



# Clean Seas Seafood Limited Investor Update

David J. Head – Managing Director & CEO

Robert Gratton - CFO

3<sup>rd</sup> April 2019





## COMPANY VISION

“ To be a global leader in aquaculture, *inspiring culinary experiences* around the world through our sustainable, premium seafood ”



# Corporate Snapshot

## TRADING INFORMATION

ASX stock code	CSS
Shares on issue	83m
Cash + available finance facilities (31 December 2018)	\$15.2m
Market cap at 92.0 cents/share	\$76.4m

## MAJOR SHAREHOLDERS (AS AT 29/3/19)

JP Morgan Nominees Australia Limited *	15.0%
Australian Tuna Fisheries Pty Ltd – combined	7.0%
BNP Paribas Nominees Pty Ltd	2.1%
HSBC Custody Nominees (Australia) Limited	1.9%
Citicorp Nominees Pty Ltd	1.2%
3 <sup>rd</sup> Wave Investors Ltd	1.1%
New Economy Nominees	0.95%
David Head (Managing Director) Combined related entities	0.6%
<b>Top 20 Shareholders</b>	<b>35.10%</b>


\* Includes Bonafide Wealth Management AG

# Our Value Proposition

- Clean Seas is the global leader in full cycle breeding, production and sale of Yellowtail Kingfish.
- Our objective is to deliver long term shareholder value pursuing an outstanding global growth opportunity with the following key drivers:
  - Products of superior market-leading quality:
    - Spencer Gulf Hiramasa Kingfish (Arguably the best raw fish in the world)
    - *SensoryFresh (World's best practice freezing technology).*
  - Compelling premium branding
  - Significant capacity to scale up production (3x current – with lease capacity of 9000t)
  - Increasingly efficient breeding, farming, processing and logistics
  - Ongoing expansion from fresh to complementary premium frozen products
  - Positive social license with engaged and supportive local stakeholders



# Arguably the best raw fish in the world



“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”

David J Head  
Managing Director & CEO



# Unique Fish, Creative Chefs ..... Inspired Culinary Experiences





# Leading Chefs are increasingly featuring Spencer Gulf Hiramasa Kingfish on menu



## Australia

- Saké (Sydney/Melbourne)
- Pilu (Sydney)
- Aria (Melbourne)
- Lee Hofok (Melbourne)
- Momofuku Seiobo (Sydney)
- Anchovy (Melbourne)
- Automata (Sydney)
- Bellota (Melbourne)

## United Kingdom

- Roka (London)
- Sexy Fish (London)
- Zuma (London)
- Gordon Ramsay (London)

## Germany

- H&H (Hamburg)
- Funky Fish (Berlin)
- Lohninger (Frankfurt)
- Tim Raue (Berlin)

## Italy

- Nobu (Milan)
- Cipriani (Venice)
- La Pergola (Rome)

## Switzerland

- Eden au Lac (Zurich)
- Ecco (Zurich)

## Austria

- Hangar 7 (Salzburg)
- Amador (Vienna)

## France

- Hotel Costes (Paris)
- L' Atelier de Robuchon (Paris)
- Hotel Crillon (Paris)
- Kinugawa (Paris)

## Spain

- Shunka (Barcelona)
- Pacha (Ibiza)

## Portugal

- Vila Joya (Algarve)

## Denmark

- Sticks N Sushi (Copenhagen)

## Norway

- Alex Sushi (Oslo)

**And, Industry Awards confirm “Best in Class” product and Best Primary Producer**

## **Australian Food Awards**

**“Best Fish” 2016, 2017 and 2018**



## **Delicious Produce Awards**

**Gold Medal Winner “From the Sea” 2018**



## **Food SA Industry Awards**

**Primary Producer of the Year - 2018**





# Investment in Unique Supply Chain Unlocks Global Growth Potential

- **Fresh Spencer Gulf Kingfish** is delivered to customers around the world *twice per week – 52 weeks per year* and is in restaurants in Europe, North America and Asia within *four days* of harvest
- **Sensory Fresh (premium frozen) product** is shipped around the world in specialist minus 35 degree refrigerated containers and has achieved a clear product advantage versus all other frozen YTK offerings (globally)
- We have direct relationships with more than **150 distributors** and wholesalers worldwide



**Nicky Riemar**  
Bellota Restaurant  
Melbourne



# Location Advantage, with Farm Capacity for 9,000+ Tonnes Across the Spencer Gulf





# Selective Breeding - years of investment and experience



**Adam Miller**  
**Breeding and Hatchery Manager**



# Supported by a team of world class scientists





# Ocean Farm – Home for the next 18-24 months

Kingfish are hungry animals and fed daily – 52 weeks per year.  
Over two years, we grow our Yellowtail Kingfish to a weight of 4 to 5kg.  
A good-sized fish attracts wholesale pricing of around \$95.





