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Lodgement of Market Briefing**

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Market Briefing

Tassal MD & CEO on FY2017 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 FY2017 result and growth outlook, including:

- *Continued growth in earnings reflecting sales mix optimisation and a favourable operating environment*
- *De Costi Seafoods earn-out*
- *Macquarie Harbour sustainability, and diversified operations*
- *Managing contribution margin*
- *Exports and volatility*
- *Outlook for FY2018*

Market Briefing

FY2017 was a challenging year, yet Tassal managed to continue its growth trajectory and deliver a record full-year result. How have you been able to achieve this in a sustainable manner?

Mark Ryan

Once again, our full year result has proven the effectiveness of our sustainable operating model, as well as the robust fundamentals of our underlying business.

Pleasingly, we were up on all our key metrics, with earnings [EBIT up 11.2%] growing faster than revenue [up 4.5%]. This was in line with our strategy to rebalance sales mix away from lower margin retail channels to higher margin wholesale and export channels.

Even though we have adapted our operations to be less reliant on Macquarie Harbour, and have also incurred a higher cost of fish as we kept fish in the water longer and fed them more, we have delivered a higher contribution margin through optimising sales mix and benefiting from operating efficiencies.

Favourable growing conditions and keeping the fish in the water longer have enabled Tassal to continue to optimise biomass and fish size. Tassal has achieved a 'step change' in its underlying biomass and fish size. In fact, we have achieved a harvest fish

size of circa 4.80kg hog by the end of the financial year. Our ultimate goal is a harvest size of 5kg hog – and this is a key objective for FY2018.

Fish size is being matched to sales market demand both domestically and internationally to support sales mix flexing. This will ensure we optimise the contribution margin Tassal achieves and support the company's growth trajectory in a sustainable way.

Further, in March 2017 we successfully raised \$82.3 million [net] to primarily support strategic efforts to establish sustainable operations at Okehampton Bay, Port Arthur and Storm Bay. A portion of these funds will also be used to invest in improved net technologies and new feeding barges to improve salmon survival rates and feed conversion, accelerate growth in fish biomass, automate production and increase processing capacity.

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Why was there an additional \$6.7 million earn-out for De Costi Seafoods?

Mark Ryan

Our strategic acquisition of the De Costi business is driving seafood sales (including salmon) and category growth by focusing on highly innovative product and packaging formats, together with higher margin products. This focus is delivering results. The \$6.7 million earnout reflected the most recent assessment of the likelihood of the earnout being triggered for FY2018.

Given the increased result, which saw EBITDA for De Costi Seafoods as a standalone operation up 11.4% to \$12.7 million [FY2016: \$11.4 million], Tassal will issue an additional 2.0 million shares under the provisions of the Contingent Consideration. The issue of the shares under the earn-out equates to 60% of the maximum possible earn-out for FY2017, year two of a three year earn-out.

The De Costi acquisition was acquired on a 5 times operational EBITDA multiple at \$10m. The earnout period of over 3 years was structured on effectively maintaining this purchase multiple and our actual and forecast issuing of shares and value maintains this multiple.

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Macquarie Harbour has been the subject of a high level of public scrutiny. How is Tassal maintaining an environmentally friendly and sustainable operation in Macquarie Harbour?

Mark Ryan

Macquarie Harbour continues to receive a high level of media scrutiny and we take our responsibility in our shared waterways extremely seriously. Our aim is to always ensure that our operations are environmentally sustainable for the long term and support growing societal value in the communities in which we operate.

Tassal is determined to ensure the ongoing health of Macquarie Harbour. Importantly, lessons have been learnt from this experience which will form part of our ongoing risk

management and sustainability initiatives in the future to prevent such events occurring not just in Macquarie Harbour, but across Tassal's operations. The situation and environmental impact on Macquarie Harbour was certainly unexpected and difficult to predict, even with the best science available.

The company has acknowledged several unforeseen environmental non-compliances over the summer of 2016-17 at its Franklin lease in Macquarie Harbour. By May 2017, all Tassal leases in Macquarie Harbour returned to compliance from an 'out of compliance' perspective and in-fauna abundance is returning. This was confirmed by recent surveys that confirmed signs of biological recovery.

