



**SELECT HARVESTS**

High quality natural products

# Select Harvests Limited (“SHV”)

**UBS Australasia Conference 2019**

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**Paul Thompson - Managing Director**

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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.*

# Agenda

- Business Overview
- Water Market
- Project Shaker
- Almond Market Update

# Select Harvests

## ■ Overview

- Listed on the ASX (SHV), with a Market Capitalisation of \$707m (7 November 2019) and 551 employees
- Assets in Victoria, New South Wales and South Australia

## ■ One of the largest almond growers globally

- 7,677 planted hectares of Australian almond orchards
- 35% of our orchards will reach maturity over the next 8 years, underpinning future growth
- State-of-the-art almond processing facility at Carina West, North West Victoria

## ■ Diversified 'better for you' branded plant food portfolio

- Market leading brands: Lucky, Sunsol, NuVitality and Allinga Farms supplying wholesalers, manufacturers and retailers in both domestic and export markets
- Value-added processing facility in Melbourne: snacking and cooking nuts, seeds, health mixes and muesli
- Industrial Division supplies food processors throughout Asia, especially in the baking industry

## ■ Export focused business, with Asia the key target market

- Bulk & value-added supplier to Europe, Middle East and Asia
- Exclusive Trademark License & Distribution Agreement with PepsiCo Foods (China) Co. Ltd for Lucky In China
- Separate to the PepsiCo Agreement our brands are being sold in Indonesia, Singapore, Thailand and Malaysia

**We supply the world with a growing volume of high quality, plant based food products**



# 1H FY2019 Financial Overview

## Almond Volume<sup>1</sup>

22,200 – 22,500 MT

↑ 41.4 – 43.3%

Maturity profile continues to deliver underlying volume growth

## Almond Price<sup>2</sup>

\$8.60 - \$8.70/kg

↑ 6.8 – 8.1%

80% of crop contracted  
Crop sales are fully hedged with an AUD/USD exchange rate below 0.71c

## EBITDA<sup>3</sup>

\$38.5 m

↑ \$12.6 m

Almond Division EBIT \$31.5m (↑\$13.8m)  
Food Division EBIT \$2.3m (↓\$0.2m)

## NPAT

\$20.0 m

↑ 9.8 m

With 80% of the crop now sold, builds confidence for FY2019 full year result

## EPS

21.0 cps

↑ 81.0 %

Interim dividend of 12 cps full franked

## Annualised ROCE

12.4 %

↑ 5.0 ppts

ROCE improved as orchards mature and start yielding with improved efficiency

<sup>1</sup> - Almond volume as per 21 August 2019 Crop Update ('2019 Crop Update')

<sup>2</sup> - Almond price, crop currently contracted and crop sales hedged as per 21 August 2019 Crop Update ('2019 Crop Update')

<sup>3</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.

**Currently in a blackout period. Full year results will be announced on 29<sup>th</sup> November 2019**



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# Select Harvests – in control of our destiny