# Strong local community stakeholder support and environmental certifications underpin our social license

## Aquaculture Stewardship Council (ASC)

- The world's leading aquaculture certification.
- We completed the final audit in March 2019 and are expecting to finalise accreditation over the coming months



## Friend of the Sea

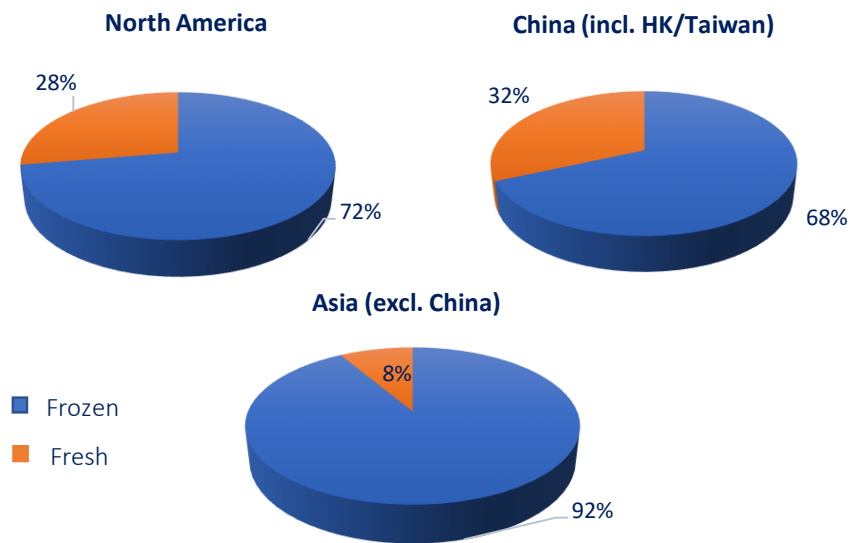
- No impact on critical habitat
- Compliance with waste water parameters
- No use of harmful antifoulants or growth hormones
- Compliance with Social Accountability



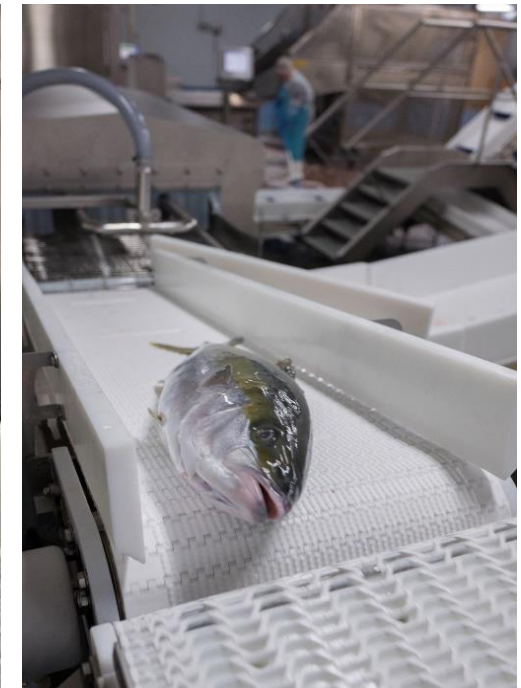


# Investment in Quality and Innovation – Focused on market opportunity

- New in-house processing facility delivers high quality fresh and frozen product from Adelaide to the world *and has delivered annual savings of \$1 million +*
- Provides end to end quality control across Clean Seas' supply chain from hatchery to end customer
- Significant capacity for future expansion, including new “value added” products
- As part of this multi million dollar investment, will have also set a new standard for frozen Yellowtail Kingfish



The significance of frozen product in key markets underscores the value of our new **SensoryFresh** range, which enjoys a strong quality advantage.





