The State of CVC

A deep dive into the dynamics of the Corporate Venture Capital (CVC) ecosystem

2021
Executive Summary

There is a lack of transparency and primary data in the corporate venture capital community, which gives rise to a host of misconceptions about how funds operate, why deals are done, and what the future evolution of these investors might be.

Recognizing a very real opportunity to provide firsthand insight into this increasingly important segment of the venture ecosystem, SVB and Counterpart Ventures have conducted a detailed survey of the CVC community to establish preliminary industry benchmarks and dispel outdated myths.

We teamed up to leverage our deep and long-tenured relationships with prominent CVCs, formed through Counterpart Ventures’ decades of combined experience as CVCs at Qualcomm Ventures and Recruit Strategic Partners and through SVB’s decades of experience as the bank to 70% of the US VC market. Our unparalleled relationships and understanding of the intricacies of CVC make us best placed to conduct this survey.

We asked CVC leaders 50 questions themed around their purpose, strategic approach, structure, measures of success and compensation. With 106 respondents, who account for nearly 40% of global CVC deals in 2020, we are confident that this represents the most comprehensive and contemporary study of CVCs to date. As expected, our results have painted a nuanced view of CVCs as a unique set of investors with a sophisticated approach to venture that distinguishes them from other “nontraditional investors”.

While the innovation ecosystem growth story is well documented, the role of the CVC remains understated. It is our hope that the findings of this survey will be a useful reference point for CVCs themselves as they evolve and for the broader venture community of investors and founders, who will increasingly find themselves working with CVCs.

Mark Gallagher  
Head of CVC,  
Silicon Valley Bank  

Patrick Eggen  
General Partner,  
Counterpart Ventures
CVCs only invest at the later stage when the investment is perceived as less risky.

Myth:

CVC investors don’t get carry.

Myth:

CVCs don’t lead deals, and don’t have board influence.

Myth:

CVCs take months to do their diligence and get a deal done.

Myth:

A small number of CVCs take LP positions.

Myth:

74% of survey respondents target pre-seed and early-stage companies.

Truth:

25% of survey respondents now offer equity upside, specifically, 56% of “financial” CVCs receive carry, compared to 3% of “strategic” CVCs.

Truth:

49% of survey respondents are leading at least 30% of the deals they participate in, and 70% have the ability to take active board seats.

Truth:

47% of survey respondents write a check within two months of meeting a company. Roughly 20% can commit within 30 days.

Truth:

50% of survey respondents disclosed active LP positions in other venture funds.

Source: CVC survey results, SVB analysis
Given the dearth of historical CVC benchmarking data, Silicon Valley Bank and Counterpart Ventures compiled this report with the following objectives:

- To create the most comprehensive dataset of self-reported CVC information to date.
- To provide CVC investors with a strong benchmarking tool to assess the CVC landscape, operational metrics, and current investing dynamics.
- To provide the overall innovation ecosystem with a deeper understanding of the uniquely complex goals, success metrics, and outcomes of CVC.

This study was conducted over a six-week period. It consists exclusively of self-reported data from 106 unique CVC firms, across 10 countries and four continents.

We created four categories defined by each CVC’s self-reported score on a 1-10 scale of strategic to financial focus: strategic (1-3), hybrid (4-7), and financial (8-10).

The fourth category is “CVC Bellwether,” a cohort of 20 CVCs selected based on historical track record, current scale, and investment velocity.
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2021

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Overview of CVC Landscape
A few years ago, popular opinion was that strategic-minded CVCs needed to mimic fund structures and change their behaviors to match those of institutional, financially-minded VC firms, to be considered an equally sophisticated source of capital to founders.

Fast-forward to 2021 and two key factors have tipped the scales of the strategic vs. financial investor debate:

1) Unprecedented availability of capital has made it a “founders market” for fundraising, placing the impetus on investors to differentiate their capital through perceived value-add.

2) Economic uncertainty caused by the COVID-19 pandemic led founders to seek risk mitigation. CVCs held the allure of strategic value as development partners, sales channels and potential acquirers in a downside scenario.

