

## ASX & Media Release

30 April 2020

### Business Update

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to provide the Company's Q3 FY20 cash flow statement and an update on business progress.

#### Highlights:

- **YTD FY20 Sales Revenue up 4% versus FY19, Q3 FY20 Sales Revenue down 14% due to COVID-19 disruptions**
- **March and April Sales Volumes have been materially impacted by COVID-19 lockdown measures resulting in the closure of most restaurants**
- **Hofseth Group Strategic Relationship delivers \$5m of additional equity, access to a global distribution network, and the ability to fast-track new products for retail markets**
- **Hofseth North America to purchase 116 tonnes of frozen inventory**
- **Clean Seas aims to be retail ready by Q2 FY21, with in-house processing capability, accreditation and new products and branding to target global retail markets**
- **YTD FY20 positive Cash Flow from Operations of \$3.8m, excluding the Litigation Settlement of \$15m and the investment in Biomass Expansion of \$8.9m**
- **Funding headroom of \$48.2m at the end of March FY20 versus \$23.5m at the end of December FY20**

#### Overview

While Clean Seas was on track entering Q3 FY20 with growing sales and positive cash flow from operations, world-wide government lockdowns in response to COVID-19 have effectively closed in-restaurant dining in most markets globally. Clean Seas business model has historically focused on this channel which would otherwise be expected to result in a decline in revenues of circa 80% in April 2020, however this will be partly offset by an initial 116 tonnes (Whole Weight Equivalent) purchase by Hofseth North America.

Whilst there are early signs of in-restaurant dining re-commencing in parts of Asia it is unclear when this channel will re-open in other markets. In this context management will take a conservative approach and not assume an immediate return to normal market conditions.

As announced on 6 April 2020, Clean Seas has begun a strategic pivot to access retail product channels, assisted by the strategic relationship with the Norwegian Hofseth Group. Under this agreement, Clean Seas intends to leverage the Hofseth Group global distributor network into retail channels, particularly in North America and Asia. Hofseth have already set up product trials of Clean Seas Kingfish with a leading North American Retail chain, and have separately agreed to an initial purchase of Clean Seas entire current North American frozen inventory (116 tonnes). Clean Seas is in the process of planning an upgrade to its Adelaide Processing facilities with the aim of having the equipment and accreditation required to supply retail products by Q2 FY21.

Clean Seas has identified operating costs savings in excess of \$5 million over the remainder of 2020 and has the balance sheet to manage this transition with cash and facilities of \$48.2 million at March 31<sup>st</sup> 2020, up from \$23.5 million at Dec 2019.

### **Q3 Sales Volumes materially impacted by COVID-19 disruptions**

In Q3 FY20, global government imposed social distancing regulations led to a substantial impact to the Company's restaurant business, resulting in a 14% decline in Sales Revenue versus Q3 FY19.

Sales Volumes were down in all markets in March, and April will show a further decline. While Q3 YTD FY20 Sales Volumes remain 2% ahead of the same period last year, Q3 was down 15% in Sales Volumes with March down 43%. April has seen an effective shutdown in sales to Europe, North America and Asia.

Notwithstanding the effective closure of most global markets, in its largest and most profitable market, Australia, Clean Seas expects to retain circa 30% of prior year sales in April which is a positive result relative to internal expectations given most in-restaurant dining has been closed for the past 6 weeks. This result represents an initial diversification into more consumer facing channels including retail, and as the Australian lockdown provisions ease, these channels will augment the restaurant business as it returns.

While it remains too early to predict when the global in-restaurant dining market is likely to return, there are signs that the relaxation of Government social distancing regulations in a number of markets around the world may lead to the reopening of some restaurants in the coming weeks. Australia's COVID-19 infection curve has flattened more than in most other developed markets which is a positive sign for the reopening of Clean Seas largest and most profitable market.