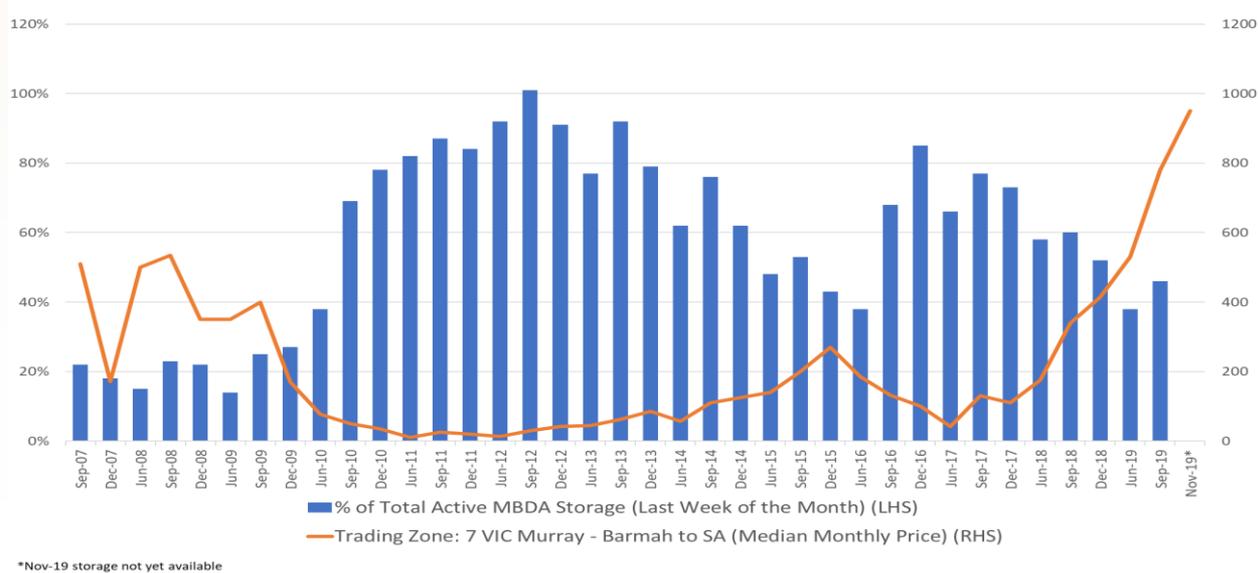
<b>Vision</b>	To be a Leader in the Supply of Better for You Plant Based Foods				
<b>Values</b>	<b>Trust &amp; Respect</b> Treat all stakeholders with trust and respect	<b>Integrity &amp; Diversity</b> All decisions and transactions will not compromise the integrity of the organisation or individual	<b>Sustainability</b> Our focus is on the long-term sustainability of our environment, business and community	<b>Performance</b> Exceed expectations on a daily basis	<b>Innovation</b> Constantly challenge ourselves to improve everything
<b>Strategic Priorities</b> The pathway to achieving our vision	<b>Optimise the Almond Base</b> Increase productivity and achieve sustainably high yields from our growing almond orchard base		<b>Grow our Brands</b> Grow our consumer and industrial brands, aligned to the increasing consumption of plant based foods		<b>Expand Strategically</b> Pursue value accretive acquisitions that align with our core competencies in the plant based agrifoods sector
<b>Operational Focus</b> What we do everyday	<b>Customers</b> Exceed our current customer's expectations and grow our customer base, focused on the Asian marketplace	<b>Supply Chain</b> Optimise our end-to-end supply chain to achieve maximum value for the business as a whole	<b>People</b> Focus on a safe working environment, well-being, company culture, leadership development and staff training, attraction and retention	<b>Capital</b> Target capital discipline, balance sheet strength, superior shareholder returns and long term growth	
<b>Goal</b>	Sustainable Shareholder Value Creation				

# Water Market Pricing

## ■ Water prices have decoupled from supply and demand fundamentals

- The drought is having a major impact on water prices, but is not the only factor underpinning higher water prices
- Influence of increased permanent cropping impacting demand and deliverability
- Governments' policies and intervention: buybacks, trade restrictions between zones inter valley trading (IVT), inconsistent carry-over policies, and extraction licenses above sustainable resource availability
- Environmental flow obligations and timing
- Sophisticated financial investors in both entitlement and annual allocation markets
- Global commodity prices

