BELL POTTER

Speculative
See key risks on page 15-16, and early stage company risk warning on page 18. Speculative securities may not be suitable for Retail Clients.

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Clean Seas Seafood (CSS)

Going to need a bigger boat

Recommendation
Buy (Initiation)
Price
$0.56
Valuation
$0.80 (Initiation)
Risk
Speculative

GICS Sector

Food and Staples Retailing

Expected Return	
Capital growth	**42.9%**
Dividend yield	**0.0%**
Total expected return	**42.9%**

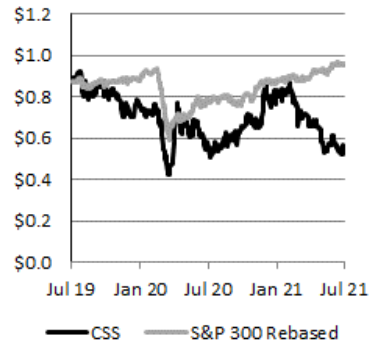
Company Data & Ratios	
Enterprise value	**$75.2m**
Market cap	**$89.8m**
Issued capital	**160.3m**
Free float	**100%**
Avg. daily val. (52wk)	**$66,662**
12 month price range	**$0.495-0.92**

EV based on ProForma 3Q21 net cash

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.59	0.67	0.56
Absolute (%)	-8.55	-20.15	-3.60
Rel market (%)	-9.15	-27.29	-26.63

Absolute Price



SOURCE: IRESS

Company background

Clean Seas Seafood Ltd (CSS) was formed by The Stehr Group in 2000 and publicly listed in 2005. The initial strategy of CSS was to propagate and grow Southern Bluefin Tuna, as well as other species including Yellowtail Kingfish. In 2012 CSS pivoted away from Tuna and began to focus on its Kingfish operations. Today CSS is a vertically integrated Kingfish producer operating hatcheries, farming and processing facilities, with lease capacity in place to support growth to ~10,000t.

COVID reversal

Supply chain disruptions during the COVID-19 pandemic resulted in both volume headwinds (down -29% YOY in 2H20), weakness in realised selling prices (down from $17.00-17.50/Kg in 1H19-1H20 to $15.40-15.60/Kg in 2H20-1H21) as channels pivoted, and an elevated cost structure (inventory carry costs). As supply chains are re-established and biomass is cleared, we would expect these headwinds to reverse.

History of growth

Leading up to COVID-19, CSS had achieved compound growth in sales volumes of +20% pa since FY15, whilst sustaining high selling prices. CSS has biomass in place to support growth towards 4,000-5,000t, which would look a reasonable near term sales target, with a resumption of historical growth trends and following the establishment of new channels to market.

Investment view: Initiate coverage with Buy, Speculative risk

We initiate coverage with a Buy, Speculative risk rating and a valuation of $0.80ps. CSS provides investors with operating leverage to a re-opening in global foodservice channels resulting in the combination of stronger sales volumes, higher selling prices, and a downdraft in COGS. A resumption of historical growth rates, at pre-COVID cost and revenue points, then provides a pathway to profitability. Valuation looks undemanding compared to Oslo listed, The Kingfish Company, which is three times CSS's market value, despite CSS having a materially larger sales and biomass base.

Earnings Forecast

Year end June	2020	2021e	2022e	2023e
Sales (A$m)	40.3	48.1	57.0	69.7
Operating EBITDAS ($m)	(7.2)	(15.9)	(5.5)	3.9
Reported EBITDA ($m)	(7.8)	(21.5)	(4.5)	3.9
NPAT (adjusted) (A$m)	(12.6)	(26.5)	(8.8)	(0.1)
NPAT (reported) (A$m)	(14.5)	(35.9)	(8.8)	(0.1)
EPS (adjusted) (Acps)	(13.3)	(20.0)	(5.5)	(0.1)
EPS growth (%)	n.a.	n.a.	n.a.	n.a.
PER (x)	(4.2)	(2.8)	(10.1)	lge
EV/EBITDAS (x)	(10.5)	(4.7)	(13.7)	19.4
Dividend (A cps)	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	(17.5)	(37.6)	(14.1)	(0.2)

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Background and Investment View

Clean Seas Seafood Ltd (CSS) was formed by The Stehr Group in 2000 and publicly listed in 2005. The initial strategy of CSS was to propagate and grow Southern Bluefin Tuna, as well as other species including Yellowtail Kingfish. CSS pivoted away from Tuna in 2012 and began to focus on the Kingfish operations. Today CSS is a vertically integrated Kingfish producer which operates breeding and hatcheries, farming and processing operations, with lease capacity to support growth to ~10,000t (~11,000t at 11 months cover) and potential for this to expand towards ~30,000t longer term. A brief overview of the business is below:

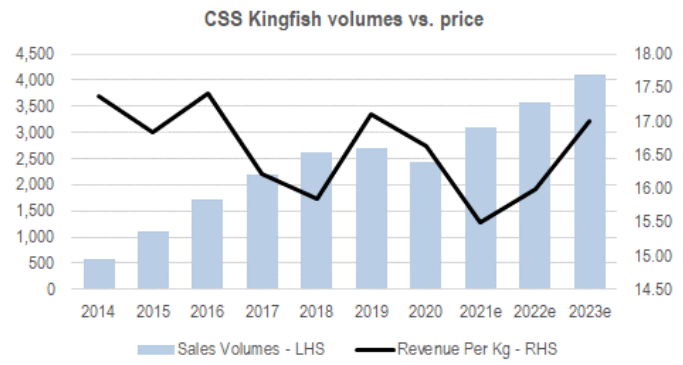
Figure 1 - CSS operational footprint at a glance

Hatchery	Grow out		Processing	Distribution
Arno Bay	Port Lincoln	4,000t	Royal Park Adelaide	150 seafood distributors
Annual land based spawning. Eggs hatch within 48Hrs of spawning. Growout for 20 days in Larvae tanks.	Arno Bay	2,850t	Rapid Freezing technology	Agreement with Hofseth (shareholder)
	Whyalla	4,250t		
	Wallaroo	2,250t		
At 22 days hatchlings are transferred to nursery for weaning.	**Licences**	**13,000t**		
	Retail sized fish (3.0-3.5Kg) raised 13-15 months. Foodservice sized fish (4.0-4.5Kg) raised for 18-24 months.			

