## 25 August 2017

#### Select Harvests Limited: 2017 Results Announcement

Select Harvests, Australia's largest vertically integrated nut and health food company, today announced its results for the year ended 30 June 2017 with a reported Net Profit After Tax (NPAT) of A\$9.2m.

The results are consistent with the company's most recent earnings update on 2 August 2017.

Select Harvests remains confident that business fundamentals are positive and the company continues to expect strong growth during the next eight years as orchards mature and brands expand into other geographies and categories.

#### **Overview of FY2017 Results**

- FY2017 Reported NPAT of A\$9.2m compares to the FY2016 Reported NPAT of A\$33.8m.
  - FY2016 Underlying NPAT<sup>1</sup> of A\$27.9m
- FY2017 Earnings Before Interest and Tax (EBIT) is A\$17.0m compared to FY2016 Reported EBIT of A\$49.8m
  - FY2016 Underlying EBIT<sup>1</sup> of A\$41.3m
- Operating cash flow of A\$4.7m (FY2016 A\$92.9m)
   Note: this is after paying \$29.0m in tax in FY2017
- Net debt of A\$104.4m (FY2016 A\$25.5m)
  - Gearing (net debt/equity) is 37.6% (FY2016 8.8%)
- Net debt including finance leases is A\$145.8m (FY2016 A\$67.3m)
  - Gearing is 52.5% (FY2016 23.1%)
- Reported Earnings per Share (EPS) of 12.6 cents per share (cps)

   (FY2016 46.7 cps; Underlying EPS<sup>1</sup> of 38.5 cps)
- FY17 Dividend Interim dividend 10 cps (fully franked) paid 5 April 2017.
   No final dividend
- Acquisition of Jubilee orchards 465 planted ha (1,147 planted acres) and 1,335 ML of high security water for A\$26.4m

<sup>1</sup> There are no non-recurring adjustments to the FY2017 Results. FY2016 Results include an A\$8.5m pretax gain from an asset sale. Refer Appendix for Definitions of Underlying NPAT, Underlying EBIT & Underlying EPS.



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## Key Facts of the year in review

- An almond crop volume of 14,100 MT (FY2016 14,200 MT)
- Average almond prices of A\$7.43/kg (FY2016 A\$8.08/kg)
- Acquired Jubilee Orchards near Waikerie, South Australia, comprising 465 planted ha (320 ha bearing and 145 ha non-bearing) (1,147 planted acres: 792 acres bearing, 355 acres non-bearing) and 1,335 ML of high security water entitlements
- Plant out of 844 ha (2,084 acres) of new almond orchards on properties funded via the lease agreement with First State Super ("FSS") July 2016
- Commenced China Consumer packaged products sales
- Project Parboil (value-added almond processing facility) at Carina West. Commissioned Q1 FY2018. FY2017 capex A\$6.3m. Additional capex cost FY2018 A\$1.0m. Total estimated cost: A\$14.3m
- Project H2E (biomass cogeneration plant) revised commissioning date Q3 FY2018. FY2017 capex A\$6.5m. Estimated additional FY2018 capex cost A\$3.0m.Total estimated cost: A\$19.7m
- Reduced Lost Time Injuries by 18% year on year

## Select Harvests' Managing Director, Paul Thompson said:

"The 2017 crop was 14,100 tonnes (2016 14,200 tonnes). The estimated price for the 2017 crop will be A\$7.43/kg (FY2016 A\$8.08/kg). The company has currently sold or committed for sale 72% of the 2017 crop at an average price of A\$7.91/kg (AUD/USD exchange rate of 0.75).

The estimated price on the 2017 crop and the remainder of the 2016 crop was lower than forecast, a combination of quality, market prices and currency movements. This result was also impacted by higher operating costs including lease revaluations.

Select Harvests acquired Jubilee Orchards in late FY2017, comprising 465 ha (1,147 acres) of almond trees and 1,335ML of high security water, further growing the scale and diversity of our future almond production. This is an outstanding asset that fits well into our orchard portfolio.

Select Harvests has continued to materially increase the future productive capacity of the business – we planted 844 ha (2,084 acres) of almonds in July 2016 (through a lease arrangement with First State Super (FSS) and funded on their balance sheet) and have just completed planting another 352 ha (870 acres) in July 2017 (funded again by FSS). This provides Select Harvests long term control of large scale, globally competitive almond orchards in a capital efficient manner.

