The African Seed Company

Seed Co International Limited

Unaudited Interim (Half-year) Results Presentation F2021/22

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Half-Year to 30 Sept 2021
Financial Review
By
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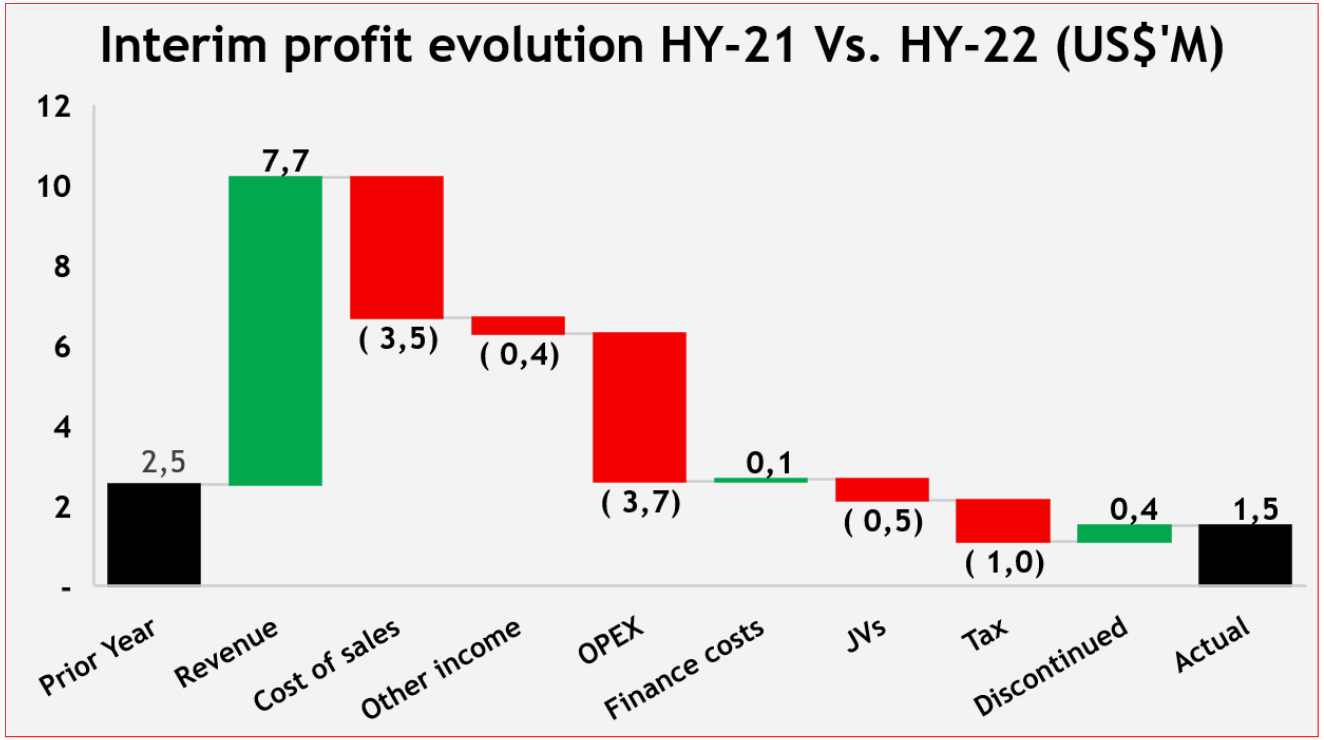
