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Lodgement of Market Briefing**

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Market Briefing

Tassal MD & CEO on 1H20 results and growth outlook for FY20 and beyond

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 1H20 result and growth outlook for FY20 and beyond, including:

- *1H20 results reflect the successful execution of the operational strategy to underpin long-term growth*
- *Continued growth in salmon operating EBITDA \$/kg due to cost efficiencies and further optimising sales mix*
- *Accelerated prawn growth strategy on track to deliver a targeted circa 2,400 tonnes harvest and sales in FY20, circa 6,000 tonnes in FY22, and longer-term circa 20,000 tonnes annual potential*
- *Operating cashflow reflects 1H20 operational strategy*
- *Continued focus on environmental, social and governance [ESG] issues, with Tassal recognised globally in terms of its initiatives and reporting, including the Australian Council of Superannuation Investors [ACSI] recently awarding Tassal's reporting processes and frameworks their highest rating possible – "Leading"*
- *Positive outlook for FY20 given growth expected in 2H20, and FY21.*

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Tassal's 1H20 reported results were up strongly with reported NPAT up 24.3%, but operating NPAT did not reflect the same profile. What were the key drivers for this half result?

Mark Ryan

Over 1H20 Tassal successfully executed its operational strategy to keep salmon in the water to grow both biomass and size and underpin long-term growth in earnings and returns. The short-term half year results reflect the execution of this strategy and exceeded our internal expectations.

In 1H20 we executed a specific strategy to harvest and sell less salmon [when compared to 1H19] to deliver strong harvest biomass, sales and earnings growth from 2H20 for



FY20 and FY21. Overall, we grew salmon operating EBITDA \$/kg through further optimising sales mix and cost efficiencies.

Under Australian Accounting Standards, Tassal must account for the fair value of salmon and prawn biomass at an estimated harvest tonnage and at an estimated future net market value. Any difference in this value to the prior period value requires an increment [SGARA uplift or decrease] to be applied in the Profit & Loss statement.

The strong growth in Tassal's live salmon and prawn biomass in 1H20 was reflected in a SGARA uplift for 1H20 of \$16.8 million, of which salmon SGARA uplift was \$1.4 million and prawn SGARA uplift was \$15.4 million. The SGARA value is a forward indicator of earnings to come. We expect that the \$15.4 million uplift in prawns' SGARA should be converted into operating results in 2H20.

Tassal's operational results remove the impact of SGARA. With fish kept in the water longer so they can grow and support strong growth in harvesting and sales in 2H20 and FY21, and prawns being harvested in 2H20, it was expected that increasing operating results would be skewed to 2H20 for FY20.

Most pleasing was that even with the decrease in sales volume in 1H20 due to the lower harvesting and sales undertaken, we were still able to grow operating EBITDA \$/kg and achieve a net profit similar to that achieved in 1H19. We strategically targeted reducing sales revenue in the lower value export market and less profitable domestic product lines and generated cost efficiencies.

Being able to flex our operating model to ensure we grew our operating EBITDA \$/kg reflects the strength of the platform we have built at Tassal.

Market Briefing

How have you managed to deliver 1H20 operating NPAT earnings that were only down 3.4% even though harvest and production volumes were down significantly more?

Mark Ryan

Our operational decisions are focused on the longer-term performance of the business, increasing operating EBITDA \$/kg returns for both salmon and prawns by optimising biomass growth and size to deliver cost efficiencies, while also optimising sales mix to higher margin markets and products.

The operational strategy for 1H20 was to harvest less salmon to underpin strong harvest biomass, sales, earnings and returns in 2H20 for FY20 and FY21. We strategically left salmon in the water to grow over the key growing months of July to October 2019. Salmon live biomass was up 15.5% to 23,151 tonnes at 31 December 2019 [vs 31 December 2018]. The lower volumes of salmon harvested was the reason that 1H20 revenue was down.

Operating NPAT was only down 3.4% even though salmon volumes sold were down 14.4%, given the growth in salmon operating EBITDA \$/kg supported by cost efficiencies and the improved sales mix into higher value products in the domestic market and less

volume into the lower value export market given its continued use as a channel for surplus volume.

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You don't mention De Costi operations in the 1H20 results materials. How is this business performing?

