ASX & Media Release

3 July 2020

FY20 Guidance & Strategy Update

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

Highlights:

- **The decision to settle the Feed Litigation in December, the $5m in fresh equity from Hofseth, initiatives taken to reduce costs and conserve cash, combined with better than expected sales during the lock down, has positioned the Company well during ongoing COVID-19 uncertainty.**
- **The Company provides unaudited full year FY20 guidance as follows:**
  - **After Tax Statutory Profit (before Inventory impairment but including litigation settlement) of $1.5m to $2.0m**
  - **30 June 2020 Cash and Undrawn Facilities of $42.3m (including $22.2m in cash), a significant increase from Cash and Undrawn Facilities at 31 Dec 2019 of $23.5m**
  - **Non Cash Inventory impairment of circa $16.5m (reducing inventory from $74.5m to $58.0m) to reflect expected clearance of inventory not sold during COVID shutdown, lower selling prices to support market entry into new sales channels and lower farm gates from increases in air freight costs**
- **Although Q4 FY20 sales were materially impacted by COVID-19 lockdown measures and post lockdown restrictions, the Company's focus on non-restaurant channels in Australia has helped underpin sales during the shutdown and subsequent re-opening of restaurants at limited capacity**
- **Global sales volumes in June recovered to 77% of prior year and encouragingly 105% of prior year in Australia , although recent COVID cases in Victoria likely to impact July**
- **Clean Seas market focus for the next 12-24 months (while export markets recover from the impacts of COVID-19) will be to maximise cash generation opportunities whilst developing new products and supply chains for its strategic pivot to new channels, including retail and meal kits**
- **Progress with the pivot to retail includes the recruitment of an experienced New Product Development Manager and the expected launch of a new retail product with a leading Australian supermarket chain during Q2 FY21.**
- **Clean Seas confirms that it plans to reactivate a number of automation (CAPEX) programs focused on reducing Farm and Processing costs of production that had been paused in Q3 FY20 to preserve cash at the outset of COVID-19.**

Strategic Progress pre-COVID 19

Clean Seas' Vision 2025 Strategic Plan was on track entering Q3 FY20 with growing sales revenues (+14% vs H1 FY19), a strong increase in Operating EBITDA (+220% vs H1 FY19) and positive cash flow from operations (+$3.2million H1 FY20). The worldwide government lockdowns in response to COVID-19 effectively closed in-restaurant dining in most markets globally from the latter part of Q3 FY20 and during most of Q4 FY20

Cash Preservation - response to COVID-19

In March 2020 the Company identified a range of cost saving initiatives to preserve cash. A key component of this was a temporary change in feed strategy designed to proactively control growth whilst preserving fish health. This has resulted in reduced growth of circa 500 tonnes during H2 FY20 which will directly reduce SGARA profits by circa $7 million but has underpinned cash preservation and minimised excess inventory during the Global Shutdown.

FY20 Full Year (unaudited) Guidance

Total sales volumes in FY20 were **2,424** tonnes. After tracking 14% ahead of FY19 going into Q3 FY20, the impact of COVID-19 resulted in lost sales during H2 FY20 of circa $13 million and resulted in full year sales volumes 10% lower than full year FY19.

When in-restaurant dining closed worldwide in late Q3 FY20 Clean Seas sales declined to around 20% of prior year. In Australia, and in response the Company focused on 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. The recent increase in COVID-19 cases in Victoria however is expected to slow down the recovery of sales in that state in July and possibly longer.

In addition to the circa $13million of lost sales in H2 FY20, the Company expects FY21 sales will also be lower than previously planned – although this will depend upon the rate of recovery in each market and the impact on international air freight services.

The expected clearance of inventory not sold during COVID shutdown, lower selling prices to support market entry into new retail sales channels and lower farm gates from increases in air freight costs are expected to lead to an impairment of Clean Seas Live Fish and Frozen Inventory from $74.5m to $58.0m, a reduction of $16.5 million.

Clean Seas full year FY20 (unaudited) guidance is a Statutory Net Profit After Tax (before impairment of inventory) in the range of $1.5 million to $2.0 million. This includes the net settlement from the Feed Litigation (after legal costs) of $13.95 million. After the $16.5 million Inventory impairment, the Company is expecting a Statutory (SGARA) Net Loss After Tax for FY20 in the range of $14.5 to $15.0 million.

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 2,000 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.

The planned impairment of this excess Live Fish and Frozen Inventory creates a strategic opportunity for Clean Seas to use the discounted product to drive trials and target long-term growth via new channels and under developed foodservice markets, particularly in North America and Asia.

Clean Seas has progressed the development of a new retail product with a leading Australian supermarket chain which is expected to launch in Q2 FY21 and also continues to work with the Hofseth Group to explore new sales opportunities in North America and Asia.

Market Focus FY21 and FY22

Post impairment, Clean Seas will have 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.

Cost of production reduction projects

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 expected sales growth are expected to reduce costs of production by circa $2-$3 per kg over the next 3-4 years and will be largely 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.

Fish Health

Fish health remains excellent with Live Fish Biomass at 30 June 2020 of 4,492 tonnes, 9% higher than 12 months earlier, reflecting the Company's expectations (pre COVID-19) of strong sales growth across FY20 and FY21. The current Biomass positions the Company well for future sales growth in both retail and food service channels as lockdowns ease and global markets recover.

Outlook

The Company cannot give specific guidance beyond FY20 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.

Terry O'Brien
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

Robert Gratton – CFO & Joint Company Secretary
+61 434 148 979
rob.gratton@cleanseas.com.au