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CROSS BORDER INVESTMENTS, CAPITAL MARKET DEVELOPMENT, AND VENTURE CAPITAL EXITS IN EUROPE (SUMMARY)

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≈ SUMMARY ≈

CROSS BORDER INVESTMENTS, CAPITAL MARKET DEVELOPMENT, AND VENTURE CAPITAL EXITS IN EUROPE

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Principal Topic

We study whether cross-border venture capital investors (CBVCs) contribute to the success of a venture capital (VC) syndicate by overcoming conditions in the host country hindering exit. Specifically, we examine whether CBVCs enhance the set of available exit opportunities offered by the country of the portfolio company. Exit is more difficult and least likely to be successful in countries in which capital markets are less developed, however no study has analyzed whether CBVCs are as exposed as local investors to inefficiencies of capital markets in the host country.

Method and Data

We conduct our analysis on a sample of 1,062 VC investments in 462 young high-tech companies in 7 European countries which received their first investment round between 1994 and 2004. We distinguish three types of exit: IPO, trade sale, and liquidation. To study the exit of VCs we resort to a competing-risks model, which allows us to study jointly the time and mode of exit of VCs. Our main variables of interest are the IPO volume, the M&A volume, and the quality of legal rights in the host country of the firm and in the home countries of the investors. We also control for firm characteristics (sales growth and patent stock), industry and syndicate size.

Results and Implications

The mode of exit is significantly affected by local conditions: a sustained local IPO activity makes exit through an IPO more likely, an active local M&A market facilitates exit through trade sale, and better legal rights in the host country make liquidation easier. CBVCs add exit opportunities only with respect to trade sales. The likelihood that a CBVC exits an investment through an IPO or liquidation is only influenced by the characteristics of the host country. The likelihood that a CBVC exits an investment through a trade sale, instead, depends both on the M&A activity in the host country and on the M&A activity in the home country of the investor. Finally, the trade sale opportunities brought by CBVCs benefit all the investors in the syndicate, not only the CBVC.

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