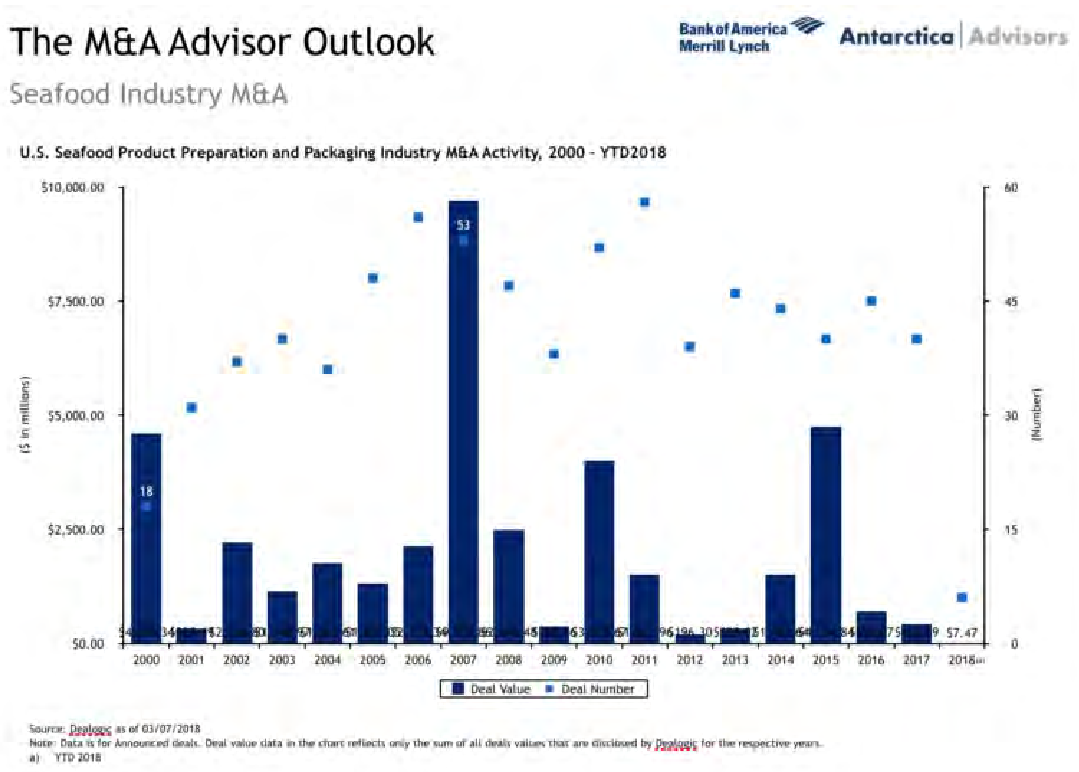
Boston panelists: Lots of M&A talk but valuation ‘disconnect’ stops deals from getting done

By Jason Smith March 20, 2018 17:05 GMT



BOSTON, Massachusetts, US -- There's a lot of factors in the seafood sector right now that would suggest the pace of mergers and acquisitions (M&A) is destined to heat up soon.

But for all of the talk, the pace of US seafood dealmaking slowed in 2017, at least for "announced" deals, according to a recent presentation made by bankers and deal advisors speaking at an M&A panel at the Boston seafood show.

While money -- interest rates -- is still "cheap" and outside investors are increasingly eyeing opportunities in seafood, a "disconnect" between would-be buyers and sellers over what firms are worth is one of the reasons more deals aren't getting done, panelists said.

"To me, I think the big news over the last year is that not much changed," Jason Brantley, a Seattle, Washington-based senior vice president at Bank of America Merrill, said.

Pace of deals

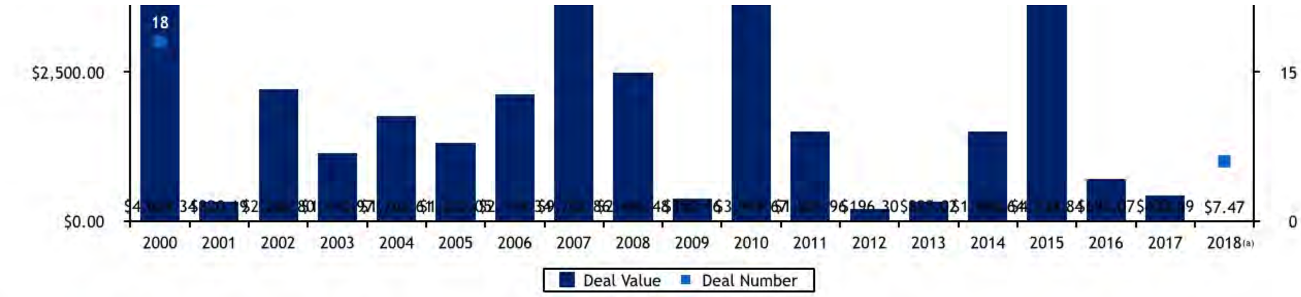
According to statistics compiled by Dealogic, there were only 40 "announced" deals that took place in the "US seafood product preparation and packaging industry" in 2017 with a total estimated value of $432 million, compared to the 45 announced deals that took place in 2016, worth $695m. So far in 2018, six deals have been announced to date worth $7.47m.

