

## **TRANSCRIPT**

### **Grieg Seafood Q1 2023 Results**

12 May 2023

#### **Highlights**

##### **Andreas Kvame, CEO:**

Good morning, everyone and welcome to the presentation of the first quarter of Grieg Seafood. My name is Andreas Kvame, the CEO in the company, and with me I have Atle Harald Sandtorv, who is the CFO of the company.

Atle Harald and I will guide you through the first quarter as well as the outlook.

We skip the disclaimer which you should read on your own. We will go through the highlights of what happened during the quarter. I will talk about the market and operations in our various regions. Then Atle Harald will take you through the financials. And at the end, we will talk about the outlook.

So, let's get started. In Grieg Seafood, we achieved an operating profit of NOK 385 million during the quarter. To a large extent, that was due to a very strong market with good prices. We harvested somewhat more than our guidance, due to some biological challenges, especially in Rogaland and Finnmark, which we will look at later.

Newfoundland, which has been a question mark for many, is doing very well. We are also pleased that more and more of our fish are ASC-certified, and in this quarter, 81% of the fish we harvested were ASC-certified. The board has suggested for the Annual General Meeting to pay a dividend of NOK 4.50/share, based on earnings in 2022.

For the second quarter, we expect harvesting volumes of 21,300 tonnes, and our guidance for the year now is 80,000 tonnes, which has been lowered by 2,000 tonnes due to Finnmark, which we will explain later. During the first quarter, we harvested nearly 15,400 tonnes, down somewhat compared to one year earlier, and we had an operational EBIT of NOK 25.10/kg for the company.

As we said, the market has been very strong. Demand out there has been exceptionally good, and at times to very good prices, which, of course, have also been supported by a very weak krone during the period. So that has contributed to the good prices during the quarter.

#### **Markets**

If we look at supply, we don't expect much increase in supply, quite the opposite, actually. As of today, we expect a volume increase of 1%, and we think there is more downside than upside to that estimate. That is closely linked to the existing biological challenges and harvesting of smaller fish, especially in Norway, but also high harvesting in Chile during this period. So there won't be any supply shock this year, either, with the supply estimates one per cent lower than a quarter earlier, and a further cut in estimates is likely. So, year-on-year, no growth.

If we look at the different markets, note that EU & UK demand is down somewhat, declining 11% in this period. We think this is due to HoReCa (*Hotel, Restaurant, Catering*) doing reasonably well, retail has

declined some, which is not due to fewer deciding to buy salmon, but the size of the portion pack has been reduced, so raw material requirements have declined, giving lower volumes.

The US has been and is a very strong and growing market, and even with high prices during the quarter, and good supplies from both Chile and Norway, the market has held in a steady state. An important reason is that during the whole Covid period, people learned how to make salmon recipes at home, so the retail segment has been strong, and now the HoReCa segment has been strong.

Also note that China/Hong Kong is a market that is growing and was very strong this quarter, even with very high prices, that is largely due to them leaving their Covid “situation”, and opening up in a market with strong purchasing power.

In total, there has been a small decline in global consumption, but there hasn't been any increase in volume either, so those two things are linked.

We are focusing to a large extent on VAP, which we did once again during this quarter. Our goal during the year is to increase our value-added or processed share to somewhere between 8% and 12%. That is our target and ambition.

I mentioned this before, but the Nasdaq spot price has been very high, the same applies to the Urner Barry price, which became valid again starting in week 11-12 when there was enough volume to report a price. That price has come down somewhat, but is still very strong.

Then we will shift attention to our operative units, and I will start with Rogaland.

## **Operations**

Rogaland harvested 7,500 tonnes, somewhat more than guidance in this area, and achieved an operational EBIT of NOK 288 million, and an EBIT/kg of NOK 38.40/kg. They harvested 2,200 tonnes more than guidance because we decided to reduce the biological risk in this area. We had an incident with ISA (*Infectious Salmon Anaemia*), where we are in the process of harvesting those fish with lower average weights, as well as some fish with winter ulcers in this region.

The prices we achieved for our fish were negatively affected by contracts agreed to different prices than the spot prices during the quarter. We also had somewhat lower average weights, leading to lower price points. Nevertheless, we are relatively happy with what we achieved in Rogaland, given the challenges we had in the quarter.

So far this year, as of the end of March, we have released smolt with an average weight of 720 grams, which was in line with our plans, and we have released about 1.5 million smolt in April and they weighed about 1 kg.

