

## ASX & Media Release

9 September 2019

### Clean Seas Business Update & “Vision 2025” Strategic Plan

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to provide a business update and announce details of its “Vision 2025” strategic plan.

#### Highlights of the investor presentation released today:

- **FY19 Results**
  - Underlying EBITDA increased 23% to \$5.9 million
  - Underlying operating cash flows increased 73% to \$3.2 million
- **“Vision 2025” Strategic Review**
  - Confirms significant untapped market opportunity for *SensoryFresh* premium frozen product in North America and Asia where over 75% of the Kingfish market is frozen product
  - Identifies per capita consumption growth opportunities globally for Yellow Tail Kingfish particularly in Europe and Asia
  - Sets out the Company’s competitive advantage particularly with Spencer Gulf Hiramasa product quality, “*arguably the best raw fish in the world*”
  - Articulates the benefits of scale, planned working capital optimisation and a pathway to achieve profitable growth
- On completion of the proposed convertible note issue, the Company expects to be able to fund and implement its “Vision 2025” Strategic Plan

#### FY19 Underlying EBITDA increased 23% to \$5.9 million

Underlying EBITDA increased 23% from \$4.83 million in FY18 to \$5.92 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.

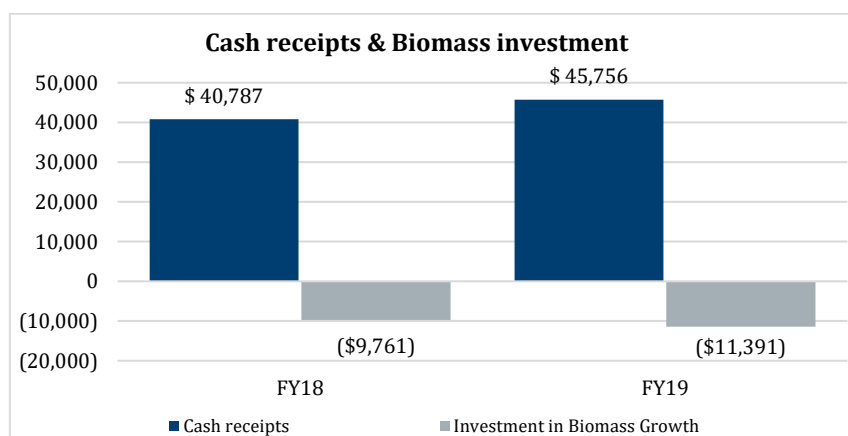
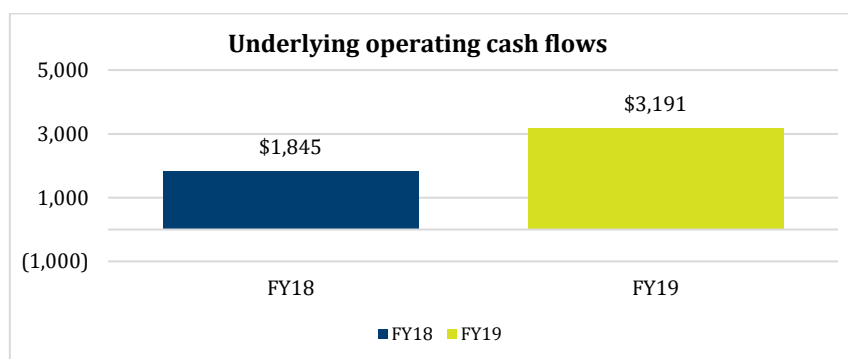
A reconciliation of statutory to underlying earnings follows below.

### Underlying Earnings

\$'000	FY19	FY18
<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>Non-Recurring</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.

**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.

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

### **“Vision 2025” Strategic Plan**

The Company has today released a summary of its “Vision 2025” Strategic Plan which provides a 20-year overview of the Company’s history, and including details of the rebuilding of the Company’s fundamentals since the feed crisis (2008-2012).

The strategic plan sets out an overview of the global market for Kingfish, the competitive landscape, and details of the per capita consumption of Kingfish around the world. From this market analysis, the Company has provided a detailed analysis of its competitive advantage, product and market opportunities, and its strategic goals to achieve and leverage the benefits of scale over the coming 5 years.

