

ASX & Media Release

31 January 2019

Clean Seas Q2 Sales Increase 23% Over Prior Year

Highlights:

- Q2 FY19 sales volume of 702 tonnes exceeded Q2 FY18 by 23% and Q1 FY19 by 25% (excluding frozen clearance sales)
- H1 FY19 sales volume of 1,264 tonnes exceeded H1 FY18 by 8% (excluding frozen clearance sales)
- Solid growth in sales revenue in H1 FY19, increasing 11% over H1 FY18 to \$21.6 million (excluding frozen clearance sales)
- Further improvement in domestic and international fresh product farm gate prices
- Live fish net growth increased 32% over H1 FY18 to 966 tonnes in H1 FY19
- Positive cash flow from operations in the latest quarter
- Cash and undrawn trade finance and lease facilities of \$15.2 million as at 31 December 2018
- Mediation of the Skretting feed litigation scheduled to commence on 28 February 2019 and, should settlement not be achieved, trial set to commence 30 September 2019
- Appointment of Chief Financial Officer and GM Sales – Australia & Asia
- The Company reaffirms its target for sales revenue of \$47 to \$50 million in FY19, an 18%+ increase from the \$39.7 million in FY18 (excluding frozen clearance sales)

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to present its Q2 FY19 cash flow report and provide an update on business progress.

Sales Growth Accelerates in Q2 FY19 – With Improvement in Farm Gate Pricing

Clean Seas' *Spencer Gulf Hiramasa Kingfish* remains the pre-eminent Yellowtail Kingfish with clear market leadership positions in both Australia and Europe.

Sales volume in Q2 FY19 of 702 tonnes exceeded Q2 FY18 by 23% and exceeded Q1 FY19 by 25%. Q2 fresh product sales of 550 tonnes were up 6% from Q2 FY18 and up 9% from Q1 FY19. Q2 premium frozen product sales (excluding frozen clearance sales) of 152 tonnes tripled the sales in Q2 FY18 and were up 157% from Q1 FY19.

Sales volume in H1 FY19 totalled 1,274 tonnes. Excluding frozen clearance sales, the 1,264 tonnes in H1 FY19 was 8% higher than H1 FY18.

Sales revenue of \$21.6 million in H1 FY19 was 11% above H1 FY18 (excluding frozen clearance sales).

Fresh product sales volume increased 6% to 1,053 tonnes in H1 FY19 at higher farm gate prices, with the large fresh farm gate increasing by \$0.56 (4%) to \$14.33 per kg. The large fresh category represented 70% of volume and 74% of revenue in H1 FY19.

Premium frozen product sales volume (excluding clearance stock) increased 19% over H1 FY18 to 211 tonnes at similar farm gate prices. This category now mainly represents **SensoryFresh** products which became fully available in the main European markets in Q2 FY19, with this driving the strong sales performance in Q2.

The Company's farm gate price is its selling price less processing costs, freight and handling, sales commissions and packaging materials and is reported on a whole weight equivalent (WWE) basis.

The Chef Activation Program which stimulates end user demand, as evidenced by the 23% increase in Q2 sales, and is a key part of the Company's marketing and growth strategy, continued in Q2. This program has been expanded to incorporate the new **SensoryFresh** products. Following visits to 1,565 restaurants and high end food service outlets in H2 FY18, a further 540 potential customers were visited in H1 FY19 with a similar level of activity planned for H2 FY19. Results continue to be very encouraging, with 42% of chefs visited to date who are not currently using our **Spencer Gulf Hiramasa Kingfish** indicating they intend to start buying our Large Fresh and/or **SensoryFresh** products.

Fish Health Remains Excellent with Growth Up 32%

Net growth of 966 tonnes in H1 FY19 was 32% higher than the 734 tonnes in H1 FY18.

Total biomass at 31 December 2018 was 3,189 tonnes. Fish health remains excellent. This biomass level positions the Company well for further sales growth in FY19 and beyond as Clean Seas continues expansion of **Spencer Gulf Hiramasa Kingfish** in global markets, as has been seen with the 23% increase in sales volume achieved in Q2 FY19 over the prior year.

