

Tassal Group Limited

FY16 Results



Mark Ryan, Managing Director & CEO
Andrew Creswell, CFO

19 August 2016

Delivering growth in a challenging operating environment



"The FY16 result delivered continued growth in operational earnings, reflecting Tassal's resilient business model."

"FY17 has commenced with favourable Salmon pricing in wholesale and export markets, together with a favourable sales mix underpinning our focus to cover increased costs."

Safety

No job is so important that it cannot be done safely



Overall:

- Tassal's safety performance improved over FY2016 – safety achievements would be considered satisfactory
- However, until Tassal delivers its core value of Zero Harm – we will rank ourselves as operating at an **unacceptable level**

KPIs	FY15	FY16
LTIFR	0.6	0.00
MTIFR	29.6	24.5
TRIFR	30.2	24.5
Scorecard measure	95.0%	96.4%

Definitions:

LTIFR – Lost Time Injury Frequency Rate: (Number of Lost Time Injuries/Total Number of Hours Worked) X 1,000,000 hours

MTIFR – Medical Treated Injury Frequency Rate: (Number of Medically Treated Injuries/Total Number of Hours Worked) X 1,000,000 hours

TRIFR – Total Injury Frequency Rate: LTIFR + MTIFR

Key developments:

- AS 18001 & 4801 certification achieved across all sites
- Previously established lead & lag indicators from a safety perspective are trending in the right direction
- Primary indicators positive - focus is to drive TRIFR to below 20.0

Operating environment



Continued growth in operational earnings in a challenging market environment reflects Tassal's resilient business model

Salmon – managing sales mix to optimise returns

- Tassal's product and sales initiatives, coinciding with ongoing growth in domestic market per capita consumption, underpinned revenue and earnings growth
- Even with higher fish costs for Salmon harvested during FY2016 and a high level of retail sales locked in, Tassal was able to maintain its returns due to operational efficiencies and sustainable contribution margins
- For FY2017, targeting to take advantage of a more favourable sales mix and pricing environment
- From FY2017 onwards, focus is to deliver strong gains in biomass growth, feed conversion and reductions in bathing for AGD – which will in turn drive operating cost efficiencies and a move closer to global best practice operational returns from fish performance

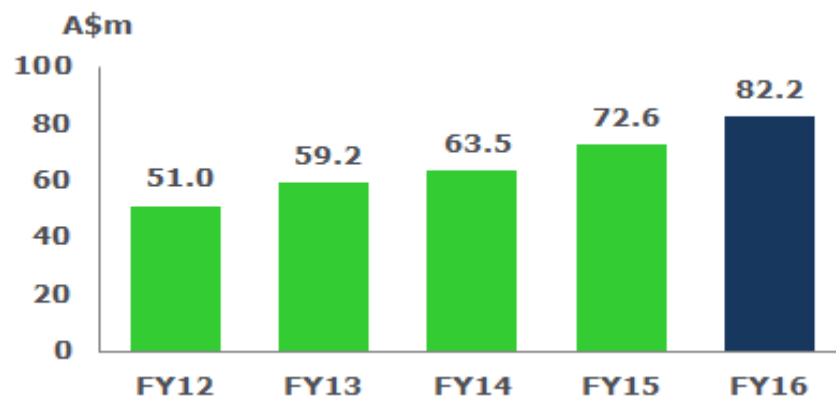
Seafood – successful integration of De Costi Seafoods

- Successfully completed our plan to restructure and align De Costi Seafoods' business – business now integrated and broadly generating the results we anticipated
- Based on the results for De Costi Seafoods for FY2016, Tassal will issue 2.1 million shares under the earn-out provisions – equates to 65.6% of the maximum earn-out. This was the first year of a 3 year earn-out
- On adding back the \$1.1m of compliance, restructuring, alignment and integration costs, this maintains a circa 5X EBITDA multiple for this business
- For FY2017 onwards, De Costi Seafoods provides a solid, efficient and scalable platform to support Tassal's strategic growth initiatives

