VENTURE CAPITAL & PRE-IPO GOVERNANCE
DATA SPOTLIGHT
The venture-capital industry has grown significantly over the last 15 years.

National Venture Capital Association (2019)
The number of deals and average deal size have also increased

National Venture Capital Association (2019)
More than half of VC investment is directed to technology and healthcare-related startups

National Venture Capital Association (2019)
Unicorn companies—private companies valued above $1 billion—have become increasingly prevalent.

National Venture Capital Association (2019)
GOVERNANCE IN PRE-IPO COMPANIES

Companies take widely different paths to developing governance systems prior to IPO

- Company founded
- Puts the financial and accounting systems in place
- Hires the CEO who eventually takes the company public
- Hires the external auditor used at IPO
- Recruits first independent director to the board
- Hires the CFO who eventually takes the company public
- Hires inside general counsel
- IPO

Rock Center for Corporate Governance (2018)
The boards of pre-IPO companies are small and consist primarily of insiders and investors.

Number of board members by category

Amornsiripanitch, Gompers, and Xuan (2019)
INDEPENDENT DIRECTORS

Companies add their first independent director 2 to 3 years prior to IPO. By the time of IPO, the board typically includes 3 outsiders.

Rock Center for Corporate Governance (2019)
Directors of pre-IPO companies earn lower cash compensation and larger equity awards—primarily stock options

Equilar (2017)
First-time directors of IPO companies receive relatively large initial equity grants, usually stock options

Equilar (2017)
The founder takes the company public only half of the time. In many cases, an outside CEO is brought in to complete the IPO.

Rock Center for Corporate Governance (2019)
CEO compensation among VC-backed companies is similar in size and composition to other private companies.

Note: The premium paid to the CEOs of private-equity backed companies in this chart is explained almost entirely by the larger relative size of these companies.
Source: Chief Executive (2019)
Pre-IPO companies distribute equity awards generously throughout the organization, with almost all senior managers receiving stock or options.

Larcker, Tayan, Watts (2018)
Less than half of companies allow employees to sell or pledge a portion of their equity holdings prior to IPO

Are Employees Allowed to Sell or Pledge a Portion of Their Vested Equity Holdings in the Company?

Yes: 44%
No: 56%

- Sell shares back to the company: 67%
- Sell shares on a secondary, private-company market: 40%
- Sell shares to a third party not through a private-company market: 47%
- Sell participation rights in the appreciation of their stock without selling the underlying security: 0%
- Pledge their shares as collateral for a loan: 7%
Insiders who sell their equity holdings prior to IPO typically receive a 40% discount to the subsequent IPO price.

Larcker, Tayan, Watts (2018)
A typical company is 10-years old at the time of IPO

Median age of company at IPO
Ritter (2019)
The number of IPOs has fallen since the dotcom bust. The regulatory burden of being a public company has perhaps contributed to this decline.
Aggregate proceeds have fallen less, as the average IPO size has increased.

Ritter (2019)
Single-class share structures remain the most common board structure. Still, the prevalence of dual-class share structures has increased recently.
BIBLIOGRAPHY


Rock Center for Corporate Governance at Stanford University. The Evolution of Corporate Governance: 2018 Study of Inception to IPO. 2018.