



TFS Corporation Ltd

FY17

Half Year Results

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SECTION 1

Overview

A solid start to FY17

- ✓ Cash EBITDA¹ of \$7.6m, with full year guidance² reaffirmed
- ✓ Plantation sales up 32% on H1 FY16 with average establishment fee per hectare up 8%
- ✓ Sales of sandalwood album up 92x on prior year; with first sales made to China and the US
- ✓ Strong growth in product sales expected in H2 FY17 with first deliveries to India and the Middle East
- ✓ End of Phase 2 meeting has been requested with the FDA for HPV warts, meeting expected to be held late April, providing a platform to unlock latent value in Santalis
- ✓ Cash balance of \$90m (compared to \$52m at 31 December 2015)
- ✓ Rebrand and launch of Quintis scheduled for 22 March 2017

Note 1 - 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.

Note 2 - Guidance is for FY17 Cash EBITDA to increase by > 25% on FY16.

Financial and operational performance







CASH EBITDA \$7.6m	NPAT ¹ \$28.3m	NTA ² \$489.8m	SANDALWOOD ALBUM SALES \$9.2m
YOY CHANGE -12%	-58%	+19%	92x

- Consistent with prior years, Cash EBITDA is heavily weighted to H2 FY17 due to the ramp-up of product sales and the seasonality of plantation sales
- NPAT reduction is due to (a) a lower unrealised FX gain of \$9.1m (FY16: \$23.6m), (b) a one-off cost of \$10.6m on the refinance of the Senior Secured Notes and (c) H1FY16 included an accounting gain of \$17.2m from the acquisition of Santalis

Note 1 - NPAT includes the fair value gain on TFS's owned biological assets, revenue from the recognition of deferred lease and management fees and unrealised foreign exchange movements (on Biological Assets and Senior Secured Notes).

Note 2 - NTA increase of 19% is since 31 December 2015.

Good progress against FY17 priorities

Priority		Progress
Supply increased harvest to global customers		Multiple sales to China, Young Living, Lush First shipments to India/ Middle East commence in H2 FY17 Further customer expansion expected in H2 FY17
Extend ownership of Indian sandalwood plantations		Purchase of growers' interest in 2016 harvest for \$5.2m Acquisition of 35ha of plantations for \$9.3m
Introduce new plantation investors		Excellent H1 FY17 sales, up 32% on prior year Strong pipeline of demand from new & repeat investors
Progress pharmaceutical product development		Results of FDA review of HPV wart Phase 2 due in Q4 FY17 Four Phase 2 trials due to complete in mid CY17
Develop brand and markets for sales beyond 2021		New ingredient brand and company name Quintis plans complete and launch scheduled for 22 March
Strong growth in financial performance		Guidance reaffirmed for > 25% increase in Cash EBITDA from FY16

Platform established to build significant value

- ✓ Product sales growth to accelerate in 2017 with the ramp-up of sales to China, the start of sales to India and the Middle East and the further expansion of our customer base
- ✓ Fourth annual harvest set to commence in May 2017 and expected to yield 240t of heartwood, approximately 70% already owned by TFS
- ✓ Strong demand for plantation investments with both volume and pricing extending the positive momentum from FY16
- ✓ Results from four ongoing Phase 2 trials and the expected approval from the FDA to start Phase 3 HPV trials provide a strong platform to unlock latent value in Santalis

Guidance for FY17 reaffirmed:

Cash EBITDA: increase of at least 25% on FY16

Establishment of c1,400ha of new plantations



SECTION 2

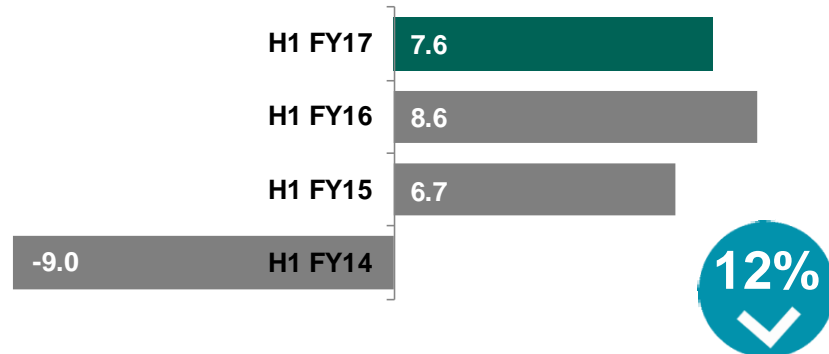
Financial Results

Key financial results

Cash Revenue (\$m)



Cash EBITDA (\$m)



Closing Cash (\$m)



NTA (\$m)



