

Date of the event:

On Thursday 13th January 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before January 10th, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/index.php/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

Venture Capital and Sequential Investments

*By Prof. Ulrich Hege
HEC Paris*



**Thursday 13th January 2011
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Venture Capital and Sequential Investments

By Ulrich Hege

The **Luxembourg School of Finance**

Is pleased to invite you to the

LSF Seminar

We present a dynamic model of venture capital financing, described as a sequential investment problem with uncertain outcome. Each venture has a critical, but unknown threshold beyond which it cannot progress. If the threshold is reached before the completion of the project, then the project fails, otherwise it succeeds. The investors decide sequentially about the speed of the investment and the optimal path of staged investments. We derive the dynamically optimal funding policy in response to the arrival of information during the development of the venture. We develop three types of predictions from our theoretical model and test these predictions in a large sample of venture capital investments in the U.S. for the period of 1987-2002.

First, the investment flow starts low if the failure risk is high and accelerates as the projects mature. Second, the investment flow reacts positively to information that arrives while the project is developed. We find that the investment decisions are more sensitive to the information received during the development than to the information held prior to the project launch. Third, investors distribute their investments over more funding rounds if the failure risk is larger.

