



1H21 HALF YEAR FINANCIAL RESULTS



01

# HIGHLIGHTS



# 1H21 SUMMARY

## **Profitability impacted by COVID-19. These impacts are expected to be temporary:**

- Profitability impacted by early calendar year 2020 sales disruption and its flow on impacts:
  - ▶ Higher airfreight costs.
  - ▶ Requirement to move excess inventories built up during lockdown – an industry-wide issue.
  - ▶ Higher than usual domestic retail promotional activity to stimulate sales.
- Pro Forma Operating EBITDA of \$10.5m, compared with \$16.5m in 1H20. Proforma NPAT of \$3.7m, compared with \$8.7m in 1H20.
- Statutory NPAT of (\$4.3m), compared with \$20.8m in 1H20.
- Imported Atlantic programme now margin positive.

\* A full reconciliation between GAAP and Pro Forma results is shown on pages 19 and 20 of this presentation.

# 1H21 SUMMARY (CONTINUED)

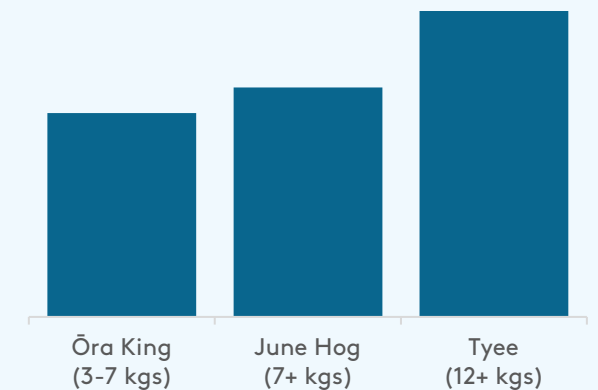
## Strong domestic and international recovery in sales:

- Sales volumes 3,442 MT are consistent with sales during 1H20 (prior to onset of the COVID pandemic) of 3,441 MT.
- Branded product has retained its premium positioning and pricing both domestically and offshore.
- Development of new sales channels in North America resulted in sales volume growth in this market and positions the business well for accelerated growth as foodservice markets return to strength.
- Strong growth in domestic retail sales with launch of new 'maple' hot and cold smoked products. Our TV and promotional activity led to smoked category growth of 11% year-on-year with NZKS share increasing from 49% to 56%.
- Sales of \$82.3m only 2% down on pre-pandemic 1H20 levels (\$84.2m).
- Successful June Hog (7kg+ Ōra King) trial with US customers. Strong example of further product differentiation and value creation within the product range.

## Outlook

- We will make further comment on New Zealand King Salmon's outlook when FY21 full year results are provided to the market (end of March)
- We expect all excess inventories of salmon to be cleared by the middle of calendar year 2021.
- Demand anticipated to exceed supply from late calendar year 2021.

Margin (\$ per KG)

