Jorgen Lund

North Atlantic Seafood Forum

Norway

Jorgen Lund is managing director of North Atlantic Seafood Forum A.S., organizer of the world's largest annual business conference for top seafood executives, and a consultant to Pareto Securities Corporate Finance in Oslo, Norway.

Previously, Lund worked in the international oil and gas industry in London, New York and Norway.

He holds a master's degree from Oslo Business School and an MBA from the University of Wisconsin.

Outlook for Global Seafood Sector Expansion and Investments

Jorgen J. Lund
North Atlantic Seafood Forum

Outlook for Global Seafood Sector - Expansion and Investments

GAA - GOAL 2012 Conference
Bangkok

Jorgen J. Lund
Managing Director
North Atlantic Seafood Forum
Norway

November 1st; 2012

Overview

One – Setting the stage

- The views from a *seafood industry observer* – seen from Norway perspective

Two – Visions for the Future

- World Seafood Market Outlook @ industry forecasts and investor perceptions

Three – Seafood Industry Challenges and Solutions

- How to expand global seafood supply - sustainably
- Global aquaculture expansion - Capital requirements and financing
- Role of governments, private sector and capital markets
- Critical role of global seafood trade as supply expansion driver

Four –concluding remarks

One – Setting the stage

North Atlantic Seafood Forum

NASF was started in 2005 - the **8th** event will take place March 5-7, 2013

NASF - world`s largest *annual* seafood business conference
@ 100 speakers in 10+ seminars over 3 days

NASF is a leading seafood executive Meeting Place
@ 550-600 delegates > 350+ companies > 30+ countries

NASF has a global reach – business arena well recognized worldwide

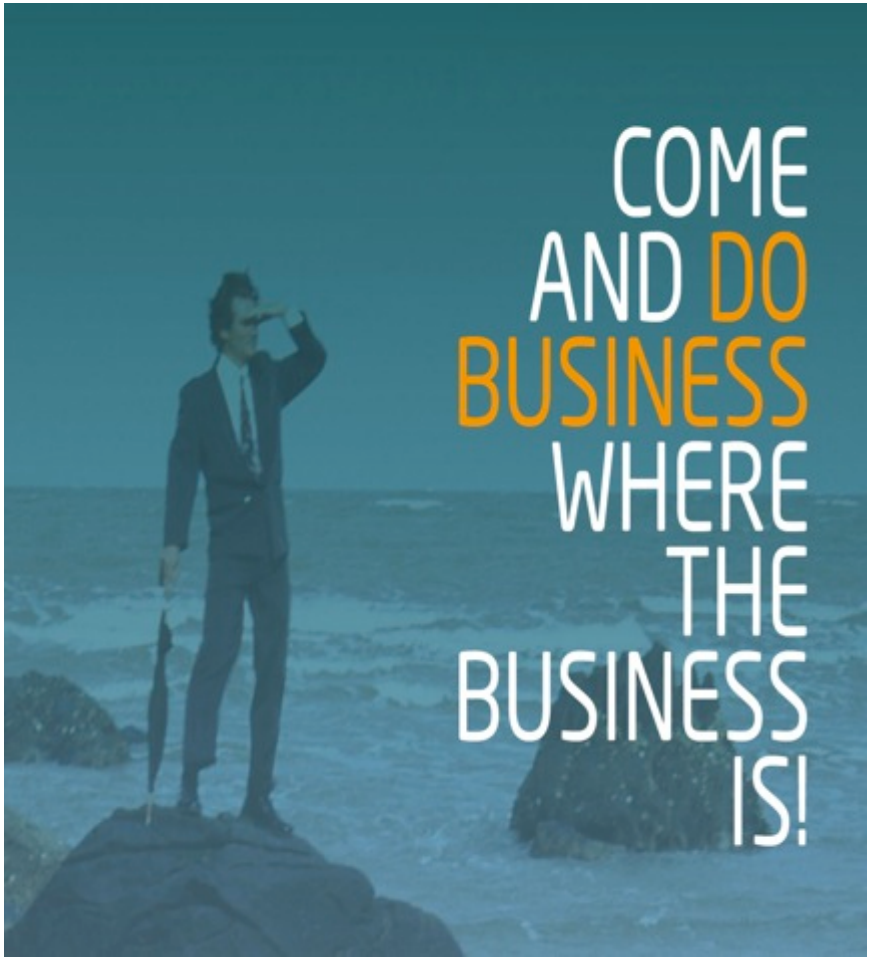
Norway role @ world 2. largest exporter, leading seafood financial markets
@ 20 stock-listed top seafood firms support NASF leading position

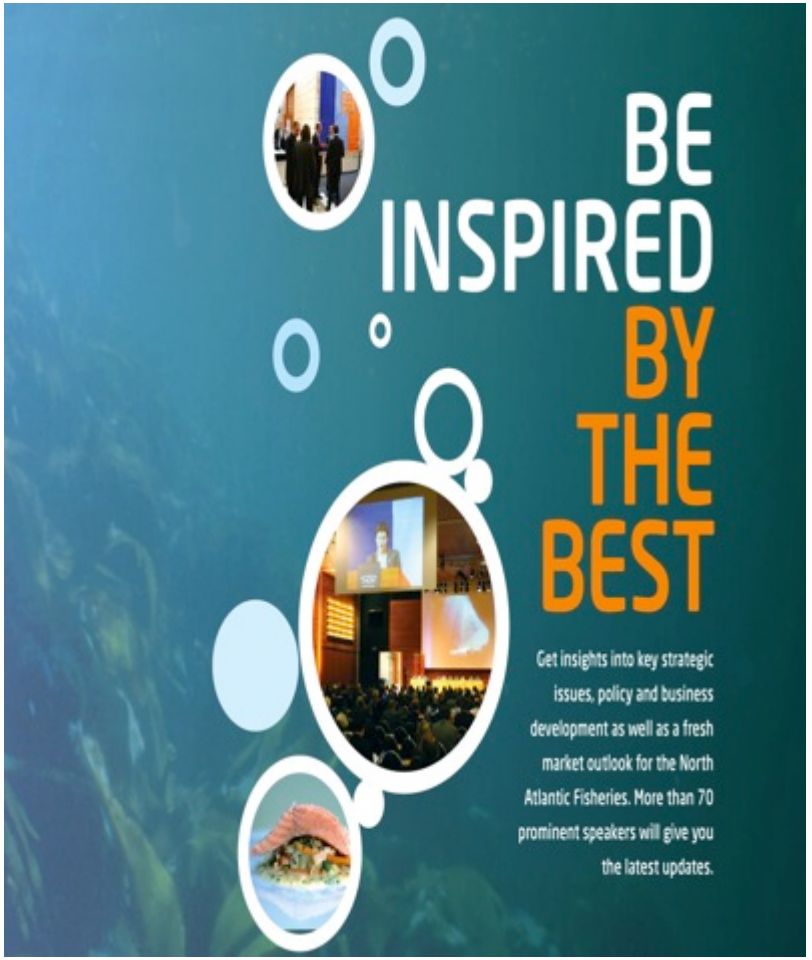
FAO became a seminar partner in 2011 – making NASF a truly global arena

