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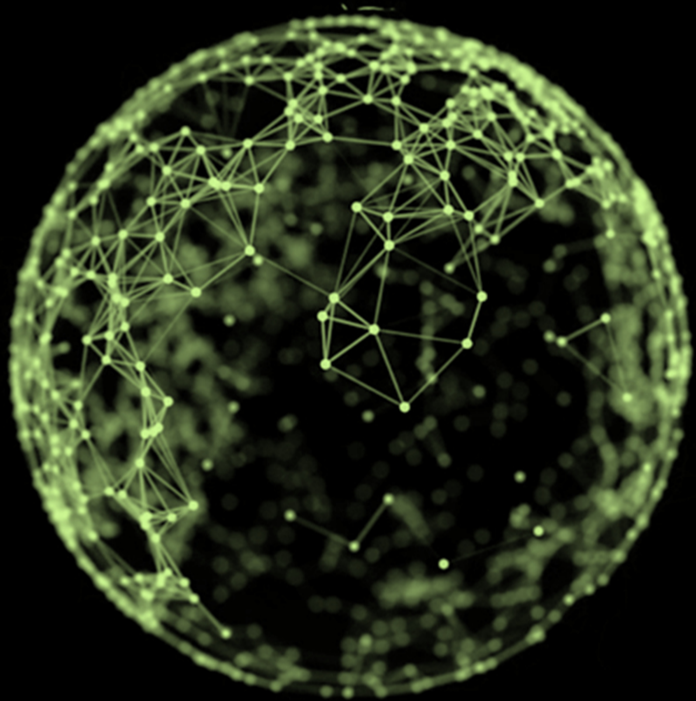


M&A Congress
A new approach to Corporate Venturing

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

3.4bn 4.6bn 6.4bn

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

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

M&A Department

Objectives

- Acquire new revenue streams and achieve synergies
- Dispose non-performing entities
- Share risk with a partner (JV)

Issues with isolated approach

- Many integrations are related to digital but often with limited understanding of the market
- Traditional tools fail to identify and leverage value from digital acquisition targets

Business Development

Objectives

- Analyze consumer needs and define portfolio adjustments
- Understand new markets
- Develop corporate strategy

Issues with isolated approach

- Development activities are too slow and theoretical
- Limited outside in perspective considered in corporate strategy
- Direct interaction with the customer (MVP) missing

Corporate Venturing Funds

Objectives

- Identify pipeline of potential acquisition targets
- Create partner ecosystem around a particular product
- Understand new market

Issues with isolated approach

- Investments not aligned with overall innovation strategy
- Investments might not add value to core business
- Lack of information sharing with R&D and M&A department

