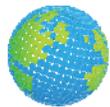


# The Case for Scaling Corporate Venture Investment in Tech in Europe

*Findings & Insights by*



Global Corporate Venturing



26 April 2017

## The authors who really enjoyed writing this report



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## Main Findings (1/4)

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1.

Corporate venturing as a major force of competitiveness, innovation, growth and investment is a growing and global phenomenon

Pages 7 - 17

2.

Innovation and digital disruption are here to stay and require corporations to be flexible to collaborate with start-ups to overcome the challenges

Pages 18 – 24

3.

The potential of European Tech Scale-ups to transform industries and to deliver returns is under-estimated, notably by corporate investors

Pages 25 - 36

## Main Findings (2/4)

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# 1.

**Corporate venturing as a major force of competitiveness, innovation, growth and investment is a growing and global phenomenon**

- Corporate venture investment continues to grow across all industries
- The corporate venture investment volume now represents 2/3 of venture capital
- The number of corporate investors rises, especially amongst large companies
- The number and variety of new corporate venturing initiatives continues to grow
- Corporate venturing delivers attractive investment and shareholder returns
- Corporate venturing leaders take most of the deal flow
  
- There are less EU corporations active compared to US and Asia which grew more
- There are much less corporate investments in the EU compared to US and Asia
- Corporate ventures globally invest much more in the USA or APAC than in the EU
- The share of foreign corporate investors in deals is unequal across the EU

Pages 7 - 17



Global

Corporate

Venturing

## Main Findings (3/4)

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# 2.

Innovation and digital disruption are here to stay and require **corporations to be flexible to collaborate with start-ups** to overcome the challenges

- Corporate Venturing is now fully entrenched in the corporate landscape
- Although challenging, corporations & start-ups/scale-ups should collaborate
- There is a range of models to structure corporate partnerships with start-ups
- There are many more partnership deals than corporate venture investments
- The best strategies for corporate venturing vary by industry verticals
- Building a venturing strategy takes commitment from top management

Pages 18 - 24

## Main Findings (4/4)

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# 3.

The potential of European Tech Scale-ups to transform industries and to deliver returns is under-estimated, notably by corporate investors

Pages 25 - 36

- European scale-ups with unicorn potential are significant and underestimated
- European Unicorns have strong potential for increasing investment & valuations
- There are many more Tech Scale-ups with Unicorn potential across the EU
- Most EU Growth companies develop disruptive technologies across industries
- European tech growth companies are (slowly but surely) scaling investments
- European Tech Growth 50 is funded by a variety of investor types and origins
- The ecosystem is coming of age: super angel investors are active and decisive
- EU tech growth continue to scale valuations, funding or go the IPO/M&A route
  
- Europe's Corporations are not benefiting from the success of European scale-ups
- European tech companies are popular for acquisition by non-EU corporations
  
- The EU tech growth successes will complete a virtuous circle of funding from early-stage to growth



*The rise of the corporate venturing phenomenon globally as a force of innovation, investment, growth & competitiveness*



## Insights

2017 - World of Corporate Venturing **Highlights**

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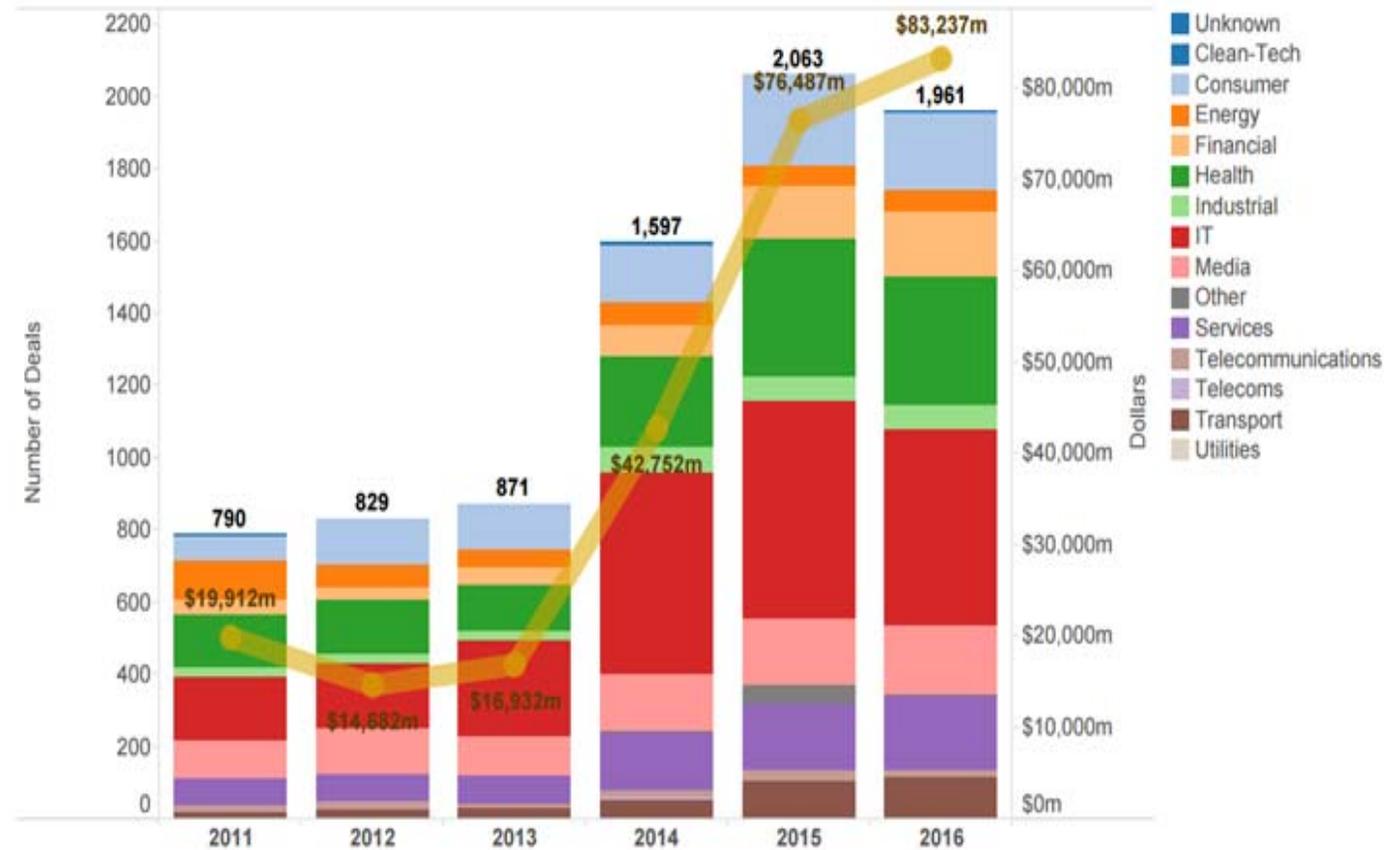


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# Corporate Venture investment continues to grow across all industries

“ While the deal count sees a slight decrease in 2015, the total dollar value invested in the year is at a new high in 2016 at \$83Bln across a continued variety of industries ”



Sourced from GCV Analytics

# Corporate venture investment volume now represents 2/3 of Venture Capital

“ While Corporate Venturing accounted in 2016 for 20% of the number of investments, it measured up to 67% of capital invested of the total venture capital deals globally”



tracked **1,952** worth **\$83bn**  
corporate-backed  
venture rounds



tracked **9,717** aggregate of **134bn**  
VC deals globally

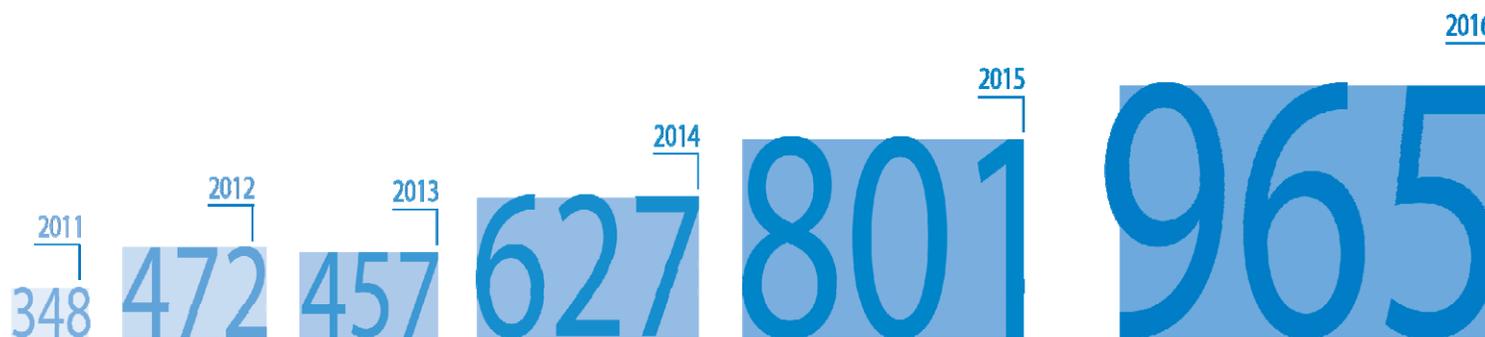
Tracked corporations are



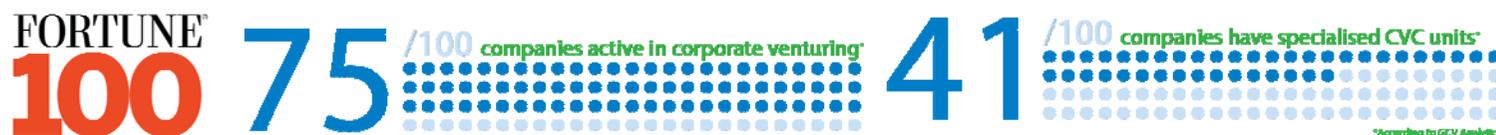
The number of corporate investors rises, especially amongst large companies

“Over 1,660 active corporate investors globally over the past 6 years with a peak in the last year and 75% of Fortune 500 companies active and 41% with their own venture capital unit”

