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Late Stage Private Placements and Private Secondary Market Liquidity

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Speakers: Kevin Gsell (Nasdaq Private Market), Gregory Ogborn (Wells Fargo Securities)
and Anna Pinedo (Mayer Brown)

Seminar Materials

1. Presentation: Late Stage Private Placements & Private Secondary Market Liquidity
2. Secondary Market 2018 Retrospective, Nasdaq Private Market
3. Infographic: Private Company Secondary Market 2018 Retrospective, Nasdaq Private Market
4. Chart: Investor Status
5. Chart: Deciding Among Exempt Offering Alternatives



Late Stage

Private Placements &

Private Secondary Market Liquidity

FEB. 26, 2019

Agenda

- During this session, we will discuss:
 - Timing and process for late stage private placements;
 - Terms of late stage private placements;
 - Principal concerns for cross-over funds;
 - Diligence, projections and information sharing;
 - IPO and acquisition ratchets;
 - Participation by strategic investors;
 - Issuer and third-party tender offers; and
 - Private secondary market opportunities.

OVERVIEW

The JOBS Act and private offerings

- Although the aspect of the JOBS Act that has received the most attention relates to changes to the IPO process, in large measure, the JOBS Act related changes affecting the private market may be more significant.
 - Title V and Title VI changes to the Exchange Act Section 12(g) threshold
 - Changes to Rule 506
 - Legal certainty for matchmaking platforms
- Taken together, these measures have the effect of permitting companies to stay private longer and to rely on exempt offerings (while enabling companies to contact a broader range of potential investors) for their capital-raising.

Reliance on private or exempt offerings

- Even pre-JOBS Act, based on various studies, it was already the case that more capital was being raised in reliance on Regulation D and Rule 144A (in aggregate) than in SEC-registered offerings—according to the SEC’s Division of Economic Research and Analysis (DERA), in 2017, for example, the total raised in registered offerings was \$1.5 trillion, whereas the total raised through all private offerings was \$3.0 trillion
 - Amounts raised in private offerings are likely to be understated given that many issuers fail to file Form Ds and amounts raised in 4(a)(2) offerings are not reported
 - The amounts raised in registered offerings include debt offerings, whereas the majority of Reg D offerings involve equity or “new capital”

Reliance on private or exempt offerings *(cont'd)*

- These trends became more pronounced in 2017 and 2018
- Companies are choosing to defer their IPOs and rely on private financing for much longer than in the past
 - This is evident from various IPO reports
 - For example, based on statistics for the period from 1/1/12 through 12/31/18, the median market cap for IPO issuers was approximately \$414 million, and the average was \$1.4 billion
 - Fewer than 2.1% of IPO issuers have a market cap of \$50 million or less

Venture-backed companies delaying IPOs

- There are now at least 306 private companies valued by venture capital firms at \$1 billion or more, with a cumulative valuation of \$1.03 trillion. (CB Insights)
 - Uber has been able to raise significant amounts (reportedly \$19.9 billion) in private financings, giving it a value of close to \$72 billion
 - Many privately held companies have been able to raise capital from “cross over investors” (as we will discuss later) that traditionally invested only in IPOs and in publicly held companies
 - However, various sources report that the pace of unicorn formation has slowed and the pace of investment in unicorns has subsided
- VC-backed technology IPOs continued remained steady after a significant drop in 2015. In 2018, there were 19 VC-backed IPOs. (CB insights)

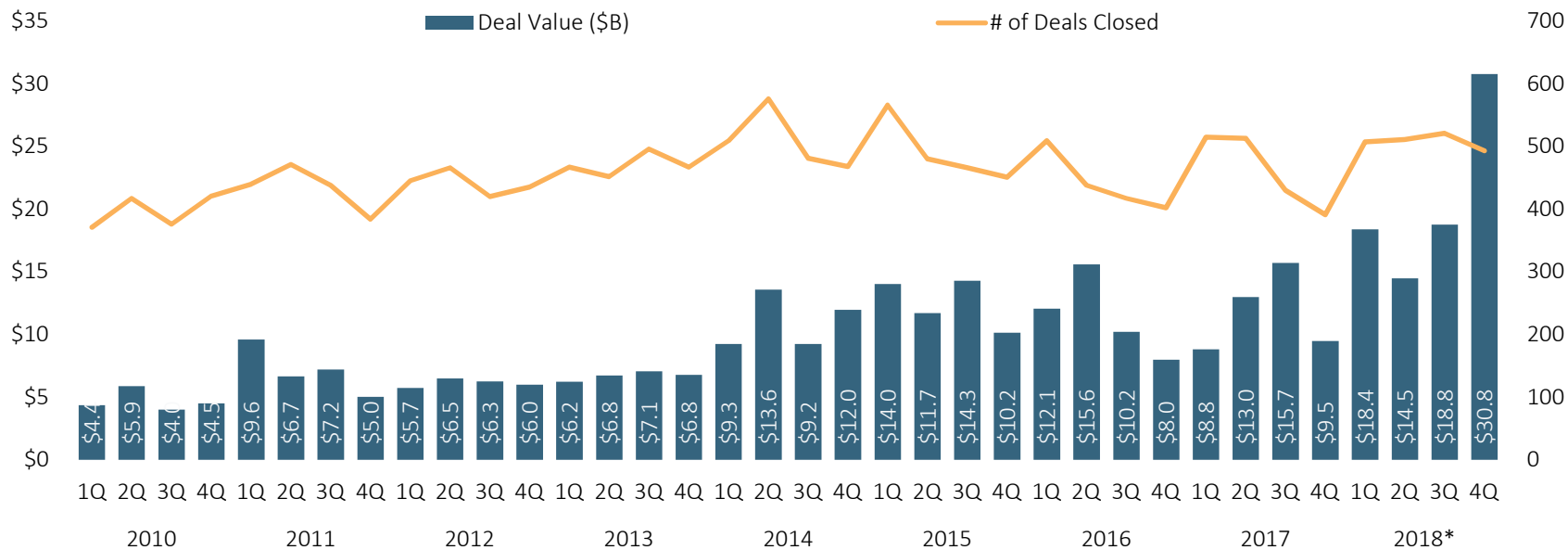
Rationale

- There may be a variety of different motivations for a late stage or pre-IPO private placement
 - Company may want to defer IPO and need to raise additional capital prior to the IPO
 - Company may want to take out early friends and family and angel investors and “clean up” capitalization table or provide partial liquidity for longstanding holders
 - Company may want to bring in strategic investors
 - Company may be advised that it should prepare itself for the IPO by gaining support and validation from key sector investors that are opinion leaders
 - Company and bankers may want to “de-risk” IPO by bringing in cross-over investors that will also invest in the IPO
 - Company may be advised that an up round will make higher IPO pricing easier for IPO investors to accept
 - May be quite sector dependent

