



**SELECT HARVESTS**

High quality natural products

# Select Harvests Limited (“SHV”)

**Select Equities 3<sup>rd</sup> Annual Australian Companies Doing Business in  
China Investor Conference**

**31 October 2019**

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Select Harvests Limited  
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# Disclaimer & Basis of Preparation

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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.*

# Select Harvests

## ■ Overview

- Listed on the ASX (SHV), with a Market Capitalisation of \$724m (24 October 2019) and 551 employees
- Assets in Victoria, New South Wales and South Australia

## ■ One of the largest almond growers globally

- 7,677 planted hectares of Australian almond orchards
- 35% of our orchards will reach maturity over the next 8 years, underpinning future growth
- State-of-the-art almond processing facility at Carina West, North West Victoria

## ■ Diversified 'better for you' branded plant food portfolio

- Market leading brands: Lucky, Sunsol, NuVitality and Allinga Farms supplying wholesalers, manufacturers and retailers in both domestic and export markets
- Value-added processing facility in Melbourne: snacking and cooking nuts, seeds, health mixes and muesli
- Industrial Division supplies food processors throughout Asia, especially in the baking industry

## ■ Export focused business, with Asia the key target market

- Bulk & value added supplier to Europe, Middle East and Asia
- Exclusive Trademarking License & Distribution Agreement with PepsiCo Foods (China) Co. Ltd
- Separate to the PepsiCo agreement our brands are being sold in Indonesia, Singapore, Thailand and Malaysia

**We supply the world with a growing volume of high quality, plant based food products**



# 1H FY2019 Financial Overview

## Almond Volume

20,750 MT

↑ 32.2%

Maturity profile continues to deliver underlying volume growth

## Almond Price<sup>1</sup>

\$8.60 - \$8.70/kg

↑ 6.8 – 8.1%

80% of crop contracted  
Crop sales are fully hedged with an AUD/USD exchange rate below 0.71c

## EBITDA<sup>2</sup>

\$38.5 m

↑ \$12.6 m

Almond Division EBIT \$31.5m (↑\$13.8m)  
Food Division EBIT \$2.3m (↓\$0.2m)

## NPAT

\$20.0 m

↑ 9.8 m

With 80% of the crop now sold, builds confidence for FY2019 full year result

## EPS

21.0 cps

↑ 81.0 %

Interim dividend of 12 cps full franked

## Annualised ROCE

12.4 %

↑ 5.0 ppts

ROCE improved as orchards mature and start yielding with improved efficiency

<sup>1</sup> - Almond price, crop currently contracted and crop sales hedged as per 21 August 2019 Crop Update ('2019 Crop Update')

<sup>2</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.

**Currently in a blackout period. Full year results will be announced on 29<sup>th</sup> November 2019**



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# Select Harvests – in control of our destiny



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# Strategic Priorities

## Strategic Priorities

### Optimise the Almond Base

Increase productivity and achieve sustainably high yields from our growing almond orchard base

### Grow our Brands

Grow our consumer and industrial brands, aligned to the increasing consumption of plant based foods

### Expand Strategically

Pursue value accretive acquisitions that align with our core competencies in the plant based agrifoods sector

Creating  
Shareholder and  
Customer Value



## Outcomes

Higher earnings growth from better optimising and growing our almond orchard base