Competitor Supplies	
Catch and Grow	**Volume**
Japanese Production	136,000t
Farmed Kingfish	
Sashimi Royal	1,200t
The Kingfish Company	520t (9,000-11,000t FY24e capacity target)
INIDEP	106t (170t target)

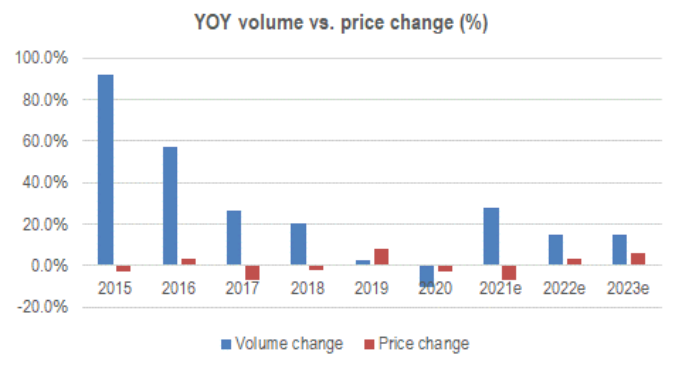
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - CSS Annual harvest and sales volume



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - CSS YOY volume and price change



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

INVESTMENT VIEW

We initiate coverage with a Buy, Speculative risk rating. Our favourable view on CSS is predicated on:

Global supply landscape constrained: Japan is the largest supplier of Kingfish and largely dependent on wild catch and catch and grow production systems. Supply from Japan has been fairly static the past decade leaving the opportunity for farm based systems to be developed. Outside of CSS there is little in the way of global aquaculture supply with a limited number of smaller scale operators we can identify. Achieving our forecast sales rates by CSS, would reflect only modest growth in global supply of 2-3%.

Scalable business with high growth runway: Since FY15 CSS has achieved compound volume growth of +20% pa. Following COVID-19 disruptions in 2H20/1H21, volume growth has returned, with volumes up +25% YOY in 2Q21 and +44% YOY in 3Q21, the latter a record level of quarterly sales. Management has stated target of 5,000-6,000t by FY25e

and lease availability to approach 10,000t with limited fixed capital investment required. Longer-term there is the scope to scale the business up to 30,000t.

COVID price recovery play: Supply chain disruptions during the COVID-19 pandemic resulted in average realised prices falling from $17.00-17.50/Kg over 1H19-1H20 to $15.40-15.60/Kg in 2H20-1H21. As foodservice channels re-open, we would expect a meaningful recovery in average realised price points. Over the medium term we are cognisant that CSS will need to develop the market to absorb projected volume growth. However, we note that the average price received over FY15-20 was ~$16.65/Kg and this was achieved in a period where volumes grew at a compound rate of +20% pa. This would suggest that historically the market has been able to absorb CSS volume growth while sustaining price points.

Cost reduction initiatives in place: The current direct farming costs of CSS have been running at an elevated level relative to historical averages and reflective of fish remaining at sea longer than expected (and hence experiencing lower feed conversion ratios). Due to reporting changes it can be difficult to isolate the movements in costs, but from our analysis of direct fish husbandry, processing and employee costs, there is a clear elevation in costs over FY19-1H21, that would tend to be supportive of CSS estimates of an additional ~$3/Kg in costs in the supply chain today, which when viewed with cost reduction initiatives (targeting $2-3/Kg reduction in the 2020 strategic plan) have the scope to deliver a $5/Kg compression in cost structure by FY23-24e.

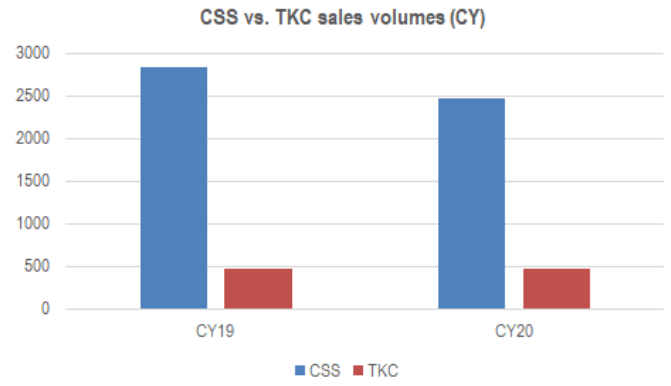
Figure 4 - CSS historical direct cost structure

Histoircal cost drivers	Avg.	2015	2016	2017	2018	2019	2020	1H21
Fish husbundary costs ($m)		17.4	20.9	19.5	24.2	30.2	31.7	
...Costs per Kg production ($)	8.05	6.92	8.10	7.94	7.27	8.60	9.48	
Employee costs ($m)		5.7	6.9	7.2	10.2	12.2	12.4	
...Costs per Kg production ($)	3.02	2.29	2.68	2.92	3.07	3.46	3.70	
Processing & selling ($m)		3.9	7.0	9.0	11.0	12.1	10.2	
...Costs per Kg sales ($)	4.10	3.52	4.07	4.12	4.17	4.50	4.21	
Variable costs ($)	**15.17**	**12.74**	**14.85**	**14.98**	**14.51**	**16.56**	**17.39**	
COGS ($)						**13.89**	**15.04**	**15.43**
Total Costs per Kg ($)						**17.49**	**19.59**	**19.00**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

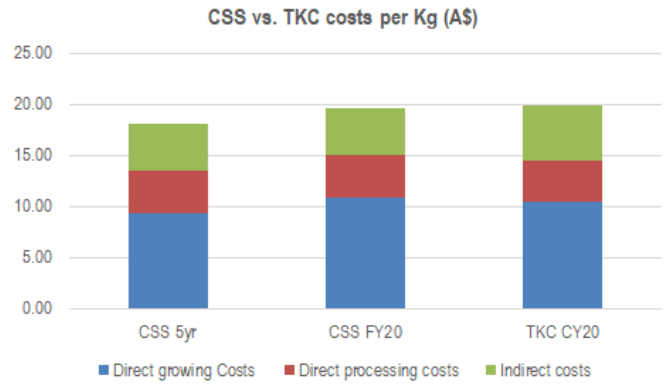
Globally cost competitive: The largest listed competitor in the farmed Kingfish sector is The Kingfish Company (TKC) in Europe which sold 462t of product in CY20 and has a target to reach 4,000-6,000t following a major capital expenditure program. Looking at the cost structure of TKC highlights that CSS is cost competitive relative to other global farming operations.

Figure 5 - CSS vs. TKC sales volumes



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 6 - TKC vs CSS cost structure



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Capital in place to support growth: CSS recently completed a $25m capital raising, with funds utilised to replace convertible notes (~$9.1m remain on issue, with a coupon of 8%) and the residual to fund working capital to provide a pathway to 5,000-6,000t in annual

production. With an average working capital investment of ~$3/Kg in any given year we would see CSS as having a funding pathway to profitability should it deliver on cost reduction initiatives and should average price points recover towards historical levels.

Undemanding multiple compared to closest listed peer: At current share price levels, there is a material disconnect between the value of CSS and Olso listed The Kingfish Company. As detailed in the table below, TKC is ~3x the value of CSS despite being materially below CSS in measurable such as sales revenue, sales volume and biomass. Both companies have similar medium term targets in sales volume and installed capacity.

Figure 7 - CSS vs. TKC

		CSS	TKC
Share price A$		0.560	3.87
Shares on issue		160.3	67.7
Market Capitailisation (A$m)		**89.8**	**262.2**
Net cash (debt)		14.6	48.4
Enterprise Value A($m)		**75.2**	**213.8**
CY20 Sales volume (t)		2,460	461
CY20 Sales revenue A$m)		38.2	7.8
Dec'20 Biomass (t)		3,394	206
EV/sales volume ($/Kg)		**30.57**	**463.77**
EV/Sales (x)		**1.97**	**27.28**
EV/Biomass ($/Kg)		**22.16**	**1037.86**
TKC AUDNOK conversion	6.525		
TKC AUDEUR conversion financials	0.634		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation

CSS is an early stage FMCG entity where the value is largely dependent on being able to grow the market for Kingfish product while retaining price and delivering on cost reduction initiatives. Major assumptions in our valuation model are:

Volumes: We have based our valuation on a range of 5,000-6,000t, consistent with near term targets. We note current biomass can support sales volumes of 4,000-5,000t, so we have assumed an additional $3m in working capital investment at the upper end, reflected in the invested capital and net cash base.

