ASX/Media Release

Issued: 26 February 2021

RESULTS ANNOUNCEMENT FOR SIX MONTHS TO 31 DECEMBER 2020

Huon Aquaculture Group Limited (ASX: HUO) has delivered a statutory loss of $95.3 million for the six months ended 31 December 2020 ($22.0 million NPAT pcp). The result includes a non-cash impairment charge of $113.9 million ($79.9 million after tax). Despite a 24% increase in revenue to $220.1 million on the strength of a 45% increase in harvest tonnage, earnings continued to be significantly impacted by COVID-19. The reduction in global demand for salmon resulted in a 28% fall in the international salmon price relative to the previous six months. This impacted pricing across all Huon's distribution channels but particularly the lower priced spot export market. The scheduled increase in production resulted in a shift in the channel mix towards the international market which, during the half, accounted for 51% of total volume and contributed to a 15% drop in the overall average price to $11.41/HOG kg.

In light of recent unsolicited approaches, the Board has initiated a strategic review to assess the potential for corporate level transactions for the benefit of shareholders. Shareholders should not assume that any transaction will eventuate from the strategic review.

SUMMARY OF BUSINESS PERFORMANCE

- Operating EBITDA of $9.5m fell 59% on pcp due to a 15% fall in the average price, exacerbated by a shift in the channel mix to spot export sales arising from the increase in production
- The average harvest weight increased 14% to 5.77kg from 5.07kg in pcp, a record performance reflecting both the excellent growing conditions and operating improvements following a period of major capital investment
- Strong gains in the domestic retail market with record sales achieved through increased marketing and the launch of new ranges of value added products
- Cash flow from operations was negative $4.4m reflecting increased working capital requirements as freight costs per kilogram doubled on pcp, increasing the net cost of freight 183% from $14m to $40m
- Increased working capital requirements offset by the $66m capital raise resulted in a 14% decrease in net debt from $139.7m to $120.8m with gearing unchanged at 43%

FINANCIAL SUMMARY

Six months ending		31 Dec 2020	30 Jun 2020	31 Dec 2019	%Change
Tonnage	t	19,293	12,245	13,321	45%
Revenue [1]	$M	220.1	161.8	178.1	24%
Revenue per HOG kg	$/kg	11.41	13.21	13.37	-15%
EBITDA [2]	$M	(100.1)	(0.4)	49.2	-303%
NPAT	$M	(95.3)	(17.1)	22.0	-533%
Operating EBITDA[3]	$M	9.5	24.3	23.0	-59%
Operating NPAT[4]	$M	(18.4)	0.2	3.7	-597%
Fair value adjustment of Biological Assets	$M	4.3	(24.7)	26.2	-84%
Biological Assets	$M	260.1	264.0	252.1	3%
Operating cash flow	$M	(4.4)	(10.9)	19.3	-123%
Net debt [5]	$M	120.8	167.3	139.7	-14%
Total gearing ratio [6]	%	43%	54%	43%	1%
Earnings per share	c	(86.76)	(19.51)	25.19	-444%

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

COVID-19 IMPACTS

The challenges faced by Huon during this period, and that are likely to continue throughout 2021, are primarily market related. The arrival of COVID-19 coincided with a significant increase in production, the groundwork for which had been laid two years earlier. 2020 was the culmination of a five year capital investment programme designed to modernise Huon's infrastructure and increase its production capacity to meet the expected growth in demand for at least the next five years. The impact on demand in the last quarter of FY2020 and FY2021, particularly on the food service sector globally, has meant that alternative markets have had to be found with the excess supply creating significant downward pressure on the salmon price.

Salmon volumes destined for the international market (51% of total) increased by over 50% in the first half. While some of this was under contract to target markets, the majority was sold into the highly competitive spot export market at prices 22% below the domestic wholesale price. The closing of many international borders and limited access to flights resulted in government providing industry support via the International Freight Assistance Mechanism. Nevertheless, Huon's cost of freight for export markets more than doubled, further eroding margin.

Huon's supply into domestic retail and retail fish shops, along with e-commerce channels, rose to record levels. The increased consumer activity in these markets is expected to deliver long term benefits through increased per capita consumption with more consumers now familiar with salmon as a weekly family menu item. This is being reinforced in 2021 with the launch in February of a major advertising campaign to run over the next twelve months, designed to drive brand awareness and boost Huon Salmon sales nationally.

Huon was designated an essential service and permitted to continue operating 'as normal' during the half with no disruptions to the ongoing operations of the business. Participation in the Government's JobKeeper Scheme ceased in October 2020.

OPERATIONAL SUMMARY

Huon began FY2021 with significant biomass in the water, including fish for harvest carried over from FY2020 due to COVID-19 related constraints on sales and distribution. Growing conditions during the first half were good with overall volumes boosted by strong fish performance which resulted in a record average weight of 5.77kg for the harvest.

A key indicator of the gains being achieved from changing the way Huon farms is the reduced cost of production per HOG kg. In the first half this fell 16% to $8.86/HOG kg (excluding freight) assisted by the significant increase in volumes. However an additional $26 million in freight charges over this period compared to 1H2020 weighed heavily on the business.

With **sales into the spot export market** accounting for 34% of revenue, the significant fall in export prices during the half was the main contributor to the 15% drop in the overall weighted average sales price to $11.41/HOG kg. The increased supply of fish together with larger fish size increases the imperative for Huon to find new and reliable markets both domestically and offshore. During the half **contracted volumes sold into the international market** increased 205%, accounting for 9% of revenue. Huon now sells into nine different markets across the Asian region as well as the US with increasing volumes and diversification of markets over time aimed at limiting Huon's exposure to the more volatile pricing environment of the spot export market.

