

26 February 2016



ASX Release

TFS delivers strong first half result - secures new supply agreements to China and India

Highlights

- Multi-year agreements signed with Chinese and Indian wood buyers – 100% of the TFS owned produce from the 2016 and 2017 harvests is now forward sold, at prices broadly equivalent to US\$4,500 per kg of oil
- Cash EBITDA up 29% on prior year, with guidance reaffirmed
- Annual harvest to commence in May of > 300t of heartwood, up tenfold on FY15
- Significant growth in sales of Benzac®, with royalty receipts tripling in Q2 FY16
- Plantation sales up 50% on prior year with strong demand from all investor groups
- Cash balance of \$52m (compared to \$30m at 31 December 2014)

TFS Corporation Ltd (“TFS”, “the Company”, ASX:TFC), the world's largest owner and manager of commercial Indian sandalwood plantations, has recorded a Net Profit After Tax of \$67.4 million for the six months ended 31 December 2015, up 23% on the prior corresponding period (H1 FY15). Cash EBITDA¹ was \$8.6 million, up 29% on H1 FY15.

Importantly, TFS today announced it has signed new multi-year agreements to supply its value-added wood to buyers in China and India at prices broadly equivalent to US\$4,500 per kg of oil. Together with the existing supply contracts in place with Nestle-owned Galderma and Lush Cosmetics, the signing of these agreements means that 100% of the 2016 and 2017 harvests already owned by TFS, over 300 tonnes of heartwood, has been forward sold.

TFS's first half profit was supported by an increase in cash revenues to \$60.7 million, up 17% on H1 FY15 (\$51.7 million). This was driven by a 45% increase in establishment fees for plantations sold to third party investors and 17% growth in sandalwood product sales. Royalty receipts from the sale of over-the-counter pharmaceutical products, containing the Company's Indian sandalwood oil, tripled in Q2 FY16.

TFS also expanded its operations in the half-year in preparation of its third annual harvest which is due to commence in May and is expected to yield more than 300 tonnes of heartwood – a tenfold increase on the FY15 harvest.

TFS's Managing Director, Frank Wilson, said the Company's performance in H1 FY16 continued the strong momentum of FY15.

¹ As in previous years, Cash EBITDA equals EBITDA less the fair value gain on the biological assets, revenue from the recognition of deferred lease and management fees and unrealised foreign exchange movements. In addition, Cash EBITDA excludes the non-cash accounting gain associated with the Group's acquisition of Santalis Pharmaceuticals and Viroxis Corporation in July 2015.

“We have had a strong start to the year and we are extremely well placed to meet the milestones set for 2016 under our growth strategy,” Mr Wilson said.

“I am delighted we have signed new agreements with wood buyers in China and India at attractive prices for TFS. With our existing contracts with Galderma and Lush Cosmetics, I am very pleased to announce that we have now forward sold all of the TFS owned yield from the forthcoming two harvests. We are now in the enviable position of having multiple customers across multiple markets in four different continents and this perfectly illustrates the global demand for Indian sandalwood.”

“In the six months we delivered a good financial result and we are in a stronger financial position than this time last year. We have also added significant scale to our operations, including a second seedling nursery in Katherine to support 1,500 hectares of new plantings in 2016 and a second production line to our Kununurra processing facility ahead of our first major harvest.”

“The 2016 harvest will commence in May 2016 and is expected to deliver more than 300 tonnes of heartwood – a tenfold increase on last year. Our harvested yield will be sold to our diverse global customers and generate attractive cash margins which will transform our financial performance,” Mr Wilson said.

Review of financials

TFS reported total revenue in H1 FY16 of \$150.6 million (H1 FY15: \$160.3 million). This included:

- Cash revenue of \$60.7 million, up 17% on H1 FY15 (\$51.7 million), including:
 - A strong increase in establishment fees for new plantations, especially due to investments from institutional investors;
 - Plantation management services provided to plantation owners; and
 - Strong growth of 17% in sandalwood product sales;
- Non-cash revenue of \$89.9 million, down 17% on H1 FY15 (\$108.6 million), including:
 - A tree valuation gain (due to a more favourable exchange rate, increased tree maturity with a shorter period to harvest, and larger directly-owned estate); and
 - Deferred plantation management fees.

