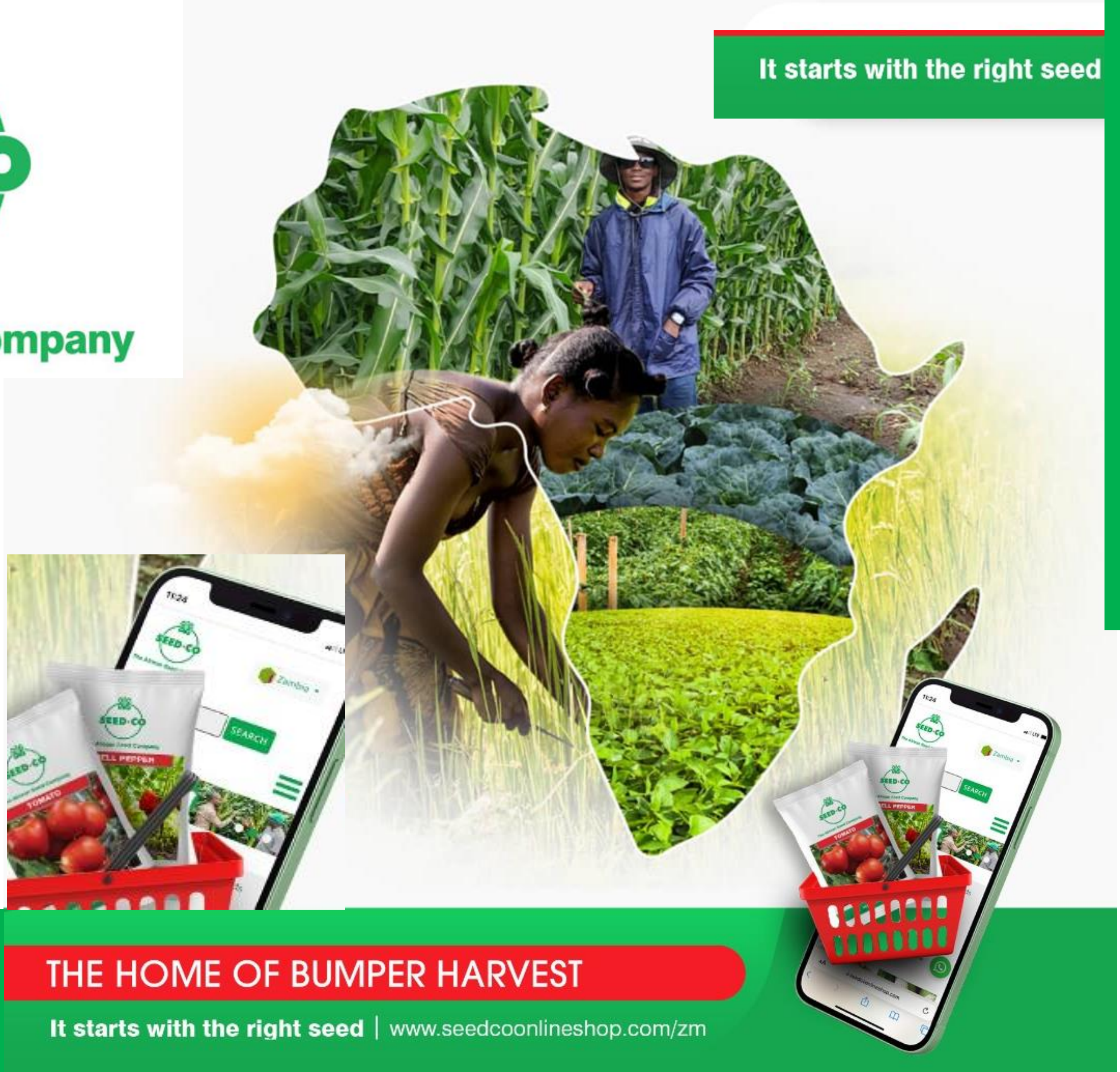
SEED-CO

The African Seed Company



Seed Co International Limited

Full-year Results Presentation FY22

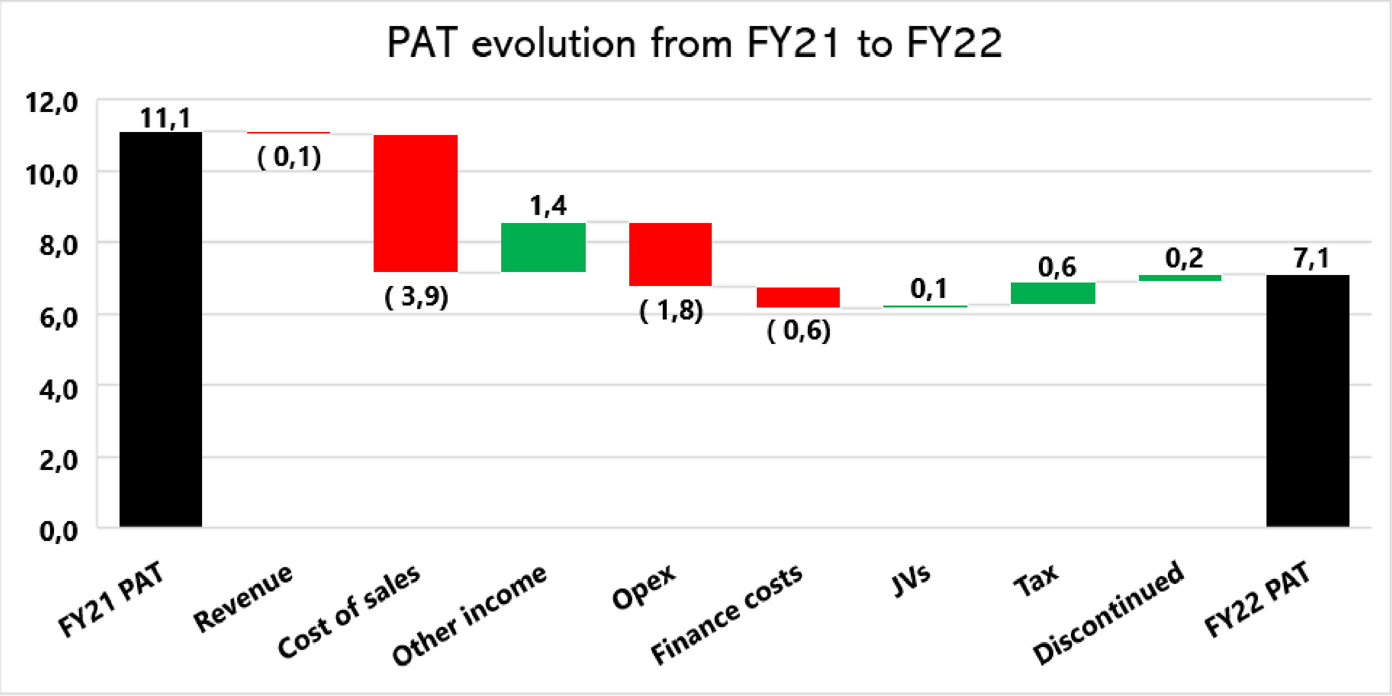
