State of CVC 2024

A Deep Dive Into the Dynamics of the Corporate Venture Capital (CVC) Ecosystem

September 2024

CVCs Steadfast Through VC Market Reset

"Prescient funds will stay aware of their dependency and successfully manage the risk of dormancy through educating corporate sponsors on the important role of venture."

We are pleased to present the fourth edition of this report, capturing trends across the industry over time. The report draws on the most extensive survey of the CVC ecosystem — one in four active CVCs responded.

With this broad industry perspective, we can say that corporate venture capital has not shied away from the innovation economy despite the prolonged industry-wide venture capital (VC) slowdown. Participation rates — the percent of VC deals that CVCs are a part of — remain near all-time highs as CVCs continue to invest. They appreciate that the pace of technological innovation is not slowing and are eager to understand and invest in emerging areas like generative AI (GenAI) and climate tech. With a key role as an organization's sensor function, CVCs have never been more important.

Still, CVCs are not immune to the industry-wide downturn. As the macro environment remains slow, more funds are making fewer investments. The risk of dormancy among some funds remains present in a slow market where exits and strategic outcomes are fewer.

It is up to CVC leaders to guide the parents through this market, in which timelines to realize financial or strategic returns are often elongated. Educating corporate sponsors can be challenging, especially for new funds that report the lowest levels of excitement among executives. This year we analyzed the differences among mature and newbie CVCs. What we gleaned is that prescient funds will stay aware of their dependency and successfully manage the risks of dormancy through educating corporate sponsors on the important role of venture and the value that CVCs bring to the organization.

We see a clear road map plotted by mature CVCs: Successful funds educate executive sponsors and grow increasingly independent and more sophisticated. As the CVC industry continues to develop, so too will funds mature. We remain optimistic for the future and look forward to continuing to support the CVC ecosystem in the coming year.

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State of CVC 2024

2024 CVC Survey Key Findings

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Five Key Takeaways

1.

Exec sponsors' enthusiasm for CVC is tied to their understanding of the VC asset class in general.

Financial CVCs enjoy the highest level of enthusiasm from exec sponsors; newbies have the least. This could be driven by level of exec knowledge of the venture asset class. Newbies are more likely to think that execs lack understanding of VC and its norms, often due to unrealistic timelines or return expectations.

2.

CVCs use the corporate parent's logo to win deals.

Surprisingly, one-third of financial CVCs rely on the parent's logo to win deals, compared to nearly two-thirds of strategic CVCs. While some CVCs can't offer the extensive capital and support of a top-tier VC fund, they can provide technical expertise and a path to commercial partnerships with the parent.

3.

CVCs continue to take their foot off the gas.

The risk of dormancy among some funds remains present in a slow market where exits and strategic outcomes are fewer. Thirty-eight percent of CVC funds made fewer than five investments in the last year, up from 25% in 2022. However, CVC participation rates as a percentage of all VC deals remain near all-time highs.

4.

Leading deals is becoming less common, especially for younger funds.

New CVCs saw a 23-point drop in the percentage of funds that lead deals since 2021. For mature CVCs, however, 74% reported leading deals, down just nine percentage points from 2021. While 90% of bellwethers still lead deals — down just five points from 2021 — lower levels of deal leadership are seen across the board.

5.

Growing scrutiny from corporate parents.

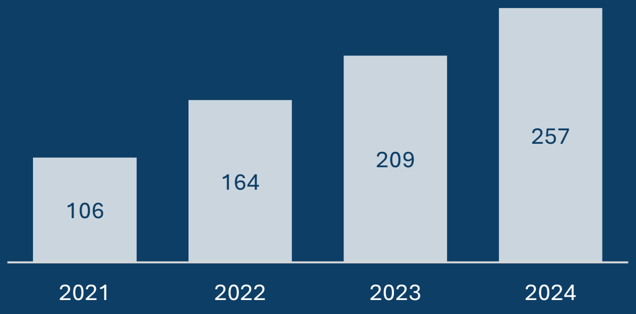
The last four years of data show a trend toward generally greater scrutiny — for example, the percentage of funds that can skip investment committee (IC) review below a certain investment threshold fell from 38% in 2021 to just 19% in 2024.

Source: CVC survey, PitchBook Data, Inc. and SVB analysis.

About the Report and CVC Survey

Survey Respondents Categorized by Their Strategic Focus, Maturity and Status as a Bellwether Fund

Survey Participation by Year

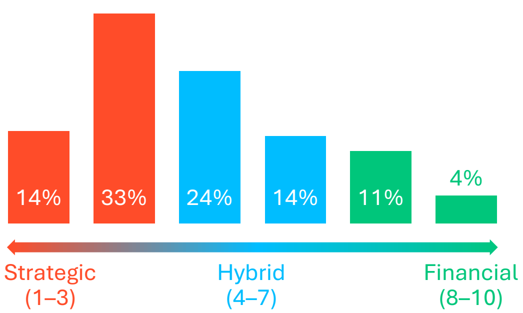


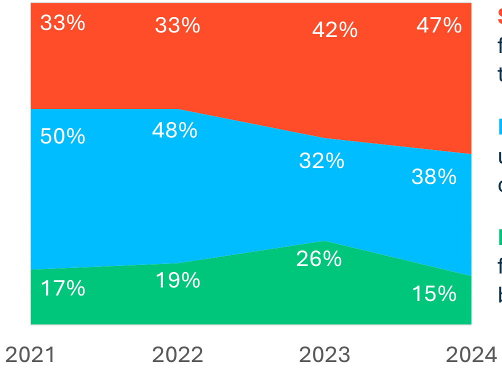
257 representing **27%** of all active global CVCs, up from 209 last year[1]

~$11B in annual investment

~8,000 active companies in their portfolios

Spectrum of CVC Fund Strategic Focus by Survey Respondents[2]





Strategic: 47% of funds invest for insight or value-add related to the corporate parent's goals.

Hybrid: 38% of funds are a uniquely defined balance of strategic and financial.

Financial: 15% of funds consider only financial gain, a signal that CVC funds can behave more like traditional VC funds.

Spectrum of CVC Fund by Maturity[3]

Newbie: 50% of funds are just beginning their journey in CVC.

Middle: 38% of funds have been active for a few years and have gained some experience in the CVC space.

Mature: 12% of funds are well-established and have a track record of successful investments in the startup ecosystem.

30 Bellwether Funds

The **CVC Bellwether Cohort** sets the bar for best practices.

While individual firms are not disclosed, these 30 elite CVCs were generally selected **based on three criteria:**

Fund Size
$500M+ AUM

Deployment
$100M+ per Year

Reputation
in CVC Community

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Notes: 1) PitchBook Data, Inc. as of 9/5/2024. Active is defined as having made at least two deals over the last 12 months. 2) Based on survey question. Firms were asked if they are focused on strategic or financial returns. Firms self-report on a scale from 1-10. 3) Firms self-report one of three maturity options — not based on firm age.
Source: CVC survey, PitchBook Data, Inc. and SVB analysis.

Market Overview

Investment Low, Participation High

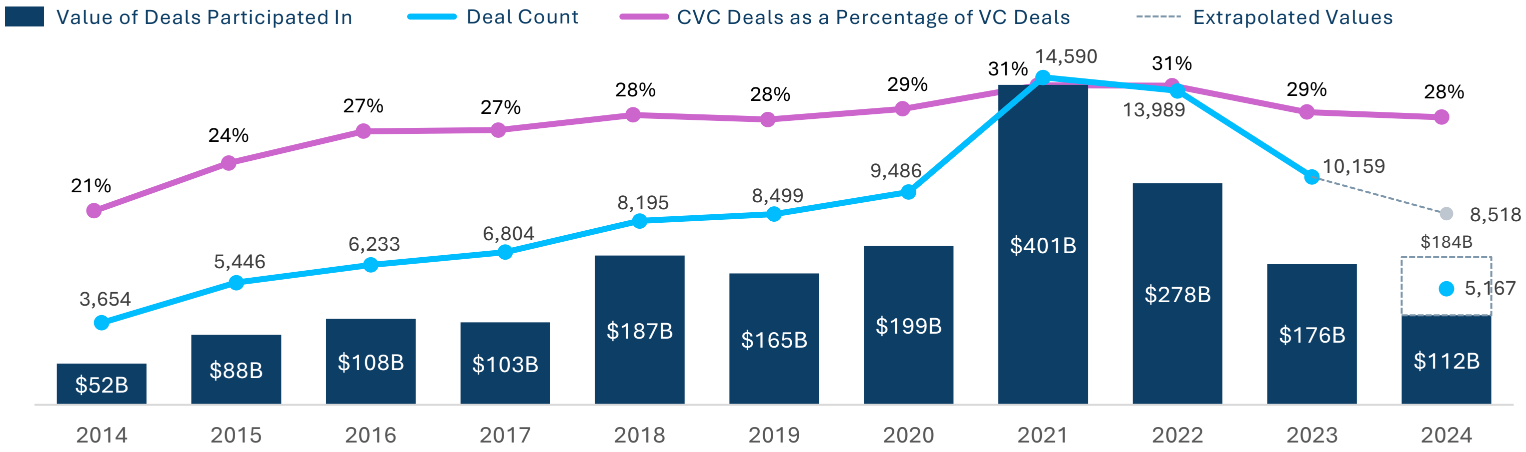
The CVC market has undergone significant changes over the past year, reflecting broader trends in the innovation economy. This year, investment in venture deals with CVC participation is on track to be $184B, an increase from last year's value, while deal volume is projected to fall slightly to just over 8,500. This downturn in deal count highlights a cautious investment climate influenced by rising interest rates and macroeconomic uncertainties.

Despite the overall decline in CVC deal volume, early-stage investments have gained traction, accounting for 86% of all CVC deals in 2024. CVCs are increasingly targeting pre-seed to early-stage opportunities, allowing them to build closer relationships with emerging companies. **This focus acts as part of CVCs' sensor function, enabling them to identify and nurture promising innovations from the start.** This shift toward earlier-stage investing is particularly relevant given the current challenges startups encounter in securing Series A funding.

The current state of the CVC market reflects a broader recalibration within the innovation economy. In fact, despite the pullback, **CVC participation rates remain high — today CVCs invest in 28% of VC deals globally.** While top-performing companies, especially in the AI sector, continue to attract significant investment, many others are struggling to secure funding.

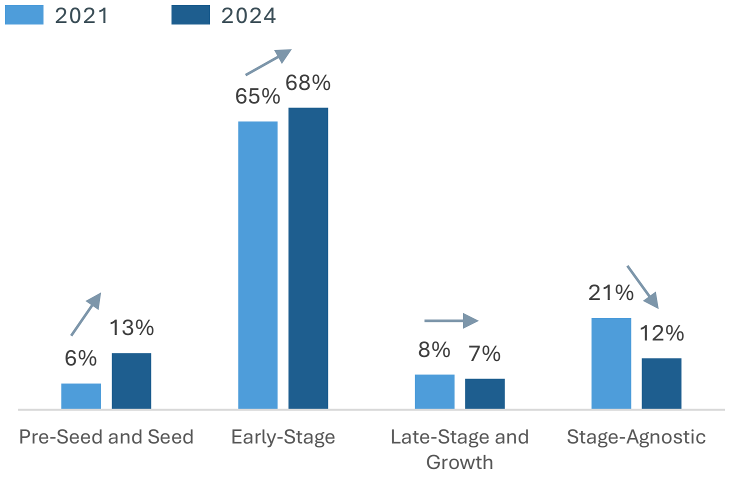
CVC Deals and Dollars Continue to Drop Off From 2021 Highs[1]

CVC Deals, Total Size of Deals With CVC Participation and CVC Deals as a Percentage of All VC Deals



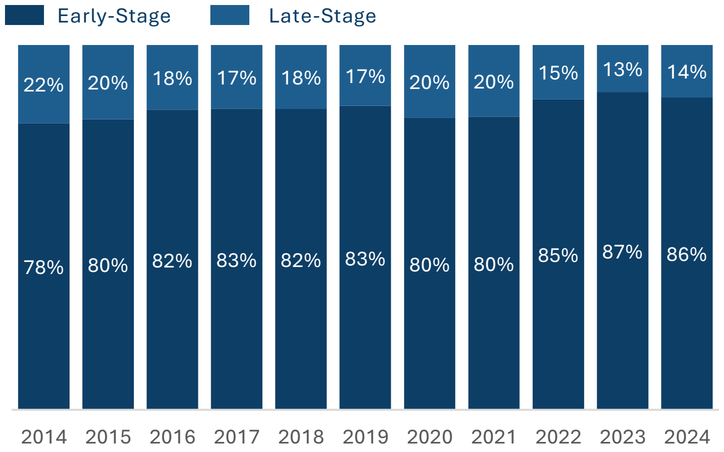
More Funds Target the Earliest Stages[2]

Percentage of Funds That Target Each Stage



Early-Stage Deals Fall Slightly in 2024[3]

Share of CVC-Backed Deals by Stage



Notes: 1) CVC-backed deals and dollars as of 8/9/2024. CVC deal count and value as a percentage of VC deal count and value as of 8/9/2024. Dotted lines show 2024 projections. 2) Percentage of CVC funds that target each stage. 3) Early-stage is defined as seed, Series A and B; late-stage is defined as Series C and beyond. Data as of 8/22/2024.

Source: PitchBook Data, Inc. and SVB analysis.

Is CVC-Backed Better?

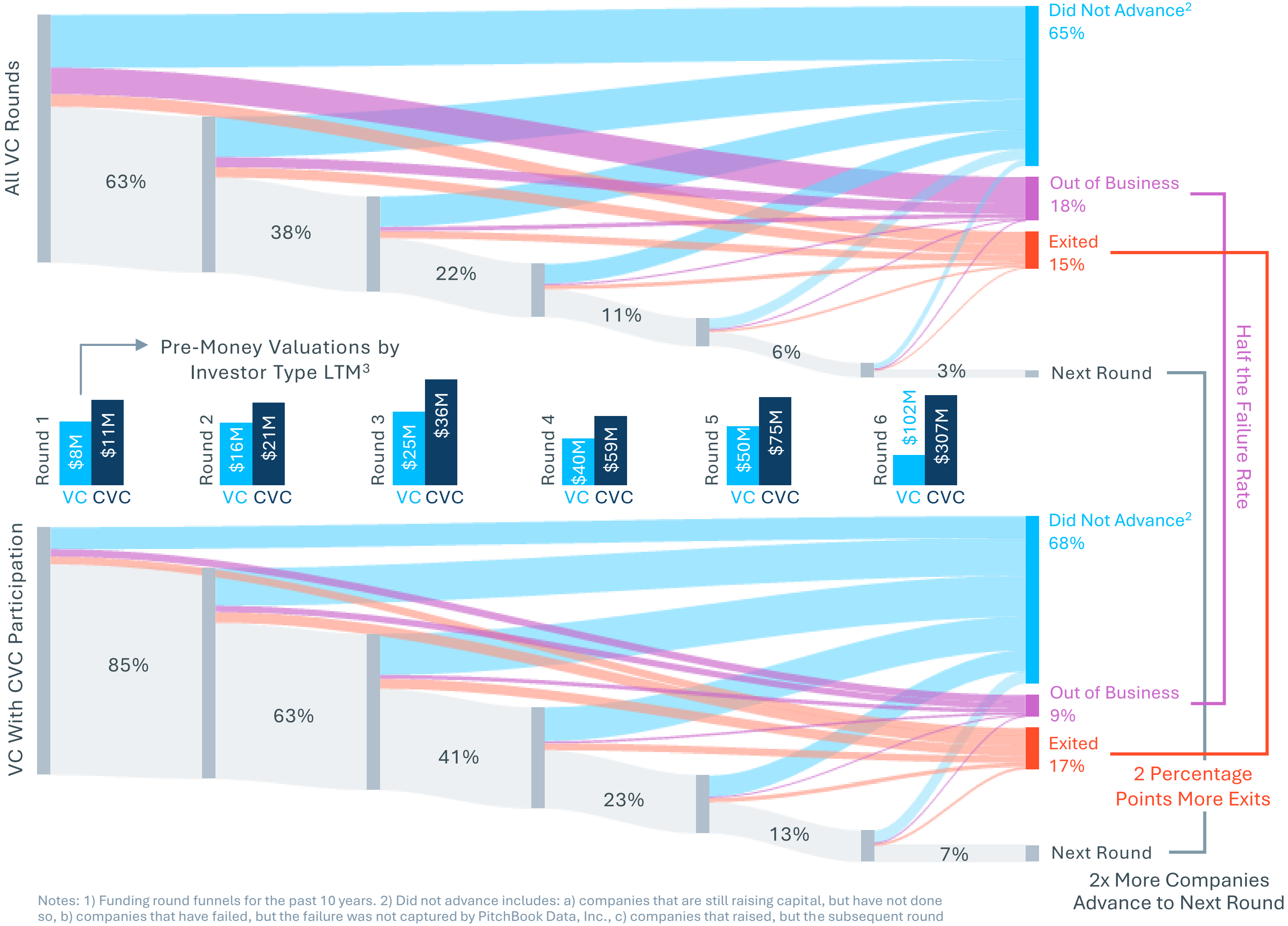
CVC-backed companies have shown resilience in a challenging investment landscape, with valuations slightly outperforming those of VC-backed companies after each funding round. But CVC-backed companies do perform better.

Despite challenges in the venture market in 2023, such as reduced investor risk appetites and fewer exit opportunities, **CVC-backed startups have demonstrated durability.** Graduation rates for CVC-backed startups are twice as high as those for their VC-backed counterparts, which has contributed to a failure rate that is half that of purely VC-backed startups.

Higher success could be attributable to quantifiable value-add that CVCs provide, which translates to higher graduation rates. CVCs provide channel partners, early customers and extensive technical and research capabilities. **The support of CVCs is vital as many startups in today's environment face lower runway, tougher fundraising cycles and depressed exit markets.**

CVC: Higher Valuations, More Exits, Fewer Failures, More Companies Advance to Next Round

Startup Outcomes by Investor Type Over Past 10 Years[1]



Notes: 1) Funding round funnels for the past 10 years. 2) Did not advance includes: a) companies that are still raising capital, but have not done so, b) companies that have failed, but the failure was not captured by PitchBook Data, Inc., c) companies that raised, but the subsequent round was not captured by PitchBook Data, Inc., or d) companies that reached profitability and do not need to raise and have not exited. 3) Median valuations for CVC- and VC-backed companies, last 12 months as of 8/28/2024.

Source: PitchBook Data, Inc. and SVB analysis.

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AI Top Priority for CVCs

CVCs are obsessed with AI and are putting their money where their mouth is.

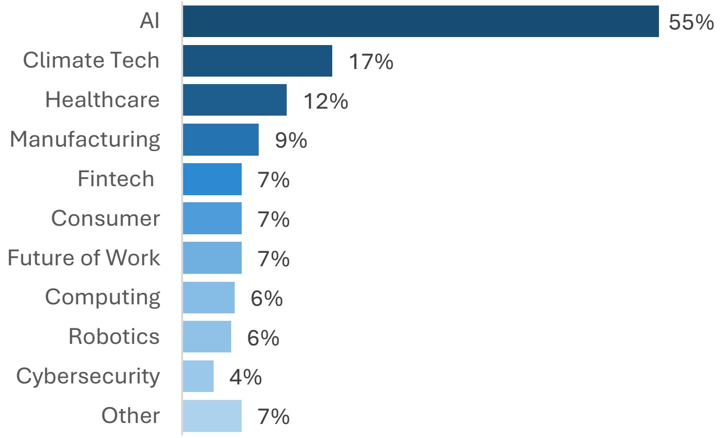
In a free-response question, over half of CVCs call out AI as among the most exciting tech trends. It continues to be an important topic in conversations across the industry — in terms of both investment and implementation within CVCs' own organizations. In 2024, nearly 30% of CVC deals involved AI, and CVCs are consistently doing more deals in AI as a percentage of their total deals, compared to VC overall.

This is part of CVCs' overall focus on technology as a broad vertical. In some sense, it is not surprising that the vast majority of CVCs focus on investment in the tech sector. **A key role of CVCs is as the sensor function for the parent organization**. Investing in tech addresses this by providing the parent with a window into emerging trends and innovation in the industry.

Despite a tense geopolitical landscape, there is some remarkable consistency in trends. From a geography standpoint, CVCs remain largely focused on the same key markets despite trade tensions, on-shoring trends and armed conflict. **Asia continues to be the largest market for CVC investment, accounting for 39% of all deals.** Asian investment is primarily driven by China, which accounted for 38% of the region's deal activity in 2024, but this has fallen from 49% in 2023.