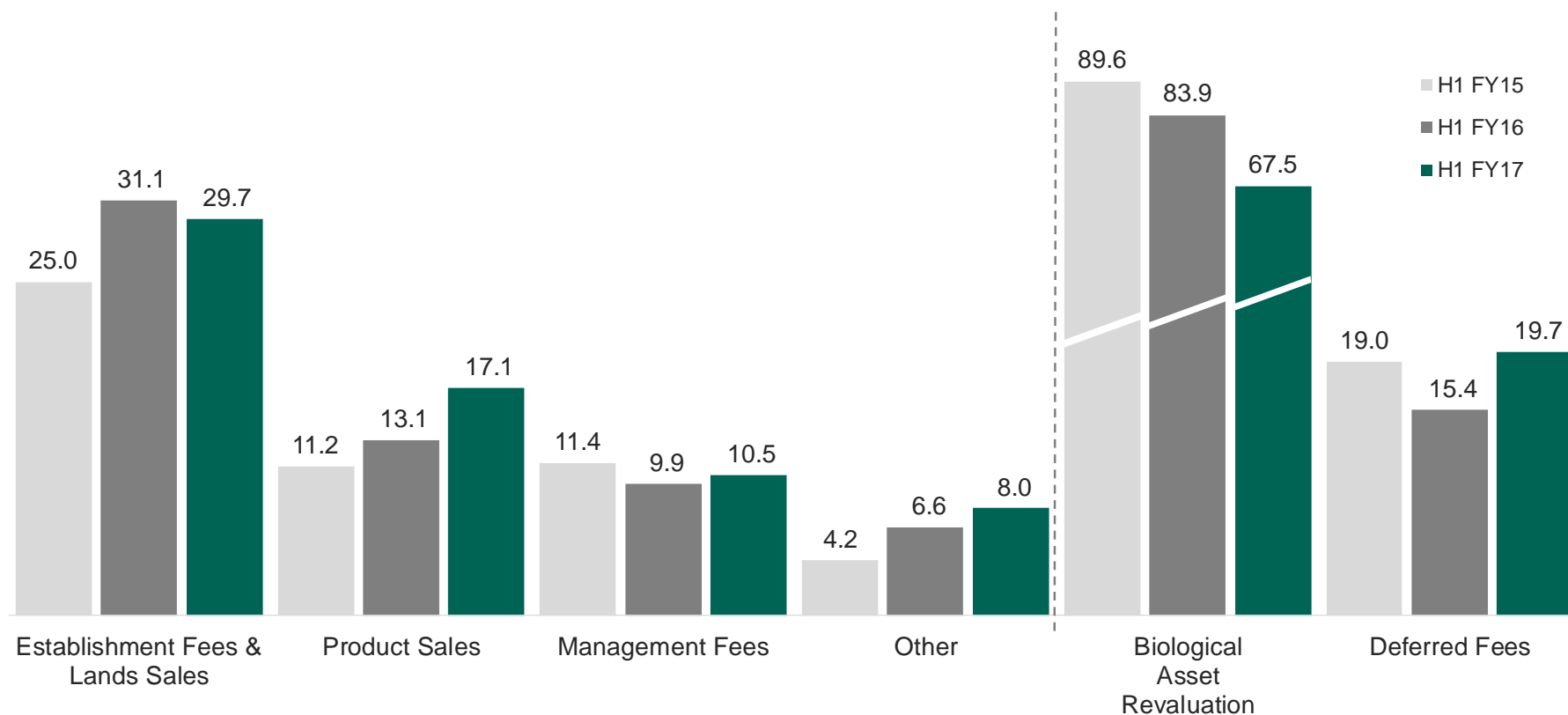
Broadly based revenue growth

CASH REVENUE

7% INCREASE
to \$65.2m

NON-CASH REVENUE^{1,2}

12% DECREASE
to \$87.4m



Note 1: Decrease in non-cash revenues due to unrealised FX gain on biological assets of \$20.9m (H1 FY16: \$35.2m)

Note 2: Excluding the gain on the revaluation of the external MIS growers' interests

Positive momentum in plantation sales

- Positive start to the year with plantation sales of \$20.0m, up 32% on H1 FY16
- Price inelasticity of demand for plantations demonstrated by a further increase to the average establishment fee per hectare, up 8% on FY16 and 40% on FY15
- Strong pipeline for plantation sales across all investor categories

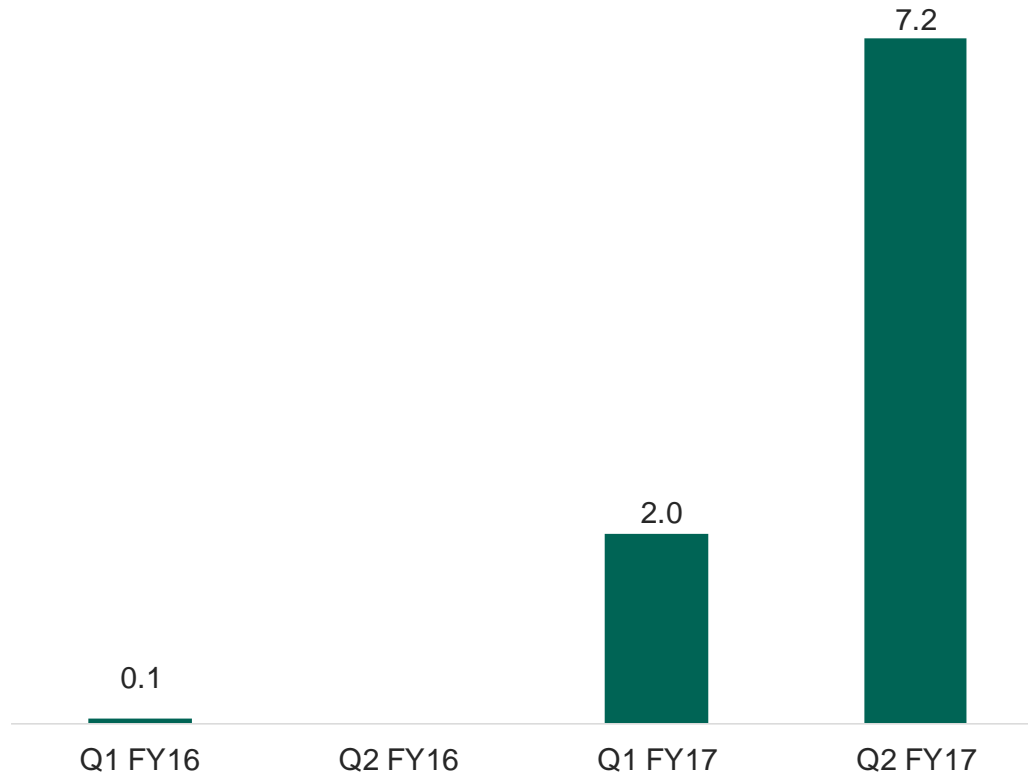
Plantation Sales (\$m)



Establishment fee per ha (\$000)



Exponential growth in sandalwood album sales



H1 FY17 sales by territory:



\$5.1m



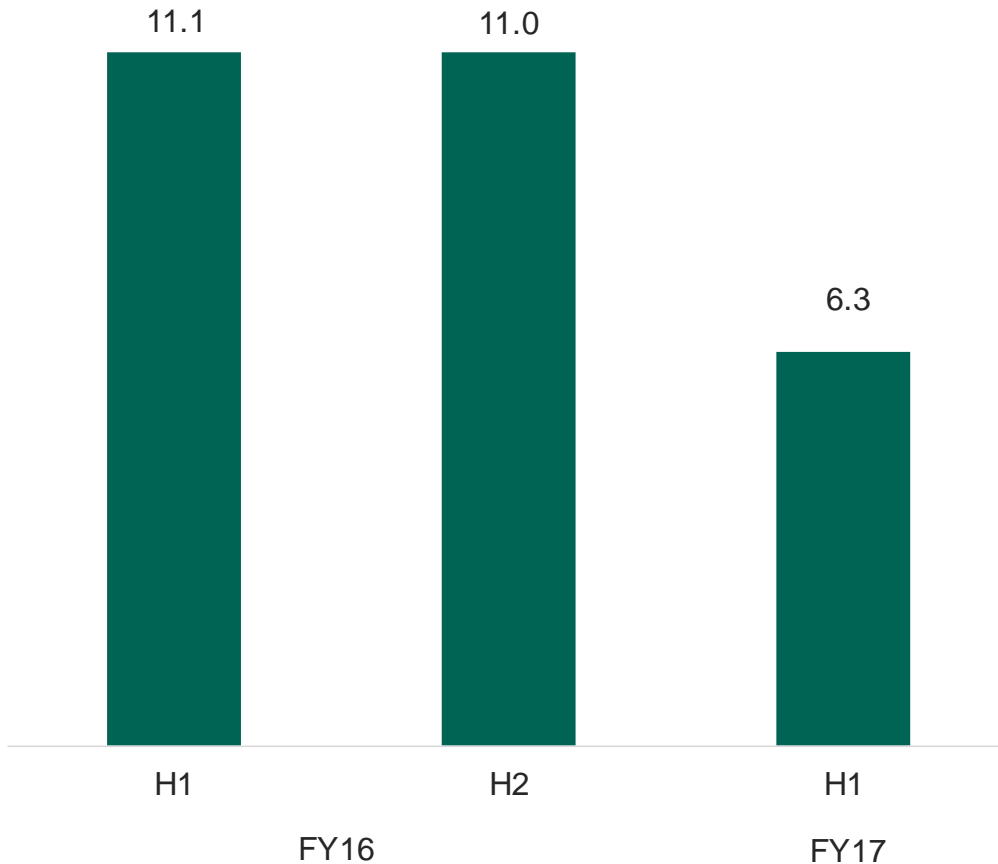
\$2.5m



\$1.6m

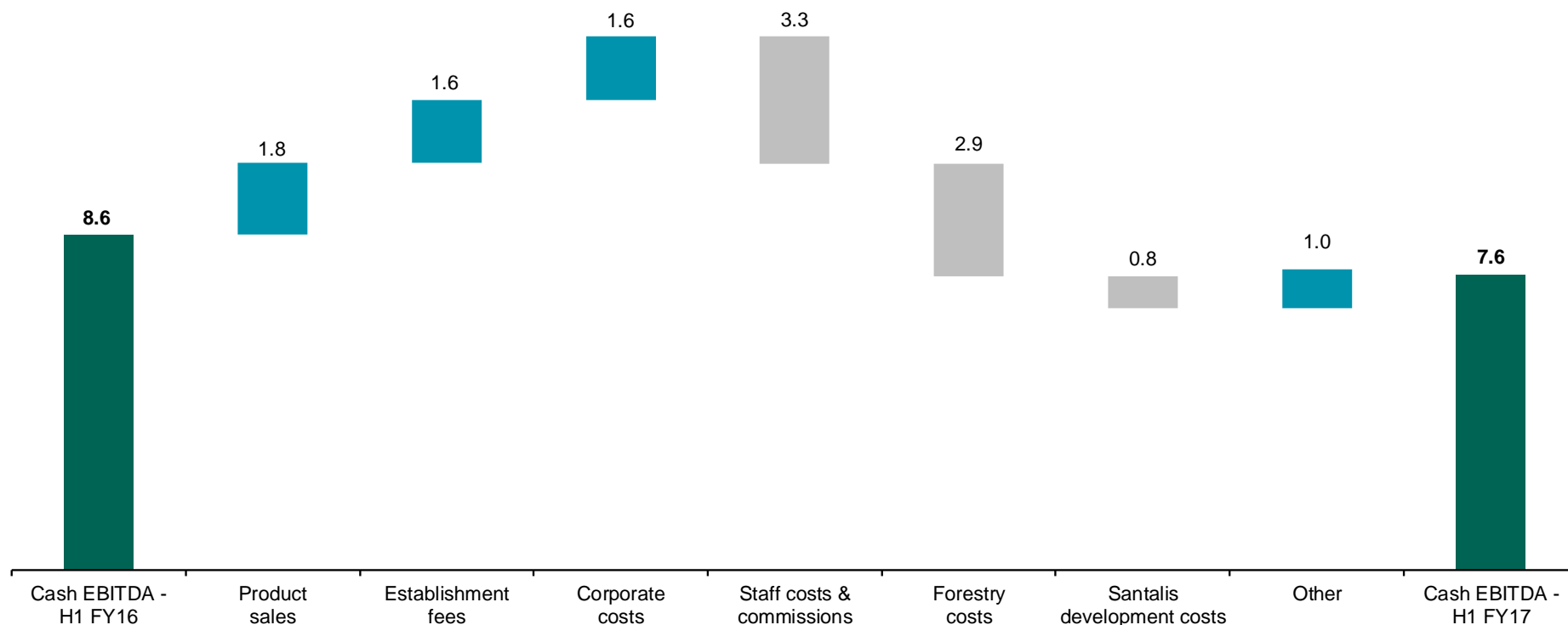
- Further acceleration in sales expected in H2 FY17 with (a) first sales to India and the Middle East, and (b) increased volumes of shipments to China

Lower spicatum product sales



- Sales of spicatum (Australian sandalwood) declined by 43% on prior year
- Disruption due to the time required to finalise the new 10-year supply contract with the WA state government
- TFS identified as preferred bidder in June 2016; contract signed in December 2016
- Sales expected to return to historical levels by end of CY2017

