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J. THELANDER
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Thelander 2017 CVC Compensation Report - BMG Executive Summary of Findings, Trends and Implications

The Survey and Report

The *Thelander 2017 CVC Compensation Survey,* part of the larger *2017 Thelander-PitchBook Investment Firm Compensation Report,* is the most comprehensive effort to provide cross-industry external benchmarks for CVC compensation levels and structures as well as comparables for VC and PE professionals. The 2017 CVC survey provides data from more than 228 CVC executives representing 160 leading programs at Global 2000 corporations. The Investment Firm Survey was conducted by compensation specialists J. Thelander Consulting (JTC) in partnership with PitchBook, and with strategic guidance from corporate venturing & innovation experts Bell Mason Group (BMG).

Now in its 5th year, the *Thelander 2017 CVC Compensation Survey* is widely recognized for introducing a standard role/job description framework and compensation benchmarking process tuned to meet the unique needs of corporate executive management and CVC investment professionals. With representative input from CVC industry leaders and active participants across a broad range of sectors, the annual survey and its results are an essential external benchmarking tool for consideration in the increasingly competitive recruitment and retention of specialized, high performance CVC talent and teams.

CVC Industry Context and Trends

- Expansion and Growth: In recent years, there has been tremendous acceleration in the number of companies launching corporate venture capital funds and programs. According to pioneering CVC industry tracker and media company Global Corporate Venturing, today there are more than 1600 corporations with corporate venture programs worldwide, more than half created since 2010. Virtually every industry sector has CVC Programs, including over 50% of the Fortune 500. And the leading investment and M&A deal tracker PitchBook shows data that Corporates/CVCs are playing an increasingly important role in the VC investment ecosystem, accounting for more than 40% of nearly US$80 billion in global VC deals in 2016. With innovation and competitive urgency on the minds of C-suites and Boards across the globe, CVC has become a mainstream tool in the corporate arsenal to address these challenges.

- Emerging Structures for 'End-to-End' Investing Drive Strategic Impact: CVC Programs differ from VC practices in that for the CVC, 'strategic' value and potential commercial impact are as, if not more, important than financial return on investment. To this end, CVCs need to be able to effectively leverage parent companies' resources, established businesses and infrastructure. For the large numbers of CVC programs formed since 2010, execution is increasingly focused on where/how CVC portfolio companies 'land' to accelerate delivery of impact to the parent company, its present and future businesses. This may include corporate access to new venture technology innovations, new business models and adjacent businesses and applications, as well as early positions and insights in new marketplaces. Key success factors for making these programs successful – for corporate parents and portfolio companies alike -- are agile and institutionalized operations and experienced professional teams that uniquely blend Corporate Strategy/Business Development, VC and Entrepreneurial skill sets.

- <u>"Professionalization" of CVC:</u> Over the past 5 years, BMG and Thelander have introduced, refined, and continue to track the standardization of CVC job descriptions and compensation structures – and now CVC "career paths". This is a critical step in the evolution of CVC as a mainstream, legitimate profession in its own right, vs. a temporary 'revolving door/resume brightener,' a path to corporate advancement. There is also increasing recognition that high performance CVC teams need to be incented to stay together over time; a collection of 'star' individuals is not sufficient to achieve ultimate CVC program goals. The quality of CVC program performance increases with the level of experience and longevity of its team, working as an increasingly efficient and powerful 'engine'.

Building stable, long-term, professional CVC teams creates compensation and HR challenges for corporate parents who are increasingly forced to compete externally for the 'right' mix of talent in a pool comprised of talented internal resources as well as CVCs, VCs, Private Company and Private Equity personnel. There is inevitable friction in balancing CVC compensation and career path opportunities between established corporate HR bands and external venture and VC risk-reward structures.

2017 Survey Findings & Implications

With this year's CVC survey results and the evolution of professionalism of the practice it implies, Key Year 4 findings and implications include:

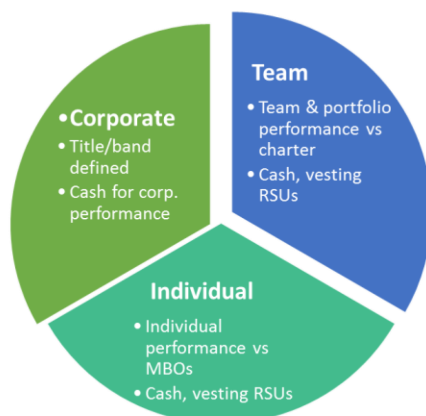
- <u>Consistency in standards and compensation for high performance team, individual job descriptions and performance criteria</u>: There is increasing recognition that high-performance CVC teams integrate specialized, blended skill sets and that retention is as important as recruitment. Note: In addition to the roles defined in the 2017 Survey, we have begun to track new or expanded CVC roles that focus on optimizing strategic 'landing spots' (e.g. BD/Portfolio Development Professional role that incorporates inside-outside BD skills for innovation partnering and commercial piloting).

