

ASX & Media Release

26 February 2021

Clean Seas 1H FY21 Results

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to announce its first half results for the 6 months ending 31 December 2020.

Financial Performance	1H FY21	1H FY20		2H FY20	
Revenue (\$'000)	22,333	24,437	▼	15,876	▲
Volume (t)	1,444	1,406	▲	1,018	▲
Operating Results ¹					
Underlying Gross Profit (\$'000)	54	4,624	▼	(529)	▲
Underlying EBITDA (\$'000)	(5,102)	(1,337)	▼	(5,595)	▲
Statutory EBITDA (\$'000)	(19,286)	6,787	▼	(16,422)	▼
Statutory NPAT (\$'000)	(21,873)	4,596	▼	(19,050)	▼

1. Operating earnings in this report are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. They have not been subject to audit or review by the Company's external auditors.

Key Points:

- **Statutory Loss** - 1H FY21 After Tax Statutory Loss of \$21.87m, which includes a Non-Cash Inventory impairment of \$8.1m to reflect expected clearance of inventory not sold during COVID-19 shutdown and increased mortalities, \$1.4m of restructuring costs and \$4.7m AASB 141 SGARA adjustments.
- **Sales Accelerating Strongly** - Total sales volumes of 1,444t in 1H FY21 despite ongoing COVID-19 disruptions, versus 1,018t in 2H FY20, and 1,406t in 1H FY20.
- **New Strategic Initiatives** - Further progress on channel and market diversification, maximising the premium food service business as lockdown restrictions ease, and a focus on working capital. Restructured Board and Executive team and substantially reduced overhead expenses.
- **Driving Down Costs** - Production costs increased in H1 21 due to higher inventory build as foodservice shutdown during the pandemic. However, significant progress to build new channels and markets is delivering strong volume growth and working capital efficiency which will drive lower future production costs.

Underlying & Statutory Results

Underlying EBITDA loss of \$5.1 million was \$3.7 million lower than 1H FY20. Profitability has been negatively impacted by an increase in production costs and a reduction in revenue/kg due to increased price support provided to customers to open new markets and accelerate channel diversification. In addition, the business had a number of adjustments to underlying EBITDA, including:

- **Live Fish Impairment** - \$8.1 million. The non-cash impairment reflects an increase in clearance inventory, lower expected future market prices and increased mortalities.
- **Restructuring costs** - \$1.4 million. In response to COVID-19, the Company identified a range of cost saving initiatives, which included a restructure of the executive team, which was a mixture of cash and non-cash items.
- **SGARA and cost allocation** - \$4.7 million. Live Fish biomass is accounted for in accordance with AASB 141 'Agriculture'.

Revenues

Despite ongoing disruption in the food service channel, Clean Seas achieved sales of 1,444t in 1H FY21, versus 1,018t in 2H FY20, and 1,406t in 1H FY20. This is an excellent outcome in a highly disrupted global market.

Sales volumes have rebounded in Clean Seas' existing restaurant business as restrictions have eased in various markets around the world. The Company has benefited from initiatives to enter new retail channels and markets. Clean Seas has taken advantage of high inventory levels (see below) to stimulate and accelerate channel diversification, drive trials and establish long-term relationships with new customers in underdeveloped food service markets.

New Markets & Channels

North America is the largest Kingfish market outside of Japan, where a key focus for the Company has been establishing market entry through its strategic partnership with the Hofseth Group – a market where Clean Seas had penetration of less than 1% a year ago.

In 1H FY21 Clean Seas achieved sales of 157t to Hofseth North America in support of retail launches in this market. The expanding US sales footprint now has Clean Seas' Kingfish being sold across North America in over 250 stores (up from 80 at the time of the last shipment). In addition to this, the Company's Kingfish is now being made available in 3 leading home meal kit brands, and in a foodservice partnership with a national restaurant chain.

These are all new opportunities and the partnership with Hofseth represents a significant step-change for Clean Seas to quickly scale up distribution. As a result Clean Seas expects to substantially reduce its cost of production through leveraging existing fixed costs and production assets more efficiently.

