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tassal GROUP LIMITED: from SALMON TO A BROADER SEAFOOD MARKET[[1]](#endnote-1)

Wiboon Kittilaksanawong and Deborah Lea Broadby wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The proposed acquisition of De Costi Seafoods will further build on our domestic salmon capabilities, increase Tassal’s vertical integration in salmon, drive increased scale, and provide Tassal with access to the broader seafood market. This increased scale will drive further efficiencies and benefits to both Tassal’s salmon offering as well as seafood, and uniquely position Tassal for its next phase of growth.[[2]](#endnote-2)

Mark Ryan, chief executive officer (CEO) of Tassal Group Limited

In August 2018, Tassal Group Limited (Tassal) signed a deal to acquire a shrimp farming business from the Fortune Group’s prawn aquaculture business.[[3]](#endnote-3) This strategic move was to further diversify from its core salmon market to a seafood market. Earlier, in July 2015, Tassal announced the acquisition of De Costi Seafoods Company (De Costi) in a deal of combined cash and shares.[[4]](#endnote-4) The acquisition would allow Tassal to address a A$4.3 billion[[5]](#endnote-5) Australian seafood market that was much larger than the previously addressable salmon market of only $700 million, while simultaneously improving their economies of scale and scope in production, logistics, and retailing.[[6]](#endnote-6) Such species diversification was not a new strategy for Tassal: in 2013, the company launched the Salamanca brand for wholesaling imported Norwegian salmon in Australia.[[7]](#endnote-7) Tassal was the largest among the three major producers of premium Tasmanian salmon farmed in inshore pens located in Macquarie Harbour.[[8]](#endnote-8) However, the harbour had been under the scrutiny of the Australian authority for mass production and adverse environmental impacts.[[9]](#endnote-9)

Given the problems with Macquarie Harbour, Tassal’s CEO, Mark Ryan, had many questions to answer: Should Tassal continue to expand overseas? What were the motives behind the acquisition of De Costi? Did the company have sufficient capabilities and resources to cope with the high demand for Tasmanian salmon, particularly in the Asian market?[[10]](#endnote-10) Did the acquisition address Tassal’s vision and its long-term strategy?

**HISTORY AND DEVELOPMENT**

Tassal was founded in 1986 on the island state of Tasmania, Australia, as a small salmon farm and hatchery. It was listed on the Australian Securities Exchange in 2003, with headquarters in Hobart, Tasmania’s capital. It believed in vertical integration as an effective strategy as early as 2007 when its first salmon shop and restaurant were opened.[[11]](#endnote-11) In 2010, it was Australia’s largest salmon producer, sharing 70 per cent of the country’s production. Tassal opened a second hatchery and salmon shop in Kew, Melbourne, in the same year. In 2011, it launched innovative products, such as Tassal Gourmet Salmon Smallgoods and Tassal Salt Reduced Smoked Salmon. In 2013, it launched Salamanca Seafood Company to sell high-quality smoked Norwegian Atlantic salmon to the domestic wholesale market.[[12]](#endnote-12)

**Growth Strategy**

Tassal had grown through several mergers and acquisitions. It acquired some of the 11 companies that owned leases in Tasmanian waters, becoming the industry leader with its high market share and large variety of distribution channels.[[13]](#endnote-13) Tassal provided customers with a large variety of fresh, smoked, canned, and frozen salmon products under various brands, including Tassal, Superior Gold, Tasmanian Smokehouse, De Costi Seafood, and Salamanca Seafood. As a vertically integrated company, Tassal had supply chains scattered throughout the state—freshwater hatcheries, saltwater aquaculture, sales and marketing, and distribution and retail (see Exhibit 1). It also had a sales and marketing office on the mainland in Melbourne, Victoria.[[14]](#endnote-14)

Tassal focused on increasing the per capita consumption of salmon in the Australian market, increasing the margins by improving production processes and strengthening market promotions. Australians were willing to pay slightly more for domestic-quality seafood.[[15]](#endnote-15) Increased fish supply, better pricing, and efficiency improvements had driven the growth of Tassal’s revenues and profits. Tassal derived 70 per cent and 30 per cent of its revenues from the domestic and export market, respectively.[[16]](#endnote-16) The salmon and seafood segments accounted for approximately 84 per cent and 16 per cent of the company’s total sales, respectively.[[17]](#endnote-17) Domestic consumption was thus particularly important to maintaining Tassal’s profitability, as it could compensate for exchange rate fluctuations in the export market. These factors had contributed to Tassal’s financial performance in 2016.[[18]](#endnote-18)