Income growth by meeting the increasing demand for our products in Asia

Growth and diversification built around our core competencies in a growing macro

**Adding value locally > selling globally**



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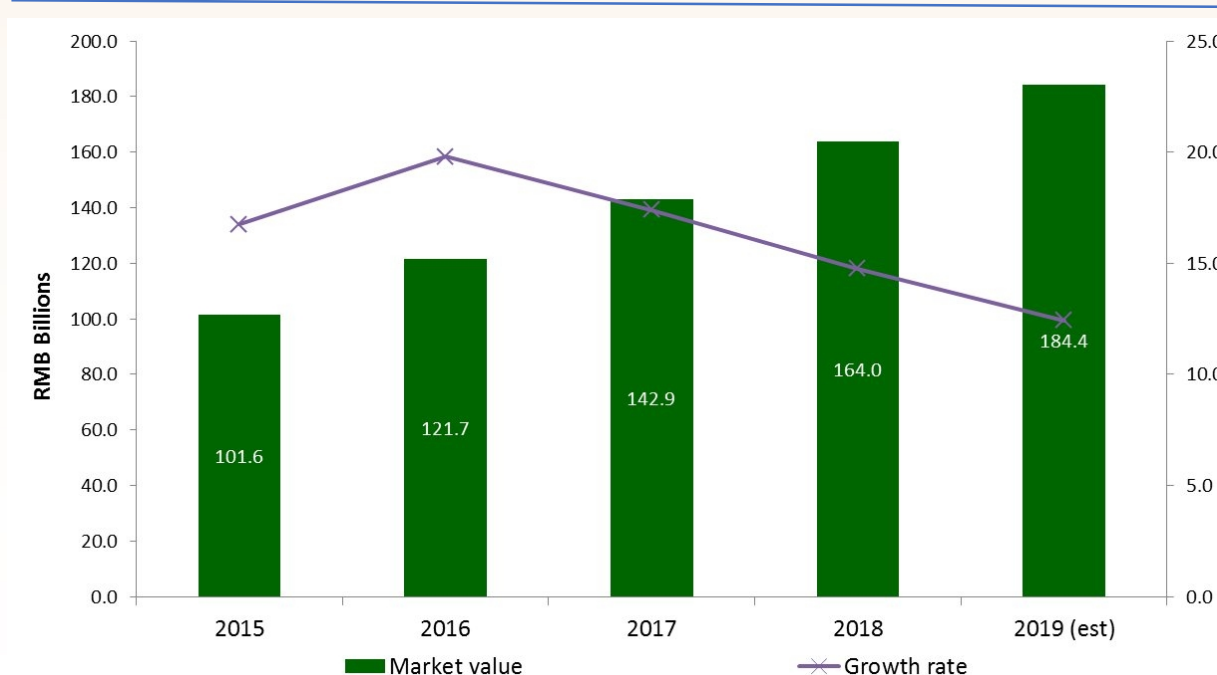
# Opportunities & Challenges in China

- **The demand for 'better for you plant based foods' is growing in China**
  - Consumer demand for almonds, snacking nuts and oats and muesli based breakfast cereals is growing in China
  - Bulk and value added almonds and other tree nuts are increasingly being used by industrial manufacturers in China
- **Select Harvests has the capabilities to meet this growing demand**
  - Established, domestically recognised consumer foods brand focused on the 'better for you plant' foods
  - State of the art processing facility capable of supplying bulk and value added almonds to the growing consumer and industrial market
  - One of the largest almond growers globally, with 35% of our orchards reaching maturity over the next 8 years
- **In market Chinese competition (both domestic and foreign) is established and strong**
  - Chinese domestic producers and foreign food companies are both competing for the growing Chinese wallet
- **The Chinese consumer foods market is constantly evolving**
  - The Chinese consumer market is adopting trends from other countries and developing its own unique characteristics
  - E-commerce continues to grow. A solid bricks and mortar presence is becoming increasingly important. A 'switched on' social media presence on Chinese platforms is compulsory
- **Employees with China market knowledge, contacts and experience are vital**
  - Being on top of changing trends in the local market is important. Time spent on the ground in China and company employees with links and experience in the Chinese market are vital
- **Trusted in country business partners are crucial for success**
  - For a medium sized company like Select Harvest, experienced and committed in-country partners are the key to growing our business in China
- **Success will not occur overnight, long term commitment and patience is required**
  - Select Harvests is committed to a long term China growth strategy. We are currently focused on building the right partnerships and avenues to market

# Chinese nuts and seeds market

- The total value of the Chinese nuts and seeds market is estimated to reach RMB 280 billion (USD 40 billion) by 2024
  - Mintel forecasts a 8.7% CAGR for the Chinese nuts and seeds market over 2019-24.
  - Currently, bulk sales still dominate the China market. However, as the category matures, more retail and industrial packaged nuts and seeds brands will appear.
  - The opportunity for manufacturing and brands lies in creating more appropriate products to fit emerging demographics/customers.

