

ASX & Media Release

31 October 2018

Clean Seas Positioned For Further Growth

Highlights:

- **Q1 FY19 Fresh sales of 503 tonnes, up 7% from Q1 FY18 with higher farm gate prices**
- **Live Fish biomass at 30 September 2018 of 3,060 tonnes**
- **Strong working capital position with \$16.2 million in cash and undrawn facilities**

Clean Seas Seafood Limited (ASX: CSS), the global leader in full cycle breeding, production and sale of Yellowtail Kingfish, is pleased to present its Q1 FY19 cash flow report and provide a business update.

Fresh Sales Grow 7% – With Continued Improvements in Farm Gate Prices

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

Total sales in Q1 FY19 of 562 tonnes (excluding frozen clearance stock) compared to 596 tonnes in Q1 FY18 on the same basis.

Fresh sales of 503 tonnes were up 7% from 470 tonnes in Q1 FY18, with the Large Fresh Farm Gate Price \$0.43 per kg whole weight equivalent (3%) above Q1 FY18. The Large Fresh category represented 75% of volume and 79% of revenue in Q1 FY19.

Premium Frozen sales of 59 tonnes compared to 126 tonnes in Q1 FY18. The reduction in frozen sales was due to customers delaying orders until the new **SensoryFresh** products were available and some orders expected in September being delayed until October. Production and shipping of **SensoryFresh** products is now progressing as planned, with further product launches occurring in USA and Europe in October 2018 and H1 FY19 Premium Frozen sales expected to exceed H1 FY18.

The Chef Activation Program, which stimulates end user demand and is a key part of the Company's marketing and growth strategy, continued in Q1. Following visits to 1,565 restaurants in H2 FY18, a further 419 restaurants were visited between July and September 2018. This comprised 268 in Australia and 151 in Europe. Results continue to be very encouraging, with 41% of chefs visited to date who are not currently using our **Spencer Gulf Hiramasa Kingfish** indicating they intend to start buying our Large Fresh premium product.

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 basis.

Fish Health Remains Excellent

Fish health remains excellent with Live Fish biomass at 30 September 2018 of 3,060 tonnes. As is usual for Q1, only minor growth occurred due to the seasonally cool seawater temperatures. Seawater temperatures are expected to be around the long-term average in Q2, with significant fish growth re-commencing from November.

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.

Royal Park Processing Facility Update

Clean Seas completed the transition of its processing operations from a third-party contractor in Port Lincoln to its new in-house processing facility at Royal Park, Adelaide in June 2018.

Production of frozen products using Clean Seas new Liquid Nitrogen Rapid Freezing technology re-commenced in Q1 FY19, following the previously advised flood incident in Q4 FY18. The minus 40 degree storage freezer was recommissioned in September 2018 and is operating satisfactorily. The insurance claim arising from this incident remains in progress.

Farm Expansion - Return to Farming at Fitzgerald Bay (Whyalla)

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, commencing with the 2019 Year Class (YC19) fish.

This will facilitate further expansion of the Company's *Spencer Gulf Hiramasa Kingfish* production with an additional 4,250 tonnes of farm capacity. Importantly, it will also further improve sustainability practices, including fallowing of farm sites and help mitigate and reduce biosecurity risk through further geographic diversification. The Federal Government has supported this expansion through awarding a \$2.5 million Regional Jobs and Investment Packages Grant.

During Q1 FY19 the Company commenced transferring YC19 fingerlings from the Arno Bay Hatchery to its Arno Bay "Nursery" site, prior to being relocated to Fitzgerald Bay in 2019.

Q1 FY19 Cash Flow Report Highlights Investment in Future Growth

The Q1 FY19 cash flow report highlights increased operating cash outflows driven by the Company's ongoing investment in increased biomass to support sales growth in FY19 and beyond, with the costs of increasing the Live Fish inventory included in Net Cash Used in Operating Activities.

The report also reflects:

- Cash receipts from customers of \$10.2m, up \$1.8m / 22% from Q1 FY18
- Higher than usual feed payments of \$3.5m, which are \$2.2m higher than Q1 FY18. This is due to a combination of an investment purchase of feed in Q4 FY18 ahead of an advised price increase and the impact of improved payment terms negotiated with feed suppliers early in FY18, which delayed some feed payments from Q4 FY18 to Q1 FY19
- Staff costs were \$0.5m higher than Q1 FY18, mainly reflecting the shift of processing to the new in-house processing facility and the higher farm labour requirement arising from the increased biomass

Feed Litigation Update

The Company's 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.

The timing of the trial and the pre-trial mediation remain under discussion between the parties and the Court. The latest indications are that the trial will be set to commence in H1 FY20 and the pre-trial mediation scheduled during H2 FY19.

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

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