**Brand Strategy**

The Tassal brand, dedicated for the local Tasmanian salmon, was Tassal’s cornerstone.[[19]](#endnote-19) Other brands were also introduced for salmons from other areas. For example, in 2013, the company created the Salamanca Seafood brand for selling imported Norwegian salmon to Australian wholesalers. It was also a hedge against risks in locally farmed salmons. The acquisition of De Costi in 2015 was also intended for brand and product extension.[[20]](#endnote-20)

**Accreditations**

In 2012, Tassal joined WWF-Australia (World Wide Fund for Nature) in a three-year partnership project.[[21]](#endnote-21) It was the only salmon producer in Australia that was authorized to use the WWF logo on product packaging.[[22]](#endnote-22) The company had received numerous awards for achieving the highest global standard of responsible seafood production. In 2012, it was the first salmon producer in Australia to achieve the full Best Aquaculture Practices certification at the farm level by the Global Aquaculture Alliance. In 2014, it was the first company to achieve Aquaculture Stewardship Council certification, the gold-star rating of sustainable salmon farming.[[23]](#endnote-23)

**COMPETITIVE ENVIRONMENT**

The Australian fisheries and aquaculture industry was a minor producer and exporter, producing less than 0.2 per cent of the global market share, which was valued at approximately $3.1 billion.[[24]](#endnote-24) Tasmanian salmon was a premium product, selling at a better price in the local market. In 2016, Australia’s salmon farming industry was worth more than $700 million.[[25]](#endnote-25) There were a few major domestic players and international competitors.

Tasmania’s second-largest salmon farmer behind Tassal was Huon Aquaculture Limited (Huon), founded in 1986 and headquartered in Dover, Tasmania. Due to a strong domestic demand and premium prices for Tasmanian salmon, Huon mainly focused on the domestic market’s wholesalers, supplying salmon to restaurants, supermarkets, fishmongers, and other food businesses.[[26]](#endnote-26)

Founded in 1949, Petuna Seafoods Tasmania (Petuna) leased fishing pens in the Macquarie Harbour alongside Huon and Tassal. In 2010, it sold half of its shares to Sealord Group Limited, an Australian and New Zealand global seafood enterprise, creating opportunities for major facility upgrades and large infrastructure investments, including marine farms and hatcheries.[[27]](#endnote-27)

Van Diemen Aquaculture Limited and Saltas Limited were relatively small compared to the first three producers of Atlantic salmon—Tassal, Huon, and Petuna. The former was a sea farmer, while the latter mainly operated hatcheries. Both were privately owned and sold products domestically.[[28]](#endnote-28)

To meet the strong domestic demand, it was necessary to import salmon from overseas. However, international competitors were not seen as a threat to the three major domestic players, as the imports still allowed them to maintain competitive pricing with a relatively higher quality product.[[29]](#endnote-29)

**ACQUISITION OF DE COSTI SEAFOODS**

In July 2015, Tassal announced the acquisition of De Costi to combine salmon and seafood markets into its operations. This strategic move was intended to ensure the sales growth and returns of its seafood category. The resulting increased scale would strengthen efficiencies and benefits in Tassal’s salmon and seafood categories while preparing the company for future growth.[[30]](#endnote-30) De Costi was a logical target because it was one of the largest players in the Australian seafood industry.[[31]](#endnote-31)

In 1974, George Costi and his wife started out with a small fish stall at Paddington Markets in Sydney, before founding De Costi in 1981. Its head office, procurement, and distribution centres were in Lidcombe, New South Wales.[[32]](#endnote-32) From a humble beginning, De Costi had developed into one of Australia’s largest fresh seafood suppliers. Its facilities were fully automated, with large areas to facilitate huge volumes of seafood processing and packaging for further distribution.[[33]](#endnote-33)

De Costi distributed its seafood products mostly to the eastern side of Australia and South Australia. Its main customer was Woolworths Group Limited, a major Australian company with extensive retail interests throughout Australia and New Zealand. It also supplied to Metcash Limited, which was Australia’s leading wholesale distribution and marketing company. In 2015, De Costi’s turnover was approximately $138 million, with an earnings before interest, tax, depreciation, and amortization (EBITDA) of approximately $10 million and net profit before tax of approximately $5.3 million (see Exhibit 2).[[34]](#endnote-34)

**Motivations**

The acquisition would allow Tassal to access a larger combined salmon and seafood market in Australia. In 2015, the total seafood industry in Australia was worth $4.3 billion, of which salmon and other seafood were worth $0.7 billion and $3.6 billion, respectively.[[35]](#endnote-35) The acquisition could bring about synergies within the two entities, including product expansion and production efficiency. Tassal could continue to improve existing production facilities while creating new ones, including new fish pens, without large capital outlays.

