

Deep Pockets and the Valuation of Start-ups

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Very preliminary – no paper yet – comments welcome

Abstract:

Staged financing of start-ups can be achieved with different investor constellations. One is that companies obtain funding from different investors at different stages. Another is that a deep pocketed investor continues investing in the company across multiple stages, usually as part of a syndicate. The valuation of start-ups is influenced by investor constellations, in particular strategic interactions between outside investors and deep-pocketed insiders. Our theory models the investment choices and valuations of start-ups, deriving advantages and disadvantages of deep pocketed investors. The analysis explains the significance of pro-rata investments, and the role of pre-emptive rights.