MARKET TRENDS

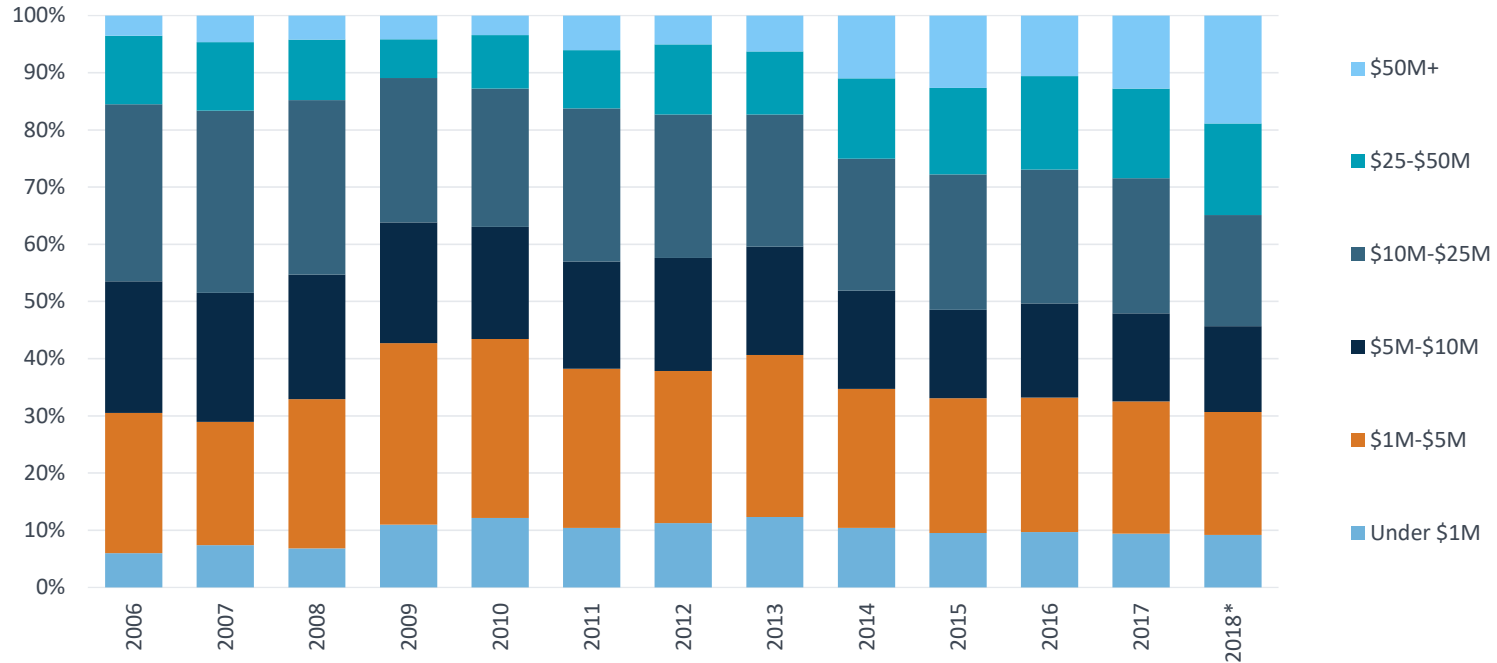
Market trends

US VC Late Stage Activity by Year



Market trends *(cont'd)*

US VC Late Stage Count by Deal Size



High profile pre-IPO private placements

FLEXPORT \$1B	 AUTOMATION ANYWHERE \$550M	 Palantir \$500M	 airbnb \$1.5B	 Spotify \$526M	 Pinterest \$367M
 snowflake \$540M	Opendoor \$725M	 Dropbox \$350M	 SPACEX \$1.0B	 snapchat \$1.8B	 UBER \$5.6B
 PELOTON \$550M	 magic leap \$794M	DOMO \$366M	 FANDUEL \$275M	 DRAFT KINGS \$300M	

LATE STAGE INVESTMENTS

Late stage investment characteristics

- Impact on structuring and negotiating
- Typically made into existing, relatively mature companies
 - Late stage
 - Proven product viability
 - Exhibits signs of increasing adoption and revenue growth
 - Focused on marketing and sales
 - Very late stage
 - Cash flow is dependable
 - Past initial hyper-growth period and reasonable to expect sale or IPO within 12 - 24 months

Late stage investment characteristics *(cont'd)*

- Larger and more diverse groups of existing shareholders
 - Founders, current/former management, employees, seed, family, high net-worth, early stage institutional venture and professional angels
 - Each group has different levels of involvement, varying rights and protections tied to equity and divergent objectives for investment
 - Founders/management may be significantly diluted by investment — need to create alternative incentives for them
 - Start-up, seed investors may desire quicker exit at lower valuation

Late stage investment characteristics *(cont'd)*

- By their nature, investments may require more extensive and complex due diligence
 - Current capitalization and issued/outstanding securities (accredited vs. non-accredited former employees)
 - Existing shareholder rights
 - Liabilities - complex credit facilities
 - IP - may not have hit the “radar” of larger companies or trolls until \$50mm in revenue; large enough to sue
- Control issues (above 20-30%) - subsidiary or affiliate status

Types of securities

- Late stage equity
 - Typically equity deals based on the previous A-D series of preferred
 - However, later stage deal can depart greatly from venture
 - Can be greater upside depending on liquidation preference
 - Key is calculation of preference, whether there is participation and whether/how many additional rounds to exit

Types of securities *(cont'd)*

- Alternative is to take debt that looks like equity and includes:
 - Interest payments to match PIK dividends
 - Mandatory prepayment on trigger events to match redemption rights
 - More financial control in terms of covenants
 - Possible security interest in assets of issuer
 - Convertibility features and warrant coverage
 - Complications involve intercreditor/subordination issues with other lenders, particularly financial institutions
 - Less up-side, particularly in IPO, and therefore utilized more in pre-sale transaction
 - Consider tax issues (treated as equity)

Types of securities *(cont'd)*

- Common stock versus preferred stock
 - “Growth equity” almost always preferred stock with preference on liquidation
 - Basis for preferred stock is previous series with departures in later stages for:
 - Conversion rights
 - Liquidation and participation with common stock in remainder (usually capped)
 - Dividend rights more often accrued and cumulative
 - Board representation and approval is also critical (look for over-representation of early series with lower preference trigger for returns)
 - Control of triggers for drags and tags
 - Common stock used for companies with simplified cap structures and if very close to exit (particularly IPO)
 - Depending on valuation and prior preferences, can give investor larger % and return
 - Can be used to “top up” ownership percentage after purchase of company issued securities (particularly through secondary)

Liquidation preference

- Liquidation preference of the investor's preferred stock
 - Typically senior to all other outstanding classes or series of common stock and preferred stock
 - Sometimes *pari passu* to an existing series of preferred stock, particularly if the investment is priced as a flat or up round (using the same or higher pre-money valuation as the previous financing round)
 - Typically includes all accrued and accumulated dividends in the liquidation value of the preferred stock
 - Usually participating (sharing in any residual liquidation value of the common stock on an as-converted basis)
 - If participating, is generally not capped in a down round investment, but usually capped (by dollar amount or multiple of return on investment) in a flat or up round investment

Dividend rights

- Dividend terms for preferred stock:
 - Typically accrue a fixed dividend on the original liquidation value, with the dividend rate typically higher than in early stage deals (which typically have lower fixed dividend rates if they accrue a dividend at all)
 - Are more likely than those in an early stage deal to be payable periodically in cash and, if not, are usually cumulative, unlike those in early stage deals, which are usually non cumulative even when they do accrue a dividend. In addition, the cumulative dividend is often compounding (earning a dividend on the accrued dividends) on a quarterly or annual basis (whether or not declared by the board)
 - Often allow accumulated dividends to be convertible into common stock or, in some cases, are payable in cash on conversion (rather than forfeited on conversion as with many early stage deals that have cumulative dividends)
 - Participating, with the right to share pro rata on an as converted basis in any dividends paid on the common stock

Redemption rights

- Redemption rights — much more common in late stage deals
 - Not preferred exit method because investor relies on upside return of their underlying common equity value rather than minimal return of redemption and risk of non-payment of redemption price if company is struggling
- Primary issues to consider:
 - What securities will be redeemed and how many shares?
 - Which particular stockholders will be redeemed or will redemption be pro rata for all stockholders?
 - Full redemption or partial redemption?
 - Tax implications of the redemption
 - Manner of redemption

Anti-dilution rights

- Specific issues for late stage private placements include:
 - Price for late stage investor that triggers rights, particularly if have to pay a much higher valuation
 - Full ratchet versus weighted average: can negotiate full ratchet if high valuation, however, this is very unusual; previous investors usually require weighted average using same formula as previous rounds
 - “Pay to play”: much less common in later stage rounds (unless down-round) but may be required as condition to consent from early investors; if don’t participate, then lose anti-dilution protection: late stage investor more likely to receive anti-dilution rights in such cases
 - Exempt securities: issuances that trigger anti-dilution; much more heavily negotiated in late stage; issuer often desires to use equity in acquisitions and third-party partnerships without triggering anti-dilution

Protective provisions – charter/contractual provisions

- Negotiate to include strong affirmative covenants
 - Financial and other information delivery rights
 - Registration rights and rights in M&A
 - Redemption rights
- Negotiate to include strong negative covenants
 - Specify the actions that the company may or may not take without specific vote of the class
 - Usually include all of the “ordinary course” provisions from venture — related to sales of company or assets, bankruptcy, expansion of option pool, IPO or sale
 - Expanded to include financial covenants, additional of debt, acquisition strategy, partnerships, management changes, etc.

