

## Analyst Presentations – 22 to 24 October 2014



*Hiramasa.  
The King of Kingfish.*

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# Introductions



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- Craig Foster – Chief Executive

# Outline of Presentation



- Overview of Current Operations and Priorities
- Financial and Corporate Governance Overview
- Highlights from FY14
- Outlook and Planned Future Developments
- Video – Chef Endorsement of Hiramasa Kingfish
- Questions

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# Current Operations and Priorities



- Expanding production volumes of Kingfish
- Market development for Kingfish
- Upgrading management in preparation for expansion
- Production system improvements and cost reductions
- Evaluate growout locations for expanded production
- Ongoing R&D to improve business performance

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# Corporate Overview



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| ASX Code: CSS            | FY2014    | FY2013    |
|--------------------------|-----------|-----------|
| Ordinary Shares          | 1,105m    | 802m      |
| Average Monthly Volume   | 111m      | 49m       |
| Cash at 30 June          | \$9.9m    | \$5.2m    |
| Debt at 30 June          | \$0.1m    | \$0.2m    |
| NTA per Share at 30 June | 3.9 cents | 2.9 cents |

| Major Shareholders (per Annual Report)              |      |
|---|------|
| Australian Tuna Fisheries Pty Ltd (incl associates) | 9.1% |
| JP Morgan Nominees                                  | 5.0% |
| HSBC Custody Nominees                               | 2.5% |
| Top 20 shareholders hold 26.3%                      |      |



# Directors and Management



**Paul Steere – Chairman** (Joined 2010, appointed Chairman May 2012)

15 years as MD of New Zealand King Salmon from 1994 to December 2009. New Zealand King Salmon is the leading aquaculture company in NZ and the largest Chinook salmon farmer globally, with an international reputation for quality, service, process/product innovation and professionalism.



**Craig Foster – Chief Executive Officer** (January 2012)

Appointed in January 2012. Experienced CEO, aquaculturist, veterinarian and fish nutritionist since 1986. Former MD of Skretting in Australia, a major aquaculture feed producer. Previous experience in the Salmon and Barramundi industries.



**Hagen Stehr AO – Non Executive Director** (2000)

Founding Director with extensive knowledge of and experience in the fishing and aquaculture industries, having been involved in the tuna industry in Australia since 1960. A Director of Australian Tuna Fisheries Pty Ltd and leadership roles in a number of industry Associations.



**Nick Burrows – Non Executive Director** (April 2012)

Former CFO and Company Secretary of Tassal Group Limited, retired in 2009 after 21 years with Tassal. Thirty years senior experience with listed entities and private companies in corporate compliance, financial and treasury operations and senior strategic input.



**Marcus Stehr – Non Executive Director** (2000)

Marcus has accumulated 24 years of hands on experience in marine finfish aquaculture operations encompassing Tuna, Kingfish and Mulloway. A Director of Australian Tuna Fisheries Pty Ltd and leadership roles in a number of industry Associations.

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# Balance Sheet



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| \$'million                  | June 2014   | June 2013   |
|-----------------------------|-------------|-------------|
| Cash                        | 9.9         | 5.2         |
| Live Fish                   | 17.2        | 6.7         |
| Property, Plant & Equipment | 13.3        | 13.0        |
| Other Assets                | 5.5         | 4.3         |
| <b>Total Assets</b>         | <b>45.9</b> | <b>29.2</b> |
| Creditors and Provisions    | 2.2         | 1.8         |
| Debt                        | 0.1         | 0.2         |
| Other Liabilities           | 0.0         | 3.9         |
| <b>Total Liabilities</b>    | <b>2.3</b>  | <b>5.9</b>  |
| <b>Net Assets</b>           | <b>43.6</b> | <b>23.3</b> |



# Income Statement



| \$'million                  | FY14        | FY13          |
|-----------------------------|-------------|---------------|
| Sales Revenue               | 10.4        | 15.0          |
| Other Revenue               | 4.0         | 0.5           |
| SGARA Gain / (Loss)         | 10.6        | (1.2)         |
| Operating Expenses          | (18.6)      | (17.4)        |
| Impairment                  | 0.0         | (29.8)        |
| <b>EBITDA</b>               | <b>6.4</b>  | <b>(32.9)</b> |
| Depreciation & Amortisation | (1.5)       | (1.6)         |
| Interest                    | 0.3         | 0.1           |
| Tax                         | 5.9         | 0.0           |
| <b>Profit After Tax</b>     | <b>11.1</b> | <b>(34.4)</b> |

