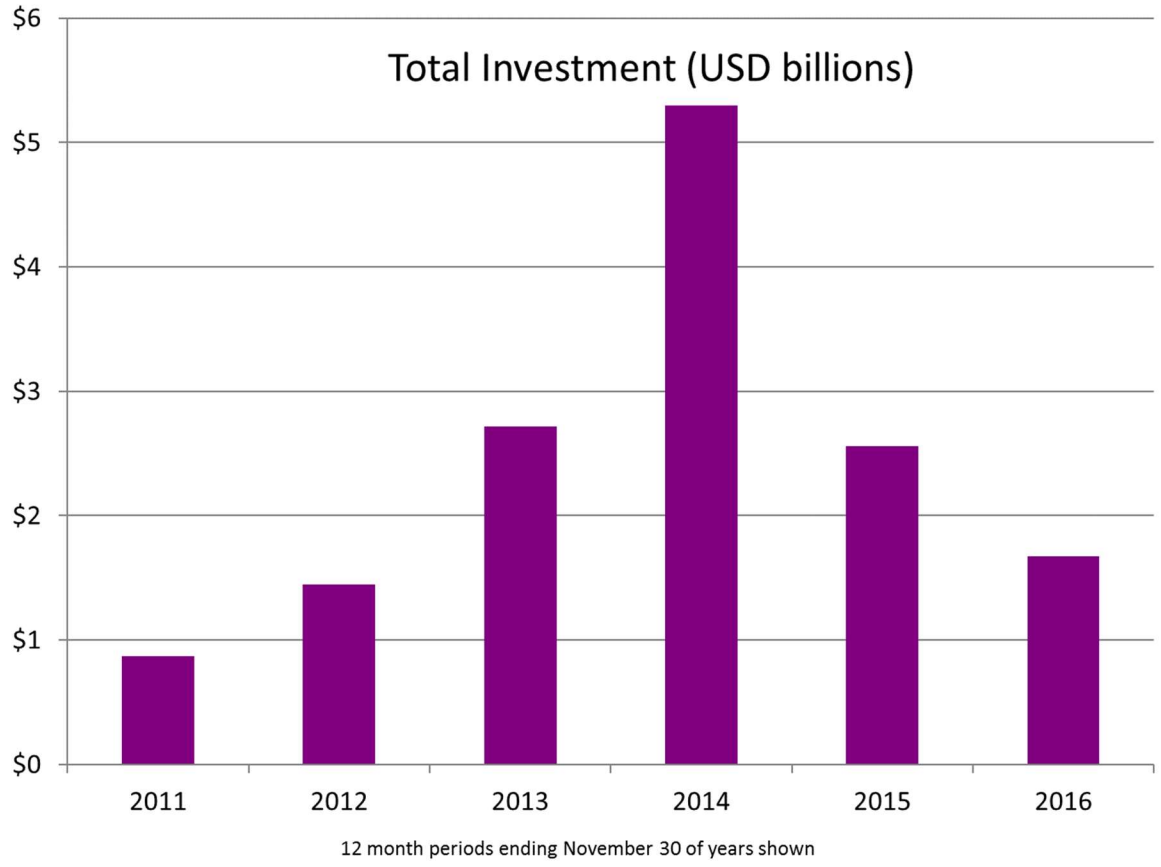
New Capital Investment in MR and Analytics Declines Again

Following a substantial decline in inward capital investment in the MR and Analytics industry in 2015, inflows again decelerated considerably in 2016, according to the *Cambiar Capital Funding Index (CCFI).* In total, the Index counted 106 transactions last year (down from 120 the year before and 152 in 2014) amounting to $1.67 billion – a 35% decrease year on year. Since CCFI probably only captures around 80% of total transactions (many are not announced publicly), this would equate to just under $2.1 billion in aggregate, a far cry from the heady days of 2014 when nearly $5.8 billion found its way into the coffers of new entrants into the sector.

