

Futuregrowth bets on insect protein producer Inseco

Author: Amrish Narrandes, Head of Private Equity/Venture Capital & Ayanda Bolani, Investment Analyst @ Futuregrowth

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In February 2022, Futuregrowth Asset Management was the lead investor when startup company Inseco sought \$5.3 million in one of the largest seed funding rounds in South Africa's history. The investment is via the Futuregrowth Development Equity Fund, and reflects the Fund's strategy of diversification into worthy early-stage assets. It also aligns with Futuregrowth's growing focus on investing in innovative and sustainable initiatives across the agricultural value chain, especially when these have a beneficial impact on the planet.

Inseco uses black soldier flies to convert low-value organic by-products into high quality protein, oils and fertilizer – thereby converting waste into food and feed. Its flagship products, EntoMeal and EntoOil, are nutritious and sustainable alternatives to conventional products such as fishmeal and fish oil, with distinct environmental returns. Inseco is Cape Town based and currently supplies the local aquaculture, pet food and poultry market. The company plans to expand into the rest of Africa, Europe and the US. The investment will be used to increase its manufacturing capacity and to fund ongoing research and development to ensure that it remains ahead of the curve.

The environmental advantages of insect protein:

- Utilises 7 000% less land than soymeal production;
- Emits 47 times less greenhouse gas emissions than windrow composting;
- Has a substantially lower production cost than fishmeal;
- Can save livestock farmers up to 25% in feed costs; and
- Every ton of fishmeal replaced by Inseco's insect protein leaves 3.5 tons of wild fish in the ocean.

Source: Inseco

WHY INSECTS?

According to the United Nations Food and Agriculture Organisation, up to 35% of the food produced globally is wasted. This places a significant cost on economies and environments. In the South African context, the waste that ends up in landfills results in the production of carbon dioxide and methane gas. In addition, the global population is projected to grow substantially by 2050 and current food production systems will be unable to meet the growing demand.

Simon Hazell, Inseco's CEO, identified insect farming as the perfect solution to these challenges and co-founded the company in 2017. *"Now, more than ever, we're seeing the importance of sustainability - and the responsibility that we have, to be a more resource-efficient society for future generations. At Inseco, we believe that insects will play an important role in this transition, becoming a widely available source of sustainable protein, and an important form of nutrition to help meet the food demands of the future."*

Amrish Narrandes, Head of Private Equity/Venture Capital at Futuregrowth, notes: *"The investment into Inseco fits well within our responsible investment philosophy. In comparison to traditional protein sources, insect protein has an inherently lower environmental impact, as the process directly reduces food waste, involves minimal greenhouse gas emissions, limited water usage and makes zero use of arable lands. In addition to the strong ESG case, insect protein has a superior nutritional content, which results in higher feed conversion rates compared to traditional protein sources."*

A LARGE, ADDRESSABLE MARKET

Various reports predict that the global demand for insect protein could reach 500 000 metric tons by 2030, compared to the current production of 10 000 metric tons. Although there are many potential uses for insect protein, it is estimated that the largest demand will come from the pet food and aquafeed markets. With the global pet food market alone valued at \$38 billion, Inseco stands to service a very large market.

Furthermore, the insect protein market is forecast to reach \$4.6 billion by 2027. Growth in this market will be driven by increased greenhouse-gas reduction initiatives, and heightened awareness of the need for sustainable food sources to alleviate food security concerns. Although human consumption of insects has not received wide-spread adoption in the West, there are currently over two billion people in the world consuming insects as part of their diets.

Ayanda Bolani, Investment Analyst at Futuregrowth, observes: *"Inseco is a market leader in this space. After years of research and development, the resourceful management team has developed advanced, state-of-the-art processing capabilities, placing it well ahead of its competitors. It is currently the largest insect protein producer in the Southern Hemisphere – and is the only company in South Africa that can produce defatted insect meal and oil – a product that is in high demand globally."*

VALUE ROOTED IN INNOVATION

Inseco has received global recognition for its innovative business model. One of the most notable achievements was its participation in the Technology Innovation Agency Global Cleantech Innovation Programme in 2019. In this highly esteemed competition, Inseco won the award for the best youth-led team in the cleantech category and was also the overall winner of the category. As part of winning the competition, Inseco was sent to Austria to pitch to the global forum sponsored by UNIDO (the specialised agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalisation and environmental sustainability).

Narrandes adds: *"We were particularly impressed with the executive team. They have demonstrated tenacity, creativity, strategic insight, and strong alignment with their shareholders. They have proven technical expertise and come with a wealth of experience."*

Futuregrowth remains committed to supporting motivated South African entrepreneurs who build creative businesses with innovative technologies that contribute to our economy. Since 2013, the Development Equity Fund has invested in early-stage businesses such as Yoco, SweepSouth, hearX, LifeCheq and Mobiz. The Investment into Inseco adds a new dimension to the existing assets within the Fund's venture capital portfolio. Futuregrowth is proud to partner with Inseco's leadership team in taking the business to new heights, while improving the sustainability of the global food production system.

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