

Tassal Group Limited

1H18 Results

Mark Ryan, Managing Director & CEO
Andrew Creswell, CFO

23 February 2018



"Tassal is delivering on its growth ambitions – generating responsible and sustainable biomass growth, while delivering increasing operating, financial and shareholder returns."

Delivering responsible & sustainable results



Another record result

Delivering on our growth ambitions in a responsible way

Operating earnings growing in line with revenue

Favourable market dynamics in the domestic salmon market

- Strong per capita consumption growth at 11.6%

Optimising domestic salmon sales mix: wholesale volume at 47.0% vs. retail volume at 53.0% (1H17: 42.6% vs. 57.4%)

- Wholesale fresh hog market pricing was maintained and volume was up 23.2%
- Significant growth in retail fresh packaged products

Efficiency benefits flowing from a more optimal salmon harvest biomass and size

- Salmon harvested achieved an average fish size of 5.11kg HOG (target 5kg HOG) ... allowed sales mix to be optimised as well as delivering cost out and significant productivity gains
- Harvest tonnage up 62.6% to 18,648 HOG tonnes (1H17: 11,467 HOG tonnes)
- Sales volume up 43.7% to 16,908 HOG tonnes (1H17: 11,761 HOG tonnes)

Strong operating returns and operating cashflow

- Focus on optimising EBITDA returns ... which is not just 'cost out' - it is also about optimising sales mix and pricing returns, and generating productivity gains
- Operating EBITDA up 23.5% to \$53.2m (1H17: \$43.1m)
- Operating cashflow up 69.2% to \$40.6m (1H17: \$24.0m)



Another record result

Delivering on our growth ambitions in a responsible way

Operational EPS strong – balance sheet significantly de-risked

Export market strategically targeted - provides flex to allow us to optimise salmon returns across markets

- Bigger fish are cheaper to grow – and the benefit of this from a cost of salmon perspective is applied across both domestic and export markets
- Above 6.0kg HOG salmon are more suited to the Asian market – and accordingly, attract the best pricing
- Softening of international pricing – Tassal still received a price premium of circa \$1/kg
- Export market was flexed to allow cash generation and overall acceptable returns to be generated across the business for salmon

De Costi Seafoods continues to drive salmon and seafood growth

Tassal has been significantly de-risked

- Capital raising (share placement and share purchase plan) from 2H17 raised net proceeds of \$82.5m
- Capital raising, together with very strong growth in operating cashflow and responsible capital spend has gearing at 13.0% (1H17: 34.6%)
- \$275 million capital investment program over the next five years

Operational EPS strong

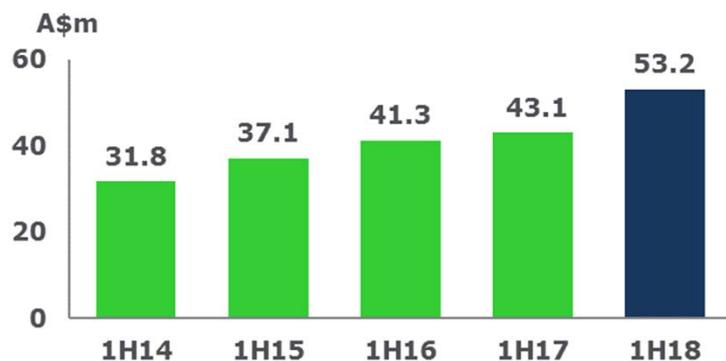
- Operational earnings per share (EPS) was up 10.0% to 15.09 cents per share (1H17: 13.71 cps)
- Capital raising resulted in 18.57 million shares issued and was structured to support future growth infrastructure and to deleverage balance sheet, so no earnings benefit for FY18 due to capital and working capital cycle
- Assuming a tax effected interest saving on net proceeds raised, an adjusted operating EPS would be 16.26 cps – i.e. an increase of 18.6% for 1H18



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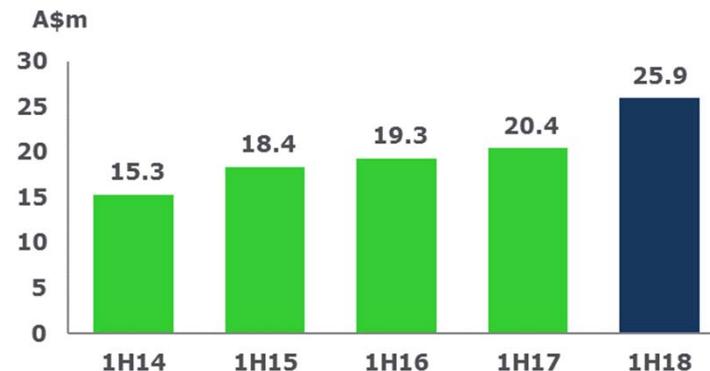
Growth across all key metrics