According to those statistics, the number of announced transactions closed in the last five years in the US has remained stable.

Those figures are an imperfect gauge of sector M&A as many transactions take place between privately held family companies and financial details are often withheld.

Still, Brantley said, there's a lot of waiting going on.

“I’ve had variations of the same conversation probably ten times in the last two days," he said on March 12. "'I’m not hearing a lot. Are you hearing a lot?' People feel like they must be missing something because they’re not hearing a lot. I’m sort of relieved because I’m not hearing a lot either.”



Source: Dealogic as of 03/07/2018
Note: Data is for Announced deals. Deal value data in the chart reflects only the sum of all deals values that are disclosed by Dealogic for the respective years.
a) YTD 2018

Brantley joked that he was disappointed in fellow panelist, Larsen Mettler, a former vice president at US-based KeyBanc Capital Markets who in 2016 joined major Alaska salmon processor Silver Bay Seafoods as its chief financial officer, because that firm hasn't been acquisitive as of late.

But Mettler explained that's because in a lot of cases valuations are too high for Silver Bay's tastes.

"All these guys are doing their jobs," Mettler said of his fellow panelists. "Deals are becoming more competitive every year. We typically look at transactions, if we can't make a 20% to 30% return on investment we won't take it."

Company values are quoted as "multiples" to their earnings before interest, taxes, depreciation and amortization.

"We're seeing those multiples go up and having those transactions be more scarce," Mettler said. "I think the deal valuations are pretty high right now. It's probably a good time to transact if you're looking to sell."

Favorable trends

Ignacio Kleiman, the managing partner of M&A advisory firm Antarctica Advisors, said that the convergence of two major trends will be the driver for more dealmaking in the future. The first is the well publicized growing demand for seafood globally, driven in part by burgeoning Chinese demand. The second is that wild stocks are largely at capacity, which is allowing wild-caught fish to fetch a premium and opens opportunities for aquaculture.

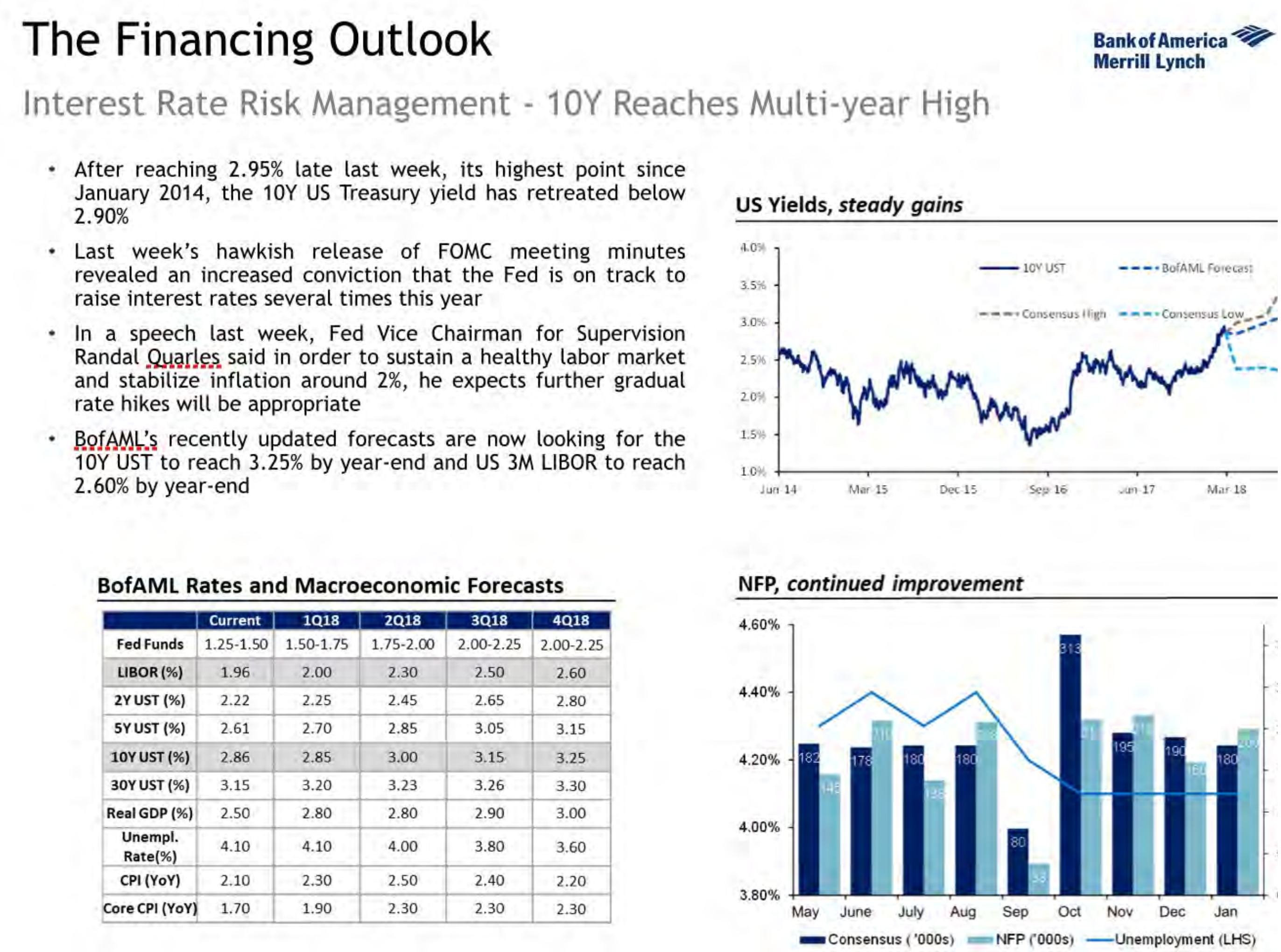
Increasingly, vertically integrated firms with both access to resource and access to markets enjoy the thickest profit margins, and the highest valuations, he said. Additionally, the seafood supply chain is ripe for consolidation.

