

Grieg Seafood Q2 2019 Presentation

ANDREAS KVAME: I think we can get started. Welcome to Grieg Seafood's second quarterly presentation. It's a somewhat odd day, a lot is going on today. And in addition to Equinor, there are some collisions. But welcome. Again, Atle Harald and I will deliver today's presentation. A little about what ground we'll be covering. We'll be looking at the highlights of the quarter. Operational review. We'll take a look at the different segments. Atle Harald will cover the financial aspects. Then we'll look at the future, and finally, summarize.

When it comes to the second quarter, we've had a quarter with generally good prices. And have had significant cost reductions, especially in Rogaland. The biology in Norway has been good. We made a decision regarding a strategic assessment of our area at Skye, located on Mainland Scotland, in relation to the operation on Shetland. We've had some biological challenges during this period, especially in British Columbia. I'll comment more on this when I get to the segments.

We are still very confident of our guiding for the year and have confidence in the guiding that we have for 2020. Grieg Seafood achieved 309 million in the second quarter. We harvested 22 000 tonnes, or rather just shy of 22 000 tonnes, with an EBIT of NOK 14.17. The harvest volume is slightly down, and the EBIT per kilo is somewhat down compared to the second quarter of 2018. The strategic focus areas that we've been working on, and continue to work on, are fixed. Everything is focused around sustainability. We have worked with the post-smolt strategy. We've been working on digitalizing the production and other areas. We're working on biosecurity and fish welfare and are also looking at expansion opportunities. The company's license to operate – that is farming the ocean for a better future. All of our reporting is open and transparent, as you will see in the quarterly report, the reporting is now in accordance with the five pillars described here in the presentation. You will find more details in the quarterly report. One of the areas that presents what we do, some of what we do, is that we have ... We've started the world's first fish farm with both wind turbines and solar panels. And we want

to move more and more toward lower use of fuel, which we must do at farms without shore power. We use shore power where it's available. Where it isn't, we try to get solar panels and wind turbines. So, this is just one area which saves the environment and business costs.

I'll get straight into the different segments. Rogaland. We are very pleased with the development we've achieved in Rogaland. Last year we had major challenges with PD. So far there is a profit of just over NOK 27 in the second quarter. This means that we've attained a relatively good price achievement, but the costs are relatively low in Rogaland. We harvested 8 500 tonnes in this quarter, so slightly up compared to the second quarter of 2018. Again, the second quarter results were 232 million. We've achieved a profit of 377 million for 2019 so far this year. At NOK 26.45 per kilo so far this year, the results for the second quarter are up. This is due to the good biological production with its good harvest weights and good prices. The costs have been stable from Q1, somewhat down. Due to the average weight and improved fish health. This is a fact we cannot overlook; in Rogaland, we have experienced and struggled a lot with PD. What I can say now is that, as of the end of the second quarter, none of our sites are affected by PD. That is the result of good work, zone structure, good cooperation with neighbors. Survival rates are good. We have had encouraging the results with large size smolt. Tytlandsvik Aqua has released to sea twice during the period. All our sites are (inaudible) today from our operations center in Rogaland. I can also say that we are building, we now have a pilot, we've tested it, different equipment, different sensor technology and all kinds of similar things. We are currently building a new center at Judeberg on Finnøy, which we plan to have ready at the beginning of next year. We remain confident in our guiding for this year and for next year in Rogaland.

When it comes to our other region in Norway, according to the curve, as we see here ... the region is stable and has good production. Good biology. We achieved NOK 20.50. We will come back in a moment to the comments regarding this. At a harvest volume of 5 400 tonnes. So far this year, we have an EBIT of 253 million. 111 million for the quarter. So it's slightly lower than last year, but is related in part to the harvest volume. EBIT per kg at NOK 20.35. The biology has

been good, high survival rate with 96% 12-months rolling, which we continuously report on. There have been some high costs during the first quarter, in large part due to one of our sites that suffered winter ulcers, so we chose to harvest earlier. We have some downgrading on this but also some increased mortality. We are working on the quality of the company and ASC certification. As of today, 8 sites are certified and more will be certified this autumn. We have a target of 34 000 tonnes this year, which we stand by, and our target for 2020 is 38 000, which we also stand by.

And then there's Shetland. We aren't particularly satisfied here. We have previously commented on this. We've put in a lot of effort in reversing the development on Shetland. And now we are starting to see the effects. We achieved a negative result in the second quarter of NOK 6 per kilo, with a harvest volume of 3 300 tonnes. The result in the second quarter was negative 19.8 million, compared to so far this year to 44.7. The harvest so far is 5 000 tonnes compared to 3 700 tonnes last year. And year-to-date a negative result of NOK 8.79. A slightly higher volume compared to 2018. The quality of the fish from Shetland is good. 96% superior.

