



Connecting Corporations  
and Entrepreneurs  
through Innovation Capital<sup>sm</sup>

**AlwaysOn  
Venture Summit  
Silicon Valley  
2010**

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## Innovation Capital<sup>sm</sup>

*The use of corporate capital and complimentary assets to create a context for partnering with external innovators*

# CVC is Big & Getting Bigger

- CVC investors very active in first 9 months of 2010
  - \$1.4BN in 321 deals vs. \$1.4BN in 368 deals for all of 2009
  - On pace for ~ 500 deals and ~\$2BN for the year
- 13% of all deals had a corporate investor, representing 8.5% of all cash
  - CVC's sought for strategic value, not capital contribution.
- CVC dollars heavily weighted towards industrial and energy sectors
  - 27% of corporate \$\$ vs. ~ 15% for all VC deals.
  - 2<sup>nd</sup> place: biotech at 25% & 19% respectively
- Over 1/2 of CVC respondents to an NVCA survey reported investing at least \$50MM/year.
  - This is the equivalent of a \$350MM VC fund, all focused on one company's innovation needs.

# Programs Are Increasingly Focusing on Longevity & Sustainability

- Average lifespan of CVC funds in operation in 2010 is 3.8 years, vs. 2.5 years during the 1<sup>st</sup> half of the 00's.
  - This is a watershed transition, as the short lifespan of funds was viewed as a major hurdle by the broader VC industry.
- Concurrent focus on developing sustainable processes and practices
  - Every effort to be more 'VC-like'
    - Similar terms, similar support of portfolio companies
  - Don't kill the goose

# ‘CVC 2.0’ - Driven By ‘Open Innovation’

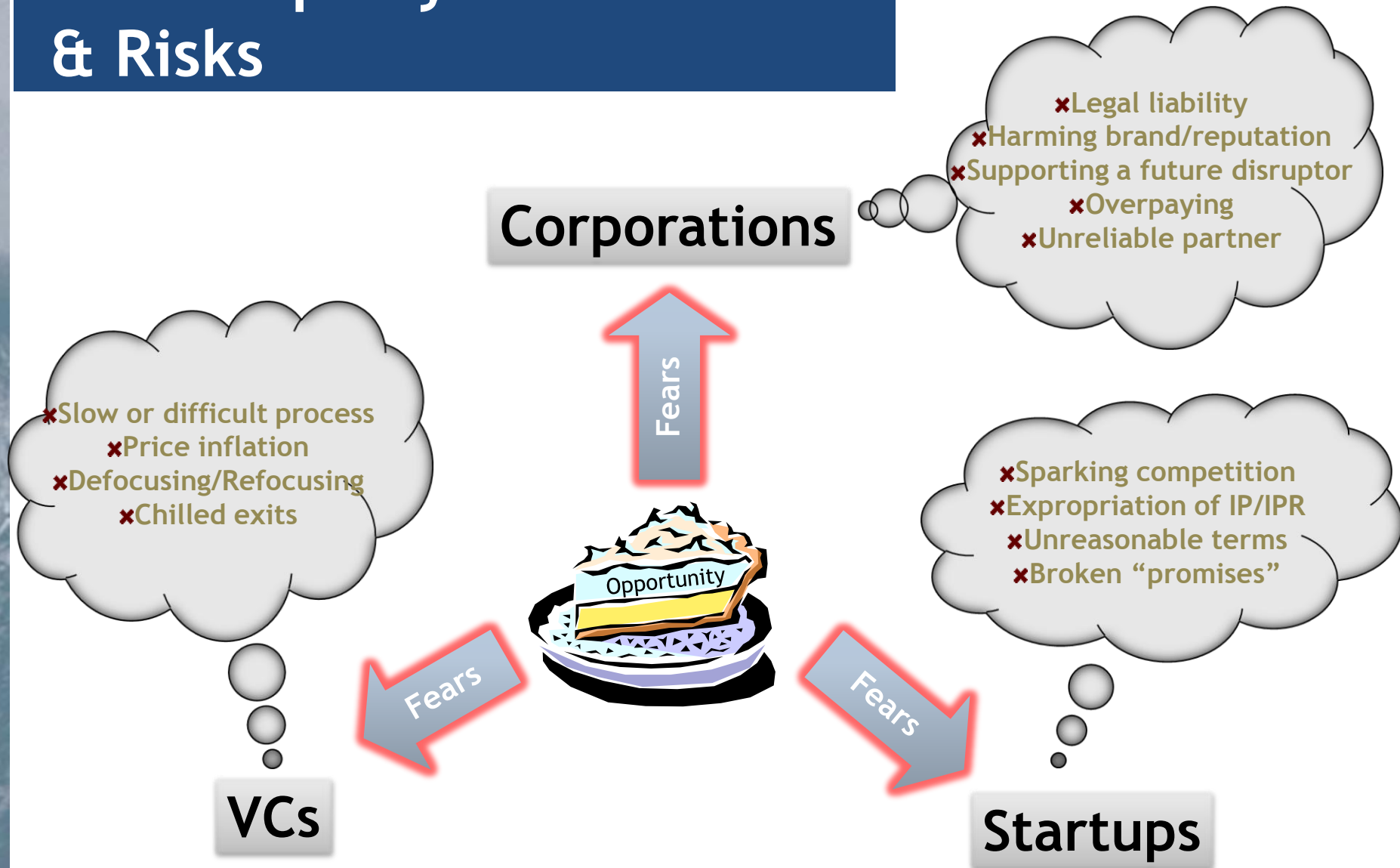
- Incumbents recognize that they can’t compete head-to-head with the innovation ecosystem
- Investment supports partnership
  - From the perspective of VCs as asset managers/capital intermediaries, the tail wags the dog
- Decidedly not a ‘pre-cooked’ M&A tactic
  - In contrast to an earlier era, in which defensive options were often pushed-for
- Focus on being non-disruptive
  - ROFL & ROFRs becoming increasingly scarce
  - “special relationship” constructed as a win/win/win
- Still, the goal is competitive advantage
  - So field of use exclusivity, MFN pricing, joint-development of IPR & survivability of technology access tremendously important