R&D Department

Objectives

- Develop new products
- Develop new methods and processes
- Create new IP

Issues with isolated approach

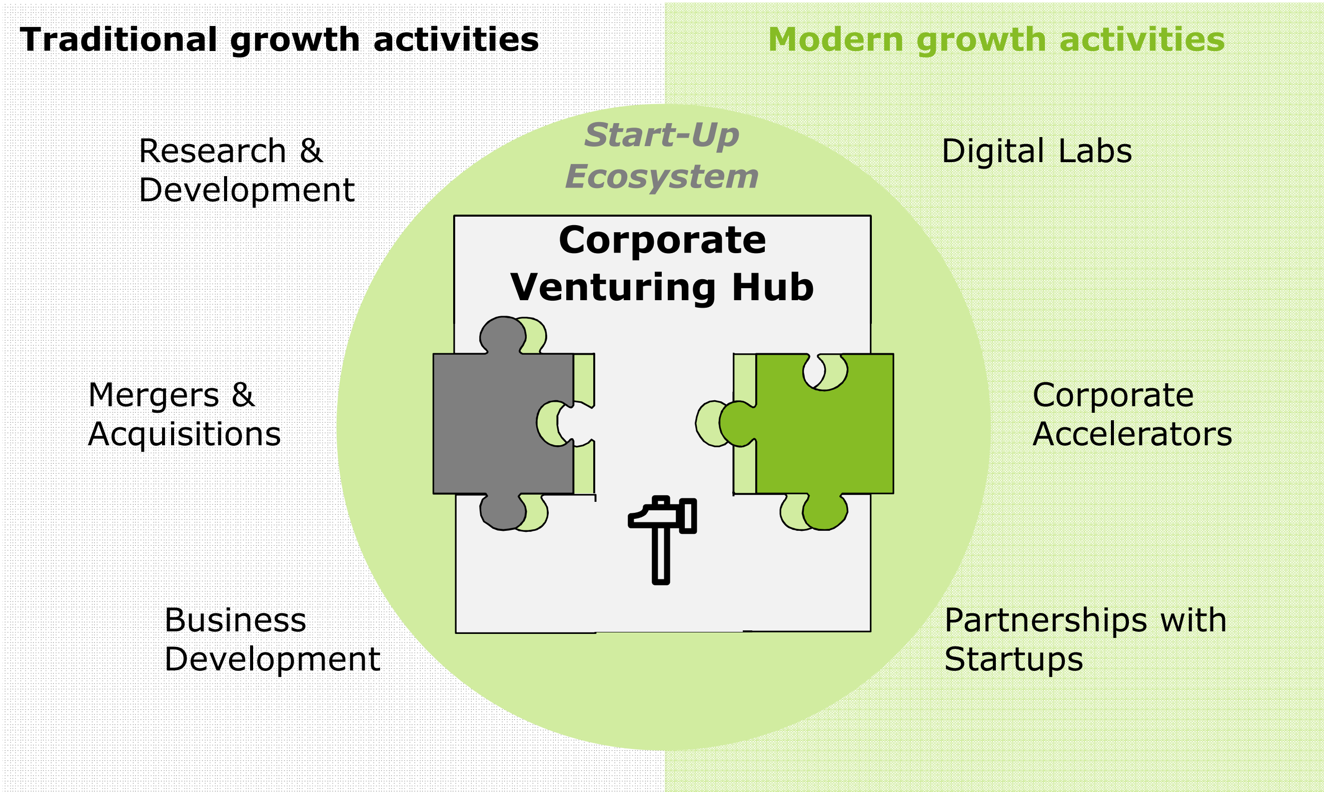
- Ideas often developed w/o considering consumer needs
- Limited consideration of cross-industry opportunities
- Attractive research insights not shared with M&A department

Overcome silo mentality by integrating existing 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



