

Select Harvests 2018 Transition Period AGM: Managing Director's Speech



SELECT HARVESTS

22 February 2019

SLIDE 12: Paul Thompson, Managing Director

SLIDE 13: Plant-Based Foods - Driving Increased Demand Growth

Select Harvests is perfectly positioned to take advantage of the ever-increasing demand for better for you plant-based foods. This trend is global and I have highlighted some examples on the screen to illustrate this trend. The full potential remains untapped.

Increasing global demand for plant protein is being driven by rising middle class wealth in developing countries and globally consumers adopting healthier, plant-based diets.

Select Harvests is capitalising on this trend with both the Almond and Food Division through our brands: Lucky, Sunsol, Soland, Nuvitality, Renshaw and Allinga Farms; creating highly nutritious, plant-based protein products for consumers and food ingredient manufacturers who are looking for brands that are high in protein, and low in saturated fats and sugar, exactly the product Select Harvests grows and manufactures.

The ever-increasing demand for plant-based foods is the foundation of our strategy.

SLIDE 14: Strategy

Select Harvests' vision is to be:

A leader in the supply of "Better for You", plant-based foods.

Our values, which underpin the way we do business, are to have a business built around:

*Trust and Respect;
Integrity and Diversity;
Sustainability;
Performance; and
Innovation.*

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Our strategic priorities are to:

*Optimise our almond base, the cornerstone of our business;
Grow our Brands by adding value from the orchard to plate;
Expand strategically, utilising our competitive advantage in
horticulture, processing and sales and marketing*

Our operational focus every day is on:

*Customers: by exceeding their expectations;
Ensuring our Supply Chain is sustainable and efficient;
Having highly engaged people, growing in our business; and
Generating capital returns, that meet or exceed you, our shareholder,
expectations*

Ultimately, we are looking to create a sustainable return for you, our shareholders.

The Board annually reviews the strategy with particular focus on risk, performance and sustainability.

This year, the Board and Senior Management have undertaken a comprehensive review of the strategy and are in the process of building detailed plans, milestones and targets to ensure we meet your expectations.

SLIDE 15: 2019 Crop and Harvest Update

Growing conditions for the 2019 crop have been very favourable.

As you are aware, we are continuously evaluating ways to mitigate risk. Since last season we have invested in frost fans. Last year's (2018 crop) frost affected orchards have rebounded strongly.

Our horticultural programs have led to excellent tree health across the orchard portfolio.

Our cost per kilo has benefitted from the increased volumes as our orchards mature, and our ongoing focus on absolute cost across the business.

We have just commenced the 2019 harvest on our young trees. We anticipate we will be harvesting our mature orchards early next week. At this early stage, we have no concerns about quality.

With a positive weather forecast for the 2019 harvest period, we are looking forward to a relatively trouble-free harvest.

This week we commenced processing at the Carina West almond facility. We have invested in additional sorting machines to improve output, capacity and efficiency, while improving the quality of our product.

A new robotic packing line is being installed to ensure secure pallet configurations increased productivity and mitigate an OHS risk..

SLIDE 16: Orchard Video

Here is a short video featuring our General Manager Horticulture Ben Brown, discussing this year's crop.

SLIDE 17: Almond Division Update

We have been active with our almond marketing program, particularly focussing on the Asian markets, especially China and India.

The Indian market is a long-established customer of Select Harvests. The Chinese market has been growing strongly and Australian almond exports are up 11 times for the same period last year This is in part driven by the China US trade dispute.

It should be noted that the US remains by far the dominant supplier to China and despite significant disruption the total imports have grown 6%.

This strong growth is a testament to the underlying demand for almonds. Select Harvests has been active in the Chinese market while maintaining a strong presence in the Indian market. Please note we believe it is important to maintain a balanced customer base.

FY2019 is the first year to benefit from our significant investment in greenfield orchards. 1,085 ha (2,679 acres) of orchards will be harvested for the first time.

There has been a significant increase in water costs over the last 12 months with the annual allocation price increasing from \$150/ML around this time last year to approx. \$500/ML currently. Our water procurement policies have protected us from the full impact of these increases and we have further mitigated some of this cost increase through better water management, including using technology such as Phyttech real time stress monitoring and Ceres Imaging aerial monitoring.

Further offsetting the water cost increase are cost savings we have generated across the business and savings related to increased volume leverage. In addition to this we have additional income from hull sales into the stock feed industry.

Last week we participated in the Gulfoods exhibition in Dubai – one of the largest food shows in the world. The demand for almonds was buoyant and active.

The FY2019 expected range for almond price is - A\$8.20/kg – A\$8.50/kg.

It is too early to accurately forecast the exact crop size & quality, although given the good growing season and harvest conditions, we are expecting it to be above industry standard.

SLIDE 18: Food Division Update

The Industrial Segment of the Food Division continues to see strong demand in both domestic and export markets. Our China sales continue to grow in both the Consumer and Industrial segments.

The Parboil value-added facility is able to support the increasing demand we are seeing in the food manufacturing industry in Asia.

China is a critical market for our branded growth and Consumer export sales continue to increase, with the Pepsico partnership growing as planned.

Domestically, Lucky brand market share has stabilised and we experienced good demand across the year-end holiday period, in line with expectations, as we start to reinvest in our key Sunsol and Lucky brands.

Having a trusted quality brand remains a key platform for organic growth and new product development is underway, with targeted launches during FY2019.

The JD Edwards ERP system has been implemented with benefits expected to be realized through FY2019.

SLIDE 19: Key Take Outs

Zero Harm

We have a clear position on safety - Zero Harm – It is our number one priority - we try to prevent incidents before they occur.

Industry Fundamentals

The fundamentals underpinning Select Harvests and the almond industry in general remain strong, with the consumption of almonds forecast to grow at 6-8% p.a. The Almond Division, our Brands and B2B business are participating in, and in some cases, driving this growth.

Almond Strategy

Select Harvests Almond strategy is firmly in place with greenfield orchards, skilled staff, risk mitigation strategies, technology and horticultural programs in place to increase volumes.

As a result of our plantings, and based on industry standard yields, over the next 3 years the company's annual almond production will increase to approx. 19,600 MT in 2021. Over the next 6 years production will increase to approx. 21,600 MT in 2024. We are confident we can further improve and maintain yields at above industry standard.

Food Division

The Food Business is ready to grow – we have been investing in infrastructure, brands and partnerships to leverage our outstanding production base and business heritage into the large scale, high growth Asian market.

Cost Focus

Across the business, we constantly seek to sustainably reduce our cost base.

Capital Management

Capital is being allocated to focus on achieving returns in excess of WACC, Specifically to:

- *Support improved productivity;*
- *Invest in strategic growth;*
- *Mitigate risk; and*
- *Support innovation*

Leasing Accounting Standard Change

Select Harvests will adopt the revised Leasing Standard (AASB 16) for the FY20 year, beginning 1 October 2019.

The new standard will bring all operating leases onto the balance sheet impacting EBITDA, EBIT, PBT and NPAT.

These changes do not affect operating cashflow.

Asset Valuations

The Almond division assets were recently independently valued at \$99m greater than book value. These assets, and those in our Food Division, will continue to appreciate in value, as consumers continue to consume more “better-for-you”, plant-based foods.

The entire team at Select Harvests are excited and passionate about the opportunities that lie before us.

Closing

I would like to thank all our staff for their drive, skill and commitment to improve and grow this business.

Finally, I would like to thank the Board and you our shareholders.

I would now like to hand you back to Michael.