

TRANSCRIPT

Grieg Seafood Q1 2021 Results

12 May 2021

Highlights

Andreas Kvame, CEO:

Good morning, and welcome to the first quarter presentation of Grieg Seafood. As is usual it is me, Andreas Kvame, the CEO in the company, and Atle Harald Sandtorv, CFO in Grieg Seafood, who are holding the presentation today. So, let's get started. Today, we will go through the highlights of what happened during the quarter and we will look at our operational units and Atle Harald will go a little through the financials and then we will look at the outlook going forward.

In the first quarter, we have experienced lower market prices which have significantly affected our EBIT negatively by NOK 141 million, NOK 141 million negative price achievement compared to last year. It has been a market with significant oversupply of downgraded fish, especially due to winter ulcers, and that's coming from Norway. We have had good biological production in Rogaland and in British Columbia in particular. We have had a satisfactory financial position during the quarter.

The process of selling Shetland is moving along. You will find in the report that it is classified as assets held for sale. We have put into operation our own sales organization, which is fully operative as of today, and during the first quarter, it handled 50% of our volumes.

We expect to harvest 15 400 tonnes during the second quarter this year, and in total 80 000 tonnes without Shetland. Harvest volumes were 13 600 tonnes in the first quarter, a little more than we guided for when we presented the fourth quarter results. Sales were NOK 660 million, and from this we realized a negative result of NOK 1.20/kg, compared to NOK 13.30/kg in the same period last year. We will come back to that later. Our priorities in the company remain unchanged. We are working intensely on improving profitability, we have worked well to ensure the financial capacity in the company. One of the key elements here is, of course, the sale of Shetland, and the continuous cost programmes in the company.

Our goals remain unchanged. In 2022, the plan is to produce 100 000 tonnes, with a harvesting cost, a cost from farming, of NOK 40/kg or less – I will get back to these numbers later. And 7 in BC, so NOK 40/kg in Norway and rather CAD 7/kg in BC. One of the most important measures we have adopted in Grieg Seafood during the last few years has been our post-smolt strategy, both in BC, but mainly it is Norway where we have focused the most on this and Rogaland is the area that has come the furthest. We released nearly 1 million smolt weighing almost 1 kg the last month, and they will use less time than 12 months in the sea. For the company we have, for Rogaland, we have a smolt weight of 600g as the target for all smolt release in 2022, and 750g in 2025. And the goal is, of course, that the fish shall spend less than 12 months in the sea.

Operational Review

Then we will move right over to operations, the various regions, but first before I look at that, the pillars of our company remain unchanged, the pillars that guide us for a sustainable business. Profit is number one, healthy ocean number two, sustainable food number three, people is four, and then local communities. These are all the areas we work with because this is very important considering a "license

to operate”, both now and in the future, and we line them up against the various SDG’s (*Sustainable Development Goals*).

Then we go to Rogaland. Rogaland had an EBIT of NOK 9.20/kg in this quarter, that we just finished, with a harvest volume of 5 300 tonnes and a farming cost of NOK 41.90. A little up in farming cost compared to what we had last year, and somewhat down in EBIT/kg, also compared to last year. We would also add that earnings in this region are affected by downgrading of fish due to the impact of winter ulcers. We had a superior share in the quarter of 75%, down from 81% in the first quarter of 2020. Having said that, the biological production has gone very well in Rogaland, somewhat higher farming costs, due to volumes being a little lower.

We expect a harvest volume of 6 000 tonnes in this region in the second quarter with somewhat higher costs, which has to do with the composition of where we are harvesting, which localities we are harvesting from. For the year, both Finnmark and Rogaland have a 21% contract share in 2021. We expect to harvest 28 000 tonnes in this region in 2021. If we look a little at the initiatives, what we are doing in this region, we are very much focused on achieving less than 12 months in the sea, which again is tied with how long the fish are exposed to lice and, not least, pancreatic disease, which has been a challenge in Rogaland. As of today, there are not any of our sites that have pancreatic disease, or PD. It is also a question of utilizing available MAB (*Maximum Allowed Biomass*) even better than we have today and lowering our costs.

