



Huon Aquaculture Group Limited

# Results Presentation

FY2019



# Important Information

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# Agenda

- 1 OVERVIEW
- 2 RESULTS ANALYSIS
- 3 OPERATIONAL REVIEW
- 4 OUTLOOK





# Overview of FY2019

- Whale Point Salmon Nursery commenced operation and the first of Huon's new generation feed barges was moored at Storm Bay where two of the four leases are in full production
- Lower production volumes at the start of the year were further impacted by a moon jellyfish bloom which led to increased mortalities and low fish growth
- Average harvest weight decreased from 4.78kg to 4.40kg as fish growth was impacted by gill necrosis and warmer water temperatures persisting till April
- Revenue fell 11% to \$282.0m due to the reduction in harvest tonnage (-18% on pcp)
- Operating EBITDA fell 34% to \$47.3m as falling revenue and higher production costs squeezed margins
- Prices in the wholesale market remained above \$15.50/kg, in response to the shortage in supply
- The \$150m two year capital expenditure program was completed, funded largely by debt and cash flow
- Net debt increased to \$138.8m resulting in gearing rising to 44%, a level which is expected to be maintained in the short term.



Whale Point Salmon Nursery first fish



## OVERVIEW OF FY2019

# Financial Performance

Twelve months ended		30 June 2019	30 June 2018	% Change
Tonnage	t	18,849	22,968	-18%
Revenue <sup>^</sup>	\$M	282.0	317.9	-11%
Revenue per HOG kg	\$/kg	14.96	13.84	8%
EBITDA*	\$M	38.2	58.9	-35%
EBITDA Margin	%	13.5%	18.5%	-27%
Operating EBITDA**	\$M	47.3	71.8	-34%
Operating EBITDA Margin	%	16.8%	22.6%	-26%
NPAT	\$M	9.5	26.4	-64%
Operating NPAT***	\$M	15.9	35.4	-55%
Earnings per share	cents	10.82	30.21	-64%
Dividend per share	cents	6.00	10.00	-40%
Operating Earnings per share	cents	18.13	40.53	-55%
Fair value adjustment	\$M	(9.1)	(12.9)	-29%

<sup>^</sup> 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

- Operating EBITDA fell 34% to \$47.3m and Operating NPAT was less than half (\$15.9m) the previous year's record result of \$35.4m
- Volume down 18%, partly due to reduced biomass at the start of the year, but exacerbated by increased mortalities and poor growth due to impacts from contact with moon jellyfish
- Sales revenue (-11%) supported by a strong pricing environment due to supply shortages
- Production costs/kg increased 16%, reflecting the impact of lower volumes on a fixed cost base
- Fair Value Adjustment (FVA) declined by \$9.1m as a result of tighter margins from the higher per kg cost of production
- Statutory NPAT (-64%) adversely affected by the decline in the FVA



## OVERVIEW OF SECOND HALF OF FY2019

# Financial Performance

Six months ending		30 June 2019	31 Dec 2018	30 Jun 2018	Jun to Jun % Change
Tonnage	t	9,830	9,019	10,275	-4%
Revenue <sup>^</sup>	\$M	145.7	136.3	147.4	-1%
Revenue per HOG kg	\$	14.82	15.11	14.35	3%
Operating EBITDA <sup>**</sup>	\$M	25.8	21.6	32.6	-21%
Operating EBITDA Margin	%	17.7%	15.8%	22.1%	-20%
Operating NPAT <sup>***</sup>	\$M	7.1	8.9	16.4	-57%
Operating Earnings Per Share	c	8.03	10.10	18.82	-57%
EBITDA <sup>*</sup>	\$M	(8.4)	46.6	7.4	↓
NPAT	\$M	(16.9)	26.4	(1.2)	↓
Earnings Per Share	cents	(19.35)	30.17	(1.38)	↓
Dividend Per Share	cents	3.00	3.00	5.00	-40%
Fair Value Adjustment	\$M	(34.2)	25.0	(25.2)	36%
Biological Assets	\$M	209.1	228.5	169.4	23%

<sup>^</sup> 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

<sup>\*\*</sup> Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets

<sup>\*\*\*</sup> Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact

- Both revenue (-1%) and tonnage (-4%) were slightly weaker in 2H2019 compared to the 2H2018.
- Both periods were affected by challenging operating conditions resulting in increased mortalities from disease and low growth due to warmer water temperatures persisting for longer periods over summer
- Pricing remained firm in response to ongoing shortages in supply domestically in 2H2019, mitigating the impact on revenue
- Operating EBITDA fell 21% in 2H compared with pcp as a result of increased production costs/kg
- Biological Assets rose 23% to \$209.1m
  - Record biomass in the water reflecting a major rebuild of stock to return production in FY2020 to where it would have been without the setbacks of the past 18 months.