## Retail value and growth rate of the Chinese nut and seeds market



Source: Mintel

## Opportunity to grow our brands B2B and B2C



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# Select Harvests is committed to a long term China growth strategy

## Extending our reach in China....



## ....via multiple distribution channels

### ■ Bricks & Mortar Distribution

- Experienced and committed in-country partners are the key to growing our business in China.
- Conducting in market search for a suitable retail distribution partner for our branded products (ex. Sunsol, Allinga Farms).

### ■ Direct to Retail

- 'Big box' stores are growing in China with Costco most recently entering China.
- We currently have a supply agreement for our Sunsol brand in Sam's Club China stores.

### ■ E-commerce Footprint

- A comprehensive e-commerce strategy is increasingly important to support brand presence in solid bricks and mortar distribution.
- Select Harvests currently has an e-commerce presence on T-Mall for the Lucky brand.

### ■ Industrial Sales

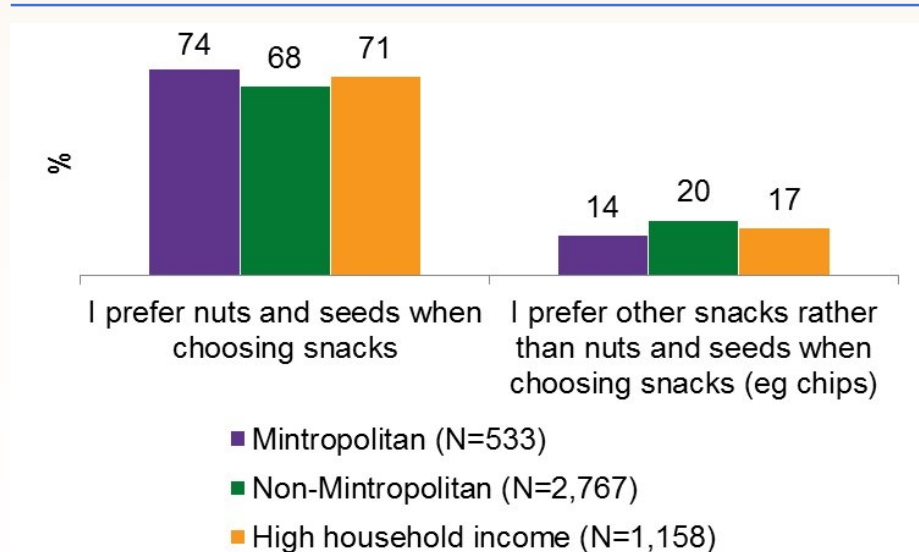
- The industrial market for almonds continues to grow in China, with FMCG majors (both domestic and foreign) demanding more almonds for product inclusions.
- Our industrial business is growing. We are now distributing material from the South (Guangzhou) all the way through to China's northern cities.

# Growth of packaged nuts and seeds brands

- Chinese nut and seeds based consumer snacking companies, like Three Squirrels (三只松鼠), are helping to grow the consumer packaged nuts and seeds category in China
  - Three squirrels has grown from a five-person team to a publicly listed company in just seven years, with an IPO on the Shenzhen stock exchange in July 2019. Current market capitalization is around RMB 25.4 bn (USD 3.6 bn), with RMB 11.5 bn (USD 1.6 bn) in annual sales.
  - ~70% of Three Squirrel's sales come from e-commerce channels. As China's first internet sales-oriented food brand, it has seized the top sales rank on Tmall, for seven straight years.



## Chinese internet users aged 20-59 who have eaten nuts and seeds in the last 6 months



Source: Mintel (chart)

