



SELECT HARVESTS

50th ANNUAL GENERAL MEETING

Friday 21st February 2020
at 11:00 am

NAB Building
The Hall, Level 3,
700 Bourke Street,
Docklands, Victoria

**PAUL THOMPSON
MANAGING DIRECTOR**

2019 Annual General Meeting Script

Chairman's Welcome, Introduction and Address

Michael Iwaniw to provide presentation

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Managing Director's Presentation

SLIDE 15: Paul Thompson, Managing Director

Good morning and thank you Michael.

In the next few minutes I would like to discuss our financial performance in 2019, provide an overview and outlook for each part of the business. Explain in a little more detail some of our performance drivers and conclude with a crop update and our 2020 priorities.

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SLIDE 16: EBIT Waterfall

The 2019 financial year was a significant improvement on 2018 with an EBIT improvement of \$45.2m up 129.5%.

The EBIT movement chart provides you with more detail on how this improvement was delivered. The green bars represent positive movement and the red bars negative movement.

The first red bar represents a down grading of the previous year's crop by \$2.6m. This downgrade is driven by adverse movements in the commodity price and forecast quality. As you know we are selling a biological asset. The quality of crop can degrade during storage or simply the quality fails to meet our forecast and commodity prices move.

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It should be noted that we anticipate much less future variation in crop valuations as a result of the recent change to our financial year.

The next large green bar is the impact of the increase in almond volume. It was a positive impact of \$25.7m. This was a combination of new area coming into production, the benefits of our frost fan program, and improved yields as our orchards benefit from our well executed horticultural program.

The next column relates to \$8.6m positive impact from price. This price improvement has been influenced by three factors:

1. Timely execution of our marketing program.
2. General improvement in market pricing and currency.
3. Finally, a slight improvement in the crop quality.

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This quality uplift is the result of our capital investment in orchard conditioners, orchard hygiene programs and additional sorting processes at Carina West.

You may be surprised that our water cost increase was only \$3m. This is mainly due to our risk mitigation strategy of having a blend of owned entitlements, 3 to 5 year leases and the spot market entitlement purchases, plus we carried over a significant amount of water over from the previous year.

We have consumed and expended more due to the maturity profile of our orchards, plus some of our larger long-term leases were renewed at higher prices reflecting more closely current annual entitlement prices.

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The Carina West processing centre delivered a \$2m year on year processing cost benefit. We benefitted from the increased throughout in 2019. Our cost was down 16.6% per kilogram. This improvement was generated by improving the production rate per hour by over 20%. The other drivers were improved quality from the orchards, benefit of enhancements to equipment made between seasons and our investment in the training of plant operators.

The \$13.2m benefit in orchard costs is driven by increased yield per hectare. We are seeing that we have been able to lift yields at a faster rate than cost. It is the result of better and timely on orchard execution, the benefit of additional frost fans and the use of new technologies to increase productivity and mitigate risk. Most of this you can embed in future years production.

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Our food results were flat with any profit gains being re-invested in innovation and to support our brands. I will spend more time on this area later in the presentation.

The \$1.3m related to increased hull sales and external processing income.

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SLIDE 17: Balance Sheet

There is no getting away from the volatility in agriculture.

The business has worked hard to establish a strong Balance Sheet to deliver the security and stability that allows us to focus on creating shareholder value through the cycle.

You can see at balance date we had no debt. This ensures we are in a position where we are in charge of our own destiny. Ideally, invest when at the bottom of the cycle and deliver high profits during boom periods.

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SLIDE 18: AASB16 - Leasing

The AASB16 leasing standard is about to change, bringing operating leases onto the Balance Sheet. We will be adopting the leasing standard during the 2020 financial year.

At the half year we advised you that our preliminary analysis concluded it would have little impact on our results in the immediate future. Our banking covenants would require modification which was not a concern as it is a condition of our current agreements.

The renewal or commencement of any significant new lease obligation, such as an orchard or production facility, will have an impact on future results but has no impact on cashflows.

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SLIDE 19: Almond Division

Michael has shared with you the positive performance of the almond division.

This performance is a combination of strategic delivery and focussed operational performance.

You have seen the benefit of our decision to invest in greenfield development, with new volume coming to production.

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Equally important has been the improvement in our execution on orchard and within our processing facilities and our sales and marketing program. These internal improvements are the equivalent to gaining the production volume of a new orchard at zero cost. It is important we continue pursuing every opportunity.

I do not want to repeat what I communicated at year end result. Today, I would now like to focus on the following areas in more detail – water, yield and innovation.

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SLIDE 20: The Ownership of Water has Changed

The first thing we all need to appreciate is that the structure of the Murray Darling Water Basin has changed forever.

You can see from this slide there has been a dramatic change in the ownership structure of water.