# Results Analysis

FY2019





## RESULTS ANALYSIS

# Key Profit Drivers in FY2019



- Reduced tonnage and increased production costs per kg impacted heavily on operating earnings in FY2019
- Average fish weight in 2H fell below that recorded in the pcp as fish affected by contact with the moon jellyfish suffered secondary health impacts leading to increased mortalities and lower growth rates.
  - As in FY2018 growing conditions were characterised by an extended summer and water temperatures remaining above 16 degrees for longer
- Average HOG weight for 2H2019 of 4.10 kg was the lowest since 2H2016 (3.99 kg)
- Average price per HOG kg remained firm throughout FY2019 at \$14.96, up 8% on pcp
  - Record average price per HOG kg of \$15.11 in 1H2019





## RESULTS ANALYSIS

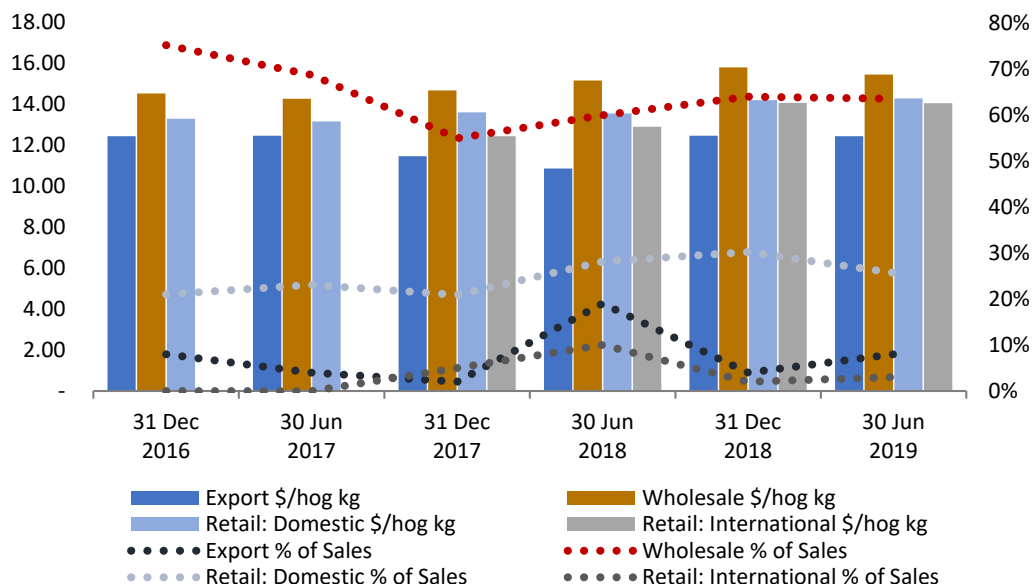
# Pricing and Market Conditions

- The average domestic price continued to firm during the year, particularly during the 1H
  - Supply shortages resulted in production being prioritised for the domestic market which continued to grow at c.10% pa
  - The wholesale price averaged \$15.81/kg in 1H (+8% on pcp) and was 2% higher in the 2H on pcp but 2% lower (\$15.46/kg) on 1H
- Sales into the retail channel both domestically and internationally accounted for 30% of revenue in FY2019
  - Contracts secured in FY2018 to supply the new 'retail international' channel were unable to be fulfilled due to supply shortages
  - New opportunities are being pursued consistent with the growth in production volumes
- Exports across the financial year averaged 6% of sales (the majority in the second half), at an average price of \$12.47/kg

### CHANNEL MIX BY REVENUE

Six months ending	30 Jun 2017	31 Dec 2017	30 Jun 2018	31 Dec 2018	30 Jun 2019
Wholesale	69%	55%	60%	64%	63%
Retail Domestic	23%	21%	28%	30%	26%
Retail International	3%	5%	10%	2%	3%
Export	6%	20%	2%	4%	8%

