Global Corporate Venturing

The World of Corporate Venturing 2016

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Global Corporate Venturing

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PART 1

THE WORLD OF CORPORATE VENTURING

Claudia Fan Munce, head of IBM Venture Capital

This is an amazing time for venture capital and entrepreneurship. Venture capital investments all over the world are at historic levels. Venture and angel funding has crossed the $100bn mark globally in 2015. In the United States, we are on track to reach five year highs with more than $54bn invested to date in 2015. China has surpassed Europe in terms of venture funding raising over $31bn already in the first three quarters of 2015. Valuations have climbed to unprecedented levels as well, with companies like Uber now valued at $51bn. Although the IPO market has seen some challenges, companies are quite comfortable staying private given the lucrative sources of funding and high valuations. Mega rounds of more than $100m financings to VC-backed companies have drastically increased in 2015. So far, we have already been over 170 mega-rounds, including 68 in the third quarter of 2015, which cumulatively raised more than $19bn. So, there has never been a more exciting time to start a new company or for corporates to play a key role as well.

Historically, corporations have invested in startups to keep an eye on upcoming technologies, to seek possible acquisition targets or even to block new products that could compete with their own. Driving financial return on their investments, while always preferable, was way down the list. Finding the right balance between the strategic and financial roles is one of the biggest challenges for corporate venture groups all across the world. But there is the strategic fit to the corporation that is propelling corporate venture activity to record numbers.

Corporate venturing is on the upsurge – both in the US and globally. In 2015, large sums of capital were deployed by corporates globally, as the data in this publication shows. Large public corporations are sitting on huge cash balance sheets and their venturing units are participating in large venture capital financing rounds. For example, Alibaba Group participated in China based mobile taxi-hailing app, Didi Kuaidi's $2bn series F round, while Google was also key to Jet.com's $500m series D round. Corporate venturing units have grown from 181 before 2004 to more than 1,000 units in the first quarter of 2014, and it is up by a third in just the past four years. Over 60% of corporate venturing units are located outside of the US. It should be no surprise to note that over 48% of the top Fortune 100 companies have a corporate venturing arm.

In the US corporates deployed $2.3bn in 240 deals to the startup ecosystem during the third quarter of 2015, accounting for 14.1% of all venture

capital dollars invested and 21.5% of all deals. Corporate venturing has gained in influence as well. Corporates have participated in 24% of total deals globally for the past 4 years. Corporate participation reached an all-time high taking 26% of all deals in Q3 2015.

Today, corporate participation is tremendously important in this ecosystem. We all know technology and innovation has accelerated at such a pace. Corporates cannot just sit and wait for technology to mature before they see the potential leverage point. They need to monitor closely and be active participants in what is going on, as everything is shifting so fast. For corporations, this is key for the vitality and sustainability of their business as they are driven by technology and data in virtually every industry.

As of December 2015 there are 144 unicorns, or startups with valuations $1bn or more and 13 deca-corns (with valuation $10bn or more). Obviously there is talk in the venture and startup worlds and in the general public about there being a bubble and concern on valuations. For startups, it is even more important, to be not distracted and work towards scaling their company early on as the competition is fierce, due to expanded access to capital. So it becomes imperative for entrepreneurs that in addition to pursuing innovative solutions, they work towards developing long term strategic partnerships with corporations much earlier than we saw 10 years ago. The ultimate delivery to consumer and channel of the innovative solution needs to be achieved sooner. A startup cannot go under the radar and work on something for a long time before there is a solution, as by the time the launch occurs the world might have moved on.

Corporate institutional partnerships

There is partnership created right from the early stage involving the traditional financial investor. The success of this partnership has a strong role in creating these young innovative companies and supporting them. The corporation guides them and could be a customer or introduce potential customers, helping the entrepreneur to develop his or her strategic direction and in building the company. This type of partnership today is much closer than before in driving really innovative solutions.

Business and overall societal impact

The Linux operating system started as a gleam in the eye of a Finnish university student, Linus Torvalds, who simply wanted to find a better way to connect his new PC to his school's computer system. Now it's one of the underpinnings of the 21st century economy. IBM is working with the Linux Foundation's newly formed Open Ledger Project (OLP) to help advance the blockchain technology. The OLP will develop an enterprise grade, open source distributed ledger fabric, APIs, language-specific software developer kit and specifications, with the aim to free developers to focus on building industry-specific applications, platforms and hardware systems to support business transactions.

Several leading venture capitalists, corporates and financial institutions have been actively investing and exploring the various applications of the blockchain architecture. At IBM, we believe that the best path forward for block chain is for the tech industry, government, and the business community to consolidate their efforts around a single open source blockchain foundation that is developed and governed in an environment of transparency and cooperation. Through this open source collaboration, IBM intends to contribute existing codebase, intellectual property and enterprise expertise in hopes of advancing the blockchain technology for business. IBM is also helping our clients discover what blockchain can do for them and developing commercial products that will serve particular domains or cut across industries.

I would like to conclude by emphasising that there is tremendous opportunity that exists for startups and corporates alike. It is in the best interests of both startups and large corporations to forge successful partnerships and develop innovative solutions that could have a potential long term, global and societal impact.

A startup cannot go under the radar and work on something for a long time before there is a solution, as by the time the launch occurs the world might have moved on

INTRODUCTION

Toby Lewis, editor

The growing corporate venturing industry had another banner year in 2015.

We tracked 1,693 corporate venturing investments in deals worth $76.4bn last year, which was up on the 1,481 investments we tracked worth $40.9bn in 2015. Such activity growth reflected a boom in the size of rounds being backed by corporate venturing units, with the proliferation of so-called unicorns – venture-backed private companies with valuations of greater than $1bn.

At press time, however, scepticism was prevalent among commentators on the venture capital industry, with many predicting an unraveling in the valuations of many of the richly valued unicorns. Yet despite fears being raised about the over-funding of many high growth businesses, the corporate venturing industry continues to boom, with there being no let up in large corporations looking to invest in high growth companies.

This is our second World of Corporate Venturing supplement, which is Global Corporate Venturing's flagship publication, containing the first cuts of our 2015 data, our annual survey of the industry, as well as contributions of the leading commentators in the industry. We are publishing this supplement to coincide with our major new California event the Global Corporate Venturing & Innovation Summit, which will be the first venue to discuss all the major insights it contains.

Be sure to look at the summary findings and rankings of our data analysis in chapter 3, which show which investors are the most active and in which sectors.

In this issue we have also created our first power rankings, attempting to assess the power of individual corporate venturing units based on how many investments and exits they have made, as well as how varied their investing is by sector, rounds and how much they partner with co-investors.

Our finding was that judged on this criteria Google topped the power rankings through its corporate venturing units Google Capital and GV (formerly Google Ventures).

We have also published the top 20 list of most powerful corporate venturing investors based on this criteria, and provide full details on our analysis of the top 10 investors.

Much of the initial thinking on tracking the most powerful investors was conducted by James Mawson, our founder, who sets out his thinking in a related article. The data analysis for the power rankings was performed by Jeff Carlson, of QBIX Analytics, our key partner for our new GCV Analytics, which made much of the data analysis in this issue possible.

During the last year Carlson and I have been working alongside QBIX's Tim York, GCV's managing director Tim Lafferty, as well as data researchers Kaloyan Andonov and Hannah Bayes-Brown, plus our adviser Drew Clark, formerly of IBM Venture Capital, to turn GCV Analytics into what we believe is a must-have data product for anyone who seriously wants to understand the corporate venturing industry.

Thanks must go to all the sponsors of this supplement, Sidley Austin, premium sponsor, as well as affiliate sponsors Touchdown Ventures, Drinker Biddle and Reith, Silicon Valley Bank and PwC.

This supplement contains numerous must-read pieces including the Thelander 2015 CVC Compensation Report with the executive summary written by J Thelander Consulting's Jody Thelander, as well as Bell Mason Group's Heidi Mason and Liz Arrington. This is the second time we have featured this compensation report in the World of Corporate Venturing, and we are delighted to promote the crucial insights it provides into payment in the industry.

To understand the corporate venturing bull case, be sure to read Touchdown Ventures' Scott Lenet's opinion piece arguing that soon the entire Fortune 2000 will be doing corporate venturing. For those looking to best understand the best way to take part on a startup board, Sidley Austin's Deborah Marshall's and Marc Gottschalk's article is set to be a useful resource. Other contributors include GCV Academy's Andrew Gaule, who outlines his "five Ps" of corporate venturing and innovation methodology. Gaule argues the most important things for corporate venturing executives to understand are purpose, process, people, partners and performance, and this approach will be familiar to any one who has attended the GCV Academy.

Tracy Isacke, head of SVB's corporate venturing relationships, who is a regular commentator in our magazine, has also looked at corporate venturing best practices.

We hope you enjoy all this and much of the other great content in this World of Corporate Venturing.

Google topped the power rankings through its corporate venturing units Google Capital and GV (formerly Google Ventures)

SNAPSHOT OF THE INDUSTRY AT THE START OF 2016

The 91 corporate venturing respondents to our survey were from all the sectors which we cover, with the most common respondents unsurprisingly being from the information technology sector, but all sectors having at least nine responses (question one).

More than three-quarters of corporate venturing units now look for a mixture of both strategic and financial returns, while only 20% said they were only seeking strategic returns in their investment activities. Fewer than 5% of corporate venturing units look for financial returns only (question 2).

The most common reason given for doing corporate venturing was to form an ecosystem (58.24%), with another 55% saying they do so to make strategic decisions (question 3). Another 48% of units do venturing to secure market intelligence, while 42% practice venturing to make financial returns). Perhaps surprisingly only a third of units do venturing to make acquisitions easier and increase their pipeline – it is well known corporate venturing seldom leads to acquisitions, but many looking at corporate venturing often are intrigued by the possibility of increased M&A opportunities. A quarter say they do venturing to understand high-growth companies and venture capitalists, while only a fifth do it to license technology.

The most common type of corporate investor (question four) is units looking to back companies with the potential to enter new markets (37.1%). Roughly a fifth are looking for potential products and solutions for their company to sell, while a fifth are principally building an ecosystem for their company's products. Only 12.9% are mainly looking for operating efficiencies.

The survey is relatively varied in the size of units (question six), with 38% having invested less than $50m in their history. However, another 28% have invested more than $300m, with 10% having invested more than $1bn. A fifth of respondents have done more than 50 deals, and seven tenths have done more than 10 deals (question seven).

More than 43% of respondents own no limited partner positions, despite top tier venture firms increasingly opening up to corporates. Yet some have taken on multiple fund positions, with more than 9% having 10 or more fund positions (question eight). Only a fifth of respondents are actively looking for fund positions (question nine).

Most corporates have yet to secure out-sizes returns. Only 2.8% have a

portfolio worth more than 500% in net asset value, and fewer than a fifth with a net asset value of greater than 200% (question 10).

However, reflecting the significant influx of units into corporate venturing in the current boom period, returns over time have been good. About 13.5% of respondents have an internal rate of return of greater than 30%, nearly one-third have a greater than 20% internal rate of return, and three-fifths have a greater than 10% internal rate of return (question 11). However, another 9% have a negative internal rate of return.

Nearly three-quarters of units invest from the corporate balance sheet, while more than a quarter use a fund structure (question 12).

The most common executive for the unit to report to is the chief executive, with 37% doing this, while a further 18% report to the chief financial officer (question 13). Another 16.7% report to the head of corporate development, while a quarter report to either the head of strategy or the chief technology officer.

The industry remains dependent on small teams. 40% of units have two executives or fewer, while more than three-quarters have five executives or fewer (question 14). However, 7.4% of respondents have more than 20 executives.

The most common average age for a team is under 50, although 37% have teams with an average age under 40, while 3.7% have a team of under 30 in age, while another 7.4% have an average team age under 60 (question 15). No teams have an average age of 60 or more.

Those keen to increase the numbers of women working in corporate venturing may be disappointed to read 23.4% have all male teams, while nearly four-fifths are majority male (question 16).

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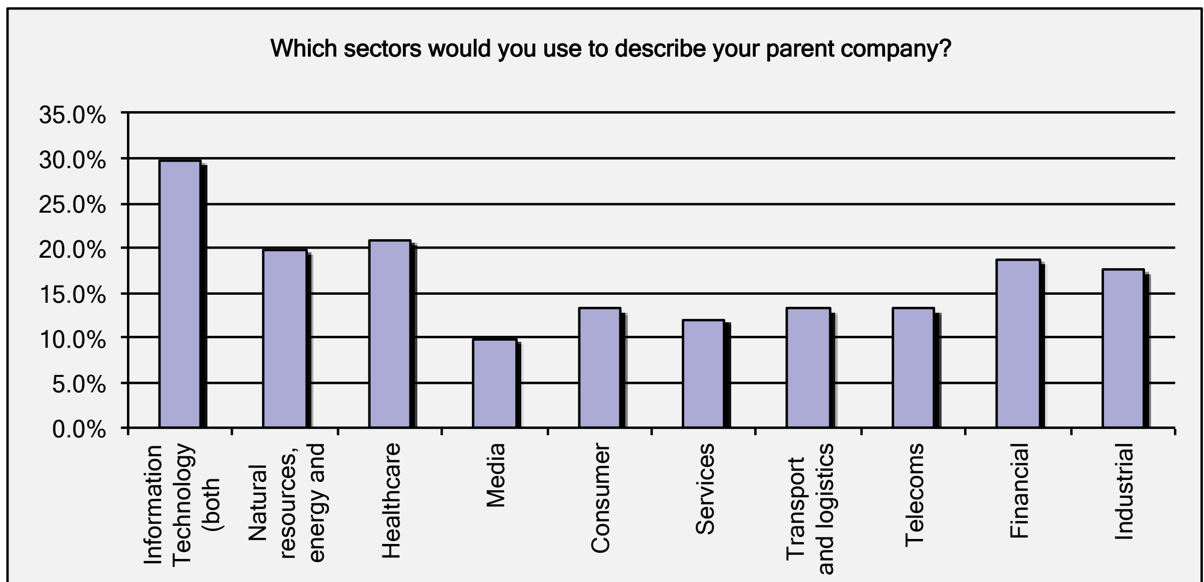
Question 1



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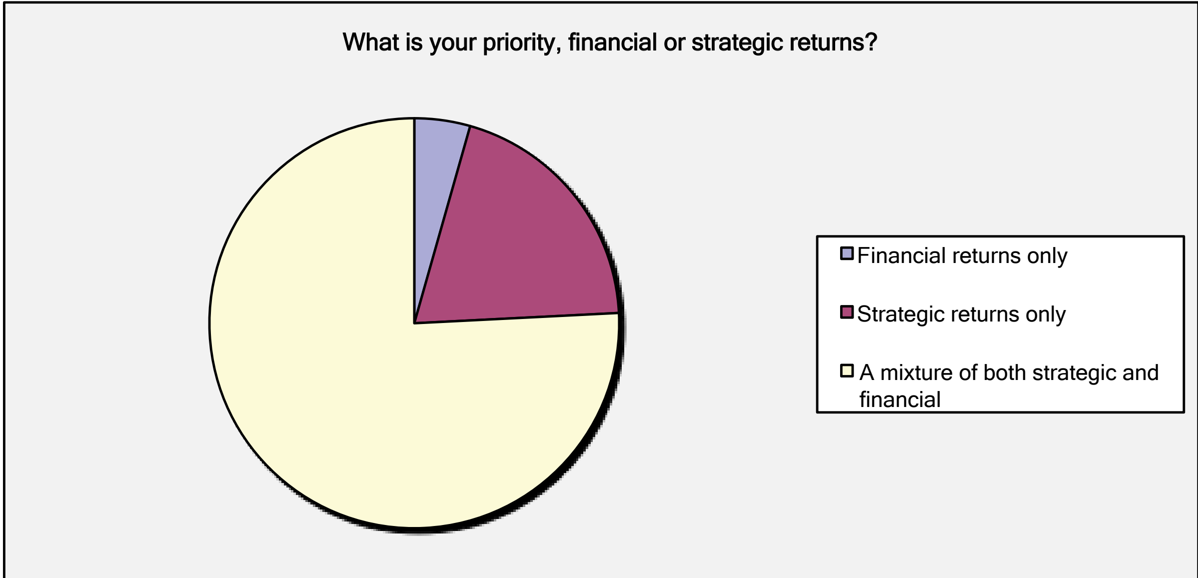

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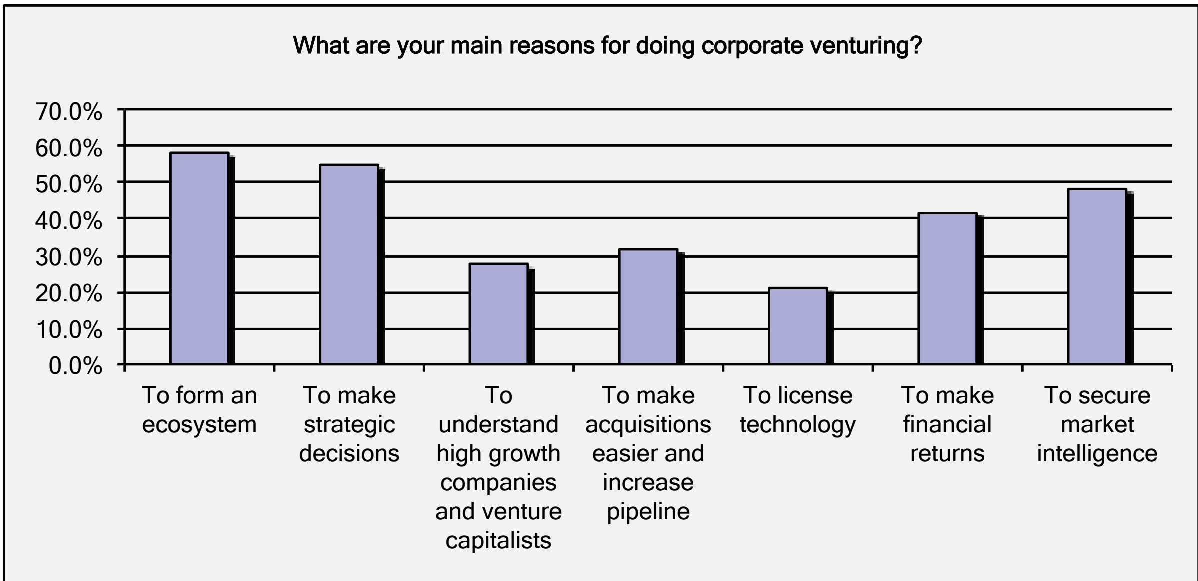

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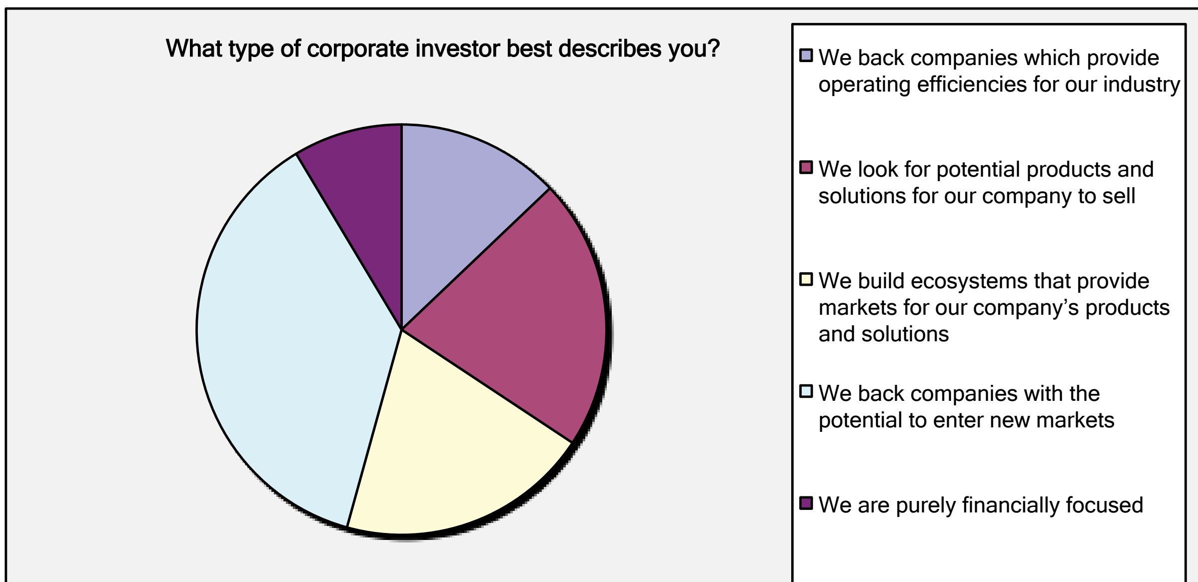

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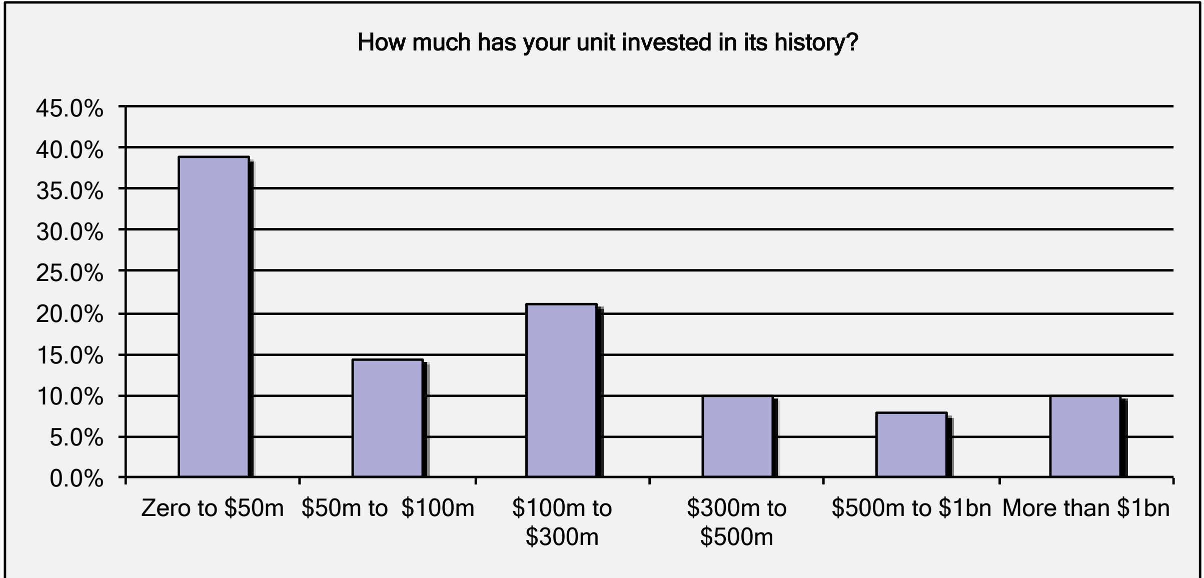
Question 6



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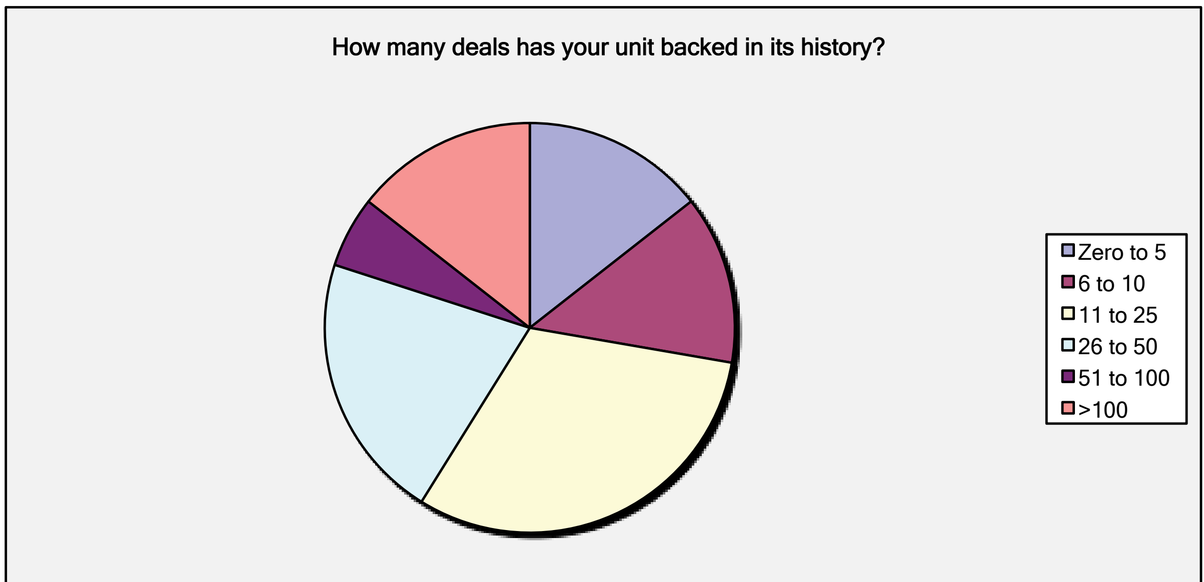

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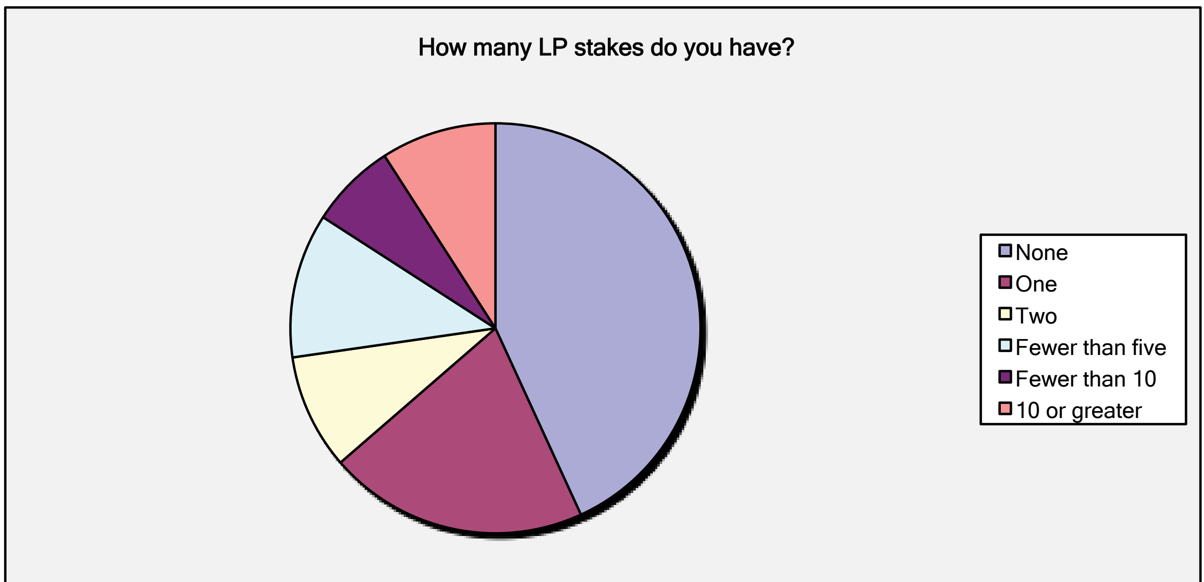

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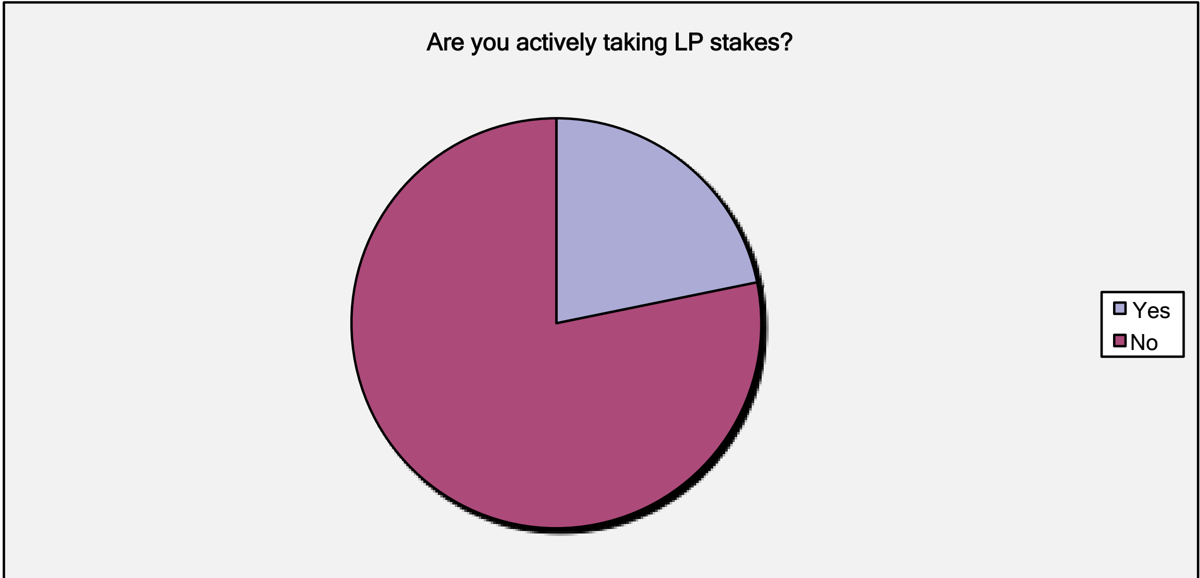
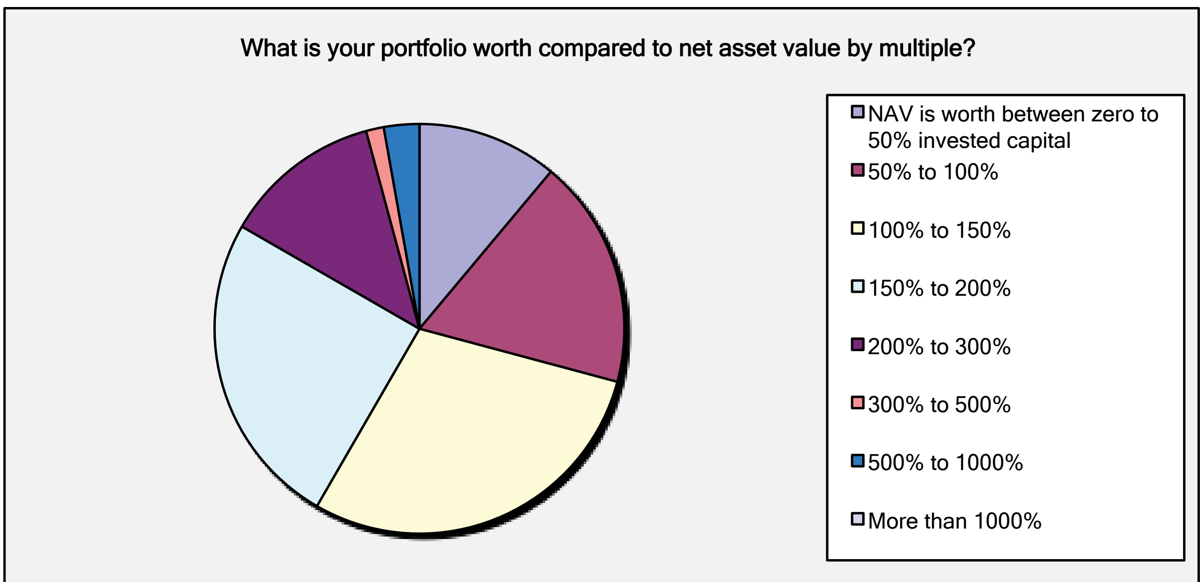
Question 9



Question 10



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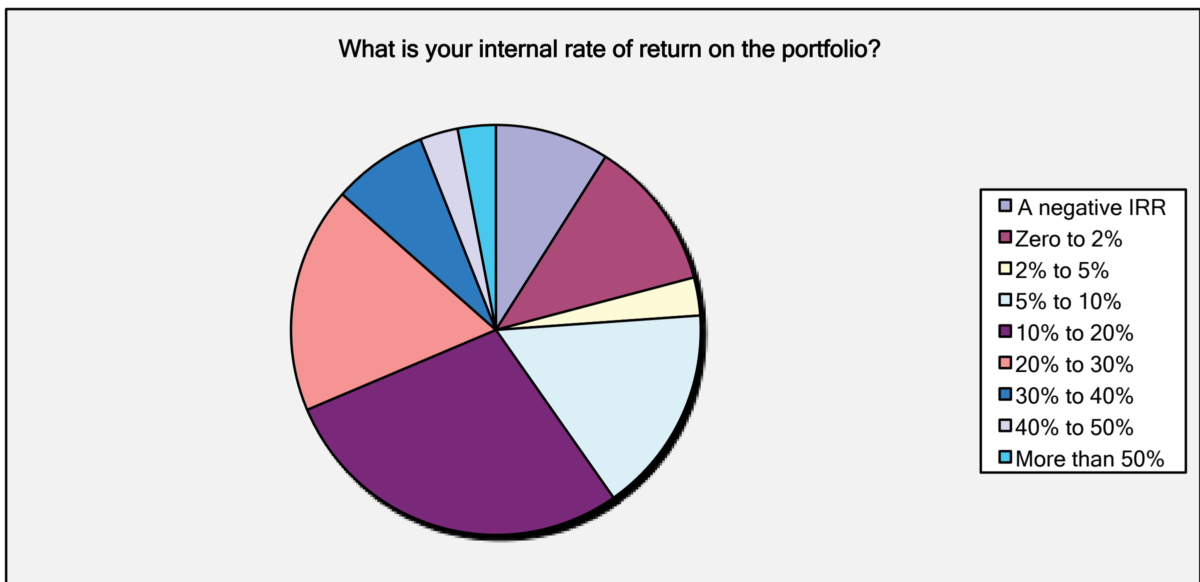

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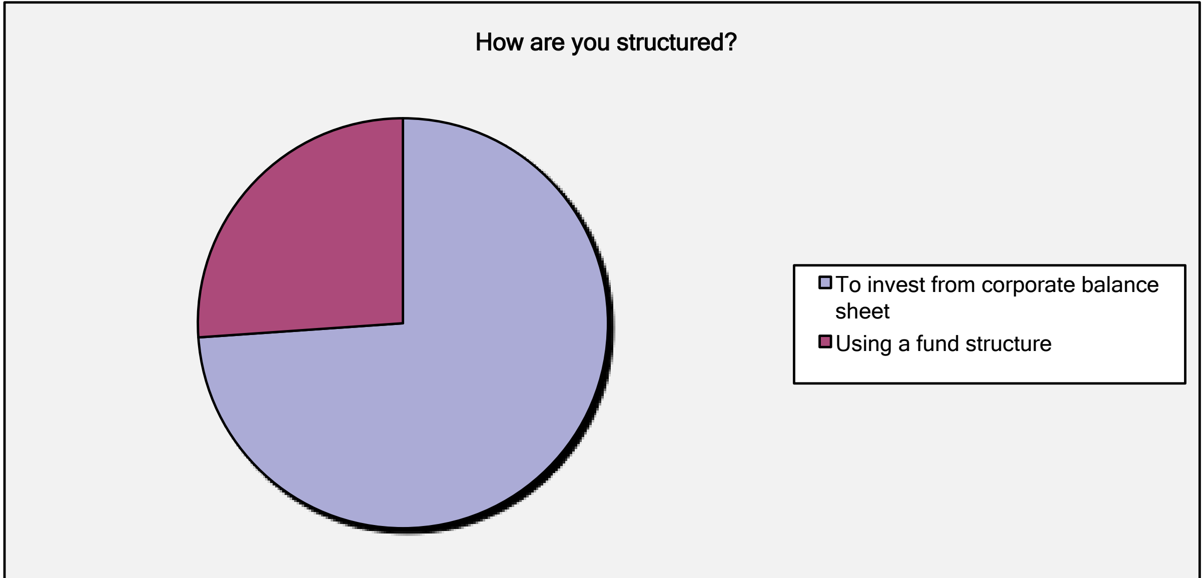

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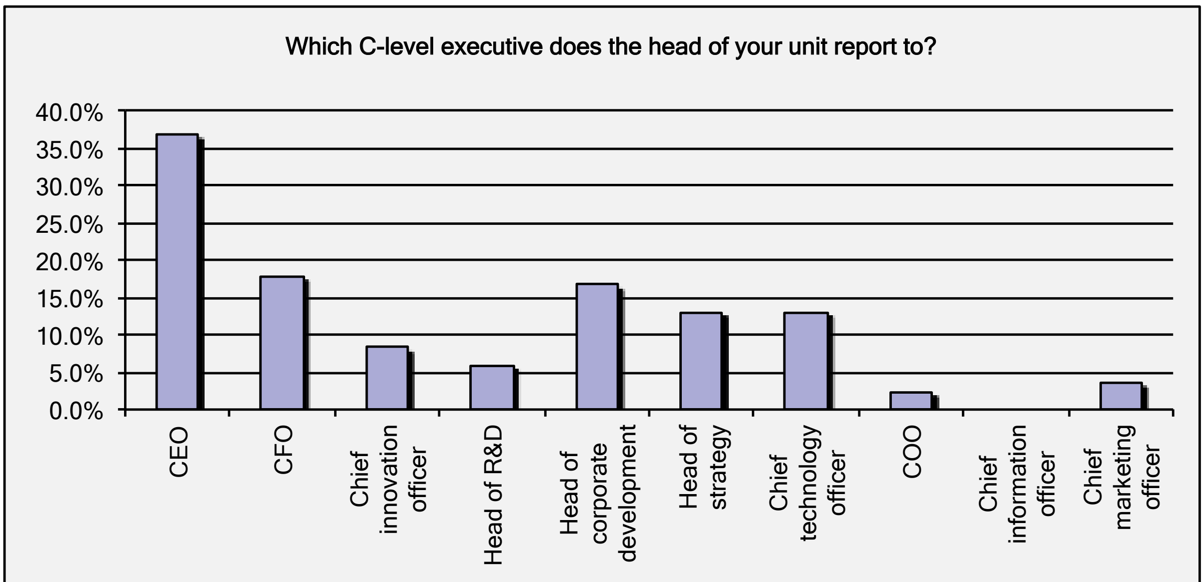

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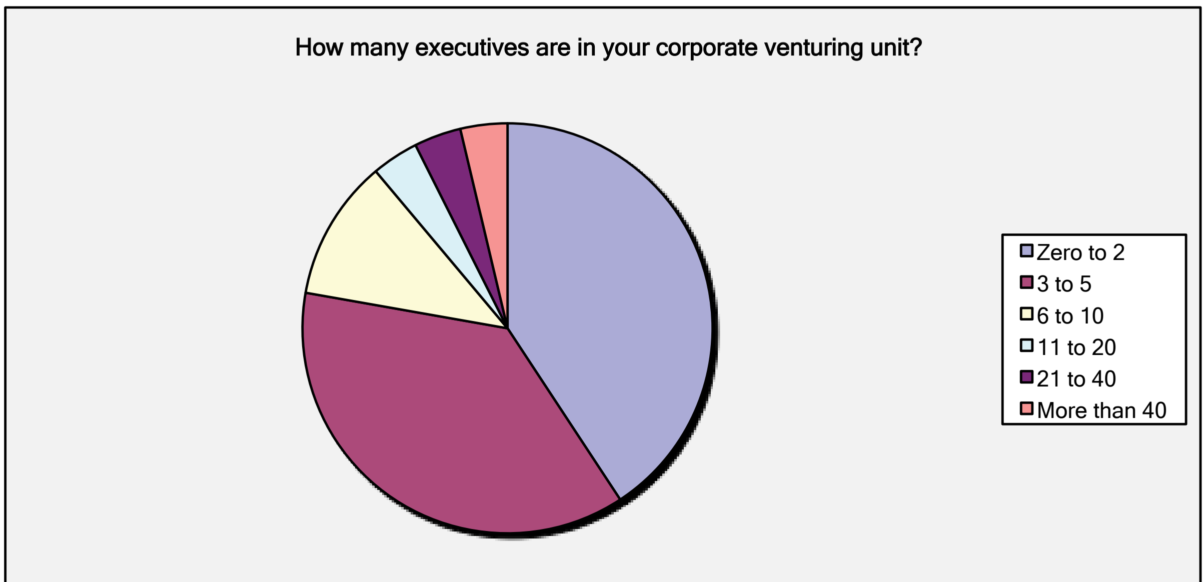

Global Corporate Venturing

Everyone needs a little expert help from time to time

Maybe you don't have the necessary skills or tools in-house or simply don't have the bandwidth to manage certain tasks yourself.

