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CVC ROUNDTABLE

Exploring the role of Corporate Venture Capital (CVC) firms in leveraging their parent company's strength of product, distribution, supply chain, and other expertise to their investments in startups.

StrategyConnect served as a knowledge partner for the roundtable.
Interactions with **Mr. P.K. Gulati** corporate venture firms & startup founders.

StrategyConnect

Executive summary

The following report covers the insights and discussions that took place during the CVC Roundtable at this year's GITEX/Expand North Star event in Dubai. It was an exclusive, invite-only, closed-door conference which was conducted under the principles of the Chatham House Rule.

The CVC roundtable brought together key stakeholders from CVCs in contact with proven and successful startup founders, to bring forward new capabilities or enter new markets that the parent corporation is looking to venture into. It focussed on how corporate and startup participation could accelerate modernisation of different systems and processes within the startup ecosystem and also bring in deeper transparency. There were key stakeholders from large corporations, service providers, along with proven and successful startup founders. They discussed the opportunities and the challenges in such collaboration - starting with discovery, engagement and brainstorming of life changing solutions.

The session was moderated by PK Gulati, Trustee, Global Board of Trustees, TiE President Emeritus, TiE Dubai and Founder, The Assembly & SmartStart Fund. He is an entrepreneur, idea accelerator, angel investor, mentor and writer with interests in exponential technologies, innovation, start-ups, entrepreneurship, future of work, mobility, knowledge sharing and more.

The session explored upon key considerations that emerge in the pursuit of an effective CVC engagement. Participants examined the nuances of successful collaboration and identifying strategies to navigate the evolving landscape of corporate-startup partnerships. The interactive dialogue fostered a deeper understanding of the challenges and opportunities inherent in CVC initiatives, paving the way for collaborative efforts to accelerate the modernization of diverse processes and systems.

Key takeaways:

- There is a need for clarity in the investment process, aligning goals, and ensuring harmony between investor and investee business objectives for streamlining the investment process.
- Tailoring strategies to fit distinct investment goals—complete fit, vision-aligned, and opportunistic—enhances effectiveness in achieving desired outcomes of CVC's parent entity such as that of innovation.
- Operational alignment should be a priority for corporates. Placing operating champions strategically across business units facilitates operational alignment, urging CVCs to focus on larger deals post-Series A for optimized KPI alignment.
- Implementing separate investment and service agreements at the deal stage prevents conflicts, especially when accessing customer bases and networks, ensuring smoother collaboration.
- It is the responsibility of portfolio companies to maintain relationships with corporates: Portfolio companies should continuously build relationships and actively seek opportunities to collaborate.

About The Participants

The session saw participation from leading CVCs of the region, and startup founders. The participants included - Kushal Shah - Head of CVC e& Capital, Sharif El-Badawi, CEO, Dubai District Fund, Gary Sheynkman, Future Ventures, Mohammed Ali Yusuf, (Mo Ali), Co-founder and CEO, Fuze, Ashish Tulsian, Co-Founder and CEO, POSist Technologies, Ahmed Coucha,Co-founder and CEO, FlapKap, Badr Ward Founder and CEO of Lamsa, Atul Bansal, Co-founder and CEO, Livlyt.

Organizer and Moderator - Prashant K. Gulati (PK), Entrepreneur | Technology Evangelist, Founder, The Assembly; Founder, SmartStart Fund

Prashant K. Gulati (popularly known as PK) is an entrepreneur, idea accelerator, angel investor, mentor and writer with interests in innovation, startups, technology, mobility, wireless, intelligent buildings, online media & more. In addition to serving on boards of several startups and community initiatives, PK is an active Angel and early-stage investor with a nose for fresh ideas. He is a mentor, providing guidance and advice to founders at various levels. He has been associated with a large number of successful startups and has an active portfolio in the US, Middle East and India.

PK has also been an influencer in the technology community in the Middle East, Silicon Valley as well as the Indian subcontinent. He is well connected with technology leaders and influencers of the region and is a respected voice and a trendspotter for leading edge technological innovation.

