

April 6, 2018

Dear clients and colleagues,

Changing demographics (a growing and aging population) and the desire for more healthy, high-protein diets has caused an increased demand for seafood, and salmon in particular. This trend is likely to continue for the foreseeable future. Salmon provides an environmentally conscious and cheaper option to traditional sources of meat and protein products. Compared to other protein sources, farmed salmon has the lowest feed conversion ratio (kilogram of feed needed to increase animal's bodyweight by 1 kilogram) at 1.3 versus chicken at 1.9, pork at 2.8 and beef at 7.5. Norway Royal Salmon (NRS), a company we recently added to our international portfolios, should benefit from this trend.

Founded in 1992, NRS is an independent Norwegian salmon farming company. It owns and operates 35 fish farming licenses. NRS also holds minority stakes in three other Norwegian fish farming companies, which own a further 10 fish farming licenses, and Icelandic company Arctic Fish. As well as farming activities, which account for 40% of sales, NRS offers its own harvested and externally sourced salmon to the market through its sales network. In 2017, NRS harvested 31,900 tonnes of salmon and sold 77,800 tonnes to 52 countries. According to the company, the internal harvest volume for 2018 is expected to grow 33% to 42,500 tonnes. Ninety percent of sales are exported, and Western Europe, being the largest consumer of salmon per capita, represents 68% of sales. Asia accounts for 18% of sales. For its 2017 fiscal year, the company reported sales of US\$ 598M and an EBITDA of US\$ 92M. Insiders own 0.5% of the company.

Market Data

- Global salmon consumption is equal to about one meal per person per year. Europe is by far largest consumer with 6.5 meals per capita. North America and Asia consumes much less than the recommended dietary guidelines.
- In 2017 the global farmed Atlantic salmon supply was 2.3 million tonnes of whole fish equivalent (wfe). Norway and Chile account for 80% of the global Atlantic salmon harvest.
- Top 15 companies produce 57% of all farmed salmon.
- Global demand is expected to grow at 6%-8% per annum.
- Chile suffered from an algae bloom in 2016 which decimated the fish population and boosted Atlantic salmon prices. Prices declined in the second half of 2017 as Chilean volumes recovered, but still remain relatively high. Norway has successfully managed an outbreak of sea lice.

Growth Strategy

- Current licenses will allow NRS to increase capacity to 55k tonnes in three years.
- Licensing development in Iceland through its ownership in local companies.
- Exports to emerging markets can grow.

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Strengths

- Regulated industry which limits the growth of supply.
- Eighty percent of NRS capacity is in the green zone. Green zones are areas where farming development is still allowed by governments.
- NRS is one of the lowest-cost producers.
- The company doesn't use antibiotics as a preventative measure. For instance, in 2015 less than 1% of NRS fish received antibiotics.
- The company is working with triploid salmon (salmon that cannot reproduce) which is a clear advantage in preventing genetic interactions with other species.
- Norwegian salmon producers are controlled by strict EU regulations. Norway was also one of the first countries to introduce a traceability system.
- Compared to other salmon producers, the company has an open shareholder structure that limits foreign investment.

Opportunities

- The desire for cost-effective and environmentally friendly sources of protein will continue to rise.
- Increase salmon volumes to North America, Asia and other emerging markets. If Russia lifts the import ban on Norwegian salmon, this too would represent a significant opportunity (previously it accounted for 10% of Norway's salmon market).
- Biological challenges in Chile may reduce global supply and boost prices. Norwegian producers would benefit from that.

Risks

- Possibility of disease leading to significant loss of farmed fish stock.
- Volatile nature of pricing that is sensitive to a decrease in consumer demand or excessive supply growth.

Have a good weekend.

The Global Alpha Team

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