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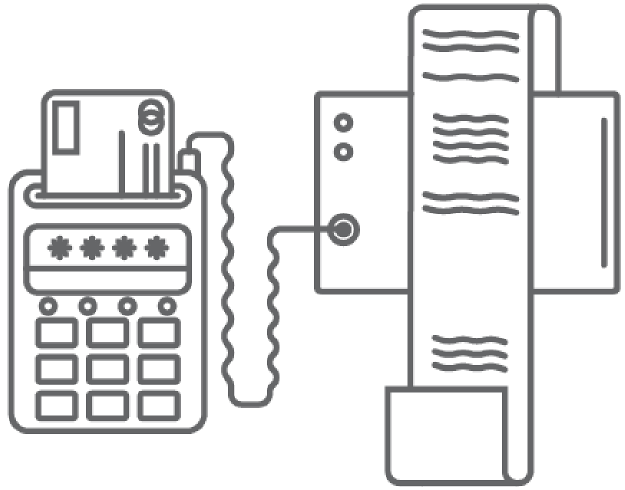
RESEARCH PAPER – VENTURE CAPITAL INVESTMENT TRENDS

Transport & Logistics, Agriculture, FinTech and Manufacturing

RSM



CONTENT

Due to historically low financing rates and plenty of companies unable to grow organically, venture capitalists have tremendous investment opportunities with great potential. However, not every sector is the same and shouldn’t be treated likewise. To provide some insights into what forces will be driving the market today and tomorrow, we conduct thorough research in the fields of transport & logistics, manufacturing, FinTech and agriculture and identified some opportunities and challenges specific for the different sectors. A set of 126.461 investment rounds by all sorts of venture capital institutions, ranging from government-venture capital to private-venture capital, in all development stages, is used to support the provided insights. The following pages consist out of an extensive analysis of the current market drivers combined with our expectations, which are substantiate by the data.

Key highlights

Venture capital investments in **transport & logistics** are expected to remain high due to excess liquidity and a special focus on tech-savvy start-ups.	The **manufacturing** sector and its investors will greatly benefit from Industry 4.0. Especially with large groups of manufactures who still need to adapt to the digital age.
It is expected that the average investment in **FinTech** worldwide will go down until the new types of FinTech are worth investing in.	The **agricultural** sector proposes a set of opportunities and challenges for investors. Where the biggest challenge is to feed more people with less farmland.

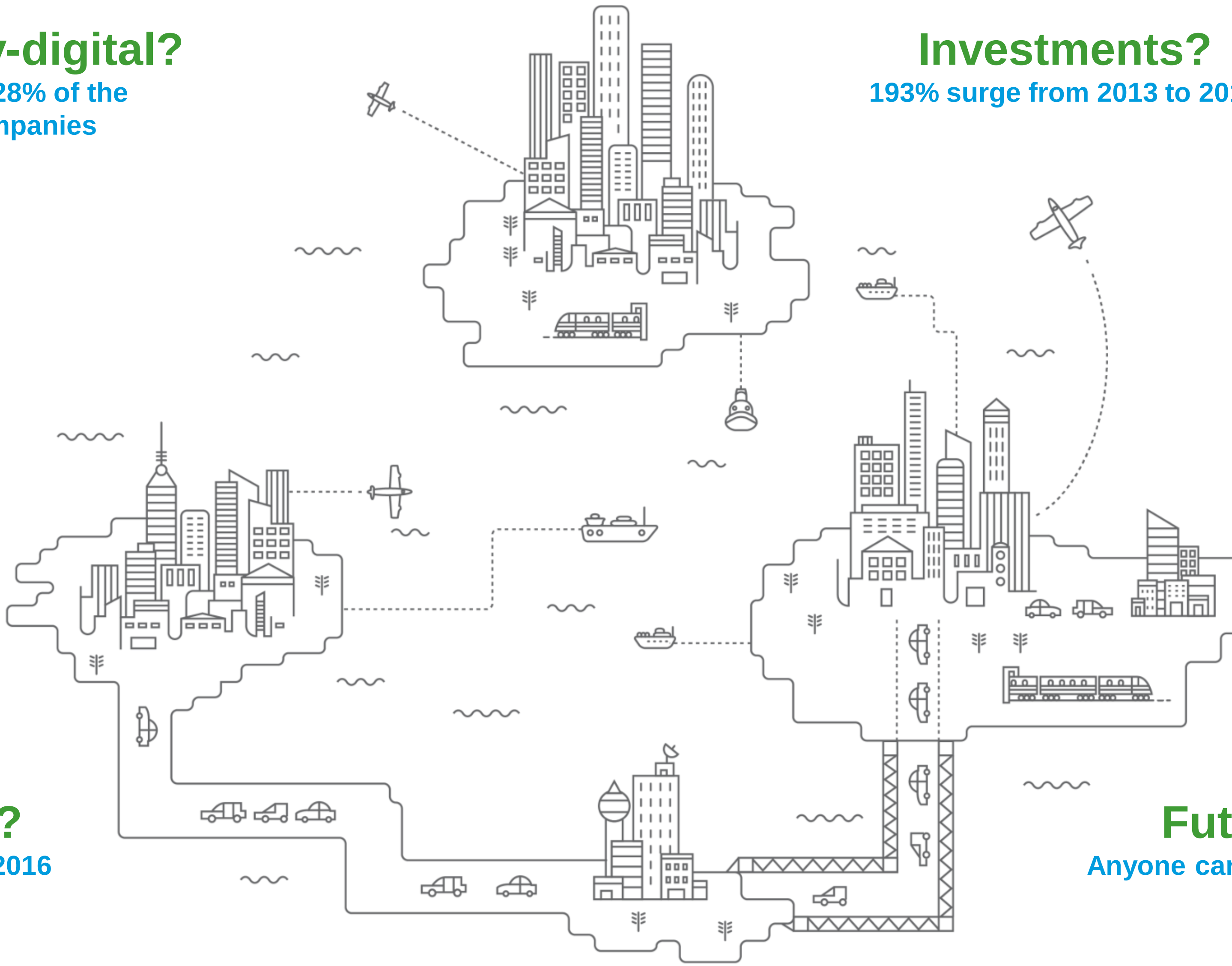
TRANSPORT & LOGISTICS - POTENTIAL LOSE OF CUSTOMER INTERFACE

Highly-digital?

