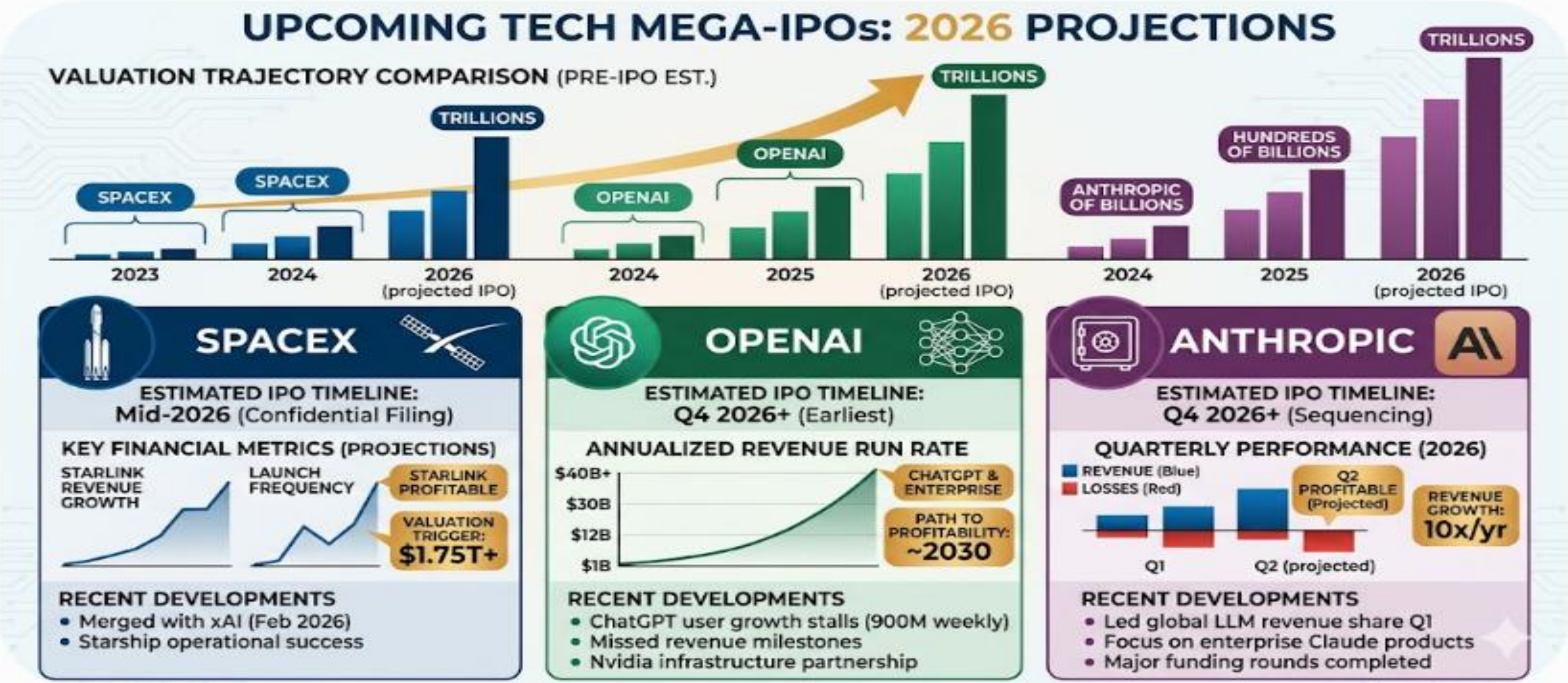
1. Remaining Classes for this Semester

1) May 26 (Financial Strategy)
2) June 2 (Financial Asset Management)
3) June 9 (Final Exam)-No Open Book

2. Global IPO’s (Coming soon: Space X, Anthropic, Open AI)

1. SpaceX: The Trillion-Dollar Frontier

SpaceX is on track for a historic IPO, having filed a confidential draft S-1 with the SEC in April 2026. This listing is poised to redefine global capital markets, potentially valuing the company at up to **$2.3 trillion** and targeting a capital



