



AG Dillon & Co

## How to buy pre-IPO stocks

A guide for financial advisors



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## This document will cover the following

- 1 Pre-IPO stock due diligence / research – best practices, data sources, data limitations
- 2 Purchasing pre-IPO stocks
  - Transacting – tactical considerations
  - Challenges and solutions in accessing the pre-IPO stock market
- 3 Private market stock syndicates
- 4 Special purpose vehicles (SPVs)
  - What is a SPV
  - How do SPVs work
  - RIA considerations when investing into SPVs
- 5 AG Dillon & Co, a pre-IPO stock asset management company
  - A pre-IPO stock syndicate for financial advisors – AG Dillon Pre-IPO Equity Syndicate
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## Pre-IPO stock due diligence / research – best practices, data sources, data limitations

Pre-IPO stocks are private companies and, as such, are not required to file quarterly and annual reports with the SEC.

Additionally, many pre-IPO stocks do not willingly publish this data making research and due diligence on pre-IPO stocks uniquely different from the same in public stocks.

The following data is generally not available for pre-IPO stocks;

- Price per share data
- Full and consistent financials
- Executive performance updates
- Forward guidance

The best sources of pre-IPO stock data;

- Pitchbook
- Bloomberg
- Crunchbase
- CB Insights
- Phone/email to institutional traders

AG Dillon & Co suggests that research / due diligence on pre-IPO stocks include analysis on the following;

- Valuation. Historical trend with a focus on valuation acceleration.
- Executive team. Founders still with company, experience, governance structure.
- Negative news. Company and executive team.
- Financials. Income statement, balance sheet, cash burn.
- Capital raise history. Historical trend, identify gaps and reasons for gaps.
- Current shareholders. Trends in participation by investment round.
- Press. Qualitative insights on management current performance of business and future outlook, insights on product roadmap, identify regulatory issues.
- Trading. Solicit pricing from institutional traders, minimum size to purchase, counterparty type, contingencies to purchase (e.g. board approval).
- Comparables. Both private market and public market, special attention to valuation multiples.



## We believe the following pre-IPO stock institutional traders are best in class.

All five have ample inventory to highly desired pre-IPO stocks.



Advisors should discuss the following with institutional traders when preparing to transact in the pre-IPO stock market.

- **Best pricing**. Source pricing from multiple institutional traders with particular focus on counterparty type, trade size (both minimum and maximum), time to close, and closing contingencies. All of these factors may impact price per share.
- **Counterparty type**. Direct from company, direct from employee, forward contract with employee, other shareholder (SPV - no fees, SPV - with fees, venture capital fund).
- **Price history**. Offer price valuation vs last round valuation, historical price trend (if available).
- **Transaction size**. Minimum offer size and maximum amount available.
- **Purchase agreement**. Legal counterparty, reps/warrants, trade cancellation options.

**CHALLENGES**

1	2	3	4
Access	Best Pricing	Time to Close	Diversification
High minimum investment requirements, typically \$1.0m.	Price may be negotiated with seller. A higher purchase amount typically delivers better pricing.  Trading is over the counter, manual.	Months not hours/days.  Typically 60-90 days.	High investment minimums do not make diversification reasonable for most investors.  <i>A \$1.0m minimum investment to access 1 pre-IPO stock with a 1% portfolio allocation requires a \$100m investable portfolio.</i>

**SOLUTIONS**

**Syndicates**  
and  
**Special purpose vehicles (SPVs)**

Syndicates and SPVs pool investor cash together to;

- Reduce household pre-IPO stock minimum investment requirements,
- Improve pre-IPO stock price execution, and
- Increase household pre-IPO stock diversification.



## What is a private market stock syndicate?

A private market stock syndicate is a group of investors, professional or retail, that seek to pool their assets to purchase a single or basket of private market stocks.

There is typically no fee to join a syndicate.

Joining a syndicate does NOT require you to invest into any deal.

**Syndicate “Leads” source private market stock deals and push them to Syndicate Members for consideration and potential investment. Syndicate Members may also bring deals to the Syndicate Lead so the Syndicate Lead may push to syndicate members for consideration and potential investment.**

Pooling investor assets delivers benefits when purchasing pre-IPO stocks.

- Access. The average minimum purchase requirement to buy a pre-IPO stock is \$1.0m. Many investors seek a 5% or less portfolio allocation to pre-IPO stocks. This minimum purchase requirement keeps most investors out of the pre-IPO market. Pooling investor assets lowers minimum purchase requirements and allows more investors to have market access.
- Diversification. High minimum purchase requirements do not facilitate diversification in most investor portfolios. Pooling investor assets may lower minimum purchase requirements allowing investors to purchase more pre-IPO stocks with same portfolio allocation.
- Stock price. Pre-IPO stock trading happens over-the-counter and is manually. A larger trade provides leverage to negotiate a better price.