Only 28% of the companies

Investments?

193% surge from 2013 to 2015



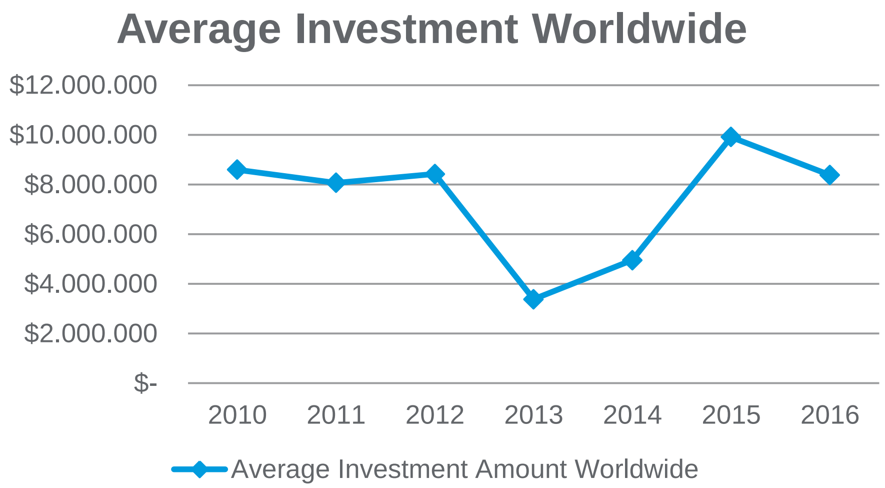
Deals?

71 deals in 2016

Future?

Anyone can be a carrier!