Seed Co International Limited
Full-Year to 31 March 2022
Financial Review

By

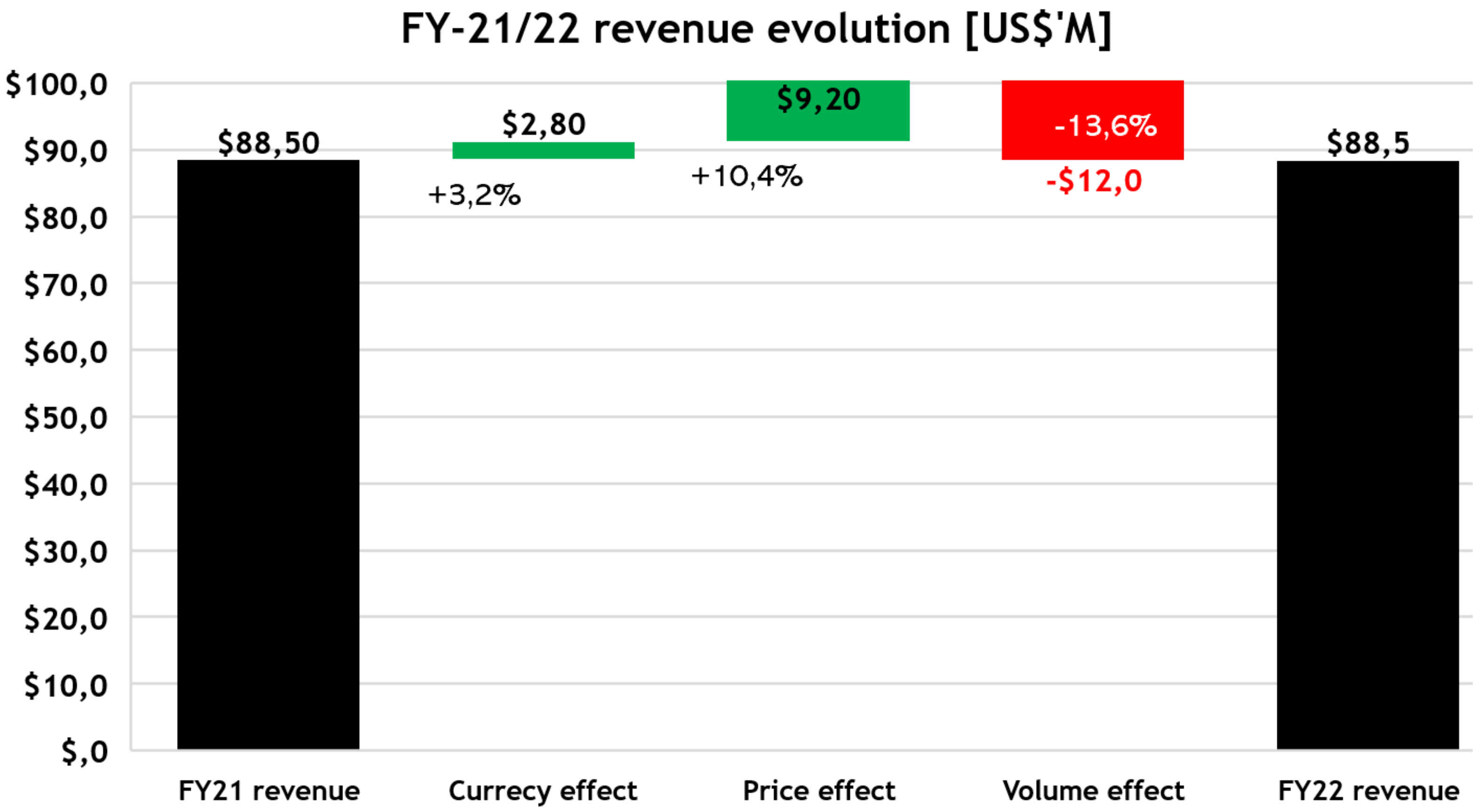
John Matorofa- GFD

Income Statement (US$'M)

