

# PE Hub

By: Obey Martin Manayiti  
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## PE DEALS

# Fish: It's what's for dinner, as PE firms like Butterfly and Equilibrium test the waters

Earlier in November, Butterfly Equity, Equilibrium Capital and a US public pension fund agreed to provide project financing for Pacifico Aquaculture.

**B**eef, pork and even chicken dominated the menu at American dining tables until recently. But these days, seafood has started to gain ground, as many Americans diversify their diet. Private equity firms are taking the bait, investing in all kinds of aquaculture, which the National Oceanic and Atmospheric Administration defines as “breeding, rearing and harvesting of fish, shellfish, algae and other organisms in all types of water environments.”

Earlier in November, Butterfly Equity, Equilibrium Capital and an unnamed US public pension fund agreed to provide project financing for Pacifico Aquaculture, a producer of striped bass headquartered in Baja California, Mexico. Butterfly has been investing in Pacifico since 2017.

It's a deal that's emblematic of the trends in PE aquaculture deals, and PE Hub interviewed several of the dealmakers involved.

“There is a continual increase of seafood taking up the center plate,” said Howard Tang, the CEO and managing partner of Peritus Capital, a financial advisory firm based in New York that advised Pacifico. “Terrestrial proteins is a mature industry; whereas aquaculture has a lot of growth ahead of it based on the increasing demand.”

The new funding from Equilibrium Capital and Butterfly will be used to finance Pacifico's nursery facility in Mexico's Baja California, to grow striped



Howard Tang, Peritus Capital

bass, one of the most popular fish in America. Founded in 2010, Pacifico has developed proprietary technology to produce ocean-raised striped bass.

There are many factors attracting PE firms to aquaculture investments, including geopolitics.

“If you look at the war in Ukraine and Russia, the Middle East, and the supply chain issues post-pandemic, food insecurity has grown,” Tang explained. “It's now much more difficult for food to get across the world and onto people's plates. This creates opportunity for more local food production, so the private equity world is taking note.”

The industry is still in early innings.

“There is a lot of complexity in the

industry,” said Tang. “You must deal with construction risk, environmental regulations, fish biology, and there is a tremendous capital requirement. It takes time for investors to understand and get comfortable with these risks.”

With this said, Tang added, “we do see more institutional investment in the space. Ocean sustainability, food security, demographics are driving more investors into aquaculture because the reality is that we can't continue to overfish our oceans.”

“This new capital is going to build out a huge nursery which lets us produce essentially 10x the amount of fish going out into the ocean,” Butterfly CFO and managing director Peter Tang told PE Hub. He said Pacifico has proven out the science, research and development, as well as the technology to recreate the reproduction of striped bass in a controlled environment.

Having invested in the business for six years already, Butterfly is doubling down because, “after the nursery facility is complete, and we dramatically increase the revenue and the volume, we think the business will be much more valuable versus today,” said Butterfly's Tang.

Equilibrium's involvement is going to “turbocharge that growth,” added Tang. The two firms have other investments in which they grow food in a controlled environment.

“Pacifico is a high-growth company with an exceptional product and

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experienced team using on-land aquaculture in a tried-and-true fashion, which is to grow juvenile fish before ocean grow-out,” Nick Houshower, managing director at Equilibrium, said. “It had the combination of factors we were looking for in our first asset investment in the aquaculture industry.”

Dustin Beck, co-founder and co-CEO of Butterfly, said to scale the project, the focus in the immediate term is to build the nursery, increase efficiency in terms of operations, invest in automation and have a sales force that can cross-sell other high-value species. “Once we graduate from getting that done, we will have a lot of options to expand our footprint, whether through M&A or partnerships.”

## Demand for seafood

“From the very early days of Butterfly, we saw aquaculture as just an exciting place to be because it’s the fastest growing source of animal protein for the last 40 years and that trend is only accelerating,” Butterfly’s Tang said.

There is more demand for striped bass than what they can produce, according to Tang, and therefore the nursery will give them the ability to grow the fish faster at a lower cost and decrease the time required to bring the fish to market.

Despite lifestyle changes, the appetite for seafood is also rooted in the proliferation of international flavors in American restaurants, especially Asian, European and Mediterranean cuisine. “That trend is driving demand as well,” said Tang.

Specifically for striped bass, Beck said: “It’s a very versatile fish in terms of who is eating it and for what occasion, and for us that is highly attractive.”

As inflationary concerns continue, Butterfly said the nature of the Pacifico investment insulates against price pressures. The industry has high barriers to entry and has attractive pricing characteristics. “We have a lot of chefs, restaurants and retailers that love our



Dustin Beck  
and Peter Tang,  
Butterfly Equity

fish,” Tang said, adding that because they are the only suppliers, “we are able to pass along any inflation to our customers.”

In many cases, according to Peritus Capital’s Tang, deals in this industry ought to be de-risked. “We do see syndication in the market and in some of the projects that we work on in order to de-risk or diversify portfolios.”

As far as deal details and monetizing the investment, Houshower said: “We are providing project financing for Pacifico’s greenfield nursery project. Once the nursery is complete, Pacifico will sell it to us and we will lease it back to them. Our returns will come from their regular rental payments, which are set based on the risk profile of the asset and tenant.”

## Climate change

Producing seafood is more efficient in terms of fewer carbon emissions, Beck said. In agriculture, cattle ranging is one of the worst carbon emitters. “Not only is it a healthier with premium protein,” Beck said about fish, “but it also has a lot of kind of tangible benefits as we think about the environment too.”

But the business can potentially be harmed by changes in the weather and other environmental fluctuations or water pollution. To mitigate that in the Pacifico investment, Tang said, “The farm site that we currently do our grow out is a

very well protected site,” adding that it’s not next to a major city or the mainland of the California coast. “So we try to find the highest quality assets that are the most protected from any potential environmental changes.”

Equilibrium’s Controlled Environment Foods strategy focuses on building resilience into our food system, Houshower said. “Our thesis dictates that bringing aquaculture on land, like bringing certain vegetable production indoors, allows for greater control, less exposure to environmental volatility, and more efficient use of resources.”

Beyond the Pacifico deal, private equity firms are investing in aquaculture.

Here are details on a couple of other deals PE Hub and PE Hub Europe have reported on:

In August, Goldman Sachs Asset Management completed the take-private acquisition of NTS’ ownership stake in Frøy, Sistranda, Sor-Trondelag, Norway-based provider to Norwegian salmon farmers.

In February, Cadman Capital Group, a Toronto-based PE firm, announced it had acquired Quoddy Savour Seafood, a land-based seafood farming and processing facility based in Pennfield, New Brunswick. The firm has similar investments in its portfolio.