



**31 August 2021**

## **NZX Continuous Disclosure**

### **Sanford Market Update: Continuing Challenges in Covid-impacted Markets**

Sanford Limited (NZX: SAN) is updating the market today, as part of its commitment to more frequent updates on trading conditions. Sanford would typically expect to see a seasonal uplift in second half performance. Our expectation of the extent of this uplift has moderated as market conditions remain challenging.

Mussel pricing continues to be a key challenge with Covid impacting global demand. There have been some improvements in key international markets, specifically in rising demand for wild caught seafood and salmon but this has not been enough to offset weakness in mussels. Significant impacts from higher supply chain costs and freight reliability continue.

Sanford CEO Peter Reidie says “as a heavily export focused business, we were hit early by the impact of Covid-19 globally on food service and supply chains. We are now seeing different parts of our business begin to recover from that at different speeds.”

#### **Wildcatch**

- Largest segment of Sanford’s business providing around 57% of YTD revenue
- Overall catch volumes for the first ten months are generally consistent with the prior corresponding period (pcp). Lower squid catch relative to the unusually high catch of last year, but other larger volume species such as hoki are meeting expectations
- Revenue for the 10 months to end July 2021 is 2% ahead of pcp, but remains well below pre-Covid levels

#### **Mussels**

- Providing around 19% of YTD revenue
- Mussels are a popular food service product. Demand is driven by seafood restaurants and banquet-style dining
- Sales volume (green weight tonne) is in line with pcp but weaker pricing means that revenue for the ten months to end July 2021 is 21% down on pcp
- Price improvements have not been as rapid as other divisions but we are seeing prices firming in forward orders for Q1 FY22
- Full year harvest volumes may be impacted by July weather events in the Marlborough Sounds and Golden Bay. The extent of this is still being assessed

#### **Salmon**

- A smaller component of the business, providing around 14% of YTD revenue
- Recovering well from Covid-19 impacts, as it typically benefits from being sold fresh either domestically or air freighted to destinations such as the US West Coast, Asia and Australia
- Revenue is up but margin is in line with the pcp due to the need to clear inventory that was frozen due to Covid demand impacts in 2020
- Good growth seen for the premium Big Glory Bay brand, particularly in the United States retail channel. This now makes up 21% of total salmon revenue, versus 3% for the pcp

### **Supply chain impacts**

Sanford has faced increased costs and delays shipping frozen seafood products to key markets such as the US and Asia, because of the wider issues around global supply chains. Total supply chain costs are up by \$5m on the pcg, which represents a 17% increase on a cost per tonne basis. Sanford seeks to recover these additional costs through pricing increases, albeit with a lag between these cost increases and pricing recoveries.

### **Inventory**

Mr Reidie says Sanford's frozen inventory levels remain higher than pre-Covid, but he says "we are reducing inventories over time – by value these have dropped 19% since a peak in December 2020. There are no issues around aged inventory (stock older than 12 months) and we are comfortable at these levels, given the strength we see in forward orders."

### **Other factors**

Sanford will likely be required to expense a portion of the investment in SanCore, our digital business transformation project. This is expected to have a material impact on our full year EBIT, although it will not be included in Adjusted EBIT. The change in accounting treatment does not impact on cash flow. This issue is faced by many companies as a result of changes in the application of accounting standards. The total investment expected in SanCore this year is \$9.6m and we continue to work with our advisors to confirm the appropriate portion to be expensed under this accounting treatment.

Mr Reidie says Sanford's operating cashflow is consistent with the company's expectations and its balance sheet is robust. "Sanford continues to have good support from our lenders. Our debt levels remain similar to our half year position and we have sufficient debt headroom."

Given the uncertainty around duration, it is too early to quantify the impact of New Zealand's current Covid lockdown. This will be included when Sanford reports its full year results in November.

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