

# Select Harvests Limited (ASX:SHV)

1H FY 2020 Half Year Results Presentation to 31 March 2020

22 May 2020



# 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.*

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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.*

*This presentation has been approved by the Board of SHV.*



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# 1H FY 2020 Financial Overview



<b>NPAT</b>  <b>\$17.4m</b> <b>↓\$2.7m</b>	<b>EBITDA<sup>1</sup></b>  <b>\$34.5m</b> <b>↓\$4.0m</b>	<b>Operating Cashflow</b>  <b>(\$32.2m)</b> <b>↓\$17.8m</b> <ul style="list-style-type: none"> <li>- FY2019 Tax payment and AASB reporting change</li> <li>- Delayed shipments due to COVID-19</li> </ul>
<b>Net Debt/Equity (excl. Leases)</b>  <b>17.6%</b> <ul style="list-style-type: none"> <li>- \$70.4m Bank Debt – in line with seasonal peak</li> <li>- Net \$269.5m leases on Balance Sheet with adoption of AASB16</li> </ul>	<b>Half Year ROCE</b>  <b>4.8%</b> <b>↓1.1%</b>	<b>EPS</b>  <b>18.1 cps</b> <b>↓13.8%</b> <ul style="list-style-type: none"> <li>- Interim dividend of 9 cps fully franked</li> <li>- DRP at 3% discount</li> </ul>

<sup>1</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.

**A solid performance given reduced almond pricing and increased water costs**



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# 1H FY 2020 Business Overview

## Almond Volume

**22,600 MT**

**Flat**

- Maintained better than industry standard yields
- Young orchards maturing
- 359 mature acres removed and re-planted

## Almond Price

**\$8.20/kg**

**↓4.7%**

- Over 70% of the 2020 crop is contracted for sale
- Price impacted by COVID-19 supply chain issues and a large estimated 2020 US crop

## Almond Division EBIT

**\$28.1m**

**↓10.8%**

- Decreased almond pricing
- Increased horticultural costs in line with tree age profile
- Significant increase in water costs

## Food Division EBIT

**\$1.7m**

**↓27.4%**

- Continued domestic margin pressure vs retailer house brands
- Maintenance shut-down of Parboil value add facility

## People, Culture and Sustainability

- Lost Time Injuri Frequency Rate has reduced by 34%
- Managed COVID-19 operating environment
- Key focus on sustainability including increase in reporting
- Over \$100,000 donated to bush fire appeal

## Corporate

- AASB16 Lease Accounting implemented
- Focus on cashflow management
- Inorganic growth options continue to be pursued – increase in corporate activity
- Increase investment in people

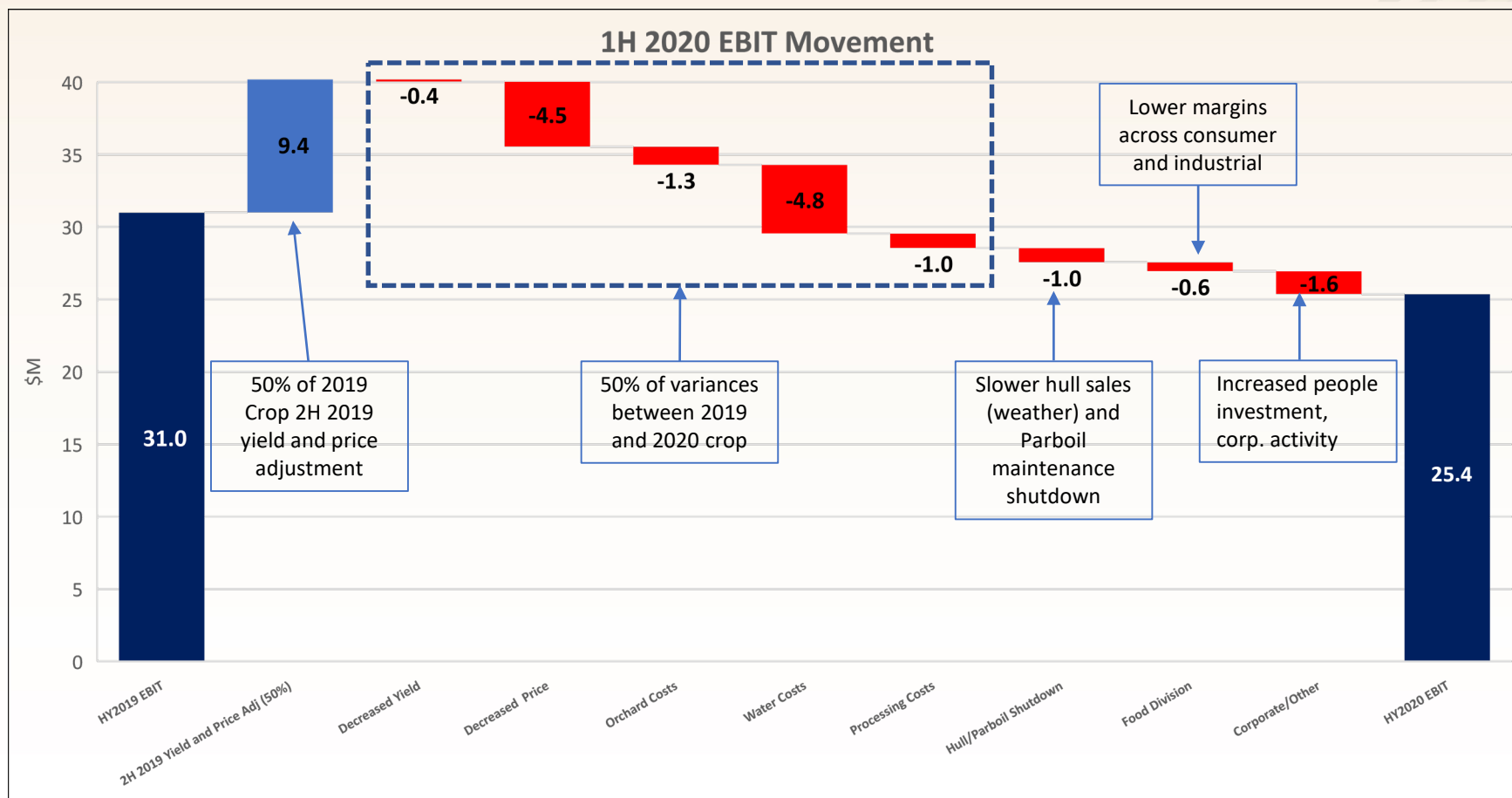
**Consistent solid performance despite significant external challenges**



