



SELECT HARVESTS

# Select Harvests Limited (“SHV”)

Paul Thompson - Managing Director

13<sup>th</sup> PAC Partners Agribusiness & Food “Making Your Own Luck” Conference

19<sup>th</sup> April 2016



# Disclaimer & Basis of Preparation

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# Select Harvests Business Overview

## ■ Almond Division

- 14,303 acres of Australian almond orchards – Victoria, South Australia & New South Wales
- 80% in cash generative mature phase – very low capex required
- Improve orchard productivity through high performance farming program – top quartile yields & quality in next 2 years
- 2016 Greenfield plantings – 2,500 acres – majority to account of First State Super
- Continue to seek acquisition of mature orchards at the right price and land suitable for planting to almonds
- Improve supply chain productivity & keep costs in bottom quartile - Project Parboil & Project H2E

## ■ Food Division

- Number of Brands across categories – cooking/baking, snacking, breakfast, health
- Grow branded base for industrial and packaged divisions
  - Export focus
  - New Products & Categories

## ■ Corporate

- Leverage core capabilities of business in current & adjacent categories
- Maintain gearing at acceptable level

**Growth and cash-flow are both important**



# Macro Trends Driving Strategy

## Demand Drivers

- Health
  - Weight Loss
  - Heart Disease
  - Lactose Intolerance
  - Gluten Free
  - Coeliacs
  - Diabetes
- Wealth
  - Asian Middle class
  - Millennium population pool
  - Affordability

## Supply Drivers

- Land Availability
  - Infrastructure
  - Capital
- Environment
  - Climate
  - Water availability
  - Sustainability
- Capability
  - Knowledge
  - Execution skills
  - Market access

**Making your “OWN LUCK” is about better insight**





# Strategy - Planning for excellence and growth

## 1. CONTROL CRITICAL MASS OF ALMONDS

Secure the critical mass of nuts needed to maximize profitability and leverage the global almond opportunity.

## 2. IMPROVE YIELD & CROP VALUE

Improve yield and overall crop value by perfecting on-farm and farm to factory practices.

## 3. BE BEST IN CLASS SUPPLY CHAIN

Continuously improve our supply chain, achieving high quality, low cost and optimum capital utilisation.

## 4. INVEST IN INDUSTRIAL & TRADING DIVISION

Allocate resources to leverage our trading skills and grow sales in the industrial channel.

## 5. STRENGTHEN PACKAGED FOOD BUSINESS

Commit funds and develop structure to generate domestic and export growth for the packaged food business delivering sustainable returns above the cost of capital.

## 6. FIX OUR SYSTEMS & PROCESSES

Develop the business systems and processes required to be a global industry leader.

## 7. NON ORGANIC GROWTH

Acquire businesses in related categories leveraging existing capabilities that are EPS accretive and deliver sustainable returns above our cost of capital.

## 8. ENGAGE WITH OUR PEOPLE & OUR STAKEHOLDERS

Engage with investors and our industry while developing the team required to be a global industry leader.

Making your “OWN LUCK” is about a clear strategy



# Strategy Execution



- **Business Growth**
  - Orchard Growth
  - Orchard Productivity
  - Growing Brands & New Product Portfolio
  - New Geographies
- **Risk Mitigation**
  - Almond Crop Dryer
  - Water Policy
  - Bee Policy
  - Strong Balance Sheet
- **Cost Out**
  - Project H2E – Biomass Electricity Cogeneration
  - Supply Chain consolidation

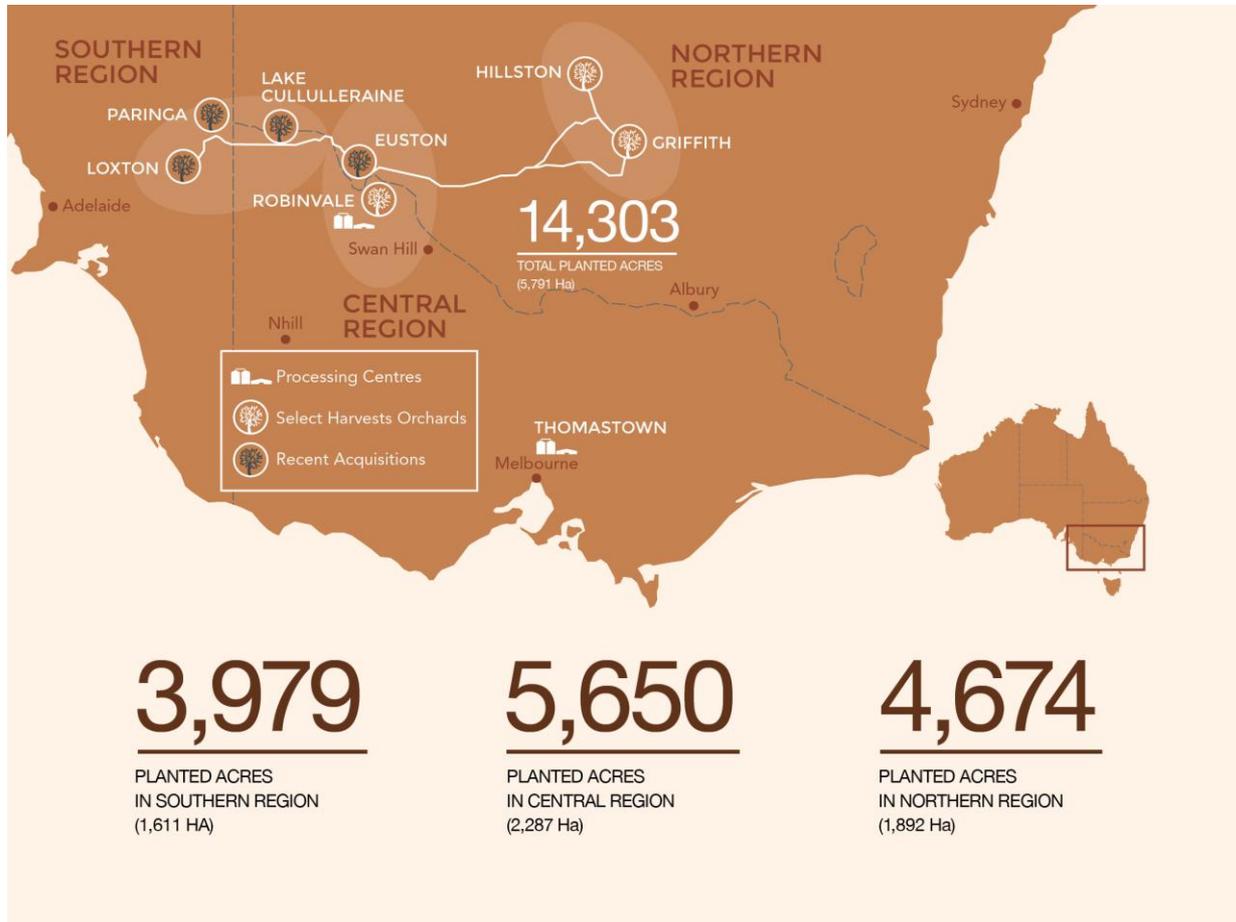
Making your “OWN LUCK” is about strategy execution