### Water Storage vs. Annual Allocation Prices



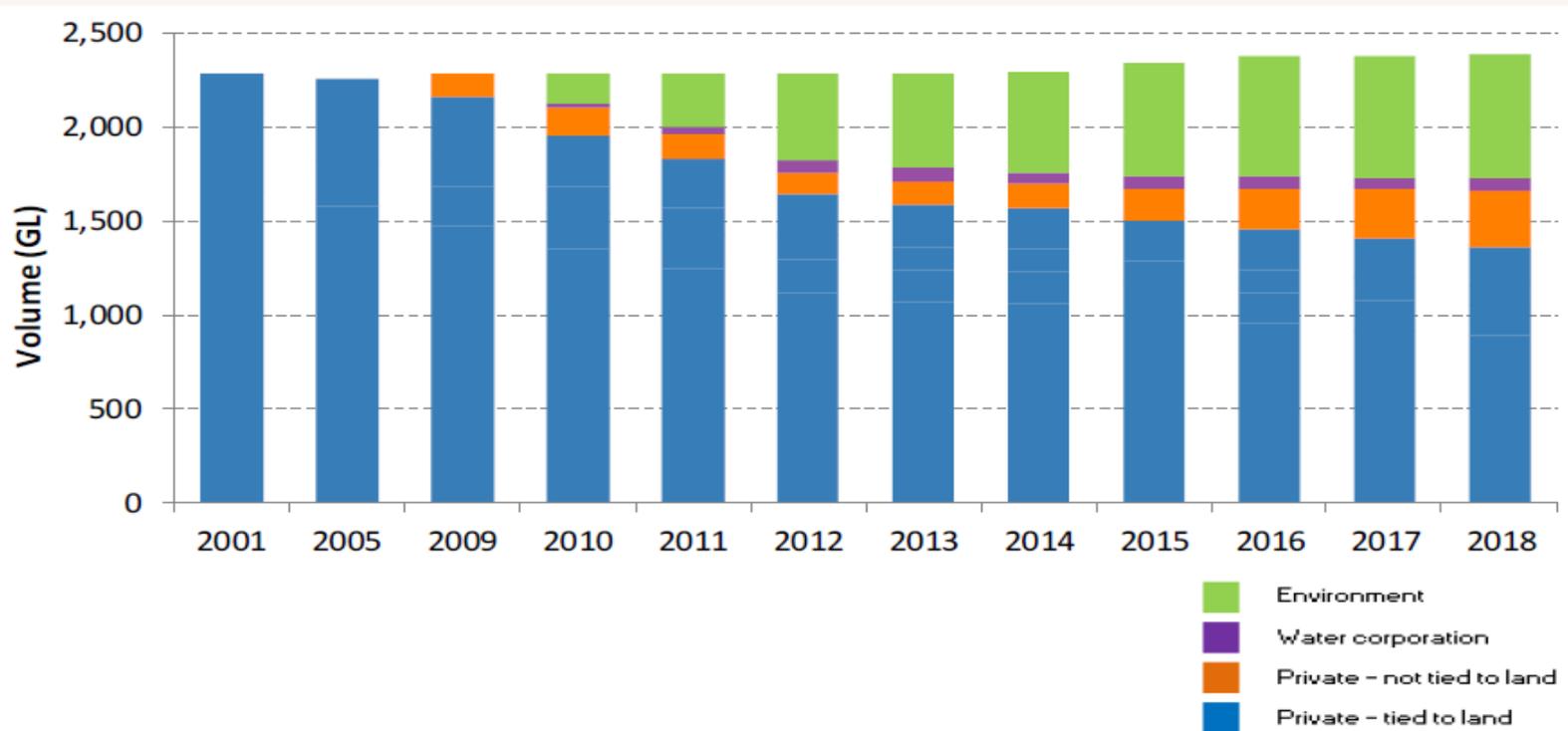
The drought is having a major impact, but is not the only factor underpinning higher prices.  
Our water strategy protects us from the full impact of the recent price increase

# The ownership of water has changed

- The share of permanent entitlements tied to land has fallen significantly

- The share of permanent entitlements owned by non-water users and the environment has increased significantly

**Changing ownership of high-reliability water shares in northern Victoria**



Source: Victorian Water Register



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# Murray-Darling Basin water market inquiry

- **SHV will participate in the ACCC's Murray-Darling Basin water markets inquiry**
  - SHV supports the Murray-Darling Basin (MDB) system. Clearly defined water property rights and tradable markets supported by robust price mechanisms have significantly improved water use efficiency and agricultural output across the MDB.
  - The water markets have evolved significantly since the MDB Plan was set up in 2012. The ACCC inquiry is a good opportunity to address the current issues impacting water markets and take advantage of new technology plus re-align to community expectations.
- **Our submission to the ACCC inquiry will highlight five key issues:**
  1. The growth and entry of non-irrigator sophisticated financial investors
  2. The lack of accurate, comprehensive and timely data on water market activity
  3. The need for transparent and robust market rules similar to ASX
  4. The requirement for water brokers to be regulated similar to ASX stock brokers
  5. Increase collaboration between Federal and State governments to harmonise environmental flows, carryover and inter valley trading



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# What Select Harvests is doing to manage water

