Unblocking the growth pipeline: an efficient market for exit mergers

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Europe's productivity gap is increasingly attributed to a failure to commercialise innovation, prompting calls for regulators to rethink merger policy. In this article, **Kristofer Hammarback, Lau Nilausen** and **Adrian Sjahid** argue that a well-functioning market for "exit mergers", where start-ups are acquired by established firms, is critical to closing this gap. They explain how these mergers can enable efficient specialisation between innovation and commercialisation, and warn that expansionist merger control may distort innovation markets and suppress growth.

Introduction

The Draghi Report explains that "productivity growth … is the most important driver of long-term growth" and that "Europe needs to redress its slowing productivity growth by closing the innovation gap", including by "accelerating significantly technological and scientific innovation, improving the pipeline from innovation to commercialisation" (emphasis added).[2] In this article, we discuss how efficient markets for "exit mergers" support that pipeline. Here exit mergers refers to the acquisition of start-ups by established companies.

In recent years, the discussion of exit mergers has been dominated by concerns about "killer acquisitions" whereby incumbents protect their market position by acquiring potential competitors before they emerge as independent threats.[3] In efforts to address such concerns, many jurisdictions have lowered merger review thresholds.[4] In Europe, the European Commission's initial investigation of *Illumina/Grail* was undertaken despite Grail having no revenues in Europe.[5] After the Court of Justice of the European Union rejected the European Commission's interpretation of jurisdiction in *Illumina/Grail*, the European Commission has relied on call-in powers in member states to review below-threshold mergers, an approach currently under challenge in *Nvidia/Run:ai*.[6] In the US, the *Facebook/Instagram* and *Facebook/WhatsApp* mergers are being relitigated.[7] Meanwhile, competition authorities around the world are reviewing transactions involving AI start-ups, despite minimal revenues and little evidence of entrenched market power.[8]

Below, we explore how exit mergers may be understood as transactions in a market for innovation in which competition plays out (i) between innovative start-ups to be acquired, and (ii) between strategic acquirers to access innovation. Competition authorities assessing such transactions through the traditional prism of market consolidation may thereby distort competition in these innovation markets by raising barriers to the efficient exchange of innovation as an input. In doing so, they risk suppressing innovation and thereby inhibiting growth.

Mergers as input markets

This section explains how (i) innovation and commercialisation occupy separate levels of the value chain, (ii) operators at these different levels of the value chain presumptively are not competitors to each

other, and (iii) mergers may act as input markets.

Innovation and commercialisation as separate levels in a value chain

Irrespective of whether a firm wishes to enter a new product market or to develop its existing product offering, the process starts with R&D on what to bring to the market. To do so, the company may (i) innovate internally by investing in R&D, or (ii) acquire the relevant IP and/or know-how from a third party that has already generated a relevant innovation.

Upon completion of the development process, the firm faces a separate task of taking the product to market (involving tasks far removed from R&D activities, such as integration into offerings with other products, securing access to distribution channels, buying advertising, etc.). Whereas there may be synergies between the development and commercialisation stages, they imply different types of risks and require different types of expertise. As a matter of economics, these separate stages of a product's life may therefore be best thought of as different levels in the value chain.

Just like any production input, innovation is hence "produced" in an upstream market and sold or transferred to a downstream market where it is developed into a marketable product. Where the innovation is developed in-house, the transfer is internal. Where the innovation is sourced externally, the transfer can occur either in the form of the innovator offering a pure technology transfer (e.g., patents sale or licensing) or by way of acquisition of the innovator.

Presumption against competition between entities at different levels of the value chain

A start-up may be well placed to develop an innovative idea. However, taking the idea to customers often requires skills, assets and resources not yet developed or available at scale to an independent start-up. An innovator approaching the commercialisation stage hence needs to overcome any barriers to entry associated with entering a new stage of the value chain. This logic applies both in the context of innovations that are ultimately incorporated into a final product and in situations in which the innovator in theory could create a licensing business.

Similarly, for companies with an existing presence at the commercialisation level of the value chain, the investments required to develop R&D capabilities and the risk that any in-house R&D efforts may not succeed create barriers to entry for activities at the innovation level of the value chain.

Overcoming barriers to entry into a new market is difficult, as reflected in the practice of authorities of discounting the threat of entry as a competitive constraint to existing firms in a given market.[9] To be an effective competitive constraint, the company in question must be "in a position to enter the market immediately or within a short period"[10] such that "entry is not only a theoretical and remote possibility, but constitutes an immediate and actual threat".[11] Operators at these different levels of the value chain are therefore presumptively not effective competitors.

