

28 February 2017



SELECT HARVESTS

1H17 HALF YEAR RESULTS, ACQUISITION OF ALMOND ORCHARDS & CHINA DISTRIBUTION AGREEMENT

Select Harvests announces results for the 6 months ended 31 December 2016 (1H17) with a Net Profit after Tax (NPAT) of A\$11.6 million.

The Directors announce an interim dividend (fully franked) of 10 cents per share (1H16 interim dividend 21cps unfranked), payable on 5 April 2017 and with a Record Date of 8 March 2017.

This result is in line with our expectations and our strategic goals set out in the Strategy to 2018 with both Divisions performing at or above plan.

Significant progress has been made on our goals: growth in the critical mass of almonds through the development and acquisition of orchards, reducing supply chain costs with projects like H2E and improving productivity with our horticultural input programs.

The Food Division has now established a strong profitable base. Recent investment in our brands, new market entries, innovation and technologies delivered by projects such as Parboil are key enablers to further expansion.

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Overview of 1H17 Half Year Financial Results

- **Reported 1H17 NPAT of A\$11.6 million, which compares to 1H16 NPAT of A\$23.9 million.**
- **Excluding the non-recurring impact of gains on asset sales and Research and Development tax credits in 1H16, 1H17 NPAT of A\$11.6 million compares to 1H16 NPAT of A\$18.3 million.**
- **2017 almond crop projection of 16,000 MT (compared to final 2016 crop of 14,200 MT) and an almond price projection of A\$7.70/kg (compared to a price estimate of A\$9.00/kg at the corresponding time last year).**
- **Net Debt (including lease liabilities) is A\$98.4 million and Gearing (Net Debt/Equity including lease liabilities) at 31 December 2016 is 34.6%.**
- **1H17 Interim Dividend (Fully Franked) 10 cps.**

Almond Division

Acquisition & Performance

Today, the Company announces the acquisition of the Jubilee Almond Orchards in South Australia, for a consideration of A\$26.5 million, comprising 1,147 acres of mature and developing almond trees (792 acres bearing and 355 acres non-bearing), 1,335 ML of high security water entitlements and a shareholding in Laragon Pty Ltd (an almond processor). At full maturity these orchards have the potential to produce in excess of 1,400MT of almonds. This will be highly accretive as this is a bolt-on to existing business.

The transaction is subject to a final grower/shareholder vote and is expected to settle during the last quarter of the FY17 financial year. This acquisition will be funded from the balance sheet using bank facilities.

1H17 Reported EBIT of A\$15.6 million compares to A\$25.0 million (excluding the impact of asset sale gains) in 1H16. The main driver of this reduced EBIT arises from the almond price assumed for the crop at the time of the valuation. The pricing assumption for the 2016 crop at the half year result last year was A\$9.00/kg, and it was revised downwards at the 30 June 2016 full year result to A\$8.08/kg.

During the past eighteen months the almond price has been volatile and influenced by a range of factors: USD almond prices, crop quality, forecast Californian almond production and the AUD/USD exchange rate. We have advised the market of the prevailing conditions on a regular basis. The price has now stabilized and increased from the lows experience in the second half of 2016. On a positive note increased volumes, productivity improvements, cost savings and additional revenue streams from new almond orchard developments have improved our profitability.

2017 Almond Harvest Yield and Price Estimate

Demand for almonds in the global market remains strong. The shipment of US almonds is up 21% in the last twelve months and 33% this almond season (August onwards). Both US exports and domestic sales have responded to the lower almond price and the continuing research findings of health benefits arising from the consumption of almonds and other plant proteins. These trends are similar in the Australian domestic market. We anticipate this strong demand to continue as more consumers and manufacturers increase and expand the use of almonds in their diets.

Select Harvests' strategy has been to expand our base by improving yields and productivity, acquiring mature orchards, investing in Greenfield development, improving quality and controlling costs. Beyond the orchard, our strategy is to add further value to almonds by marketing an increasing proportion of our crop as branded products thereby reducing our exposure to the raw commodity pricing.

Our crop for 2017 is estimated to be between 15,750 MT and 16,250 MT, assuming normal harvesting conditions prevail. This compares to 14,200 MT achieved in 2016; an increase of approximately 11-14%. The vast majority of the year on year increase is the result of improved yields. The benefit of our Greenfield program will commence next year and accelerate over the next five years. We are confident that we can further improve our yields, cost per MT and quality.

The 2017 harvest is 2-3 weeks behind the 2016 harvest, due to milder spring and summer weather. Growing conditions overall have been favourable, with a good nut set, quality and volumes across all the farms.

Approximately 30% of the 2017 crop has been committed to sales at an average price of A\$7.70/kg. We expect pricing to remain relatively stable between A\$7.50/kg and A\$8.00/kg, assuming an AUD/USD exchange rate of 0.76.

An almond price of A\$7.70/kg and a volume estimate of 16,000MT have been used to value the 2017 crop in the 1H17 Result.

Food Division

The Food Division posted revenues of A\$78.0 million, compared to A\$91.7 million in the corresponding period last year, a decrease of 15%. EBIT was A\$5.1 million, compared to A\$6.7 million last year.

Lower revenues and EBIT were primarily due to lower margins on almond products in the Industrial Business, following the fall in the commodity price.

The Industrial Business experienced increased demand from distributors, processors, food manufacturers and confectionery manufacturers. The new value-added facility will ensure we can meet the demand, quality, innovation and service demands of this growing customer base.

