

PONTOS



Drivers of Value Post- Harvest

Max T. Holtzman

Principal

October 2017



Drivers of Value Post-harvest **Disclaimer**

THIS DOCUMENT IS CONFIDENTIAL AND HAS BEEN PREPARED BY PONTOS AQUA LLC, (“PONTOS AQUA”) ONLY FOR DISCUSSION PURPOSES. PONTOS AQUA MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND (IMPLIED, EXPLICIT OR OTHERWISE) WITH RESPECT TO THE CONTENTS OF THIS DOCUMENT, ITS ACCURACY OR ITS COMPLETENESS. BY ACCEPTING THIS DOCUMENT YOU AGREE TO KEEP ITS CONTENTS CONFIDENTIAL, AND YOU FURTHER AGREE THAT (i) YOU HAVE NOT RELIED UPON THIS DOCUMENT IN FORMING ANY OPINION OR REACHING ANY DECISION AND HAVE INSTEAD CONDUCTED AND RELIED SOLELY UPON YOUR OWN INDEPENDENT ANALYSIS WITH RESPECT TO THE INFORMATION CONTAINED HEREIN AND (ii) YOU WILL HAVE NO CLAIMS WHATSOEVER AGAINST PONTOS AQUA OR ANY OF ITS OFFICERS, DIRECTORS, PARTNERS, EMPLOYEES OR AGENTS WITH RESPECT TO YOUR USE OF ANY OF THE INFORMATION CONTAINED HEREIN, INCLUDING, WITHOUT LIMITATION, ANY FACTUAL STATEMENTS, OPINIONS, FORECASTS, CONCLUSIONS OR RECOMMENDATIONS. MOREOVER, YOU UNDERSTAND AND AGREE THAT RECEIPT OF THIS DOCUMENT IS NOT AN OFFER, SOLICITATION, OR PROPOSAL OF ANY KIND, INCLUDING, WITHOUT LIMITATION, TO CONDUCT A TRANSACTION, FOR THE SALE OR PURCHASE OF SECURITIES, IN EACH CASE EITHER CURRENTLY OR IN THE FUTURE, AND YOU UNDERSTAND AND AGREE THAT EXCEPT AS MAY OTHERWISE BE AGREED IN THE FUTURE IN A DEFINITIVE WRITTEN AGREEMENT, NEITHER PONTOS AQUA NOR ANY OF ITS REPRESENTATIVES SHALL HAVE ANY OBLIGATION OR LIABILITY TO YOU BY VIRTUE OF YOUR RECEIPT OF THIS DOCUMENT.



Drivers of Value Post-harvest
Agenda

- Introduction to Pontos Aqua
- Risk of Execution and Holistic De-risking
- Holistic Approach to Post Harvest Value
- Operational Tactics Post Harvest
- Strategic Options Post Harvest



Introduction to Pontos Aqua



Max T. Holtzman

- Principal at Pontos Aqua Advisory
- Vice Chairman of Capitol Peak Asset Management
- Senior Advisor to the United States Secretary of Agriculture, 6 years
- USDA Acting Deputy Under Secretary for Farm and Foreign Agricultural Services
- USDA Acting Deputy Under Secretary of Marketing and Regulatory Programs.
- U.S./China Joint Committee on Commerce and Trade, 4 year delegate;
- Board member of K Street Capital, the Arcadia Center for Sustainable Food and Agriculture
- Founding Chairman of Adopt-A-Classroom.
- University of Florida, Institute of Food and Agricultural Sciences “IFAS”
- University of Miami School of Law.