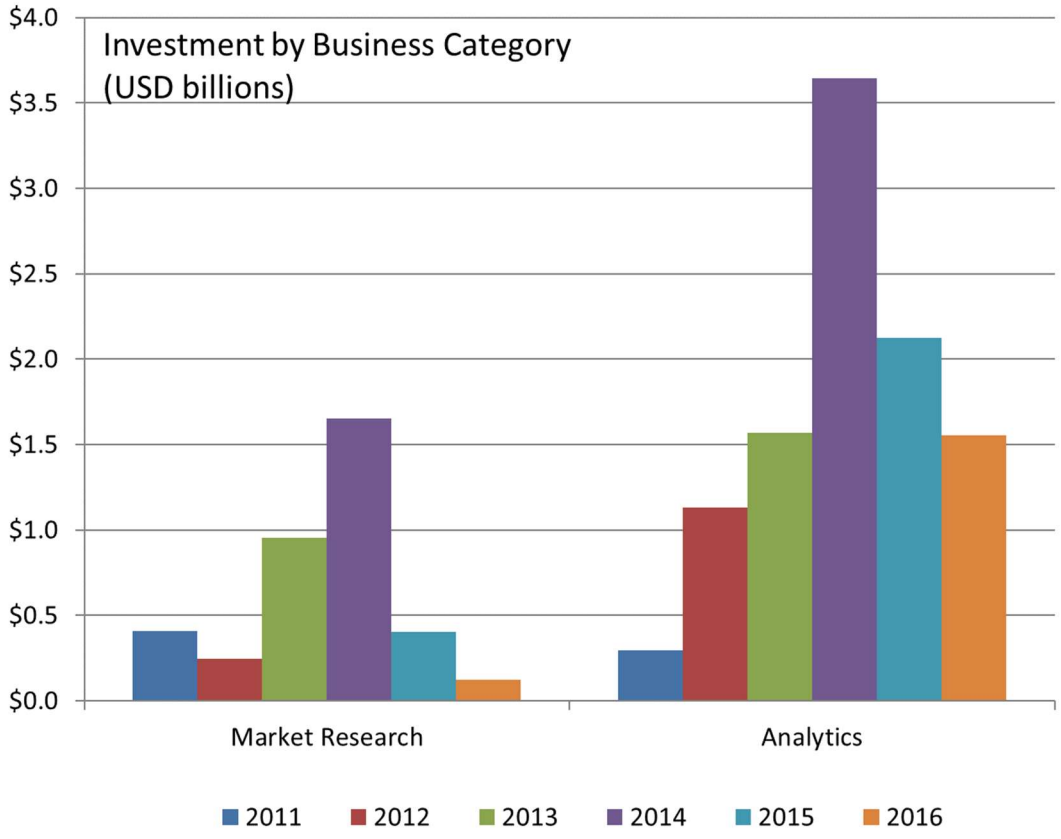


Source: Cambiar Capital Funding Index 2016

Ultimately, what this represents is the beginning of an end to the infatuation with big data analytics as well as a period of maturation for many of the investments made over the past three years. While there are sectors that remain vibrant (mobile and predictive analytics in particular), there is evidence that appetites are waning for investing large amounts in the industry as a whole. Not only was the total invested down but so too was the average amount

invested per transaction - $16.3 million as opposed to $22.3 million last year and $35 million in 2014.

When CCFI first appeared in 2011, investment in market research firms slightly outstripped that in analytics. Even though this was strongly reversed in the following years, there remained strong interest in the MR side of the equation all the way through to 2014. Last year, interest in MR declined markedly and this year it has disappeared almost entirely.

