

Select Harvests 2015 AGM: Managing Director's Speech

26 November 2015

SLIDE: Paul Thompson Introduction

Thank you Michael. Good morning everyone and thank you for joining us today. As Michael said, I am going to give you an overview of our 2015 performance, our key activities and an update on the market fundamentals.

It is important to note that Select Harvests is a very unique and special company. It is the only integrated almond grower, processor and marketer in Australia. In fact, the only one in Asia.

It should not be forgotten we are also one of the largest suppliers of healthy plant/tree protein products in Australia, with aspirations to be a significant supplier into Asia.

I have no doubt you are all aware of the potential that exists within the Asian markets for both our raw almonds and our branded health products just based on the demographic growth and the westernisation of diets in Asia.

SLIDE: Agenda

Our agenda today is:

1. 2015 Highlights
2. Strategy – Objectives & Activities Overview
3. Food Division
4. Almond Division
5. 2016 Business Objectives & Outlook

SLIDE Financial Highlights

Generally we had very favorable conditions with demand for healthy eating in particular plant/tree protein continuing to grow both domestically and internationally.

FY15 EBIT of \$85.9 million is up 174% on the prior year.

FY15 NPAT of \$56.8 million, up 168%.

Cash flow generation and conversion was strong with an operating cash flow of \$34.2 million.

We undertook an oversubscribed equity raising in July of \$65 million.

Our net debt to equity ratio was 38%, down beneath our target of 40%. Gearing has been further reduced by our sale and leaseback transaction with First State Super.

SLIDE Business Highlights

2015 was a record year. Our record crop was 14,500 tons and a record price of \$11.45/kg. 100% of the crop has now been sold or committed.

We acquired two additional orchards Amaroo and Mullroo plus a Greenfield development property Mendook in NSW. These properties consisted of 1,004 Ha (2,514 acres) of planted area and 960 Ha (2,371 acres) of greenfield land.

In August, we announced the Sale and Leaseback transaction of these properties with First State Super, which includes long term funding to allow us to develop the 960 Ha (2371 acres) of Greenfield land over the next two years.

It great to see to strong Australian organizations investing and making a 20 year plus commitment to Australian agriculture assets.

The Food Division turn around continued with EBIT up 21%.

Both production facilities had a great year with productivity and quality improvements and cost per kg decreases.

SLIDE: Strategy

Three years ago we announced our strategy, outlining 7 strategic platforms. I am pleased to report, led by an excellent management team this strategy continues to be well executed and pleasingly we are ahead of plan.

We are seeing the benefit of this strategy with both top and bottom line growth.

I would like to spend a little time focusing on the key components of our strategy.

1/ Control Critical Mass of Almonds

Our strategy remains unchanged in this area, our priority is to acquire mature orchards at sensible prices or invest and establish state of art Greenfield orchards.

Current market prices are steering us to develop Greenfield opportunities.

Operating orchards is the cornerstone of our business.

2/ Improve Yield & Crop Value

We will continue to benefit from ongoing investment in technology and training as we move to more farm specific programs.

As previously advised at the current almond price we are investing more in our Horticultural programs to increase yield. This will take 2 years to provide a return, due to the Horticultural cycle of almond trees.

3/ Be Best in Class Supply Chain

Both our production facilities cost per kg were the same or below last year for the second consecutive year.

The Board has approved two significant capital projects: Biomass facility and value added production facility at Carina West.

When they are fully operational, they will deliver \$4m per annum at the EBIT level. They will also generate valuable production capacity, an innovation platform, better customer service, and improved product quality, reduced carbon footprint and lower cost!

They are the foundation for a world class low cost supply chain

4/ Invest in Industrial and Trading Division

We see further growth in this segment being derived from food companies. Globally food companies large and small using plant/tree protein products like almond flour and almond meal to meet their consumer's needs for healthier alternatives. Consumers continue to demand healthier staples and snacks.

Select Harvests is well placed in both local and Asian market.

5/ Turn around Packaged Food Business

In the past two years we have focused: on our business mix, margin management and understanding consumer needs.

We have commenced renovating our range to keep consumers engaged.

Our priority is to grow the business by satisfying the ever increasing demand for our brands in the local market and expand into new geographies.

6/ Fix Systems & Process

Our safety performance remains better than industry average, but unfortunately it has deteriorated in the last 12 months.

As Michael highlighted, we have launched a companywide OH& S program with a Zero Harm target.

