



SELECT HARVESTS

High quality natural products

Select Harvests Limited (“SHV”)

Committee on Agriculture and Water Resources

Inquiry into Superannuation Fund Investment in Agriculture

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Disclaimer & Basis of Preparation

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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.

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Select Harvests Overview

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Appendix: Select Harvests Performance

Select Harvests

■ Overview

- Listed on the ASX (SHV), with a Market Capitalization of \$506m (9 October 2018) and 558 employees
- Assets in Victoria, New South Wales and South Australia

■ One of the largest almond growers globally

- 7,677 planted hectares of Australian almond orchards
- 29% of our orchards will reach maturity over the next 8 years, underpinning future growth
- State-of-the-art almond processing facility at Carina West, North West Victoria

■ Diversified 'better for you' branded plant food portfolio

- Market leading brands: Lucky, NuVitality, Sunsol, and Allinga Farms supplying wholesalers, manufacturers and retailers in both domestic and export markets.
- Value-added processing facility in the Northern Suburbs of Melbourne: snacking and cooking nuts, seeds, health mixes and muesli

■ Export focused business, with Asia the key target market

- Exclusive Trademark License & Distribution Agreement with PepsiCo Foods (China) Co. Ltd
- Separate to the PepsiCo agreement, secured distribution for our Sunsol brand in Sam's Club stores
- Our Industrial Division seeing strong demand from Asian food processors, esp. the baking industry

We supply the world with a growing volume of high quality, plant based food products



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.

Planted almond orchard portfolio of 7,677 hectares, including 2,624 on a long term lease from First State Super

Brand Portfolio

■ Lucky

- Lucky has been a favourite brand of Nuts and Seeds in Australia for over 60 years and is the Australian market share leader. Lucky has a range of quality products including almonds grown under the Australian sun on our own farms, walnuts, cashews, hazelnuts, brazil nuts, pine nuts, pistachios, macadamias, sunflower seeds and pepitas.



■ Sunsol

- Australian owned and operated since 1991, Sunsol muesli has been one of Australia's most popular supermarket brands creating delicious and unique blends of muesli with all the goodness that nature has to offer.
- China represents a great opportunity for Sunsol, with distribution gained through a number of e-commerce platforms, including JD.com, as well as access to bricks and mortar retailers like Sam's Club.



■ NuVitality

- NuVitality (formerly Nu-Vit) has been looking after Australians since 1991, making a range of products that fit into healthy lifestyles. Located in the health food aisle, NuVitality is a great tasting better for you food that nourish the mind and body, improve vitality and well-being in everyday life.



■ Allinga Farms

- The strong growth in global demand for almonds, coupled with the brand attributes of quality and reliability have contributed to the development of the world recognised Allinga Farms brand. Allinga Farms supply bulk products, including inshell almonds, all over the world to both established and emerging markets.



■ Renshaw

- Established in Australia over 30 years ago, Renshaw has developed a name for reliability and quality. The Renshaw brand supplies bulk product to major bakeries, manufacturers and wholesalers who depend on quality and service. Having an innovative outlook and being able to deliver safe and ready-to-use product with specific specifications has enabled the Renshaw brand to prosper.



Growing our consumer and industrial brands, aligned to the increasing consumption of plant based foods