# Liquid Nitrogen Rapid Freezing – World's best freezing technology



- 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°C must be reached quickly**. Conventional freezing won't do this
- Our Rapid Freezing achieves **surface temperature of -95°C and core temperature -50°C to -70°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**



# Brand Activation – One on one visits with leading chefs driving growth

- To support our global distribution network we met “one on one” with **2,178** leading chefs across Europe (849) USA (224) and Australia (1,105).
- **41%** of Chefs visited who are not currently using our Kingfish have indicated they would definitely start buying



- The Chef activation program is a platform that is effective in generating brand awareness and creating product trial with the hard-to-get-to and highly influential, high-end executive chefs
- We plan to focus efforts in USA and China for the remainder of FY19 and into FY20





# Sales Accelerating into Q3 FY19

- Global sales volume in Jan-Feb FY19 exceeded Jan-Feb FY18 by 40%.
- All regions – Australia, Europe, North America and Asia – are recording solid growth during a period in which Clean Seas has also increased Farm Gate prices.
- Growth reflects investment in brand marketing, global chef activation and recaptured market share.

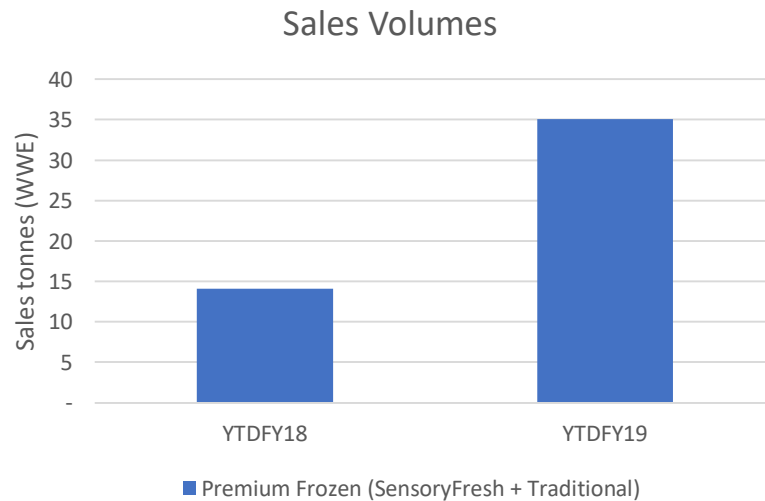
Sales volume (by market, excluding frozen clearance sales)			
<b><i>Tonnes (WWE*)</i></b>	<b>Q1 FY19 v Q1 FY18</b>	<b>Q2 FY19 v Q2 FY18</b>	<b>Jan-Feb FY19 v Jan-Feb FY18</b>
Australia	2%	18%	25%
Europe	(16%)	32%	49%
North America	13%	22%	47%
Asia/China	(8%)	67%	304%
<b>Total</b>	<b>(6%)</b>	<b>24%</b>	<b>40%</b>

\* Whole Weight Equivalent



# Asian Customer Case Study

- A profitable partnership has been developed with an Asia based customer who operates a number of large restaurant each with a seating capacity of 500+ diners.
- The customer had previously purchased lower quality, less expensive Japanese Hamachi product, and began purchasing some of our frozen clearance product several years ago.
- Last year they converted to Clean Seas' higher quality *SensoryFresh* offering.
- Volume has grown significantly over the last 12 months to a monthly usage of approximately 10 tonnes (WWE) which equates to AUD \$2.5 million in annual sales.
- This partnership also provides an opportunity to leverage our Brand marketing videos in restaurants on their large TV screens.