### DISTRIBUTION CHANNELS BY PRICE AND CONTRIBUTION TO SALES



## RESULTS ANALYSIS

# Fair Value Adjustment Impact on Profit

Six months ending		30 Jun 2019	31 Dec 2018	30 Jun 2018	% Change Jun on Jun
Revenue^	\$M	145.7	136.3	147.4	-1%
EBITDA*	\$M	(8.4)	46.6	7.4	↓
EBITDA Margin	%	-5.8%	34.2%	5.0%	↓
Fair value adjustment	\$M	(34.2)	25.0	(25.2)	36%
Operating EBITDA**	\$M	25.8	21.6	32.6	-21%
Operating EBITDA Margin	%	17.7%	15.8%	22.1%	-20%
Biological Assets	\$M	209.1	228.5	169.4	23%

- Biological assets increased (23% pcp)
  - Increased biomass in the water (30% on pcp) at 30 June 2019
  - Continuation of the rebuild of the biomass that commenced in the first half
  - Continued firm pricing in the domestic and international market
- Fair value adjustment on biological assets recorded a decline of \$9.1 million for FY2019
  - Margins squeezed as a result of the higher production costs per kg
  - The second half is also seasonally lower as a result of a new year class being put to sea and final harvest of the older year class

^ Revenue from the sale of goods

\* EBITDA is earnings before interest, tax, net depreciation and amortisation

\*\* Operating EBITDA is statutory EBITDA excluding fair value adjustment





## RESULTS ANALYSIS

# Cash Flow Generation

	Six Months Ended			
	30 Jun 2019	31 Dec 2018	30 Jun 2018	31 Dec 2017
\$M				
Operating EBITDA*	25.8	21.6	32.6	39.2
Cash Flow from Operations	16.0	(1.6)	34.8	23.2
Add - Net Interest Paid	5.4	2.8	1.7	1.6
- Tax Paid/(Refunded)	(5.2)	7.5	(4.2)	–
Adjusted Cash Flow from Operations	16.2	8.7	32.2	24.8
<b>EBITDA Conversion</b>	<b>63%</b>	<b>40%</b>	<b>99%</b>	<b>63%</b>
Capex	22.9	41.4	44.5	43.2
Cash at end of period	2.6	4.5	2.8	7.4

- Cash flow from operations fell from \$57.9m in FY2018 to \$14.5m reflecting:
  - Reduced production volumes and revenue
  - Squeezed margins due to the increased production cost per kg
  - Increased cash requirement driven by the rebuild of biomass in the first half
- Conversion of Operating EBITDA to cash averaged 53% during FY2019
  - Weaker profitability as a result of increased per kg operating costs
  - Costs of building a much larger biomass
- Second of the 2 year \$150m capex program to deliver increased production capacity
  - \$64.3 million spent on completion of Whale Point Salmon Nursery and infrastructure for two of the four leases at Storm Bay

\* Operating EBITDA is statutory EBITDA excluding fair value adjustment



## RESULTS ANALYSIS

# Balance Sheet

Period Ended	30 Jun 2019	30 Dec 2018	30 Jun 2018
<b>ASSETS</b>			
Cash	2.6	4.5	2.8
Receivables	30.5	32.0	32.9
Biological Assets	209.1	228.5	169.4
Inventory	12.8	13.0	12.4
<b>Total current assets</b>	<b>265.8</b>	<b>292.3</b>	<b>223.0</b>
Property, plant & equipment	320.4	313.9	286.3
<b>Total non-current assets</b>	<b>333.9</b>	<b>327.6</b>	<b>300.0</b>
<b>Total assets</b>	<b>599.7</b>	<b>619.9</b>	<b>523.0</b>
<b>LIABILITIES</b>			
Payables	72.4	69.3	52.3
Borrowings	9.7	9.3	39.2
<b>Total current liabilities</b>	<b>92.3</b>	<b>86.3</b>	<b>104.9</b>
Borrowings	131.7	124.7	45.0
Deferred Tax	58.2	72.0	57.6
<b>Total non-current liabilities</b>	<b>193.3</b>	<b>200.3</b>	<b>106.3</b>
<b>Total liabilities</b>	<b>285.6</b>	<b>286.6</b>	<b>211.2</b>
<b>Net assets</b>	<b>314.1</b>	<b>333.3</b>	<b>311.8</b>

- Net assets increased modestly (+1%) on pcip as the increased investment in biologicals (+\$39.7m) and fixed assets (+\$34.1m) was part funded by increased debt (+\$57.2m)
- Cash position reflects funding of increased capital expenditure from cash flow
- Net debt levels increased 71% on pcip to \$138.8m
- At 44%, gearing (net debt/equity) reflects the upper limit of new debt facilities put in place last year for the capex program
  - Expanded facility with improved covenants was negotiated on similar terms and conditions relative to previous facilities
- Working Capital increased by \$55.4 million driven by the investment in biological assets