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# Movement in SHV Group EBIT (\$M) – Based on movement of 2019 and 2020 crop profitability



**Decreased almond prices and higher water costs have had a significant impact**



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NuVitality



# Impact on 1H FY 2020 financial statements from AASB16

		\$'000
Operating expenses	Decrease	1,549
Depreciation	Increase	(1,019)
<b>EBIT impact</b>	<b>Increase</b>	<b>530</b>
Interest expense	Increase	(302)
<b>Profit before tax</b>	<b>Increase</b>	<b>228</b>
Right of use assets	Increase	239,121
Lease liability	Increase	(269,506)
Operating cash flow	Increase	13,768
Financing cash flow	Decrease	(13,768)
<b>Net cash flow</b>		<b>-</b>
Net debt	Increase	(269,506)
* Calculated on 6 months of Reported NPAT		

**Major impact on classification of assets and liabilities**



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# Income Statement

Income Statement				
\$ millions	1H FY 2019	1H FY 2020	Variance	%
Almond Volumes MT	20,750	22,600	1,850	8.9%
Almond Price Per Kg	8.50	8.20	(0.30)	(3.5%)
<b>Total Revenue</b>	<b>100.0</b>	<b>93.5</b>	<b>(6.5)</b>	<b>(6.5%)</b>
<b>EBITDA</b>	<b>38.5</b>	<b>34.5</b>	<b>(4.0)</b>	<b>(10.4%)</b>
Depreciation & Amortisation	7.5	9.1	(1.6)	(20.9%)
Almond Division EBIT	31.5	28.1	(3.4)	(10.8%)
Food Division EBIT	2.3	1.7	(0.6)	(27.4%)
Corporate	(2.8)	(4.3)	(1.5)	(54.9%)
<b>Total EBIT</b>	<b>31.0</b>	<b>25.4</b>	<b>(5.6)</b>	<b>(18.0%)</b>
Net Financing costs	(2.1)	(0.7)	1.3	64.1%
Tax Expense	(8.9)	(7.3)	1.6	17.6%
<b>NPAT</b>	<b>20.0</b>	<b>17.4</b>	<b>(2.7)</b>	<b>(13.4%)</b>
EBITDA Margin (%)	38.5%	36.9%	(1.6%)	(4.2%)
EBIT Margin (%)	31.0%	27.2%	(3.8%)	(12.3%)
Earnings Per Share (cents)	21.0	18.1	(2.9)	(13.8%)

## Consistent 1H 2020 Profit Result Delivered

- Decreased revenue reflects delays in receipts due to COVID-19 related supply chain impacts
- 1H 2020 EBITDA<sup>1</sup> \$34.5m (1H FY 2019 \$38.5m) – reduced result due to lower almond pricing and higher water costs
- Almond Division EBIT<sup>1</sup> \$28.1m (1H FY 2019 \$31.5m)
  - Positive yield offset by almond price and water cost
- Food Division EBIT<sup>1</sup> \$1.7m (1H FY 2019 \$2.3m)
  - Continued margin pressure from domestic retailer house brands
  - Reduction in Foodservices demand
  - Retail export growth delayed
- Corporate costs higher due to corporate activity, investment in process improvement and employee development
- Lower NPAT of \$17.4m (1H FY 2019 \$20.0m)

Consistent financial result despite global issues



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# Balance Sheet

Half Year Ending Balance Sheet		
\$ millions	1H FY 2019	1H FY 2020
Current Assets excl. Cash	187.8	212.1
Cash	1.3	1.3
Non-Current Assets	370.2	360.9
AASB16 Right of Use Assets	-	239.1
<b>Total Assets</b>	<b>559.3</b>	<b>813.4</b>
Current Liabilities (exc. Borrowings)	32.2	48.9
Borrowings (Excl. Lease Liabilities)	56.8	70.4
Lease Liabilities (Incl. AASB16)	37.9	269.5
Non-Current Liabilities (excl. Borrowings)	40.3	33.0
<b>Total Liabilities</b>	<b>167.2</b>	<b>421.8</b>
<b>Total Equity</b>	<b>392.1</b>	<b>391.6</b>
<i>Net Debt/Equity (Excl. Leases)</i>	14.1%	17.6%
<i>ROCE (return over six months)</i>	5.9%	4.8%

## Solid Balance Sheet In Place

- Increased current assets – working capital of \$184.0m is higher due to value of 2020 growing crop (inventory) – will reduce as crop is sold in 2H FY 2020
- Decrease in non-current assets due to transfer of \$33m of finance lease related assets to AASB16 Right of Use Assets
- Net debt excluding leases \$70.4m (1H FY 2019 \$56.8m) – close to peak levels. Will reduce in 2H FY 2020 as sales complete
- Gearing (net bank debt/equity) is 17.6% (1H FY 2019 14.1%)
- Return On Capital Employed (ROCE) reduced due to lower operating performance – lower almond price and higher water costs

Balance Sheet is strong – bank debt at peak period and will reduce during 2H FY 2020