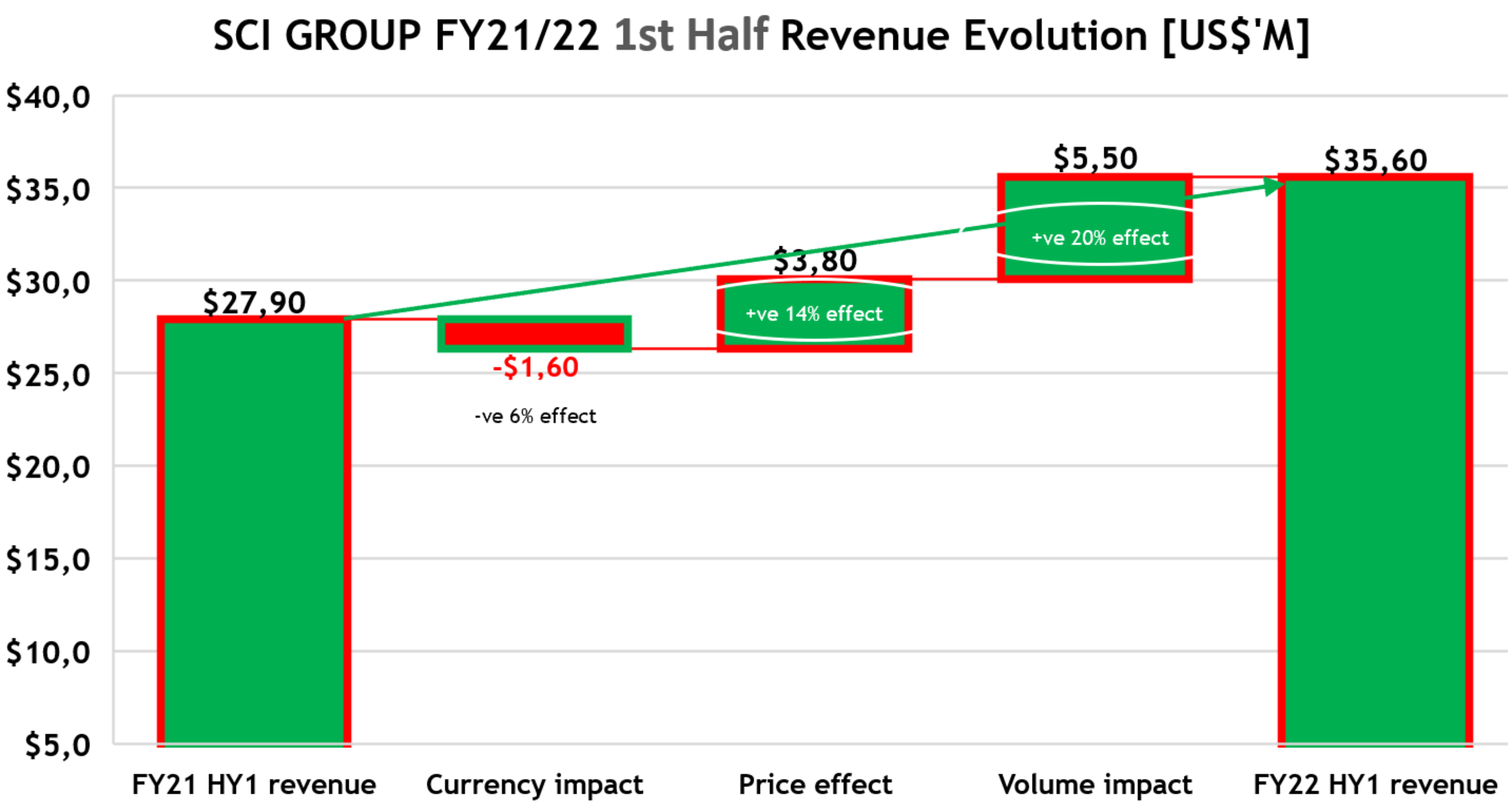
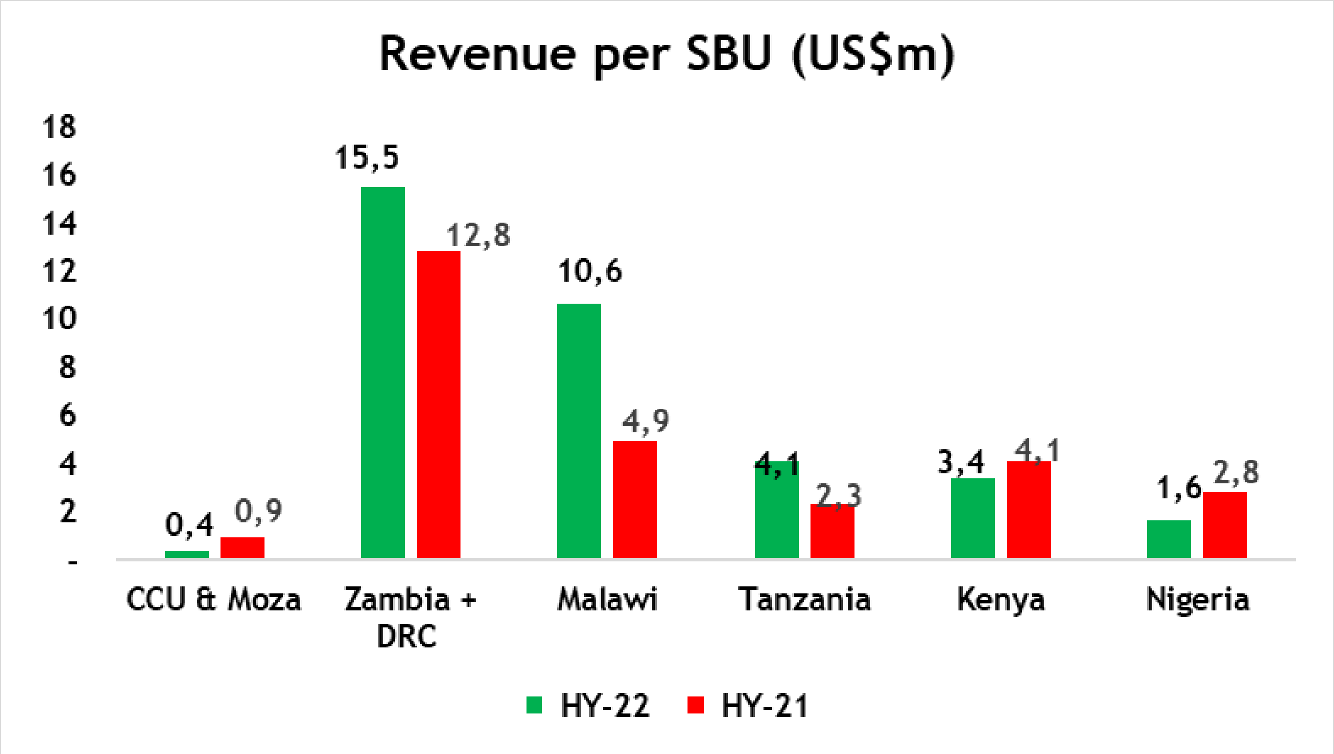
INCOME STATEMENT	30-SEPT-21 US$'M	30-SEPT-20 US$'M
Revenue	35.5	27.9
Cost of sales	(18.2)	(14.8)
Gross profit	**17.3**	**13.1**
Other income	1.3	1.7
Operating expenses	(13.8)	(10.1)
Operating profit	**4.8**	**4.7**
Net finance cost	(1.3)	(1.3)
Share of loss from associate & JVs	(0.9)	(0.4)
Profit before tax from continuing operations	**2.6**	**3.0**
Income tax expense	(1.1)	(0.1)
Profit after tax from continuing operations	**1.5**	**2.9**
Discontinued operations		
Loss from discontinued operations	-	(0.4)
Profit for the period	**1.5**	**2.5**



