



FY18 Results Investor Presentation  
September 2018

David Head – Managing Director and CEO



SPENCER GULF  
HIRAMASA  
KINGFISH



# Agenda

- Business Overview
- FY18 Results Summary
- Sales Growth & Pricing Improvements
- Understanding Seasonality
- FY18 Financial Statement Analysis
- FY19 – FY21 Outlook
- Investment Highlights



# Global Leader

Clean Seas Seafood Limited (ASX: CSS) is the global leader in full cycle breeding, production and sale of Yellowtail Kingfish.

## TRADING INFORMATION

ASX stock code	CSS
Shares quoted on ASX	1,667m
Cash + available finance facilities (30 June 2018)	\$19.4m
Market cap at 6.0 cents/share	\$100m

## MAJOR SHAREHOLDERS (AS AT 17/9/18)

JP Morgan Nominees Australia Limited *	10.8%
Australian Tuna Fisheries Pty Ltd – combined	7.1%
HSBC Custody Nominees (Australia) Limited	2.0%
Citicorp Nominees Pty Limited	1.8%
BNP Paribas Nominees Pty Ltd	1.2%
3 <sup>rd</sup> Wave Investors Ltd	1.2%
Michael & Rebecca O’Neill	1.0%
David Head (Managing Director) Related Entities - combined	0.6%
<b>Top 20 Shareholders</b>	<b>31.9%</b>

\* Includes Bonafide Wealth Management AG - 6.1% per 6/7/18 Notice

# It's All About the Fish - Unsurpassed Raw, Outstanding Cooked

“We won't say *absolutely* it's the best raw fish in the world, but after talking to chefs around the world, we don't believe there is a fish that matches Spencer Gulf Hiramasa Kingfish” ... Here's why:

- **Provenance** (including cold water benefits)
- **Culinary excellence and versatility**
- **Sustainability** (certified by Friends of the Sea and HACCP; ASC pending having recently completed audit)



# Our Long-Term Investment is Yielding Results

- Clean Seas proudly delivers the highest quality fresh Kingfish to customers around the world twice per week – 52 weeks per year
- Our Sensory Fresh (premium frozen) products leveraging our new rapid freezing technology will deliver a clear product advantage versus all other frozen product offerings (globally)
- We have direct relationships with more than 150 distributors and wholesalers worldwide
- Our product is served in some of the world's leading restaurants in Europe, the USA and Asia within 4-5 days of harvest
- This is an outstanding but relatively unknown species
- So we think we have only just begun...



**Nicky Riemar**  
Bellota Restaurant  
Melbourne

# Farmed in a Unique Area of South Australia

- Our Hatchery and Sea Farms are located in the Spencer Gulf, in a remote corner of Southern Australia near the famous fishing town of Port Lincoln.
- By any measure, the Spencer Gulf is one of the cleanest bodies of water in Australia. There is nothing between the water where the kingfish are raised and the Antarctic but the icy, vast expanse of the Southern Ocean.
- Yellowtail Kingfish are indigenous to these remote crystal clear waters. Spencer Gulf Hiramasa Kingfish brood stock are bred from fish originally sourced only an hour or so from our current operations.