Average selling price: Prior to COVID-19 impacts in 2H20, average selling prices had proved to be fairly resilient at ~A$16.50-17.50/Kg. We have based our valuation model on pricing returning to the midpoint level of this, reflecting normalised prices in foodservice, with some dilution from lower price points in retail.

Costs: Our valuation is based on a cost per Kg assumption of $14.17-14.40/Kg a level broadly comparable to CSS's "in balance" estimate of ~$14.40/Kg at EBITDA (~$15.30/Kg to EBIT). For illustrative purposes we have also adjusted the high end of the valuation range for an additional ~$2.80/Kg in targeted cost benefits from scale and automation.

WACC determination: We have utilise an 9.5% discount rate predicated on an asset beta of 1.0x, a risk free rate of 3.5% and a MRP of 6.0%.

Figure 8 - CSS Valuation model

Risk Free Rate	3.5%	Terminal Growth Rate	0.0%			Current Share Price	0.560		
Borrowing Margin	0.0%	Cost of Debt	3.5%			Equity (MV $m)	89.8		
Mkt Risk Premium	6.0%	Cost Of Equity	10.1%			Net Int Bearing Debt (BV $m	9.4		
Asset Beta	1.00	Pre-tax WACC	9.5%			Shares On Issue	160.3		
Equity Beta	1.10					Target Net debt/(net debt+ec	9.4%		
							FY25e targets		Full
ROIC based methodolgy	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**Low**	**High**	**cost target**
Grow out capacity (t)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Target production (t)	2,628	2,698	2,424	3,100	3,565	4,100	5,000	6,000	6,000
Growout utilisation (%)	26%	27%	24%	31%	36%	41%	50%	60%	60%
Average selling priece ($/Kg)	15.85	17.10	16.63	15.50	16.00	17.00	17.00	17.00	17.00
Revenue ($m)	**41.7**	**46.1**	**40.3**	**48.1**	**57.0**	**69.7**	**85.0**	**102.0**	**102.0**
COGS, processing and freight ($m)		37.5	36.4	53.5	52.6	56.4	62.5	75.0	
...COGS, processing and freight per Kg		**13.89**	**15.04**	**17.25**	**14.75**	**13.75**	**12.50**	**12.50**	
Gross Profit ($m)		8.7	3.9	(5.4)	4.5	13.3	22.5	27.0	
GP per Kg ($).		**3.21**	**1.59**	**(1.75)**	**1.25**	**3.25**	**4.50**	**4.50**	
Overheads ($m)		9.7	11.0	10.4	9.9	9.4	9.5	10.0	
Total Costs ($m)		**47.2**	**47.5**	**63.9**	**62.5**	**65.8**	**72.0**	**85.0**	**71.5**
...Total costs per Kg ($).		**17.49**	**19.59**	**20.62**	**17.54**	**16.05**	**14.40**	**14.17**	**11.92**
EBITDAS ($m)		**(1.0)**	**(7.2)**	**(15.9)**	**(5.5)**	**3.9**	**13.0**	**17.0**	**30.5**
...EBITDAS per Kg ($)		**(0.38)**	**(2.96)**	**(5.12)**	**(1.54)**	**0.95**	**2.60**	**2.83**	**5.08**
Depreciation & amortisation ($m)		(3.1)	(3.4)	(3.6)	(3.8)	(3.6)	(3.6)	(3.6)	(3.6)
EBITS ($m)		2.0	(3.7)	(12.2)	(1.7)	7.5	9.4	13.4	26.9
Invested Capital ($m)		84.8	76.6	61.1	63.7	65.2	61.1	64.1	64.1
ROIC (%)							15.3%	20.9%	41.9%
long-term growth rate (%)							0.0%	0.0%	0.0%
Pre-tax WACC (%)							9.5%	9.5%	9.5%
Derived EV/EBITDA (x)							7.59	8.28	9.28
Implied Enterprise Value ($m)							**98.7**	**140.8**	**282.9**
FY21e net cash ($m)							9.4	9.4	9.4
Required working capital investment ($m)								(3.0)	(3.0)
Implied market value ($m)							**108.1**	**147.2**	**289.3**
Shares on issue (m)							160.3	160.3	160.3
Valuation per share ($ps)							**0.67**	**0.92**	**1.80**
Valuation per share ($ps)								**0.80**	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

As a cross check we have looked at emerging FMCG entities listed on the ASX noting that CSS EV/annualised 3Q21 (at 3.9x) and EV/T12M revenue (at 4.8x) multiple.

Figure 9 - Domestic emerging FMCG entities (as of 07/07/21)

		Shares	Share price	Net cash (debt)	Ent value	Revenue/Cash receipts 4Q20	1Q21	2Q21	3Q21	T12M Revenue	Annualised Mar'21	EV/T12M	EV/AQ
Food Revolution Group	FOD	0.03	940.5	-3.3	30.5	n.a.	9.6	11.1	10.0	n.a.	40.0	n.a.	0.8
Bubs Australia	BUB	0.48	612.8	34.3	256.8	13.0	9.4	12.8	11.8	47.0	47.2	5.5	5.4
Nuchev	NUC	0.55	51.7	14.9	13.5	4.8	1.7	3.7	3.4	13.6	13.6	1.0	1.0
Maggie Beer	MBH	0.39	350.6	11.4	123.5					77.6	75.8	1.6	1.6
Keytone Dairy	KTD	0.13	376.4	2.1	46.8				13.2	50.7	52.8	0.9	0.9
Health plant protein	HPP	0.27	122.8	-3.8	36.9	19.8	14.1	9.6	10.3	53.9	41.1	0.7	0.9
Lark Distilling	LRK	4.25	63.1	6.6	261.4	2.2	3.0	4.3	4.0	13.5	16.0	19.4	16.4
Average												**4.8**	**3.9**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

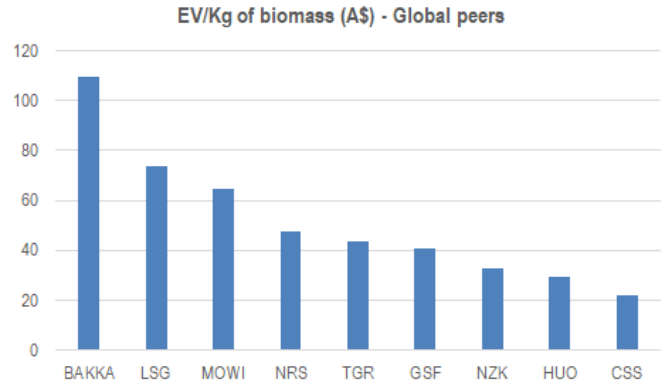
At our determined valuation we observe a target EV/EBITDA multiple range of 7.6-8.3x which compares to a listed sector average of 17.2x FY21e EBITDA and 11.0x FY22e EBITDA, with a range of 7.9-18.0x the latter. We also note that CSS is among the cheaper sector exposures on EV/Biomass measures.