Operating EBITDA: \$53.2m



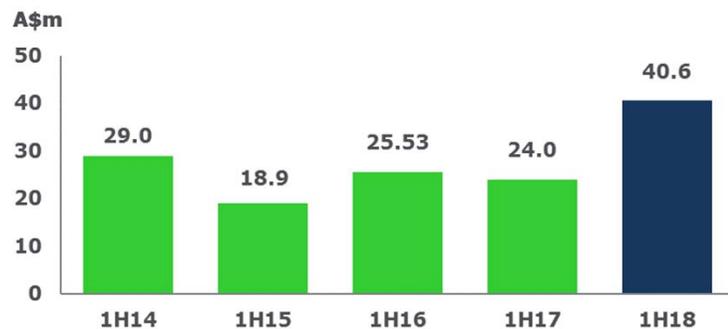
- Statutory EBITDA up 6.1% to \$56.7m

Operating NPAT: \$25.9m

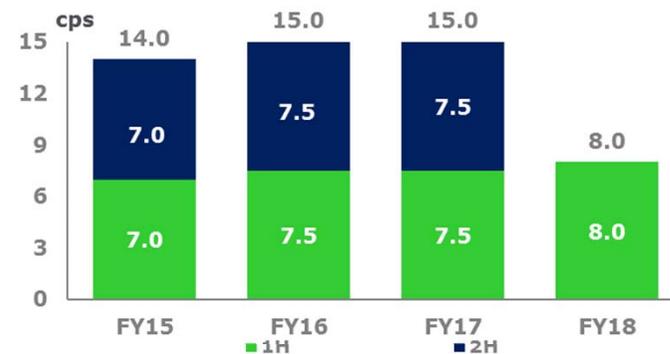


- Statutory NPAT up 2.4% to \$28.4m

Operating Cashflow: \$40.6m



Interim Dividend: 8.0 cps, fully franked



Continued safety improvements

No job is so important that it cannot be done safely

- Safety commitment is consistent with maximising shareholder value
- 1H18 safety performance improved from 1H17
- Our focus and relentless pursuit is to achieve the core value of “Zero Harm”

KPIs	1H18	1H17
LTIFR	0.4	0.5
MTIFR	13.0	14.0
TRIFR	13.4	14.5
Scorecard	97.1%	95.75%
Driving the Safety culture scorecard	93.0%	91.3%

Definitions:

LTIFR – Lost Time Injury Frequency Rate: (Number of Lost Time Injuries/Total Number of Hours Worked) X 1,000,000 hours

MTIFR – Medical Treated Injury Frequency Rate: (Number of Medically Treated Injuries/Total Number of Hours Worked) X 1,000,000 hours

TRIFR – Total Injury Frequency Rate: LTIFR + MTIFR



Right to Operate

Responsibly balancing environmental, social and economic dimensions

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Aquaculture Stewardship Council (ASC) certification maintained across all Tassal's operations for harvest fish



- Tassal was the first salmon producer globally to achieve ASC across its entire business – and remains one of only two (Petuna) who globally have this

Franklin lease continues to recover – the challenges in Macquarie Harbour are complex

- Returned to compliance from an 'out of lease compliance' perspective – in-fauna abundance is returning

R&D over the past 6 years focused on supporting safe operations in some of the wildest conditions farmed globally, and will soon commence a transitional process towards off-shore farming



World Wildlife Fund-Australia (WWF-Australia) partnership strengthened through Marine Spatial Planning (MSP) principles

- A 'deep' assessment of environmental, operational, shared user and social overlay
- Assists in a broader appreciation of shared marine values, minimising conflict, promoting better biosecurity and facilitating growth in socially accepted areas

Many inshore leases are environmentally sustainable and enjoy excellent environmental compliance... salmon will continue to be farmed on those leases that demonstrate a balanced environmental, commercial and socially accepted position



“The strength of Tassal’s operating model can be clearly seen in the record 1H18 result that delivered strong growth in underlying earnings and operating cashflows, while further strengthening the company’s balance sheet.”

