

# Tassal Group Limited

## 1H16 Results



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# 1H16 Overview



**Another sustainable first half result, while  
integrating De Costi Seafoods**

# Another sustainable first half result



## Successfully transitioning from "Salmon" to "Salmon and Seafood"...

Revenue up 50%

- Revenue up 50.3% to \$226.8m
- Continued growth in Salmon combined with full six months of De Costi

Operational  
EBITDA  
up 11.2%

- Statutory EBITDA down 7.8% to \$49.9m ... lower uplift for SGARA
- Operational EBITDA up 11.2% to \$41.3m
  - additional earnings from De Costi Seafoods, which is performing to both earnings and operational expectations and shareholder value accretive
  - operational efficiencies and sustainable contribution margins generated from an increase in volume of domestic market Salmon sales. Offsetting these gains were lower Salmon pricing (particularly fresh Salmon hog pricing) and higher fish costs for the 14YC fish being harvested. Overall, the Salmon business
  - Integration costs for the De Costi Seafoods business \$0.7m

Operational  
NPAT up 4.7%

- Statutory NPAT down 16.5% to \$25.3m ... lower SGARA adjustment
- Operating NPAT up 4.7% to \$19.3m

Operating  
cashflow up  
34.9%

- Operating cashflow up 34.9% to \$25.5m
- With Seafood business with a lower working capital cycle – improvement in cashflow cycle

Interim dividend  
up 7.1%

- Interim dividend up 7.1% to 7.50cps, 75% franked
- Reflecting strong cashflows, strong balance sheet and attractive growth outlook



# Integrating De Costi Seafoods

## Tassal is now the leader in Australia's \$4.3bn Salmon and Seafood market

- Over 1H16, Tassal has successfully integrated and realised a number of operational and supply chain opportunities identified prior to the acquisition of De Costi Seafoods
- Tassal's best practice supply value chain learnings have been integrated across De Costi Seafoods' operation
- As a result of the integration process, additional opportunities emerged that provided additional synergies and further increased the strategic rationale for the acquisition
- De Costi Seafoods has been restructured and realigned from a people, process, plant and equipment and profit perspective
- The key outcomes have been to increase capacity and capability, while automating and driving operational efficiency measures
- Integration cost included in 1H16 were \$0.7m
- Benefits from these initiatives set to flow from 2H16
- The De Costi Seafoods acquisition is shareholder value accretive



# Zero harm



No job is so important that it cannot be done safely

KPIs	1H15	1H16	FY16 Target	Zero Harm
LTIFR	0.64	0.00	0	0
Incident rate	0.12	0.00	0	0
ATLR	1	0	0	0
MTIFR	35.2	25.58	20	30
Scorecard measure	94.4%	96.58%	95%	92%

- Satisfactory results for Tassal (i.e. De Costi Seafoods' operations are not included in the above table) achieved on all previously established lead & lag indicators from a safety perspective. All indicators are trending in the right direction
- The cultural program progress is supported via external survey, which confirms the company's journey to "interdependence" is on track - but not complete. Interdependence is about engendering a "I take care" and "I care for" approach
- AS 18001 & 4801 accreditation was maintained
- 15 of Tassal's 15 legacy operational sites (100%) achieved Zero Harm targets.
- De Costi Seafoods is not yet achieving Zero Harm targets... incorporating De Costi Seafoods' business (Lidcombe site) into Tassal's operations is a significant focus for FY2016, with goal of Lidcombe site at Zero Harm level by FY2017

