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VENTURE CAPITAL EXIT RIGHTS

Carsten Bienz, Uwe Walz

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Abstract

We investigate when and how venture capital contracts use exit rights such as drag-along and tag-along rights. Utilizing a data set of venture capital contracts from Germany, we find that almost all contracts allocate exit rights to the venture capitalist (VC) rather than to the entrepreneur. In our data set, the vast majority of exit rights deal with the sale of the entire company to a strategic investors rather than with initial public offerings (IPOs). We show that venture capital contracts include exit rights to mitigate potential hold-up problems of the VC in the case of exit.

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