



13 December 2019

Sanford Limited 2019 Annual Meeting
Mr Volker Kuntzsch
Chief Executive Officer's Address

(Slide 1)

Ladies and Gentleman,

Thank you for the opportunity to address you, both in person and via webcast, to report back on the financial year, ended 30 September 2019. Our Chairman has already commented in some detail on the year gone by and I thank him for that. I will expand on some of the most relevant topics and also connect this speech with our Annual Report, which you might have a copy of already. Sanford introduced sustainability reporting exactly 20 years ago, amongst the first to do so within the global seafood industry. The last six reports, which you see on this slide, are Integrated Reports, bringing together the financial and sustainability reports into one document. This naturally represents the integrated way in which we see and run the company.

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We have come a long way in reporting our progress in a transparent manner and I would highly recommend perusing a copy to understand the fascinating journey we are on. The title 'Together' reflects the fact that it takes a team to achieve our vision of being the best seafood company in the world.

The title also reflects the belief that we have come much closer together across the company in embarking on a successful future during the course of this year. The fatal accident of Steffan Stewart's on board the San Granit started the year off in the most tragic manner, and we are still dealing with the loss we never wanted to happen. The repercussions do appear to have created a shift in our attitudes towards each other at Sanford and it does feel as if our values of care, passion and integrity have grown in importance and personal relevance. I will reflect a little more on people engagement later in my address.

(Slide 3)

Paul Norling has already reflected on some of the key financials for the past year, but I wanted to share a few more insights. Our sales revenue continued to increase year on year, primarily driven by good pricing for a range of our products. Improved pricing is partly due to some commodities being in high demand, but generally the result of our more focused approach to a diverse customer and product portfolio. Sales volume was down as we took the San Granit out of operation for three months following the accident. Furthermore, due to algal blooms in the Marlborough Sounds and in Stewart Island, mussel and salmon harvests were impacted as well. Although the operations team caught up to cover the gap

quite impressively, leading to our aquaculture business performing very well, we couldn't quite achieve the volume target we had set ourselves due to the shortfall in the fishing business. However, I am very satisfied that we managed to keep our earnings before interest and tax (EBIT) on the same level as prior year, with EBIT per kg of product caught or harvested improving by 2c to \$0.56/kg. Without the San Granit shortfall, this number would have been approximately \$0.60/kg.

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This slide highlights the positive and negative shifts in our result in comparison to prior year. I would like to point out two one-off negative impacts, namely the San Granit outage of \$4m and the prior year posting of an \$8m one-off improvement in the fair value of our salmon in water, due to improved technologies that allowed us to more accurately measure the biomass. This benefit was not repeated this year.

The implementation of our strategy during the course of the year delivered positive contributions in both aquaculture and fishing. This strategy in action on the fishing side – in this case for the hoki – resulted from a greater focus on producing higher value products at sea, namely fillets instead of block-frozen product. We had also decided to shift 1,000T of hoki from our inshore fleet to our frozen at sea vessels. While our focus on fresh does generally create greater value for us, in the case of hoki, the frozen at sea product is preferable and often more profitable.

There are many other positive developments and innovations I could highlight here if time allowed such as our work improving the quality of our deepwater fish which has enabled us to move our products up the value chain or the success breeding Greenshell mussel spat at SpatNZ. For more of these success stories, please refer to our annual report.

Regarding the impact of climate and continuing investment in operational capability, I will come back to these later in the presentation.

(Slide 5)

We've been able to strengthen our balance sheet further by reducing our debt, therefore improving our debt/EBITDA ratio to well within our target of 1.75x.

This improvement resulted from proceeds from the sale of our 50% share in the processing facility we co-owned with our Korean fishing partner Dong Won in Weihai, China, and the sale of our pelagic business in Tauranga in April this year. Both transactions were undertaken as part of our strategic review of our portfolio and balance sheet to focus on adding value to our resources in New Zealand.