Operating Costs & Overheads

Production costs for 1H FY21 increased by \$2.10/kg to \$12.23/kg of net growth tonnes as a result of:

- **Excess Live Biomass & Frozen Inventory** - Due to an imbalance between sales and growth in H2, in addition to the COVID-19 disruptions, Clean Seas has surplus live fish biomass and frozen inventory, which is contributing to an extended growout period. A longer growout contributes additional costs with only marginal returns.
- **Smaller 2021 Year Class** - A strategic COVID-19 decision last year to save cash by reducing Year Class 21 fingerling intake reduced net biomass growth for 1H FY21 by 35% (compared to 1H FY20).
- **Mortalities** - Increased mortalities due to fish health issues announced in January 2021.

Clean Seas has made significant structural changes to reduce cost and promote efficiency, including the restructure of the Executive team, reducing the number of Board members and a consolidation of activities into its South Australian base. On an underlying basis, overhead expenses are running at -13% year-on-year and have dropped from \$6.0 million in 1H FY20 to \$5.2 million in 1H FY21.

Fish Health

In January 2021, Clean Seas reported that the Company had experienced an increase in fish mortalities within the Boston Bay marine leases. Clean Seas' other farming locations on the Spencer Gulf have been unaffected. The Company has identified a range of contributing factors and taken multiple steps to mitigate the risk of further mortalities, including removing fish from the affected location. These measures have seen an improvement in fish health, despite mortalities remaining at elevated levels compared with historical levels.

The health of our fish is paramount and thus the Company continues to work closely with our Veterinarian expert.

The Company increased its mortality provision by \$3.4 million in the 1H FY21 Financial Statements to reflect the increased level of mortalities.

Cash Flow

Cash receipts for 1H FY21 were \$20.2 million, which was an increase of \$2.1 million compared to 2H FY20, but down \$4.4 million on 1H FY20. The improvement in cash receipts in comparison to 2H FY20 reflects improved operating conditions in Australia and the benefits of channel and market diversification.

Despite a \$4.4 million reduction in cash receipts in 1H FY21 due to COVID-19, operating cash flows only declined by \$0.5 million versus 1H FY21. The reduction in operating cash outflows was due to improved payment terms with key suppliers and a lower cost base following cost saving initiatives undertaken by the Company.

The Company retains considerable balance sheet strength and in December 2020, Clean Seas renewed its debt facility with the Commonwealth Bank of Australia and retained existing facility limits totalling \$32.15 million. Total cash and undrawn facilities at 1H FY21 was \$37.1m versus \$42.2m at 1H FY20.

Outlook

Clean Seas' CEO Rob Gratton said *"Clean Seas has demonstrated a strong recovery in sales post-COVID due to our success in diversifying channels and markets. I am particularly pleased that we have achieved positive sales volume growth versus pre-COVID levels despite severe lockdowns in Victoria and across Europe in this period, which is a testament to our team and our partners."*

The other element of our recovery is to use our inventory overhang to release cash from working capital and open new markets. While the COVID inventory overhang has had a negative impact on profit due to higher production costs, the long-term benefit of scale from our new market access will be critical to becoming the lowest cost producer of Kingfish in the world, whilst retaining our quality, sustainability and provenance leadership positions.

We are on the path to significant volume growth and we expect this to drive overall benefits throughout the business going forward."

It is the Company's view that whilst the ongoing COVID-19 disruptions may reshape the timing of achieving its growth strategy, the planned entry into retail product distribution is expected to deliver long-term growth that will complement Clean Seas' existing restaurant and premium food service business.

The Board notes that the inherent operational risks in aquaculture may impact future results.

Authorised for release by the Board of Clean Seas Seafood Limited.

About Clean Seas Seafood

Clean Seas Seafood is a fully integrated Australian Aquaculture business listed on the Australian Securities Exchange (ASX).

Clean Seas is the global leader in full cycle breeding, farming, processing and marketing of its Hiramasa or Yellowtail Kingfish (*Seriola lalandi*) and is renowned amongst leading chefs and restaurants around the world for its exceptional quality.

Clean Seas is recognised for innovation in its sustainable Yellowtail Kingfish farming and has become the largest producer of aquaculture Yellowtail Kingfish outside Japan.

Clean Seas is headquartered at its processing facility in Royal Park in Adelaide, South Australia while its hatchery is at Arno Bay and its fish farms are at Port Lincoln, both on the Eyre Peninsula of South Australia.

For further information on Clean Seas Seafood, please contact:

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