Agri Investor
Paine Schwartz: 'You can't dabble in ag investing'
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In January, agri-focused private equity firm Paine Schwartz Partners brought on former KKR executive Adam Fless to fill a new position as managing director of portfolio performance.

Having passed his own 100-day threshold, Fless outlined to Agri Investor how the 100-day plan that traditionally follows a private equity investment is adjusted for agricultural investments, what challenges are encountered in the process and how best to track environmental and social governance.

What are the major differences between how the 100-day plan is applied to agriculture and how it is applied to other industries?

Some investment firms will have a very rigid playbook and that 100-day plan will be imposed top down, no excuses. In the ag business, you can't take a blunt instrument approach to a 100-day plan; it's all about flexibility. All industries have cycles, but ag's higher level of volatility dictates that the need for flexibility and cultural sensitivity is even higher.

For companies in a harvest cycle or a packing cycle, you need to align your value thesis to them and what you want to work on together. That means you might need to be more inclusive in how you engage with stakeholders in the broader community. You might need parts of a 100-day plan to move a little slower in favor of other parts of the plan. You might need more time to identify the improvement levers you want to pull.

Culturally, we work with many former founder- and family-owned businesses, across many geographies in businesses whose rhythms are tied directly into the ag cycle, which demands flexibility. A good example of that is Suba Seeds, a seed company in a very small town in Italy that has been founder-run for decades. When you think about how to approach a company like that, you have to get out there in person and understand their place in their ecosystem.

You have to build an understanding of the informal management structures and processes, in addition to the formal. If you go by just what's on paper, you are going to miss some of the nuances and richness. In some cases, institutional knowledge is built up in people's heads over years and years and it's not codified yet. Understanding the culture and nuances of those relationships will change the way you approach business improvement.

What is the main challenge to applying a 100-day plan process to ag investments?

The potential for rapid change in ag is even more pronounced than in most industries and adjusting the 100-day plan process to account for that volatility can be a challenge. There are higher levels of day-to-day idiosyncratic risk, much more regular surprise in terms of crop yields, weather, and supply-chain disruptions, in addition to new product innovations that can boost your yields overnight and myriad other factors to consider. A lot of what we would like to be doing during that 100-day plan is understanding how the company is managing those risks.

What advantage does your firm derive from its single-sector focus?

We believe you can’t dabble in ag investing. There are distinct challenges and opportunities that are different from manufacturing or retail or consumer. If you have an experienced team in the sector, that sector focus has a compounding value; it gets you to the answer quicker and helps avoid 'paralysis by analysis' by allowing you to get comfortable with the risks and opportunities at a faster pace.

Because of our sector-focus, we have the advantage that we tend to see almost every deal in this space and we only act on a few of them. That gives us another dimension of perspective, because we obviously don’t act on more things than we do act on, and so we build up a very valuable database, formally and informally, of why we didn’t do certain things. It makes it easier to say 'no' to things.

How will the firm’s focus on sustainability shape metrics used in the formulation of the 100-day plan as it continues to evolve?

There are some ESG programs that can feel a bit like a bolt-on public relations strategy because LPs demand it and because the issue is not going away, but sustainability is core to the mission at Paine Schwartz. There is a difference between firms that are investing in companies that have sustainability at the core of their business, and companies that are just tracking metrics that sound good but that don’t take into account the core mission of the business.

Our portfolio includes companies whose whole reason for being is to address an issue related to sustainability. I think that differentiates us from a company that makes widgets, happens to install a solar panel and track that as a great achievement.

Looking ahead, we are going to look at ways to increasingly track our footprint and responsibility with our companies through metrics, that’s something we recognize that we need to do and communicate to our investors. Starting from a base where we believe in our companies, adding on those metrics will be positive, but we want to make sure it’s based on the reality of the impact of those companies and not just a PR play.