OXFORD RESEARCH

CORPORATE VENTURE CAPITAL REPORT

September 2019

TECHBBQ

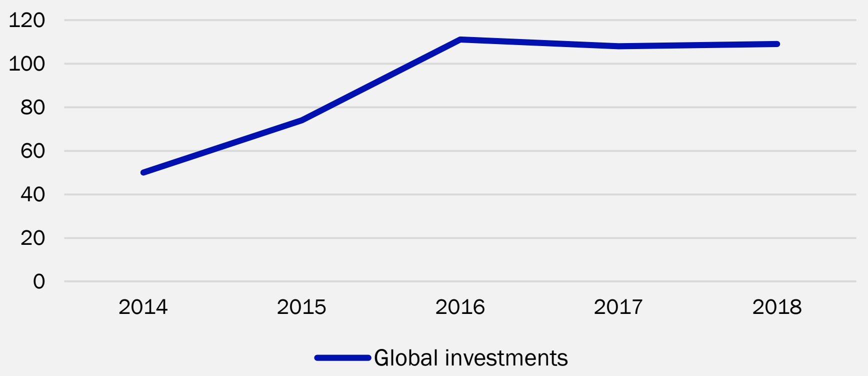
Nordic Innovation

FOREWORD

Corporate Venture Capital (CVC) as a source of financing, strategic partnership and deep technical know-how is on the rise in the Nordics. CVCs have historically had an oscillating presence in the startup funding sphere, where the financial crisis of 2008 led to a significant decrease in corporations' M&A and venture activity. However, with the increasing pressure to continuously innovate, a growing number of corporations in the Nordics are turning to corporate venturing to further this cause.

The number of investments in the last five years has more than doubled. In 2014 Nordic corporates and their VC arms did 50 investments across the world which has increased to 109 investments in 2018.

Nordic corporate & CVC investment activity (by number of funding rounds)



Source: Dealroom.com

Oxford Research has in close collaboration with TechBBQ carried out an analysis of Corporate Venture Capital (CVC) in the Nordics. This report aims to give a picture of the current state of CVCs in the Nordics by exploring the investment objectives of CVCs, the gains and challenges that may arise from startup-collaborations with CVCs, as well as identify the most crucial problems that CVCs are facing in the Nordics and propose solutions to these various issues. In doing so, it also aims to improve the understanding of CVCs among startups and the rest of the venture landscape.

The term "Corporate Venture Capital" (CVC) is generally defined as the "practice where a large firm takes an equity stake in a small but innovative or specialist firm, to which it may also provide management and marketing expertise; the objective is to gain specific competitive advantage" (BusinessDictionary.com)

The research team has identified 45 CVCs in the Nordics of which 25 were surveyed. This report is furthermore based on four qualitative interviews with key representatives from Nordic CVC's and one qualitative expert interview with a professor in strategy and entrepreneurship from CBS.

We hope that you will enjoy reading this account of the Corporate Venture Capital and that it will provide you with new insights into the work of your organization.

CONTENT

1. PURPOSE OF THE REPORT

Oxford Research has in close collaboration with TechBBQ carried out an analysis of Corporate Venture Capital (CVC) in the Nordics. The purpose of the analysis is to address:

- What are the investment objectives of CVCs?
- What are the gains and challenges that may arise from startup-collaborations with CVCs?

The main methodology of the analysis is a web-based survey with key representatives of large corporations that has established an CVC arms. In addition, one qualitative interview with an associate professor in strategy and entrepreneurship from Copenhagen Business School and five qualitative interviews with key representatives from large Nordic corporations were conducted.

In this report, the study results as well as key learnings and recommendations for further action are presented.

Methodology and data collection

- A survey conducted with key representatives of large corporations with CVC arms
- One qualitative interview with a professor in strategy and entrepreneurship from CBS
- Four qualitative interviews with key representatives from Nordic CVC's

2. KEY FINDINGS

Nordic corporates CVC investments has more than doubled in the last five years

The number of CVC investments from Nordic corporates in the last five years has more than doubled. In 2014 Nordic corporates and their VC arms did 50 investments across the world which has increased to 109 investments in 2018. The increase in number of founding rounds correspond to a growth of $ 877 M amount invested by the Nordic corporates and their VC arms in the last five years (from $ 284 M in 2014 to $ 1.161 M in 2018).

Specific characteristics of the CVC arms

- Engaging in CVC is not limited to specific industries, but seems to be a widespread strategy across sectors and industries
- CVC investments are typical placed in the early and middle stage of a startup and the majority of the CVC's prefer to invest directly in the startups
- The CVC arm mainly refers to the executive level of the parent company

Corporate venturing is more than a regular VC

Corporate venturing often comes with more than private equity to the startup. The link with the corporates non-financial resources provides startups with access to international markets, a global customer base with access to customer channels, technical infrastructure and experience, all of which the startup as well as the large company uses to catalyze the startup growth.

The survey show that 92 pct. of the corporates provide startups access to non-financial resources – mainly through client base distribution and network-building opportunities, for example by connecting startups to prospective partners and investors.

CVC is used to stay on top of innovation and seek new opportunities, though expects financial returns

Although large corporate firms establish CVC arms in order to explore and get access to new markets and innovative business models and technologies, they always expects that the investment generate a financial return.

The most common or preferred exit strategy is external acquisition following IPO and internal acquisition from the parent company.

2. KEY FINDINGS

Corporate venturing with startups is perceived as a valuable way to explore innovation and obtain financial results

The study show that 52 pct. strongly agree that their corporate venturing has been effective and has obtained the expected results. None of the corporates see that their CVC arm disagree to this statement. Respectively 72 pct. believe that their CVC arm have helped them to access innovative business models and to explore innovative or specialized technologies. 64 pct. respond that it has obtained financial results.

CVC investments face challenges in terms of cultural differences between startups and the parent company of the CVC arm

Startup and large corporate firms' business culture and mindset are often very different which is perceived as a challenge that large corporates and their CVC arms face when dealing with startups. The survey show that 52 pct. of Nordic CVC arms state that lack of alignment with their parent company is the main challenge, and 36 pct. state that bureaucracy is the main challenge. These findings are also stressed in the interviews from where it is explained that a successful CVC team should manage to understand both parties in the collaboration.

Difficult to get sufficient support at the operational level from the parent company of the CVC arm

The study point out that it can be a challenge for CVC arms of large corporate firms to get enough support from the operational level in the parent company. If the support is not there, the initiative with a CVC arm can result in bureaucracy and corporate politics. The survey also show that 64 pct. of the Nordic corporates CVC arm's report to the executive management in the parent company

3. KEY LEARNINGS AND RECOMMENDATIONS

A successful CVC investment require a team that can learn and adapt to the dynamics that come with corporate venturing

Due to the differences in terms of mindset and culture between startups and large corporate firms, corporate venturing must resonate with the startup culture. Setting up a team of people that can learn and adapt to the dynamics that comes with corporate venturing is a key element for the initiative to be truly successful.

The survey also show that 64 pct. of the Nordic corporates do not employee their CVC arm from their parent company. For example, 29 pct. source their CVC arm's employees from startups and/or scaleups.

