

Select Harvests Limited (ASX:SHV)

2019 Annual General Meeting – Sustainable Growth

21 February 2020



SELECT HARVESTS



Disclaimer & Basis of Preparation

This presentation is provided for information purposes only and has been prepared using information provided by the company. The information contained in this presentation is not intended to be relied upon as advice to investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors should consider their own individual investment and financial circumstances in relation to any investment decision.

Certain statements contained in this presentation may constitute forward-looking statements or statements about future matters that are based upon information known and assumptions made as of the date of this presentation. These statements are subject to risks and uncertainties. Actual results may differ materially from any future results or performance expressed, predicted or implied by the statements contained in this presentation.

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.

Note*: All financial comparatives are based against the last 12 month audited financial period being the Financial Year ended 30 June 2018.

Michael Iwaniw – Chairman



Agenda



- Chairman's Address
 - Performance Overview
 - Strategy Update
 - Global Market Update

- Managing Director's Address
 - Divisional Performance
 - Key Achievements
 - Future Initiatives
 - 2020 Crop Update

- AGM Resolutions

Select Harvests Board

- Michael Iwaniw, Chairman, Appointed Chairman November 2011
- Michael Carroll, Non-Executive Director, Appointed March 2009
- Fred Grimwade, Non-Executive Director, Appointed July 2010
- Nicki Anderson, Non-Executive Director, Appointed January 2016
- Fiona Bennett, Non-Executive Director, Appointed July 2017*
- Guy Kingwill, Non-Executive Director, Appointed November 2019*
- Paul Thompson, Managing Director, Appointed July 2012

*Standing for election

FY2019 Financial Overview



¹ - 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.

Financial metrics across all areas have improved significantly



FY2019 Almond Division Overview

Almond EBIT

\$82.2m
↑ \$46.8m

- Volume, price and production cost per Kg

Almond Volume

22,690 MT
↑ 44.5%

- Good Conditions
- Improved Horticultural programs
- Frost rebound
- Increased bearing hectares

Almond Price

\$8.60/kg
↑ 6.8%

- AUD/USD hedged below 71c
- Strong demand globally
- Higher in-shell mix
- 100% of crop committed

Production Cost Per KG

Cost per Kg down
14.7%

- Horticultural costs per kg (excl. water) reduced by 21.4%
- Processing cost per kg reduced by 16.6%
- Water costs per kg increased by 52.0% (currently 12% of total crop costs)

Water

Impact kept to a minimum

- Ownership and management strategy mitigated full cost increase impact

Developments/Acquisitions

- Kyndalyn Park final stage completed – 142 HA
- Seeking opportunities to expand

Investment in growth & productivity delivering - higher volume, improved quality and improved cost profile



SELECT HARVESTS



FY2019 Food Division Overview

Food Division EBIT

\$5.0m
FLAT

Industrial Sales

- China market has continued to expand for value-add products ex Parboil & Thomastown
- Plant based ingredients growth is strong in all segments

Consumer Sales

- Lucky branded cooking nuts market share under pressure following the introduction of Coles house brand
- Sunsol sales continue to increase

Processing Cost

- Commodity prices remain strong impacting raw material costs
- Weakened AUD impacting cost
- Thomastown and Parboil have kept conversion cost flat

Growth

- Sunsol Pro-Biotics launched
- PepsiCo China lower than internal forecast
- Industrial sales growing

Awards

- Governor of Victoria Export Award- Agribusiness Food and Beverage Category
- Product of the Year 2020 (Winner Health Food Cereal Category)- Consumer Survey
- Healthy Food Guide Awards 2019 (Best Packaged Savoury Snack category)

Solid performance in challenging environment

Select Harvests – in control of our destiny



Food Division



Our strategy is to add value to meet the increasing demand for plant based foods both within Australia and Asia



SELECT HARVESTS



Water



We are proud to be growing a healthy food - almonds



FY2019 – Safety, Sustainability and People

Safety

- Company's top priority – all levels
- Delivering Zero Harm Safety and Wellbeing Strategy – imbedding in culture
- 67% reduction in Lost Time Injuries

Sustainability

- Continued focus on reduced water use
- H2E biomass plant – waste to energy – orchard compost
- 67% energy from renewable sources
- Organic waste to stock-feed
- Energy reduction steps in place
- Focus on bee health