A postgraduate with Honors in Computer Science and Management, PK has been residing in Dubai for more than 20 years now.

Kushal Shah - Head of CVC e& Capital

Kushal Shah is the Head of CVC at e& - a global technology and investment group. Previously, he was the Senior Partner at Roland Berger's Dubai office and a Managing Partner for the Middle East. Prior to joining Roland Berger, he spent 12 years with a leading consultancy in London and Dubai. He studied Economics at Cambridge in the UK and he is a certified Chartered Accountant.

Sharif El-Badawi, CEO, Dubai District Fund

Sharif El-Badawi is the Chief Executive Officer of the Dubai Future District Fund. He previously worked at 500 Startups as a Partner. Sharif El-Badawi attended the University of California, Los Angeles. The Dubai Future District Fund is a venture fund of funds and direct investment vehicle of the emirate of Dubai. Previously, he co-founded and managed Plus Venture Capital (+VC), a leading seed stage investment firm in the Middle East and North Africa region, investing across sectors from seed to growth within the region and diaspora.

Gary Sheynkman, Future Ventures

Gary Sheynkman, is a CVC at Further Ventures, Abu Dhabi, he also invests in international multi-sage opportunities through Leyden.vc. Gary is also actively involved in the emerging markets startup accelerator space and was responsible for launching Techstars Dubai. He also is the founding member of AngelSparks, an angel investment fund based out of Dubai.

Mohammed Ali Yusuf, (Mo Ali), Co-founder and CEO, Fuze

Mo is the CEO and co-founder at Fuze. The fintech startup is a digital assets infrastructure platform, enabling businesses in the Middle East region to seamlessly integrate digital asset products.

Prior to starting Fuze, Mo was the Regional Manager of Checkout.com, the $40Bn payments fintech. Mo has also held senior level positions with Visa, Booz & Company and Emirates NBD and was the founder of 2 fintech startups.

Ashish Tulsian, Co-Founder and CEO, POSist Technologies

Ashish Tulsian is the Co-founder and CEO of POSist Technologies. He founded POSist in 2012 with Sakshi Bhasin Tulsian. Ashish is the product visionary at POSist. He has scaled the company from a two-member team to 100+ employees, serving over 9,000+ leading restaurants in 30 countries. Ashish is a rare combination of a Technocrat and

Restaurateur. He kick-started his entrepreneurial journey in 2007 by founding a telecom company right out of college, serving all major telecom operators in India for value-added services.

Ahmed Coucha, Co-founder and CEO, FlapKap

Ahmad Coucha is the co-founder and CEO of FlapKap, the first and leading Revenue Based & Embedded Financing Platform in the MENA region. Prior to founding FlapKap, Coucha was the co-founder and Chief Strategy & Finance Officer of Kijamii, one of MENA's largest and most awarded independent advertising agencies.

Badr Ward, Founder and CEO of Lamsa

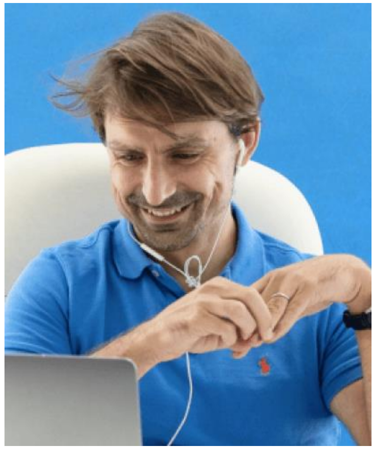
Badr Ward instigated the Edtech for Children industry across the Middle East and North Africa. He is the founder and CEO of Lamsa, the leading Education technology platform for Children, ranked as the number one application for Children across more than 10 Arabic markets on both Google's Play and Apple's App Store. Ward was selected by the World Economic Forum as a member of the Global Future Council and an "Innovative Educator" by Expo2020 honored for his work on Innovative Education through Lamsa.

Atul Bansal, Co-founder and CEO, Livlyt

Atul Bansal is the Co-founder and CEO of Livlyt. The UAE based startup is a device subscription platform, offers companies and individuals access to the latest gadgets, including smartphones and laptops, with flexible and affordable monthly subscriptions, without the hassles of ownership.