We have established an integrated operations centre in Judaberg (*Rogaland*). It is fully operative from the first quarter, where various areas of expertise sit together, and centralized feeding for all of Rogaland is in place, and we see big gains from this already. Our goal is to come down to 40 or minus, rather less, in costs, by the end of 2022, and the way things look now for our key figures, it looks like we will be well on our way already by the fourth quarter of 2021.

For 2025, the goal is to harvest 35 000 tonnes in this region, based on the initiatives we have there.

Going over to Finnmark we had an EBIT/kg of minus NOK 4.10, harvest costs, or farming costs, were 46.50, roughly the same as we had last year in the same quarter. But we also see in this region, which I will get back to, that things will look a little differently in the fourth quarter of this year. Our income was heavily influenced by downgrading of fish due to winter ulcers as we said after the previous quarter, and ISA harvesting, which took place in all of January. We have a superior share of 65%, that is up, an improvement, a significant improvement compared to last year, but what has often been a challenge this year compared to last, is that there has generally been significantly more downgraded fish available in the market, putting significant pressure on prices, actually more than what we saw last year.

Production has been stable in the sea, but we had an incident related to a snow avalanche in the Alta region at one of our localities, which fortunately went as well as it could, with no injuries, but that locality was moved after harvesting, so that won’t happen again. We expect to harvest 4 000 tonnes in the second quarter, with somewhat higher costs as I mentioned earlier because of lower harvest volumes in this region. We still expect that we will continue to have relatively high costs, unfortunately, in Finnmark in the second quarter, and that is related to us having somewhat higher harvesting costs due to upgrading our processing facility in Alta or Simanes so that we must process our fish externally.

The initiatives we are working on there, there as in all regions, ASC certification, that is important for us, to get it arranged. We have today 78% of our production certified, 16 localities, and the goal is that we

shall have localities, all production certified by the end of 2021. Because there has been so much ISA (*Infectious Salmon Anaemia*) in this area, we have decided to vaccinate all fish against ISA, starting in the autumn of 2021. The goal in Finnmark is also to increase the weights of smolt and by 2025 have 4 000 tonnes of post-smolt available in Finnmark too. Our goal, as we have mentioned, is to get below NOK 40/kg in farming costs, that goal is unchanged, and in our current forecasts, we should already be getting close to that by the fourth quarter of 2021. The goal for volume is 45 000 tonnes by 2025.

Then there is British Columbia. We have an EBIT there of NOK 1.10/kg, a farming cost of CAD 8.90, versus 7.80 last year. That is somewhat up, but the biological situation in BC is very good, with strong production there, good growth. Our income there is good, with good prices, and a superior share there of 90% in this area, which is very good. Harvesting cost or farming cost is somewhat higher in the first quarter, but we see that we did not harvest more than 850 tonnes, while last year we harvested 2 540 tonnes in the same quarter, so somewhat higher costs due to that.

We expect to harvest 5 400 tonnes in the second quarter, and costs are stable. Longer term, we will see lower costs, also in this region. Harvesting volume target of 15 000 tonnes is unchanged for 2021. In this area, we have worked very much on ASC certification in recent years and now we can announce that nearly 60% of production is certified for, has ASC certification, and the goal here is 100% by the end of this year.

Mortality has been challenging when it comes to algae in this region, but if we look at 2020 compared to 2019, mortality from algae blooms has fallen from 3.4% in 2019 to 0.9% in 2020, and then you also must take note that algae blooms have never been as high as they were in 2020. So very much of what we have done to monitor algae digitally and so on with our systems shows that it helps to work on these things and reduce mortality as a result of this.

We are also raising smolt capacity in British Columbia, Gold River will be completed in the autumn. Our goal is CAD 7/kg in costs, which we are working actively on, and in addition to that we have a harvest goal of 35 000 tonnes in 2025.

And so over to Newfoundland. There goes, our freshwater production, it is going entirely according to plans. We expect to release 1 million smolt this summer and are very satisfied with the development of those smolt, they are growing well, and that is a very good sign, given that they are triploid, it is very important for us to get them into the sea early so that they can go into winter as large, robust smolt. We cooperate very closely with various research and development taking place in the domain of triploid fish. We are very confident about what we are doing down there.

Harvest volumes, which we focus on, are 15 000 tonnes. The largest investments have already been done, and we have everyone focused on achieving our goals of 15 000 tonnes in 2025 in this region.

