



SELECT HARVESTS

## UBS Australian Emerging Companies Conference – Food & Agribusiness

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27 November 2018



# Disclaimer & Basis of Preparation

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*The Select Harvests Limited financial statements are prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. This includes application of AASB 141 Agriculture in accounting for the current year almond crop, which is classified as a biological asset. In applying this standard to determine the value of the current year crop, the Company makes various assumptions at the balance date as the selling price of the crop can only be estimated and the actual crop yield will not be known until it is completely processed and sold. The resulting accounting estimates will, by definition, seldom equal the related actual results, and have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.*

**Due to Transition Period, SHV in blackout until AGM & Results released Thursday 29 November 2018**





# Select Harvests – in control of our destiny



# FY18 Financial Overview

## Almond Volume

15,700 MT

↑ 11.3%

Maturity profile continues to deliver underlying volume growth

## EBITDA<sup>1</sup>

\$51.7 m

↑ 62.3%

Due to higher almond volumes, pricing and lower costs

## Operating Cashflows

\$18.3 m

↑ \$13.6 m

Result of higher earnings and working capital management

## NPAT

\$20.4 m

↑ 120.3 %

With strong contribution from the Almond Division

## Net Debt

\$70.8 m

↓ \$75.1 m

Balance sheet replenished, debt levels are low and gearing is strong

## EPS

23.2 cps

↑ 84.1 %

November 2017 Capital Raising increased shares on issue to 95.5 m

<sup>1</sup> - Non-IFRS measure used by the company are relevant because they are consistent with measures used internally by management and by some in the investment community to assess the operating performance of the business. The non-IFRS measures have not been subject to audit or review.

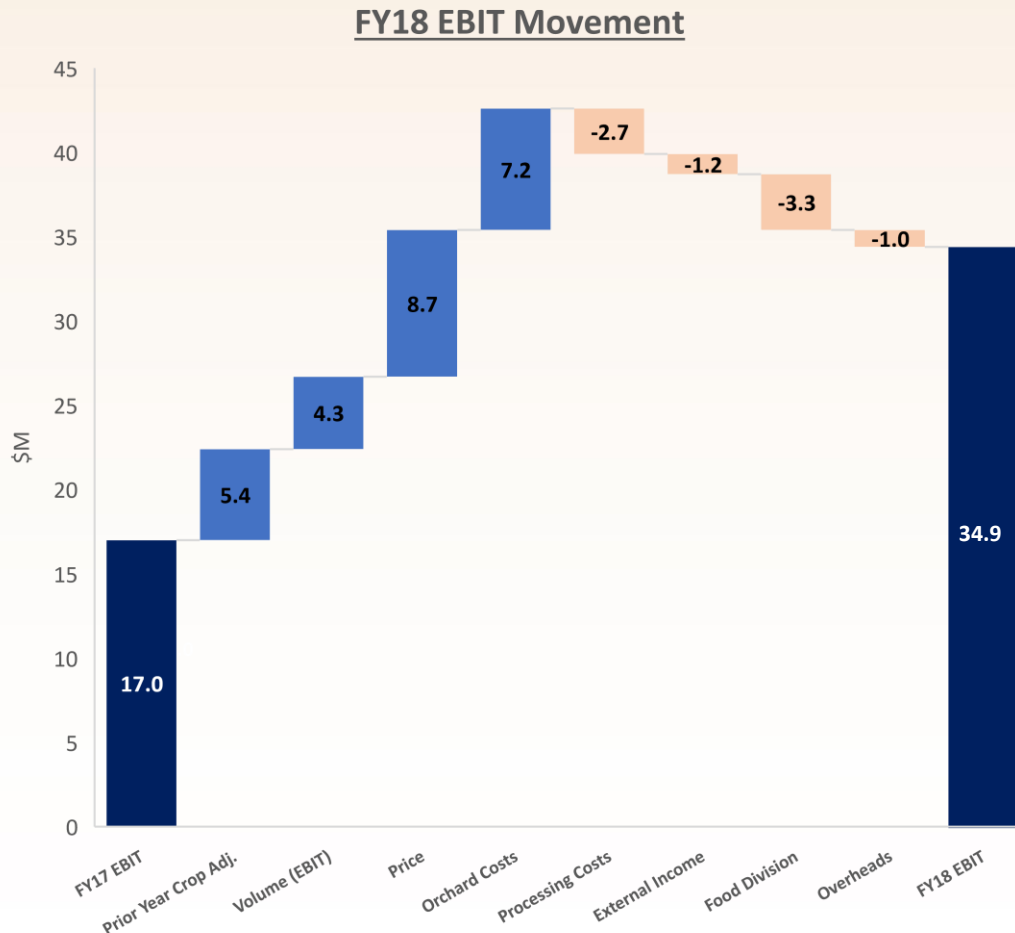
**Improved result due to increased almond volumes, higher almond prices and lower costs of production**