(Slide 6)

Taking a multi-year approach to our numbers, I want to highlight how over the last 5 years our catch and harvest volume has reduced while the focus on creating value has led to a

significant increase in revenue over the same period. The volume reduction has primarily been due to the sale of our international purse seine business and reductions in mussel harvests following stronger mussel growth previously. We expect our catch volume to reduce further this year as a result of the sale of the pelagic business in Tauranga in April this year. We do believe though that we will continue increasing our revenue as we continue the implementation of our strategy. Attractive commodity pricing driven by global demand for our healthy protein should also contribute positively.

(Slide 7)

While volumes have reduced over time and revenue has increased, our EBIT has not shown a corresponding increase as we have invested quite heavily into organisational capability. I have explained this to some degree in the past but will provide some context in the subsequent slides.

(Slide 8)

As you know, Sanford's beginnings were very much focused on fishing in the Hauraki Gulf some 140 years ago. As one of the photos from the 1900s shows on this slide, fish wasn't always treated with the respect we deem appropriate today for this beautiful resource. This may also be the reason why the seafood industry has a somewhat challenging reputation and we continue working on building trust with our communities to ensure the understanding that our livelihoods depend on sustainable ecosystems. The focus on volume had to give way to an appreciation for what our marine resources can offer.

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Back in 2014, we were still a commodity business, often sending our product to wholesale traders and were not putting customer and consumer expectations front and centre. Since then, we've managed to highlight our beautiful New Zealand seafood in much closer proximity to consumers – one example being the Auckland Fish Market that showcases our very diverse species portfolio. Subsequent to that, we've also introduced a more innovative approach that goes beyond food and provides valuable benefits on the basis of marine extracts, like mussel powder and collagen from hoki skins. While this journey required a tremendous effort in changing attitudes and culture, it also necessitated substantial investment into our organisational capability.

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Our business model evolved over the last few years to enable the introduction of our strategy around value creation through operational effectiveness and efficiency, innovation, product branding, sales channel optimisation and an array of other capabilities ranging from communication to sustainability and from asset management to business development. These processes were much needed to realise the tremendous opportunities Sanford holds. The introduction of new people and new processes take time to add real value and for a while this process appears to have added more cost without increasing value.

But as noted in previous slides, it is now we are seeing the benefits of our strategy starting to counter the challenges we have experienced and are going to be confronted with in future.

(Slide 11)

Our journey had its fair share of headwinds and, while our operational diversity across many species and fishing and farming activities provides great advantages, there is no shortage in challenges either. I mentioned the need for a changing mind set earlier and this is particularly difficult in an environment where the financial results always appeared acceptable to the many involved. The reason to change has only become clearer as trust in leadership grew and better results enabled improved conditions for our people.

We indicated increased levels of capital expenditure above depreciation for the financial years 2019 and 2020, with a significant share dedicated to the rejuvenation of our operational assets. Our infrastructure is ageing, leading to outages and suboptimal performance. We continue to invest into updating our fleets and aquaculture assets and expect this process to take another 3 to 5 years before the general state of our assets and preventative maintenance will lead to more predictable operations.

Challenges that have recently become more relevant include the impact of climate change and changes in consumer behaviour. Over the last few years, our result has been impacted by warmer ocean temperatures, algal blooms in a number of regions around New Zealand and increasingly volatile weather conditions out at sea.

As you are aware, we have implemented a number of measures to mitigate the risks of climate change and we will continue to sharpen our focus on this aspect of our business. It is highly likely that customer and consumer expectations will similarly reflect the changing nature of our environment, increasing the need for our awareness and understanding of global food trends. Our ability to provide transparency and deliver on the environmental and social components is already well underway.

The reputation of the commercial fishing industry still suffers from misinformation and some poor historic behaviours seem to linger on for a long time in the public mind. While we are not perfect, we have all come a long way in building our social license. Our dependency on sustainable marine resources underlines the need for doing the right thing and we will further develop our communication and transparency to highlight the comparatively low environmental impact of seafood and our activities as an industry.

