Diligencing a Pre-IPO Offer: Pricing, Stale Marks and Fraud Avoidance

How a buyer verifies the price, the marks and the legitimacy of a late-stage private offer before committing capital

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June 2026

ABSTRACT

Abstract. A pre-IPO secondary offer is an invitation to buy shares in a late-stage private company from an existing holder, usually at a stated discount to the company's last priced round. The discount is the hook, and it is also the trap. The headline price rests on three claims that an offer document rarely proves: that the reference value is itself current, that the carrying mark behind it is not stale, and that the seller can lawfully transfer what is being sold. This paper sets out a structured way for a buyer, and in particular a Gulf family office or private investor evaluating such an offer in 2026, to test each of these claims before committing capital. It separates three diligence questions that are often run together and treated as one. The first is a pricing question: what is a defensible price for the position, built up from reference values rather than accepted from the seller's headline. The second is a marks question: how far the values being quoted have drifted from fair value through the simple passage of time and a re-rating of the sector. The third is a legitimacy question: whether the chain of title, consent and authority behind the offer can be evidenced link by link, or whether it must be taken on trust. The paper develops a price bridge, a stale-mark model, a chain-of-legitimacy test, a red-flag taxonomy and a two-question decision matrix, and it frames each tool for the conditions facing Gulf buyers in 2026. All figures and tables are illustrative and are intended to make the method legible rather than to forecast any specific transaction. The paper is educational and analytical. It is not investment, legal or tax advice, and it does not describe any actual offer.

JEL Classification: G12, G14, G24, G32, K22, D82

Keywords: pre-IPO secondaries, due diligence, valuation, stale marks, fraud, private markets, family office, GCC

1. INTRODUCTION

A buyer who is shown a pre-IPO secondary offer is being shown a number and a story. The number is a price, almost always expressed as a discount to the company's most recent priced round: shares in a well-known private company offered at, say, seventy cents on the last-round dollar. The story is that the discount is a gift, the product of a motivated seller who needs liquidity, of a fund winding down, or of an early employee who would rather have cash than wait for an initial public offering that keeps receding. The instinct the offer is designed to provoke is that a famous company is on sale, and that the only risk is moving too slowly.

This paper argues that the instinct is the danger, and that the discount is the least reliable fact in the document. A discount is only meaningful relative to a reference value, and the reference value in a pre-IPO offer is almost always the last priced round. That round may be two or three years old. It was struck in a different rate environment, by a lead investor with rights the buyer will not receive, in a market that has since re-rated the whole sector. The headline says the buyer is paying seventy of a hundred. The real question is whether the hundred is still a hundred, and whether the buyer is even buying the same thing the lead investor bought.

Three claims sit underneath every pre-IPO offer, and an offer document is constructed so that the buyer does not examine them. The first claim is that the reference price is current and relevant. The second is that the value carried behind that price, the mark, is honest and not stale. The third is that the seller actually owns, and may lawfully transfer, the shares being offered. Each claim can be tested. None is usually tested, because the structure of the transaction, the urgency, the prestige of the name and the discount itself, all push the buyer towards accepting them and moving to close.

The purpose of this paper is to slow that movement down and to give it structure. It separates the three claims into three distinct diligence questions, gives each its own method, and then shows how the answers combine into a single decision. The first question is about price: what would a defensible entry price be, built up from the ground rather than taken from the seller. The second is about marks: how far the values being quoted have drifted from fair value through the passage of time and the re-rating of the sector. The third is about legitimacy: whether the chain of title and consent behind the offer can be evidenced, or whether the buyer is being asked to trust an assertion. A fourth, shorter discussion covers structure and terms, because a verified price on a badly structured position can still be a poor investment.

The paper is written with the Gulf buyer in mind, because the calibration of the framework reflects conditions facing family offices and private investors in the Gulf Co-operation Council region in 2026. These buyers have been offered late-stage private exposure in growing volume, often through intermediaries and special-purpose vehicles, and often in companies whose last rounds were struck at the peak of the 2021 to 2022 venture cycle. The gap between those peak marks and present fair value is precisely the territory this paper maps. The method itself is general; the worked numbers and the emphasis are local.

Three caveats frame the analysis. First, this is an educational and analytical document. It is not investment, legal, tax or accounting advice, and nothing in it is a recommendation to buy, decline or price any particular offer. Second, every figure, table and number is illustrative. They are chosen to make the method clear, not to describe any real company, offer or transaction. Third, the paper does not assume that pre-IPO offers are fraudulent. Most are not. The argument is narrower and more useful: that a buyer cannot tell a sound offer from an unsound one without doing the work, and that the work has a structure which can be learned.

The paper makes four contributions. First, it disentangles three diligence questions, on price, marks and legitimacy, that practitioners routinely collapse into a single feeling about whether a deal looks good. Second, it provides a price bridge that builds a defensible value from reference points rather than accepting a headline discount. Third, it offers a simple, honest model of how a carried mark goes stale, so that a buyer can see how much of an apparent discount is real. Fourth, it sets out a chain-of-legitimacy test and a red-flag taxonomy that together let a buyer distinguish ordinary opacity from the patterns that precede loss.

The remainder of the paper is organised as follows. Section 2 reviews the relevant literature on valuation, illiquidity, private-market marks, fraud and information asymmetry, and states the propositions that follow from it. Section 3 sets out the data and method, which are analytical and illustrative. Section 4 presents the framework in four parts: pricing, stale marks, legitimacy, and structure and terms. Section 5 brings the parts together in a decision matrix and a worked illustration. Section 6 discusses limitations, and Section 7 concludes. Appendices provide the base-case assumptions, a diligence checklist, a red-flag list and a glossary.

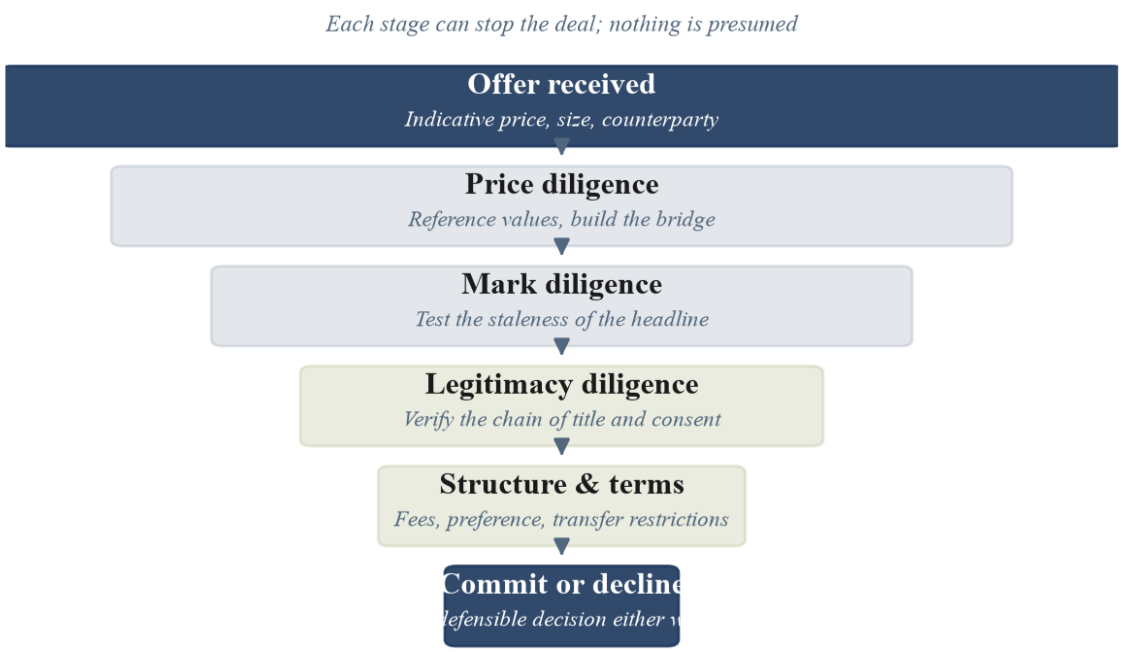

Figure 1. The Pre-IPO Offer Diligence Funnel

Illustrative schematic. Each stage in the funnel is capable of stopping the transaction on its own; nothing later in the process is presumed until the stage before it has been satisfied.

