Corporate Venture Capital in the GCC

A CEO's guide to leverage corporate venture investments for growth and innovation

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Corporate venturing-

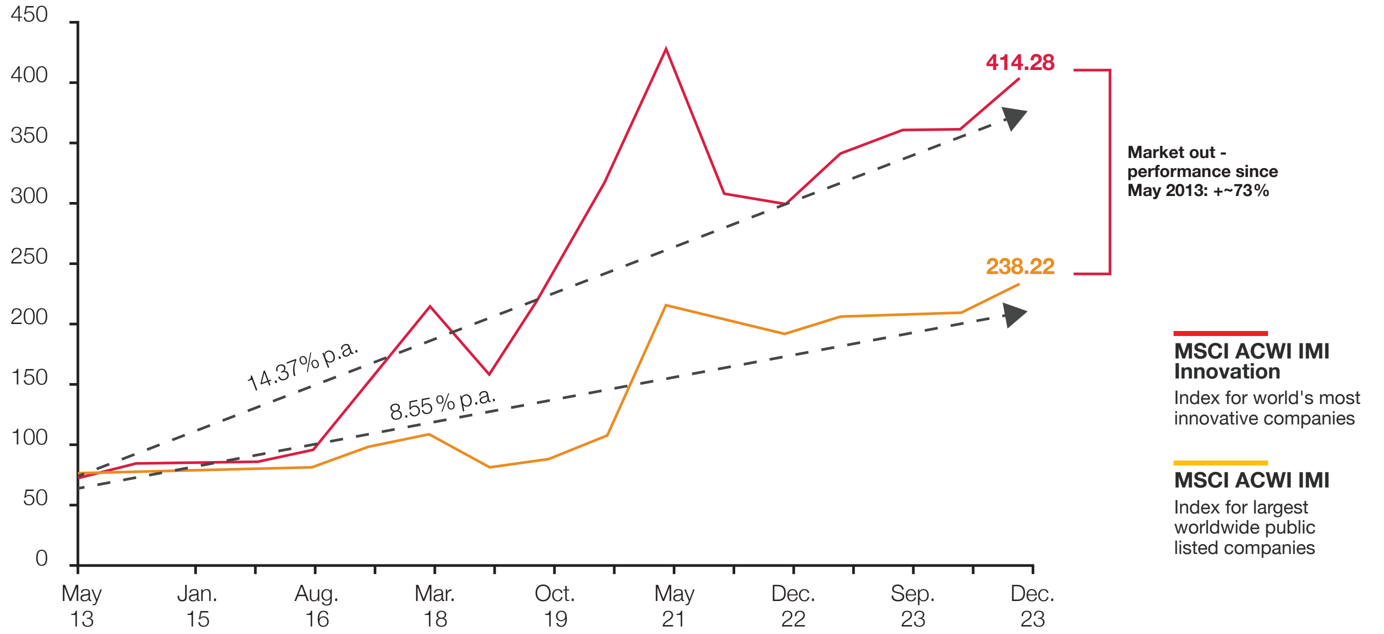
A necessity rather than a luxury

GCC economies have embarked on a transformative journey. With the Saudi Vision 2030, Qatar National Vision 2030, UAE Centennial Plan 2071, Kuwait Vision 2035, Bahrain Economic Vision 2030 and Oman Vision 2040, these countries aim to diversify their economies, reduce their reliance on oil revenues, and usher in sustainable growth and prosperity. To achieve these ambitious goals, a pioneering mindset is key.

This guide focuses on a pivotal element for transformation for corporations: Investment in open innovation. It involves investing in, or cooperating with, startups from the early development stages until later stages in order to enable access to innovations not created by the internal research and development (R&D) department. This concept of corporate open innovation is called corporate venturing. Performing corporate venturing promises to not only accelerate the realisation of the region's visions, but also to reshape the region's economic future.

Investment in innovation is advantageous for corporations and is quantifiable on an individual company level. Having a closer look at the international stock market reveals that investing into different forms of innovation significantly adds value to companies. Research has shown that the world's most innovative companies have consistently outperformed the world's largest publicly traded companies over the past decade, with a cumulative outperformance of 73% since May 2013. Corporate venture investing plays a vital role in fostering innovation within a corporation. Therefore, the strategic significance and key role of Corporate Venture Capital (CVC) in helping corporations stay competitive in a highly volatile business environment, is indisputable. Imagine an early-stage investment of 'Blockbusters' into 'Netflix', or 'Nokia' into 'Apple'. The history of these companies could have been different. Meta Platforms, Inc., on the other hand, realised that the social network 'Instagram' is a possible disruptive upcoming new startup that threatened their business model early on. And what did they do? They invested in their potential innovative disruptor.

Figure 1: Shareholder return of the MSCI ACWI IMI Innovation vs. MSCI ACWI IMI



[Source: MSCI, January 2024]

To find the best option for a company's open innovation strategy, it is important to know that different open innovation vehicles can be leveraged, tapping into the power of different startup maturities:

Incubator: A programme or entity that provides early-stage startups with resources, and mentorship to actively brainstorm ideas with entrepreneurs from the very start, helping them conceptualise business models

Accelerator: A programme that supports external early-stage startups post product market fit to develop and grow fast

Corporate Venture Capital (CVC): Acquiring minority equity (non-controlling) stakes in startups to gain strategic and financial gains

