

Select Harvests Limited: 2016 Results Announcement

26 August 2016



SELECT HARVESTS

A Strong Result: Record cash flows, low debt and ahead of strategy with increased almond orchard capacity and Food Division profitability

Select Harvests today announces results for the year ended 30 June 2016 with a reported Net Profit After Tax (NPAT) of A\$33.8 million. Excluding the impact of gains on asset sales in the period, underlying NPAT is A\$27.9 million.

This result is one of the best in the history of the Company.

As a result of the strong balance sheet and operating cash flow, The Directors announce a Final Dividend (Fully Franked) of 25 cents per share, payable on 30 September 2016 with a Record Date of 5 September 2016.

This brings the total dividend for the year to 46 cents per share, compared to 50 cents per share in 2015.

Overview of Results

- Excluding the impact of after-tax gains on asset sales, underlying NPAT of A\$27.9 million compares to the 2015 NPAT of A\$59.4 million, with the reduction in profit a result of a correction to the global price of almonds from the record highs of last year.
- Underlying Earnings Before Interest and Tax (EBIT) is A\$41.3 million compared to 2015 EBIT of A\$89.6 million.
- Operating cash flow is a record at A\$92.9 million, compared to A\$30.4 million in 2015.
- Net debt (including finance leases) of A\$67.3 million, gearing (net debt/equity) at 23.1%.
- Underlying Earnings per Share (EPS) of 38.5 cents compares to 2015 EPS of 86.8 cents.
- Food Division turnaround is ahead of plan, achieving over A\$10.0 million in EBIT in FY16, a record year for this division.
- An increase of planted almond orchards to 16,521 acres (6,687 hectares), with the portfolio now close to double the planted acres in 2010.

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Highlights of the year in review

- An almond crop yield of 14,200 MT, compared to a crop of 14,500 MT in 2015;
- Average almond prices of A\$8.08/kg, compared to A\$11.45/kg last year
- The sale and leaseback of 3 properties to First State Super (FSS) for net proceeds of A\$64.0 million and the sale of the Western Australian land for A\$9.5 million, resulted in net post-tax gains of A\$5.9 million in the period;
- Progressed the plant out of 2,084 acres (844 Ha) of new almond orchards in Victoria and New South Wales, on properties funded via a new lease agreement with FSS;
- FSS have acquired a further two Greenfield properties to be planted out with almonds in partnership with Select Harvests. The plant outs of approximately 1,000 acres (405 hectares) of new almond orchards is planned to occur in FY17 and FY18. Select Harvests will develop and operate these properties through additional leases funded by FSS. We continue to seek out further mature and greenfield properties to acquire or lease;
- Significant progress in Project H2E (the construction of the new cogeneration plant) and Project Parboil (value-added almond processing facility) at Carina West with a total investment of over A\$22.0 million. The aim is to commission both facilities in the first half of FY17 to deliver significant annualized cost savings thereafter;
- A strong performance by the Food Division.

Commenting on the result, and prospects for the Company, Select Harvests' Managing Director Paul Thompson said:

"Our strategy to increase exposure to the fundamentals of the Global almond industry remains firmly on track, and our Food Division has performed ahead of expectations. With a strong balance sheet, a pipeline for future growth in almond production, and investment in cost-out and productivity initiatives, we are very well placed to now drive sustainable cash flows and growth into the future.

Demand for our products remains strong. There is an ever increasing amount of definitive research concluding that a diet with almonds and other plant based products has a positive impact on heart health, mortality, diabetes, digestive efficiency and even fertility.

The strategic focus of the Food Division is to continue to expand the ingredients supply and branded business into Asia, in particular the Chinese market, with an emphasis on innovation in processed almonds.

The plant outs of almonds in the ground, and commitments to increased plantings now puts us on a clear pathway to deliver future almond productive capacity of over 23,000 MT of almonds by 2024/25, making us one of the largest growers in the world. The Company continues to look for ways to further expand the almond orchard portfolio with acquisitions where it makes financial sense to do so.

In recent months with lower prices we have seen increased demand from Asian markets. The recent FTA places Select Harvests in a strong position to meet this demand."

Almond Division

Global Almond Market Update

The US Almond Crop for the 2016/17 season will again represent circa 80% of Global supply and will impact the commodity pricing accordingly. The US harvest has commenced over the last couple of weeks. The USDA is forecasting a crop 5-10% larger than last year.

US carry-over inventory is now projected to be around 420 million lbs. moving into the new selling season. This is a level that the industry is comfortable with.

The drought continues across much of the US growing area, although there has been some relief in the Northern growing districts. The threat of drought will continue until US Water regulations change. The impact is difficult to assess with 38% of US orchards aged over 20 years (by comparison, 6% of Select Harvests almond orchard is over 20 years old). The industry structure will no doubt be impacted in the medium term.

Consumption/shipments data indicate that following a period of slowing consumption correlated to the historically high record prices, demand has responded to the price corrections seen in the market place. The US has seen record export monthly shipments over the last 3 months, with pricing relatively stable.

Select Harvests Crop

The 2016 harvest has resulted in a crop slightly below that in 2015. As a result of our investment in additional harvest equipment, and favorable weather, the harvest was completed in record time.

Processing (hulling and shelling) of the crop was completed in mid-August. The yield achieved is 14,200 MT, slightly above our earlier estimates, which compares to 14,500 MT in 2015.

The selling program has resulted in 76% of the crop now committed to sales with an estimated crop valuation of A\$8.08/kg, compared to A\$11.45/kg last year. This outcome is driven by the downwards correction in the US denominated almond prices from the record highs of last year, partially offset by the benefit of the AUD which on average was weaker in comparison to last year. Approximately 80% of sales committed are to export markets, with another strong "in-shell" program to India.

