CSL

corporate startup lab

2020 CVC SENTIMENT SURVEY

A CMU Swartz Center Initiative

INTRODUCTION

The Corporate Startup Lab at Carnegie Mellon has increasingly been spending time with corporate venture capital (CVC) firms. In so many of these conversations, everyone seems to be struggling to understand the impact of this unprecedented time on firm operations and investing activities.

According to Pitchbook, deals with US CVC participation in Q1 2020 was about 100 deals behind the quarterly pace seen in past years (Davis, Alexander). Globally, CVC backed funding fell 13% from 19Q4 to 20Q1 and is a 24% decline compared to 19Q1. However, given that Q1 includes both January 2020 and early February 2020 where the pandemic had minimal impact on the economy and March 2020 where organizations were rapidly adapting to the changes it's unclear how to extrapolate those trends going forward (CB Insights).

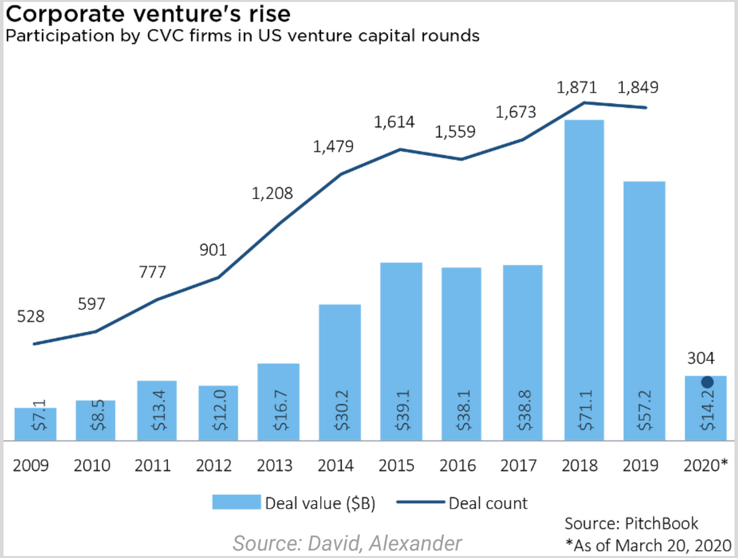


FIG. 1 US CVC PARTICIPATION

Total CVC participation in US venture capital rounds in 20Q1 ~100 deals behind pace, according to PitchBook

We wanted to dig deeper, focusing specifically on changes catalyzed by the pandemic in CVCs investing activities, firm operations, and the overall economy. From April 23, 2020 - June 3, 2020 we surveyed 27 different individuals responsible for their company's CVC activities. The goal of the survey was to understand the shifting mindset of CVC groups during this unprecedented time of uncertainty while considering the current rate of investment during this economic downturn. While a modest sample, we believe our 27 respondents are representative of the overall CVC market. Of the 27, 12 were on the Fortune Global 500 list and 7 of those were in the Fortune Global 100 list (Vidra, Ezra). While 7 of 100 is impressive, we think this is even more compelling given that 52 of the Fortune 100 have CVCs. So we ended up connecting with 13% of Fortune 100 CVC firms. The group also was active across all stages of investments as the following charts demonstrate.

RESPONDENTS

FIG. 2 ACTIVE AREAS OF INITIAL INVESTMENT

Across the 27 respondents, this is the percentage of respondents who invested more than 10% of their new (ie initial) investments at this stage

