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EXPERT INTERVIEW

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Andrea Walne, GP at Manhattan Venture Partners, on getting on the cap table

TEAM

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By **Jan-Erik Asplund**

None

Background

Search

Andrea Walne

Walter Chen

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0:00 / 51:16 1x Auto-scroll

Interview

I'm here with Andrea Walne, general partner at Manhattan Venture Partners, and their latest fund is a $200 million fund to invest in secondaries. And they also have brokerage and research arms. Andrea previously co-founded Forge, and served as west coast director of NASDAQ PM and headed up the liquidity solutions team at Carta.

She's one of the few people who have touched on all aspects of the secondary market, and that's why I'm

excited to talk to her today. So thanks for joining us, Andrea.
Of course, Walter, I really appreciate you asking me to join.

One of the things that I thought was interesting that we talked about before was that secondary is actually not that different from primary. And secondary has this reputation for back alley trades and people are not sure if it's super legit. Could you talk a little bit about the reputation that secondaries have and why in your opinion it is actually not that different from primary.

Of course. So I think what's helpful here is to just backtrack to the kind of early beginnings of secondary, which wasn't that long ago in hindsight, back in the Facebook era. And so I would say this is probably between -- at the highest volume point was 2009 -- all the way through 2012 leading into the IPO, which was that you had shareholders really ramping up the excitement around a big tech company. And Facebook was incredibly highly valued at the time as a startup, which also was a little bit unique. Because prior to Facebook companies had been going public a little bit earlier in their life cycle. Whereas Facebook was growing as a private company. So that value was being realized as a private company. So with this, there was a lot of excitement to become a shareholder. And so what you ended up seeing was that shareholders were being incentivized to sell their stock in the form of secondary transactions.

And back then it was the likes of SharesPost and SecondMarket, who were really leading the charge as it relates to supporting Facebook with all of these secondary transactions and facilitating them. And so what ended up happening is that shareholders of Facebook started selling their shares to people from all ranks and files, and so because of that, you had one shareholder who would take their stock and turn it into three shareholders who would buy their stock allocations. What this led to was that Facebook actually very quickly, leading up to their impending IPO, exceeded the 500 shareholder count, which at the time was the limit which forced a company to go public. This is before the JOBS Act, obviously in 2012. So many people don't actually know that there were members of the secondary market that were very integral to helping Facebook really lobby to encourage increase that

shareholder limit. And they ended up getting that legislation passed as part of the JOBS Act.
So obviously with the JOBS Act that shareholder limit went from 500 to 2000 unique shareholders, excluding stock option holders. And so because of this, it was one of the main factors why Facebook was forced to go public at the time. And it was that frenzy of the secondary transactions that had really led to that exceeding the shareholder limit.

So I think when that happened, there was a lot of taboo around secondary transactions, and a lot of other issuers were saying, Facebook, how could you have ever let this happen? It seems like you weren't ready as a company to go public. And how silly in a sense is it that you had all these transactions that forced you into being a publicly reporting company?

So I think at the time, this is now 2012, going to 2013. That was only eight years ago. And there was just a lot of skepticism, right? This is where you get that concept of a back alley transaction in which you had people that were so desperate to invest in these really hot startups that they started creating unique derivative contracts based on the value of the stock.

You had people trying to circumvent the rules that were being put in place by way of company bylaws, transfer restrictions, shareholder purchase agreements, you name it. And so out of the response to the pure desire to do secondary transactions, companies started to get a little bit tighter around how they wrote the restrictions around their stock transfers.

And you start seeing that, of course, by way of all financial markets, unique instruments, like I said, the derivatives started rising up. And I think that, over the years, companies have gotten smarter around these types of instruments that are being used, and they are educating, to the best ability that they can, their shareholder base around the implications of entering into these various instruments and also showing what the longterm impacts on a company could be if shareholders are to enter into these funky transactions.

Overall I would say the taboo was there, it's still there in a sense, but I think some of that has to do with just education around the benefits of providing liquidity as a private company. But now, eight years later after that Facebook IPO, companies

have gotten a lot smarter and more educated around what level of liquidity they wish to offer while they remain a private company. So there's that covering that concept.
And then if we want to talk a little bit about the primaries and secondaries, I would say it really distills down to the concept of trust and access. And I would say, private companies absolutely have the right to control who would be on their cap table, but I would say that primaries, which are obviously a new issuance of stock -- whereas secondary transactions, which are the buying and selling of stock that has already been issued -- just as a way to differentiate that -- with primary transactions, you're looking to fill your round and your cap table with trusted investors. Secondary transactions very much so the same. Companies really want to have a tight process around who is buying and selling that secondary stock because they a hundred percent have the right to do so. And I don't see that changing within private companies. But what I do see is that, if there's more of a democratization around the access to primary capital and how those rounds of funding are structured and who's allowed in per se, I could see that trickling into secondary. But I would say until there's more of a democratization on the primary level for fundraising, I don't know if I necessarily see that there's going to be a rapid change in how investors get in and get access on the secondary transaction level.

