Council of Institutional Investors®
The voice of corporate governance

November 8, 2018

R. Duff Thompson, Chairman of the Board
Murray Demo, Independent Director
Jeffrey Lieberman, Independent Director
R. Bryan Schreier, Independent Director
Kimball Malone Scott, Independent Director
Ryan Sweeny, Independent Director
c/o David Faugno, Chief Financial Officer

Qualtrics International Inc.
333 West River Park Dr.
Provo, UT 84604

Re: Qualtrics International's Multi-Class Structure

Dear Messrs. Thompson, Demo, Lieberman, Schreier, and Sweeny and Ms. Scott:

I am writing on behalf of the Council of Institutional Investors (CII) to express concern that Qualtrics International Inc. is going public with a multi-class structure with unequal voting rights that severely limits accountability to public shareholders over the long-term. By design and despite the inclusion of numerous sunset provisions, the structure grants founders Ryan, Jared, and Scott Smith majority control in perpetuity through their ownership of Class A-2 shares carrying 10 or more votes each.

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 exceeding $3.5 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 $25 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 essential to the equitable treatment of investors, as validated by the vast majority of U.S. companies to IPO in recent years with equal voting rights.[2] CII frequently writes to the minority of companies going public with multi-class structures urging them to reconsider using unequal voting structures or to adopt sunset provisions reverting to one-share, one-vote within seven years.[3] Qualtrics, however,

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[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.
[2] CII 2017–2018 IPO Statistics.
[3] CII's member-approved Investor Expectations for Newly Public Companies: "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."

is not an average multi-class company. Qualtrics's structure entrenches the founders' control over time and includes ineffectual sunset provisions.

By virtue of their super-voting rights, Qualtrics's founders and other insiders will wield 98% of the company's voting power despite owning 85% of its equity post-IPO. CII is concerned that over time as Qualtrics grows, insiders will come to hold a much smaller proportion of its equity, even far less than 50%, while maintaining control of the company. Compounding this concern are provisions guaranteeing the holders of Class A-2 shares 51% of voting power so long as they own just 10% of the company's equity. Over time, ownership and controlling interests will severely misalign as the founders' voting rights automatically increase at the expense of public investors.

Many multi-class companies in recent years have chosen to mitigate the effects of unequal voting rights by incorporating meaningful sunset provisions. Since 2010, 24 multi-class companies—including recognizable names like Yelp, Fitbit, MuleSoft, and Eventbrite—included time-based sunsets at IPO.[4] So far in 2018, one-third of multi-class IPOs have featured time-based sunsets, up from one-quarter last year. After going public with time-based sunsets in 2004, 2010, and 2011 respectively, Texas Roadhouse, MaxLinear, and Groupon collapsed their multi-class structures in seamless transitions to one-share, one-vote. Yelp, which included both a time-based and dilution sunset, reverted to one-share, one-vote four years after IPO when the super-voting class fell below 10% of outstanding shares. These companies, while granting disproportionate control to insiders upon going public, sent meaningful signals to public investors that they would have equal voting rights within reasonably limited periods.

Despite the inclusion of numerous sunset provisions, Qualtrics has no meaningful limitation or expiration date on the unequal voting structure. The Smiths may transfer their super-voting shares to family members and lineal descendants, rendering hollow the transfer and death/incapacity sunsets that would otherwise convert them to Class B shares. The unequal structure will collapse through a voting sunset with a two-thirds majority, but only Class A-1 and A-2 holders get to vote while Class B public shareholders remain entirely disenfranchised. And Qualtrics will revert to one-share, one-vote on the fifteenth anniversary of its IPO, but *only if* Class A-2 shares comprise less than a mere 5% of outstanding shares at that time. If not, the time-based sunset is rendered completely ineffectual and the founders retain majority control in perpetuity.[5]

CII fundamentally believes that public companies should provide all shareholders with voting rights proportional to their holdings. No founders are infallible, and the potential for severely misaligned ownership and controlling interests will undermine the confidence of public investors in Qualtrics. We strongly urge the board to reconsider using a structure with unequal voting rights and such stringent control provisions as a public company, or, failing that, to incorporate meaningful sunset provisions that revert to one-share, one-vote in no more than seven years.

Independent boards accountable to owners should be empowered to actively oversee management and make course corrections when appropriate. Disenfranchised public shareholders have no ability to influence management or the board when the company encounters performance

[4] CII List of Companies with Time-Based Sunset Approaches to Dual-Class Stock.
[5] Qualtrics International, Inc., Form S-1/A, November 5, 2018, 154–156.

challenges, as most do at some point, particularly where management is accountable only to itself and the board that it appoints.

We acknowledge that in recent years, some companies with dynamic leadership and innovative products have attracted capital on public markets despite using multi-class structures. However, the performance record of these companies is decidedly mixed, with some studies finding a substantially lower total shareholder return compared to their one-share, one-vote counterparts after 10 years.[6] Another study found that even at innovative companies where multi-class structures correlate to a value premium at the time of the IPO, that premium dissipates within six to nine years before turning negative.[7] A final recent study found that multi-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.[8]

Based on the experience of numerous multi-class companies successfully using sunsets and the results of recent empirical studies, we believe a sunset of seven years or less affords an appropriate period to harness whatever benefits of innovation and control a multi-class structure may provide while mitigating the agency costs it imposes over time. In the long-term, one-share, one-vote with enfranchised public investors is the best structure for sustainable value creation. As SEC Commissioner Robert Jackson said in a February 2018 speech, "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."[9]

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 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 within a reasonable period of time, Qualtrics will enfranchise public investors with voting rights that match their ownership of the company.

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[6] Average annual TSR at multi-class companies over 10 years was 5.7 percent, compared with 8.5 percent at non-controlled companies and 7.4 percent at controlled companies with single-class structures. IRRC Institute, *Controlled Companies in the Standard & Poor's 1500: A Ten Year Performance and Risk Review*, October 2012; and *Controlled Companies in the Standard & Poor's 1500: A Follow-Up Report of Performance & Risk*, March 2016.

[7] Martijn Cremers, Beni Lauterbach and Anete Pajuste, *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.

[8] Lindsay Baran, Arno Forst, and M. Tony Via, *Dual Class Share Structure and Innovation*, May 2018: "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." For more research, *see* CII Summaries of Key Academic Literature on Multi-Class Structures and Firm Value.

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

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