

ASX & Media Release

28 February 2020

Clean Seas Delivers Increased Operating EBITDA and Cash Flow on 13% Sales Revenue Growth

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Spencer Gulf Kingfish, is pleased to announce its H1 FY20 results.

Highlights:

- **Operating EBITDA increased to \$1.607 million in H1 FY20 compared to \$0.520m in H1 FY19 further validating the material benefits of scale**
- **Revenue increased 13% in H1 FY20 to \$24.4m;**
- **Total sales volumes increased 11% in H1 FY20 to 1,406 tonnes;**
- **Positive Operating Cash Flow of \$3.2m, up 56% on the prior year;**
- **Continued penetration of the premium frozen market through *SensoryFresh* products, utilising Clean Seas Liquid Nitrogen Rapid Freezing technology with 32% growth in sales volumes vs H1 FY19;**
- **Live Kingfish biomass at 31 December increased 14% versus prior year to 3,621 tonnes with continued excellent Kingfish survival rates, health and growth;**
- **Cash injection of \$15m from settlement of the Feed Litigation;**
- **Successful capital raise of \$22m through completion of a Strategic Investment by Bonafide Global Fish Fund and a Convertible Note offer;**
- **Clean Seas is now fully funded to deliver its “Vision 2025” strategic plan**

Financial Performance (\$'000)	H1 FY20	H1 FY19	Change	
Revenue	24,437	21,585	+13%	●
Volume (t)	1,406	1,264	+11%	●
Revenue/kg	17.38	17.08	+0.30	●
Operating Results¹				
Operating EBITDA	1,607	520	+1,087	●
Operating EBITDA/kg	1.14	0.41	+0.73	●
Gross Profit	7,569	5,498	+2,071	●
Operating NPAT	(194)	(1,042)	+848	●
Statutory Results				
Statutory EBITDA	6,787	(2,860)	+9,647	●
Statutory NPAT	4,596	(4,422)	+9,018	●
Operating Adjustments				
Litigation Settlement & Expense	(13,982)	295		
Non cash provision	-	(672)		
Insurance claim	-	(150)		
AASB 141 SGARA Impact	8,802	3,907		
Convertible note & Non-operating interest	390	-		
Cash Flow				
Receipts	24,578	21,048	+17%	●
Investment in Future Biomass	3,690	3,749	-2%	●
Operating Cash Flow ¹	3,182	2,040	+1,142	●

¹Operating EBITDA, Operating NPAT and Operating Cash Flow in this report are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. They have not been subject to audit or review by the Company's external auditors.

Clean Seas Seafood Limited | ABN 61 094 380 435

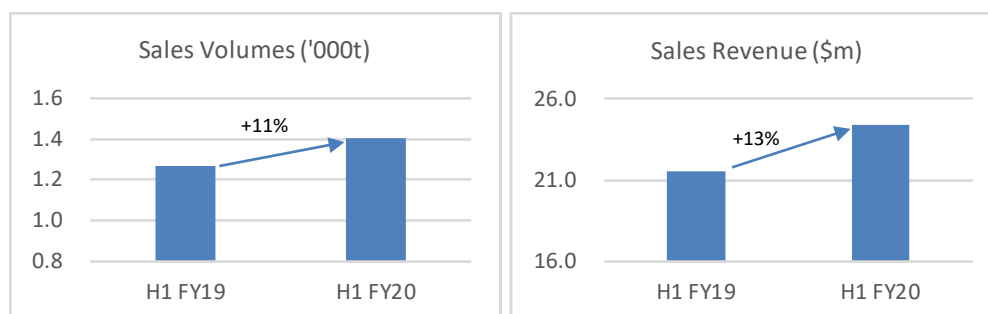
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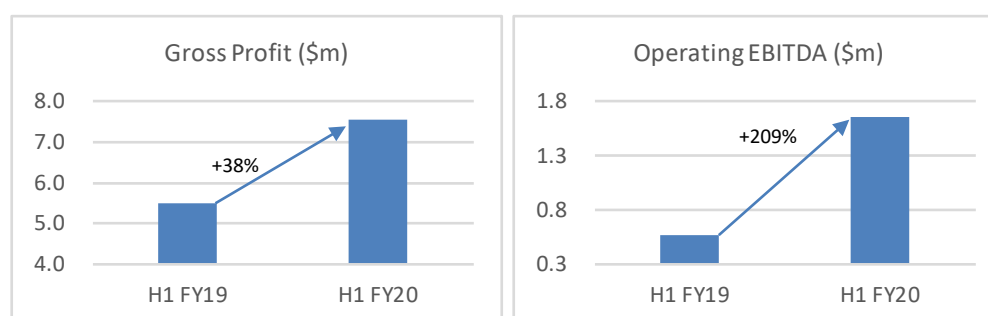
Financial Results reflect growth and the benefits of achieving increased scale

The Board and Management of Clean Seas report a statutory profit after tax for H1 FY20 of \$4.596 million, which compares to a loss of \$4.422 million in H1 FY19.