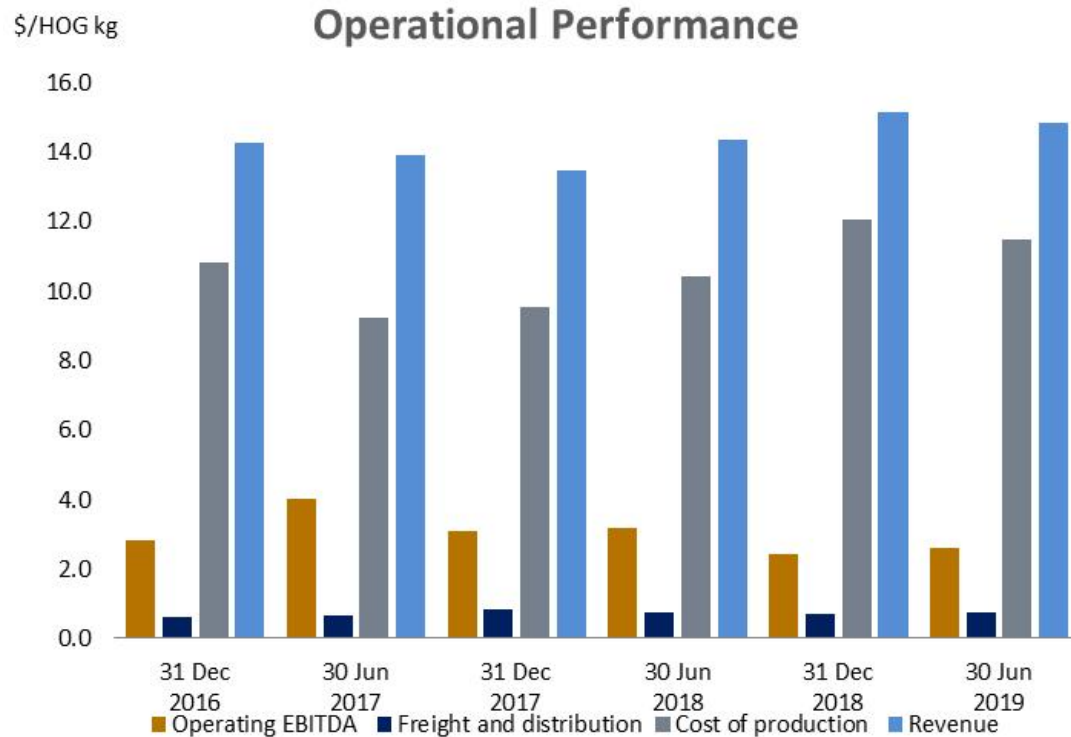
# Operational Performance

FY2019



## OPERATIONAL PERFORMANCE

# Production Costs



- Operating EBITDA per HOG kg in FY2019 fell 20% on pcp to \$2.51 as margins were squeezed due to
  - Cost of production\*, including freight and distribution, increasing by 16% to \$12.45/HOG kg year-on-year, peaking at \$12.72/HOG kg in 1H
  - The 8% increase in Revenue per HOG kg over FY2019 to \$14.96 only partly mitigating the rise in total cost per kg
- Domestic pricing remained firm throughout the year particularly in the wholesale market (\$15.63/HOG kg)
  - 64% of sales to the wholesale market
  - Record weighting of sales into the domestic retail channel at 28%
  - Exports accounted for 6% of sales, mostly in the second half
- A modest reduction in the average total cost of production/kg is expected in FY2020
  - Ongoing impact in 1H2020 of operational and biological costs on the 2018YC arising from the ongoing management of fish health compromised by gill necrosis and extended period of warm water temperatures