Set clear, realistic and measurable goals

It is important for a successful CVC investment that both parties make sure what they want from the deal. The goals should be clear, realistic and measurables for both parties as the venturing investment is not just about providing the funds and equity, but involves joint venture agreements on how to reach customer, access to new sales channels, demonstration facilities, technological infrastructure etc. The startup and the corporate firm needs to be engaged in the joint agreements and have top management support and clear mandate. Without clear mandate is it difficult to take fast and efficient decisions during the processes.

Make sure to have patience and strong commitment to the initiative

Corporate venturing is more than a typical venture investment. The objectives behind the investment is not only to obtain financial results, but to explore innovation and get access to innovative business models and solutions that the parent company can use to stay on top of innovation. However, these objectives requires a strong commitment from the parent company and a close collaboration during the processes of the investment. It is also very important to have patience. Initiatives like corporate venturing can take a long time.

Do not see CVC as just another corporate project

Corporate venturing is a long-term investment and to be successful is it necessary to have a constant focus on the investment and have a strong engagement with the startup's development.

4. STUDY RESULTS

- THE ROLE OF CORPORATE VENTURE CAPITAL ON INNOVATION
- A RISING LEVEL OF CVC INVESTMENT IN THE NORDIC
- WHAT IS THE WHAT CHARACTERISES THE CVC'S IN THE NORDICS?
- HOW IS THE CVC ARM ORGANIZED?
- WHAT ARE THE INVESTMENT OBJECTIVES OF CVC'S?
- WHAT ARE THE CHALLENGES OF A VENTURING CAPITAL INVESTMENT?
- WHAT ARE THE BENEFITS AND GAINS FROM THE VENTURING CAPITAL INVESTMENT?

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THE ROLE OF CORPORATE VENTURE CAPITAL ON INNOVATION

Innovation comes primarily from startups

Innovation has significantly grown as a key factor for survival and success of organizations in many industries and economic sectors. In particular, the pressure to increase innovation inputs and outputs has primarily come from the substantial emergence of new players, including startups, which have challenged the classic value propositions of large corporations, bringing new business models and technologies that disrupt many industries around the globe.

As a response to his critical competitive dynamic, large corporations have increased their engagement with startups, in particular creating CVC arms in the last two decades.

The situation in the Nordics shows a much younger but significantly flourishing CVC-related scenario. Within the last few years have major players in the Nordic region created their own CVC arm in order to improve innovative solutions, technologies and new business models.

The nature of the current CVC wave

In the last three decades CVC investments waves have replicated M&As and strategic alliances activities trends, and even more closely venture capital investments trends. CVC investments represent approximately 8 pct. of the total investments in startups, with an average growth rate of 15 pct. In the period 2011-2015 (according to Thomson Reuters ONE Banker worldwide data).

When looking at the Nordic region the ratio of VC investments compared to CVC investments in startups is sensibly lower than the US, but the trends of investments are quite similar, which reflect the growing nature of the Nordic as an area of CVC activities.

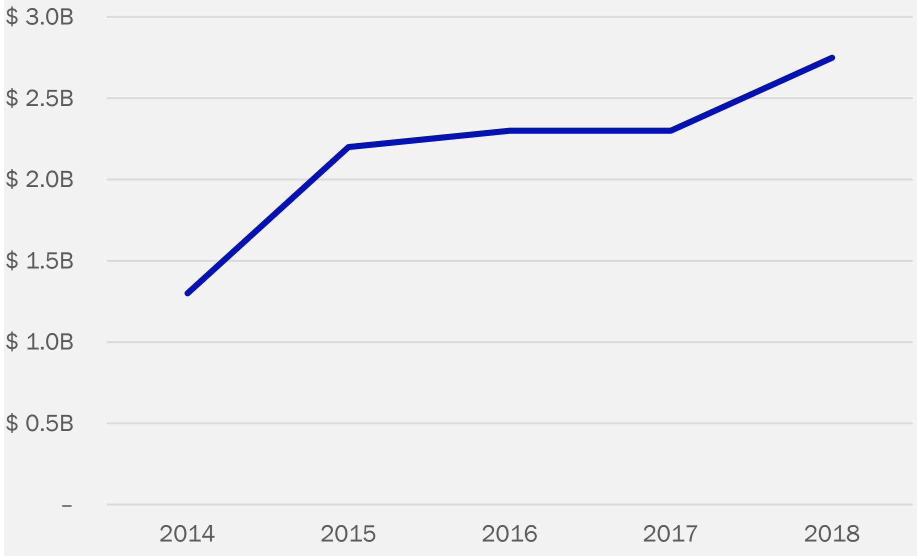
Source: Interview with Francesco Di Lorenzo – Associate Professor in Strategy and Entrepreneurship, Copenhagen Business School, Strategy and Innovation department

RISING LEVEL OF CVC INVESTMENTS IN THE NORDIC

A growing nature of the Nordics as an area of CVC activities

2018 broke the all-time record for tech investment in Nordic startups, with $2.3 billion invested, 20 pct. more investment than 2017 - see figure 4.1.

Figure 4.1: Investment in Nordic Startups



Source: Dealroom.com

The first table below show the amount invested by the Nordic corporates and their VC arms in the last five years by investment destination.

Figure 4.2: Nordic corporate & CVC investment activity by $ deployed

	2014	2015	2016	2017	2018	YoY growth
Nordics	$ 0,03B	$ 0,06B	$ 0,08B	$ 0,14B	$ 0,18B	23%
Europe	$ 0,10B	$ 0,15B	$ 0,20B	$ 0,18B	$ 0,39B	121%
Outside Europe	$ 0,18B	$ 0,13B	$ 0,12B	$ 0,12B	$ 0,77B	561%
Global	$ 0,28B	$ 0,28B	$ 0,32B	$ 0,29B	$ 1,16B	295%

Source: Dealroom.com

The second table follow the same logic but by the number of investments.

Figure 4.3: Nordic corporate & CVC investment activity by # of funding rounds

	2014	2015	2016	2017	2018	YoY growth
Nordics	13	23	51	57	47	-18 %
Europe	21	42	80	83	77	-7 %
Outside Europe	29	32	31	25	32	28 %
Global	50	74	111	108	109	1 %