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# FY18 Movement in SHV Group EBIT (\$M)



## FY2018 result was positively impacted by the following:

- Positive movements in the fair value of prior year crops
- Increased volumes through additional bearing acres (15,700 MT in FY18 vs 14,100 MT in FY17)
- Higher almond prices (\$8.05/kg in FY18 vs \$7.43/kg in FY17)
- Reduction in FY18 orchard costs reducing cost/kg

## The above positive factors were partially offset by:

- Higher processing costs due to initial commencement of Parboil
- Lower external processing fees
- Lower branded food contribution due to domestic private label launch
- Increased overheads due to one-off transaction costs

**Increased volumes, higher pricing and lower cost of production have led to an improved FY18 result**

# Corporate

## Transition Period (1 July 2018 – 30 September 2018)

- This change is being made to align our financial reporting with the Horticultural cycle to provide greater certainty and transparency
- The Transition Period is too early in the crop cycle to reliably estimate the 2019 crop fair value therefore Almond Division 2019 crop income has not been recognised during this period
- Food Division and income from other activities will be less than corporate and financing costs for the period
- As previously advised, this will result in the 3-month Transition Period recording a loss
- Transition Period is an audited result with a year on year underlying/unaudited comparison

## Change to AASB16 Leasing Standard will impact Select Harvests and the company will adopt AASB16 for the FY2020 year, beginning 1 October 2019.

