



2 Salamanca Square
Battery Point, Tasmania 7004

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Lodgement of Market Briefing**

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Market Briefing

Tassal MD on Tassal's 2014 full year results and strategic outlook

Interview with Mark Ryan (Managing Director & CEO)

In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, discusses the company's 2014 full year results and strategic outlook including:

- *Tassal's improving returns driven from the company's focus on domestic market sales and growing domestic market per capita consumption*
- *Tassal's focus on delivering acceptable long term returns to shareholders – achieving the company's goal of a 15% statutory return on assets in FY15*
- *Growing cash flows and strong balance sheet, with gearing at its lowest level since the company's listing on ASX*
- *Growing dividend*
- *Positive outlook for the 2015 financial year*

Market Briefing

The 2014 financial year saw strong earnings growth with relatively flat revenues. What drove the growth in earnings and are margins sustainable?

Mark Ryan

Tassal experienced strong earnings growth over the 2014 financial year [FY14] with statutory NPAT growing 22.7% to \$41.1 million, and operating NPAT growing 14.7% to \$30.5 million. Given this growth was achieved on relatively flat revenues, it is clear evidence that the strategy we are pursuing in optimising the business is delivering sustainable long term returns to shareholders.

Central to executing this strategy has been our focus on the domestic retail and wholesale sales markets, and a move away from the company's historic reliance on lower margin export and contract growing. Through a strong and evolving marketing campaign, which has built support of our branding and product repertoire amongst the consumer market we have been able to effectively grow domestic market per capita consumption. This in turn has enabled us to increase the volume of fish we will produce for FY15 and lock in appropriate supply arrangements with domestic retailers.

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While the marketing campaign has driven demand, and our facilities have allowed us to increase supply, underpinning our domestic market focus has been improved operational efficiencies that have increased dollar per kilo returns. We have been able to generate these following a substantial capital investment programme that delivered world class infrastructure, as well as improved breeding programmes, improved feed conversion ratios, and logistics and packaging rates.

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Do you see the domestic retail market continuing to underpin revenue and volume growth?

Mark Ryan

Over FY14, domestic retail market sales were the largest driver of revenue and volume as sales otherwise destined for the domestic wholesale market were utilised for domestic retail. Lower supply was due to the negative effects of the hot summer 2012/13.

The company managed its supply as best as possible during FY14 to enable it to return a more balanced supply versus demand scenario, together with an improved sales mix across domestic wholesale and retail sales markets in FY15.

The domestic retail market is expected to continue to drive sales and volumes going forward. We have agreements in place with major customers for fresh and smoked salmon, and retailers continue to embrace new Tassal products. Also our marketing campaign continues to perform strongly driving increased domestic market per capita consumption.

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Tassal continues to generate strong and growing cash flows. How has this been achieved and do you expect operating cash flows to remain strong going forward?

Mark Ryan

As we continue to generate efficiencies across the business, we strengthen our cash flows. As I mentioned earlier, Tassal's contribution margin continues to improve from its domestic market sales which has in turn led to generation of growing free cash flows. Additionally, we have improved the company's working capital management practices along with continued effective use of our Receivables Purchasing Facility.

As we have entered our next wave of infrastructure and volume growth, we need to ensure that we keep our growth in check with achieving our targeted statutory return on assets of 15%. Investing cash flow was up nearly 50% this year reflecting the company's expansion at Macquarie Harbour and also growth of biomass. Financing cash flow was down 8% comprising repayment of debt and payment of dividends.

Given the strong operating cash flows being generated, Tassal has been able to continue reducing borrowings while at the same time increasing dividends. Gearing now stands at 15.4% net debt to equity, the lowest level ever since the company's listing on ASX.

With the company on track to achieve increasing returns as set out in the Strategic Plan, we believe Tassal will continue to generate strong and growing cash flows going forward.

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Gearing, at 15.4% net debt to equity, is at its lowest level since Tassal listed in 2003. How do you intend to utilise the company's strong balance sheet to drive further growth?

