

Tassal Group Limited

1H17 Results



Mark Ryan, Managing Director & CEO
Andrew Creswell, CFO

22 February 2017

Focused on the longer term



"1H17: We have enhanced margins by targeting a more favourable sales mix and optimising salmon pricing. This is despite a higher cost of salmon for 1H17.

Outlook: At the same time, we have successfully grown fish and overall biomass to ultimately deliver cost of growing benefits in later 2H17 and FY18."

Key highlights for 1H17



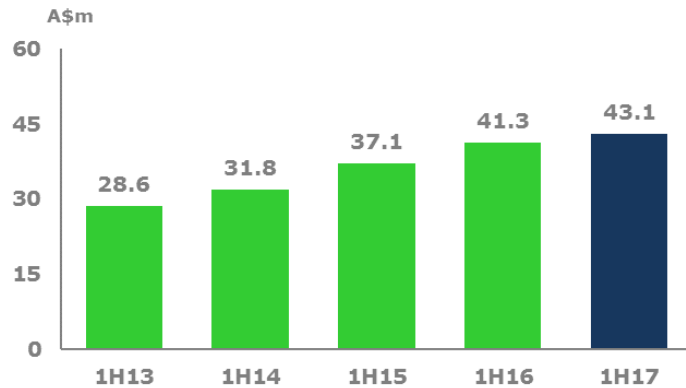
Optimising returns while driving a step change in biomass & fish size

- **Favourable salmon pricing in wholesale and export markets**
 - Local and global salmon stocks adversely affected by environmental factors in 2016 – leading to a higher cost of fish for 1H17
 - Prices are at historical high levels for both domestic wholesale and export markets – anticipated to continue for 2H17 and FY18
- **Managed sales mix to optimise returns**
 - Lowered retail sales to around 53% of total sales (1H16: 67%)
- **Favourable growing conditions – step change in underlying biomass and fish size achieved**
 - Left the salmon in the water longer to optimise growth and deliver scale and operational cost efficiencies in later 2H17 and FY18
- **Investing in feeding and growing salmon as quickly as possible to optimise biomass and size**
 - Leverage favourable growing conditions, with salmon to be harvested in later 2H17 and FY18 benefiting from this investment
- **De Costi Seafoods driving seafood sales and category growth**
 - Focus on highly innovative product and packaging formats, together with higher margin products is delivering results

