M&A Congress
A new approach to Corporate Venturing
Build, Partner, Buy

November 22th, 2017
Introduction: A New Approach to Corporate Venturing

An integrated view to Corporate Venturing enables companies to benefit from the democratization of technology in order to create long-term shareholder value.

### Situation

- The **empowered mobile consumer** and industry convergence **drive demand and market disruption**
- Firms must **identify core assets and capabilities** in order to create products that address unmet customer needs
- Traditional firms are barely keeping pace with innovative startups and are often **handicapped by administrative burden and silo mentality**

### Complication

- An **accelerated approach** promoting inside-out and outside-in innovation is needed
- A **protected working environment** and minimal administrative burden is a key to success
- **Adequate funding mechanisms** need to be in place to push the available growth options **build-partner-buy**
- **Professional integration** of new ventures is a key driver of creating economic value

### Solution

Implementing an integrated Corporate Venturing Hub embedded in a start-up ecosystem is most promising to create long-term shareholder value.
Situation: Drivers Of Change
Democratization of technology, low startup costs and easily accessible funding accelerates the number of new startups that challenge corporations in their established fields.

**Democratization of technology**
New technology becomes rapidly accessible to an increasing number of people across the world. The empowered mobile consumer drives demand.

**Lower capital requirements**
Entrepreneurs across the world leverage existing technology and digital tools to grow and scale extremely fast with relatively small capital expenditure.

**Better availability of funding**
To capitalize on the disruptive potential of innovative new entrants, investors, including VCs, mutual funds and corporations invest an increasing amount of capital into digital start up companies.

3.4bn 4.6bn 6.4bn
Complication: Traditional Silo Mentality
In order to cope with current market challenges, companies need to overcome their silo mentality and integrate their capabilities into a holistic Corporate Venturing approach.
Solution: Integrated Corporate Venturing Approach

Addressing the need for a new approach, our solution aims to integrate all venturing activities through a Corporate Venturing Hub preparing organizations for the digital era.

Integrated Corporate Venturing Approach

Traditional growth activities

- Research & Development
- Mergers & Acquisitions
- Business Development

Modern growth activities

- Corporate Venturing Hub
- Start-Up Ecosystem
- Digital Labs
- Corporate Accelerators
- Partnerships with Startups

Value potential

- Higher **return on investment** due to a more customer centric approach
- **Technology and talent access** through new ways of cooperation, attractive location and branding
- **Innovative fail fast culture** with lower administrative burden
- Increased **speed to market** due to project oriented organization structure

**Improved competitiveness due to digital muscle building**
Utilizing our Corporate Venturing approach allows companies to accelerate the innovation process, improve their competitiveness and maximise value generation.
Phase 1: Venturing Strategy & Ecosystem Scan
The initial phase of our venturing approach is focussed on developing a venturing strategy and exploring potential innovative growth areas.
Deep Dive: Defining Innovation Areas
Companies need to identify core assets and capabilities in order to create products and services that address unmet customer needs.

**Consumer needs to match core assets**
- Creates trust
- Easy access everywhere
- Little time
- Simple to use
- Want choice
- Accurate information
- Production facilities
- Distribution channels
- Brand names
- Intellectual property
- Customer relations
- Employees' skills

**Define innovation areas with high business potential**

**Technology Trends**

<table>
<thead>
<tr>
<th>INDUSTRY 4.0</th>
<th>BLOCKCHAIN</th>
<th>ARTIFICIAL INTELLIGENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business potential</td>
<td>None</td>
<td>high</td>
</tr>
</tbody>
</table>

2017 Deloitte
Phase 2: Opportunity Validation
The second phase of our venturing approach is focused on identification and validation of potential opportunities before starting with executing the preferred option.
Deep Dive: Early Stage Due Diligence Methodology

Due Diligence for early stage companies applies the traditional venture capital approach, and often seeks to additionally advance corporate strategic objectives.

### Focus of Traditional Early-Stage VC Due Diligence

1. **Team**
   - Expertise, Synchronicities, Incentives
2. **Product Purpose**
   - Unique Selling Points
3. **Customer & Market Problem**
   - Customer Segments & Market Pain Points
4. **Solution**
   - Problem-Solution Fit, Value Proposition
5. **Timing**
   - Market Readiness, Why Now?
6. **Market Size**
   - Market Potential in Local and Global Markets, Growth
7. **Competition**
   - Competition Overview, Now and in the Future, Competitive Advantage
8. **Product & Channels**
   - Detailed Product Description, Value Chain, Distribution Channels
9. **Technology & Integration**
   - Technical Platform Specifications & Scaling Requirements
10. **Governance & Operating Model**
    - Governance, Voting, Internal vs. External Capabilities
11. **Business Model**
    - Revenue Streams, Fixed and Variable Costs, Unit Economics
12. **Traction**
    - Number of acquired customers, Growth Rate, Run Rate
13. **Financials (P&L)**
    - Current and Forward-Looking
14. **Valuation**
    - Pre/Post Money Valuation, Cap Table, Mgmt Participation
15. **Way Forward**
    - Use of Funds, Milestones, Funding Requirements

### Strategic Considerations for Corporates

- **Synergistic Value**
  - (For the target company, efficiency at scale by leveraging corporate capabilities; can impact pricing)
- **Industry Insights**
  - (R&D, technological expertise, sector knowledge)
- **Investment Horizon**
  - (Expectations from entrepreneurs; potentially longer duration than traditional VC with a view towards M&A)
- **Autonomy of Operations**
  - (Degree of integration with corporate investor vs. maintaining speed and agility in external environment)
- **Exit Terms**
  - (IP and asset protection from industry competitors)
Deep Dive: Startup Valuation Methodologies

Startup Valuation Methodologies draw from traditional VC across Seed and Series A / B, and from PE for Series C or later rounds of financing.

