
VENTURE CAPITAL & PRE-IPO GOVERNANCE

DATA SPOTLIGHT

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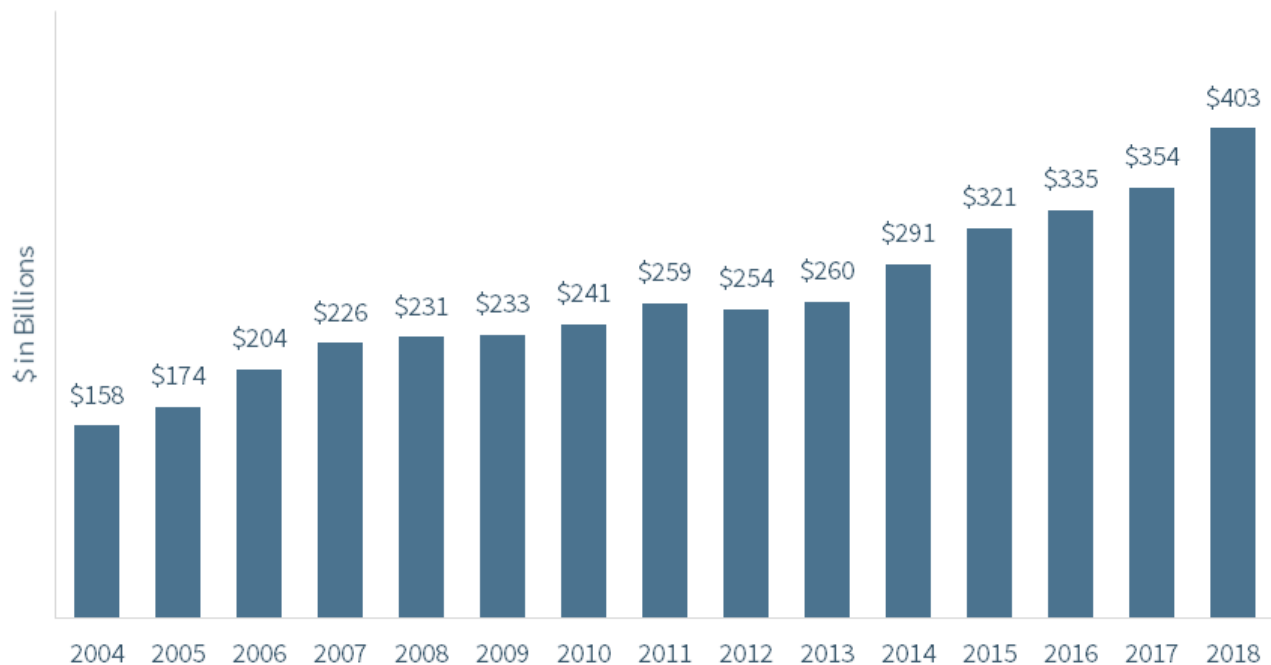
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Research Initiative

VC ASSETS UNDER MANAGEMENT

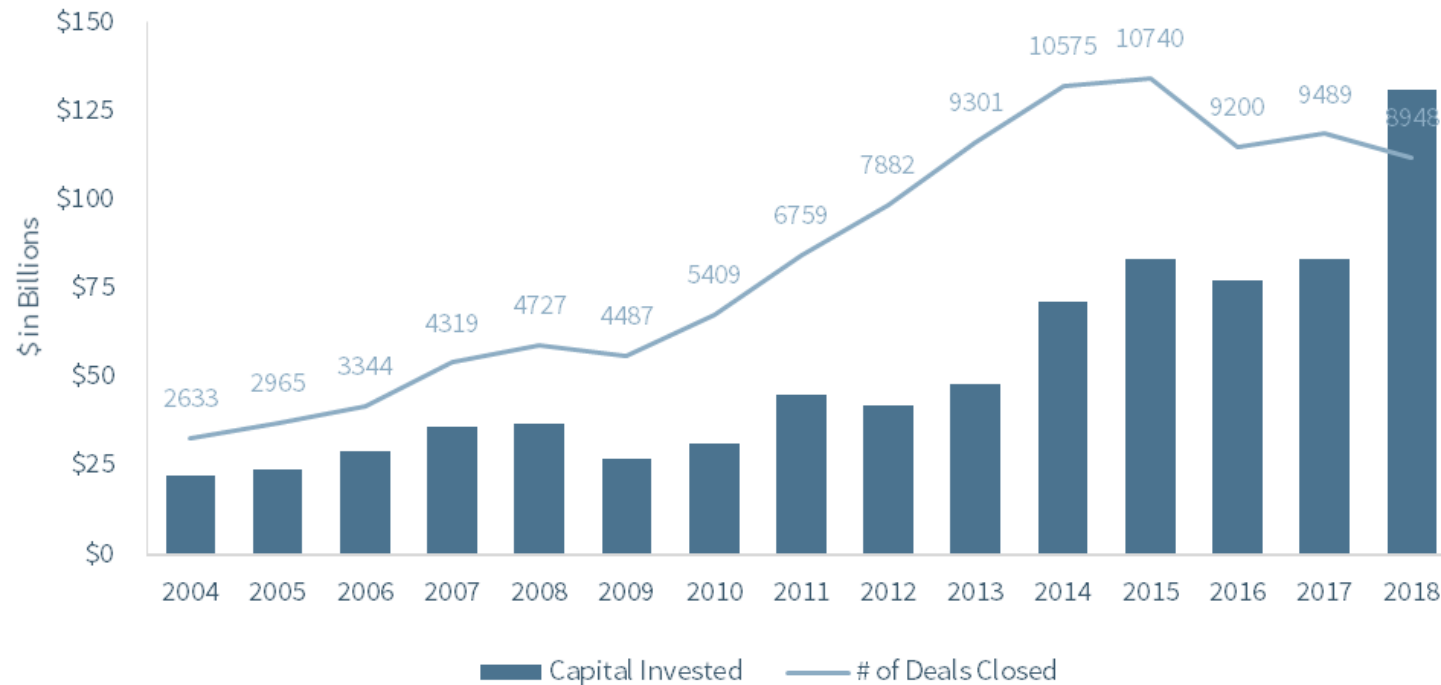
The venture-capital industry has grown significantly over the last 15 years



National Venture Capital Association (2019)