In 2013 - **NASF is moving home to Bergen** – the`seafood capital`

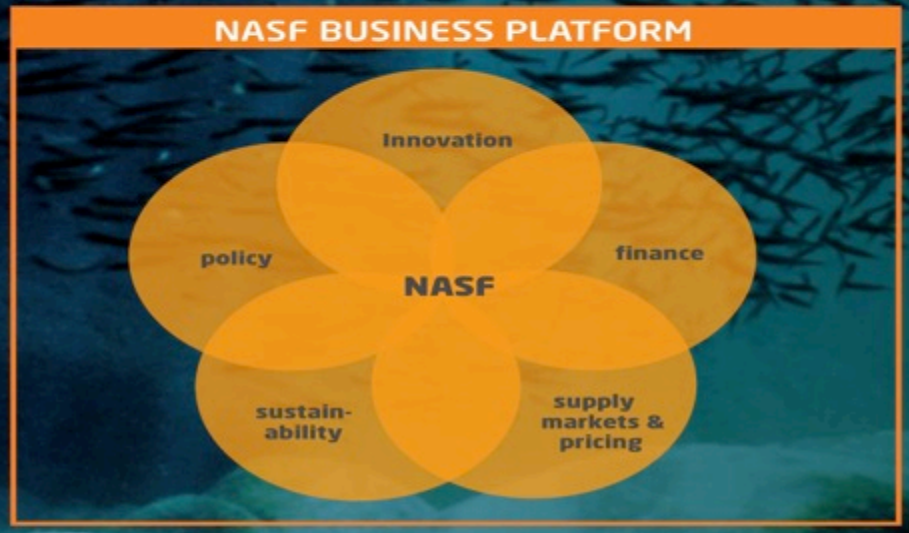
North Atlantic Seafood Forum

Business and Conference Platform





WELCOME TO THE 8th
NORTH ATLANTIC SEAFOOD FORUM
THE WORLD´S LARGEST SEAFOOD BUSINESS CONFERENCE
Bergen, Norway March 5-7, 2013



NORTH ATLANTIC SEAFOOD

nor-seafood.com

Organisers

Pareto Securities

In cooperation with

SINTEF

IntraFish

Main Sponsors

AkerSeafoods

AquaGen

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Grieg Seafood

BIM

DNV Business Assurance

EWOS

Findus Group

Institute of Marine Research

LEROY

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Norges Sildesalgslag

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Paine + Partners

”Look to Norway”

leading nation in energy, shipping and seafood

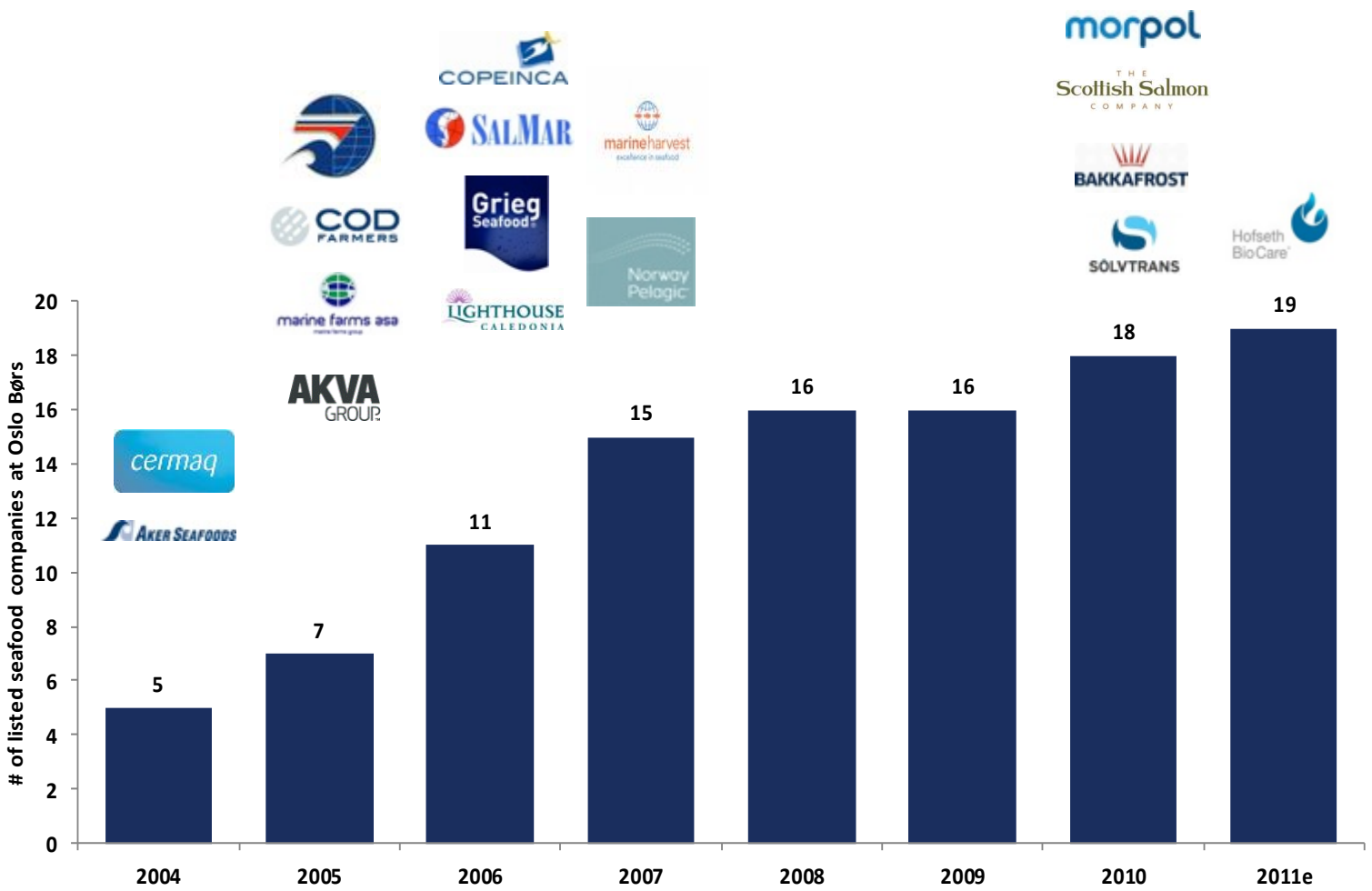
- **Oslo Børs**
- **Energy**
- **2nd largest in Europe** (no. of companies)
- **2nd largest worldwide in oil service** (no. of companies and market cap)