You can see that a significant percentage of water entitlements ownership has shifted to environmental and non-water users. This impact of government activity, water buybacks and changes to state regulations, plus the increase in permanent cropping has changed the structure and drivers of the market.

Historically the management of water was focussed on simply managing consumption, today it is far more complex. It involves trading significant amounts of water at significant cost in a relatively small and opaque markets.

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SLIDE 21: What Select Harvests is doing to manage water

Our water costs and associated activities represents 12% of our total crop cost. In the past three years, we have made significant improvements to the way we manage water and associated assets.

It has been critical we have a policy in place that ensure deliverability and security, ensuring we are not over/under exposed to the annual entitlement pricing. This year with temporarily water entitlements being sold for \$1,000 per mg.

Recently, deliverability has become more important as the limitations of the Barmah Choke and changes to State government development regulations take effect.

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Our policy remains one-third owned entitlements, one-third long/medium term lease and one-third temporary annual entitlements market. This policy varies by region and by orchard. To date, this policy plus our ability to use forward contracts and carry over capacity has served us well.

Today we have a fulltime water trader and management including myself, Brad (our CFO), Ben (GM, Horticulture) review our status on a weekly basis.

The Board is provided with a monthly report on our performance and a market update. There is an annual review of our strategy.

Aside from our trading and governance, I put a lot of our success in this area down to three things - our investment in capital, people and technology.

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In recent years, we have invested significant capital to ensure our water application is efficient as possible and where there is an opportunity to recycle, we do.

Last year, I talked to you about the use of the Phytex Water Management System, this year we have expanded it to more orchards, plus been able to take it to the next level. We are now irrigating by variety, recognising their specific needs and the impact on yield. Remembering our goal is to maximise yield per litre of water.

The most important part of driving yield and minimising water consumption is on orchard execution. The introduction of modern infrastructure and real time tools, plus industry specific training has been critical. I would like to complement Ben and his team about the way they have engaged this change.

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SLIDE 22: Murray-Darling Basin water market inquiry

As I have outlined, there has been a lot of changes in the water environment and within our orchards. As Michael said, water has been highly politicalised. I don't think anyone disagrees we need to manage this precious resource to ensure we protect the MDB environment and deliver the greater social and economic benefit to Australia.

Select Harvests fully supports the ACCC and the appointment of Mr Mick Keelty as the Interim Inspector General of Murray Darling Basin Resources to investigate the operation of the resource and the markets. We have a world class platform, but it needs to evolve and modernise.

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We have summarised our concerns/recommendations to the below 5 points:

1. There needs to be increased collaboration between the Federal and State governments. You cannot have one State instituting a moratorium and others encouraging development. The issue of the Barmah Choke is shared not a single state issue.
2. Today the market data is incomplete and managed by disconnected platforms. They need to be accurate and harmonise.
3. Water market rules need to be modernised similar to the ASX to reflect the increased speed and availability of data that internet has the potential to deliver.

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4. Market participants like brokers need to be regulated similar to any other professional body.

5. Finally, the change in the ownership and structure of market participants needs to be supported by appropriate governance to ensure a fair and efficient market.

Obviously, we have a vested interest in the operation of the MDB and the water market. We recognise we are one of the more profitable irrigated crops in the MDB. Importantly, please note we are not chasing short term gain, we are long term stakeholders on the river. We know the environment must be protected, we know there is a role for annual cropping in times of abundant water and recognise their need to survive when water is less abundant.

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SLIDE 23: Future Almond Volume Growth

As you can see our growth production last year was significant. The drivers of this increase include: a significant proportion of this growth was orchards maturing, including 1,000 hectares of young trees coming into production, further risk mitigation with 90 frost fans being installed prior to the season, improved execution across the business and fortunately favourable growing conditions.

Some of these improvements are one off but much of it is sustainable performance improvement that has formed part of our new base. We have lifted our base from 1.2 mt/a to 1.35 mt/a (3.33/h).

The graph you see here is modelled on 1.35mt/a (3.3 mt/h) average. This is a forecast only; it does account for the bi-annual nature of almond trees. Internally, we see this is

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reasonable but definitely not the end of the journey to
maximise yield. As you would be aware improving yield is a
multi-year investment and not a single event.

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SLIDE 24: 2019 Yield Performance

We can see that our young orchards for the past couple of years have exceeded industry benchmarks. It is a combination of plant density, varietal select, benefits of modern infrastructure and again good on farm execution.

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SLIDE 25: Almond Division Outlook

We commenced harvest in full this week. We have benefited from good growing conditions from pollination through to today. Unlike most agricultural companies we would like the rain to hold off for the next eight weeks so we can have an uninterrupted dry harvest. Please be assured we do have capacity to manage the harvest in most weather condition, but consistent rain is challenging.

The upgrades to the Carina West processing are on time and within budget. We still have further investments in capacity planned for next year, to facilitate the processing of our crop and some third-party contracts.