Drivers of Value Post-harvest The Pontos Aqua Ecosystem

Pontos Aqua Advisory is the strategic and operational advisory branch of the Pontos Aqua Ecosystem

• • •

The Pontos Aqua Ecosystem was founded by Dr. Francisco Saraiva Gomes in 2013 to serve as a unique platform in financing and de-risking across the whole value chain for the global aquaculture industry

• • •

Our reputation is our greatest asset



Pontos Aqua Holdings
Long-term Flexible Capital

- Investment company led by Dr. Saraiva Gomes and funded by [Tinicum L.P.](#), a \$1.6 B fund from NYC
- Provides equity and specialty finance capital for established companies across the global aquaculture industry
- Seek to invest \$50 to \$200 M per transaction and help form high quality robust industrial platforms
- Hands-on operationally focused investors



Pontos Aqua Advisory
Strategic and Operational Advisory

- Holistic strategic and operational de-risking Advisory firm led by Dr. Saraiva Gomes and Max T. Holtzman
- Proprietary strategic and operational expertise across the aquaculture value chain
- Seek higher risk opportunities complementary to Pontos Aqua Holdings focus and where the primary need is not capital
- Focused on risk of execution



Drivers of Value Post-harvest **Pontos Aqua Advisory**

Unique de-risking agent that couples two decades of proprietary strategic and operational knowledge with diligent analytics and data-driven decision making

• • •

Long-term operational partnership with potential investment opportunities creates an optimal alignment of incentives with our Clients unlike traditional consultancy

• • •

Differentiated value through a holistic approach that integrates strategic, operational, technical and market aspects and effectively address risk of execution

• • •

Highly customized Project teams that integrate leading executives and technicians of the industry using highly iterative work methods with maximum quality control

• • •

Effective and Reliable De-risking

• • •

De-risking Start-ups	De-risking Turn-arounds	De-risking Growth	De-risking Sectorial Strategies
<ul style="list-style-type: none">• Focusing on high-risk, high-reward early-stage projects	<ul style="list-style-type: none">• Focusing on high-risk high-reward existing turn-around operations	<ul style="list-style-type: none">• Focusing on growth projects of established companies	<ul style="list-style-type: none">• Focusing on value chain engineering and sectorial policies



Risk of Execution and Holistic De-risking



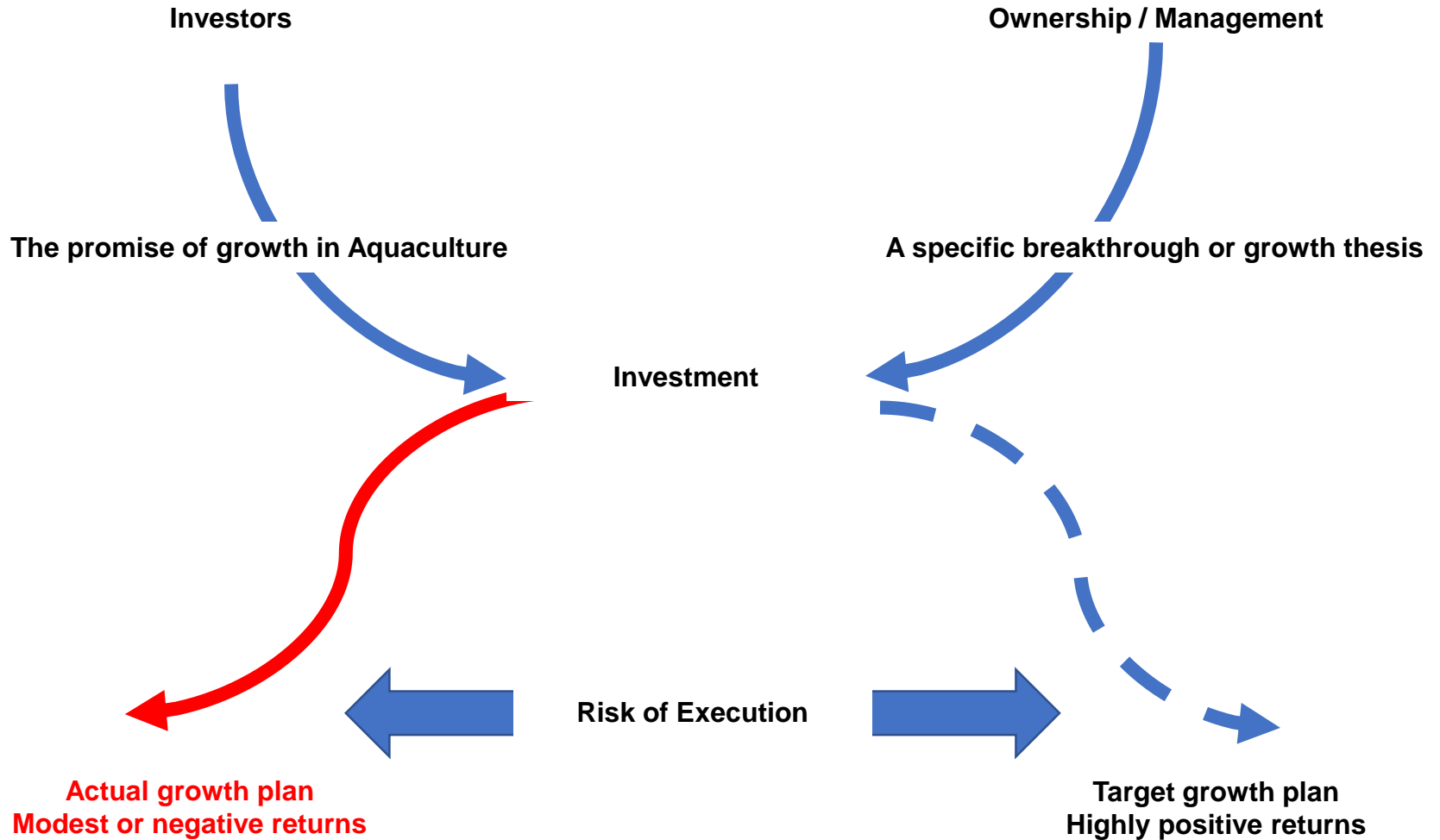
Drivers of Value Post-harvest
What is Risk of Execution

