ESG the focus in launch of aquaculture-focused Peritus Capital

By Cliff White
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A new boutique investment firm is seeking to make an impact in the aquaculture sector by tying capital financing in with the integration of environmental and social governance (ESG) principles.

Led by a former managing partner at Norwegian asset finance firm Lighthouse Finance, New York City, U.S.A.-based Peritus Capital hopes to provide financing to aquaculture operations with a sustainability focus.

SeafoodSource interviewed CEO Howard Tang to discuss his goals with the new firm and his views on seafood sustainability.

SeafoodSource: What is your background and your previous experience in investing in seafood ventures?

Tang: I started in the finance sector working at a boutique investment bank, working with large insurance companies to acquire smaller ones, and then in the internet start-up world with The Mergermarket Group, where we took a USD 100 million (EUR 84 million) valued business and grew it to a USD 1 billion (EUR 843 million) valuation. That venture was subsequently sold by New Spark Media, a VC fund, to Pearson then BC Partners. BC Partners sold it to the Ion Group for a GBP 1 billion (USD 1.3 million, EUR 1.1 million) plus valuation. I stuck around through the sale to BC Partners. I was Global Head of their Fixed Income Research team when I left.

Then I got involved in Lighthouse [Finance], as they were looking to expand out of Europe into North America. We put investment into the business and were able to take a look at some projects they were working on. It turned into a really successful joint venture – we ended up funding nearly USD 100 million (EUR 84 million) worth of projects for global aquaculture companies, full value-chain from egg to fork essentially. We said, OK, this is working out quite well, and we wanted to make [an] expansion into other areas.

At Lighthouse, we provided financing up and down value chain: feed facilities, hatcheries, processing equipment, vessels for de-licing – basically, value-chain critical assets for global aquaculture concerns. And then, of course, we were involved in a number of land-based facilities looking to build out their growth of Atlantic salmon on land, as well as other species such as eel, yellowtail – it was across the spectrum in terms of our interest. I would say 80 percent of what we were looking at were developed aquaculture businesses where we would provide complementary financing to their main credit facility, we just couldn't be their main creditor. Those were companies with multibillion-dollar balance sheets. What we were trying to do was additional financing on heavy cap-ex that they needed. The other 20 percent was really involving ourselves in innovations happening in the industry.

SeafoodSource: Why did you decide to break away from Lighthouse?

Tang: Unfortunately, with that partnership, we were going in different strategic directions. We decided that we wanted to broaden ourselves into the ESG space, because I think it's the fastest-growth area of corporate finance that I've seen in the last two decades, and we wanted to pursue opportunities that supported that space. We also saw in the aquaculture and seafood sector that, while it was developing, it wasn't as mature a focus on ESG in that particular area. That was impetus for launching Peritus Capital, separating from the Lighthouse team, and setting ourselves up as an investment firm focusing on seafood and aquaculture. We're also planning on journeying into alternative proteins and renewable energy, areas where there is a lot of complementary institutional overlap.

Our business now is composed of six individuals, most of them in the U.S. – four partners here in New York City, one individual in South Carolina, and a business development person in Portugal that takes care of our Spanish and Latin American business. Some are childhood friends, others I met at the Mergermarket Company, now the Ion Group, and some from when we connected while we were at Lighthouse. One of the things they didn't quite have fully established is an infrastructure for financing the clients that they were working with. They had tremendous knowledge and experience in aquaculture but lacked capital market expertise that our team's background was able to bring in. So we brought these partners into the Lighthouse business, and made a connection with a joint venture. Now, with that ending, we are shifting them over to Peritus.

SeafoodSource: How is what you're doing with Peritus different than what you were doing at Lighthouse?

Tang: We were looking at the world of seafood and aquaculture a little differently than original Lighthouse team. We did have some minor disagreements in terms of strategy, which in part led us to make this move, but I think the driving reason was really the growth and development of the seafood and the aquaculture space and our desire to focus on sustainability. We've already been seeing it across the board – green bonds are one of most significant developments in seafood financing this year, with the latest move into that particular asset class coming when Grieg announced it would launch a green bond to develop sustainability throughout their value chain. You can also see that movement in many annual reports of some of the largest seafood companies in the world, where they've added in a section on ESG and sustainability, how they're meeting the United Nations' Sustainable Development Goals and integrating sustainability initiatives across the board.