# N° of Active Corporate Investors

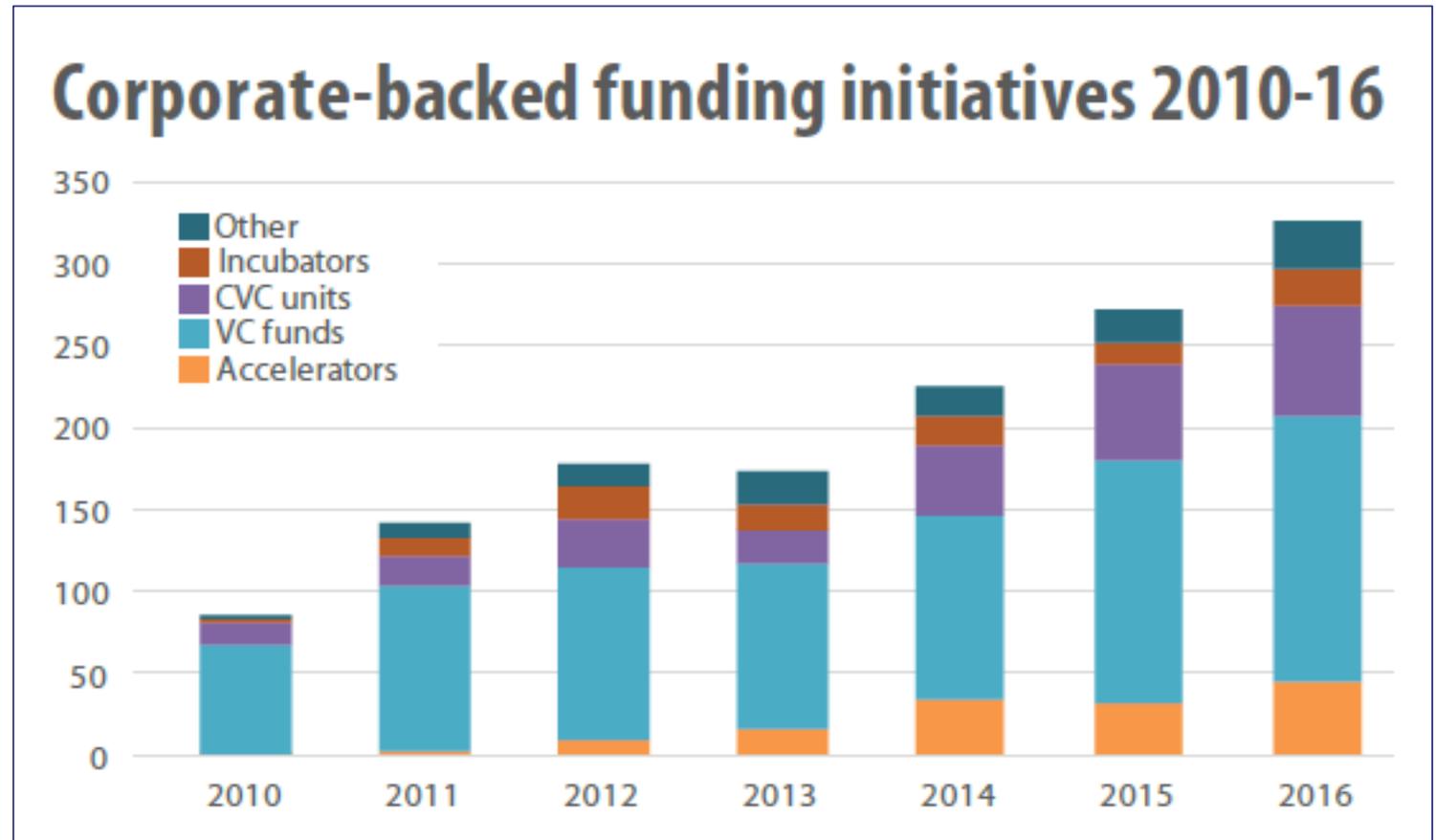


Note: “Active” is defined as having participated in at least one VC/minority stake round over the respective period.



# The number and variety of new corporate venturing initiatives continues to grow

“New corporate funding initiatives reached a new high in 2016 with VC fund allocations still representing over half but the number of new venturing units and new accelerator and incubator initiatives grow fastest”



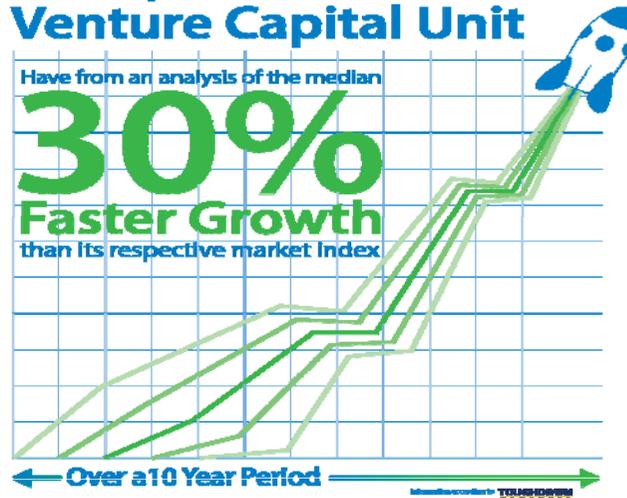
# Corporate venturing delivers attractive investment and shareholder returns

*“Corporations with corporate venturing activities outperform on the stock market and they deliver a attractive return on investment only lagging 30% behind on financial venture capital.”*

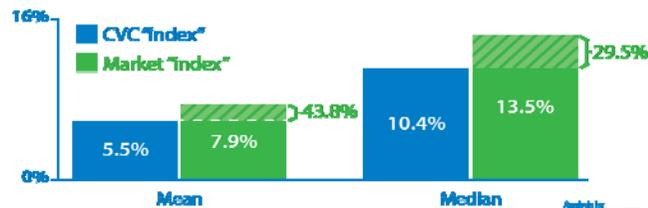
*“They only sold 20% of their investments to the parent corporations showing the importance of their relative independence of the parent”*

## US Corporations with an Active Venture Capital Unit

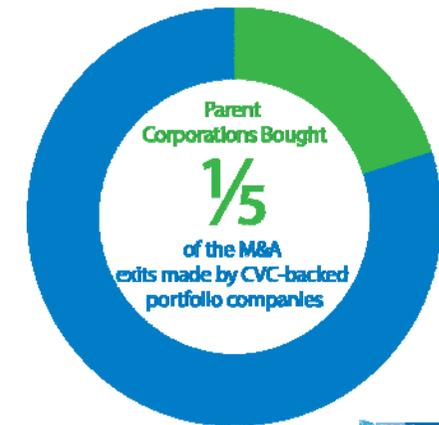
Have from an analysis of the median  
**30% Faster Growth**  
 than its respective market Index



## CVC Returns



## From 2014-2016



Analytics

## Average Return on Investment



PitchBook

# 80/20 rule applies: Corporate venturing leaders take most of the deal flow

## Top 20% Corporate Venture Capital Companies

Including:



Luminary mem

Intel Capital

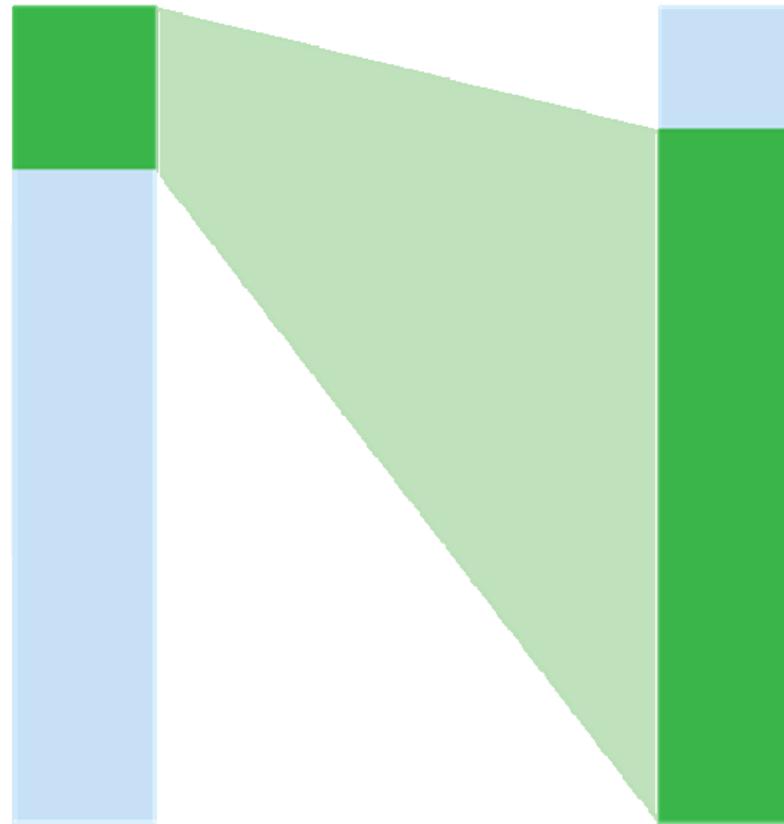
Tencent

Capital One

Merck Global Health Innovations

GE Ventures

Johnson & Johnson Innovation–JJDC

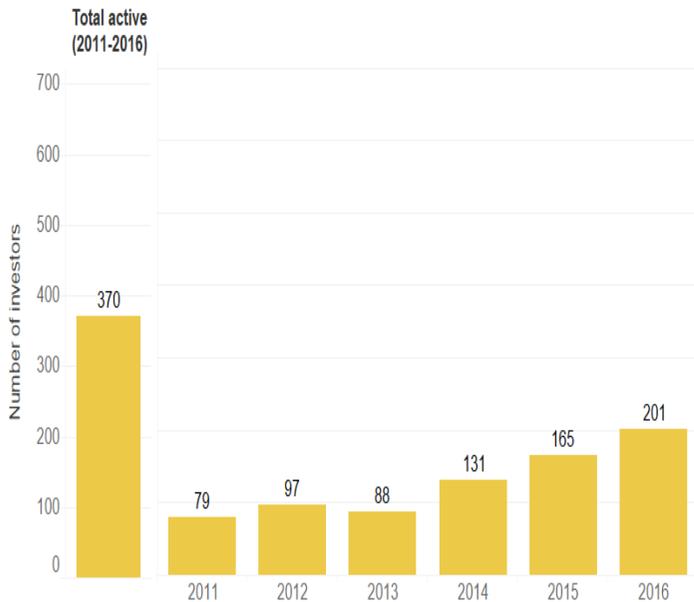


85%  
of Dealflow

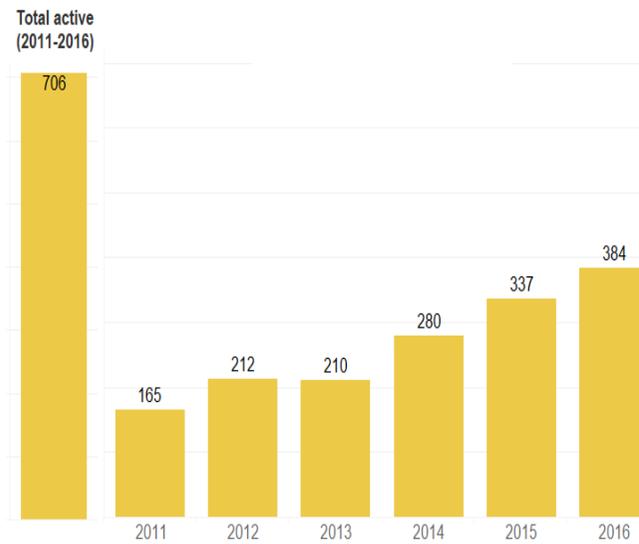
\*According to GCV Analytics

There are less EU corporations active compared to US and Asia which grew more

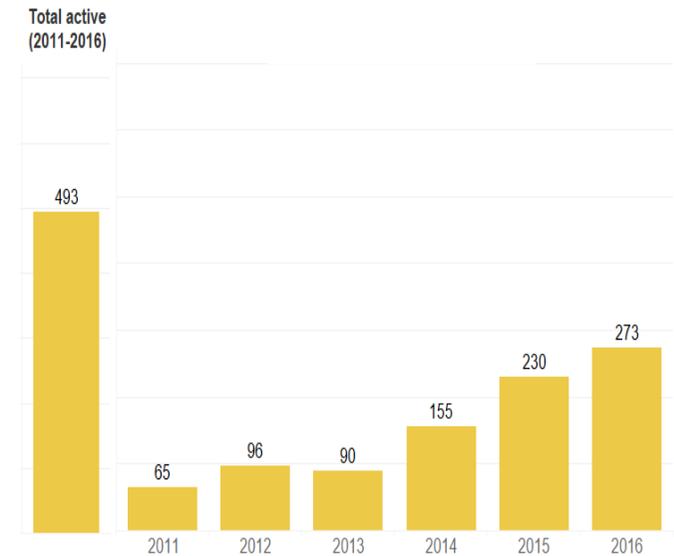
## EU28



## USA



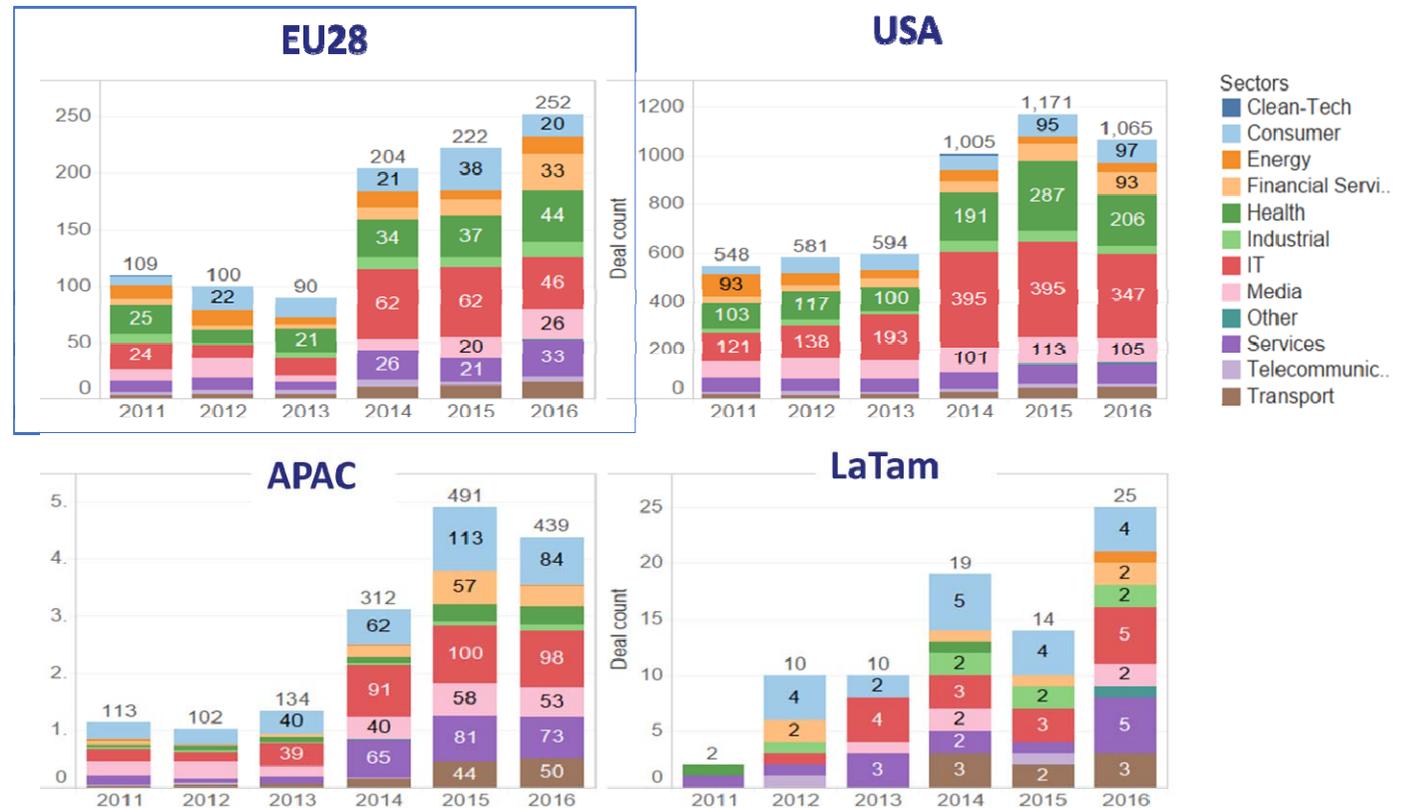
## APAC



Note: "Active" corporate investor is defined as having participated in at least one VC/minority stake round over the respective period

# There are much less corporate investments in the EU compared to US and Asia

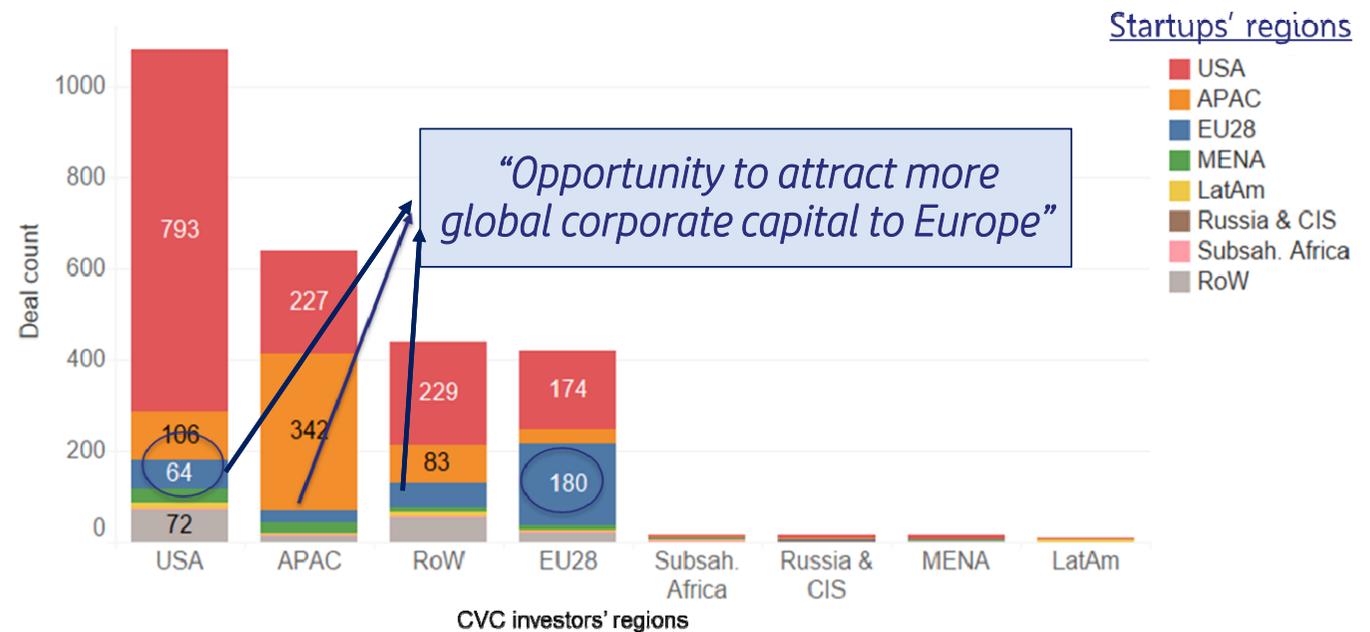
*“Although doubling in past 3 years, the number of corporate investments in the EU28 count for less than a quarter of the US investments and half of the investments in Asia Pacific which almost tripled its number in the past 3 years”*



*“Deal” is defined as any VC or other minority stake (>50%) investment.*

# Corporate ventures globally invest much more in the USA or APAC than in the EU

*“EU28-based investors invested in roughly the same number of deals in European (180) and US-based start-ups (174) but the EU 28 should attract more US, Asian and other corporations active globally to invest in Europe.”*

