



Select Harvests Limited (ASX:SHV)

1H FY2019 Half Year Results Presentation to 31 March 2019

31 May 2019

Disclaimer & Basis of Preparation

This presentation is provided for information purposes only and has been prepared using information provided by the company. The information contained in this presentation is not intended to be relied upon as advice to investors and does not take into account the investment objectives, financial situation or needs of any particular investor. Investors should consider their own individual investment and financial circumstances in relation to any investment decision.

Certain statements contained in this presentation may constitute forward-looking statements or statements about future matters that are based upon information known and assumptions made as of the date of this presentation. These statements are subject to risks and uncertainties. Actual results may differ materially from any future results or performance expressed, predicted or implied by the statements contained in this presentation.

The Select Harvests Limited financial statements are prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. This includes application of AASB 141 Agriculture in accounting for the current year almond crop, which is classified as a biological asset. In applying this standard to determine the value of the current year crop, the Company makes various assumptions at the balance date as the selling price of the crop can only be estimated and the actual crop yield will not be known until it is completely processed and sold. The resulting accounting estimates will, by definition, seldom equal the related actual results, and have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1H FY2019 Overview

- SHV has changed its financial year end from 30 June to 30 September
 - this report is the 1st full 6-month period reported under the new timeline (1H FY2019)
- 50% of the Fair Value of the 2019 crop has been recognised in line with completed harvest activity
- Strong half year EBITDA¹ growth to \$38.5M and NPAT to \$20.0M
- Improved Almond Division half year EBIT of \$31.5M due to increased volumes and price
- Flat Food Division half year EBIT of \$2.3M
- Net debt (including finance leases) of \$93.4m - gearing ratio of 23.8%
 - Working capital \$160.3m – large investment in inventory due to crop size
- Annualised ROCE improved to 12.4% and Earnings per Share (EPS) of 21.0 cents per share (cps)
- 1H FY2019 Dividend – Interim Dividend 12 cps fully franked
 - Record Date – 14 June 2019
 - Payment Date – 5 July 2019
- Safety & Environment
 - Zero environmental incidents
 - Significant reduction in number of lost time injuries

¹ - 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.

Income Statement

Income Statement				
\$ millions	1H 2018*	1H 2019	Variance	%
* The 2018 Half Year Comparatives have not been audited – they are 50% of the Audited FY2018 Result.				
Almond Volumes MT	15,700	20,750	5,050	32.2%
Almond Price Per Kg	8.05	8.50	0.45	5.6%
Total Revenue	105.1	100.0	(5.1)	(4.9%)
EBITDA¹	25.9	38.5	12.6	48.6%
Depreciation & Amortisation	8.4	7.5	(0.9)	(10.7%)
Almond Division EBIT ¹	17.7	31.5	13.8	78.0%
Food Division EBIT ¹	2.5	2.3	(0.2)	8.0%
Corporate	(2.8)	(2.8)	-	-
Total EBIT¹	17.5	31.0	13.5	77.1%
Net Financing costs	(2.7)	(2.1)	0.6	22.2%
Tax Expense	(4.6)	(8.9)	(4.3)	(93.5%)
NPAT	10.2	20.0	9.8	96.1%
EBITDA ¹ Margin (%)	24.6%	38.5%	13.9%	56.5%
EBIT ¹ Margin (%)	16.6%	31.0%	14.4%	86.7%
Earnings Per Share (cents)	11.6	21.0	9.4	81.0%

- Revenue reflects sales of prior year crops and Food Division
- 1H FY 2019 EBITDA¹ \$38.5m (1H FY 2018* \$25.9m) - higher result driven by larger crop and firm A\$ pricing
- Almond Division EBIT¹ \$31.5m (1H FY2018* \$17.7m)
 - Volume up 20,750MT (FY2018 15,700)
 - Price of A\$8.50/kg (FY2018 A\$8.05/kg)
 - Prior years crop valuation adjustment of (\$1.7M)
 - Total net 2019 crop costs/kg down by 8.6%
- Food Division EBIT¹ stable at \$2.3m (1H FY2018* \$2.5m)
 - Improved Industrial product margin – China exports
 - Lower Retail product margin – private label impact
 - Retail export growing off a low base
- Corporate costs in line with prior periods
- Improved NPAT of \$20.0m (1H FY2018* \$10.2m)