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# Cash Flow

Cash Flow \$ millions	1H FY 2019	1H FY 2020
<b>EBITDA</b>	<b>38.5</b>	<b>34.5</b>
Change in Working Capital	(48.0)	(42.4)
Tax Paid	(2.8)	(16.8)
Net Interest	(2.1)	(7.5)
<b>Cash Flow From Operations</b>	<b>(14.4)</b>	<b>(32.2)</b>
Investing Cash Flows	(14.7)	(27.4)
AASB 16 Impact	-	13.8
Increase/(decrease) in debt	29.1	54.6
Dividends paid	(5.3)	(15.8)
<b>Net (Decrease)/Increase in Cash/Cash Equivalents</b>	<b>(5.3)</b>	<b>(7.0)</b>

## Cashflows Driven By Performance

- Reduction in EBITDA<sup>1</sup> to \$34.5m – lower almond price and higher cost of water
- Tax payment – based on FY2019 earnings following transition period refund
- Interest increase based on AASB16 re-classification
- 1H FY 2020 Investing cash flows of \$27.4m driven by:
  - Tree & Orchard Development \$18.3m
  - Property Plant & Equipment \$ 9.1m
- 20 cps final FY 2019 dividend paid in 1H FY 2020

Cashflow in line with seasonality – cash inflows expected 2H FY 2020



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A photograph of an almond orchard during harvest. The ground is covered with a thick layer of green and brown almond husks and leaves. In the background, a yellow tractor with "SHOCK WAVE" written on its side is parked. A person's legs and feet are visible on the right side of the frame.

# Almond Division



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# 1H FY 2020 Almond Division Overview

## Almond EBIT

**\$28.1m**  
**↓\$3.4m**

## Almond Volume

**22,600 MT**  
**Flat**

- Good growing conditions – disrupted harvest
- Good quality
- Yields above 1.35mt/acre at maturity

## Almond Price

**\$8.20/kg**  
**↓4.7%**

- AUD/USD hedged below 67c
- COVID-19 impacting global supply chains
- Large 2020 estimated US crop

## Production Cost Per KG

**Cost per Kg Up**  
**19.2%**

- Increased costs due to maturity profile of trees
- Horticultural costs per kg (excl. water) increased by 5.2%
- Processing cost per kg expected to remain flat

## Water

**Impact minimised**

- Water costs per kg increased by 75.4%
- Ownership and management strategy mitigated full cost increase impact
- Investment in technology continues to minimise usage

## Developments/Acquisitions

- Increased mature almond orchards coming onto the market

**Consistent yield achieved – impacted by lower almond price and increased cost of water**



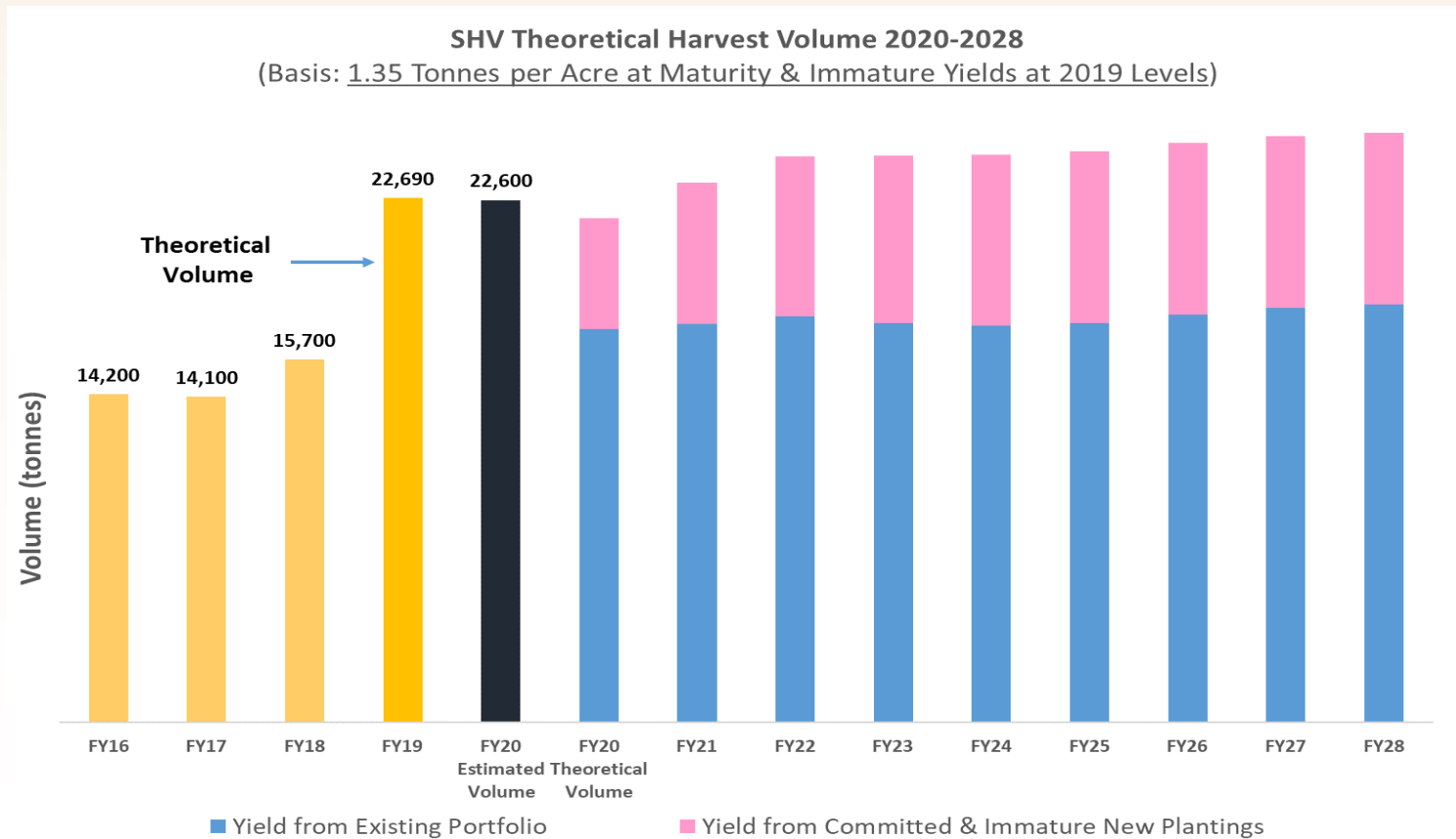
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# Volume Growth

