SELECT HARVESTS

Select Harvests Limited (ABN 87 000 721 380)

Level 3, Building 7, Botanicca Corporate Park
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29 May 2023

SELECT HARVESTS LIMITED – 1H FY2023 HALF YEAR RESULTS

Select Harvests Limited ('SHV' or 'Company') announces a Net Loss after Tax of $96.2 million for the first six months of the 2023 Financial Year. The result has been materially impacted by La Nina weather patterns affecting the 2022 and 2023 crops and the resultant write-off of goodwill.

Managing Director, David Surveyor, said "Climatic conditions have impacted the 2023 crop with cold and wet weather resulting in unusual growing patterns and lower yields. Crop performance is understood to be consistent with the broader Australian almond industry."

Consistent with the requirements of Accounting Standard AASB 141 Agriculture, the harvested portion of the 2023 crop has been valued at the estimated fair value less costs to sell. Due to the 2023 crop volume forecast decreasing to 17,500MT, the net realisable value of the crop is less than the total costs to sell the crop. As a result, the full loss of the 2023 crop has been reflected in the 1H FY2023 accounts. The recognition of the forecast full year loss has a material impact on the 1H FY2023 financial result. The 2H FY2023 result will not reflect any impact of the 2023 crop result (assuming there are no changes to the 2023 crop fair value assumptions) and therefore is forecast to show a small loss with the recognition of six months of corporate and finance costs partially offset by non-crop related income.

Overview of 1H FY 2023 Half Year Financial Results

- **1H FY 2023 Loss After Tax of $96.2 million** (1H FY 2022 NPAT of $2.0 million)
- **Underlying EBITDA* Loss of $55.6 million** (1H FY 2022 Continuing Operations EBITDA of $17.7 million)
- **Reported EBITDA Loss of $117.4 million** (1H FY 2022 Continuing Operations EBITDA of $17.7 million)
- **2023 forecast almond crop of 17,500 MT** (FY 2022 Reported 29,000 MT) – **Down 39.7%**
- **Almond price estimate of A$7.45/kg** (FY 2022 A$6.80/kg) – **Up 9.6%**
- **1H FY 2023 Operating Cashflow of negative $26.7 million** (1H FY 2022 positive $15.3 million) – **Down $42.0 million**

(* Underlying EBITDA = Reported EBITDA less (Goodwill Impairment + Impairment Loss on Biological Asset + Impairment on Bearer Plants))

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- **Net Debt (excl. finance lease liabilities)/Equity ratio at 31 March 2023 is 44.0%** (31 March 2022 25.9%)

- **Loss per Share (EPS) of 79.5 cents per share** (1H FY 2022 Continuing Operations Earnings per Share 3.1 cps)

- **No Interim Dividend Declared for 1H FY 2023**

The 2023 crop harvest has now been completed. Despite the unfavourable growing conditions, the quality of the crop has improved compared to last year. Due to a drier 2023 harvest period the prevalence of mould has decreased from 2022 crop levels.

Inshell levels are lower, however kernel sizes are larger. Insect damage is higher (a function of the lower crop size) however recent investment in state-of-the-art sorters will lead to the final product quality profile improving from last year.

Total growing costs, while higher, were in line with expectations. Fertiliser costs were higher than for the prior crop (due to price rises as a result of world supply shortages as previously communicated) and additional costs were incurred as a result of the flooding events. These costs were offset by lower water costs and harvest freight (a function of the lower crop). There were additional costs recognised for immature orchards as their maturity profile increased.

The Company's processing facility is fully operational with approximately 67% of the crop having completed the initial hulling and shelling process. The quality mix continues to be reviewed to ensure highest grade final product options are targeted.

Freight and logistics operations have returned to pre-Covid levels. Freight costs have reduced from last year as a result of increased capacity in the market.

The Company's value-adding facility continues to deliver positive outcomes. It is processing low grade material and producing higher value product (e.g. paste and sliced material). Additional upgrades have been completed to ensure the production of high-quality material at optimal throughput and yield recovery rates.

During the 1H FY2023 period the Company completed a detailed review of the remaining 2022 stock on hand. This inventory was impacted by the wet finish to the 2022 harvest and had to be mechanically dried. Following this review, a significant portion of the remaining inventory was downgraded due to quality issues, primarily related to mould (from exposure to moisture). This remaining inventory has either been sold in the market at reduced pricing levels or been allocated to be used through the Company's value-adding facility. This downgrade has had a $24M before tax impact on the 1H FY2023 result.

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Operational cashflows were lower than 1H FY2022. Lower almond pricing and the downgraded quality of the 2022 crop reduced cash inflows, while payments for growing and harvesting costs for the 2023 crop continued at forecast levels. Despite the lower forecast volume for the 2023 crop, operational cashflows are forecast to be positive in the second half from sales of inshell and export kernel.

Investing cash outflows were lower than 1H FY2022 as the Company consciously lowered its level of capital expenditure while cashflows were forecast to be lower due to crop and market factors.

Additionally, tree development costs decreased as more young trees reached their full maturity profile.

Balance Sheet

The Company's balance sheet remains in a sound position. There is however, as result of the Company's reported loss, a $99.5M reduction in equity compared to the same period last year. This comprises the 2022 crop revaluation, reduced 2023 crop and intangibles write down.

