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Via e-lodgement

Tassal completes De Costi Seafoods Acquisition

Tassal Group Limited (ASX: TGR) is pleased to announce that the acquisition of De Costi Seafoods was completed today. As previously announced on 1 July 2015, the acquisition was undertaken by Tassal Operations Pty Ltd (wholly owned subsidiary).

Commenting on completion of the acquisition, Tassal's Managing Director & CEO Mark Ryan said: "Tassal is now well placed to replicate its success in the salmon market, and grow Australia's \$4.3 billion annual seafood market and Tassal's and De Costi Seafoods' shares of this market, by supporting significant market growth in seafood for retailers, foodservice and wholesalers across Australia. The acquisition of De Costi Seafoods builds on Tassal's domestic salmon capabilities, and uniquely positions Tassal for its next phase of growth."

The attached presentation outlines the strategic rationale underpinning the acquisition of De Costi Seafoods, together with further detail on the consideration and value.

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Yours sincerely

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Tassal Group Limited

**From “Salmon” to “Salmon & Seafood”
Acquisition of De Costi Seafoods**



Mark A Ryan, Managing Director & CEO

31 July 2015

Strategic evolution to Seafood



Strategic Evolution:

"To deliver sustainable long term returns to shareholders as the leader in Salmon **and Seafood** in Australia, selling highly recognised, ethical, valued brands and products to Australian consumers and retailers – while operating in a zero harm environment"



Why Seafood?



A world class vertically integrated Salmon company...

Expand
addressable
market

- Total addressable market \$4.3bn
- Salmon \$0.7bn, Seafood \$3.6bn

Improve
Customer Value
Proposition

- Wider sustainable product range
- Improved product development and innovation
- National and multi-State offerings for salmon and seafood
- Improved category management in seafood

Leverage
domestic market
focus

- Build on Tassal domestic market focus and retail relationships
- Unlock access to significant foodservice opportunities

Leverage scale
and vertical
integration

- Benefits of scale in processing and distribution
- Benefits of vertical integration for stock management
- Benefits of scale for procurement and supplier relationships

Improve returns

- Benefits of shorter capital and working capital cycles
- Benefits of earnings from the "seafood basket"

...moving to "Salmon & Seafood" growth strategy

Acquisition rationale



- Industry leader in Salmon – Farming / Processing / Sustainability / Category Management / Marketing / Innovation & Investment. These competitive advantages are transferable to and will be leveraged for the greater Seafood industry
- Tassal retail focus - has driven category growth of some 60% in last 6 years for Tasmanian Salmon. During the same period, the Seafood market has remained relatively flat and will continue to be flat while the supply chain is so diversified
- Fundamental that growing overall Seafood consumption = continued growth of Salmon consumption



- One of the largest retail seafood processors in Australia
- Access to the best Seafood range through De Costi's extensive network in Seafood procurement
- Strong capability to process a wide variety of Seafood ... into many different formats
- Market leading Seafood expertise through George Costi (to remain in charge of operations of De Costi for at least 3 years) and Anthony Mercer
- Central location to support significant market growth for the entire East Coast

Acquisition rationale



De Costi Seafoods accelerates Tassal's Seafood strategy and delivers synergies...

Combining Market Leaders

- De Costi is already one of the largest seafood processors in Australia, enabling Tassal with an accelerated strategy evolution to Seafood
- Leverage Tassal and De Costi relationships in all channels

Vertical Integration

- Tassal is vertically integrated – De Costi enhances this
- De Costi is a supplier to Tassal major customers, and has been a significant Tassal customer for many years
- Strategic alignment in retail capability, and similar overall channel mix

Leverage capabilities

- De Costi seafood procurement relationships & capabilities for Seafood – which is “IP” with significant value
- De Costi location and processing diversification
- Tassal category management, new product development, marketing & distribution capabilities

Low cost through scale

- Volume to deliver processing efficiencies in TAS & NSW
- Seafood hub in NSW with Tassal Salmon scale & national distribution capabilities

... which is more valuable than a “greenfield” initiative

De Costi Seafoods Processing Facilities



De Costi Seafoods overview



One of Australia's leading wholesale seafood businesses

- Key points
 - Operating for 30 years with circa 130 employees
 - Located in Lidcombe New South Wales with 2 processing facilities
 - Turnover for FY15 was around \$128m with an EBITDA of \$10.2m. Maintainable EBITDA set at \$10m. Effective NPAT \$5.3m
- Acquisition does not include ownership of De Costi retail outlets (i.e. wet fish shops) – but would likely include supply to them
- “De Costi” business at the Sydney Fish Market is not being acquired – it is not part of De Costi Seafoods or under George Costi ownership

Acquisition terms



Upfront and Earn Out based on an effective 5 x EBITDA multiple...