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

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



**Our almond orchards continue to be the key driver in delivering growth**



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# Almond Division Outlook

## 2021 Crop

- Trees in good health going into dormant period
- Bud health positive
- Immature trees continue to develop as planned

## Sales

- Shipments delayed
- Inshell and kernel programs both underway

## Horticulture

- Frost fan investment complete
- Continued focus on orchard hygiene to improve quality
- Phytec implementation continues to deliver benefits
- Expected to perform at over industry standard

## Processing

- In-shell sorter investment delivering strong results
- Sorting and Packing capacity and efficiency increased
- Increase in third party processing

## Water

- Favourable conditions forecast
- 2021 crop water prices expected to reduce
- ACCC Murray-Darling Basin water markets inquiry interim report due to be released 31 May 2020

## Expansion

- No new developments in pipeline
- Acquisitions continue to be assessed

**Indicators remain positive for a strong 2021 crop**



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# Almond Crop Update

## Almond Board of California August – April 2020 Position Report

Crop Receipts	2.53B lb	Up 11.9% vs LY
Total Supply (including Carry-over)	2.80 lb	Up 8.6% vs LY
Shipments	1.86B lb	Up 5.5% vs LY
• Domestic	0.59B lb	Up 6.4% vs LY
• Exports	1.27B lb	Up 5.1% vs LY
Commitments	0.499 B lb	Up 15.1% vs LY
Uncommitted Inventory	0.44B lb	Up 15.7% vs LY

## USDA Subjective Estimate – 12 May 2020

3.0 billion pounds (1.4m MT)	Up 17.6% vs LY
Average yield increase per acre	Up 10.2% vs LY

## Almond Board of Australia 2019/20 Full Year February Position Report

2019 Crop estimate	100,000 – 105,000MT	
Domestic consumption	Approx. 21,000 – 23,000MT	
Full Export shipments	76,556MT	Up 26% vs LY

**Larger forecast US crop and COVID market access challenges has seen pricing soften**



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# Food Division



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# 1H 2020 Food Division and Corporate Overview

## Food Division EBIT

**\$1.7m**  
**↓\$0.6m**

## Industrial Sales

- Continuing strong demand for value added product domestically and export
- Parboil value adding facility improving in efficiency output (closed for 3 weeks maintenance)
- Margins impacted as COVID-19 affected global markets

## Consumer Sales

- Consumer sales were higher than 1H FY2019 however weighted more toward lower margin retailer brands
- Sunsol sales continue to increase
- Export sales channels continue to be developed albeit slow

## Processing Cost

- Weakened AUD impacting raw material costs
- Thomastown and Parboil have both reduced conversion costs

## Growth

- NPD in core categories
- Assessing expansion into new categories
- Industrial value add paste and processed products

## Corporate

- Internal audit program delivering improved processes
- Ongoing continuous improvement program in place

**External environment increasingly challenging**



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# Food Division and Corporate Outlook

## Industrial Sales

- Expected rebound in demand globally and domestically as food services industry re-commences following lockdown
- Increased demand for paste related product

## Lucky

- New packaging developed and on shelf
- Marketing program launched
- New Product Development pipeline exciting

## Sunsol

- Extensive marketing campaign about to commence
- Increased ranging in Coles and Woolworths for Pro-biotics
- Further New Product Development opportunities centered around Pro-biotics and clusters

## Processing Cost

- Project Shaker efficiencies starting to deliver tangible benefits
- Further process efficiency targeted at the Parboil value add facility
- Continued capex assessment

## People, Culture & Sustainability

- Zero harm
- Imbedded performance management and development systems
- Leadership programs in place
- Sustainability reporting

## Corporate

- JDE standardisation delivering group wide benefits
- Capital and cash management remains a key focus
- Continuing to assess commercially attractive growth options

**Significant progress made with additional benefits to be realised**

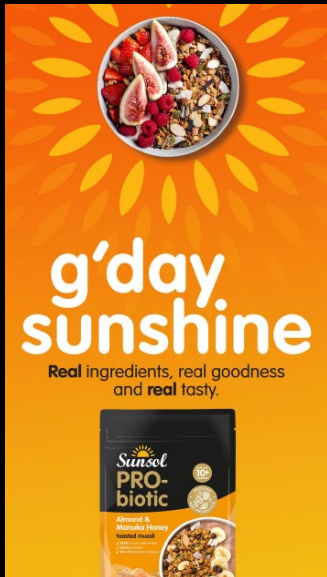


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# Media Campaign



## BUILD BRAND AWARENESS FOR SUNSOL

Targeted, high reaching media intercepts customers in their daily lives

## TRIGGER INTEREST IN PROBIOTIC RANGE

Communicate Sunsol product benefits & value  
Aid enquiry throughout accessible information

## DRIVE ONGOING SALES

Tactical path to purchase  
Digital retarget interested users based on video views  
Maintain brand affinity, repeat purchase and encourage social interactions



Television



OOH



Social



YouTube / VOD



# Strategy and 2020 Priorities



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# Select Harvests – in control of our destiny

