Working with corporates

SMEI Academy Session
February-March 2018

Overview

- Open innovation, an opportunity to access corporates
- Collaboration as a process to be managed for building trust.
- A clear strategy is key for fit and will affect terms, negotiation and results.

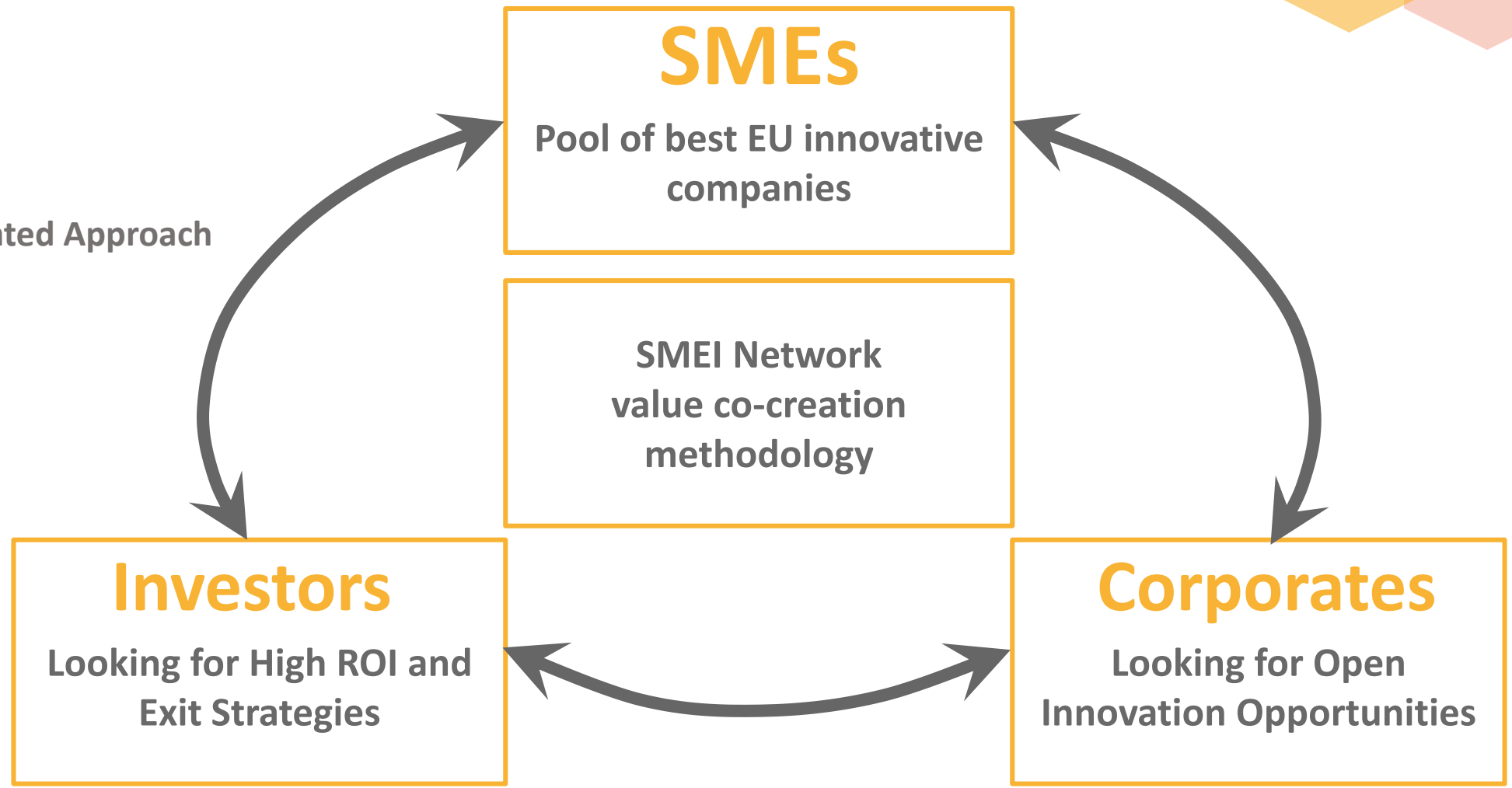
Day 1 – Basic concepts

Day 2 - Workshop

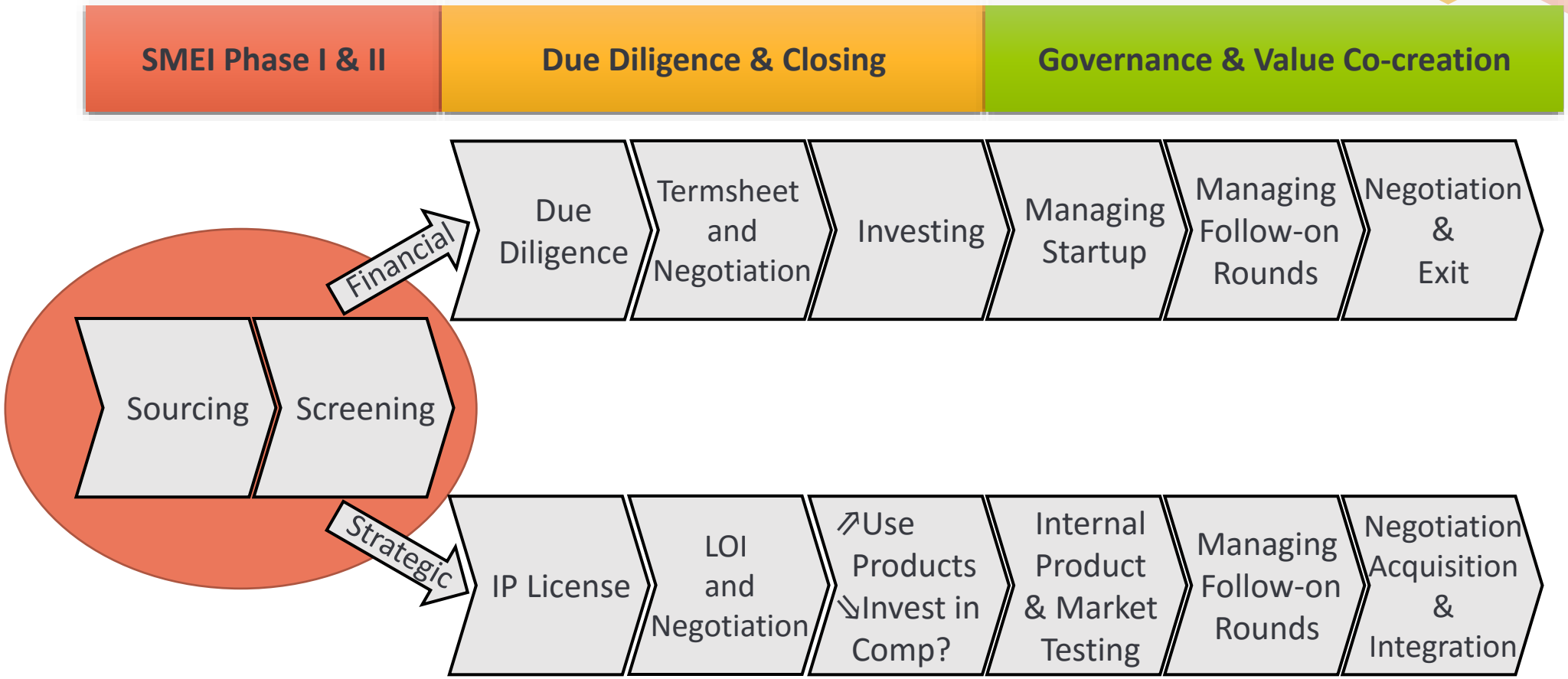
Introduction

SMEI Approach USPs

Integrated Approach



SMEI: End to End Value Chain Coverage



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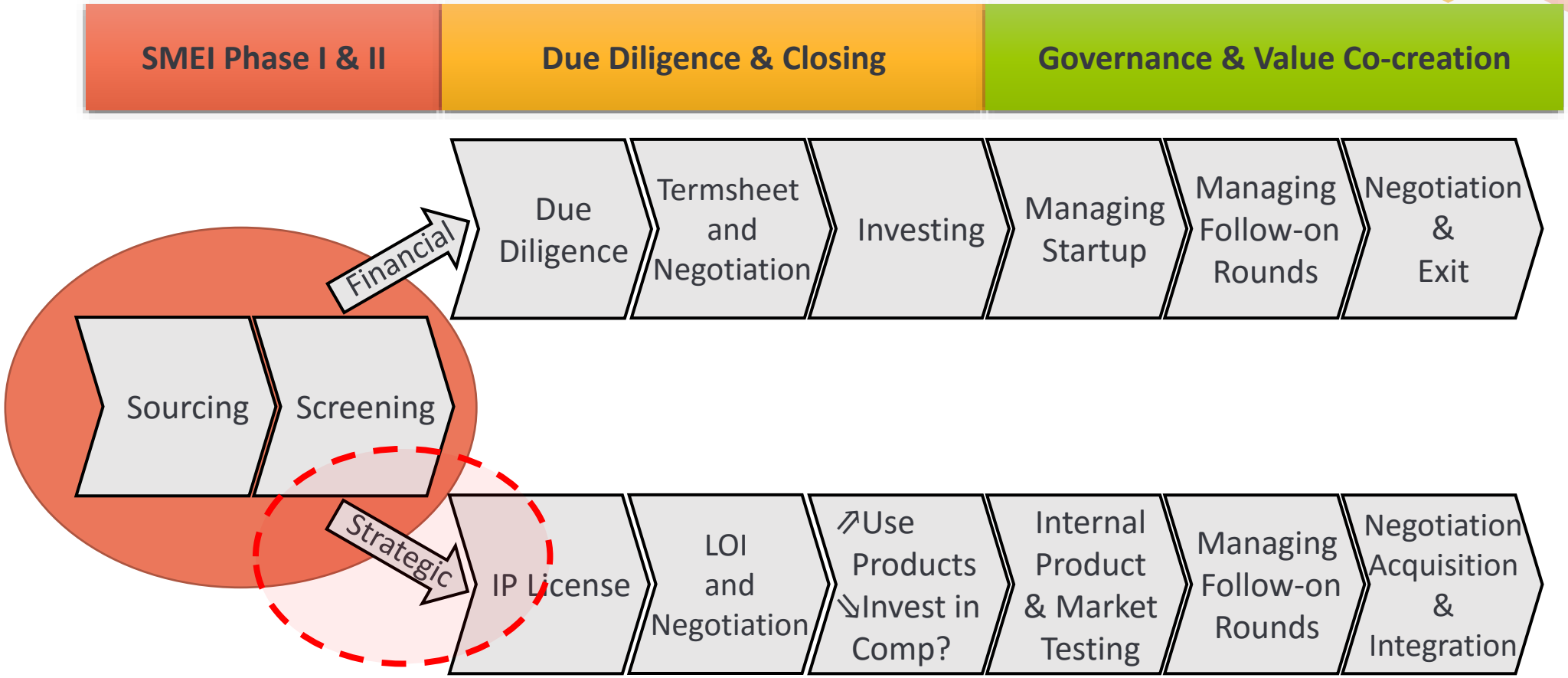
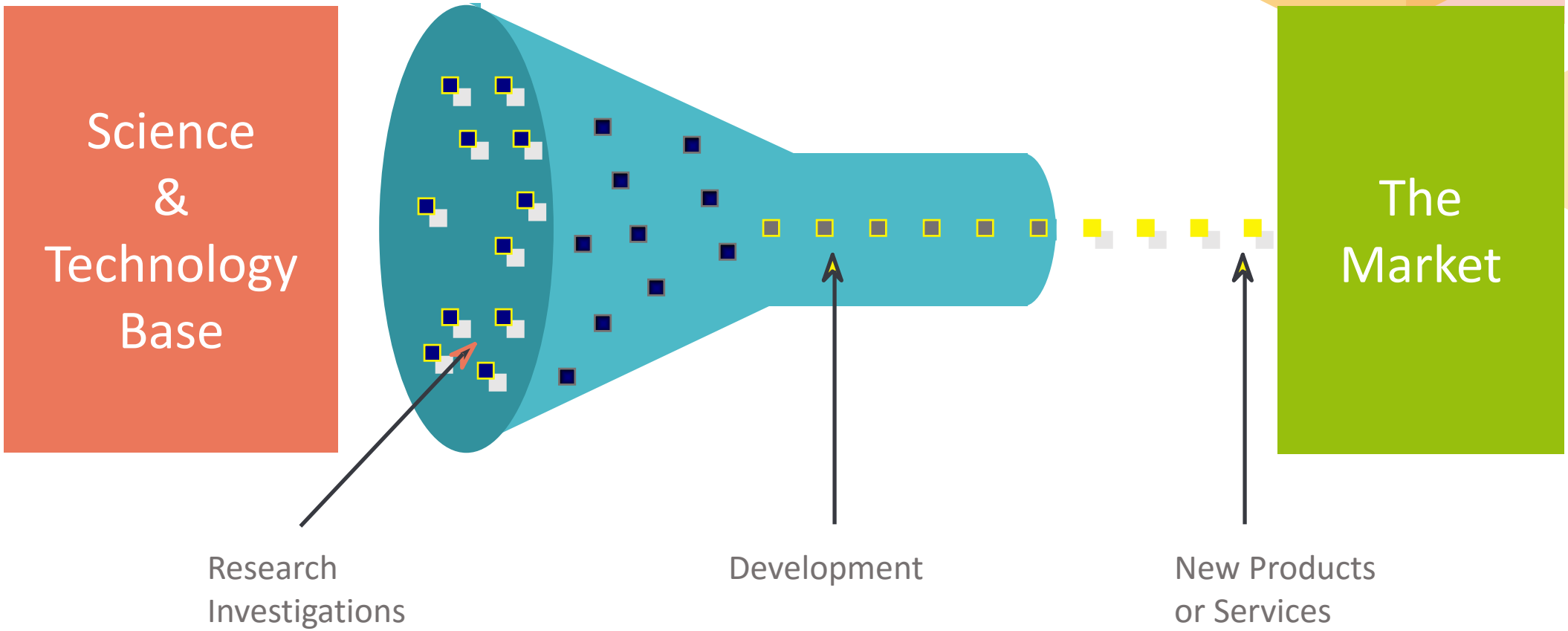


