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FULL YEAR 2020 RESULTS ANNOUNCEMENT AND $64 MILLION EQUITY RAISING

Huon Aquaculture Group Limited (ASX: HUO) has delivered a net profit after tax (NPAT) of $4.9 million for the twelve months ended 30 June 2020 ($9.5 million pcp). Despite a 21% increase in revenue to $339.9 million on the strength of a 36% increase in harvest tonnage, earnings were significantly impacted by COVID-19. This included disruption to the wholesale market from closure of the food service sector during the final quarter and restricted access to the international salmon market as the availability of international airfreight services declined. Huon's increased exposure to the lower priced spot export market during the year, accounting for 28% of revenue, contributed to an 11% drop in the average price to $13.30/HOG kg. Huon is also today announcing a fully underwritten institutional placement of $64 million to reduce net debt and strengthen the company's balance sheet and liquidity position.

SUMMARY OF BUSINESS PERFORMANCE FOR FY2020[1]

- Revenue of $339.9 million (+ 21% on pcp), supported by a 36% increase in harvest tonnage
- Statutory NPAT of $4.9 million ($9.5 million pcp)
- Operating NPAT declined to $3.9 million due to a change in channel mix which resulted in an 11% fall in average price. In addition depreciation charges were higher reflecting the increase in capital expenditure over the past two years
- The average harvest weight increased to 5.04kg from 4.40kg in FY2019 as fish growth, particularly the 19 Year Class, responded to the gains that have been made over the past year in lifting operating performance by changing the way Huon farms salmon
- Cash flow from operations of $8.4 million deteriorated from the previous corresponding period ($14.5 million) due to reduced revenue in the second half as a result of COVID-19 and increased working capital requirements as fish were kept in the water longer with some channels to market closed or restricted in the final quarter
- Increased working capital requirements during the second half resulted in a 21% increase in net debt over the year to $167.3 million (pre AASB 16) and a similar rise in gearing to 53%
- Dividend remains suspended, as indicated at the half year

[1] Reported figures for FY2020 are Post AASB 16, comparative years and % changes are on a Pre-AASB 16 basis

RATIONALE FOR EQUITY RAISING

The investment in rebuilding the biomass over the past 2 years resulted in the FY2020 harvest increasing 36% to 25,566 tonnes. Nevertheless the advent of COVID-19 necessitated a slow-down in the harvest with more fish being kept in the water longer, shifting some of the planned harvest tonnage into FY2021. In the short term this has resulted in a reduction in operating cash flow and additional working capital costs. This has been funded by increased borrowings, increasing gearing to 53% from 42% at the half year. As the impact of COVID-19 on markets and pricing during FY2021 continues to remain highly uncertain, and in recognition of the higher than planned gearing levels in place at this time, an equity raising of up to $68 million is being announced. Proceeds will be used to reduce net debt and strengthen the balance sheet and liquidity position, ensuring the business is well placed to meet the capital requirements of the Group for at least the next 12 months, based on conservative assumptions.

EQUITY RAISING OVERVIEW

The Equity Raising will comprise a $64 million fully underwritten institutional placement ("Placement") at $3.00 per share and a non-underwritten Share Purchase Plan for eligible shareholders to raise up to $4 million ("SPP") (together, the "Equity Raising").

Post the equity raising, pro forma liquidity (cash and cash equivalents and undrawn bank facilities) will increase to approximately $90 million from $26 million as at 30 June 2020. Pro forma gearing as at 30 June 2020 will reduce to approximately 32% from 53% on a pre-AASB 16 basis. Pro forma leverage as at 30 June 2020 will reduce to approximately 2.5x from 4.0x.

Peter and Frances Bender, Huon's founding and major shareholders ("Founders") will not be participating in the Equity Raising. However, the Founders are fully supportive of the Equity Raising and reiterate their long-term commitment to the company.

In conjunction with the Equity Raising, Huon has secured significant support from its lenders, including a relaxation of the key banking covenant, the leverage ratio, through to the end of June 2021 (inclusive). The $20 million uncommitted term loan has also been converted into a committed facility maturing 31 October 2021.