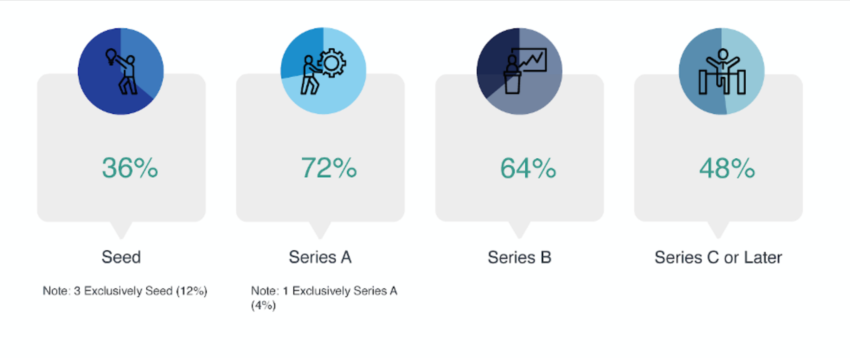
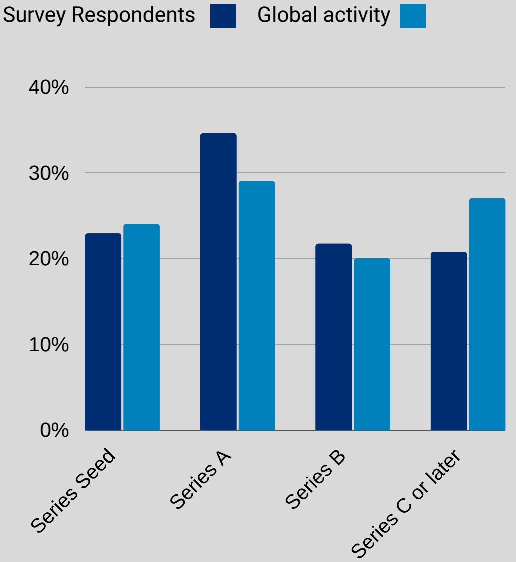


FIG. 3 ACTIVE AREAS OF INITIAL INVESTMENT (%)

Across the 27 respondents, this is the weighted average of new (ie initial) investments by stage



Of 2019 global CVC participation, 24% of deals made were Series Seed, 29% Series A, 20% Series B, 10% Series C, and the remaining 17% split between Series D, Series E+, and other rounds (CB Insights, *The 2019 Global CVC Report*). Given how close our weighted average is to the global percentages above, this reinforces again that our respondents are representative of the overall market.

Our survey also produced similar results where there was overlap with the brief survey conducted by Global Corporate Venturing. For example, both the CSL and GCV study found 8% of the respondents predicting growth post-COVID 19 (Andonov, Kaloya). For our study, the 8% was predicting an increase in investment activity (CSL) and the 8% in GCV's survey were expecting more capital with which to invest - but again the results are directionally similar. Results like this further increase our confidence in the representative nature of our responses. We'll reference the GCV survey throughout to add additional context from another survey to our results.

INVESTMENT ACTIVITY CHANGES

Turning to our survey results, as we continue on the path of this economic downturn coupled with the Covid-19 pandemic, one question we're constantly hearing is, how committed will CVC firms and their parent companies who fund them be moving forward? In Professor Josh Lerner's frequently cited HBR article on Corporate Venturing he explained "In the past, corporate interest in creating venture funds tended to wax and wane in sync with the general VC climate," (Lerner, Josh). However, more recently on the podcast Agile Giants, recorded right before COVID's impact was being felt on the economy, our Co-Founder and Director, Sean Ammirati, asked Professor Lerner if he felt like that had changed and he explained:

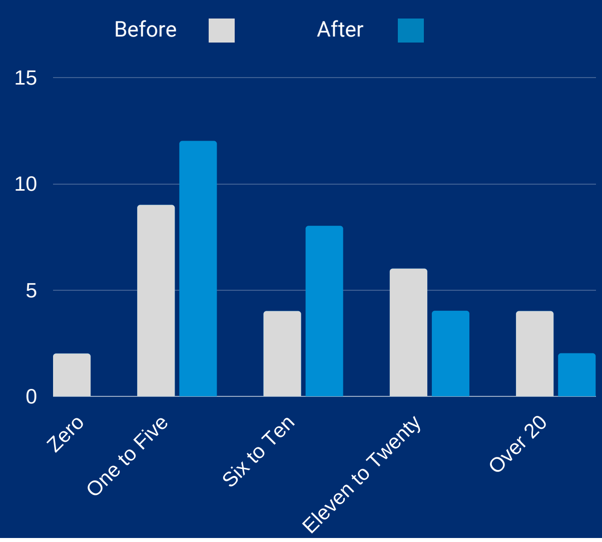
> Josh Lerner (11:12): On the one hand, I do feel that there are a lot of indications that business as usual, in terms of how corporations have approached research, has changed pretty fundamentally. As a result, it would not be surprising to see corporate venturing having much less of a faddy aspect to it, and more being a permanent part of a repertoire of corporate venturing tools, and so forth. On the other hand, I'm old enough to remember 1999, where everyone was like, "The world has changed fundamentally," and then two years later, it didn't seem like the change had been quite so fundamental. So, I think we have to be a little cautious in terms of making bold pronouncements of that kind. (Josh Lerner Unit Head, Entrepreneurial Management at Harvard Business School)

CVCs must be aware that the rest of the venture community and startups they support are watching them closely. As Pradeep Tagare, head of the $250m CVC fund at National Grid explained to Pitchbook,

"This is a time when we'll separate serious corporate investors from what are referred to as tourist CVCs. Typically, a down market will result in a shakeout among many corporate investors. But that is likely to be limited to the smallest players while corporate titans that are flush with cash are well-equipped to stay involved," (Davis, Alexander).

