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Lodgement of Market Briefing

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Market Briefing

Tassal MD & CEO on FY21 results and 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 FY21 result and FY22 growth outlook, including:

- *Tassal having the right strategy in place to drive long-term sustainable growth in earnings and returns, having planned, executed and delivered on all factors within its control*
- *Operating cashflows returning to growth, with the aim of moving closer to Operating EBITDA in the future*
- *Tassal's enhanced approach to ESG to cement its industry leadership on this front*
- *Positive environment factors of salmon vs other proteins, and ocean based salmon vs land based salmon*
- *Positive outlook for salmon markets in terms of pricing (demand) and volumes (supply)*
- *Expected growth in both salmon and prawns in FY22*
- *Infrastructure is in place, with major capital investment rolling off*
- *Strong balance sheet and capital position supporting the Company's growth plans.*

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Like the first half FY21 result, Tassal's very strong result at an operational and strategic level over FY21 did not completely translate to a comparable financial result. Why?

Mark Ryan

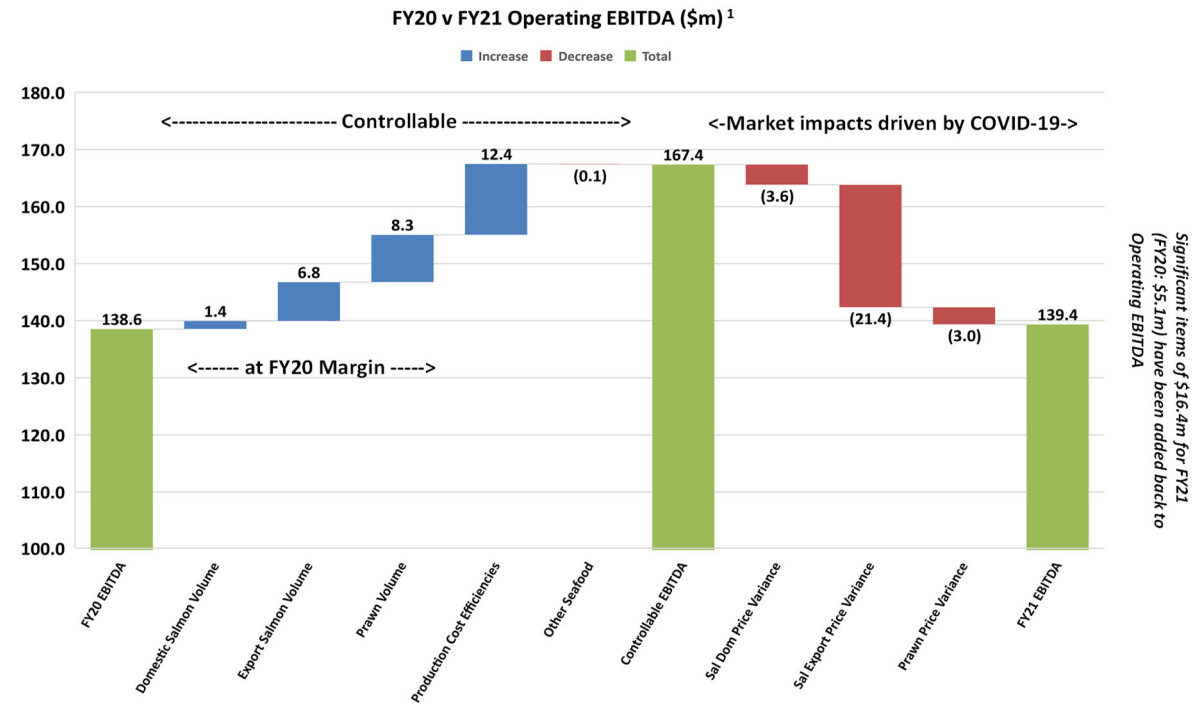
Like other global and domestic seafood companies, Tassal experienced significant pricing volatility in FY21 due to COVID-19 and resulting restrictions and market fractures, particularly in global/export

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markets. Further, it was incredibly difficult [limited capacity] and expensive [including chartering flights] to sell fish into export markets.

We have successfully executed and delivered on all factors in our control [controllable] versus those outside our control [non-controllable] over FY21. The factors outside our control over the past 12 months were all short-term COVID-19 related impacts, highlighting the strength of our operating platform and the potential uplift once we return to a post-COVID 'normal'.