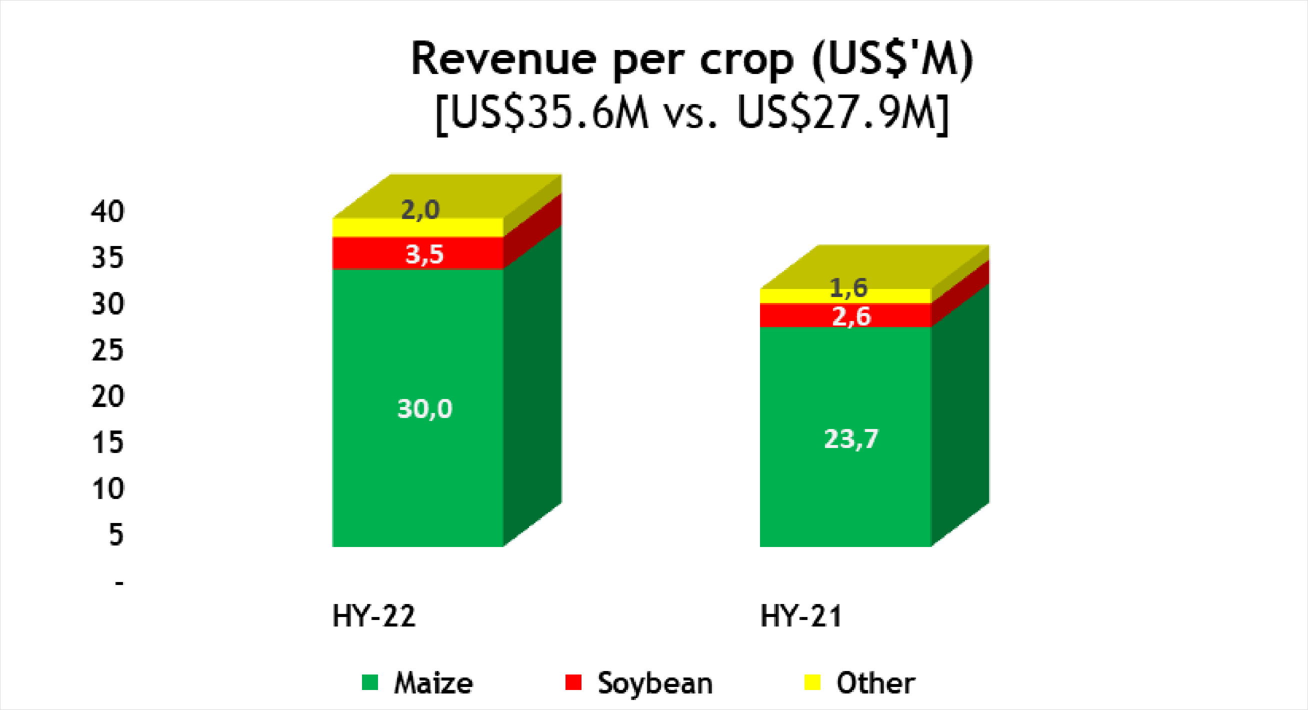
- 1st half profit reduced to $1.5M from $2.5M despite growth in revenue due to:
  - ✓ fall in other income because of non-recurring disposals
  - ✓ increase in operating costs owing to:
    - early selling season preparedness this year
    - strengthening Zambian kwacha - local costs translated to USD at lower rates
  - ✓ increase in share of RSA associate loss on full accounting this year
  - ✓ higher tax expense from more profit contribution from higher tax countries (Malawi & Tanzania)