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Despite recent rains water remains challenging, last year we paid \$400 per megalitre and this year our acquisition costs were close to \$700 megalitre. We do not see a similar increase next year, but equally we cannot see it returning to \$200 per megalitre.

We have no greenfield expansion plans but continue to look for greenfield and mature orchard opportunities.

It is too early to determine the quality or quantity of the crop. At this point in time, we have no concerns about meeting the volume yield target.

Including our internal sales, we have commitments for between 20% to 30% of our crop. Since contracting these sales market conditions have deteriorated with a larger US crop and the coronavirus demand disruption in China. A

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weak Australian dollar has assisted us to maintain a forecast net price between \$8.00 and last year's price of \$8.60, the current spot price is at the lower end of this range.

For the past 12 months China has been the largest export market for Australian almonds.

During this period, we have established good distribution and relationships with Chinese food manufacturers.

Recently the China government lowered the tariff on US almonds from 60% to 55%.

The coronavirus has resulted in customers requesting orders to be delayed, which will impact on 2nd and 3rd quarter cashflows.

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Until China supply chain is restored our traditional markets in India, the Middle East and Europe remain our priority.

Between now and next season, we will install a further 20 frost fans, which will effectively complete this program. It should be noted we do not require 100% coverage as protection is only economic in the high-risk areas.

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SLIDE 26: Food Division and Corporate

Michael has given you an overview of the Food Division performance. The underlying performance did improve particularly in the Industrial Division. The combined Divisional results were flat as we elected to re-invest in the Consumer business, now led by Consumer Division General Manager, Suzanne Douglas.

Our Industrial Sales focus is predominantly on adding value to our almond products as we continue to see strong demand both domestically and in our key Asian export markets.

The Consumer Division is adding value to a broader base of commodities; including other nuts, seeds and pulses.

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SLIDE 27: 'Project Shaker'

Since joining, Suzanne has launched Project Shaker with a goal to triple the bottom line of the Consumer Division. This is a multi-pronged strategy. It includes growth of the top line with new product development, increased consumer communication and refreshed packaging. All of these based on well researched consumer insights.

The new Sunsol Pro-biotic range and Lucky packaging upgrades are examples of this coming to life.

Year to date we have seen a lower conversion cost per kilo at Thomastown generated by re-designed processes, small capital investments which have improved productivity and reduced waste.

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SLIDE 28: FY2020 Food Division and Corporate Outlook

We see continued strong demand for the industrial sector. The demand from China will be disrupted until the supply chain returns to normal post the coronavirus. Fortunately, due to the breadth of our customer base, we are able and are in the process of rebalancing our sales program to other markets.

As I outlined earlier, there is a lot of activity underway in the consumer sales, marketing and cost areas at the Thomastown production facility.

Last year we put the foundations in place to develop our leaders. We undertook a leadership program for middle and senior managers and commissioned our first company-wide culture survey.

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We recognise effective and timely communications combined with good leadership is the key to creating engaged and high performing teams.

Our goal is that Select Harvests is one high performing team with common goals to successfully deliver our vision, to be a leader in the supply of better for you plant-based foods.

In 2017 we published our first sustainability report. In May 2020, we will be publishing a new report. The report will detail our sustainability impacts, performance and priorities.

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The regulatory environment is becoming more onerous. This includes the introduction of the Modern Slavery, Chain of Responsibility and Victorian Workplace Manslaughter legislation. We have and continue to put in place the appropriate processes and governance to ensure we are 100% compliant.

The business is now successfully operational on the JDE stock control and traceability system. We are taking the opportunity to upgrade our reporting and system functionality to improve decision making and transparency. This process of continuous improvement needs to be embedded in the business.

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SLIDE 29: Top 10 Priorities

Our 10 priorities for the remainder of 2020 are:

1. 2020 Crop Harvest Program

Ensure optimal tree health and production

2. Implement New Technology

Capital investment in new sorting technology (improved quality)

3. Cost Reductions

Continue to reduce cost per kg across all production stages

4. Mitigate Water Cost

With increasingly dry conditions, water management is critical

5. Manage Cash Position

Improve working capital and cash conversion rate

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6. **Growth**

Assess organic and inorganic options to deliver additional growth

7. **Consumer Foods**

Deliver process improvement project to improve efficiencies

8. **Capital Investment**

Prioritise investment to deliver improved quality outcomes

9. **Executive Export Growth Strategy**

Opportunities in Industrial and Consumer

10. **2021 Crop**

Continued focus on horticultural programs to maximise yield

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I would like to thank Michael and the Board for their support.

My executive Brad, Laurence, Suzanne, Peter, Ben and

Urania for their support. Today I encourage you, our

shareholders, to meet with them and other executives in the
room.

Finally, on behalf of all employees, thank you our

shareholders for your faith in us.

I would now like to hand you back to Michael.

Paul Thompson

Managing Director

21 February 2020