Sales of the tail of the 2015 crop did not meet our expectations. This resulted in an erosion of the gains achieved in the first half of the financial year impacted by lower market prices, meaning our second half forecast was not achieved. The Project Parboil investment will give us more immediate capacity to value add these lower grade almonds in future crops, commencing with the 2016 crop.

2017 Crop development

The 2017 crop has had sufficient chill hours and is now at the pollination stage of the lifecycle. We can see the benefit of new horticultural programs, and the 2017 bud potential looks strong. The bees are in place and we anticipate a strong bloom with good crossover. On the basis of this bloom and the age profile of our trees, at this very early stage we estimate a crop in excess of 15,000 MT for 2017.

Food Division

Revenues of A\$161.8 million compare to A\$138.8 million in 2015, an increase of +16.6 %. EBIT of A\$10.3 million, compares to A\$6.8 million in 2015, an increase of +51.7%. The turnaround of this business is ahead of plan, which has earned the right to grow.

The increase in revenues and EBIT is driven by the combined impact of increased sales of branded products, continued strong sales to industrial food manufacturer's, margin management and successfully negotiating 'passing on' commodity price increases. A strong performance in commodity trading, is partially offset by reduced margins in the private label segment.

Food manufacturers and consumers continue to see the health benefits of consuming protein, deliverable through the eating of plants like almonds.

New product development remains a focus, with the recent "Lucky Entertainers" and "Lucky Topperz" ranges launched, along with the relaunch of "Nu-Vit" brand as the "NuVitality" range, and the re-set of the "Sunsol" range. New Products represent 13% of revenues earned in FY16.

The Consumer branded products export strategy has been further defined. Our main focus is to establish, develop and grow distribution partners for our brands in China. Analysis of potential partners is underway, along with the formulation of the best supply chain and marketing model for our business.

Debt and cash flow development

Net debt at 30 June 2016 is A\$67.3 million (including finance lease commitments of \$41.8 million), with a gearing ratio (net debt/equity) of 23.1%. Operating cash flow in the financial year is A\$92.9 million, compares to A\$30.4 million last year. The improvement in operating cash flow is mainly driven by the cash flows derived from the proceeds on selling through the 2015 crop, and sales to date of the 2016 crop. Capital expenditures and investments of A\$47.8 million are primarily a result of the investment in the cogeneration plant, new almond value-added production facility, new orchard acquisitions and developments, and upgrades to existing irrigation systems. Proceeds from the sale and leaseback of almond orchards have fully funded these investments as well as provided the investment for future almond developments.

Outlook

Select Harvests now has a defined growth plan to increase future almond production to over 23,000 tonnes by FY24/25.

The horticultural program for the 2017 crop is well underway. Recent rain has resulted in water prices returning to similar levels to last year. Our 2016/17 water management strategy is formulated, and the annual plan to supply water to the almond orchards is fully funded for the new season. The trees have received sufficient chill hours through the dormancy period, and pollination during early August has occurred. Bud growth indicates that on the basis of normal growing conditions through the rest of season, crop potential is good for 2017.

The commissioning of the 2 major investments in cogeneration (Project H2E) and value-added processing (Project Parboil) assets remains a key priority for the business, along with the management of our new almond orchard plant outs. The annualised benefits from these investments is projected to be \$4m per annum. We will begin to realise these benefits during 2H FY17.

The unlocking of productivity improvements from our existing asset base, meaning improved yield, quality, sales mix and cost- out, remains an absolute focus for the business, with the potential for significant financial outcomes to be achieved.

The Food Division will continue the strategy to enter new markets and channels, including growth in export markets and the launch of new products and innovations. The expansion of export sales, in particular through developing distribution and marketing models in China, is a strategic priority, with increased investment and resources being applied in this area.

The fundamentals underpinning Select Harvests' strategy, including the growing global demand for almonds and trends towards increased consumption of healthy and wholesome foods remain very strong - the outlook for the company remains positive.

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FOR FURTHER INFORMATION, PLEASE CONTACT:

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BACKGROUND:

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 processing (blanching, roasting, slicing, dicing, meal), trading (industrial products) and consumer products (Private Label & Brands - Lucky, Sunsol, Soland, NuVitality, Renshaw & Allinga Farms). Select Harvests also import a full range of nuts (in addition to almonds) for inclusion in their Consumer Products range of nut products. 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 shops, industrial segments and the almond trade. The company is headquartered at Thomastown on the outskirts of Melbourne, Australia while its orchards are located in North West Victoria, Southern New South Wales and South Australia. Its primary processing facility (Carina West) is located at Wemen in North West Victoria and the secondary processing facility is located at Thomastown.

Appendix

Results – Key Financial data

\$000's	FY 2015	FY 2016	Variance (%)
Revenues	223,474	285,917	+27.9%
EBIT			
Almond Division	87,503	36,093	-58.7%
Food Division	6,817	10,342	+51.7%
Corporate	(4,685)	(5,132)	-9.5 %
Total EBIT	89,635	41,303	-53.9%
Interest Expense	(5,331)	(5,495)	-3.1%
Profit Before Tax	84,304	35,808	-57.5%
Tax expense	(24,855)	(7,949)	
NPAT (before non - recurring items)	59,419	27,859	-53.1%
Non - recurring items	(2,653)	5,937	
NPAT Reported	56,766	33,796	-40.5%
Total Dividend (Interim & Final)	50.0 cents	46.0 cents	-8.0%
EPS (before non- recurring items)	86.8 cents	38.5 cents	-55.6%
EPS reported	82.9 cents	46.7 cents	-43.7%
Net Debt	115,609	67,265	
Gearing (Net debt/equity)	40.2%	23.1%	

Net debt includes Finance Lease commitments of \$ 41.8 million in FY16
(compares to \$ 5.9 million in FY15)