That's really interesting. So what I'm hearing from you is that secondary, it's often bundled in with primary. When you talk to companies, is that how you recommend that they think about it? And then how do you think about secondaries that happen apart from any primary financing round?

So, overall, the number one question to ask a company, and usually you're interfacing with a CFO or a finance team or a legal team, if not the CEO themselves, is what are their goals and priorities as it relates to offering secondary capabilities to their shareholder base. So in the event that the company is incredibly conservative, as it relates to the impact on their fair market value, otherwise known as their 409A valuation -- something that companies begin doing as soon as they really issue their first stock option plan, which really happens around the series A or B -- that annual fair market value actually does have impact by way of secondary transactions.

The later stage a company gets, the more we know with startups that their fair market value on those stock options that are getting issued, that FMV, otherwise known as fair market value, is growing every year. And generally a company prioritizes keeping that fair market value as low as possible because that's what stock options are getting issued at, that's what employees have to pay for those stock options. And when a company finds out that secondary transactions can really impact that 409A, they have to think about, how do we structure these secondary transactions so they have the least amount of weighting on the 409A equation as possible.

So if a company's priority is to keep that 409A low, which is very practical, I would say doing a secondary transaction in conjunction with a round of funding is usually considered pretty advantageous because it allows you to consider the inputs as it relates to that weighting due to the secondary. And it can minimize -- depending on the overall 409A inputs -- it could really minimize the impact on the 409A and therefore hopefully keep that price as low as possible. That's one big consideration as it relates to keeping it close to primary.

And then in addition, a primary at a very practical level sets a new value for the company as a whole. So it allows you to give investors a very strong purview into, hey, this is what we're latest valued at by way of a third party kind of audit. Because of this, offering a secondary, especially if it's the same price of the primary, you allow your employees or your investors to sell their secondary at the same price, at parity.

It shows that there is momentum, there's excitement in the company, and that even if investors are buying former share classes, then that is still showing that the momentum and the strength is perceived by the investor base. So overall a primary really just offers a moment in time that offers typically what's considered a good value for the business, and it reduces the amount of skepticism in how to price the secondary.

Can you talk a little bit about the disclosure and information sharing portion of that? Because obviously, when you're doing primary, or let's say you have been in early -- and some funds will try to invest early in primary so that they have ongoing access to information and that helps them later decide, okay, let's focus on a handful of winners and buy up all the secondary. How does

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information and disclosure fit into this idea? One, of legitimizing secondary transactions, and two, providing a basis for broader participation.
Yeah. So overall, if you think about just the core of the information disclosure, we all know and appreciate that private companies want to keep that information as tight as possible, because again, they certainly have the right to, and they are not publicly reporting companies yet, so they have no obligation to disseminate information any broader than it needs to go.

At its essence, related to that, when a company raises a primary round of financing, they have typically created a new set of disclosure materials that they're disseminating out to their interested investor base, and as it relates to buying secondary outside of these rounds of funding. So let's say six months goes by following around a funding and your secondary, a prudent and conservative secondary investor, which many of them are, many of us are, we want to see what the business has done last six months. But overall, if you think about it, Companies are not incentivized, nor do they ever have to be, to update on a continuous basis their disclosure materials after a round of funding. Of course, we all know these companies are keeping track of these metrics every day internally, but they just might not be readily available in a format that's ready for sharing.

Secondary investors really have to get a sense of what is their risk tolerance as it relates to being able to model these secondary transactions and what the company's forecast is going to look like, usually off of the last rounds of funding material. But I really think this emphasizes, though, that if you want to expect to be a prudent, secondary investor with a low risk tolerance, you really have to get an understanding of the company. But by doing so, I would say, building the relationships with the issuers themselves and showing that you could provide value as an ongoing secondary investor that could act as somewhat of a backstop to buy stock on a continued basis, I've seen that it can be incentivizing to the company to then ensure that they're providing you ongoing updates related to the business, to make sure that you're comfortable as a secondary investor to buy stock outside of the primary rounds of funding on an intermittent basis.

Just to break that down then, the relationship with the compan paramount. If you are just getting shown blocks of stock from brokers and they have nothing related to the company, they don't have a relationship, usually there's a fair amount of skepticism I have when I see activity like that. You don't want to be anything but issuer friendly in order, I think, to really stand out in this market.

Just making sure that you have that diligence list yourself, that you built a relationship with the company and that you're able to build a model that you're comfortable with, that can equate to what we hope and expect some really solid returns by being an investor in this market.