TRANSPORT & LOGISTICS - POTENTIAL LOSE OF CUSTOMER INTERFACE



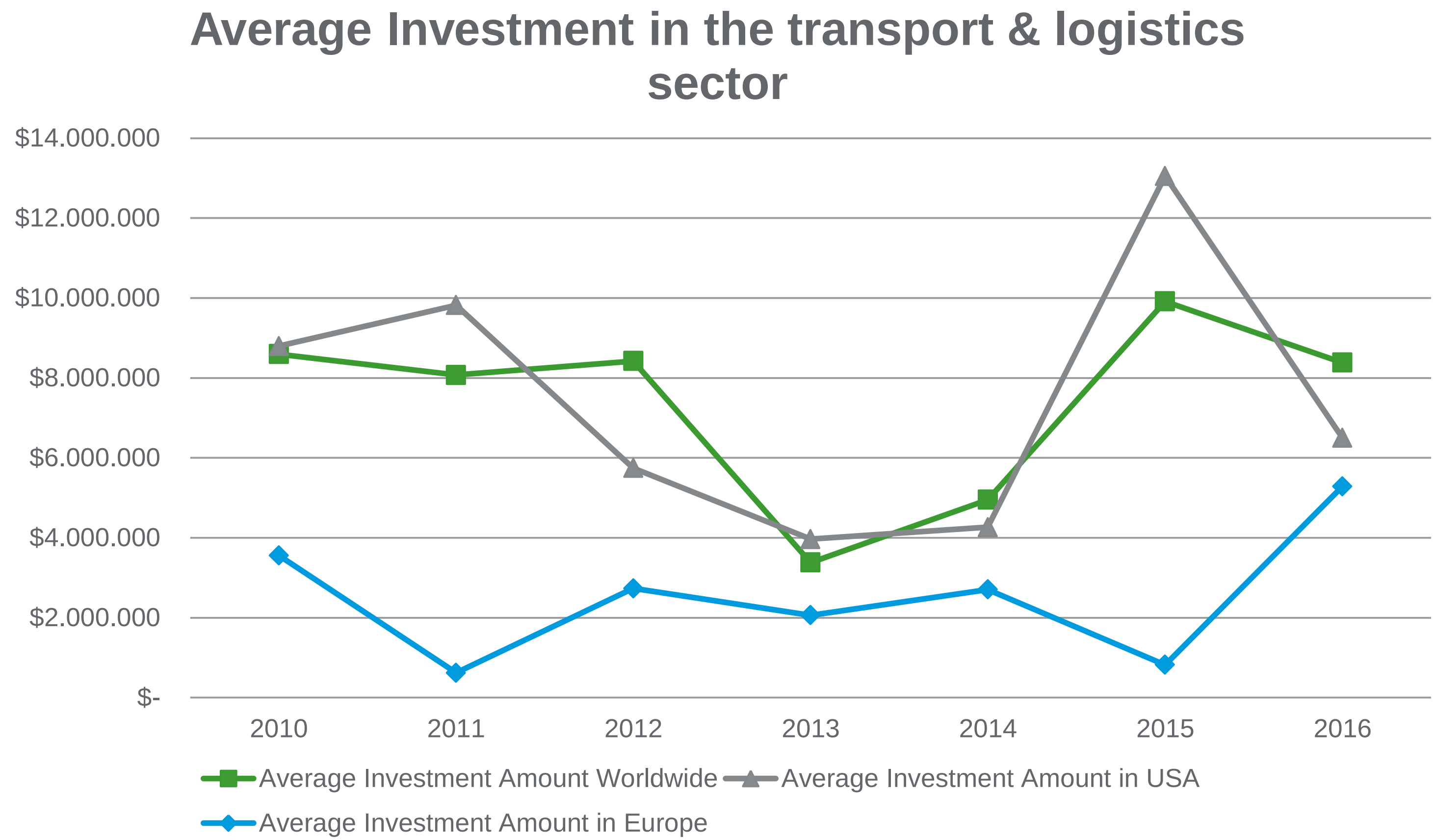
CURRENT

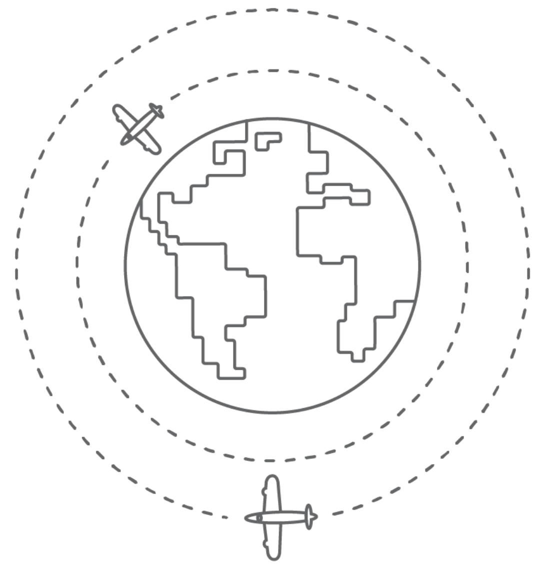
On the surface the transport & logistics sector looks relatively calm, however the above graph shows a different picture. The poor global economic performance combined with past fleet expansions caused a drop of 60% in investments in 2013. Due to the nature of the fleet expansion procedure, where the order and the final delivery period differ significantly, it puts serious pressure on the margins. To bring supply in sync with demand, transport equipment orders decreased by 40% from 2012 to 2013. The following surge (193% from 2013 to 2015) in investments can be attributed to the sector's inability to grow organically and unprecedented low borrowing costs, which create the perfect mix for venture capitalist to participate in multiple investments. Also, the digitalization and the use of ‘big data’ affecting the entire globe has reached the transport sector now. A wide variety of start-ups received investments in 2015/2016 to develop business-enhancing products such as online platforms for greater price transparency, larger visibility and more friendly user experience. This trends is supported by the number of deals reaching 90 deals in 2015 and 71 deals in 2016.

EXPECTATIONS

It is expected that investment activities in the transport & logistics sector will remain high. Even though many firms are focusing on integrating newly-acquired ventures, most likely other strategic investors/firms are using their cash reserves to acquire medium – and large-scale competitors in the foreseeable future. Start-ups focusing on the digitalization of business processes and the rapidly growing e-commerce will hold the most benefit. At the same time, these start-ups have the potential to be the biggest disruptive force in the sector. A free-floating contractual service platform where carriers can be compared and consumers can coordinate their preferred or cheapest shipping route, could likely turn every car- or truck-owner into a shipping operator. This development will create a massive number of competitors for the establish incumbents and would mean a lose of the customer interface. With only 28% of the industry highly-digitalized today, the transport sector is in for some vigorous competition especially with customers demanding easy but advanced software tools to oversee his or her parcel route.

TRANSPORT & LOGISTICS - POTENTIAL LOSE OF CUSTOMER INTERFACE





The severe dip in 2013 has the most impact in the United States, while the investments in Europe only slightly go down. However it also works the other way around, where the surge in investments in the US more than doubles compared to the average investment amount in the EU. The converging trend lines signal a market where supply will meet demand in the long run, especially when the long-term plateau effect of globalization is the new consensus. The trade growth figures outclassed GDP growth rates with a factor of 2x – 3x historically, however this factor is expected to hover around 1.5x in the future, this notion of a decreasing multiple is called the plateau effect. The globalization trend, which greatly benefit the transport & logistics sector, has fragmentized all most every part of the supply chain and has greatly contributed by its subsequent shipping, but is now slowing down due to the plateau effect. A positive influence came from the decreasing oil and fuel prices which are still at historically low values. The strong decline in prices positively attributed to the transport companies' earnings.

MANUFACTURING – TRANSFORMING PEOPLE AND CULTURE

Development-stage?

55% of deals during expansion-stage

Future?

Industry 4.0

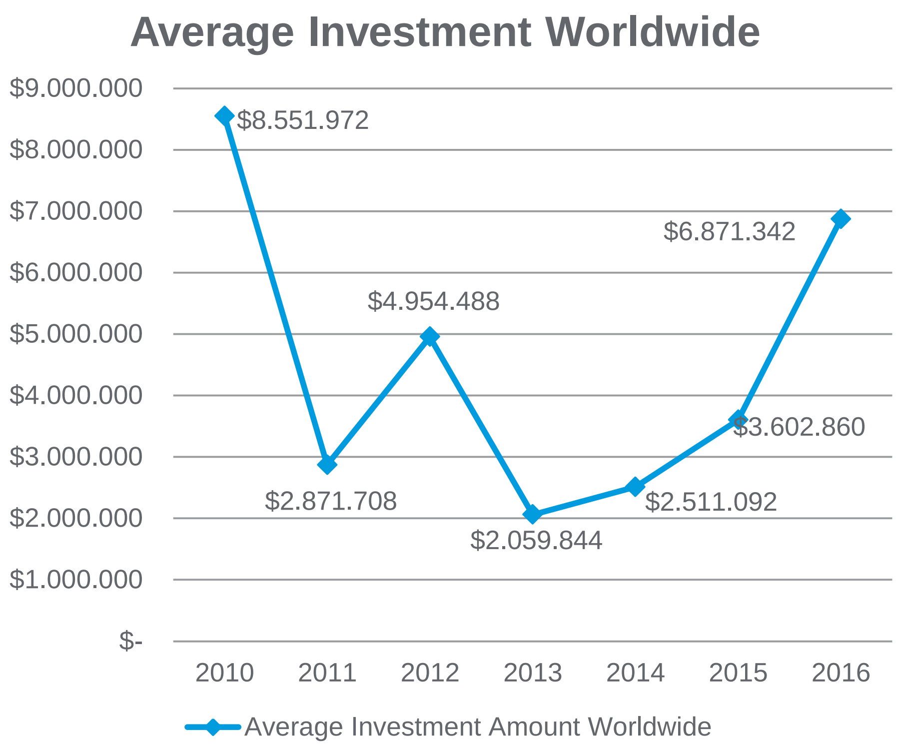
Investments?

233% surge from 2013 to 2016

Deals?