- **Oslo Børs**
- **Shipping**
- **Number 1 in Europe**
- **3rd largest worldwide**

- **Oslo Børs**
- **Seafood**
- **Number 1 Worldwide**
- **(no. of companies and market cap)**

Significant number of seafood companies listed at Oslo Børs

of listed seafood shares at Oslo Stock Exchange (Oslo Børs): 2004-2011

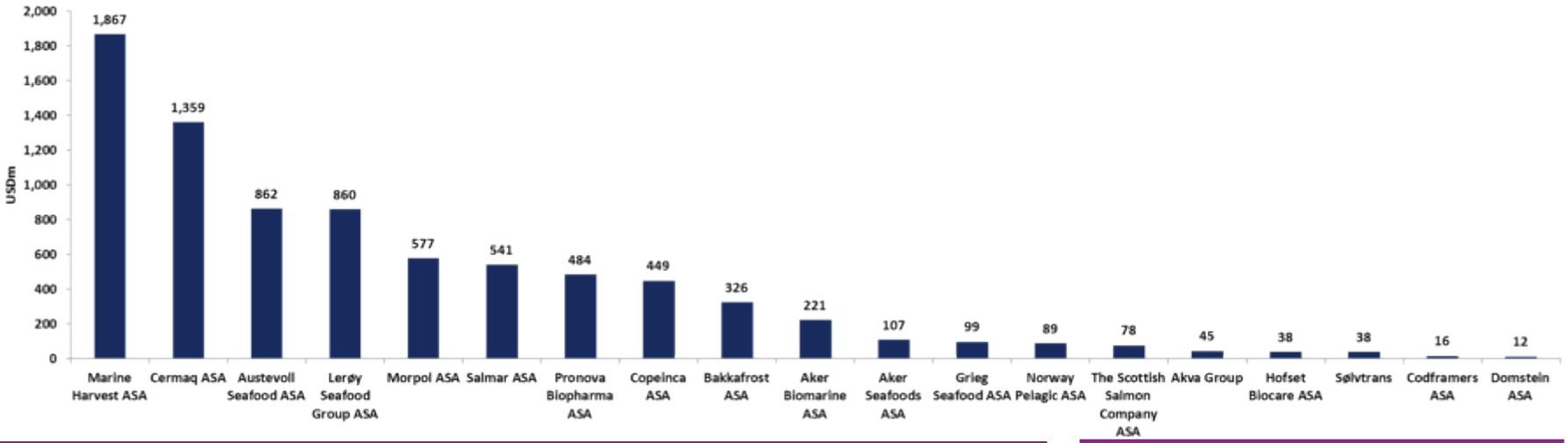


Source: Oslo Børs, Pareto

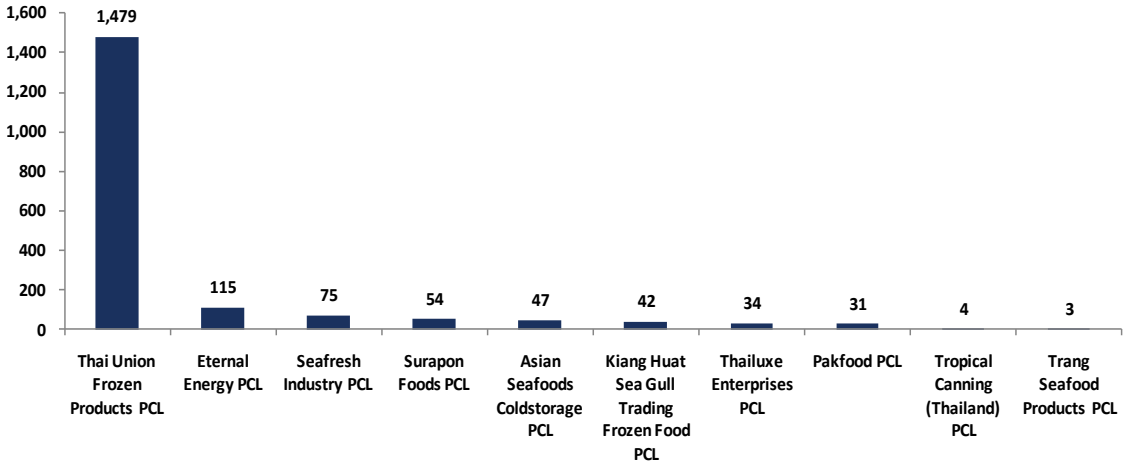
Oslo - the most attractive stock exchange for fishing companies