Releasing economics of specialisation through mergers

Market leaders are often best positioned to create value from technologies complementary to their current offerings, and to do so quickly and efficiently.[12] However, start-ups are often better placed to develop new technologies and innovations. For instance, they lack the constraints from the need to allocate resources to support, or otherwise have regard to, legacy products.[13] Given the well-recognised challenges associated with market entry, mergers between established firms and start-ups may result in "substantial synergies and efficiencies" as they overcome their respective barriers to entry by merging.[14]

When innovation and commercialisation take place at distinct levels of the value chain, mergers may hence be a manifestation of competition between innovators to attract the acquirers best capable of commercialising their innovation. Prospective acquirers in turn compete to partner with the innovators that can add most value to their offering. The resulting ability of downstream firms to access innovation beyond their R&D departments' capabilities and the opportunity for innovators to optimise commercialisation can promote efficiency by allowing industry participants to focus on the part of the value chain where they have a comparative advantage.[15]

Bena and Li's study of all US M&A deals announced between 1984 and 2006 finds that firms who do not have a well-developed R&D department have incentives to acquire other firms when seeking innovation rather than incur the costs required to invest in in-house R&D. Specifically, they find that firms with lower R&D spend are more likely to be acquirers whereas the R&D-intensive firms are more likely to be acquired.[16]

The fact that companies at different levels of the value chain may interact and transact with one another to establish an innovation market does not in itself contradict killer acquisition theories of harm. What it implies, however, is that several features of such markets limit the scope for such theories and increase the costs of pursuing them, as discussed below.

Innovators' path to growth

Access to growth capital

There exist success stories of small start-ups that develop into global behemoths without ever seeking external financing or being acquired.[17] These are, however, the exceptions to the general rule that development and scaling up require access to capital and know-how. Innovators can seek venture capital funding to support such growth.

Venture capital is an asset class focusing on the early stages of a company's development including (i) the development of a minimum viable product or proof of concept (seed funding), (ii) optimisation of the product to fit market needs (Series A funding), (iii) scaling up (Series B funding), and, possibly, (iv) expansion into new services or markets (Series C funding).[18] This early stage focus also implies that "Venture money is not long-term money. The idea is to invest in a company's balance sheet and infrastructure until it reaches a sufficient size and credibility so that it can be sold to a corporation or so that the institutional public-equity markets can step in and provide liquidity."[19] Access to growth capital therefore requires a liquidity event allowing early venture capital funders to exit and innovators to access permanent capital.[20]

Optimising liquidity events

Liquidity events include (i) sale of equity to public investors (i.e., an Initial Public Offering, or IPO), and (ii) acquisition by a strategic buyer.[21] According to Woodward (2021), out of 12,000 venture capital funded US companies (excluding biotech) exiting between August 2002 and 2020 Q1, 4% exited by IPO, 61% were acquired, and the remaining 35% shut down.[22] The majority of US venture capital funded companies hence exit by acquisition (at least outside of biotech).

There are two factors pulling in opposite directions as start-ups (and their investors) seek the optimal timing for a liquidity event. On the one hand, waiting longer to exit makes it harder to hit benchmark returns as the cost of capital compounds. On the other hand, compounding company growth means that company valuations and returns may similarly increase at a compounding rate. The best exit point for venture capital investors should therefore reflect how these factors combine for the company in question: for how long can the firm's valuation growth outpace the compounding cost of capital for venture capital backers.

Entrepreneurs' efficient incentives

A start-up or scale-up firm whose valuation growth can outpace venture capital funders' cost of capital should have no problems raising the funds to pursue such growth.[23] A finding that venture capital investors exit via sale to a strategic buyer therefore implies a presumption against any hypothesis that the acquisition target was facing likely industry-redefining hyper-growth on a standalone basis at the time of their exit. Any killer acquisition theory of harm will therefore need to address the question of why that innovator and their investors would choose to cash out early in case (as such theories suggest) they had the potential to become the next proverbial Facebook – as illustrated by Facebook rejecting a $1 billion acquisition offer from Yahoo in 2006 and a $15 billion acquisition offer from Microsoft in 2007.[24]