# Strong further global sales growth potential

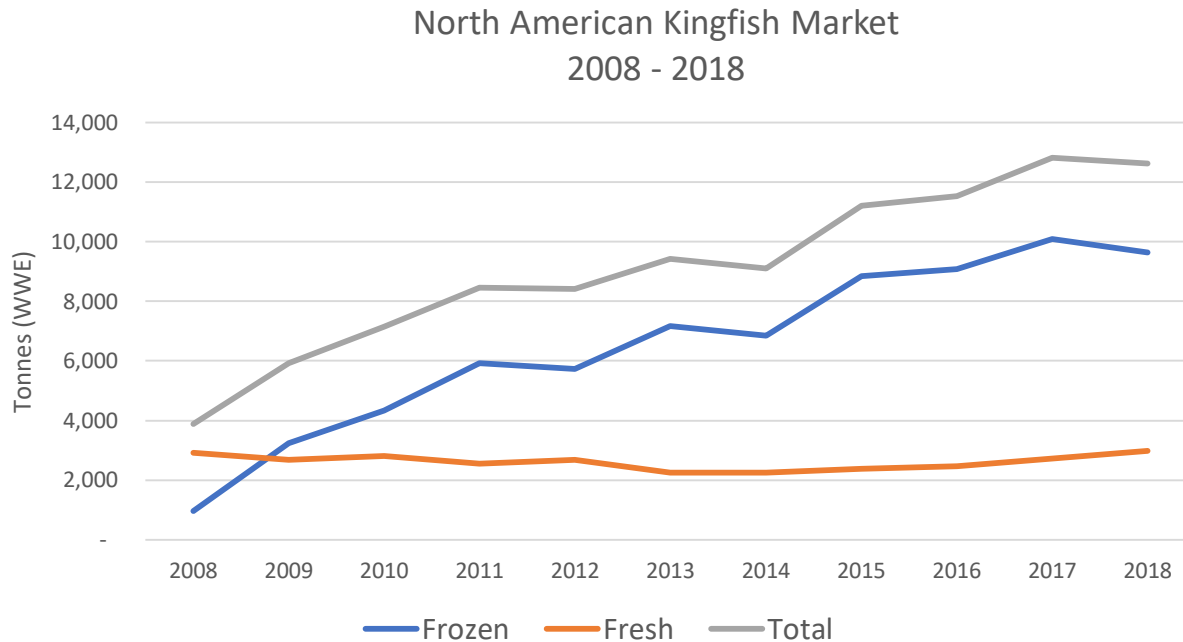
	Annual Per Capita*Consumption Farmed YTK (Grams/PA)
Japan	1,100 grams (1.1kg)
Australia	80 - 90 grams
North America	60 - 70 grams
Europe	< 10 grams
China	<10 grams

(\*) Based on major urban populations

- **Japanese** annual Per Capita consumption of Farmed Yellow Tail Kingfish is circa 1.1 kg and circa 2kg Per Capita combining Farmed and Wild Caught YTK
- **European** annual Per Capita consumption of Farmed Yellow Tail Kingfish is less than 10 grams which excludes the large Wild Catch YTK from the Mediterranean and South Africa
- **North American** annual Per Capita consumption of Farmed Yellow Tail Kingfish is circa 60-70 grams and excludes any Wild Caught YTK – it was only circa 15-20 grams per capita 10 years ago
- **Australian** annual Per Capita consumption of Farmed Yellow Tail Kingfish is circa 80-90 grams but varies by region from 40 to 110+ (excludes Wild catch)
- **China** annual Per Capita consumption of imported Farmed Yellow Tail Kingfish is less than 10 grams but excludes local farmed and wild caught YTK



# North American market remains key opportunity



- The North American Kingfish market has now reached circa 13,000t (WWE) as of 2018, with 9,600t of this in frozen product
- In this same time Japanese Kingfish exports to the US market have grown to 9,200t (WWE) in 2018, primarily driven by frozen products
- The market for Fresh product has remained relatively flat at 2,900t (WWE)
- Recent feedback from the US market has been very positive in terms of Clean Seas opportunity
- **Spencer Gulf Hiramasa** and **SensoryFresh** are seen as a superior product to the Japanese Hamachi



# “Turnaround” Scoreboard

## Strategic Priorities – Nov 2016

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### Marketing and Branding

- New Brand Strategy and positioning required
- Sustainability Credentials

### Sales and Markets

- Farm Gate Prices need to reflect premium positioning
- Global Activation Program needed to drive trial
- Expand Global Markets

### Post Harvest Processing

- Establish in house Operations to increase capacity, ensure end to end control over supply chain and save \$1m pa

### Production

- Lower cost of Production
- Feed Optimisation

### People

- Strengthen Senior Team

### Profitability

- Return to profitability

## Key Outcomes at April 2019

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### Marketing and Branding

- Rebranded as “**Spencer Gulf Hiramasa Kingfish**” (Provenance and Culinary Excellence)
- Premium Frozen Brand (*SensoryFresh*) *established and launched*
- ASC final audit completed in March – expect accreditation to be completed shortly

