

UBS Australasia Conference 2019

Tassal Group

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Our growth strategy

As an industry leader in Australia, Tassal is harnessing its strengths across the business to sustainably and strategically improve how we farm, process and bring our seafood offer to market

“Tassal farms the ocean and land to produce a high quality/healthy source of food, leveraging its industry leading scientific know how, that is both sustainable and efficient in its production, respecting the resources of the earth and the wider society in which it operates”

Our growth strategy is underpinned by 5 pillars:

- Market leader on all operational, financial, environmental and societal value metrics
- Geographic and species diversification
- Driving domestic per capita consumption growth
- Eastern seaboard supply chain: freshest to market on a national basis with short shelf life products
- Best practice aquaculture: regarded as global leaders in fish farming and environmental stewardship

Our growing returns will come from innovating, value adding and capitalising on increased consumption of farmed seafood in the restaurants and homes of Australians

FY19: Another record year

Responsible investment in biomass and infrastructure has underpinned strong operational growth

Financial Performance (A\$m)	FY19	FY18	Change
Revenue	560.79	484.54	15.7% ▲
Operating results			
Operating EBITDA	112.31	99.78	12.6% ▲
Operating EBIT	88.55	76.76	15.4% ▲
Operating NPAT	56.62	50.31	12.5% ▲
Statutory results			
AASB 141 SGARA Impact ¹	4.61	10.81	(57.3%) ▼
Statutory EBITDA ¹	114.91	110.00	4.5% ▲
Statutory EBIT ¹	91.16	86.98	4.8% ▲
Statutory NPAT ¹	58.44	57.29	2.0% ▲
Operating cashflow	89.90	43.88	104.9% ▲
Final dividend - cps	9.00	8.00	12.5% ▲
Total dividend - cps ²	18.00	16.00	12.5% ▲
Gearing Ratio ³	28.2%	18.7%	
Funding Ratio ⁴	38.8%	28.5%	
Funding Leverage ⁵	2.19	1.67	

Notes:

1. Pre-tax SGARA adjustment benefit of \$4.6m (FY18: increase \$10.8m). Post-tax benefit \$3.3m (FY18: \$7.6m)
2. Total dividend is 25% franked (FY18: 100% franking)
3. Gearing ratio as represented by net debt / equity
4. Funding ratio as represented by net debt + receivables purchase facility / equity)
5. Funding Leverage as (Net debt + RPF)/Operating EBITDA

Strong growth in revenue

- Operational strategy of responsibly growing salmon harvest biomass and size to ensure we are able to meet domestic demand
- Strong growth in salmon domestic market per capita consumption with strong pricing
- Export market strategically targeted with bigger salmon

Operating earnings growth continues to please

- Favourable domestic salmon market growth, sales mix and pricing continues
- Efficiency benefits flowing from more optimal salmon harvest biomass and size

Exceptional growth in operating cashflow

- Cash receipts from revenue growth allowed appropriate cash spend in salmon biomass and capital infrastructure

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Salmon

Our commitment on salmon

Innovation and best practice to drive change in our operations: further improving production, fish health and welfare while keeping our people safe

Centralised Feeding

Better fish growth, reduced feed conversion rates and reduced cost of growing through the implementation of our world-first remote feed centre. This also provides improvements for the environment, the safety of our people, fish welfare and increased integration of our operations

Blue Economy CRC

Spearheading the industry in the responsible transition to offshore farming through supporting the establishment of the Blue Economy Cooperative Research Centre (CRC) to undertake world-leading research and development for farming in high-energy waters

Aqua Spa

Our new well boat Aqua Spa, features world-leading technology and innovation to strengthen biosecurity and improve efficiencies to bathing operations, which makes for healthier fish. Adopting an in-built reverse osmosis system, Aqua Spa will also reduce our reliance on using fresh water, a key target for improving our operations. The Aqua Spa arrived in Tasmania on 19 October 2019



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Our commitment on salmon (cont'd)

Eco Aquaculture

Cementing our nation-leading eco aquaculture vision through the development of a new partnership between salmon, shellfish and seaweed producers, supported by a \$2.3m commitment from the Federal Government for seaweed culture research.

Ocean Sanctuaries

Accelerating the roll out of our ocean sanctuary enclosure.

Multi Purpose Recirculating aquaculture system (RAS)

Facilitating best practice stocking and fallowing strategies to produce Tasmania's largest smolt in our land-based nurseries, reducing the time our fish spend in the marine environment.

Recycling

Aspire to move towards 100% recycling of our marine soft and hard plastics.

Sustainability Certifications

Maintaining third-party certifications across harvest leases.

Biosecurity

Continuing to work on our joint venture leases in Macquarie Harbour with Petuna to implement improved biosecurity and fallowing strategies that support better environmental and fish health outcomes.