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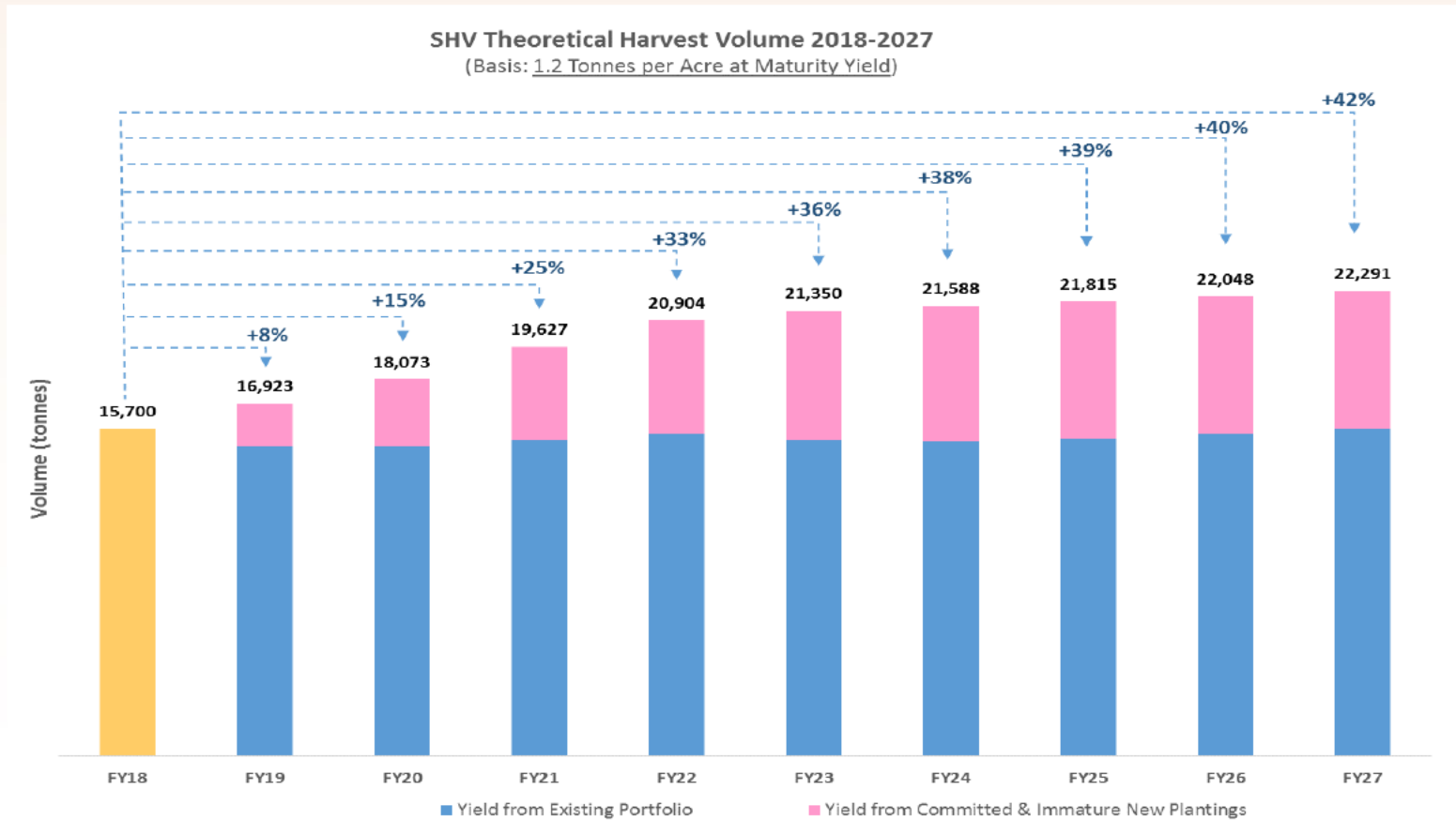
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Almond Orchard Volume Growth

- Select Harvests investment in almond orchard developments ensures organic earnings growth
 - This sort of growth requires patient capital



Terms of Reference

- **Select Harvests is not aware of any substantial regulatory requirements imposed on superannuation funds by regulators which act as barriers to superannuation fund investment in Australian agriculture**
 - In August 2015 Select Harvests entered a sale and leaseback agreement with First State Super
 - The transaction involved selling 960 hectares across three properties in South Australia, Victoria and New South Wales for proceeds of \$67m, accompanied by a long term lease to support the significant development of new greenfield almond orchards
 - We currently have 2,624 hectares of planted almond orchards on a long term lease from First State Super

- **The information required by superannuation funds to invest in Australian agriculture is available**
 - Sufficient good quality macro/high level data is produced by government agencies like ABARES and the ABS
 - As a publicly listed company, Select Harvests provides a significant amount of publicly available information on our industry and company performance