Source: Dealroom.com

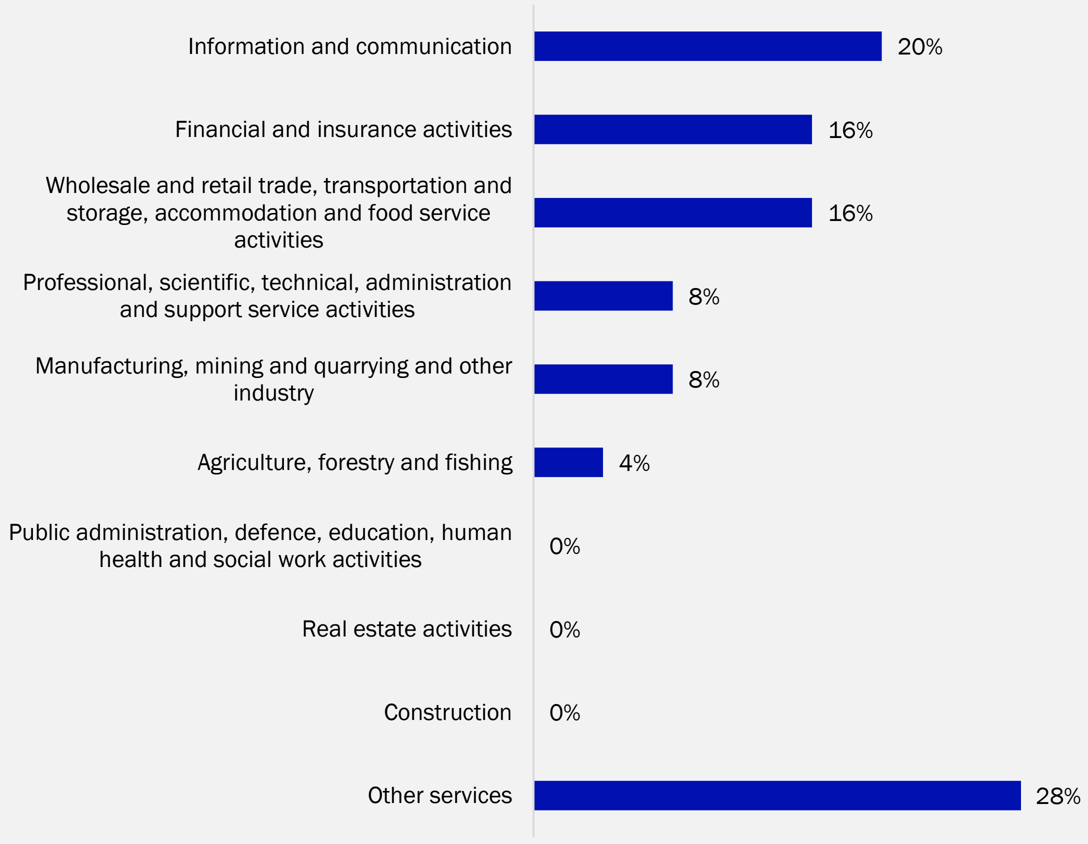
WHAT CHARACTERISES THE CVC'S IN THE NORDICS?

The parent company of the CVC's in the Nordic are involved in a widespread of industries

Information and communication is the main industry that the parent company of the CVC are involved in (20 pct.) following financial and insurance industry (16 pct.), wholesale and retail (16 pct.). Together with the large share of 28 pct. from "other services" it show that the parent company of the Nordic CVC arms are involved in a widespread of industries.

Following this, the survey also shows that the majority of the Nordic CVC arms's capital source comes from the parent company only (88 pct.).

In which of the following industry/-ies is your parent company most involved?



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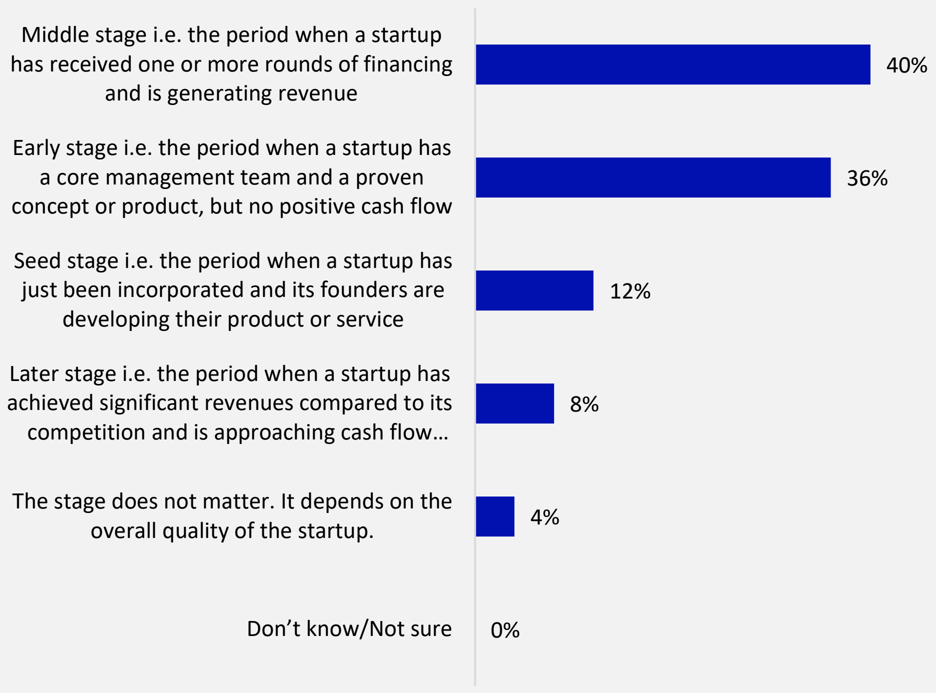
WHAT CHARACTERISES THE CVC'S IN THE NORDICS?

Investments are typical placed in the early and middle stage of a startup and the majority of the CVC's prefer to invest directly in the startups

The survey show, as illustrated in the figures below, that 40 pct. of the CVC mainly invest in the middle stage of the startup, while 38 pct. mainly invest in the early stage. Furthermore, 60 pct. of the CVC state that their preferred investment strategy is by investing directly in the startup, while 56 pct. and 40 pct. respectively state that they prefer to either invest in syndicate with an independent VC as lead or be lead in a syndicate investment with an independent VC.

At what stage of a startup does your CVC mainly invest in?



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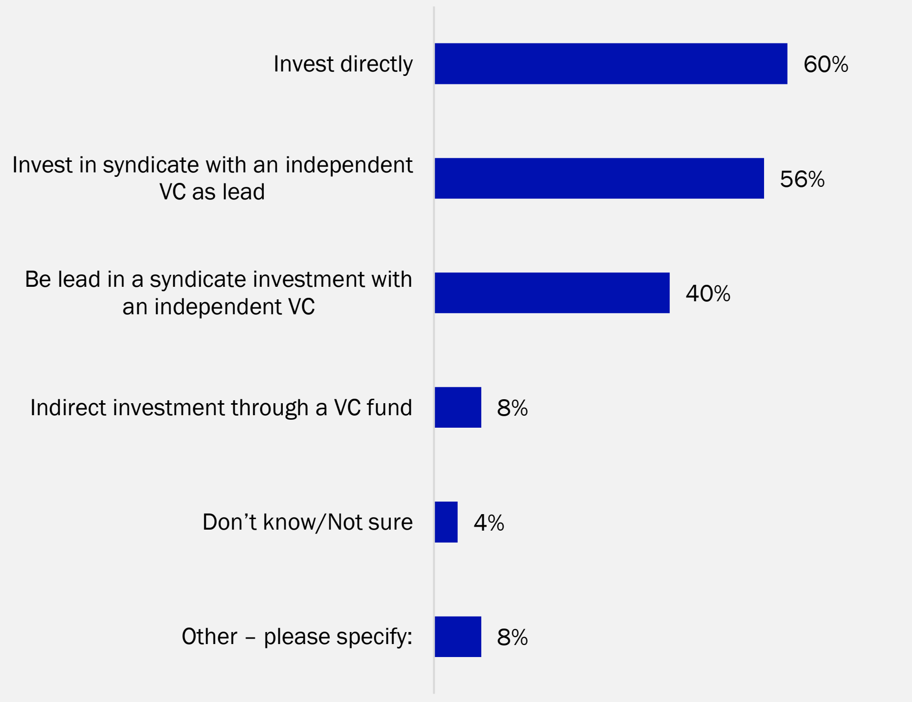
What is your CVC's preferred investment strategy?



