

Morgendagens vurdering av lakseselskap – EBITDA og fiskevelferd i samme tabell?

Finansielle aspekter ved dyrevelferd

TEKMAR 2018 Innovasjon i havbruk
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The logo for DNB (Danish National Bank) is displayed on the right side of the slide. It consists of the letters 'DNB' in a bold, sans-serif font, with a vertical line passing through the 'N'.

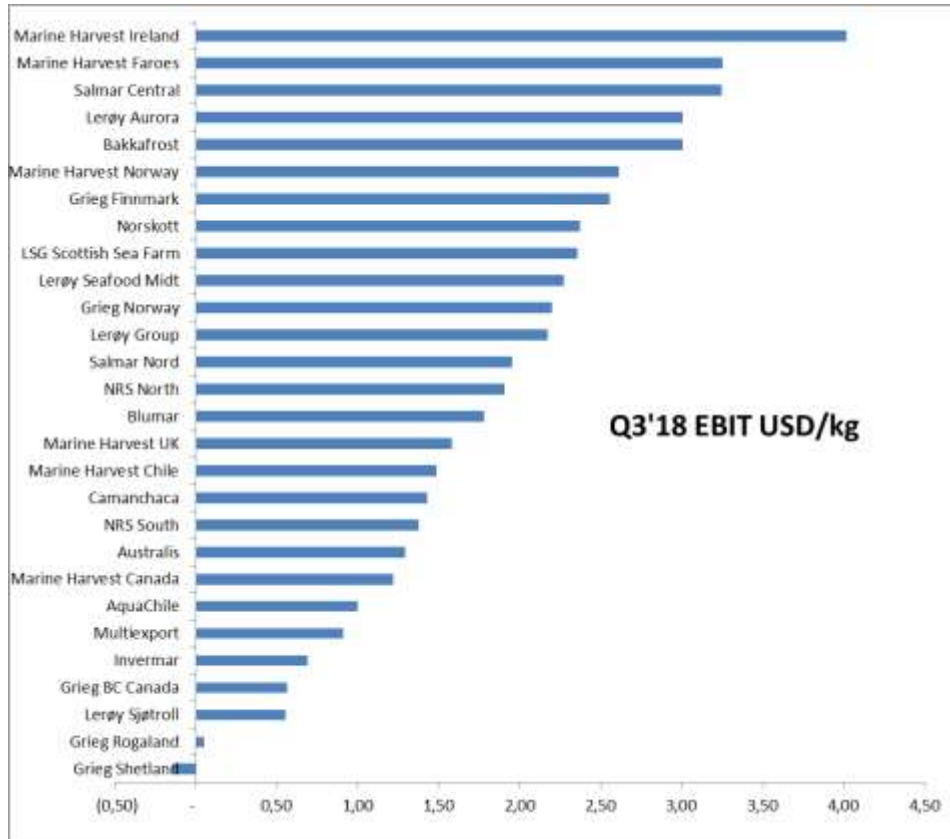
Agenda

- **Bærekraft er finansielt lønnsomt i oppdrett**
- Samfunnskontrakten
- Rapportering

Which report would Gordon Gekko pick?



Fish health a key margin driver

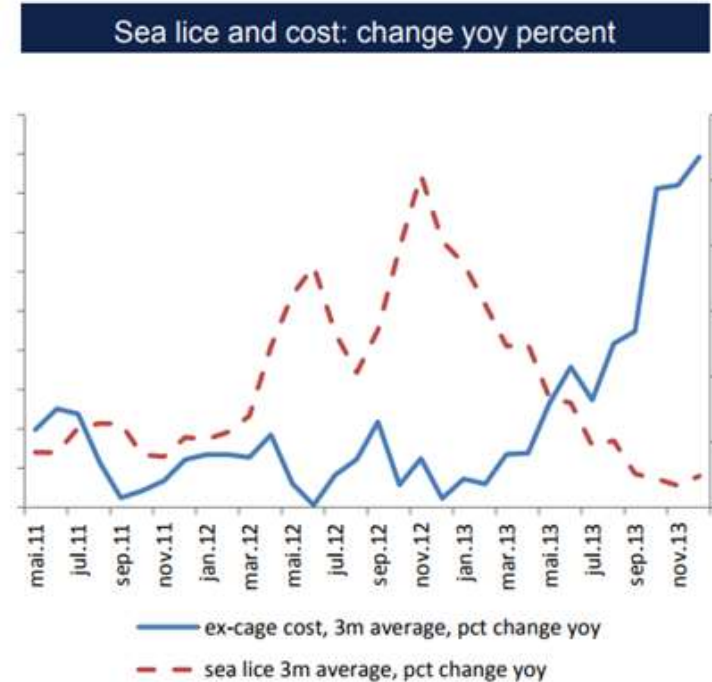
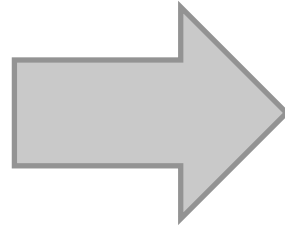