Participation rights and restrictions

- Right of first refusal (“ROFR”)
 - Mirrors rights of previous investors to have the right to buy when designated stockholders sell
 - Issues around percentage trigger for stockholders who are subject to the right
 - Usual threshold is 1-5%; however, if retain same threshold, (a) aggregation of sales can have material impact and (b) may exclude senior management (if you don’t want them to sell out) because of dilution in round
 - Late stage investors typically not subject to ROFR
- Right of first offer
 - Typical right to have securities offered by the issuer first to investors prior to third parties

Participation rights and restrictions *(cont'd)*

- With later stage, because of lower % and higher valuation, can also include a right to buy-up to maintain ownership percentage in all securities issuances (including those that would previously be exempt)
- Particularly important because of use of equity, partnerships and for employee/management consideration
- Pricing is the key given typically high valuation for late stage (i.e., do the purchases outside of financings need to be at the investment valuation)
- Also make sure to add “evergreen” true-up provision to provide flexibility in terms of timing and deal terms

Transfer restrictions

- Right of first refusal
 - Somewhat unusual for late stage investor to be subject to ROFR (and offer first to company and other investors)
 - Investor does not want to limit liquidity options
 - Will push for rights to purchase when others sell to maintain % ownership
- Tag-along
 - Almost always secure tag-along rights in M&A
- Drag-along
 - Almost always negotiate for rights to drag other investors
 - Late stage investor will not want to be subject to the drag except under certain conditions; negotiate for control to approve the transaction that triggers the drag rights
 - Alternative is protective provision - blanket right to approve sale (or more likely sale below dollar threshold to return liquidation preference)
 - Consider who else is required to trigger drag (what stockholders groups/classes are required — effectively a block on sale)

Representations & warranties

- How much to rely on work of previous investors in diligence
 - Careful to distinguish between strategic and financial investors given risk profile and desired outcomes
 - Timing of last investment and composition of investors
- Usually include more detailed representations and warranties and disclosure schedules
 - Longer operating histories
 - More “material” agreements, partnerships, joint ventures
 - More complex balance sheets
 - U.S. regulatory compliance — issues like privacy and environmental matters
 - International compliance — issues like FCPA
 - Intellectual property issues

Secondary purchases

- Secondary purchases — often combine investment directly in issuer with purchase in secondary directly from existing stockholders
 - “Cross-purchase” structure
 - Less cash from investment available for company
 - Typically purchase of common stock from management and employees to provide liquidity
 - Can also purchase preferred from previous investors particularly those that need exit given LP demands
 - Note issues particularly with liquidation preferences and other terms not desirable to late stage investor
 - Can’t change charter rights of class but can change contractual rights
 - In contract rights, particularly important to ensure that you can bundle secondary shares with primary securities for co-sale, tag and registration rights

CONSIDERATIONS FOR CROSS-OVER FUNDS

Considerations

- Considerations
 - Deal structure and terms can be highly variable
 - Common stock, preferred stock, convertible preferred, though convertible preferred stock is the most common
 - Board representation
 - Affirmative and negative covenants
 - Information rights
 - Financial statement requirements
 - IPO/Qualified IPO provisions
 - M&A and IPO ratchet provisions
 - Time horizon
 - Pre-IPO investors may have a specific timeline in mind for the IPO and a target valuation

Considerations *(cont'd)*

- Will cross-over investors participate in the IPO?
 - Ideally, the pre-IPO round investors will be the “anchor orders” in the IPO
 - No ability in the U.S. to obtain and secure cornerstone investors
 - Only two options: either obtain an indication of interest from the cross-over investor that can be disclosed in the IPO prospectus, or do a concurrent private placement to the cross-over investor at the IPO price concurrent with the IPO
 - Maybe more uncertainty with the indication of interest option if the market remains volatile and IPOs price below stated ranges
- Did the cross-over investors receive confidential information during the pre-IPO process? Has that information been disclosed in the IPO prospectus? Are they cleansed of material nonpublic information?

INVOLVEMENT BY STRATEGICS

Transfer and investment restrictions

- Transfer to “competitors”
 - More heavily negotiated definition of competitors to whom investor may not transfer—current and future competitors
 - Negotiated “update” rights to list of competitors
- Related — negotiation of the right for strategic investor to make investment in competitors of company
 - Particularly important to issuer if investment is coupled with a strategic partnership or commercial arrangement
 - Key is definition of competitor — by type of product and/or by name —and update rights over time
 - Also negotiation regarding steps to be taken if investor buys into a competitor either directly or indirectly

Stand-still provisions

- Stand-still provisions more common in M&A transactions
- Sometimes asked of investors in late stage deals, particularly of strategics
 - Investor is obligated to refrain from actions that relate to acquisition of control of the issuer including making proposals to acquire the issuer, buying shares, or launching a proxy contest
 - Exceptions
 - Negotiated sale
 - Agreed-to-limits

Right of first look for M&A

- Right of first offer
 - Notice period
 - Negotiation period
 - Other potential rights
- Right of first refusal
 - Investor friendly
 - Chilling effect on competitive M&A
 - Terms of transaction

CONSIDERATIONS FOR FINANCIAL INTERMEDIARIES

Considerations for financial intermediaries

- Placement agents advising late-stage issuers may want to consider:
 - The terms of the engagement letter
 - Section 4(a)(2) or Rule 506
 - No individual investors
 - Closing deliverables
- Outreach
 - Use of teasers
- Datarooms and trandling the diligence process
- Company presentations and related issues

Considerations for financial intermediaries *(cont'd)*

- Provisions to include in securities purchase agreements between investors and company
 - Third-party beneficiary/reliance language
 - “Big boy” representatives
 - Suitability assessments to be made by investors
- FINRA Rule 5123, KYC and AML
- Allocating to high net worth accounts
- Including the company in investor conferences
- How can, or can, research be brought in?

PRIVATE SECONDARY MARKETS



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Secondary Market 2018 Retrospective

January 2019

Private company sponsored liquidity programs are thriving

Nasdaq Private Market (NPM) experienced record-setting growth in 2018, proving that private company secondary activity is not only commonplace – it is thriving. Annual transaction value almost quadrupled year over year to \$12 billion. For the first time, private company tender offers involving a third party purchaser outpaced company repurchase programs. Total programs also increased to 79 as NPM's client base grew significantly, attracting more new clients in 2018 than its total number of clients the year prior.

In this report, we will dive into a stand-out year in the private market, highlighting data we have collected as a leading provider in private tender offers and company repurchase programs and outlining themes that have emerged.

2018 easily surpassed 2017 as NPM's biggest year yet, with \$12 billion in transaction volume, which was driven by multiple billion dollar transactions, a new high-water mark in private company secondaries. The overall median transaction size dipped slightly to \$17.4 million as more companies, either earlier in their lifecycle or on a repeat basis, offered primarily employee focused liquidity. Since its inception in 2013, NPM has facilitated more than 230 transactions for private companies, facilitating \$19 billion in transaction volume, and supporting over 24,000 shareholders.

"Private companies see the advantages in Nasdaq Private Market's experience, client service, and sophisticated buyer network. By taking a proactive approach to structured liquidity programs, our clients can give their employees and investors an opportunity to realize value during the pre-IPO stage of their corporate lifecycle. We experienced record growth in 2018 as private companies look to our market-leading technology and expertise for their secondary liquidity programs," said Eric Folkemer, Head of Nasdaq Private Market.

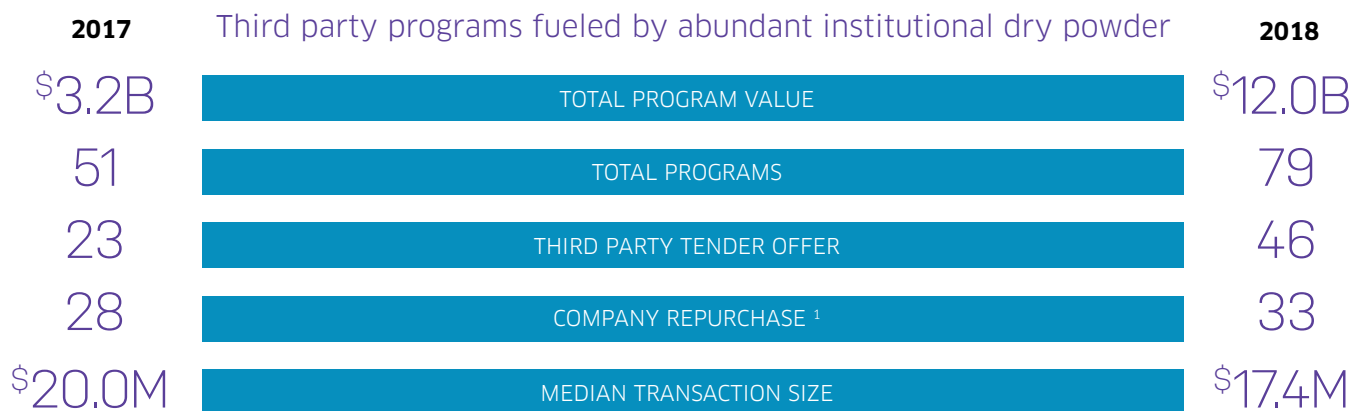
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Eric Folkemer,

Head of Nasdaq Private Market.

2018 Trends

Private company sponsored liquidity programs now commonplace
Demand from primary mega-rounds spill over into the secondary space



¹ Includes other private company services

Growing Client Base

NPM's client base as well as the industry for private company liquidity overall are expanding thanks to NPM's market-leading technology and client management service, in which each company program has dedicated specialists to assist the company with the transaction design, implementation, and process before, during and after the program.