- **A number of market barriers do exist to restrain superfunds investment in Australian agriculture**
 - **Industry Consolidation:** limited number of large scale agricultural investment opportunities suitable for domestic superannuation fund investment. Many sectors of Australian agriculture are dominated by small scale farming operations. This will change as the industry increasingly consolidates
 - **Patient Domestic Capital:** long term 'patient' domestic capital is required to invest in agriculture. This is at odds with the short term performance reporting and liquidity requirements of domestic superannuation funds
 - **Effectiveness of the Water Markets:** Australian water markets, a key component of agriculture, need to operate as originally intended. Additional resources need to be provided to market regulators to monitor the actions and compliance of market participants
 - **Improved Infrastructure:** government can invest in supply chain and connectivity infrastructure to boost the global competitiveness and returns of Australian agriculture. Better overall performance of the sector will encourage increased investment by domestic superannuation funds

Industry Consolidation

There are currently a limited number of large scale agricultural investment opportunities suitable for domestic superannuation fund investment

- **Many sectors of Australian agriculture are dominated by small scale farming operations. This will change as the agriculture industry increasingly consolidates**
 - The benefits of economies of scale in agriculture will increase on the back of technology innovations
 - Intergenerational reluctance to ‘stay on farm’ will result in the increased consolidation of farming properties
- **The Federal Government should not put in place any artificial barriers to slow down consolidation in the agriculture sector**
 - Legitimate and commercially focused foreign investment and capital should be allowed to invest in Australian agriculture
 - Underperforming farms are often purchased by better and more highly capitalised operators, leading to greater efficiency, productivity and industry consolidation. The Federal Government should not intervene to disrupt this natural market force.

Patient Domestic Capital

Long term 'patient' domestic capital is required to invest in agriculture. This is at odds with the short term performance reporting and liquidity requirements of superannuation funds

- **The Federal Government and regulators should encourage domestic superannuation funds to reconsider agricultural investments in light of the favourable long term returns they provide**
 - Direct investment in agriculture by superannuation funds is well suited to the younger co-hort of super fund members, with long term investment horizons and higher short term risk/return tolerance
 - Liquidity issues with direct investments in agriculture can be overcome by investing in well capitalised ASX listed agribusiness, like: Select Harvests, Costa, Webster, Rural Funds Management, Tassal etc.
- **Australian superannuation funds could learn from the experience of their North American pension fund counterparts who have been investing in large scale agriculture for a long time**
 - North American pension funds, like Ontario Teacher's Pension Fund and the U.S teachers superannuation fund, TIAA, have invested directly in large scale Australian agriculture
 - These pension funds recognise: the historically strong returns of agricultural land ownership; the attractive long term risk/return characteristics of agriculture; and the non-correlation of agriculture with traditional asset classes, making agriculture a key component of a well diversified investment portfolio.

Effectiveness of the Water Markets

Australian water markets, a key component of agriculture, need to operate as originally intended. Additional resources need to be provided to market regulators to monitor the actions and compliance of participants in the water market

- **All commercial water trades should be recorded and publicly disclosed**
 - A number of water trades, e.g. NSW within water corporation trades, are currently not recorded. This limits the intended transparency the water market was intended to provide
- **All public water records should be searchable and combined into a single easily accessible national water register**
 - Standard processes around fees, applications, contracts and terminology should also be adopted across water authorities
- **Monitoring and compliance with water use limits should be to the highest uniform standard across all jurisdictions**
 - All states should adopt real time telemetry to monitor water use and compliance
- **Accurate price data should be included with all commercial water transactions**
 - A number of water brokers do not record the price of water trades. Water authorities need to mandate that they do
- **Regulators need sufficient skills and resources to monitor market activity to the district level**
 - Regulators need sufficient skills and resources to monitor water market activity at a micro/district level.
- **Extraction licenses need to capped to meet resource**
 - Regulators need reconcile extraction license to availability and deliverability

