

TRANSCRIPT

Grieg Seafood Q2 2024 Presentation

21 August 2024

Conference moderator, "Vestland på Børs":

The next company presenting before lunch will be Grieg Seafood, with their second quarter figures. We welcome Andreas Kvame and Atle Harald Sandtorv.

Highlights

Andreas Kvame, CEO:

Thank you for the introduction, and welcome to Grieg Seafood's second quarter presentation. Our agenda is to look at the highlights of the quarter, then at our operations in our various regions, give an update about our strategy, and then Atle Harald will look at financials, followed by a summary at the end.

Before I start, I must say that this was a disappointing quarter, which is almost entirely due to the situation in BC. More on that later. When I look at the other regions, there is very much positive to report, both in Newfoundland and in our two Norwegian regions. This is despite the continued impact of Spiro in Finnmark.

Operationally, our EBIT was NOK -35 million, compared to NOK 547 million one year ago, and minus NOK 2.3/kg, which is a weak result that we are really not satisfied with.

BC has impacted us the most. In British Columbia we had biological incidents, with low levels of dissolved oxygen, even as low as zero oxygen in one specific area for a period. This was particularly noticeable in July and the beginning of August, and combined with algae, it led to weak fish. Even though we are not completely done with the algae, we have decided to say that this will have a negative impact of NOK 230 to 250 million in the third quarter.

Having said that, we are very happy that we have fought our way through a very tough period in Finnmark. As most of you are aware, we had a parasite in our hatchery which affected the whole generation in the sea in Finnmark and impacted our operations by NOK 900 million to one billion for that generation. We were finished with that in July, and looking forward, things look very good in Finnmark.

Our underlying production is developing well in both regions in Norway, as well as in Newfoundland, but we have had and still have challenges in BC.

We are doing some construction, and we have a lot of faith in our strategy when it comes to post-smolt, which I will come back to later. In Rogaland, where we have come the furthest, it is functioning very well. We are building our post-smolt site there, Årdal Aqua, and we have Adamselv in Finnmark and Newfoundland. In addition, we are working on our processing plant at Gardermoen, which is going according to plans when it comes to time and cost.

In June, the authorities in British Columbia, or rather Ottawa, made a very strange decision to forbid open net pens for aquaculture in British Columbia, effective from July 2029. We are very surprised by this decision, which generates a lot of uncertainty about the transition since regulations were supposed

to be released by July, but we have not seen them yet. After that there is supposed to be a hearing, with a process running until early next year before reaching a conclusion.

This creates great uncertainty, and we have stopped all our investments in BC. We have working during the quarter to try and obtain a partner in Canada, who will help us achieve the desired development of the smolt and juvenile fish unit there, especially in Newfoundland where we have started the construction of a post-smolt unit.

We expect to harvest 16,700 tonnes in the third quarter, and 78,500 for the full year, and the entire reduction in the forecast is due to the situation we've had in BC.

Over to the regions. Rogaland is a stable, good region, with an operational EBIT of NOK 55 million, with the main reason for the decline in EBIT being prices. That is because we harvested in June, and as everybody knows, prices fell significantly during the quarter. We held back our fish due to winter ulcers so they could heal, leading to harvesting in June when prices were lower. I would like to point out that the quality of the coming fish in Rogaland is looking very, very good. For the third quarter, we see a stable or declining cost in this region. As mentioned earlier, we are continuing to build our post-smolt site, with our first smolt scheduled for Årdal Aqua in October. That will significantly increase our capacity, giving us 8,500 to 8,800 tonnes of post-smolt in the region. In other words, you have roughly 8.5 to 8.8 million fish weighing one kilogram.

In the third quarter, we expect to harvest 8,500 tonnes, evenly spread during the quarter. For the year, we are maintaining our guidance in Rogaland of 28,000 tonnes.

Then there is Finnmark, where our operational EBIT was a negative NOK 12.7 million, which is NOK - 3.3/kg. This is largely due to Spiro (*Spironucleus Salmonicida*) fish that we have struggled with. But I am very happy to say that there is no Spiro left in the sea or in our hatchery, so the measures we have implemented with more filtration, increased UV treatment, etc., mean that we hopefully never will encounter Spiro again. The reason that the result was negative is that this fish has had slow growth, low average weights and high costs, and you must sell it into the small fish market which has a completely different price. This is also a result of winter ulcers and the string jellyfish (*Apoemia uvaria*).