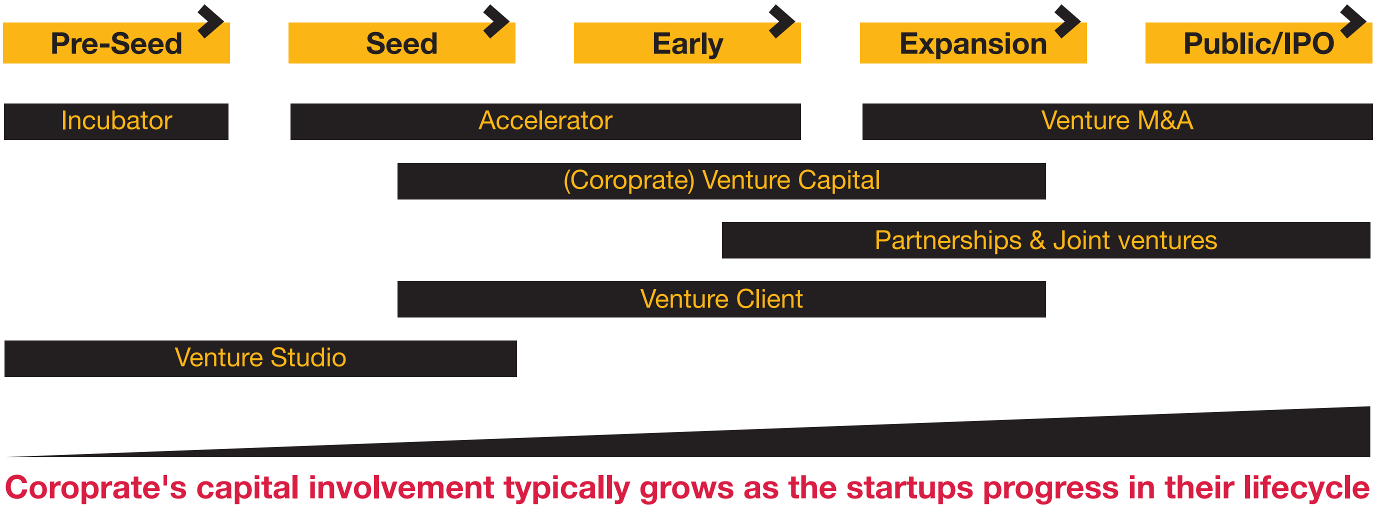
Venture client: A venture client relationship is where a company purchases products or services from a startup, gaining low-cost access to innovative technology and supporting the startup's growth as an early adopter

Venture studio (Venture building): A corporate innovation tool using a combination of internal resources and external partnerships to ideate and launch new startups, often by matching them with experienced founders and providing guidance through a successful launch

Partnerships and joint ventures: A collaborative initiative or new company between companies and startups enabling joint design of products and services in a specific sector or industry

Venture Mergers & Acquisitions (M&A): Acquiring majority equity (controlling) stakes of very late stage startups, to gain market share

Figure 2: Overview of different corporate venturing vehicles by startup maturity



[Source: PwC Middle East, Corporate Venture Capital in the GCC - A CEO's guide to leverage corporate venture investments for growth and innovation]

The rise of CVC in the region

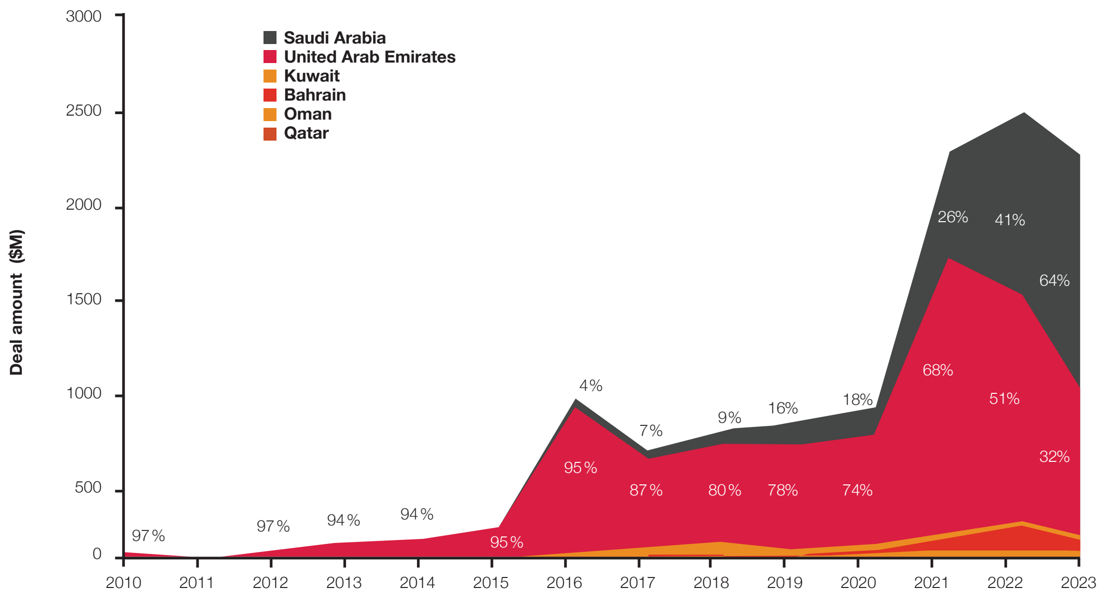
Status quo

VC overall market in GCC

In recent years, venture investments in the GCC have surged dramatically, with capital invested growing at a remarkable compound annual growth rate of 24% over the past five years. The venture capital invested in the GCC has more than quadrupled to reach US$2.5bn in 2022, from US$600mn in 2017.[1]
While 2023 marked a modest downturn, with the figure easing to US$2.1bn, this still represents a substantial level of investment, underscoring the resilience of the region's entrepreneurial ecosystem. Compared to other markets, the downshift was comparatively low, and a steady long-term upward trend is clearly observable.

The growth has been led by investments into startups with headquarters in the United Arab Emirates (UAE) and the Kingdom of Saudi Arabia (KSA), which together constitute more than 90% of the total deal amount in the region in the last five years. In 2023, KSA surpassed the UAE for the first time, capturing 64% of the total invested deal volume, a substantial increase from just a 4% share in 2016. It's worth noting that six years ago, KSA-based startups received only US$60mn in investments, but this has since soared to US$1.4bn in 2023, driven especially, but not only, by government initiatives supporting entrepreneurship.[2]