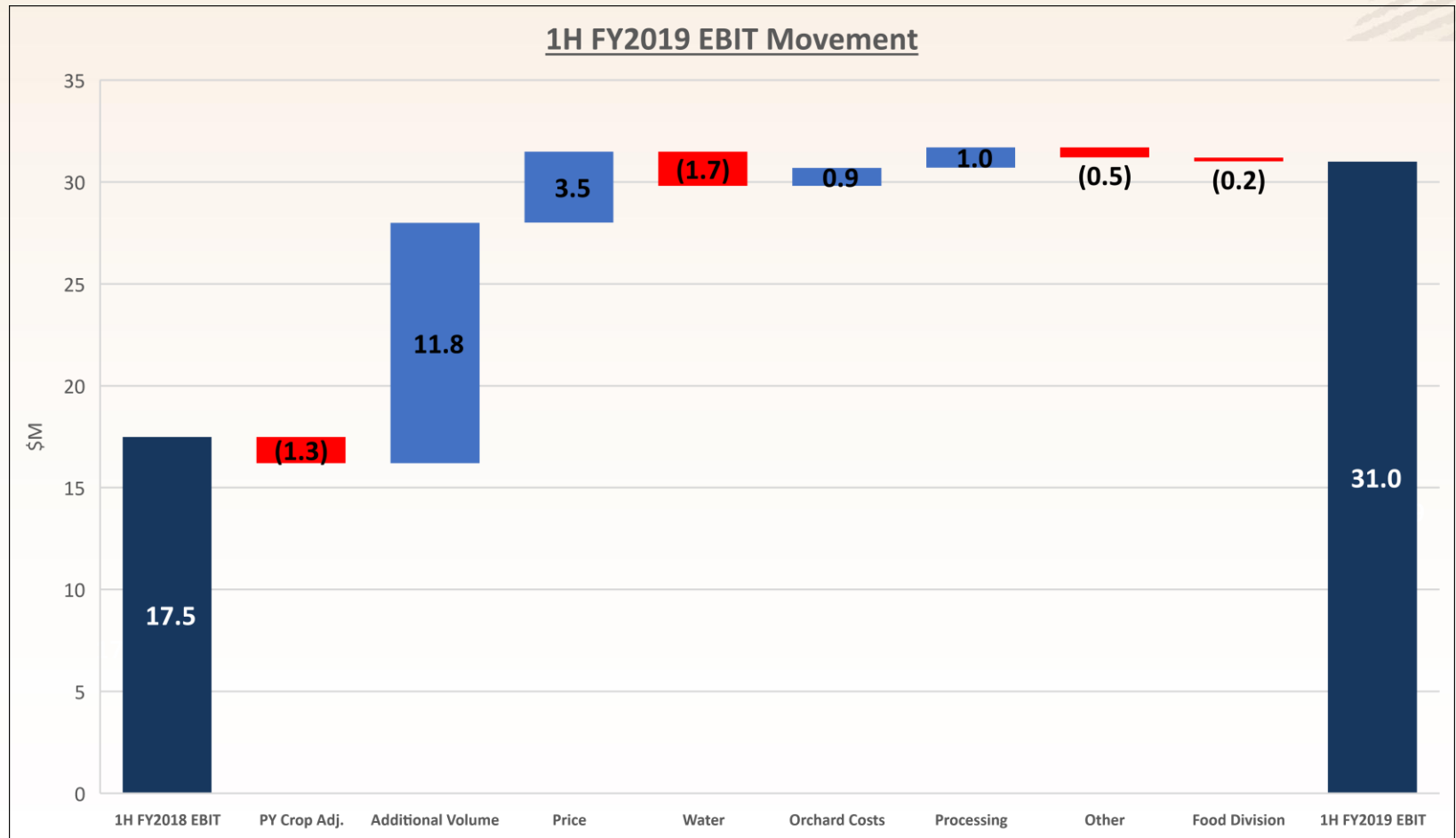
1H FY2019 NPAT \$20M – and with 80% of crop now sold, builds confidence for FY2019 full year result



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Movement in SHV Group EBIT¹ (\$M)



* The 2018 Half Year Comparatives have not been audited – they are 50% of the Audited FY2018 Result.

Increased volumes and higher pricing have led to an improved result



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Balance Sheet

Year Ending Balance Sheet

\$ millions

1H FY2018* 1HFY 2019

Current Assets excl. Cash	155.6	187.7
Cash	0.4	1.3
Non-Current Assets	352.2	370.2
Total Assets	508.1	559.3
Current Liabilities (exc. Borrowings)	24.9	32.2
Borrowings (Incl. Lease Liabilities)	69.0	94.7
Non-Current Liabilities (excl. Borrowings)	35.3	40.3
Total Liabilities	129.2	167.2
Total Equity	378.9	392.1
Net Debt (Including Finance Leases)	68.6	93.4
<i>Net Debt/Equity</i>	<i>18.1%</i>	<i>23.8%</i>
<i>Annualised ROCE</i>	<i>7.4%</i>	<i>12.4%</i>

- Increased current assets – working capital of \$160.3m is higher due to value of 2019 unsold crop (inventory) – higher volume
- Increased non-current assets due to ongoing investment in the development of immature orchards
- Net debt including finance leases \$93.4m (1H FY2018* \$69.0m) – higher debt level due to investment in non-bearing acres and large 2019 crop. This will unwind in 2nd half as crop is sold.
- Gearing (net debt/equity) is 23.8% (1H FY2018 18.1%)
- Return On Capital Employed (ROCE) improved as orchards mature and start yielding and improved efficiency

Balance sheet is strong – debt is at seasonal peak – substantial debt reduction will occur over 2H FY2019



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Cash Flow

Cash Flow \$ millions	1H FY 2019
EBITDA ¹	38.5
Change in Working Capital	(48.0)
Tax Paid	(2.8)
Net Interest	(2.1)
Cash Flow From Operations	(14.4)
Investing Cash Flows	(14.7)
Proceeds from share issue	-
Increase/(decrease) in debt	29.1
Dividends paid	(5.3)
Net (Decrease)/Increase in Cash/Cash Equivalents	(5.3)

