



13 December 2019

Sanford Limited 2019 Annual Meeting
Mr Paul Norling
Chairman's Address

(Slide 1)

On behalf of my fellow Directors I am pleased to personally present to shareholders today our report for the year ended September 30, 2019.

(Slide 2)

I do trust that you have all had the opportunity to read our Annual Report which continues to receive acclaim and which provides a relatively extensive account of management's work and the company's progress over this past 12 months. While I will obviously talk about our financial results and summarize the major accomplishments and issues for the year, following this I also wish to take some time to retrace our steps over the past 5 years and the changes that have occurred in the company's operations, over that time.

Volker Kuntzsch, our CEO, will then cover, in much greater detail, the activities and progress that management have made (and are continuing to make) with the company's activities over these past 12 months in particular, as well as other matters of interest to you

(Slide 3 – Review)

REVIEW OF THE 2019 FINANCIAL YEAR

I will commence with a summary of our financial results and outcomes.

- Our GAAP compliant Net Profit after Tax was \$41.7 million, which is slightly down on our FY18 result of \$42.3million, the modest reduction being largely attributable to non-trading items.
- The Non GAAP compliant methodology of measuring Adjusted Earnings before Interest and Tax (i.e. the Underlying operating profit) saw this measurement at \$64.8 million which is in line with the FY18 number of \$64.7m.
- EBITDA increased by \$1.3m to \$85.7m from \$84.4m in FY18
- Sales Revenue of \$545m (or \$558m. on a Like for Like basis which was 8% higher than 2018) on sales volume of 115,000 GWT which was 5% less volume than the previous year – the higher Sales Revenue number on 5% less volume is a very encouraging trend and underscores the effectiveness of our value add strategy.

- Group borrowings reduced to \$139m from \$155m in FY18 which will assist fund the company's necessary and on-going capital investment programme.

(Slide 4 – Wildcatch, Mussels & Salmon)

As stated in our Annual Report, our overall Underlying Operating Profit (or Adjusted EBIT) was somewhat disappointing as it again did not meet the expectations of both the Board and management. The reason for this was largely attributable to matters relating to the performance outcome of our Wildcatch business which faced challenges, while our Mussel and Salmon businesses both finished the year with very strong results when compared with FY18 – Mussel's operating profit contribution being up 69% and Salmon's Like for Like operating profit contribution being up 62%.

Our Wildcatch business is the extremely important core of our extensive fishing and aquaculture assets and comprise approx. two-thirds of our balance sheet asset value. Headwinds encountered this past year included a sub-optimal vessel fleet performance, some effects of climate change - we also encountered some challenges with crewing issues in our Deepwater fleet. Management have a major focus on operational supply side issues and have also made valuable progress with product quality and further enhanced processing, as well as completing a review of our 'on land' processing footprint in the South Island.

As shareholders are aware, we are in the challenging but very satisfying process of also transforming the product supply side of our three differentiated businesses into the provision of higher value products wherever we possibly can while at the same time moving up the value chain to get closer to our end consumers i.e. streamlining our supply chain, as we seek to provide as much of our sales volume in a pristine and value enhancing format and through less intermediaries. This strategy also involves branding and sales channel strategies as well as some re-balancing of our international geographic marketing focus. We are pleased with the results that have been achieved to date but there is a not insubstantial operating cost to these changes which is also part of the reason for our flat profit performance.

Our reduced debt level and consequential balance sheet gearing is pleasing but necessary as we enter the second year of two, where we have committed to a capex investment program of \$120m for the 2019 and 2020 financial years – only \$38m of that sum was invested during FY19 so there will be a substantial catch-up spend in FY20 which is already underway.

(Slide 5 – Divestments & Reviews)

MATTERS OF NOTE DURING 2019

During this past financial year, the company also took a number of actions of strategic significance – they are:

- We completed the sale of our 50% shareholding in Weihai Dong Won Food Company Limited (WDWF) – a seafood processing company located in Weihai which is situated in the province of Shandong, China and is the closest Chinese city to South Korea. We

joined the company and its operations in 2004 in partnership with our long standing and respected charter fishing partners Dong Won Fisheries Co. Limited of South Korea. With our strategic direction for the future clear, our continuing shareholding in the company was not of the importance that it once was so we sold our 50% interest to Plenus Company Ltd of Japan – an extensive seafood restaurant operating company which has some 2900 locations throughout Japan. As part of the sale terms, we continue our relationship with WDWF with an on-going supply agreement for our species supplied to that entity.

