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Aquaculture: The Next Private Equity Frontier?
By Beina Xu
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Thor Arne Talseth, director of corporate finance at Arctic Securities, illustrated investor interest in the seafood industry with a head count.

"We'd planned this event for 100, maybe 120 attendees," he said Tuesday at the Seafood Investment Forum in New York, an event sponsored by the Nordic firm and agriculture investor Paine & Partners.

"Instead we got 185 people and 30 walk-ins," Talseth said. "There are 45 to 50 private equity firms attending. This just shows us that the investor has fully understood and recognized the attractiveness of the seafood industry. The only question is where in the sector should they aim?"

As scarcity looms over the future of world food supply, aquaculture has looked increasingly attractive as an investment opportunity, said panelists, who see a role for both small and large private equity firms.

Kevin Schwartz, a partner at Paine & Partners, said his firm makes "very specific" investment decisions about its companies, rather than employing a general strategy.

Salmon and crab provider Icicle Seafoods Inc., which the firm acquired in 2007, was a situation in which the company lacked access to capital by virtue of its ownership, had a conservative capital structure with a reluctance to take on debt and production limited mostly to Alaska, Schwartz said. It provided an opportunity for private equity to step and use its capabilities, he said.

The firm looks across all sectors of the supply chain. Paine & Partners recently acquired Scanbio Marine Group, a Trondheim, Norway company that produces fish protein concentrate, fish meal and fish oil from byproducts. There, the company is an input provider to feed companies, Schwarz said.

"As you see growth in aquaculture, we would expect you to see growth in feed and constraints on supply," he said. "So there are a number of ways for private equity to look at the industry, but obviously it's on a very specific case-by-case basis."

Schwartz noted genetics as being an interesting space, as well as seed companies.

When discussing risks of investing, volatility was a recurring word, even in reference to farm-raised seafood, which typically has exhibited more price stability than wild catch efforts. Stephen Maloney, of Bank of America Corp., said that for lenders, it will always be a part of the capital structure, but companies in a regulatory environment are more attractive, given their high barriers to entry. Collateral values are very important, he added.

"We understand that wild resource can go up and down," Maloney said. "A few ways of mitigating that risk is not underwriting to the peak. Companies with multiple species that can ride the ups and downs of any of them is also a plus."

Bank of America has a focus on wild catch, which is a small and fragmented space, and good ground for investors to get in, he added. "We see a lot of transactions at the smaller end of the middle market," Maloney said.

For equity investors, the challenge is juggling return expectations on a volatile, capital intensive industry with long-term holds. Mitigating all of that requires diversification, by significantly increasing the source of supply, end markets and geography, according to Schwartz. Another key is having a right capital structure, he added.

"We in private equity are at high cost end of the spectrum," he said. "Having said that, we're able to create a balance sheet that can withstand volatility, compared to one that can use debt, which is cheaper. But debt is due in five years. Equity is permanent capital."