FINANCIAL SUMMARY

Twelve months ending 30 June		Post AASB 16 2020	Pre AASB 16 2020	Pre AASB 16 2019	Pre AASB 16 % Change
Tonnage	t	25,566	25,566	18,849	36%
Revenue	$M	339.9	339.9	282.0	21%
Revenue per HOG kg	$/kg	13.30	13.30	14.96	-11%
EBITDA	$M	48.8	42.3	38.2	11%
NPAT	$M	4.9	6.5	9.5	-32%
Operating EBITDA	$M	47.3	40.8	47.3	-14%
Operating NPAT	$M	3.9	5.5	15.9	-65%
Fair value adjustment of Biological Assets	$M	1.5	1.5	(9.1)	↑
Biological Assets	$M	264.0	262.8	209.1	26%
Cashflow from Operations	$M	8.4	(4.3)	14.5	↓
Net debt	$M	167.3	167.3	138.8	21%
Total gearing ratio	%	54.3%	52.6%	44.2%	19%
Earnings per share	cents	5.63	7.47	10.82	-31%
Dividends per share	cents	0.00	0.00	6.00	↓

1 Revenue from the sale of goods.
2 EBITDA is earnings before interest, tax, net depreciation and amortisation.
3 Operating EBITDA excludes the impact of the Fair Value Adjustment of Biological Assets.
4 Operating NPAT excludes the impact of the Fair Value Adjustment of Biological Assets and related tax impact.
5 Total Gearing Ratio is measured as debt (net of cash)/net assets.

IMPACT OF COVID-19

Huon Aquaculture's financial performance in FY2020 was affected by the significant disruption of two of its main channels to market, wholesale and export, as a number of measures were implemented by the state and federal governments in March 2020 to contain the spread of the COVID-19. Huon adhered to government guidelines and was permitted to continue all operations 'as normal', albeit with modified policies and procedures to contain any potential outbreaks of COVID-19 within the business. There were no disruptions to the ongoing operations of the business.

During April and May the impact of the lockdown, in particular the closure of restaurants, clubs and the food catering industry more generally, virtually closed the food services sector in Australia. While sales through retail channels were strong, Huon experienced a significant drop in sales in its wholesale market during April and May due to its high exposure to the food service channel. Access to export markets was interrupted from late March due to the disruption to international air freight services.

The disruption to the international and domestic markets had a material impact on the second half results. The increased fish size and volumes available for harvest in Q4, with the commencement of the 19 Year Class harvest, should have delivered high returns. Following the outbreak of the pandemic international prices that lifted in December and January entered another period of volatility and Huon's strong position in food services supply was a disadvantage in the domestic market as consumers moved their purchases into retail.

Huon's supply into domestic retail and retail fish shops increased, along with e-commerce channels, but did not compensate for the loss of food services volume. The increased consumer activity in these markets is however expected to deliver long term benefits through increased per capita consumption with more consumers now familiar with salmon as a weekly family menu item.

OPERATIONAL SUMMARY

Huon began FY2020 with continued poor fish growth in the 18 Year Class and harvest weights being slow to recover from the effects of gill necrosis which had developed as a consequence of the jellyfish bloom at the end of 2018. This resulted in low sales volumes in the first quarter as the business predominantly had small fish to sell, reducing its competitiveness in the wholesale market. It also meant export sales were difficult, particularly in the China market where there is a preference for larger fish.

Growth rates picked up in spring with fish size being more competitive in the wholesale market and more acceptable for export markets, allowing harvest rates to increase through the second quarter. The recovery of harvest size drove volume increases into the export channel which coincided with a sharp drop in international pricing, the lowest since 2015, due to Norway and Chile unexpectedly increasing their harvest levels for a short period.