The Food Division result shows how brands and value-adding strategy can protect the company in part from the impact of negative commodity pricing. However, the business was adversely impacted by declining volumes of Select Harvests manufactured domestic retailer brand products and escalating energy prices in the processing facilities. Strategic projects Parboil and H2E have experienced construction and commissioning delays, but are essential to ensure that Select Harvests remains globally competitive. Project Parboil will complete commissioning in Q1 FY2018 and Project H2E is expected to be commissioned in Q3 FY2018. The business cases for both projects have been reviewed and they continue to project returns in excess of our WACC.

Current debt levels are at the top of the targeted range. The balance sheet includes the impact of A\$58.8m of investing cash outflows resulting from the acquisition of the Jubilee Orchard, expenditure on major projects and orchard development costs. A continuing priority for the business is to focus on reducing operational expenditure, working capital and capital expenditure, including proactively investigating a number of debt reduction initiatives to strengthen our balance sheet.

Looking at the global almond market, world demand continues to increase, reflected by the strong growth in US almond shipments during the past 18-months. This is very positive as global demand has more than absorbed the increased supply.

Based on acres planted, the age profile of our orchards and industry average yields, the Select Harvests 2018 theoretical crop would be approx. 15,800 MT. It should be noted that there are many factors that influence the crop yield and the actual crop volume will not be known until it is harvested and processed. We are at the final stages of pollination. Management will review the crop and keep the market advised.

The medium and long term fundamentals of our industry and business are strong. Our strategy continues to be to minimise risk, invest in productive, long-term growth assets and major cost-out initiatives and value-adding brands. By the nature of our business we have to invest in orchards, facilities and brands that will deliver strong growth over the next couple of decades."

### Almond Division

Reported FY2017 Almond EBIT is A\$13.7m which compares to Reported FY2016 EBIT of A\$44.6m and Underlying FY2016 EBIT of A\$36.1m.

- The 2017 crop volume of 14,100 MT (FY2016 14,200 tonnes). We experienced a much wetter spring and cooler summer, which had negative impact on the crop. This trend was evident across the Australian Almond industry.
- The almond price estimate of A\$7.43/kg (FY2016 A\$8.08/kg). The company has currently sold or committed for sale 72% of the 2017 crop at an average price of A\$7.91/kg (AUD/USD exchange rate of 0.75). The achievement of the FY2017 estimated price will depend on the selling price of the remaining crop (which includes lower grade product) and the exchange rate achieved.

- The combination of lower crop price and volume than FY2016 (impact of -A\$10.0m).
- This result is impacted by sales of the 2015 and 2016 crops realised at lower prices than previous estimates (impact -A\$6.1m).
- Higher Orchard Lease Costs orchard lease costs increased as a result of the market revaluation of the almond orchards leased from Rural Funds Management (impact -A\$4.9m).
- Orchard Costs Our actual cost per hectare has remained flat, the increase is due to additional area of immature trees coming into production. Note: these trees do not get the full revenue uplift of a mature tree. (impact -A\$2.3m).
- Harvest Costs The growing conditions resulted in a higher level of tree reshaking. This was required as Orchard hygiene is critical for future crops in combating insects and diseases (impact -A\$0.9m).
- Increased development fee income and government grants (impact +A\$4.9m).
- Almond processing and almond hull sales, the net cost was higher than anticipated, partly due to energy cost increases and lower returns from hull due to the good winter rains, depressed state of the dairy industry affecting both price and demand (impact -A\$1.5m).

# Food Division

Revenues of A\$146.9 million compared to A\$161.8m in 2016, a decrease of 9.3%. EBIT of A\$8.0m, compares to A\$10.3m in 2016, a decrease of 22.3%.

The decrease in EBIT of A\$2.3m was driven by:

- Commodity price decreases passed onto customers
- Reduced volumes in the consumer business mainly relating to retailer brand contracts, while the consumer sales channel has achieved growth in export and maintained a strong share in branded product, despite a tough pricing environment in this segment.
- Lucky remains the Cooking and Baking nut market leader with 38.4% market share (Source: IRI Aztec, 18 June 2017), although this is down on last year due to increased private label competition.
- Export sales continue to grow in both the Industrial and Consumer Packaged Food Divisions

• We experiencing strong interest in both the local and export market for products manufactured in the allergen free Parboil facility.

## Projects – Parboil & H2E

Two key capital projects - Parboil and H2E – have experienced time delays and cost overruns. Select Harvests has reviewed the business cases for both projects and determined that they remain positive.