3. Company Life Cycle (From the Foundation to the IPO)

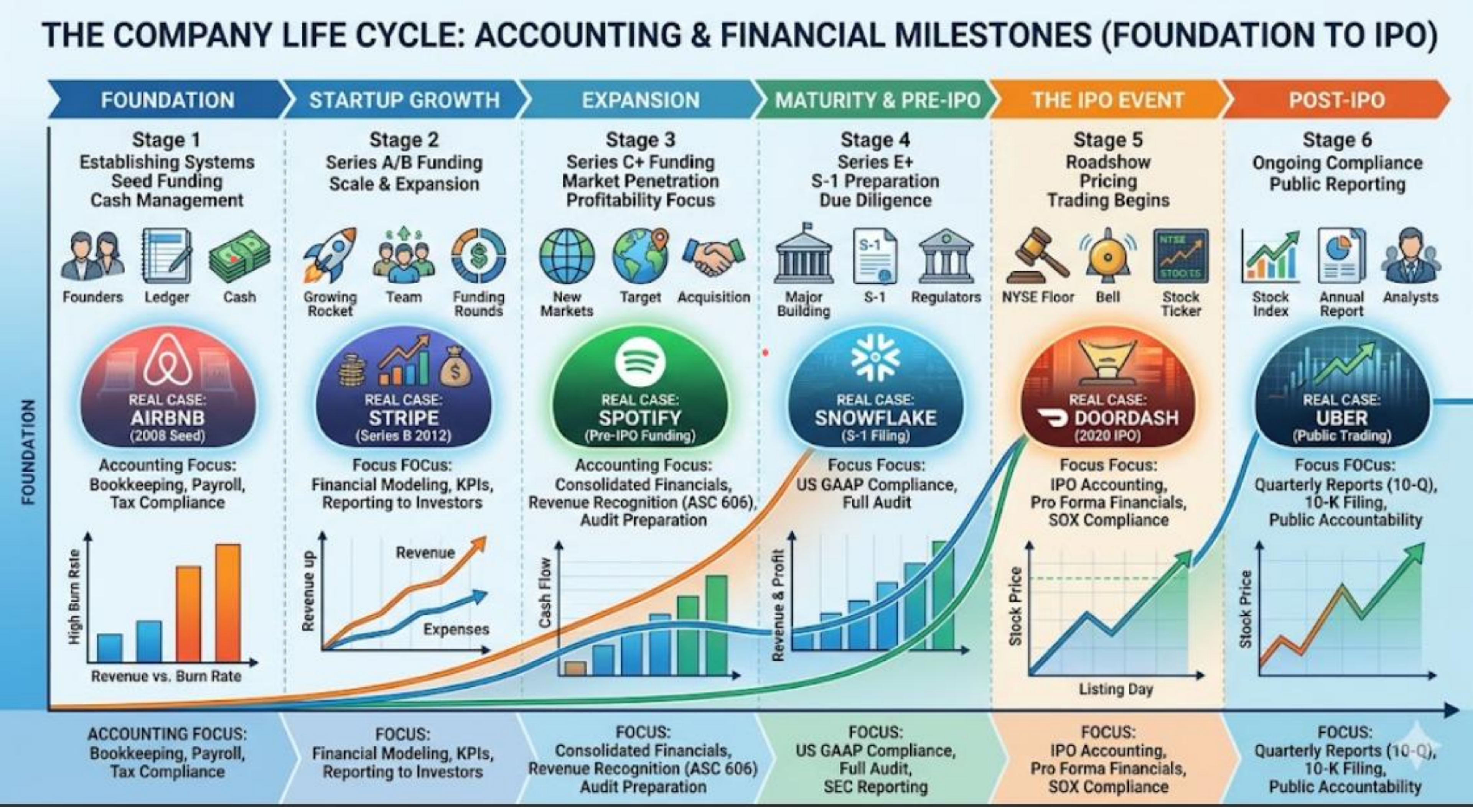
CORPORATE FINANCE & ACCOUNTING

Company Lifecycle

From Founding to IPO

A complete walkthrough: legal structure · funding rounds · balance sheet accounting · stock market listing

