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Top Story: New hands on deck

Partnerships between ‘suits’ and ‘salts’ inject new growth into seafood businesses

By Steve Coomes
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Between 2010’s disastrous Gulf of Mexico oil spill, the near collapse of the Chilean salmon farming industry and increasingly restrictive U.S. fishing regulations, the climate for investing in commercial seafood might not appear all that appealing.

But to private-equity groups familiar with the industry’s peculiarities and profit potential, seafood businesses make sense — and even dollars. The combination of soaring global demand for the protein, advances in aquaculture and the human race’s unending craving for new flavor twists has become a clarion call to cash-carrying members of the investment set.

Investors knowledgeable in the field understand buying into a seafood company is a multi-year commitment leading to an endgame sale worth several times the initial outlay. Not a razzle-dazzle ride to super profits, but a sound play in a marketplace fraught with peaks and troughs that render even stalwart investors green in the gills.

Andrew Gould, president of Arthur P. Gould & Co., says outside investing in the seafood industry ebbs and flows cyclically, and currently the tide is rising a bit.

“We will see a continuing cyclical inflow of direct private-equity investment from institutional investors,” begins Gould, whose merchant banking company specializes in wild fisheries and aquaculture. “I think the (seafood) industry attracts the attention of these investors who notice that the industry as a whole is underfinanced and diverse.”

Translation: The commercial seafood industry will benefit from fresh capital and unification, two influences currently making modest ripples in the water. “In general, I think that larger seafood industry players who have weathered the balance-sheet de-levering of the past couple of years are in a good position to drive species- and sector-specific consolidation,” Gould says.

Grow big or go home

Two main types of buyers come to the seafood market: outside investors seeking to grow a company and sell it; and existing seafood companies eager to merge with or acquire firms to extend their capacity or diversify their business. A third buyer, such as Mindful Investors, a private equity group in Mill Valley, Calif., also has a social sub-stake in the space.

“All our investments are focused on healthy living first,” says Stuart Ruddick, general partner at Mindful, which backs CleanFish, a promoter of sustainable fisheries and aquaculture operations. “The financial returns are extremely compelling in this industry, but it takes time to achieve those. We’re looking at a five- to 10-year investment horizon and a 20 percent return.”

Adam Borden, managing director for Baltimore-based Bradmer Foods, says, plainly, “Without a financial return, investing in the seafood category would not be particularly attractive.” So while there is no surge of outside investment coming into the industry, he says “there clearly is enough activity to show (investors) opportunities.”

Borden, whose firm invests in food-production companies such as Blue Horizon Wild, a supplier of sustainably harvested frozen seafood products in Aptos, Calif., sees the fragmented nature of the seafood industry and its modest number of dominant players as an opening for companies focused on increasing topline sales.

“If you ask consumers to name some seafood brands, there aren’t many who can name more than a few,” says Borden. “So where you don’t have huge category captains like, say Frito-Lay, that’s a chance for smaller companies to gain share.”

As well as a chance for existing companies to buy others. To broaden its own product line and gain production capacity, Blount Fine Foods in Fall River, Mass., has purchased three companies in the past 12 years. CEO Todd Blount fields as many as 50 calls a year from brokers of such businesses, but finds only a couple of deals worth studying. And even then, since the company funds its purchases internally, it's cautious about what it buys.

"I'd definitely not say that other companies are ripe for the picking right now, particularly because in down times nobody wants to sell for a discount," says Blount, whose company bought Neco Foods, a seafood soup and chowder manufacturer in Lantana, Fla., in August. "We buy a company because it either gives us new distribution or a new competency. And we only buy ones that are small enough that we're not overextended or stretching ourselves too far."

Whether on the production side or the investment side, the shared goal of both groups is to grow their companies, a feat all say is a slow process in a mature market.
"In an industry like this where there are such narrow margins, you've got to build bigger and bigger businesses to generate meaningful profits," says Jeff Tarplin, CEO and managing director at New York-based India Brook Partners, an M&A investment bank that has brokered seafood deals. "In general, we're not seeing a lot of activity in protein segments, and we think that, in general, that's a function of overall profitability."

Upon learning the seafood trade typically generates modest returns, Tarplin says outside parties sail to other ports looking for more fruitful investments. Not only do private-equity groups frown on narrow-margin businesses, he says, "they hate regulation like you find in seafood. The P-E guy typically wants to buy a business at about five times pretax operating income, build it up and grow it to sell to a large industry buyer. And do we find that kind of activity in the seafood business? Not often."

