Series Report – June 2024

The Founder's CVC Playbook:

Maximizing value from your corporate venture capital relationships

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Introduction

For founders, the process of raising capital can serve as a forcing mechanism to confront some big questions. One of the fundamental questions is **who they want on their cap table and board** – especially given how long those commitments can last.

In recent years, **corporate venture capital (CVC) has emerged as an increasingly attractive option** for founders. CVCs remained relatively active during the tumultuous investing environment of 2022-2023, even as participation by other investors fell.

CVCs can offer startups tremendous value beyond just financial capital. However, **they can also be a source of distraction** from the startup's core mission if those relationships are not well-managed.

Founders need a gameplan when engaging with CVCs. No two CVCs are structured alike or operate in the same way, and there are many pathways to success in startup-CVC engagements.

That's why we wrote this playbook – to help founders navigate their CVC relationships and maximize the value from those relationships. Keep in mind, however, that this playbook is colored by TDK Ventures' experience, which is oriented towards early-stage deeptech and greater post-investment engagement.

This report is the third in a series, developed as a collaboration between TDK Ventures and 6Pages. Our previous reports set the stage around the state of venture and CVCs and explored the return of high-quality due diligence in venture investing. This third report provides a playbook for **how founders can take a more action-oriented stance in their CVC relationships**.

What is your ideal CVC?

When evaluating a potential CVC investor, founders may be inclined to dive into the nitty-gritty of the investor's portfolio and track record. But the right CVC for one startup may not be right for another startup and its founders.

The first question a founder should ask is: **What is the ideal CVC for me and my startup?**

Reflect on the factors you would prioritize in a CVC investor. How much do you value close-knit ties with an established industry player vs. maintaining full autonomy? Do you want your investor to be an engaged business partner, or are you looking for a more hands-off investor? These aren't necessarily tradeoffs but it's good to know where you stand when evaluating whether a CVC is right for you.

The most obvious filters are alignment with the CVC's stage of investment (e.g. early vs. late) **and market focus**. These tend to be the easiest criteria to access so most startups begin there. Certainly, it's important not to waste time on CVCs that are unlikely to invest or meaningfully engage post-investment (assuming you want that).

Make sure you're considering these criteria with a sufficiently broad lens. For instance, **how will a CVC continue to add value throughout the lifecycle from early-stage to late?** While it might make sense to index heavily on the startup's current stage, keep an eye on how the CVC can add value in the days ahead (e.g. validation vs. commercialization).

Also, CVCs can be compelling investors if they bring **credibility, expertise, and relationship networks to help accelerate commercialization**. Those qualities, however, may not be transferable across industries and markets. **CVCs tend to provide the most value to startups that operate close to the CVC parent's industry and core markets**. But be aware that 32% of CVCs never invest in core markets, instead leaving those investments to other arms of their corporate parent.

Founders need to dig deep and identify **the key challenges their business will likely face** and **the gaps within their current team**. What are the areas where the startup could use support from a CVC? Examples could include **brand credibility, pointed feedback on product development, sharing industry research, introductions to suppliers and potential customers, collaborating on pilots, and access to sales channels**. Certain CVCs will require a commercial project to demonstrate value before they're willing to make an investment.

Some CVCs are also able to operate more like traditional venture capital (VC). For instance, they can provide **strategic guidance, connections to other investors** (including references to other CVC investors)**, help with recruiting, support on**

marketing/PR (public relations)**, and advisory on finance, legal, HR** (human resources)**, and IP** (intellectual property) **matters**.

In our research and experience, **the most important considerations are often the "softer" aspects to working with a CVC**. As one founder put it, the ideal investor is **"proactive but not obstructive."**

Founders want a CVC partner who is **aligned with their vision and desired trajectory and will be a hands-on driver in connecting them to resources**, serving as more than just "moral support" post-investment. The right CVC partner will understand the state of the technology and the potentially long road ahead, and look to be helpful rather than demanding.

What founders don't want is an investor who's frustrating to work with and more trouble than they're worth – especially when the investor might be a permanent resident on the cap table. Given how busy startup life tends to be, **founders should be wary about opening up too many workstreams**, even with an aligned and appropriately engaged investor. A large parent company can present a sizable relationship "surface area" for a startup to tackle, not even considering the even larger ecosystem the company is probably connected to.

One consideration is how many CVC investors make sense for your business. For instance, Fabric8Labs – which has an additive-manufacturing technology with broad applicability – has quite a few CVC investors on its cap table (e.g. TDK Ventures, Intel Capital, Lam Research Capital) but sees little friction associated with working on commercial projects for multiple parent companies.

