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Getting Started in Corporate Venturing

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Shadow Ventures
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Getting Started

Corporate Venturing - The cool new innovation buzzword. A way for corporations to receive financial, and strategic value from startup relationships. A corporate development practice used by the massive tech. giants and now making its way downstream to a much broader group of strategic corporate investors.

You want to get started, but how?

Shadow Ventures Overview

- Seed-stage venture capital firm investing in built environment technology startups
- Founded by serial entrepreneur K.P. Reddy
- Currently closing Shadow Fund Three
- Shadow Labs: Global in scope, virtually operated incubator. Over 80 startups
- Notable investments include; Local Logic, ICON, Amenify and more to come
- https://shadow.vc/

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Background

A few quick facts about me

- I work for a Venture Capital firm and manage our corporate relationships - aka, I help ensure our investors and partners get the strategic value they expect when engaging with a venture firm
- I come from a world of corporate venturing and corporate innovation - having worked with over a dozen fortune 500 companies including, Cigna, General Mills, and Chick-fil-A, I've seen a range of corporate venturing models - some that work better than others
- I am extremely excited to see corporate venturing entering the built environment. Particularly with the AEC and Development Companies entering the space. I feel it is a vital cog in accelerating tech adoption throughout the industry
- This guide is to help you get started, there is no crystal ball and one size fits all answers, but hopefully after reviewing this material you are better prepared to take the first step

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The Flywheel

When executed correctly, corporate venturing creates a beautiful self sustaining innovation model for AEC Firms and Developers.

1. AEC Firms and Developers are the target customer for a majority of tech innovation happening in the built environment
2. Adopting technology and signing commercial agreements with startups creates tremendous "valuation value." Ex. $1 in new revenue can result in a 5-15x increase in a tech companies valuation. If you sign a $100k commercial contract with a startup, their valuation can increase anywhere between $500k-$1.5M.
3. If you form a commercial relationship the strategic value is realized - The startup is providing value to you in terms of efficiency gains, or cost reduction.
4. But, if your commercial agreement is that valuable to a startup from a valuation perspective, should you also benefit with financial returns?
5. How many of you were early adopters of Autodesk, ProCore, and Trimble? You helped create $1B multinational corporations and saw zero financial returns. Corporate Venturing is the answer

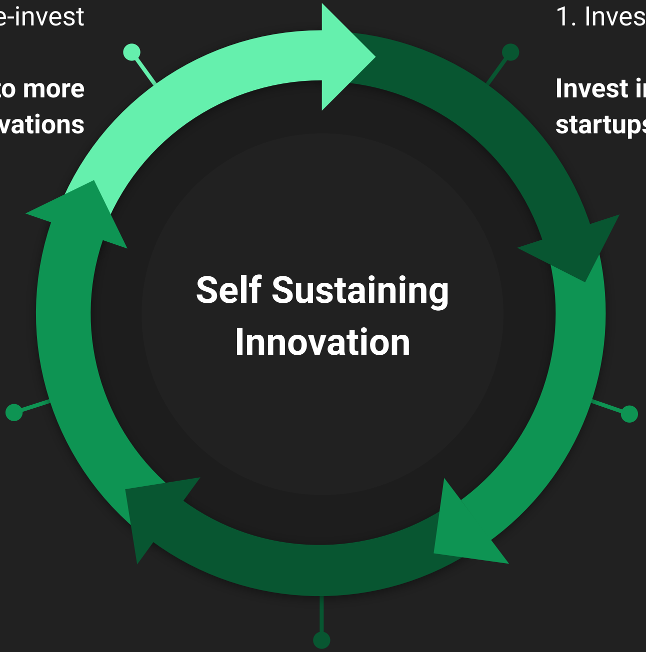
The Flywheel

5. Re-invest

Re-invest financial gains into more startups and innovations

1. Invest

Invest in strategically relevant startups



2. Form Commercial Relationship

Execute a commercial relationship simultaneously increasing the startups valuation

3. Grow

Validate the startups technology, make introductions to your network

4. Exit

Exit the startup and realize financial returns

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Considerations

In the following slides we lay out 5 options for you to kickoff your corporate venturing conversation. A couple considerations first:

1. Corporate Venturing is still investing: As with any investing, there are risks and there will always be external factors you cannot control, regardless of how well you prepare.
2. One size doesn't fit all: This guide is meant to act as a kickoff. Corporate venturing has a lot of flavors and variations and every organization should do what works best with their structure and goals.
3. Define your mission, vision and purpose: Clearly defining key elements will help keep the ship traveling in the correct direction. There will be lots of tempting startup distractions but you need to maintain the course.
4. Get buy-in: Executive level buy-in and support is vital. Set goals and create realistic KPIs that grow with your companies expanding investment capabilities.
5. Knowing terms: This document will use some language that non-investors might not be familiar with. Happy to answer those questions, but not here.