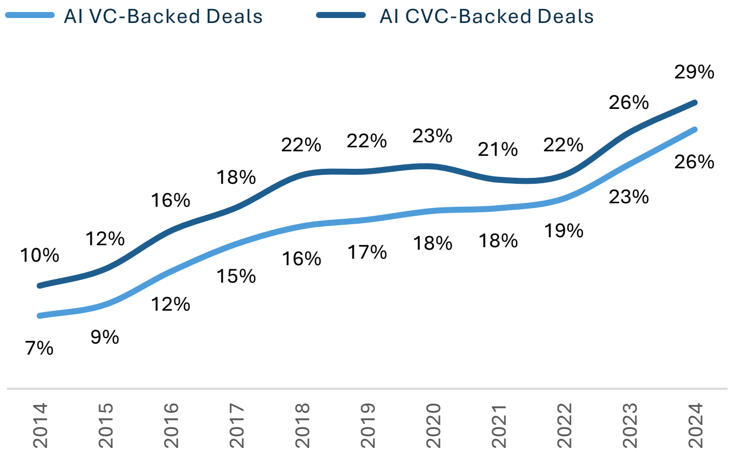
CVCs Are Obsessed With AI[1]

Percentage That Chose Each as Most Exciting Tech Trend



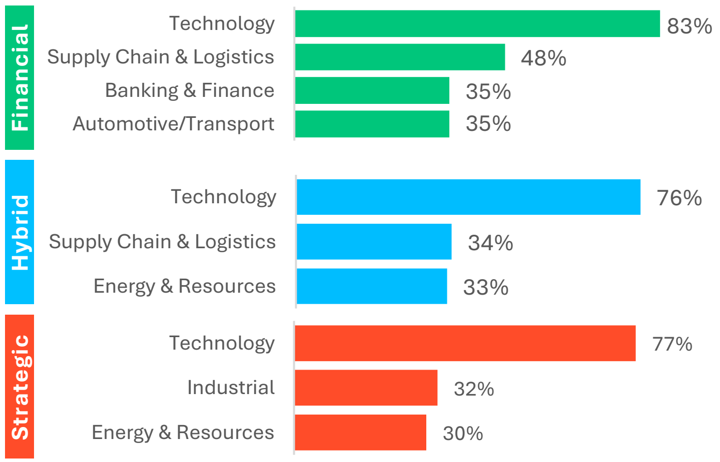
CVC-Backed AI Deals Outpace VC-Backed[2]

Percentage of CVC-Backed AI Deals vs. VC-Backed AI Deals



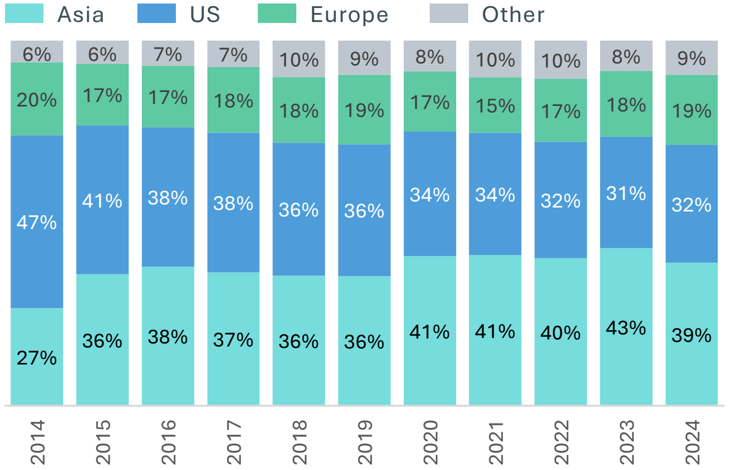
Tech Is the Main Investment Vertical[1,3]

Percentage of CVCs That Invest in Each Industry, Top 3



CVCs Focus on Asia and the US[4]

Percentage of Deals in Each Geography



Notes: 1) Summarized from a free-response question. AI includes AI and machine learning (ML). Climate includes energy-related responses. Healthcare includes biotech. Manufacturing includes materials and construction. Consumer includes retail and food. Computing includes quantum. 2) AI companies with CVC and VC backing as of 8/5/2024. US HQ companies only. 3) Industrial includes manufacturing, chemical and agriculture. 4) HQ of deal company that CVCs have invested in globally as of 7/312024.

Source: PitchBook Data, Inc., CVC survey and SVB analysis.

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Mandate and Managing Dependency

CVCs: The Parent's Eyes and Ears

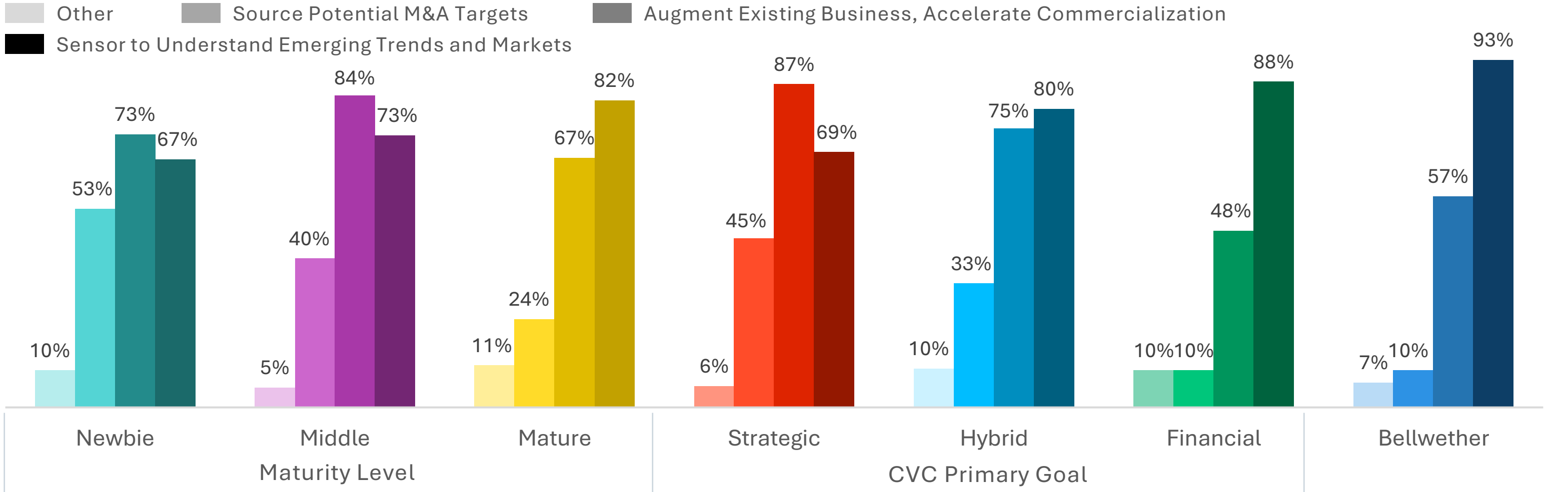
CVCs act as the eyes and ears of an organization, seeking to understand emerging trends in the parent company's industry.

This is especially true for financial and bellwether CVCs, which generally have less interest in strategic alignment with the parent's core business. These groups also tend to have the largest scope, investing across more verticals than their peers and gaining broader exposure to the market. Mature CVCs resemble financial and bellwether CVCs in this regard, suggesting that **CVCs become somewhat more focused on gaining market intelligence as they age.**

Strategic and newbie CVCs, meanwhile, tend to focus more on augmenting the parent's core business. This can be in the form of seeking partnerships to help accelerate commercialization or sourcing potential M&A targets. As a result, they are constrained to the verticals in which the parent operates. **Strategics invest in approximately three fewer verticals than financial CVCs;** the difference between newbies and mature CVCs is even greater, at approximately four fewer verticals, as mature funds have had time to invest more broadly.

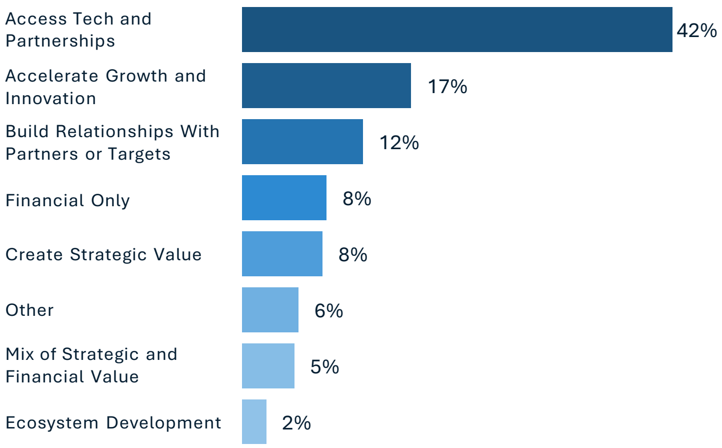
CVCs Focus on Sensor Function[1]

Percentage of CVCs With Each Key Goal That the Executive Sponsor Aims to Achieve



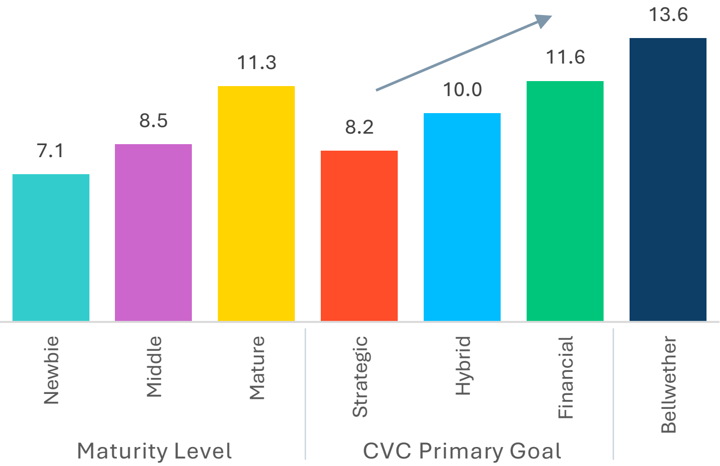
CVCs Provide Access to Innovation[2]

Share of CVCs by Most Important Reason the Fund Exists



Bellwethers Have Broadest Scope[3]

Number of Verticals Invested In by CVC Type



Notes: 1) Respondents could choose more than one answer. 2) Categorized based on free-response answers. 3) Out of 58 total verticals. Respondents could write in a different vertical; in this case, "other" counts as just one vertical.

Source: CVC survey and SVB analysis.

Metrics: Cash Is Not Always King

When it comes to metrics, more is more.

CVCs report a variety of metrics to senior management at the parent company — from traditional VC fund metrics, such as IRR and exit count, to engagement metrics, such as number of business unit (BU) partnerships or impact of BU projects with portfolio companies. However, there is a difference in reporting depending on the CVC's maturity and goals, particularly when it comes to financial metrics. **As a CVC matures, it is more likely to report traditional VC metrics — a reflection of increased sophistication and investment holding times.** When CVCs gain more experience, they develop more infrastructure for calculating return metrics, such as IRR.

Besides financial metrics, executive sponsors appreciate a wide range of strategic KPIs to judge the CVC's performance. **Collaboration with BUs is top of the list.** This reflects a key goal for many CVCs of augmenting existing BUs' innovation and production efforts. Other metrics — such as insights on the market, size of funnel or amount deployed — speak to the sensor function of CVCs. With larger funnels and more deals come more companies met and diligenced, leading to strategic learnings for the parent.

Focus on Financial and Deployment Metrics[1, 2]

Percentage of CVCs That Report Each Annual Metric To Senior Management

	Newbie	Middle	Mature	Strategic	Hybrid	Financial	Bellwether
Traditional VC Fund Metrics	48%	74%	87%	62%	86%	95%	90%
Capital Deployed	64%	45%	44%	44%	56%	32%	48%
Strategic Engagement	44%	50%	42%	51%	50%	22%	34%
P&L Impact	16%	14%	16%	16%	17%	8%	7%
PortCo Health	24%	15%	13%	18%	14%	11%	3%

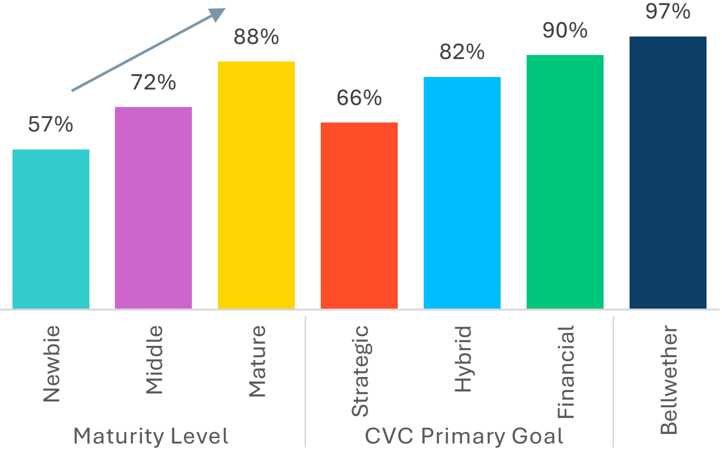
Sponsors Like To See BU Collabs[1]

Rank of Strategic KPIs Appreciated by Exec Sponsor

1	Collaboration With the BUs
2	Revenue Generated or Cost Saved
3	Financial Returns (IRR, etc.)
4	Insights on the Market
5	Size of Funnel or Amount Deployed
6	Progress of the Portfolio Company
7	Strategic Value (Generic)
8	Meeting Potential M&A Targets
9	Public Relations or Visibility
10	PortCo Capabilities Deployed In House

Metric Sophistication Comes With Maturity

Percentage That Have the Proper Infrastructure To Calculate IRR



Notes: 1) Categorized based on free-response answers; some answers were grouped into more than one category. 2) Traditional VC fund metrics include IRR, TVPI, exit count, etc. Capital deployed also includes pipeline metrics such as number of companies diligenced. Strategic engagement includes metrics related to strategic learnings, projects or partnerships. Profit and loss (P&L) impact includes revenue growth or cost savings to the parent. PortCo health includes portfolio company – related financial or growth metrics.

Source: CVC survey and SVB analysis.

CVCs Navigate Parental Controls

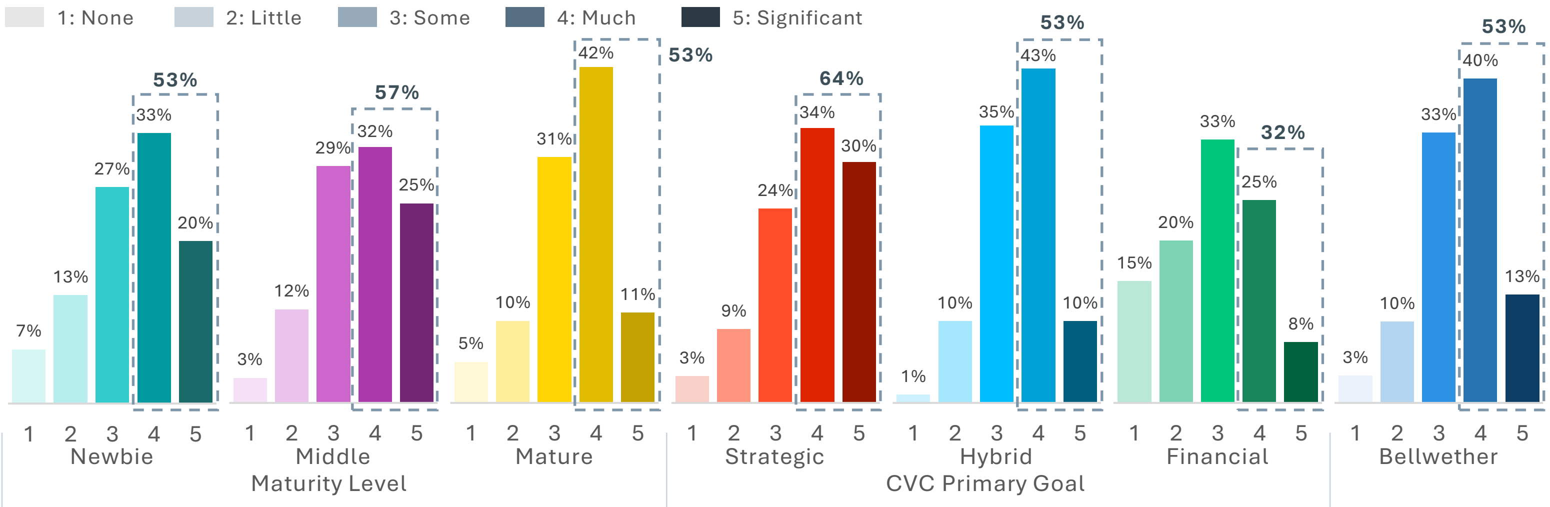
Staying close to parents has some real benefits.

At first, it may seem that older CVCs would have a better-established brand and therefore rely less on the reputation of the parent company when competing for deals. In fact, **mature and bellwether CVCs are just as likely as newbies to rely on the parent's logo** to win deals. This is somewhat surprising, as bellwethers often shy away from the CVC categorization, preferring instead to be seen as independent investors, capable in their own right. The survey data suggests instead that these CVCs can play both sides, balancing pursuing independence on one hand and capitalizing on the parent's brand on the other.

The trend continues when it comes to BU involvement in diligence efforts. While mature CVCs are more likely to report that BUs have minimal involvement, they still often rely on BUs for significant due diligence (DD) efforts. This is a benefit for CVCs when competing for deals. **BUs bring technical expertise to help the investment syndicate assess the strength of the potential portfolio company.** Financial CVCs are the one outliers in these trends, as they rely far less on the parent organization both in terms of the parent's reputation and the BUs' expertise.

Strategic CVCs Rely Most on Parent's Brand

Share of CVCs by Level of Reliance on Parent Company's Logo To Win Deals



BUs Often Contribute to Diligence Efforts, Except Among Financial-Focused CVCs[1]

Percentage of CVCs by the BU's Role in Diligence and IC Approval Process

	Newbie	Middle	Mature	Strategic	Hybrid	Financial	Bellwether
Do Significant DD	40%	33%	38%	39%	36%	25%	27%
Sponsor Deals	17%	22%	12%	26%	14%	0%	10%
Vote On or Approve Deals	20%	20%	15%	22%	17%	10%	17%
Advise or Ad Hoc Work	13%	15%	14%	7%	20%	23%	20%
None/Minimal	7%	11%	27%	7%	17%	43%	37%

Notes: 1) "Do significant DD": CVCs have BUs take an active role in DD or validating strategic fit. "Sponsor deals:" CVCs require BUs to sponsor deals before investment. "Vote on or approve deals": CVCs have BUs vote with the IC or require the BU to express interest. "Advise or ad hoc work:" CVCs have BUs serve as a sounding board or take on roles on a case-by-case basis. "Other" are not included. Some had multiple answers. Summarized from free responses.

Source: CVC survey and SVB analysis.

Executive Buy-In: The CVC's Lifeline

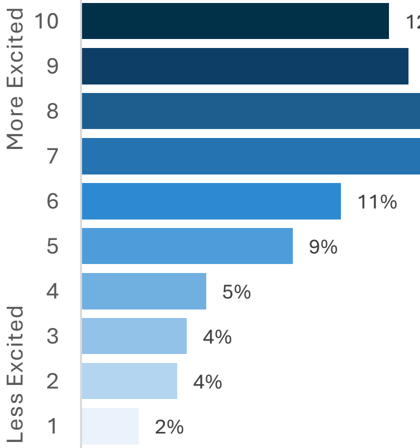
Any disconnect between the CVC team and its corporate sponsor can stall and ultimately break a CVC fund.

Executive support is crucial for fund survival, from capital commitments to internal advocacy for the fund. While a lot more mature CVCs enjoy enthusiasm from their executives, newbies can struggle to get execs on board. One reason for this is misaligned expectations around timelines. **Successful startups can take 7-10 years to exit, far beyond the short-term corporate performance timelines.**

Working with exec sponsors early can be helpful. Research by Ilya Strebulaev and Amanda Wang of Stanford University confirms that many CVCs believe that their execs don't understand VC and its norms and that "educating them…is a constant struggle, compounded by frequent turnover of parent executives." Indeed, **when C-suite changes occur, CVCs are often placed in the crosshairs.** Execs with different strategies or remits can turn resources away from CVCs in favor of other organizational priorities. With far fewer private tech companies finding an exit in recent years, CFOs may view the CVC fund as a luxury the corporation can live without when the business is trading poorly.