With **sales into the spot export market** accounting for 28% of revenue, the fall in export prices in the second and fourth quarters was the main contributor to the 11% drop in the weighted average sales price for FY2020. The increased availability of fish together with larger fish size both support Huon's commitment to focus on providing a reliable source of supply to our key markets both domestically and offshore. This year **contracted sales into the international market** doubled to 6% of revenue and as this trend continues, there will be less exposure to the more volatile pricing environment of the spot export market.

The **domestic retail channel** accounted for approximately 4,421 tonnes in FY2020 or 19% of sales compared to 5,510 tonnes (28% of sales) the previous year, following the completion of a large 3-year MAP contract in FY2019. Excluding this contract, Huon made strong, direct gains in the retail segment with salmon sales up 110% as a result of new supply agreements and increased focus on customer development. Rebuilding and growing supply through the retail channel is a key focus of Huon's strategy to grow the market and will remain a focus for FY2021.

The **domestic wholesale market** remains a very important sales channel for Huon, accounting for 47% of sales in FY2020. This market was significantly disrupted in the last quarter of the year with volumes down 19% in the second half on pcp. Huon responded with discount pricing and marketing efforts to help stimulate demand for wholesale partners, focussing on volume through fresh fish shops, independent retailers, quick service restaurant outlets and e-commerce businesses.

To preserve cash during this period, the Directors have agreed to issue new Huon shares, with an aggregate value of $928,043, to eligible employees under an employee share plan as part of their remuneration for the year. These new Huon shares were issued today.

INVESTMENT PROGRAM DELIVERS EFFICIENCY GAINS

Following the completion of Huon's two year program of investing in infrastructure to drive the expansion of its production capacity, FY2020 heralded the beginning of that new growth phase. The 19 Year Class salmon is the first to benefit from the suite of changes that have been put in place along the length of the entire production chain – from the hatcheries to the Whale Point Salmon Nursery; the increased security provided by the fortress pens and more efficient bathing with custom designed well boats; centrally controlled feeding from purpose built barges; and the POMV vaccine and new biosecurity protocols that put fish in the right farming areas at the right time to minimise the biological risk.

The average fish harvest weight for the year was 5.04kg, the best in a decade and well above the average over that period of 4.53kg. The strong performance of the 19 Year Class salmon combined with the delayed harvest is expected to deliver an average HOG weight in FY2021 in excess of 5.3kg.

Another indicator of the gains being made by changing the way Huon farms salmon is the reduced cost of production. In FY2020 this fell 11% to $10.46/HOG kg (excluding freight) and is expected to fall at least another 9% to under $9.50/HOG kg in FY2021.

As a result of the ongoing focus in 1H2020 on building biomass and good spring and early summer growing conditions, together with the completion of all major infrastructure projects in FY2019, debt levels have remained high. As a result the company has negotiated with its banking partners to provide greater headroom to the key banking covenant, the leverage ratio, which has been increased from 2.75 times to between 3.00 to 6.50 times over FY2020. Scheduled debt repayments in Q4 of $5 million have also been postponed. Profit in the second half was not within business expectations so the focus has been clearly set on managing cash flow to support the biomass rebuild. As a result, the Directors have confirmed their decision at the half year to suspend the dividend in FY2020.

OUTLOOK

Huon's focus in FY2021, as it builds towards another step change in harvest volume, will be growing the market and locking in contracted sales. The requirement to slow the harvest of the 19 Year Class salmon during the fourth quarter of FY2020, will likely result in the harvest volume for FY2021 increasing by around 40% to at least 36,000 tonnes.

Huon's channel mix is likely to be similar to that in FY2020 with around a third of sales going to offshore markets. The strong foundation that was established in that year with international retail partners throughout Asia will continue to be built on, aiming to progressively increase the share of exports going to contracted international retail sales.

There will be a similar focus in the domestic retail channel, particularly on such segments as supermarkets, independent retail, quick service restaurants and the growing e-commerce space. It is these segments that will deliver the certainty of known volume that will underpin more stable Group financial performance over time. We expect retail sales to at least reflect the growth in demand, supported by Huon's increased capability to supply fresh salmon to outlets in Sydney and the regions following the opening of the Ingleburn processing facility in NSW last year.

