



Level 9, Marine Board Building  
1 Franklin Wharf  
Hobart, Tasmania 7000

**Attention: ASX Company Announcements Platform  
Lodgement of Market Briefing**

**15 February 2022**

# Market Briefing

## Tassal MD & CEO on 1H22 results and FY22 growth outlook

### Interview with Mark Ryan (Managing Director & CEO)

---

*Leveraging the investments made in salmon and prawn infrastructure and the resulting scale achieved, Tassal has delivered a step-change in cashflow generation in 1H22, and is focussed on further growing cashflows and optimising returns.*

*In this Market Briefing interview, Mark Ryan, Tassal's Managing Director & CEO, provides an overview of the Company's 1H22 results and FY22 growth outlook, including:*

- *Positive outlook for salmon markets in terms of pricing (demand) and volumes (supply)*
- *Targeting growth in both salmon and prawns in FY22*
- *With infrastructure now in place and operations at scale, major salmon capital investment is rolling off*
- *Tassal's enhanced approach to ESG will cement its industry leadership on this front*
- *Positive environment factors of salmon vs other proteins, and ocean based salmon vs land based salmon*
- *Focus for Tassal over the next two years is on optimising cash and returns.*

### Market Briefing

***Over the six months ended 31 December 2021 [1H22], Tassal generated strong growth in revenue, up 43% to over \$419 million. What were the key drivers and are they sustainable?***

#### **Mark Ryan**

In FY21 we made the strategic decision to take a disciplined approach around sales mix between Grocery contracted volume, being fixed volumes and prices, and Out-Of-Home and International

fresh HOG sales, being variable volumes and prices. This was done to enable the business to leverage favourable market dynamics that were expected for FY22 and came through in 1H22.

We have been optimising sales mix through branded product development in Grocery, leveraging Tassal's no. 1 salmon and protein brand positions, strategically balancing contract unbranded sales, and capitalising on the strong recovery in global pricing and the commencement of pricing recovery in the domestic market.

Further, it is management's experience that diversification of channels allows an optimisation of harvest utilisation and returns, whilst diversification of markets reduces risks of external interruptions to any channel or customer.

The improved salmon pricing environment and optimising sales mix has underpinned the strong growth in revenues. Demand both globally and domestically is expected to be strong and there is limited global supply growth<sup>1</sup>.

At the same time, the application of Tassal's proprietary SmartFarm technology, enhanced feed diets and fish husbandry has improved prawn size, survival and harvest biomass as we continue to build Tropic Co into Australia's number 1 prawn brand and generate growing sales in the domestic market.

## Market Briefing

***The 1H22 result saw strong cashflow generation, with operating cashflow and free cashflow up 110% to \$87 million and up 137% to \$59 million, respectively. What drove the growth in cashflows and why was operating cashflow more aligned to Operating EBITDA in this result?***

### Mark Ryan

With a 5-year capital cycle and 3-year working capital cycle for salmon, building incremental salmon biomass required significant upfront funding.

Now that Tassal has reached a scale position in salmon biomass of around 40,000 hog tonnes annually and is no longer funding incremental salmon working capital growth, and frozen salmon inventory was profitably sold and reduced to normal holding levels, operating cashflow increased substantially and was more aligned with Operating EBITDA in 1H22. This is despite Tassal's operating cashflow including an additional \$20 million in international airfreight costs [relative to the pre-COVID-19 cost \$/kg rates].

Now, with salmon biomass and harvest size stable and at scale, we don't need to fund incremental salmon working capital to grow.

Prawns with a 2-year capital cycle and 1-year working capital cycle deliver superior cashflow conversion and returns. Accordingly, now that investment in the Proserpine farming footprint is complete and future biomass growth and infrastructure growth will be aligned to domestic growth opportunities, we are targeting strong cash returns from prawns.

---

<sup>1</sup> Fish Pool, Kepler Chevreux, Rabobank, 2022.

With salmon capital over the medium term focused on maintenance spend, our plan is to further grow operating and free cashflows from 2H22 underpinning our focus of optimising cash and returns.

## Market Briefing

***Operating EBITDA \$/kg was down for salmon, and slightly up for prawns. Can you please explain the underlying drivers and whether you are targeting salmon margin growth to return?***

**Mark Ryan**

Operating EBITDA \$/kg for salmon was down 13.4% for two key reasons. Firstly, tenders for Grocery contracts in late FY21 resulted in reduced pricing for unbranded Deli contracts and the introduction of lower margin Private Label MAP contracts. At the same time, and secondly, like many farmers during COVID-19 we have experienced material supply chain cost increases across energy, feed commodities, labour, and domestic freight costs.

