



24 November 2023

## SELECT HARVESTS LTD FY2023 RESULTS

Select Harvests Limited (ASX:SHV) announces its results for the financial year ended 30 September 2023 (FY2023) as follows:

### Overview of FY2023 Full Year Results:

- **Reported NPAT of (A\$114.7) million** (FY2022: NPAT A\$4.8 million)
- **Reported EBITDA<sup>1</sup> of (A\$117.1) million** (FY2022: EBITDA A\$40.4 million)
- **Operating Cashflow of (A\$8.2) million** (FY2022: Cashflow A\$26.8 million)
- **2023 almond crop of 19,771 MT** (2022 crop 28,312 MT)
- **Almond price of A\$6.42/kg** (2022 crop A\$6.80/kg)
- **Net Bank Debt/Equity ratio at 30 September 2023 of 46.2%**
- **No FY2023 Final Dividend Declared**
- **2024 crop growing conditions favourable to date. Expected crop rebound with higher volumes and an improved quality profile.**
- **Over 9,000MT of external grower processing volume secured and commencing in FY2024**

Select Harvests' has reported a NPAT of (A\$114.7) million. The result was impacted by three key factors that were reported in the 1H FY2023 result:

- A\$74.5 million - lower crop volume and market pricing of 2023 crop
- A\$24.5 million - write-down of 2022 crop inventory
- A\$26.0 million - write-off of goodwill (non-cash)

FY2023 continued to be challenging operationally. The third year of a La Nina weather pattern materially impacted the 2023 crop of 19,771MT, which is 2,271MT higher than the 1H FY2023 estimate of 17,500MT, but down 30.2% from 2022. The cooler and wetter conditions led to Australian almond orchards across all growing regions producing volumes well below previous industry averages. Further, since the half year announcement, global almond pricing has been below historical levels. This low pricing environment has led to the 2023 crop achieved price of A\$6.42/kg, a reduction of A\$1.03/kg from the estimated 2023 crop price recorded at 1H FY2023. The impact of this price reduction was partially offset by the 2023 crop volume increasing from the 1H FY2023 estimate, resulting in a final fair value loss of A\$74.5 million, up slightly from the loss of A\$69.5 million recognised at the half year.

<sup>1</sup> EBITDA is a non-IFRS measure representing earnings before net interest, tax, depreciation and amortisation.

2023 crop costs were 23% higher than the 2022 crop, principally driven by higher fertiliser costs (supply issues due to Russia / Ukraine conflict) and chemical pricing (due to lower production levels out of China). Additionally, due to the maturity profile of the Company's leased orchards, lease costs increased as forecast. In addition to crop costs, the Company wrote off A\$4.1 million related to tree losses following a reconciliation of tree numbers post the flooding events in October and November 2022. The quality profile of the 2023 crop was lower than historic averages.

Hulling and shelling of the 2023 almond crop was completed during August 2023. As was the case in FY2022, a higher than normal proportion of the crop required mechanical drying.

A key component of the Company's Business Improvement Program is to de-bottleneck the processing plant. Investing in quality and factory productivity improvements at the Carina West processing facility will lead to additional benefits as Select Harvests' crop volume and external grower supply increases. The Company is targeting 40,000 MT of capacity in FY2024.

The Company's value-adding facility continues to deliver improved outcomes. Additional upgrades have been completed to ensure the production of high-quality material at optimal throughput and yield recovery rates. Low almond pricing has impacted the sales value of value-add product and the Company is focussed on maintaining a low cost of production to maximise returns.

Buyers in the global almond market continued to purchase product, however they were not taking long term positions, rather they were servicing immediate demand. This, along with the ongoing higher US crop carryout position and poor US crop quality profile led to further declines in the average almond price. US domestic consumption (the largest almond market) has also fallen for the 2023 year. Despite this environment, Select Harvests was able to take advantage of some higher priced varieties and by targeting premium markets.

A continued focus on targeted price realisation and cost management has helped to offset a flat almond price that reduced to A\$6.42/kg. As at balance date the Company had sold or committed for sale 83% of the 2023 crop with the balance either being upgraded for sale or allocated to internal value-add processing requirements.

## **BALANCE SHEET**

The Company's net bank debt to equity ratio was 46.2% as at 30 September 2023. Whilst higher than the Company would like, the balance sheet remains in a sound position. One of the advantages of a strong balance sheet is being able to use it in tough times. As a result of the reported loss, a A\$114.7 million reduction in equity has occurred compared to the same period last year. This comprises the 2022 crop revaluation, reduced 2023 crop value and intangibles write down.

All of the Company's assets are held on Balance Sheet at historical cost. To confirm current market values are still relevant, Herron Todd White completed market valuations on three orchards (one in each state) in September 2023. These valuations confirmed there had not been any material movement in valuations since the full portfolio was valued in FY2022. The ten Company owned orchards and Carina West processing facility have a book value of A\$332.1 million against a market value of A\$458.4 million. Additionally, the current book value of the water entitlement portfolio on the Balance Sheet is A\$58.8 million while management values it at A\$119.5 million, based on recent water market transactions.

It should be noted that the Company's market value of net assets of A\$598.6 million does not include any value derived from our leased orchards. The leased orchards represent 45% of our portfolio.

As part of our drive for increased financial discipline, the Company has been focussed on improving its working capital management which has, along with a smaller crop, contributed to the A\$67.4 million reduction in net working capital compared to last year.