By joining forces with De Costi, Tassal could improve its customer value proposition, with a wider and more sustainable product range. Tassal could also improve category management of its new seafood products. The acquisition would improve Tassal’s product technology and innovation, thereby increasing its product exposure in Australia’s states and export markets. It would also open new opportunities for Tassal in other food services and help the company build relationships with other retail stores. The acquisition would allow Tassal to focus on its original brand in wholesaling while expanding the retail base through the De Costi brand. The move would also align perfectly with Tassal’s strategy to create and maintain multiple brands and to avoid diluting its original brand. According to Ryan, the acquisition had put in place the right foundations for Tassal to pursue the salmon and seafood strategy.[[36]](#endnote-36)

The acquisition would help Tassal maintain its overall profitability in the face of uncertainty in local fish farming, changes in climatic conditions, and exchange rate fluctuations for international markets. During fiscal year (FY) 2016, Tassal was faced with higher costs and less-than-optimal supply due to warm water throughout the summer and autumn months, while a high percentage of retail sales volume and pricing were already locked in.[[37]](#endnote-37) These unfavourable issues were reflected in Tassal’s financials for the second half of 2016, where the salmon revenue was comparatively lower than expected.[[38]](#endnote-38)

**Terms of the Acquisition Deal**

The payment for the acquisition comprised two components—first, an upfront cash payment of $50 million at the completion of the proposed acquisition; second, a growth-based earnout payable in new Tassal shares over each of the three financial years from FY 2016 to 2018. The compliance, restructuring, alignment, and integration costs for De Costi amounted to $1.1 million.[[39]](#endnote-39)

In particular, the upfront payment was based on a multiple of five times the maintainable EBITDA of De Costi’s business in 2015, which was about $10 million. The growth-based earnout, depending on meeting the performance targets, would also be paid for approximately five times the maintainable EDITDA over the three-year period from FY 2016 to 2018. This contingent earnout was capped at a maximum nominal amount of $30 million and a maximum of 10 million new Tassal shares for that entire period.[[40]](#endnote-40)

Under such contingent payment, Tassal issued 2.1 million new shares to De Costi (based on its FY 2016 performance), which were 65.6 per cent of the maximum possible earnout for that year (see Exhibit 3).[[41]](#endnote-41) Because of De Costi’s increased post-acquisition operating performance in FY 2017, Tassal issued two million new shares to De Costi, which were 60 per cent of the maximum possible earnout for FY 2017.[[42]](#endnote-42)

**Financial Impacts**

Tassal had restructured De Costi to ensure that it provided a solid operating platform for Tassal’s sustainable growth initiatives. The restructuring addressed inefficiencies in the seafood supply chain while integrating Tassal’s best practices to increase operational capabilities and further synergies. Despite higher salmon costs and relatively locked-in domestic channel sales, Tassal had achieved good performance due to its efficient production and supply chain—particularly in the wholesale market. Such supply chain efficiencies could be partly attributed to De Costi’s strong location advantage, which enabled it to service retailers along the east coast of Australia and South Australia.[[43]](#endnote-43)

In particular, Tassal’s EBITDA in FY 2016 was up by 4 per cent to $97.29 million (see Exhibit 4). This increase was partly due to additional earnings from De Costi and improved operational efficiencies of balancing the product mix. Importantly, the cash flow had also increased to $50.2 million, which could buffer Tassal from adverse conditions—especially from the local salmon farming—while facilitating its investments for profitability and growth in the long-term. In FY 2016, Tassal also received a five-year tenor of core debt facilities from existing Westpac Banking Corporation and Bankwest, which provided the company sufficient leeway to counter agricultural risks and allowed it to consider expansion opportunities.[[44]](#endnote-44)

Following the acquisition in FY 2016, however, Tassal’s net debt had increased to $69.6 million ($48.9 million of which was used to fund the acquisition). The gearing ratio and funding ratio had also increased (see Exhibit 5).[[45]](#endnote-45) In the first half of 2018, Tassal reported a growth in revenue and operating earnings of 23 per cent and a growth in operating cash flows of 69.2 per cent to $40.6 million. The higher cash flows and the capital raised in the second half of 2017 had significantly reduced the gearing ratio to 13 per cent, which provided greater flexibility for long-term investments. These positive figures had substantially strengthened Tassal’s overall financial position.[[46]](#endnote-46)