Definitions:

- The blended risk of any negative deviation to plan
- The risk of lower capital returns due to a poorer than expected performance from the underlying assets
- The risk of not executing the management 's growth plan



Drivers of Value Post-harvest The Unsustainable Example





Drivers of Value Post-harvest
When to do What

Pre - Investment

The blended risk that the growth plan underwriting the investment proposal will not be executed



Addressed through Due-diligence

Post - Investment

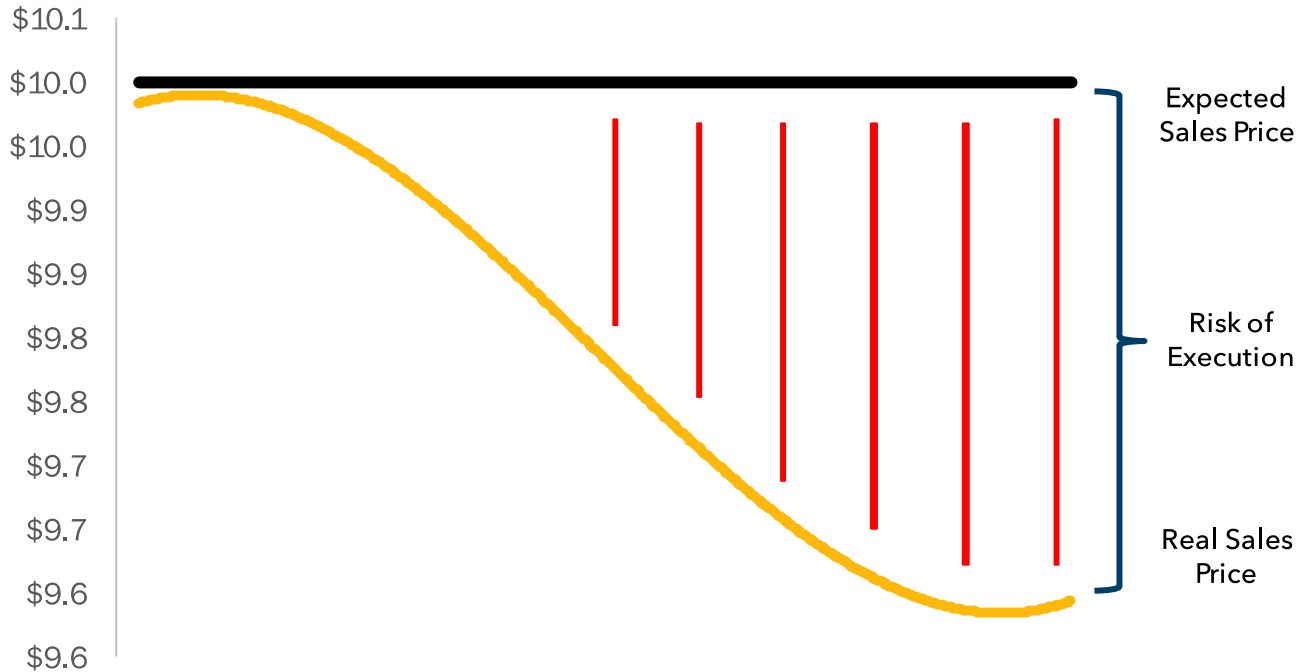
The blended risk that the growth plan priced in the investment will not be executed