Gotcha. So maybe the pitch sounds something like this. I'm going to be a valuable investor on your cap table, and one of the big values I bring to the table is that I'm going to be there to buy the secondary, and I have capital to deploy against buying secondary. And I'm someone you can trust and I'll be on your side, and I will deal with this problem of secondary maybe bringing in unknown people -- I'll do away with that problem for you by being the trusted source or trusted buyer of your secondary. And as a result, we build a relationship, you keep me in the loop, like, we're tight as if I were a major primary investor.

That's right. That's exactly right. That's usually a pretty practical approach to doing this. And that's also why there's also concentrated portfolios of secondary, even as a venture investor who has this very niche focus like myself and my team.

It's not we're looking to work with every company. No one has the capacity to work with every company. But if you really find your niche with what you're looking to invest and deploy in, you can really make those inroads if you spend the real time getting in there. And also just being incredibly respectful of the investors who are already around the table for that company. So long as you appreciate, and you're humbled by the fact, that typically it means the board is taking precedent, early investors are taking precedent. You are coming in as a value add investor in a different way, but you have to appreciate that you're navigating an existing cap table that has a history behind it.

So you've got to be very respectful in that approach and typically that could lead to some really positive outcomes.

Yeah, that's a great point. You talked about being incredibly issuer friendly. How do you think about aligning yourself with early investors or big institutional investors that are already on the cap table? Is there an equivalent amount of alignment you need with those investors and a pitch that you have for them, too?

Yeah, so I think there's a couple of things to consider here. So as it relates to early investors on the cap table, as well as some of the larger institutional investors who may be there from beginning to now in that company's lifetime, I would say a couple of different things.

So what's interesting is that, with a lot of those early investors, you could see that the makeup of those investors is very heavily leaning towards emerging managers, smaller angel investors. They are investors who are looking to realize a real gain. Maybe not so much as paper gains, especially if they're emerging managers with smaller funds, micro funds per se, and aligning with those investors to not only help in terms of being your coach and being your advocate from within the business, because they might have been incredibly value add to the business early on, but in addition to that, many of those folks actually end up looking for liquidity as their winners in their portfolio are growing.

Because like I said, they're looking for those real gains. They want to get that IRR because they need to go raise fund two or fund three. So that is a real consideration. And we see that -- my team and just historically as I look at secondaries year over year, heavily weighted towards the volume of these transactions is with early preferred stock, and it's with those investors who were there and they're looking for some liquidity now. So that's just on the point of the early investors.

But then if you're looking at the institutional investors, I look towards those as some of the groups that end up getting really large allocations in the later rounds. I always align with those investors in a sense by saying, listen, we ourselves are secondary investors. We are not seeking a board seat. We don't have the track record, the history to prove that we should be taking board seats. We come in with a very niche focus.

So it's effectively saying, we know where we stand in the food chain per se. And a lot of those institutional investors with those large allocations in the later rounds, a lot of them are getting big allocations, and sometimes they can't fulfill all of them, even a mix of their pro rata and those allocations, and so really aligning with those larger institutional investors to see if some of those allocations could be sold via secondary transaction at the late stage isn't always a bad idea. I think it's something that you can always take a look at and say, hey, this fund might be a top tier fund, but they have a hundred million dollar allocation in this company's round. Are they confident they could fill all of it? Do they need help? Is there a vehicle they've set up that they're looking for co-invest in? These are all variables that if you're really looking to get into an opportunity, knowing that companies and these opportunities to invest are becoming ever more or competitive by the day, you have to be able to be flexible to be a secondary investor, looking to align with the company and along with these larger investors at the later stage.

And speaking of alignment, you've talked about being issuer centric. I think one of the things is that within this concept of the sell side, there are a lot of different parties, many of whom have adverse interests, early employees, early investors, founders, the company itself as an entity.

How do you think about navigating all of that? And do you think that it's about company alignment first and foremost? Is employee alignment important and is it a source of bottom-up kind of adoption within the company in any sense? I'm curious how you navigate all that.

Yeah, so I would say, in my own opinion, having alignment with the company first and foremost I think is most important if you can get it. And if you can't, you probably should take an introspective look as to why. If that doesn't work out in any sense, by approaching the company with your intention. Your intention is to invest, right? Your intention is to partner and that alignment, those themes, are something that resonate I think with companies in general, because that's how they interact and partner with all of the investors on their cap table, regardless of how they enter the cap table. So knowing that you're going to the company with your intention, you're upfront, and if they have any pushback at all, really listening, and hearing them out in terms of where are the pushbacks coming

from and why. And just basing this on a point I said earlier, some of the pushback over time as it relates to secondary has really been based on a lack of education for the issuers and what the impact of allowing secondary transactions would be over time. So ensuring that the issuer and the team around them is equipped to understand what that impact could look like by having a secondary investor join the cap table. That is something that I think it is every secondary person in the ecosystem's responsibility to do, is ensure you're educating the issuer, you're getting them comfortable and you're being very transparent around your intentions.
But along with that, I would say you just have to really keep in mind that these companies have shareholders who have needs. But something to know is that some of these shareholders, very transparently, they haven't shared with the company some of these kinds of very personal scenarios they may be going through. And so I would say, as long as you're keeping that idea in mind that you start with the issuer, you ensure there's comfortability around partnering together for the long run in the form of secondary. But then the issuer might come back and say, listen, we don't really know of anyone who's looking to sell, so we'll keep you in mind, we'll give you a call if that ends up being a situation. Once you have that discussion and you ultimately end up beginning dialogues with some early employees, early investors, you'll come to find out that many of them may not have shared some of the really personal situations they're going through with the company.