VC DEAL FLOW

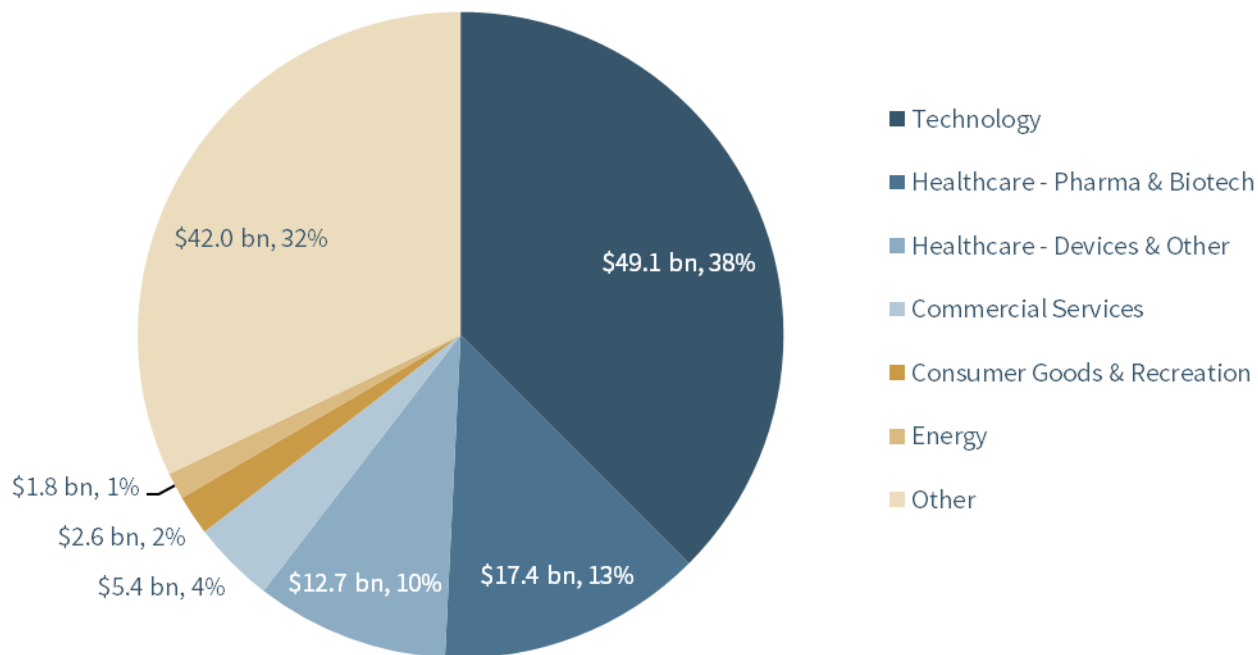
The number of deals and average deal size have also increased



National Venture Capital Association (2019)

VC INVESTMENT BY INDUSTRY

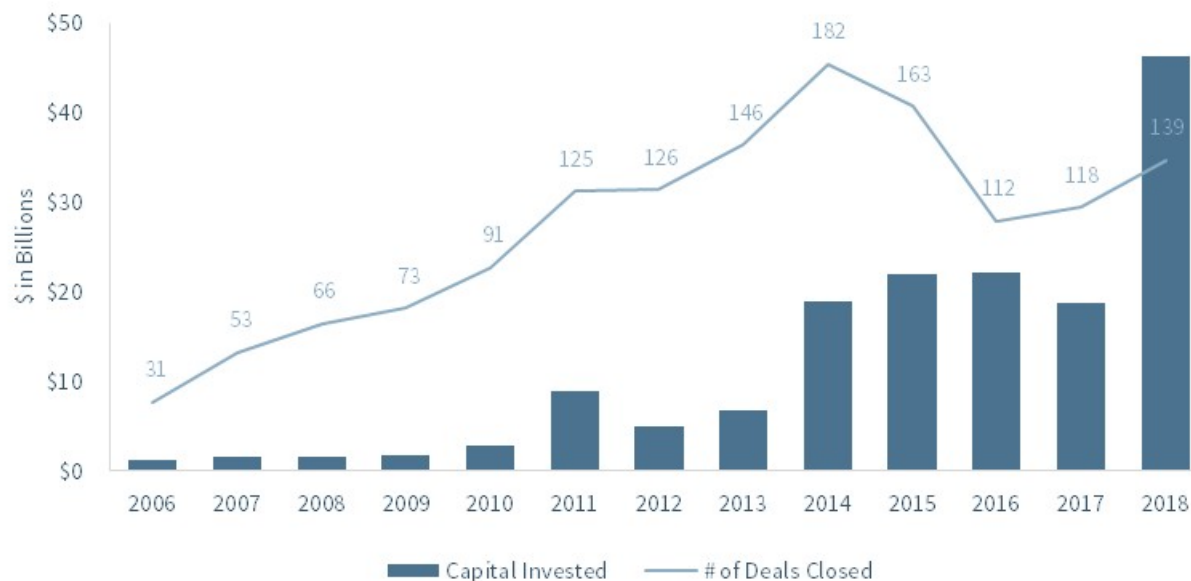
More than half of VC investment is directed to technology and healthcare-related startups



National Venture Capital Association (2019)