People

- Completed first externally assessed culture survey
- Leadership Development program in place
- Succession planning development

Our focus was recognised by 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 was a national finalist in the 57th Australian Export Awards



Safety, Sustainability and People are the 3 most important things in our company



SELECT HARVESTS



Almond Market Update

US Market Update (January 2020 Position Report):

- US crop just entering bloom
- Industry forecasting 2019 crop of 2.5 billion to 2.6 billion pounds
- Jan YTD Receipts 2.5 billion vs 2.25 billion pounds LY up 11.45%
- Shipments 1.27 billion vs 1.22 billion pounds LY up 4.5%
- Commitments 599m vs 539m pounds LY up 11.1%
- Forecasting above average carryover between seasons

Australian Market Update (2019 December Position Report):

- 2020 crop harvest commencing
- 2019 crop – 104,000MT
- Domestic annual consumption approx. 27,000MT
- YTD Export shipments 74,232MT vs 60,894MT LY up 21.9%
- Forecasting limited carryover between seasons

Market pricing has softened due to uncertainty in the market



SELECT HARVESTS



Conclusion



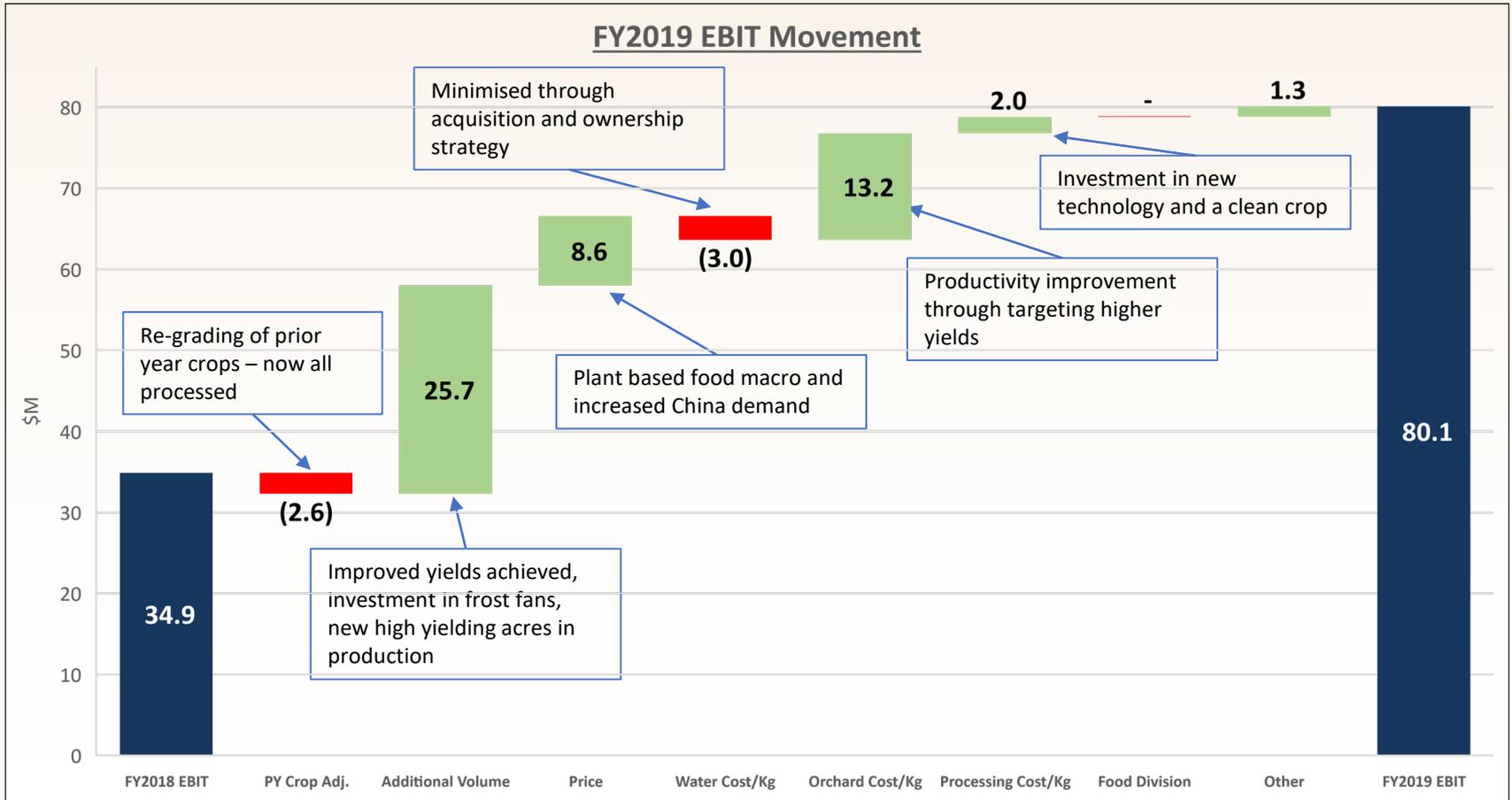
SHV can continue to deliver sustained growth in earnings



