

March 25, 2019

Jeffrey Jordan, Director  
Leslie J. Kilgore, Director  
Jeremy S. Levine, Director  
Fredric G. Reynolds, Director  
Michelle Wilson, Director  
c/o, Christine Flores, General Counsel  
Pinterest, Inc.  
505 Brannan Street  
San Francisco, CA 94107

Dear Outside Directors of Pinterest:

I am writing to you on behalf of the Council of Institutional Investors (CII) regarding the decision of the board of Pinterest to list shares with special voting rights for co-founders, executive officers, employees and directors and their affiliates. Specifically, we would respectfully request that the board consider “sunsetting” the special voting rights for all Class B shares within seven years of IPO, albeit potentially with a mechanism to extend the structure for additional terms, if approved by each class of shares voting separately.

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.<sup>1</sup> CII members share a commitment to healthy public capital markets and strong corporate governance.

The preliminary Pinterest S-1 published March 22 indicates that the dual class structure will concentrate voting control with certain stockholders, and that Class B holders will control a majority of voting power unless and until Class B shares represent less than 4.76% of outstanding capital stock.

The Pinterest board provides that any Class B holder who holds less than 50% of Class B shares that they owned immediately prior to the IPO will lose the special voting rights after seven years. However, this is not a sunset on the structure that we are requesting in this letter. We believe the dual-class structure should convert completely to one-share, one-vote at seven years or less, unless each class of shareholders approves extension of the structure for an additional term of no more than seven years (with the possibility of further extensions on the same basis after that).

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<sup>1</sup> 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](http://www.cii.org/about_us).

The gap between ownership and control at Pinterest will be exacerbated by (1) the 20:1 vote ratio the board chose for super-voting as compared with public shares, rather than the more standard dual class 10:1 vote ratio; (2) lack of meaningful dilution threshold (many dual class IPOs provide that when the super-voting shares account for 10% or less of common shares, the structure automatically converts to one-share, one-vote).

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 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.<sup>2</sup>

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.<sup>3</sup> 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."<sup>4</sup>

Most U.S. companies IPO with one-share, one-vote, including 89% of U.S. IPOs on U.S. exchanges in 2018.<sup>5</sup> But of the minority that choose dual class structures, an increasing number are choosing to incorporate clear, simple time-based sunsets that put a time-limit on all super-voting shares.<sup>6</sup> In our view, this moderate step substantially mitigates the adverse effects of misalignment, which only worsen over time.

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.

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<sup>2</sup> 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."

<sup>3</sup> 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.

<sup>4</sup> 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](#).

<sup>5</sup> See CII's [Dual-Class IPO Snapshot: 2017-2018 Statistics](#).

<sup>6</sup> See CII's [List of Companies with Time-Based Sunset Approaches to Dual-Class Stock](#).

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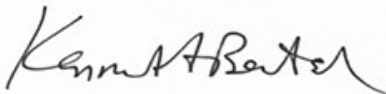
A lesser concern at Pinterest, but one I want to flag: the prospectus contemplates retaining the dual class structure for up to 540 days after the death or permanent incapacity of Mr. Silbermann. This is a longer period after death and incapacity than we have seen in other dual-class IPOs, and the reason for such a long period is not clear to us from the prospectus.

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.”<sup>7</sup>

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 one-share, one-vote 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.

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](mailto:ken@cii.org) or (202) 822-0800.

Sincerely,

A handwritten signature in black ink that reads "Kenneth A. Bertsch". The signature is written in a cursive style with a large initial "K".

Kenneth A. Bertsch  
Executive Director

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<sup>7</sup> Robert Jackson, [Perpetual Dual-Class Stock: The Case Against Corporate Royalty](#), February 15, 2018.