CVC Insights Project – Summary
Findings & Analysis
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## PROGRAMS AT 6-9+ YEARS

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<tr>
<th>Description</th>
<th>Trends</th>
<th>High Performers</th>
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<td>• CVC entrenched as an essential corporate innovation tool, contributing significant strategic value and financial stability</td>
<td>• Broadening of CVC charters/ mandates to address larger ‘market maker’ opportunities by actively incorporating BD, M&amp;A and growth equity tools</td>
<td>• Strong CVC leader and executive management support</td>
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<td>• Continuity and scalability enabled by ability to adapt institutionalized teams, programs and incentives over time; and to manage changes in parent strategy and leadership without undermining professional investing credibility externally</td>
<td>• Substantial size and global reach with teams/processes to support up to 40-60 investments/year, along with aligned innovation infrastructure to manage pilots/business collaborations (‘transactional innovation’)</td>
<td>• Exceptional understanding of the corporate parent’s core businesses, operations, organization and culture</td>
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<td>• Agile and creative in adapting to changing internal and external circumstances while maintaining corporate relevance and strategic alignment</td>
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<td>• Institutionalized CVC program structure and operations, investment process discipline, financial rigor, means of governance and reporting</td>
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<td>• Performance impact/significant investment portfolio ‘wins’ and clear program success metrics</td>
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<td>• Standard team specifications and performance framing with ‘CVC track’ (competitive comp and entry level career development)</td>
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<td>• Savvy communications capabilities (inside out – outside in) that have accelerated corporate ‘education,’ ‘currency,’ and awareness; earned respect and trust among external ecosystem players/partners</td>
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**Highlights**

**Charter:**
- Market maker roles: CVC teams provide expert view of emerging market structures around new technologies, products, platforms, services, apps, etc. Up-leveling of CVC effort to track and frame new, rapidly developing *ecologies* and ‘*marketectures*’ around business areas strategically important to parent:
  - Hypotheses on trigger points; curation of key elements/players to maximize CVC/corporate position.
  - Yield portfolio and partnering strategies for end to end investing, in multiple domains with dedicated, domain-specific MD’s/teams
  - Utilize suite of investment tools and access to capital (investment, M&A, Growth PE/roll-ups, partnering & coincident commercial relationships)
- Current portfolio strategies reflect industry shift/focus on ‘transactional innovation’ and increased emphasis on business/BD and partnering strategies as part of CVC team competencies and performance. Many expect (and deliver on) ‘landings’ in 1-2 years
- Evolution of Investment Committee structures and processes to reflect parent respect for CVC team expertise and track record: Increasingly CVC team-driven investment decision-making to leverage full team experience and enhance horizontal perspective on market opportunities
- Outside-in corporate education and communications: increasingly significant part of CVC charter, given speed of technology commercialization and new market development. Vital enabler of successful stakeholder collaborations, partnering, and end-to-end investing

**Structure:**
- Reporting/sponsor transitions: Proven ability to weather multiple transitions in reporting structure, corporate strategy shifts or corporate reorganizations – e.g. change in CVC program reporting structure. Transitions continue to be test for CVC program effectiveness and maintenance of external momentum
- CVCs who have achieved sustainability in 6-9+ year range are stable, significant strategic value contributors with an established role in the parent innovation portfolio. CVC program structure and operations, investment process rigor, means of governance and reporting have been refined and institutionalized with the parent corporation:
  - Standard process for allocating annual investment funds and increases. Strategic, transformational impact is the ultimate goal, investment funds are one of the enablers, means to ends
  - ‘Evergreen’ goal - Fund returns may be poured back into CVC unit operation, self-funding
- For those whose strategic alignment with parent has ‘drifted’, and whose program performance and growth is being threatened by corporate strategy shifts, reorgs, and heightened operating frictions: candidates for spin-out discussions? (see Spin out section)
Team:

- Formalization of team structure: Most long term CVC programs have formalized their team structures/jobs, compensation bands and career paths. In addition to investment team, program may include senior BD, marketing and operations roles with increase in emphasis on end to end investing and ‘landing spots’ and partnering.