UNICORN COMPANIES

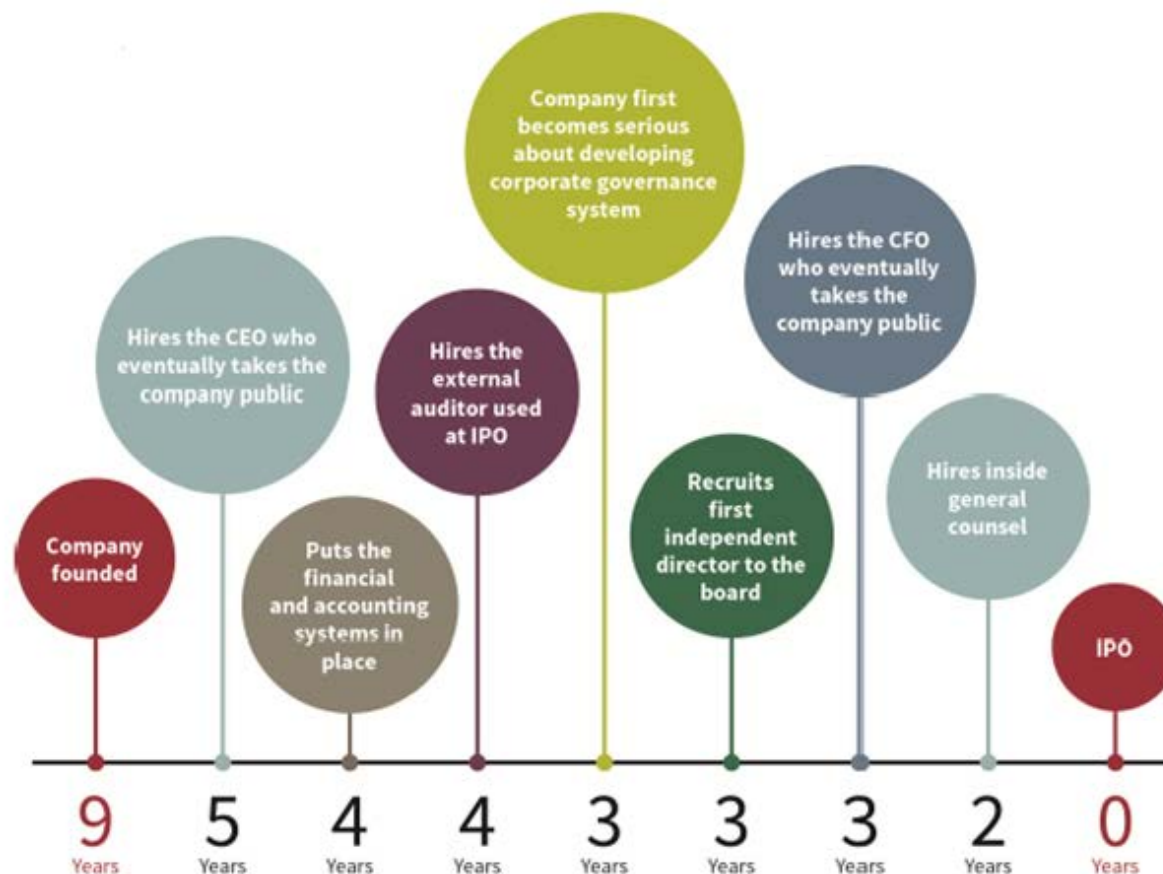
Unicorn companies—private companies valued above \$1 billion—have become increasingly prevalent



National Venture Capital Association (2019)

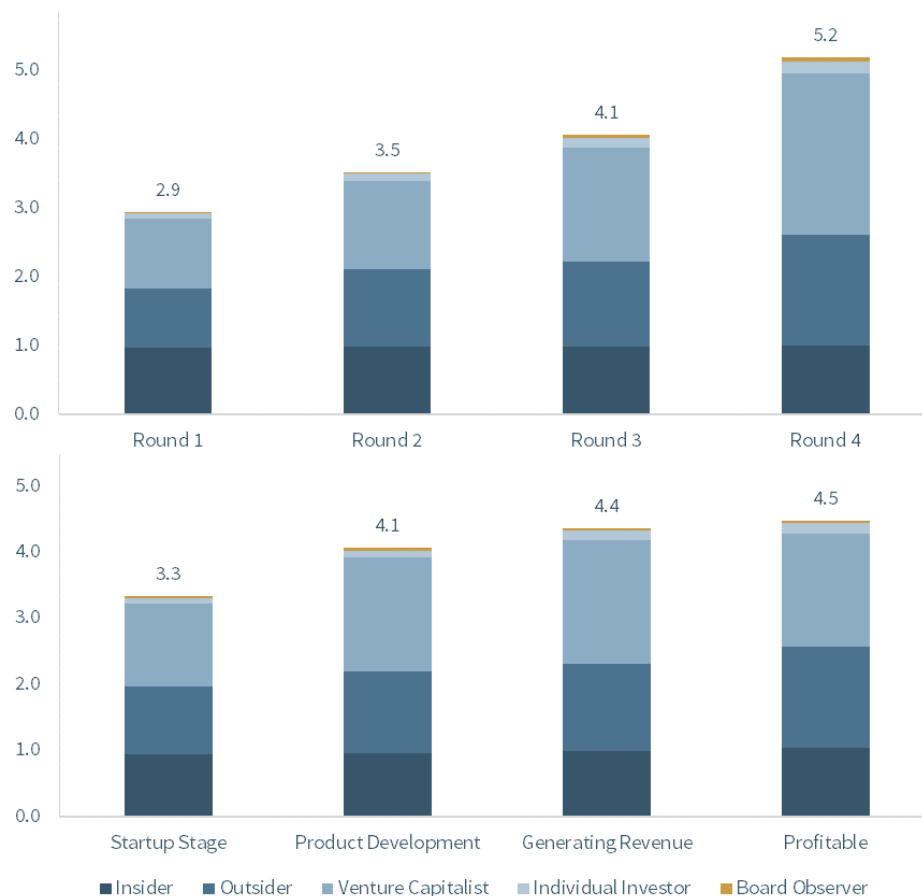
GOVERNANCE IN PRE-IPO COMPANIES

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



BOARD COMPOSITION

The boards of pre-IPO companies are small and consist primarily of insiders and investors



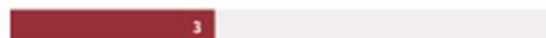
Number of board members by category
Amornsiripanitch, Gompers, and Xuan (2019)

INDEPENDENT DIRECTORS

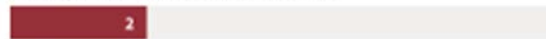
Companies add their first independent director 2 to 3 years prior to IPO. By the time of IPO, the board typically includes 3 outsiders.

When did the company first add an independent (outside) director to the board?