Whereas start-ups with industry-redefining products and a clear path to an IPO have no incentive to become the target of strategic acquisitions (including killer acquisitions), many start-ups never had a credible path to an IPO in the first place. An IPO is typically not an attractive option unless the company can reach a sufficient size by offering its service on a standalone basis, as supported by empirical work showing that firms with low-value IPOs are more likely to subsequently fail than other firms with higher-value IPOs.[25] Accordingly, the aim of many start-ups is to develop their innovation or proposition to a stage where it can be acquired by an investor or firm that is well-suited for bringing the innovation to market.[26]

This logic sheds a different light on concerns that reductions in venture capital funding in markets where so-called Big Tech firms have made acquisitions suggest that such acquisitions stymie innovation.[27] If the rational response of venture capital investors is to move on to fund innovations in other markets, this suggests that they perceive a lack of scope for competing technologies to either find alternative buyers or go to market independently. As an alternative to the view that Big Tech acquisitions create "kill zones",[28] a finding that investments into a given product market decreased following an acquisition by Big Tech may merely indicate that the innovation market already produced a "winner" among the innovators (who was then acquired).[29]

The implication of any killer acquisition strategy is that the target company puts itself up for slaughter. This is clearly a misnomer for start-ups which are from the outset conceived to be an input for services offered by a strategic buyer. Killer acquisition theories equally do not fit the reality for start-ups with no clear path to successful independent commercialisation. Evidence suggests that these two scenarios represent the vast majority of start-up exits. Finally, entrepreneurs and their financial backers are unlikely to have incentives to abandon a potentially disruptive business after its potential becomes sufficiently evident for an incumbent to wish to pursue a killer acquisition yet before the value of the business's disruptive potential has been realised. These factors create a presumption against killer acquisition theories of harm.

Efficient sourcing of innovation

Allocation of risk

The findings in Woodward (2021) that 35% of US VC funded start-ups shut down and that 26% were sold at a loss highlight how inherently risky it is to pursue innovation. Rational product market incumbents will be aware of the costs and risks of pursuing innovation, as well as their own capabilities. Incumbents can mitigate this risk by acquiring the best fit among start-ups competing to innovate. An incumbent's decision to not pursue in-house R&D and instead acquire an innovator therefore does not necessarily imply a loss of innovation competition. Rather, it may reflect that there is an efficient market for innovation allowing agile innovators to compete with one another and against an incumbent's option of pursuing in-house development.

The possibility of start-ups competing with an incumbent's own research department is the genesis of the so-called reverse killer acquisition theories of harm. However, the abovementioned commercial risks associated with innovation imply that the mere existence of internal development efforts by the incumbent does not presumptively translate into innovations rivalling those of start-ups, let alone comparable product offerings downstream. Moreover, a firm pursuing innovation in-house may nonetheless wish to acquire a start-up rather than commercialise the in-house innovation if it becomes clear that an external option may enable superior value-add. When innovation is an input transacted through corporate acquisitions, an incumbent's decision to acquire a start-up at the expense of relying on in-house innovations may therefore be the essence of competition on the merit between innovators, with the start-up besting the in-house team.

Allocation of resources

Increased regulatory barriers to acquisitions of start-ups may leave would-be acquirers no choice but to invest in internal R&D efforts. Whereas this superficially may seem to increase competition in the innovation market, it follows from the reasoning above that such a diversion of resources instead would reflect a distortion of the innovation market driving economically inefficient use of resources. Rather than allowing competition between smaller firms to produce the winning innovation, the effect of the merger control enforcement would be to force buyers of innovation to pursue duplicative R&D efforts with unknowable results but a guaranteed delay of implementation compared to integration of known innovations through acquisitions, ultimately to the detriment of consumers.

Win-win valuations

A common cause of concern is whether acquisition prices seemingly disconnected from the acquisition target's revenues reflect that acquirers pay a higher price than fundamentals would suggest in order to realise anticompetitive rents.[30]

Funding of start-ups generally happens at valuations disconnected from current performance. This is the consequence of valuing early-stage firms based on future earnings potential rather than current sales performance. The acquisition value of a start-up therefore does not presumptively in itself support any regulatory theories of harm.

Well-functioning innovation markets imply that acquirers compete to purchase valuable start-ups. The acquirer that can realise the most value out of the start-up should be willing to pay the most. An efficient market for trading start-ups can thereby support overall economic efficiency by enabling the firms best able to generate value from an innovation to pass on these benefits to innovators through acquisition valuations. For the same reason, a "high" valuation does not necessarily imply that the acquisition target would have been able to realise this value on a stand-alone basis. What may superficially seem like disconnects between valuations and the acquisition target's existing revenues may therefore be a feature of well-functioning innovation acquisition markets.