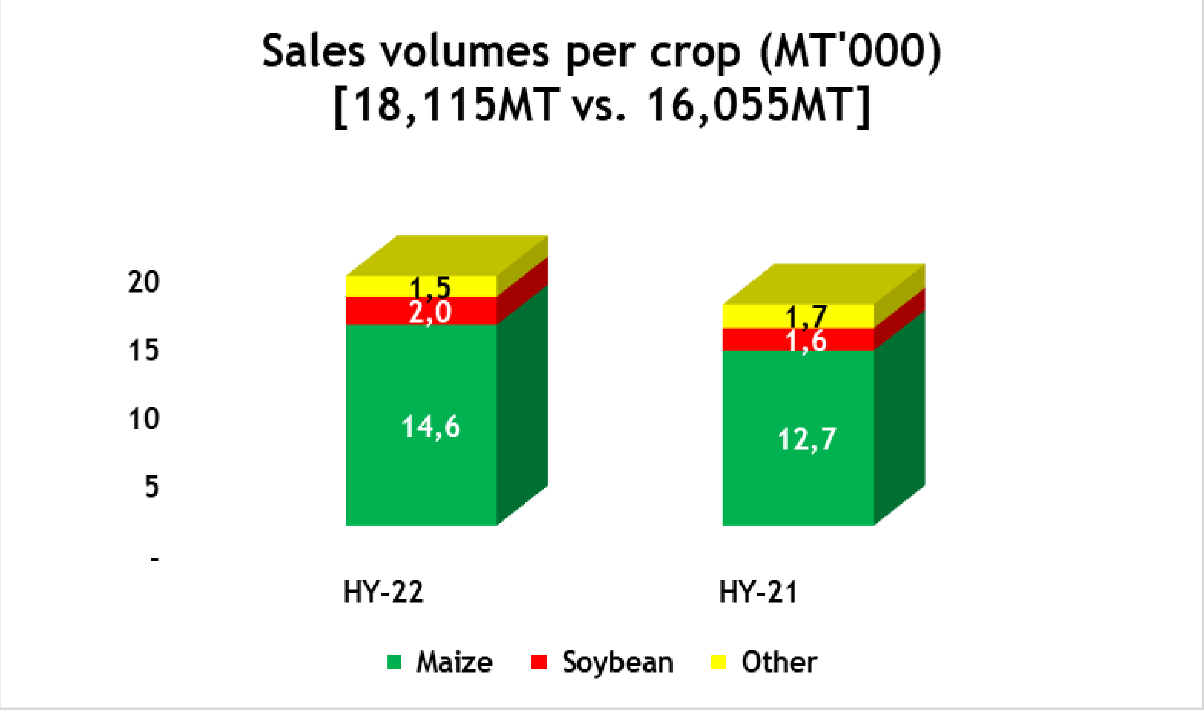


- Revenue jumped to $35.6M from $$27.9M driven by:
  - ✓ better season preparedness - early sales activity in Malawi, Tanzania & Zambia
  - ✓ local currency price adjustments
  - ✓ translation gains mainly in Zambia following appreciation of the Kwacha currency



- The Southern African Customs Union region (SACU) no longer includes RSA, eSwatini & Lesotho hence the fall in revenue by more than 50%;
- Turnover in Zambia increased by 121% to $15.5M mainly due to price adjustments and early season start;
- Sales in Malawi more than doubled buoyed by early demand driven by the Gvt inputs support program
- Tanzania increased 78% to $4.1M driven by early demand
- Kenya sales declined 17% due to drought.
- Nigeria turnover down 42% due to stock unavailability following production challenges due to heavy rains last season





- Maize seed dominated both revenue and volume contribution driven by strong demand in Malawi, Tanzania and Zambia.
- Soya seed sales increased compared to last year on account of better stocking and interest coming out of Mozambique
- Other sales include wheat and bean sales in Zambia and Mozambique respectively

Gross margin

- The 1.6 points gain mainly due to:
  - ✓ price adjustments
  - ✓ better product mix

	HY22	HY21
Gross margin	48,6%	47,0%

Other income

- The $0.4M decrease due to non-recurrence of non-seed sales at same level as prior year

Other income US$'M	HY22	HY21
	1,30	1,70

Operating expenses

- The 37% jump attributable to:
  - ✓ early start of the sales & marketing season
  - ✓ translation impact of currency gains in Zambia
  - ✓ increased activities as Covid-19 restrictions eased

Operating Expenses US$'M	HY22	HY21
	13,80	10,10

Balance Sheet (US$'M)

BALANCE SHEET	30-Sept-21 US$'M	31-Mar-21 US$'M
Assets	**168.9**	**137.2**
Property, plant & equipment (PPE)	46.1	39.6
Intangible assets	4.9	5.1
Right-of-use assets	0.8	0.9
Investments in associate & JVs	5.4	4.8
Deferred tax asset	0.4	0.6
Inventories and biological assets	33.3	18.1
Receivables	69.8	58.3
Cash and cash equivalents	8.2	9.8

BALANCE SHEET	30-Sept-21 US$'M	31-Mar-21 US$'M
Equity and liabilities	**168.9**	**137.2**
Shareholders' equity	93.7	83.7
Loans and borrowings	45.4	32.2
Lease liabilities	0.8	0.9
Deferred tax liability	3.4	3.1
Payables and provisions	25.7	17.3

-**Non-current assets** increased as a result of:
- ✓ capacitation of own production farms in Zambia
- ✓ cold room seed storage in Malawi