Source: companies, DNB



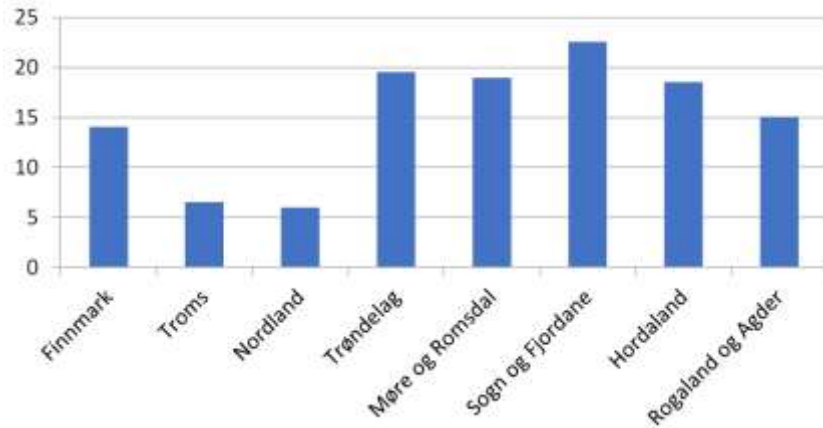
Sustainability indicators = early warning

High sea lice levels in 2012 in Chile warned of high cost in 2013

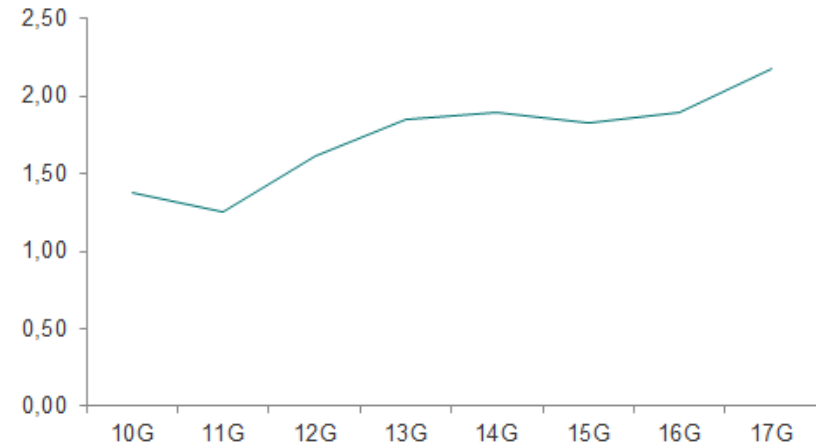


Large regional variations

Dead salmon in 2017, percent



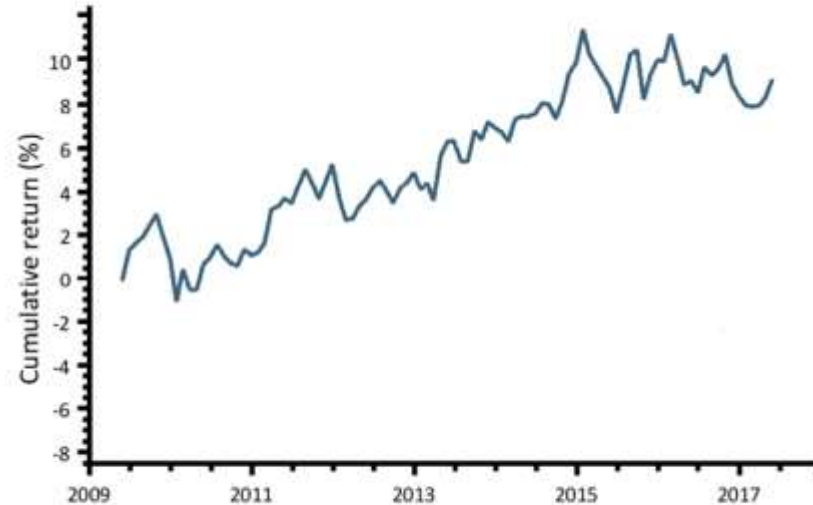
Average weight dead salmon (kg) by generation



Sustainable companies perform better

- Governance historically considered the key driver
- But MSCI finds that how well firms manage their industry-specific environmental and social risk – which varied considerably across business models – was more important

Financial performance of ESG momentum: Top versus bottom quintile



MSCI



Cumulative performance differential of the top ESG Momentum quintile versus the bottom ESG Momentum quintile. ESG Momentum is defined as the 12 month change in ESG score.