Collaboration with corporates

Collaboration with Corporates

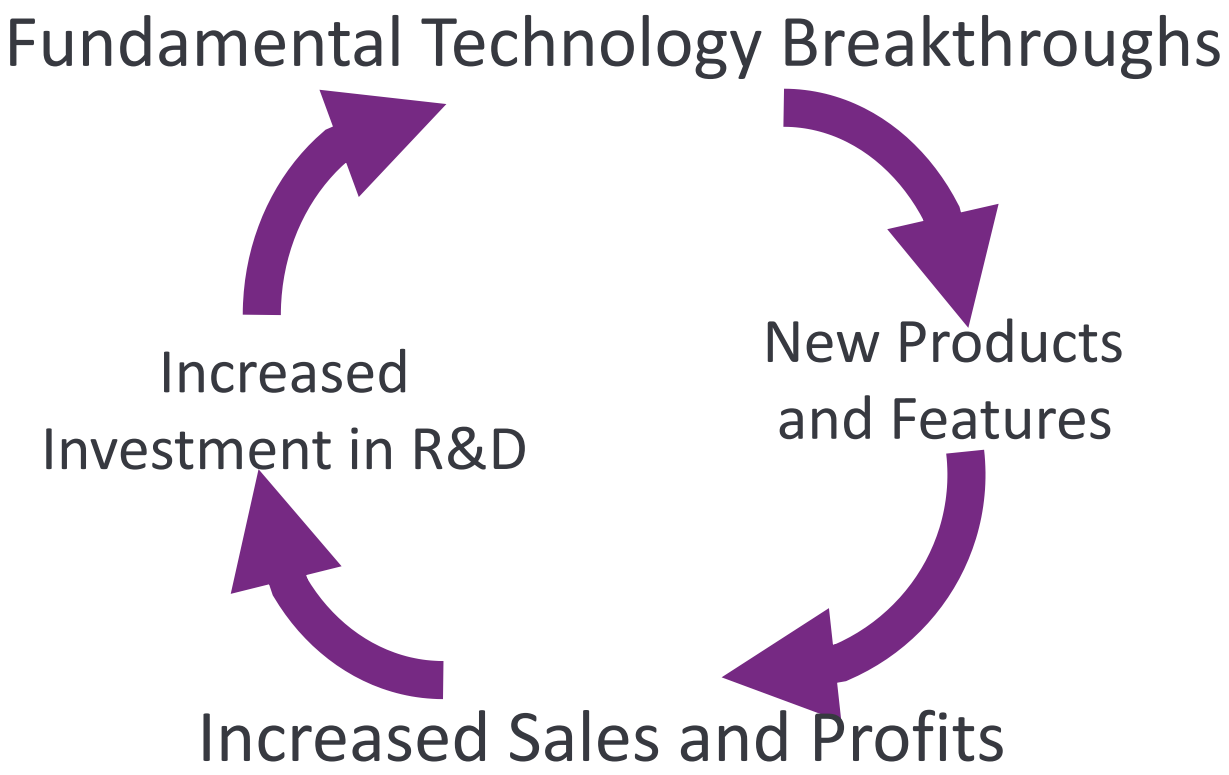
Open Innovation

Closed Innovation



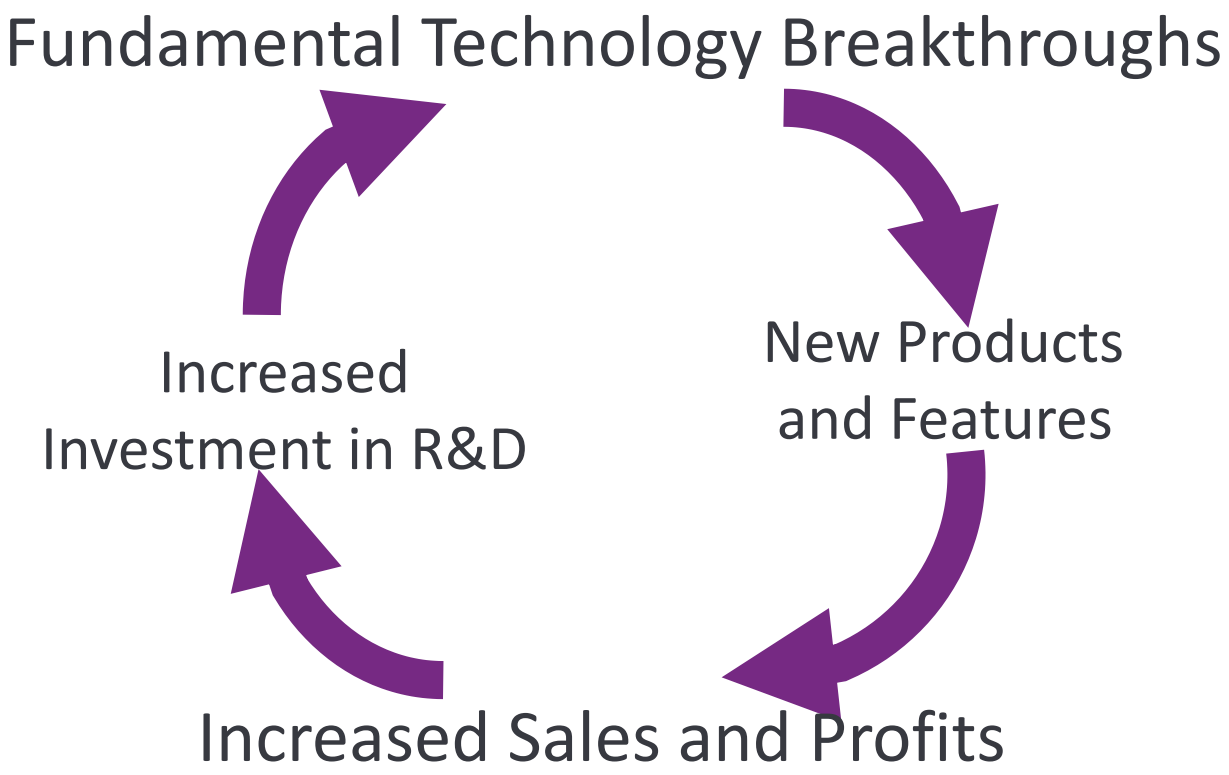
Source: Henry Chesbrough

CI: Virtuous Circle for R&D



Source: Henry Chesbrough

OI: The Virtuous Circle Broken



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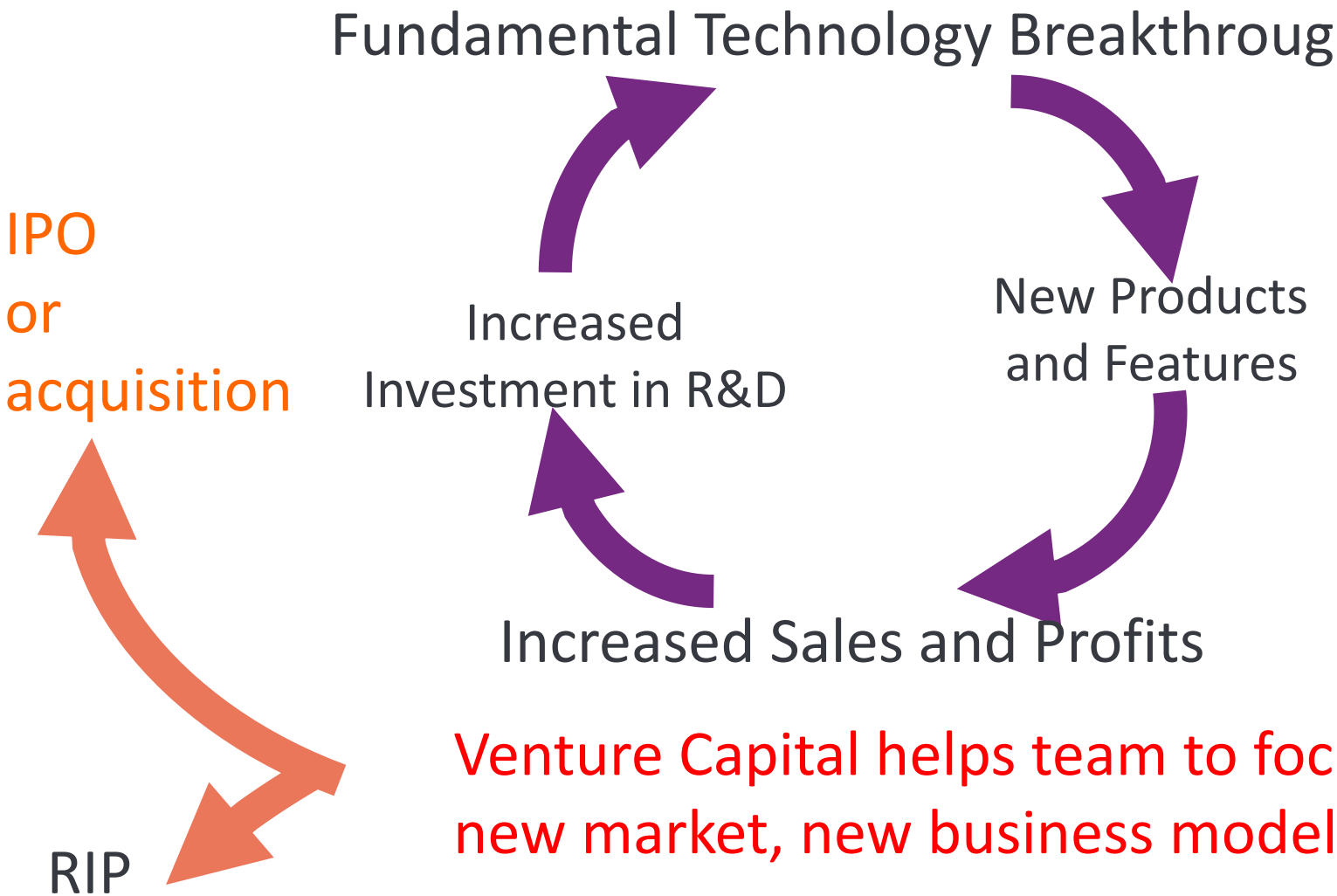


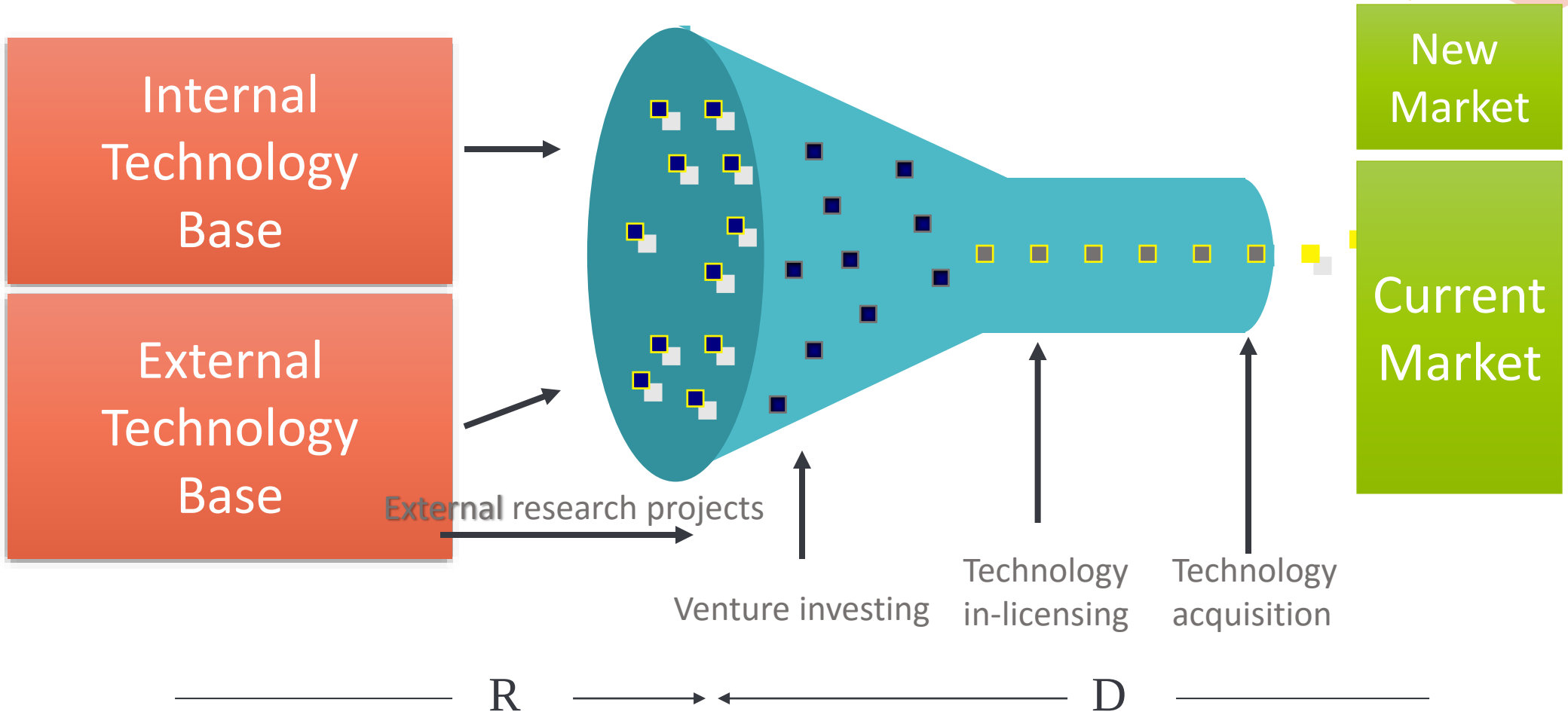
The outside option

Key engineers exit to form new company

Venture Capital helps team to focus on new market, new business model

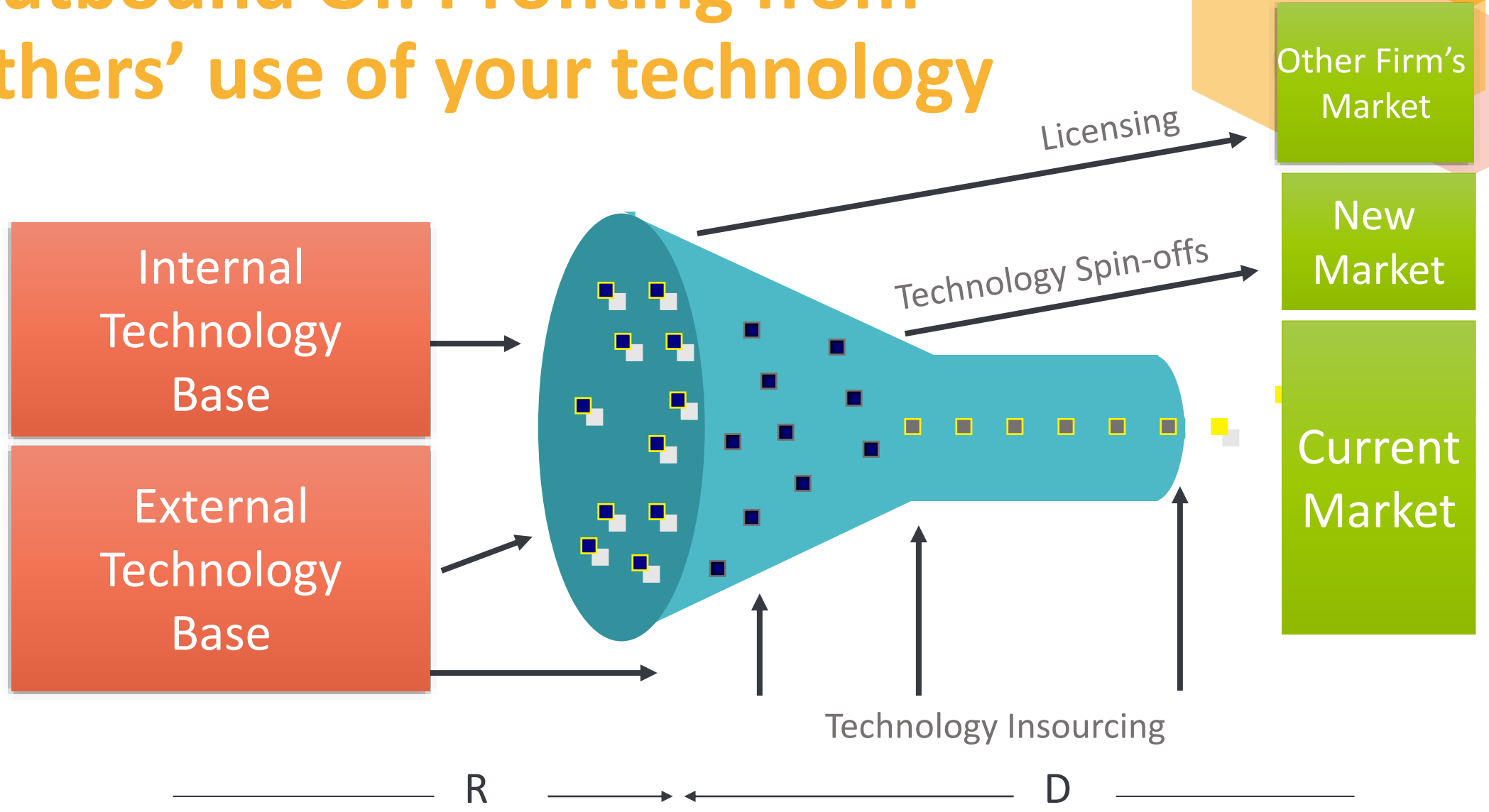
Source: Henry Chesbrough

Inbound OI: Filling gaps with external technology



Source: Henry Chesbrough

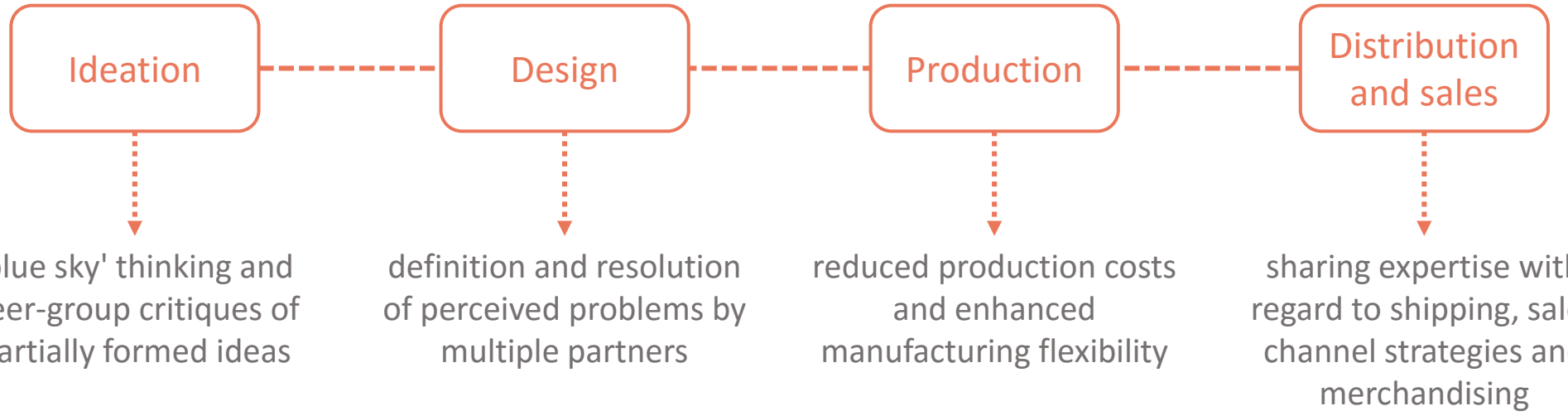
Outbound OI: Profiting from others' use of your technology



Source: Henry Chesbrough

Open Innovation

At every stage in the development cycle



Corporations are coming to realize how partnering – with universities, suppliers, government bodies, distributors and customers – can represent the most cost effective way to secure and leverage the broad range of skills and competencies that a new product/value proposition launch is likely to demand.

