Huon Aquaculture Group Limited

Results Presentation

HY2019

HUON AQUACULTURE

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Agenda

1 OVERVIEW
2 RESULTS ANALYSIS
3 OPERATIONAL REVIEW
4 OUTLOOK

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Overview of HY2019

- Performance in the first half was impacted, as forecast, by reduced biomass carried forward from 2H2018 with a resulting decline in harvest volumes for FY2019
- Jellyfish impact on production volumes and costs
- Revenue declined 20% to $136.3m due to a 29% fall in production volume on pcp
- Statutory NPAT fell 4% to $26.4m, underpinned by a strong recovery in the Fair Value Adjustment of Biological Assets
- Average harvest weight increased to 4.78kg from 4.27kg in 2H2018, in line with expected seasonal fluctuations
- Pricing in the domestic market remained robust, driven by a shortage in supply and growth in demand
- Investment in biological assets of $34.1m impacted operating cash flow in the half which fell 65% to $8.7m
- Net debt increased by $62m on pcp to $129.4m as a result of funding capital expenditure and costs associated with rebuilding the biological assets - gearing lifted to 38.8%
- Directors declared an interim dividend of 3.0 cents per share, franked to 50% and payable on 11 April 2019

Financial Performance: Production Challenges Continue

Six months ending		31 Dec 2018	30 June 2018	31 Dec 2017	Dec to Dec % Change
Tonnage	t	9,019	10,275	12,693	-29%
Revenue^	$M	136.3	147.4	170.5	-20%
Revenue per HOG kg	$	15.11	14.35	13.43	13%
Operating EBITDA**	$M	21.6	32.6	39.2	-45%
Operating EBITDA Margin	%	15%	22%	23%	-31%
Operating NPAT***	$M	8.9	16.4	19.0	-53%
Operating Earnings Per Share	c	10.10	18.82	21.71	-53%
EBITDA*	$M	46.6	7.4	51.5	-9%
NPAT	$M	26.4	(1.2)	27.6	-4%
Earnings Per Share	c	30.17	(1.38)	31.59	-4%
Dividend Per Share	c	3.00	5.00	5.00	-40%
Fair Value Adjustment	$M	25.0	(25.2)	12.3	103%
Biological Assets	$M	228.5	169.4	195.3	17%

^ Revenue from the sale of goods
• EBITDA is a non-IFRS financial measure which is used to measure business performance using net depreciation and amortisation recognised in the income statement
** Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets
*** Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact

- Volume fell 29%, as predicted, due to the impact on the biomass from the temperature spike in November 2017 and extended warm summer
- Sales revenue declined 20% as the strong pricing environment was not sufficient to offset the drop in volumes
- Operating EBITDA declined 45% to $21.6m and Operating NPAT fell 53% to $8.9m reflecting the ongoing impact of higher per kilo production costs during the 2017/18 summer period and recent jellyfish bloom
- Production costs/kg (including freight) rose 23% on pcp to $12.72/HOG kg as a result of lower biomass
- Fair Value Adjustment (FVA) rose 103% as biomass levels were rebuilt during the half
- Statutory profit improved on the 2H2018 loss as a result of the turnaround in FVA from a $25.2m loss to a $25.0m gain

Results Analysis

HY2019

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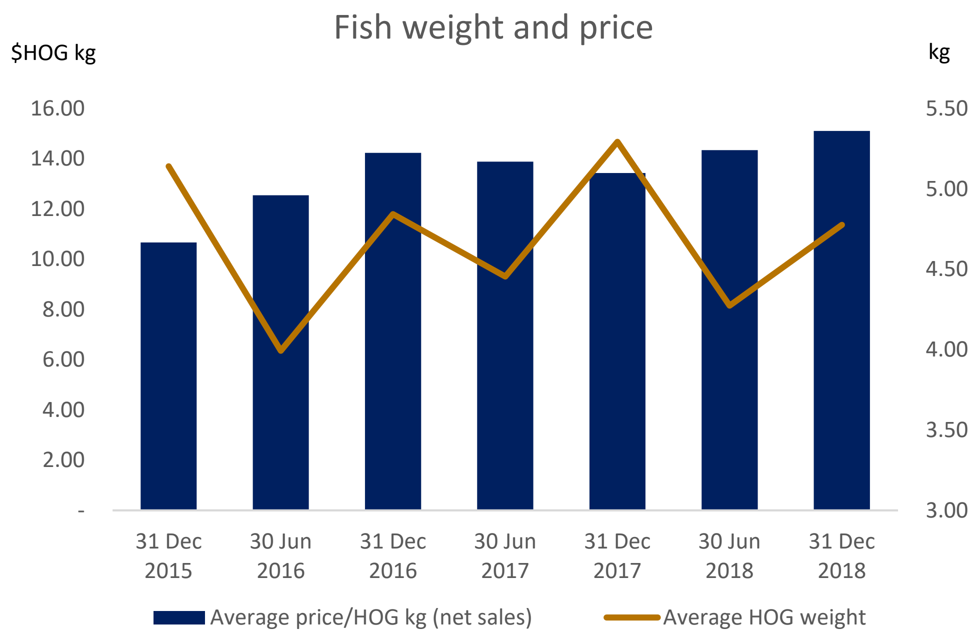
RESULTS ANALYSIS

