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Lodgement of Market Briefing**

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Market Briefing

Tassal MD & CEO on 1H21 results and FY21/FY22 growth outlook

Interview with Mark Ryan (Managing Director & CEO)

In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, provides an overview of the Company's 1H21 result and FY21/FY22 growth outlook, including:

- *Tassal has the right strategy in place to drive long-term sustainable growth in earnings and returns, and has planned, executed and delivered on all factors within its control*
- *1H21 results reflect the short-term impact of COVID-19 and resulting restrictions and market fractures, particularly in global/export markets*
- *Operating cashflows have been used to underpin strong harvest and live biomass growth*
- *Increasing use of technology is sustainably generating efficiencies that continue to lower salmon farming and production costs, and are improving prawn growing costs*
- *Tassal's industry world-best ESG initiatives underpin sustainable growth*
- *Given the current volatility caused by COVID-19, particularly with sales markets, the short-term strategic growth trajectory has been adjusted by consolidating operations and reducing operating and capital spend*
 - *Salmon harvest volume for FY21 is expected to be 41,000 hog tonnes for FY21, 5 years in advance of Tassal's Strategic Plan target, and the strategic goal will be to maintain this level for FY22*
 - *FY21 prawn harvest expected to be circa 4,000 tonnes, then increasing to 4,500 to 5,000 tonnes in FY22, with infrastructure in place*
- *With a strong capital position, and delivering on all long term strategic milestones, Tassal is as best prepared as it can be to navigate through COVID-19 and grow operating earnings and returns in a post COVID-19 world.*

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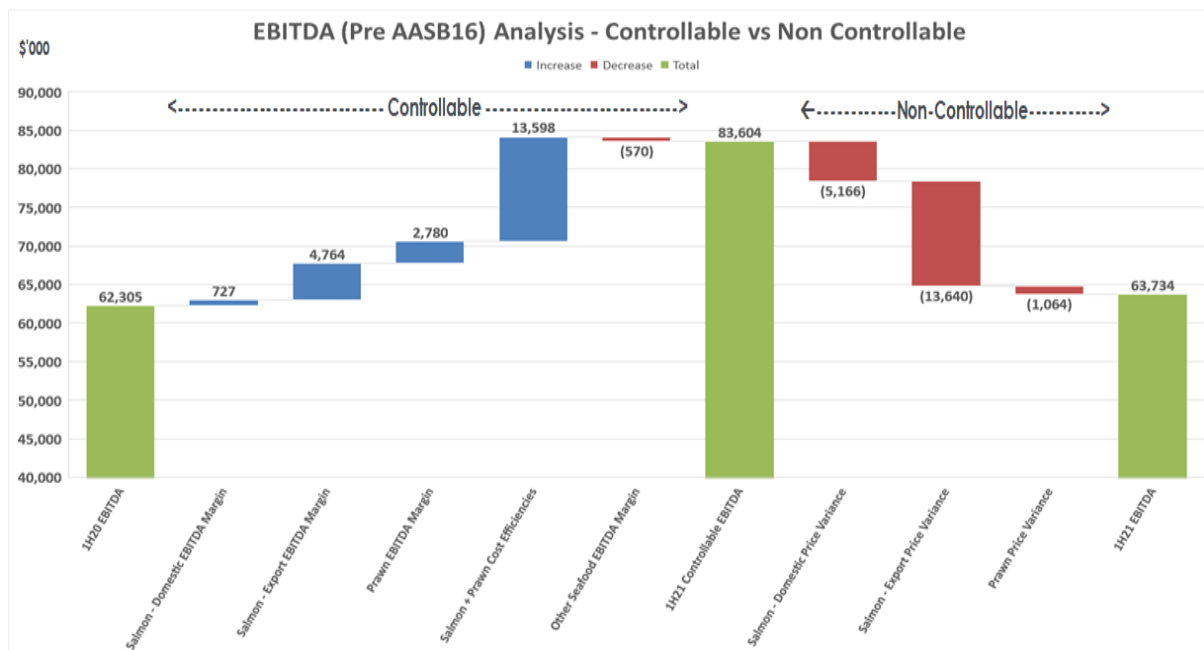
Tassal has consistently delivered increased earnings year on year, and half on half. What happened in 1H21 given Tassal's very strong result at an operational and strategic level did not completely translate to a comparable financial result?