Pro-competitive spill-over effects of innovation acquisition markets

Killer acquisition theories of harm are based on the premise that innovative start-ups that do not represent a material competitive constraint in a product market have the ability to develop into such a constraint. For this type of theory of harm, the focus is therefore on preserving the ability of innovation to create competition. This in turn requires that start-ups have access to venture capital funding to pursue the innovation in the first place. This creates a potential friction between an expansive interpretation of killer acquisition theories and the preservation of the competition such theories seek to protect.

Killer acquisition theories of harm preventing start-ups from competing in innovation acquisition markets will push these start-ups

towards pursuing IPOs to offer venture capital funders the ability to exit. As explained above, evidence for 12,000 US venture capital funded companies indicates that just 4% exited through an IPO.[31] Moreover, entrepreneurs and venture capital investors have no incentive to cash out early through sale to a strategic buyer if they consider a start-up capable of profitably disrupting an industry, including that of potential strategic buyers. The fact that 61% of exits occur through acquisitions (4% exited through an IPO and the remaining 35% shut down) therefore supports the claim that IPOs only rarely are the economically most efficient outcome.

Venture capital investments tend to be organised through funds, which raise money from a range of institutions (e.g., pension funds).[32] Denying venture capital investors access to exit through a sale to a strategic buyer when this represents the most valuable option in itself depresses the attractiveness of venture capital as an asset class, as recognised by Cremer et al. (2019) in their report on digital markets for the European Commission.[33] Moreover, successful exit through an IPO typically requires that the start-up grows to a larger scale first, thereby generally requiring more time and financing.[34] This not only subjects entrepreneurs and venture capital investors to greater risk (which in itself can depress incentives to invest),[35] it also ties up capital. Venture capital investors that cannot return capital to their investors become limited in their ability to raise funds for new investments.[36] Lack of exit opportunities thereby becomes a constraint on access to innovation capital.

Several studies support the link between merger activity and venture capital funding:

- A cross-industry study of 48 countries over the period 1985 to 2014 by Phillips and Zhdanov (2017) finds a positive relationship between the level of M&A activity and venture capital investments in subsequent periods.[37] The authors also find that venture capital activity grows by 40-50% following the introduced pro-takeover laws compared to countries without such laws.[38]
- Prado and Bauer (2022)[39] use worldwide data on 32,367 VC deals and 392 tech start-up acquisitions made by Google, Facebook, Amazon, Apple and Microsoft between 2010 and 2020.[40] They find that on average the number of global VC deals increased by around 20% in the four quarters following an increase in Big Tech acquisitions. They also find that in the quarter of acquisition, there is an average increase of around 6% in the number of venture capital deals and around 19% in the amount of venture capital funding.
- Phillips and Zhdanov (2013) conclude based on data on 11,288 companies during 1984-2006 that an active acquisition market incentivises firms to innovate more but that this effect is lesser for larger firms as they have the option to purchase smaller firms.[41]

The above discussion highlights the risks of so-called "balance of harm" style merger assessment standards under which competition authorities would intervene against acquisitions of start-ups on the basis that they may overcome entry barriers to become standalone competitors to the would-be acquirer at some point in the future.[42] In second-guessing the entrepreneurs and their financial backers on the probability of a successful future counterfactual to a particular transaction, regulators will (i) tie up capital, (ii) degrade expected returns and (iii) increase risk, thereby reducing the access to capital from which the truly disruptive innovation they wish for, and growth more generally, could emerge.

Policy implications

The acquisition of potential competitors in their start-up stage may support genuine competition concerns. However, "In order to determine whether an undertaking is a potential competitor in a market, [competition authorities are] required to determine whether, if the absence of the concentration,

there would have been real concrete possibilities for it to enter that market and to compete with established undertakings. Such a demonstration must not be based on a mere hypothesis, but must be supported by evidence or an analysis of the structures of the relevant market".[43] Regulatory precedent indicates that effective potential competition in general is rare and has the presumption against it.[44]

Entrepreneurs and their financial backers have no incentive to sell start-ups with a material potential to disrupt some downstream market before realising the value of doing so. The fact that only 4% of start-ups undertake an IPO and only a subset of these succeed indicates that firms with a truly disruptive potential are exceedingly rare. As a group, venture capital funded start-ups are therefore more meaningfully considered as operating in a market for innovation rather than as one of potential downstream entrants.