## International brands and local hero's in the marketplace

# Opportunity in breakfast cereals

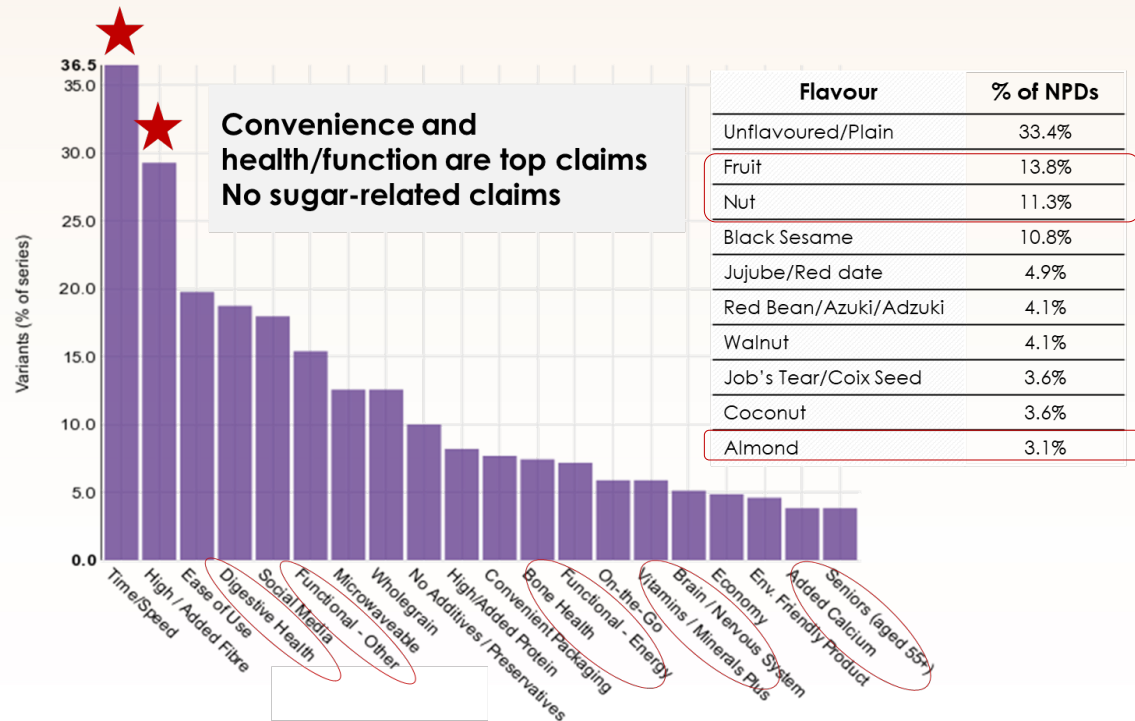
- The demand for western style hot and cold breakfast cereal will continue to grow in China
  - The Chinese breakfast cereal market was worth RMB 68.2 bn (USD 9.7 bn) in 2016 and is forecast to reach RMB 80.6 bn (USD 11.4 bn) by 2020. Currently at a 5.9% penetration rate (nearly 82m people market).
  - 15% YOY growth in granola and muesli sales in 2017, highest amongst all breakfast cereal varieties.
- Growth is being driven in part by younger consumers eyeing Western habits and by the rising interest in the links between diet and health.

## Breakfast Cereals NPDs launched in China since Jan 2018 – Sep 2019

69.7%  
Hot  
Cereals

30.3%  
Cold  
Cereals

35.7%  
with QR  
code



Sources: Mintel Global New Products Database (GNPD), from Jan 2018 to Sep 2019 | Euromonitor | Kantar

**A deep understanding of the category is critical for success**



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# Four new Sunsol SKU's developed for the China market

- Our four new Sunsol SKU's have gained official Chinese government certification
- We plan to launch the products in China in H1 CY20
- Targeted at the premium consumer segment



