

VENTURE CAPITAL EXIT RIGHTS

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First published: 22 November 2010

<https://doi.org/10.1111/j.1530-9134.2010.00278.x>

We thank seminar participants at Giessen, Goethe (Frankfurt), Universidad Iberoamericana, NHH, CASS, CEPR Summer Symposium on Financial Markets in Gerzensee, EFA 2006, 1st Ricafe 2 conference, the 2nd Workshop of the “Vienna Symposia on Asset Management,” the CEPR conference on “Risk Management and Corporate Finance” 2008 in Solstrand, the Conference on the Law and Economics of Entrepreneurship, Northwestern School of Law, 2008, the Conference on the Economics of Privately Held Firms, BI, the first Essec Private Equity Conference, 2008, and the 9th Symposium on Finance, Karlsruhe, 2008, for valuable comments. Also we thank Thomas Chemmanur, Francesca Cornelli, Antoine Faure-Grimaud, Zsuzsanna Fluck, Julia Hirsch, Kjell Nyborg, Per Östberg, Ibolya Schindele, Antoinette Schoar, Armin Schwienbacher, Merih Sevilir, Per Strömberg, Javier Suarez, Masako Ueda, and Volker Zimmermann for helpful suggestions on an earlier version titled “Evolution of Decision and Control Rights in Venture Capital Contracts: An Empirical Analysis.” In addition, we also thank all Kreditanstalt für Wiederaufbau (KfW) employees at KI and KS for their support and especially Andreas Weber (KfW) for his help. We are particularly grateful to two anonymous referees and a coeditor for extremely valuable comments on earlier drafts of the paper. All errors remain ours. Carsten Bienz gratefully acknowledges financial support by German Research Foundation (DFG) and by the German Academic Exchange Service (DAAD). Furthermore, Carsten Bienz thanks the Financial Markets Group at the London School of Economics for their hospitality.



PDF

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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