Opinion **Lex**

Tech stock options: vested interest

When Amazon went public in 1997 it was three years old. By the time Uber listed last year it was more than a decade old © REUTERS

YESTERDAY

Start-ups have been dangling lottery-like stock options in front of workers ever since the first chip company settled in Silicon Valley. It is hard to convince your employees to sleep under their desks and eschew better paying rivals unless you give them the promise of a stake when the company goes public.

Betting on stock option payouts is a way to bet on future technology listings. The industry-wide delay in “exit” events (aka initial public offerings or M&A deals) has put a damper on the benefit for employees. When Amazon went public in 1997 it was three years old. By the time Uber listed last year it was more than a decade old. Employees with stock options have been left twiddling their thumbs as the median age for tech companies going public has jumped from four years to 12 in the past two decades.

Long-term private companies create a valuation problem too. The suspicion that impressive growth has already been spent by the time large start-ups list has led to shares trading underwater. After Uber’s IPO the online taxi company’s share price dipped below both the listing price and the price of late private stock sales.

Companies that offer employees ways to cash out early present an appealing solution to both problems.

Take SecFi, the wealth management company that positions itself as a helpmeet of the “soon to be rich”. By offering forward purchase agreements to employees with options in large start-ups it is betting on exit events. Payment depends on the start-up listing or being sold so there is no need to conduct a personal credit check on the employee. Because the deal is structured as 7-12 per cent interest on the financing plus a portion of the upside when shares are exercised the returns are not wholly dependent on the price at which a company lists. Serengeti Asset Management, which has just provided a $550m investment facility, thinks it can generate better returns than private credit.

For employees this is a pricey equity release scheme. But for those without access to the cash needed to exercise options and pay upfront tax bills the discount may be a good option. After a year of disappointing tech debuts investment in earlier stages will look more enticing. Pre-IPOs are the new IPOs.