Crowdsourcing

The most far-reaching example of open innovation

Crowd + Outsourcing

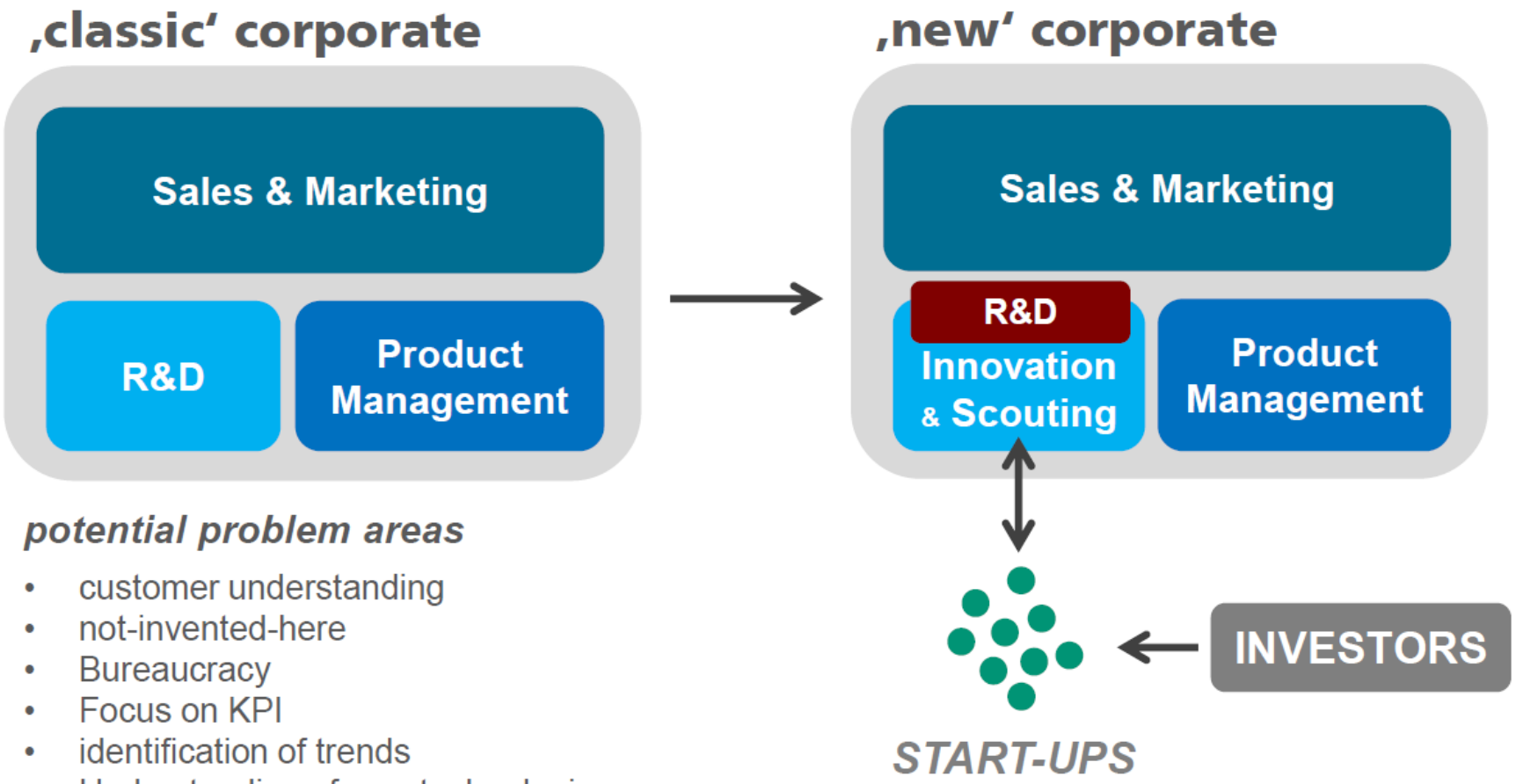
WIKIPEDIA
The Free Encyclopedia

amazon
beta
mechanical turk

The Future is Already Here, But Not Always Visible

20th Century Organization Mantra Of Operational Excellence	21st Century Organization Mantra Of Entrepreneurship & Innovation
Competition for same product efficiently with lowest cost	Operational Excellence necessary but not sufficient
Huge investments done in IT and move to low cost labour locations	Members of organization empowered to develop new business models and products
Planning capabilities key for success	Ongoing need to understand and adapt to new technologies, trends and customers needs
	Understanding risk, accepting failure, applying a portfolio approach and connecting to external network keys for success

Challenges at corporates



potential problem areas

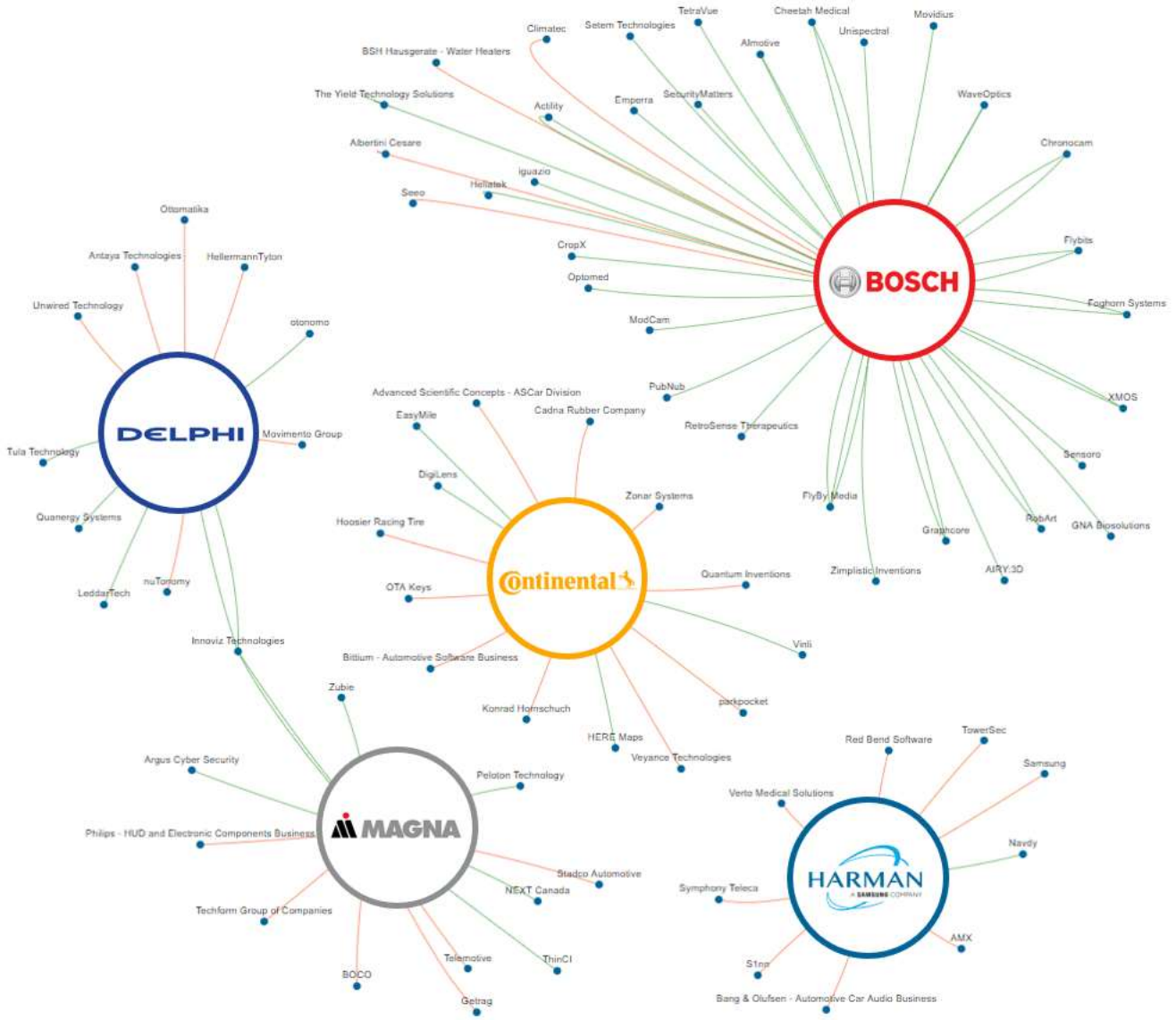
- customer understanding
- not-invented-here
- Bureaucracy
- Focus on KPI
- identification of trends
- Understanding of new technologies

Source: Fraunhofer Venture

Corporate Venture Examples

WHERE AUTO SUPPLIERS ARE MAKING PRIVATE MARKET BETS

2014 – 2017 YTD (10/31/2017)



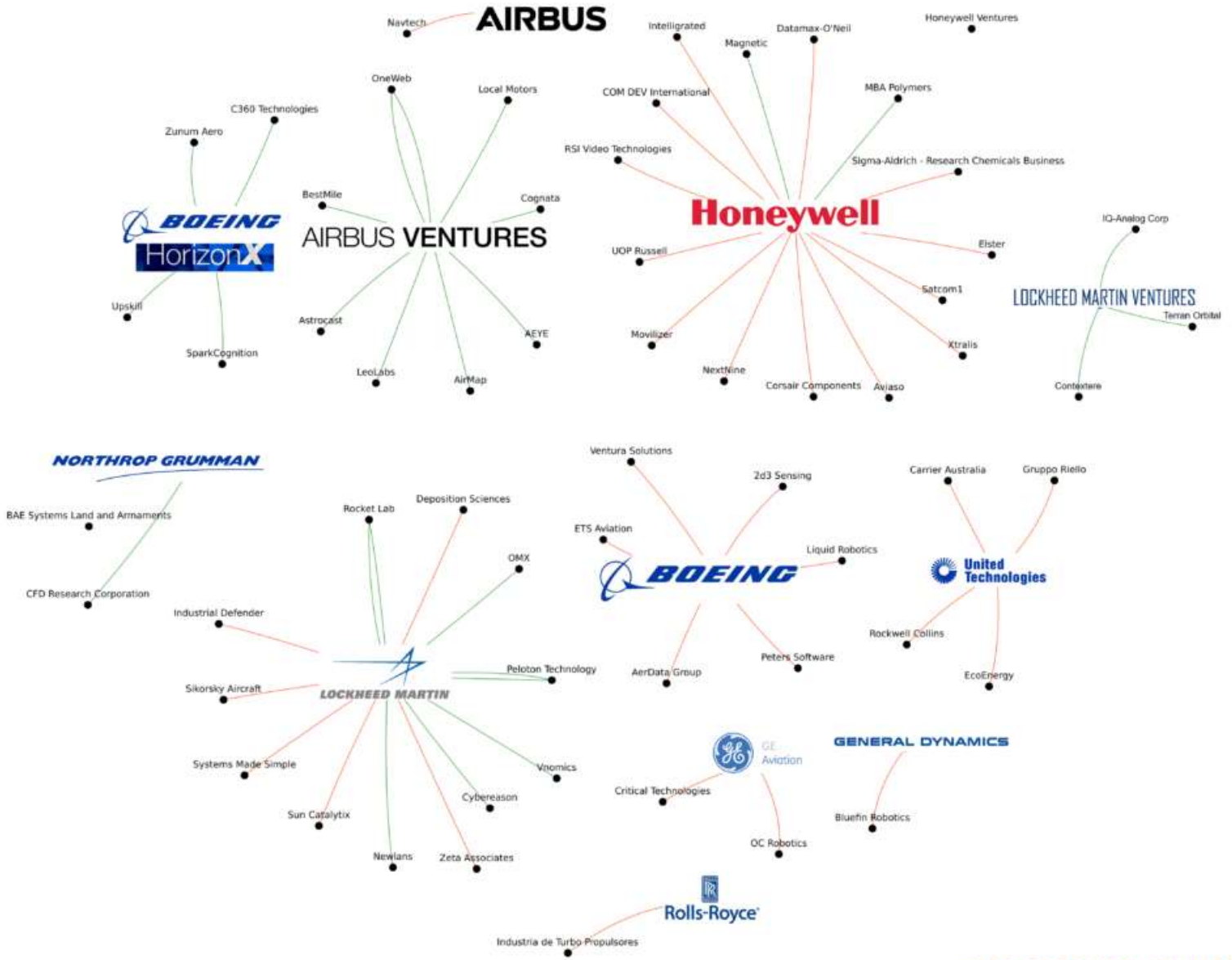
90 investments or acquisitions since 2014 (including multiple follow-ons to one company), with 30 deals made in 2017.

Bosch VC is top player, followed by Continental.

Corporate Venture Examples

WHERE AEROSPACE CORPORATES ARE MAKING PRIVATE MARKET BETS

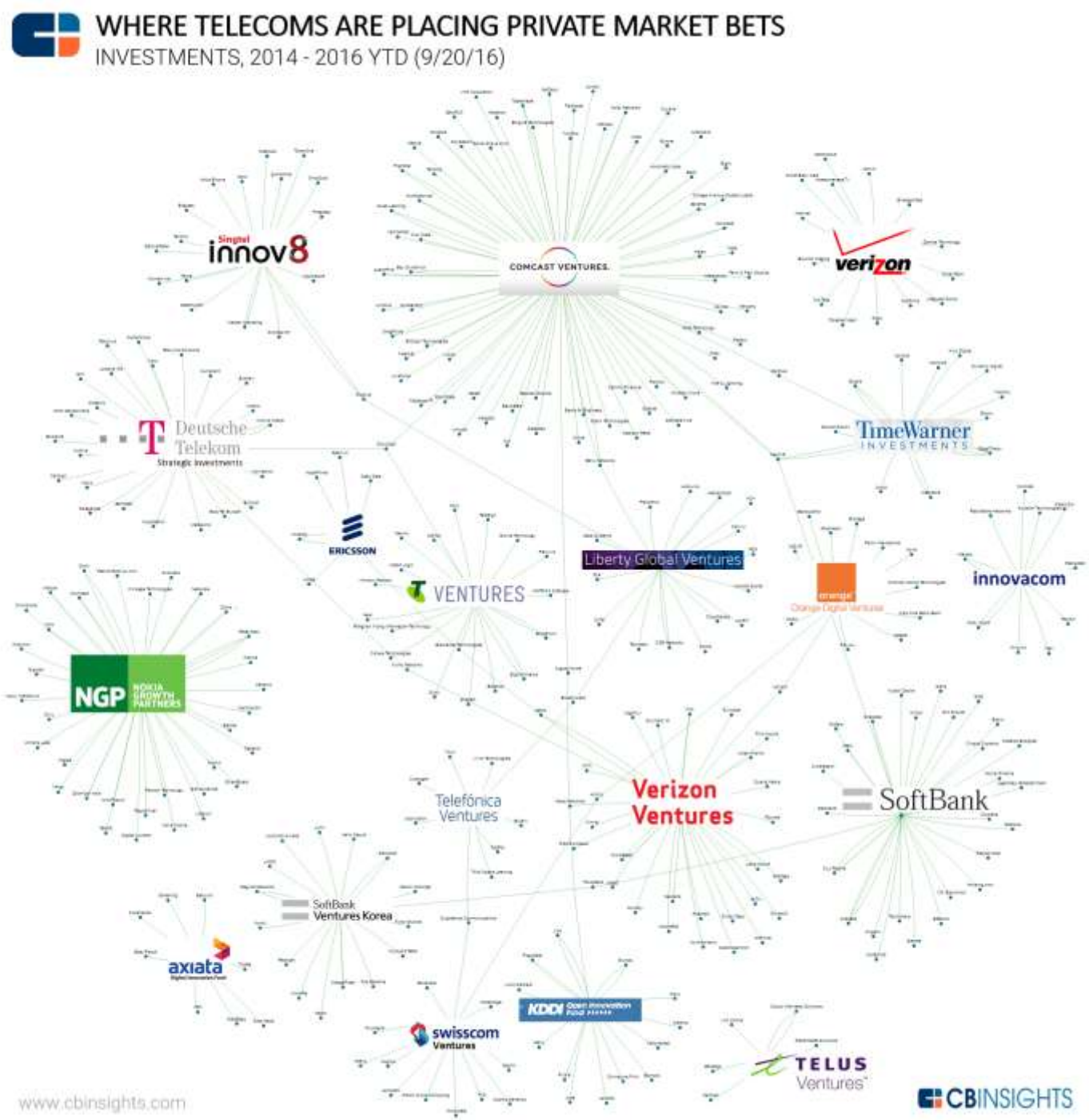
2014 - 2017 YTD (9/15/17)



One of the most active areas for investment was in Auto Tech, with a total of 7 deals involving aerospace corporates. Outside this category corporates have participated in IIoT, industrial data platforms and drone companies.

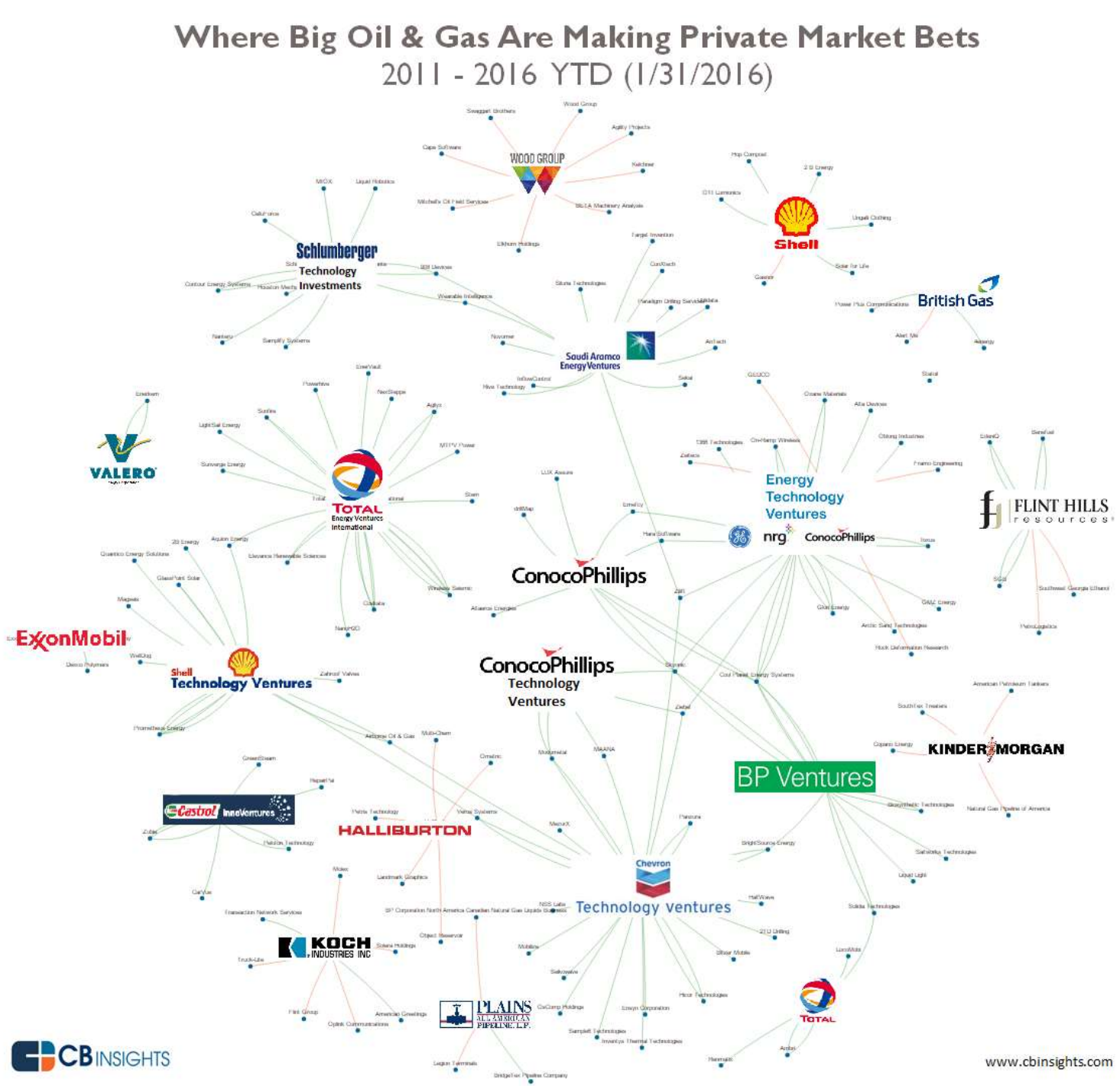
CBINSIGHTS

Corporate Venture Examples



Investments span e-commerce, connectivity & networks, virtual reality, IoT platforms, financial software, voice interfaces, microprocessors, and big data platforms.

