



28 February 2023

NZCS completes earnings accretive acquisition of Nine Ocean Group and Progresses \$2 million Debt Facility

Highlights:

- NZCS completes the acquisition of 100% of the issued capital of the Nine Ocean Group
- Nine Ocean is a profitable, ESG-focused seafood fishing and high-end seafood product wholesaler/exporter based in Cairns, Queensland
- Acquisition provides NZCS with an established Australian market presence, additional warehouse capacity, optimised supply chains, increased distribution and a growing revenue pipeline
- Follows extensive due diligence during which NZCS identified multiple scaling and cost reduction opportunities to be implemented immediately
- Nine Ocean executive Peter Chai has joined the NZCS Board
- A credit reviewed indicative term sheet has been received from a big four Australian bank, in respect of a \$1m leasing facility and a \$1m working capital debt facility
- Favourable all-scrip transaction includes revenue milestones of \$3.1m at the end of 12 months and \$6.2m at the end of 24 months or for the successive 12 month period
- Acquisition provides a unique opportunity to leverage a trans-Tasman footprint to target large Asian and growing domestic markets.

New Zealand Coastal Seafoods Limited (ASX: NZS and NZSOA) ("NZCS", the "Company") is pleased to confirm it has completed the 100% acquisition of the issued capital of PXY Pty Ltd and Nine Ocean Fishery Pty Ltd (together 'Nine Ocean') from the founding shareholders of Nine Ocean (the "acquisition"), and appointed Nine Ocean's executive Peter Chai to its Board. In conjunction with the acquisition, the Company has executed an agreement to acquire 100% of the issued capital of Meridian Equity Pty Ltd, a related entity of Nine Ocean, for nil consideration.

Concurrent with the acquisition, NZCS has received a credit reviewed indicative term sheet from a big four Australian bank in respect of a potential \$2m secured debt facility being a \$1m leasing facility and a \$1m working capital debt facility. The term sheet is non-binding (refer below) however should it be finalised it would provide considerable financial flexibility, which would be intended to be used towards growth initiatives of the combined group and working capital purposes.

The acquisition of Nine Ocean follows an initial binding share purchase agreement to acquire the ESG-focused, leading seafood fishing and wholesale export business (*refer ASX announcement: 5 October 2022*). The issue of the securities as consideration for the acquisition was approved by shareholders on 28 November 2022.

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Completion of the acquisition follows an extensive due diligence period, which highlighted a number of strategic benefits and synergies including the establishment of an Australian operation with strong revenue streams to complement the New Zealand business, additional warehousing capacity and a strengthened supply chain and distribution network.

About Nine Ocean:

Nine Ocean was established in 2017 and is focused on responsible sourcing of seafood products from the Torres Strait and the Coral Sea. The group also operates a purpose-built export standard processing facility in Cairns.

Via sustainable management practices, the group processes, sells and distributes high-end seafood products, including tropical rock lobster and sea cucumber. The products are wild caught, traceable and caught under a series of unique fishing licenses. Its fishery has been assessed and verified for sustainability, ensuring minimal impact on the wild fish population and the broader coastal ecosystem in which it operates.

Nine Ocean is also a direct supplier of premium and frozen seafood products to a wide customer base across the Asia Pacific region. Nine Ocean also possess valuable fishing permits and quotas in the Coral Sea Fishery of Australia.

Transaction benefits and operational synergies:

Nine Ocean will allow NZCS the opportunity to consolidate its regional market footprint as a premium seafood provider, sourcing high quality products from both Australia and New Zealand. The Company is confident that primary production in Australia will bolster its visibility and complement existing revenue channels.

NZCS can also considerably scale Nine Ocean's existing operations, which currently include a processing facility in Cairns with live tanks, frozen/chilled storage and drying equipment for live, frozen/chilled and dried seafood products.

Nine Ocean's geographical proximity to Asian markets will also serve as a distribution hub. NZCS has strong visibility across Asia and have a unique opportunity to expand this footprint.

Nine Ocean's existing operations all adhere to Australian Fisheries Management Authority (AFMA) guidelines as well as relevant Protected Zone Joint Authority (PZJA) based rules and policies. The group also supplies administration services and equipment to the local community, subsequently purchasing any suitable catch from locals to ensure capital flows back into the local market. These initiatives will directly bolster NZCS' existing ESG focus.

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Work being undertaken on completion:

NZCS management are now focused on implementing a number of cost optimisation initiatives across the combined group. These include targeted strategies to reduce Nine Ocean's administration expenditure and complementary supply chain opportunities.

