

New partnership puts millions in play to fund aquaculture projects

By Jason Smith

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A new joint venture between a Wall Street firm and a Norwegian lender plans to make millions available for medium- and large-scale fishing and fish farming projects.

The effort between New York City-based Simpler Funding and Oslo, Norway's Lighthouse Finance will bring the seafood sector access to an estimated \$300 million to \$400m annually via a method known as asset finance that serves as an alternative to conventional methods, the firms' executives told *Undercurrent News*.

Traditional loans typically rely on a business's physical assets as collateral, which can be repossessed and resold relatively easily in case of default. That works well for assets such as real estate, but investors without deep knowledge of an industry such as seafood are often reluctant to risk putting themselves in the position of repossessing collateral such as a recirculating aquaculture system (RAS) facility that they don't know how to operate.

Asset finance

Asset finance works a bit differently. For an experienced aquaculture operator that wants to operate a RAS facility, for example, a corporation known as a special

purpose vehicle (SPV) is formed to finance up to 100% of the cost of the asset's construction. Outside investors fund the SPV, an independent entity that remains the owner of the RAS facility, which is then leased to the operator.

In Norway, where salmon farming has emerged as an economic force almost rivaling energy, Lighthouse CEO Roy Hoias said that he and colleagues in asset finance realized two things very quickly in the early days: That the industry was poised to grow quickly, and that that aquaculture wasn't "the first choice for banks" and for traditional financing markets.

"We also saw very fast that we need managers dedicated to find other financing partners to help provide us with the volume of capital to support the industry with the growth they have," he said.

Lighthouse and Simpler Funding don't fund the projects themselves but work with seafood companies seeking finance. The JV between the two firms will act as a broker to create and manage the SPV, matching outside investors to bring capital to projects that might not otherwise get built, Howard Tang, the CEO of Simpler Funding, told *Undercurrent*.

Due to Lighthouse's experience and relationships with clients in the seafood industry, if a default occurs, the JV can quickly line up another operator to reduce investors' risks, Tang added.

Asset values

That comes from having "a really strong understanding of the asset values: the well boats, the RAS systems, the sea cages", he said.

"Why I think that's really important is that a lender or investor that's going to be involved in the SPV really, really wants to know if that collateral is going to hold value over time," Tang said.

Tang said that Simpler Funding's access to Wall Street investors could bring more attention to the seafood space.

"What was most interesting to me and my team in terms of building this joint venture that we have is when you would speak to the investors in North America — Canadian or US — there wasn't a tremendous amount of aquaculture research and I think general knowledge about the space," he said. "And this sort of gaping hole in the space felt like there was an opportunity to a boutique firm that had kind of just started off to enter into with a very experienced partner."

Middle market

The JV is focused on the "middle market", which Tang defined as companies generating \$300m to \$2 billion in sales annually. The projects the JV has been exploring require investments ranging from \$30m to \$200m.

"Growth in the industry is happening all across the board from the middle market to the publicly traded Scandinavian companies like the Salmars and Marine Harvests of the world. But our firm also has a cadre of clients that are substantially smaller in size but very experienced at the top level. These are the projects that fascinate us," he said.

In terms of specific technology, the JV has seen a lot of interest in offshore aquaculture, RAS and "big smolt", the concept that salmon farmers can produce bigger fish onshore before transferring them to pens or cages for growout, Hois said. This can reduce the vulnerability to sea lice.

The JV is looking to work with projects and investors globally, the executives said.

"What we have done and what are working on the North American market is a copy-paste for the European and Asian and other markets," Hois said. "It also may be in the future that we think that if we are able to build up a good portfolio and structure that we will be able to have big muscle to support other countries outside of North America also."

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