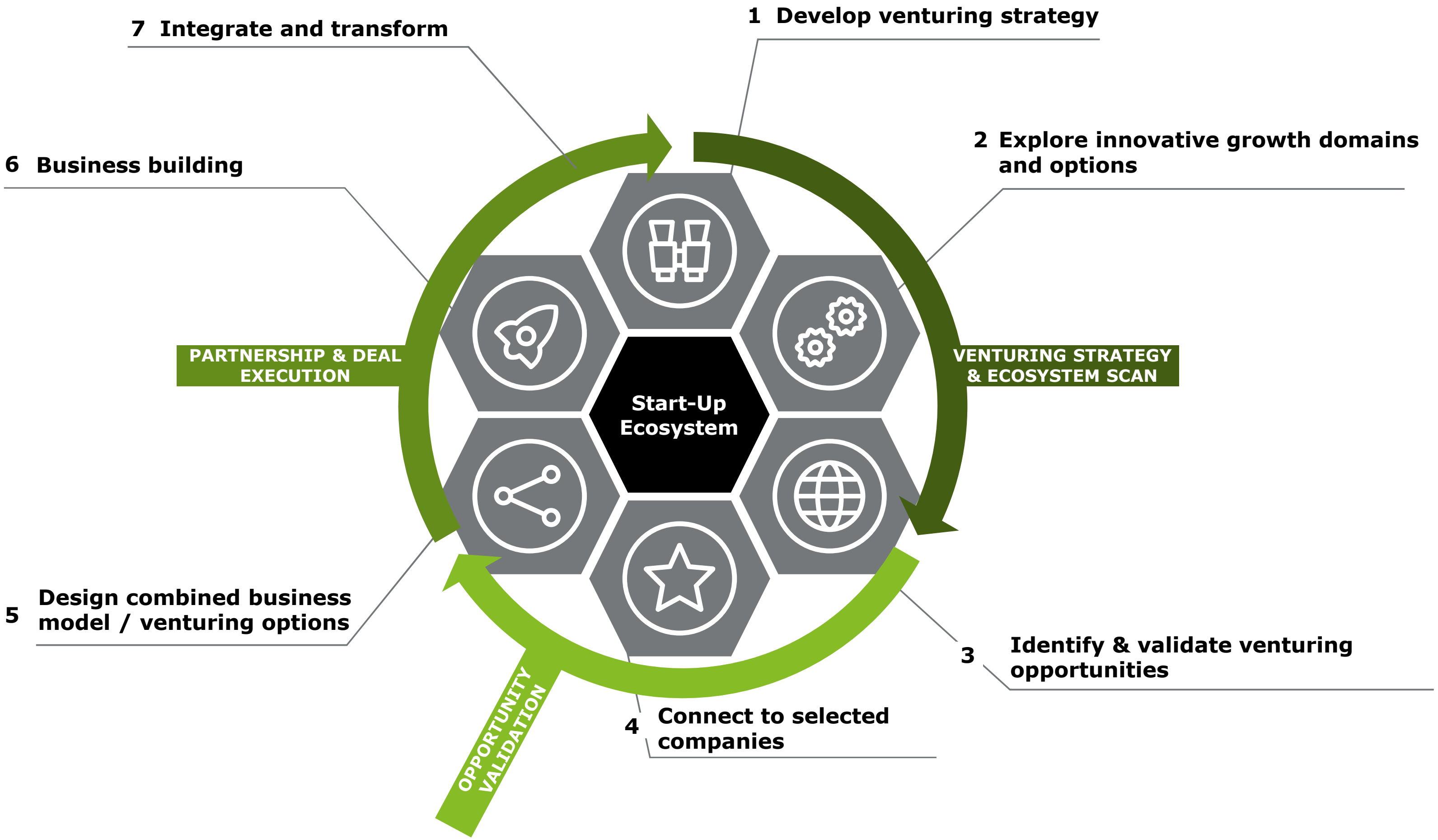
Value potential

- 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

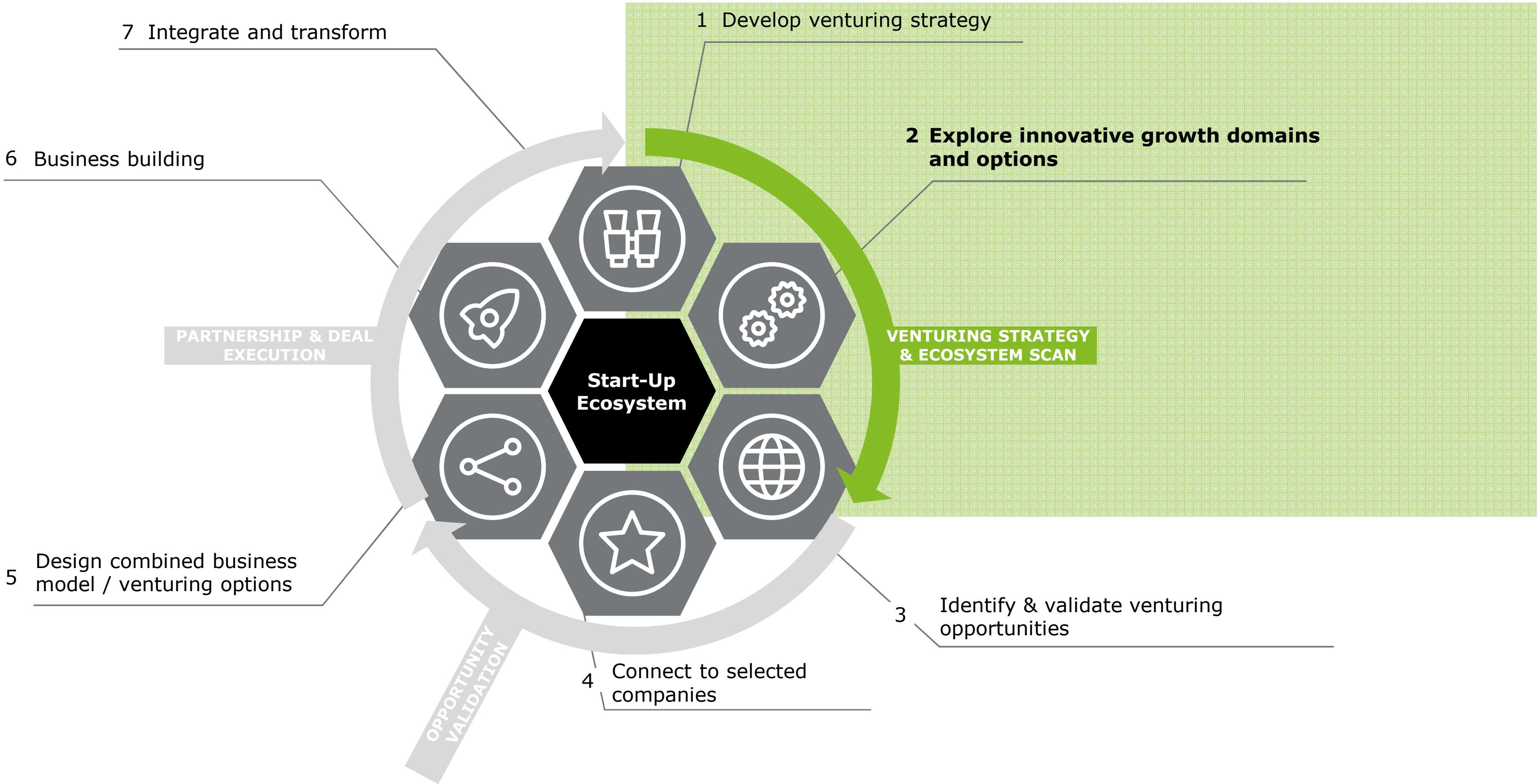
Corporate Venturing Hub: Procedural View