### Sales and Markets

- Sales have grown 150% in four years (FY15 –FY19)
- Farm Gate Price Increased 21% over past 2 years (30% + in Europe)
- Over 2,000 Chef Activation visits (Europe, Nth America, Aust) Over 40% confirmed will buy
- New Market partnerships being established in Nth America and Asia

### Post Harvest Processing

- Royal Park Facility established in July 2017 – Annual saving of \$1 million+
- World Best practice freezing technology now fully operational (Liquid Nitrogen)

### Production

- Automation of farm planned for FY20/FY21 will significantly reduce cost of production and further improve environmental practices
- Selective Breeding program underway expected to deliver significant efficiency and health

### People

- Key GM roles appointed – some on-going : Board renewal two new (female) Directors with strong industry experience

### Profitability

- Returned to SGARA profitability one year ahead of plan (FY17) – Solid profit in FY18 (\$3.4m)
- Achieved positive Operating (Non-SGARA) EBITDA in FY18 (From \$2m loss in FY17 )



# Introducing new reporting metrics

- Clean Seas is required to report under Australian Accounting Standard AAS35 on a SGARA (Self-Generating and Regenerating Assets) basis
- SGARA reporting requires all costs of production and the change in value live fish biomass, whether sold or not, to be reported in the P&L same period.
- SGARA reporting therefore is not an easy measure for assessing operating performance as it combines current year performance with what will be delivered in future years
- Clean Seas has developed two reporting metrics in addition to SGARA to more clearly report on operating performance

## Operating (Non -SGARA) EBITDA

- Shows current period sales, production costs of fish sold, and other operating costs down to EBITDA before SGARA entries are recognised

## Cash Flow from Operations (excluding investment in Biomass growth)

- Separates Cash Flow from Operations into actual operating (trading) cash flow and flows invested in growing the Biomass

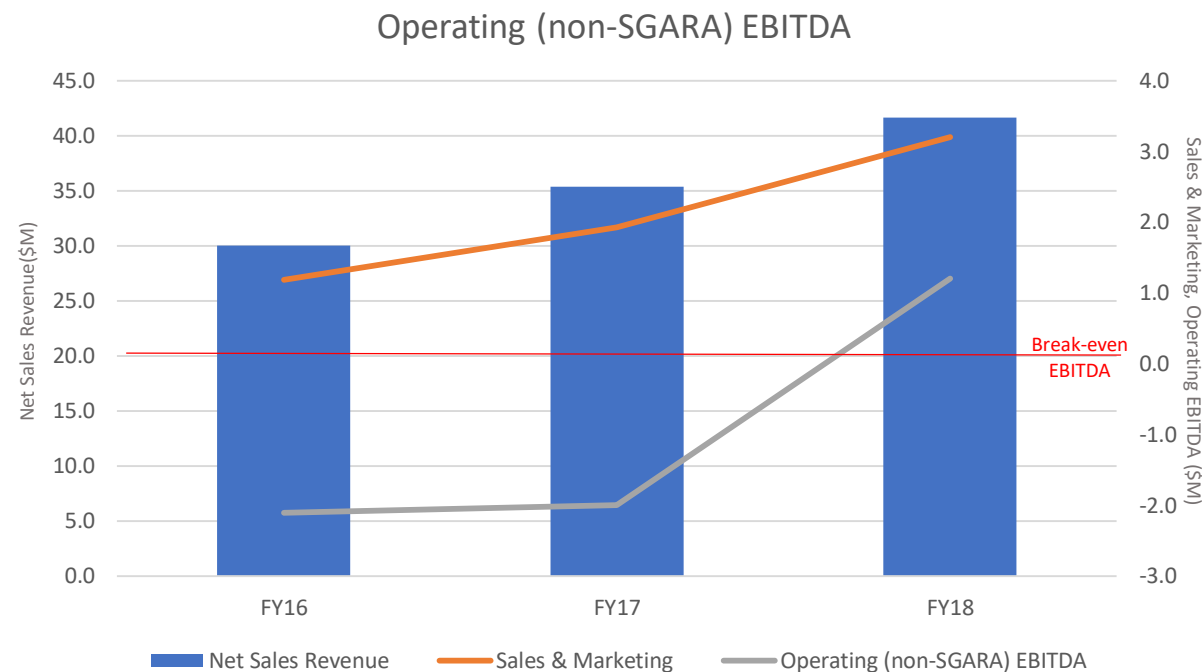
# In FY18 we achieved Operating (Non SGARA) EBITDA of \$1.2 million And Cash flow from Operations (Excluding Investment in Biomass) of +\$3 million

