

## Marine Ingredients Conference 2013

*“Marine ingredients: investment opportunity or future dream?”*

- by Petter Dragesund, head of Pareto Securities Corporate Finance

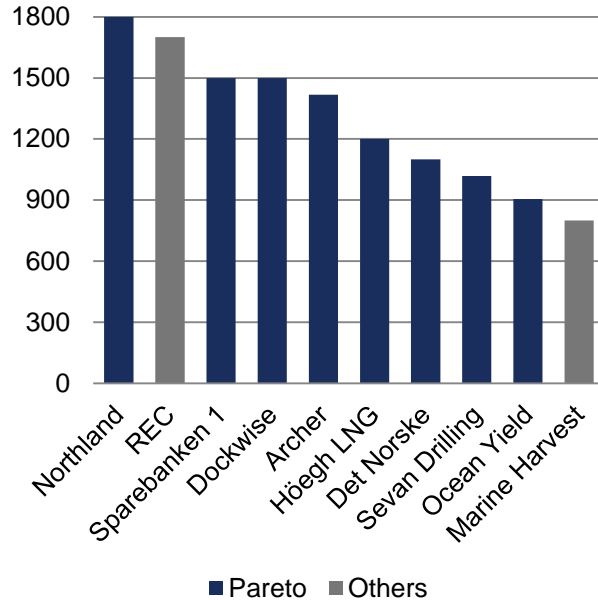
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# Pareto is the #1 Norwegian financial advisor

## #1 position in equity market

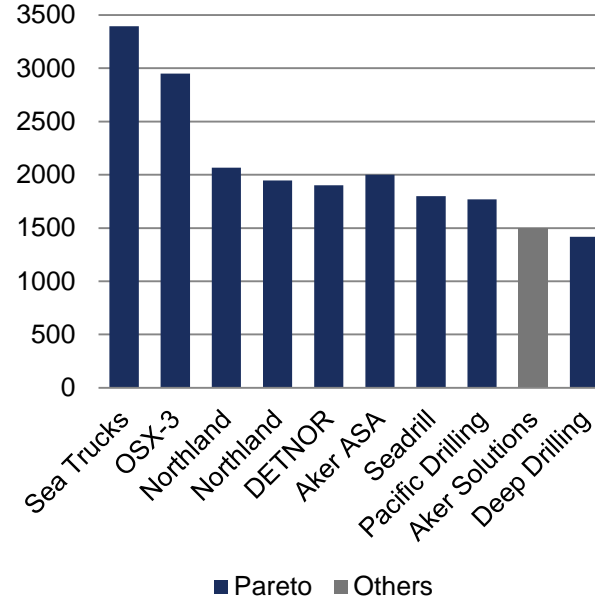
10 largest equity issues on Oslo Børs / Axess, 2012&1H 13



Source: Oslo Børs / Pareto Securities. Including subsequent offerings

## #1 position in debt market

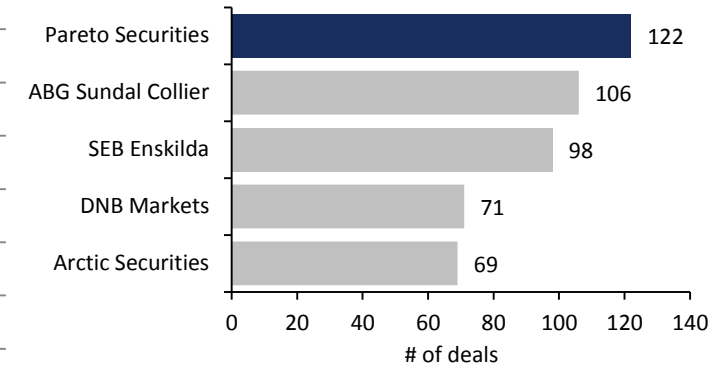
10 largest Norwegian HY bond issues, 2012&1H 13



Source: Oslo Børs / Pareto Securities. Including subsequent offerings

## #1 position as M&A advisor

Number of Norwegian M&A deals 2005 – 1H 2013



Source: Mergermarket. Norwegian target or acquirer

## Consistently top-ranked advisor

Pareto Securities' Nordic rank on key criteria

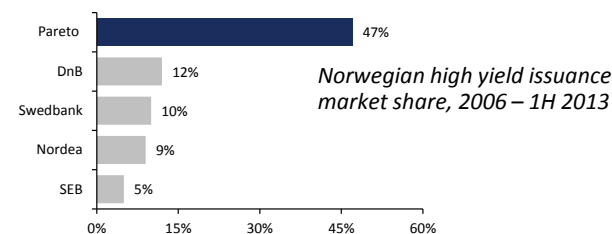
Criteria	2011	2009	2007
Placing power	# 1	# 1	# 1
ECM execution	# 1	# 2	n/a
ECM experience	# 1	n/a	n/a
M&A network	# 1	n/a	n/a
M&A negotiations	# 3	# 1	# 2
Client knowledge	# 3	# 1	# 1
Large project capacity	# 1	# 1	# 1

Source: Prospera. Responses from all clients

## IPO champion

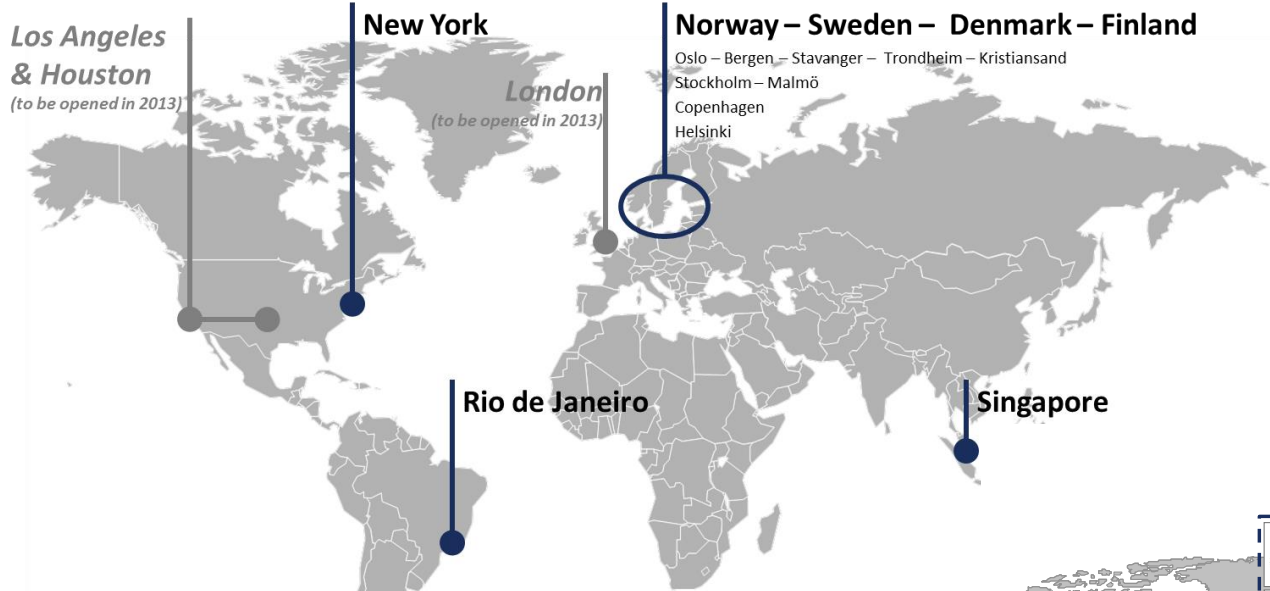
- More than 80 IPOs and listings since 2004 (#1)
- Managed 2/3 of IPOs since 2011 (above 100 mNOK)
- Raised 77% of IPO amount since 2011