- Improved EBITDA¹ of \$38.5m - operational performance
- Negative operating cashflow due to seasonal timing:
 - First half cash outflows to grow 2019 crop (shown through increase in inventories)
 - Second half cash inflows will occur through sale of 2019 crop
 - Working capital also impacted by Food Division Easter inventory increase
- 1H FY2019 Investing cash flows of \$14.7m driven by:
 - Tree & Orchard Development \$8.8m
 - Property Plant & Equipment \$7.8m
 - Water Rights \$0.3m
 - Grant Income (\$2.2m)

Large investment in 2019 crop inventory will deliver substantial operating cashflow in 2H FY2019



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Almond Division



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Almond Division

Almond Division

\$ millions	1H FY2018*	1H FY2019
EBIT	17.7	31.5

- **Crop volume increased to 20,750 tonnes (2018 Crop 15,700 tonnes) - up 32.2%**
 - Impact of horticultural program, new tree health technology, greenfields contribution & frost fan investment
 - Favourable growing and harvesting conditions
- **Sales price of \$8.50/kg (2018 Crop sale price \$8.05/kg) - up 5.6%**
 - 80% of crop currently contracted for sale
 - USD currency – 75% of crop sales are hedged
 - Pricing not expected to decline – due to low level of uncontracted sales, combined with current China demand
- **Lower total cost of production per kg – down 8.6%**
 - Higher yields, investment in on-farm crop conditioners = lower costs
 - Horticulture costs per kg (excl. water) reduced by 9.3%
 - Improved efficiencies and higher hull prices offset the increase in water costs
- **Processing – 60% complete**
 - Improved processing rates, new sorting technology plus dry conditions
 - Processing cost per kg reduced by 14%
- **Water**
 - Water costs up significantly due to dry conditions and increased market demand for water
 - Water costs per kg increased by 33.6%
 - Impact minimized through ownership policy and decision to acquire water requirements early in season
 - 2019 water commitments secured
- **Orchard re-development**
 - Final stage of Kyndalyn Park - 142 hectares (350 acres)

** The 2018 Half Year Comparatives have not been audited – they are 50% of the Audited FY2018 Result.*

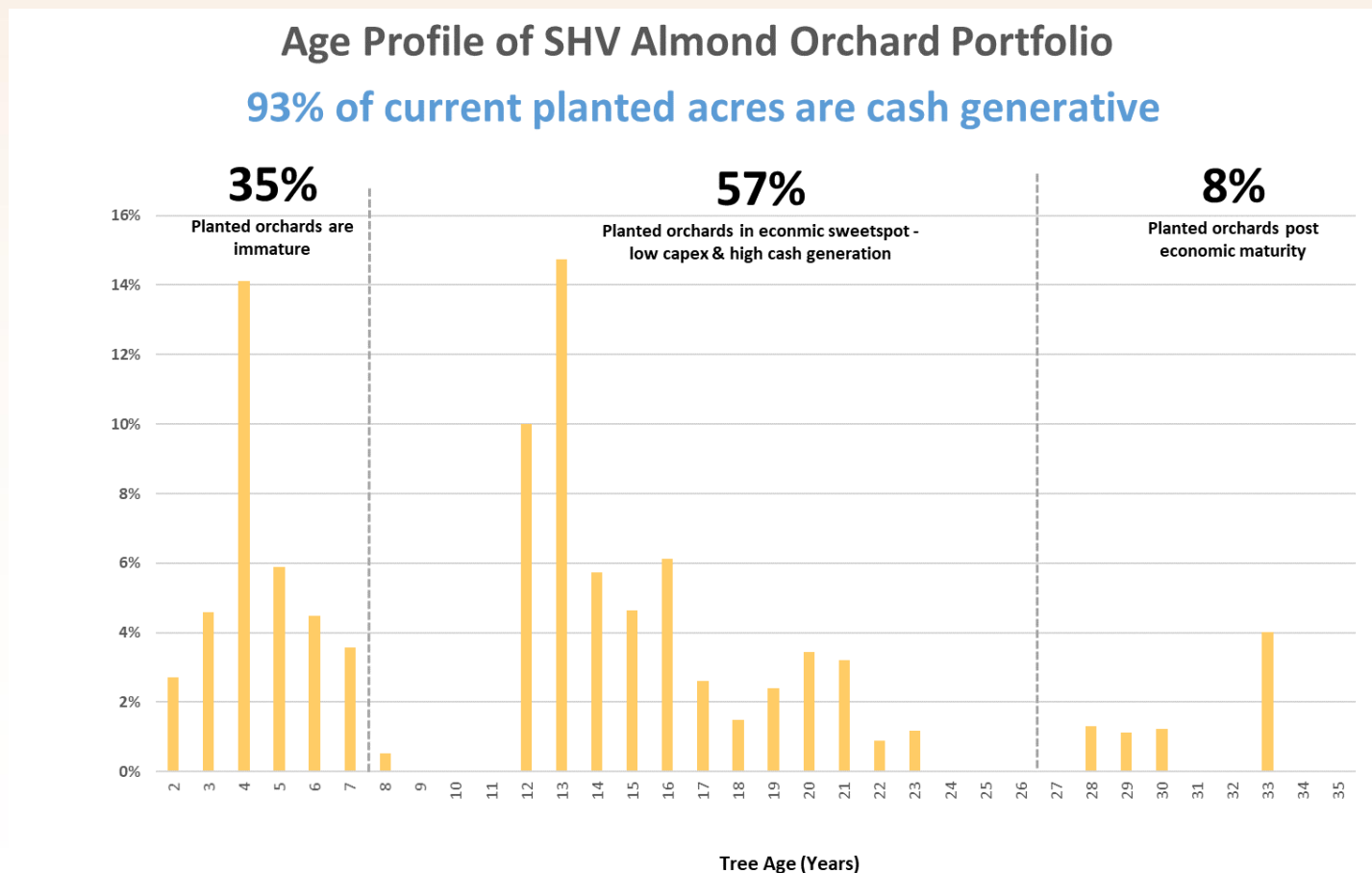
Investment in growth & productivity delivering - higher volume, improved quality and improved cost profile