-Inventory increased as usual just before the onset of the peak selling season

-Receivables increased as the selling season started early this year

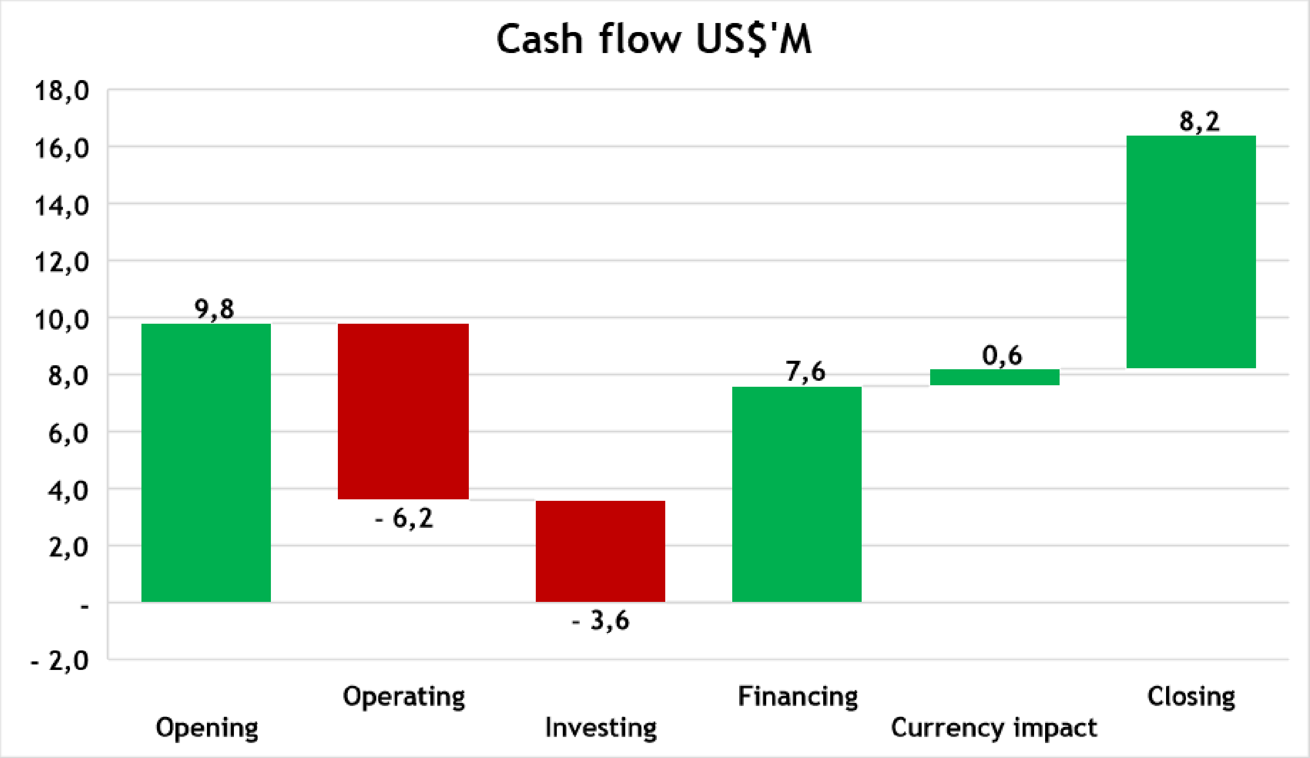
-Cash utilisation increased in line with increased processing activities and early start of the marketing season

-**Equity** increased due to:
- ✓ CAPEX outlay
- ✓ half-year profit
- ✓ translation exchange gains

-Debt increased from last year-end to finance the early start of the selling season

-However, gearing dropped from 63% to 49% as the equity position of the Group improved

SUMMARIZED CASH FLOW	US$'M
Opening balance -1 April 2021	**9,8**
Net cash flow utilized in operations	(6,2)
Net cash flow utilized in investments	(3,6)
Net cash flow generated from financing	7,6
Exchange rate effects	0,6
Cash & cash equivalents at end of period -30 Sept 2021	**8,2**



- **Operating cash outflow:**
  - ✓ Largely attributable to procurement of seed from growers and chemicals for processing ahead of the summer selling and seed production season.
- **Investing cash outflow:**
  - ✓ Own production farms' capacitation investments mainly in Zambia.
- **Financing cash inflow:**
  - ✓ Borrowing proceeds to fund season's working capital requirements
- **Currency impact:**
  - ✓ Effect of appreciation of local currencies on cash at hand balances –mainly Zambia.