20 deals in 2016

MANUFACTURING – TRANSFORMING PEOPLE AND CULTURE



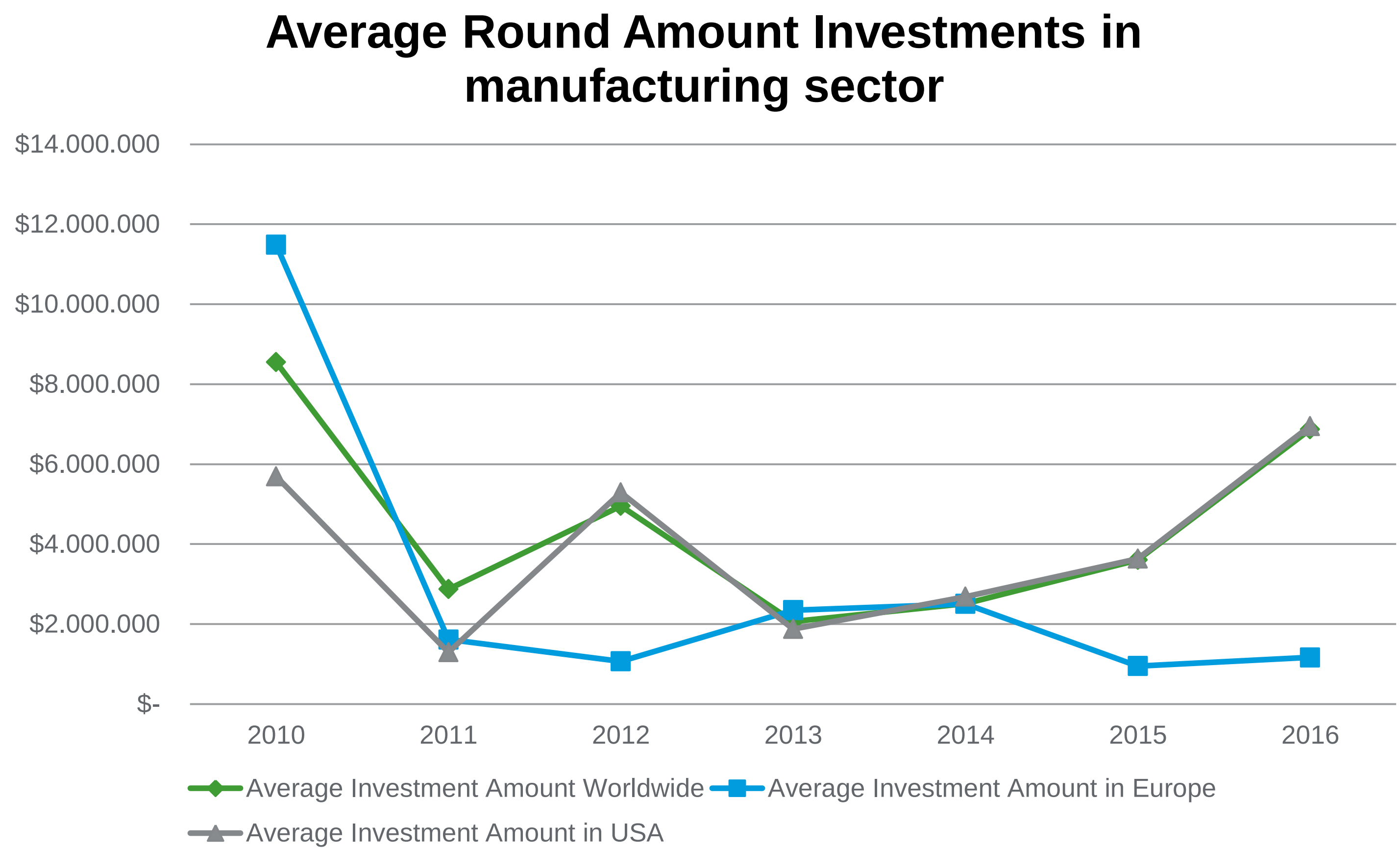
CURRENT

Average manufacturing investments show an increase of 233% to $6.8 million from its lowest point in 2013. A combination of an increase in inorganic growth strategies and a slowing growth in China are significant drivers of higher deal values in 2016. Product and service differentiation are the main focus of these inorganic growth strategies. However, the deal volume decreases with 68% from 63 deals worldwide to 20 deals worldwide, with the majority of these deals occurring at the early-stage (35%) or expansion-stage (55%). A possible reason is the increasing rate of adoption of Industry 4.0 technologies by acquiring tech-driven manufacturing ventures.

EXPECTATIONS

The fourth revolution (Industry 4.0) in the manufacturing sector will bring along different challenges ranging from establishing/maintaining digital relationships to transforming people and company culture. Industrial manufacturers estimate to invest 5% of annual revenue in Industry 4.0-associated operational solutions. The digitization of the industrial sector is expected to improve efficiency, causing an average 3.6% cost reduction and an average 2.9% additional revenue annually. Only 1 out of every 3 manufacturers identifies itself as highly digitized, meaning most industrials still need to adapt if they want to stay ahead of competition. When combining a majority of low digitized firms with global competitive pressure, we expect to see an increase in deal volume.

