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Lodgement of Market Briefing

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Market Briefing

Tassal MD & CEO on 1H16 results and Salmon and Seafood strategy

Interview with Mark Ryan (Managing Director & CEO)

In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, gives an update on the company's 1H16 result and Salmon and Seafood strategy, including:

- *Another sustainable half year operating earnings*
- *Strong cash flows facilitating increasing dividend and continued investment in the business*
- *Salmon earnings flat*
- *Integration of De Costi Seafoods*
- *De Costi Seafoods earnings in-line with expectations and shareholder value accretive*
- *Tassal's Salmon and Seafood growth strategy*
- *Outlook for 2H16*

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The first-half result for FY16 saw Tassal generate another record half year operating earnings. Can you please discuss the company's financial and operating performance over the past six months?

Mark Ryan
Tassal's first-half result further highlighted the strength of the company's business model.

Revenue was up 50.2% to $226.8 million, as the Salmon business continued to benefit from increasing domestic market per capita consumption driving strong growth in domestic market sales combined with a full six months' results from De Costi Seafoods. Operational EBITDA was up 11.2% to $41.3 million.

Management's focus on growing domestic market per capita consumption of Salmon has again proven to be the right strategy. The focus on growing domestic market per capita consumption continues to be the right strategy for Tassal as it underpins the company's product and sales initiatives driving continued revenue and earnings growth. Operational efficiencies and sustainable contribution margins were 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 Salmon being harvested. Overall, the Salmon business was flat from an earnings perspective.

Overall, for 1H16 earnings and operational expectations from De Costi Seafoods were both as expected and shareholder value accretive. Integration costs of $0.75 million were incurred as we looked to enhance that business and realign it more closely with Tassal's supply chain. The synergies from these initiatives will flow from the second-half of this financial year.

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For the first time in several years, we saw statutory earnings fall due to a lower SGARA adjustment. Can you please explain why this happened and does it provide a lead indicator for future growth?

Mark Ryan

The value of biomass is a lead indicator of future growth and earnings. The change in value from accounting period to period is represented by the statutory SGARA adjustment to the company's Profit & Loss statement. While the P&L impact was lower in the first-half of the 2016 financial year relative to 2015, there was still a positive adjustment (i.e. uplift) reflecting continued growth in the value of Tassal's biomass, and as such a positive lead indicator for growth and earnings.

As you point out, in the half-year 2016 result, the AASB 141 component was $8.6 million before tax, compared to $17.0 million in the half-year 2015. This reduction in SGARA uplift still reflected positive growth in the value of biomass.

Under accounting standard AASB 141, the value of biomass is adjusted on a period by period basis, i.e. 31 December 2015 as compared to 30 June 2015 (not 31 December 2014). 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 being slightly less than Tassal's view at 30 June 2015, combined with a reduced amount of finished goods on hand, this has led to a smaller uplift in the AASB 141 component to Tassal's profit, but it is still a significant uplift of $8.6 million and the value of biomass has still grown.

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Why are Tassal's cashflows not increasing by a larger amount given the continued growth in the business?

Mark Ryan

Given the nature of Tassal's business, like all other aquaculture businesses, the profile of revenues and earnings of the company does not match cashflows as at any one time there will be three year classes of fish in the water.

However, as Tassal has grown its revenue and earnings, that growth has flown through into the company's operating cashflows. Over the first-half of this financial year, Tassal continued to generate strong operating cash flows, which were up 34.9% to $25.5 million.

Cashflows have been prudently managed by the Board to provide shareholders with a growing return, while also continuing to underpin further investment in the business to provide for sustainable growth in long term returns. While dividends have been increasing half on half, and the Board declared an interim dividend increase of 7.1% to 7.5 cents per share franked to 75%, the company has continued to reinvest, spending $34.7 million in capital expenditure during the half.

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With the acquisition of De Costi Seafoods being EPS accretive, how has the integration gone and why has it not added more to the earnings line in the first-half result?

Mark Ryan

The acquisition of De Costi Seafoods will be accretive on a full year basis. In order to ensure De Costi Seafoods could deliver on its potential under Tassal's ownership, we have spent considerable time and focus, as well as $0.7 million, over the past six months integrating De Costi Seafoods so it will have the platform to deliver on the growth potential the Seafood category provides.

Having successfully grown domestic market per capita consumption of Salmon, we have gathered valuable intelligence that we are now applying into the De Costi Seafood business that will enable us to support a similar strategic focus for the Seafood category.

In order to ensure that there was no disruption to the De Costi Seafoods business as we were restructuring and realigning it, certain costs remained in the business while the integration was being undertaken. The synergies from these integration initiatives will flow from the second half of this financial year, and will underpin growing earnings in the second half.

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Can you please discuss Tassal's Salmon and Seafood strategy in light of the acquisition and integration of De Costi Seafoods?

Mark Ryan

The first half of the 2016 financial year marked the beginning of Tassal's Seafood and Salmon strategy. Previously Tassal was the leader in Australia's Salmon industry, a market of around $700 million in annual sales. Having acquired De Costi Seafoods, Australia's largest Seafood processor, Tassal is now Australia's leader in the Salmon and Seafood market, an addressable market opportunity of around $4.3 billion annually.

Taking the key learnings from having successfully grown the domestic Salmon market, Tassal's immediate focus is to grow Salmon and Seafood sales by leveraging retail relationships and delivering an efficient and scalable platform for future growth. The restructuring and realignment of De Costi Seafoods was to ensure it had the platform in place to deliver on this growth.

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Salmon still represents the bulk of your business currently. How has Tassal's Salmon business performed this half?

Mark Ryan
We are continuing to successfully pursue our domestic market per capita consumption strategy for Salmon. This strategy underpins our product and sales initiatives which in turn is driving continued revenue and earnings growth. Tassal's Salmon sales volume in domestic market was effectively on plan in a sales volume sense, with relatively stable pricing across the period.

We remain very focused on our fish performance and optimising gains in biomass growth, feed conversion and survival. These elements combined have been and will continue to be critical in driving operating cost efficiencies for the business and increasing the margins we can generate from our Salmon business.

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In closing what is the outlook for the second half of the 2016 financial year?

Mark Ryan
Our focus going forward is to increase domestic Salmon and Seafood consumption. This will involve targeted sales initiatives to maximise the opportunities across the domestic market combined with operational initiatives focused on further optimising the supply value chain.

Tassal's strategic shift from a purely vertically integrated Salmon company to a Salmon and Seafood company has opened up multiple growth opportunities. The acquisition of De Costi Seafoods positions Tassal as the market leader in Seafood in Australia, by whatever measure you apply, together with a market leader in sustainability globally.

From the second half of this financial year, the De Costi Seafoods acquisition will clearly illustrate an accelerated Tassal Salmon and Seafood strategy, with the synergies flowing from the integration of De Costi Seafoods. We have the right foundations in place to leverage this opportunity, and believe the company can generate continued growth in the second half.

Our financial focus will be two pronged. The first being to capitalise on the first half growth in revenues with continued growth in Salmon and Seafood. The second being to continue growing earnings via additional sustainable De Costi Seafood earnings, while also benefiting from further operational efficiencies and sustainable contribution margins generated from growing salmon domestic market sales supported by favourable export market conditions and increased salmon supply as we harvest fish from our new 2015 year class.

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Thank you, Mark.

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