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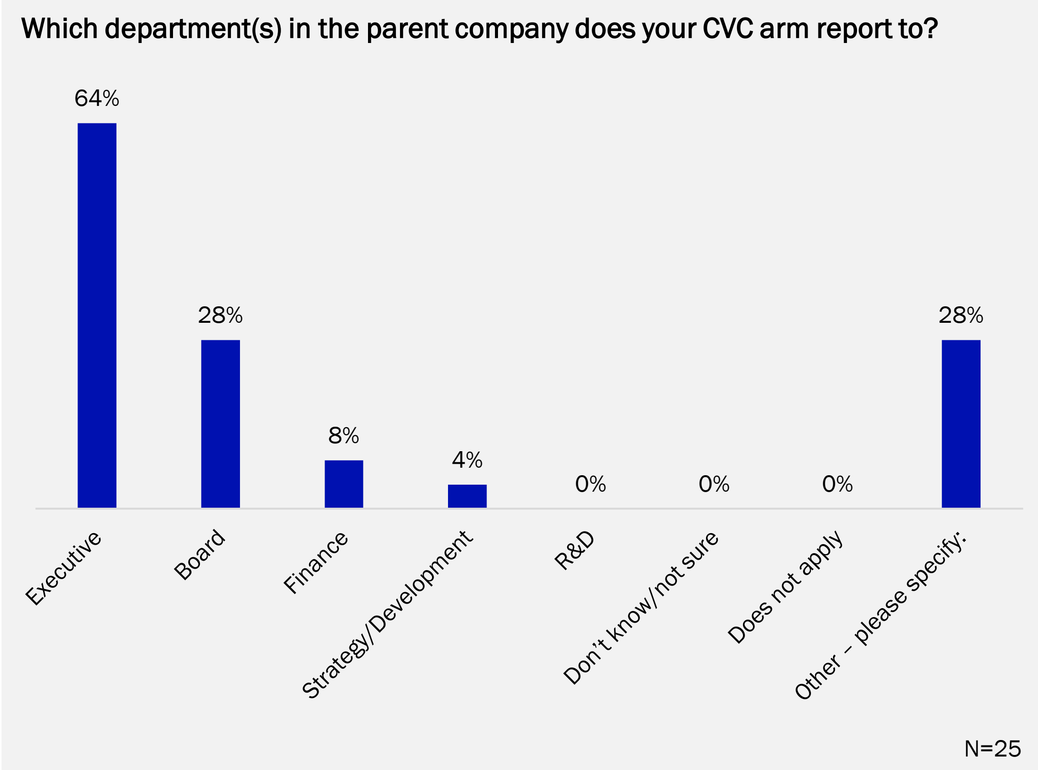
HOW IS THE CVC ARM ORGANIZED?

The CVC arm mainly refers to the executive level of the parent company

64 pct. of the CVC's in the Nordic report to the executive in the parent company. From the interviews it is also clear that it is important to have a clear mandate from the management for a successful venturing investment.

> *"We have been able to design and implement a very efficient and lean Corporate Venture set-up that works for both KMD and the start-ups we invest in. I think this is our greatest result. We don't do projects anymore – we help companies grow. This sounds trivial but too often corporate venture activities are terminated before anything ever comes out of it"*
>
> - *Niklas Marschall, CEO, KMD Venture A/S, Denmark*



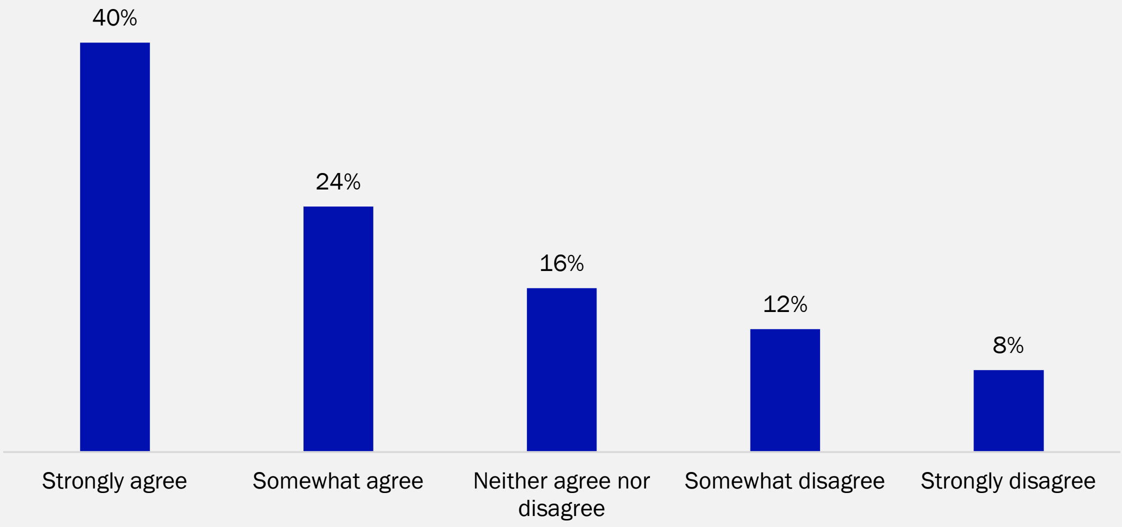
HOW IS THE CVC ARM ORGANIZED?

The investment decision processs of the Nordic CVC arms have a strong connection to the parent company

40 pct. of the CVC arms strongly agree, and 24 pct. somewhat agree that their parent company is active in key investment decisions processes.

These results from the survey correspond with the insights from the qualitative interviews, where they all point at a strong setup with support from the top management and clear mandate as a key element in their CVC arms investment process.

Please rate to which extent you agree with the following statement: "Our parent company is active in our CVC arm's key investment decision processes."



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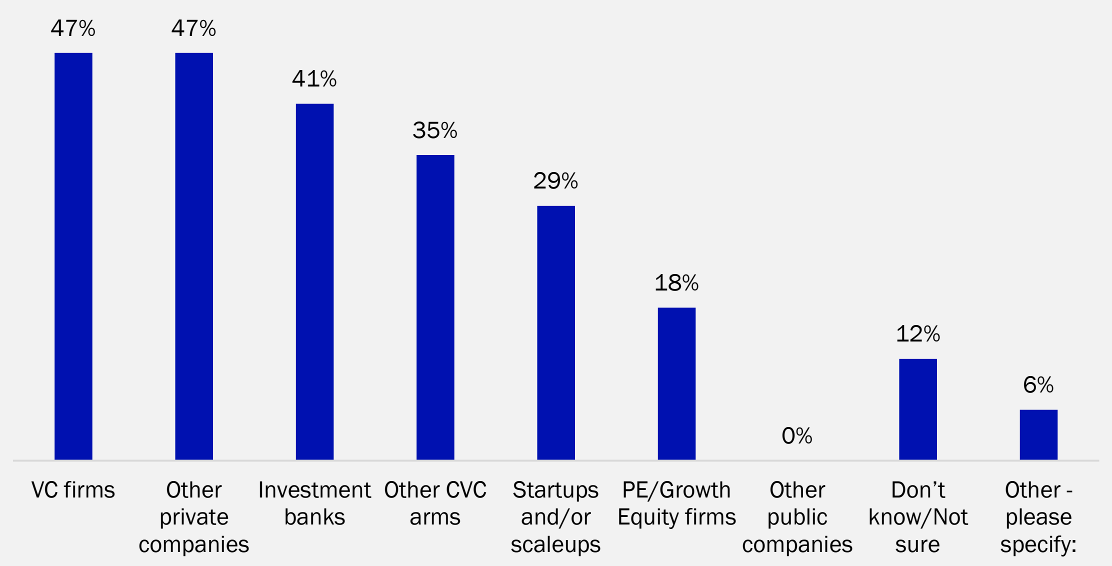
HOW IS THE CVC ARM ORGANIZED?