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

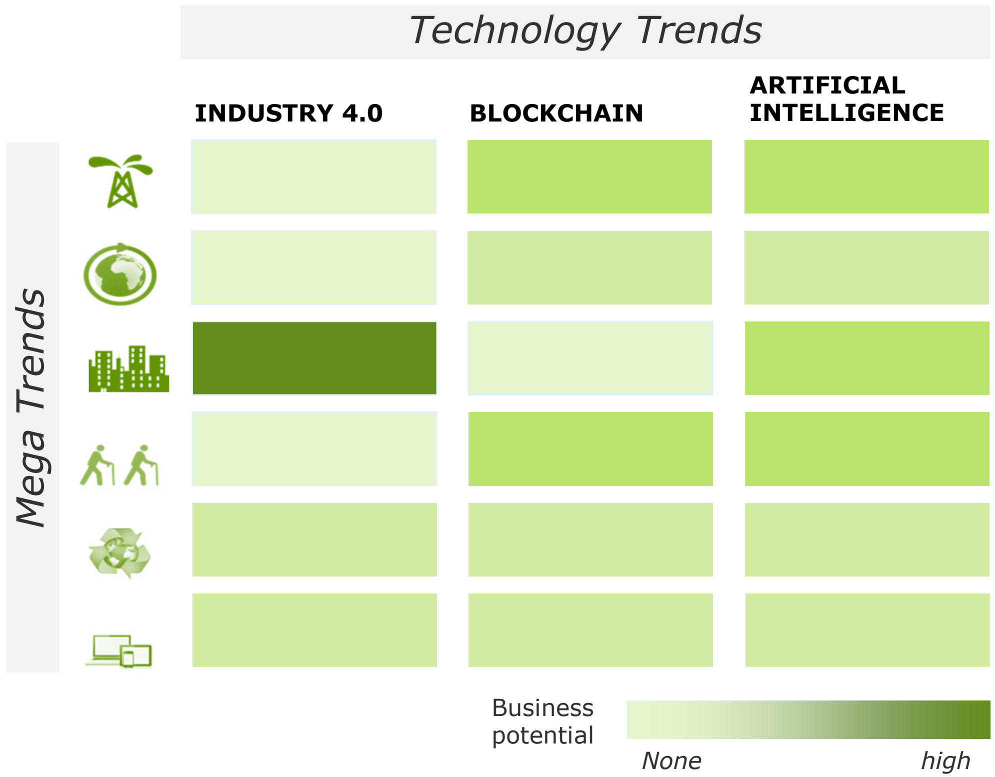


Deep Dive: Defining Innovation Areas

Companies need to identify core assets and capabilities in order to create products and services that address unmet customer needs

