Nasdaq Private Market

Secondary Market 2017 Retrospective

2017 trends on Nasdaq Private Market

Private liquidity went mainstream as an accepted alternative option

VC-fueled secondary "megadeals"

Geographic shift in participation from West Coast to East Coast

Foreword

Dear Partners,

2018 will continue to be a transformational year for the secondary private markets. I am pleased to present our secondary market 2017 retrospective, including trends, data and a few predictions. At Nasdaq Private Market, we are constantly reimagining the markets of tomorrow. Our offering is a combination of technology and business innovation, created as a direct response to the radical changes in the market and regulatory environments. 2017 was a defining year for the private market and solidified that companies choosing to stay private longer is not a trend but today's new reality. Companies are seeking alternatives and to author their own roadmap. They are now enabled due in part to the continued strength of venture investments, the JOBS Act and the evolution of partial pre-IPO liquidity. With leadership and expertise in the market, Nasdaq Private Market's vision is to further enable this new era of liquidity. We are focused on helping companies plan ahead and proactively manage their liquidity roadmap, and through our partnership, bring new possibilities.

Please contact us with any questions about this report or to discuss the future of the private markets.

Regards,
Eric

Eric Folkemer
Head of Nasdaq Private Market

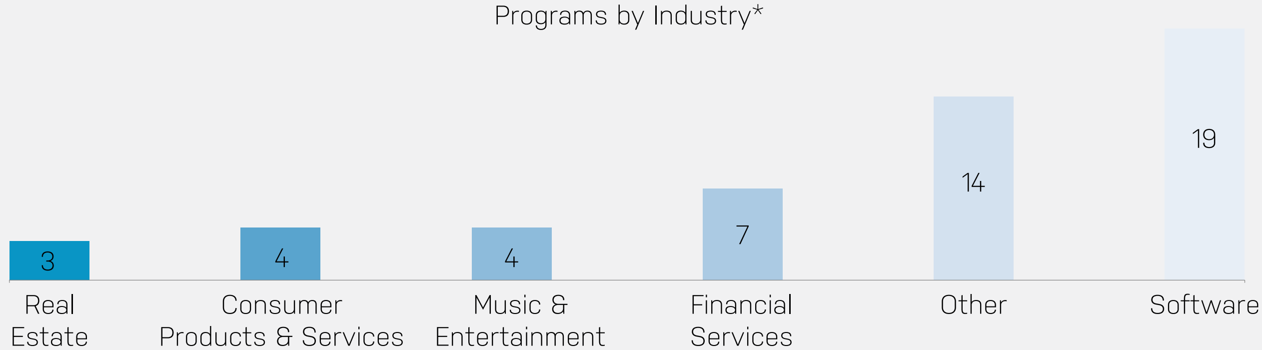
The Year Liquidity Went Mainstream

2017 was a record-breaking year for Nasdaq Private Market. If you are following the private market, you know that private secondary transactions were up in volume and value. Global VC investments are at an all-time record in terms of dollars, secondary fundraising in dedicated funds continue to surge in value raise, and the number of VC-backed private companies exiting through M&A and IPOs continue to decline – allowing founders and management to ponder this new reality for private companies.[1] In this report, we will dive into a notable year in the private market highlighting collaboration with the lawyers on the front lines of private company transactions, data we have collected as a market leader in private tender offers and buybacks, and themes that emerge from the data. We'll slice the data in various ways to show you whether your organization resembles the profile for controlled liquidity.

> It was the biggest year yet for NPM with $3.2 billion in private transactions, a 3x increase from 2016.

> “For years, there have been various markets for sales of secondary shares, generally aimed at helping employees and early investors take some cash out before an initial public offering. What has changed is the scale and frequency of the deals, with big transactions fueled by supersize valuations and easy access to funds amid low interest rates.”[2]

Programs by Industry*



*Programs on Nasdaq Private Market in 2017

1. *Pitchbook*, “Total Venture Capital Dollars Invested in 2017 On Track to Reach Decade High” (October 10, 2017)

2. *Wall Street Journal*, “The Path to Silicon Valley Riches: Stake Sale” (November 19, 2017)

It was the biggest year yet for Nasdaq Private Market with $3.2 billion in private transactions, a 3x increase from 2016. This meaningful increase was driven by 51 total transactions facilitated by Nasdaq Private Market in 2017, a 60% increase from 2016. Repeat client programs grew in 2017 – to 21, up from 8 in 2016 – as demand for liquidity increased and our technology and high-touch service continued to meet client expectations. We are pleased to go into 2018 as a market leader in guiding clients grappling with the complexities in offering liquidity. We leverage our market experience and best practices to create a structure and program designed to drive efficiency and execution success across the company, shareholders and buyer(s).

As we work with private companies to offer tailored and efficient solutions for their needs, most clients are treating the private market as one of three viable options, along with exploring an IPO or M&A exit. The continued growth of the private markets, and the ability to hold repeatable liquidity events like many of our clients have done this year, has made the concept of remaining private indefinitely a more attractive option for today's private companies. For many of our clients, the ability to provide controlled liquidity to employees and early shareholders eases the pressure of having to IPO or pursue an acquisition too early, allowing them to focus on growing their business.

