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Thinking outside the pen: Enhancing the value of your seafood business through a new lens

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There are key quantitative and qualitative measures that drive a company's valuation higher, beyond revenue and market growth

Aquaculture businesses should focus on purpose, authenticity and sustainability in addition to efficiency and profitability.

It's an exciting time to be in the seafood and aquaculture business. Industry bellwether, MOWI, recently announced record profits in the first quarter of 2022. In May, Cargill purchased a 24.5 percent stake in Salmones Multiexport SA, a salmon farming company in Chile, and is on the hunt for more acquisitions in the fish market. The macro backdrop of a growing global population and emerging middle class in developing countries provides a compelling reason for additional investment into the aquaculture and seafood industries sector for years to come. Entrepreneurs and business owners in this sector will not only be able to solve an impending problem of how to feed a hungrier population but will also be able to create substantial wealth by growing and selling their enterprises.

While top-line revenue and market growth are appealing, there are other key quantitative and qualitative measures to assess and help drive a company's valuation or multiple higher. The most common value creation advice centers around having audited financials, low customer concentration, rights to intellectual property and a quality management team, to name a few. Recently, the integration of environmental, social and governance (ESG) considerations within a company's culture and operations has created another means for business owners to enhance value.

In their 2021 Consumer Intelligence Series survey (https://www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/consumer-and-employee-esg-expectations.html) on ESG, PwC found that 86 percent of employees prefer to support or work for companies that care about the same issues they do. The best way to find out what employees care about is to simply ask them and then solicit their input in establishing a set of values that define how the company operates. For example, if employees want to set a higher bar for the quality and integrity of the enterprise's supply chain, management's response may be to enroll in Global Seafood Alliance's Best Aquaculture Practices certification program or a similar evaluation process to satisfy their employee's desires. Note, this is separate from the company's mission which may be a loftier, more altruistic vision for the enterprise.

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Authenticity is key to successful employee engagement. PwC's 2021 Global Culture Survey (http://chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.pwc.com/gx/en/issues/upskilling/global-culture-survey-2020/pwc-global-culture-survey-2021.pdf) found that 73 percent of company C-suite executives and board members said they "walk the talk" on culture, purpose and values, but only 46 percent of employees below the management level agreed. Once these values are codified, they should be taught to new recruits and reviewed regularly with existing employees to ensure they are engrained in company culture. A popular idea is to incentivize employees by rewarding a peer-selected colleague who most embodies the values of the firm.

While competitive compensation and benefits are what employees expect in today's tight labor market; creating a culture where employees are advocates for the company should help improve retention, morale and ultimately productivity. London Business School's Alex Edmans found that the companies that made *Fortune*'s "100 Best Companies to Work For" list generated 2.3 percent to 3.8 percent higher stock returns per year than their peers over a greater than 25-year horizon.

"Companies that take care of their employees will take care of their customers, who in turn, will take care of the revenue stream" is an old adage that affirms Mr. Edman's research. [Edmans, Alex. "The link between job satisfaction and firm value, with implications for corporate social responsibility," *Academy of Management Perspectives*, November 2012, Volume 26, Number 4, pp. 1–9, journals.aom.org.]

Additional focus should be paid on the energy intensity of the company's operations with global energy prices on the rise this year. More broadly, increasing resource efficiency (energy, water and waste) can reduce costs and impact operational profits by as much as 60 percent, according to McKinsey research (https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value). In the seafood industry, this is especially true for land-based closed containment production of Atlantic salmon, which is estimated to require 12 times more energy than ocean farming. With more than 70 countries, including the U.S., China and the E.U. having set net-zero emissions targets, an investment in more efficient systems may not only increase near-term profitability but also keep the company a step or two ahead of future government regulation regarding the use of natural resources and waste disposal practices.

It’s important to recognize that a strong corporate culture and efficient operations occur over time and are constantly evolving with societal and technological trends. Goals should be set and reevaluated on a regular basis to ensure they are impactful and achievable. Business owners and entrepreneurs are likely to be rewarded for their “outside the pen” efforts with the rise of sustainably-minded strategic and financial buyers as well as investors. Thus, it’s reasonable to assume that higher multiples will be assigned to companies that are implementing culture- and efficiency-enhancing strategies to generate increased profits in the near term while fortifying the long-term competitiveness of the enterprise.

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