The earnout arrangements could be tricky for De Costi, especially when the earnout was tied to the company’s profits or sales.[[47]](#endnote-47) In particular, De Costi would become a division of Tassal and have to achieve some mutually agreed upon goals, and it could not fully control the necessary resources to achieve them. However, the integration had improved the earnings of both entities. In particular, Tassal reported an additional expense of $6.7 million to be paid from the company as part of the terms for the earnout payment in FY 2017.[[48]](#endnote-48)

Tassal’s operational focus on De Costi’s advantages—innovative product and packaging, supply chain efficiencies, strong distribution of seafood in Australia’s eastern seaboard, and species diversification—was a success, as the seafood revenue in the first half of 2018 grew to $42.5 million from $41.1 million and $35.7 million in the same period of 2017 and 2016, respectively. With Tassal’s market dynamics and De Costi’s supply chain efficiencies, the combined entity had been successful in species diversification. The acquisition allowed Tassal to effectively put in place a strong set of competencies—particularly in vertical integration, from aquaculture to processing and marketing—to diversify into the wider seafood market.[[49]](#endnote-49)

**Strategic Impacts**

The acquisition of De Costi—one of the market leaders in the seafood industry, with strong retail outlets—was a very important strategic move that allowed Tassal to address a much larger Australian seafood market of $4.3 billion from the previously addressable salmon market of only $700 million.[[50]](#endnote-50) This acquisition was a major pivot point in Tassal’s product portfolios and technology to ensure strong sustainable growth. The acquisition had helped in driving Tassal’s seafood sales through a better use of supply chain channels and an optimization of operational costs. Tassal was shifting its focus to a balanced marketing mix by reducing the retail sales and focusing more on the larger volume of the wholesale market. The company was also focused on improving product and packaging and a balanced salmon number and weight. The strategic shift had helped Tassal to improve cash flows and optimize returns.[[51]](#endnote-51)

The vision of both companies aligned well in that the De Costi mantra was to source the best-tasting, freshest seafood possible, while Tassal aimed to create a better tomorrow for the industry.[[52]](#endnote-52) As George Costi, the company’s former CEO, agreed to continue managing the operations of seafood products for at least three years, the post-acquisition integration had proceeded smoothly. This friendly acquisition was successful, as De Costi’s seafood segment continued to grow within the Tassal group.[[53]](#endnote-53)

The acquisition fulfilled Tassal’s quest for species diversification, from salmonids to the entire seafood segment. In 2018, Tassal signed a deal via a De Costi subsidiary to acquire a shrimp farm for over $20 million from the Fortune Group’s prawn aquaculture business, aiming to increase its shrimp production sixfold.[[54]](#endnote-54) The acquisition of prawn farms was a further step in its diversification. With the market value of $750 million in 2015, prawns were a major segment in the Australian seafood market that still had a shortfall in supply of approximately $420 million.[[55]](#endnote-55) Due to the strict regulations for obtaining a prawn-farming licence, it was easier to simply acquire a company to overcome that entry barrier. This further step would be facilitated by leveraging De Costi’s supply chain advantages and Tassal’s market leadership.[[56]](#endnote-56)

Species diversification was a risky move if the parties involved were not familiar with the associated risks in the new segments. Tassal’s prior experience in pioneering vertical integration in the salmon business would be a valuable asset for the company to replicate this expertise in other seafood segments in order to drive category growth (see Exhibit 6).[[57]](#endnote-57)

Based on sales channels, the Australian seafood industry was divided into retail, food service, and institutional markets.[[58]](#endnote-58) The acquisition of De Costi had given Tassal easy access to the retail seafood market. Although the seafood segment accounted for less than 20 per cent of Tassal’s total revenue, the acquisition of De Costi had allowed Tassal to leverage both companies’ market positioning and supply chain efficiency to further improve market share in both salmon and seafood.[[59]](#endnote-59)