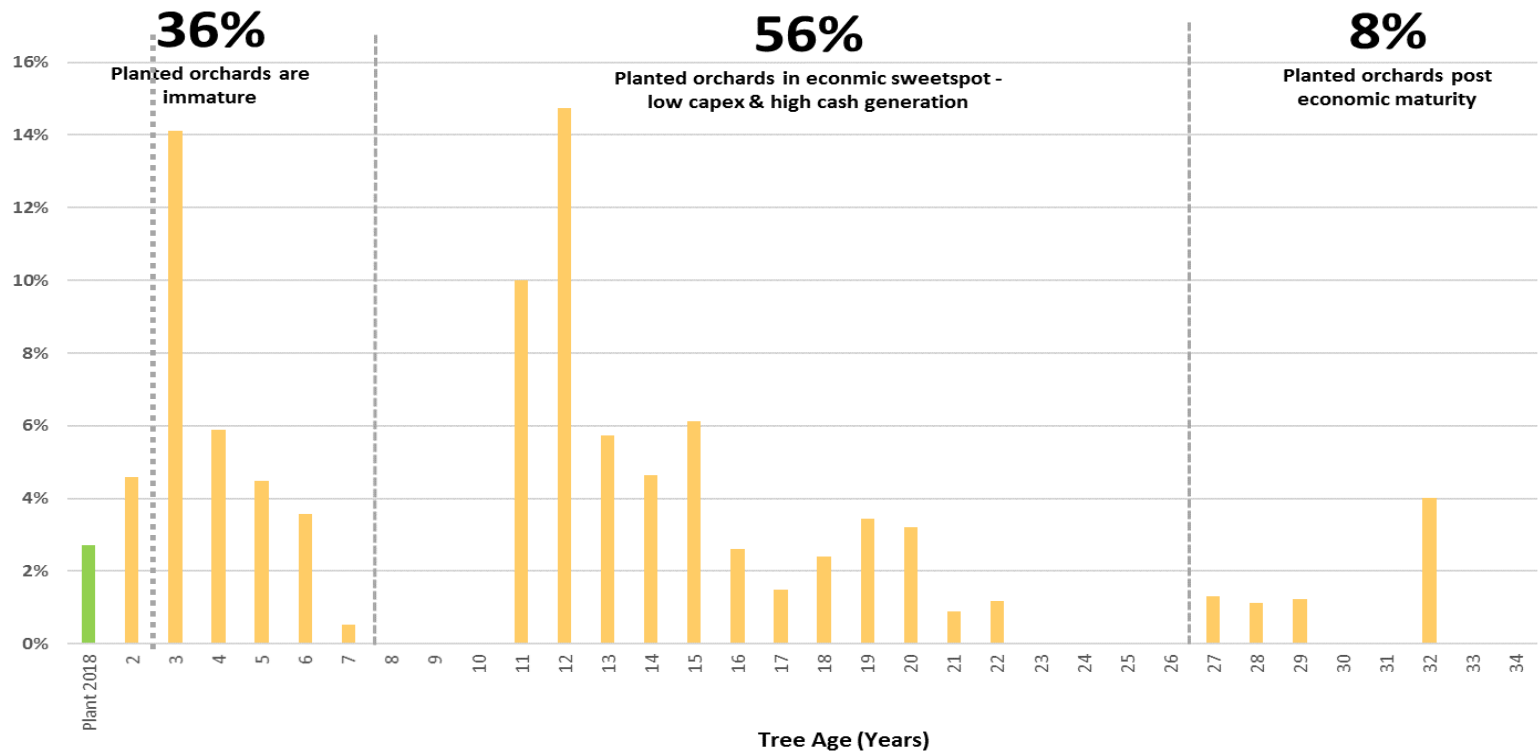
- It will result in lease costs that were previously reported above EBITDA to be split into Depreciation and Finance costs, thereby impacting EBITDA, EBIT PBT and NPAT
- It is important to note that the impact of these changes have been recognised when we renegotiated our bank facilities

## Asset Valuations

- Our brand and goodwill is valued at cost \$29 million
- An independent bank valuation was completed for specific assets of our Almond Division (being the company owned orchards, Carina West Processing Facility and our permanent water rights). The valuation revealed that these specific assets were valued significantly higher than their carrying value - by \$99 million
- There has been no value attributed to our leased orchards

# Select Harvests – Orchard Age Profile

## Age Profile of SHV Almond Orchard Portfolio 79% of current planted acres are cash generative



Growth and improvement occurred in SHV orchard portfolio in recent years - acquisition, replants, greenfields

# Select Harvests Brand Presence in Asia



	India	China	Indonesia	Japan	Philippines	Thailand	Malaysia	Taiwan	PNG	Singapore	Brunei	Middle East	New Zealand
Lucky													
Sunsol													
NuVitality													
Renshaw													
Allinga Farms (inc. Inshell & Bulk Almonds)													