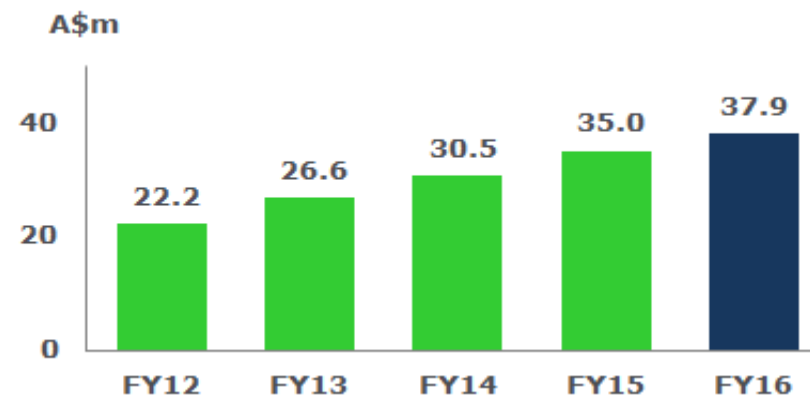
Continuing growth trajectory



Operating EBITDA: \$82.2m

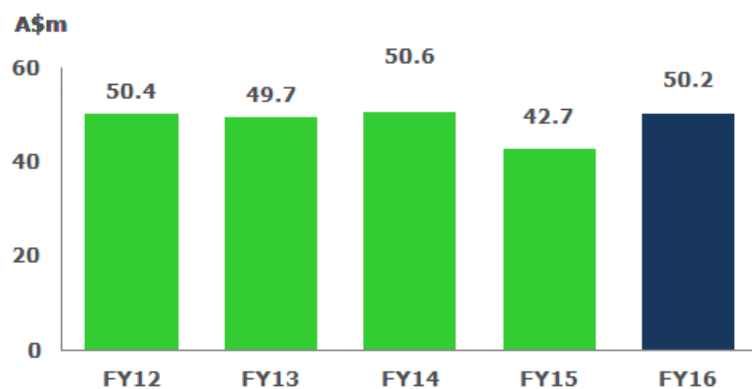


Operating NPAT: \$37.9m

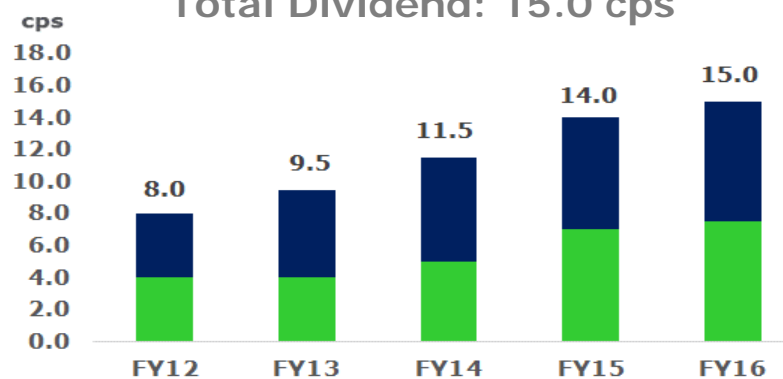


- Statutory EBITDA up 3.5% to \$97.3m
- Statutory NPAT down 3.0% to \$48.5m

Operating Cashflow: \$50.2m



Total Dividend: 15.0 cps



Sustainability



Global best practice environmental returns continue to be delivered

- Aquaculture Stewardship Council (ASC) certification underpins all current Salmon marine leases ... only global Salmon company to achieve this
- Global number 1 ranking for reporting for Seafood companies globally ... global number 1 ranking for Salmon companies as per the independent *Seafoodintelligence.com*
- Global best practice breeding program in place
- Effective adaption of sustainability focus & techniques with changing environments
- Continued focus on fish health and performance (fish safety)
- Community acceptance to enable growth and flexibility of operations
- Delivery supported by best on ground people & interdependent team

Operational & financial performance



"The FY16 result delivered continued growth in operational earnings, reflecting Tassal's resilient business model."