2. LITERATURE REVIEW AND PROPOSITIONS

The framework draws on five bodies of work: the theory of value and price in markets without continuous trading; the literature on illiquidity and its pricing; the study of private-market valuation and the staleness of reported marks; the economics of fraud and misrepresentation; and the literature on information asymmetry and the design of diligence. Each contributes one discipline to the method, and together they justify the propositions that close the section.

2.1 Value, Price and the Absence of a Market

The starting point is the distinction between price and value in an asset that does not trade continuously. In a liquid market the two converge, because a stream of transactions reveals a consensus value many times a day. In a private company there is no such stream. The last priced round is a single observation, struck by a single lead investor for a single block of preferred stock, and it stands as the reference value until the next round or a liquidity event replaces it. The literature on asset pricing, following Sharpe (1964) and the long tradition built on it, treats price as an equilibrium of many marginal participants. A private secondary has no such equilibrium; it has a negotiation between two parties, one of whom usually knows more than the other. The buyer who treats the last round as a market price is making a category error, and the offer document encourages that error precisely because the discount only looks generous against a stale and elevated reference.

2.2 Illiquidity and Its Pricing

A second literature concerns illiquidity, the inability to sell an asset quickly at a fair price, and the premium investors require to bear it. Amihud and Mendelson (1986) established that less liquid assets must offer higher expected returns, and a large subsequent literature has refined the measurement of the illiquidity premium across asset classes. Pre-IPO secondaries are among the least liquid positions a private buyer can hold: there is no organised market, exit depends on a liquidity event whose timing is unknown, and the holding period can run to many years. The implication for diligence is direct. An apparent discount to the last round is not a free lunch; some of it is the compensation the buyer should demand for illiquidity, and some of it may be the market's quiet revaluation of the company. Separating these two components is one of the tasks of the pricing section, because a buyer who counts the whole discount as upside has mispriced the position.

2.3 Private-Market Valuation and Stale Marks

A third literature examines how private assets are valued in the absence of trading, and how those valuations behave. The central finding, developed across studies of private equity and venture returns including Harris, Jenkinson and Kaplan (2014) and the wider work on reported net asset values, is that private marks are smoothed and lagged. They are updated infrequently, they are sticky on the way down, and they understate the true volatility of the underlying. A carried value held flat across several quarters is not evidence that value has been preserved; it is, very often, evidence that nobody has been required to revise it. This is the phenomenon of the stale mark, and it is the single most important idea in this paper. The buyer who anchors on a flat carrying value is anchoring on an artefact of infrequent revaluation, not on a fair estimate of worth.

2.4 Fraud, Misrepresentation and Their Patterns

A fourth literature concerns financial fraud and misrepresentation, and the conditions under which they flourish. The classic framing, often summarised as a fraud triangle of pressure, opportunity and rationalisation, and the large body of forensic and enforcement scholarship built around it, identifies the structural features that recur in deception: complexity that defeats scrutiny, urgency that prevents it, opacity that hides the chain of value, and a counterparty whose incentives are misaligned with the buyer's. Private secondary markets contain all four features in their ordinary operation, which is why genuine and fraudulent offers can look superficially alike. The literature does not let a buyer identify fraud with certainty in advance. It does something more useful: it identifies the patterns that raise the probability of loss, so that a buyer can require more evidence precisely where deception is most likely to hide.

2.5 Information Asymmetry and the Design of Diligence

A fifth literature concerns information asymmetry and the mechanisms that address it. Akerlof's account of markets with hidden quality, and the broader work on adverse selection and signalling, establishes that when one party knows more than the other, the informed party tends to sell precisely what the uninformed party would not buy if it knew what the seller knew. The seller of a pre-IPO position usually knows more than the buyer: more about the company's recent trajectory, the seller's own reason for selling, and the true currency of the marks. The remedy the literature proposes is not trust but verification, the deliberate gathering of evidence that closes the gap. Diligence is the buyer's signalling-and-screening apparatus, and its design, what to verify, in what order, and what to do when verification fails, is the practical core of this paper.

2.6 Synthesis and Propositions

Taken together, these literatures imply that a pre-IPO offer should be treated not as a price to accept or reject but as a set of claims to test. The discount is meaningful only against a reference that is itself current; the marks behind that reference are presumptively stale; the seller's authority to transfer cannot be assumed; and the structural features of the market mean that genuine and fraudulent offers must be distinguished by evidence, not by appearance. These conclusions are stated as five propositions that the framework in Section 4 operationalises.

Proposition 1. The discount is not the starting point. A defensible price must be built up from reference values that the buyer has tested, not down from a headline the seller has supplied.

Proposition 2. A carried mark is presumptively stale. The buyer should treat any value that has not been revised through a recent transaction or a disciplined re-estimation as an upper bound, not a fair estimate.

Proposition 3. Legitimacy must be evidenced link by link. The chain from the issuer's register to the buyer's title must be verified at every link, and an unverified link is a reason to stop, not a detail to resolve later.

Proposition 4. Genuine and fraudulent offers are separated by evidence, not appearance. The buyer should require the most evidence exactly where the structural features of the market, complexity, urgency, opacity and misaligned incentives, are most pronounced.

Proposition 5. A verified price on a badly structured position is still a poor investment. Fees, liquidation preference and transfer restrictions can erase an apparent discount, and must be diligenced as carefully as the price itself.

3. DATA AND METHODOLOGY

This study is analytical and descriptive rather than empirical. It builds a structured method for diligencing a pre-IPO offer and illustrates that method with stylised figures and a worked example. It does not test a hypothesis against a dataset of transactions, and it does not report the parameters of any actual offer. Its claim to usefulness rests on the coherence of the method and its fidelity to the literature reviewed in Section 2, not on statistical inference.

3.1 The Diligence Framework

The framework has four components, corresponding to the four diligence questions a buyer must answer. The first is a pricing method that builds a defensible value from reference points through a price bridge. The second is a stale-mark model that estimates how far a carried value has drifted from fair value over time. The third is a chain-of-legitimacy test that verifies title, consent and authority link by link. The fourth is a structure-and-terms review that checks whether fees, preference and restrictions have already consumed the apparent discount. A red-flag taxonomy and a decision matrix sit across all four, translating the diligence into a verdict.