	Audited year ended Mar 2022 US$'M	Mar 2021 US$'M
Continuing operations		
Revenue	88.5	88.5
Cost of sales	48.7	(44.8)
Gross profit	**39.8**	**43.8**
Other income	4.9	3.5
Operating expenses	(30.9)	(29.2)
Operating profit	**13.8**	**18.1**
Net finance costs	(3.0)	(2.5)
Share of loss from associate & JVs	(0.2)	(0.3)
Profit before tax from continuing operations	**10.5**	**15.3**
Income tax expense	(3.4)	(4.0)
Profit after tax from continuing operations	**7.1**	**11.3**
Discontinued operations		
Loss from discontinued operations	-	(0.2)
Profit for the year	**7.1**	**11.1**

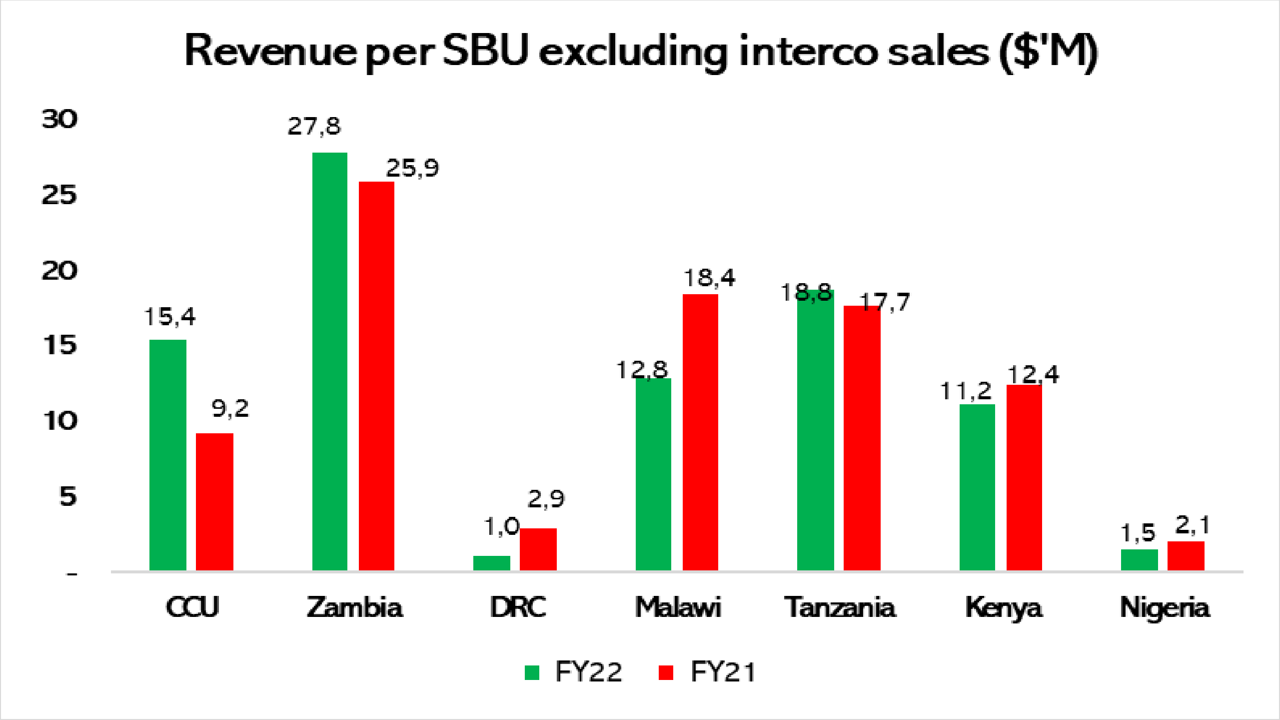


- Reduced profitability this year achieving a PAT of US$7.1M down from $11.1M due to:
  - ✓ Gross margin shrinkage mainly in Zambia as the kwacha appreciated resulting in higher COGS
  - ✓ Reduced economies of scale as volume declined 11% (significant declines in Malawi, Zambia & Nigeria)
  - ✓ Operating costs increases due to impact of the strong kwacha in Zambia as well as increased business activities in Mozambique (new SBU)
  - ✓ increase in net finance costs largely attributable rising interest costs



- Despite notable volume reduction, revenue was flat at $88.5M anchored by:
  - ✓ phenomenal revenue growth in Mozambique (trebled to $11.1M) albeit from lower margin legumes
  - ✓ local currency price adjustments
  - ✓ currency translation gains mainly out of Zambia