Financial, Bellwethers Get Most Excitement

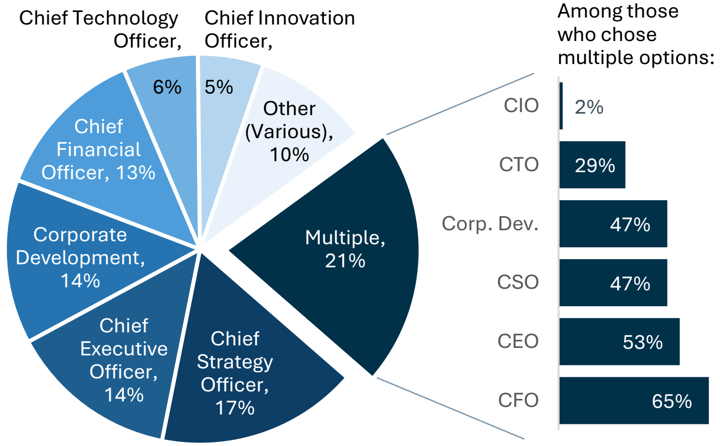
Distribution of Executive Sponsor's Level of Excitement on CVC



Average Score by Group	
8.2	Financial
7.9	Bellwether
7.5	Mature
7.2	Hybrid
6.7	Middle Maturity
6.3	Strategic
6.3	Newbie

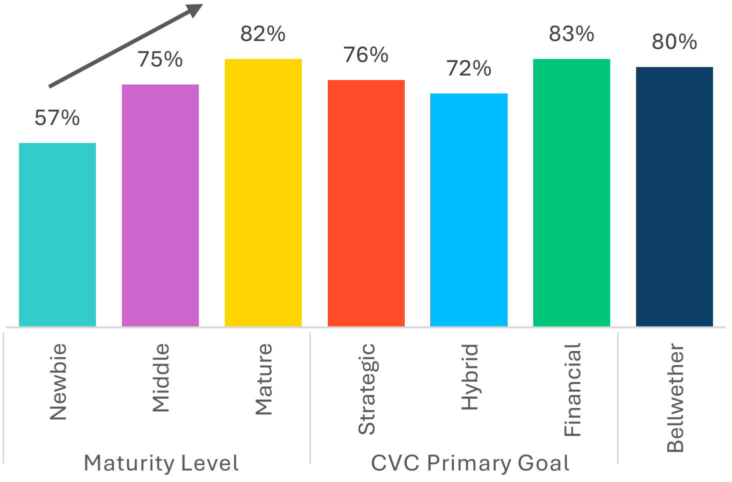
CVCs Have Diverse Reporting Lines[1, 2]

Whom the CVC Reports To at the Parent Organization



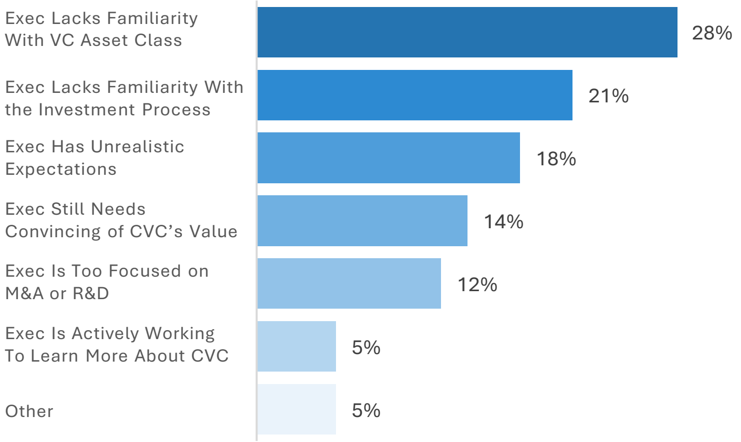
Excitement Could Be Tied to VC Knowledge

Share Who Think the Exec Sponsor Understands VC and Its Norms



Common Reasons Execs Don't Understand

Perceived Reasons Exec Sponsors Do Not Understand VC[1, 2, 3]



Notes: 1) Summarized from free responses to question. 2) In some cases, responses were counted in two categories, leading to the sum of all categories being more than 100%. 3) Among those who think the exec sponsor does not understand VC and its norms.

Source: Ilya Strebulaev and Amanda Wang, "Organizational Structure and Decision-Making in Corporate Venture Capital" (2021), CVC survey and SVB analysis.

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CVCs Stick to the Balance Sheet

As the VC market has cooled, the parent is left holding the purse strings.

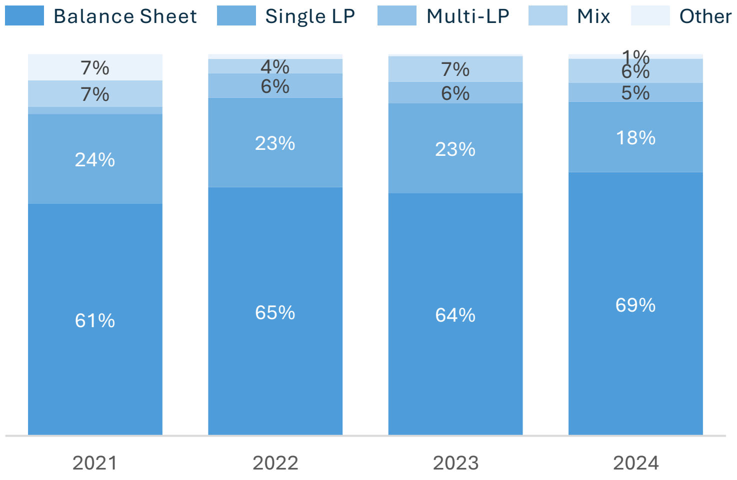
This year, CVC investment is slated to be just 46% of its 2021 peak levels. At the same time as this decrease, **CVCs — particularly strategics — are increasingly reliant on corporate balance sheets for investment capital.** This creates dependency risk, as the brakes can be tapped based on corporate budget, executive fatigue or corporate reorganization, rather than for CVC performance issues.

About one-fifth of survey respondents noted that they are considering moving off balance sheet. Among that group, there are a wide variety of reasons why. Two-thirds are seeking more independence from the corporate parent; roughly 60% are hoping to broaden their investment scope or recalibrate compensation figures.

Still, **moving off balance sheet is easier said than done.** Among the 19% that are considering moving off balance sheet this year, most face significant challenges. Further, among those who expressed an interest to move off balance sheet in the 2023 survey, all of them are still investing using the balance sheet, according to this year's study.

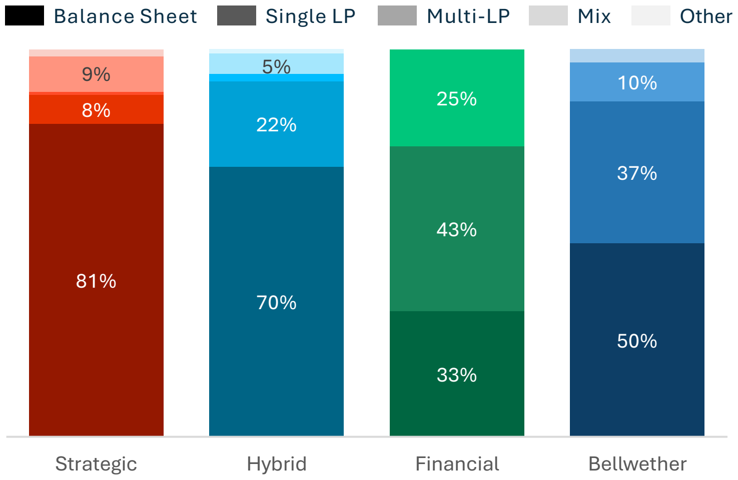
Balance Sheet Investing Trends Upward

Percentage of CVCs by Source of Funds for Investments



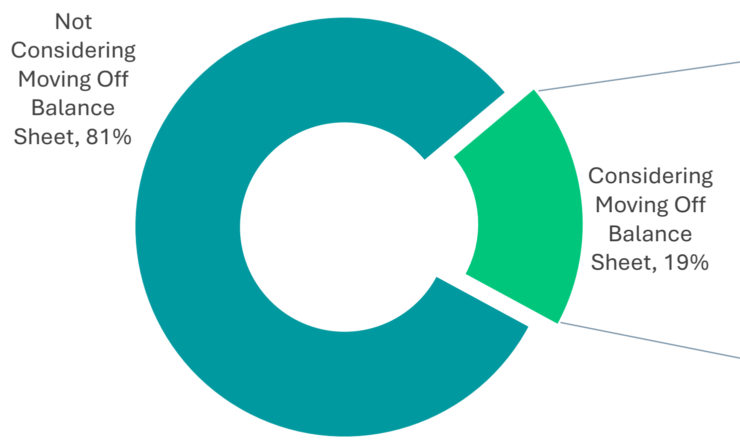
Balance Sheet Funds for Strategic Investing

Percentage of CVCs by Source of Funds for CVC Investments



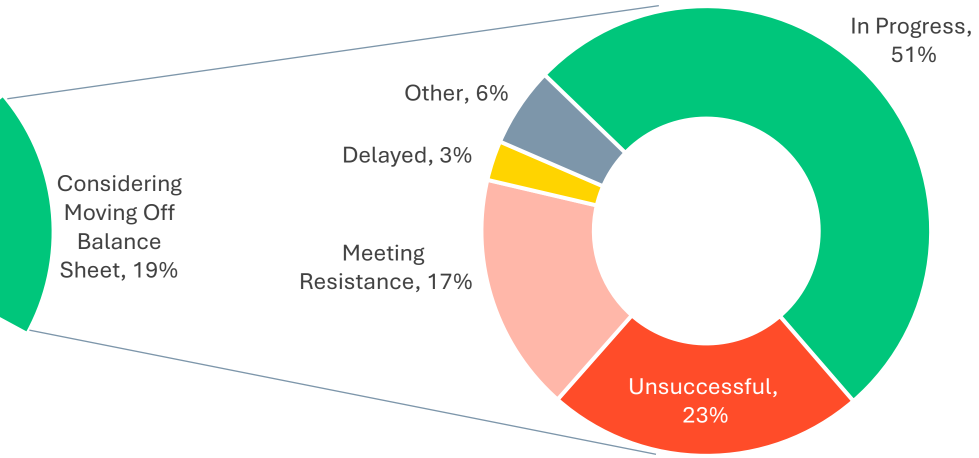
Few Considering Moving Off Balance Sheet

Response From CVCs That Currently Invest Using Balance Sheet



Among Those That Are, Progress Is Hard

Status of Efforts To Move Away From Balance Sheet Investing



Source: CVC survey and SVB analysis.

Disentangling Dependency

Organizational structure can have a big impact on dependency risk, defined as the potential downsides of a CVC's reliance on its parent.

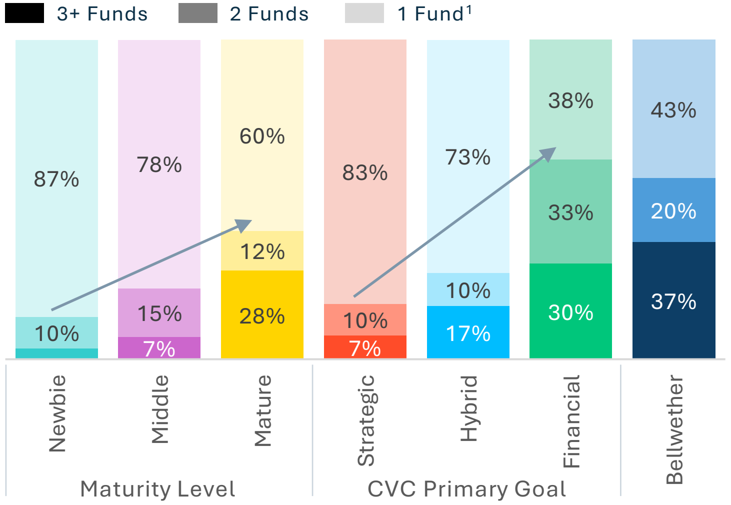
There are a variety of ways to mitigate dependency risk. Top among them are emphasizing strategic or financial returns to the parent, focusing on communication with the parent or getting outside capital for a more independent structure.

However, some don't see dependency as a big issue. These CVCs accept that they must be closely aligned with the parent to accomplish their goals of gaining insights or providing strategic value to the broader organization.

In fact, the second most popular response to a question about how CVCs mitigate dependency risk was "nothing." Those in this group felt that they were already closely aligned and were either unaware of the dependency risk or viewed the close alignment as positive for the CVC.

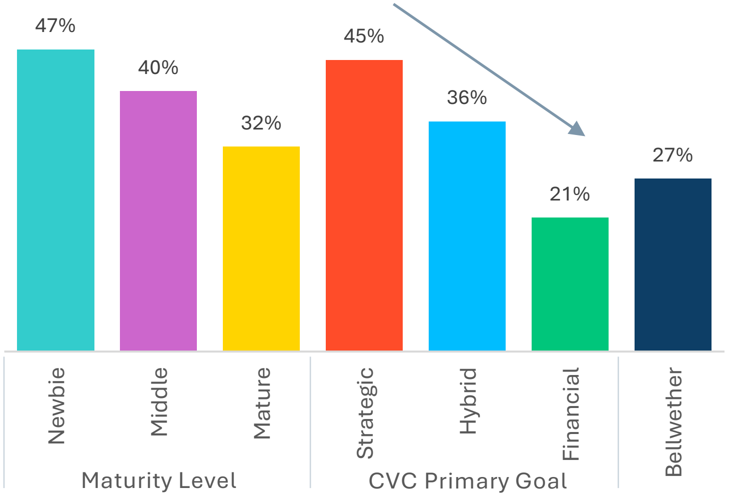
Mature, Financial CVCs Have More Funds

Percentage of CVCs by Number of Funds the Corporation Has



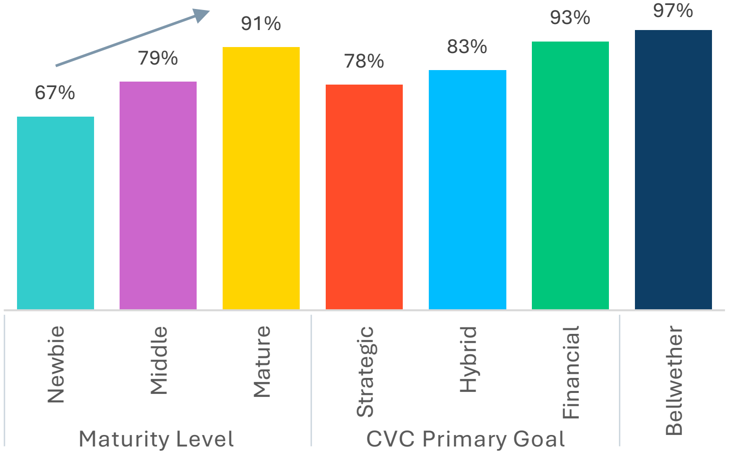
PortCos Often Have Contracts With Parent

Percentage of PortCos With Commercial Contracts With Parent



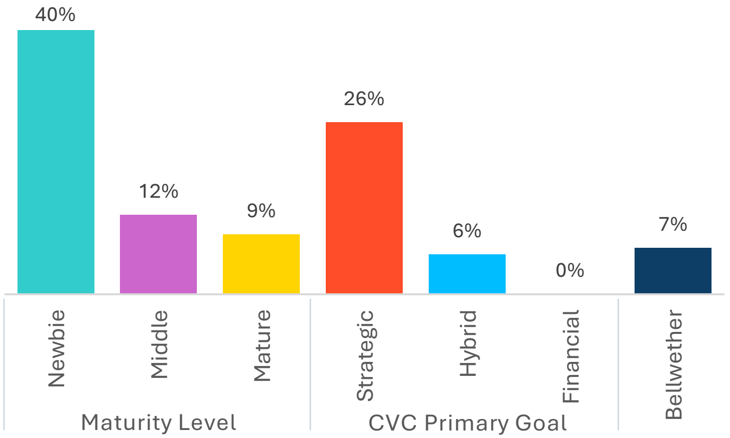
CFOs Really Matter to Some Funds

Percentage of Funds With a High Probability of Survival If CFO Leaves by Goal and Maturity



New Funds Need Commercial Agreements

Percentage of Funds That Need Commercial Agreements Before Investing by Maturity and Goal



Notes: 1) Count includes CVCs that reported "zero" funds but still invest.
Source: CVC survey and SVB analysis.

Investment Approach

Corporate Caution: Investment Slows

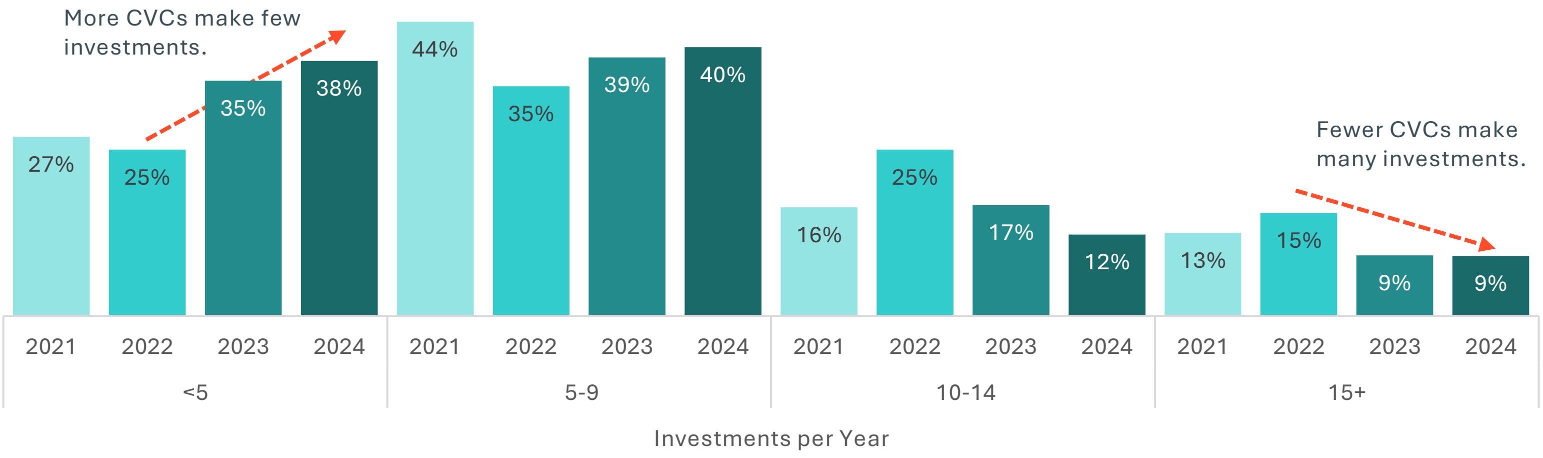
Mirroring a broader decline in the VC ecosystem, more CVCs are making fewer than five investments per year today than in the past. In 2024, 38% of CVCs made fewer than five investments per year, up from just 25% in 2022.

Unlike VCs, CVCs don't face the same pressure from LPs to deploy capital. In traditional VC funds, LPs often pay a management fee (even when funds are not investing) and have to hold liquid reserves; they therefore may put pressure on VCs to deploy capital. CVCs, on the other hand, don't face the same dynamic from their corporate parents, making it easier for them to slow their investment pace to a trickle. Further, this survey likely misses funds that have gone completely dormant as a result of the current environment, which could mean we don't see the full scale of dormancy risk.

Not only are funds making fewer investments, they are taking longer to make them. The percentage of funds closing investments in less than 30 days has fallen by half since 2021, as the market has cooled and the mad rush to deploy capital has dissipated. That said, there are major differences between fund strategies. Strategics are generally much slower in their diligence process, given most must engage the business and get buy-in.

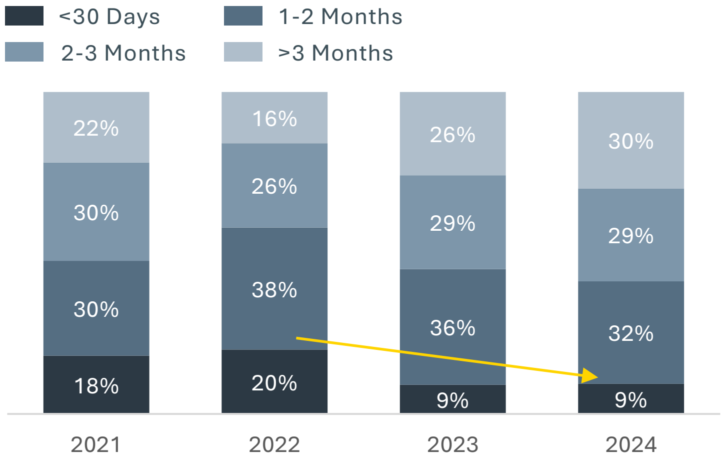
Dormancy Risk Lingers

Distribution of Investments per Year Over Time



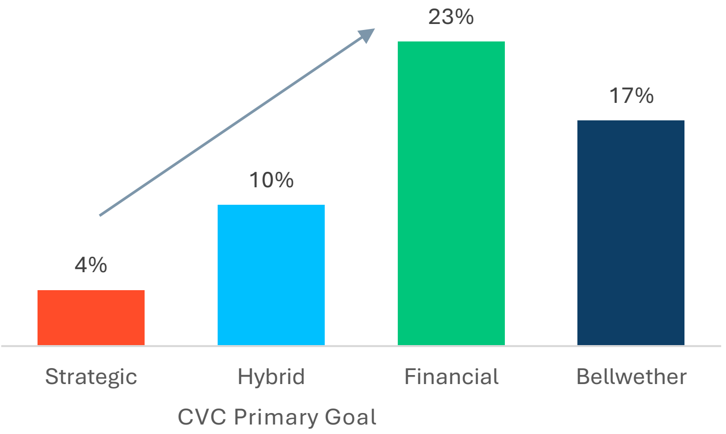
Diligence Pace Is Slower Today

Distribution of Time from First Meeting to Investment



Financial CVCs Get to "Yes" Fastest

Percentage of CVCs That Make Investments in <30 Days From First Meeting



Source: CVC survey and SVB analysis.