## Pareto created the Norwegian HY market

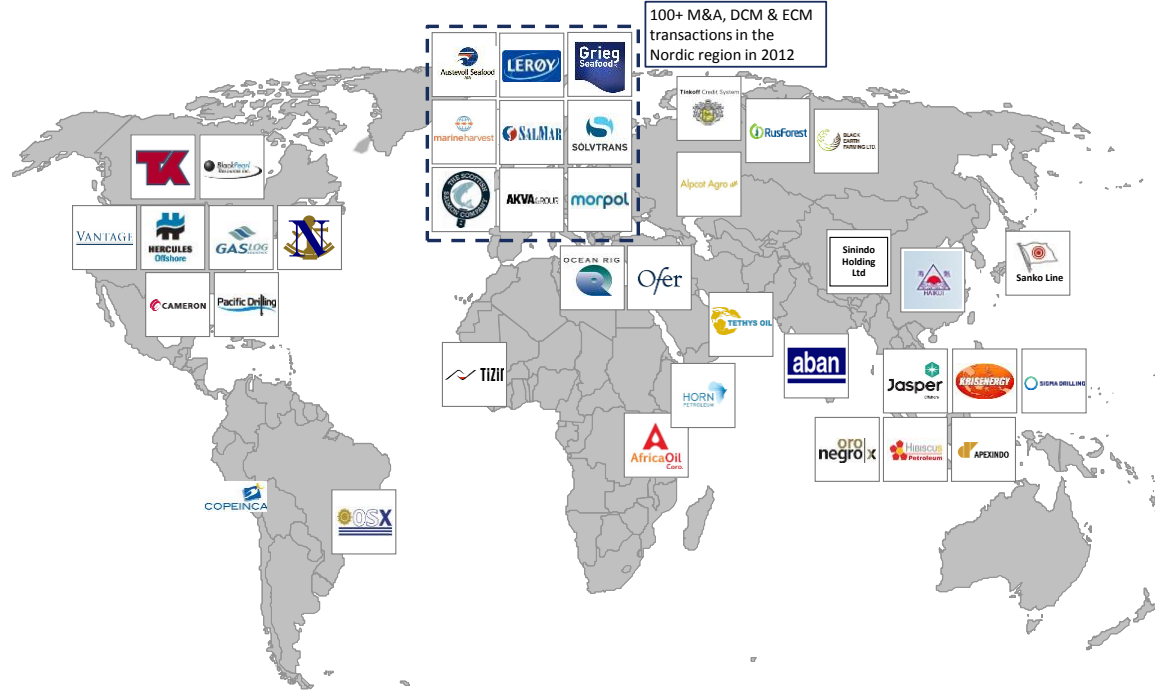


Source: Stamdata / Pareto Securities

# Pareto is expanding from a strong Nordic presence...



# ...with global customer base

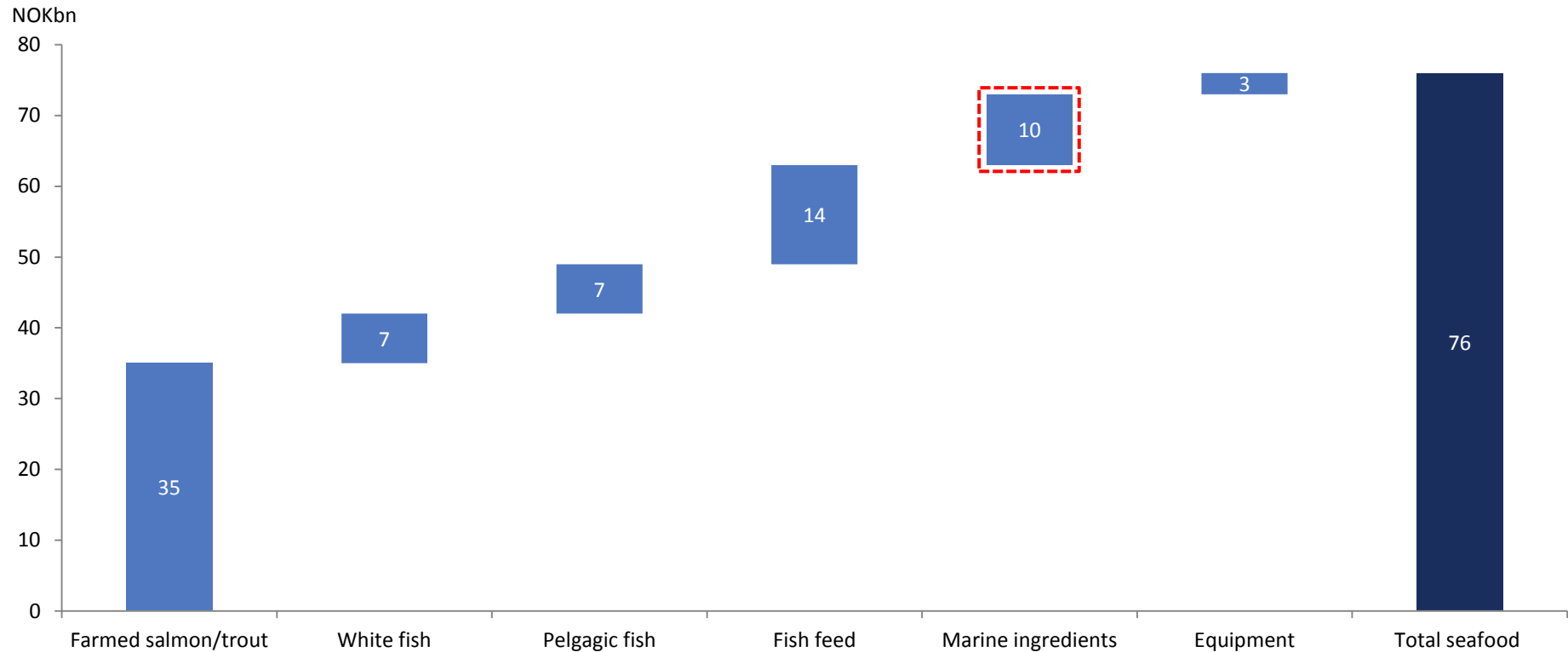