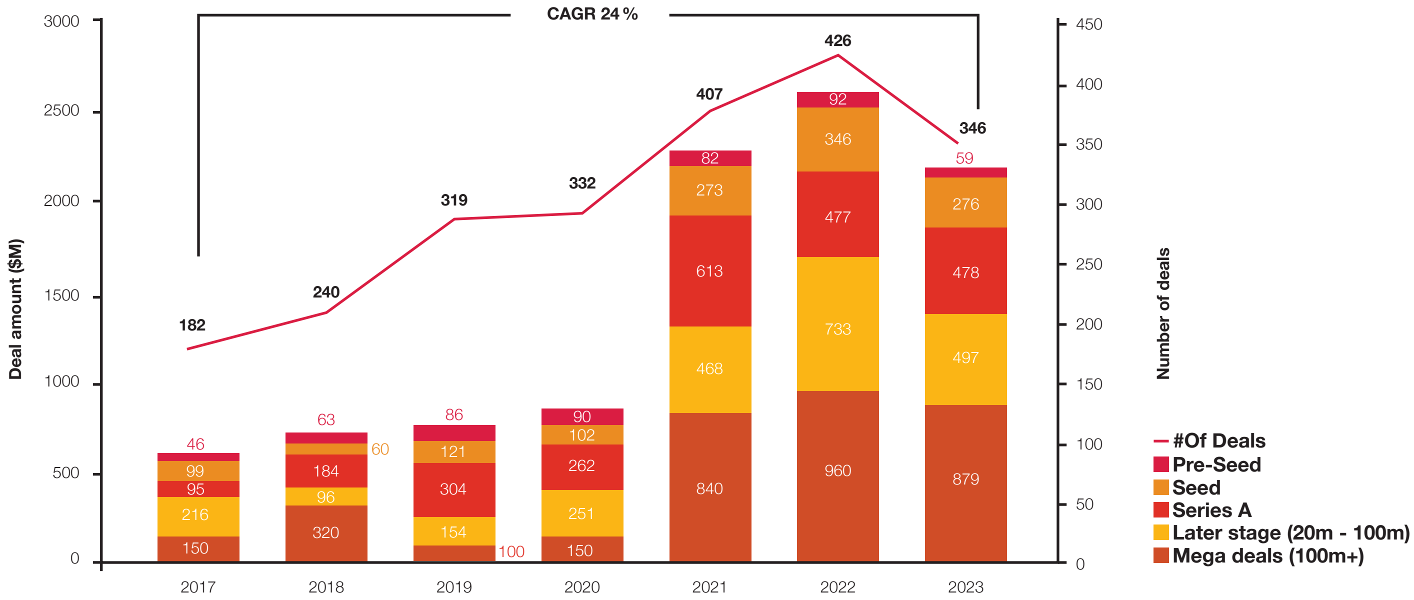
Figure 3: VC financing amount in the Gulf Council Countries in USD million (2010-2023)



[Source: MAGNiTT data, Jan 2024]

1. Source: MAGNiTT
2. Source: MAGNiTT

Figure 4: Division of funding rounds in the Gulf Council Countries in USD million (2017-2023)



[Source: MAGNiTT data, January 2024]

Over the past decade, the majority of venture capital invested in GCC-based companies has predominantly originated from domestic investors, reaching as high as 72% of total capital deployed in 2023. Particularly, a significant portion of these funds can be attributed to investors based in the UAE and KSA (compare Figure 5).

However, as depicted in Figure 6, there has been a notable increase in the presence of international venture capital investors in the GCC since 2017, particularly when analysing the number of individual investors participating in financing rounds. Historically in numbers, domestic investors have dominated the GCC region until 2020, comprising over 70% of total investors. However, the onset of the pandemic triggered a slight shift in this pattern in 2021. By 2023, international investors made up 40% of total investors in the region, indicating that the GCC is increasingly becoming attractive to international investors who are drawn to its promising startup landscape.