3.1a What the Framework Does and Does Not Do

It is important to be clear about scope. The framework is a tool for reasoning about whether and at what price a buyer should accept a pre-IPO offer. It is not a valuation engine that returns a single correct price, and it is not a fraud detector that returns a verdict of genuine or fraudulent. It cannot replace company-specific diligence, qualified legal review of the transfer documents, or the buyer's own judgement about the company's prospects. What it does is impose an order on the questions, so that the buyer tests the claims that matter, in a sequence where each test can stop the deal, before any capital is committed.

The choice of an analytical, illustrative method rather than an empirical one is deliberate and has two reasons. First, the transactions that would populate an empirical study are private and unstandardised; the offers that matter most for this paper, the unsound ones, are by their nature not recorded in any usable dataset. Second, the contribution sought here is a way of thinking, transferable across companies and cycles, rather than a coefficient estimated on one period. A worked illustration conveys that method more honestly than a regression on data that cannot represent the population of interest.

3.2 Assumptions and Their Justification

The stylised inputs used in the figures, the size of the time decay applied to a stale mark, the typical span of a liquidation preference, the bands of the red-flag grid, are chosen to be plausible for late-stage private companies under 2026 conditions and to make the structure legible. They are indicative and illustrative. They are not forecasts, sourced data, or the parameters of any actual offer. A buyer applying the framework to a real offer would replace every one of them with company-specific and offer-specific evidence. Table 1 records the base-case assumptions; Appendix A gives the full set.

Table 1. Base-Case Assumptions for the Diligence Framework

Parameter	Illustrative base case	Role in the framework
Reference value	Last priced round	Starting point of the price bridge, treated as stale
Time decay per year	12 to 16 per cent	De-rating applied to a mark held flat since the last round
Liquidation preference	1.0x, non-participating	Overhang that reduces common-equivalent value
Information / access discount	5 to 12 per cent	Compensation for the buyer's weaker rights and knowledge
Illiquidity premium required	high, multi-year	Return the buyer demands for an uncertain holding period
Fee stack	intermediary + SPV + sponsor	Layers that must be netted from the apparent discount
Diligence standard	evidence at every link	Each legitimacy link verified, not assumed

Indicative, illustrative calibrations used to make the method legible; not forecasts, sourced data or the parameters of any actual offer.

4. THE FRAMEWORK: PRICE, MARKS, LEGITIMACY AND TERMS

This section presents the framework in the order in which a buyer should work through an offer. It begins with price, because the discount is what the offer leads with and what the buyer most needs to reconstruct. It then turns to marks, because the reference value behind the discount is presumptively stale and must be aged. It then addresses legitimacy, because a verified price on shares the seller cannot lawfully transfer is worthless. It closes with structure and terms, because fees and preferences can quietly undo a price that survived the first three tests.

4.1 Pricing: Building a Defensible Price From the Ground Up

Proposition 1 holds that the discount is not the starting point. The buyer should not begin from the seller's headline and ask whether it is generous; the buyer should begin from reference values and build up a price that can be defended, then compare it with the headline. The instrument for this is a price bridge. It starts from the last priced round, the only hard reference most offers provide, and then makes a sequence of deductions, each of which the buyer can reason about and evidence.

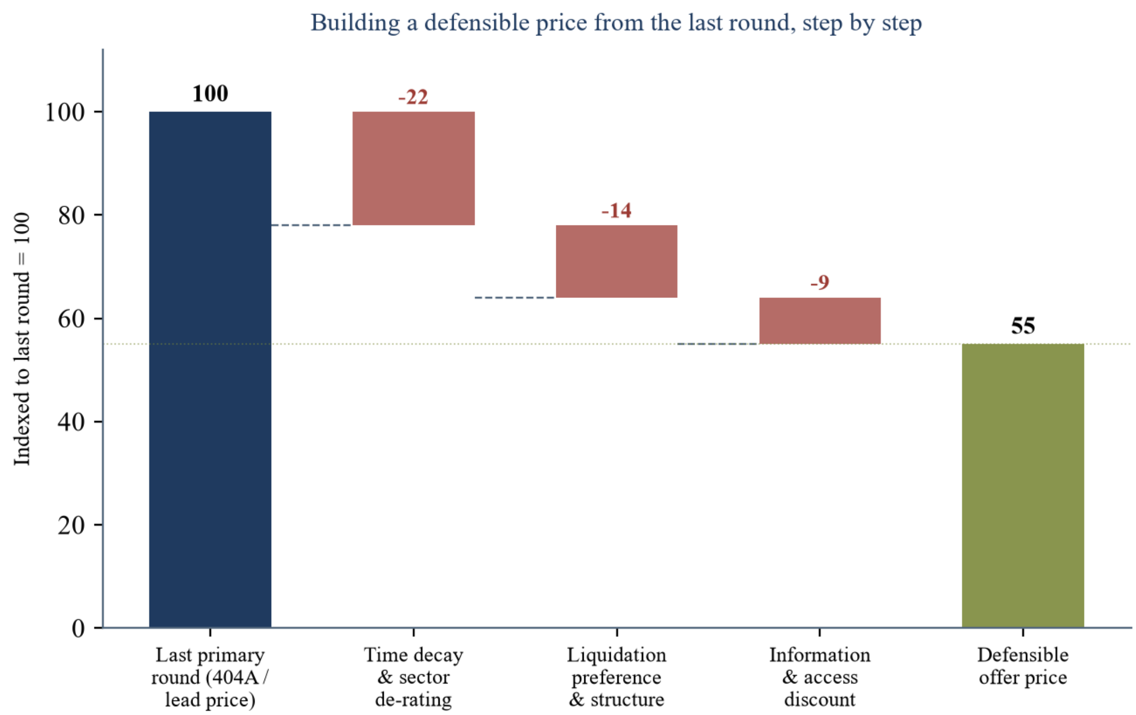

Figure 2. The Price Bridge From Last Round to Defensible Offer

Illustrative waterfall indexed to the last priced round at 100. Each deduction, time decay, liquidation preference and an information or access discount, is a step the buyer reasons about and evidences separately. The figure is illustrative and not a forecast.

The first deduction is time decay, the subject of the next subsection. A round struck two or three years ago, in a different rate environment, does not stand today at its nominal value. The buyer estimates a de-rating that reflects both the passage of time and the re-rating of the company's sector, and applies it to the reference value. The second deduction reflects structure: the shares being offered usually sit below the preferred stock of the lead investor in the liquidation stack, so their value per share is lower than the headline round price implies. The third deduction is an information and access discount, the compensation the buyer should demand for knowing less than the seller and for receiving fewer rights than the lead investor received. What remains after these deductions is a defensible price. Only then does the buyer compare it with the seller's headline.

The discipline of the bridge is that it inverts the offer's logic. The offer says: here is the discount, take it. The bridge says: here is what the position is worth to me, on evidence; is the seller's price below that or above it. A headline of seventy of the last round may be expensive if a defensible price is sixty, or genuinely cheap if a defensible price is eighty. The number on the offer document tells the buyer nothing until the bridge has been built.

