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Managing Director Address

Greetings

I'll begin by introducing some of my team. You have already been introduced to our CFO Paul Alston. Vaughan Wilkinson is in charge of sales and innovation. Debra Lumsden is Chief People Officer and has done a great job of negotiating our collective employment agreements this year. Stuart Houliston is GM Finance and will be our moderator for online questions. Roberto Magaraggia is our legal counsel and together with Paul Alston visited London to ensure that we got a better deal on insurance costs. Emma Croft is Group Marketing Manager and works with Vaughan. Danae Smith is our executive EA and yes, she's the boss! Emma and Danae will have microphones for question time.

I have been Managing Director of Sanford from 01 May 2024. Since taking over, I have spent most of my time reviewing the existing strategy and plans, and focused hard on capital allocation and cashflow. More later.

FY24

A quick update on growth and progress in FY24. Revenue increased slightly (~5%) mainly due to consistent pricing and solid volumes across the business.

I have been focused on reducing spend on IT, cash donations, subscriptions and consultants. I obviously need a lot of help! [my wife would agree]. I have been overwhelmed by offers of help from various consultants. I have thanked them.

Some of the growth in revenue dropped straight through to EBIT and combined with the other areas of improvement, these were the main reasons that we had a record adjusted EBIT result of \$74.2m.

Previously, there was a strategy to move up the chain and closer to the customer 'From sea to me.' As you move closer to the customer, you may get a better price, but there are additional costs and risks. You must know that you are making more money before you make these channel changes. One change of direction has been to move back to re-establishing our relationships with major wholesalers in key markets. This has been effective particularly in both the US and China markets. The effect of this simplification of channels is highlighted in the graph of gross margin.

NPAT of \$19.7m was an improvement on pcp so why such a relatively poor result given the EBIT improvement? First, there was the one-off sale of crayfish quota that positively impacted FY22. Then in FY24, we had a round of significant asset impairments (including NI Mussels Limited [NIML], the Auckland site and a lot of assets related to the Bioactives plant in Blenheim).

In 1H24, we had operating cashflow of \$8.3m so to finish the year with \$73.0m is a fantastic result. From May, with board support, we focused on turning inventory into cash. The sales team have done an excellent job of selling through that inventory and collecting our cash. There is a useful expression – "you only sell inventory once!" Obviously, that performance is unlikely to be repeated in FY25, but it is still an area of focus.

I have been concerned at the level of debt and the associated interest costs. In FY25, we expect our interest costs to go up ~2m even as interest rates appear to be coming down. This is because our favourable interest cover is rolling off. We must work harder to stand still!

My view is our total debt is too high, but it is not just the quantum; it is the ability to move quickly as growth opportunities become available, usually at short notice.

Capital Allocation

A fundamental role for any business leader is capital allocation. I see capital as people and \$. We want the best people working on the most important projects, and those projects are one part of realising any strategy.

- We should fund strategies, not isolated projects
- We should have zero tolerance for bad growth
- We should assume a zero-based capital allocation each year
- There is ample capital (\$), but it is expensive
- No capital rationing – know the value of assets, assets vs price

Of course, we need to agree strategy but also, we need to hold people accountable to the investment case. I think it is fair to say that this has not been done well in the past. We need a disciplined approach!

I have changed our capital review process – all capex comes to the CFO and me for review. We have been investing heavily in assets over the last few years and we need to align our spend with our strategies.

Cash Allocation

This is a simple diagram of how we are thinking about cashflow. On the LHS we have operating cashflow. In FY24, that was \$73.0m. Going forward, we believe we can properly maintain assets for less than \$46.0m (FY24). There is then a trade-off between debt repayments and dividends. These factors are for organic growth, but if we have a strategic investment opportunity, we either need to get finance from somewhere, increase debt or reduce dividends. For me debt reduction is a priority.

The Future

Economic value, such as sustained high profitability and a healthy financial standing is **the** most important foundation. Without securing economic value, we cannot take on other challenges. If we don't recognise this fact and consider the other contributors to corporate value from the same perspective, our existence as a company will be diminished. In creating corporate value, we must not forget it is shareholders that evaluate our efforts.

I started this address reflecting on what was achieved in FY24, what we learnt through that period, and what needs to be achieved going forward. This business is in turnaround mode and so we are reviewing all aspects of the business 'bottom up.' We must review every process and commit to continuous improvement processes to mitigate any further cost increases. The objective is to simplify and optimise standardised business processes and tools enabling access to more insightful information, a more secure environment, and ultimately better outcomes for our customers and our people.

Sanford has a significant tangible and intangible asset base, measured using a mixture of book and fair value. As part of the strategic review of each part of the business, rigor will be applied to determining if sufficient value is being achieved from these assets. This review will encompass both the short and medium-term use and profitability attained from those assets. A particular focus will be on our, in some cases, aged assets and whether the required maintenance and upkeep is commensurate with attainable and incremental profit achievement. Additionally, we own fishing quota and licensed water space that needs to be reviewed.

Sustainability

Addressing climate change continues to be a critical issue for all businesses. As identified in the Chair's Review, high emphasis is being placed on understanding future climate impacts on Sanford's business. We are investing resources into completing the complex work of investigating different climate scenarios to understand the potential impacts on our physical assets and manage transition risks (which will vary from one jurisdiction to another). This work will, in turn, inform future investment decisions and help with mandatory reporting obligations in FY25 and beyond. The sustainability report is now a separate document and will be available before 31 January 2025.

People

I would like to thank the senior leadership team and all staff for their contributions during FY24.

Finally, I appreciate the support of both the Directors and shareholders.

David Mair
Managing Director