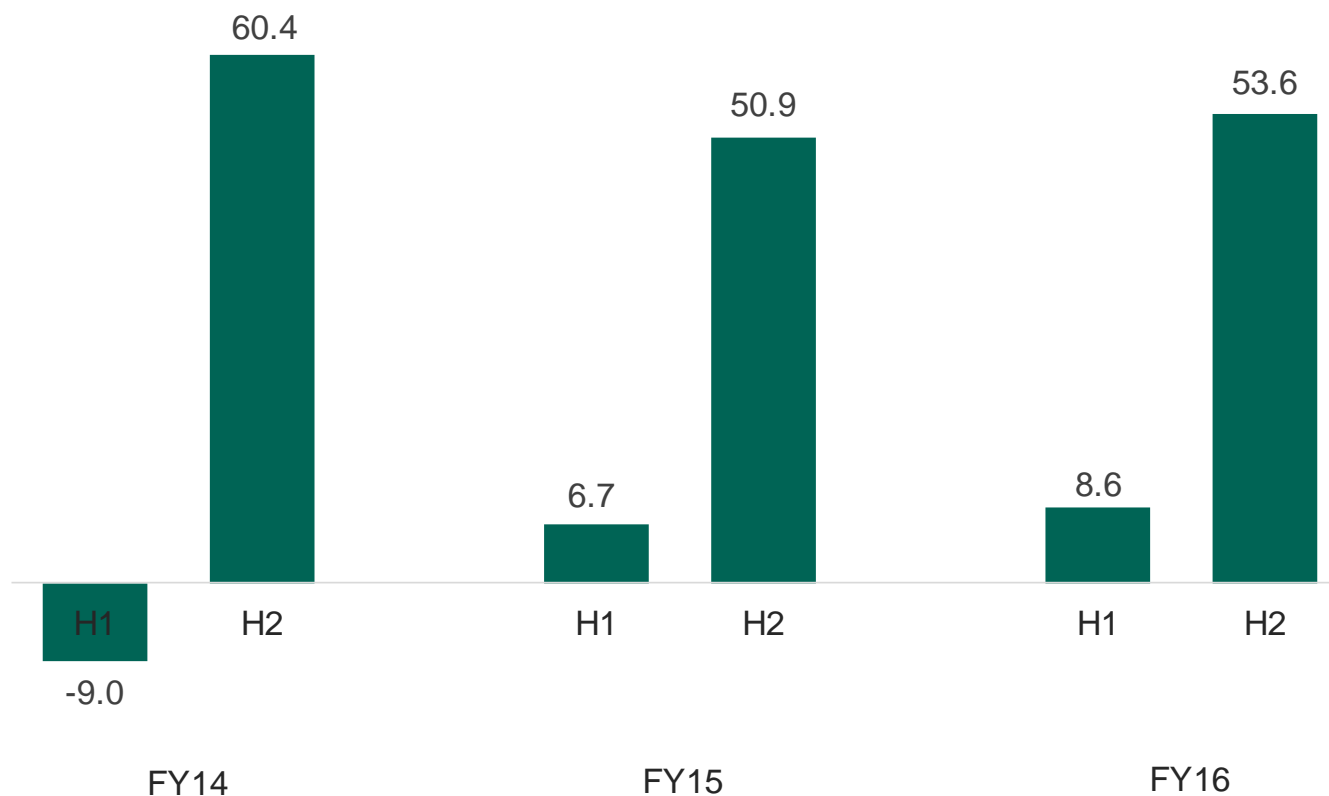
Cash EBITDA down by 12%



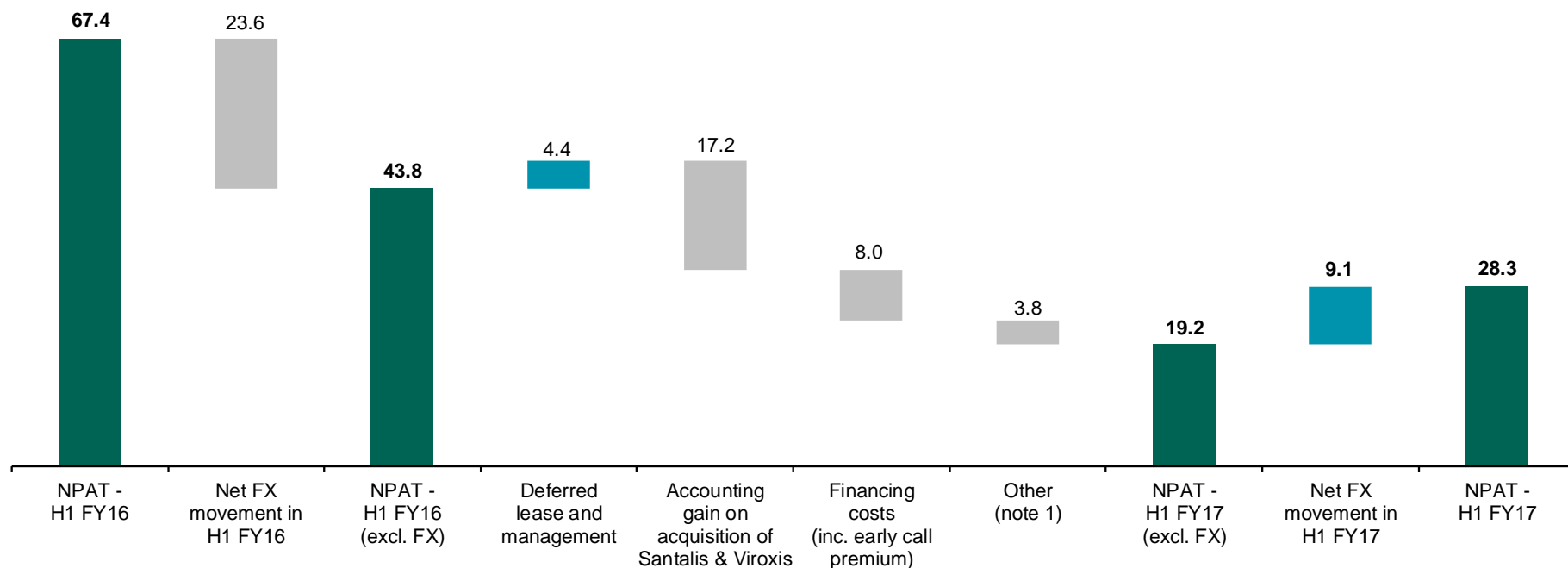
- Forestry costs and staff costs reflect a larger plantation estate (the non-TFS owned estate grew by approximately 20%) and the increased breadth and scale of operations

Seasonality of Cash EBITDA

- Pronounced seasonality in Cash EBITDA with a heavy weighting to H2 due to the timing of plantation sales

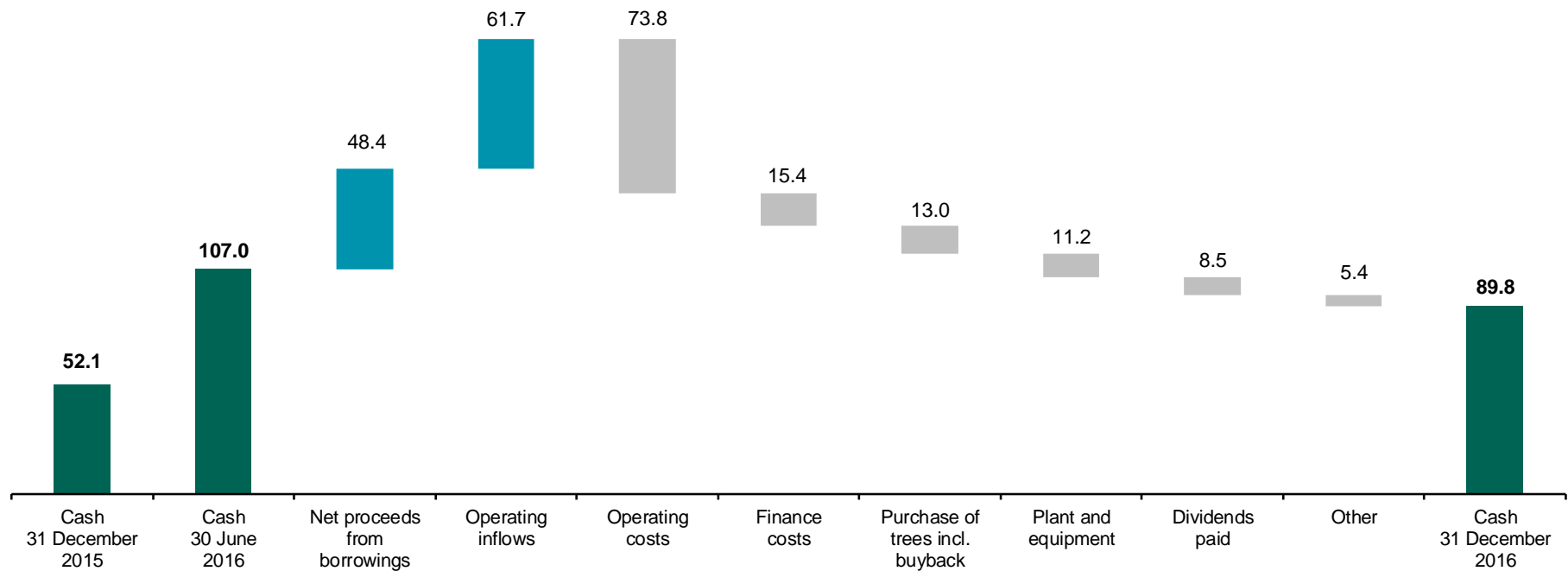


NPAT change driven by one-off and non-cash items



Note 1: "Other" includes the change in the value of the biological assets (excluding FX and tax) of \$2.1m and the decrease in Cash EBITDA of \$1.0m