4.1a Cross-Checking the Reference Value

The last priced round is the reference the offer hands the buyer, but it should not be the only one. A buyer who relies on a single reference is hostage to whatever that reference happens to be, and the seller has every incentive to anchor on the most flattering one available. The discipline of cross-checking is to assemble several independent reference points and to see whether they tell a consistent story or a contradictory one, because a contradiction is itself information.

Three additional references are usually available with effort. The first is the public-market comparison: the trading multiples of listed companies in the same sector, which move continuously and which can be applied to the private company's known or estimated fundamentals to produce a rough current value. The second is any more recent transaction in the same company's shares, even an indicative one, which carries far more weight than an older primary round because it reflects a market closer to the present. The third is the company's own subsequent financings elsewhere on the cap table, including any down round, bridge or convertible, each of which is a signal about how the company itself, and its existing investors, now view its worth.

Where these references agree, the buyer can hold the bridge with more confidence. Where they diverge sharply from the last round, the divergence is the most valuable single output of the pricing work. A last round of a hundred, a public comparison implying seventy, and a recent indicative bid at sixty-five do not average to a fair value; they tell the buyer that the headline reference is stale and that the seller's discount is measured against a number the market has already left behind. The cross-check is what turns the price bridge from an exercise in arithmetic into an exercise in judgement.

4.2 Stale Marks: Ageing the Reference Value Honestly

Proposition 2 holds that a carried mark is presumptively stale. This is the deduction that most buyers omit and that most often turns an apparent bargain into a fair price or worse. A private mark, as Section 2.3 established, is smoothed and lagged: it is revised infrequently, it resists being marked down, and a value held flat across several quarters usually reflects the absence of a revaluation event rather than the preservation of value.

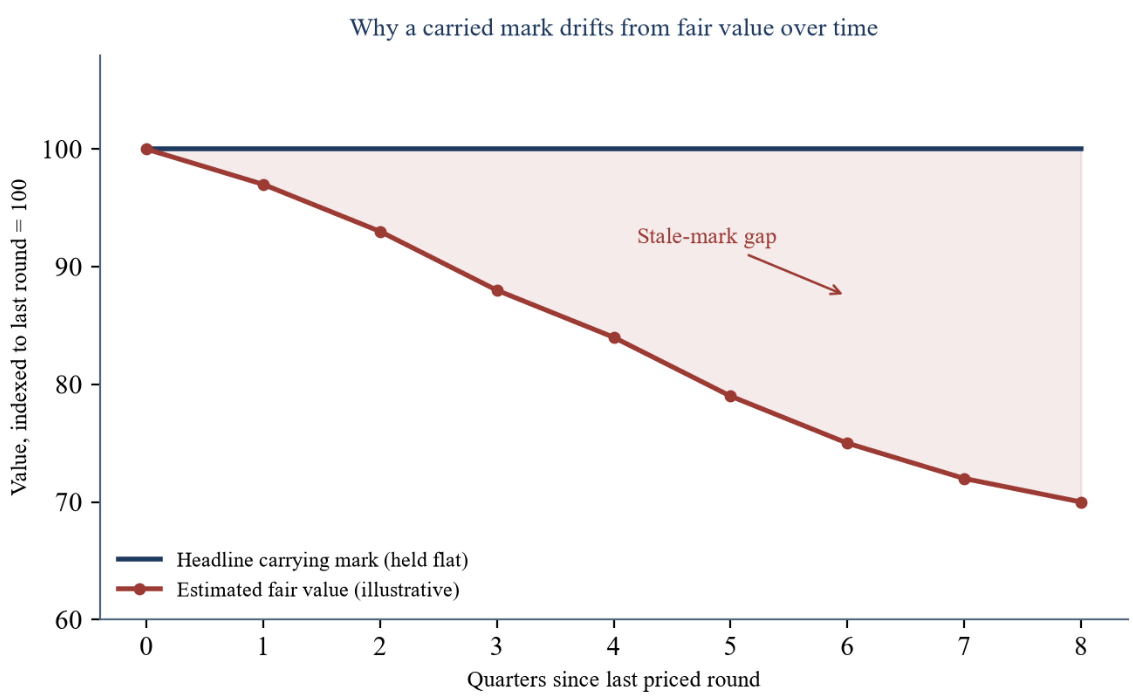

Figure 3. How a Carried Mark Drifts From Fair Value Over Time

Illustrative. The headline carrying mark is held flat at the last round while an estimate of fair value drifts down through time decay and sector re-rating. The shaded gap is the staleness the buyer must price. Not a forecast or a description of any actual company.

The figure makes the mechanism visible. The headline carrying mark is held flat at the last round, as private marks so often are. A disciplined estimate of fair value, by contrast, drifts downward as the round ages and as the sector re-rates. The gap between the two, the shaded area, is the stale-mark gap. A buyer who anchors on the flat line is buying at a reference that no longer exists; a buyer who has aged the mark is negotiating against a current estimate. The headline discount of, say, thirty per cent may shrink to almost nothing once the reference itself is brought to the present.

The buyer ages the mark by asking three questions. When was the reference round actually struck, and how many quarters of decay should be applied. What has happened to the company's sector since, and does the public-market comparison support holding the value flat or marking it down. And has anything happened at the company itself, a down round elsewhere on the cap table, a departure, a delayed financing, that a flat mark is quietly ignoring. The output is not a precise fair value, which no one can supply for a private company, but a defensible estimate that replaces the stale headline as the reference for the price bridge.

The single most powerful red flag in this whole domain is a mark that has not moved while everything around it has. A carrying value unchanged for many quarters, in a sector that has visibly re-rated, is not a sign of stability. It is a sign that no one has been required to tell the truth about the number, and it should raise rather than lower the buyer's demand for evidence.

4.3 Legitimacy: Verifying the Chain Link by Link

Proposition 3 holds that legitimacy must be evidenced link by link. A price the buyer has reconstructed and a mark the buyer has aged are worthless if the seller cannot lawfully transfer the shares, or worse, does not hold them at all. The legitimacy question is distinct from the pricing question and must be answered separately, because a genuine company can sit behind an illegitimate offer, and the prestige of the name is exactly what makes the buyer drop its guard.

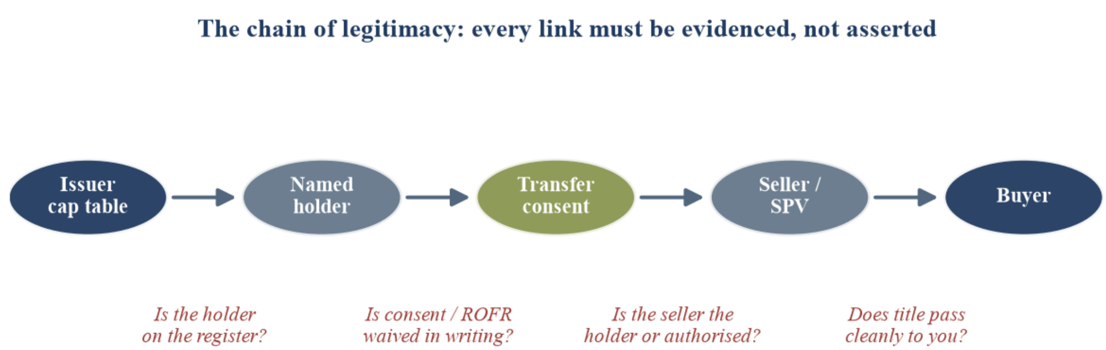

Figure 4. The Chain of Legitimacy Behind a Verified Offer

Illustrative schematic. A sound offer can be traced from the issuer's cap table through a named holder, evidenced transfer consent and the seller or special-purpose vehicle, to clean title in the buyer. Each link must be evidenced rather than asserted.

