

When tech companies go public, employees can strike it rich—or not

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Five years ago when Facebook went public, employees of the social network were glued to office televisions airing CNBC, waiting for the company's trading price.

"Everyone was hoping for a pop," said Dan Fletcher, a former Facebook employee, referring to the spike in [stock](#) price that some companies experience after an [initial public offering](#).

Facebook debuted at \$38 a share. When the first trade of the day came back at \$42.05 - a gain of nearly 10 percent - everyone erupted in cheers.

Then, a moment of quiet.

"You could see everyone's eyes sit back in their heads as they did the mental math," said Fletcher. "How much are my shares worth?"

Tech IPOs have minted millionaires, with stories of even janitors who worked at Google striking it rich after the [company](#) went [public](#) in 2004. As Snap Inc. hurtles towards its own IPO, which is expected to be one of the biggest in Los Angeles history, many await a life-changing payday.

By the end of 2016, the LA company had issued \$679 million in [stock options](#) that had vested or were expected to vest. These allowed early employees to buy shares that had vested well ahead of the IPO. It had also issued \$2.7 billion worth of restricted stock units - shares typically

offered to later hires that only become liquid after a certain date is reached or certain personal or corporate performance benchmarks have been met.

This means that of Snap's 2,000 employees, hundreds could potentially become on-paper millionaires if the company goes public at its ambitious \$22.2 billion valuation. But many also stand to come away with much less, or nothing at all.

"People assume that everyone who works at a company that has just gone public is instantly, phenomenally wealthy," said Lise Buyer, an IPO consultant at Class V Group. "It doesn't work that way."

Many factors determine how much money an employee makes from an IPO, including when a person joined a company, how many stock options or restricted stock units they received, and when they decide to sell. An early employee might be able to exercise stock options at, say, 50 cents a share, while a later employee might pay \$30.

"Timing is everything," Buyer said.

Yet, despite the precarious nature of stock-based compensation, it remains a deeply ingrained tech industry tradition. Employees routinely forfeit higher salaries for more stock. A startup's likelihood of going public is often a determining factor in joining a company. And even though the entire premise is a gamble - one that can breed anxiety, envy and resentment - many tech workers cross their fingers and place enormous hope in their bet.

"You drink the Kool-Aid," said Joseph Lee, a former Solar City employee who joined the company as an analyst 11 months before it went public - awarding him stock that matched a year's salary when he sold. "The company keeps pitching you that we're growing, we're doing

well, and once you get into it, people tend to get a little greedy. I know I did."

For many workers, being at a company as it goes public can be an emotional roller coaster, and one that is rarely acknowledged because of the taboo of discussing personal wealth. According to former employees of companies that have gone public, workers often grapple with their own anxieties about when to sell stock, while also dealing with feelings of envy upon learning that colleagues may have made more from an IPO.

"It's a natural human emotion," said Mike Vorhaus, president of Magid Advisors, who has advised technology companies for more than 20 years. "You hear people say things like, 'I got 50,000 shares vesting over four years, and I heard that Bob, who does what I do, got 100,000 shares, and the only difference is we started a week apart.' People get disgruntled about it."

Employees at Snap who received stock options were offered the opportunity to buy at different strike prices pegged to the company's private-market valuation when they joined. Restricted stock units, meanwhile, are outright given to employees and are pegged to the company's valuation at the time they vest. Different amounts are typically awarded to employees based on seniority, start date and performance.

When it comes time to cash out, though, the two kinds of stock receive different tax treatments: Stocks may be treated as long-term capital gains, which are generally taxed at 15 percent, whereas restricted stock units may be taxed at ordinary income rates, which can exceed 39 percent at the federal level, not to mention applicable state taxes.

These complexities are rarely discussed, often leading outsiders to

assume a person who was part of an IPO has suddenly come into enormous wealth. Employees who have been at companies that went public speak of financial managers circling them on professional networks such as LinkedIn with the hope of managing their new-found, on-paper wealth. There are the awkward conversations with family and friends, who assume they've become millionaires. And there's also the so-called Google premium - the markup on homes and cars when sellers learn that the buyer was part of an IPO.

And those are just the external pressures. Many employees who have been through IPOs say nervousness spikes during the lockup period - the 90 to 180 days immediately following a public offering in which employees can't sell their stock. Then there's the internal pressure to sell at the right time once that period is over. Snap's lockup period for employees is 150 days.

Fletcher, who was a managing editor on Facebook's communications team, joined the company in 2012, months before it went public. By the time Facebook's lockup period was over, its stock had fallen below \$20. Fletcher was only at the company for a year and sold all his vested stock when it was valued at \$18, grazing the company's all-time low of \$17.55. Facebook's stock today trades at \$133.

"It was painful," said Fletcher, who sold on the advice of his accountant father. He put some of the \$40,000 he made toward his own startup, and the rest in a mutual fund. "It was tough at the time to say Facebook would be the money-making machine it is now," he said. "I elected to diversify my risk, which is safe, but I definitely wish I'd held onto half of it."

Facebook, for its part, went to great lengths to remind its workers that the IPO was not the end of the road for the company, telling employees that going public meant different things to different people.

A growing number of companies are doing the same, according to Buyer, who said managing employee expectations is a big part of going public.

"Whether an employee is worth \$100,000 or \$1 million, they need to keep their heads down or none of it will be worth that much," Buyer said.

Young tech companies such as Snap are typically valued on their growth potential, rather than how much money they're making today. Which means the \$22.2 billion valuation Snap is seeking could easily fall short if the company fails to meet its growth and revenue goals. Just ask Twitter.

And tech workers, hopeful as they may be, are increasingly managing their own expectations, too. A former employee of Twilio, who declined to be named because he didn't feel comfortable discussing his personal wealth, said he and his peers downplayed their potential windfall from the company's IPO last year by joking about whether they'd be able to afford a Honda Civic after the company went public.

"The running joke after Twilio stock popped was maybe I can get leather seats on my Civic," he said. "It was a defense mechanism, to keep a reality check on the situation."

The Twilio employee held onto his stock after the company went public. If he sold all of it today, he could probably buy a dozen Honda Civics.

Companies sometimes allow employees to sell a portion of their equity on a secondary market prior to going public. Snap did not allow this, although some employees reportedly found workarounds. And while this is arguably a safer bet than waiting for a company to go public, it can also sting if a firm's stock soars post-IPO.

One Twilio [employee](#) sold the bulk of his stock on the secondary market when the company's stock was privately valued at \$10 a share. The company went public at \$15 a share, and its stock price today hovers above \$30.

It's human nature to second-guess ourselves. When Buyer advises executives and employees who are about to go through an IPO, she reminds them that if they made some money from it - even if it's less than the person next to them or what they could have made if they'd sold earlier or later - then it was still a profit.

And that's the attitude Fletcher maintains. It's been four years since he sold his Facebook stock. He still checks the [stock price](#) every few weeks to figure out how much his dad's advice cost him.

"It's a difference of a few hundred thousand dollars now - not huge by Facebook standards, but better than my mutual fund," he said. "To his credit, though, my dad admits that was a lousy call."

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