**Record 1H18 results
across all key metrics**



A record 1H18 result

Strong growth across all key metrics

Financial Performance (A\$m)	1H18	1H17	Change
Statutory results			
Revenue	271.33	219.34	23.7% ▲
EBITDA	56.74	53.47	6.1% ▲
EBIT	44.17	43.58	1.4% ▲
NPAT	28.41	27.73	2.5% ▲
Operating results			
Operating EBITDA	53.21	43.08	23.5% ▲
Operating EBIT	40.65	33.19	22.5% ▲
Operating NPAT	25.95	20.46	26.8% ▲
Operating cashflow			
Operating cashflow	40.57	24.02	68.9% ▲
Interim dividend - cps	8.00	7.50	6.7% ▲
Gearing Ratio			
Gearing Ratio	13.0%	34.6%	
Funding Ratio			
Funding Ratio	26.1%	46.9%	

SGARA increased

- EBITDA included a SGARA adjustment of \$3.5m (1H17: increased \$10.4m)
- NPAT \$2.5m (1H17: increased \$7.3m)

Strong growth in revenue

- Operational strategy of growing larger salmon – additional harvest biomass and size
- Strong growth in salmon domestic market per capita consumption
- Export market strategically targeted with bigger salmon

Operating earnings growing in line with revenue

- Favourable domestic salmon market sales mix
- Efficiency benefits flowing from more optimal salmon harvest biomass and size

Very strong growth in operating cashflow

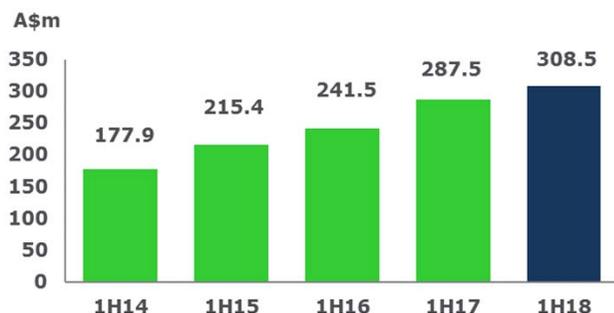
- Higher cash receipts from revenue growth combined with responsible cash spend

Significantly lower gearing

Increase in fully franked interim dividend



Strong balance sheet – significantly de-risked

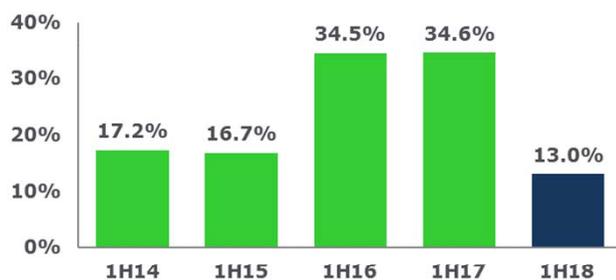
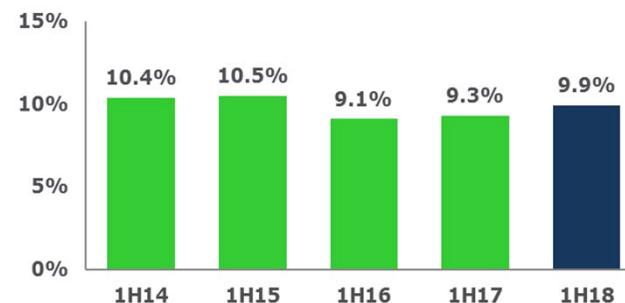


Increased biological assets to support future growth

- Value of live fish up 7.3% to \$308.5m
- Biological assets support future revenue and earnings growth
- Finished goods up \$37.6m to \$84.5m for inventory to be sold in 2H18 and onwards
- Majority of working capital spent when salmon in the water and growing – FY17

Operational Return on Assets

- SGARA impact removed from calculation
- Operational Return on Assets sustainable moving forward
- Continuing to generate return > WACC



Conservative Gearing and Funding ratios – supported by capital raising, strong operating cashflow and responsible capital spend