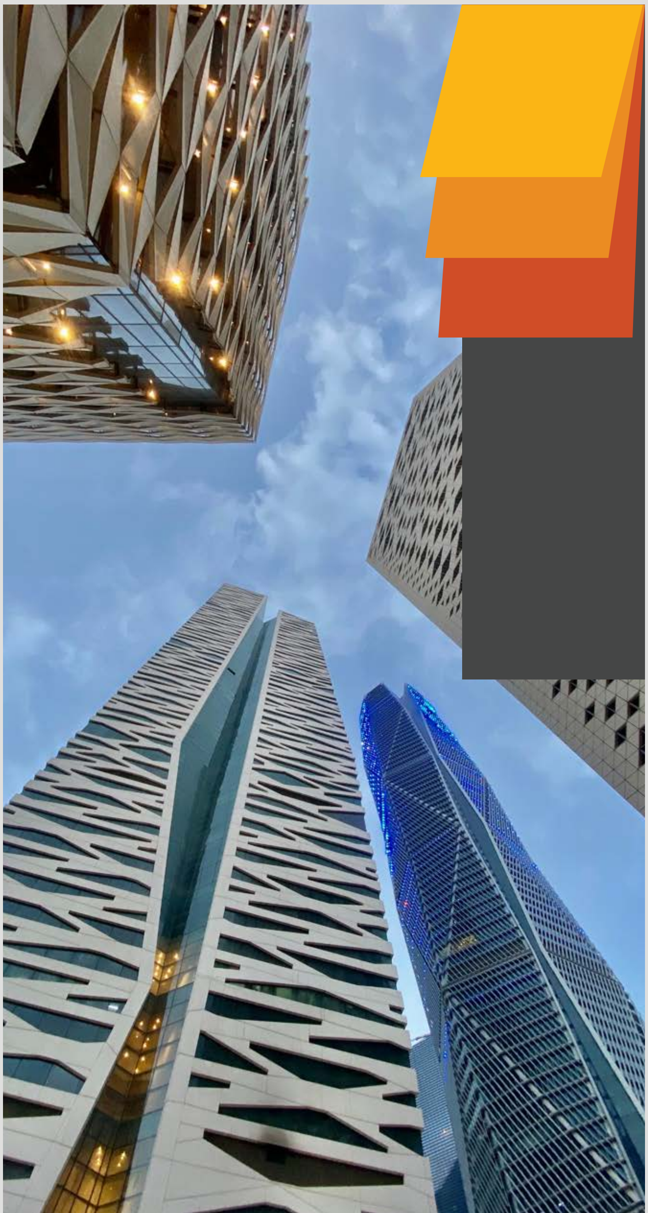
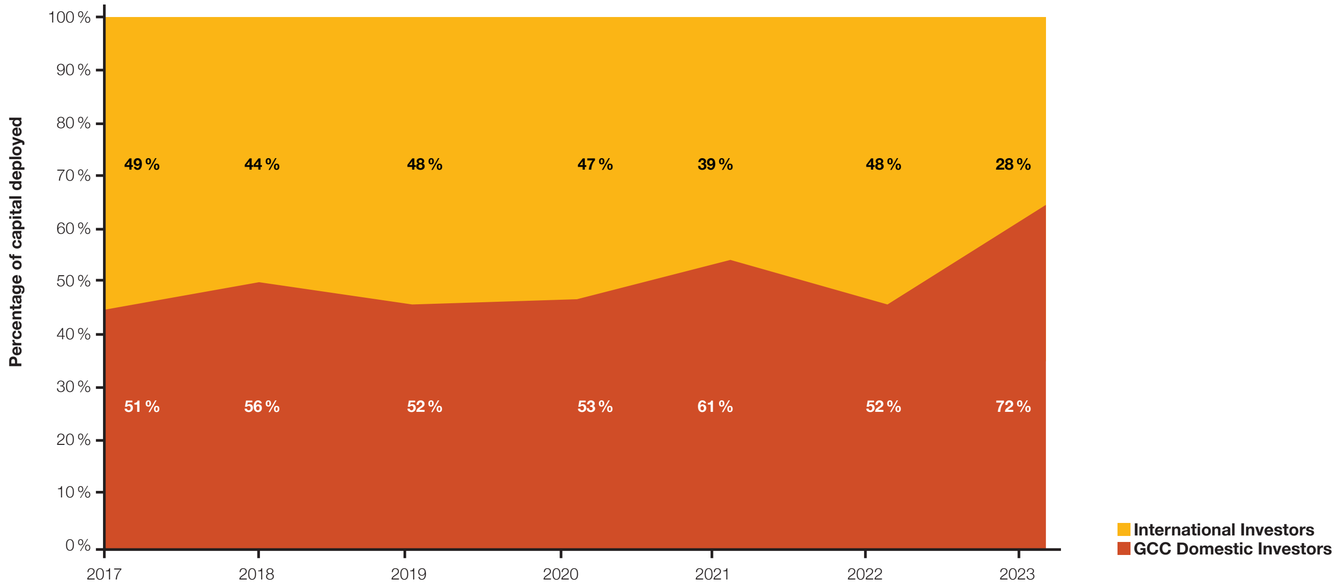
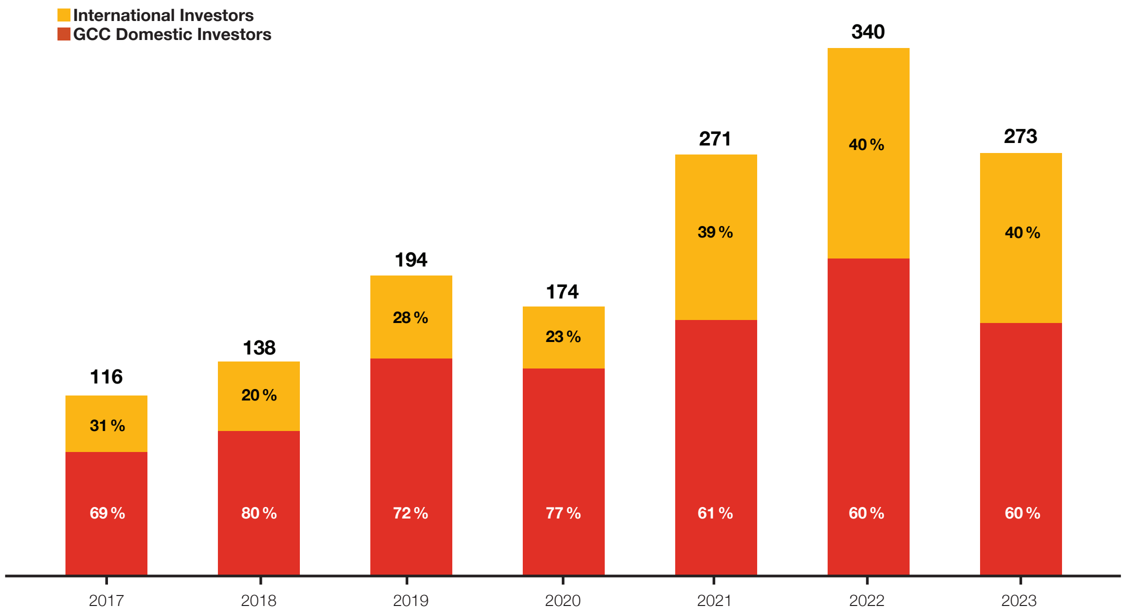


Figure 5: Sources of VC capital deployed in the GCC region (2017-2023)



[Source: MAGNiTT data, January 2024]

Figure 6: Total number of individual GCC investors and the percentage split between international and domestic investors at all stages (2017-2023)

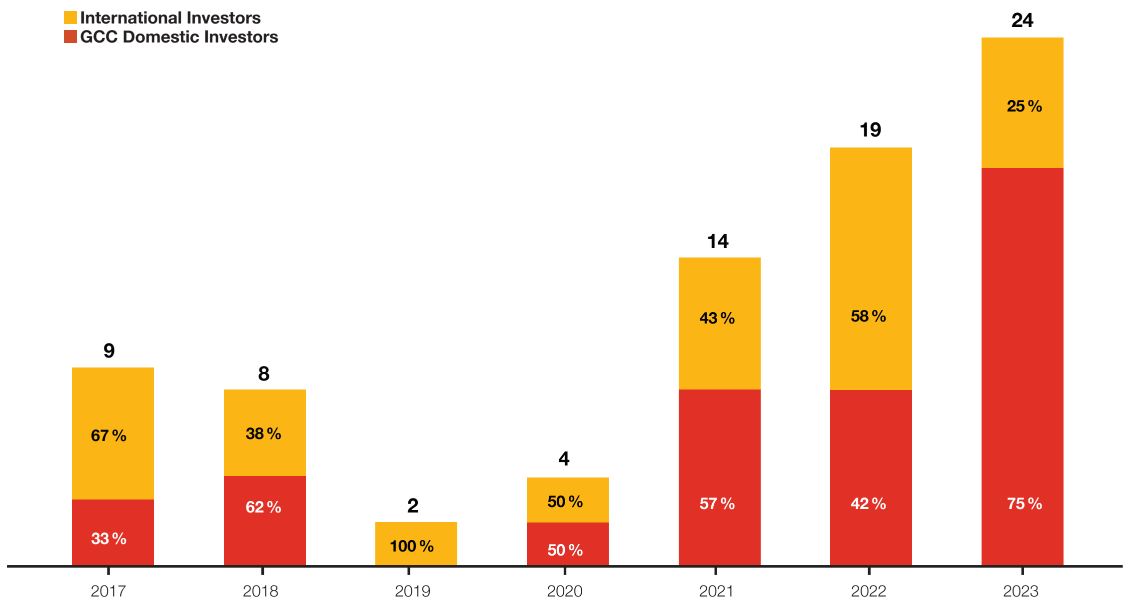


[Source: MAGNiTT data, January 2024]

When analysing late-stage investments (rounds exceeding US$20mn) in the GCC, it's apparent that in the past, these deals were infrequent and often led by foreign investors. However, in recent years, there has been a significant increase in both the frequency of these late-stage deals and the participation of GCC-based investors. As of 2023, a majority of late-stage investments are now driven by local investors.