REVENUE BY SBU EXCLUDING INTERCOMPANY SALES

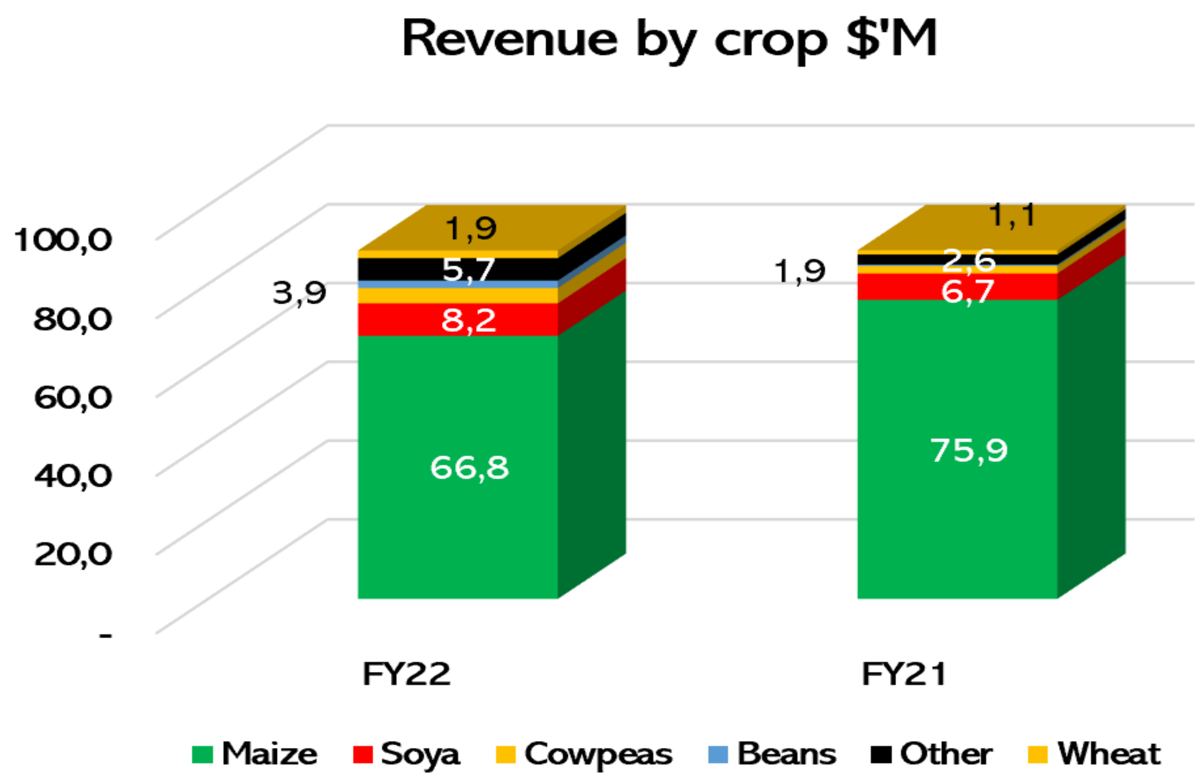


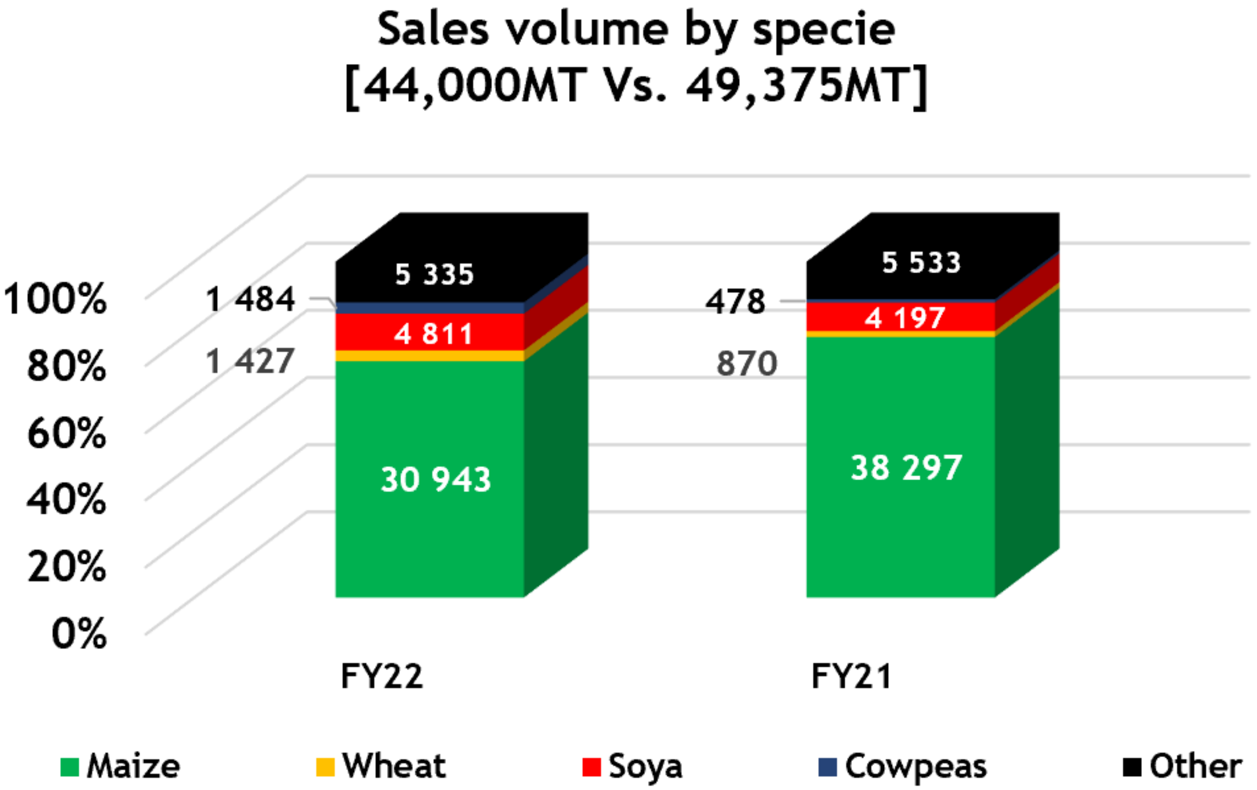
TURNOVER GROWTH from:

- The CCU, which now only comprise Botswana & Mozambique, increased revenue by 67% to $15.4M with exceptional growth coming from Mozambique
- Zambia turnover grew by 7% to $27.8M driven by translation gains
- Tanzania turnover increased by 6% to $18.8M despite erratic rains

TURNOVER REDUCTIONS:

- Malawi declined nearly 40% to $12.9M in tandem with volume drop as the Gvt halved its subsidy contribution
- Kenya sales fell 10% to $11.2M as volume dropped by 12% because of erratic rains
- Nigeria turnover declined 36% to $1.5M owing to product unavailability
- DRC sales dropped nearly 60% to $1M because of lost tender business





- Despite 19% volume drop and 12% turnover reduction, maize seed continue to dominate both revenue & volume contribution in all markets except Mozambique
  - ✓ halved Gvt subsidy contribution in Malawi and erratic rains in Zambia and Kenya as well as product unavailability in Nigeria
- Wheat seed sales increased compared to last year
- Legumes (soybean & beans) increased from tender sales in Mozambique and open market sales in Zambia
- Other sales include sorghum (Botswana), rice (Nigeria), vegetables (Mozambique)

Gross margin

	FY22	FY21
Gross margin	45%	49%

- Four points eroded due to:
  - ✓ impact of strong kwacha on converting local currency COGS to USD
  - ✓ higher contribution of low margin business in Mozambique (OPV legumes)

Other income

- Increased from the collection of long outstanding Gvt debt.
- Exchange gains and commodity sales also contributed to the increase

Other income US$'M	FY22	FY21
	4,90	3,50

Operating expenses

- The 6% increase compared to flat revenue due to:
  - ✓ impact of strong kwacha in Zambia
  - ✓ sales & marketing deployment in anticipation of a normal season
  - ✓ increases in logistical costs and general inflation on cost of doing business

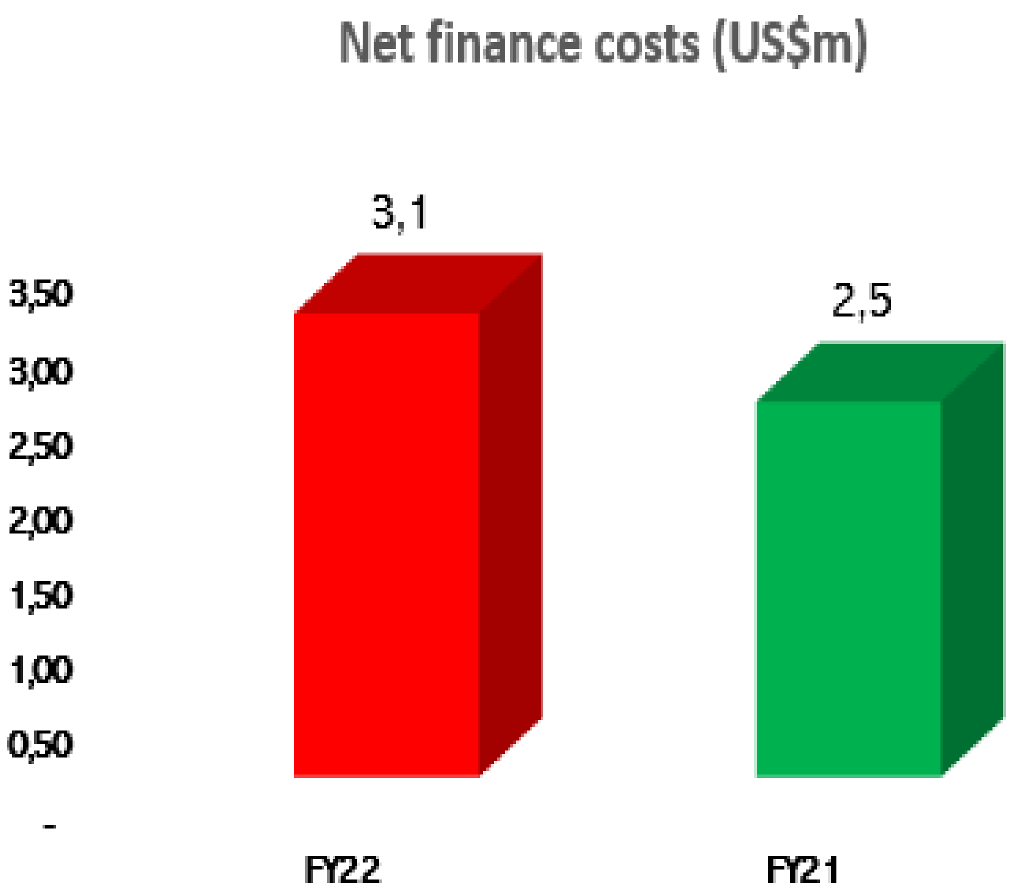
Operating Expenses US$'M	FY22	FY21
	30,90	29,20