Paul Thompson – Managing Director



Movement in SHV Group EBIT (\$M)



*Financial Year Ended 30 June 2018

Increased volumes, higher pricing and improved efficiency have led to an improved result

Balance Sheet

Year Ending Balance Sheet

\$ millions	FY 2018*	FY 2019
Current Assets excl. Cash	152.0	162.1
Cash	6.9	11.6
Non-Current Assets	363.8	379.2
Total Assets	522.7	552.9
Current Liabilities (exc. Borrowings)	44.6	55.4
Borrowings	65.8	39.0
Non-Current Liabilities (excl. Borrowings)	41.6	42.5
Total Liabilities	152.0	136.9
Total Equity	370.6	416.0
Net Debt (Including Finance Leases)	58.9	27.4
Net Debt/Equity	15.9%	6.6%
ROCE	7.3%	16.5%

* Balances as at 30 September 2018

Solid Balance Sheet In Place

- Increased current assets – working capital of \$129.7m is higher due to value of 2020 growing crop (inventory) – as immature trees develop
- Increased non-current assets due to ongoing investment in the development of immature orchards
- Net debt including finance leases \$27.4m (FY2018 \$58.9m) – additionally there is net \$7.9m cash on hand (\$0 bank debt) reflecting positive cashflows
- Gearing (net debt/equity) 6.6% (FY2018 15.9%)
- Return On Capital Employed (ROCE) improved as orchards mature and start yielding and improved efficiency

Balance sheet is strong – bank debt paid down to \$0 as communicated



SELECT HARVESTS



AASB 16 – Leases – Impact from 1 October 2019

Initial impact on adoption as follows:

Balance sheet \$'000	30 September 2019	AASB 16 Transition	1 October 2019
Total Current Assets	173,666		173,666
Total Non Current Assets	379,190		379,190
ROU - AASB16	0	209,760	209,760
Total Assets	552,856	209,760	762,616
Total Liabilities	136,853		136,853
Lease Liabilities - AASB 16	0	237,773	237,773
Total Liabilities	136,853	237,773	374,626
Contributed equity	271,750		271,750
Reserves	10,417		10,417
Retained profits	133,836	(28,013)	105,823
Total Equity	416,003	(28,013)	387,990
Net debt			
Cash and Cash equivalents	7,945	0	7,945
Lease Liabilities	(35,371)	0	(35,371)
Lease Liabilities - AASB 16	0	(237,773)	(237,773)
Net debt	(27,426)	(237,773)	(265,199)
Gearing ratio	6.6%		68.4%

Financial Impact

- Major leases relate to long term orchard leases
- Impacts net Gearing Ratio
- No impact on cash earnings
- Increased EBITDA, higher depreciation and interest costs
- Minor impacts to NPAT for next two years
- Interest cover ratios still well within covenants
- Banks have agreed to adjust covenants

SHV to transition to new standard from 1 October 2019 – major Balance Sheet change