While salmon margin was down overall, pleasingly EBITDA \$/kg increased for our combined International and Out-Of-Home market segments based on the pricing recovery in both markets. We will look to leverage what we feel will be better short-term operating conditions in these market segments<sup>1</sup>, and look to pass on increased supply chain costs across all sales channels, to target a return to EBITDA \$/kg growth.

Prawn EBITDA \$/kg grew 6.4% underpinned by pricing increases in the Out-of-Home market segment in 1H22, and these increases are targeted to continue in 2H22. Partially offsetting this, supply chain cost increases and the sale of our frozen prawns generated a lower return compared to fresh cooked prawns. We are targeting an improving EBITDA \$/kg from 2H22 from both our pricing and sales channel discipline.

## Market Briefing

***As your cashflows grow, are you looking to reduce debt?***

**Mark Ryan**

With \$160 million of headroom in our current facilities, diversity of funding sources, and a tenor of 3.5 years, our balance sheet is sound. Having said that, we delivered a step-change in our cashflows and are now starting to reduce debt. The level of leverage in our business reduced from 2.55 to 2.37 over 1H22, as cash was used to lower debt and EBITDA grew.

With the end of the salmon growth capital spend, reduction in frozen salmon inventory and a sustainable and maintainable circa 40,000 hog tonnes annual harvest for salmon, together with a more efficient and effective capital and working capital cycle from prawns, we are focused on targeting further growing cashflows and reducing debt.

## Market Briefing

***You talked a lot about Blue AgTech in the result. Can you please explain what it is?***

**Mark Ryan**

Blue AgTech is the phrase referred to in relation to responsibly growing the value of aquaculture through the adoption of technology and innovation. Tassal has been doing this over the past few years, introducing many technological advances across all aspects of our operations, from farming to production and supply.

The key initiatives we have developed and implemented are encapsulated within our SmartFarm application. SmartFarming was developed through our deep experience with salmon and effectively taking data and learnings and packaging it up.

Through this we have led the Australian market in introducing technologies to both large scale salmon and prawn farming operations, bringing integrated feed, welfare and environmental management experience to our farmers. Real time in-pen/pond data, visuals and sensing across stock behaviour, climatic and environmental monitoring coupled with AI and localised predictive tools are supporting improved yields, reduced feed wastage, informed decision making and reduced environmental impact.

## Market Briefing

***Given the benefits you are generating from your proprietary Blue AgTech technologies, why do you want to share them with other industry participants, and how will this assist Tassal?***

**Mark Ryan**

We believe that Australia should have the world's best aquaculture industry and the results we are achieving in our business across multiple fronts, support Tassal's ranking as Australia's number 1 sustainable protein producer as judged by FAIRR<sup>2</sup>.

While our focus is on delivering growing cashflows and returns from our salmon and prawn operations through, amongst other things, the implementation of technology innovation, there is no reason why we can't either licence our technologies to other industry participants or even look to invest, either in time or dollars, in other aquaculture businesses. This would achieve the dual benefit of further helping our environment and also creating a new revenue stream for Tassal.

---

<sup>2</sup> FAIRR Initiative is a collaborative investor network that raises awareness of the environmental, social and governance (ESG) risks and opportunities brought about by intensive livestock production.

## Market Briefing

***A lot has been said and written about Tassal's impact on the environment, much of it misinformed. Can you please provide us with your perspective on Tassal's environmental impact?***

### Mark Ryan

A lot has been said and written about Tassal's environmental practices. Unfortunately it is very misinformed, and Tassal's ranking as Australia's number 1 sustainable protein producer by FAIRR<sup>2</sup> is clear recognition that we're leading protein production in this country, whether in the sea or on the land.

We have taken multiple factors into account in developing our environmental approach. For example, Tassal's pen density is very low, lower than other global aquaculture companies. We do this on purpose to ensure our fish are not stressed, they grow as efficiently as possible, and waste is minimised and more effectively managed.

There will always be by-products from animal farming, whether in the sea or on the land and this needs to be measured against several other factors like feed conversion efficiency and relative edible meat produced. On both those measures, Tassal's salmon significantly outperforms chicken, pork and beef. 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 and minimise environmental impact.

Like all farmed animals, fish produce waste, however, a lot less than pork and beef. Contrary to what some people say, fish waste at Tassal's pens is not damaging the marine ecosystem. Waste from our hatcheries is turned into compost, and waste at our seawater pens is mostly dispersed by currents. We continue to research and trial new technologies and ways of farming to further enhance water quality in our pens.