Founding > Seed funding > Series A–C > Scale-up > Pre-IPO > **IPO Day**


THE COMPANY LIFE CYCLE: ACCOUNTING & FINANCIAL MILESTONES (FOUNDATION TO IPO)
FOUNDATION
STARTUP GROWTH
EXPANSION
MATURITY & PRE-IPO
THE IPO EVENT
POST-IPO
Stage 1
Establishing Systems
Seed Funding
Cash Management
Founders
Ledger
Cash
REAL CASE:
AIRBNB
(2008 Seed)
Accounting Focus:
Bookkeeping, Payroll,
Tax Compliance
High Burn Rste
Revenue vs. Burn Rate
Stage 2
Series A/B Funding
Scale & Expansion
Growing Rocket
Team
Funding Rounds
REAL CASE:
STRIPE
(Series B 2012)
Focus FOCus:
Financial Modeling, KPIs,
Reporting to Investors
Revenue up
Revenue
Expenses
Stage 3
Series C+ Funding
Market Penetration
Profitability Focus
New Markets
Target
Acquisition
REAL CASE:
SPOTIFY
(Pre-IPO Funding)
Accounting Focus:
Consolidated Financials,
Revenue Recognition (ASC 606),
Audit Preparation
Cash Flow
Stage 4
Series E+
S-1 Preparation
Due Diligence
Major Building
S-1
Regulators
REAL CASE:
SNOWFLAKE
(S-1 Filing)
Focus Focus:
US GAAP Compliance,
Full Audit
Revenue & Profit
Stage 5
Roadshow
Pricing
Trading Begins
NYSE Floor
Bell
Stock Ticker
REAL CASE:
DOORDASH
(2020 IPO)
Focus Focus:
IPO Accounting,
Pro Forma Financials,
SOX Compliance
Stock Price
Listing Day
Stage 6
Ongoing Compliance
Public Reporting
Stock Index
Annual Report
Analysts
REAL CASE:
UBER
(Public Trading)
Focus FOCus:
Quarterly Reports (10-Q),
10-K Filing,
Public Accountability
Stock Price
FOUNDATION
ACCOUNTING FOCUS:
Bookkeeping, Payroll,
Tax Compliance
FOCUS:
Financial Modeling, KPIs,
Reporting to Investors
FOCUS:
Consolidated Financials,
Revenue Recognition (ASC 606)
Audit Preparation
FOCUS:
US GAAP Compliance,
Full Audit,
SEC Reporting
FOCUS:
IPO Accounting,
Pro Forma Financials,
SOX Compliance
FOCUS:
Quarterly Reports (10-Q),
10-K Filing,
Public Accountability

AGENDA

What we will cover today

01 **Company formation**

Legal structure, incorporation, founding documents

02 **Funding rounds**

Pre-seed → Seed → Series A/B/C — investors & dilution

03 **Balance sheet at each stage**

Assets, liabilities, equity — how the B/S evolves

04 **IPO process (7 steps)**

S-1 filing, roadshow, pricing, listing day

05 **Real-world case studies**

Amazon, Airbnb, Kakao — accounting perspective

06 **Post-IPO obligations**

10-K, 10-Q, SOX compliance, investor relations

STAGE 01

Founding a Company

Legal structure · Incorporation
Co-founder agreements · Vesting

Before any funding is raised, a company must be legally constituted. The choice of structure determines tax treatment, liability protection, and — critically — the ability to issue shares and attract venture capital.

Choosing the right legal structure

Structure	Advantage	Disadvantage
Sole Proprietorship	Simple, cheap	Unlimited personal liability
Partnership	Shared ownership	Partners liable for each other
LLC	Limited liability, tax flexibility	Cannot issue preferred stock
C-Corporation	Issue stock classes, VC-ready	Double taxation

C-Corp is the only structure that supports preferred stock, stock option pools (ESOP), and multiple share classes — all required for VC funding and an IPO.