A vibrant market for innovation has the benefits usually attributed to exposing a part of the value chain to vigorous competition: buyers can access the services that best serve their needs (in this case, innovation) and focus on the part of the value chain in which they have a comparative advantage (in this case, commercialisation). Increased regulatory barriers resulting from the pursuit of killer acquisition theories can distort competition in such innovation markets: denying would-be acquirers from access to the innovations that best serve their purposes creates unnecessary commercial risk and uneconomical duplication of efforts;[45] denying entrepreneurs and venture capital investors the ability to sell their innovation to the buyer best able to monetise it subjects them to risk, ties up capital that could have supported new innovations, and depresses the returns supporting such financing in the first place.

According to the Draghi Report, "The evidence is overwhelming that competition stimulates productivity, investment and innovation. At the same time, competition policy should continue to adapt to changes in the economy so that it does not become a barrier to Europe's goals".[46] As set out above, well-functioning markets for innovation will allow innovators to compete to attract the acquirers best capable of commercialising their innovation and prospective acquirers to compete to partner with the innovators that can add most value to their offering, creating a virtuous cycle of investment, innovation, commercialisation, and value realisation. Competition policy can support this by recognising that exit mergers are a natural component of efficient innovation markets and that killer acquisition theories of harm need to overcome the presumption that innovators and their backers have no reason to cash out early on a likely golden ticket. This in turn implies raising the threshold for regulatory intervention.

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[2] Draghi Report. (2024). 'The future of European competitiveness - Part A | A competitiveness strategy for Europe', pp. 13 and 17. Available at: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en.

[3] Killer acquisitions may take the form of (i) incumbents protecting their market position by acquiring a potential competitor to prevent it from entering the market (standard "killer acquisition"), or (ii) potential entrants abandoning independent efforts to develop a new product in favour of acquiring an existing supplier (so-called "reverse killer acquisition"). See, for instance, Barnett (2024) and the OECD 2020 report 'Start-ups, Killer Acquisitions and Merger Control', available at: https://www.oecd.org/en/publications/start-ups-killer-acquisitions-and-merger-control_dac52a99-en.html. See also Cunningham, C., Ederer, F., and Ma, S. (2021). 'Killer Acquisitions'. Journal of Political Economy, Vol. 129, No. 3, pp. 649-702. Available at: https://www.journals.uchicago.edu/doi/abs/10.1086/712506.

[4] See e.g., Barnett, J. M. (2024). '"Killer Acquisitions" Reexamined: Economic Hyperbole in the Age of Populist Antitrust'. The University of Chicago Business Law Review, Vol. 3, No. 1, p. 44. Available at: https://chicagounbound.uchicago.edu/ucblr/vol3/iss1/2/.

[5] Dechert LLP. (2024). 'Illumina/Grail: EU Court overturns approach to "killer acquisitions"'. Available at: https://www.dechert.com/knowledge/onpoint/2024/9/illumina-grail--eu-court-overturns-approach-to--killer-acquisiti.html.

[6] Dechert LLP. (2024). 'Illumina/Grail: EU Court overturns approach to "killer acquisitions"'. Available at: https://www.dechert.com/knowledge/onpoint/2024/9/illumina-grail--eu-court-overturns-approach-to--killer-acquisiti.html; Chee, F. Y. (2025). 'Nvidia takes EU antitrust regulators to court for probing AI startup Run:ai bid'. Reuters. Available at: https://www.reuters.com/technology/nvidia-takes-eu-antitrust-regulators-court-probing-ai-startup-runai-bid-2025-02-24/.

[7] Jamali, L. (2025). 'Landmark antitrust trial could force Zuckerberg to sell Instagram'. BBC. Available at: https://www.bbc.co.uk/news/articles/cedy2ygy50do.

[8] For instance, the CMA has investigated five separate AI partnerships. A number were found not to qualify as they did not meet the relevant merger provisions (e.g., Amazon / Anthropic, Alphabet / Anthropic, Microsoft / Mistral AI).

[9] See e.g., Commission Notice on the definition of relevant market for the purposes of Union competition law (C/2024/1645), paragraph 23(c): "*Potential competition, by contrast* [to existing competition]*, comprises more remote and contingent competitive constraints that do not meet the criteria of effectiveness and immediacy of substitution. Therefore, potential competition is not relevant for the definition of the relevant market*".

[10] Case C-307/18, Generics (UK) and Others EU:C:2020:52, paragraph 134.

