

The Flip Transaction: Bringing Your Foreign Startup into the US Investment Market

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Non-U.S. startups often arrive at the point where they wish to seek funding from a U.S. venture capital firm or establish a presence in the U.S. Sophisticated investors tend to prefer to invest in companies organized under Delaware law.

There are several reasons that foreign entrepreneurs should move their startup from their home countries to the U.S. The decision to relocate may result in an increased company valuation or attract additional financing. U.S. investors are likely to view companies that have reincorporated in the U.S. as a more attractive investment opportunity. Companies seeking to build relationships with local investors find this becomes an easier task by relocating the business to the U.S. Many foreign companies already see a sizable portion of their revenue coming out of the U.S., making a relocation to the U.S. a logical progression.

There are several ways to move a foreign startup to the U.S. For example, the foreign entity could be merged or converted into a new Delaware corporation. The owners of the foreign startup would become the shareholders of the surviving Delaware corporation. However, the most common solution for moving a foreign entity into the U.S. has been the “flip” transaction, in which the foreign entity’s shareholders create a new U.S. entity and exchange their foreign stock for the U.S. stock. Through this transaction, the original shareholders are now the owners of the U.S. entity, and the U.S. entity becomes the parent of the foreign entity. The company has been reincorporated in the U.S., thus satisfying the investor’s conditions to funding; angel investors and venture capital funds would then invest in the newly formed U.S. entity.

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