Sustainability reporting drives value

It drives cost..

..but also price!

Why does sustainability reporting generate financial value?

- Salmon farming is a global commodity business
- The main value driver a farmer can control is cost
- Biological performance is the key driver of cost
- Sustainability indicators are key in understanding and explaining biological development, and therefore lead financial indicators

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- Measurement and reporting of sustainability indicators give a better grip on how the company generates value, and gives management improved understanding of cost development and a better tool to run the business
- Demonstrating sustainable operations is a prerequisite for growth in practically all farming areas globally

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A branded product should tell a positive story and also be high and consistent quality

What gets measured gets done!


Animal welfare a subgroup in Corporate Responsibility

Coller FAIRR Protein Producer Index: The nine risk factors considered

1.  Greenhouse gas emissions (GHGs)


2.  Deforestation and biodiversity

3.  Water scarcity and use

4.  Waste and water pollution

5.  Antibiotics

6.  Animal welfare

7.  Working conditions

8.  Food safety

9.  Sustainable proteins*

* We assessed companies on their exposure to alternative proteins, given the growing market opportunities in this space. However, this risk factor is not scored.

Animal welfare going mainstream. Fish not yet

- Animal welfare has turned mainstream as exemplified by free range eggs
- Fish focus still primarily on sustainability and food safety



McDonald's announced a policy in 2015 to make its North American egg supply cage free.

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Good news, bad news asymmetry



Sustainability challenges are also marketing challenges

The citizen is also a consumer

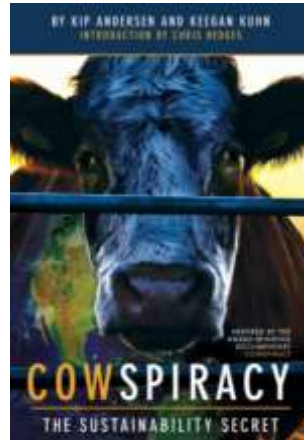
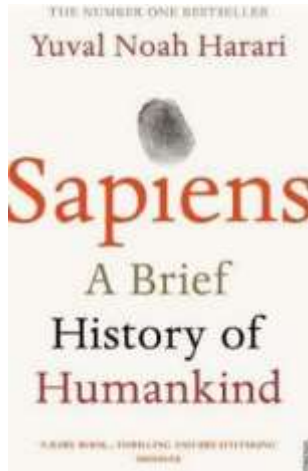
content. Samtidig ser vi at samfunnsansvaret flytter fra festtalene til merkevarekjernen. Det passer et byrå



Source: Mattilsynet, Kapital

seafood

The ethical aspect



Isabella Hood, 15, Matakana, New Zealand 'Veganism is the only sustainable choice for people'

I had my eight-month vegiversary recently. I became vegan after a friend was interested in it and gave me a few videos to watch - two of which were *Cowspiracy* and *Earthlings*. There was no going back. I pretty much went vegan overnight. My parents are not vegan (for now) and my mum worries a lot about me getting a balanced diet and makes sure I eat lots of nuts and vegetables. This is a huge help because I can be lazy about this. My dad, mainly just teases me.

The main reason I became vegan was because I see all animals as my friends and I would not want to eat a pig, just as I would not want to eat a dog. Every animal is a living, breathing and feeling creature who doesn't want to die. I don't want to contribute to their deaths.

There is so much I could say about why veganism is the only sustainable choice for people. I could spout so many shocking statistics and facts. For example, animal agriculture is the leading cause of CO2 emissions, deforestation and pollution of our waterways. It has been predicted that if the whole world went vegan, then world hunger could be solved five times over. Humans are taking the Earth for more than she's got and it's killing it.

Fiskehelsesrapporten, Veterinærinstituttet:

De aller fleste forskere mener at fisk har evne til bevisst å registrere sanseinntrykk og dermed kan oppleve følelser som frykt, smerte og ubehag. Oppdrettsfisk er omfattet av dyrevelferdsloven og har det samme vern som andre produksjonsdyr, og skal ha et miljø og en håndtering som sikrer god velferd gjennom hele livssyklusen.