Fewer Leaders But More Ownership

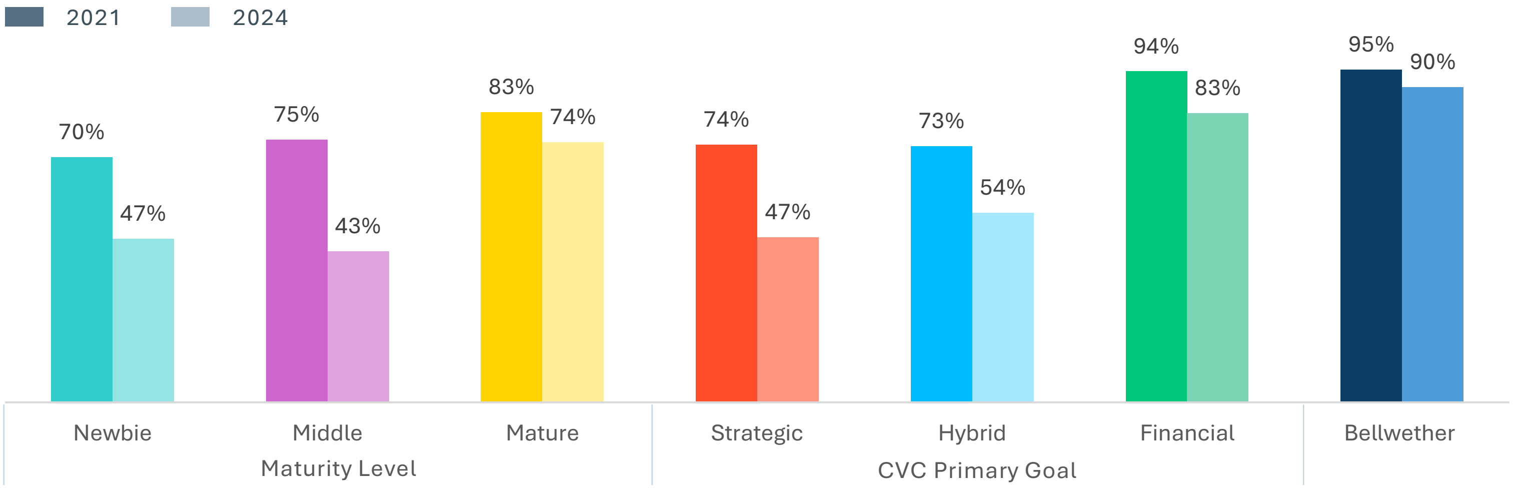
CVCs have not taken a back seat when it comes to the percentage of VC deals that they take part in. However, this is particularly true among strategic funds, which witnessed a 27-percentage-point decline between 2021 and 2024 in the share of funds leading deals. This is compared to a 11-percentage-point drop in financial CVCs and just a 5-percentage-point decline among bellwethers.

Surprisingly, while fewer funds focus on leading deals, ownership targets have increased in 2024. **Over half of all CVC funds increased their target ownership percentage this year.** This follows a three-year slide in target ownership percentages. With startup valuations reaching a market bottom and beginning to recover, CVCs seem to be capitalizing on low valuations with higher ownership.

Target ownership stands at just over 10%, but the actual ownership funds acquire is slightly lower — at just 9%. On average, 25% of CVCs miss their ownership target, but that number is higher for financial funds (36%) and lower for strategics (19%). **Despite having target levels that are similar to those of financial CVCs, strategics likely have a higher success rate, as they can differentiate themselves through their strategic value.** In many cases, founders will choose strategics for this reason, whereas financial funds compete with traditional VCs.

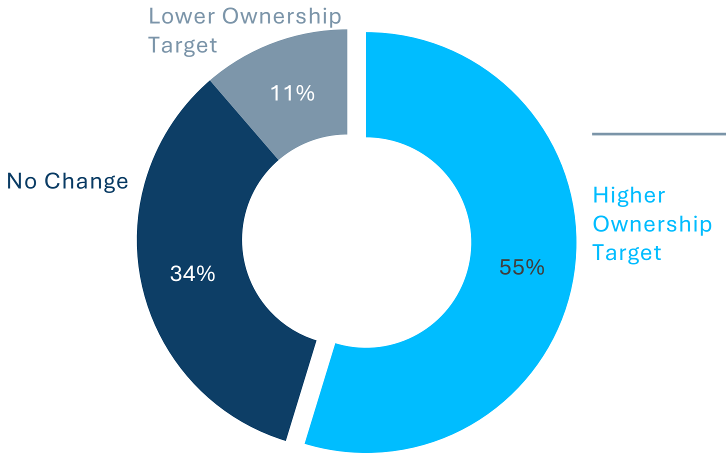
Fewer Funds Lead Deals Today, and Established Funds Lead the Most Deals

Percentage of CVCs That Lead Deals by Maturity and Goal



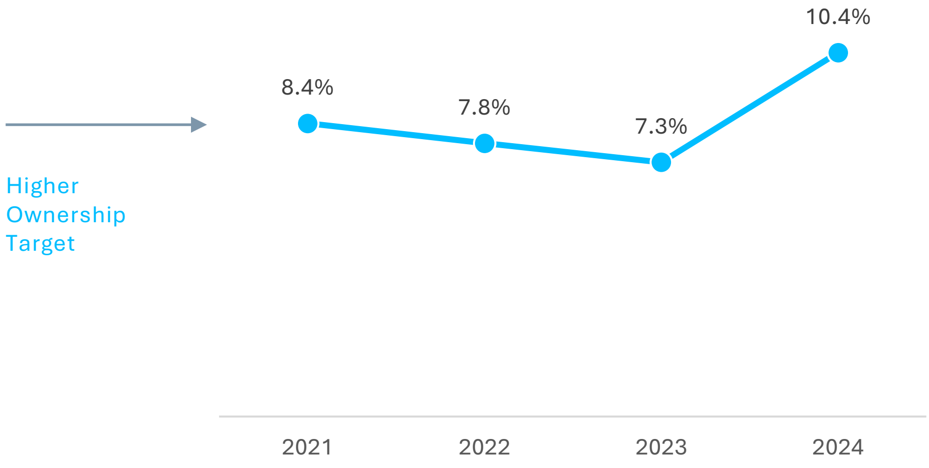
Most CVCs Target Higher Ownership

How Ownership Targets Changed Since 2023[1]



Target Ownership Has Jumped in 2024

Average Target Ownership for CVC Funds[2]



Notes: 1) Based on funds that filled out the survey in 2023 and 2024. 2) 2021-2023 surveys asked target and actual ownership in one question; 2024 survey asks them as separate questions — both actual and target ownership trend up in 2024.

Source: CVC survey and SVB analysis.

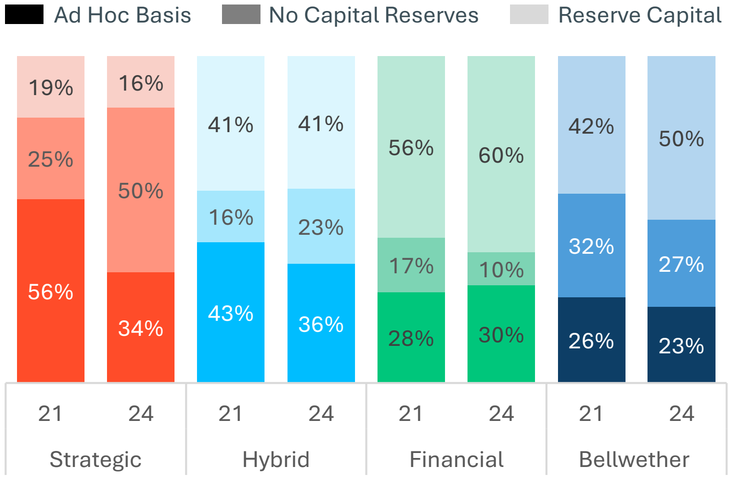
Financial Funds Follow-On

Fund strategy has a significant impact on follow-on investing. Strategic CVC funds may offer strategic value to portfolio companies in the form of contracts with the parent or industry expertise, but they don't always make great long-term capital partners. In 2024, **half of all strategic CVCs do not hold capital reserves for follow-on investments — this is up from just 25% in 2021**. At the same time, fewer strategic funds are taking an "ad hoc" approach to reserves, indicating that they are becoming more sophisticated in their approach. At the other end of the spectrum, **financial funds have doubled down on their commitments to follow-on investing — 90% of all financial CVCs reserve capital or keep capital reserves on an ad hoc basis.**

This highlights a core difference in CVC strategies. While financial funds are interested in maintaining their ownership stake, strategic funds benefit most from the relationships with startups and the visibility into tech trends that come from those relationships. This also makes sense in the context of fund sizes — strategic funds generally skew smaller compared to financial funds, meaning that strategics have less capital available for follow-on investing. Furthermore, in the current environment, 22% of funds have seen fund sizes shrink. As a result of these dynamics and a tougher economic cycle for VC-backed companies, **over one-third of CVCs say that follow-on investment has gotten harder**.

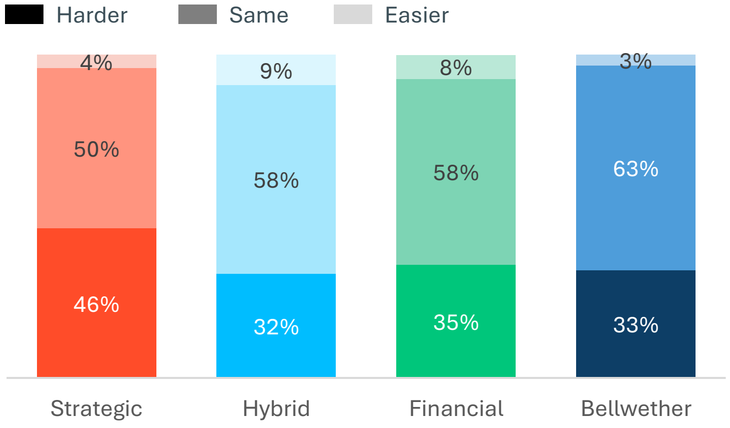
Strategic Firms Say "No" to Capital Reserves

Percentage of CVCs That Reserve Capital for Follow-On Investment



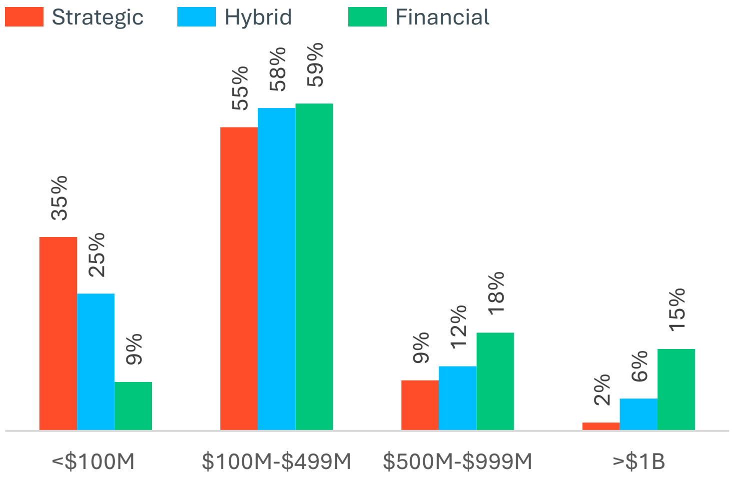
Follow-On Is Getting Harder

How the Current Environment Has Impacted Follow-On Investing: Distribution of CVC Responses



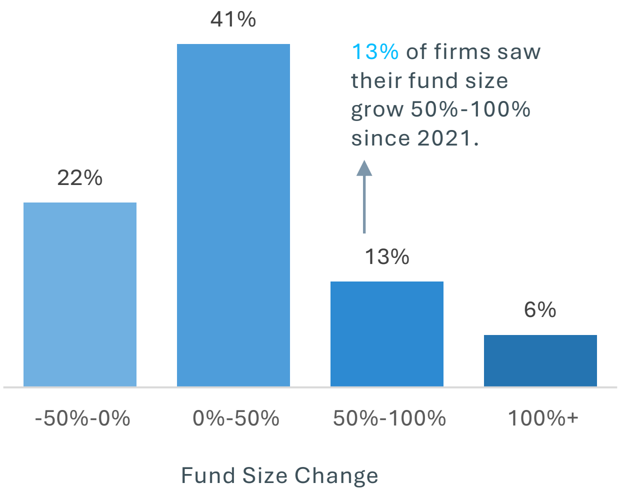
Strategic Funds Skew Smaller

Fund Size Distribution by Goal



Few CVCs Have Gotten Smaller

Distribution of CVCs by Fund Size Change Since 2021



Source: CVC survey and SVB analysis.

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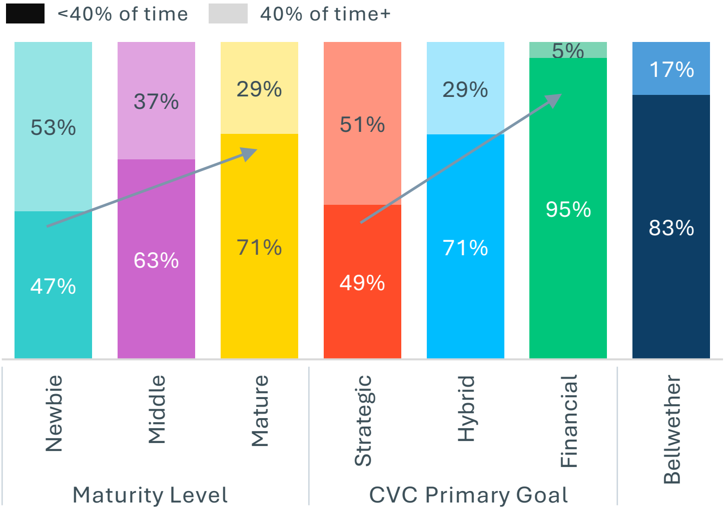
CVCs Grow Into Independence

CVC funds are often caught between the worlds of corporate control and venture freedom. Newbie and strategic funds spend a lot more time managing relationships with the corporate parent, and their corporate parents also have far more oversight into the CVC's workings. On average, half of strategic CVC funds spend at least 40% of time managing their corporate parents, compared to just 5% of financial CVCs. But despite spending more time with the corporate parent, far more strategic CVCs have deals blocked by a senior executive outside the CVC — 34% of strategic CVCs frequently or occasionally have a deal blocked by a senior executive compared to just 8% for financial funds. Thus, the level of autonomy is vastly curtailed for strategic funds compared to their financial-focused counterparts.

The same trends play out along maturity levels. **As funds mature, they generally have greater independence and spend less time with their corporate parent.** This speaks to the importance of educating executives at the parent to ensure that they understand and support the venture strategy early so they are not a road block to the successful function of the investment team. **As funds mature and executives better understand the strategy and role of CVC, fewer funds have a single person with total influence over the investment committee.**

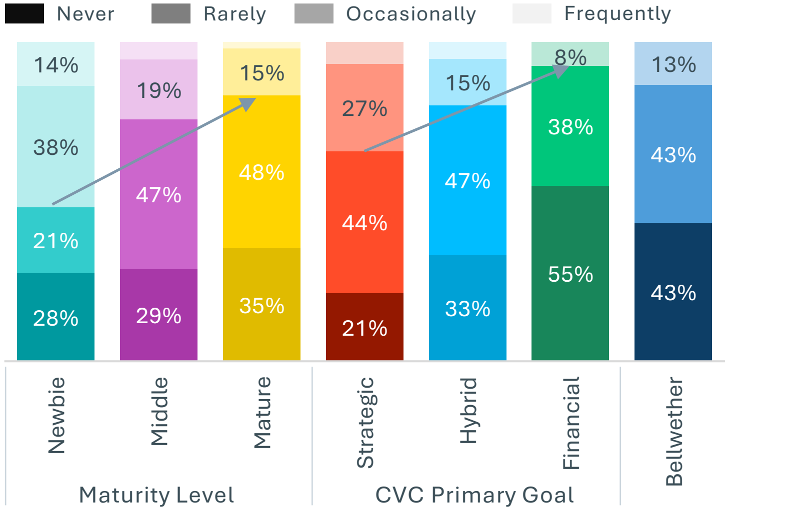
Newbies, Strategics Spend Time With Parent

Distribution of CVCs by Time Spent Managing Parent



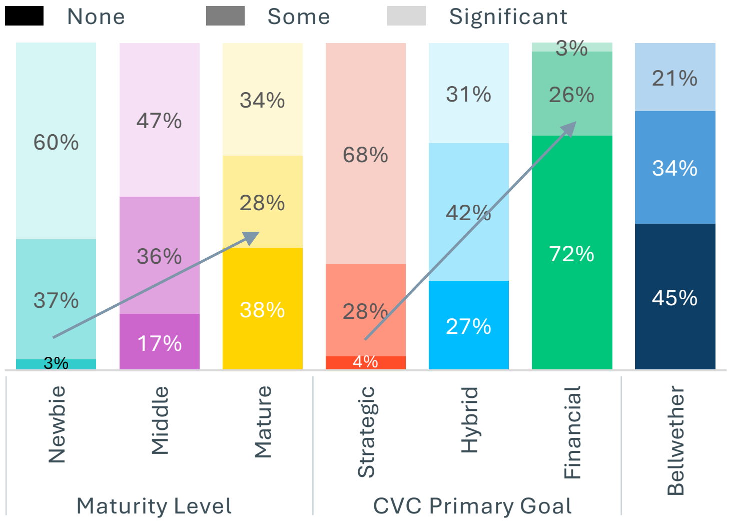
Fewer BU Vetoes for Mature, Financial CVCs

How Often a Deal Is Blocked by a Senior Executive Outside the CVC[1]



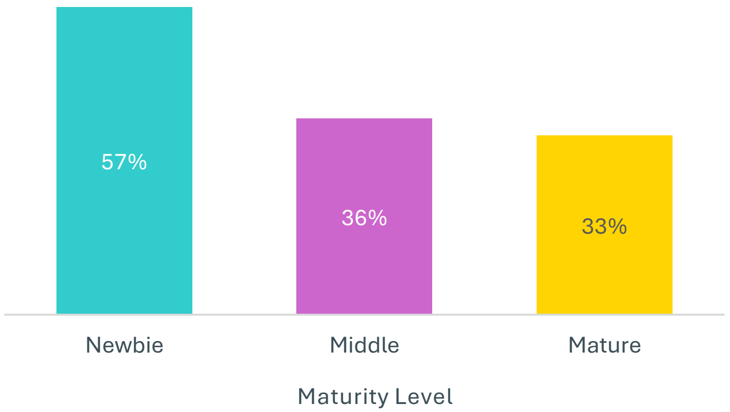
BU Buy-In Is a Must for Newbies and Strategics

Level of BU Engagement Required to Invest[2]



New Funds Often Have Unilateral Oversight

Share of Funds Where a Single Person Has Total Influence on the IC



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Notes: 1) Distribution of CVCs by the frequency a deal is blocked by the corporate parent. 2) Distribution of CVCs by the level of BUs' engagement required to invest.

Source: CVC survey and SVB analysis.

