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Media release - for immediate use

### **Sanford Focus on Value Helps Offset Climate Change Impact**

**Sustainable seafood company, Sanford Limited (NZX:SAN)** has today reported Net Profit After Tax (NPAT) of \$42.3 million, an improvement of 12.9% on last year. Adjusted Earnings before Interest and Tax (Adjusted EBIT) increased 1.5% to \$64.7million. The increase in NPAT was largely driven by non-trading items and, in particular, the insurance settlement relating to the Kaikoura earthquake damage caused to our Havelock mussel processing facility. While the result falls short of our expectations, mainly due to challenging climatic conditions throughout the year, the sound performance does confirm progress with the company's move to extract higher value from both its wild and farmed seafood harvests.



*Above: Dan McCall, SPATNZ Operations Manager, caring for Greenshell mussel spat at the SPATnz hatchery in Nelson where Sanford has been investing in developing optimal breeding stock, taking the best from nature and providing a reliable supply of spat for mussel farmers.*

Sales revenue increased by 7.7% from \$477.9 million to \$515.0 million. This increase was driven by improved pricing across farmed and wild caught species, an increase in our fresh sales, an improved product cascade, primarily for hoki, and the company's investment in innovation starting to contribute to returns. Operating cash flow was strong at \$72.6m, up 44.3% on last year.

Sanford CEO, Volker Kuntzsch, said the climate had a greater impact than experienced before, with abnormally high water temperatures during the summer resulting in challenges across the aquaculture and fishing divisions.

“Volumes were down in salmon, mussels and wildcatch, both inshore and deepwater, but our strategic focus enabled us to make progress on our goal of \$1 EBIT/kg greenweight, increasing our EBIT per kg from \$0.57 to \$0.63 – excluding the commodity volumes caught by Sanford’s fishing partners.”

Sanford’s Board has declared a final dividend of 14 cents per share payable on 7 December 2018. This brings the full year dividend to 23 cents, unchanged from the prior year.

### **Operational Challenges**

An autumn algal bloom in the Marlborough sounds produced biotoxins which interrupted harvesting and led to early spawning. The Havelock processing facility also closed earlier to enable earthquake repairs to be completed. Although Sanford grows mussels at alternative sites in Coromandel and Stewart Island (to manage environmental risks), the overall mussel harvest volume, declined by 15.1% versus FY2017.

The summer marine heatwave affected growth and mortality rates at Sanford’s Big Glory Bay salmon farm at Stewart Island, with the company limiting sales for up to 10 weeks to enable fish stocks to reach desired weights. Harvest volumes were 4.4% down on the prior year.

Climatic conditions also impacted total wild catch volumes, where deepwater and inshore landings were down by 2% and almost 9% respectively on the prior year, partially mitigated by catches by fishing partners.

However, Mr Kuntzsch said Sanford’s strategy of prioritising brand and channel development, innovation and product cascade improvements and getting closer to consumers, has delivered significant advantages.

He said Sanford was increasing the volumes of fillets versus block in its frozen-at-sea operations, while investments in branding, innovation and replacing third party distributors internationally with direct-to-customer sales was enabling higher margins and improved returns as the business built stronger relationships, especially in foodservice. Front-line investments in branding and sales were backed by investments in processing and vessels, to increase product quality and minimise waste.

“We are starting to realise the benefits of this targeted approach and our value creation has shown great risk mitigation potential.”

“Our Big Glory Bay ocean farmed king salmon brand secures a meaningful premium over unbranded farmed salmon. While the brand’s launch has been contained to a handful of markets the reception the product has received reconfirms our confidence in our branding strategy.”

“In addition to our geographic spread, our huge species and operational diversity across fishing and aquaculture and New Zealand’s large exclusive economic zone, our strong focus on innovation, branding and channel development provides strategic safeguards in mitigating the risk posed by climate change.”

### **Innovation beyond Food**

Sanford has enhanced its investment in Enzaq, the Blenheim-based mussel powder manufacturer and exporter, with the addition of a second dryer, doubling production capacity. We are planning on doubling the capacity again with the installation of another 2 dryers in 2019. Mussel powder has recognised anti-inflammatory properties and is used to support human and animal mobility.

Sanford is preparing to launch a nutraceuticals brand, *Sea to Me*, creating a platform for more differentiation and improved returns. Further investments are planned to continue the diversification of Sanford’s Greenshell™ mussel portfolio and enable strong growth with this species.

Also due for launch in December is a revamped Auckland Fish Market with 10 eateries and an upscale fish monger, aimed at encouraging consumers to try more and varied species.

Further investments are planned in the new financial year with the Board approving, in principle, a significant investment programme totalling \$100 million for the next two years with a strong emphasis on operational upgrades, including some fleet replacements.

We are also pleased to announce the successful sale of our 50% interest in a seafood processing plant in Weihai, China, to Plenus Co. Ltd, Japan, effective today. Weihai Dong Won Foods Co. Limited, was a joint venture with Sanford's long standing fishing partner, Dong Won Fisheries Co. Limited. This strategic divestment is an important element on our journey of value creation.

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