Sea water temperature seasonality causes Yellowtail Kingfish growth in the Spencer Gulf of South Australia to be significantly higher in H2 than H1, with historically 15% to 35% of annual net growth recorded in H1. In FY18 22% of full-year net growth was recorded in H1 FY18. Seawater temperatures in Q2 FY19 were around the long term average.

The Company is progressing plans to return to farming at its Fitzgerald Bay leases, at the top of the Spencer Gulf near Whyalla in South Australia, later in 2019. The Federal Government has supported this expansion through awarding a \$2.5 million Regional Jobs and Investment Packages Grant, with the first quarterly payment of \$0.4 million received during Q2 FY19.

Q2 FY19 Cash Flow Report Highlights Investment in Future Growth

The Q2 FY19 cash flow report highlights the \$0.3m positive cash flow from operations in Q2.

For H1 FY19, the report reflects a \$1.1 million increase in receipts from customers and increased operating cash outflows driven by the Company's ongoing investment in biomass to support sales growth in FY19 and beyond. The costs of increasing the Live Fish inventory are included in Net Cash Used in Operating Activities.

Capital expenditure of \$1.9 million in H1 FY19 was \$0.7 million below H1 FY18 and is mainly related to investment in farm infrastructure.

Feed Litigation Update

The Company's legal action against Gibson's Ltd in the Supreme Court of South Australia, in respect of what the Company maintains were defective feeds supplied to the Company and fed to the Company's Yellowtail Kingfish between December 2008 and July 2012, continues. The interlocutory steps in the litigation have been completed with both parties having completed discovery and the exchange of initial and responding experts reports on liability and quantum. Gibson's Limited, trading as Skretting Australia, is defending the proceedings and has denied all liability to the Group.

The trial has been scheduled to commence on 30 September 2019. A pre-trial mediation has been scheduled to commence on 28 February 2019 with the outcome expected to be known in early March 2019. The matter will proceed to trial if a satisfactory outcome cannot be achieved through the mediation process.

Appointment of Chief Financial Officer

Following the decision to split the role of Chief Financial Officer and Company Secretary, the Company undertook an extensive search and is pleased to announce the appointment of Robert Gratton to the position of Chief Financial Officer.

Robert spent five years in London and New York with JP Morgan Chase before ten years with Jurlique during which he held a number of finance and operational roles, including seven years as the Chief Financial Officer. Since 2015 he has held the role of Chief Financial Officer with Kikki.K.

Robert is expected to commence with Clean Seas in March.

Wayne Materne ceased his role as CFO and Company Secretary in late December but has continued as Company Secretary in a part time capacity and has agreed to continue in this role until the end of March 2019. A search is currently underway for a new (part-time) Company Secretary and General Counsel.

Appointment of General Manager Sales – Australia and Asia

Following an extensive search the Company is pleased to announce the appointment of Gregg Flower to the new position of General Manager Sales – Australia and Asia. Gregg brings an extensive extensive background in Sales and Marketing including senior roles with Fonterra, Nestle, Pacific Dunlop and Cerebos. He also spent six years at Huon Aquaculture as the General Manager of Sales, Marketing and Distribution from 2009 to 2015.

Gregg commenced in his new role in January.

Outlook

The Company reaffirms its previous guidance that it is targeting sales volumes in FY19 of 2,750 to 3,000 tonnes, a 17%+ increase from the 2,353 tonnes in FY18 (which excludes frozen clearance products). This is targeted to generate sales revenue of \$47 to \$50 million, an 18%+ increase from the \$39.7 million in FY18 on the same basis. Further double digit sales growth is expected to continue in FY20 and beyond.

The Company intends to continue to invest to develop its sales and marketing capabilities to support long term sales growth in Europe and to expand its presence in the US and Asian

markets. This investment together with investment in increased biomass will support the planned sales growth.

The statutory financial results for H1 FY19 will be released in late February 2019.

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

Terry O'Brien
Chairman

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