# Orchard Geographic Diversity



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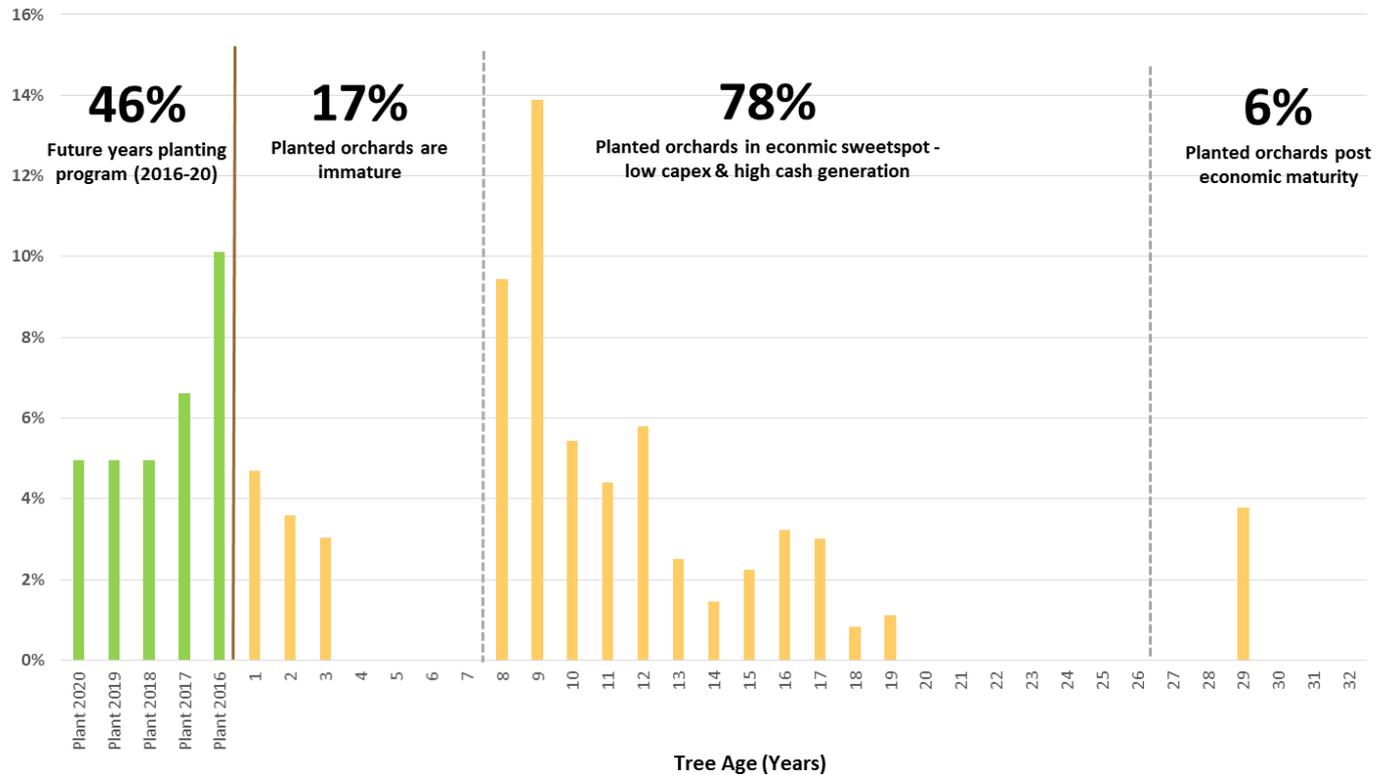


Select Harvests has a geographically diverse portfolio Australian Almond orchards - with global scale