Balance sheet on Day 1 — A new C-Corporation

ASSETS	$
Cash (founders' capital)	50,000
Equipment (laptop, tools)	5,000
Intangibles (domain, IP)	1,000
Total Assets	**56,000**
LIABILITIES	
Accounts payable	1,000
Total Liabilities	**1,000**
SHAREHOLDERS' EQUITY	
Common stock (founders)	55,000
Retained earnings	0
Total Equity	**55,000**

Assets = Liabilities + Equity

This is the fundamental accounting equation. On Day 1, assets equal the founders' personal contributions (equity) plus any small debts.

Key concepts:

Common stock: the founders invest $55,000 cash + equipment. This creates equity — ownership in the company.

No revenue yet. Retained earnings = $0. The company has not earned anything.

Goodwill / intangibles: domain names and IP are recorded at cost at founding (not at market speculation).

The balance sheet must always balance: $56,000 = $1,000 + $55,000

STAGE 02

Funding Rounds

Pre-seed · Seed · Series A · Series B · Series C+

Each funding round brings new investors, new cash, and a higher valuation — but also dilutes existing shareholders. Understanding how equity is split and how the balance sheet changes at each stage is core to corporate finance.

STAGE 02 — FUNDING ROUNDS

The funding ladder: from pre-seed to Series C+

Round	Raise size	Typical investors	Post-money val.	Dilution	B/S impact
Pre-seed	$10K–500K	FFF / Angels	$0.5–2M	**5–15%**	Cash up, equity up
Seed	$500K–3M	Angels / Seed VC	$2–10M	**15–25%**	Cash, new APIC entry
Series A	$3–15M	Venture capital	$10–50M	**20–30%**	Large cash, pref. stock
Series B	$15–50M	Growth VC / PE	$50–200M	**15–25%**	Cash, assets scale
Series C+	$50M–500M	Late-stage / hedge	$200M–3B+	**10–20%**	Pre-IPO clean-up

FFF = Friends, Family & Fools | APIC = Additional Paid-In Capital | Pref. = Preferred stock | Val. = Valuation

STAGE 02 — ACCOUNTING: SEED ROUND BALANCE SHEET

Balance sheet evolution: Day 1 vs. After seed round ($2M raise)

BEFORE (Day 1)

Assets	$
Cash	50,000
Other assets	6,000
Total Assets	**56,000**
Liabilities	
Accounts payable	1,000
Total Liabilities	**1,000**
Equity	
Common stock	55,000
Total Equity	**55,000**

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$2M Seed

AFTER (post-seed, $2M raise)

Assets	$
Cash (+$2M from investors)	**2,050,000**
Other assets	6,000
Total Assets	**2,056,000**
Liabilities	
Accounts payable	1,000
Total Liabilities	**1,000**
Equity	
Common stock	55,000
Preferred stock (new)	**100**
APIC (new)	**1,999,900**
Total Equity	**2,055,000**

