

16 December 2020

Sanford Limited 2020 Annual Meeting
Sir Robert McLeod
Chairman's Address

1st slide

Ladies and Gentlemen, fellow shareholders, as I mentioned in my welcome to you, this is Sanford's 116th annual meeting. This time last year, I was deputy chair of Sanford and you were addressed at this meeting by Paul Norling, ahead of his retirement.

2nd slide

It has been a tumultuous year and one that few could have predicted. The Covid-19 global pandemic has created waves of damage and chaos around the world, to both people and businesses.

The rapid downturn in global tourism saw sharp declines in demand for high-value foodservice products. The contraction in aviation disrupted supply chains. Global and local market activity declined in response to lockdowns, ushering in economic uncertainty and cautionary health practices.

Despite the promise of vaccines, these global challenges remain.

3rd slide

The pandemic dramatically affected Sanford's performance. Our net profit after tax was \$22.4 million – 46% lower than the prior year at \$41.7 million.

Our adjusted earnings before interest and tax of \$38.3 million was 41% lower than last year at \$64.8 million.

Our revenue declined 14% in 2020 – a reduction of \$76.3 million. In these circumstances, your directors consider it imprudent to pay a final dividend in 2020.

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The charts on the screen provide a snapshot of how Sanford was affected by Covid-19.

Although the map shows we have diverse markets which have been an historical strength of Sanford in not having all its eggs in one basket, Covid-19 had a broad adverse impact across much of the sector with minimal offsetting gains against the general downturn.

The pandemic has emphasised the importance of identifying opportunities for more effective diversification. For example, developing and expanding domestic online sales further diversifies our customer base and our channels to market.

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“Navigate” is the theme and title of the 2020 Sanford annual report. The group has had to carefully navigate through all aspects of its business this year in terms of which projects to implement or defer, which wild catch species to pursue, the extent of inventory build, and the timing of harvesting mussels.

These choices provide Sanford with an opportunity to diversify across the supply and demand conditions of our buyer markets. Despite our economic challenges, Sanford remains strongly supported by its stakeholders. There is no doubt that long-term customer demand for Sanford products is assured; Covid-19 drove a wedge into a number of those markets that is temporary rather than permanent.

Sanford people remain highly committed and engaged. Despite this year's challenges with financial performance including share price performance, our ongoing discussions with shareholders reflect their belief that Sanford can meet their expectations.

The community stakeholder, which is partly represented by government and regulators, gives Sanford its license to operate, and has a significant effect on our brand.

Last but not least, our suppliers have worked hard throughout this year to support the company. Sanford's performance can be assessed in terms of adding value to all these stakeholders, which engenders their commitment to and support for the company.

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Under the leadership of Volker Kuntzsch, Sanford has pursued a value added strategy. That will not change in the future. Value-added products can be sold for higher margin.

Sanford has traditionally measured normalised EBIT across kilograms sold to track the progress of this value-added journey. In 2020 that measure was also impacted by Covid-19, contracting 20 cents to 36 cents per greenweight kilogram.

Sanford's value added products can be thought of as one side of a coin, the other being commodity products which depend on volume for profit in mainly price taking markets.

Given the substantial quota owned by Sanford and the nature of many of the company's species and products, it is important to recognise the significance of its revenue and products devoted to volume based business.

A value add strategy does not disenfranchise our large volume and commodity business. Indeed, Covid-19 showed how important our commodity base is to our overall performance. Many of our products have both value-add and commodity elements to them. Mussels in the half shell format is a commodity product, whereas mussel powder is not. Hoki can be sold as a commodity in block format that can be also sold as fillets for higher margin. Hoki skin produces collagen beauty products in a value-added category.

7th slide

The pandemic has highlighted the importance of managing complexity through simplicity, with clear prioritisation and focused execution. At a macro level, Sanford comprises harvesting, processing and selling businesses. At a micro level, Sanford comprises a complex array of multiple species, vessels, factories, products, markets and customers. The paradox is Sanford must manage this complex business in a way that is understandable to its people and customers.

The 2020 year has seen a fall off in profitability, raising its priority. The balancing of financial security and profitability requires a calibration of the company's CAPEX programme.

We are keeping a careful eye on cash flows and are more selective in the sequencing of the CAPEX programme. Our balance sheet shows debt at 20% of total assets which is strong.

Sanford will prioritise CAPEX that has a high probability of strong financial performance. Examples include scampi boat upgrades and expanding our new marine extract centre.

It should be noted that a prudent approach does not imply any compromise on safety. The safety and wellbeing of our people continues to be a top priority.

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Sanford follows the customer. Proximity to the customer affects margins. Sanford must strategically select these best proximity settings by product and customer category. One position does not fit all.

Most of our customers are not the final consumer. For example, selling to restaurants puts Sanford close to the consumer who is still one-removed. The fact that final consumers are almost always indirect customers means that Sanford must develop multiple supply channels.

In those channels, Sanford is supporting its customer to maximise their business rather than competing with that customer.

We have restructured our sales function to reflect the above realities. We are maintaining strong relationships with key distributors and global markets and in some cases concentrating those customer relationships.

During the pandemic, customer demand pivoted away from eating out to in-home dining and Sanford responded by developing opportunities in our domestic and global markets to satisfy dining at home. Those responses include product diversification, digital platforms and rejigging our commodity offerings.

The key theme running through the above realities is to mix and match to optimise particular channels and relationships. We cannot apply single formulas and approaches. Andre Gargiulo will provide more detail on this.

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The New Zealand fishing sector continues to be newsworthy. This year saw a lot of interest in cameras on boats. Sanford welcomes cameras on boats and has participated in trials. For example, we placed cameras on vessels fishing off the West Coast of the North Island, even though that was not compulsory.

A major event for Sanford this calendar year was the resignation of Volker Kuntzsch, our CEO for the past 7 years. Volker made a significant contribution to Sanford and is as an important member of the Sanford family: now a Sanford alumnus. Volker gave his all to Sanford, for which we are extremely grateful. We continue to have access to him, and we will follow the strategic directions that he has set. We wish him and his family all the best for a successful future.

The Board is continuing to manage the process to appoint Volker's replacement as the permanent CEO, which we are endeavouring to conclude as soon as possible. The Board is very pleased with the quality of candidates that have applied, including the internal candidates.

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To conclude, 2020 has placed major demands on Sanford and its stakeholders. We continue to take steps to mitigate the adverse impacts of the pandemic. Sanford, as with many other companies in New Zealand and around the world, is in a state of high alert seeking to be responsive and nimble in the face of this ongoing adversity.

I want to thank Sanford people for their resilience throughout 2020. Thank you also to the management team and the executive who have had to work incredibly hard through an extremely demanding year. I also thank my director colleagues who have shouldered a significantly higher workload this year in support of the company through its challenges.

Finally, I thank you, our shareholders, for your support of the company through these difficult times. I acknowledge the decision to withhold the final dividend denies a short run benefit to you, however your directors believe that decision is in your long-term best interests. Your directors and the management are working hard to return the company to the business as usual format of paying annual dividends.

I extend on behalf of my colleagues our best wishes to all of you as well as to other Sanford stakeholders, people, customers, suppliers and communities.

Please join me in wishing all New Zealanders a happy, safe and successful 2021.