Key Profit Drivers in HY2019



- The challenging conditions of 2H2018 which resulted in lower average fish weights, early harvest of the 17YC and increased per kg operating costs, continued to play out in1H2019
  - Compared to 2H2018, a 12% reduction in harvest volumes and 7% fall in revenue on an already elevated operating cost base, cut Operating EBITDA in 1H2019 by 34% to $21.6m
- Average fish weight in 1H2019 of 4.78 kg has seasonally recovered from the poor weights recorded in 2H2018 (4.27 kg)
  - Growing and operating conditions improved in 1H2019 but not enough to compensate for the impacts from 2H2018
  - Moon Jellyfish bloom in November/December also contributed to fish mortalities and lost growth
- Average price per HOG kg firmed slightly (+5%) on the previous half, to a record $15.11
  - Sales into the domestic market (wholesale and retail) accounted for 94% of revenue in 1H2019 compared to 76% in pcp and 88% in 2H2018

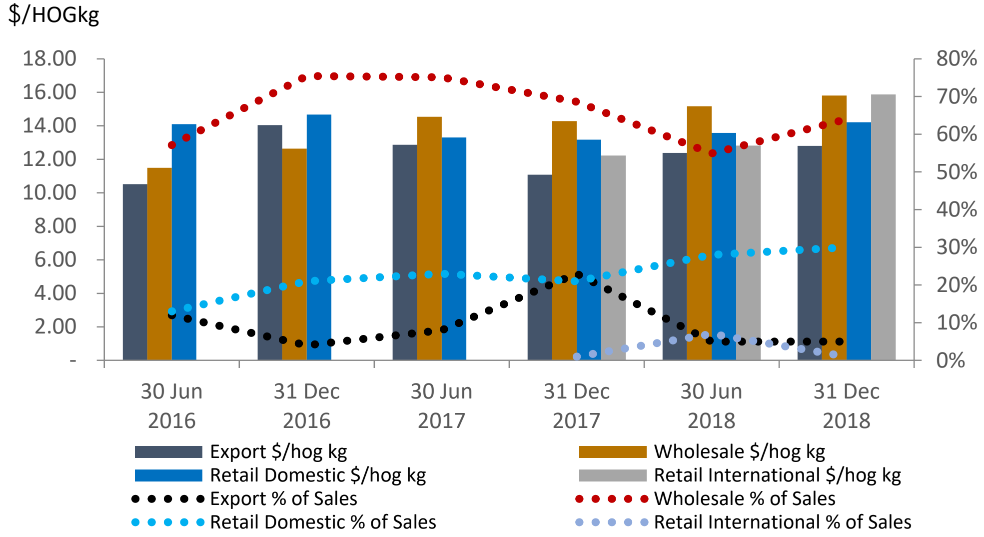
Pricing and Market Conditions

- The average domestic price has been rising steadily over the past 18 months, particularly in the wholesale market
  - Shortfall in supply during 1H2019 in the face of continued growth in demand created additional upward pressure on price
  - The wholesale price averaged $15.81/kg (+8% on pcp)
  - Sales into the domestic retail channel also benefited from a 4% increase on pcp to $14.21/kg
- Sales into the international market, both retail and spot export, fell as lower production volumes were fully absorbed by the domestic market
  - Exports in the half averaged 5% of sales at an average price of $12.80/kg
  - Modest sales to international customers continued to attract prices ($15.88/kg) that reflected the demand for Huon's quality product