# Financial performance



Continued growth reflects strength of  
Tassal's business model

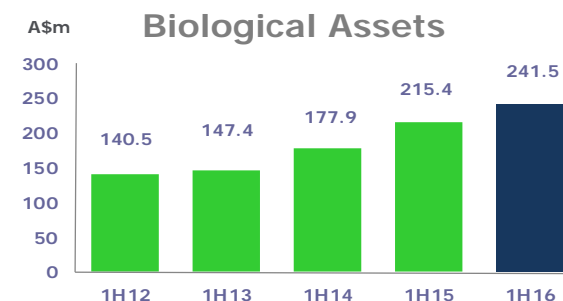
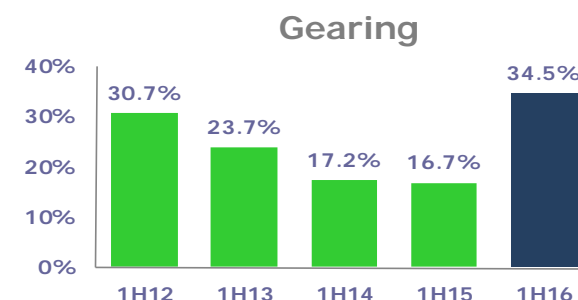
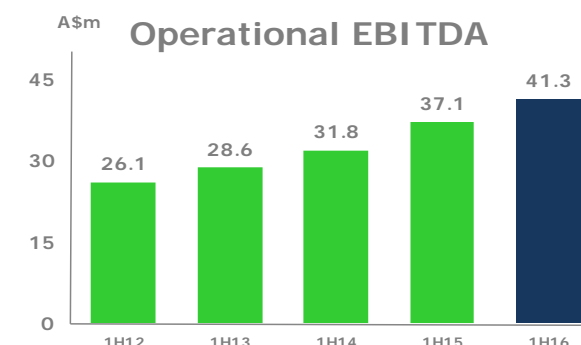
# Strong operating result



(A\$m)	1H16	1H15	Change
<b>Statutory results</b>			
Revenue (from all sources)	226.82	150.95	↑ 50.3%
EBITDA	49.86	54.11	↓ (7.8%)
EBIT	39.41	45.10	↓ (12.6%)
NPAT	25.29	30.30	↓ (16.5%)
<b>Operating results</b>			
Operating EBITDA	41.26	37.11	↑ 11.2%
Operating EBIT	30.81	28.10	↑ 9.6%
Operating NPAT	19.27	18.40	↑ 4.7%
Operating cashflow	25.53	18.93	↑ 34.9%
Interim dividend - cps	7.50	7.00	↑ 7.1%
Gearing Ratio	34.50%	16.74%	↓
Funding Ratio	50.57%	32.85%	↓

Gearing Ratio (net debt/equity)

Funding Ratio (net debt + RPF/equity)