"There's different sizes and there's different values and that has to do with the fact that it's very fragmented, it's a very complex value chain, it's a very global industry and therefore there's a lot to do to continue to make it more efficient and more integrated,” he added.

Brantley said that the prolonged period of relatively low interest rates could end as recently enacted tax reform in the US and other macroeconomic factors could push rates up.

“While money is cheap, the expectation is that it’s going to get a little more expensive and we think that in the near term 2018/19, that could drive additional M&A activity because people are going to want to take advantage because they see rates moving up,” he said.

As part of the tax reforms, there were reductions to inheritance taxes and fears that these could be temporary creates a "window of opportunity" for family owned seafood firms looking to sell, Kleiman said.



	Current	1Q18	2Q18	3Q18	4Q18
Fed Funds	1.25-1.50	1.50-1.75	1.75-2.00	2.00-2.25	2.00-2.25
LIBOR (%)	1.96	2.00	2.30	2.50	2.60
2Y UST (%)	2.22	2.25	2.45	2.65	2.80
5Y UST (%)	2.61	2.70	2.85	3.05	3.15
10Y UST (%)	2.86	2.85	3.00	3.15	3.25
30Y UST (%)	3.15	3.20	3.23	3.26	3.30
Real GDP (%)	2.50	2.80	2.80	2.90	3.00
Unempl. Rate(%)	4.10	4.10	4.00	3.80	3.60
CPI (YoY)	2.10	2.30	2.50	2.40	2.20
Core CPI (YoY)	1.70	1.90	2.30	2.30	2.30

'Unreasonable expectations'

The panelists agreed that seafood companies, those that control access to resource as well as processors, can expect to fetch multiples of 5x EBITDA to 10x EBITDA.

Branded vertically integrated companies can fetch valuations of 10x to 12x EBITDA, which is a bit too rich for Mettler's blood.

"Those 10 to 12 times valuations are hard to stomach," the Silver Bay CFO said. "We're not always seeing returns there and like I said, if we're not going to get 20% to 30% on our money every year we're not going to do it."

He added that although valuations "are getting a little bit inflated", Silver Bay can make a deal work if the "synergies", efficiencies that a deal can bring, can add extra value.

Kleiman said that sellers of seafood companies would do well to have "reasonable expectations".

"The worst competitors for us in this market are our own clients when they come with unreasonable expectations and don't accept who they are or what they are," the M&A advisor said. "Just because one company seven years ago traded at 8x, it doesn't mean everyone is valued at 8x EBITDA. Every company is different."

Family names are not necessarily brands and won't fetch a premium. Premiums come from investment in vessels and plants and good management, he said.

"People are not prepared to pay for your family's reputation, they're not prepared to pay for a name that you call a brand but the market reads as a stamp on a box. If you want to get 'branded company' value, that brand should have market pull," Kleiman said.

Brantley added that he believes the "disconnect" due to parties differing views on price prevents deals from closing.

"People are talking but very few things get done because there's just that disconnect between owners and buyers. They're thinking about it in different ways," he added.

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