



Level 9, Marine Board Building
1 Franklin Wharf
Hobart, Tasmania 7000

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Lodgement of Market Briefing**

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Market Briefing

Tassal MD & CEO on FY2016 results and growth outlook

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 FY2016 result and growth outlook, including:

- *Continued growth in earnings during challenging operating conditions*
- *Increased dividend – amount and franking – while continuing to invest in the business*
- *Successful completion of the integration of De Costi Seafoods*
- *Outlook for FY2017.*

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FY2016 saw Tassal continue to grow operational earnings through a period of challenging operating conditions which included constrained fish growth due to warm summer and autumn water. Can you please discuss how the company has managed to achieve this?

Mark Ryan

Tassal's full year result once again highlighted the resilience of the company's business model despite the higher fish costs due to the warm water environmental conditions and locked in sales mix over the past 12 months.

Revenue rose 39.1% to \$430.9 million, as the Salmon business continued to benefit from Tassal's strategy which is aimed at increasing domestic market per capita consumption of Salmon and Seafood.

Even with higher fish costs for the Salmon harvested and relatively locked in domestic channel sales, the Company was able to optimise returns due to improving wholesale market sales prices and production and supply chain efficiencies. Our focus was to achieve a sustainable contribution margin. Combined with a full twelve months' results from De Costi Seafoods, operational EBITDA was up 13.2% to \$82.2million.

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During FY2016 Tassal chose not to tender for the Coles and Simplot fresh Salmon business. Why was this necessary?

Mark Ryan

Tassal strives to generate and maintain sustainable margins and returns. To do so can require a rebalancing of the sales mix within our sales channels to ensure we optimise the returns generated. We believe that we cannot grow returns in an optimal manner with such a high percentage of retail sales volume and pricing locked in, particularly when pricing pressure is pushing prices lower.

In FY2016, we experienced supply restrictions due to warm summer and autumn water temperatures slowing the growth of our fish. Reduced supply in the Australian market saw wholesale prices increase, at the same time as export prices also increased given global supply constraints. However, we were unable to adjust retail prices to accommodate for the increased cost of growing fish.

As a result, when these fresh Salmon supply agreements came up for renewal, and with an eye to ensuring we optimise returns, we took a view that if we were unable to generate a minimum return level from fixed price agreements, we would withdraw and realign our sales mix in a managed and sustainable way to sell more into the Australian wholesale market and the export market where more attractive returns could be achieved.

In addition, by being able to sell less volume at higher prices, we are able to allow our fish in the water to recover and build our Salmon biomass to deliver sustainable longer term Salmon growth. This is important so that we can optimise farming, processing, and sales efficiencies and returns, with the aim of delivering global best practice operational returns.

Shifting the sales mix to the wholesale and export market is in line with our objective of maximising sustainable shareholder returns. The overarching strategic focus for Tassal is to deliver sustainable global best practice returns from an operational, financial and environmental perspective, effectively a 'balanced scorecard' approach.

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Operating cash flows increased during the year, do you expect this to continue?

Mark Ryan

Given the challenging operating environment in FY2016, we were really pleased with the increase in operating cash flow to \$50.2 million. This reflected the resilience of our business model where operating cash flows were able to increase even during a period of warmer water temperatures that slowed Salmon growth and resulted in poorer fish performance and increased fish costs.

Our ability to maintain operating cash flows in this operating environment was due to our focus on optimising returns and our ability to generate sustainable contribution margins. With supply shortages across domestic and global supply, we were able to achieve higher wholesale and export pricing during the second half and also implemented a reduction in retail sales promotional spend.

Cash flows continue to be prudently managed 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. Pleasingly, in FY2016 we were able to again produce positive free cash flow, while also increasing our dividend and franking, with dividends up 7.1% to 15.0 cents per share and the final dividend being 100% franked.

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The current wholesale and export salmon price are high. How is Tassal managing any downside price risk?

Mark Ryan

Although current high salmon pricing in wholesale and export markets are forecast to continue in FY2017, this is not without risk. However, we now have a greater ability to flex supply and sales mix to take advantage of changes in pricing while still maintaining a strong retail business. We believe that our sustainability credentials make us an attractive offering.

