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Lodgement of Market Briefing**

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Market Briefing

Tassal MD & CEO on FY20 results and FY21 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 FY20 result and FY21 growth outlook, including:

- *FY20 results reflecting the successful execution of the Company's long-term growth strategy – balancing strategic, operational, financial, environmental and societal value metrics*
- *Successfully navigating COVID-19 to date; salmon sales volume growth of 13.4% in Q4 FY20 [vs Q4 FY19], with retail sales particularly strong, underpinned by positive momentum in consumer trends*
- *Investments into biomass, technology and sustainability generating efficiencies that lowered salmon farming and production costs, together with a more optimal sales mix, delivering increased earnings and shareholder value*
- *FY20 prawn harvest of 2,460 tonnes, with a substantial uplift in planned FY21 harvest volume to circa 4,000 tonnes with infrastructure in place*
- *Operating cashflow reflecting the planned increase in working capital for costs to grow incremental salmon and prawn inventory stock for earnings in FY21*
- *Tassal's industry world-best ESG initiatives underpin sustainable growth*
- *With COVID-19 presenting a volatile and challenging environment, Tassal is as best prepared as it can be, and is positioned to continue its growth trajectory and further grow earnings and returns in FY21.*

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Tassal's FY20 operating EBITDA was up 23% to \$138.6 million, with pre ASSB 16 Leases operating EBITDA up 13% to \$127.3 million. What were the key drivers for this growth, and can it be sustained?

Mark Ryan

Tassal's FY20 growth strategy was to sustainably increase operating efficiencies within salmon production to reduce costs, while diversifying operations by transferring the Company's knowledge and skills to prawns.

Our FY20 results, including 23% growth in operating EBITDA to \$138.6 million (pre AASB 16 Leases up 13% to \$127.3 million), demonstrated that this strategy was well implemented. In addition to generating a strong increase in operating earnings, we were also able to deliver improved operational, environmental and societal value parameters, while navigating through COVID-19.

Looking at salmon, performance was optimised over FY20 by leaving fish in the water to grow in the key growing time of July to October, generating a better balance of harvested biomass between H1 and H2, increasing average harvest size, and delivering a substantial increase in live biomass at the end of FY20 that should underpin forward earnings. At the same time, EBITDA \$/kg increased as operating and supply chain efficiencies flowed through, sales mix was further optimised, and domestic per capita consumption continued to grow.

Turning to prawns, the FY20 harvest of 2,460 tonnes was in-line with our expectations, and delivered a substantial increase in earnings from \$2.8 million to \$12.3 million [pre AASB 16 Leases]. Even with the significant increase in biomass over FY20, we were still able to maintain EBITDA \$/kg.

Our fish health practices have ensured that salmon growth on inputs in 2019 and for harvest in FY21 are progressing well with strong survival rates and no impact from Pilchard Orthomyxovirus, which should allow for a further increase in harvest volumes. In addition, we expect that prawn harvest volumes in FY21 of circa 4,000 tonnes will underpin a material lift in prawn earnings.

Despite the impact of COVID-19 to Australian and global economies and markets in Q4 FY20, our risk management and business continuity planning processes supported salmon sales volume growth of 13.4% in Q4 [vs Q4 FY19], with retail sales particularly strong. While COVID-19 has impacted the operating environment and created much uncertainty, some positive consumer trends have emerged that should gain momentum in FY21 and further grow earnings and returns.

For all these reasons, we believe the growth achieved in FY20 is sustainable, and Tassal is expected to continue its growth trajectory in FY21.

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Salmon sales tonnage was only slightly up [1%] in FY20, yet Operating EBITDA grew by 15%. How did you manage to grow earnings faster than sales?

Mark Ryan

Salmon operating EBITDA for FY20 was \$123.4 million, with pre AASB 16 Leases operating EBITDA at \$112.9 million up 6.0% [FY19: \$106.8 million]. The implementation of AASB 16 Leases standard increased salmon operating EBITDA by \$10.5 million.

In FY20, we further optimised our sales mix. We sold 34,310 hog tonnes, with 28,259 hog tonnes into the Australian domestic market, up 5% on FY19 [26,860 hog tonnes]. At the same time, utilising the export market for excess fish, we sold 6,051 hog tonnes of export market sales slightly below the level in FY19 [6,696 hog tonnes].

Larger salmon and more efficient operating systems underpinned farming and processing efficiencies that reduced production costs.

Investments into biomass, technology, and sustainability, all delivered efficiency benefits, while further optimising sales mix increased revenue and underpinned growth in EBITDA \$/kg, which drove the profit increase. The investment and technological progress made over FY20 has built a strong financial and operational platform to navigate through the uncertain COVID-19 environment ahead, and further grow salmon earnings and returns.

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Why did operating cashflow not grow in 2H20?