# Framework for CVC Investment

## Corporate Investment Objective

		Financial	Strategic
Operational Links	Tight	<b>Emergent:</b> allows uncommitted exploration of areas of interest	<b>Driving:</b> enhances current capabilities
	Loose	<b>Passive:</b> financial returns only	<b>Enabling:</b> complements strategy

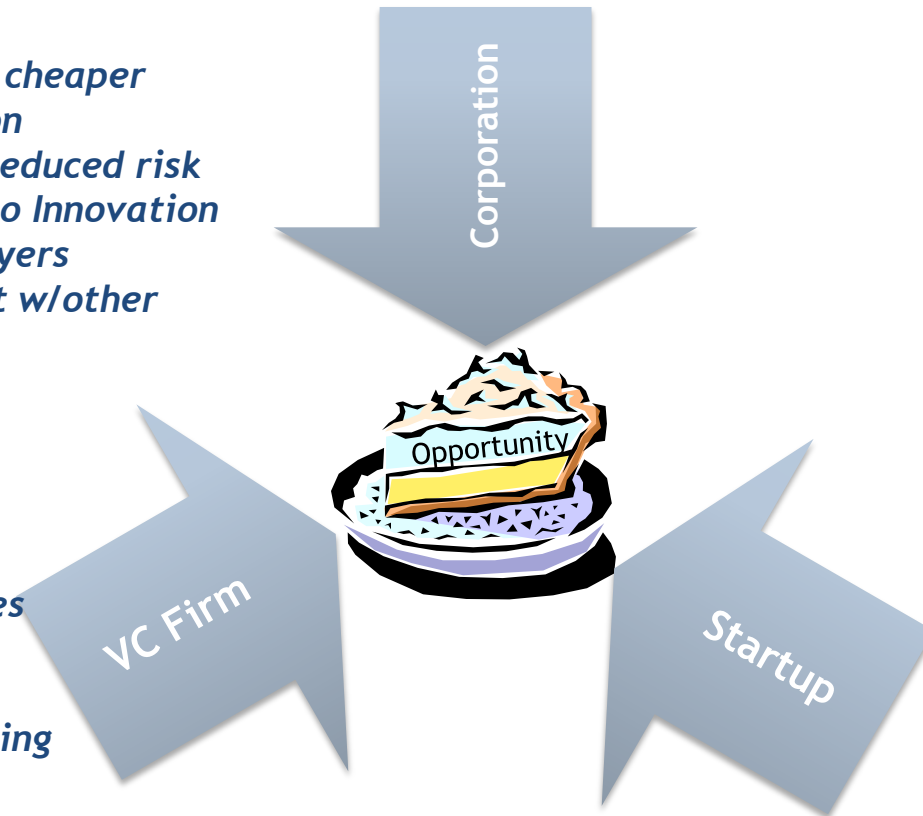
# Counterparty Sensitivities & Risks



# Innovation Capital<sup>sm</sup> Resolves the Conflicts

- *Better, faster, cheaper implementation*
- *Dramatically reduced risk*
- *Strong signal to Innovation Ecosystem players*
- *Network effect w/other clients*

- *VC-normative processes*
- *Aligned incentives*
- *Consistent presence*
- *Responsible for managing corporate investor & delivering value*



- *Aligned Incentives*
- *An agent to foster success in dealing w/corporation*
- *Protects against process & terms fears*
- *A long-term player vs. a transient program*

**Innovation Capital<sup>sm</sup> dramatically improves the dynamics that drive sustainable partnership & investment programs**