- SHV policy is to have a portfolio of water sources to minimize exposure to seasonal pricing including:
  - Entitlement ownership
  - Long and short term lease
  - Forward contract
  - Spot purchases of annual allocations
- Executive dedicated to Water Purchasing liaising to Water Committee and Board
- Executive dedicated to managing efficiency of water infrastructure and orchard staff
- CAPEX program to ensure best transport and distribution of water eg Low friction pipes
- A/B irrigation infrastructure to allow varietal irrigation
- Phytec irrigation technology to manage water timing and application rates
- Recycle excess water where feasible
- 72 staff trained by SuniTafe: Cert 3 Almond Growing including irrigation management

# 'Project Shaker'

## Project Shaker is our plan to significantly grow and improve profitability

### ■ Sales & Marketing

- Re-launch Lucky brand, including packaging upgrades, advertising and new product innovation
- Develop the Sunsol brand using data and consumer insight and innovation
- Achieve improved overhead recovery through selected private label contracts
- Continue expansion in export markets

### ■ Operations, Logistics & Warehousing

- CAPEX investment to enhance plant efficiency to deliver lowest conversion cost per kg
- CAPEX investment to deliver alternative packaging formats
- Invest in people and planning to increase Thomastown OEE
- Improve purchasing, warehousing and logistics cost and efficiency

### ■ M&A

- Pursue value accretive acquisitions enhancing SHV's capabilities, reach and market penetration

# Sunsol introduces first of its kind PRO-biotic range



Pro-biotic Cereal

Pro-biotic Muesli

10+ Muesli

Oats



# Lucky introduces Smart Snax



Healthy minds and healthy bodies.  
Now available in the dried fruit and nuts aisle.



**Lucky**  
**SMART SNAX**  
luckynuts.com.au

## New Lucky Smart Snax

4 delicious products in the range – each formulated to deliver a specific functional benefit.

The launch will be supported by advertising in Coles magazine and the Healthy Food Guide, digital & social media and a Fly Buys campaign.

**coles**

Woolworths 



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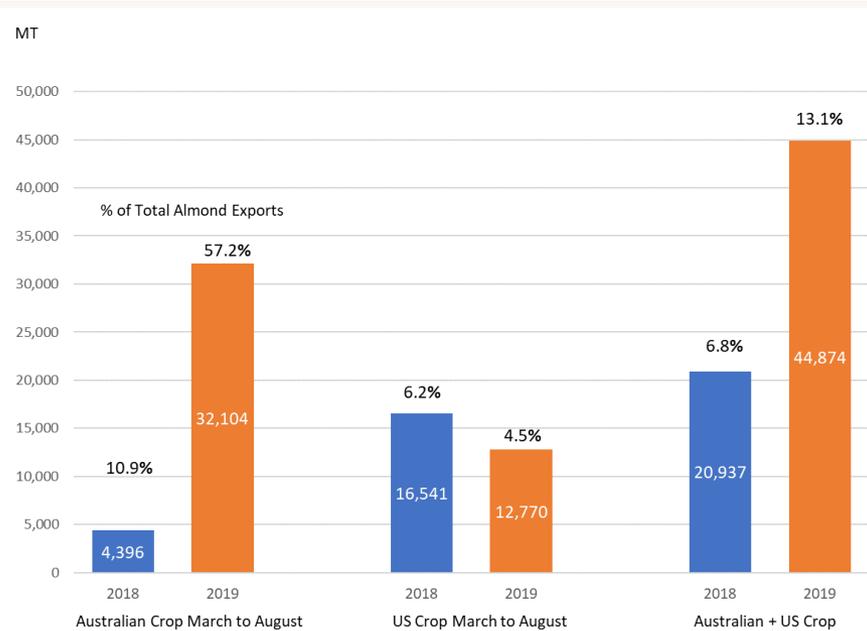