- CVC Compensation: Most long term programs/teams still compensated on a spectrum with other employees, largely aligned within standard corporate HR structure and banding for base and bonus (RSUs, cash). Majority still do not/will not get equivalent of carry or portfolio equity interest (too difficult to rationalize within corporate structure, especially with large funds and size of portfolio; high friction/core company discontinuities)
  - Brand: Long term CVC programs and parent companies have powerful brands that are significant factor in attracting and retaining teams
  - More than $: Competitive compensation relative to all but top VCs, with some element of ‘pay for performance’ for retention. CVCs often also motivated by choice of lifestyle/intellectual stimulation vs desire for ‘home run’ (Note: CVCs may do better over time than many VCs, enjoying predictable compensation year over year with often significant value in established corporation’s RSUs vs. VC base and carry, and realities of compensation unpredictability and lack of IPO ‘windfall’ exits for many VCs, as well as delay in receiving)

- Size and track record of top brand, long term CVC teams/programs bring some unique advantages, e.g. large enough in size to consider new thinking around how to grow more CVC professionals from within, starting with Associates (easiest to source), graduating to Manager to Director. Greatest amount of current ‘churn’ and external recruiting is at senior professional level. Possible to eventually offset that churn with internal training for qualifying and placing personnel?

- On the whole, attrition has been relatively low among these long term CVC teams, but trends and corporate shifts over last 3-5 years have brought new challenges and marked increase in competition for recruitment and retention of experienced, senior level CVC professionals. Currently, corporations source up to 50% of their CVC teams externally

Business Partnering:

- CVCs now becoming increasingly proficient at creating higher level market development hypotheses, architectures and frameworks, and then curating for solutions among ventures and partners that ‘fit.’ In parallel, CVCs also educate internal customers/partners, and teach them how to effectively curate for ‘right fit’ solutions among prospects/approaches/partners

- Long term, successful CVC programs have well established proficiencies and reputation for quality in portfolio level partnering, syndicate and investment collaboration, and experience with most key players in ecosystem (i.e., VC, CVC, Growth PE, etc.)
  - Understand what constitutes ‘good investing behavior,’ even in the face of strategic shifts
  - New types of CVC syndicates and higher level portfolio partnerships forming to better address emerging ecosystems and build ‘market maker’ positions
All note increasing instances of multiple CVCs teaming up with one another on venture investments—natural, even preferred, alignment of investors who share understanding of corporate environments, similar end to end investment process, strategic goals, complementary commercial traction accelerators, and shared, explicit view of how investment and commercial ‘landing spots’ fit together for venture and each corporate investor.

Close attention to detail and high degree of care re: potential for conflicts and access issues (with other CVCs, with ventures); identifies potential areas ahead of time, quick to recuse.

- Increasingly systematic approach to formalizing internal relationships for transitioning ventures to ‘landing spots;’ e.g., sharing risk and funding; rewarding those who ‘catch’ as well as those who invest – critical for aligning motivation, incenting right outcomes
  - Closer alignment and strategic collaboration with internal key ‘customers’ at outset of relationship. e.g., joint development of ‘problem sets’ which CVC uses to frame hunt for ‘solutions’ (more compelling than business ‘shopping lists’)
  - Maintaining currency of ‘right’ internal partnerships, business relationships/internal network intelligence: requires significant, dedicated CVC team effort, and progressively specialized BD development and relationship management skills
  - Planning for the core business rotations that occur, on average, every 2-3 years; business leaders, every 4. (a uniquely daunting challenge for delivering successful ‘landing spots’ for portfolio cos)

Performance:

- Consistency in meeting strategic and financial goals: hallmark of high performance team and enduring program; close, continuing adjustments for alignment with corporate strategy and parent organization
- Top quartile financial performance – respected player, seeing best deals, participating in top syndicates, seen as valuation enhancer for portfolio companies
- Measuring strategic impact as related to revenue growth and shareholder value remains ongoing challenge, especially given rapid changes
  - Try to keep it simple: cash on cash return; number of ‘landings’, etc. Cases speak for themselves
  - Quantitative metrics for transitions to ‘landing spots’ e.g., how many accepted for inclusion in Sales Handbook/Price lists (along with Sales team evangelism and incentives; measure number of successful pilots with innovation centers and strategic licensing opportunities, potential for downstream M&A.)
  - With refinement of front end investment process and early planning for landing spots, measuring reduction in investment mortality rate
  - Pilots best linchpins to scale; steady state focus on transitions from pilots to adoption (again, very quantitative). Predefined key people and transition templates necessary to insure/speed each landing. Goal: increase in adoptions as indicator of CVC performance and business value contribution
CVC Portfolio reporting on quarterly basis: standard, efficient process, data driven with well-defined financial tracking and key strategic performance metrics/value capture plans for investments & portfolio as a whole. Other ad hoc reporting as needed

- Increased sophistication in tracking and analyzing investment, portfolio and partner performance data. Rigor in data collection and performance formulas

**Top Friction Points/Corporate Antibodies:**

- **Management rotations and changes in parent/BU strategic priorities** affecting charter, performance goals and funding for established, large scale CVC program
  - Potential for increasing friction with competing agendas, diverging priorities and progressive inhibitors for growth between CVC team and parent company – maintain strategic relevance to parent, make mark in new areas
  - Challenges and tension for CVC team in maintaining external positioning and trusted network while managing around/insulating external network and portfolio cos. against internal slow-downs, new reporting structures, etc.

- **Team retention**: Experienced, senior CVC people from established, ‘brand’ programs are attractive candidates for both CVCs and VCs...serious flight risks if parent corp. can’t match comp (e.g., through upside bonus pools, career paths, etc.)

- **CVC/Parent HR structure discontinuities** present ongoing challenges to competitive comp design
  - CVC vs business leaders comp (i.e., CVC MD in same band as business leader; business leader manages huge organizations and large P&L)
  - CVC blurring of lines with M&A operations (need new guidelines?) and compensation bands (M&A team may be paid less, for specialized transaction expertise in doing historically larger company M&A with sizable dollar values)
Rising Interest in CVC Program Spin-Outs

The reality is that most corporates who have had corporate venturing initiatives over numbers of years have started and stopped them multiple times, with CVC programs falling victim to loss of champions and funding during management turn-overs and reorganizations. With each cycle comes scattering of specialized teams, legacies of orphaned and strategically irrelevant corporate investments; and institutional ‘amnesia’ regarding knowledge and experience in developing specialized CVC processes, practices, professional talent. Each cycle is a restart.

For CVC teams in the 3-5 year group (but also in the early part of the 6-9+ group) who have been at the mercy of many of these typical but highly disruptive corporate management changes and strategy shifts, the idea of existing in an operating environment tuned to venture investing and free of corporate HR misalignments/ongoing friction seems very appealing -- especially as it relates to creation of the market-competitive CVC compensation packages which are so necessary to recruit and retain experienced teams. Hence the interest in re-examining and potentially innovating on models for CVC spin-out.

Key drivers behind interest in spin-outs

- CVC Team/Parent company organizational and cultural impedance mismatch, particularly at scale:
  - CVC team investing in transformational or adjacent areas that require highly specialized investment team; and move faster and/or operate very differently than parent core business (e.g. software/digital)
  - CVC team set up for program expansion and increased momentum (cuts execution time in half/delivers on CVC end-to-end investing principles), just as cyclical management rotations and strategy shifts slow it down, threatening to undermine strategic alignment with CVC team, portfolio companies, partners
  - Strategic alignment and internal network are vital for delivery of end to end investing. Shifting parent organizational and strategic landscapes test CVC team/program agility: ability to adjust and maintain close alignment with parent, without sacrificing accelerated pace/quality of portfolio and partner development & performance

- High performance professional investing team retention --- team being recruited
  - Growing compensation misalignment between established business HR structures/banding and market-competitive CVC salary increases/bonus structures and career path planning
  - Market-competitive base, bonus, ‘staying in place’ career path requires parity increases with CVC team job promotions and individual, team and portfolio performance. Tests corporate parent commitment to ‘make it work’ -- promise & deliver -- and CVC team’s willingness to compromise

- Parent regulatory constraints (E.g. Financial Services and Healthcare) seen to limit both investment process efficiency and potential strategic value to be derived CVC program
  - Regulatory limits on investing models and conduct of commercial trials
  - Unwieldy house decision-making and investment management processes with heavy risk management overlay

Lack of successful resolution / continuing friction on these points can lead to wearing, unproductive, impediments to growth and sustainability of CVC programs/team. Spin-out option perceived to provide potential relief from these friction points as alternative solution for program growth and sustainability.
What's potentially attractive to CVC teams and corporate parents about spin options?