MANUFACTURING – TRANSFORMING PEOPLE AND CULTURE

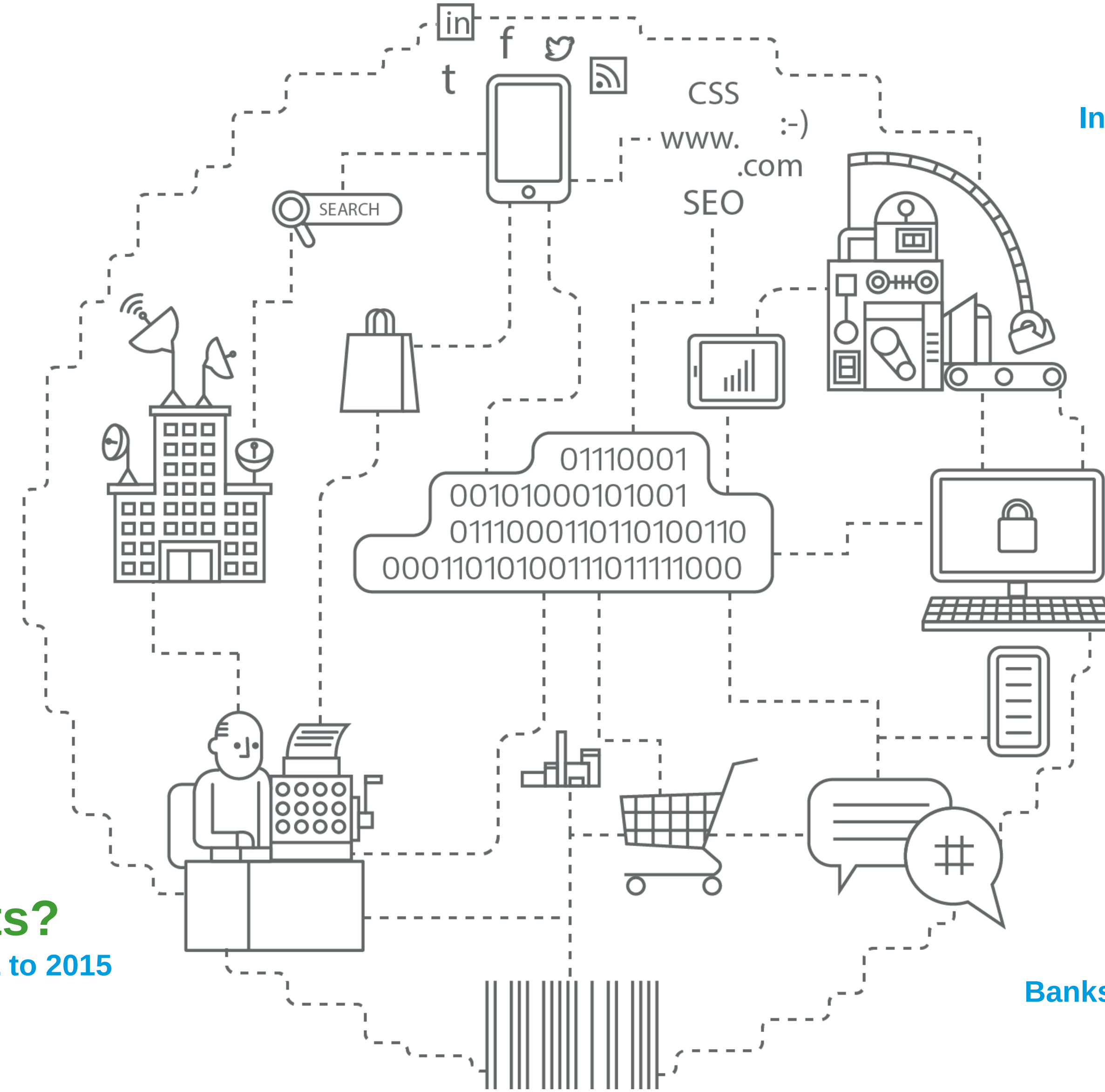


The average investments in Europe and the USA seem to converge from 2010 until 2014. However, the double-dip appears to have a more severe effect on European investments than on the investments worldwide. From 2014 onwards the average investments are diverging again, possibly due to increasing demand from China since it is shifting from a production-economy to a consumption-economy. Federal regulations make the American manufacturing industry a more appealing investment opportunity when compared to its European competitors. However, the biggest challenge facing companies worldwide is the absence of a digital company culture. Over half (52%) of the firms lack an organization, skills and leadership in the area of digitization. Management plays an important roll here, either by acquiring a tech-savvy industrial start-up or by establishing a robust firm-wide data analytics department. If done correctly, we expect an increase in average investments.

FINTECH – BE THE DYNAMIC DIGITAL CENTER

Deals?
110 deals in 2016

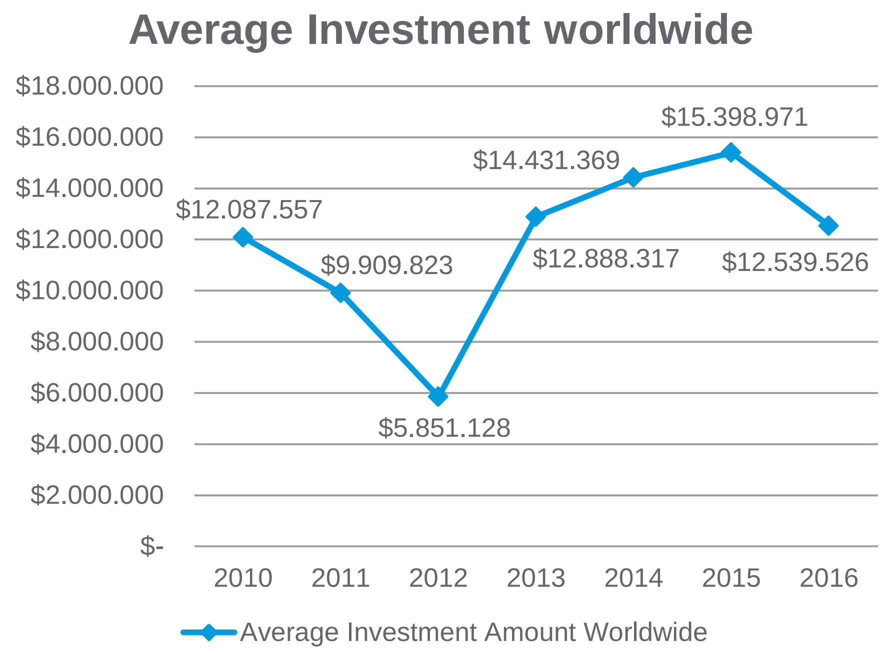
Future?
InsurTech, RegTech & Robo-Advisors