All of the Company's assets are held on the Balance Sheet at historical cost. The most recent asset market valuations were undertaken by Herron Todd White in September 2022. The property, plant, and equipment (ten Company owned orchards and Carina West processing facility) has a historical value of $333.1m against a market value of $458.4m. Additionally, the current historical value of the water entitlement on the Balance sheet is $58.8m. Management values the portfolio at $128.6m, based on recent water market transactions.

It should be noted that the Company's market value of net assets of $626.7m does not include any value derived from our leased orchards. The leased orchards represent 45% of our portfolio.

On the 31st of March 2023 the Company signed a new three-year facility agreement with its banking partners, NAB and Rabobank. This incorporated a $30M increase in facility limits, plus a further $20M increase that rolls off in June 2024 and a waiver on the Company's Fixed Charge Cover Ratio covenant measure to March 2024. Despite the lower 1H FY2023 earnings, all required banking covenants have been met with headroom remaining. Debt levels remain well managed and current facilities remain adequate for operations moving forward. As a post balance sheet event the Company has also secured, for two years, its $20m seasonal facility. These revised facilities give additional committed support to our forward cash position.

Debt and gearing levels as at 31 March 2023 are, as per normal, approaching their seasonal peak. With almond prices at their current level, and a delayed 2022 sales profile, debt balances are expected to peak in May 2023 and decrease during the second half of FY2023. The Company has met all required covenant measures as at 31 March 2023 and is forecast to do so going forward.

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Market Outlook

As US growing conditions deteriorated during the bloom period, market pricing started to increase steadily in March 2023 and continued this pattern to early May 2023. Adding to this was the key export market of China coming out of lockdown restrictions. As the market became more active and pricing improved, the Company has contracted 60% of the 2023 crop for sale.

There have been a series of industry based US crop estimates with forecasts ranging between 2.2b and 2.5b pounds. The top end of forecasts has been the 12th of May 2023, US Department of Agriculture Subjective Estimate for the 2023 Californian Almond Crop of 2.5B pounds. This is 2.5% lower than the 2022 below average crop and 13% lower than the average of the last three years crop size. The US 2023 crop Objective Estimate is due on 7 July 2023.

The other key determinant of US volumes is inventory carried forward from one season to the next. Three of the past four months have delivered record shipments out of the US and this has reduced the carry out inventory to manageable levels.

March 2023 shipments from the Australian Almond Board position report (60% higher than March 2022) were strong and continued the trend of improved market activity and increased stock movements.

Key export markets are very active and with China out of lockdown restrictions, export demand has returned to pre-Covid levels. Additionally, the important Indian market has been sourcing a variety of almond product. The Company has grown its customer base in the key markets of the Middle East and South East Asia allowing for an improved sales profile and customer diversification.

Based on contracts in place and current market pricing, the Company has valued its 2023 crop at an average price of $7.45/kg. Due to the reduction in the 2023 crop forecast the full year sales are fully hedged against the USD at a rate of $0.6788.

Summary

David Surveyor concluded "Early indications are that the 2024 crop is on track to return to normal yields. Following three years of the wet La Nina weather patterns, the Bureau of Meteorology has forecast that Australia is likely to move into an El Nino pattern which is typically favourable for growing almonds. The 2024 growing program has commenced and the Company is executing a full horticultural plan. Water allocations remain favourable, dam storage levels are high and temporary market water pricing is expected to remain at below average levels. Additionally, fertiliser pricing has reduced as expected.

The global almond pricing environment is favourable. A forecasted lower 2023 US crop, positive recent US shipments bringing down inventory levels and key export markets now fully active are leading to upward pressure on pricing. We are currently forecasting an average crop sell price of $7.40 - $7.80/kg ($7.45/kg has been used for the 2023 crop Fair Value Calculation based on current actual sales contracted).

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The past two seasons have proven to be Select's most challenging, and this is reflected in the Company's 1H FY2023 accounts. The Company's historical focus to maintain a healthy balance sheet has allowed it to operate through this downward cycle. While debt and gearing levels are currently higher than prior years, the Company's increased finance facility limits and agreed covenant ratios provide flexibility for operations moving forward.

The Company is part way through reviewing its strategy. It has already identified a series of value accretive projects that will deliver improvements in profit and cash. A number of these are already underway and delivering economic gains.

The Company is focussed on completing a successful 2023 crop sales program, maximising yields for the 2024 crop and delivering on its profit and cash generating strategic initiatives."

Given the 1H FY2023 result the Board has determined not to pay an interim dividend. Following the completion of the FY2023 accounts the Board will review the options of making a year-end dividend payment.

This announcement has been approved by the Board of Directors of Select Harvests.
ENDS

FOR FURTHER INFORMATION, PLEASE CONTACT:

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About Select Harvests:
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 value-added processing (blanching, roasting, slicing, dicing, meal and paste) under the Renshaw & Allinga Farms industrial brands. 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 stores, other food manufacturers, retailers and the almond trade.

The company is headquartered at Richmond, in Melbourne, Australia, while its orchards are in North West Victoria, Southern New South Wales and South Australia. Its almond processing and value-adding facility (Carina West) is located at Wemen in North West Victoria.
For more information, visit www.selectharvests.com.au