



SOLVING KEY CVC CHALLENGES WITH SECONDARY SALES

ABSTRACT

Unlocking the Full Potential of Corporate Venture Capital (CVC) through Strategic Secondary Sales

Corporate Venture Capital (CVC) has become a vital tool for corporate innovation, with over 2,500 CVC groups investing more than \$500 billion globally. Yet, CVCs struggle with shifting corporate strategies, liquidity constraints, talent misalignment, and bloated portfolios—leading to inefficiencies and eventual failure.

To remain agile and effective, CVCs must embrace proactive portfolio rebalancing through **secondary sales**, ensuring strategic alignment, liquidity, and long-term sustainability. By partnering with **FreeRun Ventures**, CVCs can navigate these challenges, optimize portfolio management, and unlock capital for future innovation.

DAVORIN KUCHAN

Managing Partner, FreeRun Ventures

✉ Contact: davorin@freerun.vc

🌐 Website: www.freerun.vc

CORPORATE VENTURE CAPITAL (CVC) STRATEGIES

Solving a key CVC problem, “Strategy Shift” with Strategic Secondary Sale.

Davorin Kuchan, Managing Partner, FreeRun Ventures

The Problem: A Strategic Misalignment

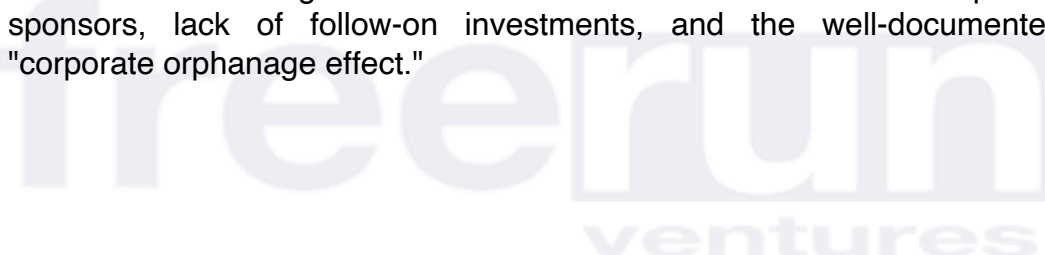
Nearly 40 years ago, Peter Drucker famously declared, "Innovate or Die." While corporations have embraced this mantra, their focus on operational efficiency and short-term results often stifles organic innovation. To bridge this gap, Corporate Venture Capital (CVC) has become a critical tool, with over 2,500 CVC groups now operating globally. These groups have collectively invested over \$500 billion, participating in roughly 28% of venture capital deals.

However, despite the growth and evolution of CVCs, a persistent and often overlooked challenge remains: The threat of a Corporate Strategy Shift. Unlike traditional venture capitalists, whose primary focus is long-term financial returns, CVCs prioritize immediate strategic goals such as market insights, technology scouting, and fostering partnerships over pure financial results.

This approach presents several key issues for CVCs:

Issue 1: Continuous Strategy Changes

Corporate strategies evolve every 3-4 years, often falling out of sync with the long lifecycle of startups, which now average 12-14 years before liquidity events. This misalignment leads to reduced interest from corporate sponsors, lack of follow-on investments, and the well-documented "corporate orphanage effect."



Issue 2: Liquidity Challenge and Market Conditions

The post-pandemic market exacerbated these challenges. Record valuations in 2021-2022 gave way to a liquidity drought as IPOs and M&A activity slowed. Meanwhile, the AI boom has redirected corporate investment priorities. In 2024 alone, over \$30 billion has been deployed across 500+ generative AI deals, a 200% increase from 2022.

As CVCs increasingly shift strategies to prioritize AI, traditional sectors are left underfunded, and existing portfolio companies face neglect. Furthermore, CVCs operating with balance sheet funding face constraints as capital becomes scarcer due to market challenges or interest rate increases.