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Strategic investments: salmon

Tassal will continue to invest in state-of-the-art technology that supports a more efficient business

Infrastructure investment will allow Tassal to optimise existing leases, reduce costs and improve margins

- Well Boat (October 2019): Will allow fish to be bathed efficiently and effectively, leading to improved fish health and enhanced survival rates, while reducing the use of manual labour
- Centralised Feed Centre (February 2018): Will maximise feeding opportunities while minimising waste and improving Feed Conversion Ratio (FCR)
- Seal proof ocean sanctuary pens: Protecting salmon stock from increasing seal numbers and improving survival rates
- Multi-purpose Recirculating Aquaculture System Facility (Multi-purpose RAS): Providing larger smolt (potentially up to 1kg) or more smolt as Tassal's existing or new lease requirements dictate. Expected to cost circa \$46m with completion in FY21/22. Land has been acquired and the approval process has commenced

Continued investment in world leading research and development programs will help identify potential for additional expansion areas including both onshore and offshore operations, while maintaining a sustainable approach to seafood production

- Tassal's West of Wedge Island site at Storm Bay will be the testing site for the Blue Economy CRC, a project to assist the salmon industry responsibly transition to offshore farming
- West of Wedge is among the highest energy conditions in the world – salmon pen technology and design must be robust enough to handle the challenging conditions that Storm Bay has demonstrated to date
- Focused on being able to responsibly transition some salmon production to offshore farming at leases like West of Wedge
- Tassal will continue its integrated multi-trophic approach at its salmon farming sites, and is researching ways to reduce our environmental footprint through the production of kelp species adjacent to salmon farms

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Prawns

Strategic rationale for prawns

Compelling strategic and financial rationale for investment in prawn operations

- ✓ Leverage salmon “know-how” – Tassal is well-equipped to build its prawn business, leveraging the experience, capability and technology gained during 30 years of salmon farming, to modernise its prawn operations and increase yield and returns
- ✓ Geographic and species diversification – Prawns provides significant risk mitigation from an earnings, species, political and social perspective, as well as providing Tassal with a footprint in high demand aquaculture beyond Tasmania
- ✓ Favourable economics – Shorter capital and working capital cycles, with the growth cycle for prawns at 1 year (vs. 3 years for salmon). Prawn EBITDA \$/kg is also expected to exceed salmon EBITDA \$/kg
- ✓ Capital intensity – Once the infrastructure is fully established, lower relative maintenance capex requirements are expected when compared to salmon
- ✓ Optimising domestic per capita consumption – Increasing supply of Australian ‘aquaculture’ grown prawns, through accelerated development of prawn farms and the ability to leverage off our salmon sales with customers, in-line with forecast increasing seafood consumption per capita
- ✓ Australian Eastern seaboard distribution – Time to market reduced via improved technology
- ✓ Strong track record in environmental management – Leveraging our knowledge in water treatment and water management from salmon industry

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Our commitment on prawns

Growth initiatives and Exmoor Station acquisition, once authorised by the relevant authorities and fully developed, are expected to support a long-term prawn production target of circa 20,000t p.a.

Proserpine

- **190ha of ponds** (Stage 1 and 2 of the Development Application DA)
- **Now effectively stocked for FY20 production**
- Major regulatory approvals now received for **an additional 80ha of ponds** (Stage 3) – **pond building for FY21 production has commenced**
- **Potential for c400ha** of ponds (once authorised by the relevant authorities and fully developed)
- **Biosecure location** – at present there are no other farms in close proximity

Mission Beach & Yamba

- Mission Beach: **32ha of ponds**, large hatchery, primary processing
- Yamba: **45ha of ponds**, primary processing, inputs provided from Proserpine or Mission Beach hatchery
- Farms provide seasonal advantages for supply
- **Now effectively stocked for FY20 production**

Exmoor Station

- ~7,000 ha greenfield site, **2,093ha identified as an Aquaculture Development Area**
- **Potential for 1,000ha+ of ponds** (once authorized by the relevant authorities and fully developed)
- Identified as **1 of 6 premier Aquaculture Development Areas**, recognised in the Queensland State Planning Policy as being highly suitable for pond-based marine aquaculture
- **Biosecure location** – at present there are no other farms in close proximity (located 72km south of Proserpine)

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Strategic investments: prawns

Tassal's investment in prawns is accelerating, directly building on salmon success

- An annualised EBITDA of \$25m p.a. was targeted within 3 years of acquisition (i.e. by FY21)

The strategically located property, Exmoor Station, and the acceleration of several growth initiatives are expected to support the long-term prawn production target of 20,000t p.a.