- In March of this year, we then sold our Pelagic fishing business based in Tauranga to another Tauranga based pelagic fishing company. We saw little opportunity to add any significant value to these pelagic species on an on-going basis and the sale was therefore appropriate from our viewpoint as it was for the purchaser who was able to achieve economic scale as a consequence.
- Our Australian operations based in Melbourne have traditionally under-performed from a strategic and financial viewpoint. Management has therefore undertaken a full review of the best way forward for Sanford in the Australian marketplace and now has – either in place or committed – the requirements to greatly enhance our presence and financial performance in that nearby substantial market.

(Slide 6 – Marine Extracts Facility)

- The final strategic initiative that I wish to highlight is the announced intention to build a ‘state of the art’ Marine Extracts and Innovation Centre in Blenheim – a \$20m Capex spend and a very progressive initiative which will greatly reinforce Sanford’s move beyond food into the nutraceutical space and other potentially very lucrative marine based products. This initiative holds great promise for the future of the company and we already have a toe-hold in this space with Enzaq which we acquired some two years ago.

Management are also undertaking a major program (dubbed ‘Sancore’) to comprehensively up-date the company’s management and financial information systems and IT capability. This is a well overdue and a necessary infrastructure requirement involving a significant planning process - that is already well underway - to be followed by a consequential capital investment.

(Slide 7 – Health, Safety & Wellbeing)

HEALTH, SAFETY AND WELLBEING

The company and all of our people are still recovering from the shock of Steffan Stewart’s accidental death on the San Grant which occurred on November 14 last year. I must say, however, that the manner in which our staff – from the CEO and his executive management team right down through the organisation - responded to this tragedy, was truly moving. The level and extent of care and support provided to all affected by this terrible event – in particular to Steffan’s family as well as his workmates at sea and at our Deepwater fishing

organisation based in Timaru - was of the highest order. While we all sincerely wished that this accident had never occurred, we can none-the-less feel proud as to how our people responded in this darkest of times and is a clear illustration of how our people care about each other.

The health, safety and wellbeing of our people is our highest priority and the CEO will want to discuss this with you during his presentation. As a result of its importance and focus in the business we are not surprised that the number of Near Misses reported over the past year increased by some 37% - the easier thing for people involved in such instances is to get on with what they are doing and not take the time to follow the required processes. By doing so, however, enables the organisation to take whatever steps are appropriate to avoid such occurrences in the future, not only at that site but right across the company. Having said that however some of our Health and Safety stats for the year are disappointing and we know that our Health and Safety people throughout the organisation are already working harder to turn this latest year's numbers around and down.

(Slide 8 – Changes 2015)

CHANGES OVER THE PAST 5 YEARS

As already mentioned, I thought it might be of interest to reflect on and summarize some of the meaningful changes that have occurred in the company's shape and operations since adoption of the company's revised strategy in 2014. I will commence from the FY15 year and roll forward.

FY15.

- In the 2015 year, the company's international purse seining (IPS) operation which focussed on catching skip jack tuna in the Western and Central Pacific was closed down and sale of the three boat fleet commenced. Operating profitability was problematic, the catch was commodity and sustainability of the resource was debateable given the resource management approach adopted by some of the Pacific island nations.
- The year also saw the closure of our Christchurch mussel processing facility and our mussel processing consolidated on our Havelock plant with its automatic mussel opening technology. Mussel supply and product pricing being the dominant reasons.
- The introduction of a new logo and tagline represented a clear shift from resource extraction to food production and customer service – and at a similar time we adopted the ambitious vision to become 'The Best Seafood Company in the World'!

(Slide 9 – Changes 2016)

FY16.

- Our South Korean charter fishing partners who collectively operate three vessels in conjunction with Sanford, successfully reflagged their vessels aligning all of their

practices with New Zealand laws and regulations, and our company policies. These vessels continue to play an important role in Sanford's overall catch plan activities.