Almond Division



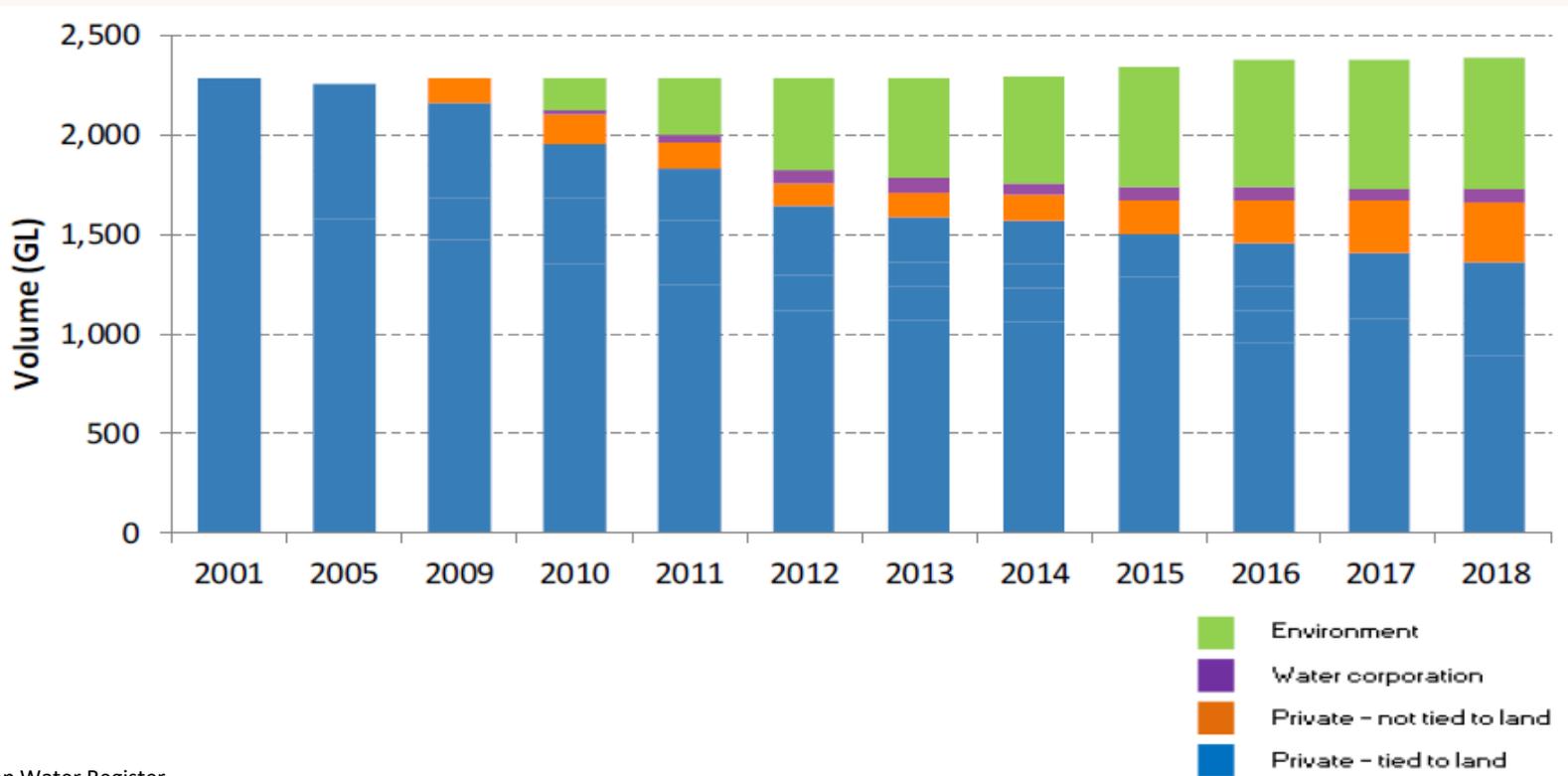
SELECT HARVESTS



The ownership of water has changed

- 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

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 reporting to Water Committee and Board
- Executive dedicated to managing efficiency of water infrastructure and on orchard staff
- CAPEX program to ensure best transport and distribution of water (e.g. intensive fertigation systems)
- A/B irrigation infrastructure to allow varietal irrigation
- Expanding Phytex irrigation technology to manage water timing and application rates
- Recycle excess water where feasible

