
4 Questions to Ask Before Launching a Liquidity Program

2018 saw a record amount of aggregate VC funding, but a record of \$100 million plus primary rounds as well.

The Jobs Act of 2012 and other changes in federal law have led to a thriving private market. More companies are delaying IPOs and the intense scrutiny brought by quarterly earnings reports to instead raise more capital and focus on growth.

But this choice comes with increased pressure from employees, executives, and investors, for secondary market activity—especially as a company's valuation grows.

Liquidity programs are becoming more common to address this demand for private companies. However, liquidity events can require extensive due diligence, as well as valuation and tax considerations.

If you're thinking about launching a liquidity program, here are four questions to ask:

Question 1: Is our company truly ready?

Your company could be ready for a liquidity program if you have:

- Raised at least a Series B round or over \$90 million
- Been in existence for at least three years
- A valuation over \$200 million

But those are just some of the considerations. You might need liquidity if shareholders—especially early-stage investors and employees—are pressing for it. These groups invested their time, money, and faith in your company's infancy. Some even contributed to developing your organization's core offerings and competitive differentiation. Now, they're ready for a return. A liquidity event can give them that, along with the confidence that executive leadership is appreciative of their contributions.

Question 2: What are our strategic goals as an organization?

A liquidity program can help your organization inch closer toward specific objectives around growth and scale.

For example, if you're focused on retaining and attracting top-quality employees, a liquidity program is an added benefit for them. It makes their current and potential equity holding worth something tangible. A liquidity event also allows you to re-engage investors that were left out of your last funding round.

Preparing for a liquidity event can result in a more up-to-date capitalization table. This can set the stage for future investments and potentially reduce regulatory, compliance, and other legal risks.

Question 3: What's the best approach?

When it comes to structuring a liquidity program, you typically have two main options: company repurchase or a third-party tender offer. A third-party tender can be conducted by existing investors or new institutions, which may be identified by leveraging the Nasdaq Private Market Buyer Network.

A company repurchase with Nasdaq Private Market offers a simple, efficient process, and the potential for cap table clean-up, but there are certain tax implications and the risk of an inefficient offer price. There are many options when deciding on the offer price of your tender offer, including the ability to utilize Nasdaq Private Market's competitive price discovery process.

What route you take all depends on your goals.

Question 4: How will we manage this process?

Whatever approach you choose, know that executing a liquidity program on your own can be time-consuming and cumbersome. It distracts your company and takes valuable time away from management and employees. Plus, it can be costly and extremely complex, which opens the door to even more risk.

Instead, consider a strategic partner such as Nasdaq Private Market—one that offers customizable, easy-to-use technology that can take care of the details of your liquidity program, from managing asset-specific documents and pro-rata cutbacks to the flow of funds and issuing 1099-B tax forms.

By relying on Nasdaq Private Market's technology and experience, you can streamline your liquidity program and potentially generate a return for investors and employees—whether you decide to stay private or eventually go public.

Considering a liquidity program?

Download ["Nasdaq Private Market: A Review of the Private Company Secondary Market and Structures"](#) to learn more about the opportunities that abound.

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