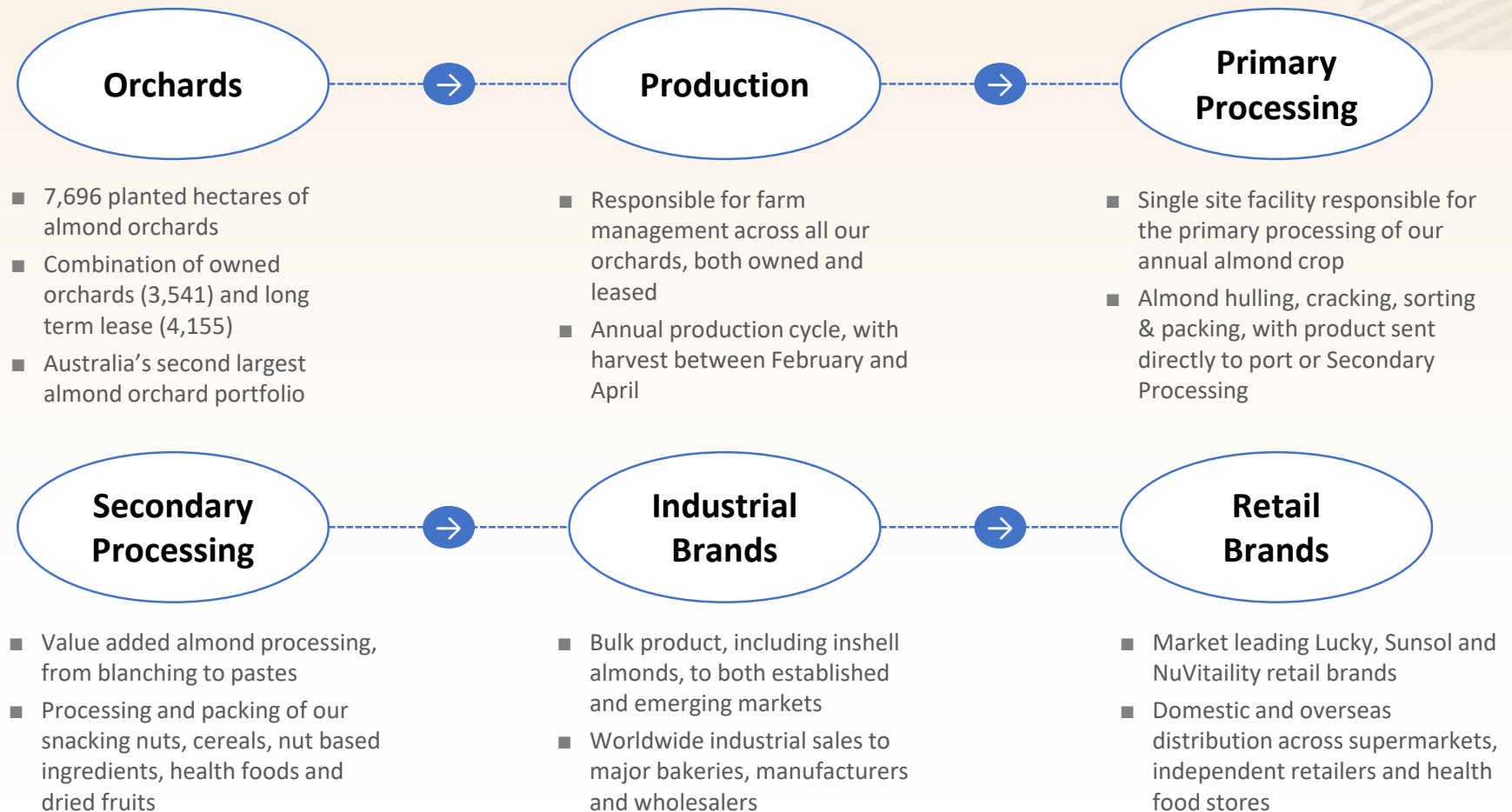


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# Vertically Integrated from 'Paddock to Plate'



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



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## 2H FY2020 Top 10 Priorities

1. **Complete 2020 crop sales program** – Manage current shipments and contracts to export markets
2. **Process, pack and ship 2020 crop** – New capital investment leading to improved rates and quality
3. **Manage Cash Position** - Maximise working capital and cash conversion rate
4. **2021 Crop Horticultural Program** – Ensure optimal tree health and production
5. **Cost Reductions** - Continue to focus on reduce cost per kg across all production stages
6. **Mitigate Water Cost** – Potential to significantly reduce 2021 crop costs based on forecasted rainfall
7. **Growth** – Assess organic and inorganic options to deliver additional growth
8. **Consumer Foods** – Build on process improvement projects and deliver NPD to market
9. **Industrial Foods** – Maximise the potential as export markets exit lockdown
10. **Capital Investment** – Prioritise investment to deliver improved quality outcomes

**Consistent financial performance is setting the base for sustainable growth and process improvement**



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## 2H FY2020 Outlook



- Almond pricing should stabilise once US harvest commences in August 2020
- 2H FY 2020 hull volume sales will increase as inventory becomes available through the processing of the 2020 crop
- External processing contracts will be completed and contribute to the 2H FY 2020 result
- Delayed 1H FY 2020 cashflows are forecasted to flow through in 2H FY 2020
- The Parboil plant will be fully operational throughout 2H FY 2020 following a three-week maintenance shutdown in 1H FY 2020
- Industrial food sales are expected to increase as the food services sector returns to trading both internationally and domestically
- Consumer sales are expected to strengthen responding to the company's marketing program and increased ranging

**SHV financial performance is generally weighted to the second half**



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# Thank you

Please direct any queries to:

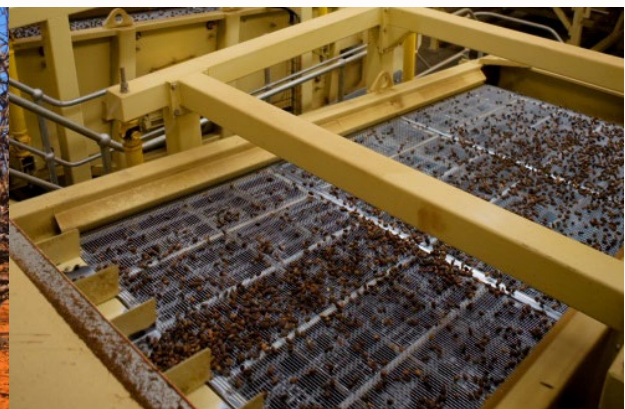
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Please note that background material/data regarding the global almond industry can be found on the Select Harvests website.