Atul has been executive leader with over 16+ years of experience across diverse sectors including Consumer Tech (Rides, Food, Groceries), F&B / Retail, and Financial Services. His career journey encompasses an array of roles in Consulting, Strategy & Operations, Business Development, and Product Management.

Benjamin Mouflard, Founder, Chatfood



Hailing from France, Ben spent 7 years leading Facebook's EMEA Travel Industry, but that's not all. He's led divisions at Microsoft, L'Oreal, Quiksilver, and MakeMeReach.

At ChatFood, he brings the marketing know-how from the world's biggest brands to local businesses, ensuring their sustainable growth and continued success.

About Optimistix Ventures

Optimistix, founded in 2003, has been a part of the growth of Dubai and the region into a hub of innovation and world-class events. From the earliest days of development of Dubai, the founding team worked to build the technology behind the iconic milestones like Burj Al Arab, Emirates Towers, Emirates Palace, Dubai Internet City, Burj Khalifa, Emaar developments and the like, and to the latest institutions like Dubai Future Foundation, In5, Hub71 and the UAE PMO.

The team expertise has centered around creating, ideating and execution of innovativeideas and activations, especially around events and displays, of global impact and substance. Our expertise extends into content, talent, technology, innovative activations, production and complete execution of speciality events like World Government Summit, GITEX, and Expand North Star to name a few.

About Strategy Connect

StrategyConnect participated as the knowledge partner for the round table. StrategyConnect deploys specialized talent on-demand. As one of the largest networks of independent consultants and industry experts, it is driving the adoption of a flexible workforce across the Middle East.

It aims to rapidly connect organizations with the precise expertise they need. The company boasts of being a provider of meticulously vetted consultants to well-known projects such as the NEOM, Abu Dhabi Early Childhood Authority and other well-known institutions.

Decoding the Dynamics: Corporate Venture Capital vs. Institutional Venture Capital

Corporate VCs invest their self-earned money. Having a detailed knowledge of their respective areas, these VCs look for startups that give their parent companies some kind of **strategic edge**. The reason is that due to the sheer size of the parent company, it becomes difficult for multiple departments to collaborate and innovate.

Institutional Venture Capital typically invests money that it gets from sources such as retirement funds, saving surplus, trusts, and sovereign wealth funds. Therefore, these VCs invest from a single perspective, i.e., from the perspective of building a portfolio & earn **return on investment.**

CVCs are based on the central idea that innovation is much easier in the case of startups due to their lean size, dynamic approach, and tech-oriented style of operations. The consultative service of an institutional VC often includes financial oversight, recruiting, networking, product advice, assistance with follow-on funding and, ultimately, with exits. **CVCs can leverage the parent corporation to bring product, distribution, supply chain and other expertise to an investment.**

VCs are often guided by the fear of missing out, prompting an offensive strategy. On the other hand, CVCs default to a governance mentality, playing a defensive role and operating based on the fear of making errors.

CVC's Growing Role

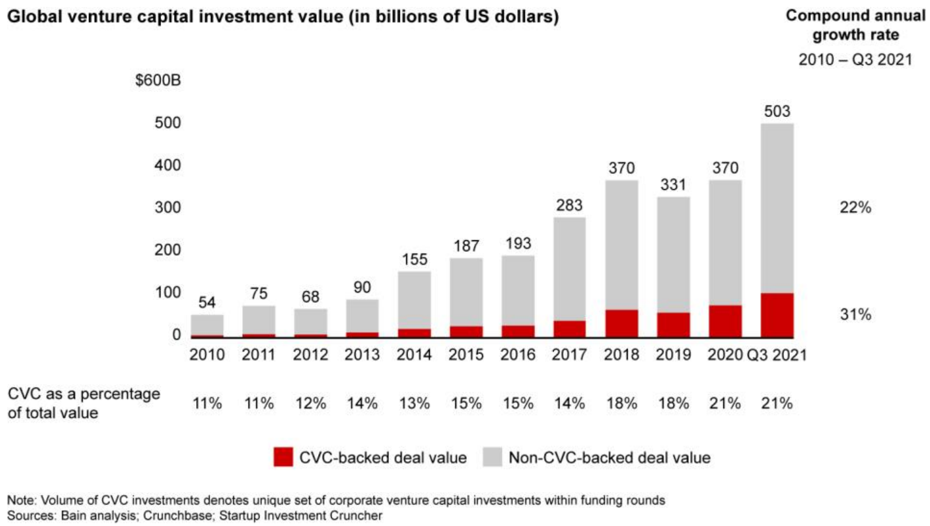
Large corporates, especially with heavy balance sheets and large profit margins tend to have a big surplus in cash. Cash must be disposed soon through methods such as dividend, financing, or investment. Among the three, investments tend to generate the highest returns on wealth. Therefore, traditionally CVCs were seen as an avenue for greater investment returns.