So, then a little about Shetland. There has been, aside from us being in a sales process which is going according to plans, and we expect that it is concluded by the end of 2021, a very strong and good production in Shetland. We had a superior share of 94% in the first quarter, and 85% is what we had in the first quarter of 2020, so there has been a significant increase and good quality of the fish. We harvested the last fish on the Isle of Skye, it was the beginning of April when we were done with it.

In our report, you will see that Shetland as a region is being held for sale and there you will find more detailed information about Shetland.

After that, we move on the next area which is new as a wholly owned part of Grieg Seafood, which is our sales and market organization, which shall give support to our farming operation but also to our downstream activity which will develop over time, not as of today. Our goal is to increase our margin, reduce volatility from prices and the risks from that, and not least, improve collaboration between farming and sales. Today the status is that we have employed 46 people worldwide, be it Vancouver, UK or here in Bergen.

So, our sales organization has gone from 0 to 100, to put it that way, quite quickly. It was recruited and put in place during the fourth quarter and part of the first quarter, but nevertheless they sold 50% of the harvest volumes we had in Q1, and starting with this quarter, 100% of our sales will go through our own sales organization. We are not hiding the fact that there have been many challenges to put into place processes and systems, etc. across all these regions.

Then, Atle Harald, I think we should move straight to the financials. Your turn.

Financial Review

Atle Harald Sandtorv, CFO:

Thank you, Andreas. Then we will start with profit and loss, and first our sales, somewhat down versus the first quarter last year. We must see that in conjunction with some decline in market prices, we also had somewhat lower volumes, and then there were some downgrades due to production issues and winter ulcers in Norway during this quarter, so we thus ended with sales of NOK 660 million. EBIT before the biomass adjustment and the production fee, that is roughly a breakeven result this time, to be more exact, minus NOK 16 million.

Then we have that production fee, which consists of NOK 0.40/kg which we have put on a separate line, and in total for the quarter that was NOK 5.1 million. The biomass adjustment is positive for the quarter by NOK 157 million. Going further, we have a positive line for financial items for the quarter, that must be seen in conjunction with us having a Euro loan and in addition a Euro hedge relative to the Norwegian krone, so when the Norwegian krone strengthens, we have a relatively large gain on that, a gain of over NOK 40 million, which makes the financial items positive by NOK 15.2 million. Pre-tax earnings are also positive, with NOK 150.5 million, and after tax we have a profit of NOK 104.4 million.

We have made an EBIT bridge here which also shows the transition from Q1 2020 EBIT to Q1 2021. There we see, as we mentioned, that volumes are down and prices are down, and then we had slightly higher costs, which also pulled down, so we went from NOK 216 million in EBIT to roughly nil, minus 16 in EBIT in the quarter just ended.

Then we move on to free liquidity where we made a separate slide for that. We also have our traditional cash flow analysis, which is in the appendix to the presentation, which includes many of the same elements as this analysis.

Our free liquidity at the start of 2021 was about NOK 1.5 billion, and then we had a positive EBITDA of NOK 72 million which went the right way, but working capital moved the wrong way, by NOK 452 million. Here we built biomass by NOK 145 million, which was a little less than we guided for last quarter, which is due to us harvesting a little more than we guided for. Payables also moved the wrong way here, and finally, customer receivables moved in the wrong direction. We have increased customer receivables,

and that must especially be seen in conjunction with the transition to our own sales organization which we are now in the process of establishing and are well underway, as Andreas mentioned.

We had there a factoring arrangement with our old sales organization which we have dismantled, and then we are in the process of establishing a new one, which will be done during Q2. But we should add that we had somewhat high customer receivables at the start of 2021.

We invested NOK 127 million, we repaid debt by NOK 117 million, and then we have another item, which among other things includes the financing of our UK business during the quarter, subtracting NOK 107 million. So thus, we ended at NOK 748 million in free liquidity, and to be specific, that consists of bank cash of NOK 208 million, and an unutilized revolving credit and overdraft facility of NOK 540 million. If we then include the factoring arrangement we are in the process of establishing and make a technical calculation of what that would have been at the end of 2021, it would have been NOK 250 million and that will, as we said, be established during the current quarter. With that we would have a free liquidity of an estimated NOK 1 billion, and that is a level which we are completely comfortable with.