Improved Infrastructure

Government can invest in supply chain and connectivity infrastructure to boost the global competitiveness and returns of Australian agriculture. Better overall performance of the sector will encourage increased investment by domestic superannuation funds

- **Investment in transport infrastructure to boost supply chain efficiencies and speed to market**
 - Select Harvests has interconnected operating assets across three states. Government initiatives to improve transport infrastructure, especially in regional areas, would improve Select Harvests supply chain efficiency, reducing potential bottlenecks and time to market.
- **Better telecommunications infrastructure to improve real time connectivity**
 - Many recent advancements in agricultural technology (agritech) rely on real time connectivity and data flows via the cloud. The ability of Australian agriculture to maintain its global competitiveness will increasingly rely on our adoption of connected real time agritech.
- **Investment in infrastructure to lower farm energy costs**
 - Increasing energy costs are impacting the competitiveness and profitability of Australian agriculture. Government needs to invest in long term energy solutions, including renewables, to reduce on farm energy costs to ensure that Australian agriculture remains globally competitive.

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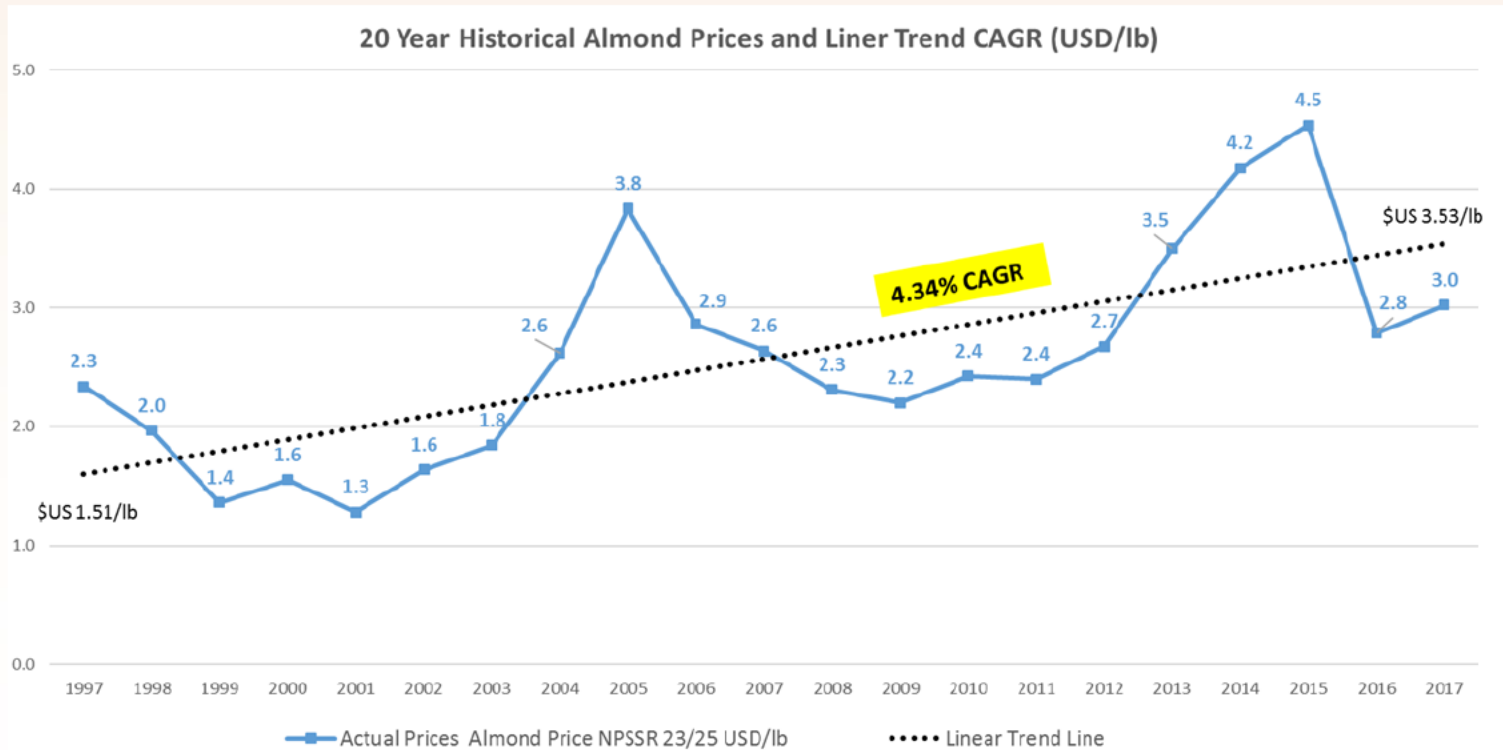
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Historic Almond Price