On the other hand, some partners do seek exclusivity (e.g. asking a startup not to work with their industry rivals). In these cases, founders will want to navigate these agreements within the context of their startup's broader strategy and potential future business opportunities.

Market traction and commercialization are often the primary needs that startups are looking for help on from a CVC. As a result, **the relationship between the CVC and their corporate parent is an important area to probe**. Ask about the track record and metrics. If the CVC doesn't have credibility within their broader organization or the personal relationships to broker connections, they may add no more value than a financial investor.

Founders should avoid CVCs that come with "complex overhead" and excessive internal politics. **38% of CVCs spend 40%+ of their time managing their corporate parent – and this is increasing**. A study of CVC leaders published in Mar 2024 found that about 60% of senior executives at CVCs' parent companies did not understand the norms of the venture space. **Be sure to conduct reference calls to validate your assessment of the CVC and confirm its reputation.**

The ideal CVC can make decisions quickly and can readily cut through any red tape. Founders should steer towards CVCs able to operate at the pace of traditional VC investors. **One key signal for founders is how fast a CVC can get to a term sheet** while still conducting thorough due diligence. Founders should also **ask whether a CVC is prepared to double down** if an investment they still believe in needs follow-on funding.

Finally, consider the tenure and experience of the CVC and its principals. An established CVC is more likely to have built useful capabilities, and experienced principals can help avoid common CVC pitfalls. One recent study found that "[a] third of all active CVCs were mothballed or shut down in the past three years." **By one count, 46% of the CVC funds launched in 2023 were new, first-time funds** (vs. successor funds).

At the same time, **there is such a thing as being too "old school"** in the CVC world. CVCs can lose some of their dynamism over time as hungry talent leaves to pursue other opportunities. (Only 5% of strategic-focused CVC funds offer their investment professionals carried interest in the fund.) By and large, **your experience of a CVC will be heavily dependent on the individual professionals you build a relationship with**. Ideally, you want them to be working with and for you.

What motivates a CVC?

As we said before, no two CVCs are alike. That said, there are some commonalities across the range of CVCs and how they operate. It's important to **be aware of the broad patterns so as to understand what motivates CVCs and how to maximize the value** from your relationships with them.

The investment motivations of a CVC often stem from the parent company's rationale for establishing a CVC in the first place.

CVCs typically have a broader set of investment motivations than traditional, financially-driven VCs. A 2021 study of CVCs involving in-depth interviews found 66% had "mostly" or "purely" strategic motivations, while only 12% had mostly or purely financial goals. Only 22% – including TDK Ventures – had a "balanced" approach.

While our first report saw indications that CVCs were becoming more hybrid, **lately the winds appear to have shifted in favor of CVCs becoming more strategic and aligned with their corporate parents** amid an uncertain macro environment. Best-in-class CVCs, however, are slightly tilting in the other direction towards becoming more financially motivated – and independent. In general, **fewer CVCs seem to be on the extreme ends of the strategic vs. financial spectrum** these days.

Purely financially-driven CVCs are the most straightforward, and most akin to traditional venture capital. These CVCs tend to be the most independent from their corporate parent, and are focused on finding emerging "king of the hill" technologies that can garner outsized returns.

56% of financially-driven CVCs offer their investment professionals carried interest in the fund, vs. 5% of strategic-focused CVCs. (24-35% of all CVCs offer some form of carried interest.)

Some strategic CVCs are formed solely for the purpose of strengthening the mothership. These CVCs are focused less on financial returns and more on bringing in a flow of new knowledge and technologies to the parent. (10-13% of CVCs don't even use financial metrics.) Such a CVC might be tasked with identifying startups that can **integrate into R&D, contribute to a product roadmap, or otherwise open up new markets**. Typically, these CVCs invest in later-stage startups.

These strategic CVCs often enjoy a close relationship with the parent, perhaps working alongside the parent's M&A team. (This doesn't necessarily offer an avenue for startup exits; 78% of CVCs never intend for their parent to acquire any portfolio startup.) Not surprisingly given a strategic CVC's focus areas, **a portfolio company is more likely to engage in a commercial contract with the parent of a strategic CVC** (vs. a hybrid or financially-driven CVC).

While close collaboration with the corporate parent has its advantages, it can also **slow down CVC decision-making** at times. Statistically, strongly strategic CVCs are the least likely to use capital reserves to participate in follow-on investments.

The irony is that financially-oriented CVCs have the independence and alignment to help portfolio startups be successful – but may have fewer levers to pull on. Conversely, strategic CVCs have more levers to pull on given their close relationship with their corporate parent, but may not be as aligned with the startup.