# China bulk almond market update

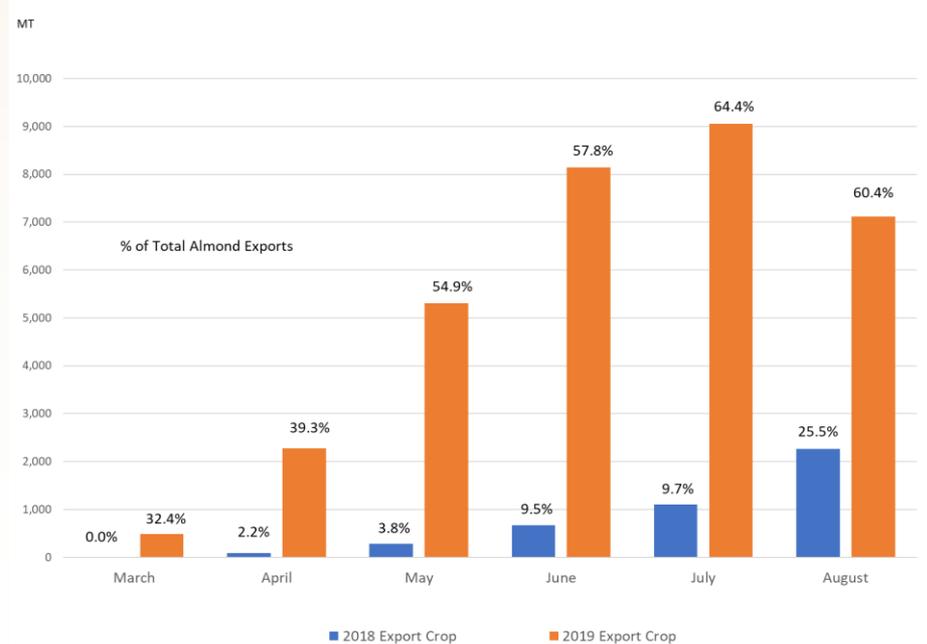
## ■ The tariffs being imposed on U.S. almonds into China is opening up new opportunities for Australian almonds

- 57.2% of Australia’s Season 2019 YTD almond exports have gone to China vs. 10.9% in 2018. In August 2019, 60.4% of Australian almond exports went to China vs. 25.5% in 2018.
- The overall China market is growing strongly, with Australian + US almond export sales to China more than doubling in the current Australian crop season.

### Australian vs. US almond exports to China



### Australian almond exports to China (2018 vs. 2019)



Data Source: Almond Boards of Australia and California Almond Board

**Australian almond exports to China increased significantly in the 2019 Marketing Year to Date**



# Select Harvests and China Market

## Extending our reach in China....

## ....via a 'Four Pronged' China growth strategy

Trade Show Stand



Sunsol in Sam's Club



Lucky Brand



T-Mall Presence



### ■ Direct to Retail

- 'Big box' stores are growing in China with Costco most recently entering China
- We currently have a supply agreement for our Sunsol brand in Sam's Club China stores

### ■ Bricks & Mortar Distribution

- Experienced and committed in-country partners are the key to growing our business in China
- Conducting in-market search for a suitable retail distribution partner for our branded products (ex. Sunsol, Allinga Farms)

### ■ Industrial E-commerce Footprint

- A comprehensive e-commerce strategy is increasingly important to support brand presence in solid bricks and mortar distribution
- Select Harvests currently has an e-commerce presence on T-Mall for the Lucky brand

### ■ Industrial

- The demand continues to grow with FMCG companies using more almonds as inclusions
- Parboil investment underpins this growth

# Select Harvests and the India Market

Extending our reach in India



From 5 or 6 almonds a day ...



... To a healthy handful every day



Health benefits of almonds are well known in Indian culture and SHV brand is well respected

# Governor of Victorian Export Award Winner

- **Select Harvests was awarded the Governor of Victoria's Export award for 2019 in the Agribusiness Food and Beverages Category**
  - In judging the award, the following areas were highlighted: the recent success of both the Industrial and Consumer Divisions in South East Asia and China, the commitment to innovation, sustainability and community, plus our investment in Horticulture and Value adding technology.
  - Select Harvests is a national finalist in the 57th Australian Export Awards