Results

Growth in revenue, earnings, cash flow and dividend



Financial Performance (A\$m)	2016	2015	Change
Statutory results			
Revenue	430.92	309.79	↑ 39.1%
EBITDA	97.29	93.97	↑ 3.5%
EBIT	76.28	75.60	↑ 0.9%
NPAT	48.49	49.99	↓ (3.0%)
Operating results			
Operating EBITDA	82.18	72.59	↑ 13.2%
Operating EBIT	61.17	54.22	↑ 12.8%
Operating NPAT	37.92	35.03	↑ 8.2%
Operating cashflow	50.22	42.70	↑ 17.6%
Final dividend - cps	7.50	7.00	↑ 7.1%
Total dividend - cps	15.00	14.00	↑ 7.1%
Gearing Ratio	33.5%	17.6%	
Funding Ratio	44.6%	34.9%	

- Increased gearing and funding ratio due to De Costi Seafoods acquisition funding
- SGARA (post tax) was \$10.57m in FY16 (FY15: \$14.97m)

Operating Revenue			
Operating Revenue (A\$m)	2016	2015	Change
Domestic	412.14	295.73	↑ 39.4%
Export	13.05	8.37	↑ 56.0%
Total Revenue	425.19	304.09	↑ 39.8%

Operating Revenue – Salmon & Seafood			
Operating Revenue (A\$m)	2016	2015	Change
Salmon	359.97	304.09	↑ 18.4%
Seafood	65.22	0.00	
Total Revenue	425.19	304.09	↑ 39.8%

Sales



Domestic Revenue up 39.4% - Salmon Revenue up 17.3%

Domestic market	2016	2015	Change	
Salmon Volume (Hog equiv tonnes)	26,005	22,258	↑	16.8%
Salmon Average Price (\$/Hog kg equivalent)	13.34	13.29	↑	0.4%
Salmon Revenue (\$m)	346.92	295.73	↑	17.3%
Seafood Revenue (\$m)	65.22	0.00		
Total Revenue (\$m)	412.14	295.73	↑	39.4%

- **Domestic market** – continued growth in Salmon, together with full twelve months of De Costi Seafoods
- Moving forward, the focus is increasing domestic Salmon & Seafood per capita consumption – underpinned by rebalancing the sales mix and ensuring appropriate pricing

Export Revenue up 56.0%

Export market	2016	2015	Change	
Salmon Volume (Hog equiv tonnes)	1,172	886	↑	32.3%
Salmon Average Price (\$/Hog kg equivalent)	11.13	9.44	↑	17.9%
Salmon Revenue (\$m)	13.05	8.37	↑	56.0%

- **Export market** – used toward end of FY16
- Moving forward, export market conditions appear attractive – global supply constraints, increased pricing and lower Australian dollar

Sales: Domestic



Retail Revenue up 34.1% - Salmon Revenue up 15.5%

Domestic retail market	2016	2015	Change
Salmon Volume (Hog equiv tonnes)	18,330	15,832	↑ 15.8%
Salmon Average Price (\$/Hog kg equivalent)	13.65	13.68	↓ (0.3%)
Salmon Revenue (\$m)	250.18	216.65	↑ 15.5%
Seafood Revenue (\$m)	40.35	0.00	
Total Revenue (\$m)	290.54	216.65	↑ 34.1%