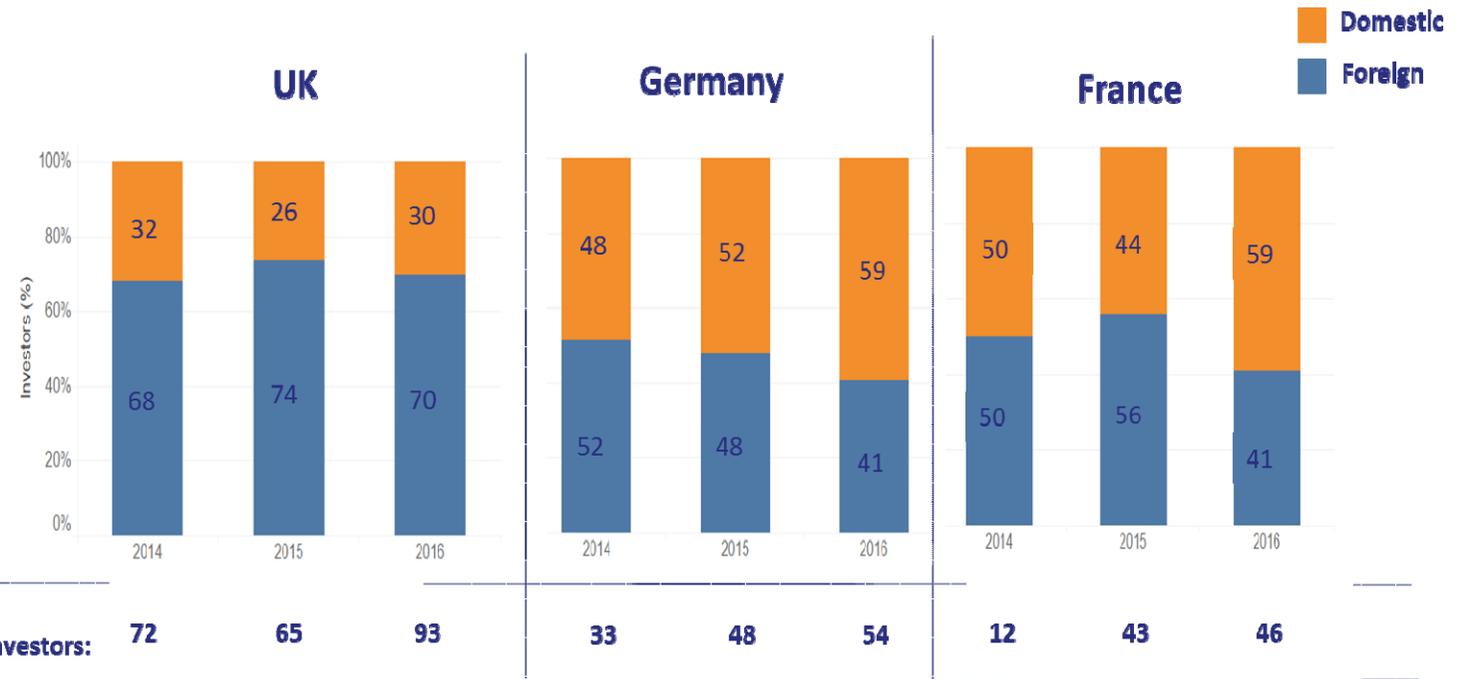


Data: 01/01/2016 – 31/12/2016

# The share of foreign corporate investors in deals is unequal across the EU

« Even the largest EU Continental countries could attract more foreign investors although their share is actually going down (showing that the EU market fragmentation is going up) »

Percentage of foreign vs. domestic corporate investors (2014-2016)



Note: Estimates have been made on all VC/minority stake deals tracked by GCV for the given years and only individual investors are counted herein, i.e. some of investors have participated in more than one round.

*The role of  
corporate venturing  
accelerating growth  
& innovation  
in corporations and  
in the tech  
entrepreneurship  
eco-system*



## Insights

### **Corporate Venturing: Achieving Profitable Growth Through Startups**

Whitepaper, January 2017

Julia Prats

Head of Entrepreneurship Department  
IESE Business School  
Barcelona, Madrid, Munich, New York, Sao Paulo



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# Corporate Venturing is now fully entrenched in the corporate landscape

*« Corporate venturing tools now include more than corporate venture capital (CVC). »*

*« Clear innovation strategies separate the winners from the also-rans.»*



**Corporate Venturing Shifts Gears**  
Research by BCG Boston Consulting Group – April 2016  
Michael Brigl, Max Hong, Alexander roos, Florian Schmieg and Xinyi Wu

## Executive Summary

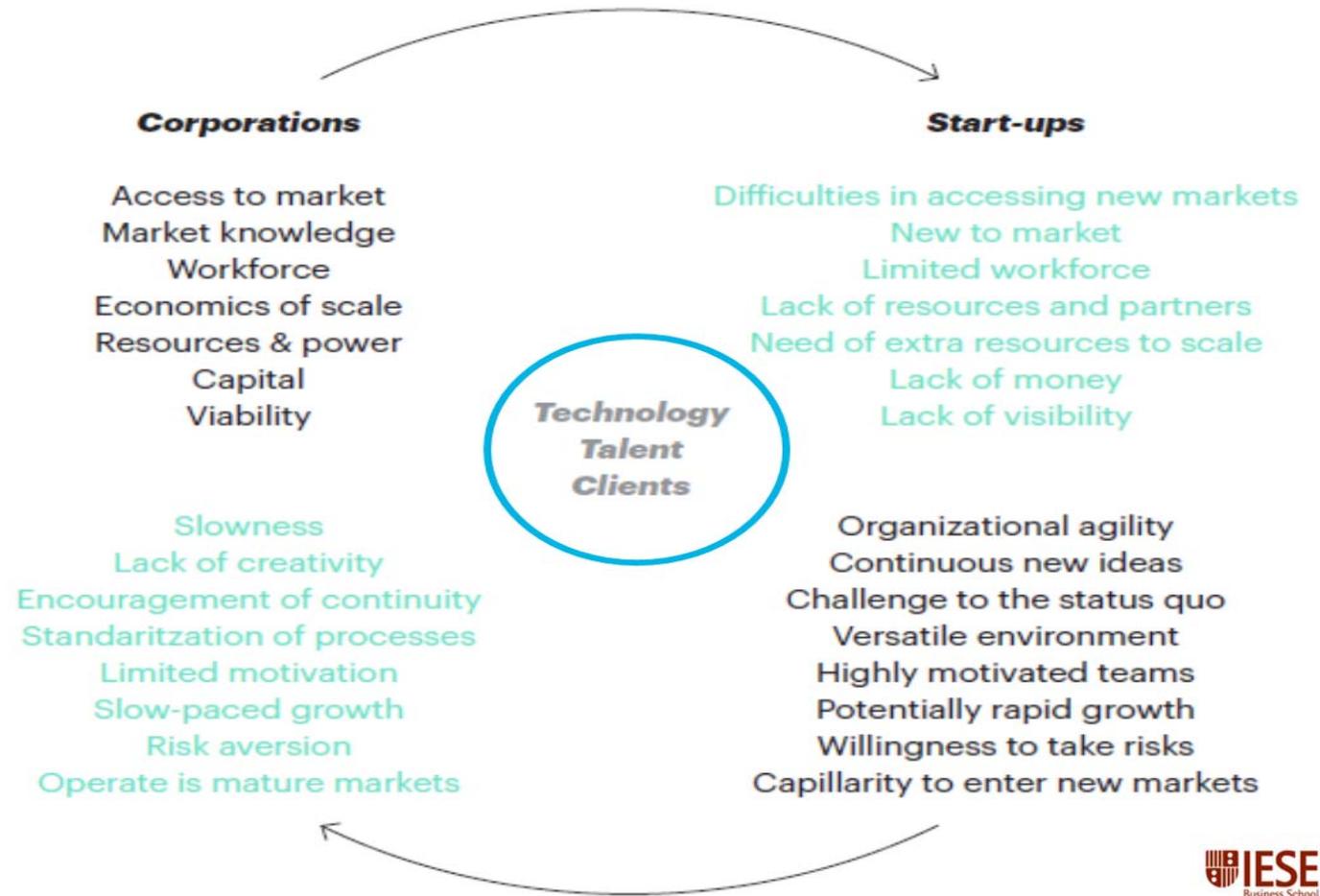
**Source: BCG – The Boston Consulting Group**

- Corporate Venture Capital (CVC) is now fully entrenched in the corporate landscape. 40% of the 30 largest companies in seven innovation-intensive industries – and 57% of the Top 10 – are engaged in CVC.
- As corporate venturing has expanded, so, too, has the variety of tools it uses. It relies not only on CVC but also on accelerators and incubators and innovation labs. Today, 44% of the 30 largest companies in each of a series of industries employ accelerators and incubators, up from 2% in 2010. The use of innovation labs rose from 5% to 19% in the same period.
- Successful corporate venturers can state clearly why they are searching for innovation, which search fields they are considering, and how they plan to create value. In the seven industries that BCG examined, corporations applied industry-specific tool mixes and search field patterns to fulfill their strategic needs in innovation.