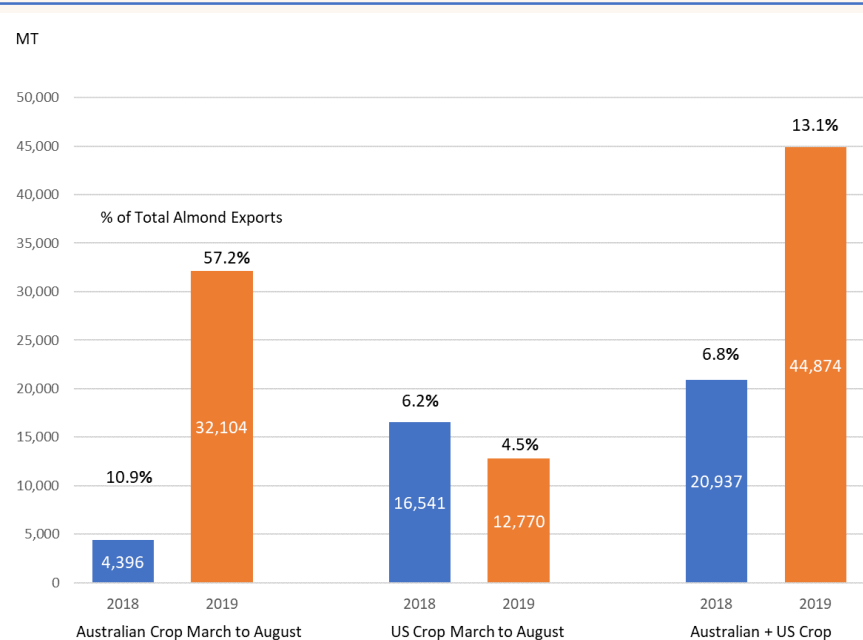
Note: Artwork is illustrative and yet to be finalised

# China bulk almond market update

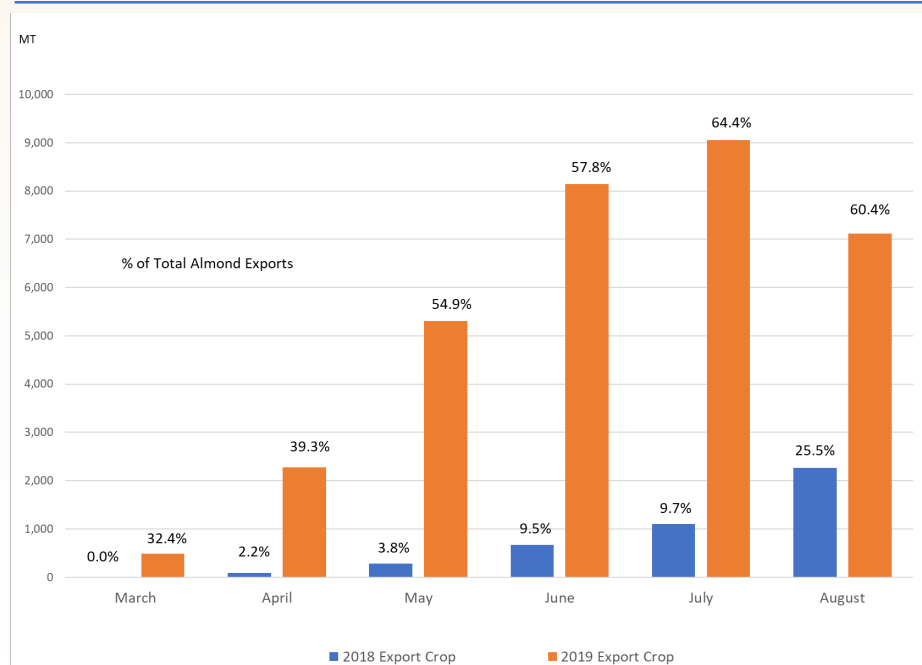
## ■ The tariffs being imposed on U.S almonds into China is opening up new opportunities for Australian almonds

- 57.2% of Australia's Season 2019 YTD almond exports have gone to China vs. 10.9% in 2018. In August 2019, 60.4% of Australian almond exports went to China vs. 25.5% in 2018.
- The overall China market is growing strongly, with Australian + US almond export sales to China more than doubling in the current Australian crop season.

### Australian vs. US almond exports to China



### Australian almond exports to China (2018 vs. 2019)



Data Source: Almond Boards of Australia and California Almond Board

**Australian almond exports to China increased significantly in the 2019 Marketing Year to Date**



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# Governor of Victorian Export Award Winner

- **Select Harvests was awarded 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 is a national finalist in the 57th Australian Export Awards



# Additional information

## ■ The current issues affecting the Murray-Darling Basin are complex

- There is considerable concern around a number of issues confronting the Murray Darling Basin (MDB). This has led to a large number of independent reviews/actions across the MDB, including the current ACCC review into water markets. SHV will participate in these reviews.
- Our current water policy, and water efficiency programs, have protected us from the full impact of current water price increases.

