Thelander - CVI² 2015 CVC Compensation Report

Executive Summary

The *Thelander- CVI² 2015 CVC Compensation Report* is the most comprehensive effort to provide cross-industry external benchmarks for CVC compensation levels and structures. The 2015 survey provides data from more than 150 CVC executives representing 110 leading programs at Global 2000 corporations. The survey was conducted by compensation specialists J. Thelander Consulting (JTC) in partnership with the Corporate Venture & Innovation Initiative (CVI²), a consortium of thought leading advisory service firms dedicated to serving the corporate venturing and innovation industry. This survey was supported by trade associations NCVA, EVCA, IBF Conferences and Corporate Innovator's Huddle.

With its 2015 survey and results, the *Thelander- CVI² 2015 CVC Compensation Report* marks a major Year 3 milestone, illustrating the success of this collaborative initiative in establishing a standard framework and benchmarking process tuned to meet the unique needs of executive management and CVC investment professionals; and creating an essential tool for competing for talent and team retention in the corporate venture capital world. Key Year 3 findings and implications include:

- <u>Consistency and standardization around CVC team roles, individual job descriptions and performance criteria</u>: a critical step in the institutionalization of these specialized positions and career paths in their own right, and a 'level set' requirement for how these roles operate in ever-changing corporate and market environments.

- <u>Confirmation of the new realities of sourcing for investment talent</u>: On average, 50% of the core CVC team are externally sourced in order to build the necessary complement of skills and experience for high performance. And with CVCs participating in nearly 20% of venture deals, talent in the investment ecosystem is increasingly sitting side by side, creating an increasingly challenging environment for CVC individual recruiting and team retention – as well as a deeper pool of skill sets and experience. By necessity this now requires Corporates to take the broader ecosystem view and understand relative CVC, VC /PE, and Private Company executive teams' compensation and career paths, and the 'normalization 'across these previously disconnected categories.

- <u>Bonus, equity and carry structures remain the competitive basis for 'pay for performance' incentives</u>. In future surveys/reports, further analysis is planned on the evolution of compensation structures relative to the maturation and performance of a CVC unit. Early indicators are that the emphasis moves from straight salary to bonus to the consideration of mechanisms to reflect upside performance (e.g. 'Carry' equivalents, LPGP structures)

Context

In recent years, there has been tremendous acceleration in the number of companies launching corporate venture capital funds and programs. According to CVI² charter member and pioneering industry tracker and media company Global Corporate Venturing, today worldwide there are more than 1200 corporations with corporate venture programs, more than half of those having formed since the beginning of 2010.

Companies use corporate venture capital as a compelling means to drive outside-in ('open') innovation for: access to new and disruptive technologies, the development of new business models and participation in emerging markets, all of which may provide meaningful contributions to corporate growth. Furthermore, as the traditional venture capital industry has consolidated, CVCs are playing an increasingly important role in assisting startups with commercialization, providing their portfolio companies with operational and market development support as well as financing. Additionally, CVCs are amplifying internal corporate innovation initiatives and accelerating external market impact through M&A and other forms of investment partnerships and collaborations.

For most CVCs, corporate investment goals are a combination of "strategic impact" and financial return. This has historically, created a compensation conundrum for recruiting, rewarding and retaining CVC professional talent -- how to frame CVC compensation relative to both traditional venture capital risk-reward models and established corporate salary structures.

Consistent with data from previous years of the Thelander – CVI² CVC Compensation studies, the 2015 survey shows that CVC unit leaders earn, on average, $315,856 a year plus $160,552 in cash bonuses. The survey also includes minimum, maximum and 25th and 75th percentile data for the Unit Leader position as well as the following roles: Senior Investment Professional, Portfolio Manager/CVC unit CFO, Investment/Program Manager, Analyst/Associate and VP Innovation (Note: The VP Innovation role is not to be confused with the Chief Innovation Officer, to whom the CVC group may report, and a role which this survey does not yet track).

