SHARETRIBE OY CASE STUDY

PURPOSE: DEMOCRATIZING THE SHARING ECONOMY

Sharetribe was founded in 2011 with the mission to democratize the sharing economy. The company provides a technology that enables individuals and organizations to launch, monitor, and manage their own online marketplace websites for renting or selling items or spaces, or for booking services without the need for technical skills or large capital resources. Today, the Finnish company is a thriving business with more than 1,000 customers across 70 countries worldwide. In the course of a financing round in 2018, Sharetribe's founders transitioned the company to steward-ownership to ensure that they would always be mission driven and independent. During the transition, Sharetribe raised steward-ownership aligned capital from professional investors and through an equity crowdfunding campaign.

KEY FACTS

- **Sector:** Sharing economy & peer-to-peer marketplaces
- **Location:** Helsinki, Finland
- **Revenue:** €1.8m
- **# Employees:** 24
- **Founded in:** 2011
- **Steward-owned since:** 2018

EXECUTIVE SUMMARY

Sharetribe was founded by Juho Makkonen and Antti Virolainen in 2011 offering a technology that enables individuals and organizations to set up their own online marketplaces. With their software products Sharetribe Go and Sharetribe Flex, they want to contribute to a more democratic sharing economy by enabling individuals and entrepreneurs to create spaces for sharing goods and services.

From the start, the founders were eager to build a company and infrastructure that truly leverages the positive aspects of sharing marketplaces. They wanted to prevent Sharetribe from being pushed into using its market power to exploit its customers. Instead, they ensured that the value created through their technology is distributed fairly and customers always have control over the conditions of their work and platform. Today, the Finnish company presents a real alternative to the current trend of commercialization and market capitalization that is symbolized by dominating sharing platforms such as Airbnb and Uber.[1]

Already an established business, in 2018 Sharetribe was looking for financing to launch and scale their second product, Sharetribe Flex. It was crucial to both founders that Sharetribe remained independent and true to its mission and that they would never be forced to exit or IPO by external shareholders. This motivated Juho and Antti to transition Sharetribe to steward-ownership. During the implementation process they were able to initiate a financing round raising €1.1 m in a steward-ownership aligned equity crowdfunding campaign. Today, their legal form and financing structure protects the company's independence and purpose in the long term whilst enabling it to take on new investments.

[1] see R. Loske 2019 or D. Baker 2014

THE SHARING ECONOMY AS A FORCE OF GOOD

The sharing economy has witnessed an extraordinary boom that is impacting the economy worldwide. Sectors such as mobility, housing, food sharing and crowdfunding are showing enormous growth rates and the industry is projected to grow to $335 billion globally by 2025.[2] Online marketplace providers have created opportunities to bring together supply and demand within seconds and many have been driven by the more idealistic motive to facilitate the use of underutilized resources.

In recent years, however, the sharing economy has witnessed a tendency of commercialization and market capitalization. The industry is now largely dominated by global giants often extracting large cuts from individual transactions and thus leaving little to be distributed to the people actually working through these platforms. Multi-billion dollar companies such as Etsy, Airbnb and Uber symbolize this development.

Sharetribe founders Juho Makkonen and Antti Virolainen have taken the claim *to make the world a better place* quite literally to their business. Having identified global challenges such as the environmental crisis, inequality and the loss of meaning, both founders believe that resource-efficiency and the democratization of the sharing industry are key to tackling those problems.[3] Offering a technology that enables the sharing of already existing resources instead of producing and extracting new ones, Sharetribe seeks to use its leverage as a business to actively create a net positive impact on society. To do so, Juho and Antti have identified three areas of impact:

- **Facilitating resource-efficiency on a large scale** by enabling anyone to set up an online sharing market and thus offering to re-use and co-use existing resources.

- **Helping smaller players compete with industry giants** and thus diversifying the sharing economy by offering an easily implemented and affordable tool and keeping the hurdle low to enter the sharing market.

- **Supporting people to work on things that matter** by providing an opportunity for people to easily implement (individual) business ideas.

[2.] see Sarote Tabcum Jr. (2019) [3.] see Juho Makkonen (2020)

> We are building a long term company and we are not planning to sell it.