I would like to say that Finnmark is looking good, and we expect costs to decline in the third quarter, and into the fourth quarter. The way things look now, the quality of the fish is good. Spiro took some time, and we reduced our biomass, but now, by the end of this month we will reach our top MAB (*maximum allowable biomass*), which is quite similar to our harvest guidance, which is 27,000 tonnes. As I said, costs should decline, and we will harvest about 5,000 tonnes in Q3, which means we have a lot of volume left for the end of the year. We are keeping our harvest guidance of 27,000 tonnes.

At Adamselv, where we are working on our post-smolt site, things are moving forward according to plans and cost estimates.

Then there is BC, which is a completely different story and no fun for anybody. We had an operational EBIT of NOK -42 million in the quarter, which was also back-end loaded. The American market was not on our side, to put it simply, especially when it came to low weights, which weren't ideal for the market, such as 2, 3 and 4-kilo fish. We had a weighted average of 3.8 kg.

We had big challenges with write-downs, due to the low oxygen levels in the sea. Sometimes there wasn't oxygen. That is something that can happen. I have experienced it once before, about 10 years ago. There were water currents that came devoid of oxygen. That doesn't give much breathing room. We have equipment for both upwelling and oxygenation at some sites, but it wasn't enough to avoid a blow like this.

When we were done with the low oxygen, which lasted quite a while compared to what has occurred before, we got poisonous algae. They were both on the surface of the water and deeper in the water, which meant that upwelling did not provide much help. So sometimes you just pushed the algae into the pens.

Our growth was low, and our biomass was low, and we sold small fish in a challenging market. Although we aren't done with the algae, we have decided to issue guidance for the third quarter, since there is little fish left that can be further harmed, and little fish ready for harvest for the rest of the year. We have completed our harvesting. Due to "algae events" in two of our areas, our best estimate is that we expect to see a negative impact of NOK 230 to 250 million during the third quarter. So that is our guidance. We now expect volumes of 12,500 tonnes for 2024. We know that for a fact, since we are finished harvesting, and have lowered guidance to reflect the consequences of the events in BC.

Then there is the uncertainty in BC, which is still large, so we are holding back our investments in the region until we see what the future regime will be. When it comes to our search for a partner in Canada, it is not just about Newfoundland, but about the entire Canadian business, and there isn't much more to say about slide eight.

Then there is Newfoundland, which is a very stable region. The operational EBIT is negative because some sales costs are allocated, and there are some other costs. Sea production is going very well, with high fish survival, and we expect to harvest earlier than last year, when we harvested in November. We will start harvesting at the end of September, and continue in the fourth quarter. We have not issued guidance for the third quarter, but growth is good, and our volume guidance for the year is 11,000 tonnes. We might start harvesting in Q3, but we are guiding for Q4.

The post-smolt site there is at Marystown. We have finished the smolt site and we are completing a post-smolt site. In addition, we have hired a new regional director. Our former director Knut Skeidsvoll has retired, and Elizabeth Barlow is the new managing director. Elizabeth comes from the aquaculture industry where she has worked for many years at various companies, and she has also worked in the public sector, which is also very important, at DFO, the Department of Fisheries and Oceans Canada in Newfoundland. She started with us on 8 July.

We are very proud of our post-smolt strategy where we have come quite far compared to many in the industry. There are multiple advantages of having post-smolt: the fish is more robust, less lice treatments, good growth, and we have seen significantly reduced mortality in Rogaland, which has been the pioneer at Grieg.

If we look at the total volumes that will materialize during the next two years, Rogaland will reach about 9,000 tonnes, Finnmark about 5,500 tonnes, we haven't included any increase in BC, and Newfoundland will increase when post-smolt "A" is completed. In total, the group will double the volumes over two years, reaching about 17,000 tonnes of land-based post-smolt. That is a big step for us to take, but we

are completely confident that this is the way to go in an aquaculture sector which has become more demanding in the sea phase.