Seed Co International Group Operations Review

General environment

- Covid-19 third waves subsided but 4th waves emerging
- Normal to above normal rainfall forecast for Southern Africa
- Below normal rainfall for several regions in East Africa
- Sharp increases in fertilizer prices globally expected to adversely impact planting activities and margins
- Political instability in Ethiopia, Sudan and some Francophone West Africa regions hindering business development
- Weakening regional currencies, save for Zambia, adversely impacting value preservation

Research

- Released 5 new maize hybrid varieties in Zambia that will also be released in our other markets:
  - ✓ SC449
  - ✓ SC547
  - ✓ SC553
  - ✓ SC555
  - ✓ SC735
- SC547, SC553 & SC555 now qualify to be entered in the SADC Catalogue
- SC733 launched in Zambia to compliment and gradually replace SC701 as a green mealie variety
- Advanced stages to release soybean variety SC Signal in Nigeria
- Expecting to release 3 soybean varieties in Ethiopia next year based on ongoing trials
- Continuing rice hybrid trials continuing in Southern, East and West Africa and have already started pilot commercial sales in Malawi, Tanzania, Nigeria and Zambia
- Potato and cowpea hybrid registration trials on-going
- Working to introduce Canola Jazz in regional markets after pilot production in Zimbabwe
- Continuing to screen and introduce new vegetable hybrids Group wide

Production

- ➢Product availability somewhat affected by:
  - ✓late season heavy rains last season in Southern Africa and Nigeria
  - ✓drought in Kenya
- ➢Satisfactory stockholdings overall but some shortages could be experienced in some varieties
- ➢Current season production planned to address key varietal shortages and stockouts in Kenya and Nigeria

4,000sqm Handling and Warehouse facility at Mkushi Farm in Zambia (ready for use before next harvest in May 2022)

Seed driers at Mkushi Farm in Zambia

Processing

- ➢Seed processing plants generally working well Group wide with a new plant recently commissioned in Nigeria
- ➢Own farm storage (4,000sqm) and drier (14 bays) construction nearing completion in Zambia and this expected to enhance early seed harvesting and grading capacity
- ➢Introduction of cob harvesting & seed drying technology across the Group on the radar following pilot plant commissioning in Zimbabwe

Seed Co Nigeria New Processing Plant

Sales & Marketing

- By the end of the 1st half, sales volumes were nearly 13% ahead of prior year driven by:
  - ✓ early and sales growth in Malawi and Tanzania
  - ✓ emerging demand in Mozambique
- The Group is promoting on-line shop across its markets to add convenience & keep abreast with market developments

SBU Updates

Zambia

- 1st half $16.6m turnover was 21% higher than prior year due to:
  - ✓ local price adjustments
  - ✓ translation gains as the Kwacha appreciated after the coming in of the new Gvt
- Overheads however followed the turnover trend due to the currency appreciation
- Half-year profit at $2.2m higher than $1.8m prior year due to:
  - ✓ improved GP margin from 45% to 49% following the price adjustments
  - ✓ the transaction gains on turnover that more than offset the translation losses on overheads
- 2nd half YTD performance showing promise to surpass prior full- year performance
- The Gvt is slowly settling FY18/19 debt and to date $2.5M out of $6.2M has been received while last year's debt has been fully settled

SBU Updates contd

Malawi

- 1st half $10.6m revenue more than double prior year due to better preparedness for the continuing huge Affordable Inputs Programme (AIP) launched by the new Gvt last year
- Overheads increased by about 40% due to the doubling of sales and distribution activities during the 1st half
- PAT increased to $1.7m from $1.1m prior year driven by the turnover that grew faster than overheads
- YTD performance by all metrics ahead of prior year and th trajectory is expected to the end of the financial year
- Gvt spending induced inflation and potential currency devaluation are the key risks to watch in Malawi