The employees in the CVC arms are mainly sourced outside the parent company

The majority of the CVC arms no not source employee from the parent company (64 pct.). The employees that are sourced outside the parent company are sources from different organisations including VC firms, other private companies, investment banks etc.

Furthermore, data from the survey show that 56 pct. of the CVC do not provide other compensation incentives such as corporate stocks in addition to the base pay and cash bonus.

If not from the parent company, how else are your CVC arm's employees mainly sourced?



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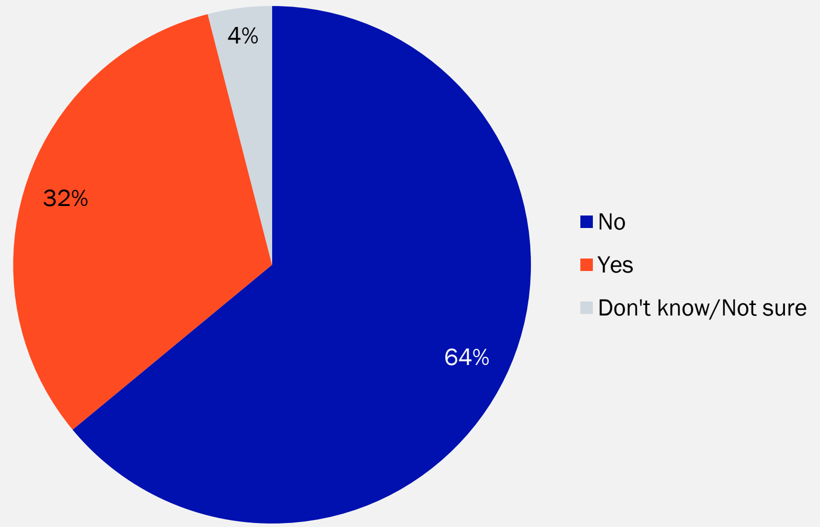
Are your CVC arm's employees mainly sourced from the parent company?



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WHAT ARE THE INVESTMENT OBJECTIVES OF CVC'S?

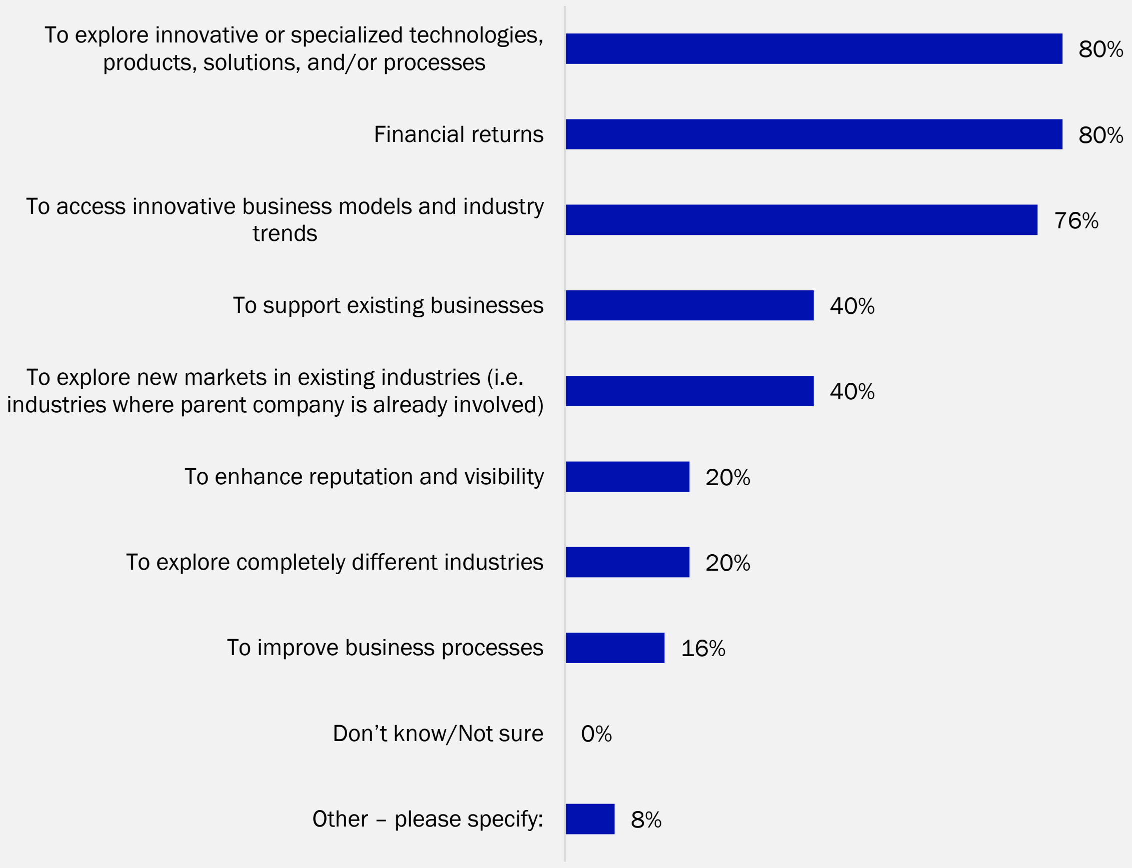
The corporates invest in startup through their CVC arm to be on top of innovation though they also expects financial returns

The majority of the corporate state that they both invest in startup to explore innovative technologies, products and solutions and to get financial returns of the investment.

The survey results correspond with the insights from the qualitative interviews, where they all explain that they have established their CVC arm to be on top of innovation while they also expect to generate attractive financial returns:

> *"We do investments to diversify Inga Group financial assets, generate attractive financial returns and as part of Inga Group's commitment to support, learn and invest in innovative startups that contribute to Ingka Groups's vision and long-term strategy".*
>
> - *Karl Swensson, Investment Manager, Ingka Group, Sweden*

What are the investment objectives of your CVC arm?



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WHAT ARE THE INVESTMENT OBJECTIVES OF CVC'S?

