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Council of Institutional Investors Says Lyft's Planned Dual-Class Structure is Harmful to Investors

CII Reiterates Call for NYSE, NASDAQ to Curb Listings of New Dual-Class Companies

Washington, D.C., March 2, 2019 —The Council of Institutional Investors (CII) today expressed deep concern about Lyft Inc.'s initial public offering (IPO) filing because of its egregious dual-class share capital structure and the lack of "sunset provisions" to unwind it within a reasonable time period. Sunset provisions are an essential tool for protecting public investors in dual-class companies by ensuring adoption of "one-share, one-vote" voting power that is directly proportional to an investor's capital at risk.

Lyft's IPO filing at the Securities and Exchange Commission revealed plans to create two classes of stock: Class A shares with one vote per share for public shareholders, with the founders holding Class B shares that have 20 votes per share. This means that the founders will have voting control over the company even though their equity stake in Lyft is less than 10%. The Lyft filing is particularly troubling given that dual-class voting structures typically have 10-1 voting power, and as a large private company, Lyft currently is "one-share, one-vote".

"Lyft's dual-class share structure leaves investors virtually powerless," said Ken Bertsch, CII executive director. "This is highly risky for long-horizon investors and for the integrity of the capital markets," he added. "The message the filing sends is that the Lyft founders can govern the company as supreme monarchs in perpetuity and also that they have a 'let them eat cake' attitude toward their investors."

Instead, Bertsch added, "Lyft should incorporate provisions to adopt a 'one-share, one-vote' structure within a reasonable amount of time. CII and many institutional investors support seven-year time-based sunsets as a sensible solution to the growing problem of unequal voting rights, which deprive shareholders of the means to hold executives and directors accountable." CII [wrote](#) to Lyft board members on Feb. 13, 2019, requesting that they put in place a time-based sunset on the dual-class structure.

CII, which represents pension funds and other long-term investors, has [petitioned](#) the New York Stock Exchange (NYSE) and the NASDAQ, urging the exchanges to act to counter the trend of

The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of pension funds, other employee benefit funds, endowments and foundations, with combined assets of about \$4 trillion. CII's non-voting members include asset management firms with more than \$35 trillion under management. CII is a leading voice for effective corporate governance, strong shareholder rights and vibrant, transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.

companies going public with unequal voting rights. Specifically, the petitions ask the exchanges to amend their listing standards to require that, going forward, companies seeking to list that have multiple share classes with differential voting rights include in their governing documents provisions that convert the share structure within seven years of IPO to a single class of common shares with equal voting rights. CII's members believe that equal voting rights are a fundamental tenet of strong corporate governance.

A growing number of companies are making their public debut with time-based sunsets. Of 38 U.S. companies that went public in 2017 and 2018 with multi-class structures, CII tracked 11 (29%) that incorporated simple time-based sunsets. And a small but growing share of multi-class IPO companies have used time-based sunsets successfully. Examples include Groupon (converted to a single share class after five years), Texas Roadhouse (converted after five years) and MaxLinear (converted after seven years). Well-established dual-class companies (notably CBS and Viacom) have been distracted by fights related to control, and even privately-owned Uber opted to convert to "one-share, one-vote" after scandals rocked the company.

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