Council of Institutional Investors®
The voice of corporate governance

March 11, 2019

Stephen C. Neal, Chairman of the Board of Directors
Charles V. Bergh, President, CEO and Director
Troy Alstead, Director
Jill Beraud, Director
Robert Eckert, Director
Spencer C. Fleischer, Director
Christopher J. McCormick, Director
Jenny Ming, Director
Patricia Salas Pineda, Director
c/o Seth R. Jaffe, EVP and General Counsel

Levi Strauss & Co.
1155 Battery St.
San Francisco, CA 94111

Re: Levi's Unequal Voting Structure

Dear Messrs. Neal, Bergh, Alstead, Eckert, Fleischer and McCormick and Mses. Beraud, Ming and Paneda:

I am writing on behalf of the Council of Institutional Investors (CII) to express concern that Levi Strauss & Co. (Levi's) is going public with a dual-class unequal voting structure that severely limits accountability to public shareholders over the long term and lacks a meaningful sunset provision. As structured, descendants of the founder's family holding Class B shares will carry super-voting rights entitling them to 10 votes per share. CII encourages the board to incorporate a sunset provision automatically converting the company's 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.[1] 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. As a result of Levi's dual-class structure, Class A holders

[1] 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.

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will control a mere 1% of the vote in return for 10% of the company's equity. Descendants of the founder's family will wield 99% of the company's voting power despite holding 90% of its economic rights. And as the company grows in the future, it is likely that the family owners will come to hold a much smaller proportion of the equity, even far less than 50%, while maintaining control of the company. No controlling family is infallible, and this misalignment of ownership and controlling interests undermines the health and fairness of the capital markets.

Market participants have repeatedly underscored the importance of alignment through the principle of one-share, one-vote. Index providers have recently moved to discourage dual-class structures. As currently constituted, Levi's will not be included in the S&P 1500 Composite or its component indices, including the S&P 500. The Russell 3000 and other FTSE Russell indices similarly exclude new listings that leave less than 5% of voting power in the hands of "unrestricted" investors.

As long-term investors, we believe a decision by the Levi's board to go public with a dual-class structure will undermine the confidence of public shareholders in the company. Independent boards accountable to owners should be empowered to actively and nimbly oversee, adapt and make course corrections in the company when appropriate. Disenfranchised public investors have no ability to influence the board or management when the company encounters performance challenges, as most do at some point, particularly where directors are ultimately accountable only to a controlling family with the right to retain super-voting rights in perpetuity.

While the first policy adopted by CII in 1985 endorsed one-share, one-vote, CII members have since approved a statement on expectations for 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.[2] We urge the board to adopt a sunset provision reverting Levi's to one-share, one-vote within seven years. In our view, a seven-year sunset 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 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.[3]

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[2] 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."
[3] See CII's List of Companies with Time-Based Sunset Approaches to Dual-Class Stock.

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.[4] 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."[5]

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."[6]

Levi's thrived as a single-class, one-share, one-vote company during its last stint as a public company three decades ago, becoming the world's largest apparel maker at the time. Public 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 the board will 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

[4] 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.
[5] 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.
[6] Robert Jackson, *Perpetual Dual-Class Stock: The Case Against Corporate Royalty*, February 15, 2018.