Closing cash balance of \$90m



- Consistent with prior years, stronger cash in-flows are expected in H2, with the ramp-up of product sales and the plantation sales season in Q4, leading to positive operating cash flows for FY17

Approval for new banking facility from global bank

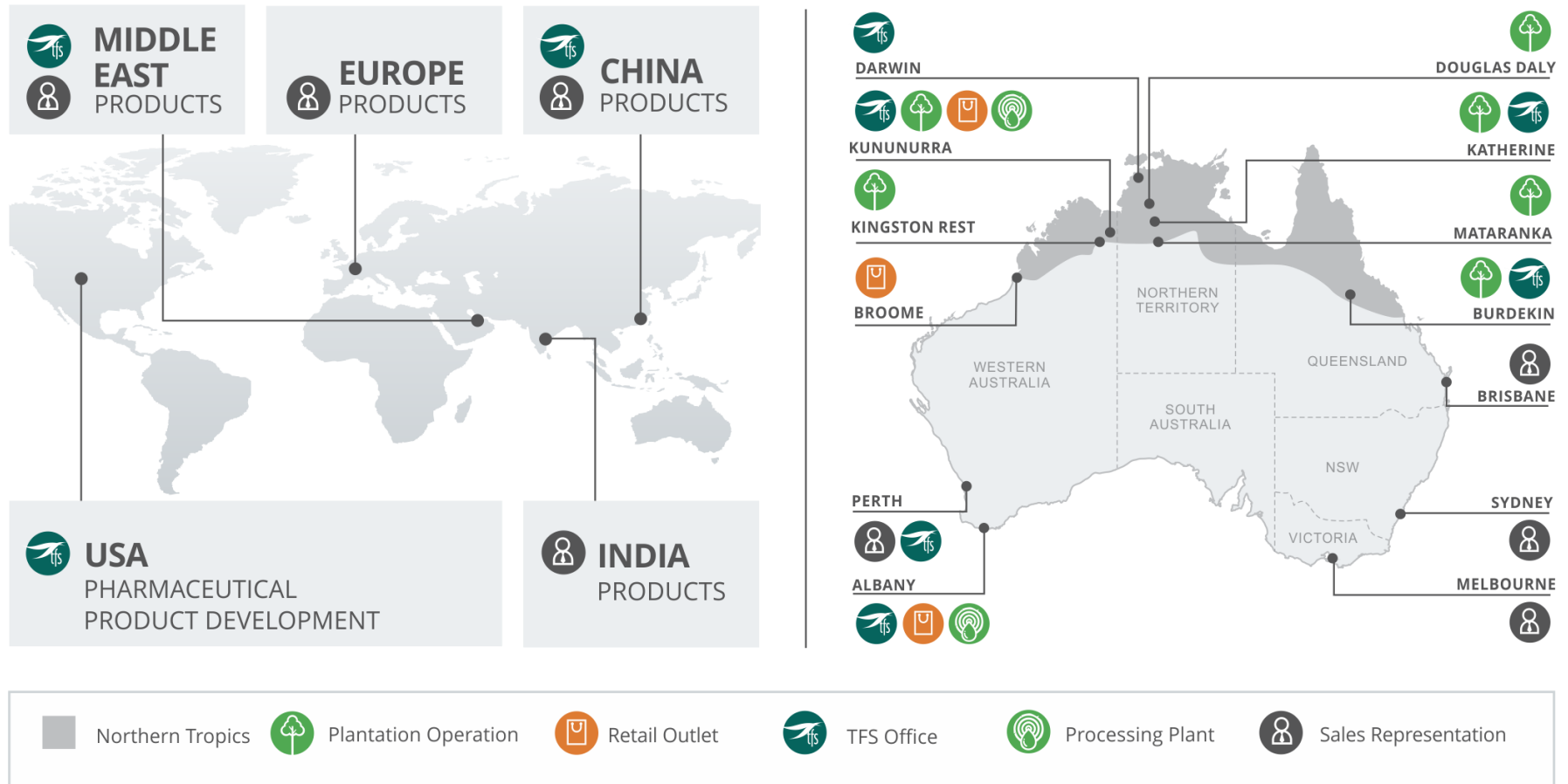
- TFS has a pronounced working capital cycle, due mainly to receipts of plantation sales being weighted to fiscal Q4 FY17
- Excellent progress on TFS's capital management achieved during 2016 with the restructure and refinance of the senior secured notes and the establishment of funding programmes for plantation loans
- Restructure of the senior secured notes has enabled TFS to enter into Heads of Terms, subject to contract, with one of the world's largest banks for a multi-option revolving facility
 - Facility size of A\$35m, with a two year tenor
 - Favourable terms, lower than existing cost of debt
 - Minimal maintenance covenants
- New facility will not be utilised for cash drawings during FY17 but adds a further lever to enhance the efficient management of capital
- This agreement is a significant milestone – the first banking support for TFS since the GFC and the collapse of the MIS industry

A man and a woman, both wearing bright orange high-visibility work shirts, are in a warehouse setting. They are leaning over a large, light-colored log. The woman is holding a measuring tape and appears to be measuring the log. The man is looking down at the log. In the background, there are metal racks filled with stacks of logs. The scene is well-lit, and the workers are smiling, suggesting a positive work environment.