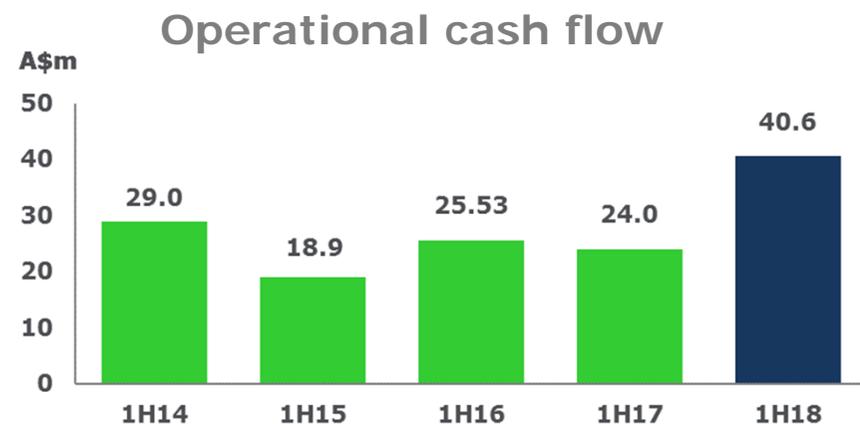
- Gearing only 13.0% (1H17: 34.6%), providing flexibility to invest strategically for growth
- Appropriate bank funding arrangements in place – structure, headroom and tenor
- Funding ratio, i.e. including RPF (net debt + RPF / equity) at 26.1% (1H17: 46.9%)



Exceptional growth in operating cashflow

Supporting long term responsible reinvestment

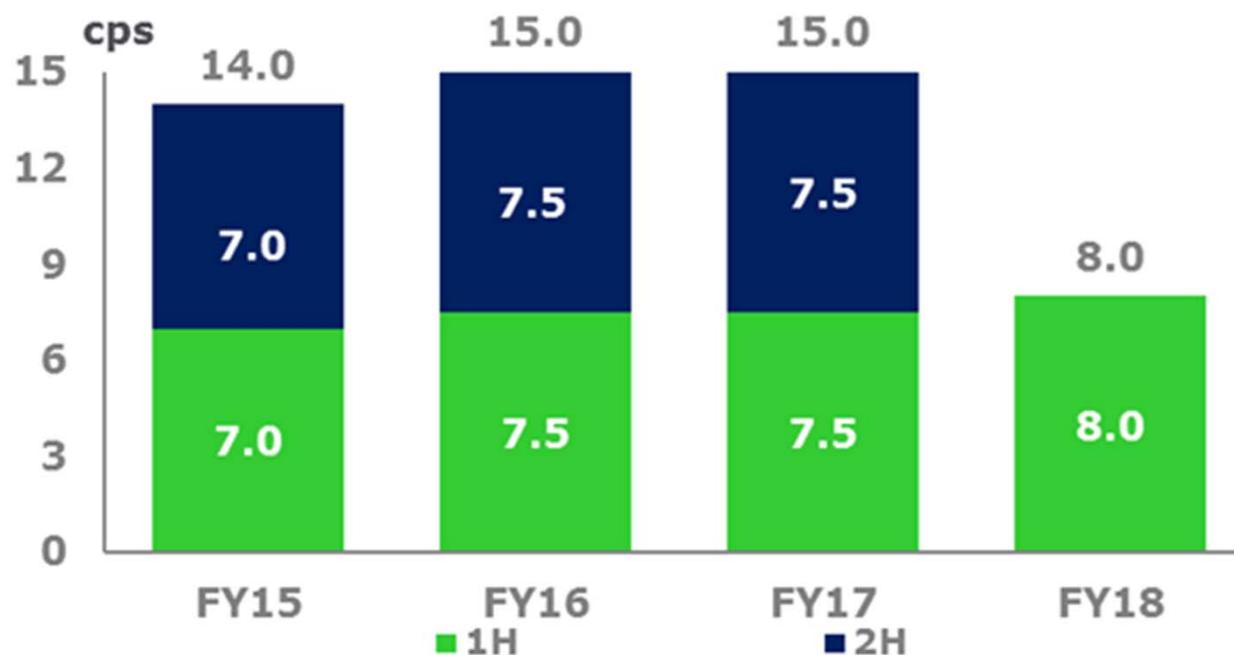
Operating Cashflow (A\$m)	1H18	1H17
Operating cashflow	40.57	24.02
Investing cashflow	(39.48)	(30.44)
Financing cashflow	2.16	6.64
Net increase/(decrease) in cash held	3.25	0.22