**TROUBLES IN MACQUARIE HARBOUR**

Salmon farming was introduced in Tasmania in the 1980s after it was found that this island state could successfully farm Atlantic salmon.[[60]](#endnote-60) Tasmanian salmon was considered a fine delicacy and a premium product in Australia. Among 11 companies, only the three large salmon farmers—Tassal, Huon, and Petuna—remained farming salmon in Tasmanian waters. Tasmania was the largest salmon export state in Australia (see Exhibit 7).[[61]](#endnote-61) Macquarie Harbour was the first place where intensive salmon farming started in Australia. It was located on the west coast of Tasmania, bordering on a wilderness World Heritage Site. These three companies were still farming salmon in this inlet.[[62]](#endnote-62) The production capacity of salmon pens in the harbour had more than doubled over the last few years, up until 2018.[[63]](#endnote-63)

However, the environmental impact of salmon farming on the area had put the harbour in a state of stress. The Environment Protection Authority, which was Tasmania’s principal environmental regulator, stated that 21,000 tons of fish feed had ended up on the sea floor in 2015, creating huge areas of waste.[[64]](#endnote-64) The specialists stated that the natural landscape of Macquarie Harbour was not suitable for intensive farming due to its narrow inlet, known as Hell’s Gates. The inlet was not wide enough to create a big enough tide to help drain the harbour of the feces and fish feed that were ending up on the sea floor.[[65]](#endnote-65) Such deposits were detrimental to the sustainability of the ecology, and the farm’s production capacity was forced to step down to 9,000 tons in 2018 from 21,500 tons in 2017.[[66]](#endnote-66)

In 2016, Tassal accounted for about 70 per cent of the state’s farmed salmon—a capital-intensive industry with a three-year harvesting cycle.[[67]](#endnote-67) Tassal owned three leases in Macquarie Harbour. Any troubles in Macquarie pens would be reflected negatively in Tassal’s income statement. The cost of farmed salmon production was increasing year after year. Marine farming, however, was much more expensive than maintaining the pens in Macquarie Harbour.[[68]](#endnote-68)

Ocean warming and a reduction in dissolved oxygen levels were harming the growth and weight gain of the salmons that were being farmed in Tasmanian waters. With warmer waters, the farms required more labour for bathing the fish at harbour pens to combat amoebic gill disease.[[69]](#endnote-69) Also, protests over the use of synthetic astaxanthin—a chemical in the fish feed used to ensure that farmed salmon had pink flesh similar to wild-caught—had forced major salmon producers in Macquarie Harbour to move to natural astaxanthin, which further drove up costs.[[70]](#endnote-70) Then, following the massive death of salmon in Tassal’s pens and the ensuing investigations in early 2018, there was public outcry for closing down the pens, though the warming ocean water was considered to be the cause. To overcome such public resistance, Tassal and Petuna had jointly managed their salmon pens in Macquarie Bay to ensure the sustainability of the seabed and the allied ecosystem.[[71]](#endnote-71)

The increased costs had also forced Tassal to withdraw from renewing some fixed-price salmon supply contracts. According to Ryan, this move was to balance out the supply-side stress due to the large-scale deaths and increasing production costs of farmed salmon. Tassal’s expansion into the larger seafood industry and plans for vertical integration of prawn farms might also be viewed in the light of these issues to maintain a balanced product mix and mitigate risks of Tasmanian salmon farming. Therefore, the acquisition of De Costi had provided Tassal with access to the related seafood markets. Importantly, the acquisition and other diversification efforts would help to buffer troubles in the salmon farming industry, at least in the short term.[[72]](#endnote-72)

Although Australian salmon production was only a small percentage of global salmon production, any adverse changes would have repercussions in the domestic seafood market. In 2018, Tassal had resumed exports to take advantage of high global prices. Tassal believed that their bigger fish could be sold at premium prices, particularly in Asia, as the company planned to open a sales office in China.[[73]](#endnote-73)

**EXPANSION TO ASIAN MARKETS**

The demand for seafood in Asian markets was expected to increase due to stable economic growth, a rise in population, and the availability of seafood. Seafood was a relatively cheaper alternative to meat for Australian, Indian, and Chinese customers.[[74]](#endnote-74) The expansion into seafood, including the prawns market, would help Tassal offset losses owing to increasing costs of salmon production and deaths of salmon in marine pens from climatic changes. Since the acquisition of De Costi, Tassal had entered into several joint ventures and planned for further acquisitions, and its balance sheet supported such plans.[[75]](#endnote-75)

Australian exports of fresh Atlantic salmon to China had risen steeply in January and October 2017 from the same months of 2016 (see Exhibit 8A, 8B, and 8C). China imported 5,137 metric tons of salmon in 2017, which was an increase of 477 per cent.[[76]](#endnote-76) According to Ryan,

Supply volumes are seasonal, and the recent increases have been in part due to strong biomass growth from our farms, with fish reaching their optimal harvest weight and seasonality of market demand. We are harvesting some of the largest salmon in the world at present, meaning a strong supply of very large fish, which the Chinese tend to favour.[[77]](#endnote-77)

For Tassal, the forecast for an increase in salmon consumption in China and possibly other Asian countries—like Japan and South Korea, where Australian salmon was perceived as a premium fish—was a great opportunity for long-term growth.[[78]](#endnote-78) Given environmental challenges in Macquarie Harbour and the growing demand for the salmon and broader seafood markets in Asia, Ryan wondered whether Tassal’s acquisition of De Costi made sense.