Mark Ryan

Like other global and domestic seafood companies, Tassal experienced significant pricing volatility in 1H21 due to COVID-19 and resulting restrictions and market fractures, particularly in global/export markets. Further, there was significant supply chain pressure with effectively no international passenger flights and with 90% of Tassal's product historically transported "in the belly" of passenger planes, it was incredibly difficult [no capacity] and expensive [including chartering flights] to sell fish into export markets.

As outlined at the FY20 result and 2020 AGM, Tassal was as best prepared as it could be to mitigate the COVID-19 impacted environment. We feel we have planned, executed and delivered on all factors in our control [controllable] versus those outside our control [non-controllable]. The factors outside our control in 1H21 are all short-term COVID-19 related impacts.

When looking at our financial statements for 1H21 and assigning what was controllable and what was non-controllable, the strong operational result can clearly be seen, but unfortunately the impact of COVID-19 meant it did not translate into an equally strong financial result. "Controllable" 1H21 EBITDA (Pre AASB 16) was \$83.6 million, compared to 1H20 EBITDA (Pre AASB 16) of \$62.3 million, highlighting the strength of the operational achievements over the half year.



Note - AASB16 Leases impact

1H21 EBITDA (pre AASB16) at \$63.7m (1H20: \$62.3m)

1H21 EBITDA (post AASB16) at \$78.4m (1H20: \$66.4m)

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Salmon sales tonnage was up 16% and prawns up 786% in 1H21, yet operating EBIT was down 2%. Given pricing volatility and reduced salmon operating EBITDA \$/kg, can the market absorb such a large increase in supply going forward?

Mark Ryan

Total sales volume growth in 1H21 was offset by materially negative returns from the export market due to the short-term impact of COVID-19 lockdowns and resulting market fractures. Exacerbating the half year result was an appreciating AUD/USD exchange rate that further impacted export returns. This export market position consequently resulted in declining short term wholesale market returns.

Our strategy of driving increased domestic per capita consumption is well positioned to align consumer needs both during and post-COVID-19. The shortfall in domestic wholesale/foodservice market volume experienced in 1H21 was offset by strong growth in domestic retail sales volume.

As we further grow the domestic market, which has substantial room for growth given per capita consumption levels in comparable overseas markets, we will continue to utilise the export market as an outlet for surplus volume. Our strategy is not reliant on selling into export markets to drive earnings. Quite simply, the increase in salmon and prawn biomass for 1H21 has translated into cost efficiencies of circa \$0.50/kg through defraying fixed costs over a larger biomass base.

The long term fundamentals for salmon and prawns have not changed. Tassal's current scale is supporting our ability to continue driving operating efficiencies and reducing growing and production costs, while having the volume to support domestic market growth longer term.

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Why did operating cashflow not grow in 1H21, and will it grow going forward?

Mark Ryan

Operating cashflow generated in 1H21 was flat at \$41.4 million [1H20: \$41.0 million]. Our operating cashflow was used to underpin strong harvest and live biomass growth, and would have been higher if not materially impacted by the negative 1H21 pricing and supply chain costs due to COVID-19 of circa \$22.4 million.

Two key factors drove 1H21 operating cashflows. The first being the planned \$35.1 million increase in working capital costs to grow incremental salmon [\$24.2 million] and prawn [\$10.9 million] inventory to underpin earnings growth in 2H21 and beyond. The second being the impact of COVID-19 which lowered export market returns by over \$12 million [given pricing impacts] and \$10.4 million of Significant Items, \$9.6 million of which related to the additional cost of export freight.

FY21 operating cashflow is expected to grow, as FY20's working capital build, coupled with the increase in prawn biomass in 1H21, is converted into cash.

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Has consumer behaviour changed as a result of the COVID-19 pandemic, and how has Tassal responded?

Mark Ryan

While COVID-19 has materially impacted the operating environment and created much uncertainty and volatility, positive consumer trends have emerged that have been gaining momentum over 1H21. These include increasing demand for trusted, sustainable Australian brands, increasing in-home eating and cooking, greater demand for easy to prepare meal solutions, increasing health awareness, and increasing digital consumption and e-commerce.

Tassal's strategy of driving increased domestic per capita consumption is well positioned to align consumer needs both during and post-COVID-19. Our new marketing campaign, primarily TV-based, is focused on Tassal branded products and commenced mid-August 2020 with strong results – the shortfall in domestic wholesale/foodservice salmon market volume in 1H21 was offset by strong growth in domestic retail sales volume. Our marketing campaign will continue in 2H21 and extended into FY22.