Recently the **role of CVCs has shifted from extra returns & portfolio diversification to bringing asymmetric advantages to their parent companies** such as innovation, entry into new markets, strategic partnerships, cross selling or owning a part of the Supply Chain etc.

According to Bain, **CVC has doubled from 11% of all venture capital investing in 2010 to over 20% in 2021** with a compound annual growth rate of 31% during the same period. [1]

Lastly, **external innovation** has become very important since our **competitor landscape is broader** than before. It's not just the few established players but numerous start-ups that are reaching scale due to digital transformation. Many executives also believe their business models are at risk. Internet of Things, autonomous vehicles,

[1] *Understanding Corporate Venture Capital: The Ultimate Guide* (2022 Oct, 27) Understanding Corporate Venture Capital: The Ultimate Guide (goingvc.com)



Source: Bain analysis, Crunchbase

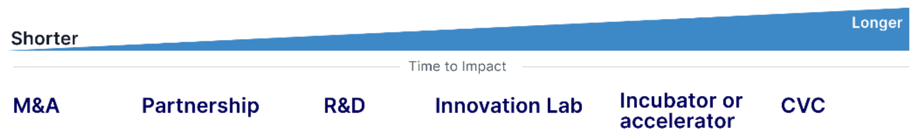
blockchain like technologies put many traditional business models under threat. In the face of challenges, a company cannot solely rely on increased investments in its R&D department or internal incubators. The significance of external innovation becomes paramount.

CVCs: Part of Overall Corporate Innovation

Tools such as Partnerships, innovation labs, incubators & accelerators, M&A and CVCs are each designed to target one or more of the different types of innovation (process, product, service etc.), aiming for either **disruptive or incremental effects**.

Corporate venturing must integrate into the broader corporate innovation strategy. Unfortunately, it often operates independently of the established corporate framework, leading R&D and other functions to perceive it as a separate and competing effort rather than a complementary one. Corporate innovation approach needs to clarify how to use each of the tools to achieve the company's innovation goal. It is often seen that different innovation tools suit different company objectives such as:

1. **Acquisitions** work best when corporates want to quickly tap into new revenue streams and new capabilities.
2. **R&D** is an important tool when a corporate wants to develop an expertise in its core business or incrementally improve its product or service.
3. **Funding** (CVCs, incubators & accelerators) works best when a corporate is looking for future revenue streams. Hence, there is a need to fill a specific gap or to gain an insight into new opportunities of disruptive growth given enough time.



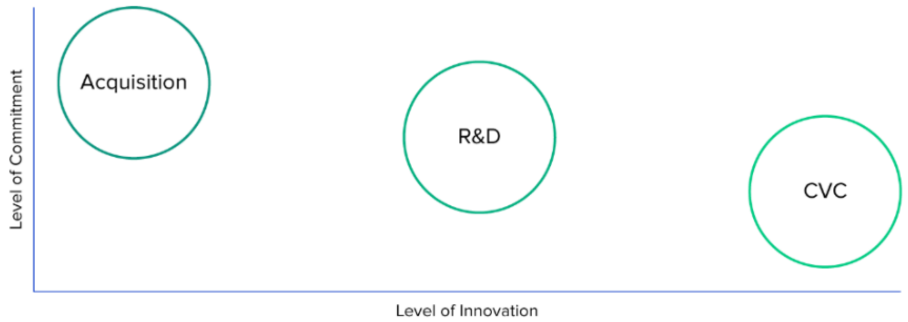
Source: BCG, how corporate ventures keep getting better

This is where the need for CVCs arises because the evaluation, due diligence, and verification of claims by a startup can be done better only by a specialized body.

