

Company AS PRFoods
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- PRFoods-10004354381-en.pdf (<http://oam.fi.ee/en/download?id=4933>)
- PRFoods-10004354383-et.pdf (<http://oam.fi.ee/en/download?id=4934>)

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Management Commentary

The financial results of AS PRFoods for the last quarter of the financial year have been strongly affected by the states of emergencies declared due to the Covid-19 pandemic in all countries where the Group companies operate (Estonia, Finland, Great Britain and Sweden). In the year as a whole, the sales decrease was 8.7% (19/20: 78.3 million euros; 18/19: 85.7 million euros) and the EBITDA for the financial year was 1.9 million euros (18/19: 1.7 million euros). Considering the situation in the market and comparing the results of our competitors, we can be satisfied with the year. Based on the results of the first half of the financial year, we expected a much stronger result. Given that the impact of the outspread of coronavirus on global demand and fish prices rising from China already in January, was negative, we were able to respond satisfactorily during the second half of the financial year, but it was extremely difficult to achieve a positive result with the entire market in descent.

Hotels-Restaurants-Cafees sector's (HoReCa) restrictions and the drastic decrease in air transport affected the company's turnover since mid-March, and unfortunately the recovery of the hotel, restaurant and other catering segments has been difficult in PRFoods' main markets in Finland and the United Kingdom. Due to the decline in salmon and trout prices, finished products have also become cheaper, especially in the Finnish market, affecting profitability. PRFoods withstood the Covid-19 pandemic with a strengthened balance sheet, having refinanced short-term loans with five-year bonds at the beginning of the year, and also, we have improved cash flows by keeping the level of raw material inventory at an optimal level.

Group sales revenue



The total decrease in turnover compared to the same period last year was 8.7% mostly affected by the decline of 29.5% in the financial year's last quarter. Also, during 2019/2020 there was a change in the product portfolio; the share of raw fish and fillets product group increased by 4 pp and the share of smoked products decreased accordingly. The share of fresh fish and fillets in the product portfolio is 45.6% (41.7% last year) and the share of smoked products is 38.4% (43.0% last year).

The sales price of fresh fish and fillets is directly affected by the export prices of salmon and trout, which have been on a downward trend since the beginning of the calendar year. During the reporting period, the market price of fish fluctuated significantly, for example in March 2020 the market price of salmon had decreased by 31.1% and the price of rainbow trout by 32.0% compared to a year ago. Compared to the prices two years ago, the price of salmon had fallen by 43.2% and trout by 31.7%. Foremost, it had a negative impact on wholesale prices and turnover of fresh fish.

Result for the 12 months of the financial year

The Group's consolidated EBITDA was 1.9 million euros (18/19: 1.7 million euros), a decrease of 8.0% compared to the previous year. EBITDA from operations (i.e. before one-offs and revaluation of bioassets) was 2.8 million euros (18/19: 4.0 million euros). EBITDA from operations was negatively impacted by a decrease in the share of smoked products in sales, which was mainly due to lower sales volumes in Finland in the private label segment, by the negative impact of Covid-19 on sales in the HoReCa sector and the fall in market prices for fish. In the year as a whole, the gross margin decreased by 1.7 pp compared to the previous financial year (19/20: 12.2% vs 18/19: 13.9%).

The net loss for the reporting year was 1.9 million euros (18/19: 1.5 million euros), incl. an increase in financial expenses by 0.3 million euros due to the increase in interest expenses (investment loan interest rate 3.25% vs. bond interest rate 6.25%).

Financial position

The company's net debt was 20.7 million euros as at 30.06.2020 (30.06.2019: 20.5 million euros). The Group's working capital as at 30.06.2020 was minus 3,967 thousand euros as current liabilities include liabilities to related parties in the amount of 4,046 thousand euros, which are long-term in nature, but due to accounting principles must be categorised as short-term liabilities (incl. short-term loan of 1,500 thousand euros from Amber Trust II S.C.A (note 26)). By eliminating short-term liabilities to related parties, with whom the Group has the opportunity to agree on payment terms longer than 12 months, the Group's working capital is positive.

PRFoods successfully completed a private placement of bonds in January 2020, as a result of which short-term liabilities in the amount of 9 million euros became long-term ones, releasing cash flows of about 2 million euros per year. The



change in the debt structure also has an impact on the company's financial results, the impact of financial expenses on PRFoods' net profit is negative by 0.35 million euros per year.

Impact of the coronavirus (Covid-19) pandemic

Due to the imposition of special situation restrictions because of the Covid-19 pandemic, the company's turnover has significantly decreased in the HoReCa segment which accounts for approximately 20% of the Group's turnover since mid-March. The decrease in sales in HoReCa segment in the last quarter of the financial year was about 70%, which was unfortunately not covered by the 7% growth in retail segment, but rather the share of raw fish and fish fillets with significantly lower profit margins increased instead of hot and cold smoked products. Taking into account the average gross margin for the first 9 months of the year (13.9%), we estimate the direct negative impact of Covid-19 on EBITDA of 0.6 million euros. The Group's results were negatively affected primarily by the Finnish unit, while the British unit's result remained at the same level as last year, despite the situation caused by the coronavirus.

In line with the decline in production, the Group's companies have reduced the working hours and salaries of both production and office employees by 10-30%. The Group's companies in Estonia and the United Kingdom have used the salary compensation subsidies offered by the states.

The Group is focused on cost and cash flow management to ensure the sustainability of its operations in the future. Certainly, larger industries such as PRFoods are better able to cope with such crises, and the company's activities are spread across several markets. In some markets, we expect our positions to strengthen due to reduced competition.