Revenue will depend on pricing and in FY2021 this will be driven both by global and domestic supply dynamics and the economic environment as countries globally manage their response to the pandemic. While we are confident of recording increased revenue given the strong uplift in volume, the volatility in pricing over FY2020 and the increased uncertainty about the economic outlook makes it difficult to form a view about trends in pricing over the course of the year.

We expect that FY2021 will continue to present challenges as economies emerge from the constraints imposed by COVID-19. We are however optimistic about our ability to deliver continued productivity improvements in the way we farm which will realise our long term goal of lowering operating costs.

FULLY UNDERWRITTEN PLACEMENT

Huon will undertake a fully underwritten institutional placement to raise $64 million.

The Placement will result in approximately 21.3 million new Huon Aquaculture Group shares (“New Shares”) being issued, representing approximately 24% of current issued capital.

The Placement is priced at $3.00 per New Share (“Placement Price”), which represents a 7.7% discount to the last traded price of $3.25 on 27 August 2020 and a 7.0% discount to the 5-day volume-weighted average price of Huon shares up to, and including, 27 August 2020 of $3.22.

The Placement is within Huon's placement capacity under the ASX Class Waiver Decision titled 'Temporary Extra Placement Capacity' dated 23 April 2020 (as amended), and accordingly no shareholder approval is required in connection with the Placement.

The Placement is fully underwritten by Credit Suisse. Grant Samuel has acted as financial adviser and Ashurst has acted as legal counsel in relation to the Equity Raising.

NON-UNDERWRITTEN SHARE PURCHASE PLAN

Following the completion of the Placement, Huon will offer eligible shareholders with a registered address in Australia and New Zealand the opportunity to participate in a non-underwritten SPP. The SPP is capped at $30,000 per shareholder and up to $4 million in aggregate. Huon reserves the right to increase the size of the SPP or scale back applications under the SPP at its discretion.

The price for the SPP will be the lower of: (i) the Placement Price; and (ii) a 2.5% discount to the 5-day volume-weighted average price of Huon shares up to, and including, the closing date of the SPP.

The SPP will provide eligible Huon shareholders (being those persons registered as ordinary shareholders as at 7.00pm (AEST) on Thursday, 27 August 2020 with a registered address in Australia or New Zealand) the opportunity to subscribe for additional shares in Huon.

Further details of the SPP will be provided to eligible shareholders with a registered address in Australia and New Zealand in due course.

TIMETABLE

Event	**Date**
Record date for the SPP	7.00pm (AEST) on Thursday, 27 August 2020
Trading halt and announcement of Equity Raising	Thursday, 27 August 2020
Placement bookbuild	Thursday, 27 August 2020
Announcement of outcome of Placement	Friday, 28 August 2020
Trading halt lifted	Friday, 28 August 2020
Settlement of New Shares issued under the Placement	Tuesday, 1 September 2020
Allotment and normal trading of New Shares issued under the Placement	Wednesday, 2 September 2020
SPP offer opens and SPP offer booklet dispatched	Thursday, 3 September 2020
SPP offer closes	5.00pm (AEST) on Wednesday, 23 September 2020
Allotment of New Shares issued under the SPP	Wednesday, 30 September 2020
Normal trading of New Shares issued under the SPP	Thursday, 1 October 2020

Note: All dates and times are indicative only and subject to change. Subject to the requirements of the Corporations Act 2001 (Cth), ASX Listing Rules and any other applicable laws, Huon, in consultation with the underwriters, reserves the right to amend this timetable at any time.

ADDITIONAL INFORMATION

Additional information about the FY2020 Results and the Equity Raising (including key risks and foreign selling restrictions) are contained in the presentation released to the ASX today.

ENDS

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The announcement is not investment advice or a recommendation to acquire New Shares and has been prepared without taking into account your investment objectives, financial circumstances or particular needs (including financial and taxation considerations) as an investor. Before making an investment decision in connection with the Equity Raising, investors should seek professional investment advice from your financial adviser or other professional adviser.

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