We strongly believe that part of the increase of at home consumption will remain when the foodservice sector begins to recover, and could increase overall medium to long-term demand for salmon.

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Does digital technology provide Tassal with a competitive advantage, and if so, how are you using technology to innovate and respond to the COVID-19 challenges?

Mark Ryan

Heading into COVID-19, Tassal was a global seafood leader in digital technology, and our competitive advantage with digital technology should be further enhanced in FY22.

The use of technology has underpinned our ability to continue reducing our cost of growing and production, with benefits of circa \$0.50/kg achieved in 1H21. The reduced cost of operations for both salmon and prawns offset some of the negative COVID-19 pricing volatility, ensuring that Tassal was in a strong operating position relative to global and local peers.

Investment in our feed centre has provided Tassal's salmon farming teams with the agility to adapt to and better manage challenges than previously was possible, with centralised feeding contributing to our strong salmon biomass position through improved growth and performance, and reduced feed conversion rates [FCR].

Digitisation of many of our salmon and prawn farming operational processes has helped drive improvements in operational efficiency and farm asset utilisation. We are receiving real-time information on pond and prawn stock status from our SmartFarm systems, providing the business with the insight required to achieve the ambitious prawn production targets set 18 months ago. The SmartFarm system we developed will also underpin improvements in yield compared to traditional feeding methods.

Over the next 12-24 months we will leverage the large amount of data we are now capturing with an increasingly advanced data analytics capability, to drive further improvements in both salmon and prawn farming through growth optimisation, survival and FCR.

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A key differentiator for Tassal has been its focus on leading the industry in putting in place, and reporting on, sustainability activities. Can you please provide us with an update on how Tassal's sustainability initiatives have been progressing.

Mark Ryan

Sustainability is more than the environment we operate in, it's the people Tassal backs and the communities Tassal supports through all of life's challenges. Total recordable injury frequency rate continues to reduce, down to 7.21 medical treatments per million hours worked. We are working hard to play our part in reducing marine debris and are ahead of target, and we also have a positive approach to gender balance with 30% of all employees female and 2 of 6 Directors female as well.

Tassal is not only a farmer, we are a steward of the oceans and coasts on a journey of innovation and continuous improvement. Seal interactions continued to be low, and benthic compliance remains high. Our environmental compliance across our hatchery, farming and processing operations now stands at 100%.

As an Essential Service, Tassal provides responsibly farmed Australian seafood to millions of Australians through whatever challenges the world faces. We now have 106 approved suppliers that have participated in our Quality Approved Supplier Program to ensure food safety and quality is the highest it can be.

Employing over 1,700 people down the Eastern Seaboard, Tassal is a proud Australian company that continues to support Australian businesses, and over 1H21 produced 123 million meals.

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With COVID-19 materially impacting export markets over 1H21, what's the outlook for export markets for the remainder of FY21 and could they affect EBITDA profitability going forward?

Mark Ryan

Over the past five years, we have tactically targeted the export market only for excess salmon. This strategy has enabled us to grow harvest tonnage and average harvest size, generate farming and processing efficiencies to lower our costs of production, and maximise our ability to optimise sales mix in the domestic market. As a result of this strategy, and unlike many other global and local seafood producers, we do not rely on the export market to drive long-term returns. Our focus in 2H21 and going forward remains on growing domestic per capita consumption, as we have done successfully over the past five years.

Based on what we know today, we expect COVID-19 related sales impacts and volatility to continue through 2H21 for both salmon and prawns. In particular, we expect to see continued lower export world prices, and a higher Australian dollar; continued air freight disruption, in terms of both availability and cost; and some degree of price pressure in domestic channels as higher harvests are balanced with domestic demand profiles.

Global salmon pricing is currently trading at historical lows, despite previously being expected to recover [as evidenced through futures pricing indices and market analyst commentary]. Export markets, particularly foodservice remain significantly restricted due to the continuation of lockdowns / restrictions in the Northern Hemisphere leading to lower USD pricing. The negative impact on global pricing is on top of an already elevated AUD/USD exchange rate.