(Slide 12)

This slide contains a lot of information around Sanford's strategic direction and what's important to us. The business excellence framework on the left highlights that sustainability is the foundation of the way we work. The word 'sustainability' is often still associated solely with an environmental focus and I would like to point out that we take a more holistic

approach, with the care for the environment and our oceans being one of the six pillars of our business excellence framework. The other pillars focus on our employees, our customers and consumers, the communities we work in, including partnerships with strategic stakeholders like the Graeme Dingle Foundation and Paralympics New Zealand, the product we produce and, naturally, the economic wellbeing of Sanford, without which we wouldn't be able to contribute any value to all our share- and stakeholders.

The right hand side of the slide depicts our strategy in more detail. You are aware of our ambitious vision, which we suggest is built on the ability of developing Sanford into a well-respected company that creates healthy and valuable products from our diverse marine resources coupled with the New Zealand provenance. Our customers, employees, communities and shareholders will be the judges!

Our financial target of achieving \$1 EBIT per kilogram of fish caught or harvested remains valid. It is our intention to get there by 2023 by focusing on those strategic pillars ranging from organisational capability and operational excellence to innovation, branding and social license, as laid out in the slide. The introduction of business management teams across frozen and fresh wildcatch, mussels, salmon and innovation last year proved to be very valuable in that these cross-functional teams provide tremendous strategic insight into the diverse divisions of our company. Their work has clearly led to a much sharper focus on longer-term outcomes.

The Board had agreed to an underlying investment plan of \$120m for the financial years 19-20, of which we spent approximately \$38m in FY19. We are planning on spending the remaining \$82m during the 2020 financial year and I will cover this in more detail in a later slide.

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The previous slides dealt with our financials for 2019 and provided context from a strategic perspective. I would now like to highlight a few other achievements over this period. One number that we are incredibly proud of is the improvement in people engagement over the last year. You may remember that we've had overall people engagement at around 50% for three years in a row, so the 72% achieved in 2019 is remarkable progress. This is very much due to ongoing investment into leadership training and internal communications (like weekly videos and bi-weekly newsletters). Furthermore, our entry level wages are now significantly above minimum wage for almost all our employees, reflecting our ambition to pay everyone a fair wage.

We restructured our businesses in Tauranga and Bluff to focus our operations on strategically important species at those particular sites.

We progressed the introduction of brands across our product range both domestically and in overseas markets. I am proud to see the Big Glory Bay brand called out by name on many

high-end restaurant menus in Auckland and the US. The opening of the Auckland Fish Market, including Sanford and Sons Fishmonger, earlier in the year has been very successful. The fish market enables us to bring our beautiful seafood directly to consumers. The utilisation of the Precision Seafood Harvesting fishing method across many of our vessels has led to the ability to showcase fish of the highest quality.

All of these successes, and many more, were only possible through the hard work of our teams across the country and I would like to thank them all for their often tireless input and commitment to achieving our goals together.

(Slide 14)

Paul Norling has reflected in some detail on how important the health, safety and wellbeing of our people is to us at Sanford. You will have noticed on the previous slide that the awareness of safety at Sanford is very high at 85% across our workforce and I am proud of the team around the country making safety top of mind.

With our focus on people, safety is undeniably the most important component. We have invested increasingly into training, from the frontline to leadership at all levels in the organisation with the aim of building trust and engagement. The implementation of a Just Culture enables everyone to speak up to ensure safety at their workplace. This has the desired effect of higher awareness and leads to increased reporting of near misses. All of this culminates in a more caring environment – one where we all look after each other.

Needless to say then, that Steffan Stewart's tragic accident earlier in the year had a devastating effect on the Sanford team, but may have also helped in shifting the mind set towards making safety at work far more personal, leading to an even greater appreciation of our need to always be vigilant. In memory of Steffan, the deepwater team in Timaru is placing a plaque on San Granit and it will always remind us how important it is to look after each other.