**Exhibit 1: TASSAL’S OPERATIONAL BASES**

|  |  |  |
| --- | --- | --- |
| **Area** | **State** | **Operation type** |
| Hobart | Tasmania | Head office—salmon shop, Salamanca |
| Okehampton | Tasmania | Marine operations |
| Eastern Zone | Tasmania | Marine operations |
| Channel Zone | Tasmania | Marine operations |
| Southern Zone | Tasmania | Marine operations |
| Western Zone | Tasmania | Marine operations |
| Margate | Tasmania | Processing and administration |
| Huonville | Tasmania | Processing |
| Dover | Tasmania | Processing |
| Russell Falls | Tasmania | Hatchery |
| Rookwood Road 1 and 2 | Tasmania | Hatcheries |
| Triabunna | Tasmania | Value added, by-products |
| Sydney | New South Wales | Processing and sales |
| Melbourne | Victoria | Sales and marketing |

Source: Created by the case authors based on Tassal Group Limited, “Our Operations,” accessed October 26, 2018, https://tassalgroup.com.au/our-planet/our-operations/.

**Exhibit 2: DE COSTI SEAFOOD’S INCOME STATEMENT (IN million A$)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015E** | **2016E** | **2017E** | **2018E** | **2019E** | **2020E** |
| **Total revenue** | 102.28 | 115.85 | 138.40 | 152.24 | 164.42 | 174.28 | 181.25 | 188.50 |
| **Gross profit** | 15.22 | 17.96 | 25.70 | 28.27 | 30.53 | 32.36 | 33.6 | 35.00 |
| **EBITDA** | 3.08 | 5.81 | 10.25 | 11.27 | 12.17 | 12.90 | 13.42 | 13.95 |
| **EBIT** | 1.84 | 4.57 | 8.55 | 9.21 | 10.06 | 10.75 | 11.21 | 11.70 |
| **Pre-tax profit** | 1.51 | 3.67 | 7.61 | 8.02 | 8.65 | 9.10 | 9.35 | 9.69 |
| **NPAT** | 1.00 | 2.86 | 5.22 | 5.51 | 5.94 | 6.25 | 6.41 | 6.65 |

Notes: EBITDA = earnings before interest, taxes, depreciation, and amortization; EBIT = earnings before interest and taxes; NPAT = net profits after taxes; E = expected.

Source: Created by the case authors based on CFA Institute, *Tassal Group Limited*, 12, September 17, 2015, accessed October 26, 2018, www.arx.cfa/up/post/872/Melbourne-University-of-Melbourne.pdf.

**Exhibit 3: DE COSTI SEAFOOD’S standalone income and earnout (post-acquisition)**

|  |  |  |
| --- | --- | --- |
|  | **FY 2016** | **FY 2017** |
| **De Costi Seafood's EBITDA** | A$11.4 million | A$12.7 million |
| **Contingent consideration (CC)** | 2.1 million shares | 2.0 million shares |
| **CC as a percentage of maximum possible earnout for the FY** | 65.6% | 60.0% |

Note: FY = fiscal year.

Source: Created by the case authors based on Tassal Group Limited, *Annual Report 2016*, 5, accessed October 26, 2018, www.annualreports.com/HostedData/AnnualReportArchive/T/ASX\_TGR\_2016.pdf; Tassal Group Limited, *Annual Report 2017*, 2, accessed October 26, 2018, www.tassal.com.au/wp-content/uploads/2017/09/1717106-2017-Annual-Report.pdf.