And as long as you've started that dialogue with the business, I think it gives you a better gateway to work alongside some of these shareholders who are interested in selling, and really position yourselves to approach the company together with a proposal for a transaction or a partnership with secondary that you're looking to do that's predicated on the desire for a shareholder to sell.

So I would say that is typically a very fair series of events that ends up happening. But I will tell you that if you start with the latter before the former, you may be in for a tough discussion with the company, by them questioning the motivations by you as an investor, or by that seller as a selling shareholder.

So as long as that alignment is there, the transparency is there, I think there could be a path forward to getting

something done. But to me, it does go back to the theme of really beginning with the issuer.
That's a great point. One thing that's come up in different conversations about secondaries is how people are uncomfortable bringing it up, because people start to question your intent and your motives, even though that was not often the intent of bringing it up. There is something very personal happening that makes you need more liquidity. And so that education portion seems really important.

You mentioned 409A impact as one of the main concerns or hesitation points on the side of the issuer. Is that the big one or are there others in that? And then how do you also frame the flip side of that, which is the upside of going to issuer and pitching the upside of being more intentional and deliberate about how they think about secondaries on an ongoing basis.

Yeah. So I would say, like I said, I don't know there is a prioritization level in terms of the concerns, like a ranking level per se of the issuers . I would say 409A is generally the concept you'll hear quite frequently, but honestly, I would say what might be at par with that is very simply the administrative burden. These companies, they pay their lawyers a ton of money, their finance and legal teams are busy all day long. There's a lot to do to run a typically billion dollar plus company by the time you're allowing secondaries to happen.

With that in mind, the companies get approached by an interested investor or an interested seller. And they say, oh goodness, this is just another to do list item that doesn't really help the company by any means. And so I would say, by keeping that in mind that your role in the secondary market -- no matter what you're playing, you're a buyer, you're a seller, you're a broker at your platform -- if you are supporting the company by offering administrative support in some sense where it takes the burden off of the teams that would be responsible for processing these transactions, that is pivotal.

And I will tell you that many of these companies, really outside of the just upfront administrative burden, they don't want to be involved because of the arm's length approach, not only from a 409A perspective, but also from an audit and legal perspective, they don't want to be involved in the market making activity of

these transactions. They want to stay out of it and they should stay out of it, quite frankly, in my opinion. So that's something else to consider, is really mitigating their involvement in the transactions and making them as low friction as possible. So that's huge. I would say that's a really big theme to keep in mind. And so I would say, all of that, again, ties back to what is the lasting impact of the company.
And then from a positive perspective, if I think of the kind of goals, versus the concerns, companies are really interested in what the market prices their stock in between the rounds of funding. And everyone really wants to know, what do investors value their stock.

And I would say there's multiple levels of this. Some companies really have quite a presence in the media. They are very publicly known. They have a public stature, they have a theme that's been expressed publicly. And so investors look at them and they use very high level comp level details to say, oh, this company is here, then I expect their stock on the secondary market to be here. And so generally these issuers are very curious over what the market prices their stock without providing any level of detailed diligence into the actual performance of the company with metrics. And I'm not saying that anyone has to act on that information of where the market's pricing their stock, but they're generally very curious over that price discovery.

But I will tell you, is that I have certain companies that ask me on a nearly weekly basis over where their stock is trending in the secondary market. And it's not that they're looking at a moment in time that is all orchestrated, because many companies do still very much so lean on the concept of programs to help with this price discovery.

But they really want to know that, hey, maybe their competitor did something and it got publicized. How is the stock trading the secondary market this week? Where is it the next week? Where is it the week after that? So they are very curious over that trend line over where the stock is pricing.

And so if you can be additive to them, by providing that level of insight into the activity, into the market sentiment, companies find that very exciting. And I see that is a very bullish kind of outcome of secondary transactions. And I'll just end it with this, is that I would say, possibly even more important, and I think just from a general empathy level, companies want to see that their shareholders succeed and that they are taken care of. And so overall the companies that are very pro secondary for both current and former employees are the ones that end up, I feel like, getting the network effect after. And that they see that those shareholders come back again and again, with positive, positive sentiment for just allowing them to sell and have the function to sell when they need it and over certain personal outcomes. Which I think is important is, not forcing their shareholders into a specific timeline for liquidity, but allowing them the flexibility to sell when they need to sell.