SECTION 3

Business Update

A vertically integrated and global business



Continued growth in plantation estate

New plantings in 2017 of 1,400ha

Owner (ha)	Dec 16	Dec 15	Dec 14
Institutional	4,144	3,667	2,970
Retail and Sophisticated Investor	4,445	3,369	2,808
TFS (direct & indirect ownership)	3,518	3,547	3,300
Total Estate	12,107	10,583	9,078

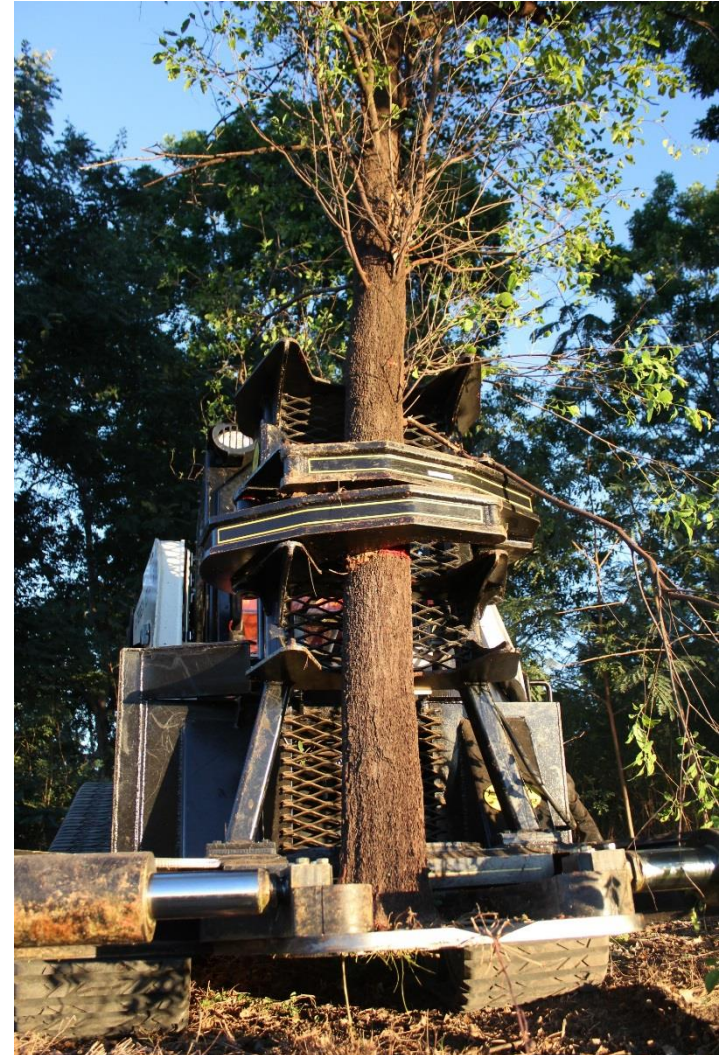
Successful harvest and grower wood purchase

- 2016 harvest of > 30,000 trees produced 309 tonnes of heartwood, a tenfold increase on previous harvests
- Grower-owned wood from the 2016 harvest was marketed globally and the tender closed on 25 November 2016
- TFS successfully acquired the wood (40 tonnes of heartwood) at a price of AU\$131 per kg
- Total estate contains 5.3m Indian sandalwood trees and a further 6.7m host trees



2017 harvest expected to yield 240t of heartwood

- Harvest of around 107 hectares is expected to commence in May and finish in July
- Total yield expected to be approximately 240 tonnes of heartwood
- Plantations were mainly established in 2002 and contain over 23,000 trees with an average yield per tree of approximately 10kg of heartwood
- TFS owns approximately 70% of the 2017 harvest with the balance owned by MIS investors



Continued development of end markets

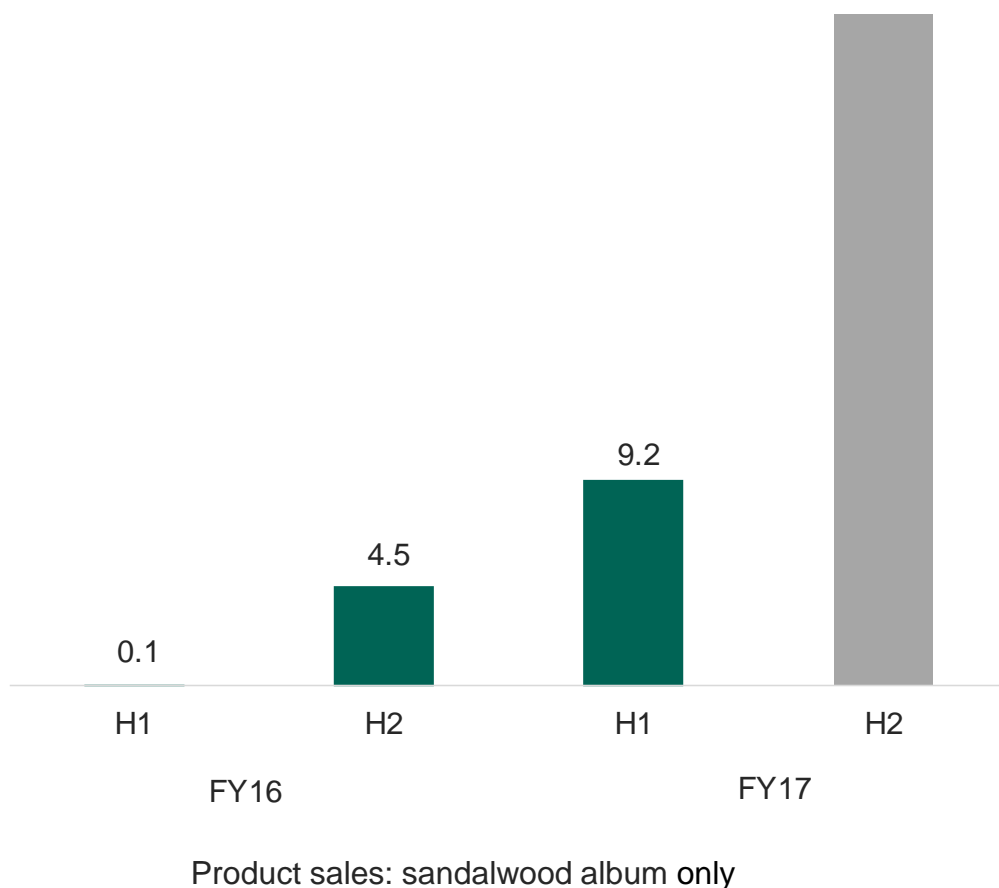
- Supply contract entered into in September 2016 with Young Living, the world's leading essential oils company
- Monthly oil deliveries to Young Living commenced in October 2016
- New supply agreement signed with Paspaley, Australia's largest pearling company, for the supply of beads for their range of "Kimberley bracelets"
- In Q3 FY17, the supply of sandalwood album wood to the Middle East commenced pursuant to the contract signed in 2016



PASPALEY
THE MOST BEAUTIFUL PEARLS IN THE WORLD



Rapid ramp-up in sandalwood album sales



- TFS's transformation is underway with the sale of wood and oil products from the 2016 harvest
- Sales in H1 FY17 were slightly behind internal projections, principally due to some supply chain complexities with our first wood exports to China and the Middle East
- H2 FY17 album sales will ramp-up with (a) first sales to India and the Middle East, and (b) two full quarters of sales to China and the US
- Total product sales, including spicatum, expected to be in the range of \$45m to \$55m in FY17, up from \$30m in FY16, despite a significant YOY decline in spicatum sales

