



G U N D E R S O N   D E T T M E R



# MULTI-CLASS CAPITAL STRUCTURES

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We represent *what's next.*

# Speakers



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# Clear Leader for the Innovation Economy

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**400+**  
lawyers globally

**11**  
offices worldwide

## VENTURE

**#1 GLOBALLY**

most active law firm for venture capital financings every year since 2014 (PitchBook)

**\$300B+**

raised in venture financings since 2021

## M&A

**350+**

M&A transactions handled globally since 2021

**\$54B+**

in aggregate deal value for M&A transactions since 2021

## PUBLIC COMPANIES

**380+**

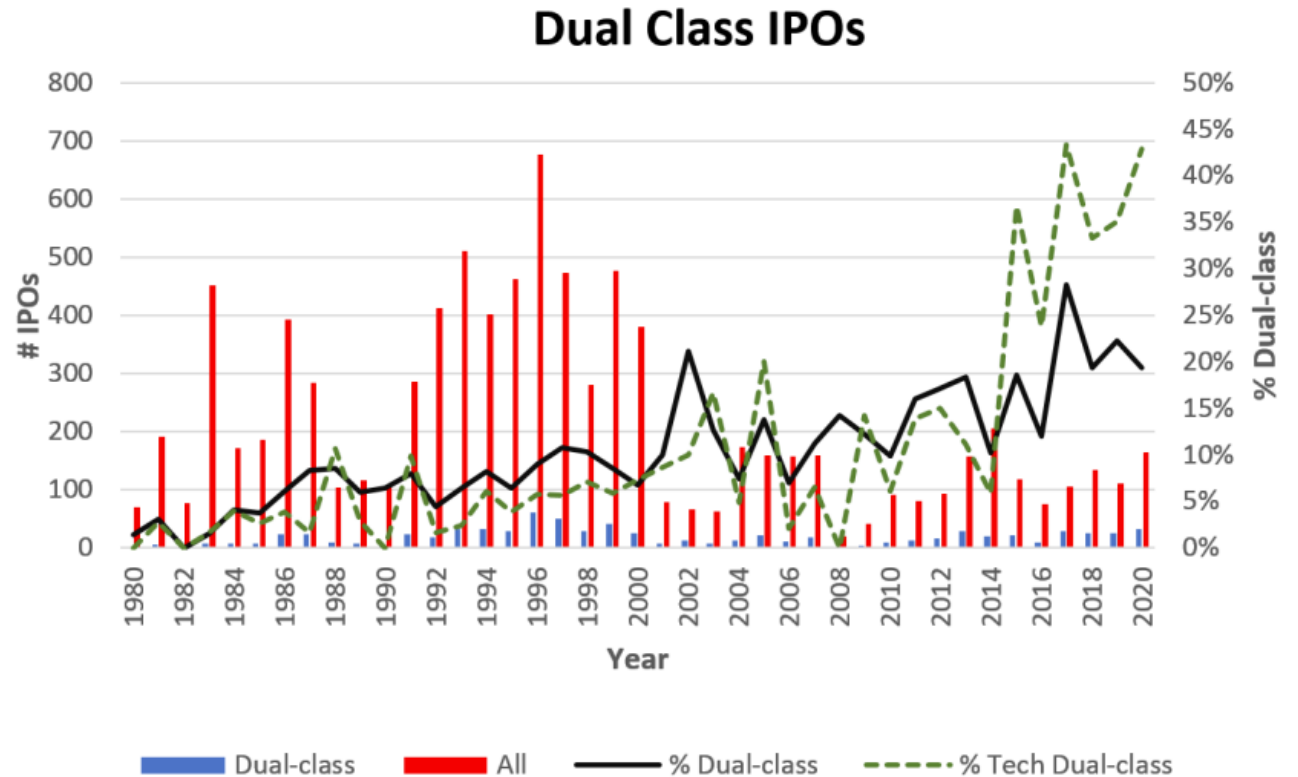
public offerings handled globally by the team

**\$16B+**

raised in public offerings since 2010

# Rising Popularity of Multi-Class Structures

- Historically, multi-class structures were implemented mostly in IPOs of high-profile technology companies where the founders owned a significant percentage of the company at the time of the IPO
- However, multi-class structures have become increasingly popular, representing approximately 33% of all U.S. IPOs, and approximately 46% of all U.S. Tech IPOs, in 2021