I think that's an interesting segue into talking about platforms, and obviously one of the interesting things about your background is having worked at several of the major platforms, Forge, NASDAQ PM and then Carta, which obviously CartaX hasn't launched yet.

We talked before and you had an interesting framework for how you think about the platforms. I'd love for you just to walk folks through on how you think about the platforms both as a competitive sense, but also where they fit into the bigger secondary ecosystem as a whole.

Of course. So I will say that I actually consider bucketing platforms such as Forge, EquityZen, and possibly even Zanbato into one category. And then I look at the prospect of Carta and CartaX and a NASDAQ Private Market in a different category. So I would say you've got the early platform -- so you've got the Forge, EquityZen and potentially Zanbato, which also has a bit of a varying business model. I see them as the marketplace models. You have retail investors. They look at them as like the crowd funding platforms of secondary. So all of them use varying instruments to get retail and accredited investors into secondary transactions.

And then Zanbato is a little bit unique in that they have a partner program where it's a little bit more institutional, but overall you've got these marketplace platforms that are doing typically smaller transaction sizes in order to get smaller retail and accredited investors into transactions, because at the end of the day, not all secondaries are sizable.

There are plenty of rank and file employees that are looking for liquidity and they might not have a million dollars worth of stock. They might have 50,000 or a hundred thousand dollars

worth of stock, but they work at one of these fast-growing unicorn companies so they're looking for liquidity. So I feel as though EquityZen and Forge, as examples, really fill the void for some of the smaller block transactions, and they are being invested in by some of the smaller investors who want just a small piece.
And if they didn't buy into the secondaries via these marketplace platforms, they probably wouldn't be able to get a spot on the cap table because their check sizes are just a bit too small. So I see them in one category and it really does remind me of those that are operating in the crowdfunding space.

And then I see that you've got platforms like NASDAQ and Carta with the existing liquidity solution product, as well as the future of CartaX, that are very much more so bespoke for the issuer. NASDAQ, as many of us in this market know, acquired SecondMarket back in 2015, who is one of the very early pioneers of the secondary market, as it relates to the technology platforms.

And NASDAQ is using that SecondMarket technology to build bespoke solutions for issuers in the pre-IPO stages, and that customization allows companies to really tailor the transactions and the programs, the secondary liquidity programs, to act and function exactly how they wish them to function. Of course, though, the one kind of caveat with the NASDAQ solution, as well as the marketplaces, is that they don't tie directly into a company's cap table. So a company has to do a little bit of heavy lifting by importing and exporting the cap table before and after these transactions, which is it is a bit of heavy lifting.

Then you've got Carta and the goals for CartaX. The future of CartaX looks like they want to be an intermediary exchange. The one aspect there is that they're looking to capture a ton of transaction volume, but if they force companies into a box around how those transactions happen, you're going to miss the outlier transactions that happen every day in the secondary market that don't necessarily fit within the box of a specified company program.

So that's really how I see all these platforms operating. I would say the one aspect that you don't see yet is that you don't necessarily have one single product that is capturing all of the

incumbents and all of the counterparties in the secondary market.
I think overall you've got platforms that are trying to discern intermediate or really champion one piece of a transaction. And I don't know if I necessarily see one platform that is servicing the issuers, the brokers, the buyers and the sellers that make this ecosystem go round and make it a $50 billion plus annual transaction volume market.

So I would say that there's still possibly a void to fill there, but there doesn't have to be a winner takes all. I think that there is an approach with having an a la carte model that really has been servicing the market well, and from an issuer's perspective, it just, again, goes back to the education around who do you want to partner with as an issuer and who are you comfortable with allowing your shareholders to transact with?

Maybe we could go a little deeper on the role of the broker. Obviously a lot of the point of platforms are to disintermediate the brokers. Although, you take a look at real estate, for example, they kickstarted the marketplace through brokers, and brokers still obviously have a really prominent role when it comes to real estate. When we talk to folks about secondary, one of the things that feeds into this perception of the back alley transaction is the fact that there are many brokers running around, potentially saying, oh, I have a block of this, but they're really fishing for information.

So you said one of your core theses is the idea that there should be a platform that encompasses all counterparties, including brokers. How do you think about that and the role of brokers today -- is it better that we just cut them out and move on? Or should there be something that encompasses all the counterparties?

Sure. So it's a great question, because I think that there is almost an elephant in the room, as it relates to secondary, when it comes to really honing in on the concept of a broker and the role they play in this market.