Market cap fishing shares: Oslo vs. selected ”fish” stock exchanges ILLUSTRATIVE

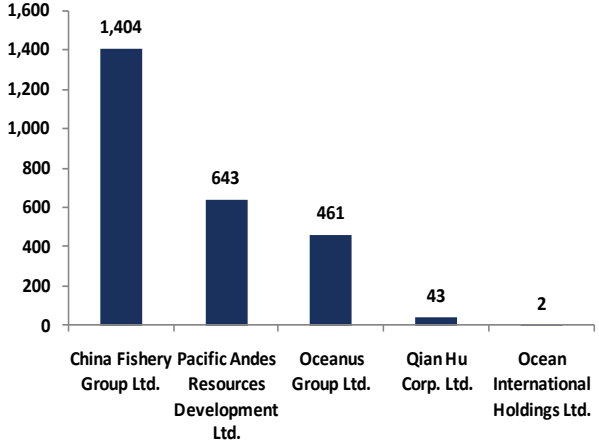
Market cap fishing shares Oslo Børs (USDm)



Market cap fishing shares Thailand (USDm)



Mcap fish shares Singapore SE (USDm)



Source: Oslo Børs, Pareto

Two – Visions for the Future

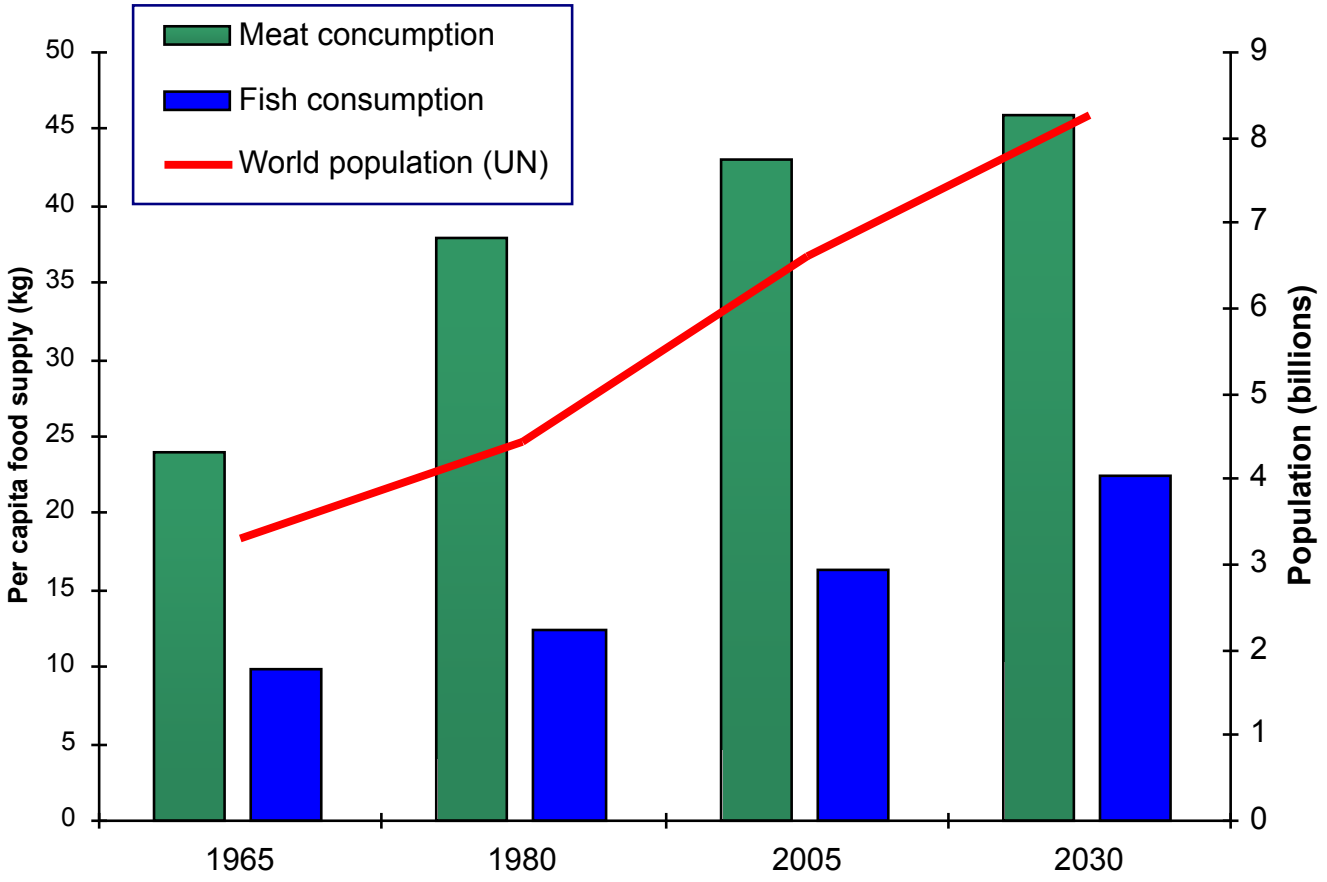
1. **Seafood Market Outlook @ OECD and FAO July 2012**

2. **The views from the world leading Capital Markets**

   What do investors «see and believe in» - today ?

Pareto Securities

Main Drivers: Population Growth vs. Food supply



Population growth will increase demand for energy, water – and food !