	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%
<b>Operating (Non-SGARA) EBITDA (\$'M)</b>	<b>1.2</b>	<b>(2.0)</b>	<b>▲ \$3.2M</b>
Profit After Tax (SGARA) (\$'M)	3.4	0.2	▲ \$3.2M
Net Assets (\$'M)	71.8	51.6	▲ \$20.2M
<b>Cash from Operations (excl. investment in Biomass growth) (\$'M)</b>	<b>\$3.0</b>	<b>\$0.6</b>	<b>▲ \$2.4 M</b>
Cash invested in Biomass Growth (\$'M)	(\$9.8)	(\$3.9)	▼ \$5.9 M
Net Cash used in Operations (\$'M)	(\$6.8)	(\$3.3)	▼ \$3.5 M



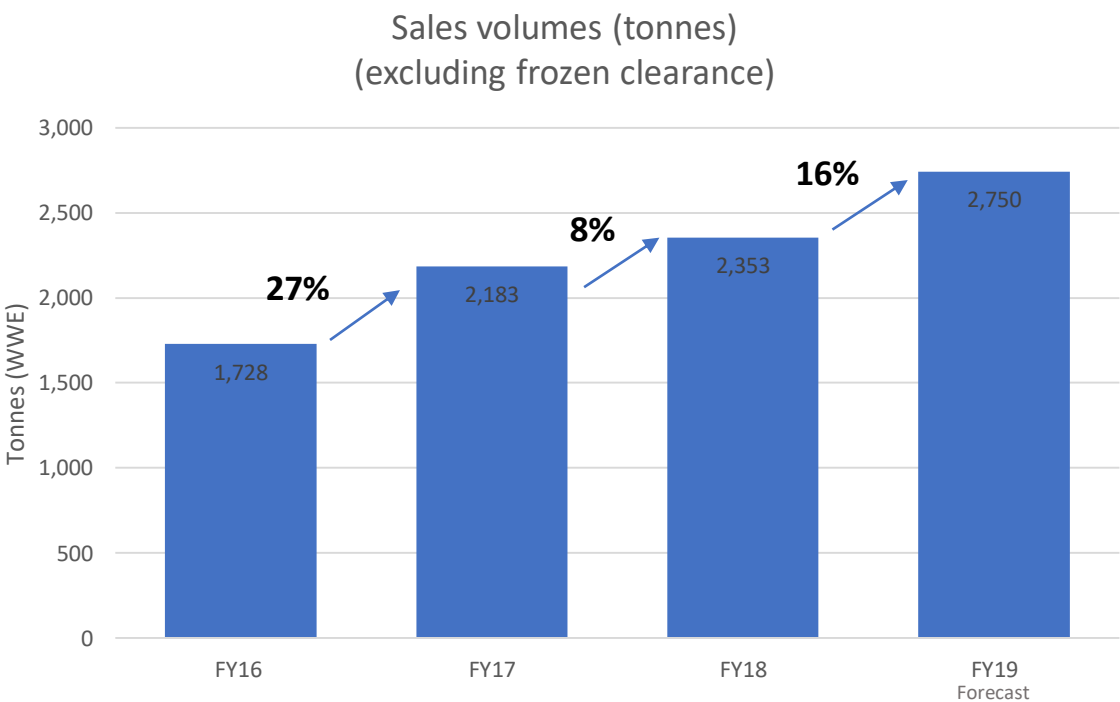
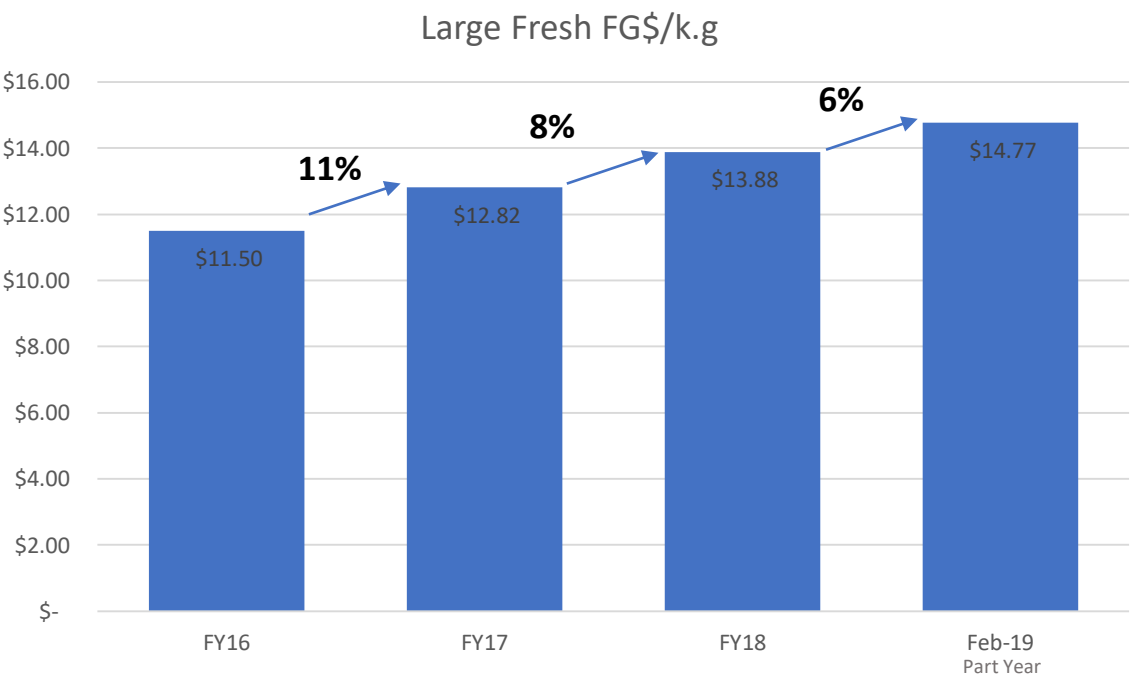
# Operating (Non-SGARA) EBITDA as a measurement of progress