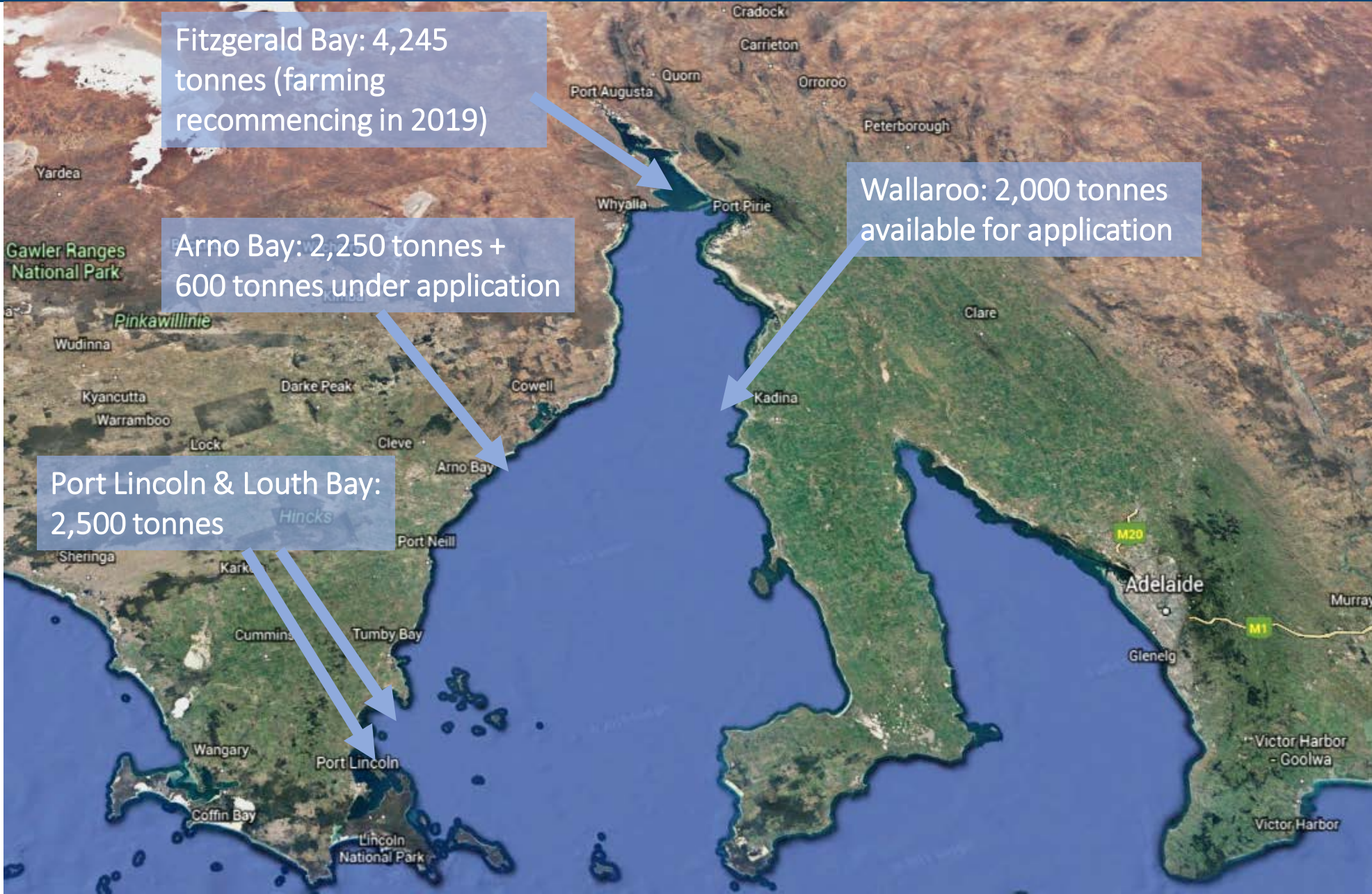


# Dedicated Hatchery, R&D and Feed Trial Facility



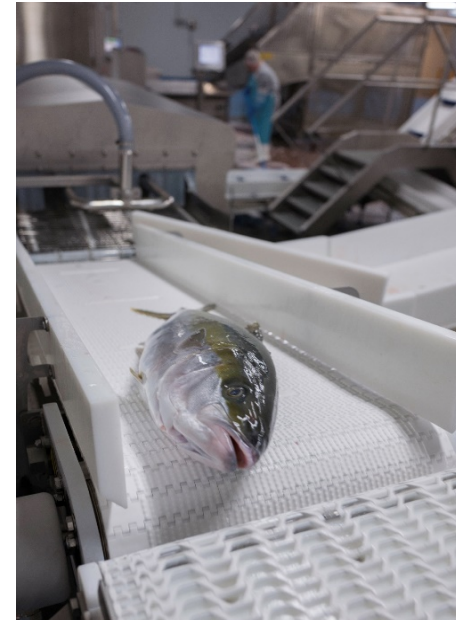


# Lease Capacity for circa 9,000 tonnes – Currently 3,000

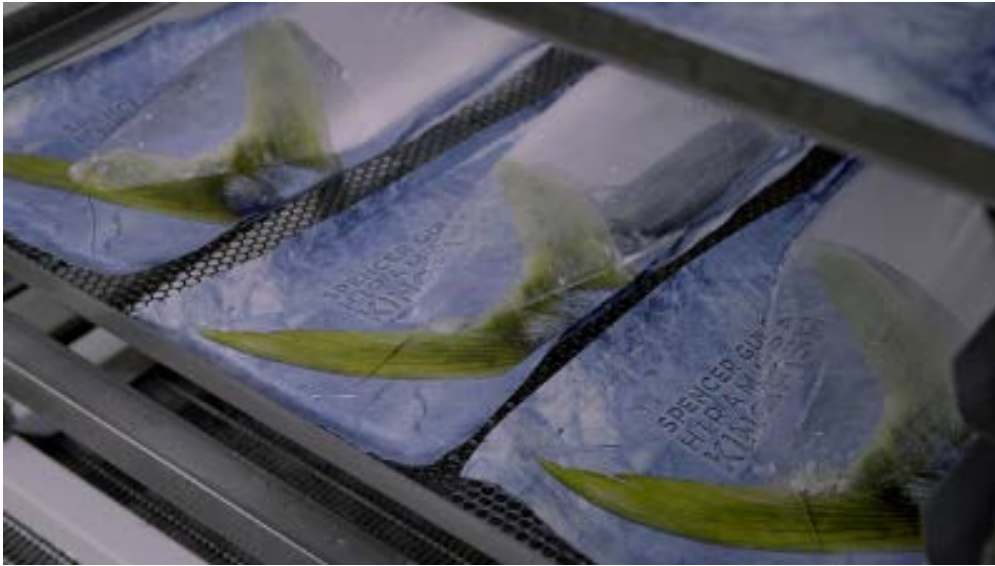


# New Processing Facility To Deliver Savings of \$1.2m+ (FY19)

- In FY18, Clean Seas made a significant investment in a new in-house processing facility that is now delivering high quality fresh and frozen product from Adelaide to the world and expected to deliver annual savings in FY19 (after the cost of depreciation) of \$1.2M+
- New facility allows end-to-end quality control across Clean Seas' supply chain from hatchery to customer
- Significant capacity for future expansion, including production of new “value added” products planned from FY20
- As part of this multi million dollar investment, Clean Seas has set a new quality standard for frozen Yellowtail Kingfish with an investment in new rapid freezing technology



# SensoryFresh: A Game Changer in Frozen Yellowtail Kingfish



- Freezing high value, premium quality seafood is all about speed. The ice formation stage must be fast for optimum texture