This suggests a growing recognition among domestic investors of the importance of venture investing also in later stages. Such trends contrast in a positive way with observations in Europe, where later-stage rounds are predominantly funded by international capital. This shift signals positive growth in the maturity of the venture capital market in the GCC region, as financing later-stage companies helps retain successful founder teams within the region and mitigates brain drain to other regions.

Figure 7: Total number of individual GCC investors and the percentage split between international and domestic investors for late stages (20m+) (2017-2023)

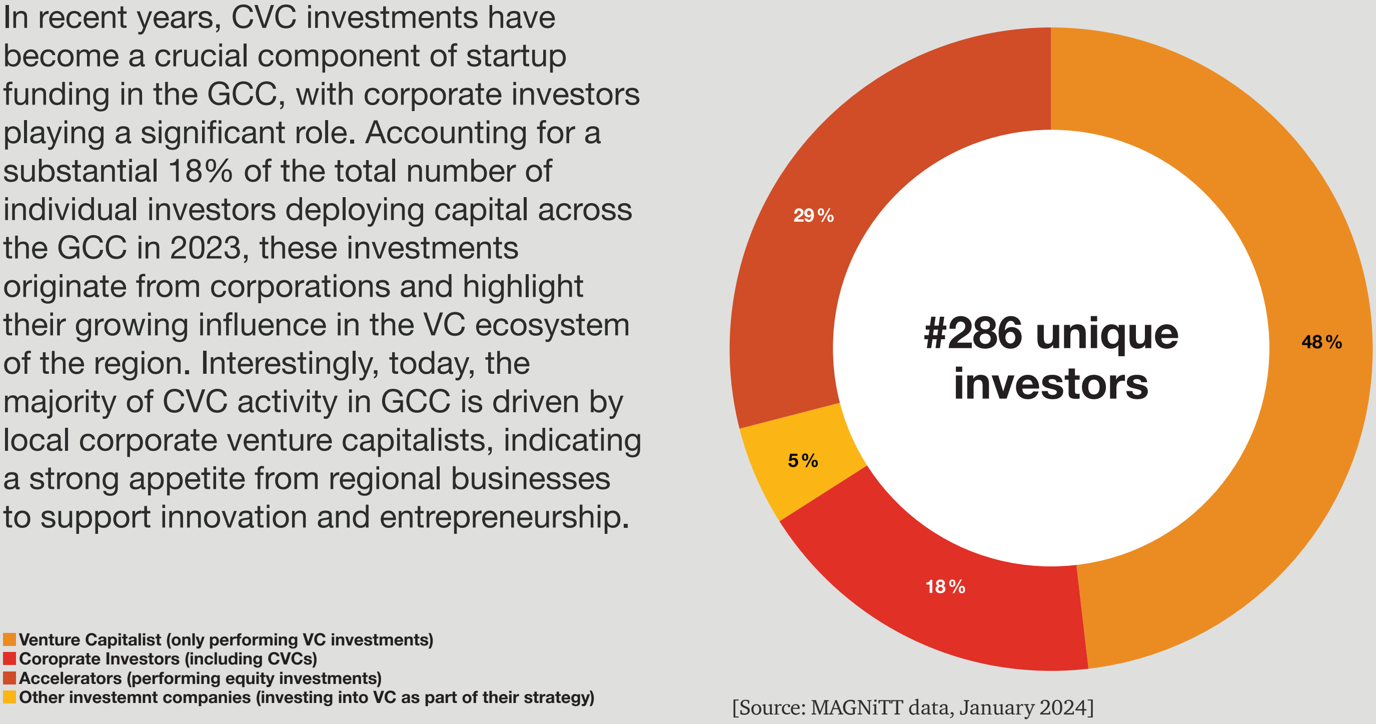


[Source: MAGNiTT data, January 2024]

CVC market in the GCC

In recent years, CVC investments have become a crucial component of startup funding in the GCC, with corporate investors playing a significant role. Accounting for a substantial 18% of the total number of individual investors deploying capital across the GCC in 2023, these investments originate from corporations and highlight their growing influence in the VC ecosystem of the region. Interestingly, today, the majority of CVC activity in GCC is driven by local corporate venture capitalists, indicating a strong appetite from regional businesses to support innovation and entrepreneurship.