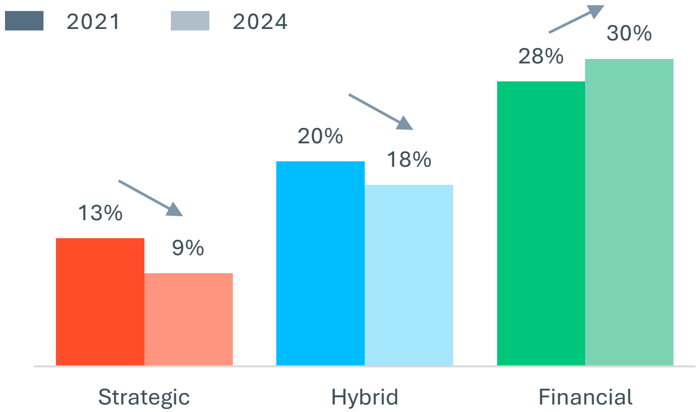
Financial Funds Flex Fiscal Flexibility

While we generally see less oversight as funds mature, from an ecosystem perspective, we see a trend toward more control over decisions held by the IC. For certain investments, the CVC team can make a unilateral decision to approve an investment without formal IC approval. Across the board, 38% of CVCs used to be able to skip IC approval below a certain investment size; now, just 19% of funds can do so. While 63% of funds have an IC that includes members of the CVC on the committee, **the greater importance of the IC speaks to a broader trend of corporate parents keeping a more watchful eye on the CVC's activities.**

Zooming in, there are substantial differences between strategic, hybrid and financial funds. Fewer strategic and hybrid funds can skip IC review; the percentage of financial CVCs that can is growing. This indicates that perhaps strategic funds are getting more strategic while financial funds are getting more independent, which aligns with their objective of operating like a traditional VC. While only 9% of strategic funds can skip IC review, 30% of financial CVCs can skip review. This reinforces the narrative that **financial funds generally have fewer constraints, allowing them to operate much more like a traditional venture firm.**

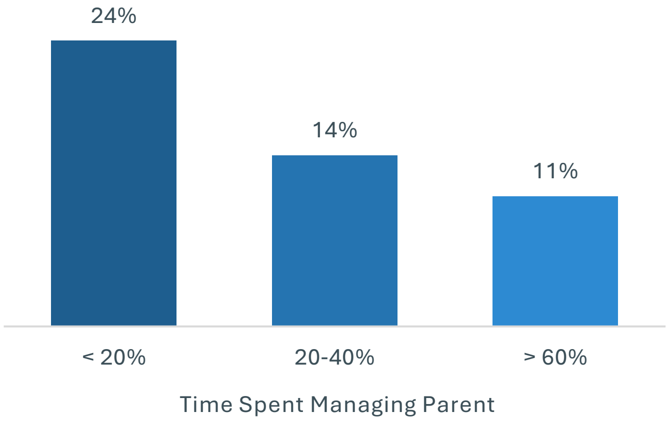
Fewer Funds Can Skip IC[1]

Share of Funds That Do Not Require IC Approval to Make the Majority of Investment Decisions



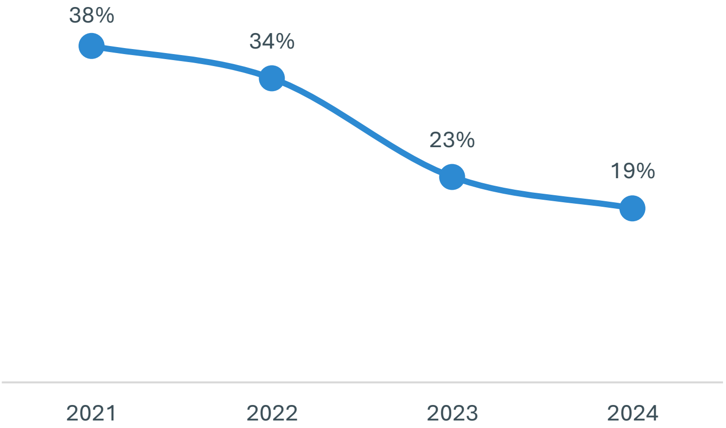
Independence Means More CVCs Can Skip IC

Share of Funds That Can Skip IC Based on Time Spent Managing Corporate Parent



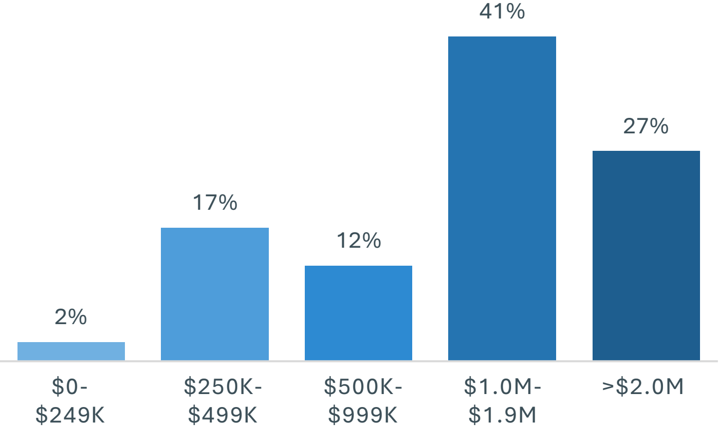
Fewer Funds Can Skip IC at a Threshold

Percentage of Funds That Can Skip IC at a Given Investment Size Threshold



The Most Common Threshold: $1M-$2M

Distribution of Investment Size Threshold To Skip IC Approval Process[1]



Notes: 1) For certain investments, the CVC team can make a unilateral decision to approve an investment without formal Executive Investment Committee.

Source: CVC survey and SVB analysis.

Exits: Exit Stage Right

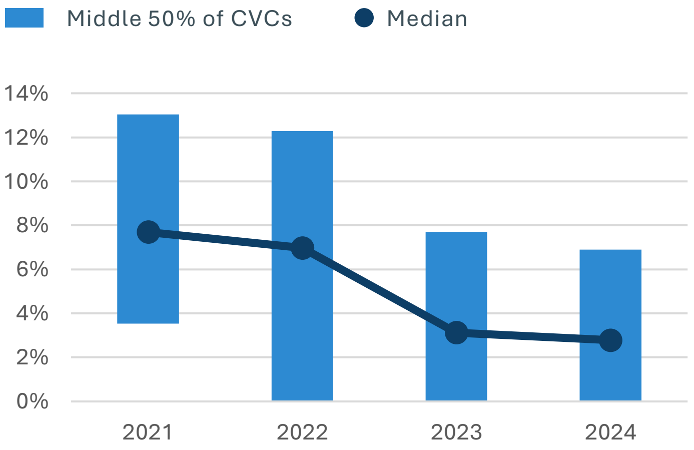
It is no surprise that exits have slowed substantially as IPO markets remain all but locked up and M&A activity proceeds at a snail's pace. The median CVC firm in 2024 saw just 3% of its portfolio exit, down from 8% in 2021. But many of these exits are likely not high-performing deals. From analysis of M&A deals, the exits that are occurring are generally of lower quality from the investor perspective. **More than one in five companies is selling for less than their last private valuation.** Further indicating that fire-sale M&A is occurring, the median months of cash runway at the time of sale has fallen from eight months in 2021 to just five months today, according to SVB data. This may provide an opportunity for corporate parents looking to scoop up venture-backed companies at a discount.

As a result of the slow exit market, investors (CVCs included) are hungry for liquidity in their portfolios. **The hunt for liquidity is taking alternative forms; 52% of CVCs have considered using secondary markets of those, and of 15% have leveraged secondary markets.**

While this is especially challenging to financial funds, which rely far more heavily on financial performance metrics when reporting to their corporate parents, strategic CVCs may be somewhat more insulated from lackluster distributions, given that corporate parents are often interested in other metrics, such as BU engagements or investments made.

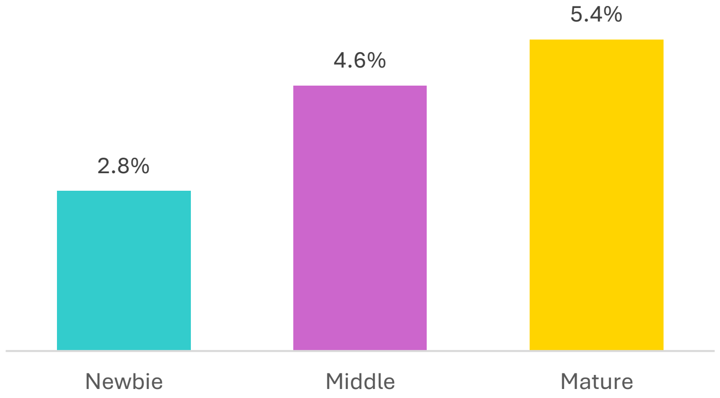
Exits Remain Low

Share of Portfolio Exited Last 12 Months[1]



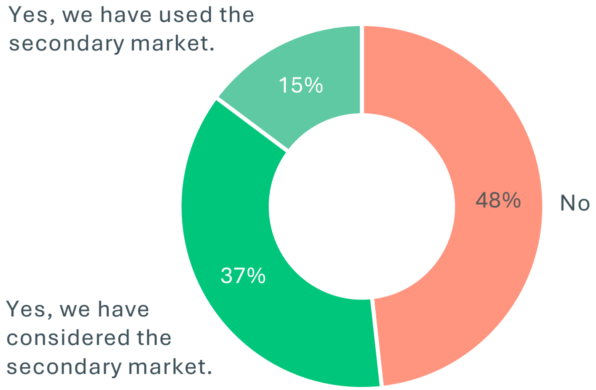
Mature Funds Have More Exits

Average Share of Portfolio Exited Last 12 Months



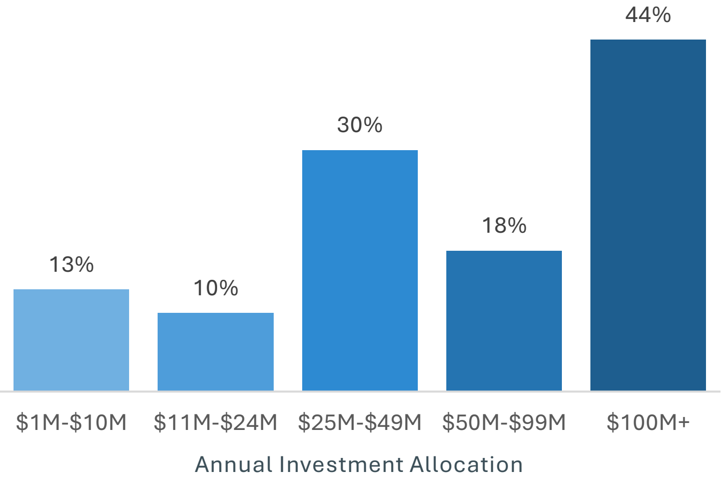
Over Half of Funds Consider Secondaries

Have You Considered Secondary Markets?



Parents With Large CVCs Are More Acquisitive

Percentage of Corporate Parents That Made an Acquisition of a VC-Backed Company in the Last Year[2]



Notes: 1) Based on number of portfolio companies exited. 2) Excludes those that did not provide an investment allocation (approximately 12% of survey respondents).

Source: CVC survey, SVB's State of the Markets H2 2024 and SVB analysis.

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Team Dynamics

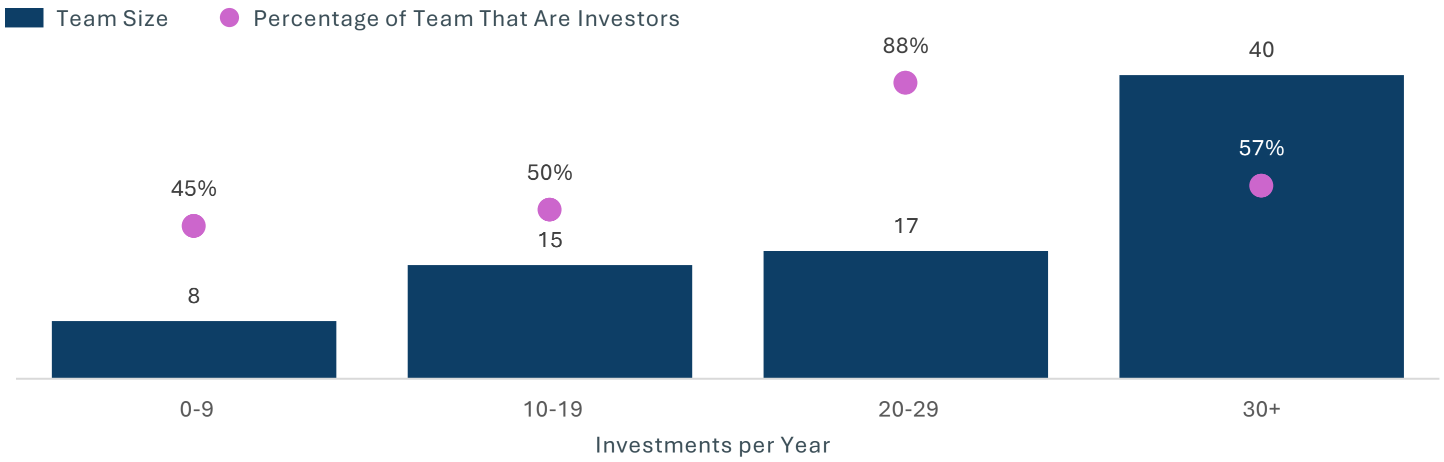
Team Composition

Generally speaking, CVC teams are small, with 62% of firms having fewer than 10 people. That said, the most active teams have far more people; CVCs making 30+ investments per year average 40 team members. Surprisingly, as teams make more investments and get larger, the percentage of the team that are investors also grows — it turns out that **CVCs making very few deals have a smaller percentage of investors and a higher percentage of the team dedicated to adding strategic value.** CVCs have the unique ability to leverage their corporate parent's employees to add strategic value. These "virtual" team members provide and support without formally adding dedicated headcount to the venture team.

Mature, financial and bellwether CVCs have the fewest people hired from within the organization. The same is true when looking at CVC heads. **Those who are hired from within the organization are far less likely to have venture experience** — 79% of CVC heads hired from within the organization have no venture experience. This may place funds at a disadvantage when attempting to educate senior leadership on the venture model — an important factor in determining the long-term success of the fund.

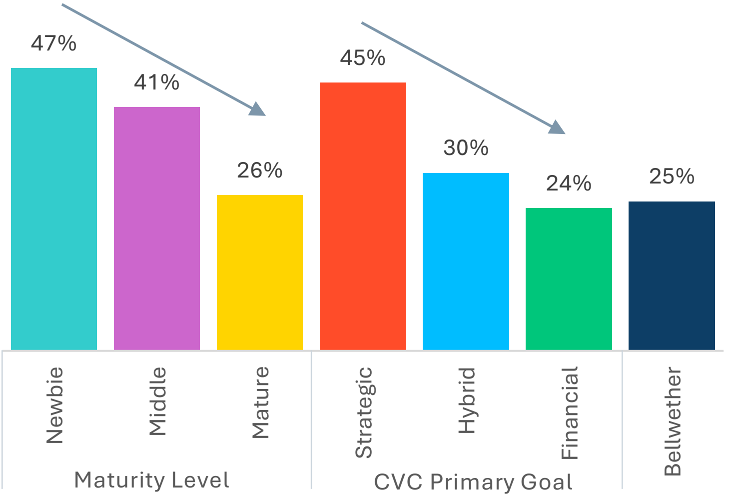
Investment Activity Dictates Team Size and Composition

Average Team Size and Percentage of Team Dedicated to Investing or Adding Strategic Value



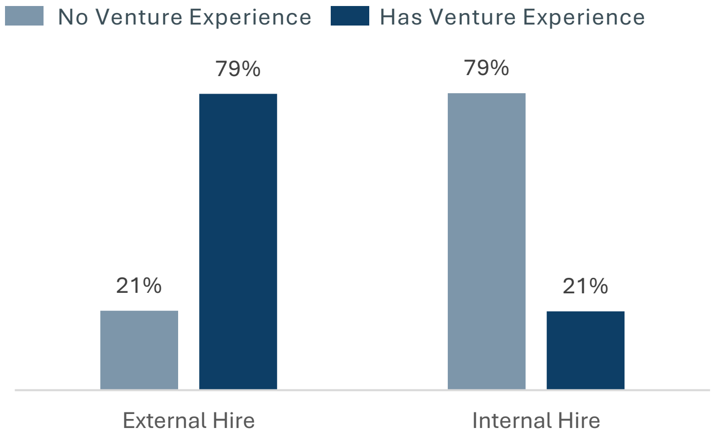
Newbies and Strategics Hire From Within

Percent of Team From Hired From Within Parent



Internal Hires Have Less VC Experience

Distribution of Venture Experience for the CVC Head



Source: CVC survey and SVB analysis.

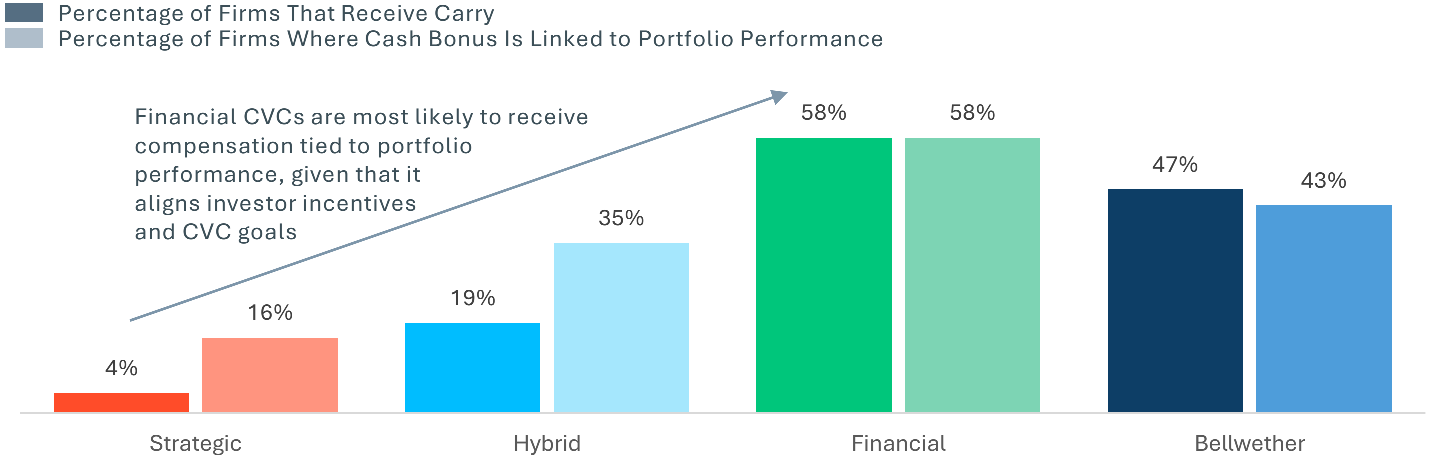
Carrying the Team

There is a wide range of compensation structures across CVC goals. **Financial funds are far more likely to offer carry or give bonuses based on performance, as it aligns investor compensation with the goals of the fund.** Strategics, on the other hand, are not compensated in that manner as it would create misalignment between the goals of the CVC and the goals of the individual.

Carry is a powerful motivator for investors to stay with a firm, given the often-long vesting periods. Among funds that offer carry, 35% of investors have been at the firm five years or longer. Among firms that do not offer carry, only 25% of investors have been at the firm at least five years. A significant portion of total compensation for a traditional VC partner is often carried interest (when "in-the-money"). The median VC partner at a US VC firm with $250M-$500M AUM can expect $2.8M when carry is fully vested across all active vehicles, compared to just $300K/year in total cash compensation.[1] Not offering carry is a powerful motivator for top talent to look elsewhere if not compensated in other ways, such as through shadow carry or bonuses.

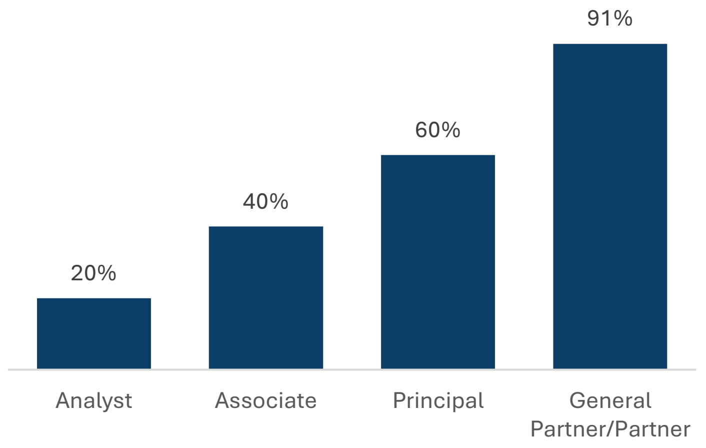
CVCs Generally Align Compensation and Goals

Percentage of Funds That Receive Carry and Bonuses Based on Portfolio Performance by Goal



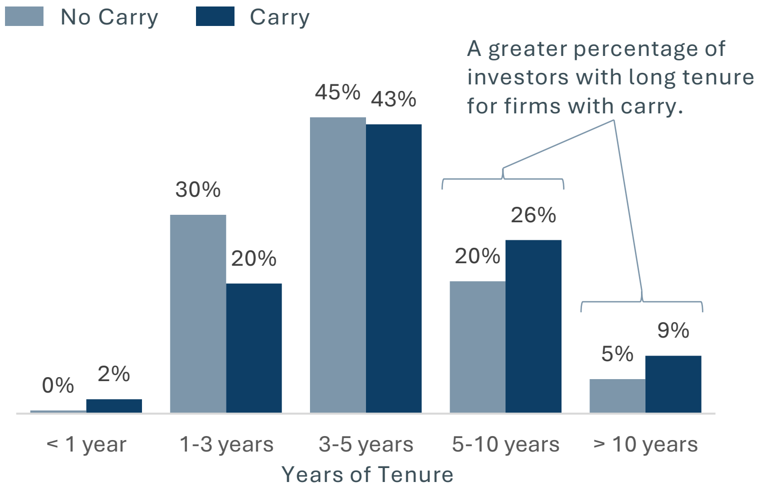
Not Everyone Receives Carry

Percentage of CVCs That Offer Carry by Level (Among Funds That Offer Carry)



Long Tenure More Likely With Carry

Distribution of Investor Tenure by If Investors Receive Carry



Notes: 1) Salary and bonus.
Source: CVC survey, VC Platform Global Compensation Survey and SVB analysis.