Addressed through Ownership & Management



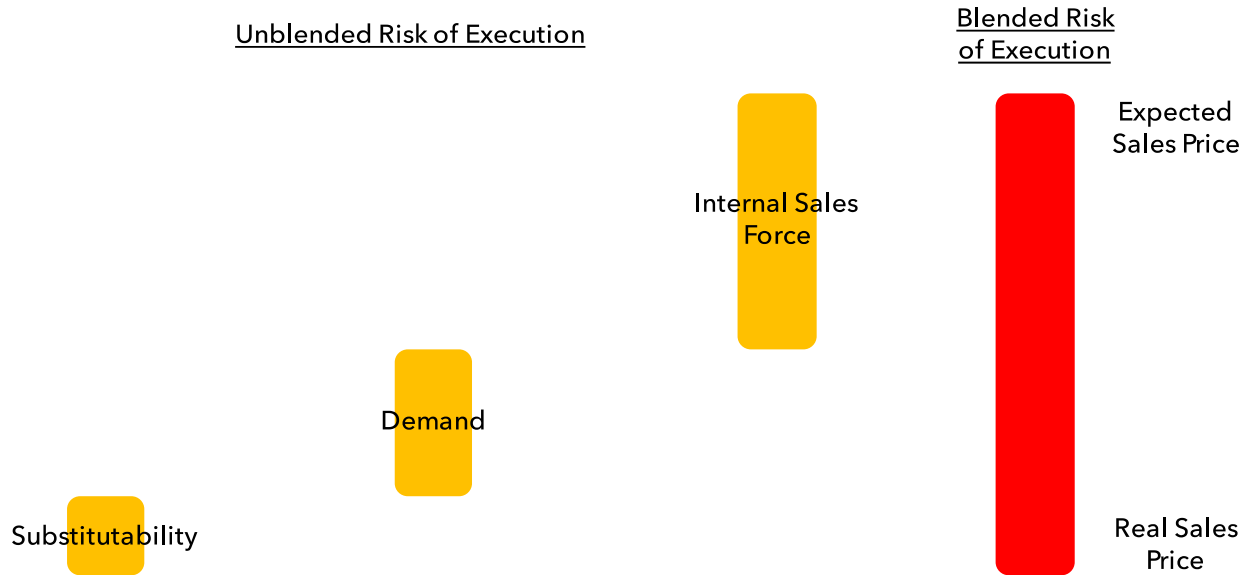
Drivers of Value Post-harvest Unblending Risk of Execution - The Sales Price Example 1/3



In this example: Expectation was to sell at \$10, reality was \$9.6/kg



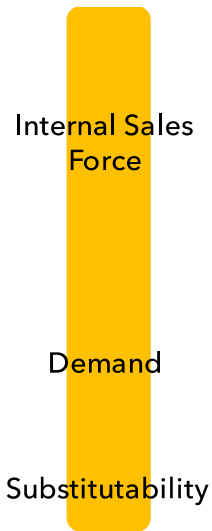
Drivers of Value Post-harvest
Unblending Risk of Execution
– The Sales Price Example 2/3