Looking at our earnings result for FY21, the strong operational result can clearly be seen with EBITDA increasing from $138.6 million to a 'controllable' EBITDA of $167.4 million. Unfortunately, the impact of COVID-19 meant that the operational performance did not translate into an equally strong financial result.



1. Operating EBITDA (earnings before interest, tax, depreciation and amortisation) excluding signficant items and SGARA

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Operating cashflow returned to growth in FY21 even though earnings reduced. What underpinned the growth in operating cashflow, and why is it not yet similar to Operating EBITDA?

Mark Ryan

Tassal's operating cashflow is expected to move closer towards Operating EBITDA in the future. Despite the short-term COVID-19 impacts on FY21, operating cashflow was up 22.4% to $61.0 million. The difference between the operating cashflow and EBITDA in FY21 largely reflected the following points that are not expected to be replicated in FY22:

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- $43.4 million growth in finished goods, which occurred in the first half of FY21 due to the lack of capacity in airfreight in the early stages of COVID-19 and has now improved as can be seen from Tassal's record export sales in July and August 2021
- $21.0 million growth in biological assets was driven by the excellent growth performance on the salmon year class for sale in late FY22 and early stocking of prawns.

We do expect the $16.4 million in cash costs related to Significant Items to recur given the cost of export supply chains is still elevated.

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Tassal has a strong focus on corporate social responsibility or as it's otherwise referred to, ESG. What is Tassal's approach?

Mark Ryan

Tassal is proud of the role it plays in the global production of responsibly farmed salmon and prawns, that in turn provides nutritious and healthy food to a growing population in Australia and globally.

Our sustainability journey began in earnest 10 years ago. FY21 has been used to reframe our ESG and sustainability outlook and operations.

We use the framework of 5Ps – People, Planet, Product, Prosperity and Principles of governance. This approach intends to drive long-term value and make a lasting positive contribution to our shareholders and the broader global community. It takes into account global challenges, demand and trends, and incorporates what matters to our consumers, customers, shareholders, people, and the communities within which we operate.

Our new Beyond Sustainability, Responsible Business Roadmap sets out commitments and an accelerated program of inclusive action in seven areas of transformation – waste, people and communities, climate and circularity, freshwater, responsible sourcing, governance and animal welfare. It involves more transparency on progress, including visual transparency into our operations and farms.

Our FY21 results presentation, in addition to our Sustainability Report that will be lodged alongside the Company's 2021 Annual Report, provide substantial information on our ESG initiatives and progress.

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From an environmental perspective, how does the farming of salmon compare to other proteins?

Mark Ryan

As population increases, wild harvest stocks decrease, and farming land is restricted, aquaculture provides a source of renewable protein farmed through practices that seek to mimic nature.

These practices include selective breeding programs that support climate change adaptation for our salmon and prawns, to artificial intelligence to support behavioural analysis of stock and enhanced feed efficiencies. Tassal's R&D and technology capabilities increasingly enable us to balance the twin objectives of responsibly feeding a growing population, while managing our own environmental footprint.

Tassal salmon and Tropic Co prawns perform well when compared to other land proteins.

	tassal	Tropic Co			
PROTEIN RETENTION[1]	28%	32%	37%	21%	13%
FEED CONVERSION RATIO (FCR)	1.3	2.1	1.6[3]	3.1[4]	8.0[2]
EDIBLE MEAT PER 100KG FEED[5]	48kg	47kg	39kg	19kg	7kg
CARBON FOOTPRINT (KG CO_2E/KG EDIBLE MEAT)[5]	12kg	11kg	7kg	13kg	66kg

1. All data presented for Tassal and Tropico based on raw data provided by Tassal
2. Based on global average taken from Fry et al (2018) Feed conversion efficiency in aquaculture: do we measure it correctly? Environ. Res. Lett. 13 024017
3. Based on average for Australian grown broilers taken from https://www.chicken.org.au/facts-and-figures/
4. Based on average for Australian grown pork taken from http://porkcrc.com.au/wp-content/uploads/2016/06/4C-117-Fianl-report.pdf
5. Based on global average taken from http://www.fao.org/gleam/results/en/#c300947 converted from kg protein to kg edible meat using FSANZ Australian Food Composition Database https://www.foodstandards.gov.au/science/monitoringnutrients/afcd/Pages/default.aspx

When compared to land grown salmon via land-based recirculating aquaculture systems [RAS] salmon grow-out facilities, Tassal's salmon performs well, particularly in relation to its carbon footprint.

