

TRANSCRIPT

Grieg Seafood Q3 2020 Results

17 November 2020

Introduction

Andreas Kvame, CEO:

Welcome to the third quarter presentation for Grieg Seafood, which will be followed up with a Capital Markets Day presentation immediately after we go through the numbers. As usual I have the CFO Atle Harald (*Sandtorv*) with me. Let's get started. This was a very challenging quarter for Grieg Seafood. Prices, they fell, and as such, they influenced the quarter by NOK 92 million compared to last year's quarter. We are very pleased with the development in Rogaland and Finnmark, where we had an EBIT of NOK 9.85/kg in these two regions. When it comes to Shetland, we aren't as fully satisfied there. Skye has handed us a loss of NOK 150 million of which NOK 90 million is related to mortality, lower survival, and write-downs. The Board has, therefore, due to this, and a review of all our operations, and today we can announce that we choose to put 100% of our efforts into Norway and Canada, and this means that we are going to sell Shetland.

We have also decided not to move forward as fast as originally planned in Newfoundland. There are several reasons for that. One thing is the financial capacity of the company, and the other is that as a starter we can get by with one smolt department, which we will revert to in the Capital Markets Update.

Through the period, the ASC certification has shown a significant development. We have 26 sites certified now, so 41% of all our production is ASC certified. We are on track to establish our own sales and marketing organization and it will be in operation during the first quarter of 2021. We expect to harvest 26 500 tonnes in Q4 2020 and 90 000 tonnes for the year, which earlier was 95 000 for 2020. The reason we are doing that is to optimize harvest weights and when we will market the fish. We will come back to that when discussing the various regions.

Then we move on to slide 3, financial highlights. Unfortunately, we have to report a negative result of NOK - 192 million, mainly due to market prices, but also due to the situation we had at Skye. We harvested 21 200 tonnes, which is in line with what we did in the third quarter last year. That gives us thus a negative EBIT of NOK 9.04/kg this quarter, which is something neither we nor the Board are satisfied with.

Okay, then we move to the various regions, starting with Rogaland. Rogaland, as I said at the introduction, had an EBIT/kg of NOK 9.89/kg which gives roughly NOK 50 million in earnings this quarter, on a harvest volume of 5 000 tonnes. In Rogaland, the production has done very well with lower costs compared to Q3 2019, and that is because the biology has improved substantially, which again is related to our large size smolt initiative. In addition, we have had contracts, sales contracts, allowing us to achieve rather good prices in this region. And as a last thing I would like to mention regarding Rogaland, we bought 527 tons in the government auction for MAB (*maximum allowed biomass*) which is our plan

and which we are utilizing now, and with increased MAB, and we want to optimize MAB in the company, meaning we want to delay some harvesting until next year, and we'll get back to that later.

Then we get to Finnmark. We are reasonably satisfied in this region as well, we have achieved good prices thanks to contracts, in this region, we achieved an EBIT of NOK 26.7 million, harvest volumes down significantly vs. Q3 2019, at 2 730 tonnes, with an EBIT/kg of NOK 9.77. Production has been stable, things have gone fine with biology in this area when it comes to production, but we have had three instances of ISA (*Infectious Salmon Anemia*) in this region, which isn't so good. That has given us challenges regarding harvest volumes going forward, and to say a bit more about that, we can't harvest fish diagnosed with ISA at our own units because Simanes (*Finnmark, near Alta*) where we would harvest, is located in a national salmon fjord, and that means we are required to harvest elsewhere and harvest for others, which creates logistical challenges because there are many sites in this area that are in zones and are harvesting at the same time.

Having said that, we have a total of 15 sites in Finland that are ASC certified, so actually 80% of our production in Finnmark is now ASC certified. We expect 14 160 tonnes harvest in Q4 2020 with stable costs despite sanitary harvesting, which is somewhat more expensive than ordinary harvesting. That means indirectly, costs are declining. Harvest volumes, because of that situation, and some uncertainty about harvesting and when it can be finished, are now put at 30 000 tonnes, with some volumes postponed until 2021.

Shetland: We have a result that is negative by NOK 186 million, we had a harvest volume of 6 800 tonnes, and that gives a minus NOK 27.44/kg. A terribly bad result, and it hurts. Looking at the situation during Q3, we had a significant impact when it comes to the market and market prices, but in addition to that, the quality of the fish we harvested from Skye has been poor, in addition to low average harvest weights, very low average weights, which means you get a low average price realization. As I said earlier, we were down over NOK 90 million due to prices.

The operations at Skye will end, we will harvest the rest of the fish, the last fish, in the first quarter of 2021. We will end our operations there and focus 100% on Shetland. Production on Shetland has been good, and we are indicating lower costs there. We expect a harvest of 2 390 tonnes in the fourth quarter, with costs still high, especially due to the situation at Skye. Harvest volumes for 2020 are still 15 000 tonnes.