Mark Ryan

The De Costi Seafood business was a successful strategic acquisition for Tassal and is now fully integrated into our operations. It adds to our East Coast footprint and provides added diversity to our seafood offering and rationalisation of our supply chain. As it is now fully integrated and the earnout to the previous owner has been finalised, we view it as part of our processing infrastructure and as such don't separately report its results.

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In August last year Tassal raised \$125.8 million to fund an acceleration of the company's prawn growth strategy. How is the strategy rollout progressing and are you still comfortable with the longer-term growth profile for prawns?

Mark Ryan

To date, we have delivered on everything we said we would do in terms of our accelerated prawn growth strategy.

The capital investment program is on time and on budget. We have fully stocked 270 hectares of prawn ponds across our three farms, and are successfully optimising the growth of our prawn stock to be harvested in 2H20. We are on track to harvest circa 2,400 tonnes in FY20.

Prawn earnings for 2H20 are effectively represented as SGARA value of \$15.4 million at 31 December 2019, as this stock is planned to be harvested and sold before 30 June 2020. In addition, we are targeting an EBITDA \$/kg of \$6.00kg in FY20.

Stage 3 expansion at Proserpine, covering an additional 80 hectares of ponds and a new hatchery, is progressing well and on track for completion and stocking for the FY21 harvest season. In combination with Smart Farm upgrades, we continue to be on track to harvest circa 6,000 tonnes in FY22.

Approval processes for further expansion at Proserpine has now commenced, and a site Master Plan for Exmoor is being progressed with a view to commencing approvals processes before 31 December 2020. The growth initiatives outlined above 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 20,000 tonnes per annum.

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Why was 1H20 operating cashflow lower than 1H19, and do you expect growth in operating cashflow to return?

Mark Ryan

Operating cashflow was \$41.0 million reflecting management decisions that were made in line with Tassal's 1H20 operational strategy to harvest and sell less salmon in 1H20 to underpin growth in earnings over FY20 and FY21. These decisions consider longer periods of time than simply six months – particularly given the salmon working capital cycle [i.e. growing time] is circa 3 years.

We left salmon in the water longer to grow, and therefore fed more, so that we could target cost efficiencies – i.e. the bigger the size of a fish, the better the cost of growing that fish. Further, we also targeted tactical reductions in sales of the lower value export market and less profitable domestic product lines. In addition, we fully stocked 270 hectares of prawn ponds to optimise the growth of our prawn stock that will be harvested in 2H20.

Tassal will continue to responsibly spend for both working capital and growth capital to underpin sustainable increases in long-term returns.

Market Briefing

A lot of companies are talking about environmental and social responsibility. What is Tassal actually doing about it?

Mark Ryan

Tassal is committed to providing Australians with responsibly produced and sourced seafood. We don't just talk about environmental and social responsibility, it is the essence of everything we do to ensure we can continue to serve better: better quality salmon, prawns & seafood; better environmental outcomes; better community opportunities; better long-term sustainable returns to shareholders; and an overall better future for our people and communities.

Tassal is acknowledged as a leader in sustainability and environmental responsibility in the aquaculture industry globally. We are 100 per cent committed to maintaining environmentally responsible and sustainable farming practices so that today's generations meet their needs without prejudicing future generations' ability to meet theirs.

As a growing company in an expanding industry, Tassal is building on its past successes and addressing present challenges, including:

- Reducing marine debris from operations
- Fostering environmental stewardship among Tassal's employees, suppliers and contractors
- Advocating for best practice Marine Spatial Planning and efficient regulations, which will help the salmon and prawn industries grow in a responsible manner with broad community acceptance

- Ensuring Tassal's salmon and prawn operations meet the highest sustainability standards; and encouraging industry peers to adopt the same high standards
- Tassal's ongoing commitment to third party certification complements our continuous improvement across our operations.

We are also very transparent in reporting what our environmental, social and governance initiatives are and how we are performing against them. All stakeholders should take the time to read our annual sustainability report that provides information on our strategies, initiatives and outcomes against global best practice in this very important operational area. We are also producing a Sustainability Highlights Report that provides a snapshot of our performance and achievements.

Market Briefing

ACSI recently awarded Tassal's ESG reporting processes and frameworks the highest rating possible – "Leading". What is the significance of this to Tassal?

Mark Ryan

Since 2011, we have reported against the Global Reporting Initiative's [GRI] framework for sustainability reporting, widely considered to be world's best practice. Reporting on our activities has provided us with a mechanism to track our sustainability performance year on year and highlights our commitment to sustainable practices in the public domain both as a company, and as individuals within Tassal.