[www.selectharvests.com.au](http://www.selectharvests.com.au)



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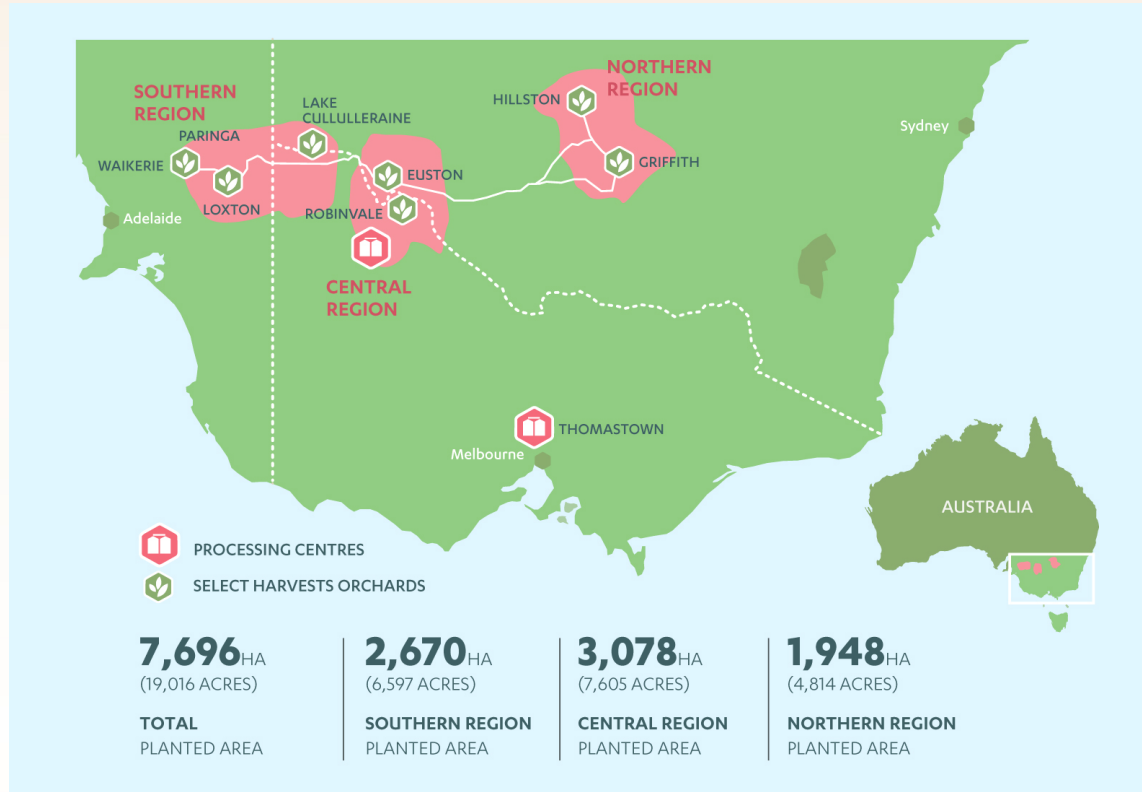
# Almond Orchards – Our productive foundation

## 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 7,696 hectares



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# Select Harvests – Orchard Profile

Select Harvests Almond orchard portfolio	Total Planted (as at 31 March 2020)	
	Acres	Hectares
<b>Central Region</b>		
Company Owned	4,183	1,693
Leased	3,422	1,385
<b>Total</b>	<b>7,605</b>	<b>3,078</b>
<b>Northern Region</b>		
Company Owned	1,797	727
Leased	3,017	1,221
<b>Total</b>	<b>4,814</b>	<b>1,948</b>
<b>Southern Region</b>		
Company Owned	2,769	1,121
Leased	3,828	1,549
<b>Total</b>	<b>6,597</b>	<b>2,670</b>
<b>Total</b>		
Company Owned	8,749	3,541
Leased	10,267	4,155
<b>Total</b>	<b>19,016</b>	<b>7,696</b>