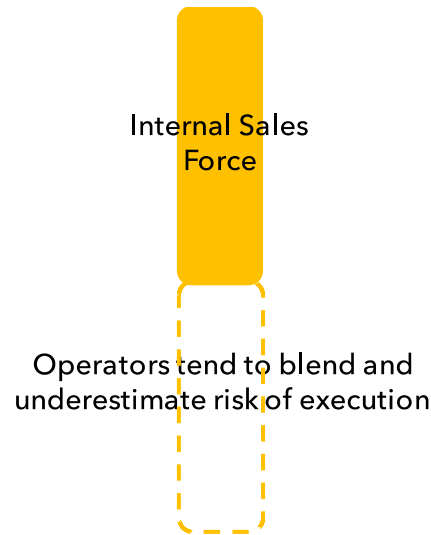
In order to have maximum control over your business and your capital returns one should focus on understanding with the greatest possible detail the different components of the risk of execution



Drivers of Value Post-harvest **Unblending Risk of Execution** – The Sales Price Example 3/3



Holistic De-risking (*unblending*)



Partial De-risking (*blending*)

- **Holistic De-risking looks at risk from an internal perspective**
- **It focuses on understanding all its components**
- **Optimizes investment strategies, business strategies and operational tactics**
- **Effectively addresses Risk of Execution and**
- **Maximizes control over the future**



Holistic Approach to Post Harvest Value



Drivers of Value Post-harvest
Consistency and Predictability

Consistency and predictability are the most fundamental drivers of post harvest value;

- May have a quality product, but can't provide it to the market consistently, **value not maximized;**
- May have a safe product, but can't provide it to the market consistently, **value not maximized**
- To have a quality product, that is safe and perceived as safe, **every part of the value chain must be taken into consideration;**
- **Upstream** of production and as importantly, the **downstream** players when it comes to processing, distribution and ultimately those in direct contact with the consumer;



Drivers of Value Post-harvest **Transparency and Quality**

Transparency and Quality - major differentiators

Transparency: Consumers increasingly want to know!

Where their food comes from;

How it is produced;

What is in it;

Quality: Begins at the furthest point upstream

genetics/breeding >feed>hatcheries>grow out

genetics/breeding >***feed***>hatcheries>grow out

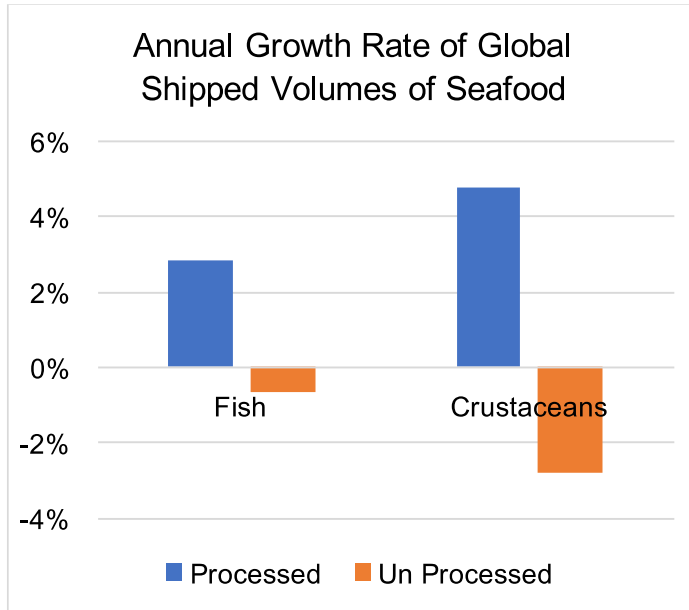
Consistency and predictability will suffer, and likely quality



