

TRANSCRIPT

Grieg Seafood Q4 2021 Results

15 February 2022

Kristina Furnes, Global Communications Manager and conference moderator:

Good morning, everyone, I would like to heartily welcome you to the presentation of fourth quarter 2021 for Grieg Seafood. We will start today by going through the quarter with CEO Andreas Kvame, and CFO Atle Harald Sandtorv and then we will have Q&A afterwards, although it will be possible to ask questions on-line at any time during the presentation.

Highlights

Andreas Kvame, CEO:

Good morning, and welcome to all of you. First, I will go through our operations in the fourth quarter, look at the highlights of the quarter, look at the market situation, operational issues, then Atle Harald Sandtorv will look at financials, followed by a summary at the end. And, as Kristina said, you can send in your questions while we are holding our presentation.

So, straight over to the fourth quarter. We can say that we are very satisfied with the fourth quarter. We had an operating EBIT of NOK 265 million, very much driven by market prices, and, not least, that we had lower costs during the quarter. We have had a good operating performance, and we improved survival rates for our fish in all regions, and costs showed a positive trend. We are now in a solid financial situation, so we can enact the strategic measures that we have previously communicated. This will also make it possible to deliver returns on capital to shareholders.

In December we completed the sale of Shetland, so that is finished. In addition, during Q1, we have refinanced the company through a sustainable link facility of NOK 3.2 billion using banks. Our VAP (*Value Added Processing*) strategy, as previously mentioned, has started, both in Norway and North America, so that is underway. We are also proud to say that we were ranked as number two in The Coller FAIRR index, ranking the world's most important protein producers. During the quarter, we also got a pure A score by CDP for our openness and the job we have done regarding climate change.

We expect to harvest 15 500 tonnes in the first quarter of 2022, and for the entire year, we expect 90 000 tonnes. We are working non-stop and systematically with improvements in the organization and in the various regions. We can summarize as follows: there are some priorities we have such as continuing our work with post-smolt, we are working on valued-added products, or processed products, in both Norway and Canada, we are working on cost improvement measures and better capacity utilization in all the regions, and we are reasonably proud to say that our costs in our Norwegian operations came down to NOK 40/kg during the fourth quarter.

Having said that, there is a risk related to costs, the relationship to external costs, which are difficult to control, but that applies to all proteins, and in that respect we have an effective farm animal with our salmon, because it uses very little feed to produce a kilogram of fish, so this (*feed prices*) will impact other proteins more than it will affect us. Nevertheless, this is something we are keenly aware and are working very hard at.

We believe that our post-smolt strategy is completely essential to improve our earnings and profitability in the company. We have come a long way in some regions, like Rogaland, and partly in Finnmark, too. And in this quarter, we are moving fish into our new smolt facility in British Columbia, which will increase our smolt capacity by 400 tonnes in this region. The reason for doing this is to improve the biological control, fish health, more robust fish in the sea and so on. We will reduce the amount of time the fish spends in the sea. In the areas that have the highest temperatures, such as Rogaland and BC, our goal is to go below one year on average. We are starting to get close, but still have a way to go.

Rogaland has been an early mover with post-smolt, and we are learning very much as we go. In Rogaland, we released some post-smolt weighing 900 grams, which were released to the sea in March, which came up again in November weighing 4.8 kg, and we were very pleased with that. On the right side here (*slide 5*), you can see the amounts in volume and in biomass that have been released and will be released in coming years.

So then over to the market. Today, the demand in the market is very strong, driven both by retail and not least by HoReCa (hotel, restaurant, catering), which has picked up to a larger degree, I would say, than in the past 18 months. Our expectations for 2022 are that volumes will be limited, we believe that it could be at plus/minus zero when it comes to supply growth, and we know historically what has happened when supply is limited, what can you do then? We know, too, that the first half of the year will have somewhat lower supply, and the second half will be a bit higher. But with the prices and the market demand you have today, we think that some of the supply you were expecting in the second half could show up in the first half instead. So, for the year as a whole, we think things will balance out between the first and the second half.

