

# ANNUAL RESULT FOR THE YEAR ENDED 30 SEPT 2019



# DISCLAIMER

This presentation contains not only a review of operations, but also some forward looking statements about Sanford Limited and the environment in which the company operates. Because these statements are forward looking, Sanford Limited's actual results could differ materially. Media releases, management commentary and analysts presentations, including those relating to the previous results announcement, are all available on the company's website and contain additional information about matters which could cause Sanford Limited's performance to differ from any forward looking statements in this presentation. Please read this presentation in the wider context of material previously published by Sanford Limited.







- Sanford's 2019 integrated report is available at <https://www.sanford.co.nz/investors/reports-1/company-reports/>
- The report outlines Sanford's Business Excellence Framework – this enables each part of the business to map out its role in helping to deliver on our goals
- We strive to inform in a transparent and open manner and welcome feedback from our stakeholders throughout the year



# Shifting the Focus onto Consumers



2014

Creating value: commodity fish -> seafood -> beyond food

2019



# Evolving our Business Model

## INVESTING INTO DEVELOPING OUR VALUE CHAIN



TO CREATE VALUE



**Business Excellence Framework**  
Six Outcomes driving a Sustainable Business



# The Sanford Journey – Tackling Challenges



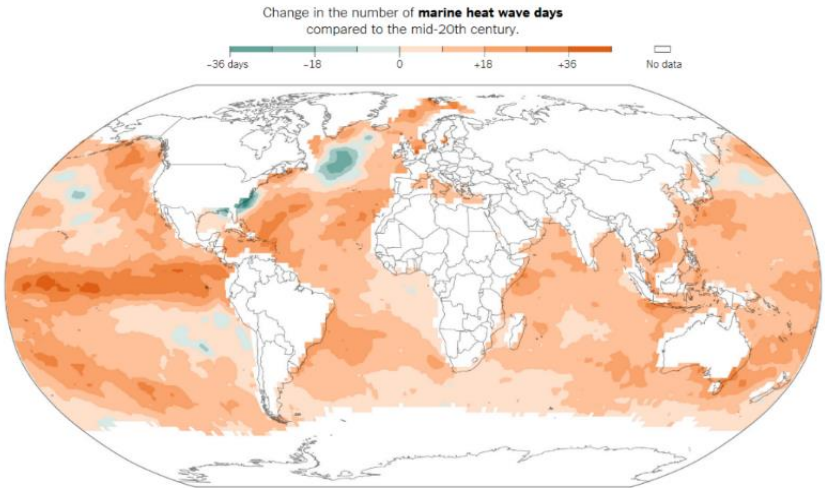
People

Infrastructure

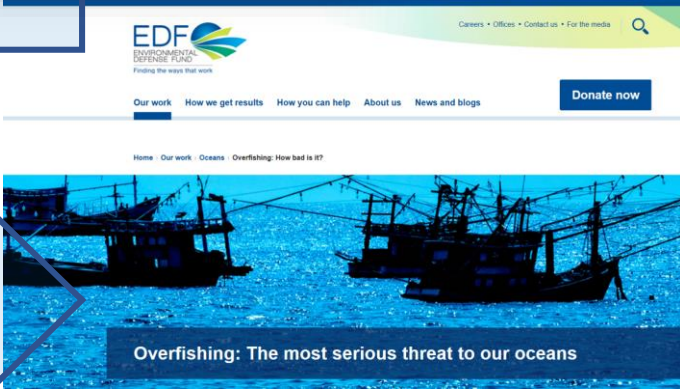


Climate Change

Consumer Preferences  
& Public Perception



The average number of marine heat wave days for the period 1987-2016, compared to the average for 1925-1954.  
Source: Nature Climate Change | By The New York Times  
New York Times, 4 March 2019



# FY19 : A challenging start, but value strategy enabled a satisfactory recovery

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CATCH/HARVEST VOLUME

**113k** GWT

↓ -4%

REVENUE (Like for like<sup>1</sup>)

