INVESTOR CHARACTERISTICS AS DETERMINANTS OF FIRM VALUE IN VENTURE CAPITAL FINANCING ROUNDS (SUMMARY)

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SUMMARY

INVESTOR CHARACTERISTICS AS DETERMINANTS OF FIRM VALUE IN VENTURE CAPITAL FINANCING ROUNDS

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Principal Topic

Understanding the drivers of the value of an entrepreneurial firm is crucial for entrepreneurs, investors and researchers. In contrast with quoted firms, both entrepreneurial firm and investor characteristics may impact the negotiated firm value. The purpose of this paper is to explore how different VC investor types with different goals and different ways of working potentially influence the value of an entrepreneurial firm at a VC investment. This paper addresses two specific research questions. First, do different types of (lead) VC firms explain differences in valuation? We compare valuations of independent VC investors with captive VC investors, university VC investors and government VC investors. In the second research question, we analyze if domestic VC investors differ in their valuations from cross-border VC investors.

Method

We use a unique hand-collected database with 180 VC backed companies representing 362 investment rounds. Our sample includes successfully exited ventures as well as failed ventures or ventures that are not exited yet.

We use a log-linear OLS-regression model to analyse the premoney value in each investment round as a function of VC firm type, firm characteristics, financial statement information and control variables. Further, we control for any potential selection bias by using the Heckman two-stage framework and by analysing the likelihood of a venture’s success as a function of VC characteristics.

Results and Implications

The results indicate that university VC firms and government VC firms value firms lower than independent VC firms while international VC firms value firms higher than domestic VC firms. Captive VC firms value firms higher than independent VC firms only in follow-on investment rounds. These results remain robust after controlling for investee firm characteristics and potential selection bias. The findings can be explained by divergent goals, governance structures and portfolio composition of different types of VC firms. Overall, our findings suggest that VC firm type is a determinant of the value in entrepreneurial firms.

This research extends our theoretical insights in the drivers of valuation of entrepreneurial ventures, both for successful and less successful ventures. Further, entrepreneurs could anticipate the implications of the differences between VC investors on their equity stake.

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