

Funding for Agriculture Technology Start-ups

It was a year of contrasts for the agriculture technology (agritech) space. Investment in agritech startups reached \$3.23 billion in 2016, a 30% year-over-year decline. But it was a tale of two halves as the number of deals closed increased 10% to 580 as new entrepreneurs and investors joined the space for the first time.

After a record-breaking 2015, when 526 agritech deals raised \$4.6 billion, we anticipated a pullback in 2016, particularly as global venture capital deal activity dropped 24% year-over-year, while funding dollars contracted 10%, according to KPMG. KPMG attributes the decline to investor caution on the back of a record-breaking 2015 and a quiet IPO market.

Drones, Delivery, and Bioenergy Drove Agritech Funding Down

There were a few clear areas of decline including food delivery, where start-ups raised \$1.3 billion, down 25% year-over-year. Investment in Robotics, Mechanization & Other Equipment start-ups fell 89% to \$109 million, and Bioenergy & Biomaterials businesses raised \$123 million, down 75% on 2016 levels.

For the Robotics category, it was the 68% fall in investment to drones technologies that drove the decline. Drones were a hot technology in 2015, with great expectations for their ability to help farmers manage their operations. As they became more widespread, however, it became clear that providing farmers with aerial images of their farms did not automatically save them time or money and the technology has arguably moved into the 'trough of disillusionment' on the Gartner Hype Cycle. There could also be an element of cyclicity to the results, and we also saw some drones manufacturers move away from agriculture to focus on other industries. We expect to see a new wave of technologies coming into the category, such as improved drone sensors and better imagery analytics, to enhance the efficacy of the technology for farmers.

Investment in Ag Biotechnology and Novel Farming Systems Grew

Agritech funding grew year-over-year in four categories: Ag Biotechnology (150% to \$719m), Farm Management Software, Sensing & IoT (3.7% to \$363m), Novel Farming Systems (63% to \$257m), and Supply Chain Technologies (3% to \$180m).

The funding climb in Ag Biotech was driven by the maturing of several start-ups including microbial seed coating company Indigo, which raised a total of \$156 million during the year to coincide with the launch of its first commercial product for cotton. Apeel Sciences, a start-ups using food waste to manufacture a formula that can be applied to fresh produce to extend shelf life, raised \$33 million deal, while gene-editing start-ups Caribou Biosciences raised \$30 million for its CRISPR-Cas9 technology. Across the category, nine start-ups that raised funding are utilizing waste of some kind.

Novel Farming Systems start-ups include those growing food indoors, growing microbes for ingredients, and growing insects for feed.

Cause for Optimism

The growth in the number of deals closed during the year can be attribute in large part to the growing number of incubators and accelerator programs for start-ups. At least 20 new dedicated accelerators launched in 2016, and even more other resources including pitch competitions and global events.

There are also a growing number of corporate venture funds in the sector, although more so at the consumer end of the food chain. In 2016, Kellogg's Campbell's Soup, and Danone announced new investment initiatives with eighteen94 Capital, Acre Venture Partners, and Danone Manifesto Ventures, and we expect more to come in 2017 including a fund from Archer Daniels Midland. We can also hope to see more corporate venture activity from agribusinesses after a survey we conducted with Boston Consulting Group revealed that they wanted to prioritize further investment in innovation.

AgFunder is an online investment platform for Agri-Food technologies. We help Accredited and Institutional Investors discover & invest in developing technologies that will transform the food & agriculture industries. AgFunder's Opportunity Fund is currently open and will invest in 20-30 of the most promising agritech companies globally.

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