Tassal has excellent environmental credentials and compliance across its operations. Tassal strives to lead the way in regard to transparency of business operations and as such, we publish an annual sustainability report that details our farming practices including environment interactions. Furthermore, we have been announced as the second highest benchmarked aquaculture business in the world for transparent corporate, social and environmental reporting by *seafoodintell.com*.

This follows a position in the top three globally since 2012, which reinforces the high level of commitment to sustainable reporting and business practices.

We are proud to have maintained Aquaculture Stewardship Council (ASC) certification across all Tassal's operations for harvest fish. In fact, Tassal was the first salmon producer globally to achieve ASC certification across its entire business – and remains one of only two producers globally [the other being Petuna] that holds ASC certification across all harvest sites, which is a remarkable achievement.

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How is Tassal managing the transition/diversification strategy from Macquarie Harbour to Okehampton Bay, Port Arthur and Storm Bay?

Mark Ryan

As we have clearly and consistently stated to the market, in late 2016, monitoring picked up non-compliances at one of our three leases in Macquarie Harbour – the Franklin lease. The other two leases, Gordon and Middle Harbour, continue to be at 100% full compliance.

A decision was made to fully destock the Franklin Lease and it is currently empty with no salmon on the lease per EPA direction. Tassal's Franklin lease achieved full 'out of lease' compliance as at May 2017.

Tassal's business is geographically diversified and it is this diversification that allows a proactive focus on risk mitigation whilst maintaining a strong revenue stream. With our operation spread throughout Tasmania, Tassal can adaptively manage and grow the same amount of fish, and achieve the same biomass growth over its Strategic Plan period to 2025, despite the reduction of fish for the 2017-year class to be input into Macquarie Harbour.

Across our operating areas, we have effective risk mitigation strategies in place that will support our continued growth in a sustainable way. Our growth initiative of farming expansion in Okehampton and oceanic sites in Storm Bay will support sustainable growth

in harvest biomass which is key to fulfilling demand growth in domestic per capita consumption and allowing access to key export opportunities.

Tassal's lease in Okehampton Bay is now approved and we plan to stock fish in August 2017. This, together with stocking fish in our Port Arthur lease will counteract any decrease in our leases within Macquarie Harbour and ensure a strong and geographically diversified business.

We are exploring an eco-aquaculture concept for the Okehampton Bay site, which is co-producing multiple species on one marine lease. This should have local environmental and social benefits as well as increase the output of any given lease. This is in the research and development phase and supports our transition from a "salmon" company to a seafood company.

Through our strategic planning process, we have factored in a reduction in Macquarie Harbour's percentage of total biomass as other new leases come on-stream. Although the reduction at Macquarie Harbour is more than we initially had anticipated, Tassal is well positioned to increase earnings and shareholder value. This is an example of our risk mitigation strategy of geographic distribution, working.

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What's the outlook for costs given the move from Macquarie Harbour?

Mark Ryan

Tassal is geographically diversified and it is this geographic diversification and substantial scale that has allowed the business to manage its contribution margin over time. With our operations spread throughout Tasmania, Tassal is able to adaptively manage and grow the same amount of fish, and achieve the same biomass growth over its Strategic Plan period to 2025, despite the reduction of fish for the 2017 year class to be input into Macquarie Harbour.

It is important to not look at costs in isolation. As we have seen globally, costs have risen, however prices and profitability has increased. At Tassal, we look at optimising contribution margin – whether this is cost out or price increases / sale mix optimisation. Our view is that you need to look at margin in its totality – i.e. price and costs - given there are several levers that determine, and can be pulled, to drive the overall profitability of the company.

The strategies we are pursuing put Tassal in a strong position to best manage costs by enhancing salmon growing performance to reduce operating costs and improve returns. In fact, it is this investment in biomass that is delivering scale and operational cost efficiencies – i.e. the bigger the fish the better the cost efficiencies.

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How will you improve contribution margin going forward?

We have been able to grow and improve contribution margin by increasing the proportion of sales towards higher margin wholesale and export channels. Our ability to flex our sales mix provides us with the opportunity to match fish size to market demand

both domestically and internationally to optimise the contribution margin Tassal achieves.

Favourable growing conditions in FY2017 allowed a focus on optimising biomass and size as salmon was kept in the water longer to optimise growth and deliver optimised margins. By continuing to grow our size of fish towards 5kg hog, we expect contribution margin \$ and \$/kg to continue to grow over the next 5 years.