Joint ventures & Associates

Loss share from JVs & Associates	FY22 US$'M	FY21 US$'M
Seed Co West & Central Africa -50% JV	0,10	-
Prime Seed Co International (51% Vege JV)	(0,18)	(0,16)
AgriSynergy (RSA - 20% effective associate)	(0,16)	(0,15)
TOTAL	(0,24)	(0,32)

- Seed Co West & Central Africa improved from breaking even in FY21 to registering a PAT of $0.2M in its 2nd year as a JV
- The regional vegetable business loss remained at same level as prior year despite increasing revenue by 13%. Profitability was weighed down by pressure on margins on imported seeds and increasing cost of doing business
- The South African based field crop partnership loss was also close to prior year as the merged business finds its footing

- Seed Co West & Central Africa JV created in October 2020 -13 countries
- AgriSynergy was set up in July 2020 through the merger of market shares in South Africa, eSwatini, Lesotho & Namibia leveraging partners':
  - ✓ GMO technology for RSA; and
  - ✓ processing & distribution capacity.



- Interest increase of $0.6M due to:
  - ✓ funding of delayed Gvt debt settlement
  - ✓ rising local currency interest rates
  - ✓ impact of 1st full year having drawn-down $12.5M long-term Proparco facility
- Post year end and following collections, the debt was reduced and new facilities are being drawn-down to fund ongoing seed intake and next season processing

Balance Sheet (US$'M)

	Mar 2022 US$'M	Mar 2021 US$'M
Assets	**157.6**	**137.2**
Property, plant & equipment (PPE)	44.7	39.6
Intangible assets	4.8	5.1
Right-of-use assets	0.9	0.9
Investments in associate & JVs	6.8	4.8
Deferred tax asset	0.5	0.6
Inventories and biological assets	25.6	18.1
Receivables	54.4	58.3
Cash and cash equivalents	19.9	9.8

	Mar 2022 US$'M	Mar 2021 US$'M
Equity and liabilities	**157.6**	**137.2**
Shareholders' equity	96.2	83.7
Loans and borrowings	42.1	32.2
Lease liabilities	0.9	0.9
Deferred tax liability	3.3	3.1
Payables	15.1	17.3

-**Non-current assets** increased as a result of:
- ✓ CAPEX Zambia & translation gains on strong Kwacha
- ✓ investment in JVs mainly the Vegetable seed unit

-**Inventory** value increased mainly due to translation gains

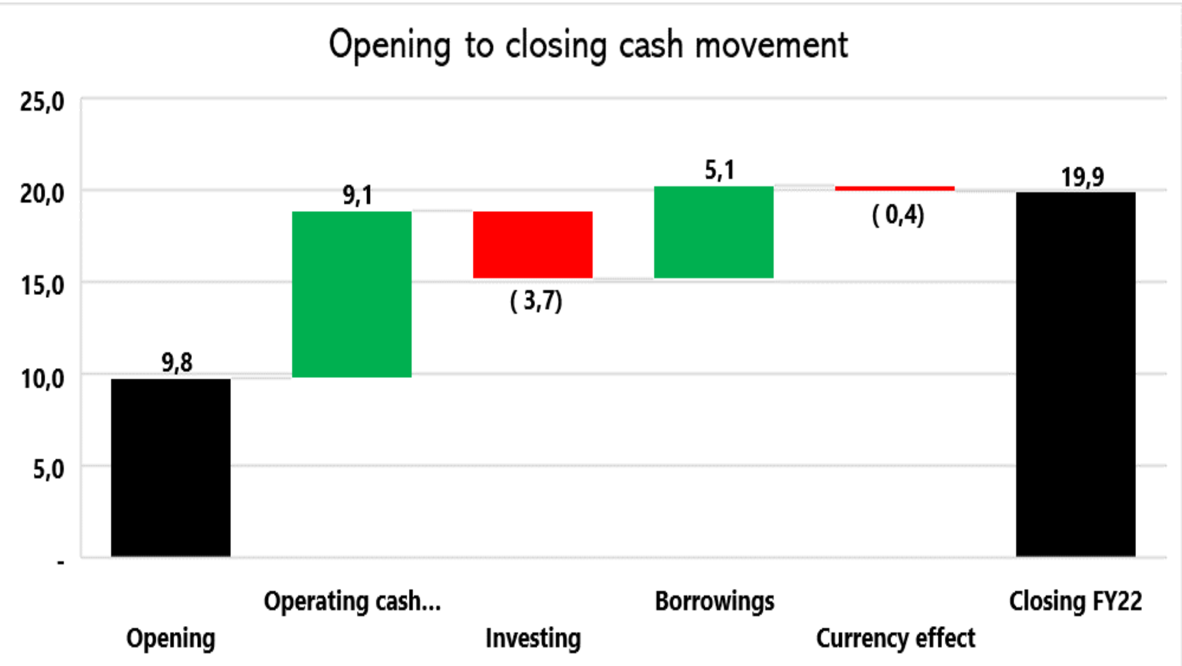
-**Receivables** declined from better collections

-**Cash** reserves increased on the back of collections and higher proportion of sales being on cash basis mainly in Tanzania and Mozambique