The chain begins at the issuer's capitalisation table. The first link asks whether the holder the seller claims to represent actually appears on the company's register. The second asks whether transfer consent, and any right of first refusal or co-sale held by the company or its investors, has been waived or satisfied in writing, because most late-stage private shares are subject to restrictions that make an unconsented transfer ineffective. The third asks whether the seller is the holder, or is genuinely authorised to act for the holder, rather than an intermediary selling something it does not control. The fourth asks whether clean title actually passes to the buyer at completion, or whether the buyer acquires only an economic interest in a special-purpose vehicle whose own title is unproven.

Each link must be evidenced, not asserted. A statement in an offer memorandum that the seller holds the shares is not evidence; a current extract from the register, a copy of the share certificate or electronic holding record, and a written consent from the company are evidence. Where the structure interposes a special-purpose vehicle, the buyer must trace the vehicle's own title with the same rigour, because a layered structure can hide a missing link as easily as it can provide diversification. An unverified link is not a loose end to be tidied after completion. It is a reason to stop.

The legitimacy test also exposes a specific and recurring deception: the sale of an allocation or a forward that does not yet exist. A counterparty may offer to sell a pre-IPO allocation it claims it will receive, or a right to shares in a future round, rather than shares it currently holds. The chain test cuts through this immediately, because there is no register entry, no holder and no title to verify. A promise of future shares is not a secondary; it is a bet on the counterparty's honesty, and it should be treated as such.

4.3a Where the Chain Most Often Breaks

Experience with how these transactions fail points to a small number of recurring break points, and a buyer who knows where to look can usually find the weak link quickly. The most common break is at the consent stage. The seller is genuinely on the register, the price is genuinely negotiated, but the company's transfer restrictions have not been satisfied, and the transfer the buyer pays for is ineffective against the company. The buyer ends up holding a contractual claim against the seller rather than shares in the issuer, which is a far weaker position than the offer implied.

A second break occurs where a special-purpose vehicle is interposed. The vehicle's promoter may hold a genuine economic interest in the underlying shares, but the buyer's interest is in the vehicle, not in the company, and the vehicle's own title, governance and fee terms are frequently left unexamined. A buyer who verifies the company's register but not the vehicle's standing has verified the wrong link. The rigour applied to the issuer must be applied to every entity in the structure, or the chain is only as strong as its least-examined member.

A third break, rarer but the most serious, occurs where the holder named by the seller does not in fact authorise the sale, or where the same block of shares has been offered to more than one buyer. These are the breaks that legal review and direct confirmation from the issuer or its transfer agent are designed to catch, and they are the reason the legitimacy test cannot be delegated entirely to documents the seller supplies. Independent confirmation, from a source the seller does not control, is the safeguard of last resort, and for any material sum it is worth its cost.

4.4 Red Flags: Distinguishing Opacity From Danger

Proposition 4 holds that genuine and fraudulent offers are separated by evidence, not appearance. The difficulty is that private secondary markets are opaque by nature, so a buyer cannot treat opacity itself as proof of bad faith without rejecting the entire asset class. The red-flag taxonomy resolves this by ranking signals on two axes: how severe the consequence is if the signal is ignored, and how often the signal appears in ordinary practice. A signal that is both severe and common deserves a routine, systematic check; a signal that is severe and rare deserves an immediate stop.

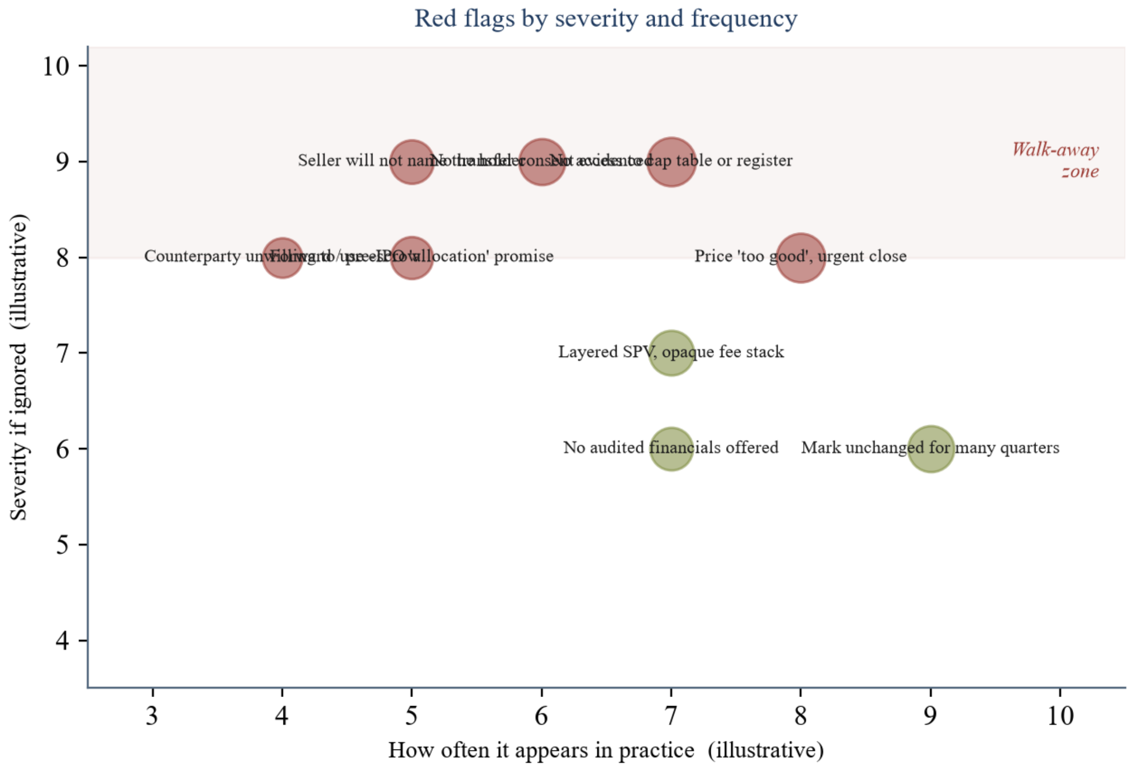

Figure 5. Red Flags by Severity and Frequency

Illustrative mapping of common red flags by their severity if ignored and their frequency in practice. Signals in the upper band are reasons to walk away rather than to negotiate. Positions are illustrative judgements, not measured data.

Several flags sit in the walk-away band. A seller who will not provide access to the cap table or register, or who will not name the holder, has failed the legitimacy test before it begins. A price that is conspicuously better than any rational seller would accept, combined with pressure to close before diligence can be completed, is the classic shape of a deal designed to defeat scrutiny. A refusal to use escrow or a reputable transfer agent, when the sums are large, removes the one mechanism that protects the buyer's funds until title is confirmed. And the forward or allocation promise discussed above, the sale of shares that do not yet exist, belongs here too.