Our survey data suggests that while more established CVCs continue their pursuit of parity with financial VC investors, a newer class of CVCs are positioning themselves as a hybrid: financially-minded, with the ability to deliver on significant value-add through their unique relationship with their single LP, i.e. the corporate parent.

Notes: 1) Based on survey question, firms were asked if they are focused on strategic or financial returns. Firms self reported on a 10 point scale.

2) “CVC Bellwether”: index of 20 CVCs selected due to historical track record, current scale and investment velocity.

Source: CVC survey results, PitchBook, SVB analysis.
CVCs Win the Participation Trophy

The universe of active global CVCs grew roughly 6.5x between 2010 and 2020, and the number of global CVC funds is over 4,000. For this report, we define firms that complete at least two deals per year as active.

Global CVC-backed funding has already surpassed the prior record set in 2020 of $74B. In the first six months of 2021 CVC funding reached $79B. After substantial growth in the number of global CVCs, the active number plateaued in 2020 and dipped slightly in 2021. This has not impacted the number of deals in which CVCs participated in, with 2021 on track to be the highest for a decade. This is driven by CVC participation in mega rounds, typically defined as $100M or more.

CVCs were invested in 42% of M&A targets in 2020. This figure has been rising slowly since 2010, when it reached 33%. CVCs were invested in over half the US VC-backed tech IPO’s of the last decade. In recent years, this involvement has been as high as three quarters of all US VC-backed tech IPOs.

Notes: 1) Minimum of two deals per year. 2) 2021 data, as of 8/31/21.
Source: PitchBook, CB Insights, SVB analysis.
The Art of CVC Dealmaking:
Investment Strategy and Deal Benchmarking
Beyond financial outcomes, we wanted to understand the strategic objectives of corporate parents. Responses were evenly split between (1) CVC as a method to discover emerging trends and (2) CVC as a way to augment and accelerate commercial traction. Both reasons reflect a form of strategic dividend. A much less cited response was a pipeline for M&A targets. This dispels the common misperception that CVCs often invest as a precursor to acquisition.

Based on a preliminary cohort analysis, CVC participation in a company may even lead to more positive outcomes - e.g. an exit - when compared to companies who did not raise from CVCs. While several variables drive a liquidity event, this data point reinforces the positive “halo effect” of CVC involvement.

Finally, the benefits of having a CVC group have come as a surprise to some, including:

- Developing company strategy
- Key insight for the CEO
- Changing mindsets from “build everything” to a willingness to partner and experiment
- Visibility into the priorities of future customers
- Shift in how the R&D process is being run

### Goals of Corporate Parent

- **Sensor to understand emerging + future trends and new markets**: 42%
- **Augment existing business and/or accelerate the commercialization with business unit or R&D**: 40%
- **Source potential M&A target**: 12%
- **Other**: 6%

#### Tech Trends CVC Heads are Watching

- **Climate tech**: 18%
- **Big Data & IOT**: 16%
- **AI/ML**: 15%
- **Frontier tech**: 15%
- **Healthtech & Biotech**: 11%
- **Future of Work & Edtech**: 9%
- **Fintech**: 6%
- **Cyber Security**: 6%

### CVC Heads Top Industry Challenges

- ** Managing Corporate Parent**: 48%
  - Corporate buy-in on investments and thematic opportunities that might not be perceived as strategic by corporate today. Leadership changes inside corporates requires re-education of the value of venture investing. – CVC Head, US

- **Competition**: 25%
  - New types of funds, high valuations. Staying competitive while balancing strategic value to both startup and corporate. – CVC Head, US

- **Reputation**: 6%
  - With the emergence of thousands of new CVCs over the past several years, there is renewed “bad actor” reputation risk for all CVCs. Established CVCs have an even greater obligation to continue to demonstrate professionalism. – CVC Head, US

- **Value Add**: 6%
  - Ensuring startup relationships remain productive and positive throughout the duration of the investment. – CVC Head, US

- **Measuring Success**: 6%
  - Alignment on KPIs, creating and measuring strategic value. – CVC Head, US

**Notes:** 1) Cohort is companies first seeded between 2008-2014 that subsequently raised a minimum of two VC-backed rounds.