Especially with politics being the way they are, it's great to see the private sector picking up the flag and pushing it forward and really driving change. Because of that, we are saying, here's a very significant trend that's beginning to touch seafood and aquaculture in a very significant way. As a group, we feel we're doing important work in terms of supporting financing for businesses supporting the integration of best practices and making sure their value chains are sustainability-oriented, that they're not overly taking from environment, that they've got diversity policies for employees and staff, that they're utilizing technology that minimizes the waste that goes into the environment.

As a firm, we also diversified a bit from what we were doing at Lighthouse in our approach to financing. Most of the opportunities we were working on there were on the liability side of balance sheet, bringing in private debt to companies that needed to leverage equity they had in their businesses. At Peritus, we're going to maintain that side of the business but broaden it to be more equity-focused. There are so many projects were seeing that really need equity to launch and help them to develop and grow. We want to be involved in innovative companies.

SeafoodSource: What triggered your interest in ESG issues?

Tang: The start of this really traces back to when Larry Fink, the founder of Blackrock, came out with a public letter pushing an across-the-board corporate focus onto sustainability and environmentalism. He called for companies to minimize the environmental impact of their supply chains. I thought that was a wonderful example of how private capital markets can push for change in corporate behavior. There's nothing wrong with being a not-for-profit organization, but to really create change, the private sector has to work hard to initiate change at the C-suite level to push change across their own organizations. It's going to take the private sector to adopt new practices on their own – it's not going to come from government. And in the past few years, I've been relieved to see a fairly broad acknowledgement from industry – gathering from many conversations I've had across institutions – that investors are driving companies toward environmental goals. Conversations are coming up in how companies are calculating their environmental impact, their carbon footprint, and asking how they can improve elements of their value chain. And that's the push making ESG top-of-mind for the CEOs of major companies. Now, when you look at public filings of many European public companies in the seafood sphere, big Atlantic salmon farmers like Mowi and Grieg have sections in their annual report dedicated to diversity, what they're doing about climate change, also that's starting to happen with more and more publicly traded companies in the U.S. as well.

SeafoodSource: So your theory is that environmental change is going to come from the private sector versus the public sector?

Tang: I don't think change will be coming from the government side of things. There's a lot of disfunction with various governments, not just in the U.S., but around the world. Whether we like to admit it or not, on the government policy side of things, there's been a little bit of a lag or an unfortunate breakdown of a push for a focus on sustainability.

From my perspective, the reality is money and capital are needed to help to influence the right types of policies to move forward. The connection of sustainability to capitalistic and private enterprise pursuits is really important because that capital will actually drive these organizations to do the right things and take the right actions in their supply and value chains. These are things that might not have been on top of their to-do lists if they were not driven by consumers and investors.

On the consumer side, my own personal experience is when I'm shopping at the grocery store, I look very carefully at the packaging of the seafood I buy to see whether it's farmed or wild, if it has an eco-label – that changes my own personal behavior in terms of buying those products. All my friends are just as cautious about it. Lately, it has been easier to do because these companies like Whole Foods have been making it easier to trace out those things – there seems to be an awareness that the consumer wants it, and that's part of a broader recognition on the part of companies that this is something important to consumers.

SeafoodSource: What made you home in on aquaculture as an investment opportunity?

Tang: As we learned the vertical, we saw the tremendous potential of the industry versus terrestrial protein such as pork, cattle, and poultry. We also saw the Earth needed a transition from wild-caught to something farmed, which was the case for terrestrial protein a long time ago – going from catching things in the wild to ranching them to finally farming them. And aquaculture and seafood we were in an earlier stage of that transition, that's really what attracted me to the space. Ultimately, when we started discussions with Lighthouse, we were learning more before making an investment into the team. I spoke with friends at the major investment banks and one of the things I learned from that feedback, is that they always mispronounce aquaculture – they say "agriculture." So they really knew nothing about it. It taught me, as a niche, it could be an interesting opportunity. The global nature of the space, even though a tremendous amount of capital investment has gone into it over time, there's a lack of industry knowledge even from corporate practitioners.

SeafoodSource: Does the wild-catch sector not interest you as much? Or do you view it as less attractive from an investment perspective?

Tang: At Lighthouse, we did very little with wild-catch businesses, not because we were avoiding that area, but rather because we saw more growth opportunities coming from global aquaculture businesses and the development of fish farming. From a personal interest perspective, I think there's a little bit more of a focus on sustainability when the business is not wild-catching … I do think there are wild-caught business funnels that have strong focuses on protecting oceans and not overfishing quotas, but from the standpoint of where the world needs to go to, more people are going to need to get their protein from fish farming if we are going to continue to have the huge population growth that is projected globally.