- Clean Seas Rapid Freezing does this in **around 22 minutes, 10 times faster** than conventional freezing
- To capture the colour, aroma and flavour,  $-35^{\circ}\text{C}$  must be reached quickly. Conventional freezing won't do this
- Our Rapid Freezing achieves **surface temperature  $-95^{\circ}\text{C}$  and core temperature  $-50^{\circ}\text{C}$**
- We call it “SensoryFresh”





# Testimonial from Shaun Presland – Sushi Master



*“I was seriously overwhelmed with how good this product is.*

*I cooked some with crispy skin and the fat layer between the flesh and skin is perfect, undisturbed by the freeze.*

*I ate some sashimi, made some nigiri and smashed out a tartar.*

*The bloodline, the firm flesh and the aroma felt like this fish had just jumped out of the ocean.*

*The flavour was delicious and had no traces of the tinny, metallic tastes that can affect frozen fish.”*

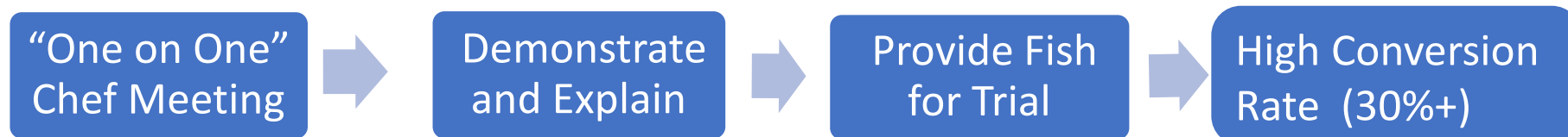
**Shaun Presland**  
**Group Executive Chef - Sake Restaurants**

