Clearwater Reports Third Quarter 2020 Results

HALIFAX, NS, Nov. 17, 2020 /CNW/ - (TSX: CLR):

- Third quarter sales and adjusted EBITDA[1] were $133.7 million and $30.9 million respectively, versus $175.2 million and $34.5 million in the prior year, due to the global impact of COVID-19.
- Year-to-date sales and adjusted EBITDA[1] were $340.0 million and $62.9 million respectively versus $449.2 million and $84.8 million in the prior year, due to the global impact of COVID-19.
- Gross margin and adjusted EBITDA as a percentage of sales were 22.0% and 23.1% respectively in the third quarter compared to 21.6% and 19.7% in 2019.
- Leverage[1] increased modestly to 5.0x compared to 4.9x in the third quarter of 2019 due to management's prudent cash preservation measures.
- Clearwater entered into an arrangement agreement, subject to conditions including shareholder approval, with a Mi'kmaq First Nations Coalition and Premium Brands Holdings Corporation to acquire all of the issued and outstanding common shares of Clearwater for $8.25 per share.
- Subsequent to the end of the third quarter, Clearwater sold two of its eight offshore lobster licences to Membertou First Nations for proceeds of $25 million, diversifying access to the fishery and strengthening the business relationship between Clearwater and Membertou.

Third Quarter and Year-to-date Results

"The impact of COVID-19 has been complex for our customers, our supply chain partners and our company in 2020. We are proud of our ability to remain in continuous operation at sea, on land and around the globe, a testament to our employees' character and teamwork which resulted in strong third quarter margin realization and cashflow. Our customer relationships and demonstrated agility in responding to shifts in consumer demand have been successful in partially mitigating the impacts of COVID-19 on our business" said Ian Smith, Chief Executive Officer of Clearwater. "We implemented measures in the first quarter of 2020 to protect employee health and safety and to align harvesting and processing to customer demand. These measures have allowed us to remain operational in our fleet and all plants. We experienced strong demand in the third quarter as certain markets re-opened and we continue to prepare for the recovery in the global food service segment. We remain focused on protecting the organization, our operations and meeting consumer needs."

Sales for third quarter and year-to-date 2020 were $133.7 million and $340.0 million as compared to $175.2 million and $449.2 million in the same periods of 2019. Demand rebounded as some markets re-opened in the third quarter of 2020. Year-to-date sales volumes decreased across most species and regions due to lower demand in food service in 2020. Traditional retail and on-line consumer demand continue to thrive in this difficult market, whereas food service customers and their supply chain have been more seriously affected by social distancing measures.

Adjusted EBITDA for third quarter and year-to-date 2020 were $30.9 million and $62.9 million as compared to $34.5 million and $84.8 million in 2019. In the quarter, lower, but improving, demand for clam, lower market prices for certain species and higher costs related to COVID-19 were partially offset by improved scallop, crab and live lobster demand and prices, lower harvesting costs for scallops and clam, lower fuel costs, continuous improvement programs savings, refined procurement strategies and government COVID-19 support programs.

Average foreign exchange rates realized on sales had a net positive impact of $3.4 million and $6.4 million for the third quarter and year-to-date 2020, respectively, as compared to the same periods of 2019.

Cash from operations and free cash flow increased $20.1 million and $20.0 million in the third quarter of 2020 as compared to the same period of 2019. Increase in free cash flow was due to favorable changes in working capital, driven by inventory management strategies, partially offset by lower cash earnings and higher capital expenditures. Measures that Clearwater has implemented will ensure continued generation of cash to support ongoing operations and capital expenditures as well as selective strategic initiatives that will generate future growth.

Liquidity, Debt and Leverage

Rigorous and disciplined cash preservation measures were implemented in 2020 to preserve liquidity. These included accessing government support programs and operational adjustments to several species that significantly improved cash flows while having minimal impact on species profitability. The quality of receivables remains high reflecting the strength of our customer base which enabled us to leverage the COVID-19 support of our credit insurance partners.

Leverage for the third quarter of 2020 was 5.0x compared to 4.9x for the same period of 2019. Disciplined working capital management largely offset the impact of lower COVID-19 demand resulting in lower net debt at the third quarter of 2020 compared to 2019.

Clearwater has strong access to liquidity and funding. Discipline and focus on cashflows from operations, working capital and capital expenditures will maintain liquidity throughout seasonal operations.

Dividends

On May 15, 2020, to enhance liquidity and recognizing the uncertainty related to the duration and impact of COVID-19, the Company suspended dividends for the balance of 2020. This was incorporated into the amendment of the credit facility with secured lenders.

Seasonality

Clearwater's business experiences a predictable seasonal pattern in which sales, margins and adjusted EBITDA are lower in the first half of the year and higher in the second half. Investments in capital expenditures and working capital are typically higher in the first half of the year and lower in the second half. This normally results in lower cash flows, higher debt balances and higher leverage in the first half of the year and higher cash flows, lower debt balances and lower leverage in the second half.