The 2015 survey also details CVC unit leader compensation relative to 6 levels of Assets under Management (AUM), from less than $20M to more than $500M.

Broader CVC Mandate

As CVC has become a more mainstream strategic innovation activity, CVI² is seeing a broader range of mandates aimed at maximizing unit impact. Although 97% of survey participant units make minority equity investments, 16% also make majority equity investments more consistent with growth PE strategies and 22% also are involved in 'innovation' M&A activity. Furthermore, 39% have commercial piloting and/or incubation responsibilities that actively link CVC investments and Business Unit activities. This variety of roles suggests that CVC compensation approaches will need to continue to evolve, in keeping with the expansion of the units' mandates and individual CVC professional responsibilities.

Incentives for Success

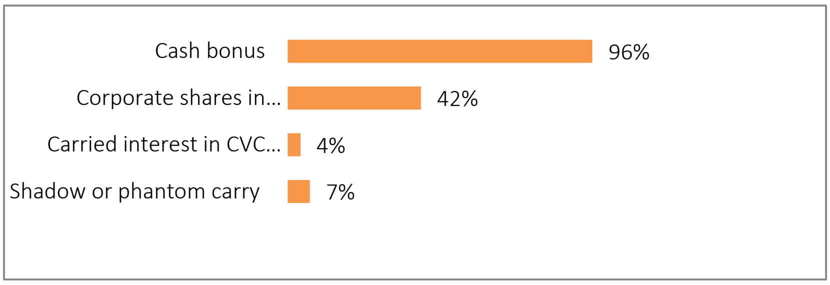
In addition to recruiting and retention, compensation structure can also signal the focus and intent of corporate executive management. Do CEOs and CFOs still view corporate venturing as an experiment or an opportunity to temporarily expose promising personnel to venture capital/innovative startups for career development? Or is corporate venture now a sufficiently critical priority to create the human resources and compensation policies required to effectively recruit and retain a team of specialized CVC personnel?

Seventy-five percent of the respondents to the 2015 survey said their current title and compensation structure failed to accurately and appropriately compensate them as a CVC professional. This outcome should not come as a surprise: in 2015, less than a quarter of corporations look to external benchmarks to determine comparables for CVC compensation and career path planning, while 46% continue to rely on existing internal corporate and HR benchmarks and banding as the primary means of framing the approach to CVC professionals' compensation, recruitment and retention.

However, the 2015 survey shows increasing efforts are being made to define and reward individual/unit performance beyond deal sourcing (78%) and traditional financial metrics (75%). Close to three quarters of respondents noted that their individual bonus structures now include some level of strategic impact metric to capture value-add to the parent corporation (BU commercial pilots, tech transfers, etc.).

Although the performance of the corporate parent continues to be an important factor in determining annual bonus, in 2015 more than half of companies reported individual and CVC team performance to be equally important factors…a change from previous years where corporate performance dominated.

42% of survey respondents said they were granted options or shares in their corporate parent in addition to the 97% who received cash bonuses.



Unlike financial VCs; only 4% of respondents included payment of carried interest, while 7% reported a program to calculate or ‘shadow’ or ‘phantom’ carry as a component of compensation to their CVC executives.

Sisyphus Syndrome

A major challenge for CVC units is the frequency of senior management rotations, executive sponsors for the programs. Close to half of respondents said they had experienced an executive sponsor change in their parent company in the previous three years.