Our branded products are currently distributed across 13 countries in Asia



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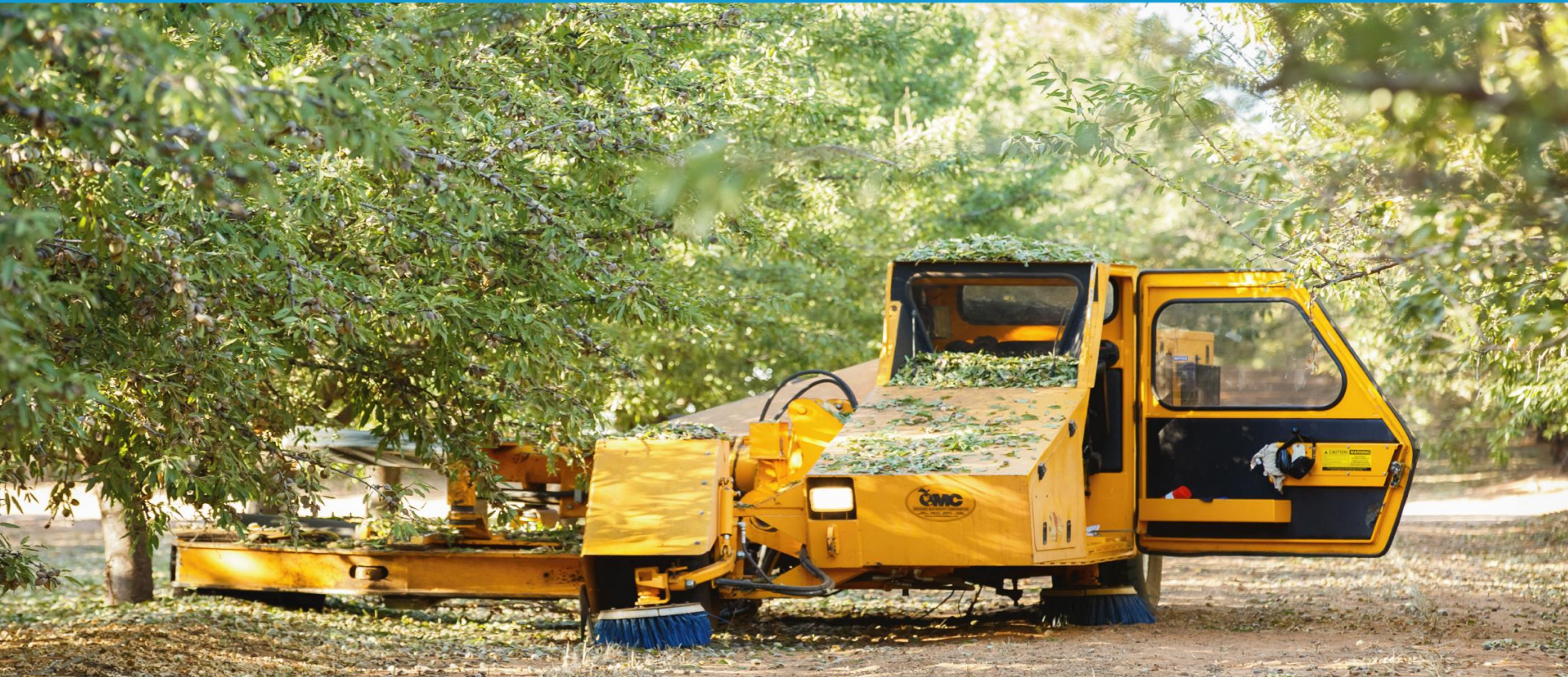






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# Almond Division



# Almond Division

- **2018 Crop volume increased to 15,700 tonnes (FY 2017 14,100 tonnes) - up 11.3%**
  - Crop potential significantly impacted by frost particularly in NSW, with mature tree average yield marginally down
  - New plantings maturity contributed 700 MT
  - Jubilee acquisition contributed 960 MT
  - 2018 crop fully committed or sold
- **2018 Sales price of \$8.05/kg (FY 2017 \$7.43/kg) - up 8.3%**
  - Similar quality to last year and improved pricing
  - Current market pricing being influence by US/China Trade dispute
- **Hulling & shelling completed early-August**
  - Production cost per kg reduced by 8.6%
  - During the Transition Period additional investment has been make in optical sorting capability
- **Project Parboil (Almond value-adding facility)**
  - Efficiency improving slowly
- **Project H2E (Biomass electricity cogeneration facility)**
  - Currently operating and powering the processing facility with excess supplied to the grid (currently operating at ~ 85% capacity)
  - Working with supplier to get the plant to full operation, which will require further capital works
- **Greenfield plant out**
  - 352 ha (870 acres) completed July 2017 (funded on FSS balance sheet)
  - 208 ha (513 acres) in July 2018 (funded on FSS balance sheet)
  - Currently looking to acquire suitable land or mature orchards

