Council of Institutional Investors®
The voice of corporate governance

February 13, 2019

Sean Aggarwal, Director
Jonathan Christodoro, Director
Ben Horowitz, Director
Valerie Jarrett, Director
David Lawee, Director
Hiroshi Mikitani, Director
Ann Miura-Ko, Director
Maggie Wilderotter, Director
c/o Kristin Svercheck, General Counsel

Lyft, Inc.
185 Berry St., #5000
San Francisco, CA 94107

Re: Strengthening Lyft's long-term prospects through a 7-year sunset on dual class structure

Dear Messrs. Aggarwal, Christodoro, Horowitz, Lawee and Mikitani and Mses. Jarrett, Miura-Ko and Wilderotter:

I am writing on behalf of the Council of Institutional Investors (CII) in response to public reports that Lyft is planning to adopt a dual-class structure granting co-founders Logan Green and John Zimmer a class of shares with super-voting rights.[1] If the company must go in this direction, CII would encourage the Lyft board to adopt a sunset provision automatically converting the capital structure to one class of common stock with one vote per share within seven years.

CII is a nonpartisan, nonprofit association of public, corporate, and union employee benefit funds, other employee benefit plans, foundations and endowments with combined assets under management of $4 trillion. Our member funds include major long-term shareholders with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than $35 trillion in assets under management, most also with long-term investment horizons.[2] CII members share a commitment to healthy public capital markets and strong corporate governance.

The principle of one-share, one-vote is a foundation of good corporate governance and equitable treatment of investors. CII believes public companies should provide all shareholders with voting rights proportional to their holdings. While the first policy adopted by CII in 1985 endorsed one-share, one-vote, CII members have since approved a statement on expectations for

[1] Maureen Farrell and Cara Lombardo, "Lyft Founders to Tighten Grip With Supervoting Shares in IPO," *The Wall Street Journal*, February 12, 2019.
[2] For more information about the Council of Institutional Investors (Council or CII) and our members, please visit the Council's website at http://www.cii.org/about_us.

newly public companies that calls for those using unequal voting structures to adopt sunset mechanisms that revert to one-share, one-vote within a reasonably limited period.[3]

CII was disappointed to learn that, after providing equal voting rights to shareholders as a private company, Lyft apparently plans to adopt an unequal voting structure as it enters public markets. According to reports, the co-founders will wield majority voting control despite together owning less than 10% of the company's equity, creating a substantial misalignment between those with control and those exposed to the economic consequences of that control. We note that many dual-class structures collapse to one-share, one-vote when founders' ownership falls below a 10% threshold, so it appears that Lyft will be an outlier from the outset.

We urge the board to adopt a seven-year sunset reverting the capital structure to one-share, one-vote within that period. In or view, this moderate step would substantially mitigate the adverse effects of misalignment, which only worsen over time. Seven years offers a figure both commonly chosen by recent IPO companies and supported by empirical studies of dual-class company performance.

Last year, EVO Payments, Bloom Energy and Smartsheet held dual-class IPOs with three, five and seven year sunsets respectively. Other recognizable technology companies to take this approach include Groupon, which went public in 2011 with a five-year sunset and successfully collapsed its unequal voting structure in 2016; MaxLinear, which went public in 2010 with a seven year sunset and reverted to one-share, one-vote in 2017; Yelp, which went public in 2012 with a seven year sunset and collapsed its dual-class structure two years early in 2017; and Mulesoft, Kayak, Apptio and Mindbody, all of which went public with sunsets of seven years or less and were acquired before those provisions were triggered.[4]

One recent study of dual-class company performance found that even at innovative companies where unequal voting structures correlate to a value premium at the time of the IPO, that premium dissipates within six to nine years before turning negative.[5] Another study found that dual-class structures correlate with more innovation and value creation in the period shortly after an IPO, but within six to 10 years, the costs of the unequal voting structures outweigh the benefits. The study's authors conclude, "Our findings lend credence to the recent call from shareholder advocacy groups that if dual class structures should be allowed at all, they should face rigorous sunset provisions and be eliminated in a certain period post-IPO."[6]

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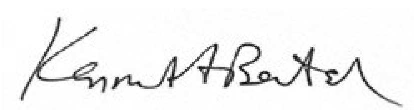
[3] CII Corporate Governance Policies (Section 3.3) provides that, "Each share of common stock should have one vote. Corporations should not have classes of common stock with disparate voting rights."
CII's member-approved Investor Expectations for Newly Public Companies states, "Upon going public, a company should have a 'one-share, one-vote' structure…CII expects newly public companies without such provisions to commit to their adoption over a reasonably limited period through sunset mechanisms."
[4] See CII's List of Companies with Time-Based Sunset Approaches to Dual-Class Stock.
[5] Martijn Cremers, et al., *The Life-Cycle of Dual Class Firms*, November 2017, "We find that the initial dual class valuation premium is temporary and disappears within 6 to 9 years after the IPO…The declining valuations of dual- versus single-class firms suggests that potentially increased agency problems at mature dual class firms may be mitigated by a mandatory sunset provision for dual class structures, as advocated by Bebchuk and Kastiel;" *See* Lucian Bebchuk and Kobi Kastiel, *The Untenable Case for Perpetual Dual-Class Stock*, April 2017.
[6] Lindsay Baran, et al., *Dual Class Share Structure and Innovation*, May 2018.
For more research, see CII's Summaries of Key Academic Literature on Multi-Class Structures and Firm Value.

Based on the experience of numerous dual-class companies specifically, and the results of empirical research generally, we believe a sunset of seven years offers an appropriate period to harness whatever benefits of innovation and control a dual-class structure may provide while mitigating the agency costs it imposes over time. We remain convinced that one-share, one-vote is the best model for sustainable value creation in the long term. As SEC Commissioner Robert Jackson said in a speech last year, "If you run a public company in America, you're supposed to be held accountable for your work—maybe not today, maybe not tomorrow, but someday."[7]

After six years as a private company fundamentally altering the transportation sector, we are excited that Lyft is taking this momentous step into public markets. Public company investors have demonstrated time and again that they will support innovation and investment for the long term, as has been the case for decades at Amazon, Apple and many other companies. While establishing accountability to new owners does not always maximize comfort and compensation for management, we believe accountability is important for performance longer term, especially through bumps in the road that every company will experience. We hope that if the board feels compelled to grant Lyft's founders super-voting rights, it will also adopt a time-based sunset to enfranchise the company's public shareholders within seven years.

Thank you for considering CII's views. If you have any questions or would like to discuss this further, please contact me at ken@cii.org or (202) 822-0800.

Sincerely,



Kenneth A. Bertsch
Executive Director

Cc: Eric Stein, Head of Investment Banking – North America, J.P. Morgan
Madhu Namburi, Managing Director, Head of Technology Investment Banking, J.P. Morgan
Kristin Svercheck, General Counsel, Lyft

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[7] Robert Jackson, *Perpetual Dual-Class Stock: The Case Against Corporate Royalty*, February 15, 2018.