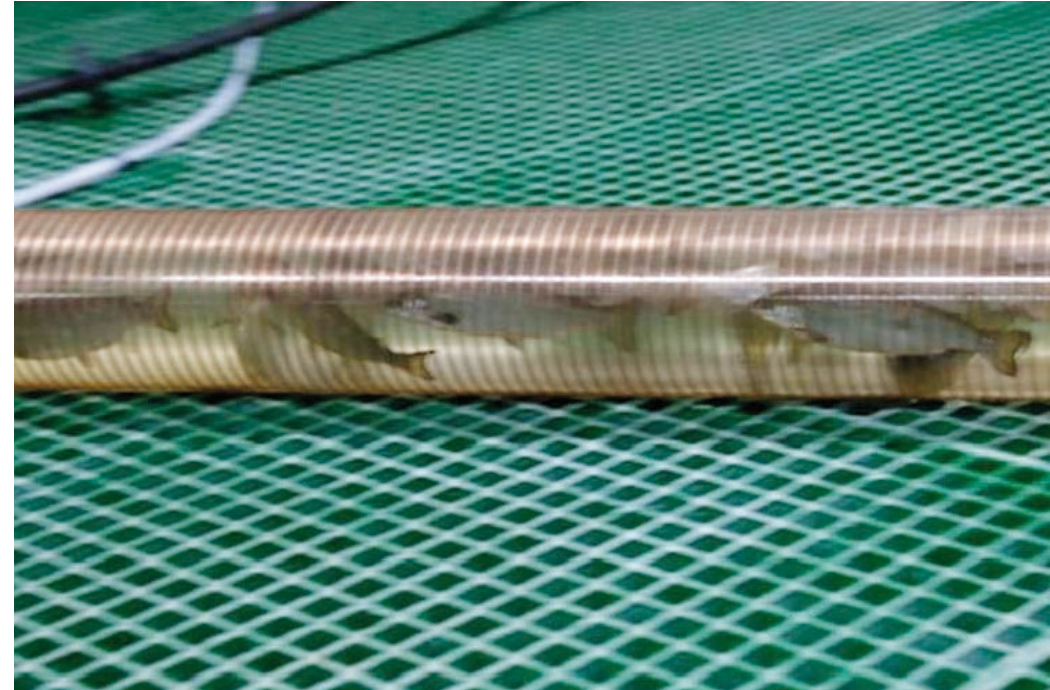
\* Sales \$ per HOG kg less EBITDA per HOG kg





# Leveraging Huon Technology

- Whale Point Salmon Nursery
  - Smolt put to sea at more advanced stage of growth
  - Reduced mortality risk and fish grown to the same size in less time at sea
- Unmanned fully automated Feed Barges
  - 600 tonne Huon Hogan feed barge launched and another under construction to manage increased production and feed demands
  - Fully automated and unmanned, meaning less feed delivery trips and increased feed security
  - Fish can be fed in any weather so no missed feed days
- Automated feeding
  - Huon's entire production volume fed from a central control room in Hobart
  - Huon developed technology enables automated feeding using a spreading system monitored by video sensors that stop feeding when fish are not eating
  - Reducing feed conversion rates
- Continued innovation leads to improved efficiency and a lower cost of production



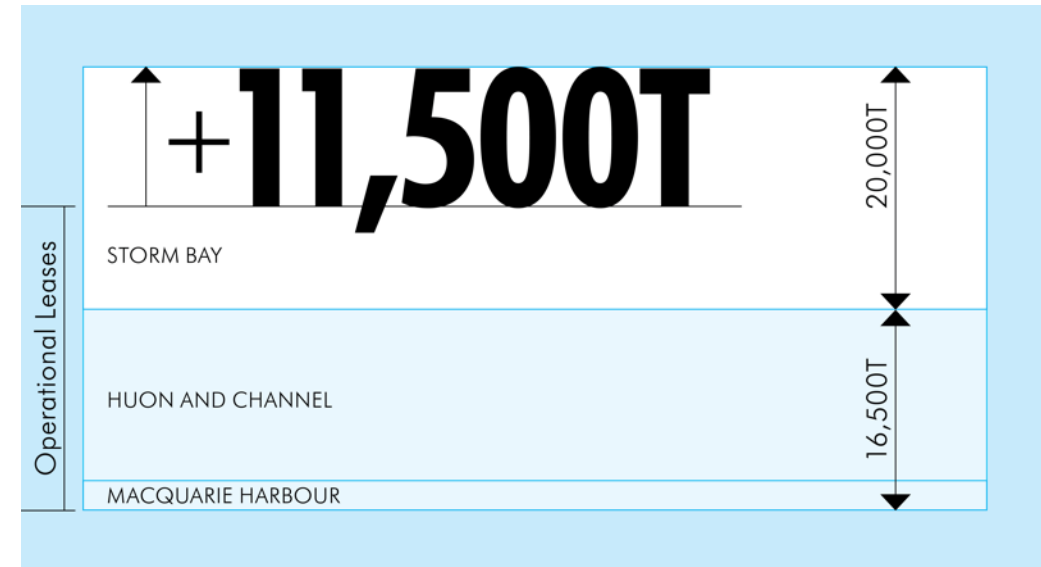
Whale Point Salmon Nursery transfer of fish