Figure 10 – Listed aquaculture entities (as of 07/07/21)

Domestic	Code	Share price	Shares out (m)	Market cap ($m)	Net Debt / (Cash)	Ent value ($m)	EBITDA 2020	2021e	2022e	EV/EBITDA 2020	2021e	2022e	Revenue ($m) 2020	2021e	2022e	EV/Revenue (x) 2020	2021e	2022e
Bakkafrost P/F	BAKKA NO	759.40	59	44,913	1,711	46,624	1,090.9	2,066.8	2,587.2	42.7	22.6	18.0	4,750	6,017	6,617	9.8	7.7	7.0
Grieg Seafood ASA	GSF NO	93.00	113	10,551	3,899	14,449	552.2	1,053.8	1,751.8	26.2	13.7	8.2	6,421	5,388	6,982	2.3	2.7	2.1
Leroy Seafood Group ASA	LSG NO	79.14	596	47,150	3,862	51,012	3,038.9	4,455.5	5,514.0	16.8	11.4	9.3	19,971	22,465	24,305	2.6	2.3	2.1
Marine Harvest ASA	MHG NO	227.30	517	117,539	1,517	119,056	9,157.0	9,157.0	9,157.0	13.0	13.0	13.0	8,939	8,939	8,939	13.3	13.3	13.3
Norway Royal Salmon ASA	NRS NO	177.00	44	7,712	2,279	9,991	404.7	744.7	1,164.0	24.7	13.4	8.6	5,216	6,884	7,829	1.9	1.5	1.3
NZ King Salmon	NZK NZ	1.46	139	203	43	246	28.0	10.0	20.0	8.8	24.6	12.3	167	95	172	1.5	2.6	1.4
Salmar ASA	SALM NO	587.80	118	69,243	5,785	75,027	3,846.9	4,657.9	5,484.4	19.5	16.1	13.7	12,586	14,499	16,300	6.0	5.2	4.6
Sanford Ltd/NZ	SAN NZ	5.16	94	482	183	665	61.4	56.0	66.1	10.8	11.9	10.1	484	475	519	1.4	1.4	1.3
Tassal Group	TGR AU	3.50	212	743	474	1,217	137.7	133.0	154.5	8.8	9.1	7.9	584	612	670	2.1	2.0	1.8
Huon Acquaculture	HUO AU	2.79	110	307	289	595	47.2	16.6	63.0	12.6	35.9	9.4	326.5	390.5	456.8	1.8	1.5	1.3
Sector average										18.4	17.2	11.0				4.3	4.0	3.6

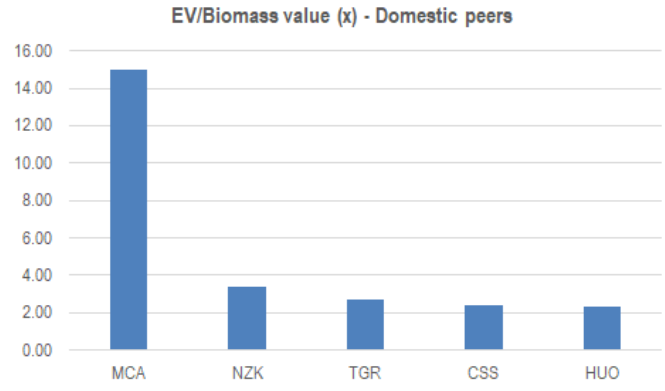
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 11 - EV per Kg of biomass (A$/Kg)- global peers



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 12 - EV biomass value (x) - domestic peers



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

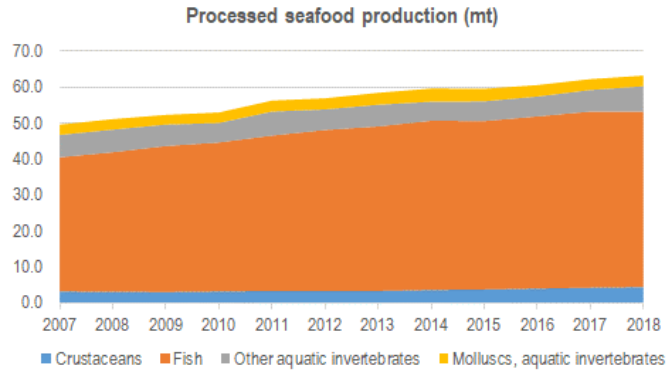
Clean Seas in a global context

SEAFOOD SUPPLY AT A GLANCE

The FAO estimates that global fish production reached ~179mt (live weight) in 2018, with a farmgate sales value of US$401Bn. 156mt of this production was used for human consumption (~20.5 kg per capita consumption) with the remaining volumes utilised in the production of fishmeal and fish oil. Aquaculture accounted for ~82mt of global production, worth ~US$250Bn, representing ~46% of global volumes.

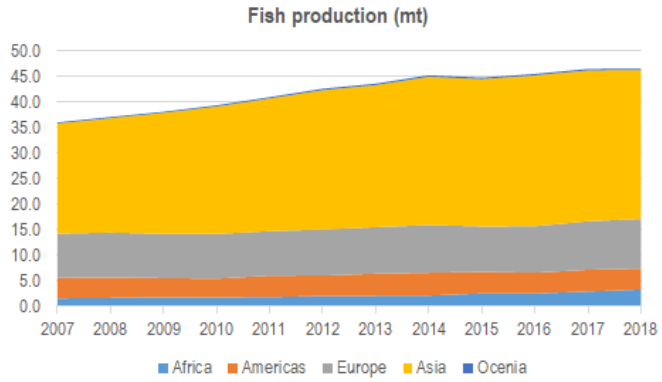
On a GWT basis global production of seafood has been growing at CAGR +2.1% pa, with finfish growing at a slightly faster rate of +2.4% pa. With wild catch volumes remaining essentially flat through this period, the majority of the expansion of supply has been driven by aquaculture development and this is likely to remain the case in the foreseeable future.