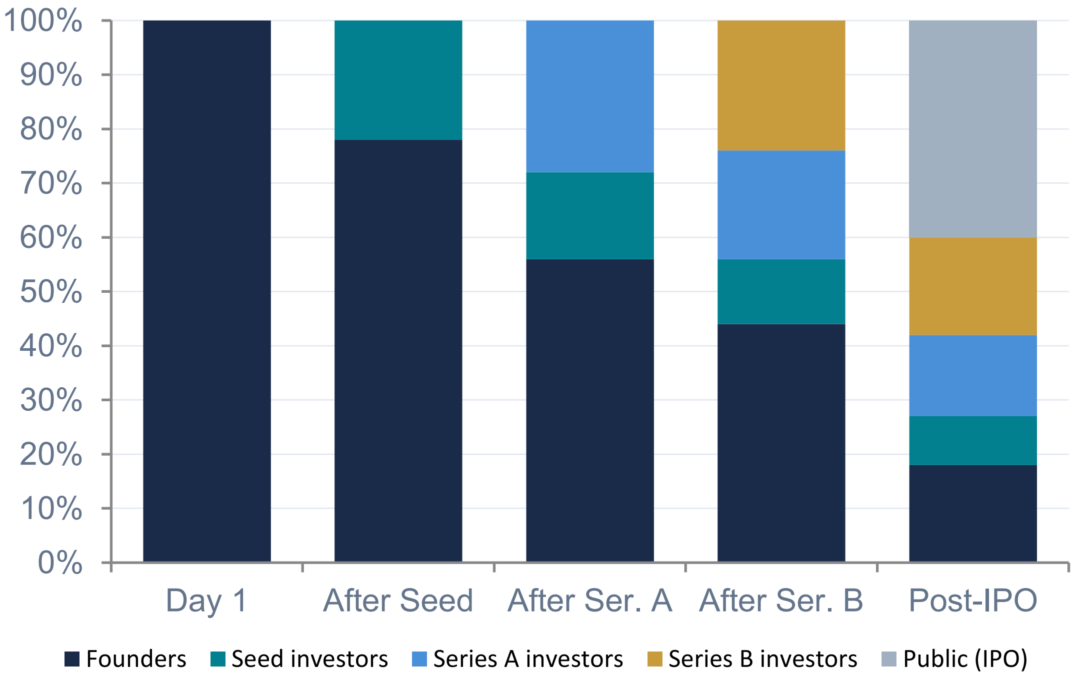
APIC = Additional Paid-In Capital. Investors pay $2M for preferred shares with $100 par value; the $1,999,900 premium goes to APIC — this is standard VC accounting.

Balance sheet after Series A ($10M raise at $40M pre-money valuation)

Account	Before Series A ($)	After Series A ($)	Change	Why?
Cash	1,200,000	**11,000,000**	**+$9.8M**	Investors wire funds
PP&E (equipment, servers)	200,000	600,000	+$400K	Purchased to scale product
Intangibles (patents)	50,000	350,000	+$300K	IP filings & dev. capitalized
TOTAL ASSETS	**1,450,000**	**11,950,000**	**+$10.5M**	
Accrued liabilities	50,000	150,000	+$100K	More employees, higher payroll
TOTAL LIABILITIES	**50,000**	**150,000**		
Preferred stock + APIC	2,055,000	**12,055,000**	**+$10M**	Series A preferred shares issued
Retained earnings (deficit)	(655,000)	(255,000)		Deficit from operations; normal
TOTAL EQUITY	**1,400,000**	**11,800,000**		

Key insight: A startup often has a NEGATIVE retained earnings (accumulated deficit) — this is normal. The company is burning cash to build the product. What keeps equity positive is the APIC from investor funding.

How equity dilutes across funding rounds



Dilution is not inherently bad — a smaller slice of a larger pie can be worth far more.

Day 1:

Founders own 100% — but shares have no market value yet.

After Seed:

Investors get ~22% of a $2M company — $440K in value.

After Series A:

VC gets 28% of a $50M company — $14M in value.

After IPO:

Founders may hold 18% — but of a $500M company = $90M.

STAGE 03

Growth & Scale-up

KPIs · Revenue recognition · Working capital · Rule of 40

The growth stage is where the income statement comes alive. Revenue recognition, gross margin, EBITDA, and the balance sheet's working capital ratio all become key metrics that investors — and eventually regulators — will scrutinize.