(Slide 15)

Precision Seafood Harvesting, as mentioned previously, is a game changer in fishing technology worldwide and we are proud to have been part of this Primary Growth Partnership with Sealord, Moana, Plant and Food Research and the Ministry for Primary Industries over the last 7 years. The project is now concluded with the methodology being deployed across many of our inshore and deepwater vessels already, delivering significant benefits in quality and value. The potential commercialisation of this technology is currently being investigated in collaboration with PWC.

The following video is an excerpt from Ocean Bounty, a series produced by Graeme Sinclair for TV3 and describes the benefits of this fishing method from the mouths of our own people, totally unscripted and with no prompting from us.

(Play Video)

(Slide 16)

Sanford has recently announced an investment of \$22m into a marine extracts facility to be built in Blenheim during 2020. The centre will increase our mussel powder production capacity and provide opportunity to manufacture other nutraceuticals, for example mussel oil, collagen and species-specific fish oils. A section of the building will be committed to ongoing innovation, while the premises are large enough to allow for future expansion.

We selected this South Island location due to its proximity to our largest mussel growing areas and other science providers.

(Slide 17)

Our capital expenditure can be broken down into the rejuvenation of ageing assets, innovation and growth. The list for FY19 covers those areas and is fairly self-explanatory. In addition to those projects, we've been busy preparing capital expenditure projects that will be initiated soon. One of the larger ones is the investment into three new scampi vessels over the next two to three years. Our current fleet is on average 35 years old and does not enable the production of consumer grade pack sizes. The vessels will possibly be run on diesel electric engines and allow for state of the art production facilities at cooler temperatures.

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You may have read the Chairman and CEO review in our annual report which starts with the question, "Why Sanford?". I would like to take this opportunity to speak to that further.

Our business is amongst the most diverse seafood businesses globally and the amount of change we have undergone over the last 5 years has been costly. With our earnings seemingly stagnating, environmental challenges mounting and consumers being increasingly, and rightly, demanding, the question why would I invest in Sanford, why would I want to work for Sanford, or why would I trust Sanford to be a good corporate citizen deserves to be answered by us.

Well, we are on the right path. We strongly believe our strategy of moving from a commoditised business towards one that is less dependent upon volume and increasingly able to extract value on the basis of innovation and consumer focus is clearly showing signs of success. We have had to invest significantly into organisational capability and sales volumes have reduced by 21% since 2013. But we have been able to more than double our earnings, from 23c to 56c per kilogram of fish. With the recent turnaround in people engagement, we are confident that we are on the right track. We also feel that our geographic spread and operational diversity keep us resilient through rapidly changing natural and consumer environments.

The incredible change our company has undergone over the last five years has taken many of us outside our comfort zones but I believe we agree that it has made us a strong and

capable team that is extremely excited about becoming the best seafood company in the world. Our priorities within the wildcatch, mussel and salmon divisions are primarily focused on innovation, branding, and growth, the latter especially in aquaculture, with operational excellence leading to greater efficiencies.

Against the background of seafood supplies being limited globally and this healthy protein being highly sought after by discerning consumers, we find ourselves in an environment where the challenge lies in finding the highest value proposition for this wonderful product, especially when it originates from New Zealand!

(Slide 19)

Sanford's exciting journey is only possible through the commitment of a strong team that shares our ambitious vision. I feel incredibly proud of the Sanford people for taking on this challenge and being wonderful ambassadors for our company in their communities and much farther afield. Thank you all for making such a difference! Thank you also to my Executive Team for making this trip quite an adventure.

I would like to thank the Board for their guidance and especially our Chairman, Paul Norling, for his drive and engagement in realising our vision. We had many challenging conversations over the last 5 years and I am sure both of us walked away from those with greater appreciation for the task at hand. Thank you, Paul, for your hard work and focus, inspiring and facilitating our tremendous progress and for your very positive view on what the future holds for Sanford.