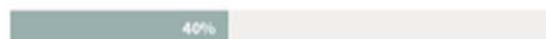
Relative to IPO



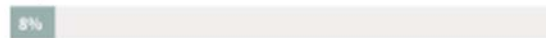
Average number of years prior to IPO



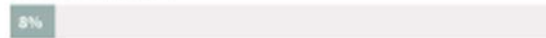
Median number of years prior to IPO



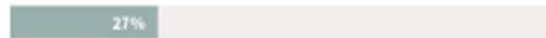
>3 years before IPO



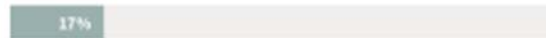
3 years before IPO



2 years before IPO

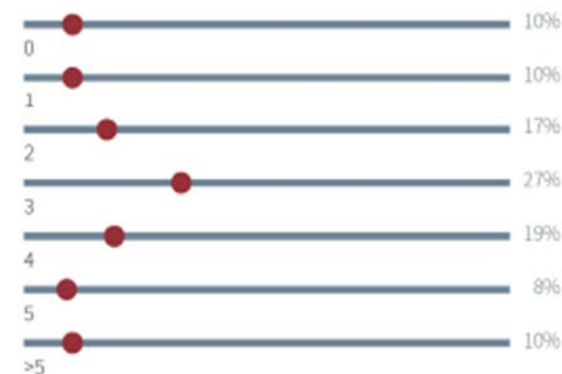


1 year before IPO



Year of IPO

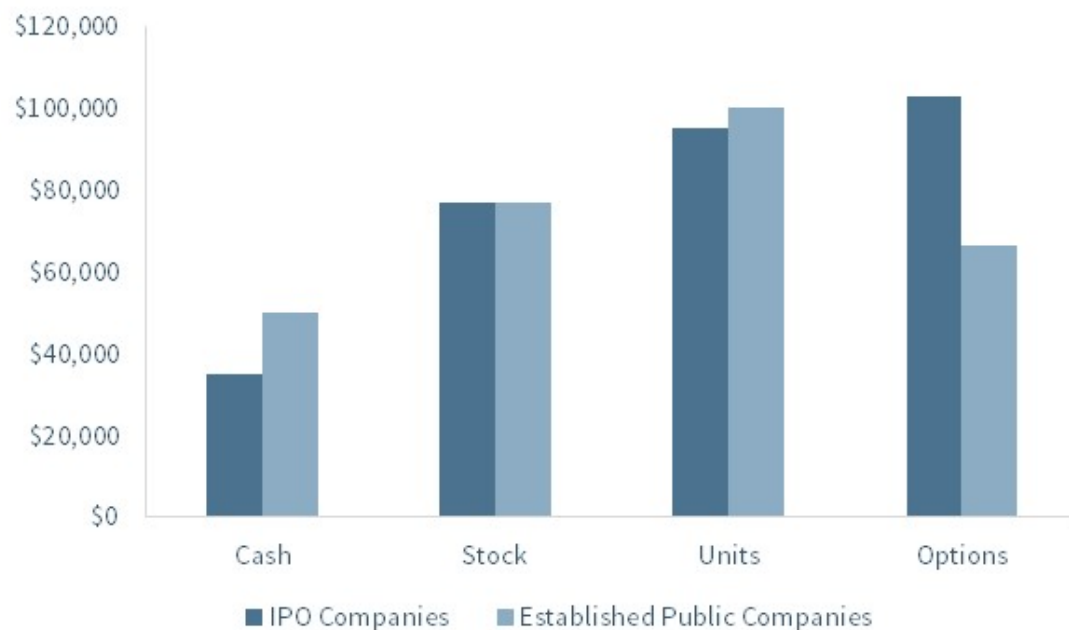
How many total independent (outside) directors did the company add to the board prior to IPO?



Rock Center for Corporate Governance (2019)

DIRECTOR COMPENSATION

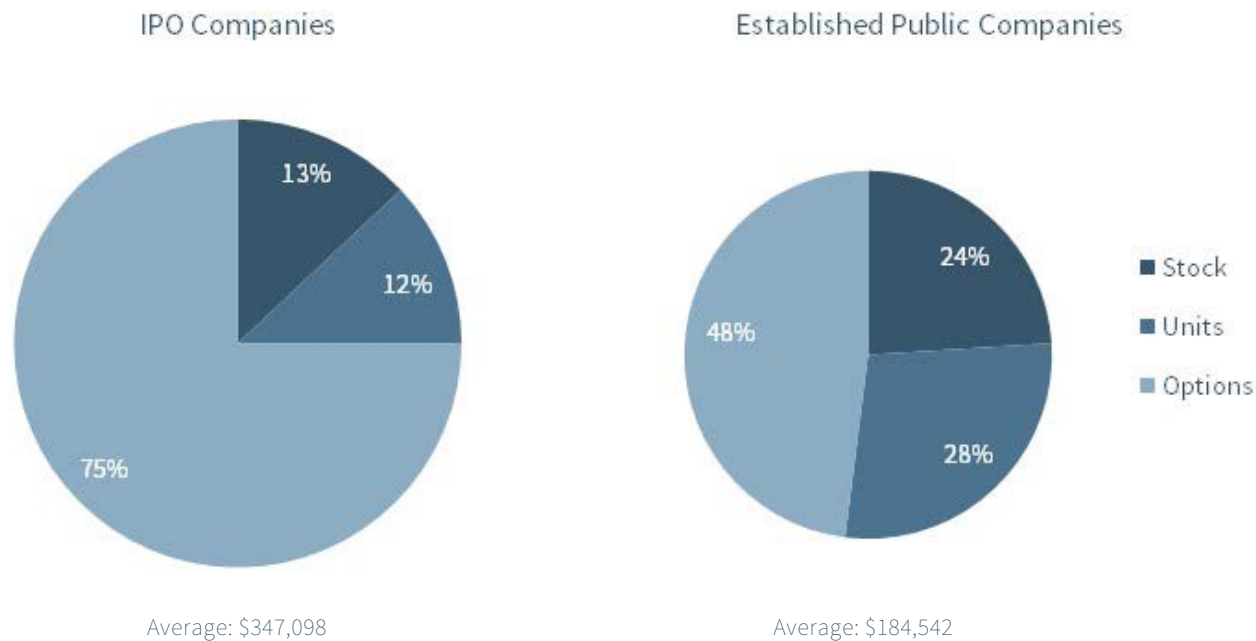
Directors of pre-IPO companies earn lower cash compensation and larger equity awards—primarily stock options



Equilar (2017)

DIRECTOR COMPENSATION

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



Equilar (2017)

CEO OF IPO COMPANIES

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

Did the founder of the company serve as CEO at the time the company went public?