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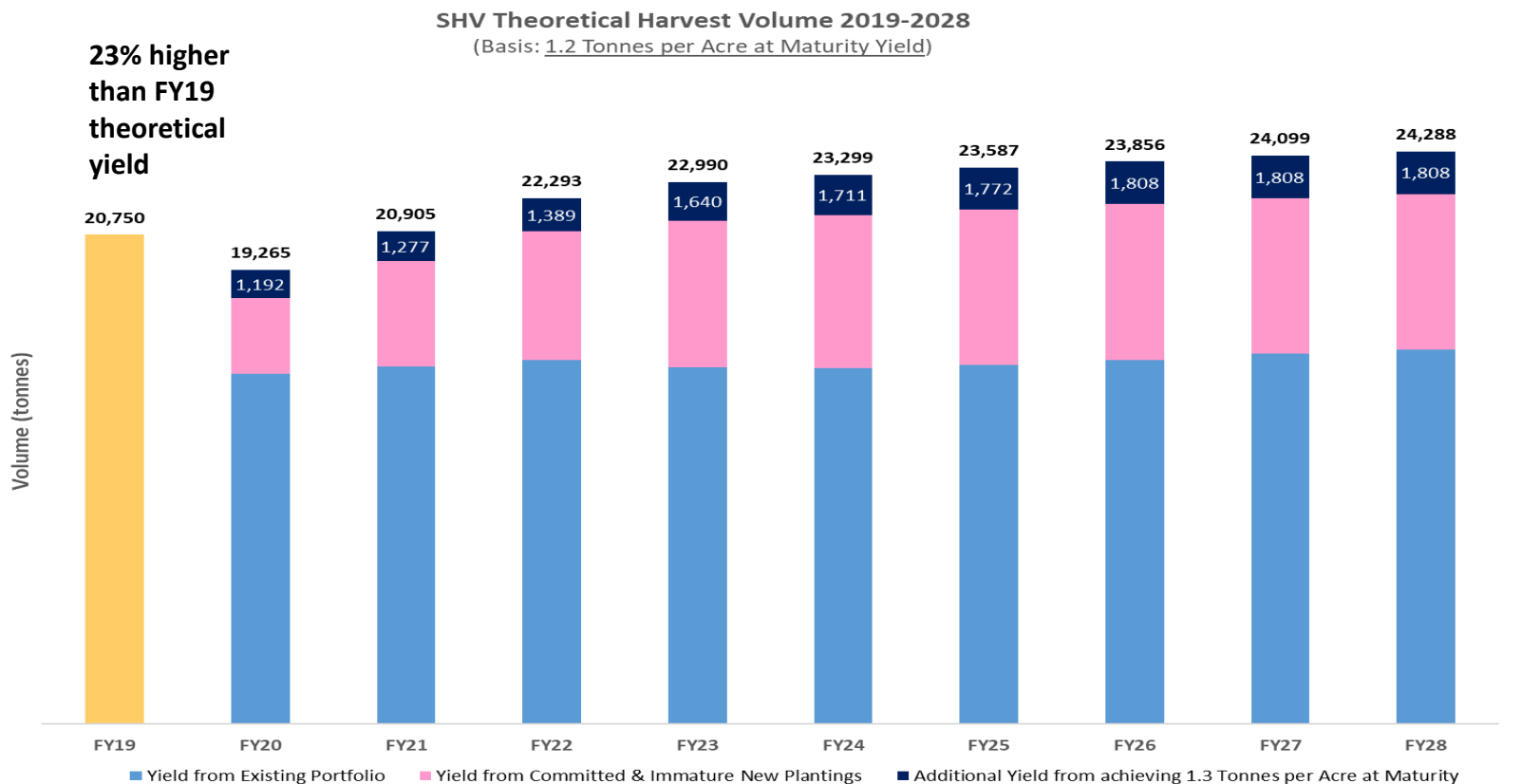
Select Harvests – Orchard Age Profile



Growth and improvement occurred in SHV orchard portfolio in recent years - acquisition, replants, greenfields

Volume Growth

- Select Harvests is now consistently yielding over 1.3 tonnes per acre – this adds considerable value in future years