Santalis is poised for a transformational 2017

- End of Phase (“EOP”) 2 meeting has been requested at which Phase 3 plans will be presented. Response is expected in Q4 FY17
- Ongoing Phase 2 trials continue for four other RX products containing sandalwood album oil, with the studies expected to be completed from mid calendar 2017
- Successful trial results will generate significant value – ongoing assessment of how best to unlock the latent value in this subsidiary
- Sale of 1.0m Benzac® units in CY16

Code	Indication	Formulation Development	Phase I	Phase II	Phase III
VIR 001-00	HPV (skin warts)	CY2017 pending EOP2 outcome			
VIR 003-01	Molluscum (MSV)	Mid CY17 – study completion			
VIR 005-01	Oral Mucositis	Mid CY17 – study completion			
SAN 009-01	Eczema / AD	Mid CY17 – study completion			
SAN 021-00	Psoriasis	Mid CY17 – study completion			

Pipeline of commercial developments

DIVISION	OPPORTUNITY	STATUS
Product sales	First oil sales to China First oil sales to India	Supply contracts expected in calendar 2017 Supply contracts expected in calendar 2017
Plantation sales	Build on positive sales momentum	Excellent H1 FY17 sales and strong pipeline Potential for record institutional sales in FY17
Santalís	Licensing of OTC products	Good progress, especially in India & Asia Deals expected to be signed in calendar 2017
Santalís	Maximise value of pharma subsidiary	Potential for spin-off in FY18 after trial results; assessment underway



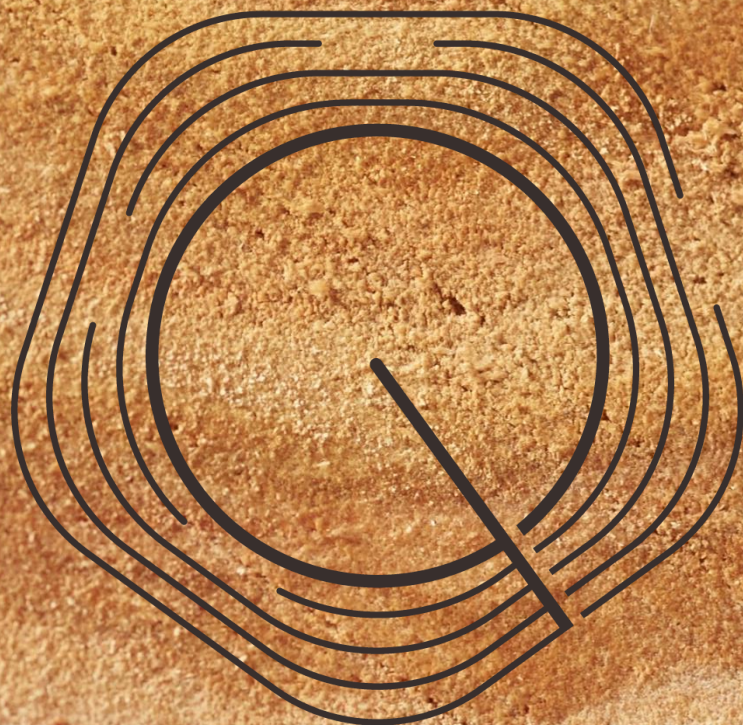
SECTION 4

Launch of Quintis



**THE QUINTIS INGREDIENT MARK IS YOUR
GUARANTEE OF THE WORLD'S PUREST,
MOST POTENT SANDALWOOD ALBUM**

<http://www.tfsltd.com.au/blog/discover-quintis/>



QUINTIS®
SANDALWOOD ALBUM

10 MARCH 2017

Office relocation to the iconic
Old Swan Brewery building in
Perth

22 MARCH 2017

Brand and website launch

22 MARCH 2017

Melbourne launch event
hosted by Adam Gilchrist and
Daniel Ricciardo

23 MARCH 2017

ASX code changes to “QIN”

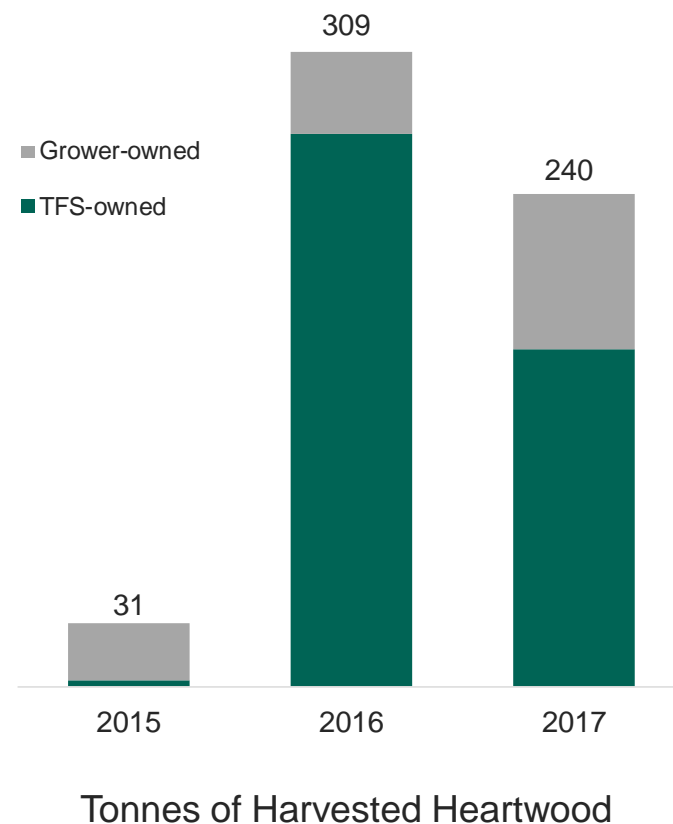
A wide-angle photograph of a large, modern greenhouse. The structure features a high, arched metal frame covered with translucent panels. Inside, the floor is densely packed with rows of young green plants, likely seedlings, each housed in a bright orange plastic pot. The plants are arranged in long, straight lines that recede into the distance, creating a strong sense of perspective. The lighting is bright and even, highlighting the vibrant green of the foliage and the orange of the pots. In the background, the structural details of the greenhouse, including the metal beams and the translucent roof, are visible. A few small figures of people can be seen in the distance, providing a sense of scale to the vastness of the facility.