ACSI exists to provide a strong, collective voice on ESG issues on behalf of 39 Australian and international asset owners and institutional investors that collectively manage over \$2.2 trillion in assets and own on average 10 per cent of every ASX200 company.

These Australian and international asset owners and institutional investors believe that ESG risks and opportunities have a material impact on investment outcomes. Through ACSI, these organisations collaborate to achieve genuine, measurable and permanent improvements in the ESG practices and performance of the companies they invest in.

Over the past 12 years ACSI has analysed each ASX200 company to rate them annually on their ESG reporting. Through this, Tassal's ESG reporting processes and frameworks were ranked as 'Leading', the highest possible rating that ACSI provides. This builds on Tassal's naming as the #2 salmon company in the world for corporate sustainability reporting via seafoodintel.com in 2017.

To put ACSI's rating in context, of the ASX200 companies reviewed by them, only one-third are identified as 'Leaders'. More significant, Tassal sits within the ASX101-200 companies, and 80% of these companies were rated the lowest level possible with 'no report'.

Our commitment to transparency, accountability, stewardship and integrity is highlighted through our sustainability reporting, certification to the Aquaculture Stewardship Council [ASC], real time provision of data through our ASC Dashboard, online publication of ASC Audit Reports, and, online publication of Environmental Impact Statements [EIS] when seeking lease approvals or amendments.

ESG reporting is an evolving field of practice and the requirements placed on companies by industry groups such as ASC and ACSI are more robust than current regulatory

requirements. Tassal is proud of its ESG achievements and will continue to lead both in Australia and offshore.

Market Briefing

What's the outlook for FY20 and how are you placed heading into FY21?

Mark Ryan

The growth outlook is strong for Tassal. Positive market dynamics, growth in salmon biomass and size, and the prawn ramp-up, is expected to drive increased FY20 earnings and beyond.

The positive market dynamics we have experienced for salmon is expected to continue. The retail salmon agreements underpinning current strong domestic pricing levels are expected to remain. Significant focus has been made on optimising operating EBITDA \$/kg for salmon. Bigger salmon generate better margins. For Prawns, there appears to be favourable pricing and competitive positioning both in domestic and export markets over the short to medium-term.

Our salmon biomass growth is exceeding internal expectations in a buoyant market that should support optimised sales mix and pricing outcomes to provide increasing EBITDA \$/kg returns. We continue to transition supply towards the domestic market with a focus also on more profitable product lines. The export market will continue to be strategically used to support growing and production efficiencies with surplus stock exported. At the same time we continue to optimise existing leases as well as cost of growing reduction initiatives over short to medium-term.

Prawn biomass growth is on track to deliver a targeted harvest of circa 2,400 tonnes. While export pricing is favourable at present, we remain focused on growing the domestic market, with export market offering significant risk mitigation from a sales perspective.

We currently see no change to these trends continuing into FY21, which will benefit from the large biomass growth in salmon underpinning continued growth in harvest and sales volumes, and further optimised sales mix supporting increasing EBITDA \$/kg returns. At the same time, we expect to deliver further growth in the amount of our prawn harvest, which will underpin continued growth in prawn earnings.

Market Briefing

How confident are you in achieving earnings growth in FY20 given operating NPAT was slightly down in 1H19?

Mark Ryan

We have a very focused growth strategy that underpins our confidence in growing earnings and returns over the short and longer term.



Salmon growth was strategically optimised in 1H20 by leaving fish in the water to grow in the key growing period of July to October 2019. This saw average harvest size increase to 4.8kg hog in 1H20, while live biomass including size also grew significantly given our focus on sustainable farming and fish health practices. Operating EBITDA \$/kg significantly grew. The increased salmon biomass at 31 December 2019 supports sales growth from 2H20 onwards, and particularly material harvest and sales growth in FY21. Additional salmon harvest biomass will be available for 2H20 [vs 2H19] and FY21.

In addition, prawn harvest and sales tonnage will effectively commence in 2H20 and is on track to deliver a planned circa 2,400 tonnes in FY20, with prawn earnings beginning to flow in 2H20. Prawn earnings for 2H20 are effectively represented by the SGARA value of \$15.4 million at 31 December 2019 as this stock is planned to be harvested and sold before 30 June 2020.

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Thank you, Mark.

This Market Briefing has been authorised for release by the Board.

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

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