# Orchard Age Profile

## Age Profile of SHV Almond Orchard Portfolio



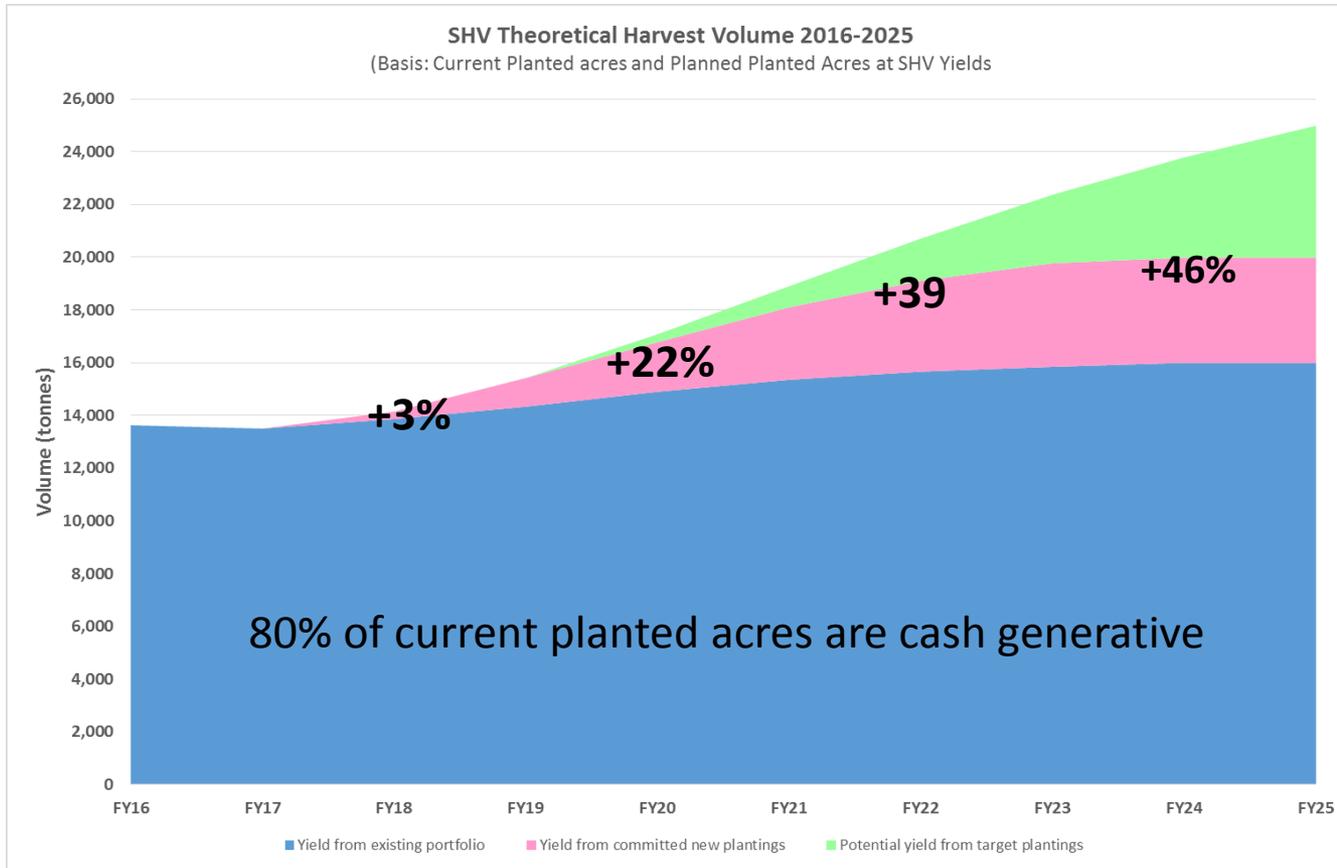
Significant growth & improvement occurred in SHV orchard portfolio in recent years - acquisition, replants, greenfields



# Almond Volume Growth



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**By 2024, almond volumes will increase by 46%**

