Next steps for vertical farming and greenhouse investment

As we get closer to Indoor AgTech, five investors pinpoint their perspectives on fostering game-changing technologies for the industry, creating climate impact through investment and finding the right financial models and partnerships for growers to scale their on-farm operations.

Better Food Ventures Partner Michael Rose shares three crucial roles for venture capitalists to foster game-changing technologies in CEA:

"Funding Early-Stage Innovation: VCs can invest in promising but unproven CEA technologies, bridging the gap between invention and commercialization, particularly for enabling technologies, the proverbial 'pick and shovels' for farming in a controlled environment. Seed stage funding allows for potential breakthroughs to help ensure CEA is a viable agricultural approach. Additional players in the capital stack (large private equity and debt) have important roles in funding infrastructure and operational scale.

Expertise and Guidance: VCs can nurture start-ups and offer valuable guidance on market strategy, product development and team building that can help CEA companies navigate the complex agricultural and technological landscape.

Connecting Resources: VCs can connect CEA start-ups with other players in the ecosystem, from potential technology partners to food distributors or retailers.

VC's financial resources, strategic guidance, and valuable connections can be a catalyst for innovation in the CEA space."

COFRA's Senior Advisor, Sustainable Food Group Johanna Waterous gives her take on the investment landscape:

"After 2 years of wandering in the wilderness of cold capital markets, the investment climate for CEA is showing signs of Spring. But things will only really warm up if asset values reflect economic realities and investors embrace the full meaning of 'patient capital'. We take the long view on the opportunities for growth AND returns in CEA, underwritten by the imperative for major retailers and food service operators to secure supply."

Oasthouse Ventures Director Andy Allen talks about how to create climate impact through CEA investment:

"My sentiment is that to tackle climate change we need incremental change across all industries to reduce fossil fuels. I believe CEA offers a technological leap to reduce our reliance on fossil fuels. CEA allows us to grow food or products in both the most productive manner and using the least amount of fossil fuels. I think it is crucial that we implement CEA with a low-carbon ethos, and that we question at every step whether we can do more to de-carbonize the operation of our CEA developments. We need to reduce global emissions whilst simultaneously providing food and products for years to come, CEA if implemented considerately, offers us the ability to do this."

Equilibrium Capital's Managing Director Nick Houshower and Grosvenor Food & AgTech's Managing Partner Stephan Dolezalek both express how growers can find the right funding models and partnerships for their growth plans and operational expansion.

NH: "We are in the first great winter of CEA financings and market appetite. With several high-profile failures and continued instability across the industry, options for financing have narrowed significantly. On the one hand, in established segments of CEA, consolidation continues to compress margins and customer access for small and mid-size growers. The limited appetite for the distressed sale of several greenhouses and businesses suggests that growers without the scale to succeed in today's market will find little appetite for liquidity. This reality has also yet to fully percolate through to valuations and seller expectations, where investor appetite for providing any sale liquidity have dried up.

On the other hand, in emerging segments of CEA, including lettuces and vertical farms, both investors and customers (retailers/food service) are looking for companies with stability and staying power. Multi-year paths to profitability are no longer sufficient, as investors are prioritizing cash flow and clear metrics on profitability and return on equity. To solicit and attract a funding partner, growers should focus only on truly critical investments and provide actionable and short-term paths to deliver break-even results."

SD: "OpEx models: Greenhouse and vertical farming leaders need to prove their profitability and an acceptable ROI. They need to show how their OpEx model works, select the right crops, and showcase a strong customer intake. A minimum scaled supply chain must include harvesting and packaging technologies and the ability to deliver full-truck logistics."

CapEx models: Lenders want to fund proven models including more than three full-scale farms, not the first or second farms. It's not viable for growers to use equity while building their infrastructure as it's not a sustainable model. They will also need to show a minimum of 5 years, ideally 3 years for a payback time. Showing you have a best-in-class product that has defensible pricing, better inventory turns, strong branding and a higher customer acceptance."

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