Growth is very limited in Norway, with supply rising by an estimated 9 000 tonnes, with Canada down 9 000 tonnes, giving a total supply that is unchanged for the year, which gives us good hopes of a strong market in 2022. If you look at the market in total, and demand, there are two markets, big markets, that are noteworthy. There is the EU, that has shown growth of 8% during 2021, and there is North America, or rather the US, with growth of 13%, which is very, very strong. And that has also been seen in prices. In total, the market increased by 200 000 tonnes in 2021 compared to 2020.

We expect that demand both in the US, Europe and Asia will continue to grow, mainly driven by supermarkets this year, since HoReCa has been partly shut, but we expect HoReCa to become stronger during this year, which we have already seen signs of. After a while, even if HoReCa strengthens, we still don't expect the retail sector to slow down. Quite the contrary, we see many new consumers entering the market and expect them to be there even if HoReCa picks up.

Spot market prices are nice, both when you look at Europe or North America, using the Nasdaq prices or Urner Barry. I don't need to say so much about that, the numbers speak for themselves.

When it comes to our VAP strategy, we have started on that journey, but that isn't something that happens overnight, this being a plan we have towards 2025, but we are headed that way. And we will continue to strengthen the processing capacity we already have. Today we have started with a few things from Norway, whether that is fresh fillets or some frozen portions, whereas in the US, or the North American market, we have come a bit further. There we have reached between 15 and 20% of volumes being processed products from Canada.

Moving on to operations, and our various regions, where we start with Rogaland. We harvested close to 7 300 tonnes, with a full-year harvest of 26 670 tonnes, and that is actually the highest volume we have ever had in this region. EBIT in the fourth quarter was 83.5 million and NOK 242 million for the year. We had an EBIT/kg of NOK 11.50 and NOK 9.10/kg in EBIT for the year.

Our price achievement in the region was somewhat influenced by us having some “production grade fish,” mainly due to PD (*pancreas disease*). The superior share of fish nevertheless went up compared to Q4 2020, from 83% to 85%. When you have PD in this region, you also have extra strict measures, such as compartments in wellboats, etc., which raises costs for transportation and for harvesting. We expect that post-smolt eventually, by means of less time in the sea, will handle the PD situation even better. At the beginning of Q1 2022, we had two sites affected by PD, and, as of now, we have one site affected by PD, so that’s it.

We expect that during the quarter we will get our first ASC certification for a locality in Rogaland, which will be a milestone. We expect to harvest 30 000 tonnes in 2022. As things look now, we expect strong production, and we have increased survival in this region. Results have been very good when handling lice in this region, especially with preventive measures, such as using wrasse (*Labridae*).

In the first quarter, we expect 8 000 tonnes and stable costs compared to the fourth quarter. I can also mention that for Rogaland, the main harvesting period will be at the end of the quarter, in March.

So over to Finnmark, which harvested 12 400 tonnes, and approached 35 000 tonnes for the year, at 34 484 tonnes, which is also the highest volume that we have seen in this region. It had an EBIT of NOK 211 million in the fourth quarter, and over NOK 250 million for the year. We are very proud of what Finnmark has achieved, with a cost in the fourth quarter down to NOK 37.80/kg. There too, when it comes to price achievement, we harvested the most in October and November, and least in December, so we had somewhat lower average weights for our fish and spot prices were at their lowest in October and November, before rising in December. So it could have been better if we had waited a little, but that’s the way it is. When MAB (*Maximum Allowable Biomass*) is full, you must harvest.

When it comes to the superior share, it was 89%, compared to last year’s 77% in the same period. As we said, we had very low costs during this quarter, as we have harvested from sites that have very good production costs, low production costs, and high volumes this quarter partly contributing to costs being as low as they were. All the sites we harvested from up there are ASC-certified.

Our goal is to achieve 38 000 tonnes in 2022, with high production and high survival rates. We have had challenges in Norway with winter ulcers, we have had that more or less this year, too, but nothing close to what we had in the two years before that. I feel like we seem to have reasonably good control of winter ulcers, acting early, harvesting fish cage for cage when we see cases and reducing the risk of it spreading as much as possible. We have changed our strategy when it comes to smolt releases, smolt size and when you release them relative to temperatures. We have done a very, very good job in Finnmark, especially regarding this, but also in Rogaland.

