

ASX Release

26 February 2015

TFS delivers record half year profit and upgrades guidance

Highlights

- Net profit after tax of \$55.0 million (H1 FY14: \$3.2 million)
- Cash EBITDA of \$6.7 million (H1 FY14: \$9.0 million loss)
- Good progress on institutional sales, with options over new plantations exercised by both a respected US investor and Church Commissioners for England
- Galderma's Benzac[®] acne products were launched in the United States, with orders to date of over one tonne of TFS's pharmaceutical grade Indian sandalwood oil
- Refreshed Board to reflect the ongoing transformation and maturation of TFS
- Full year guidance upgrade to at least \$90 million NPAT and reaffirm a 10% increase in Cash EBITDA

TFS Corporation Limited ("TFS", ASX:TFC), the world's largest owner and manager of commercial Indian sandalwood plantations, has recorded a Net Profit After Tax of \$55.0 million for the half year ended 31 December 2014.

The significant increase in NPAT on the previous corresponding period – a record result for a first half for TFS – was driven by growth in the valuation of the Group's plantation assets, favourable exchange rate movements and a significant increase in cash revenues, up from \$27.2 million in H1 FY14 to \$51.7 million in H1 FY15. Importantly, revenues were derived from diversified sources with sales of new plantations to institutional investors and sales of sandalwood products.

Cash EBITDA¹ grew to \$6.7 million (H1 FY14: \$9.0 million loss), due mainly to the sale of 399ha of new plantations to a respected US institution and higher sandalwood product sales (up from \$6.7 million in H1 FY14 to \$11.2 million in H1 FY15).

TFS Chief Executive Officer, Frank Wilson, said the strong financial result reflected the ongoing maturity of TFS, with traditional earnings from the sale of new plantations – principally to institutions – starting to be complemented by revenue generated from the supply of sandalwood oil, particularly pharmaceutical grade sandalwood oil to Galderma.

"This was a great half for TFS and we are encouraged by ongoing demand for new plantations from existing and new institutions. Pleasingly – and well ahead of previous years – we have already agreed new investments from two of our existing investors, which we expect to settle in Q4 FY15 when the plantations are established," Mr Wilson said.

Note 1: As in the prior corresponding period, Cash EBITDA equals EBITDA less the revaluation of biological assets, revenue from the recognition of deferred lease and management fees and unrealised foreign exchange movements.

“We are encouraged by the early progress of our landmark agreement to supply pharmaceutical grade Indian sandalwood oil to Galderma with orders ahead of expectations and already exceeding over one tonne of oil. New orders received from Galderma in the last few weeks provide a positive signal for the growth potential from this new sector. This establishes a strong base demand for our oil on which we can build with new products and territories, as well as expand into other core end markets, such as fragrances, cosmetics and traditional markets in China and India.”

Review of Financials

Total Group revenue grew 192% to \$160.3 million (H1 FY14: \$55.0 million). This included:

- Revenue of \$70.1 million (H1 FY14: \$36.2 million), including establishment fees, land sales, and sales of sandalwood products (including pharmaceutical grade Indian sandalwood oil)
- Other income of \$90.3 million (H1 FY14: \$18.8 million), driven by a non-cash gain on the revaluation of TFS’s sandalwood plantations

The valuation of TFS’s sandalwood plantations of \$444.2 million (30 June 2014: \$348.1 million) reflected the following:

1. Increase in the assumed future sales price of TFS’s sandalwood oil from US\$2,500 per kg to US\$2,800 per kg, which remains conservative but begins to reflect the appreciating value of Indian sandalwood oil,
2. A strengthening of USD against AUD with the rate moving from US\$0.94 to US\$0.82,
3. Benefit of increased plantation ownership, with 2,318ha directly owned by TFS (31 December 2013: 1,714ha), and
4. Increased maturity of the plantation assets.

Largely as a result of the revaluation, net tangible assets increased 8% to \$391.8 million (30 June 2014: \$363.3 million). The valuation of TFS's sandalwood plantation was assessed by the Company’s new auditor, EY.

TFS had \$30.1 million cash at 31 December 2014 (30 June 2014: \$88.6 million), with the net outflow largely a result of the acquisition of established plantations, land and capital equipment totalling \$43.2 million in the six month period.

TFS expects significant net cash inflows in H2 FY15 to increase its cash position at 30 June 2015. These include the recent settlement of a \$24 million investment from a new institutional investor in TFS’s Beyond Carbon product (as announced on 16 January 2015) and increased inflows from retail and institutional plantation sales, which are weighted towards the second half of the year.

Mr Wilson said, "The Company's strategy is to increase TFS's direct ownership of the underlying assets. Our deployment of capital in this six month period has been consistent with this, with over \$30m invested in land and trees. We expect cash balances to build over the next six months and we are on track to achieve this after the settlement in January of \$24 million by a Hong Kong institutional investor."

Outlook

TFS upgrades its expected full year earnings guidance to at least \$90 million NPAT and reiterates guidance for a 10% year-on-year increase in Cash EBITDA. The upgrade to NPAT (from at least \$70 million) is largely a result of the higher valuation of TFS's sandalwood plantations following the increase to the oil price and the strengthening of the US dollar.

TFS earnings have consistently been skewed to the second half of each financial year given the nature of the Company's operations and sales cycle, with retail and institutional sales typically finalised in the second half of the financial year.

Operationally, TFS has received orders for more than one tonne of its pharmaceutical grade sandalwood oil from Galderma, under the existing long-term supply agreement. This follows the launch of Galderma's Benzac® Acne Solutions products in late December 2014. TFS will process additional oil in Q4 FY15 when the harvest of its second commercial plantation is completed in Q4 FY15.

Mr Wilson said, "We are excited about the recent launch of Galderma's acne products and look forward to providing an update on sales of Benzac® later in the year, after Galderma commences its full marketing and advertising campaign and achieves the planned additional roll out across stores in the US.

"We will also meet our strategy of a targeted 1,500 hectares of new plantings in FY15, with planting to commence in April, and will continue to advance our direct ownership of plantations.

"Pleasingly, there is strengthening demand for investment in new plantations, which we expect will translate into strong domestic sales during the traditional selling season in the second half of the financial year."

-ENDS-

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ABOUT TFS

TFS Corporation Ltd ("TFS", ASX: TFC) is an owner and manager of 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 from Albany, Western Australia.

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 Indian sandalwood plantations in the world, with over 9,000 hectares planted of which TFS owns directly and indirectly over 3,200 hectares. TFS plantations are managed on behalf of both institutional, high net worth and MIS investors.

In 2014, TFS completed its first commercial harvest of its Indian sandalwood plantations and, via its 50% subsidiary Santalis Pharmaceuticals Inc., entered into a long-term supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company.

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 INDIAN SANDALWOOD

Indian sandalwood 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, Indian sandalwood is the world's most expensive tropical hardwood and continues to increase in price each year.

Indian sandalwood oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, aromatherapy, Indian consumer products and for pharmaceutical and medicinal purposes (including Ayurvedic and Chinese medicine) and the wood is used for high quality carvings and artefacts and religious worship in the Hindu and Buddhist faiths.