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About Counterpart Ventures

Founded in 2018, Counterpart Ventures is a San Francisco based venture capital fund investing in early-stage startup companies disrupting traditional industries. With its CVC roots, Counterpart provides access to potential enterprise customers and strategic partnerships for their founders. Investments focus on B2B SaaS, mobility and marketplace technologies that target conventional problems or fill missing gaps in large markets.

Our Counter Club community represents the most active and engaged network of CVC funds among any traditional VC firm. We galvanize the CVC industry through our events and discussions designed to share best practices for emerging corporate VCs. Given our successful CVC track records, we are the rare CVCs turned VCs with the ability to offer impartial advice to others. Visit our website for more information on how we invest and the Counter Club to become a member of our community:

Counterpart Ventures http://counterpart.vc
Counter Club https://counterclub.vc

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Appendix

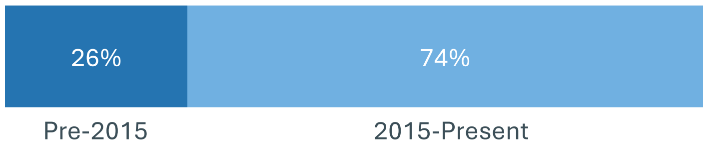
About the Report and CVC Survey

CVC Survey Respondents Makeup

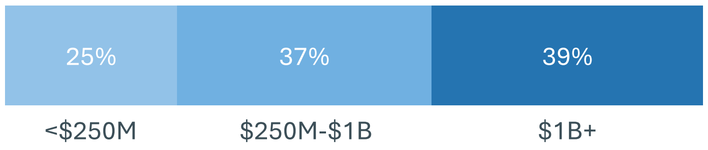
Headquarters of Parent

Maturity Levels of CVC

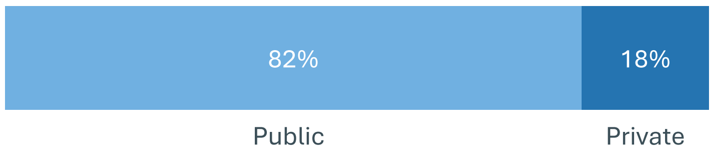
Year CVC Was Founded



Current AUM



Ownership of Parent

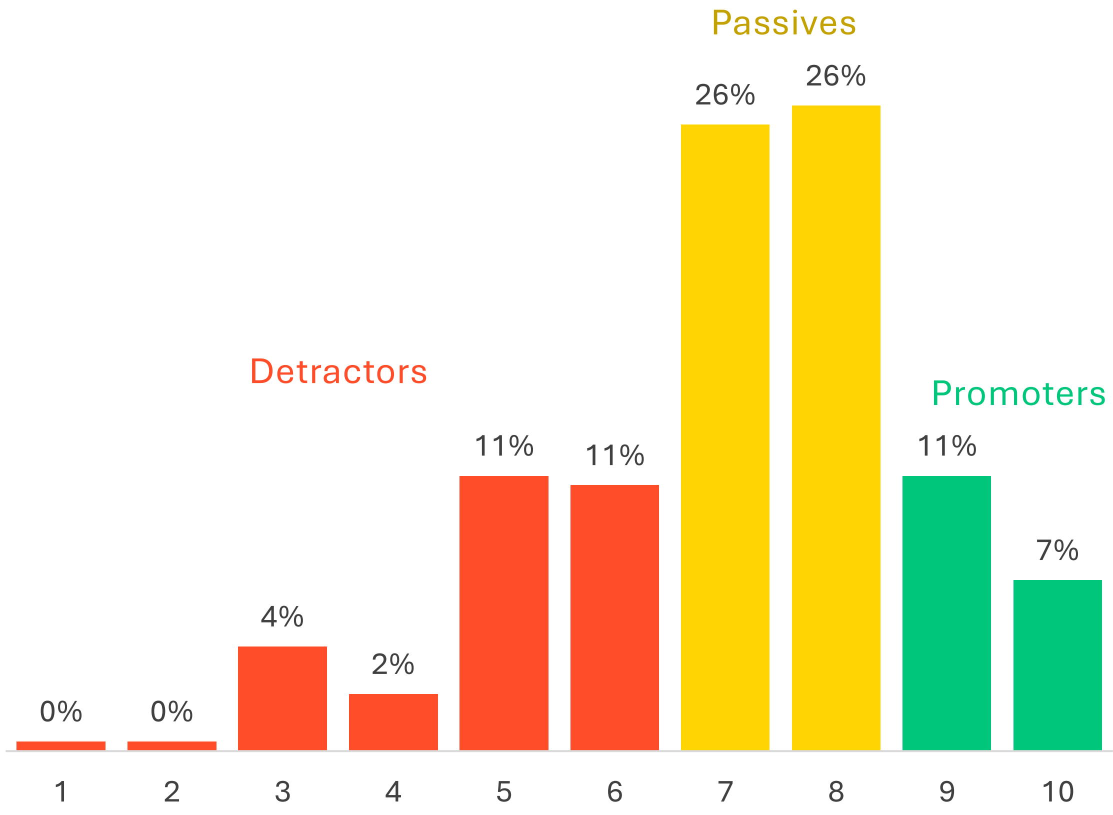


Deals Per Year

Source: CVC survey and SVB analysis.

Many CVCs Face Ambivalent Parents

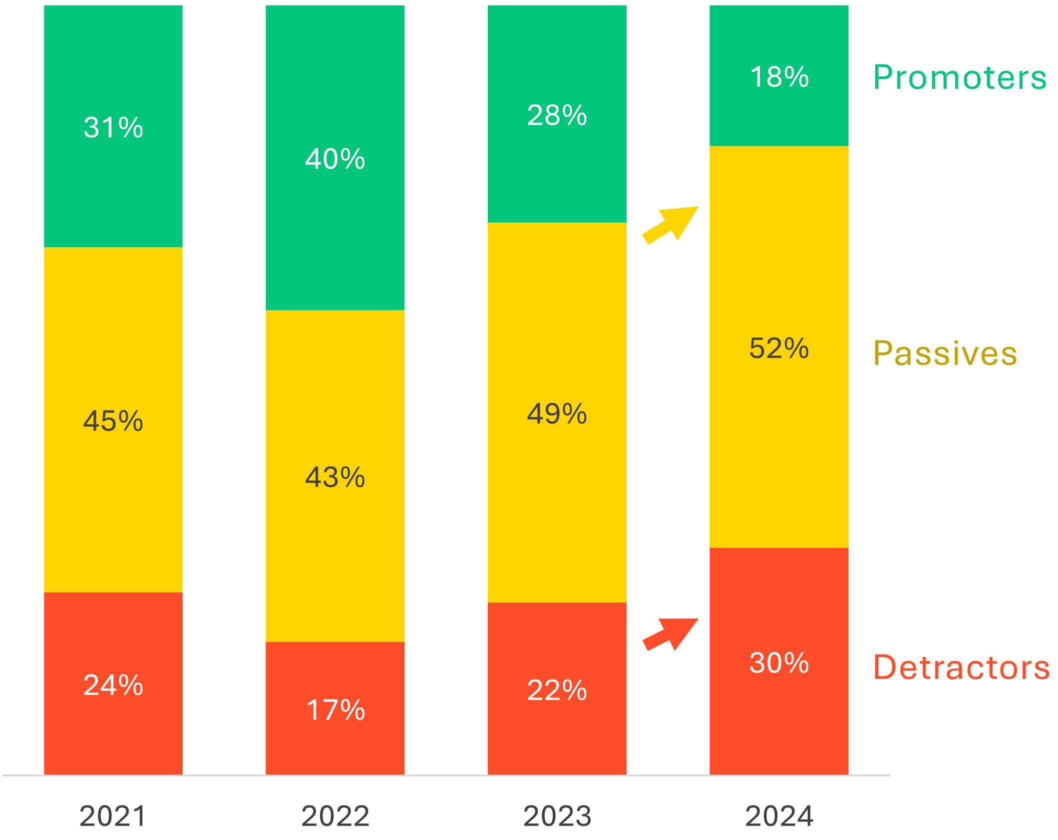
2024 NPS Breakdown



Source: CVC survey and SVB analysis.

NPS Scores Fall Year-Over-Year

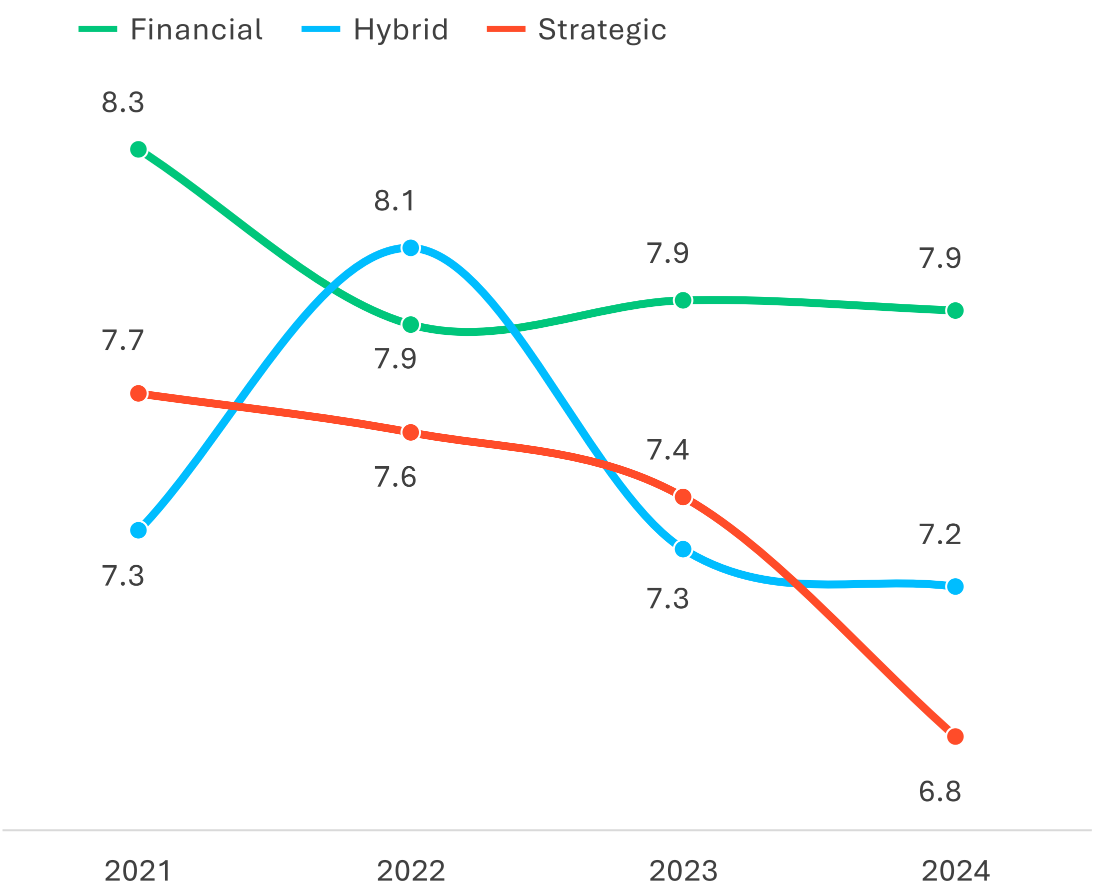
NPS Groups by Year



Source: CVC survey and SVB analysis.

NPS Falls Most Among Strategic Firms

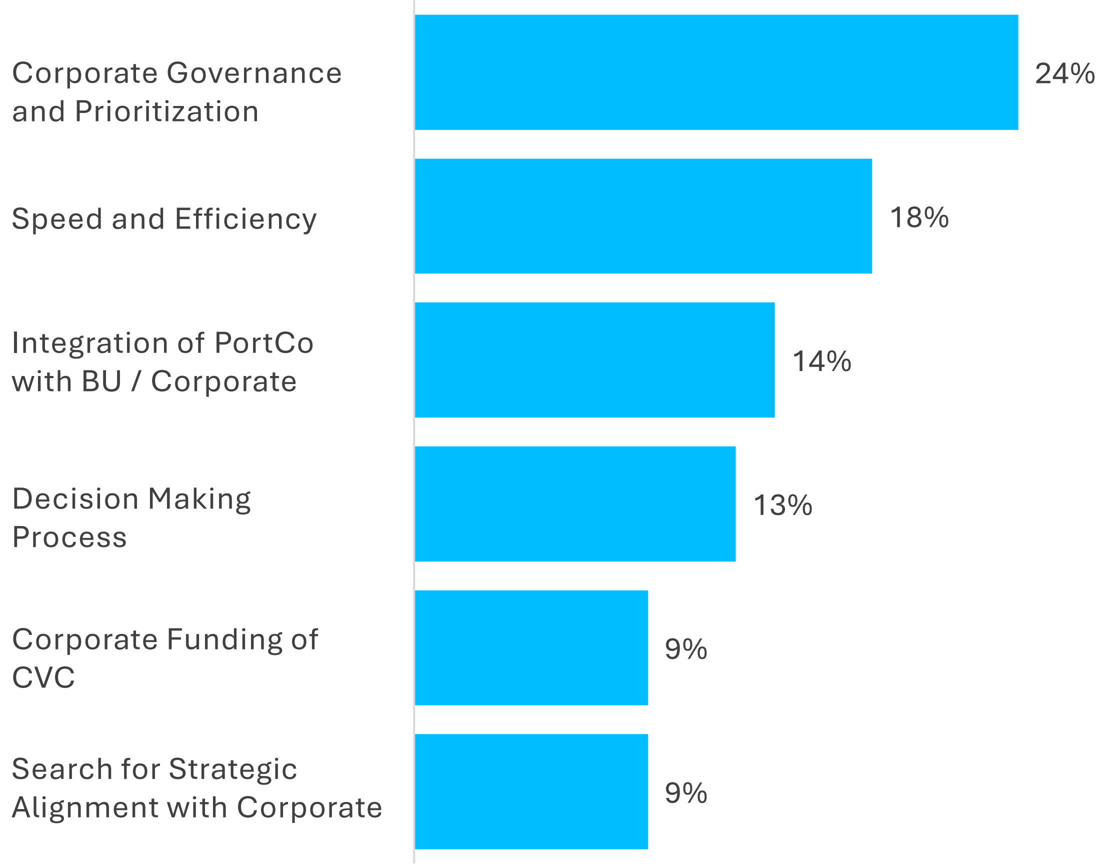
Average NPS by CVC Type



Source: CVC survey and SVB analysis.

CVCs Struggle with Corporate Prioritization

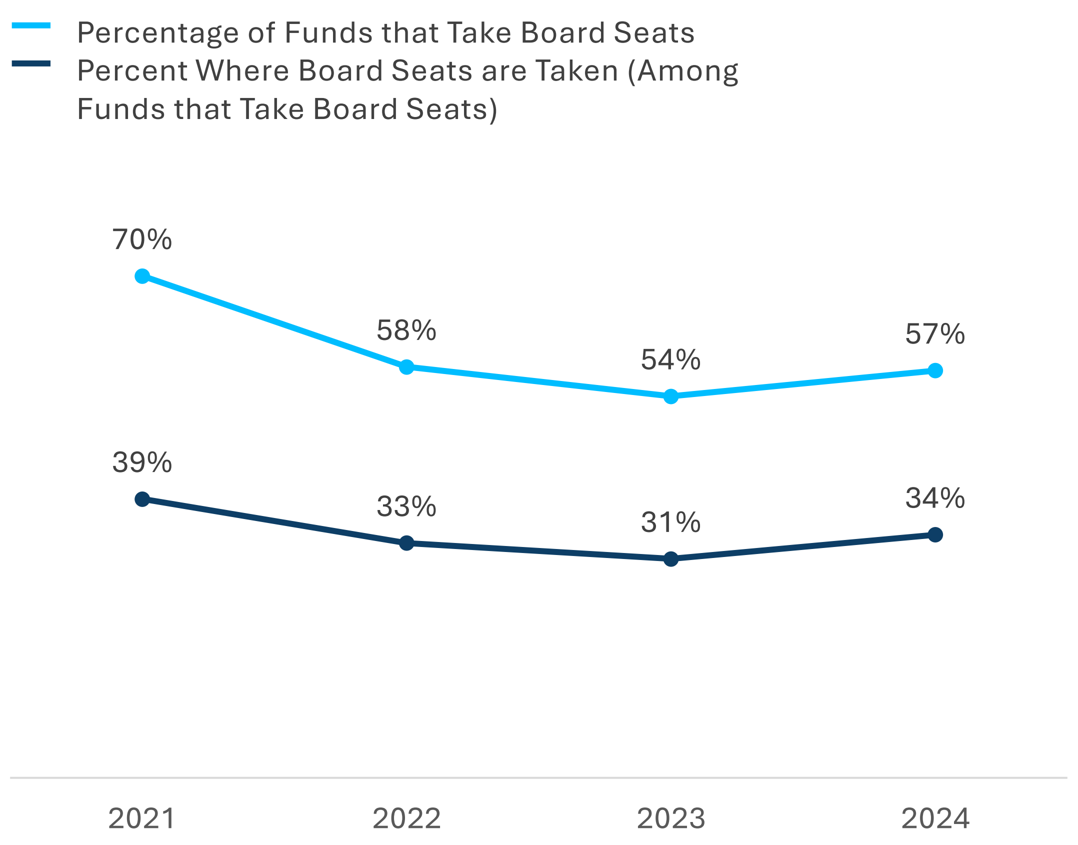
Major Problems That the CVC Faces (Top 6 Replies)



Source: CVC survey and SVB analysis.

Board Seats Are Less Popular Today

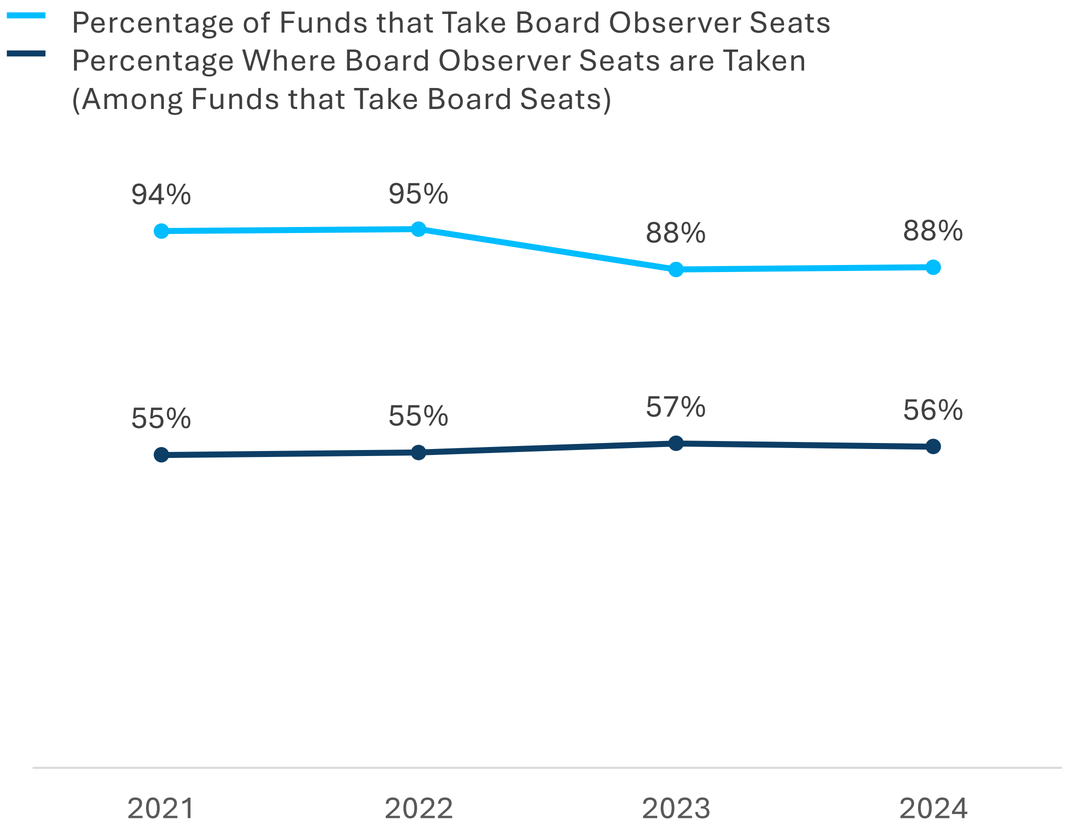
Percentage of Funds that Take Board Seats and What Percentage of Deals They Take Seats



Source: CVC survey and SVB analysis.

