

## ASX & Media Release

11 October 2017

### **Clean Seas Continues Growth in Revenue and Farm Gate Prices**

#### **Highlights:**

- **Sales volume increased 17% over Q1 FY17**
- **Strong growth in sales revenue, increasing 28% over Q1 FY17**
- **Significant improvement in domestic and international farm gate prices**
- **Positive Q1 FY18 cash flow from operations**
- **US FDA and EU accreditation received for new processing plant**

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to present its Q1 FY18 cash flow report and provide an update on business progress.

The Company achieved continued sales growth at higher farm gate prices than Q1 FY17, with the large fresh farm gate increasing by \$2.31 per kg to \$13.58 per kg. The 'large fresh' category represented 62% of Clean Seas' volume and 69% of the Company's revenue in Q1 FY18, reflecting growth in frozen products also at significantly higher farm gate prices.

The September quarter cash flow report highlights \$1.3m positive cash flow from operations, up from \$0.4m positive in Q1 FY17, reflecting the continued underlying improvement in the fundamentals of the business and some seasonal timing differences. Capital expenditure of \$1.6m in Q1 FY18 mainly related to the new in-house processing facility.

#### **Revenue Growth on Target – Driven by Continued Improvements in Farm Gate Pricing**

Sales of 650 tonnes of Kingfish in Q1 FY18 increased by 17% over Q1 FY17.

Sales revenue increased by 28% to \$10.2m. Fresh product sales volumes were stable despite significantly higher farm gate prices while frozen product sales volumes increased, also at significantly higher farm gate prices. All other product categories recorded strong improvement in farm gate prices from Q1 FY17.

The Company's farm gate price is its selling price less processing costs, freight and handling, sales commissions and packaging materials and is reported on a whole weight equivalent (WWE) basis. Farm gate price per kg for large fresh increased by 20% year-on-year during the September quarter.

These increases in farm gate prices lead directly to profitable growth for Clean Seas. The improvement in Q1 FY18 was primarily driven by higher domestic and international selling prices for all product categories. Farm gate prices are expected to continue to improve during FY18 and into FY19 driven by further (albeit more modest) price increases and the benefit of reduced processing costs at Clean Seas' new in-house processing facility.

These improvements build on the earlier gains the Company has made in implementing its Turnaround Strategy outlined in October 2016.

### **Improving economics of supply**

Clean Seas' new in-house facility is now processing virtually all fish for the Australian market and has commenced phasing in export processing. This has brought end-to-end quality control and will generate significant cost savings from which the Company expects to benefit in H2 FY18 and beyond.

The Company has recently acquired, and in Q2 FY18 will install, the latest rapid-freezing technology. This offers the potential to materially increase the Company's market opportunities while lowering its cost of processing and freight. This technology significantly reduces the freezing time and temperature which will improve freshness, texture and quality.

While Clean Seas will remain focussed on its ability to deliver the highest quality fresh Kingfish product globally, the flexibility provided by rapid freezing will enable Clean Seas to meet customer demand for premium quality frozen product and help smooth out any future imbalances between the rate of biomass growth and the ongoing expansion of market demand as the Company continues to increase production. The Company will commission its new rapid freezing technology later in 2017 ahead of first production in Q3 FY18.

The Company is also implementing new packaging, featuring high-quality printing on recyclable waxed cardboard. This new design will enable better branding opportunities compared to the previous unbranded white polystyrene boxes, and with considerable environmental benefits. While these boxes will be more expensive, improved design and strength will deliver overall reduction in freight costs.

### **Sales growth in frozen driving inventory improvements**

Clean Seas has made further progress clearing the remaining product that had been frozen during the FY17 period of excess fresh fish production. The Company has sold more than double its budget of clearance-grade frozen product in the first three months of FY18 and at higher prices than expected.

### **Expanding market potential**

During the quarter, Clean Seas gained US FDA and EU accreditation for its new processing plant. The Company sees this as a significant step in the move to export both fresh and frozen fish from its new production facility at Royal Park in South Australia.

### **Fish health remains excellent**

Total biomass at 30 September 2017 of 2,062 tonnes exceeds the 1,985 tonnes 12 months earlier. Fish health remains excellent.

Seasonality causes biomass to reach its annual low point in Spring due to low fish growth rates in Winter and early Spring and the continued weekly harvesting during this period.

Seawater temperatures in late September and early October have exceeded the temperatures 12 months prior, supporting the Company's expectation that growing conditions in FY18 will be closer to the long term average than was the case in FY17.

The Company is considering plans to return to farming at its Fitzgerald Bay leases, at the top of the Spencer Gulf near Whyalla in South Australia, as biomass expands to meet anticipated sales growth and the 2019 year class is established in FY19.

## **Outlook**

The Company reaffirms its previous FY18 guidance of:

- sales volume increasing to 2,650 to 2,850 tonnes (+16% to +25%)
- sales revenue increasing to \$43m to \$47m (+21% to +33%)
- profit significantly higher than FY17 based on increasing sales and higher farm gate prices

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

Terry O'Brien  
Chairman

David Head  
Managing Director and CEO

## **For further information, please contact:**

David J Head – Managing Director & CEO  
+ 61 419 221 196  
[david.head@cleanseas.com.au](mailto:david.head@cleanseas.com.au)

Wayne Materne – CFO & Company Secretary  
+61 418 855 035  
[wayne.materne@cleanseas.com.au](mailto:wayne.materne@cleanseas.com.au)

Tim Dohrmann – Investor Relations  
+61 468 420 846  
[tim@nwrcommunications.com.au](mailto:tim@nwrcommunications.com.au)

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Clean Seas Seafood Limited

**ABN**

61 094 380 435

**Quarter ended ("current quarter")**

30 September 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	8,373	8,373
1.2 Payments for		
(a) research and development	(131)	(131)
(b) product manufacturing and operating costs	(3,397)	(3,397)
(c) advertising and marketing	(118)	(118)
(d) leased assets	-	-
(e) staff costs	(1,660)	(1,660)
(f) administration and corporate costs	(485)	(485)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(14)	(14)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other - Feed	(1,274)	(1,274)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>1,294</b>	<b>1,294</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1,558)	(1,558)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(1,558)</b>	<b>(1,558)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(160)	(160)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(160)</b>	<b>(160)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	524	524
4.2	Net cash from / (used in) operating activities (item 1.9 above)	1,294	1,294
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,558)	(1,558)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(160)	(160)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	<b>Cash and cash equivalents at end of quarter</b>	<b>100</b>	<b>100</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	175	524
5.2	Call deposits	-	-
5.3	Bank overdrafts	(75)	-
5.4	Other (provide details)	-	-
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>100</b>	<b>524</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter  
\$A'000

147

-

Directors Fees \$99k, rental payments \$4k, consulting \$8k, contract services, feed and equipment hire \$36k

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter  
\$A'000

-

-

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities – CBA Trade Finance Facility	7,000	75
8.2 Credit standby arrangements	-	-
8.3 Other – CBA Lease Facility	2,000	981
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The Commonwealth Bank \$7m Secured Trade Finance Facility was drawn to \$75k as at the end of the quarter.

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	200
9.2 Product manufacturing and operating costs	5,000
9.3 Advertising and marketing	300
9.4 Leased assets	-
9.5 Staff costs	2,000
9.6 Administration and corporate costs	600
9.7 Other - Feed	4,200
<b>9.8 Total estimated operating cash outflows</b>	<b>12,300</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

### **Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



Date: 11/10/2017

Print name: Wayne Materne – Company Secretary

### **Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.