EXECUTIVE PROFILE: KEVIN SCHWARTZ

CEO and Founding Partner, Paine Schwartz Partners

By Michelle Pelletier Marshall

Paine Schwartz Partners is a private equity firm focused exclusively on sustainable food chain investing. The firm has deployed nearly $2 billion in food and ag businesses across soon-to-be 16 platforms and 40 total investments. Global companies like AgBiTech, Global ID, Meadow Foods, Costa Group, and Sunrise comprise the Paine Schwartz Partners portfolio.

With U.S. locations in New York and California, and portfolio company operations in more than 20 countries, the firm has carved out a niche with its thesis-based focus on upstream investments in the supply chain, working towards the mission of driving private equity level returns on a risk adjusted basis and avoiding direct commodity exposure.

Kevin Schwartz, CEO and a founding partner, has been with the firm since 2002. GAI Gazette caught up with him as he was preparing to head to Global AgInvesting Asia in Tokyo.

1. You assumed the role of CEO in February 2017, at the same time the company changed its name from Paine & Partners. What are your top goals at the helm of the company?

The name change and the title were more to reflect our long-term succession planning in the firm and less about a role change. My partner, Dexter Paine, and I have co-managed the firm for a long time and continue to do so. We have made some investments in our team and functional skills to continue to differentiate ourselves in the sector.

On the team front, we have created an in-house portfolio performance function and hired a senior executive from KKR Capstone with an operating excellence functional skill set. We are deploying that resource across the portfolio companies, mining them for opportunities for them to increase their operating efficiencies, and driving value creation initiatives such as add-on acquisitions. We are also looking for opportunities for business extension.

We also have a partnership with McKinsey & Company where we collaborate on deep dives on industry sectors, as well as longer-range strategic research projects, to identify where we think the hotspots are going to be for growth and investment opportunities in the ag industry over the next 10 years. We did a project about five years ago called Ag 2020 and are now updating that project for Ag 2025. This significant investment in research allows us to map the entire global ag industry and identify the areas we think will be most attractive for investment.

Big picture, our goals remain to be the best in class private equity investor in food and agriculture. We will continue to invest in the marriage between investment acumen with proven operators in the industry.

2. Why food and ag? What benefits have you found for your investors, and what's the market potential?

Personally, we had backgrounds in the ag industry. I grew up in Moline, Illinois in the corn belt. My father and several family members worked for John Deere so I literally grew up climbing around on tractors. After college, I went into private equity but always had that personal interest and connection to food and agriculture. Similarly, my partner Dexter Paine, was one of the early private investors in the ag inputs industry as well. So when we starting working together, we made it a priority to dig in to the food ag value chain, particularly focusing on ag input companies that drive productivity.

The other driver of the firm's focus is that we saw a highly competitive overall private equity industry with lots and lots of capital and plenty of capital market availability. We felt that specialization in a sector where we had unique focused expertise and relationships was critical to driving consistently outperforming returns for our investors.

The food and ag industry is both huge, with almost 9 percent of total global output, and attractive, in that it has been the fastest growing major segment of the global economy for a number of years, yet is very underrepresented from an institutional capital investment perspective. Less than 2 percent of private equity deal flow is in food and agriculture, and very little of that is in the upstream value chain where we focus. We felt it was an incredibly attractive industry that was very underserved so we decided about 10 years ago to focus solely on the food and ag space, which allows us to orient our entire firm to being the best in class in that target area of investment.

We think there's huge potential in this sector. There's no limit to the number or scale of the opportunities for investment. There's an opportunity and a trend toward consolidation, even at the farm level, that will drive continued consolidation through the value chain. It's the same at the retail level, and as a result there's a great opportunity upstream in the value chain to create very successful business models that require investment for either transactional execution, growth initiatives, or upgrading talent and capabilities, and that's really been the hallmark of how we approach investing is to bring those resources to companies to help them grow and succeed.

3. Your investments run the gamut of upstream businesses – from pest control to irrigation solutions to growing, packing and supplier operations. How does Paine Schwartz Partners find the next best investment and what's coming up in the pipeline?

There are a couple of processes that we have created over time, the most important of which is our in-house deal generation process, which starts with extensive research projects on segments of the value chain that we think have potential. We go offsite as a firm twice a year to accomplish these projects and prioritize the opportunities that we have identified. All of our platform investments have been generated through this process.

We then turn to our network of contacts and domain experts to create catalysts for investment in the companies that we've identified as being attractive, or to connect us with the right counterparty with whom we can interact. That's the core of what we do; it's a huge investment of time and resource, but we feel that when investing in food and agriculture, you really need to be proactive.