- We took delivery of the San Granit from its previous Norwegian owners – this Deepwater factory trawling vessel being the largest in our fleet at 67 metres. After some not inconsiderable challenges, I am pleased to say that the Granit is now performing well.
- We also commenced our 'Focus on Fresh' product initiative in 2016. This has caused us to be acutely aware of our supply chain efficiency as we now produce 9% of our total sales volume in the fresh format delivering it not only throughout NZ but also into Australia, Hong Kong, Japan and the U.S. In this latter market our opportunity has been progressively enhanced with direct flights to big population cities of Houston, Chicago and next year to New York, which are additional to the two Californian destinations of L.A. and San Francisco and, of course, also to Hawaii. Additional impetus to this important initiative has come from the 2018 opening of our revitalised Auckland Fish Market and the great opportunity that this provides to present our pristine fresh product direct to our consumer customers.
- Spatz, a Primary Growth Partnership between the Ministry for Primary Industry and Sanford, had been operating for a year and was developing the selective breeding of nature's best specimens of Greenshell mussels with impressive results

(Slide 10 – Changes 2017)

FY17.

- Our Big Glory Bay brand was launched with its major focus on King Salmon from Sanford's salmon farm located in that bay on Stewart Island.
- Following the development of a more focussed sales channel and customer strategy, Sanford delivered a strong performance in the China market driven mainly by high end species including fresh King Salmon, Toothfish and Scampi.
- Sanford took another step in the Innovation space with the acquisition of a small Blenheim based company Enzaq as we sought to add further value to our Greenshell mussel business in the field of nutraceuticals. Simultaneously plans were developed to markedly increase production (which occurred) and to assess this as a base to push further into this innovation growth opportunity.

(Slide 11 – Changes 2018)

FY18.

- The phenomenon of Climate Change really started to bite and is now judged to be the most significant risk facing Sanford – its effects were felt across all three of Sanford's major businesses.

- Innovating ‘beyond food’ increasingly became a focus – examples being collagen from Hoki skins and the November 2018 launch of Sea to Me brand and its nutraceuticals range as well as extensive market research into demand probabilities.
- A complete revamp of the Auckland Fish Market was initiated in FY18. The substantial upgrade included eight eateries and a revitalised fresh fish market subsequently renamed ‘Sanford and Sons – Fishmongers’ – this redevelopment has become a popular Auckland eating and tourist destination.
- Precision Seafood Harvesting technology was now having a substantial influence on our fresh fish quality via this innovative new catching method – this was ideally timed for our redeveloped Fish Market and management’s marketing push into high end restaurants who embraced the excellent product quality.

(Slide 12 – Changes 2019)
FY19.

The matters of note I highlighted earlier in my report – namely:

- Sale completion of our 50% interest in Weihai Dong Won Food Company Ltd in China.
- Sale of our Tauranga based pelagic fishing business.
- A major refocussing of our Australian business.
- The announced intention to build a Marine Extracts and Innovation Centre facility in Blenheim.
- As well as the Sancore company-wide major IT upgrade.

(Slide 13 – Broader Changes)

On a wider and more general note of reflection, the company has focussed a very substantial amount of attention over the past 5 years to the vitally important responsibility of the health and safety of our people. This has involved extensive attention from the top level of management (with continual oversight by the Board) right down through the organisation via training, audits and the hiring of specialists throughout the organisation. We were therefore pleased to have our employees’ and share fishermen’s affirmation regarding the level of importance of this issue within Sanford - it is a continuing journey that will never end as we seek to continually improve.

A further issue of considerable importance relates to the very substantial progress that we have made in the extent and transparency of information provided in our reporting. This has been welcomed by our shareholders and the market generally, and Sanford has been recognised with the receipt of a number of Australasian and international awards for our Annual Report over recent years.

The one final matter that I wish to reflect on, is the topic of Sustainability. This is extremely important to Sanford as we, amongst others, have the responsibility of caring for and enhancing our fished and farmed resources for future generations – we take this responsibility extremely seriously. In this regard I believe that Sanford – under the leadership of Volker Kuntzsch our CEO - leads the New Zealand seafood industry in its thinking and actions in this crucially important space and you all can take a great deal of comfort from that, on behalf of your children, grandchildren and generations beyond.

(Slide 14 - Broader Changes contd.)

That concludes my reflections – both specific and general – of the more notable changes undertaken over the past 5 years. There are, of course, a myriad of other important advancements that management has also instituted which have resulted in the considerable and planned strengthening of the company's base of operations. From this base will flow an acceleration in the company's profit growth from that of the last 3 years, which however will require a continuing level of capital as well as operational expenditure as Sanford ambitiously seeks to become 'The best seafood company in the world'.