Live and Let Live is a feature documentary examining our relationship with animals, the history of vegetarianism and the ethical, environmental and health reasons that more people to go vegan.



MEMPHIS
MEATS

A close-up photograph of a single, large, browned meatball resting on a bed of pasta. The pasta is mixed with diced red and yellow bell peppers, green leafy vegetables, and two large green olives. The entire dish is presented on a white plate.

Better meat, better world.

License to operate & grow – mortality future driver?



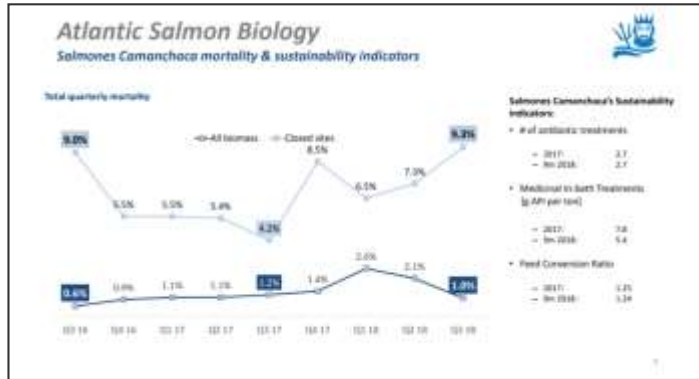
- Svinnet i havbruksnæringen må ned

- Det blir ikke mer vekst før vi får bukt med lusa, og det er næringens ansvar, sa han. Men svinn kan også bli en indikator for trafikklysordningen, i tillegg til lakselus.
- Det er noe Stortinget har bedt oss om å vurdere, sa Angelvik.

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What do companies actually report today..?



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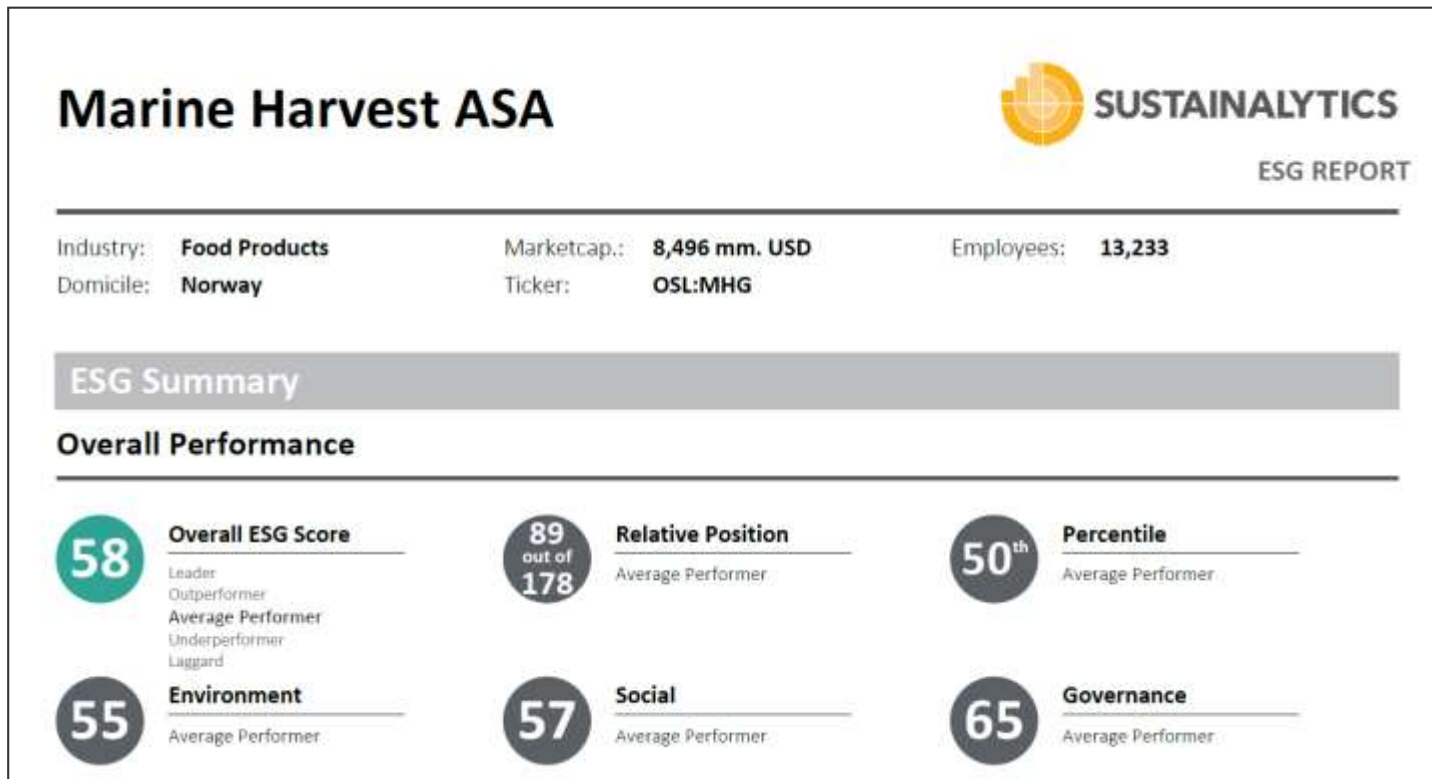
Indicator	Unit	2018	2017	2016
Antibiotics	kg	20,000	20,000	20,000
Antibiotic use in fish farming (kg/ton salmon)	kg/ton salmon	10.0%	10.0%	10.0%
Use of antibiotics	kg/ton salmon	0	0	0
Use of treatment systems (kg/ton fish)	kg/ton fish	0.7	0.8	0.5
Investment				
Occupancy	Number of fish occupied	999	9	9
Use of resources	Energy used (kWh/ton)	500	500	50
GHG				
Non-compliance	Number of non-compliance closed with a fine	0	0	0
Welfare				
Welfare rate	Welfare days as a % of total days	9.9%	9.9%	9.9%
Load time (kg/ton fish)	Load time (kg/ton fish)	0	0	0
Energy frequency rate (kWh)	Energy per ton of fish	11	11	11
Load time frequency rate (kWh/ton)	Load time (kWh/ton)	11	11	11