Corporate Venture Examples



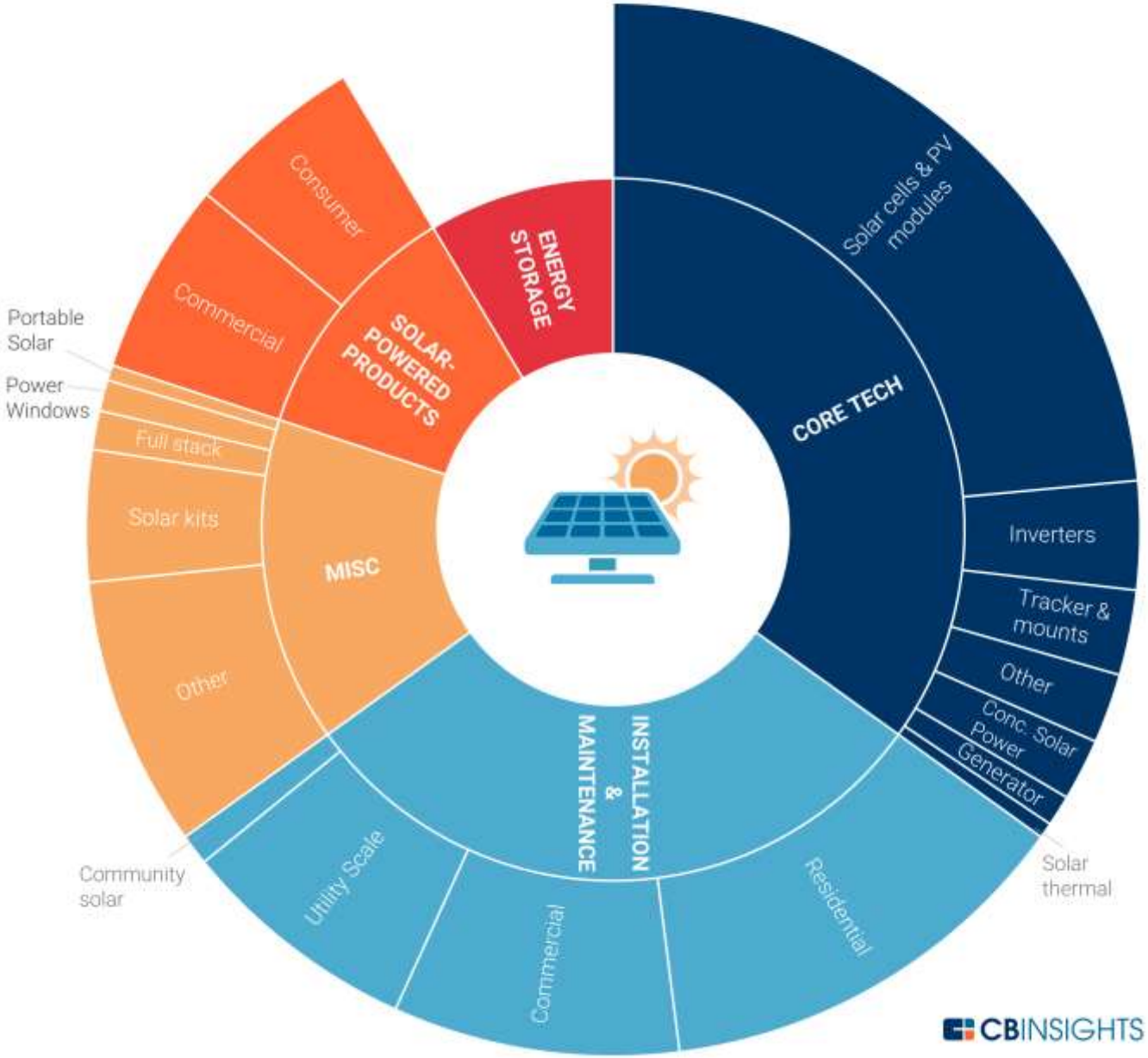
A majority of the corporates invested in biofuels or alternative energy production. Included as well several big data platforms, some focused on the energy sector.

Many portfolios include at least one strictly oil and gas-focused company that could offer strategic value to their core business.

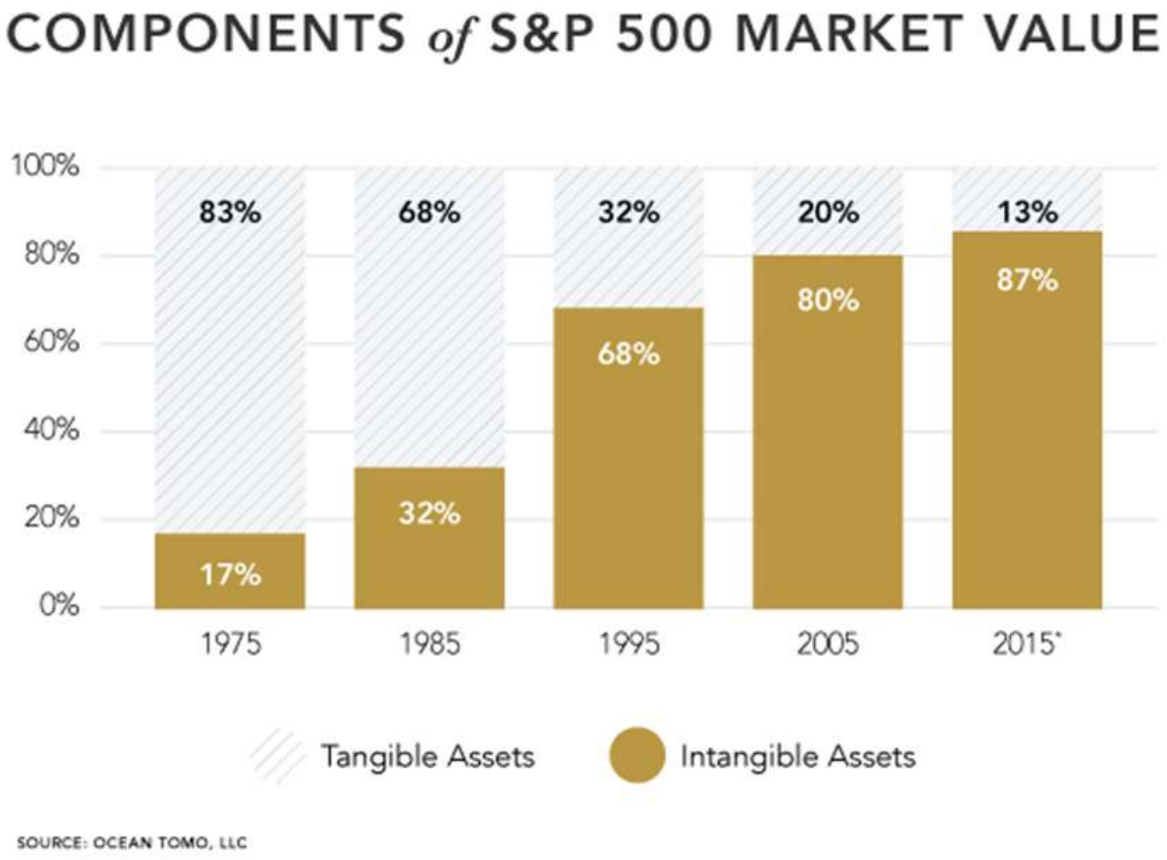
Corporate Venture Examples

THE STATE OF SOLAR: GLOBAL EQUITY DEALS DISTRIBUTION

2012-2017 (as of 2/6/17)



Intangible assets (IP) growth in importance



The components of S&P market value data for the start of 2015 reveals the implied intangible asset value of the S&P 500 grew to an average 84% by January 1, 2015 a growth of four percentage points over ten years.

Open innovation

Mondragon Corporation

MONDRAGON
HUMANITY AT WORK
Finanzas
Industria
Distribución
Conocimiento

MONDRAGON Corporation

Open innovation & business promotion

Source: Mondragon

WHAT IS MONDRAGON?

A GROUP OF INDEPENDENT BUSINESS COOPERATIVES

MONDRAGON is a group made up by autonomous independent cooperatives.

We are the leading business group in the Basque Country and one of the big players in Spain.

Key Word for the Corporation:
PEOPLE, WORK, COOPERATION
And
INNOVATION + SOLIDARITY

Source: Mondragon

WHAT IS MONDRAGON?

ONE OF THE BIGGEST BUSINESS GROUP IN SPAIN

KEY DATA 2016

Among the first 10
companies in Spain.

5.132
million € of sales
in the Industry Area.

73.635
employees.

3.573
million €
in International sales.

12.033
million €
of total revenue.

268
businesses and
cooperatives.

Source: Mondragon

WHAT IS MONDRAGON?

GLOBALLY EXPANDED

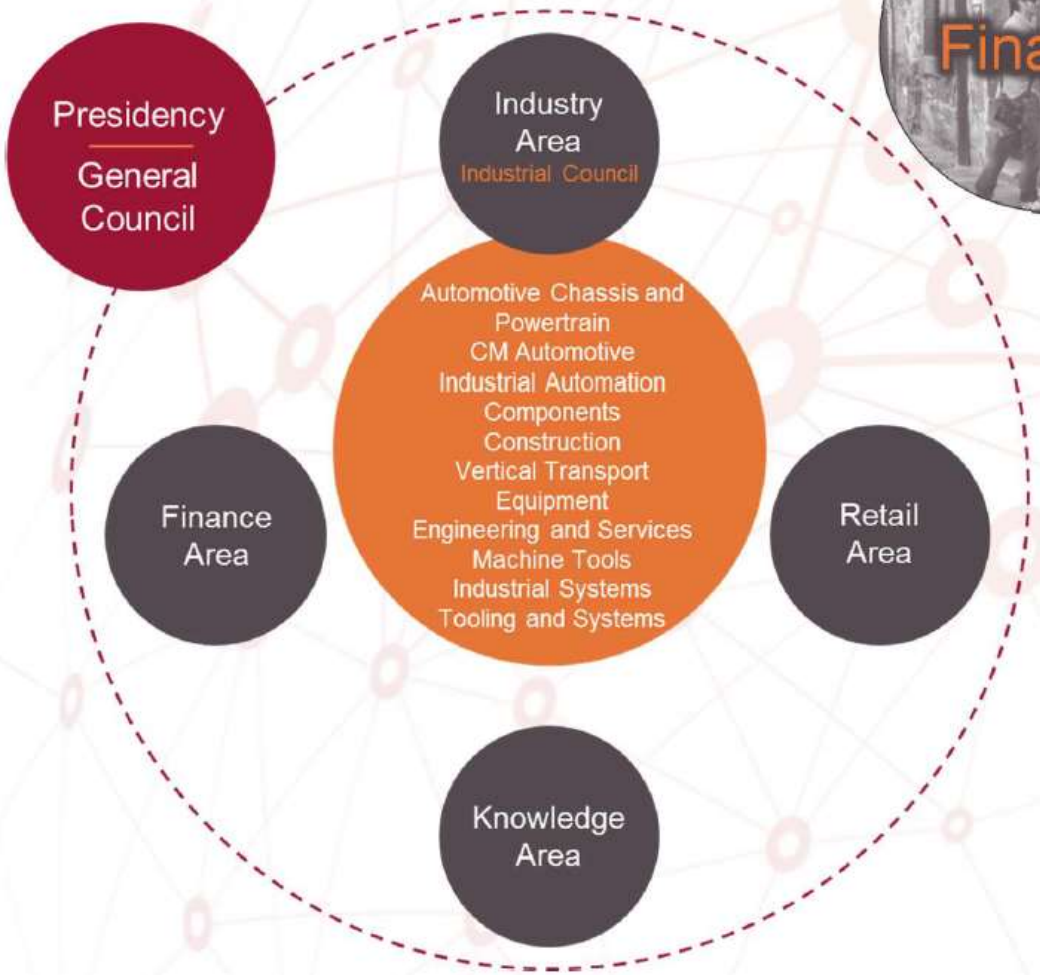
128 production plants

9 corporate officers

Source: Mondragon

WHAT IS MONDRAGON?

DIVERSIFIED



Source: Mondragon

MONDRAGON CORPORATION

Elevation
- ORONA, ELECTRA VITORIA. Lifts, moving platforms, escalators,…

Capital Goods
- DANOBAT, GOIMEK, GOITI, IDEKO, LATZ, SORALUCE, FAGOR ARRASATE, FAGOR AUTOMATION, BERRIOLA, FAGOR AOTEK, KONIKER, MONDRAGON ASSEMBLY

Industrial Systems – ULMA group
- ULMA PACKAGING, ULMA CYE, ULMA FORJA, ULMA MANUTENCIÓN, ULMA HORMIGÓN POLÍMERO, ULMA HANDLING SYSTEMS, ULMA CONVEYOR COMPONENTS, ULMA AGRÍCOLA

Auto motion
- FAGOR EDERLAN, ECENARRO, MAPSA, EDERTEK, CIKAUTXO, MAIER, AURRENAK, BATZ, LORAMENDI, MATRICI, MB SISTEMAS, FPK Components and parts: powertrain, chassis, lightweight systems, electronics,, anti vibration systems….

Engineering & Services
- ABANTAIL, ALECOP GSR, ISSEA, LKS, MCC TELECOM, MONDRAGON LINGUA, MSI, ONDOAN, ATEGI, SARETEKNIKA, GALBAIAN

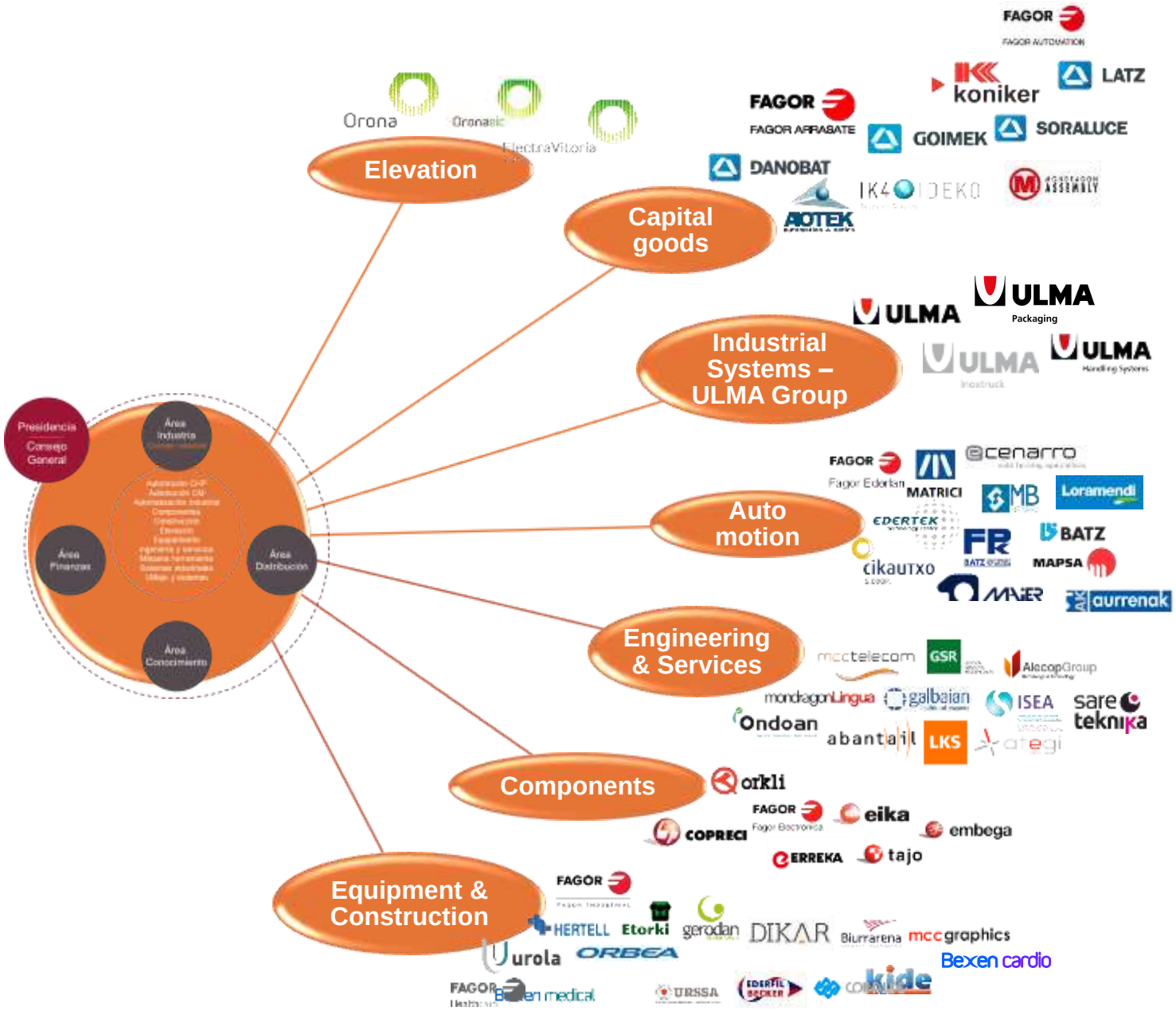
Industrial Components
- COPRECI, CENTRO STIRLING, ORKLI, EIKA, FAGOR ELECTRÓNICA, EMBEGA, MATZ ERREKA, TAJO, ISOLEIKA, ALTSASUKO

Equipment and Construction
- EDERFIL-BECKER, HERTELL, UROLA, FAGOR HEALTHCARE, GERODAN, OIARSO, OSATU, DIKAR-WINGROUP, EREDU, ORBEA, MCCGRAPHICS, BIURRARENA, COINALDE, ETORKI, LANA, URSSA, DOMUSA, FAGOR INDUSTRIAL, KIDE