As you said, I do see, we all see this kind of parallel between the secondary market and the brokers who operate in this ecosystem and the real estate market. And I would say that generally, as I make another kind of comparison here, is that

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the role of a broker, a financial advisor, a wealth manager, is that you're really servicing typically more institutional sized clients and investors and you're working to find them investment opportunities that are a good fit for them. So I would say that the kind of brokers that I see succeed the most in this ecosystem are the ones who have a Rolodex of clients that they trust and that likewise have trust in them to deliver them investments that meet their investment criteria.
And doesn't require that these major clients, these major institutions, major family offices, just as a couple of examples -- it doesn't require them to go fishing through all these platforms to scoop up shares and try to navigate that ecosystem. So I would say the brokers really spend time representing clients to find them the best fit for what they desire to do and the outcomes they're looking for. And again, I see that with the parallel of the real estate market as just another example. And again, of course, tying back to the world of wealth management and financial advisory with the larger banks and institutions.

So I don't see the role of a broker going away, especially if platforms want to capture high volume, because as of right now, if you really dig into the data of secondary and what is being settled and closed on an annual basis, it's very heavily weighted towards some of these larger institutional transactions that have been represented by brokers on the buy side, sell side, or a combination of both in many transactions.

So what I think is an important rule of thumb, just in general is partnering with brokers who have experience in this business, come with a book of business and aren't really doing it for the wow factor that I think many folks enter industries and say, hey, I did something similar to this in my past life, I could do it again and I'll do it in this function. I don't know if it necessarily leads to the outcomes that buyers and sellers expect. You want to work with a broker who's aligned with your outcomes and your goals, and for the technology platforms it's the same thing. If you build products for those that are driving the market forward, they will come. And if you try to disintermediate them, they're still going to go continue about their jobs, but they're going to do it, and then you won't capture the transaction value in that activity that they're doing away from your platform.

So I think there's a world in which the best brokers will continue to succeed, they will adapt to the online technology

and they will service it, and they will drive the volume and the value to the online platforms. But as of right now, I would say the one platform where I see the most of this activity occurring is a platform like Zanbato, which is very encompassing to the broker community.
They are building solutions around the brokers, which I think has been really interesting to watch as they grow. And they see that transaction volume through their platform because of it. And again, that's because that is their KPI, that's what they're looking for as a north star, and that might not be the goal of all the platforms. So I would say, depending on whose goals are where and where you want to align, I just don't know if it's what I would consider to be the smartest activity to assume that cutting out the brokers is the way that you're going to really scale and increase the transaction volume in this market.

What do you make of the thesis that -- and this is part of what we talked about in our report and part of the reason why our company exists -- which is the idea that disclosure and information, more transparency, that is also part of what drives more transaction volume, in part has a disintermediation effect. But also, the fact that, let's say, hedge funds and big institutional investors who maybe are comfortable investing in the public markets, they see a form of structured disclosure, similar to what they might see in the public markets, in the private markets. And that gives them the confidence to directly invest into some of these companies to increase transaction volume. What do you make of that thesis?

I would say that I think it's a misconception to assume that these larger institutional guys and the hedge fund guys, PE guys, that they are blindly doing transactions in the secondary market, because in all honesty, they're not doing that.

They are tapping into the information pools of co-investors that they work with. They're having the same conversations that you would if you were to consider investing in a primary round of financing. It again goes back to trust and partnership. And I would say that also is very well and alive in the investor community, in that investors, if they're looking to put real dollars to work, they are calling their friends who might already be on the cap table, they're calling former cap table members, they're calling the company. And even if it is a secondary transaction, the ones of size are getting the level of information

that they need to be comfortable. I would say the caveat is that if the company itself that they're looking to transact in is late stage enough, then there might be enough publicly available information in order to make an inference on that information. But overall having access to data, having access to research, having access to comp sets, that's always going to be an important function of investing, whether it's primary or secondary.
Like I said, I think it really truly is misunderstood if people think that these larger groups are going in blind and buying secondary. There's always a way to get information. And I would say the more again you go back to the issuer, you come in as a partner, the better aligned you could be. And especially for those investors who are not only looking to buy secondary, but I would say if they position themselves as investors who may be able to invest in the next round of primary, or maybe that investor's a crossover investor, so they can go to that issuer and say, hey, we might want to buy some secondary now, but you can rely on us. If you continue with this growth to buy stock, going into your IPO and beyond. That is typically considered a pretty positive indicator for a well aligned partner. And if their relationships with the company starts by entering the cap table via secondary, then so be it.

Going back to this idea of increasing transaction volume, which is the core thing that will lift the whole ecosystem -- one of the things that we talked about initially was how secondary is often tied with primary. Do you think it's important potentially, this idea of increasing the cadence or the frequency with which companies do secondary and as a way to drive transaction volume? So let's say I might do a tender offer on NASDAQ PM once a year or something like that. If the cadence can be increased, then that increases the transaction log.