Board Observer Seats Remain Important

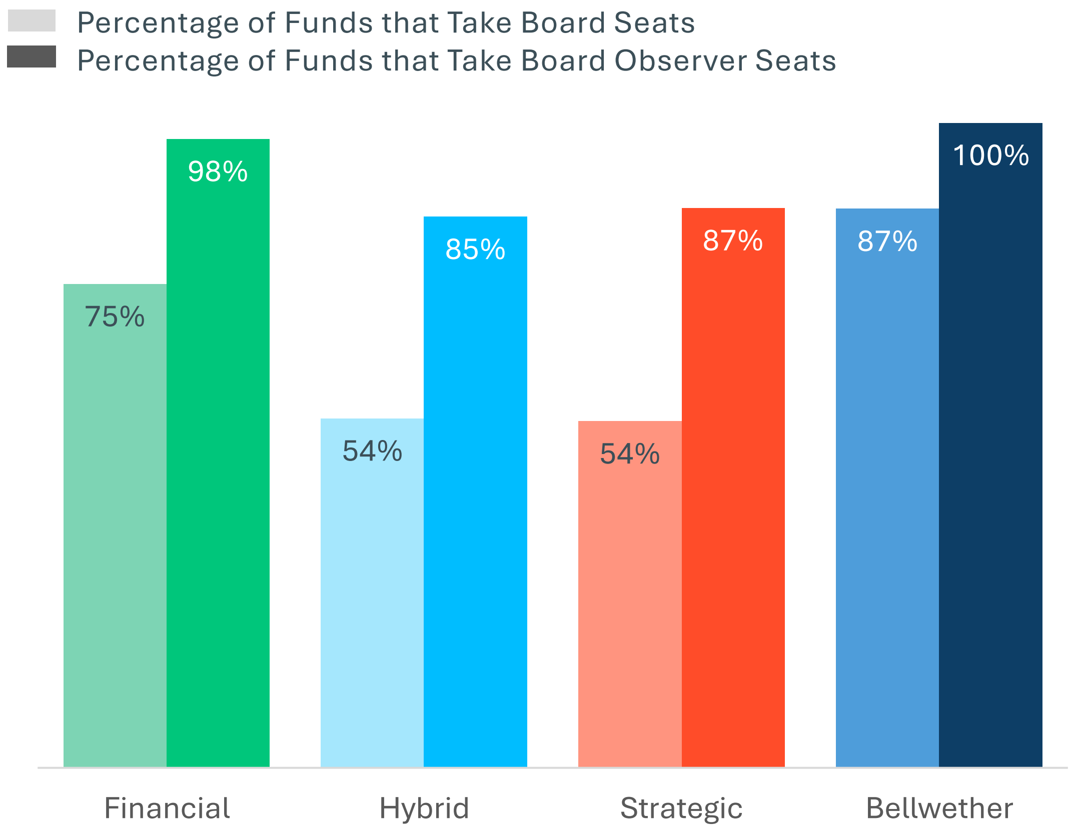
Percentage of Funds that Take Board Observer Seats and the Percentage of Deals Where Seats are Taken



Source: CVC survey and SVB analysis.

Bellwether CVCs Sit on More Boards

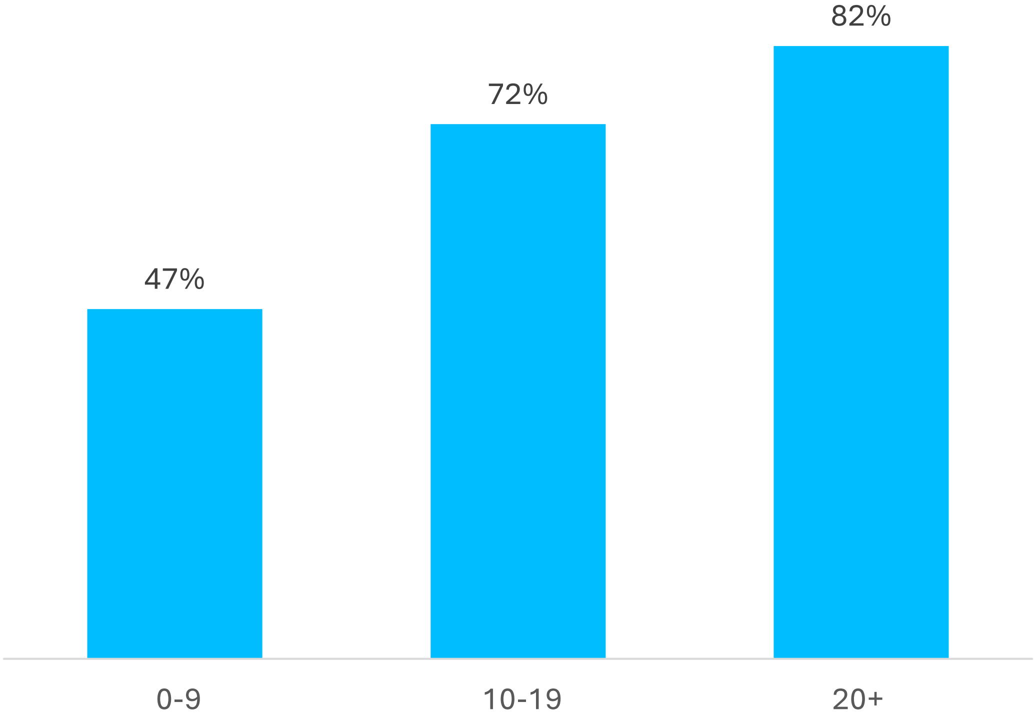
Percentage of Funds that Take Board and Board Observer Seats by Fund Mandate



Source: CVC survey and SVB analysis.

Larger Teams More Likely to Take Board Seats

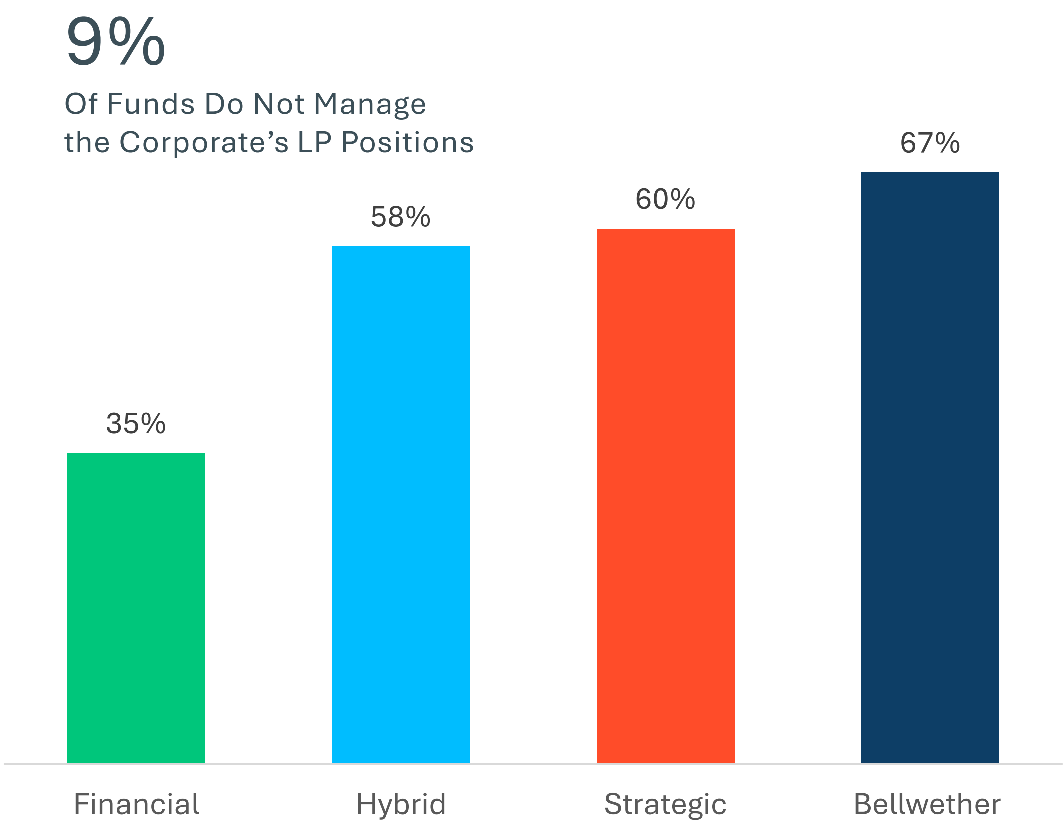
Percentage of CVCs that Take Boards Seats by Fund Size



Source: CVC survey and SVB analysis.

Bellwethers Most Likely to Be an LP

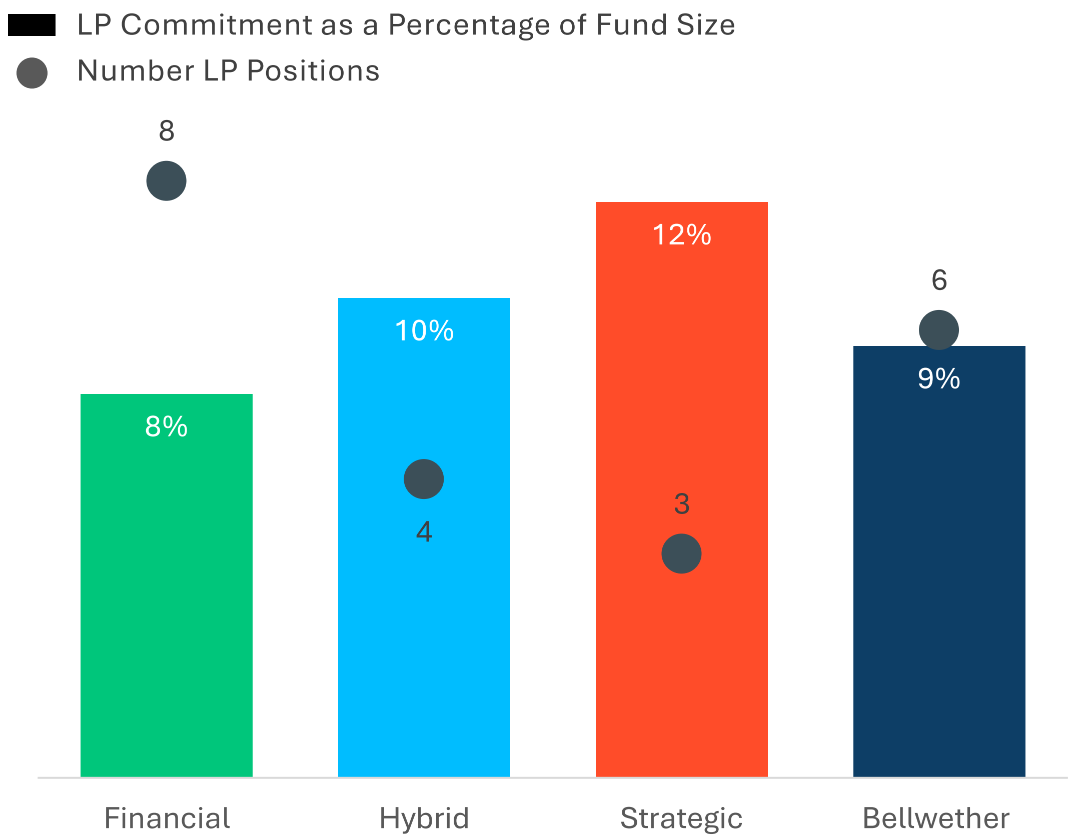
Share of Funds that Take LP Positions



Source: CVC survey and SVB analysis.

Strategics: Large Checks Few Investments

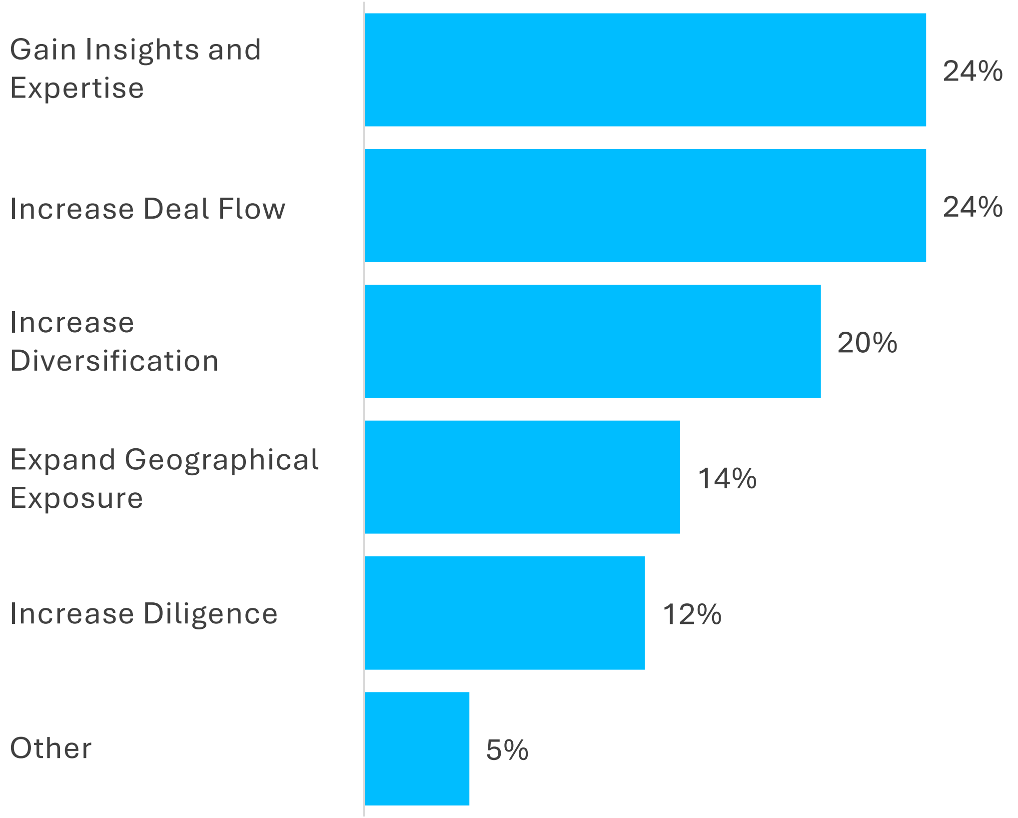
LP Commitments as a Percentage of Fund Size and Number of LP Positions



Source: CVC survey and SVB analysis.

Reasons for LP Positions

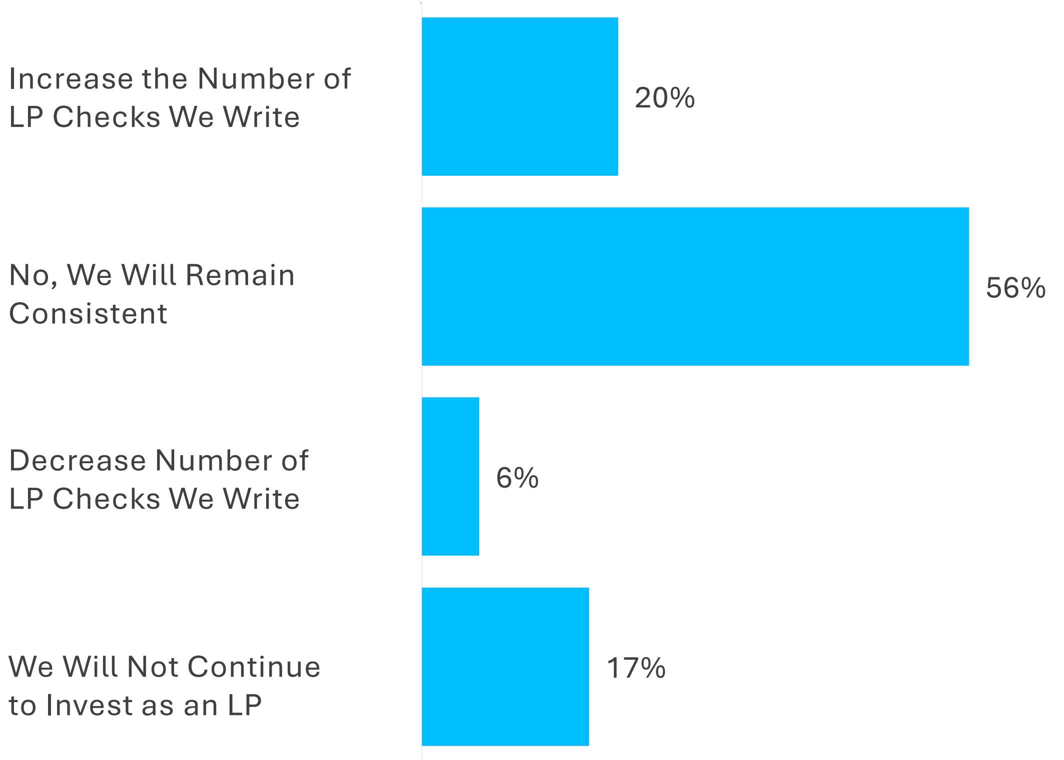
Distribution of CVCs by Main Reason for LP Investment



Source: CVC survey and SVB analysis.

1 in 5 VCs to Stop or Decrease LP Investing

Distribution of CVCs by Plans to Alter LP Investment



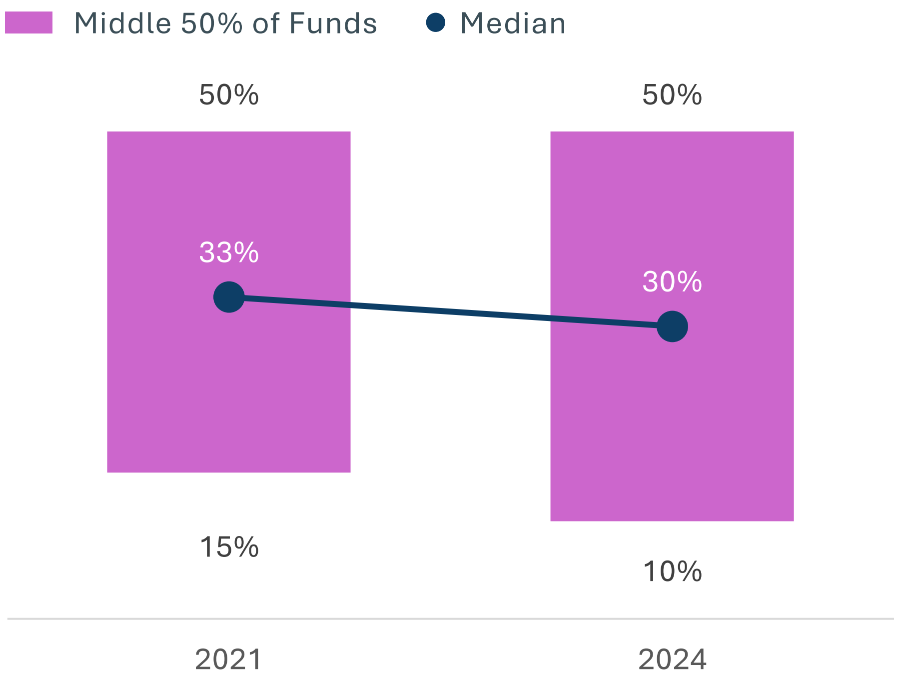
Source: CVC survey and SVB analysis.