Repeat clients rose to 22, indicating a strong demand for recurring liquidity programs, and the 49 new clients in 2018 surpassed last year's total number of clients. Almost half of all of the client transactions in 2018 were by companies 10 years or older, and the median funding stage was Series D. While approximately 38% of programs were for unicorn-valued companies, 82% of those transactions were valued at less than \$50 million, which demonstrates the control companies have over selectively offering liquidity to their employees or investors.

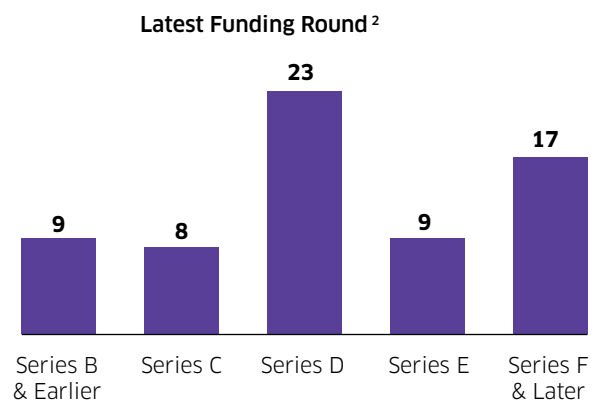
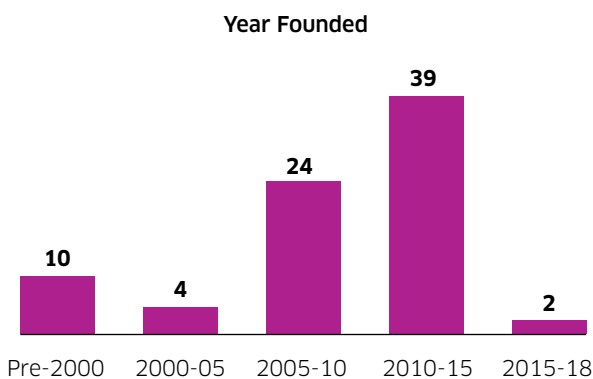
The diverse range in company maturity illustrates how NPM serves private companies at every stage of their lifecycle. Many companies are staying private longer, thanks in large part to the JOBS (Jumpstart Our Business Startups) Act of 2012, which changed the threshold at which an issuer is required to register a class of securities with the U.S. Securities and Exchange Commission from 500 shareholders to 2,000 shareholders.

NPM works with companies of all sizes and ages, but conducting liquidity programs at a younger stage in the company's lifecycle has become a noticeable trend. Indeed, the most significant shift in the private company secondary market is that companies are thinking about liquidity much earlier. While the median age of a private company has been 10 years over the last two years, we have found that the most common age range of companies coming to NPM in the past year to conduct their liquidity programs were six- or seven-years-old.

The more mature companies, typically around 10 years old, are coming to NPM for recurring liquidity as an alternative to liquidity through an initial public offering, or as a means to test pricing and buy-side demand.

Since its inception in 2013, NPM has facilitated over 230 transactions for private companies, facilitating \$19 billion in transaction value, and supporting over 24,000 shareholders.

Client Lifecycle



² 13 programs occurred after undisclosed financial activity

NPM is also working with mid-range companies in three general areas: rewarding employees; cap-table cleanup of misaligned shareholders; and, finding a strategic investor via NPM's investor network product to help carry them toward the next step in their company lifecycle. In addition, younger companies are using NPM's platforms to reward employees, to broaden their connections to attract new investors, and to better recruit and retain talented employees by becoming competitive in the marketplace.

Still, no matter the age of the company, employees are a core focus of the liquidity programs. With employees eligible to participate in 89% of all transactions in 2018, companies are using controlled liquidity as a tool to not only recruit and retain professionals, but also to reward them.

Secondary Demand Following Primary Mega-Rounds

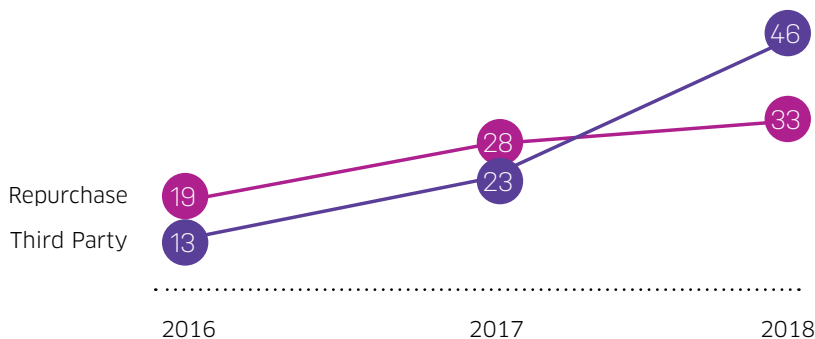
Demand for a secondary program is rising as companies are taking a more proactive approach to liquidity planning than in previous years, with over 50% of companies completing a program within four months of a recent financing round. Considering that it can take about two months for the average program to go from launch to close, many companies are conducting programs immediately following a funding round, often leveraging newfound demand or funds from a recent primary raise. It is not uncommon for companies to contact NPM before their primary rounds have concluded to begin planning their next liquidity program.

Mega-Rounds

As financing rounds continue to climb and competition to invest in high quality, high growth private companies increases, \$100 million "mega-rounds" are becoming increasingly common. In 2018, NPM supported multiple tender offers with transaction values of greater than \$1 billion.

NPM is capturing more large-scale business due to buyers who do not achieve their desired allocation in the financing rounds and look to accomplish that via secondaries. There are also companies growing their employee base or raising large rounds at a later stage that need to provide liquidity to a large pool of shareholders. These companies look to NPM for its streamlined technology, regulatory experience and operational integrity.

Significant Increase in Third Party Tender Offers



When Companies Conduct Liquidity Programs

50%

Completed a program within four months of a recent financing

50%

Completed a program after a primary raise of at least \$100M

Company Programs - Compared to Valuations

6.6%

Median offer price discount from recent primary

84%

Median offer price premium to 409a valuation

3%

Median percent of company valuation offered

Historically, we have seen shareholders take substantial discounts for a secondary sale of common shares from the preferred share pricing during a recent capital raise. We also found that in the past, the discount assigned to common shares in the secondary market was relatively small. When the markets are strong, NPM sees secondaries closer to preferred, which through 2018 for NPM was a median discount of 6.6%.

In 2018, we saw a meaningful shift in the primary driver of secondary activity in the market to third party purchasers from buybacks. This shift reflects two trends: 1. the continued strength of the private sector and investor demand; and 2. more companies taking an arms-length approach to pricing and allowing outside investors to determine pricing rather than the companies themselves. With the increasing demand and sophistication of both employees and investors and the market moving towards more fair market pricing, NPM is seeing growing interest in auction formats rather than tender offers. NPM's technology, infrastructure and processes supported multiple auctions last year. We anticipate even greater demand for the auction format from companies in 2019.

Institutional Dry Powder Fuels Third Party Programs

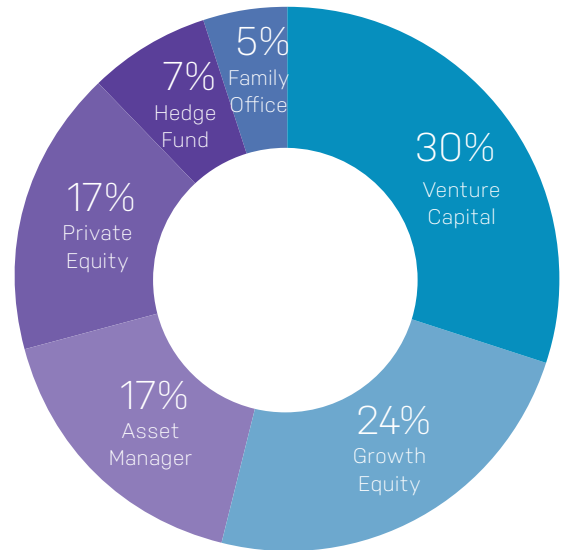
2018 was the first year that the number of transactions involving a third party purchaser was greater than the number of company repurchase programs. NPM's third party purchaser transactions jumped to 46 in 2018, surpassing the 33 buybacks, and up from 13 third party programs in 2016.

Programs with a third party purchaser were more successful in satisfying the desired allocation of the buyer, with a median 81% of the total offering value transacted by participating sellers, as compared to company repurchases at 64%.

Institutional investors are fueling third party purchase programs as buy-side demand for private companies grows. Nearly a third of NPM's institutional buyer network consists of venture capital firms, roughly one quarter are growth equity firms, and private equity and asset managers are each 17% of the buyer network.