Yeah. I would say the majority of transaction volume happens outside of the programs. I think that from my experience in running in excess of a hundred programs, the various structures and sizes is that many, company shareholders, at the very core, just don't feel as though they wish to be pigeonholed into a program at a certain time at a certain price with certain constraints around it.

These programs are very much so driven as shareholder incentive programs and they are ways to recruit and retain

talent, for example. But overall, shareholders have personal reasons to sell. And I would say overall, they want to reserve that right to sell when they want to sell, at the price they wish to sell and the quantity they wish to sell.
And maybe the counterparty isn't as much of a factor. Because at the end of the day, if a seller is selling, they still get to sell no matter who is buying the stock on the other side, but for them to be pigeonholed into a program that has a dedicated period of time affiliated with it.

Historically, I just haven't seen that you see the most selling volume through these programs. What ends up happening is the programs add as a good milestone for the price. And it shows where the threshold really is at that moment in time, of when the program is initiated. But then I end up seeing that a lot of the shareholders end up transacting or look to transact outside of the programs on their own time.

So as long as the company has some sort of infrastructure to support those transactions that happen in an ad hoc fashion, you typically see that the transaction volume in a company could be relatively high yet incredibly managed as long as the bumpers are there and are in place.

I think the frame was like Forge, EquityZen is more of a marketplace for retail, NASDAQ PM, CartaX is potentially more like a structured program for very bespoke, one-off issuer centric -- in some sense like marketplace versus like a utility or a tool for the company to do a tender offer, something of this sort. Is there any reason why Forge and EquityZen as marketplaces necessarily appeal to retail, or is there a universe in which they can start with retail and bootstrap into institutional investors and get more institutions within the framework that they've established of being something of a marketplace?

So I would say, as mentioned, the marketplaces that exist today are very much for servicing those investors who may not otherwise be able to get on a company capital table otherwise. So they use the marketplaces in order to act as a function or utility to access that secondary, and at times it might be in a pooled entity, otherwise frequently utilized as a special purpose vehicle, for example, in order to land that spot on the cap table and ensure that the right of first refusal risk is

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mitigated based on the pure size of the power of that kind of crowdfunded entity.
So I would say it really services those retail and smaller investors in that way. And in order for those marketplaces to go more upstream towards the institutional size, they have to be showcasing and emphasizing blocks of stock that are larger in size in order to attract the check sizes that come from the institutions.

Because the institutions really aren't looking to scoop up 50 to a hundred thousand dollars worth of stock unless maybe they have a position in that company already and they're just looking to add to that, which is very practical. So in order to attract the institutions, you've got to get the larger blocks of stock.

The larger blocks of stock usually come from very sophisticated shareholders. These might've been early investors in the company. They're larger investors. And those investors, they want a very high touch relationship through the transaction. And that's where I think the broker community has really filled this up through now in that they are servicing the really large institutional investors who aren't looking to click around to all the platforms and get a sense of where things are trading,and is it even real, and is this the real market price of the stock today. I would say, they're too busy to be shopping around and looking at all these prices and they don't necessarily want to put that work in themselves anyway. So again, this is where the broker community comes into play. And I feel as though the way you have to serve that community in order to go upstream is service the brokers and give them the tools to enable them to do their jobs through your platform.

And yes, they will share in the revenue of that. Because you're giving them utility to do more volume for their own book of business. I would say that's probably a very high level function of what could occur in order to boost those marketplaces into a higher transaction threshold.

Maybe we could switch gears a little bit and talk about the buy side. You were on the call with investors all day. I'd just love to hear what key trends you're hearing from buyers. Also, maybe talk more about the participation of Silicon Valley outsiders or non traditional startup

investors and their increasing participation in this market as a way of increasing the transaction volumes overall.
Yeah, of course. The general sentiment I get, because I do work with investors all over the world, which I'm very humbled to be able to do, is that the more the company has the very familiar characteristics that we all have learned to appreciate, which is tier one investors, late stage de-risked high velocity, high metrics in their cohort and category, those companies and the themes around them have stood strong over time. They've persisted over time, which is completely fair. Overall, I continue to see that there's generally a disconnect from where investors want to buy and where sellers want to sell and what the goal is of someone who's looking to facilitate transactions is really getting to the sense of. what kind of multiple level is a seller looking to receive by getting liquidity at that moment in time. And then, why are investors looking for a certain entry point? Now, I think that investors generally may be doing a disservice to themselves, if their entire precedent for investing in secondary is just to buy any stock they can at a, let's call it a 40% discount to the last round of funding price. I think that might be a short sighted way of looking at the market because that entry price may not be achievable based on the company's momentum at that moment in time.

Shareholders are savvy. They know how their companies are performing, whether they're still with the company or they're not, and getting alignment around why investors, why sellers are looking to achieve a certain value in their stock and in their entry price is one of the most important things the folks in the secondary market ecosystem could do.