Services Directory

The Global Corporate Venturing Services Directory is a new listing of companies that specialise in providing services to corporate venturers:

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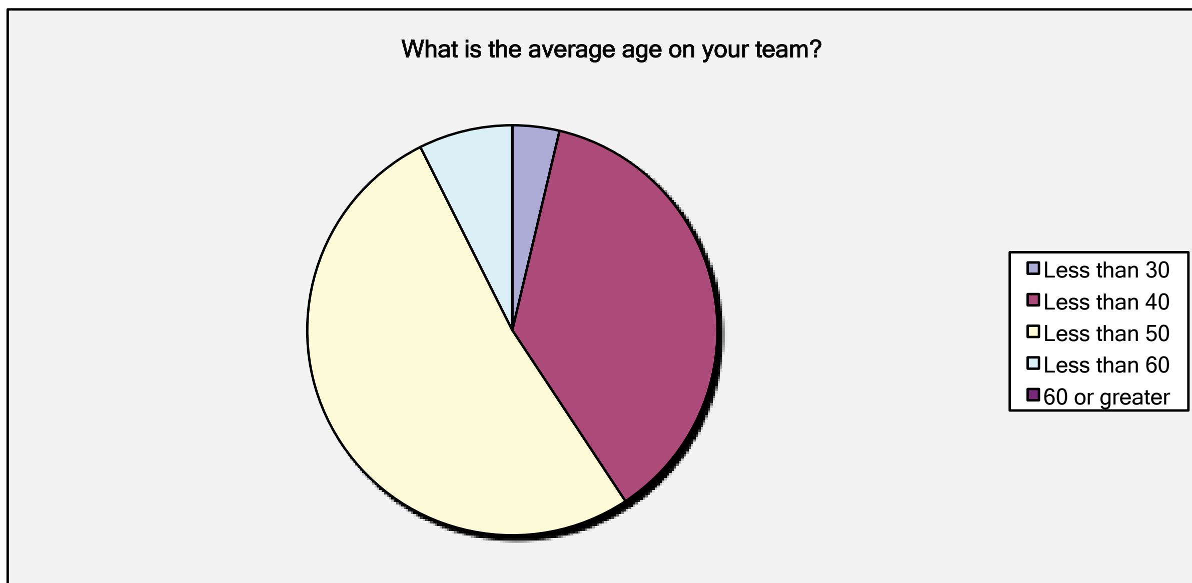
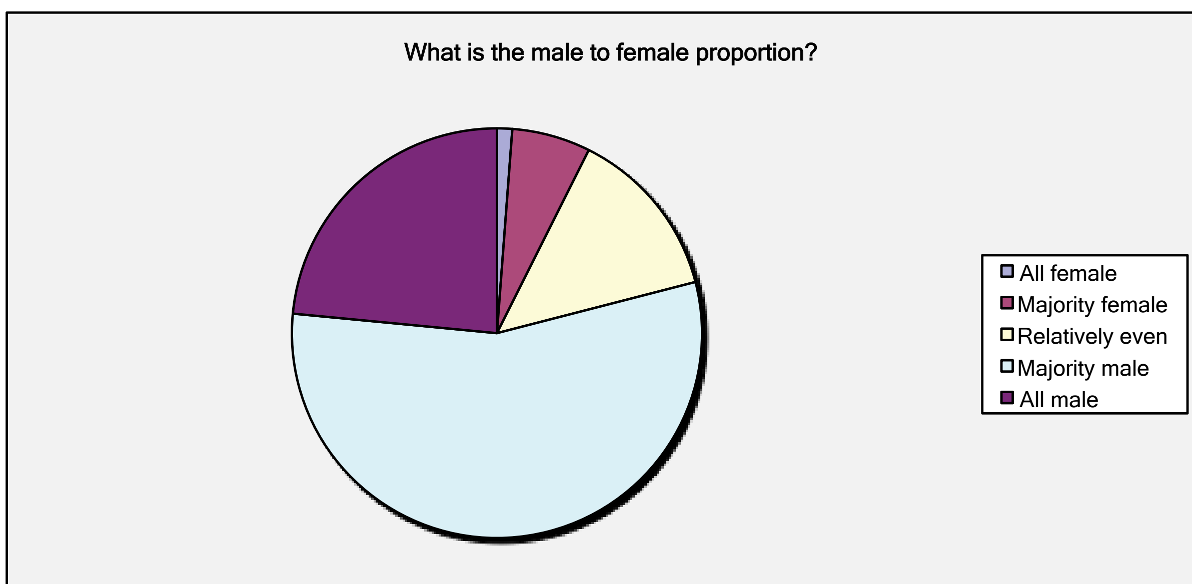
Question 15



Question 16



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PART 2

CORPORATE VENTURING BOOMS IN 2015

Toby Lewis, editor

This has been the most active year for corporate venturing since Global Corporate Venturing began tracking data in 2010.

We tracked 1,693 corporate venturing investments in deals worth $76.4bn last year, which was up on the 1,481 investments we tracked worth $40.9bn in 2015. It is likely to turn out to be the biggest year so far for corporate venturing.

US activity topped 1,000 corporate venturing deals for the first time. For context, the next most active market was China with 176, with dealmaking also markedly increased.

This year ended with Intel Capital as the most active unit, with Intel saying it had invested more than $514m in 143 companies, including 64 new companies.

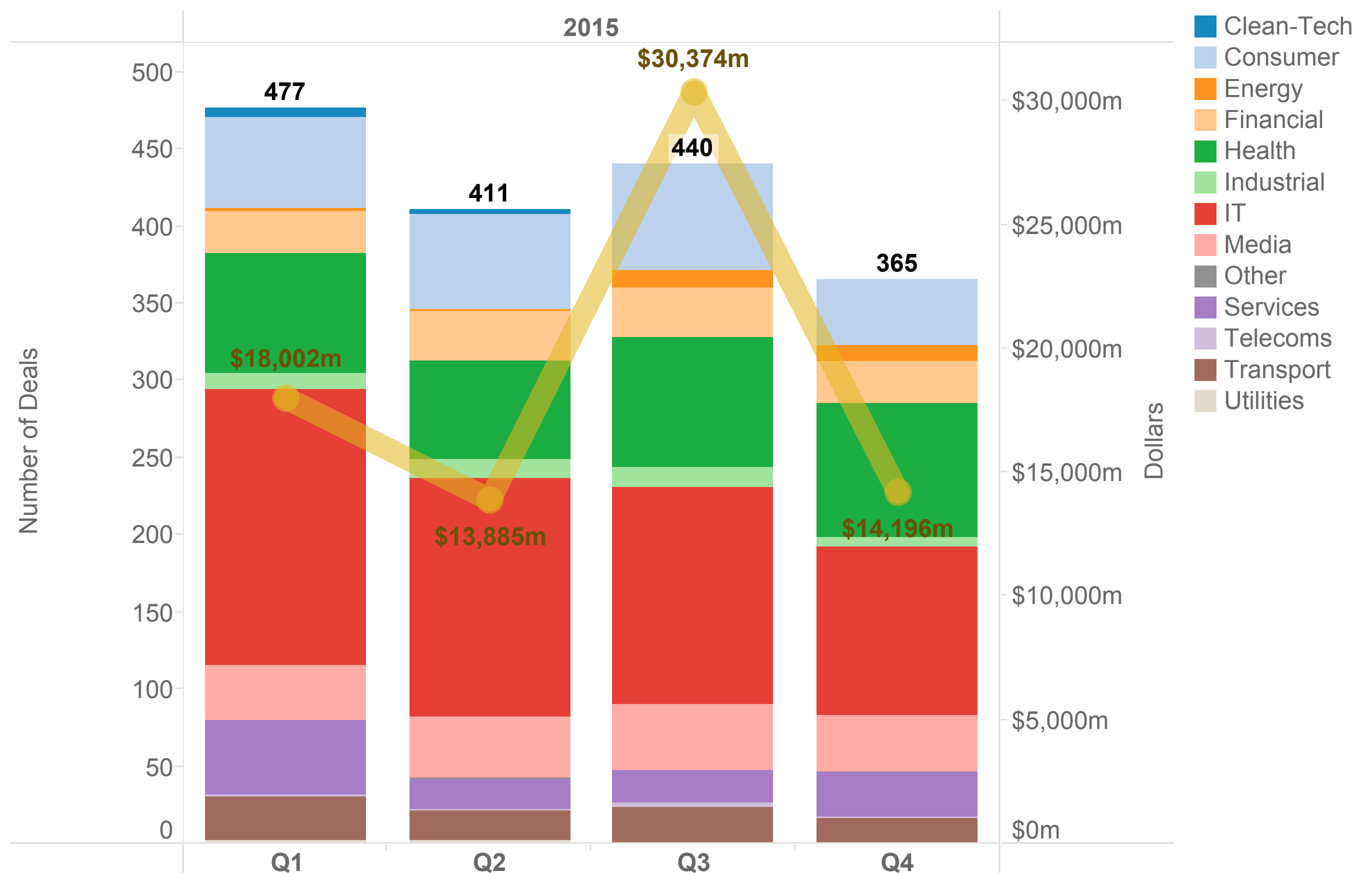
In second place, Google's two corporate venturing units, Google Capital and GV, invested in 96 businesses.

Reflecting the increasingly aggressive investing by Chinese corporations, Tencent and Alibaba topped the 2015 numbers based on which corporates were involved in the biggest deal. Tencent was number one – deals included its participation in a $3bn round raised by taxi-hailing company Didi Kuaidi and its participation in the $2.8bn round raised by China Internet Plus, the merged company formed from group buying company Meituan and local listings and reviews platform Dianping.

In our data analyses you can see which groups topped the same categories as their peers in each of our different 10 groupings from consumer to energy, while you can also read which groups were most active in each individual sector.

The largest exit of the year was the sale of China-based local services company Ganji, backed by Nokia Growth Partners, the corporate venturing unit of the Finland-based technology company,which at the time was worth $2.8bn in a cash and share offer *(see largest exits)*.

The largest investment of the year ended up being Microsoft and Salesforce's participation in the $5.3bn buyout of Informatica. However, the largest amount of capital raised by a traditional corporate venturing-backed company was the $3.75bn raised by Didi Kuaidi across three investments. Uber, which is backed by Baidu, Goldman Sachs and Microsoft, raised $3.6bn, also across three deals.



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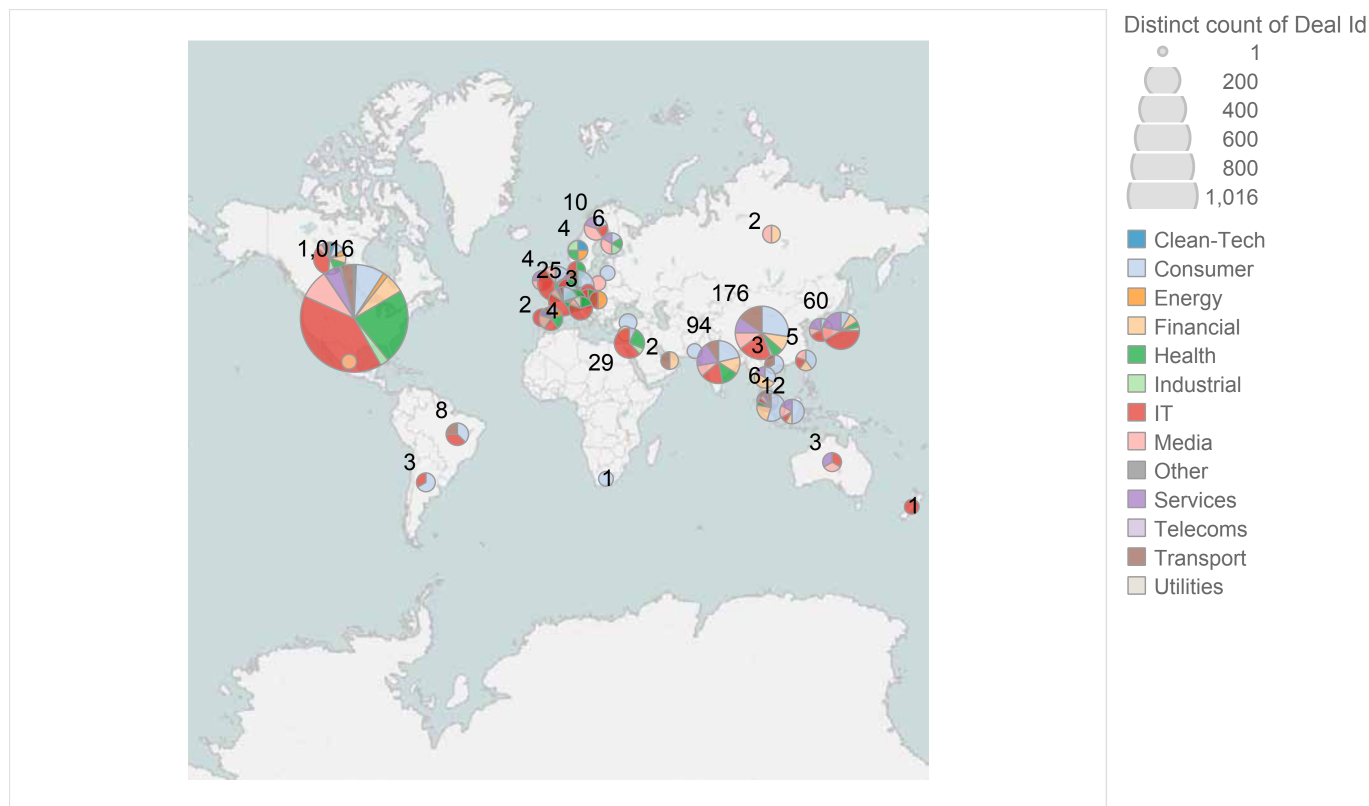

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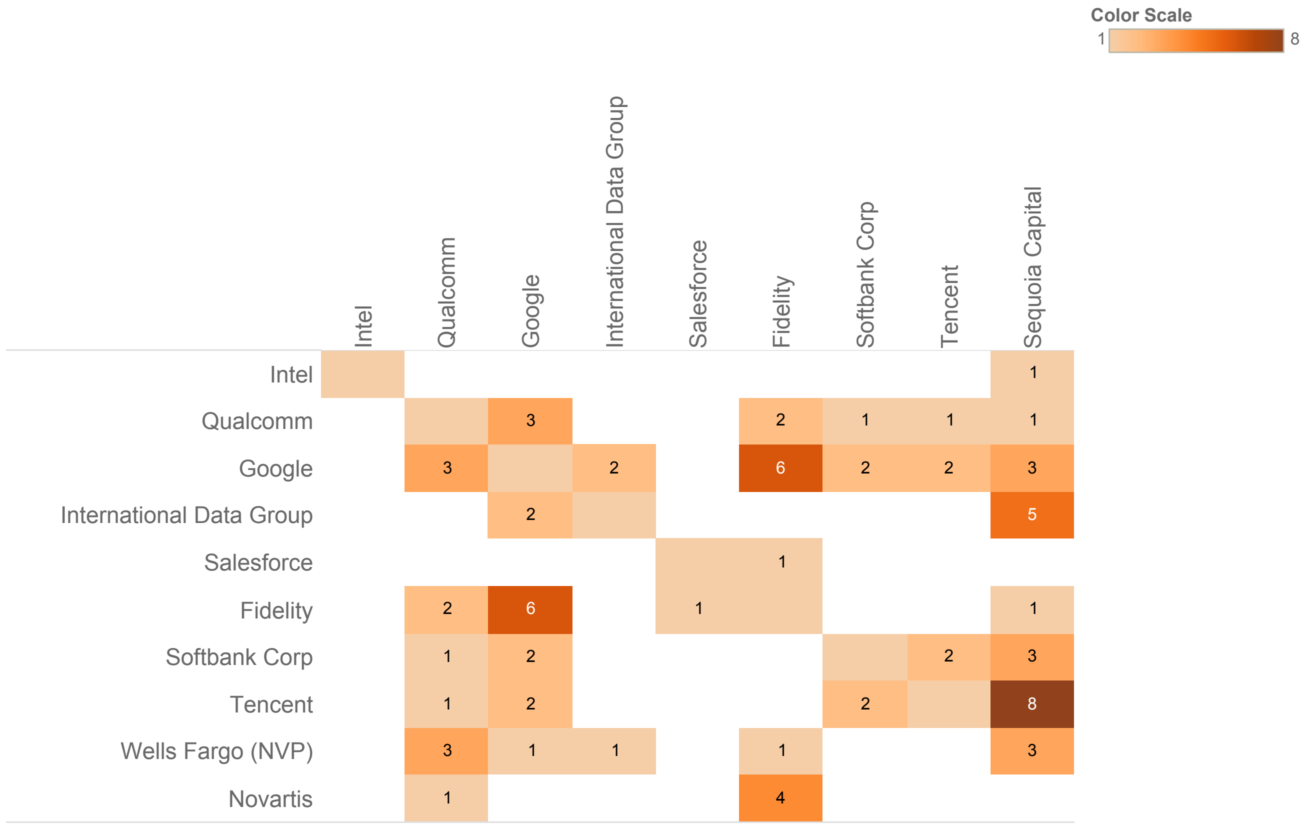
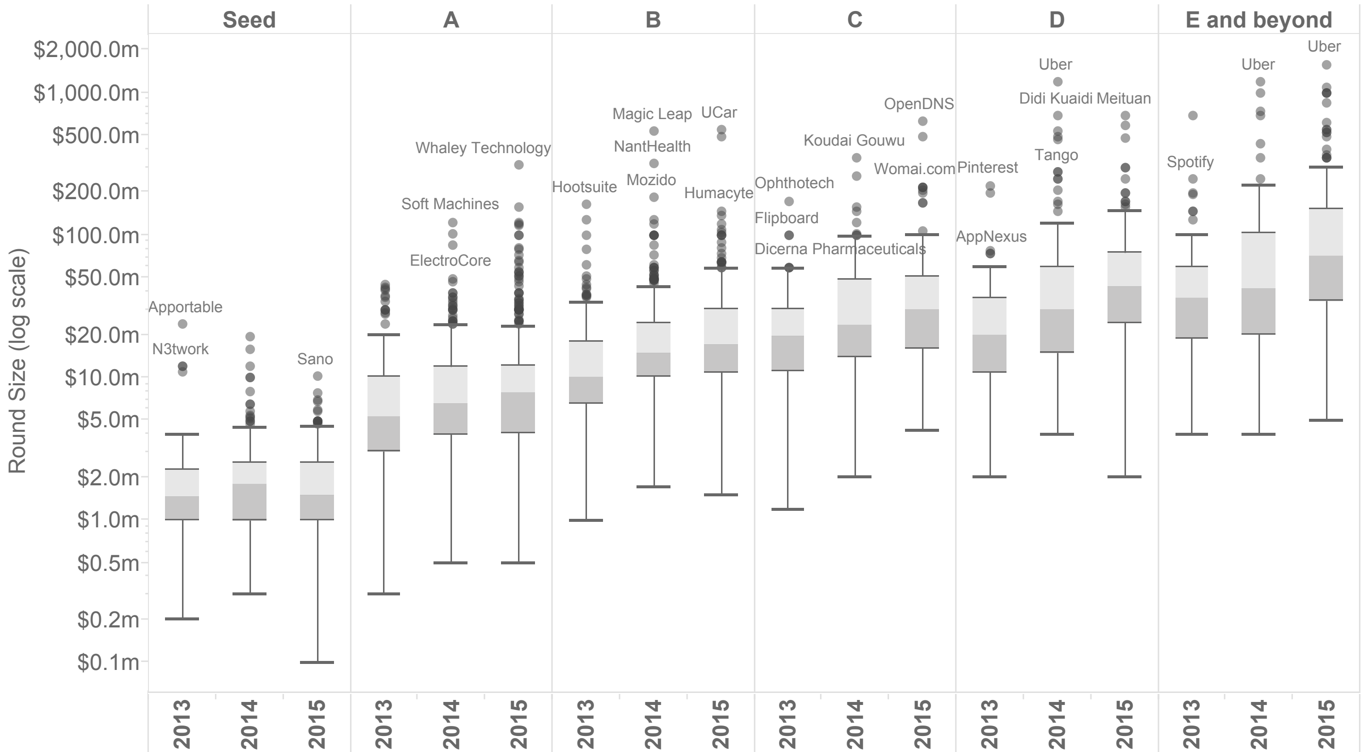
Co-investment trends





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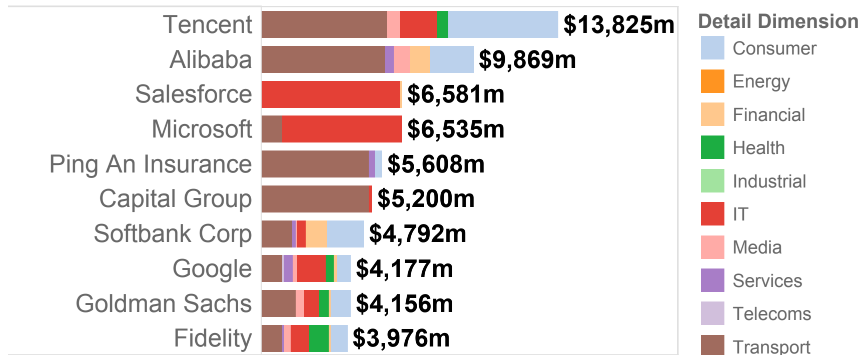
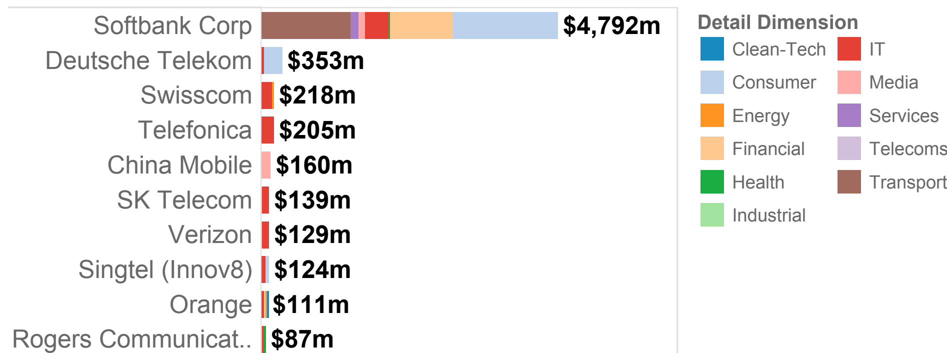
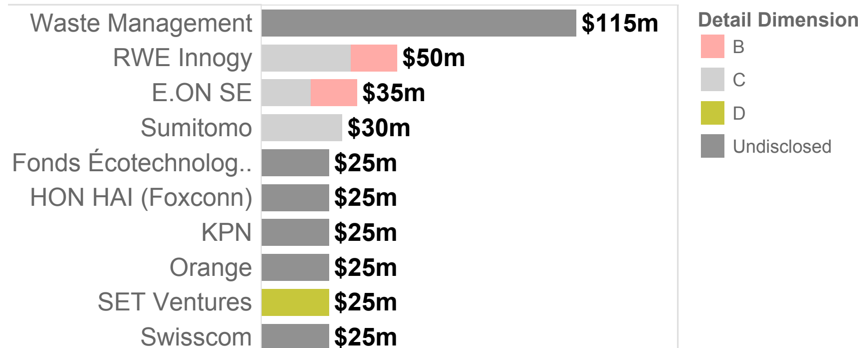
Main rankings



Top investments by telecoms corporations

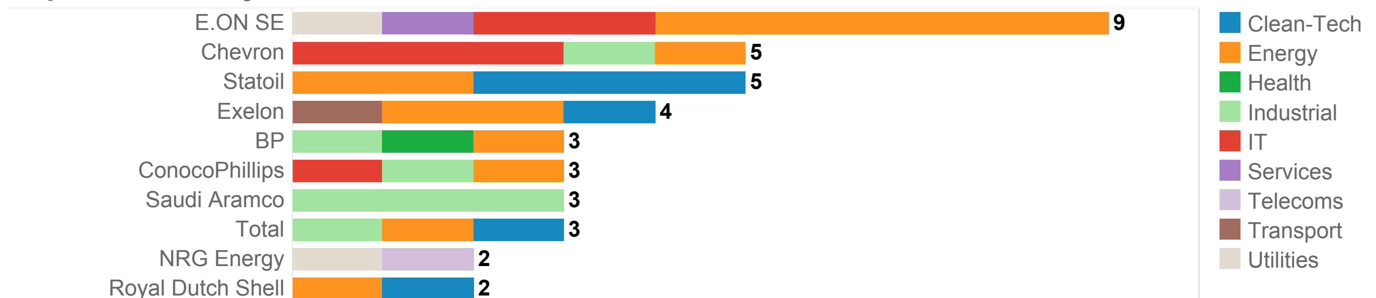


Top investments in the energy sector

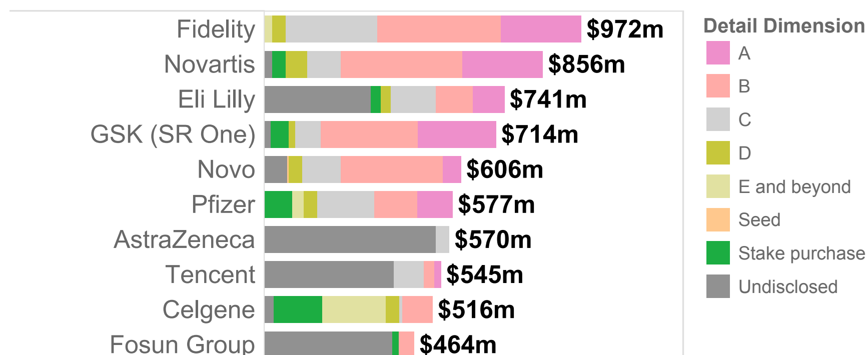


Top investments by energy corporations

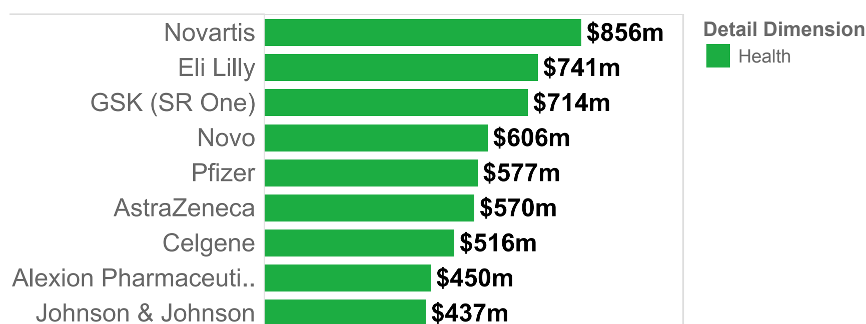
Top Investors By Number of Investments



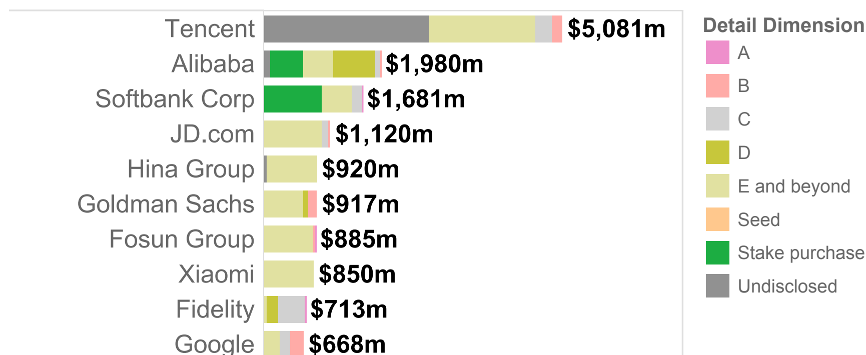
Top investments in the healthcare sector



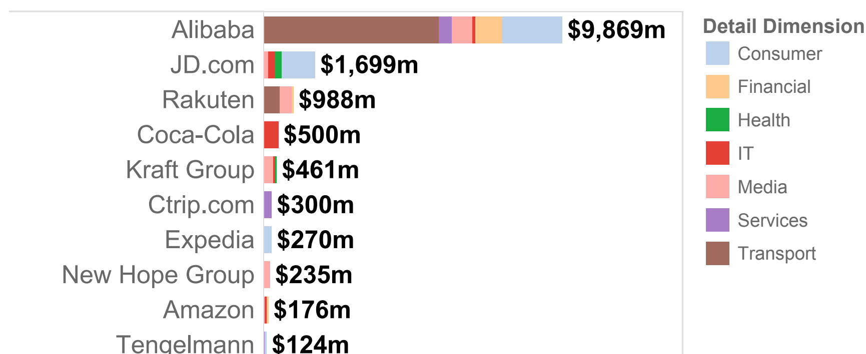
Top investments by healthcare corporations



Top investments in the consumer sector



Top investments by consumer corporations



2016 tech to watch

Analysis byJames Mawson and Rob Lavine, Global Corporate Venturing

This article looks at the technologies to watch out for in 2016 summarising the disparate threads of innovation from antibiotics through blockchain to drones and autonomous vehicles.

Looking at effectively "everything" is challenging so to make it easier I have crowdsourced ideas from the main venture bloggers (although few had handy predictions) and government innovation reports (sources for both are here) as well as the media.

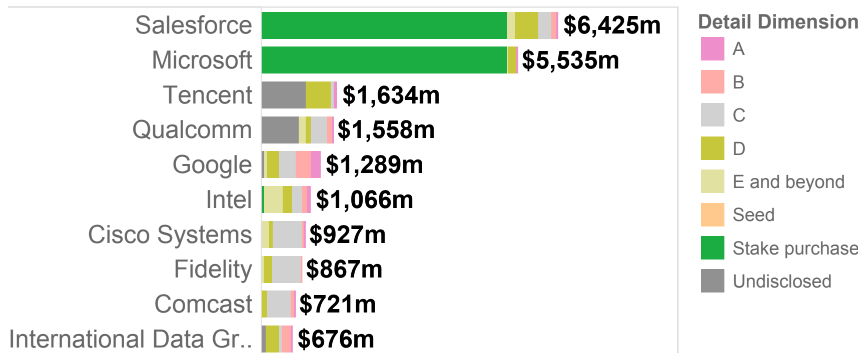
Perhaps unsurprisingly, governments have tended to be a bit more macro than many investors that can go down to the level of talking about AppleTV.

Handily, many of the latest government policies are captured by the Organisation for Economic Cooperation and Development (OECD's) Reviews of Innovation Policy.

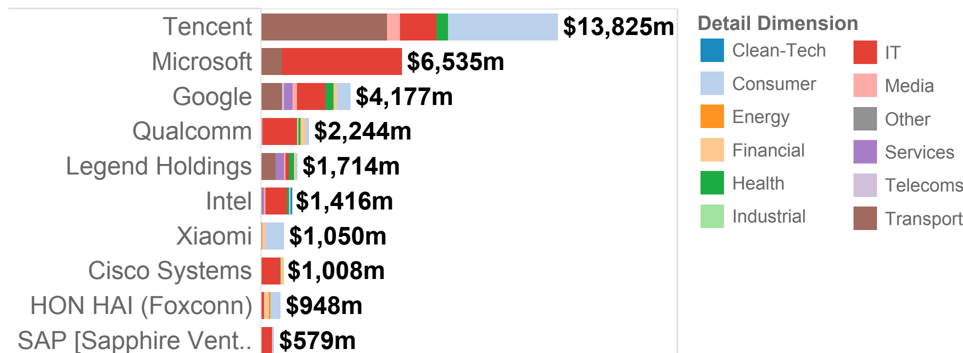
Just taking a look at the Brazil, China, Russia, UK and US finds they are all developing national strategies looking at high-performance computing or information and communication technologies, clean energy, transport (aerospace and/or maritime and cars) and energy efficiency and healthcare through precision or biomedicine.

For the bloggers investing in the tech that will affect these macro areas, most attention (optimistic or skeptical) was on virtual reality and wearables then messaging, connected cars, drones,

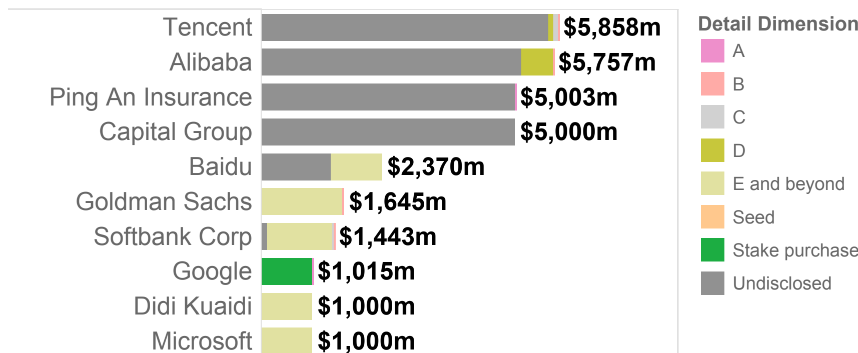
Top investments in the IT sector



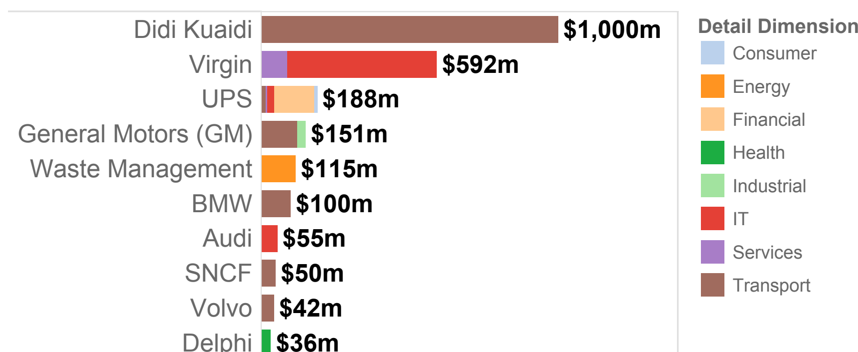
Top investments by IT corporations



Top investments in the transport sector



Top investments by transport corporations



bitcoin/cryptocurrencies and enterprise software.

In addition, more general issues caught commentators' attention, such as potential price falls, fewer big rounds, the bottleneck for seed-stage companies to get further funding, less self-promotion and national elections, as well as corporate venturing increasing and mergers and acquisitions.

What has been fascinating in reviewing more than 1,000 companies and deals for this series has been how the same investors crop up in some of the most exciting or innovative companies captured through our GCV Analytics tool and our proprietary Power index.

These investors are supporting the entrepreneurs changing our world. The series started with a quote from Yuval Harari about the separation of intelligence from consciousness and the impact of grappling with what he feared could be people becoming superfluous.

He added: "The biggest question maybe in economics and politics of the coming decades will be what to do with all these useless people."

Technology cannot (yet) answer this question.