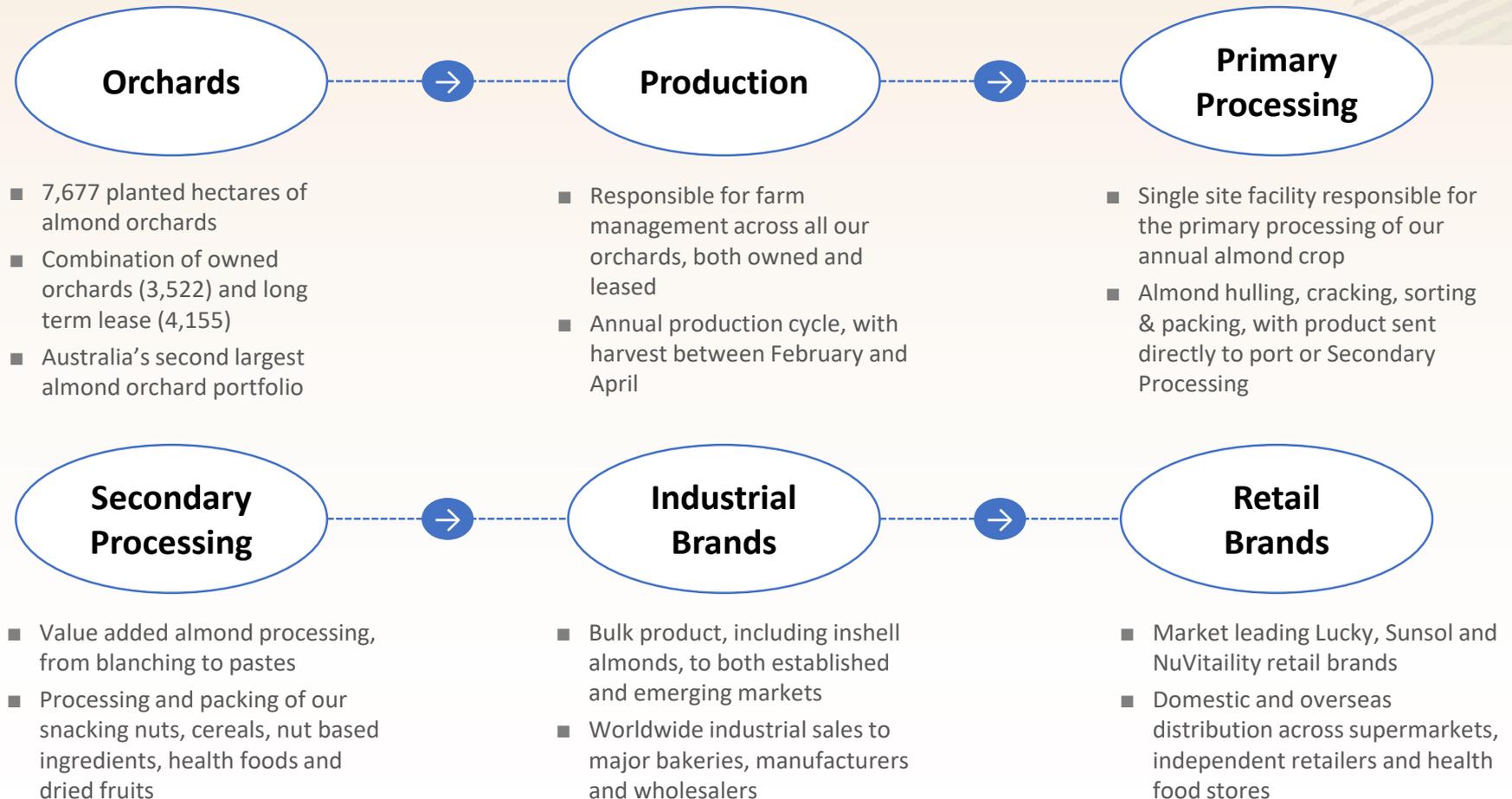
# Australian Almond Insights 2018-19

- Australia produced 6% of the global crop to remain the world's second largest producer behind the USA that grew 79% of world production.
- Almonds were 61% of Australia's total tree nut crop that includes macadamias, walnuts, pistachios, hazelnuts and chestnuts (measured as inshell tonnage).
- 99% of almond orchards are efficiently irrigated using drip systems managed by soil moisture monitoring technology.
- Annual per capita consumption of almonds in Australia is 1.09 kilograms.
- Domestic sales of almonds in 2018-19 grew by 7% over the previous year to a total of 27,954MT.
- Almonds remained the most frequently used nut ingredient in new products launched during our 2018-19 marketing year (i.e. from March 2018 to February 2019).
- The export volume of Australian almonds grew from 54,343 tonnes in 2017-18 to 60,894 tonnes in 2018-19.
- Almond exports earned the nation \$552 million.
- For every one tonne of almonds sold in Australia, 2.6 tonnes were exported.