Other flags are common and merit a systematic rather than an alarmed response. A mark unchanged for many quarters is, as Section 4.2 argued, almost universal and should trigger the ageing exercise rather than a refusal. A layered special-purpose-vehicle structure with several fee layers is ordinary in this market and calls for the structure review of Section 4.5, not an immediate exit. The absence of audited financials is common for private companies and shifts weight onto other evidence rather than ending the enquiry. The skill the taxonomy teaches is proportion: to react to the rare and severe by stopping, and to the common and severe by verifying, rather than treating every instance of opacity as either harmless or fatal.

4.5 Structure and Terms: The Discount That Is Not There

Proposition 5 holds that a verified price on a badly structured position is still a poor investment. The final diligence question is whether the fees, the liquidation preference and the transfer restrictions have already consumed the discount that survived the pricing and marks tests. This question is easy to skip, because it arrives after the hard work of pricing and verification, when the buyer is keen to close. It is also where many apparent bargains quietly disappear.

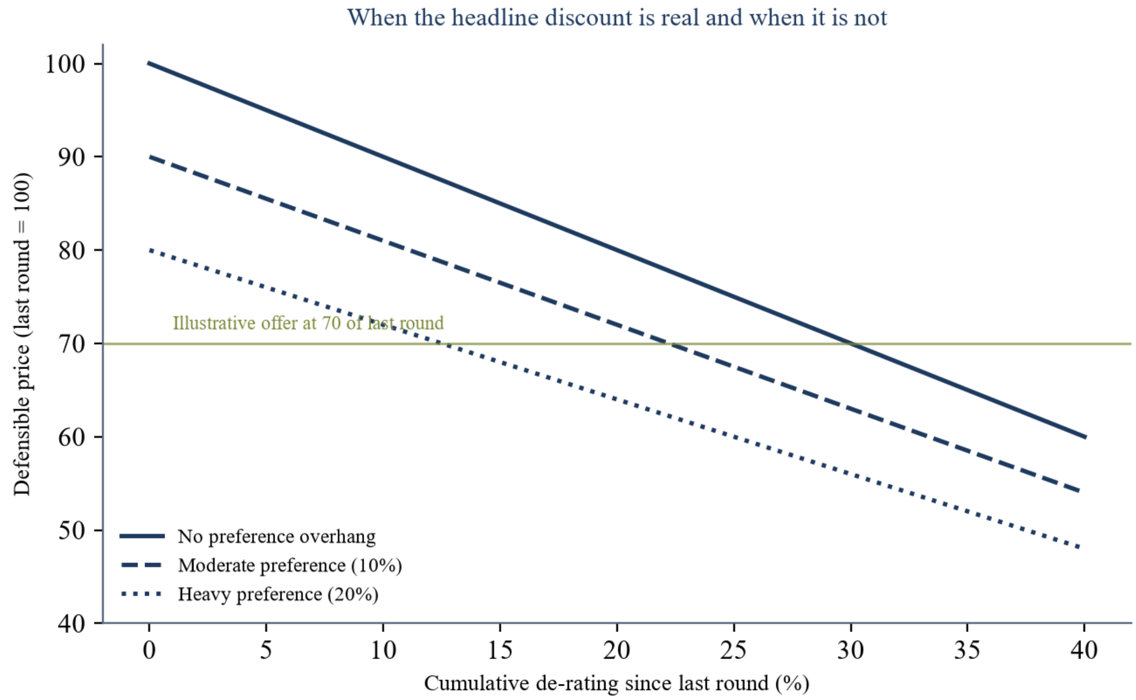

Figure 6. When the Headline Discount Is Real and When It Is Not

Illustrative. The defensible price falls as cumulative de-rating since the last round rises and as the liquidation-preference overhang deepens. An offer at a fixed headline discount can be cheap, fair or expensive depending on where the position truly sits. Not a forecast.

The figure shows the defensible price as a function of two variables the buyer must estimate: the cumulative de-rating of the reference since the last round, and the depth of the liquidation-preference overhang. A single headline discount, the horizontal line, can sit comfortably below the defensible price in a mild case and well above it in a severe one. The same seventy-of-last-round offer is a genuine bargain against one set of conditions and an overpayment against another. The buyer cannot know which without estimating the two variables, which is exactly what the structure review forces.

Three terms deserve particular attention. The fee stack often has three layers, the intermediary's spread, the special-purpose vehicle's management and carry, and any underlying sponsor's economics, and the buyer must net all three from the apparent discount, because each is paid before the buyer sees a return. The liquidation preference determines how much of any exit the buyer actually receives, and a position that sits deep below participating preferred stock can be worth far less than its headline implies in any outcome short of a strong exit. And the transfer restrictions that governed the buyer's entry will govern the buyer's exit too, so a buyer who could only enter with difficulty should assume it will only exit with difficulty, and price the illiquidity accordingly.

5. BRINGING THE DILIGENCE TOGETHER

The four questions, price, marks, legitimacy and terms, are distinct, but the decision is single. A buyer does not accept or decline an offer on price alone or on legitimacy alone; the buyer forms one judgement from the answers to all four. The decision matrix collapses the framework onto its two most fundamental axes, because the other two questions, marks and terms, feed into them: marks feed into whether the price is defensible, and terms feed into both price and legitimacy.