Why do we say we feel the trend has reversed, and why are the arrows pointing the right way now? It has a lot to do with the smolt quality, meaning that what you start with is good. As I mentioned in previous presentations, we've worked a lot on the smolt quality, especially in relation to IPN. We have modified the entire facility with regards to cleaning technology, extraction, etc. And this spring we released the first fish without IPN. This is a positive achievement, and on what we have released so far, the smolt is measured especially the first 90 days; we're under 2% mortality which is very good and in line with what is happening in other regions.

The challenges with algae or plankton in Shetland have continued throughout the second quarter due to, as we've said before, complex gill disease. What we're seeing now is that through the second quarter and the new generation, we're seeing significant improvements in

the gill situation and the gill status of the fish, which predicts a better future, and we're actually seeing that in the production as of today.

We have also said that we wish to perform a strategic review of our position in mainland Scotland on the Isle of Skye. We have five sites there, which are quite a distance from Shetland. Those islands are unfortunately a bit far from each other, and we're looking at different alternatives there. Because we're seeing that there are very few synergies and good synergies between Shetland and mainland Scotland. So, we have to look at what we're doing there and have initiated a process to look into this.

We're still expecting that costs will be somewhat high in the third quarter, but they are set a bit lower than they have been in the second quarter, and we're seeing gradual improvements leading up to the fourth quarter, where we will see some large improvements. For the year, as such, we expect a volume of 12 000 tonnes, which is maintained, and 17 000 tonnes for 2020, that is also unchanged.

It should also been said that on the sea farming side of Shetland, a considerable effort has been made when it comes to gill health, when it comes to operations, when it comes to equipment. We have also significantly added to our performance in terms of lice treatment, especially freshwater treatment using well-boats, throughout this quarter.

And then there is British Columbia. There, they have delivered a stable, positive result. The result was zero, which we weren't too pleased with, but in the long term we're confident that British Columbia will deliver and reach the targets we've set. We harvested 4 600 tonnes in the second quarter, which is considerably lower than the second quarter of 2018, but this is very strongly connected to the strategy for introducing fish on the eastern and western side of Vancouver Island and (inaudible). We have a result of negative 3.5 million in the second quarter. Year-to-date, we have a positive result of about 19.2 million. Harvested 6 100 tonnes

against 2018, when we harvested 11,000 tonnes. So there was considerably more harvest last year, but again, it is connected to the smolt release strategy.

In comparison, earnings is down 42%, related to the volume and prices. The pressure on prices has been high in the North American market this period. The spot prices have been down 11%. In addition to that, we've taken an impairment loss of 32 million in Canada, due to extraordinary mortality issues from algae. The levels of oxygen in the sea has been low at times. We are monitoring this, so we know today the reason for it, and in total, this has an EBIT effect of NOK 7.09.

The lice situation has been strained in this period. We're also adding new capacity to Canada, so that we'll enter 2020 better equipped, but it's no secret that it has been a challenging situation when it comes to capacity regarding lice treatment. We have a new well-boat coming in there, which was committed a while back, it's coming toward the end of 2019.

We have continued the development on Gold River, our smolt facility in Canada. It's on track and will increase the capacity in both smolt and high quality smolt, but also in size by the middle of next year. So we're increasing the capacity by 400 tonnes, up to 800 tonnes in total at that facility. The harvest volume for the year remains unchanged at 14 000 tonnes, and we're confident in 20 000 tonnes, for 2020. Now I will let you have the floor, Atle Harald.

ATLE HARALD: Yes. Thank you. Now we'll go a bit more in detail regarding the financials and start off with some comments on the results and our EBIT. We have an EBIT of just over 300 million in the quarter, and essentially, this is an EBIT that we're happy with. It yields a 21% return on capital employed for the company. But what happened this quarter was that the prices went down a bit, compared to the previous quarter, and this explains some of the decline. Especially in BC, as Andreas mentioned, the prices went down, and because we have low contract shares and only a few contracts in BC, this hit pretty hard in this particular quarter. Add to this that the generation harvested had higher than normal costs in BC in this period, and

that is a significant reason why the results go down compared to the same period last year, when BC had very strong results and hit the market really well.