**A special purpose vehicle (SPV) is a Delaware limited liability corporation that is used to pool investor cash into one vehicle and buy an asset.**

**Pre-IPO stock is held in the SPV until there is a liquidity event; an acquisition or IPO.**

**SPVs are frequently used to buy pre-IPO stocks.**

**SPVs may purchase a single pre-IPO company or multiple pre-IPO companies.**

**If acquired, cash is distributed to investors.**

**If IPOed, public market stock shares of the company are distributed in-kind to investors.**



## How to Buy a SPV

- 1** RIA works conducts research and due diligence on pre-IPO stock(s)
- 2** RIA client signs the SPV agreements; LLC operating agreement, private placement memorandum, and subscription agreement.
- 3** RIA client wires money to the SPV's bank account.
- 4** RIA and their client view SPV investment at custodian (e.g. Fidelity, Schwab, Goldman, etc) and/or SPV's platform partner (e.g. Assure Glassboard, SMArtX, BridgePort, etc)

## SPV Frequently Asked Questions

- **Relationships**. Managing member runs LLC (general partner or GP) and manages other LLC members (limited partners or LPs). AG Dillon & Co acts as GP.
- **Partners**. GP works with fund administrator and outside counsel to open a Delaware LLC.
- **Investors**. RIA clients become members of LLC, or LPs. LPs must be accredited investors only.
- **Bank Account**. GP opens bank account for LLC.
- **Buying Pre-IPO Stock**. GP signs purchasing agreement with pre-IPO stock seller and institutional trader. SPV's outside counsel reviews and approves purchase agreement before signing.
- **Tax**. Most SPVs that invest into pre-IPO stocks do not issue K-1s to LPs since there is no activity within SPV in the tax year.
- **Liquidity**. Most SPVs do not allow LP redemptions to avoid a corporate action and generate a K-1 for all SPV LPs. LPs must simply buy and hold until there is a liquidity event.
- **Distributions**. Multi-company pre-IPO SPVs distribute proceeds to LPs for each pre-IPO company when that respective company has a liquidity event; cash if acquired, securities if IPOed.
- **Fees**. SPVs typically charge a one-time, up-front management fee on the total amount invested into SPV and carried interest on the investment gain.





# Special purpose vehicles (SPVs) - RIA considerations when investing into SPVs

## Custody

Client SPV shares may be custodied at Schwab, Fidelity, TD Ameritrade, Goldman, Axos Clearing, and many other traditional RIA custodians.

## Billing

Advisors may include SPVs in their assets under management calculation. SPV GPs may deliver owned pre-IPO stock value for each LP on a quarterly basis. In general, SPV GPs do not mark-up pre-IPO stock holdings until there is a liquidity event; i.e. SPV pre-IPO stock value is the original cost basis.

## Performance Reporting

SPV GPs should provide quarterly updates on SPV performance. Updates may include, but are not limited to, the following;

- Current valuation and historical valuation trends
- Company funding update
- Known company performance updates; both quantitative and qualitative
- Known key persons changes to management team

## Taxes

SPVs generally do not issue K-1s. However, from time to time a K-1 may be required if a taxable event occurs within the SPV; e.g. company issues a dividend or distributes capital, a SPV LP sells SPV shares, the company has a liquidity event (acquired or IPO).

## Liquidity

SPVs generally do not allow for redemptions or approve LPs to sell their interest to a 3<sup>rd</sup> party, unless required by law. This type of transaction activity generates taxable events and requires all LPs of the SPV to receive a K-1.





AG Dillon & Co

**AG Dillon & Co is a pre-IPO equity asset management company. We partner with registered investment advisors and independent broker-dealers.**

We provide the following services to RIAs/IBDs.

- Pre-IPO stock due diligence / research
- Pre-IPO stock syndicate
- SPV construction and management
- Custody solutions via traditional RIA custodians
- Ongoing performance reporting
- Statements for RIA billing





# Syndicate

**The AG Dillon Pre-IPO Equity Syndicate is a pre-IPO equity investing club led by AG Dillon & Co. The Syndicate is open to all RIAs, independent broker-dealers, and accredited investors.**

**No membership fee. No requirement to invest in any deal.**

**Transparency on pre-IPO market activity and single company or multi-company special purpose vehicles (SPVs).**

AG Dillon & Co structures special purpose vehicles (SPVs) to pool RIA/IBD client assets and seeks to;

- Reduce household pre-IPO stock minimum investment requirements,
- Improve pre-IPO stock price execution, and
- Increase household pre-IPO stock diversification.

AG Dillon & Co partners with RIA/IBD investment committees and new product committees to complete all pre-IPO stock research/due diligence and provide on-going performance reporting.

## The AG Dillon Pre-IPO Equity Index measures the valuation performance of each quarters' 15 largest developed market private companies.

Private companies must be included in Pitchbook, backed by venture capital funds, and raised capital in the last 24 months to qualify for inclusion in the index.