  Overall CVC compensation is consistent with data from previous years of the Thelander CVC Compensation studies. The 2017 survey shows that CVC unit leaders earn, on average, $328,160 a year plus $163,000 in cash bonuses; with a maximum exceeding $1.5 million. 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, BD/Portfolio Development Professional, Analyst/Associate and VP Innovation (Note: The VP Innovation role is not to be confused with the Chief Innovation (and/or Strategy) Officer, to whom the CVC group may report, and a role which this survey does not yet track).

- <u>Talent Pool Cross-Pollination</u>: 84% of responding companies reporting acknowledge 'going outside' to recruit CVC unit leaders and/or senior investment professionals (vast majority from VC/PE/CVC/I-Banks). At the same time, nearly 40% report having lost a senior professional or key recruit to these same organizations. With CVCs participating in ~ 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. This requires Corporates to understand 'normalization' relative CVC, VC /PE, and Private Company executive teams' compensation and career paths

- <u>CVC bonus structures increasingly enable both external competitiveness and strategic alignment of incentives with CVC performance goals ('Pay for Performance'):</u> For the vast majority, the bonus is the preferred mechanism for competitively rewarding individual and CVC team performance. BMG and Thelander note 3 CVC bonus elements: Corporate, Individual and Team.

Although the performance of the corporate parent continues to be an important factor in determining annual bonus, in 2017 nearly two-thirds of companies reported individual and CVC team/portfolio performance to be equally important factors.



Supplemental individual bonuses paid in the form of (3-year) vesting RSUs can enable corporations to offer predictably competitive packages relative to comparable roles with institutional investors. In 2017, Thelander began to track the cash value of vesting RSUs and found for some CVC unit leaders, RSUs can add an average of $134K and up to $1 million in annual compensation.

Furthermore team and portfolio performance against charter (strategic and financial metrics) is factoring more prevalently in overall bonus structures. 60% of 2017 survey respondent companies reported CVC team performance as a key element in determining bonus levels. This suggests the notion of CVC team-specific bonus pools (dedicated cash or vesting RSUs) as another potentially significant retention tool.

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-four percent of the respondents to the 2017 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 2017, only 28% of corporations looked to external benchmarks to determine comparables for CVC compensation and career path planning, while 52% 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 2017 survey shows increasing efforts are being made to define and reward individual/unit performance beyond deal sourcing/closing and traditional financial metrics (e.g. IRR, Exits). 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 (e.g. BU commercial pilots, tech transfers, BU/parent input on value-add).

Nearly half of survey respondents said they were granted options or shares (78% in the form of Restricted Stock Units 'RSUs') in their corporate parent in addition to the 98% who received cash bonuses. BMG sees the use of RSUs as a primary means of rewarding individuals and teams, at least indirectly, with a structure that more closely emulates the risk/reward dynamic for individual and teams in the external venture world.

A small group respondents (~ 15%) reported some flavor of carried interest program to calculate 'shadow' or 'phantom' carry as a component of non-cash CVC compensation.

Financial VCs typically include carried interest as a part of senior level compensation packages. However, CVCs and corporate parents have historically experienced significant conflict in trying to arrange for carried interest in their portfolios, as this generally creates untenable organizational, operational and/or cultural friction within the corporate environment.

Broader CVC Mandate

As CVC has become a more mainstream strategic innovation activity, BMG and Thelander note a broader range of mandates aimed at maximizing unit impact. Although 98% of survey participant units make minority equity investments, 13% also make majority equity investments more consistent with growth PE strategies and 25% also are involved in 'innovation' M&A activity.

Furthermore, 44% (up from 35% in 2016) have commercial piloting and/or incubation responsibilities that actively link CVC investments and parent business activities, often driven by more senior individuals in BD roles. CVC compensation approaches will need to continue to evolve, in keeping with the expansion of the units' mandates and individual CVC professional responsibilities.

