

Buyouts

Five Questions With... Kevin M. Schwartz, Partner, Paine & Partners

By Nancy Gordon

1 March 2010

You've been with Paine since 2002. Which industries have you led deals in?

I've led deals in the industrial space, including one in our second fund, which was an investment in an automotive manufacturing business. My primary area of focus has been in food and agribusiness. Deals have included Seminis and Advanta, both agricultural input companies in our second fund. In our third fund, we acquired Icycle Seafoods, which we still own, and is one of the largest harvesters and processors of salmon and other fish.

Which was the most difficult food/agribusiness deal you've done?

The most challenging was our acquisition of Seminis, the world's largest vegetable seed company, which we acquired in 2003 and sold in 2005 to Monsanto. At the time, it was in financial difficulty and in default on its credit agreements. It was a U.S. publicly traded company, the major shareholder of which was a public company in Mexico that itself was in default on its credit obligations. The controlling shareholder, Mexican industrialist Alfonso Romo Garza, held his shares through various holding companies that were also in default. For almost two years we worked with Garza to settle and restructure credit obligations at each level, with a total of over 100 creditors. We had to take private the public company in Mexico. We also took the U.S. publicly traded company, Seminis, private. It was a global business, so we traveled to every continent except Africa for the due diligence. When we sold it to Monsanto, we generated a 3.2x return on investment.

What subsectors within food/agribusiness seem attractive now?

We've spent a lot of time looking at agricultural input companies, including seed companies, agrichemicals and food ingredients. We think there'll be a change in diet globally over time, with growing consumption of proteins like seafood and poultry, which drives the demand for grain. Businesses that enhance productivity in the food and agribusiness value chain are a focus. We're also seeing trends, driven by the recession, of consumers making different choices, such as buying private-label brands, so we're looking at all of those.

What specific opportunities are you considering?

We're actively pursuing one opportunity now in South America in the agricultural input area. We're also looking at the opportunity to provide growth capital to a business with a proprietary healthy branded product in the protein segment. We think it's a possible game-changer as it relates to a meaningful reduction in animal fat in certain proteins, replacing it with another source of healthy fat. We're also looking at a deal that would consolidate the distribution of certain products and services to farmers, such as seed, fertilizer, insurance and farm credit.

Which of your food/agribusiness deals was most successful?

Our acquisition of Advanta in 2004 has been our highest returning investment so far. At the time, Advanta was the world's fifth largest independent agronomic seed company. Since no single

strategic could buy the whole thing, we partnered with Syngenta, an agricultural chemical company. Paine and Syngenta split control of Advanta's global business units. We invested \$75 million, and in less than two years, we realized a roughly 4.5x ROI and an IRR of over 600 percent. We still hold a stake, which is increasing in value.