



SELECT HARVESTS

ASX Release – Company Announcement

30 November 2020

## FY2020 FULL YEAR RESULTS ANNOUNCEMENT

### A year of internal achievements and external challenges

Select Harvests Limited (ASX:SHV) is pleased to announce its results for the year ended 30 September 2020, with a reported net profit after tax (NPAT) of \$25.0 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$57.8 million.

Paul Thompson, Select Harvests' Managing Director, said "FY2020 has delivered a third consecutive year of increasing crop volume, validating the company's targeted horticulture program and investment in risk mitigating frost fans and productivity enhancing on-farm technology. As previously announced, the crop is a record 23,250MT, up 560MT on last year. Both our mature and immature orchards again yielded at rates significantly higher than industry standard.

The above industry standard yields of our immature greenfield orchards are particularly pleasing and supports the long-term strategy of growing our almond orchard base through a combination of greenfield developments and mature orchard acquisitions.

A focus on cost management and consistent high yields helped to mitigate softening almond prices and higher water costs in FY2020.

The water market remained challenging in the 2020 season, with record, or near record water prices across the Murray-Darling Basin. Select Harvests' balanced water procurement strategy, which includes owning and leasing water entitlements, protected us from the full impact of increases in spot water prices.

The Food Division continues to confront a challenging domestic market. While underlying demand and sales were higher for our Industrial value-added almond business, higher private label penetration and commodity costs negatively impacted the result."

### Overview of FY2020 Full Year Results

- **NPAT of \$25.0 million** (FY2019: \$53.0 million)
- **EBITDA of \$57.8 million** (FY2019: \$95.2 million)
- **Operating Cashflow of \$13.2 million** (FY2019: \$80.3 million)
- **2020 almond crop of 23,250 MT** (2019 crop 22,690 MT)
- **Almond price of A\$7.50/kg** (2019 crop A\$8.60/kg)
- **Net Bank Debt/Equity ratio at 30 September 2020 of 14.2%**
- **Earnings per Share (EPS) of 26.0 cents per share**

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- **FY2020 Fully Franked Final Dividend 4 cps (following 1H FY2020 Fully Franked Interim Dividend of 9 cps)**
  - Record Date 11 December 2020
  - Payment Date 5 February 2021
  - Dividend Reinvestment Plan (DRP) with a 2.5% discount

## **Almond Division**

Almond Division FY2020 EBIT of \$41.8 million.

A record crop of 23,250 MT was achieved in FY2020 due to:

- Good growing conditions
- The commitment and dedication of our employees in executing the company's horticulture program
- Further investment in frost fans mitigating the impact of frosts on our trees
- Further adoption of on-farm technology to monitor and guide the performance of our orchards.

For a second consecutive year, all orchard age cohorts yielded at levels higher than industry standard. Immature orchard yields were particularly pleasing and delivered an additional 2,029 MT above industry standard yields in FY2020.

A majority of the 2020 crop's per kg total production costs increase of 13.3% was due to water. Non water per kg production costs increased by 6.5%, with most of this due to rises in orchard lease commitments (including AASB 16 leasing adjustments).

Hulling and shelling of the almond crop was completed in mid-October and crop quality was similar to last year. Sorting and packing continues. Recent investment in new sorting technology and factory productivity improvements will pay further dividends as Select Harvests' crop volume increases in the coming years.

The company has sold or committed for sale 82% of the FY2020 crop with most of the balance held to cover internal value-add processing requirements. An average price of A\$7.50/kg will be achieved, 12.8% lower than the FY2019 almond price of A\$8.60/kg.

## **Food Division**

Food Division FY2020 EBIT of \$3.3 million.

The Food Division result was below expectations. Strong demand for Industrial value-added almond products was not enough to offset higher commodity input costs and continued private label penetration in the branded nuts category.

There is strong domestic and overseas demand from food manufacturers, confectioners and consumers for our value-added almond ingredient products. Sales of almond ingredients increased by 19% in FY2020 and accounted for over 25% of Select Harvests' annual almond production. Ongoing investments in the Carina West Value-Adding Facility will further enhance our ability to produce industrial almond products.

In FY2020 there was further investment in the Sunsol and Lucky brands resulting in additional national ranging. Sunsol sales growth was particularly strong, increasing by 45% in FY2020.

Consumer demand for healthier food products is growing in Asian markets, with these markets remaining a focus for Select Harvests. However, our market development was held back in 2H FY2020 due to COVID-19 related travel restrictions.

Select Harvests' lease on the Thomastown site is due to expire on 30 June 2022. The site primarily processes and warehouses our Lucky and Sunsol consumer product ranges and private label consumer products, as well as housing Select Harvests' Melbourne based corporate staff.