We also have our partnership with McKinsey where they take risks on our investments and are aligned with us economically – they don't do that with other private equity firms. Through this partnership, we have at our disposal and our portfolio companies' disposal, all of the services that McKinsey provides: strategic advisory services, business improvement, sales force effectiveness and more. We also partner with McKinsey on long-range research projects through collaborative teams, and also engage our combined networks of industry executives from all over the world and all across the value chain, in the process.

As far as in the pipeline, at a high level, we will continue to focus on the upstream part of the value chain – ag inputs and ag input distribution – and continue to focus on high value, crop production like Costa Group or Wawona Packing, which we just acquired.

We see consumers continue to focus on healthy foods, traceability, and convenience, and those big buckets of consumer demand drive the supply chain. We're focusing on the production of crops that address those consumer drivers, as well as services across the value chain that can provide solutions.

4. ESG (environment, sustainability and corporate governance) goals drive Paine Schwartz Partners' investment strategy. Can you explain the importance of this?

ESG is a priority for the firm. It's something we continue to enhance and invest in at the firm and in our portfolio companies, and it's also a part of our investment criteria. Our job is to create value for our investors, and in the food and ag industry sustainability is a critical success factor, so we feature that across all of our investments.

At the firm level, an ESG audit is conducted annually and we continue to drive those principles in everything that we do. For investment selection, we've been able to find investment companies that, while highly profitable and rapidly growing, also align with our broad sustainability goal. For example, we invested in Verdesian Life Sciences, which provides products to farmers to enhance the nutrition of their plants by assimilating the macronutrients that they need for growth.

Ultimately our technology enhances the yield and provides for better soil health, better plant yields, and a reduction in the use of bulk fertilizer so it's a high ROI product for the farmer.

You can go through our portfolio and see that every company is going to have some element of sustainability. We are constantly evaluating new opportunities that align with our sustainability goals, all set against the primary mission of the firm to generate value for our investors. We have found that in the food and ag industry, there's fantastic alignment between ESG principles, sustainability, and investment outcomes.

5. Paine Schwartz Partners has participated in Global AgInvesting events since 2010. As we come up on the 10th anniversary of GAI in 2018, what do you note as the greatest changes in investor interest and/or market conditions in the ag sector in the past decade?

I recall at some of the early Global AgInvesting conferences that most of the investors were predominantly addressing investment opportunities in land. What we've seen over time is an increasing sophistication in looking for higher returns or operating-oriented businesses that are participating along the same value chain.

An interesting shift is that a meaningful chunk of our investors are actually the real asset investment groups of the major institutions that invest in our firm. So what started out for us as a very traditional private equity investor base has in some ways transferred to folks that invest real asset dollars. They want a higher-returning strategy that is uncorrelated to some of the broader private equity or equity market driven outcomes that they have in other parts of their portfolio. I see that trend continuing.

Additionally, five or 10 years ago we were in a very different soft commodity price environment than we are today. The recognition that we are in a new normal for major broad acre crops like corn and soy has impacted how some institutions look at investing in the industry. Our approach has always been to disentangle our investments from any of those broad acre crops commodity exposures, and so part of what we do in identifying the value chain where we want to invest is to avoid commodity price fluctuation issues. That lends itself to a sector-focused approach, which has helped drive significant investor demand for what we are doing.

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This in part is an appreciation of the fact that the macro view isn't necessarily going to drive successful investment outcomes – you really need to be smart on the micro and get the right individual companies in your portfolio. And we have been laser-focused on getting the micro right, and that orientation is a key to long-term investing success in the industry.

BIOGRAPHY

Kevin Schwartz is CEO and a founding partner of Paine Schwartz Partners. Prior to co-founding Paine Schwartz Partners in 2006, he was a managing director at the Predecessor Firm. Before this, he worked for the private equity firm Fremont Partners, where he assisted with the management of approximately $1.7 billion of funds focused on the building products, financial services, and consumer products industries. Schwartz began his professional career in 1997 at Goldman, Sachs & Co., and in 1999 joined American Industrial Partners, a private equity investment firm, where he assisted with the management of approximately $1 billion of funds focused on the general industrial sector.

Schwartz serves on the board of directors at AgBiTech, Costa Group, Global ID, Verdesian Life Sciences, and Wawona Packing. He also is a member of the Rush Associates Board of the Rush University Medical Center. A graduate of the University of Illinois with a B.S. in accounting, Schwartz was raised in Moline, Illinois.