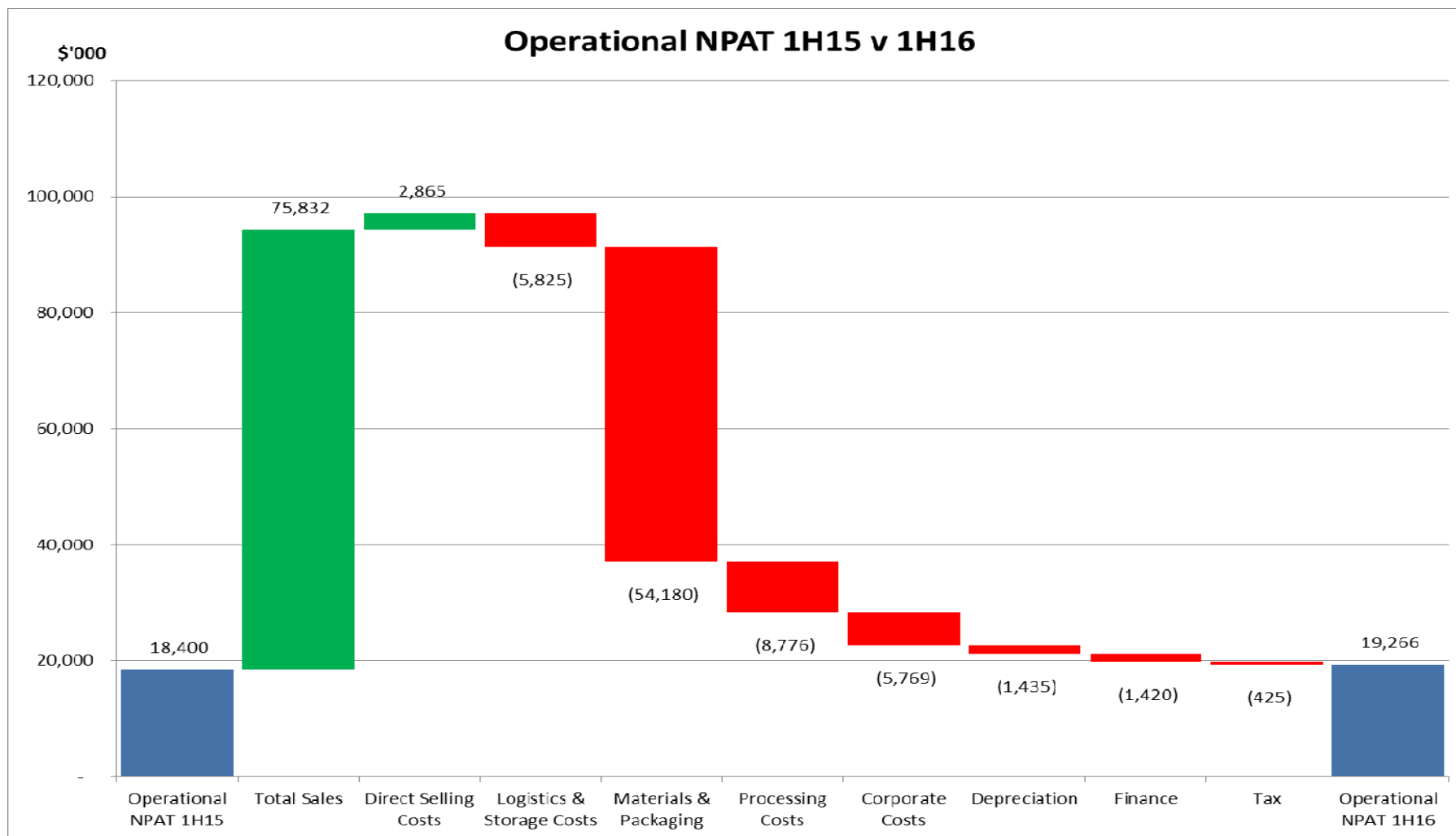


# 1H16 operating NPAT

## Key drivers – \$ variance



Sustainably generating more \$





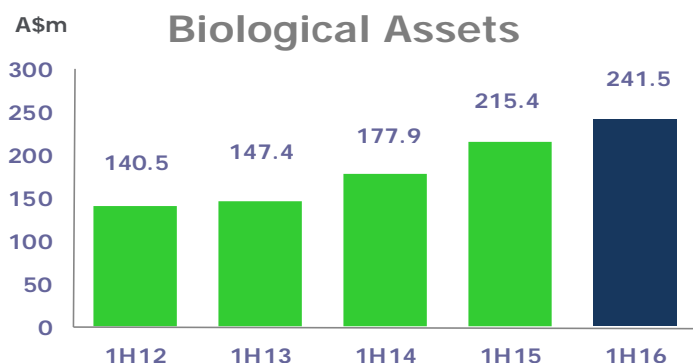
# Operational performance reflects strength of Tassal's business model



## Sustainable revenue and earnings growth

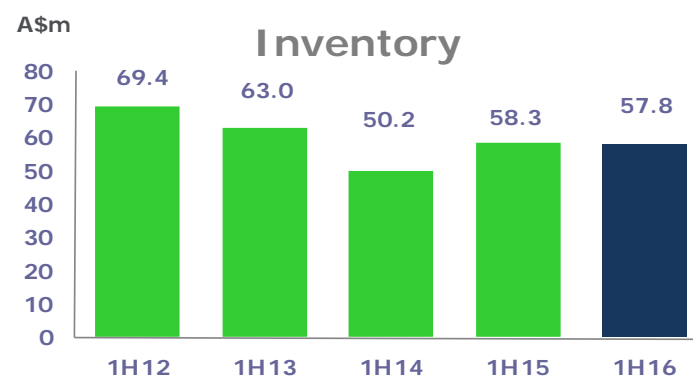
- Revenue (from all sources) was up 50.3% to \$226.8m due to Seafood sales and further increasing per capita consumption in Salmon
- Operational EBITDA was up 11.2% to \$41.2m due to additional earnings from Seafood, and operational efficiencies and sustainable contribution margins generated from domestic market Salmon sales
- Albeit Operational EBITDA was up, noteworthy was that:
  - Salmon - during 1H16 Tassal had lower Fresh Salmon hog pricing from the wholesale market and an overall higher cost of fish (due to the higher cost of feed in the 14 Year Class)
  - Seafood - compliance, restructure, realignment and integration costs of \$0.7m were incurred to deliver De Costi Seafoods' business platform into Tassal's operational structure