**Seed Rounds: Scorecard Method**  
(Simplified)

Uses a Scorecard to compare the target company to other seed-funded startup ventures at the same stage of development, and adjusts the average pre-money valuation to the results of the Scorecard.

- Drives **deep research** into opaque early stage investing market
- Comprehensive framework to quantify otherwise 'soft' criteria
- Forces agreement on major success factors

<table>
<thead>
<tr>
<th>Evaluation Criteria at Target Company</th>
<th>Weight Assigned</th>
<th>Target Company's Relative Performance</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Strength of Team</td>
<td>40%</td>
<td>125%</td>
<td>0.50</td>
</tr>
<tr>
<td>02 (Product) Purpose USP</td>
<td>30%</td>
<td>90%</td>
<td>0.27</td>
</tr>
<tr>
<td>03 Severity of Customer &amp; Market Problem</td>
<td>30%</td>
<td>100%</td>
<td>0.30</td>
</tr>
<tr>
<td>Multiple to Pre-Money Valuation</td>
<td>1.07</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Series A / B Rounds: VC Method**  
(Simplified)

Most applicable at pre-revenue stages where it is easier to estimate a potential exit value and then derive the current value than vice versa.

- Based on **cash return at exit**; useful in cases of limited historical record of company financials
- Provides **risk adjusted valuation** based on the expected performance of the asset
- Derives **required investment amount** based on targeted participation

Requires the following inputs:
- Estimated Exit Value (Ex: €100 Million)
- Time to Exit (Ex: 5 years)
- Discount Rate Applied (Ex: 50%)
- Post Money Valuation (Ex: ~13 Million)
- Targeted participation (Ex: 15%)
- Investment amount (Ex: €2 Million)

**Series C Rounds or Later: DCF Method**  
(Simplified)

Discounted Cash Flow (DCF) is applied to later-stage investments where reasonable projections can be made to reflect the company's business model, financial profile and risks.

- Most rigorous assessment approach to estimating intrinsic value of a company
- Based on **Free-Cash-Flow analysis**, addressing risk of hidden costs head-on
- Calculates strategic value of a company providing clear **Go / No-Go decision**
Phase 3: Partnership and Deal Execution
The 3rd phase of our venturing approach is focused on implementing the preferred venturing or business building option before integrating it into the core business.
Deep Dive: Integration Into Core Business
Critical parameters have to be adjusted to ensure successful serial integrations into the core business of the respective mother company of the corporate venturing hub.

Selection of Critical Integration Parameters

- **Top Management Involvement**: Limited involvement.
- **Hierarchical Integration Level (TOM)**: BU level.
- **Customer Focus**: Low.
- **Synergy Focus**: Low costs, high revenues.
- **Speed of Integration**: Slow.
- **Communication and Change Support**: Low.
- **Level of Disruption**: Low.

**Golden rules for success**

- **Keep end-state in mind** while building the target business.
- **Top management involvement** throughout the venturing process (e.g., Chief Digital Office).
- **Ensure business momentum** via slow and smooth integration process after aggressive building and scaling phase.
- Professional **communication and change concept** for the transition of the mother company.
- **Maintain agile and project oriented organization structure** as long as possible.
- Ensure a **healthy mixture of buy, build, partner** in corporate venturing hub.

**The tail is wagging the dog**
Summary
Many corporates struggle to cope with the challenges of the digital era. A structured and integrated Corporate Venturing approach will reduce the problems.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Firms struggle to cope with the <strong>challenges of the digital area</strong></td>
<td>• <strong>Coordinated Corporate Venturing activities</strong> aligned with overall company strategy</td>
</tr>
<tr>
<td>• Companies are <strong>trapped in a silo mentality</strong> when approaching Corporate Venturing</td>
<td>• <strong>Overcome silo mentality</strong> by integrating capabilities into a holistic approach</td>
</tr>
<tr>
<td>• <strong>Traditional organizations are to slow</strong> with innovation due to excessive administrative burden</td>
<td>• <strong>Explore</strong> innovative growth <strong>options like venturing hubs in a protected environment</strong></td>
</tr>
<tr>
<td>• <strong>Target screening via established tools fails</strong>, when searching for digital startups</td>
<td>• <strong>Get access to digital ecosystem</strong> and enable the organization to learn from innovative partners</td>
</tr>
<tr>
<td>• <strong>Valuation of digital targets</strong> via traditional mechanisms often fails</td>
<td>• <strong>Use of Venturing scoring models</strong> and business analysis instead of typical Revenue/EBITDA multiples</td>
</tr>
</tbody>
</table>
Questions
Please feel free to ask any questions