

## ASX & Media Release

30 August 2019

### **Clean Seas Delivers 23% Increase in Underlying EBITDA on 16% Sales Revenue Growth**

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to announce its full year annual results.

#### **Highlights:**

- **Underlying EBITDA increased 23% to \$5.9 million**
- **Underlying operating cash flows increased 73% to \$3.2 million**
- **Strong growth in FY19 Sales Revenue to \$46.1 million, up 16% from FY18, and Sales Volume of 2,698 tonnes, up 13% on FY18, excluding frozen clearance stock**
- **FY19 cash receipts increased by \$4.9 million, representing 12% growth to \$45.7 million**
- **Statutory (SGARA) profit after tax of \$1.45m (FY18 \$3.38m) reflects ongoing investment in biomass growth (c. 540 tonnes) and market expansion to support future sales growth**
- **Strong operational momentum reflects substantial investment in Sales and Marketing during FY19, including the recruitment of sales executives in US, Asia, Europe and Australia and targeted brand awareness campaigns**
- **Significant penetration of the premium frozen market in Europe through *SensoryFresh* products, utilising Clean Seas Liquid Nitrogen Rapid Freezing technology**
- **Completion of Aquaculture Stewardship Council (ASC) accreditation**
- **Continued excellent Yellowtail Kingfish survival rates, health and growth; biomass at year end increased 15% to 4,136 tonnes**
- **\$6.6m equity placement to major shareholder Bonafide announced on 21 August 2019, together with proposed convertible note entitlement issue to raise up to a further \$15.3m**

#### **Underlying EBITDA increased 23% to \$5.9 million**

Underlying EBITDA increased 23% from \$4.78 million in FY18 to \$5.93 million in FY19. Underlying profit after tax for FY19 was \$2.59 million compared to \$2.28 million in FY18.

Statutory profit after tax of \$1.45m compared to \$3.38m in FY18, reflecting the Company's substantial ongoing investment in biomass growth to support future sales growth, investment in sales and infrastructure, and in litigation costs, referred to below. Investment in biomass increased 17% year-on-year in FY19 (+c. 540 tonnes) to 4,136 tonnes at year end.

A reconciliation of statutory to underlying earnings follows below.

<b>Underlying Earnings</b>		
<i>\$'000</i>	<b>FY19</b>	<b>FY18</b>
<b>Statutory Profit after tax</b>	<b>1,446</b>	<b>3,380</b>
Add back: Net interest	256	11
<b>Statutory EBIT</b>	<b>1,702</b>	<b>3,391</b>
Add back: Depreciation & amortisation	3,079	2,539
<b>Statutory EBITDA</b>	<b>4,781</b>	<b>5,930</b>
<b>Adjustments</b>		
Deduct: Frozen clearance stock	(5)	(1,312)
Add back: Litigation	535	211
Add back: Whyalla establishment	612	-
<b>Underlying EBITDA</b>	<b>5,923</b>	<b>4,829</b>
<b>Underlying Profit after tax</b>	<b>2,588</b>	<b>2,279</b>

The growth in underlying EBITDA was driven by strong sales growth and operational efficiencies, and funded a substantial investment in Sales and Marketing in support of growth anticipated in FY20 and beyond.

**Strong growth in FY19 sales revenue to \$46.1 million, up 16% from FY18, and sales volume of 2,698 tonnes, up 13% on FY18, excluding frozen clearance stock**

<b>Sales Growth</b> (by market, excluding frozen clearance sales)					
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Full Year</b>
<i>Tonnes (WWE)</i>	<b>FY19 v FY18</b>	<b>FY19 v FY18</b>	<b>FY19 v FY18</b>	<b>FY19 v FY18</b>	<b>FY19 v FY18</b>
Australia	2%	19%	20%	27%	17%
Europe	(16%)	32%	19%	(5%)	4%
North America	13%	24%	30%	50%	30%
Asia/China	(8%)	64%	152%	41%	50%
<b>Total</b>	<b>(6%)</b>	<b>24%</b>	<b>23%</b>	<b>12%</b>	<b>13%</b>

Sales Volume in the core Australian market was up 17% for the full year. This reflects new customer growth from the Company's ongoing chef activation program, and recaptured market share from competitors. This result is especially encouraging as this has been achieved while Farm Gate prices have also been increased, discussion of which follows below.

### **International Expansion continues**

The Company continues to pursue international expansion, with all regions recording significant growth in FY19. Volumes in Europe were up 4%, North America up 30% and Asia up 50% versus FY18.

The Company has achieved growth in Europe despite increased competition from local European land-based farms with selling prices significantly below Clean Seas. The Company has driven this positive result through the superior quality of its Spencer Gulf Hiramasa product, its investment in the Spencer Gulf brand marketing campaign, the chef activation program and recent visits to the Clean Seas operations in the Spencer Gulf by major European distributors and leading chefs.

During FY19, competitors operating European land-based farms increased their Sales Volumes to approximately 800 tonnes per annum; encouragingly, this has not impeded the Company's ability to grow its Sales Volumes in this market. The Company is encouraged by the continued growth of the European Kingfish market, as it demonstrates that investment in sales and marketing is building an increased awareness of the species and expanding the market opportunity for Clean Seas.