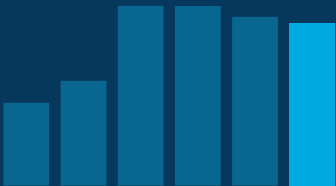


# FACTS AND FIGURES

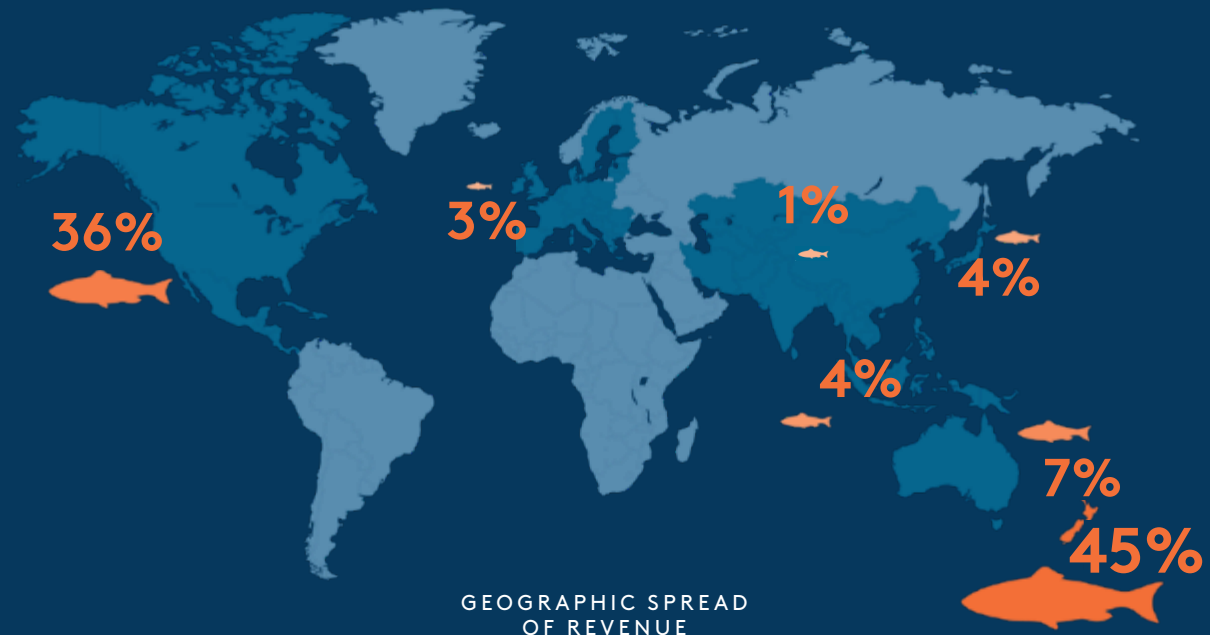
1H21 REVENUE OF

**\$82.3**

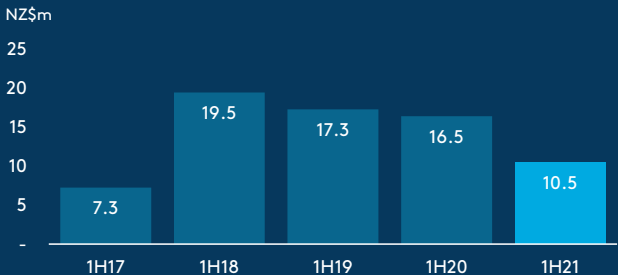
MILLION



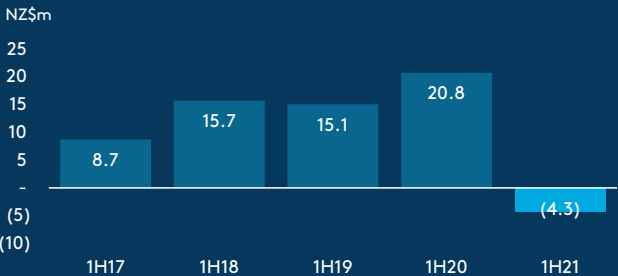
METRIC TONNES HARVESTED  
DURING 1H21



1H PRO-FORMA OPERATING EBITDA



1H STATUTORY NPAT



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# FINANCIAL OVERVIEW



# SUMMARY FINANCIAL INFORMATION

- Performance recovering as new sales channels are developed resulting in total sales volumes consistent with same time a year ago (prior to COVID sales disruption). Some excess inventory cleared at lower prices.
- GAAP results are impacted by fair value losses, a function of tighter margins during 1H21. In addition, the mix of livestock sees a larger proportion of younger fish in the water.

