

26 August 2016



## ASX Release

### **Strong FY16 establishes platform for transformational FY17**

#### **Highlights**

- Cash EBITDA of \$62.2m (FY15: \$57.5m), up 8.2% on prior year and in line with guidance
- Over 1,600ha of new plantations established in FY16, ahead of guidance
- Completion of the third annual harvest, with more than 32,000 trees harvested – on track to deliver over 300 tonnes of heartwood, a tenfold increase on the 2015 harvest
- Long-term contracts secured with Chinese and Indian wood buyers
- Supply agreements now in place for the majority of harvests through to 2021
- Strong financial platform established for further growth, with cash balance of \$107.0 million (30 June 2015: \$72.7 million) and debt refinance completed
- Transformational harvest to drive at least a 25% increase in Adjusted Cash EBITDA in FY17

TFS Corporation Ltd (“TFS”, “the Company”, ASX:TFC), the world's largest owner and manager of commercial Indian sandalwood plantations, has recorded Cash EBITDA<sup>1</sup> of \$62.2 million for the twelve months ended 30 June 2016, up 8.2% on FY15 and in line with guidance.

Cash revenue increased 16.1% to \$175.5 million (FY15: \$151.2 million), driven by increases in plantation establishment fees, sandalwood product sales, and management fee income.

Reported Net Profit After Tax was \$90.1 million, down 20.3% on FY15 (\$113.0 million), due mainly to a reduction in non-cash revenue that was driven by a lower net unrealised foreign currency gain of \$19.0 million compared to the prior year (FY15: \$55.7 million).

Through FY16, TFS has entered into long-term agreements with wood buyers in China and India. TFS has now successfully established a broad range of global customers, including oil buyers Galderma and Lush Cosmetics, across its diverse end markets which means the majority of harvests through to 2021 are now forward sold.

TFS’s Managing Director, Frank Wilson, said he was delighted TFS had so successfully achieved the priorities set out for FY16, positioning the Company for a transformational FY17.

“This has been another excellent year of progress. We have achieved our financial targets, entered into major supply agreements, recently completed our biggest harvest of more than 32,000 trees, and successfully refinanced our debt,” Mr Wilson said.

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<sup>1</sup> As in previous years, Cash EBITDA equals EBITDA less the fair value gains on the biological assets, revenue from the recognition of deferred lease and management fees and changes in the fair value of land and building. In addition, Cash EBITDA excludes the non-cash accounting gain associated with Group’s acquisition of Santalis Pharmaceuticals and Viroxis Corporation in July 2015.

“The 2016 harvest is on track to deliver more than 300 tonnes of heartwood, a tenfold increase on the 2015 harvest. With multiple supply agreements for our Indian sandalwood locked in at attractive prices, this harvest will enable TFS to deliver strong growth in cash earnings in FY17.”

“Our ability to finalise long-term supply contracts at attractive prices in the year demonstrates significant global demand for legal, sustainable, and authentic Indian sandalwood. Much of this demand is currently latent because of the scarcity of supply of this rare product and TFS is uniquely positioned with its premium product and increasing harvests to establish a very strong market position.”

## Review of financials

TFS reported total revenue in FY16 of \$268.8 million (FY15: \$325.2 million). This included:

1. Cash revenue of \$175.5 million, up 16.1% on FY15 (\$151.2 million), including:
  - A strong increase of 29.3% in the average establishment fee per hectare for new plantations across institutional, sophisticated and retail investors;
  - Growth in plantation management fees; and
  - Continued positive momentum in sandalwood product sales.
2. Non-cash revenue of \$93.3 million, down 46.4% on FY15 (\$174.0 million, including a significant unrealised exchange rate gain), including:
  - A tree valuation gain through increased tree maturity with a shorter period to harvest, a larger directly-owned estate, and a marginally favourable exchange rate movement; and
  - Deferred plantation management fees.

Non-cash revenue was lower in FY16 compared to FY15, principally due to a smaller foreign exchange movement (AUD:USD) which resulted in a reduced tree revaluation gain. At 30 June 2016, the value of TFS's biological assets was \$623.2 million, up 19.6% on FY15 (\$521.2 million). The valuation methodology for TFS's biological assets remained unchanged and was signed off by the Company's auditor, EY.

TFS held \$107.0 million of cash at 30 June 2016 (30 June 2015: \$72.7 million), putting the Company in a strong financial position from which to deliver further growth in FY17. Full year FY16 operating cash flow was \$20.2 million (FY15: \$24.6 million), following an operating cash outflow of \$22.1 million in H1 FY16. The significant operating cash generation in H2 FY16 reflects the traditional seasonality in TFS's cash profile, with the vast majority of plantation sales settled in Q4.

In July 2016, TFS successfully refinanced its senior secured notes, with the maturity extended to August 2023 to align with the Company's larger harvests. This refinancing reduced the cost of TFS's debt by 20% and provided \$49.0 million of additional capital to further support the Company's growth.

TFS maintained a final dividend of 3.0 cents per share, fully franked, which is due to be paid on 8 November 2016.

## Outlook

TFS expects to increase Adjusted Cash EBITDA<sup>2</sup> in FY17 by at least 25% on FY16 with strong growth in cash from operating activities, both driven by sandalwood product sales from the Company's first major harvest. As with previous years, the Company's earnings and cash flow will be weighted towards the second half of the financial year.

The Company also expects to establish approximately 1,500 hectares of new plantations in FY17, to be completed in the northern Australia dry season, which will take the total estate under management to around 13,500 hectares.

Mr Wilson said with the 2016 harvest complete, TFS was currently processing the trees into wood products and oil in order to supply sandalwood to the Company's key customers across the globe.

"With the harvest complete, we are now processing the wood and oil in Kununurra and Albany. We expect to make the first shipment to China and to receive the first payment in September," Mr Wilson said.

"In addition, we will also extend TFS's ownership of Indian sandalwood plantations in the year through completing the buyback program for the 2018 to 2022 harvests, as well as establishing new plantations and further developing our end markets."

**-ENDS-**

For investor queries, please contact:

**Frank Wilson**  
Managing Director  
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**  
FTI Consulting  
Ph: 0433 886 871

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<sup>2</sup> To aid comparison between fiscal years, Adjusted Cash EBITDA excludes the costs of the refinance of the senior secured notes in July 2016 of approximately A\$18 million, which includes the early call premium of A\$10.6 million

## **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 in Albany, Western Australia, and a pharmaceutical product development business in San Antonio, US.

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 12,000 hectares planted of which TFS owns directly and indirectly over 3,600 hectares. TFS plantations are managed on behalf of both institutional, sophisticated 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. TFS now has significant and multi-year contracts in place with a number of global companies across pharmaceutical, cosmetic and wood markets.

TFS's pharmaceutical division, Santalis Pharmaceutical, has four products in FDA approved Phase 2 trials. All products contain TFS's pharmaceutical grade Indian sandalwood oil and treat psoriasis, molluscum contagiosum, eczema and oral mucositis.

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.