- Select Harvests earnings are heavily exposed to the U.S dollar global almond price
 - Increasing global demand and limited supply has resulted in the U.S dollar almond price increasing by 4.4% CAGR since 1997



Select Harvests Cumulative Returns vs. the Market

- **Select Harvests cumulative shareholder returns have been above the All Ordinaries Index**
 - Select Harvests share price has been more volatile than the All Ordinaries Index since 2011
 - Shareholders who have been willing to 'ride thru' the almond commodity price cycle have benefitted from owning Select Harvests shares with cumulative returns significantly above the All Ordinaries Index

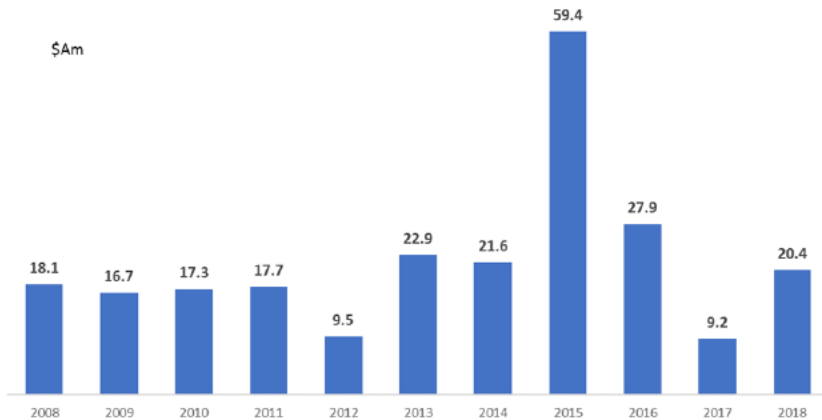


Select Harvests – History of Profitability and Return on Capital

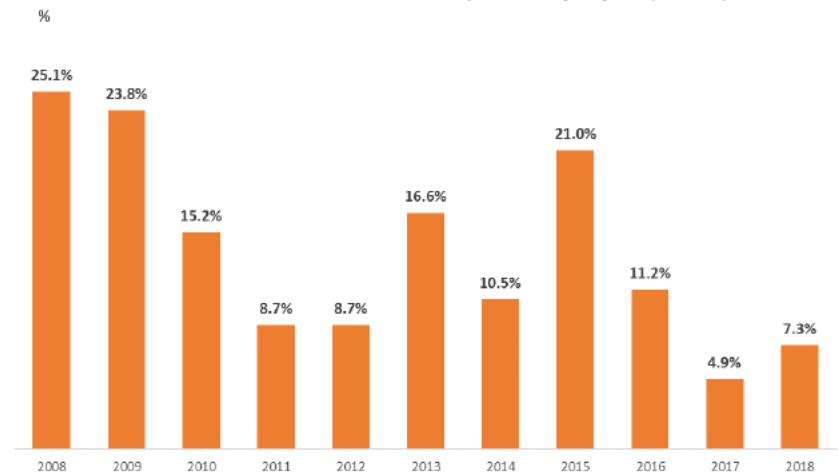
■ Select Harvests has a history of continuous profitability and returns on capital

- Select Harvests has been able to maintain a history of profitability and positive returns on capital despite volatility in the underlying commodity (almond) price

Select Harvests: Net Profit After Tax (NPAT)



Select Harvests: Return on Capital Employed (ROCE)



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%



SELECT HARVESTS