SeafoodSource: What about the land-based fish farms – how do you perceive them as an investment opportunity?

Tang: There are a lot of land-based projects now looking for equity and debt. It's great that most if not all of them are focused on having a minimal effect on the ocean, on their use of water, how their waste is going into the natural environment, and their overall efforts at sustainability. But let's be honest, there are not a lot of successful land-based farms in the world. It's truthfully hard to say they will be able to translate their efforts into the kind of premiums they'll need to remain viable.

SeafoodSource: What other opportunities are you hoping to invest in at Peritus?

Tang: We want to be very diversified in what we do, and our interest in aquaculture from an ESG perspective dovetails with alternative protein-makers and renewable energy providers. We have an intention to invest and support the businesses that we're working with, but much of our interest is to be a supporter of these businesses, to bring in finance from an institutional investor base, and for them be partners with us in these companies. A lot of the capital we bring in will come from these institutional investors.

One project we are working on is with a water tech company that we've also invested in. Basically, this wastewater tech can take waste from food processors like seafood processing factories and separate out fresh water and organic waste, then turn the organic waste into a high-protein material that can be turned into aquafeed or terrestrial feed. We want to use this technology to work with companies with wastewater and turn that into a revenue stream for them instead of a pollution stream. Instead of them having them send it to a landfill to be treated and thrown away, or dumped into the ocean, they can turn it into a productive value-generating material.

Food waste is such a significant issue in the U.S. – statistics show about 40 percent of our food gets either landfilled, incinerated, or otherwise thrown away. That's so very sad for many reasons. Additionally, across the world, we are beginning to have a freshwater crisis. There is less than one percent of freshwater available for human consumption through the natural environment, and many places around the world are beginning to see a drying-out of their aquifers and are having to go deeper into their aquifers in order to get fresh water. So to us, this project is exciting because it addresses two main issues we see as global environmental issues.

In particular, we see this as an opportunity for land-based fish farms. For them, one of their key issues is getting the necessary permits they need to establish themselves – in particular, permits to draw from freshwater sources and to send wastewater to municipal waste streams. Those permits take a tremendous amount of time to secure. I was just talking with an RAS developer and he said securing those permits took seven years in one of the states he was looking to develop in. That's such a gating issue to the development of land-based farms around the world and will only become worse as regulations continue to get stricter and stricter.

We think that conversion is maybe a USD 2 billion (EUR 1.6 billion) opportunity, just taking that waste and turning into a protein product. We're hoping to co-locate with land-based aquafarms and with food processors. Right now, we're about to conduct a pilot program in the U.S. Northeast that's in its first stage. We'll be naming the company we're working with in the near future and we're hoping to get state and federal support.

SeafoodSource: How has the seafood industry changed since you started working in it?

Tang: There has been almost a tidal change from when we started until now, and that was only three to four years ago. I think there is so much more activity in seafood and aquaculture compared to even just a handful of years ago. When you think about larger asset managers, KKR, Carlyle – the traditional buyout or private equity firms – many of these organizations have developed pockets for venture opportunities, primarily looking at start-ups. But traditionally, they have stayed away from ag[riculture], aquaculture, and other commodity-oriented investments due to higher perceived risk. But that's changing, and I think it's because traditional private equity has been seeing the impressive growth of technology start-ups that are focused on ag-tech and aquaculture start-ups. They see there are opportunities there, and as a result, that capital is starting to look towards our industry.

To give you an example, there are companies going public on the Oslo Exchange with what I would say is limited operating experience but certainly the right macro thesis – either salmon farming or fish farming in general – that have been extraordinarily successful. They're benefitting from low interest rates, but I also think institutional investors have larger and larger appetites for this particular category. Many family offices we work with, when we had conversations with these guys years ago, told us they thought aquaculture was an interesting space but that they were concerned about commodity risk and potential volatility. So they said, "Why don't we talk about this again when it matures a bit?" These days, those calls are coming in … those same people we talked to a couple of years ago are saying, "Let's revisit those projects we were talking about." I think there has certainly been a change in the overall assessment of the sector, especially in the institutional capital base, from sovereign wealth funds, among private high-net-worth individuals, and from people that have been operators in seafood. Much of the private capital coming into the seafood industry is originating from those previous executives who are now these institutional investors.

Photo courtesy of Peritus Capital


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