### **Strategic Relationship & \$5m Investment led by Hofseth Group**

On 6th April 2020 Clean Seas announced strategic relationships with the Hofseth Group and Nevera AG. The Hofseth Group is a leading Norwegian aquaculture producer with a global distributor network. It is expected that this relationship will give the Company an ability to fast-track new product development for retail markets and drive sales particularly in North America and Asia. This Strategic Relationship was accompanied by the announcement of a \$5 million equity investment at a 13.5% premium to the 10 day VWAP at the time and includes an engagement with Nevera AG, a global capital market specialist with expertise in aquaculture. An initial \$2 million of the equity investment has been completed, with the remaining \$3 million investment subject to shareholder approval at a General Meeting to be held in May 2020.

This Strategic Relationship will assist Clean Seas to diversify sales into new channels and geographies, which independently of the COVID-19 crisis will complement its existing food service business leading to increased volumes and scale which is expected to lower the Company's per unit costs of production, processing, distribution and overheads.

North America and Asia represent the largest and fastest growing markets globally for Kingfish, the vast majority of which is supplied frozen. These markets currently represent less than 10% of Clean Seas global sales but are where the Hofseth Group has their strongest retail distributor networks. Hofseth Group currently supply in excess of 60,000 tonnes of whole fish world-wide and had revenues of over USD \$250 million in North America alone. The opportunity for Clean Seas to leverage the Hofseth Group's relationships with retailers and their distribution

infrastructure in these markets is significant, and is mutually beneficial for the Hofseth Group as it diversifies their seafood offering with Clean Seas' premium Kingfish product.

Whilst the Hofseth Group strategic relationship is still less than a month old, product trials with one of the largest Retail chains in North America are being finalised and are expected to commence in the near future. Additionally, Hofseth North America has agreed to an initial 116 tonne purchase of frozen inventory from Clean Seas to be sold in the North America market. This sale represents Clean Seas entire stock of frozen inventory in North America, and is a significant evolution in the development of Clean Seas' North American business.

### **New "Retail Ready" Capability by Q2 FY21**

With support from the Hofseth Group, Clean Seas is in the process of finalising the design and planning for the purchase of processing and packaging equipment required to deliver in-house capability for new retail product formats. Clean Seas is also acquiring the accreditation certification necessary to produce retail products and expects to be operational and supplying retail products by Q2 FY21, either through in-house processing in its Adelaide facility or by using third-party contract processors in Australia or overseas.

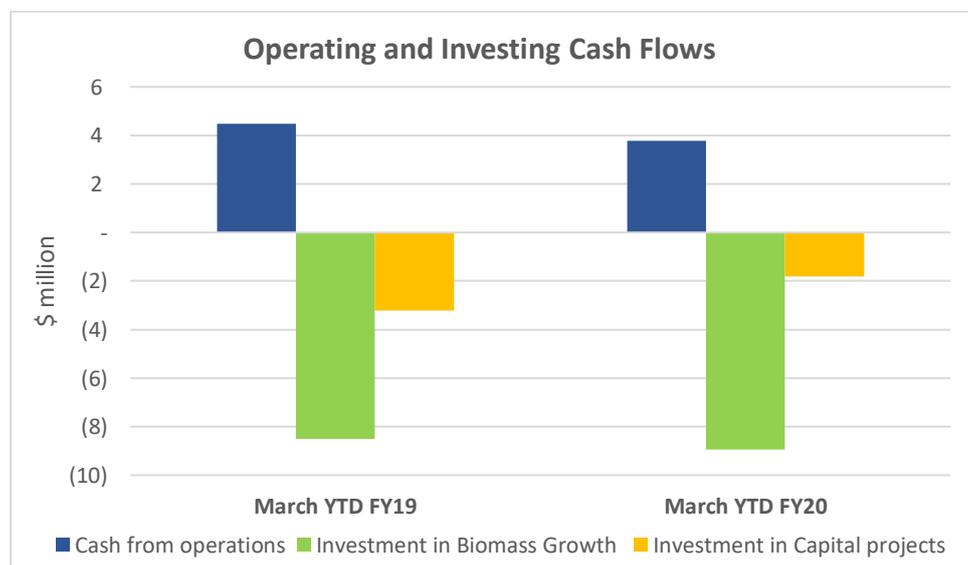
Clean Seas has developed a new and distinct brand, which will be used to target new market segments including retail, and will complement and differentiate these products from its premium food service branding, *Spencer Gulf Kingfish* and *SensoryFresh*.