- Operating cashflow up 69.2% to \$40.6m (1H17: \$24.0m)
 - Reflects the strength of Tassal's underlying business and operational strategy
 - Clear ability to convert biomass held at 30 June 2017 into cash by 31 December 2017
- Positive cash generation from operations to continue enabling investment in salmon growth and harvest biomass
- Continued focus on responsible capital spend at \$39.5m to underpin sustainable growth in long-term returns
 - Earnings maintenance assets – spend circa 30%
 - Earnings growth assets – spend circa 70%



Increased fully franked interim dividend



- Interim fully franked dividend declared up 6.7% to 8.0 cps (1H17: 7.5cps) with larger number of shares on issue
- Dividend Reinvestment Plan (non-underwritten) in place – 2% discount rate



“Tassal is in strong position to execute on its long term sustainable growth strategy.”

Well positioned to deliver continued sustainable growth



Step change in volume & fish size

Volume sold up circa 44% to 16,908 HOG tonnes... strong domestic per capita consumption growth

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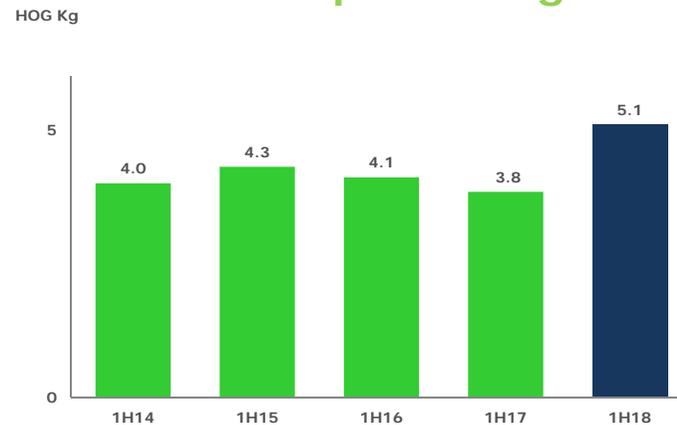
Domestic sales mix optimised –

with significant growth in the wholesale channel (pleasingly whilst maintaining fresh whole salmon \$/kg HOG pricing ... despite international salmon pricing softening)



Moving closer to 5.00 HOG kg on an annualised basis - allows us to optimise sales mix & returns, and scale & operational efficiencies

Fish size up to 5.1kg HOG



Strategically target export market for the biggest fish (when we have them like 1H18)



Increasing EBITDA \$

Optimising salmon earnings

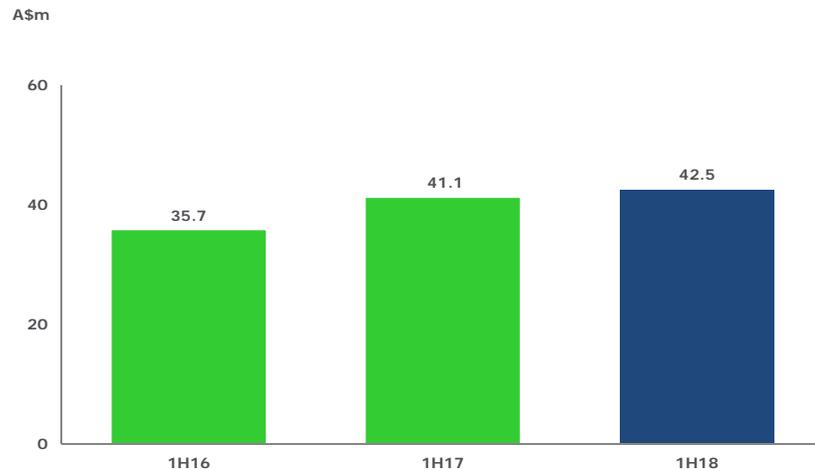
- Ability to flex sales mix
- Increasing proportion of salmon sales to higher margin wholesale channel
- Wholesale whole salmon price maintained – despite international salmon pricing softening
- Increasing proportion of sales within the retail channel to fresh packaged products – strong capability and distribution advantage
- Realising supply chain efficiencies
- Investing in salmon biomass and fish size is expected to drive future growth
 - Optimises sales channel mix (and revenue) between the domestic market (priority <6kg hog) and export market (priority >6kg hog)
 - Delivers scale and operational cost efficiencies – feed is circa 55-60% of the cost of a fish, with the balance of costs across the supply chain being predominantly fixed



Seafood strategy

De Costi Seafoods continues to drive category growth and increased salmon and seafood sales

