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What investors see when they look at seafood

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26 May 2016 James Wright



Aquaculture's growth trajectory and quality control are positives, while confusion at the supermarket is a negative, say speakers at IntraFish Seafood Investors Forum



Farmed salmon net pens. Photo by Morenovel, courtesy of Adobe Stock Images.

Despite myriad environmental and health benefits of seafood, consumption among U.S. consumers lags far behind other developed nations, on the [shy side of 15 pounds per capita](#) annually, despite incremental gains the past two years.

While some say the low intake of omega-3 fatty acids – available only via marine sources like oily fish – is contributing to a [human health epidemic](#), certain investors see stagnant seafood consumption as a reason to proceed with caution when evaluating opportunities in the sector. Seafood, as always, comes with a fair amount of risk.

At the IntraFish Seafood Investors Forum in New York last week, a number of investors, seafood executives and biotechnology entrepreneurs dished on the state of the industry and current business opportunities. Naturally, big aquaculture companies (salmon farmers and their omega-3 rich product) featured prominently, particularly publicly traded giants like Marine Harvest (Norway) and Bakkafrøst (Faroe Islands), the CEOs for which both presented at the forum.

A prominent U.S. retailer and a marketing and branding expert also offered insight into how consumers view seafood. Because what they're buying – and, more to the point, what they're not buying – influences whether deals get done upstream.

Price is paramount

David Wagner, VP-seafood merchandising for retailer Wegmans Food Markets, said that seafood's biggest competition is within the store. The per-pound cost of seafood is often much higher than the cost of other proteins, and smart retailers tailor their offerings to reflect regional preferences.

Case in point: Wagner said that seven Wegmans stores in Virginia, near the Atlantic coast, sell more seafood than 24 stores in the Rochester, N.Y., area, which is closer to the Great Lakes.

"It comes down to price," he said. When fish fillets are tagged at \$10.99 to \$14.99, the \$1.99 chicken is more likely to end up in the cart. "The meat department gets more traffic, but the seafood counter gets a lot of educated consumers."

Ironically, this can be bad news if counter staff isn't trained and educated about the complex category they're now the face of in the store.

Trust and safety matter too

Seafood generates far more questions than beef, pork or poultry, a function of hundreds of species from dozens of countries placed in multiple sections of the store. Wagner said customer complaints about the tilapia from China the stores once offered prompted the company to find a closer source. But the price tag on the new product was ultimately too high.

"It was like pushing a boulder up a hill," he said. "The fastest growing department in our company is our consumer affairs department. When customers ask why you are sourcing something, you need to have an answer."

Ashley Bouldin, director of The Food Group, a New York-based advertising, marketing, content and brand engagement agency, said divided messages from the seafood industry are holding the category back.

"What I find is that the animal protein sectors all have commodity boards that work together to give consumers a relatively standard message," she said. "That is a big part of what the seafood sector is lacking: one voice to tell the whole story. No one brand is going to be able to reach every single consumer. Together you can start to tell the same story, how these things work, and help consumers get over the mistrust they have with the seafood sector."

Seafood has a story to sell – into China

What sells is a product with integrity and a back story demonstrating responsibility and sustainability. With consumers wanting a greater connection to their food sources, seafood is a standout.

Clearwater Seafoods CEO Ian D. Smith was one of just two speakers at the forum from the wild-caught seafood sector, but he offered a glimpse into what makes seafood a compelling category.

"We're not just selling seafood," he said. "We're selling scarcity, sustainability, traceability, provenance."

The only trouble is these special attributes don't prompt many consumers to dig deeper into their wallets, he said. "It's not totally analogous to organic. Consumers want healthy food, and they want to know where it comes from. Our retail partners and foodservice partners tell us the same things: They want it but are not willing to pay more for it. 'You have to deliver. But don't pass the costs on to us, we won't be able to pass them on.'"

[Aquaculture is] much more a part of the everyday conversation in the world of finance. There are still barriers to entry for private equity, tremendous technical barriers.

Smith was bullish on the booming China consumer market and its flourishing e-commerce companies. Clearwater's annual results have been bolstered by sales into China, and the company passed the \$500 million (Canadian) sales mark for the first time last year.

The bump is clearly no fluke, as Clearwater built relationships with family-owned businesses in China that are now multi-million dollar enterprises. Smith joked that company's success there is "an overnight sensation that started 25 years ago."

Farmed fish are convenient

The story all consumers want to tell about seafood is how great their meal turned out. They want the cooking-at-home experience to be easy, and retailers like Wegmans see themselves as partners in their success.