**2018: +3%, 2020: +22%, 2022: +39%, 2024: +46%**

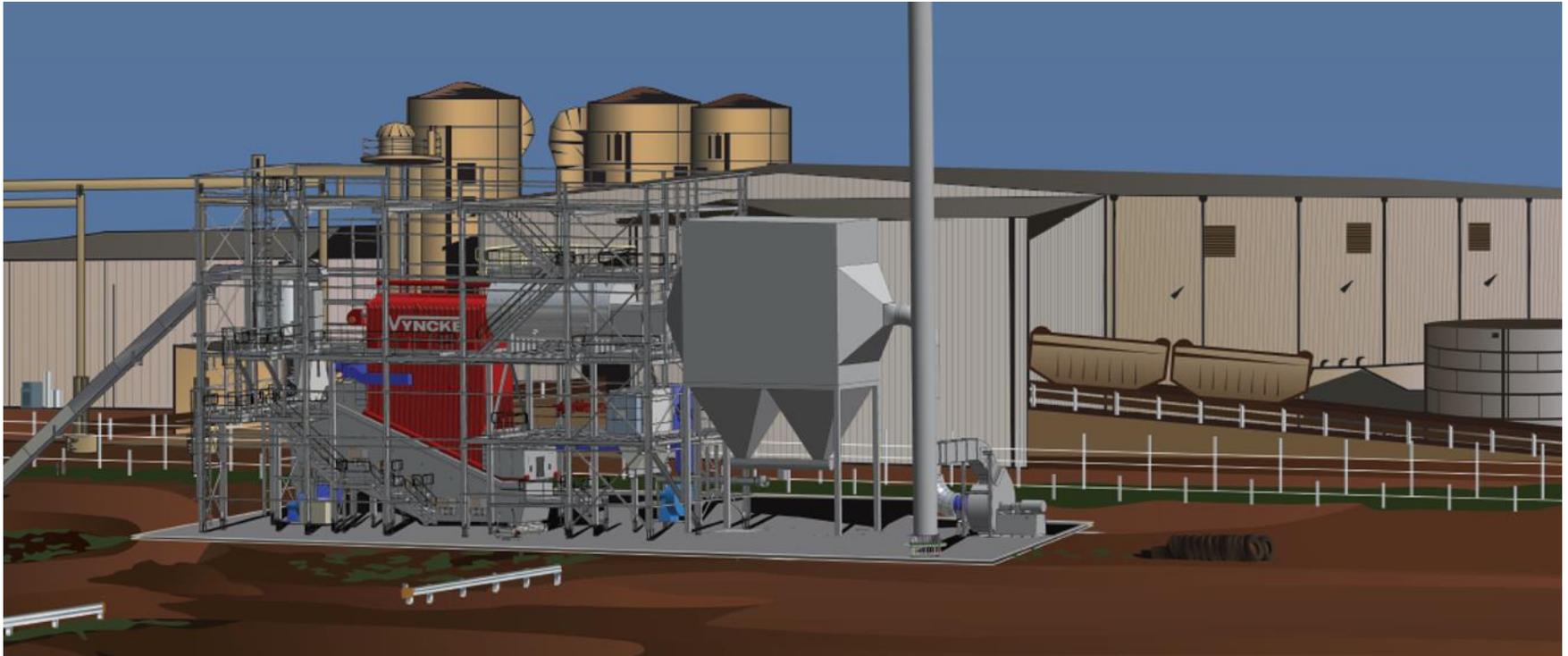
(Pink & Blue Sections only – basis capital already sunk)





# Project H<sub>2</sub>E – Hull to Energy

**Project Overview:** Biomass boiler and steam turbine, fuelled by almond hull and shell converting it to heat and power. Abating 24000 tonnes\* of greenhouse gas.



- Internal estimate

**Drops energy cost by 20%, enhancing Carina West's position as a global low cost processor**



# Project Parboil – Almond Value-Add

**Project Overview:** Low cost Value Added Almond Processing & Packing Facility at Carina West



**Tripling value-added capacity to meet increasing demand from Asia**

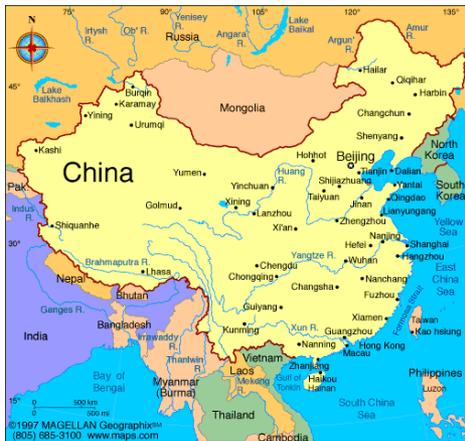
**Producing allergen free (i.e. peanut free) almond products**





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# Increasing Value-Added & Export Businesses



Moving from Grower & Commodity Bagger to Value-Adding



## Category Overview:

- Demand remains strong, current prices expected to generate growth
- Consumers continue to see the benefits of all super foods with new product development remaining buoyant
- Buying patterns had changed due to instability in pricing, little inventory with customers
- Consumers and industry committed to consuming less sugar, preferring Green & Clean alternatives
- Land and water are a finite resource
- Regulation will increase

## Almond Industry :

- Despite improved conditions year to date, the US drought continues. The impact of the drought remains difficult to predict
- Industry forecast for the 2016 US crop is approx. 2.0 Bn lbs, with a slightly higher year on year carryover stock of approx. 0.5 Bn lbs
- Spanish crop adversely affected by frost and drought
- New product development activity remaining buoyant. Almond Milk and Butters continue to grow
- Recent new planting & lower pricing causing industry to re-think expansion plans in both US & Australia
- Accelerate removal of older trees based on economic viability – est. 35,000 acres in US in 2016 - could be another 70,000 acres 2017
- US to experience greater cost inflation (water, by-products & labour)
- Competitive nuts reset to historical norm, stimulating almond growth

See positive signs with demand increasing



# 2016 SHV Crop Update



- **Harvest Progress Update – Ahead of previous years**
  - Complete
- **Volume Update – No change to 13,700 tonne estimate**
  - Not all stock has been delivered to processing centre
- **Processing Update – On Plan: 20% of estimated crop has been processed**
  - Quality is good, but not all regions and varieties have been processed
- **Price Update – First Half Estimate A\$9.00/kg (0.70 USD)**
  - Spot price around A\$7.00/kg (0.73 USD) – assumes quality remains as is
  - Over 43% committed @ average A\$9.36/kg
    - Predominantly higher grades
- **Weather Outlook – Positive**
  - BOM outlook April to June rainfall outlook: above average in parts of southern Australia

Too early to accurately predict quality & price impacts with certainty





# 2016 Business Update

- **Almond Division - Experiencing Pricing pressure**
  - Good harvest & price appears to be stabilising
  - Orchard cost forecast flat year on year
- **Food Division - Momentum Continues**
  - Our value-added strategy is gaining traction
  - Export sales up >20% YOY
  - Lucky market share: 43.6% vs 39.0% YOY (MAT “Moving Annual Total”) – A NEW RECORD
- **Project Parboil - Value-Added Almond Production**
  - December 2016 commissioning and expenditure on track
- **Project H2E - Biomass Electricity Cogeneration Plant**
  - December 2016 commissioning and expenditure on track
- **2016 Greenfield - Orchard Development**
  - July 2016 plant out and expenditure on track
- **1Select - Business Systems Upgrade**
  - September 2016 roll out on track
- **OH&S - Performance Improving**
  - LTIFR and Hazard ID’s have improved on a MAT basis
  - LTIFR 30 VS 32

**2016 is about executing our Strategy and Making Our Own Luck**





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# SHV makes its Own Luck everyday!