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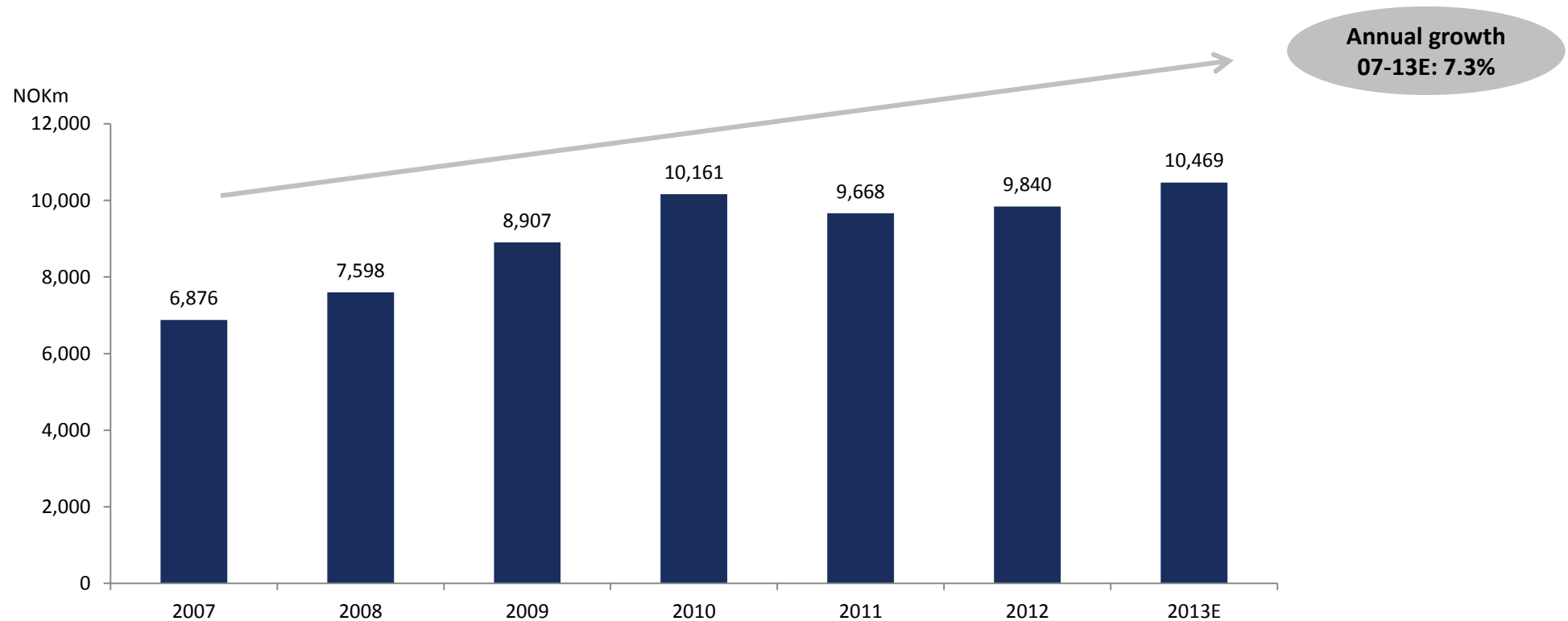
# Marine ingredients is a large and important part of the seafood value chain

## Total revenue in Norwegian seafood industry (approximate figures)



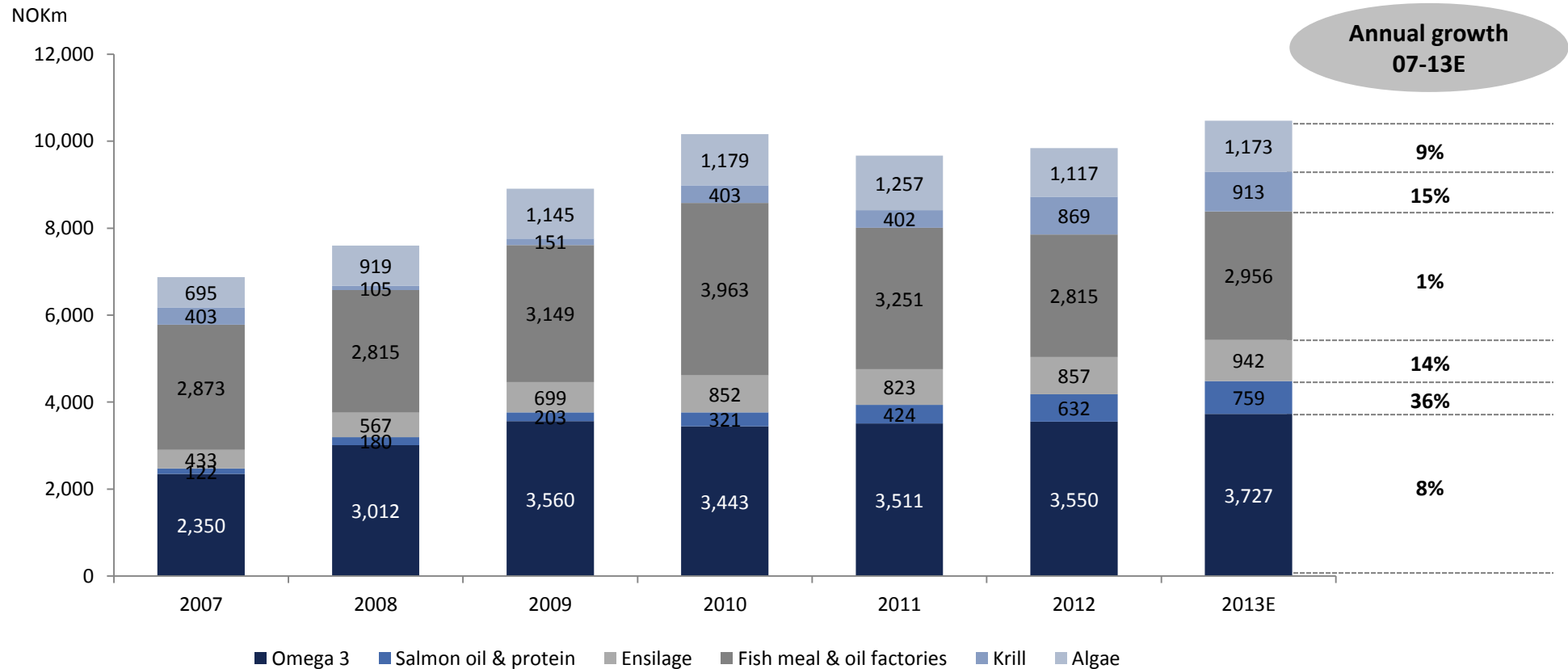
# Strong growth in the marine ingredients industry