What you see in this region is a lot of flexibility, so when you have issues, such as ISA, for example, and must harvest some fish, you quickly return to your maximum allowed biomass, which is the opposite of the situation in Finnmark. This is due to the post-smolt strategy we have chosen.

We expect to harvest 10,500 tonnes in the second quarter in Rogaland, and harvesting will be evenly spread throughout the quarter. There will still be some winter ulcers in the second quarter in Rogaland, but I think we have handled the situation much better than we did just a few years ago. Costs will be stable.

Over to Finnmark. We have harvested 7,900 tonnes in this quarter with an EBIT of NOK 158 million and an EBIT/kg of NOK 20.10. Just like in the previous quarter, Finnmark has been significantly impacted by Spiro (*the spironucleus salmonicida parasite*). We wish we could have avoided this, but the parasite entered our hatchery and followed the fish, so we have harvested many fish early and we have destroyed many fish for fish welfare reasons, because we want the fish to live well, so we have had to take those measures.

We have also had a significant impact from winter ulcers in this region as well. Combined with low average weights and negative contributions from contracts, our price achievement in Finnmark has been notably lower than in Rogaland.

We follow Spiro quite closely, and we have not found any new cases of it among fish that will be entering the sea from our hatchery, which is very good, and we are working hard at completing our UV site, which we told you about last quarter. We expect to complete it by the end of June, when it should be up and running. Hopefully, with the new facility, we won't ever again see this parasite enter our site. This will be the largest UV site or facility in the country. That is an insurance policy.

It isn't just prices that get impacted by low average weights, but also costs due to lower survival rates from Spiro and early harvesting of fish. We expect now to harvest 5,500 tonnes in the second quarter and this volume will come towards the end of the quarter. We expect some impact from winter ulcers in the current quarter. Costs will remain high in Q2, and our goal is to reduce them, and we are working as hard as we can at replacing the volumes lost – our smolt release will be record high in Finnmark this year, and we are starting the release now. We are using both internal and external smolt and Nordnorsk smolt (*joint venture with Salmar*) to get us up and running after the rebuild.

The reason that we have reduced guidance by 2,000 tonnes is that we have harvested early, we have lost some fish, and so on. So we have thus cut our guidance by two thousand to 26,000 tonnes in this region.

In BC we did not harvest in the period, and built our biomass and we will start harvesting in the second quarter. Biological conditions have been good, although we have had some lice treatments, but other than that, things have gone reasonably well. We are working constructively with Canadian authorities with a transition plan, and we expect to receive the first signals this summer about what this will look like for the future of aquaculture in BC. We have a good dialogue and collaboration with the authorities to achieve a sustainable plan for the future.

In the second quarter, we expect to harvest 5,300 tonnes and we are maintaining our guidance for the year of 20,000 tonnes in this region.

Then we have Newfoundland, which is our new region. Things are going very well there, I would say, with freshwater production developing according to plan - high survival rates, and we are actually starting our second release in these days, to be more exact, 16 May. That will be our second release to the sea, we are starting a new area, with three sites that are ready, and Atle Harald will say more when he talks about capex later. We will be releasing roughly 2.5 million smolt at these three locations during the spring and summer.

We have had some tough challenges in Newfoundland, with three to four hurricanes that have blown over our sites. We have had temperatures of zero, 0.1 degrees Celsius, at depths down to 25 metres, which the fish have handled very well. You don't give a lot of feed at those temperatures, of course, but

their survival rates in the sea have been good. We are expecting to start harvesting fish when we reach the fourth quarter, potentially even in the third quarter. Growth rates have been strong, and mortality has been low. As of 31 March, we had 3,100 tonnes with an average weight of 1.6 kg in the sea, and things looked stable as we moved into the second quarter. We are still expecting to harvest 5,000 tonnes in this region.

Then I will give the word to you, Atle Harald, to go through our financials.

## **Financials**

### **Atle Harald Sandtorv, CFO:**

Thank you, Andreas.

Our sales in the quarter were NOK 1.5 billion with an operational EBIT of NOK 385 million, as Andreas mentioned. As it were, prices rose during the quarter, making a positive contribution to the fair value adjustment of biomass in the sea, which was NOK 148 million. That brought our EBIT to NOK 525 million after that item. We have positive financial items this quarter as well, totalling NOK 48 million, mainly due to the impact of forex, with the weak Norwegian krone and the strong Canadian dollar, creating gains on our assets there, which is partly accounted for through financial items.