(Slide 15 – History & Future)

Now for a few concluding remarks.

As I have said previously, in New Zealand terms Sanford is a company that has a great history but, in my opinion, potentially an even greater future. The marine resource accessible by your company is probably unparalleled globally. NZ's Exclusive Economic Zone of approx. 4.4 million square kilometres provides a terrific resource that is world leading in its resource management structure and provides such a wonderful and extensive array of high-quality wild catch fish species. Add to that our marine environment where we can farm and grow the outstanding King Salmon species as well as the unique Greenshell mussel with all its qualities. Then there is the wonderful 'provenance' story that backs and enhances our developing branded and increasingly higher value seafood products. And last – but not least – the emerging potential of our marine environment to provide 'beyond food' products backed by a bold but well-reasoned innovation focus. This is what Sanford is developing, and in our CEO Volker Kuntzsch's words 'this is exciting'!

And furthermore, if we are successful with our efforts to encourage meaningful industry collaboration with, for example, catching and processing, that could provide an additional bonus in these major cost areas.

Yes, there is the emerging real challenge of climate change – and while this has had an effect on our last couple of years' results, already we are starting to find or develop ways of mitigating some of these effects. And as time goes by, I believe that the company and the industry, will be able to enhance its mitigation strategies and effectiveness further.

(Slide 16 – Distinctions & Recognitions)

RECOGNITIONS AND AWARDS.

As I think it is appropriate, I now wish to take a moment to mention that your CEO, your incoming Chairman and separately your Board as a whole have all received notable recognition over the past year:

- Firstly to our CEO Volker - while some of you may already be aware, it gives me great pleasure to inform you that Volker was recently announced as the winner of Rabobank's 2019 Leadership Award for Agribusiness. Rabobank is recognised as the leading international bank to the global food and agribusiness sectors so this award is indeed a prestigious one and recognises the pre-eminent leader's contribution in these industries across both Australia and New Zealand. Not being satisfied with just one award, he was then selected as one of only three finalists in the Deloitte's Top 200 Companies in New Zealand, for the NZ Chief Executive of the Year award. While Volker was headed off by another outstanding candidate for the Award, his selection as one of only three finalists from the top 200 NZ companies was certainly a highly meritorious recognition. So we congratulate Volker on both these achievements which obviously reflect outstandingly well on him personally but also on your company as a whole.
- It also gives me great personal pleasure to recognise and acknowledge your incoming Chairman, Sir Robert McLeod who was appointed a Knight Companion of the New Zealand Order of Merit for his services to business and Maori in the 2019 New Year's Honours List. We congratulate Sir Rob on this exceedingly well deserved public recognition as he has been a stand-out example in everything he has done in his professional and other capacities during his business lifetime. He has undertaken so many roles in business in New Zealand and Australia, on numerous Government Taskforces as well as leading many Maori entities that there are too many to even contemplate covering. We were delighted when Sir Rob agreed to join the Sanford board in 2016 and I know he will do an outstanding job for all stakeholders in his capacity as Chairman of your company.
- Finally and for completeness, I should mention that your Board was also recognised (in the early part of the 2019 financial year), again in the Deloitte Top 200 Companies Awards, with the Excellence in Governance Award. The members of the Board were understandably pleased with this recognition.

So it is satisfying and very pleasing that your company leadership and governance group has been recognised in the manner mentioned and in this regard I am sure you would all wish to join with me and say to Volker and Sir Rob and my Board colleagues, congratulations and very well done to you all.

(Slide 17 – In Conclusion)

On a more personal note, as I retire from the Board following today's meeting, I wish to say that it has been a privilege to be associated with the commencement and progression of the transformational journey that this iconic New Zealand company is undertaking. In this respect, however, while we have in place or instigated many of the foundation 'building blocks' to realise this company's potential, there is still a meaningful part of the journey yet to traverse. This will require continuing investment in opex and capex to fully realise this potential and, of course, it is in fact a journey that never ends! It is called continuous improvement!

(Slide 18 – Thank You)

Finally, I would like to thank and wish my successor as Chairman (Sir Rob McLeod) and my Board colleagues, together with the executive management team (and indeed all the people in the Sanford team) led by Volker, all the very best for the future success of the good ship 'Sanford' and all that sail in or with her.

Thank you.