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The RAS Gold Rush Continues but Don’t Count on Easy Money Forever

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Land-based aquaculture, particularly through Recirculating Aquaculture Systems (RAS), has become the “it” investment in the seafood space. Its rise hasn’t exactly been meteoric, but a confluence of factors has finally convinced the greater institutional investor base to get off the sidelines and start taking the area seriously.

IT’S ALL ABOUT INTEREST RATES

Even before COVID-19 infected people’s daily lives, global interest rates in most developed markets were at their lowest levels in over a decade. The combination of low rates and tepid inflation has stimulated the rise of alternative assets such as private debt and caused money to flow into the equity markets, as investors reach for returns.

Figure 1 is from FRED, the economic data service by the St. Louis Federal Reserve. The graph is a wonderful demonstration of the indirect correlation between falling rates and the strength in the S&P 500, a broad stock market index and a good proxy for US stocks.

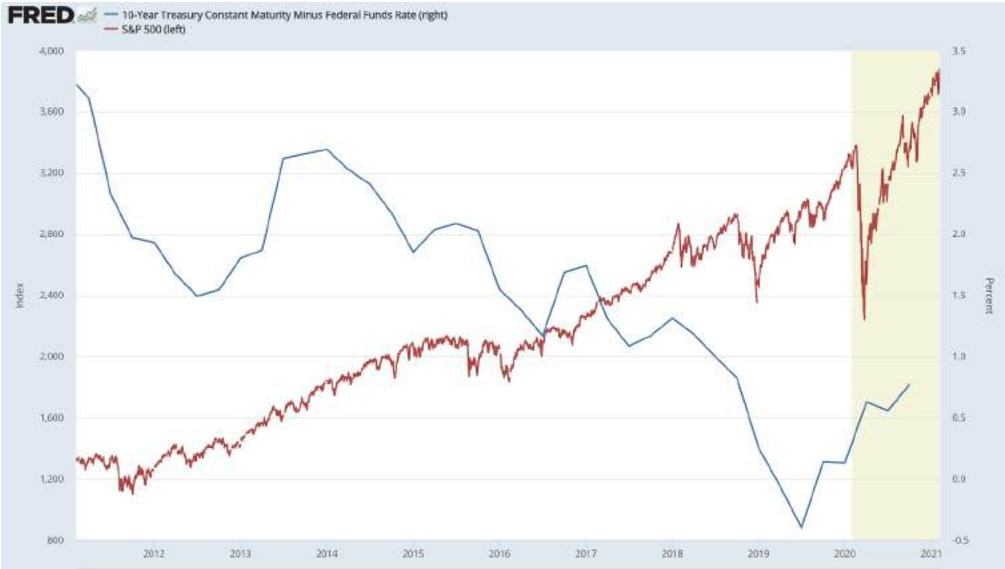

FIGURE 1. FEDERAL RESERVE BANK OF ST. LOUIS

This robust market has caused speculative equity capital to bubble in a few areas.

For instance, Special Purpose Acquisition Vehicles (SPACs), also known as “blank-check” companies, have suddenly become the rage in the US. There were 242 SPAC IPOs in 2020, up from almost nothing in 2010.[1] SPACs are funded in Initial Public Offerings where investors bet on a sponsor’s ability to acquire companies. Sponsors get two-years and committed equity for the “golden goose” chase. Companies favor these instruments for going public because underwriting is limited, and it is a swift process.

THE MERKUR (NOW THE EURONEXT GROWTH)

But it isn’t the only place that blank checks are being written. Norway, the “Silicon Valley” of industrial aquaculture, has been at it again by being ahead of the curve in supporting the development of land-based farming.

Let’s check the scoreboard:

Company	Listed Exchange	Date
Atlantic Sapphire	Oslo Børs through the Merkur	May 2020
Andfjord Salmon (flow-thru system)	Merkur	Jun 2020
Salmon Evolution	Merkur	Sep 2020
The Kingfish Company	Merkur	Nov 2020
Nordic Aqua Partners	EuroNext Growth	Dec 2020
Proximar	EuroNext Growth	Feb 2021

There are a couple of things to note on all this activity: First, all these companies are in their early stages of proving out their business models with insubstantial revenue and no real profits. Second, many were taking advantage of the limited listing requirements of the old Merkur.

At the end of November 2020, the Merkur became Euronext Growth because of Euronext's 2019 buyout of the Oslo Børs. The old Merkur had neither a market capitalization nor prospectus requirement, the drafting of which was often expensive and time consuming. Throw in low listing fees and the Merkur was an easy choice for small-cap growth companies looking to give their shareholders liquidity in a vibrant market.

