

Fueling, growing and sustaining:

the increasingly important role of corporate
venture capital in the innovation lifecycle



Today's business executives operate in a complex, hyper-competitive and technologically accelerated global environment, one in which they face increasing challenges to generate long-term returns for stakeholders.

The need for innovative solutions that solve systemic problems, create value and generate positive financial and social outcomes has never been greater, and increasingly, executives have been turning to early stage companies to help develop these innovations. At the same time, the startup environment has never been more robust. The cost to launch a potentially transformative technology, due in part to technologies such as cloud computing, has never been less. Innovation is bubbling up from eclectic places. Startups are abounding in universities, incubators/accelerators, co-working spaces and in offices (and garages) across the country. However, many of these innovative startups struggle due to a lack of critical early customer access, poor distribution, lack of brand reputation with potential customers and general lack of availability of capital.

And yet, potentially mutually beneficial solutions exist. Increasing numbers of leading corporations, recognizing the value potential of insights and innovation sourced externally, are establishing formal mechanisms to pursue investments and partnerships.

Corporate innovation and investment programs, also known as corporate venture capital or CVC, are formed specifically to interact, invest and partner with the start-up ecosystem. This approach gives established companies a way to engage with the creative problem solving and entrepreneurial approach associated with startups, while at the same time giving startups a mechanism to access the capital, credibility and insights leading corporations can offer.

While originally largely limited to companies from the technology space, i.e. Google and Intel, the benefits have begun to be recognized by corporates from more 'traditional' sectors. Over 50% of the Fortune 100 and close to 40% of the Fortune 100 have formal CVC units. Recent studies have begun to show stock out-performance of these companies relative to competitors without an established corporate venture capital function.

Corporate Venture Capital (CVC) Activity

Global CVC unit activity is increasing dramatically; 50% of Fortune 100 and 35% of Fortune 500 companies have CVC units.

- Over last five years, CVCs have doubled participation to 30% of total funding.
- Average CVC investment was \$9M per company in 2015. (TELUS Ventures' average was \$2.1M per new investment.)
- There has been a 2x rise in number of deals and a 5x rise in capital invested over the last five years.
- Growth in number of CVC deals was 30% year-on-year from 2010 to 2015.

Sourced from GVC Analytics

TELUS Ventures: a recognized global leader in the corporate venture capital field

As one of the longest-standing corporate venture capital funds in Canada, TELUS Ventures, a wholly owned subsidiary of TELUS Communications, has firmly established itself as a key player in the global CVC sector. Since its launch in 2001, TELUS Ventures has invested in more than 50 companies and holds a current active portfolio of 28 companies, creating significant value for both its parent company and the investee companies it has supported throughout the years.

"TELUS Ventures' role is to find, fund and support high-potential investment opportunities that can drive long-term financial and strategic value for TELUS and its partners," says Rich Osborn, Managing Partner at TELUS Ventures. "These investments span the spectrum from tactical opportunities, where the focus is to drive short-term revenue targets, to those that are longer term in their potential impact, to those that provide less financial return but contain insight or market exploration value to TELUS."

Osborn notes that this latter category is an increasingly important focus for TELUS Ventures, and includes such areas as artificial intelligence, virtual reality and cyber-security. Grouped under the label "orthogonal," a statistics term indicating "non-correlation", these investments have the potential to drive new market and technology directions for TELUS but are distinct from the current lines of business in which the company operates. "The dynamic nature of early-stage startup companies also allows TELUS Ventures to take advantage of a 'fail-fast culture' where ideas are put to the test at an early stage without too much capital and time being risked," Osborn says.

The prescription for sustainable healthcare: building an ecosystem

While TELUS Ventures is focused in a number of technology sectors (see sidebar), it has received global recognition for its role in health care investing. With a deep commitment to helping improve Canada's health care system, and as the largest health technology vendor in Canada, the division of TELUS known as TELUS Health has, with the active support of TELUS Ventures, acquired, developed and partnered to create a suite of complementary technologies serving healthcare professionals and patients across the country. As a result, TELUS Ventures was ranked as part of the top 10 global strategic investment firms by a leading investment data firm.

"Our ventures group has helped us build and grow an incredible series of partners that have helped us win customers, develop new products and ultimately accelerate the much needed digital transformation of our country's healthcare system," says Paul Lepage, President of TELUS Health and Chair of TELUS Ventures.

In addition to the individual investments it makes, TELUS Ventures also focuses on efforts to build an innovation ecosystem of partners to develop new products and distribution channels. In health care, this ecosystem is being designed to include a wide range of players to help TELUS Health reinforce its product integration efforts through application programming interface (API) platforms -- all in an attempt to drive faster, more agile customer solutions and help hedge against market disruption. An API platform is a set of routines, protocols and tools for building software applications.

"There are also clear benefits when it comes to competitive differentiation, market insights and access to customers. The effect on corporate culture is another plus. Our team members get exposed to innovation first-hand and are often our first pilot users. Startups benefit from seeing how TELUS maintains its market leadership and we benefit from seeing things from a startup's vantage point," Lepage says.

TELUS corporate venture capital priority sectors

- Digital healthcare
- FinTech
- Digital security and identity
- Consumer technologies
- Internet of things
- Artificial intelligence
- Virtual reality
- Machine intelligence
- Interchangeable virtual instruments



The TELUS corporate venture capital approach is comprised of 4 key activities: invest, support, catalyze and realize.

■ Invest

TELUS Ventures invests in high potential companies that foster revenue growth, enable cost reduction and that drive go-to-market initiatives for TELUS. TELUS Ventures uses disciplined investment governance to select quality entrepreneurs.