Diversified industrial activities

Source: Mondragon

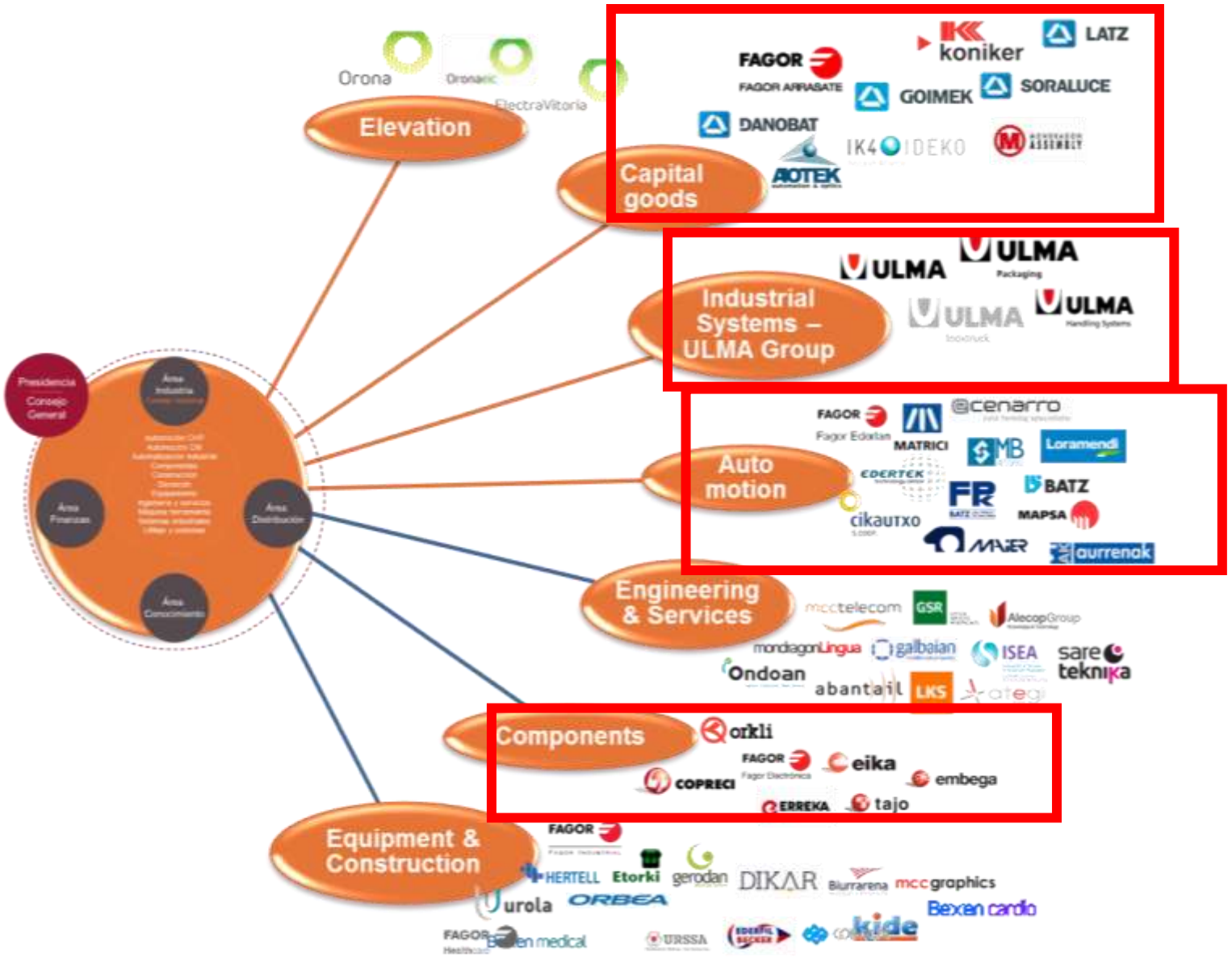
MONDRAGON CORPORATION



Well-known TRADEMARKS with FIRST-CLASS customers

Source: Mondragon

MONDRAGON CORPORATION

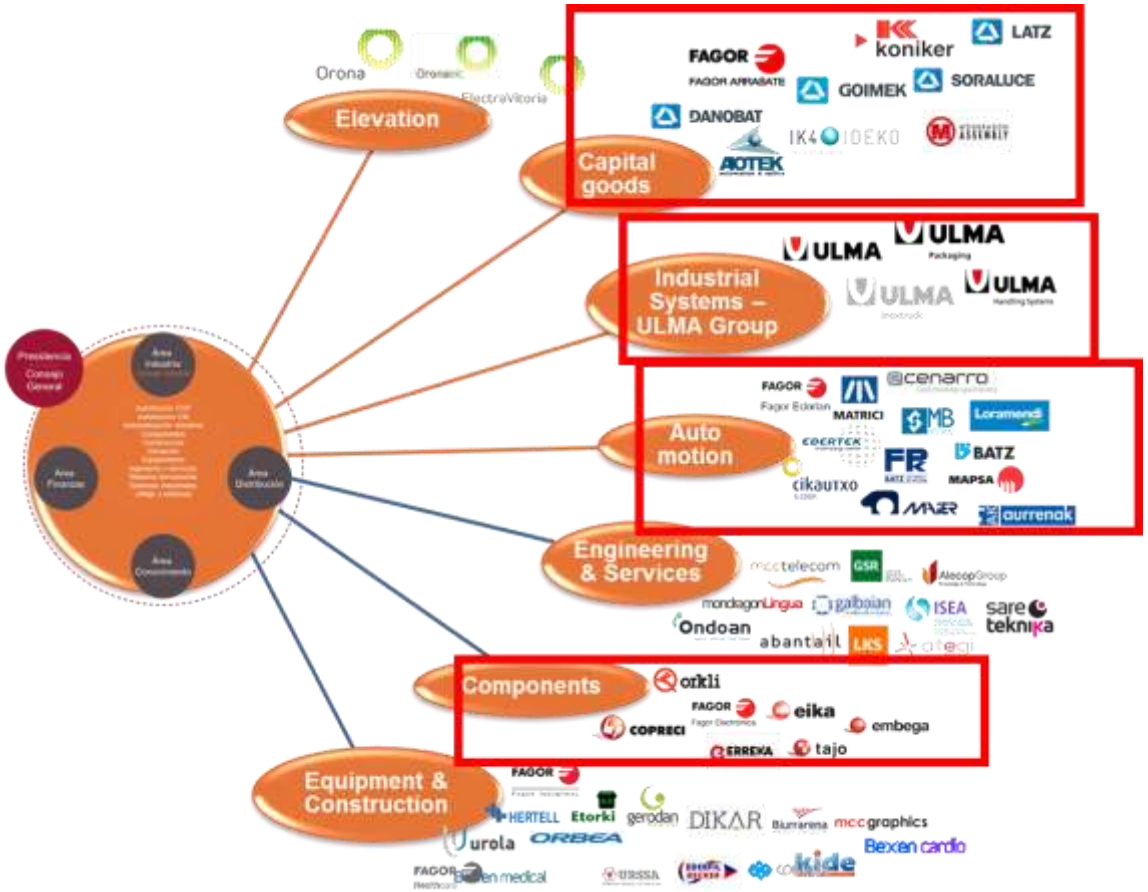


Active Groups for New Ventures

Source: Mondragon

MONDRAGON CORPORATION

New Ventures working groups



1. Industry 4.0.
2. New Materials
3. Sustainability

Areas of Interest for Collaboration

Source: Mondragon

MONDRAGON CORPORATION

1. Industry 4.0.

1.1. industrial IoT

From “sensors” to “data analytics” (included solutions in (*)cybersecurity and (*)interoperativity)

1.2. Cybersecurity

- Integrative Engineering
- Diferential solutions

1.3. Metallic Additive Manufacturing

- Design software
- Metallic poder
- Machines development

2. New Materials

2.1. New materials for car industry

Main focus:
- Weight reduction
- Cost reduction

2.2. Automation of processes using new materials (for example: composites)

3. Sustainability

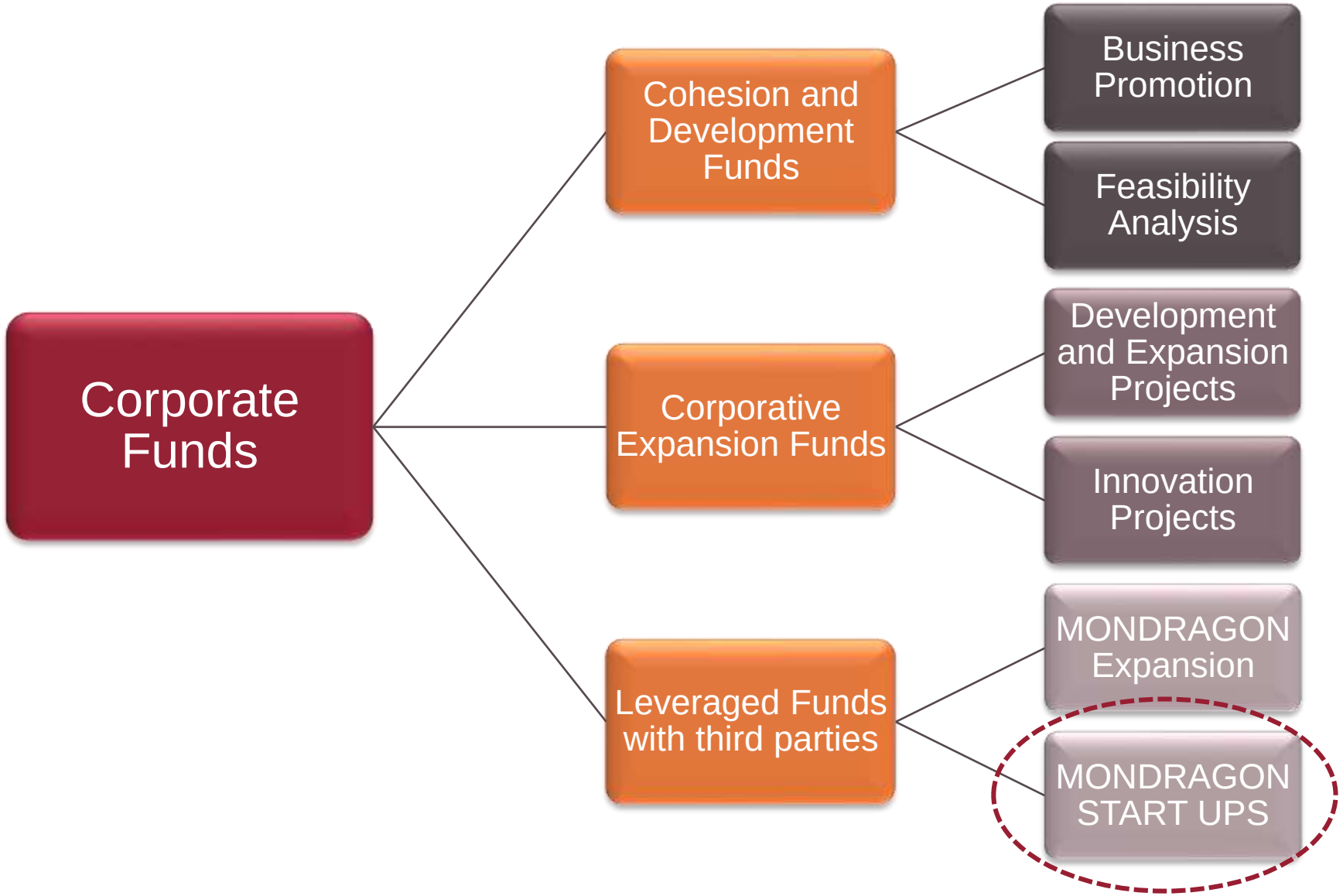
3.1. Energy harvest

3.2. Waste treatment scolutions

Areas of Interest for Collaboration

Source: Mondragon

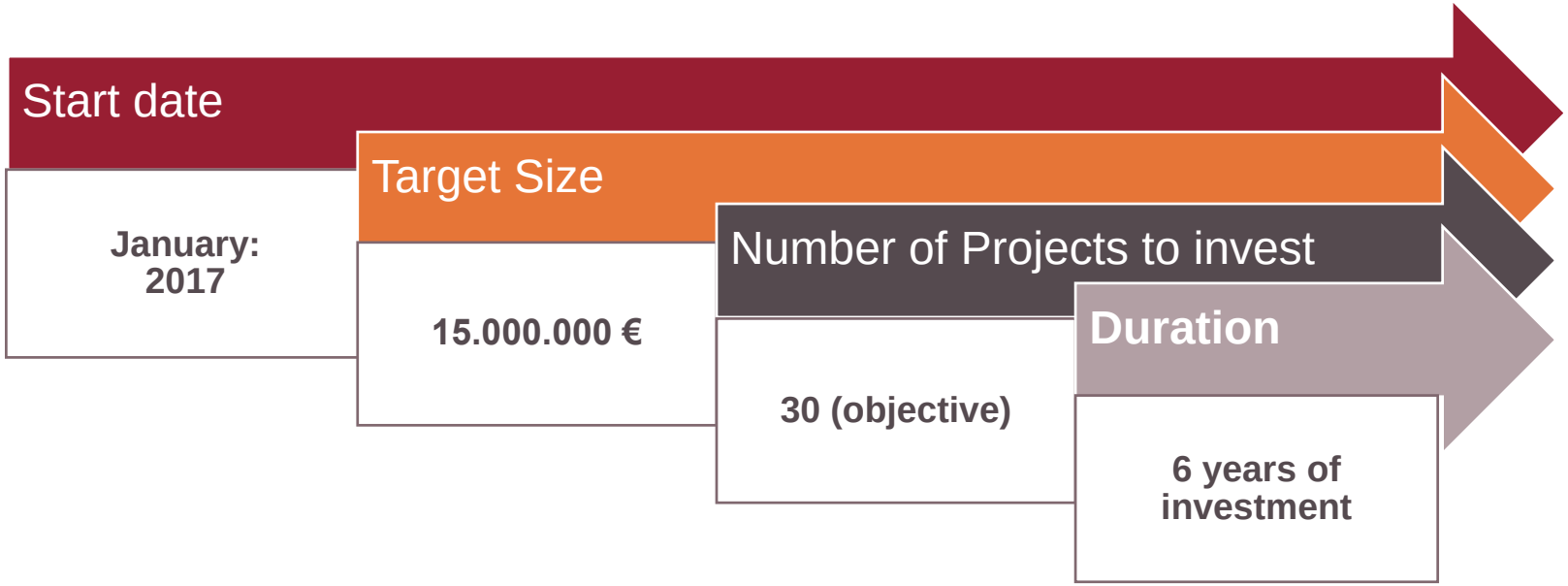
NEW VENTURES



Financial instruments

Source: Mondragon

NEW VENTURES



CONTRIBUTIONS:

- Average contribution per project: 1,5 – 2M€.
- Co-investment with public and private investors.

TARGET COMPANIES:

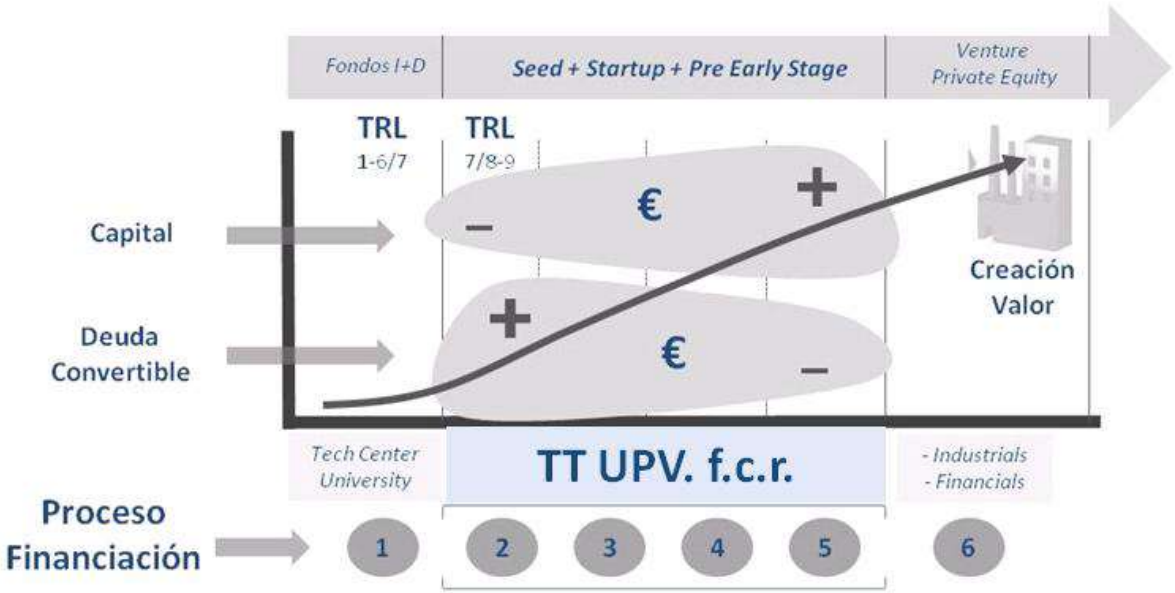
- Companies with less than 2 years' life.
- Companies focused on projects of the MONDRAGON ecosystem and **External Projects if they are interested for the Group**.
- Excluded: quoted companies, companies with arms activity, those which do not respect human rights or damage the environment.