Corporate venturing often comes with more than private equity to the startup

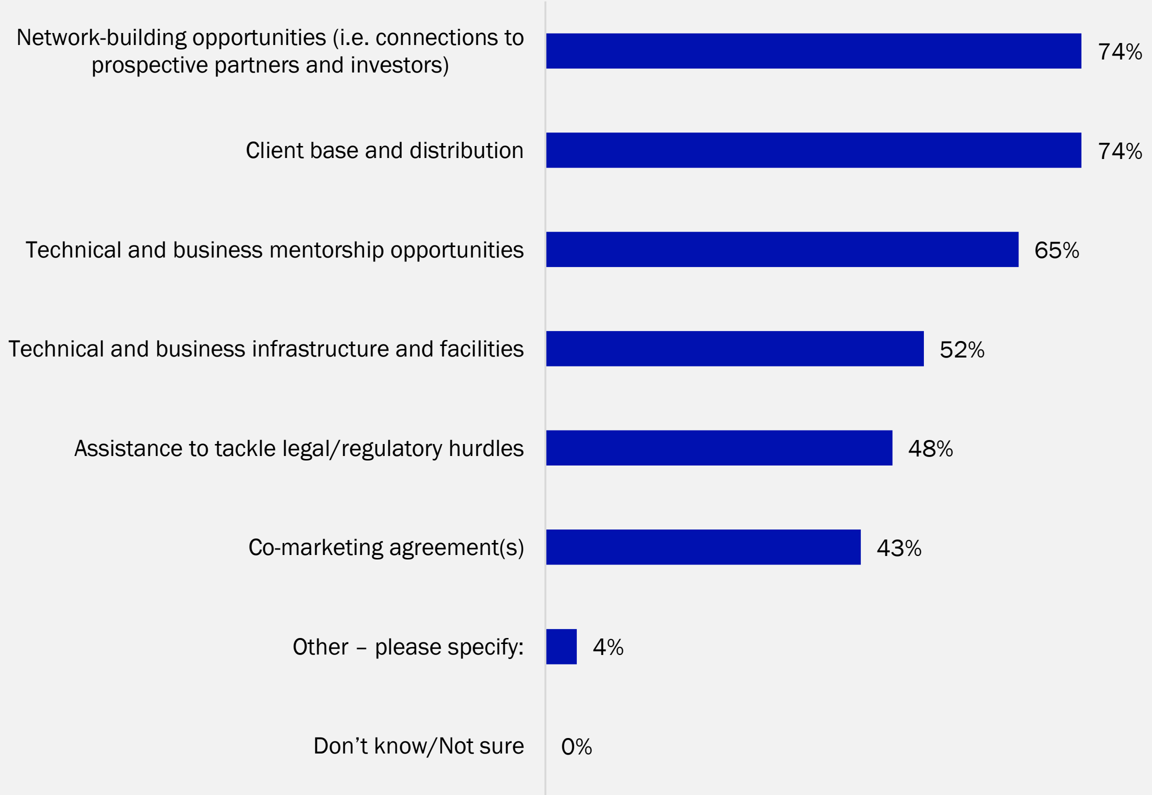
The link with the corporates non-financial resources provides startups with access to international markets, a global customer base with access to customer channels, technical infrastructure and experience, all of which the startup as well as the large company uses to catalyze the startup growth.

The survey show that 92 pct. of the corporates provide startups access to non-financial resources – mainly through client base distribution and network-building opportunities, for example by connecting startups to prospective partners and investors.

> *"Enabling lasting collaborations with business is a key for us and clearly within the focus of our venturing model. So startups will get access to business and customers in the maritime and energy sector and access to our Wärtsilä Acceleration Centres and the Smart Partner Campus with the related network of mentors".*
>
> \- *Steffen Knodt, Director, Wärtsilä Digital Ventures, Finland*

From the interviews it is clear that CVC arm is not a typical VC investment. All interviewees acknowledge that they work closely and have a set-up a supporting structure for the collaboration.

What types of non-financial resources from the parent company do your partner startups typically get access to?



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WHAT ARE THE CHALLENGES OF A VENTURING CAPITAL INVESTMENT?

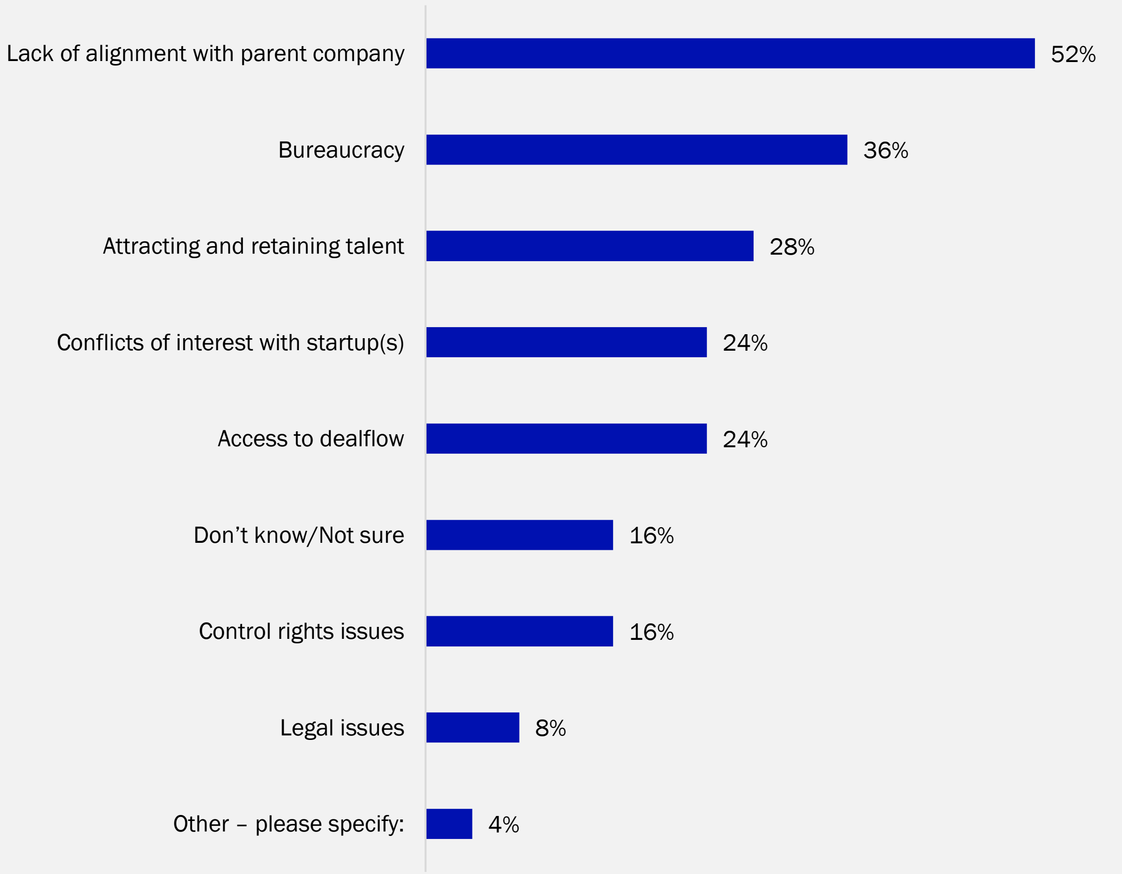
The challenges that CVC arms face are often connected with the different culture and mindset in startups

Startup and large corporate firms cultures and mind-sets are often very different which is a challenge when it comes to the collaboration and the ability to bridge the startups innovative business models or innovative technology into the corporate's firms business.