– Juho Makkonen, co-founder and CEO of Sharetribe

MISSION-DRIVEN WAS NOT ENOUGH: ALIGNING OWNERSHIP

Although Sharetribe was mission- and impact driven from the start, when seeking to scale their company, Juho and Antti questioned whether that was enough to truly protect the independence and purpose of their company in the long term. They had witnessed businesses like Etsy and Airbnb having to put the maximization of their shareholders' profit first and compromise the companies' mission to tackle societal challenges as they grew and took on more traditional venture capital. The founders wanted to ensure that growth and externalities would not undermine their company's mission.

Juho and Antti were looking for a way to remain independent from the control of outside shareholders and to ensure that the Sharetribe management was forever incentivized to put the company's mission first. For them, the answer lay in the company's legal structure and corporate ownership. This was particularly apparent whilst looking for investors for their financing round in 2018; they realized that conventional ownership and financing models were based on incentives that were not aligned with their vision for Sharetribe. For them, this investment round was an important and maybe last chance to align their ownership and investment structure with their mission.

In their search for different models, Juho and Antti came across the concept of steward-ownership and alternative financing. After a deep-dive into the principles of steward-ownership and its implications for Sharetribe, they were confident that transitioning to steward-ownership was the right decision for Sharetribe. It would not only allow them to protect their company's mission-orientation, but also ensure that no future financing rounds would force them to exit or IPO in order to disburse investors. In 2018 Juho and Antti transitioned Sharetribe to steward-ownership using a Golden Share structure with the Purpose Foundation.

DEEP-DIVE: THE GOLDEN SHARE MODEL

The Golden Share model is a structure for implementing steward-ownership that is particularly suited to start-ups and small- and medium-sized companies. Using a 'legal hack', the Golden Share model builds on the structure of foundation-ownership by setting up different classes of shares to separate economic rights and voting rights in the articles of association of a normal limited liability company. In the case of Sharetribe, the Purpose Foundation holds a minor percentage of the voting rights as a veto share to safeguard the principles of steward-ownership in the long run. This model ensures that the control and decision-making of the company will always remain in the hands of the people involved in its operations and mission and that profits mainly serve the purpose of the company. The separation of voting rights from economic rights ensures that decisions are made inside the company on the basis of the company's purpose and not on individual financial motives.

Four different shares classes

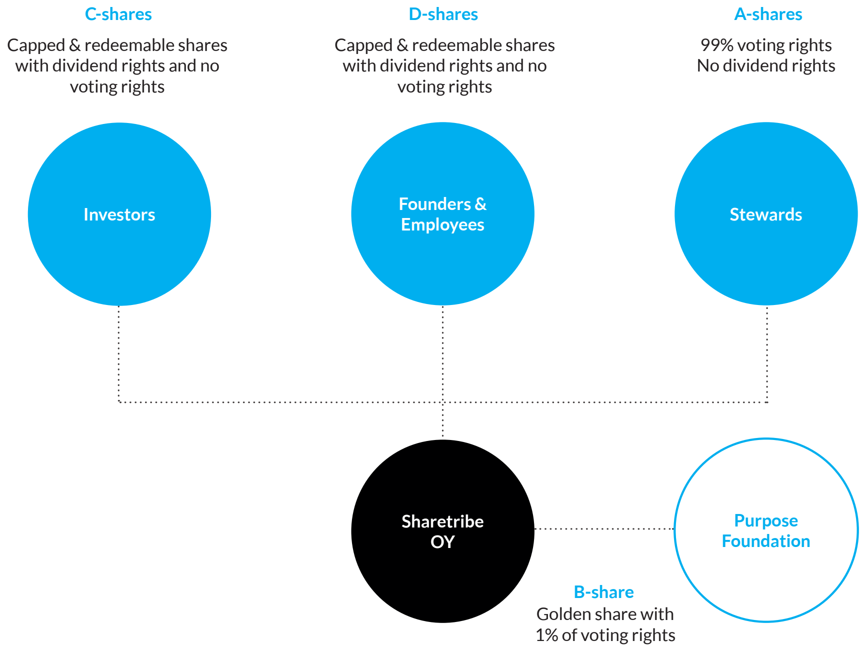
The founders were keen to maintain maximum flexibility within their steward-ownership model. In partnership with the Purpose team and Kimmo Reina from the Finish law firm Bird & Bird, Sharetribe drew up a legal structure that set up four classes of shares:

1. **Steward-shares (A-shares)**
A-shares, or steward-shares represent voting rights, but not dividend rights. People holding the voting rights are stewards of the company. They cannot extract its profits or assets and must be active in the company's business. If a team member leaves the company, their A-shares must be returned to the company or passed on to new team members. Currently, the majority of the voting rights are held by Sharetribe's founders.

