

LBO Wire

Berries For Brekkie? Paine & Partners Invests In Australian Produce Grower

By Beina Xu

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Apparently, mushrooms are a high-growth matter in Australia.

A global increase in consumption of healthier foods has triggered an annual growth rate of 8% to 10% for the edible fungus in the country as well as similar rises in demand for healthy produce options such as berries, according to Paine & Partners.

With this in mind, the U.S. firm acquired a 50% stake in Costa Group, a Melbourne grower and marketer of produce.

The company, which generates about 650 million Australian dollars (\$704.7 million) in annual revenue, is focused on seven fruit and vegetable categories: mushrooms, tomatoes, berries, bananas, citrus, grapes and avocados. Costa also provides third-party warehousing and distribution services for chilled items and other consumer products.

The deal will take the company's previous lenders out of the picture, replacing Costa's balance sheet with a more conservative debt structure, said Kevin Schwartz, a co-founder of Paine & Partners, who declined to discuss specific details of the transaction.

The company wasn't available for comment. Frank Costa will continue to serve as Costa's chairman; Harry Debney will continue as chief executive.

Schwartz got to spend a lot of flight time with Qantas Airlines while working on the deal. The firm began talking to Costa a year ago. The company was going through a process of streamlining its business, focusing on produce categories that displayed greater growth, as well as exploring opportunities to strengthen its balance sheet. Paine & Partners eventually took the lead in the latter process, Schwartz said.

The firm was motivated by a macro thesis that with population growth, more and more people will eat healthier foods. Growers are adding more varieties of mushrooms such as the Swiss brown and Portobello, Schwartz said.

Berries are a focus for Costa, too. On a recent trip to Australia, Schwartz noticed a small carton of blueberries sell for A\$13 at a grocery store.

"The bigger challenge is the lack of availability," said Schwartz, noting the shelf life of some of Australia's domestic varieties can be as short as a day. "By the time you get them home and rush to eat them, they'd already be disintegrating."

While Costa will continue its own varietal development, including in blueberries, where its varieties are strong, the company also has entered into a joint venture with U.S.-based raspberry and strawberry producer Driscoll Strawberry Associates Inc. Costa will grow Driscoll's varieties that are higher yielding, better tasting and have longer shelf life, according to Schwartz.

Paine & Partners also has an investment in Seminis Inc., a fruit and vegetable seed company.

The firm, which has offices in Chicago, New York and San Mateo, Calif., invested in Costa from its \$1.2 billion vehicle, Paine & Partners Capital Fund III LP, which closed in 2007. That fund, which by the end of its investment period will stand to have eight to 10 portfolio companies, is two-thirds invested.

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