Group Financial Performance						
NZ\$000s	Pro-Forma*			GAAP		
	1H21	1H20	% chg.	1H21	1H20	% chg.
Volume Sold (MT)	3,442	3,441	0%	3,442	3,441	0%
Revenue	82,279	84,189	-2%	82,279	84,189	-2%
Gross Margin	24,573	30,857	-20%	14,343	47,886	-70%
Gross Margin %	30%	37%		17%	57%	
EBITDA	10,504	16,470	-36%	274	33,946	-99%
EBITDA %	13%	20%		0%	40%	
EBIT	6,241	12,695	-51%	(4,729)	29,515	-116%
NPAT	3,660	8,722	-58%	(4,323)	20,766	-121%

\* A full reconciliation between GAAP and Pro Forma results is shown on pages 19 and 20 of this presentation.

# HARVEST BY FARM

Total harvest was up to 4,150 MT. The new production model sees a slightly higher proportion of harvest taking place in the Pelorus and Queen Charlotte sounds during FY21.

Farm		Volume Harvested*		
		1H20	2H20	1H21
Queen Charlotte	Ruakaka	480 MT	-	-
	Otanerau	-	-	910 MT
Tory Channel	Clay Point	565 MT	1,535 MT	-
	Te Pangu	690 MT	1,510 MT	1,360 MT
	Ngamahau	490 MT	540 MT	-
Pelorus Sound	Waitata	1,520 MT	-	35 MT
	Kōpaua	-	-	-
	Waihinau	-	-	830 MT
	Forsyth	-	-	1,010 MT
		3,745 MT	3,585 MT	4,145 MT

\*Based on harvests from sea farms. Note that minor additional volumes are harvested from our hatcheries (a total of 6 MT in FY20 and 5 MT in 1H21).



# BALANCE SHEET

## New Zealand King Salmon maintains its strong financial position.

Our balance sheet remains strong with debt increasing due to higher inventories:

- Net debt of \$43.0m (out of total debt facilities of \$65.0m):
  - ▶ We remain confident we have the funding facilities and bank support in place to navigate this period.
  - ▶ Above average inventories expected to be converted to cash in the near future following strong recovery in sales.
  - ▶ No issues with customer collections, increases in Receivables reflects improving sales.
  - ▶ Given the uncertain macroeconomic climate, the Board does not expect to declare a dividend for the 7 month FY21 year.
- PP&E largely stable with capex slowed to an annual run-rate of ~\$10m. Total capex for the 7 month FY21 year is ~\$5.4m.
- 'Other' current and non-current assets increased by >\$15m due increases in the mark-to-market valuation of foreign exchange contracts.

Group Financial Position		
	Dec-20	Jun-20
NZ\$000s	Unaudited	Audited
<b>Current Assets</b>		
Cash and equivalents	5,581	7,115
Receivables	14,758	12,777
Inventories	45,783	35,612
Biological Assets	69,677	81,784
Other	5,734	907
	<b>141,533</b>	<b>138,195</b>
<b>Non-current Assets</b>		
Property, plant & equipment	60,908	60,481
Right of use assets	7,039	4,581
Biological assets	18,226	10,594
Other	70,859	60,333
	<b>157,032</b>	<b>135,989</b>
<b>Total Assets</b>	<b>298,565</b>	<b>274,184</b>
<b>Current Liabilities</b>		
Loans (external)	(2,614)	(1,132)
Lease Liabilities	(1,586)	(1,347)
Payables	(17,469)	(14,847)
Other	(10,646)	(10,767)
	<b>(32,315)</b>	<b>(28,093)</b>
<b>Non-Current Liabilities</b>		
Loans (external)	(46,000)	(37,000)
Lease Liabilities	(5,544)	(3,258)
Other	(20,291)	(21,519)
	<b>(71,835)</b>	<b>(61,777)</b>
<b>Total Liabilities</b>	<b>(104,150)</b>	<b>(89,870)</b>
<b>Net Assets</b>	<b>194,415</b>	<b>184,314</b>
 <b>Net Cash / (Debt)</b>	 <b>(43,033)</b>	 <b>(31,017)</b>