## OPERATIONAL PERFORMANCE

# Growing Capacity

- Lease expansion at Storm Bay
  - In May 2019 Huon was granted an Environmental Licence for a new lease at East of Yellow Bluff
  - Allow for an expansion of capacity in Storm Bay up to 11,500 tonnes
  - It will increase total capacity in the Storm Bay region to 20,000 tonnes
  - Enables Huon to deliver improved biosecurity
- Whale Point Salmon Nursery
  - Construction of 1,400 tonne Whale Point Salmon Nursery completed at the end of CY2018
  - Reduces time fish are at sea from 14 months to 9-10 months
  - Farming capacity and following opportunity increased without having to expand lease area
- Macquarie Harbour
  - Continue to farm at same levels
- Yellowtail Kingfish Trial
  - Trial concluded at Port Stephens in NSW
  - Continued monitoring and investigation at Western Australian site



- Planned production FY2020 at 25,000 tonnes and fish in production that supports 30,000 tonnes in FY2021
- Production growth included in capex forecasts
- Utilisation of the lease capacity beyond 30,000 tonnes could require future expansion capex

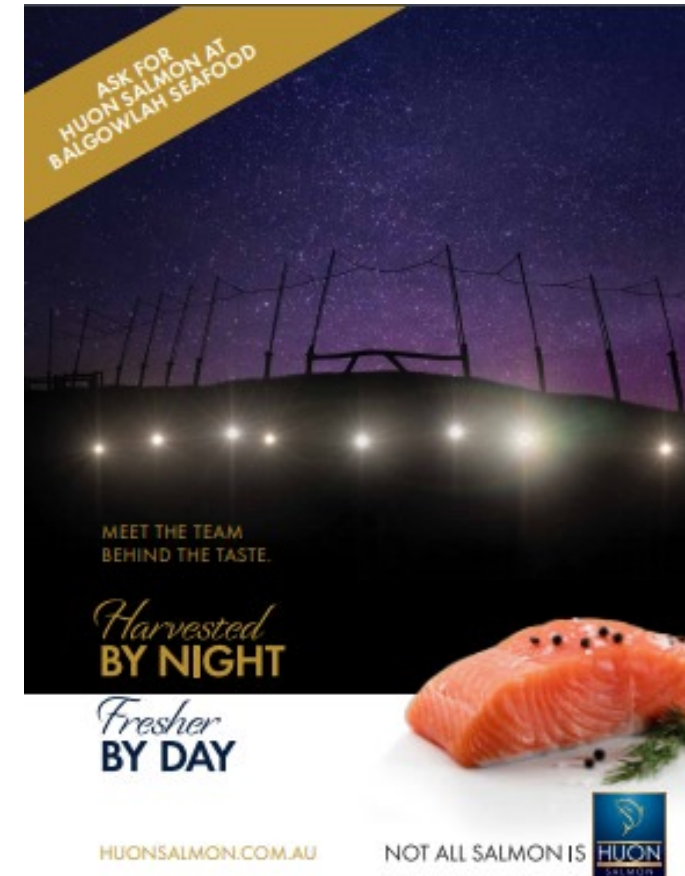




## OPERATIONAL PERFORMANCE

# The Domestic Market

- The domestic retail consumer bought just over 5,500 tonnes of Huon salmon in FY2019 or 29% of Huon's total production
- Huon continued to promote its *Harvested by Night*, *Fresher by Day* campaign across key mainland markets in FY2019
- Recent consumer surveys indicate the Huon brand is gaining increased unaided brand awareness
  - Strong increase in freshness as a key brand attribute
- Huon brand is positioned at the premium end of a growing salmon market
- Strong focus on driving domestic per capita consumption as Huon expands its production volumes in coming years
  - New purpose-built processing facility opened in Sydney in April 2019 to capitalise on Huon's market leading reputation for freshness by supplying fresh salmon to markets on the eastern seaboard
- In FY2019 Huon was the first salmon company in Australia to offer RSPCA Approved salmon to the market