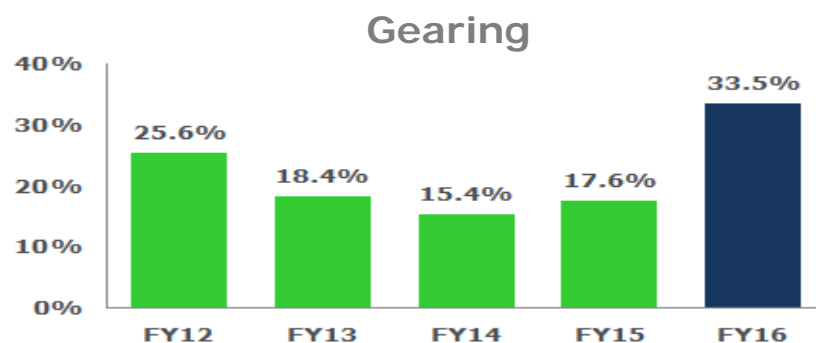
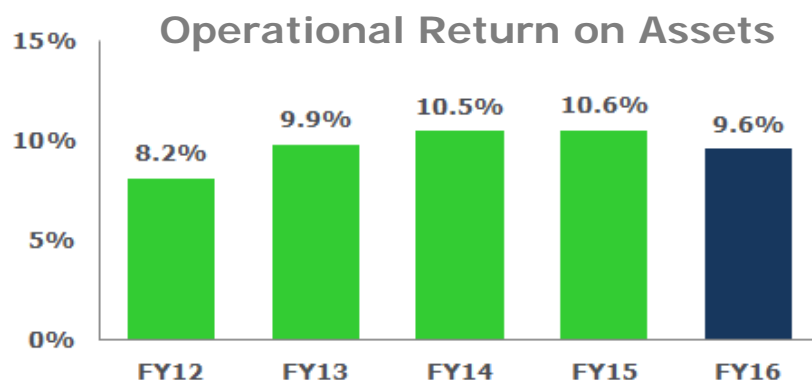
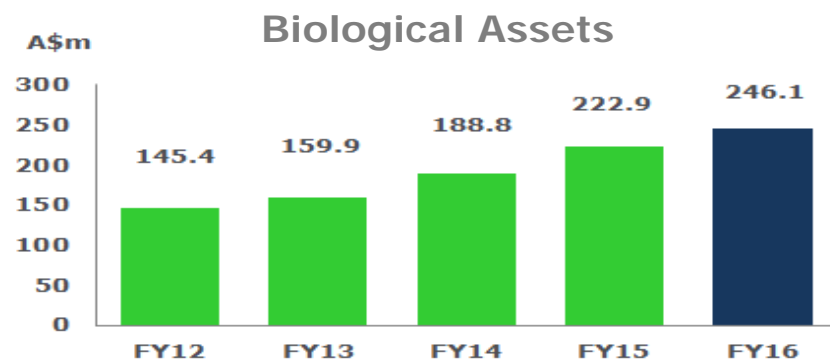
- **Retail market** – continues to be an important channel, however, recently it has become a lower price and margin market ... and is a high cost market to service from both an operational and financial perspective
- Moving forward, it is important to get the sales mix right – so we are not left with a low margin selling environment

Wholesale Revenue up 53.8% - Salmon Revenue up 22.3%

Domestic wholesale market	2016	2015	Change
Salmon Volume (Hog equiv tonnes)	7,674	6,426	↑ 19.4%
Salmon Average Price (\$/Hog kg equivalent)	12.61	12.31	↑ 2.4%
Salmon Revenue (\$m)	96.74	79.08	↑ 22.3%
Seafood Revenue (\$m)	24.86	0.00	
Total Revenue (\$m)	121.60	79.08	↑ 53.8%

- **Wholesale market** – continues to grow broadly inline with Retail market
- Presents greater flexibility with both pricing and timing of sales volume ... with extending the timing of harvest fundamental in optimising Salmon growing and cost of growing efficiencies

Balance sheet



Increased biological assets

- Value of live fish up 10.4% to \$246.1m
- Biological assets support future revenue and earnings growth
- Finished goods down 8.3% to \$55.2m

Operational Return on Assets

- SGARA impact removed from calculation
- Operational Return on Assets sustainable moving forward
- ROA continue to generate returns in excess of WACC

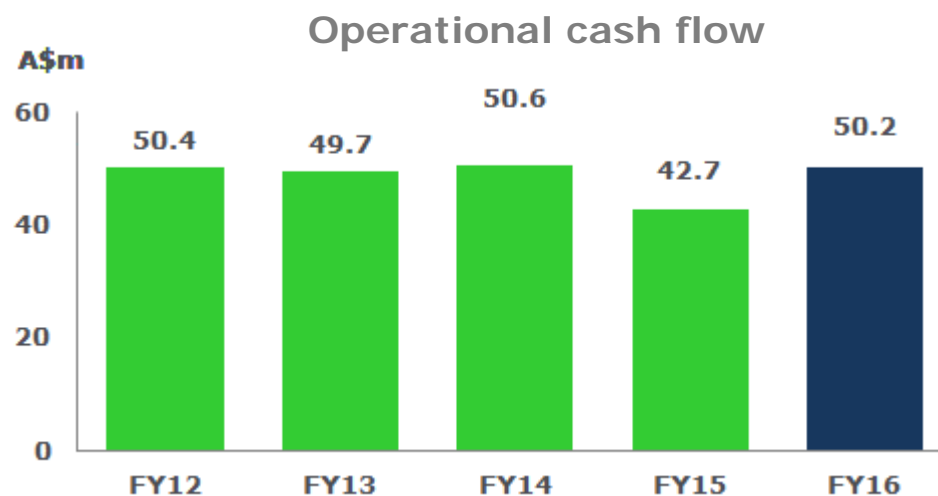
Gearing and funding ratios

- Gearing at 33.5% (FY15: 17.6%) - uplift as a result of De Costi Seafoods acquisition
- Appropriate bank funding arrangements in place – from a structure, headroom and tenor perspective. 5 Year core debt facilities
- Funding ratio, i.e. including RPF (net debt + RPF / equity) at 44.6% (FY15: 34.9%)