FIG. 4 INVSETMENT ACTIVITY)

We asked respondents the number of new investments both made over the last 12 months (15Apr19-15Apr20) and anticipated over the next 12 months



INVESTMENT ACTIVITY CHANGES

We wanted to understand the distribution between those who are serious vs the “tourists.” As mentioned in the introduction, of CSL survey respondents, only 8% predicted a slight increase in investment activity which coincidentally coincides with GCV results of 8% expecting more capital with which to invest. An additional one-fifth of our respondents expect to maintain a similar activity. However, 72% of respondents are forecasting less (48%) or significantly less (24%) investment activity relative to the beginning of 2020.

FIG. 5 INVESTMENT ACTIVITY ACROSS ALL CVCS (%)

We also asked CVC investors to project activity over the next 12 months across all CVCs (ie not just their firm)

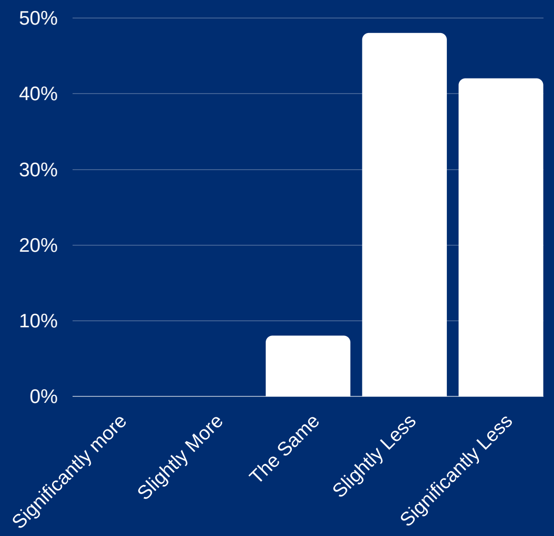


FIG. 6 INVESTMENT ACTIVITY AT OWN FIRM (%)

Coming back to their firm, we asked them how their new investment forecast for the year has changed relative to the beginning of the year

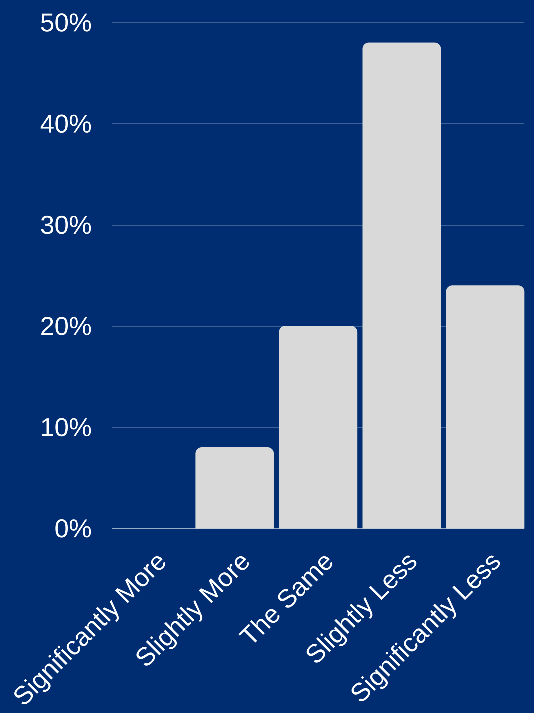
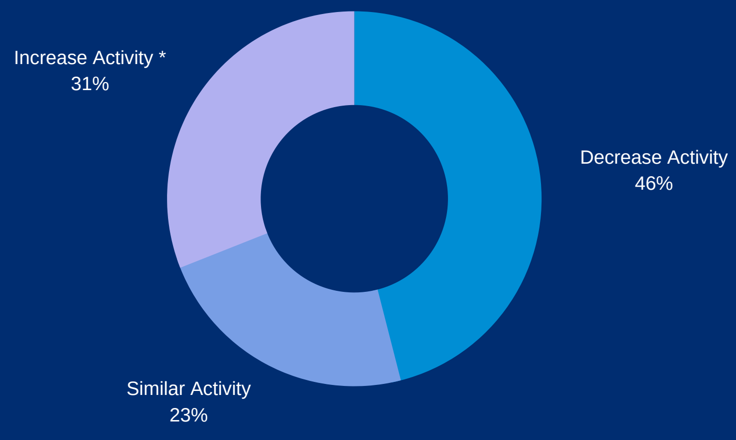


