

LBO Wire
Despite Promise, Private Equity Firms Approach Seafood Deals Cautiously
By Ben DiPietro
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Although seafood remains a promising sector for investors, private equity firms have remained a bit cautious, in part because they aren't able to extract the same synergies as large seafood businesses can when they make acquisitions, says one private equity executive.

"It continues to be industry where strategic acquirers are far more active than private equity," said W. Dexter Paine, chairman and chief executive of Paine & Partners LLC, which owns Seattle-based Iccle Seafoods and Norway-based fish feed supplier Scanbio.

While seafood is an excellent source of protein to feed a growing world population, and offers great investment opportunities for PE firms that understand the industry and its attendant risks, the industry can't compete with large seafood businesses in leveraging synergies, said Mr. Paine, who spoke last week on a panel about PE investment in seafood at a forum in New York put on by IntraFish Media, a seafood industry news organization.

Speaking to Dow Jones by phone, Mr. Paine cited as an example Canada-based Cooke Aquaculture, a large aquaculture company with interests in salmon farming and raising sea bass and sea bream, and its recent purchase of the Scottish salmon farming assets of Norway-based Marine Harvest, the world's largest salmon-farming company.

"When Cooke buys Marine Harvest 's Scotland assets, I'm sure they're acquiring those assets knowing they are not having to add additional administrative overhead, which is very different from when we look at it and say 'We've got to build a management team around that,' " Mr. Paine said.

Another reason is there haven't been that many sources of capital to fund seafood investments, he said. "There are the Norwegian banks, a couple of U.S. banks, for a while the Icelandic banks, but they no longer are in business," said Mr. Paine. "There is less capital than if you look at any basic industry. Private equity is often driven by how much money you can borrow and there is significantly less liquidity, at least on the debt side" than in other industries.

A third factor relatively few seafood deals get done is that very few private equity firms have expertise in the industry, said Mr. Paine. There are regulatory issues, risks with fluctuations in the wild catch or disease issues reducing output on fish farms, cyclicity of catch and growing seasons, and seasonality of when certain species are able to be caught or brought to market.

"There are a lot of challenges to investing in this industry," Mr. Paine said. "It is a wonderful industry with terrific cash flow characteristics, but you really need to understand local issues and understand seasonality and cyclicity if you are going to put capital to work."

That said, some firms are making bets on seafood businesses. Recent deals include last week's purchase of the Red Lobster restaurant chain by Golden Gate Capital for \$2.1 billion, Permira 's purchase of aquaculture vaccine maker Pharmaq and the 2013 purchase of major fish feed supplier Ewos by Bain Capital Europe and Altor Fund III GP Ltd.

With seafood, especially aquaculture, expected to becoming an even more important protein resource in the coming decades, the outlook is bright and that will create a robust investment environment, said Helge Moen, managing director of Norway-based private equity firm Kverva, which owns stakes in Norway-based salmon farming company SalMar AS, pelagic fish seafood company Pelagia and crab processor HitraMat.

Global aquaculture production in 2012 topped 90 million metric tons, with an estimated value of more than \$137 billion, according to figures released Monday by the United Nations Food and Agriculture Organization . Overall, global fisheries and aquaculture production was more than 158 million metric tons, around 10 million ahead of 2010 numbers.

"I think seafood must account for a higher percentage of the total animal protein product by 2020," Mr. Moen told Dow Jones at the investment forum. "That will draw the focus to the sector, whether that will be private equity companies or traditional industrial companies."