"Balanced" CVCs retain a connection to the mothership but have financial metrics that align their interests with startup founders. They can build synergies between their parent's business units and portfolio startups, but are also **motivated to pull on other levers to generate value**. For instance, TDK Ventures will broker introductions with its network of manufacturing partners, suppliers, experts, potential customers, and other investors. Maintaining a true balance between financial and strategic motivations can mean an ongoing delicate dance of tradeoffs by CVC leaders.

How do CVCs operate anyway?

CVCs typically are organized as a separate business unit or legal entity with a dedicated leader, although some are embedded into existing business groups (e.g. M&A).

How a CVC gets its annual budget is a key driver of where it focuses its energies. In general, most CVCs are investing off their parent companies' balance sheets. Relatively few have "full-scale, long-term commitment" from their corporate parent.

Only about 25-30% of CVCs are structured as a separate legal entity with a multi-year commitment. 15-27% of CVCs are allocated budget on an ad hoc basis, and have to go to their parent hat in hand for each investment. The remaining 43-60% of CVCs – whether in-house or a separate entity – have to get their budget. commitment renewed on an annual basis.

CVCs most frequently report up into the parent company's Chief Strategy Officer (29% of respondents in one survey). Other common sponsors include the

CEO (15%), Head of Corporate Development (13%), CFO (12%), Head of Business Development (10%), and Head of Innovation (10%).

Just as important is the Investment Committee (IC), which typically has about 4 members drawn largely from parent-company executives. These usually include the CFO (57%), CEO (43%), the CVC head or other representative (40%), and perhaps the head of a key business unit (35%). For most CVCs, **the IC is more than a rubber stamp and often** (43%) **requires unanimous approval**.

Like a VC, **the typical CVC team is relatively small.** While a CVC team can vary from 1 to 50+ professionals, the average size is just **9 people, of which 6 are investment professionals**. A couple rules of thumb suggest there should be **"at least 3 people per $100M"** (one senior and two junior professionals) or 10 portfolio startups per senior investment professional. (The most common range for CVC assets under management is $100M–$249M.) Notably, **12% of CVCs don't have anyone working full-time on venture investments**.

A subset of CVCs have team members focused on providing portfolio startups with post-investment support. 34-43% of CVCs have at least one professional dedicated to supporting portfolio companies. These team members may be tasked with **connecting startups to the corporate parent and resources**, providing functional advisory (e.g. finance, legal, HR, IP), serving as domain specialists, handling marketing and events, and otherwise managing portfolio operations.

CVCs run lean and are often under pressure to meet parent-company objectives on a shorter-than-ideal timeline to retain support for their budget commitment. 75% of CVCs are evaluated on a short-term horizon of less than 5 years and often quarterly – a large disparity from the traditional 10-year VC horizon.

As a result, **CVCs prefer to invest in spaces adjacent to their parent companies' core businesses**. 52% say they are heavily focused on adjacent spaces, and this figure becomes an overwhelming 93% when we include CVCs that balance adjacent investments with other investments.

Kicking off a startup-CVC partnership

Startups and CVCs are so varied that it's hard to represent the full range of possible engagement styles. For instance, TDK Ventures has a dedicated engagement team focused on bringing what it calls **"TDK Goodness"** to enable and facilitate the resources and relationships available across TDK companies and help portfolio startups scale production and commercialize faster. Of course these resources are only valuable to the extent that founders find meaningful value for their startup, and **there are many models and paths to success**.

In the early days after the investment has closed, **you may find many of your day-to-day interactions with your CVC investor transitioning from the investment team to the portfolio team**. This is normal. Ideally, this would be a smooth handoff to individuals you've already been introduced to during the upfront phase, and more of **a broadening of relationships and parallel workstreams** than an abrupt cutoff.

At this point, if the CVC has done a good job of relationship-building during the diligence phase, you already have an idea of the kind of help you're looking for from the CVC. Maybe you have a working document of prioritized ideas. **Capitalize on the momentum from a successful investment close and take a proactive role in putting an ask on the table.** Expect it to be a conversation starter that will help frame the early discussions.

Successful startup-CVC engagement will rely on getting connected to the right stakeholders for each initiative, both internal to the CVC and corporate parent and external within the ecosystem. Understand who the key stakeholders are and map individual names against your priority list of initiatives. Ensure there is someone on your startup team tasked with building those relationships, moving initiatives forward, and maintaining open lines of communication.

You may start being pulled into CVC activities and/or parent-company business initiatives, depending on the respective motivations. It could be as light as invitations to industry or community events, or being included on distribution lists for market intelligence and other knowledge-sharing.