Our strategy is relatively simple based around a high level of employee engagement and identifying hazards and taking

preventative action to mitigate the potential accidents. We have a zero tolerance to breaches of our safety policies.

This year we have commenced the installation of the JD Edwards I.T. system bringing the company onto a single ERP system. We need the transparency and efficiencies of a single system.

7/ Engage with our People & Stakeholders

We remain committed to engage better with all stakeholders. I hope you have seen an improvement with you, our shareholders.

In 2015 we established a Diversity Committee to oversee the implementation strategy to meet our gender and ethnicity diversity targets.

Security and continuity of supply are critical to our success and ultimately shareholder value.

As Michael said, we have underpinned this strategy by implementing several risk mitigation strategies including: geographic diversification, frost fans, increased harvest matrix and night harvest matrix, our new dryer, water policy and bee policy.

Risk mitigation has played an important role in ensuring our continuity of supply.

During the year the Board and Management undertook a review of the strategy. There was no significant change to our strategy, but a recognition that we could resource ourselves to accelerate growth.

Almonds will remain the backbone of our business.

SLIDE Food Division

The Food Division has continued to improve. The 17% topline growth and 14% bottom line growth has been driven by: product innovation, passing on commodity price increases, controlling costs, entering new markets and aligning with growth customers.

The Industrial Division enjoyed another strong year with sales up 28% by supplying innovations and value added products to food processors plus expanding our business further into the Asia.

One of our key competitive advantages is being fully integrated. Traceability from paddock to plate is becoming more and more important to our industrial customers. It much easier for us than our non-integrated competitors to provide this accountability.

Market conditions for the major local retailers has made the Consumer Brands business challenging. Despite these conditions the retailers have supported our strategy, recognizing that our brands are well positioned to supply an innovative range to their customers.

Customer service and quality continue to improve and play an important part of differentiating our business.

SLIDE Export

As you can see our Food Division Export sales have increased by over 80% in the last 3 years. The vast majority of these valued added almond products have been sold into the Asian market. These sales now represent 17% of our branded and industrial sales.

The commissioning of the Parboil Value-added facility and the increased sales and marketing resources should see this area of our business continue to grow.

Please note these numbers do not include our bulk and raw almond sales. 80% of this product is exported with India being our major market.

The demand in Asia for plant protein is not the only trend growing demand for our products. It has the additional stimulus of consumers moving to a western diet, the macro of massive numbers of people moving into the middle income bracket and the biosecurity of an Australian packed and grown product.

There are some substantial opportunities.

SLIDE Free Trade Agreement (FTA)

The recently negotiated Free Trade Agreements (FTA's) are a positive for the almond industry and our valued added export products. We do not do a great deal of trade in these 3 countries, today.

In the last 12 months our industrial and consumer sales teams have visited all 3 countries to understand the market and are now actively seeking local distribution partners.

Early this month I joint a Trade Delegation with the Minister for Agriculture and Water Hon Barnaby Joyce. My conclusions are:

- The opportunity is massive despite the reports of economic slowdown. Select is in a great position as these three governments are looking to stimulate their economies through consumerism rather than infrastructure.
- A good local partner is critical, as local market knowledge is essential.
- You need to be patient.

SLIDE Innovation Food Business

Here is an example of some of new products from our Consumer Division. Samples are available at the conclusion of the meeting.

SLIDE Project Parboil

Our current valued almond processing supply chain has inefficiencies, unnecessary complexity and cost, plus both capability and capacity constraints. The state art facility will address all of these plus have the advantage of being powered by our own biomass plant.

Upon commissioning we will have world class low cost facility.

SLIDE Almond Division

As I said the Almond Division is the backbone of our business.

Growing conditions were generally favorable, but we still experienced some weather challenges. Again, this reinforces our risk mitigation strategies of geographic diversity, frost fans, increased harvest assets and our new dryer.

Many of the new horticultural strategies are working well with last year's average yield being over 3.0 tonnes per hectare (1.2 t/acre) across our entire portfolio. Just short of our 3.2 tonnes per hectare (1.3 t/acre) aspiration. Pleasingly the crop quality was also superior to the previous year. Our crop volume was up 38%.

Another significant improvement this year was the field dryer. Despite the relatively favorable harvest conditions we still had rain events to combat. The dryer performed extremely well.

In addition the dryer was used to pre-condition the crop prior to processing. This combined with better quality ex the orchards resulted in the processing facility throughput improving by 15%.