Source: CVC survey results, PitchBook.
Getting Deals Done

The majority (74%) of CVC survey respondents stated their investment sweet spot is early: either pre-seed/seed, or Series A & B. This is a surprising revelation and dispels the myth that CVCs are concentrating on the late stage. Another encouraging data point is the heightened speed of decision making. Nearly 50% of firms approved deals within two months of their initial meetings. In particular, Bellwether firms move at a pace similar to that of their traditional VC counterparts, typically completing deals in under 30 days from first meeting. Perhaps to be expected, the more financial-orientated a CVC, the faster they can commit.

Overall, investment pace increased across the board, with 65% of Bellwether firms increasing their investment pace. This is an encouraging metric, given the perceived vulnerability of CVC during the early days of the COVID-19 pandemic. Those firms that decreased investment pace were overwhelmingly those whose core parent business had been significantly and adversely impacted by the pandemic.

The proportion of time devoted to corporate stakeholders is an indicator of autonomy, coveted by CVC leaders. A significant portion of CVCs spend 20% to 40% of their time engaging with the corporate parent. This is meaningful, as we believe there to be a high correlation between autonomy and a CVC’s ability to get deals done on par with market pacing.

Notes: 1) Early-stage is defined as Series A and B. 2) Late-stage is defined as Series C plus. 3) “CVC Bellwether”: index of 20 CVCs selected due to historical track record, current scale and investment velocity.

Source: CVC survey results and SVB analysis.
CVCs Get on Board

One of the greatest differentiators of CVC from traditional VC is in the unique intent and objective of its (typically) sole limited partner (i.e. corporate parent). Intent can be a spectrum from the pursuit of highly strategic outcomes (market insight, industry partnerships, etc.) to pure financial returns, or a balance between the two.

The survey results suggest that a strategic vs financial mandate is a strong indicator of investing behavior. Though market lore suggests CVCs neither lead deals nor take board seats, this myth is useful in drawing distinctions between strategic and financial CVCs. Nearly all firms that identify as financially-focused (94%) can lead deals. They are also twice as likely to take board seats in deals than their strategically-oriented counterparts.

Even more significant, half of CVCs surveyed lead 30% of the deals they do, and a similar proportion take board seats. This suggests CVCs have far greater influence on boards than typically expected.

Source: CVC survey results, SVB analysis.
A major difference between CVCs and traditional VCs is that CVCs place less emphasis on rigid portfolio construction. CVCs are typically less sensitive to securing a specific ownership percentage, with most firms aiming to own between 5% and 10%. However, nearly 20% aim for double-digit ownership. Only 17 CVC funds indicated that their average investment exceeded $10M. In comparison, the median early-stage and late-stage investment for traditional VCs is $9.5M and $15.8M for 2021\(^1\), respectively. Unsurprisingly, traditional VCs look for bigger ownership stakes, with the median for the early-stage and late-stage in 2021\(^1\) being 24% and 17%, respectively. A lack of formal capital reserves is another material difference from financial VCs. Only 37% of CVCs surveyed had capital reserved for follow-on investments. While some might see this as a lack of sophistication, it is a reasonable approach for CVCs who have the corporate partner’s balance sheet as a flexible funding source.

Notes: 1) US percentage CVC investor exited in company by year of first investment in portfolio company. 2) As of 9/1/21. Source: CVC survey results, PitchBook SVB analysis.
In addition to the increase in direct CVC deal participation, CVCs are aggressively pursuing Limited Partner (LP) positions. Surprisingly, 49% of CVC respondents disclosed active LP positions in venture funds.

The primary driver for taking these positions is information. The level of insight into companies across VC portfolios is of great strategic benefit to the corporate parent. Specifically, it supplements existing deal flow, unlocks new geographies and provides insight into emerging trends and technologies.