- Over the next 2 years, Tassal plans to invest circa \$85m¹ to accelerate growth in prawn production, directed towards staged expansion at Proserpine, hatchery capacity and domestication program, processing facility and the deployment of Smart Farm technology at the 3 existing prawn farms
 - The Mission Beach, Yamba and Proserpine ponds and related infrastructure of c420ha is expected to support potential prawn production of 6,000t p.a. by FY22
- Tassal acquired Exmoor Station for ~\$25m² (“**Acquisition**”), a strategically located property which, subject to gaining the required approvals, licences and permits, provides the land required for the long-term growth of the prawn business
- Tassal's prawn operations (once authorised by the relevant authorities and fully developed), are expected to support a long-term prawn production target of circa 20,000t p.a.

Tassal expects to generate a return on assets (“ROA”) and return on invested capital (“ROIC”) from its prawn farming assets (once authorised by the relevant authorities and developed) above historic Group levels

Tassal is well equipped to build and successfully operate its prawn farming business, leveraging the experience, capabilities and learnings gained over 30 years of salmon farming

Notes:

1. Includes circa \$5m for Mission beach / Yamba and replacement / upgrade capex.
2. Comprising \$28m purchase price, net of \$2.7m from cattle sales. Acquisition was completed on 1 July 2019 with funding from a bank facility.

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Outlook

FY20 trading update: salmon

Leaving fish in the water to grow and optimising sales mix to increase returns.

- Our strategy for 1H20 was to optimise the growth and biomass of salmon by leaving them in the water to grow in the key growing time of July to October. We believe this allowed optimal growth and biomass
- As a result, export sales YTD have been significantly lower than for 1H19, reducing Tassal's exposure to export prices (particularly in 1Q20). Further, export pricing during 1Q20 has been lower than 1Q19 in any event
- Successfully transitioning export reduction into the domestic market – entered into a supply agreement for over 1,500 tonnes with a new retail client for supply in 2Q20 (retail returns are better than export returns)
- Freezing more salmon in 2Q20 for use in 2H20 (at better returns than export)
- Salmon input in 2019 and for harvest in FY21 are progressing well with no Pilchard Orthomyxovirus (POMV) impact on salmon survival levels to date. Significant focus on POMV from vaccination and fish husbandry practices
- Overall, an increase in standing salmon biomass allows sales to be maximised from 2Q20 onwards, and supports further incremental harvest growth in FY21

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FY20 trading update: prawns

On track to deliver 2,400 tonne harvest biomass for FY20. Prawn earnings predominantly from 2H

- Civil and pond works for Proserpine, Mission Beach and Yamba are **now complete**
- **Now effectively stocked for FY20 production**
- Smart farm installation progressing to plan, and capital spend and operating costs are in line with budget
- Processing infrastructure upgrades and builds are on track for the FY20 harvest season
- Major regulatory approvals now received for Stage 3 expansion at Proserpine (additional 80 hectares of ponds and a new hatchery); building preparation and works have now commenced
- Approval processes for Stage 4 expansion at Proserpine has now commenced, and a site Master Plan for Exmoor is being progressed with a view to commencing approvals processes
- Stocking program for ponds is on track to meet our target 2,400 tonnes harvest biomass for FY20
- Export pricing better than domestic market at present. Focus still to grow domestic market, with export market offering significant risk mitigation from a sales perspective
- Prawn earnings predominantly from 2H20

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FY20 outlook

Positive market dynamics and prawn ramp-up expected to drive continued earnings growth – earnings for FY20 more 2H skewed

Positive market dynamics for both salmon and prawns expected to continue

- Domestic salmon market growing at circa 10% p.a. over the last 10 years
- Agreements with retailers underpinning current strong domestic pricing levels, are expected to persist in the short to medium-term
- Strong pricing and favourable competitive positioning for prawns in the short to medium-term. Export opportunities favourable

A more gradual growth in salmon supply over the short-term should allow us to optimise pricing to provide increasing returns

- Transitioned supply to more sales into the domestic market (i.e. better sales mix) with a focus also on more profitable product lines in domestic market (i.e. optimise pricing) – therefore expected to increase salmon returns
- Focus on optimisation of existing leases as well as cost of growing reduction initiatives over short to medium-term

Ramp-up in prawn production volumes following redevelopment of existing pond infrastructure and appropriate stocking of Mission Beach, Yamba and Proserpine

- Targeting FY20 prawn production of circa 2,400t
- Seasonality of prawn harvesting and sales predominantly 2H skewed
- Export pricing better than domestic market at present. Focus still to grow domestic market, with export market offering significant risk mitigation from a sales perspective

Further investment in both salmon and prawn operations will continue to underpin long-term growth

- Total capital expenditure, including the acquisition of Exmoor Station, is expected to be \$156m in FY20

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Questions?

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