Mark Ryan

Operating cashflow generated in FY20 was in line with our expectations. While operating cashflow was down 44% to \$49.9 million [FY19: \$89.9 million], it reflected the planned increase in working capital costs to grow incremental salmon and prawn inventory to underpin earnings growth in FY21. Salmon working capital increased \$37.3 million, while prawn working capital increased \$30.9 million.

We will continue to responsibly utilise the strong cashflows, debt facility and the capital raising proceeds from last year, to underpin sustainable growth in long-term returns.

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In August last year you raised \$125.8 million to support the accelerated growth strategy for prawns. How are those investments progressing and what are some key things that you have learnt over the year about prawns?

Mark Ryan

Our prawn biomass harvest in FY20 of 2,460 tonnes was in-line with our expectations, and delivered a substantial increase in earnings from \$2.8 million to \$12.3 million [pre AASB 16 Leases]. We are expecting a harvest of circa 4,000 tonnes in FY21, with the continued expectation of harvesting circa 20,000 tonnes per annum once Exmoor Station has been approved and fully developed.

We have completed Stages 1 and 2 of our investment program on time and on budget. The SmartFarm and processing infrastructure upgrades and builds at our existing Proserpine and Yamba prawn farms were completed prior to the FY20 harvest season.

The Stage 3 expansion of Proserpine, adding an additional 80 hectares of ponds and a new hatchery, has also been completed on time and on budget. As a result of this investment stage, we are on track for stocking for the FY21 harvest season.

At the same time, we have developed improved technology to feed live prawns and improve growing costs, and have implemented a number of efficiencies in supply chain costs. As the benefits from the infrastructure and technology upgrades flow through from FY21, we expect operating efficiencies and production costs to further improve. Combined with the planned material increase in harvest size, this should underpin a substantial further lift in earnings in FY21.

Our focus now turns to Stage 4, the final stage, of our accelerated prawn growth strategy, for Proserpine, which should underpin FY22 and FY23 prawn biomass and harvest growth.

From our experiences in FY20, we do believe that from a prawn husbandry, health and growing perspective that approximately 80% of aquaculture is the same, and that our learnings from 30+ years of experience in the salmon industry creates a sustainable platform for our prawn growth.

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How has consumer behaviour changed during the current COVID-19 pandemic, and what are the implications for Tassal's growth strategy?

Mark Ryan

Tassal is classed as an "Essential Service" and our operations have, due to business continuity planning and risk mitigation measures, effectively continued as "normal" as possible through the COVID-19 pandemic.

Despite the chaos that COVID-19 has caused in the very fundamentals of the economy and marketplaces in Q4 FY20, Australia has outperformed many other countries. Tassal's domestic salmon sales volume grew 13.4% in Q4 [vs Q4 FY19], with retail sales particularly strong.

While COVID-19 has impacted the operating environment and created much uncertainty, some positive consumer trends have emerged that should gain momentum in FY21 and support further growth in Tassal's salmon and prawn sales volumes. These include:

- Increasing demand for trusted, sustainable Australian brands
- Increasing in-home eating and cooking
- Greater demand for easy to prepare meal solutions
- Increasing health awareness
- Increasing digital consumption and e-commerce.

These trends play to Tassal's natural strengths, and our marketing plan for FY21 will build further consumer awareness of Australian grown Tassal salmon and Tropic Co prawns to further grow domestic per capita consumption. Our Tassal branded "Switch it for Salmon" campaign has commenced with the aim of:

- Increasing consumer consumption
- Increasing brand awareness
- Increasing consumer trust
- Increasing purchase intent.

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You have positioned Tassal as a seafood technology company. How is Tassal using technology to support its business and what innovations have you put in place over FY20?

Mark Ryan

The Tasmanian salmon industry is starting to test its 'natural capacity' and growth limits in current farming lease areas using today's technologies and methodologies. Adaptive management and innovation have always been at the core of our business and growth, and provide a strong competitive advantage for Tassal.

To mitigate growing risk, we are using technology to optimise our operations. Heading into COVID-19, Tassal was considered a global seafood leader in digital technology, and we believe this competitive advantage will be further enhanced in FY21.

We have continued to increase digitalisation of both salmon and prawn farming operations. We are using data improvements to increase our biomass understanding and enhance feed automation. We are leveraging cloud platforms to digitise operational processes across salmon and prawn farming and other critical business processes, and increasing the rollout of Internet of Things [IoT] to remotely track and optimise our operations.

Lastly, more value is being extracted from the data we collect. We are integrating real-time data analytics and insights into our SmartFarm platform to drive better farming behaviours and outcomes. In order to protect this data, we have implemented cyber risk management protocols to protect crucial technology assets.