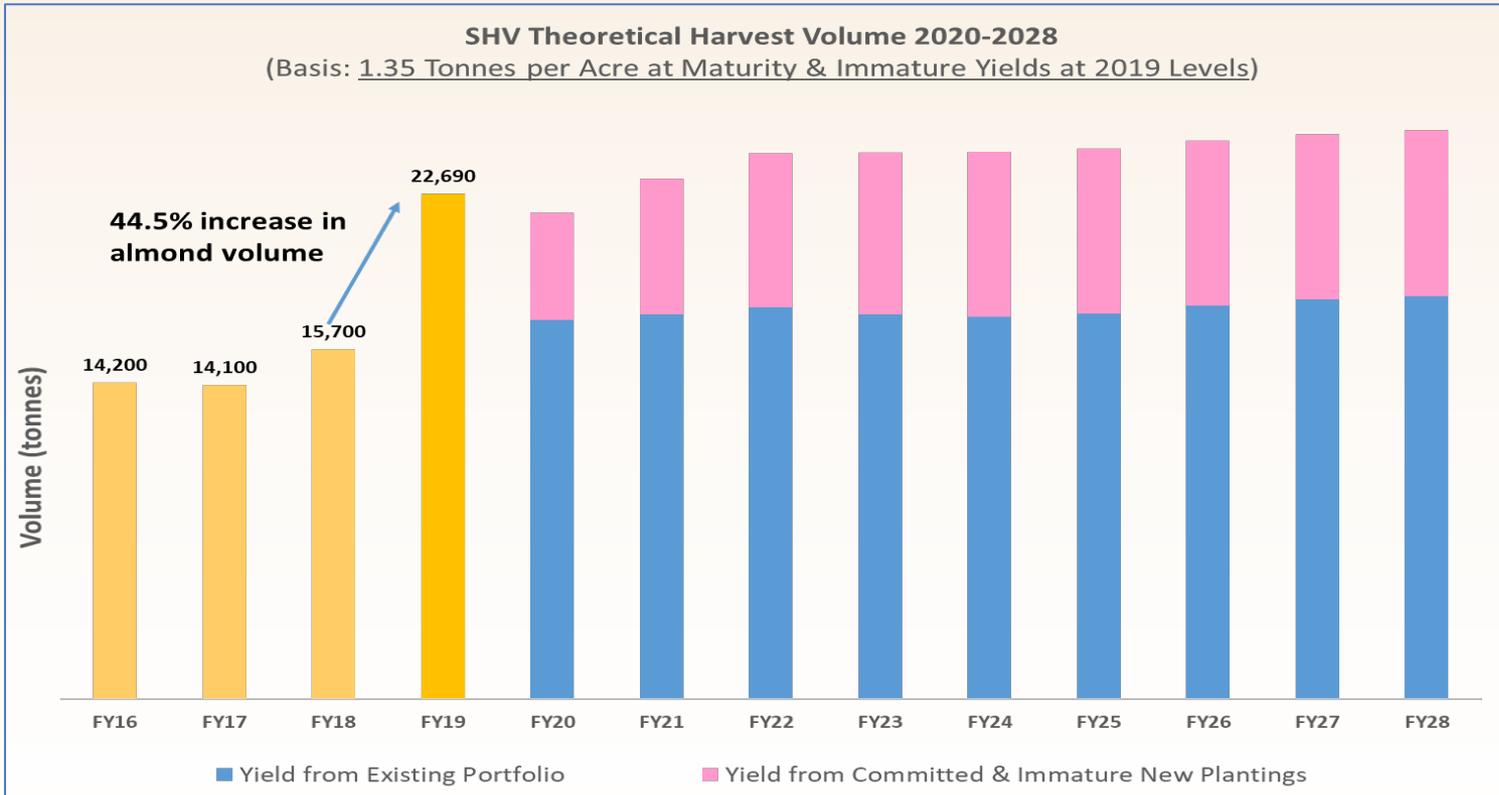
Through improvements in productivity we are continuing reduction in water usage per kg

Murray-Darling Basin water market inquiry

- **SHV has made a submission to 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, take advantage of new technology and re-align water markets to community expectations.
- **Our submission to the ACCC inquiry will highlight five key issues:**
 1. Increased collaboration is required between Federal and State governments to harmonise environmental flows, carryover and inter valley trading.
 2. The lack of accurate, comprehensive and timely data on water market activity.
 3. The need for transparent and robust market rules similar to the ASX.
 4. The requirement for water brokers to be regulated in a similar manner to ASX stock brokers.
 5. The growth and entry of non-irrigator sophisticated financial investors.

