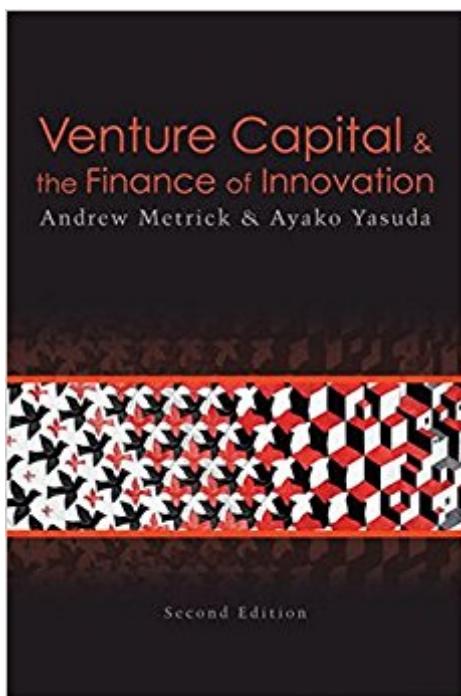


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# Venture Capital And The Finance Of Innovation, 2nd Edition



## Synopsis

This useful guide walks venture capitalists through the principles of finance and the financial models that underlie venture capital decisions. It presents a new unified treatment of investment decision making and mark-to-market valuation. The discussions of risk-return and cost-of-capital calculations have been updated with the latest information. The most current industry data is included to demonstrate large changes in venture capital investments since 1999. The coverage of the real-options methodology has also been streamlined and includes new connections to venture capital valuation. In addition, venture capitalists will find revised information on the reality-check valuation model to allow for greater flexibility in growth assumptions.

## Book Information

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## Customer Reviews

Clearly, the Finance of Innovation was a major undertaking for professor Metrick. It is filled with useful facts that have some practicality and a great deal more academic thought. Yet, as he mentions early in the text, VCs use few of the methods outlined. Specifically, the heavy reliance on option theory is overly complicated and not useful for the practitioner. More importantly, however, is that it is somewhat misguided to focus on the randomness of liquidation events. Venture investments are very different from public equity investments as venture investors seek to actively direct their portfolio companies to the most favorable outcomes. Throughout the book, Metrick reverts to Black-Scholes option valuation to demonstrate how a venture investment could resemble a call option. While this technique could possibly be useful for biotech investments where FDA approvals and clinical trial outcomes are unknown at the time of the investment, it doesn't make

logical sense for most VC or private equity investments. In many cases, a company could be made more attractive to acquirers (and hence more valuable) merely by the stamp of approval realized by an initial celebrity VC investment. This would be the first of a number of actions undertaken by the general partners of the fund to impact the investment's valuation. In reality, what limited partners are paying for when they agree to give general partners 20% of the carry is their expertise in facilitating the strategic direction of portfolio companies, ability to identify and recruit management, and use of their contacts for business development and, ultimately, the best liquidation outcome. These are decidedly not random events. Given the somewhat academic nature of the book, it is ideally suited for a textbook.

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