# Gaining Market Traction Through “One on One” Chef Meetings

- To support our global distribution network, we met “one on one” with 1,565 leading chefs across Europe, USA and Australia between March and June 2018
- We see it as our responsibility to go door to door across the leading cities of the world to introduce and explain why other chefs consider Spencer Gulf Hiramasa Kingfish to be the best raw fish in the world
- At each meeting, we present the chef with one of our Spencer Gulf Hiramasa Kingfish in a specially designed presentation box
- Results from these restaurants are very encouraging: 42% of chefs visited who are not currently using our Kingfish have indicated they would definitely start buying
- We intend to further expand this program over the next two years to reach thousands of leading restaurants across Europe, North America, Asia and Australia to grow sales for our brand and our distributors



Single fish presentation box

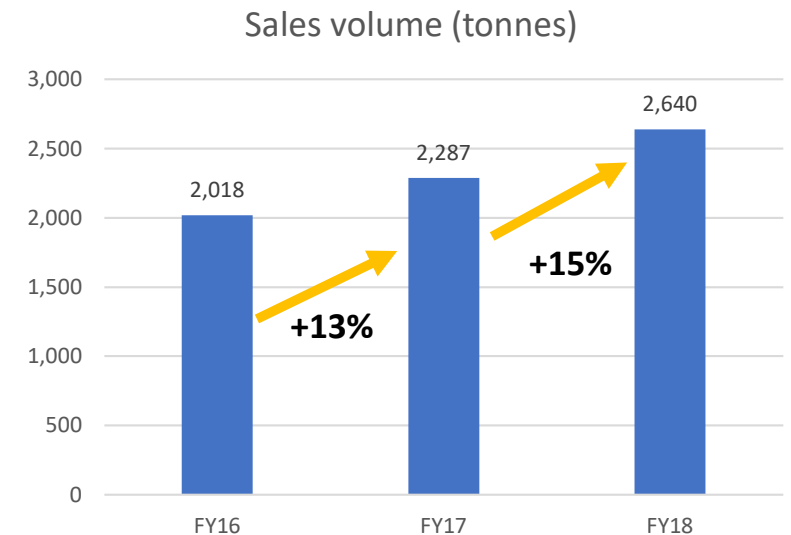
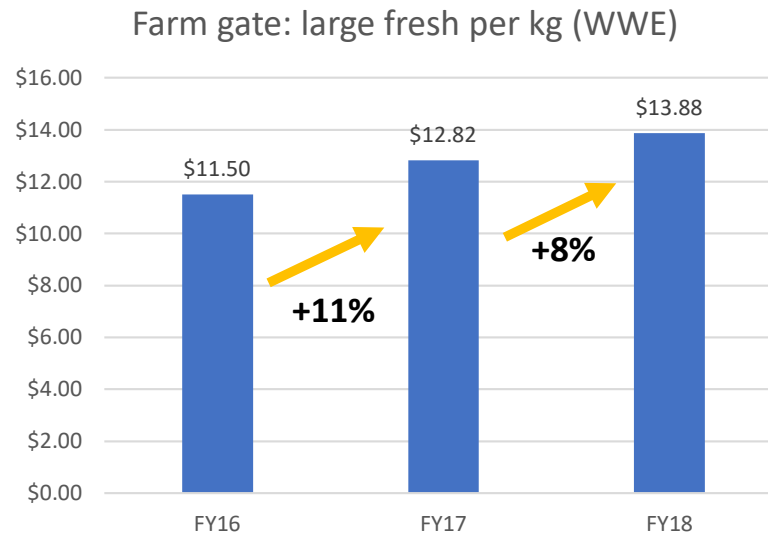
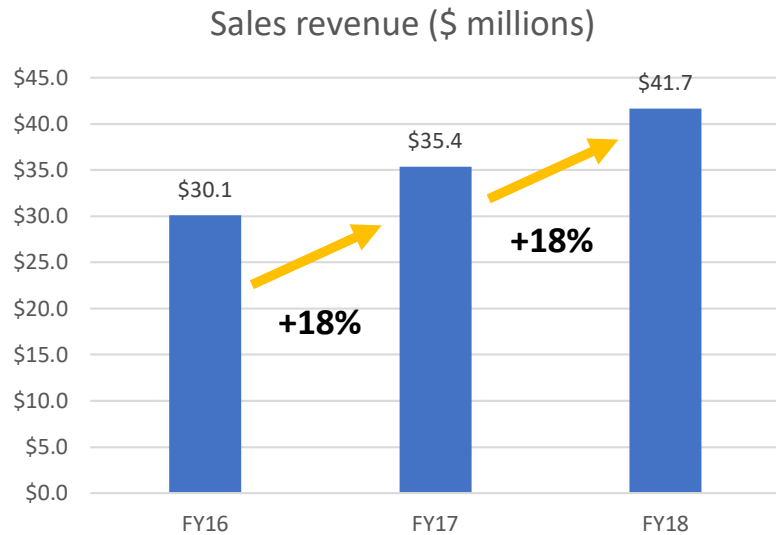