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# Statutory and Underlying Profit

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| <b>Reconciliation: Statutory result to Underlying result</b> |                |               |
|--|----------------|---------------|
|  | <b>2014</b>    | <b>2013</b>   |
|  | <b>\$,000</b>  | <b>\$,000</b> |
| Statutory net profit / (loss) for the year after tax         | <b>11,145</b>  | (34,457)      |
| Add / (deduct):  |                |               |
| R&D Tax incentive  | <b>(6,156)</b> | -             |
| Capital raising tax expense                                  | <b>219</b>     |               |
| Ausindustry Commercial Ready Grant                           | <b>(3,953)</b> | -             |
| Asset impairment   | -              | 29,813        |
| Underlying profit / (loss) for the year before tax           | <b>1,255</b>   | (4,644)       |

# 2013/14 Highlights



- First profit since 2006/07, achieved one year earlier than previously expected
- Both a statutory and an underlying profit
- Yellowtail Kingfish growth performance exceeded expectation
- Further demonstration of viable business model based on Hiramasa Yellowtail Kingfish
- Successful Share Purchase Plan raised \$9m at 3.2 cents in November / December 2013
- Continued net positive cash position, no net debt
- 571 tonnes sold and year end biomass of 1,300 tonnes to facilitate 2014/15 sales growth
- Receipt of \$6.2m R&D tax incentive refund for 2012/13 (recognised in 2013/14 accounts)

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# Clean Seas turned the corner



The turning point in achieving operational profit comes after-

- two years of solid restructuring;
- support from our shareholders in our over-subscribed capital raising of November 2013;
- significant improvements in biological performance and fish husbandry
- implementing clear strategies focussed on sustainable grow-out to optimal harvest weights and input level that is profitable relative to market pricing as biomass rebuilds.

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# Strategies giving rise to improved performance



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- A priority focus on fish health and performance following identified diet improvement
- Consequent improved growth rates and survival levels
- Improved Kingfish hatchery productivity
- Continuing sales placement at value levels for Sashimi and white table food service reflecting a premium against commodity fish
- Maintenance of cost control disciplines in all sectors of the company's operations
- Close attention paid to health, safety and efficiency measures
- Rationalization of farm sites reducing the span of control needed
- Concentration of effort on Hiramasa Yellowtail Kingfish while the substantive program of Southern Bluefin Tuna research has been scaled back
- Careful marshalling of cash resources following the shareholder support of last November plus cash generated from R&D tax incentives



# Hatchery - Continuing to Improve Performance

- We continue to improve the fundamental performance of the yellowtail Kingfish hatchery.
- Yield of fingerling from egg now approaches twenty percent from ten percent.
- Fingerling unit costs will reduce as production increases.
- Existing Hatchery capacity sufficient for annual sales of 6,000 tonnes



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# Farming Operations – Further Improvement

- Biomass growth up thirty eight percent on forecast
- Farming operations currently consolidated to Port Lincoln, with September 2014 fingerlings transferred to pens in Arno Bay
- Existing water leases sufficient for annual sales of 6,000 tonnes, including leases at Port Lincoln, Louth Bay, Arno Bay, Whyalla and Wallaroo (subject to approvals)
- Fish yearclass survival has improved from circa fifty percent to 85-90 percent.



# Sales



- 2013/14 sales of 571 tonnes
- Approximately 80% sold domestically and 20% export
- A net farmgate of \$14 per kg whole, from domestic and export market
- Europe is the main export market
- Current target fish size at sale is 4.0 to 4.5kg, achieving 4.0 kg average for 10 months of the year
- Last year harvest size ranged between 2.8 and 3.5 kgs
- Also establishing a market for 1.0kg fish