Favorable currency and commodity pricing resulted in a 35% increase in the selling price per kilo.

We replanted 126 Ha (310 acres) and planted 77 Ha (190 acres) of Greenfield land on our existing orchards.

This financial year we have just completed planting 384 Ha (948 acres) at our Allinga Orchard.

With 100% of the crop sold or committed 2015 EBIT is up 188.8%.

SLIDE Almond Profile

This chart shows the average age of our orchards is 10.7 years. We have very few orchards requiring replacement. The vast majority of our portfolio is in the cash generative stage.

We now have a pipeline of land to support our aspirations, remember orchards start being commercially harvested in their fourth leaf.

And a result of our relationship with First State we have significantly increased our planting next year: we will be planting 826 Ha (2,041 acres).

We are currently firming up our future planting program. It is likely to be similar to next year, funded both on and off balance sheet. Maintaining an ownership mix of around 50%.

SLIDE Biomass (Cogen) Plant

Almond orchards and processing generates a substantial amount of biomass including tree pruning waste, hull and shell.

The biomass plant will generate 2.5 MW of electricity per annum plus 17.5 tons of steam per hour. Once running we will be returning 50% of the electricity to the network providing supply security to the Robinvale area and creating a volume offset against our usage in other regions within Victoria.

The facility will employ 8 skilled people and has payback of around 5 years, abates 23,500 tons of Greenhouse gases and produces 1,500 tons of potassium which we can potentially recycle back to the orchards.

SLIDE Global Market Update

As at October 2015, the United States Department of Agriculture's National Agricultural Statistical Survey forecast a 1.8 billion pounds almond crop, slightly down on last year's crop of 1.87 billion pounds.

With the crop harvested but still being processed. The US Department of Agriculture is forecasting a similar carry over stock to last year. Our market intelligence is there is low inventories in the market.

Understandably with less stock there have been less sales, the recent record prices has resulted in some softening of demand. This was most evident in markets that have had to absorb almond price increase, plus the impact of the appreciation of the US dollar.

In the last two months prices have corrected to similar levels to last year and demand has been steady as a result of the inventory situation. Pricing is likely to stabilize at these levels.

Our experience with drought in the early 2000's and research from Davis University California tells us it will take 3 years for the trees to return to full productivity. We are confident that we are not going to see a significant supply increase in the near future.

SLIDE Supply Update

I am often asked "what about substitution"? Yes there are other plant alternatives. If you look at direct substitutes other tree nuts they generally take 8 year to mature similar to almonds. Many like pistachios and walnuts grow in similar geographies to almonds and therefore have the same horticultural pressures. The other important factor is most tree nuts are less versatile than almonds and are more expensive.

It should be noted there are other plant proteins like oats, they just do not have the same consumer appeal or kudos. In summary, substitution happens, but is not possible in any grand scale, due to the significant market share of almonds and the maturity cycle of alternatives.

SLIDE Demand Update

The other question - has the recent price increases affected almond's competitive position? This chart shows the cost of buying 10gms for protein in an Australian Supermarket. The comparison includes well know protein products like: meat, eggs, chickpeas, soya, milk and other tree nuts.

This survey was done in April 2013 and October this year. You can see if you are purchasing protein as an ingredient as many food companies do, almonds remain a cheap competitive source of protein.

We are seeing a reaction with some companies downsizing products to meet price points and other reducing the almond content again to meet price points.

But almonds still have outstanding consumer appeal - last year over 200 new products were launched in Australian supermarkets containing almonds.

Much of this is the result of manufacturers trying to reduce sugar usage and create healthier products by replacing sugar with almond protein.

The outlook is positive.

Slide SHV Water

Michael touched on our water policy. We own or long term lease a third of our water, a third on 3-5 year leases and a third spot. The strategy is based around the assumption water is a tradable commodity and we can get better returns by growing almonds than by owning water.

To be clear we are **not** traders of water or currency.

The policy is reviewed annually. On a monthly basis management reports to the Board the current state of the water market and the company's status.

Last year our average price was \$110/ML and this year we will be paying around \$250/ML. This has a negative impact of approximately \$2m.

Slide Return on Water

As the water market has matured, more financial investors and entitlement holders have become aware of the opportunity to trade their annual entitlement.

The laws of supply and demand result in growers of lower value crops trading their annual entitlement when the return on trading water is greater than growing and selling their commodity.