**Lucky Market Share: 43.6% vs 39.0% YOY (MAT) – A NEW RECORD**



# SHV 2016/7 Business Objectives



1. Zero Harm OH&S strategy
2. Improve average mature tree yield
3. Acquire orchards at the right price
4. Grow and strengthen Food Business
5. Implement Greenfield program
6. Implement Biomass/Cogen plant
7. Implement Parboil
8. Implement 1Select ERP platform

**Delivering both cash generation & growth, whilst protecting a strong Balance Sheet**





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# Thank you

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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)



# Select Harvests - Financial History



SHV Historical Summary		2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015
	Units										
Total Sales	(A\$M)	217.9	229.5	224.7	248.6	238.4	248.3	251.3	191.1	188.1	223.5
EBIT	(A\$M)	38.4	40.5	27.1	26.8	26.0	22.6	19.6	37.7	31.3	89.6
EBIT Margin (EBIT/Sales - %)	(%)	17.6%	17.6%	12.1%	10.8%	10.9%	9.1%	7.8%	19.7%	16.6%	40.1%
PBT	(A\$M)	37.9	40.0	25.4	23.0	23.6	18.5	13.4	32.7	26.8	84.3
NPAT	(A\$M)	26.5	28.1	18.1	16.7	17.3	17.7	9.5	22.9	21.6	56.8
Issued Shares	No. of Shares	39.7	38.7	39.0	39.5	39.8	56.2	56.8	57.5	58.0	71.4
Earnings Per Share	(AUD Cents per Share)	67.1	71.0	46.7	42.6	43.3	33.7	16.8	40.1	37.5	82.9
Dividend per Share	(AUD Cents per Share)	53.0	57.0	45.0	12.0	21.0	13.0	8.0	12.0	20.0	50.0
Payout Ratio	(%)	80.0%	80.0%	96.7%	28.2%	48.5%	38.6%	47.6%	29.9%	53.3%	60.3%
Net Tangible Assets per Share	(A\$/Share)	1.83	1.57	1.41	1.56	1.87	2.17	2.19	2.14	2.38	3.35
Net Interest Cover	(times)	82.3	75.8	15.6	7.1	10.7	6.7	3.2	7.5	7.0	16.9
Net Debt	(A\$M)	1.3	1.6	46.8	52.4	45.0	73.1	66.8	79.3	94.8	109.7
Shareholder Equity	(A\$M)	101.5	95.5	94.1	100.9	113.6	168.8	160.3	159.5	175.4	287.4
Net Debt to Equity Ratio	(%)	1.3%	1.7%	49.7%	51.9%	39.6%	43.3%	41.7%	49.7%	54.1%	38.2%
Share Price	(A\$/Share)	13.02	11.60	6.00	2.16	3.46	1.84	2.40	3.90	5.14	11.79
Market Capitalisation	(A\$M)	517.0	449.4	234.1	85.4	137.6	103.5	120.0	224.3	298.1	835.1
P/E Ratio		19.5	16.0	12.9	5.1	8.0	5.8	12.6	9.8	13.8	14.7

\*2014 figures have been rebased according to early adoption of Accounting Standards, AASB 116, Property, Plant and Equipment, and AASB 141, Agriculture, impacting "bearer plants".

