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PE eyes upstream 'risks' in aquaculture, fishing
By Tom Seamen
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Is the private equity focus of looking mainly to "safe" investments in branded, consumer facing, seafood businesses shifting upstream to fishing and aquaculture?

Well, not entirely. The recent auctions for Findus Italy -- where Lion Capital and Permira traded slugs -- and Picard Surgeles -- where Lion won out from competition from Blackstone and BC Partners -- show PE still loves branded seafood.

Upstream businesses are seen as a safe investment as "everyone needs to eat," as executives will ubiquitously comment. Frozen in particular is seen as strong defensive investment, in rough economic times.

But, recent moves from Carlyle Group and newcomer Linnaeus Capital Partners B.V. to invest in fishing, feed and aquaculture show more funds -- big and small -- are beginning to look for opportunities upstream.

Traditionally, private equity has been deterred from investing in aquaculture and fishing because both are perceived as cyclical businesses with areas of risk, such as weather and disease, seen as being out of potential control. But if you get it right, the gains can be enormous.

Investing successfully upstream in seafood is about knowing the risks and finding ways around them, said Kevin Schwartz, a partner in U.S.-based private equity fund Paine & Partners, which bought fishing company Icicle Seafoods in 2008 and plans more investments in the sector.

"You can't control some of the risks. You can't avoid intermittent issues such as algae bloom or gill amoeba and you can't control water temperature," he told IntraFish. "We focus on structuring the investment to allow the company to survive and thrive despite those risks."

This puts a lot of investment funds off, he said.

Strength in diversity

With Icicle, Paine & Partners has pursued a strategy of diversification and investment in aquaculture to provide a solid, year-round supply of fish to complement its wild-catch business.

“We are about conservative balance sheets; about creating businesses that have more diversity and breadth than when we bought them,” said Schwartz. "Our goal is to maximize investment returns through deep industry knowledge, long-term growth and conservative capital structures.”

This focus upstream means they are not competing with so many other investors for deals. Paine and Partners founder Dexter Paine said he is more than happy with this position.

“We would rather be harvesting pollock than selling the filet-o-fish,” Paine told IntraFish.

This concept makes sense when you think of the way the industry is trending, with prices on the rise for raw material. With China, India, Russia and Brazil all developing in terms of protein demand, owning businesses upstream is a wise move. It seems unlikely that, even with the rising volumes of seafood from aquaculture, prices to producers are not going to trend up.

“When you are in an industry where a scarcity exists in the resource, owning the resource is a good place to be on the value-chain,” said Schwartz. “Even if the product is sold as a commodity, you are able to get good margins and returns on the investment.”

This perspective is echoed by comments from Carlyle executive Patrick Siewert, in an exclusive interview with IntraFish last week. Siewert said the move to buy into China Fishery Group was dictated by the theory that, although fishing is a tough business, strong players who own large chunks of quota can lead consolidation as weaker players are forced out of business by the rising cost of operation.

Aquaculture investments

Linnaeus’ investment in Dias -- coupled with smaller stakes in Nireus and Selonda -- could see similar consolidation happening in the Greek seabass and seabream industry.

The bass and bream sector is interesting to investors, because the industry needs capital in order to fund it recovery. But it is also seen as risky. The same could be said of the Chilean salmon farming business.

Whether private equity will play a role in providing the capital for part of the Chilean recovery is a good test of just how much risk PE firms are prepared to take upstream.

But look deeper and you see the positives of buying into a cyclical business. Look at Marine Harvest. At the end of 2009, its stock was trading at NOK 1 ($0.17/€0.13). Fast forward a year and a half and its up at NOK 5 ($0.84/€0.63).

In the long run, being the dominate player in a seafood production business, whether it be aquaculture or fishing, is going to yield rewards.

There will be peaks and troughs, for sure. But as the developing world drives up the demand for protein, controlling the quotas and the farms is going to be one hell of a business to be in.

Brands may be the safe bet, but farming and fishing offer private equity funds the chance to make major gains, if they are prepared to take the risks.

From what we are seeing and hearing, more and more are.

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