

TRANSCRIPT

Grieg Seafood Q4 2023 Results

22 February 2024

Andreas Kvame, CEO:

Hi and welcome to the presentation of the fourth quarter 2023 for Grieg Seafood. Today, I, CEO Andreas Kvame will hold the main part of the presentation and I have with me Global Finance Officer Renete Kaarvik, who will go through the financials. Atle Harald Sandvik is on a planned sick leave, sends his greetings to you all and says he is doing well.

Highlights

Andreas Kvame, CEO:

First, I would like to say that we are absolutely not satisfied with our results in the fourth quarter, largely due to Finnmark, which is our largest region. We will go into depth on that later. But that is due to Spiro (*the Spironucleus Salmonicida parasite*), winter ulcers and the recent attack by string jellyfish (*Apolemia uvaria*), which you have seen in the media. Having said that, we do see a notable improvement in biology up there, which we will delve into later.

Let us look at the highlights of the quarter. We had a weak result, with a negative EBIT of NOK 67 million. We had a positive NOK 156 million a year ago. The full-year 2023 operating EBIT was NOK 780 million. The fourth quarter was very much impacted by historical events, such as Spiro in Finnmark. On the positive side, we have had very encouraging biological results in Newfoundland with high survival rates and good quality fish. There were actually strong harvest weights there as well. We are continuously working on our most important measures, and we will look at some of what we have achieved today, including some information we haven't shared before. That will show that we are moving in the right direction.

Our work on building the post-smolt site in Finnmark is making steady progress and we have a high level of activity there.

We have initiated a cost programme with a special focus on fixed costs, where we are aiming to reduce our fixed costs by NOK 150 million over the next two years. We are continuing our efforts announced last quarter to find a partner for our Canadian operations, and trying to speed up that process.

We expect to harvest 17,800 tonnes in Q1 2024, and for the full year we have reduced volumes a tad, mainly due to Finnmark.

If we talk a little about our operational priorities, what are they? What are we working on in the company today? We are trying to turn around the trend of the last two quarters, which we cannot be satisfied with.

First, I would like to say more about Finnmark, and the background there. There are mainly three things that have hurt us there. There is Spiro, which entered our system through our fresh water supply. Our entire 2022 generation was impacted by Spiro. In addition, as you have seen in many media, there has

been a lot of discussion about winter ulcers, and then, more recently, we have had jellyfish, which have impacted the entire sector.

Spiro alone has contributed to lower survival rates, lower average harvest weights, the quality of the fish has declined, all leading to higher costs at all stages of production. Production has been inefficient, with early harvesting due to fish welfare, etc. We have estimated our Spiro costs alone for this generation of salmon to NOK 900 million, based on the factors I mentioned. Operational costs have risen, it has negatively impacted prices, and we were forced to reduce our volume estimates during 2023. Our volumes in Finnmark ended up being much lower than they would have been without this.

Have we done anything about this? Yes, we have. We want to prevent this from happening again. We have installed a large UV facility which includes filtration at Adamselv to avoid a repeat occurrence. There is no 100% guarantee, but it is the closest we can come to ensuring that Spiro doesn't enter our sites again. So we did that last year, and it cost us NOK 70 million, and we are also cooperating with Norwegian Fisheries and Aquaculture Industry in a large project to learn more about Spiro and to be prepared if it occurs again. Thus we will be better prepared the next time than we were in 2023.

We are very pleased that we have not identified any Spiro in our fresh water sources in 2023, or in the sea. We think that this is over.

When it comes to winter ulcers and jellyfish, they are challenges for the whole industry. Spiro has been an issue for Grieg Seafood. Winter ulcers are impacting all salmon farming, and the industry is working actively to combat them. Implementing new vaccines is one of the measures, and we have tested "probiotics", different feed recipes, experiments with urea as a feed additive, all to try and increase fish health by improving mucus production and the fish skin. There are many research and development projects taking place.

We got some statistics from 1 January to 15 February to compare various groups with the reference group. We see that when it comes to vaccines, the vaccinated fish have 50% less winter ulcers than the reference group at the same site. That is positive.