You can see almonds has the highest gross margin return per ML of water. We have the ability to pay more than many other crops.

The current spot price of water is around \$280/ML, based on current returns this price is putting significant pressure on the profitability of

many other crops. These growers will look to sell their water rather than grow their crops, because of the ability to generate a better return.

SLIDE US Groundwater

As many of you would be aware, approx. 80% of the world's almonds are grown in California. The entire crop is grown in the drought impacted region. Not all of the orchards have been affected as some orchards continue to have good access to water.

The first thing you need to know about the US water market is that it is very different to Australia.

In a normal year a third of the water comes from the snow melt, a third from precipitation and third from the aquifer. This year 60% has come from aquifers, which is potentially causing irreversible damage to future groundwater supplies and accessibility.

Today the US market is largely unregulated. This is rapidly changing and it is not just water regulations. The US Government is looking at introducing environmental legislation around endangered species; salinity and nitrate use. This sort of legislation has been in place in Australia for several years.

There will be areas currently being farmed than will be no longer viable as legislation will mean the water resource will not be available. There are other areas where the soil salinity cannot be reversed without resorting to highly inefficient flood irrigation.

The full impact of the drought and the proposed legislative changes is difficult to quantify. We know a significant number of orchards will be affected, maybe over 75%. Today, we know some orchards have been removed, but we are unable to quantify this number.

Due to the profitability of almond farming new orchards are being planted and replacing less profitable, water intensive crops. In addition, there are farmer transitioning their farms to North of the Delta into the Sacramento Valley where there is better water accessibility and quality.

There are a lot of moving parts. Logically you would expect a significant supply reduction, yet the last 5 crops have included the 4 largest crops

in history. At this point in time we see a flattening of US supply, rather than a dramatic reduction.

Slide El Nino impacts

Current predictions are that we are about to go into a significant period of El Nino conditions.

Firstly I would like to remind you that the Australian experience and a recent study at UCLA Davis University has concluded that almond trees take 3 years of normal weather conditions to recover from drought.

For the drought California to break, rain is important, but the most critical thing is snow. As there is insufficient water storage for rain to solve the drought issue.

According to the US National Oceanic and Atmospheric Administration, they estimate that California will require over 200% of normal rain to break the drought. They estimate there is less than 50% chance of this happening despite the current prediction of a significant El Nino.

El Nino from an Australian perspective clearly means increased water prices and a different set of horticultural challenges. A drought is not catastrophic as we can see from the Californian and previous Australian drought experience.

Slide NSW Ground Water

I have included this slide to show you just how strictly Australian aquifers are managed. The government regulations ensure the aquifers are recharged even in times of drought.

Slide 2015 Crop Update

We have experienced a good bloom in NSW and SA, Victoria was average. Some NSW orchards in the last couple of weeks have seen unseasonably heavy rain and some hail. If we were in one region these events could have been catastrophic. This again highlights the wisdom of our geographic diversity strategy.

We are a long way from harvest and I would like to reiterate both the crop volume and the pricing are **estimates**.

We are **estimating** a crop similar to 2015.

Based on current market pricing, the **estimated** pool price will be A\$12/kg.

We have pre-sold 10% of the crop at these prices.

Slide Outlook

I remain more optimistic about the outlook for Select Harvests. Our strategy is working. We have:

- Strong demand for our products and brands locally and from Asia
- We forecast high almond prices will continue
- Supply will be constrained from the USA
- Volume growth will be driven by organic growth on existing orchards and through Greenfield development
- We have capital projects that deliver cost out, new technology and capacity expansion
- A stronger Balance Sheet and secure long term funding to support our growth ambitions
- We are in a strong cash generative position

Slide 2016 Objectives

Our 8 objectives for 2016 are very clear:

1. Zero Harm to our employees
2. Improve yield
3. Acquire orchards at the right price
4. Implement Greenfield orchards and identify new opportunities
5. Implement Project Parboil
6. Implement Project H2E
7. Continue to grow turn around the Food Division
8. Implement One Select ERP platform

Finally, I would like to formally acknowledge the effort of the employees and the Board and thank you again for your trust and the opportunity to lead this business.

Thank you for taking the time to attend the AGM today.

I now hand over to Michael and we will be happy to answer questions during general Q&A. The Board and Executive team and I will be around the foyer along with other members of the management team after this meeting. I encourage you to join us for a refreshment.

Thank you