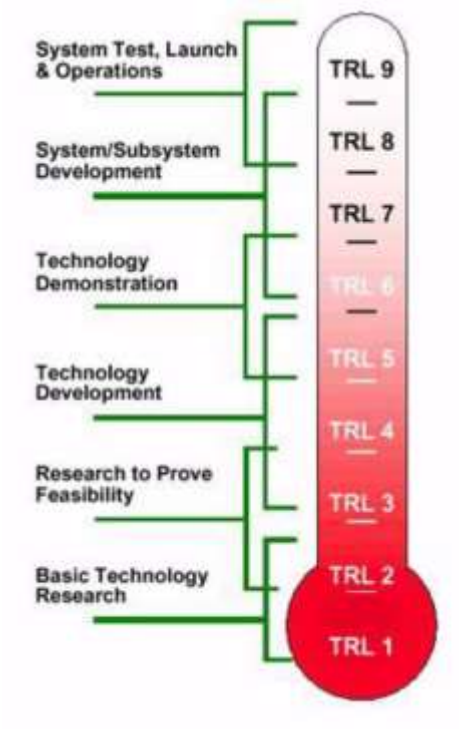
MONDRAGON START UPS

Source: Mondragon

NEW VENTURES

The fund will focus mainly on the **development phases of Technology Transfer projects**, which are usually related to those **in between Seed and Startup Stage and those that will reach the Early Stage thanks to the Technological Development and its first-time market entry.**





DEAL FLOW
Investment stage

Source: Mondragon

NEW VENTURES

Origin

- A Project from MONDRAGON's environment (divisions, cooperatives, New Business Development Centres, University, etc.).
- A Project with a technology generated in the environment (Spin off, EBT, …).
- Projects from entities with a Framework Agreement signed.
- European Projects approaching the market.

Product, Services, Proof of Concept (PoC)

- A Product that will solve a problem or a real market need.
- A Product that will contribute differential factors based on their innovation (*novel*).
- A Product with the Minimum Viable Product (MVP) developed or in development phase, but with the technological landmarks identified.
- It will be interesting the existence of a "Proof of Concept" (PoC), based on a patent or a software.
- Existence of a prototype.

Market

- That generates competitive advantages
- With real market feedback regarding to the MVP.
- With a defined initial commercial strategy, with identified potential customers and first market contrasts.

DEAL FLOW
Targets

Source: Mondragon

NEW VENTURES

Business Plan

- Deep and contrasted market analysis, competition and the stage of the technology.
- Maximum period of access to the market: 24-28 months.

Team

- Project manager with 100% dedication.
- Alignment with shareholders / investors.
- A team capable of adapting to any change.
- The participation of the entrepreneurs team in the round will be highly recommended.

Financial Needs

- Contributions linked to landmarks / milestones.
- That requires maximum contributions of the fund mainly of 500,000 € and with total financial needs to reach the market up to 1,5-2M €.
- Co-investment.
- Alignment with investors offering agreed disinvestment options.

Deadline

- Companies with less than 2 years of life (the exceptions of this requirement will be Projects that come from Technology Centres, R+D Centres or Universities.

DEAL FLOW
Targets

Source: Mondragon

MONDRAGON

HUMANITY AT WORK

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MONDRAGON Corporation

Open innovation & business promotion

Open innovation

Iberdrola

Iberdrola at a glance

US — AVANGRID*
- 3rd largest wind energy producer
- Electricity and gas distributor in New York, Maine, Connecticut and Massachusetts, through eight regulated companies

UNITED KINGDOM — SCOTTISHPOWER
- N°1 wind energy producer, with transmission and distribution networks in Scotland, Wales and England

MEXICO — IBERDROLA MÉXICO
- N° 1 private electricity producer

BRAZIL — NEOENERGIA**
- Energy leader in Brazil and Latin American

EUROZONE — IBERDROLA ESPAÑA
- N° 1 wind energy producer in Europe and Spain
- Emissions: 70% less than the sector average
- Presence in Spain, Portugal, France and Germany

Source: www.Iberdrola.com

Innovation report

Letter from chairman
Innovation strategy

Letter from the Chairman

I am pleased to present to you a new edition of the Iberdrola Innovation Report, which describes the main initiatives and projects undertaken during 2014 and 2015 in the field of research, development and innovation (RD&I).

The Iberdrola group views innovation as a strategic variable that constitutes the main tool for guaranteeing the sustainability, efficiency and competitiveness of the company. Our efforts in RD&I aim to optimise operating conditions, improve safety and reduce the environmental impact of our activities.

During 2014-2015, our investments in RD&I rose to €370 million, which represents more than 17% in 2015 compared to the previous year. As a result of our permanent commitment to human, economic and management-centred innovation, Iberdrola was recognised as the most innovative power utility in Spain and fourth in Europe according to the European Commission's ranking.

The company was also recognised in the internationalisation category of the 2015 National Innovation and Design Award conferred by the Spanish Ministry of the Economy and Competitiveness after appraising Iberdrola's worldwide wind leadership on the basis of a bold and innovative industrial project.

Optimize operating conditions
Improve safety
Reduce the environmental impact

€370 million investment during 2014-2015

Source: Iberdrola.com / Innovation report

Innovation report

Letter from chairman Innovation strategy

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Perseo, our **Corporate Venture Capital** programme, dedicated to investing in innovative technologies and businesses that ensure the sustainability of the energy model.

In 2015 we launched the **Supplier Innovation Programme**, centred on three lines of action:

1. providing access to the financing mechanisms,
2. driving the joint creation of companies (spin-offs with suppliers)
3. Fostering innovative purchases to small and medium-sized enterprises.

Source: Iberdrola.com / Innovation report

Innovation report

Letter from chairman Future trends

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R&D&i will remain a key factor for successfully undertaking the new stage of growth at our company.

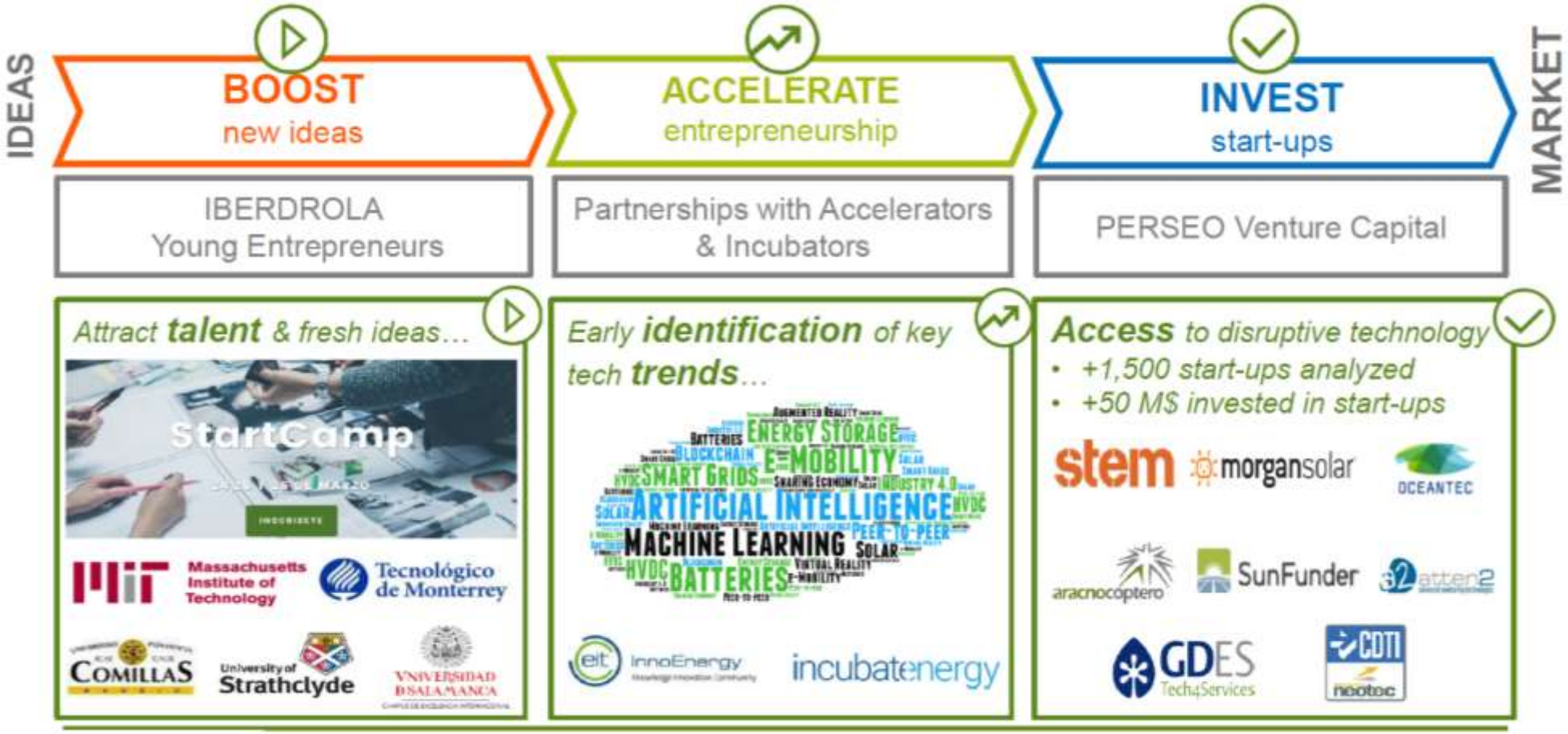
We expect to **invest €24,000 million** in our strategic markets during the period comprising 2016-2020 in a favourable scenario for developing clean and efficient energy sources to meet the global emissions reduction targets committed in the Paris Climate Conference.

Source: Iberdrola.com / Innovation report

Innovation at Iberdrola

- Entrepreneurial and Start-up ecosystem
- Supplier innovation program
- Digital innovation

Entrepreneurial and Star-up ecosystem



Source: Iberdrola

Entrepreneurial and Star-up ecosystem

Young entrepreneurs programs

1. Boost and develop **innovative ideas**
2. Attract **talent** to Iberdrola
3. Foster a **start-up culture**

…using the following **resources:**

ECONOMICS
- Scholarships
- Challenges, Hackathons, *BootCamps*.

TRAINING
- Specialized training, mentoring,
- Technical visits

SHARED
- Campus Iberdrola
- Events *(networking)*

Six institutions of excellence have been selected in a first phase, which also cover all the geographies in which IBERDROLA is operating.

Massachusetts Institute of Technology · Comillas · Universidad Pontificia de Salamanca · Tecnológico de Monterrey · University of Strathclyde

The participants of this program, are part of the ……

IBERDROLA Universities COMMUNITY

A global community that fosters collaboration, entrepreneurial culture and knowledge transfer

Programs to foster and promote entrepreneurship developed with key universities

Source: Iberdrola

Entrepreneurial and Star-up ecosystem

Acceleration programs

Partnering with key incubators and accelerators worldwide to gain access to new disruptive technologies and innovative businessess

Source: Iberdrola

Entrepreneurial and Star-up ecosystem

Corporate Venture Capital

+50M€

Invested in start-ups worldwide and internal innovative initiatives

+ 1.500 investment opportunities analyzed

+13.500 jobs created

+ 900 media impact in press, radio and internet

+80 min media impact on TV (+60 min on national TV)

7 start-ups + 1 fund in the investment portfolio

stem · morgansolar · COTI neotec · GDES Tech4Services · OCEANTEC · SunFunder · aracnocoptero · atten2

+ internal entrepreneurial initiatives

IBERDROLA Innovation Services

Funding start-ups and internal entrepreneurial initiatives

Source: Iberdrola

Entrepreneurial and Star-up ecosystem

Corporate Venture Capital

WHY
- ✓ Generate new core business opportunities
- ✓ Screen and benefit from external innovation in technology and new business models

WHERE

Geographically: focus on Spain, US and UK
- ✓ Customer Focused Solutions
- ✓ Distributed Energy Resources
- ✓ Renewable Energy
- ✓ Technology for efficient O&M

\+

Iberdrola Ventures – PERSEO
70M€ fund
Expertise
+32M customers
+45GW installed capacity

=

stem · morgansolar · SunFunder · aracnocoptero · OCEANTEC · atten2 · GDES Tech4Services

WHAT
- ✓ Deal size: 500k€ - 3M€ (IBE's first round)
- ✓ Co-investing with relevant financial and strategic investors

HOW
- ✓ **Smart Money.** Iberdrola´s resources at the start-up service:: expertise, assets, customer base,…

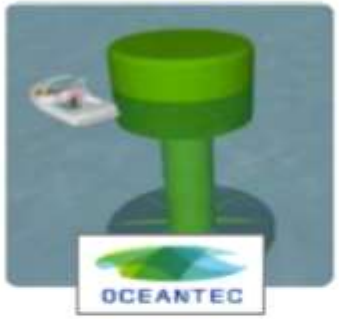
50 M€ invested in technology to generate new sustainable core business

Source: Iberdrola

Entrepreneurial and Star-up ecosystem

Corporate Venture Capital

Renewable Energy



Distributed Energy Resources

O&M Technologies

Customer Focused Solutions

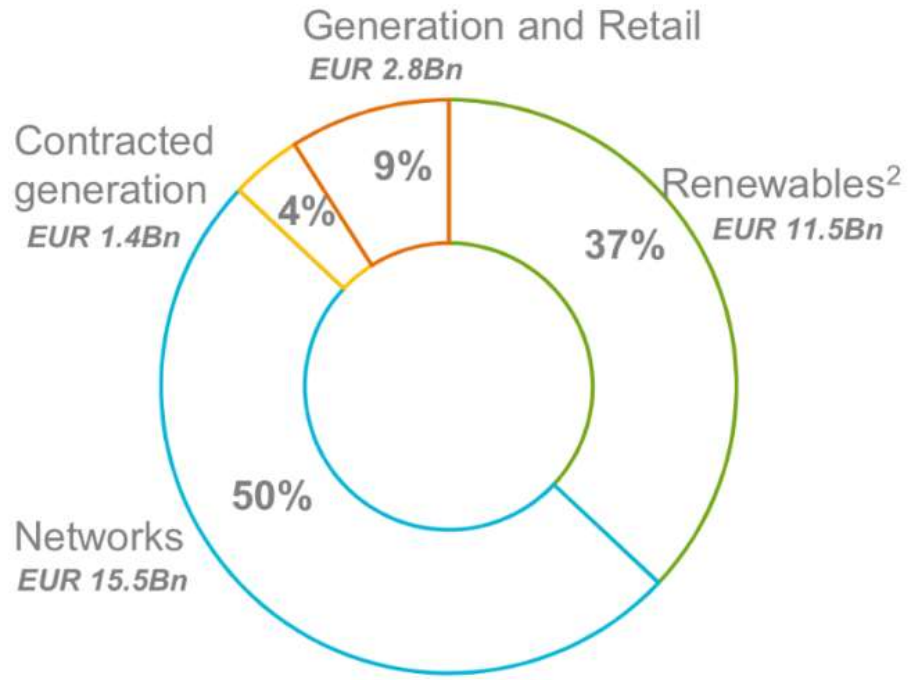
Deal flow Target

Source: Iberdrola

Supplier innovation program

- Supplier as key strategic partner
- 17,900 suppliers
- 9,884 M€ purchase in 2016 of equipment, material and services*

- 32.000 M€ investment planned for 2018-2022



[1]Excluding Corporate investments

[2]Including hydro

*excluding energy and fuel

Source: Iberdrola

Supplier innovation program

Examples

Access to finance

- Cooperation in R&D programs
- Access to funding vehicles
- Additional support services

Spin-off program

- Joint exploitation of results
- New ventures
- Co-investment in new companies

Innovative purchase program

- Early adopter
- Functional specifications
- Life-cycle analysis
- Value driven purchase

ORMAZABAL velatia 50

GDES Tech4Services

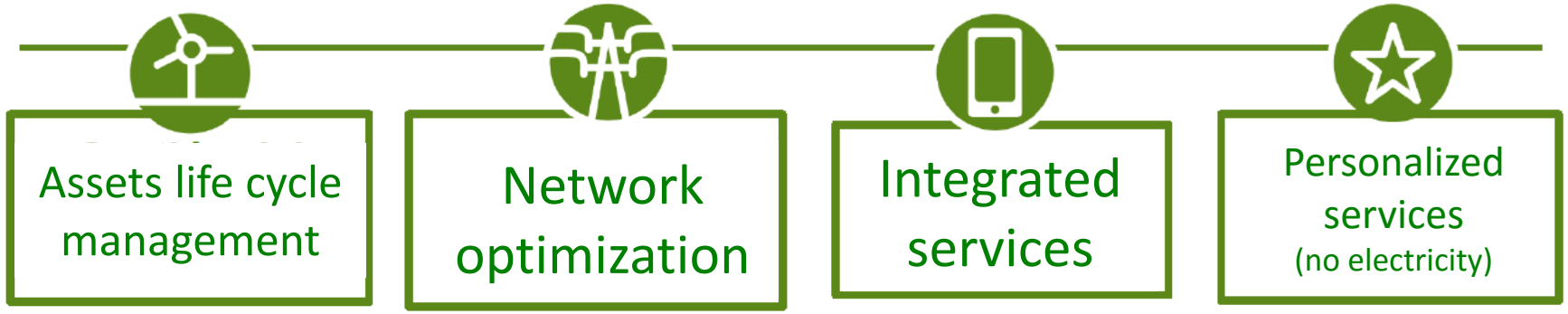
INERCO

Promotion of new product and services

Source: Iberdrola

Digital transformation

Digitalization added value potential in electric utilities

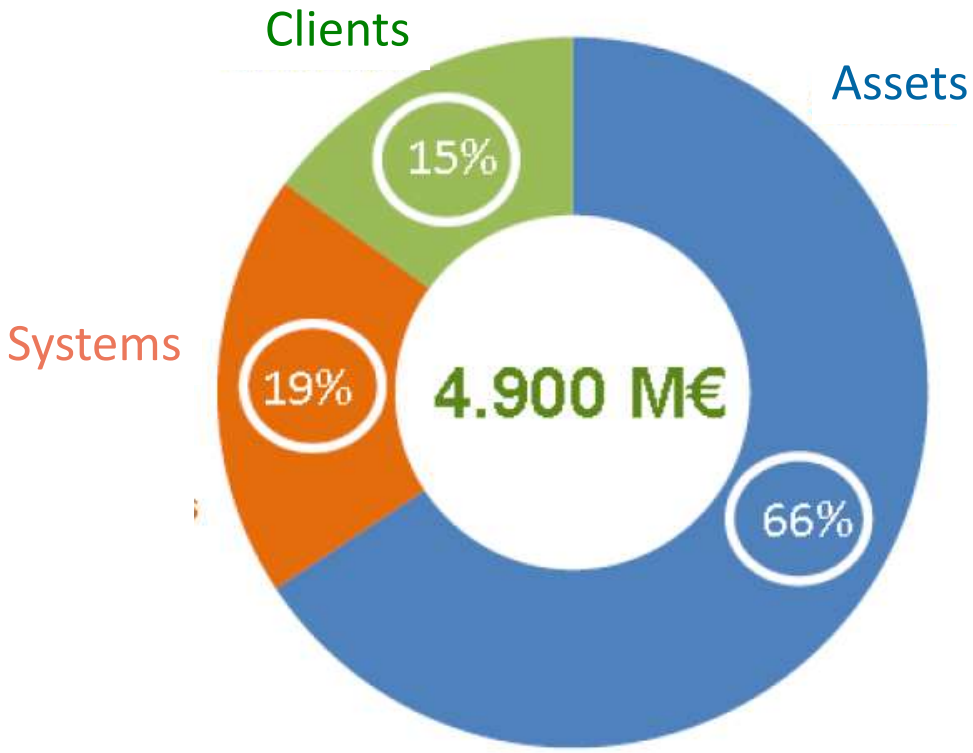


World Economic Forum White Paper

Source: Iberdrola

Digital transformation

Investment up to 2017



Assets
- Digitalization of generation assets management
- Digitalization of HV and MV network
- Smart meters installation

