



VentureBeat

June 11, 2009

Trying to sell shares in a private startup? Join the club!

By Matt Marshall

SharesPost is just the latest in a host of companies that are trying to make it easier to buy and sell shares in private companies.

Until recently, the assumption for most startups was that they'd get sold or go public in a reasonable amount of time — say six or seven years. That meant founders and executives of these companies didn't really worry too much about finding an early way to sell shares.

But the dearth of IPOs — there have been some, but far fewer than in past years — has blown up that assumption and ushered in a set of companies trying to help founders and others sell their shares.

SharesPost says it has an online platform that is the “first to bring true liquidity” to the private equity market, by directly connecting buyers and sellers of private equity, and then automating the stock sale to the buyer. And it does this without charging commission. It has listings to buy and/or sell shares of several recognized private companies, including Facebook, Tesla Motors, SolarCity and XDX. As is the case for most exchanges, buyers must either be institutional investors or individuals with high net-worth, or about \$100 million. The Los Angeles company hopes to charge a monthly subscription fee for buyers and sellers.

Last month, well-known Silicon Valley venture capitalist Tim Draper and some other investors announced something called XChange, a private exchange for institutional investors to trade shares of start-up companies. Draper and his friends invested \$1 million into the company in February. But that effort is being driven more by interests of venture capitalist hoping to sell shares: In what is almost an ersatz IPO, it is a way to let entrepreneurs raise money, while giving VCs a way to cash in on their investments. It plans to actually launch September. Start-ups need to have at least \$20 million in revenue to participate in XChange.

There are hosts of other efforts that allow the buying and selling of stock. One called InsideVenture has tried to do something similar. A group of venture capitalists formed InsideVenture as a way to vet private companies that had reached a certain maturity and are hoping to then take these companies to institutional investors to sell parts of the companies to them in return for cash — providing another way for venture capitalists to

exit their investments. The NYSE has supported that initiative and the two are working together in something called a Hybrid Private-Public Offering (HPPO). Companies file an S-1 with the SEC, but that process is aided by InsideVenture to raise money from both its existing investors (which would hold about 30 percent of the stock) as well as qualified retail investors (holding the rest). The company has yet to announce any actual transactions.

Meanwhile, the Nasdaq OMX Group runs a portal for the private placement of stock. NASDAQ formed an alliance with another group, GS-TrUE, formed by Goldman Sachs two years ago.

Another company, Second Market recently launched a marketplace for buying and selling startup stock. The New York company allows venture capitalists, founders and private company employees to sell their stock to accredited investors. He wants to create a market for about 100 venture-backed startups, including Facebook and Twitter. Another company, StartupExchange, is doing something similar, for very early stage companies, but has yet to really get off the ground. That's not to be confused with Startup Exchange, which is a separate non-trading site, offering information about companies. It is run by Tradevibes, a database of private company profiles.

Of course, there's a bunch of other techniques for selling private company stocks. Special funds that buy stakes in startups from venture firms have existed for some time. They're called "secondary" funds, because they're buying the stock from the primary holder, and thus become the second holder. In something called a secondary "strip sale," venture firms sell their stakes in private companies to these secondary firms merely to raise cash in order to make other investments. Industry Ventures, a San Francisco firm is just one of several firms that specialize in buying stakes in both venture capital firms and in the private companies backed by venture firms. Millennial, HarbourVest Partners and Saints Capital are three others.