## ■ Almonds are benefitting from the increased demand for plant based diets amongst an increasingly diverse demographic base

- ‘The Game Changers’ is a 2018 documentary film about the benefits of plant-based eating for athlete. The documentary follows former UFC fighter James Wilks who, while recovering from an injury, travels the world and talks with elite athletes that follow plant-based diets.
- Link to the documentary: [www.gamechangersmovie.com/](http://www.gamechangersmovie.com/)

## ■ The environmental footprint of almond milk

- Link to a study by Oxford University: [www.australianethical.com.au/blog/the-truth-about-soy-and-almonds/](http://www.australianethical.com.au/blog/the-truth-about-soy-and-almonds/)

## ■ Australian almond exports in the 2019 Marketing Year to Date are the highest on record

- Australia exported 56,166 MT of almonds from March 2019 to August 2019. This is 40% up on the same period last year.
- Link to the Australian Almond Export Position Report: [www.industry.australianalmonds.com.au/marketing/export-position-reports/](http://www.industry.australianalmonds.com.au/marketing/export-position-reports/)

## ■ A fun fact about almonds

- In China, almonds are consumed as a roasted, salted, in-shell snack, with sales at their peak during the Chinese New Year festive season. Chinese consumers enjoy the action of cracking the soft, outer shell of almonds with their hands and popping the kernel into their mouths.