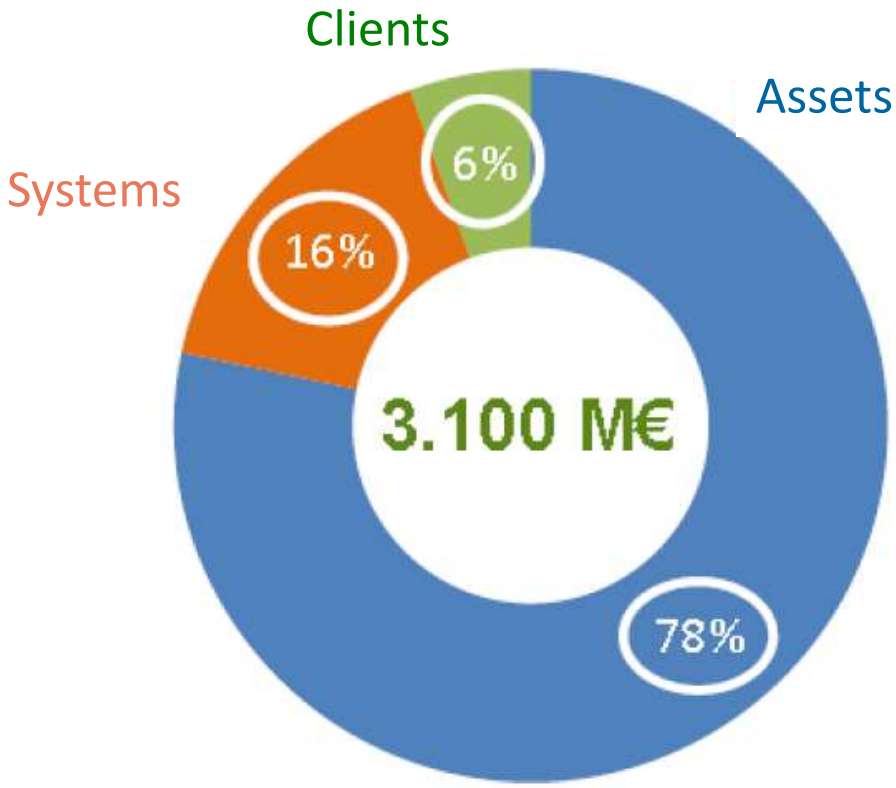
Systems
- Energy operation
- Cybersecurity

Clients
- Invoicing, pricing and call center automatization
- Personalized services
- Web, apps, social network

Source: Iberdrola

Digital transformation

Investment forecast 2017-2020



Assets
- Digitalization LV network
- Smart meters installation
- Big data O&M and life span optimization

Systems
- Energy operation (Mexico)
- Cybersecurity

Clients
- Invoicing, pricing and call center automatization
- Hyper personalized services (big data)
- Multichannel development

Source: Iberdrola

Digital transformation

Examples

7.000 MW in operation 24/365 in 9 countries

192 substations

192 wind farms

5,925 wind towers

1 thermosolar

68 mini hydro

2 mill operational signals

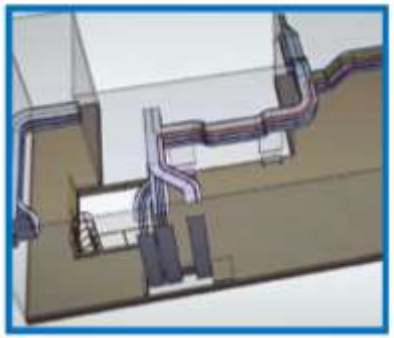
Renewable energy central operations (CORE)

Source: Iberdrola

Digital transformation

Examples

Infrastructure inspection by drones



AR/VR Simulation
O&M mobile apps

Source: Iberdrola

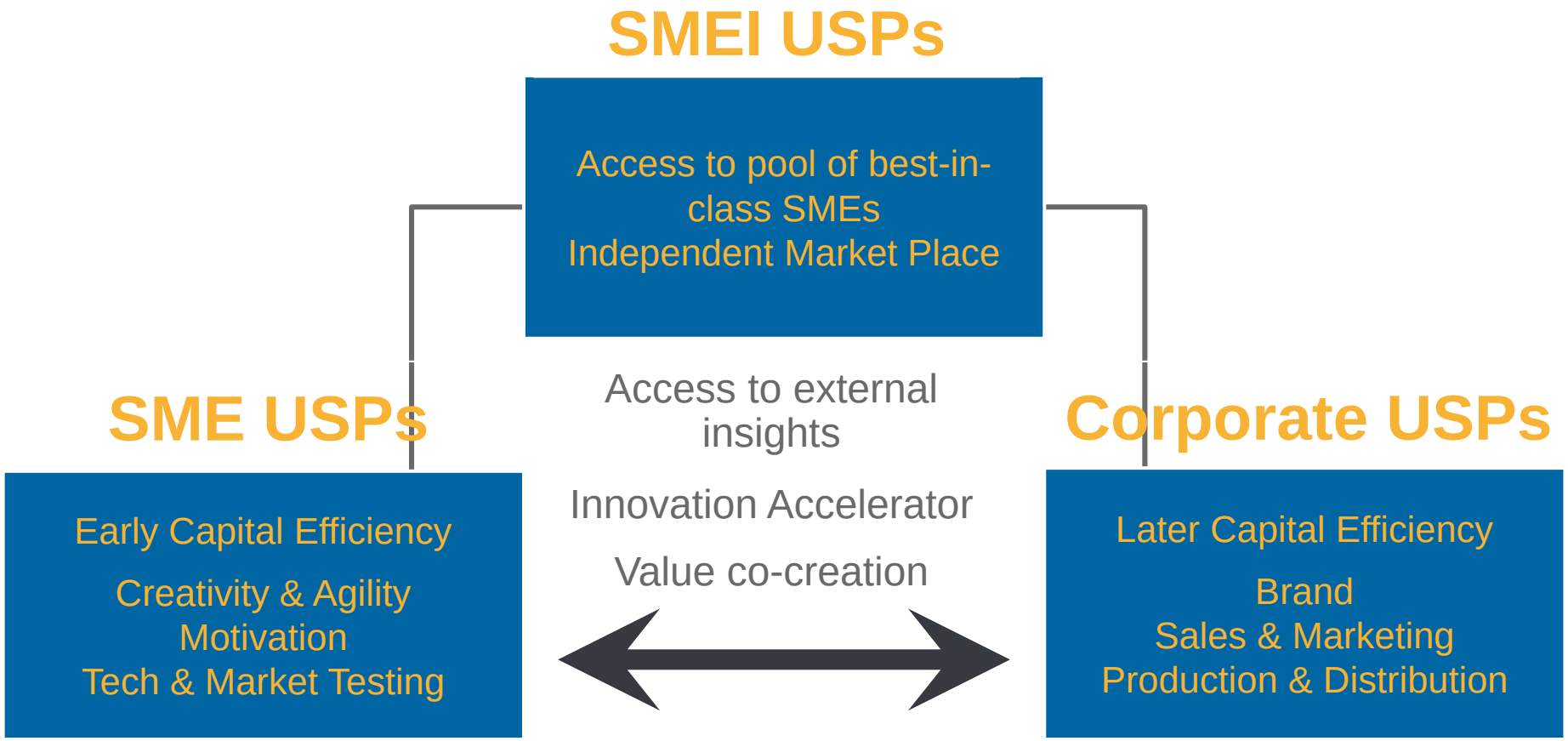
Digital transformation

Examples

Source: Iberdrola

Cooperation and Collaboration

Innovation Acceleration with SMEI Phase III



Potential benefits for a SME

- Support
- Association
- Ability to test market, technology, scalability…
- Learning opportunities - for company, team and existing investors
- PR exposure
- Branding recognition
- Low- or no-cost
- Competitive differentiator
- Compatible with existing investment/funding streams
- Can be exited with little damage or costs (plan!)

Refining technology, value proposition and scale up Terms of de deal Dependency / Independency / FTO

Managing collaboration

How does business collaboration work in practice?

Business relationships are a marathon not a sprint

Formalising

- Goals, milestones
- Legal details

Working together

- Project management
- Team
- Kick-off meeting
- Review meetings

Exit strategy

- End-of-Project Review Meeting

COMMUNICATION & TRUST

Formalising your partnership

Written agreement outlining the scope, scale and objectives

Formal Contract vs. Memorandum of Understanding (MOU)? (level of engagement/investment)

- If the venture represents only a modest commitment on your part, you might opt for a simple MOU.
- If it's a substantial investment – in capital and/or resources – and especially if there is no history (current working relationship) with the business partner, then a more formal contract might be appropriate.

Formalising your partnership

Written agreement outlining the scope, scale and objectives

- Ensure that each of the parties is clear on what to expect, and what is expected of them
- Determine SMART goals (Specific; Measurable; Achievable; Realistic, and Time-based)
- Set milestones and metrics should be defined, to keep the relationship or project on track
- Draw up a confidentiality or Non Disclosure Agreement (NDA) to protect your IP and other sensitive corporate information.

(https://www.iprhelpdesk.eu/library/fact-sheets?field_tags_tid%5B%5D=141)

Working together

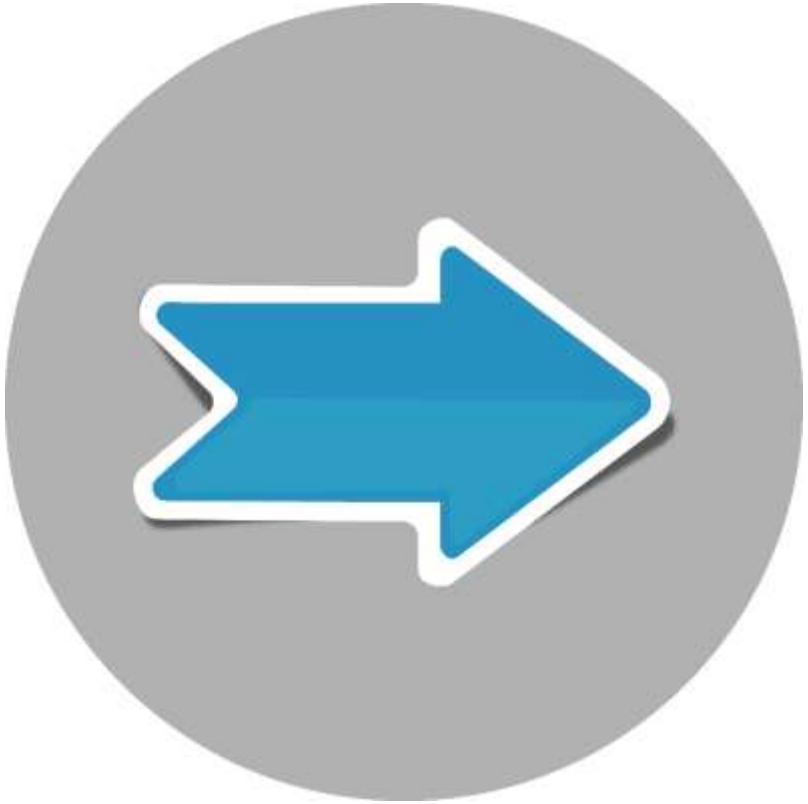
It's all about how you work together in practice

- You should appoint a suitably qualified project manager for your venture together
- Continuity of personnel is crucial...so choose your initial team wisely
- Launch a 'kick off' meeting to determine that the partners are 'on the same page' with regard to the project's objectives, the plan and allocation of resources
- Schedule regular review meetings, to ensure the project remains on track

Exit strategy

How both of you might exit gracefully from the business relationship

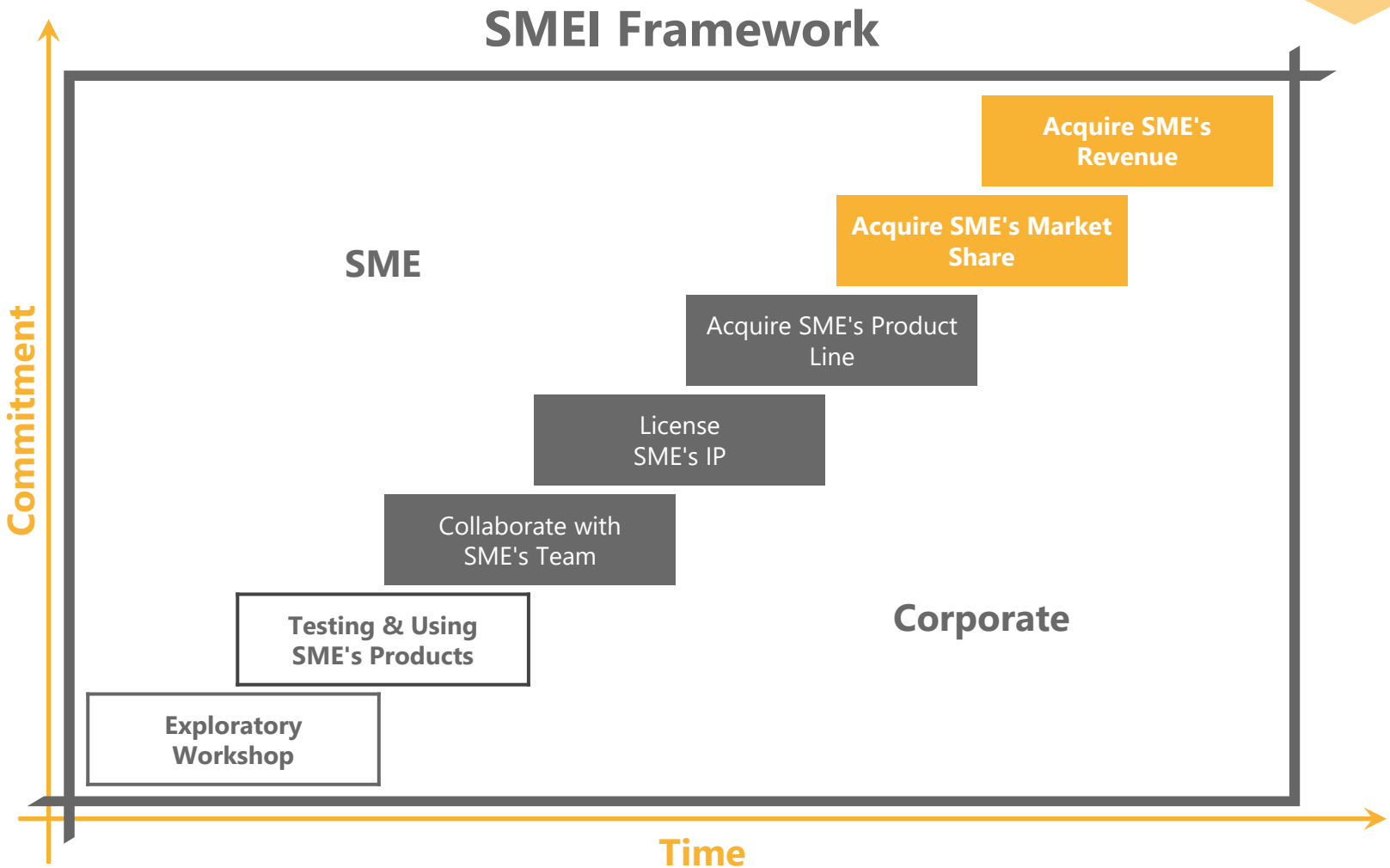
- Be sure to include a suitable 'get out' clause in your collaboration agreement
- Schedule an End-of-Project Review Meeting



Case studies

Introduction

SMEs ↔ Corporate Collaboration Spectrum



SME ↔ Collaboration Spectrum Analysis

Increasing Commitment

Partnership Model	Class of Initiative	Market Timing	Total Cost of Initiative
Exploratory Workshop	Open Innovation	Creating the Gap - Proactive	€15-25k
Testing & Using Startup's Products			€20-50k
License SME's IP			€100k-1M
Collaborate with SME's Team			€500k-5M
Acquire SME's Product Line	Corporate Venturing		€1-10M
Acquire SME's Market Share		Closing the Gap - Reactive	€10-100M
Acquire SME's Revenue	M&A		€100M-???B

Case studies

UK-based high performance computing company

Corporate partnering

Happening today, for one SME

UK-based high performance computing company

Current discussions

Investment:

Softbank

Apple

Sony

Huawei

Corporate partnering:

Sony

Huawei

Microsoft

Google

The Journey

Investment, Team and Tech Readiness

Date	Funding	Tech	Objective
2008	Start Up funding €350,000 from Angels, plus additional grants.	Bench demo – Proof of Principle	Move to Proof of Concept and market research and validation. Core team.
2014	Series 0 - €1,300,000 mainly Angels/Angel syndicates plus DARPA and EU projects	POC and two new applications defined. Demonstrator shown.	Develop prototype system for genomics application with institutional partner. Small R&D team.
2016	Series 0 - €4,000,000 from VC, Angels and Angel syndicates, plus UK Govt grant	PCI board and electronics and drivers, new apps	US office, production-ready systems, new validated apps and middleware. R&D and management team.
2018	Series A - €50,000,000 VC? Corporates?	Worldwide marketing, production of core systems, R&D for miniaturisation and custom components, specialist middleware, large team expansion	

Getting connected

How to get and keep major corporates' attention

Start early: high quality PR, social media postings, and website

Tell a story – in instalments: start with tech and its potential, then add apps and users and the benefits (value propositions), then show maturity and potential of solutions

Sony – connected via supply chain, as potential component supplier, then development partner, then investor

Huawei – via technology scouting. Tech interest, switched to investment proposal, now both

Apple – via US lawyers used for IP and licensing advice. Tech interest, especially miniaturisation

Google – via US HPC show

Microsoft – via potential VC investor and AI expert

Push for fast decisions

SMEs need early yes/no – so ask for the order!