- Clean Seas delivered sales revenue growth from \$30.0m in FY16 to \$41.7m in FY18, which underpinned an improvement in Operating (non-SGARA) EBITDA of \$3.2m over the period to \$1.2m in FY18.
- This has been achieved through an increased investment in Sales & Marketing activities, from \$1.2m in FY16 to \$3.2m in FY18, and also by investment in biomass production, and price increases



# Strong growth returned in FY18 at higher Farm Gate Prices

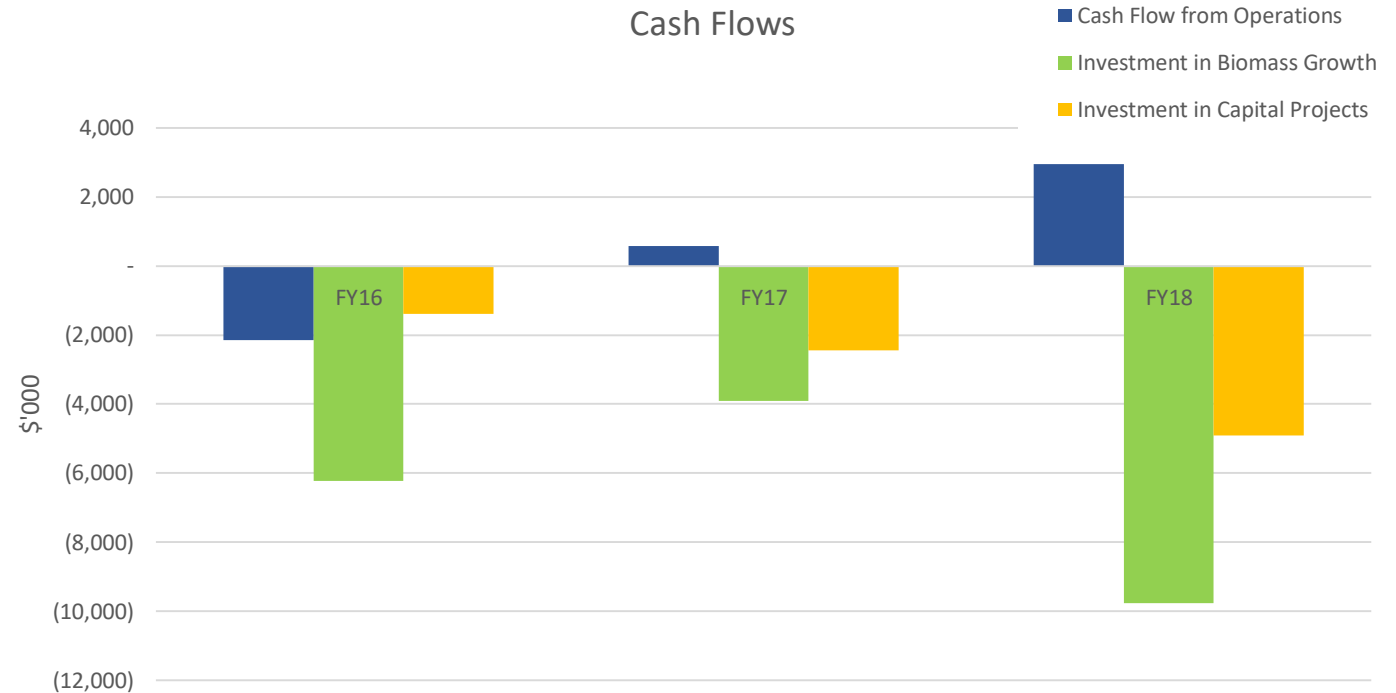
- After a slowing of growth in H2/FY18 due to competitor activity, strong growth returned from Q2 /FY19 (+23%) and is expected to deliver full year FY19 volume growth of +16% to 2,750t.
- Farm gate prices continue to improve +6% to Feb 19 and +28% since FY16
- Premium Frozen/**SensoryFresh** product sales volume (excluding clearance stock) increased 53% in FY19 at 3% higher farm gate prices.