As per EY-Parthenon 2022 Digital Investment Index report, which surveyed over 1,500 executives, **CVC funds are the venturing tool of choice**: 60% of organizations say that a dedicated CVC fund, as opposed to direct investing off the balance sheet (13%) or investing as a LP in a VC fund (27%), produced the best corporate venturing results. [2]The Pitchbook from CB Insights (reported by McKinsey and Co.)[3] show that the usage of separate CVC bodies by corporations have become common.

The level of commitment in terms of funding also changes the level of innovation.[4] Acquisitions tend to negatively affect innovation since the corporate policies of old company gets applied to the newly acquisitioned company. Further, in most cases, VCs take up a large percentage of board seats, sometimes reaching as high as 50%.[5]Both factors tend to drive down innovation.

CVC can uncover growth avenues with minimal commitment. By allowing companies to invest CVC funds off the balance sheet, it provides greater scalability in research and development (R&D) compared to what is feasible solely through the P/L statement. Here, in most cases the level of interference tends to be low therefore allowing a startup to reap full benefits of being a lean organization. When companies want to establish a balance between control and innovation is when they invest in R&D.



Source: Toptal, Corporate Venture Capital: The Devil or an Innovative Growth Channel?

Navigating CVC Excellence: Effective Deal-Making Best Practices

The roundtable conference revolved around the quest for optimization and effectiveness in Corporate Venture Capital (CVC) deals, with the identification and implementation of best practices.

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[2]*How corporate venture capital investing differs from traditional VC* (2022 Nov ,9)Difference in institutional VCs and corporate VCs | EY - US

[3] *Three essentials of successful corporate venture capital*. (2023b, November 2). McKinsey & Company. https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/three-essentials-of-successful-corporate-venture-capital

[4] Cfa, E. J. H. H. (2020, February 13). *Corporate venture capital: the devil. . .or an innovative growth channel?* Toptal Finance Blog. https://www.toptal.com/finance/venture-capital-consultants/corporate-venture-capital

[5] Hayes, A. (2023, July 15). *Venture Capital: What is VC and how does it work?* Investopedia. https://www.investopedia.com/terms/v/venturecapital.asp

Emphasizing the fact that **startups prioritise strategic motivations when looking for partnerships,** corporates also need to adopt a holistic approach to working with the start-ups.

> *"Interestingly, financing is not the top reason for start-ups to pursue partnerships, or even among the top three. Their top motive is getting access to the larger partner's market."*
>
> *- Tawanda Sibanda, Partner At McKinsey*

It Is first important to understand that there are numerous issues that tend to derail the effectiveness of such partnerships. Initially, there exists a **deficiency in internal sponsorship and strategic buy-in,** particularly within the units of CVC. While a CFO or CEO may have initiated an endeavour, it **lacks wholehearted commitment** from the complete executive team and is often **regarded as an ancillary project.** The absence of individuals from the corporate side forces startups to independently navigate corporate structures, presenting a considerable challenge.

Insufficient strategic clarity regarding the desired objectives poses a challenge. The translation of insights into actionable strategies, and the subsequent leveraging of the external ecosystem to achieve their objectives, often remains undefined in corporates.

An additional challenge lies in the slow processes within corporations which doesn't align with the agile mindset of startups. Subsequently, when collaborative efforts commence, a further complication arises in the form of **inadequate impact tracking**. Therefore, companies often find themselves **entangled in pilot phases**, lacking a clear pathway for scaling in terms of resources. This situation results in a stagnation for startups.

Harvard Business School' senior lecturer Shikhar Ghost's research shows that as much as 75% of startups provide negative returns to their investors.[6] CVC Deals tend to be more effective when they use a strategic approach in making decisions on investment and acquisition deals. [7]Alignment of the business policy of their parent company can help align the goals of investment which then can help CVCs reap even greater benefits.