STAGE 03 — ACCOUNTING: INCOME STATEMENT & BALANCE SHEET

Year 3 — Rapid growth: P&L and balance sheet in detail

Income Statement (Year 3)

Item	$000s
Revenue (ARR)	8,000
Cost of revenue (COGS)	(2,400)
Gross profit (70% margin)	**5,600**
R&D expenses	(2,000)
Sales & marketing	(3,500)
G&A expenses	(800)
EBITDA (operating loss)	**(700)**
Depreciation & amortization	(250)
Interest income / expense	50
Net income (loss)	**(900)**

Balance Sheet (end Year 3)

Item	$000s
CURRENT ASSETS	
Cash & equivalents	6,200
Accounts receivable	1,100
Deferred revenue (liability)	(800)
NON-CURRENT ASSETS	
PP&E (net)	1,400
Capitalized software dev	900
Total Assets	**8,800**
Liabilities + Equity	**8,800**
Accumulated deficit	(3,200)
Preferred stock + APIC	12,000

Note: Deferred revenue is a liability — cash received in advance for future service delivery (common in SaaS subscriptions).

STAGE 04

The IPO Process

S-1 filing · Roadshow · Book-building · Listing day

An IPO transforms a private company into a public one. The balance sheet changes fundamentally: IPO proceeds flow in as new equity, the preferred stock converts to common stock, and the company takes on all the disclosure and governance requirements of a public corporation.

STAGE 04 — IPO PROCESS

The 7 steps from decision to listing day

1	**Hire underwriters**	Lead bank (Goldman, Morgan Stanley etc.) manages pricing & selling	12–18 mo. before
2	**Financial audit & due diligence**	2–3 years of audited GAAP/IFRS financials required	10–14 mo. before
3	**File S-1 with SEC**	Public prospectus: financials, risks, business model, use of proceeds	6–9 mo. before
4	**Roadshow**	Executives pitch to 50–100 institutional investors over 2 weeks	2–4 wks before
5	**Book-building & pricing**	Orders collected; final price set based on demand curve	1 day before
6	**IPO day — first trade**	Shares open on NYSE/NASDAQ; opening price discovered by market	Listing day
7	**Post-IPO reporting**	10-K, 10-Q filings, SOX compliance, investor relations team	Ongoing

How the balance sheet transforms on IPO day

PRE-IPO (private)

Equity section	$M
Series A preferred stock	0.1
Series B preferred stock	0.1
Additional paid-in capital	85.0
Accumulated deficit	(42.0)
Total equity	**43.2**
Total CASH on hand	**$18M**

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IPO
$200M
raised

POST-IPO (public)

Equity section	$M
Common stock (converted)	**2.0**
Pref. converted to common	—
APIC (incl. $198M IPO proceeds)	**281.0**
Accumulated deficit	(42.0)
Total equity	**241.0**
Total CASH on hand	**$218M**

1. Pref. stock converts to common on IPO day. 2. $200M: $2M par; $198M to APIC. 3. Accumulated deficit stays. 4. Equity: $43M to $241M.

STAGE 05

Real-world Case Studies

Amazon · Airbnb · Kakao Corp

We now apply the accounting framework to three real companies: an early IPO (Amazon), a late IPO (Airbnb), and a Korean company that used a reverse merger (Kakao). We examine how each company's balance sheet reflected its strategic choices.

CASE STUDY 1 — AMAZON (AMZN)

Amazon: The fastest tech IPO (1994–1997) and its accounting story

1994
Founded

May 1997
IPO date

$18/share
IPO price

$438M
Post-IPO valuation

~$8M
Pre-IPO capital raised

$0.5M
Year 1 revenue

Item	1994 (founding)	1996 (pre-IPO)	1997 (post-IPO)	Accounting lesson
Cash	10	6,200	125,000	IPO inflow ($54M net proceeds)
Inventory	0	2,171	8,971	Books held are current assets
Goodwill / Intangibles	0	0	1,717	First acquisitions post-IPO
Total assets	**120**	**11,303**	**149,000**	
Accumulated deficit	0	(6,248)	(20,244)	Heavy investment in growth
Stockholders' equity	120	2,930	139,000	Huge APIC from IPO