When it comes to string jellyfish, which I won't say such much about, they have been a challenge, although we don't see many jellyfish at our sites now. We have had them at three areas in Finnmark. They cause sores and can stress the fish and probably lead to lower resistance to disease, and likely followed by more winter ulcers. The last time we saw these jellyfish in Norway was 22 years ago. We, along with the rest of the sector, must tackle this issue in the best possible way.

We have some medium-term measures in our improvement project. We have said we are targeting cost reductions of NOK 150 million over the next two years. It takes time, since agreements may need to be renegotiated, including purchasing arrangements, and there are structural costs in the company. In addition, our improvement programme has 120 measures which we have worked on during the entire year 2023, but due to the time aspect of our biological production, the impact of the measures is only coming now and going forward.

We have done one new thing. We have said that our strategy is to have more value-added production, moving downstream. We have put a lot of work into that, along with partners and the partners we wish to work further with. But we see that the capacity compared to demand is too low. We will establish a secondary processing facility at Gardermoen which will be operational by next summer. The costs will be

about NOK 130 million, and we will start with one production line of 10,000 tonnes, and the site has room for two production lines. So we can expand it to 20,000 tonnes if we want to. This is also part of our strategy, since we want to better utilize downgraded products, which there have been more than enough of the last six months, so that is important for us.

It will also improve our flexibility at our harvest sites. We can send out the trucks faster which will lengthen the lives of our sites, since their throughput is a limiting factor. And not least, It will also help our sustainability since we will be able to reduce the total transportation distances and reduce our carbon footprint.

Then we have our most important measure, which is post-smolt in Finnmark. We are working on things now to achieve 3,000 tonnes of capacity, which will give us better smolt and more robust smolt, improve fish welfare and increase survival rates by reducing the time in sea, and reducing the chance of winter ulcers. It will improve our control of lice, and not least, increase our utilization of our maximum allowed biomass (MAB).

Let's look at some results from Rogaland which document this. The bar graph (slide 9) shows how many days the fish spent in the ocean in 2021, which was about 450 to 460 days, and 3-year mortality figures were 21%, 16% and 17%. We have gradually transitioned to post-smolt, and we see that the fish spend less time in the ocean phase. If we look at our last harvested fish, which were released in April 2023, they were fully harvested at 5.4 kg in January. Mortality for those fish was only 8.3% and they received no lice treatments, compared to the ocean phase mortality rate (PO2) in Rogaland of 19%.

The next slide shows lice treatments where you can see that as the average weight increases, the number of treatments declines. Simply explained! This illustrates how many of our sites in Rogaland have avoided lice treatments in 2023. There weren't many who avoided treatments in 2018, 2019 and 2020, but now you see we have 65% of our sites and fish generations avoiding lice treatments. That is the advantage of spending less time in the sea. It is linked to high average weights, shorter time in the ocean and, not least, we have gotten to be very good at using passive methods. One lost day of feeding is a catastrophe, it gives one day less of growth. And we are working hard to avoid that.

This shows salmon weights in Rogaland and how it looks going forward. In 2024, we will be transferring fish to the sea that weigh 630 grams, compared to 90 grams in 2014. If we still had that today, they wouldn't have survived with the biological challenges we have had in that area. We are continuing that work, and in 2026 in Rogaland and Finland combined, we will have 12,000 tonnes of post-smolt on land. And in 2027, we will have at least 14,000 tonnes on land. That's the way things are looking now with the construction activities we have. That was a little about post-smolt, and I remind you that it is our most important initiative, along with our plans to do further processing downstream in the value chain.

We will start with Rogaland where there was very little harvesting in the fourth quarter, so I would prefer to focus more in general on Rogaland's results. We harvested very much in the first half. One thing was that prices were very good, but Rogaland had three cases of ISA (*Infectious Salmon Anaemia*) during the year, but Rogaland nevertheless achieved a result of NOK 736 million for the year. The EBIT figure of NOK 28.30/kg is the best annual figure we have ever had in Rogaland. This supports our view that the post-smolt strategy has been advantageous. That is the area where we operate and where the environmental conditions are challenging. That is how Rogaland has been historically.

We expect to harvest 7,000 tonnes in the first quarter, spread throughout the quarter. Costs will be somewhat lower, and our guidance for the year is 28,000 tonnes. Our production in Rogaland is running smoothly.