The Consumer Business continues to perform to strategy, with growth in profit margins being reinvested in new product development and the entry into the China market. This financial year we are looking at reinvesting approximately A\$0.5 million in our Asian expansion plans and new product development.

Select Harvests is pleased to announce today that we have signed an agreement with Sinotrans International Supply Chain Co. Ltd. ("Sinotrans") to be our distribution partner into the Supermarkets and Hypermarkets channel in mainland China. The selection of Sinotrans was a rigorous process. Our requirement being expertise in the China supply chain, including sales and marketing support. We look forward to working with Sinotrans, a subsidiary of China Merchant Group, a state owned enterprise. We will ship our opening order in March.

Major Projects Update

Carina West Processing

The previously announced investments in our Carina West Processing Facility in Northern Victoria is progressing well, with the transformation of the site into a world class operation.

The Electricity Cogeneration Plant (Project H2E) is designed to utilize by-products and orchard waste to provide low-cost energy to processing and orchard operations. Whilst 6 months behind the original planned commissioning date, it is expected the plant will be functional from the beginning of the FY18 financial year and providing cost savings. This project has become even more valuable given the recent increased energy costs and increased risk of supply outages in regional Australia.

The new Value-Added Almond Processing Plant (Project Parboil) is designed to take raw and lower grade almonds, converting them to a full range of value-added products (including packed, pastes, blanched, sliced, meal) for use by industrial and retail customers. It will be commissioned during March 2017.

The Greenfield Almond Orchard Developments planted out in FY16 (2,044 acres) and funded by First State Super (FSS) have all been implemented to plan. The new Bunargool orchard (1,400 acres) near Euston, New South Wales stands out as an orchard of the highest quality.

The company continues to develop a further 1,338 acres across 3 existing and new sites, funded by FSS. Of these developments it is expected that 725 acres will be planted out in the winter of 2017 and the balance completed in the winter of 2018.

Following the completion of the acquisition of Jubilee Almond Orchards, Select Harvests will have a geographically diversified almond orchard portfolio comprising approx. 19,000 planted acres, with approximately 15,000 bearing acres, across the 3 major Australian almond growing regions.

Balance Sheet, Net Debt and Cash Flow

The balance sheet is in strong shape, recognising that investments in major growth and cost-out projects have now been largely completed.

Net debt (including finance lease obligations of A\$40.0 million) at 31 December 2016 is A\$98.4 million and gearing (Net Debt/Equity) is 34.6%. This includes the impact of capital expenditures of A\$16.8 million (Projects H2E, Project Parboil, ERP system and farm equipment) and new orchard development costs of A\$4.7 million (tree replants and on-balance sheet Greenfield plantings) in the last 6 months.

Operating cash flows of A\$5.8 million were generated from the business, after making tax payments of A\$25.3 million related to taxable profits earned in 2016.

Managing Director Comment

Select Harvests' Managing Director Paul Thompson said:

The company is in a strong position to create and deliver sustainable shareholder value through its strategy to be a leader in the supply of "better for you plant based foods".

We achieve this in our Almond Division by optimising the productivity of our existing orchards and processing facility. For the orchards this means "best practice" horticulture and finding the level of key inputs such as water, fertiliser and bees that maximise returns. We're expanding our footprint through acquisition and greenfield development where the upfront investment provides a worthwhile return above our cost of capital.

We are encouraged that over the last 15 years each low point in the almond price cycle creates a new higher floor price. This is consistent with our view that the fundamentals of limited production resources and growing demand will support strong prices into the future.

Today, we have greenfield orchards in place that will increase our current volumes by 28% in the next 3 years and 39% in the next 5 years. Our current processing assets have the capacity available, giving significant fixed cost leverage that will drop through to the bottom line.

Our Food Division strategy is focused on delivering value-added products to both the local and Asian markets. In the last few years we have become increasingly focused and invested in improving our branding, innovation and export capabilities.

Current earnings momentum remains in line with our expectations. Select Harvests is structured and managed to withstand and capitalize on short term commodity price and currency fluctuations, ensuring delivery of long term sustainable value to shareholders.

ENDS

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, Nuvit, 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.

Half Year Results – Key Financial Data

\$000's	1H FY2016	1H FY2017	%
Revenues	166,440	126,457	-24%
EBITDA	34,780	25,058	-28%
Depreciation	5,988	7,169	
EBIT			
Almond Division	25,058	15,605	-38%
Food Division	6,724	5,054	-25%
Corporate	(2,990)	(2,770)	
Total EBIT	28,792	17,889	-38%
Interest Expense	(2,592)	(2,221)	
Profit Before Tax	26,200	15,668	-40%
Tax expense	(7,860)	(4,043)	
NPAT (before non - recurring items)	18,340	11,625	-37%
Non - recurring items (Note 1)	2,800	-	
Non – recurring items (Note 2)	2,773		
NPAT Reported	23,913	11,625	-51%
EPS (before non – recurring items)	25.6	15.9	-38%
Net Debt (exc. lease liabilities)	15,585	58,453	
Net Debt (inc. lease liabilities)	52,630	98,440	
Gearing (exc. lease liabilities)	5.3%	20.5%	
Gearing (inc. lease liabilities)	17.8%	34.6%	

Note 1: Gain on sale of assets (sale and leaseback) impacting EBIT by A\$4.1 million and NPAT by A\$2.8 million.

Note 2: Research and Development credits claimed in relation to prior period investments

General: It should be reiterated that, as is always the case at the time the Company develops this crop value estimate, there is the potential for changes to occur both in the pricing environment, in particular noting the level of price uncertainty in the almond market at this point in time, and in yield outcomes, as the harvest progresses.