NPM is providing access to its accredited buyer network comprised of experienced institutional investors actively seeking new secondary investment opportunities. In 2018, members of NPM's buyer network completed over 400 new investments, marking over 1,000 active investments in the general marketplace.

NPM Institutional Buyer Network



400+

New Investments in 2018 ³

1,000+

Active Investments ³

Total Offering Value that was Transacted

81%

Third Party Tender Offer
% of Offering Transacted ⁴

64%

Company Repurchase
% of Offering Transacted ⁴

³ Information gathered from PitchBook to reflect 2018 activity of NPM Buyers in the general marketplace

⁴ Percent of the actual dollar-amount transacted from the total amount offered in the transaction

Summary

NPM's exponential growth in 2018 suggests that the private company secondary market is flourishing. As mega-rounds and venture capital funding continue to reach record levels, investors, company executives, and founders are focused more than ever on capital deployment and bringing liquidity to private companies. NPM's innovative technology and expertise in client management and liquidity programs deliver the solutions that investors are looking for to more private companies and private funds than ever before.

Please contact your team at Nasdaq Private Market with any questions about our report or to discuss market trends and how we can partner with you on your secondary programs.

Visit www.nasdaqprivatemarket.com to download the Private Company Secondary Market 2018 Retrospective Infograph.

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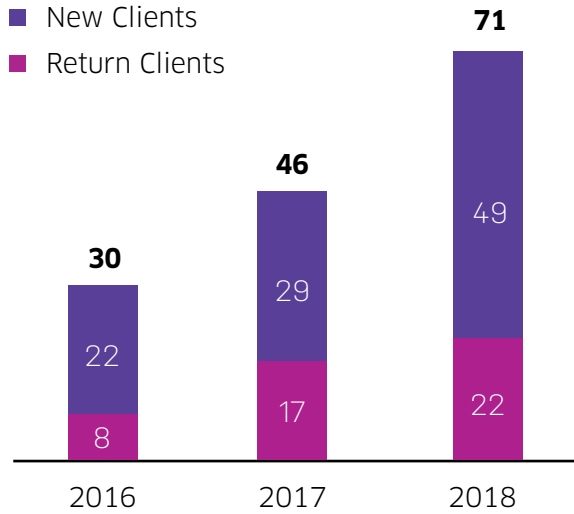
Private Company Secondary Market 2018 Retrospective

2018 Trends

Private company sponsored liquidity programs now commonplace
Demand from primary mega-rounds spill over into the secondary space
Third party programs fueled by abundant institutional dry powder

2017		2018
\$3.2B	TOTAL PROGRAM VALUE	\$12.0B
51	TOTAL PROGRAMS	79
23	THIRD PARTY TENDER OFFER	46
28	COMPANY REPURCHASE ¹	33
\$20.0M	MEDIAN TRANSACTION SIZE	\$17.4M

Nasdaq Private Market Client Base



62

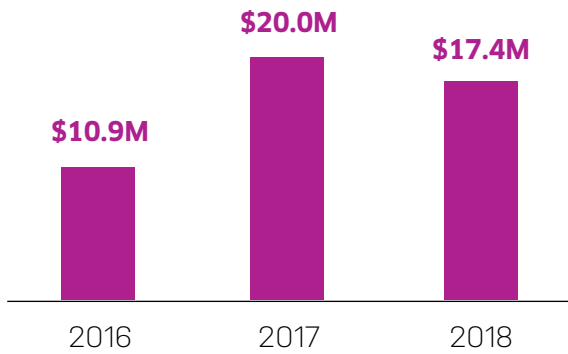
NPM clients have reached a \$1B valuation while private (unicorn)²

120

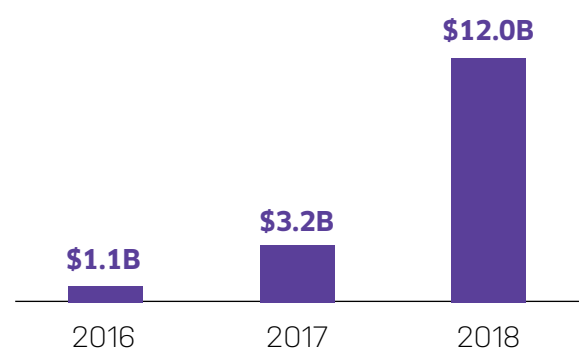
programs for unicorn clients²

A Look into the Secondary Market (2016 - 2018)