Then there is Finnmark, where we had an operational EBIT of NOK 64 million in the quarter, which was NOK 6.20/kg. For the year we had NOK 327 million, and we should have had 2/3 of that NOK 900 million in earnings here, but we were hit by Spiro. Earnings were very impacted by those downgraded fish, low average weights, low prices and low volumes in this region. We expect to harvest 5,000 tonnes in the first quarter, and 27,000 tonnes for the year. The reason we have reduced that as much is that we have to be conservative, since we don't know how the string jellyfish situation will evolve. So, we have more fish in the sea, but we have reduced our estimate to 27,000 tonnes. We hope and believe that we will get through this challenge. As of today, we don't see many jellyfish, but we don't know how things will end up. Due to this, our costs will be somewhat higher in Finnmark in the first quarter.

In British Columbia, we had an operational EBIT of NOK -48 million, where we have historical challenges with our salmon. We are also looking forward to a clarification about the transition plan that the Canadian authorities have signalled. We hope and believe that it will be ready by summer, and thereby give us the possibility to resume our investments. That is one of the things holding us back today. We see things that we ought to do, but there isn't a predictable future while we wait for the transition plan. It is important to keep that in mind when you look at the results there. We are working tirelessly to improve our production there as well.

We will harvest 800 tonnes late in the first quarter, and we are targeting 15,000 tonnes for the year. It has to do with the cyclicity between those two BC regions, the east and west side of Vancouver Island.

As I said earlier, the biological trend in Newfoundland is very positive. It is a greenfield area, so there are some structural costs that are high in the beginning, but it is very encouraging that we have had a high survival rate for the fish, and the quality has been very good. We have had average round weights of 4.7 kg for the harvest. That fish was released in 2022, and it has been well received by our customers. The sad thing, though, is that when we began to harvest the fish, the prices were very low in the North American market. So in that sense it wasn't a mistake to delay 2,000 tonnes until this year because prices have risen considerably in the North American market during the first quarter, especially in January.

We have had good growth for our fish, and although we have shifted 2,000 tonnes to 2024, we have raised our guidance by 1,000 tonnes more than that because the biology has developed very well. The same holds true today, when we have 0.7 degrees in the water, but are harvesting fish. That is very positive, and the triploid fish there are very robust, giving us a positive experience.

I won't use any more time because my time is up. Now it is Renete's turn, please.

Financial Review

Renete Kaarvik, Global Finance Officer:

Thank you, Andreas. Good morning. I will take the usual financial review, starting with the quarterly results. We had sales of more than NOK 1.9 billion in the quarter, which is up about NOK 300 million from a year ago. Our harvest volume increased by 600 tonnes, so the increase in revenues was due to a good market and good prices. Our costs increased compared to Q4 2022, mainly due to inflation, largely

based on feed prices which were added to the biomass during 2022 and impact costs gradually as the fish gets harvested. In addition, costs are influenced by earlier biological events. Operational EBIT was thus negative at NOK 67 million. The fair value adjustment was a NOK 564 million, compared to NOK 189 million in Q4 2022 and has increased due to more biomass and higher prices. That gives an EBIT in the quarter of NOK 485 million.

Net financial items show costs of NOK 182 million, primarily due to foreign exchange losses and interest expenses on loans. When it comes to the tax cost, we have done our best to calculate the resource rent tax, but remind you that this is still an estimate since there is still uncertainty about the resource rent tax. That brings our next profit after tax in the quarter to NOK 247 million.

So, if we take a look at the development of operating EBIT from Q3 2023 to Q4 2023, we have an improvement of NOK 4/kg, helped by lower farming costs.

Then we look at our net interest-bearing debt. We have an increase from Q3 to Q4 of nearly NOK 1 billion, where the most significant items are investments of NOK 201 million and payment of tax of NOK 772 million. This is tax for 2022, paid in Q4 2023, and based on our interpretation of the transition to the new tax rules. But with such a big tax bill in 2023, we are expecting lower taxes in the future.

We consider the financial situation in the company to be good, we have an equity ratio of 47%. Debt mainly consists of the green bond of NOK 1.4 billion, leasing obligations of NOK 1.4 billion and a revolving credit of NOK 813 million. We have free liquidity of NOK 1.1 billion, including an undrawn credit facility of NOK 887 million. This liquidity level is a more normalized level than what we have had earlier, and it is a level that we are comfortable with.