**\$558<sub>M</sub>**

↑ +8%

ADJUSTED EBIT<sup>2</sup>

**\$64.8<sub>M</sub>**

Flat

EBIT GW kg

**56c\***

↑ +2c/kg

ADJUSTED EBITDA<sup>2</sup>

**\$85.7M**

↑ 2%

NPAT

**\$41.7<sub>M</sub>\*\***

↓ -1%

EPS

**45c**

Flat

ANNUAL DIVIDEND

**23CPS**

Stable

<sup>1</sup>Like for like views revenue (and gross profit) comparable to 2018 without implementing the new revenue accounting standard (NZ IFRS 15)

<sup>2</sup> See Appendix for adjusted EBIT and adjusted EBITDA reconciliation to GAAP Reported EBIT\$62.6m and NPAT \$41.7m

\*Without factors of San Granit and algal blooms, we estimate the EBIT GW kg would have been 60c

\*\* Including gain on sale of the pelagic business of \$5.1m, prior year includes earthquake insurance settlement of \$6.8m

# FY19 : Balance Sheet strengthening further

**GEARING\***

**23.6%**

↓ down from 26.6%

**NET DEBT**

**\$130.7M**

↓ -14%

**TOTAL EQUITY**

**\$588M**

↑ +1%

**DEBT / EBITDA**

**1.52x**

↓ FY18 1.81x

**RETURN ON AVERAGE  
TOTAL EQUITY**

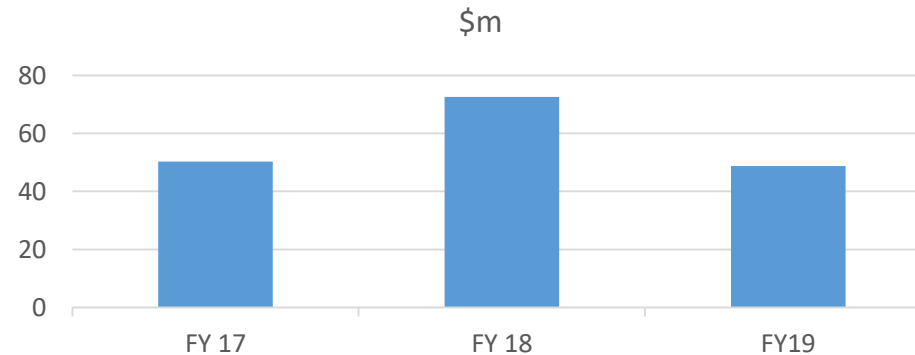
**7.13 %**

↓ Down from 7.3%

**Operating Cash Flow**

**\$48.7m**

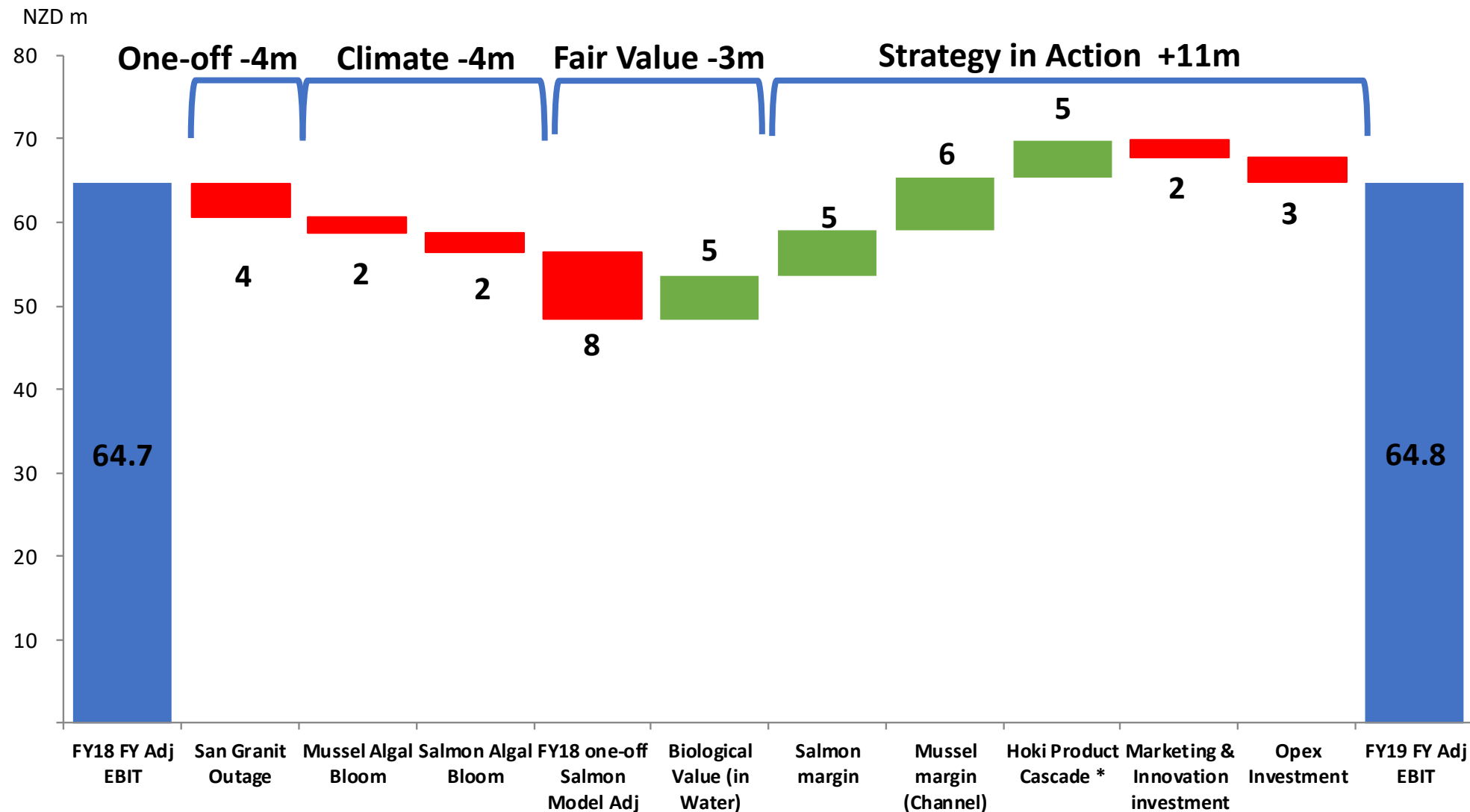
↓ -33%





# Value strategy driving adjusted EBIT improvement

## Key Drivers of ADJUSTED EBIT change



\* Net of volume impact of industry voluntary shelving of Hoki (5,000 tonnes impact)

# Wild Catch 2019

## Profit contribution vs LY down 3%

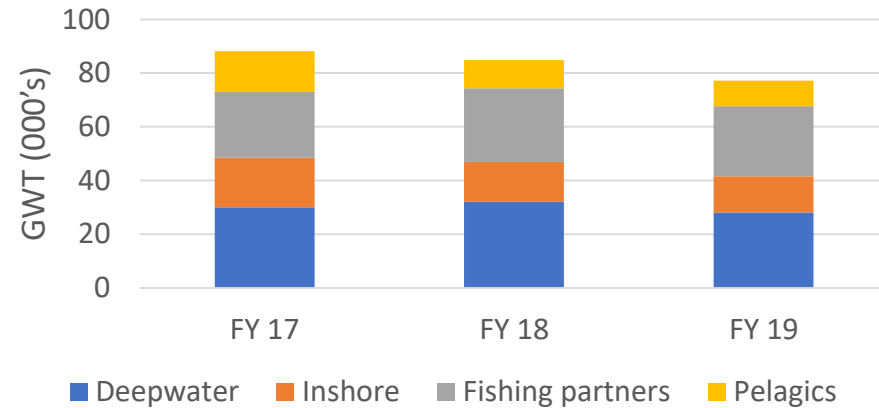
### Wins

- Upgraded sonar technology lifted catch of squid
- Implementation of PSH technology delivered improved quality
- Improved quality and change in production focus on fillet vessels improved hoki product cascade, contributing \$5m
- Pelagic quota sale
- Increased engagement with our sharefishers