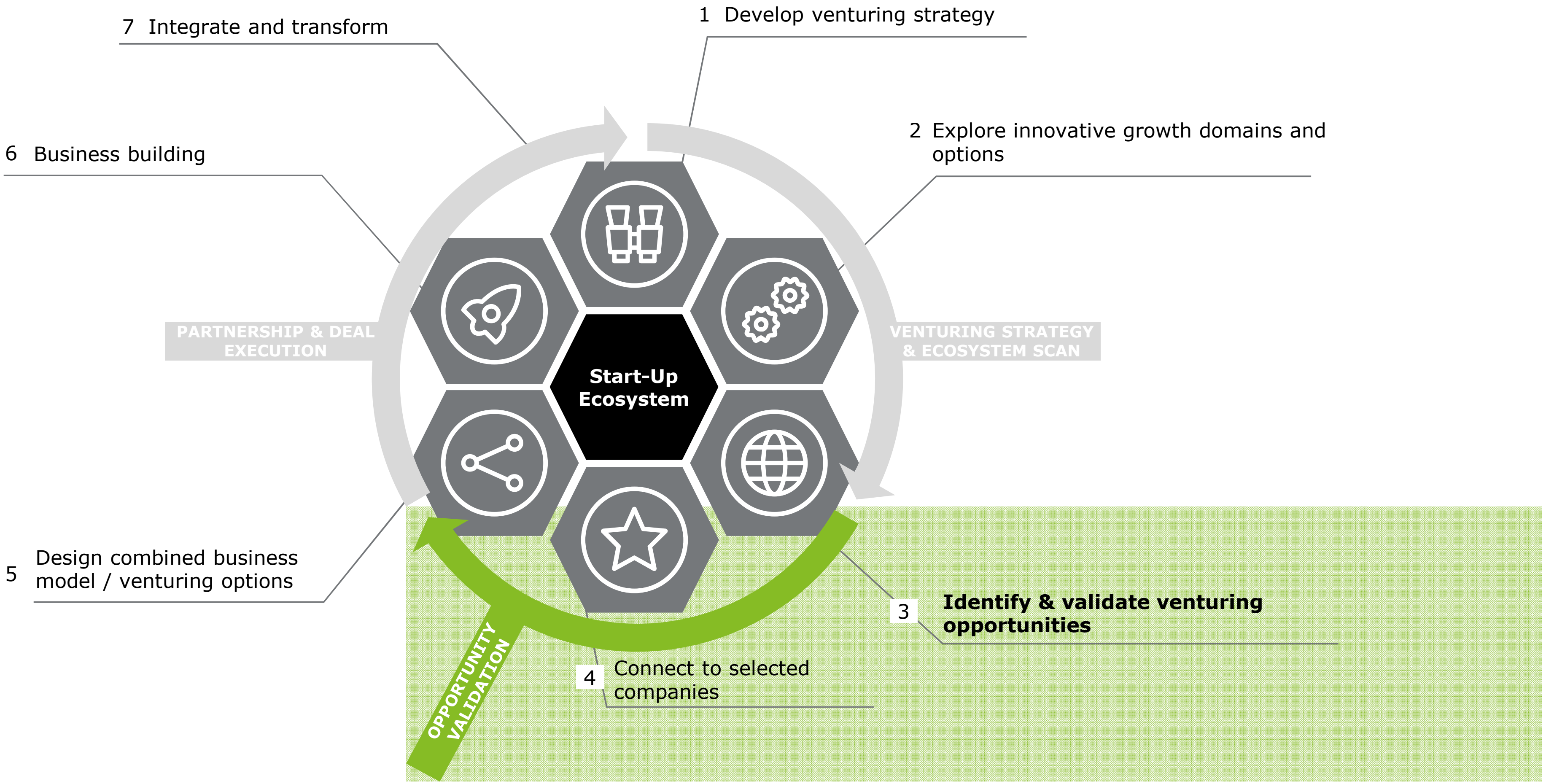
Consumer needs to match core assets

Define innovation areas with high business potential



Phase 2: Opportunity Validation

The second phase of our venturing approach is focussed 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

01 **Team** (Expertise, Synchronicities, Incentives)

02 **(Product) Purpose** (Unique Selling Points)

03 **Customer & Market Problem** (Customer Segments & Market Pain Points)

04 **Solution** (Problem-Solution Fit, Value Proposition)

05 **Timing** (Market Readiness, Why Now?)

