

TRANSCRIPT

Grieg Seafood Q4 2022 Results

16 February 2023

Highlights

Andreas Kvame, CEO:

Good morning, and welcome to the fourth quarter presentation of Grieg Seafood. As usual, I, Andreas Kvame, the CEO, and CFO Atle Harald Sandtorv, will present the results for you. The agenda is the highlights of the quarter, the market situation, operational issues, then Atle Harald Sandtorv will look at financials, followed by our outlook and a summary.

2022 was a very good year for Grieg Seafood. Indeed, it was the best year we have ever had, not only for harvest volumes from existing regions, but also for earnings. Our operating earnings were NOK 1.739 billion compared to NOK 442 million the year before. In the fourth quarter, our EBIT was NOK 156 million, compared to NOK 265 million one year earlier. We experienced a very strong market, with strong demand during all of 2022, and even into Q4. Although the quarter started on a weak note, it finished on a strong note. We harvested somewhat more than our guidance, especially the last five to six weeks, and I will go into more detail about Spiro (*Spironucleus salmonicida*) in Finnmark.

Newfoundland is going according to plans, as our segment presentation will explain. We are working very much with sustainability in Grieg Seafood, an item high on our agenda, and for the second year running, we are ranked number two on the Collier FAIRR Protein Producer Index and we received an A minus score in the CDP (*Climate Change 2022*) ranking.

We expect to harvest 11,000 tonnes in the first quarter, somewhat below what we harvested in the same quarter one year ago, and we expect to harvest 82,000 tonnes in 2023. In the fourth quarter, we harvested 21,000 tonnes, and achieved an operational EBIT of NOK 7.40/kg.

Let's start by talking about the market. Demand for our products is good, and prices are often determined by whether supply is sufficiently large. If we look at recent years, we haven't had any supply growth in this market. In 2022, supply growth was actually negative, declining by 1%, and Kontali is currently forecasting 2% growth this year. That assumes that growth conditions will be better than in 2022, especially in the autumn. If conditions aren't that good, growth could be less, if conditions are better, growth could be higher. I would say that we have a situation where supplies are stable.

The market development has been okay. It is interesting to note that demand in Europe is stable, despite the high prices in euros. The US grew by 8% in the fourth quarter, and increased by 3% for the full year. With significantly higher prices, we think that showed a strong development.

In 2022, we saw a rebound in the HoReCa market (*hotel, restaurant, catering*). The retail sector was very strong during the pandemic, whereas it was the HoReCa segment that rebounded strongly in 2022.

We are working steadily on valued-added processing (VAP) in Grieg Seafood, step by step. In the fourth quarter, 3% of the Norwegian products we shipped were VAP, and 18% in BC.

Spot market prices, although not a true expression of market prices, they do show where the spot market is, and those prices were very good again in the fourth quarter. So far in the first quarter, we see the same development. That means that the demand out there is very strong. So we are also expecting strong demand in 2023.

Let's move on to the various regions, starting with Rogaland. Rogaland also had the strongest harvest volumes we have ever achieved. For the year, our EBIT was NOK 755 million, which was NOK 26.60/kg. In the fourth quarter, we achieved an EBIT/kg of NOK 13.80/kg, and in Q3 it was NOK 13.40/kg. We achieved good prices in the region, with a high share of superior fish. We have a strong survival rate in Rogaland, and our average smolt release in 2022 was 550 grams, in line with our plan. We are working hard on ASC-certification in the region, the last region, and after that, Newfoundland will come. Five out of 11 sites in Rogaland are now ASC-certified. In total for Grieg, we have about 75% of our sites certified.

In the first quarter, we expect to harvest 5,300 tonnes, with an even distribution throughout the quarter. As in earlier years, there are still challenges with winter ulcers along the whole coast, and we see that in Rogaland as well, so some of our fish get downgraded, and it affects our price achievement. Other than that, underlying operations in Rogaland are very good. Biologically, it is doing well, but costs will be hurt by a write-down of broodstock because of ISA (*Infectious Salmon Anaemia*), which has an impact of NOK 3/kg. Other than that, we expect costs to be stable.

In Rogaland, we are maintaining our harvest guidance of 29,000 tonnes for the year. It is a stable, good region, although it is a little challenged by winter ulcers, but nothing to be alarmed about.