Lastly, a common piece of misinformation is that our salmon get stressed and their growing conditions are inhumane. The evidence shows the opposite. Our salmon are thriving in terms of their growing densities.

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	tassal	SALMON LAND-BASED RAS IF BASED IN N.S.W.	SALMON LAND-BASED RAS IF BASED IN TASMANIA
PROTEIN RETENTION	28%	28%	28%
FEED CONVERSION RATIO	1.3	1.1[1]	1.1[1]
EDIBLE MEAT PER 100KG FEED	48 kg	48 kg	48 kg
CARBON FOOTPRINT (KG CO_2E/KG EDIBLE MEAT)	12 kg	49 kg[2]	18 kg[2]

	tassal	SALMON LAND-BASED RAS	RSPCA APPROVED FARMING	Best Aquaculture Practices
FARMING DENSITY (KG/M³)	8 kg[3]	50-100 kg[4]	15 kg[5]	25 kg[6]

1. FCR of 1.1 based on a 10% improvement of FCR in RAS systems
2. The carbon footprint of land-based grow out RAS has been estimated using publicly available production volumes and energy use values for existing land-based RAS grow-out operations. We have created hypothetical scenarios of land-based RAS facilities, one located close to market in N.S.W. and the other in Tasmania using current feed composition and emission factors for each state
3. Tassal average farming density across all salmon marine sites in FY21
4. Land-based grow out RAS stocking density range estimated based on publicly available figures for existing land-based RAS systems
5. RSPCA Approved Farming Scheme Standard Farmed Atlantic Salmon Standard from https://rspcaapproved.org.au/wp-content/uploads/2020/05/2020-05_FARMEDATLANTICSALMON_Standard.pdf
6. Best Aquaculture Practices (BAP) Salmon Farms Standard from https://www.bapcertification.org/Downloadables/pdf/standards/PI%20-%20Standard%20-%20Salmon%20Farms%20-%20Issue%202.3%20-%2013-October-2016.pdf

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A lot has been written about the salmon industry and its perceived environmental impact. How has Tassal responded to this?

Mark Ryan

There has been a lot of coverage, in print and broadcast, on the salmon industry in Tasmania, most recently with the release of the book *Toxic*. This coverage has been challenging for our industry and the communities within which we operate. Like previous coverage, many of the criticisms in the book *Toxic* are inaccurate, baseless, or not supported by independent experts or scientific facts, as you can see from the data I've just outlined in relation to our farming operations.

Nevertheless, these issues are unsettling for our people and our communities, and as a company Tassal takes it very seriously. We are taking the opportunity to provide greater visual transparency under the waterways in which we operate to directly showcase the fact that we farm in a healthy marine environment.

We also see an opportunity to work proactively with the industry to highlight integrity, accuracy, and transparency as well as the credibility of the independent science that underpins the collective operations of Tasmanian salmon. For us, our people and our reputation will always be our most valuable assets, so recent coverage has been a catalyst to continue our pursuit to respond to what matters to all our stakeholders.

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COVID-19 materially impacted export and domestic wholesale markets in FY21. What's the outlook for these markets over FY22?

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. However, in the short-term we note that due to the significant uplift in harvested salmon, the export market will remain in FY22 [as it was in FY21] a very important market for Tassal.

Our focus in FY22 and going forward remains on growing domestic per capita consumption, as we have done successfully over the past five years and leveraging technology to improve our production efficiency.

Following 7% growth in 2020, global supply has now tightened, with negligible supply growth of around 2% forecast for 2021, with supply declines expected in the second half of this calendar year.

While supply is tightening, most market commentary also suggests that the salmon industry is expected to deliver 10-15% demand growth over 2021. Larger European Union, United Kingdom and United States' retail customer bases and a strong recovery in "other markets" (due to restricted supply) is expected to underpin this demand growth. In addition, the foodservice industry is returning as lockdowns ease and vaccines are rolled out.

We have seen the start of the recovery of global pricing this calendar year. Prices look promising in the September and December quarters for 2021 [based on FishPool Futures Pricing], which is the optimum supply period for Australian producers.

While we are seeing the short-term industry conditions improve globally, we also continue to strongly believe that the medium to long-term demand and supply fundamentals of the global salmon and prawn industries are positive.

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With positive pricing fundamentals now coming through, do you expect Tassal's salmon business to return to earnings growth in FY22?

Mark Ryan

We are excited by what we're seeing in the salmon market and the opportunities it provides us to return to earnings growth in FY22.