Figure 13 - Seafood processed volume by region



SOURCE: FAO

Figure 14 - Finfish processed volume by region

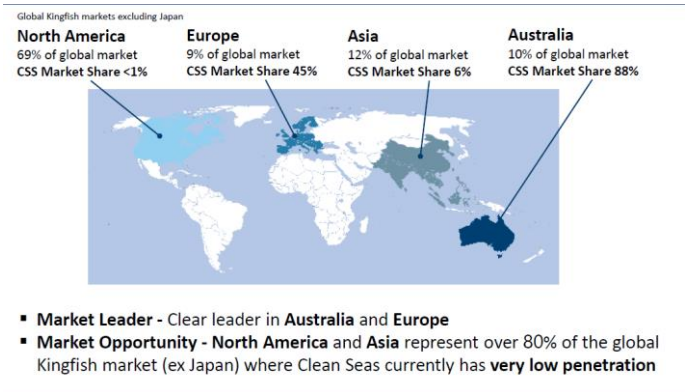


SOURCE: FAO

KINGFISH SUPPLY

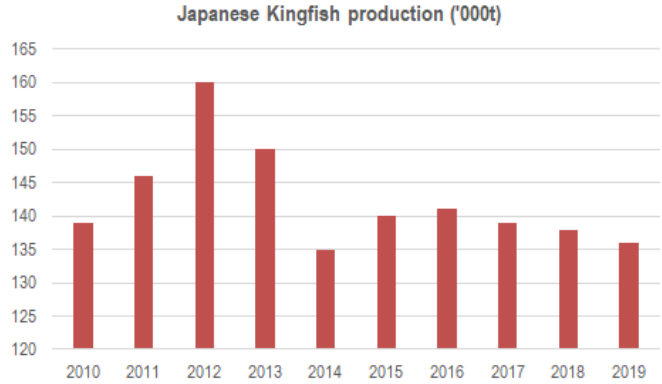
While CSS is the largest supplier of Kingfish outside of Japan, it remains small in the global context, accounting for less than 3% of global supply. Japanese supply of Kingfish totalled ~136kt in CY19 a level broadly consistent with the historical range of 135-145kt since CY14. The Japanese supply base is dependent on two supply chain models: (1) catch and grow model, where fingerlings are wild caught at 1kg and then grown out in sea cages; and (2) wild caught product, which accounts for ~70kt of annual product. Outside of Japan, where supply growth is limited, there is negligible Kingfish supply globally with CSS the largest farmed operation and more than double its next largest competitor.

Figure 15 - Seafood processed volume by region



SOURCE: COMPANY DATA

Figure 16 – Japan production of Kingfish



SOURCE: FAO

In a species context, we would point out that the entire global supply of Kingfish in FY19, would have equated to less than 10% of the global supply base of Salmon. Likewise, even if CSS were to fully utilise its lease capacity it would still equate to the equivalent of ~1 months supply growth that salmon has experienced since 2014. In this context, while cognisant that markets need to be created, achieving full utilisation of the lease assets of CSS would equate to modest annual market share gains from salmon or other fish species.

DISTRIBUTION EXPANSION

Markets with the largest upside are the US and Asia, which represent ~80% of consumption (ex-Japan) and where CSS has limited market share. CSS has recently targeted the US as a key market with the investment in marketing and distribution. In Apr'20 CSS entered a strategic relationship with Hofseth International, who also invested $5m in taking an equity position in CSS, to fast track new product developments with retail markets in North America, Europe and Asia. To date Hofseth Group have acquired 287t of product from CSS for the US market, reflecting 12% of CSS sales volumes over 1Q21-3Q21.

The Hofseth Group processes ~60,000t of salmon annually, distributing its products in more than 20 countries around the world. It is the largest exporter of Atlantic Salmon out of Norway into the US where it distributes ~20,000t of processed marine products annually into wholesale and retail channels.

Medium term targets are for ~6,000t of product to be sold into US channels and if successful would represent a material share of CSS sales volumes. Outside of the US CSS has targeted domestic retailers, with trials commenced in Oct'20 to supply ~100 outlets with product (~10t initially).

Financials

The disruptive impact of COVID-19 on CSS over the past 12 months has been material, with the rapid closure of the foodservice channels (the largest market for Kingfish) resulting in both lower price points (as supply chains pivoted) and higher costs as inventories were carried at sea longer. As foodservice channels reopening we would expect CSS to resume its historical patterns of volume growth, see a recovery in average selling prices, and (as older stock is divested) realise a lower cost per Kg. To this end we are projecting a material recovery in profitability by FY23e, with major assumptions summarised below:

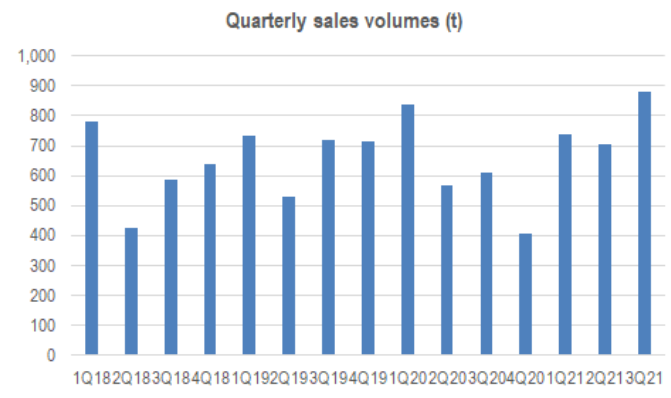
Figure 17 - CSS summary P&L

	2017	2018	1H19	2H19	2019	1H20	2H20	2020	1H21	2H21e	2021e	2022e	2023e
Sales Volume (t)	2,183	2,628	1,264	1,434	2,698	1,406	1,018	2,424	1,444	1,656	3,100	3,565	4,100
...growth (%)	26.3%	20.4%			2.7%	11.2%	-29.0%	-10.2%	2.7%	62.7%	27.9%	15.0%	15.0%
Revenue per Kg ($)	16.21	15.85	17.08	17.13	17.10	17.38	15.60	16.63	15.46	15.53	15.50	16.00	17.00
...growth (%)		-2.3%			7.9%	1.5%	-10.3%	-2.8%	-0.8%	0.4%	-6.8%	3.2%	6.3%
Revenue	35.4	41.7	21.6	24.6	46.1	24.4	15.9	40.3	22.3	25.7	48.1	57.0	69.7
...growth (%)		17.7%			10.8%			-12.6%			19.2%	18.7%	22.2%
COGS			(16.1)	(21.4)	(37.5)	(19.8)	(16.6)	(36.4)	(22.3)	(31.2)	(53.5)	(52.6)	(56.4)
COGS Per Kg			(12.73)	(14.91)	(13.89)	(14.09)	(16.34)	(15.04)	(15.43)	(18.84)	(17.25)	(14.75)	(13.75)
Gross profit			**5.5**	**3.2**	**8.7**	**4.6**	**(0.8)**	**3.9**	**0.1**	**(5.5)**	**(5.4)**	**4.5**	**13.3**
Overheads			(5.0)	(4.7)	(9.7)	(6.0)	(5.1)	(11.0)	(5.2)	(5.3)	(10.4)	(9.9)	(9.4)
Operating EBITDAS			**0.5**	**(1.6)**	**(1.0)**	**(1.3)**	**(5.8)**	**(7.2)**	**(5.1)**	**(10.8)**	**(15.9)**	**(5.5)**	**3.9**
...EBITDAS Margin (%)					-2.2%			-17.8%			-33.0%	-9.6%	5.6%
SGARA					7.0			(0.7)			(5.7)	1.0	0.0
EBITDA					**5.9**			**(7.8)**			**(21.5)**	**(4.5)**	**3.9**
Depreciation & Amortisation					(3.1)			(3.4)			(3.6)	(3.8)	(3.6)
EBIT					2.8			(11.3)			(25.2)	(8.3)	0.2
...EBIT Margin (%)					6.2%			-28.0%			-52.3%	-14.5%	0.4%
Net Interest Income					(0.3)			(1.4)			(1.3)	(0.5)	(0.4)
Pre-tax profit					2.6			(12.6)			(26.5)	(8.8)	(0.1)
Tax					0.0			0.0			0.0	0.0	0.0
Minorities					0.0			0.0			0.0	0.0	0.0
Operating NPAT					**2.6**			**(12.6)**			**(26.5)**	**(8.8)**	**(0.1)**
Abnormals post tax					(1.1)			(1.8)			(9.5)	0.0	0.0
NPAT post abnormals					**1.4**			**(14.5)**			**(35.9)**	**(8.8)**	**(0.1)**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