A little about our investments. We guided last quarter for total investments in 2021 of about NOK 800 million; we are now reducing that by NOK 100 million. We have a continuous focus on both cutting costs and reducing the amount of our investments when possible, and now we have identified NOK 100 million, so our new guidance for investments for the whole year 2021 is now NOK 700 million.

We have also worked on leasing agreements related to some investments, which is thus financial leasing, and we are still working on that, and we now estimate that 150 of that NOK 700 million can be covered by leasing. Otherwise, we can say a bit about what we are investing in. The main part is maintenance capex, with some growth capex on top of that.

In Rogaland and Finnmark there is very much focus on investing in new localities which we obtained earlier but where the capex in equipment is coming now. We are also upgrading our broodstock site in Rogaland and we are upgrading our processing facility in Finnmark. In BC, the expansion of the hatchery is still the largest investment, and in Newfoundland we are more or less finished with our land-based site and we are starting to invest in our sea site, but we have completed very many of our investments in Newfoundland now, and a little bit like Andreas mentioned, now it's about capitalizing on these investments going forward and succeed operationally there.

In Shetland, we have reduced the investments planned for the first half of the year, and we don't include Shetland in our overview after the first half of the year, so starting from Q3.

When it comes to our biomass and our working capital requirements there, we are still guiding for a flat development there for the rest of the year.

As a little summarizing comment when it comes to the whole financial situation, we have a key figure which is important for us, which is net interest-bearing debt relative to how many kilos we harvest in a year, and we have calculated that here to NOK 34/kg, excluding Shetland. We have done a technical calculation where we have removed Shetland, and then we have simply assumed that Shetland is sold to book value in that technical calculation. Enterprise value for Shetland has a book value of NOK 1.6 bn at the end of the quarter.

And our goal with this key figure is to be around 30, so that after completion, potential completion of the sales process, as it is technically calculated here, then this key figure will look good. Another thing too is that implementation of factoring will also bring this key figure down. But again, we want to emphasize that this is a technical calculation relative to book value of Shetland.

When it comes to covenants, where we now have an equity ratio of 42%, which is in compliance with covenants, which require 35%, so there we are well within that, and are comfortable there too. When it comes to net interest-bearing debt to EBITDA, so is, that is a key figure shall not be measured for bank covenants before we get to Q4, and that means the first point of measurement is actually 31 December 2021 regarding that.

Going further then, we summarize here the financial measures we are taking, we mentioned that before, capex guidance is reduced by NOK 100 million, we are planning to lease NOK 150 million of the NOK 700 in investments we are guiding for, we are re-establishing our factoring agreement, and the effect calculated for Q1 would have been NOK 250 million for that, we are working on the Shetland sales process, and as Andreas mentioned, that is developing according to plans. Further, we are working on GIEK funding, much in connection with Newfoundland, which we should have arranged relatively quickly, and finally, it is important for us to focus on costs, and cut costs, and we also, of course, look at possibilities to reduce capex further when that is possible, but we aren't changing our guidance there now, so today it is still the NOK 700 million number that still applies.

Then I give the word back to Andreas, who will take us through the outlook going forward.

Outlook & Concluding Remarks

Andreas Kvame, CEO:

Thank you, Atle Harald. Then I will use a little time looking at the outlook and summarize today's presentation. If we look at the market, there has been a very strong market in the first quarter. The various large markets like Europe, the US and Asia in general, have taken very large volumes, volumes sold in the first quarter were up 16% in the first quarter of 2021 compared to the first quarter last year, and you have to remember then that in the first quarter of 2020 there actually wasn't any corona until, well, because it wasn't until the middle of March that corona came, so if you compare these numbers, with a very strong quarter, also last year, and now we have been through a quarter impacted by Covid and nonetheless, the EU increased by 20% during the quarter, USA has gone up by 11% and Asia in general by 21%, which are very, very strong numbers.

