

13 November 2015



## **ASX Release**

### **Chairman's Address 2015 Annual General Meeting**

#### **Year in review**

When I reflect on the past 12 months at TFS, I am extremely pleased that the Company has either delivered on or exceeded its expectations for the year. During my first address to you here 12 months ago, I outlined three key opportunities we would target to grow TFS, in line with our 'soil to oil' strategy. These were:

- Firstly, increasing the amount of TFS-owned Indian sandalwood plantations;
- Secondly, controlling more of the value chain; and
- Thirdly, working with end market participants to establish high value uses and increased sales of our oil.

This growth strategy was supported by our strong market position through our pharmaceutical grade sandalwood oil; high barriers to entry; and sustainably high demand from a broad range of end markets, including the pharmaceutical, fragrance, cosmetic, and traditional markets.

Firstly, TFS increased the amount of Indian sandalwood plantation estate it owns by 10 per cent to 3,493 hectares, or approximately one-third of the total estate. Importantly, the total estate grew by 16 per cent to 10,583 hectares, after TFS completed more than 1,500 hectares of new plantings in the year. To put this into context, approximately 4.5 million Indian sandalwood trees are growing in plantations owned or managed by TFS across northern Western Australia, the Northern Territory, and northern Queensland. This estate now has an audited value of nearly \$2 billion. This scale truly demonstrates our leading position in the market.

Secondly, TFS extended control of the value chain through the acquisition of our US pharmaceutical partners, Santalis and its sister company ViroXis. These acquisitions have extended TFS's 'soil to oil' strategy to 'soil to oil to shelf' by providing TFS with direct control of the companies exclusively developing pharmaceutical products containing TFS's high value sandalwood oil. The purchase was structured with a low upfront cost and it enables TFS to capture downstream revenues from royalty and licence fees, accelerate development of products containing Indian sandalwood, and expand the end-markets for our sandalwood products, driving sales volumes and revenue.

Thirdly, TFS worked with its end market partners to establish high value uses and sales growth for our oil. In the year, our pharmaceutical grade Indian sandalwood oil was exposed to the largest teen acne market in the world, the United States, when the Nestle-owned international dermatology company Galderma officially launched its over-the-counter Benzac<sup>®</sup> Acne Solutions regimen there. Meanwhile, TFS supplied Indian sandalwood oil to the European fine fragrance market and advanced development of additional over-the-counter pharmaceutical products as we expand the end markets we are developing in the near-term. These

end markets also include the cosmetics and traditional Chinese wood market, which we are also targeting in the lead up to the 2016 harvest.

Delivering on these three key prospects throughout the year represents the ongoing maturity and evolution of the Company and the opportunities available to it. These successes highlight the excellent progress TFS is making to transform from purely a grower and manager of plantations to also processing and selling the wood and oil to end markets as well as developing new pharmaceutical products that use TFS sandalwood oil.

FY2015 was also a very successful year for TFS financially. The Company reported a net profit after tax of \$113.0 million and cash EBITDA of \$57.5 million, both record results for the Group, higher than the prior year and ahead of guidance. This was supported by increases in sandalwood product sales and lease and management fees, as well as ongoing strong demand for new plantations. It was also pleasing that all growers' trees increased in value in the year. Importantly, TFS recorded threefold growth in cash from operating activities, at \$24.6 million. The Board elected to maintain a final dividend of 3 cents per share.

### **Governance and Board**

Before moving ahead to the outlook I want to briefly reflect on our corporate governance and changes to the Board in the past year.

An excellent standard of corporate governance remains a priority for the Board. A key change made in the year was the separation of the Board Audit and Risk functions into two different committees. This ensures that each important function receives the appropriate attention. New director Michael Kay will Chair the Risk Committee and will be supported by the new appointment of a Compliance and Risk Manager. TFS will continue to identify and progress further improvements so that the Company has the right mechanisms in place that reflect TFS's evolution and corporate maturity, and in doing so support our ability to deliver stronger returns for TFS shareholders.

TFS also undertook a significant Board refresh and expansion program in the year to ensure there is the right skill set in place to support the Company's growth. My fellow directors John Groppoli, Gillian Franklin, and Michael Kay were all appointed as Independent, Non-Executive Directors in financial year 2015. Individually, each new director has brought relevant commercial experience and expertise to TFS. As a collective they are committed, strategic group of directors who are intent on ensuring TFS can reach its full potential and capitalise on the opportunities available to it. We have a first rate board and I would like to thank the directors for their invaluable input throughout the year.

### **Outlook**

Looking forward to the 2016 financial year, TFS is expected to increase its cash EBITDA by another 5 to 10 percent. We are also on schedule to plant a further 1,500 hectares of sandalwood trees during the year and will target existing and additional investors for new plantations. We also intend to continue extending TFS's ownership of Indian sandalwood plantations and Frank will talk more about this later.

Meanwhile, we are well advanced in processing Indian sandalwood trees harvested from our second vintage late in FY2015 into oil. The oil will be used to supply our markets in China and Europe as well as to continue supplying the US pharmaceutical market, via Galderma. In addition, TFS is expected to complete its third harvest late in the 2016 financial year. This harvest will be our most meaningful yet. It is expected to provide more than 300 tonnes of heartwood, a ten-fold increase on the second harvest, which will enable TFS to target distribution of our sandalwood products to additional high-value end markets that the Company has not yet been able to supply.

As TFS's harvests grow, a clear priority is to not only manage the operational expansion of those larger harvests, but also secure the opportunity to supply high-value end markets. This includes developing new products that capture the clinical need and commercial opportunity for our pharmaceutical grade sandalwood oil. For example, last month we announced trials of an oral rinse formulation containing sandalwood oil to treat a cancer side effect. Dr Paul Castella, CEO of our US-based subsidiary Santalis, will expand on the relevance of our Indian sandalwood oil in pharmaceutical products and explain our development pipeline and strategy for pharmaceutical products during the upcoming presentation. I would like to thank Paul for travelling from the United States to make himself available here today. The breadth of end markets extends beyond pharmaceuticals though, and in the year we are also targeting further opportunities in the cosmetic, Chinese wood, and fine fragrance markets. Our objective is to finalise supply agreements into these end markets in the lead up to the 2016 harvest.

I would like to take this opportunity to thank TFS's management and staff for their efforts throughout the year. I would also like to thank TFS shareholders for their continued support. I am delighted with what TFS has achieved over the past twelve months and believe we are well positioned for further success in the years to come as we deliver on our 'soil to oil to shelf' strategy.

**-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 commercial Indian sandalwood plantations in the world, with over 10,500 hectares planted of which TFS owns directly and indirectly nearly 3,500 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 subsidiary Santalis Pharmaceuticals, entered into a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company wholly owned by Nestle.

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 which continues to increase in price each year.

Indian sandalwood 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 Indian sandalwood 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 Indian sandalwood oil.