Continued growth in earnings

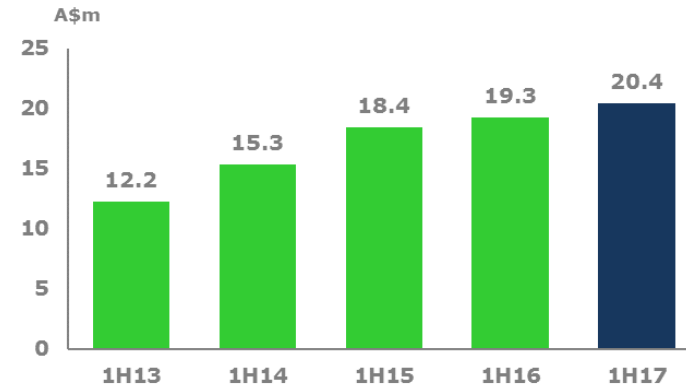


Operating EBITDA: \$43.1m



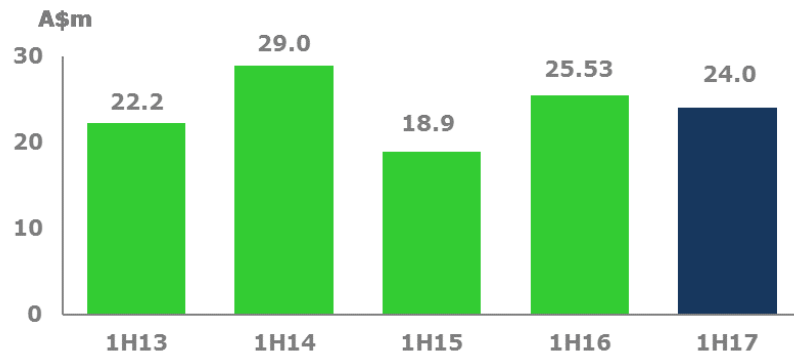
- Statutory EBITDA up 7.2% to \$53.5m

Operating NPAT: \$20.5m

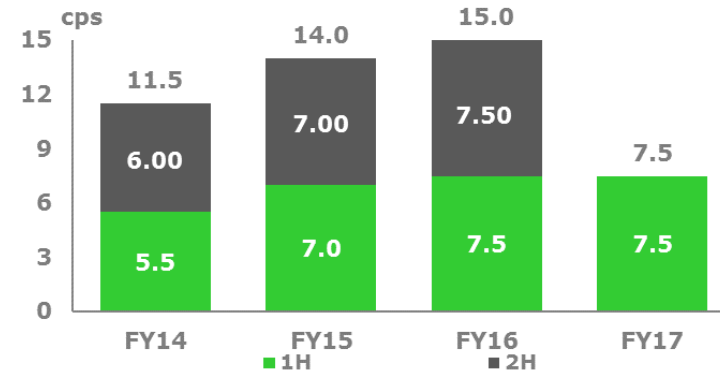


- Statutory NPAT up 9.6% to \$27.7m

Operating Cashflow: \$24.0m



Interim Dividend:
7.5 cps, fully franked



Safety



No job is so important that it cannot be done safely

Overall:

- Tassal’s safety performance improved over 1H17 – achieving all our safety targets
- However, until Tassal delivers its core value of Zero Harm – we will rank ourselves as operating at an **unacceptable level**

KPIs	1H16	1H17
LTIFR	0	0.48
MTIFR	25.58	13.96
TRIFR	25.58	14.44
Scorecard	96.58%	95.75%
Driving the Safety culture scorecard	89.16%	91.33%

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

Sustainability



For truly sustainable aquaculture, we need to maintain a healthy environment to raise healthy fish and make healthy operational and financial returns

- Tasmanian farmed salmon is a global leading, low carbon footprint product, with undisputed health and well-being characteristics
- Environmental leadership has its challenges, particularly where waterways are shared, farms and practices are highly visible, and farm areas are leased from the people of Tasmania
- Tassal has excellent environment credentials and very good compliance across its operations – independently assessed by the Aquaculture Stewardship Council (ASC) in partnership with WWF-Australia
- Macquarie Harbour (MH) has presented environmental challenges that were difficult to predict, even with the best science we had at the time. That does not mean that the Harbour is unsustainable. We are actively engaging with the independent scientific community to better understand how to farm Macquarie Harbour
- We own our part in the current position at MH – the site will recover – it is reversible by nature – we are committed in getting Franklin lease back into compliance
- Integrating the United Nations (UN) 2030 Sustainable Development Goals into all aspects of our business

For Tassal and its stakeholders, our shared challenge is to reach a balance across environmental, social and economic dimensions

Continued growth in earnings



“While Tassal harvested and sold less salmon over 1H17, the Company’s financial and operational returns increased.”

Results



Increasing returns due to changing sales mix

Financial Performance

(A\$m)	1H17	1H16	Change
Statutory results			
Revenue	219.34	226.82	↓ (3.3%)
EBITDA	53.47	49.86	↑ 7.2%
EBIT	43.58	39.41	↑ 10.6%
NPAT	27.73	25.29	↑ 9.6%
Operating results			
Operating EBITDA	43.08	41.26	↑ 4.4%
Operating EBIT	33.19	30.81	↑ 7.7%
Operating NPAT	20.46	19.27	↑ 6.2%
Operating cashflow			
Operating cashflow	24.02	25.53	↓ (5.9%)
Interim dividend - cps	7.50	7.50	0.0%
Gearing Ratio			
Gearing Ratio	34.56%	34.50%	
Funding Ratio			
Funding Ratio	46.86%	50.57%	

Operating Revenue

Operating Revenue (A\$m)	1H17	1H16	Change
Domestic	198.61	219.70	↓ (9.6%)
Export	18.08	4.39	↑ 311.9%
Total Revenue	216.69	224.09	↓ (3.3%)

Operating Revenue – Salmon & Seafood

Operating Revenue (A\$m)	1H17	1H16	Change
Salmon	175.59	188.42	↓ (6.8%)
Seafood	41.10	35.68	↑ 15.2%
Total Revenue	216.69	224.09	↓ (3.3%)

