

FINANCIAL REVIEW

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Sale puts Costa on all-year production cycle

By Anthony Macdonald

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Australia's largest producer of fruit and vegetables, the Costa Group, hopes to be able to supply its produce year round after agreeing to sell half of itself to US private equity firm Paine & Partners.

The Costa family, led by chairman and former Geelong Football Club president Frank Costa, will invest most of the sale proceeds in the business to help accelerate its growth.

The plans involve new growing and holding facilities to extend its growing season across its seven products. Costa Group is also looking at increasing its presence overseas.

"We really want to double the size of the business very quickly and started to realise we needed a stronger balance sheet," chief executive officer Harry Debney said.

"Agriculture soaks up a lot of capital."

Costa Group is Australia's largest grower of blueberries, raspberries, table grapes, citrus fruit, tomatoes, bananas and mushrooms, among other produce. Its customers include Woolworths and Coles.

The company produces 20,000 tonnes of mushrooms in a regular year, as well as 2.5 million cases of citrus and more than 1.6 million boxes of bananas. Annual revenue is expected to be about \$650 million this year.

The company told its 7000 workers their jobs were safe after the deal was signed on Thursday.

Mr Debney would not reveal the price Paine & Partners paid for the half stake, but said it was consistent with similar transactions in America, Europe and New Zealand.

The Costa family, including brothers Frank, Robert and Anthony, are expected to remain involved with the business, with Frank and Robert sitting on the new six-person board. Frank Costa will continue as chairman.

Virgin Blue Holdings chairman Neil Chatfield is expected to be given a board seat, along with three representatives from Paine & Partners. Chief executive Debney will remain a non-voting board member.

Paine & Partners specialises in agribusiness. It had been seeking an Australian investment and was rumoured to be looking at salmon producer Tassal earlier this year.

It was also interested in New Zealand chicken producer Tegel Foods, which was sold to private equity firm Affinity Equity Partners.

Australia's fruit and vegetable industry has been a happy hunting ground for private equity.

In 2006, Catalyst Investment Managers bought a 49 per cent stake in Costa's rival, the Sydney-based Moraitis Group.

The private equity firms are attracted by the constant demand for fruit and vegetables, which promises stable cash flows.

One of Paine & Partners' founders, Kevin Schwartz, said the firm would support Costa's long-term goals and help management create new market opportunities.

Paine & Partners first approached Costa Group 12 months ago, but was knocked back because the fruit and vegetable producer was going through a restructure.

The Costa family's involvement in the Australian horticultural industry began in the late 19th century when Francesco Costa, a wine producer from Italy, headed to Australia to raise funds for his vineyard.