The roundtable focused on suggesting a best practice norm at each stage of the CVC deal. This will help ensure strategic and operational alignment in the long run.

Pre-Deal stage: Focus on Investment process clarity and operational alignment

[6] Deborah Gage, September 12, 2020, The Venture Capital Secret, Wall Street Journal,https://www.wsj.com/articles/SB10000872396390443720204578004980476429190

[7] Gompers, P. (2021, September 17). *How venture capitalists make decisions*. Harvard Business Review. https://hbr.org/2021/03/how-venture-capitalists-make-decisions

At this stage, the most important part is the clarity in investment process. Proper alignment between the investment decision, its goal and the alignment of investor-investee business goal are necessary here.

The goals of investment might be single or multiple. It is important to tailor investment strategies to specific objectives. There is a need for distinct approaches based on the nature of investment.

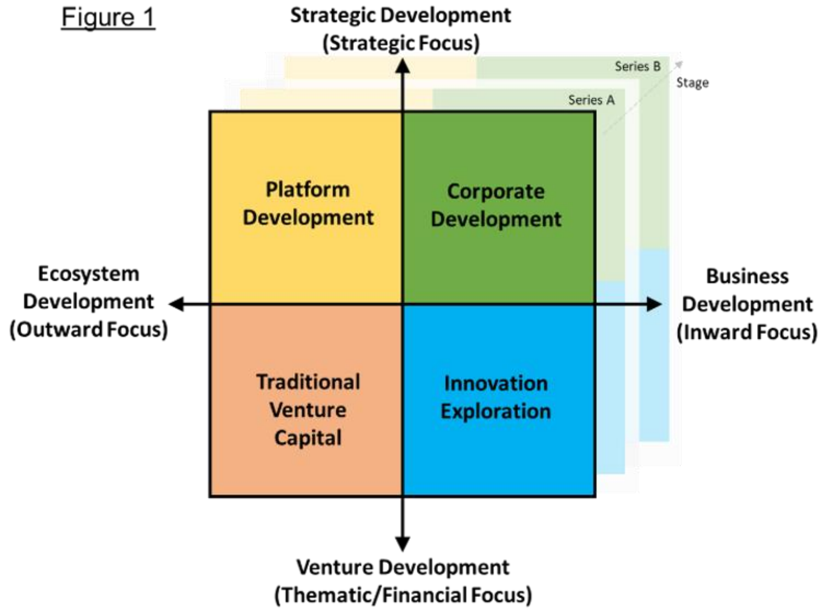
- **Complete fit investments: Shared vision and strategic synergy:** These types of investments are geared towards creating symbiotic relationships. Through the integration of products or services, companies can offer enhanced solutions and get access to a broader customer base. Additionally, collaborative marketing efforts amplify the impact, providing a unified front in the market. Due diligence for collaborative integration assisted with joint roadmaps should be at the forefront. Coordinated team involving stakeholders from the parent company accompanied for close operational monitoring will be effective.

- **Vision aligned investments: Shared vision but no strategic synergy:** Here CVCs aim to drive innovation via acquired companies to eventually benefit the parent company. Here corporates can focus on long term partnerships and future synergy exploration.

- **Opportunistic investments: No shared vision & no strategic synergy:** These focus majorly on focus majorly on financial returns. Clear dedicated process or pathway through which CVCs & the parent company can contribute to the startup's objectives. Networking and knowledge sharing at the forefront is a must.

The graph below highlights a simple way to think about the various strategic use cases to consider for better investment process clarity and where to focus efforts along two dimensions: A focus on strategic-first returns versus financial-first returns and a focus on the corporation's business model (internal growth & optimization) versus external ecosystem development (outward on partnerships, collaborators).

Figure 1



Source: TechNexus, CVC is not Monolithic

Operational alignment is possible via placing **operating champions** across key BUs to align business goals & KPIs and overcome innovation resistance. Thus, involving corporates in investment decisions. Aligning KPIs proves to be a streamlined approach for operational oversight. Hence, CVCs are advised to **concentrate on larger deals, particularly those occurring post-Series A** as it is challenging to align corporates on smaller deals that disrupt the current set of KPIs.