The Project Parboil (value-added almond processing facility) installed cost is A\$14.3m. This strategically important investment is expected to enable costefficient and in-house production of a range of allergen-free almond value-added products, whilst maximizing the average price of the almonds we produce from now on in any given market. Commissioned in Q1 FY2018.

Project H2E (the new biomass electricity cogeneration plant) is intended to provide Select Harvests with certainty of power supply and cost, along with additional environmental benefits. The project is now being project managed internally with responsibility handed to a new GM Almond Operations, Peter Ross, who has a history of successfully managing major projects. The revised timeline for commissioning of Project H2E is Q3 FY2018 and estimated cost is now A\$19.7m.

## Management Restructure

As a result of an organisational review and recent resignations, the following changes have been made to the Executive Management team.

- Paul Chambers, CFO and Company Secretary has resigned effective as at 8 November 2017. An executive search is underway.
- Vanessa Huxley (Deputy CFO & Company Secretary) is Acting CFO & Company Secretary
- Bruce van Twest, GM Operations has resigned and has left the business
- Peter Ross (previously GM Horticulture & prior to that GM Operations) has been promoted to GM Almond Operations (inc. capital projects and Carina West facilities)
- Ben Brown (previously Horticulture Manager) has been promoted to Acting GM Horticulture
- Mark Eva (GM Consumer) has retained his current responsibilities and will have additional responsibilities for the Thomastown production facility.

# <u>Outlook</u>

The fundamentals of the business and the industry remain strong. We can see increasing demand strength from Consumers and Industry for plant protein product, in both developed and developing economies - Almonds are a cornerstone of this trend.

With a significantly increased area of developing orchards coming on stream over the next 5 years, combined with its fully integrated business model, which includes quality assets and brands, Select Harvests is in a strong position to capitalize on this megatrend.

## FOR FURTHER INFORMATION, PLEASE CONTACT:

Paul Thompson, Managing Director Vanessa Huxley, Acting CFO and Company Secretary Andrew Angus, Investor Relations

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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	Reported Result (AIFRS)		Variance (%)	Underlying Result (1)		Variance (%)
	FY16	FY17		FY16	FY17	
REVENUE	286,168	241,122	(15.7%)	286,168	241,122	(15.7%)
(\$000's)						
EBIT (\$000's)						
Almond	44,575	13,686	(69.3%)	36,093 <sup>(1)</sup>	13,686	(62.1%)
Division					*	
Food Division	10,342	7,950	(23.1%)	10,342	7,950	(23.1%)
Corporate	(5,132)	(4,657)	(9.3%)	(5,132)	(4,657)	(9.3%)
Costs						
Operating	49,785	16,979	(65.9%)	41,303	16,979	(58.9%)
EBIT						
Interest	(5,495)	(5,001)	(9.0%)	(5,495)	(5,001)	(9.0%)
Expense						
Net Profit	44,290	11,978	(73.0%)	35,808	11,978	(66.5%)
Before Tax						
Tax Expense	(10,494)	(2,729)	(74.0%)	(7,949)	(2,729)	(65.7%)
Net Profit	33,796	9,249	(72.6%)	27,857	9,249	(66.8%)
After Tax						
Earnings Per	46.7	12.6	(73.0%)	38.5	12.6	(67.3%)
Share					-	
Net Debt (2)	67,265	145,817	116.8%	67,265	145,817	116.8%
Gearing (Net	23.1%	52.5%	127.3%	23.1%	52.5%	127.3%
Debt/Equity)%						

(1) The adjustment to the reported Almond division EBIT in FY16 relates to gains on asset sales of \$A8.5m. Refer below for definitions of Underlying EBIT and Underlying NPAT.

(2) Net debt includes Finance Lease commitments of A\$41.4m in FY17 (compares to \$41.8m in FY16)

#### **Definitions:**

- Underlying Earnings Before Interest and Tax ("EBIT") is a non-International Financial Reporting Standards ("IFRS") measure calculated by adjusting Profit Before Income Tax for interest expense and any non-recurring items
- Underlying Net Profit After Tax ("NPAT") is a non-IFRS measure calculated by adjusting Profit Attributable to Members of Select Harvests Ltd for any non-recurring items.
- Underlying Earnings Per Share ("EPS") is a non-IFRS measure calculated by adjusting EPS for any non-recurring items

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.