1 in 3 Investors are Women or Minorities

Percentage of Investors Who are Women or Minorities

82%

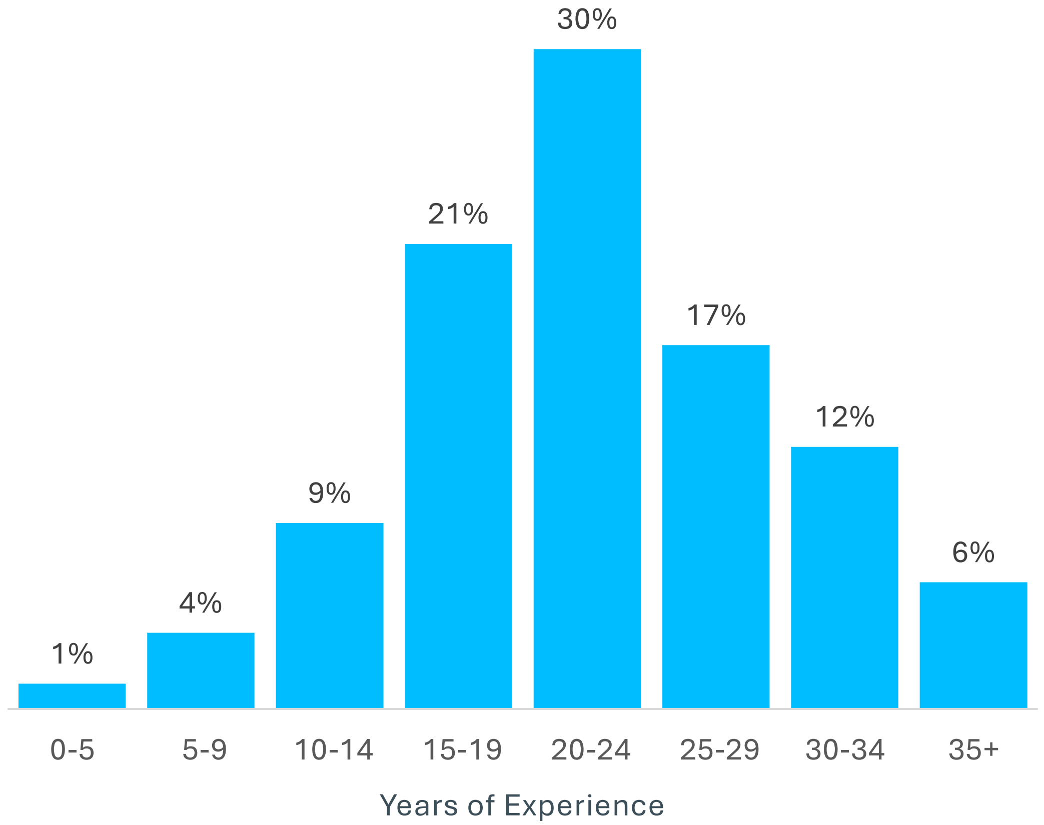
of CVC Heads are Male



Source: CVC survey and SVB analysis.

Most CVC Heads Have 20+ Years' Experience

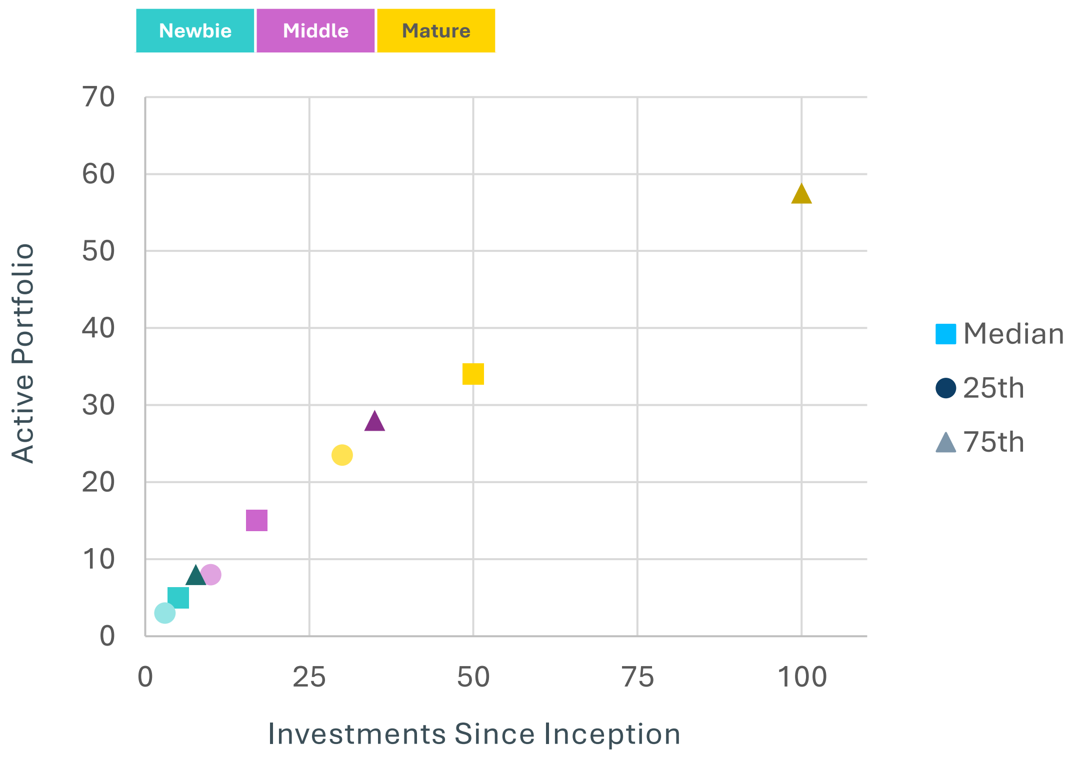
Distribution of Years of Experience for the CVC Head



Source: CVC survey and SVB analysis.

There is a Big Range in CVC Activity

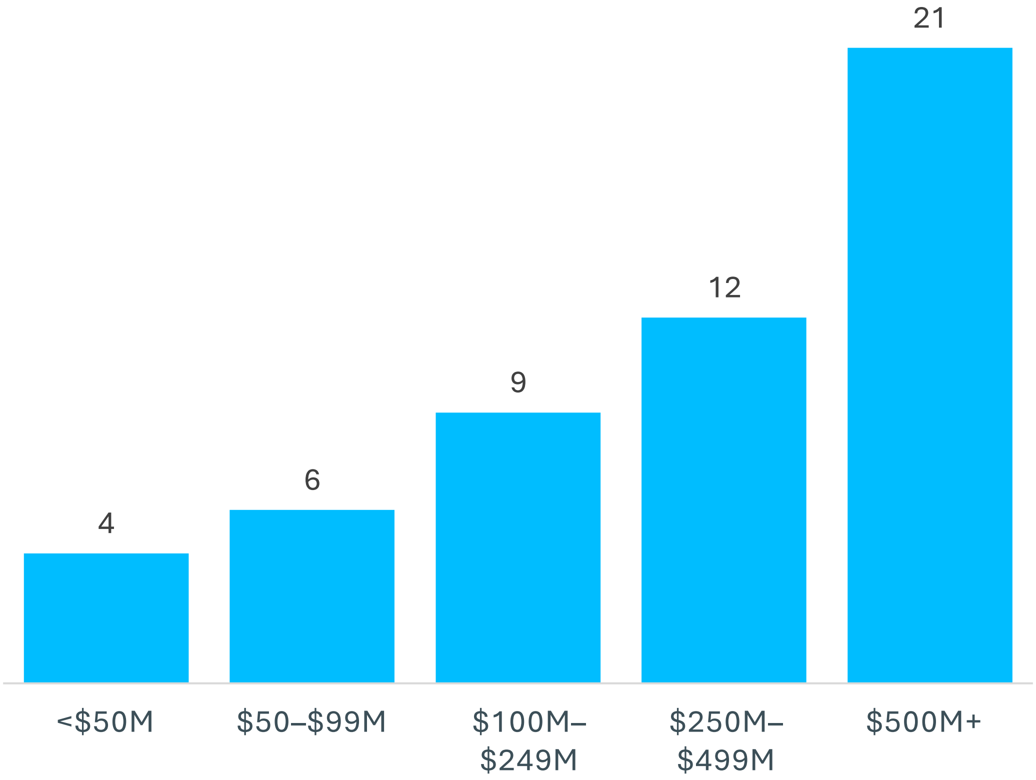
Total Investments Since Inception vs Active Portfolio By CVC Maturity



Source: CVC survey and SVB analysis.

Team Size Goes Hand in Hand with Fund Size

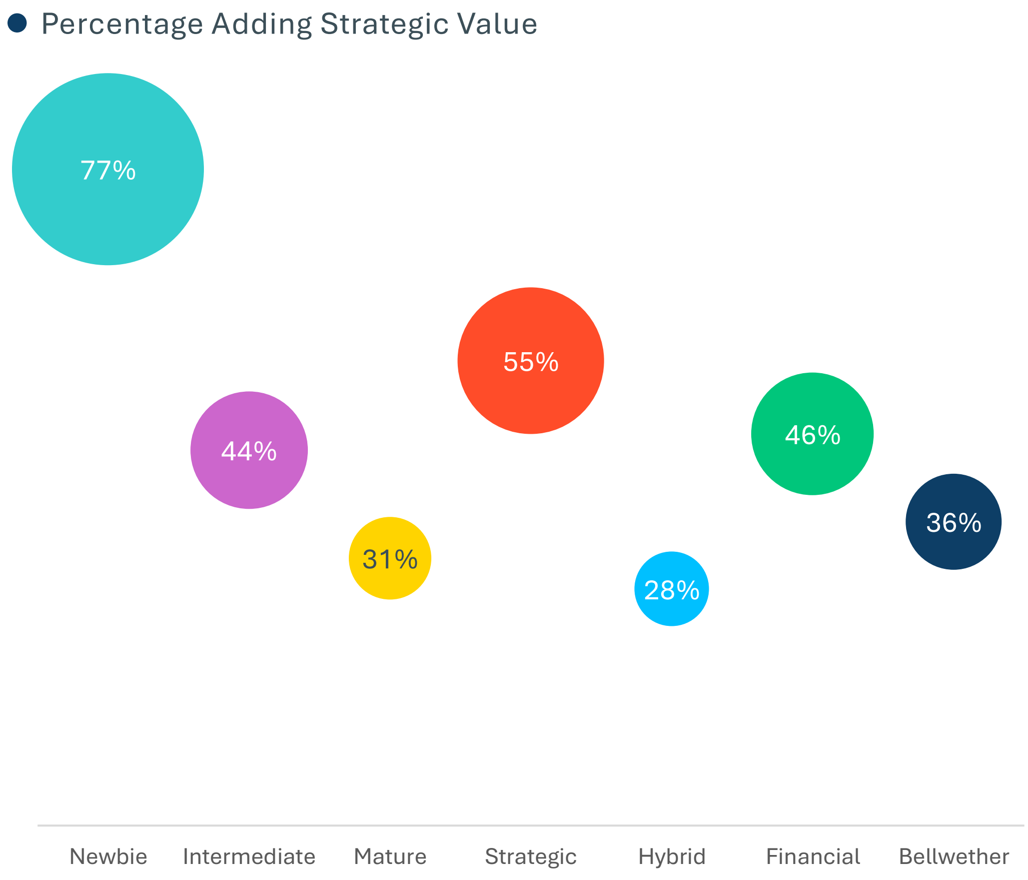
Average Team Size by Fund Size



Source: CVC survey and SVB analysis.

Newbies Must Prove Strategic Value

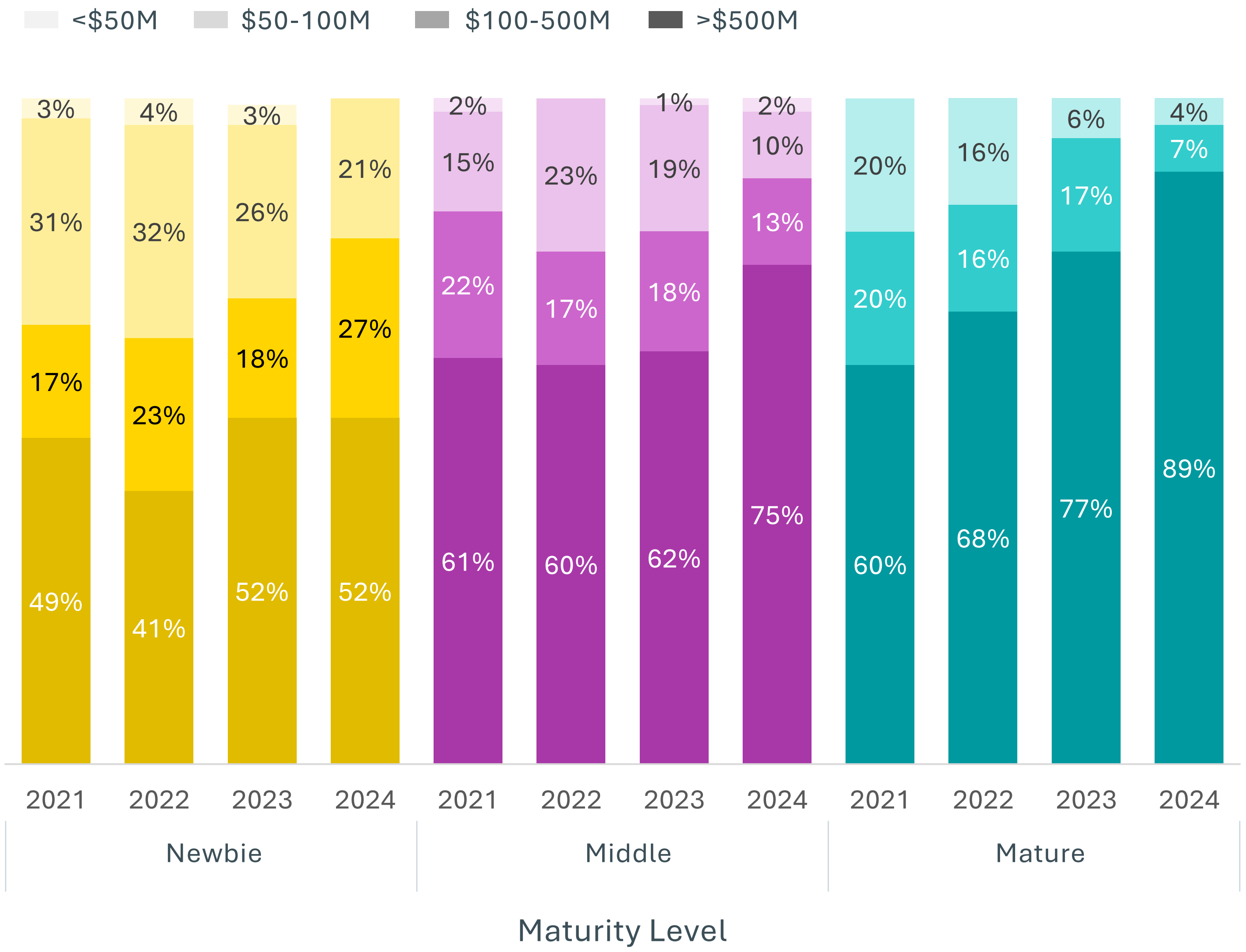
Share of Team that Adds Strategic Value



Source: CVC survey and SVB analysis.

Growing Investment Allocations

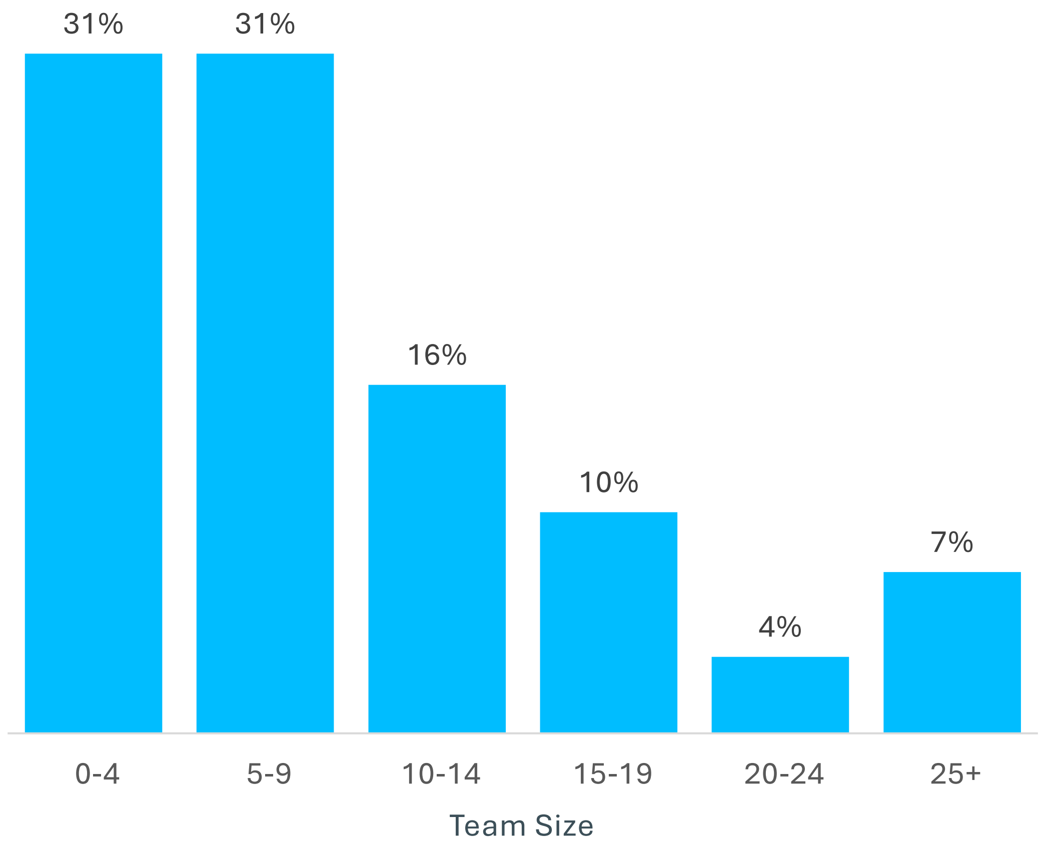
Annual Investment Allocation Based on Fund By Year of Survey Date



Source: CVC survey and SVB analysis.

Most CVCs Have Small Teams

Percentage of CVC Respondents by Headcount



Source: CVC survey and SVB analysis.

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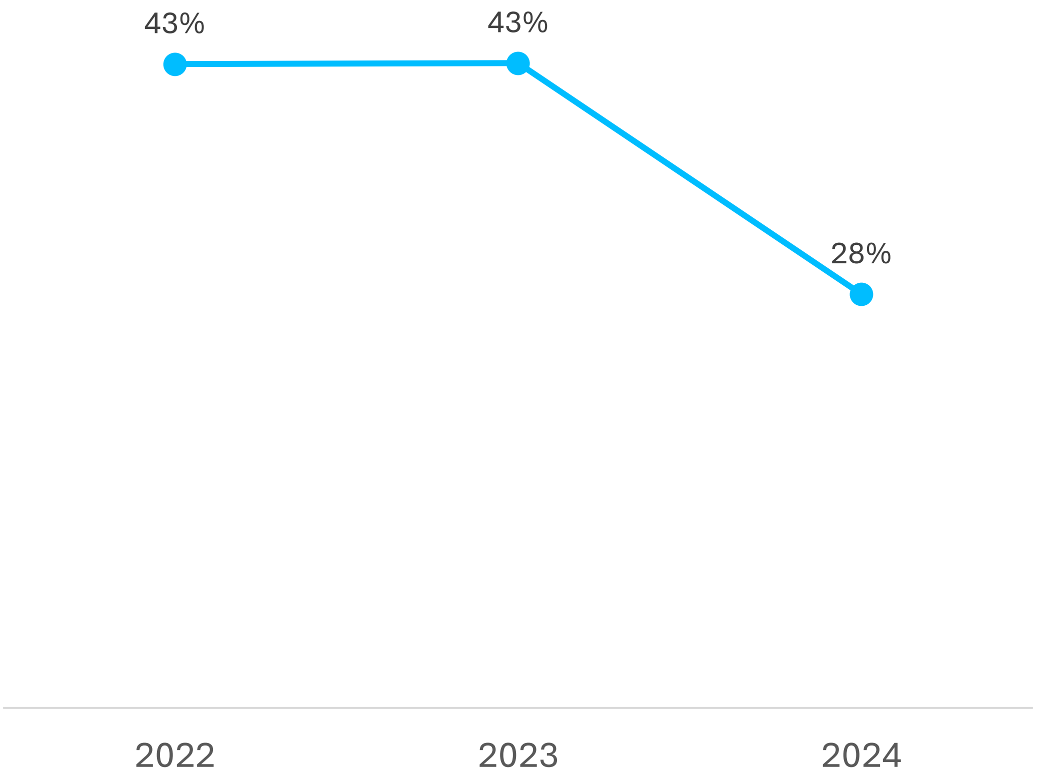
Fewer CVCs are Growing Their Teams

Percentage of CVCs with Growing Headcount YoY



Source: CVC survey and SVB analysis.

Micro Benchmarking

Counterpart and Silicon Valley Bank are able to provide access to a fully anonymized dataset for the purposes of micro benchmarking CVCs.

We are able to provide this support to assist CVCs with further analysis relative to their industry, stage preference, check size and so on.

Our intent is to allow CVCs to slice and dice the data to arrive at your own conclusions.

Scan here to get in touch or email team@counterpart.vc

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