[11] Case M.5830 Olympic/ Aegean Airlines, paragraph 668.

[12] See Lemley, M. A. and McCreary, A. (2020). 'Exit Strategy'. Boston University Law Review, Volume 101, Number 1, p. 67. Available at: https://www.bu.edu/bulawreview/files/2021/03/LEMLEY-MCCREARY.pdf.

[13] See e.g., Fayne, K. and Foreman, K. (2020): "*While internal spending on R&D is an excellent means to innovation, outsourcing innovation can also be a winning strategy for large companies. Smaller companies are more agile, and each can try something different, show at least the promise of proof of concept, and then be acquired by an established firm to let the technology take flight. Thus, the large firms can let the smaller firms compete for winning ideas and then the large firms can acquire the winners and launch the technology in a way that would have been difficult for the smaller firm to do alone*". Fayne, K. and Foreman, K. (2020). 'To Catch a Killer: Could Enhanced Premerger Screening for "Killer Acquisitions" Hurt Competition?'. Antitrust, Vol. 34, No. 2, p. 10. Available at: https://www.lw.com/admin/upload/SiteAttachments/Sprng20-Fayne%C3%82.pdf.

14 "*In many cases, such acquisitions* [mergers between established firms and start-ups] *will be pro-competitive. Generally speaking, the search for the optimal boundaries of the firm – whether by way of internal or external growth – is an important part of the competitive process. In the digital field, mergers between established firms and start-ups may frequently bring about substantial synergies and efficiencies: while the start-up may contribute innovative ideas, products and services, the established firm may possess the skills, assets and financial resources needed to further deploy those products and commercialise them. Simultaneously, the chance for start-ups to be acquired by larger companies is an important element of venture capital markets: it is among the main exit routes for investors and it provides an incentive for the private financing of high-risk innovation*". Cremer et al. (2019). 'Competition policy for the digital era', p.111. European Commission. Available at: https://op.europa.eu/en/publication-detail/-/publication/21dc175c-7b76-11e9-9f05-01aa75ed71a1/language-en.

15 This concept of both innovators and prospective acquirers competing to find the best partner is in line with Grossman and Helpman (2002)'s paper where they model firms' decision between vertical integration and specialisation. In particular, they highlight that "*specialized firms may be able to produce at lower cost, but they suffer from two potential disadvantages. First, a specialized final good producer must find a suitable supplier of inputs, while a specialized component producer must find a potential customer*". See Grossman, G. M. and Helpman, E. (2002). 'Integration versus Outsourcing in Industry Equilibrium'. The Quarterly Journal of Economics, Vol. 117, No. 1, p. 87. Available at https://www.jstor.org/stable/2696483. See also Quinn, J. B. (2000). 'Outsourcing Innovation: The New Engine of Growth'. MIT Sloan Management Review. Available at: https://sloanreview.mit.edu/article/outsourcing-innovation-the-new-engine-of-growth/ for examples of firms outsourcing R&D.

16 Bena, J. and Li, K. (2014). 'Corporate Innovations and Mergers and Acquisitions'. The Journal of Finance, Vol. 69, No. 5, p. 1925. Available at: https://www.jstor.org/stable/43612948.

17 The global furniture retail giant IKEA started as a small start-up in southern Sweden, and it has been claimed that the only external financing the company ever obtained was an initial loan of 500 SEK ($63 in 1938 terms). See https://www.acquired.fm/episodes/ikea.

18 Silicon Valley Bank. 'Stages of venture capital'. Available at: https://www.svb.com/startup-insights/vc-relations/stages-of-venture-capital/.

19 Zider, B. (1998). 'How Venture Capital Works'. Harvard Business Review. Available at: https://hbr.org/1998/11/how-venture-capital-works.

20 "*Venture capitalists naturally want to get paid. But the way they get paid is unique among funders because it depends on selling the company. From the very outset of a startup's life, VCs (and therefore the startups they fund) are focused on an "exit strategy": a way to turn the VCs' equity into liquid cash*". Lemley, M. A. and McCreary, A. (2020). 'Exit Strategy'. Boston University Law Review, Volume 101, Number 1, p. 6. Available at: https://www.bu.edu/bulawreview/files/2021/03/LEMLEY-MCCREARY.pdf.

21 "*Exit strategies generally come in one of two forms: taking the company public by selling shares in an initial public offering ("IPO") or selling the company itself in an acquisition*". Lemley, M. A. and McCreary, A. (2020). 'Exit Strategy'. Boston University Law Review, Volume 101, Number 1, pp. 6-7. Available at: https://www.bu.edu/bulawreview/files/2021/03/LEMLEY-MCCREARY.pdf.