5.1 The Decision Matrix

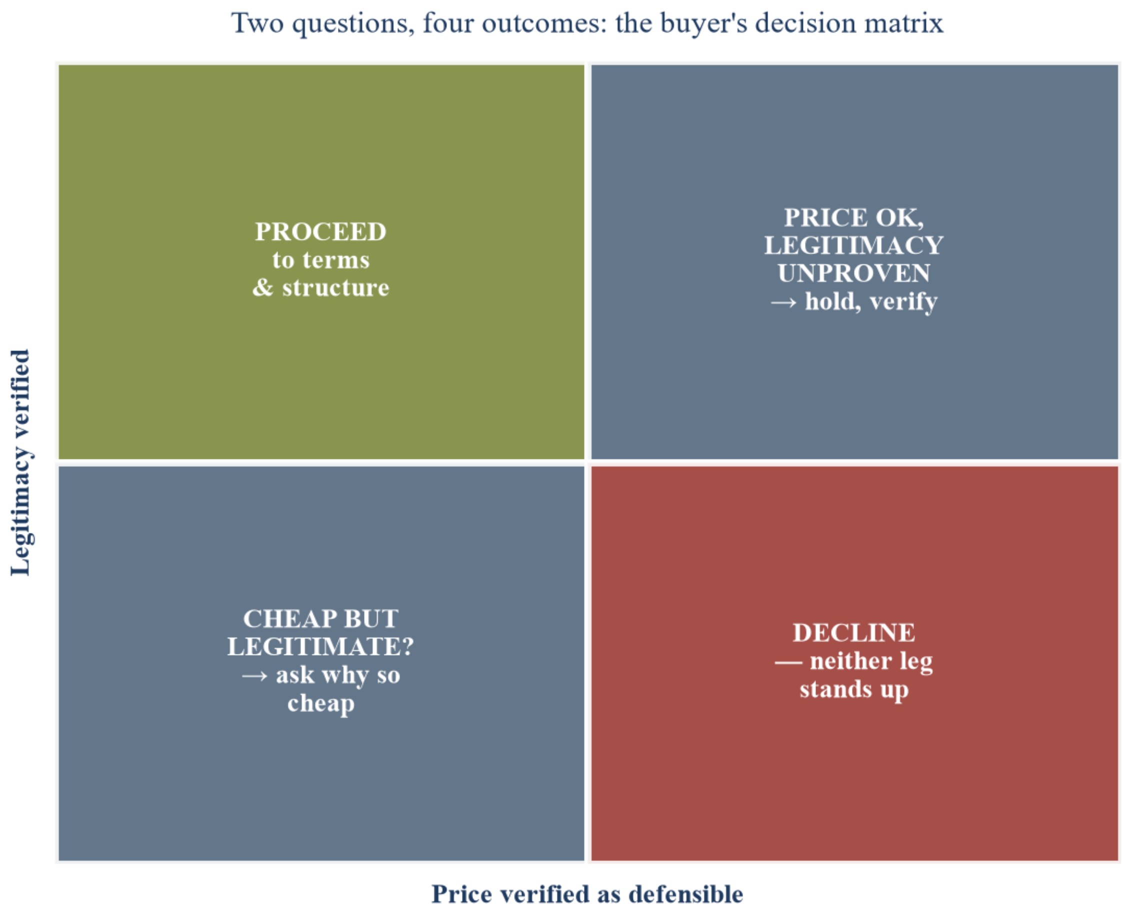

Figure 7. The Buyer's Decision Matrix

Illustrative. The two axes ask whether the price has been verified as defensible and whether legitimacy has been evidenced. Only the upper-right cell supports proceeding; the others call for holding, questioning or declining. A schematic decision aid, not advice on any offer.

The horizontal axis asks whether the price has been verified as defensible, after ageing the mark and netting the terms. The vertical axis asks whether legitimacy has been evidenced link by link. Only one of the four cells supports proceeding: a price that is defensible and a chain that is verified. A defensible price with an unproven chain is not a buy; it is a hold pending verification, because no discount compensates for shares the seller cannot deliver. A verified chain with a price that looks too cheap is not an automatic buy either; it is a prompt to ask why a legitimate holder is selling so far below a defensible value, because the answer is sometimes information the buyer does not yet have. And a position that fails both tests is a decline, regardless of how attractive the name.

The matrix encodes the central discipline of the paper: that the buyer must answer two independent questions and refuse to let a strong answer on one substitute for a weak answer on the other. A famous company does not verify a chain. A clean chain does not make a stale price cheap. The buyer who keeps the questions separate, and requires a satisfactory answer to each, will decline some attractive-looking offers and will occasionally forgo a genuine bargain. That is the cost of a method designed to avoid the losses that the alternative, accepting the headline and the story, eventually produces.

5.2 A Worked Illustrative Example

It is worth working the framework through a single illustrative case. Suppose a buyer is offered shares in a well-known private company at seventy per cent of the company's last priced round, which was struck thirty months ago. The offer is presented as a thirty per cent discount and the seller wishes to close within two weeks. The buyer applies the framework rather than the discount.

On price and marks, the buyer ages the reference. Thirty months at an illustrative twelve to sixteen per cent annual de-rating, supported by a visible re-rating of the company's sector since the last round, brings a defensible reference well below the nominal last-round value, perhaps to seventy-five or eighty of it. The headline discount of thirty per cent, measured against this aged reference rather than the stale one, is closer to ten per cent or less. The apparent bargain has largely evaporated before any other deduction.

On terms, the buyer finds that the offered shares sit below a one-times non-participating preference and that the structure interposes a special-purpose vehicle charging a management fee and a carry, with an intermediary spread on top. Netting these layers and the preference overhang, the defensible price falls further, and the headline now looks fair to slightly expensive rather than cheap.

On legitimacy, the buyer asks for a current register extract, the holder's name, evidence of transfer consent and confirmation that title passes at completion. If these are provided and verify cleanly, the offer reaches the matrix as a fairly priced, legitimate position, and the buyer can decide on its merits as an investment, weighing the modest residual discount against the illiquidity. If, instead, the seller resists naming the holder, cannot evidence consent, or reveals that what is being sold is a forward on a future allocation, the offer fails the legitimacy test and the price becomes irrelevant. The two-week deadline, in that case, was not a feature of the seller's liquidity needs; it was a feature of the deal's design.

The example is deliberately ordinary. It is not a story about an obvious scam. It is a story about how a perfectly plausible offer, in a real company, at a discount that sounds generous, resolves into a fair-to-expensive price on a position whose legitimacy the buyer must still prove. That resolution is the whole value of the framework, and it is available only to a buyer who declines to start from the discount.

5.3 Calibrating the Framework for the Gulf Buyer in 2026

The framework is general, but its calibration for a Gulf family office or private investor in 2026 reflects three features of that buyer's position. The first is the prevalence of intermediated offers. Much of the late-stage private exposure shown to Gulf buyers arrives through brokers, placement agents and special-purpose vehicles rather than directly from holders, which lengthens the chain of legitimacy and adds fee layers. The framework's emphasis on tracing every entity in the structure, and on netting the full fee stack, is therefore not academic for this buyer; it is the difference between a real discount and an illusory one.

The second feature is the vintage problem. A large share of the companies now being offered as secondaries raised their last priced rounds at the peak of the 2021 to 2022 cycle. Those rounds have aged into a market that has since re-rated, which is exactly the condition the stale-mark model is built to address. A Gulf buyer applying the framework in 2026 should expect the ageing exercise to absorb a substantial part of many headline discounts, and should be sceptical of any offer whose reference has not been brought to the present.

The third feature is relationship-driven origination. Offers often arrive through trusted networks, which is a genuine advantage for access but a specific hazard for diligence, because the social cost of asking a connected counterparty for register extracts and written consents can feel high. The framework's discipline is most valuable precisely here. The buyer who applies the same evidence standard to an offer from a trusted source as to one from a stranger is not being discourteous; it is recognising that the structural features that enable fraud, complexity, urgency, opacity and misaligned incentives, are present regardless of the warmth of the introduction. A method applied unevenly is no method at all.

6. LIMITATIONS AND DISCUSSION

The framework has limitations that a candid buyer should keep in view. First, it is analytical and illustrative, not empirical. Its numbers are chosen to make the method legible, and a buyer applying it to a real offer must replace every assumption with offer-specific evidence. The framework organises judgement; it does not supply it.

Second, the stale-mark model ages a reference but cannot manufacture a fair value that does not exist. For a private company there is no observable price, and the buyer's aged estimate remains an estimate. The model's contribution is to replace a single stale anchor with a reasoned current one, not to deliver precision the asset class cannot support.

Third, the legitimacy test reduces but does not eliminate the risk of sophisticated fraud. A determined fraudster can forge documents and construct a plausible chain. The test raises the cost and the evidentiary burden of deception, and it stops the great majority of unsound offers, which fail at an early and verifiable link. It is not a guarantee, and it does not replace qualified legal review of the transfer documents or, where the sums warrant, independent confirmation directly from the issuer or its transfer agent.

