PERSONALITY PROFILE:
DEXTER PAINE: SEEKING FERTILE DEALS IN AGRICULTURE

By Bernard Vaughan

Buyout firms waded into some pretty unconventional sectors over the course of the recent buyout boom. Firms such as **The Blackstone Group** and **The Carlyle Group** branched out into debt investing and poured millions into sectors such as technology and infrastructure they would've avoided 10 years ago.

One area buyout firms have largely avoided is agriculture. On first glance, agriculture sounds promising. People always need to eat. Invest prudently, and you score the fundamental nutrient for buyout firms: steady cash flow. But agriculture remains vulnerable to a duo of outsized risks that petrify most firms: God and Government. Unforeseen weather calamities and political changes can kill a deal, an industry, entire economies. In short, the industry is too risky.

None of this deters **Dexter Paine**, co-founder in 1997 of Foster City, Calif.-based **Fox Paine & Co.**, which last year became known as **Paine & Partners**. Sure, other firms have done an occasional agriculture deal, and in July, Dutch bank Rabobank Group spearheaded the creation of a $100 million fund focused on agriculture deals in India. But *Buyouts* could find no other shop that has consistently targeted agriculture as much as Paine & Partners, which has 25 investment professionals and also targets financial services, industrial, and power and energy.

Paine has led three buyouts in agriculture, two of which his firm has exited to excellent returns. The firm plans to invest as much as 50 percent of Paine & Partners Capital Fund III, a $1.25 billion fund closed in 2007, to agriculture. Their bet on agriculture rests largely on four trends they believe promise to drive the industry into a profitable future: population growth, with more people eating meat; limited arable land on which to grow food; rising energy costs and consumption; and increasing environmental regulation.

Most recently, in August 2007, the firm bought Icicle Seafoods Inc., a Seattle-based seafood processor that generated $300 million in revenues in 2006. (Paine & Partners defines agriculture broadly to include seafood.) Paine and **David Buckeridge**, an operating director who has a doctorate in genetics and plant sciences, have recently been scouting deals in Brazil—a major exporter of poultry, sugar, soy and corn—because of its mild climate and abundance of water and rich soil.

Dexter Paine

Firm: Paine & Partners

Founded: 1997

Headquarters: Foster City, Calif.

Strategy: Majority stakes in companies in agriculture, financial services, industrial and power & energy

Hobbies: Skiing—Paine is chairman of the U.S. Ski and Snowboard Association.

If all goes well Icicle Seafoods will become another Advanta BV, the firm's most successful agriculture deal to date. Fox Paine bought the company in May 2004 from AstraZeneca, the London-based pharmaceutical company, and Royal Cosun, a Dutch food processor. The deal illustrates Paine's approach to complex deals.

In 2004, Advanta, based in the Netherlands, was one of the largest seed companies in the world, with about $500 million in sales in 2003. Two agribusiness conglomerates, Monsanto Co. and Syngenta AG, which were interested in Advanta's various North American operations, were natural buyers, but the sellers wanted to sell Advanta in one shot; in addition, as the second- and third-largest sugar beet producers in Europe, Syngenta and Monsanto faced anti-trust issues with the European Union.

Paine worked with Syngenta and the European Union to create a complex transaction whereby Syngenta bought 90 percent of Advanta's North American corn and soybean assets, while Fox Paine bought the other 10 percent, as well as 100 percent of the remaining Advanta businesses, for a total of $475 million. Then, immediately after it bought Advanta, Fox Paine sold the company's North American canola seed business to Monsanto. Thus, Monsanto and Syngenta got the North American assets they wanted, and Fox Paine got the rest of Advanta's businesses, while nullifying the European Union's anti-trust concerns. One limited partner interviewed said the complexity of the deal would have deterred other shops. "There aren't too many people who've done deals like that," this LP said.

The firm went on to implement a 48-step reorganization of Advanta's assets to mitigate tax cost, and to complete four divestitures equaling $400 million of non-core assets. After 18 months of ownership Fox Paine earned 4.5x its invested capital, and a whopping 637 percent internal rate of return.

Paine had a firm grasp on the European Union's anti-trust concerns, said Buckeridge, who as an executive with AstraZeneca helped arrange the deal, and who went on to be CEO of Advanta under Paine. More importantly, Buckeridge said, Paine's almost scientific understanding of the minutia involved in Advanta's seed business provided a valuable bridge of understanding. "With Dexter, you could

Dexter Paine Timeline

- *1983: Receives B.A. in Economics from Williams College, begins career at Bankers Trust Company in New York.
- *1987: Leaves Bankers Trust to create LBO group at Robertson Stephens & Co. Over seven years, organizes acquisition of seven companies with revenues of more than $800 million.
- *1994: Establishes West Coast office for Kohlberg & Co.
- *1997: Founds Fox Paine & Co. with Saul Fox, partner at Kohlberg Kravis Roberts & Co. Raises $500 million fund.
- *2000: Fox Paine raises $1 billion for second fund.
- *2006: Fox Paine raises $1.25 billion for third fund.
- *2007: Fox Paine partnership falls apart with lawsuits between Fox and Paine. Eventually, the issues are settled out of court. Paine does business going forward as Paine & Partners.

tell this was something he understood," Buckeridge recalled. "When I started to talk to him about how we would judge the size of our supply chain and how we would contract seed so we would have flexibility with crop acreage, it was a proper intellectual discussion, frankly, between a financial guy and a biologist."

