

THE QUANTITATIVE ECONOMICS OF VENTURE CAPITAL

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$$m = \frac{1}{1 + r_f} \left(1 + \frac{\bar{r}^2}{\sigma^2} - \frac{\bar{r}}{\sigma^2} r \right)$$

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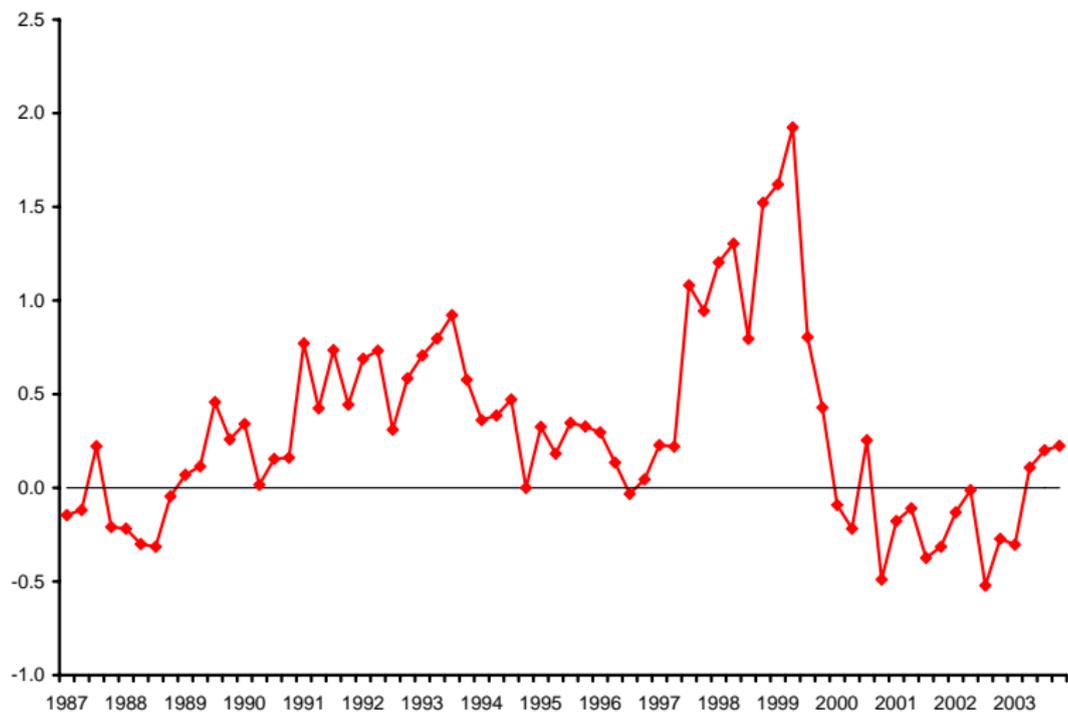
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$$\beta_v = \frac{E(M_k)E(R_{v,k}) - 1 - \alpha}{E(M_k)E(R_k) - 1}$$

DATA

	<i>Number</i>
Companies	19,434
Companies omitted because of no exit event	6,385
Exits used in analysis	13,049
IPO	1,936
Acquisition	4,832
Ceased operations with no value	6,281
Companies assigned zero exit value	3,186

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- ▶ Overall weighted average α : 32 percent

β

<i>Measure</i>	<i>Description</i>	<i>Value</i>
$\alpha = E(MR_v) - 1$	Pure excess return to venture, over holding period	0.32
$E(M)$	Discount averaged over dollars invested	1.26
$E(R)$	Return ratio for the stock market for the timing and amount invested in venture	1.22
$E(R_v)$	Total dollars paid out by venture divided by total dollars invested	1.66
β_v	Venture's beta	1.46

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- ▶ Nominal cost of capital = 12.9 percent