**Exhibit 4: TASSAL GROUP LIMITED’S KEY FINANCIALS (IN MILLION A$)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Total revenue** | 272.07 | 265.73 | 309.36 | 430.92 | 450.45 |
| **Gross profit** | 135.07 | 144.36 | 171.60 | n/a | n/a |
| **EBITDA** | 68.29 | 78.00 | 93.54 | 97.29 | 114.55 |
| **EBIT** | 52.76 | 62.53 | 75.17 | 76.28 | 93.62 |
| **Pre-tax profit** | 46.76 | 57.46 | 70.45 | 68.91 | 85.56 |
| **NPAT** | 33.46 | 41.06 | 49.99 | 48.49 | 58.08 |
| **Total assets** | 506.78 | 536.55 | 612.93 | 749.07 | 862.75 |
| **Total liabilities** | 191.24 | 194.62 | 239.64 | 344.74 | 324.86 |

Note: n/a = not available; EBITDA = earnings before interest, taxes, depreciation, and amortization; EBIT = earnings before interest and taxes; NPAT = net profit after taxes.

Source: Created by the case authors based on CFA Institute, *Tassal Group Limited*, 11 (2013–2015), September 17, 2015, accessed October 26, 2018, www.arx.cfa/up/post/872/Melbourne-University-of-Melbourne.pdf; Tassal Group Limited, *Annual Report 2017*, 3, 30 (2016–2017), accessed October 27, 2018, www.tassal.com.au/wp-content/uploads/2017/09/1717106-2017-Annual-Report.pdf.

**Exhibit 5: TASSAL GROUP LIMITED’S FINANCIAL RATIOS (%)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Profit margin** | 12.3 | 15.5 | 16.2 | 11.3 | 12.9 |
| **Revenue growth** | 4.1 | (2.3) | 16.4 | 39.3 | 4.5 |
| **Asset growth** | 3.3 | 5.9 | 14.2 | 22.2 | 15.2 |
| **Liabilities growth** | (2.3) | 1.8 | 23.1 | 43.9 | (5.8) |
| **Debt/asset ratio** | 37.7 | 36.3 | 39.1 | 46.0 | 37.7 |
| **Return on assets** | 6.6 | 7.7 | 8.2 | 6.5 | 6.7 |

Source: Created by the case authors based on CFA Institute, *Tassal Group Limited*, 11 (2012–2015), September 17, 2015, accessed October 26, 2018, www.arx.cfa/up/post/872/Melbourne-University-of-Melbourne.pdf; Tassal Group Limited, *Annual Report 2017*, 3, 30 (2016–2017), accessed October 27, 2018, www.tassal.com.au/wp-content/uploads/2017/09/1717106-2017-Annual-Report.pdf.

**Exhibit 6: TASSAL’S SUPPLY CHAIN INTEGRATION**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **1. Suppliers**  **(feed inputs)** | **2. Aquaculture production** | **3. Value-added products** | **4. Distribution and logistics** | **5. Customers** |
| - Chicken and oil  - Grain and protein  - Fish and oil | - Hatchery  - On-growing tank  - Pens  - Harvest | Raw materials were converted into products. | - Warehouse  - Transportation | - Retailers  - Restaurants  - Markets  - Wholesalers |

Note: The supply chain began from activity no. 1 to no. 5.

Source: Created by the case authors based on Wise, *WiseFish Upgrade: The Inside Story at Tassal Australia*, accessed October 27, 2018, www.wisefish.com/images/Factscheets/Case\_Study\_-\_Tassal\_-\_portrait\_REV03\_forweb.pdf.

**Exhibit 7: Australia seafood export values by STATES IN 2015**–**2016 (million A$)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **State** | **Salmonids** | **Other fish** | **Crustaceans and molluscs** | **Total exports of seafood** |
| **New South Wales** | 0.2 | 16.3 | 6.7 | 23.2 |
| **Victoria** | 2.4 | 18.9 | 171.3 | 192.6 |
| **Queensland** | 0.2 | 66.3 | 133.1 | 199.6 |
| **South Australia** | 0.8 | 147.4 | 102.2 | 250.4 |
| **Western Australia** | 0.0 | 8.0 | 496.8 | 504.8 |
| **Tasmania** | 74.8 | 6.4 | 105.6 | 186.8 |
| **Northern Territory** | 0.0 | 0.0 | 0.2 | 0.2 |
| **Total exports from Australia** | 78.4 | 263.3 | 1,015.9 | 1,357.6 |

Note: Total exports from Australia included exports from Australian Capital Territory and re-exports.

Source: Created by the case authors based on “Fisheries Data,” Australian Government—Department of Agriculture and Water Resources, accessed October 27, 2018, www.agriculture.gov.au/abares/research-topics/fisheries/fisheries-data#australian-fisheries-and-aquaculture-statistics-2016.