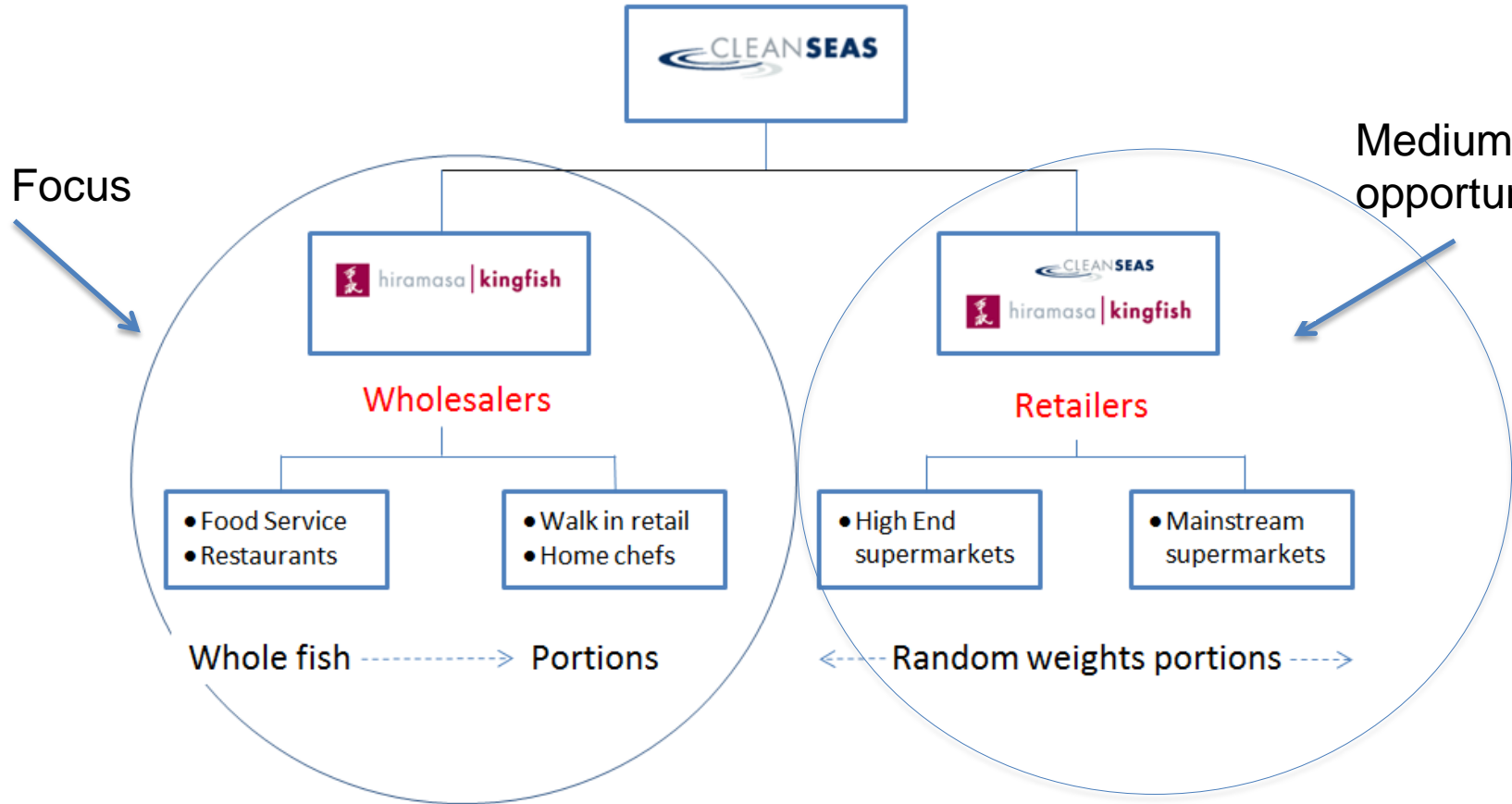
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# Sales - Channels

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Current Focus



Medium term opportunity

# Yellowtail Kingfish - Global Marketing Success



- Clean Seas has successfully positioned its Yellowtail Kingfish at the high end of the sashimi market based on:
  - Our Brand HIRAMASA KINGFISH the King of Kingfish
  - The quality of Hiramasa Kingfish with superior taste, texture and shelf life compared to other species of Yellowtail Kingfish
  - Successful marketing strategies
- Diversified market, strong market demand in Australia and Europe.