Operational Tactics Post Harvest



Drivers of Value Post-harvest **Product Form**

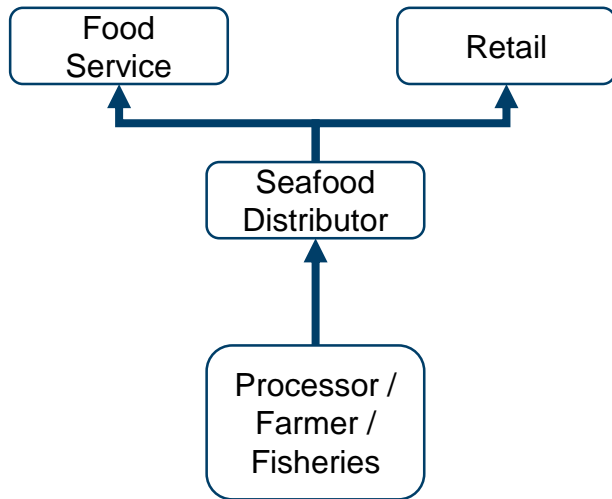


Source: FAO Fisheries and Commodities Stats

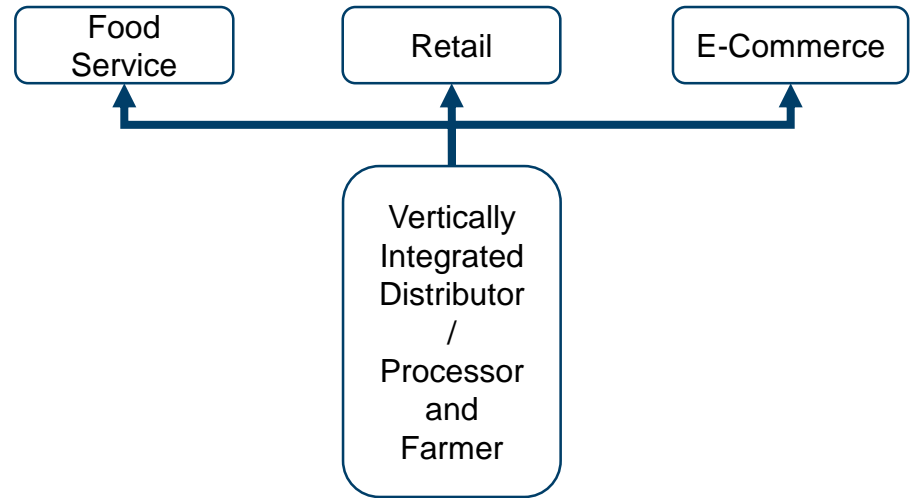
- Wild catch has also come a long way to standardize volumes and quality.
- Seafood market transitioning out of the fish mongering heritage and solidly entering the phase of product marketing
- Product form is key in driving post harvest value;
- Its not that the market for processed seafood is growing faster, its that it is the market for fresh seafood is not growing.
- Seafood processing is now a key business function that increases value;