# Strong balance sheet



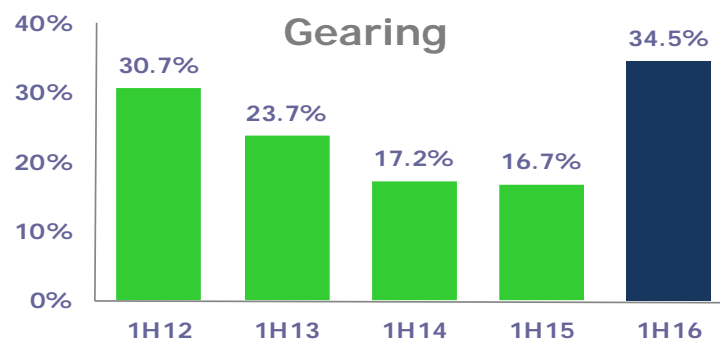
## Increased biological assets

- Value of live fish up 12.1% to \$241.5m
- Biological assets support future revenue and earnings growth



## Inventory

- Inventory down slightly to \$57.8m
- Level of inventory at sustainable levels and appropriate for the sales profile moving forward



## Comfortable gearing and funding ratios

- Gearing at 34.5% (1H15: 16.7%) as a result of De Costi Seafoods acquisition
- Appropriate bank funding arrangements in place – from a structure, headroom and tenor perspective
- Funding ratio, i.e. including RPF (net debt + RPF / equity) at 50.6% (1H15: 32.9%)

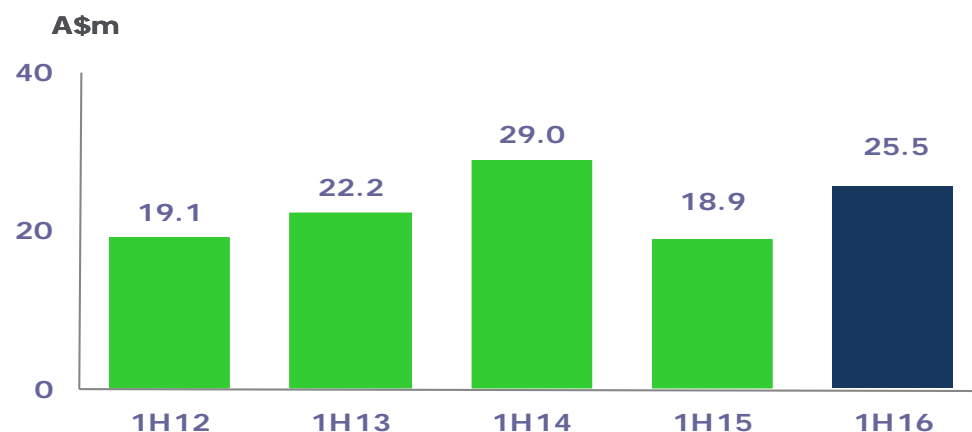
# Strong cash flows



(A\$m)	1H16	1H15	Change
Operating cashflow	25.53	18.93	↑ 34.9%
Investing cashflow	(83.67)	(18.36)	↓ (355.8%)
Financing cashflow	61.18	6.62	↓ (824.4%)
<b>Net increase in cash held</b>	<b>3.04</b>	<b>7.19</b>	↓

- **Operating cash flow** up 34.9% to \$25.5m
  - sustainable contribution margins
  - increased investment in both live fish and inventory to support future sales growth initiatives
  - increased investment in fish supply

Operational cash flow

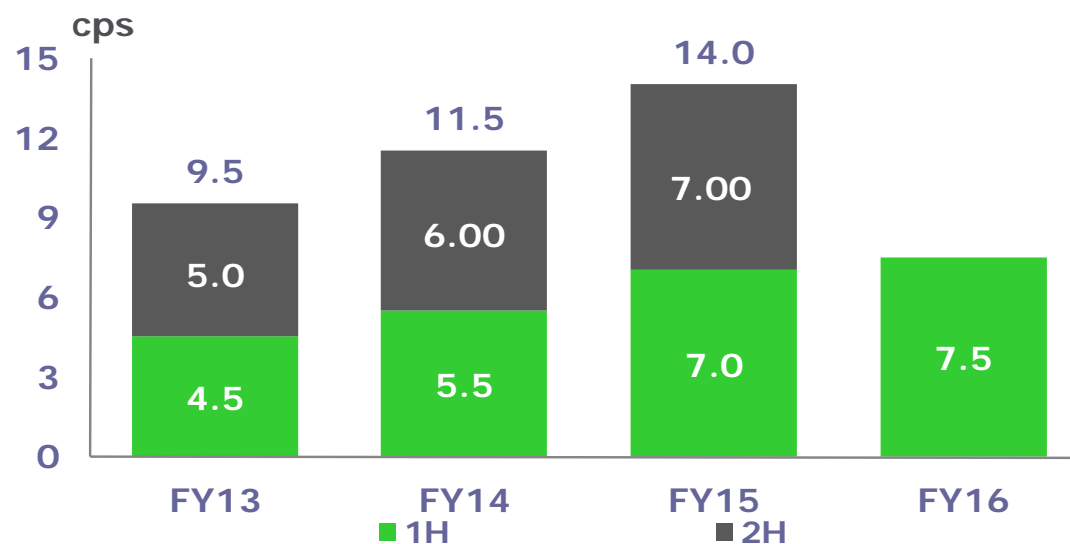


- **Investing cash flow** of \$83.7m with \$48.9m spent on De Costi acquisition and capex of \$34.7m

