

TRANSCRIPT

Grieg Seafood Q2 2023 Results

25 August 2023

Highlights

Andreas Kvame, CEO:

We welcome you to our quarterly presentation, both those of you who are here physically today as well as our online participants. As usual it is CFO Atle Harald Sandtorv and I, Andreas Kvame, the CEO, who will hold this presentation. So let's get started.

We will go straight to the highlights of the quarter. Please note our disclaimer. We will look at the market development, our operative regions, and Atle Harald will go through our financials. To round things off, we will look at our outlook and come with some concluding remarks.

We had an EBIT of NOK 547 million in the second quarter, mainly due to a strong and good market, with strong prices. During the quarter, we had a significant improvement in the biological situation, which we will delve into later. This provides a basis for good growth forward. Newfoundland, our large growth region, is developing according to plans. We are also working intensely on achieving the highest certification in all our regions. As of now, 85% of all our fish (*harvested fish*) are ASC-certified.

In the third quarter, we expect to harvest 10,500 tonnes. The reason we are not harvesting more is that we are prioritizing increasing our MAB (*maximum achievable biomass*), which is low. More on that later. For the entire year, we are expecting volumes of 78,000 tonnes.

So a little about the market. As of today, we are not seeing any significant growth in market supplies. We are expecting roughly zero growth this year, or maybe 1% increase. During the autumn, the growth will be somewhat higher.

If we look at the various markets, a notable trait is that China grew considerably during the second quarter. Part of the reason for that is the greater availability of large salmon and China has been a prioritized market. There hasn't been enough to satisfy the rest of Asia, which also prefers larger fish. All in all, you can see this by average weights during the quarter. The harvest has been significant in terms of the number of fish, but average weights have declined.

We expect the market to remain strong with good demand going forward. We expect, of course, some pressure on prices due to the normal seasonal pattern of higher volumes in the third quarter giving lower prices. As such, the situation for our company is that our harvest will be low in the third quarter, and we will increase our harvesting in the fourth quarter, especially in Norway.

Then over to our operations. We will take Rogaland first, where we must say that we are reasonably satisfied with the results we have achieved there. They were driven by good prices, but also by optimizing when we harvested the fish.

We have had stable costs in Rogaland, although there is some impact from ISA (*Infectious Salmon Anaemia*). ISA has been in this region, and we have taken considerable steps to reduce the impact.

Among other things, we have entered a programme, vaccinating all the fish that will be released to the sea, starting this autumn, which should reduce the risk of getting ISA.

One thing we are very pleased with is our post-smolt strategy where we have released fish with average weights of 740 grams and I can guarantee that if we had released smolt with average weights in this region and they had gotten ISA, the results would not have been as good. Then we would have had to harvest or even destroy at very low weights, but when fish are released that weigh nearly one kilo, they reach harvestable weights very quickly. Although those we have harvested have not achieved the desirable weights, but they have been fully sellable fish, which is a big advantage.

We expect a low harvest in the third quarter, about 4,500 tonnes.

Then over to Finnmark, where the results could have been better, but I would like to say that for both Finnmark and Rogaland, a very big job has been performed from our employees to turn around the trend in biology. We have had a significant impact of Spiro (*the Spironucleus Salmonicida parasite*), as we discussed in detail last quarter. It is declining in the fish in the sea. We have seen that we haven't had Spiro at all at our hatchery during the whole year, and we have used considerable resources for testing and so on. We have completed the installation of equipment to make sure that it does not return. That means a UV (*ultraviolet*) filter and equipment which will be up and running in the beginning of July.

The way I see things now, this will give a really good contribution to good, stable operations in the future. We have 3-4 pens left with some Spiro, but other than that, nothing. And we can't say either that Spiro gives horizontal contagion, so we are reasonably confident about the situation we have now, and we are reasonably optimistic about operations and biology now in Finnmark.

Over to BC. That is a region with a good potential. Considerable measures have been implemented in the region to turn the trend around. We are working intensely with preventive measures for algae, lice and low oxygen. Unfortunately this did not have an impact before the harvesting of the last fish of this generation during the second quarter. Hopefully, we will see a good effect when we release new smolt in the region. The region I am referring to lies on the west coast.

The quality of the fish in the area has been good, with a relatively good size, although some cohorts have had average weights that are too low. There has been a challenge in this area, or in the market we are selling into, that prices declined substantially during the quarter. And of course the Norwegian krone has weakened, which raises our costs measured in Norwegian kroner, which has a similar impact as on the sales prices. Keep that impact in mind.

Then over to an exciting growth area: Newfoundland. As I mentioned in the introduction, we have gotten off to a good start, operations in the area are good, production is good, very good I would say. This is due to good biology. So far we have not seen lice in this area. The smolt we have released to the sea has a good quality. As of now we have released 2.5 to 2.6 million smolt to the sea, a new generation. At the end of the second quarter we had 4,200 tonnes in the sea, and that has increased to 7,000 tonnes as we speak. So production in the sea is developing very well.