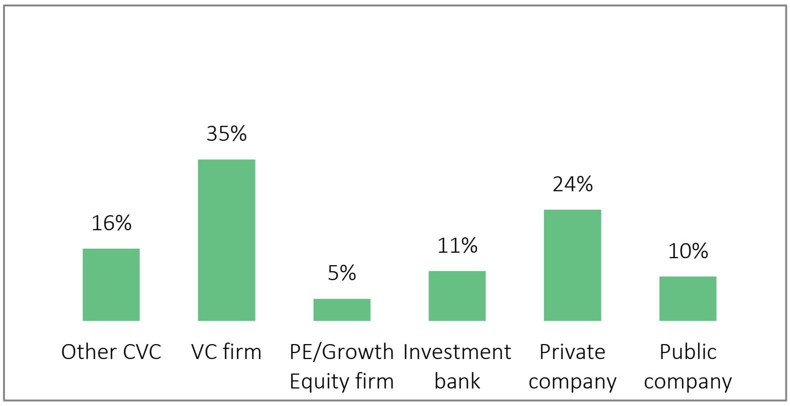
CVI² notes that these typical turnovers in senior ranks of the corporation often trigger CVC program reviews, especially if there are changes in direct reporting structures. This phenomenon may prove additionally challenging for CVC programs and team retention, as change in leadership may slow the unit’s external investment momentum and progress against long term goals, as well as require a temporary shift of time and attention for reframing and educating new leadership on program value and results.

One corporate venture veteran of more than 20 years described this as similar to the myth of Sisyphus having to roll a boulder uphill every day only to see it fall back every night.

Of the companies which responded to the survey, nearly 40% had been in place less than three years and more than half for less than five years. 43% of had been in business more than six years.

This relatively short tenure might also partly reflect the rapid growth in the industry over the past three years. Many units have recruited experienced managers from other companies or individuals with financial VC/PE/Investment Banking background to complement their internal executives.

Sources of Competition for CVC Investment Talent



Of the respondents to the survey, 60% said more than half of their investment professional team are sourced externally, with more 50% recruited from VC/PE firms and investment banks and another 15% from other CVCs.

In order to effectively compete for talent, this means corporations must have a better understanding of and access to data relative to compensation benchmarks for the entire innovation/investment ecosystem, from which these specialized CVC professionals are recruited, hired, and retained.

The internal-sourced CVC team members were seen to provide internal access and networks; with the outside hires to bring CVC deal-making and market domain expertise.

The most common CVC unit structure (42%) is to draw money from the parent company each year with a dedicated team and operating budget. Nearly 40% operate either as a completely separate entity (16%) or through an LLC or off balance sheet with an annual investment budget (24%). Close to 20% rely on obtaining investment funds from the parent company on a case-by-case basis.

CVC Compensation Survey

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Previously, most of the information on corporate venture compensation and structure has been anecdotal or opinion based. With the *Thelander-CVI² 2015 CVC Compensation Report*, the market realities have become much clearer, and the decisions for executive management and corporate boards can be more informed.

To purchase a full copy of the *Thelander-CVI² 2015 CVC Compensation Report*, and the *Private Company* and/or *Investment Firm Compensation Reports*, visit http://jthelander.com/thelander-surveys/ .

About The Corporate Venture and Innovation Initiative (CVI²) - www.CVI² .net

CVI² qualified services providers offer a range of advisory services for corporations that are seeking to develop and implement venturing and innovation strategies to drive growth. Collectively, the services separately offered by these companies span the full-spectrum of the resources necessary to establish and manage corporate venture and innovation programs, including: innovation strategy development; transformation and business operations strategy; legal; intellectual property; tax; audit; M&A; technology; and other financial services. CVI² Charter Members are Bell Mason Group, DLA Piper, Silicon Valley Bank, Global Corporate Venturing, J Thelander Consulting, Deloitte LLP and Doblin, a unit of Deloitte.

About J. Thelander Consulting – www.jthelander.com

J.Thelander Consulting leads the field of compensation consulting and data collection for privately held companies and investment firms. Celebrating almost 20 years of professional service, we partner with more than 1500 companies and 500 investment firms to collect up-to-date, detailed reports on salary, bonus, equity and carried interest compensation information. Collected globally, our published data reflects specific compensation mega-trends for biotech, medical device, cleantech, tech and other emerging companies and investment firms.