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Venture capital investment in maritime technology

in International Shipping News 05/12/2019



PwC's Director, Mr. David Smith writes about the significantly higher interest from venture capital, towards the field of maritime technology.

Venture capital interest in maritime technology has grown significantly in recent years. As barriers to adoption fall, there is still scope for even higher levels of investment.

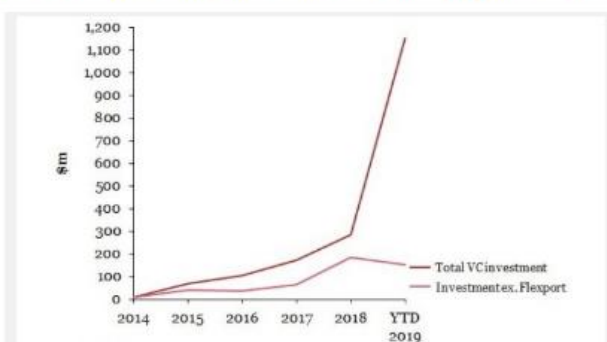
Historically, the maritime sector was an enthusiastic adopter, indeed pioneer, of new technology. However, there is a widespread perception within the industry that, in recent decades, shipping companies have been slow to capitalise on the benefits of new software and emerging digital technology. There are multiple factors which have acted as barriers to faster uptake, which can be divided into 'push' and 'pull' barriers. 'Push' barriers are those which have prevented those from outside of the industry from developing technology solutions focused on the maritime sector, while 'pull' barriers are those which have blocked participants in the sector from adopting new technology.

Figure 1: Example barriers to technology adoption

Push barriers	Pull barriers
<ul style="list-style-type: none"> Low visibility of the maritime sector among VCs and tech entrepreneurs Poor internet connectivity of vessels 	<ul style="list-style-type: none"> Poor financial performance of ship owners over the last decade Focus on generating returns from asset trading rather than operational improvement Fragmentation of many segments of the shipping sector

The last couple of years however, have seen renewed interest, with a clear uptick in discussion of maritime technology, both in our client conversations and public events such as conferences. This can also be seen in terms of the degree of venture capital investment in the sector, which has grown from almost zero a few years ago to reach c. \$300m in 2018. 2019 saw a further increase, entirely driven by the \$1bn investment in Flexport by the Vision Fund, making it the first maritime unicorn (or narwhal?).

Figure 2: Venture capital investment into maritime software and digital startups 2014-YTD2019



Source: Capital IQ, PitchBook, Crunchbase, press, company websites

Note: data presented only includes startups with a focus on software or digital platforms, and excludes companies with a focus on physical assets e.g. propulsion systems, UAVs, drones, etc.

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PERIOD	4 MOS		1 YR		2 YR	
	ATL	PAC	ATL	PAC	ATL	PAC
HANDY (20k dwt)	8,000	7,750	8,000	7,500	9,250	8,750
SUPRA (30k dwt)	9,750	9,500	9,750	9,250	10,500	10,250
ULTRA (40k dwt)	10,250	9,750	10,000	9,500	10,750	10,500
PANA MAX (110k dwt)	12,000	10,000	10,750	10,250	11,000	10,750
CAPE (170k dwt)	14,250	13,750	14,250	13,750	14,000	13,500

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WEEKLY TANKER TIME CHARTER ESTIMATES

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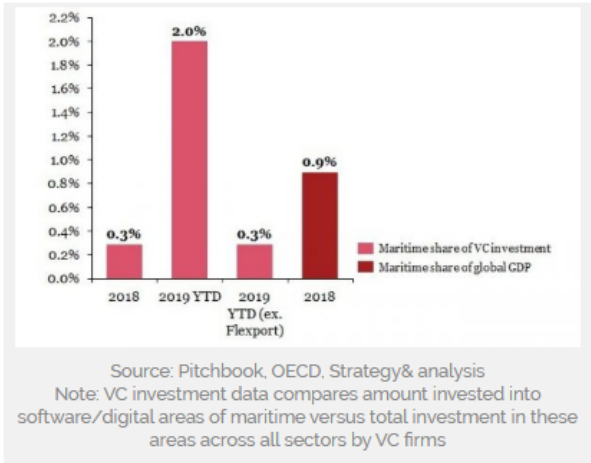
SIZE	1 YR	2 YR	3 YR	5 YR
HANDY (20k dwt)	15,500	15,000	14,000	15,500
MR BACS	17,000	16,000	15,000	16,500
LRI	19,500	18,000	17,000	18,500
LR2 (22.5k dwt)	25,350	25,250	22,000	26,500
AFRA (22.5k dwt)	27,000	24,500	21,500	25,000
SUEZ	35,000	31,000	27,000	27,500
VLOC	50,000	37,500	45,000	41,500

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This growth in investment reflects the fact that many of the 'push' barriers outlined above have declined in importance. For example, a mix of maritime focused VCs and accelerators, combined with increased government interest in maritime in several countries, has raised the profile of the sector as a destination for technology investment. At the same time, vessel connectivity is improving rapidly as satellite broadband becomes more widely adopted.

Some analysts have seen the spike in 2019 as a one off which is unlikely to be sustained in the long term. This view has been enhanced by the recent events at WeWork which have called into question the outsize investments which the Vision Fund has been making into individual companies. However, as Figure 2 shows, putting current investment levels into the context of the overall importance of the maritime sector to the global economy shows a different picture.

Figure 3: Share of VC investment in maritime software/digital versus maritime share of global GDP



Despite the rapid growth in venture capital interest in maritime in recent years, investors have still been significantly underweight the sector relative to its share of global GDP. To reach parity, we could expect to see three times the level of investment we saw in 2018 going into the sector every year. Alternatively, the sector is large enough to justify a Flexport style 'mega-deal' every couple of years.

Of course, sectors do not automatically 'revert to the mean' and, as outlined above, there have historically been good reasons why maritime has attracted less startup investment than other industries. However, as these barriers continue to reduce, we should see strong growth in venture deal volume and value. Less clear is the extent to which shipping companies will adopt this new technology, given that many of the 'pull' barriers identified above remain in place.

Source: Written by David Smith, Director at PwC (www.pwc.com)

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WEEKLY CONTAINER INDEX

New ConTex - all rates in USD(\$)

		New ConTex						
		12 months			24 months			
date	Type	Type 1100	Type 1700	Type 2500	Type 2700	Type 3500	Type 4250	ConTex
14.01.2020		6.158	8.436	10.351	10.819	11.326	13.454	426
09.01.2020		6.160	8.471	10.321	10.883	11.381	13.494	430
06.01.2020		6.178	8.402	10.383	10.982	11.457	13.528	434

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GBP/USD	1.3024	+0.0007	+0.05%
USD/JPY	109.94	-0.03	-0.03%
EUR/GBP	0.8558	+0.0012	+0.14%
EUR/JPY	122.55	+0.16	+0.13%
USD/CNY	6.8903	+0.0066	+0.10%
AUD/USD	0.6894	-0.0006	-0.09%

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