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## Overview: Strategic Partner Investment Strategy

### **Growth Capital**

Companies today most often look to traditional financial sources in order to find growth capital. All the while, the growth capital for most technology market segments can come in the form of Strategic Investment Partner capital. Strategic investors, or strategic investment partners, typically come from corporate organizations and corporate venturing groups. These groups represent a critical source of capital in the financing food chain for companies in the technology industry along with disruptive industries.

The investment strategies for these groups are increasingly varied, and sometimes complex. However, at their core, strategic investments remain focused on the incremental revenue, and possible internal operational advantages, that can be realized by an industry-established player (strategic/corporate investor). In order to gain these advantages the strategic investors seek opportunities for an investment partnership with smaller, younger and disruptive technology companies.

### **Corporate Strategic Investment**

Few Fortune 5000 companies have developed more formal and independent venture groups that measure this strategic success by the number of alliances or acquisitions that result from their investments - i.e. the typical process with a Venture Capital firm. Therefore, there are a vast number of strategic investors that are more closely aligned with the investment company's products or services. As a result, they use their strategic investment capital as a way to support their own internal platform technologies or tools, for enhancing their own revenue streams by creating "bolt-ons" to current product lines, and perhaps to improve their own internal products and /or development processes.

While these models for strategic investing are changing, experience suggests that a majority of corporate investors will continue to make their investment decisions based on strategic, and not financial, objectives that are driven by game changing technologies. Thus, to access these capital sources and to make this kind of investment work, it is important to identify the mutual strategic benefits of the investment and address them within the framework of the transaction.

### **Cutwater Strategic Partner Investment**

Cutwater, and its investment banking relationships, takes this one step further. We accelerate to the proposed merger, in the context of the ideal mutual benefit, and then we reverse engineer back to present day and custom-build the current target company to its highest acquisition-attractive value. This provides two distinct and critical benefits to the target company:

1. It brings the company to a point where the prevailing companies in the sector will find it attractive, growing and ripe for an acquisition; and
2. It accelerates the target company ahead of the competition as the acquisition/merger is being formed and customized from the beginning, rather than at the end of the directional improvements. This removes obstructions and objections that often impede and terminate merging transactions and creates the Merger Precision™ that Cutwater navigates and implements throughout and beyond the transaction.

## Cutwater Strategic Partners Approach

To work with our clients to identify a strategic partner investment path to exit. This includes, but not limited to:

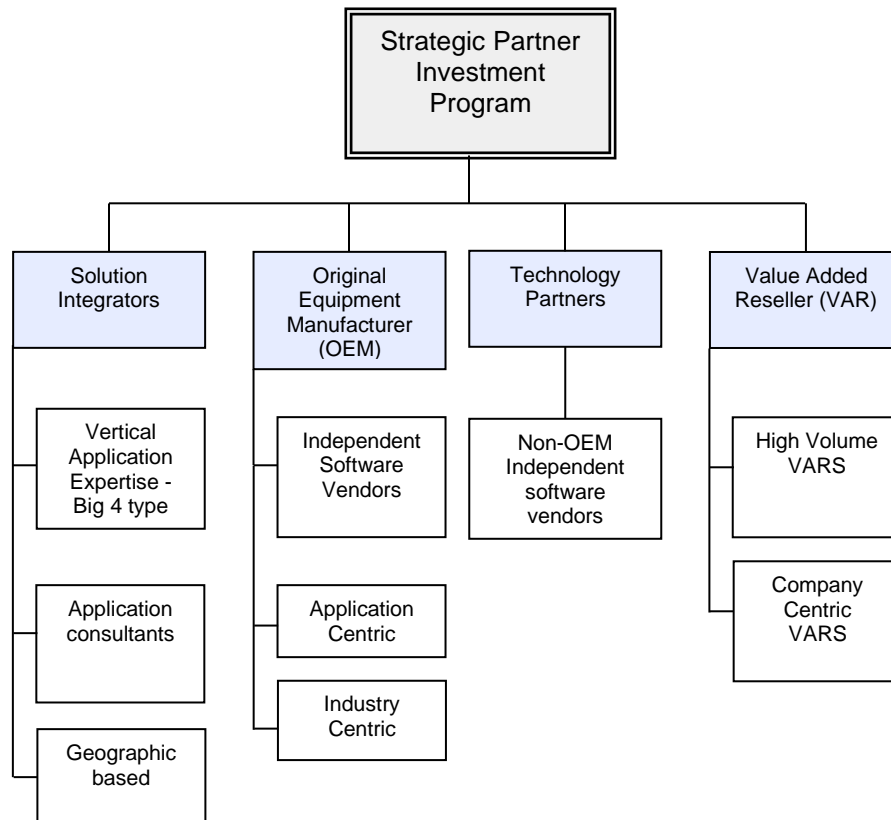
- Identification of the market segments with the greatest synergy and appetite for a strategic investment in to our client
- Develop characteristics of a strategic investment partner that are important to our client and success
- Identification of top 10 strategic investment partners
- Create a strategic investment partnership playbook
- Build mutual revenue streams between the Company and Client
- Development of terms sheet for strategic investment

## Strategic Investment Partnership Segments

Most often there is one form or another of the following four (4) distinct partnership segments. These segments are:

- Solution Integrators
- Original Equipment Manufacturers (OEM)
- Technology Partners
- Value Added Resellers (VARs)

Each industry or technology segment will have individual objectives, pricing, business models, and markets. These elements for each segment typically look as outlined below.



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## Summary – Cutwater Strategic Partner Investment Program

Although the technology industry is trending towards a normalization of transaction terms across strategic investments, it's important to understand what makes strategic investments different from traditional venture or angel capital. Most notable, strategic investors typically don't have defined fund-based liquidity objectives as compared to their desire to seek investments that assist in driving revenue and have the potential to be long-term partners. They also have interest in the technology of a company that cannot be measured by financial objectives. These interests are often characterized as:

- Investments that fill key gaps in a product portfolio
- Investments to assist in the development of technologies that create new standards
- Investments that allow companies to gain rapid access to new industry segments

In many cases involving Cutwater Strategic Partners, as long as the core technology works, the development activities progress according to milestones and the strategic focus remains unchanged - a strategic investor might be more willing to support an idea or product that doesn't have a clear independent business strategy or near-term exit. In summary, Cutwater Strategic Partners is well positioned to assist its clients in attracting strategic investors, and assist in developing an effective case for the long-term value of strategic investments in early stage technology companies.