# Results Summary

	FY18	FY17	Change
Sales Volume (tonnes WWE)	2,640	2,287	▲ 15%
Net Biomass Growth (tonnes)	3,330	2,459	▲ 35%
Closing Biomass (tonnes)	3,606	2,699	▲ 34%
Sales Revenue (\$'M)	41.7	35.4	▲ 18%
Profit After Tax (\$'M)	3.4	0.2	▲ \$3.2M
Closing Cash Balance (\$M)	5.5	0.5	▲ \$5.0M
Undrawn Committed Facilities (\$'M)	13.9	8.0	▲ \$5.9M
Net Assets (\$'M)	71.8	51.6	▲ \$20.2M
Cash used in Operations (\$'M)	(6.8)	(3.3)	▼ \$3.5M

# Three Years of Strong Sales Growth and Improved Pricing

- Continued volume and pricing improvements across several categories drove FY18 revenue growth of 18% to \$41.7 million.
- Farm gate prices continues to improve, with Clean Seas boosting farm gate price for its Large Fresh product by 8% (representing 64% of FY18 volume and 73% of revenue) on volumes which matched FY17.
- Traditional frozen product sales volume (excluding clearance stock) increased 53% in FY18 at 25% higher farm gate prices.
- Overall, Clean Seas achieved a 15% increase in sales volume over FY17 to 2,640 tonnes<sup>1</sup>.



1: A 7% volume increase excluding the impact of clearance sales of frozen product in FY17 and FY18.

# Seasonal Fish Growth Profile Means Profits Occur in H2

- Yellowtail Kingfish record their strongest growth when seawater temperatures exceed 17° C.
- In the Spencer Gulf region of South Australia, where cool water production is well recognised as enhancing the quality of our Spencer Gulf Hiramasa Kingfish, fish growth mainly occurs between November and May.
- Net biomass growth in FY18 from July to December (H1) was 734 tonnes (22%) and from January to June (H2) was 2,596 tonnes (78%).
- This seasonality materially impacts statutory profit, with H1 FY18 loss of \$3.8M and H2 profit of \$7.2M.
- H2 FY18 profit was \$2.0M / 38% above the \$5.2M profit in H2 FY17.





# Profit & Loss Summary

\$'m	FY18	FY17	Change
Live Fish Net Growth – Tonnes	3,330	2,459	▲ 35%
Sales Volume - Tonnes	2,640	2,287	▲ 15%
Sales Revenue	41.7	35.4	▲ 18%
COGS (incl. SGARA)	(40.4)	(34.6)	▼ 17%
<b>Gross Profit</b>	<b>1.3</b>	<b>0.8</b>	▲ \$0.5m
Live Fish Net Growth	43.9	34.0	▲ 29%
Operating Costs	(39.3)	(31.2)	▼ 26%
Live & Frozen Fish Write-down	-	(1.3)	n/a
<b>EBITDA</b>	<b>5.9</b>	<b>2.3</b>	▲ \$3.6m
Depreciation & Amortisation	(2.5)	(2.0)	▼ \$0.5m
<b>EBIT</b>	<b>3.4</b>	<b>0.3</b>	▲ \$3.1m
Net Interest	-	(0.1)	▲ \$0.1m
<b>Net Profit Before Tax</b>	<b>3.4</b>	<b>0.2</b>	▲ \$3.2m
Tax	-	-	-
<b>Net Profit After Tax</b>	<b>3.4</b>	<b>0.2</b>	▲ \$3.2m