# OPERATIONAL UPDATE



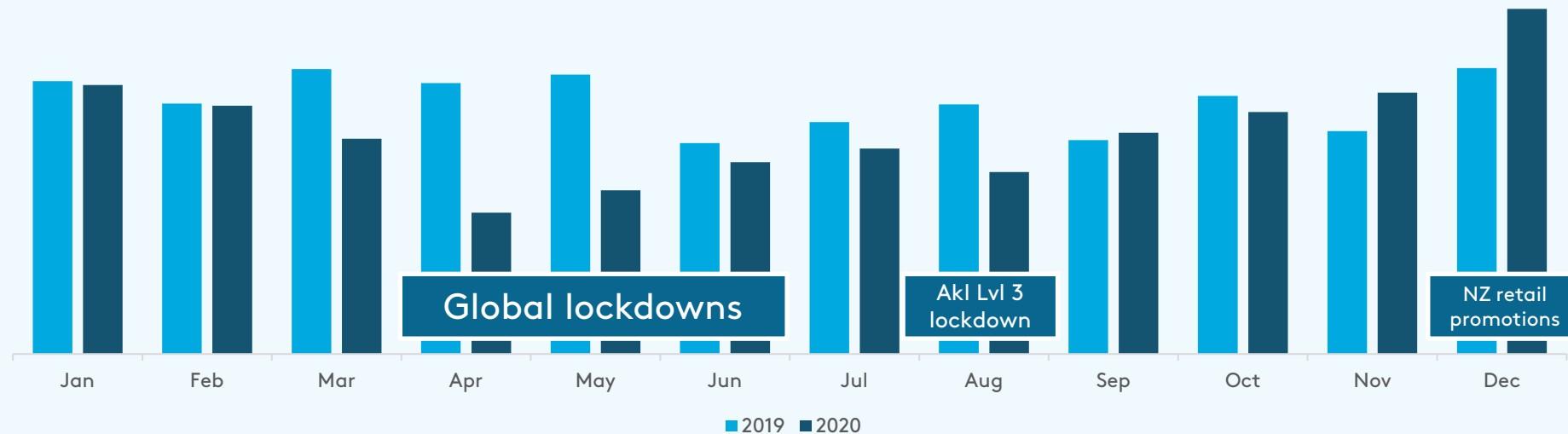
# SALES PERFORMANCE

Trends in volumes show a strong recovery in sales, especially in the last 3 months of 2020

**Sale volumes have been rebuilt, with volumes of product sold in November and December 2020 higher than the same period in 2019:**

- A strong recovery in sales volumes particularly during Q4 calendar year 2020, albeit with temporary margin compression.
- Growth in domestic retail coupled with strong sales in the US as new channels to market are developed has replaced COVID-affected foodservice market.
- Our sales model has become more resilient. Increased sales depth positions the business well for sales during the 2021 calendar year.

**Total Sales Volumes by Month, 2020 vs 2019 (MT)**

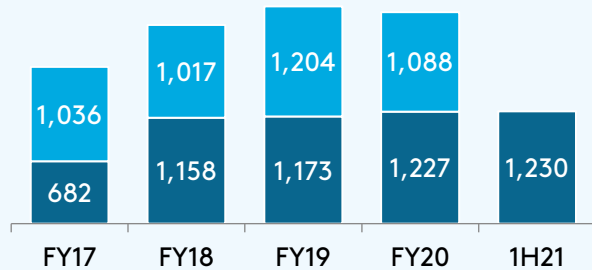




# SALES BY MARKET - EXPORT

Continuing to target branded premium markets

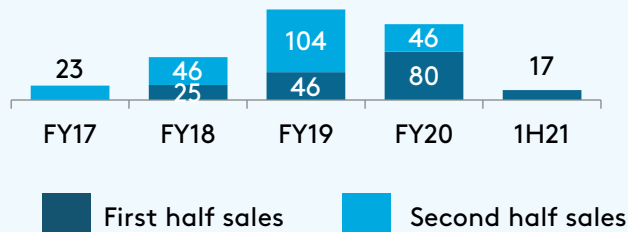
## North America (MT)