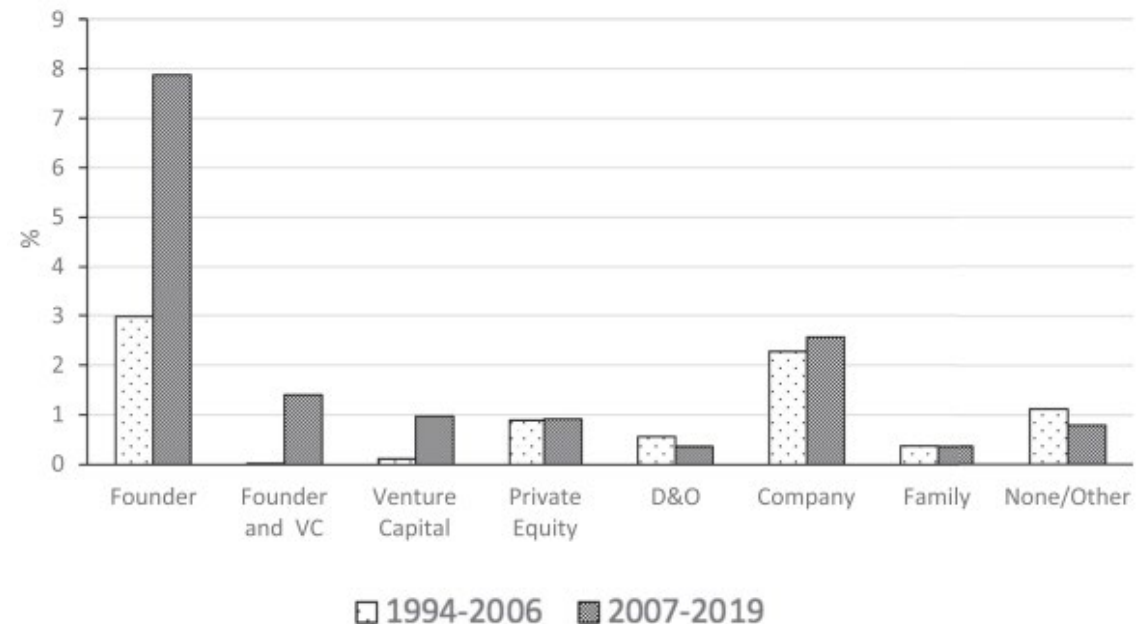


Source: Jay Ritter, [Initial Public Offerings: Dual Class Structure of IPOs Through 2021](#)

# High-Vote Stockholders—Who Controls?

- A 2021 Journal of Financial Economics article, *The Rise of Dual-Class Stock IPOs*,<sup>1</sup> provides a taxonomy of dual-class firms by controller type
- Per the article, stockholders or groups of stockholders qualify as controllers of a dual-class company if:
  - 1) They have voting power greater than 50%
  - 2) They have more than double the voting power of any other stockholder; or
  - 3) The company’s prospectus expressly states they control the business
- Founders are the most common controller, with parent or holding corporations second, and VC and PE investors third
- VC firms’ controller status has sharply increased since 2007, as has VC/founder joint control

PERCENTAGE OF DUAL-CLASS IPOs BY CONTROLLER



“This figure shows the percentage of dual-class IPOs out of the total number of IPOs (both single- and dual-class) from 1994 to 2019 by the type of controller, before and after the introduction of cloud computing in 2006.”

<sup>1</sup>Aggarwal, Eldar, O., Hochberg, Y., & Litov, L. P. (2022). The rise of dual-class stock IPOs. *Journal of Financial Economics*, 144(1), 122–153. <https://doi.org/10.1016/j.jfineco.2021.12.012>

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# Sunset Provisions

Automatic conversion of all high-vote stock to low-vote stock typically triggered by the earliest of one or more of:



Time (e.g., 5, 7 or 10 years after IPO)



Class vote to terminate (e.g., affirmative vote of majority, 66 2/3% or 80% of high-vote stock)



Stock thresholds (e.g., sunset triggered when high-vote stock represents <10% of total outstanding stock)



Founder's termination of service or death/incapacity

 *Multi-class structures without a “reasonable” mandatory time-based sunset (generally, 7 years or less) are disfavored by proxy advisory firms, corporate governance advocacy groups, and many large asset managers and institutional investors*

Code: 8616