We are well prepared there. There have been various challenges when it comes to weather, either it is the temperatures or high waves. It is a demanding region to operate in. We have both the equipment and the people to be able to tackle this in a good way.

Our costs will be slightly higher in the third quarter in this region, and this is partly because of the equipment we must bring into this area. We will have step-wise higher fixed costs in this area as we gradually ramp up production and bring in more equipment. Over time, we expect costs to come down to a decent level. As of today, it looks like we will be able to start harvesting in six to seven weeks in the region, which we are really looking forward to.

I think I will leave it there, Atle Harald, and give the word to you to cover our financials.

Financial Review

Atle Harald Sandtorv, CFO:

Thank you, Andreas. This quarter has been characterized by a very good cash flow and we have strengthened our balance sheet significantly, which gives us a good foundation for further growth and for paying a dividend. During the quarter our underlying operations improved, although we are harvesting relatively less in the third quarter, so you won't see that so easily in our cost figures until the fourth quarter, when we expect costs to decline. We have been working hard on getting better in our organization through our improvement project, as we have said earlier.

Now we will look at the financial figures, starting with the P&L. Our revenues were nearly NOK 2.4 billion this quarter. Our operational EBIT was NOK 547 million. We had a relatively large negative fair value adjustment of the biomass of NOK 632 million, mainly because prices have gone down, and the biomass has declined. That leads to an EBIT after the fair value adjustment of NOK 96 million.

Then we have the net financial items which were positive at NOK 92 million this quarter, mainly due to foreign exchange effects. Tax was a big item this quarter, which is due to the implementation of the resource rent tax in our accounts. Profit after tax were a negative NOK 563 million.

If we look at the costs, they rose somewhat in Q2. An important reason for that is that we harvested relatively more in BC, which has higher costs than Norway. That geographical shift played a role. We are continuing to work well on our improvement programme, and we see that our underlying operations are improving, and we expect a decline in costs towards the end of the year.

Then if we look at the development in net interest-bearing debt, we started the quarter with about NOK 2 billion, and we had a very large positive contribution from EBITDA of NOK 686 million and a positive contribution of NOK 66 million from decreasing biomass. We have invested NOK 192 million, and debt increased by NOK 151 million due to miscellaneous other balance sheet items such as customer receivables and payables. We thus ended the quarter with nearly NOK 1.7 billion in net interest-bearing debt.

A few more details about the composition of our debt. 70% of our debt is either tied to sustainability or is green debt, which is positive. We have a bond loan of roughly NOK 1.4 billion and a term loan of NOK 1.5 billion. We have leasing (*incl. IFRS 16*) totalling just over NOK 1 billion, giving total interest-bearing debt of just over NOK 4 billion.

If we subtract cash of NOK 1.7 billion, and take away net interest-bearing debt including IFRS 16 leasing debt of NOK 735 million, we arrive at nearly NOK 1.7 billion in net interest-bearing debt. Our free liquidity is very good. It consists of our cash and undrawn credit facilities of NOK 1.7 billion for a total of NOK 3.4 billion.

On investment, our guidance has been NOK 782 million for 2023 to be exact, consisting of maintenance investments of NOK 300 million, and Newfoundland a little over NOK 400 million, where new sites are the big item, in order to generate our targeted growth there. Then there is NOK 70 million for our UV installation in Finnmark to reduce the risks from Spironucleus. That gives a total of NOK 192 million in Q2 and so far this year NOK 469 million.

We have so far communicated that investments in Norway have been put on hold, due to the implementation of the resource rent tax. We are now starting to see the impact of it, as it is being implemented, and our growth investments are still under evaluation, and we will update whenever there are developments there. We are starting to see the contour of the new tax scheme and are in the process of evaluating our growth investments in Norway, as well as the total level of investment in the company.

When it comes to building biomass in the second half of the year, we are guiding for NOK 600 million in working capital needs for that. That must be seen in conjunction with our relatively high level of harvesting in the first half, which was at high prices. But now we are rebuilding biomass, and that will require an estimated NOK 600 million.

To summarize, we have a solid balance sheet, we have NOK 20 per kilo in debt now, which is a very good foundation for dividends and further growth. Our equity share is 47% measured according to our bank covenants, compared to the requirement of 31%. And as slide 19 shows, our net interest-bearing debt has declined, and we are currently at nearly NOK 1.7 billion now.

We have a policy of paying out 30-40% of the Group's net profit after tax and last year we paid NOK 3 per share. In Q2 we have decided to pay NOK 4.50 per share in the beginning of the third quarter.

Then I will give the word back to Andreas.

Outlook

Andreas Kvame, CEO:

Thanks, Atle Harald. Then we will look into the future, starting with the market. As we said earlier, the second half normally has higher volumes, and we expect roughly 3% growth year-over-year in the second half. Although that isn't a very big increase, to put it that way, but we do nevertheless expect prices to decline somewhat during the third quarter, since there also is some inflation, along with the seasonal increase in production.