A more nuanced view is a broad acceptance of the VC asset class by corporates. LP investments range in size from $2M to $250M, so there is no standard approach.

Taking LP positions can be tactical, helping their CVC groups cover their initial investment thesis while providing more exposure to geographies and sectors than they would have otherwise achieved organically. Per the CVC survey, the least active firms use LP stakes to generate additional deal flow, while the most active firms use LP stakes to expand into new geographies.

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**Notes: 1) For funds that take LP positions.
Source: CVC survey results, SVB analysis.**

**Top Reasons CVCs Take LP Positions**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage of Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal Flow &amp; Pipeline</td>
<td>51%</td>
</tr>
<tr>
<td>Expand Geographic Exposure</td>
<td>41%</td>
</tr>
<tr>
<td>Access to People, Network &amp; Insights</td>
<td>29%</td>
</tr>
<tr>
<td>Access to Specific Sector or Stage</td>
<td>24%</td>
</tr>
<tr>
<td>Co-Investment &amp; Partnerships</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Percentage of CVC Firms Hold LP Position by CVC Firm’s Annual Investment Velocity**

<table>
<thead>
<tr>
<th>Investment Velocity</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 &lt; 5</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>&gt;5 &lt; 10</td>
<td>39%</td>
<td>61%</td>
</tr>
<tr>
<td>&gt;10 &lt; 15</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>&gt;15</td>
<td>62%</td>
<td>38%</td>
</tr>
</tbody>
</table>

**Percentage of CVC Firms that Take LP Positions by CVC Type**

- Strategic: 66%
- Hybrid: 44% of all CVC firms take LP positions.
- Financial: 49%
- Bellwether: 60%

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“We had not made LP investments until recently where we decided to invest in a sector-specific seed fund.”
– CVC Head, United States

“We invested in a VC with activities in a region where both ourselves and the mothership have a small footprint only. Investing in the fund helped us to get a better view of the local deal flow and potential investment opportunities.”
– CVC Head, Germany

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**LPs on Record**
Running a CVC Firm

Operational and Talent Benchmarks
Hey, Parent, Leave Those CVCs Alone

One stark historical difference between CVC and traditional VC is the underlying fund structure. Nearly two-thirds of CVC funds are ‘evergreen,’ which means the firm invests off the balance sheet of the corporate parent. Recently, some CVCs have taken the approach of moving the funds off the balance sheet in a “single LP” structure, although this option is skewed towards ‘financial’ or ‘bellwether’ CVCs. Funds with external LPs remain quite rare.

The level of business unit (BU) engagement (i.e. sponsorship required to complete a deal) is a reasonable proxy for CVC autonomy. Based on discussions with CVC investors, many emphasized their desire for more autonomy to facilitate a faster, flexible and more efficient investment process. While a quarter of CVCs require no meaningful BU support, most firms still need at least some. Not surprisingly, there is a strong correlation between the level of BU engagement and the extent to which a firm’s mandate is strategic.

One surprise from the survey responses was the lack of an industry-standard reporting structure. 75% of funds are primarily measured by financial performance, which goes some way to dispel the myth that monetary returns are of secondary importance.

Notes: 1) CVC Bellwether: index of 20 CVCs selected due to historical track record, current scale and investment velocity. Source: CVC survey results, SVB analysis.
Regardless of where a CVC falls on the strategic to financial spectrum, they predominantly hire external investors rather than poach people from internal groups. This is particularly true for financial CVCs, who recruit only a fifth of their team from the corporate parent, compared to a third for the strategic and hybrid CVCs. Related to CVC leadership, employees are more likely to be hired from the corporate parent if the fund is a strategic investor (34%) vs. a financial CVC (18%).

There is a classic misconception that CVCs fail to provide carried interest (carry). While this remains mostly true for strategic CVCs, there is definitely a change happening as 25% of CVCs noted some form of carry — specifically 56% of financial, 27% of hybrid and 40% of bellwether CVC firms. The reasons given for not including carry were: (1) no need to fundraise, (2) no GP commitment and (3) misalignment with internal compensation bands and objectives.

