

ASX & Media Release

31 July 2018

Clean Seas Anticipating FY18 NPAT of \$3m to \$3.5m

Highlights:

- **Strong growth in full year FY18 sales revenue to \$41.7 million, up 18% from FY17 with higher farm gate prices**
- **FY18 sales volume of 2,640 tonnes, up 15% from FY17**
- **FY18 Live Fish net growth of 3,330 tonnes, up 35% from FY17**
- **Live Fish Biomass at 30 June 2018 of 3,606 tonnes, up 34% from June 2017**
- **Strong working capital position with \$19.4 million in cash and undrawn facilities including \$5.5 million cash balance at 30 June 2018**
- **FY18 NPAT anticipated to be in the range of \$3.0m to \$3.5m, up from \$0.2m in FY17**

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to present its Q4 FY18 cash flow report and provide an update on business progress.

Strong Sales Growth in FY18- With Continued Improvements in Farm Gate Prices

Clean Seas' **Spencer Gulf Hiramasa Kingfish** remains the pre-eminent Yellowtail Kingfish with clear market leadership positions in both Australia and Europe. Despite the emergence of new competitors in Australia and Europe, overall FY18 sales volume increased **+15%** to 2,640 tonnes (at the lower end of guidance) whilst revenue grew **+18%** to \$41.7m (3% below guidance) supported by continued improvement in selling prices.

Large Fresh

Despite competitors in Australia and Europe selling at \$2 - \$4 per kg below **Spencer Gulf Hiramasa Kingfish**, volumes of Large Fresh Kingfish increased in FY18 by 2% to 1,975 tonnes (Whole Weight Equivalent - WWE) whilst at the same time increasing Farm Gate Prices a further \$1.06 per kg. Over the past 24 months Farm Gate prices of Clean Seas' Large Fresh **Spencer Gulf Hiramasa Kingfish** have increased by \$2.08 per kg (+18%)

The Company's Chef Activation Program is progressing well, with 1,565 restaurants visited between March and June 2018. This comprises 800 in Australia, 575 in Europe and 190 in the USA. Initial results have been very encouraging, with 42% of chefs visited who are not currently using our **Spencer Gulf Hiramasa Kingfish** indicating they intend to start buying our Large Fresh premium product.

The Large Fresh category represented 64% of Clean Seas' volume and 73% of revenue in FY18.

Frozen

Sales of traditional frozen product (excluding clearance stock) increased 53% in FY18 to 378 tonnes (WWE) at 25% higher farm gate prices. Clean Seas has now ended production of traditional frozen products (-18 degree) and has transitioned to its new “**Sensory Fresh**” range of Frozen Products, utilising Rapid Freezing Liquid Nitrogen Technology. The Sensory Fresh product provides a clear quality advantage and is expected to drive significant growth over coming years.

Sales of Frozen clearance stock of 287 tonnes (WWE) in FY18 concluded the clearance of frozen inventory arising from the FY16 biomass realignment.

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. The improvement in farm gate prices in FY18 was primarily driven by higher domestic and international selling prices.

Fish Health Remains Excellent with Growth Up 35% and Biomass up 34%

Fish health remains excellent. Net growth of 3,330 tonnes in FY18 is 871 tonnes / 35% higher than in FY17. Total biomass at 30 June 2018 of 3,606 tonnes is 907 tonnes / 34% higher than 12 months earlier.

This biomass level positions the Company well for further sales growth in FY19 and beyond as Clean Seas continues expansion of **Spencer Gulf Hiramasa Kingfish** in global markets.

New Royal Park Processing Facility Update

During FY18 Clean Seas progressively transitioned its processing operations from a third-party contractor in Port Lincoln to its new in-house processing facility at Royal Park, Adelaide. The Company completed this transition in June 2018, with material savings from the new processing and logistics facility expected to flow from Q1 FY19.

Production of frozen products using Clean Seas new Liquid Nitrogen Rapid Freezing technology commenced in April 2018, with outstanding product quality achieved. The new **Sensory Fresh** products were launched successfully at events in Brussels and London in late April with market sales expected to commence in late Q1 FY19.

Production of **Sensory Fresh** products was temporarily suspended in late May 2018 following a flood caused by the failure of a component of the fire safety system. The flood had no impact on fresh fish processing or the Sensory Fresh Liquid Nitrogen Rapid Freezing equipment, however, the water inundation damaged the new minus 40 degree storage freezer and has caused damage to the sub-floor.

All product was successfully moved to minus 40 degree containers during June and July 2018, and has been shipped to Europe in preparation for the market launch in late Q1 FY19.

The minus 40 degree freezer is expected to be recommissioned in coming weeks as an interim measure, and repairs or replacement of the storage freezer and the freezer floor will be undertaken in the future at a time that will minimise disruption of **Sensory Fresh** production. All costs of the repair are expected to be covered by insurance (including additional costs of working).

