

# Conflicting Fiduciary Duties and Fire Sales of VC-backed Start-ups

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# Overview

- When VC is about to mature, forced sales happen with following consequences:
  - ① Sale price is low
  - ② Acquirers are likely to be outsiders
  - ③ Positive abnormal return for acquirers
- Reason – board members make decisions in favor of preferred shareholders

# Identification

- Very nice natural experiment
- *Trados* left its common shareholders with \$0 after the fire sale
- Delaware Court ruling required the board to favor the interests of common shareholders
- Decline in fire sales post-*Trados* for maturing VCs

# Comments overview

- Major comments:
  - 1 Reasons that can explain the discount
  - 2 Comparability of the control and treatment groups
  - 3 Delaware effect
- Minor comments

## Discount explanation

- Authors do a good job explaining why the discount is not driven by quality but what about other reasons?
- Let's say the VC was successful, had many high-quality start-ups but then had few failed start-ups
- It will be significantly harder for the VC to sell its start-up
- This can be true for VCs of different ages and for start-ups of different quality
- This story is consistent with findings regarding outsiders and abnormal returns

## Control vs. treatment group

- Authors use younger VCs as a control group
- Ideally groups should be nearly identical conditional on characteristics
- There are unobservables – older VCs are 'self-selected', may have more sophisticated management and different start-ups
- Triple diff mitigates the concern

# Delaware

- Delaware has history of changes in fiduciary duties (e.g. law in 1991 from Becker and Stromberg (2012))
- Does it make lawsuits concerning fiduciary duties more predictable in Delaware?
- Again, triple diff mitigates these concerns
- I would suggest elaborating more on the effects in other states

## Minor comments

- Would be nice to have a placebo test with cases where nothing changed
- Is there heterogeneity within maturing VCs?
- Use logit instead of (or in addition to) LPM
- Fast growing acquirers may have better bargaining power – add momentum when computing abnormal returns
- Add more information about *Trados* in the intro



# Summary

- Very nice paper
- Identification strategy is mostly compelling
- Certain things require clarification or additional robustness tests