

## Chapter 23: Raising Equity Capital

### Ex. RealNetworks Greenshoe Provision

In 1997, Goldman Sachs and other banks took RealNetworks public with an IPO.

=> see Figure 23.3 and related discussion a few pages later in the text in the section “Pricing the Deal and Managing Risk”.

The underwriters bought 3,000,000 shares from RealNetworks at \$11.825 per share, but sold 3,450,000 shares in the initial public offering at \$12.50 per share (they sold the shares they bought plus the 450,000 shares they have the right to buy with the Greenshoe provision).

Implication: They are short 450,000 shares of RealNetworks.

Q: How does the Greenshoe provision protect the investment bankers as they support the stock price after the IPO?

1) After being issued at \$12.50 per share RealNetworks stock quickly started trading at \$19.375 per share because of high demand.

=> the underwriters cover their short position by exercising the greenshoe provision

Additional profit = \$303,750 =

2) Assume, instead, that RealNetworks stock had fallen to \$8 per share when it started trading.

=> the underwriters cover their short position (and support the stock price) by purchasing shares in the open market at \$8 per share

Additional profit = \$2,025,000 =

Note: Underwriters have agreed to help support the price, so this additional profit is likely “spent” as buy up additional shares in an effort to drive up the price after IPOs.