OUTLOOK

Clearwater was directly impacted by COVID-19 in 2020, as we and our global customer base faced the implications of the growing pandemic through food service closures, social distancing and other measures targeted at reducing spread. As a vertically integrated seafood company, the impact to Clearwater, its customers, supply chain partners, operational protocols and employees is complex.

Traditional retail and on-line consumer demand are benefiting whereas food service customers and their supply chains continue to experience interruptions. Clearwater responded to this shift by placing extra focus and attention on the expansion of global distribution, new products and formats and shifting promotional activity to channels that are experiencing heightened demand.

Demand improved in the third quarter as government relaxed measures allowing certain markets and channels to reopen. For the balance of 2020, our focus will move to ensuring adequate supply of certain species, mix and formats to fulfill growing customer demand through the peak holiday periods in Europe, North America and Asia. Concurrently, Clearwater will continue our COVID-19 measures, as noted below, as we prepare for accelerated growth in 2021 associated with the recovery in global food service channels and our plans for increased business investment post-closing of the arrangement agreement. We will also position our United Kingdom operations for continued European Union market access and success regardless of the outcome of BREXIT negotiations.

As a business, Clearwater is considered an essential service and continues to harvest, process, and deliver seafood to customers globally.

Clearwater took immediate action in response to COVID-19 to ensure employee safety and security and business continuity, including:

- Health screening protocols;
- Securing personal protective equipment for employees throughout our global supply chain;
- Implementing social distancing and enhanced cleaning protocols in our processing plants and on harvesting vessels;
- Supporting our essential workers with thank-you pay and adapting travel to and from harvest ports to maintain labour mobility; and
- Successfully transitioning approximately 98% of our office, sales and administrative staff to working remotely and in continued close coordination across three continents and 17 time zones.

Clearwater has strong access to liquidity and funding. Discipline and focus on cashflows from operations, working capital and capital expenditures preserved cash flow year-to-date and will maintain liquidity for seasonal operations. In the near term, leverage is expected to remain higher than the prior year as a direct impact of COVID-19.

While the short-term impact of COVID-19 has introduced additional forward-looking uncertainty, as a vertically integrated seafood company, with proprietary licences, advanced and year-round harvesting and processing capabilities, premium product quality, diversity of species, global sales and distribution footprint and an experienced, dedicated workforce, Clearwater is well-positioned to take advantage of future growth opportunities as global seafood demand recovers.

Clearwater's core strategies are built around these strengths, remain highly relevant and our long-term growth outlook beyond 2020 remains very positive.

Core Strategies

Expanding Access to Supply - Expanding access to supply of core species and other complementary, high demand, premium, wild and sustainably-harvested seafood through improved utilization and productivity of core licences as well as acquisitions, partnerships, joint ventures and commercial agreements.

Target Profitable and Growing Markets, Channels and Customers - Clearwater targets growing markets, consumers, channels, and customers on the basis of size, profitability and demand for eco-label seafood. Our focus is to win in key channels and with customers that are winning with consumers.

Innovate and Position Products to Deliver Superior Customer Satisfaction and Value - We continue to work with customers on new products and formats as we innovate and position our premium seafood to deliver superior satisfaction and value that is differentiated by relevant dimensions such as taste, quality, safety, sustainability, wellness, convenience and fair labour practices.

Increase Margins by Improving Price Realization and Cost Management - Clearwater leverages the scarcity of seafood supply and increasing global demand, in addition to continuing to invest in, innovate and adopt state-of-the-art technology, systems and processes.

Pursue and Preserve the Long-Term Sustainability of Resources on Land and Sea - As a leading global supplier of wild-harvested seafood, sustainability remains at the core of our business and our mission. Investing in the long-term health and the responsible harvesting of the oceans and its bounty is every harvester's responsibility and the only proven way to ensure access to a reliable, stable, renewable, and long-term supply of seafood. Sustainability is not just good business, like innovation it's in our DNA.

Build Organizational Capability, Capacity and Engagement - We attract, train, and retain the best talent to build business system and process excellence company-wide.