But, as Ruud Vermeulen, director of business development for Europe at Lux Research, said in a LinkedIn forum comment on this series: "While I appreciate that Harari is trying to open a discussion, I strongly object to the phrasing 'useless', 'extinct' and 'superfluous' in relation to people…

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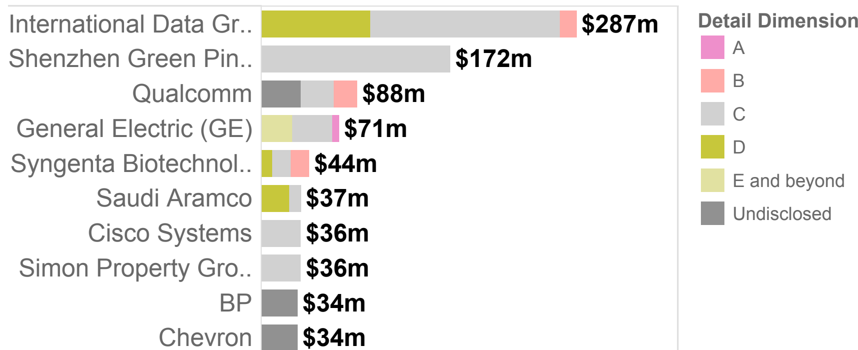
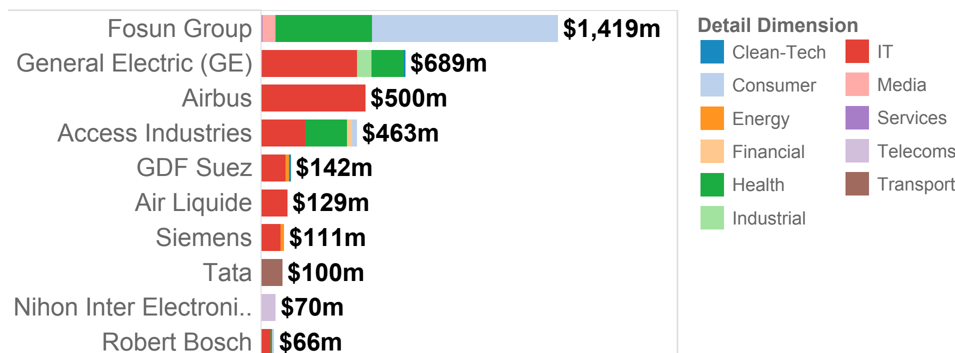
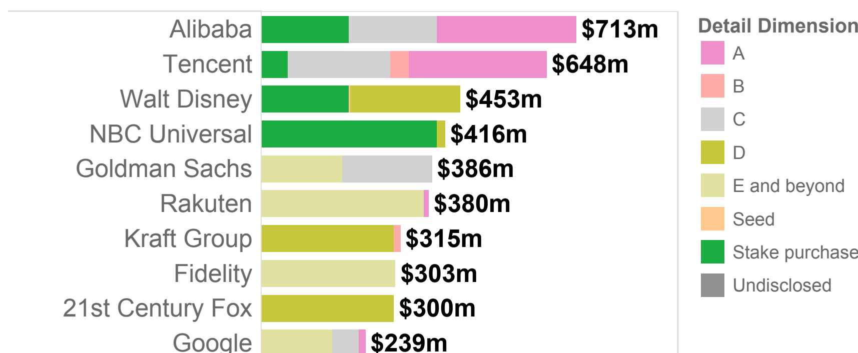
Top investments in the industrial sector



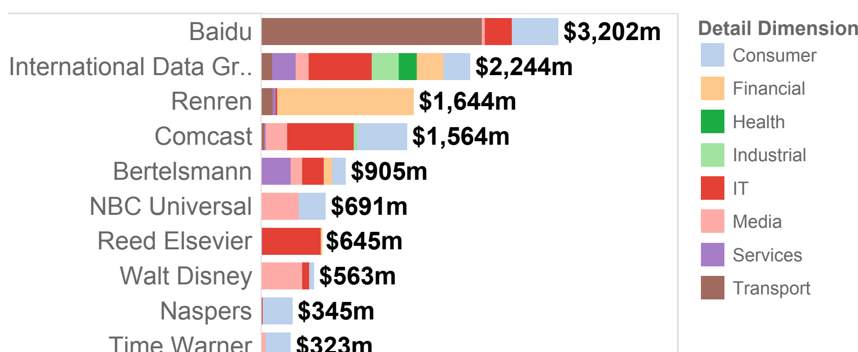
Top investments by industrial corporations



Top investments in the media sector



Top investments by media corporations



read Jeremy Rifkin's latest book, The Zero Marginal Cost Society – The Internet of Things, the Collaborative Commons and the Eclipse of Capitalism: 'The powerful social forces unleashed by the coming zero marginal cost society are both disruptive and liberating. They are unlikely to be curtailed or reversed. The transition from the capitalist era to the collaborative age is gaining momentum in every region of the world – hopefully, in time to heal the biosphere and create more just, humane and sustainable global economy for every human being on earth.'"

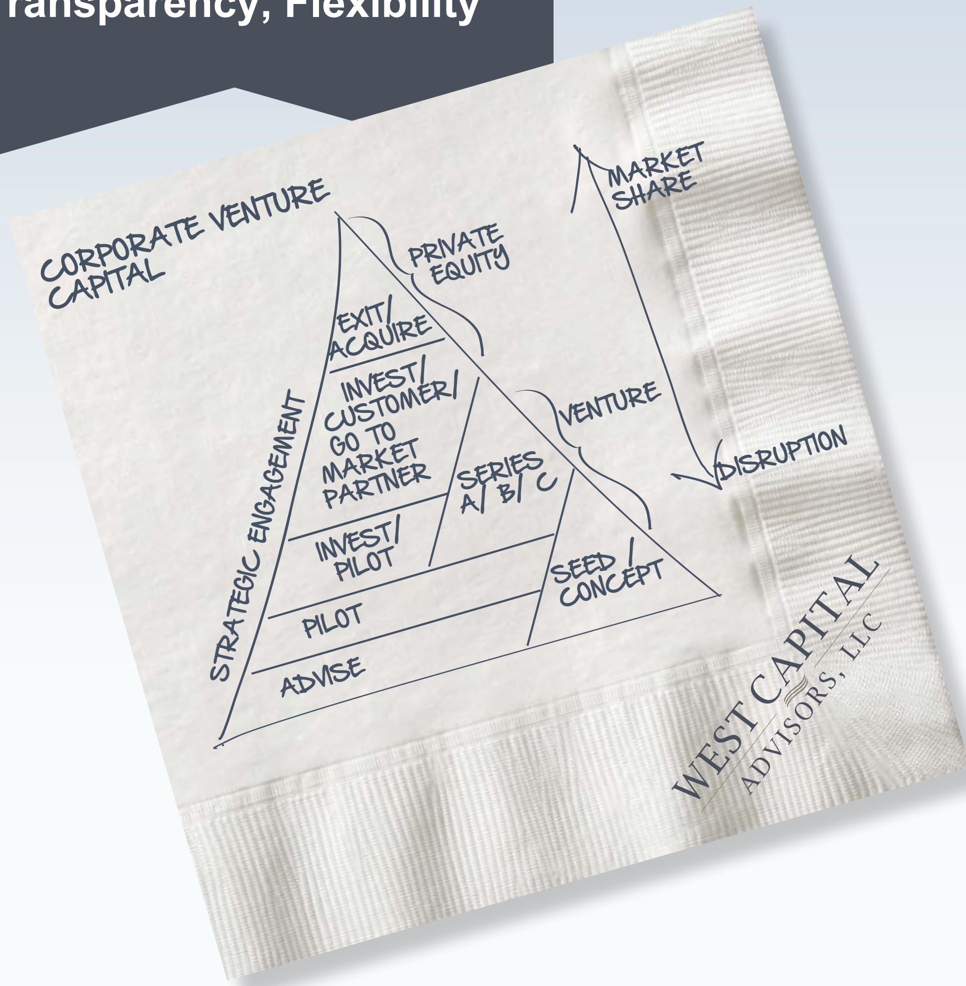
Whether we are driving towards or away from extinction or a sustainability will be judged with hindsight but we are certainly travelling as fast as we can with few brakes on.

Tech to watch out for in 2016

3D printing/additive manufacturing
Advanced materials
Advertising tech
Agritech
Antibiotics
Artificial Intelligence/machine learning/big data
Augmented/virtual reality
Blockchain/cryptocurrency
Boutique food/drink brand startups
Brain research
Crispr/genome editing/bio-precision medicine
Communication platforms
Crowdfunding/P2P lending platforms
Drones/autonomous vehicles
Education/Moocs
Energy and storage
Gaming experimentation
Internet connectivity/access
Internet of Things/sensors-RFID
Messaging
Mobile
Modularisation
Robotics
Security (cyber/physical)
Sharing/on-demand economy

Corporate Venture Capital

Access, Quality, Transparency, Flexibility



West Capital advises corporate innovation and venture capital investment programs (CVC) and manages the CVC network. We work with strategy and innovation teams to develop and implement targeted sourcing and process. Our objective is to provide corporations with a comprehensive global perspective on emerging innovations and innovative companies to address critical objectives. West Capital enables CVC programs to execute, achieve demonstrable outcomes and deliver transformative strategic value.

Mark Richey
MANAGING DIRECTOR
mark@westcapadv.com

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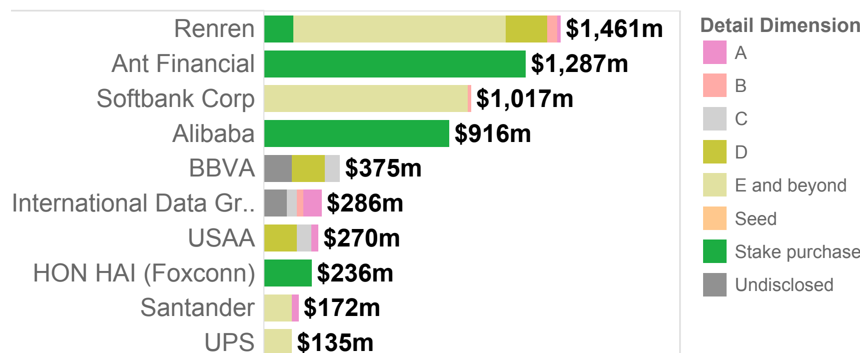
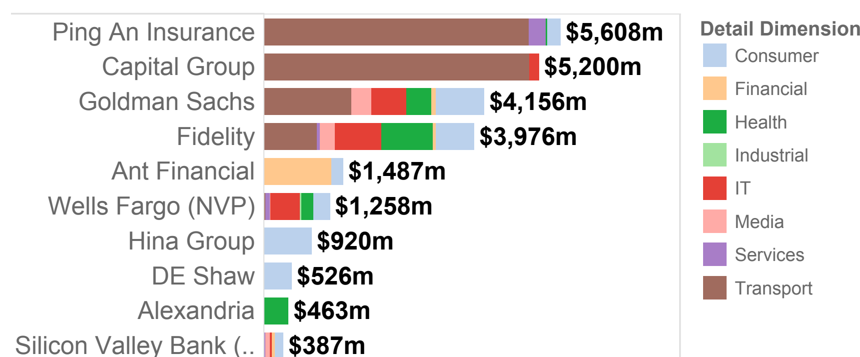
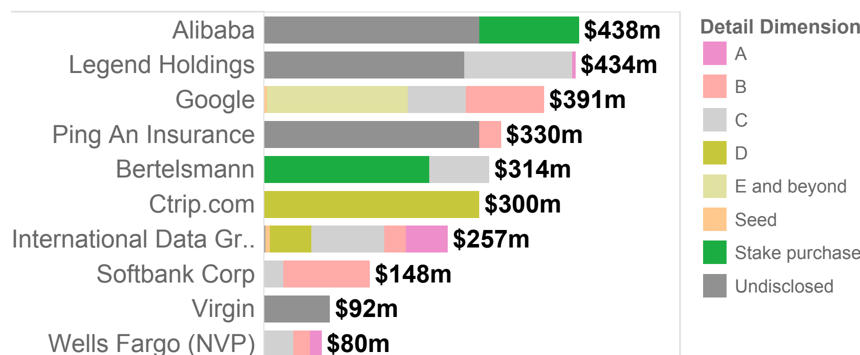
Top investments in the financial sector



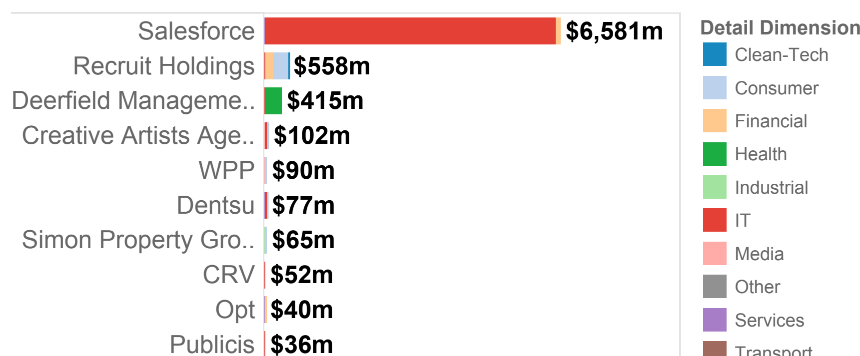
Top investments by financial corporations



Top investments in the services sector



Top investments by services corporations



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Marie urgently needed to create a graph showing the number of CVC investments, and their dollar value, in healthcare in Asia over the past two years. Three minutes later the graph was in her presentation.

Arnaud's CEO asked him how many deals their closest five competitors had done that year. Minutes later he pinged her the answer – and all the detail plus some cool looking charts.

Zhang is a consultant and had a meeting scheduled with a CVC. Needing to do a quick bit of background research he popped into GCV Analytics. He walked into the meeting knowing what deals they had done and who they had co-invested with and was also able to tell them what the competition had been doing.

Anika works for a government and needed to benchmark inward venture investment from corporates, compared to other similar countries. She used the information to get an increased marketing budget.

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tlewis@globalcorporateventuring.com

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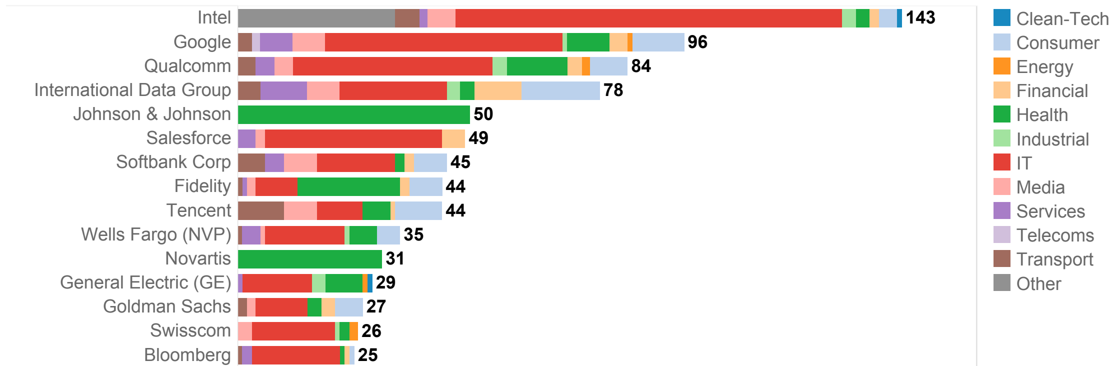
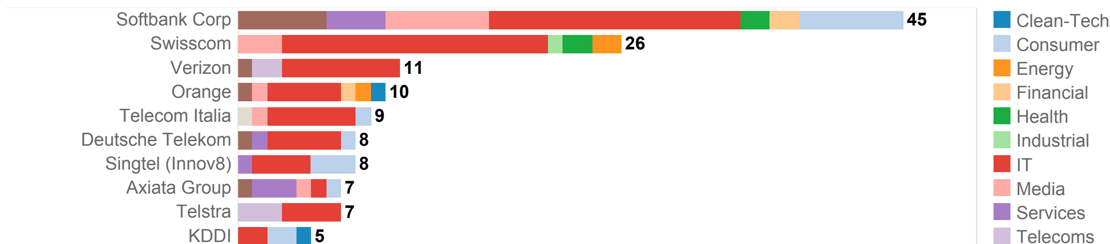
Main rankings by number



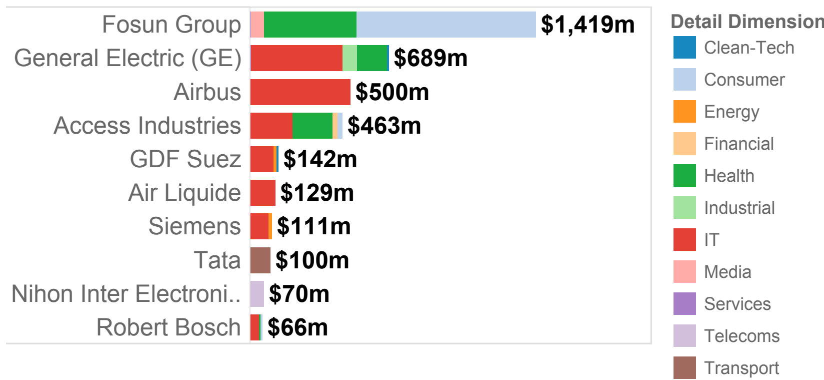
Sourced from GCV Analytics

Top investments by telecoms corporations by number

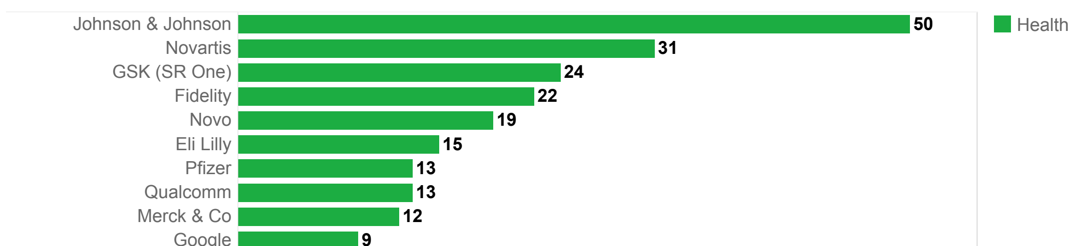


Sourced from GCV Analytics

Top investments by energy corporations by value

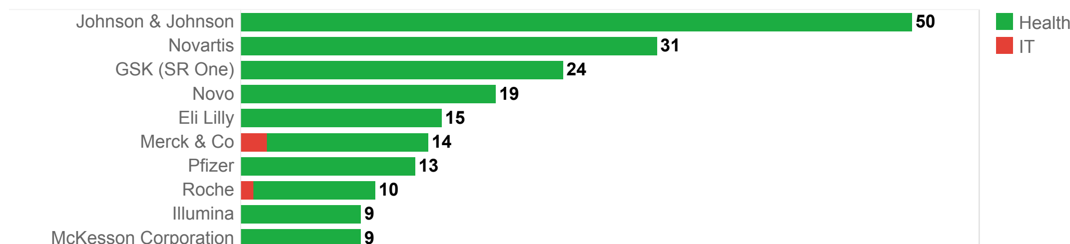


Top investments in the healthcare sector by number



Sourced from GCV Analytics

Top investments by healthcare corporations by number



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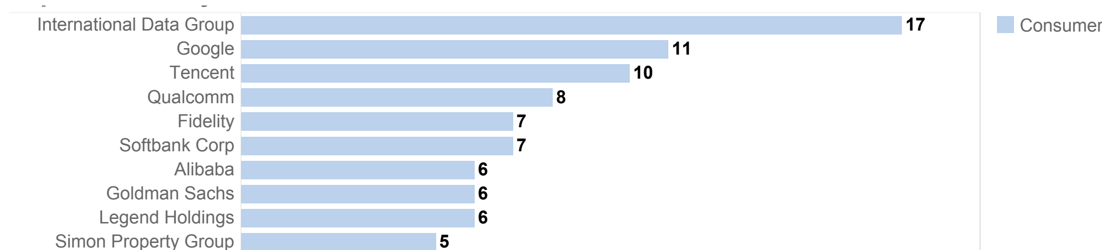
Top investments in the consumer sector by number



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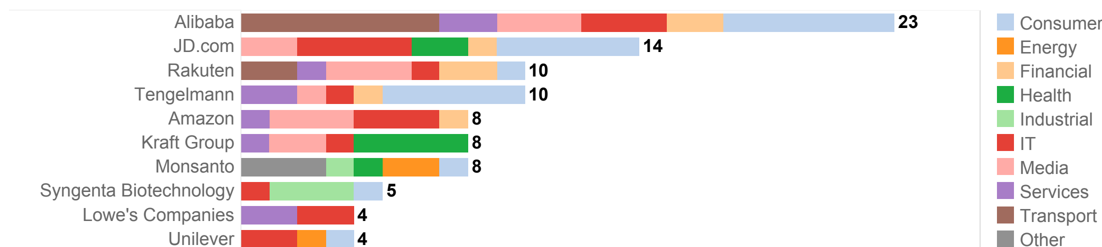
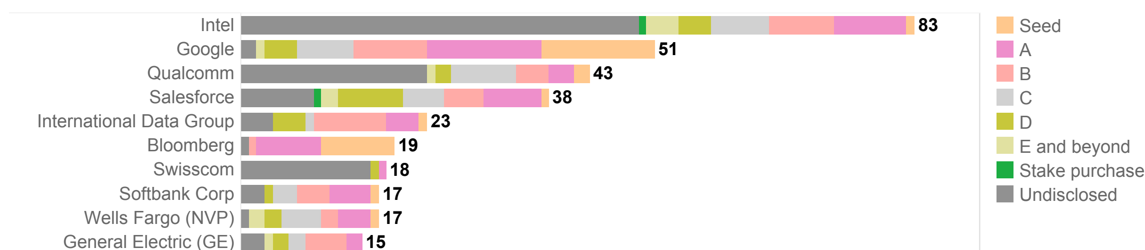
Top investments by consumer corporations by number



Sourced from GCV Analytics

Top investments in the IT sector by number



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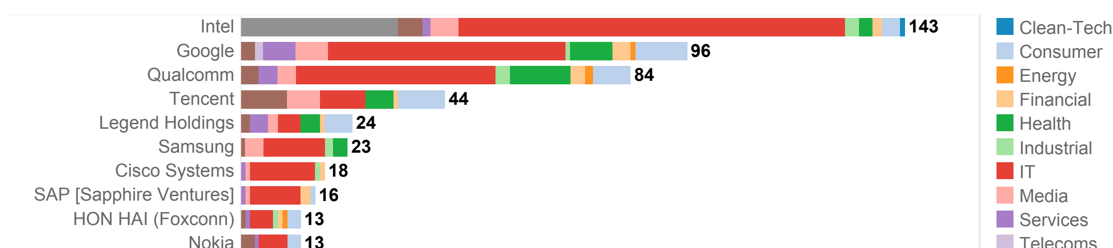
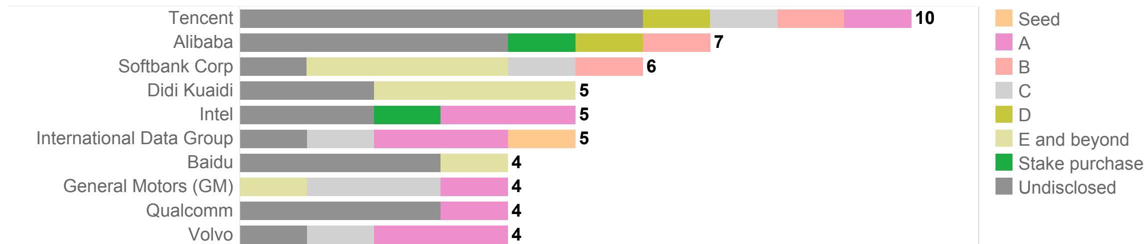
Top investments by IT corporations by number



Sourced from GCV Analytics

Top investments in the transport sector by number



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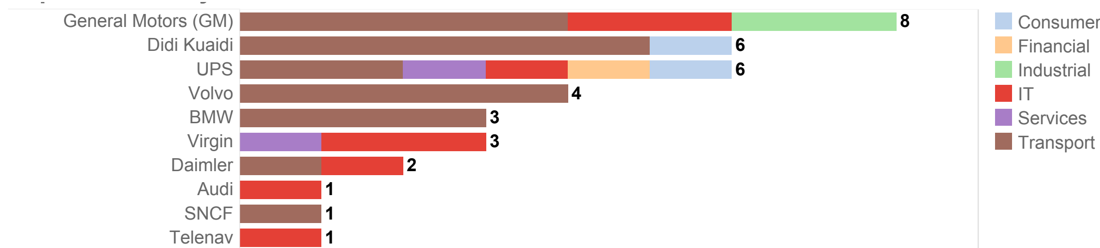
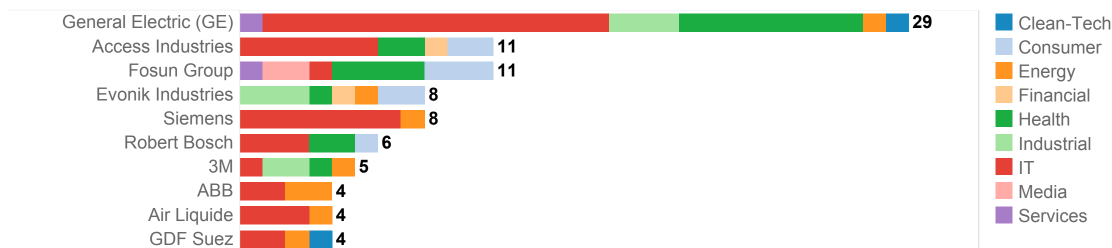
Top investments by transport corporations by number



Sourced from GCV Analytics

Top investments by industrial corporations by number



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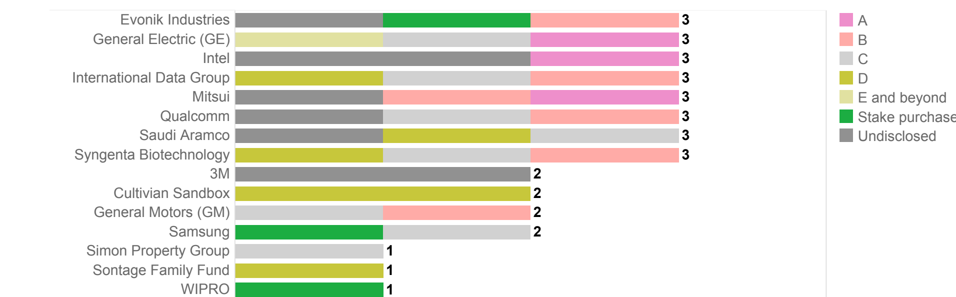
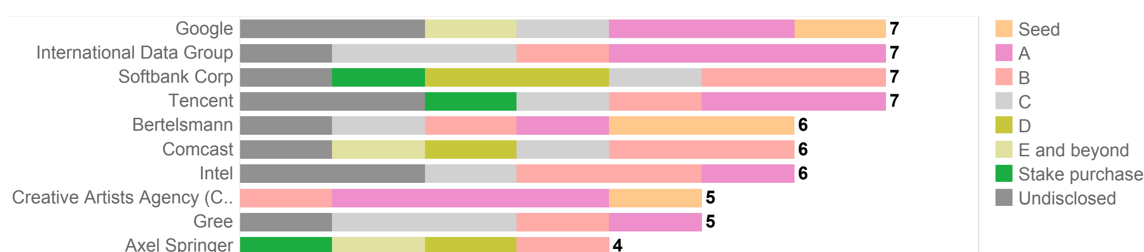
Top investments in the industrial sector by number



Sourced from GCV Analytics

Top investments in the media sector by number



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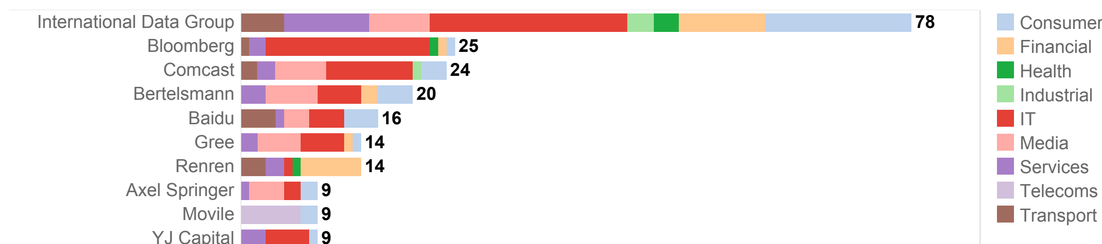
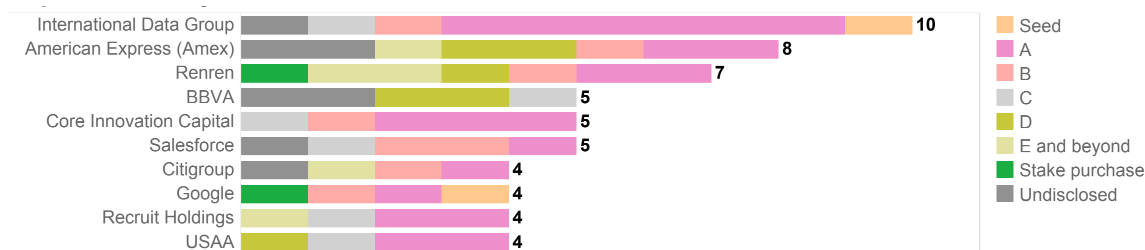


Sourced from GCV Analytics

Top investments in the financial sector by number



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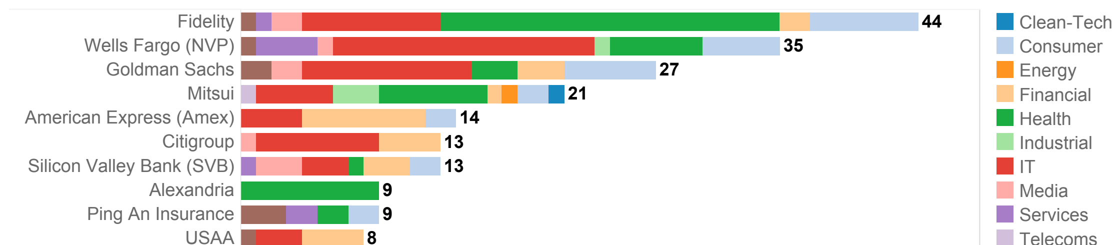

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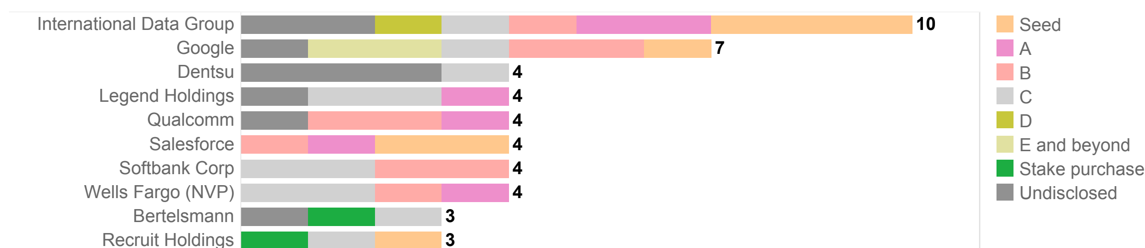
Top investments in the services sector by number



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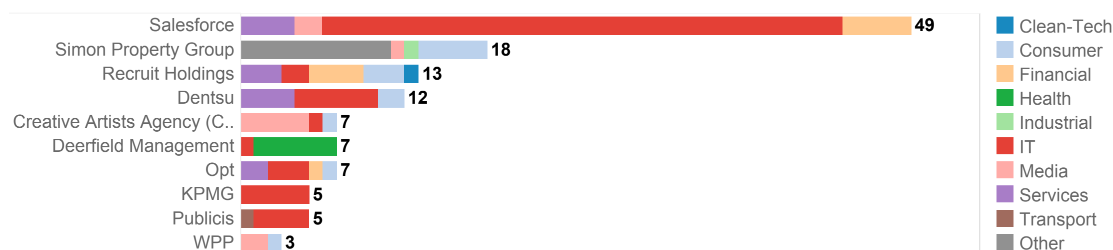
Top investments by services corporations by number



Sourced from GCV Analytics

Top 50 corporate venturing investments

Portfolio company	Location	Sector	Round	Round size	Investors
Informatica	US	IT	Stake purchase	$5,300m	Canada Pension Plan Investment Board | Microsoft | Permira | Salesforce
Didi Kuaidi	China	Transport	D	$600m	Alibaba | Tiger Global Management | undisclosed strategic investors
Didi Kuaidi	China	Transport	–	$142m	Alibaba | Coatue | Farallon Capital Management | private investors | Sina | SoftBank Corp | Tencent
Didi Kuaidi	China	Transport	–	$3,000m	Alibaba | Capital Group | China Investment Corporation | Ping An Insurance | Tencent
Uber	US	Transport	E and beyond	$1,600m	Goldman Sachs
Uber	US	Transport	E and beyond	$1,000m	Baidu
Uber	US	Transport	E and beyond	$1,000m	Microsoft | The Times Group
China Internet Plus Group	China	Consumer	–	$2,800m	Capital Today | China International Capital Corporation | DST | Tencent | Trust Bridge Partners
One97	India	Financial Services	Stake purchase	$575m	Ant Financial
One97	India	Financial Services	Stake purchase	$680m	Alibaba | Ant Financial
Uber China	China	Transport	–	$1,200m	Baidu | China Citic Bank | China Life Insurance
SoFi	US	Financial Services	E and beyond	$1,000m	Baseline Ventures | Doll Capital Management (DCM) | Institutional Venture Partners | Renren | SoftBank Corp | Third Point Ventures | Wellington Management
SoFi	US	Financial Services	Stake purchase	$150m	Renren
Coupang	South Korea	Consumer	Stake purchase	$1,000m	SoftBank Corp
Space Exploration Technologies (SpaceX)	US	Transport	Stake purchase	$1,000m	Fidelity | Google
Ele.me	China	Consumer	E and beyond	$350m	Citic | Dianping | JD.com | Sequoia Capital | Tencent
Ele.me	China	Consumer	E and beyond	$630m	China Media Capital | Citic | Gopher Asset | Horizon Ventures | Hualian Group | JD.com | Sequoia Capital | Slender West Lake Investment | Tencent
LY.com	China	IT	–	$966m	Citic | Dalian Wanda Group | Tencent
Ola	India	Transport	E and beyond	$400m	ABG Capital | Accel Partners | DST | Falcon Edge Capital | GIC | SoftBank Corp | Steadview Capital | Tiger Global Management
Ola	India	Transport	E and beyond	$500m	Baillie Gifford | Didi Kuaidi | DST | Falcon Edge Capital | SoftBank Corp | Tiger Global Management
Dianping	China	Consumer	E and beyond	$850m	Dalian Wanda Group | Fosun Group | FountainVest Partners | Hina Group | Tencent | undisclosed strategic investors | Xiaomi
Meituan	China	Consumer	D	$700m	Alibaba | undisclosed strategic investors
Lyft	US	Transport	E and beyond	$530m	Rakuten | undisclosed strategic investors
Lyft	US	Transport	E and beyond	$150m	Didi Kuaidi | Didi Kuaidi | Icahn Enterprises | undisclosed strategic investors
UCar	China	Transport	A	$125m	China Auto Rental | Legend Holdings | Warburg Pincus

UCar	China	Transport	B	$550m	Legend Holdings | Warburg Pincus
OpenDNS	US	IT	C	$635m	Cisco Systems
Meizu	China	Consumer	Stake purchase	$590m	Alibaba
Palantir Technologies	US	IT	E and beyond	$555m	Reed Elsevier
Pinterest	US	Media	E and beyond	$186m	Andreessen Horowitz | Bessemer | Fidelity | Firstmark Capital | Goldman Sachs | SV Angel | Valiant Capital | Wellington Management
Pinterest	US	Media	E and beyond	$367m	Andreessen Horowitz | Bessemer | Rakuten
DraftKings	US	Media	D	$250m	Walt Disney
DraftKings	US	Media	D	$300m	21st Century Fox | Atlas Venture | Kraft Group | Raine Group
Spotify	Sweden	Consumer	E and beyond	$526m	Baillie Gifford | DE Shaw | Discovery Capital | Goldman Sachs | GSV Capital | Landsdowne Partners | Northzone Ventures | P Schoenfeld Asset Management | Rinkelberg Capital | Technology Crossover Ventures
NextEV	China	Transport	–	$500m	Joy Capital | Sequoia Capital | Tencent
OneWeb	US	IT	–	$500m	Airbus | Bharti Airtel | Coca-Cola | Hughes Network Systems | Qualcomm | Totalplay | Virgin
SnapDeal	India	Consumer	E and beyond	$500m	Alibaba | BlackRock | BlackRock | HON HAI (Foxconn) | Myriad Asset Management | Myriad Asset Management | Myriad Genetics | Myriad Genetics | PremjiInvest | PremjiInvest | SoftBank Corp | Temasek | Temasek | Tybourne
Zenefits	US	IT	C	$500m	Andreessen Horowitz | Comcast | Fidelity | Founders Fund | Insight Venture Partners | Institutional Venture Partners | Khosla Ventures | Sound Ventures
Jet	US	Consumer	B	$140m	Accel Partners | Bain & Company | Coatue | General Catalyst Partners | Goldman Sachs | Google | MentorTech Ventures | New Enterprise Associates | Silicon Valley Bank (SVB) | Temasek | Thrive Capital | Wells Fargo (Norwest Venture Partners)
Jet	US	Consumer	C	$350m	Alphabet | Bain Capital | Fidelity | undisclosed strategic investors
Snapchat	US	IT	D	$486m	August Capital | Benchmark | Coatue | General Catalyst Partners | GIC | Institutional Venture Partners | Kleiner Perkins Caufield and Byers | Lightspeed Ventures | SV Angel | Tencent | Yahoo
Moderna Therapeutics	US	Health	–	$450m	Alexion Pharmaceuticals | AstraZeneca | Invus Financial Advisors | RA Capital | Viking Venture | Wellington Partners Venture Capital
GuaHao.com	China	Health	–	$394m	China Development Bank (CDB) | Fosun Group | Goldman Sachs | Hillhouse Capital Management | Tencent | undisclosed strategic investors
GrabTaxi	Singapore	Transport	E and beyond	$350m	China Investment Corporation | Coatue | Didi Kuaidi | SoftBank Corp | Tiger Global Management
Beijing Weiying Technology	China	Consumer	C	$235m	Dalian Wanda Group | GGV Capital | Tencent
Immunocore	UK	Health	–	$320m	Eli Lilly | Malin Corporation | RTW Investments | undisclosed strategic investors | Woodford Investment Management
Whaley Technology	China	Media	A	$313m	Alibaba | Tencent
58 Home	China	Services	–	$300m	Alibaba | KKR | Ping An Insurance
DocuSign	US	IT	E and beyond	$278m	Bain & Company | Brookside Capital | ClearBridge Investments | Dell | Generation Investment Management | Intel | undisclosed strategic investors
Fanduel	US	Consumer	E and beyond	$275m	Comcast | Google | KKR | NBC Universal |Time Warner

Largest corporate venturing exits

Portfolio company	Location	Sector	Round	Round size	Investors
Ganji	China	Services	Exit	$2,400m	58.com | BlueRun Ventures | Carlyle Group | Nokia | Sequoia Capital | Tiger Global Management
China Huarong Asset Management	China	Financial Services	Exit	$2,300m	China International Capital Corporation | China Life Insurance | Citic | Cofco | Fosun Group | Goldman Sachs | Khazanah Nasional Berhad | Shanghai Fosun Pharmaceuticals | Warburg Pincus
Legend Holdings	China	Financial Services	IPO	$1,960m	China Investment Corporation | Ping An Insurance
Dianping	China	Consumer	Exit	$1,500m	Alibaba | Dalian Wanda Group | Fosun Group | Meituan | Tencent | Xiaomi
Flexus Biosciences	US	Health	Exit	$1,250m	Celgene | Column Group | Kleiner Perkins Caufield and Byers
Avito	Russia	Services	Exit	$1,200m	Accel Partners | Kinnevik | Naspers | Northzone Ventures | Vostok Nafta
Virtustream	US	IT	Exit	$1,200m	EMC | Intel | SAP [Sapphire Ventures]
SolidFire	US	IT	Exit	$870m	Greenspring Associates | NetApp | New Enterprise Associates | Novak Biddle Venture Partners | Samsung | Valhalla Partners
Fitbit	US	Consumer	IPO	$841m	Foundry Group | Qualcomm | SAP [Sapphire Ventures] | SoftBank Corp | SVB | True Ventures
Popsugar	US	Media	Exit	$580m	Institutional Venture Partners | NBC Universal | Rakuten | Sequoia Capital
Naurex	US	Health	Exit	$560m	Allergan | Baxter International | Lundbeck Foundation | Shire Pharmaceuticals | Takeda
1010Data	US	IT	Exit	$500m	Advance Publications | Wells Fargo (Norwest Venture Partners)
Elemental Technologies	US	IT	Exit	$500m	Amazon | BSkyB | Citrix | General Catalyst Partners | In-Q-Tel | Telstra | Voyager Capital | Walt Disney | Wells Fargo (Norwest Venture Partners)
Quanticel Pharmaceuticals	US	Health	Exit	$485m	Celgene
Ticketfly	US	Consumer	Exit	$450m	Pandora | SAP [Sapphire Ventures]
Heptares Therapeutics	UK	Health	Exit	$400m	Novartis | Sosei Group | Takeda
Annapurna Labs	Israel	IT	Exit	$370m	Arm | Walden International
Business Insider	US	Media	Exit	$343m	Axel Springer | Institutional Venture Partners | RRE Ventures | undisclosed strategic investors
Showroomprive	France	Consumer	IPO	$282m	BNP Paribas | Deutsche Bank | Goldman Sachs | Société Générale | VIPshop
Galapagos	Belgium	Health	Exit	$275m	AbbVie | Capital Group | Johnson & Johnson | Van Herk Investments
Anjuke	China	Services	Exit	$267m	58.com | Baidu | Matrix Partners
Misfit Wearables	US	Consumer	Exit	$260m	Coca-Cola | Fossil Group | JD.com | O'Reilly Media | Xiaomi
Adallom	US	IT	Exit	$250m	Hewlett-Packard (HP) | Microsoft
LoopPay	US	Financial Services	Exit	$250m	General Electric (GE) | Samsung | Visa
Square	US	Financial Services	Exit	$243m	Citigroup | Crunchfund | First Round Capital | GGV Capital | GIC | Goldman Sachs | JP Morgan Chase | Khosla Ventures | Kleiner Perkins Caufield and Byers | Ritzi Traverse | SAP [Sapphire Ventures] | Sequoia Capital | Starbucks | Visa
Runtastic	Austria	Consumer	Exit	$239m	Adidas | Axel Springer
NantKwest	US	Health	IPO	$238m	Cambridge Equities | Celgene | Sorrento Pharmaceuticals | undisclosed strategic investors
N-trig	Israel	IT	Exit	$200m	Challenger | Microsoft
Spinifex Pharmaceuticals	Australia	Health	Exit	$200m	Novartis | Novo

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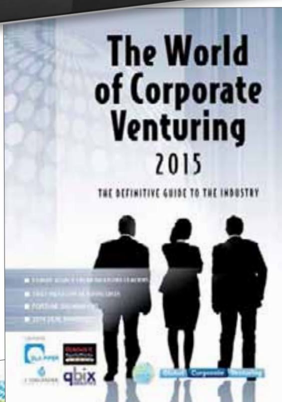

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PART 3

VENTURE PRINCIPALS STEP UP IN AMBITION

James Mawson, editor-in-chief

You can tell the quality of an organisation by the quality of questions it asks. Larry Page, co-founder of search engine provider Google and its parent, Alphabet, seems to have a habit of asking tough ones, including that there are about 50 "ambitious" venture investors globally chasing the real breakthrough technologies, according to an interview with the Financial Times. (This piece for World of Corporate Venturing follows an earlier version published on LinkedIn to crowdsource feedback on the topic and a series last summer looking at Google Ventures' deals, organisation and coinvestors.)