That has probably given a boost now, both in, especially in retail, HoReCa (*hotel, restaurant, catering*) has been to a lesser extent involved, although we see a tendency to reopening here and there, there is still a lot of room for improvement for that side of the business. We expect significantly stronger demand from the HoReCa segment when we get into summer and the vaccination programmes have made progress. This also must be seen in conjunction with volumes coming into the market. If we go in and look at the different years, we see a 2% increase worldwide in volumes this year, maybe even closer to one to two than two. This is very low compared to what it has been historically, and you must go all the way back to 2016 with negative growth, and in 2013 to see the same. This has, in combination with strong demand, of course, also an influence on what prices and price expectations we can have during this year.

The growth so far has been such that, if you look at the sales slide, 80 000 tonnes more volume, and then some, have gone out the first quarter this year than the same quarter, 80 000 tonnes more than the same quarter last year, and that means when you look at the total production growth, which is roughly 60 000 tonnes worldwide, that the whole increase has already occurred in the first quarter, and then we actually expect negative growth for the next 12 months in total.

Norway is growing, Chile is coming down, Norway is growing the same as the total volume of the Faroe Islands and Ireland, but it is declining by a similar amount in Chile. But, in total, 60 000 tonnes, as I said, has already taken place.

Then I would like to summarize the presentation a bit. We have guided for 80 000 tonnes, we stick to that, 28 000 in Rogaland, 37 000 in Finnmark, and 15 000 for the year in British Columbia. The main factor in the first quarter has been low market prices and an oversupply when it comes to downgraded fish as Atle Harald mentioned earlier. We see that for Grieg Seafood's business, we have had strong biological production in both Rogaland and British Columbia. Our Newfoundland activities are going according to plans, there has also been strong production in Shetland, very good on Mainland Shetland and the sales process is being worked on.

We have a financial situation that we are comfortable with. We expect 15 400 tonnes in the second quarter, which is excluding our volumes in Shetland and we expect 80 000 tonnes for the year in a market that we, we have a very positive view on the market, and I am optimistic thinking about the market going forward. That was the presentation, then we have received some questions, that we are now going to answer, Atle Harald.

Q&A

Moderator (Trond Kathenes, CIO)

We have gotten a couple, three questions here. The first has a reference to NRS' decision to stop the use of triploid salmon and our licenses in Newfoundland require sterile salmon. How do you think this will influence our production over there and will you have enough triploid eggs going forward?

Andreas Kvame, CEO:

To start with the last question first, yes, there will be enough triploid eggs available. Our eggs come from Stofnfiskur, they come from Iceland. There is a long-term agreement with them regarding this. We have, of course, noticed that NRS will phase out triploid, but as it was correctly said, part of our licence conditions in Newfoundland state that we must use sterile salmon, and as of today, there are only triploid salmon which are good enough for that.

Moderator

Then there is a question about if you can go into detail about what kind of upgrades are being done to the processing facility in Finnmark?

Andreas Kvame, CEO:

Well, that is relatively simple. It is simply a general upgrade of the processing facility. The processing facility site is starting to get worn out and dated, so here we will be doing a significant upgrade, both in respect to working environment, of HMS at the site, and also for the sake of quality.

Moderator

Then the next one, you have the suspicion of ISA (*Infectious Salmon Anaemia*) at a site in Finnmark, can you say anything about what consequences this has, what potential consequences this can have for Q2, Q3 EBIT and harvest volumes?

Andreas Kvame, CEO:

Well, this locality is in an alert zone for ISA, and that will as such, we have known about this a long time, so this has been in our plans that we, no matter what, will need to handle that as if it had ISA, and now, unfortunately, it got ISA, without higher mortality and all that, but it will not impact our production during this period. Regardless of that, this site will be harvested by the end of July.

Moderator

The next question here is how should we think about price achievement, superior share for Q2?

Andreas Kvame, CEO:

Well, that is a good question. As mentioned, there is negative growth during both Q2 and the rest of, well, into the first quarter 2021. I don't dare to speculate about prices, but I have an optimistic and positive view about the market.

Moderator

The next question is relevant to the last one. What is the superior share in Finnmark expected to be for Q2, but also why aren't costs gone down in BC in Q2, based on higher volumes?

Andreas Kvame, CEO:

Could you repeat the point about relevance for Finnmark?

Moderator

Um, it was relevant to, well, how is the superior share in Finnmark expected to be in Q2.

Andreas Kvame, CEO:

Well, it is expected to go up somewhat, but there is still a little impact from winter ulcers for that period.

