

Forbes

<https://www.forbes.com/sites/louisbiscotti/2022/04/19/controlled-environmental-agriculture-cea-the-great-outdoors-gives-way-to-the-great-indoors/?sh=5945ee5e38d3>

FOOD & DRINK

Controlled Environmental Agriculture (CEA): The Great Outdoors Gives Way To The Great Indoors

Louis Biscotti

Contributor

National Leader, Food & Beverage Services Group, Marcum

When you shop at Walmart, Whole Foods and Target, you probably assume the greens you buy are grown on sprawling farms stretching across the great outdoors, that they only reach the indoors when they hit trucks or trains and store shelves.

The reality, however, is that large volumes of greens also are being grown indoors.

CEA, or controlled environmental agriculture, is catching on and coming of age as growing indoors increases in popularity. A recent deal may be the latest sign that indoor farming could have a big future utilizing climate control rather than climate change.

Local Bounti, an indoor agriculture company with proprietary technology, recently reached a deal to acquire Hollandia Produce Group, another indoor agriculture business that operates under the name Pete's, for \$122.5 million. It's a big deal for a lot of reasons beyond dollars: it blends tradition and tech, and distribution with research and development. In one fell swoop, the deal will create one of the biggest CEA companies in the nation, and it will put a new face on high-yield, high-tech farming.

Simply put, the transaction will allow Local Bounti "to gain access to Pete's' existing retail customer base of more than 10,000 retail locations nationwide," according to the company. That includes retail giants like Walmart, Whole Foods, Albertsons, Kroger, AmazonFresh, Target and many more.

And Pete's will be tapping Local Bounti's tech, which could lower costs, increase yield and boost efficiency.

It's also an example of how science is at the forefront of farming, funding and transactions, potentially growing margins and removing the question marks that apply to weather.

In a recent interview after announcing the deal, Local Bounti Co-CEO Craig Hurlbert (formerly of General Electric) gave some insight as to what Local Bounti hopes to do. He said the company plans to install its "stack and flow technology," a hybrid of vertical farming and hydroponic greenhouse farming, in all Pete's facilities. This application of business practices is projected to boost efficiency, positioning Local Bounti as fresh, fast and financially attractive with strong margins.

Vertical agriculture produces high yields along with high capital expenditures and high operating expenses compared to traditional greenhouses. By blending greenhouse with vertical, essentially combining the best of both worlds, Local Bounti hopes to lower some high costs and maximize profits and yields. Many forces are at work, potentially turning CEA into a bigger force in agriculture.

Farming has long been dependent on weather and the whims of rain, sun, snow and storms. Local Bounti's CEA, on the other hand, operates 365 days a year, is free of pesticides and herbicides, and uses 90% less land and 90% less water than conventional outdoor farming methods, says the company. It's exactly the kind of thing that, at least in theory, could make investors' ears perk up, although time will tell whether or not this form of tech will triumph and transform the agricultural space.

Scaling up technology geographically can take a long time, but Hurlbert said this deal will bring Local Bounti's systems to Pete's' coast-to-coast footprint across 35 states and Canada. They will roll out their tech at three Pete's facilities in California and Georgia.

The numbers are promising for this marriage, which could further boost margins. Pete's reported \$22.7 million in 2021 revenue, with gross margins already above 45% for the past five years. Local Bounti expects to save 10 percent on the cost of goods due to "supply chain-related benefits associated with greater purchasing scale." The combined company will employ 250, including 130 from Pete's.

Hurlbert said Local Bounti is seeking to position itself as an employer of choice, while maintaining high environmental, social and governance (ESG) standards. He said his company offers full benefits to all employees at the same level as executives, which allows them to get over the hiring hurdle and attract workers.

“With an established national distribution foundation in place with Pete's, we are thrilled to bring our fresh, healthy, and local produce to consumers across America,” Hurlbert said in a press release.

All of this could mean more indoor agriculture sites cropping up and more change in store, almost literally. CEA can expand just about anywhere, as technology becomes a determining factor, on a par with geography, in what happens next.

It's the Great Outdoors meets the Great Indoors.

As Hurlbert said in my recent interview with him, “There's no turning back!”