2. **Veto-share (B-shares)**
One veto-share was issued to the Purpose Foundation. In line with Finnish legislation and with regards to Sharetribe's steward-ownership structure, all voting shares are needed to implement changes to the articles of association. With 0.01% of the voting rights the Purpose Foundation thus acts as the veto-share holder and is responsible for vetoing any changes to the structure of Sharetribe's charter that would undermine the principles of steward-ownership. The Purpose Foundation does not have any further rights, and cannot weigh in on the company's operations or strategy.

3. **Investor shares (C-shares)**
To maintain flexibility for setting up investments within their steward-ownership model, Sharetribe set up this separate class of shares.[4] These C-shares represent dividend rights, but not voting rights. Shares issued in Sharetribe's 2018 financing round are redeemable and capped shares that will be bought back within a fixed time frame using the company's annual profits.[5] This class of shares also represents the economic rights of previous investors and includes them in the new structure.

4. **Founder-/ Early employee-shares (D-shares)**
To compensate for early risk, investments and years with little or no salary of the founders and early team members, Founder-/ Early employee-shares were included in the statutes. D-shares have no voting rights, but a right to redemption similar to that of investor shares. The redemption schedule for D-shares is part of a waterfall model that foresees the redemption of investor shares first and thus grants extra safety and accountability for investments (see Deep Dive: Financing round 2018).



[4] There are many different ways of financing steward-owned companies, only one of which entails the creation of C-shares. Other financing forms that don't use equity are equity-like mezzanine capital or debt. For examples, see purpose.ag/wildplastic or purpose.ag/book.

[5] Some of the financing mechanisms applied are subject to the specific, in this case Finnish, legal context. In Germany, for example, redeemable shares can only be repaid if the value of those shares has been set aside prior to a buyback. The applicability of this instrument is therefore subject to the legislative system and the specific financing needs and options of the company.

Process of allocating shares

In the process of allocating the company's shares, Juho and Antti considered who should hold the steering wheel of the company, and who should be able to benefit from the economic upside of the company. To account for the responsibility and risks already taken by founders and early employees, shares already held by founders and team members were split into two: each old share became one A-share with voting rights and nine D-shares with capped economic rights. C-shares were set up as investment shares with dividend rights only – to be able to convert previous shares and establish future investment possibilities.

SEEKING INCLUSIVE, NON-EXTRACTIVE FINANCING

Sharetribe's journey towards steward-ownership and their search for aligned investments went hand-in-hand. With their first product already being profitable, they needed investment to further develop and scale their second product, Sharetribe Flex.

For Juho and Antti, it was imperative that Sharetribe would stay independent from outside or mainly profit-motivated control and not be forced into an exit or IPO. With the goal to transition to steward-ownership, they realized that conventional venture capital would not be an option for Sharetribe. For them, capital would have to (1) not be linked to voting rights, (2) include a limited time frame and a capped return, and (3) not require selling the company in the future to liquidate the investment.

However, with previous investors still on board, Juho and Antti sought to find a way that would allow Sharetribe to transition to steward-ownership and set up non-voting investor shares for future investments, but to also find a mutually acceptable solution for those previous investors and their funding logic.

In agreement with the previous shareholders, Sharetribe was able to set up a financing structure that would foresee buying back old investor shares from part of the capital raised and convert remaining ones into the new investment structure that was in line with steward-ownership. This was based on the premise that investors would receive a maximum, but capped, buyout for their remaining shares and, in case not enough capital can be raised, a time-limited roll-back option for the ownership structure would come into place.

In 2018, Sharetribe started an equity crowdfunding campaign to raise non-extractive capital in a redemption-based exit model, accompanied by a similarly structured investment from Purpose Ventures and a long-term loan from the Finnish government. This fulfilled their financing needs whilst staying true to their mission and motivation.

> “Inclusive, non-extracting financing allowed us to fund our company in a way that fully aligned our team's and investors' incentives.”
>
> – Juho Makkonen, co-founder and CEO of Sharetribe

DEEP DIVE FINANCING ROUND 2018

In April 2018, Juho and Antti raised €1.12 m of growth capital in an equity crowdfunding campaign with Purpose Ventures on board. In addition, they received long-term research and development loans from the Finnish government funding agency Business Finland worth €929 k.