As we said, investments in the quarter were NOK 201 million, of which NOK 120 million were growth investments, and mainly in the post-smolt facility in Finnmark. In total for 2023, investments were NOK 880 million of which growth investments were NOK 525 million.

In 2024, we expect NOK 1.1 billion in capex, of which NOK 300 million are maintenance investments, and we are increasing growth investments to about NOK 800 million. We expect to use roughly NOK 500 million for the post-smolt facility in Adamselv, and the remaining NOK 300 million to develop seawater sites in Newfoundland to increase our capacity there. We expect working capital to increase by NOK 400 million in 2024 due to growth in biomass.

To summarize, our debt increased towards the end of the year, so that net interest-bearing debt is NOK 3.9 billion, and the increase is largely due to paid tax, but must be seen in conjunction with the increased value of the biomass and working capital on the balance sheet. We have a good equity ratio and a level of liquidity that we are comfortable with.

Then I will give the word back to you, Andreas.

Outlook

Andreas Kvame, CEO:

Thank you, Renete. Then we will move on to the outlook. It helps that we have an optimistic market outlook, because we do not expect any supply increase. The supply side is limited. They say that supply should increase by 2%, but it could just as well be flat or negative. We have very few contracts, which is

deliberate on our part because we are expecting a relatively strong spot market in the first half of the year. Our contract share is 7% in the first quarter, and 6% for the year. That is as of today, but things could change.

We increased our VAP (*value-added processing*) for 2023 to 5% and our goal for 2024 is to increase that to 7-8%. The reason we aren't going forward faster is that we lack the capacity to move faster. The demand is strong, and we have spent time to acquire customers so when we get started at Gardermoen our customer portfolio will be ready. That is important.

Our guidance for the year is 81,000 tonnes a year, with our Finnmark guidance lowered somewhat and Newfoundland raised. In total, we expect growth of 12% compared to 2023. We are even expecting growth in Finnmark, where we have pencilled in 7%.

To summarize, the Q4 result was impacted by historical events, giving us a result we are absolutely not satisfied with. We are working tirelessly in the whole company to turn things around. Our first harvest in Newfoundland that started in November was a milestone for us, and the biological results were surprisingly good. Very good, I would say. I have shown you a bit about our experience with post-smolt in Rogaland which has been very good, confirming more and more our belief that this strategy is correct. We are now doing the same in Finnmark, which is one of our most important measures. We continue to work on our Canadian operations, looking for a potential long-term partner there.

That concludes my presentation. Now we are open for questions.

Q&A

Christian Norby, Arctic:

I have a question about payable tax, which was very high this quarter. What should we expect for payable tax a year from now, compared to P&L tax? Are they quite comparable, or will payable tax be significantly lower since it was so high now?

Renete Kaarvik, Global Finance Officer:

The tax we paid now was for 2022, and represents our interpretation of the new tax regime. We do not expect such a big tax going forward.

Christian Norby, Arctic:

Does that mean I should estimate the payable tax a year from now to be the same as the reported tax for 2023? Is that how we should think?

Renete Kaarvik, Global Finance Officer:

I would like to clarify that the tax number is just an estimate, and there could still be changes when all the details about the tax are in place. So it is hard to quantify what it will be in the end.

Herman Dahl, Nordea:

When it comes to biomass, it was up a bit compared to the same quarter one year earlier, and it seems like the number of fish is the main driver of the increase, whereas the average sizes are down about 10%.

Should we be concerned about average harvest weights during 2024, or should we expect a more backend-loaded harvest profile than what we have seen previously?

Andreas Kvame, CEO:

It has a lot to do with the extraordinary smolt release we had in Finnmark. Normally we release 10 to 10.5 million, this time we have released 12.2 million. And naturally we don't have the short-term capacity to produce so much, so we have purchased some smolt from external suppliers. They have average weights from 120 grams to 170 or 180 grams, and we have put them in our various locations in Finnmark. Now that was during 2023, and we will do the same in 2024, so when we reach a steady state in Finnmark, the normal number for the smolt release will be between 11 and 12 million fish. But due to Spiro, we were forced to compensate, especially in 2023. So, yes, this year's harvest will be backend loaded.

Herman Dahl, Nordea:

A short question about costs. You are guiding for a little bit up in Finnmark and a tad down in Rogaland for the first quarter. How much of that is the impact from feed and general inflation and how much of that is from the Spiro and challenges with string jellyfish?