## Sales to North America have recovered strongly as alternative channels to market have been developed

- Record volume of product sold to North America whilst maintaining price in a challenging environment (except for discrete disposal sales at a lower price).
- We have cultivated new sales channels for our product in North America to fill the gap left behind by foodservice due to COVID lockdowns. This includes online delivery, fishmongers and specialty retail.
- Successful trial of Ōra King June Hog in US.
- Post COVID, these new channels should provide the platform for an acceleration of growth in this market.

## China (MT)



## Sales to China have decreased through the pandemic

- Sales to this market continue to be affected by global challenges.
- Sales are not expected to increase during this period.
- Petfood sales (not shown) growing strongly.



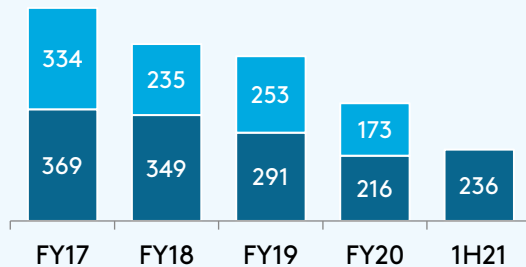
# SALES BY MARKET - EXPORT

Strong performance in other export markets

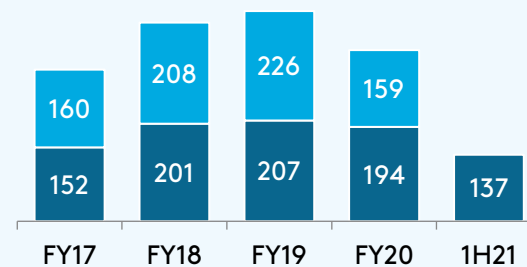
## Most markets saw an increase in volumes, premium branded product maintained solid price performance

- Australia – a positive result with sales growth as NZKS continues to establish its premium positioning in foodservice markets.
- Asia (ex Japan and China) – this market continues to track well but has been impacted in the short-term by the loss of airline customers.
- Japan – excess frozen volumes cleared through Japan resulting in increased volumes to this market but with margins temporarily impacted.
- Europe – strong and pleasing growth in sales to Europe, as increased resources in this market have delivered record sales volumes for this region.

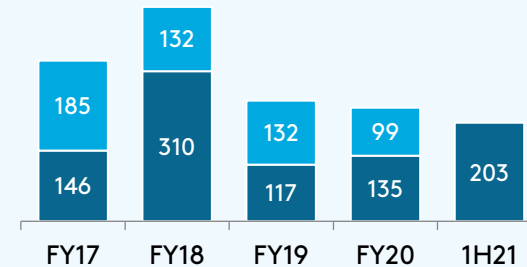
### Australia (MT)



