Abstract: We study the profitability of acquisitions of privately held firms and the importance of venture capital (VC) backing. We evaluate five competing hypotheses by examining samples of acquirer announcement returns and target purchase price-to-book value ratios. Using a propensity score technique and a matched pair procedure, we compare acquisitions of VC-backed private targets with a matched sample of non VC-backed private targets. Acquisitions of VC-backed targets lead to significantly higher acquirer announcement returns, which are substantially larger than equity financed acquisitions. We find some evidence to support higher acquirer returns due to a VC liquidity pressure effect where VC investors nearer fund termination are seeking to exit their investments and a VC Grandstanding effect for younger, less experienced VC investors seeking to quickly establish a profitable track record. We also observe that acquisitions of targets backed by VCs with acquirer financial relationships lead to higher acquirer announcement returns and lower target purchase price-to-book value ratios. This evidence is consistent with a VC moral hazard problem where VC incentives to negotiate for higher acquisition prices are compromised because of their dual financial relationships. Finally, acquisitions of firms backed by corporate venture capitalists (CVC) lead to higher acquirer stock returns and lower target purchase price-to-book value ratios. We conclude that CVC inexperience and impatience to exit can explain some of these results. In summary, we document a number of causes for the higher acquirer announcement returns we find when VC-backed firms are purchased.