Sony: difficult to connect with investment team, so clear request made that Sony only as a component supplier was not of interest

Huawei: three visits from R&D teams – two EU, one China. Made sure agenda with Chinese visit included investment. Afterwards, email requesting typical investment procedure and amounts, and also connections to other EU firms they had invested in. All granted within two days!

Followed up with China visit (also to major conference)

Google: initial conference call with Tech Engineering Senior Director. Immediate referral to Cloud team

Microsoft: initial contact with WW Azure tech boss, and fast connection to ventures arm

Demands – could you cope?

Corporates require detailed responses

Huawei

14/04/2015 - initial meeting with technical director EU after enquiry at conference

21/04/2015 – NDA signed

Communications and updates – but tech not mature enough… then demonstrator shown

06/2017 - meeting in Manchester with technology department

07/2017 – meeting with EU investment team – followed by email requesting Huawei to supply typical investment amounts and reference of other EU investments

17/11/17 - Met with President of CRI lab in London. In depth technical discussion on tech, deep learning opportunities and demo. Questions on volume manufacturing, plus overview of what Huawei can offer in terms of expertise. Asked if we would flexible over valuation.

21/11/17 - Due diligence questions from investment team ahead of providing statement of intent

23/11/17 - Request for next meeting from technical team…

Huawei can now download tech data, patents, grant applications, financial and full business plan all under NDA…

3/1/18 - Multi-channel technical and investment call to China. Co-operation manager to be introduced to discuss how the joint development would work. Mentioned they were still aiming to complete investment process by end of Q1.

11/1/18 - 1to1 call requested by the investment lead. Wanted to know if we had "enough information from Huawei to make a decision" on investment. Also pressed for what the breakdown between cash and resource looked like for the £50m Series A. Stated he needed to simplify the deal structure to present to the board in early February. We discussed the simplest route would be direct investment and potential acquisition.

18/1/18 - Technical email discussions re evaluation timeline

20-23/1/18 - Further email discussions about deal structure with investment contact

27/1/8-2/2/18 - Email discussions with investment and technical teams. Acquisition/investment plan being put together by Huawei. Requesting access to cloud-based deep learning model first, ahead of testing the hardware in their services shortly after. We have made clear we cannot send them a system but they can send an engineer to us, or we can potentially send a delegation with a system in the coming weeks.

Plus also need to maintain support for Google, Sony, Microsoft, Softbank, Apple and more – at CTO/CEO level

Information exchange

Corporates require data, connections, responses

- Initial NDAs usually simple but can constrict freedom to operate
- Essential to understand Corporates' real agenda
  - Customer? Exclusive? Channel? Or create dependency?
  - Investor? Close or distant? Veto over others investing?
  - Acquirer? Independence or take-over? IP or company?
  - Just looking?
- This all takes time: agree timescale but prepare for delays
- Who is your manager? High level, with sign-off, or not? Check his/her reporting structure and position in organisation chart
- Be fast to respond, and clear and complete in all communications

Case studies

Building material Start-up

South-Europe waste/environmental services start-up

Industry

- € 3,000 mill. market
- 95% of market within 5 multinationals
- 73 plants within Europe

Start-up.

Proprietary technology that allows the re-use of lefts overs from production & market use product recycling

Advantages:

- Higher production output.
- Less emissions.
- Less Energy consumption.

Promising kick off…. but poor implementation…

….result in change in strategy in 2016

- Re-focused on corporate needs.
- Open deal, subject to negotiation.
- Attract interest as high as possible within organization. Prioritize business VS technical/R&D
- Open to various corporates to compete.
- Stage by Stage / Long term approach.

Process overview

Conclusions

- Understand the corporate.
- Prioritize business (P&L) to technology (R&D).
- Consistency during process builds trust.
- Competitive process better than stand alone negotiation.
- Not an easy, not a short process. Ups & downs.
- Planning with “exit” in mind.

Case studies

R&D center spin-off invested by CVC

CVC PERSEO investing in ATTEN2

Company

Development and production of **optical tech-based sensors** capable to perform real time analysis of critical equipment condition.

Originally developed for lubricating oils, the technology is now been expanded to other fluids circulating within machinery.

Main applications:

- Wind turbines
- Vapor / Gas turbines
- Other machinery

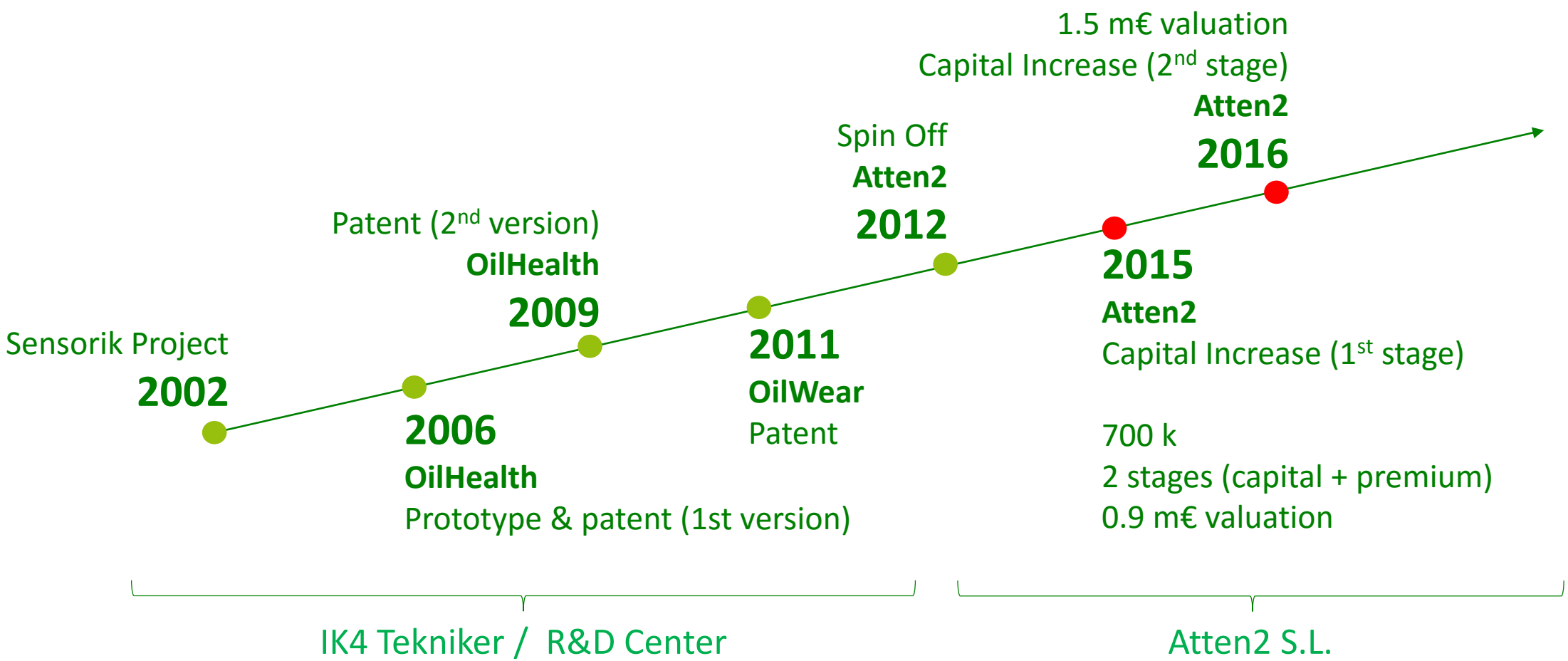
Niche market competing with:

- Laboratory Analysis (condition monitoring
- Kittiwake, UK (€23 m / 11 employees)
- Gastops, Canada (€17 m / 100 employees)

Source: Internal research

CVC PERSEO investing in ATTEN2

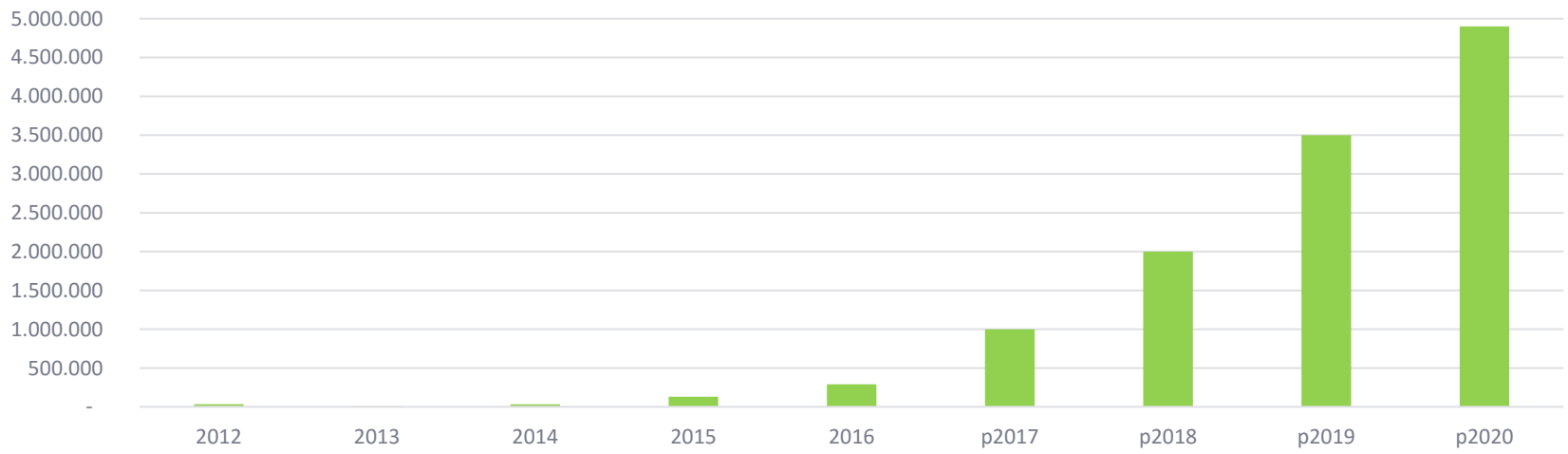
Milestones



Source: Internal research

CVC PERSEO investing in ATTEN2

Results / Potential



- Capital to cope with product development and sales
- Improve market perception / association with leader company
- (Potential) client (wind turbines), but same homologation process as any other supplier

Source: Internal research

Workshop

Purpose of this Workshop

To develop a typical Corporate Collaboration strategy and tactics for an SME – either one of the participants' firms, or an example

- Go through the next six slides to gain the basics of developing an effective collaboration activity
- Each group then creates a plan of action on a few slides, using the headings from the next slide
- Each group quickly presents its plan
- Discussions of likely outcomes, observations, experiences

Open Innovation Model

What's the business – how the company creates and delivers value for a specific customer group

What could it gain from collaboration/cooperation? Upside/downside?

How to find a corporate partner? What is the starting point? Candidates?

What resources/time/effort should it allocate?

What objectives are reasonable to set? For the SME? For the corporate?

How to manage the activities – milestones, outcomes, money?

What does success look like? Money? Markets? Trade Sale? Knowledge?

Help! It's all gone wrong – how to exit?

Assess Readiness for corporate partnership

How far is your product from being validated to a point of selling ?

What are your goals for the next several years ?

What are the assets and skills you need and what is the best way to obtain them ?

Do your attitudes and business style mix with corporates?

Is your team ready to team with a large firm ?

Can you scale by other means?

Will your existing investors support this partnering?

Is your IP fully protected – including background and future ‘forks’?

Have you considered any ethical issues?

Identify mutual benefits

Identify the needs of the corporate – Political, Economic, Social and Technical

Understand fit between their and your strategic objectives

ideally - have no more than three core goals

Goals must be SMART - that is: Specific; Measurable; Achievable; Realistic, and Time-based

Each of the parties is clear on what to expect - and what is expected of them

Each partner - and ideally the assigned personnel within each firm - signs off on the tasks for which they will be responsible

Potential risks

Do a due diligence on potential partners:

What is their track record in working with SMEs?

How do they share the benefits of the collaboration ?

How do they solve problems and conflicts ?

Who will they appoint as a manager ? What level, competences, and sign-off?

Are they willing to sign a Memorandum of Understanding – an outiine agreement – before the deal?

Is there an ‘exit’ for both of you?

Have you the capacity if everything goes very well - and if your technology and/or people can’t deliver?

Are there any warranties (guarantees on performance/quality/milestones…) required?

Negotiation Partnership

Must lead to beneficial outcome for both partners

Your early stage discussions with your new partner should

- foster a mutual understanding of the ground rules, expectations and objectives of the alliance
- identify any disconnects in operating styles or intentions

Licensing agreement

- Whatever form your agreement takes, it should describe the basic rules for managing the collaboration and, importantly, the processes for resolving problems when they occur
- Any contract should address specific legal issues - in particular, how any necessary funding will be provided, the IP that each party is bringing to the project, and which firm will ultimately own the results of the collaboration (and any IP originating therein)

Monitor and manage your partnership

Define checklists and scorecards – keep to the agreed plan and goals!

Ongoing evaluations

- to ‘step back’ from the day-to-day management and running of the project
- to critically appraise your progress
- to identify potential pressure points or concerns

If all the partners are open and candid during meetings, minor disagreements - such as issues of mistrust, or perceived lack of commitment - can be solved immediately, eliminating conflict and disruption

Collaboration tools

Choose a solution that offers the functionality you need today, and into the future - eliminating the need to switch providers, migrate data and learn new software, later on

Your alliance will thrive in an environment of mutual understanding, respect and cooperation. Anything else will lead to disharmony and failure!

Open Innovation Model

What's the business – how the company creates and delivers value for a specific customer group

What could it gain from collaboration/cooperation? Upside/downside?

How to find a corporate partner? What is the starting point? Candidates?

What resources/time/effort should it allocate?

What objectives are reasonable to set? For the SME? For the corporate?

How to manage the activities – milestones, outcomes, money?

What does success look like? Money? Markets? Trade Sale? Knowledge?

Help! It's all gone wrong – how to exit?

Presentations

Conclusions

Connecting with corporates

1

- Improve your salesmanship: focus on what you can do for the corporate, not what they can do for you.
- Understand their pain-points and motivations.
- Don’t emphasise only ideas, but present your business case, customer acquisition, growth model etc

Listen

2

- Listen and learn: too many corporates report SMEs ‘hearing what they want to hear’, ignoring hurdles and interpreting polite interest as meaningful engagement.
- If a company says it is not interested, try to understand why (e.g. timing? need? price?).
- For corporate accelerators, research the people involved (give priority to programmes run by entrepreneurs).
- For procurement, ask about their buying cycle, qualifying criteria and process (it is a ‘red flag’ if they won’t share this).
- For other collaborations, understand likely stage-gates, and ensure you’re talking to the right person/department who is empowered to make decisions. The route to a ‘yes’ may be different from the route to ‘no’

Relationships

3

- Network, network, network: find champions within the firm – but be careful about opening multiple conversations which confuse their processes.
- Remember a large corporate can offer much more than money-market knowledge and introductions may be even more valuable. Don’t be afraid to ask.

Trust

4

- Build trust: expect to develop rapport for several months pre-deal, and anticipate that the relationship may be ‘reset’ when people change roles!
- Don’t abuse the trust placed in you by over-using the corporate’s name or leaking privileged information.
- Don’t over-promise: be honest about your stage of development, and realistic about what you can’t do. You will get to a deal faster.

IP agreement

5

- Take a balanced approach to IP: be clear about who will own IP coming from collaborative work, and take steps to protect your IP if this is core to your business (e.g. co-develop Apps but hold on to the API/algorithm).
- But avoid becoming paranoid: most firms don’t want to steal your idea and, more often than not, the idea itself is a very small part of the finished product.

Disruption

6

- Consider your language and look: VC’s may welcome ‘disruptive innovation’ but corporates usually don’t.
- Incremental innovation (which preserves processes) is an easier sell than radical innovation.
- Consider that informal dress and over-familiarity may be interpreted as a lack of professionalism. Professional attitudes instil confidence that you can deliver.

Timing

7

- Be realistic about timing: SMEs massively underestimate timescales until deals are finalised, and are often surprised by how slow corporates move.
- Get on their radar early.

One or many

8

- Don’t put all your eggs in one basket: nurture other options till the deal is actually done, and beware of offering exclusivity too early.
- Avoid becoming a bespoke consultancy for one firm, as this creates dependency.
- Be especially cautious of being sucked into free or discounted work.
- But don’t ‘chase the ball’ either: pursuing every opportunity dilutes effort and weakens your strategy; sometimes it is better to decline to partner.

Exits

9

- Know when to quit: many SMEs are accidentally killed by corporates – judging when to cut your losses, and how far from your path to deviate, is crucial.

Conclusions

Open innovation –parter with corporates never so easy…(?).

Corporates, a good partner, (but):

- To refine the technology, the value proposition, the market opportunity and to scale up.
- But risk of dependency / independency / FTO / IP roundabout
- **Terms of the deal** are key.

Clear strategy & project roadmap.

- To build and negotiate terms of cooperation.
- To have a clear idea of the expected results
- To detect the corporation that best fit

Conclusions (2)

Formalizing

- Formal Contract vs. MOU
- Ensure expected results and smart goals, metrics and milestones.
- NDA

Working together

- Managing the process
- Long term – build trust

Conclusions (3)

Use Corporate open innovation structures for accessing corporates…including SME instrument phase 3 support…

You are the STARS OF EUROPE, a pre selected and financed by EU exclusive Group of companies with high growth potential….