

Snap's IPO and Lack of Shareholders' Rights

By Frederic Peeters, LL.M. Candidate 2017 | March 7, 2017

Snap Inc. ("Snap") recently filed its IPO with the SEC. The intended IPO of the parent company of the messaging app Snapchat has already been heavily debated and various commentators have [criticized](#) Snap's intended governance structure.

The planned governance structure is indeed quite exceptional. Following the IPO, the founders, Evan Spiegel and Robert Murphy, are expected to retain more than 70% of the total voting power, while owning only 40% of the stock. Although other tech companies, such as Google and Facebook, are known for retaining strong founder control after going public, Snap's intended governance structure takes it to a whole new level.

After the completion of the offering, the company will have three classes of common stock. The holders of the Class A common stock (which is the only class of stock that is being sold in the offering) will have no voting powers whatsoever. The Class B common stock, held by prior investors and employees, will be entitled to one vote per share and will be convertible into Class A common stock. Finally, there is the Class C common stock (convertible in Class B), held by Snap's founders, Evan Spiegel and Robert Murphy, each holding an equal amount of shares that are entitled to ten votes per share. In order to avoid a deadlock between the controlling co-founders, Snap will grant a CEO performance stock award to Evan Spiegel of 3% of Snap's value following the IPO.

In its [SEC filing](#), Snap recognizes the extraordinary character of its governance structure, stating, "although other U.S.-based companies have publicly traded classes of non-voting stock, to our knowledge, no other company has completed an initial public offering of non-voting stock on a U.S. stock exchange".

Although the offering of non-voting shares in the IPO seems new, multi-voting class [structures](#) are not. Various public companies, especially in the tech industry, have set up such multi-class structures with different voting rights for insiders and non-insiders. Companies like Facebook and Google went public with a dual-class structure, allowing the public shareholders at least one vote per share. At a later stage, these companies asked for shareholder approval in order to issue a third class of non-voting shares, allowing the insiders both to maintain their control as well as giving them access to liquidity.

It goes without saying that Snap's post IPO governance structure is extremely shareholder-unfriendly, leaving the founders accountable to no-one but themselves. It would be interesting to see how and whether institutional investors, such as BlackRock and Vanguard, will react and how such reaction, if any, would affect Snap's IPO. In his annual letter, BlackRock's CEO, Laurence Fink recently stated: "As a fiduciary acting on behalf of these clients, BlackRock takes corporate governance particularly seriously and engages with our voice, and with our vote, on matters that can influence the long-term value of firms".