While global salmon supply was tight in 1H21, Chile salmon supply had significantly grown in calendar year 2020 and as traditional wholesale/foodservice markets were displaced globally, stock was moved into other markets causing prices to fall. Data is pointing to a recovery in global pricing in 1H22 as global supply remains tight and Chile's production level drops. We have salmon volume to sell and both export pricing and exchange rate can change quickly as we saw in CY2020. The shorter growing cycle for prawns also means we can flex quickly to ramp up production if export market pricing improves.

We strongly believe that the medium to long-term demand and supply fundamentals of the global salmon and prawn industries are positive in a "post-COVID-19 world".

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How are you responding to the current pricing environment?

Mark Ryan

Given the current volatility caused by COVID-19, particularly with sales markets, we have adjusted our short-term strategic growth trajectory by consolidating operations and reducing operating and capital spend.

Up to 1H21 our focus was to optimise **salmon** operations, both from a lease and fish performance perspective. We have successfully achieved this with the expected salmon harvest volume of 41,000 hog tonnes for FY21 being 5 years in advance of our Strategic Plan target. We will now consolidate our salmon operations until the domestic market evidences a better supply / demand balance and pricing conditions improve.

Production will be maintained at circa 41,000 hog tonnes pa harvested [subject to agriculture and environmental risks]. The higher biomass we have achieved for salmon over the past 5 years [from the same level of smolt inputs] has heavily supported reduced growing costs and improved production efficiencies. Circa \$0.50/kg cost of growing and production benefits were achieved in 1H21, allowing Tassal to weather the COVID-19 impact on pricing. Subject to maintaining this production level, we expect this “cost out” theme to continue going forward.

We will maintain our salmon replacement and upgrade capital expenditure at circa \$45 million to \$50 million per annum. This is fundamental to ensure our production is adequately protected at current volume levels. Depending on agriculture and environmental risk [i.e. leases holding up] this should allow substantial savings in capital spend compared to our Strategic Plan over the next 5 years.

While **prawns** is in rapid growth, this market segment has also been impacted by the similar market uncertainties that salmon experienced. However, with a much shorter working capital cycle (6 months, not 3 years), we can flex the prawns growth program much more quickly than salmon. For 2H21 we are prudently reducing planned growth capex and moving from rapid expansion and growth, to optimising our operations and focussing on yield.

With all the hatchery and processing infrastructure planned for FY21 having been built, we are pausing growth capex and only completing 20 hectares of new ponds [compared to 70 hectares previously planned], saving around \$6 million in capex in FY21. Forecast production is expected to increase to 4,500 to 5,000 tonnes in FY22.

Having shifted our focus in the short-term from rapid expansion of prawns to optimising operations, we will look to improve yield [survival and growth] via a similar path to the success we have had in salmon utilising fish husbandry, selective breeding, automated feeding systems, improving fish diets and diet cost. The goal of harvesting 20,000 tonnes by 2030 remains in place, and once we get to a “post-COVID-19 world” we can also accelerate this path.

We will review market conditions during 2H21 for salmon and prawns, and then determine our next short-term growth step. Our revised short term strategic plan supports prudent financial management with an already strong balance sheet in a more uncertain environment, providing the business and shareholders with a balance of growth for species, but the risk mitigation and flexibility to adapt/pivot as conditions evolve.

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How is Tassal’s capital position supporting the Company’s growth plans?

Mark Ryan

Tassal’s already strong balance sheet was further strengthened with available committed debt facilities extended in 1H21 by \$100 million to \$509.2 million [including Receivables Purchasing Facility], secured to April 2023. This enables us to withstand and respond to a range of economic scenarios while supporting salmon and prawn operating platforms.

Moving forward, we believe that we can both reduce and better balance the capital spend profile for our salmon and prawn business over the short-term while still maintaining an ability to accelerate our growth in prawns should the need arise. We are

reducing both salmon and prawn capital spend from \$125 million [originally] to \$105 million in FY21, and plan to reduce prawn growth capex spend in FY22.

At the same time, FY21 operating cashflow is expected to grow, as FY20's working capital build, coupled with the increase in prawn biomass in 1H21, is converted into cash.

Tassal continues to be well positioned to maximise returns on longer term investment when market conditions improve, and reflecting the Company's strong capital position, the Board is maintaining the dividend payout policy of at least 50% of operating NPAT.

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Thank you, Mark.

This Market Briefing has been authorised for release by the Board of Tassal Group Limited.

For further information, please contact Tassal on 1300 880 179, or visit www.tassal.com.au

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