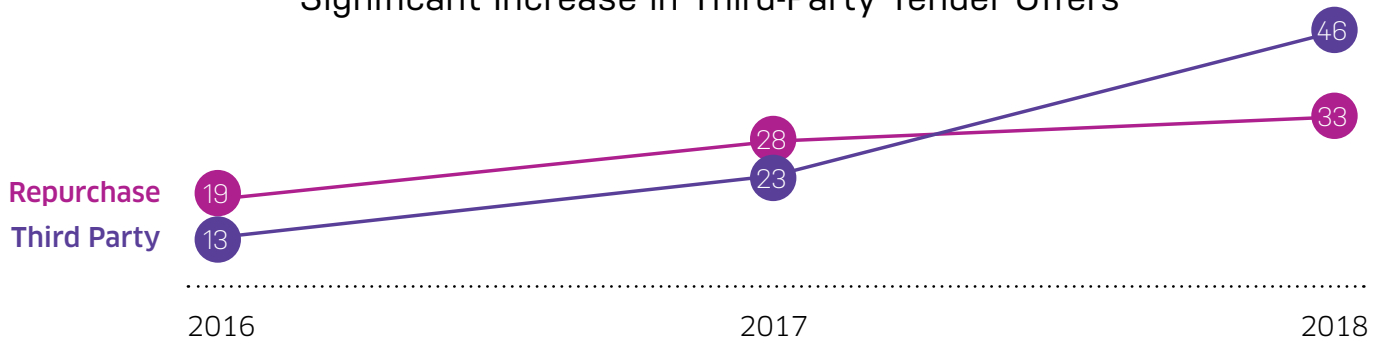
Median Transaction Size



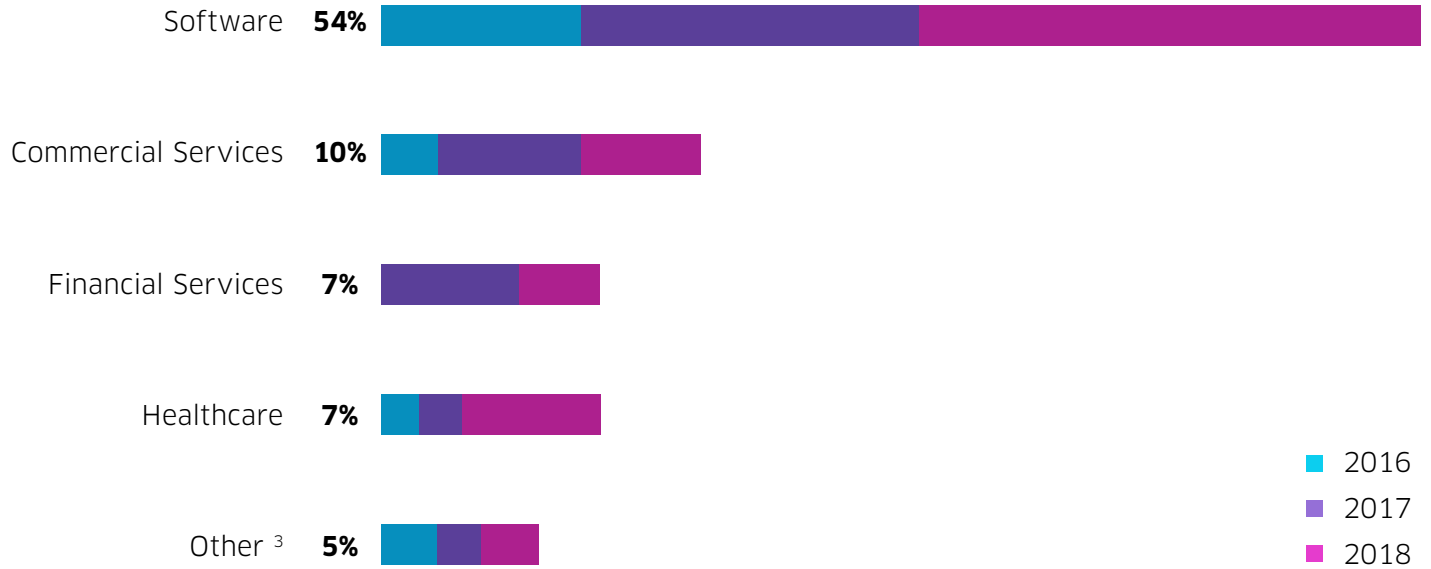
Transaction Value



Significant Increase in Third-Party Tender Offers

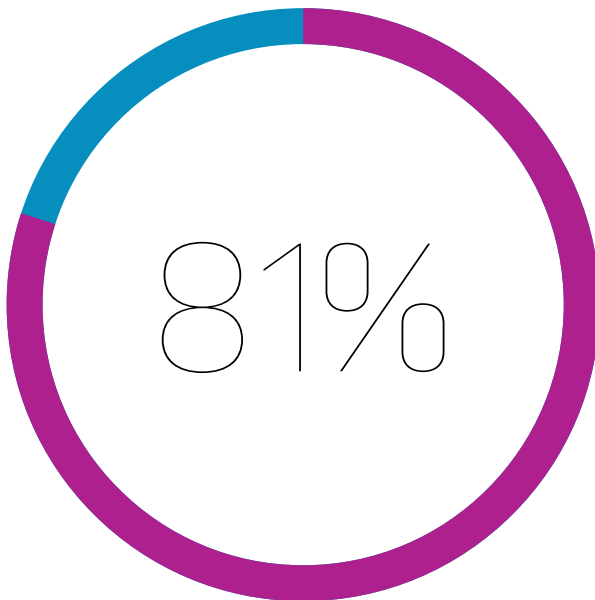


Top 5 Industries (2016 – 2018)

