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Lodgement of Market Briefing**

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Market Briefing

Tassal MD on 1H15 results and growth outlook

Interview with Mark Ryan (Managing Director & CEO)

In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, discusses the company's first half 2015 results and growth outlook including:

- *Tassal's continued earnings growth driven by the company's domestic market growth strategy*
- *operational progress driving growing returns*
- *strong cash flows and balance sheet*
- *reduced gearing and growing dividend*
- *positive outlook for the 2015 financial year and beyond.*

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Tassal has seen continued growth in revenues and earnings over the first half of the 2015 financial year. What is driving this growth and can it continue to be sustained?

Mark Ryan

Tassal experienced strong earnings growth over the first half of the 2015 financial year [1H15] with statutory revenue growing 12.3% to \$150.95 million and NPAT growing 34.8% to \$30.30 million.

Sales initiatives and operating efficiencies continue to drive earnings growth as Tassal sustainably generates both more total dollars and dollars per kilogram of fish sold from domestic market sales. Tassal's marketing campaign continues to build brand and drive sales in the core domestic wholesale and retail markets.

As well as driving domestic market sales, Tassal has been focused on growing fish biomass. This half we have seen strong gains in fish biomass, feed conversion and survival which in turn have driven operating cost efficiencies and margin improvements. As a result, earnings have continued to grow faster than revenues and returns have continued to increase towards targeted levels.

The 1H15 result confirms the company's relentless focus on growing domestic per capita consumption is the right strategy, and this strategy will continue to drive sustainable long term growth in the company's earnings.

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With earnings growing strongly, why was operating cash flow down by a third?

Mark Ryan

Tassal has continued to generate strong cash flows in the first half of this financial year. Our focus is on maximising operating cash flow from the business, while generating growing returns from the company's asset base and responsibly investing back into the business. The company's growing earnings and cash flows enables greater investment from both operational cashflow and available funding facilities to ensure the business is more sustainable, scalable and able to move even closer to global best practice from an operational, financial and strategic perspective.

Given the long term benefits that increasing fish size delivers to our financial and operational platform, that is reducing fish production costs, we are always looking at ways to optimise fish size performance. As a result, over the past six months, when compared to 1H14, an additional \$14.49 million was invested in growing fish biomass to better position Tassal to continue driving growth and long term returns.

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Will fluctuations in operating cashflow continue going forward, or will Tassal return to steady growing cashflows in the future?

Mark Ryan

While it is important to manage operating cashflow, this can't be done in isolation given operating profits and returns also need to grow over the short, medium and long term to create sustainable long term growth in shareholder value.

While we could have increased cashflows in the first half by selling more fish into the export market, this will have reduced the overall operating margins of the business. From a shareholder value creation perspective, it made more sense to keep the fish in the water and continue growing to increase returns on those fish, than harvest for short term cashflow.

Tassal is in a strong position from a capital, cashflow and bank facility headroom perspective to allow the right operational decisions to be made that will generate growing long term sustainable returns for shareholders.

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Three years ago, Tassal set an aspirational target of achieving a statutory return on assets [ROA] of 15% and then maintaining it. How is Tassal progressing towards achieving this target?

Mark Ryan

The board and management of Tassal are very focused on delivering acceptable returns to shareholders. To this end, the board set an aspirational target of achieving a statutory ROA of 15%. This target is at the core of all strategic and operational decisions made, and we have been very focused on growing returns towards this level. Achieving a 15% ROA still remains the company's target.

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Based on the financial performance for 1H15, together with the outlook for 2H15, Tassal is continuing to materially progress towards this target. Tassal's domestic market growth strategy, combined with the pursuit of operational efficiencies have, and continue to, drive greater returns in the business.

While Tassal is very focused on progressing towards more acceptable return levels from its sales initiatives and assets, equity and capital employed, the company is also focused on ensuring it has in place a capital investment programme and growth in underlying fish biomass that will allow it to over time maximise domestic market per capita consumption and meet growing domestic demand – together with delivering a ROA of 15%.

With Tassal being an agricultural stock, in particular livestock in the form of fish, increasing the size of salmon delivers significant financial and operational returns. As a result, when favourable growing conditions exist, the company needs to ensure fish growth is optimised. With the growing cycle for salmon taking three years, such an investment leads to a position where there is an increase in the asset base without an increase in the near term operating earnings base, as has been seen over the first half of FY15.

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The summer of 2012/2013 saw high temperatures affect the growth of fish in the water. What are the current growing conditions like?

Mark Ryan

Current growing conditions are positive. The combination of our Harvest Strategy, Smolt Input [Project Sweet Spot] and our selective breeding program [SBP] is seeing strong fish performance across all Tassal's sites and driving biomass growth. We continue to work on optimising our growing sites to a level that allows us to balance the economic, social and environmental impacts.

Not only has our strong fish performance resulted in solid biomass growth, but feed conversion and survival have also improved which in turn drives operating cost efficiencies. Tassal's SBP, Harvest Strategy and Project Sweet Spot are all inextricably linked and fundamental to the company's pursuit of operational best practice from a fish performance perspective.

To put the current growing conditions into perspective, as at the end of December 2014, the primary harvest class fish for FY15 had 38.30% more biomass at sea compared to the previous primary harvest year class at the end of December 2013, which helps drive greater production volumes.

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What is the outlook for production volumes for the 2015 financial year?