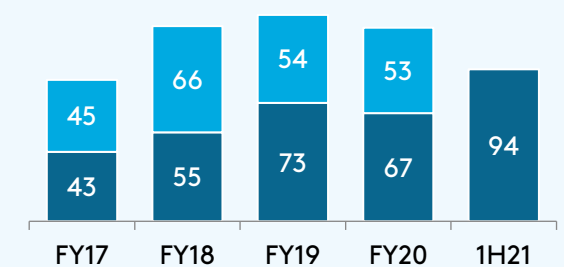
### Asia (MT) Excludes Japan and China



### Japan (MT)



### Europe (MT)

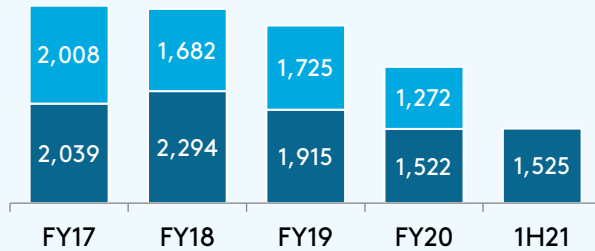


■ First half sales    ■ Second half sales

# SALES BY MARKET - DOMESTIC

Strong growth in retail offsets COVID impacted foodservice market

## Domestic Market (MT)



## Growth in retail volumes as emphasis placed on smoked products

- Disruption to export and foodservice markets has created the opportunity to renew domestic retail interest, grow the market, and build brand awareness.
- NZKS has targeted demand growth in smoked products including through the launch of new 'maple' smoked products.
- These initiatives, coupled with promotional activity and increased marketing spend have delivered a 14% year-on-year growth in domestic retail sales (by volume), offsetting contraction in the COVID-impacted foodservice market.
- Margins have temporarily declined as a result of initiatives to support sales growth.

■ First half sales   ■ Second half sales



# AVERAGE SALE PRICES

Branding underpins customer loyalty and value to our business

**New Zealand King Salmon's core branded and differentiated business continues to attract premium pricing. Pricing for these products has remained firm.**

Excess product (due to the significant supply and demand imbalance in and around April / May 2020) has resulted in some frozen product being sold in Japan and the US at lower pricing. Initiatives are in place to have all excess stock cleared by the middle of calendar year 2021.

Sale Prices* and Exchange Rates						
		FY17	FY18	FY19	FY20	1H21
<b>Average Sales Price per kg</b>						
Domestic Sales	NZD	18.77	20.22	22.11	24.91	24.31
Export Sales (All Markets)	NZD	20.46	21.70	23.85	25.05	24.36
<b>Foreign Exchange Rates</b>						
NZD:AUD		0.93	0.93	0.94	0.94	0.94
NZD:USD		0.69	0.69	0.68	0.67	0.64
NZD:JPY		77.1	75.6	71.3	68.3	69.1

\* Volume weighted average sales price for all exported salmon based on foreign exchange rates achieved as outlined on the table above.

# FISH PERFORMANCE

## Fish performance continues to be a key focus for the business

- New Aquaculture General Manager, Grant Lovell (20 years King Salmon experience), is combining the best of prior production models.
- Harvest volumes increased to 4,150 MT, 11% higher than 1H20.
- Harvest rates were intentionally slowed through Q4 FY20 before being accelerated recently to manage summer biomass levels. This led to larger and older fish and inevitably higher levels of mortality due to fish maturation (estimated at 30% of 1H21 total mortality). In addition these larger and older fish display poorer levels of feed conversion. Accordingly, the impact of fish performance initiatives has yet to be reflected in these results.
- We continue to adapt our operating model to mitigate the impact of warmer summer waters. Upwelling is being used this summer to circulate cooler deeper water to our fish especially at low flow sites.
- Biomass at sea is consistent with levels in recent periods.

Biological Performance					
	1H21	1H20	% chg.	1H19	% chg.
Harvest Volume (MT)	4,150	3,742	11%	4,026	3%
Feed Conversion Ratio (FCR)	1.73	1.59	8%	1.74	-1%
Mortality as a % of Biomass	11.9%	5.6%	113%	5.6%	114%
Closing Livestock Biomass	6,944	7,060	-2%	6,915	0%
Feed Cost (\$ / Kg of feed)	2.54	2.48	3%	2.44	4%

# FUTURE FARMING & HARVEST VOLUMES

## **This slide provides an update on future farming volumes:**

### Farm relocation (MPI Salmon Relocation Process):

- Adoption of the 2017 Panel recommendation would be unlikely to have any material impact on site capacity however it may result in modest fish performance improvements.
- A revised proposal from Iwi and NZKS was provided to MPI in June 2019, including use of the proposed site at Mid Waitata.
- Any potential production benefit from relocation would be achieved in calendar year 2024 or beyond due to process timing.