The ACCC inquiry is a good opportunity to address the current issues

Future Almond Volume Growth

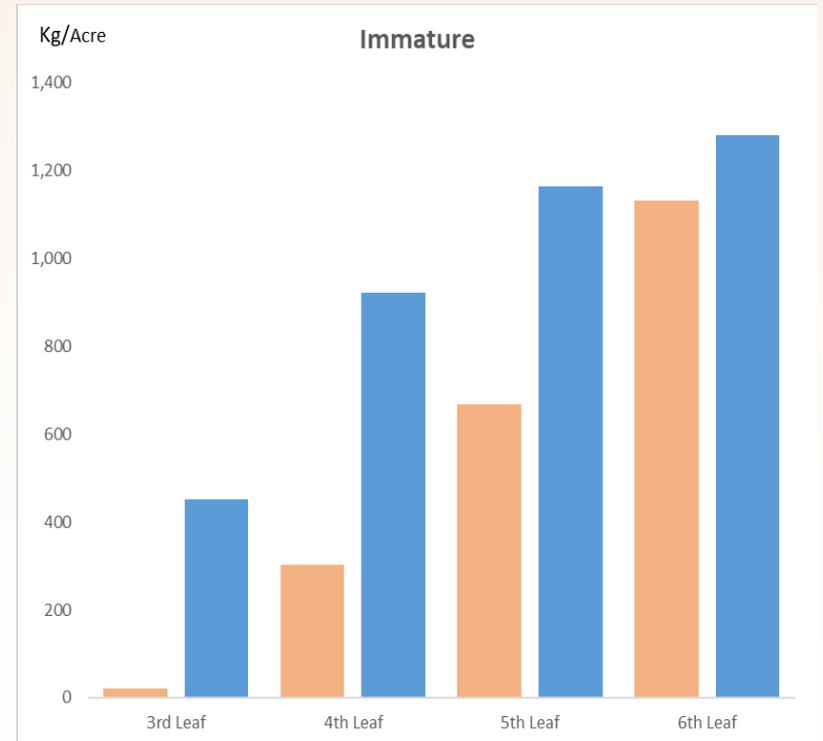
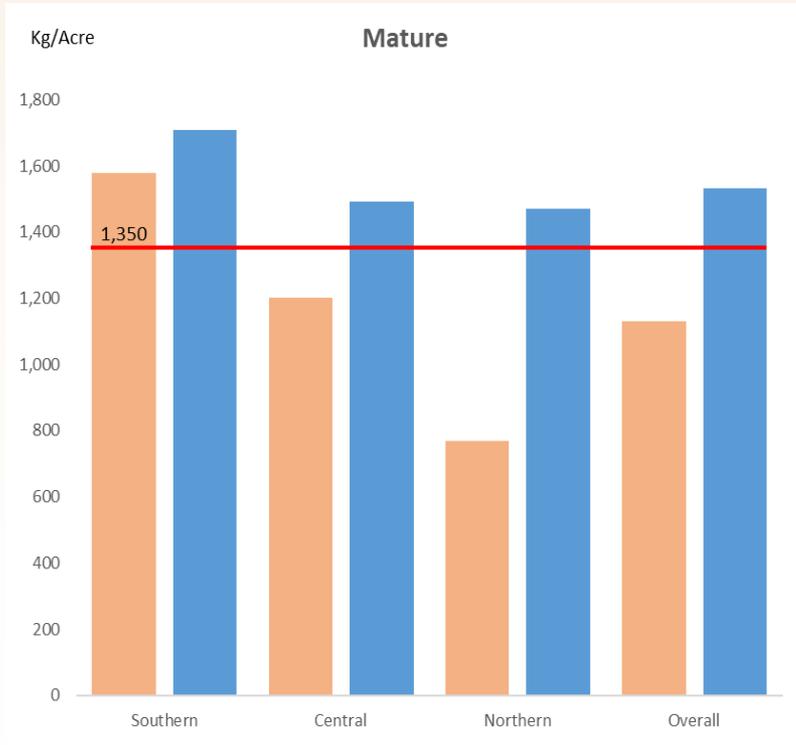


Select Harvests is now consistently yielding over 1.35 tonnes per acre – this adds considerable value in future years