A question from the audience regarded the size of the fish that retailers buy, and whether growing and marketing "plate-sized" fish – one to two pounds each – could help the perception of the market, and therefore the industry by producing more fish and less waste. Wegmans is one of many retailers that appreciates consistency.

"We want the customer to be successful," Wagner said. "We try to go after specs [from suppliers], and spec sizes – 6-ounce portions so they can be successful all the time. That's easier to do with farmed seafood."

Farmed fish are the future

Projections about future protein needs — global food production must roughly double in the next 30 years to meet a global population expected to swell to 9 billion — are compelling and similar numbers appeared in several of the speakers' presentations. But with aquaculture still dependent on finite marine resources, how can production grow at such a rate?

Alan Shaw has the answer, and it's biotechnology. The CEO of Calysta was brimming with confidence about his company's FeedKind Protein, a single-cell protein – think tofu, marmite, vegemite or Quorn – made from oxygen, nitrogen and natural gas.

"It's a direct replacement for fishmeal in almost every respect," Shaw said, who identified the Gulf Cooperation Council region – United Arab Emirates, Saudi Arabia, Oman, Kuwait and Bahrain – as an ideal location for FeedKind production. Shaw said the GCC would be a "perfect place" to build a 200,000-metric-ton plant that would supply the world's most productive aquaculture region, Southeast Asia and China.

And it can only work if it's done on a large scale, he reiterated.

"No one wants a science project. This is very real," said Shaw. "In the last 12 months we've gone from something that looks good to something that is absolutely real and will play a major role in transforming the industry. This is the innovation that everyone has been looking for."

Fish can be farmed anywhere

AquaBounty Technologies, the biotech company that has won approval for its genetically modified (GM) salmon in both the United States and Canada, has generated more controversy than perhaps any seafood company in existence, yet they haven't sold a single fish.

But the company's technology, which shortened the life cycle of farmed Atlantic salmon from roughly three years to 18 months, could also be the boost that land-based recirculating aquaculture systems need to become economically viable, said Ron Stotish, president and CEO.



Ron Stotish, president and CEO of AquaBounty Technologies, presented at the IntraFish Seafood Investors Forum in New York.

Stotish said he was “somewhat embarrassed” by the fact that the United States consumes so much farmed salmon but produces so very little of it. “We don’t have the natural features of Norway or Chile, but there may be ways to mitigate those limitations.”

Land-based salmon farming facilities could feasibly work anywhere, and if they are placed in close proximity to major metropolitan areas, an environmentally friendly product looks that much better with limited distribution costs, he argued. Not everyone is bullish on land-based aquaculture, but on the other hand, very few are dismissing it out of hand.

Aquaculture is a mystery no more

Not only is production technology advancing, but aquaculture is no longer a foreign-sounding word, said Michael Donner, president of Pontos Aqua Holdings LLC.

“In conversations with the private equity industry, you used to say ‘aquaculture’ to people and they’d think you said ‘acupuncture,’” he quipped. “It’s much more a part of the everyday conversation in the world of finance. There are still barriers to entry for private equity, tremendous technical barriers. And the industry is very relationship-based. With time, that will become, as with all other markets, more efficient, but we have a way to go.”

Want short-term gains? Maybe look elsewhere

A panel of seafood investors discussed their individual investment mandates and the overall climate surrounding the industry, and agreed on one point: Aquaculture is where the money is going.

The outlook for aquaculture is strong, particularly for the patient. When asked for his three- to four-year outlook, Thor Talseth, portfolio manager at AMERRA Capital Management, preferred to look 10 to 15 years ahead.

“There will be a transformation of the seafood industry. Capital will find the good companies, there will be consolidation, there will be industry leaders. We need to take aquaculture and wild-capture to the next level,” he said. “We believe that this period of time is a golden opportunity if you’re able to identify the right investments.”

However, the opportunities may fall to larger investment firms, he added. “Very few banks are comfortable with the risks associated with seafood.” A couple of days after the forum, when Talseth said AMERRA was looking at up-

and midstream businesses in the Americas and Europe, the firm acquired a 90 percent stake in Andromeda Group, a Greece-based vertically integrated sea bream and sea bass producer.

Going forward, the names in the headlines may change. Henning Lund, head of seafood equity research for Pareto Securities, said to expect the unexpected: “I think we’re going to see some surprises when it comes to players. More of the investment community are interested in this high-growth industry.”

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At Fish 2.0, it's seafood, Silicon Valley style. Aquaculture companies gave their best pitches to investors and two left Palo Alto, Calif., as winners. Founder Monica Jain says the competition highlights a financial gap that must be bridged for the industry to advance.

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