Select Harvests represents approximately 19% of Australia's total almond acreage



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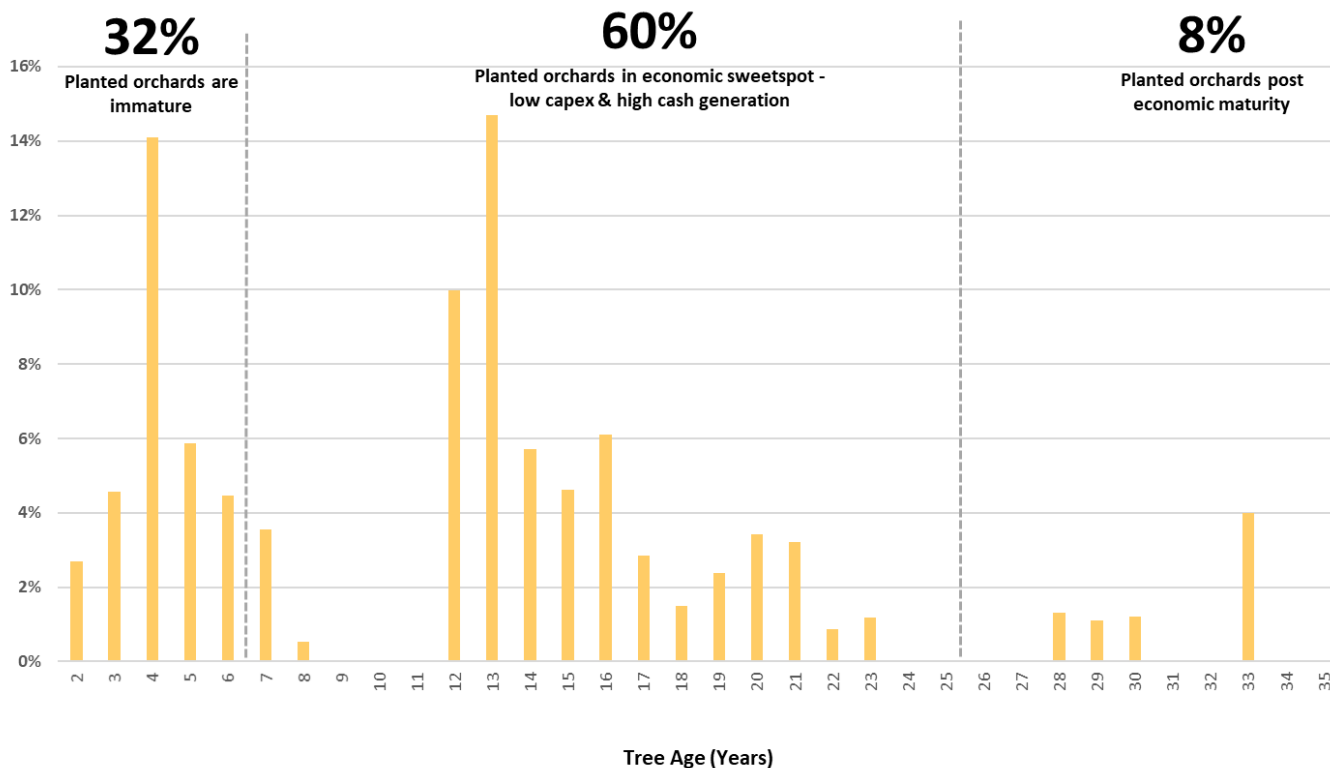




# Select Harvests – Orchard Age Profile

## Age Profile of SHV Almond Orchard Portfolio

97% of current planted acres are cash generative



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



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# Targeting an Above Average Yield Per Acre @ Maturity

Year	Harvest Volume (tonnes) per acre based on 1.2 Tonnes per Acre @ Maturity	Harvest Volume (tonnes) per acre based on 1.35 Tonnes per Acre at Maturity & Immature Yields at 2019 Levels
1	0.0	0.0
2	0.0	0.0
3	0.3	0.45
4	0.5	0.92
5	0.8	1.16
6	1.0	1.28
7+	1.2	1.35