FIG. 7 INDIVIDUAL RESPONDENTS INVESTMENT ACTIVITY



8% of these appear to be new firms

Average 10 new investments Last 12 months

Average 8.9 new investments Projected in next 12 months

VALUATION CHANGES

Another closely related question to that of investment activity is the terms that CVCs expect to make those investments. While certainly valuation is only one element of analyzing how favorable or unfavorable those investment terms are, it is a straightforward metric at which to look. Therefore, we asked respondents to indicate their expected changes in valuation and by what percentage.

Everyone who responded indicated a decrease in future valuations except one person who indicated an 82% increase. (We are wondering if that individual misread the question as that belief seems quite contrarian). The average decrease was 28.26% and if you throw out that one respondent who indicated “valuations would actually increase” the decrease goes to -33.2% average.

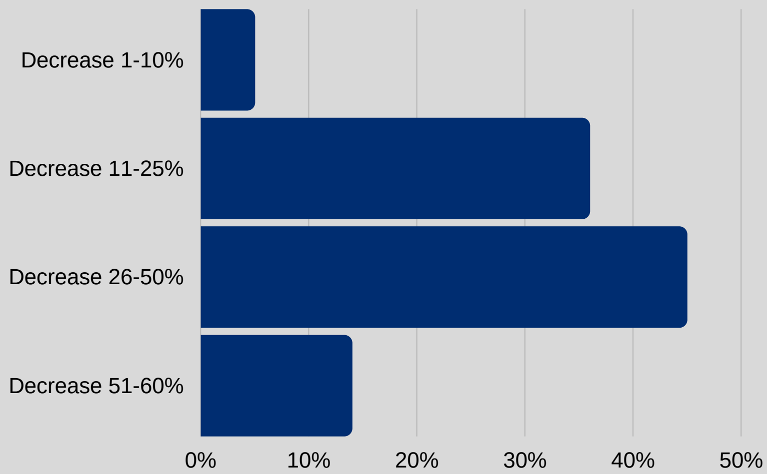


FIG. 8 ACTIVE AREAS OF INITIAL INVESTMENT (%)

Across the stages their firm invests, over the next quarter they expect valuations on new investments to decrease...

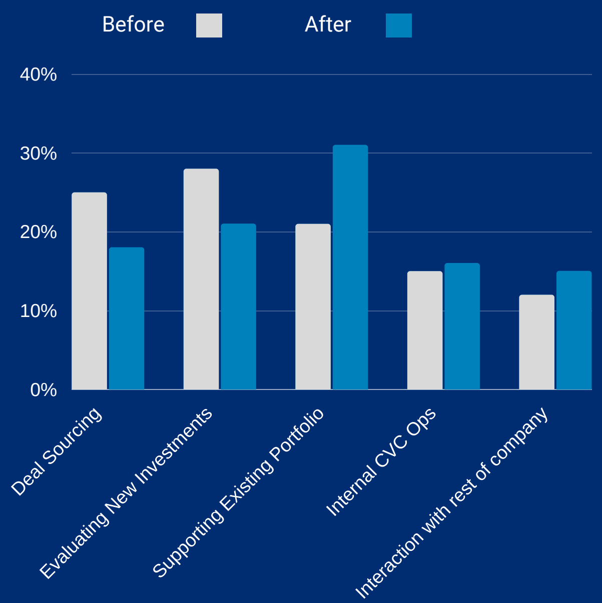
These results are consistent with a recent NfX VC startup sentiment survey finding most VCs (43% of respondents) anticipate a 30% decrease in early stage valuations (Results from the VC & Founder COVID-19 Sentiment Survey, Part I.). Therefore, sentiments and expectations from traditional VCs appear to align with expectations of CVCs.

That said, CVCs that are part of public companies may face even more pressure as PWC recently explained to their publicly traded clients, they “may be faced with triggering events and be compelled to re-evaluate recoverable amounts and fair values of assets, ” (PricewaterhouseCoopers).

