

27 February 2017



## **ASX Release**

### **Exponential growth in Indian sandalwood sales driving transformational year**

#### **Highlights:**

- Significant ramp-up in sales of processed Indian sandalwood oil and wood, up 92x on H1 FY16
- Plantation sales up 32% on H1 FY16
- Cash EBITDA<sup>1</sup> of \$7.6m, with guidance of at least a 25% increase on FY16 reaffirmed for FY17
- Cash balance of \$89.8m (compared to \$52.1m at 31 December 2015)
- Five-year agreement to supply premium Indian sandalwood oil to US-based Young Living, the largest essential oil company in the world
- Further growth in product sales in H2 FY17 with added deliveries to India and the Middle East

A ramp-up in product sales following a record 2016 Indian sandalwood harvest has enabled TFS Corporation Ltd ("TFS", "the Company", ASX: TFC), the world's largest owner and manager of commercial Indian sandalwood plantations, to record Cash EBITDA of \$7.6 million for the six months ended 31 December 2016. TFS has also reaffirmed its guidance for FY17 Cash EBITDA to increase by at least 25% on FY16, as plantation and product (wood and oil) sales continue to gather pace in the second half of the year.

Cash revenue for H1 FY17 increased 7.4% to \$65.2 million (H1 FY16: \$60.7 million). This growth was driven by the commencement of deliveries of processed wood and oil from TFS's major 2016 harvest to the Company's customers in China, the US, and Europe. These product sales commenced in late September and ramped up in Q2 FY17, with sales expected to accelerate further in H2 FY17.

Net Profit After Tax was \$28.3 million (H1 FY16: \$67.4 million). The reduction was driven by lower non-cash foreign exchange gains on tree valuations, the absence of a \$17.2 million accounting gain on the Santalis acquisition that had increased the H1 FY16 result, and a \$10.6 million one-off early call premium in H1 FY17 associated with the successful refinance of the Company's senior secured notes. TFS also experienced higher operating costs in relation to its larger plantation estate and harvest, from which the Company will benefit through increased wood and oil sales in future years.

TFS's cash balance at 31 December 2016 was \$89.8 million, a 72% increase on the \$52.1m at 31 December 2015.

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<sup>1</sup> Cash EBITDA equals EBITDA less the fair value gain on the biological assets, revenue from the recognition of deferred lease and management fees, change in the fair value of land and buildings, accounting treatment relating to business combinations, realised biological fair value gains attributable to wood and oil products sold, unrealised foreign exchange movements and a non-cash adjustment to a forward sales contract.

TFS's Managing Director Frank Wilson said TFS continued to grow its plantation estate and is successfully realising on the tenfold increase in harvest size.

"This is a transformational year for TFS as we sell commercial quantities of Indian sandalwood oil and wood from our first large scale commercial harvest. The benefits of that transformation are now starting to be realised by TFS," Mr Wilson said.

"With the harvest of our own sandalwood completed in August 2016 and the tender to buy grower-owned wood secured in November 2016, our focus has been firmly on executing our sales and distribution strategy to monetise the large increase in available wood and oil.

"TFS booked \$2.0 million of album (Indian sandalwood) sales in Q1 FY17 and \$7.1 million of sales in Q2 FY17, and we expect H2 FY17 to easily outpace those figures as we ramp-up sales to existing customers, optimise our supply chain and start delivering on new contracts signed last year.

"The addition of a supply contract with the world's largest natural oil company, Young Living, to our stable of oil customers, as well as our wood buyers in China and the Middle East, ensures the vast majority of oil and wood from our harvests for the next five years are forward sold to multiple markets."

"In addition, our US-based pharmaceutical subsidiary, Santalis, is awaiting allowance from the FDA to enter Phase 3 trials for their HPV wart product, as well as progressing four Phase 2 trials of other products which treat skin conditions using sandalwood album oil. TFS's Board and management are currently assessing how to unlock best value for TFS shareholders from the considerable progress Santalis is achieving."

## **Review of financials**

TFS reported total revenue in H1 FY17 of \$152.6 million (H1 FY16: \$160.0 million). This included:

- Cash revenue of \$65.2 million, up 7.4% on H1 FY16 (\$60.7 million), including:
  - Growth in sales of processed wood and oil from TFS's major 2016 harvest;
  - Plantation management services provided to plantation owners; and
  - Continued growth (up 8%) in the average plantation establishment fee per hectare.
- Non-cash revenue of \$87.4 million, down 12.0% on H1 FY16 (\$99.3 million), including:
  - A lesser tree valuation gain, due to a less favourable exchange rate gain, increased tree maturity with a shorter period to harvest, and larger directly-owned estate; and
  - Deferred plantation management fees, up by 28% to \$19.7m due to the larger managed estate.

At 31 December 2016, TFS-owned biological assets were valued at \$685.0 million, up 10% on 30 June 2016. The valuation methodology for TFS's biological assets has remained unchanged.