## Note:

### Biennial Nature of Crop

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

### Variation between Regions and Farms

- Yields are not uniform and vary across both farms and growing regions

### Post Economic Maturity Yield

- The yield for post economic maturity farms deteriorates as tree age increases

**Significant tonnage upside available with a higher yield per acre at maturity**

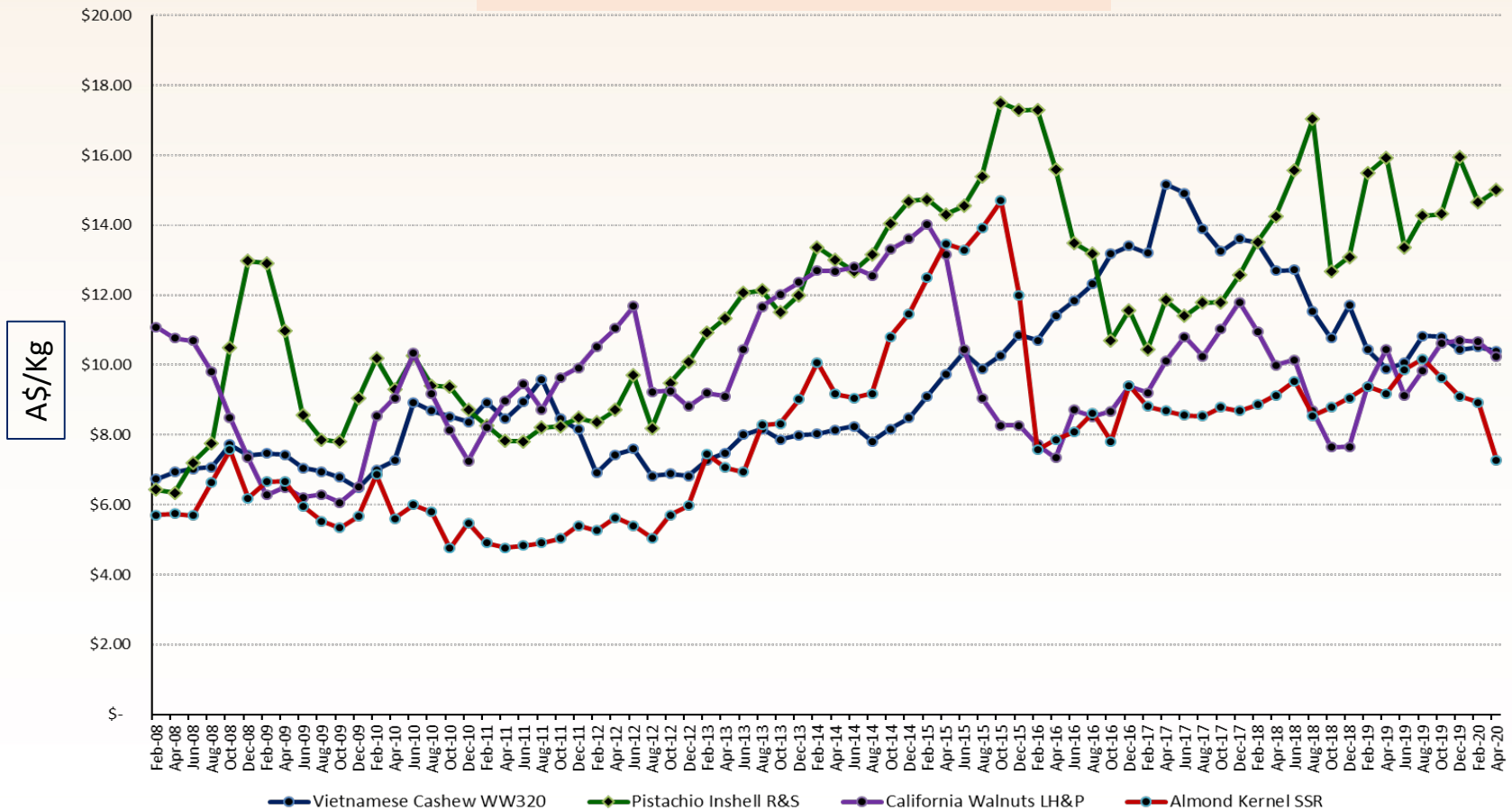


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# Tree Nut Pricing

Commodity Price Trend 2009 – 2020 – AUD\$/KG CFR



Almond pricing has reduced due to Covid-19 supply chain restrictions and a large subjective 2020 US crop



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# Australian Almond Export Sales



Source: Australian Almond Board

**The global demand for Australian almonds remains strong**

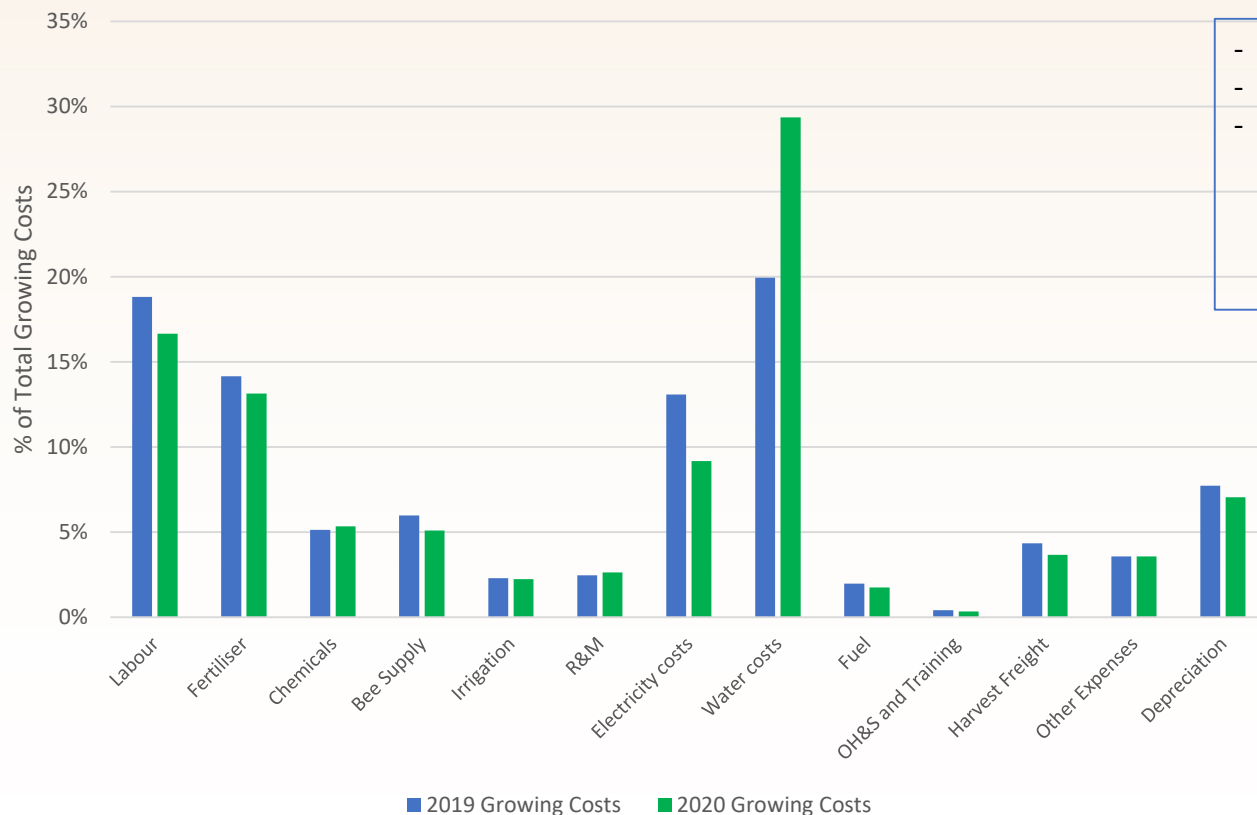


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# Growing costs increase - reflecting the maturity profile of trees and the increased cost of water for the 2020 crop

Growing Costs Breakdown By % of Total Growing Costs



- Total Growing Costs up 19.2%
- Water costs up 75.4%
- Growing Costs (excl. Water) up 5.2%
  - Increased labour and fertiliser costs
  - Partially offset by lower power costs

Cost of water expected to reduce for the 2021 crop



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# 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)

## Definitions & Explanations

<sup>1</sup> – **EBITDA & EBIT are Non-IFRS measures** 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.