The increase in Sales Volumes of 11% in H1 FY20 versus H1 FY19, together with increased Revenue and Farmgate \$ per kg and reductions in Farm Operations expenses drove increased Gross Profits, up 37.7% versus H1 FY19.



Growth in Sales Volumes, Farm Gate prices, Operating Margins and Gross Profit, as well as greater leveraging of the Company's fixed costs through the benefits of increased scale of operations underpinned an increase in Operating EBITDA from \$0.520m to \$1.607 million.



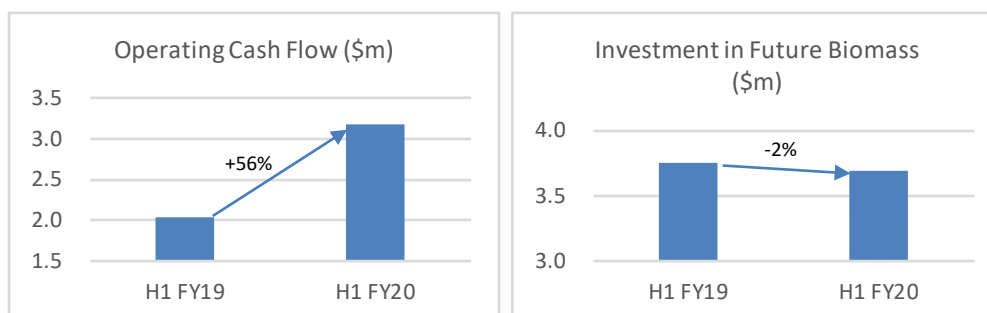
Fish Feed costs and Farm Operating costs reduced as a percentage of Fish Growth, reflecting improved efficiency and the benefits of scale in the production process.

Despite continued investment in people and marketing costs as per the "Vision 2025" strategic plan, Indirect Costs as a % of Sales reduced by 4% in H1 FY20 versus H1 FY19, demonstrating the benefits of increased scale. This investment includes investment in sales resources for the North America market as the Company continues to scale up for future growth.

The AASB 141 SGARA impact represents the fair value adjustment of biological assets, and was negative \$8.802 million for H1 FY20, which compares to negative \$3.907 million in H1 FY19. This result reflects the year-on-year increase in live fish biomass, and as in previous years, the lower levels of fish growth in seasonally cooler seawater temperatures during H1 (from July to November). As in past years, the AASB 141 SGARA impact is expected to be a positive number across the full FY20 year.

Increased Operating Cash Flow

In H1 FY20 the Company achieved a positive Operating Cash Flow of \$3.2m which represented a 56% increase on the prior year excluding investment required to expand Biomass to support future growth in sales.



H1 FY20 cash receipts increased by \$3.5 million or 17% to \$24.6 million in comparison to H1 FY19. Due to the reduction in Farm Operations costs per kg of growth, Cash Investment in Biomass was 2% below H1 FY19 despite the 14% increase in overall Biomass to support future sales growth. This has been achieved as a result of lower production costs and a continued improvement in working capital management.

Total statutory cash used in operating activities in H1 FY20 was favourable to H1 FY19 by \$0.5 million, despite higher costs incurred during the Company's successful litigation action, primarily driven by:

- additional receipts from sales;
- improved operating margins; and
- leveraging the benefits of scale and increased farming efficiencies.

Operating cash flows reconciliation	H1 FY20	H1 FY19
Statutory cash used in operating activities	(1,358)	(1,831)
Less:		
Investment in Biomass Expansion	(3,690)	(3,749)
Cash flows for Litigation costs	(850)	(122)
Operating Cash Flow	3,182	2,040

Strong Fish Health and Biomass Growth

Fish health remains excellent with Live Fish Biomass at 31 December 2019 of 3,621 tonnes increasing in line with biomass requirements to support expected sales growth. As in previous years, the seasonally cooler seawater temperatures during H1 (from July to November) reduces the rate of Live Fish growth versus the H2 summer months. Seawater temperatures are expected to be around the long-term average in H2, with significant fish growth during this period in line with the long term average.