CHANNEL MIX BY REVENUE

Six months ending	31 Dec 2016	30 Jun 2017	31 Dec 2017	30 Jun 2018	31 Dec 2018
Wholesale	75%	69%	55%	60%	64%
Retail Domestic	21%	23%	21%	28%	30%
Retail International	–	–	1%	7%	1%
Export	4%	8%	23%	5%	5%

Distribution channels by price and contribution to sales



Fair Value Adjustment Impact on Profit

Six months ending		31 Dec 2018	30 Jun 2018	31 Dec 2017	30 Jun 2017	% Change Dec on Dec
Revenue^	$M	136.3	147.4	170.5	126.0	-20%
EBITDA*	$M	46.6	7.4	51.5	24.1	-10%
EBITDA Margin	%	34%	5%	30%	19%	13%
Fair Value Adjustment	$M	25.0	(25.2)	12.3	(12.4)	103%
Operating EBITDA**	$M	21.6	32.6	39.2	36.5	-45%
Operating EBITDA Margin	%	16%	22%	23%	29%	-31%
Biological Assets	$M	228.5	169.4	195.3	188.0	17%

- Fair Value Adjustment on biological assets recorded a 103% increase on pcp of $25.0 million for 1HY2019
  - Planned increase in fish numbers through the introduction of the 2018 Year Class
  - Solid biological performance for 1H2019
- Value of biological assets rose17% on pcp
  - Firm pricing in the domestic market supported by high international prices
  - Seasonal impact of the average per kg value of biological assets easing due to the higher proportion of new Year Class fish

^ Revenue from the sale of goods
* EBITDA is earnings before interest, tax, depreciation and amortisation
** Operating EBITDA is statutory EBITDA excluding Fair Value Adjustment

Cash Flow Generation

	Six Months Ended			
$M	31 Dec 2018	30 Jun 2018	31 Dec 2017	30 Jun 2017
Operating EBITDA*	21.6	32.6	39.2	36.5
Cash Flow from Operations	(1.6)	34.8	23.2	33.1
Add - Net Interest Paid	2.8	1.7	1.6	1.6
- Tax Paid/(Refunded)	7.5	(4.2)	–	–
Adjusted Cash Flow from Operations	8.7	32.2	24.8	34.7
EBITDA Conversion	**40%**	**99%**	**63%**	**95%**
Capex	41.4	44.5	43.2	22.3
Cash at end of period	4.5	2.8	7.4	23.0

- Adjusted Cash flow from operations decreased from $24.8m in pcp to $8.7m in 1HY2019 reflecting:
  - Lower harvest volumes and higher per kg costs
  - Higher cash requirement driven by increased biomass
- Increased interest payments on higher borrowings
- Commencement of tax instalments
  - Tax refunds expected in 2H2019, offsetting tax paid in 1H2019
- Lower conversion of Operating EBITDA to cash during 1HY2019 as biomass is rebuilt
  - Cash conversion to improve in 2H2019
- Capex spend of $41.4m in 1H2019 in line with projected budget of $70m for FY2019 as part of Huon's current expansion phase

* Operating EBITDA is statutory EBITDA excluding Fair Value Adjustment

Balance Sheet

As at	31 Dec 2018	30 Jun 2018	31 Dec 2017
ASSETS			
Cash	4.5	2.8	7.4
Receivables	32.0	32.9	39.4
Biological Assets	228.5	169.4	195.3
Inventory	13.0	12.4	13.2
Total current assets	292.3	223.0	258.5
Property, plant & equipment	313.9	286.3	254.7
Total non-current assets	327.6	300.0	268.5
Total assets	619.9	523.0	527.0
LIABILITIES			
Payables	69.3	52.3	58.6
Borrowings	9.3	39.2	19.9
Total current liabilities	86.3	104.9	88.6
Borrowings	124.7	45.0	54.9
Deferred Tax	72.0	57.6	62.9
Total non-current liabilities	200.3	106.3	121.7
Total liabilities	286.6	211.2	210.3
NET ASSETS	**333.3**	**311.8**	**316.7**