## Total revenue Norwegian marine ingredients companies 2007-2013E



# Several interesting sub-segments are emerging...

## Revenue per sub-segment for Norwegian companies 2007-2013E

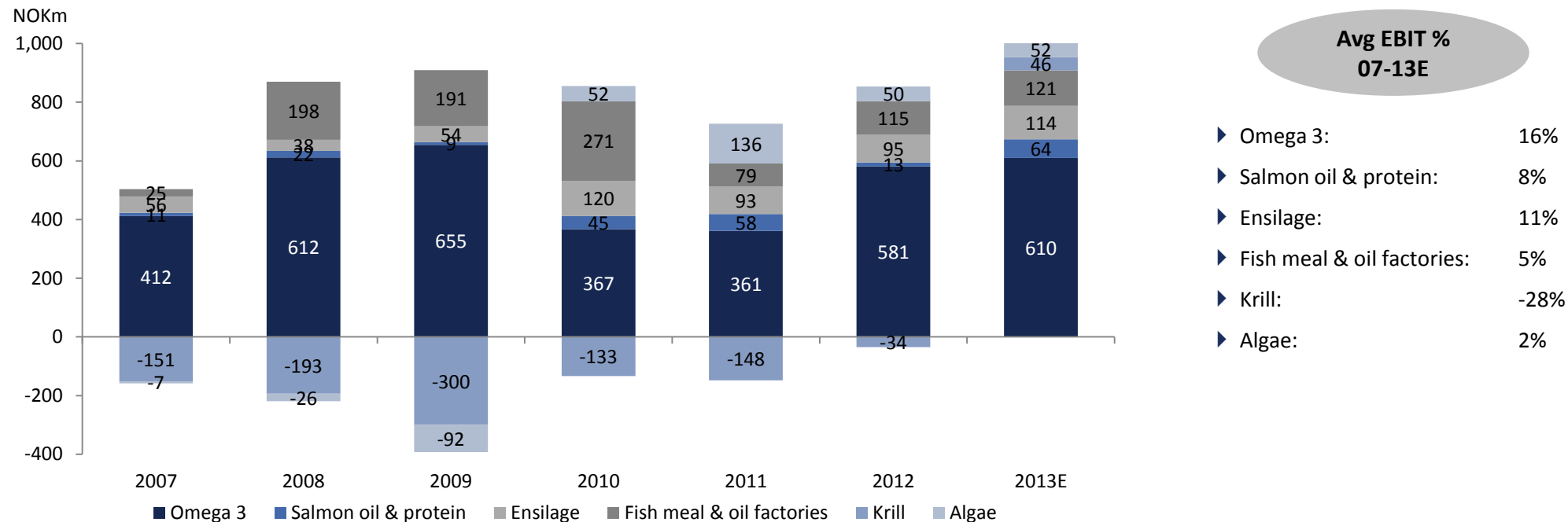


- ▶ The largest sub-segments are “Omega 3” and “fish meal & oil factories”, as these have reached a more mature phase
- ▶ The fastest growing areas are “Salmon oil & proteins”, “Krill” and “Ensilage”, which have all more than doubled in size since 2007



## ...but profitability is often lagging for newcomers

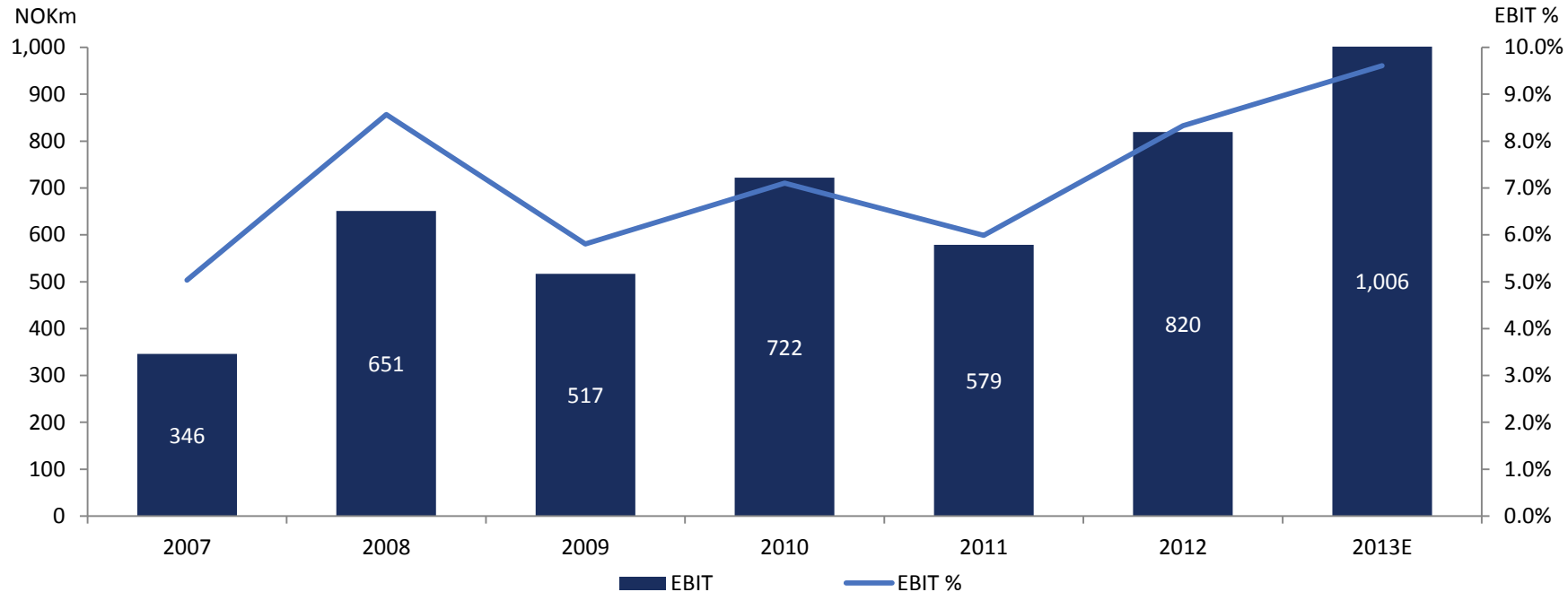
### EBIT per sub-segment for Norwegian companies 2007-2013E