The Company has also provided detail of indicative cash flows and key financial metrics that may be expected if targeted sales volumes of 4,000 and 6,000 tonnes can be achieved, and the implications of these thresholds for the funding of the business.

### **Significant untapped market opportunity in North America and Asia through *SensoryFresh***

The global (farmed) Kingfish market has grown at an average of over 10% per annum over the last 10 years, yet the species is still relatively unknown compared to other premium seafoods.

Clean Seas has very low share in the largest market (North America, <1%) and fastest growing market (Asia circa 6%) and has recently established sales and marketing capability in both where it sees significant growth opportunity, particularly with *SensoryFresh* given 76% of these markets are frozen. Clean Seas has a long established global distributor network providing an entry point into these markets.

### **Per capita consumption expected to increase globally**

Clean Seas has market leadership in Australia and Europe with strong market growth potential in Europe where per capita consumption rates are less than 10% of Australia.

Per capita consumption of farmed Kingfish in Japan is circa 1,000g per annum, including wild catch it is over 1,800g. Australia has the next highest farmed per capita consumption at 91g, followed by North America and Europe. North America per capita consumption has quadrupled over the last 10 years, reflecting the growth in Japanese exports and the emergence of the “sushi revolution”. Europe has by far the lowest per capita consumption, but the arrival of new market entrants over the past few years clearly demonstrates the opportunity for future growth with per capita consumption close to doubling in 2019.

**Competitive advantage in Spencer Gulf Hiramasa product quality: “*arguably the best raw fish in the world*”**

Farmed Kingfish is one of the few seafood species to sell at a premium to wild caught. Hiramasa is considered the premium Kingfish species, with Spencer Gulf Hiramasa the only cold water farmed product outside Japan. Clean Seas is the leading full cycle bred and farmed Kingfish brand, and is a sustainable proposition not available to ranch and wild caught production. Clean Seas Spencer Gulf Hiramasa has a unique provenance story and in sensory research in Australia has been judged as Best in Class.

Clean Seas’ believes its competitive advantage is derived from the quality of its ocean reared Spencer Gulf Hiramasa Kingfish, having established markets across 4 continents, 20 years of breeding management programs and associated intellectual property, full ownership of its supply chain, and long standing and positive social licence with local Spencer Gulf communities.

Clean Seas’ premium frozen product **SensoryFresh** competitive advantage has been achieved through the use of liquid nitrogen freezing technology which provides a strong product advantage over traditional frozen processing.

**Benefits of scale and working capital optimisation anticipated to deliver profitable growth**

Clean Seas aims to expand annual sales of ocean farmed Kingfish by circa 50% by 2022, primarily via market share growth in North America and Asia leveraging **SensoryFresh**. The Company will continue its highly successful Chef Activation Programs (CAP) in selected markets, and implement a Global Wholesaler Activation Program (WAP) to support market expansion and enhance customer understanding and best application of Spencer Gulf Hiramasa.

The Company will adopt a “Whole of Fish” approach to new product development, and leverage **SensoryFresh** product capability to explore in-market reprocessing.

Clean Seas expects to achieve a sustainable reduction in the cost of production through scale, investment in automation and selective breeding.

**On completion of the proposed convertible note issue, the Company expects to be able to fund and implement its “Vision 2025” Strategic Plan**

In August 2019, Clean Seas completed a \$6.6m equity placement to major shareholder Bonafide, and announced a proposed convertible note entitlement offer to raise up to a further \$15.3m.

The convertible notes are proposed to be offered on a pro-rata basis to all qualifying shareholders, with key terms including interest payable at an annual rate of 8%, an 8% conversion discount and three-year term to maturity.

By offering convertible notes to existing shareholders, Clean Seas is seeking to provide a return to its loyal shareholder base, and is less-dilutive than alternative options.

On completion of the convertible note issue, the Company expects to be able to fund and implement its “Vision 2025” Strategic Plan.

Full details of the entitlement offer will be disclosed via a prospectus, targeting lodgement in September 2019 with offer closure expected by the end of October 2019

## **Outlook**

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 revenue 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 conducting a series of shareholder and investor updates in Australia, Europe and Asia in September, presenting the Investor Presentation accompanying this release.

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

Terry O’Brien  
Chairman

David J. Head  
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