Figure 8: Investor breakdown by investor type for 2023

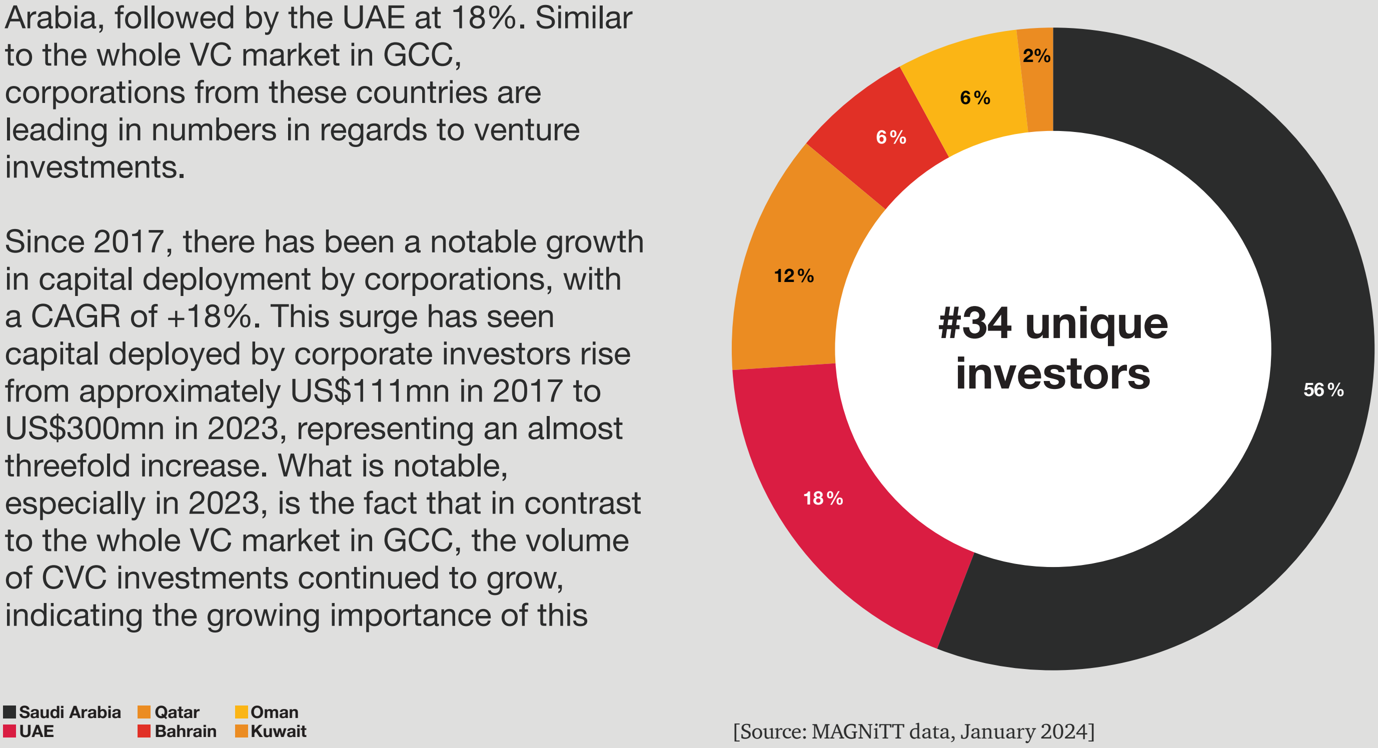


[Source: MAGNiTT data, January 2024]

Data from 2023[3] indicates that, over half of corporate investors hailed from Saudi Arabia, followed by the UAE at 18%. Similar to the whole VC market in GCC, corporations from these countries are leading in numbers in regards to venture investments.

Since 2017, there has been a notable growth in capital deployment by corporations, with a CAGR of +18%. This surge has seen capital deployed by corporate investors rise from approximately US$111mn in 2017 to US$300mn in 2023, representing an almost threefold increase. What is notable, especially in 2023, is the fact that in contrast to the whole VC market in GCC, the volume of CVC investments continued to grow, indicating the growing importance of this

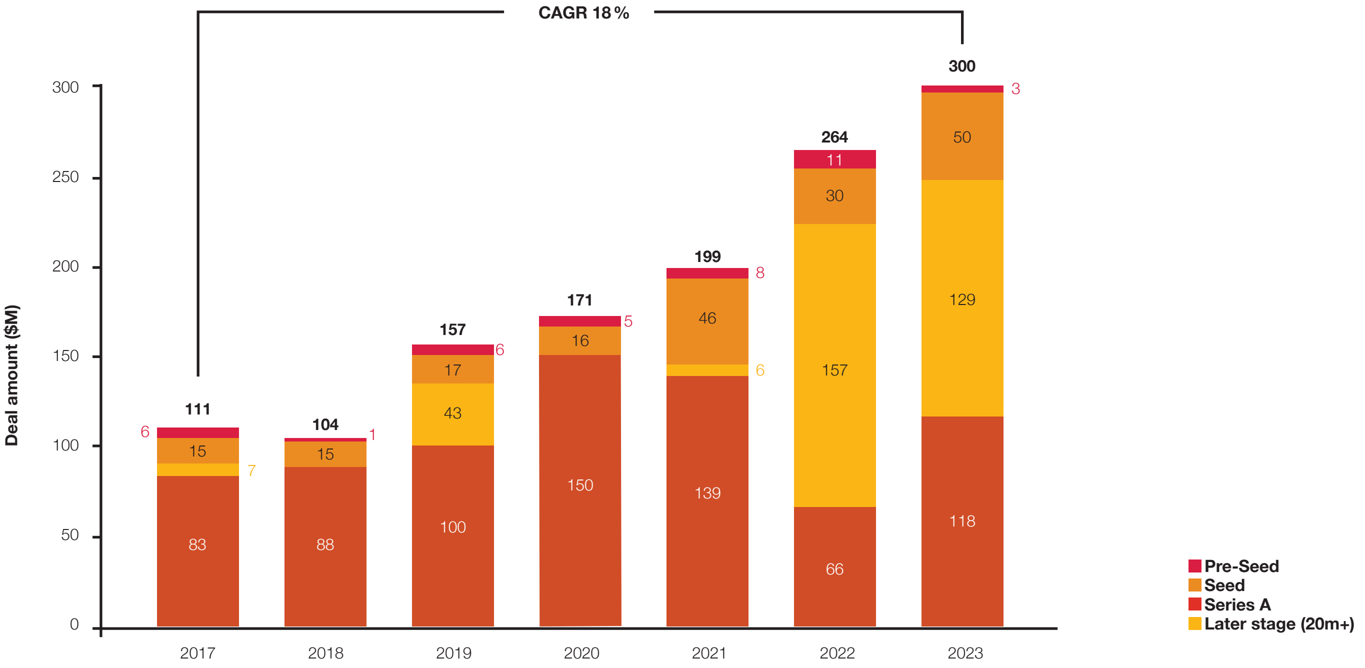
Figure 9: Corporate investor breakdown by GCC countries for 2023



[Source: MAGNiTT data, January 2024]