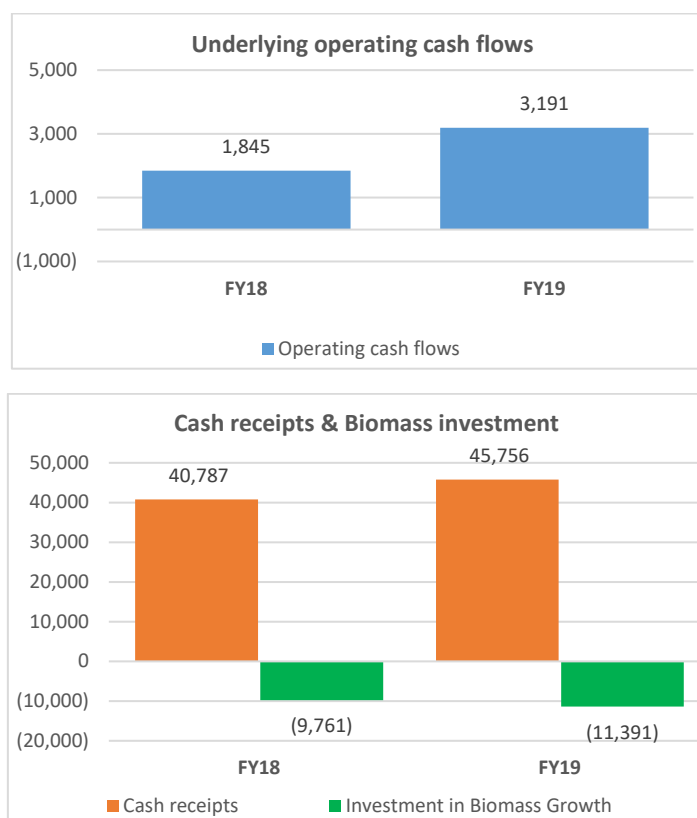
### **Farm Gate prices maintained**

In FY19, the Company continued to achieve Farm Gate price increases in Australia, North America and Asia. Europe Farm Gate prices remained in line with FY18 despite the significant increase in competitive pressure from local land-based farms and the recently introduced EU-Japan Free Trade Agreement.

Clean Seas achieved strong growth in both North America and Asia while increasing Farm Gate selling prices. Over the course of FY19, Clean Seas' Large Fresh Farm Gate prices increased by 24% in North America and 16% in Asia.

The Company's Farm Gate price is its selling price less processing costs, freight and handling, sales commissions and packaging materials, reported on a whole weight equivalent (WWE) basis.

**FY19 underlying operating cash flows increased 73% to \$3.2 million. Cash receipts increased by \$4.9 million or 12% to \$45.7 million underpinning a \$1.6 million increase in the investment in biomass growth.**



The Company has achieved this ongoing improvement in its cash flow dynamics, net of investment in biomass growth, despite significant additional investment in sales and marketing to support future growth.

Investment in biomass increased by 17% year-on-year in FY19, which is essential to support future sales growth and achieve the scale required to efficiently leverage overheads and deliver sustainably growing profitability.

The Company retains flexibility to vary its cash commitment to biomass, and the source of its funding for this investment, as part of its growth planning to align biomass levels with sales objectives.

<b>Operating cash flows reconciliation</b>	<b>FY18</b>	<b>FY19</b>
Cash Flow from Operations	1,845	3,191
Investment in Biomass Growth	(9,761)	(11,391)
Cash flows for Litigation costs, Whyalla establishment costs and frozen clearance	1,101	(1,142)
<b>Statutory cash used in operating activities</b>	<b>(6,815)</b>	<b>(9,342)</b>

### **Completion of Aquaculture Stewardship Council (ASC) accreditation**

Clean Seas formally received ASC certification in July 2019.



The Aquaculture Stewardship Council is an independent, international non-profit organisation that manages the world's leading certification and labelling programme for responsible aquaculture.

Clean Seas is delighted to achieve this important certification and recognises that customers around the world are increasingly looking for sustainable and responsibly farmed seafood products.

### **Capital Management**

On 21st August 2019, the Company announced a two-stage funding program: an equity Placement to its major shareholder Bonafide Asset Management AG raising \$6.6m and a proposed convertible note Entitlement Offer to qualifying existing shareholders to raise a further \$15.3m. With this funding in place the Company expects to be able to fund and implement its "Vision 2025" Strategic Plan.

## Outlook

The Company is in the final stages of completing its “Vision 2025” Strategic Plan, incorporating short and medium term growth and financial targets. The plan confirms that Clean Seas’ investment in growth and pursuit of scale is on track to deliver sustainability of funding and profitability. Details of this strategic plan will be released as part of an Investor Roadshow in September 2019.

The Company reiterates its confidence and positive outlook that it is on the right trajectory to achieve the scale required to deliver on its goals of profitability, cash flow sustainability and gains in shareholder value. The growth in Sales Revenues of 16% in FY19, with positive cash flow from operations net of biomass investment, was another important step in delivering on these goals.

The Company is preparing for a series of shareholder and investor updates in Australia, Europe and Asia in September, during which it will provide greater detail of the “Vision 2025” Strategic Plan and expected returns at key Sales Revenue and Volume milestones.

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

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