Investment in almond orchards ensures underlying organic earnings growth



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Food Division

Food Division

Food Division

\$ millions

	1H FY2018	1H FY2019
EBIT	2.5	2.3

** The 2018 Half Year Comparatives have not been audited – they are 50% of the Audited FY2018 Result.*

■ Strong Industrial Sales

- Industrial food sales strong - full pipeline from new Asian customers
- Margins positive & SHV offering value-ad options

■ Domestic Consumer Foods on Track

- Sales are on track but margins challenging
- Impacted by raw material cost and house brand competition

■ Export Consumer Foods

- Sales channels settling
- Consistent increases in sales order volumes
- NPD opportunities being explored
- Investing in brand



New Pro-Biotic muesli range

Performing in line with expectations



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Business Outlook

Bunargool Orchard Blossom 2018



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Select Harvests – in control of our destiny



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Outlook

Industry Macro:

- Plant-based market fundamentals (particularly almonds) remain strong
- US 2019 crop moderate growth likely
- US trade tensions likely to remain
- Asian healthy snacking food market continues to grow

Select Harvests:

- **Good tree health** – well placed for 2020 crop
- **Water strategy in place** – continued close management of purchase options
- **Carina Facility investment to continue** – further quality and efficiency improvements
- **Food export growth (Domestic and Industrial) remains a focus**
- **In-organic growth options being considered**

Fundamentals remain positive and opportunities to improve exist



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Almond Outlook

USA

- August 2018 to April 2019 YTD Shipments Update
 - US Domestic shipments are up 1.6%
 - 5 of the last 7 months were record monthly shipments
 - US Export shipments are down 2.9%
 - China, which is down 33%
 - Taken up by other markets
 - Uncommitted Inventory down 15%
 - Carryover forecast to be very tight 154 -172k MT (6-8 weeks)
- 2019 USDA Subjective Estimate Crop 2.50 billion pounds (1.13m MT) - up 8% on 2018
 - Crop likely to be two weeks late
 - Net increase post carry-over around 6%

Australia

- 2018/2019 Exports 60,895 MT up 12%
 - China sales 12.124MT 19.9% of total exports 2018 prior year 1.7%

Global demand for almonds continues to build and carry-over stock levels remain tight



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2H FY2019 Top 10 Priorities

1. **2020 Crop Horticultural Program** – Ensure optimal tree health
2. **Successfully Deliver The 2019 Crop** – Maximise price and ensure quality standards
3. **Cost Reductions** - Continue to reduce cost per kg across all production stages
4. **Mitigate Water Cost** - With increasingly dry conditions, water management is critical
5. **Improve Cash Position** - Improve working capital and cash conversion rate
6. **Growth** – Assess organic and other options to deliver additional growth
7. **H2E** – Maximise financial and environmental benefits (Potash composting)
8. **Capital Investment** – Prioritise investment to deliver improved quality outcomes
9. **Execute Export Growth Strategy** - China opportunities in Industrial and Consumer
10. **Corporate** – Transition to AASB16 Lease Accounting standard

Fundamentals remain positive and opportunities to improve exist



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Thank you

Please direct any queries to:

Paul Thompson
Managing Director
+61 3 9474 3544

Brad Crump
Chief Financial Officer
+61 3 9474 3544

Andrew Angus
Investor Relations
+61 402 823 757

Please note that background material/data regarding the global almond industry can be found on the Select Harvests website.

www.selectharvests.com.au



Select Harvests - Financial History



SHV Historical Summary	Units	2006	2007	2008	2009	2010	2011	2012	2013	2014*	2015	2016	2017	2018
Total Revenue	(A\$M)	218.0	229.8	224.8	248.7	239.1	250.0	251.3	191.1	188.3	223.6	286.2	242.1	210.2
EBIT	(A\$M)	38.4	40.5	27.1	26.8	26.0	22.6	19.6	37.7	31.3	89.6	41.3	17.0	34.9
EBIT Margin (EBIT/Sales - %)	(%)	17.6%	17.6%	12.1%	10.8%	10.9%	9.0%	7.8%	19.7%	16.6%	40.1%	14.4%	7.0%	16.6%
PBT	(A\$M)	37.9	40.0	25.4	23.0	23.6	18.5	13.4	32.7	26.8	84.3	35.8	12.0	29.5
NPAT	(A\$M)	26.5	28.1	18.1	16.7	17.3	17.7	9.5	22.9	21.6	59.4	27.9	9.2	20.4
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	72.9	73.6	95.2
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	46.7	12.6	23.2
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	46.0	10.0	12.0
Payout Ratio	(%)	80.0%	80.0%	96.7%	28.2%	48.5%	38.6%	47.6%	29.9%	53.3%	60.3%	98.5%	79.4%	51.7%
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	3.22	2.95	3.34
Net Interest Cover	(times)	82.3	75.8	15.6	7.1	10.7	6.7	3.2	7.5	7.0	16.9	7.5	3.4	6.5
Net Debt	(A\$M)	1.3	1.6	46.8	52.4	45.0	73.1	66.8	79.3	94.8	115.9	68.7	145.8	70.8
Shareholders Equity	(A\$M)	101.5	95.5	94.1	100.9	113.6	168.8	160.3	159.5	175.4	287.4	290.9	277.6	378.6
Net Debt to Equity Ratio	(%)	1.3%	1.7%	49.7%	51.9%	39.6%	43.3%	41.7%	49.7%	54.1%	40.3%	23.6%	52.5%	18.7%
Share Price	(A\$/Share)	13.02	11.60	6.00	2.16	3.46	1.84	2.40	3.90	5.14	11.00	\$6.74	\$4.90	\$6.90
Market Capitalisation	(A\$M)	517.0	449.4	234.1	85.4	137.6	103.5	120.0	224.3	298.1	785.4	491.5	360.7	657.1
P/E Ratio		19.5	16.0	12.9	5.1	8.0	5.8	12.6	9.8	13.8	13.2	17.6	39.0	32.3
Return on capital employed				25.1%	23.8%	15.2%	8.7%	8.7%	16.6%	10.5%	21.0%	11.2%	4.9%	7.3%