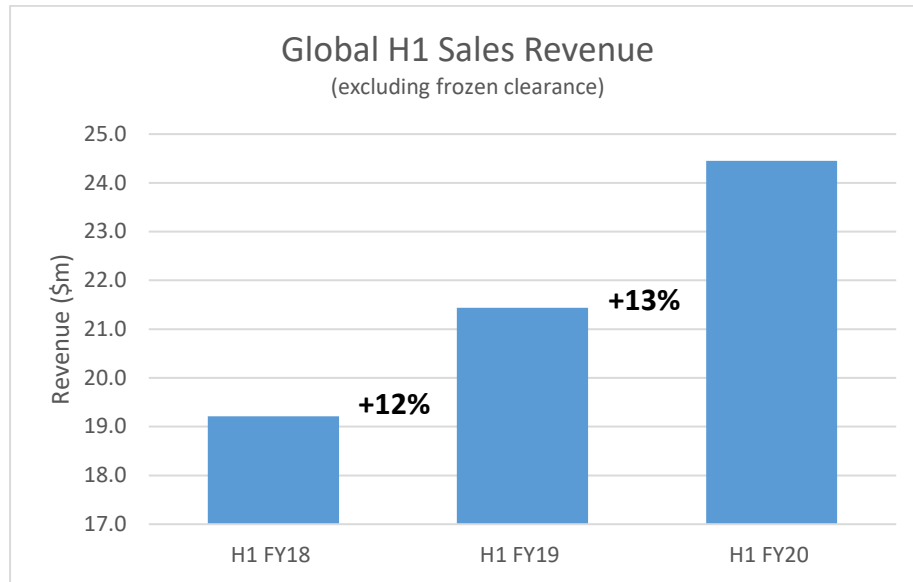
Total Biomass at 31 December 2019 of 3,621 tonnes is 14% higher than 12 months earlier, reflecting investment to support current and future sales growth, and represents the additional Biomass required to deliver on the Sales Volume objectives outlined in the Company's "Vision 2025" strategic plan.

The current Biomass positions the Company well for further sales growth in FY20 and beyond as Clean Seas continues to expand sales of Spencer Gulf Hiramasa Kingfish in global markets.

Continued Growth in Sales Volumes and Revenues

Clean Seas' Spencer Gulf Hiramasa Kingfish, "arguably the best raw fish in the world", remains the pre-eminent Kingfish with clear market leadership positions in both Australia and Europe.

Reflecting continued growth in Sales Volumes and Farm Gate Prices, Global Sales Revenue grew by 13% across H1 FY20 versus H1 FY19, following on from a 12% increase in H1 FY19 versus H1 FY18.



Global Sales Volume increased 11% in H1 FY20 versus H1 FY19 reflecting increases in Australia, Europe and North America.

Sales volume (by market, excluding frozen clearance sales)	
Tonnes (WWE)	H1 FY20 v H1 FY19
Australia	13%
Europe	7%
North America	43%
Asia/China	(3%)
Total	11%

Sales Volume in the core Australian market was up 13% in H1 FY20 versus the same period last year. This result is encouraging and reflects the strong performance since Q1 FY19 as the Company has been able to recapture market share lost to local competitors, whilst also growing the market through the Company's ongoing chef activation program. This result has been achieved while Farm Gate prices have also been increased.

In the Company's other major market, Europe, the Company was able to achieve 7% year-on-year growth in Europe in H1 FY20 despite increased competition from local European land-based farms with selling prices significantly below Clean Seas. The Company has driven this positive result through the superior quality of its Spencer Gulf Hiramasa product, its investment in the Spencer Gulf brand marketing campaign, and the chef activation program.

The Company continues to pursue international expansion, with Sales Volumes in North America growing by 43% in H1 FY20 versus H1 FY19. The decline in Asia of 3% in H1 FY20 reflected the timing of large container shipments in Q1 FY19 to major Asian customers. The Company maintains confidence in the growth outlook for the Asian market.