Investments?
163% surge from 2012 to 2015

Trend?
Banks are preparing to be the digital center

FINTECH – BE THE DYNAMIC DIGITAL CENTER



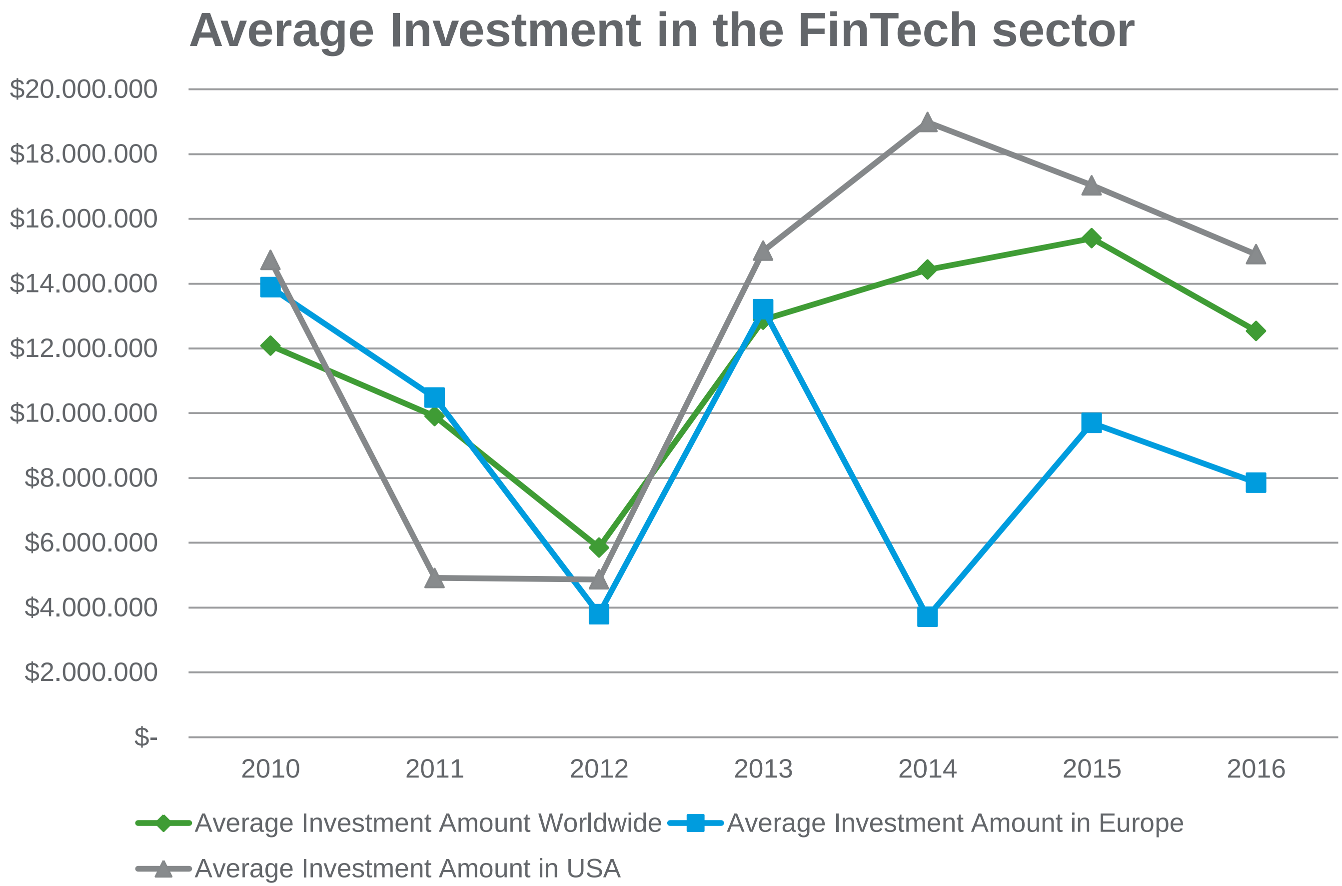
CURRENT

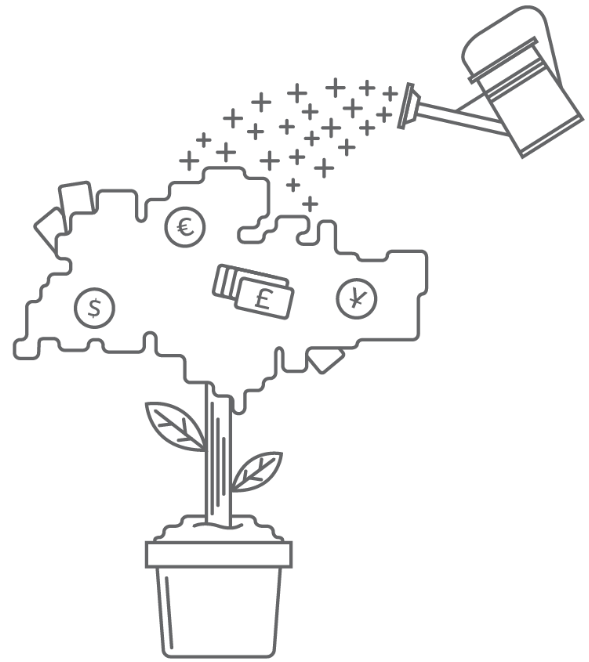
FinTech is referred to as a group of start-ups offering payment and lending services. Ventures such as TransferWise and Lending Club are becoming mainstream and are breaking the dominance of financial services' incumbents. Investment amounts increase with 163% from 2012 until 2015 due to its disruptive potential and excess cash in the hands of venture capitalists. However, for 2016 a decline in investment amount is spotted, likely caused by shifting investors' preferences from investing to merging fintech ventures with large institutions. From 2013 onwards the number of deals worldwide show a steady increase, since private venture capitalists are exiting the market and financials are entering. Private VC's are securing their returns and financial VC's are buying FinTech as bolt-on acquisitions to add new technology to existing business models.

EXPECTATIONS

It is expected that the average investment in FinTech worldwide will go down until the new types of FinTech are worth investing in. These new types can be characterized as InsurTech, RegTech & Robo-Advisors, which focus on digitalization of insurances, regulatory monitoring and compliance and digital platforms providing wealth management based on automated algorithms. The number of deals will most likely decrease since banks and financial institutions, who are the main deal drivers, are preparing for their role as the center of the digital ecosystem. Thereby, they will probably focus more on intertwining different FinTech solutions with their own IT-systems to provide services which are meeting customers' preferences and expectations.