Source: Company Data



# Select Harvests – Orchard Summary



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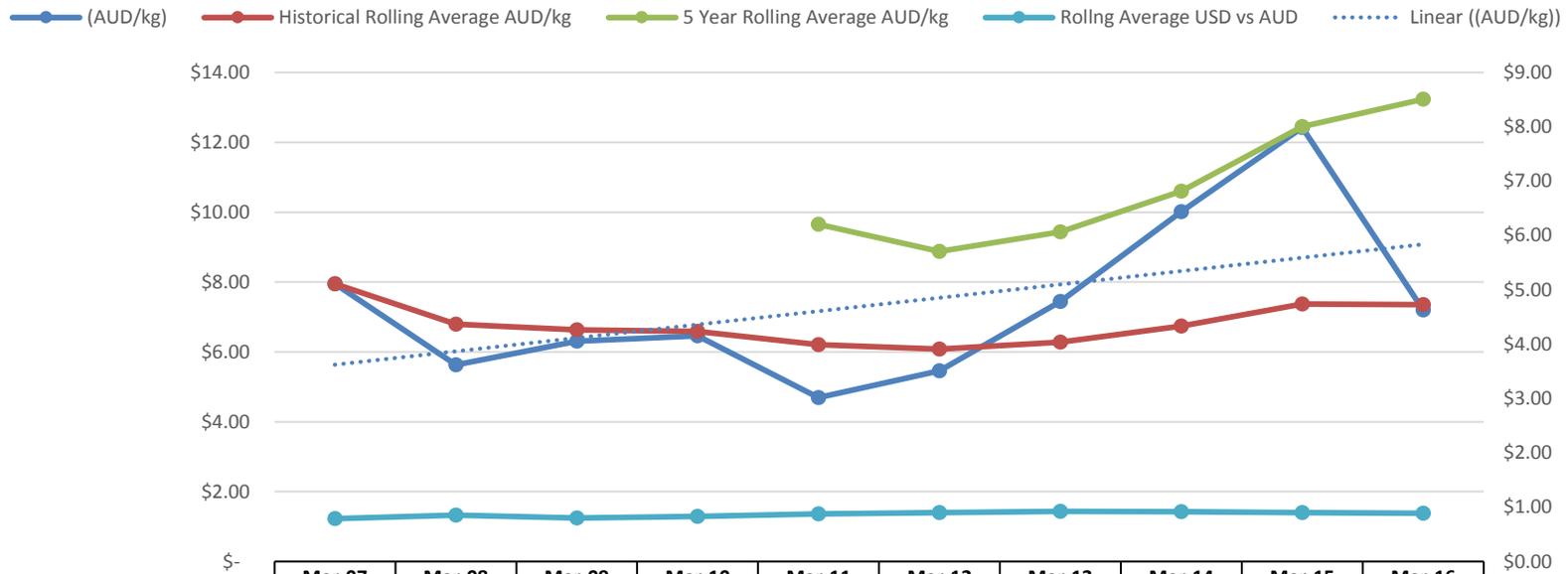
Select Harvests Almond orchard portfolio	Planted		Under development		Total	
	Acres	Hectares	Acres	Hectares	Acres	Hectares
<b>Central region</b>						
Company Owned	4,169	1,688	-	-	4,169	1,688
Leased	1,481	600	1,400	567	2,881	1,166
<b>Total</b>	<b>5,650</b>	<b>2,287</b>	<b>1,400</b>	<b>567</b>	<b>7,050</b>	<b>2,854</b>
<b>Northern Region</b>						
Company Owned	1,657	671	-	-	1,657	671
Leased	3,017	1,221	-	-	3,017	1,221
<b>Total</b>	<b>4,674</b>	<b>1,892</b>	<b>-</b>	<b>-</b>	<b>4,674</b>	<b>1,892</b>
<b>Southern Region</b>						
Company Owned	1,574	637	-	-	1,574	637
Leased	2,405	974	1,009	409	3,414	1,382
<b>Total</b>	<b>3,979</b>	<b>1,611</b>	<b>1,009</b>	<b>409</b>	<b>4,988</b>	<b>2,019</b>
<b>Total</b>						
Company Owned	7,400	2,996	-	-	7,400	2,996
Leased	6,903	2,795	2,409	975	9,312	3,770
<b>Total</b>	<b>14,303</b>	<b>5,791</b>	<b>2,409</b>	<b>975</b>	<b>16,712</b>	<b>6,766</b>



# Almond Pricing over a 10 year crop period (AUD)



Almond Price Nonpareil SUP 23/25 (AUD/kg)



	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16
(AUD/kg)	\$7.95	\$5.63	\$6.30	\$6.46	\$4.69	\$5.45	\$7.45	\$10.02	\$12.42	\$7.20
Historical Rolling Average AUD/kg	\$7.95	\$6.79	\$6.63	\$6.59	\$6.21	\$6.08	\$6.28	\$6.74	\$7.37	\$7.36
5 Year Rolling Average AUD/kg					\$6.21	\$5.71	\$6.07	\$6.81	\$8.01	\$8.51
Rolling Average USD vs AUD	\$0.7880	\$0.8546	\$0.7982	\$0.8287	\$0.8749	\$0.9008	\$0.9192	\$0.9162	\$0.9004	\$0.8854

\* This is internal company data. Please note this is a reflection of one nut variety & size, not the total pool return