We expect to harvest 5 000 tonnes in the first quarter with somewhat higher costs per kilo, which is mainly due to lower volumes compared to the fourth quarter. The harvest schedule for this region is that we will mostly harvest in January and February, but very little in March, when we will reduce the harvesting significantly.

When it comes to BC, we had a volume of about 4 000 tonnes, 14 500 tonnes for the year. We had an EBIT for the quarter of NOK 16.6 million, and a total EBIT for the year of NOK 150 million. EBIT/kg for the quarter was NOK 4.1, compared to NOK 10.4/kg for 2021. We achieved relatively good prices, and we had good average harvest weights in the region, and a superior share of 82% compared to 78% in the fourth quarter of 2020.

What I would like to say here is that we harvested from some sites where we have had some mortality and higher costs during the life cycle so that EBIT was at the level it was, NOK 4/kg in the quarter. So that meant higher costs even though we achieved higher prices. In total we have 13 sites that are ASC-certified, and in 2022 we expect that all the fish that will be harvested, both in Finnmark and BC, will be ASC-certified.

Our expectations are that we will harvest 22 000 tonnes in 2022 in this region, and that is a record high volume. Normally there is little harvesting in Q1 in BC, so 2 500 tonnes is the plan for Q1, with significantly lower costs than we had in the fourth quarter. We have little harvesting in January and February, with the main harvesting planned for March during this quarter.

When it comes to Newfoundland, as we have said early, we have gotten started, we have a steady state, with smolt capacity of 600 tonnes. The fish is healthy and fine, and growing all right compared to the tables, and even showing a tendency over. Our main job now is to prepare the sea and sea production for receiving the fish. Everything in the way of moorings, etc. is ready and there is some more equipment, such as cages and barges, which will be put in place.

We had costs in the quarter of NOK 20 million, and we expect a similar level in the following quarter. As I said, we are preparing sea production, so most of capex in this region 2022 will be for sea production, with some capex earmarked for infrastructure and digitalization.

The first smolt release will be in the spring and summer of this year, and we expect to release 2 to 3 million smolt with relatively good average weights.

So, then we have sold Shetland. That is done, it was completed 15 December, and it was sold for GBP 164 million. So far, we have had a settlement in cash of NOK 2 087 million from Scottish Sea Farms, and our preliminary estimate for the gain after tax is NOK 424 million. We have previously said that we are concentrating our operations on Norway and Canada. But we are also proud of handing over a Shetland running well. We have done a thorough job, not least by our employees that were in Shetland, at turning around Shetland over the past year, and having had good control, both when it comes to production and lice, and high survival during the last quarter.

EBITDA for the fourth quarter was NOK 68 million in this region, and, in total for the year up to 15 December, NOK 176 million. So, we are very pleased, and a good job has been done to turn this around into a profitable region. More about this, more details, can be found in the quarterly report.

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

Financial Review

Atle Harald Sandtorv, CFO:

Thank you, Andreas. Now we will look a little at the profit and loss statements. We had sales of NOK 1.5 billion in the quarter, and our EBIT was NOK 265 million. The fair value adjustment was a positive NOK 136 million, with prices going somewhat up on expectations going forward. That explains why that item was positive. Net financial items show costs of NOK 30 million, bringing profit before tax to NOK 363 million. After tax, profits were calculated at NOK 287 million.

So, we have taken a little look at the bridge from Q3 2021 to Q4 2021, starting with an EBIT in Q3 of NOK 7.3/kg, and we ended at NOK 11.2/kg in Q4 2021. And the key change here is that costs declined, which Andreas went through, and it was especially in Norway where we had that development, and we ended just below NOK 40/kg in costs in Norway for Q4.

If we look a little forward to Q1, as Andreas touched briefly upon, Finnmark has a somewhat lower harvest, thereby increasing costs slightly, but our underlying production is very good, and there is still a positive development in costs in Norway. In Rogaland, we are expecting stable costs, as mentioned earlier. The good news is that we see a significant drop in costs in Q1 in BC as we are starting to get close to our targets there, too.