The Company holds sufficient Sensory Fresh inventory to cover planned sales in the interim and has contingency plans to ensure the supply chain of minus 40 degree **Sensory Fresh** product in the event of further issues with the damaged freezer.

Farm Expansion - Return to Farming at Fitzgerald Bay (Whyalla)

The Company is progressing plans to return to farming at its Fitzgerald Bay leases, at the top of the Spencer Gulf near Whyalla in South Australia, commencing with the 2019 Year Class (YC19) fish. This will facilitate further expansion of the Company's **Spencer Gulf Hiramasa Kingfish** production with an additional 4,250 tonnes of Farm capacity and will further improve sustainability practices including fallowing of farm sites and help reduce biosecurity risk through further geographic diversification.

It is expected that the YC19 fish will (as usual) be initially transferred from our Arno Bay Hatchery to our Arno Bay "Nursery" site, prior to being relocated to Fitzgerald Bay later in FY19.

Q4 FY18 Cash Flow Report Highlights Investment in Future Growth

The Q4 FY18 cash flow report highlights increased operating cash outflows driven by the Company's ongoing investment in increased biomass to support future sales growth in FY19 and beyond, with the costs of increasing the Live Fish inventory included in Net Cash Used in Operating Activities.

The report also reflects;

- Cash receipts from customers in FY18 of \$40.8m are 13% above FY17.
- Higher than usual feed payments in Q4 FY18, which are \$2.6m / 74% higher than Q4 FY17. This is due to a combination of an investment purchase of feed in Q4 FY18 ahead of an advised price increase and the impact of improved payment terms negotiated with feed suppliers early in FY18, which delayed a significant amount of feed payments from Q3 to Q4
- Marketing costs were \$0.8m higher than Q4 FY17, reflecting the Chef Activation program which commenced in late Q3 and other marketing initiatives including the launch of **Sensory Fresh** with benefits to flow in FY19.
- Staff costs were \$0.6m higher than Q4 FY17, mainly reflecting the shift of processing from a third-party contractor to the new in-house processing facility in Royal Park during FY18

Feed Litigation Update

The Company's action against Gibson's Ltd in the Supreme Court of South Australia, in respect of what the Group maintains were defective feeds supplied to the Company and fed to the Company's Yellowtail Kingfish between December 2008 and July 2012, continues. The interlocutory steps in the litigation are expected to be completed over the next week or so with both parties having completed discovery and the exchange of initial and responding experts reports on liability and quantum.

The matter is back before the court for directions on 10 August and the Company's lawyers anticipate that on that date the matter will be referred to a Listing Conference for the listing of the matter for trial in the first six months of 2019. The pre-trial mediation discussed by the parties some time ago is yet to be confirmed but is likely to be held before the end of this calendar year.

Outlook

The Company reaffirms its previous FY18 guidance that profit will be significantly higher than FY17 based on increasing sales and higher farm gate prices. While audit of the FY18 results remains in progress, the Board anticipates reporting FY18 Net Profit After Tax in the range of \$3.0m to \$3.5m which compares to \$0.2m in FY17.

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

Terry O'Brien
Chairman

David J 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

Wayne Materne – CFO & Company Secretary
+61 418 855 035
wayne.materne@cleanseas.com.au

Tim Dohrmann – Investor Relations
+61 468 420 846
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 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,998	40,787
1.2 Payments for		
(a) research and development	(287)	(714)
(b) product manufacturing and operating costs	(3,866)	(17,687)
(c) advertising and marketing	(813)	(1,348)
(d) leased assets	-	-
(e) staff costs	(2,508)	(8,318)
(f) administration and corporate costs	(630)	(2,423)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	20	63
1.5 Interest and other costs of finance paid	(25)	(70)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	29
1.8 Other - Feed	(6,036)	(17,141)
1.9 Net cash from / (used in) operating activities	(4,147)	(6,822)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(931)	(4,917)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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)	-	-
2.6 Net cash from / (used in) investing activities	(931)	(4,917)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	17,656
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	-	(1,309)
3.5 Proceeds from borrowings	1,220	1,220
3.6 Repayment of borrowings	(253)	(818)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	967	16,749

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	9,645	524
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(4,147)	(6,822)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(931)	(4,917)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	967	16,749

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	5,534	5,534

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	5,534	9,645
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,534	9,645

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	241
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	

Directors Fees \$97k, rental payments \$8k, consulting \$25k, contract services, feed and equipment hire \$111k

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
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	

8. Financing facilities available <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	10,000	-
8.2 Credit standby arrangements	-	-
8.3 Other – CBA Lease Facility	6,000	2,132
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 \$10m Secured Trade Finance Facility was undrawn as at the end of the quarter.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	200
9.2 Product manufacturing and operating costs	3,700
9.3 Advertising and marketing	400
9.4 Leased assets	-
9.5 Staff costs	2,300
9.6 Administration and corporate costs	600
9.7 Other - Feed	3,600
9.8 Total estimated operating cash outflows	10,800

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	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: 31/7/2018

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.