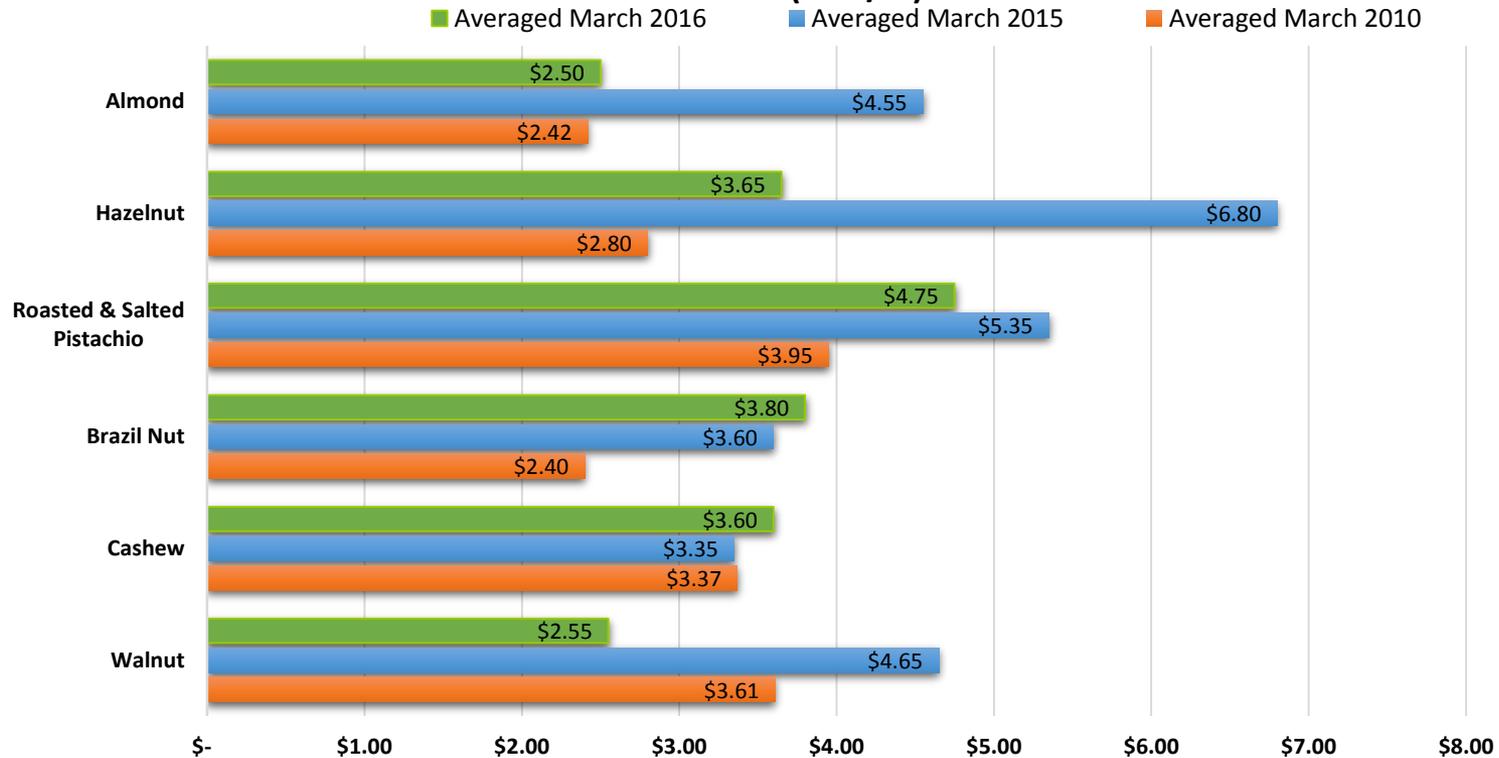
**The combination of currency and price has caused the sharpest price correction in recent history**





# Almonds competitively priced against other tree nuts

### Tree Nut Spot Pricing March 2010 vs March 2015 vs March 2016 (USD/lb)



\* This is internal company data

**Almond pricing relativity has been restored to historic norms**



# US (California) Update



- **US Crop Update (2015/16) – mixed start to season**
  - Industry experienced good chill hours and bloom conditions
  - Largest US grower removed 10,000 acres (25% of almond portfolio)
  - New plantings indicate growers still transitioning towards more secure water
  - NASS Subjective estimate due 10 May 2016. Objective Estimate due 7 Jun 2016
  - Mar 2016 Almond Board of California Position Report - 3<sup>rd</sup> highest March shipment ever
  - 2015 was 2<sup>nd</sup> hottest year on record, 2014 hottest – additional water requirements – early indications that 2016 will be another hot year as El Nino weakens
- **Californian Drought - situation largely unchanged**
  - Apr 2016 - 32% of California in Exceptional Drought (covers the vast majority of almond growing counties), 55% Extreme Drought
- **Californian Snowpack – 2016 snowpack is below average**
  - 2016 - State (64% of April Avge, 68% of Normal as at today) - North Sierra (67%, 74%), Central (69%/72%), Southern (53%/56%)
- **Californian Surface Water – slightly improved conditions**
  - Initial water allocations have increased for urban use – no significant change for agricultural allocations
- **Californian Ground Water – no immediate change.**
  - Introduction of Sustainable Groundwater Management Act (“SGMA”) will have lasting impact
    - 1 April 2016 – Basins begin Annual Reporting to DWR.
    - 31 Dec 2016 – DWR publishes report on water available for groundwater replenishment.
    - 31 Jan 2020 – High & Medium priority basins (critical conditions of overdraft) must be managed under Groundwater Sustainability Plan (GSP).

**Complex situation to understand - change will not be immediate, but is inevitable**



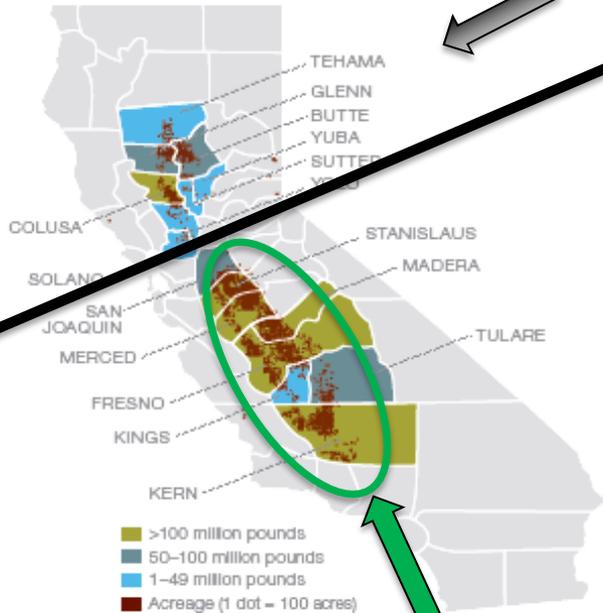
# Global Supply - US Almond Production & Drought