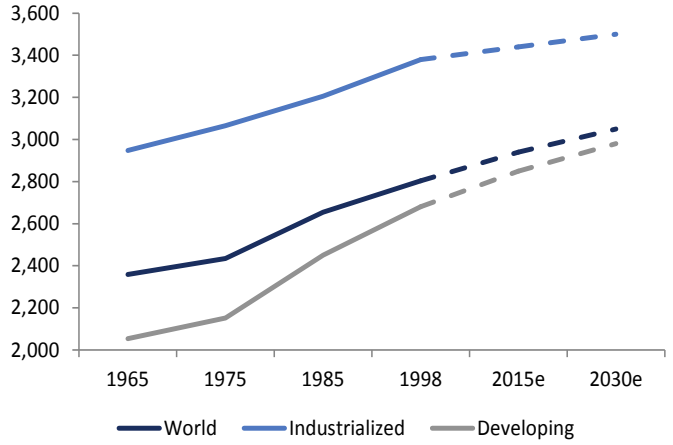
Source: FAO

The increasing demand for healthy proteins will drive seafood growth

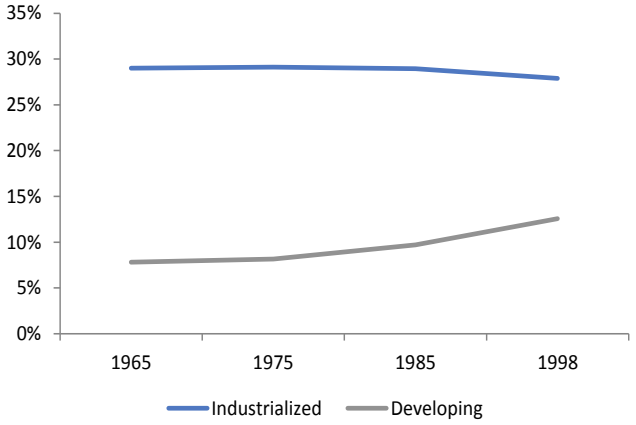
Solid long term drivers for the next decades

Demographics support higher demand for proteins

World per capita kcal intake is increasing…



….as well as animal protein share

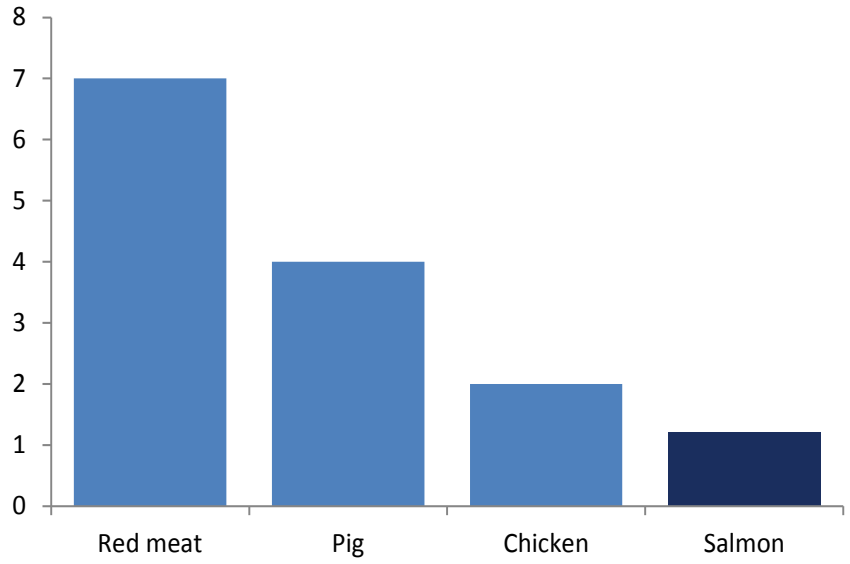


Source: Nutreco, FAO, Pareto Securities

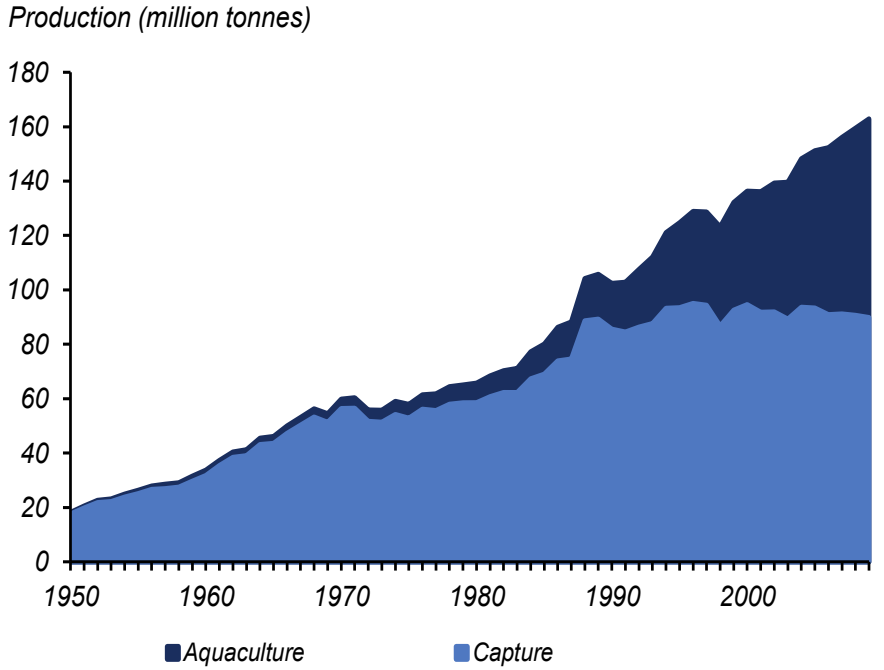
Aquaculture is a sustainable growth story

Marine fishery resources are scarce/not expanding → Demand must be supplied by aquaculture

Highly competitive feed conversion rate (FCR) – (x)