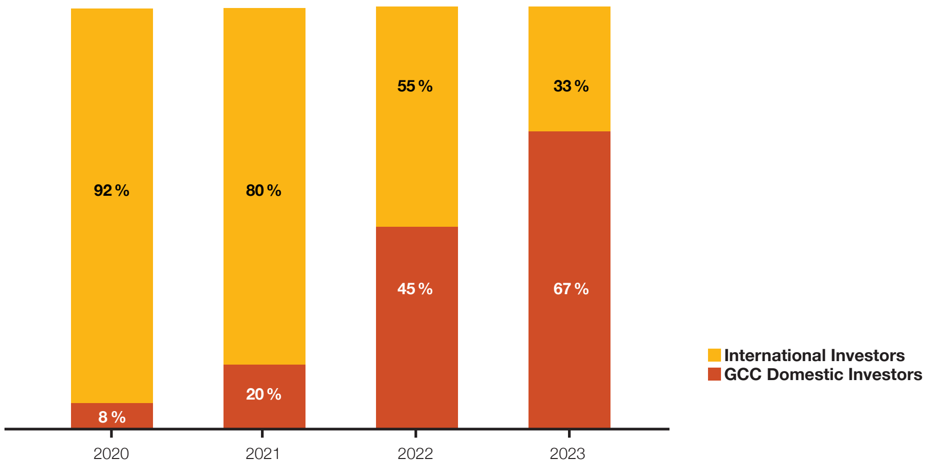
3. Source: MAGNiTT

Figure 10: Capital deployed by corporate investors in the GCC region in USD million (2017-2023)



[Source: MAGNiTT data, January 2024]

Figure 11: Sources of venture capital deployed by corporate investors in the GCC region (2017-2023)



[Source: MAGNiTT data, January 2024]

In Figure 11, data from 2023 indicates that a staggering 67% of the total CVC support for GCC-based startups came from domestic investors. This marks a significant increase from around 20% in previous years, showcasing a remarkable level of engagement from homegrown corporations in nurturing and fostering the startup ecosystem. This surge in domestic capital aligns with the establishment of numerous new CVC entities in the region, such as those initiated by Aramco, Savola Group Co, MBC Group Co, and Saudi Telecom.

A robust outlook with diversification and innovation

For GCC economies, investing in innovative ventures is strategically crucial to continuing reinventing themselves and their leading corporations in a faster changing global environment. Moreover, embracing innovation and new technologies presents a significant opportunity of strategic geopolitical importance for the region. Environmental challenges, such as ensuring food and water supply for growing populations, highlight the necessity for investments in technologies like indoor farming and sustainable desalination to reduce dependence on imports.

Additionally, the GCC's unique geographical position offers significant potential in clean energy generation projects that have the potential to boost the regional economy to US$13tn by 2050. There are also significant opportunities in green fuels, such as hydrogen (investments required to meet export demand for clean hydrogen in 2050 at around US$2.1tn), and we are seeing over US$2tn of planned infrastructure projects, which drive opportunities in sustainable destinations, impact global supply chains and strengthen a circular economy.

Generative AI (GenAI) has also been a robust disruptor for innovation across industries in the region. The overall economic impact of GenAI is estimated to reach US$23.5bn per year by 2030 in the GCC. With a young and well-educated population, coupled with promising opportunities, new innovative startups are poised to emerge, necessitating VC support.

As GCC governments prioritise diversification and innovation, the region aims to establish itself as a hub of futuristic innovation by the end of the decade. To foster innovative businesses, governments are offering incentives, subsidies, and funding opportunities. By tapping into these resources, corporations investing in venture capital can enhance their chances of success and maximise returns.

By adopting a balanced corporate venturing approach within a broader open innovation strategy, companies can align with GCC goals, such as Saudi Vision 2030, and contribute to transforming economies into sustainable and diverse global powerhouses.

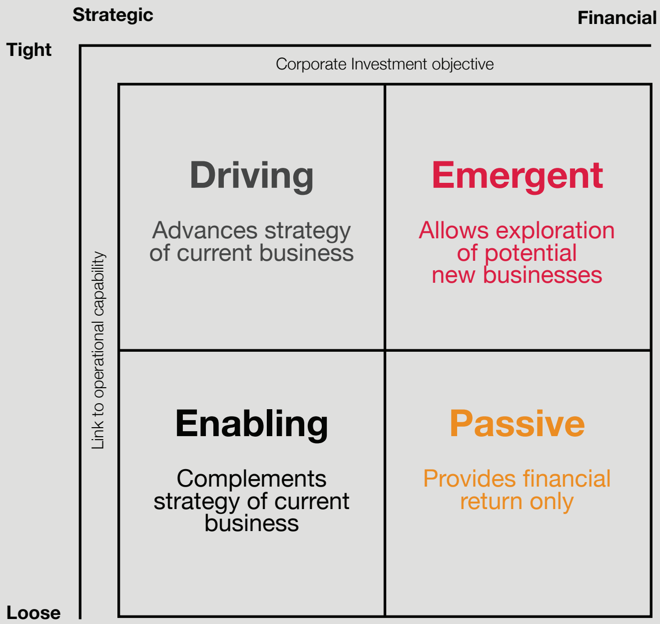
If we assume the total GCC VC market continues to grow by a CAGR of ~24%, it will have a volume of ~US$10bn in 2030, which will bring it to a comparable size of today's German total VC market and double the size of today's French VC market. Meanwhile, CVC investments would reach a size of US$1bn in 2030, assuming a continuous growth of ~18% CAGR. It is important to note that these figures for the GCC only include minority investments into startups and no venture M&A deals where corporations acquire majority stakes in these companies.

Key archetypes of CVCs

The establishment of a structured corporate venturing approach, embedded in a corporate open innovation strategy and aligned with the overall company vision, is an important tool for companies to foster innovation and to succeed in the long-term. Corporations have different motivations to engage with startups, but the predominant reasons are strategic innovation and exposure to new business models.

Leading Corporate Venture Investment researcher and professor at Berkeley University, Prof. Henry Chesbrough, has proposed a framework for CVC execution, which illustrates different approaches. Accordingly, there are different dimensions for different types of open innovation activities, defined by two characteristics: (I) The investment objective and (II) the link between the investing company and the startup (see Figure 12).

Figure 12: Framework for CVC investments proposed by Prof. Henry Chesbrough



This framework shows that a strategic CVC prioritises investments that directly support the growth of the parent company, utilising startup investments on a tactical level to improve for example business operations.

The other investment objectives are purely financial, aiming to obtain additional attractive financial returns. What remains crucial for both underlying investment motivations is to clearly analyse and define the operational tie of the investment engagement to the overall business ambition of the corporation.