When it comes to Shetland, things are very stable there, but the costs are still too high in Shetland. What's very positive, and the driving force for the result we have of over 300 million is the biology in Norway and the stable biology in Norway. And that now creates a strong foundation for the company. Andreas also touched on this. We're not pleased with how high the costs are in BC or in Shetland. But biologically we're seeing very clear signs of improvement, also in the new generation, and we're highly confident in what will be harvested in 2020, and then we'll see cost reductions. The development through the year in BC and Shetland will still have somewhat high costs in Q3, but we will see a reduction in costs. And we will see it further decrease in Q4. So that as we approach 2020, we will be closer to the goals we have set both for costs and for production.

Norway will remain stable throughout the period, but there we have made a commitment saying that when the volumes go down, especially in Rogaland there will be a lower harvest volume in Q3, which will drive the cost up a bit per kilo. In Finnmark, we harvest from a few different locations, and there can be a difference of NOK 1-2 between the different locations, so that can drive up costs.

In summary, when we look at the costs going into Q3, they are relatively stable compared to the total costs we had in Q2, based on the factors I've mentioned, but we then see a significant decrease into Q4, and then we will be well on our way to our goal in 2020. So that's an overall summary of what that situation looks like. If we go a bit more into detail, we had 2.2 billion in revenue this quarter. We had an EBITDA of 408 million and almost 100 million in depreciation. Depreciation increases significantly relative to Q2, 2018 because of the implementation of IFRS 16. This means that we capitalize our lease contracts and depreciate them. EBIT of 308 million and a fair value of negative 86 million, driven by lower prices. It then becomes negative and the EBIT after fair value is 222 million. Net financial items are negative 34 million. Regular

interest costs are at about 15-16 million, but here you also have a foreign exchange effect that arises because of the weakened GBP. The values of the loans we have internally to Grieg Seafood Shetland lose book value, leading to a currency loss. This leaves us with 188 million before taxes and taxes estimated to 40, so after taxes profit is 147 million. I noticed now that the slide wasn't completely in sync here, but now it is.

EBIT analysis, here we look at EBIT/kg. And we had, in 2018 we had almost NOK 19 in EBIT/kg and we've touched on how the prices push this down but not that much, and that is partly because the price achieved in Rogaland was significantly improved in Q2 of this year, compared to the same period of last year. So that impacted positively and offset a lot of the drop in spot prices compared to last year.

The farming costs impacted negatively here, and we've touched on how BC especially plays a role with a quarter that had higher costs than normal. And costs in the UK are still high. Eliminations and ASA also have negative effects, somewhat down compared to last year. In this post, among other things, are costs related to attorneys for the EU commission's competition investigation, which we have to follow up on. We have a total of NOK 8 million in expenses to attorneys this quarter which gives us an EBIT of NOK 14 per kg in Q2, 2019.

A bit about the cash flow. We had a cash flow, or a cash in bank of about 300 million going into the quarter. We earned an EBITDA of 408 million, so a strong cash flow from operations. And we actually also reduced the biomass a bit this quarter, which freed up working capital of 78 million. We invested about 100 million and then paid off funding by 438 million, and then we have another post, including foreign exchange, which is there at 83, so the cash holdings were 178 million going out of the quarter.

If we look at our balance, we now have a balance approaching 9 billion. We have equity of 4 billion, which then gives us an equity ratio of 46%, which we're very comfortable with. And as I

mentioned, we had 21% return on capital employed, and these are financial key figures that we're very comfortable with.

Our funding. Our net interest-bearing debt has been quite stable throughout this last quarter, somewhat down now in Q2, but it's at about 1.6 billion. Our available cash and credit facilities, meaning what we have in the bank and what we have that hasn't been withdrawn from revolving credit and things that is available to us on a day's notice. This amounts to over 900 million, so we're comfortable with that too, and then a dividend of NOK 2 was paid for the last quarter, and our goal is to continue to have a stable dividend policy.

If we look at the investments, we have guided for 635 million in investments in 2019. So far this year, we have invested just below half of that. So there will be some more investments in the second half of 2019 than in the first half. But post-smolt and digitization, biosecurity and growth continue to be the key words for our investments beyond our maintenance investments. Well, then I will pass the floor back to Andreas.

ANDREAS: Yes. Now we will look to the future. This doesn't need much commenting, we've covered this in the review, but what we're harvesting in the third quarter is 20 000 tonnes and fourth quarter is then 25. Then 82 000 for the full year 2019, which is an increase of 10% compared to 2018.

Then a little bit about price or market, especially focused on supply now first. We stand by what we had last time. We don't see any large changes here. A lot of speculation around the supply side. A lot of speculation around average weights and the like in Chile. In Norway, we see that we've had very good biology. There has been a pressure on prices now in the short term as a result of high volumes, especially for smaller-size fish, but that means that the number of individuals taken out is a bit higher. Another thing is probably that I saw the last numbers when it comes to feeding, and in July we see a significant slow down in feeding.