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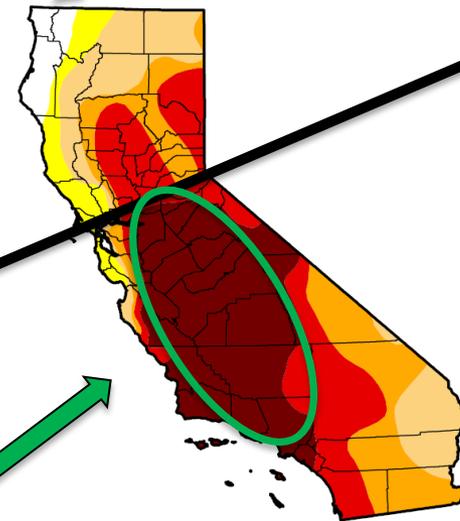
**14% - North Counties % of US Almond Prod'n**

Almond Production by County 2013/14



**86% - South Counties % of US Almond Prod'n**

U.S. Drought Monitor  
California



April 12, 2016

(Released Thursday, Apr. 14, 2016)

Valid 8 a.m. EDT

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	3.55	96.45	90.58	74.37	55.25	31.68
Last Week 4/5/2016	3.55	96.45	90.58	74.37	55.25	31.68
3 Months Ago 1/12/2016	0.00	100.00	97.33	87.55	69.07	42.66
Start of Calendar Year 12/29/2015	0.00	100.00	97.33	87.55	69.07	44.84
Start of Water Year 9/28/2015	0.14	99.86	97.33	92.36	71.08	46.00
One Year Ago 4/14/2015	0.14	99.86	98.11	93.44	66.60	44.32

Intensity:

- D0 Abnormally Dry
- D1 Moderate Drought
- D2 Severe Drought
- D3 Extreme Drought
- D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

Author:  
Richard Tinker  
CPC/NOAA/NWS/NCEP



<http://droughtmonitor.unl.edu/>

**Orange States = Severe Drought**  
**Red States = Extreme Drought**  
**Dark Brown States – Exceptional Drought**

**Drought Situation is consistent with 2015 – Drought still covers all almond growing counties**



# Global Supply - US Almond Production & Drought



## Statewide Summary of Snow Water Content

Current Regional Snowpack from Automated Snow Sensors

% of April 1 Average / % of Normal for This Date



NORTH	
Data as of April 15, 2016	
Number of Stations Reporting	26
Average snow water equivalent (inches)	19.1
Percent of April 1 Average (%)	67
Percent of normal for this date (%)	74

CENTRAL	
Data as of April 15, 2016	
Number of Stations Reporting	40
Average snow water equivalent (inches)	20.1
Percent of April 1 Average (%)	69
Percent of normal for this date (%)	72

SOUTH	
Data as of April 15, 2016	
Number of Stations Reporting	28
Average snow water equivalent (inches)	14.3
Percent of April 1 Average (%)	53
Percent of normal for this date (%)	56

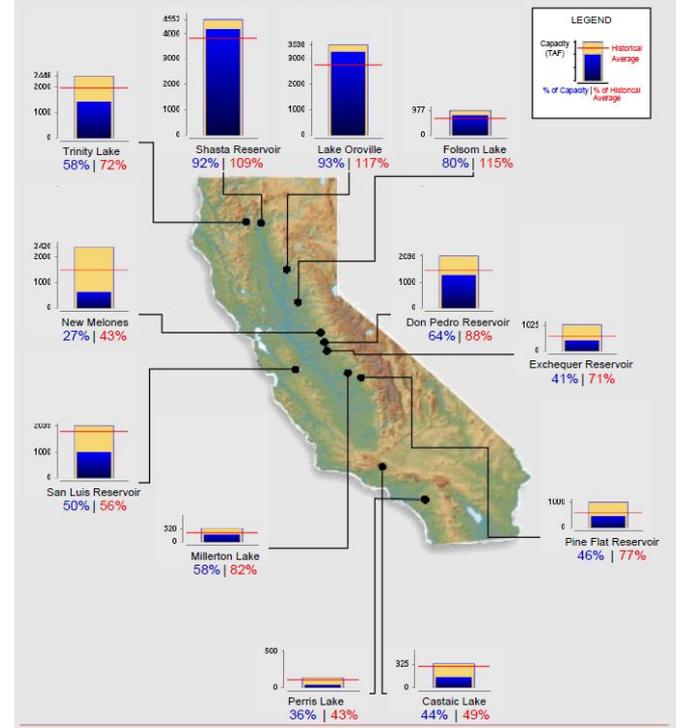
STATE	
Data as of April 15, 2016	
Number of Stations Reporting	94
Average snow water equivalent (inches)	15.1
Percent of April 1 Average (%)	64
Percent of normal for this date (%)	68

Statewide Average: 64% / 68%

## Reservoir Conditions

Ending At Midnight - April 16, 2016

CURRENT RESERVOIR CONDITIONS



Graph Updated 04/17/2016 04:45 PM

Snow Pack is below average – it will impact Surface Water situation



# Useful Links



**Derco Foods**

<http://www.dercofoods.com/en/reports>

**RPAC Almonds**

<http://www.rpacalmonds.com/marketnews/>

**Blue Diamond Ingredients**

<http://www.bdingredients.com/category/almond-market-analysis/>

**Almond Investors**

<http://www.almondinvestors.com.au/index.php/almond-projects/almond-price/>

**UC Davis Almond Development Costings**

<http://coststudies.ucdavis.edu/en/current/>