Moderator

Is Newfoundland expected to be breakeven for the guided volumes for 2022-2023 if we assume today's spot prices, and where you have cut, well, and where have you cut NOK 100 million in capex?

Atle Harald Sandtorv, CFO:

The NOK 100 million in capex that we have cut, has actually been taken evenly spread out in all regions, we have looked at all investments and cut evenly. So, there was one year to Newfoundland, was that it, Trond?

Moderator

Yes, is it expected to be breakeven, with the guided 2022-23 volumes, if we assume today's spot market prices?

Andreas Kvame, CEO:

Well, you can't really add in today's spot prices, too, but we expect over time for the operating costs of our production in Newfoundland to come down to the same level as we have in Norway.

Atle Harald Sandtorv, CFO:

And I think there was a question about BC, too, Andreas, and our costs there by 2022, did we answer that?

Andreas Kvame, CEO:

We expect our costs in BC in Q2 to be stable ...

Atle Harald Sandtorv, CFO:

... Yes, and the reason they do not decline with higher volumes is that the harvesting costs we have use external processing, and we have very stable harvesting costs per kilo in BC, so you don't have that large volume effect on costs there that you have in Norway where we do our own processing.

Moderator

So next, how do you plan to increase post-smolt capacity in Finnmark by 4 000 tonnes by 2025?

Andreas Kvame, CEO:

We expect to do that in the same way as in Rogaland, outside of our balance sheet, basically with partners, and one alternative is actually to expand our site in Adamselv, but these are things we are currently looking into now and will come back to at a later time.

Moderator

This is tied to, well, expectations, what expectations, do you expect lower realized prices in Finnmark, also in the next quarter?

Andreas Kvame, CEO:

We do. Somewhat because of, well, somewhat because of downgrades, which there will be some elements of in the second quarter as well, but also because costs will rise a bit in the second quarter due to external processing, and higher wellboat costs, and so on, which we will have because of the ISA site which has to be processed at a sanitary site which is not in-house.

Moderator

Then a follow-up question tied to triploid salmon in Newfoundland. Since NRS stopped using triploid salmon due to poor biological performance, how does that affect the risk picture for our business in Newfoundland and what perspectives do you have about that?

Andreas Kvame, CEO:

Well, what I said very clearly earlier is that we have worked very closely in the company to acquire key, available knowledge about this. The important thing for us is that we have control over the eggs from when they arrive and control production from A to Z in this. At the hatchery and the smolt unit we have in Newfoundland, the fish are doing very, very well, and we are totally aware that special feed is required for these fish, and we are aware too that releasing triploid fish late in the autumn, with sizes that are too small, has not been a success when it comes to triploid. But if you look at the studies done related to this, if you release fish at an early point in time, large enough, so that they are large enough when winter comes, then we are reasonably confident that this will function well, also in Newfoundland.

Moderator

Then a follow-up question about the processing facility in Finnmark. Will that site be able to do ISA processing after the upgrade?

Andreas Kvame, CEO:

The answer is, as of today, no, they cannot do that, because there is a national salmon fjord there. As we said, we hope and believe, that if we vaccinate all fish, we will hopefully avoid ISA in the future, but there is, as we know, no vaccine that protects 100%. We are also working with the authorities to look at creating a system where we at least are allowed to bring in the fish from the alert zone for ISA, Simanes (*Alta, Finnmark*). We have been working on that for a while, but that is up to the authorities and the Norwegian Food Safety Authority to find a solution together with them that can be satisfactory and (inaudible).

Moderator

Well, that was actually the last question, so then we say thank you for the questions that were sent in, and would you like to end with some comments at the end? So, back to you.

Andreas Kvame, CEO:

Yes, I can do that. We have here in Grieg Seafood gone through a tough period the last year. Now what I see in our forecasts, our production and the underlying development we have had being very good, and I would again like to emphasize that even if costs come up a little bit in the second quarter, so in our forecasts and what we see for the future in our company, is that in Norway we will come down to about NOK 40/kg and maybe below, in both regions, and by the end of this year, which are the goals we have for 2022. And that is tied to the initiatives and cost programmes, the improvement measures that we have enacted in the past one to two years. With those words, I would like to wish you all a very good summer and eat salmon!