SELECT HARVESTS 2012 AGM: Paul Thompson Speech

20 November 2012



It's a privilege to be here today to deliver my first AGM presentation as Managing Director of your company.

I thought I'd begin this presentation by giving you an overview of my initial impressions of Select Harvests since being appointed Managing Director in July of this year. I will touch on the areas where I believe immediate improvements can be made and provide you with an overview of the roadmap as I see it for taking the business forward into growth, increasing profitability and ultimately shareholder value.

I was extremely honoured to be invited to be Managing Director of Select Harvests. I joined Select for three reasons:

- The strong and attractive fundamentals in the global almond market, which Michael has outlined
- Select Harvests' market leading position and quality assets
- The opportunity that I think exists to better position Select Harvests to take full advantage of global growth and importantly increase shareholder value.

Over the past four months I have had the chance to look more closely at the Select Harvests business and agree with the current short term strategy to consolidate the business base after a turbulent period: post Timbercorp/Olam, the significant one off weather events and the rapidly appreciating dollar.

If we look at Selects' assets:

- It has a geographically diverse portfolio of orchards, a significant proportion of which are at or near full productive maturity.
- The Carina West Processing Facility is a potentially world-class facility, which is now under-utilised.
- An improving Food Division with market leading brands such as Lucky and we should not underestimate the strength and importance of the trading and industrial divisions.
- We have some great talent and expertise within the business

Select's unique integrated business model is a real advantage and a differentiator in the market, enabling us to access the entire almond value chain.

Most importantly, I see a number of opportunities to drive operational improvements, reduce costs, increase profitability and ultimately grow the business, increasing shareholder value.

During the first quarter of next year, the Board and the executive management team will take the opportunity to review the mid and long-term strategy of the business. **Select Harvests Limited**

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The 2012 financial year was challenging for the industry and for Select Harvests. This was reflected in the financial performance of the business.

The main impacts on performance were:

- below average yields, experienced across the Australian industry for the third successive year
- reduced crop quality and a high Australian dollar, impacting the almond price
- and the net adjustments of major items, in particular the write-downs related to WA of \$20m and the former processing facility at Kyndalyn Park of \$4.9m. In part offset by the gain on sale of water Vic & NSW for \$4m.

On an underlying basis, EBIT increased by 27% and NPAT increased by 6.7% to \$9.5m. This was encouraging within the context of the external challenges of wet weather and the high Australian dollar.

The performance of the Food Division was particularly encouraging. EBIT increased 27% reflecting the benefits of increased operational discipline, astute trading and a strong performance from our value added brands, such as Lucky.

And we made strong initial progress in reducing costs and disposing of or recycling assets, including \$18m of water assets in Victoria and NSW.

The Board declared a fully franked dividend of 3 cents per share, resulting in a total dividend of 8 cents per share this year. This reflects the Board's confidence in the business, the profit performance during the year and our intention to balance shareholder returns while retaining sufficient funds to invest in the business.

While I will not present a detailed strategy today after only four months in the role, I would like to provide you with an overview of the way forward as I see it for Select Harvests.

I see it as a three phased approach – consolidation, business improvement and growth.

Phase One: commenced before I joint the company. It is about creating a strong base by continuing to challenge the way we do things, taking immediate steps to drive identified operational improvements and efficiencies across the business, and making sure that we have the right team in place. We are targeting a more capital efficient structure. This includes liberating capital by improving working capital efficiency, selling non-core assets and increasing asset efficiency.

We have already made substantial progress on a number of initiatives including:

 Putting idle or under-utilised assets on the market such as the redundant packing facility and warehouse at Euston

- Initiating benchmarking of our horticultural practices to make sure that we are doing everything we can to optimise yield and quality
- Bringing in a Food Business Performance Improvement program to accelerate the good progress already being made in the Food Division
- Establishing a team to reduce working capital and costs
- Commencing reviews of our Business Risk and Safety & Hygiene processes
- Introducing an enhanced staff annual review process and key accountabilities process
- Changing the go-to-market structure in the retail consumer products division
- Rationalising the Health Food range in our Soland brand by 200 SKUs

Phase Two is about building and preparing the foundations for further growth. This includes establishing an appropriate funding mechanism to build a more robust balance sheet give us more flexibility to support securing longer term almond supply.

We also need to embed a performance and learning culture across the business.

Phase Three is the Growth phase, leveraging the unique expertise and competencies in our business – delivering top quartile farm performance, growth and innovation in our brands, increasing the value of our business.

Select Harvests is an integrated food business, but there is no taking away from the fact that our farms are the engine room of our business.

A return to more normalised yields will have a significant and immediate impact on our bottom line, but crop quality is equally as important to value creation. We have instigated a third party benchmarking exercise of our farming and horticultural practices to ensure that they compare to industry best practice.

The initial feedback we have received has highlighted excellence and gaps within the business, the quality of our assets and where investment is required. A key initial recommendation is to enable more decisions to be made directly on our almond farms so they can be more responsive to local conditions.

Individual farm plans are being put in place based on the crop set for each farm. Going forward we will set out agreed key performance objectives for farm managers targeting top quartile yield, quality and return per kilogram. We are also targeting annual savings in excess of \$3m, through improved purchasing, cost control and better, more efficient farming practices.

More broadly, we continue to explore opportunities to secure third party volumes for the Carina West Processing Facility.

We have planted some 3,949 acres of almond orchards in WA over the past three years. While many of the base assumptions for the project remain valid, variability of terrain has resulted in a lower planted area. In addition, the project has experienced higher infrastructure and operational costs than initially expected and future projected costs will potentially be higher.