■ Support

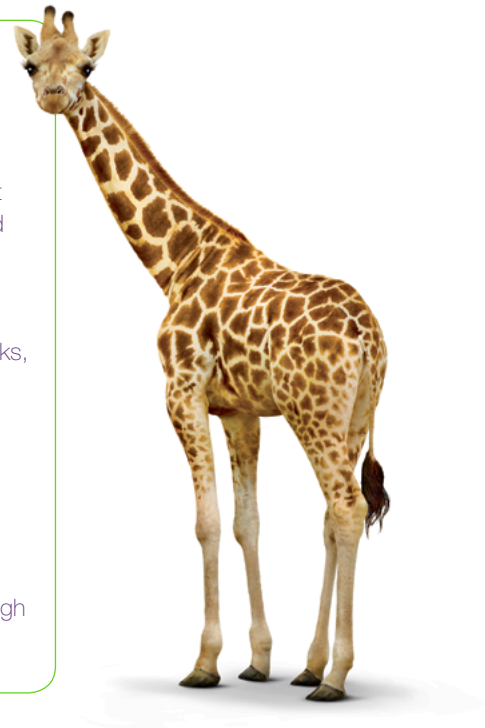
TELUS Ventures supports investee companies through established value-creation frameworks, co-investor syndicates, partnership models, industry insights and a variety of other tools.

■ Catalyze

Ventures initiatives are used as a catalyst to drive new market opportunities and strategic growth opportunities for TELUS.

■ Realize

In addition to its strategic support, TELUS Ventures realizes financial returns for TELUS through investment activities. Financial return targets are flexible based on the type of investment.



Value Added Frameworks

Over the past years, TELUS Ventures has established a significant partner network designed to serve entrepreneurs and support them in bringing their vision to fruition.

These include deep relationships with leading incubator and accelerators partners, extensive global co-investment partners including a global consortium of other telecom companies with CVC arms and strong co-investment syndicate partners from traditional investment firms.

TELUS Ventures also assists entrepreneurs prior to investment through such programs as FirstStep, a guided market exploration process where companies spend 6-8 hours working with TELUS innovation experts to develop holistic roadmaps on where technology and market developments are most likely to impact their company. These roadmaps are shared with all participating companies to develop collective viewpoints for collective benefit.

Finally, entrepreneurs can rely on a broad network of TELUS experts and executives, known as the "Bench", that serve to support portfolio companies as resources, sounding boards, advisors and board members with skill sets matched to the current needs of the company.

Taken together, TELUS Ventures has created a flexible but substantial framework to source, nurture and scale innovation, both for the benefit of TELUS stakeholders and the companies it supports.

Corporate venture capital: combining social and financial impact

As one of Canada's most admired corporate cultures, TELUS is consistently ranked as one of the leading philanthropic companies in the world and has a deep commitment to improving the lives of those in the communities in which it operates.

As part of the TELUS organization, TELUS Ventures shares those commitments and is taking a leadership role in the exciting field of social impact investing by providing innovative funding targeted at some of the most pressing social challenges facing Canadians.

As an example, Social Impact Bonds have been used successfully in other countries to align private investor capital with government or philanthropic organizations to produce desired social benefit outcomes (i.e. reduce homelessness.) through an alignment of risk sharing and outcomes based financings.

In Canada, TELUS Ventures is a lead investor and founding board member in Canada's first health care focused Social Impact Bond. The bond, launched in 2016, supports The Canadian Heart and Stroke Foundations work with seniors across Canada to produce interventions designed to reduce hypertension through technology supported health tracking, coaching and interventions.

A competitive advantage at the tipping point of a new digital economy

When Darren Entwistle, CEO of TELUS, founded TELUS Ventures 17 years ago, he understood that strong digital economies, like the one TELUS has been heavily invested in creating for decades, also required a strong entrepreneurial fabric. He viewed corporate investment in the startup community as having similar synergistic potential, value and outcomes for our communities as the framework of philanthropy he built, and for which TELUS was recognized worldwide. Creating value goes well beyond dollar figures, it gets weaved into the internal TELUS fabric as well.

"TELUS Ventures has played a critical role in ensuring we embrace innovation opportunities that advance our country's digital economy and TELUS' leading performance," said Entwistle. "The valuable insights gained through Ventures-led growth initiatives and investments over the past 17 years have been leveraged for the benefit of the entire TELUS organization as well as our clients and shareholders. Importantly, as TELUS embraces 'Third Wave' opportunities within IoT, artificial intelligence, privacy, security and the digital transformation of healthcare, the investment ecosystem developed by TELUS Ventures offers TELUS a key competitive advantage... one which has consistently made meaningful financial and strategic contributions to the success of our organization."

Harvesting innovation: the TELUS Ventures toolkit

The Ventures First Step Program

Developed by Dr. Brendan Byrne, TELUS Health's Chief Innovation Officer, the program is designed to support entrepreneurs to better understand their competitive environment through structured, design-led, thesis exploration sessions based on an industry trend or sector such as consumer health.

Incubator partners

TELUS is an active supporter of leading Canadian incubators such as MaRS, TEC Edmonton, HighLine Beta and numerous others.

Innovation centres

TELUS offices in Vancouver, Toronto and Montreal have leading-edge living labs with the latest technology tools and host open houses for entrepreneurs and executives to take part in hackathons and exploration sessions.

Exploring social impact models

TELUS Ventures believes in using corporate venture capital to support solving some of the most pressing social challenges facing Canadians. It brings public and private sector partners together to find and fund creative solutions to long-standing problems.

TELUS Ventures was a lead investor in Canada's first social impact bond in partnership with the Heart and Stroke Foundation and the Government of Canada. This project is focused on reducing hypertension in senior citizens in Canada using innovative technology and coaching solutions.