# Target FY19 Cash Profits – On Track

- Cash Flow from Operations (excluding investment in Biomass growth) has improved from a negative position in FY16, to breakeven in FY17 and to positive Cash Flow from Operations of \$2.9m in FY18.
- Investment in Biomass has been made to support future sales growth, thus allowing the business to achieve the scale required to efficiently amortise its overheads and deliver sustainable profitability. The investment in Biomass can be varied year-on-year to align Biomass with Sales objectives.
- Cash Flow from Financing activities has been invested in Biomass growth and capital projects to support future sales
- Outlook for FY19 is for Cash Flow from Operations to remain positive



# 2019 Outlook and Upcoming Catalysts

- CSS has a clear pathway to sustainable profitability (expected in FY21)
- Key Drivers to achieve this are:
  1. **Profitable sales** of circa 4,000 tonnes
    - North American and Asian Markets key focus for next phase of growth
    - Both markets dominated by Frozen Product – *SensoryFresh* key driver
    - Marketing programs to drive trial and maintain premium pricing
  2. **Lower Cost of Production** (Hatchery and Farm)
    - Larger farms with higher production volumes will deliver efficiencies – Whyalla which opens in early FY20 will be first 4,000+ tonne farm in one location
    - Farm Automation expected to significantly reduce feed costs (FY20/21)
    - Selective Breeding Program underway with leading Genetics group expected to deliver significant improvements in production performance
  3. **Lower Cost of Production** (Processing and Logistics)
    - Further automation of in house Processing operations will lift production capacity and lower cost of production.
    - Volume growth in key markets will deliver freight efficiencies



# Investment Highlights

- **Strong sales momentum** taking an outstanding premium seafood species to the world, fuelled by the Spencer Gulf's unique and untold provenance story
- **Profitable sales** on an underlying Operating EBITDA basis with strong investment in future growth
- **Positive cash flow** from Operations (excluding investment in Biomass growth)
- **Clear pathway** to sustainable profitability and cash flows
- **Attractive supply and demand drivers** give Clean Seas strong pricing power in a market with high barriers to entry
- **Huge global growth potential** for Spencer Gulf Hiramasa Kingfish, with encouraging progress in new markets (North America and Asia), material scope for improvements in per capita consumption in Europe, North America and Asia, and attractive new products enabled by innovative technology
- Significant scope to **reduce cost of production and increase yields** through automation and selective breeding
- **Untapped capacity** to triple current farm production volumes
- FY19 sales target of 2,750 tonnes represents **16% growth** over FY18 (excluding frozen clearance)
- **Positive social license** with engaged and supportive local stakeholders
- **A sustainable and eco-friendly growth** opportunity accredited by the world's leading aquaculture certifiers
- **Outstanding product** – “Arguably the best raw fish in the world”



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