Key Performance Indicators and Financial Measures

In 000's of Canadian dollars		**October 3 2020**		13 weeks ended September 28 2019		**October 3 2020**		39 weeks ended September 28 2019
Profitability								
Sales	**$**	**133,716**	$	175,200	**$**	**340,025**	$	449,159
Sales growth (decline)		**(23.7%)**		6.7%		**(24.3%)**		3.9%
Gross margin	**$**	**29,464**	$	37,767	**$**	**64,006**	$	90,907
Gross margin (as a % of sales)		**22.0%**		21.6%		**18.8%**		20.2%
Adjusted EBITDA[1,2]	**$**	**30,909**	$	34,490	**$**	**62,878**	$	84,771
Adjusted EBITDA[1,2] (as a % of sales)		**23.1%**		19.7%		**18.5%**		18.9%
Adjusted EBITDA attributable to shareholders[1,2]	**$**	**27,970**	$	29,405	**$**	**54,187**	$	71,952
Adjusted EBITDA attributable to shareholders[1,2] (as a % of sales)		**20.9%**		16.8%		**15.9%**		16.0%
Earnings (loss) attributable to shareholders	**$**	**12,482**	$	7,804	**$**	**(11,431)**	$	24,092
Basic earnings (loss) per share	**$**	**0.19**	$	0.12	**$**	**(0.18)**	$	0.37
Diluted earnings (loss) per share	**$**	**0.18**	$	0.12	**$**	**(0.18)**	$	0.37
Adjusted earnings (loss) attributable to shareholders[1,2]	**$**	**8,502**	$	7,280	**$**	**1,120**	$	12,334
Adjusted earnings (loss) per share	**$**	**0.13**	$	0.11	**$**	**0.02**	$	0.19
Cash Flows and Leverage								
Cash from (used in) operating activities	**$**	**42,878**	$	22,727	**$**	**39,982**	$	(591)
Cash from (used in) financing activities		**(33,214)**		(33,775)		**(23,396)**		(12,998)
Cash from (used in) investing activities		**(1,358)**		1,801		**(20,719)**		(11,635)
Free cash flows[1]	**$**	**38,262**	$	18,258	**$**	**9,590**	$	(25,144)
Leverage[1,3]		**5.0x**		4.9x		**5.0x**		4.9x
Returns								
Return on assets[1,4]		**7.2%**		8.9%		**7.2%**		8.9%
Total assets		**701,678**		736,463		**701,678**		736,463

[1] *Refer to discussion on non-IFRS measures, definitions and reconciliations within the Management Discussion and Analysis.*
[2] *Adjusted earnings before interest, tax, depreciation and amortization.*
[3] *Leverage is calculated as twelve month rolling adjusted EBITDA attributable to shareholders to net debt and differs from the calculation of leverage for covenant purposes.*
[4] *Return on assets is calculated as twelve months rolling adjusted earnings before interest and taxes to total average quarterly assets.*

For those readers who would like to understand the calculation of adjusted earnings and adjusted earnings attributable to shareholders please refer to the reconciliation of adjusted earnings within the non-IFRS measures, definitions and reconciliations section of the Management Discussion and Analysis.

Financial Statements and Management's Discussion and Analysis Documents

For a detailed analysis of Clearwater's 2020 third quarter results please see Clearwater's Third Quarter Report for 2020, which includes Management's Discussion and Analysis and the related financial statements. These documents can be found in the disclosure documents filed by the Corporation with the securities regulatory authorities available at www.sedar.com or on Clearwater's website at www.clearwater.ca.

COMMENTARY REGARDING FORWARD-LOOKING STATEMENTS

This news release contains "forward-looking information" as defined in applicable Canadian securities legislation, including but not limited to, statements regarding future plans and objectives of Clearwater. Forward-looking information typically, but not always, contains statements with words such as "anticipate", "does not anticipate", "believe", "estimate", "forecast", "intend", "expect", "does not expect", "may", "will", "should", "plan", or other similar terms that are predictive in nature.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information, but which may prove to be incorrect due to various known and unknown risks, uncertainties, and other factors outside of managements' control. Examples may include, but are not limited to, total allowable catch levels, resource supply, selling prices, weather, exchange rates, fuel and other input costs as well as impacts of the COVID-19 pandemic and the resulting economic downturn.

For additional information with respect to risk factors applicable to Clearwater, reference should be made to Clearwater's continuous disclosure materials filed from time to time with securities regulators, including, but not limited to, Clearwater's Annual Information Form. The forward-looking information contained in this release is made as of the date of this release and Clearwater does not undertake to update publicly or revise the forward-looking information contained in this release, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

No regulatory authority has approved or disapproved the adequacy or accuracy of this news release.

About Clearwater

Clearwater is one of North America's largest vertically integrated seafood companies and the largest holder of shellfish licenses and quotas in Canada. It is recognized globally for its superior quality, food safety, diversity of species and reliable worldwide delivery of premium wild, eco-certified seafood, including scallops, lobster, clam, coldwater shrimp, langoustine, whelk, crab and groundfish.

Since its founding in 1976, Clearwater has invested in science, people and technological innovation as well as resource ownership and management to sustain and grow its seafood resource. This commitment has allowed it to remain a leader in the global seafood market and in sustainable seafood excellence.

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1 – Refer to discussion on non-IFRS measures within the Management Discussion and Analysis

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