# Continued growth in dividend

## Interim dividend up 7.1% with increased franking

- Interim dividend up 7.1% to 7.5cps, 75% franked (1H15: 7.00 cps, 50% franked)
- Reflecting the Company's strong cashflows, strong balance sheet and attractive growth outlook



# Operational performance



**Well positioned to drive continued  
sustainable growth in earnings**



# Strong operational performance



## Streamlining processes across Salmon supply value chain...

- **Salmon**

- Management's relentless focus on growing domestic per capita consumption has clearly been shown to be the right strategy. It is important that Tassal continues to drive domestic per capita consumption to maximise the opportunities in the domestic market
- In parallel with Tassal's focus on growing domestic per capita consumption, Tassal continues to focus on and achieve strong fish performance. This has delivered strong gains in biomass growth, feed conversion and survival, which in turn will drive operating cost efficiencies
- Tassal is focussed on pursuing global operational best practice from a fish performance perspective. Selective Breeding Program will continue to deliver a reduction in growing time and bathing for AGD
- Efficiency projects implemented across all processing sites – focusing on yield and throughput initiatives

- **Seafood**

- De Costi Seafoods was run on a lower margin as a percentage of sales revenue basis – due to the inefficiencies in the Seafood supply chain and its own operations
- Integration process implemented during 1H16 has addressed this, and the benefits to performance will be seen from 2H16 onwards

## ... using this intelligence to optimise Seafood supply value chain and grow Seafood sales

# Continued growth in revenue



**Total Sales Revenue up 51.4% - Domestic Revenue up 53.5%**

Sales Revenue (A\$m)	1H16	1H15	Change
Domestic	219.70	143.13	↑ 53.5%
Export	4.39	4.88	↓ (9.9%)
<b>Total Sales Revenue</b>	<b>224.09</b>	<b>148.01</b>	<b>↑ 51.4%</b>

## Domestic salmon market

- Domestic strategy is the right strategy – domestic per capita consumption continuing to grow
- Domestic market driving growth

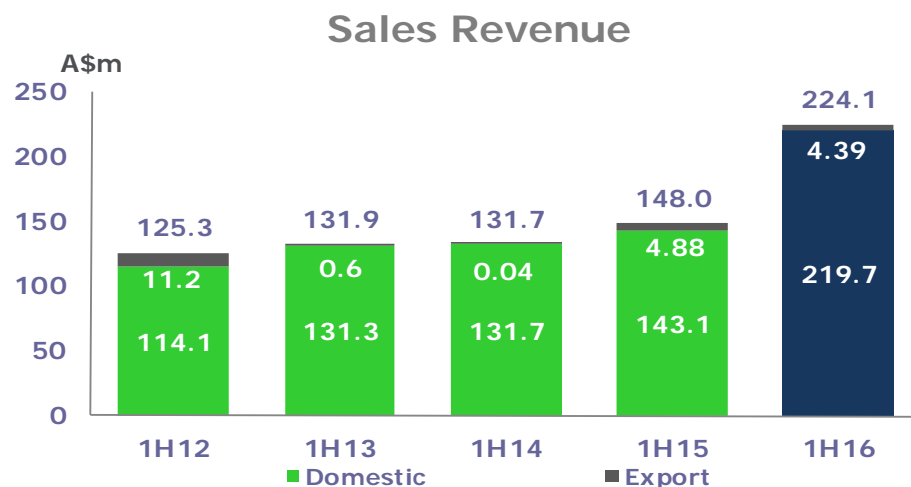
## Domestic seafood market

- Replicate domestic Salmon per capita consumption model
- Optimising efficiencies in seafood production

## Export market

- Tactical management of production volumes – particularly big fish
- Pricing conditions still volatile despite depreciating AUD