Then over to our operations in British Columbia. We had a negative result of NOK 51.6 million, harvest volumes of 6 600 tonnes, and a NOK 7.76/kg loss. The largest challenge in British Columbia is price, price realization in the North American market, which has been a big challenge. In addition, we have had a relatively challenging situation when it comes to biology, and it especially algae challenges and significantly higher lice pressure than in previous years, which has led to more fish treatments, which in turn has impacted survival.

In British Columbia we have also put a lot of emphasis on obtaining certificates for sustainability, and one of the indicators is the ASC certificate, where we now have 11 sites certified, representing 60% of our production. Our goal is to be certified in all regions by 2023, based on that standard. We expect a harvest volume of 3 480 tonnes in Q4, costs still high, but with a gradual cost improvement. We estimate harvest volumes of 22 000 tonnes in 2020. We will come back to guiding later.

Oh, then we go to our guidance, for 2021. For 2020, we arrive at 90 000 tonnes, as we have said before. For next year, we estimate 95 000 tonnes in total. Two thirds of our 2021 volumes will come from our Norwegian operations, and a third of our volume will come from our foreign operations. For Rogaland we expect to harvest 28 000 tonnes next year, in Finnmark 37 000 tonnes, in Shetland we expect 15 000 tonnes, and then we go down a bit in BC, related to our release strategy for the east and west sides of British Columbia, or Vancouver Island, and every other year we go up and down, and we won't manage to smooth that until 2023.

So, I would thereby like to hand over the microphone to Atle Harald, who will go through financials.

Financial Review

Atle Harald Sandtorv, CFO:

Thanks, Andreas. Let's look a bit at our financial accounts.

Our top line is NOK 1.3 billion, slightly lower than last year, even though we had about the same harvest volume, but prices have fallen somewhat in the quarter.

We then have an EBITDA of -64 million. Depreciation comes in at 128 million, some higher compared to last year, and that has to do with our growth strategy. So that we then have an EBIT of minus 192 million. Fair value is positive by approximately 42 million, so that EBIT after fair value is then negative by NOK 150 million. Net finance is 11 million, and we have estimated tax expense at 35 million, so that the result after tax is a negative NOK 126 million.

Will go a little closer in the next slide into the analysis on both the income side and the cost side, and then compare EBIT we had last year with the corresponding EBIT in Q3. In relation to volume, there are small changes, since the volume was quite similar in the two quarters, but regarding prices, as we have mentioned, we have significantly decreased prices. We see a decline in the market price, but we have also had a decline in our own realized price much driven by the Skye area, where we had small sized fish and had a poor price realization.

Offsetting this somewhat were the contracts in Norway, but overall, price had a negative effect on EBIT of 92 million compared to the same quarter last year.

If we look at costs, we saw a negative impact of 222 million, and that was of course very driven by Skye, Andreas mentioned that, 150 million has been the negative impact on EBIT, and much of this is of course related to costs. Another point to note is that the harvest volume in BC and UK is relatively up compared to the same quarter last year, where they both normally have higher costs, so that they contribute to costs rising somewhat in the quarter compared to last year.

And finally, we have also had increased costs on the lawsuit linked to the EU Commission and to the Newfoundland part, so that we end with an EBIT in the quarter of minus 192 million.

Then we move on and then we look a little quickly at the numbers in our cash flow. We compare bank cash at the start of the quarter, and end of the quarter, we had relatively much cash at the beginning of the quarter, and that was because we had just issued a bond of NOK 1 billion. So EBIT it is negative by 64 million, while working capital went the right way, driven by the right movements on both accounts receivable and payables, so it moved the right way by a little over 300 million.

Then we invested 320 million. 100 million was related to the auction for new licenses in Rogaland, and 145 million of those 320 million are related to our Newfoundland project. But then we paid down the debt by 287 million, and we then ended the quarter with NOK 334 million in cash.

Then we go into the financial status and what it looks like in relation to our liquidity situation. We have net interest-bearing debt at the end of the quarter totalling NOK 3 billion. That is as calculated for debt covenants. And net interest-bearing debt to EBITDA was 4.2 at the end of the quarter, so it has increased somewhat. If we look into Q4 and assume a continued weak market due to Covid-19, then we see that there is a possibility that we could breach our loan conditions, so we have therefore gotten a waiver, and it has been done until Q3 2021.

Our equity ratio in relation to covenants is calculated at 45% at the end of Q3, and we have undrawn facilities of about NOK 1.3 billion at the end of the quarter, and if we then take our cash holdings, we have a free liquidity of around 1.6 billion at the end of the quarter, so it is a good situation.

Then we will move on to an update in relation to the Capital Markets and Andreas will start with that.