Further cost synergies will be found by utilising its network of manufacturing capacity to process and or trade Nine Ocean's sea cucumber, finfish and other products of interest. In addition, management will streamline Nine Ocean's processing and supply chain capacity for quality improvement, waste, potential reduction in pollution and increased sustainability.

NZCS will also leverage the market knowledge and industry expertise of its current Board and management – particularly CEO Mr Andrew Peti and Non-Executive Director Mr Nathan Maxwell-McGinn who both have significant experience in the industry – to progress scaling of Nine Ocean's operations and increase sales of tropical rock lobster.

Management commentary:

New Zealand Coastal Seafoods CEO, Mr Andrew Peti said: *"We are very pleased to have completed the conditions precedent and finalised the acquisition of Nine Ocean. The all-scrip transaction at an attractive multiple of Nine Ocean's unaudited revenue offers compelling return metric for shareholders and has the potential to unlock considerable value. To have also received a credit reviewed indicative term sheet in respect of a potential secured \$2 million in debt funding from a big four Australian bank concurrent with the acquisition, could also lead to a major milestone which would provide financial flexibility to immediately scale up operations across the combined group."*

"Throughout the due diligence process, it has become more apparent that Nine Ocean's business model directly compliments NZCS' existing operations and current strategy. The Board and management are confident that the acquisition will further cement the Company's position as the preferred supplier of ethically sourced high-quality seafood products."

"As integration of the operating division continues, we will immediately commence a number of scaling initiatives, as well as cost optimisation strategies designed to ensure an increase to the combined group's earnings profile. We look forward to providing further updates as these are implemented."

Indicative Terms for \$2 million secured debt facility with a big four Australian bank:

Concurrent with the acquisition, NZCS has received a credit reviewed indicative term sheet from a big four Australian bank, in respect of a potential secured \$1m leasing facility and secured \$1m working capital debt facility.

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The facilities, if entered into, would provide financial flexibility for the combined group, which would be intended to be used towards growth initiatives and for working capital purposes.

The terms sheet is non-binding and any formal facilities are conditional on due diligence, formal credit approval, suitable documentation and a valuation of fishing licences, along with other conditions precedent customary for facilities of this nature. Whilst the Company is confident of securing the facility until such time as it has done so there can be no assurances this facility will ultimately be secured. The Company anticipates that should it reach a binding agreement it will do so within one month.

Nine Ocean acquisition terms and revenue growth milestones:

Based on the share purchase agreement for the acquisition of Nine Ocean, the Company has issued:

- i. 527,005,031 fully paid ordinary shares in the Company (Shares) and 206,751,257 options to acquire Shares with an exercise price of \$0.01 and an expiry date of three years from the date of issue (Options) (Initial Consideration Securities); with
- ii. The following deferred consideration to be paid to the shareholders of Nine Ocean as follows:
 - a. an issue of 150,000,000 Shares where the total revenue of Nine Ocean within 12 months from completion is greater than \$3,100,000 (Tranche 1 Deferred Consideration Shares); and
 - b. an issue of 225,000,000 Shares where the total revenue of Nine Ocean within 12 months from completion or within the 12-month period which commences on the date which is 12 months from completion and ends 24 months from completion is greater than \$6,200,000 (Tranche 2 Deferred Consideration Shares).

This announcement has been authorised for release by the Board of New Zealand Coastal Seafoods Limited.

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ASX Announcement

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About New Zealand Coastal Seafoods

New Zealand Coastal Seafoods (NZCS) (ASX: NZS) is a New Zealand based, producer of premium seafood products and nutraceutical marine ingredients. Through the development of nutraceutical products, NZCS is unlocking significant opportunities in the rapidly growing global nutraceutical market, which was estimated to be valued at US\$396.29Bn in 2021 and is anticipated to grow at a compound average growth rate of 5.2% between 2022 and 2030ⁱ.

Harnessing the countries reputation for pure, pristine waters and fisheries provenance, NZCS utilise raw ingredients sourced from New Zealand's sustainably managed fisheries, employing a nose-to-tail philosophy to create a range of high-value products.

The Company's mission is to share the sought-after flavours of sustainably-sourced, nutritious, healthy and organic goodness of New Zealand's seafood, through expanding global distributors, wholesalers and consumer channels.

ⁱ <https://www.gminsights.com/industry-analysis/nutraceuticals-market>

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