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ASX & Media Release

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CLEAN SEAS SEAFOOD MARKET UPDATE H1 FY17

Clean Seas Seafood Limited (ASX: CSS) is pleased to release an operational update and advises:

- Farm Gate Prices improved ahead of plan during the first half of FY17, with Export Farm Gates lifting by more than $2 per kg and Australian Domestic Farm Gates by around $0.80 per kg;
- Strong sales growth continued in H1 FY17 with sales of 1,086 tonnes being 45% above the 748 tonnes for the same period in FY16;
- Cash flows for Q2 FY17 were better than plan and reflected the businesses seasonality of heavy feed purchasing during the second and third quarters;
- Fish health and survival remains excellent;
- Cooler than average seawater temperatures in Q2 FY17 reduced fish growth but provided unexpected assistance in addressing the Structural Imbalance between Inventory and Sales;
- Plans are on track for a new In House Processing Facility in Adelaide to be operational early next financial year (FY18); and
- FY17 guidance is maintained with target sales growth to approx. 2,500 tonnes in FY17 and return to profitability in FY18.

Farm Gate Price Increases

Farm Gate Prices have been lifted in all markets. In Australia prices increased 80 cents per kg in early October 2016, which was the first price increase since April 2013.

Export Market prices increased progressively during HI FY17 with both European and US Farm Gates increasing by over 20% in Q2 FY17.

Strong Sales Growth Continues – YTD December +45%

Sales volumes continued to grow strongly in H1 FY17 with a 45% increase from H1 FY16 to 1,086 tonnes. Australian sales represented 56% of total sales and 86% of total sales were fresh product. Other key aspects of this sales performance included;

- Australian sales increased 18% to 605 tonnes; and
- Export sales increased 106% to 481 tonnes.

Fish Health

The Kingfish continue to maintain excellent health and survival rates which are consistently at world's best practice levels.

Spring Growth and Structural Imbalance

The rate of Kingfish growth in the Spencer Gulf is seasonal and typically only 25% to 35% of annual growth occurs in the first half of the financial year due to cooler seawater temperatures over those months. In FY16 28% of full year net growth of 2,580 tonnes occurred in H1 with warmer than average seawater temperatures in H2 FY16.

During the period, October to December 2016 seawater temperatures in the Spencer Gulf were significantly cooler than the long term average which limited net growth for H1 FY17 to 415 tonnes which is 309 tonnes less than H1 FY16.

This appears to have been a “once in a generation” event caused by the failure of the warmer waters of the Leeuwin Current, which flows from Indian Ocean down the Western Australian Coastline along the Great Australian Bight, to reach the Spencer Gulf and provide the warmer Spring water to the Gulf.

We note that seawater temperatures at our farm sites in the Spencer Gulf returned to close to long term average temperatures in January 2017 and recent CSIRO /BOM long term forecasts are indicating the warmer water flows of the Leeuwin Currents are expected to return to normal next Spring (October 2017).

Live Fish Biomass at 31 December 2016 is 1,868 tonnes which is around 400 tonnes lower than forecast and around 292 tonnes less than December 31, 2015.

Under the SGARA accounting standard, biomass growth in an accounting period is brought into the P&L for that period based on its estimated net market value. While the lower than average rate of biomass growth in H1 FY17 has provided unexpected assistance in addressing the structural imbalance between inventory and sales, it will also therefore result in a lower than expected reported result for H1 FY17.

On the basis that seawater temperatures return closer to normal as expected, growth in current biomass is expected to be sufficient to support the Company’s sales growth objectives.

Cash Position

Clean Seas released its Q2 FY17 Cash Flow Report on 31 January 2017. Key points arising from this report include:

- H1 FY17 Operating Cash Usage of $2.0 million is a $4.5 million improvement from H1 FY16, after deducting the $6.0 million R&D Tax Incentive Refund received in the prior year. Clean Seas is no longer eligible for the R&D Tax Incentive Refund due to annual sales revenue exceeding $20 million in FY16 and FY17.
- Cash receipts from customers increased $6.7 million (61%) to $17.6 million in H1 FY17, reflecting the ongoing increase in sales;
- Cash held at 31 December 2016 is $2.9 million, following the successful equity raising in H1FY17. In addition, Clean Seas has an undrawn $7.0 million Trade Finance facility, meaning that there are funds available of $9.9 million;
- The seasonality of fish growth as detailed above causes the second and third quarters to have the highest operating cash requirement due to higher feed requirements and farm management activity in those quarters. The Q3 FY17 operating expense forecast provided reflects this.

New Processing Facilities are on track for early FY18

The Company has entered into a long-term lease of a vacant facility in Adelaide for its new Processing Facility. The site is approx. 2,500 sq metres and will house the processing facility with extensive space for future expansion including value added production opportunities. Until required, the excess space will be used as a feed storage warehouse which will reduce existing warehousing costs.

The facility was previously used as a food production facility and is well set up to accommodate our requirements. The main processing equipment was ordered late last year and is expected to arrive in Q4 FY17. The Company expects to commission the new processing facility in Q1 FY18.

Half-Year Results

Clean Seas will release its half-year results in late February. These will reflect the SGARA Accounting impact of the reduced fish growth from colder seawater temperatures, improved farm gate prices and continued strong sales growth as detailed above. Despite the SGARA accounting impact from the reduction in Biomass resulting from lower growth rates, the H1 FY17 results are expected to demonstrate a significant improvement in performance versus the same period last year and will reflect the solid progress we have made toward returning to profitability in FY18.

Appointment of Terry O'Brien as Non-Executive Director and Chairman Elect

Further to recent announcements, the Board confirms that Terry O'Brien was appointed a Non-Executive Director of Clean Seas on 3 February 2017 and is anticipated to become Non-Executive Chairman in April 2017. Terry is undertaking an extensive induction program which included three days with management at the Company's South Australian Farm, Hatchery and Head Office last week.

Outlook

The Board affirms its confidence in the guidance as provided in the SPP Investor Presentation which was released to the ASX on 27 October 2016, including expected sales in FY17 of approximately 2,500 tonnes and a return to profitability in FY18.

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

Paul Steere
Chairman

David J Head
Managing Director and CEO

For further information, please contact;

David J Head – Managing Director & CEO
+ 61 419 221 196
david.head@cleanseas.com.au

Wayne Materne – CFO & Company Secretary
+61 418 855 035
wayne.materne@cleanseas.com.au