Cash flows

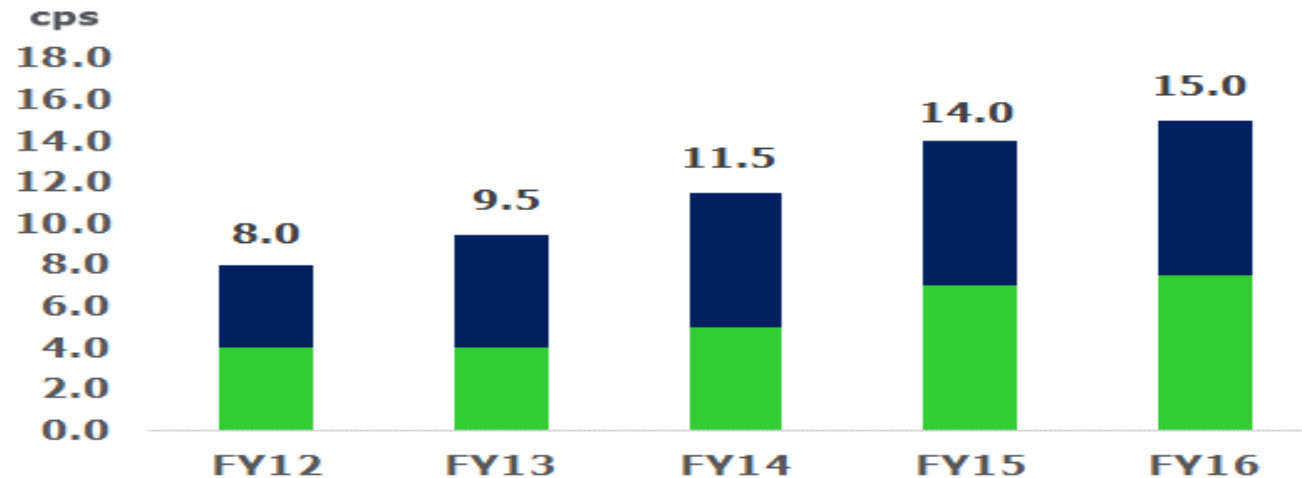


Operating cashflow (A\$m)	2016	2015
Operating cashflow	50.22	42.70
Investing cashflow	(98.53)	(36.64)
Financing cashflow	47.51	(0.39)
Net increase/(decrease) in cash held	(0.80)	5.67



- **Overall, pleasing result** - we continue to focus on positive cash generation from our operations to invest in fish growth from both a number and weight perspective, while undertaking a responsible capital spend to underpin sustainable growth in long term returns
- **Operating cash flow** up to \$50.2m
- **Investing cash flow** of \$98.5m with \$48.9m spent on De Costi acquisition and capex of \$49.6m
- **Free cash flow** positive at \$0.6m (i.e. operating cash flow less capex)

Continuing growth in dividend



- Reflecting continued strong cashflows, balance sheet and attractive growth outlook
- Franking for FY12 to FY15 at 50%
- Franking for final dividend FY16 at 100% - with interim dividend 75% franked
- Franking for all dividends for FY17 onwards will be at 100%
- Dividend Reinvestment Plan reintroduced for FY2016 final dividend – 2% discount rate. No underwriting

Strategy & Outlook



"Overarching 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."

"FY17 has commenced with favourable Salmon pricing in wholesale and export markets, together with a favourable sales mix underpinning our focus to cover increased costs."