1. Launch a Dedicated Fund

- This is the most aggressive strategy in terms of financial commitment, time, and resources but it also has the most potential for financial returns.
- Typically in this model corporates stand up a separate entity and commit $x to startup investing. When I did work with Cigna in the past they had a dedicated team of 3 responsible for deploying $250M over 5yrs.
- In this structure, the corporate is a single GP and the only investor. Note: This structure can have large fees associated with setting up the legal entity and governance
- When looking at this model, it's typically best to hire someone from the venture world to run and manage the fund. Usually, this person reports to the CFO, Head of Corporate Dev, and in some cases the Heads of Innovation.
- I typically recommend this as something to build towards, but not as a starting place.
- There is also an option to partner with a Venture Firm. In this model the corporation is the sole GP in a dedicated fund managed by a Venture firm. The corporation gains the expertise of a venture firm investing their dollars and that fund is 100% strategically aligned with the corporates goals. In return, the venture firm earns a management fee and carry.

2. Strategic Investing

- This is the least aggressive strategy and in being so, also offers the least amount of financial upside.
- In this model, rather than investing capital in startups, corporates invest time and resources.
- In return for that time, the corporate earns warrants or convertible notes that earn them equity in the company when certain milestones are reached.
- Typically this would need to focus on pre-seed and seed-stage startups as they will value that strategic guidance more than an established company.
- It is vital in this structure that KPIs clearly define success.
- Gaining buy-in from the teams that will be using the technology is key. They must realize the value and be committed to piloting and deploying the technology or the relationship will fail.
- The biggest challenge will be getting startup buy-in. For them to give up equity the value needs to be very attractive.

3. VC Fund Investing

- With this approach, corporates invest in strategically aligned VC funds.
- In doing so, the corporates benefit from startup engagement and the financial returns of venture investing. For example, in Shadow's third fund, which we are currently raising, about half our LPs are strategic investors.
- The advantage of investing in a venture capital firm is the expertise and guidance you gain. This along with exposure to the entire portfolio greatly reduces risk.
- Top of funnel deal flow. Shadow see's 100s of startups a month. Part of our commitment to our LPs is introducing strategically relevant startups, even if we aren't an investor. LPs also gain access to our incubator which currently has over 80 built environment startups.
- The downside of this is that all investments will not be strategic for you. Shadow like other VCs in the space will invest across the built environment. This includes ConTech, PropTech, DesignTech, InfraTech, and more.
- Finally, this is an opportunity to expand your network with other corporations interested in innovation.

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4. Deal by Deal Investing

- This approach is a hybrid between launching a dedicated fund and VC Fund Investing.
- In this model, the corporate aligns itself with a couple of Venture Firms and does opportunistic, deal by deal investments. For example, every startup Shadow Invests in we create an SPV and allocate a sidecar for strategic investors to join us in the deal. (~$55k/deal)
- The venture firms, source, validate, underwrite, negotiate investment terms, and manage the startup. In return, we earn an investment fee (10%) and carry (10-20%).
- The biggest advantage of this model is that your investments can all be strategically aligned and you gain the guidance and support of expert investors.
- The downside of this is that you are more exposed from a financial perspective. In contrast to the VC fund investing model where your investment is spread throughout the entire fund portfolio, thus reducing risk, with deal by deal investing your money is more concentrated in fewer deals.

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5. Launch a Dedicated Fund

- Because of course there is a hybrid model which is my personal favorite!
- The hybrid model draws the best options from 2, 3, and 4.
- The corporation invests in 1 or 2 strategically aligned venture funds to help generate deal flow and manage startup relationships (typically about $1M/each).
- At the same time, the corporate allocates capital for strategically aligned deal by deal investments
- By being an investor in the Venture Fund, all fees associated with the deal by deal investing are also waived or reduced (depending on the amount).
- Like options 2, 3, and 4, these models can typically be executed with your existing team and don't require outside hires.

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A Possible Future - CPE

- An evolved model of CVC Investing - I commonly refer to this as **Corporate Private Equity** since the strategy more closely resembles a PE strategy.
- A major challenge of corporate venturing is justifying the financial and strategic value. This is mainly caused by the disparity in size between startups and corporations. CPE solves this challenge by creating a company with the size where the impact is measurable.
- The CPE model is focused on building a billion dollar company for the corporation to acquire through strategic acquisitions.
    - The goal is that through smaller and more strategic acquisitions you can build a company with a valuation worth more than the original investment.
    - Any original venture investments buys down the future acquisition cost.
- CPE Opportunity Examples in the Built Environment
    - Connected Jobsite
    - Resident/Tenant Experience
    - Industrial Construction Design Sandbox

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Get Involved

- **Start Investing**
  - Invest in our fund
  - Invest with us
  - Manage your investing
- **Join our community**
  - Built Professionals Community with over 600 members
- **Lead Startups**
  - Venture Advisors
- **Top of Funnel**
  - Manage startup engagement

About Shadow Ventures

Shadow Ventures is a seed stage investment firm founded by serial entrepreneur and former engineer KP Reddy. We identify and grow technology companies across the world who are poised to transform tech-nascent markets like the built environment. Our process and ecosystem are driven by both experience and technology to provide a carefully curated pipeline for our investors and unparalleled opportunities for our companies.

We are a firm of entrepreneurs that still write code, obsess over long sets of data, and yearn for the daily in-the-trenches grind of operating startups. We're proven entrepreneurs & investors. We're unapologetic technology nerds. We're ruthless builders.

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