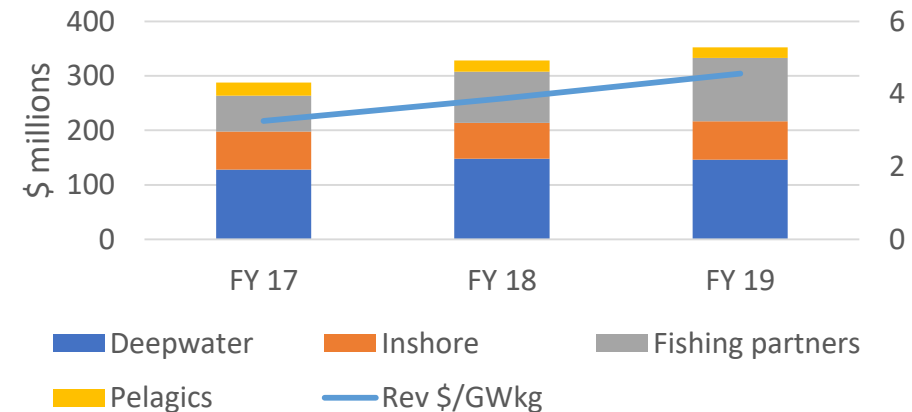
### Headwinds

- San Granit outage (\$4.1m negative EBIT impact)
- Capacity constraints (inshore) and vessel outages
- Toothfish pricing down due to an oversupply in the North American market
- Reduced Hoki availability

## Wild catch sales volumes -9%



## Wild catch sales revenue +7%



FRESH



FROZEN



SANFORD



# Wild Catch

## Strategic Priorities

- Moving hoki products further up the value chain, through
  - Improved crew training and retention
  - Improved cold chain controls on vessels
  - PSH technology
  - Optimising product specifications
- Upgrading inshore vessels and improving fresh fish quality using Precision Seafood Harvesting (PSH) net technology
- Continue deepwater vessel improvement programme
- Scampi vessels replacement
- Continue optimising land based processing - automation, climate control



## FY20 Outlook: Positive

- Expected cascade improvement for hoki over the following year with further investment, offsetting hoki TACC reduction
- Increased vessel availability
- Market prices expected to generally remain flat



FRESH



FROZEN



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# King Salmon 2019

## Profit contribution vs LY up 62% (like for like)

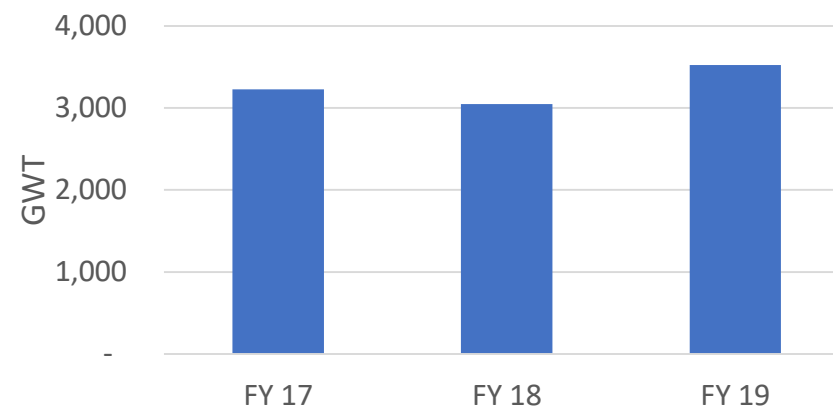
### Wins

- Sales penetration into the premium branded segment - both in NZ and the USA
- Optimised S&OP process leading to margin growth through closer customer engagement and meeting consumer demands
- Increased return on the core business
- Greater volume available over Q4 post algal bloom event