### ***SensoryFresh* Represents an Opportunity to Enter New Channels and Markets**

The production process of Clean Seas premium frozen Kingfish, *SensoryFresh*, was featured on the ABC TV's Catalyst program which aired on 21<sup>st</sup> April 2020 and a link to the program can be found on the Company's web page [www.cleanseas.com.au/gallery/videos](http://www.cleanseas.com.au/gallery/videos). The program investigated the science behind the Company's liquid nitrogen technology, and concluded with a blind tasting by a panel of sashimi chefs and aficionados where 6 out of the 7 participants preferred Clean Seas *SensoryFresh* frozen product.

### **Continued Positive Cash Flow from Operations and Ongoing Investment in Future Growth**

In YTD FY20 the Company achieved positive cash flow from operations of \$3.8 million excluding the investment to expand Biomass to support growth in sales in future years.



Note: Cash from Operations has been adjusted to exclude Litigation Expenses and Investment in future Biomass Growth to assist readers to better understand the financial performance of the underlying operating (trading) business.

### **Strong Balance Sheet with Funding Headroom of \$48.2m**

The Company's legal action was settled via mediation on 19 December 2019 and the \$15m settlement sum was received by the Company in January 2020. The legal settlement draws a line under this historical claim and ensured the Company entered the COVID-19 crisis with the strongest liquidity position in many years. The Company also renewed its banking facilities in January and as a result had a total of \$48.2m in cash and undrawn facilities as at 31 March 2020, versus \$23.5m at the end of the previous December quarter.

<b>Current cash and undrawn facilities (\$m)</b>	<b>Dec 19</b>	<b>Mar 20</b>
Cash at bank	9.3	19.7
Undrawn working capital facility	12.0	12.0
Undrawn senior debt facility	-	14.0
Undrawn asset finance facility	2.2	2.4
<b>Total cash and undrawn facilities</b>	<b>23.5</b>	<b>48.2</b>

### **Fish Health Remains Excellent with Biomass Weight up 18%**

Fish health remains excellent with Live Fish Biomass at 31 March 2020 of 4,853 tonnes representing the annual seasonal peak at the end of the growing season. The Biomass is however 18% higher than 12 months earlier, reflecting lower harvest volumes as a result of COVID-19 disruptions.

The Company has the ability to maintain fish health and optimise working capital at this time by utilising its acclaimed liquid nitrogen freezing technology. The current Biomass positions the Company well for future sales growth in both retail and the food service channel as lockdowns ease and global markets recover.

### **Outlook**

The Company cannot give specific guidance at this time of disruption and uncertainty.

The Company understands that whilst the COVID-19 disruption may reshape the timing of achieving its growth strategy, the recently announced Strategic Relationship with the Hofseth Group and the planned entry into retail product distribution is expected to deliver growth from new channels that will complement Clean Seas' existing wholesale restaurant and premium food service business.

Clean Sea has undertaken a review of non-essential costs and available Government stimulus measures, and is expecting to be able to reduce its cost base by in excess of \$5m over the remainder of 2020.

The Company has the advantage of an exceptional product and has the balance sheet strength to implement changes and adopt new strategies to emerge from the unexpected market disruption of COVID-19 with a broader and more sustainable business model.

The Company thanks its employees, investors, partners and customers for their ongoing support.

Terry O'Brien  
Chairman

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