With the capital raised, Sharetribe wanted to

- develop, launch and scale their second product Sharetribe Flex
- buy out most of the shares of the previous investors that had invested in the company on traditional venture capital terms in 2013 and 2014.

Their financing model was based on the assumption that with their second product they would reach profitability within 10 years. A profit-sharing model with a structured exit plan in a predetermined time frame was a natural fit.

Redemption-based exit model with C-shares

Taking on new investments and embedding them in their company's new ownership structure presented Sharetribe with the opportunity to set up a redemption-based exit model.

Investors were offered C-shares that were sold as redeemable shares for €20 per share and sought to be bought back for a predefined and capped price of €100 per share within a targeted timeline of 10 years, thus providing a path for structured exits through buybacks. In the financing round, Sharetribe issued 56,120 new C-shares that would be bought back over time using 40% of Sharetribe's annual profits until all shares have been fully bought back. According to the shareholder agreement, there would be no dividends paid at any point, so the return for investors exclusively originated from the redemption of their shares.

If the targeted timeline of 10 years can not be met, Sharetribe will need to either redeem the remaining shares immediately from its free cash flow, refinance, or continue using 100% of its EBITDA in subsequent years to redeem shares until all investor shares are bought back. This condition ensures that the company attempts to redeem all shares on time. To offer additional liquidation possibilities for C-shares, investors are free to trade their shares on secondary markets.

Equity-based crowdfunding campaign

The majority of the capital raised stemmed out of a successful equity-based crowdfunding campaign the founders launched in April 2018. Rolling out a broad campaign on Invesdor, Sharetribe used a webinar and blog articles to reach out to their customers and other private investors. Their aim was to attract investments by transparently explaining their motivation to become steward-owned, their financial projections, and Sharetribe's mission.

Prior to opening their equity crowdfunding campaign, Sharetribe had secured an investment with Purpose Ventures of 10,000 C-shares for €200,000 on a buyback price of 5X = €100.

A possibility: Buying out previous investors

With the new legal structure on the way, Sharetribe's ownership model was no longer compatible with the promises Sharetribe had made to previous shareholders. On the premise that enough distributional capital was raised, Sharetribe offered the previous investors to convert their shares into C-shares with a discount compared to the newly issued shares. Thus, the upside for previous investors after the buyback would be higher than for new investors in order to compensate for early risk and investments in the company.

The redemption of previous shares was strictly tied to the amount raised during this round. With product and company development being estimated to €600 k, only the amount raised beyond that could be used to buy out shares from previous investors. The result of the financing round allowed Sharetribe to buy back most, but not all, of the shares of the previous investors. The remaining shares were converted to C-shares and are part of the buyback schedule using the same fixed €100 per share buyback price.

Founder-/ Early employees-shares

The Founder-shares are also included in the redemption-based exit model. The company will use part of its profits for D-share buybacks, but only after each investor has received back their original investment amount. Sharetribe can only use 10% of its yearly profits for D-share buybacks as long as any outstanding C-shares remain. This means that the team members get most of their "delayed compensation" only once the investors' C-shares have been fully redeemed.

Liquidation waterfall

All C-shares were set up with a 1X liquidation preference in their terms, meaning that before any shares would be fully bought back, the initial investment amount would have to be paid up. Taking into consideration the priority of previous investors and taking into account different timing and risk levels of shares, the liquidation waterfall was structured as outlined below:

