

The Effect of Companies' Late Stage Venture Financings on Their IPOs 2014 – 2015

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Background

To better understand the effect that the terms and valuations of late stage financings are having on IPOs, we undertook an analysis of the 41 US-based technology companies that went public in 2014-2015 and that had undertaken a venture financing in the prior three years.¹

Overview of Results

The highlights of our findings are as follows:

- At the time of their last venture round, the companies priced their common stock at an average of 67% of the value of their preferred stock. In other words, the companies were implicitly valuing the various preferential terms provided to their late stage investors at 33% of the value of the stock that was sold to such investors.
- 20% of the IPOs triggered ratchet type IPO protections that resulted in the companies' late stage investors receiving additional equity as a result of the IPO. However, the additional equity averaged only 3% of a company's pre-IPO equity, so the effect on the company's other shareholders was generally not substantial. The issuance of additional equity on account of such IPO protections increased noticeably from 2014 to 2015.
- 24% of the companies had dual class common stock, which provided some or all of their pre-IPO shareholders with more voting rights than investors who bought shares in the IPO. The use of these rights increased noticeably from 2014 to 2015 and was more common in higher valuation IPOs. For comparison purposes, only 9% of the companies in the S&P 100 have dual class common stock.
- 22% of the IPOs had major pre-IPO investors purchasing shares in the IPO, 29% had major pre-IPO investors selling shares in the IPO, and 49% had neither. Pre-IPO shareholders typically buy in an IPO because they want to increase their holdings in the company (especially mutual

¹ We only included companies that had raised financings within the three years prior to their IPO to focus our analysis on venture terms that had been negotiated in the relatively recent past.

and hedge funds that invest in both private and public companies), to provide the company with additional capital than could otherwise be raised and/or to signal their confidence in the company's prospects. Pre-IPO shareholders typically sell in an IPO to obtain liquidity and/or to provide additional float for a company's trading market.

- 71% of the IPOs were "up rounds" compared to the last financing round, and 29% were "down rounds". The percentage of up rounds declined from 2014 to 2015.
- The average per share price increase from the last financing round to the IPO was 94%, and the median increase was 36%. The average increase increased from 2014 to 2015, but the median increase declined during that time frame.

Survey Results

The more detailed results are set forth below.

	2014	2015	2014 & 2015 (Combined)
Number of IPOs and Valuation:			
Number of IPOs	27	14	41
Average pre-money valuation at time of IPO (\$ millions)	\$980	\$1,492	\$1,154
Price Change from Last Venture Round to IPO:			
Percentage of IPOs that were valued higher than last venture round	78%	57%	71%
Average per share price increase from the last venture round to the IPO	86%	108%	94%
Median per share price increase from the last venture round to the IPO	37%	2%	36%
Common Stock Valuation:			
Common stock price as a percentage of preferred stock price at time of last venture round	68%	64%	67%

	2014	2015	2014 & 2015 (Combined)
Dual Class Common Stock (Super Voting):			
Percentage of IPOs that had dual class common stock	15%	43%	24%
IPO Ratchet:			
Percentage of IPOs in which a ratchet adjustment was triggered	4%	50%	20%
Average percentage of fully-diluted pre-IPO shares issued due to ratchet	1%	3%	3%
Pre-IPO Shareholders Purchasing in IPO:			
Percentage of IPOs with major shareholder(s) purchasing in IPO	19%	29%	22%
Average percentage of IPO purchased by such shareholder(s)	18%	20%	19%
Pre-IPO Shareholders Selling in IPO:			
Percentage of IPOs with major shareholder(s) selling in IPO	26%	36%	29%
Average percentage of IPO sold by such shareholder(s)	23%	14%	19%

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