# Appendices

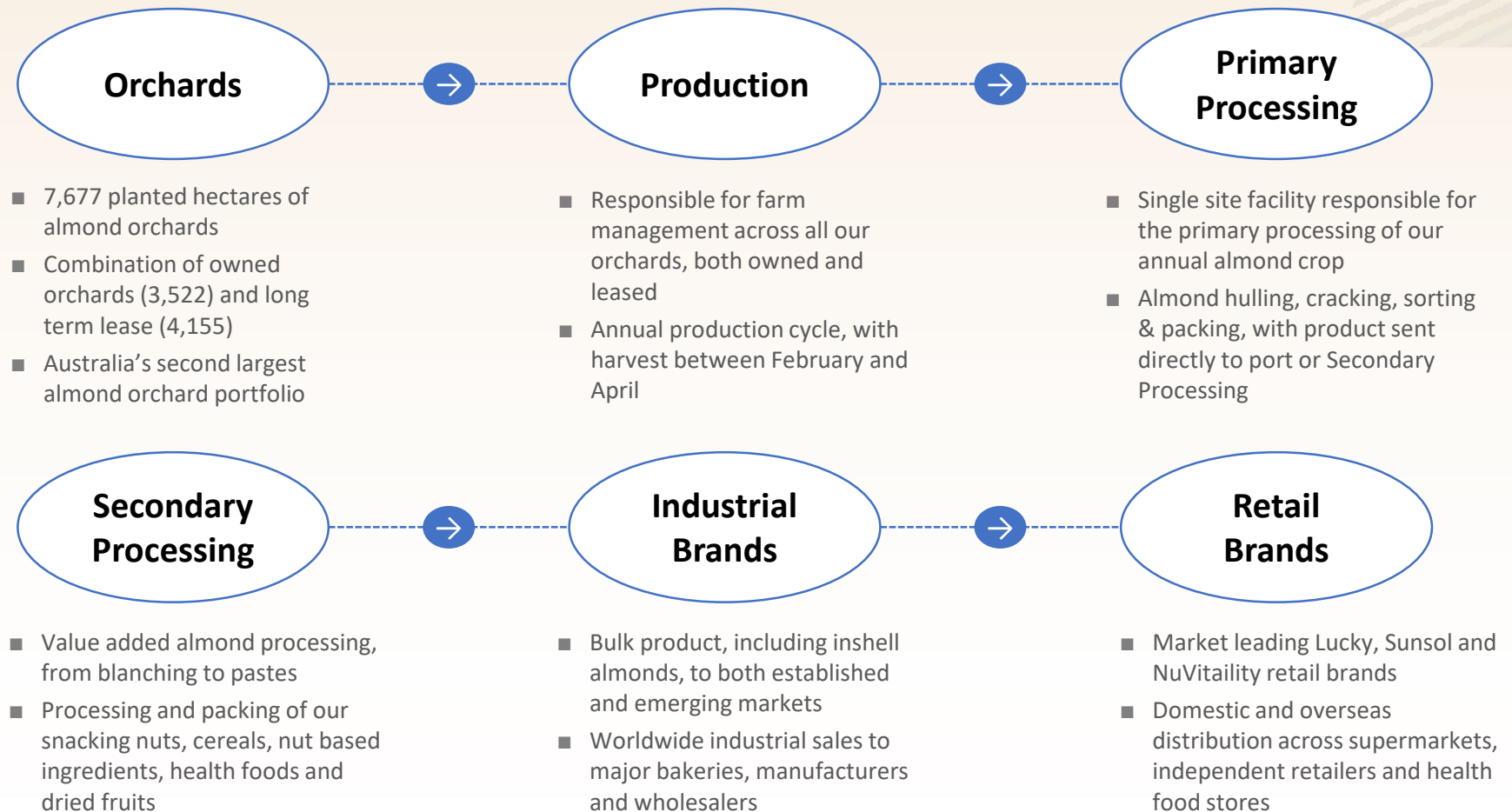


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# Vertically Integrated from 'Paddock to Plate'



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

# 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.

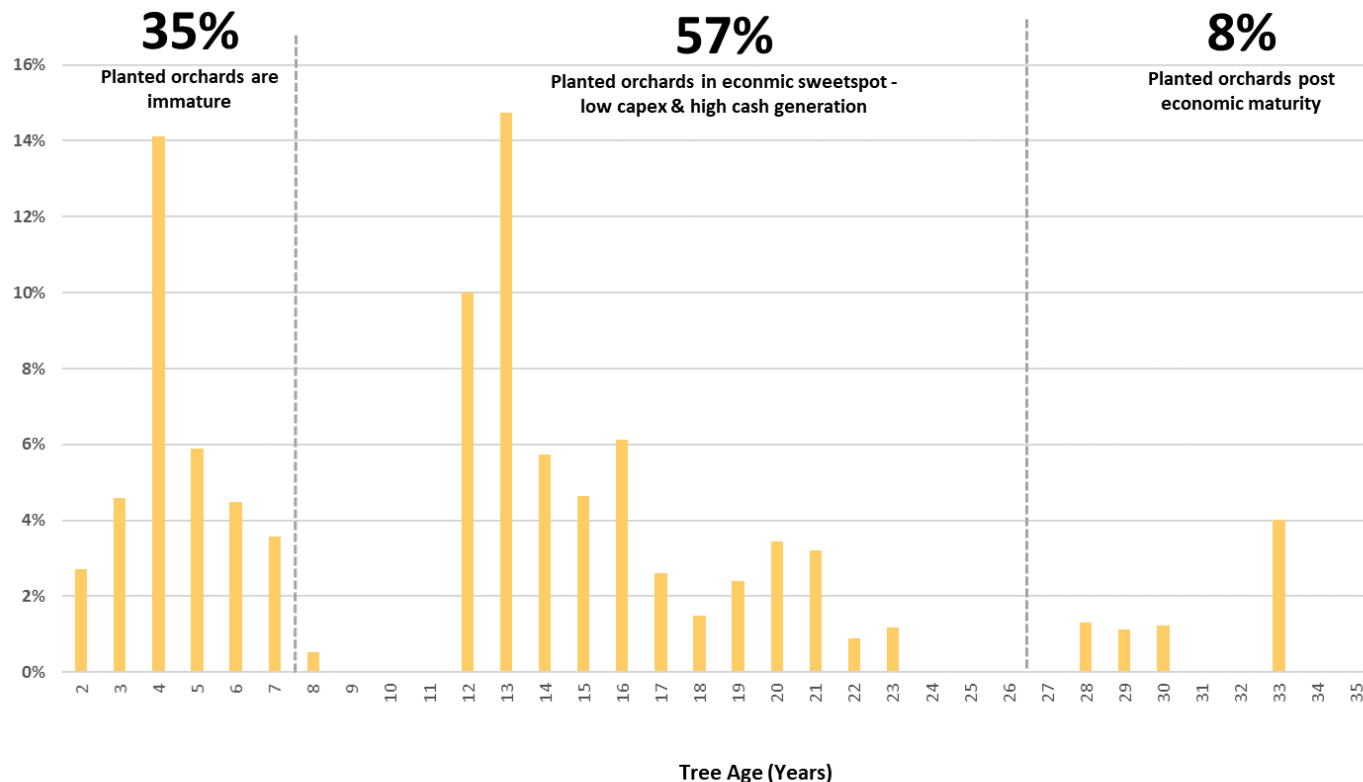
Building world class properties and a globally competitive low cost business.