We have also made an estimate for taxes which is based on current tax rules, because there is too much uncertainty about the proposed but yet-to-be-enacted resource tax to include it in our tax estimate. That makes the estimated net profit NOK 427 million after taxes.

Then we have an analysis which shows the transition from operational EBIT to Q1 from Q4, where we had an operational EBIT/kg of NOK 7.4. Then we see that prices rose significantly, with a positive impact of NOK 21.6/kg. Costs rose somewhat, nearly NOK 4/kg, leading to an EBIT/kg of NOK 25. Here I would like to underscore that focusing on costs is always an important part of our operations, and in particular during the past year, given the inflation we have seen, and we communicated the previous quarter which improvement projects we are implementing now, and we are still working a lot on them internally, in order to optimize operations and find the right structures for reducing our costs. Some of the initiatives are short term and can have an impact relatively quickly on production costs, while the others are more long term.

The important thing to note here is that it takes a few quarters to show up in the cost of fish that are harvested. So one thing is production cost, and another is the production cost of the fish being harvested, which comes a couple of quarters later.

If we look at the development in net interest-bearing debt and compare it to cash flow, we get the following overview: Entering the quarter we had net interest-bearing debt of NOK 1.7 billion, and that was reduced by NOK 507 million from EBITDA. Then we used money for three things: to build biomass by NOK 235 million, we invested NOK 276 million and then we increased working capital by NOK 327 million, where a reduction in trade payables was the biggest contributor. We thus ended the quarter with slightly more than NOK 2 billion in net interest-bearing debt.

Our financial situation is solid; we have an equity share of 53 per cent. 75% of our debt is linked to green and sustainable debt. Our free liquidity is very close to NOK 3 billion, of which NOK 243 million is pure cash, and we have also put cash into a money market fund, which is also cash, actually, but is accounted

for in a different line item in our accounts and we have NOK 1 billion there. Finally, we have NOK 1.7 billion in undrawn credit facilities, which brings us up to the sum of NOK 3 billion.

Then a little about investments. During the quarter, we invested NOK 276 million, with the largest share of that related to Newfoundland sites, as Andreas indicated. Those are the locations where we will release the next generation of smolt to the sea. So about NOK 200 million is tied to that. The other investments are replacement or maintenance investments. Our guidance for the year is maintenance investments of NOK 300 million and for Newfoundland and its new sites another NOK 300 million. Finally, we have the investments in Finnmark of NOK 70 million to reduce the risk of spironucleus.

Otherwise, the situation is still that many of the resource tax details have not been decided, which creates uncertainty about our investments in Norway, so they have remained on hold until we get clarity there.

When it comes to working capital, we expect to build biomass of about NOK 300 million during the rest of the year.

We have a strong and solid balance sheet, and the Board has proposed a dividend of NOK 4.50/share, pending approval at the Annual General Meeting. Last year, we paid a dividend of NOK 3, and our policy is to pay a dividend of 30-40% of our net profit after tax in a normal year, but we always look at our balance sheet and our ability to pay the dividend. Right now, we have net interest-bearing debt per kilo of nearly NOK 25, and our target is to lie around 30, and we are well below 30, which is also an important signal allowing us to pay the dividend.

Then I will give the word back to Andreas who will summarize.

## **Outlook & concluding remarks**

### **Andreas Kvame, CEO:**

Thank you, Atle Harald. Then we will look at the outlook, but before that slide, I would like to say that the resource tax and the new rules and the final decision are of course a big question mark today. We have heard that the final deadline for the finance committee is 16 May, so we will have to see what comes out of the negotiations taking place right now. I am not going to say much more about the resource tax. I have seen what was said yesterday and the day before, and I have seen what has been written, and I can just repeat what I have said before. What is happening now is relatively frustrating.

Before I talk about the market, I would like to add that we are offensive in Grieg Seafood and, as you have seen in the news today, we have hired Nina Stangeland as our Chief Strategy Officer to look at the opportunities we have for growth and development in all our regions, and keep a continuous focus on them. We are very happy to have Nina onboard; she comes from a position as CEO in NCE Seafood Innovation Cluster. She also has a background from Bergen Group and Sparebanken Vest and more. We are pleased about that.