Team size is relatively consistent with the broader venture ecosystem, with 55% of respondents operating out of teams with fewer than 10 people. When it comes to leadership, the majority of CVC leaders are male.

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**Corporate Hires and Compensation by CVC Type**

<table>
<thead>
<tr>
<th>CVC Type</th>
<th>Percentage of CVC Team Hired from Corporate</th>
<th>Percentage of CVCs that Provide Carry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>34%</td>
<td>56%</td>
</tr>
<tr>
<td>Hybrid</td>
<td>31%</td>
<td>18%</td>
</tr>
<tr>
<td>Financial</td>
<td>27%</td>
<td>40%</td>
</tr>
<tr>
<td>Bellwether</td>
<td>3%</td>
<td>52%</td>
</tr>
</tbody>
</table>

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**CVC Heads Hired from Corporate by CVC Type**

<table>
<thead>
<tr>
<th>CVC Type</th>
<th>Percentage of CVC Heads Hired from Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>54%</td>
</tr>
<tr>
<td>Hybrid</td>
<td>48%</td>
</tr>
<tr>
<td>Financial</td>
<td>33%</td>
</tr>
<tr>
<td>Bellwether</td>
<td>30%</td>
</tr>
</tbody>
</table>

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**Distribution of CVC Team Size**

- 1-4: 20%
- 5-9: 35%
- 10-14: 14%
- 15-19: 10%
- 20-24: 6%
- 25-29: 5%
- 30+: 10%

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**Gender of Head of CVC Firm**

- Male: 85%
- Female: 11%
- Undisclosed: 4%

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Notes: 1) Carry or carried interest is a form of compensation. The carry is the GP’s share of any profits realized by the fund’s investors. 2) Number of full-time employees. Source: CVC survey results, SVB analysis.
Managing Internal Affairs

While corporates embrace venture investing, CVC investors are growing concerned with the limited amount of autonomy they are afforded and their dependency on the corporate parent. Executive sponsorship remains the linchpin of a successful CVC group, so keeping the C-suite satisfied is important, especially in the early days before the firm has demonstrated its value to internal stakeholders.

We inquired about the internal perception of CVC groups within the corporate parent. Responses were heavily skewed toward favorable NPS. This dispels the myth that CVC initiatives are internally perceived as a “hobby” with unclear strategic objectives. In fact, CVCs devote a significant portion of their time managing the corporate parent, keeping them up to date on the progress of the firm, and unearthing insights. This is basically the equivalent of LP management by any traditional VC firm.

The majority of CVC funds allocate between 20% and 40% of their overall time to strategic alignment and BU coordination. Only one third of firms spend upwards of 40% on “LP management,” which is below the perception of time spent and a possible sign that these groups will become more autonomous in the future.

Notes: 1) As perceived by the CVC firm. 2) Surveyed firms were asked “If your corporate parent’s CFO departed, how likely is it that your firm would survive?”}

Source: CVC survey results, SVB analysis.

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**Distribution of NPS for CVC Firms**

- Detractor: 2% of corporate parents are satisfied with CVC fund.
- Passive: 9% of corporate parents are satisfied with CVC fund.
- Promoter: 90% of corporate parents are satisfied with CVC fund.

**Level of Executive Support**

- Low: 2% of firms. 9% are high.
- High: 62% of firms.

**Time Spent Managing Corporate Parent by CVC Type**

- Financial: Middle 50%: 27% of firms. Median: 21% of firms.
- Hybrid: Middle 50%: 39% of firms. Median: 35% of firms.
- Strategic: Middle 50%: 28% of firms. Median: 24% of firms.

**Time Spent Managing Corporate Parent by Fund Structure**

- Single Dedicated LP: 27% of firms. 21% of firms.
- Evergreen: 39% of firms. 28% of firms.

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THE STATE OF CVC: 2021
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