It is a point that can't be ignored.

	Merkur Market	Oslo Axess	Oslo Stock Exchange
Minimum free-float	15%	25%	25%
Minimum market cap	No minimum	NKr8m	NKr300m
Prospectus required?	No, admission doc only	Yes	Yes
Financial reporting	IFRS or GAAP	IFRS	IFRS
Listing fees	NKr120,000–NKr647,000 (NKr1.1m fixed for fast track admission)	NKr514,000–NKr1,180,600	NKr772,000–NKr1,299,000
Annual fees	NKr62,000–NKr673,000	NKr184,000–NKr1,356,000	NKr203,000–NKr1,492,000

FIGURE 2. OLD MERKUR MARKET COMPARISON

This money flow is igniting extraordinary interest in land-based farm opportunities as it finally gives a place for institutional investors to support aquaculture without being tied up for years and exposed to liquidity risk. Not to mention creating an open exit strategy to investors should some of these developments sour, which will inevitably happen with time.

As Euronext Growth, listing requirements have become a bit more restrictive. For instance, there is now a EUR 2.5m free float requirement and more substantial financial disclosures that need to be made. But the exchange still caters to high growth small companies looking to list.

The capital story, however, isn't the only factor driving institutional interest.

THE COVID-19 CONNECTION

One of the most significant realizations wrought from the devastation from COVID-19 was to demonstrate, up close and personally, the delicacy of our global food supply chains. At the beginning of the pandemic, producers from all over the world were loudly warning us about the upheaval in logistics with some even seeking funding to meet elevated costs. It's a particularly sensitive topic in the US where an estimated 80% of our seafood is imported.[2]

The flip side, of course, is focused attention on local food production. By no longer being subject to ocean conditions for fish production, RAS facilities can be located close to the consumer. And in a world where everyone is touchy about being touched, consumers get a sense of security when seafood has a local stamp on it.

Personally, I have never been that comfortable with globe-trotting seafood, for instance, shrimp produced in India, processed in China, and imported to the US. That's a lot of handling. Now it's an even more sensitive topic that global consumers are contending with based on their own experiences with COVID-19 and food sourcing.

SUSTAINABILITY RISES TO THE FORE

There is no question that the green movement is *now*. ESG, sustainability, impact...once buzz words, all are now completely mainstream in the conversations that we have with institutional investment committees. And aquaculture is already seeing its fair share of scrutiny on this front.

On the west coast of Canada in British Columbia, for instance, net-pen fish farming is ending in favor of land-based farming; ocean-based aquaculture will be pushed out by 2025.[3] In Scotland, some clients have been blocked from securing future grow-out licenses. And while Cooke Aquaculture has received permission to farm trout in Washington State, that was a pivot instigated from the loss of its Atlantic Salmon licenses in the area.

Even well-loved sustainability-focused retail brands like Patagonia have been challenging ocean-based aquaculture.[4] The company known for making outdoor gear launched a not too subtle documentary called *Artifishal* attacking net-pen aquaculture for the demise of wild salmon populations.

Whether you believe these allegations or not is beside the point. For both consumers and investors alike, we've reached the tipping point - it's all about sustainability. A vision of a world where oceans suffer limited human impact. And it's a vision perfectly in line with RAS-based aquaculture.

IS INVESTMENT INTEREST IN THE SECTOR A FAD?

Let me kill the suspense for you. It's not.

The land-based industry is tapping into trends that are now fundamental to the ultimate arbiter of the market - the consumer. Consumers want to know where their seafood comes from and see their dollars reinvested back into their own communities.

Ocean sustainability and combating climate change is this generation's rallying cry, while minimizing chemical use in food systems is a concern that everyone shares. So, the staying power of the industry based on these trends is there.

But this doesn't mean that investment dollars will always be supportive to the same degree.

For new ideas, the capital markets can be a fickle partner. Major losses at high profile projects such as Atlantic Sapphire, AquaBounty, and The Kingfish Company could cause investors to think twice before supporting new projects. And the fact is that as interest rates rise, speculative bubbles pop, and the RAS industry has yet to prove economical.

In the future, RAS production will make up some part of seafood supply, alongside its older cousins, net-pen farming and wild-catch fishing, but don't count on the easy money days for these projects to go on indefinitely.

When the "music" ends, no one can say.

But eventually, all markets sober up and require sustainable cash flows, not simply investment dollars to keep things running. It's a timeless cycle of which entrepreneurs and investors alike must be mindful. Today, first movers will have the most to reap, so if you're ready to tap the market, take advantage of the gold rush because long-term rates have already been on the rise.

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