..a good bit, but usually «buried» in annual sustainability reports rather than in quarterly financial reports.



Source: companies

Independent sustainability rating agencies

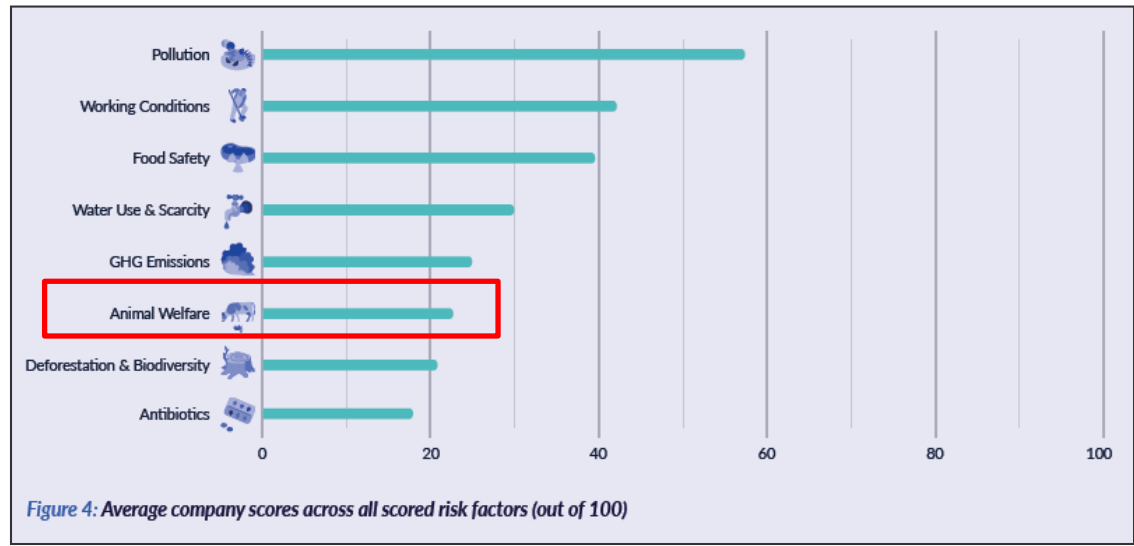
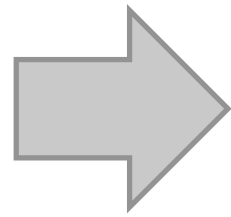