- ▶ “Omega 3” is the most profitable sub-segment with stable EBIT margins around 16%-17%
- ▶ “Ensilage” players also operate profitably with EBIT margins around 10%-11%
- ▶ “Salmon oil & protein” have traditionally performed well (10%-15%), but a new entrant with large losses impacts the figures from 2011
- ▶ “Fish meal & oil factories” have more fluctuating earnings with EBIT in the 0%-8% range
- ▶ “Krill” has been through a tough period with high investments and low market penetration; expected to reach first positive year in 2013E
- ▶ “Algae” experienced losses in 2007-2009 but have shown positive results since 2010

# The industry as a whole is becoming increasingly profitable

## EBIT per sub-segment for Norwegian companies 2007-2013E



**The industry is expected to generate NOK 1bn in operating profits in 2013E, and EBIT margins have improved from 5% in 2007 to 10% at current**

# Marine ingredients industry – supported by strong drivers

## 1 Regulation

- ▶ The government and NGOs seeks to reduce waste and pollution from seafood activities
- ▶ Increased focus on utilizing the full potential of the seafood production

## 2 Health benefits

- ▶ Omega 3, protein and other fish-derived products have proven positive health effects for humans
- ▶ Strong momentum in nutritional and pharmaceutical segments

## 3 Technology

- ▶ New technologies for extraction of oil, proteins and other valuable products from seafood waste are emerging
- ▶ Significant R&D effort has been put into transforming the seafood waste into marketable products

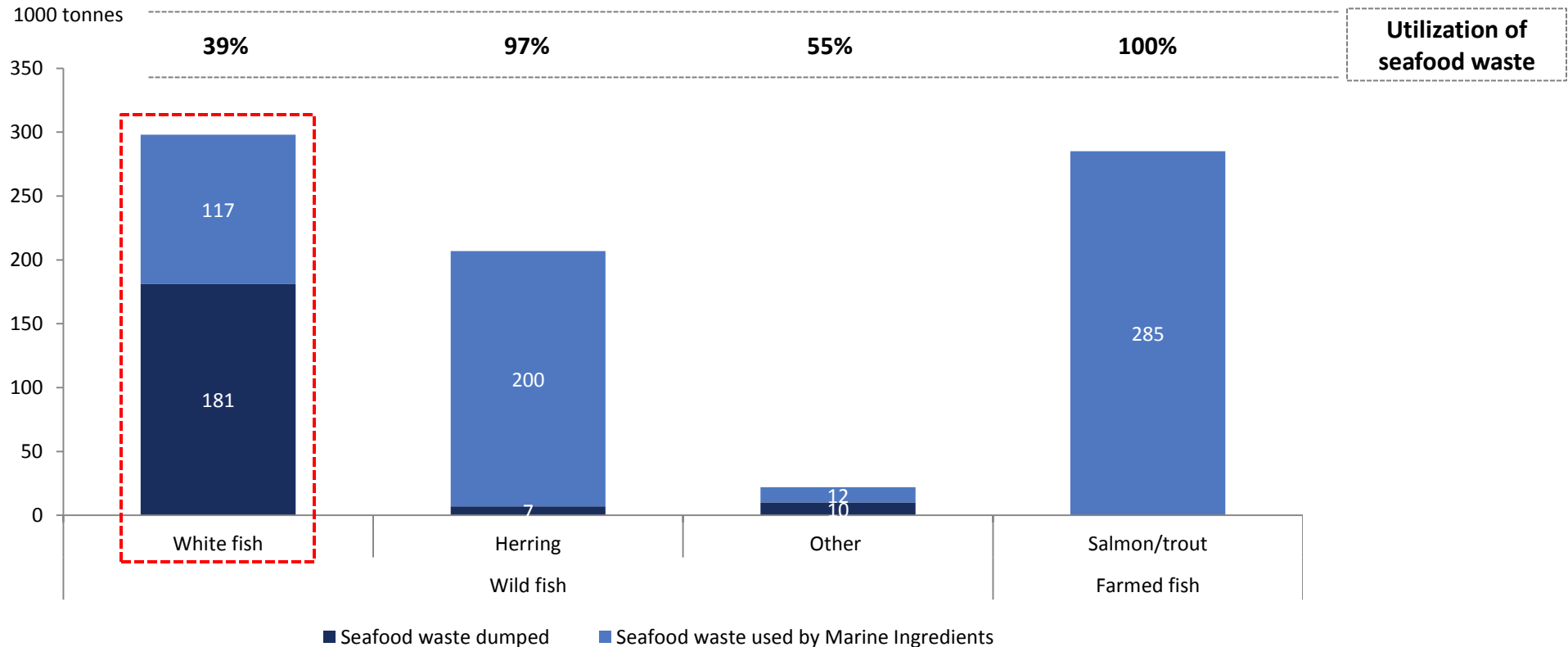
## 4 Improved supply chain and increased demand

- ▶ Higher and stable fish farming volumes, professionalized operations and improved end-products enable growth
- ▶ End-user demand and acceptance for marine ingredients is growing at record levels

**Result of favourable industry characteristics: possible to invest in marine ingredients with a healthy return**

# Utilization of seafood waste is improving but there is still a lot of upside

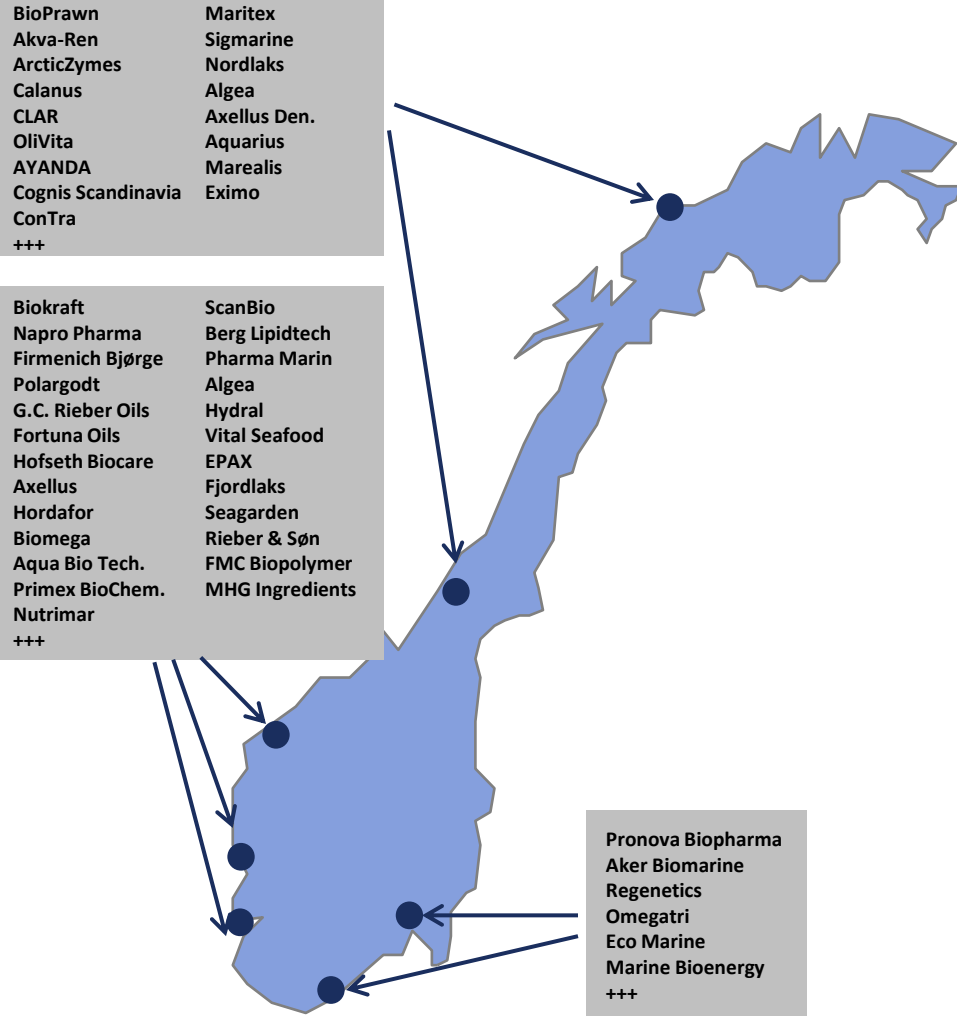
## Utilization of seafood waste per fish type (2012)