Demand is to be met by Aquaculture production



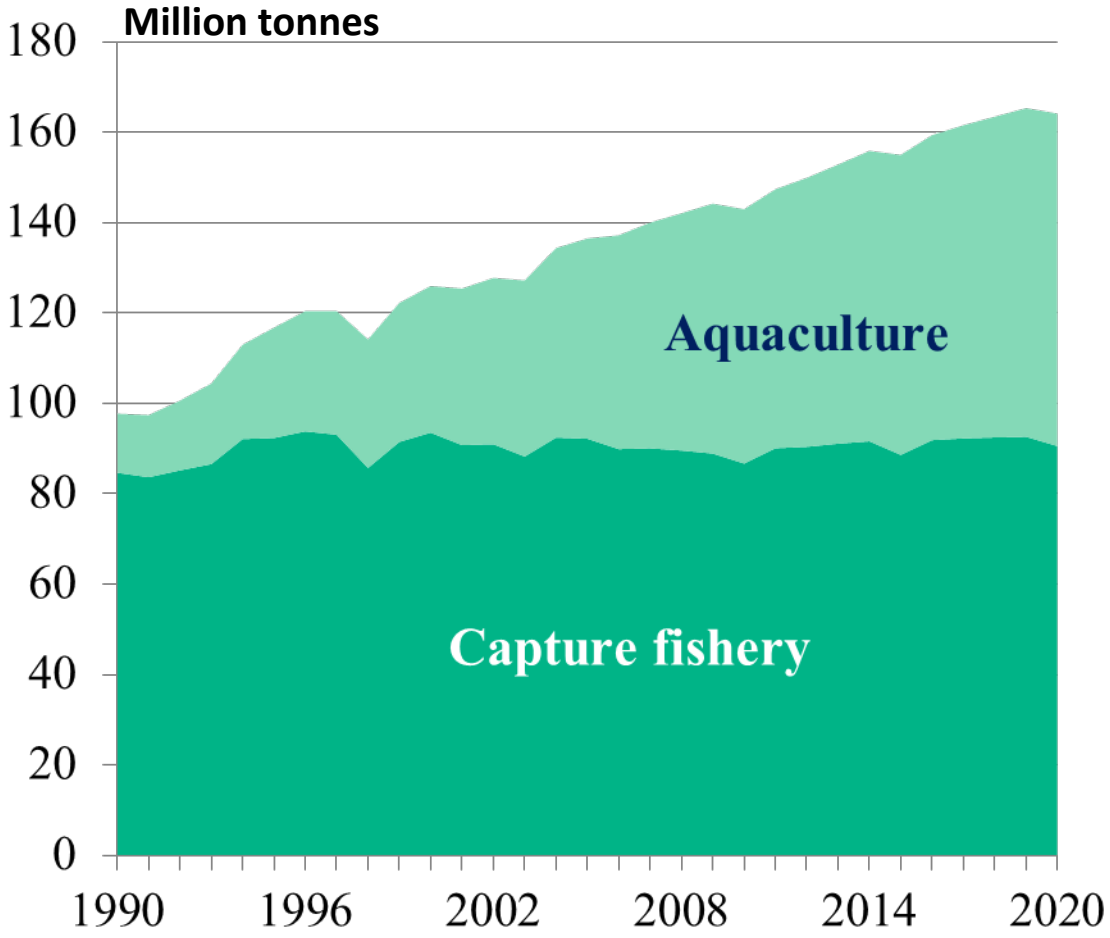
- **Feed conversion rate is the amount of feed needed to produce the same amount of meat**
  - **Salmon has a FCR of 1.3x**
  - **Chicken has a FCR of 2x**
  - **Red meat has a FCR of 7x**

- Future demand growth will be a function of increase in per capita consumption and growth in global population
- FAO estimates global demand for fish for human consumption to double in 2030

Projected growth of capture fisheries vs. aquaculture

OECD/FAO forecast July 2012

- Total production projected to reach **172 million tons** by 2021
- **Growth of 15%** above the average level for 2009–11.
- Over next decade
  - **aquaculture rises by 33%**
  - capture fisheries grows **only 3%**



Three – Challenges and Solutions

- **How to meet global fisheries and aquaculture supply gap *in a sustainable way?***
  - **3 questions: Where ? – How Much (Costs)? - Who (will do it)?**

- **Capital requirements/financing of global aquaculture expansion**
- **Vital role of private sector and capital markets**
- **Required role of Governments - the need for stable policies and predictable long-term concessions and operating conditions**
- **Critical role of global seafood trade as driver for supply expansion**

Global seafood supply expansion

@ How to finance supply gap - need for capital funding

@ Private sector - key to facilitate new investments and provide risk capital

OECD-FAO forecast to 2021

- **Foresees 15 % demand growth to 172 million tons by 2021**
- **Supply Gap of 16 million tons**
  - **Aquaculture sector main supplier - expanding 33 % by 2021**
  - **China to account for 61 %, rest Asia 28 %, rest world only 11 %**
- **Role of China/Asia vital to meet new demands**
- **Seafood sector – more globalized**
- **World trade to expand**

Question of capital funding

We envision global capital requirements

~ **USD 40-50 billion by 2021**

- **China** share: USD 25-30 billion

  → *to be funded internally in China*
- **Other world:** USD 20-25 billion
- **Salmon sector –** may need USD 5-8 BN

→ **By 2030: USD 100 - 130 billion?**

for new aquaculture project investments

FAO: Supply Gap ~ 50 million tons/2030?

Global aquaculture expansion - Key Private Sector Risk Factors

Financial – working capital requirements @ 2 years+ fish farming (time to reach harvestable sizes)

Biological Risks: Health risks: The fish is exposed to health risk from pests, disease and toxins.

