21 May 2021 – MEDIA RELEASE – For immediate use

Interim Results: Sanford Sees Continued Impact of Covid-19

New Zealand's largest seafood business, Sanford Limited (NZX: SAN), reports that its 2021 interim results are consistent with its most recent update to the market on 17th March 2021. Challenging conditions continued during the six months due to the impact of the Covid-19 pandemic on the demand for seafood and on international supply chains.

Sanford reports net profit after tax (NPAT) of $16.2 million, which included a $13.3 million gain on sale for two non-core properties. This was 15% below the $19.0 million NPAT for HY20.

Its revenue for the six months ended 31 March 2021 (HY21) decreased 5% to $233.5 million.

Adjusted Earnings Before Interest and Tax (Adjusted EBIT)[1] for HY21 was $10.7 million, 54% lower year-on-year than HY20 $23.2 million, a period that largely preceded the impact of Covid-19. Overall conditions during HY21 are similar to the Covid-impacted second half of FY20, which had Adjusted EBIT of $15.0 million, a similar year-on-year decrease of 53%.

Sanford says its second half tends to be seasonally stronger and it expects the same in FY21.

Key highlights:

- Impacts from Covid-19 continue. Some early positive signs as markets start to reopen and new markets gain traction, although supply chain challenges continue
- Results consistent with recent market update
- Wildcatch performance was comparable to HY20, salmon strong volume growth, mussels remain under pressure
- Team engagement at all-time highs
- Ready for reopening: positioned for foodservice reopening in key markets as vaccinations lessen Covid-19 impacts
- Balance sheet remains strong and net debt reduced by $3m since September 2020

CEO Peter Reidie, who commenced the role in early April, says lockdowns and other necessary Covid responses taken worldwide have had wide-ranging effects.

"Covid-19 has had adverse effects on foodservice demand, prices, labour and supply chains, especially freight. However, we have been able to switch markets, processing plants and product formats to retain profitability. We continue to manage the Covid impact as best we can, whilst ensuring that we are better positioned for when foodservice markets reopen."

On a divisional basis, performance became more differentiated during this period. Wildcatch and salmon, which were impacted earlier in the pandemic, began to show early signs of recovery, particularly in volume. However, prices for mussels, which held up in the six months to September 2020, came under substantial pressure during this period due to an excess of supply over demand.

Wildcatch consistent: wildcatch profitability remains below pre-Covid levels with reduced global demand impacting price. It has started to stabilise with wildcatch profit contribution largely unchanged.

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[1] Adjusted Earnings Before Interest and Tax (EBIT) is a non-GAAP measure. Reported Earnings Before Interest and Tax (EBIT) was $10.2m. The reconciliation is available in the presentation released today.

Salmon volume improving: Sanford's efforts to switch into the retail channel during 2020 are starting to pay off, with salmon seeing strong revenue growth of 12% from HY20 (+39% from H2 FY20). This was driven by a growing retail presence in both New Zealand and the US. Salmon made the largest profit contribution to the group in this half.

Mussels challenged: current trading headwinds are centred on Greenshell mussels, which has the highest exposure to foodservice and was hardest hit by Covid-19 because of the restrictions on restaurants globally around the world. Mussels are expected to lag in their recovery.

Mr Reidie says "we are encouraged by the consistency in our wildcatch performance and volume growth in salmon. Whilst inventory levels of mussels remain high, we have seen some early signs of demand returning, which we are expecting to reduce inventory levels to historical levels by year end. We expect mussel pricing to remain under pressure for the remainder of FY21."

Supply chain, balance sheet and outlook

Mr Reidie notes that "global supply chain disruptions are also creating significant challenges. Container shortages and shipping disruptions have seen space constrained and freight prices rise significantly. Our supply chain costs have risen overall by 12% on a cost per tonne basis, mainly due to airfreight costs. At this point we do not see any short-term relief in global freight congestion."

Sanford's balance sheet remains strong. Net debt of $181m was $3 million lower than September 30, 2020 and the gearing ratio (debt as a proportion of debt plus equity) was at 23.8% (from 23.4% at September). Sanford continues to have good support from its lenders and sufficient debt headroom.

Mr Reidie says "Covid's impact has been significant and remains so. However, we can see some signs of improvement as we focus on adapting by opening new channels where we need to, but also preserving our position in key sectors. We are ready for the reopening of foodservice in our key markets, and our response to the challenges arising from Covid-19 will leave Sanford a better and more dynamic business."

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About Sanford Ltd
Sanford is New Zealand's oldest and largest seafood company - we farm salmon and mussels and hold 19.7% of New Zealand commercial fishing quota. Sanford has been listed on the New Zealand stock market since 1924. We are focused on sustainability and on maximising the value of the resources we gather from our oceans, enabling long term value creation from oceans teeming with life. Sanford sites can be found in 13 locations around New Zealand and we are a team of 1,400 staff and sharefishers across the country. We are committed to innovation: our scientists are on a mission to find new ways to make the most of the life-enhancing properties of seafood, from anti-inflammatory supplements to skin-nurturing collagen. For more information, please visit: www.sanford.co.nz