Strategy: Overall



Global best practice operational, financial & environmental returns

- Maintain our global leading operating financial returns
- Continue to grow domestic per capita consumption of Salmon ... optimise the sales price and mix
- Grow our share of the Seafood and Salmon markets within wholesale, foodservice and ingredient supply segments
- Grow our share of the Seafood market in the retail segment and in particular the pre packed category ... maintain our Salmon share of retail
- Continue to drive consumer appeal for Salmon and a preference for our brands
- Drive key Seafood species growth and our share of category
- Deliver global best practice cost for growing and supply chain for Salmon
- Deliver global best practice supply chain efficiencies and cost
- Grow our Social licence ... maintain our global leading sustainability position

... underpinning a best practice balanced scorecard

Strategy: Salmon



Global best practice operational, financial & environmental returns

- Optimising sales mix and price is essential. They are the levers that will allow us to ensure best practice returns are maintained whilst we deliver on global best practice cost for growing and supply chain
 - Retail market will remain an important channel to provide stability in pricing and margin, but need to continually assess relative channel and product margins. Prices and margin for retail are on average currently lower than wholesale and export markets
 - Wholesale market remains the most profitable channel – and its importance from a Salmon growing perspective is fundamental as we are able to better match fish supply to demand ... therefore directly supporting a cost reduction focus of our Salmon farming operations
 - Export market provides an opportunity for sales channel mix for bigger fish size to improve margins – focus is on niche markets that pay a premium for our branding and sustainability credentials
- Targeting global best practice cost from a growing perspective. Based on our current analysis, this involves us ultimately moving to an average fish size of 5.00kg Hog
- Ensuring that we deliver on best practice supply chain cost. Supply chain focus is both to optimise processing to account for channel strategy evolution, ensure we have scalability for Salmon growth, and develop new supply chains into emerging markets, such as Asia

... underpinning a best practice balanced scorecard

Strategy: Seafood



Global best practice operational, financial & environmental returns

- The first 12 months of ownership of De Costi Seafoods has seen a concerted restructuring and alignment of the De Costi Seafoods' business to ensure it provides a solid operating platform aligned to Tassal's strategic growth initiatives
- Focussing on growing domestic Seafood consumption is a priority - De Costi Seafoods acquisition was a key plank for optimising Eastern Seaboard distribution of Seafood
- Optimising sales mix and price is essential – while we focus on delivering best practice operational and supply chain returns
- Increasing Tassal's focus on "trading" and contract processing... moving this to "ownership" of emerging aquaculture ventures, through to strategic partnership in Prawns and wild catch species
- Scalability in core species is required ... increase domestic Seafood consumption needs to be underpinned by appropriate access and availability
- Supply chain focus is required to optimise processing and ensure we have capacity, capability and scalability for Seafood growth
- Tassal's best practice supply value chain learnings will continue to be integrated and opportunities will emerge that will provide further synergies to this business

... underpinning a best practice balanced scorecard

FY17: Outlook



Higher wholesale and export market pricing and favourable sales mix

- Overarching focus for FY2017 is to continue to increase domestic Salmon and Seafood consumption while maximising returns. Moving into FY2017, we will have more flexibility to evolve Tassal's Salmon supply and sales channel mix to maximise overall returns
- We are focused on optimising farming, processing, and sales returns, and ultimately achieving global best practice operational, financial and environmental performance through:
 1. The operational program and refocussed sales mix now in place, which 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:
 - Sales initiatives will focus on maximising the opportunities to grow Salmon and Seafood across the domestic market – both retail and wholesale – as well as export
 - Operational initiatives will focus on further optimising the supply value chain via:
 - maximising Salmon growth efficiencies – utilising SBP to deliver on fish growth, improved survival, lower feed conversion ratios and reduced bathing
 - reducing operational costs and moving closer to global best practice from an operational perspective – cost of growing, cost of processing, cost of supply and logistics
 - further optimising supply chain to reduce Seafood procurement costs and complexities
 - further mitigating agricultural risk

FY17: Outlook



Higher wholesale and export market pricing and favourable sales mix

2. Capitalising on the successful De Costi Seafoods acquisition and driving Seafood sales and category growth:
 - Strategically important in stabilising short term profits during times of higher fish costs with production efficiency measures
 - Over the medium term, Seafood sales are forecast to become a material share of overall sales. These Seafood sales will in turn underpin a successful domestic Salmon strategy and to drive improved cash flows and asset returns
 - Maintaining sustainability and environmental initiatives given Tassal's already strong sustainability credentials
- Current favourable Salmon pricing in wholesale and export markets are forecast to continue in FY2017. This is not without risk, with both domestic and global pricing at their highest points for a considerable period of time. However, with greater ability to flex Tassal's supply and sales mix, we are well placed to offset increased Salmon and Seafood costs
- Tassal should be able to continue its growth trajectory and generate increased revenues and operational earnings in FY2017

Summary



"The FY16 result delivered continued growth in operational earnings, reflecting Tassal's resilient business model."