Ambitious is a loaded adjective, of course, but outside of Page explaining more there has been some good work on trying to identify the most visible, hyperactive, and disruptive venture capital firms, which outperform the industry average across the board in risk appetite, leadership, and exit performance, according to research by Brian Park and Erik Vermeulen.

Their excellent paper published in February 2015, We Know the Savior and It Is Them: The Future Face(s) of Venture Capital, looks at the renaissance in the industry from investors returning the venture capital model to its "most traditional form" as a real partner to startups, as a risk-taker, and as an innovator and disruptor at the fund level.

Ambition, however, can also be judged by looking at which groups other investors want to connect with on deals. There are plenty of rankings out there, such as this, but VC firms SignalFire and Correlation Ventures since 2011 have seemed to lead the way in this area of spotting whom to connect with. Crowdfunding platforms, such as Angellist's Syndicates, have since made it easier to spot and track investors at an early stage but later-stage deals require more connectivity as well as money.

Just taking Google as an example, by September 2015 its preferred coinvestors were angels followed some way behind by VC firm Kleiner Perkins Caufield & Byers (KPCB) then SV Angel, according to the GCV Analytics data platform. By contrast, Intel Capital, the most active and successful corporate venturer by investments and exits over the past five years, according to GCV Analytics, had angels in line with its number of deals with KPCB, Andreessen Horowitz and Norwest Venture Partners, the venture unit of bank Wells Fargo.

The connectivity part becomes more important, and potentially harder, as groups scale and try and do international deals. While traditional VCs have often struggled to expand outside of their home region, corporate venturers can leverage their parents' brands and office infrastructure but still then have to find and convince good local venture investors to share their best deals.

Naturally, time and venture experience helps. Using GCV Analytics to look at which investors have invested the most outside of their parent companies' head office country shows the majority are non-US businesses trying to access the dynamic and innovative entrepreneurs based in America, primarily Silicon Valley in California.

While Intel Capital has led the way between the start of 2011 and 18 August 2015, with nearly 100 deals, Qualcomm has been the only other US-headquartered parent in the top 10.

The others, led by Japan's Softbank, South Korea's Samsung, Switzerland-based Novatis and UK-based GlaxoSmithKline (GSK) cover the globe and sectors. These firms, plus the others in the top 10, Germany's SAP (through Sapphire Ventures), Finland-based Nokia, Denmark-listed Novo and German industrial group Siemens, have all been long-term, committed venture investors for more than a decade.

Intel Capital has historically been an outlier investing at least $300m to $500m per year, every year. And while at least 117 other CVCs have also invested each year, according to GCV Analytics for the 2011 to 2015 period, their amounts have usually been lower. This started to change in 2013 when the number of venture rounds of at least $100m started to increase substantially from 16 deals that year to 120 in 2014 and then nearly double that last year. Google, China-based Tencent and Alibaba and Japan's Softbank all did at least five $100m rounds in 2014 and 2015, indicating both financial power and ability to join sophisticated consortia wanting to back the most impactful entrepreneurs scaling-up their private businesses.

Innovation capital ecosystem in the US and Europe

Capital type	US ($bn)	Europe ($bn)
1 Loans	312.6	792.2
2 Corporate R&D*	214.2	179.6
3 Family and friends**	207	93.5
4 Public R&D	115	57***
5 Venture	33.1	7.4
6 Government guarantees and sponsored loans	30	73.4
7 Crowd****	9.5	3.3
8 Angel	19.2	6.1
9 Securitised loans	5.6	40.1
Total	**940.2**	**1,252.60**

Sources:
** Taken from the 2014 EU Industrial R&D Investment Scoreboard based on a sample of 2,500 companies and equivalent to about 90% of the total expenditure on R&D by businesses worldwide*
*** US family and friends' contribution assumed at 18% (SBA) of all borrowing. EU, 5% of funding from family or friends (EC) (2013)*
**** EU 20*
***** 2014 data*
Sources: 1, 3, 6, 9 Boston Consulting Group; 2 European Commission; 4 National Science Foundation Higher Education Research and Development Survey; 5 Ernst & Young using Dow Jones Venturesource; 7 Massolution's Crowdfunding Industry Report; 8 EBAN; 9 Organisation for Economic Co-operation and Development; Analysis by Global Corporate Venturing
First published in Mawsonia's Early Stage Report, June 2015.

But, as Henry Kravis, co-founder of private equity firm KKR, in 2011 said: "Any fool can buy a company, just pay enough."

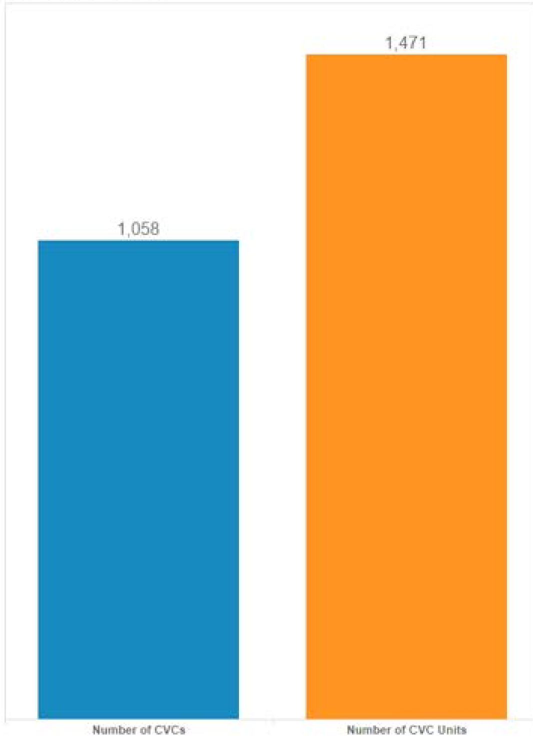
Instead Kravis has frequently said he wanted to be congratulated on a deal after the exit.

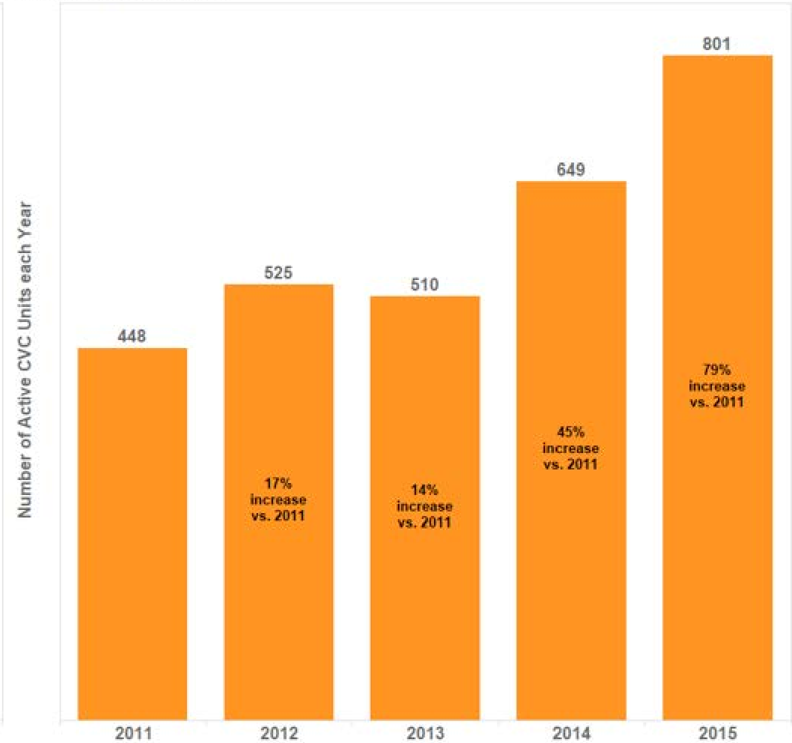
In venture this can sometimes be harder to organise than in leveraged buyouts. For corporate venturing units, even the most successful only sell or float half their portfolio companies, a ratio that usually falls with more deals done, rather than less. Of those groups with at least 10 investments, Intel Capital has sold 60 of its 223 deals since 2011, while Google has sold 40 of 113.

But the power law of venture calculated by Jerry Neumann, at an estimated alpha of 1.96, means as he said: "The more investments you make, the better, because your mean return multiple increases with the number of investments, as does the likeliest highest multiple."

This maths helps explain why many of the better more recent corporate and venture investors, such as Google, A16Z, Alibaba and Tencent, have rapidly built up their portfolios. Even with a handful of positive exits, venture investors can return the aggregate amounts invested in all deals, with optionality for the remainder for both strategic as well as financial returns plus often the ability to fund the next startup if the entrepreneur(s) go serial. Having invested in more than 1,000 portfolio companies it is this this network of prior-backed entrepreneurs that is Intel Capital's greatest competitive advantage in venture, and partly explains why Google ventures has been so keen to coinvest with angels that have been entrepreneurs or fund lots of them. Network and the ability to help entrepreneurs scale and exit are the key competitive advantages for investors if they have ambition.

The numbers of Corporate Venturing Capital (CVC) investors, and their associated units, have grown significantly over the past 5 years. There are now almost 80% more active CVCs each year than there were in 2011.





Columns Include: Non-CVCs & CVCs

	Angel Investors	Kleiner Perkins Caufield & Byers	Andreessen Horowitz	New Enterprise Associates	Khosla Ventures	Sequoia Capital	International Data Group	Qualcomm	Wells Fargo (NVP)	General Electric (GE)	Intel	Softbank Corp	Undisclosed Strategic Investors	Salesforce	Google
Google	81	50	35	18	17	11	9	9	6	6	5	5	5	4	
Intel	16	12	12	6	8	8	3	8	8	4			8	2	5
Qualcomm	11	3	10	7	6	14	5		4	3	8	6	4		9
Tencent	5	1	5		2	10	1	1			1	2	5	1	5
Salesforce	8	4	5	6	4	4				1	2		3		4
Cisco Systems	2	4	4	4	4	5	1	2		2	9		2	5	3
General Electric (GE)	1	6	4	1	8	3		3	3		4		4	1	6
Wells Fargo (NVP)	5	2	4	5	3	7	6	4		3	8		1		6
International Data Group	19		4	3		13		5	6		3		4		9
Samsung	3	2	3	2	3	2		4	1		8		4		1
Comcast	13	14	3	10	3	6	2	2	4		4	2		1	2
SAP [Sapphire Ventures]	3	3	2	6	9	2	3	1	5	2	7	1	3	9	2
Softbank Corp	4		2	5		4		6					4		5
Novartis	1	3		4				1					3		
GSK (SR One)	2	5		1									2		1

Sourced from GCV Analytics

Ultimately, ambition probably remains the desire to impact the most people and it can be seen that the three sectors with greatest impact on the quality and length of life are: health, energy and communications/travel, a subset of which are so-called frontier technologies, such as space exploration and virtual reality.

These three sectors are ones that can require decades of investment to deliver their promises, even if money can be made at different times.

In this light, more than half of the most ambitious investors are traditionally-funded, independent VCs, based on number of deals in the 24 months to end-September, according to data provider Pitchbook.

OrbiMed Advisors, Kleiner Perkins Caufield & Byers and New Enterprise Associates (NEA) lead the way in the health, energy and communications sectors, Pitchbook said with 73, 67 and 66 deals, respectively.

However, the other venture investors had primarily government, corporate and university backgrounds, including Enterprise Ireland (66), Germany's High-Tech Gruenderfonds (HTGF, 61), corporate-funded Novo (52) and Connecticut Innovations (51).

And this plurality of venture principals by source of capital in hot areas points to the wider perspective that while VCs and venture capital is often instrumental in helping these fast-growth entrepreneurs the innovation capital sources and ecosystem is far broader.

As any good entrepreneur would, VCs, therefore, have won the argument and others have crowded into the space. Now the sorting of the ambitious and successful can begin.

Here's my list – let me know who you would pick and why by email:

Top 50 ambitious venture investors

500 Startups
Accel
Aeris
Alibaba
A16Z
Angellist (Syndicates)
Grupo Arcano
Atomico
Baidu
Coller
Esther Dyson
Felicis Ventures
First Round Capital
(Bill and Melinda) Gates Foundation
GE
Google
Grishin Robotics
Hillhouse
HTGF
Klaus Hommels
Horizons
IBM
IDG
IFC
Index
Innovation Works
Intel
Invoke
IQT
Jungle
Kauffman
Khosla
Millhouse Capital
Yuri Milner
Naspers
Omers
Qualcomm
Samwer/Rocket Internet
Sequoia
Softbank
SV Angel
SVB
Temasek/GIC
Tencent
Tiger Global
Union Square Ventures
Andreas von Bechtolsheim
Wellcome
Woodford
Y Combinator

Source: James Mawson

Top five US-based VCs

1. Felicis Ventures
2. SV Angel
3. Floodgate Fund
4. First Round Capital
5. Harrison Metal Capital

Top five Europe-based VCs

1. Index Ventures
2. Kima Ventures
3. Balderton Capital
4. Advent Venture Partners
5. Holtzbr

Source: Brian Park and Erik Vermeulen – for the full list see their paper

Following this thought leadership piece, which was published earlier in 2015, Global Corporate Venturing embarked on its GCV Analytics Power Rankings – see the results on the following pages

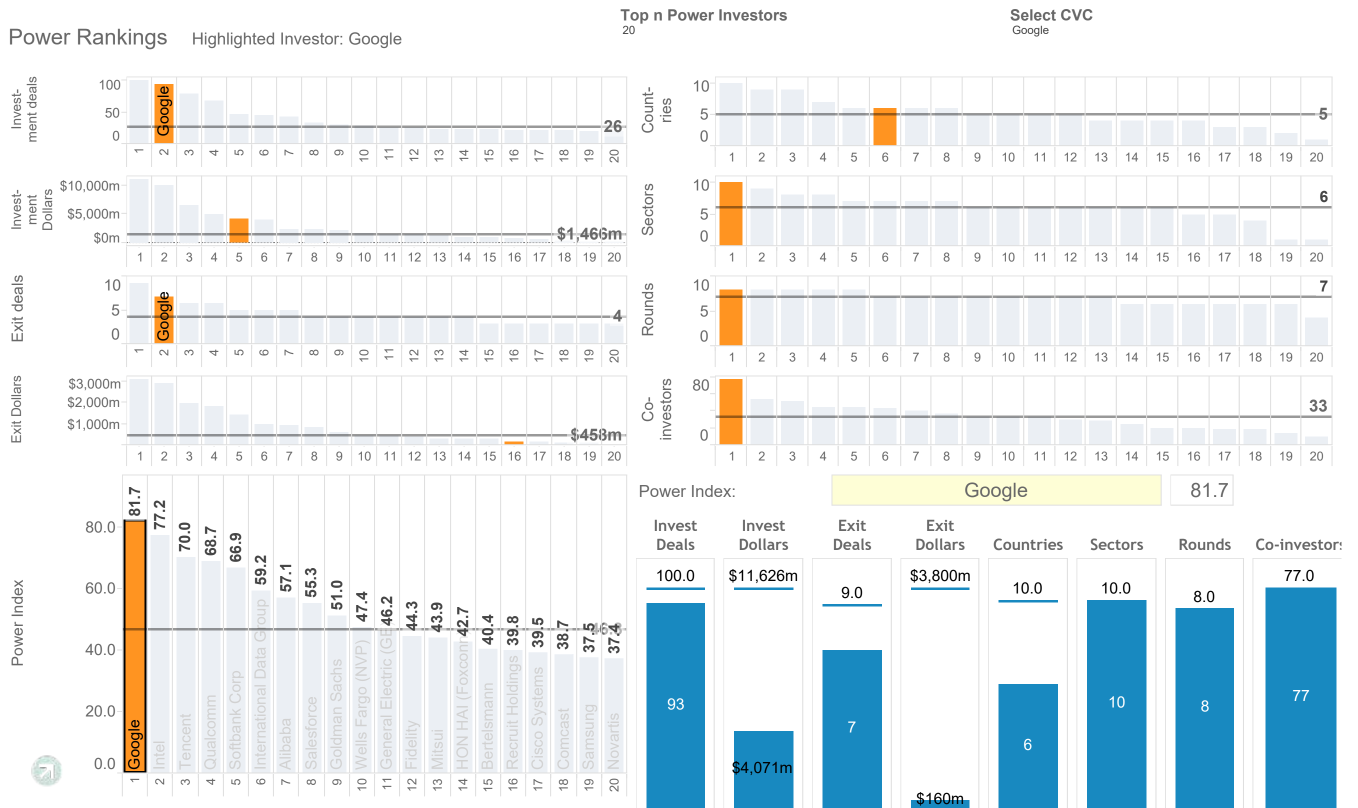
Power index quantifies movers and shakers in CVC

Jeff Carlson and Toby Lewis, GCV Analytics, and James Mawson, Global Corporate Venturing

Global Corporate Venturing is always keen to find new ways to reflect the industry. In this year's World of Corporate Venturing we have created a new way to quantify the most powerful players in the industry – our GCV Analytics Power Rankings.

Our analysis revealed Google, through its corporate venturing units Google Capital and Google Ventures, was the most powerful investor in corporate venturing based on its activity in 2015. In particular, Google was notable for investing in the greatest variety of sectors, rounds and for partnering the greatest number of co-investors. We also scored groups on their investment and exit activity as well as the variety of countries in which they invested.

In addition, we have published a list of the top 20 most powerful investors based on these criteria, and provide full details on our analysis of the top 10 investors.



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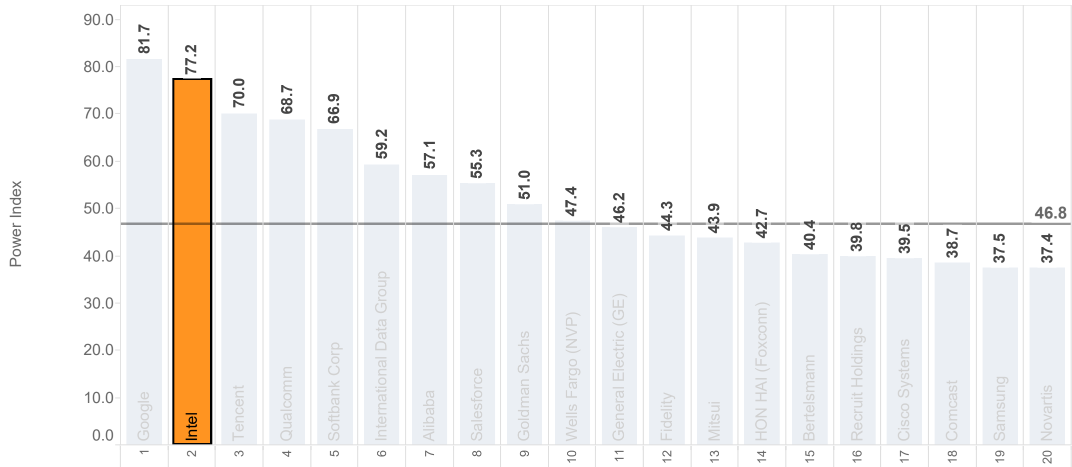
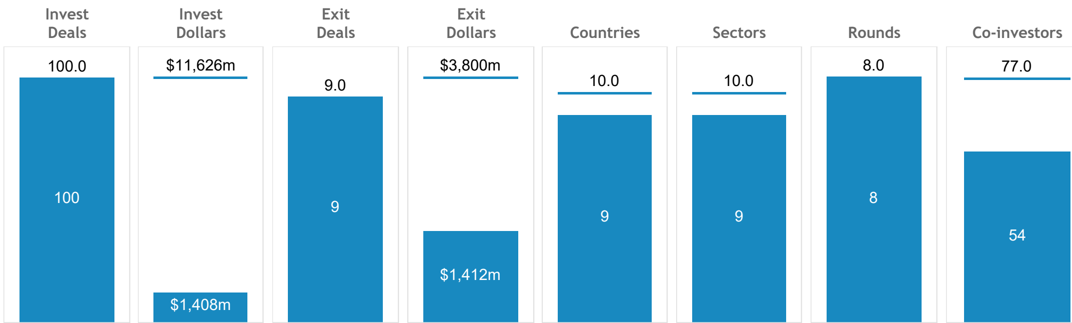

Power Rankings
Highlighted Investor: Intel
Power Index
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
81.7
77.2
70.0
68.7
66.9
59.2
57.1
55.3
51.0
47.4
46.2
44.3
43.9
42.7
40.4
39.8
39.5
38.7
37.5
37.4
46.8
Google
Intel
Tencent
Qualcomm
Softbank Corp
International Data Group
Alibaba
Salesforce
Goldman Sachs
Wells Fargo (NVP)
General Electric (GE)
Fidelity
Mitsui
HON HAI (Foxconn)
Bertelsmann
Recruit Holdings
Cisco Systems
Comcast
Samsung
Novartis


Power Index:
Intel
77.2
Invest Deals
100.0
100
Invest Dollars
$11,626m
$1,408m
Exit Deals
9.0
9
Exit Dollars
$3,800m
$1,412m
Countries
10.0
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Sectors
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8
Co-investors
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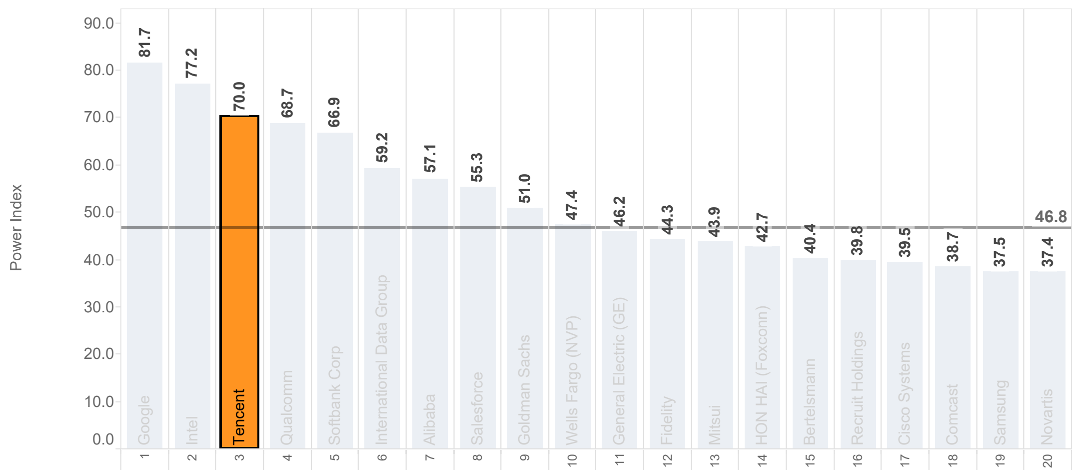
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Google
Intel
Tencent
Qualcomm
Softbank Corp
International Data Group
Alibaba
Salesforce
Goldman Sachs
Wells Fargo (NVP)
General Electric (GE)
Fidelity
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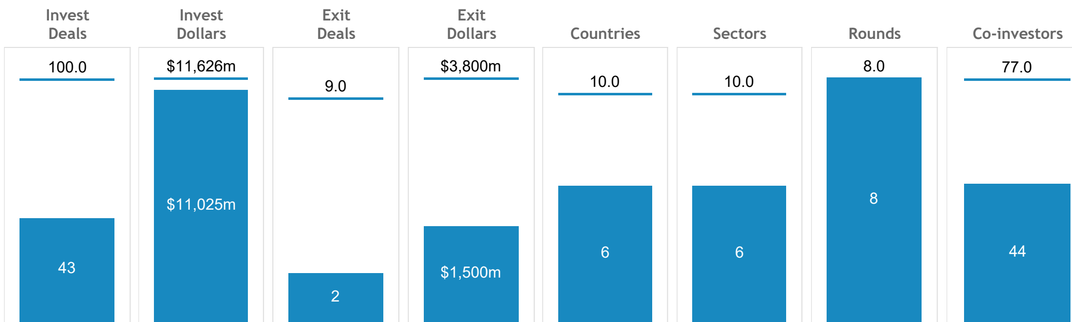
HON HAI (Foxconn)
Bertelsmann
Recruit Holdings
Cisco Systems
Comcast
Samsung
Novartis


Power Index:
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Exit Dollars
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Countries
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Co-investors
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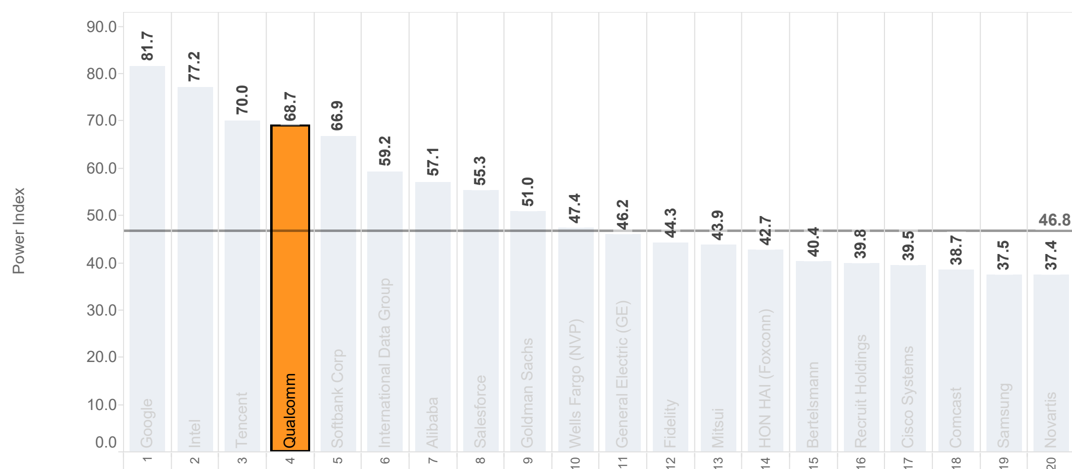
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1 Google
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4 Qualcomm
5 Softbank Corp
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7 Alibaba
8 Salesforce
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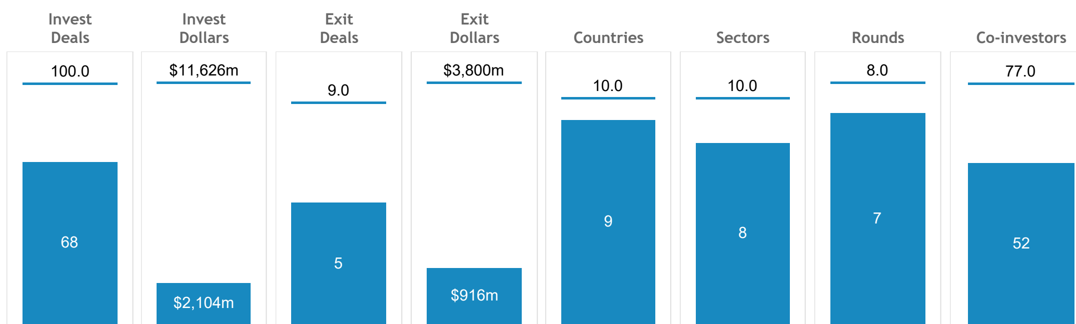
18 Comcast
19 Samsung
20 Novartis


Power Index:
Qualcomm
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Invest Dollars
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Exit Dollars
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Countries
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Co-investors
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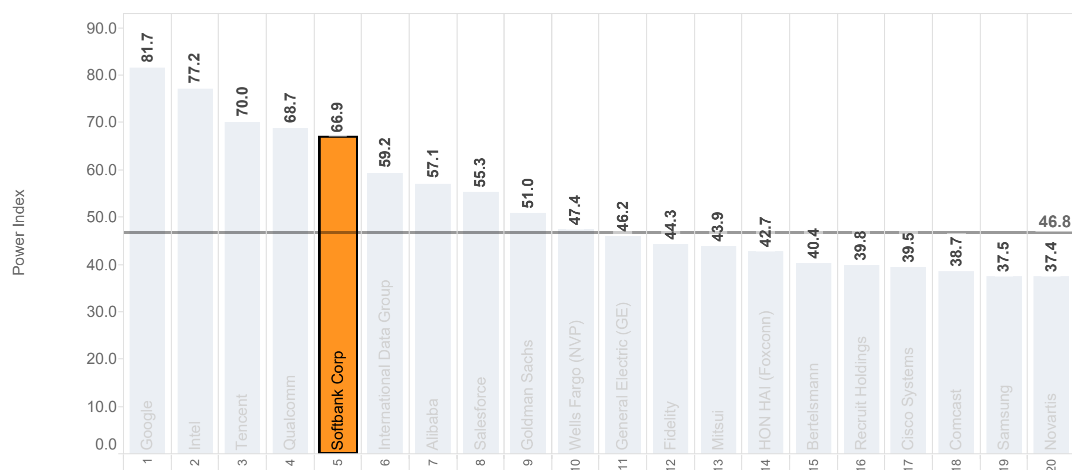
Power Rankings
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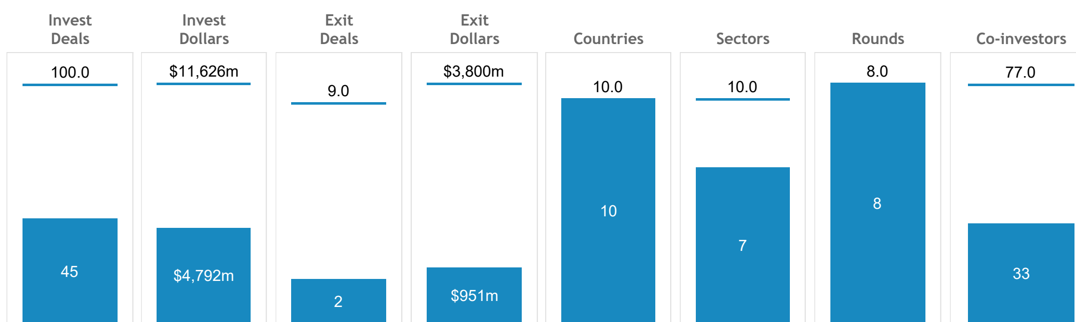
19 Samsung
20 Novartis


Power Index:
Softbank Corp
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Invest Deals
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Invest Dollars
$11,626m
$4,792m
Exit Deals
9.0
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Exit Dollars
$3,800m
$951m
Countries
10.0
10
Sectors
10.0
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Rounds
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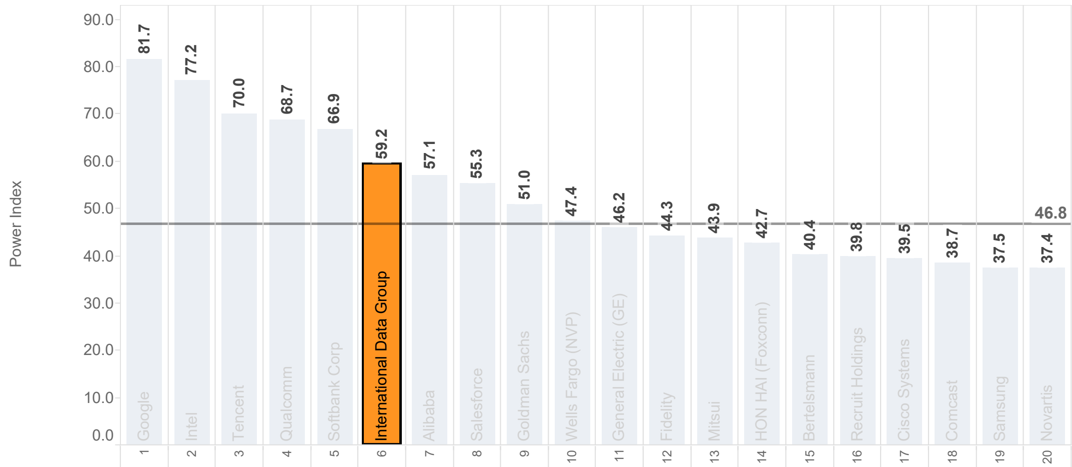
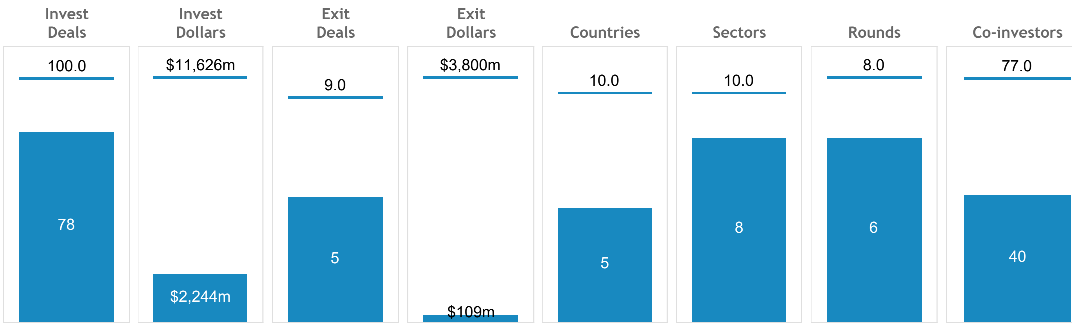
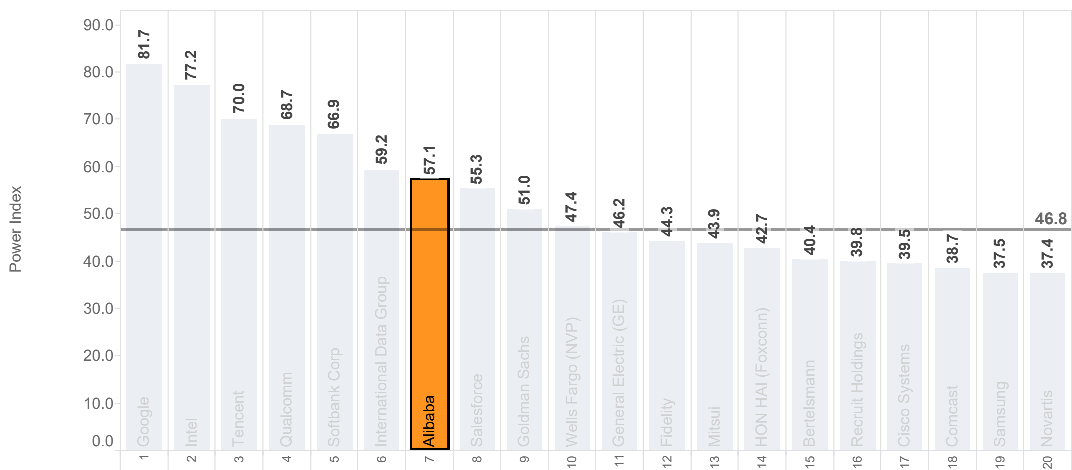
8
Co-investors
77.0
33