When it comes to farming, we are lowering our guidance by 2,000 tonnes from our previous guiding, which is due to the volume harvested in Rogaland being cut by 2,000 tonnes, which gives a total for the company of 78,000 tonnes for the year. Our biomass has declined a lot, both in Finnmark and Rogaland, and we are now increasing our smolt releases, and, reiterating what I said last quarter, we will release at least 12 million smolt in Finnmark this year to compensate for the volumes we have lost primarily due to Spiro.

This quarter we had good production in all regions, and we expect our costs to decline in the fourth quarter when our harvest increases. We continue to work hard on our improvement project in all our regions, both for structural changes and for cost-cutting measures in the nitty-gritty of everything we do.

As we said, we are increasing our working capital in the third quarter and prioritizing reaching 100% maximum allowable biomass (MAB) utilization. We aren't there now, and that is one of our main priorities, to utilize our capacity 100%.

As Harald Atle said, we are evaluating our growth investments relative to the resource rent tax now that there is somewhat more clarity about it, even though some questions remain. We are putting a lot of work into the company's internal pricing, so that it is as correct as possible in relation to the new tax rules.

To summarize, we are very happy about a good performance, also biologically, in Newfoundland. We are very happy about our high survival rates there of 95-96%. We have had a challenging situation in Norway and BC. We have taken significant steps both for ISA in Rogaland and Spiro in Finland, and algae, lice and low oxygen in BC. And the numbers we see now show that things are moving in the right direction. Note that we will not be harvesting much this quarter because we are building biomass, which is our highest priority.

We still expect good demand, although we are expecting to see lower prices for a period. What always happens when prices come down, is that retailers start their promotions, and we are seeing signs of that now. That is very good. That ends my presentation, and we will go over to Q&A.

Q&A

Christian Norby, Kepler:

What level of harvest weights are you expecting in Newfoundland in six to seven weeks?

Andreas Kvame, CEO:

We expect a round weight (*wfe*) of about 5 kilos, so about 4 to 4.5 (*hog*).

Christian Norby, Kepler:

What is the status of your discussions with the authorities in British Columbia when it comes to salmon and aquaculture?

Andreas Kvame, CEO:

We have a good dialogue with the authorities. It has been signalled that there is a responsible transition plan. The cabinet has been reshuffled in Canada, so Joyce Murray is no longer the fisheries minister. There is a new fisheries minister, and the mandate letter from Trudeau has not come yet, but it should come shortly. We expect to have a good dialogue with her as well.

Christian Norby, Kepler:

Could you also comment about how feed costs are likely to develop for you over the next quarters, how will they affect your farming costs as you harvest the fish?

Andreas Kvame, CEO:

I would say that they will be relatively stable, because we have already had the big increase in feed costs. What we now see in the market is that the so-called agricultural products that are used in the feed have had a stable development, even declining slightly. What we have seen in fishmeal and fish oil is that

some fishing seasons have been cancelled, and that has especially caused the fish oil price to increase substantially. We, of course, are looking at our formulas and recipes for feed to try and stagnate the development of increasing prices. And we see a good possibility of succeeding. As of today, it does not look like we will have a big increase in the feed cost.

Ola Trovatn, DNB Markets:

You had a positive elimination effect on operational EBIT in Q2. Can you explain why?

Atle Harald Sandtorv, CFO:

Yes, there was a positive elimination impact on EBIT. Normally in that line item we have our headquarter cost, and it fell, and it was especially low in the period for various reasons. The most important reason is that there was an accounting settlement based on the exchange rate development and a calculation for the option programmes for management which reduced the costs, thus impacting that item.

Ola Trovatn, DNB Markets:

Thank you.

Nils Tømmessen, Fearnley:

Two questions about British Columbia. The first has to do with the price of wild salmon. There has been a lot of wild salmon available in the market and much has gone into storage and frozen storage. Will this impact the prices in the second half? Or is that just noise? When it comes to costs in British Columbia, is CAD 11 per kilo becoming the new level? Or are you expecting improvements when you start to harvest salmon in your better protected pens, with lice skirts and such things?

Andreas Kvame, CEO:

I'll answer the last question first. We do expect improvements. We have been in a difficult region, we are talking about the west coast, and we expect improvements when we start harvesting at our next site, which is on the east side.

When it comes to wild salmon, yes, there is a considerable amount of wild salmon in the market. That is also visible in the price pressure in the North American market during this period. But often when it comes to wild salmon, it does generate noise. It gets put into inventory and then released at some point. It can have an influence, but it really doesn't compete with fresh Atlantic salmon. Fresh salmon has a competitive advantage in the market, but if there are large volumes of wild salmon it can influence the price. But we are expecting a relatively normal development in North America regarding this issue, and we are hoping for a slight increase in prices at the end of the year.

Nils Tømmessen, Fearnley:

Thanks.

Andreas Kvame, CEO:

The question from the web was just a test question ...

Atle Harald Sandtorv, CFO:

There are no further questions from the room or from the web, so we thank you all for your attendance.

Andreas Kvame, CEO:

Thanks for having us.