The **domestic retail channel** accounted for a record 3,300 tonnes in the first half or 23% of sales compared to 2,000 tonnes (16% of sales) in pcp. Huon made strong, direct gains in the retail segment with salmon sales up 72% as a result of new supply agreements, the launch of a new range of value added products and increased focus on customer development. A new processing facility was opened in Western Australia in December to strengthen Huon's ability to meet major retail contracts and create value-added products on-site to meet local demand. Such initiatives reflect Huon's commitment to growing supply through the retail channel, a focus which will accelerate through 2021 with the support of an intensive advertising campaign nationally.

The **domestic wholesale market** remains a very important sales channel for Huon. While tonnages during the half were the highest on record, this channel now represents 34% of sales revenue compared to 52% in pcp due to the increase in production, the majority of which was sold in the spot export market. Despite the slightly increased volume sales for the half when compared with pcp, this market continues to be disrupted by COVID's impact on the food service sector. The second lockdown in Victoria which lasted for almost 4 months stunted faster recovery but also highlights the potential for further growth in the current half.

Huon's strong focus on increased sales and volumes into the domestic market succeeded in capturing the majority of volume growth in the market and increasing its share of the retail segment.

In November Huon experienced two separate incidents involving damage to the netting of fish pens resulting in fish escapes. The loss represented 0.2% of the biomass with an estimated cost of around $2 million. The organised theft of salmon during the first half from the Ingleburn processing facility in Sydney was uncovered in December leading to a number of arrests with charges laid and legal proceedings underway. The overall net cost is expected to be around $2 million.

CAPITAL MANAGEMENT

In order to ensure the business remained well capitalised during the COVID-19 operating period, Huon raised $66 million through a placement and SPP in August 2020. Funds were used to reduce debt and improve liquidity.

Huon has lowered projections for operating earnings (EBITDA) for FY2021 due to the decline in salmon prices, high freight costs and uncertainties within the global economy. The outlook for both the international salmon market and international airfreight market continues to be unclear, adversely effecting future cash flow projections. As a consequence, management's expectations of future cash flows have been downgraded, resulting in an impairment of $113.9 million.

As a result of the ongoing focus in 1H2021 on maintaining the biomass at the already increased levels, together with good spring and early summer growing conditions, debt levels have remained high. As a result the Company has secured support from its lenders by way of revised terms for its banking facilities for the period until 31 March 2022, on and from such date the previous financial covenants recommence.

The loss in the half was not within business expectations however the focus remains on managing cash flow to support maintaining the current biomass. Capital expenditure is focused on a restricted maintenance capex budget of $10 million for FY2021, eased by a reduction in planned volumes. The dividend will remain suspended until the business returns to profit.

STRATEGIC REVIEW

In light of recent unsolicited approaches, the Board has initiated a strategic review to assess potential corporate level transactions for the benefit of shareholders. Grant Samuel has been appointed to undertake the strategic review. Ashurst has been appointed as legal advisor to the Company. Commenting further, the Chairman added: "While the Board is disappointed by the performance of the Company during this COVID-impacted period, the underlying fundamentals of the Company remain sound and it is uniquely positioned as a leading global producer of environmentally sustainable proteins. These attributes have seen the Company attract interest from potential strategic partners and investors over a sustained period including over recent weeks since announcement of our profit downgrade. The Board considers it important to fully explore these options and looks forward to Grant Samuel's assistance through this process. At this stage, that work is preliminary and there should be no assumption that a transaction will eventuate. We will provide a further update in due course".

OUTLOOK

Huon's focus in FY2021 will continue to be on growing the market and locking in contracted sales. Our expectation of an annual harvest of at least 36,000 tonnes has been revised down to 35,000 tonnes following a decision to move part of the harvest into the first half of FY2022.

The remainder of the year 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. The average cost of production for FY2021 is expected to fall by around 7% on the previous year, consistent with our target of lowering operating costs, excluding freight, below $9.50/HOG kg.

Revenue will depend on pricing which 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 near-term outlook for the international salmon price suggests little change with only a modest improvement forecast by Rabobank for calendar year 2021.

The proportion of Huon's sales into international markets in FY2021 is likely to be around 40%. The strong foundations that continue to be built with international retail partners throughout Asia will progressively increase the share of exports going to contracted international retail sales.

Huon has launched a national advertising campaign directed at growing per capita consumption in the domestic market. It also increased its capability to supply fresh salmon to outlets in Western Australia following the opening of the Forrestdale processing facility. On the back of strong growth in the first half, retail demand is expected to return to the long term average growth rate of 10%pa in the second half. Increasing the contribution of retail sales to overall revenue is a strategic goal as it will deliver the certainty of known volume that will underpin more stable Group financial performance over time.

The increase in production in FY2021, is the outcome of Huon's long term strategy to meet growing demand. Over the next two years we expect our channel mix to reflect that growth in the domestic market, reducing the percentage of sales into the spot export market below 10%. Nevertheless, while the underlying fundamentals within the global salmon industry of a long term structural shortfall in supply remain, the setback delivered by COVID has had a material impact on Huon's profitability. Operating earnings (EBITDA) for FY2021 are expected to be substantially below last year at $15-20 million.

ENDS

For further information, contact:

INVESTOR CONTACT
Philip Wiese
Huon Aquaculture Deputy CEO
0428 311 739
pwiese@huonaqua.com.au

MEDIA CONTACT
Giles Rafferty
FIRST Advisers
0481 467 903
grafferty@firstadvisers.com.au