ALLOCATION OF TIME

Like all venture professionals, how CVCs allocate their time has obviously changed. We asked them to split their time across five categories both before and after COVID-19. The chart below shows how respondents allocated their time both before and after the pandemic. While internal operations and company interactions stayed relatively the same at only slight increases post Covid-19 (1% and 3% increase respectively) there was a 10% increase in time spent supporting current portfolio companies while decreasing time spent deal sourcing and evaluating new investments.

FIG. 9 ALLOCATION OF TIME ACROSS KEY CVC ACTIVITIES (%)



Once again, our results follow the same line of responses recorded by Global Corporate Venturing that saw ~20% of respondents shifting focus to support “existing portfolio companies rather [than considering] new investment opportunities,” (Andonov, Kaloyan). GCV also reported 32% anticipating an overall “shift in focus, priorisitings and stricter due diligence,” (Andonov, Kaloyan). It also is directionally similar with that of traditional VCs who are anticipating ~16% decrease in time spent evaluating new deals which appears to lead to a ~16% increase in time spent working with portfolio companies (Results from the VC & Founder COVID-19 Sentiment Survey, Part I.)

ECONOMIC PROGNOSIS

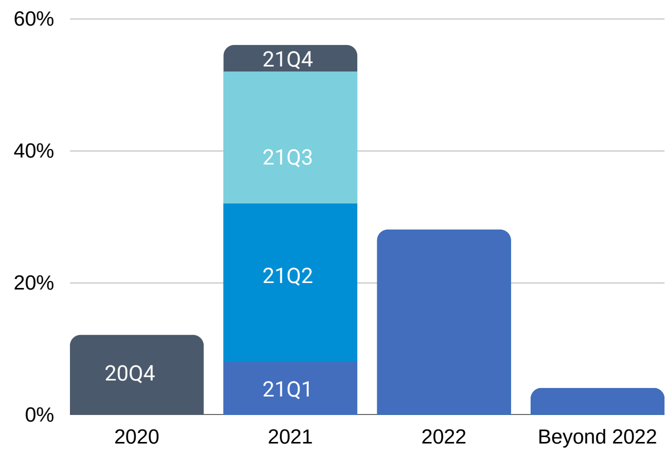
Finally, like all professionals, one constant question on everyone’s mind is when will the economy return more or less to normal. Given where CVCs sit, both inside established companies and interacting regularly with emerging high growth startups, you can make the case they have some of the best insights into two of the most critical elements of any economic recovery. According to our survey respondents, 28% believe the economy will be more or less back to normal in 2022 while the majority, 56%, believe normalcy will return during 2021. 12% of respondents believed a return to normal will happen at the end of 2020.

ECONOMIC PROGNOSIS

Again, due to uncertainty in markets and an assortment of data at varying degrees of quality, it is difficult to place the return to "normal" within a quarterly parameter but CVC's placement within established companies and pulse on emerging startups provides an interesting lens into the question.

FIG. 10 ECONOMIC RECOVERY (%)

When do you think the economy will be more or less back to normal?



CONCLUSION

CVCs have become an integral part of the startup landscape over the last decade. When structured appropriately, they have served not only a financial support function but also provided critical input and connections to support high-growth startups' strategies. As we settle into this period of unprecedented uncertainty, it will be crucial to remain active. As discussed earlier, the entire startup ecosystem is watching. This is not the time to pull back. Beyond that, CVCs can be uniquely supportive in some ways. As Scott Lenet of Touchdown Ventures recently explained to Forbes Magazine:

> "In the current COVID-19 environment where traditional fundraising cycles may be extended, a corporate investment that includes more than just cash can be critical. This is because a good strategic investment relationship frequently includes a commercial transaction, or "business development" deal. These relationships have the potential to be just as impactful as cash investments and can help startups survive an economic downturn," (Lenet, Scott).

Moving forward, CSL is committed to continuing to spend time with CVCs trying to accomplish this critical role in the ecosystem. If there are questions you'd like us to explore in future surveys, please let us know. While each firm is unique, we do believe it's helpful to share the aggregated responses so you can understand how your peers are looking at these similar issues. This also will inform future research and programing at our lab.

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About CSL

The Carnegie Mellon University Corporate Startup Lab is a Swartz Center interdisciplinary group focused on researching and promoting the mission of transformative innovation within corporations. You can learn more at: CorporateStartupLab.com