Paine also overcame difficult governmental hurdles with the deal for Icicle Seafoods. The challenge was that the United States Maritime Administration, or MARAD, requires that a U.S. company own at least 75 percent of any seafood harvesting business, whereas about 43 percent of Paine's limited partners are foreign. Paine worked closely with MARAD to create an ownership structure in which Paine's U.S.-based LPs became owners of the business, while Paine's non-U.S. LPs were able to participate in the upside of any sale but don't have any ownership.

As a general rule, Paine's strategy calls for moderate leverage, investing in the company's research and development, and selling to a strategic buyer. On average, the firm finances all its deals with 3x debt to EBITDA. And it invested 10 to 15 percent of annual revenues at Advanta and Seminis Inc.—an Oxnard, Calif. seed maker it bought in 2003 for $650 million—in research and development. Buckeridge said that a robust research and development pipeline is crucial because large corporations—which the firm sees as potential buyers—value a target's plans for growth. Paine sold Seminis after 18 months to Monsanto for $1.5 billion, earning 3.5x its invested capital. "It might dilute short-term cash flow but will ultimately pay off," Buckeridge said of R&D.

A Broken Partnership

In an interview at his New York office on Fifth Avenue recently, Paine said he started his career in 1983 at Bankers Trust Company in New York, where at the time he became the youngest vice president and arranged more than $10 billion in senior and subordinated bank financings. In 1987 he left to create a buyout group at Robertson Stephens & Co., where he became the firm's youngest General Partner and, over seven years, led the acquisition of seven companies with revenues of more than $800 million. In 1994 he left Robertson Stephens to create the West Coast office for **Kohlberg & Co**.

In 1997 Paine teamed up with **Saul Fox**, a partner at **Kohlberg Kravis Roberts & Co**., to create Fox Paine & Co., a successful partnership that ultimately deteriorated amid lawsuits. The two had crossed paths over deals in the past, and when the elder Fox was looking to start his own firm, consultants urged them to work together.

Fox Paine raised $500 million for its first fund. That fund generated a lackluster net IRR of about 10 percent, Paine said, because of one bad deal—the fund's largest equity investment, accounting for 20 percent of the fund—amid five good deals. The culprit was Maxxim Medical Inc., a maker of surgical products for hospitals Fox Paine bought in 1999 for $570 million. Between the deal agreement in June and its closing in December, Paine said, Maxxim's management renegotiated a major contract, which accounted for 20 percent of its revenue. The move significantly hurt its profits. Paine blames the company's management, and his own firm's due diligence, for the debacle.

Since the Maxxim deal, Fox Paine, and now Paine & Partners, holds an investment committee meeting with all of its advisors at the time they sign a letter of intent, and again just before they fund a deal. (Before the Maxim deal the firm only held such a meeting before it signed an LOI.) At these meetings, the firm's accountants, lawyers, risk management advisors and environmental consultants make presentations to the investment committee, rather than just submitting written opinions, which makes for a more interactive due diligence session. The experience also taught Paine that "you need to continue to evaluate the business up to the moment before" you actually fund the deal.

Fox Paine bounced back with its second fund, a $1 billion effort raised in 2000. Out of this fund came the successful Seminis and Advanta deals, among others. That fund has earned an investment multiple of 2.05x and an IRR of 30 percent as of March 31, according to the **Oregon Public Employees Retirement System**, which committed $50 million.

Long-simmering tensions in the partnership began to surface in 2005. According to press reports, Paine, who wanted to raise another fund, and Fox, who did not, worked out an agreement in which Paine could continue to use Fox's surname in exchange for a 25 percent stake in the fund's general partnership. But in 2007, the two filed lawsuits against each other, with Paine calling Fox "increasingly erratic and neglectful in his oversight responsibilities" and accusing him of missing the firm's Monday meetings for more than 70 consecutive weeks. Fox, for his part, accused Paine of stripping his staff, according to press reports. They eventually settled out of court. An LP said that Paine was forthcoming about the lawsuit throughout the process. "He was very open about what was going on," this LP said.

Today, Paine sounds regretful about how the relationship deteriorated. "We had a great partnership," he said, adding that the lawsuit was "incredibly unfortunate." Fox still oversees three investments in the portfolio, but has no involvement in new deals. They still share office space in Foster City.

Paine, of course, prefers to focus on the future and on investing the remaining 50 percent of Paine & Partners Capital Fund III. Despite a credit crunch that has many buyout shops sidelined, the firm has a letter of intent out on a platform deal in the industrial sector, and two LOIs out on potential add-on deals for portfolio companies. It also has a LOI on a platform deal in agriculture.❖