> *"One of the most common challenge that many CVC's face is to bridge the startup's innovation into the corporate's business in a lean, fast and efficient way".*
>
> - *Karl Swensson, Investment Manager, Ingka Investments, Sweden*

From the survey it is also clear that the main challenges that CVC arms faces when dealing with startups concerns the differences between the business culture and mindset. 52 pct. say that lack of alignment with parent company is the main challenge while 36 pct. say that bureaucracy is the main challenge.

Of the following, which do you perceive to be the main challenges that your CVC arm faces when dealing with startups?



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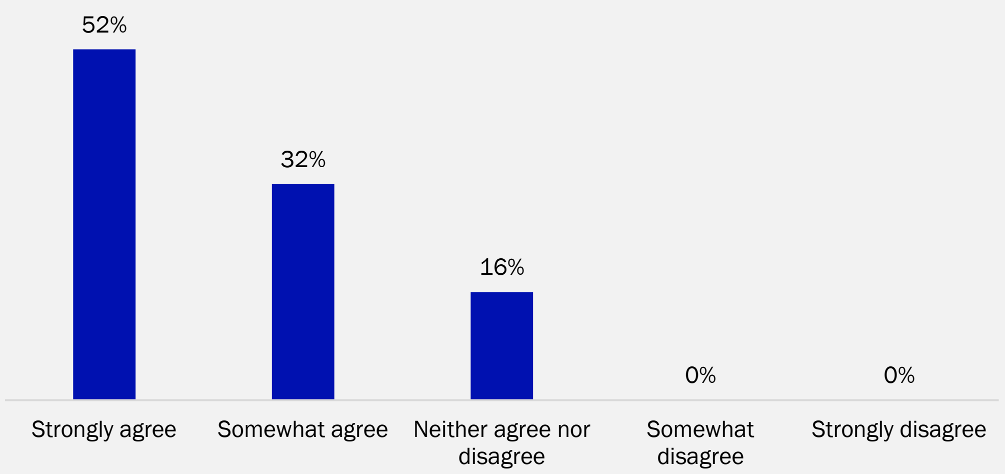
WHAT ARE THE BENEFITS AND GAINS FROM THE VENTURING CAPITAL INVESTMENT?

Corporate venturing with startups is perceived as a valuable way to explore innovation and obtain financial results

The study show that 52 pct. strongly agree that their corporate venturing has been effective and has obtained the expected results. None of the corporates see that their CVC arm disagree to this statement.

The survey also show that respectively 72 pct. believe that their CVC arm have helped them to access innovative business models and to explore innovative or specialized technologies. 64 pct. respond that it has obtained financial results.

Please rate to which extent you agree with the following statement: "Overall, our corporate venturing has been effective and has obtained the expected results."



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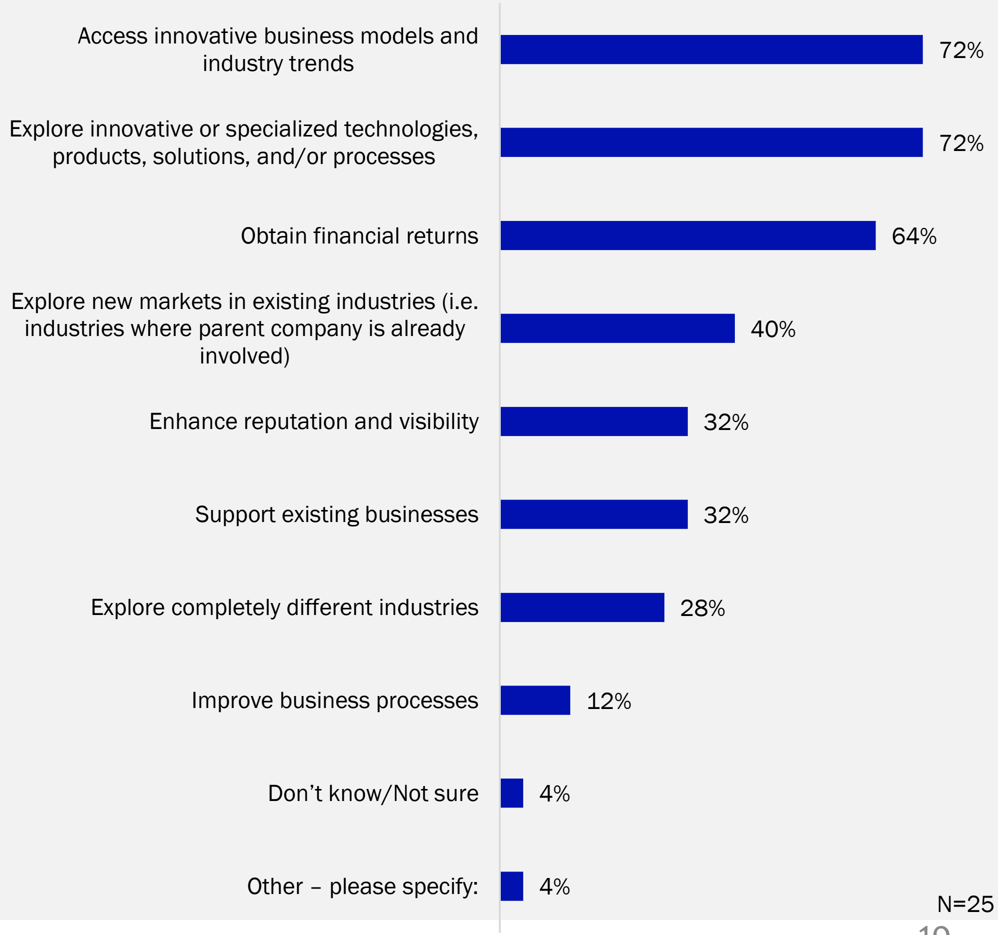
Please complete the following sentence by selecting all that apply: "Overall, our CVC arm's partnerships with startups have helped us ______________."



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WHAT ARE THE BENEFITS AND GAINS FROM THE VENTURING CAPITAL INVESTMENT?

What are some of the key benefits of establishing a CVC arm?

There are a number of key benefits of establishing a CVC arm and make CVC investments for large corporations. Some of the main benefits are:

- Allows large corporations to create significant value
- Tap into the knowledge held by their investee startups and access new technological domains
- Increase innovation output

In addition, CVC-backed ventures are more likely to go public, but less likely when the CVC investment is received within the first three years of the venture life. However, it depends on the type of resources and supporting services the ventures receive from the corporate investor and the stability of the business environment in which the ventures operate. Beyond the financial benefits, innovation outcomes are also quite clear: CVC-backed new ventures develop more inventions than solely VC-backed ventures. However, they are less effective at commercializing their inventions.

Benefits beyond merely innovation productivity

There are furthermore benefits of CVC investments beyond merely innovation productivity. Recently more novel aspects of ventures' innovation strategic decisions and outcomes associated with CVC investments have been considered. For example, level of Research and Development (R&D) intensity and how much a CVC-backed venture draw on and learn from incumbents' inventions when innovating in the post-investment period.