Airbnb: A 12-year journey — balance sheet through each funding stage

Year	Event	Cash (approx.)	Total equity	Accum. deficit	Key accounting note
2008	Founded	$30K	$30K	$0	3 founders, air mattresses
2009	Y-Combinator	$20K	$46K	$(26K)	Seed: $20K for 6% stake
2011	Series B	$112M	$140M	$(28M)	$112M raise; rapid growth
2017	Series F	$3.5B	$5.0B	$(1.5B)	Unicorn; $31B valuation
2020	IPO	$7.7B	$5.3B	$(4.4B)	COVID impact; $68 IPO price
2022	First profit	$9.6B	$6.0B	$(3.5B)	First full-year profitability

Key insight: Airbnb's accumulated deficit grew to -$4.4B by IPO — yet investors valued it at $47B. The balance sheet deficit was acceptable because: (1) large cash position, (2) proven revenue model, (3) asset-light (no real estate ownership). Equity valuation at IPO is about future earning power, not past losses.

CASE STUDY 3 — KAKAO CORP (KOREA)

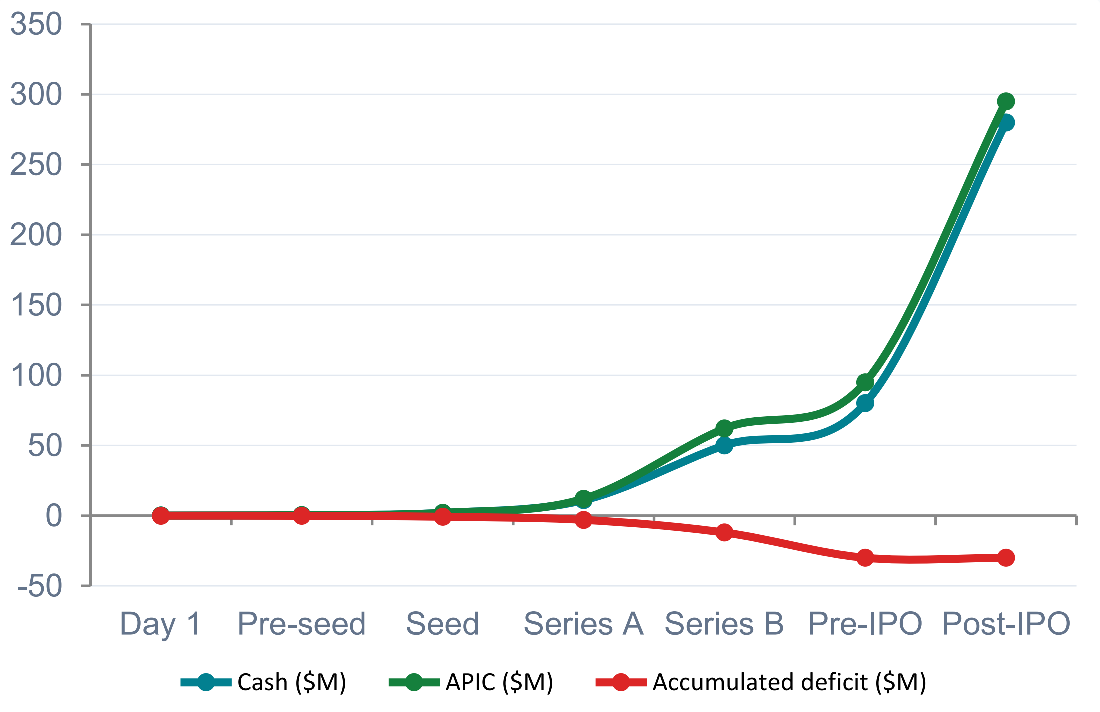
Kakao: Korea's reverse merger strategy and subsidiary IPO structure

