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Lodgement of Market Briefing

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Market Briefing

Tassal MD & CEO on FY19 results and FY20 growth outlook

Interview with Mark Ryan (Managing Director & CEO)

In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, provides an overview of the Company's FY19 result and FY20 growth outlook, including:

- *Another record full year result in FY19 achieved across all operational and financial metrics*
- *Successful delivery of Tassal's salmon growth strategy underpinning a step change in operating cashflow*
- *Successfully commenced executing prawn growth strategy, with fully underwritten placement to accelerate the next growth wave*
- *Well positioned for continued earnings growth in FY20.*

Market Briefing

Tassal delivered another record result in FY19 across all key operational and financial metrics. Can Tassal continue to sustain the growth it has delivered over the past five years?

Mark Ryan

Over the past 12 months Tassal successfully executed its salmon and prawn growth strategies, with a strong management team, environmentally sound farming practices and attractive market conditions. We are delighted with the operational and financial results achieved.

For more context around the numbers, revenue grew by 15.7% to $560.8 million, Operating EBITDA was up 12.6% to $112.3 million, and we delivered a step change in operating cashflow to $89.9 million, up 104.9% compared to FY18.

Tassal's focus on sustainable salmon growth, together with our strategic investment into the De Costi Seafoods distribution operation has delivered what we said it would do. We have now added an additional growth runway through our diversification into the higher returning prawn business where we are leveraging our salmon 'know-how', and today's announced fully underwritten capital raising will fund an acceleration of this strategy.

The combination of all is expected to underpin strong growth in earnings over the short to medium-term, with returns to be enhanced over the longer term.

Market Briefing

Why did return on assets only slightly increase in FY19 and return on invested capital slightly decrease?

Mark Ryan

We have made substantial investments in FY19 across technology, infrastructure, and prawns through the acquisition of the Fortune Group and investment in remediating, redeveloping and building out the prawn assets acquired. Earnings from prawns are yet to materially flow through, but are expected to from FY20 onwards.

Given the rapid ramp up in prawn production volumes and earnings for FY20 following redevelopment and appropriate stocking of our Mission Beach, Yamba and Proserpine prawn farms – together with the potential expansion capacity of Proserpine to circa 400 hectares – we expect to generate returns from these assets [once fully licensed and developed] above historic Group levels.

Market Briefing

Can you expand more on your salmon growth strategy and how you will manage domestic vs export sales going forward?

Mark Ryan

Sustainable salmon is still at our core and we continue to see strong demand both domestically and in export markets for Australian grown, sustainable salmon.

In FY19, domestic market sales grew 11.0% to 26,860 hog tonnes, while export market sales volume grew 7.6% to 6,996 hog tonnes. Our ability to channel fish into the export market allowed us to best manage production towards a more optimal fish size, while also supporting retail market growth.

Over the past 10 years, Tassal has led the market in terms of developing the retail market, driving domestic per capita consumption from 1.3kg per person to 2.6kg [excluding sales of canned salmon], and this is forecast to continue to increase towards 3kg by 2022.

Tassal is well placed to meet the expected growth in domestic demand for salmon in FY20. A more gradual growth curve in supply over the short-term should allow us to further optimise pricing to provide increasing salmon returns. We will continue to use the export market as a strategic lever to optimise sales.

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How are you addressing the environmental risks such as climate change and more specifically water temperatures and Amoebic Gill Disease [AGD]?

Mark Ryan

Climate and the environment as a whole play an important role in Tassal's operations and a comprehensive risk management system is used to manage long-term risk, as well as opportunities presented by climate change.

We are very conscious of Tassal's social license to operate. In line with the United Nations' Sustainable Development Goals, and supported by our ASC certification and other sustainability programs, we have established long term financial, operational, social, biosecurity and environmental goals. These goals are centred on collaboration, shared value, best practice, and responsible growth, and underpin everything we do.

In the summer of 2018/19, we saw water temperatures in line with 2017/2018 and we were better prepared entering this season with proactive bathing, an increase in harvest for frozen hog [which was used in 2H FY19] and isolating larger fish to cooler sites.

Moving forward we are also freezing down harvest fish before the summer of 2019/2020 to ensure frozen salmon can be utilised in the second half of FY20 without the requirement to further bring forward the harvest of the next year class of salmon. Also, our advanced Selective Breeding Program [SBP] is focused on growing fish more resilient to higher water temperatures and we continue to progress on that front.

In regard to AGD, this remains a significant issue that we are actively managing. We are continuing to implement new infrastructure and technologies to manage this risk and reduce growing costs, and the delivery of the new Well Boat in September / October this year will further enhance our strategies to address AGD. It will allow us to completely bathe one of our largest pens around three times quicker than current methods. This not only helps manage our costs of production, but also aligns strategically to our ambitions to farm salmon further offshore in higher energy areas and enables higher fish survival rates, improved biosecurity, fish health and welfare.

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FY19 saw Tassal generate significant operating cash flow, up 104.9% to $89.9 million. Can you maintain that level of cashflow going forward?

Mark Ryan

Over the past two years our growth strategy had been building up to the step change in operating cashflow that we delivered in FY19. The 104.9% growth in operating cashflows to $89.9 million clearly demonstrated the strength of Tassal's underlying business and operational strategy, and supports our strategic investment in salmon biomass and capital infrastructure.

Given the outlook for salmon and continued, albeit slower, growth in salmon biomass in FY20 combined with the expected ramp-up in prawn returns, we believe the growth in operating cashflow is sustainable and will continue to grow. We plan to responsibly utilise our growing cashflows to underpin sustainable growth in long-term returns via ongoing business investment, while also sustainably growing shareholder returns.