The key sales periods for both the wholesale and export markets are at both the Christmas and Easter periods. These periods coincide traditionally with periods of lower supply from our global competitors, together with periods where we have our biggest fish size and therefore, Tassal is an attractive supplier in periods of time where we maximise the efficiencies of our Salmon.

Given the lower supply has been flagged by the various global producers, we believe that attractive market conditions should remain. Further, with a lower AUD/USD exchange rate, this also ensures that imports will be less attractive for the Australian market and exports become more attractive for the Australian producers.

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How has Tassal's Salmon business performed?

Mark Ryan

Overall, Salmon performance and returns over FY2016 were in-line with our expectations given the challenging operating environment that saw the warmest temperature profile on record. The warm water temperature continued for an extended period of time and in turn, resulted in higher operating costs and lower growth in overall Salmon biomass.

We are continuing to successfully execute our domestic market per capita consumption strategy for Salmon. Even with contracted supply obligations to the retail channel, Salmon sales showed continued strength. Financial returns from the domestic market are more sustainable and higher (on average) than the export market.

With the strategic rebalancing in sales mix leading into FY2017, we are balancing the longer term certainty of retail sales with the shorter term benefits of higher margin wholesale sales. The aim of this conscious management of sales mix will also optimise Salmon growth. Accordingly, operational and financial returns will be delivered in a balanced and sustainable way.

Pleasingly, growing conditions are currently favourable with cool water temperatures since May 2016. The forecast is for a favourable Salmon growing environment during winter and spring 2016, which provides a positive platform for FY2017.

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How has the successful integration of De Costi Seafoods benefited Tassal's overall strategy and returns during FY2016?

Mark Ryan

Our overall strategic focus is to deliver sustainable global best practice returns from an operational, financial and environmental perspective – while operating at a zero harm safety level.

Following the successful acquisition and integration of De Costi Seafoods, Tassal's total addressable market opportunity has grown from \$700 million to \$4.3 billion annually. De Costi Seafoods has been restructured and aligned from a people, process, plant, equipment and profit perspective, and now has a solid and sustainable platform to drive future growth that is aligned with Tassal's business model.

The restructure and alignment process successfully implemented during FY2016 has allowed Tassal to achieve efficiencies within the Seafood supply chain and create synergies that have underpinned growth in earnings. The benefits from the initiatives successfully implemented in the De Costi Seafoods business are expected to flow to its performance from FY2017.

The underlying earnings from De Costi Seafoods for FY2016 validated our acquisition of this business through delivering 65.6% of the earn-out target for George Costi as the previous owner. The earn-out target was effectively set so as to deliver additional consideration to George on the basis that the underlying earnings were in excess of a five times multiple of EBITDA for any given period. This earn-out is in place for three years. Upfront consideration for De Costi Seafoods was based on a five times multiple of EBITDA of \$10 million.

Overall, earnings from De Costi Seafoods have diversified Tassal's Group earnings, providing for a more sustainable mix of earnings going forward.

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In closing what is the outlook for the FY2017?

Mark Ryan

Tassal's strategic shift from a purely vertically integrated Salmon company to a Salmon and Seafood company has opened up strong growth opportunities. The acquisition and successful integration of De Costi Seafoods has positioned Tassal as the market leader in Salmon and Seafood in Australia.

In line with Tassal's Strategic Plan, the overarching focus for FY2017 is to continue to increase domestic Salmon and Seafood consumption while ensuring that operational and asset returns are maximised.



The operational program and refocussed sales mix now in place will allow Salmon stock to recover and build up standing biomass and fish size to a point that will allow the Company to optimise farming, processing, and sales operational returns. Tassal's evolving sales mix supports the maximisation of overall returns to shareholders.

From an operational perspective, Tassal has put in place a Salmon operating platform to deliver global best practice cost of growing and supply chain returns. Tassal will continue with its marine growth plan and efficiency activities within the supply chain.

The De Costi Seafoods acquisition has provided the Company with a key plank for Eastern Seaboard distribution of Seafood, and Tassal will continue to capitalise on this to drive seafood sales and category growth. The acquisition has enabled Tassal to optimise profits in the short term whilst driving improved cash flows and asset returns in the medium term.

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Thank you, Mark.

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

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