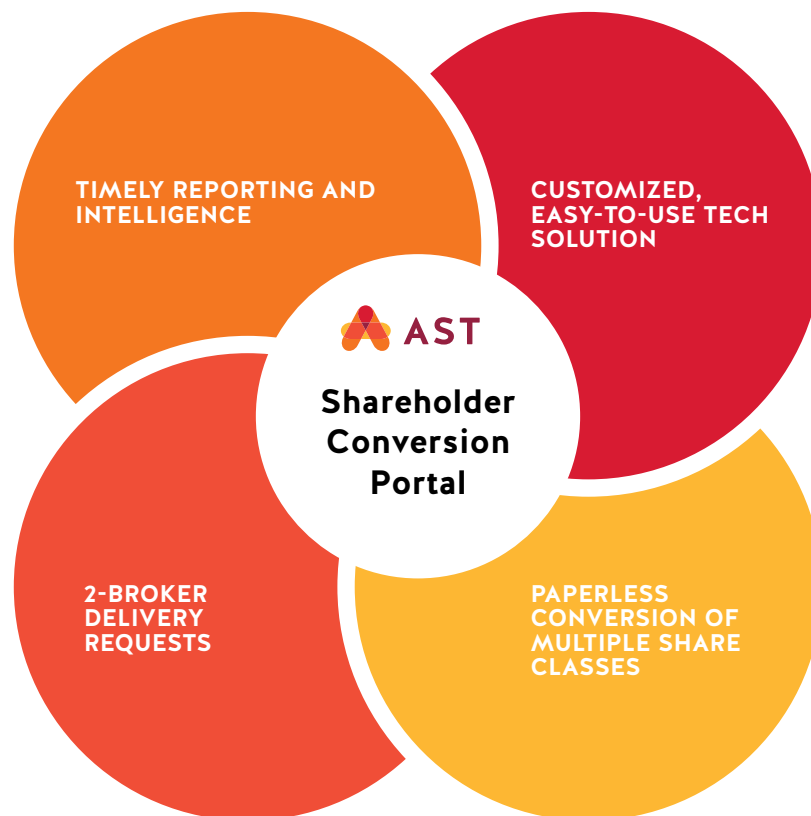


## IPO SOLUTIONS CASE STUDY

# MULTIPLE SHARE CLASS STOCK CONVERSION IN AN IPO

Providing Shareholder Ease of Conversion and  
Corporate Visibility into Transactions



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## HIGHLIGHTS

- Customized, easy-to-use tech solution
- Enabled 2-broker delivery requests
- Accommodates paperless conversion of multiple share classes for post-IPO shareholder sales
- Provision of timely reporting and intelligence to the company allowing immediate visibility on shareholders converting shares

## BACKGROUND

There were three issues to solve for:

- More and more common are private companies conducting IPOs with dual class structure, in which the pre-existing holders receive Class B shares which contain higher voting rights that cannot be transferred. Typically only the Class A shares are DTC eligible and can be sold or held by a broker after an IPO closes. These private companies, when conducting their IPO, must allow for shareholders to convert their Class B shares into Class A shares. The challenge was enabling shareholders with a fast and efficient way to convert their Class B shares—which are not DTC eligible—into tradeable Class A shares which have 1-to-1 voting rights.
- Second, ancillary to the share conversion is the delivery of converted shares to a brokerage account so that they can be held or sold on the market after the IPO. In addition, in some cases the company doing the IPO requires delivery to multiple brokers.
- Third, how can we provide the company with enhanced visibility into conversions being made as rapidly and thoroughly as possible at every step of the conversion process?

## SOLUTION

AST developed a technological solution superior to physical stock certificate surrender process, which would require an entire back office set-up that manually exchanges the shares. We call our solution the Shareholder Conversion Portal.

Shareholders were already using our shareholder access portal to view their accounts. It made sense that, instead of creating a new, stand-alone conversion medium, we would add functionality to the existing medium.

Within 5 weeks, for our initial Dual Class Conversion Client, AST created an add-on functionality to the shareholder account access, which we purpose-built with flexibility for rapid response to emerging client needs. When the shareholder logs in, a prominent message informs them that under the Articles of Incorporation of the company, they had received Class B shares which carry super voting rights, and that if they wished to transfer or trade the shares, they must irrevocably convert them to Class A. And they could do so with a click.

This allows not only electronic ease of transaction for the share conversion, but also electronic share delivery of the newly converted Class A shares for employees to the captive broker the company is using. Converting shares online significantly expedites the process by subtracting the time required to mail shareholders paper forms, which they in turn must mail or fax back upon completion. Potential delays due to errors on manually completed forms are virtually eliminated. As a result, share delivery can also happen far more quickly.

Upon electing to convert, the shareholder is asked if they want to convert all, or a specific number of shares. Employees are allowed to have their shares delivered electronically to the company sponsored employee brokerage account. Non-employees, or employees who wanted to deposit their shares with a different broker, can elect for the new Class A shares to be issued back into their name, receive a Class A statement after the share conversion was processed, and then provide those details to their broker to initiate a DRS extraction. Throughout, the system relies on a book entry or “paperless” transfer process.

In addition, we recently modified our system to accommodate 2-broker delivery requests. In this situation, employee shares were to be delivered to an equity plan manager's custodial account, in order to: (1) deliver shares electronically to a sponsoring broker account, which would arrange share sales at the time of lock-up; and/or (2) follow the standard option of issuing the Class A shares back into the shareholder's name to coordinate with their own personal broker. The entire operation had to be clearly separate and distinct from the non-employee conversion option.

## RESULTS

The company receives two or three daily lists: (1) a list of all shareholders who chose the employee brokerage option, (2) a list of all shareholders who elected for Class A shares to be issued back into their own name, and if applicable, (3) a list of shares electing to go to the sponsoring broker. The benefit of that visibility is that the company can review the lists to ensure all employees were active employees; and if not, they could give us timely instructions to disregard the conversion for that specific account. Without an online conversion process, the issuer would not have this visibility until after transactions occurred.

Similarly, the company is provided the employee and non-employee lists to identify possible Affiliated and Section 16 officer requests and to ensure if Form 4's need to be filed and can temporarily block a conversion if desired. With Affiliates and Section 16 officers, any conversions—even if not associated with a sale—require a Form 4 filing, which is typically done when an officer sells shares. Even if the intention was only the conversion of the shares without any sale, it is usually misperceived that Form 4 filings are associated with a sale and create a negative public perspective at the time of lock-up. Review and delay is critical to avoid such a mistaken public perception.