TFS's cash balance at 31 December 2016 was \$89.8 million and TFS ended the half-year in a significantly stronger cash position than at the end of H1 FY16 (\$52.1 million). The Company expects positive operating cash flows for the full year FY17, consistent with FY14, FY15, and FY16, reflecting the seasonality of the business as plantation sales (and resultant profits and cash inflows) are heavily weighted to H2.

To enhance its efficient capital management TFS has negotiated Heads of Terms, which are subject to contract, for a new working capital facility with one of the world's largest banks. The multi-option revolving capital facility will assist TFS to efficiently manage its cash-flow (without retaining excess cash on its own balance sheet) as most plantation sales occur in a small window, late in fiscal Q4.

Mr Wilson said the strong ramp-up in product sales will continue in H2 and will contribute to a transformational FY17 result for TFS. The Company recently commenced its first sales to the Middle East, and later this financial year will complete first sales to India and increase volumes to China.

TFS expects total product sales (wood and oil) to be in the range of \$45 million to \$55 million for the full financial year, a significant increase on the prior year (FY16: \$29.9m). Product sales include sales of sandalwood spicatum oil (Australian sandalwood), which the Company processes and sells pursuant to a supply contract with the West Australian state government. Sales of spicatum were down by 43% to \$6.3m in H1 FY17 principally due to market disruption associated with the delayed finalisation of a new 10-year (to 2026) supply contract. Although spicatum sales are expected to return to traditional sales levels later in calendar 2017, they are expected to remain subdued during the remainder of FY17.

## **Quintis**

The Company will soon be renamed Quintis Limited, as part of the process approved by shareholders at the AGM in November 2016. The new Quintis brand and website will be launched on 22 March 2017 and, from 23 March 2017, Quintis Limited will trade under the ASX code "QIN".

"The launch of Quintis marks a major juncture in the evolution of the Company; from a forestry Company to a global producer of one of the world's most-rare and valuable super-ingredients. Next month, the Company will be renamed and we will launch the Quintis ingredient mark, which will be a guarantee of the world's purest and most potent sandalwood album," Mr Wilson said.

## **Outlook**

TFS reaffirms guidance for FY17 Cash EBITDA to increase by more than 25% over FY16, with earnings heavily weighted to the second half of FY17, in line with previous years. The Company also expects to establish a further 1,400 hectares of plantings in FY17, to be completed in the northern Australia dry season, which will grow the total TFS-owned and managed estate to over 13,000 hectares – cementing its position as the largest owner of Indian sandalwood plantations in the world.

**-ENDS-**

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## **ABOUT TFS**

TFS Corporation Ltd ("TFS", ASX: TFC) is an owner and manager of sandalwood album (Indian sandalwood) plantations in northern Australia. As part of its vision to be a vertically integrated producer of sandalwood products, TFS owns a significant proportion of the plantations in its own right. TFS also operates sandalwood processing and oil distribution facilities in Albany, Western Australia, and a pharmaceutical product development business in San Antonio, US.

TFS was originally founded to exploit the success of government trials into the plantation growth of Indian sandalwood in the Ord River Irrigation Area (ORIA) of north-east Western Australia.

TFS now manages the largest area of commercial sandalwood album plantations in the world, with over 12,000 hectares planted of which TFS owns directly and indirectly over 3,600 hectares. TFS plantations are managed on behalf of both institutional, sophisticated and MIS investors.

In 2014, TFS completed its first commercial harvest of its Indian sandalwood plantations and, via its subsidiary Santalis Pharmaceuticals Inc., entered into a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company wholly owned by Nestle. TFS now has significant and multi-year contracts in place with a number of global companies across pharmaceutical, cosmetic and wood markets.

TFS's pharmaceutical division, Santalis Pharmaceutical, has four products in FDA approved Phase 2 trials. All products contain TFS's pharmaceutical grade Indian sandalwood oil and treat psoriasis, molluscum contagiosum, eczema and oral mucositis.

The company listed on the Australian Stock Exchange in December 2004. Since March 2014, TFS has been an ASX300 company.

TFS is committed to adopting and maintaining the highest environmental and ethical standards in all aspects of its business.

## **ABOUT SANDALWOOD ALBUM**

Sandalwood Album has a history as a tradeable commodity spanning thousands of years, but is now endangered due to the illegal harvest of wild trees throughout the world. As a result, Sandalwood Album is the world's most expensive tropical hardwood which continues to increase in price each year.

Sandalwood Album oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, Indian consumer products and for medicinal purposes (Ayurvedic and Chinese medicine) and the wood is used for high quality carvings and artefacts and religious worship in the Hindu and Buddhist faiths. The efficacy of Quintis Sandalwood Album is being tested by US dermatology companies for a range of skin conditions and the global pharmaceutical market has the potential to be a significant consumer of Sandalwood Album oil.