- Net assets rose 5% on pcp underpinned by increased investment (+23%) in fixed assets
- Cash position reflects continued funding of capital expenditure from cash flow and existing debt facilities
- Increase in working capital (21.2% on pcp) to $206.0m
  - Planned increase in biological assets (+17%)
- Net debt levels increased 92% on pcp to $129.4m
  - Expanded 5 year debt facility refinanced during the half to support current expansion phase
  - Covenants eased with leverage ratio increasing from less than 2.00 to 2.75 times
- Gearing (net debt/equity) increased to 39% from average levels of 20-25% in prior years
  - Expected strong recovery in cash flow generation over the next 2 years to support reduction in debt and return gearing to historic average of 20-25%

Operational Performance

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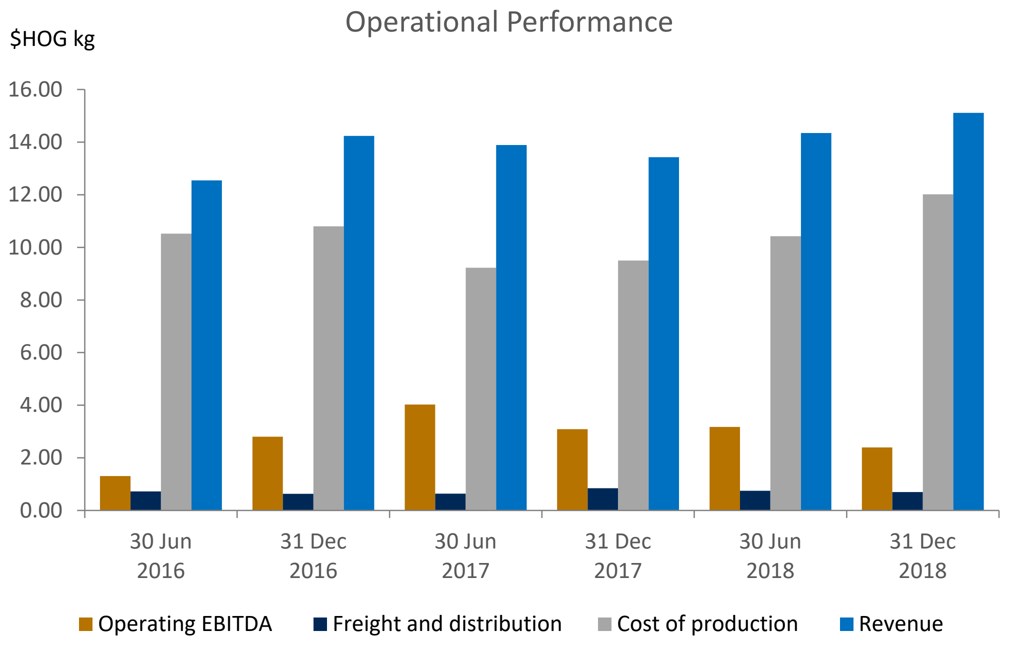
Production Costs Remain under Pressure



- Operational EBITDA per HOG kg in 1HY2019 declined by 22% on pcp to $2.39 as margins continued to be squeezed
  - Cost of Production*, including freight and distribution, rose 23% to $12.72/HOG kg from $10.34/HOG kg in pcp
- Domestic pricing remained firm throughout the half particularly in the wholesale market
- Substantial reduction in weighting to lower priced export market which accounted for 6% of sales compared to 24% in pcp
- Average Cost of Production/kg in 2HY2019 is expected to fall to c. $11.00/kg as the higher costs associated with 2017YC drop away
  - Production costs/kg are heavily impacted by the reduced farmed biomass in 2H2018, due to the high fixed cost structure of aquaculture

* Sales $ per HOG kg less EBITDA per HOG kg

Moon Jellyfish and Bush Fires

In addition to managing the predictable risks of warm summers and outbreaks of AGD and POMV, outlier events also occur in farming that incur additional costs.