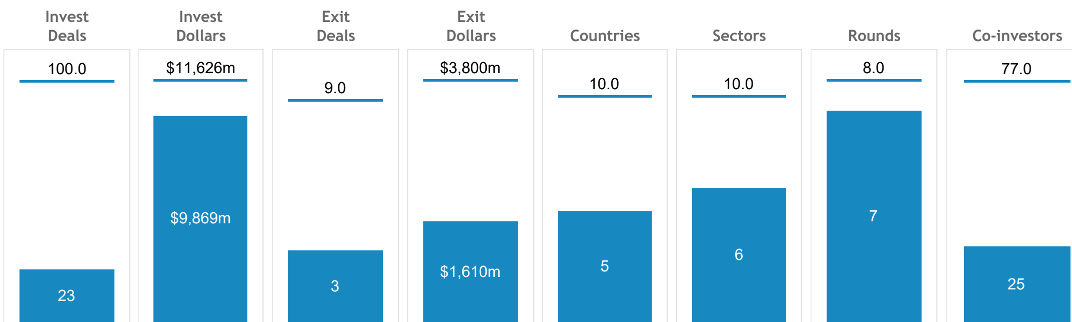
Power Rankings Highlighted Investor: International Data Group (IDG)





Power Rankings Highlighted Investor: Alibaba





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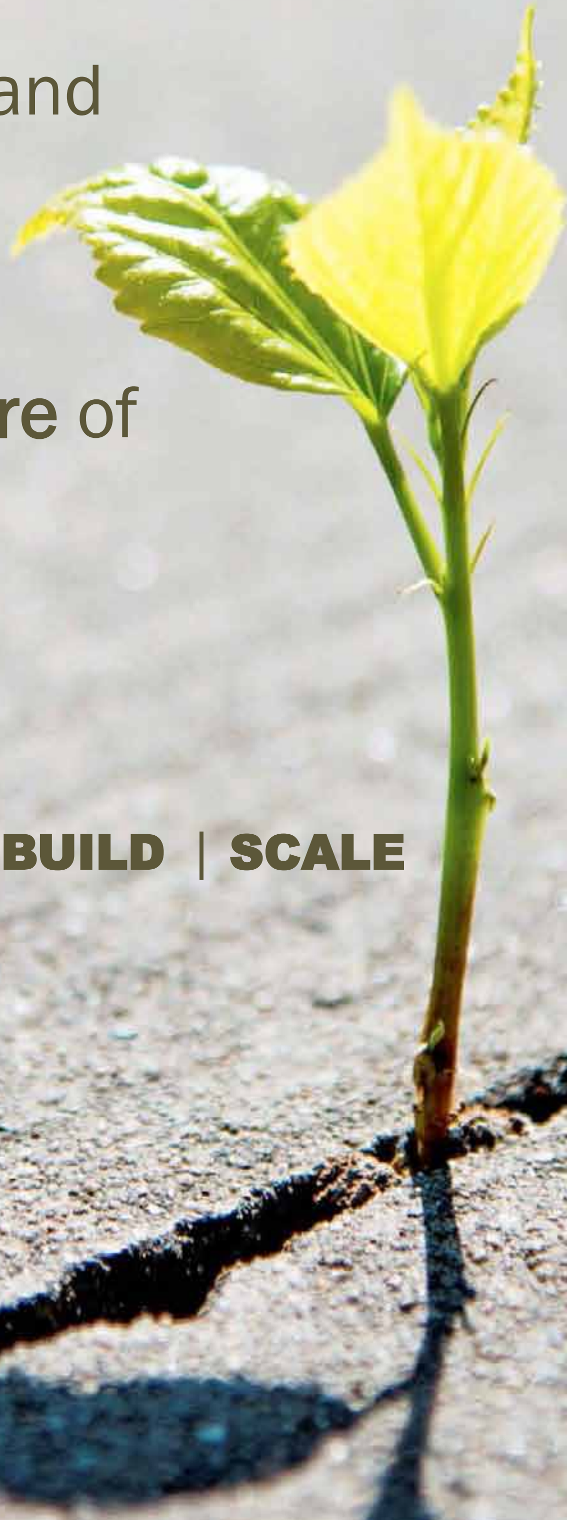
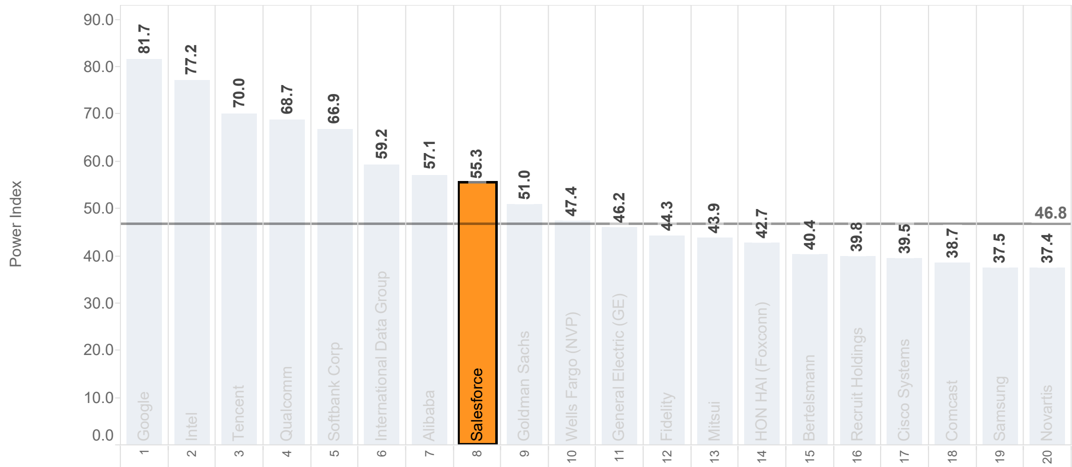
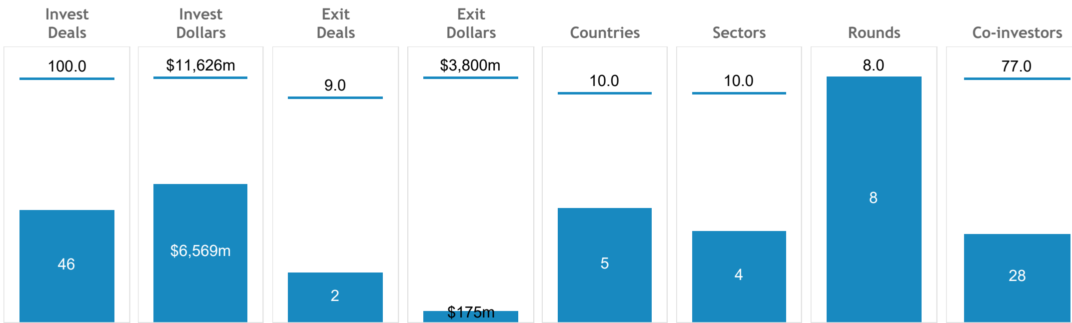


INVEST | PARTNER | BUILD | SCALE

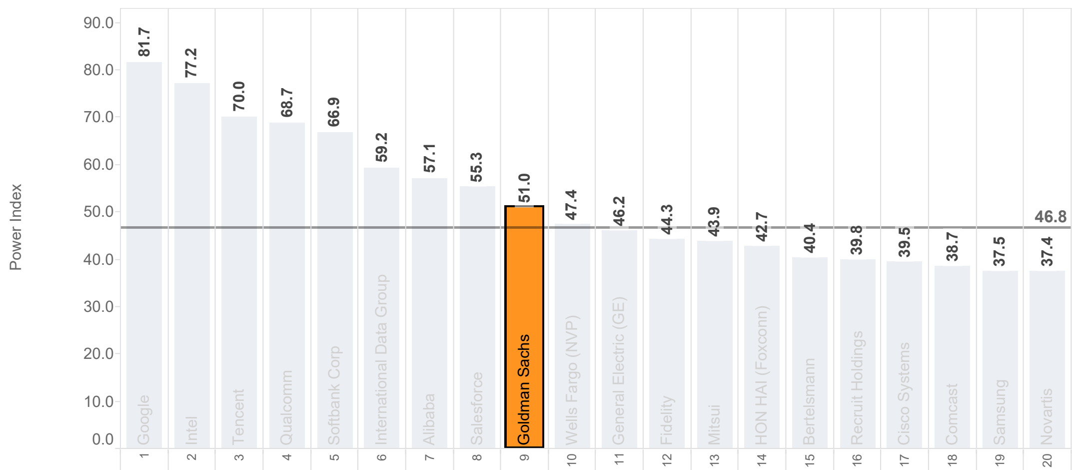
Power Rankings Highlighted Investor: Salesforce



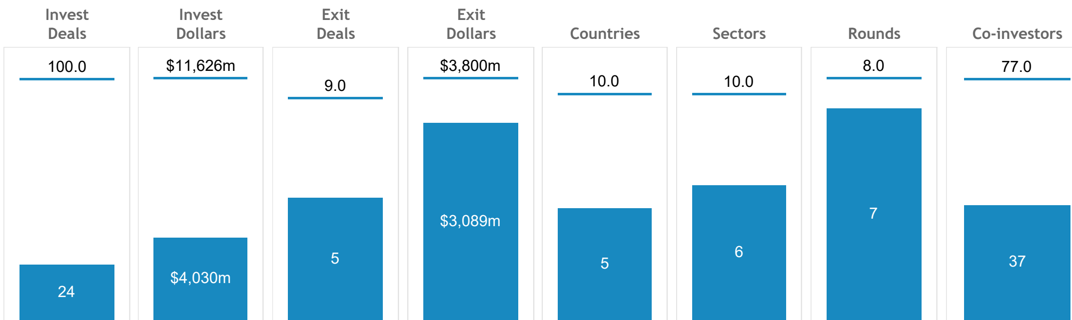
Power Index: Salesforce 55.3



Power Rankings Highlighted Investor: Goldman Sachs



Power Index: Goldman Sachs 51.0



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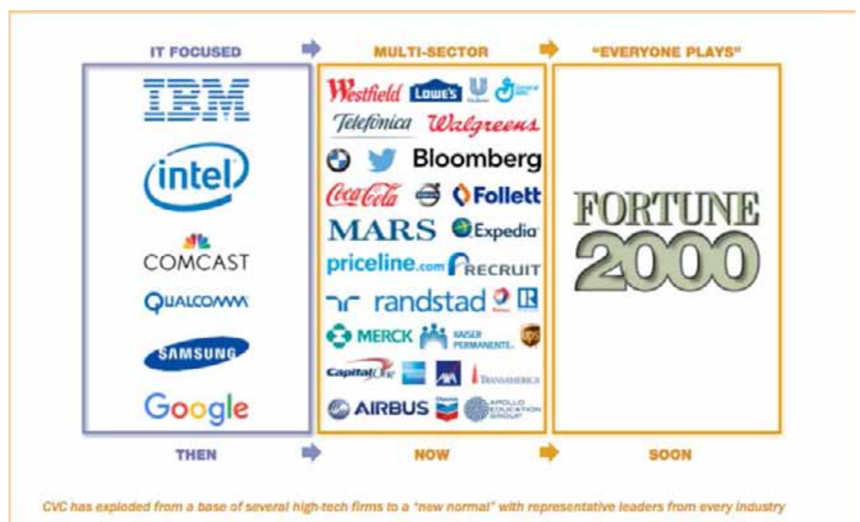
WHY EVERY COMPANY IN THE FORTUNE 2000 WILL HAVE A VENTURE CAPITAL ARM

Scott Lenet, president, Touchdown Ventures

Corporate venture capital (CVC) began with high-tech information technology companies like Intel, IBM, Samsung, Qualcomm, Comcast and Google leading the way and defining the category. But new corporate venture capital units are now springing up in nearly every industry sector, and established units in non-tech sectors are becoming more prominent in the marketplace, too. According to Global Corporate Venturing, there are approximately 1,200 total corporate venturing units as of the beginning of 2016. But all this activity is still the tip of the iceberg, and in the next decade, we will see a further, dramatic expansion of corporate venture capital with the formation of hundreds of new groups.



CVC has exploded from a base of several high-tech firms to a "new normal" with representative leaders from every industry

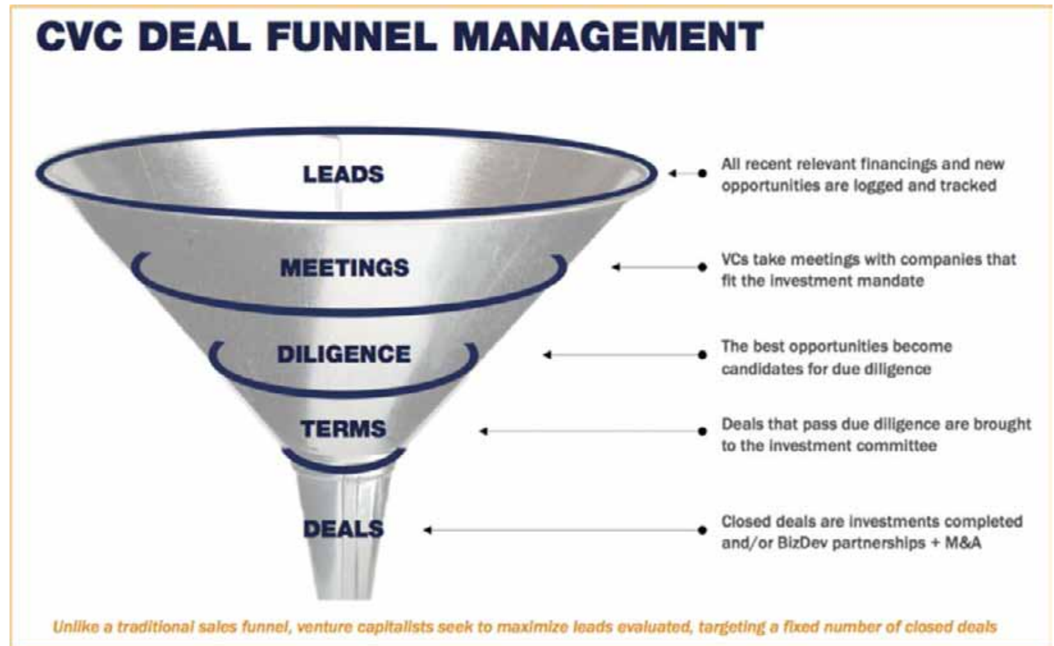
Why is corporate venture capital expanding so dramatically outside tech? Is it because our economy is in a bubble? No, it is because of something much more fundamental – that every sector is being disrupted by innovation, and big companies have decided to participate in and manage the disruption instead of waiting to be left behind. And the expansion we have seen to date is actually quite modest, with only about 10% of the Fortune 2000 actively investing in 2015.

Is it really true that every industry is affected by innovative startups? Let's look at some of the most outlandish-sounding examples we can in traditional industries:

- Startups cannot impact how food and other consumer packaged goods are produced, marketed, or consumed, can they? Unilever and General Mills would not be engaged in corporate venture capital if the answer were not "yes" – the rise of craft brands and the ability to navigate three-tier distribution has changed access for startups and created real disruption for CPGs.
- Within the world of transportation, we see a tangible example of industry upheaval with the very established business of rental car companies

being affected by startups like Uber, Lyft, Zipcar and a virtual fleet of ride-sharing alternatives.

- Is technology changing how consumers shop with retailers? Of course! Everything from beacons, to payment systems, to personalisation using big data solutions, to last-mile delivery is shaping the future of the retail shopping experience.

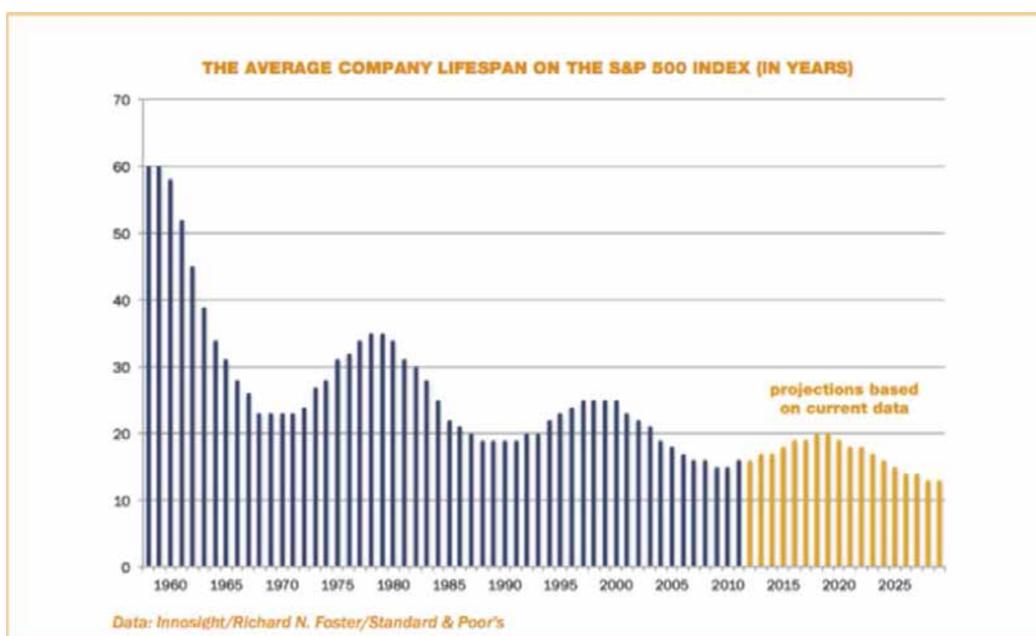


Unlike a traditional sales funnel, venture capitalists seek to maximize leads evaluated, targeting a fixed number of closed deals

We can keep naming sectors, from waste management to heavy manufacturing, but these industries are all being changed by technology and startups. Whether the issue is defending existing markets from new entrants, positioning to capture emerging markets, or remaining competitive by managing supply chain or sales infrastructure, there is no established company that need not keep up with the changing times.

In fact, the more "old school" the industry sector, the more its incumbent companies need the injection of outside innovation that venture capital delivers. In hindsight, it is obvious why CVC started with high-tech companies: tech companies understand technology, and having been venture-backed themselves, they also understand venture capital. But it is the "low-tech" or "no-tech" companies that most need to be active venture investors, because in the year 2016, no industry is immune from the combined effects of technology and innovation. We see this quite clearly in the decreased average lifespan of how long a company stays on the S&P 500.

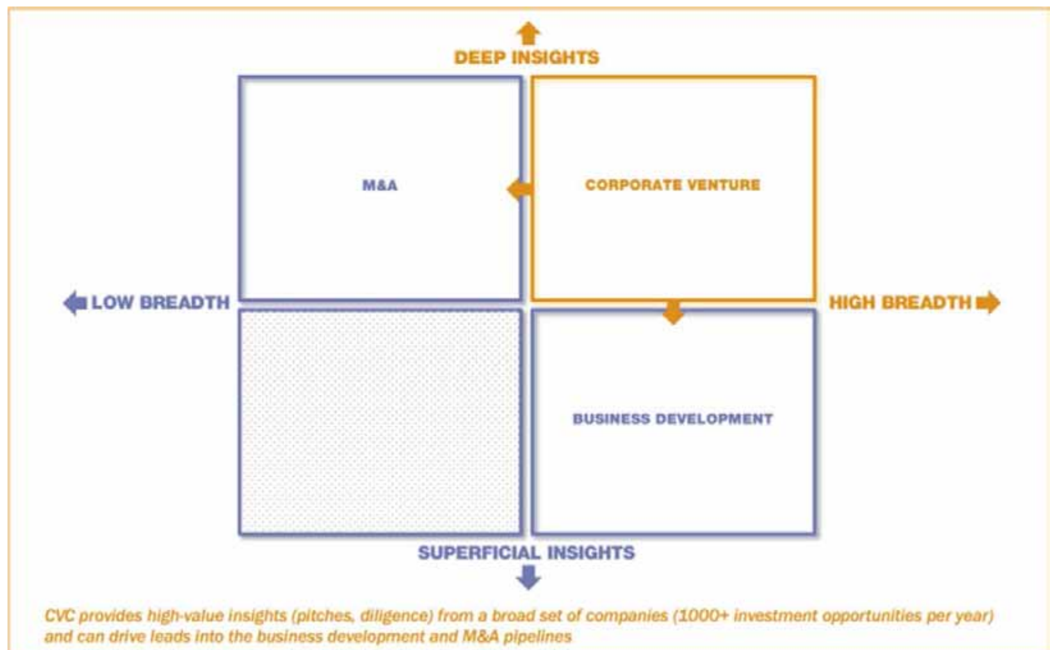
So how can an established corporation use venture capital to plan for the market disruptions caused by technology and startups? By seeing the future. It turns out the principal benefit of CVC is not financial return, but to inform your corporate strategy by showing you glimpses of the future – and it happens to be a nice bonus that you can do that with a profit center instead of a cost center.



Data: Innosight/Richard N. Foster/Standard & Poor's

How does venture capital show us the future? Through a unique analytical combination of breadth and depth. I call it the venture capital chronoscope. To understand how it works, we need to look at the way venture capital firms manage their deal flow process. It is basically a sales funnel, but instead of trying to maximise

the number of closed deals (to create efficiency and lower sales costs, as would be the goal in most traditional funnels), VCs purposely broaden the number of opportunities reviewed to maximise market intelligence, while holding closed deals to a relative minimum and increasing selectivity. When managed properly, this process is a machine that produces predictable results.



CVC provides high-value insights (pitches, diligence) from a broad set of companies (1000+ investment opportunities per year) and can drive leads into the business development and M&A pipelines

For traditional, institutional venture capital firms, those results focus on delivering better financial returns. For corporate venture investors, superior returns can also be accompanied by additional benefits – more business development deals, more acquisitions, and, perhaps most importantly, the ability to see the future of your industry before it happens.

Breadth: Like business development organisations, venture capitalists review lots of deals, typically between 1,000 and 2,000 per year in the case of VCs. This volume allows VCs to spot trends by pattern matching against the raw number of deals seen. For example, when we see ten startups attacking essentially the same problem in a 3-month time span, certain trends are revealed – these companies are springing up at the same time for a reason. Seeing the entire field also allows VCs to identify best of breed startups, which is important when trying to pick a winner and maximise investment returns. Unlike BizDev teams, VCs are not trying to maximise the number of transactions completed, and when opportunities proceed to the next level, VCs dig in deep.

Depth: Like in M&A, the venture capital due diligence process facilitates a deep understanding of market niches and industry trends. The due diligence process examines everything from customer value propositions (with numerous customer reference calls and visits), technologies (with technical due diligence), and underlying business models (with detailed analysis of financial statements and contracts with suppliers, distributors, and end-customers). Unlike M&A, these due diligence forays typically represent only 3% or less of the total annual deal flow reviewed by a venture capital organisation, with closed deals often representing less than 1% of all leads.

It is fortunate for corporations that managing a venture capital pipeline produces these four related outputs – not only venture capital investments, but also acquisitions, business development deals, and intelligence. Ultimately, it is this last item, the combination of broad pattern recognition, by looking at thousands of opportunities, and deep learnings, by engaging in thorough due diligence, that allows venture capitalists to develop a sense of how and when the future will happen, and to share that foresight with key stakeholders throughout the corporation.

Can you think of any company that deliberately does not want to be prepared for the future? I cannot. And that's why I believe that every Fortune 2000 company will be in the venture capital business before you know it.

Superior returns can be accompanied by additional benefits – more business development deals, more acquisitions, and the ability to see the future of your industry

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PART 4

CORPORATE VENTURING AND INNOVATION

Andrew Gaule, founder of GCV Academy

If you are leading an innovation and venturing program, you really need to have very good clarity internally and externally of what you are trying to achieve and how you are going to go about it. This also has to be able to evolve as you gather more information and as the strategy of your organisation changes.

A framework that has been developed by, and used on the Global Corporate Venturing Academies for a number of years by founder, Andrew Gaule, is what he has called the '5 Ps of Corporate Venturing and Innovation'.

1. Purpose – what is this?
2. Processes – what are they?
3. People – who are they?
4. Partners – who are they?
5. Performance – what are the measures to succeed in innovation and venturing?

These are outlined in more detail the book Open Innovation and Action. How to be Strategic in the New Sources of Value, published by Andrew Gaule.

The five Ps model outlines the key elements of creating innovation and venturing processes, which are aligned with corporate goals and are effective in delivering measurable results.

The process starts with clearly defining what the Purpose is, bringing that into alignment with the appropriate Process, which, in turn, connects to which Partners you need to be working with and the Performance measures that you are expecting. This then links back to the Purpose and questions if your expected Performance and output is going to achieve what you originally thought you were setting out to do?

Central to the five Ps, is the people aspect. So, for instance:

- What is the relationship between the different individuals aligning to create the strategy?
- Have they got the skills and the capabilities to run the process?
- Have they got the perspective to be able to work with the external partners?
- Are they going to achieve the performance, get the recognition and the rewards which are appropriate for the process that you are undertaking?

Creating innovation and venturing processes

aligned with corporate goals to deliver measurable results effectively

The framework illustrated below is used by leading global organisations to provide their framework of how they do their venturing and innovation. During the Global Corporate Venturing Academy this framework is used over the two-day program for organisations to develop their first take on their innovation and venturing, or to re-assess what they are currently doing.

1 Purpose

The purpose is the first area of consideration, this includes organisations looking at what the financial purpose of what they are doing is, and whether it is for the strategic long term purpose for doing their innovation and venturing.

This is often a dilemma for organisations, for example, when they are saying that in their corporate venturing, whether they looking to get financial return for their investments and corporate venturing investments or whether are they looking for strategic insights and perspectives which feedback in and change their corporate organisation.

Realistically, you are not going to shift the dial of a major €40bn annual turnover of a leading corporate with a fund of only €100m, or whatever your metric is, even if you hit it out of the ball park in getting a significant return for your investment. The key returns are going to come from those perspectives that change what you are doing within the organisation, which involve launching new strategic areas.

Organisations do say that they are moving from financial to strategic purposes for their corporate venturing. This needs to be viewed with caution, because if by that they mean that the business units are going to determine where the investments will be made, they do need to check that those do not just become short-term, tactical solutions which fit a medium, perhaps one year to two year gap in their current portfolio development. There is a risk that this becomes merely tactical and not strategic.

Important here, is doing the alignment of the objectives and insights that are wanting to be achieved and the feedback that is given to the organisation. In "Open Innovation and Action", the analogy here of the Queen Bee being the centre of your organisation and the people leading the open innovation and venturing being the scout bees who are looking for insights outside of the colony. These investigators then return to the organisation and share that insight in a much more organic and objective, rather than a corporate driven way.

So, the story-telling, the insights, the impact, the thinking about new value change is an important role for the organisation. So as these scouts come back, having seen new technologies and business models, the 'Queen Bee', in the centre of the organisation needs to acknowledge that 'waggle dance' and give feedback and perspectives on how things need to change.

In the Global Corporate Venturing Academy, we look at what are some of the issues here for the participating organisations, we look at the organisation statements, their CEO, their website, what the objectives are that are being sought, how does innovation and venturing align to that and how it can go to determine those changes.

The three horizons

We are seeing a lot of convergent technologies now, including: mobile devices, big data, special materials, biotech, etc., which are colliding to create new technologies and new business models for lots of organisations. As a result, organisations in their purpose need to be clearer about these innovations, which part of the 'three horizons', (as outlined in the book, 'Alchemy of Growth'), are they

We are seeing a lot of convergent technologies now, which are colliding to create new technologies and new business models for lots of organisations

going to be addressing? Are the 'three horizons', as developed further in 'Open Innovation and Action' a good model? The three horizons are as follows:

1. Innovation: This is in the current core business, defending the current business methods, processes and products.
2. Growing and building new: ie, new products and solutions adjacent to the current area.
3. Exploring: ie, looking at radical and disruptive and new technologies and business models that are going to be effecting the organisation.

Using the health illustration, we can see the current model being caricatured with the sick being looked after in hospital. Horizon 2 could involve new medicines, devices or health monitoring. These are, however, fitting into the current business model and current industry. Exploring the new horizons in the world of health is likely to be a lot more data driven, change and behaviour driven in seeking solutions.

So we are seeing that innovation and corporate venturing individuals are a little like sailors at the top of the crow's nest of the new ships, looking for new world technologies and business models, trying to steer the ship away from the rocks, so that the organisation does not end up like Kodak, when disrupted by digital photography. EMI in the music industry is another example of obsolescence and perhaps now taxi services being disrupted by the likes of Uber.

At the GCV Academy, we have seen examples of GE speaking about how their business has been shifting from traditional manufacturing of machinery and health equipment, to taking on board the 'internet of things' type solutions. We have heard American Express discussing the new models of financial transactions. We have witnessed disruptive business models coming from the examples of block-chain and bitcoins.

These all illustrate the significance of the area of appropriate Purpose.

2 Process

Aligning this purpose to the process as appropriate is the next area of consideration. If the organisation is, for example, looking at technologies scouting and looking to connect to it externally, then the examples of Procter and Gamble and Connect and Develop illustrate an open innovation approach.

If the organisation is looking to build new business areas, (as DSM and IBM call them: 'EBAs', ie, emerging business areas) then this requires a lot more internal capability, in venturing, building, mergers and acquisitions, etc.

If an organisation is looking to build the ecosystem in technologies and new business support areas, then the example of Intel in direct investment with the Intel Capital Fund, or IBM with venture partnering would be examples of two different processes, one involving minority stake investments, the other involving a process of partnering.

Another purpose, of course, might be technology in intellectual property exploitation and spin out eg, QinetiQ, the former UK government owned defence agency. This and other examples have been highlighted as case studies in Open Innovation and Action.

So we can say then, that different processes can be used for different purposes and also within organisations, they could be different processes used along the spectrum of processes to align with different purposes.

The example of DSM, which has a number of different processes, was illustrated in the book, Innovation and Action and also in an interview with Rob van Leen, the Chief Innovation Officer at DSM. This is a good example of the overview and the different examples of innovation processes. The ideal is for the 'scouts', the organisational leaders and the organisation having good communications to share knowledge.

There are, then, lots of examples of different organisational structures for innovation and venturing. Over 50 interviews have been undertaken with executives in 'Gaule's Question Time' for Global Corporate Venturing, highlighting examples and interviews with these executives running innovation or venturing across that spectrum.

Variations in different approaches

There are many different approaches across industries, geographies and more importantly, different asset intensities. Asset intensity pertains to eg, software, app driven type technologies and innovations require very little asset investment to develop that proposition and to take it to market. Developments in sustainable energy, biotech or special materials, by contrast, require a longer lead time, more capital investment and require big project investment for scaling up that potential. This is also the case for example in medical solutions.

Global Corporate Venturing Academy

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Great Content, Discussion & Networking

The Global Corporate Venturing Academy (GCV Academy) supports executives, corporates and partners, to enhance their understanding of corporate venturing, and develop their capabilities to deliver strategic and financial benefits to their organizations and to society.

We offer one and two day experiential programs in **London**, **Silicon Valley**, **San Francisco** and **Shanghai**, run by a world-class faculty of expert practitioners and leading corporate speakers in the field of corporate venturing. We deliberately limit the number of places for each program, as we aim to foster individual interaction among participants and trainers, engagement with the content, and in-depth discussion within the group, for shared learning and growth.

Our **2-Day Corporate Venturing** programs provide key principles and approaches to corporate venturing. Great for executives that are starting and changing their corporate venturing approach, the program gives a framework and offers insights and shared learning. Executives who have been venturing for some time have used these programs as an opportunity to broaden their understanding of venturing, and consider new geographies & sectors with peers from other leading organizations.

Our **1-Day Corporate Venturing Masters** programs cover topics such as Investment & VC Partnering, Board Roles as a CVC, Intellectual Assets and Partnering, and Impact Investing. Aimed at those experienced in corporate venturing but looking to fill in a few knowledge gaps, you'll also learn about the latest thought leadership in best practice and spend quality time with your peers, to take your venturing unit to the next level. Contact us to discuss timings and location of Masters programs.

We invite you and your colleagues to join us for one or more of our programs, covering a variety of topics in different locations around the world. We offer generous packages when you sign up multiple attendees or for multiple programs, to ensure you and your team are able to take full advantage of all the GCV Academy has to offer.

Academy's Faculty for 2016 Includes:

Andrew Gaule
Global Corporate Venturing

Tony Askew
Reed Elsevier Ventures

Ramneek Gupta
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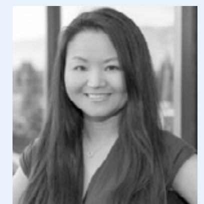

Lisa Zhang
Intel Captial

Please visit ***gcvacademy.com*** *for the full faculty line-up*

The 2016 GCV Academy Calendar

Date	Program Name	Location
25-26 Jan	Corporate Venturing - 2-Day Program	Silicon Valley
23 May	CVC Investment Due Diligence and Valuation - 1-Day Program	London
14-15 Jun	Corporate Venturing - 2-Day Program	London
21-22 Sep	Corporate Venturing - 2-Day Program	Shanghai

Early Bird Registration, Multibuy and Partner discounts available on request

The 2-Day Corporate Venturing Program

Accelerate your understanding of corporate venturing to build your knowledge and skills, for **increased effectiveness and efficiency**. Enhance the capabilities of executives, venture teams and stakeholders responsible for supporting venturing, and improve your understanding of CVC language and approaches, to develop a strategy for corporate venturing that suits your own organisation.

Masters Program: CVC Investment Due Diligence & Valuation

This 1-Day venturing program provides detailed content and discussion with industry experts on the topics of CVC investment due diligence and valuation. The program considers Due Diligence Checklists, different valuation techniques, term sheets in the strategic and financial context for corporates and also the reality of investing in early stage and high growth companies.

Masters Program: Board Roles As A CVC

Participating with start-ups as a board member, board observer or advisor provides advantages in gaining technology and business model insights, but a role on the board has **important implications for individual and corporate responsibilities and risks**. Find out about key responsibilities, fiduciary duties, legal differences across jurisdictions, and how to manage a range of scenarios.

Masters Program: Investment & VC Partnering

With the Investment & VC Partnering program, executives **gain insights to the approach to direct investing**, investing alongside VCs, and partnering with VCs and incubators. Share perspectives with top executives, executives running corporate venturing units and peers from other leading organizations on deal structuring, building an effective deal flow, and working with investors.

Intellectual Assets & University Partnering

An important aspect of innovation and venturing is the **creation and exploiting of intellectual assets,** and it's key that organizations can partner and work with other people. Gain an understanding of different intellectual assets, the range of partners in the process, approaches to documenting IP, potential pitfalls and deal structuring. An important aspect will be partnering with universities developing intellectual property with corporates.

For more information, or to find out the timings and locations of Masters programs, contact Andrew Gaule: +44 (0) 7798 616 934 | agaule@globalcorporateventuring.com

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The different corporate venturing approaches that align to these processes could be, for example, direct investment in branch off shoot by the corporate organisation, which might be managed on an annual budget approach. Organisations that structure themselves in such a way include BP. Alternatively, an organisation can set up a separate corporate managed partner fund whereby the corporate is a 100% limited partner (LP) into that fund. An example here would be Unilever, where they have undertaken that model over the years.

There are examples where corporates are investing in other funds, particularly from regions such as Israel or China, or in special areas, so the fund is managed by an external partner and the corporate is a minority investor. This is a different type of Corporate Venture Capital approach.

In these investment approaches, typically, the corporate is investing less than 20% of the equity in the startup and are investing alongside other financial investors such as venture capital and private equity firms.

The VC in these cases typically have narrow financial objectives within a fixed term. The corporate venture organisation is trying to balance financial returns and strategic returns and have to fit within the context of their being corporate investor in a startup.

This has challenges, as a number of speakers on our Corporate Venture Academy have used the analogy of two ballroom dancers to describe their corporate venturing, where the man dances forwards, whilst the woman dances backwards.

3 People

The kinds of people who need to be involved in innovation and venturing is central to successful outcomes. There are different roles within corporate venturing and innovation. The person running the team, or running the venturing process; there are individuals from the senior executives, running the support sponsors; there are people in the new ventures or in the startups that are being invested in. There are those individuals in the core business organisation who have to be involved in for instance, determining strategy, providing inputs into due diligence for the startup, perhaps and providing support both ways within the venture.

The different profile of these individuals is important, as is the communication between them. Whilst analysis of their various skills and capabilities is outside the scope of this paper, we can see that selection of the right people is vital.

Consistency is key

In terms of high level perspectives, the longevity of the participants within the corporate venturing and innovation unit is important. In terms of the experts in the field, it is recommended that the managing partners or leaders in the unit should expect to be in the roles for seven years plus. This matches with what happens in the venture capital community, where a VC running a fund would typically be around for ten or more years for the duration and life of a fund.

If an individual is moving in from a corporate role and he or she only stays in the role for two years, there will be dangers and pitfalls in the building of knowledge, the partnering capabilities, the decision making and then living with those decisions could be severely impacted if those individuals move on.

The team members too are significant, according to organisations, such as Intel, who have spoken on our training programs, about how for the first three years individuals in doing investments are really learning on the job. Some company representatives have said that this can be an expensive training program when tens of millions of dollars are deployed by those individuals in the first three years and do not really make a return. It is only the future years, when the understanding of the investments and the relationships are built up that significant and better returns are made.

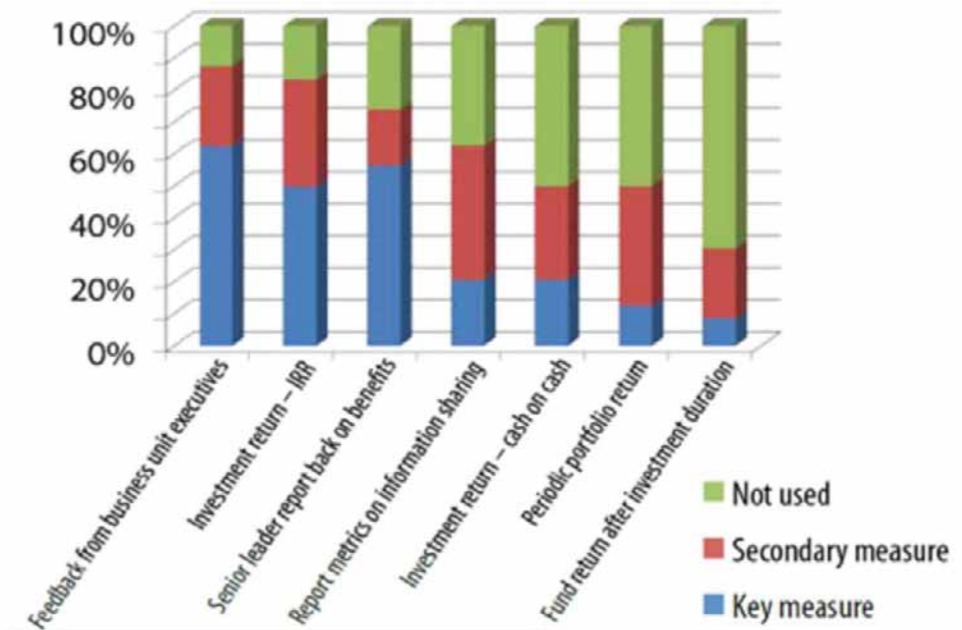
The skills of the individuals also have to be understood during different phases of venture investment, when different skills and experiences are needed. So in the first phase of building a deal flow and then making investments will require one capability and is often the first one focussed on by corporate venture units.