Non-cash revenue was lower principally due to a smaller foreign exchange movement in H1 FY16 compared to H1 FY15, resulting in a smaller tree revaluation gain. At 31 December 2015, TFS’s biological assets were valued at \$586 million, up 16% on H1 FY15. The valuation methodology for TFS’s biological assets has remained unchanged and was assessed and signed off by the Company’s auditor, EY.

The Company’s financial results include the accounting for the acquisitions of Santalis Pharmaceuticals and ViroXis Corporation, which completed in July 2015. These companies develop and commercialise innovative and proprietary botanical pharmaceutical products which contain TFS’s Indian sandalwood oil. During the period, Santalis commenced Phase 2 trials for an oral rinse to treat *oral mucositis*, a common side effect to cancer, and for a topical formulation to treat *molluscum contagiosum*, a contagious and highly prevalent skin virus.

TFS had \$52.1 million cash at 31 December 2015 (30 June 2015: \$72.7 million), with the net outflow reflecting investments in growth through land and tree acquisitions of \$25.0 million and an expansion in operations and infrastructure ahead of the Company’s first major harvest. TFS ended the year in a stronger cash position than at

the end of H1 FY15 (\$30.1 million) and the Company expects positive operating cash flows for the full year FY16, consistent with FY14 and FY15, reflecting the seasonality of the business as plantation sales are weighted to H2.

Outlook

TFS reaffirms guidance for FY16 Cash EBITDA to be between 5% and 10% more than FY15, with earnings weighted to the second half of FY16 in line with previous years. The Company also expects to establish a further 1,500 hectares of plantings in FY16, to be completed in the northern Australia dry season, which will grow the total TFS owned and managed estate to around 12,000 hectares.

TFS's Managing Director, Frank Wilson, said the Company's priorities for the remainder of the year remained unchanged, including completing TFS's third annual harvest and supplying wood and oil products to the Company's global customers.

-ENDS-

For investor queries, please contact:

Frank Wilson
Managing Director
Ph: (08) 9386 3299

Alistair Stevens
Chief Financial Officer
Ph: (08) 9386 3299

For analyst queries, please contact:

Gerry Bullon
gerry.bullon@insor.com.au
Ph: 0418 106 675

For media queries, please contact:

Cameron Morse
FTI Consulting
Ph: 0433 886 871

ABOUT TFS

TFS Corporation Ltd ("TFS", ASX: TFC) is an owner and manager of Indian sandalwood plantations in northern Australia. As part of its vision to be a vertically integrated producer of sandalwood products, TFS owns a significant proportion of the plantations in its own right. TFS also operates sandalwood processing and oil distribution facilities from Albany, Western Australia.

TFS was originally founded to exploit the success of government trials into the plantation growth of Indian sandalwood in the Ord River Irrigation Area (ORIA) of north-east Western Australia.

TFS now manages the largest area of commercial Indian sandalwood plantations in the world, with over 10,500 hectares planted of which TFS owns directly and indirectly over 3,500 hectares. TFS plantations are managed on behalf of both institutional, high net worth and MIS investors.

In 2014, TFS completed its first commercial harvest of its Indian sandalwood plantations and, via its subsidiary Santalis Pharmaceuticals Inc., entered into a supply agreement for pharmaceutical grade oil with Galderma, a leading global dermatology company wholly owned by Nestle.

The company listed on the Australian Stock Exchange in December 2004. Since March 2014, TFS has been an

ASX300 company.

TFS is committed to adopting and maintaining the highest environmental and ethical standards in all aspects of its business.

ABOUT INDIAN SANDALWOOD

Indian sandalwood has a history as a tradeable commodity spanning thousands of years, but is now endangered due to the illegal harvest of wild trees throughout the world. As a result, Indian sandalwood is the world's most expensive tropical hardwood which continues to increase in price each year.

Indian sandalwood oil is a globally important ingredient in fine fragrances, cosmetics and toiletries, Indian consumer products and for medicinal purposes (Ayurvedic and Chinese medicine) and the wood is used for high quality carvings and artefacts and religious worship in the Hindu and Buddhist faiths. The efficacy of Indian sandalwood is being tested by US dermatology companies for a range of skin conditions and the global pharmaceutical market has the potential to be a significant consumer of Indian sandalwood oil.