When it comes to sales and the market, we are still expecting a strong market, which we see at the beginning of the second quarter. If we look at history and last year, we seen no reason that history won't repeat itself, even with a recession in some of the markets. That will be met by "shrinkflation" with smaller packaging sizes to achieve a price point that people can accept. Then there are other markets, like China and Hong Kong, where I see no reason that they won't continue to grow. Eventually, as new air

routes are developed in response to the war in Ukraine, which has created so many disturbances to logistics, there will also be a strong potential for growth, especially in Asia from air traffic routes, but also in the US.

As we said, we are working on our strategy for further growth with VAP, building customers, and we will see what steps we take to obtain enough capacity, either domestically or abroad. The key thing is to have the customers lined up before we use resources on VAP facilities.

For this quarter, we expect a contract share of 12%, and for the year as a whole, 15%, so there won't be a high share of contracts for Grieg Seafood this year. When it comes to farming, our main focus, aside from Rogaland and ISA, where we are harvesting those fish, is to adopt preventive measures, such as in Finnmark, where we are vaccinating all fish before they are released to the sea. So, for instance, all fish being released in the fall will be vaccinated. In Finnmark, we must restore our biomass after having Spiro, which we have mostly mitigated, and we won't reach our mass allowable biomass before the third quarter the way things are looking now.

Costs are, unfortunately, stable, but too high, and we are putting a lot of effort in there. Newfoundland has been through one summer and one winter, and they will have one more summer before we can start harvesting the fish. What we see there as well is with the equipment and the technology we have chosen, the fish did very well in the winter, and have been able to go down to depths of 40 metres, compared to the history in Newfoundland of net pens down to 10-15 metres, and 40 metres has shown itself to be completely necessary. Our equipment is robust.

Then hopefully during May to June we will find out what the new rules will be for the resource tax, and all our larger growth investments in Norway after 28 September (2022) have been put on hold, while we are completing capex that was started before that.

Our guidance is 80,000 tonnes, as mentioned earlier, where we maintain our guidance for three of the regions, but not for Finnmark, with uncertainty about Spiro, where we are lowering guidance by 2,000 tonnes. Finnmark will have a volume of 26,000 tonnes this year.

To summarize, things are satisfactory in Rogaland, BC and Newfoundland, but we have faced challenges in Finnmark with the biological situation related to Spiro, which we hope was a one-time event that won't happen to us again. We are waiting with investments until we see what the preconditions are regarding the resource tax. Newfoundland is developing according to our plans.

Further, we see a strong market, especially in the second quarter, but even for the year as a whole, given the low supplies coming during the year, and demand being very good. In addition to that, I would like to thank all my colleagues in all regions for a very good job through the quarter. An uphill battle is always tough, but the view from the top is good. We are heading towards that top.

That sums it up, and we are ready for questions.

## **Q&A**

**Atle Harald Sandtorv, CFO:**

We are now open for questions.

**Bent Rølland, SEB**

Could you share your thoughts with us about the tax, assuming it is passed as proposed? How will that impact your thinking about investments and priorities, in Norway versus overseas?

**Andreas Kvame, CEO:**

Our tax percentage in foreign countries is 33%, that is, 33% in Canada, and, in Norway, if the tax gets passed as currently proposed, we have 22% company tax and 35% or whatever it becomes in the resource tax in addition to Norwegian owners having a wealth tax, and requiring a dividend, so the tax here can easily be 65%-85%. It all depends. So looking at investments, it would be advantageous to invest in Canada the way things look today.

Having said there, there will be a set of rules, probably, at some point in time, depending on what gets passed, and the important thing is to adapt to that new set of rules. Today, we focus on the whole value chain. Now, you will move to the middle of the value chain and add a resource tax there. Before, it wasn't so important, to put it that way, with what prices you had in the different parts of the value chain, but now it will become quite important. That will require a job involving internal prices. Definitely. I don't think I can answer much more than that.

**Herman Dahl, Nordea:**

On the cost side, you have seen a slowdown in growth in feed prices, but can you say anything about the timing impact for when that peak shows up in the P&L statement? Could you also say a bit about other costs, such as wellboats and wage costs and everything involved in that? How has the development been there? Have those costs also seen a big increase? And finally, when it comes to volume guidance, how comfortable are you with Finnmark's guidance after you lowered it slightly?