Next, moving on into supporting the startup, the next skill set involves sitting on the board, helping it grow, gain new customers, helping with issues of changes of staff and raising new rounds of finance. This is a different skill set, requiring a lot of experience in supporting startups. The role and legal responsibilities, including personal liabilities, is covered in the Board Roles for CVC Masters Academy.

Then there is managing the portfolio and managing it for exit from that investment this is also important.

So for the duration of venturing, different skill sets come into play.

Another important role within corporate structure is the governance structure within the organisation, such as which executives from the core business would be involved in helping to set the scope of the venturing and innovation, bringing the insights and developing strategic alignment, ongoing. Whether you then also have external participants or advisors within that corporate group is another important factor for consideration if you are looking around for knowledge externally for insights on eg, technology and market changes.



Source: Global Corporate Venturing April 2014 from Corven Networks session at IBF Conference 2014

4 Partners

Understanding what process you are using and why you are doing it, building your open innovation and external partners is important. For corporate venture organisations, building relationships within the corporate venturing community and ecosystem is valuable. You will understand where adjacent industries are using technologies and understand how they are being used. There might also be end competitors in your industry collaborating. This is quite a common practice, for example, in the health sector, where pharmaceutical VC's might be joint investors in new startups.

These are pre-competitive, clinical development areas.

It is also quite common for organisations from different industries to be collaborating in technology areas that could be applied into what are currently different industries.

Partnering may be with venture capital and private equity organisations on a formal basis, in terms of investing in their funds and informally in terms of sharing deal flow, or investing alongside an investment is important too. This has been the topic of the GCV Investment Masters Program. Paul Morris has also spoken and written excellent analysis of such interactions.

Other areas for partnering could be with incubators, universities and of course, startups are an important partner within this ecosystem. Harshul Sanghi, of American Express Ventures, really illustrated this quite powerfully at our Academy in California in 2015. They referred to interlinking cogs, or gears, with the start up being the small cog, which moves very rapidly. The venture unit connects into that and is moving at a medium pace, moving faster than the corporate and understands and communicates back from the start up into the corporate, which is a much larger cog, needing the startup insight communicated and geared down appropriately for corporate engagement.

These, then, are the potential partners in venturing.

5 Performance

Performance completes the loop, aligning back to purpose. Looking at the kinds of performance measures organisations are using to ensure that their venturing and innovation fits with the strategic objectives of the organisation is useful.

There are no hard and fast rules for these. Some of them are hard measures in terms of financial returns on individual investments across the portfolio. Others are more strategic objectives which are taken from the insights that have been given to the senior executives, to the business unit and have informed the strategic development of new business areas, new products and 'Innovative New Value Chains®'.

The Innovative New Value Chains concept embraces where different technologies, where different startups are coming together in a new way, delivering new types of solutions to the end consumers. These are different to the way that the current industry or the current incumbents within the industry work. We are now seeing these with some significant, large startups which are disrupting with new value chains, for example, the likes of Nest in utilities or The Climate Corporation in the agricultural sector.

The performance measures in the World of Corporate Venturing can be read in Part 5; they cover what are some of the strategic and financial returns. The details of performance measures are covered and discussed in more detail at the Global Corporate Venturing Academy.

Over the years, we have input into organisations overview solutions which helped them to understand what the purpose is and how these align that purpose to the portfolio of venturing and innovation and where the performance feedback is used within organisations so that the learning and the knowledge is shared throughout the business. This is important to keep in place.

Conclusion

To recap then, for organisations to ensure successful innovation and venturing, which brings strategic benefits, they need to consider the following in an iterative and holistic way:

- What is the purpose with what is being done?
- What is the appropriate process?
- Are the right people involved, with the right skills and capabilities developed?
- Are the partners appropriate?
- Are relationships being built?
- What are the performance measures put in place to demonstrate the strategic and the financial returns? We do not stay strategic for long unless a financial return is made too.

For further details of all of the above, you can find more information in Open Innovation In Action. How to be strategic in the search for new sources of value, or by participating in the Global Corporate Venturing Academy.

See the range of programs at: www.GCVAcademy.com. Programs are run in Europe, US and China.

You may also participate in the GCV Summit in California and the GCV Symposium in London and other global locations (recently Brazil and Asia).

For further information on books and resources, please contact the author of this paper, Andrew Gaule directly: agaule@globalcorporateventuring.com. Tel: +44 7798 616934

VENTURING PROGRAMS TO LAST – THE VALUE MAPPING APPROACH

Frank Lampen, co-founder, Independents United, and partner, Distill Ventures

A big topic of conversation at conferences this year has been on how those running or initiating corporate venturing units can build and sustain support throughout their organisation.

While the rapid growth of disruptive startup businesses provides a compelling urgency to consider corporate venturing, it does not in itself provide a solid reason as to 'why' a corporate should do it. A recurring theme in debates this year has been a discussion of 'why', with different models analysed and strong views expressed on topics such as whether corporates should take equity or just form partnerships. At the same time, many corporate accelerators are emerging from the early years of finding their feet, and are beginning to face sometimes challenging questions about the impact they are having.

Through consulting work and conversations with a number of corporate venturing executives, we have noticed that the source problem for venturing units struggling to maintain corporate support is often a lack of clarity around what value they are delivering back to the parent corporation, and the timescales when these pieces of value will be realised.

For the current boom in corporate venturing to avoid becoming a bust, the sector needs a better and more sophisticated approach. Through our work with a number of corporates across several countries, we've developed a method of mapping the potential value to a corporate of engaging in venturing activity, and used this to define more layered and, most importantly, more realistic assessments of the types of value a corporate might expect, and when they might expect them.

Conducting this exercise at the start of a process of setting up a venturing division can help determine what types of venturing activity would fit best, but it's also a handy tool for diagnosing and fixing problems at the point where a venturing unit's future might be coming under scrutiny.

At the heart of the approach is a map of six core areas of value:

1. Insight over new technologies, and pathways to access them: This can involve engaging entrepreneurs with business challenges, creating funds dedicated to particular technologies, running pilot programs and having fast-track procurement processes to open the corporate to new suppliers.
2. Cultural change within the corporate by exposing them to new ways

of doing business: Immersing corporate executives and divisions in new approaches to technologies or markets, or bringing entrepreneurs into corporates to create new disruptive business units.

3. Leveraging the corporate's platform for incremental revenue or to drive customer engagement: The platform could be the customer base, technology stack, operating licenses, or physical locations, plant and equipment.
4. Delivering straight financial returns: Using corporate cash to grow the balance sheet, through dedicated funds or co-investing with institutions in existing funds.
5. Hedging against fundamental market disruptions: This is about corporates placing bets on new approaches to their sector, so that they have some financial upside if a disruption starts impacting their core business.
6. Building a pipeline of future acquisition opportunities: Through investments with anything from information rights to options to acquire, or through partnering with startups to identify those with good integration potential.

Using the value map has enabled us to help corporates think more broadly about the reasons why they are involved in venturing or considering it as a route. In particular, there are some key lessons that we have learned as we have used the approach over the course of the past year.

The first is that the timeframe in which value might be realised varies widely across the different areas – at the start of the list you can be looking for significant impact in the first few months, but by the time you have worked your way down to the last two items, you are realistically looking at timeframes of up to 10 years. This can be challenging in an environment where typical CEO tenure is around five years in the UK FTSE and not much longer in the US Fortune 500.

This leads to the second key lesson: sustainable corporate venturing activity is typically dependent on building a plan to deliver value in the short, medium and long term. Setting out with just one value objective instantly creates a vulnerability if the value is not delivered to the expected extent, or within the anticipated timeframe. Even where the expected value is delivered on time, the venturing activity may come under scrutiny if there have been significant strategic changes in the corporate. For example, a separate unit with the corporate as sole LP may deliver the financial returns expected, but find itself challenged about whether those returns alone are enough to justify the management time and risk, if there are not significant strategic benefits arising too.

Delivering value in the short term is particularly important where you have long term aims around financial returns or future acquisitions, as in all likelihood you'll have failures – with their consequent impairments – long before you have successes. If you are delivering solid short term value before this happens – through tangible cultural change, for example – you will be in a much stronger place to weather the scrutiny that write-downs will inevitably bring.

The third lesson we have drawn is that when you have identified the different areas where you are planning to deliver value, it is vital to ensure that you have right stakeholders engaged and supportive from the beginning. The stakeholders for each of the value areas are often different, and in particular the first three may sit at more of an operating level, with costs being charged to OpEx budgets, with the second three tending towards funding from the balance sheet. Understanding who the different stakeholders are, and engaging them from the beginning. is very important. In many corporates it is very hard to take a program being funded from OpEx, for example running technology pilots and offering an accelerated procurement process, and switch that to a program requiring CapEx when it becomes apparent that the corporate's objectives will only be met by taking an equity position.

We developed much of this approach in creating Distill Ventures for Diageo. The overarching aim for this project is to create a pipeline of future acquisitions, ensuring Diageo continues to have the best portfolio of spirits brands as the market evolves. However building a brand to scale in the drinks sector can be a five to 10 year project, and so in the short term Distill Ventures has built and maintained support through delivering advanced category insight and developing processes for supporting entrepreneurs to build brands which are starting to be adopted within Diageo itself.

Since then we have used the approach to help other corporates develop their corporate venturing activity, and build a broader base of support for their units across the whole organisation.

The pace of change in business is going to compel more activity between the corporate world and the startup world. As corporate venturing continues to grow and mature, learning the lessons from the sector's successes and using them to create more sustainable programs will help to ensure that this growth lasts long enough to become a core element of the business landscape.

INCORPORATING INNOVATION INTO THE CORPORATE MANTRA

Tracy Isacke, managing director, corporate venturing, Silicon Valley Bank

I can promise you that almost every CEO of a major company has asked this very question: Why can't we be more like a startup?

With the speed and degree of disruption accelerating, corporates are chasing the venture-backed startup culture in order to stay ahead or risk losing to competitors, new and old.

Having worked in corporate innovation for more than seven years, including Telefonica and Silicon Valley Bank, I have seen examples of what works and what does not.

There are three major models for incorporating innovation into the corporate mantra:

- **Corporate venture:** Companies make strategic investments in startups with business goals aligned with corporate priorities.
- Corporate development: Companies seek entrepreneurial talent and R&D through startup acquisitions.
- **Corporate innovation:** Companies create opportunities to test and pilot new technologies and companies, by setting up accelerator and partnership programs, which they then may partner with, invest in or acquire.

While on paper these may seem easy enough pursuits, in fact, even the best companies will admit that it takes a strong and focused commitment to truly untether from legacy processes – one that usually works best when innovation is allowed to bloom outside traditional corporate confines. It can be a slow process, but we see the corporate mindset is shifting.

Corporate venturing now encompasses a broad range of companies from all types of industries and it has grown far beyond simply a quick way to replace in-house R&D. By some estimates, one in every five venture dollars invested comes from a corporate. (Source: SVBA). Interestingly in the first quarter of 2015 CVCs led on 60% of all the "largest" and "late stage" deals. (Source: CB Insights)

Corporate venturing, once seen as potentially throwing money down a hole, can now bring nice financial returns as well as strategic benefit, if the right model is put in place to meet corporate goals.

From my vantage point, the corporates that do it best have a keen ability to balance financial returns with strategic gains. The most successful groups have demonstrated consistency through changes in the parent company and are in it for the long term. I would highlight groups like Intel, Qualcomm Cisco and Salesforce Ventures. The groups linked to corporates that operate as

financial investors with the parent company as an LP in their fund such as Google, Comcast and Sapphire Ventures are also delivering impressive results. Agility and ability to make quick decisions when necessary are key traits.

I always recommend new corporate venture groups learn from others' mistakes. A decade ago, as corporate venturing was just getting off the ground, CVCs were notorious for demanding deal terms that were more restrictive than those typically required by traditional venture capitalists.

While goal alignment is important, corporates were so intent on attaching their strategic initiatives to the money they invested into a startup that they ended up being poor business partners. Some of the worst examples of this involved corporate investors forbidding portfolio startups from engaging with competitors, including potential customers or restricting M&A exit opportunities. These control provisions became widely despised among startups and their traditional VC backers alike, because they often forced startups to act contrary to their best interests.

Today, these approaches have become pretty much unheard of. The steep rise in deal and dollar participation illustrates how CVCs are now much more aligned with traditional VC standards, giving them a greater opportunity to participate in some of the most lucrative deals. In fact, CVCs are becoming helpful investment partners adding significant value beyond dollars and enabling product validation or routes to market that are truly beneficial to the startup founder.

Acquiring companies is another opportunity for corporates to accelerate growth in strategic areas of their business. Often it accelerates the development of a technology that does not exist in house or adds talent to the organisation. Large acquisitions can also provide a needle-moving financial change for the corporate. We are seeing groups focus their corporate venture and corporate development teams under one leader. Intel, Salesforce and Cisco are among the most active in both of these areas.

Many corporates are also setting up incubator/ accelerator models. Companies stoke startups by aligning strategies around specific corporate goals. Incubators and Accelerators provide valuable access to industry experts from the corporate, customers, investors, and general business/market intelligence. For example, Intel has established an Education Accelerator and Qualcomm operates a Robotics Accelerator.

Some of America's largest consumer products companies (Coca-Cola and Proctor and Gamble, for example) have created initiatives where they become a customer of the startups they partner with. This can prove more valuable than invested capital by validating that the startup has a major customer on the hook, accelerating its growth trajectory.

Based on our experience with many Corporates, we have observed several best practices to help navigate the challenges they face:

- The executive suite and the board has to understand that innovation may carry some risk, but the risk of disruption is very real, it really is a case of innovate or die!
- Emphasise the pace of change and create a sense of urgency. There are many real-world examples of what happens if a company fails to innovate quickly enough.
- Evaluate corporate innovation plans of competitors and like-minded companies in other industries; why reinvent the wheel if you do not have to. It is interesting that this is an area where there may even be opportunity to invest / partner together.
- Hire teams with diverse experiences and blend them with existing innovators on staff to foster idea collaboration and boost the odds of success. Having someone who understands the business and internal politics is very helpful but also critical to have professional investment / technology skills on the team.
- Build a process that provides good access to key company staff who can offer operational support and mentorship to the startup.
- Set clear expectations of goals / financial results, and highlight wins ensuring recognition and reward for those who made it possible.

The most forward-looking corporates use a range of investment tools and initiatives to broaden their network of business relationships and ensure all the partners in the venture ecosystem grow stronger. How corporates measure success differs greatly. The good news is that corporates today are not as risk averse as they once were, and many employ multiple strategies to increase the odds of a return. Corporates are extremely well positioned to offer significant opportunities to startups, if they get the model right and they can be a complimentary partner to traditional VCs.

If there is a common approach among successful corporates, it is this: Set clear expectations and goals, take a long-term commitment to the strategy, execute inside the company and communicate consistently among all the partners.

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GET IN THE GAME OR STAY ON THE SIDELINES? BOARD PARTICIPATION

Deborah Marshall and Marc Gottschalk, partners, Sidley Austin

As corporate venture investing continues to expand, in terms of dollars invested, numbers of deals and the range of investments (from lead, solo or member of the syndicate) the question continues to arise regarding trends in board participation. As a corporate investor is outlining the terms of its investment, there are typically two areas for particular focus: commercial rights and board involvement. Each of these are unique to each investment and should be considered carefully in the context of the strategic basis for the investment. Corporate venture professionals report that the commercial relationship as a condition to investing varies from "must have" to "expect to have" to "might have" to "unrelated". Indeed, the source of the investment opportunity may arise from various sources within the company, from a formal venture group to a sales and marketing team, and these factors weigh heavily in the investment decision and terms.

In some cases, the strategic purpose behind the investment is to gain insights into emerging markets; in others, to monitor a strategic commercial arrangement. It is the minority of cases where the sole objective is to show a venture return on investment. It is important that both the investor and the portfolio company understand where there is alignment and that contractual relationships reflect that reality.

Being a board member of an early-stage company has a different risk profile from a more established company. This is not to say the corporate venture investor should not consider taking on a director or board observer seat with a small company, but that it should make that decision with its eyes fully open. The wise corporate venture investor will undertake a risk-benefit analysis on the decision as to whether to join an early-stage company's board either as a director or observer, and if the decision is made to move forward in either case, to ensure the appropriate safeguards are in place. Each corporate investor must consider whether it can make available for board service on portfolio companies individuals who possess the experience to act as a board member and provide the appropriate ongoing training and support for such individual to perform their obligations of care and loyalty to all shareholders. Of special concern is procedures for the access to and management of confidential information that can create a conflict of interest with the corporation's business operations.

The decision to seek an observer seat will not mitigate all risks; similar guidelines will apply for board observers. Moreover, it should be noted that board director and board observer liability may be the same under certain narrow circumstances. For example, Section 11 of the Securities Act of 1933 and Section 16 of the Securities Exchange Act of 1934 allow a shareholder to sue a director and "person performing similar functions" for misrepresentation in a registration statement and that mere access to material non-public information and input into board discussions may be sufficient.[1] Even though there is little case law beyond the aforementioned securities laws that would extend observer liability to that of a full board member, board observers should steer

clear of undertaking any actions that could be suggestive of being a de facto director, particularly without the benefit of directors and officers insurance coverage.[2]

Benefits – Appointing a director or observer will give the corporate venture investor valuable inside knowledge of the target company and a greater ability to influence company decision-making. This may be particularly important if the target company is strategic to the corporate venture investor and, more particularly, if the investor has a right to acquire the target company. Secondary considerations may include a desire to be of help to the target company, or purely to be "in the know" when the investment is being made primarily for financial return, but those reasons, in and of themselves, may not be worth the risk of director liability.

Risks – There are a substantial number of risks a corporate venture investor should consider that may give pause to board participation, a number of which are not obvious.

Damage to reputation: Early-stage innovative companies do not operate at the same speed as more mature companies and they take more "risks". Most of these risks relate to achieving goals within their budget and deferring assessment of certain risks until there is more evidence of success. For example, a startup company will not have the level of regulatory compliance support in early product development that a multinational company can draw upon. Commercial relationships may be struck on terms that reflect compromises that would not be acceptable to a larger company. Similarly, innovating in areas where potential liability and reputational concerns are not fully known may place the corporate venture investor's designated board member in an awkward position. The board member has a fiduciary duty to act in the best interests of the target company which might, for example, result in having to support a decision by a startup company in the digital retail space to undertake a high profile contract with a company that operates in an industry that conflicts with the values of the corporate venture investor. High-profile failures that are tied to allegations of lack of board oversight can be damaging to corporate reputation.

Intellectual property contamination: If the early-stage company is in the same industry as a corporate venture investor, there is always the possibility that the board member or observer, particularly if involved in the target company's day to day operations, can be exposed to intellectual property of the target that might raise concerns about inventorship if similar IP is under development by the corporate venture investor.

Corporate opportunities and competition: The corporate venture investor's board member will often have confidential industry or business transactions knowledge that, if known by the target company, would be material to its business. Withholding this knowledge from the target company may conflict with the board member's fiduciary duty or duty of loyalty. A director appointed by a corporate venture investor may also be exposed to confidential competitive information about opportunities uncovered by the early-stage company that would be strategically important to the corporate venture investor. Needless to say, because of the director's duty of loyalty and confidentiality the director cannot share the information with the corporate venture investor that selected that director, but liability could still arise if the corporate venture investor became aware of the opportunity and the source of that information was in question.

Corporate actions in the zone of insolvency: Many if not most startup companies will reach dry well on cash flow, or very close to it, on a regular basis. Directors have unique obligations to protect the assets of a company for the benefit of its creditors when a company enters the zone of insolvency and can expose themselves to civil liability for failure to do so.[3] This can mean not taking action that will in fact worsen the likelihood of payment of debts. State laws may also raise the specter of personal liability of directors for failure to pay employees in the zone of insolvency.[4] Needless to say, the rate of failure of early-stage companies far exceeds that of later stage enterprises, so this is not an idle concern.

The foregoing is not intended to dissuade a corporate venture investor from participation on the board or as an observer in an early-stage company. The rewards of participation from both sides are often incalculable. What is recommended is that a savvy investor should only proceed with board participation if it undertakes all of the protections needed to reduce the potential risk of liability.

First and foremost the corporate venture investor's designated director should take full advantage of indemnities that the early-stage company can provide under applicable law. These are available to Delaware subchapter C corporations and even more broadly to Delaware LLCs.[5] In addition, the indemnification agreement entered into by the director should make clear that any indemnity provided the director by the early-stage company is primary to any indemnification that director might also have with the corporate venture investor that designated the director to the board.[6] Second, and just as important (as an indemnitor is only as good as its financial wherewithal) is making certain the target company purchases and maintains at all times directors and officers insurance.[7]

Reputational risk is often difficult to manage. The first step is to identify what the potential is for those risks to exist and then determine how they might be avoided. It will be difficult to create contractual restrictions in investment documents

that will govern business decisions or give the investor a veto right that supplants the judgment of the board. However, an investor can require through the investment documents that certain board committees are established to provide oversight of key risk areas (eg, regulatory, privacy). Commercial agreements can include compliance with a code of conduct. The background and reputation of the founders, management team and other investors should also be reviewed and considered. Finally, actively participating in board deliberations and asking critical questions will help all board members fulfill their obligations.

The risk of IP contamination can be managed by clear instructions to the corporate venture investor's appointed director to not engage in any manner with intellectual property matters of the company and to have clear board policies that such matters are not to be addressed in board meetings. It is important to establish guidelines for sharing and storage of board materials and providing resources from the business unit to assist a portfolio company, including the scope of existing NDAs and confidentiality agreements. Make sure that, consistent with the policy and practice of the board, the board minutes do not reflect any discussion of company IP.

Corporate opportunity concerns, particularly for a Delaware corporation, can be addressed by insertion of language protective of the corporate venture investor in the company's charter. Indeed these provisions may have already been requested by venture fund investors, who have similar concerns. Section 122(17) of the Delaware General Corporation Law gives companies the power to renounce in their charter any interest in specified classes or categories of business opportunities that are known to the corporate venture investor's appointed director (typically excluding those that came to such director through the target company). Provisions can also be drafted making clear that the corporate venture investor is free to compete in any manner in the industry of the company so long as it is not using confidential information of the target company to do so.[8] Moreover, language can be added to the confidentiality provisions that clarify that the corporate venture investor is not, as a general matter, considered to be a "competitor."

When it comes to insolvency, the best protection a corporate venture investor can have is to make certain that employee wage claims are always addressed when the target company's coffers start to empty and to involve internal or external counsel when insolvency approaches to make sure all other potential liabilities are appropriately minimised. It is critical that directors have clear reporting from management regarding the ongoing payment of salaries, taxes and any other liabilities that may be obligations of directors personally due to non-payment. Relationships with banks and other lenders should be clearly understood, including contractual default provisions and the potential for the lender to sweep bank accounts. Finally, there should be clear communication with co-investors regarding these matters. It may come as a surprise to some corporate investors that venture funds are prepared to contribute small amounts of additional capital in order to avoid these potential liabilities and may look to other investors to contribute.

More generally, corporate venture designated board members should review the contractual obligations of confidentiality related to the investment and under any commercial agreements. Legal counsel can assist directors in better understanding their "common law" fiduciary and other obligations and help them develop a clear understanding of the roles of director/observer, investor and strategic partner, including appropriate junctures for recusal from board meetings and board votes.

As a result of the myriad of concerns a company faces when dealing with a decision to appoint a director or board observer to an early-stage company, the authors of this article have prepared a summary of best practices to assist corporate venture investors and observers in minimising their risks and those of the designating corporate venture investor, available upon request.

Notes

1 Reliance Electric Company v Emerson Electric Company, 404 US 418, 425 (US 1972). See also 35 SEC Release No 34-28869 and 36 SEC Release No 34-18114.

2 See, eg, The Osler Institute, Inc v Lois Forde, 333 F3d 832 (7th Cir 2003).

3 See, eg, Unsecured Creditors Comm of STN Enter, Inc v Noyes, 779 F2d 901, 904 (2d Cir 1985); In re Baldwin-United Corp, 43 BR 443, 459 (SD Ohio 1984).

4 See Morgan v Kingen, 169 P3d 487 (Wash Ct App Div 1, 2007), aff'd, 210 P3d 995 (Wash 2009) which holds that directors may be liable for knowing failure to pay employees' wages in insolvency.

5 See, eg Section 145 of the Delaware General Corporation Law addressing the extent to which directors can be insured and indemnified.

6 A model form of director indemnification agreement can be provided by the authors of this article upon request.

7 It should be noted that directors and officers insurance is provided on a "claims made basis" (ie, the insurance company must receive notice of the claim during the policy period) which places a premium not just on having the coverage in place during the director's term on the board, but being able to notice the claim during an extended reporting period following the director's service and until time that the statute of limitations on likely claims expires. The corporate venture investor's risk management team should review the applicable D&O policy.

8 A more detailed review of the corporate opportunity doctrine and model provisions on corporate opportunities and competition are available upon request from the authors of this article.

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PART 5

DETERMINING AND ACHIEVING STRATEGIC AND FINANCIAL BENEFITS

Andrew Gaule, leader and founder, Global Corporate Venturing Academy

Setting the strategic purpose and then demonstrating the performance, is a key challenge for many corporates and venturing units. Over my 14 years in the sector I have seen many approaches and learning outcomes which have tried to address this challenge in corporate venturing.

The following articles outline

- Approaches to identifying and quantifying the metrics.
- Survey and insights from leading corporate venturing units.

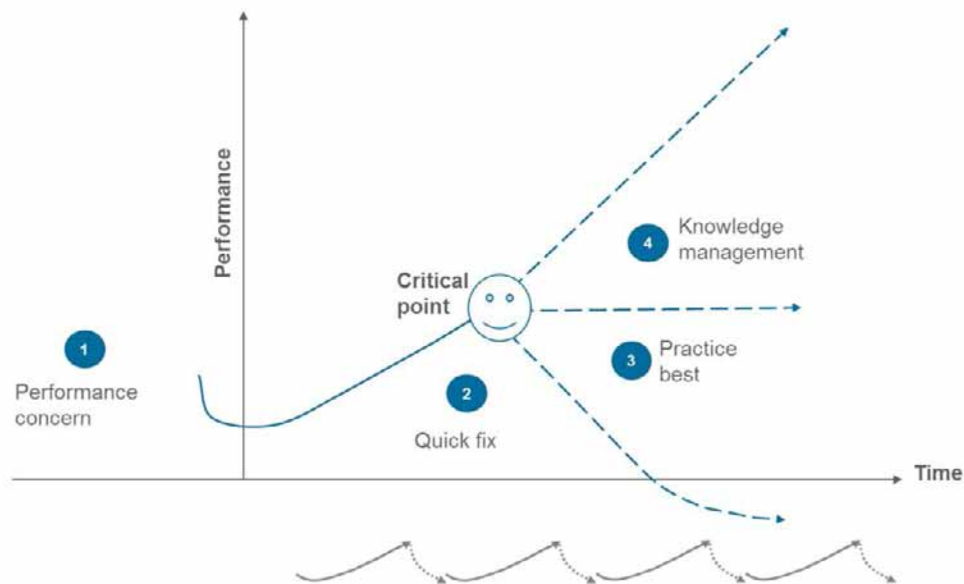
By way of introduction I would highlight some key perspectives.

- Corporate venturing and innovation programs need a better strategic purpose, defined and iterated as insights on technology, business models and partners.
- Venturing units do not stay strategic for long unless they gain senior executive and business unit support and achieve financial returns.
- Strategic returns and financial returns are not an "either", "or" but "and".
- Delivering strategic benefit and bigger prize of financial benefits will not be achieved unless the impact of a venturing activity – for example, investment insights, new technology, change in process – is implemented and scaled in the core business or in new emerging business areas.

Delivering the strategic and core scale financial performance

The performance of a corporate venturing unit needs to be considered early in its development but is often not considered until many months or years after its start, which then creates a performance concern.

The image above illustrates the cycle that I have seen occur in a number of leading global corporate venturing organisations.



1 Performance concern – are we delivering financial and strategic benefits? This can be made more difficult to progress as there has been no good discussion and agreement on the strategic and financial purpose of the unit.

2 A quick fix may be done by communicating a purpose, clarifying the process and trying to quantify the financial and strategic benefits.

3. Practise the best approaches, which include strategic workshop, roadshows, senior executive engagement, business unit engagement programs and effective working on venture programs with emerging business areas. Many practical examples of these were well illustrated at the GCV Academy Fundamentals of Corporate Venturing program, with case studies and lessons from BP Castrol InnoVentures and Reed Elsevier Ventures. To see short videos of Castrol and Reed Elsevier at the GCV Academy discussing the strategic important areas and engaging with the business, see *http://youtu.be/k46auTJJmio*

4. A process to deliver the benefits and change in the core business or creating new emerging business areas is required.

An example of looking to deliver in the core business occurred in one organisation I worked with where a pilot solution with a venture startup was justified on the tens of millions process saving from the new technology. The venture unit achieved its objective of proving the pilot project, but the real benefits were not achieved as there was no process and tracking of the implementation in the core business.

New technologies and business models may not in many cases fit with the current business. Creating new emerging business areas, as IBM and DSM call them, is therefore needed and this fits outside the responsibility of the corporate venturing and business units. A broader responsibility of what some organisations call a chief innovation officer, or a strategic visionary chief executive or chief operating officer, is therefore needed.

In your corporate venturing program can your CEO and your executive team be clear about why it has been set up and what the corporate venturing group is doing? The executive team cannot do this without the leadership of the corporate venturing unit providing the framework, process and activities to engage the executive – the process of deciding investments or collaborations, considering current and future business needs and then ensuring delivery of the results in the business. This needs an enhancement of the capability of the team and process, sometimes with a software solution, to ensure the implementation, tracking and shared learning.

The case for delivering strategic and financial benefits from corporate venturing is not just related to being able to measure the benefit but ensuring:

- Corporate venturing is part of the strategic change.
- Processes are in place to deliver in the core business.

VENTURE SYNDICATION DYNAMICS

Martin Haemmig and Boris Battistini

Boris Battistini is a senior research fellow at the Swiss Federal Institute of Technology (ETH Zürich) and an associate at Metellus, a venture capital firm based in Zürich, London and San Diego. Martin Haemmig is an adjunct professor at CeTIM at UniBW Munich and Leiden University.

Effective collaboration is of great importance in different settings of work and life. Collaborative behaviour is particularly important in the context of venture capital (VC) investments, where syndications frequently adopt mechanisms that allow different investors to diversify their portfolio, accumulate and share resources and relevant expertise, or reduce the information asymmetries related to a specific opportunity.

The choice of syndication partner is therefore of crucial importance, and likely to affect the outcome of co-investment decisions.

A recent working paper by Prof Paul Gompers and associates at Harvard Business School examines two broad questions on collaboration between venture investors. Specifically, the authors investigate what personal characteristics affect investors' desire to work together and, considering the influence of such characteristics, they test whether this attraction enhances or detracts from performance.

Interestingly, the results of the study show that investors have a strong tendency to partner other investors with a similar ethnic and educational background.

In other terms, VC firms exhibit strong homophily in their co-investment decisions. The authors write: "The tendency of individuals to associate, interact and bond with others who possess similar characteristics and backgrounds has long been viewed as the organising basis of networks. The principle of homophily shapes group formation and social connection in a wide variety of settings, such as school, work, marriage and friendship, in which similarity between group members is observed across a broad range of characteristics, including ethnicity, age, gender, class, education, social status, organisational role, and so on."

In particular, the Harvard researchers found that "individual venture capitalists choose to collaborate with other venture capitalists for both ability-based characteristics – for example, whether both individuals in a dyad obtained a degree from a top university – and affinity-based characteristics – for example, whether individuals in a pair share the same ethnic background, attended the same school or worked previously for the same employer.

Moreover, frequent collaborators in syndication are those venture capitalists who display a high level of mutual affinity".

They continue: "While collaborating for ability-based characteristics enhances investment performance, collaborating for affinity-based characteristics dramatically reduces the probability of investment success."

Having performed a variety of statistical control tests, the authors show that "the cost of affinity is not driven by selection into inferior venture deals". The effect is most likely attributable to poor, inefficient decision-making – resulting from "groupthink" – by high-affinity syndicates after investment.

In contrast, the graphs and tables on the following pages are examples of syndication patterns of the strongest co-investor networks in Silicon Valley of leading VCs, micro-vcs, corporates and corporate venturers, top angel investors and accelerators (Y Combinator).

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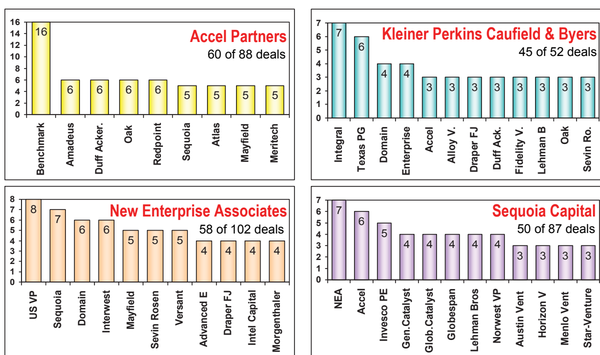
VC investor syndication in Silicon Valley (club deals)

2007-2008 H1: The virtuous cycle – success breeds success



Source: Martin Haemmig _ PEA / Data: Dow Jones

Leading Silicon Valley VCs syndication patterns: The four leading Silicon Valley VCs do 50% to 85% of all co-investments with the same six to 10 VC/corporate venturing partners, often referred to as club deals. Syndication helps to spread the risk and gain the benefit of larger networks. The prevalence of syndication varies over time, often depending on the relative supply of capital. In the pre-boom period – the dot.com era of 2000 and the financial crisis 2008 – syndication was the norm. During the boom time, it was comparatively rare.

Corporate venturing in Silicon Valley – top three co-investors

2009-13: Tech-corporates with strongest co-investor network

Rank	Corporate/CVC	Follow-on: 1	Follow-on: 2	Follow-on: 3
1	Google Ventures	Kleiner Perkins Caufield & Byers	Andreessen Horowitz	SV Angel
2	Qualcomm Ventures	Intel Capital	Redpoint Ventures	Motorola Solutions VC
3	Intel Capital	Sequoia Capital	Accel Partners	Kleiner Perkins Caufield & Byers
4	Comcast Ventures	New Enterprise Associates	Kleiner Perkins Caufield & Byers	Accel Partners
5	Salesforce	Kleiner Perkins Caufield & Byers	Google Ventures	Emergence Capital Partn.
6	Time Warner Investments	Intel Capital	Accel Partners	Redpoint Ventures
7	T-Ventures	Accel Partners	Sequoia Capital	Intel Capital
8	Samsung Ventures	Walden International	Intel Capital	Mitsui Global Investment
9	In-Q-Tel	ARCH Ventures Partners	Highland Capital Partners	Harris & Harris Group
10	AOL Ventures	TrueVentures	RRE Ventures	Google Ventures

Source: Martin Haemmig. Data: CB Insights

Top 10 Silicon Valley corporate venturing investors and their follow-on investor syndication network: Most mature corporate venturing groups from around the world also have investment teams in Silicon Valley. The key is to access innovative startups for their technology and emerging business models. As a result, their follow-on investors are local angel groups, accelerators, micro-VCs, VCs, and other corporate venturers. As expected, KPCB, NEA, Accel and Sequoia are the most popular VCs, while Intel and Google are the most popular corporate venturing follow-on investors.

Top angel investors by network in Silicon Valley

Follow-on investors (syndication)

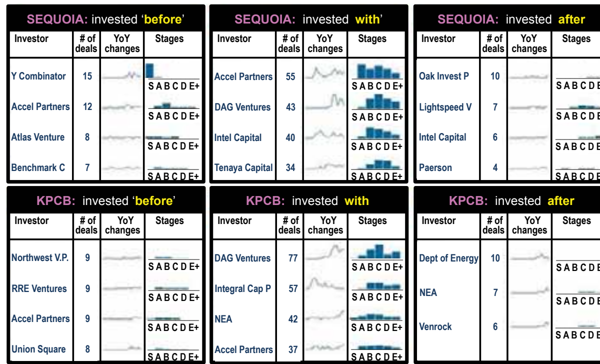
Rank	Angel Investor	Follow-on: 1	Follow-on: 2	Follow-on: 3
1	Alexis Ohanian	New Enterprise Associates	Google Ventures	First Round Capital
2	Max Levchin	Highland Capital Partners	SV Angel	Founders Fund
3	Garry Tan	Andreessen Horowitz	Google Ventures	SV Angel
4	Marc Benioff	First Round Capital	Founders Fund	Greylock Partners
5	David Tisch	First Round Capital	General Catalyst	Lerer Ventures
6	Paul Buchheit	Sequoia Capital	Andreessen Horowitz	First Round Capital
7	Ashton Kutcher	Andreessen Horowitz	Kleiner Perkins	First Round Capital
8	Naval Radikant	Union Square Ventures	Kleiner Perkins	Andreessen Horowitz
9	Scott Banister	Qualcomm Ventures	First Round Capital	Kleiner Perkins
10	Aaron Levie	Khosla Ventures	SV Angel	First Round Capital
11	Tim Ferriss	Google Ventures	Kleiner Perkins	Felicis Ventures
12	Sam Altman	SV Angel	Google Ventures	Andreessen Horowitz
13	Jerry Yang	Benchmark Capital	Trinity Ventures	Clearstone Venture Partners
14	Paige Craig	FF Venture Capital	500 Startups	Crosslink Capital
15	Josh Schachter	Union Square Ventures	500 Startups	Andreessen Horowitz
16	Richard Branson	Insight Venture Partners	Citi Ventures	Index Ventures
17	Harj Taggar	QueensBridge Venture Ptnrs	Doll Capital Management	SV Angel
18	Geoff Ralston	First Round Capital	SV Angel	Sherpalo Ventures
19	Eric Ries	500 Startups	Founder Collective	Bullpen Capital
20	Gil Penchina	Bessemer Venture Partners	New Enterprise Associates	Qualcomm Ventures

Source: Martin Haemmig. Data: CB Insights

Top 20 Silicon Valley angel investors and their follow-on investor syndication network: The top angel investors not only invest alongside other colleagues but ensure their follow-on investments through a tight network of VC, corporate venturing and angel groups. Through previous deals, the different parties get to know each other to the point that they can more or less predict the outcome of a follow-on investment. As a result, angel investors often bring their best deals to a very small group of luminary investors.