- SGARA uplift was \$10.39m in 1H17 (1H16: \$8.60m)

Sales: Domestic vs Export



Domestic revenue down 9.6%

Domestic market	1H17	1H16	Change
Salmon Volume (Hog equiv tonnes)	10,516	13,057	↓ (19.5%)
Salmon Average Price (\$/Hog kg equivalent)	15.13	14.09	↑ 7.3%
Salmon Revenue (\$m)	159.06	184.03	↓ (13.6%)
Seafood Revenue (\$m)	39.56	35.68	↑ 10.9%
Total Revenue (\$m)	198.61	219.70	↓ (9.6%)

Export revenue up 311.9%

Export market	1H17	1H16	Change
Salmon Volume (Hog equiv tonnes)	1,245	452	↑ 175.5%
Salmon Average Price (\$/Hog kg equivalent)	13.28	9.71	↑ 36.7%
Salmon Revenue (\$m)	16.54	4.39	↑ 276.7%
Seafood Revenue (\$m)	1.54	0.00	↑
Total Revenue	18.08	4.39	↑ 311.9%

- **Domestic market** – rebalanced sales mix and ensured appropriate pricing
- Harvesting and sales held back to optimise salmon biomass growth and fish size
- Long term focus remains on increasing domestic salmon & seafood per capita consumption and optimising margins
- **Export market** – attractive due to global supply constraints, increased pricing and lower A\$
- Medium-term dynamics support current pricing
- Strategically important for bigger fish (which attract a premium price)

Sales: Domestic Retail vs Wholesale



Retail revenue down 25.5%

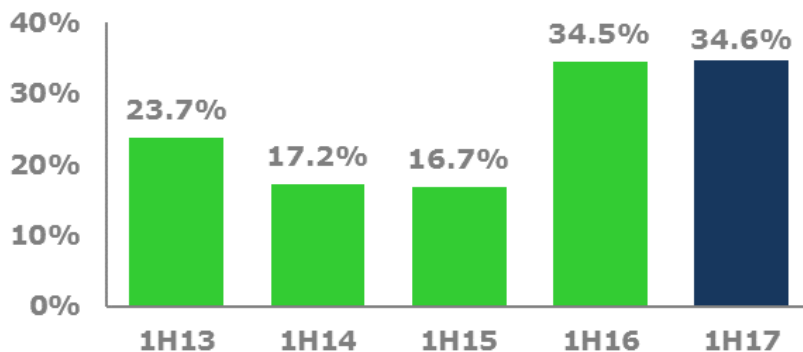
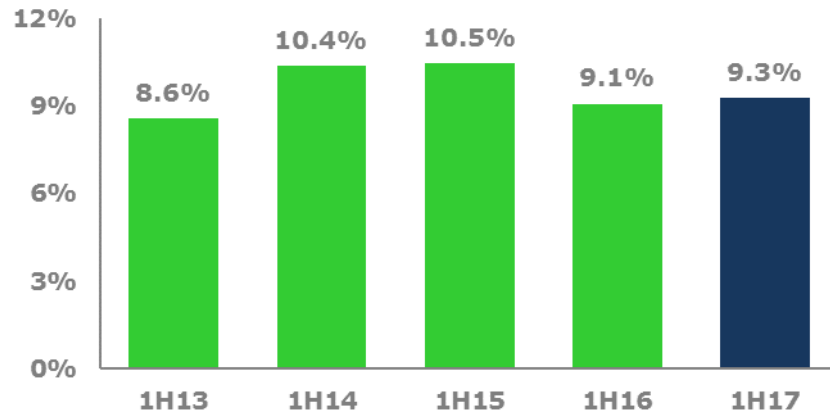
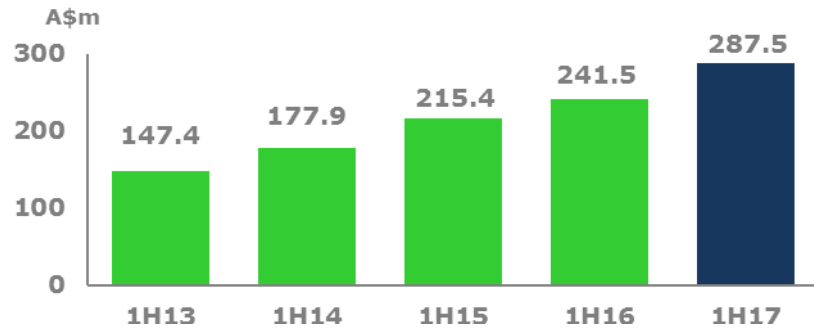
Domestic retail market	1H17	1H16	Change	
Salmon Volume (Hog equiv tonnes)	6,036	8,885	↓	(32.1%)
Salmon Average price (\$/Hog kg equiv)	15.00	15.14	↓	(1.0%)
Salmon Revenue (\$m)	90.54	134.57	↓	(32.7%)
Seafood Revenue (\$m)	26.51	22.44	↑	18.1%
Total Revenue	117.04	157.00	↓	(25.5%)