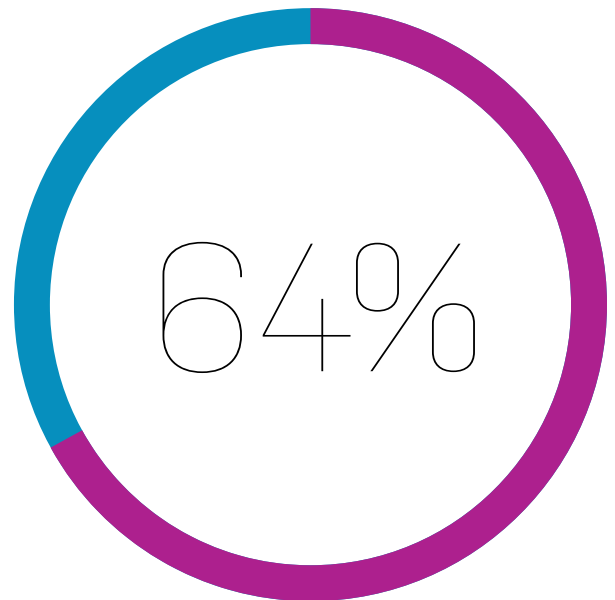


Total Offering Value that was Transacted

Third Party Tender Offer
% of Offering Transacted⁴

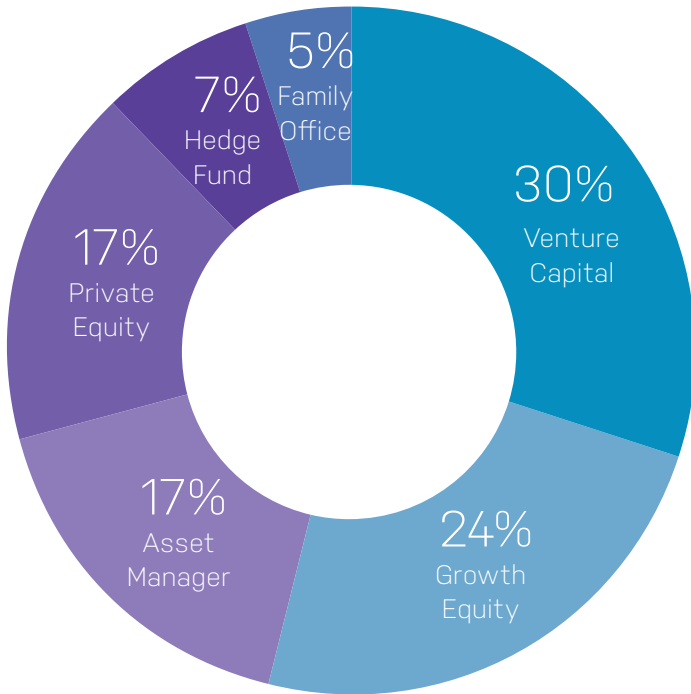


Company Repurchase
% of Offering Transacted⁴



NPM Institutional Buyer Network

NPM works with an active, high quality buyer network



400+

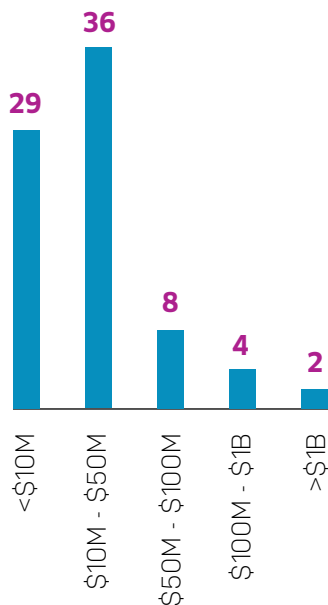
New Investments in 2018 ⁵

1,000+

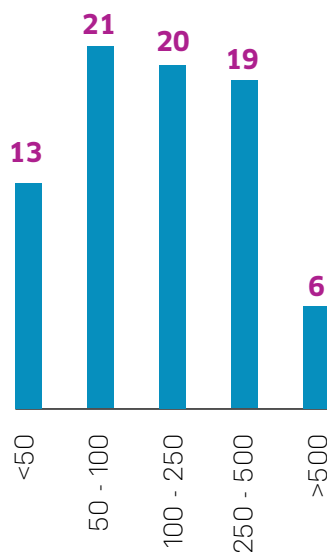
Active Investments ⁵

Company Programs - by the Numbers

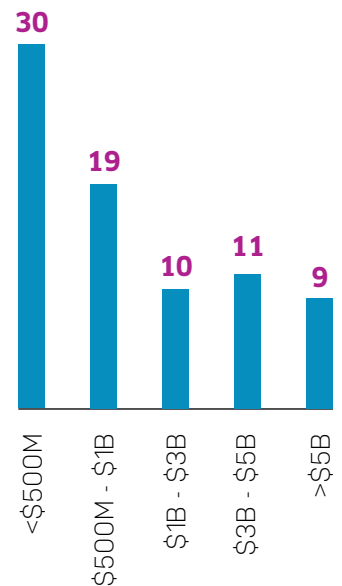
Programs by Transaction Value



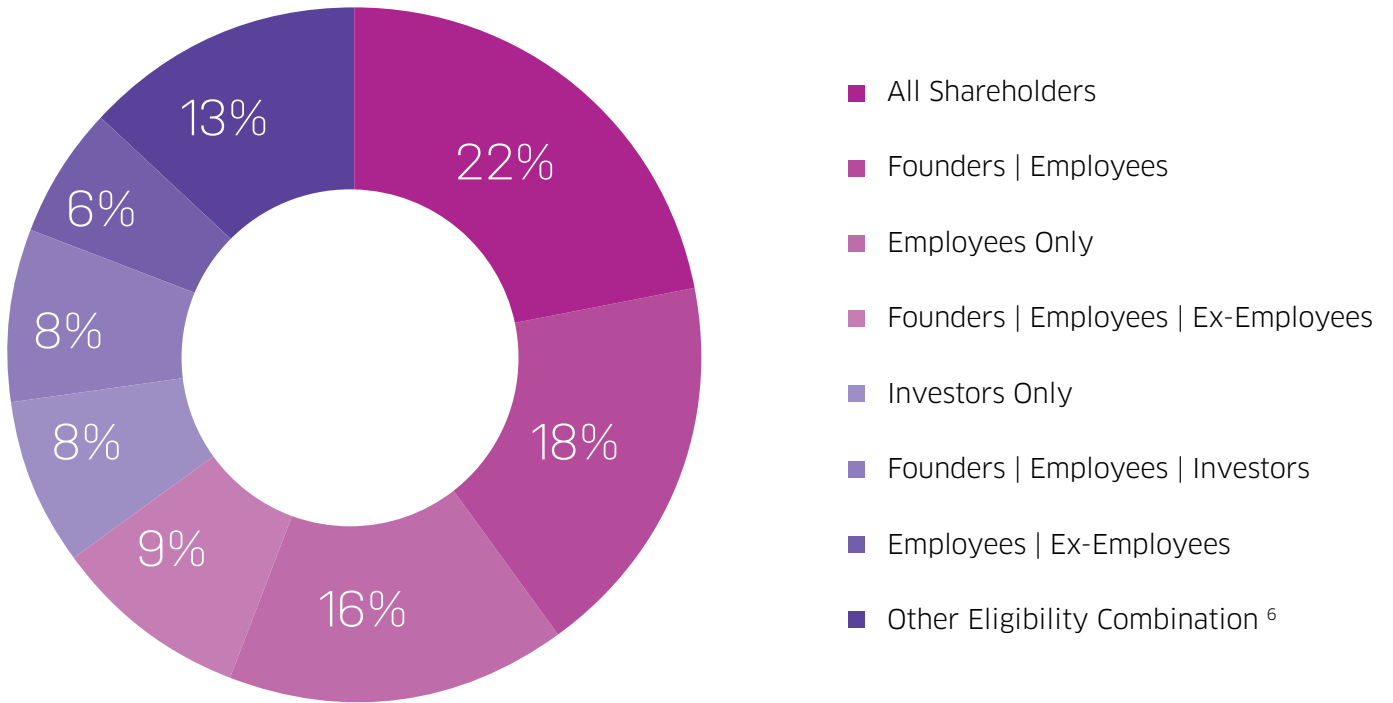
Programs by Eligible Shareholders



Programs by Valuation



Most Common Program Eligibility



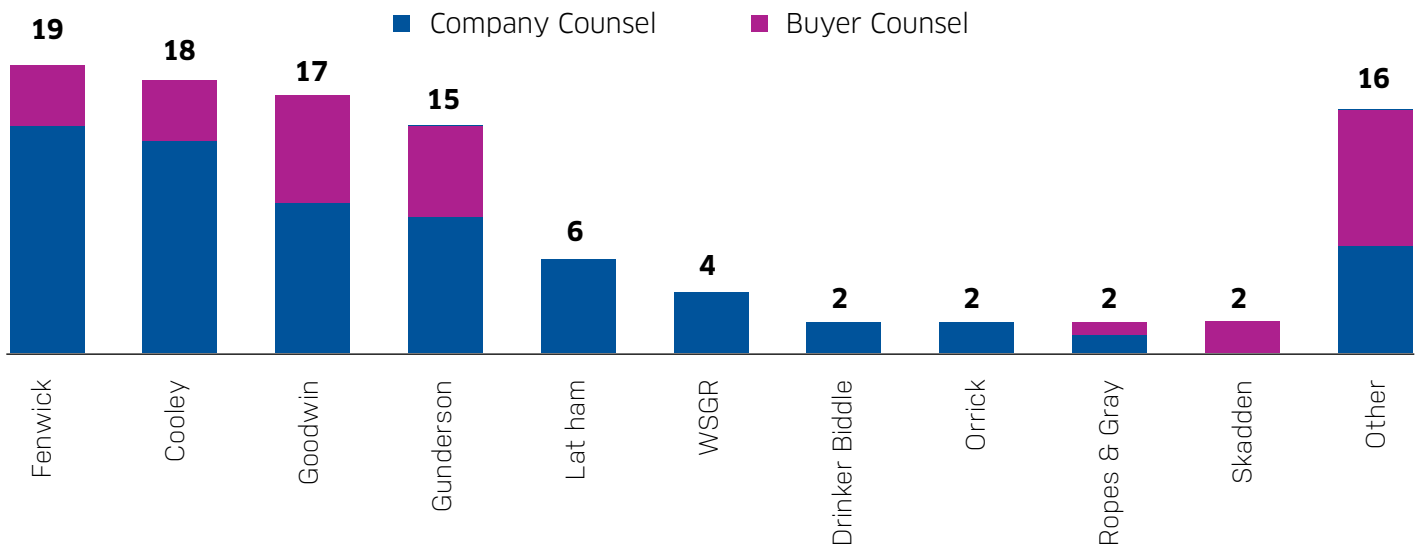
89%
of companies allowed
employees to sell

63%
of companies allowed
founders to sell

51%
of companies allowed
institutions and early
investors to sell

45%
of companies allowed
ex-employees to sell

Law Firms Leading Private Company Transactions



When Companies Conduct Liquidity Programs

50%

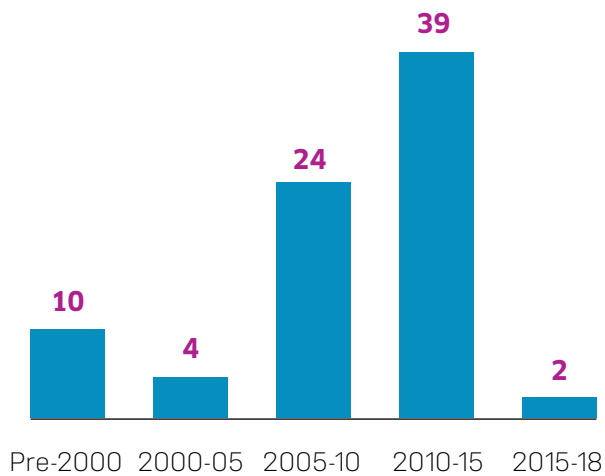
Completed a program within four months of a recent financing

50%

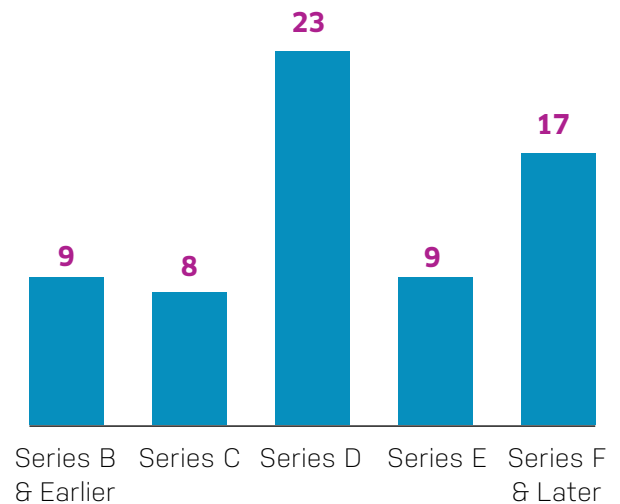
Completed a program after a primary raise of at least \$100M

Client Lifecycle

Year Founded



Latest Funding Round ⁷



Company Programs - Compared to Valuations

6.6%

Median offer price discount from recent primary

84%

Median offer price premium to 409a valuation

3%

Median percent of company valuation offered

¹ Includes other private company services

² Activity since 2013 with valuation data aggregated from NPM and SecondMarket platforms, CB Insights, PitchBook. Data collected from the SecondMarket platform may include transactions conducted through current and former affiliates of SecondMarket

³ Transportation; Consumer Durables

⁴ Percent of the actual dollar-amount transacted from the total amount offered in the transaction

⁵ Information gathered from PitchBook to reflect 2018 activity of NPM Buyers in the general marketplace

⁶ Founders | Investors; Founders | Ex-Employees | Investors; Employees | Ex-Employees | Investors; Ex-Employees Only

⁷ 13 programs occurred after undisclosed financial activity



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0064-Q19

Various securities regulations including, but not limited to, exemptions from the securities registration requirements in the United States incorporate limitations on the types of investors that may participate in a transaction. In many cases, financial tests may be used as a proxy for sophistication. We describe below the most important categories to consider for US transactions.

Regulation D: Accredited Investors

Source: Rule 501 of Regulation D

- Banks and savings and loan associations.
- Registered brokers or dealers.
- Insurance companies.
- Registered investment companies, business development companies, small business investment companies.
- Employee benefit plans established by a state or its subdivision with assets exceeding \$5 million.
- ERISA plans where the investment decision is made by a plan fiduciary, or if the plan has assets exceeding \$5 million. (Or if a self-directed plan, investment decisions are made by accredited investors.)
- Private business development companies under the Investment Advisers Act.
- Corporations and other entities with assets in excess of \$5 million.
- Director, executive officer or general partner of the issuer of the securities being offered (or any director, executive officer or general partner of a general partner of that issuer).
- Natural person whose individual net worth, or joint net worth with that person's spouse, exceeds \$1 million.
- Natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years (and has a reasonable expectation of reaching the same income level in the current year).
- Any trust, with total assets in excess of \$5 million, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a "sophisticated person."
- Any entity in which all of the equity owners are accredited investors.

Institutional Accredited Investors: Regulation D

This category is not a defined term in Regulation D. Instead, an offering document may limit sales of the applicable securities solely to the accredited investor categories that are institutional in nature (i.e., to those described in Rule 501(a)(1), (a)(2), (a)(3) or (a)(7)).

