Thelander - CVI² 2014 CVC Compensation Report

Executive Summary

The *Thelander- CVI² 2014 CVC Compensation Report* is the most comprehensive effort to provide cross-industry external benchmarks for CVC compensation levels and structures. The 2014 survey provides data from 116 CVC executives representing more than 80 leading programs at Global 2000 corporations. The survey was conducted by compensation specialists J. Thelander Consulting 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, Innovator's Huddle and conference organizer IBF.

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 1100 corporations with corporate venture programs, more than 475 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 continues to consolidate, 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.

As we see for the second year in this survey, nearly all CVC professional compensation structures are in cash, a mix of base salary and bonus (vs. the VC model of carried interest in the firm's investments, which very few CVCs receive).

The 2014 survey shows that CVC unit leaders earn, on average, $305,052 a year plus $164,732 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).

In the future, drill-down surveys are planned to explore sector and unit age-specific variations, as well as on and off balance sheet CVC structures.

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 96% of survey participant units make minority equity investments, 20% also make majority equity investments more consistent with growth PE strategies and 23% also are involved in 'innovation' M&A activity. Furthermore, 42% 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.

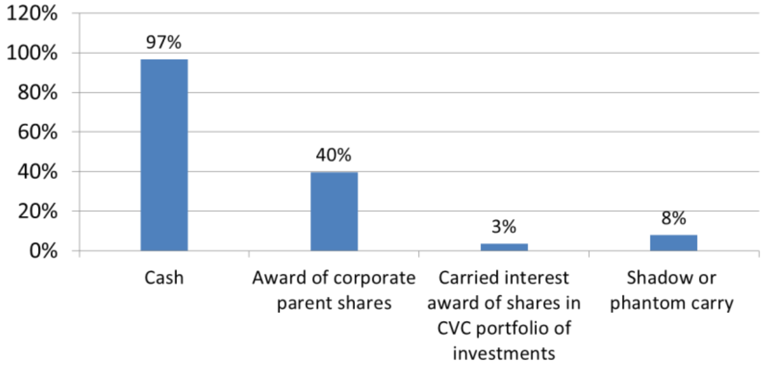
Incentives for Success

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 one percent of the respondents to the 2014 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 2014, less than a quarter of corporations look to external benchmarks to determine comparables for CVC compensation and career path planning, while 44% 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 2014 survey shows increasing efforts are being made to define and reward individual/unit performance beyond deal sourcing (80%) and traditional financial metrics (62%). Close to 50% 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 input, pilots, tech transfers, etc.).

Nearly half of the factors behind cash bonuses paid were a result of the overall parent company's performance over the past year, with the individual or team's contribution making up the remainder. Half the survey respondents said they were granted options or shares in their corporate parent.



Unlike financial VCs; only 3% of respondents included payment of carried interest as a component of compensation to their CVC executives. Another 8% have incentives that reflect created profits through a shadow or phantom carry component of compensation.

The comparison of the CVC compensation survey results for 2013 and 2014 showed an interesting consistency: the average compensation numbers for the various CVC team roles remained similar, even though the number of 2014 respondents to the survey doubled in size from 2013. CVI² is encouraged that this may be an indicator of evolving, standard 'bands' of cross-industry compensation structures for CVC professionals. It is clear that

that CVC roles are different from their financial VC counterparts; but it is also clear that corporations are still in process of adjusting internal, established compensation structures to better accommodate CVC professionals. This 2014 survey data creates an opportunity for corporations to make use of the growing volume of external, cross-sector peer reference points to more consistently define CVC roles, compensation packages and career path planning.

Sisyphus Syndrome

The frequency of senior management rotations, particularly chief executive and chief financial officers, directly correlates with the limited tenure of corporate venturing leaders: Nearly half of respondents said they had experienced a CEO and/or CFO change in their parent company in the previous three years.

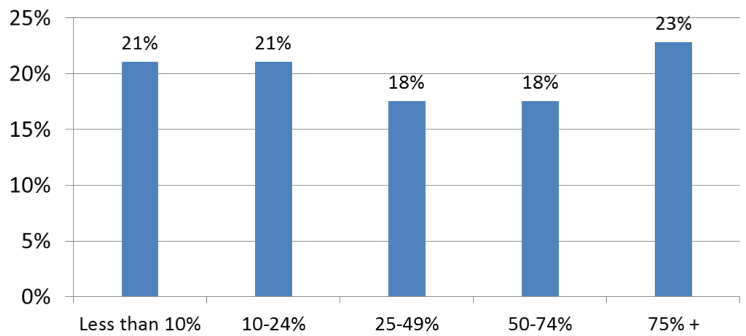
CVI[2] notes that these typical turnovers in senior ranks of the corporation often trigger CVC program reviews, especially if there are changes in direct reporting structures. This phenomenon may prove additionally challenging for CVC programs and team retention, as change in leadership may slow the 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 CVC unit leaders who responded to the survey, nearly 40% had been in place less than two years and a third for less than five years. These terms are significantly shorter than the term of most CVC units: 46% of corporate venturing units have 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 of which have recruited experienced managers from other companies or with financial VC background to complement their internal executives.

% of CVC Unit Team Recruited From Parent Company



Of the 116 respondents to the survey, 60% said less than half their team were sourced from internal moves from the corporate parent. Nearly a quarter (23%) said at least three-quarters of their team came from the parent company. 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 (38%) 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 (12%) or through an LLC or off balance sheet with an annual investment budget (28%). Close to a quarter 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 2014 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 2014 CVC Compensation Report*, or the *Private Company* 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, 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 more than a decade of professional service, we partner with more than 1000 companies and 100 investment firms to collect up-to-date, detailed reports on salary, bonus, and equity and carried interest compensation information. Collected from coast to coast, our published data reflects specific compensation mega-trends for biotech, medical device, cleantech, tech and other emerging companies and investment firms.