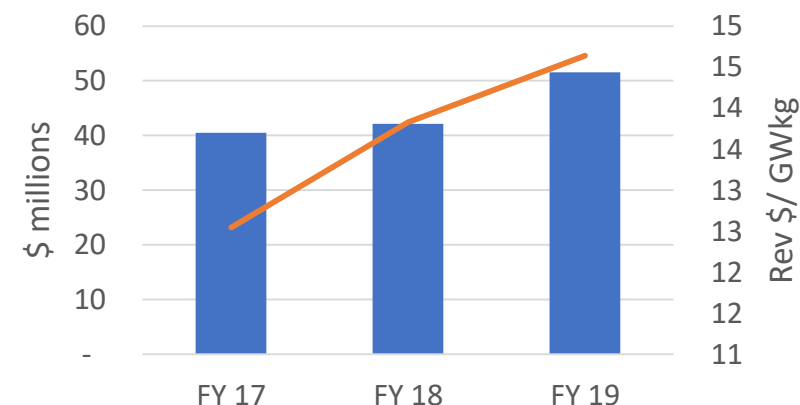
### Headwinds

- Salmon did not grow as expected in Q2 and Q3 due to algal bloom in Big Glory Bay – partially offset by strong growth in Q4

Salmon sales volumes +16%



Salmon sales revenue +23%



SALMON



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# King Salmon

## Strategic Priorities

- Big Glory Bay brand activation and expansion in domestic and export markets
  - Focus on NZ, USA and Australia premium food service customers
- Continued infrastructure investment to improve fish performance and quality
- Volume growth investment, made possible through BGB nitrogen variation. Utilisation of stage 1 nitrogen cap is expected by 2022 and full utilization by 2024
- Investment in a Recirculation Aquaculture System Hatchery for increased smolt supply and security of supply



## FY20 Outlook: Positive

- Increased capital spend on asset rejuvenation and increased volumes
- Increased mitigation of environmental impact

# Greenshell Mussels 2019

## Profit contribution vs LY up 69%

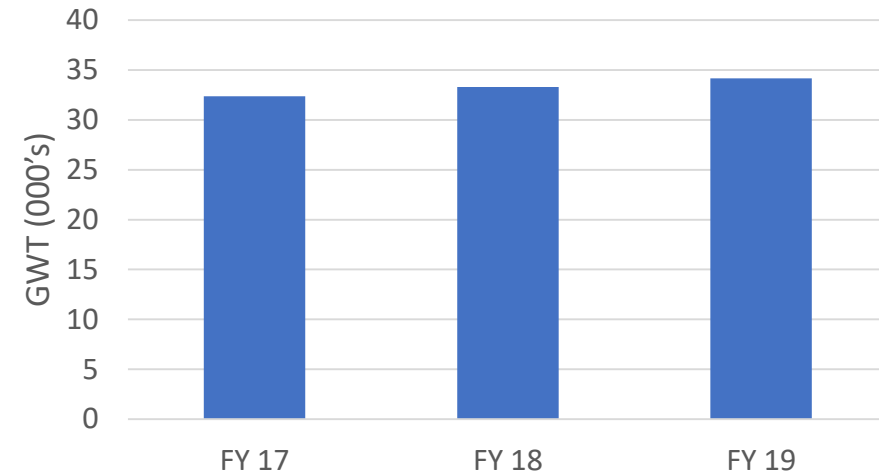
### Wins

- Strong half-shell mussel pricing
- Channel development has created strong demand at increased returns
- Product sales mix change driving margin
- Havelock processing plant yields were strong, with increased processing efficiency
- Consents for marine farms in Golden Bay