FINTECH – BE THE DYNAMIC DIGITAL CENTER





The fear of the double-dip impacted venture capitalist in 2011 and 2012, after which the trend reversed and investments rose with more than 150%. This can be attributed to the massive hype in the FinTech sector, mainly due to people's belief in its disruptive potential. This hype was particularly vibrant in the USA, where the average investment hit around $19 million. Years of hype led to overvaluation and fears of high losses combined with falsified loan documents caused a slowdown in US FinTech investments. Therefore investors appetite is changing to world regions with less stringent regulation and fewer failed start-ups. Also, European regulations allows for more experiments with new financial products such as a "sandbox"–environment, called MiFID II, especially established for early-stage FinTech ventures. Even though the trend appears to be downwards, we expect, based on the change in investors appetite and regulatory initiatives larger investment amounts in Europe for the foreseeable future.

AGRICULTURE – MORE WITH LESS

Investments?

80% decrease to $3.6 million in 2016

Trend?

75% more meat consumption by 2050

Deals?

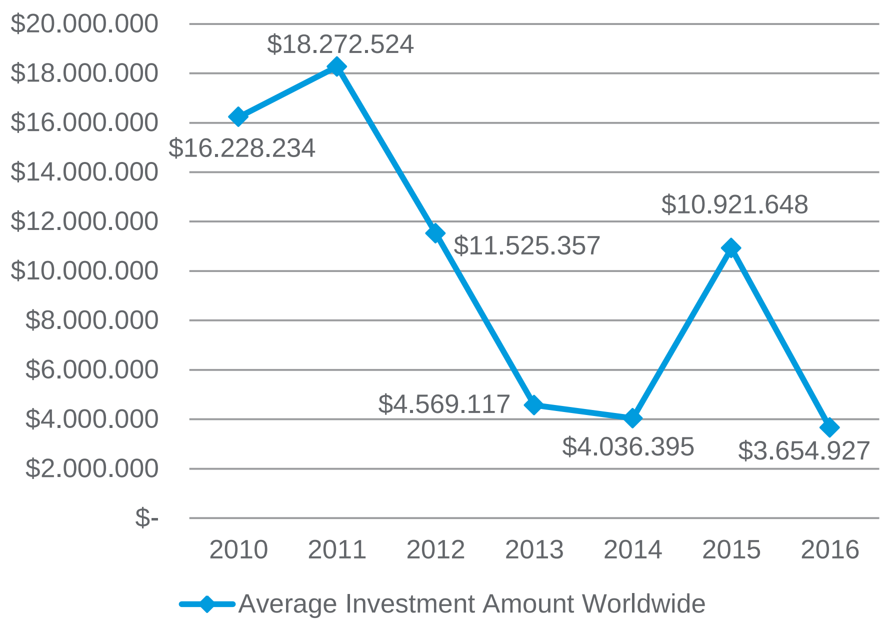
23 deals in 2016

Future?

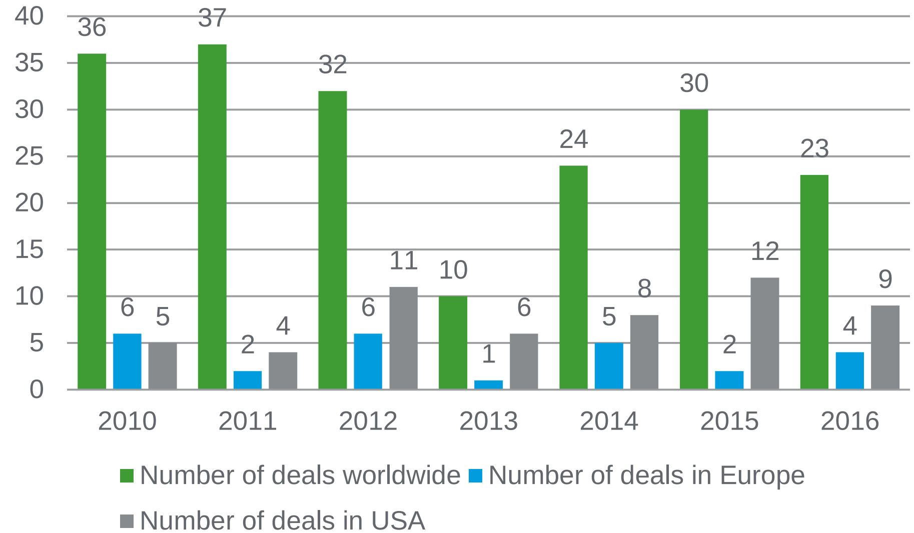
AgTech, focus on digitalization of agriculture