"FY17 has commenced with favourable Salmon pricing in wholesale and export markets, together with a favourable sales mix underpinning our focus to cover increased costs."

In summary...



- FY16: resilient business model delivered growth through a challenging operating period
 - Revenue up 39.1% to \$430.9m (includes De Costi Seafoods)
 - Operational EBITDA up 13.2% to \$82.2m
 - Operational EBIT up 12.8% to \$61.2m
 - Tassal will issue 2.1 million shares under the earn-out provisions for the De Costi Seafoods acquisition – equates to 65.6% of the maximum earn-out and maintains a circa 5X EBITDA multiple for this business
 - Total dividend up 7.1% to 15cps (final dividend 100% franked – interim dividend 75% franked). DRP with a 2% discount
- FY17: positioned for continued growth
 - Favourable Salmon pricing in wholesale and export markets
 - Managing sales mix to optimise returns
 - Salmon operating platform to deliver best practice cost of growing and supply chain returns
 - De Costi Seafoods to drive Seafood sales and category growth
- Strategy: set around delivering global best practice operational, financial & environmental returns – underpinning a best practice balanced scorecard

Appendices



Statutory, underlying & operating results



FY16 vs FY15

	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Result \$'000
Full Year ended 30 June 2016					
Revenue (from all sources)	\$ 430,924	\$ -	\$ 430,924	\$ -	\$ 430,924
EBITDA	\$ 97,294	\$ -	\$ 97,294	\$ (15,111)	\$ 82,183
EBIT	\$ 76,284	\$ -	\$ 76,284	\$ (15,111)	\$ 61,173
Profit before income tax expense	\$ 68,910	\$ -	\$ 68,910	\$ (15,111)	\$ 53,799
Income tax expense	\$ (20,417)	\$ -	\$ (20,417)	\$ 4,533	\$ (15,884)
Net profit after income tax expense	\$ 48,493	\$ -	\$ 48,493	\$ (10,578)	\$ 37,915

	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Result \$'000
Full Year ended 30 June 2015					
Revenue (from all sources)	\$ 309,790	\$ -	\$ 309,790	\$ -	\$ 309,790
EBITDA	\$ 93,965	\$ -	\$ 93,965	\$ (21,378)	\$ 72,587
EBIT	\$ 75,597	\$ -	\$ 75,597	\$ (21,378)	\$ 54,219
Profit before income tax expense	\$ 70,875	\$ -	\$ 70,875	\$ (21,378)	\$ 49,497
Income tax expense	\$ (20,883)	\$ -	\$ (20,883)	\$ 6,413	\$ (14,470)
Net profit after income tax expense	\$ 49,992	\$ -	\$ 49,992	\$ (14,965)	\$ 35,027

- There were no non-recurring items recorded for FY2016. However, there were \$1.1m in compliance, restructuring, alignment and integrations costs incurred in FY2016 in integrating De Costi Seafoods' business into Tassal's operational structure

AASB 141 adjustment



SGARA is only applied to Tassal's Salmon biological assets

- Our biological assets under accounting standard AASB 141 '*Agriculture*' are adjusted on a period end by period end basis, with the adjustment either an uplift or decrement in the future value of biological assets (referred to as "SGARA" accounting)
- The SGARA calculation is applicable to Tassal's Salmon biological assets and allows the future value of those biological assets to be determined. Salmon net market value and volume are the key sensitivities underpinning this valuation
- The biggest sensitivity underpinning the value for AASB141 is the assessment of future sales price and ultimately, net market value. The other key sensitivity is volume of live Salmon biomass in the seawater
- The SGARA uplift for FY2016 was lower than that for FY2015, reflecting management's initiatives in reducing the volume of Salmon product finished goods on hand, coupled with lower live Salmon standing biomass volume at 30 June 2016 as a consequence of summer 2015/16 environmental conditions. This lower volume impact has been offset to a large degree with higher forecast future sales and sales margins (i.e. net market value)
- The SGARA uplift decreased by 29.3% to \$10.6 million after tax (FY2015: uplift of \$15.0 million)