06 **Market Size** (Market Potential in Local and Global Markets, Growth)

07 **Competition** (Competition Overview, Now and in the Future, Competitive Advantage)

08 **Product & Channels** (Detailed Product Description, Value Chain, Distribution Channels)

09 **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 fro 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

Evaluation Criteria at Target Company		Weight Assigned	Target Company's Relative Performance	Factor
01	Strength of Team	40%	125%	0,50
02	(Product) Purpose USP	30%	90%	0,27
03	Severity of Customer & Market Problem	30%	100%	0,30
	Multiple to Pre-Money Valuation			**1,07**

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

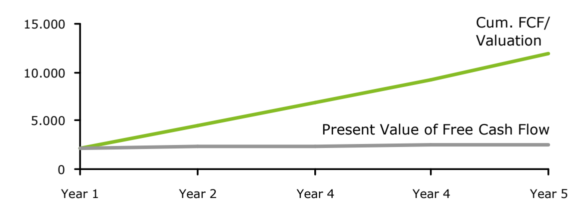
Requires the following inputs:

- ➢ 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.

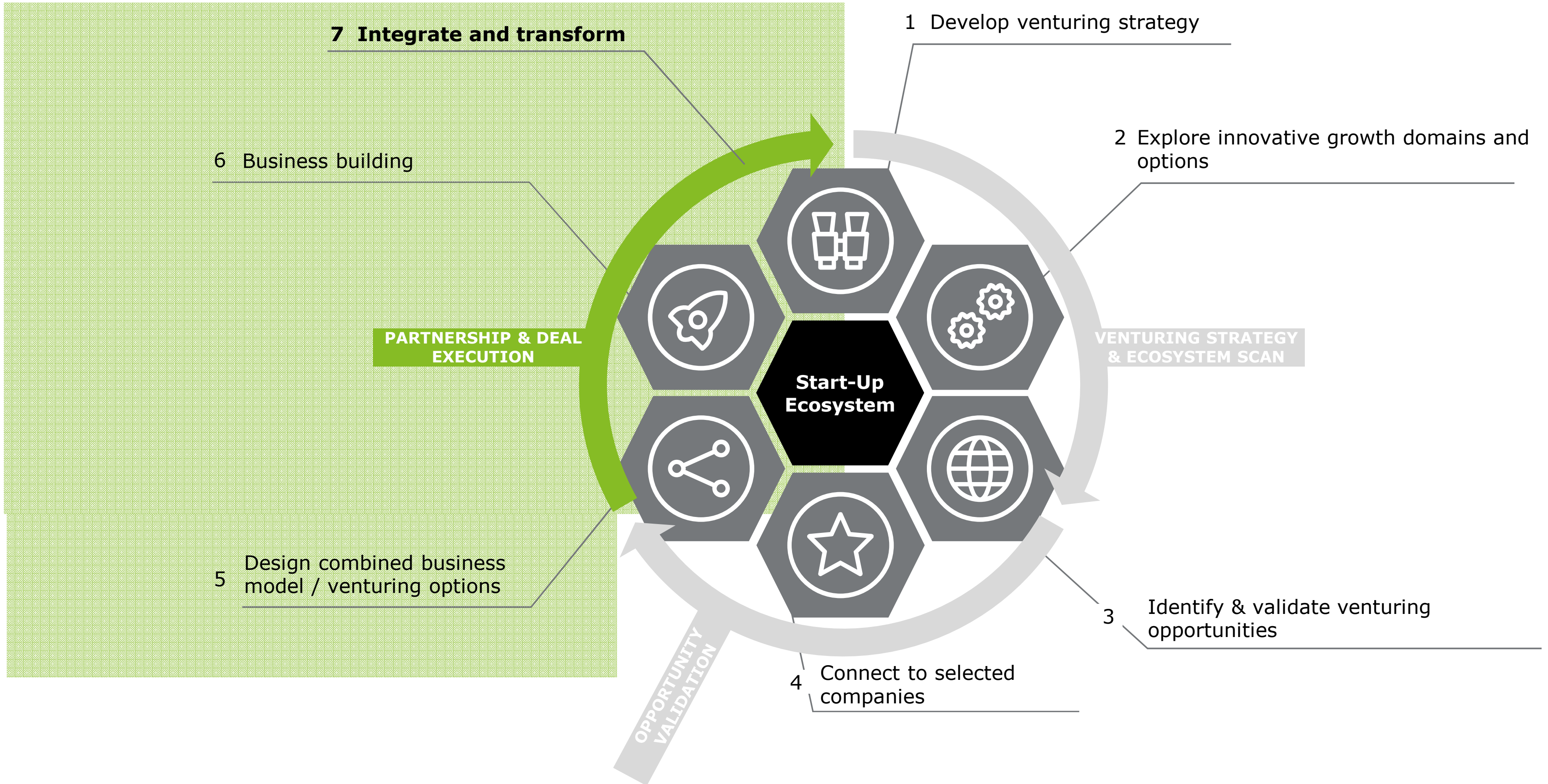
- ✓ Most **rigorous assessment** approach to estimating intrinsic value of a company
- ✓ Based on **Free-Cash-Flow analysis**, addressing risk of hidden costs head-on
- ✓ Calculates strategic value of a company providing clear **Go / No-Go decision**



