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The grey market: Why Silicon Valley's unicorns no longer need to rush their IPOs

There's much fanfare surrounding Uber's upcoming initial public offering which, if reports are to be believed, could value the taxi app at more than US$100bn.

The float is due to happen within the next couple of weeks and will mark the first time that Uber's shares can be publicly traded.

READ: Uber files for IPO
Such IPOs used to be met with rapturous applause among employees and early-stage backers who were desperate to cash in their shares.

These days though, there is less of a clamour for so-called unicorns - billion-dollar start-ups - to go public. In fact, it now takes, on average, eight years from a firm's first fundraising round to joining a stock exchange.

"The venture capitalists don't necessarily want management to be preoccupied with the regulations of an IPO and quarterly reporting," says journalist-turned-investor Malcolm Burne.

"[They] just want to let them loose on their growth phase."

Paper wealth to cash wealth
Eight years is a long time, and while staying private for longer is often preferable for the company, not least because it allows bosses to make mistakes behind closed doors, it does throw up the issue of value realisation.

Without a stock market float or trade sale, the early hires and backers have traditionally had no way of turning their paper wealth into hard cash.

But things have changed in recent years on the back of success stories such as Facebook and Amazon, and a thriving 'grey' market has sprung up in Silicon Valley for shares in tech giants where intermediaries are helping founders and seed funders offload stock.

"There are an awful lot of people (long-term employees) who are going through a divorce or want to pay a tax bill or buy a new house," explains Burne.

"Of course, there's everyone else on the buy side who are scrambling to get into these things, and this is why the secondary market has developed."

It's seen as a win-win all around: those who want to realise some of their paper gains now have somebody on the other side who wants to buy, and vice versa.

Early investors make the big bucks
Serial entrepreneur Burne saw this opportunity a few years back, thanks to his Valley investor stepson and his daughter, who covers the venture capital space for the Wall Street Journal.

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Along with fellow Brit Ian Wallis, the serial entrepreneur has set up Star Tech NG - a fund that reads like a 'Who's Who?' of the American digital revolution, with investments in Uber, Airbnb, Pinterest and several others.

As is typical for these kind of funds, Star Tech buys shares from employees or seed funders, generally at a 10% discount to the most recent valuation, and holds them until its lock-in clause ends, which is usually six months after IPO.

"This is a very robust asset class, so when you do get into it, you can make a lot of money.

"We got into Lyft at US$29 a share and they went public at US$72 a share. Ok, they've come back a bit, but we've still doubled our money. We also doubled our money on Spotify and Zuora."

Regular punters can still make money

With a minimum US$100,000 buy-in and various other restrictions, the fund is out of reach to most retail investors.

But while he acknowledges that most of a company's value is realised by those who get into a stock early on, he's convinced there is almost always a lot of money still to be made post-IPO.

"Had you bought on the market setbacks for Facebook, Google and Amazon, you'd have made a fortune because they all had those post-IPO sell-offs," says Burne.

"If you believe in the long-term potential of these companies, it doesn't matter what their share prices do in the short-term because you know it's going to be around in 20 years' time and be much bigger than it is today."