Right now, I will say there's obviously a lot of momentum in the enterprise software companies, enterprise SaaS, infrastructure, data and technologies, absolutely growing more than I've ever seen it. And that's probably a testament to the fact that a lot of the larger consumer unicorns have since gone public.

We saw that we had Snap go out, you had Lyft, you had Uber and Airbnb is on the cusp of going out. And because of that, the enterprise companies are seeing some of the highest value in the late stage market today. Outside of that, the public company returns and where you're seeing those multiples trade at, very strong in enterprise software.

So I would say, over the last two years, I've seen a massive shift towards these unsexy technology, infrastructure and data system companies become incredibly attractive to the investor community, especially in the secondary market. And then as it relates to international investors. So international investors, they really look to a counterpart in a local geography for the trust factor in order to determine whether a company is something that they should really look to buy in the secondary market.

So when I say that, I know that I'm humble enough to realize that my team is headquartered and operating out of the United States. I have visibility into what's happening in the European companies or the Asia based companies, but I'm not local. I don't have boots on the ground. So I look to my investors in my network, I look to founders in the network. I'm doing my diligence in the background to really get a sense of whether that company is the right company to consider in the secondary market. But I really have to realize that if I try to go in blindly to a geography I'm not familiar with, there are existential factors I may not be able to account for. So I see that with the international investors, is they want a point person in the local geography, and they will call you again and again to be the point person and say, should I be doing an investment in this company via a secondary and tell me why or why not. And you very rarely, if not ever, see these investors internationally go blindly into the US companies.

Can you talk a little bit about how buyers are evaluating these opportunities? You talked about how, if you have a mindset of just saying, give me 40% on the latest preferred round, that's a nonproductive way to look at it. Are people looking at it with the mindset of, well, these companies are quasi public in a sense they're very late stage, they're very mature, and looking at them in that way? Or are they looking at it more from an arbitrage perspective? How do you think that they're looking at it, and how should folks look at it?

Yeah, so I would say the arbitrage perspective is absolutely a huge factor. That's really interesting you mentioned it, because I would say it's probably not a predominant factor, but many of the investors who are looking at late stage secondaries are evaluating opportunities based on what their tolerance really is and also what their mandate is.

So when I say that, if it's a private investor and they stick to private assets only, they're evaluating businesses in a different way than those investors who are crossover investors and would continue to buy stock, as the company goes through a public offering.

If I want to just briefly touch on private investors, the one concept of why secondary works and functions the way that it does is that secondary investors are using public comps, readily available data sets, they're doing waterfall analysis and running analysis based on what is available at hand, and having a strong public comp set is incredibly important. And then also very much so honing in on the performance of a company as the S-1 is filed. How did that company perform as a private company, which then gets reflected into the S-1. And what can the expectation for upcoming public companies be in order to value them in the secondary market and say, okay, where did so and so perform as a private company going into their public listing and therefore let's see how they're trending and performing as a public company. So using just really publicly available data sets is so important and very utilized as a secondary investor.

Then, on the arbitrage side, you've got these public company investors, the mutual funds, the hedge funds, some of the family offices, that kind of have a diversified approach. They are absolutely using arbitrage opportunities to buy secondary transactions into companies that are competing with or hedging against opportunities they have in their public portfolio. I also see a lot of strategic stuff going on, which is family offices that fly under the radar but they're looking to provide value to the late stage private companies in terms of expansion for those private companies in either various geographies, sectors, industries, partnerships. And the family offices are fantastic at really aligning with the private companies and getting in via secondary, not only as a way to determine an entry price via secondary, but it's also because they want to fly under the radar. This is how family offices operate. They're not looking to be splashy in many instances, so they use secondary as a function to do that, and they align strategically to support the companies from there.

This has been a really fascinating conversation. Is there anything that we didn't touch on that you want to bring up or cover?

I would just say, Walter, we're having this discussion on a day where we just saw a company in the form of Palantir drive a new characteristic towards a direct listing, which is instituting a lockup period, at least for a subset of their stock, going into the direct listing.

Now on this note, I would say that I'm really excited by the evolving nature of the mechanism to go public. And I look at SPACs as a really preemptive, large, private round followed by somewhat of a direct listing from there. And then you see obviously the direct listings and the need to satisfy your shareholders desires and it really allows the companies to set the market price that they think is most fair without utilizing the bankers to do so. Secondary transactions will only, I think, further enable companies to really think through that market price, generate an audit trail related to the secondary transactions and use these data points to really come up with a price leading into these various forms of going public.

So I would say we can continue to see these types of mechanisms evolve as a public company and going into being public companies. I think we're generally going to see that the secondary market will prove to be a more important mechanism than ever to support the public companies.

That's a great point and a good note to end on. Thanks so much, Andrea.

Thank you, Walter.

Disclaimers