In March 2020, PRFoods conducted a public offering of bond issues amidst the period of crisis which could not have been foreseen when planning the issue, resulting in the subscription of bonds significantly below expectations - 0.9 million or 47% of the 1.9 million was subscribed, including 0.5 million bonds subscribed by PRFoods to sell them after the end of the crisis.

Events and future plans for the financial year

This financial year will continue to be affected by Covid-19, and we will certainly see the effects of the ongoing economic crisis materialize in the next financial year. We assume the recovery of the HoReCa sector will not be seen until 2021. Considering that the share of total global HoReCa in salmon and trout is about 30%, there is an oversupply of both raw fish and fish products in the market due to the corona epidemic. The trend of declining consumption can also be seen in other foods, such as meat and milk, as both travel and domestic restrictions apply. However, in countries where the coronavirus has been successfully combated so far, including Estonia, rapid recovery of HoReCa can be seen. As the situation changes quickly, it is difficult to make long-term predictions.



According to analysts and Fishpool's salmon futures prices, price growth and demand growth of up to 9% can be expected only in 2021. The average futures price of salmon for 2021 at the date of the report is 5.55 euros/kg compared to 4.40 euros/kg in August 2020.

For PRFoods, the market price of fish has the biggest impact. This is due to two main reasons: a) the impact on fish farming, b) the change in Finnish retail prices, where the prices of final products also react immediately to the fall in raw material prices due to the large share of the private label in the market. Due to the decrease in demand for HoReCa, we see low fish prices for 2020 as a whole. This is definitely good news for consumers. Despite the increased production volumes and demand for some products, lower prices do not allow such a large profit to be made in absolute terms. At the same time, lower prices allow to significantly increase export volumes.

Considering the situation, we are more optimistic about the future than at the end of the financial year, for the following reasons:

- * John Ross Jr. and Coln Valley have been able to maintain their profitability in absolute terms despite a nearly 30% drop in turnover thanks to higher profitability of branded products;
- * In the Estonian market, we have been able to sell our products significantly better and we see that during the financial year of 2020/2021 we will significantly increase our product portfolio of retail products for the Estonian market;
- * We have completed the centralization of the management of the Finnish and Estonian production units, which started in 2019, including the change of management. The merger of Trio Trading and Heimon Kala in Finland has been completed. In addition, we built up a new sales team, which had a temporary negative impact on sales revenue due to turnover of personnel;
- * We will increase the level of automation in the Estonian and Finnish production units, as a result of which we will be able to organize production much more efficiently and with fewer people in the future;
- * A larger investment program has taken place in production. We will continue with the investment program in fish farming;
- * Positive news from Estonia and Sweden regarding the increase in fish farming volumes will enable us to grow fish more efficiently and profitably and become one of the largest and most environmentally friendly fish farmers in Estonia and Finland;
- * We assume that the direct damage caused by the coronavirus has passed. At the same time, the long-term effects of the accompanying economic crisis on consumer behaviour as well as on competition are unpredictable.

We have implemented a cost-saving program since the 4(th) quarter, resulting in costs decreasing by approximately 0.4 million euros per year. The one-million-euro savings program launched in 2019 has thus been completed. The main focus of the financial year of 2020/2021 is maintaining profitability and growth in the conditions of a strong market oversupply. Considering the regional position of



the Group's companies, we believe that we will be able to cope better with the situation than our competitors.

Covid-19 created a new situation, but despite it, PRFoods never had to stop its production. We continue to develop PRFoods as an environmentally friendly and high-quality fish farming and processing company.

Key Ratios of the Group

INCOME STATEMENT				
mln EUR (unless stated otherwise)	19/20	18/19	17/18	16/17
Sales	78.3	85.7	94.9	51.1
Gross profit	9.6	11.9	13.2	3.9
EBITDA from operations*	2.8	4.0	6.0	0.6
EBITDA	1.9	1.7	4.4	2.0
EBIT	-0.7	-0.5	2.3	0.7
EBT	-1.8	-1.2	1.4	0.5
Net profit (-loss)	-1.9	-1.5	1.0	0.2
Gross margin	12.2%	13.9%	13.9%	7.7%
Operational EBITDA margin	3.5%	4.7%	6.3%	1.2%
EBITDA margin	2.4%	2.0%	4.7%	3.8%
EBIT margin	-0.9%	-0.5%	2.5%	1.4%
EBT margin	-2.2%	-1.4%	1.5%	1.1%
Net margin	-2.4%	-1.7%	1.1%	0.4%
Operating expense ratio	13.4%	12.5%	10.5%	9.6%
BALANCE SHEET				
mln EUR (unless stated otherwise)	30.06.20	30.06.19	30.06.18	30.06.17
Net debt	20.7	20.5	18.1	1.0
Equity	19.8	21.9	23.3	22.7
Working capital	-4.0	-3.1	2.8	11.5



Assets	57.1	62.5	65.5	33.5
Liquidity ratio	0.8x	0.9x	1.1x	2.3x
Equity ratio	34.7%	35.0%	35.6%	67.8%
Gearing ratio	51.1%	48.3%	43.7%	4.1%
Debt to Asset	0.7x	0.7x	0.6x	0.3x
Net debt-to-EBITDA from operations	7.5x	5.1x	3.0x	1.6x
ROE	-9.1%	-6.5%	4.3%	0.9%
ROA	-3.2%	-2.3%	2.0%	0.6%

* before one-offs and fair value adjustment of fish stock

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