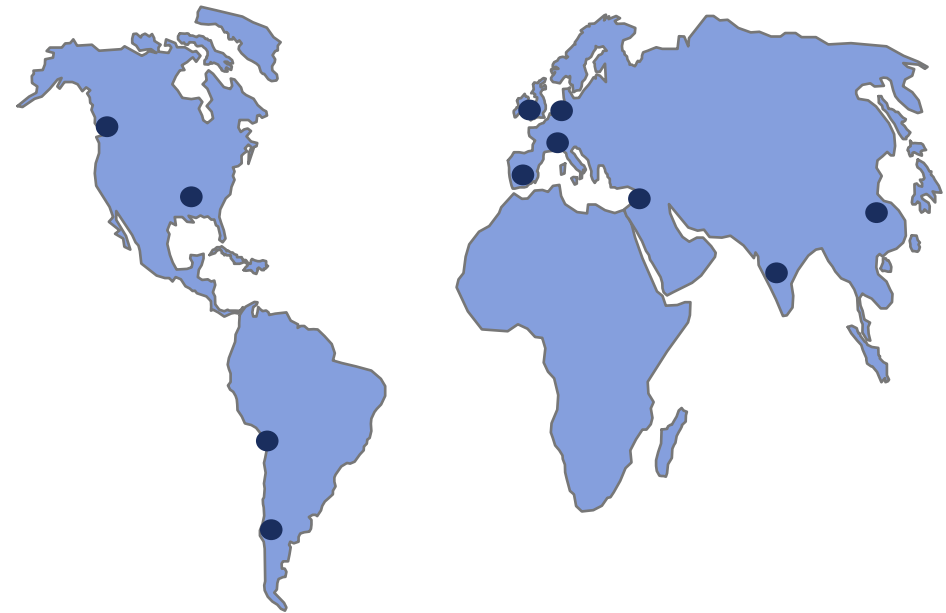
**There is big potential in increasing the recovery of residual material from wild white fish – especially cod and pollock. The fishery and the marine ingredients industries have implemented steps for improvement**

# Norwegian and international marine ingredients focus

## Norway – several marine ingredients clusters



## International – global presence



- Martek (US)
  - Neptune Technologies (US)
  - OmegaBrite (UK)
  - Solutex (Spain)
  - Copalis (Switzerland)
  - Copeinca (Peru)
  - Diamante (Peru)
  - Hayduk (Peru)
  - Smit & Zoon (Netherlands)
  - NCPC (China)
  - Cellana (US)
  - Algaeon (US)
  - TripleNine Fish Protein (Denmark)
  - +++
- Marine Ingredients (US)
  - Ocean Nutrition Canada (Canada)
  - Croda International (UK)
  - Firmenich (Switzerland)
  - LYSI HF (Iceland)
  - TASA (Peru)
  - Austral (Peru)
  - Exalmar (Peru)
  - Oniactive (India)
  - ZMC (China)
  - Ternion Bio Industries (US)
  - Alga Technologies (Israel)

## Strong M&A activity in the industry demonstrates investor appetite


Year	Target	Country	Bidder	Sector	Purchase price	Description	Type
2013	Smartfish	Norway	Industrifonden	Omega 3 - nutrition/pharma	NOK 70m	Private placement	Financial
2013	Biokraft Marin	Norway	Scanbio	Ensilage	NA	Acquisition	Industrial
2013	EPAX	Norway	FMC Corp	Omega 3 - nutrition/pharma	USD 345m	Acquisition	Industrial
2013	Pronova Biopharma	Norway	BASF	Omega 3 - nutrition/pharma	NOK 5,000m	Acquisition	Industrial
2013	Welcon/Egersund/NPEL	Norway	NA	Fish meal & oil factories	NA	Merger	Industrial
2013	Copeinca	Peru	China Fishery Group	Fish meal & oil factories	NOK 5,000m	Acquisition	Industrial
2012	Ocean Nutrition Canada	Canada	Royal DSM	Omega 3 - nutrition/pharma	EUR 420m	Acquisition	Industrial
2011	Hordafor	Norway	Welcon	Ensilage	EUR 26m	Acquisition	Industrial
2011	H Lundbeck	UK	Trygg Pharma	Omega 3 - nutrition/pharma	EUR 16m	Acquisition	Industrial
2011	Biomega	Norway	Rhea Capital	Salmon oil & protein	NA	Acquisition	Financial
2012	Denomega Nutritional Oils	Norway	Axellus	Omega 3 - nutrition/pharma	NA	Acquisition	Industrial
2011	Scanbio	Norway	Paine & Partners	Ensilage	NA	Acquisition	Financial
2011	Martek Biosciences Corp.	US	Royal DSM	Omega 3 - nutrition/pharma	EUR 790m	Acquisition	Industrial
2011	Maritex	Norway	LYSI HF	Omega 3 - nutrition/pharma	NA	Acquisition	Industrial
2010	EPAX	Norway	Trygg Pharma	Omega 3 - nutrition/pharma	EUR 108m	Acquisition	Industrial
2010	Cognis	Germany	BASF	Various	EUR 3,100m	Acquisition	Industrial
2009	Welcon	Norway	Origin Enterprises	Fish meal & oil factories	NA	Acquisition	Industrial
2007	Natural	Norway	Aker Biomarine	Krill	NA	Merger	Industrial
2006	Karmsund Fiskemel	Norway	Welcon	Fish meal & oil factories	EUR 21m	Acquisition	Industrial