22 Of all exits, 35% were sold profitably and 26% were sold at a loss (i.e., 35% + 26% = 61%). See Woodward, S. E. (2021). 'Irreplaceable Acquisitions: Proposed Platform Legislation and Venture Capital', p. 5. Sand Hill Econometrics. Available at: http://www.sandhillecon.com/pdf/Woodward_Irreplaceable_Acquisitions.pdf.

23 At least in theory, although in practice access to capital is likely more restricted than suggested by baseline economic theory due to uncertainty and informational asymmetries. The additional difficulty of accessing capital further increases the attractiveness of exits by acquisition and the efficiencies brought by exit mergers.

24 See Carlson, N. (2016). '11 companies that tried to buy Facebook back when it was a startup'. Business Insider. Available at: https://www.businessinsider.com/companies-that-tried-to-acquire-facebook-2010-5.

25 Woodward (2021) finds that among all IPOs in their data of US VC-funded companies (excluding biotech) between August 2002 and 2020 Q1, 7% have since failed but that among those going public at valuations under USD 50 million 40% have failed. See Woodward, S. E. (2021). 'Irreplaceable Acquisitions: Proposed Platform Legislation and Venture Capital', p. 7. Sand Hill Econometrics. Available at: http://www.sandhillecon.com/pdf/Woodward_Irreplaceable_Acquisitions.pdf.

26 Half of US tech companies have a long-term goal of being acquired, 18% to do an IPO, and 17% to stay private, according to Silicon Valley Bank's US Startup Outlook 2019 survey of 1,377 small US tech companies. Silicon Valley Bank. (2019). 'US Startup Outlook 2019', p. 7. Available at: https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/us/svb-suo-us-report-2019.pdf. In Silicon Valley Bank's 2020 Global Startup Outlook survey, this preference to be acquired is also seen in the UK and Canada (58% and 60% of respondents respectively). Silicon Valley Bank. (2020). '2020 Global Startup Outlook', p. 7. Available at: https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/suo_global_report_2020-final.pdf.

27 See Koski, H., Kassi, O., and Braesemann, F. (2020). 'Killers on the Road of Emerging Start-ups – Implications for Market Entry and Venture Capital Financing'. ETLA Working Papers, No. 81. Available at: https://www.econstor.eu/bitstream/10419/237366/1/ETLA-Working-Papers-81.pdf. The authors' analysis into the US and European markets for 2013-2018 indicates that the amount of funding awarded in a given product market decreased following acquisitions done by Big Tech in that product market.

28 See Kamepalli, S. K., Rajan, R., and Zingales, L. (2022). 'Kill Zone'. NBER Working Paper No. w27146, p. 2. Available at: https://www.nber.org/papers/w27146; Motta, M. and Shelegia, S. (2024). 'The "Kill Zone": When a Platform Copies to Eliminate a Potential Threat'. Journal of Economics & Management Strategy, pp. 1-2. Available at: https://onlinelibrary.wiley.com/doi/full/10.1111/jems.12614; and The Economist. (2018). ' American tech giants are making life tough for startups'. Available at: https://www.economist.com/business/2018/06/02/american-tech-giants-are-making-life-tough-for-startups.

29 If the integration of a service into an incumbent's offering discourages venture capital funding into start-ups pursuing similar capabilities, internal development of such services by the incumbent should have the same effect. This further contradicts any causal link between external sourcing of innovation in lieu of internal development, or at the expense of shutting down internal development, and start-ups' access to capital.

30 Barnett (2024) criticises killer acquisitions policy discussion on basis that evidence is largely restricted to the pharma industry, but the policy discussion largely refers to tech, and there are several studies showing a lack of evidence of killer acquisitions in the tech industry. Barnett, J. M. (2024). ''Killer Acquisitions' Reexamined: Economic Hyperbole in the Age of Populist Antitrust'. University of Chicago Business Law Review, Vol. 3, No. 1, Section II. Available at: https://chicagounbound.uchicago.edu/ucblr/vol3/iss1/2/.

31 Woodward, S. E. (2021). 'Irreplaceable Acquisitions: Proposed Platform Legislation and Venture Capital', p. 5. Sand Hill Econometrics. Available at: http://www.sandhillecon.com/pdf/Woodward_Irreplaceable_Acquisitions.pdf.