Finnmark, at 36,000 tonnes, also had record high harvest volumes, and the highest EBIT ever, with NOK 926 million for the year. Our EBIT/kg for the year was almost NOK 26/kg. In the fourth quarter, we had an operational EBIT of NOK 12.50/kg. The superior share was 85%, slightly down from the fourth quarter of 2021, and average weights were down compared to last year, due to earlier harvesting.

There are three main reasons for that: one, we wanted to avoid lice treatment, so we would rather harvest the fish early rather than treating fish that are too big in water that is too cold. The second reason is because of Spiro, which few, including us, had heard of when we got that parasite. Due to fish welfare, we harvested that fish early, reducing average weights and price realisation somewhat. And with the lower kg, you get higher costs. The third reason is that our contract price have been lower than spot prices in the fourth quarter. So the 3,000 extra harvest tonnes you find is largely due to Spiro.

Today, knowledge about Spiro is not widespread. Some research into Spiro was done many, many years ago. It is a freshwater parasite, that is its point of entry. A big FHF (*Norwegian Seafood Research Fund, fhf.no*) project is being undertaken, where participants are the Institute of Marine Research, the Veterinarian Institute and Nofima with Kalnes as the salmon provider, in contact with industrial partners. In order for us to gain more knowledge about Spiro we had to visit the municipality of Bergen, because if you recall the Giardia parasite (*Giardia lamblia*), the city had an outbreak of that (2004), so we got some ideas from them about how to handle it at Adamselv.

Adamselv has the same protection measures as all other sites in Norway, but we are putting much effort into avoiding this happening again there. We have had write-downs of NOK 70-75 million because of the parasite, so it is extremely important to protect ourselves against it, and avoid a repeat occurrence.

We implemented measures this quarter, and as of now, we don't have Spiro at our hatchery, but we still have fish in the sea that have Spiro. So in our guidance we have adjusted for volumes we have harvested extra and a bit more, to account for 2023. We are sure and in no doubt that we will get rid of it, but it will take some time beyond 2023 before we have eliminated it in the sea. When it comes to the installation, we have already started, and it will be finished by summer.

We expect to harvest 5,700 tonnes in the first quarter, with most of that coming early in the quarter and we are focusing on growth in Finnmark by increasing our biomass significantly during the spring. In Finnmark, as in the rest of the coast, there are some winter ulcers. It is a bit frustrating that the vaccines are not effective enough at targeting this. A lot of work is going into finding some that work more effectively.

Unfortunately, this means that our costs in the beginning of 2023 will be a bit higher than envisioned, due to the difficult production we had during 2022, especially the second half of 2022. And that will have an impact on the fish we will be harvesting in the first half of 2023.

As we said earlier, we are reducing our production guidance somewhat for Finnmark, and that is largely due to the situation with Spiro.

In British Columbia, the earnings for the year were all right, at NOK 270 million, and NOK 13.30/kg, but we knew that Q4 was going to be a demanding quarter. First there was very little harvesting, and in addition it was from the poorest sites that we have, and as we pointed out in our previous quarterly update, some sites in BC were about to be shut down. They had little fish, there were some in October, and after that, it was over, and we have been cleaning up, and we aren't going to have more fish in this area. Historically, these have not been good sites for Grieg Seafood, so we expect that when we remove these sites, it should improve our level of costs and our cost development.

We have had good temperatures in this area during the quarter, but there have been challenges with algae, especially plankton. At times, the oxygen content was low in this region, but we have tackled that nicely with the methods we have.

In the first quarter, we are not planning any harvesting in BC. Our priority is to increase our biomass, so harvesting will start again in the second quarter. Our harvest volume guidance for the year remains unchanged at 20,000 tonnes.

Then we have our fourth region which I visited one week ago, that's why I have such a bad cold. Wind chill temperatures were minus 45 degrees, so it was not very warm. But it is a wonderful region. We have Placentia Bay all to ourselves. Things are going very well. Production is running smoothly, the fish are fine, there are no lice, the fish have no ulcers. At the end of the year, we had 2,600 tonnes in biomass in the sea, with an average weight of 1.3 kg. Right now, there are probably 3,000 tonnes of biomass. The temperature last week was 2.4 degrees in the entire column of water. That isn't unusual, we could have that in Rogaland once in a while, too, or in Finnmark. But we have said that it is February or March that could be the time of year with the lowest temperatures, if you have heard of "super chill", but there are no signs of that now. We have been through many storms over there. The big storm moving up the coast of the US hit us. There was a storm yesterday. The equipment and the installation handled it well, which is very reassuring.