Sustainalytics has a full page on fish welfare in its MHG report

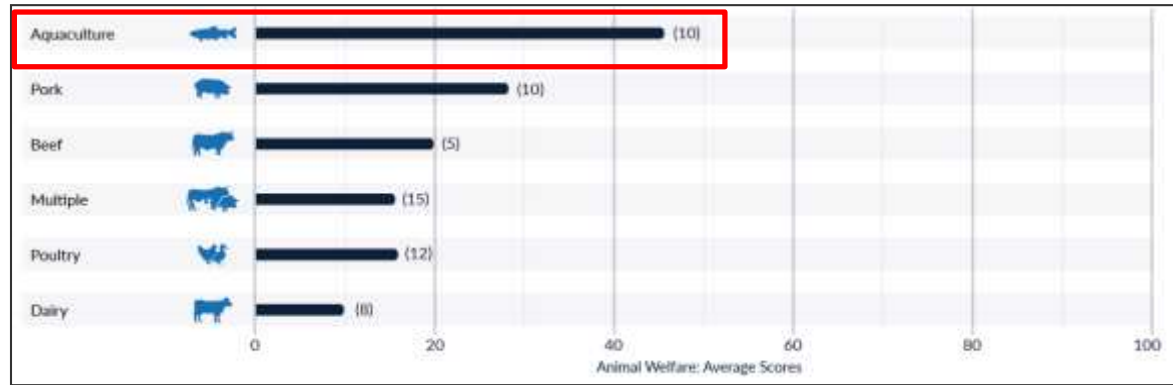
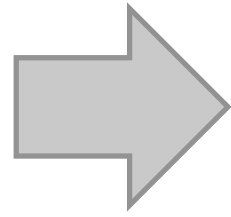
DNB Foods & Seafood

Coller FAIRR protein producer index

Bad news:
Animal welfare towards the bottom



Good news:
Aquaculture (i.e. salmon) at the top



Source: Coller FAIRR

Reporting of the future?



Figur: Kristine Gismervik



DNB Markets and ESG assement

As socially responsible investing is gaining momentum, DNB Markets has compiled an ESG score card for the fish farmers, looking at the risks they face and how each rates compared to its peers.



DNB Markets example – Lerøy Seafood

Figure 11: ESG risks and opportunities – Lerøy Seafood

Transition risks

Policy and legal	<p>Challenge: Impacted by whitefish quotas outside of Lerøy Seafood's control.</p> <p>Challenge: Salmon farming exclusively in Norway, and relatively low share of production volumes in 'green light' areas (~20%).</p>
Technology	<p>Leader: Lerøy's 'Pipefarm' (nine licences) falls within the scope of development licences and is under assessment. The company has five R&D licences.</p>
Market	<p>Leader: 0 usage of antibiotics in 2017.</p> <p>See comment on 'Opportunities– New markets'.</p>
Reputation	<p>Lerøy was in the media spotlight following sea lice mitigation challenges leading to poor fish welfare in 2016.</p> <p>Low number of accidental releases according to the company.</p>

Physical risk

Acute & Chronic	<p>Challenge: The entire industry has faced challenges in recent years. Disease, parasites and exceptional temperatures have led to reduced harvest guidance.</p> <p>Challenge: Severe sea lice treatment difficulties at the end of 2016; the situation seems to have normalised since.</p>
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Opportunities

Resource efficiency	<p>Leader: Lerøy Seafood is developing a wide range of end-consumer products consisting of seafood, but also other ingredients, increasing the number of portions achieved per fish.</p> <p>Leader: Salmon farming generally is a resource-efficient protein compared with other livestock.</p>
Products/Services	<p>Leader: Lerøy Seafood has been in the forefront of developing new salmon and white fish products and new end-markets.</p> <p>Leader: Certified products with focus on feed and traceability; weekly supplies of ASC-certified salmon.</p>
New markets	<p>Leader: Lerøy Seafood has increased its presence in Spain with several factories and the launch of sushi in Spanish supermarkets.</p>
Supply chain resilience	<p>Vertically integrated excluding feed.</p>
Information / transparency	
Sustainability report	<p>Yes, since 2008.</p>
GSI membership	<p>No.</p>

Source: Company information, DNB Markets (review)

Access to financing might be binary rather than a sliding scale



*Focus changing
from avoiding the
worst to picking the
best*

Summary

- Fish welfare is a key driver of profitability
- This fact in combination with increased focus on sustainability in general will make its reporting more prominent in the years to come, also to the financial community
- And the impact on share prices and access to capital will increase



Happy fish = happy shareholders

The force is with us!

“All” the mega-trends in favor of the fish farming industry



Demand is almost without limits if the industry plays its cards right

Thank you for your attention