Source: Company Data



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Almond Orchards – Our productive foundation

Geographic diversity limits exposure to:

- Weather
- Disease spread
- Insect infestation

Enables sequential progression of harvest period across regions:

- Better farm equipment utilisation
- Better processing utilisation
- Better labour utilisation



Secure access to diverse water sources:

- River Water
- Aquifers

Positions the company to maximise harvest volume & reduce variance.

Building world class properties and a globally competitive low cost business.

Select Harvests has a global scale - planted almond orchard portfolio of 18,970 acres

Select Harvests – Orchard Profile

Select Harvests Almond orchard portfolio	Total Planted (as at 31 March 2019)	
	Acres	Hectares
Central region		
Company Owned	4,183	1,693
Leased	3,422	1,385
Total	7,605	3,078
Northern Region		
Company Owned	1,797	727
Leased	3,017	1,221
Total	4,814	1,948
Southern Region		
Company Owned	2,723	1,102
Leased	3,828	1,549
Total	6,551	2,651
Total		
Company Owned	8,703	3,522
Leased	10,267	4,155
Total	18,970	7,677

Select Harvests is 19% of Australia's almond acreage



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Targeting an Above Average Yield Per Acre @ Maturity

Year	Harvest Volume (tonnes) per acre based on 1.2 Tonnes per Acre @ Maturity	Harvest Volume (tonnes) per acre based on 1.3 Tonnes per Acre @ Maturity
1	0.0	0.0
2	0.0	0.0
3	0.3	0.3
4	0.5	0.5
5	0.8	0.8
6	1.0	1.0
7+	1.2	1.3

Note:

Biennial Nature of Crop

- The almond crop is biannual in nature with +/- 10% per annum variation in tonnage possible

Variation between Regions and Farms

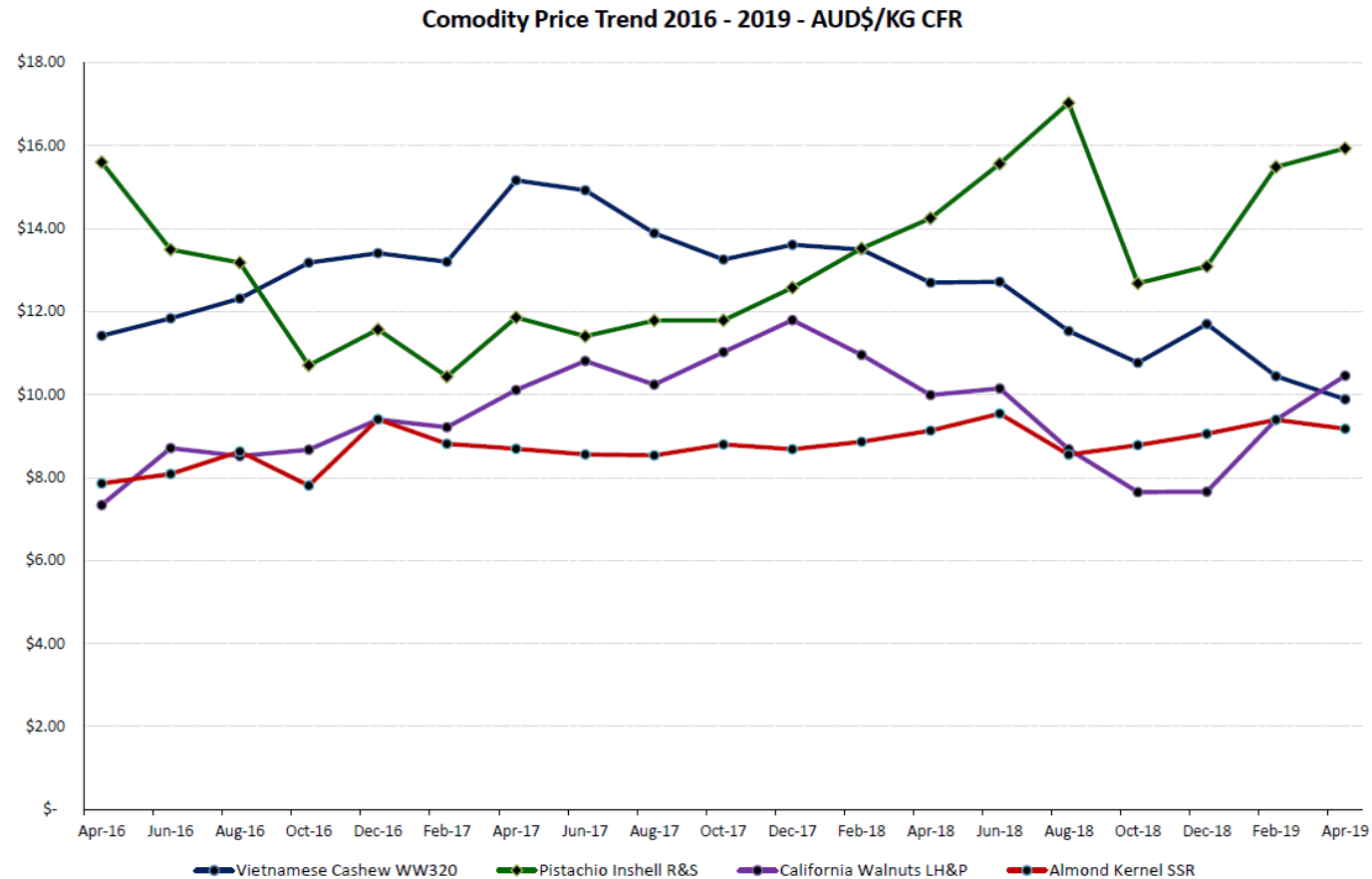
- Yields are not uniform and vary across both farms and growing regions