Mark Ryan

With continued strong and sustainable cash flows being generated, Tassal's gearing at 30 June 2014 stood at its lowest level since listing in 2003. Net debt to equity was down to 15.4% and the company's funding ratio was down to 29.1%.

Over the coming five years we are looking to commence the next round of the company's expansionary investment to drive further growth in the returns generated by the business. This investment will allow supply growth to be balanced with increasing consumer demand. It will be primarily focused on hatcheries and lease expansion and optimisation which is fundamental in ensuring Tassal can deliver on its Strategic Plan 2025. The spend in expansionary investment has been considered in the context of achieving and then maintaining a statutory return on assets of 15%.

Currently annual maintenance capital expenditure is around \$20 million. Forecast total capital expenditure is expected to be \$37 million for FY15 to partially fund the build of Tassal's new hatchery infrastructure, which is expected to be completed over FY15 and FY16. The expanded hatchery infrastructure will allow Tassal to produce an additional 4 - 5 million smolt. In addition to the hatchery capital expenditure, we are also building a Fish By-Product Processing Facility in Triabunna, which is expected to be completed over FY15. This facility is being supported by a \$3.9 million Federal Government Grant.

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Tassal has stated that its overarching objective is to generate a statutory Return on Assets [ROA] of 15% in FY15. Are you on track to achieving this goal?

Mark Ryan

The company is performing in line with our strategic plan and we are confident that we are progressing towards the stated goal of 15% statutory ROA in FY15.

We believe we have the right foundations in place to achieve this goal. Over the past five years we have invested substantial capital to make the business more sustainable, scalable and move it closer to global best practice from an operational, financial and strategic perspective.

We are growing our profitability through increasing dollar per kilo returns through domestic market sales initiatives and operating efficiencies. Our domestic market strategy has enabled us to lock in favourable pricing and also enabled us to focus on and increase domestic market per capita consumption.

We expect to see overall production volumes increase from the 2015 financial year onwards. Given the success of our domestic market strategy, we believe the growing volumes will be able to be absorbed by continued growth in retail sales, and a return to growth in wholesale sales as the demand is there.

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Fish supply was low during FY14 due to the hot summer 2012/13. How will this impact Tassal in 2015 and beyond?

Mark Ryan

Our objective for FY15 is to return to a more balanced supply versus demand equation, together with a better supply mix across domestic wholesale and retail sales markets this financial year. We have repositioned fish input and feed diet strategies to underpin supply growth in FY15 onwards and we are confident that we have the requisite biological asset pipeline for future revenue and earnings growth. The Macquarie Harbour expansion in FY14 was a critical plank to underpin the supply growth for FY15.

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As Tassal's domestic market focus continues to strengthen, do you expect the company will remain out of the export market indefinitely?

Mark Ryan

The export market is no longer a primary market for Tassal as we continue to successfully pursue our domestic market strategy that has seen a consistent sustainable increase in domestic demand.

FY14 has seen an improvement in underlying export market fundamentals from a price and currency perspective. As a result we continue to monitor the export market to allow some risk mitigation should the domestic market not grow at the rate we currently are forecasting. Albeit, we are not currently selling into the export market at this point in time, it is a market that we have sold into in the past and it is, based on current sales conditions, able to generate sufficient returns from a margin perspective.

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Discuss Tassal's outlook for FY15.

Mark Ryan

Our key priority in FY15 is to achieve our goal of generating a 15% statutory return on assets. The company is now well positioned to deliver on this goal given the sustainability of the company's business model and the ability to leverage greater scale in operations.

Over the current financial year we will be focused on maintaining and also growing the domestic market segments and reducing production costs, while further growing domestic sales per kilo returns where possible.

We expect to see fish supply growth in FY15 and onwards underpinned by repositioned fish input, lease expansion and optimisation, and diet strategies. This will allow Tassal to further grow domestic market per capita consumption, together with achieving a more favourable sales mix in the domestic market between wholesale and retail sales.

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Tassal is now ready to enter its next phase of expansionary growth. This financial year will see the commencement of an exciting phase of expansionary investment with the build of new hatchery infrastructure that will allow the company to move even closer to global best practice from an operational perspective given the additional supply it will support.

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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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