*« Corporate Venture Capital investments are increasing strongly and shifting into the software industry, reflecting the increasing value of data. The value of CVC investments in software by the Top 30 companies now surpasses the value of their investments in all other industries, rising from 28% of the total between 2010 and 2012 to 52% between 2013 and 2015. »*

# Although challenging, corporations & start-ups/scale-ups should collaborate

« We are moving toward a hybrid model in which innovation - from the combination of the best features of the corporate and the start-up world – provides the new solutions for the complex problems we face in business and society at large. »



# There are many more partnership deals than corporate venture investments

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*“ The ratio of the number of Strategic Partnerships vs. Investments can be as much as 20 to 1 “*

## CASE: *BASF Venture Capital*



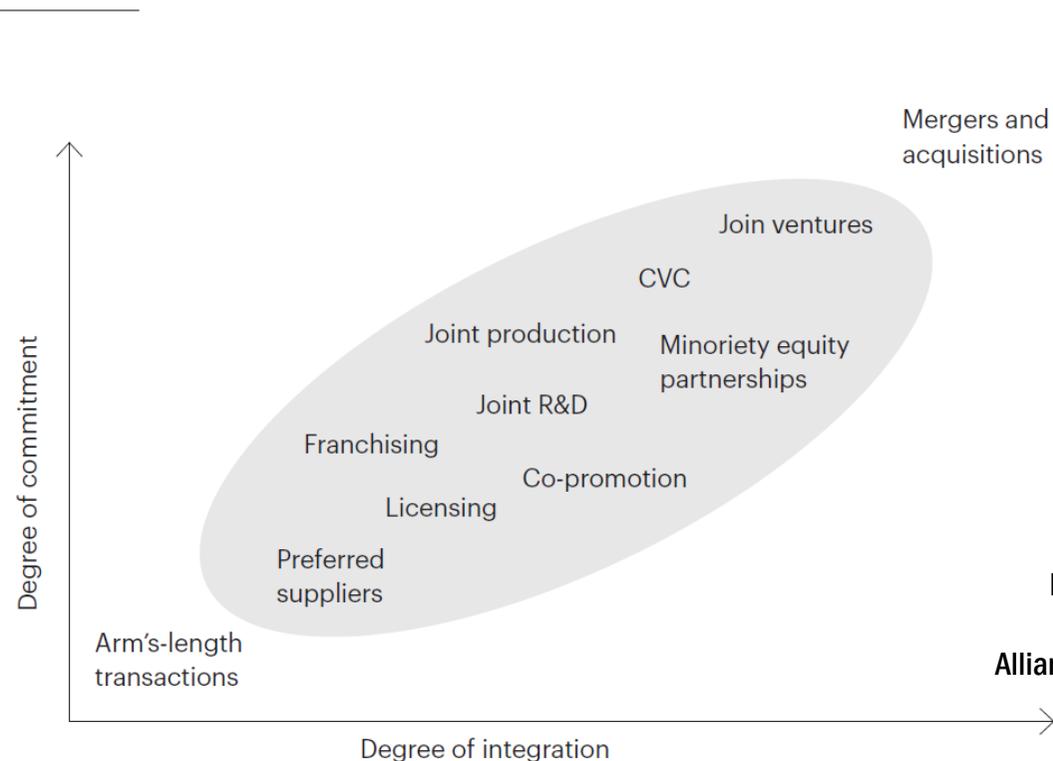
*“In 2014, BASF Venture Capital found or received information on almost 1000 relevant start-ups; it facilitated about 70 in-depth interactions between start-ups and divisions and performed due diligences on 20 start-ups; it made 3 new direct investments (not including follow-ons)“*

Source: FYB2016, page 43& 44, Corporate Venture Capital at BASF, 15 Years of Connecting Start-Ups and BASF BASF Venture Capital GmbH, Dirk Nachtigal, Andre Moreira, 2016

# There is a range of models to structure corporate partnerships with start-ups

*« In today's fast changing industries, collaborating with start-ups has become, in many cases, for corporations the only path to compete efficiently. »*

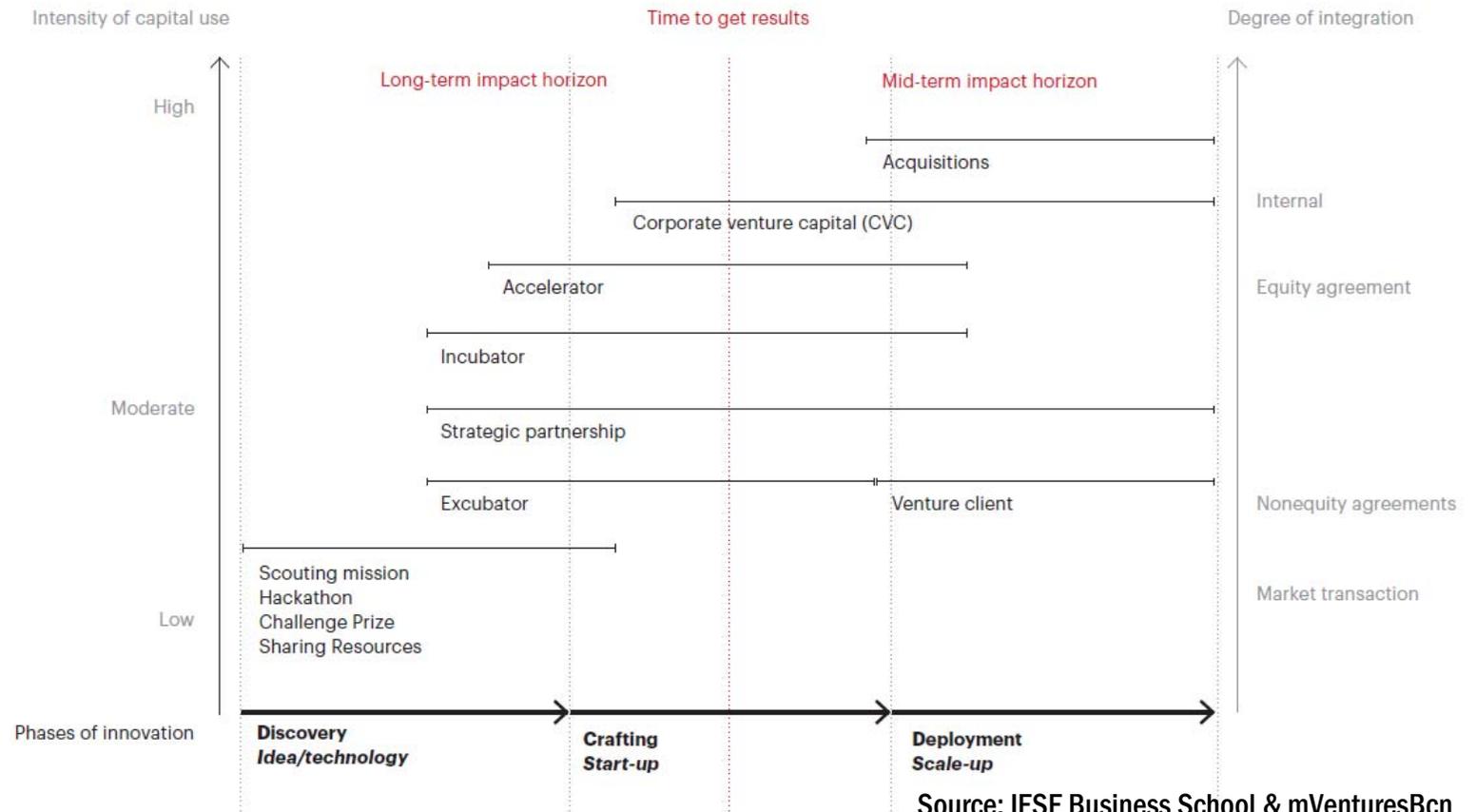
## Strategic partnerships



Source:  
Reurer, Ariño and Olk (2011),  
Figure 1.3.:  
Alliances as Hybrid Organisations,  
p.10.

# The best strategies for corporate venturing vary by industry verticals

*« It is important to understand an industry's speed of innovation and the confluence of disruptive technologies to draw up – or review – an innovation strategy, taking into account the available tools. »*



# Building a venturing strategy takes commitment from top management.

*«Corporations must be able to attract a high number of quality start-ups to their venturing strategies to cherry-pick the best ones. This should be given priority from day 1 to give traction to the strategy.»*

## Steps to build a venturing strategy



## Common key success factors of a venturing strategy

- Absolute commitment and support of the top management
- A clear corporate innovation strategy with defined goals
- Establishing KPIs to measure success, as with any other business unit
- Granting autonomy to the management of the venturing program
- High level of interaction with the rest of the business units
- Good level of funding
- Follow-up with start-ups
- Continuous evaluation

Source: IESE Business School & mVenturesBcn

*The future growth & investment in European Tech Scale-ups is underestimated as there is untapped potential to:*

- *Disrupt industries*
- *Deliver superior returns*
- *Impact society*
- *Enhance a virtuous circle of funding*



Insights from:

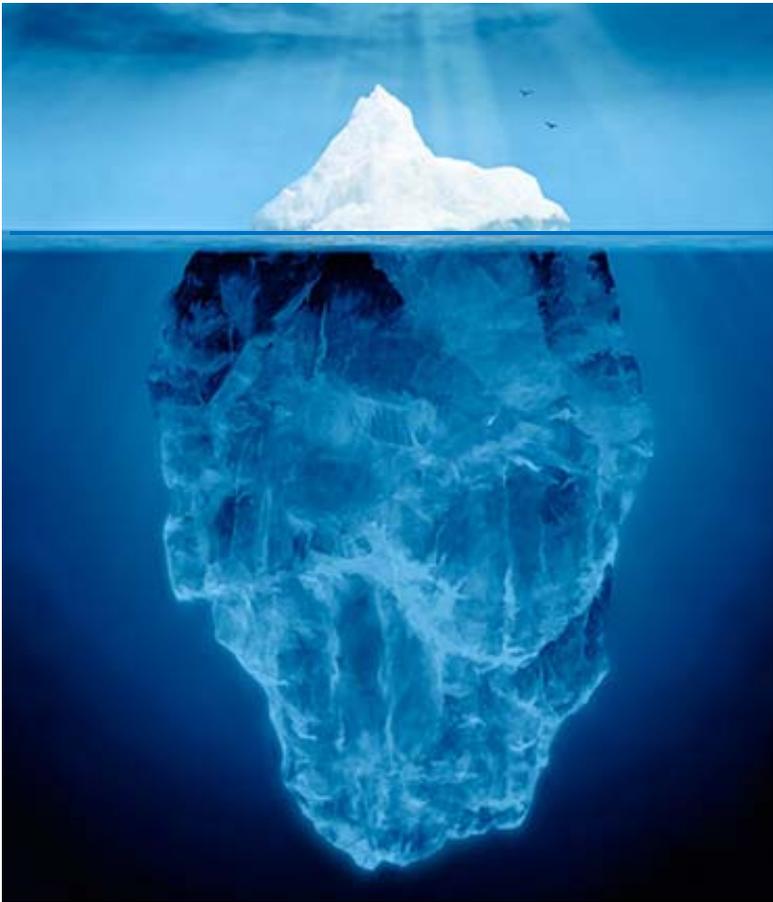
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[www.techtour.com](http://www.techtour.com)