- FY18 sales volume up 7% excluding frozen clearance sales in both years
- Double digit sales growth in Europe and Asia, with Australian volumes stable at higher farm gate prices despite increased price-based competition
- Net Farm Gate price per kg for large fresh products increased \$1.06 (8%) during FY18 \*
- Net fish growth reflected improved feed conversion and a return to average seawater temperatures in FY18, following cooler temperatures in FY17
- Operating costs reflect \$5.6m higher Farm & Hatchery costs due to increased biomass and \$1.3m higher sales & marketing spend to support sales growth at higher farm gates
- Depreciation includes Processing facilities for the first time in FY18

\* Net farmgate price is selling price less processing and packaging costs, freight and handling and sales commissions, and is reported on a Whole Weight Equivalent (WWE) basis.

# Balance Sheet Summary

\$'m	FY18	FY17	Change
Cash	5.5	0.5	▲ \$5.0m
Live Fish	45.2	32.1	▲ \$13.1m
Receivables	5.1	3.8	▲ \$1.3m
Inventories	5.5	3.5	▲ \$2.0m
Property, Plant & Equipment	16.5	14.0	▲ \$2.5m
Other Assets	3.9	3.8	▲ \$0.1m
<b>TOTAL ASSETS</b>	<b>81.7</b>	<b>57.7</b>	<b>▲ \$24.0m</b>
Payables	(6.5)	(4.1)	▼ \$2.4m
Borrowings	(2.4)	(1.2)	▼ \$1.2m
Employee Leave Provisions	(1.0)	(0.8)	▼ \$0.2m
<b>TOTAL LIABILITIES</b>	<b>(9.9)</b>	<b>(6.1)</b>	<b>▼ \$3.8m</b>
<b>NET ASSETS</b>	<b>71.8</b>	<b>51.6</b>	<b>▲ \$20.2m</b>

- Live Fish inventory increased 34% in FY18 to 3,606 tonnes
- Average Live Fish value (\$/kg) increased from \$11.90 to \$12.54 per kg (net of mortality allowance), reflecting higher farm gate prices
- Inventory increase mainly reflects accelerated feed purchases ahead of price increases
- FY18 capex was mainly farm and processing equipment
- June 2018 borrowings are mainly lease finance for farm and processing equipment
- \$10m CBA Trade Finance facility was undrawn at June 2018
- \$3.9m of the \$6m CBA Lease Finance facility was undrawn at June 2018
- Net \$16.3m of equity raised in Q2 FY18

# Cash Flow Summary

\$'m	FY18	FY17	Change
Receipts from Customers	40.8	36.1	▲ \$4.7m
Payments to Suppliers excl. Feed	(22.2)	(19.6)	▼ \$2.6m
Payments for Feed	(17.1)	(13.3)	▼ \$3.8m
Payments for Employees	(8.3)	(6.5)	▼ \$1.8m
<b>NET CASH USED IN OPERATIONS</b>	<b>(6.8)</b>	<b>(3.3)</b>	<b>▼ \$3.5m</b>
Capital Expenditure	(4.9)	(2.5)	▼ \$2.4m
Net Proceeds from Share Issue	16.3	8.3	▲ \$8.0m
Net Proceeds from borrowings	0.4	(2.5)	▲ \$2.9m
Net Interest	-	(0.1)	▲ \$0.1m
<b>NET CHANGE IN CASH</b>	<b>5.0</b>	<b>(0.1)</b>	<b>▲ \$5.1m</b>
Opening Cash	0.5	0.6	▼ \$0.1m
<b>CLOSING CASH</b>	<b>5.5</b>	<b>0.5</b>	<b>▲ \$5.0m</b>