Now a little about our free liquidity. We started the quarter with NOK 946 million in free liquidity, we had an EBITDA in the quarter of NOK 354 million, pushing it in the right direction. The change in working capital was relatively neutral, at minus NOK 22 million. We made investments of NOK 104 million during the quarter, and then we had two large items. One was the sale of Shetland, which contributed positively with a tad more than NOK 2 billion. Then we made a change in finances, by reducing the debt we had as of 30 September by about NOK 1.4 billion. We thus exited the quarter with free liquidity of NOK 1.8 billion. In addition, we refinanced in Q1, and we are illustrating how that affects our free liquidity. It affects free liquidity by about NOK 1.45 billion, so you could say that we are restoring the debt we paid down in Q4, more or less. We thus arrive at a proforma free liquidity after refinancing of NOK 3.3 billion at the end of Q4.

Looking more closely at our refinancing, we had a total package of NOK 3.2 billion that was refinanced. That financing is for five years. We have a term loan of NOK 750 million, another term loan for EUR 75 million, we have a revolving credit for NOK 1.5 billion, and an overdraft facility for NOK 200 million. The covenants of the loan structure are based on our equity, and we need to maintain an equity ratio of 31%. That means that net interest-bearing debt divided by EBITDA, which was a covenant in our financing before, has been removed.

If we then look at proforma numbers, we see that we have free liquidity of NOK 3.3 billion, which consists of cash equal to about NOK 1.5 billion, an undrawn revolving credit of NOK 1.6 billion, and an undrawn overdraft facility of NOK 200 million. Net interest-bearing debt when we don't use IFRS 16 is NOK 1.9 billion, and based on harvest guidance for 2022, net debt is about NOK 21/kg.

A little about our investments, where we are guiding for NOK 750 million in investments in 2022. About half of that is what we define as maintenance capex, and about half are targeting growth. In Norway, the focus is on new localities, and increasing our capacity there, both in Rogaland and Finnmark. In BC, we are completing the expansion of our smolt facility. And, in addition, we have investments related to semi-closed seawater sites to improve and safeguard the biological situation going forward. In Newfoundland, seawater locations are the investments, and we will be releasing fish in the sea during the year, so capex at those localities are the key investments.

In addition, we are guiding for changes in working capital, that is, biomass in the sea, which will increase by NOK 250 million during the year and should be seen in conjunction with our plans to continue to grow.

If we summarize financials, we saw that net interest-bearing debt is significantly down, due to our Shetland transaction, of course, so we have declined from a level of nearly NOK 4 billion to less than NOK 2 billion in net interest-bearing debt. We have an equity ratio of 54% and our net interest-bearing debt (NIBD) to EBITDA ratio is 2.6, which is linked to covenants in our old financial structure. That means we are formally within our covenants as at 31 December 2021. But as we said, NIBD/EBITDA will not be measured with our new financial terms.

As we mentioned early, our debt per kilogram is NOK 21, which is a very comfortable level, and our free liquidity will be NOK 3.2 billion after the refinancing. We will continue to focus on cutting costs, focus on operations, very important for us. Looking at the capital structure we have now, along with our operational improvements, there is now a basis to re-establish the biannual dividend evaluation we had earlier. We have a very positive view about our balance sheet today.

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

Outlook

Andreas Kvame, CEO:

Thank you, Atle Harald. Then we will move on to concluding remarks. As I said earlier, we are guiding for 90 000 tonnes this year, with Rogaland at 30 000, Finnmark with 38 000 and BC with 22 000 tonnes. If we look at where the increase is the biggest, it is BC at 50%, with Rogaland and Finnmark at 10-12%. In total for the company, we are increasing volumes by 19%. We are doing that because we have the fish in the sea, and we have a good biological situation in all regions so far in 2022. We have stable costs in Rogaland, and slightly higher in Finnmark in the first quarter, but that is likely short-term, tied to lower volumes in that region. As Atle Harald mentioned, we have significantly lower costs in BC in the first quarter.

But there is a little “but” in the situation, because inflation, external cost inflation could influence our costs, both when it comes to feed, to transportation. and to electricity - all inputs that are used in production. We will do what we can to keep those costs as low as possible, but must expect that some of this will have an influence. Continuous optimization of production, focusing on fish health and welfare are large focus areas for us. There is a gradual development in Newfoundland, where the first fish will be released to the sea in the spring. That is exciting.