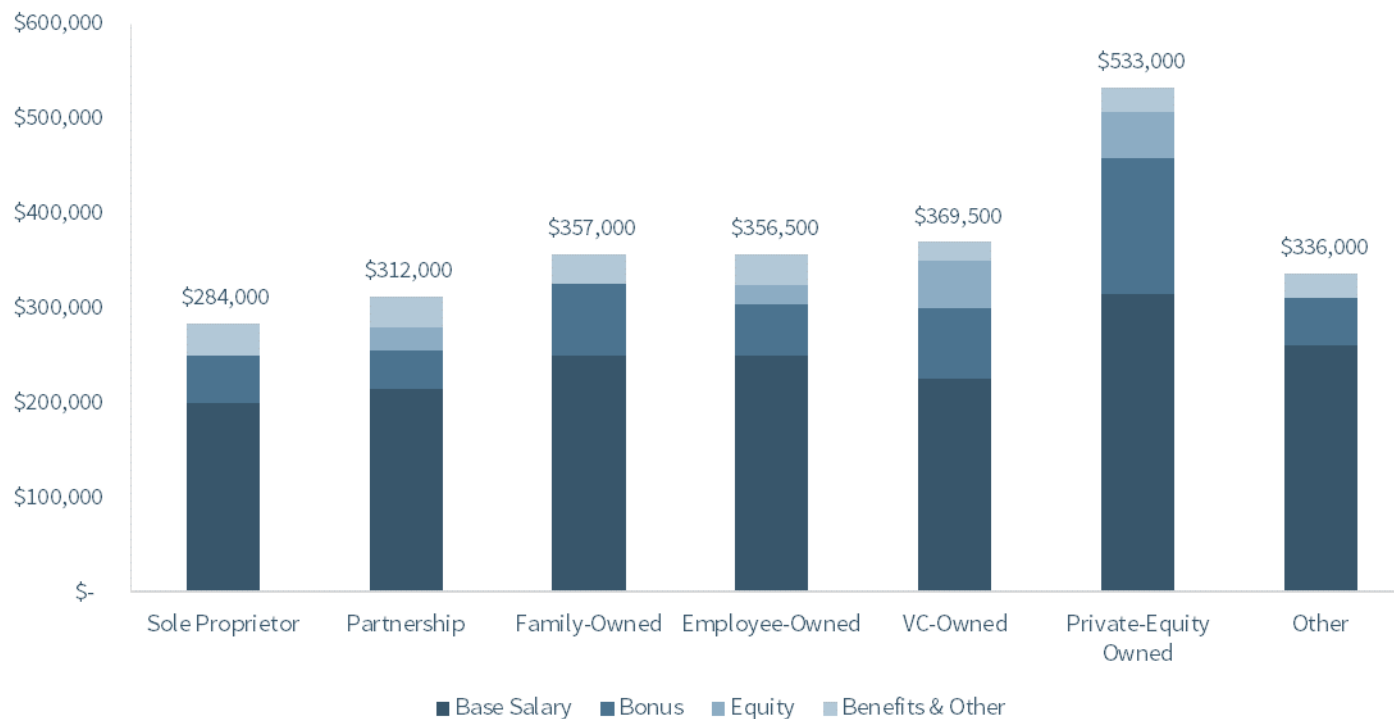
Did the CEO at the time of IPO have any of the following experience(s) prior to becoming CEO? (select all that apply).



Rock Center for Corporate Governance (2019)

CEO COMPENSATION

CEO compensation among VC-backed companies is similar in size and composition to other private companies



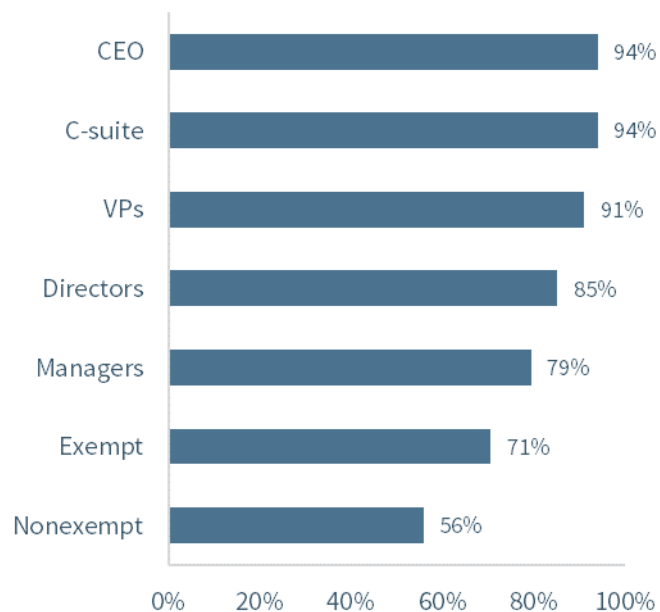
Note: The premium paid to the CEOs of private-equity backed companies in this chart is explained almost entirely by the larger relative size of these companies.

Source: Chief Executive (2019)

EQUITY GRANTS

Pre-IPO companies distribute equity awards generously throughout the organization, with almost all senior managers receiving stock or options