Seafood Revenue: \$42.5m



Focus on improving returns

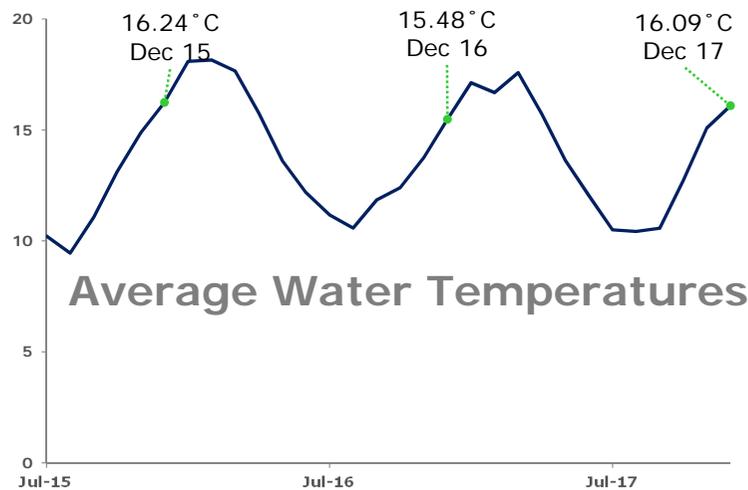
- De Costi Seafoods continues to drive category growth and increased salmon and seafood sales
- Focused on highly innovative product and packaging formats
- Also focused on higher margin products
- Salmon and seafood fresh packaged products, together with Eastern Seaboard distribution allowed Tassal to continue to drive both foodservice and retail growth as well as supply chain efficiencies



Growing conditions

Summer water temperatures within expected range – summer always challenging

- Summer water temperatures continue to be between last year (cool) and 2 years ago (extremely warm)
- Water temps last year (cool summer) were as high as 19 degrees during the peak of summer (Jan to March)
- We took advantage of supply conditions in 1H18 to ensure we responsibly harvested salmon before summer. These fish were either sold or will be used for value added production in 2H18 – allowing us to avoid carrying too much risk over summer



- November was a challenging time for the Industry. Unseasonably warm weather resulted in increased bathing and subsequently a decrease in fish performance for fish to be harvested in 2H18
- Flexing our sales – reducing export sales – to allow fish to stay in the water longer and capture growth will ensure we target an appropriate sales mix and returns for 2H18



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Climate change

- Climate plays an important role in Tassal's operations – particularly summer
- Tassal recognises climate change is likely to present a range of challenges to the aquaculture industry. Without proactive adaptation, salmon farming may become more vulnerable to disease and/or changes in environmental conditions
- Tassal has developed considerable options for adaptation including selective breeding, modification of farming technologies and practices, and geographic diversification of its marine farm portfolio
- Tassal has also engaged scientists to identify emerging climate trends and system responses, and to undertake comprehensive broad scale environmental monitoring
- A comprehensive risk management system is used to manage the long-term risks, issues and opportunities presented by climate change and respond accordingly
- Ultimately, if farmed salmon is managed effectively for the impacts of climate change, a positive financial benefit may be realised from the increased demand of farmed fish to the reduced *availability of global wild stocks as a result of climate change impacts and over-fishing for wild stocks*



Positive outlook for 2H18

Growth trajectory expected to continue

- **Lever favourable market dynamics in domestic salmon market**
 - Strong growth in per capita consumption
 - Optimise sales mix
 - Continued benefits from wholesale market returns
- **Further investment in biomass to drive future earnings growth**
 - Further optimising sales channel mix (and revenue) between domestic and export markets (bigger fish size), while delivering scale and operational cost efficiencies
- **Rebalancing export market exposure**
 - Export sales will be considerably lower in 2H18 with strong domestic market dynamics
 - FY18 sales to export market forecast at c20% of total volume – i.e. lower in 2H18
- **Responsible capital and working capital investment (biomass)** – strong balance sheet provides added flexibility for next investment cycle and significantly lowers Tassal's risk profile
- **De Costi Seafoods to continue to drive salmon and seafood sales and category growth** – maintain focus on highly innovative product and packaging formats, together with higher margin products



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Any questions?