We expect to start harvesting in Q4 in this area. The fish are looking good. Many have asked questions about triploid fish in this area. I am very impressed by what I see over there, and how they are performing in the sea. We have taken our precautions by strengthening the feed, both when it comes to EPA and DHA. And we have also used zinc for the skin health. So far it looks good. But we always remind ourselves that this is a greenfield project, and nobody has had aquaculture production in this region before. So we are building it one stone at a time, and moving step-by-step. So far, so good.

In 2022 we invested NOK 220 million, that was primarily for two things: sea production and the equipment it requires, and we are very pleased that it is performing as well as it does. Here we need to put barges in place, get rings installed, there was nothing before we started. In addition, we have used a lot of time on digitalization. We have set up systems, since they aren't there, which is often the case in remote areas where we operate, whether it is BC, Finnmark, Rogaland or Newfoundland. You have to do a lot of the work yourself. The telecom operators say that this is not a priority for them. So we are building the systems ourselves so that we have communication in the entire Placentia Bay.

This year we are guiding for capex of NOK 300 million – there is no resource rent tax in Newfoundland. Capex is related to the sea, production in the sea and new smolt releases. This year we plan to release between 2.5 and 3 million smolt and at new locations. The license system works like this. In the first round, you are allowed to release 1 million smolt at one location. If it goes well, the next round allows 2 million smolt, and the license automatically becomes permanent. And these are large locations, none are less than 100 metres with water and good circulation in the water, so they are very good.

We expect that sometime this year we will make a decision about a further expansion of post-smolt over there.

And now, Atle Harald, it is your turn, please.

Financial Review

Atle Harald Sandtorv, CFO:

Thank you, Andreas. Now we will look at the financials. We had sales revenues of NOK 1.6 billion in the quarter, and our operational EBIT was NOK 156 million. We have some items below the operational EBIT. The fair value adjustment of biomass is the largest, and it was positive at NOK 189 million, due to prices rising during the fourth quarter. That gives a final EBIT of NOK 282 million. Our net financial items showed relatively high costs of NOK 173 million, and the reason for that is that we have assets in Canada, and when the CAD NOK exchange rate changes, those asset values change and much of that gives a corresponding change to the financial side of the balance sheet. There is no liquidity impact, but that was the reason it was negative this quarter. For the full year, that forex impact was positive. That is just an item that goes up and down without any liquidity impact. Profit before tax ended at NOK 109 million. After tax, profits were estimated to be NOK 57 million.

So, if we take a little look at the bridge from Q3 to Q4, we started at NOK 6.30/kg, we had a price increase of NOK 1.40/kg and a reduction of NOK 1.80/kg on our farming cost, whereas headquarter costs rose, with a negative impact of NOK 2.20/kg. Overall, relatively small impacts, and we ended at NOK 7.40/kg. If we look at the year 2022, there was a significant cost increase, driven by inflation, and especially feed. Normally, having a focus on costs is a very important part of our operations, so we have a continual focus on that. But, given the background of such high inflation and increases in costs, we

have decided to organize cost improvement as a project for 2023, which we define as an improvement project. We will look at optimizing operations, we will look at the right structures, and by doing that, reduce our costs. That will be an important project for us.

Now we'll perform a short analysis of net interest-bearing debt. EBITDA of NOK 282 million reduced net interest-bearing debt, but then we increased biomass in sea by NOK 102 million, we made investments of NOK 192 million, and finally, we had other factors of NOK 473 million increasing debt. In that item we find changes in customer receivables, supplier debt, payable tax, and our investment in Årdal Aqua. So we ended the quarter with NOK 1.7 bn in net interest-bearing debt.

The financial situation in the company is strong and good. We have an equity ratio of 50%, and calculated according to bank covenants, it is 52%. The requirement is 31%, so there is a good margin. The cornerstone of our financing is green with 75% defined as green. We have a green bond loan of just over NOK 1.4 billion. And we have a bank loan, at nearly NOK 1.5 billion, which is linked to sustainability. Those are the two main items in our financing.