- A moon jellyfish bloom in the Huon River and D'Entrecasteaux Channel in Nov/Dec 2018
  - Salmon coming into contact with jellyfish stings and mucus are at risk of poisoning
  - The key mitigation strategy is to keep jellyfish away from the fish eg towing the pens slowly through the water allowing the jellyfish to be pushed out through the nets
  - Mitigation strategies were successfully undertaken from the date of the initial outbreak until the end of December
  - Labour and operational costs incurred together with fish mortalities and lost growth
  - Direct threat from jellyfish is over, however:
    - Jellyfish have caused damage to fish gills causing gill necrosis
    - It has led to reduced survivability and growth during January and February
    - Cooler water (c.15^{o} C) will quickly restore gill health

- Bush fire defence activities in the Huon Valley during January/early February 2019
  - Contingencies put in place in line with Huon's risk management strategy, daily emergency management meetings
  - All sites had generators, water sprinklers were installed on hatchery roofs and access to freshwater for use by firefighters
  - Road closures required sea transfer of staff to/from work and harvest trucks to the processing factory

Efficiency Drivers

Investment in new infrastructure and continued innovation to drive efficiency and a lower cost of production

- Central Control Room
  - Feed automation and shore based feeding systems complete
  - 100% of fish populations being fed by new system
  - Feed pellet recognition software now fully automated
  - Visual net checks and environmental monitoring done from the control room
  - Mortality retrieval systems being automated, reducing fish health risks and making this operation more efficient

Efficiency Drivers

- Feed distribution and control
  - 600 tonne feed barge, unmanned and automated, launched in December
  - Construction of second 600 tonne feed barge underway
  - 1000 tonne feed delivery boat, Huon Supply, operational
- Pen and net maintenance
  - Net cleaning equipment upgrades completed
  - Conversion to flying net cleaners
  - New Tasmanian designed net cleaner able to remove hard fouling

Efficiency Drivers

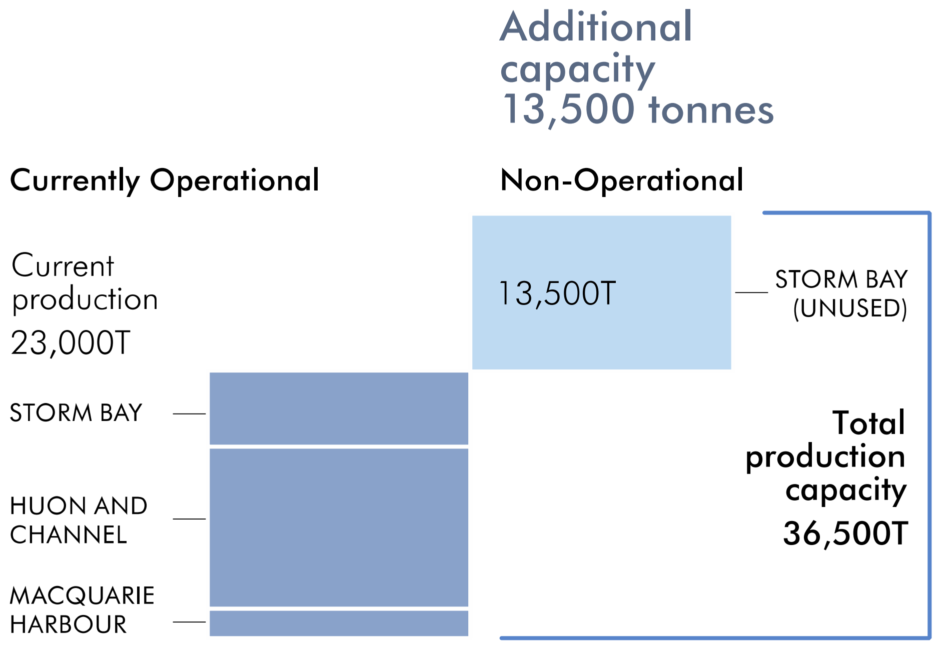
- Second generation well-boat, Ronja Storm, launched
  - Hull completed and vessel now in Norway
  - Fitout in progress with delivery to Tasmania scheduled for late CY2019
  - Well capacity of 7,560m^3
  - Enables bathing of fully stocked 240m fortress pens in single bath
  - Multiple use and on board fresh water generation
    - Holds total water volume of 13,450 tonnes, including buffer tanks
    - 700 tonnes per hour desalination capacity
  - Ronja Huon to remain in service for harvesting and as backup to Ronja Storm

Update on Capacity Expansion

- Whale Point Salmon Nursery in Operation
  - Whale Point was commissioned during late December with the first fingerlings transferred into tanks on 21 January
  - These fish will be put to sea in mid CY2019 and will be ready to harvest in under 12 months
  - Enables bigger smolt to sea, shortening sea grow-out time, increasing farming capacity and reducing grow-out risk
  - Evens out the harvest profile across the year