Wholesale revenue up 30.1%

Domestic wholesale market	1H17	1H16	Change	
Salmon Volume (Hog equiv tonnes)	4,480	4,171	↑	7.4%
Salmon Average price (\$/Hog kg equiv)	15.29	11.86	↑	29.0%
Salmon Revenue (\$m)	68.52	49.46	↑	38.5%
Seafood Revenue (\$m)	13.05	13.24	↓	(1.5%)
Total Revenue	81.57	62.70	↑	30.1%

- **Retail market** – continues to be an important channel
- Required rebalancing as it is now a lower price and margin market, and higher cost market to service
- Moving forward, continue to manage sales mix to optimise long term returns
- **Wholesale market** – provides greater flexibility re pricing and timing of harvest / sales volume
- Moving forward, this market will be important for extending the timing of harvest fundamentals in optimising salmon growing and scale & cost of growing efficiencies

Balance sheet



Increased biological assets

- Value of live fish up 19.1% to \$287.5m
- Biological assets support future revenue and earnings growth
- Finished goods down \$7.82m to \$27.99m

Operational Return on Assets

- SGARA impact removed from calculation
- Operational Return on Assets sustainable moving forward
- Continuing to generate return > WACC

Gearing and funding ratios

- Gearing constant at 34.6% (1H16: 34.5%)
- Appropriate bank funding arrangements in place – from a structure, headroom and tenor perspective
- Funding ratio, i.e. including RPF (net debt + RPF / equity) at 46.9% (1H16: 50.6%)

Cash flow

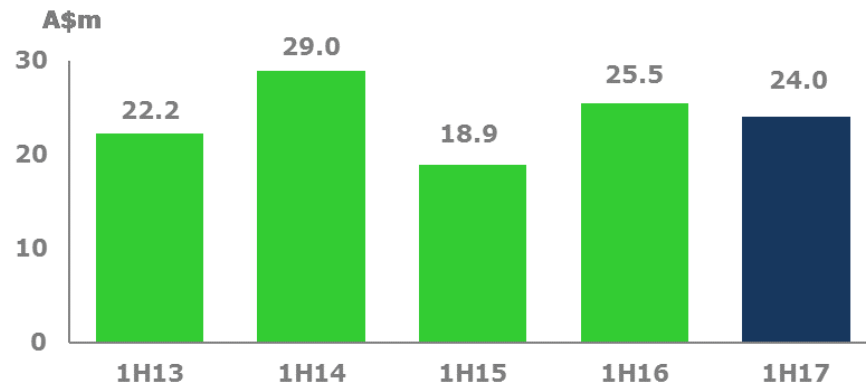


Continued positive cash generation from operations

Operating cashflow (A\$m)	1H17	1H16
Operating cashflow	24.02	25.53
Investing cashflow	(30.44)	(83.67)
Financing cashflow	6.64	61.18
Net increase/(decrease)	0.22	3.04

- Investing in fish growth (number and weight) while undertaking a responsible capital spend to underpin sustainable growth in long-term returns
- 1H17 operating cash flow reflects:
 - Harvesting and sales held back to optimise fish biomass
 - Additional feed was used to take advantage of favourable growing conditions and increasing standing biomass
- Standing biomass (i.e. live biomass) at 31 December 2016 was 24,573 tonnes (30 June 2016: 15,164 tonnes; 31 December 2015: 19,596 tonnes)

Operational cash flow



Dividend now fully franked



- Interim dividend declared of 7.5 cps, fully franked (1H16: 7.5cps, 75% franked)
- Dividends for FY17 and on expected to be 100% franked
- Dividend Reinvestment Plan proposed for 1H17 - 2% discount rate

Strategy & Outlook



“Environmental conditions underpinning fish growth have improved this year, and current favourable salmon pricing in wholesale and export markets are forecast to continue in 2H17 and FY18.”

