

Is Corporate VC hurting PE?

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PE investors are no strangers to competition. Fellow PEGs and strategic buyers have been around since the beginning, and family offices and fundless sponsors are fast becoming significant players in the middle market. A new hybrid competitor is starting to flex its muscle, almost undetected by the broader industry: corporate VC. Corporate venture teams aren't really new—outfits like Intel Capital and Google Ventures have been investing for years, mostly in well-heeled tech startups outside of PE's purview. Over time, however, blue-chip corporate players have caught on to potentially additive benefits of CVC investing in retail, energy, telecommunications and healthcare, to name a few. Among the most active names since 2010: General Electric has made 202 investments through its CVC arm, 220 for Comcast Ventures, 117 for Johnson & Johnson Innovation, 60 for BP Ventures and 58 for Unilever Ventures. Other CVC teams making at least 20 early stage investments since 2010 include American Express, General Motors, Monsanto, Shell and Time Warner. Even 7/11 has a venture unit.

While relatively uncommon, strategic buyers with existing CVC investments have a significant buy-side advantage in this market: already owning 10%-20% of companies through early-stage, lower-valued rounds allows them to acquire the rest of those companies at much smaller, blended multiples. That impacts PEGs at both ends: strategics will have a much easier time winning those deals (if they want to) when they come to market, and as we've discussed, PEGs are taking a closer look at VC-backed companies as potential add-on acquisitions. Strategics' advantage on the sell-side is the more important, however, especially over time. PEGs will have a tougher time selling similar portfolio companies to strategics when they have their own portfolio company options to consider. Corporate VC is a relatively minor threat to PE today, but with practice, it has the potential to become a sophisticated way for strategics to sidestep financial sponsors and narrow a major exit route for private equity.

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