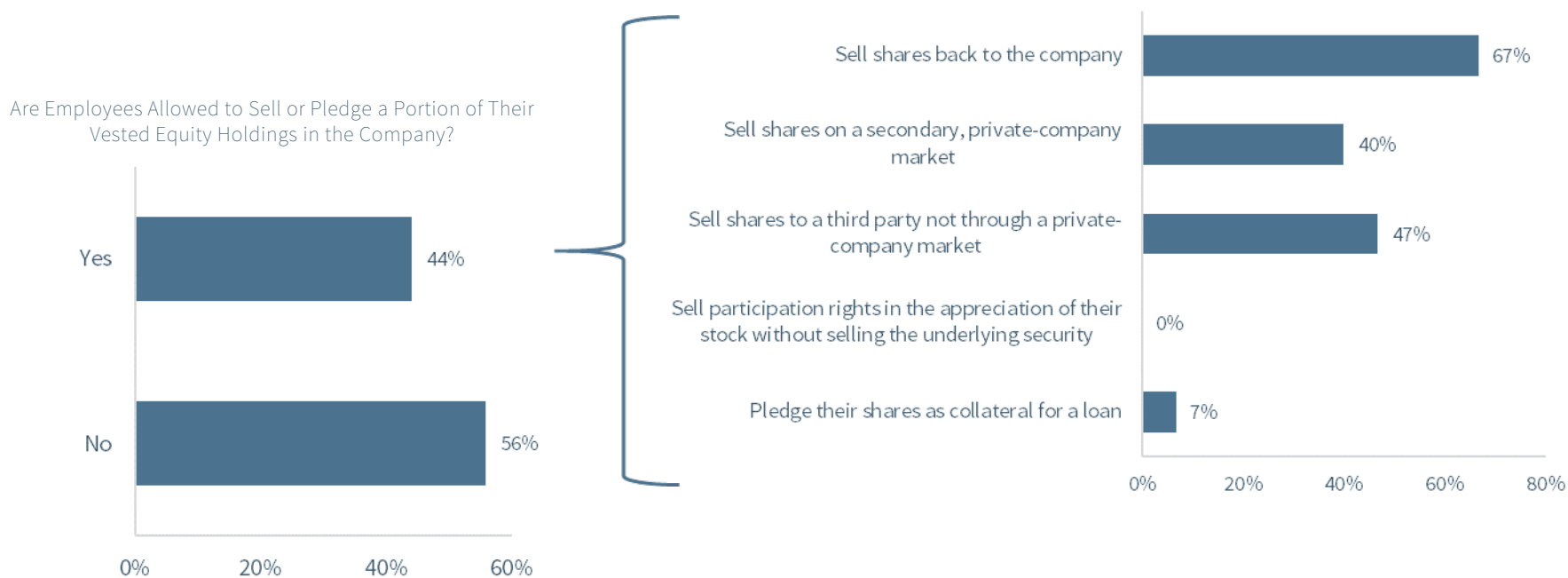
Percent of Companies Awarding Equity to these Employees



Larcker, Tayan, Watts (2018)

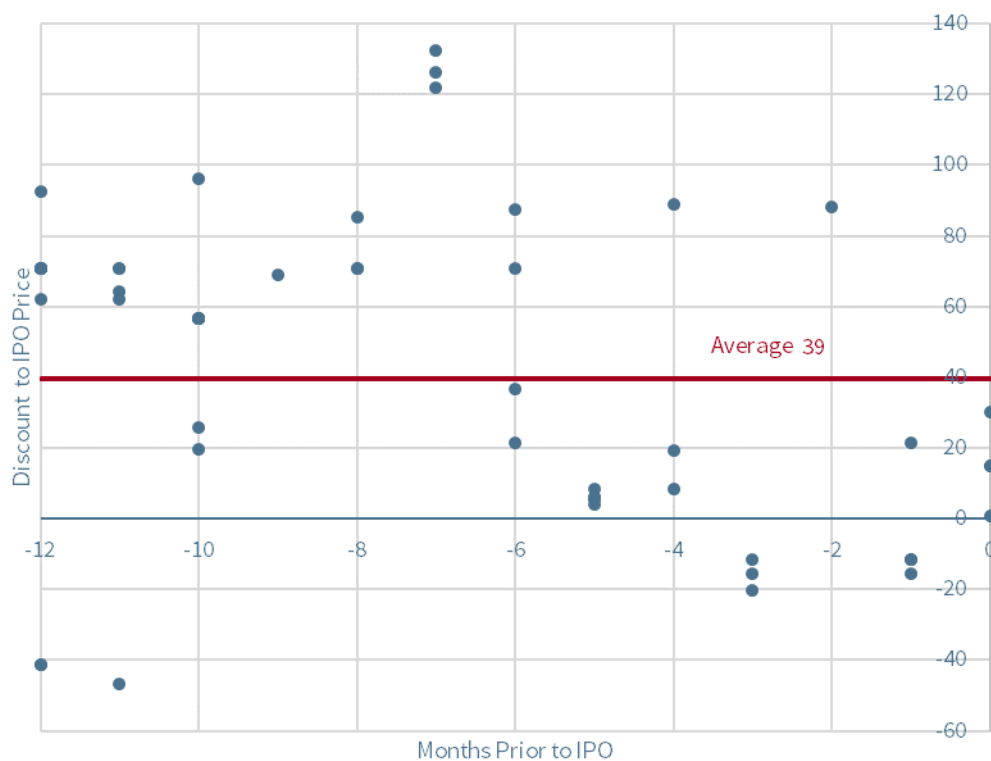
EQUITY GRANTS

Less than half of companies allow employees to sell or pledge a portion of their equity holdings prior to IPO



EQUITY SALES PRIOR TO IPO

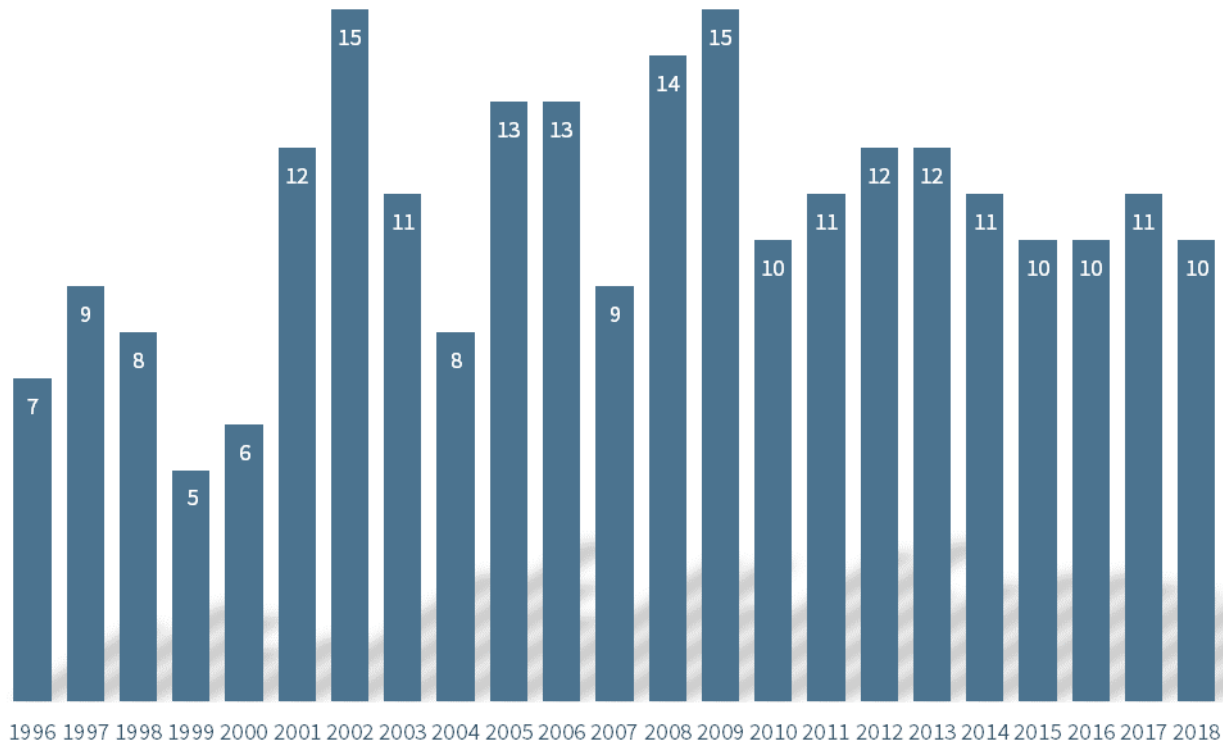
Insiders who sell their equity holdings prior to IPO typically receive a 40% discount to the subsequent IPO price



