Law Firm Expertise and Global Venture Capital Investments

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Discussion: Elise Gourier

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Recap

Main finding: VC deals that involve top-market-share law firms ...

1. have a lower chance of failing
2. are larger
3. are more expensive and generate higher returns
4. have a higher chance of successful exit (IPO or M&A)

$\Rightarrow$ **Nice and interesting paper.**

1. Data and Model

Data:

- 181,944 deals made by 75,640 VCs in 92,774 companies in 22 countries (Pitchbook), between 2000 and 2020
- Data quality? Selection bias, backfilling
- Varies over time and across countries? (see Retterath and Braun, 2020 for European countries)

Model:

$$\text{Dep. var.}_{i,t} = \alpha + \beta \cdot \text{Top 10 law firm}_{i,t} + FE + \epsilon_{i,t}$$

- When dep. var. $= 0/1$, why not use a logit/probit model?
- Why not use all variables together (+ interactions) and use a Lasso regression?

2. Law firm = lower chance of failing + larger deal

Surprising? Less than 1% of deals fail (% seed, early and later stage?)

1. Sell-side:
   - Law firms are costly ($>$ 20,000 USD for seed financing, 40,000 for Series A financing)
   - Proxy for motivation, or education?
2. Buy-side:
   - Is the link between deal success and hiring a top law firm still there once controlling for the announced stake to be acquired?
   - Control for syndicated deals?
3. Cross-sectional analysis:
   - Results are stronger in countries with low civil justice system, weak property rights, lower judicial quality, weak dispute resolution and in less democratic countries
   - Correlation between these variables and the cost of hiring a law firm?

3. Law firm = more expensive deal + more returns

Causality ≠ correlation

> *"having a top legal advisor on either the investor or target side increases deal valuation by 58.1%"*

"cross-round returns are 11.9% higher when there is engagement of top-10 law firms"...

Mechanism behind the link with returns?

- Cross-round returns are calculated from pre-money and post-money valuations, do not account for fees.
- Is the engagement of law firms associated with better returns or better financial engineering?

A few more questions

Time series information:

- For start-ups which hire a lawyer at later rounds: why? better performance?
- Same questions for start-ups which stop hiring a lawyer.

Summary:

- Can we go from correlation to causality?
- Can we better understand the mechanisms behind the results?