Issue 3: The Talent and Incentive Dilemma

Most CVC teams lack traditional private equity (PE) or investment banking expertise. Their compensation structures prioritize strategic outcomes over financial returns, with metrics such as the number of BU engagements or pilot projects taking precedence over IRR or DPI. This imbalance reduces motivation for ongoing portfolio management and creates lack of interest in financial returns and liquidity through proactive secondary market sales.

Issue 4: The Burden: Ongoing Portfolio Management

Effective CVC management requires ongoing engagement with portfolio companies, including pilot projects, quarterly mark-to-market reporting, and follow-on funding evaluations. However, as CVC portfolios grow bloated with non-strategic assets, managing these relationships becomes burdensome. Without market liquidity and proactive secondary sales, many CVCs are left holding aging, non-strategic investments, frustrating investment managers who end up 'stuck' with previous investments that management no longer cares about.

As a result, CVCs slowly fail. Over the past three years, 31% of S&P 500 CVCs have become inactive. The more mature a CVC, the higher the risk of portfolio misalignment and further attenuation of CVC value to the corporate parent.

The Case for CVC Secondary Sales

Strategic portfolio rebalancing through secondary sales offers a viable solution for maintaining CVC longevity. Key benefits include:

- **Relevance:** A lean, focused portfolio aligned with corporate goals.
- **Liquidity:** Capital recycling eases balance sheet pressure.
- **Sustainability:** Both strategic and financial growth are supported.

Unfortunately, the secondary VC market remains fragmented and ill-suited for CVC-specific needs:

- PE firms focus on buyouts, not growth-stage VC assets.
- Traditional secondary funds target GP or LP-led transactions and mezzanine-stage employee stock options.
- Brokers often take indiscreet, ineffective approaches that can harm corporate reputations.

Best Practices for Secondary Exits

To institutionalize effective lifecycle portfolio management, CVCs should:

1. Conduct quarterly reviews of strategic value.
2. Maintain accurate mark-to-market valuations.
3. Continuously manage documentation and data rooms.
4. Monitor secondary market pricing.
5. Develop relationships with experienced secondary market partners who understand the complexities of corporate venturing and innovation.

Unlike traditional secondary VC sales, corporate investors frequently have commercial relationships with the portfolio startups. Any financial exit needs to be a careful, friendly three-way transaction, sometimes creatively structured to retain value, ongoing business, and reputation for both the corporate and the startup. A skilled secondary partner will guide the CVC in this process and craft a value-add transaction for all parties.

Conclusion: CVC-dedicated Secondary Exits

To thrive, CVCs must embrace full-lifecycle portfolio management, including exits. By proactively rebalancing portfolios and leveraging secondary markets, CVCs can remain vital contributors to corporate innovation and growth through all changes and challenges.



CVC leaders need to proactively develop a relationship with a secondary VC partner who can help foster that process and guide CVC through pricing and selling investments to make capital available for new projects. An ideal secondary partner will be a discreet, patient, creative, and trusted counsel who understands the complexities and nuances of corporate innovation—not just a PE "loan-shark" or a volume broker.

About FreeRun Ventures

FreeRun Ventures is a specialized VC/PE firm that provides innovative solutions to solve key Corporate Venture Capital (CVC) challenges, particularly when portfolio investments no longer align with the evolving strategies of their parent organizations. FreeRun focuses on helping CVCs navigate transitions gracefully by offering tailored exit strategies and redeploying capital efficiently.

In addition to secondary sales, FreeRun Ventures also allows CVC partners to retain influence and grow financial returns through flexible financial structures, q q as a trusted partner in managing the complexities of CVC investments and open innovation.

If your CVC is ready to optimize its strategy through secondary exits, **FreeRun Ventures** can help. Contact us today to learn more about how FreeRun Ventures can support your CVC strategic portfolio maintenance and ensure your organization's long-term success.

 Contact: davorin@freerun.vc
 Website: www.freerun.vc