Deal stage: Focus on addressing potential conflicts of interest and lack of transparency in deals.

At the deal stage, there must be **separate investment and service agreements**. This would help prevent conflicts when getting access to each other's customer base, getting operational support from each other, and obtaining the access to each other's network of suppliers.

This type of agreement helps avoid conflict of interest especially when the investee company is not fully acquired, or the past executives and board members still retain their position.

CVCs need to work collaboratively in figuring out scenarios where investments will be **conflict of interest for competitors of parent company to buy startup's services.**

Case in point

A GCC-based conglomerate, when investing in a super app, had a detailed service agreement to avoid conflict of interest when acquiring customers.

Post deal stage: Focus on maintaining effective relationships to move from pilot phases to scaling resourcefully.

At this stage, investee companies have a large role to play in ensuring a free hand in operations as well as the greater success of the investment. Continual building of relationships is an essential responsibility of investee companies as they have limited reach and knowledge, they need their parent companies to help in strategic decision making and removing roadblocks whenever necessary.

Snapshot of Key Takeaways:

CVC'S OPERATIONAL & STRATEGIC ALIGNMENT WITH CORPORATES DURING THE PRE-DEAL, WITH DEFINED SERVICE AGREEMENTS & RELATIONSHIP BUILDING POST THE DEAL, WILL ENHANCE COLLABORATION

Pre-deal

Pre-deal processes are focused on **CVC's operational & strategic alignment** with corporates

Investment process clarity:

- **Innovation-driven investments** focus on knowledge transfer, resource allocation and collaboration in later stages.
- **Cross-selling and synergy investments** involve product integration, customer base access, and joint marketing efforts
- **Opportunistic investments** focus majorly on financial returns

Focus on larger deals (post series A) as it is challenging to align corporates on smaller deals that disrupt the current set of KPIs

Operating champions across key BUs to align business goals & KPIs and overcome innovation resistance. Thus, involving corporates in investment decisions

Deal

Separate investment & service agreements: Clearly defined clauses for strategic support, operational assistance and access to network of suppliers & customers brings transparency in the deal & avoids conflict of interest.

Case in point: A GCC-based conglomerate, when investing in a super app, had a detailed service agreement to avoid conflict of interest when acquiring customers

Post-Deal

Responsibility of portfolio companies to maintain relationships with corporates: Portfolio companies should continuously build connections and actively seek opportunities to collaborate.

Examples:

CVC deals have the power to charge innovation and reap dual benefits when both the acquired company and the parent company both benefit from the same technology.

Sustainable Synergy: Nurturing Innovation through CVC partnership

Crescent Enterprises is a subsidiary of the CE Group, a multinational company headquartered in the United Arab Emirates. It operates under four platforms: CE-Operates, CE-Invests, CE-Ventures, and CE-Creates, which span diverse sectors including ports and logistics, power and engineering, food & beverage, business aviation, and across verticals such as private equity, venture capital, and business incubation

Bee’ah is a government backed holding company that provides sustainable solutions for communities, cities, and companies. It's considered a sustainability pioneer in the Middle East

CE and Bee’ah formed as a joint venture ION which is a UAE-based sustainable transport company established in 2018. Through innovations in green mobility, ION is promoting economic and environmental sustainability, and driving on-demand availability in multi-modal, inter-urban, transport networks

Strategic expansion: Pivoting strategies via CVC partnerships

E& is a multinational telecommunications services provider based in United Arab Emirates (UAE).

Careem is a Dubai based 'the everything app' for the region, making it easier than ever to move around, order food and groceries, manage payments, and more

In April 2023, e& acquired a 50.03% stake in Uber owned Careem's Super App for $400 million. This investment is in line with e&'s strategic ambition of scaling up consumer digital offerings and accelerating its transformation to a global technology and investments group. It provides e& with access to multiple digital verticals, new innovative digital services, strong talent, and new geographies.

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