Larcker, Tayan, Watts (2018)

IPO DATA

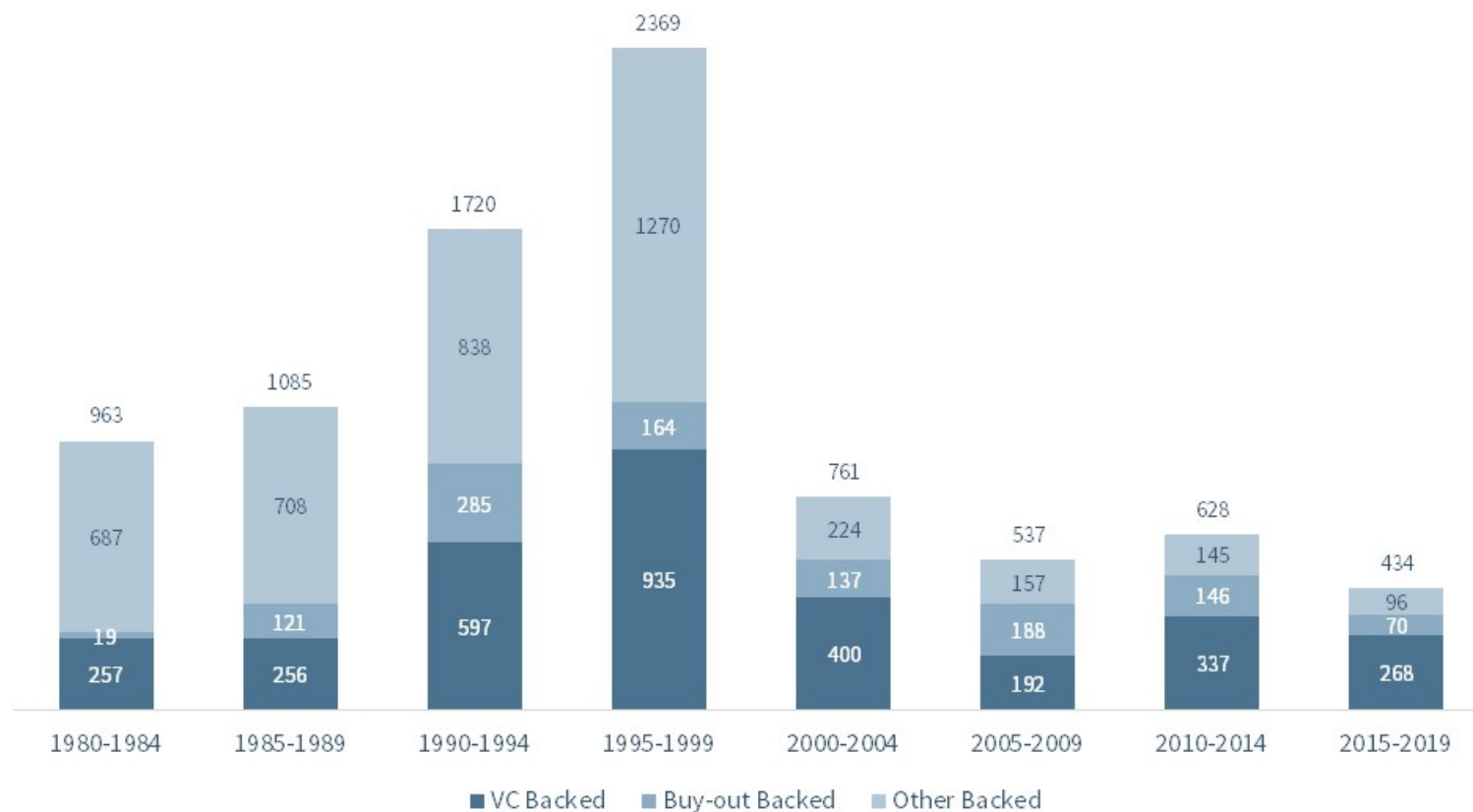
A typical company is 10-years old at the time of IPO



Median age of company at IPO
Ritter (2019)