32 Woodward, S. E. (2021). 'Irreplaceable Acquisitions: Proposed Platform Legislation and Venture Capital', p. 5. Sand Hill Econometrics. Available at: http://www.sandhillecon.com/pdf/Woodward_Irreplaceable_Acquisitions.pdf.

33 Cremer et al. (2019). 'Competition policy for the digital era', p. 111. European Commission. Available at: https://op.europa.eu/en/publication-detail/-/publication/21dc175c-7b76-11e9-9f05-01aa75ed71a1/language-en.

34 Sable explains that "*Without a variety of exit opportunities, it is difficult to attract investment in startups due to the high risk of the sector—90% of startups will fail*". Sable further explains the *"critical factor that makes exit opportunities so important in venture capital is time*" as "*The typical venture capitalist must hold their investment for seven to ten years before the business is sufficiently viable*". See Sable, M. (2024). 'How to Master the Art of Successful Exits in Venture Capital'. GoingVC. Available at: https://www.goingvc.com/post/mastering-the-art-of-successful-exits-in-venture-capital.

35 Lemley, M. A. and McCreary, A. (2020). 'Exit Strategy'. Boston University Law Review, Volume 101, Number 1, Section II.A. Available at: https://www.bu.edu/bulawreview/files/2021/03/LEMLEY-MCCREARY.pdf.

36 See e.g., Hammond, G. (2024). 'Venture capital reckons with the end of 'megafund' era'. Financial Times. Available at: https://www.ft.com/content/db1f795d-05c9-4623-9578-29ab2d263346: "*Unless we see meaningful improvements from the exit market we're expecting fundraising difficulties to linger and that will put downward pressure on dealmaking*".

37 See Phillips, G. M. and Zhdanov, A. (2017). 'Venture Capital Investments and Merger and Acquisition Activity Around the World'. NBER Working Paper No. w24082, p. 2 and Section 2. Available at: https://www.nber.org/papers/w24082.

[38] Phillips and Zhdanov also looked into the US specifically, analysing the effect of state-level anti-takeover laws on VC investments. They find that both the level and growth of VC activity falls following the passing of these laws. See Phillips, G. M. and Zhdanov, A. (2017). 'Venture Capital Investments and Merger and Acquisition Activity Around the World'. NBER Working Paper No. w24082, p. 22 and Section 6. Available at: https://www.nber.org/papers/w24082.

[39] Prado, T. S. and Brauer, J. M. (2022). 'Big Tech platform acquisitions of start-ups and venture capital funding for innovation'. Information Economics and Policy Vol. 59. Available at: https://www.sciencedirect.com/science/article/pii/S0167624522000129.

[40] Prado and Brauer relied on data for the following sectors: Internet Software & Services, eCommerce, Mobile Commerce, and Mobile Software & Services. These accounted 40% of all VC deals and 67% of all Big Tech acquisitions during 2010 – 2020. See Section 3 of Prado and Brauer (2022) for further details on data, and Section 4 for their estimation method.

[41] Phillips, G. M. and Zhdanov, A. (2013). 'R&D and the Incentives from Merger and Acquisition Activity'. The Review of Financial Studies, Vol. 26, No. 1, p. 35 and Section 2.1. Available at: https://www.jstor.org/stable/23355403.

[42] Unlocking Digital Competition. Report of the Digital Competition Expert Panel (2019), paragraph 4.17: "This would give authorities the option of acting, for example, where there was a 20% chance of serious harm to consumers arising from a proposed merger, set against an 80% chance of relatively small benefits occurring". Availableat: https://www.gov.uk/government/publications/unlocking-digital-competition-report-of-the-digital-competition-expert-panel.

[43] Case T-64/20, Deutsche Telekom AG v European Commission EU:T:2024:815, paragraph 135.

[44] Commission Notice on the definition of relevant market for the purposes of Union competition law (C/2024/1645), paragraph 23(c).

[45] As explained by Cremer et al. (2019), mergers between the established firms and start-ups may result in "substantial synergies and efficiencies" from the different capabilities both acquirer and acquiree possesses. Cremer et al. (2019). 'Competition policy for the digital era', p. 111. European Commission. Available at: https://op.europa.eu/en/publication-detail/-/publication/21dc175c-7b76-11e9-9f05-01aa75ed71a1/language-en.

[46] Draghi Report. (2024). 'The future of European competitiveness - Part A | A competitiveness strategy for Europe', p. 17. Available at: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en.