AGRICULTURE – MORE WITH LESS

Average Investment worldwide



Number of deals



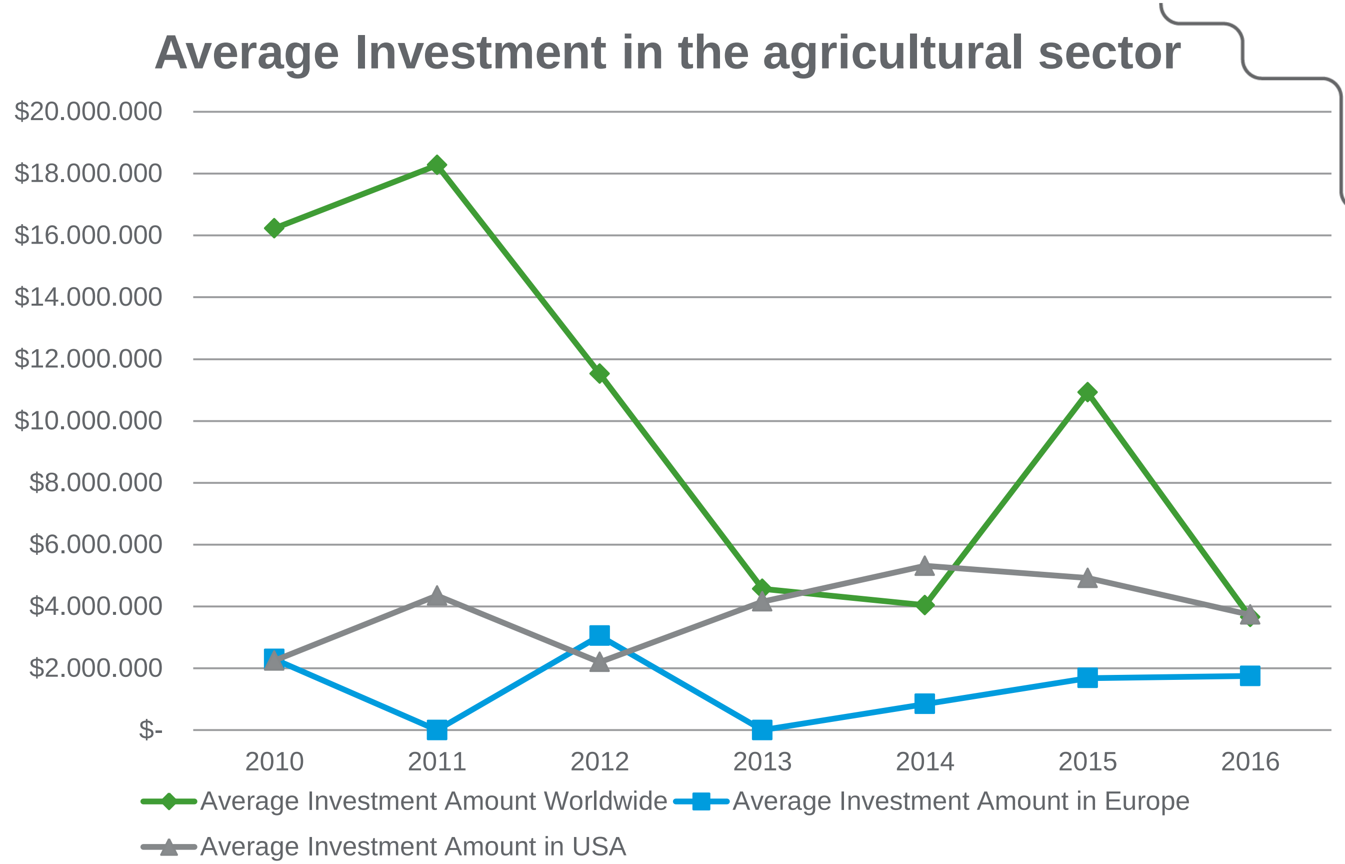
CURRENT

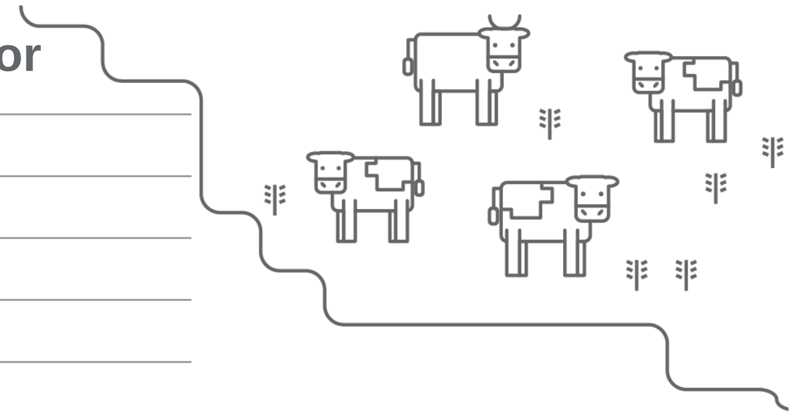
Agriculture belongs to a group of select industries which impacts everyone's daily life. During the course of the 20th century the sector hasn't changed much. However, due to a growing world population and a change in diet preferences agriculture became an industry of opportunities and challenges. Primarily due to previous surges in investment in the years before, the sector shows a 80% decrease in average investment from $18 million in 2011 to $3.6 million in 2016.
The number of deals also demonstrate a minor decrease, with a noteworthy drop in 2013 when investors expected, combined with ever decreasing investment amounts, that the agricultural bubble would burst.

EXPECTATIONS

As mentioned before, the agricultural sector proposes a set of opportunities and challenges for investors. The sector hasn't seen many institutional investors therefore there are plenty of investment opportunities for venture capitalist ranging from packaging technics to drone technology and everything in between. Another opportunity is the consolidation, improvement and capitalization of inefficient supply chains, a beneficial side-effect is that less food will be wasted, which is currently as much as 30% of the total harvest. Also, investment opportunities for venture capital lay in start-ups focusing on digitalization of the agriculture, also known as Ag-tech. One of the challenges is the fact that productivity growth is slowing, due to decreasing arable land and soil/water pollution. Urbanization is a global trend which leads to less available farmland and a change in diet. To accommodate these new dietary wishes global meat production has to increase with 74% by 2050.

AGRICULTURE – MORE WITH LESS





A significant difference becomes evident when comparing the average investment worldwide with the average investment in Europe and the USA. As previously discussed most venture capitalist invested in the early 2000's in the consolidation of the supply chain, but also in local farmers cooperatives. Another explanation is that Asian and African countries had the opportunity to expand farmland due to its availability, where as in the more developed countries, all farmland was already in use.

A key trend is big data, which plays a vital role in the reshaping of the sector. A combination of weather information with field conditions might enable farmers to increase productivity. A commercial way of implementation of big data is still far away but approaching. On the same note, the costs of the required sensors and technology is falling fast and the increasing smartphone penetration may speed up the implementation of big data. To reap the benefits of this trend venture capitalist closely follow start-up which focus on the digitalization of agricultural processes. Due to the beneficial start-up climate in Europe and the US, the head-offices of the aforementioned big-data start-ups are primality located there. This corresponds with a doubling of the average investment in Europe and the US.

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