Environmental risk: Risk of product quality and traceability:

Commercial risks

PRICES : Risk of changes in input prices - International price trends:

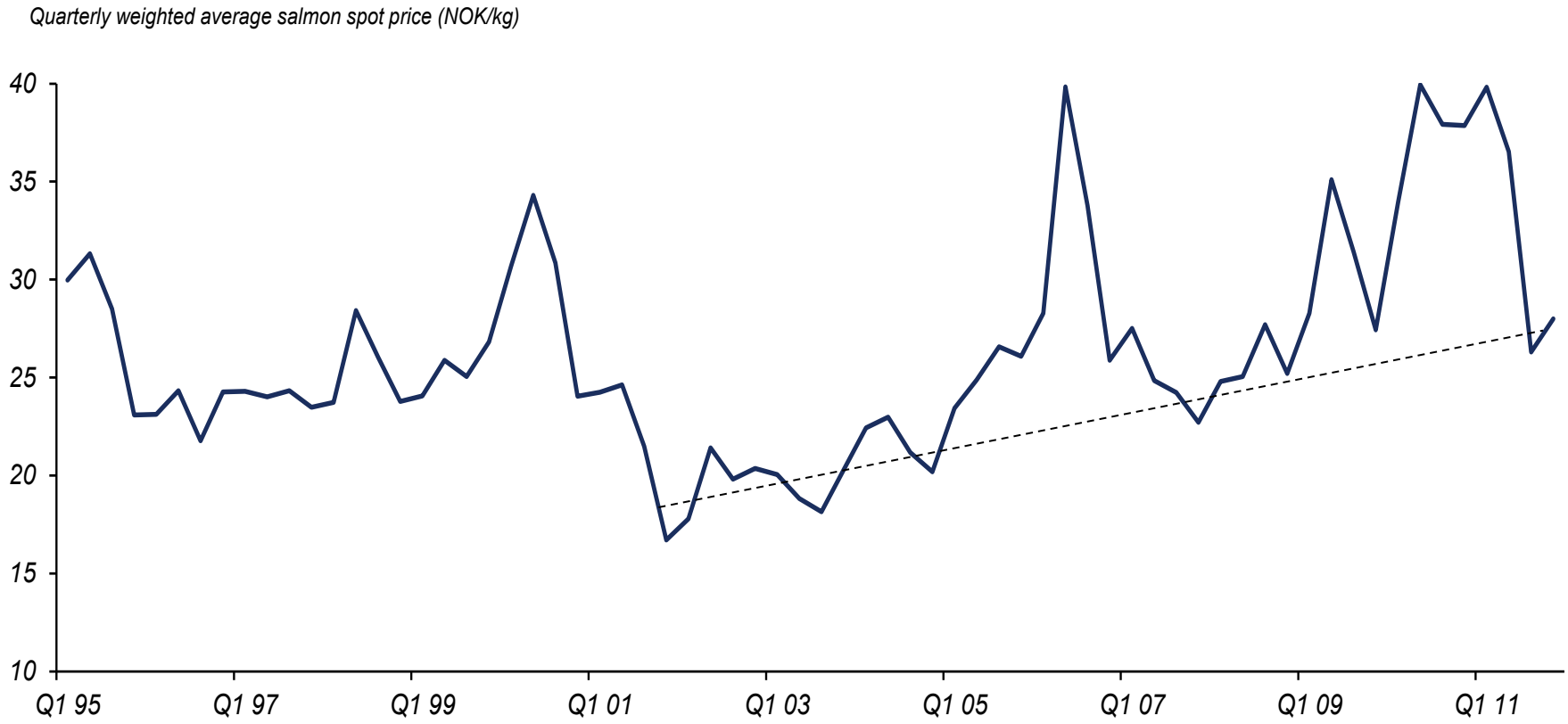
DEMAND: Changes in consumption : Changes in the economy of the consumer countries: Behavior of the global and national economy, Changes in conditions - affect the global demand for protein and salmon

Currency Risk + Liquidity risk: salmon price volatility, raw material costs , credit risks/customer payments

Governmental Policy Risks

Changes in legislation (aquaculture and farm site concessions policies) and related risks

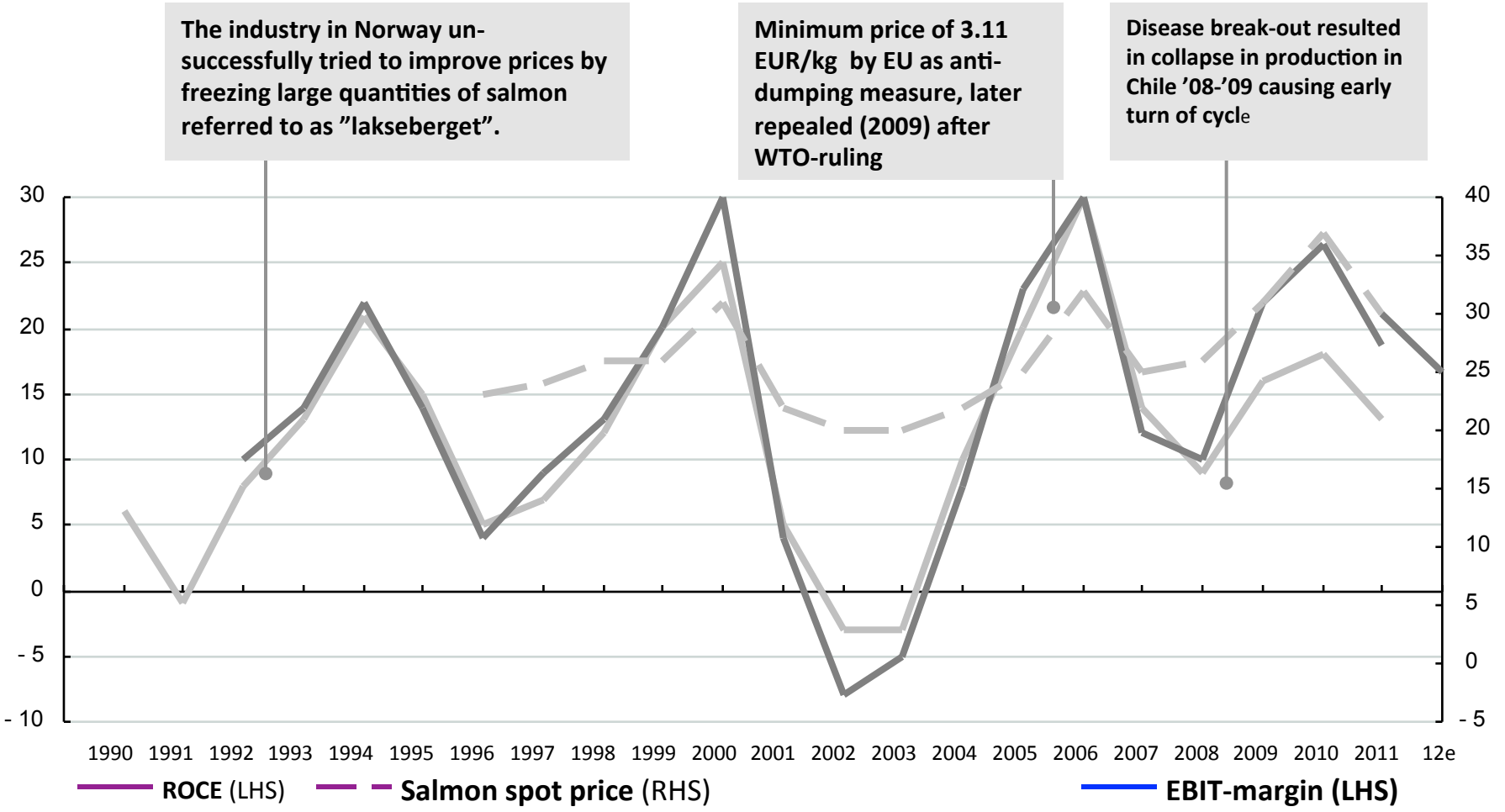
Market risks - Salmon is a highly volatile commodity market