In 2017, the secondary market certainly benefited from the significant size of primary rounds being raised by late stage VC-backed private companies. Many of those large rounds were accompanied by follow-on tender offers to allow institutional investors to reach ownership targets, which Nasdaq Private Market facilitated on behalf of its clients and their investors. Additionally, this year proved that third party tender offers were better than company buybacks in meeting seller demand. The combination of primary and secondary transactions offered companies the fuel needed to drive growth, while rewarding shareholders that may have a significant amount of their net worth tied up in illiquid stock holdings. The robust private market in 2017 led to a record breaking year for Nasdaq Private Market and helped propel us to over 150 closed programs in our short history. With a large number of companies remaining private and continued buildup of capital from institutions, we anticipate that 2018 will line up to be another massive year for the private secondary market.

With buyers standing ready to deploy capital, we foresee the activity picking up in 2018. "There's a lot of dry powder," Patrick Adefuye, Preqin's head of secondaries said. "Secondaries have raised big funds - there's a lot of money to put into the market. In the next two years there will be increasingly more activity in the market."[3]

Historically our clients have been late-stage, Silicon Valley based companies, this year, about half of the companies with whom we worked were headquartered outside of the Bay Area, with some companies older than 30 years old.

3. *Institutional Investor, "It's Becoming a Seller's Market for Secondary Private Equity Interests" (May 23, 2017)*

Private Company Liquidity: An Outside Counsel Perspective

In this section, we feature insights from some of the attorneys that advise private companies whom we have worked with this year to highlight key trends in private company liquidity. Featuring Ryan Dzierniejko, Partner, Skadden; Jamie Hutchinson, Partner, Goodwin Procter; Phyllis Korff, Of Counsel, Skadden; James Lee, Partner, K&L Gates; and Rachel Proffitt, Partner, Cooley.

Reasons for Conducting a Liquidity Program

There is often a misconception that private company liquidity is about employees, founders or early investors cashing out their holdings in place of an IPO or acquisition. In reality, for most private companies partial liquidity is about having the ability to focus on growing their businesses while allowing shareholders realize some of the value of their equity. “Private transactions are really about managing growth, retention and attracting talent,” explains James Lee of K&L Gates. “[With partial liquidity] these companies can control their destiny a little more.”

Current employees comprised roughly 73% of the eligible seller pool for transactions conducted on the Nasdaq Private Market platform this year. We also saw more companies running recurring liquidity programs for their employees, in some cases more than one per year. Jamie Hutchinson of Goodwin Procter says his firm has handled more private tender offers than ever before: “I think [liquidity programs] have become mainstream. It is now an accepted tool in the toolbox for private companies to retain and reward employees for their hard work and provide liquidity for early investors.”

A Broader Class of Liquidity Candidates

Perhaps the most noticeable shift on our platform this year has been in the types of private companies conducting tender offers. Whereas historically our clients have been largely late-stage, Silicon-Valley based companies, this year, about half of the companies we worked with were headquartered outside of the Bay Area, with some companies older than 30 years old.

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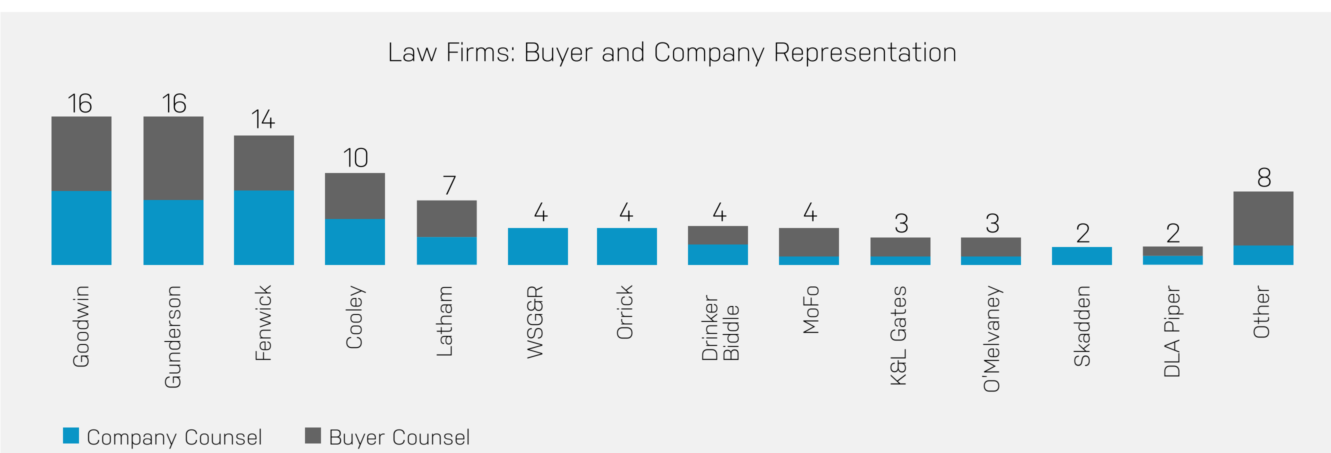
> – Jamie Hutchinson, Partner, Goodwin



"I think the entire landscape has shifted," says Ryan Dzierniejko of Skadden Arps. "It's not only the West Coast now. There is a tremendous amount of start-up activity on the East Coast, including a number of so-called unicorns. I don't see that trend slowing down any time soon." Over half the deals on the Nasdaq Private Market platform in 2017 came from companies located outside of California.