SBU updates contd

Tanzania

- 1st half with turnover of $4.1m is a 76% jump on prior year due to:
  - 80% volume growth attributable to better season preparedness
- Overheads increased by 15% because of more logistical costs of moving seed into the market early
- Bucked trend to breakeven this 1st half compared to prior year's loss 1st half of $0.5m
- YTD performance is now ahead of prior year on all metrics despite drought in many parts of the country
- Full year performance anticipated to close at the same level like last year

SBU Updates continued

Kenya

- $3.4m turnover outturn represents 17% decline on prior-year due to:
  - ✓drought dampening demand
  - ✓stock outs on short season varieties
- Operating expenses were managed within prior year levels
- Seed Co Kenya's seasonal loss halved to $103k compared to same period prior year driven by the GP margin which improved from 37% to 42%
- YTD the SBU's revenue and earnings are marginally positive and the SBU is expected to close the year with a reasonable profit
- Effects of drought, exchange losses and finance costs will however weigh down Kenya's anticipated profitability

SBU updates contd

Botswana

- Off season period for this import dependent SBU
- No meaningful sales were recorded during the 1st half, and this is normal for Botswana
- Full year turnover and profitability performance forecast at same level as prior year i.e., about $5m revenue and just under $1m PAT.
- Key risk - prior year Gvt debt settlement is slow, and this could have a bearing on this year's sales commitment

Development files

- **Nigeria**
  - A new processing plant was installed to address capacity and efficiency
  - Production challenges caused by heavy rains last season have seen the SBU out of stocks and an adverse impact on this year's sales plan
  - Current productions expected to be harvested this December anticipated to bring back this year's sales plan on track
- **Mozambique**
  - Good prospects out of Mozambique with a growing order book and sales activity
- **Ethiopia**
  - On going conflict has stall the planned commencement of operations
- **Ghana & Francophone West Africa**
  - Newly established JV targeting 13 countries in West & Central Africa now operational, and sales order have started coming through
  - Product promotion & demand creation in full swing albeit affected by Covid-19 and instability in some of the countries like Mali and Burkina Faso

Development files

❖Angola

- The Gvt of Angola remains budget handicapped to fund agricultural inputs like last year
- The Gvt finances virtually all agricultural inputs and without Gvt orders, Seed Co export sales will be negligible again
- Seed Co working on developing the Angolan open market for seed to reduce reliance on Gvt

❖DRC

- The country received a $1.5bn infrastructure funding package from the IMF in July 2021 which is expected to go a long way in developing roads
- Seed Co outlook in DRC good with confirmed orders so far pointing to better outturn than last year

❖Vegetable seed JV

- The recently established regional JV registered a small profit in the 1st half and the profitability trajectory is expected to be sustained to year end

❖RSA JV -20% effective Seed Co equity

- Finding its footing following creation in June last year
- Expected to post a loss in its first full year due to once-off integration costs

OUTLOOK

- The Group is expected to leverage its multi-geography footprint to mitigate drought headwinds in East Africa with the promising performance in Southern Africa
- Malawi and Zambia set to end the year better than prior year
- Tanzania is set to defy the drought odds and deliver stable performance
- Nigeria and Kenya set to close the year on lower than prior due to product shortages and drought respectively
  - ✓ Nigeria could recover from December production stocks expected to be sold in February/March next year

Outlook

- Key focus areas to year-end:
  - ✓ride on the market stability and positive sentiments in Zambia
  - ✓take advantage of the market opportunity in Malawi
  - ✓harness the opportunities coming out of Mozambique
  - ✓watch overheads and funding costs
  - ✓collect debtors to mitigate provisions
  - ✓hedge currency risks
  - ✓closely monitor developments in new markets
- Although YTD Group revenue is ahead of same period prior year the key risks to affect full year outcome are:
  - ✓inflation and currency devaluation threats in Malawi
  - ✓drought in East Africa
  - ✓fertiliser price increases
  - ✓Covid-19 4TH wave

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