This link to the operational capability is defined by the integration of the startups' activities into the investing corporation's value chain. Given a tight operational link of the venture investment with the investing company, the startup might utilise the pre-existing infrastructure to propel growth, leading to synergies between the investing company and the venture. Thus, the venture investment is again integrated within the corporations' overall strategy.

Nonetheless, a weak operational link between an investing company and a startup can also be of strategic relevance, as it can function as a source of innovation outside the corporate's core business and might, thus, be used to precautionary hedge against disruptions in particular industries. The best performing CVCs in the market have an individually adapted balance between all four strategies, well-suited to the parent companys' capabilities, industry specifics, stakeholder requirements and geographical location of the market it operates in. There is no 'one-fits all' solution, and individual company specific adaptations are necessary, depending on the strategic goals one sets for the investment into innovation.

Key pillars and success factors of setting up a CVC unit

To ensure that the establishment of a CVC unit is successful, companies should focus on the three pillars of ‘Strategy’, ‘Structure’ and ‘Operations’ and lay the right foundation from the very beginning. In doing so, it is important to define the following building blocks of a successful target operating model:

Strategy:

1- Goals and objectives

By a detailed assessment and a deep understanding of the company's position in the local market, suitable goals and objectives have to be defined, which are aligned with the overall top-line corporate strategy. On this basis, a suitable vision and mission statement for the CVC unit can be formulated.

2- Investment mandate and strategy

Based on the overall defined mission of the CVC unit, and by benchmarking against global best-in class competitors, the investment mandate and strategy has to be derived. This is done by analysing the financial capabilities of the corporate, size of the overall target VC market and often by considering the yearly investment budget to annual R&D spend. The VC target market is defined by geography, industry sector and the development stage of startups. Furthermore, it has to be evaluated if the company wants to do venture investments with a financial, strategic or mixed approach.

3- Investment fields

Within the defined industry sectors, it is very important to understand the VC ecosystem, including upcoming technologies and business models. This understanding gives the possibility to clearly define suitable target VC market niches and sets clear guidelines for the structure and operations.

Structure

4- Governance

By defining the appropriate parties as decision-makers and executive sponsorship, the individual company’s governance and structure of the CVC unit has to be derived.

5- Investment process

The design of the investment process, along various dimensions plus an authorisation matrix definition, has to be adapted to the individual company.

Operations

6- Team capability and setup

Depending on the selected investment mandate and annual investment budget, a team has to be set up, which has the right skill sets, functions, backgrounds and size can be laid out.

7- Internal and external interactions plus linkages

7.1 BU and portfolio engagement

One key success factor for CVCs is the ability to create synergies between portfolio companies and other business units of the corporation. So, it is essential to define dedicated responsible employees in different BUs, which support the value creation with the portfolio startups.

7.2 Reporting and monitoring

Based on financial and qualitative KPIs performance can and should be tracked. These KPIs have to be defined and clearly communicated.

7.3 Budgeting and procurement

In order to derive annual budgets, including investments and operational costs, it is necessary to identify all cost positions when setting up a CVC.

7.4 Metrics and incentives

Based on the measured KPIs, incentives have to be developed. It is important that these KPIs are not only incentivised for the members of the CVC unit, but members of other BUs are also incentivised to perform collaboration.

7.5 Ecosystem linkages

Develop the ability to leverage, incorporate and network with the wider VC ecosystem in order to get access to interesting investment plus collaboration opportunities, and to be able to help portfolio startups beyond the abilities of the corporate.

Way forward: The value of investing into open innovation

Innovation is no longer optional for companies, but mandatory in order to remain relevant and be at the spearhead of market developments.

For national and international startups, attracting corporate investors from the GCC can be an ideal partnership to expand and further professionalise their business activities in the region. Corporate venturing activities are an essential way to get access to innovation besides internal R&D activities. Furthermore, when corporate venturing activities are performed on the base of a tailor-made target operating model, a well-balance between risk and to be expected strategic and financial return can be achieved.

The increasing number of CVC units, and the growing investment volume by corporations, underline a certain early-stage maturity in the region. Based on our experience with clients, we have witnessed that C-level managers often have realised the value that investing into open innovation can offer for their companies. Moreover, we have seen that companies often started to invest in, or collaborate with, startups on an opportunistic basis, but are struggling to standardise these processes and to maximise the return from these ventures. Furthermore, companies often struggle to find good ways of cooperation between portfolio startups and the core business. Our developed structured approach helps enhance the overall maturity of this industry and support sustainable growth.

It is clear that Corporate Venture Capital is on the rise and will enable GCC economies to accelerate its growth and will be an essential cornerstone for the overall forward development of the region.

Methodology

The primary dataset is sourced from the data provider MAGNiTT and was retrieved on January 30, 2024.

What is included

Figures 3 to 11 provide a detailed analysis of venture capital trends, funding distribution, and investor dynamics in the GCC region. These figures offer insights into financing amounts, funding round divisions, shifts in VC and CVC sources, average investments, and deal counts, contributing to a comprehensive analysis of the GCC's corporate venturing landscape. Different investment rounds, including Pre-Seed (≤US$1mn), Seed (US$1-5mn), Series A (US$5-20mn), Later stages (US$20-100mn) and Mega deals (≥US$100mn), have been examined. Furthermore, the figures also encompass publicly stated bigger government grants.

What is excluded

This analysis excludes loans, non-equity funds, and ICOs, maintaining a focus on equity-based funding to provide a clear picture of CVC in the GCC region. Late stage deals do not include Venture M&A transactions. It's crucial to note that considering the inclusion of Venture M&A transactions can significantly impact market size assessments. Our report specifically excludes these transactions.

About PwC Ventures Middle East

PwC Ventures are a leading strategic advisor to government and corporate clients, leveraging global expertise to bring best practice entrepreneur community and ecosystem strategic advisory to accelerate maturity of the region. We work with our clients in three ways:

Corporate venture building
We design, build and scale high impact ventures powered by world class scale ups, working closely with our clients to create innovative sustainable outcomes.

Corporate venturing advisory offering
We craft customised target operating models and tailor made strategies for corporations and government authorities on how to invest in and cooperate with high potential startups.

Scan and scale
We work with our clients across the GCC, leveraging our global network to attract and engage leading cutting edge international Scaleups to build localised partnerships to expand and further professionalise their business activities in the region. By working together with start- and scaleups we provide our corporate client network with best-in-class international investment and cooperation candidates.

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