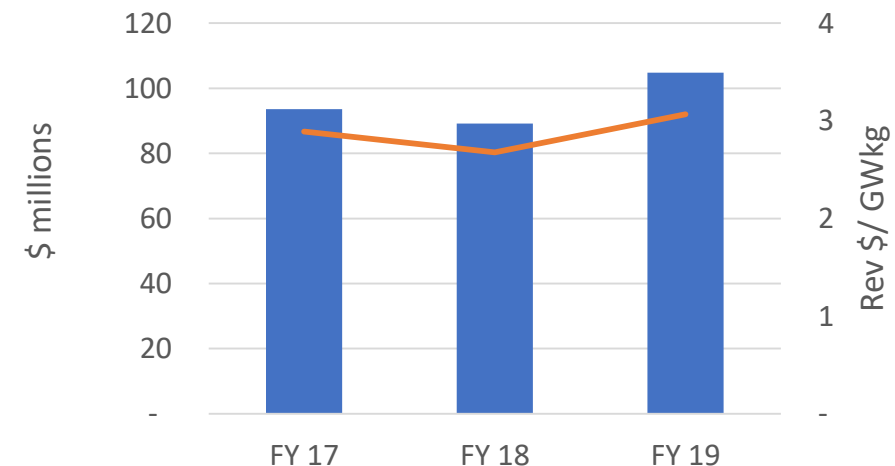
### Headwinds

- Warmer waters – biofouling in Coromandel leading to poorer yielding product
- Algal bloom in Marlborough impacting supply, mitigated partially by geographic spread of farms

Greenshell mussel sales volumes +3%



Greenshell mussel sales revenue +13%





# Greenshell Mussels

## Strategic Priorities

- Explore **expansion of Sea to Me** in USA and China
- Progress selective **spat breeding** at SPAT<sub>NZ</sub> - focus on excellent **line retention** from strategic spat deployments
- Development of **Golden Bay water space** for growth and geographical risk mitigation
- Build of **new marine extracts plant**

## FY20 Outlook: Positive

- Continued strong demand and channel diversification is keeping returns high
- Marine extracts demand continues to grow with our expanding range
- Expected algal blooms to be mitigated with scheduling of harvesting and geographical spread of farms



MUSSELS



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# Sanford Marine Extracts Facility - Blenheim



## Moving 'beyond food' through innovation

- \$20m+ investment
- Planned opening in December 2020





# Achieving Together in FY19

- Elevated people engagement
  - Overall 72%
  - Safety 85%
- Expanded organisational capability through training
- Ongoing investment in wages
- Improved communications – Toolbox Toolkit, Officers' Conference
- Development of centres of excellence in South Island
- Sale of pelagic assets in Tauranga
- Launched / built Big Glory Bay, Sea to Me, and Sanford and Sons at the Auckland Fish Market

Our focus on people will continue as a priority in FY20



PHOTO: From top centre right, clockwise, Melelatali Nalputa, James Pinto, C Wright, Sophia Rach, Julia Dean, Bryan Horing, Shane Tremaine, Alma Beswick, Janica Willaver, Dave McSweeney, Darryl Matehe, Gail Swanepoel, Rodney Roberts, Justin Goldsmith and Daniel Meagher

## FY19 Capital Investments

- **Capital expenditure of \$38.3m, +55% vs LY**
  - **Supporting the brand** - more fresh fish through the Auckland Fish Market
  - **'Beyond food' strategy** – 2 new dryers for Enzaq
  - **Vessel optimisation** - new sonar technology, vessel surveys and safety improvements
  - **Value add initiatives** on vessels to improve the return per kg - improved handling techniques and greater use of Precision Seafood Harvesting
  - **Salmon farm optimisation** through new feed barge

## FY20-22 Capital Investments

- **Priority areas:**
  - **Marine Extracts facility and equipment**
  - **Scampi vessel replacements**
  - **Mussel water space expansion**
  - **Salmon capacity growth**
  - **San Core Project – Information system and processes**
  - **Australia footprint**



# Why Sanford?

- Our strategy addresses major risks (changes in climate and consumer preferences)
- Our strong values attract great skills
- We aim to create value for all stakeholders.