## OPERATIONAL PERFORMANCE

# People and Safety

- Huon continued to implement its 'People & Capability' strategy during the year
  - Launched the 'Huon Leaders Program' with 42 individuals selected to participate in activities designed to strengthen their leadership capacity
  - Succession Planning framework developed to support the consistent identification and development of the future leadership cohort
  - 115 employees completed VET sector training courses
  - General literacy, numeracy and digital literacy support continues to be offered to all employees
- Key safety measures maintained or improved compared to the previous year
  - ALTR recorded a notable 40% improvement

	FY19	FY18	FY17	FY16
<b>Lost Time Injury Frequency Rate (LTIFR)</b>				
Number of injuries per 1 million hours worked	4	4	3	7
<b>Average Lost Time Rate (ALTR)</b>				
Hours Lost per employee	10	14	12	16
<b>Incident Rate (IR)</b>				
Number of Lost time Injuries per 100 employees	0.97	1.0	0.6	1.3





## Capital Expenditure

- Capital expenditure for FY2019 of \$64.3m directed to core infrastructure for expanding production
  - Final stage of construction of the Whale Point Salmon Nursery
  - Continued expansion of marine farms in Storm Bay
- Funded from cash flow and \$57m from existing debt facilities
- Capital expenditure over the next 3 years is expected to average \$40m per annum, unless market opportunities dictate otherwise

## Dividend

- Final dividend declared of 3 cents per share, franked to 50%
- The Final Dividend is payable on 17 October 2019 to shareholders as at the record date of 27 September 2019
- Interim and Final dividend payments total 6.0 cents per share for FY2019 (10 cents per share FY2018) both franked to 50%
- Huon's annual dividend represents a payout of 33% of net operating profit after tax



# Outlook





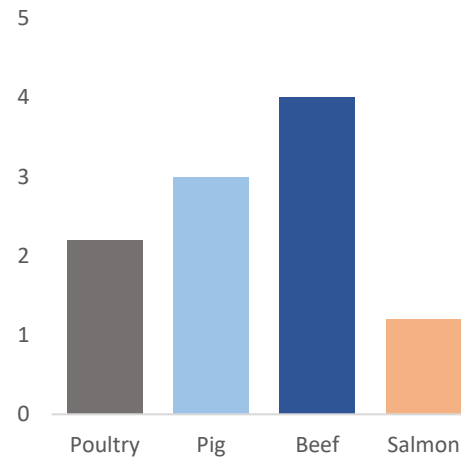
# Market Drivers and Outlook

- Domestic market expected to continue growing at around 10% per annum
  - Domestic salmon production expected to fall short of demand in FY2020
- Global demand for salmon is growing at 7% pa vs forecast supply growth over the next two years of 3% in 2020 and 7% in 2021, depending on biological factors
  - Supply constraints exist in the major markets of Norway and Chile, the two major producers of salmon
  - A shortage of new lease space globally
- International salmon prices are expected to remain high for the next two to three years
  - Forecast average pricing<sup>1</sup> of 62-63 NOK compared to 60 NOK in 2017 and 2018
- Animal agriculture and meat consumption are recognised as significant contributors (13-18%) to global warming<sup>2</sup> driving an increased focus on alternative sources of protein

1. Rabobank

2. World Resources Institute, UN Food and Agriculture Organization

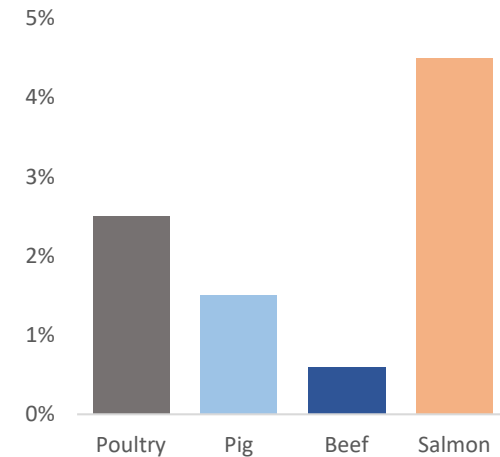
**FEED CONVERSION RATIOS  
FOR PROTEIN SOURCES**



Aquaculture is one of the most efficient forms of farming when measured by the amount of feed required to deliver the end output