**Almond Division EBIT up 159% - driven by cost savings, higher almond volume and pricing**



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## Food Division



# Food Division

## ■ Strong Industrial Sales

- Industrial revenue and volumes increased due to higher demand for almonds by Asian food processors
- Value-added products (Parboil) attracting strong interest

## ■ Sales growth for Sunsol

- Strong demand in domestic sales, seek range extensions
- Strong export interest has continued

## ■ Lucky sales and market share stabilized

- Impact of Coles house brand on Lucky market share has stabilised
- Domestic investment in brand has commenced
- Lucky brand Trademark License and Distribution Agreement with PepsiCo China

## ■ Private Label Contracts

- Commenced supply of local Private Label contracts

## ■ ERP System

- Corporate and Food Division will move to JDE system in November, bring the business onto one platform



**New Jar line capability**

**FY18 a disappointing result - positive signs as we increase focus on export**



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# China



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**Singles Day Gift Pack Promotions available via Alibaba Channel**

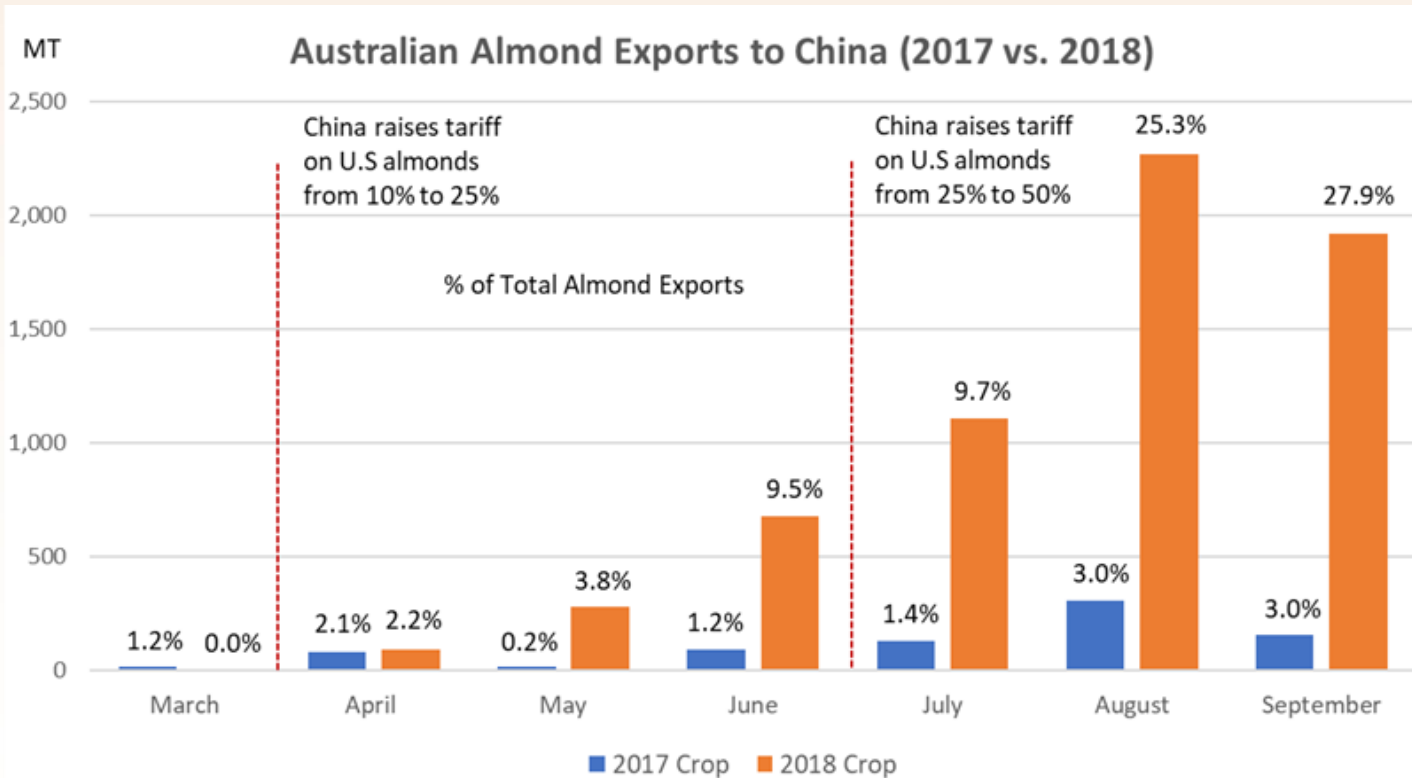


**China Lucky product range at Jing Hui Shanghai Supermarket**

**China Lucky range at PepsiCo stand during China International Import Export (CIIE) Shanghai ( >150,000 visitors)**



# Australian Almond Exports to China are Increasing

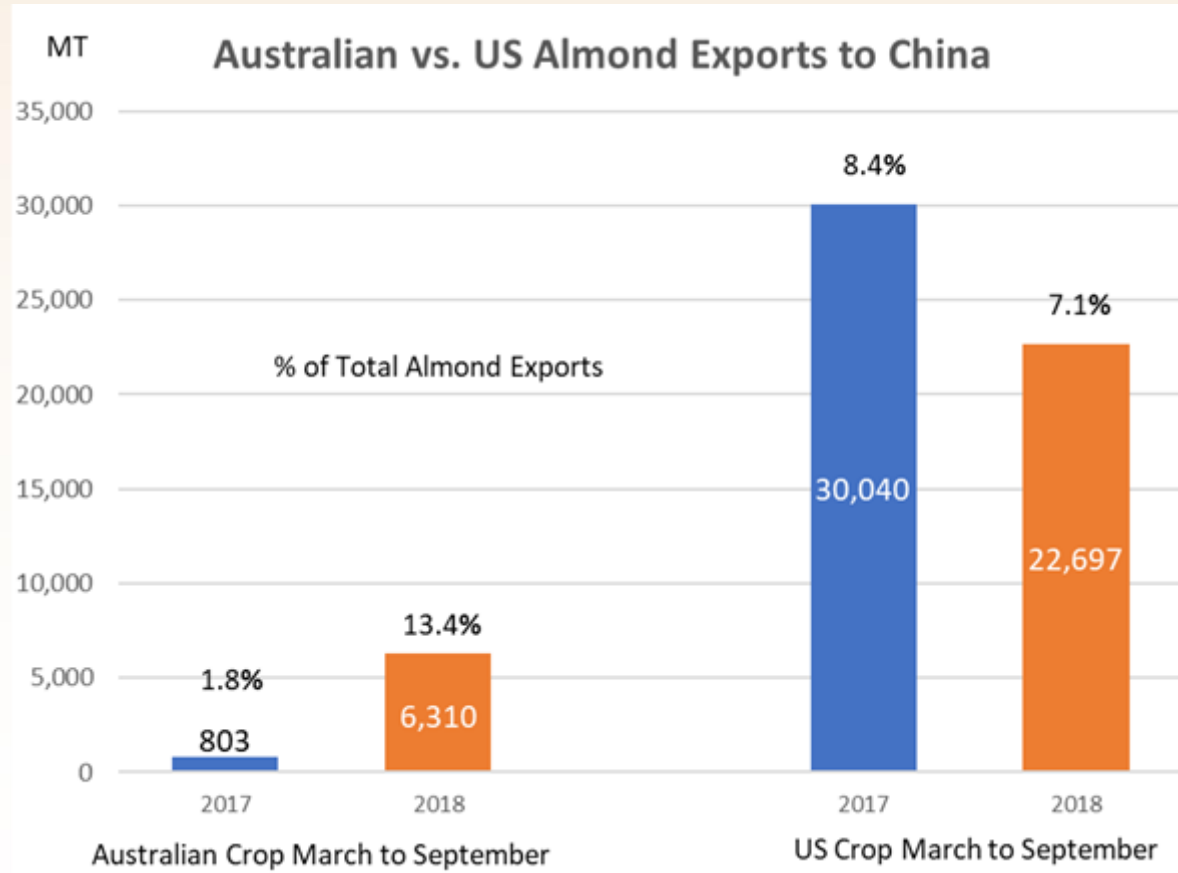


