

GROWERTALKS

GT in Brief

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Costa Farms Sells Majority Interest to “Permanent Capital” Firm

Chris Beytes

Homestead, Florida-based Costa Farms has sold a majority share of the business to a company called Markel Ventures, based in Richmond, Virginia. Markel's primary business is underwriting specialty insurance products; their Ventures division invests in strong, mid-sized businesses in a variety of markets, including commercial bakery and food processing, trucking, construction and other industries.

And now horticulture.

The deal is for a “majority share” of the nursery operations in the U.S. and abroad (no hint as to how much of a majority), but it doesn't include any land, nor does it include Costa's fledging medical cannabis business in Florida.

The first question in these situations is always “why?”: why did the seller sell and why did the buyer buy. We first reached out to Costa CEO Jose “Joche” Smith for the seller's perspective.

Joche said that the family and the company's Board had for some time been considering finding an investment partner to help them continue to grow the business. However, they didn't have any interest in going the venture capital route, with a partner that was only interested in fast returns and a quick flip. Someone mentioned Warren Buffet's firm, Berkshire Hathaway, as a long-term strategic investor. But some research indicated that Costa was just too small to be of interest to them. But that idea led them to Markel Ventures, which likens itself to Berkshire Hathaway, but on a smaller scale.

Said Joche, “We thought the right thing to do was to partner with somebody that gave us a little bit more liquidity and more options going forward to grow our business. The relationship with this kind of partner is just so unique. It's nothing like a strategic buyer that comes in and takes over your business. And nothing like a private equity firm, that has a very short horizon and a lot of pressure to get a quick return.

“There are only a few firms like Markel—Berkshire Hathaway is one of them—Hathaway is much, much bigger than Markel ... these guys that have a lot of cash available that they want to invest ... we just thought it was a good marriage.”

The deal with Markel has allowed Costa to eliminate all of their long-term bank debt and provides capital to grow the business in a way that's more strategic than in the past. He says they're putting more resources into business development and have made a hire in that capacity.

"I think we'll be more methodical and deliberate [in our acquisitions] and not just sort of opportunistic, waiting for those things to fall in our lap."

Markel's view

As for Markel's answer to "why?" we turned to Bruce Kay, Managing Director of Investor Relations. He said that Markel looks for companies that "have good investment potential, good business models, are sustainable, generate good return on capital, [are] run by management teams that have integrity and ability, and a proven track record.

"Essentially it's a page out of Warren Buffet's Berkshire Hathaway playbook, where we don't pretend to know how to run these businesses," he explained. "We try to provide permanent capital to the business, so they don't have to worry about the ups and downs of an economic cycle. We provide financial stability, we provide capital for them to grow their business, stability to focus on their customers."

We asked Bruce what Markel's plans were for their investment in Costa.

"Markel's plans with the investment is to leave a good thing alone!" he answered quickly and with a chuckle.

"At the end of the day, we're looking to partner with them. They're driving the business bus and we're in the back seat along for the ride, and quite frankly, rooting them on!"

Joche and the rest of the family will keep driving the bus for at least nine more years, per the sale agreement—although Joche said he hopes to continue as a shareholder long after that. They have multiple 10-year leases on the land (so it's in the family's best interest that the business continues to perform well). And if any of the next generation of Costas want to come into the business (Joche's oldest is 24 and a retail consultant), they're welcome to do so. Not that Joche is ready to step aside yet.

"I'm 50 years old. I think I still have plenty of time to work and grow in the business. I owe a lot to the team and I've told them I'm going to be there and they expect me to be there, so I'm going to be there. It's not an exit strategy."

A bit about Markel

Markel Ventures has invested "permanent capital" in a number of different companies, including one called AMF. Not the bowling alleys, but AMF Bakery Systems, which designs and manufactures high-speed bakery equipment for the commercial market. They've got several other companies in the same industry; plus a car-hauler manufacturer, a dredge manufacturer, a trailer and shipping container flooring company, an architectural wood paneling company, a residential homebuilder, a couple of health-oriented companies and several more. It's an eclectic group and Costa is the only agricultural firm, and the only one that seems to have

a strong seasonality and weather-affected component.

“If you’re in the insurance business, and you’re writing property and casualty, you’re sorta always in agriculture,” Bruce said with a laugh. **GT**