When it comes to downstream, we have come further with a site at Gardermoen, a rental building with about NOK 130 million in investments. We expect this to be finished next year and hope to start using it in the second half, although I know that things tend to take longer. But that is the plan and the target. We have appointed Kristian Matthiasson as the new factory manager at Gardermoen. He has long and valuable experience from aquaculture and factory experience from both Norway and Iceland.

With that, I will give the word to Atle Harald to go through our financials.

Financial Review

Atle Harald Sandtorv, CFO:

Thank you, Andreas.

Now we will look a little at our financials. As Andreas said, the quarter was influenced by much harvesting from BC, with weak fish, and we harvested late in the quarter in Norway in a market with falling prices. Our volume was 15,000 tonnes, down somewhat from the year earlier quarter. We had sales of NOK 1.5 billion in the quarter, also somewhat lower. We had an operational EBIT of minus NOK 35 million. The fair value adjustment was negative this quarter; with falling prices we value the fish at the lower prices we can sell them at going forward. That was negative by NOK 557 million. Our net financial items were a bit more negative than usual, with about half of the NOK 165 million being due to a weaker Canadian dollar. That is an impact we get when our assets in Canada decline in value due to the CAD/NOK exchange rate. This is something that goes up and down with exchange rate changes from quarter to quarter. We ended thus with after tax profits negative at NOK 701 million.

So, when we compare to Q1 2024 when we had an EBIT of NOK 13.8/kg, prices have declined by NOK 8.6/kg with late harvesting in Norway contributing to that, and farming costs increased by NOK 7, pulled up by the high share of harvesting in BC. We thus ended with an EBIT loss per kilo of NOK 2.3.

Looking at our debt and balance sheet, we entered the quarter with net interest-bearing debt of NOK 3.6 billion, had a relatively weak EBITDA of NOK 128 million, built biomass for NOK 158 million to reach our mass allowed biomass in Norway, an important measure for us that Andreas talked about. We invested for NOK 307 million, more on that later. We paid a dividend of NOK 196 million, and had other effects, including payable interest, of NOK 132 million. That brought net interest-bearing debt to NOK 4.3 billion at the end of the quarter.

Obviously, it is our goal to strengthen our balance sheet, and the most important measure is good operations and a good EBITDA, and strong operations in Norway are especially important going forward to strengthen our balance sheet. And naturally our search for a partner in Canada is also a key step to strengthen our balance sheet, and not least, stopping all investments in BC is an important action.

Our next slide show the make-up of our debt. Our green bond is NOK 1.4 billion, we have a term loan of NOK 1.8 billion, we have drawn on a revolving credit of NOK 960 million, and we now have free liquidity of NOK 1.6 billion, consisting of bank deposits and cash of NOK 366 million, and an undrawn credit facility of more than NOK 1.2 billion.

As we said, investments in the quarter were NOK 307 million, and NOK 592 million so far this year. In 2024, we expect NOK 1.4 billion in capex, of which NOK 300 million are pure maintenance investments where we replace equipment and net pens, and then there is the construction of the post-smolt site in Finnmark for NOK 400 million. We guided for NOK 500 million three months ago, so that is down NOK 100 million, which has to do with periodization between years. Then we have Newfoundland, with sites and further construction of post-smolt, with NOK 700 million in total. We also see that we are increasing biomass. As Andreas said, it is important for us to reach our maximum allowed biomass, and that increase represents NOK 500 million for the remainder of the year. That amount includes all regions.

If we summarize our financials, we have an equity ratio of 42%, and if we calculate it for our bank covenants, we exclude IFRS 16 obligations, giving us an equity ratio of 45%. Our free liquidity is NOK 1.6 billion. We paid a dividend of NOK 1.75/share during the quarter, and our debt is currently around NOK 55/kg, and strengthening our balance sheet is a major area of focus for us. The green share of our debt is currently 73%.

Then I give the word back to Andreas.

Outlook

Andreas Kvame, CEO:

Thank you, Atle Harald. Then we will move on to our outlook and a summary.