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From an export market perspective, the global salmon market is forecast to recover in 2021 / 2022, albeit not yet to pre-COVID-19 levels. The underlying export market pricing is expected to improve, subject to exchange rates and the cost and availability of airfreight. At the same time, while political risk surrounding China exports remain, our volume was stable in FY21 and we maintain strong relationships in the region.

From a domestic market perspective, domestic pricing, particularly in the wholesale market, is recovering in line with the global pricing recovery. However, it will take a little longer for some retail contracts to recover due to 3-5 year agreements in place.

From a customer demand perspective, we are well placed to continue our recovery from the short-term COVID-19 impacts. Tassal's no. 1 brand status and top of mind awareness in Australia will continue to be reinforced with the marketing plan building on FY21's success to continue to drive long term demand for "Tassal" branded products. In terms of volumes, we expect to deliver around 40,000 hog tonnes of salmon production as we did in FY21, which is still 3 years ahead of our Strategic Plan.

Our focus on driving cost-out $/kg efficiencies and fish performance over FY22 will further reinforce earnings.

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A lot has happened with your prawns business over FY21. Can you outline where you are at strategically and operationally, and the expected growth you see for FY22 and longer term?

Mark Ryan

Our vision is for Tropic Co to be Australia's no. 1 farmed Tiger Prawn brand, recognised and trusted by customers and consumers. Within two years we have delivered Australia's largest prawn harvest, and we've only just started. We continue to be committed to targeting our strategic goal of 20,000 tonnes of prawn production by 2030 [once fully authorised and land developed], with this target able to be brought forward if appropriate in a 'post COVID-19' world.

We reached our production target for FY21, delivering 3,915 tonnes of production. We remain on track for circa 5,000 tonnes of prawn production in FY22, with sales volumes supported by the Coles contract that commenced in December 2020. The 369 hectares of ponds and associated infrastructure that we currently have at Proserpine, Mission Beach and Yamba is sufficient to achieve FY22 production targets, with limited growth capex required.

Increasing production from 3,915 tonnes to 5,000 tonnes over the next 12 months will be underpinned by improving yield – survival and growth – via a similar path to what we took with salmon. Our proven skills across fish husbandry [health], domestification [selective breeding], automated feeding systems, improving fish diets and diet cost are all being put to work with prawns.

Having built up our inventory stock of prawns over FY21, we will see the growth in production translate to growing cashflows in FY22.

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Does Tassal have the platform in place to support its salmon and prawn growth plans?

Mark Ryan

Our strategic plan looks out to 2030, and with salmon having a three year growth cycle we carefully plan ahead to ensure we have the infrastructure in place to support sustainable growth in our operations and earnings. We have undertaken a focused investment strategy over the past three years to ensure we have the right infrastructure in place to deliver on the growth potential we see for the business.

For example, our roll out of sanctuary pens has considerably reduced the use of government approved deterrents when our peoples' safety is directly threatened. At a cost of $500,000 per pen, this circa $90 million investment in world leading exclusion driven infrastructure has kept our fish and our people safe while keeping wildlife in its natural habitat and supporting improved yields from our ocean-based farming operations.

Unlike other companies in our sector, we are now rolling off our major investment program and expect to invest $80 million to $90 million in capex over FY22, down from $138.7 million FY20.

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

Mark Ryan

We have always been very careful to ensure the Company's balance sheet and capital position was appropriate to enable the right level of investment to be made to deliver sustainable growth in our business.

Tassal's diversity of funding sources – bank debt and leasing [funded debt] plus receivable purchase facility [RPF] – is appropriate for a business that has Tassal's capital, growing and sales cycles. Our bank debt also has an appropriate tenor, with a weighted average currently 2.3 years, and we have substantial headroom available with $118.6 million in undrawn debt facilities and $30.6 million cash at 30 June 2021.

The Group's credit metrics at the end of FY21 – under 3x net debt / operating EBITDA, over 11x operating EBIT / interest, and 40% gearing ratio – are all comfortable, appropriate, and within internal ranges.

We are well placed to further strengthen our balance sheet over FY22. Operating cashflow is expected to grow, as FY20's and FY21's working capital build and the increase in prawn biomass in FY21 and FY22 is converted into cash. At the same time, salmon and prawn capital spend is expected to reduce from over $105 million in FY21 to $80-90 million in FY22 as our major investment program rolls off.

Reflecting the Company's strong capital position and further strengthening expected over FY22, the Board has been able to maintain its dividend payout policy of circa 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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