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Venture Capital and the Finance of Innovation

VENTURE CAPITAL AND THE FINANCE OF INNOVATION, 3rd Edition, Andrew Metrick and Ayako Yasuda, eds., John Wiley and Sons, Inc., 2021

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Abstract

This article contains the front matter plus the first chapter from the textbook, *Venture Capital and the Finance of Innovation*. The book is intended for finance classes on venture capital at the MBA or advanced undergraduate level. The book is divided into four parts, with six chapters each. Each of these four parts has a major finance theme: the theme of Part I is the relationship between risk and return; the theme of Part II is the valuation of high-growth companies; the theme of Part III is the analysis of capital structure; the theme of Part IV is the relationship between strategy and finance. Overall, Parts I and II are heavy on data and definitions and are intended to provide students with the vocabulary of VC and knowledge of the key industry facts. Although these two parts contain some new definitions and approaches, most of the material should seem familiar to a VC practitioner. In contrast, Parts III and IV are more theory based and provide a new perspective on the evaluation of VC and other high-technology investments. Although these latter two parts might seem experimental to some practicing VCs, financial economists will recognize the material as a straightforward translation of well-known methods. Indeed, the methodology developed in Part III to quantify the differential values of preferred and common stock of VC-backed startups has become more recognized by practitioners as late-stage VC valuations have soared in 2010's, unicorns have become ubiquitous, and non-traditional investors have provided ever larger amounts of capital in private funding rounds.

Keywords: venture capital, innovation, valuation, real options

JEL Classification: G24; O3;

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