- The almond crop is biannual in nature with +/- 10% per annum variation in tonnage possible

Our investment in almond orchards ensures underlying organic earnings growth

2019 Yield Performance



— Target Yield 2018 2019

Outperformance vs. Industry Standard across all mature and immature age cohorts

Almond Division Outlook

Crop Update

- Good pollination and growing conditions to date
- Immature orchard profile and risk mitigation will continue to provide benefits
- Harvest has commenced

Sales

- Global almond macro is still strong
- 2019 US crop larger than initial forecast and 2020 bloom conditions are good
- Based on current contracts and spot price 2020 almond price forecasted between AUD\$8.00 and \$8.60 per kg

Horticulture

- Increased investment in risk mitigation
- Increased expenditure on orchard hygiene to improve quality
- No new developments planned
- Still seeking opportunities to expand

Processing

- Upgraded In-shell sorters
- Doubling Sorting and Packing capacity
- Leveraging H2E

Water

- 2020 water purchases complete
- Looking to minimise 2021 crop exposure

China Update

- Corona virus disrupting market:
 - Delays to supply
 - Qtr 2&3 cashflow impact
- US/China trade relations
 - Tariff reduced from 60% to 55%
 - Likely to further reduce to potentially 10% or lower

Too early to confidently forecast 2020 crop. Almond price forecasted between AUD\$8.00 and \$8.60 per kg.

Food Division and Corporate



SELECT HARVESTS



'Project Shaker'

Project Shaker's aim is to significantly improve the operational efficiency and profitability of the Food Division

■ Sales & Marketing

- Re-launch Lucky brand, including packaging upgrades, advertising and new product innovation
- Develop the Sunsol brand - use data and consumer insight and innovation
- Achieve improved overhead recovery through selected private label contracts
- Continue to aggressively expand into 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/efficiency

■ M&A

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

Project Governance in place – initiatives underway



FY2020 Food Division & Corporate Outlook

Industrial Sales

- Continued strong demand in Export Market
- China market disrupted
- Increased demand for paste related product

Lucky

- New packaging and marketing program to re-engage consumers
- New Product Development pipeline exciting

Sunsol

- Further New Product Development opportunities centered around Probiotics

Processing Cost

- Increase focus on OEE & quality
- Strategic and replacement CAPEX investment to reduce cost

People, Culture & Sustainability

- Zero harm
- Invest in leadership capabilities
- Sustainability reporting
- Regulatory compliance and governance

Corporate

- Standardise JDE processes across the group
- Focused capital and cash management disciplines in place

Growth in the Food Division remains a key focus

FY2020 Top 10 Priorities

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
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. **Execute Export Growth Strategy** - Opportunities in Industrial and Consumer
10. **2021 Crop** – Continued focus on horticultural programs to maximise yield

Fundamentals remain positive and clear opportunities to improve exist





Annual General Meeting

21 February 2020

Consideration of The Financial Statements & Reports





Discussion



Resolution #1: Remuneration Report



Resolution #1: Remuneration Report

For:	46,329,880
Against:	389,806
Open-Usable:	639,231

Resolution #2(a): Election of Fiona Bennett



Resolution #2(a): Election of Fiona Bennett

For:	46,238,075
Against:	492,081
Open-Usable:	651,725



Resolution #2(b): Election of Guy Kingwill



Resolution #2(b): Election of Guy Kingwill

For:	46,646,734
Against:	48,275
Open-Usable:	666,409

Resolution #3: Approve increase in maximum annual remuneration of non-executive directors



Resolution #3: Approve increase in maximum annual remuneration of non-executive directors

For:	46,003,886
Against:	729,024
Open-Usable:	634,947



Resolution #4: Remuneration Arrangements for the Managing Director – Participation by the Managing Director in the Long Term Incentive Plan



Resolution #4: Remuneration Arrangements for the Managing Director – Participation by the Managing Director in the Long Term Incentive Plan

For:	46,189,400
Against:	579,749
Open-Usable:	635,947

Thank you

Please direct any queries to:

Paul Thompson
Managing Director
+61 3 9474 3544

Brad Crump
Chief Financial Officer
+61 3 9474 3544

Andrew Angus
Investor Relations
+61 402 823 757

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

www.selectharvests.com.au