Source: Almond Board of Australia, 'Almond Insights 2018-19'



# Vertically Integrated from 'Paddock to Plate'



Vertically Integrated across the entire supply chain from almond orchards to consumer and industrial brands

# Appendices

# Almond Orchards – Our productive foundation

## Geographic diversity limits exposure to:

- Weather
- Disease spread
- Insect infestation

## Enables sequential progression of harvest period across regions:

- Better farm equipment utilisation
- Better processing utilisation
- Better labour utilisation



## Secure access to diverse water sources:

- River Water
- Aquifers

Positions the company to maximise harvest volume & reduce variance.

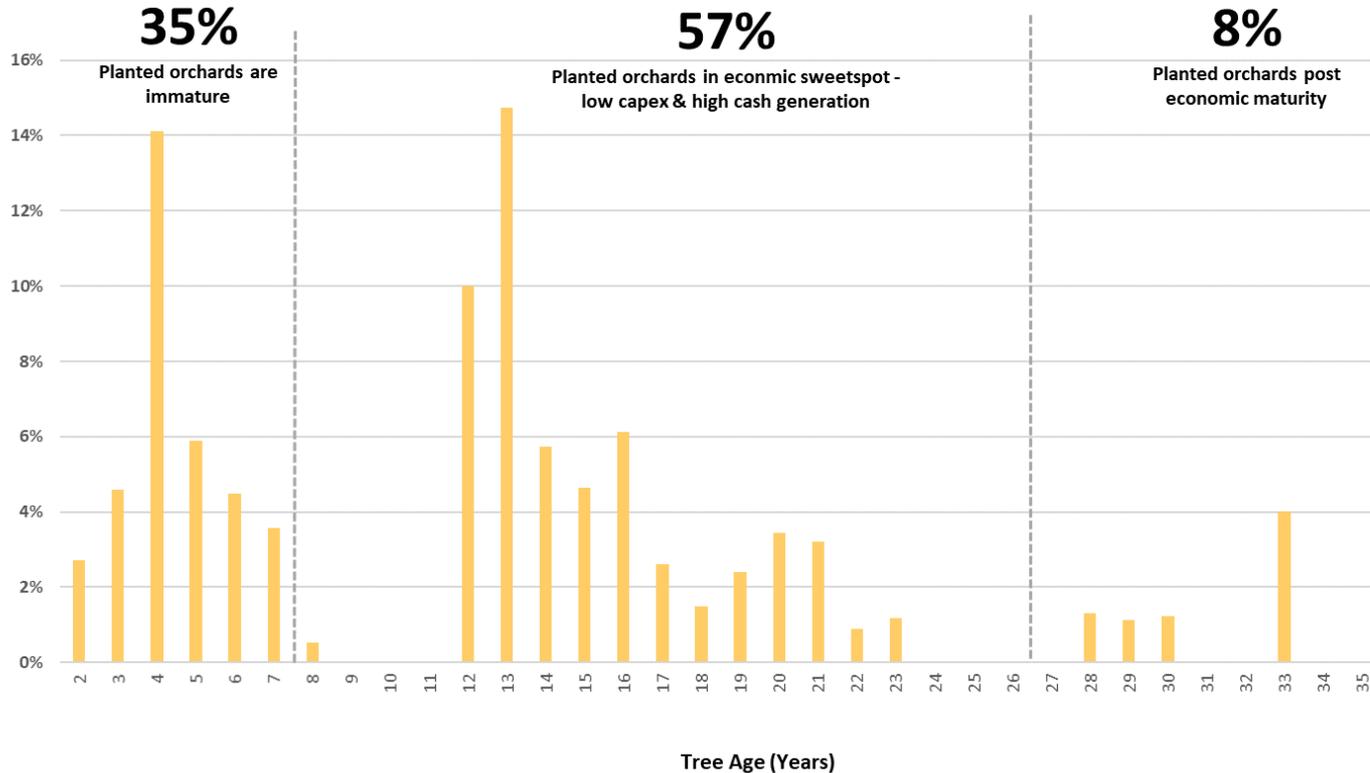
Building world class properties and a globally competitive low cost business.

Select Harvests has a global scale - planted almond orchard portfolio of 7,677 hectares

# Optimise Almond Base - Orchard Age Profile

## Age Profile of SHV Almond Orchard Portfolio

93% of current planted acres are cash generative



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

# 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)