-**Equity: -**
- ✓ increased due to the annual profit & exchange gains through other comprehensive income

-**Debt: -**
- ✓ declined was higher at year end after full draw-down of long-term Proparco facility & before repatriating cash from SBUs to service debt
- ✓ net debt/equity (gearing) dropped from 27% to 23% on higher closing cash pending repatriation

ABRIDGED GROUP STATEMENT OF CASH FLOWS	FY22 US$'M	FY21 US$'M
Opening cash & cash equivalents -1 April	9,8	11,0
Operating cash flow	9,1	13,2
Investing cash flow	(3,7)	(4,4)
Financing cash flow	5,1	(9,8)
Exchange rate changes	(0,4)	(0,2)
Closing cash & cash equivalents -31 March	19,9	9,8



- **Operating cash inflow:**
  - ✓ Lower than prior year but significantly positive highlighting the good quality of earnings –cash positive and better collections
- **Investing cash outflow:**
  - ✓ CAPEX mainly in Zambia capacitating Mkushi Farms for own production
- **Financing cash inflow:**
  - ✓ Borrowing increases to fund delayed settlements in Zambia and increased production in Malawi
- **Currency impact:**
  - ✓ Effect of depreciation of some local currencies on cash on hand balances.

Seed Co International Group

Operations Review

By

Morgan Nzwere
GCEO

General environment

- Covid-19 Pandemic and now the war in Ukraine affecting economies & livelihoods
- Challenging season that defied rainfall forecasts (impact of climate change)
  - drought in parts of East Africa with Kenya affected the most
  - late rains in Southern Africa, flooding when the rains came, mid season drought and early as well late end of the rainfall season in some countries
- Increased food security focus by Governments handicapped by budgetary constraints
  - 50% subsidy contribution in Malawi
- Unanticipated appreciation of the Zambia kwacha following election of new Gvt
- Planned and deployed for a normal season that turned out very challenging
- Securities issues continue to curtail business development e.g. in:
  - ✓Francophone West Africa (Mali, Burkina Faso, Cameroon, Ivory Coast, CAR, Togo etc.)
  - ✓Ethiopia (Tigray region civil war, Oromia region instability and federal elections)

Research

- Released SC449, SC547, SC553, SC555 & SC735 in Zambia
- Released SC555, SC559, SC665 & SC729 in Malawi
- Released SC735 in Nigeria and licensed an early maturing yellow maize variety in Nigeria, SC526, a top cross hybrid aimed at improving ease of production.
- Licensed a striga tolerant yellow sorghum variety for commercialization in Nigeria.
- 4 rice varieties were licensed for commercialization in Zambia, and Malawi and pilot productions are ongoing
- SC Signal and SC Saga soybean varieties officially released in Malawi
- SC Safari and SC Signal soybean varieties registered in Ethiopia
- SC547, SC553, SC555, SC559, SC665 & SC729 qualified for listing on the SADC catalogue
- Rice hybrid trials continuing in Southern, East & West Africa
- Potato hybrid registration trials are on-going
- Several vegetables hybrids commercialized in our markets

Production

- ❖Product availability was generally good this year though readiness to market was delayed by late dry down due to the excessive wet prior year (FY21) season
- ❖Stockouts were experienced in Nigeria and Kenya due to bad production prior period seasons (flooding in Nigeria & drought in Kenya)
- ❖2022/23 maize season production now at intake stage is expected to be 5% higher than prior year's 32,000mt but might be lower due to erratic rains which affected growth and pollination
- ❖Winter wheat production is also underway in Zambia

Processing

- 4,000sqm seed warehouse & 6 driers commissioned at Mkushi Farms in Zambia
- Seed processing plants underwent offseason maintenance in preparation for FY22/23 processing which has just begun
- Plant capacity upgrades in Tanzania planned this FY22/23 financial year
- The pilot phase to introduce cob harvesting & seed drying technology across the Group is now complete as the pilot plant was commissioned in Zimbabwe is now operational

Sales & Marketing

- ❖Total sales volumes were 11% below prior year with the main crop, maize, down 19% due to:
  - ✓the 50% cut of the Gvt subsidy contribution in Malawi that also saw Seed Co Malawi volumes declining by 32%
  - ✓late rains in Zambia and impact of price increases dropped volume by 14%
  - ✓product unavailability dropped volume by 34% in Nigeria
  - ✓drought and product shortages weighed down volume by 12% in Kenya
  - ✓late rains and pricing competition reduced volumes in Botswana and DRC by 13% and 67% respectively
- ❖Volume performance was stable in Tanzania as the business consolidates
- ❖The more than doubling of volume in Mozambique helped to partly offset volume loss in most markets

Development files

❖Nigeria

– Setback due to product unavailability: -volume dropped to 1,147mt Vs. 1,514mt in FY21
  - profitability ($0.2M profit Vs. $0.4M prior year)
– Seed imports and local production planned this year to ensure product availability upcoming season
– New processing plant recently commissioned now contributing to efficiencies

❖Ethiopia

– Security issues (civil war) slowed down business establishment activities

❖Ghana & Francophone West Africa

– Promising start from maiden operating year breakeven in FY21 to $0.2M profitability in FY22
– Demand creation activities being intensified across the region though some countries are inaccessible due to security issues (Burkina Faso, Mali, Cameroon, etc.)
– New products like rice being trialed in this region as well as hybrid cowpea

