



Connecting Corporations
and Entrepreneurs
through Innovation Capitalsm

**AlwaysOn
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Innovation Capitalsm

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.
 - 2nd 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 1st 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’

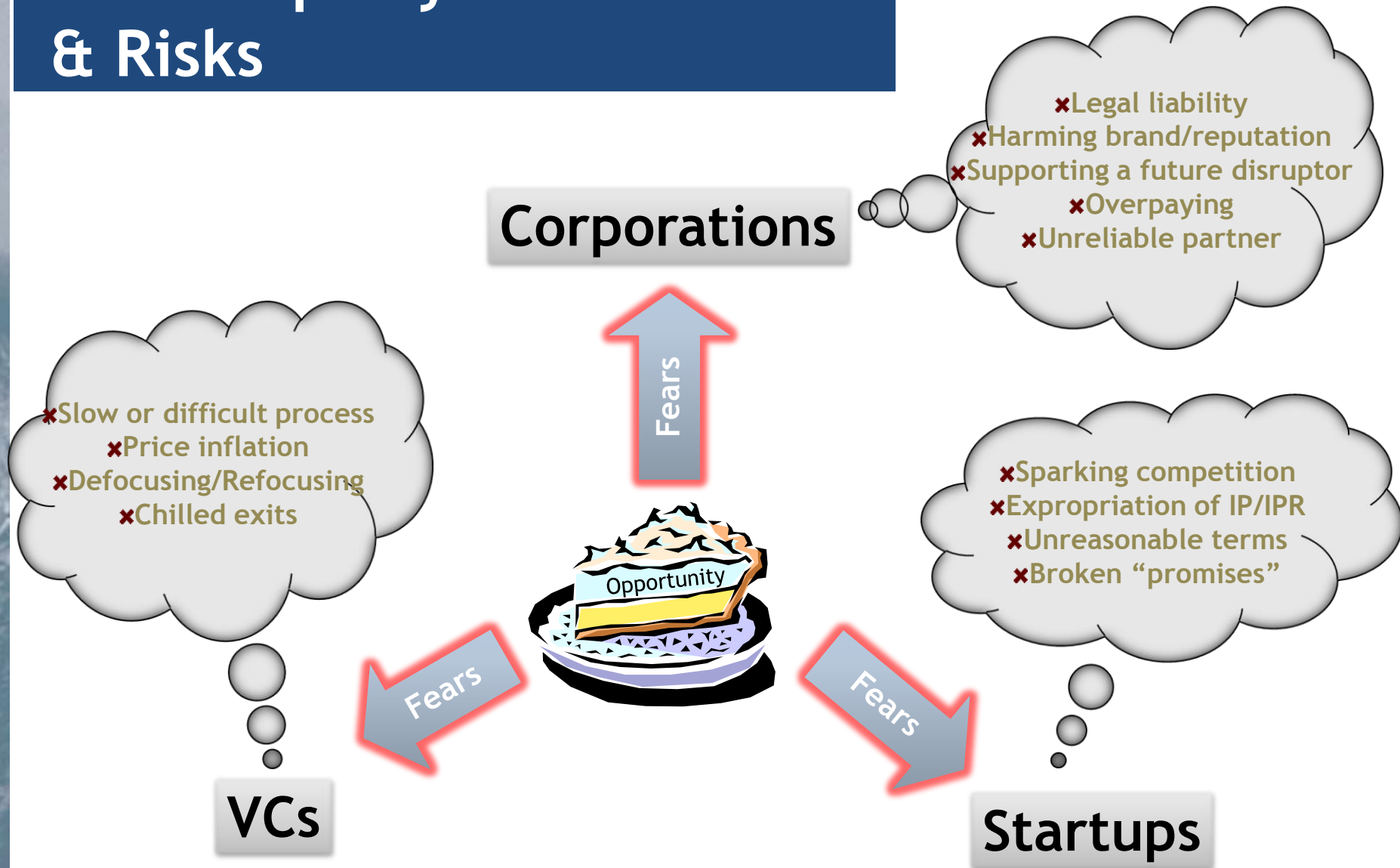
- Incumbents recognize that they can’t compete head-to-head with the innovation ecosystem
- Investment supports partnership
 - From the perspective of VCs as asset managers/capital intermediaries, the tail wags the dog
- Decidedly not a ‘pre-cooked’ M&A tactic
 - In contrast to an earlier era, in which 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	Emergent: allows uncommitted exploration of areas of interest	Driving: enhances current capabilities
	Loose	Passive: financial returns only	Enabling: complements strategy

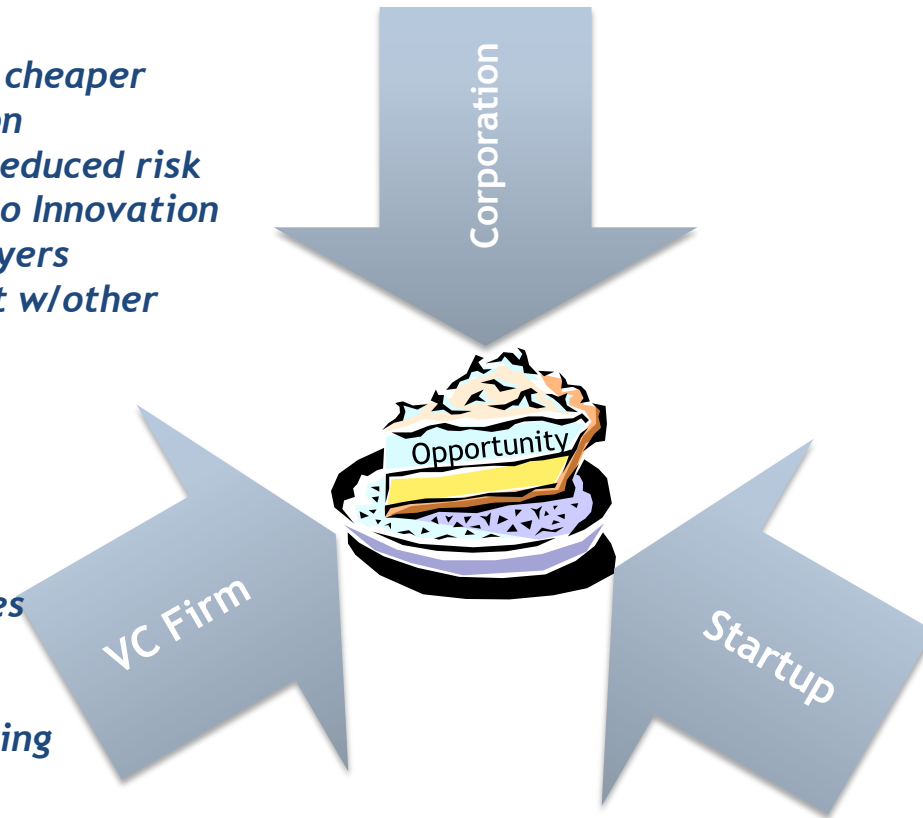
Counterparty Sensitivities & Risks



Innovation Capitalsm 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 Capitalsm dramatically improves the dynamics that drive sustainable partnership & investment programs