We focus on the following areas in 2020:

## Wild Catch

- Channel / customer focus
- Product cascade improvements on vessels
- Processing automation in Timaru

## Mussels

- Product diversification
  - Food
  - Extracts
- Country and sales channel strategy
- Volume increase

## Salmon

- Expansion of the BGB brand
- Diversification of product formats
- Volume increase





Thank you!  
Questions?

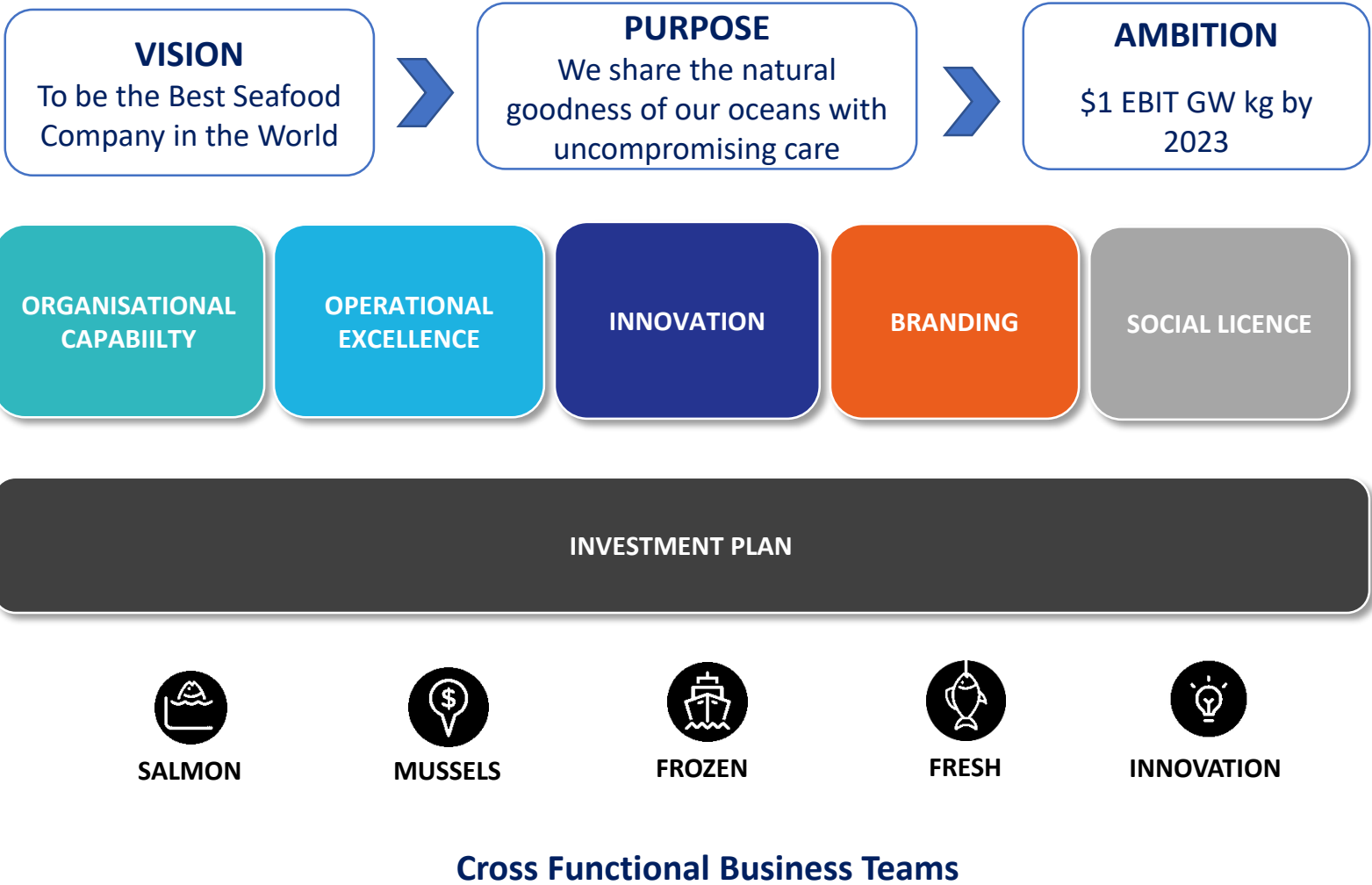
# Integrated thinking and delivery across our businesses