Andreas Kvame, CEO:

The feed has been given to the fish for the last one and a half years, and you can see how feed prices have risen significantly, so the underlying cost level has risen due to inflation, especially feed costs. In Rogaland, costs will decline somewhat during the first quarter, and in Finnmark, they will increase some. The reason for the increase in Finnmark is not feed costs but because of the situation we have had with string jellyfish, winter ulcers and Spiro in a combination. We will be done with Spiro during the second quarter. Then there shouldn't be any more of that. Spiro has been specific to Grieg in its 2022 generation. And we are working tirelessly along with the rest of the salmon industry to solve our challenges with winter ulcers. We all have the same challenges there. So that is the main reason for the cost increase.

Wilhelm Røe, Danske Bank:

Just a little question about Newfoundland first. You have started with the basic work for the post-smolt expansion, but when can we expect to see the investments you need to reach your volume plans for the coming years?

Andreas Kvame, CEO:

It is as soon as it is practically feasible and financially feasible. What we are doing now is to complete the basic work, such as concrete work, tanks, etc., and to take care of what we stopped back in 2021 or 2022. We have used about NOK 14 million on this, but we should be finished in the spring. We will have to see how things go, but much depends on the partner situation when it comes to Canada. As of today, I can't really be more precise about Canada.

Wilhelm Røe, Danske Bank:

I completely understand that. A quick question about Finnmark and those 12 million smolt released there. Does that really cover your needs? Were you able to get enough external smolt to cover your gap in smolt?

Andreas Kvame, CEO:

Yes, we did. We have contracts with external suppliers that we are very pleased with. We are getting a satisfactory number of smolt, although we would have much rather preferred to produce them ourselves, especially when our focus is on larger smolt, avoiding two winters in the ocean, reducing lice treatment, and hopefully having fewer problems with winter ulcers. So that is our internal focus.

Renete Kaarvik, Global Finance Officer:

There are no further questions from the room, but we have some questions from the Internet.

Question from the web:

What will the normalized production cost be in Newfoundland?

Andreas Kvame, CEO:

When we reach our targets in Newfoundland, meaning the volumes allowing us to reach benefits of scale, a normalized production cost will be somewhat higher than Norway, but not so very different from what we achieve in Norway. There isn't any reason it should be much higher, but there are a number of assumptions that must be met to achieve this. First we had to document that we could operate in Placentia Bay, which we have done, biologically it is very good. We have external harvesting, there are long distances, we are actually buying feed from the UK to get satisfactory quality. We are working on things like that which will change the picture looking ahead.

Question from the web:

Do you have some guidance for costs in the various regions in Q1?

Andreas Kvame, CEO:

I have said that costs in our two most important regions for volume, Rogaland and Finnmark, will decline somewhat in Rogaland and will increase in Finnmark. That is our guidance, which isn't easy to give, either, since something can happen at one site in the middle of the quarter that impacts the guidance. That has happened before. But costs are up in Finnmark, due to the reasons I mentioned before. Things are challenging with winter ulcers, string jellyfish and Spiro, although Spiro will be over during the first half.

Question from the web:

Can you say something about price developments in the US in the fourth quarter and how do you see demand developing in the US?

Andreas Kvame, CEO:

I will answer the last question first. Demand in the US is very good. The market is stable, there has not been any decline, 2023 has been status quo compared to 2022. The demand in that market is very good.

Covid helped, consumers bought more in retail stores, and learned to make salmon meals. They have continued to do that, which is very, very positive. That raises the threshold and volumes considerably.

Q4 had very weak prices. There was a lot of pressure on prices, even though our sales department achieved prices that were NOK 4-5/kg above reference prices, our prices in North America were still very low. This changed when we entered Q1, when prices rose significantly, but prices are still volatile, influenced by the volumes arriving from Chile, Norway and Canada.

Question from the web:

Can you say more about the process in Canada is going, and are you considering a sale as an alternative?

Andreas Kvame, CEO:

I am sorry, but I cannot say anything more than that this is an ongoing process.

Renete Kaarvik, Global Finance Officer:

There were no further questions from the web, and no further questions from the room.

Andreas, Renete:

Thank you for your attendance.