Fourth, the framework is calibrated to a buyer evaluating a single offer, not to a programmatic acquirer building a book of secondaries at scale. A buyer transacting frequently would embed these tests in a repeatable process with standing relationships and pre-agreed evidence standards, and would face different economics. The single-offer buyer, which is the typical position of a family office shown an opportunity, is the buyer this paper serves.

Fifth, conditions change. The de-rating assumptions reflect a 2026 environment in which many last rounds were struck at a cyclical peak and have aged into a re-rated market. In a different part of the cycle the time decay could be smaller or could reverse, and a buyer must recalibrate rather than carry these illustrative figures forward. The method is durable; the numbers are not.

7. CONCLUSION

A pre-IPO offer leads with a discount and a story, and both are designed to keep the buyer from examining the three claims that lie beneath them. This paper has argued that the buyer's task is to slow down and test those claims in order: to rebuild the price from reference values rather than accept a headline, to age the carrying mark rather than anchor on it, and to verify the chain of legitimacy link by link rather than take the seller's authority on trust. It has set out a price bridge, a stale-mark model, a chain-of-legitimacy test, a red-flag taxonomy and a two-question decision matrix, and it has shown, through an ordinary illustrative example, how a generous-sounding offer resolves into a fairly priced position whose legitimacy must still be proven.

The discipline the framework imposes is uncomfortable, because it will lead the buyer to decline attractive-looking offers and occasionally to forgo a genuine bargain. That is the intended cost. The alternative, accepting the discount and the story, is cheaper in the moment and far more expensive over a portfolio, because the offers that are designed to defeat scrutiny are precisely the ones that present most attractively. For the Gulf family office or private investor being shown late-stage private exposure in 2026, much of it priced against rounds struck at a cyclical peak, the value of a structured method is at its highest. A buyer who keeps the questions separate, requires evidence at every link, and refuses to let a famous name stand in for verification, will price what it buys correctly and will avoid most of what it should never have bought. That is the modest but durable claim of this paper.

This paper is for general information and education only. It is not investment, legal, tax or accounting advice, and it does not describe any actual offer, company or transaction. Any buyer evaluating a real pre-IPO secondary should obtain qualified legal, tax and investment advice specific to its circumstances before committing capital.

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APPENDIX A. BASE-CASE ASSUMPTIONS

The table below records the stylised assumptions used in the figures and the framework. They are indicative, illustrative and chosen to make the method legible. They are not sourced data, forecasts or the parameters of any actual offer, and a buyer applying the framework to a real offer should replace each one with offer-specific evidence.

Table A1. Full Base-Case Assumptions

Assumption	Illustrative value / treatment
Reference value	The company's last priced round, treated as a stale upper bound
Time since last round	24 to 36 months in the worked example
Annual de-rating applied to a flat mark	12 to 16 per cent, supported by sector re-rating
Liquidation preference	1.0x non-participating in the base case; deeper in stress cases
Information and access discount	5 to 12 per cent for weaker rights and knowledge
Illiquidity premium	High and required, given a multi-year uncertain holding period
Fee stack	Intermediary spread, SPV management and carry, plus any sponsor economics
Headline offer in the worked example	70 per cent of the last round, framed as a 30 per cent discount
Legitimacy evidence standard	Register extract, named holder, written consent, clean title at completion
Decision rule	Proceed only when price is defensible and legitimacy is evidenced

Illustrative assumptions; see Section 3. Not sourced data, forecasts or the parameters of any actual offer.

APPENDIX B. PRE-IPO OFFER DILIGENCE CHECKLIST

The following checklist distils the framework into the questions a buyer should answer before committing capital to a pre-IPO secondary offer. A negative or unevidenced answer to any question in the legitimacy block is a reason to stop, not a detail to resolve after completion.

- Have we rebuilt a defensible price from reference values, rather than starting from the seller's headline discount?
- Have we aged the reference mark for the time since the last round and for the re-rating of the sector?
- Have we treated a carrying value held flat across many quarters as a stale upper bound, not a fair estimate?
- Have we netted the full fee stack, intermediary, SPV and any sponsor, from the apparent discount?
- Have we accounted for the liquidation preference and the buyer's place in the stack?
- Have we confirmed that the claimed holder actually appears on the issuer's register?
- Have we obtained written evidence that transfer consent and any rights of first refusal are waived or satisfied?
- Have we verified that the seller is the holder or is genuinely authorised to act for the holder?
- Have we confirmed that clean title passes to us at completion, including through any SPV in the structure?
- Have we refused any offer that turns out to be a forward or allocation rather than existing, held shares?
- Have we required escrow or a reputable transfer agent for funds until title is confirmed?
- Have we resisted a deadline designed to close the deal before diligence can be completed?
- Have we asked why a legitimate holder would sell so far below a defensible value, if the price looks unusually cheap?
- Have we taken qualified legal, tax and investment advice specific to our circumstances before committing?

APPENDIX C. RED-FLAG LIST

The following list collects the red flags discussed in Section 4.4, grouped by the response they warrant. Flags in the first group are reasons to walk away; flags in the second call for systematic verification rather than alarm.

Walk-away flags

- The seller will not name the holder or give access to the cap table or register.
- The price is conspicuously better than any rational seller would accept, with pressure to close fast.
- What is offered is a forward or future allocation rather than existing, held shares.
- Transfer consent and rights of first refusal cannot be evidenced in writing.
- The counterparty refuses escrow or a reputable transfer agent for a material sum.
- Title to the buyer cannot be confirmed at completion, even through an interposed vehicle.

Verify-and-proceed flags

- A carrying mark unchanged for many quarters: triggers the ageing exercise of Section 4.2.
- A layered SPV with several fee layers: triggers the structure review of Section 4.5.
- No audited financials available: shifts weight onto other evidence rather than ending the enquiry.
- A long-delayed initial public offering: re-prices the illiquidity rather than ending the enquiry.

APPENDIX D. GLOSSARY OF KEY TERMS

The following glossary defines the principal terms used in this paper for readers less familiar with private secondary markets.

Pre-IPO secondary. The purchase of shares in a late-stage private company from an existing holder, before any public listing.

Last priced round. The most recent primary financing of a company, against which a secondary entry price is usually measured as a discount.

Reference value. The value a price is measured against; in pre-IPO offers, almost always the last priced round, treated here as presumptively stale.

Stale mark. A carrying value that has not been revised through a recent transaction or disciplined re-estimation, and that therefore overstates current worth.

Price bridge. A step-by-step construction of a defensible price from a reference value through explicit, evidenced deductions.

Liquidation preference. A right attaching to preferred shares to receive proceeds ahead of common shares in a sale, which reduces the value of shares below it.

Chain of legitimacy. The sequence of links, from issuer register to buyer title, that must each be evidenced for an offer to be sound.

Right of first refusal. A right held by the company or its investors to buy shares before they may be transferred to a third party.

Special-purpose vehicle. A company or fund formed to hold a single investment, often interposed between the buyer and the underlying shares.

Information asymmetry. The condition in which the seller knows more than the buyer, which the buyer addresses through verification rather than trust.

Illiquidity premium. The additional return an investor expects for holding an asset that cannot be sold quickly at a fair price.

Forward or allocation. A promise of shares not yet held, which is a bet on a counterparty rather than a transfer of existing title.

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