Our liquidity is solid, we have free liquidity of NOK 3.4 billion, which consists of cash equal to about NOK 643 billion, and we have invested roughly NOK 1 bn in money market funds, considered to be just as liquid as money in the bank, but it appears on a separate line in the balance sheet due to accounting rules. Then we have an undrawn revolving credit of NOK 1.7 billion. Those items add up to our free liquidity.

A little about investments in 2023. We have still frozen our growth investment plans for Norway, while we wait for conclusions about the resource rent tax. The final details about that tax play a major role in calculating how profitable those investments would be. So those investments are still on hold. We are guiding for pure maintenance, or so-called replacement capex of NOK 300 million. We are continuing in Newfoundland with new locations and new smolt in the sea, so we are also investing NOK 300 million there. And, as Andreas mentioned, we are investing in a new purification unit in Finnmark which will cost NOK 70 million. Those are our investment plans.

For our investment in biomass, we have estimated NOK 500 million in 2023 for increasing biomass and working capital. Note that we harvested some biomass earlier than planned in Q4, so we definitely need to increase our biomass in 2023.

To summarize the financials items, net interest-bearing debt has been stable or down a bit. It now represents NOK 20.50/kg, and our goal is to be below 30, so we are well below. We still have a goal of paying a dividend of 30-40% of after-tax earnings. We will get back to the dividend in conjunction with the annual report for 2022.

That summarizes the financial items. Then I give the word back to Andreas, who will give the outlook.

Outlook

Andreas Kvame, CEO:

Thank you, Atle Harald. Then we will look at our outlook for the future. First, some words about supply. If we look at the first half of 2023, supply growth in the market is very limited. We believe that demand is strong no matter what, so that should give good prices in the first half. In total, the volumes aren't that

great, the growth is not there, no country has succeeded there. So I think that we can expect good demand and a strong market in all of 2023.

Grieg Seafood is working on expanding our VAP products, and getting closer to customers than we historically have been. That also has advantages for us as a raw material supplier to be processing our own fish into portions and high value-added products. The goal for this year is to have 8-12% of our volume receive further processing.

We are working on developing our own business-to-business brand. That is something we will launch later this year. We have our own Skuna Bay brand in North America, which is very successful, which we want to capitalize on more during 2023.

The contract market stopped abruptly on 28 September as you all know, but as of now, we have about 15% contract coverage, based on contracts agreed upon before 28 September. After that date, things stopped abruptly, but the contract market is starting to reawaken now. The contract market has been there the whole time, but it has been hard to interpret what our politicians are planning for policies, especially when it comes to norm prices. We would hope that it is the realised prices that will be applied.

When it comes to production, we have good production entering 2023 and we are working on the Spiro challenges in Finnmark. They are solvable, and with the measures we are implemented, it looks good, especially for the second half of the year in Finnmark, and going into 2024. Our goal is to release 12 million smolt in Finnmark this year. Many or some of that smolt will come from external suppliers, given the challenges we have had, since we don't want to put too much pressure on our own site until we have implemented all our water intake. We have intake from two sources of water there. We will not be harvesting in the second quarter in BC, so be aware of that. We are focusing on increasing our biomass, and harvesting will resume in Q2.

We will still have somewhat high costs, so we are organizing a separate project to have extra focus on this. More details will come when we present the first quarter. All our growth investments have been put on hold in Norway. We have frozen more than NOK 2 billion, and for the entire industry, about NOK 40 billion in capex has been frozen, according to the latest I've read. That is a lot!

When it comes to volumes, we must unfortunately lower our guidance a bit. That has to do with Finnmark and the development of Spiro there. Hopefully, this is a one-off and we are done with the situation, and we are back to a steady state, but that won't happen until 2024. 82,000 tonnes is the company's total production guidance. As I said earlier, we are removing 7-8 sites in the Sechelt area of BC. It ended up being very expensive fish in the fourth quarter, but we won't be producing any more there.

We will come back to our growth investments in Norway when we have more predictability about the resource rent tax and the final decision there. We are using a lot of time on this along the whole coast, talking to our local politicians about this, telling them also what the consequences of introducing the proposed model could be. And we are not alone in doing that.