Source: Interview with Francesco Di Lorenzo – Associate Professor in Strategy and Entrepreneurship, Copenhagen Business School, Strategy and Innovation department

5. COMPANY CASES

- WÄRTSILÄ DIGITAL VENTURES, FINLAND
- KMD VENTURE A/S, DENMARK
- INGA INVESTMENT, SWEDEN
- DNB VENTURES, NORWAY

WÄRTSILÄ DIGITAL VENTURES, FINLAND

Steffen Knodt, Director

We are not a typical corporate venture capital function. Enabling lasting collaborations is a key for the venturing model

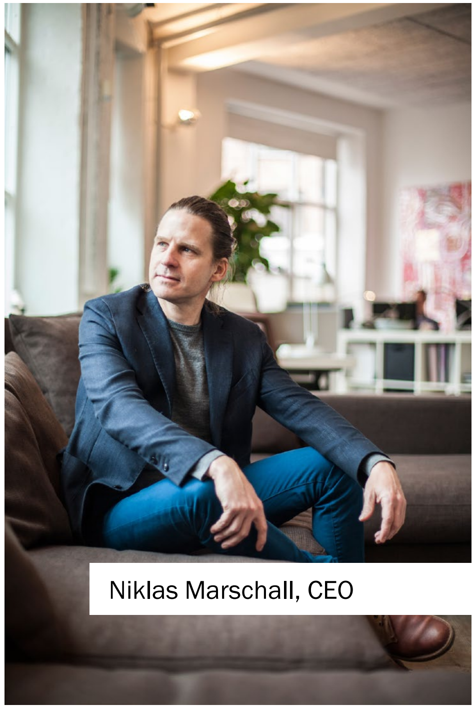
Q: What are the investment objectives of Wärtsilä Ventures?

A: Today, we are massive in energy, marine and everything in between. Wärtsilä's venturing model acts as a guide for how the company interacts with startups. It offers different entry and exit points, depending upon which is the best way to collaborate. The focus of the programs is to find start-ups and scale-ups who have new innovations and business ideas for smart marine and energy and to turn these innovations and ideas into collaboration and co-creation projects.

Q: What are some examples of non-financial resources from the parent company that your partner startups typically get access to?

A: The approach of the Wärtsilä Venturing team is acting as a venture client between the start-ups and our business areas – so we are not a typical corporate venture capital. Therefore, enabling lasting collaborations with business is a key for us and clearly within the focus of our venturing model. So start-ups will get primarily access to business and customers in the maritime and energy sector and access to our Wärtsilä Acceleration Centres and the Smart Partner Campus with the related network of mentors. In the SparkUp Program we the selected start-ups will get 50.000 € for an initial project with the ambition that in case of a successful collaboration a first order from Wärtsilä will follow."

KMD VENTURE A/S, DENMARK



Niklas Marschall, CEO

We don’t just do projects anymore – we help companies grow

Q: What have been the general results and benefits of corporate venturing at KMD Venture?

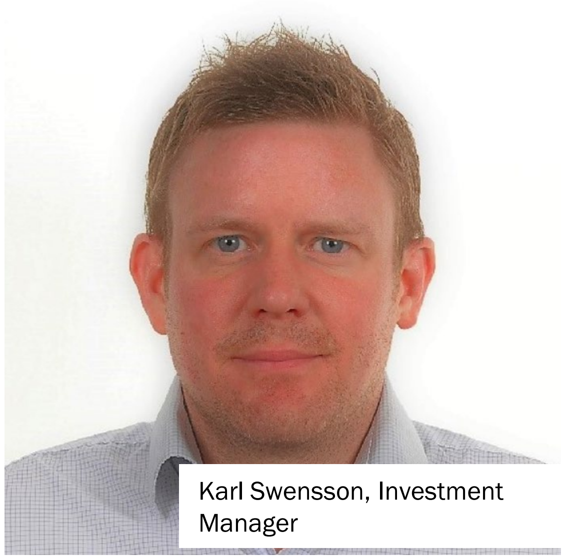
A: We moved our breakthrough innovation activities outside KMD because we believed an external setup would be more efficient when working with start-ups. And this turned out to be true! We now have a very lean set-up and are working closely with lots of start-ups. I think this is our greatest result. We have been able to design and implement a very efficient and lean Corporate Venture set-up that works for both KMD and the start-ups we invest in.

We don’t do projects anymore - we help companies grow. This sounds trivial but too often corporate venture activities are terminated before anything ever comes out of it. KMD Venture is always the first to invest in the start-ups we work with. We work at a very early stage and in all the start-ups we have worked with, only one has failed to get a product to market and sell it.

Q: What advice can you give startups when engaging with CVCs?

A: I often get this question and I have one piece of advice to start-ups that should overrule everything! Make sure that the people you engage with in corporates have top management support and a clear mandate. You will need to double check, and you do this by suggesting a change to something that you have agreed on earlier. The suggestion must have a long-term positive impact on the corporate but an up-front financial cost. If the person you are talking to won’t make the deal you don’t have top management support. Get that or get out.

INGKA INVESTMENTS, SWEDEN



Karl Swensson, Investment Manager

Start-up and corporate culture and mind-set are very different and successful CVC teams manage to play on both sides

Q: At what stage of a startup does Ingka Investments mainly invest in? Why?

A: Ingka Investments, which is the investment arm of the Ingka Group, do venture investments mainly in late stage innovative start-ups focusing on retail development, customer fulfilment, digitalisation and circular economy.

We do venture investments to diversify Ingka Group financial assets, generate attractive financial returns and as part of Ingka Group's commitment to support, learn and invest in innovative start-ups contributing to Ingka Group's vision and long-term strategy.

Q: What advice or tips can you give to corporations that are potentially looking into establishing their own CVC arms?

There are many things to consider when establishing a CVC-arm and every corporate have their unique set of values, culture and ways of working that needs to be taken into account. In general, I think clearly defining the purpose and goals, being prepared to act with speed and take decisions under uncertainty and to set clear, realistic and measurable goals are some of the key fundamentals.

Q: Could you give examples of the difficulties that CVCs face when dealing with start-ups?

A: Startup and corporate cultures and mind-sets are very different and successful CVC teams manage to play on both sides of the fence. One of the most common challenges that many CVC's, not doing pure financial investments, face is to bridge the startup's innovation into the corporate's business in a lean, fast and efficient way.

DNB VENTURES, NORWAY

Karen Elisabeth Ohm Heskja, Investment Manager

There is a great potential in corporate venturing from both a financial and industrial point of view

Q: What message would you like to give to startups and other stakeholders that may be skeptical towards corporate venturing?

"I understand that both investors and start-ups may be sceptical to corporate venturing. However, there is a great potential in it both from a financial point of view as well as an industrial point of view as the CVC can provide distribution channels, industry competence and network as well as expert expertise.

For any investment it is important to understand your investor or co-investor, either you are a startup or an investor looking for a co-investor. When considering a CVC as investor or co-investor I would advise to consider the following:

- Understand why the corporate is doing corporate venturing and which areas the corporate is focusing on. Is this a good partner for you?
- Is the CVC primarily financial or strategic, or both?
- What is interesting for you with the corporate beyond the financials? Most CVCs contribute with more than capital.
- Understand the decision process and who are the relevant stakeholders in order to understand the timeline you will have to deal with."

Q: What would you say are the key success factors to conducting successful CVC partnerships?

A: Agreed understanding of the vision and ambitions between the parties involved."

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MAIN PARTNERS

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