**Total number of transactions** 18

**Total value of transactions (NOKm)** 47,124 *Excluding transactions with unknown value*

- ▶ There have been numerous transactions in the past few years totaling NOK 47bn in deal value. Probably more deals “under the radar”
- ▶ Deal activity is clearly highest in the established sub-segments with proven earnings record
  - Omega 3 related transactions make up the vast majority in terms of deal value (Pronova, EPAX, Ocean Nutrition, Martek)
  - Fish oil & meal companies also generate investor interest (Copeinca, Welcon/Egersund/NPEL)
  - Ensilage players Scanbio and Hordafor has been involved in several deals
- ▶ Most of the transactions are industrial, but interest from financial investor is likely to pick up as the industry continues to improve, demonstrated by Smartfish (Industrifonden) and Scanbio (Paine & Partners)

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# Omega 3 – the leading space in marine ingredients with proven success

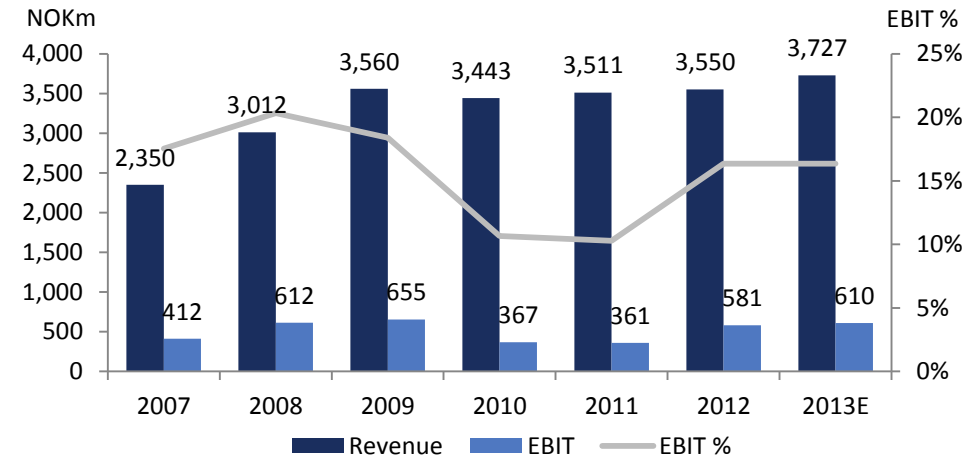
## Description

- ▶ Development of marine oils (mainly Peruvian anchovy) into animal/fish feed, human nutrition, cosmetics and pharmaceutical applications
- ▶ Increasingly technology intensive as many companies try to enter the human nutrition / pharma segments where the earnings potential is highest
- ▶ Global high-end market dominated by a few very large companies and many smaller local players in the bulk segment with low-medium margins

## Companies



## Financials – Norwegian companies



## Economics and M&A

- ▶ Omega 3 has been the main earnings producer in the marine ingredients industry in the past decade with margins of +15%
- ▶ Key to success: develop a unique formula for nutrition/pharma applications or address a niche segment
  - These companies are often acquired by large international pharmaceutical or chemical companies with the necessary resources to finalize and market the product on a global scale
- ▶ Notable M&A transactions include Pronova Biopharma, EPAX, Ocean Nutrition Canada and Martek



# Salmon oil and salmon protein – emerging aquaculture-based sector

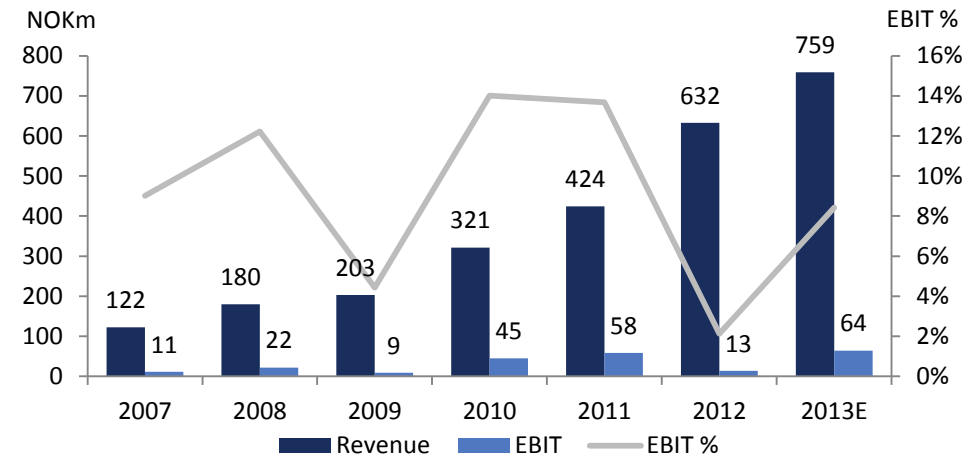
## Description

- ▶ Development of salmon oil into animal/fish feed, human nutrition, cosmetics and pharmaceutical applications.
- ▶ High fish farming activity in Norway coupled with focus on waste recovery enable substantial growth in this sector.  
*Fastest growing segment in marine ingredients*
- ▶ Norway is the leading country, some small firms abroad
- ▶ Similar situation as in Omega 3 space with companies focusing on addressing the premium market segments

## Companies



## Financials – Norwegian companies



## Economics and M&A

- ▶ Revenue growth has been very impressive at 36% p.a. since 2007, while maintaining maintain operating profits
- ▶ A new interesting player entered the market in 2012 with ambitious growth plans which require large upfront investments (affect 2012/13 industry EBIT negatively)
- ▶ Companies with successful product lines will be targeted by both seafood companies and international pharmaceutical/chemical firms
- ▶ Notable M&A deals include Biomega (Marine Bio)

# Ensilage-based products – traditional industry with growth from fish farming

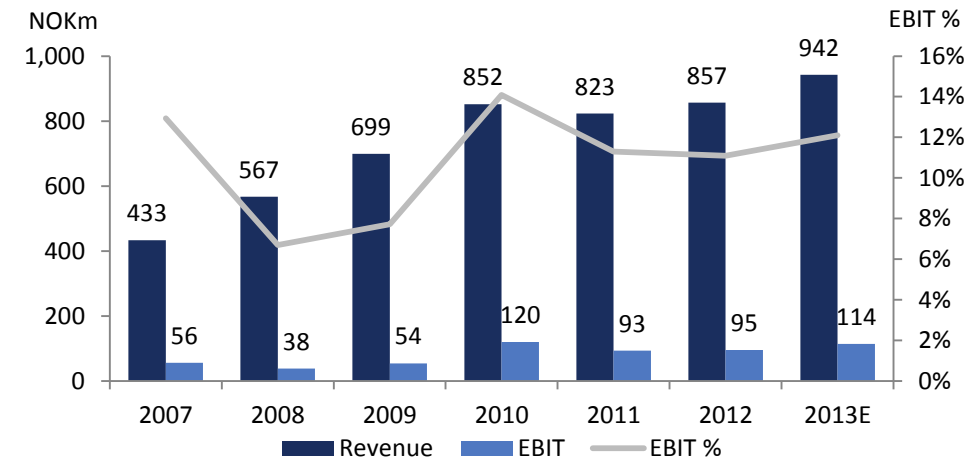
## Description

- ▶ Ensilage is a traditional Norwegian business which converts waste from white fish, pelagic fish and farmed salmon/trout into ingredients for fish and animal feed
- ▶ Increased fish farming volumes in Norway has been the main source of growth. The next step is to increase waste recovery from wild white fish
- ▶ Norwegian market is dominated by 3 players, few known international firms