Regarding North America, we shouldn't get too enthusiastic, even though I often am. Newfoundland looks very good. Nice growth for the salmon, no lice, no ulcers, very low mortality (*knocks on wood*), so things are going well. Then, as Atle Harald mentioned, last but not least, we are spending a lot of time looking at our whole cost development. Of course, feed has been an outsized contributor. Feed prices

alone, have risen about NOK 7-8/kg the last two years. Then you can calculate the feed efficiency rate, take away the gutting losses in the fish, and then you can see how much feed prices have risen the past two years.

Thank you. Now we will open for questions.

Question from audience:

Atle Harald Sandtorv, CFO:

Here is the microphone, so let's get started.

Nils Thomassen, Fearnley:

I am wondering about your costs in British Columbia. I know you aren't harvesting in Q1, but your costs in total were CAD 9/kg in 2022. Should we expect costs to rise a bit in 2023 due to inflation and feed, or could they be stable in BC this year?

Andreas Kvame, CEO:

Well, in the beginning of the year, they will rise some when there isn't harvesting. But we are expecting that we will be able to push costs down some, also in BC. But costs in BC are high, and largely because we harvested from weak sites the past two quarters. And there are many clean-up costs after you have been there. Not only do you have to clean up for yourself, but also take care of what happened 100 years ago. For instance, at Sechelt, we have picked up 4,000 tyres so far.

John Binde, Fearnley:

Can you say more about the Spiro parasite? What is it and how does it affect the fish?

Andreas Kvame, CEO:

It is a parasite that enters the fish, and ends up in the flesh – this sounds bad – and creates boils and sores. This is a fish welfare issue. It is not dangerous to eat, it dies with heat treatment. But it is hard on the fish, and therefore we take out the fish due to fish welfare concerns. We got this very early through our hatchery, and we informed about the destruction of some fish in the third quarter. We have eliminated 1.5 million fish, plus fish in the sea that were harvested early. There is not enough knowledge about Spiro and the closest you come to this parasite is the Giardia parasite in drinking water in Bergen some years ago. And by utilizing that knowledge we have learned a lot.

Christian Nordby, Kepler Cheuvreux:

Will costs in Finnmark in the first half rise from Q4 levels or be flat, as I interpreted your comments?

Atle Harald Sandtorv, CFO:

We are only guiding for costs in Q1. The underlying production costs are flat, but adding in the Spiro impact, costs will rise.

Wilhelm Røe, Danske Bank:

Just a follow-up on Finnmark and Spiro, where you have an investment of NOK 70 million. From what you have said before, you have regarded this as a one-time event, so how do you see the risk of a new Spiro impact before that investment is completed?

Andreas Kvame, CEO:

There are two kinds of fish being put in the sea this year. We haven't covered this until we get to May-June when that investment is complete. We have two water sources that we use. We suspect that it enters from one of the water sources, and we are not using that source today, we are using the other one. Furthermore, we have implemented some extra measures in the hatchery, including an extra filtration of the water before it goes to treatment. Of the 12 million being planned for release to the sea, 4-6 million of them come from other hatcheries than our own. Yes, there is a risk, but as of today, we don't have Spiro in our hatchery. Even the 10-15 last years, there hasn't been Spiro at the hatchery. So these are expensive precautions, but they do provide insurance.

Wilhelm Røe, Danske Bank:

Does that reduce the capacity from the hatchery during the period?

Andreas Kvame, CEO:

No, it doesn't.

Martin Kaland, ABG:

You mentioned that there was a negative impact on price achievement from winter ulcers again this year, and you expect that to continue. Can you say whether it is better or worse so far compared to last year?

Andreas Kvame, CEO:

It is similar to last year, but remember that last year was much better than two years ago. And then there is the question of how we can train our own salespeople and our processing capacity to mitigate the impact. But if you have Spiro, winter ulcers and low salmon weights, that is a challenge. Having fish with ulcers that are large enough for processing is not a big problem. You can fix that. But small fish with ulcers give a low yield and thus a significantly lower price achievement. So you have to make sure that the fish are big enough.

Atle Harald Sandtorv, CFO:

So, there are no more questions from the hall, and checking the web, none there, either. Thanks for attending!

Andreas Kvame, CEO:

Thank you.