- Increased receipts from customers reflect sales growth
- Increased payments to suppliers reflect increased farm, freight, marketing and other costs
- Feed payment increase reflects 20% increase in feed used and accelerated purchases ahead of price increases (increasing June 2018 feed inventory)
- Increased employee payments include Processing employees for the first time in FY18
- Net Cash Used in Operations in FY18 includes approximately an incremental \$6m due to increasing biomass by 907 tonnes / 34% from June 2017 to June 2018. In FY17 biomass increased 191 tonnes / 8% from June 2016. This is a FY18 cash investment to facilitate increased sales and business expansion in FY19 and beyond
- FY18 capital expenditure is mainly farm and processing equipment
- Net \$16.3m of equity raised in Q2 FY18 via 1:10 Rights Issue, Institutional Placement and Top Up Placement, all issued at 6.0 cents per share

# FY19 Outlook

- Sales volume increasing to 2,750 to 3,000 tonnes (+17% excluding frozen clearance products)
- Sales revenue increasing to \$47 million to \$50 million (+18%+ from FY18 on the same basis)
- Further double digit sales growth expected to continue in FY20 and beyond, supported by higher biomass growth and higher farm gate prices



# Target FY21 Cash Profits – On Track

Large Fresh - \$ Per kg (WWE)	FY16	FY17	FY18	FY21 Target
<b>Farm Gate Price</b>	<b>11.50</b>	<b>12.86</b>	<b>13.88</b>	
Production Cash Cost per kg of Net Growth (Farm and Hatchery)	9.78	9.74	8.88	
Indirect Cash Cost per kg of Sales (Sales, Marketing, Logistics, YTK R&D and Corporate)	2.34	2.99	3.61	
<b>Cash Profit per kg (WWE) (*)</b>	<b>(0.62)</b>	<b>0.13</b>	<b>1.39</b>	<b>3.00 – 3.50</b>

(\*) Cash Profit contribution excluding depreciation

- FY18 Live Fish Net Growth was stronger with better feed conversion than FY17, with a favourable year class mix, reducing average production cost per kg
- Indirect costs increased due to higher sales and marketing spend per kg sold, which has lifted farm gate prices 21% over the last 2 years.
- In FY19 the farm gate is expected to increase further, reflecting savings from in-house processing and further price increases.
- Expansion into North America and China will require increased sales and marketing investment over the next 2 years, but will help drive global volumes to 4,000+ tonnes by FY21.
- Investment in the new Whyalla farm plus automated feed systems over the next 2 years is expected to reduce farm production costs further by FY21.
- Lower cost of production through automation and investment in selective breeding combined with economies of scale from higher volumes (thus reducing indirect cost per kg) are expected to deliver cash profit per kg of \$3.00 to \$3.50 for Large Fresh Products by FY21.
- Cash profit for All Products are expected to be \$2.00 to \$2.50 in FY21 and \$2.50 to \$3.00 in FY22

# Investment highlights



- Yellowtail Kingfish is an outstanding species but is still relatively unknown outside Japan. Clean Seas Seafood is taking the Spencer Gulf's untold and unique provenance story to the world
- Significant scope for increased sales in North America (market circa 14,000 tonnes), China (circa 1,500 tonnes and growing at 50% per annum) and Europe where per capita sales are just 10% of North America.
- Globally 65% of all YTK sales outside Japan are frozen. Clean Seas' Sensory Fresh (premium frozen product offering) has a significant product advantage
- Clean Seas' premium brand positioning is delivering superior farm gate prices
- Potential farm lease capacity of circa 11,000 tonnes can support significant growth
- Investment in new larger farm capacity, selective breeding and farm automation will reduce the cost of production over the next 3 years
- Mediation expected by December 2018 in feed litigation with trial to be scheduled in H2 FY19 if not settled at mediation.
- Significant tax losses of approximately \$68M plus R&D tax offsets of circa \$20M (gross value) which will offset tax payable on future profits

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**CONTACT:**

**David Head** | Managing Director and CEO

[david.head@cleanseas.com.au](mailto:david.head@cleanseas.com.au)

+61 (0) 419 221 196

**Tim Dohrmann** | Investor Relations

[tim@nwrcommunications.com.au](mailto:tim@nwrcommunications.com.au)

+61 (0) 468 420 846