**Andreas Kvame, CEO:**

To the last question, I would say I am reasonably comfortable with guidance for Finnmark the way the situation is today. When it comes to feed costs, they rose strongly during 2021 and 2022, especially around Q3 2022, and all ingredients rose. Raw material prices rose, also driven by exchange rates. Currency has a lot to say, a weak krone is good for prices, but less good when you are purchasing feed.

The cost increase due to feed alone, is around NOK 10-12/kg the past couple of years, which is truly astounding. I can remember when it cost NOK 5, I have been in the market that long. So that has made a substantial contribution. When it comes to feed going forward, I think it will be relatively more stable, that it will stabilize, not for EPA/DHA or fish oil or marine raw materials, which will rise, but for vegetables, which will see some decline. This will once again depend on foreign exchange rates. When it comes to other costs which depend on energy costs and oil, etc, whether boxes or electricity, there has been a big rise. For instance, the cost of boxes has risen 70-80%, so all the small items used to produce them have seen inflation.

It is also clear that the upcoming wage negotiations will also influence this picture. So I think we see a certain flattening in inflation for the big items, but we must work intensely to keep costs down, not in the form of purchasing prices, but by working smarter in other areas.

**Torkel Dalan, Nordea**

About the smolt release in Finnmark, can you say anything about the average weights there?

**Andreas Kvame, CEO:**

They are roughly 200 grams. Some of the external smolt we are buying will be a tad lower, whereas the smolt we produce will have that weight, and even more. So, about 200 gram.

**Martin Kaland, ABG:**

When it comes to Finnmark, can we expect a relatively high level of costs there as long as there are Spiro fish in the harvesting mix? And could you say anything about how much this could be and when the last Spiro fish could be harvested?

**Andreas Kvame, CEO:**

Well, Spiro that causes sickness is one thing, but we can also detect the parasite in fish without it causing any illness. The fish are fine. The main impact from fish with Spiro will end during the second quarter. We are still likely to have some Spiro, but nothing that causes sickness from what we see today. The fish that we are releasing in Finnmark this year, when we are having a record high release, will be free for Spiro. So we can expect that in the second quarter we will have stable but high costs in Finnmark.

**Martin Kaland, ABG:**

In Rogaland, can we expect that costs will decline a bit and weights increase some when we are finished with the ISA fish? Or are there other factors pushing in the opposite direction?

**Andreas Kvame, CEO:**

No, you are probably correct in your views there. Obviously, ISA does lead to extra costs. First of all, the fish have significantly lower weights, pushing up the cost/kg. In addition, you must transport them in closed wellboats, harvesting must be sterile, with all of this leading to high harvesting costs.

**Wilhelm Røe, Danske Bank:**

A little question about Finnmark. Is it possible to say anything about the split between internal and external smolt? And then a question about Newfoundland. Aside from overall growth going according to plans, when weather was at its coldest, did you see any bigger deviations in growth or any other biological results from just that coldest period?

**Andreas Kvame, CEO:**

In Newfoundland?

**Wilhelm Røe, Danske Bank:**

Yes, Newfoundland.

**Andreas Kvame, CEO:**

We must admit that we were a bit nervous. Six to eight weeks ago it was very cold in the sea. The temperature was zero degrees at the surface, and the temperature was stable at 0.1 to 0.2 degrees down to depths of 25 metres. When that happens, you don't feed the fish. You aren't at the site; you watch the fish in the pens through remote cameras to see that they don't climb to the even colder water. This went very well. The fish stood further down, and we saw that the theory held up.



Now this is something we can't confirm, but we were told that these were the coldest sea temperatures in 50 years for Newfoundland. If that is true, then we have made it through a very tough period for our fish, which are triploid, something everyone said wasn't possible, but it went very well. And we are impressed by our fish. But it is clear that we implemented measures for smolt, both in terms of smolt phases and feeding, including what we feed them of marine raw materials, EPA/DHA, but also minerals like zinc and vitamins to focus on skin health. And we are doing the same for the fish in the sea.

Then there was the question about how much of the smolt in Finnmark were our own. These are rough numbers, but about 60-65% are our own smolt, then we purchase some from Nordnorsk Smolt, which we own together with Salmar, and those come to us, and then the remainder are external smolt. So, off the top of my head, 65% of the smolt are our own.

**Atle Harald Sandtorv, CFO:**

Now I see that weren't any more questions from this room, and neither were there any questions from the net, so we thank you all for your attendance.

**Andreas Kvame, CEO:**

Thanks for having us.