# European scale-ups with unicorn potential are significant and underestimated



- \$1 billion “unicorns” are just the tip of the iceberg.
  - Approximately 20% of Global Unicorn companies were founded in Europe
  - However **US Unicorns have valuation to revenue multiples 2.5x European Unicorns<sup>1</sup>**
  - This suggests a “European Unicorn Universe” of significant and underestimated potential
- 
- Since 2015 ,Tech Tour has evaluated over 320 European scale-ups at a sub US\$1 Billion valuation to produce an annual report and list – The Tech Tour Growth 50
  - This presents the 50 European tech scale-ups with the most promising potential to achieve Unicorn status – those “born to be unicorns”
  - Over three years (2015, 2016, 2017) the Tech Tour has listed 101 companies in total in the three editions of the list - examining the performance of companies in the 2015 and 2016 i.e. since their presence in the Tech Tour Growth 50 - shows an increase in growth trajectory or positive exit event – for 75% of scale-ups
  - Given 4% of European venture capital exits delivers 50%<sup>2</sup> of returns understanding the trends in this pipeline of European scale-ups with Unicorn potential has important lessons for corporate innovation and venture capital programmes

<sup>1</sup>: Source: GP Bullhound – see slide number 27

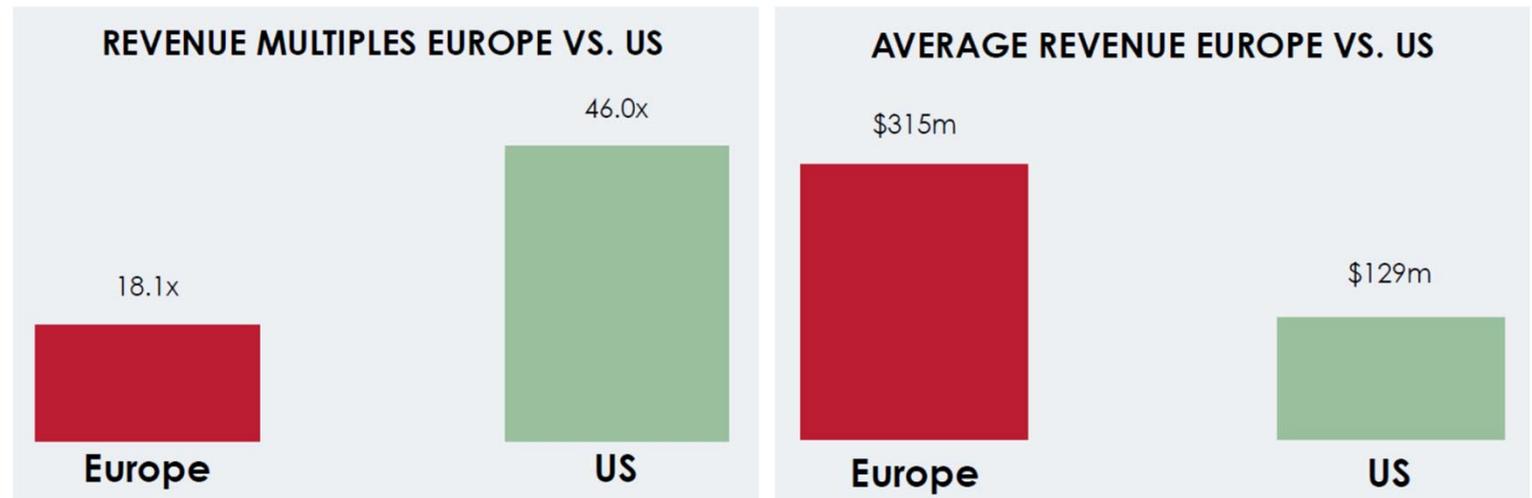
<sup>2</sup>: Source: European Investment Fund (EIF) Working Paper “**The European venture capital landscape: an EIF perspective**” Volume III: Liquidity events and returns of EIF-backed VC investments - April 2017

# There is significant valuation uplift potential across European Unicorns\*

«Average revenues are significantly higher in Europe v. US yet valuation multiples are much lower. This indicates a higher threshold to achieve Unicorn status and a market based on solid fundamentals»

  
**EUROPEAN UNICORNS 2016**  
*Survival of the fittest*

## European Unicorns 2016 Research by GP Bullhound



GP Bullhound Research - European Unicorns 2016

Source: Company data, Capital IQ, Mergermarket, CB Insights (US data), press articles, GP Bullhound analysis as at April 2016

Note: Sourced latest revenue and valuation data available, dataset includes private companies only; if revenue data is one year older than valuation data, label reads LTM -1; sample set size: 12 EU Unicorns and 20 US unicorns.

\*Defined as public and private tech scale ups with a greater than \$1 billion valuation

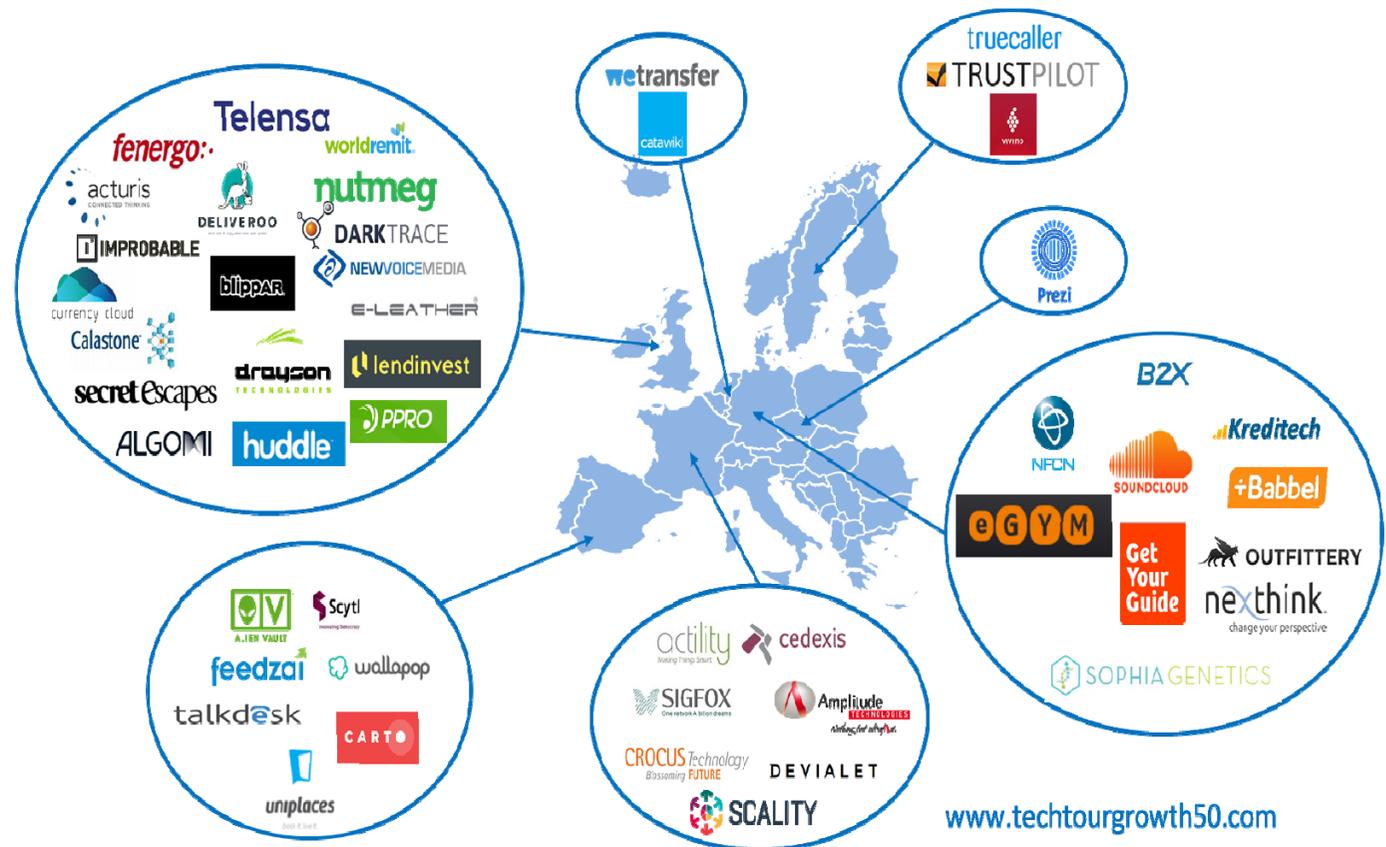
# There are many more Tech Scale-ups with Unicorn potential across the EU (The Tech Tour Growth 50)



Since 2015, Tech Tour together with Silverpeak and with a selection committee of international investors researched and evaluated over 280 European private tech companies at a sub-one billion US dollar valuation.

The Tech Tour Growth 50 present Europe's most promising growth tech scale ups with the very best potential to become \$1 billion dollar + companies: those "born to be unicorns".

[www.techourgrowth50.com](http://www.techourgrowth50.com)



[www.techourgrowth50.com](http://www.techourgrowth50.com)

Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase

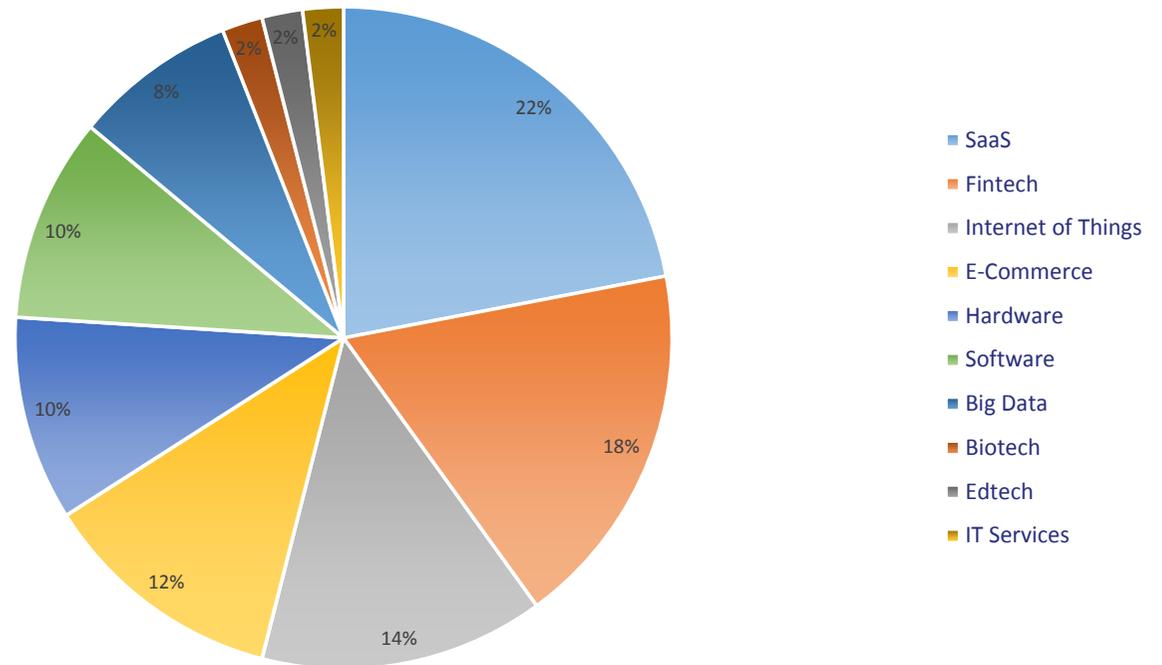
# European scale-ups increasingly develop disruptive technologies across industries