Drivers of Value Post-harvest Channel



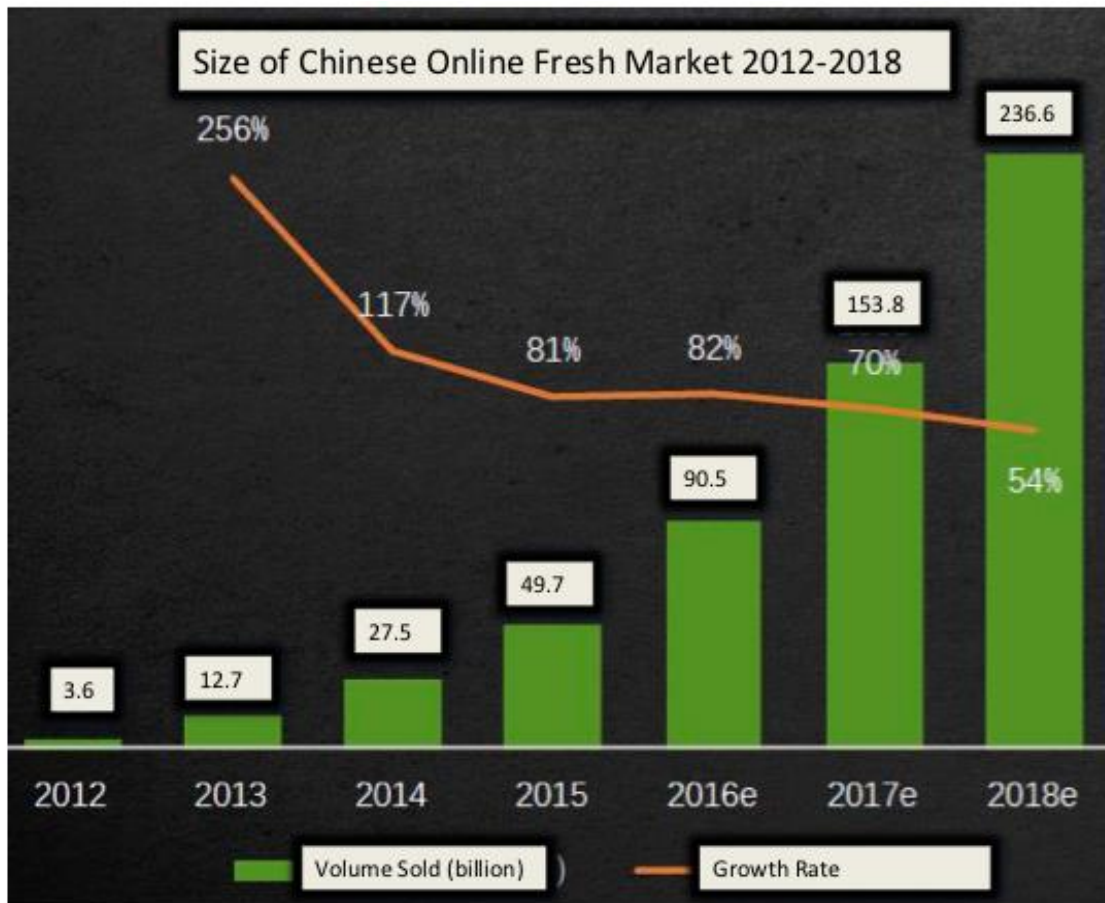
Old Trend



New Trend

- Channel is one of the most important considerations in seafood
- A diversified channel strategy consists in exploring both foodservice and retail; these two channels have two different drivers and their combination offers the highest price protection
- Recently, a new channel gaining strength is the E-commerce channel and again the diversification to this channel allows to maximize price protection
- More channels mean more market share, better plant utilizations, risk hedging, less working capital, more price protection

Drivers of Value Post-harvest Combining Channel and Product Form



Source: Alibaba

- The flexibility to combine new product forms with new channels will be the best protection against unpredictable market risks
- The example of China is flagrant
- China is becoming a net importer of Seafood
- And as importantly, China's E-commerce of food is becoming one of the fastest growing seafood channels globally



Drivers of Value Post-harvest **Branding**



- Branding is key to protect price in the seafood market
- As the market shifts from fish mongering to trusted supply chain, the brand will become the best proxy for consumer trust
- Seafood is trendy and is associated with great product attributes very much in vogue
- The brands that are capitalizing on these trends are gaining market



Strategic Options Post Harvest



Drivers of Value Post-harvest Single Species vs Multi species

Most Popular & Fastest Growing Seafood Items in US in 2016

Seafood Proteins	Seafood Entrée Flavors	Fish Prep Methods	Health Terms
Salmon	Garlic	Grilled	Gluten Free
Tuna	Butter	Fried/Crispy	Organic
Shrimp	Tartar	Roasted	Local
Crab	Mayo	Smoked	Vegetarian
Scallop	Red Sauce	Sautéed	Farm Raised
Octopus	Sriracha	Charred	Gluten Free
Ahi	Chimichurri	Hand Cut	Wild Caught
Yellowfin	Jam	Cured	Protein
Trout	Citrus Dressing	Tartare	Local
Crawfish	Salsa Verde	Panko	Vegetarian

Source: Datassential

- Which of the new species in aquaculture will become the next salmon or the next tilapia?

- Consider cross-selling as a means to capture market share and channel;
- To integrate various species under one go-2-market path offers protection;



Drivers of Value Post-harvest
M&A

The Seafood industry is consolidating

It is better to be a small fish in a bigger pond than a big fish in a smaller pond



Max T. Holtzman
Principal, Pontos Aqua Advisory
max.holtzman@pontosadvisory.com