Select Harvests has a global scale - planted almond orchard portfolio of 7,677 hectares

# Optimise Almond Base - Orchard Age Profile

## Age Profile of SHV Almond Orchard Portfolio

93% of current planted acres are cash generative



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



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# Grow Our Brands - Brand Portfolio

## ■ Lucky

- Lucky has been a favourite brand of Nuts and Seeds in Australia for over 60 years and is the Australian market share leader. Lucky has a range of quality products including almonds grown under the Australian sun on our own farms, plus: walnuts, cashews, hazelnuts, brazil nuts, pine nuts, pistachios, macadamias, sunflower seeds and pepitas.



## ■ Sunsol

- Australian owned and operated since 1991, Sunsol muesli has been one of Australia's most popular supermarket brands creating delicious and unique blends of muesli with all the goodness that nature has to offer.
- China represents a great opportunity for Sunsol, with distribution gained through a number of e-commerce platforms, including JD.com, as well as access to bricks and mortar retailers like Sam's Club.



## ■ NuVitality

- NuVitality (formerly Nu-Vit) has been looking after Australians since 1991, making a range of products that fit into healthy lifestyles. Located in the health food aisle, NuVitality is a great tasting better for you food that nourishes the mind and body, improves vitality and well-being in everyday life.



## ■ Allinga Farms

- The strong growth in global demand for almonds, coupled with the brand attributes of quality and reliability have contributed to the development of the world recognised Allinga Farms brand. Allinga Farms supply bulk product, including inshell almonds, all over the world to both established and emerging markets.



## ■ Renshaw

- Established in Australia over 30 years ago, Renshaw has developed a name for reliability and quality. The Renshaw brand supplies bulk product to major bakeries, manufacturers and wholesalers who depend on quality and service. Having an innovative outlook and being able to deliver safe and ready-to-use product with specific specifications has enabled the Renshaw brand to prosper.



**Growing our Consumer and Industrial brands, aligned to the increasing consumption of plant based foods**

# Branded Presence in Asia



	India	China	Indonesia	Japan	Philippines	Thailand	Malaysia	Taiwan	PNG	Singapore	Brunei	Middle East	New Zealand
Lucky													
Sunsol													
NuVitality													
Renshaw													
Allinga Farms (inc. Inshell & Bulk Almonds)													

Our branded products are currently distributed across 13 countries in Asia



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# Almonds have a number of positive health benefits

## ♥ HEART HEALTH\*

- High in monounsaturated ("good") fat
- No cholesterol or sodium
- A top food source of the antioxidant vitamin E

[Learn More >](#)

## 💡 ENERGY

- 6 grams of protein per ounce
- 12 vitamins and minerals
- 13 grams of "good" monounsaturated fats
- Rich in magnesium

[Learn More >](#)

## 💧 DIABETES

- Low glycemic index
- May improve certain risk factors
- Curbs cravings

[Learn More >](#)

## 🥗 POWERFUL NUTRITION

- Tree nut highest in six essential nutrients
- Prebiotic potential
- Plus protein and fiber

[Learn More >](#)

## 🌿 GLUTEN FREE

- Naturally 100% gluten free
- Lots of forms to choose from
- No-stress substitutions

[Learn More >](#)

## ⚖️ WEIGHT MANAGEMENT

- 6 grams of power-packed protein
- 3.5 grams of satisfying fiber
- Good fit with popular weight-loss plans
- Just 160 calories per ounce

[Learn More >](#)



Source: Almond Board of California



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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)