Source: Californian and Australian Position Reports

**SHV has been part of this growth, with strong value-added sales into food processors**



# Australian vs. US Almond Exports to China



Source: Californian and Australian Position Reports

**China market demand remains strong despite US/China disruption**



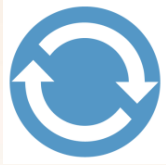


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# Business Outlook



# Prepared for the Future



## Closing the Loop

Waste for H2E is potash. Potash is being composted with other orchard waste and returned to orchards to ameliorate the soil

**Objective:** Sustainability & cost savings



## New Varieties Trial

New local high-yielding and/or self-pollinating variety trials have been planted in Victorian and South Australian orchards

**Objective:** Increase yield & lower cost



## Water Efficiency

Sap flow is being measured in real time to understand tree stress and better manage irrigation timing and volume. Other trials include harvesting excessive subsoil water

**Objective:** Sustainability & cost savings



## High Density Planting Trial

Traditional orchard plantings are 325 trees per hectare. Trial plot has been planted with dwarf root stock. 1,111 trees per hectare

**Objective:** Increased yield & lower cost



## People & Culture

Develop and recruit leaders to implement Asia growth platform

**Objective:** Increased insights & capability



# Key Take Outs

- **Fundamentals of the business & industry remain strong**
  - Global consumption of plant protein & almonds continues to grow at 6-8% per annum
- **Orchard health**
  - Good horticultural conditions to date
  - Strong crop potential
- **Cost Focus**
  - Focus continues to remain on reducing operating expenditure, working capital, minimising capex & maximize leverage from increasing volumes
  - Water pricing will remain high for this season
  - H2E and Parboil ongoing focus to bring returns to business case target
- **Almond strategy is in place with our crop building to**
  - 18,000 MT in 2020
  - 21,000 MT in 2022
  - 22,000 MT in 2026
- **Food Business is ready to grow**
  - Lucky China will continue to evolve
  - Industrial business will continue to grow and deepen relationships in Asian region
  - Investment in local market to invigorate brands
- **Zero Harm**
  - Number One Priority

SHV is well placed to take advantage of global demand, positioning shareholders to benefit from improved returns



# Thank you

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Please note that background material/data regarding the global almond industry can be found on the Select Harvests website.

[www.selectharvests.com.au](http://www.selectharvests.com.au)