## Clean Seas' quality is recognised by multiple industry awards:

### *delicious* Magazine Produce Awards

- National Medallist – From the Sea (Kingfish) 2014
- Finalist-From the Sea (Kingfish) 2013
- National Medallist – From the Sea (Kingfish) 2012
- Finalist – From the Sea (Kingfish) 2011



# Outlook



## Sales

- Forecasting 1350 tonnes in 2014/15 up from 571 tonnes in 2013/14
- In 2015/16 we anticipate sales around 2,000 tonnes
- Current planning is to achieve 3,000 tonnes per annum sales by 2018/19
- Current capacity exists in the hatchery and farm to achieve 6,000 tonnes per annum
- Sales must be demand driven and we are implementing necessary marketing strategies to underpin the demand and maintain our price position.

## Funding

- To assist in our future working capital requirements will seek limited debt financing to support the profitable development of the business beyond 1,500 tonnes.
- Anticipated R&D tax incentive cash refund for FY2013/14 is approximately \$4m – to be recognised in 2014/15 accounts.

## Seasonal Profitability

- Most of our growth in fish occurs in the second half of the financial year, thus profitability is largely driven by the performance of our fish in the period from November to May.

# Likely Further Scale Back of Tuna Propagation



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- Focus is on continuing to profitably expand Yellowtail Kingfish production
- In the interim, Tuna propagation program has been scaled back
- If we are unsuccessful in finding a JV partner for funding tuna propagation, we plan to transfer the tuna broodstock from the shore based broodstock tank and return them to our sea based broodstock pen
- Will continue limited R&D activity in Tuna

# R&D – Future Improvement



- Hatchery
  - Continued improvements in underlying culture efficiency
- Feed & feeding
  - Forty percent of our cost is feed. Continue to improve the feed quality and begin research on better feed management.
- Fluke control
  - Skin, gill and blood flukes are our main health problems. We are seeking alternative mechanisms to control other than expensive hydrogen peroxide bathing.
- Selective breeding program
  - Our selective breeding program continues to offer improved growth rates. Each generation should improve growth by ten percent

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# Available Farming Locations and approved tonnages

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# Strengthened the Management Team



- CFO & Company Secretary - Wayne Materne : Extensive experience in CFO and senior finance roles in agribusiness and manufacturing including livestock, forestry and wine / viticulture with companies including Elders, SA Forestry Corporation, Southcorp and Nepenthe.
- GM Marine Operations - Guy Westbrook : Extensive experience in senior operational and management roles in Aquaculture including Salmon and Trout companies in Tasmania , GM Operations of Australia's largest Barramundi sea cage farming business in the Kimberly region in Western Australia and Operations Manager of Farms for Australia's largest Southern Bluefin Tuna farmer, Sarin Group Fishing.
- Ross Hay - Health and Safety Manager, appointed May 2014

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# Refreshed Marketing

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- In November 2014 we will relaunch our Hiramasa Kingfish brand.
- Hiramasa Kingfish is our brand for the 4.0-4.5 kilogram fish that we supply to the wholesale market.
- It has been grown to provide the sashimi quality that is expected of this fish. Also an ideal size for white table fish
- Hiramasa Kingfish website to be launched at hiramasa.com.au
- Social media strategy to be implemented via Facebook, Twitter and Instagram
- Refreshed point of sale and other advertising materials.





# Clean Seas - Competitive Advantages

- Successfully pioneered the propagation, husbandry, harvesting and marketing of the Yellowtail Kingfish species outside of Japan since 2000
- Excellent job of positioning its Hiramasa brand at the high end of the Sashimi market
- The Hiramasa Kingfish brand is recognised internationally as a premium sashimi and white table fish
- Australia's only commercial producer of Yellowtail Kingfish
- Ability to produce Yellowtail Kingfish fingerlings at any time of the year
- There is no other reliable producer of fingerlings in the world
- Established pool of genetically selected broodstock
- Existing extensive hatchery resources and infrastructure to support growth
- Existing water lease area to produce greater than 6000 tonnes
- IP facilitates expansion into other suitable growing waters
- Active R&D program for ongoing business improvement



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# Chef Endorsement – Hiramasa Kingfish



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# Questions ?

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