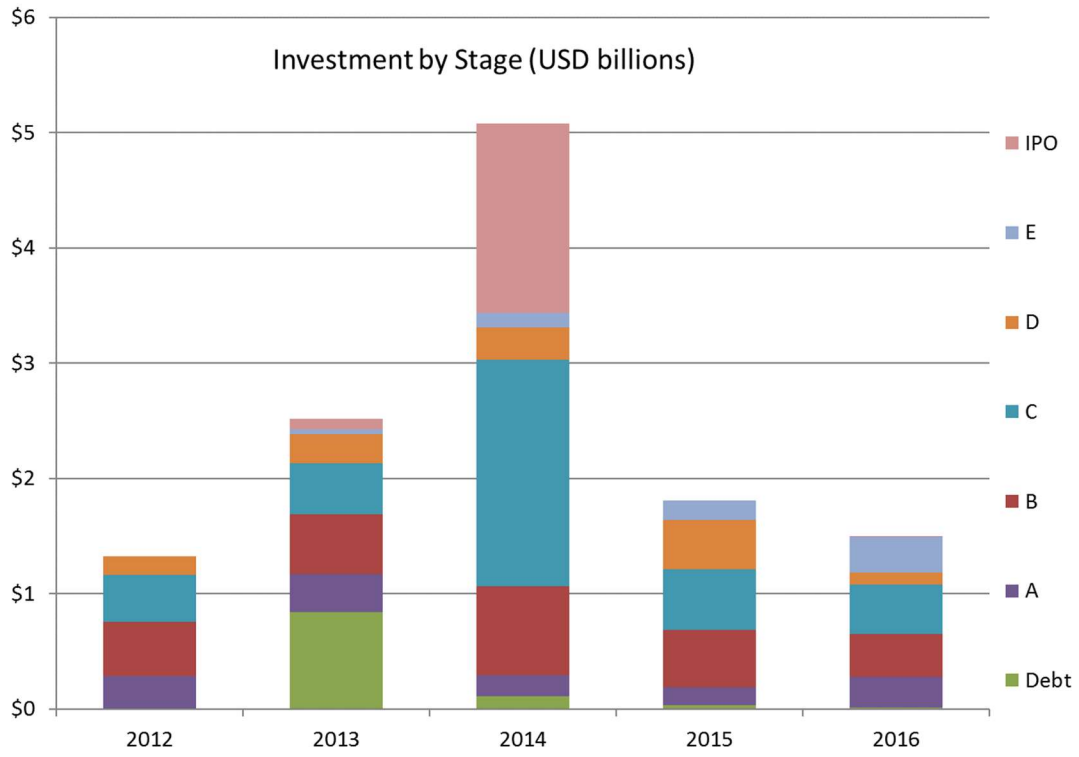


Source: Cambiar Capital Funding Index 2016

This is not to say that investors have no interest in market research as a sector. On the contrary, there is vibrant involvement in this side of the insights industry but it rests elsewhere than venture capital. As the more established partner in the provision of marketing insights to the corporate world, market research is today more aligned with the interests of Private Equity, particularly at the larger end of the industry. Nielsen represented the pinnacle of PE involvement in the sector and larger players such as Lieberman Research Worldwide, ORC, SSI , FocusVision and Research Now are all PE-owned. Shortly, they will be joined (in part, at least) by GfK. Analytics, being a younger, more recent addition to the insights eco-system is more attuned to investment by Venture Capital.

In many ways, the decline in VC investment in the sector should not be that surprising. Most funds that VCs manage have a three-to-five-year investment cycle, after which they concentrate on management of their more successful investments with a view to eventual exit. The lifetime of an average fund is about ten years. On this basis, many of those who invested so heavily in our industry from 2012 until now are adjusting to the management phase and are doubling down on those firms that have been successful. Others are already exiting their investments, as the recent sale of Sentient to the analytics network W2O demonstrates.

This interpretation of current trends is supported by analysis of distribution of investments by their stages – a proxy for the life-stage of the company receiving the investment.



Source: Cambiar Capital Funding Index 2016

2016 sees the largest funding (in both dollars and percentage of total) in Series-E investments since CCFI was established in 2011. Series-E investments are those that typically may be classed as “late stage” in the company’s early lifecycle – that is, the company has already received four or more investments in its lifetime and has proved itself sufficiently robust to warrant further funding with a view to preparing for sale in the near future. Essentially, these investments represent the venture capital investors doubling down on their previous capital injections in the clear expectation of making a significant return in the short term.

Sidebar

Funding definitions:

Seed: very early stage funding, usually at the beginning of a company's life

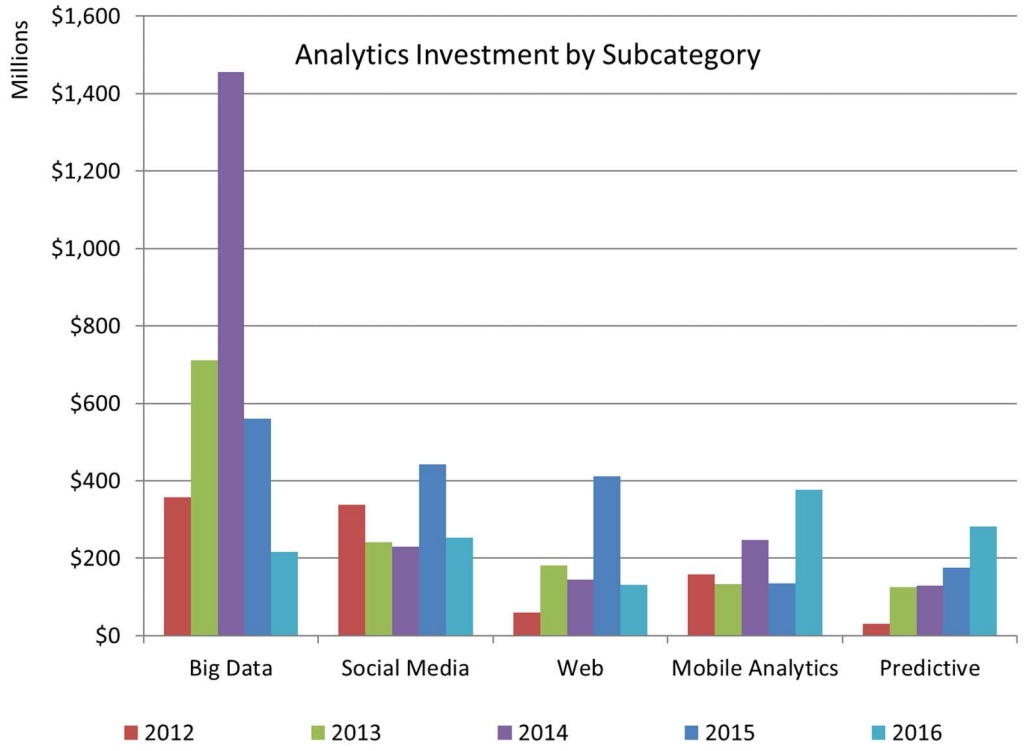
Series A through E: sequential rounds of equity funding as the company grows, with "A" being the first in the series; usually these rounds are funded by venture capital or private equity funds which then become shareholders of the company

Debt: funding, often carried out by banks, that injects capital into a company; that capital then becomes a debt obligation for the firm – funders become creditors rather than shareholders

IPO/Stock Issuance: a public stock offering to raise capital

At the same time, we can also see an increase in Series-A investments which suggests that a new cycle is beginning, more on which later.

While these meta-trends are interesting, so too are those which point to the types of firms and services of the future by which investors are most intrigued. It is clear that "big data" – at least as it relates to marketing – is of waning interest. Or, put another way, the huge amounts invested in this area in the past two to three years have sated VC appetites and this is now an area for doubling down and exit.



Source: Cambiar Capital Funding Index 2016

While social media analytics remain an area of interest, the two areas that post the most growth are mobile and predictive analytics. We predict that both will continue to grow as investment destinations in the years to come – mobile, arguably at the core of big data sources, will continue to gain in importance, while the need to gain competitive advantage through the medium of prediction will only become more pressing.

Sidebar

Categories

The terms used to describe the various types of analytics firms in which investments have been made are largely those used by the firms themselves to describe their core businesses. Some of these ("social media analytics," "mobile analytics" and "predictive analytics") are self-explanatory. Others, such as "big data analytics" and "web analytics" are looser and are often used more broadly to describe a variety of different approaches. However, "big data" is usually used to describe the ability to mine extremely large and/or diverse data sets and derive patterns and insights from them; "web analytics" is more usually used to describe patterns of behavior.

This is supported by analysis of the Series-A investments made during the year. Remember that these were at a higher level than we have seen in the past, suggesting the beginning of a new cycle – a possibility that is bolstered by the fact that 36% of all transactions were Series-A involving 16% of dollars invested. Of these, 43% bet on either mobile or predictive analytics.

Finally, who is doing most of the investing in our industry? Amazingly, over the last three years alone, the CCFI has counted 604 separate investors in this sector. However, there are a few that appear to have significant faith in the sector, making multiple investments over multiple years. Predominant among these are Sequoia Capital, Battery Ventures and Intel Capital, all of whom have invested in ten companies or more. Another dozen or so have made five or more investments over the last three years, but what is interesting is that almost all invested very little this year, further bolstering our theory that we are now in a period of investment consolidation.

So, is the end of the golden era of investment in MR and analytics? Given the early stage interest in mobile and predictive analytics, we would suggest not. As new funds come on stream, we expect these two areas in particular to pick up more serious investment and to power the sector into the next era.