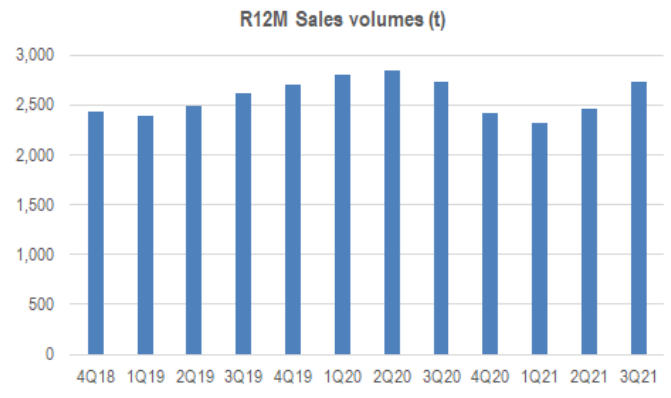
Volumes: COVID-19 disruptions can been seen in the charts below with a stark shift in growth rates in 3Q20-4Q20. Over FY15-20, CSS had grown volume at a compound rate of ~26% pa and our forecasts assume a resumption of volume growth towards ~15% pa in FY22-23e as supply chains re-open and new channels are developed. Volumes have already recovered over 2Q21-3Q21, with the latter a record quarter.

Figure 18 - Quarterly sales volumes (t)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 19 - R12M sales volumes (t)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Selling prices: Supply chain disruptions during the COVID-19 pandemic resulted in average realised prices falling from $17.00-17.50/Kg over 1H19-1H20 to $15.40-15.60/Kg in 2H20-1H21. We are cognisant that CSS will need to develop the market to absorb projected volume growth, and to this extent highlight that the average price received over FY15-20 was ~$16.65/Kg and this was achieved in a period where volumes grew at a compound rate of 26% pa. Our forecasts assume that average realised selling price lifts towards $17.0/Kg by FY23e.

Cost per Kg and biomass development: The impact of COVID on inventory carrying values has been material, with a $16.5m write down in the carrying value of stocks in 2H20 and the raising of a further $3.4m provision in 1H21. Write-downs reflect the need to redirect fish to lower priced point markets (away from foodservice) and likely the additional requirement to carry working capital. We expect COGS to remain elevated in 2H21e, before reducing from FY22e and into FY23e.

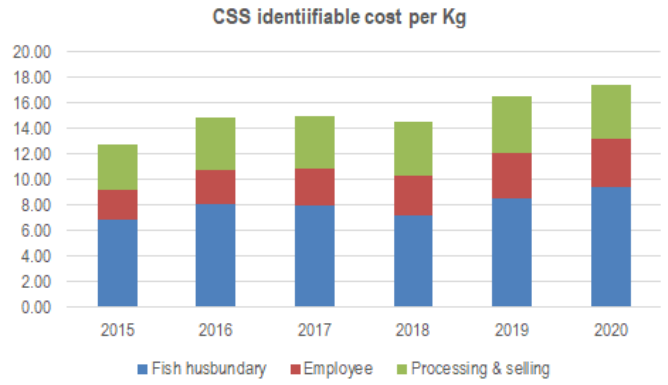
Figure 20 - Historical cost drivers per Kg

	2017	2018	2019	1H20	2020	1H21
Biomass value ($m)	32.1	45.2	56.6	49.2	49.8	31.4
...per Kg	11.90	12.54	13.68	13.59	11.23	9.26
Biomass value ex-impairment ($m)				49.2	58.9	39.1
...per Kg				13.59	13.3	11.53
Biomass at sea (t)	2,304	2,508	2,699	3,621	3,606	3,394
Average weight at sea	2.2	2.5	2.2		2.1	
Number of fish at sea	1,047	1,003	1,227		1,717	
Harvest	1,514	2,393	2,294	1,600	2,454	1,748
COGS Per Kg ($)			13.89	14.09	15.04	15.43
COGS/Biomass value ex-FVA				104%	113%	134%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

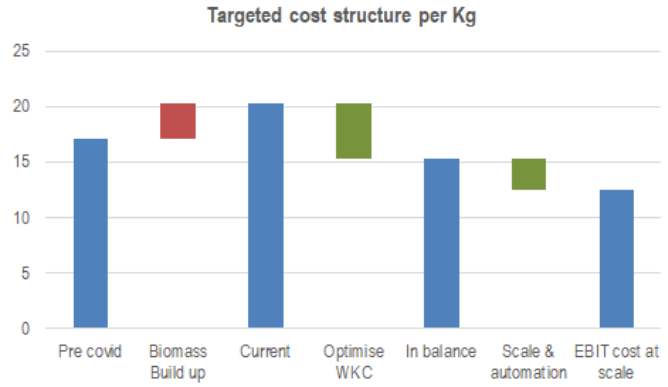
The current direct farming costs of CSS have been running at an elevated level relative to historical average and reflective of fish remaining at sea longer than expected (and hence experiencing lower feed conversion ratios). Due to reporting changes it can be difficult to isolate the movements in costs, but from our analysis of direct fish husbandry, processing and employee costs, there is a clear elevation in costs over FY19-1H21, that would tend to be supportive of CSS estimates of an additional ~$3/Kg in costs in the supply chain today, which when viewed with cost reduction initiatives (targeting $2-3/Kg reduction in the 2020 strategic plan) have the scope to deliver a $5/Kg compression in cost structure by FY23-24e. It should be noted that our current forecasts really only incorporate COGS returning to FY19 levels by FY23e, with some scale benefits against overheads.

Figure 21 - Historical identifiable costs ($/Kg)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 22 - CSS cost to EBIT pathway ($/Kg)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

OPERATING CASHFLOW AND BALANCE SHEET

At the conclusion of 1H21 CSS was operating in a net debt position $5.7m, which included $10.8m in outstanding convertible notes. Subsequently CSS has raised $25m via an equity placement to buyback the remaining convertible notes on issue (~$10m at Jun'21) and fund working capital. Post raising, adjusting for 3Q21 cash consumption and completion of

the convertible note buyback, we estimate CSS would be operating in a $14.6m net cash position on a ProForma 3Q21basis.

Figure 23 – ProForma net debt position

	1H21	Conv	Raise	Buyback	Adj
Reported net cash (debt)	(5.7)		23.8		18.1
Convertible notes	10.8	(1.7)		(9.1)	(0.0)
Core net cash (debt)	**5.2**	**1.7**	**23.8**	**(9.1)**	**18.1**
Acquisition icefresh exclusive license					(0.8)
3Q21 cash consumption					(2.7)
ProForma Net cash					**14.6**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

CSS has yet to turn operating cashflow positive and is not forecast to do so until FY23e. In addition to its available cash balances, CSS has access to a further $23.3m in unutilised funding lines (as at Mar'21). With biomass at sea capable of supporting annual sales volumes of 4,000-5,000t, and hence limited investment in additional working capital development required to reach near term targets, it would suggest that CSS has a reasonable level of cash and available financing in place.