Post Economic Maturity Yield

- The yield for post economic maturity farms deteriorates as tree age increases

Significant tonnage upside available with a higher yield per acre at maturity

Tree Nut Pricing



Almonds are currently the best value in the basket - driving consumption

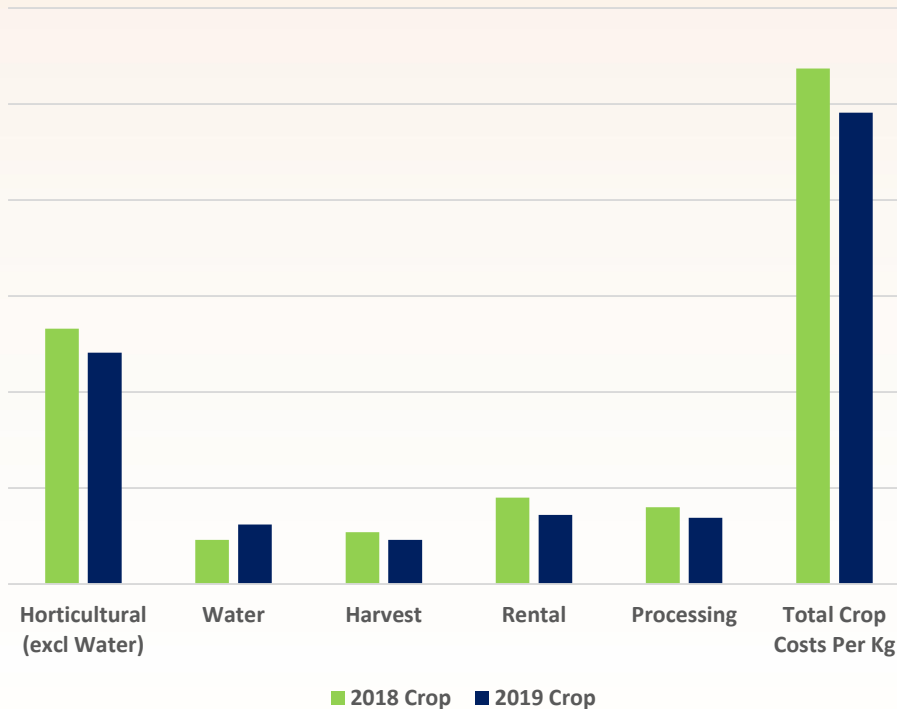


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Growing Costs

2019 vs 2018 Crop Costs Per Kg



- Overall 2019 Crop costs per Kg have reduced by 8.6%
- Yield delivery remains the top priority
- Focus continues from 2018 reductions across all Horticultural expenditure categories
- New technology in the processing centre has increased throughput rates – lower processing costs
- Higher temporary water prices led to a 33.6% increase in the water cost per kg. Management of temporary market purchase decisions and ownership portfolio kept this increase to a minimum
- Further reduction targeted through use of technology

Improved efficiency and increased yields led to further reductions in production cost per kg



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Almond Market Outlook – US Shipments April 2019

	US Export Shipments				US Domestic Shipments				US Total Shipments			
	Last Year	This Year	Growth	Growth	Last Year	This Year	Growth	Growth	Last Year	This Year	Growth	Growth
	(million lbs)	(million lbs)	(million lbs)	(%)	(million lbs)	(million lbs)	(million lbs)	(%)	(million lbs)	(million lbs)	(million lbs)	(%)
April	103.1	109.3	6.2	6.1%	73.3	67.7	(5.6)	(7.7%)	176.4	177.0	0.6	0.3%
Last 3mth	370.2	362.1	(8.0)	(2.2%)	190.3	186.8	(3.5)	(1.9%)	560.5	548.9	(11.6)	(2.1%)
Last 6mth	822.4	826.1	3.7	0.4%	364.6	369.7	5.1	1.4%	1,187.0	1,195.8	8.8	0.7%
Last 9mth	1,246.4	1,210.9	(35.5)	(2.8%)	546.2	555.0	8.8	1.6%	1,792.6	1,765.9	(26.7)	(1.5%)
Last 12mth	1,566.8	1,481.3	(85.5)	(5.5%)	727.6	743.5	15.9	2.2%	2,294.3	2,224.8	(69.5)	(3.0%)
Season	1,246.4	1,210.9	(35.5)	(2.8%)	546.2	555.0	8.8	1.6%	1,792.6	1,765.9	(26.7)	(1.5%)

