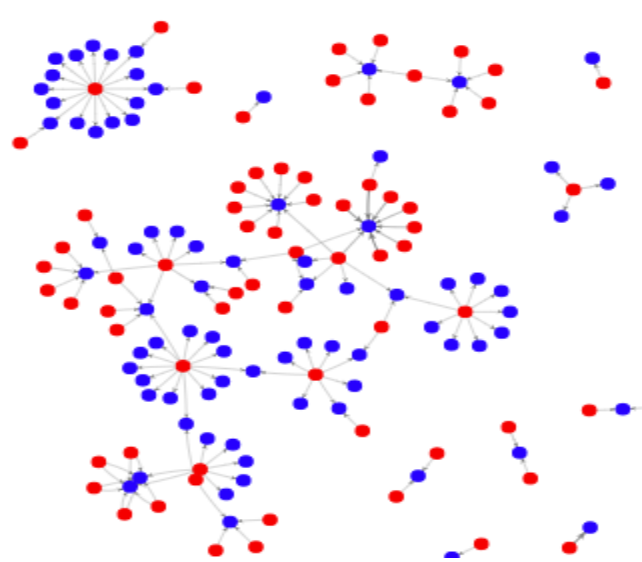
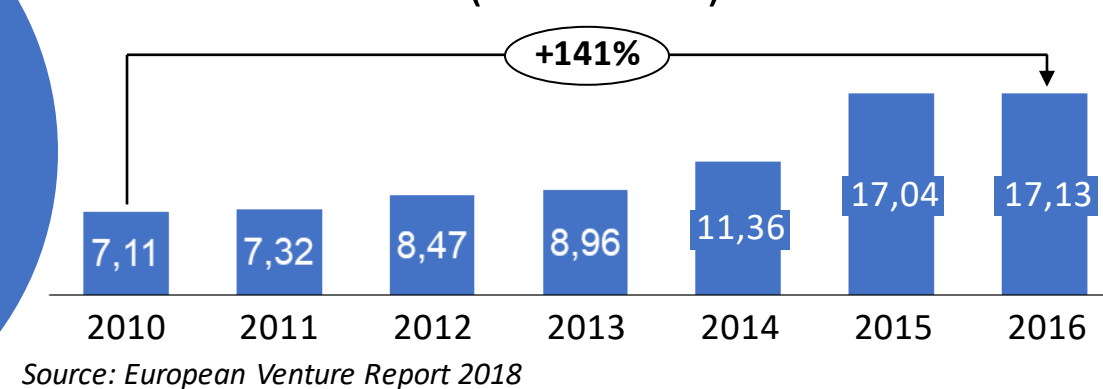


Syndication Networks: Money in venture capital is not fungible

In times of shortening learning cycles and radical technological transformation economies can keep pace with investment in young, game changing, ventures. Since this asset class involves a much higher degree of uncertainty it cannot be done via traditional financing methods. Although venture capital is not a new invention, it experienced a renaissance in the last ten years.

Venture-backed companies account for >4.5 M jobs & >420 Bn. EUR revenue in EU

Investment volume of venture capital in Europe (in Bn. EUR)



> 80% of VC investments are syndicated

Why venture capital firms form syndicates?

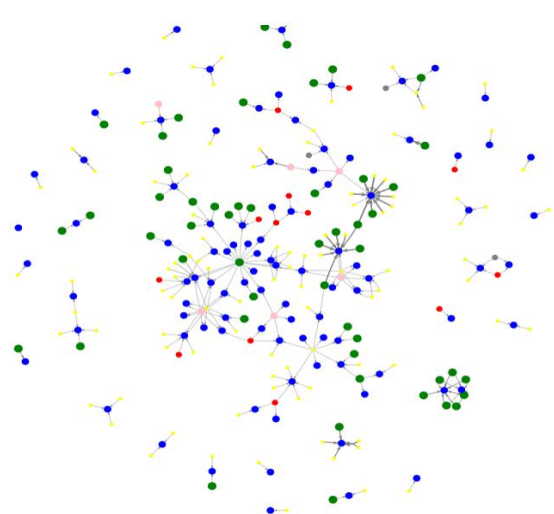
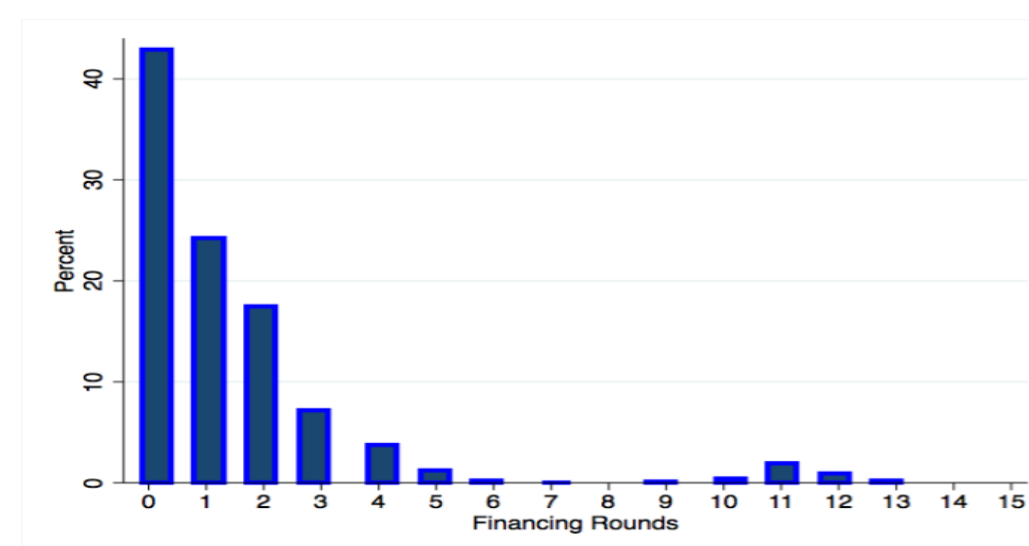
Syndication of VC deals affects performance of funds through:

- Better investment decisions (signaling)
- Overcoming of informational asymmetries
- Risk-sharing

Why venture capital firms form syndicates?

- Only a few companies reach late financing stages, let alone successful exits.
- More than 40% of the firms in Western Europe receive only one round of financing.
- Only about 2.5% of firms reach a final financing stage (PIPE, Merger, Secondary Stock Purchase or Pre-IPO)

Syndicated investments are significantly more likely to reach another stage



Network position of the lead investor affects the success of the portfolio companies

Results

- A one σ increase in the eigenvector centrality of the lead investor, increases the probability of surviving one more round by 17.3 percent
- A one σ increase in the betweenness of the lead investor increases the probability of surviving an additional financing round by about 23.3 percent.
- Effects are most robust for the characteristics of the lead investor, and weaker for other partners.
- The centrality of the lead investor in the syndication networks between different VCs, is critical for the success of a venture.

Impact

- Lead investors will benefit from having central roles within the syndication network
- Co-investors can benefit from the centrality of their investment partners
- Ventures should carefully consider about the centrality of their lead investor
- Public investment support schemes should consider the network centrality of beneficiaries in order to leverage impact

Specific positions within networks are more likely to succeed

Data set

- Deals from Europe, for the years 2010 to 2016.
- number of deals has been starting with 2406 in year 2010, and rising to 4451 in 2016.
- deals cover several industries:
- software and internet >11,000 observations,
- pharmaceuticals, biotechnology & telecom >1,000 observations. Medical devices & clean technology about 900 deals each.
- The total number of deals is 24,400.