Board and Management

Travis Dillon - Chairman

Travis Dillon brings extensive agribusiness experience, with a strong commercial and strategic mindset. Travis was the CEO and Managing Director of Ruralco Holdings Limited until September 2019, having previously been the Executive General Manager of Ruralco's Operations. Travis is currently the Chairman of Terragen Holdings Limited (ASX:TGH), Non-Executive Director of S&W Seed Company Australia, Non-Executive Director of Lifeline Australia, and member of the CSIRO Agriculture and Food Advisory Committee. Travis has an excellent established track record with both private and listed ASX businesses at implementing strategies to maximise shareholder return, develop and execute business plans, and help manage complex organisational structures.

Marcus Stehr – Non-Executive Director (September 2000)

Marcus is a founding Director and has over 25 years of hands on experience in marine finfish aquaculture operations encompassing Tuna, Kingfish and Mulloway. Marcus is Managing Director of Australian Tuna Fisheries Pty Ltd and holds leadership roles in a number of Industry Associations. Member of remuneration and nominations committee.

Gilbert Vergères - Non-Executive Director

Gilbert has more than 30 years of experience in the financial industry, worked for several Swiss private banks, and was Managing Director and Member of the Board of an asset management company before joining Bonafide as a Partner in 2013. Bonafide is a boutique asset management company focusing and investing in the aquaculture and seafood sectors globally.

Robert Gratton – CEO

Robert has 20+ years experience in corporate and commercial finance roles. He spent five years in London and New York with JP Morgan Chase investment bank before ten years with Jurlique during which he held a number of finance and operational roles, including seven years as Chief Financial Officer. From 2015 he held the role of Chief Financial Officer with kikki.K before joining Clean Seas in 2019.

David Brown - CFO

David was appointed CFO in Dec'20, having joined Clean Seas in January 2018. He was previously the Company's Group Financial Controller and Joint Company Secretary. David has over 10 years' experience in Corporate Finance and Accounting roles across a range of industries and is a Chartered Accountant. Prior to Clean Seas, David held senior positions at KPMG and Grant Thornton specialising in Corporate Finance.

Shareholders and Capital base

CAPITAL RAISE AND DUAL LISTING IN OSLO

CSS recently completed a $25m raising, with proceeds used to buyback the remaining $9.1m in convertible notes outstanding and provide general working capital. The capital raising was in two tranches, with the second Tranche approved 21 June 2021. Following the completion of the raising and additional conversion of notes, CSS has 160.3m shares on issue. There are 9.1m convertibles outstanding that are to be bought back.

As part of the raising CSS has applied for and achieved a dual listing on the Euronext growth exchange, in Oslo.

SUBSTANTIAL SHARHOLDERS

As at the issue date of this report the largest shareholders in CSS were Bonafide wealth management (17.4%), Hofseth (6.3%) and Regal Funds (6.7%).

Risks

Major risks to an investment in CSS include but are not limited to:

COVID-19: The substantial impact of COVID-19 on the global and domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.

Fish health and mortalities: There is a risk that fish stocks required for CSS products can be impacted by disease and environmental issues. Where they are not controllable, significant mortalities may occur or there may be a significant negative effect on growth and feed conversion rates.

Predators: The risk of predators attacking growout fish in sea cages is high and attacks by seals, sharks and cormorants are common. Fish losses from these types of attacks are generally low, damage by predators to the sea cages and nets can cause fish escapes.

Seasonal and environmental risk: Seasonal and environmental conditions such as increasing water temperatures, storms, floods and jellyfish could disrupt HUO's operations and/or increase mortality rates among the fish stock, restrict the growth of fish and negatively impact feed conversion ratios.

Water: CSS's activities require it to have sufficient access to water sources and although the company currently has access to adequate sources of water, no assurance can be given that sufficient water will be available for future projects, or that such access will be uninterrupted in all circumstances.

Feed prices and supply: CSS purchases pelletised and other feed for its Live Fish to consume. This is an essential input for the survival and growth of the fish and therefore the success of the business. If the company was unable to source suitable feed then this would have a material adverse effect on the Company's activities.

Pricing risk: Yellowtail Kingfish prices have varied significantly in export markets over recent years mainly in response to supply-side factors. Potential decreases in the market price of Yellowtail Kingfish could cause occasions where CSS may not be able to sell its product at an economic profit.

Demand risk: There is a risk that a change in economic conditions could cause consumers to reduce their consumption of salmon as they "trade down" to cheaper sources of seafood and proteins. Changes in consumer dietary preferences or sentiment towards seafood and kingfish could also result in lower demand for CSS products which could CSS profitability.

Regulatory risk: Federal, State and Local environmental laws and regulations affect nearly all of CSS's operations and failure to comply with such laws could result in penalties, damages and/or loss of permits or licences required by CSS to operate its hatcheries, marine farms or processing facilities.

Future Funding Requirements: CSS has historically operated in a negative operating cash basis and may require additional funding in the future in order to develop its aquaculture business and to meet working capital costs. Additional equity financing may be dilutive to shareholders.

Environmental risks and licensing: Significant liabilities could be imposed on CSS for damages, clean-up costs or penalties in the event of or non-compliance with environmental laws or regulations.

Competition: Current and future potential competitors include companies with greater resources developing similar and competing products. There is no assurance that

competitors will not succeed in developing products that have higher customer appeal and no guarantee that the commercialisation of CSS's products will occur, revenue growth will be stimulated or that CSS will operate profitably in the short term.

Foreign exchange rate risk: The price of CSS's product is impacted by movements in the USD, EUR and other currencies and the exchange rate between AUD and these currencies. Movements in the exchange rate and/or these currencies may adversely or beneficially affect CSS's results or operations and cash flows.