SECTION 5

Outlook & Guidance

Rapidly transforming business

- Clear and consistent strategy in place:
 - To build long term value by increasing direct ownership of the plantations, and
 - Leverage high value uses for our wood and oil products, for the benefit of all plantation owners
- Increased harvests have facilitated supply to a broader range of market segments
 - Focus on segments with high levels of latent demand
 - Creating a global sandalwood brand, a trust mark, for high quality, sustainably and ethically sourced sandalwood album
- Focus in FY17 on:
 - Delivering to our supply partners
 - Achieving a significant increase to operating cash flows
 - Developing end markets to maximise returns from our increased harvest volumes from 2021



On track to deliver FY17 priorities

- Execution of established strategy and targets
- Complete the supply of > 300 tonnes of processed wood and oil to our global customers
- Extend TFS's ownership of Indian sandalwood plantations by completing the buyback programme for the 2018 to 2022 harvests
- Develop long-term “go to market” strategies for key market segments, centred around our emerging brand
- Complete Phase 2 for one pharmaceutical product and unlock the latent value in Santalis
- Introduce additional plantation investors, including new institutional investors and sophisticated investors
- Deliver strong growth in key financial metrics: Cash EBITDA and Cash from Operating Activities

Guidance for FY17:

Cash EBITDA: increase of at least 25% on FY16

Establishment of c1,400ha of new plantations



SECTION 6

Q&A



SECTION 7

Appendix

Reconciliation of PBT to Cash EBITDA

\$m	H1 FY17	H1 FY16
Profit before income tax expense	44.9	91.2
Depreciation and amortisation	6.9	4.7
Finance costs, early call premium and interest received	22.1	13.9
EBITDA	73.9	109.9
Fair value gain of biological assets (inc. FX)	(67.5)	(83.9)
Revenue from recognition of deferred lease & management fees	(19.7)	(15.4)
Gain on settlement of Trade debtor	(0.1)	(0.0)
Gain on acquisition of controlling interest in Santalis and Viroxis	-	(17.2)
Unrealised foreign exchange loss senior secured notes	11.8	11.6
Movement in contingent consideration	4.7	3.7
Realised biological fair value gain on wood and oil products sold	3.1	-
Non-cash adjustment to forward sales contract	1.4	-
Cash EBITDA	7.6	8.6

Summary of Product Sales

	FY15		FY16		FY17
	H1	H2	H1	H2	H1
Album	1.2	4.4	0.1	4.5	9.2
Spicatum	8.5	10.9	11.1	11.0	6.3
Other	1.5	1.2	1.9	1.3	1.6
Half year	11.2	16.5	13.1	16.8	17.1
Full year		27.7		29.9	

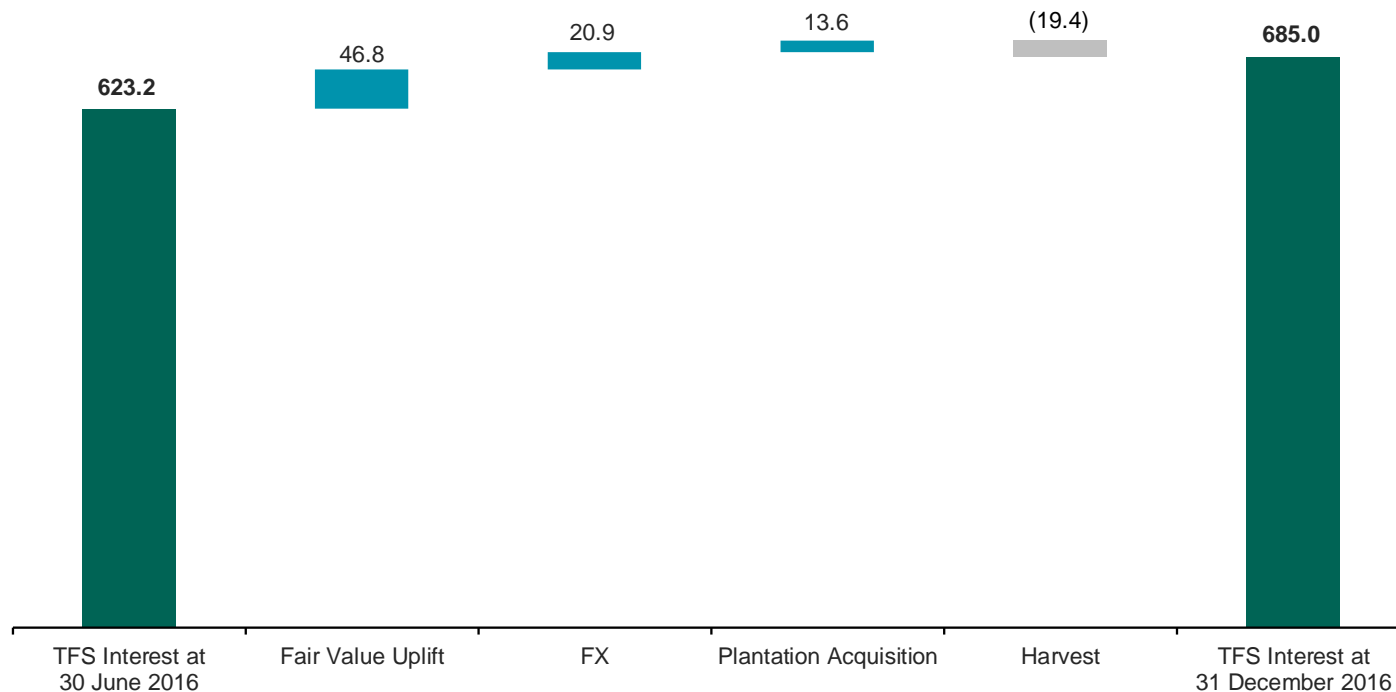
Biological Asset valuation

- TFS's biological assets¹ increased to \$685m, up 10% on 30 June 2016, reflecting larger directly owned estate and increased tree maturity
- No changes to TFS's valuation methodology in since 30 June 2016, audited by EY

Key Assumptions	Assumption at 31 December 2016	Comments
Number of TFS owned trees ¹	1,143,864	Last inventory count in Q4 FY16
Heartwood yield at harvest	TFS projections	Based on extensive TFS and industry research Assessed as part of inventory count in Q4 FY16
Oil content	3.7%	Based on research and actual results
Oil price per kg	US\$2,800	Director assessment – not inflated H1 FY17 oil sales: average of US\$3,906
FX	US\$0.72c : AU\$1.00	Actual at 31 December 2016
Harvest and processing costs	\$16,000 per ha and \$207 per kg of oil	Expected costs inflated at 3.0% pa
Discount rate	12-14%	Rate applied is dependent on tree age

Movements in Biological Assets

- Completion of the 2016 harvest resulted in the transfer to inventories in Q1 FY17 of \$19.4m, which are now being processed for sale
- Unrealised FX gain of \$20.9m due to the weakening of AU\$ against US\$ - in the same period in FY16 the AU\$ weakened providing an unrealised FX gain of \$35.2m



An aerial photograph of a vast, dense forest, likely a plantation, stretching towards the horizon. The trees are arranged in a regular grid pattern. In the background, there are rolling hills and mountains under a warm, golden sunset sky. A dirt road or path runs diagonally through the forest. A small white vehicle is visible on the road in the distance. The overall scene is bathed in the warm, golden light of the setting sun.

END