IPO DATA

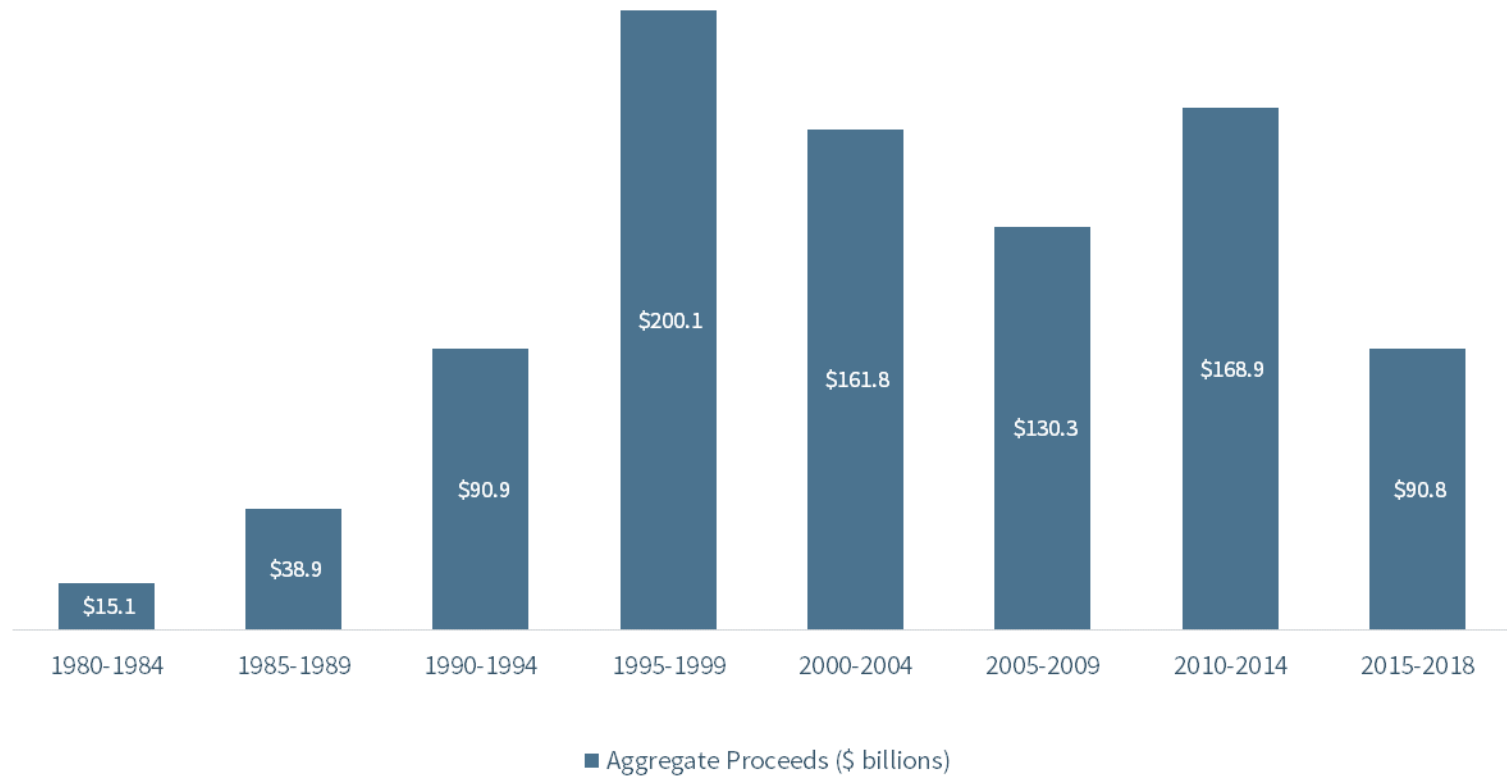
The number of IPOs has fallen since the dotcom bust. The regulatory burden of being a public company has perhaps contributed to this decline.



Number of IPOs
Ritter (2019)

IPO DATA

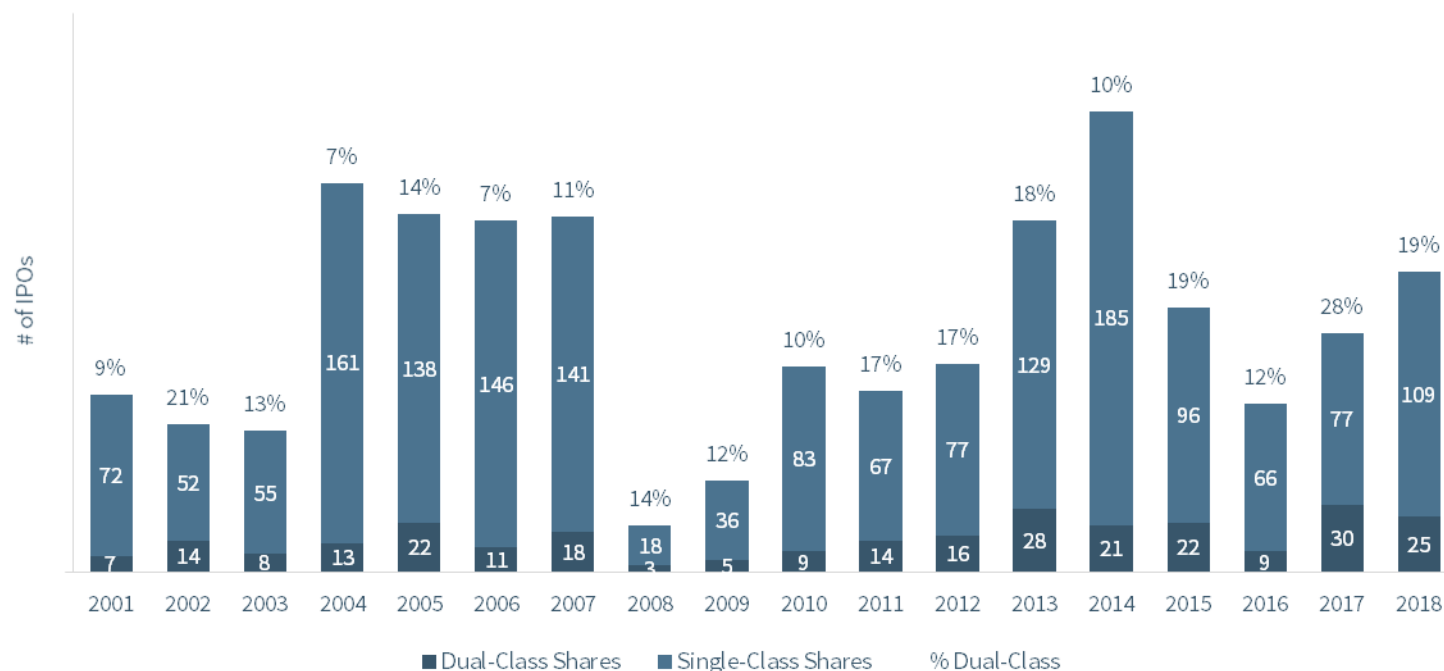
Aggregate proceeds have fallen less, as the average IPO size has increased



Ritter (2019)

DUAL-CLASS SHARES

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



Ritter (2018)

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