Clean Seas Seafood
as at 7 July 2021

Recommendation	Buy, Speculative
Price	$0.56
Valuation	$0.80

Table 1 - Financial summary

Year end June	2017	2018	2019	2020	2021e	2022e	2023e
Profit & Loss (A$m)							
Sales revenue	35.4	41.7	46.1	40.3	48.1	57.0	69.7
. . . Change		17.7%	10.8%	-12.6%	19.2%	18.7%	22.2%
EBITDAS			**(1.0)**	**(7.2)**	**(15.9)**	**(5.5)**	**3.9**
SGARA			7.0	(0.7)	(5.7)	1.0	0.0
EBITDA	2.3	5.9	5.9	(7.8)	(21.5)	(4.5)	3.9
Deprec. & amort.	(2.0)	(2.5)	(3.1)	(3.4)	(3.6)	(3.8)	(3.6)
EBIT	0.3	3.4	2.8	(11.3)	(25.2)	(8.3)	0.2
Interest expense	(0.1)	(0.0)	(0.3)	(1.4)	(1.3)	(0.5)	(0.4)
Pre-tax profit	0.2	3.4	2.6	(12.6)	(26.5)	(8.8)	(0.1)
Tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0
. . . tax rate	0%	0%	0%	0%	0%	0%	30%
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**0.2**	**3.4**	**2.6**	**(12.6)**	**(26.5)**	**(8.8)**	**(0.1)**
Abs. & extras.	0.0	0.0	(1.1)	(1.8)	(9.5)	0.0	0.0
Reported Profit	**0.2**	**3.4**	**1.4**	**(14.5)**	**(35.9)**	**(8.8)**	**(0.1)**
Drivers							
Sales Volumes (t)	2,183	2,628	2,698	2,424	3,100	3,565	4,100
...change (%)		20%	3%	-10%	28%	15%	15%
Average Selling price ($/Kg)	16.21	15.85	17.10	16.63	15.50	16.00	17.00
Gross Profit per Kg ($/Kg)			3.21	1.59	(1.75)	1.25	3.25
Balance Sheet (A$m)							
Cash & near cash	0.5	5.5	1.0	22.2	26.4	5.8	4.2
Inventories	3.5	5.5	9.5	10.9	13.0	15.3	18.7
Receivables	3.8	5.1	5.8	3.0	4.8	5.7	7.0
Biological assets	32.1	45.2	56.6	49.8	35.3	35.3	32.9
Other	0.4	0.6	1.0	1.1	1.3	1.5	1.9
Current assets	**40.4**	**62.0**	**73.9**	**86.9**	**80.7**	**63.7**	**64.6**
Fixed assets	14.0	16.5	16.9	16.1	19.0	18.2	17.5
Right of use asset	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Intangibles	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non current assets	**17.3**	**19.7**	**20.1**	**19.8**	**22.7**	**21.9**	**21.3**
Total assets	**57.7**	**81.7**	**93.9**	**106.7**	**103.5**	**85.6**	**85.9**
Creditors	4.1	6.5	7.0	6.4	9.6	11.4	13.9
Borrowings	0.3	0.6	8.9	10.9	5.0	5.0	5.0
Lease liabilities							
Other	0.7	0.9	1.0	1.2	6.0	4.3	2.2
Current liabilities	**5.1**	**8.0**	**16.8**	**18.5**	**20.7**	**20.7**	**21.2**
Borrowings	0.8	1.7	3.4	15.4	12.0	2.0	2.0
Lease liabilities							
Other	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Non current liabilities	**1.0**	**1.9**	**3.6**	**15.7**	**12.3**	**2.3**	**2.3**
Total liabilities	**6.1**	**9.9**	**20.4**	**34.3**	**33.0**	**23.0**	**23.5**
Net assets	**51.6**	**71.8**	**73.5**	**72.5**	**70.5**	**62.5**	**62.4**
Share capital	166.0	182.3	182.4	195.9	225.9	226.8	226.8
Reserves	0.2	0.7	0.9	0.8	0.8	0.8	0.8
Retained earnings	(114.6)	(111.2)	(109.8)	(124.2)	(156.2)	(165.0)	(165.1)
Outside equity Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
S/holders' funds	**51.6**	**71.8**	**73.5**	**72.5**	**70.5**	**62.5**	**62.4**
Net Debt (Cash)	0.6	(3.2)	11.2	4.2	(9.4)	1.2	2.8

Rating	Buy (Spec)
Share price (A$ps)	0.560
Valuation (A$ps)	0.800
Shares on issue (m)	160.3
Market cap (A$m)	89.8
PF 3Q21 Net Debt (A$m)	(14.6)
Enterprise Value (A$m)	75.2

Year end June	2017	2018	2019	2020	2021e	2022e	2023e
Valuation Ratios							
Adjusted EPS (¢ps)	0.3	4.4	3.1	(13.3)	(20.0)	(5.5)	(0.1)
Change (%)		1411.3%	-30.2%	n.a.	n.a.	n.a.	n.a.
Adjusted PE (x)	190.3	12.6	18.1	(4.2)	(2.8)	(10.1)	lge
EV/Sales (x)	2.1	1.8	1.6	1.9	1.6	1.3	1.1
EV/EBITDAS (x)			(72.9)	(10.5)	(4.7)	(13.7)	19.4
EV/EBITDA (x)	32.7	12.7	12.7	(9.6)	(3.5)	(16.7)	19.4
NTA ($ps)	0.71	0.83	0.85	0.66	0.43	0.37	0.37
P/NTA (x)	0.79	0.68	0.66	0.85	1.32	1.51	1.51
Book Value ($ps)	0.75	0.86	0.88	0.68	0.44	0.39	0.39
Price/Book (x)	0.75	0.65	0.64	0.82	1.26	1.44	1.44
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Performance Ratios							
EBITDA/sales (%)	6.5%	14.2%	12.8%	-19.4%	-44.8%	-7.9%	5.6%
EBIT/sales (%)	0.9%	8.1%	6.2%	-28.0%	-52.3%	-14.5%	0.4%
OCF Realisation (%)	-154%	-82%	-169%	7%	43%	167%	39%
FCF Realisation (%)	-3325%	-289%	-495%	24%	51%	129%	1719%
ROE (%)	0.4%	4.7%	3.5%	-17.5%	-37.6%	-14.1%	-0.2%
ROIC (%)	0.6%	4.9%	3.4%	-14.7%	-41.1%	-13.0%	0.4%
Asset turn (years)	7.00	6.50	5.48	4.68	5.24	4.79	4.83
Capex/Depn (x)	1.66	1.94	1.05	0.70	0.97	0.79	0.83
Interest cover (x)	3.02	308.27	11.11	(8.18)	(18.93)	(16.33)	0.65
Net Debt/EBITDAS (x)			(10.86)	(0.58)	0.59	(0.21)	0.72
Net debt/equity (%)	1%	-4%	15%	6%	-13%	2%	4%
Cashflow (A$m)							
EBITDA	0.0	0.0	(1.0)	(7.2)	(15.9)	(5.5)	3.9
Net Interest Expense	(0.1)	(0.0)	(0.2)	(0.6)	(1.3)	(0.5)	(0.4)
Tax Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Wkg Capital	0.0	(0.8)	(4.1)	0.8	(0.7)	(1.4)	(2.1)
Lease principal payments							
Other	(3.3)	(4.0)	(4.2)	6.3	8.0	(1.0)	0.0
Operating Cash Flow	**(3.4)**	**(4.9)**	**(9.6)**	**(0.6)**	**(9.9)**	**(8.4)**	**1.4**
Capex	(3.3)	(4.9)	(3.2)	(2.4)	(3.5)	(3.0)	(3.0)
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**(6.7)**	**(9.8)**	**(12.8)**	**(3.1)**	**(13.4)**	**(11.4)**	**(1.6)**
Asset Sales	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Aquisitions	0.0	0.0	0.0	0.0	(0.8)	0.0	0.0
Other	0.0	(2.7)	(1.6)	(1.4)	0.0	0.0	0.0
Equity Issues (Reduction)	8.3	16.3	0.0	11.4	27.8	0.9	0.0
(Inc.) /dec. in net debt	**1.5**	**3.8**	**(14.4)**	**7.0**	**13.5**	**(10.5)**	**(1.6)**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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