Event	Year	Listing method	Balance sheet impact
Kakao founded (messaging app)	2010	C-Corp (Korea)	Small tech startup, minimal assets
KakaoTalk: 10M users	2012	VC funding rounds	Cash-heavy; goodwill begins to appear
Merger with Daum Communications	2014	Reverse merger (RTO)	Goodwill & intangibles balloon — $1.5B+ recorded
Listed as Daum Kakao on KOSPI	2014	**Indirect public listing**	No new cash raised; existing public shareholders
Rebranded to Kakao Corp	2015	Corporate restructuring	Goodwill impairment testing becomes key
KakaoBank IPO (subsidiary)	2021	**Subsidiary IPO on KRX**	Minority interest appears on Kakao parent B/S
KakaoPage (content) IPO	2021	**Subsidiary IPO on KRX**	Additional minority interest; consolidated accounts

Reverse merger (RTO): When a private company merges into a listed shell, it gains public status without an S-1/IPO. Goodwill must be recorded for the excess purchase price over net assets.

SUMMARY — BALANCE SHEET ACROSS THE FULL LIFECYCLE

How key balance sheet items evolve from Day 1 to IPO



Cash drives decisions

Each funding round replenishes cash. Without it, the company cannot operate — cash runway management is survival.

APIC = investor trust

Every dollar investors pay above par value is APIC. A large APIC signals high investor confidence.

Deficit is normal

High-growth companies run deficits for years. Investors accept this if revenue growth is strong enough.

IPO = transformation

The IPO is not just a financing event — it converts preferred to common stock and changes every disclosure obligation.

Classroom discussion questions

Q1 *Accounting & valuation*

Amazon IPO'd with a $20M accumulated deficit. Airbnb had a $4.4B deficit. Which deficit is more concerning for investors, and why?

Q2 *Goodwill & impairment*

When Kakao merged with Daum, goodwill was recorded on the balance sheet. What happens to that goodwill if Kakao's market cap falls below book value?

Q3 *Journal entries*

A startup raises $10M in a Series A at a $40M pre-money valuation. Record the journal entry for this transaction and show its impact on the balance sheet.

Q4 *Equity structure*

Why does preferred stock convert to common stock on IPO day? What are the accounting and economic implications of this conversion?

Q5 *Revenue recognition*

A SaaS company receives $120,000 for a 12-month subscription upfront. How should this be recorded? How does deferred revenue appear on the balance sheet?

Q6 *Asset strategy*

Compare the balance sheet structure of Airbnb (asset-light) with Amazon Logistics (asset-heavy). How does each strategy affect return on assets (ROA)?

Essential formulas every student should know

Assets = Liabilities + Equity

Accounting equation — always holds true

Equity = Common stock + APIC + Retained earnings

Equity decomposition

Current ratio = Current assets / Current liabilities

Liquidity — above 1.0 means solvent

Working capital = Current assets − Current liabilities

Operating liquidity buffer

Burn rate = Monthly cash outflow

Survival metric for startups

Runway = Cash / Monthly burn rate

Months of operation remaining

Gross margin = (Revenue − COGS) / Revenue

SaaS target: 70%+; hardware: 30–50%

EBITDA = Net income + Interest + Taxes + D&A

Proxy for operating cash flow

P/E ratio = Market cap / Net earnings

Valuation multiple (post-IPO)

EV/Revenue = Enterprise value / Annual revenue

High-growth IPO valuation multiple

Rule of 40: Growth% + EBITDA margin% ≥ 40

SaaS IPO readiness benchmark

ROA = Net income / Total assets

Asset efficiency (asset-light vs heavy)

Key takeaways

01 A C-Corporation is the only structure that supports preferred stock, ESOPs, and an IPO — the legal foundation for growth.

02 Each funding round dilutes founders but grows the pie. APIC is how investor premiums appear on the balance sheet.

03 An accumulated deficit is expected and acceptable — what matters is the trajectory of revenue and cash.

04 At IPO, preferred stock converts to common stock. IPO proceeds flow into APIC, not revenue.

05 Post-IPO, a company becomes a public reporting entity: quarterly (10-Q) and annual (10-K) filings are mandatory.

Company Lifecycle: From Founding to IPO

Further reading: Accounting for Dummies (Tracy) · Investment Banking (Rosenbaum) · Venture Deals (Feld & Mendelson)