**GLOBAL CONSUMPTION GROWTH  
OF ANIMAL PROTEINS**

CAGR, 2007-2017



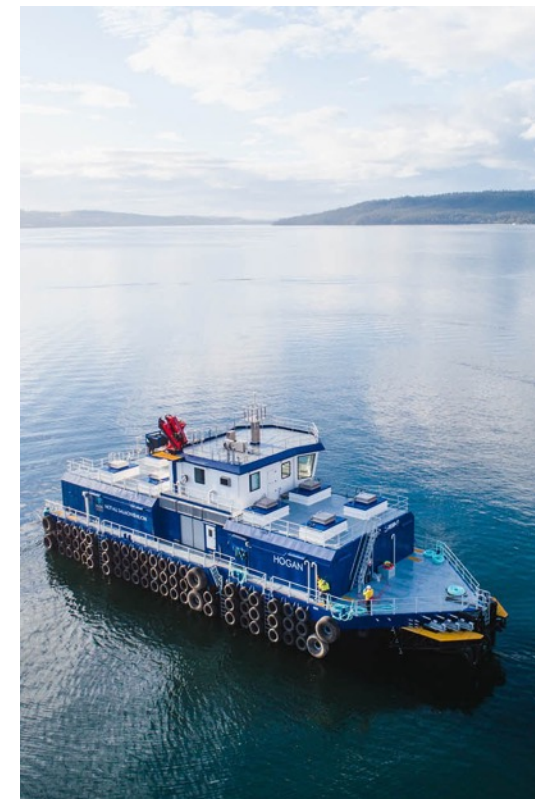
Growth in global salmon consumption 2007-2017 averaged 4.5% pa compared to less than half that for competing proteins





# Outlook for Huon

- FY2020 season has started with record biomass in the water but with the 18YC fish below optimal weight
  - Operational performance in the first half will continue to be impacted by the challenging growing conditions that persisted throughout the summer in 2019
- Production volumes for FY2020 are estimated to be at least 25,000 tonnes
  - This will return volumes to levels projected prior to FY2018, consistent with growth of c 10%pa
- Production costs for FY2020 are expected be only modestly below FY2019
  - Productivity gains from the investments of the past 2 years should deliver a reduction in total production costs
  - Impact of the higher cost 18 Year Class to continue, leaving production costs at above \$11.50/HOG kg
- Average pricing in FY2020 to remain firm as supply remains constrained
  - Overall price for FY2020 is expected to be up to \$14.50/HOG kg for the majority of the year
- FY2021 Huon has fish in production that will support a 30,000 tonne harvest
  - Pricing should continue to be underpinned by a shortage of supply over demand



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





# Appendix

FY2019





# Statutory to Operating Reconciliation

## STATUTORY

- 1 Revenue from the sale of goods
- 2 EBITDA is a non-IFRS financial measure which is 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		30 Jun 2019	31 Dec 2018	30 Jun 2018	31 Dec 2017	% Change Jun on Jun
Tonnage	t	9,830	9,019	10,275	12,693	-4%
1 Revenue	\$M	145.7	136.3	147.4	170.5	-1%
2 EBITDA	\$M	(8.4)	46.6	7.4	51.5	↓
2 EBIT	\$M	(22.2)	34.7	(5.0)	39.2	↓
NPAT	\$M	(16.9)	26.4	(1.2)	27.6	↑
Biological Assets	\$M	209.1	228.5	169.4	195.3	-23%
Cash and cash equivalents	\$M	2.6	4.5	2.8	7.4	-7%
3 Net debt	\$M	138.8	129.4	81.3	67.3	71%
Revenue per HOG kg	\$/kg	14.82	15.11	14.35	13.43	3%
Earnings per share	c	(19.35)	30.17	(1.38)	31.59	↑
4 Total gearing ratio	%	44.2%	38.8%	26.1%	21.3%	69%
5 Return on assets	%	2.2%	5.2%	6.7%	10.4%	-67%

## FAIR VALUE ADJUSTMENT

- 6 Related income tax at current tax rate

Fair value adjustment		30 Jun 2019	31 Dec 2018	30 Jun 2018	31 Dec 2017	% Change Jun on Jun
Fair value adjustment of Biological Assets	\$M	(34.2)	25.0	(25.2)	12.3	36%
6 Related income tax refund/(expense)	\$M	10.2	(7.5)	7.6	(3.7)	34%

## 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		30 Jun 2019	31 Dec 2018	30 Jun 2018	31 Dec 2017	% Change Jun on Jun
Revenue	\$M	145.7	136.3	147.4	170.5	-1%
7 Operating EBITDA	\$M	25.8	21.6	32.6	39.2	-21%
Operating EBIT	\$M	12.0	9.7	20.2	26.9	-41%
8 Operating NPAT	\$M	7.1	8.9	16.4	19.0	-57%





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