Source: FHL/NOS, Pareto Securities.

Salmon firms: Attractive return on capital through the cycle…

Return on capital employed: example – return on assets in salmon farming Norway, %



Peak-to-peak ROCE between 12 and 17% last 3 cycles

The role of Governments: the need for stable policies and predictable long-term concessions and operating conditions

”The legal concessions frame-work must be right”

Key parameters include:

1. **Legal frame work** must be in place - and give solid predictability
2. Farming Concessions must be **long term** - minimum 20 years duration
3. Concessions must be **transferable**
4. The concession allocation, award and approval process must be **transparent**
5. **Sustainable planning of how areas are used** (ref ILA problem in Chile)
6. **Control and compliance**
7. **Government support**

……..

”Salmon majors to date - cautious to enter into new areas and species - focus today on buying companies rather than undertake grass-root development projects”

Role and value-added of the private seafood sector

- **Benefits of involving larger international fisheries and seafood companies – to meet the expected future seafood supply gap:**
  - **These large seafood firms are in general → sustainable**
  - Most are stock-listed or large operators – subject to scrutiny from investors, analysts, lenders, regulators, NGOs and other stakeholders
  - They have high competence and know-how as operators - with very skilled organizations and managers
  - They can bring knowledge and expertise into JVs with local firms or government institutions
  - They will bring international market access and market know how
  - They have access to capital markets and project funding

  - **Larger international fishing companies will - in time - diversify into aquaculture sector**

Salmon farming is a high-tech industry

Salmon Majors - Controlling the entire value chain

- Salmon Majors are global - and have multi-task competence
- Companies have huge technical insights and know-how in all facets of salmon farming, processing and sales & marketing
- Controlling entire value chain minimizes risks - optimizes costs and streamlines operations, giving best chances for profitable business
- One major advantage is these firms` ability and capability to handle risks and mitigate problems including large-scale incidents
- Sustainability is of critical importance in all parts of operations

- Focused on value added products
- Market Diversity: U.S., Japan, Europe, BRIC, other markets
- Market Access - sales network worldwide
- Brand developments

Capital Markets – funding for future expansion

- Global capital markets and investors → much interest today in sector to provide investments and project funding – if framework conditions are OK
- New capital can be raised via IPOs, private placements, bonds, syndicated bank lending, private equity firms or by other means
- Governments, World Bank/IFC and other multi-government bodies should consider providing some project financing - sharing some project risks
- Norway - an important global capital market for private sector seafood industry and project development funding
- Host government role as facilitator and regulator is a critical factor for foreign capital investments to encourage new aquaculture projects
  - Policies to favor private sector development and foreign JVs
  - Grant incentives in R&D and financial support at attractive funding costs
  - Favorable tax regimes and other incentive schemes
  - Provide land and infrastructure support

The critical role of world seafood trade

The global seafood and fisheries trade is Big Business !

- **Seafood is one of the most widely traded commodities in the world:**

  @ **today - 57 million tons or ~ USD 125 billion in value terms per year**

  @ **Forecast: → 65 million tons by 2021 – (and 75 million by 2030?)**

Role of global seafood trade:

@ a major role as income generator + contributor to economic growth, food supplies and employment

@ fosters global cooperation, opportunities for partnerships, JVs, transfer of vital know-how, R&D as well as capital investments

@ **increasingly important as a contributor to global supply expansion**

UN Rio+20 Food security issue → New international trade and policy dimension:

«Seafood in a new geopolitical role»

Four: Concluding Remarks

Outlook:

@ **OECD/FAO forecast**: demand 2021 to expand by 16 mill tons → 50 mill by 2030?
@ Required Investments : USD 40-50 billion by 2021 → USD 100-130 billion by 2030?

Strategies for securing new global seafood supplies:

1. **Large international fisheries and aquaculture companies - and major technical suppliers - will be excellent partners with governments/local firms to make new required seafood supply expansion viable...**

   – **will provide know how, knowledge transfer, market access, and risk capital - making this supply expansion viable without jeopardizing national budgets...**

2. **Host governments will benefit from engaging 1st class international seafood firms in win-win joint ventures and other partnership types - when developing larger aquaculture projects...**

3. **Governments : provide incentives to seafood firms and global investors willing to make capital funding for seafood and aquaculture projects > and provide acceptable regulatory framework conditions**

Visions for the future of global aquaculture

Tilapia is smart farming - Feeding the world - Saving the Oceans

Many thanks for your attention !