**Exhibit 8A: Australia seafood export values by products (million A$)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Seafood products** | **2013–2014** | **2014–2015** | **2015–2016** |
| **Salmonids** | **17.4** | **48.1** | **79.9** |
| Other fish | 208.0 | 223.1 | 274.7 |
| Crustaceans and molluscs | 912.9 | 1,021.5 | 1,063.7 |
| **Total exports of seafood products** | **1,138.3** | **1,292.7** | **1,418.3** |

Source: Created by the case authors based on “Fisheries Data,” Australian Government—Department of Agriculture and Water Resources, accessed October 27, 2018, www.agriculture.gov.au/abares/research-topics/fisheries/fisheries-data#australian-fisheries-and-aquaculture-statistics-2016.

**Exhibit 8B: Australia seafood export values by market (million A$)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Export markets** | **2013–2014** | **2014–2015** | **2015–2016** |
| **Asian markets** | | | |
| China | 36.6 | 48.7 | 104.6 |
| Hong Kong | 208.9 | 192.3 | 223.7 |
| Indonesia | 9.9 | 9.3 | 10.0 |
| Japan | 192.1 | 192.1 | 205.3 |
| Malaysia | 9.9 | 11.2 | 7.5 |
| Singapore | 34.2 | 35.0 | 35.3 |
| Taiwan | 13.7 | 15.1 | 20.9 |
| Thailand | 8.0 | 10.0 | 9.4 |
| Vietnam | 565.6 | 715.6 | 681.7 |
| **Total exports to Asian markets** | **1,078.9** | **1,229.3** | **1,298.4** |
| **Non-Asian markets** | | | |
| Canada | 1.9 | 2.6 | 3.6 |
| France | 1.1 | 0.6 | 2.2 |
| Germany | 1.0 | 1.3 | 2.2 |
| Italy | 1.8 | 3.3 | 5.4 |
| New Zealand | 14.5 | 13.9 | 19.9 |
| United States | 22.1 | 28.0 | 44.8 |
| **Other markets** | **17.0** | **13.7** | **41.8** |
| **Total exports from Australia** | **1,138.3** | **1,292.7** | **1,418.3** |

Source: Created by the case authors based on “Fisheries Data,” Australian Government—Department of Agriculture and Water Resources, accessed October 27, 2018, www.agriculture.gov.au/abares/research-topics/fisheries/fisheries-data#australian-fisheries-and-aquaculture-statistics-2016.

**Exhibit 8C: Australia seafood export values by SELECTED markets and PRoDUCTS (million A$)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Country and products** | **2013–2014** | **2014–2015** | **2015–2016** |
| **China** | | | |
| Salmonids | 0.1 | 24.6 | 45.5 |
| Other seafood | 36.5 | 24.1 | 59.1 |
| **Total exports** | 36.6 | 48.7 | 104.6 |
| **Hong Kong** | | | |
| Salmonids | 0.9 | 1.1 | 1.2 |
| Other seafood | 208.0 | 191.2 | 222.5 |
| **Total exports** | 208.9 | 192.3 | 223.7 |
| **Japan** | | | |
| Salmonids | 8.3 | 8.3 | 11.7 |
| Other seafood | 183.8 | 183.8 | 193.7 |
| **Total exports** | 192.1 | 192.1 | 205.4 |
| **Singapore** | | | |
| Salmonids | 0.4 | 3.1 | 2.9 |
| Other seafood | 33.8 | 31.9 | 32.4 |
| **Total exports** | 34.2 | 35.0 | 35.3 |
| **Taiwan** | | | |
| Salmonids | 0.1 | 1.7 | 3.0 |
| Other seafood | 13.6 | 13.3 | 17.8 |
| **Total exports** | 13.7 | 15.0 | 20.8 |
| **Vietnam** | | | |
| Salmonids | 0.1 | 0.1 | 3.3 |
| Other seafood | 565.5 | 715.5 | 678.4 |
| **Total exports** | 565.6 | 715.6 | 681.7 |
| **United States** | | | |
| Salmonids | 0.5 | 0.7 | 0.6 |
| Other seafood | 21.5 | 27.2 | 44.2 |
| **Total exports** | 22.0 | 27.9 | 44.8 |

Source: Created by the case authors based on “Fisheries Data,” Australian Government—Department of Agriculture and Water Resources, accessed October 27, 2018, www.agriculture.gov.au/abares/research-topics/fisheries/fisheries-data#australian-fisheries-and-aquaculture-statistics-2016.

ENDNOTES

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