## Business Excellence Framework Sustainability as the Foundation



-  ENSURING HEALTHY OCEANS AND PROTECTING AND ENHANCING THE ENVIRONMENT
-  CREATING A SAFE AND HIGH PERFORMING WORKPLACE
-  SUPPORTING STRONG COMMUNITIES AND PARTNERSHIPS
-  LEADING THE WAY TO HEALTHY FOOD AND MARINE EXTRACTS
-  DELIVERING CONSUMERS' EXPECTATIONS
-  BUILDING A SUSTAINABLE SEAFOOD BUSINESS

## Sanford Strategy





# FY19 Financial Results - GAAP to Non GAAP reconciliation

	2019 \$m	2018 \$m
Revenue	545.1	515.0
Gross Profit	107.4	113.9
<b>Reported net profit (GAAP)</b>	<b>41.7</b>	<b>42.3</b>
<b>Add back (deduct)</b>		
Net interest and tax expenses	25.5	25.8
Net (gain) on sale of investments, property, plant and equipment and intangibles	(4.6)	(0.5)
<b>Reported EBIT</b>	<b>62.6</b>	<b>67.6</b>
<b>Adjustments</b>		
Impairment of assets and restructuring costs	2.2	3.9
Havelock earthquake insurance settlement	-	(6.8)
<b>Total one off items</b>	<b>2.2</b>	<b>(2.9)</b>
<b>Adjusted EBIT</b>	<b>64.8</b>	<b>64.7</b>
Depreciation	20.9	19.7
<b>Adjusted EBITDA</b>	<b>85.7</b>	<b>84.4</b>



	Comparable*		
\$m	2019	2018	Growth
Revenue	558.0	515.0	8.4%
<b>Gross Profit</b>	<b>120.2</b>	<b>113.9</b>	<b>5.6%</b>
GP%	21.5%	22.1%	

\* 2019 Revenue without NZ IFRS 15 adjustment



# GAAP TO NON-GAAP RECONCILIATION

## Non-GAAP Profit measures

Sanford's standard profit measure prepared under New Zealand GAAP is net profit. Sanford has used non-GAAP measures when discussing financial performance in this document. The Directors and management believe that these measures provide useful information as they are used internally to evaluate divisional and total Group performance and to establish operating and capital budgets. Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand Equivalents to International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures included in this report are not comparable with those used by other companies. They should not be viewed in isolation or as a substitute for GAAP profit measures as reported by Sanford in accordance with NZ IFRS.

## Definitions

**Reported EBIT:** Earnings before interest, taxation, non-trading currency exchange gain (loss) and gain (loss) on sales of investments, intangible and long term assets

**Adjusted EBIT:** Reported EBIT adjusted for impairment, restructuring and other one-off items

**EBITDA:** Earnings before interest, taxation, non-trading currency exchange gain (loss), depreciation, restructuring, adjusting items, impairment and gain (loss) on sale of investments, intangible and long term assets

# USD FX HEDGING PATTERN FOR THE YEAR

USD Exchange Rate  
2018 Year compared to 2019 Year

