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ASX Release

Full year Profit and Cash EBITDA ahead of guidance

Highlights

- Net Profit After Tax of \$113.0m, up 37% on FY14 (guidance: at least \$90m)
- Cash EBITDA of \$57.5m, up 12% (guidance: up 10%)
- Cash revenues of \$151.2m, up 12%
- Cash flows from operations, up threefold to \$24.6m
- TFS's direct and indirect ownership of plantations up 10% to 3,493 hectares
- Final dividend of 3.0 cents per share, fully franked
- Guidance for continued growth in FY16, with Cash EBITDA to increase by between 5% and 10% on FY15

TFS Corporation Ltd ("TFS", "the Company", ASX:TFC), the world's largest owner and manager of commercial Indian sandalwood plantations, has recorded a Net Profit After Tax of \$113.0 million for the year ended 30 June 2015. Cash EBITDA¹ was \$57.5 million, up 12% on the prior year. Both NPAT and Cash EBITDA exceeded the Company's previous guidance.

TFS's record financial results were supported by a 12% increase in cash revenue to \$151.2 million (FY14: \$135.1 million), which was driven by an increase of 35% in sandalwood product sales and an increase of 29% in lease and management fees relating to plantations managed by TFS. Revenue from establishment fees of new plantations was broadly in line with FY14.

TFS's net assets at 30 June 2015 were \$574.5 million, up 23% on FY14. A change to the accounting treatment of certain MIS schemes not owned by TFS, which dictated their inclusion onto the balance sheet, had no impact on net assets or earnings (as the newly recognised assets were offset by a liability of an equivalent value). This change is detailed later in this announcement.

TFS Chief Executive Officer, Frank Wilson, said he was delighted that TFS delivered so well on its key targets for FY15.

"We made excellent progress this year by achieving and exceeding our key financial and operational goals. With a clear and consistent strategy and a ten-fold increase in harvest volumes expected in the coming year, we are well placed to deliver further strong growth in FY16," Mr Wilson said.

¹ Cash EBITDA equals EBITDA less the revaluation of biological assets, revenue from the recognition of deferred lease and management fees and unrealised foreign exchange movements.

“We have started FY16 with positive momentum. We are receiving strong demand for investments in our Indian sandalwood plantations and expect to grow our margins by increasing plantation prices in FY16. Coupled with rising sandalwood product sales we expect further improvement in our profit and cash generation in FY16.”

“A further key focus for FY16 will be the integration and expansion of ViroXis and Santalis. These recently acquired companies have already successfully licensed one product containing TFS’s pharmaceutical grade Indian sandalwood oil, Benzac®, to Nestle-owned Galderma. Benzac® is now distributed to around 30,000 stores in the US and was recently voted “Best Acne Treatment” by HEALTH magazine. We will look to commercialise additional over-the-counter products in the US markets, as well as advancing a number of our prescription projects, including for eczema following highly promising results from initial trials of a new prescription drug, containing our Indian sandalwood oil,” Mr Wilson said.

Review of financials

TFS reported total revenue² of \$318.0 million, a 50% increase on FY14 (\$212.2 million). This included:

- Cash revenue of \$151.2 million, up 12% on FY14 (\$135.1 million), generated from the sale of:
 - New plantations to institutional, high net worth and retail investors;
 - Plantation management services to plantation owners; and
 - Sandalwood products (including pharmaceutical grade Indian sandalwood oil sold to Galderma); and
- Non-cash revenue² of \$166.8 million, up 116% on FY14 (\$77.1 million). This included a gain of \$136.6 million (FY14: \$63.3 million) on the revaluation of TFS’s sandalwood plantations, resulting from:
 - An increase in the assumed future sales price of TFS’s sandalwood oil (from US\$2,500 per kg to US\$2,800 per kg);
 - A strengthening of USD against AUD (from US\$0.94 to US\$0.77);
 - Increased direct ownership of plantations; and
 - Increased maturity of the plantation assets.

The valuation methodology for TFS’s biological assets was unchanged in FY15 under the Company’s new auditor, Ernst & Young.

TFS generated strong cash flow from operations in FY15, growing threefold to \$24.6 million (FY14: \$7.2 million). At 30 June 2015, TFS had cash of \$72.7 million.

During the year, the Company settled the purchase of 364 hectares of Indian sandalwood plantations acquired in June 2014. The Company intends to continue investing in the acquisition of further Indian sandalwood plantations to increase its direct ownership.

TFS maintained a final dividend of 3.0 cents per share, fully franked, which is due to be paid on 9 November 2015.