A comprehensive review of our growth options and supply chain solutions for the Food Division commenced in FY2020 and is expected to be concluded by the end of CY2020.

### **COVID-19 Impact**

At the beginning of the pandemic Select Harvests was designated as a 'permitted business' with no restrictions other than the requirement to operate under a 'COVID-19 Safe Plan'. We have been able to continue operations throughout the pandemic period, including during the Stage 4 Victorian lockdown and state border closures.

FY2020 operating cash flow was impacted by COVID-19, causing delays in some export shipments. Consequently, an increased percentage of customer payments will fall into 1H FY2021.

Select Harvests has not accessed any pandemic related financial support, such as JobKeeper, from state or federal governments. We have maintained full employment levels, with 2021 seasonal harvest labour not impacted by overseas travel bans.

### **Piangil Almond Orchard**

On 1 October 2020 Select Harvests entered into an Implementation Deed and Sales Agreement to acquire the Piangil Almond Orchard. The transaction is subject to a number of conditions, with the acquisition expected to be completed in the 3<sup>rd</sup> week of December 2020.

The Piangil Almond Orchard is a high yielding 'top quartile' orchard located in the Sunraysia almond growing region, approximately 86kms from Select Harvests' Carina West processing centre. The orchard has an attractive maturity profile, with 389 hectares of immature almond orchards and a weighted average age of 10.9 years. The acquisition is aligned with Select Harvests' strategy to grow our almond base. The acquisition will increase Select Harvests' planted area by 20% from 7,696 hectares to 9,262 hectares and is expected to increase Select Harvests' almond production by approximately 4,600 tonnes in FY2021.

The A\$129 million acquisition will be funded by a combination of proceeds from the completed October 2020 capital raising of A\$120 million and new debt facilities.

Select Harvests' immediate focus will be to invest in equipment and infrastructure to improve almond quality, harvest risk mitigation and irrigation efficiency.

### **Outlook**

Paul Thompson said "Recent monthly U.S. almond shipment data shows that demand has responded strongly to historically low almond prices, with record monthly shipments to key world markets. Select Harvests' next crop will begin harvest in February 2021, with early deliveries reaching the market in April. By this time, a more definitive market and pricing environment is likely to emerge, supporting our next marketing campaign.

The Australian Competition and Consumer Commission's (ACCC) Interim Report on The Murray-Darling Basin Water Markets Inquiry was released on 30 July 2020. Select Harvests is pleased to report that the ACCC took on board the feedback we provided in our initial submission to the inquiry. The ACCC's preliminary view is that the

current governance of the Basin and the regulatory frameworks for water trading do not meet the standards expected in modern markets. Select Harvests has provided feedback on the Interim Report, with a final ACCC report due by February 2021.

The start of the 2020/21 water season has seen better weather conditions and a movement of water prices back towards long-term averages. We have been acquiring lease and temporary water in recent months given the favourable market conditions.

Tree health and crop outlook remain positive, with good pollination and growing conditions to date, however it is too early in the horticulture cycle to be able to confidently forecast the 2021 crop at this stage. We will continue delivering a full horticultural program to maximise yield.”

Paul Thompson concluded “Select Harvests’ long term growth strategy is underpinned by a world class portfolio of almond assets. In the face of an uncertain external environment, Select Harvests remains committed to maximising the value of these assets by focusing on the key internal value drivers of our business, namely: yield optimisation, cost control, process efficiency and value-adding.”

ENDS

This announcement has been approved by the Board of Select Harvests.

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

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**About Select Harvests:**

Select Harvests Ltd (ASX:SHV) is an ASX-listed, fully integrated almond business consisting of orchards (company owned, leased, joint venture and managed), primary processing (hulling & shelling), secondary processing (blanching, roasting, slicing, dicing, meal), trading (industrial products) and Consumer products (Brands - Lucky, Sunsol, NuVitality, Renshaw & Allinga Farms, as well as providing Retailer brands). Select Harvests imports a full range of nuts (in addition to its almonds) and a wide range of other ingredients for inclusion in their Consumer Products range. Australia is a significant global almond producer and Select Harvests is one of Australia’s largest almond companies, supplying almonds domestically and internationally, to supermarkets, health food stores, other food manufacturers, retailers and the almond trade.

The company is headquartered at Thomastown on the outskirts of Melbourne, Australia while its orchards are in North West Victoria, Southern New South Wales and South Australia. The primary Almond processing facility (Carina West) is located at Wemen in North West Victoria and the second processing, value-adding and packing facility is located at Thomastown.

For more information, visit [www.selectharvests.com.au](http://www.selectharvests.com.au)