We believe in an approximate growth of 4% in Norway for 2019. Not significantly more in Chile, about 4% in the two large production countries. In North America we won't have any growth at all, it will stay relatively stable. When it comes to the UK, we see that there is an increase, and that growth has been especially now through the second and will also come into the third quarter, so it will normalize with time. But 4-6% with some uncertainty, of course.

And then it's the market and the development in the market through this period and in those areas that we have measured, which have seen a growth of 6%. What has happened in the second quarter is that you had a pretty significant growth in the European market, and that is connected to the fact that you've had a price reduction throughout the quarter, which is also partly due to foreign exchange effects. The US had 3% growth. Brazil is a large market, especially for the Chilean fish, but also in the US we have seen that there has been considerable price pressure throughout the quarter, as Atle Harald mentioned, and as I said earlier, because there has been more fish coming from Chile. So in total, the volume increase for the year is 4%. Then we have combined China, Hong Kong and Vietnam, and that is somewhat connected. There is a considerable increase when you look at China by itself, but if you combine these three areas, there has actually been a small decline in China. That is also somewhat connected to logistics and logistical challenges which happen from time to time. But so far this year, it has increased by 2%, but what is very positive is that "other Asia" is developing very well, especially this quarter.

In summary for this quarter, we have had a very good production in Norway and good performance in both regions in Norway. Stable, good results in Finnmark. Excellent results in Rogaland. We have an upside both in Shetland and British Columbia, but we're confident that that upside will come. We have fish in the sea, we see improved fish health. A lot of measures have been initiated to prevent challenges we've faced before. We're taking some strategic actions in Skye, what those will be remains to be seen. There are several options. We still expect a good price. That we're seeing a decline in the spot prices as we speak, that has

happened almost every year, and especially on industry sizes, which are the main sizes for Europe: 3-5 kg.

The contract share for Norway is 24%. 25% for the UK in the third quarter, with 4-7% growth, we have covered that. And we're still very confident in the target that we have set for 2020 for 100 000 tonnes. And for the year as such, 82 000 tonnes, that is also set. Now we will open the floor up for questions.

CARL-EMIL JOHANNESSEN, PARETO: A couple of questions about the UK. There has been 12 000 tonnes there a few years in a row now. You still seem quite confident that this will increase drastically next year. Can you talk a bit about how the biomass looks now compared to earlier years that makes you so confident in this? And a bit in terms of the strategic review in the UK. Where you say there are five sites, but how big of a volume are we talking about here? And is this an area where several other fish farmers are present?

ANDREAS: We'll take the first thing last. When it comes to Skye, the volume depends on which year is it, but from 4 000 to 6 000 tonnes. That is what we have at the sites in this area. Yes, there are other farmers present or nearby. When it comes to the volume in Shetland of 17 000, which we have guided for 2020, it starts with releasing enough smolt to sea, you release the right quality to sea, and as I mentioned earlier, our fish has improved significantly when it comes to smolt quality through the second quarter. We have had a challenge there, there have been considerable challenges with both gill health, but also not least IPN in the smolt facility in Shetland. We're going to introduce the fish that is necessary to reach these 17 000 tonnes that we have mentioned. We have done a lot throughout this quarter and the first and second quarter to improve the situation in the sea as well. That being the way we treat our nets. Growth on nets, less cleaning and more swapping. Adding to capacity when it comes to well-boats to hold lice levels down at a good level. When it comes to cleaning of pens and the like, it is of significant importance for the gill health and gill status of the fish. If you have a bad status

then you end up having problems when you're treating the fish for lice, for example with freshwater.

CARL-EMIL: A question regarding Rogaland. You do deliver a, well, a very good result, and you seem to have good control in that region. What do you think about the potential licenses that are for sale there? Have you now concluded that you feel like this here is something you can really contribute with and, well, increase the value of something others can't?

ANDREAS: I didn't quite understand...

CARL-EMIL: Well, one of your competitors has said that they have some licenses in the Rogaland/Hordaland area, which they are considering doing something with. Is this something you see as an area where you think you can contribute and sort of lift the earnings?

ANDREAS: We have an focus area called strategic opportunitis and we look at those whenever they arise. I don't have any specific comment when it comes to Rogaland. I think we're operating well in Rogaland.

ALEXANDER AUKNER DNB: Carl-Emil addressed a few of the UK questions, but these sites that you have in Skye, are those... Would you say that they are good sites? Are they better than the average?

ANDREAS: Yes, they are good sites.

ALEXANDER: Thank you.

ATLE HARALD: Let's see. There are no more questions from the room, and there aren't any questions online. We thank you for your time.