We have noticed that things are a bit distressed, especially in the US and North America recently. If not a recession, these are at least hard times. Prices have fallen and retail stores are not selling as well as before, although volumes have held up well after prices declined. We see the same in Europe where the industry has had some challenges. One has been high sales of frozen products, due to the decision by the EU to have a 48-hour limit for semi-frozen salmon. That has reduced processing inventories, pushing them into the market as frozen salmon, and creating a disruption. Hopefully, we are soon through with the frozen fish, and the market will return to normal.

When prices fall as they have, the retail chains start to run promotions or campaigns again in their stores, and we are seeing a good boost from that. We are seeing more and more demand for fish for retail promotions around Europe. Asia has been a good market all along, but it is primarily the market for large fish that has been strong there.

We have a relatively low contract share in Grieg Seafood, at nine to ten percent in the third quarter. For the year as a whole, the contract share is about eight percent. We are working on increasing our share of processed products. That occurs through partners today, but hopefully we will get Gardermoen running according to our time schedule, and our goal is to have 25% valued-added products in 2026. It is very important for our company that we have the possibility to upgrade fish and to make products that the market strongly demands.

We have talked about our Q3 guidance, which is for 16,700 tonnes, with 8,500 in Rogaland, 5,000 in Finnmark and 3,200 in BC, where the harvest is already completed. That leaves about 25,000 tonnes in the fourth quarter to reach our volume guidance of 78,500 tonnes for the year.

I have mentioned the situation in BC, where we have decided to guide for a loss of NOK 230-250 million. That is very negative, but we have made a high enough estimate to cover it, even if we aren't finished with the incident yet.

To sum up, we are absolutely not satisfied with our BC results, and Q2 and Q3 are extremely challenging quarters due to low oxygen levels and algae, even lice treatments in the midst of this, along with low feeding and high mortality due to low oxygen.

Things have been challenging in Finnmark, and I would say perhaps for almost 18-20 months. Now we finally see the light; Finnmark is doing very well, the fish are good, with good feeding and a high share of superior fish, but we have a small amount of Spiro fish being carried into the third quarter. So production in Norway is going well, improving almost daily and costs will decline during the third quarter and into the fourth quarter.

Things are going according to plans in Rogaland, Finnmark and Newfoundland, and we expect that construction at Gardermoen will go according to plans. Last, but not least, we are working on our partner search in Canada, and the latest status is that we are seeing good interest and have received some indicative bids. The process is moving along, and we expect to complete the process during the autumn.

Now we are open for questions.

Q&A

Question from audience:

Why are you betting big in BC when it seems like you always get into trouble in the region?

Andreas Kvame, CEO:

Well, the answer is that we are not betting big in BC. We have stopped all our investments there, and we won't restart them until we have clarity when it comes to politics and the partner situation that we have previously communicated.

Question from audience:

You have communicated a negative result in BC of NOK 230 to 250 million in Q3. What does that consist of?

Andreas Kvame, CEO:

It is mainly the effect of the algae challenges so we can't feed our fish, keeping the fish small. Secondly, we have write-downs due to high mortality from poisonous algae and the market prices that are much lower than we were expecting.

Question from audience:

When do you expect positive operations again (*in BC*)?

Andreas Kvame, CEO:

We are done for this year there, and we will enter the new year with smolt releases planned for October. We have some smolt in the sea, but they are also among the fish being affected in the third quarter. On

the EBIT level, I don't know what the prices were, but we have an enormous focus on reducing costs in BC, both fixed costs and variable costs.

Question from audience:

Is there still an interest in BC assets despite unclear regulations? You have touched on it briefly.

Andreas Kvame, CEO:

Yes, I can say that there is.

Question from audience:

Is it realistic to conclude the M&A process in Canada before the end of Q3?

Andreas Kvame, CEO:

Well, I think the answer is in the autumn. Whether that means the end of September, or it means October or November, that is something I don't dare to answer.

Atle Harald Sandtorv, CFO:

That concludes questions from the web. Are there any questions from this room?

Atle Harald Sandtorv, CFO:

(Pause) There aren't any.

Andreas Kvame, CEO:

Then it is time to say thank you.