Source: Almond Board of California April 2019 Position Report

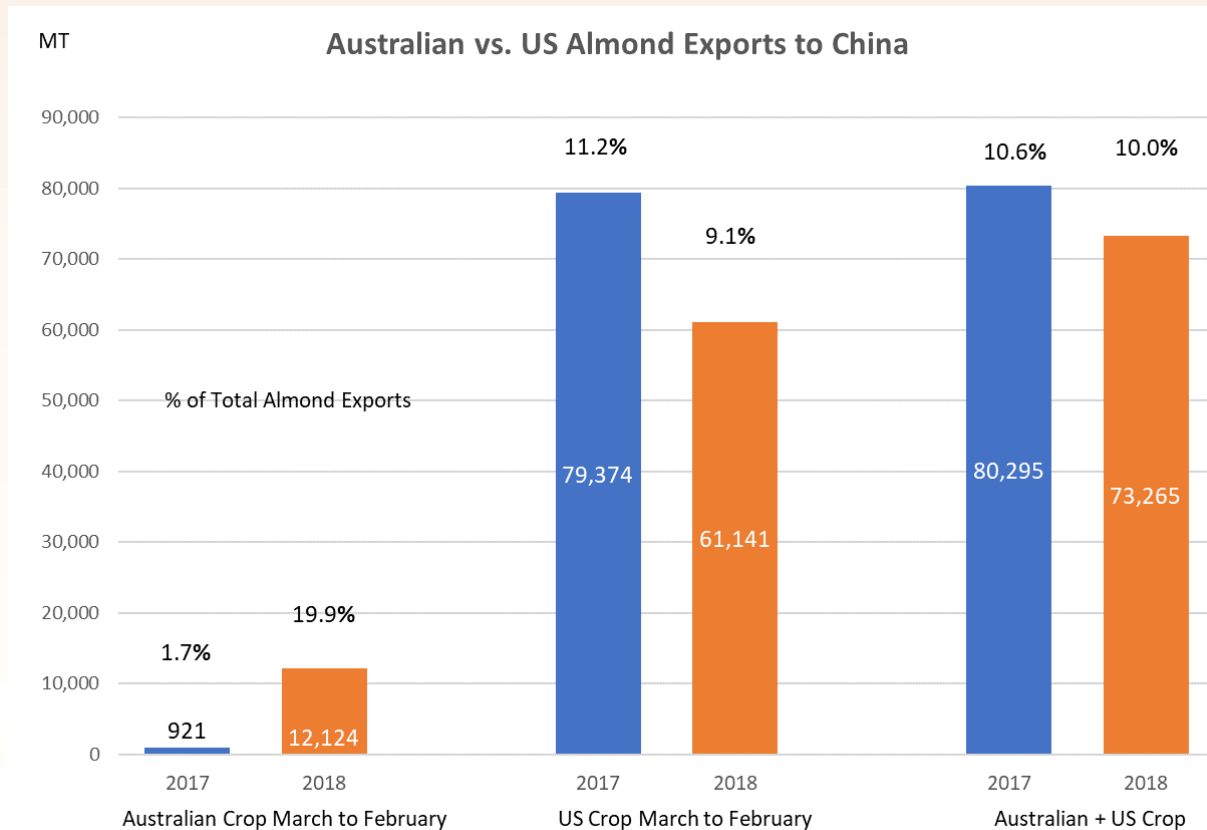
US Shipments resilient – especially with shipments to China to 30 April YTD being down 33% (52 Mlbs)



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Almond Exports to China



Data Source: Almond Boards of Australia and California

Australian almond exports to China increased significantly in the 2018 Marketing Year

Useful Almond Industry websites

Industry Associations

- Californian Almond Board www.almondboard.com
- Almond Board of Australia www.australionalmonds.com.au

Industry Reports

- US Crop Forecasts (Subjective, Objective) <http://www.almonds.com/growers/resources/crop-forecasts/tc-NASS-Crop-and-Acreage-Reports>
- Monthly Almond Position Reports <http://newsroom.almonds.com/position-reports>
- Almond Almanac <http://www.almonds.com/sites/default/files/2017%20Almanac%20Final%20-%20updated%207.5.18.pdf>
- UC Davis Almond Development Costings <https://coststudies.ucdavis.edu/en/current/commodity/almonds/>

Almond Companies

- Blue Diamond Growers www.bluediamond.com
- Blue Diamond Ingredients www.bdingredients.com/category/almond-market-analysis
- Almond Insights www.almondinsights.com
- Derco Foods www.dercofoods.com/en/english-reports/english-almond-reports
- RPAC Almonds www.rpacalmonds.com/marketnews
- Wonderful Pistachios & Almonds www.wonderfulpistachiosandalmonds.com/#ourdifference

Definitions & Explanations

¹ – **EBITDA & EBIT are 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.