For CVC team: More freedom to operate and optimize fund/portfolio performance when out from under inhibitors in corporate environment. Also, CVC teams get market-competitive compensation packages including carried interest (direct alignment of reward with fund performance).

For corporate parent: reduction of operating, organizational, cultural discontinuities and 'system friction.' With operating insulation, also comes attendant reduction of regulatory challenges, brand and shareholder exposure.

NOTE: While current interests in Spin-Outs is increasing, there are few CVC teams who have successfully executed on this option. Many factors and dependencies. Harder than it looks – myths vs. realities. With innovative, new variations on CVC spin models also come significant strategic and operational complexities and new types of friction/conflicts to be managed. Bottom line: some shouldn’t try; aren’t good candidates from the outset. For those that do, one size doesn’t fit all.

CVC teams that spin out in search of compensation ‘liberation’ must also now adjust to a different operating ‘pay to play’ partner model with management fee for operating costs, inherently riskier basis for compensation, and unpredictable lead times and outcomes re: carried interest.

Regardless of model and among other issues: CVC Spin team must find way to maintain close strategic alignment/ongoing relevance with parent/LP, continue to be seen high yield vehicle for new corporate growth and rapidly developing market-maker positioning. This also demands that CVC team/senior BD professionals stay up to date (insider info) on management rotations and reorgs, and maintain ongoing quality of internal network of key corporate relationships. This is prime enabler of continued delivery on CVC promise of ‘end to end investing’ and accelerated commercial traction that multiplies value for all stakeholders. There are past precedents that suggest that ‘priority relevance’ is increasingly difficult to maintain with corporate parent over time, given ‘departure from the nest’ (physical, legal, operational, organizational, cultural separation and mutually shifting priorities and focus).

Current Examples:

Some recent examples of spin-outs – Sapphire (SAP), BMW iVentures, Propel (BBVA), Deutsche Telekom Capital Partners, Echo Health Ventures (Cambia + Mosaic), Gilde Healthcare to name a few – all from different sectors/types of parent companies (ops/cultures) with different regulatory and risk environments. This obviously affects strategic investment focus areas and priorities, although many share interest in horizontal areas that affect developments in their spaces (e.g. data management & analytics, cyber, AI/machine learning, AR/VR cloud, sensors, fintech, software platforms, mobility). The spins themselves all have variations in their in charters/goals, investing and operating models, fund sizes and focus (strategic focus areas, target ecosystems, partners), stage of investing, governance. Some have multiple corporate LPs; many have their previous corporate parents as sole LP; others have institutional syndicate/Fund involvement. All operate as VCs with financial performance goals and most with VC compensation structures (Management fee/carry/synthetic carry); some had to buy in, as typical VCs would; others did not.
‘Stay close to LPs’: At the same time, CVC spin-outs acknowledge importance of consistent delivery of additional strategic value and insight to LPs, communications outreach and events are central part of this. They see benefit from business support and assistance with ‘landing spots’/commercial traction being sensitive to their priorities and interests, etc. – (in much the same way that captive CVC programs/teams are to their parent companies). But an easier, often more efficient path for spin-out is sometimes straight to parent’s customers/users vs. getting re-embroiled in parent’s internal business org/ops again. So, for spin-outs, while the operating model is VC; the central business model must ensure the all-important LP strategic value delivery via BD relationship management and strategic communications programs with LPs.

Tuning to get the right model, charter and operating agreements ahead of time is critical, as well as finalizing terms before the cord is cut. In the past, there have been more examples of failures than ongoing successes. Current CVC spin-outs are clearly pioneering next generation approaches, but don’t yet have long histories, and are operating in new environments with different conditions than in the past.