Update on Capacity Expansion

- Future Production Capacity
  - Fish in current production will support a 30,000 tonne production in FY2021
  - Capacity to increase production beyond 30,000 tonnes as Whale Point Salmon Nursery moves to full production capacity
- Lease expansion at Storm Bay
  - Additional lease capacity at East of Yellow Bluff, increasing total capacity in the Storm Bay region to 20,000 tonnes
  - Huon installed 8 additional 240m fortress pens in existing Storm Bay leases last year and will continue to expand its production at Storm Bay, consistent with growth in demand from the domestic market



Yellowtail Kingfish Trial

- Yellowtail Kingfish Trial - NSW
  - Research trial conducted over the past 2.5 years at Port Stephens in NSW has been concluded and the trial site is in the process of being decommissioned
  - The trial succeeded in demonstrating the viability of farming Yellowtail Kingfish commercially in a high energy, warm water environment off the east coast of Australia
  - The next phase to develop a commercial operation includes:
    - a suitable holding/harvest site to ensure stable market supply
    - an appropriate shore base
    - access to commercial quantities of fingerlings
  - The medium term objective is to set up farming sites on both the East and West Coasts of Australia in order to supply locally grown Kingfish to the domestic and lucrative Asian markets

- Yellowtail Kingfish Trial – Western Australia
  - In October 2018 Huon secured a licence to operate in a new aquaculture zone 60 km west of Geraldton in WA
  - The 2200 Ha site is fish farm ready following completion of an EIS by the Western Australian government
    - Huon will undertake additional detailed monitoring before committing capital
  - Commercial operations will commence once supporting infrastructure has been developed and a suitable shore base in Geraldton has been acquired
  - This initiative represents an important step in Huon's long term strategy to diversify into high demand fish species

Capital Expenditure

- Capital expenditure for FY2019 of c. $75m is being directed to core infrastructure for expanding production
- $41.4m in capex invested in 1H2019, funded predominantly from existing debt facilities
- The remaining $34m in expenditure is being funded from cash flow
- Beyond FY2019 capital expenditure is anticipated to revert to capex levels of around $40m per annum, unless market opportunities dictate otherwise

Dividend

- Interim dividend of 3.0 cents per share, franked to 50%, payable on 11 April 2019
  - record date of 22 March 2019
- Huon's dividend policy is to maintain an annual payout ratio of up to 35% of Net Operating Profit after Tax

Outlook

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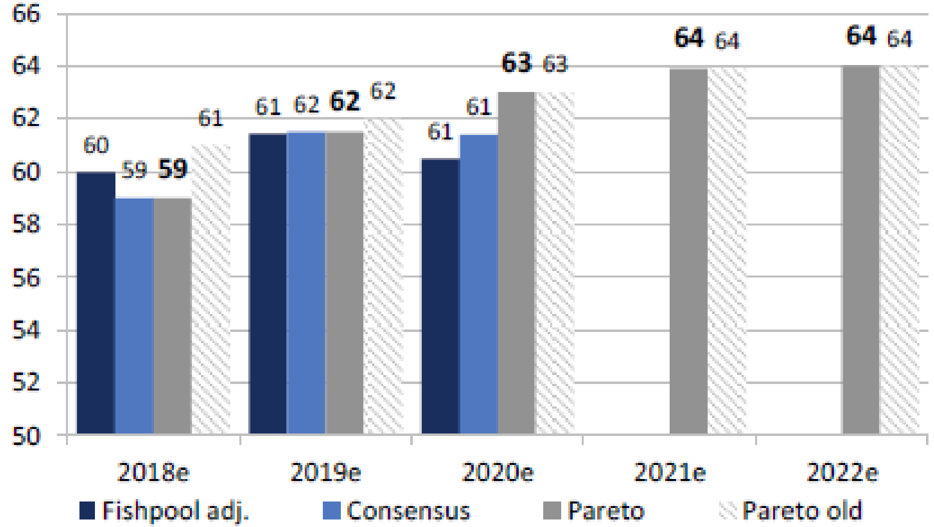
Market Outlook