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Tassal set stringent goals for 2020 on lessening its environmental impact and further contributing to its local communities. How has your approach to sustainability evolved over the past 12 months?

Mark Ryan

For Tassal, sustainability is more than the environment the Company operates in, it's the people we back and the communities we support. We actively listen to our communities and proactively respond to concerns or complaints relating to our operations, with only 13 such complaints over FY20. Our Towards Zero approach to marine debris has halved the level of marine debris attributed to our operations over the past four years. In terms of our people, the Driving Safety Culture Scorecard continued to improve, and total recordable injury frequency rate reduced to 8.03 medical treatments per million hours worked, and gender balance continued to improve.

Tassal is not only a farmer, we are a steward of the oceans and coasts on a journey of innovation and continuous improvement. Seal interactions are down substantially and almost zero now, and benthic compliance remains high. Our environmental compliance across our hatchery, farming and processing operations stands at virtually 100%, and we have reduced freshwater use by 27% in our marine environment for salmon farming.

As an Essential Service, Tassal provides responsibly farmed Australian seafood to millions of Australians through whatever challenges the world faces. Our procurement practices require suppliers to participate in our Quality Approved Supplier Program to ensure food safety and quality is the highest it can be.

Tassal is a proud Australian company that continues to support Australian businesses, having sourced 90% of our seafood supply from Australia during the year, and produced 180 million meals over FY20.

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Tassal has a strong history of optimising sales mix, with the domestic market as the core focus and the export market utilised for excess salmon. How do you see export markets in FY21, and could they affect EBITDA profitability going forward?

Mark Ryan

Over the past four years, we have tactically targeted the export market only for excess salmon. We have done this to enable us to grow harvest tonnage and average harvest size, generate farming and processing efficiencies to lower our costs of production, and maximise our ability to optimise sales mix in the domestic market. However, for prawns, while we want to grow the domestic market, we are not reliant on it. We have established strong opportunities in the export market and will continue to link with strong international retailers.

As a result of this strategy, we do not rely on the export market to drive returns, with export sales representing a small part of our overall sales.

COVID-19 caused many foodservice markets in many countries, including Australia, to be severely impacted. From an export perspective, in 2H20 airfreight capacity for export markets became limited and freight rates significantly increased, many up to 4x and one up to 11x. While the Federal Government's International Freight Assistance Mechanism assisted, freight cost over Q4 FY20 was \$2.9 million higher, and this is where there could be potential exposure should COVID related freight costs remain high and/or further airfreight capacity reduce.

Our focus in FY21 remains on growing domestic per capita consumption. In terms of the export market, we are seeing sustainable profitable opportunities in both salmon and prawns for retail, particularly in Asia. We will continue to pursue these export retail opportunities in FY21, as sustainable export retail exposure will be beneficial to Tassal moving forward.

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What are your expectations for FY21? What impacts do you see if border closures continue and/or further measures for mitigating COVID-19 are introduced by either State or Federal Governments?

Mark Ryan

While Tassal is not immune to global and local forces, we still expect to generate further growth in FY21, in terms of both harvest and sales volumes and subsequently, operating and capital returns, underpinned by production efficiencies improving cost \$/kg for both salmon and prawns.

As I mentioned earlier, Tassal is a global seafood leader in digital technology, and we believe our competitive advantage will be further enhanced and mitigate against risks from market disruptions caused by COVID-19. The positive consumer trends that have emerged should gain momentum and support further growth in domestic per capita consumption.

In relation to salmon, our operational focus for FY21 is on optimising Tassal branded sales and reducing cost \$/kg via the improvements we have been implementing in our farming operations. Our new marketing campaign focuses on the Tassal brand and branded retail product lines, and is expected to further improve domestic market sales mix. Our Well Boat, Feed Centre and further improvements in fish husbandry should allow us to grow fish more efficiently and effectively, improving their survival, increasing biomass and reducing growing costs. These initiatives are planned to translate into increasing salmon returns in FY21.

In relation to prawns, FY21 should deliver a substantial lift in planned prawn harvest volumes to circa 4,000 tonnes and increase prawn earnings. Like salmon, the marketing campaign for Tropic Co Tiger Prawns will focus on the brand's Australian provenance, high quality and value. Growing both the domestic and export markets, leveraging current relationships is planned to further underpin substantial growth for prawns in FY21.

However, COVID-19 presents a volatile and challenging environment in a world of unknowns, a recessionary environment, and potentially new consumption rules. Tassal is as best prepared as it can be. While the Company is not immune to global and local forces outside of its control, our key strengths that should assist us mitigate this environment – our diversification strategies across customers and consumers, growing and processing areas, and species and products – combined with our focus on sustainability and more efficient operations, position the Company to continue its growth trajectory.

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Thank you, Mark.

This Market Briefing has been authorised for release by the Board of Tassal Group Limited.

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

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