The Company continued to achieve Farm Gate price increases in all markets. Europe Farm Gate prices grew despite the ongoing competitive pressure from local land-based farms and the recently introduced EU-Japan Free Trade Agreement. The Company's Farm Gate price is its selling price less processing costs, freight and handling, sales commissions and packaging materials, reported on a whole weight equivalent (WWE) basis.

Premium Frozen *SensoryFresh* market penetration

Clean Seas delivered growth in premium frozen product sales of 32% in H1 FY20 compared to H1 FY19. Clean Seas premium frozen product (*SensoryFresh*) will be particularly significant for North American and Asian markets where the frozen Kingfish category represents over 76% of the total market, and validates the Company's strategic investment in its world's best practice freezing technology to achieve a clear competitive advantage in these key growth markets.

Sales volume (by product excluding frozen clearance sales)	
<i>Tonnes (WWE)</i>	H1 FY20 v H1 FY19
Fresh	7%
Frozen/ <i>SensoryFresh</i>	32%
Total	11%

Feed Litigation Settlement

The Company's legal action against Gibson's Ltd in the Supreme Court of South Australia has been settled and accordingly will not proceed to the scheduled trial date on 24 February 2020. The parties agreed to a final settlement of the action on the basis of a payment to the Company of \$15 million which has been received by the Company.

Gibson's Ltd and the Company have also agreed commercial terms for a Supply Contract for the manufacture of Clean Seas' feeds to the Company's own established formulation.

Strategic investment by Bonafide Wealth Management AG

The Company's major shareholder, Bonafide and its related entities took up a placement of shares which saw its combined shareholding increase from 9.53% to 17.66%. Under the Placement Clean Seas issued 8,241,506 shares at \$0.8008 per share to raise \$6.6 million.

Bonafide, based in Liechtenstein, was established in 2008 to focus exclusively in the Fish & Seafood Sector and is today considered one of the pre-eminent global investors in aquaculture. Associated with this placement, Gilbert Vergères (one of Bonafide's three Partners) will take up a Board seat in March 2020.

Convertible Note Entitlement Offer

The Company also completed an Entitlement Offer of Convertible Notes to raise \$15.4 million before costs. The Convertible Notes are quoted on the ASX under the code CSSG.

The Directors are pleased to note that with the successful completion of the Convertible Note issue, together with the proceeds of \$15 million from settlement of the litigation announced on 23 December 2019, the Company is now fully funded to implement its strategic plan released in September 2019. Under the strategic plan the Company aims to expand sales of ocean farmed Kingfish to 4,000 tonnes by FY22, a level that it expects will deliver sustained profitability and capacity to fund future biomass growth from operating cash flows.

Multiple Awards and Industry Accolades

On 18 October 2019, Clean Seas was announced as the South Australian Exporter of the Year at the Business SA 2019 Export Awards, which recognises the Company's significant achievements in the international marketplace. The Company represented South Australia at the national finals in Canberra. The Company also won the Adelaide Airport Agribusiness, Food and Beverages Exporter of the Year Award.

On 22 November 2019, Clean Seas won the overall Business Excellence Award and the Export Award at the 2019 South Australian Premier's Food and Beverage Industry Awards. This recognises that Clean Seas has set a benchmark for the industry across planning, customer focus, business improvement, risk management, culture and financial stability as per the assessment criteria for this award.

Outlook

The Company reiterates its confidence and positive outlook that it is on the right trajectory to achieve the scale required to deliver on its goals of profitability, cash flow sustainability and gains in shareholder value. The growth in Sales Revenues of 13% in H1 FY20, with positive +56% increase in cash flow from operations excluding Biomass investment, is consistent with the objectives outlined in the Company's "Vision 2025" strategic plan.

Through February the Company has seen some evidence of a slowdown in exports to Asia as a result of the Coronavirus outbreak. Exports to China have been suspended, but this market represents less than 1% of the Company's year to date sales. Australia has seen some softness following the Bushfires and Coronavirus, but February sales remain within 95% of the prior year, and YTD sales are up 14% on FY19. In Europe, February sales are currently 50% up on prior year, but the Company anticipates sales to Italy (and potentially surrounding regions) will be impacted in the coming weeks. North America appears to be unaffected and is currently up 11% on last year. Across all markets, the total Company is currently up 14% in February versus last year.

The Company recognises that the future impacts of coronavirus are still unclear, and is monitoring the situation closely. The Company is fully funded and is in a strong position to whether any adverse market impacts.

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

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