When it comes to the market, we expect little to no growth in global supply, we still expect strong demand to continue, both from HoReCa and from retail. In that connection, with little growth in supply and good demand, we expect that to lead to good prices.

We expect to continue to further develop VAP and gradually increase volumes, but we aren't stressed about it in the current situation. Then we arrive at my last slide, a summary. When it comes to the quarter just ended, we have had solid earnings, driven by a good market prices, and we have had declining costs, especially in Norway. Operational performance has been strong, good results, with improved survival in all regions, and a positive trend in costs. Our cost improvement initiatives are going

according to plans. As we said earlier, there are some risks regarding external cost inflation. In value-added processing, we are moving forward gradually, and we are very proud of the job done in the sales department regarding this. Our financial position is at a completely different level than it was one year ago, referring to what Atle Harald talked about. We are in a situation where we can deliver on the strategic targets that we have set, not least that we can provide a return on capital to our investors and shareholders.

Once again, we expect a strong market going forward, and not least, I would like to thank all our employees in this company who have made this possible during 2021 and for letting us enter 2022 in such good shape. Thank you. Now it is time for questions.

Question from audience:

Then the first question is for you, Andreas. What is the current situation regarding winter ulcers so far in Q1, and have we seen an improvement in the relative price achievement for downgraded fish in Q1 compared to the first quarter of 2021?

Andreas Kvame, CEO:

Well, it is normal to have winter ulcers this year, as it was earlier, along the entire coast. We see an improvement, both in Finnmark and in Rogaland, compared to what we saw last year, partly a significant improvement, and we track winter ulcers closely. We have enacted many measures, including changing our smolt release strategy, we have made modifications to our feed, and so on, so we expect it to be a better year than previously. When it comes to price achievement, it is probably significantly better than what we saw both one and two years ago.

Question from audience:

When are the main portion of the 2022 contracts signed?

Andreas Kvame, CEO:

They are done evenly throughout the year, and partly in the third and fourth quarter, more than in the first quarter and second quarter.

Question from audience:

How big of a price discount compared to spot for Q1 should we estimate for Finnmark when it comes to winter ulcers?

Andreas Kvame, CEO:

That is very difficult to answer. There is a quality penalty, if you could call it that, so I think you should assume it will be somewhat similar to Q4. We don't see any deterioration; we are following this up closely. You should take into consideration that since we are following this closely, watching the fish closely, that we will harvest those fish at slightly lower harvest weights.

Question from audience:

Will winter ulcers influence costs/kg in Finnmark in Q1 or is the increase in costs only tied to lower volumes?

Andreas Kvame, CEO:

It is mainly related to volume, but as I said, it can be somewhat influenced by harvesting at lower weights because that will influence price realization somewhat.

Question from audience:

And how much of the volume in Finnmark will be harvested in the second half of the year?

Andreas Kvame, CEO:

Normally you will harvest somewhat more in the second half of the year than in the first half in Finnmark, but that is something that will be answered by us in later guidance.

Question from audience:

You mention the risk of higher costs due to cost inflation. Can you say anything about how much that will affect costs/kg and the timing of the cost increases? Will there be a gradual increase during the year?

Andreas Kvame, CEO:

It is hard to say exactly what this will be. What we can say relatively safely is that it will be a gradual increase, not something that will occur from one quarter to the next.

Question from audience:

Are you considering an extraordinary dividend now after the gain on the sale and the reduction of debt now implemented, Atle Harald?

Atle Harald Sandtorv, CFO:

What we have said is that we are re-establishing the biannual pattern of evaluating dividend payments, giving an ordinary evaluation in conjunction with our annual accounts, and, in case of approval at the general meeting, paying it after that.

Question from audience:

Here is the last question, so if there are more questions, people need to hurry up. Can you say anything about costs for the large smolt released to the sea in Rogaland in March compared to other fish that was harvested in Rogaland in Q4? Were there higher average weights, less treatment for lice, less PD for large smolt?

Andreas Kvame, CEO:

The answer is yes to all three. There weren't lice, there wasn't lice treatment for them. We have had a second smolt release as well, which we harvested in Q1, where there wasn't lice treatment.

Kristina Furnes, (moderator):

That was the last question.

Andreas, Atle Harald:

Thank you.