Domenic Rinaldi, president of business broker Chicagoland Sunbelt, says the seafood industry isn't the sexiest market to get into, due mostly to its long history.

"It's not like you're investing in a business that's going for a patent or something new; you're attempting to profit off a business that's been in place for years," Rinaldi says. But with mature industries comes relative investment safety, he adds, and he believes those calmer waters are what some investors prefer these days. "Sometimes it's a matter of what particular part of the business you pick. For example, it's hard to ruin a distribution business, which is a crucial part of the supply chain in seafood. You'd really have to have some mismanagement to see it go away, so that could be something interesting to look into."

Terry Mackin, managing director of Generational Equity, a Dallas-based firm, hears the words "safe" and "seafood" mentioned in investment circles most commonly in the same breath as aquaculture.

"When you can control the production of seafood, investors are far more interested in that than the general fishing of seafood," says Mackin. "Knowing that you're dealing with a controlled environment builds a lot more confidence than relying on just what the oceans give you."

You've got what we need

While the industry hasn't seen a flurry of mergers and acquisitions this year, in addition to Blount's purchase of Neco, at least four other acquisitions have been finalized: The Mazzetta Co. of Highland Park, Ill., purchased Atwood Lobster of Spruce Head Island, Maine; Alliance Select Foods International of Pasig City, Philippines, purchased Spence Co. of Brockton, Mass.; California company Santa Monica Seafood purchased rival Long Beach Seafood Co., a Los Angeles distributor in business for 90 years; and Contessa Premium Foods of San Pedro, Calif., was purchased out of bankruptcy by Sun Capital Partners in Boca Raton, Fla. And in an industry as established as seafood, buying up or partnering with other established firms appears to be the most balanced approach to growth since those strategies provide immediate scale and segment penetration.

Nell Halse, VP of communication for Cooke Aquaculture in St. John, New Brunswick, says the firm regularly looks for opportunities to diversify its business both to drive revenue and stabilize its long-term position in the market.

"Regardless of the business climate, it's part of our overall strategy for growth to find opportunities like that to strengthen the company," says Halse, whose company made a majority share bid in August for Clearwater Seafoods in Bedford, Nova Scotia. "When we improve our marketplace position, we're less vulnerable to changes and adverse conditions."

Following its start in aquaculture, Halse says Cooke made acquisitions to become better vertically integrated. The firm purchased a salmon hatchery, then a processing plant, followed by a distribution company. Since then, however, the company has partnered with bream harvesters in Spain and Chile to broaden its product line and gain positions quicker in developed markets.

"Many of our acquisitions and partnerships either fill a gap (in our portfolio) or enhance what we already do," Halse says. "These are all part of our overall strategy to become globally competitive within the industry."

Finding companies ripe for acquiring isn't nearly as hard as making the deal, says Blount. Industry operators are notoriously reticent to share the details of their businesses, partly out of fear of the deal breaking down.

"They don't want to share that information unless they're in distress or they're sure the deal will go through," Blount says. "There are intense rivalries in this business, too, and that adds to the problem."

But such partnerships and purchases do happen, and, as Blount says, if all players are forthcoming, they ultimately go well. The challenges of blending each company's books and assimilating the sellers' employees into the buyer's fold are common but manageable, and the goal of combining those operations usually is achieved before long.

In fact, he calls the process "much like getting married and finding the right person" because an open relationship between all parties is necessary for success. "You have to have that with the company you partner with in order to gain trust. And to do that, you have to be willing to give up information. For the founders of a company, that's especially hard to do," adds Blount.
Halse agrees, saying some Cooke deals have gone better than others because all the facts weren't fully apparent during the due dili-gence stage.

"Sometimes the financial management challenges are the hardest, especially when those acquisitions were turnarounds," she says. "Sometimes the company is losing money and you don't have long to fix things. You have to make major changes right away."

Blount says no acquisition is simple, but he's learned to ease the process by coming to the bargaining table with skilled representation.

"You know your company, but you still should have someone like an investment banker, who knows that side of the deal, representing your company," says Blount. "You need to have someone pushing hard for your needs in the deal, too, even if they're not specifically skilled in seafood. My advice is to be as prepared as you can."