VC syndication and club deals in Silicon Valley

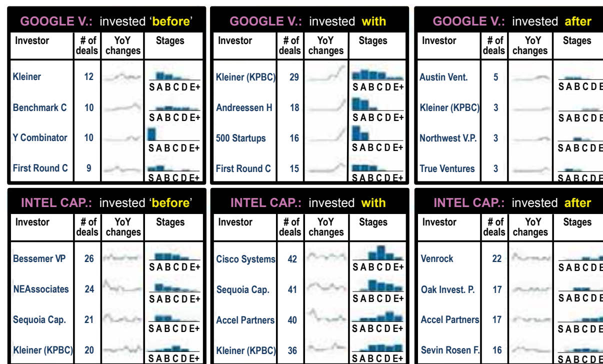
2009-13 Sequoia & Kleiner Perkins



Source: Martin Haemmig, Data: CB Insights (2013)

Corporate venturing syndication and club deals in Silicon Valley

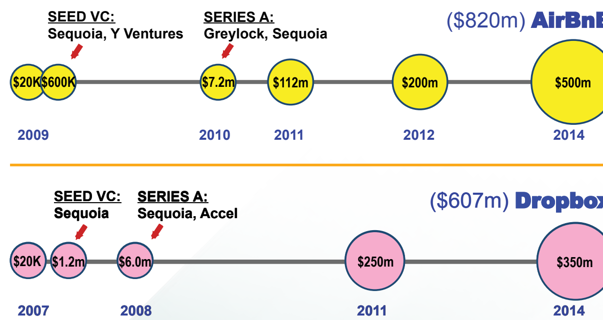
2009-13 Google Ventures & Intel Capital



Source: Martin Haemmig, Data: CB Insights (2013)

Y Combinator's top early-stage club deals

AirBnB 2009-14 ($820m) & Dropbox 2007-14 ($607m)



Source: Martin Haemmig, Data: CB Insights (2013)

Sequoia & Kleiner Perkins Cafield & Byers syndication value-chain: Sequioa – Y Combinator is a top feeder, while Accel is top co-investor and a major feeder. Co-investment with Intel Capital, DAG, and Tenaya is limited almost exclusively to post-series A rounds. Involvement with the top five co-investors has remained largely constant except DAG, with more recent activities. KPCB – Accel is a top feeder and also a solid co-investor, while DAG is top co-investor, whereas the US Department of Energy is its largest single follow-on investor, mainly for clean-tech deals. It is interesting to note that KPCB usually co-invests with other large firms at the series B stage or later.

Corporate investors Google Ventures and Intel Capital syndication value chain: Google Ventures – Within four years of its establishment, Google Ventures emerged as the most active corporate venturing arm in 2013. It has developed syndicates with VCs ranging from the largest multi-stage funds to more recently-formed micro-VCs. In April 2014, Google, KPCB and Andresseen Horowitz teamed up to invest in the Google Glass ecosystem. Intel Capital – Although investing since 1991 in more than 1,300 startups, about 300 deals were done in Asia ($2bn). Yet all top feeders, co-investors and follow-on financiers are from the US. The largest co-investor is corporate venturer Cisco for later-stage deals.

Y Combinator shares its $30bn valued portfolio with a small elite syndicate network: Y Combinator is a US seed accelerator – three-month programs – started in March 2005, which created a new model for funding early-stage startups. The current portfolio (July 2014) is valued at about $30bn, including AirBnB, Dropbox, Stripe, Zenfits,and Machine Zone. The primary VCs in the seed and series A investments are Andreessen Horowitz, Sequoia Capital, Accel Partners, Greylock, Venrock, First Round Capital, General Catalyst, and so on.

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MAKING THE BOARD CASE FOR CORPORATE VENTURING

Chirag Patel, managing director and head of corporate ventures, Highnote Foundry

In the blink of an eye, entrepreneurs are turning their ideas into billion-dollar businesses – disrupting entire industries and creating new ones. This environment can present both new growth opportunities and competitive threats to established corporations.

So how do established companies keep up with and respond to this environment? The key lies in applying a new strategic approach to identifying and nurturing growth opportunities and uniting stakeholders around making growth a core part of their business. Corporate venturing is one of the methods that should be pursued as part of this approach.

Making the case for establishing a corporate venturing function requires a well-developed strategy and operating plan – one that defines the corporate venturing objectives against other venturing methods, such as establishing an incubator or accelerator. This corporate venturing architecture must align to corporate strategic growth objectives and be supported by a strong financial business case.

Before making the case for a corporate venturing unit to the board, CEOs should capture input from and build alignment with key internal stakeholders, including division and business unit heads that may view corporate venturing as more of a threat than an opportunity. The CEO must define the urgency and rationale behind the strategy – including how existing businesses can benefit from insights gained from working with external entrepreneurs.

Once internal alignment exists, the CEO can engage the board and make a case with conviction by addressing the what – the opportunity – and the how – the strategy – and covering the following topics.

- **Create a sense of urgency:** Communicate that corporate venturing is no longer a nice-to-have but a must-have, while keeping the board's contending motives and objectives in mind. To do this, articulate the implications of emerging threats and opportunities to the core business, the environment in which they operate and the industry as a whole.

- **Educate the board:** Point out the differences between a corporate venturing unit and a venture capital firm. Hint – corporate venturers have fundamentally different objectives, measures and financial returns. Articulating this at the beginning will set the right expectations.
- **Do not let fear get the best of them:** Illustrate how emerging companies might create new growth opportunities or present a threat to the core business today and in the future. Use analogous and timely industry examples of how well-established companies and their ecosystems are already being transformed by disruptive new business models.
- **Point to the new cycle of innovation:** Emphasise the pace of change. Provide examples where entire industries are being transformed and established companies are being replaced by faster, nimbler startups that are well funded – and it is happening faster than ever.
- **Review past venturing programs:** Identify why past venturing programs may have failed and how those failures will not be repeated. Clearly define your strategy, measures, governance models and organisational alignment in a well-organised operating model so that the board knows your plan from the start.
- **Set clear expectations:** Define how the corporation will benefit, both financially and strategically. The business case should define where to invest, how far from the core business to invest, what stage to invest, how commercial benefits can be captured, how the corporate venturing unit will be organised, how existing business units will participate, or not, how much capital is required and the expected financial return.
- **Explain the numbers:** Communicate what the short and long-term financial returns and operating expenses will be and where the funding will come from.

In today's business landscape, the corporate venturing function is no longer a nice-to-have. Established companies must embrace the new competitive environment and see it as a growth opportunity. CEOs can convince key stakeholders, including the board, that this is the case with a robust strategy and rationale and a well-defined operating model.

> Established companies must embrace the new competitive environment and see it as a growth opportunity

CORPORATE VENTURING TALENT: FINDING THE RIGHT BALANCE

Georgina Worden, client director, Intramezzo

The short history of corporate venturing has already included a notable boom and a bust, but activity is again on the rise. A CB Insights report found that venture capital (VC) funding has hit its highest mark since 2001, with corporate venturing involved in 15% of deals and accounting for 30% of total US venture capital funding.

While the activity is good news for corporate venturing units, it brings with it significant, if welcome, problems regarding high-level recruitment. Thousands worldwide are looking for the best talent to fill bespoke roles in a relatively new sector. Identifying and recruiting talent has pushed itself to the top of the corporate venturing agenda and, with ideal candidates for top jobs requiring a blend of financial, corporate and entrepreneurial qualities, corporate venturing groups require a strategy for sourcing and retaining talent as much as they need the talent itself.

The chief problem in corporate venturing hiring is finding a mix of strategic and financial expertise, an understanding of corporate culture and an alchemic ability to make money.

Claudia Fan Munce, director of IBM Venture Capital, said: "Attracting talent and building the right team is at the very top of the success factor of a corporate venture team. You need people who have a multiplicity of skills. You need people who can evaluate a company for its merits in terms of tech and for its business model. You need to maintain a relationship with key players inside the ecosystem. At the same time you need to be able to evaluate from a financial investment perspective – not always aligned with the strategic interests of the corporation."

This dislocation of strategy between the corporate parents and their corporate venturing units is a recurring theme when talking to industry leaders within corporate venturing. Ideally they would be hiring people who are fully versed in a company's culture and detail, but the motivations of the corporate, based on quarterly targets rather than seven-year strategies, can be at odds with functioning corporate venturing.

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> Spreading the net wider, either in terms of geography or sector expertise, can lead to rewarding appointments

Such motivations are not hard-wired, and the right talent can be trained, but there are other ways of synchronising the heartbeats of the corporate and entrepreneurial sectors.

A people business

Greg Becker, of Silicon Valley Bank, said: "Increasingly, what we are doing has to do with people. You have got to hire the best people – people from financial backgrounds but also people who are more entrepreneurial in how they approach things." It is this entrepreneurism that drives innovation and is essential to explosive growth.

The opportunity for entrepreneurism is also a recruiting tool that can widen the pool of available talent. If you are looking for a successful, experienced CEO then the question candidates are likely to ask is why they should leave their existing, presumably successful, company to join your business. The draw of potential, the challenge of building a venture, can naturally appeal to those with a more entrepreneurial spirit. By searching in a slightly broader way you can increase your options even while the market for talent becomes more competitive.

There are other ways of maximising possibilities for top-level hires. Spreading the net wider, either in terms of geography or sector expertise, can lead to rewarding appointments. We have worked with many corporate venturers who have hired across continents in order to find people with the right skills and connections to help their enterprises. They considered these benefits more important in the long term than any drawbacks associated with a long-distance hire.

Flexibility of employment terms is also worth considering in the search for the right talent. One of our clients, the European venture arm of a major multinational, had an urgent requirement for someone who could deliver a particular process. We found a candidate with extensive experience in both the industry and in growing early-stage companies. The candidate was appointed on an interim contract before developing his own growth strategy. As a result, he was made permanent CEO and put the new business plan into motion, leading to a £35m ($53m) exit with a 10-times return. But the original hire was possible only because of the flexibility of the contract offer.

Five points to consider when building a winning team

- Identify the skills that the unit or venture requires – financial, strategic or relationship-based – to add value.
- Evaluate the strengths and weaknesses of the existing team. Highlight whether you will need to source externally or from within the parent. Recruiting complementary skills is essential to building a productive team.
- Create a strong culture that supports the values of the corporate and founding team but inspires innovation and entrepreneurism.
- Use these values to attract, engage and select the right talent. Often the key to success is replicating this culture, particularly when expanding internationally.
- Consider remuneration carefully – this is crucial for attracting, incentivising and retaining talent.

Key to investment

When thinking about funding rounds and exits, the key to investment, often ahead of product and forecasts, is a confidence from corporate and private equity investors towards the leadership team of the new enterprise. Legendary investor Arthur Rock says: "The problems with companies are rarely ones of strategy. Good ideas and good products are a dime a dozen. Good execution and good management – in other words, good people – are rare."

Tellingly, Rock will look at the résumés rather than the financial projections when examining a company. That is why sourcing talent is so important in raising the ceiling of possible returns. Good people may be rare, but they are also key.

Another issue to consider when hiring is that of carried interest, or carry. A JPMorgan and J Thelander survey found that only three of 60 corporate venturing units questioned included carry as a payment component to their executives, although some large corporate venturing groups, such as

Intel, have started to offer carry-like incentives. In contrast, the survey also found that financial VCs received an average of 23.9% of the profits generated by their deals.

This can be a stumbling block when seeking a hire from institutional VC, and also a block to retaining talent whose heads could be turned by the potentially huge rewards that appeal to the natural entrepreneur. Should the market continue to grow at a faster rate than the supply of outstanding executives, the issue of carry will be hard to avoid.

The concern is that carry could create misalignment in the ways investors and the main board deliver their strategies, but it is becoming a real issue within recruitment.

Lessons from venture capital

Evangelous Simoudis, of Trident Capital, believes a narrow recruiting pool was behind the failure of some corporate venturing teams. He considers them to have been staffed with corporate executives rather than experienced venture investors, as many corporations felt their groups most needed executives with a strong corporate background and understanding of business processes. They also did not offer the rewards, and carry, that would have been attractive to talent with institutional VC experience.

Brad Feld, head of VC firm Foundry Group, thinks it is a category error that heads of corporate venture groups are seen to have a job rather than a mission. He told Wall Street Journal: "Most CEOs are on a mission. I think if you are the head of a corporate venture group, you have to be on a mission, frankly in the same way that a really good venture capital firm is on a mission."

Who to recruit

In deciding who to recruit, and whether to source from the corporate or the financial sector, balances between corporate objectives and the right motives of corporate venturing units must be struck. But new units, without a track record of investing, need to offer added value in order to attract good companies.

The clearest way of delivering this value is through the talent the corporate can bring on board. In recruiting individuals with a network and profile from the investment community, or those who can skilfully manage growth across the venture and corporate ecosystems, corporate venturers can harness talent to make their funds more attractive and dynamic. With Google Ventures and GE Ventures, among others, we are seeing a shift from transactions towards a partnership approach, and partnerships rely entirely on the good people within them. "Talent is the key" is, at last, a truth that unites the corporate and entrepreneurial worlds.

WHY EVERY CORPORATE VENTURER SHOULD HAVE A VC FUND ENGAGEMENT STRATEGY

Paul Morris, director of corporate venturing, UK Trade & Investment

The share of total venture capital (VC) investment represented by corporate venturing units has risen strongly over recent years. Data from Global Corporate Venturing indicates that corporate venturers now account for over 25% of all VC investments, up from 8% in 2010. The number of active corporate venturing units now exceeds 1,100, a third of which have been launched in the last three years.

Many independent VC fund managers have struggled to raise new funds since 2008 and the number of active VC funds has declined. However, they still account for the bulk of capital flows into VC. Every active corporate venturer will come into regular contact with a range of independent VC funds, irrespective of whether the corporates actively seek such engagement. It is essential that a corporate venturer has a proactive strategy for interacting with VC fund managers. Many today follow a more passive or reactive strategy, resulting in sub-optimal outcomes and missed opportunities.

Corporate venturers interact with VC funds in many different ways. Below are eight of the most important opportunities for corporate venturers to gain tangible value from working with VC fund managers. Strong VC-corporate venturing relationships are forged through each party providing input of value to the other. In all of the situations below, the corporate can benefit from working with the VC fund, and vice versa. The first section covers formal VC fund relationships – investment by the corporate venturer as a limited partner (LP). The last section summarises the benefits of informal relationships with VC funds.

GP-LP relationships

Many corporate venturers have active and fruitful working relationships with VC fund managers (general partners, or GPs) without having taken limited partner positions in the respective VC funds. Some of the main benefits of such interactions are covered later in this article. However, some 20% of corporate venturers choose to commit to one or more VC funds as an LP. A formal GP-LP relationship helps facilitate a closer and more intimate relationship. Each corporate venturer should carefully assess the pros and cons of committing a portion of its available capital to one or more third-party limited partnerships. Done well, and framed within a broader strategic investment strategy, selective fund investments can be a valuable additional tool for certain corporate venturers.

Some corporate venturing leaders consider that an active VC fund strategy is relevant for financial return-driven corporate venturing, but not for corporate venturing that follow a primarily strategic approach. This misses the key point that VC fund interactions can support both strategic and financial objectives. Several corporate venturers have stated that they had invested as an LP in independent VC funds in the past, but that this did not work out and thus they no longer took LP positions. In almost all such cases it was not the model that was flawed but rather the implementation. Either the choice of fund was wrong or the way the working relationship was managed was ineffective – or both.

A proactive VC fund strategy can help avoid such costly errors. Some key dos and don'ts are listed in the panel to the right. These are drawn from the experiences of many corporate venturers with whom I have spoken, along with my personal experience as a corporate venturer of investing in 15 VC funds.

Why do corporate venturers take LP positions in funds?

- Access to dealflow of broad general interest: This is particularly relevant for corporates who have just launched new corporate venturing units and have not yet built up other independent sources of dealflow.
- Diversification: access to sector-specific or geography-specific dealflow. Corporates with well-established dealflow sources in their main markets may use fund LP positions to access new sectors or geographies that they are less familiar with.
- Source of expertise: The partners of a well-established VC fund will typically collectively have 50 years or more of VC investment experience. This can be a valuable source

Do

- Elaborate clearly the purpose and desired outcome of investing in a VC fund. Be clear on how this enhances your direct investment strategy. Ensure there is broad internal understanding and buy-in.
- Research thoroughly all active VC fund managers in your target sectors and geographies. Identify those that best fit your profile. Meet the fund partners and decide on a shortlist of two to four.
- Be very clear about your objectives in investing as an LP. Are you convinced the GP is able and willing to commit fully to the desired relationship and exchange of information you desire?
- Conduct this assessment process over sic to 12 months if possible, during which time you can develop an informal working relationship, to be formalised as and when you commit to invest in the fund. Request an invitation to the next investor meeting the GP will hold. This provides an opportunity for you to speak with other LPs in the fund, some of whom may have invested in previous funds managed by this GP. Remember that managers typically raise a new fund only once every four years.

Don't

- Commit more capital to the VC fund than the minimum required to achieve your strategic objectives. If your objective is primarily financial return then a different rationale needs to be applied.
- Invest in a fund where only a small percentage of its dealflow and investments fit your investment scope, even if that fund is the best of all those surveyed.
- Make the mistake of equating the role of the VC fund senior managing partner with that of a corporate CEO. Most VC funds are structured as partnerships and you need to develop relationships with all the key partners and also any analysts and associates that have a specific focus on technologies or markets of strong interest to you.
- Believe that once you sign the partnership agreement and respond to the first capital call you can then sit back and wait for the GP to deliver all you are interested in. What a strategic corporate venturing investor gets out of a fund investment, over and above that which an institutional investor gets, is very much a function of the time and effort committed by the corporate venturer to the relationship on a continuing basis.

of information, guidance and expertise for a corporate venturing executive, particularly where he or she is new to VC.

- Precursor to full launch: A corporate venturer may choose to test the market and gain familiarity with the VC ecosystem by making one or more small LP commitments. This may be a precursor to implementing a direct investment program.
- Operational budget limitations: Some corporate venturers may have limited resources to run a broad direct investment operation. As such, they complement a limited number of direct investments with VC fund positions to achieve the desired sector coverage.
- Multi-corporate funds: A few funds have been established through collaborative LP commitments made by a small number of corporate VCs. These are typically managed by an independent GP and the participating corporates have complimentary rather than competing core businesses. Aster Capital (Rhodia, Alstom, Schneider Electric) and Ecomobilité Ventures (Orange, SNCF, Total) are two such examples.
- Sole LP fund: Certain corporates may set up a dedicated fund in which they are the sole LP and appoint a third party to manage the fund. The degree of strategic focus of the fund and the extent to which the GP can make unencumbered investment decisions is negotiated as part of the GP-LP agreement. Dow Chemical had one such fund, managed by CMEA.

Informal relationships

Syndicate partners: Most VC-backed companies will count several different investors on their shareholders roster. It is rare for a company to be funded from inception to exit by a sole VC investor. A corporate VC with a portfolio of 20 companies may have over 50 different syndicate partners, many of which will be VC funds. A strong working relationship between the corporate venturer and its VC fund syndicate partners is essential if the corporate venturing unit is to achieve its individual investment objectives. Key interactions may include board meetings, follow-on funding round negotiations, and raising awareness and understanding of the corporate venturing units strategic/business objectives over and above its financial return target. Where the corporate venturing unit has existing portfolio companies that are seeking to raise additional capital, the corporate venturing unit should be able to facilitate introductions to VC funds from its network.

Dealflow sources: VC fund managers can be valuable sources of pre-screened dealflow, notably those with partners who have been active in a particular sector for many years and have built strong reputations. A VC fund may be willing to share dealflow with a corporate venturer whom they regard as a desirable syndicate partner. The VC fund may also invite the corporate venturing unit to join a funding round of a company in which the VC fund has previously invested. Such exchanges usually require the corporate venturing unit to have previously interacted with the VC fund and to have established a mutual interest to explore opportunities together. This can help mitigate the fact that GPs will favour corporate venturers that are LPs in their funds over corporate venturers who are not LPs when it comes to sharing dealflow. A corporate venturer should actively research which are the leading VC funds in a) each of the sectors the corporate venturer invests in, b) each of the main geographies that the corporate venturer is targeting, and c) each stage at which the corporate venturer desires to invest – in practice, seed, early-stage and growth stage.

Sources of investment expertise: VC fund partners with extensive investment experience can be valuable sounding boards for corporate venturers, particularly – but not limited to – those who are new to investing. The willingness of the VC fund manager to commit time and effort to such communication will, however, be far greater if the corporate venturer is an LP in the fund, or – note well – is considered to be a potential future LP.

Due diligence: Many VC fund partners have deep expertise in certain technologies and sectors. Where a corporate venturer has a strong enough relationship to tap into this

VC fund partners with extensive investment experience can be valuable sounding boards for corporate venturers, particularly those who are new to investing

wealth of knowledge considerable time and effort can be saved in doing due diligence. The fund partner may have already assessed a particular company that is of interest to the corporate venturer and may be prepared to share the key outcomes with the corporate venturer. Corporates can build such relationships by reciprocating where they have internal technology and market expertise.

Human capital: For much of the last 15 years, Corporate VCs have been frustrated to lose high calibre investment professionals to independent VC funds. In the last three or four years, however, corporate venturers have flagged this issue much less frequently. Indeed, as corporate venturing continues to expand and many independent VC fund managers struggle to raise new funds, there has been a flow of talent in the opposite direction. The opportunity or otherwise to earn carried interest will continue to be an important factor in any such job transfer deliberations. corporate venturers that are looking to expand their teams should consider VC funds as a potential source of human capital.

Market/sector information: Experienced VC fund managers will often have cutting edge technology and market information for the sectors in which they are active. In certain cases the relevant partner may be a key influencer in a sector via participation in governing bodies, thought forums and conference keynotes. The partner can convey not only his/her knowledge but also the collective wisdom of all the portfolio companies that person manages.

Geographic Reach: A VC fund active in a geography that is unfamiliar to a corporate venturer can provide valuable insights into opportunities in that region. The VC fund manager may be prepared to share these openly if the corporate venturer becoming active locally is seen as a positive development by the VC.

CONVERGENCE ENGINEERING AND CORPORATE VENTURING

Author Jens Maier interviews Heidi Mason, managing partner, Bell Mason

When investigating the approaches to convergence engineering, we also have to look at the role of corporate venturing as another way corporations participate in global innovation and new venture development to ensure strategic expansion and long-term growth.

University of California Berkeley Business School professor Henry Chesbrough developed the paradigm of open Innovation that observes that companies benefit from external ideas, as well as their own internal strengths and ideas, and asserts that the combination of these internal and external paths to market accelerates technology and innovation acceptance and commercial growth.

Corporate venturing is the operationalisation of these ideas – particularly aiding companies to access external innovation, playing a role in the development of innovation and new business models for growth on a global scale. Corporate venturing programs typically focus on technologies and new markets adjacent but distinct from the company's core businesses. Corporate venturing teams require a degree of organisational autonomy in order to blend corporate and new venture investment and development effectively.

In 2011 Heidi Mason, of consultancy Bell Mason, wrote a landmark article – Catching the Fifth Wave, in Global Corporate Venturing, February 2011 – summarising the 50-year-old history of corporate venturing by identifying five waves, which seem to be associated with the ups and downs of the business cycle.

Wave 1: In the 1960s some 25% of Fortune 500 companies established corporate venturing units. This wave lasted until the early 1970s.

Wave 2: This started in the late 1970s, fuelled by tax changes, especially involving high-tech and pharmaceutical companies. The wave lasted until the stock market crash in 1987.

Wave 3: Involving the dot.com era until 2000.

Wave 4: A short wave – 2006-08 – very much curtailed by the financial crisis in 2008

Wave 5: Since 2011, involving a shift from vertical to horizontal thinking, internal innovation networks linking to external ecosystems, and performance measurement becoming more sophisticated.

The first four waves described by Mason focus on the vertical – how a company can outperform within its industry. The fifth wave includes some significant implications for horizontal innovation – the convergence between industries.

I asked Mason how she sees the role of corporate venturing today, especially in the context of convergence and its potential for convergence engineering.

Mason is a veteran of Silicon Valley and co-founder and managing partner of Bell Mason, a speciality consultancy serving global corporations that seek strategic growth through corporate venturing and innovation initiatives. She is a strategic adviser to Global 1,000 corporations focused on innovation, new markets and new business creation through venturing.

What happened after you wrote the article in 2011?

Significant changes happened. More than half of current corporate venturing units were formed after 2009. There has been significant growth in the level of activity. Global Corporate Venturing has been monitoring the level of investment activity for many years. In 2014 they detected a record level of global deal activities through broadening corporate investment syndicates and collaborations. The change has been significant. The drive towards horizontal innovation – convergence – is much more pronounced than we anticipated.

What were the drivers for this shift?

The need for growth. Following the financial crisis, organisations were under enormous pressure to identify growth opportunities in an uncertain macro-economy. This pressure led to a fresher thinking and to the acceptance that thinking beyond industry boundaries was required. At the same time, organisations such as Google and Amazon showed how they can take existing industries to a new level, without the constraints of legacy businesses. The threat of these new disrupters galvanised many incumbents into action.

Are we still on the fifth wave?

Looking back at the 50-year history of corporate venturing, I think we are now in the middle of a tectonic shift. In today's context, the relatively incremental progress we have described as waves is no longer adequate to characterise today's environment.

What constitutes this tectonic shift to a new generation? What is different this time?

The landscape is changing in fundamental ways, and these changes are reshaping industries.

Technology is ubiquitous – mobile, cloud, social media, internet of everything – this perfect storm affects every business everywhere on the planet. This has led to collapsed development times and a necessarily faster cadence for innovation.

Horizontal thinking is now required. Vertical or functional siloes are now understood to be counterproductive, and connecting partners across ecosystems is necessary. These new competitors have no such structural limitations.

Customer-centric solutions, resulting from ubiquitous technology, mean end-to-end solutions are increasingly possible and, when possible, superior.

We have identified three key pivot points for a new era of corporate venturing.

The first is time compression. A three-year timescale is the necessary new norm in which to demonstrate meaningful progress inside a global corporation as outside in the global marketplace. This is a significant reduction from the previously accepted innovation timeframe of five years plus. Internally, this timescale reduction is compounded by what seems to be the natural tenure of corporate executives in positions and typical cycles of corporate reorganisations – also three years. If progress is not seen within three years, the new corporate executive with responsibility for venturing will probably start all over again, or, at the very least, interrupt the current operation and slow its momentum, often enough to lose competitive positioning and deal access.

Second are next-generation corporate venturing power tools. One is ecosystem mapping. This frames investment focus areas and connects portfolio strategy to a map for its execution – corporate venturing ecosystem mapping is challenging and time-consuming to do well, but those who are doing it are also accelerating their performance against their goals. End-to-end ecosystem models deconstruct how local-to-global ecosystems operate, creating a picture of how their key elements and players interrelate and connect. This provides a frame for the corporate venturing team to identify a system of focal points for investment and develop a cogent make-minority invest-buy-partner strategy to drive integrated portfolio development – convergence. This corporate venturing ecomapping technique helps teams turn their strategic portfolio investment map into impactful

types of strategic and financial value return, faster.

Other aids to corporate venturing involve market-maker investment tools. Many groups' charters are expanding beyond individual minority investments, now including active engagement with mergers and acquisitions (M&A), growth private equity, and other means of quickly building roll-ups and collaboration among their portfolio companies – another type of convergence of previously separate tools adapted as a continuous corporate venturing tool suite. The benefit for all is instant leverage points among portfolio companies and other types of identified partners, insuring embedded strategic and financial multipliers, and portfolio position for each of its investments. Other forms of innovation business and technology partnering also are now converging in corporate venturing programs, connecting the dots with other corporate innovation mechanisms and groups that handle strategic alliances, research and development, intellectual property and licensing, M&A, joint ventures and joint development, commercial piloting and incubators, and so on.

The third key point involves the corporate venturing team istself and compensation – the key to recruiting, retention and, finally, institutionalisation of corporate venturing as a mainstream corporate innovation function and contributor to long-term corporate growth.

Corporate venturing compensation structures are the test of the corporation's intentions and its ability to compete effectively for the right senior team members with the required mix of specialised skills, and ensure they stay together. Corporate venturing teams require a unique blend of skills that complement one another and are rarely found complete in one individual. Ambidextrous organisational principles and convergence thinking are now critical to building the right type of team of individuals whose special skills mesh to bridge the corporate and venture worlds.

Corporate venturing compensation structures are the ultimate test of corporate seriousness on this topic. A position in a venturing unit must be seen as a beneficial career move within the corporation, with rational risk-reward compensation structures and performance expectations, along with a formal path for succession planning. Otherwise, venturing positions at the corporation are really a limitation for an individual who is high performance and career oriented – the corporate venturing role instead becomes functional training, professional development on the way to another more respected and impactful operating job, and assuring a revolving door of corporate venturing candidates and team members of variable qualifications. In these cases, the loss of program momentum and ability to deliver performance is inevitable, along with the loss of institutional knowledge that comes and goes with individuals not incentivised to stay and build the corporate venturing program and team.

Can you provide examples of good convergence engineering?

In today's high-urgency, rapidly-moving world, it can no longer be just about individual deals or even about a portfolio, and the solutions depend on converged systems engineering. This is required if the results are to be sustaining.

Global Health Innovation (GHI), the corporate venturing group set up by Merck in 2010, is a good example. GHI's leader and team are emblematic of the new era of corporate venturing. Their portfolio strategy and significant value return to date is driven by their ecosystem vision, expanded suite of corporate venturing market-maker tools and the leader's assembly of the right team.

For example, GHI portfolio company Preventice, a remote patient care system, combines the knowledge and leverage of the pharmaceutical company Merck and that of the Mayo Clinic. Under GHI's stewardship, Preventice has merged with another of GHI's portfolio companies in remote monitoring, eCardio, which was also backed by Sequoia, a top-tier Silicon Valley venture capital firm. Combined, they accelerate GHI's and Merck's influence in the fast-growing remote monitoring market with an anchor position in GHI's portfolio, building a powerful platform to drive innovation and accelerated market growth in the next stage of the healthcare industry.

In agriculture, Monsanto has been pushing the boundaries in augmenting their key capabilities around seed with climate information and work on pest control that has led to significant increases in soil yields. The benefits of these successful convergence engineering efforts by Monsanto Growth Ventures will be felt globally.

Citi Ventures, the integrated internal innovation and external investment arm of Citi, is also leading the way for the future of banking, embodying corporate venturing attributes and portfolio strategy in areas of mobile cloud, big data analytics, cyber-security and virtual currency, and has worked closely with the Silicon Valley ecosystem, partnering for investment in innovative companies such as Square.

You have been based in Silicon Valley, which in itself has been praised as being the prime example of a successful ecosystem. In terms of convergence engineering, even Silicon Valley may be too small an ecosystem. How will the role of ecosystems develop?

Here is where ecosystem mapping comes in. Ecosystems have to be seen from an end-to-end perspective and the global ecosystem needs to be supported by local ecosystems. Ecosystems come from a blend of entrepreneurial infrastructure and insight with the implications of global, interconnected markets.

The entrepreneurial 'best practices' unquestionably originated in areas like Silicon Valley. Its unique ecosystem is the high-performance engine behind its historical success, which has led others in other areas around the world to strive to replicate and adapt the Silicon Valley model in their local environments.

Understanding the dynamics and unique skills of local players and local environments that comprise these international innovation hubs – and how local players connect end to end – becomes critical to understanding how to succeed for local collaboration. At the same time, localised innovation eco-understanding converges at a larger, global level in a vision and system strategy for how to connect one to another at a global level, leading the way as to how to effectively manoeuvre and connect elements across these hubs and ecosystems from a local to global level, to accelerate corporate venturing programs, portfolio and investment development, corporate value delivery and the corporation's emerging market impact and influence.

As we have all progressively understood, especially in the past five years with the explosion of technologies and access that instantly connects and enables us all, local is not enough to be successful in today's world. In addition to global corporations with business infrastructures established around the world, new ventures must have a global outlook from their birth. Innovation hubs in other parts of the world are now critical to new ventures that form in them, providing a local environment with better perspective on the necessities, demands and opportunities for global strategies and market development.

Ecosystems have to be seen from an end-to-end perspective and the global ecosystem needs to be supported by local ecosystems

PART 6

COMPENSATION TRENDS

GCV has partnered J Thelander Consulting to republish the executive summary of the compensation consultancy compensation report – the most comprehensive effort to provide cross-industry external benchmarks for corporate venturing compensation levels and structures.

Jody Thelander, J Thelander Consulting, Heidi Mason and Liz Arrington, Bell Mason Group

The Thelander 2015 CVC Compensation Report is the most comprehensive effort to provide cross-industry external benchmarks for CVC compensation levels and structures. The 2015 survey provides data from more than 150 CVC executives representing 110 leading programs at Global 2000 corporations. The survey was conducted by compensation specialists J Thelander Consulting (JTC). This survey was supported by trade associations NCVA, EVCA, IBF Conferences and Corporate Innovator's Huddle.

With its 2015 survey and results, the Thelander 2015 CVC Compensation Report marks a major Year 3 milestone, illustrating the success of this collaborative initiative in establishing a standard framework and benchmarking process tuned to meet the unique needs of executive management and CVC investment professionals; and creating an essential tool for competing for talent and team retention in the corporate venture capital world. Key Year 3 findings and implications include:

- Consistency and standardisation around CVC team roles, individual job descriptions and performance criteria: a critical step in the institutionalisation of these specialised positions and career paths in their own right, and a 'level set' requirement for how these roles operate in ever-changing corporate and market environments.
- Confirmation of the new realities of sourcing for investment talent: On average, 50% of the core CVC team are externally sourced in order to build the necessary complement of skills and experience for high performance. And with CVCs participating in nearly 20% of venture deals, talent in the investment ecosystem is increasingly sitting side by side, creating an increasingly challenging environment for CVC individual recruiting and team retention – as well as a deeper pool of skill sets and experience. By necessity this now requires Corporates to take the broader ecosystem view and understand relative CVC, VC /PE, and Private Company executive teams' compensation and career paths, and the 'normalisation 'across these previously disconnected categories.
- Bonus, equity and carry structures remain the competitive basis for 'pay for performance' incentives. In future surveys/reports, further analysis is planned on the evolution of compensation structures relative to

the maturation and performance of a CVC unit. Early indicators are that the emphasis moves from straight salary to bonus to the consideration of mechanisms to reflect upside performance (eg, 'Carry' equivalents, LPGP structures)

Context

In recent years, there has been tremendous acceleration in the number of companies launching corporate venture capital funds and programs. According to Global Corporate Venturing, today worldwide there are more than 1,200 corporations with corporate venture programs, more than half of those having formed since the beginning of 2010.

Companies use corporate venture capital as a compelling means to drive outside-in ('open') innovation for: access to new and disruptive technologies, the development of new business models and participation in emerging markets, all of which may provide meaningful contributions to corporate growth. Furthermore, as the traditional venture capital industry has consolidated, CVCs are playing an increasingly important role in assisting startups with commercialisation, providing their portfolio companies with operational and market development support as well as financing. Additionally, CVCs are amplifying internal corporate innovation initiatives and accelerating external market impact through M&A and other forms of investment partnerships and collaborations.

For most CVCs, corporate investment goals are a combination of "strategic impact" and financial return. This has historically, created a compensation conundrum for recruiting, rewarding and retaining CVC professional talent – – how to frame CVC compensation relative to both traditional venture capital risk-reward models and established corporate salary structures.

Consistent with data from previous years of the Thelander CVC Compensation studies, the 2015 survey shows that CVC unit leaders earn, on average, $315,856 a year plus $160,552 in cash bonuses. The survey also includes minimum, maximum and 25th and 75th percentile data for the Unit Leader position as well as the following roles: senior investment professional, portfolio manager/CVC unit CFO, investment/program manager, analyst/associate and vice-president innovation – the VP innovation role is not to be confused with the chief innovation officer, to whom the CVC group may report, and a role which this survey does not yet track.

The 2015 survey also details CVC unit leader compensation relative to 6 levels of Assets under Management (AUM), from less than $20M to more than $500M.

Broader CVC mandate

As CVC has become a more mainstream strategic innovation activity, there is a broader range of mandates aimed at maximising unit impact. Although 97% of survey participant units make minority equity investments, 16% also make majority equity investments more consistent with growth PE strategies and 22% also are involved in 'innovation' M&A activity. Furthermore, 39% have commercial piloting and/or incubation responsibilities that actively link CVC investments and Business Unit activities. This variety of roles suggests that CVC compensation approaches will need to continue to evolve, in keeping with the expansion of the units' mandates and individual CVC professional responsibilities.

Incentives for success

In addition to recruiting and retention, compensation structure can also signal the focus and intent of corporate executive management. Do CEOs and CFOs still view corporate venturing as an experiment or an opportunity to temporarily expose promising personnel to venture capital/ innovative startups for career development? Or is corporate venture now a sufficiently critical priority to create the human resources and compensation policies required to effectively recruit and retain a team of specialised CVC personnel?

Seventy-five percent of the respondents to the 2015 survey said their current title and compensation structure failed to accurately and appropriately compensate them as a CVC professional. This outcome should not come as a surprise: in 2015, less than a quarter of corporations look to external benchmarks to determine comparables for CVC compensation and career path planning, while 46% continue to rely on existing internal corporate and HR benchmarks and banding as the primary means of framing the approach to CVC professionals' compensation, recruitment and retention.

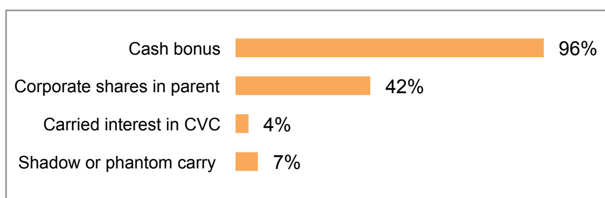
However, the 2015 survey shows increasing efforts are being made to define and reward individual/unit performance beyond deal sourcing (78%) and traditional financial metrics (75%). Close to three quarters of respondents noted that

their individual bonus structures now include some level of strategic impact metric to capture value-add to the parent corporation (BU commercial pilots, tech transfers, etc.).