² Excluding the gain on the revaluation of the External MIS growers’ interest in biological assets

Review of operations

TFS planted 1,539 hectares of new Indian sandalwood plantations in FY15, in line with guidance and the prior year (FY14: 1,587 hectares). The total estate under management by the Company increased to 10,583 hectares, up 16% for the year (30 June 2014: 9,085 hectares). TFS increased its direct and indirect ownership in these plantations by 10% to 3,493 hectares (30 June 2014: 3,168 hectares).

In Q4 FY15, TFS completed the harvest of its second vintage (“TFS2”), which yielded double the heartwood per hectare of the first vintage of plantations harvested in FY14.

TFS has also acquired the wood owned by the investors in TFS2 after a public tender, which was advertised in Australia, China and India. The Company submitted the highest bid of the four bids received, paying \$123 per kg of heartwood for around 28 tonnes of heartwood. Most of the acquired heartwood will be processed into pharmaceutical grade oil for sale to the US pharmaceutical market.

In FY15, TFS also increased sales of new Indian sandalwood plantations, with 1,533 hectares of new plantations sold to institutional, international high net worth, domestic high net worth and retail investors (FY14: 1,477 hectares). Included in these results were the Company’s first sales to high net worth investors in Asia and the Company expects this market to provide a significant opportunity for growth in FY16 and beyond.

“This has been another year of strong performances from our sales and forestry teams. We have sold all the new plantations available for sale and this is testament to both the economics of sandalwood ownership and the quality of the plantations we manage,” Mr Wilson said.

Consolidation of certain MIS sandalwood projects not owned by TFS

Previously, TFS recognised only its direct interests in the Indian sandalwood trees within each managed investment scheme (“MIS”) on its balance sheet. However, current accounting standards require TFS to consolidate certain MIS sandalwood projects where TFS is the manager and has a significant ownership interest in the project. For the purposes of its financial results only, where TFS’s overall economic interest is 30% or more of the total scheme, the Group considers that it has control over the scheme.

TFS is therefore deemed to control four schemes, being TFS2004 Premium, TFS2005, TFS2006 and TFS2007. As a result, 100% of the assets of each scheme have been recorded as “Biological Assets”, where previously only TFS’s directly owned interests were recognised. Concurrently, TFS has recognised a non-current liability of an equivalent value where the assets are not owned by TFS.

Statement of Financial Position FY15	\$m	Statement of Profit or Loss FY15	\$m
Increase in Biological Assets: external MIS grower interest	120.0	Gain on revaluation of biological assets: external MIS growers	34.2
Increase in Financial Liabilities: external MIS grower liabilities	-120.0	Re-measurement of MIS grower liabilities	-34.2
Change in Net Assets	Nil	Change to Cash EBITDA	Nil
		Change to Net Profit After Tax	Nil

TFS's Audit Committee Chairman, John Groppoli, said clarification of the accounting treatment of these schemes had caused a one day delay to the finalisation of the Company's audited accounts, which had been due for release on Friday 28 August 2015.

"The auditors, EY, have acknowledged this is a highly subjective and judgemental area of accounting introduced in the 2014 financial year with few direct precedents. EY concur with the Company's treatment and agree that the change should have been raised with the Company much earlier in the audit process," Mr Groppoli said.

"Importantly, the consolidation of these schemes has zero impact on TFS's financial position and does not alter the Company's net earnings, cash position or the valuation methodology of the sandalwood plantations.

"While the one working day delay to the release of the accounts is unfortunate we have produced an excellent set of financial results."

Outlook

TFS expects to increase Cash EBITDA in FY16 by between 5% and 10% on FY15. As with previous years, earnings are expected to be skewed to the second half of the financial year as the majority of institutional and retail plantation sales are finalised in the second half.

TFS's third annual harvest, to be completed in 2016, will deliver significantly higher volumes and is expected to provide over 300 tonnes of heartwood (a ten-fold increase on the 2015 harvest). This is expected to enable the Company to distribute its sandalwood products to additional high value end markets, including China, which the Company has, to date, not been able to supply.

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For investor queries, please contact:

Frank Wilson
Chief Executive Officer
Ph: (08) 9386 3299

Alistair Stevens
Chief Financial Officer
Ph: (08) 9386 3299

For analyst queries, please contact:

Gerry Bullon
gerry.bullon@insor.com.au
Ph: 0418 106 675

For media queries, please contact:

Cameron Morse
cameron.morse@fticonsulting.com
Ph: 0433 886 871

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 Inc., 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.