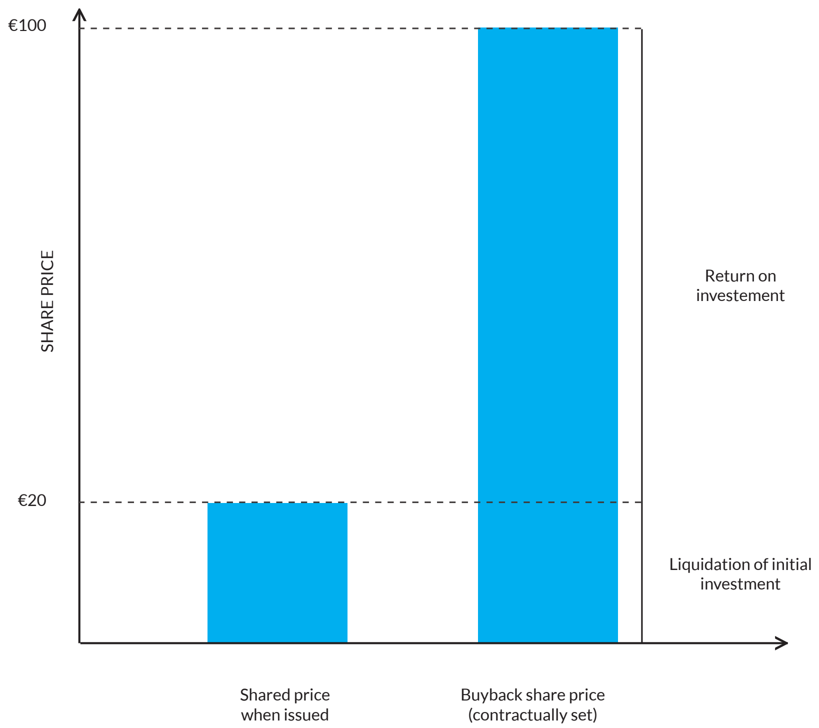
1. **Redemption of C-shares of initial investments:**
   During this phase, all investors holding C-shares received 1X return starting with the early investors followed by the new ones joining in 2018:

- *Using part of the funding from the crowdfunding campaign, previous investors received 1X of their investments (€410,000) allowing Sharetribe to buy back most of the shares and to convert outstanding ones into the new share class that is aligned with the steward-ownership structure (C-shares).*
- *Following this and using 40% of Sharetribe's future profits, all investors from the 2018 financing round will receive 1X return on their investment.*

2. **Redemption of all C-shares & starting to redeem D-shares:**
   During this phase all shares will be brought to the same level (€20 per share) in order to start using profits to redeem the remaining 4X of the C-shares and start buying back D-shares:

- *40% of profit is used to redeem old investors' shares until the total amount they have received reaches €20 per share.*
- *This is followed by using those same 40% to redeem all C-shares on a pro rata basis until investors have received €100 per share.*
- *10% of profit is used to start buying back D-shares.*

3. **Buying back D-shares:**
   After all C-shares have been bought back and investors have received a 5X return on their investments, Sharetribe will use 40% of annual profits to buy back the remaining D-shares.



Once all C and D-shares have been redeemed back to the company, only A and B-shares remain. As outlined above, these shares have voting rights, but no profit rights. From that point on, all of Sharetribe's profits will be used to develop the company and products, and to further its purpose and mission. To provide flexibility to investors in the meantime, C-shares can be traded either within the group of investors already involved or on a secondary market.

> "Our journey to steward-ownership and an aligned financing structure was not always an easy one. But in the long-run, it has equipped Sharetribe with a structure that allows it to remain true to its mission whilst providing the necessary flexibility to take on more aligned, non-extractive capital in the future if need be."

– Juho Makkonen, co-founder and CEO of Sharetribe

SHARETRIBE TODAY

Raising €1.12 m in the 2018 crowdfunding campaign, Sharetribe was able to buy back most of the old investor shares and set up a redemption-based exit model in an overall aligned and inclusive financing structure. This allowed to incorporate different needs and requirements and for Sharetribe to transition to steward-ownership in spring 2018.

Having successfully launched their product Sharetribe Flex in 2018, Sharetribe has undergone a development that allowed the company to grow in a healthy, purpose-led way. This year, Sharetribe marked the end of its 10th fiscal year and the first net-positive one in the company's history. However, facing increased challenges due to recent market alterations, Sharetribe has been in need to align the company's approach to be able to meet future market developments. Having set up their financing and ownership structure in a way that puts the company's needs, mission, and purpose before short-term financial returns has allowed Sharetribe to do so. Built-in mechanisms such as the possibility for investors to trade C-shares provide the necessary flexibility to reconcile both investors' and Sharetribe's needs.

READ ON

Learn more about Sharetribe and their journey on their website and with articles and blog posts:

- www.sharetribe.com
- Juho Makkonen & Cristóbal Gracia (2018): The Lean Marketplace
- Sharetribe (2018): Building a better sharing economy (crowdfunding campaign)
- Juho Makkonen (2018): How to build companies that are a force for good in society
- Juho Makkonen (2018): Steward-ownership is capitalism 2.0
- Juho Makkonen (2020): On what matters
- Juho Makkonen (2021): Why we're building a Balanced Company

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