Council of Institutional Investors®
The voice of corporate governance

February 27, 2018

Margaret C. Whitman
Independent Director and Chair, Nominating and Corporate Governance Committee
c/o Bart Volkmer, General Counsel
Dropbox, Inc.
333 Brannan St.
San Francisco, CA 94017

Re: Dropbox's Multi-Class Structure

Dear Ms. Whitman,

I am writing on behalf of the Council of Institutional Investors (CII), 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. We are concerned that Dropbox, Inc. is going public with a triple-class structure that severely limits accountability to public shareholders over the long-term and lacks a meaningful sunset provision (notwithstanding that Class B shares convert to Class A shares within 18 months of the death or disability of both co-founders). Dropbox proposes to issue low-voting shares upon going public and will have the authority to issue shares with no voting rights whatsoever.

The principle of one share, one vote is a foundation and core value of good corporate governance and equitable treatment of investors. CII believes public companies should provide all shareholders with voting rights proportional to their holdings. Newly public companies that do not should sunset the unequal structure over a reasonable period of time.[2] We strongly urge the Dropbox board to reconsider using a multi-class structure as a public company, or, failing that, to incorporate sunset provisions that revert to one share, one vote within seven years. And we urge that Dropbox make no use of Class C non-voting shares.

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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 Investor Expectations for Newly Public Companies: "Upon going public, a company should have a 'one share, one vote' structure, simple majority vote requirements, independent board leadership and a non-classified board. CII expects newly public companies without such provisions to commit to their adoption over a reasonably limited period through sunset mechanisms."

When CII was formed in 1985, the first policy adopted was the principle of one share, one vote.[3] The importance of this approach has been underlined repeatedly by market participants since then, including recent moves by index providers to discourage multi-class structures. As structured, Dropbox 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 also exclude new listings, presumably like Dropbox, that leave less than 5% of voting power in the hands of "unrestricted" investors. MSCI has proposed substantially reducing the weight of multi-class listings in its indices and zeroing the weight of non-voting shares.[4] Dropbox apparently will be the first U.S. company to go public on a U.S. exchange with the authority to issue non-voting shares since the indices introduced these policies.

As long-term investors, we believe a decision by Dropbox to go public with the triple-class structure will undermine confidence of public shareholders in the company. 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 challenges, as most companies do at some point, and especially where management is accountable only to itself and the board that it appoints. In this context, we are particularly concerned about the non-voting share class, the lack of a reasonable time-based sunset provision.

We acknowledge that in recent years, some technology companies with dynamic leadership and popular products, like Dropbox, have attracted capital on public markets despite having multi-class structures. However, the performance record of multi-class companies is decidedly mixed, with some studies finding a substantially lower total shareholder return compared to their single-class counterparts after 10 years.[5] Another study found that even at innovative companies where multi-class structures provide a value premium at the time of the IPO, that premium dissipates within six to nine years before turning negative.[6] The evidence against multi-class structures enhancing company value beyond the short-term weighs is a factor in our support for meaningful, time-based sunsets.

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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. Authorized, unissued preferred shares that have voting rights to be set by the board should not be issued without shareowner approval."

[4] The preliminary Dropbox prospectus briefly mentions the FTSE Russell and S&P policies (pages 38-39), but does not reference interim rules and a longer-term proposal that would affect Dropbox weighting in core MSCI equity indexes.

[5] 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. The 2016 study concludes that "Controlled companies featuring multiple classes of stock generally underperformed on a broad swath of financial metrics over the long term [and] are perceived as having more financial risk" than non-controlled firms. 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.

[6] 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.

Recognizable technology companies like Yelp, Fitbit, Kayak, Twilio, and Mulesoft all went public with time-based sunsets. Public shareholders at these companies know that they will have a say in company matters equal to their ownership interests within reasonable periods of time. In 2016, Groupon collapsed its dual-class structure and adopted one share, one vote after a five-year sunset expired, and in 2017, MaxLinear did the same after its seven-year sunset lapsed. More companies went public with time-based sunsets in 2017 than in any other year.[7] As SEC Commissioner Robert Jackson said in a recent 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."[8]

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 many years at Amazon and so 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, including through bumps in the road that every company will experience. Dropbox should not drop the ball on this opportunity to show prospective public investors that it will trust them as owners of the company.

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

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[7] CII List of Companies with Time-Based Sunset Approaches to Dual-Class Stock.
[8] Robert Jackson, *Perpetual Dual-Class Stock: The Case Against Corporate Royalty*, February 15, 2018.