The Board commissioned a review of the WA orchards. The initial horticultural report has been completed and indicates there are no horticultural reasons why the orchards can't be successful, subject to a full horticultural cycle being validated in CY13.

This is a Greenfield development and there are challenges. We are implementing a number of horticultural recommendations to account for local conditions. At the same time an economic review of the orchards is being conducted and will be concluded early in the first half of calendar year 2013.

We continue to be open to a range of options, including bringing in investment partners.

The Food Division provides us with a route to domestic and international markets. I have been struck by the strong customer relationships Select Harvests has here and in the export market, and by the strength of its market leading brands in the consumer, industrial and trading markets.

While success has been achieved in implementing operational efficiencies across this business, my impression is that there is plenty of scope to continue this good work. We have already identified \$1m per annum in savings across operations and go-to-market costs.

In March, a sale process for the non-core health and snack food brands was initiated. Having reviewed a number of expressions of interest, we have come to the view that the potential for Select Harvests to unlock further value in these brands was of greater benefit to the company than the value that would be realised in a sale. As such, we have decided to retain ownership of the brands and will look to introduce further operating efficiencies across the food business.

The priorities are:

- Food quality, safety & hygiene initiatives. This includes the commissioning of our new pasteurizer in the new year
- Optimising equipment efficiency on a prioritized payback hierarchy
- Strengthening customer & consumer trust
- Reducing operations and go to market costs
- Improving people management & information processes.
 We see a lot of upside on working capital by improving our internal processes.

In October, we announced the voluntary precautionary recall of some natural almond kernel products supplied to Woolworths after laboratory testing identified the potential presence of salmonella.

We worked closely with customers and health authorities throughout this process. It is worth noting that Select Harvests has extremely high standards of quality assurance, including HACCP and Safe Quality Food accreditation. Our facilities are regularly audited and extensive internal and external testing of almonds is carried out.

As a result of extensive precautionary testing, we identified the potential source of contamination to some almonds and made a precautionary recall was made.

I am very proud of the way the team handled this recall and grateful for the understanding of our customers and consumers.

From a business perspective there has been no material impact on profitability as a result of the recall.

Almonds, as we know, are a natural product and as with other natural products, there is potential for contamination. As I said we are already well progressed with plans to offer customers pasteurized almonds.

A key component of our strategy going forward is having the right team in place.

I'm pleased to welcome Bruce Van Twest our General Manager Operations and Mark Eva our General Manager – Sales & Marketing Consumer Products.

Bruce brings exceptional operations experience including overseeing all of Kraft Foods manufacturing operations in Australia and New Zealand.

Mark has proven expertise in driving sales growth at consumer goods companies including SCA Hygiene and Bulla Dairy Foods.

Peter Ross formerly the General Manager Processing has been appointed General Manager of Horticulture. Tom Kite, an internal promotion, assumes responsibility for Human Resources and Culture.

Paul Chambers, our CFO & Company Secretary and Laurence Van Driel, our Group Trading Manager, remain in their roles. Paul has been invaluable in helping steer the company through difficult times while Laurence has an intimate knowledge of the global industry and had proven to be an astute trader for Select over many years.

This is a highly experienced management team which will be focused on driving our One Select business improvement program and with building a learning and performance culture across the business. I can already see the impact the new team is having.

Members of the team will be available after the meeting, so please feel free to approach us and ask any questions you might have.

I spoke earlier about the strong fundamentals underpinning the almond price. While there is no formal market in almonds, Californian almond growers are reporting increases of 10-15% on the 2011 price. This reflects strong demand for almond products, particularly from China.

While California last year experienced another record crop, the major growers estimate that the 2012 crop will be some 200 million pounds below the 2.1 billion pounds earlier projected. That is equal to the entire Australian and Spanish almond crop who are the worlds number 2 and 3 suppliers.

Our own almond blossom and pollination is supportive of good crop potential for the 2013 almond crop and long-term weather projections are favourable.

Our initial crop estimate indicates that the 2013 crop will be up to 20% higher per acre than the 2012 crop.

In this context, I am extremely optimistic about the outlook for Select Harvests. In my discussions with investors there are a number of themes which I think make Select a compelling investment proposition:

- 1. The fundamentals of the industry
- 2. We have built a strong leadership team across Board and Management who are implementing a renewed focus on operational rigour and discipline across the business.
- 3. We have a unique integrated business model which gives us greater control of our own destiny
- 4. We are building a winning culture focused on excellence, service, reliability and adding value.
- 5. We are focused on performance excellence with initiatives to drive yield and quality improvements and efficiencies.
- 6. An improvement in growing conditions will have an immediate impact on our bottom line.
- 7. Our orchard maturity profile is compelling a significant proportion of trees are at or near full productive maturity.
- 8. We have a good position in the industry as the second largest almond producer in Australia which itself is on track to be the second largest almond producer globally by 2015.
- 9. We have market leading brands, a history of astute trading and excellent relationships with overseas customers.
- 10. Perhaps most significantly we are the only pure listed company with exposure to the almond growth opportunity

I'd like to leave you with an overview of the company that we are building:

- A strong and trusted company that looks after stakeholder interests
- A business that can manage the dynamic agricultural cycle and can mitigate the inherent risks
- A company that responds to the challenges and learns from the experience

 A cash generative business that will be positioned to invest in a growth industry

I will be happy to answer question during general Q&A and I will be around the foyer along with other members of the management team after this meeting. I hope to meet many of you individually. With that I'll hand you back to Michael.