### Open Ocean Farming - NZKS has applied for its first open ocean farming consent comprising two farm sites, in the Marlborough region:

- The region has been named “Blue Endeavour” representing a step towards the long term sustainability of the industry.
- The RMA consenting process is underway and hearings are expected for June 2021.
- The earliest possible harvest from the region would be in the middle of the 2024 calendar year.
- Capital costs for the infrastructure associated with Blue Endeavour are estimated at ~\$35m with some ability for this spend to be staged. This investment would be expected to generate an eventual production volume of ~4,000 MT per site per 18 month cycle.
- Blue Endeavour is both a volume and unit value driver.



# APPENDICES



# APPENDIX – 1H21 RECONCILIATION BETWEEN GAAP RESULTS AND PRO FORMA FINANCIALS

1H21	Statutory Financial Statements	Fair Value Adjustments	IFRS 16 Lease Adjustments	Pro Forma Operating Financial Information
NZD 000s				
<b>Revenue</b>	<b>82,279</b>			<b>82,279</b>
Cost of goods sold	(78,350)	31,018	(789)	(48,121)
Fair value gain / (loss) on biological transformation	19,999	(19,999)		-
Freight costs to market	(9,585)			(9,585)
<b>Gross Profit</b>	<b>14,343</b>	<b>11,019</b>	<b>(789)</b>	<b>24,573</b>
Other operating income	454			454
<b>Overheads</b>				
Sales, marketing and advertising	(6,732)			(6,732)
Distribution overheads	(2,679)			(2,679)
Corporate expenses	(5,110)			(5,110)
Other expenses	(2)			(2)
<b>EBITDA</b>	<b>274</b>	<b>11,019</b>	<b>(789)</b>	<b>10,504</b>
Depreciation and amortisation	(5,003)		740	(4,262)
<b>EBIT</b>	<b>(4,729)</b>	<b>11,019</b>	<b>(48)</b>	<b>6,241</b>
Finance income	4			4
Finance costs	(1,147)		117	(1,030)
Net finance costs	(1,143)	-	117	(1,026)
<b>Profit / (loss) before Tax</b>	<b>(5,872)</b>	<b>11,019</b>	<b>68</b>	<b>5,215</b>
Income tax (expense) / credit	1,549	(3,085)	(19)	(1,556)
<b>Net Profit / (loss) for the Year</b>	<b>(4,323)</b>	<b>7,933</b>	<b>49</b>	<b>3,660</b>

# APPENDIX – 1H20 RECONCILIATION BETWEEN GAAP RESULTS AND PRO FORMA FINANCIALS

1H20	Statutory Financial Statements	Fair Value Adjustments	IFRS 16 Lease Adjustments	Pro Forma Operating Financial Information
NZD 000s				
<b>Revenue</b>	<b>84,189</b>			<b>84,189</b>
Cost of goods sold	(74,830)	29,429	(260)	(45,661)
Fair value gain / (loss) on biological transformation	46,198	(46,198)		-
Freight costs to market	(7,671)			(7,671)
<b>Gross Profit</b>	<b>47,886</b>	<b>(16,769)</b>	<b>(260)</b>	<b>30,857</b>
Other operating income	94			94
<b>Overheads</b>				
Sales, marketing and advertising	(6,609)		(86)	(6,695)
Distribution overheads	(2,214)		(248)	(2,462)
Corporate expenses	(5,147)		(113)	(5,260)
Other expenses	(64)			(64)
<b>EBITDA</b>	<b>33,946</b>	<b>(16,769)</b>	<b>(707)</b>	<b>16,470</b>
Depreciation and amortisation	(4,431)		656	(3,775)
<b>EBIT</b>	<b>29,515</b>	<b>(16,769)</b>	<b>(51)</b>	<b>12,695</b>
Finance income	9			9
Finance costs	(734)		92	(642)
Net finance costs	(725)	-	92	(633)
<b>Profit / (loss) before Tax</b>	<b>28,790</b>	<b>(16,769)</b>	<b>41</b>	<b>12,062</b>
Income tax (expense) / credit	(8,024)	4,695	(11)	(3,340)
<b>Net Profit / (loss) for the Year</b>	<b>20,766</b>	<b>(12,074)</b>	<b>30</b>	<b>8,722</b>