*“ The share of retail eCommerce businesses is continuing to fall, 15% in 2017 from 50% in 2015.*

*As the internet industrialises, the B2B enabling technologies in Fintech, IoT and Security becoming increasingly prominent – approximately 40% of companies - are providing the backbone for widespread change in various industries. “*

[www.techtourgrowth50.com](http://www.techtourgrowth50.com)

The Tech Tour Growth 50 2017 Break Down By Industry Vertical



Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase

## European tech growth companies are (slowly but surely) scaling investments

*« Valuations, funding round sizes, average and total number of investors and the share of super angel backing are all increasing while the US funding share is edging down for the 2017 edition of the Tech Tour Growth 50 companies»*

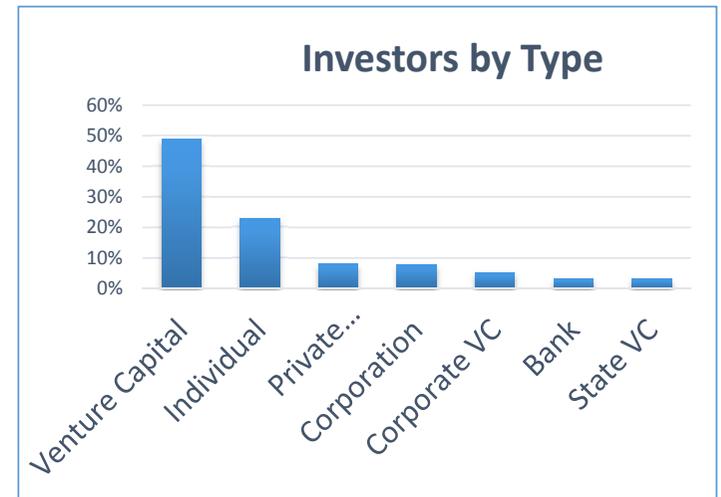
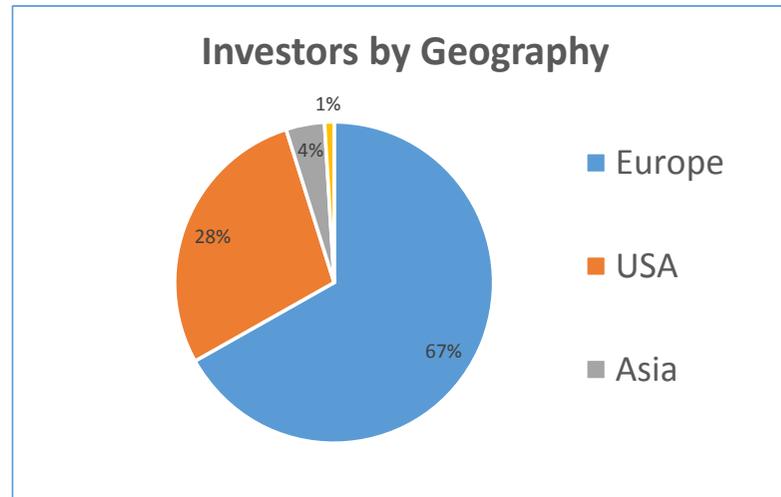
[www.techourgrowth50.com](http://www.techourgrowth50.com)

Investment characteristics of the Tech Tour Growth 50	2017	2016
Total funding raised by the 50 companies	\$3.7bln	
Average valuation of the TTG50 companies at last funding	\$338m	\$284m
Average last funding round size	\$65.7m	\$38.5m
Average first funding round size	\$5.7m	\$7.5m
The average number of investors per TTG50 company	7.5	5
Total number of investors backing the TTG50 companies	309	227
% of TTG50 companies having at least one US investor	52%	66%
% of TTG50 companies with minimum one super angel backer	48%	42%

Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase

# Corporate investors are underrepresented as EU tech scale up investors

« Due to the shortage of capital (vs. USA) and the more conservative approach of growth capital in Europe, tech growth entrepreneurs seek financing solutions from a variety of investor types. »



- Total of 309 investors (277 in 2016)
- Nearly half of those investors are financial venture capital fund managers
- Over 20% are individuals, typically super angels.
- US investors account for 28% of the total number of investors (with 52% of companies having at least one US investor.)
- Only 15% of the investors are corporate or corporate venture capital funds and while their number and share is rising this is still below the global corporate venture deals average<sup>1</sup>

Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase  
1. Source Global Corporate Venturing – see slide 9 for more information

# The ecosystem is coming of age: super angel investors are active and decisive

« Many of the founders of the existing European unicorns are backing those scale ups with the potential of becoming Europe's next 1 Billion dollar tech companies. Success breeds success.»

[www.techourgrowth50.com](http://www.techourgrowth50.com)

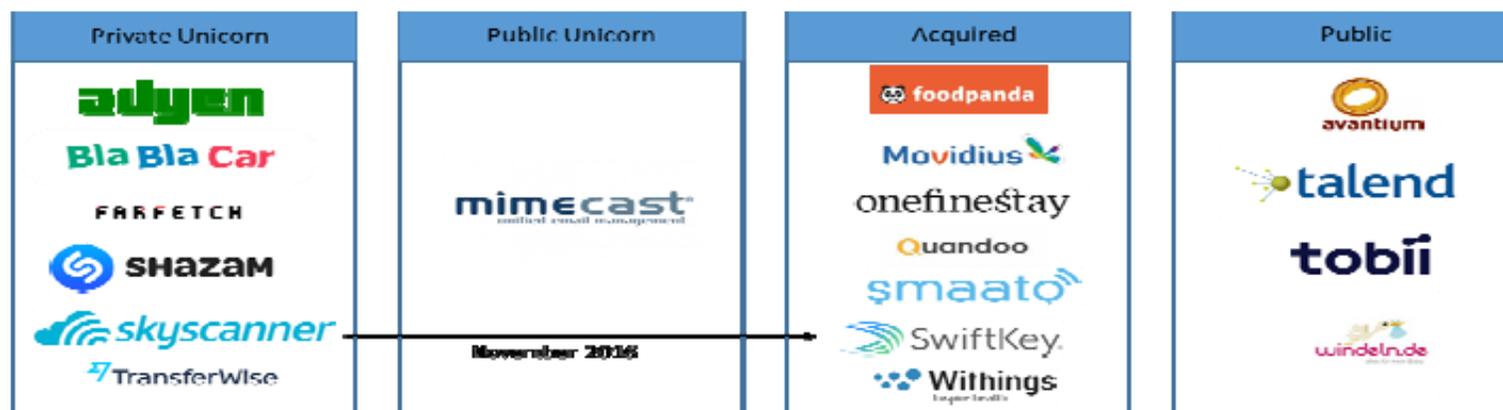


Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase

# Past Tech Tour Growth 50 continue to scale valuations, funding or go IPO/M&A

« Of the former TTG50 companies one third achieved unicorn status, had an M&A event or went public and two-thirds went on to raise larger funding rounds. »

[www.techourgrowth50.com](http://www.techourgrowth50.com)



## 18 Companies no longer eligible for selection/outside criteria

- 101\* Companies across all three editions – total capital raised of \$8 billion
- 51 Companies post Tech Tour Growth 50 List:
  - 18 were Listed, Acquired or went over >US\$ 1 Billion Valuation (unicorn) – see table above
    - The 5 companies that went public showed a 27% average performance since listing (vs. 15% of the equivalent performance of the NASDAQ over the same time period)
  - 37\* Raised additional capital – average of 48% of total capital raised – disclosed at \$1.5 bln – and 19 had largest funding round since appearance in TTG50

Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase

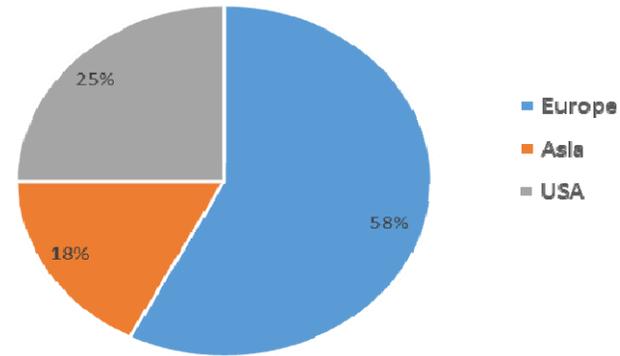
# Europe's Corporations are not benefiting from the success of European scale-ups

*Only 23 European Corporations & CVCs are invested in Europe's most promising scale-ups*