# Select Harvests - Financial History



SHV Historical Summary	Units	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015	2016	2017	2018
Total Revenue	(A\$M)	218.0	229.8	224.8	248.7	239.1	250.0	251.3	191.1	188.3	223.6	286.2	242.1	210.2
EBIT	(A\$M)	38.4	40.5	27.1	26.8	26.0	22.6	19.6	37.7	31.3	89.6	41.3	17.0	34.9
EBIT Margin (EBIT/Sales - %)	(%)	17.6%	17.6%	12.1%	10.8%	10.9%	9.0%	7.8%	19.7%	16.6%	40.1%	14.4%	7.0%	16.6%
PBT	(A\$M)	37.9	40.0	25.4	23.0	23.6	18.5	13.4	32.7	26.8	84.3	35.8	12.0	29.5
NPAT	(A\$M)	26.5	28.1	18.1	16.7	17.3	17.7	9.5	22.9	21.6	59.4	27.9	9.2	20.4
Issued Shares	No. of Shares	39.7	38.7	39.0	39.5	39.8	56.2	56.8	57.5	58.0	71.4	72.9	73.6	95.2
Earnings Per Share	(AUD Cents per Share)	67.1	71.0	46.7	42.6	43.3	33.7	16.8	40.1	37.5	82.9	46.7	12.6	23.2
Dividend per Share	(AUD Cents per Share)	53.0	57.0	45.0	12.0	21.0	13.0	8.0	12.0	20.0	50.0	46.0	10.0	12.0
Payout Ratio	(%)	80.0%	80.0%	96.7%	28.2%	48.5%	38.6%	47.6%	29.9%	53.3%	60.3%	98.5%	79.4%	51.7%
Net Tangible Assets per Share	(A\$/Share)	1.83	1.57	1.41	1.56	1.87	2.17	2.19	2.14	2.38	3.35	3.22	2.95	3.34
Net Interest Cover	(times)	82.3	75.8	15.6	7.1	10.7	6.7	3.2	7.5	7.0	16.9	7.5	3.4	6.5
Net Debt	(A\$M)	1.3	1.6	46.8	52.4	45.0	73.1	66.8	79.3	94.8	115.9	68.7	145.8	70.8
Shareholders Equity	(A\$M)	101.5	95.5	94.1	100.9	113.6	168.8	160.3	159.5	175.4	287.4	290.9	277.6	378.6
Net Debt to Equity Ratio	(%)	1.3%	1.7%	49.7%	51.9%	39.6%	43.3%	41.7%	49.7%	54.1%	40.3%	23.6%	52.5%	18.7%
Share Price	(A\$/Share)	13.02	11.60	6.00	2.16	3.46	1.84	2.40	3.90	5.14	11.00	\$6.74	\$4.90	\$6.90
Market Capitalisation	(A\$M)	517.0	449.4	234.1	85.4	137.6	103.5	120.0	224.3	298.1	785.4	491.5	360.7	657.1
P/E Ratio		19.5	16.0	12.9	5.1	8.0	5.8	12.6	9.8	13.8	13.2	17.6	39.0	32.3
Return on capital employed				25.1%	23.8%	15.2%	8.7%	8.7%	16.6%	10.5%	21.0%	11.2%	4.9%	7.3%

Source: Company Data



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# Useful Almond Industry websites

## Industry Associations

- Californian Almond Board [www.almondboard.com](http://www.almondboard.com)
- Almond Board of Australia [www.australionalmonds.com.au](http://www.australionalmonds.com.au)

## Industry Reports

- US Crop Forecasts (Subjective, Objective) <http://www.almonds.com/growers/resources/crop-forecasts/tc-NASS-Crop-and-Acreage-Reports>
- Monthly Almond Position Reports <http://newsroom.almonds.com/position-reports>
- Almond Almanac <http://www.almonds.com/sites/default/files/2017%20Almanac%20Final%20-%20updated%207.5.18.pdf>
- UC Davis Almond Development Costings <https://coststudies.ucdavis.edu/en/current/commodity/almonds/>

## Almond Companies

- Blue Diamond Growers [www.bluediamond.com](http://www.bluediamond.com)
- Blue Diamond Ingredients [www.bdingredients.com/category/almond-market-analysis](http://www.bdingredients.com/category/almond-market-analysis)
- Almond Insights [www.almondinsights.com](http://www.almondinsights.com)
- Derco Foods [www.dercofoods.com/en/english-reports/english-almond-reports](http://www.dercofoods.com/en/english-reports/english-almond-reports)
- RPAC Almonds [www.rpacalmonds.com/marketnews](http://www.rpacalmonds.com/marketnews)
- Wonderful Pistachios & Almonds [www.wonderfulpistachiosandalmonds.com/#ourdifference](http://www.wonderfulpistachiosandalmonds.com/#ourdifference)

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