When starting a firm, entrepreneurs and investors may disagree on the development path.

This friction feeds into the firm value, leading to challenges in valuing the firm. In this case, a

future equity contract — a promise for equity conditional on the occurrence of future events —

is optimal for motivating entrepreneurs to develop innovative technologies. An equity contract

becomes optimal only when the firm value is large enough. Equilibrium determines the implied

probability of success, which directly estimates investors’ skill. The analysis detects skill in 12%

of first seed-round investors and finds that incubators-accelerators have higher skills than first

seed-round investors.