BEHIND THE NUMBERS
Quality of Earnings Analysis
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Mowi ASA (MHGVY)
Earnings Quality Update- 6/21 Qtr.

6- Exceptionally Strong
5- Strong
4- Acceptable
3- Minor Concern
2- Weak
1- Strong Concern
+ quality improving
- quality deteriorating

We are maintaining our earnings quality coverage of MHGVY at 4+ (Acceptable) and maintaining our Top Buy rating.

For an explanation of the EQ Review Rating scale, please refer to the end of this report.

Summary

As predicted, MOWI benefitted tremendously from salmon prices recovering as 1Q ended and 2Q saw that trend continue. MOWI also purposefully went with fewer contracted sales during 2Q and now in 3Q to take better advantage of the higher spot market prices (contract pricing moves with averages of prices and thus shaves off the highs and lows). The recovery in prices is allowing MOWI's income to rise noticeably:

	2Q21	1Q21	4Q20
Harvest Vol.	108	126	127
Op. EBIT	€137	€109	€49

- MOWI's dividend policy of paying out 50% of income as a dividend continues. The dividend of 0.32 NOK in 4Q, became 0.77 NOK in 1Q and now 0.96 NOK in 2Q. Also, because MOWI has been retiring debt (down from €1.48 billion in 4Q to €1.15 billion after 2Q21) and it expects solid earnings to continue – it declared a 1.0 NOK extraordinary

dividend. It is important to remember that before Covid, MOWI was paying 2.6 NOK per quarter – which would be a 4.4% yield on current prices. We think the company can see continued strong growth in the dividend.

- There are some solid reasons to expect pricing gains to continue. Prices on Norwegian salmon are still not fully recovered. More important is the supply/demand situation. In the 2Q, demand grew 9.3% with new harvested supply only rising 1.1%. The market filled in with supply from frozen inventories which made the total supply on the market rise 9%. Frozen supplies from Chile had been contributing to weaker pricing in recent quarters and those are now declining.

- MOWI's supply growth was expected to be 1.2% in 2021. The forecast has now been raised to 2.3%. However, the industry expects negative growth for the rest of the year on salmon volumes. For 3Q, a range of -7% to -2% and for 4Q, a range of -4% to 0%. Most importantly, the swing producer is Chile. After overproducing in 2020, Chile is expected to post negative volume growth in 3Q of -31% to -27% and -25% to -22% for 4Q.

- Demand growth still has room to recover. China had been a growing market that remains about 20% below pre-Covid levels. Also, the rollout of more salmon products in the US was delayed with Covid. Demand has picked up significantly since Covid restrictions eased, but the focus is still on tripling US demand over 10-years. MOWI also notes that freight costs remain higher than pre-Covid too. That is something that should continue to gradually improve with more air travel and help get more supply to more markets.

- Guidance for cash flow consumption remains flat for MOWI: €110 million tied up in higher working capital, taxes of €60 million, interest of €45 million, and capital spending of €265 million with over 40% focused on growth projects.

- We see two areas of smaller negative issues. The first is higher biologic health issues in Norway and Canada. Spending here is up about 6% y/y and while MOWI believes that will be mitigated, it does expect heavier spending than normal in those areas to persist for several more quarters. MOWI does expect its cost-cutting measures to continue to offset areas like this where there are rising expenses. MOWI has realized €18 million of the €25 million goal for 2021 cost cutting. The second is that the Canadian operations still have more problem fish, and it is a much smaller operation overall. Fish farming is a high fixed cost business and profit/loss requires high volume and fish growing to larger weights before harvesting. Canada has neither at the moment. Its volume is lower than other areas and they have harvested fish early. MOWI is introducing the next generation of fish smolt to Canada and believes it can turn this around. But fish do not grow to 6kg

in a week, so we expect spotty results to continue in Canada. MOWI took a €39 million impairment on Canadian East operations in the 2Q.

Explanation of EQ Rating Scale

6- (Exceptionally Strong)- Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises

5 (Strong)- Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.

4 (Acceptable)- Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement

3 (Minor Concern)- Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.

2 (Weak) Indicates the company's recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.

1 (Strong Concern)- Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely

In addition to the numerical rating, the EQ Review Rating also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into upcoming quarters. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

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