*... Only 2 are invested in more than 1 company*

Geography of Corporates Backing Tech Tour Growth 50 2017 Companies

Corporations and CVCs



Corporations and CVCs with investments in more than one of TTG50 2017 companies

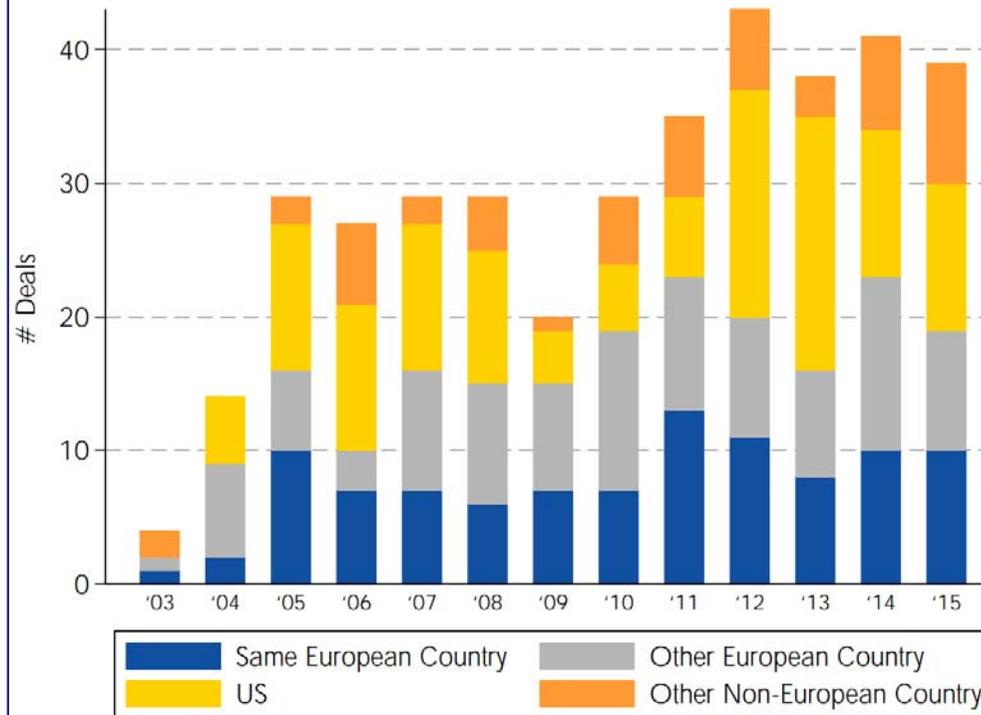
	#companies	Geography
Sapphire Ventures	4	Europe
Foxconn Technology Group	3	Asia
Swisscom Ventures	2	Europe
Rakuten	2	Asia

Source: Tech Tour, Go4Venture, Silverpeak, Pitch Book, CrunchBase

# European tech companies are popular for acquisition by non-EU corporations.

*"On average, about 50% of the performing EIF-backed European investees are acquired by non-European corporations, particularly from the US. US-based buyers are typically larger in terms of assets and revenues, more innovative and mostly active in the ICT domain. This raises the issue of whether the missing scale-up phenomenon in Europe could be linked to the lack of serial tech buyers, that is, incumbents in highly innovative and competitive sectors" (source EIF)*

### Geography of Corporate Acquirers for European Investment Fund Backed Companies

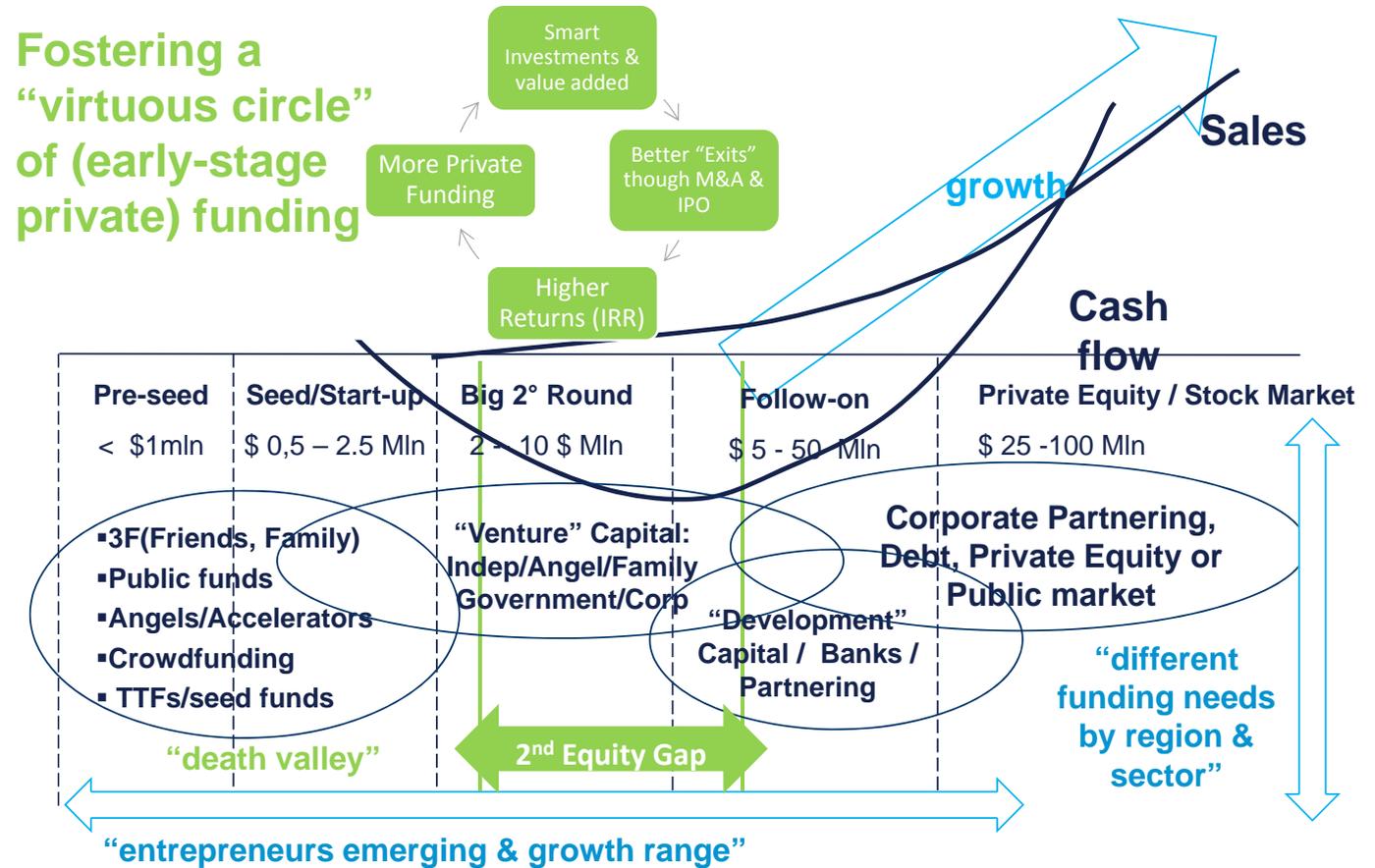


Source: European Investment Fund (EIF) Working Paper **"The European venture capital landscape: an EIF perspective** Volume III: Liquidity events and returns of EIF-backed VC investments April 2017

# Tech successes complete a virtuous circle of funding from early-stage to growth

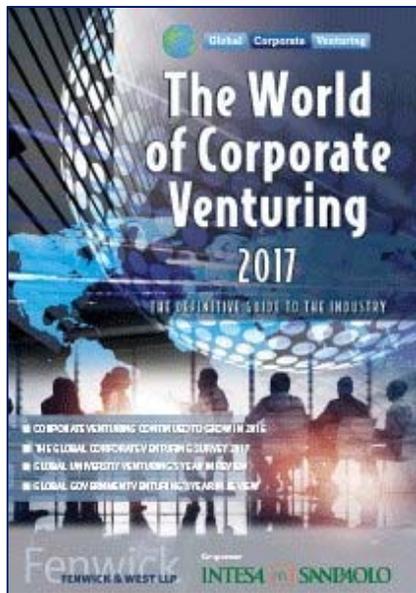
« Beyond the early-stage « death valley » there is a second equity gap in Europe where growth companies suffer from lower valuations and availability of value – added growth investment capital. Growing successes with increased corporate investment, venturing and M&A will help close that gap.»

[www.techourgrowth50.com](http://www.techourgrowth50.com)

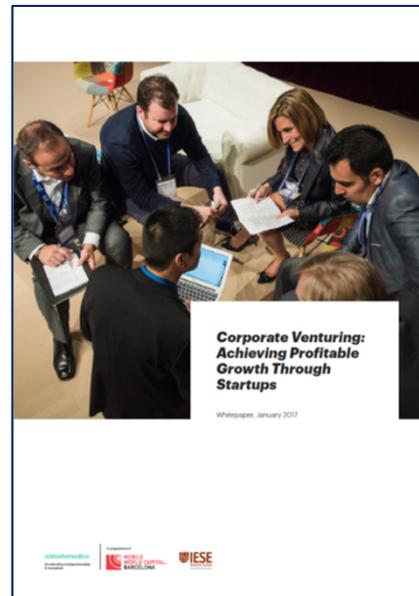


Source: Tech Tour

# Further Reading



Global Corporate Venturing  
[www.globalcorporateventuring.com](http://www.globalcorporateventuring.com)



IESE Business School  
[www.iese.edu](http://www.iese.edu)



Tech Tour  
[www.techtour.com](http://www.techtour.com)



# About Global Corporate Venturing

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“A global, multimedia ‘insights as a service’ group dedicated to serving venture investors, such as corporations, universities and governments, directing funding to entrepreneurs in the innovation economy.”

[www.globalcorporateventuring.com](http://www.globalcorporateventuring.com)

## About IESE Business School

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“ For over fifty years, IESE, the graduate business school of the University of Navarra has been at the forefront of management education, developing and inspiring business leaders who strive to make a deep, positive and lasting impact on the people, companies and society they serve.”

[www.iese.edu](http://www.iese.edu)

# About Tech Tour

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## Tech Tour

Founded in 1998, Tech Tour provides a Community facilitating investment into world class entrepreneurs with event and online matching platforms between growing and emerging innovative companies and investors across borders, regions, sectors and stages.

Tech Tour is also the trade name for Europe Unlimited.

[www.techtour.com](http://www.techtour.com) (see also [www.e-unlimited.com](http://www.e-unlimited.com))



## International Venture Club

The International Venture Club is a collaborative platform of over 70 leading independent venture capital, corporate and institutional investors promoting successful international investments. The Club objectives are to share better practices, build co-investor trust and relations, foster new funding and investment opportunities through joint actions and grow portfolio companies with corporate partners and co-investors. The International Venture Club is managed by Tech Tour.

[www.iventureclub.com](http://www.iventureclub.com)