

**Venture Capitalists, Business Angels, and Performance of Entrepreneurial IPOs
in the UK and France**

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Abstract

Using a unique sample of 444 entrepreneurial IPOs in the UK and France, this paper analyses the investment patterns and the stock-market performance effects of two types of early stage investors: venture capitalists (VCs) and business angels (BAs). Extending existing research, we identify important endogeneity and institutional effects. Our findings indicate that UK IPOs have a higher retained ownership and lower participation ratio by BAs, but a lower retained ownership and participation ratio by VCs than in France. BA and VC investments are substitutes, and they are endogenously determined by a number of firm- and founder-related factors, such as founder ownership and external board “interlocks”, and underwriter reputation. UK VCs are effective third-party certifying agents who reduce underpricing in UK IPOs, whereas in French IPOs they increase it by appearing to engage in grandstanding. This certification effect is more significant in UK IPOs involving both high VC and BA ownership. Finally, underpricing increases with BA participation ratio, where the higher exit of individual private equity investors seems to increase the risk premium required by outside investors.

Keywords: Venture capital; business angels; IPOs