Rule 144A: Qualified Institutional Buyers

Source: Rule 144A(a)

Any of the following that owns and invests at least \$100 million in securities of unaffiliated entities:

- Insurance companies.
- Registered investment companies (subject to special aggregation rules relating to fund families) or business development companies.
- Licensed small business investment companies.
- Employee plans established by a state or a subdivision.
- ERISA employee benefit plans.
- Certain trust funds where the trustee is a bank or trust company and where the participants are certain institutions.
- Business development companies.
- Corporations and other entities.
- Registered investment advisers.
- Registered broker-dealers, acting for their own accounts or the accounts of other QIBs, that own and invest at least \$10 million in securities of unaffiliated issuers.
- Any entity, all the equity owners of which are QIBs, acting for its own account or the accounts of other QIBs.
- Any bank, savings and loan or non-US bank or savings and loan that owns at least \$100 million in securities of unaffiliated issuers that are not affiliated with it and that has an audited net worth of at least \$25 million.

Major US Institutional Investors: Securities Exchange

Source: Rule 15a-6 under the Securities Exchange Act

- A US institutional investor that has, or has under management, total assets in excess of \$100 million (for purposes of determining the total assets of an investment company under this rule, the investment company may include the assets of the family of investment companies of which it is a part).
- A registered investment adviser that has total assets under management in excess of \$100 million.
- Must be:
 - A registered investment company; or
 - A bank, savings and loan association, insurance company, business development company, small business investment company or certain employee benefit plans; a private business development company (as defined in Rule 501(a)(2)); a 501(c)(3) entity; or a trust.

Various securities regulations including, but not limited to, exemptions from the securities registration requirements in the United States incorporate limitations on the types of investors that may participate in a transaction. In many cases, financial tests may be used as a proxy for sophistication. We describe below the most important categories to consider for US transactions.

Qualified Purchasers: Investment Company Act

Source: Section 2(a)(51) of the Investment Company Act

- Any natural person who owns at least \$5 million in investments.
- Any company that owns at least \$5 million in investments and that is owned by or for two or more natural persons who are related (or foundations or trusts established for their benefit).
- Certain trusts established for the investors in the two prior bullets.
- Any person, acting for its own account or the account of other qualified purchasers, who owns and invests at least \$25 million in investments.

Knowledgeable Employees: Investment Advisers Act

Source: Rule 3c-5 under the Investment Advisers Act

- An executive officer, director, trustee, general partner, advisory board member, or person serving in a similar capacity, of the investment company or an affiliated management person.
- An employee of the investment company or an affiliated management person who participates in the investment activities of the investment company or its affiliates, provided that the individual has performed these duties for at least one year.

Qualified Clients: Investment Advisers Act

Source: Rule 205-3 under the Investment Advisers Act

- A natural person or a company that has at least \$1 million under the management of the investment adviser.
- A person or a company that the investment adviser reasonably believes either:
 - Has a net worth (together with a spouse) of more than \$2.1 million (as of August 15, 2016); or
 - Is a “qualified purchaser” under the Investment Company Act.
- A natural person who is:
 - Part of the investment adviser’s management; or
 - An employee of the investment adviser who participates in the investment activities of such investment adviser and has had such duties for at least one year.

Qualified Clients: Investment Advisers Act

Source: Rule 205-3 under the Investment Advisers Act

- Entities with more than \$10 million in assets (or an entity guaranteed by such an entity).
- Individuals with at least \$10 million invested (or \$5 million if the individual is hedging).
- Entities with a net worth of at least \$1 million that are hedging commercial risk.
- Financial institutions.
- Insurance companies.
- Registered investment companies and similar non-US entities.
- Commodity pools with at least \$5 million in assets under management.
- ERISA plans with assets of at least \$5 million (or that have investment decisions made by a registered commodity pool adviser, commodity trading adviser or a financial institution or insurance company).
- US federal, state and non-US government entities.
- US registered broker-dealers and similar non-US entities.
- Futures commission merchants and similar non-US entities.

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Deciding Among Exempt Offering Alternatives

In recent years, there has been a proliferation of exempt offering alternatives. In advising clients regarding which exempt offering alternative may best meet their objectives, we often suggest that they consider, among other things, the amount of capital they seek to raise, whether the ability to use general solicitation or the ability to test the waters is important to their distribution plans, which categories of investors are most likely to participate in the proposed offering, the constraints on resales of the offered securities by investors, and whether state securities registration will be required. We have organized the comparative chart to frame the answers to these questions for issuers and their financial intermediaries.

Exemption	Section 3(a)(11)	Rule 147	Rule 147A	Section 4(a)(2)	Rule 504 Regulation D
Is there a dollar limit?	None.	None.	None.	None.	\$5 million within prior 12 months.
Are there filing requirements?	None.	None.	None.	None.	File Form D with SEC not later than 15 days after first sale. Filing not a condition of the exemption.
Are there restrictions on the manner of offering?	No limitation other than to maintain intrastate character of offering.	No limitation other than to maintain intrastate character of offering.	General solicitation permitted provided that sales are made only to residents of the state or territory in which the issuer is resident. Offers may be made to out-of-state residents.	No general solicitation or general advertising.	No general solicitation or general advertising unless registered in a state requiring use of a substantive disclosure document or sold under state exemption for sales to accredited investors with general solicitation.
Are there issuer and investor requirements?	Issuer and investors must be resident in state. No limitation on number of investors.	Issuer must be resident in state, using “principal place of business” and jurisdiction of organization to determine residency, and meet at least one “doing business” requirement. Investors must be resident in state, using “principal place of business” to determine residency. No limitation on number of investors.	Issuer must be resident in state, using “principal place of business” to determine residency, and meet at least one “doing business” requirement. Investors must be resident in state, using “principal place of business” to determine residency. No limitation on number of investors.	Investors must meet sophistication and access to information test so as not to need protection of registration.	Available to non-reporting companies only if they are not investment companies or blank check companies. Certain “bad actors” are disqualified from participating in Rule 504 offerings.
Are there resale restrictions?	Securities must rest within the state.	Limits on resales to persons residing within the state or territory of the offering for 6 months.	Limits on resales to persons residing within the state or territory of the offering for 6 months.	Restricted securities.	Restricted unless registered in a state requiring use of a substantive disclosure document or sold under state exemption for sale to accredited investors with general solicitation.
Are the securities exempt from blue sky?	Need to comply with state blue sky laws by registration or state exemption.	Need to comply with state blue sky laws by registration or state exemption.	Need to comply with state blue sky laws by registration or state exemption.	Need to comply with state blue sky laws by registration or state exemption.	Need to comply with state blue sky laws by registration or state exemption.

Type of Offering	Rule 506(b)	Rule 506(c)	Tier 1 Regulation A	Tier 2 Regulation A	Regulation Crowdfunding
Dollar Limit	None.	None.	\$20 million within prior 12 months but no more than \$6 million by selling security holders.	\$50 million within the prior 12 months but no more than \$15 million by selling security holders.	Up to \$1.07 million in a 12-month period.
Filing Requirement	File Form D with SEC not later than 15 days after first sale.	File Form D with the SEC not later than 15 days after first sale.	File test-the-waters documents, Form 1-A, any sales material and report of sales and use of proceeds with the SEC.	File test-the-waters documents, Form 1-A, any sales material and report of sales and use of proceeds with the SEC. Issuer subject to ongoing reporting requirements.	Requires the preparation of a Form C, which resembles a Form 1-A.
Manner of Offering	No general solicitation or general advertising under Rule 506(b).	General solicitation permitted provided that all purchasers are accredited investors.	“Testing the waters” permitted before and after filing Form 1-A. Sales permitted after Form 1-A qualified.	“Testing the waters” permitted before and after filing Form 1-A. Sales permitted after Form 1-A qualified.	Offering must be made solely through a platform.
Issuer and Investor Requirements	Unlimited number of accredited investors and 35 non-accredited investors that are sophisticated.	Under Rule 506(c), all purchasers must be accredited investors. Issuer must take reasonable steps to verify accredited investor status. Certain “bad actors” are disqualified from participating in Rule 506(c) offerings.	Issuer must be eligible issuer. No investor requirement.	Issuer must be eligible issuer. No investor requirement, but investors who are natural persons and are not accredited investors are subject to an investment limit.	Issuers that are not reporting companies, not funds and not subject to disqualification.
Restriction on Resale	Restricted securities.	Restricted securities.	Not restricted securities.	Not restricted securities.	Securities sold in an offering are subject to certain transfer restrictions for 1 year.
Blue Sky Exemption	Need to comply with state blue sky laws by registration or state exemption.	Need to comply with state blue sky laws by registration or state exemption.	Subject to state blue sky laws regarding pre-offering review, filing, and anti-fraud.	Not subject to state blue sky laws regarding pre-offering review but subject to state blue sky filing and anti-fraud requirements.	No need to comply with state blue sky laws.

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