## Companies



## Financials – Norwegian companies



## Economics and M&A

- ▶ Revenues in ensilage is approaching NOK 1bn per year, while maintain operating margins at healthy levels
- ▶ The key sources of future growth are expected to be increased volumes of seafood waste (farmed and/or wild). In addition, ensilage players can innovate to make the end-product more valuable to the feed producers
- ▶ Mainly a local business with limited technical barriers to entry. M&A appetite is likely to come from Scandinavia
- ▶ Key M&A deals include Biokraft Marin, Hordafor and Scanbio

# Fish meal and fish oil factories – Norway small part of the value chain

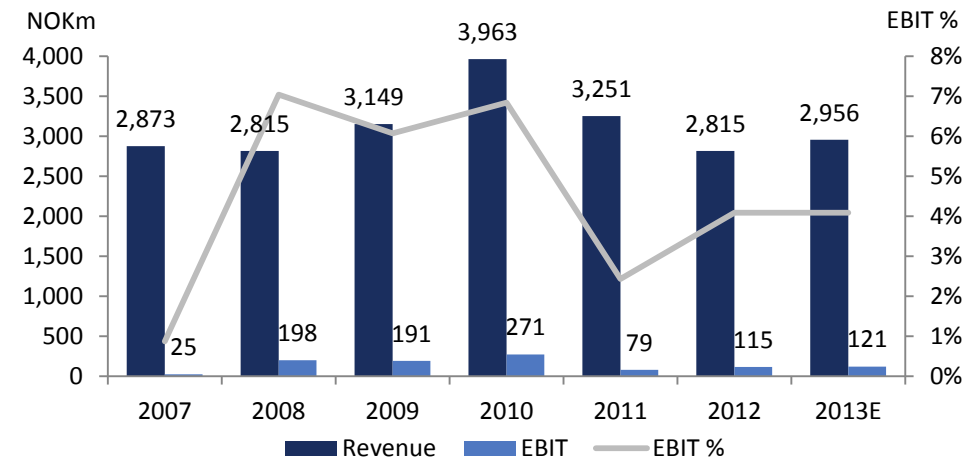
## Description

- ▶ Conversion of seafood waste into fish meal (mainly for animal feed) and fish oil (mainly for fish feed)
- ▶ The majority of worldwide fish meal and fish oil production is done in Peru from pelagic fish
- ▶ Norwegian fish meal factories have been around for many years and typically use herring waste as input.
- ▶ Revenue decline from 2010 is partly explained by reduced herring quotas in Norway

## Companies



## Financials – Norwegian companies



## Economics and M&A

- ▶ Revenues have traditionally been around NOK 3bn per year, except for 2010 which was a peak year
- ▶ Operating margins are in the low range (0%-8%) but tend to vary somewhat from year to year with fluctuating purchasing cost and sales price
- ▶ Investment candidates: Peruvian fish meal players, fish feed or animal feed producers, fish farming players (e.g. CEQ/COP) and other industrial and financial investors
- ▶ Key M&A deals: Welcon/Egersund, TripleNine/Vedde, Copeinca

# Krill – huge potential but challenging start

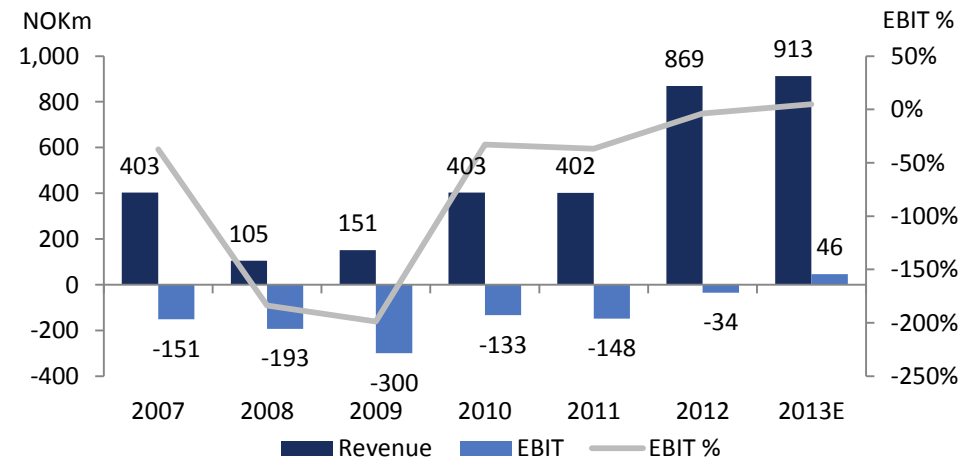
## Description

- ▶ Krill is used to produce both krill oil (for human nutrition/pharma and fish feed) and krill meal (for fish feed and pets)
- ▶ The krill industry has been through a very tough period with high investments in both vessels and product development, combined with low market penetration
- ▶ Two Norwegian players dominate the market, while some foreign firms focus on developing krill oil (not harvest)

## Companies



## Financials – Norwegian companies



## Economics and M&A

- ▶ The period from 2007-2011 gave an aggregate operating loss of NOK 925m for the companies involved
- ▶ 2012 appeared to be the turning point with two-fold increase in revenues and nearly zero losses. The industry is expected to reach first year of profit in 2013
- ▶ Pharmaceutical/chemical companies are likely to show investment interest if the market adoption of krill products continues to improve

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## Summary - the future of marine ingredients

**Marine ingredients has grown tremendously over the past decade and now represents a NOK 10bn industry with high importance for the seafood activity in Norway**

**The underlying drivers for marine ingredients are very promising with favourable regulation, health-oriented consumers, technological advancements and growing seafood supply**

**Marine ingredients has demonstrated its potential for profitable growth as operating margins have doubled (5%→10%) while revenues have increased by 50%**

**M&A activity of NOK 47bn demonstrates a clear investor interest for companies across all sub-sectors if the target can deliver a unique product/process with scalability**

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