Strategic focus



Tassal has the right strategy in place in aiming to be a world leading seafood company – from an environmental, operational, financial and societal value perspective

- Strategic focus is to deliver sustainable growth and global best practice returns
 - environmental, financial, operational and societal value
- Continue driving margin and operating cost efficiencies to move Tassal closer to global best practice returns from fish performance:
 - Continuing to optimise salmon sales returns – targeting a more favourable mix and optimising salmon pricing
 - Delivering strong gains in salmon growth, biomass, and feed conversion from its Selective Breeding Program (SBP)
 - Reducing bathing for AGD as targeted in the SBP
- Salmon farming relies on a healthy environment, healthy fish and the support of local communities in which we operate. We recognise we need to balance all of these interests to have a thriving business

We listen – we learn – we innovate – we adapt

Key priorities for 2H17



There's still more to do...

In line with Strategic Plan, the focus for FY17 is to continue to increase domestic Salmon and Seafood consumption while maximising returns and continuously improving environmental sustainability and operational and financial performance

- Enhancing and accelerating innovation, sustainability, environmental and community initiatives
- Continue to build up standing biomass and fish size to a point that will optimise farming, processing, and sales
- Sales initiatives to maximise the opportunities to grow Salmon and Seafood across all markets
- Operational initiatives will focus on further optimising the supply value chain – scale and cost of production benefits
- Capitalise on successful De Costi Seafoods acquisition and driving seafood sales and category growth
- Remediate the Franklin lease back to compliance

Positive outlook



A substantial organic growth runway...

- **Current favourable salmon pricing in wholesale and export markets are forecast to continue in 2H17 and FY18**
 - Not without risk... both domestic wholesale and global pricing are at historically high levels
- **Greater ability to flex supply and sales mix going forward**
 - Ensures Tassal is well placed to offset increased salmon costs resulting from extraordinarily adverse environmental conditions encountered in summer 2015/16
- **Tassal expects that it will be able to continue its growth trajectory and generate increased revenues and operational earnings for FY17 over FY16**
- **Step change in biomass will flow through to salmon earnings with scale and cost of productions efficiencies from fish to be harvested in FY18**

Any questions?



Statutory, underlying & operating results



1H17 vs 1H16

Half Year ended 31 December 2016	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Profit \$'000
Revenue (from all sources)	\$219,387	\$0	\$219,387	\$0	\$219,387
EBITDA	\$53,468	\$0	\$53,468	(\$10,387)	\$43,081
EBIT	\$43,578	\$0	\$43,578	(\$10,387)	\$33,191
Profit before income tax expense	\$39,448	\$0	\$39,448	(\$10,387)	\$29,061
Income tax expense	(\$11,715)	\$0	(\$11,715)	\$3,116	(\$8,599)
Net profit after income tax expense	\$27,733	\$0	\$27,733	(\$7,271)	\$20,462
Half Year ended 31 December 2015	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Profit \$'000
Revenue (from all sources)	\$226,822	\$0	\$226,822	\$0	\$226,822
EBITDA	\$49,856	\$0	\$49,856	(\$8,599)	\$41,257
EBIT	\$39,411	\$0	\$39,411	(\$8,599)	\$30,812
Profit before income tax expense	\$35,777	\$0	\$35,777	(\$8,599)	\$27,178
Income tax expense	(\$10,492)	\$0	(\$10,492)	\$2,580	(\$7,912)
Net profit after income tax expense	\$25,285	\$0	\$25,285	(\$6,019)	\$19,266

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 1H17 was higher than that for 1H16. Salmon biomass (i.e. volume) was up and there was also an increase in sales price underpinning the net market value for future sales.
- The SGARA uplift increased to \$10.4 million (1H16: uplift of \$8.6 million)

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