You'll probably want to aim for more than that though, since **much of the value of CVC relationships comes from deeper engagements that can drive tangible progress for a startup.** Examples of deeper engagements might include workshops with business-unit technical experts, R&D collaboration on a prototype or new/bundled offering, a trip to China to meet with suppliers, working together on a press release and broader PR strategy, support in recruiting key executives, getting introductions to other investors and potential customers, and of course, commercial projects.

Tips on streamlining engagement

Sit in the driver's seat. As we have said before, maximizing the value of your CVC partnership will be heavily dependent on the individual relationships you build. **Don't wait for them to reach out to you. Ask for the call or for the business introductions.**

Be systematic about understanding the critical stakeholders. It may be a more complicated map than you're used to. Take the time to learn the reporting and relationship lines, and who are the key decision-makers for your priority opportunities.

Foster strategic alignment with the parent company. Read up on their strategy and investment areas, including annual reports, earnings transcripts, and major transactions. Figure out where your startup might fit into the parent's bigger picture. Be clear-eyed and transparent about the trajectory of your technology/business readiness vis-à-vis the parent company's needs.

Be clear as to what you are asking for, and understand what the parent company is seeking from you. Solicit feedback from corporate business units on how they could work with you. Be the one to put pen to paper if that's what's needed, and document conversations and next steps. This can help build alignment from the outset and facilitate forward progress.

Tailor your message for each stakeholder. Different stakeholders will have different motivations based on their role and incentives. If your goal is to engage in tangible projects (e.g. joint development agreements, pilots, licensing, engineering projects), **you'll need an enthusiastic internal champion**. The head of a parent business unit, for instance, will have his or her own objectives that may have nuanced distinctions from the CEO's or CFO's.

Make sure you're engaging at the right time. For instance, your startup will have its own product roadmap and the CVC's parent business units will have their own. These timelines will have to align and converge to engage in productive co-development. If your startup gets the timing right, it could even have the opportunity to shape a business-unit roadmap. Also **consider budget cycles**, especially if your project needs a large or mid-year allocation.

Strategic alignment isn't a one-time event. Getting to a productive engagement requires nurturing and patience. Having recurring checkpoints can help keep everyone on the same page and things moving forward.

This doesn't necessarily mean just formal meetings. Expect everyone on both sides to be busy. Peak Energy, a TDK Ventures portfolio company, found that it was helpful to open up informal lines of communication. Often the best way to get an answer on a question was through a quick text message. Also, **don't forget in-person interactions** – one dinner with the CEO of a key supplier can be a game-changer for a startup.

Don't be afraid to use the glare of publicity to burnish your brand halo and build momentum for engagements. **Press releases, podcasts, and PR events, for example, can be helpful tools in drawing attention from customers – and encouraging accountability to act within the parent company.**

Finally, you still have a business to run, and you probably have financially oriented investors as well as CVC investors. **Don't let your involvement with your CVC investors, who may be more strategy-oriented, distract you from your core business and financial metrics.**

In summary: A checklist of CVC questions

- ☐ How long has <CVC> been around? What was the original rationale/vision?
- ☐ How is <CVC> structured? Is it a separate legal entity?
- ☐ How is <CVC> funded? Is it multi-year, annual, or ad hoc?
- ☐ Is <CVC> more strategic or financially oriented? Or is it aiming to be both?
- ☐ What metrics does <CVC> use? Over what time horizon is it evaluated?
- ☐ How long does <CVC> typically hold its portfolio companies?
- ☐ What are <CVC>'s investment focus areas?
- ☐ Are these core, adjacent, or farther-flung from the parent's markets?
- ☐ How does <CVC> work with its corporate parent?
- ☐ Who does <CVC> report up into at its corporate parent?
- ☐ What reporting is required of portfolio startups?
- ☐ Who is on the IC? Do investments require unanimous approval?
- ☐ Will <CVC> double down if an investment needs follow-on funding?
- ☐ How big is the <CVC> team, who is on it, and what is their experience?
- ☐ Describe the culture and values of <CVC>. How does it make decisions?
- ☐ How fast can <CVC> move? How many days to a term sheet on average?
- ☐ Does <CVC> require exclusivity or other contractual obligations?
- ☐ Is there a dedicated portfolio team? What do they do?
- ☐ How would we be working with the team? Who would we be working with?
- ☐ What support is available to portfolio startups? Can you provide examples?
- ☐ How does <CVC> advocate for its portfolio startups within the parent org?
- ☐ What specific kinds of support could you offer us?
- ☐ Who can you connect us to in your relationship networks and supply chain?
- ☐ How can <CVC> help amplify our story or otherwise accelerate our trajectory?
- ☐ Who are the key stakeholders for <startup>'s priority initiatives?
- ☐ Are there "key man risks" or risks of a strategic shift to be aware of?
- ☐ Can <CVC> provide references?

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