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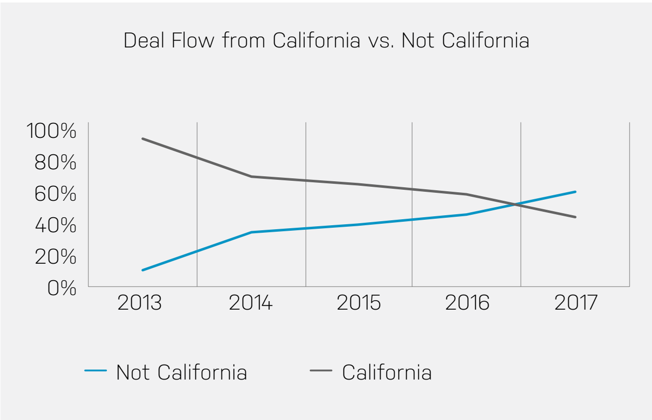
New Transaction Structures

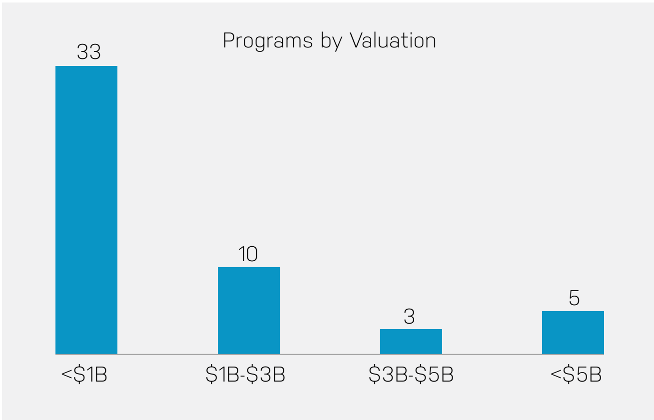
This year we also saw wider variation in the types of programs that clients conducted, which speaks to the evolving liquidity needs of private companies. For instance, we worked with a few companies tackling the issue of 10-year option expiration cliffs for their most tenured employees and helped them design programs tailored to resolve that problem. Rachel Proffitt of Cooley says that all of her private company clients have unique situations impacting why and how they choose to design a program to meet their liquidity objectives: "There is always the discussion of, okay, to whom do we open up this liquidity? Is it employees to help with retention, or the long-standing angel investors to facilitate a clean up the cap table or a refresh of the investor base? There are a lot of variables and considerations, and it is our job to help educate them," says Proffitt. Proffitt warns that as their shareholder-base grows, private companies need to be mindful of putting processes in place to mitigate future liquidity issues. "Private companies have spent tons of hours and, frankly, dollars managing data production and process," Proffitt says. This is where having an experienced partner and technology can help minimize the administrative burden.

The Future of Private Company Liquidity

While the pipeline of private companies looking to conduct liquidity programs in 2018 is strong, the rebound of global IPO's leads us to speculate how that might impact the private market. The last few years have shown us that the lines between public and private continue to blur, and the decision to go public



*Programs on Nasdaq Private Market in 2017



*Programs on Nasdaq Private Market in 2017 is more a question of timing rather than need for liquidity. "As a company, having [liquidity] options for your best path forward is ideal," says Phyllis Korff of Skadden Arps. The cost and reporting requirements of being public can be daunting to younger companies that are still developing their business and "up until fairly recently, there haven't really been many alternatives," says Korff. Controlled liquidity programs offer a viable alternative, enabling private companies to choose if and when they want to go public.

What Are People Talking About in the Secondary Market?

We launched the Nasdaq Private Market Resource Center in 2017 and are very pleased with its popularity and the chance to partner with some knowledgeable attorneys. We produce short video clips at Nasdaq Marketsite - in Times Square - featuring our partners to discuss relevant legal and regulatory topics that impact private markets in general. We expertly edit the videos, and share with our partners prior to their posting to the Resource Center and distributing via Nasdaq social media channels (we welcome the partner to do the same)! We are excited to create a site with useful content and look forward to producing more interesting videos in 2018.

Here are the top five videos on the Resource Center in 2017… who will be the top 2018 interview?

Private Placement Exemptions: Rule 506

Direct Listings - An Overview

Overview of Rule 701

Equity Compensation - Underwater Stock Options

Private Company Secondary Liquidity - The Mechanics