

## Private equity interest continues to grow

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At first glance, private equity firms and the U.S. produce industry do not appear to be a good match. From an outsider's perspective, our industry is hard to understand with historically unpredictable cash flows.

Mother Nature plays a significant role that is hard to quantify by even the sharpest analyst. Yet in the last 10 years, we have seen a significant increase in investment in our industry by private equity firms.

Recent investments include such high-profile companies as Bolthouse Farms, Holtzinger Farms, River Ranch, Sunrise Growers, Fruit Patch, Ready Pac and Sun World. These companies have sought out private equity for varying reasons.

At a macro level, private equity firms are interested in fresh produce for a couple of reasons.

First, and most significantly, fresh produce is a growth category. The trend toward healthier eating continues, which bodes well for our industry.

Second many produce companies have a land base. In historic terms, land has been a very safe investment. Much of our industry's agricultural land is located in states with high population growth rates, such as Florida and California.

To fully explore the interest private equity has in fresh produce, it is important to first understand the differing types of these firms, which can be segmented into four categories.

- Angel investors invest in pure start-up companies. They tend to be wealthy individuals who are familiar with the market segment in which they invest. Their investment horizon is usually less than five years as they look to "give birth" to a new company without the desire to "raise" the business.
- Venture capital firms tend to focus on early stage companies. The venture capitalists bring much-needed capital and a wealth of experience in the nuances of growing start-ups. The best example of this that has touched our industry in the last 10 years is the dotcoms. Many of these companies did not survive.

The venture capital business is synonymous with high risk and high reward. Their investment horizon is usually five to seven years as they look to exit the business through sale to a strategic investor or initial public offering. Strategic investors are those in a similar industry (e.g., an apple shipper buying another apple shipper) that likely create the most efficiency by acquiring a peer company.

- A third type of private equity firm focuses on alternative or distressed debt. These funds specialize in making the tough decisions to allow companies to survive and thrive during difficult times. They participate in varying types of lending. Their primary goal is to stop the bleeding as quickly as possible. Their exit horizon is usually five to seven years as they look to replace some of their equity with debt or sell to a strategic buyer.

- The private equity fund or leveraged buyout fund focuses on mature companies. These funds provide their targets with capital, ownership transition opportunities and management discipline.

Oftentimes, they prefer that the existing management stay in place, yet the fund is in control. The allure of this strategy provides for the current ownership the opportunity to take some “money off the table” while maintaining their role in the company. Once the new owner is in place, they will place a high emphasis on growing the company.

Bolthouse Farms is probably one of the best examples of venture capitalists coming in and allowing some ownership to exit the company while maintaining the core management. It appears Bolthouse is on a strong growth track as it has grown well beyond carrots with a strong position in high quality juice and new products in the dressing category.

The exit horizon for leveraged buyout firms is also five to seven years as they look to sell to strategic buyers or make an initial public offering.

#### Providing leverage

In the credit-crazy world of the last 10 years, private equity firms have thrived on the leveraged buyout. For example, they may buy a company for \$100 million by bringing \$20 million of cash to the deal and placing the rest in the credit market. Thus, the deal is 80% leveraged, increasing their return on equity.

Debt has been easy and inexpensive to access. Those firms that employ this strategy are betting they can build a company while adequately servicing their debt. The challenge with the produce industry has always been the lack of predictable cash flows.

As the credit markets have dried up, it would be logical to conclude that investment activity in the fresh produce space will slow as well. However, there is still plenty of private equity available.

Global private equity firms have \$700 billion under management, with over \$400 billion in the U.S. alone.

Their interest in fresh produce may never be stronger as they look for investments requiring lower debt.

The time appears right for a growth of private equity investment in our industry.



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