Strategic benefits to deals require additional analysis and can increase value to the corporate

Phase 3: Partnership and Deal Execution

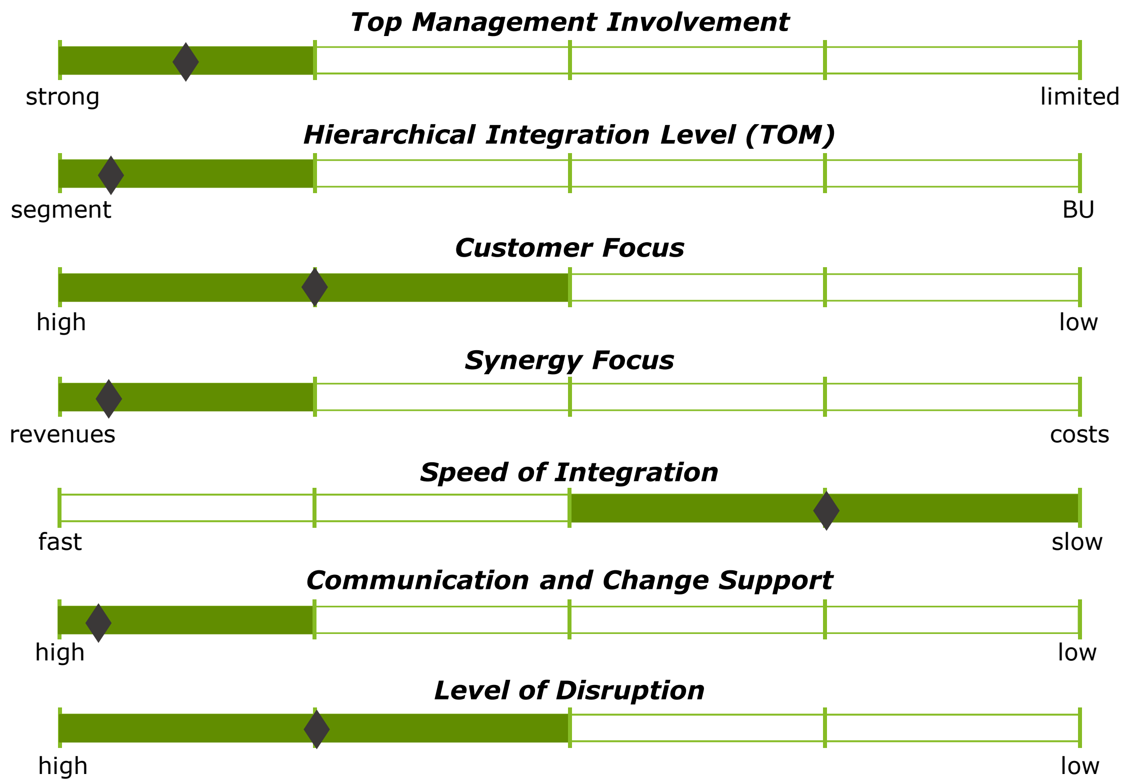
The 3rd phase of our venturing approach is focussed on implementing the preferred venturing or business building option before integrating it into the core business



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



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

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

Questions

Please feel free to ask any questions