- Domestic market expected to continue growing at around 10% per annum
  - Domestic salmon production expected to fall short of demand in FY2019 and FY2020
- Global demand for salmon is growing at 6-7% pa
  - Consumption per capita very low in most markets
  - Salmon a fraction of global animal and seafood proteins production
- Forecast supply growth over the next two years averaging 5-6% pa
  - Norway continues to suffer production constraints with modest growth of 4-5% pa forecast over next 4 years
  - After a strong rebound in 2018, Chile's production is forecast to be flat in 2019 with future growth limited by ongoing issues with sea lice levels
  - A shortage of new lease space is shifting focus for growth in future supply to come from land based projects
- International salmon prices forecast to remain high
  - NOK 62-64 from 2019 and 2022

Spot price estimates (NOK/kg)



Source: Pareto, Factset, Fishpool

Source: Pareto Research January 2019

Outlook

- Forecast production volumes for FY2019 are unchanged at 20,000 tonnes
  - A return to average compound growth of 10%pa on FY2018 levels should see increased production volumes in FY2020 of at least 25,000 tonnes and 30,000 tonnes in FY2021.
- Average domestic pricing in FY2019 to remain above $15.00/HOG kg for the year as supply continues to lag the growth in demand
- Per kilo production costs for FY2019 are now forecast to increase by around 10% exacerbated by the jellyfish impact.
- FY2019 performance heavily weighted towards the 2H as the business ceases to be impacted by issues arising from the 2018 summer.
  - Sales revenue expected to be only slightly down on FY2018 despite fall in tonnage
  - Operating EBITDA to be 5-10% below the record result in FY2018
- A $160m two year capital expenditure programme investing in Huon's expansion phase will be completed in the current financial year
  - The increase in biological assets in FY2020 and FY2021, together with a favourable pricing environment, will underpin increased revenue, a reduction in operating costs and a return to growth in operating earnings.

Huon well positioned for sustainable growth and development in a growing, supply constrained market

Appendix

HY2019

Statutory to Operating Reconciliation

STATUTORY

1 Revenue from the sale of goods
2 EBITDA is a non-IFRS financial measure which used to measure business performance, using net depreciation and amortisation recognised in the income statement
3 Net debt is total debt net of cash and cash equivalents
4 Total gearing ratio is measured as debt (net of cash) / net assets
5 Return on assets is measured as statutory EBIT (rolling 12 months) / total assets

	Statutory Earnings		31 Dec 2018	30 Jun 2018	31 Dec 2017	30 Jun 2017	% Change Dec on Dec
	Tonnage	t	9,019	10,275	12,693	9,071	-29%
1	Revenue	$M	136.3	147.42	170.48	125.95	-20%
2	EBITDA	$M	46.6	7.41	51.46	24.09	-10%
2	EBIT	$M	34.7	(5.02)	39.23	13.33	-11%
	NPAT	$M	26.4	(1.20)	27.59	10.70	-4%
	Biological Assets	$M	228.5	169.36	195.27	188.02	17%
	Cash and cash equivalents	$M	4.5	2.79	7.42	23.00	-39%
3	Net debt	$M	129.4	81.33	67.34	43.00	92%
	Revenue per HOG kg	$/kg	15.11	14.35	13.43	13.88	12%
	Earnings per share	c	30.17	(1.38)	31.59	12.26	-4%
4	Total gearing ratio	%	38.8%	26.1%	21.3%	14.7%	83%
5	Return on assets	%	5.2%	6.7%	10.4%	13.3%	-50%

FAIR VALUE ADJUSTMENT

6 Related income tax at current tax rate

	Fair Value Adjustment		31 Dec 2018	30 Jun 2018	31 Dec 2017	30 Jun 2017	% Change Dec on Dec
	Fair Value Adjustment of Biological Assets	$M	25.00	(25.20)	12.33	(12.39)	103%
6	Related income tax refund/(expense)	$M	(7.50)	7.56	(3.70)	3.72	103%

OPERATING RESULTS

7 Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets
8 Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact

	Operating Earnings		31 Dec 2018	30 Jun 2018	31 Dec 2017	30 Jun 2017	% Change Dec on Dec
	Revenue	$M	136.3	147.42	170.48	125.95	-20%
7	Operating EBITDA	$M	21.6	32.61	39.13	36.48	-45%
	Operating EBIT	$M	9.7	20.18	26.90	25.72	-64%
8	Operating NPAT	$M	8.9	16.44	18.96	19.37	-53%

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