Sisyphus Syndrome

A major challenge for CVC units is the frequency of senior management rotations, executive sponsors for the programs. 47% of respondents said they had experienced an executive sponsor change in their parent company in the previous three years.

BMG 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.

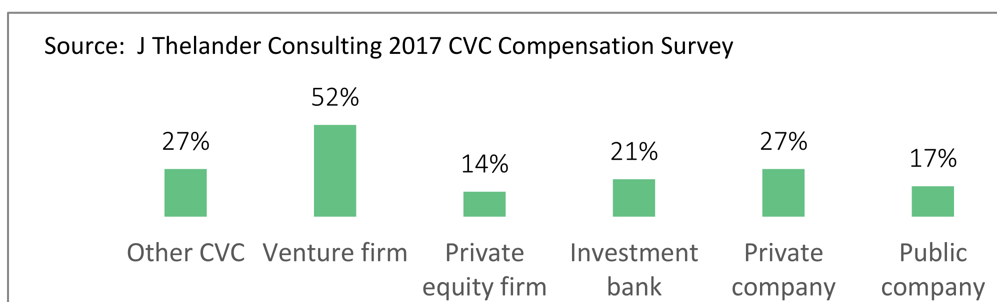
One corporate venture veteran of more than 20 years described this as similar to the myth of Sisyphus having to roll a boulder uphill every day only to see it fall back every night.

Of the companies which responded to the survey, 45% had been in place less than three years and over half for less than five years. 41% of had been in business more than seven years.

This underlines the rapid growth in the industry over the past three years and has led to many units recruiting experienced CVC professionals from other companies or individuals with financial VC/PE/Investment Banking background to complement their internal executives.

Sources of Competition for CVC Investment Talent

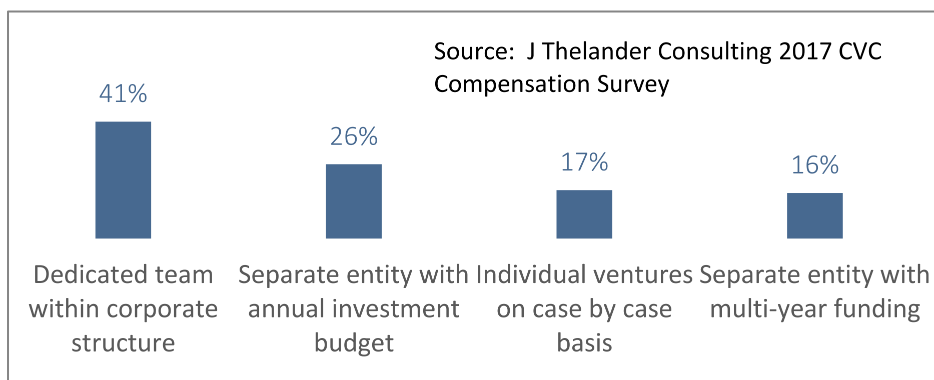
Of the respondents to the survey, over 60% said more than half of their investment professional team are sourced externally, with over half recruiting from VC/PE firms and investment banks and another 27% from other CVCs. Private companies (often acquisitions) are talent sources for 27%. At the same time 36% of respondents reported losing a senior professional or key recruit in the last year, the majority going to VC firms, other CVCs or private companies.



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 (typically CFO and internally-focused CVBD roles) 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 (41%) is to draw money from the parent company each year with a dedicated team and operating budget.

42% operate either as a completely separate entity (16%) or through an LLC or off balance sheet with an annual investment budget (26%). Only 17% rely on obtaining investment funds from the parent company on an ad hoc, case-by-case basis.

2017 Thelander-PitchBook Investment Firm Compensation Report

To purchase the 2017 *Thelander-PitchBook Investment Firm Compensation Report* (CVC, VC, PE) visit http://jthelander.com/compensation-data/subscriptions/

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For more than 20 years, Bell Mason Group (BMG) has been an acknowledged thought leader in advising Global 2000 clients on high performance corporate venturing and innovation (CV&I) program development and management. Known for expertise in translating venturing into streamlined corporate business process, BMG provides analysis and operational strategy advisory services throughout the lifecycles of Corporate Venture Capital, Incubation/Commercial Piloting, and Innovation Partnering initiatives.