CLEANSEAS | sustainable seafood

ASX & Media Release

31 July 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 Q4 FY20 cash flow statement and an update on business progress.

Highlights:

- **Q4 FY20 sales were materially impacted by COVID lockdown measures and restrictions globally, with Q4 FY20 cash receipts reduced by 55% on the prior year.**
- **Global sales volumes in July recovered to circa 92% of prior year, up from 77% in June although significant uncertainty remains due to ongoing COVID related restrictions**
- **30 June 2020 Cash and Undrawn Facilities of $42.4m (including $22.2m in cash), a significant increase from Cash and Undrawn Facilities at 30 June 2019 of $7.4m**
- **Statutory net cash from operating activities of -$0.6m in FY20 includes the Litigation Settlement (after costs) of $14m and $12.1m investment in Biomass Expansion**
- **As a result of the loss of sales revenue in the COVID affected second half, full year FY20 Cash Flow from Operations declined by $6.3m versus FY19.**
- **Cost reduction and cash saving initiatives have been implemented, including restructuring the executive team, delivering annualised savings of circa $5m in FY21**
- **Clean Seas expects to return to farming in Whyalla in FY21 and remains confident that the SA State Government will resolve the matter of the Point Lowly marina licence after the Whyalla Council declined to grant a licence to Clean Seas directly**
- **Clean Seas focus for the next 12-24 months (while export markets recover from the impacts of COVID) will be to leverage the sale of excess inventory to support working capital requirements whilst developing new products and supply chains for its strategic pivot to new channels**

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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 effectively closed in-restaurant dining in most markets. Clean Seas business model has historically focused on this channel, and when in-restaurant dining closed worldwide in late Q3 FY20 Clean Seas sales declined to around 20% of prior year in April.

Over the past 4 months Clean Seas global sales have rebounded strongly despite ongoing government lockdowns in Victoria and significant disruption to global airfreight costs and network capacity. In July, European sales were 113% of prior year.

In Australia, the Company has responded to COVID-19 restrictions by growing sales in non-restaurant channels (historically less than 20% of sales) particularly with smaller (1-2kg) fish through Seafood retailers and small (mostly Asian) supermarkets. This initiative helped improve sales in Australia to 49% of prior year in May and with restaurants starting to re-open in June (albeit at limited capacity) sales returned to 105% of prior year.

Globally June sales were back to 77% of June FY19, and have further recovered in July to circa 92% of the prior year.

The recent increase in COVID-19 cases in Victoria is likely to result in continued soft sales in August and beyond.

Cash Management and Cost Reduction Initiatives

Earlier this month Clean Seas reduced its Executive team from 6 to 4 and the number of non-executive directors on the Board reduced from 6 to 5 following the recent resignation of Helen Sawczak (who will not be replaced). Additionally the Directors have agreed to a 20% reduction in their fees, effective from 1st August 2020 until further notice. Savings in Corporate, Sales and Marketing costs and feed optimisation on the farm will result in operating costs savings in excess of $5 million in FY21.

The Company's focus on cost reduction and timely collection of debtors during the COVID-19 period (with no material write-off of receivables required) has led to better than expected cash conservation through this period. With the settlement of the long standing litigation in January and capital raising initiatives, as at 30 June 2020 Clean Seas retains Cash and Undrawn Facilities of $42.3m (including $22.2m in cash). This represents a significant increase from Cash and Undrawn Facilities at 30 Jun 2019 of $7.4m.

Current cash and undrawn facilities ($m)	Jun-20	Jun-19
Cash at bank	22.2	1.0
Undrawn working capital facility	3.5	4.7
Undrawn senior debt facility	14.0	-
Undrawn asset finance facility	2.7	1.7
Total cash and undrawn facilities	**42.4**	**7.4**

As a result of the loss of sales revenue in the COVID-19 affected second half, full year FY20 Cash Flow from Operations declined by $6.3m versus FY19. Statutory net cash from operating activities for FY20 was close to break-even (-$0.6m), and includes the Litigation Settlement of $14m and an investment in Biomass Expansion of $12.1m.

As part of its FY20 strategic plan the Company identified a number of projects to reduce farm and processing costs of production. These programs include automation of farm feeding systems, further automation of the Royal Park processing operations and investment in new, upgraded farm assets including a new heavy works vessel.

These projects, combined with increased scale from planned sales growth are expected to reduce costs of production by circa $2-$3 per kg over the next 3-4 years and are expected to be funded by the Senior Debt Facility established to fund long term assets as part of the new banking facilities put in place with the CBA in February 2020.

Whyalla Farm Reactivation
Clean Seas expects to return to farming in Whyalla in FY21 and remains confident that the SA State Government will resolve the matter of the Point Lowly marina licence, after the Whyalla Council declined to grant a licence to Clean Seas directly. Use of this marina is essential to the commercially viable farming of Clean Seas Fitzgerald Bay (near Whyalla) sites. Should a return to Whyalla not be possible, Clean Seas has contingency plans in place, including the continued use of its Arno Bay farm and the expansion of the Company's Port Lincoln based operations.

Strategic Leverage of Excess Inventory
Despite reduced live fish biomass growth in H2 FY20, the Company expects the impact of lower sales in Q4 FY20 and FY21 (as global markets continue to be impacted by COVID-19) will lead to circa 1,600 tonnes of excess Live Fish and Frozen Inventory. The Company's Liquid Nitrogen Freezing technology will be used to process and freeze a large proportion of this inventory into various products including formats that can be further processed or value added in-market in Europe, North America and Asia.

Clean Seas has a strategic opportunity to use the sale of surplus inventory to drive trials and target long-term growth via new channels and under developed foodservice markets, particularly in North America and Asia. A key focus will be establishing market entry into the circa 13,000t per annum North American frozen Kingfish market which is currently exclusively supplied by traditionally frozen Japanese imports. The recently announced $16.5m impairment of inventory will provide a unique opportunity to target this market at a very competitive price point.

A similar strategy was successfully used by Clean Seas in FY16 to clear excess inventory in order to develop the Italian market. Sales volumes grew four fold (from 100t to 426t) at lower farm gates prices, but after establishing the market, Clean Seas successfully increased prices over the next 3 years by circa +40% without loss of volume. This demonstrates the uniquely high price elasticity and customer conversion once Clean Seas' superior product is trialled.

Clean Seas continues to progress the development of a new retail product, which it aims to launch in Q2 FY21. Also, discussions with the Hofseth Group progressed over the last quarter of FY20. Clean Seas remains confident that Hofseth can assist the company in identifying new sales opportunities, although potential distribution arrangements are yet to be finalised.

Market Focus FY21 and FY22
Clean Seas currently has circa $58 million in Live Fish and Frozen Inventory. The Company's focus for the next 12-24 months will be to maximise conversion of excess inventory into cash, which will support operating cash flow until markets return to normal. The strategic targeting of excess inventory to support the Company's entry into new retail channels is expected to help build a

larger and more diverse revenue base from which to resume its Vision 2025 strategy once global markets normalise post COVID-19.

Outlook

The Company cannot give specific guidance for FY21 at this time of ongoing disruption and uncertainty.

It is the Company's view that whilst the ongoing COVID-19 disruptions may reshape the timing of achieving its growth strategy, the planned entry into retail product distribution is expected to deliver long-term growth from new channels that will complement Clean Seas' existing restaurant and premium food service business.

The Company has the advantage of an exceptional product and importantly enters FY21 with balance sheet strength and the capacity to leverage inventory for both strategic growth and as a source of funding during this period of uncertainty.

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