**Strengthening the Tassal, Superior Gold, De Costi Seafoods and other proprietary brands**



# Strategic priorities and outlook



**Salmon and Seafood Strategy to drive growth in earnings and shareholder value**

# Strategic evolution to Salmon and 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"



# Key priorities for 2H16



## Increasing domestic Seafood consumption...

- Sales initiatives to focus on maximising the opportunities to grow Salmon and Seafood across the domestic market
- Operational initiatives to further optimise the supply value chain:
  - maximising Salmon growth efficiencies – utilising Selective Breeding Program to deliver on fish growth, lower feed conversion ratios and reduced bathing
  - reducing operational costs (cost of growing, cost of processing, cost of supply and logistics)
  - reducing Seafood procurement costs and complexities
  - continuing to mitigate agricultural risk
- Further strengthen the Tassal, Superior Gold, De Costi Seafoods and other proprietary brands
- Implementing further sustainability and environmental initiatives

... and ensuring Salmon and Seafood returns are optimised



# In summary...



- **1H16 – transition from “Salmon” to “Salmon and Seafood”**
  - Another sustainable first half across all key metrics
  - Additional earnings from De Costi Seafoods - performing to expectations from an earnings perspective and shareholder value accretive
  - Overall, the Salmon business was flat from an earnings perspective
  - Integration costs for the De Costi business \$0.7m
  - Strong cash flows
  - Strong balance sheet
  - Growing dividend... up 7.1% and increased franking
- **2H16 – leveraging early benefits of “Salmon and Seafood” strategy**
  - Salmon ... Continued growth in fish size and volume to underpin per capita consumption
  - Salmon & Seafood ... Further optimising supply value chain to drive additional efficiencies
  - Seafood ... optimising automation, throughput and yield
  - Continued growth in earnings

# Questions?



# Statutory, underlying & operating results



## 1H16 vs. 1H15

Half Year ended 31 December 2015	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Profit \$'000
Revenue (from all sources)	\$226,822	\$0	\$226,822	\$0	\$226,822
EBITDA	\$49,856	\$0	\$49,856	(\$8,599)	\$41,257
EBIT	\$39,411	\$0	\$39,411	(\$8,599)	\$30,812
Profit before income tax expense	\$35,777	\$0	\$35,777	(\$8,599)	\$27,178
Income tax expense	(\$10,492)	\$0	(\$10,492)	\$2,580	(\$7,912)
<b>Net profit after income tax expense</b>	<b>\$25,285</b>	<b>\$0</b>	<b>\$25,285</b>	<b>(\$6,019)</b>	<b>\$19,266</b>

Half Year ended 31 December 2014	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Profit \$'000
Revenue (from all sources)	\$150,946	\$0	\$150,946	\$0	\$150,946
EBITDA	\$54,103	\$0	\$54,103	(\$16,993)	\$37,110
EBIT	\$45,093	\$0	\$45,093	(\$16,993)	\$28,100
Profit before income tax expense	\$42,879	\$0	\$42,879	(\$16,993)	\$25,886
Income tax expense	(\$12,584)	\$0	(\$12,584)	\$5,098	(\$7,486)
<b>Net profit after income tax expense</b>	<b>\$30,295</b>	<b>\$0</b>	<b>\$30,295</b>	<b>(\$11,895)</b>	<b>\$18,400</b>

# AASB 141 adjustment



## Value of biomass is continuing to increase

- Accounting standard AASB 141 'Agriculture' is adjusted on a period end by period end basis, i.e. 31 December 2015 as compared to 30 June 2015 (not 31 December 2015 vs. 31 December 2014) – with the adjustment either an uplift or decrement in the future value of biological assets
- AASB 141 is only applied to Tassal's biological assets – i.e. its Salmon stock – both in the water and processed and on hand
- The biggest sensitivity underpinning the value for AASB 141 is the assessment of future sales price and ultimately, net market value – and then the volume of Salmon stock on hand at the end of the period
- With the assumption of future net market value from Tassal's sales being slightly less than Tassal's view at 30 June 2015, combined with a reduced amount of finished goods on hand (which in itself reduced the Agriculture value by \$2.993 million), has led to a reduction in the uplift to AASB 141 component to Tassal's statutory result in 1H16. Salmon biomass (i.e. volume) was up for the same period.
- The AASB 141 'Agriculture' uplift decreased by 50.1% to \$8.599 million before tax (1H15: uplift of \$16.993 million) – but was still a significant uplift nonetheless

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## 1H16 Results



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