

TRANSFIX INVESTMENT MEMORANDUM
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Overview

Transfix is a “marketplace for full truckload shipping” which uses technology to facilitate transactions between those needing to transport a full truckload of goods and those with the direct capability to provide that service. Alpha Venture Partners has the opportunity to invest \$5M in Transfix’s \$50M Series D financing round at an \$800M pre-money valuation.

Upon analysis of Transfix and its underlying market, the preponderance of the evidence suggests that Alpha Venture Partners should participate in this deal.

Market

The full truckload brokerage market has largely attractive characteristics for entry. The market is highly fragmented, with tens of thousands of small brokers competing for about 60% of the \$100B market. This mature market is highly commoditized and business is largely conducted via traditional channels of phone and email, in which customers spend hours coordinating with brokers for each load transported. The trucking brokerage market has been aptly compared to that of travel agents, and Transfix is not the only company to identify this large transformation opportunity. In May 2017, Uber launched a freight offshoot, and some of the biggest names in technology have financially backed Convoy, a direct Transfix competitor with a lavash \$1B valuation. While it might be disheartening to see the likes of Jeff Bezos and Bill Gates invest millions in your competition, the spike in interest serves to validate perceived market potential. Additionally, these well-funded competitors may provide valuable strategic insights or perhaps even consider acquiring Transfix in the future. Public marketplaces have empirically been viable business models to absorb fragmented industries, like this one, that are characterized by high transaction friction, large administrative costs, and inefficient clearing of supply and demand. An instant matching platform that facilitates payment and guarantees quality will undoubtedly overtake the traditional brokerage market in some time, slowed only by the stickiness of existing personal relationships and the scalability of these digital platforms.

Business

Transfix provides a valuable service that alleviates long-standing pain points in the brokerage market. The firm’s value proposition rests on using proprietary algorithms for matching, pricing, tracking, and transaction processing. A Crunchbase IPquery search cannot confirm whether Transfix holds any patents (related to proprietary algorithms), but the company’s insatiable revenue growth (estimated 30x growth in the last 3 years to \$120M) strongly intimates that it is capable of delivering an effective service. In regards to quality or depth of service, there is not enough information in the deck provided to discern whether Transfix maintains a sustainable competitive advantage over competitors. Hallmark Transfix features are common among competitors, and although Transfix was one of the first to market, launching in 2013, preserving this type of premium requires formidable brand loyalty. Further, in evaluating management, there are exciting recent hires including Bain alum, Andrea Blankmeyer, and former Etsy VP,

Brian Christman, but the founders are relatively novice, and still proving themselves as entrepreneurs. In terms of potential expansion, Transfix could explore international opportunities, alternative modes of transport, LTL (less than truckload) coordination, or complimentary services related to the flow of goods (asset financing, insurance, non-commercial or even leisure transportation).

Investor

Transfix would be a reasonable investment for Alpha Venture Partners. The deal satisfies the publicly available criteria for an investment from AVP, such as revenue, size, and industry, and likely fits well strategically if AVP seeks to apply best practices among its portfolio. AVP has interests in a number of companies at the intersection of technology and transportation, such as Careem, Lime, and Getaround, so an opportunity exists to apply industry knowledge and networks; the same applies for platform services, such as Rover, Wish, and Doctor on Demand. Lastly, AVP can offer Transfix expertise from advisors such as Daniel DeWolf, who have extensive experience in the logistics and technology sectors.

Deal

The available terms of this offering are sound. AVP typically does not demand board seats, so the lack of control that results from an equity share of 0.6% should not be a major deterrent. A 1x participating preferred structure at such a late stage, given growth path and trajectory, is a fairly risk-averse investment structure, and does not present outsized risk. The fundamentals of this business and market also suggest that an exit can be achieved in a short amount of time by IPO or acquisition. The proposed valuation, although validated by partnering with other respected investors, can be interpreted as fair, given an analysis of comparable companies (*Exhibit A*). Applying a price/revenue multiple utilizing YE run rate revenue for 2018 (\$120M) and a post-money valuation (\$850M), a 7x multiple is returned, which represents a small premium to the comparable set. However, given its small size and robust growth, I believe Transfix should command an above-average revenue multiple. It should also be noted that there is a sizeable amount of slack in the data: YE run rate revenues are uncertain and untethered to this valuation, public companies have dissimilar risk profiles to those that are private, and because of limited data, there are no direct competitors in the comparable company set.

Conclusion

Transfix is a member of a large and powerful coalition of well-funded ventures aiming to upend the freight brokerage industry. Headwinds withstanding, Transfix has proven itself to be a steadfast challenger in the race to modernize commercial freight, and in a \$100B market with aggressive new investment, Transfix and AVP have a great likelihood of future profitable exit.

There are a few questions that management could answer which would increase confidence in this report, such as: what do you plan to do with this new cash infusion, how can one validate the value of these proprietary technologies, how open would you be to a future exit, and what do fixed costs look like. Additional documents which would be helpful to examine would be: full business plan, capitalization table, and income statement.

Appendix

Exhibit A

Transfix Comparable Company Analysis				
Company	Mkt Cap (\$M)	2018 Revenue (\$M)	TTM Revenue Growth	Price/Revenue
Shutterstock	\$ 1,600	\$ 623	12%	2.6x
Just Eat	\$ 6,900	\$ 780	42%	8.8x
LendingClub	\$ 1,300	\$ 1,080	-6%	1.2x
Grubhub	\$ 6,300	\$ 1,007	48%	6.3x
TrueCar	\$ 696	\$ 353	9%	2.0x
Takeaway.com	\$ 3,500	\$ 232	42%	15.1x
Lyft	\$ 21,200	\$ 2,157	104%	9.8x
Ebay	\$ 36,300	\$ 10,746	8%	3.4x
<i>Mean</i>	\$ 9,725	\$ 2,122	32%	6.1x
<i>Median</i>	\$ 4,900	\$ 894	27%	4.8x
<i>High</i>	\$ 36,300	\$ 10,746	104%	15.1x
<i>Low</i>	\$ 696	\$ 232	-6%	1.2x
Source	Etrade 4/1/2019			