The substantial investment undertaken in FY19 can be seen from the investing cashflows of $138.7 million made. We will continue to invest strategically in state-of-the-art technology that supports a more efficient business, and expect to invest $156 million in various capital projects in FY20 as we drive the next wave of growth for Tassal across salmon and more rapidly prawns.

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While still early, the strategic diversification into prawns has been successful. Can you provide more colour around the investment, earnings, and outlook for prawns?

Mark Ryan

For Tassal, any consideration of expansion, investment and diversification opportunities focuses on three main factors. Firstly, the acquisition must provide strong operating efficiencies, it must be strategically compelling, and finally must be highly earnings accretive. Prawns ticked all these boxes, with a superior EBITDA $/kg margin to salmon, shorter capital cycle, and also provided geographic and species diversification.

Importantly, given the success of our salmon growth strategy that has seen substantial volume growth, stable margins, and a step change in operating cashflows, we believed prawns would benefit from our experience and expertise where we can take learnings from salmon and apply directly to prawns to give us a real competitive advantage in the industry. What we have seen to date, only strengthens this belief, with initial performance above our expectations.

The acquired prawn business as licenced and redeveloped provides a platform for growth of prawn production from around 450 tonnes per annum to approximately 3,000 tonnes per annum with a target production of 2,400 tonnes in FY20. Once fully licenced and developed (subject to appropriate approvals), Mission Beach, Yamba and Proserpine infrastructure should support potential prawn production of circa 6,000 tonnes per annum by FY22.

As expected, prawn earnings commenced in H2 FY19 from the initial pond stocking and infrastructure at acquisition of Fortune Group, with production of 453 tonnes generating $9.1 million revenue.

Having concentrated on remediating existing infrastructure and stocking the ponds with prawns in the second half of this calendar year, and with strong pricing in the market, our focus is to increase prawn consumption per capita going forward, with domestic retail sales being the pillar of that strategy, like it was for salmon.

There is also an opportunity from both a prawn biomass growth and a 'cost out' perspective leveraging our experience, capabilities and learnings from salmon. With the growing time for prawns being nine months from hatchery to harvest, not three years like salmon, we expect to very quickly ramp-up production volumes from our existing farms and in turn rapidly grow revenue and earnings from prawns, with targeted production volume in FY20 of circa 2,400 tonnes.

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Today you announced a circa $108 million fully underwritten placement and associated up to $25 million non-underwritten Share Purchase Plan to accelerate your prawn growth strategy. What are you going to use the funds from the capital raising for?

Mark Ryan

Since our acquisition of the Fortune Group assets in September 2018, our investment thesis in prawns has been validated. We have an increased confidence in our ability to leverage our salmon 'know how' to increase prawn consumption per capita, introduce product innovations and increase yield from improved aquaculture practices. Once authorised by the relevant authorities and developed, our Mission Beach, Yamba and Proserpine farms should support potential prawn production of 6,000 tonnes per annum by FY22.

Today we announced the acquisition of Exmoor Station for $25 million, funded by a bank facility. Exmoor Station is a strategically located property that, subject to gaining the required licences and pond development, provides the land required for pond infrastructure for our long-term prawn ambitions. Exmoor Station, together with our existing prawn farms when all fully developed, should allow targeting prawn production of circa 20,000 tonnes per annum.

The capital raised through the fully underwritten Placement will fund a staged pond expansion at our existing farms targeting circa 420 hectares of ponds by FY22 (subject to regulatory approvals and licensing), new hatchery capacity and domestication advancement to support growing production volumes, and smart farming and feed automation infrastructure to improve prawn survival, increase size, improve feed conversion ratio and support cost efficiencies including reduced power costs. Further, we will also build an appropriate processing facility on the Proserpine site.

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Can Tassal deliver another record year of operating and financial metrics in FY20?

Mark Ryan

We expect to continue growing revenues and operational earnings in FY20, and are well placed to do so given the success of our salmon growth strategy and accelerated prawn growth strategy. We see three key dynamics underpinning our continued growth in FY20.

Firstly, we expect the positive market dynamics for both salmon and prawns to continue. The domestic salmon market is growing at circa 10% per annum, and our agreements with retailers underpin current domestic pricing levels that are expected to persist in the short to medium term. In addition, Tassal will benefit from the strong pricing and favourable competitive positioning for prawns due to the fragmented market and lack of supply material growth for the past 10 years as production volumes quickly ramp-up.

Secondly, a more gradual growth in salmon supply over the short term should allow us to further optimise pricing to provide increasing salmon returns. Over the next 12 months we will transition supply to more sales into the domestic market with an improved sales mix focused on more profitable product lines. Our focus on optimising existing leases as well as cost reduction initiatives over the short to medium term will continue as we look to respond to increasing growing costs.

Lastly, FY20 will see a ramp-up in prawn production volumes following redevelopment and appropriate stocking of our Mission Beach, Yamba and Proserpine prawn farms. We are targeting FY20 prawn production of circa 2,400 tonnes compared to 453 tonnes in FY19.

Importantly, we don't just see growth in FY20, we are planning to continue sustainably growing Tassal beyond just FY20. To do this, we plan to invest $156 million of capital expenditure in FY20 in both our salmon and prawn operations to underpin long-term growth. The benefits from this planned capital expenditure will be seen in later years.

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Thank you, Mark.

For further information, please contact Tassal on 1300 880 179, or visit www.tassal.com.au