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Appendices



Optimising sales mix

Salmon + Seafood

Operating Revenue (A\$m)	1H18	1H17	Change
Salmon	225.13	175.60	28.2% ▲
Seafood	42.45	41.09	3.3% ▲
Total Revenue	267.58	216.69	23.5% ▲

Domestic + Export

Operating Revenue (A\$m)	1H18	1H17	Change
Domestic	211.25	198.61	6.4% ▲
Export	56.33	18.08	211.6% ▲
Total Revenue	267.58	216.69	23.5% ▲

Strong growth in Salmon

- Larger harvest biomass and size – strategic focus to drive efficiency benefits

Continued growth in Seafood (De Costi)

- Focus on highly innovative product and packaging formats
- Higher margin products

Continued growth in domestic market

- Strong domestic per capita consumption growth
- Favourable domestic market sales mix

Export market strategically targeted

- Result impacted by lower export market pricing
- Export sales in 2H to be significantly less... expected to generate c20% of total sales volume for FY18



Optimising sales mix

Maintained wholesale hog pricing – smoked salmon volume and sales mix [highest priced product] negatively influenced domestic market average pricing

Domestic revenue up 6%

Domestic Market	1H18	1H17	Change
Salmon Volume (Hog equiv tonnes)	11,741	10,516	11.6% ▲
Salmon Average Price (\$/Hog kg equivalent)	14.46	15.13	(4.4%) ▼
Salmon Revenue (\$m)	169.82	159.06	6.8% ▲
Seafood Revenue (\$m)	41.43	39.55	4.8% ▲
Total Revenue (\$m)	211.25	198.61	6.4% ▲

Export revenue up 212%

Export Market	1H18	1H17	Change
Salmon Volume (Hog equiv tonnes)	5,167	1,245	315.0% ▲
Salmon Average Price (\$/Hog kg equivalent)	10.70	13.29	(19.4%) ▼
Salmon Revenue (\$m)	55.31	16.54	234.4% ▲
Seafood Revenue (\$m)	1.03	1.54	(33.4%) ▼
Total Revenue (\$m)	56.33	18.08	211.6% ▲

Wholesale revenue up 16%

Domestic Wholesale Market	1H18	1H17	Change
Salmon Volume (Hog equiv tonnes)	5,520	4,480	23.2% ▲
Salmon Average Price (\$/Hog kg equivalent)	14.50	15.29	(5.2%) ▼
Salmon Revenue (\$m)	80.04	68.52	16.8% ▲
Seafood Revenue (\$m)	14.34	13.04	9.9% ▲
Total Revenue (\$m)	94.38	81.56	15.7% ▲

Retail revenue flat

Domestic Retail Market	1H18	1H17	Change
Salmon Volume (Hog equiv tonnes)	6,221	6,036	3.1% ▲
Salmon Average Price (\$/Hog kg equivalent)	14.43	15.00	(3.8%) ▼
Salmon Revenue (\$m)	89.78	90.54	(0.8%) ▼
Seafood Revenue (\$m)	27.09	26.51	2.2% ▲
Total Revenue (\$m)	116.87	117.05	(0.2%) ▼



Statutory, underlying & operating results

1H17 vs 1H18

Half Year ended 31 December 2017	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Profit \$'000
Revenue (from all sources)	\$271,325	\$0	\$271,325	\$0	\$271,325
EBITDA	\$56,735	\$0	\$56,735	(\$3,524)	\$53,211
EBIT	\$44,171	\$0	\$44,171	(\$3,524)	\$40,647
Profit before income tax expense	\$40,420	\$0	\$40,420	(\$3,524)	\$36,896
Income tax expense	(\$12,008)	\$0	(\$12,008)	\$1,057	(\$10,951)
Net profit after income tax expense	\$28,412	\$0	\$28,412	(\$2,467)	\$25,945

Half Year ended 31 December 2016	Statutory Profit \$'000	Non Recurring Items \$'000	Underlying Profit \$'000	AASB 141 Impact \$'000	Operational Profit \$'000
Revenue (from all sources)	\$219,387	\$0	\$219,387	\$0	\$219,387
EBITDA	\$53,468	\$0	\$53,468	(\$10,387)	\$43,081
EBIT	\$43,578	\$0	\$43,578	(\$10,387)	\$33,191
Profit before income tax expense	\$39,448	\$0	\$39,448	(\$10,387)	\$29,061
Income tax expense	(\$11,715)	\$0	(\$11,715)	\$3,116	(\$8,599)
Net profit after income tax expense	\$27,733	\$0	\$27,733	(\$7,271)	\$20,462



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