Through our selective breeding program, automated feeding and SmartFarm, we are addressing the challenges of warming water temperatures. While we are yet to remove the challenge altogether, having now reached biomass scale with the same smolt input as three years ago, we are clearly growing healthier larger fish and addressing the challenges posed by warming water temperatures. There is more to do on this front, and Tassal has committed to become carbon and climate positive as part of that journey.

We are working 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. This leverages Tassal's reputation for transparent reporting of its ESG practices and progress. For the past three years running, ACSI, whose members include some of Australia's largest industry and State super funds with over \$1 trillion in funds under management, awarded Tassal a "Leading level of ESG reporting" given the comprehensive data we provide publicly on our ESG initiatives.

## Market Briefing

### ***How are you thinking about the rate of growth in your prawns business?***

#### **Mark Ryan**

Like salmon, our prawn business has a strong growth outlook, and we are targeting for it to ultimately be similar size in terms of earnings to our salmon business.

For now, our 369 hectares of ponds and associated infrastructure at Proserpine, Mission Beach and Yamba is sufficient to achieve production targets for this financial year with limited growth capex required. We are on track to harvest around 5,300 tonnes in FY22.

Production growth for the short-term is targeted to come from improving yield [survival and growth] via a similar path to salmon – fish husbandry [health], domestication [selective breeding], automated feeding systems, improving diets and diet cost. We also anticipate further price increases as we grow consumer demand and awareness of our Tropic Co brand. This should underpin further growth in cashflows in FY22.

The importance of the Proserpine farming footprint that is now in place is not lost on Tassal. We have circa 4,000 hectares of land in place. Subject to satisfactory regulatory approvals and licence conditions, we anticipate that Proserpine has a spatial capacity of circa 1,000 hectares of ponds suitable for prawn production. In the short-term we are aligning production growth to domestic market growth, however, we are well placed with the footprint to target more aggressive growth should that be necessary.

## Market Briefing

### ***Having achieved a step-change in returns over 1H22, do you see returns growing further from current levels?***

#### **Mark Ryan**

We are excited by what we see for our business – both salmon and prawns.

The global salmon market has recovered with pricing over 1H22 restored to pre-COVID-19 levels. Market analysis is for global supply growth to be zero, potentially contracting in the first half of this calendar year 2022 [being Tassal's 2H22], with high demand remaining across retail and foodservice demand growing. Demand is expected to outstrip supply, particularly in South-East Asia, allowing us to generate significant pricing recovery relative to last financial year<sup>1</sup>.

With salmon, Tassal is committed to working responsibly within its current salmon footprint in line with the Tasmanian Government's industry plan. We are at a scale position of around 40,000 hog tonnes of production annually. Growth will come not from increased volumes, but rather from further price improvement, sales mix and cost-out \$/kg efficiencies and fish performance to grow returns.



Overall salmon capex spend is targeted to decrease from FY22 following completion of our salmon expansion program. Salmon capital for the mid-term will be focussed on maintenance spend.

With prawns, we are starting to see our scale benefits now coming through and this, combined with a growing domestic market and Tassal's discipline around pricing and sales mix, led to improved EBITDA \$/kg returns in 1H22. We are targeting for the returns to further improve in 2H22. Future biomass growth will be aligned to domestic growth opportunities.

With improving returns from both salmon and prawns, together with a targeted slowing of growth capital spend in the mid-term, this should have a material impact on cashflows and underpin further growth in cash generation and returns. Overall for FY22, total capital maintenance spend for Tassal should approximate total depreciation.

## Market Briefing

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](http://www.tassal.com.au)

**DISCLAIMER:** To the full extent permitted by law, readers of this Market Briefing are solely responsible for their use of the information contained in it, and Market Eye Pty Ltd (Market Eye) shall have no liability in relation to the information in this Market Briefing, the use of that information and any errors or omissions in this Market Briefing, including (without limitation) any liability for negligence or consequential loss. This Market Briefing is based on information provided to, and not verified by, Market Eye. Any statements by the participant company regarding future matters may reflect current intentions and beliefs of that company, may be subject to risks and uncertainties, and may be materially different to what actually occurs in the future. The information in this Market Briefing is not intended to be complete, or to provide a basis for making any decisions regarding investments. Nothing in this Market Briefing should be construed as financial product advice, whether personal or general, for the purposes of section 766B of the Corporations Act 2001 (Cth). Market Eye recommends that readers obtain independent investment advice prior to making any decisions regarding investments.