The index consists of quarterly vintages which are not rebalanced or reconstituted.

Valuation performance is provided as price per share information is not consistently available for all constituents.

Private company valuations are based on material funding rounds led by venture capital firms. Secondary market transactions are not considered.

[Click here](#) to download the latest AG Dillon Pre-IPO Equity Index fact sheet.

### Q2 2022 sample constituents.

 stripe

\$95b mrkt cap  
Online payments  
United States

 databricks

\$38b mrkt cap  
Data warehouse  
tech  
United States

 SPACEX

\$74b mrkt cap  
Space - ships,  
satellites  
United States

 Revolut

\$33b mrkt cap  
Online bank  
accounts  
United Kingdom

 Klarna

\$45b mrkt cap  
Online consumer  
credit  
Sweden

 FTX

\$32b mrkt cap  
Crypto exchange  
Bahamas

 Canva

\$40b mrkt cap  
Marketing tech  
Australia

 EPIC  
GAMES

\$28b mrkt cap  
Video games  
United States

 instacart

\$39b mrkt cap  
Grocery/local  
delivery  
United States

 chime

\$25b mrkt cap  
Online bank  
accounts  
United States



# Why AG Dillon & Co to invest in pre-IPO stocks – World class partners

## LEGAL COUNSEL

**Morgan Lewis**



Sheryl Orr  
Partner, Corporate  
[Bio](#)

Joe Zargari  
Partner, Private Investment Funds  
[Bio](#)

Christine Lombardo  
Partner, Investment Managers  
[Bio](#)

[www.morganlewis.com](http://www.morganlewis.com)

2,000+ attorneys

A-list Law Firm 2020 – The American Lawyer

#35 best law firm in the world  
– The Vault's Annual Associate Survey 2021

## FUND ADMINISTRATION

**ASSURE**



Irene Barboza  
Client Experience Manager  
[Bio](#)

[www.assure.co](http://www.assure.co)

1,600+ clients served

8,000+ closed and managed SPVs

\$9.6b SPV assets under management

## MARKET DATA PROVIDER

**PitchBook**



Jason Wierzel  
Account Manager  
[Bio](#)

[www.pitchbook.com](http://www.pitchbook.com)

Private market data provider including...

3.3 million companies

1.6 million deals

390,000 investors

79,000 funds

## PRE-IPO INSTITUTIONAL TRADING

**Forge**



[www.forgeglobal.com](http://www.forgeglobal.com)

Simon Yun  
Director, Private Capital Markets  
[Bio](#)

**Zanbato**



[www.zanbato.com](http://www.zanbato.com)

Akrati Johari  
Chief Growth Officer  
[Bio](#)

**Nasdaq**  
Private Market



[www.nasdaqprivatemarket.com](http://www.nasdaqprivatemarket.com)

Sharif Khaleel  
Managing Director  
[Bio](#)

**EQUITYZEN**



[www.equityzen.com](http://www.equityzen.com)

Tommy Gambon  
Investment Associate  
[Bio](#)

**SHARENET**



[www.sharenet.com](http://www.sharenet.com)

Chris Calvert  
Managing Director  
[Bio](#)



AG Dillon & Co

# Why AG Dillon & Co to invest in pre-IPO stocks – Dillon's experience



## Aaron Dillon

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### Dillon's pre-IPO stock experience

- 5,500%+ realized return on SoFi pre-IPO stock investment
- 4,000%+ unrealized return on KraneShares ETFs pre-IPO stock investment
- 10 other pre-IPO stock investments including SilkFAW ([www.silkfaw.com](http://www.silkfaw.com)), Public.com, Callin ([www.callin.com](http://www.callin.com)), Kinly ([www.bekinly.com](http://www.bekinly.com)), Paga ([www.mypaga.com](http://www.mypaga.com))
- Assisted 40+ fintech challenger banks launch online bank account offerings, assisted with seed capital raising (SoFi/Galileo, [www.galileo-ft.com](http://www.galileo-ft.com))

### Dillon's fund management and passive investing experience

- Co-founded KraneShares ETFs and ran day-to-day operations for SEC 1940 Act funds
- Head of wealth management division at FTSE Russell Indices and constructed indices for ETFs, direct indexing, and passive SMAs

### Dillon's RIA/IBD servicing experience

- Managed investment product platforms at Morgan Stanley Wealth Management and TD Ameritrade and ensured compliance with SEC and Finra regulation while understanding and meeting financial advisor needs.

### Dillon's companies and roles – see [LinkedIn bio](#) for more:

- SoFi – Managing Director – Wealth Management, Galileo division
- London Stock Exchange / FTSE Russell Indexes – Managing Director, US Wealth Mgmt
- KraneShares ETFs – Co-founder, Managing Director
- TD Ameritrade – Director, Head of Mutual Fund & ETFs
- Morgan Stanley Wealth Management – VP, Investment Products & Managed Accounts



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