As previously announced, on the 31<sup>st</sup> of March 2023 the Company signed a new three-year facility agreement with its banking partners, NAB and Rabobank. This incorporated a A\$30 million increase in facility limits, plus a further A\$20 million increase that rolls off in June 2024 and a waiver on the Company's Fixed Charge Cover Ratio covenant measure to March 2024. Additionally, the Company also secured, for two years, its A\$20 million seasonal facility. Despite the lower FY2023 earnings, all required banking covenants have been met with headroom remaining. Debt levels remain well managed and current facilities remain adequate for operations moving forward based on budgeted almond price and crop size.

Going forward, the Company's debt position is forecast to peak in April 2024 with debt headroom available. Our debt headroom through the year ranges from A\$30 million to A\$100 million. Post April 2024, debt levels will decline as the 2024 crop is processed and sold. The Company has met all required covenant measures as at 30 September 2023 and is forecast to do so going forward.

## **OUTLOOK**

### **The Market**

The USDA 2023 California Almond Objective Measurement Report (Objective Estimate), released 12 July 2023, forecast the 2023 Californian almond crop to be 2.6 billion pounds. Since this date, the US growing regions have incurred wetter and cooler than average conditions, particularly during their key harvest period. Industry expectations are that the US 2023 crop volume will be lower than the Objective Estimate and of a lower quality. Reflecting these developments, we have seen pricing move upwards, particularly for higher grade kernel and inshell product.

The October 2023 US Almond Board Position Report, released 10 November 2023, shows shipment levels starting to gain momentum with exports growing positively, and while US domestic shipments still remain flat in comparison to last year, importantly the carry-over is reducing.

The Australian Almond Board September 2023 shipping report (covering seven months) shows Australian shipments up 11.1% with volumes to China decreasing (due to lower levels of product quality) offset by increased exports to Europe, India and the Middle East. Australian shipments have decreased in the past two months reflecting the lower 2023 crop available.

### **Select Harvests' 2024 Crop and Costs:**

- To date growing conditions have been favourable. The key periods of bloom and pollination were both positive. With the Bureau of Meteorology's recent El Nino forecast, the key summer growing and harvest periods are forecast to deliver a return to a normalised volume and quality level.
- Costs are forecast to be marginally higher in FY2024 in line with producing a larger crop and hot and dry conditions. Water volumes and electricity costs are expected to increase as more water is forecast to be applied (leading to higher pumping costs). The pressure on bee supply has increased costs for pollination. These increases in costs are forecast to be partially offset by lower per unit fertiliser and chemical costs as global pricing reduces.

- The temporary water market is starting to soften as allocation levels are released across all categories of permanent water holdings. Storages remain relatively full and it is expected temporary water pricing will remain below historic averages.
- Value-add processing is forecast to deliver a greater contribution as the very low grade 2022 crop stock has been utilised. This means, with the better quality 2023 crop manufacturing grade product, higher margin premium material can be produced. The plant is now consistently producing at its required level of output.
- Over 9,000 MT of external grower almond volumes have been contracted to be processed in FY2024. This adds additional profitability and reduces the overall processing costs of production (i.e. leading to lower processing costs/kg for Select Harvests' own product).

### **Project Management Office**

The Company is progressively rolling out new initiatives to deliver its strategy. These initiatives are increasing our financial discipline and driving gains in profitability and cash.

The Project Management Office (PMO) is now well established with over 50 projects (12 completed). The Company is using the PMO to operationalise its Transition Plan. The PMO has delivered a banked benefit of A\$9 million profit and A\$19 million cash. The Company has committed to deliver A\$15 million in profit and A\$35 million in cash from these initiatives and they remain on track.

### **CONCLUSION**

David Surveyor, Select Harvests' Managing Director said "Despite two challenging years the Company is well placed. The forecast of warmer, drier conditions leading into our harvest period and likely improved crop quality profile, combined with a return to long term normalised crop production volumes is welcome and will further improve that position.

Almond pricing has started to move upwards over the past couple of months as the market receives more clarity on the implications of the poor growing and harvesting conditions for the 2023 US crop. It is expected that as the received crop gets processed and becomes available for sale that pricing will rise further, particularly for higher grade material.

Our Project Management Office has delivered both profit improvement and cash benefits that will flow into next year's results. We have developed a strategy that focusses on us sourcing more almonds, increasing our processing capacity, achieving greater value for our almonds and assessing new growth opportunities. We will see this flow into next year's results with our own volumes supplemented with external growers' supply (9,000 MT) that will deliver an overall 20-25% increase in our total volumes to be processed and ensure our plant is fully utilised.

Our focus for FY2024 is to maximise the yield and quality of the 2024 crop, maximise price realisation for the 2024 crop, maintain tight cost control and improve cash realisation and velocity.

Our 2024 marketing campaign will commence early in the new calendar year as pricing progresses and we will ensure that we drive velocity into our sales program."

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 value-added processing (blanching, roasting, slicing, dicing, meal and paste) under the Renshaw & Allinga Farms industrial brands. Australia is a significant global almond producer and Select Harvests are 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 Richmond, in the inner suburbs of Melbourne, Australia while its orchards are in North West Victoria, Southern New South Wales and South Australia. Our almond processing and value-adding facility (Carina West) is located at Wemen in North West Victoria.

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