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Can the domestic market take up the additional volumes you will be producing, and if not, where will you sell that volume?

Mark Ryan

As our operations expand we have been able to achieve greater scale and efficiency; we have an enhanced ability to service both the domestic market as well as the international, export market, particularly for bigger size fish that attract a price premium.

Food is the most critical need for future generations, particularly sustainable salmon - food with a low-carbon profile that is also a superfood. Healthy, sustainable protein is experiencing strong, increasing demand both in Australia and internationally, therefore the fundamentals of demand remain robust and support a forecast increase in domestic demand in the medium term.

Tassal also has the ability to match fish to sales market demand both domestically and internationally to support sales mix. Therefore, if the domestic market does not take up enough of our volume, we have the opportunity to redirect salmon production into the highest margin export channel – which is China. We will be setting up an office in Shanghai with on-ground support late in the first-half of FY2018.

The export market continues to present favourable conditions given supply shortages globally that are expected to continue in the medium term, providing further support to international prices. Tassal will continue to utilise the export market to balance sales volumes in line with optimising shareholder returns.

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With less reliance on domestic retail, does that mean your earnings will now be more volatile?

Mark Ryan

Tassal is experiencing favourable salmon pricing in both our wholesale and export markets. Local and global salmon stocks were adversely affected by environmental factors in calendar year 2016 that lead to lower harvests, smaller sized fish and increased costs of growing, however this has been more than countered by significantly higher salmon prices. Prices are at historically high levels for the domestic wholesale market, and are anticipated to continue in FY2018.

Export pricing, which tends to be more volatile, was also on average higher than previous periods. Although this channel may have historical volatility in pricing, the

higher prices have been buoyed by certain factors such as the supply shock in Chile caused by the algal bloom outbreak that has cut the supply of Chilean fish as well as the impacts of sea lice in Norway.

With our increasing fish size and the fact that bigger fish attract better pricing, we therefore predict higher returns from the export market over the near to medium term.

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With domestic salmon prices now at all-time highs, do you still expect salmon prices to remain robust in the medium term?

Mark Ryan

We continue to experience favourable salmon pricing in both wholesale and export markets. Although local and global salmon stocks were adversely affected by environmental factors in CY2016 this was more than countered by significantly higher salmon prices.

We forecast strong domestic prices to continue into FY2018. Export pricing, which tend to be more volatile, were also on average higher than previous periods. This provides a substantial tailwind for further revenue and earnings growth for FY2018.

To counteract the increased volatility that accompanies a period of high prices, we continue to maintain an ability to flex our supply and sales mix and are proactively rebalancing the sales mix when needed to take advantage of changes in pricing – together with growing bigger fish which attract better pricing.

Our ability to remain agile in this regard provides a natural hedge against any downside pricing risk. The result is that operational and financial returns will be delivered in a balanced and sustainable way that maximises value and minimises risk for our shareholders, employees and the local communities in which we operate.

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In closing, what is the outlook for FY2018?

Mark Ryan

Tassal's 'Right to Grow' strategic priorities guide our path to a sustainable future within our shared Tasmanian waterways. We aim to increase volumes, continue to optimise margins and increase scale to capture the growing demand for sustainable protein both in Australia and internationally.

FY2018 will see Tassal maintaining and growing its domestic and export market channels, especially within the Asian region, as we position ourselves now for the next wave of growth. There is a step change in salmon biomass to harvest and sell in FY2018.

The favourable salmon pricing and growing conditions experienced in FY2017 are expected to continue in FY2018. However, this is not without risk, with both domestic and global pricing at their highest points for a considerable period of time.

Our focus is to position Tassal to grow by 2,500 to 3,000 hog tonnes post FY2018 whilst increasing fish performance. Fundamentally, investing in both fish size and survival is expected to deliver long term improved financial returns. Implementation of improved net technologies and fish feeding barges will support these initiatives.

With Okehampton Bay, Port Arthur and Storm Bay coming online in FY2018, supporting our initiative for sustainable growth in meeting increased demand in other domestic and export markets, this step change in biomass will flow through to salmon earnings with scale and cost of production efficiencies from fish to be harvested in FY2018.

The Board expects that Tassal will be able to continue its growth trajectory and generate increased revenues and operational earnings in FY2018.

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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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