# UNDERSTANDING OUR GAAP RESULTS

The impact of *NZ IAS-41 Agriculture*, *NZ IAS-2 Inventory* and *NZ IFRS-16 Leases*

**Our GAAP results are impacted by Fair Value gains or losses arising from the application of *NZ IAS-41 Agriculture*, *NZ IAS-2 Inventory* and the classification of leases under *NZ IFRS-16*. The impact of these standards are explained below:**

## **Fair Value under *NZ IAS-41 Agriculture* and *NZ IAS-2 Inventory***

When we record a change in biomass at sea, or where the expected future profit we realise on fish that we sell changes, these standards require us to quantify and recognise the gain or loss in the current period. This applies to both biomass at sea and inventories of finished products.

Our Statement of Financial Position shows biological assets at their fair value, with 1H21 seeing a reduction in fair value as the value of biomass in the sea was revalued downwards reflecting COVID driven margin compression especially in offshore sales. Pro Forma Operating Financial Performance removes gains/losses associated with the application of these standards. The company will present Pro Forma results for future reporting periods on this basis.

## ***NZ IFRS-16 Leases***

Under *NZ IFRS-16* a lessee will no longer make a distinction between finance leases and operating leases; all (material) leases will be treated as finance leases.

In the statement of financial position we are therefore required to recognize the asset (or right to use the asset) and the liability for the lease, while in the statement of profit and loss we recognize the interest cost and the depreciation of the leased asset instead of the operating lease expenses. The application of this standard increases EBITDA, assets and liabilities, however this impact is reversed in our Pro Forma results.

## APPENDIX – GLOSSARY OF TERMS

1H20	Financial results for the 6 months from 1 July 2019 to 31 December 2019
1H21	Financial results for the 6 months from 1 July 2020 to 31 December 2020
CAGR	Compounding annual growth rate
EBITDA	Earnings before interest, tax, depreciation and amortisation
FCR	Feed Conversion Ratio – the amount of feed (in kilograms) required to grow 1 kilogram of fish weight
G&G	Gilled and gutted. Note that all volumetric information presented is on a gilled and gutted basis unless otherwise stated
GAAP	Generally Accepted Accounting Practice
Mortality / Mortality Rate	The percentage mortality of salmon in seawater, calculated as the biomass of salmon mortalities in kg divided by the growth of salmon in kg
MT	Metric tonnes
NPAT	Net profit after tax, also reported as net profit for the period in our published financial results
NZKS	New Zealand King Salmon
Pro Forma Operating EBITDA	Pro Forma Operating EBITDA refers to earnings before interest, tax, depreciation, amortisation after allowing for pro forma adjustments as described in the Appendix to this document. Pro Forma Operating EBITDA is a non-GAAP profit measure
Upwelling System	A system that allows dense cooler water to be moved towards the ocean surface, displacing the warmer water and increasing water flow.

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Our results are reported under NZ IFRS. This presentation includes non-GAAP financial measures which are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in this presentation include:

- EBITDA. We calculate EBITDA by adding back (or deducting) depreciation, amortisation, finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- EBIT. We calculate EBIT by adding back (or deducting) finance expense / (income), and taxation expense to net earnings / (loss) from continuing operations.
- Pro Forma Operating EBITDA refers to earnings before interest, tax, depreciation and amortisation after allowing for pro forma adjustments as described in the Appendix to this document.

We believe that these non-GAAP financial measures provide useful information to readers to assist in the understanding of our financial performance, financial position or returns, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS. Non-GAAP financial measures may not be comparable to similarly titled amounts reported by other companies.

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New Zealand King Salmon

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