Mark Ryan

We are able to supply an increase in production volumes by around 5,000 hog tonnes over the 2015 financial year to around 25,000 hog tonnes. With this increase in production, Tassal is well positioned from a supply perspective to address the growing domestic demand for salmon and salmon products as domestic market per capita consumption continues to increase.

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Whether or not we actually harvest 25,000 hog tonnes of fish for the 2015 financial year will depend on the growth of the domestic market and the ability to attract a reasonable return in the export market. Tassal is using the export market predominantly to manage bigger size fish, but despite the encouraging foreign exchange rate at present, there still remains significant volatility and downward pressure in the base price for salmon in Asia.

Based on our fish profile, we have the ability to sell around 2,000 hog tonnes of large fish into Asia in 2H15. Albeit pricing for 1H15 was acceptable, overall returns from these markets, based on the global price at the end of December 2014, would need to improve to ensure appropriate returns were achieved for 2H15.

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What is the outlook for pricing in the domestic market given Tassal's growing production volumes?

Mark Ryan

Growing the Australian market has been a key focus for Tassal. This has supported a number of product and pricing initiatives while also allowing the company to grow production volumes and achieve economies of scale.

Tassal's marketing strategy and product innovation, together with promotional programmes, have underpinned the company's relationships with Australia's largest retailers. Supply contracts with the two major retailers have pricing locked in for at least the balance of the 2015 financial year. Sales into the domestic retail channel accounted for 72% of 1H15 sales volumes and we expect it will continue to represent the majority of Tassal's sales volumes going forward.

The domestic wholesale market is moving back toward historic market share and volumes for Tassal, underpinned by the company's strong supply position. The fresh hog sales growth has been particularly encouraging. Pricing has been relatively stable, allowing us to ensure that appropriate pricing and returns from this market can be achieved.

Having removed the company's historic reliance on the export channel, Tassal has begun tactical sales into this channel to manage the company's overall production volumes. With the depreciating Australian dollar and increasing export prices, pricing conditions improved over 1H15. As I mentioned earlier, while pricing for 1H15 was acceptable, overall returns from these markets, based on the global price at the end of December 2014, would need to improve to ensure appropriate returns from this channel were achieved for 2H15.

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Is the domestic market expected to continue to grow?

Mark Ryan

We expect the domestic market to continue to grow in the short and long term. Growth will be driven by a combination of factors including greater awareness of salmon as a healthy food option, tactical marketing and promotional activities, and new product initiatives.

We don't see growth in domestic market per capita consumption slowing in the short term, and the international experience shows there is still substantial growth in demand that can be achieved in

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the Australian market. The underlying fundamentals of the Australian market, particularly favourable demographic and health trends, allow us to be well positioned to maintain double digit sales and earnings growth for at least the short to medium term.

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What product and marketing initiatives are in place to support growth in domestic market sales?

Mark Ryan

Tassal has always focussed on growing per capita consumption in the domestic market as a core strategic focus. Three years ago we took the view that we needed to directly take control of and appropriately invest in the marketing of Salmon in Australia to grow domestic market per capita consumption and underpin sustainable growing profits and returns. Our new product development initiatives directly support our marketing initiatives.

Our marketing campaign continues to underpin Tassal's sales growth in the domestic market with specific timing and content designed to maximise product and brand recognition while driving demand for salmon and Tassal's products.

In terms of product development, we have over the last 12 months developed a new and innovative way to merchandise and price the fresh portion range for Coles and despite some delays during 1H15, all Coles stores nationally now have in place the ability to effectively sell fish on a "price per piece" basis. This sales method has been very effective in the smoked salmon category. We have also developed a new and improved Superior Gold smoked salmon range which is available at both Coles and Woolworths, with additional products to be introduced over the coming period. Additionally improved pricing across our smoked salmon range has been implemented and is being well received by consumers.

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With a number of initiatives in place to grow Tassal's top line revenue, what operational efficiencies are in place to drive further improved returns?

Mark Ryan

It is not enough to merely grow top-line, and we have also been focused on making Tassal's operations global best practice.

We have reduced the cost of growing through better fish performance, both increased biomass in terms of size and survival and feed conversion ratio improvement. This fish performance has been underpinned by our SBP, Harvest Strategy and Smolt Input Strategy. We have also achieved lower costs of processing through direct supply, advance manufacturing capability, scale and yield maximisation.

The hot summer of 2012/13 really focused our attention on maximising biomass through repositioned fish input and feed diet strategies to underpin supply growth. The results from these operational initiatives are starting to flow through allowing us to grow more for less and with lower risk.

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In closing, what is the outlook for Tassal in FY15?

Mark Ryan

We continue to focus on growing domestic market consumption and are not seeing underlying market growth slow.

We have the supply in place to be able to sell around 25,000 hog tonnes in FY15 underpinned by fish input, lease expansion and optimisation and diet strategies. This will allow Tassal to generate scale benefits and move the company closer to global best practice from a financial and operational perspective.

While we are excited by the growth opportunities available to Tassal, we are also very conscious about the communities and environment we operate in. Sustainability is at our core and Tassal's sustainability achievements to date put us as the global leader in the salmon industry. We are now the first salmon company in the world to achieve full Aquaculture Stewardship Council accreditation across all our marine farms, reflecting Tassal's relentless pursuit to be the global leader in aquaculture from an economic, social and environmental perspective.

The combination of a growing domestic market, increasing production scale, further progress towards global best practice, new products and sustainability initiatives will underpin an exciting period of growth ahead for Tassal.

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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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