Consideration

- Upfront cash of \$50m - 5x \$10m maintainable EBITDA
- Plus a growth based Earn Out of maximum 9.2m earn out shares – with intention to payout 1/3 each year subject to hitting hurdles
- Dividends on the Earn Out to be issued as new shares – dividends set at a rate of \$0.14 cps for this purpose
- Earn Out has minimum annual hurdles (50% of the annual growth target), and an overall minimum 3 year target

Key Terms

- Total Earn Out is up to an additional \$30m over 3 years and is consistent with paying 5x EBITDA of the underlying business
- De Costi business assets (including De Costi Seafoods business names) acquired free from all debt and other encumbrances
- George Costi to remain as Head of De Costi Seafoods for at least 3 years
- Tassal to lease processing premises at Lidcombe

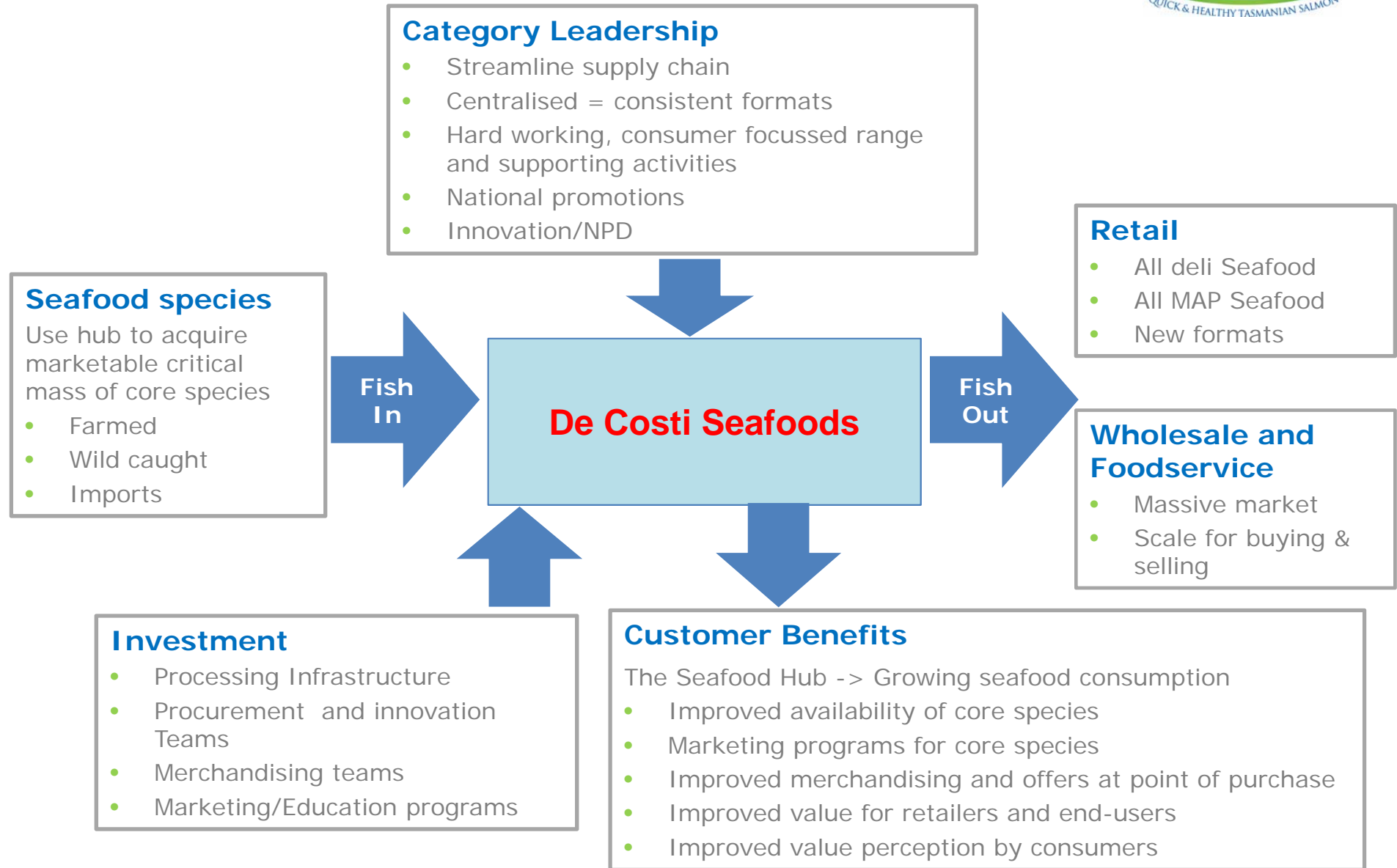
...acquisition is immediately EPS accretive

Accounting treatment

Key points...

- The up-front payment of \$50m is allocated a fair value of \$50m
- The Earn Out is to be treated as a Contingent Consideration, under AASB 3, B55 (a)
- The Contingent Consideration will be reported as "equity" at fair value
- When shares are subsequently issued, there is no impact on the Profit and Loss statement, and shares issued are recorded in equity (AASB 3 para 58 (a))
- First reporting period will be 31 December 2015
- There are minimal intangible assets to be recognised under AASB 3, B31
- Plant and equipment (c\$5.0m), Inventory (c\$7.5m), debtors (c\$7.9m), creditors (c\$16.3m), and cash (c\$1.8m) will be valued at fair value

Tassal's Salmon and Seafood Hub



A compelling strategic acquisition



De Costi Seafoods provides Tassal with an attractive vehicle to deliver the company's Salmon & Seafood growth strategy

- Substantially increases Total Addressable Market to \$4.3bn annually
- Further builds on Tassal's successful domestic market focus
- Increases extent of Tassal's vertical integration in Salmon
- Further drives scale and benefits that flow from scale
- Appropriate EBITDA multiple of 5x
- Substantial synergies – cost/efficiencies and revenue
- Immediately EPS accretive pre-synergies

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