Although the performance of the corporate parent continues to be an important factor in determining annual bonus, in 2015 more than half of companies reported individual and CVC team performance to be equally important factors…a change from previous years where corporate performance dominated.

42% of survey respondents said they were granted options or shares in their corporate parent in addition to the 97% who received cash bonuses.

Unlike financial VCs; only 4% of respondents included payment of carried interest, while 7% reported a program to calculate or 'shadow' or 'phantom' carry as a component of compensation to their CVC executives.



Sisyphus syndrome

A major challenge for CVC units is the frequency of senior management rotations, executive sponsors for the programs. Close to half of respondents said they had experienced an executive sponsor change in their parent company in the previous three years.

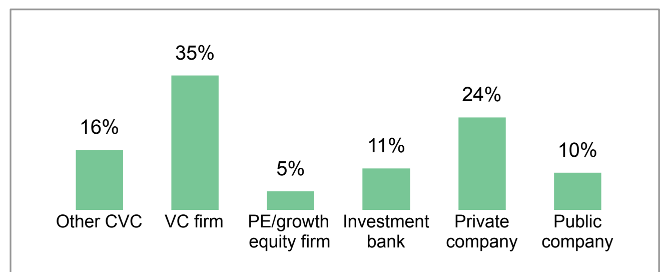
These typical turnovers in senior ranks of the corporation often trigger CVC program reviews, especially if there are changes in direct reporting structures. This phenomenon may prove additionally challenging for CVC programs and team retention, as change in leadership may slow the unit's external investment momentum and progress against long term goals, as well as require a temporary shift of time and attention for reframing and educating new leadership on program value and results.

One corporate venture veteran of more than 20 years described this as similar to the myth of Sisyphus having to roll a boulder uphill every day only to see it fall back every night.

Of the companies which responded to the survey, nearly 40% had been in place less than three years and more than half for less than five years. 43% of had been in business more than six years.

This relatively short tenure might also partly reflect the rapid growth in the industry over the past three years. Many units have recruited experienced managers from other companies or individuals with financial VC/PE/Investment Banking background to complement their internal executives.

Sources of competition for CVC investment talent



Of the respondents to the survey, 60% said more than half of their investment professional team are sourced externally, with more than 50% recruited from VC/PE firms and investment banks and another 15% from other CVCs.

In order to effectively compete for talent, this means corporations must have a better understanding of and access to data relative to compensation benchmarks for the entire innovation/investment ecosystem, from which these specialised CVC professionals are recruited, hired, and retained.

The internal-sourced CVC team members were seen to provide internal access and networks; with the outside hires to bring CVC deal-making and market domain expertise.

The most common CVC unit structure (42%) is to draw money from the parent company each year with a dedicated team and operating budget. Nearly 40% operate either as a completely separate entity (16%) or through an LLC or off balance sheet with an annual investment budget (24%). Close to 20% rely on obtaining investment funds from the parent company on a case-by-case basis.

CVC compensation survey

The Thelander 2015 CVC Compensation Report is the most comprehensive effort to provide cross-industry external benchmarks for CVC compensation levels and structures. The 2015 survey provides data from more than 150 CVC executives representing more than 110 leading programs at Global 2000 corporations. The survey was conducted by compensation specialists at J. Thelander Consulting. The survey was supported by trade associations NCVA, EVCA and Innovator's Huddle.

Previously, most of the information on corporate venture compensation and structure has been anecdotal or opinion based. With the Thelander 2015 CVC Compensation Report, the market realities have become much clearer, and the decisions for executive management and corporate boards can be more informed.

To purchase a full copy of the Thelander 2015 CVC Compensation Report, and the Private Company and Investment Firm Compensation Reports, visit jthelander.com/thelander-surveys/ .

CVI2-Thelander 2015 Corporate Venture Capital (CVC) Compensation Survey©

CVC Unit Leader - Senior Corporate Level Executive

All Reported Data

CVC Unit Leader - Senior Corporate Level Executive	No. of Co's Reporting	Average	Minimum	25th %ile	Median	75th %ile	Maximum
2014 - 2015 Base	61	$315,856	$200,000	$250,000	$300,000	$350,000	$900,000
Bonus for Performance 2014	57	$160,552	$30,000	$65,000	$115,000	$200,000	$750,000
2014 Bonus % of Base $	57	48.7%	14.3%	24.0%	38.6%	58.3%	187.5%
Total Cash 2014 - 2015	61	$465,880	$220,000	$315,000	$425,000	$530,000	$1,500,000
Projected 2015 Bonus	48	$197,667	$20,000	$80,000	$137,500	$181,250	$1,067,000
2015 Projected Bonus % of Base $	48	58.4%	9.5%	30.1%	43.1%	60.0%	266.8%
% Interest Carried	11	11.6%	2.0%	5.5%	15.0%	16.0%	20.0%

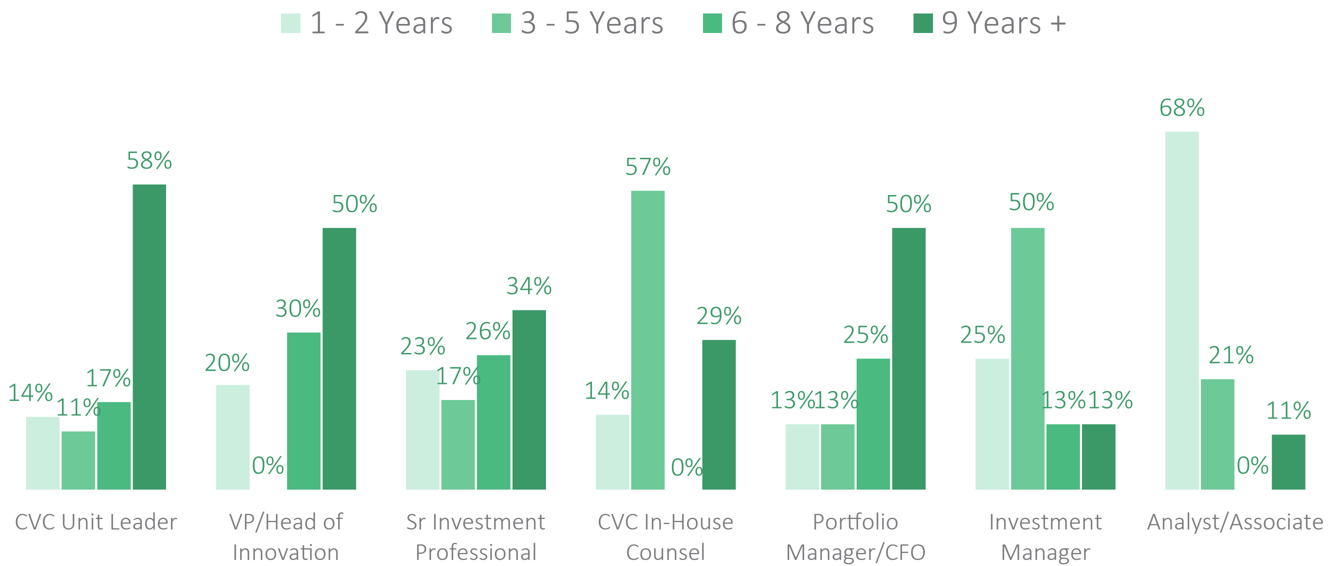
CVI2-Thelander 2015 Corporate Venture Capital (CVC) Compensation Survey©

Senior Investment Professional

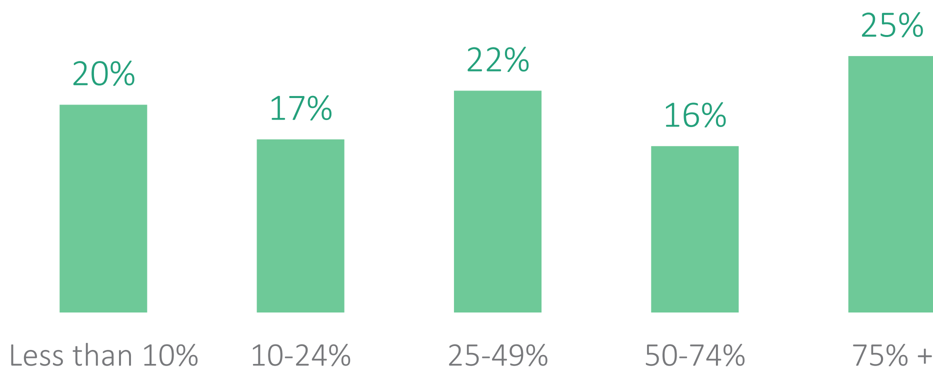
All Reported Data

Senior Investment Professional	No. of Co's Reporting	Average	Minimum	25th %ile	Median	75th %ile	Maximum
2014 - 2015 Base	91	$228,217	$160,000	$186,000	$210,000	$253,500	$407,000
Bonus for Performance 2014	80	$94,731	$25,000	$40,750	$62,000	$105,000	$750,000
2014 Bonus % of Base $	80	37.4%	11.9%	22.2%	30.1%	42.9%	187.5%
Total Cash 2014 - 2015	91	$311,497	$160,000	$230,000	$270,000	$344,000	$1,150,000
Projected 2015 Bonus	73	$99,892	$20,000	$50,000	$68,000	$102,000	$800,000
2015 Projected Bonus % of Base $	73	39.5%	11.1%	23.4%	31.5%	43.3%	200.0%
% Interest Carried	12	6.0%	1.0%	1.8%	3.5%	10.0%	15.0%

How many years of CVC or VC experience do team members have?
(n=57)



What percent of the current CVC team came from the parent corporation?
(n = 148)



GCV Leadership Society Mission:

The GCV Leadership Society is for corporate venturing leaders and aims to be the pre-eminent voice for the global corporate venturing community with each other and to third parties, such as entrepreneurs, VCs and through regional trade bodies and local networks that provide government lobbying. The Society helps develop the corporate venturing leaders of the future.

	Entry (Individual) $499 per year	Premium* (Company) $10,000 per year	Luminary (Company) $50,000 for 3 years
Right to use the *'Professional Society'* Name	✓	✓	✓
Get the Weekly Community Newsletter	✓	✓	✓
Entry in the Member Directory	✓	✓	✓
Enhanced Company Profile in the Directory		✓	✓
Discounts for Events, Academy and GCV products	10%	20%	30%
Free Ticket to either the annual Summit or Symposium		ONE	TWO
Executive Advisory Role - act as CVI Professional Society Ambassador for a three-year period			✓
GCV Subscription** for up to 2 users for 12 months (worth $2,500) - access the monthly magazine, data searches and special reports	10% Discount	FREE	FREE
GCV Analytics for 2 users for 12 months (worth $10,000) - access 5000+ deals through GCV Analytics for bespoke reports	10% Discount	FREE	FREE
Branding on Leadership Society materials as Luminary members			✓

*GCV Subscribers can upgrade for a limited time. Subscription fee already paid will be subtracted from the amount due on a pro-rated basis.
**Includes access to Global Government Venturing and Global University Venturing.

NDA Club

$33,000 per year

Corporate members can apply to upgrade to join the exclusive NDA club. This gives you access to small, private meetings with carefully invited peers, for example in the same sector or with aligned interests. Members sign a non-disclosure agreement so that confidentiality is assured. Share your venturing pain points with friends and get healing!

GCV Industry Partner (Firm) or other industry professional (e.g. Academic, Government)

$5,000 (Standard) or
$15,000 (Advanced) per year

"Global Corporate Venturing represents the industry and the good citizens and leaders in the innovation capital ecosystem are part of its Leadership Society."

Claudia Fan Munce,
GCV Leadership Society Chairperson
and Head of IBM Venture Capital

Why Join?

- Support your industry
- Help shape thought-leadership and best practice to increase success
- Network with the most influential corporate venturers in the world – these could be your co-investors or partners
- Raise your company's profile to increase co-investment and deal-flow opportunities
- Increase your personal profile for your next career move
- Join sub-committees to move the industry forward in areas such as deal flow, investment models, partnership approaches, innovation excellence and intellectual property

Committee members include:

Claudia Fan Munce
IBM Venture Capital

Ralf Schnell
Siemens Venture Capital

Nagraj Kashyap
Qualcomm Ventures

Dominique Mégret
Swisscom Ventures

Peter Seiffert
Embraer

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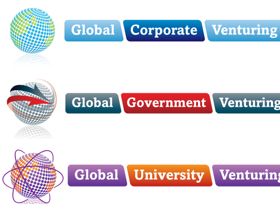

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PART 7

VENTURING BY GOVERNMENTS AND UNIVERSITIES

James Mawson, editor-in-chief

Governments reap rewards for their venturing efforts

To say governments are increasingly important to the innovation capital ecosystem is an understatement. With more than 150 new funds set up either directly run or backed by governments was a nearly three-fold increase over 2014's total, according to Global Government Venturing (GGV).

There was also a three-fold increase in direct dealmaking by these government venturing funds with 533 in 2015 compared with 173 the year before, according to GGV's proprietary database.

The goals from all the new funds and deals remains broadly the same: to develop (hopefully high-paying, productive) jobs for their populations, attract the fast-growing scaleable entrepreneurial businesses to the country from around the world and deliver positive financial returns.

Innovation is the mantra for this era, whether by individuals, institutional investors, universities, non-profits, governments and corporations.

\But while some win, most incumbents seem to be struggling in what Paul Graham, co-founder of accelerator Y Combinator, called the "refragmentation" of society.

More than 75% of the S&P500 index of America's biggest public companies are expected to be replaced by 2027 as the average lifespan on the index falls from 60 years in the 1950s to less than 20 in the 2000s, according to data from Innosight and Richard Foster.

This is at least in part due to corporate underinvestment. Analysis by Reuters of 3,297 publicly traded non-financial companies found companies were spending more than they had on giving money back to shareholders.

Buybacks and dividends as percentage of net income

2009	2010	2011	2012	2013	2014	2015*
63	66	79	91	89	105	116

**2015 data for 613 companies that have reported*
Sources: Thomson Reuters data, regulatory filings

This type of focus is encouraging governments and others to look at private companies and fast-growing ones for future jobs and returns, whether economic and/or social.

Sanaria, a US-based company working on a vaccine for malaria, last year raised $48.5m from a consortium including the government of Equatorial Guinea. The government announced its agreement with US-based energy companies Marathon Oil Corporation, Noble Energy and US-based Atlantic Methanol Production Company (AMPCO) to support the clinical development of the vaccine from 2015 to 2018.

Equatorial Guinea invested through its Ministries of Health and Social Welfare and Mines, Industry and Energy alongside its industrial partners. The government invested $36.75m with the industry partners making up the remaining $11.75m.

Salim Abdulla, Director of the Tanzania-based Ifakara Health Institute that is participating in the development of the vaccine, said: "We are honoured to contribute towards this initiative driven by our African leaders and are excited about the possibility of elimination of malaria in Equatorial Guinea and other parts of Africa."

This form of research-driven investment by governments and corporations – the so-called triple helix – has been increasingly seen in fundraising.

For example, V-Bio Ventures, a Belgium-based venture capital firm, last year raised €63m ($68.7m) for its V-Bio Ventures Fund 1 with a cornerstone investment from the European Investment Fund (EIF), the continent's largest limited partner in VC funds.

EIF was joined as a V-Bio investor by Arkimedes, a program run by investment firm ParticipatieMaatschappij Vlaanderen (PMV) and the region of Flanders, investment firm Korys and Leuven University.

Vlaams Instituut voor Biotechnologie (VIB), a Belgium-based life sciences institute, is also a co-founder of the fund.

The fund will invest in early-stage life sciences companies, particularly in the pharmaceuticals, biopharmaceuticals, diagnostics and agricultural improvement sectors.

Piyush Unalkat, head of technology transfer investments at EIF, said: "This investment recognises the strong scientific base and potential of VIB, which ranks among the top in Europe in terms of scientific output and is complemented with a world class technology transfer office.

"The European Investment Fund's investment is in line with its objective to support the commercialisation of EU innovation."

The Benelux region – Belgium, Netherlands and Luxembourg – has had a strong life sciences focus, with Acerta the largest exit among a number of government venturing-backed deals *(see Europe's 'resilient' entrepreneurs, overleaf)*. Other Benelux government-backed health exits last year include Celyad and Biocartis's flotations and the sale of ActoGeniX to Intrexon.

And continental Europe has developed a strong focus on triple helix funds with multiple corporate, university and government ties. The €18m ($20m) Mainport Innovation Fund II (MIF II) raised money from airline operator KLM, airport company Schiphol Group and rail network manager NS Dutch Railways, Delft University of Technology and Port of Amsterdam and the Netherlands Ministry of Economic Affairs' Seed Capital initiative.

There is also greater collaboration among European development institutions, particularly the EIF and its parent, the European Investment Bank, and the European Commission and the European Bank for Reconstruction and Development, including the primarily project finance-orientated European Fund for Strategic Investments with multi-biillion euro commitments already made.

However, other regions, particularly in Asia, have already been making these leaps.

China announced at the start of last year a $6.5bn program to support venture capital and entrepreneurs, while the Zhejiang provincial government in the country set up a $3.2bn program and its sovereign wealth funds and top universities have been looking more at innovation investments.

The US, however, remains an outlier in terms of its innovation capital industry. While state funds, such as Alaska's which invested in Juno Therapeutics ahead of its flotation, can take large stakes, most of the big deals (many involved in the taxi wars of Uber, Lyft, Ola and Didi Kuaidi) have involved foreign sovereign wealth funds, such as Singapore's Temasek and GIC.

State support has tended to focus on research through the Small Business Innovation Research (SBIR) program, leveraging VCs through Small Business Investment Company (SBIC) and State Small Business Credit Initiative loans, and tax breaks to entrepreneurs and investors.

However, through the successes of government venturing unit In-Q-Tel and an unexpectedly large in last year's budget, to $225m from $75m, for the Rapid Innovation Fund (RIF), which is designed to "transition innovative technologies, primarily from small businesses, that resolve Department of Defense operational challenges" the government under President Barack Obama had looked at ways to support innovation.

Around the world, therefore, there were few signs that innovation capital was becoming less important.

Europe's 'resilient' entrepreneurs

It is a sign how far European entrepreneurs and its innovation capital economy has come that the biggest venture-backed exits of the past few years in WhatsApp and now Acerta Pharma involve the 'old continent'.

That the majority of the returns have been reaped by US venture capital firms in both these cases is a sign of the progress that still needs to be made, at least in the eyes of European policymakers.

Jan Koum was born in Ukraine before moving to the US and co-founding messaging company WhatsApp with Brian Acton and then exiting to Facebook in a $19bn deal. VC firm Sequoia Capital reaped the bulk of this return. A US company sold to US firms and backed by US VCs is fairly standard for Silicon Valley, which prides itself on attracting talented entrepreneurs from around the world.

Acerta Pharma, however, looks on paper to be more of a European deal and the largest exit at about $7bn since 2014's WhatsApp.

Anglo-Swedish-listed drugs company AstraZeneca has agreed to acquire a 55% stake in Netherlands-based anti-cancer drug developer Acerta Pharma, backed by the regional government venturing unit BOM Capital and an interesting triple helix venturing organisation, BioGeneration.

AstraZeneca has agreed to pay $2.5bn initially for 55%, another $1.5bn will be paid either on receipt of the first regulatory approval for its main drug, Acalabrutinib, for any indication in the US, or the end of 2018, depending on which is first. AstraZeneca also has a $3bn option to buy the remaining shares.

Even taking the first tranche of cash, then this is a great return for BOM, which had invested €749,222 ($812,442) in Acerta, according to a response to a politician's questions, and BioGeneration Ventures, which helped Acerta raise $13-14m in a first tranche of its $130-175m series A round in 2013, according to news provider Fortune.

But as one local industry expert said, BioGeneration, which was started in 2007 as an initiative between the government's Netherlands Genomics Initiative (NGI), Leiden University, bank ABN Amro and its former VC unit Forbion Capital Partners, and BOM were diluted as American investors, including venture capital firms Frazier Healthcare Ventures and OrbiMed Advisors, came in.

Acerta also reportedly raised up to $375m in its B round that closed in May, according to news provider Fortune. BioGeneration went to a "low single digit" percentage, according to one industry expert. Biogeneration declined to comment on its returns.

Given even 1% of a $7bn deal is $70m, even a holding of a few percentage points will be a fantastic return. But for the VCs and others, reportedly including mutual fund manager T Rowe Price, that own more, the value can quickly run into hundreds of millions of dollars.

However, given that a close peer of Acerta, Pharmacyclics, was sold in March to AbbVie for $21bn it could be argued that European investors might have been quicker to spot the hidden value in the Dutch startup, given public market analysis by EP Vantage among others.

Neelie Kroes, former vice-president and digital agenda commissioner for the European Commission and now special envoy for StartupDelta in the Netherlands, certainly hopes things will change.

She said: "In Europe it remains difficult to believe that even with success stories like Acerta Pharma startups have to rely on US money in the later stage funding rounds. We have to change that!"

She described Acerta Pharma as a "new success story for the Dutch/StartupDelta ecosystem" and an example of "the resilience of the people and the local ecosystem" in the Netherlands and its Oss region.

The origins of Acerta show this.

In 2011, US-based pharma company Merck closed down its Oss-based research department taken on when local pharma group Organon was acquired by a business that was then folded into Merck in 2009. Outside of the US, the company is known as Merck Sharp and Dohme (MSD).

A year after the centre's closure, in 2012, some of these research buildings and equipment were formed by a consortium of business, universities and government into Pivot Park, which housed Acerta set up by two ex-employees of MSD/Organon, Allard Kaptein and Tjeerd Barf.

Kroes said: "The Pivot Park in Oss is a classic example of an inspiring campus for open innovation in the life sciences. Startups and SMEs [small and medium-sized enterprises] have access to the same facilities as big pharma. You can compare the story to a certain extend with [mobile phone maker] Nokia where Nokia's fall means the rise of startups in Finland.

"The early-stage funding of Acerta Pharma demonstrates that startups in the Netherland have sufficient access to funding in the early stages. The local ecosystem was also very successful in connecting to international VCs for the later stage funding rounds. But this is not always the case

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and here is room for improvement and StartupDelta want to play a role."

As Kroes said, initially, Kaptein and Barf had been meeting local investors.

Mariette van der Velden-Roesink, senior investment manager for life sciences and health at BOM Capital, which invests to support the Brabant region in the south of the Netherlands, of which Oss is a municipality and a city, declined to comment on returns but said: "The Brabant (Oss) region was very much a factor in this startup, which deserved our support but also soon attracted many American investors and has management and clinical operations in California [under CEO Dave Johnson]."

Edward van Wezel, managing partner of BioGeneration Ventures, which is planning to raise a third fund of €50m in the first half of 2016, said he had started to work with Acerta Pharma in 2012 and helped bring in these Americans.

He said: "Through our own network we came into contact with Allard Kaptein and Tjeerd Barf [who] were looking to raise funds for a startup company based on a small-molecule-based technology platform.

"We employed our experience with early-stage opportunities to get the company started. BioGeneration helped to direct the focus of the new company and enabled the company to get the required assets in place. BioGeneration also early on identified a team of experienced professionals based in the US with complementary skills [including Ahmed Hamdy, the ex-chief medical officer of Pharmacyclics,] that joined Acerta Pharma. This, together with a number investors, mainly from the US, ultimately resulted in a series A funding in 2013.

"It must be noted that we do not believe that Acerta would have found sufficient funding at this early stage in Europe alone nor the expertise and experience required to make it into a success. We know there is great scientific innovative strength in Europe. However the expertise to translate innovative new scientific findings into successful new therapeutic products lags behind compared with the US."

AstraZeneca certainly has high hopes for Acerta's main drug, Acalabrutinib, a so-called BTK inhibitor designed to interrupt the signalling process that B-cell cancers use to proliferate. The drug, currently in phase III trials so with an assumed 60% probability of success, could bring in $5bn a year at its peak if clinical trials work out, according to AstraZeneca in its press release.

The good news, therefore, is the Netherlands has an entrepreneurial success story and its Startup Delta ecosystem has developed the tools to help support their earliest stages.

The other positive is the global ecosystem has proved successful in funding its potential and a trade buyer found to crystallise its value.

The challenge remains for Europe's deep-pocketed investors to reap fuller rewards from their earlier-stage support.

For the original news articles this comment was based on go to www.globalgovernmentventuring.com and www.globaluniversityventuring.com

The challenge remains for Europe's deep-pocketed investors to reap fuller rewards from their earlier-stage support

Universities experience entrepreneurial step change

The outlook for university venturing around the world continues to be positive after over $4bn was last year committed to more than 30 new funds targeting primarily academic and public research-led innovations.

This compares to 32 new funds raising $2.7bn in 2013 and 90 launches in 2014 with an aggregate $5.5bn, according to our sister publication Global University Venturing (GUV).

Although the final deal tally from institutions is still being counted, 2015 could have been a record-breaking year for deals with potentially more than 700 tracked by GUV, compared with 538 in 2014 and 233 in 2013. And some of these deals, such as Immunocore, an immunotherapy firm which has its origins at Oxford University before raising $320m last year in a round, have in themselves been record-breakers *(see overleaf)*.

Rather than see the returns reaped by third-parties, universities are increasingly making large investments. Tsinghua Unigroup, a subsidiary of the state-backed Tsinghua Holdings invested by Tsinghua University, invested $100m into Acadine, a China-based mobile operating system (OS) developer.

Zhao Weiguo, chairman of Tsinghua Unigroup, at the time said: "The operating system is the most critical link between users and service providers, and this field is the most important battleground for the entire IT industry worldwide. Yet it has been highly monopolised on the desktop and in the mobile space, and the offerings cannot meet the specialised needs of many vertical sectors. The Acadine team has the international vision and calibre to challenge this monopoly and we fully support them in this endeavour."

China at the start of last year put in place a $6.5bn government program to support venture capital and university venturing and Tsinghua's speakers at the GUV: Fusion conference in London in June said its institution was being used as a pilot for others.

As with Tsinghua, some of last year's new funds, such as Oxford Sciences Innovation (OSI), which raised £320m ($487m) in last summer, could credibly stand against almost any independent venture capital fund in terms of size, although most others were started with more modest sums.

Yissum Research Development Company, the tech transfer arm of Hebrew University of Jerusalem (HUJ), launched Agrinnovation, a $4m fund to invest in agriculture innovations backed by Australia-based investors Victor Smorgon Group.

Others have taken a while to go from announcement to starting. Just before the new year, the University of California (UC) launched its $250m fund to invest in innovation opportunities that emerge from the institution first announced "UC Ventures" in 2014.

The university's office of the chief investment officer is the anchor investor in the funding, committing the $250m of initial funding.

This year could also see further launches around the world, given a virtuous circle has been developing where returns from intellectual property or prior investments are reinvested. Last year, Apple was required by the courts to pay Wisconsin University $234m in damages after the tech giant allegedly infringed on one of the university's processor patents.

Carl Gulbrandsen, managing director of WARF, which is the US's oldest tech transfer and investment funds, said: "This is a case where the hard work of our university researchers and the integrity of patenting and licensing discoveries has prevailed. The jury recognised the seminal computer processing work that took place on our campus. This decision is great news for the inventors, the University of Wisconsin-Madison and for WARF."

Australian spinouts, for example, could be set for a boom as universities anticipate A$800m ($571.2m) earmarked for university venturing in the first six months of the year.

The Commonwealth Scientific and Industrial Research Organisation is planning to use cash raised from its A$450m Wi-Fi patent windfall to launch a tech-focused investment fund, while top universities are developing a A$200m fund, the same amount as Brandon Capital, which supported Melbourne spinout Hatchtech before the headlice treatment firm was sold to pharmaceutical firm Dr Reddy's for $279m, as well as other spinouts.

Dean Moss, CEO of Uniquest, the tech transfer arm of Queensland University, said: "The model of investing in university IP is being validated. That has got everybody in superannuation looking at this and saying, 'Wow, this is good'. We have not had this before. The government is saying, 'This model has been shown to work', and it's attracting international attention."

As with Yissum's Agrinnovation fund or OSI, which has search engine provider Google as a limited partner, increasing numbers of corporations are looking to university venturing funds as a source of deals and insights.

Postal firm Australia Post (AP) is launching an A$20m investment vehicle targeting e-commerce startups and

co-locating the fund at Melbourne University's Melbourne Accelerator Program.

Australia Post also hopes to grow the fund to over A$100m in the coming years, although such hopes can sometimes go unfulfilled judging by the interest over the changing fund sizes for the Bertelsmann-backed University Ventures second fund *(see box)*.

In another positive signal for the developing industry, there is increased global cooperation between institutions. Russia has connected its universities to global experts, while US-based Johns Hopkins University is investing in a $30m fund along with startup hub Luminox Partners on a new $30m digital healthcare fund focused on Israel.

Oxford University's tech transfer unit Isis Innovation was also named as a consultant in a £50m UK-China tech transfer fund launched as part of Chinese President Xi Jinping's trip to the UK last year.

Tom Hockaday, CEO of Isis, who is expected to step down this year, said: "The fund will provide an important new source of finance for UK technology businesses, enabling existing businesses to grow through access to the funding and the Chinese market, and also enabling those businesses to invest their resources into research and development in the UK. World-class research as the basis for new products and services in world-scale markets will provide opportunities for the next generation of UK businesses, working collaboratively and competitively in China."

The goal for these top groups is, as Hockaday said, "world-class research" for "world-scale markets" and here US institutions retain a healthy lead.

Stanford University was been named the world's most innovative university, according to a ranking using patents rather than spinouts conducted by news provider Reuters.

The Silicon Valley-based institution beat Massachusetts Institute of Technology (MIT) and Harvard, second and third respectively, and other Ivy League peers in a table dominated by US institutions at the top. Only one non-US university, the Korea Advanced Institute of Science & Technology, made the top ten.

Imperial College London, placed at 11th, is the highest ranked university in Europe, with KU Leaven at 16 and Cambridge University at 25.

The Harvard Impact Study said its 375,000 living alumni had created more than 146,000 for-profit and non-profit ventures employing 20 million people and with aggregate annual revenues of $3.9 trillion – greater than the gross domestic product of Germany, the world's fourth-largest economy.

Meanwhile, MIT's impact report, found its 130,000 alumni had created 4.6 million jobs in 30,200 active companies posting aggregate annual revenue of $1.9 trillion – more than the gross domestic product of Russia, the world's 10th-largest economy.

Edward Roberts, the professor at the MIT Sloan School of Management who led its study, a follow-up to a previous report he prepared in 2009, said in news provider BetaBoston article: "We are seeing a more rapid rate of growth than we have ever seen before in the formation and start[ing] up of new companies by MIT alumni."

Immunocore smashes European biotech records

Immunocore, an immunotherapy firm which has its origins at Oxford University, has secured the largest European life sciences fundraising round ever at $320m.

The Oxford-based biotech raised the cash from pharmaceutical giant Eli Lilly, life sciences investor Malin, RTW Investments, a number of new and existing private backers of Immunocore, and Woodford Investment Management, which led the round jointly with Malin and is one of renowned British investor Neil Woodford's two ongoing funds. Between them, Woodford and Malin provided $80m of the total. The round marks the sole fundraising held for Immunocore since it became its own company in 2008.

The round is not only Europe's largest, but the second-biggest life sciences round worldwide. Only Moderna Therapeutics, a US-based life sciences firm developing messenger RNA therapeutics which can be used to quickly map out a new or existing pathogen's genome and produce an antibody to kill it, has raised a bigger round with $450m announced at the start of the year. Immunocore's round bumps Reliant Pharmaceuticals' $273.7m into third place, followed by Jazz Phamaceuticals at $250m and Intrexon at $200m.

Immunocore already has several agreements with high profile pharmaceutical firms in place, including GlaxoSmithKline (GSK), Genentech, and Medimmune, the research and development unit of AstraZeneca. In 2013, GSK contributed $222m to for pre-clinical rights to drugs Immunocore is working on. In the same year, the firm agreed to a similar deal with Genentech with an upfront payment between $10m to $20m with over $300m in milestone payments on the table. In 2014, Immunocore

University Ventures' fund intrigue

One of the attractions of most venture capital funds to its managers is the money is committed and then legally required to be delivered when the general partner (GP) strikes a deal.

This limited partnership (LP) agreement forms the basis for how much GPs get paid and under what conditions the money can be invested.

It is rare indeed for the LP commitments to shrink rather than rise unless a key man or other clause is affected causing the LPs to change their mind.

So the regulatory filings for University Ventures' second fund has been intriguing. The latest, August 14, puts the fund at $136m, compared with the $105m University Ventures Fund I, launched in 2011.

A nice increase but a total fund II size less than the $188m it disclosed in April 2014 US Securities and Exchange Commission filing. And back in March 2013, the fund had still raised $175m, half its planned total of $350m, according to its filing at the time.

The fund's main managers remain Ryan Craig, the founding director of Bridgepoint Education, and Daniel Pianko, the first outside director of Altius Education, with Gregg Rosenthal, an education expert from Bertelsmann also on the filing as an executive officer. David Figuli, former general counsel to two state university systems, is still acting as a principal to the fund, judging by his LinkedIn profile, although he is no longer an executive officer in the latest filing as he was in 2014.

There's no update on the LPs in the second fund and information requests to the main investors in the first fund, Germany-based media group Bertelsmann and University of Texas Investment Management Company (Utimco), were unanswered, along with a request to University Ventures itself. Bertelsmann revealed in March 2014, when the target was still $350m, that it had agreed to provide half of the second fund's total cash.

Utimco's investment returns filing for last year showed it had just more than $24m in value from University Ventures' first fund (through two vehicles), up from nearly $5.7m in mid-2012.

University Ventures Fund II is expected to widen the firm's scope and include areas such as medical education and seed investing. In a July profile, news provider EdSurge said University Ventures had set up a $5m seed fund for investing in startups focused on serving the higher education industry.

The seed fund has already invested in four companies, EdSurge said – CampusLogic, Entangled Ventures, ProSky, and Portfolium, and are included in its 11 current investments.

Deals, therefore, are being done – which is the main thing for entrepreneurs – but the opportunity for learning more about the fundraising process itself has yet to be taken.

entered a research and licensing collaboration agreement with Medimmune, where the Oxford firm received $20m in upfront payments and a further $300m in development and commercial milestone payments with further royalty payments dependent on success.

The firm is a sister company of Adaptimmune, another immunotherapy company originating from Oxford which raised $104m in its series A last year and held an IPO worth $191m in April. The two firms originally come from Avidex, an Oxford University firm spun out of the institution in 1999. Avidex would go on to be acquired by German Medigene in 2006 which would later spin out Immunocore in 2008.

Similar to Adaptimmune, Immunocore is working on cancer-focused immunotherapies based around genetically-altered T cells. In immunotherapy, T cells are removed from a patient's body, adapted to be able to identify and kill cancer (and can also be used for infectious diseases) before being reintegrated with the patient. Upon infusion, the cells can then find and attack tumours that the immune system would have previously missed.

The technology has proven hugely successful in trials, with immunotherapy companies reporting high rates of complete remission in patients, even in those previously thought terminal. One market leader, US-based Juno Therapeutics, has seen complete remission in 88% of its patients in its Phase I/II trials, and immunotherapy trials conducted by Pennsylvania University have reported patients previously terminal who are walking around cancer-free five years later.

Subsequently, investor enthusiasm has soared in recent years for the immunotherapy market, which could potentially be worth $35bn per annum in a decade's time.

Juno raised $176m in its series A, followed by $134m in a series B and a $265m IPO all achieved within a year of the company launching. Since going public, there were fears that immunotherapy investment was cooling off, which were quelled earlier this month when biotech Celgene agreed to invest a further $1bn into Juno, paying $93m per share or $850m over a ten-year deal and $150m in upfront payments. Kite Pharma, a peer of Juno and a spin-out of University of California Los Angeles, saw its own shares jump 10% on the news. Kite has also had strong fundraising success, raising $35m in its series A and $128m in an IPO held last year.

Immunocore is not the only bet Woodford has placed on a university-linked immunotherapy firm. Woodford Investment Management joined Invesco and Imperial Innovations – the technology transfer office of Imperial College London – in backing Cell Medica, a company formed by Innovations in 2007, when it held its series B worth $79m last year.

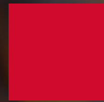
Multiple university and research institute spinouts are following in the footsteps of Juno, Immunocore, Cell Medica, and Kite. Oxford itself yesterday launched yet another immunotherapy firm, iOx Therapeutics, in partnership with Ludwig Cancer Research. Medical University of Innsbruck launched ViraTherapeutics last month with $4m in series A backing. Sapvax, an Auckland University spinout, recently launched and is currently searching for $8m to get it off the ground. Victoria University partnered Malaghan Institute of Medical Research to launch Avalia in May, which has already attracted a solid consortium of backers. Fred Hutchinson, one of the three institutes behind Juno, saw another one of its immunotherapy firms, Adaptive Biotechnologies, raise $195m in the same month. And University College London joined the hunt at the start of the year, launching Autolus with $45m in backing.

The Immunocore, Cell Medica, and Adaptimmune successes could be a boon for Autolus and iOx in particular as it would appear the same enthusiasm which has benefitted Juno, Kite, and Adaptive has found its way across the Atlantic – especially when the large funds raised by Oxford Sciences Innovation, Malin, and Woodford Patient Capital Trust are taken into account.

According to reporting by the Financial Times, Immunocore's round will not give Eli Lilly special rights to Immunocore's intellectual property, which has kept its most valuable technology away from the deals with the other pharmaceutical giants. The round also sets Immunocore development up for the next three to five years, and gives the company the choice between remaining private or holding an IPO. If it goes public, it is thought Immunocore will list in London owing to its CEO Eliot Forster's links to London Mayor Boris Johnson's MedCity program, of which Forster is head.

Commenting on the deal, Forster said: "Our new investors include some of the most highly regarded international institutions in the healthcare sector. We believe this is another endorsement of our technology, our novel class of TCR based biologic therapies, of our mission to build a world-leading biotechnology company and of the outstanding scientists at Immunocore. This funding will be invaluable in assisting us to continue the rapid advancement of IMCgp100 in the clinic and the further development of our internal portfolio of ImmTACs. This supports us in our mission to build a premier biotech company based on our ImmTAC technology platform."

Multiple university and research institute spinouts are following in the footsteps of Juno, Immunocore, Cell Medica, and Kite



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