Development files

❖Angola

- The Gvt of Angola did not tender for agricultural inputs again this year due to funding constraints (Covid-19 and low oil prices)
- We are now in the process of setting up local operations to tap in open market opportunity

❖DRC

- Export sales into DRC declined significantly due to cutthroat undercutting by competitors offering OPVs
- We are continuing with our efforts to develop the open market

❖Mozambique

- Volume sold jumped to 3,900mt in FY22 from 1,800mt. Mainly soybean, cowpea & beans
- Continuing to show promise with increasing demand for legumes, maize & vegetable seeds

❖Vegetable seed JV

- The regional JV grew revenue by 13% to $5.9M but the bottom line remained marginally in the negative impacted by pressure on margins on largely imported seeds and general inflation

SBU Updates (stand-alone basis)

1) Zambia

- While Zambia's $35M turnover was in line with prior year, its volume was lower than prior year.
  - ✓ despite volume loss, Zambia's turnover was helped by selling price adjustments and translation gains after the kwacha appreciated
    - 1% turnover increase to $35m is due to a 23% average price increase and the gains of translating kwacha revenue to USD using a 7% stronger USD/kwacha average rate of 18.744 compared to 20.096 prior year
  - ✓ Zambia volume shrank by 15% due to:
    - delayed channel placement as processing was late due high moisture in last year's production, resulting in the SBU missing out on early season sales
    - late rains
    - no exports to Angola as Gvt facing budgetary constraints did not allocate forex for seed imports
    - no exports to RSA due to Wheat Streak Mosaic Virus detected in samples
- Annual profit closed lower at $4.7M compared to $6.1M in FY21 due to:
  - ✓ significant margin loss in Zambia to 37% from 50% in prior year attributed to:
    - low economies of scale on reduced volume
    - unit cost increase due to:
      - the currency appreciation at the time of inventory intake; and
      - the strengthening of the kwacha also had a significant impact on seed intake prices as 70% of the Zambian grower price was contracted in kwacha (Vs. 50% prior year)
- The Gvt has now largely settled its FY18/19 debt and FY21/22 orders were fully backed by an LC

SBU Updates contd

2) Malawi

- ❖Malawi $15.4M turnover and 7,871mt volume performed 21% and 18% below prior year respectively due to:
  - 50% Gvt subsidy contribution cut for seed which forced the Gvt-dependent farmers to opt for fertilisers and OPVs using the reduced subsidy value; and
  - late rains which affected seed uptake.
- ❖Overheads increased by 31% after deploying the sales and marketing plan in anticipation of a normal season and higher sales that regrettably did not materialise due to late rains and the Gvt subsidy cut. This in turn led to increased transport costs as the unsold stocks had to be trucked back to the warehouse.
- ❖Impact of reduced turnover and increase in overheads combined to reduce the PAT to $1.7M Vs. $3.5M (FY21)

SBU Updates continued

3) Kenya

- Kenya's $11.2m turnover and 5,336mt volume was trailed prior year by 10% and 12% respectively due to
  - drought,
  - product shortages
  - no repeat exports to Rwanda
- The GP margin was resilient gaining a point to 41% following some price adjustments
- Operating expenses were managed 2% lower than prior year
- Margin defense and Opex frugality helped the business on to deliver marginal PAT growth to $0.96M from $0.88M prior year

SBU updates contd

4) Tanzania

- The business performed extremely well against drought and supply chain headwinds
- $18.76m turnover was 6% better than prior year helped by volume increase of 3% and price adjustments
- The GP margin gained a point to close at 48% due to a better product portfolio mix and price adjustments
- Overheads increased by 10% to $4.4M in tandem with business growth and inflation developments
- The resultant PAT of $3.4M ($3.2m prior year) consolidates the SBUs growth trajectory in recent times.

SBU updates contd

5) CCU (<u>now Botswana and Mozambique only</u>)

- ❖$16.8M FY22 combined turnover, now including Mozambique, was 82% above prior year driven by exceptional Mozambique outturn
- ❖The revived Mozambique SBU's turnover performance was $11.1m from 3,902mt volume buoyed by legume sales that contributed to the more than doubling of both turnover and volume compared to prior year.
- ❖The turnover was generated from a volume of 6,323mt which was 70% up on prior year as Mozambique stepped up to compensate the carve-out of RSA and eSwatini markets.
- ❖Segment overheads were contained 40% higher than prior year in line business growth in Mozambique.
  - ❖Mozambique business is however predominantly low margin OPV tender supplies
- ❖Turnover growth and partly offset by the increase in overheads delivered a segment PAT of $1.7M, a significant improvement from the $1.2M prior year.
- ❖Mozambique's PAT was $0.8M while Botswana's PAT was $0.9M

Outlook

- The Ukraine war is causing unprecedented shocks to supply chains giving rise to imported inflation compounding already fragile African economies
- The war is adding onto existing Covid-19 and climate change induced challenges
- Agriculture however continues to receive enhanced priority to mitigate effects of the war as African Gvts work on import substitution initiatives to mitigate food shortages
- Socio-economic developments:
  - Further currency headwinds expected in Malawi following the recent 25% devaluation
  - Uncertainty hovering in Kenya (August 2022) and Nigeria (Feb/March 2023) ahead of elections
  - Zambia is working with the international community to workout a debt rescue package
  - Tanzania continuing to show signs of stability
- Despite the challenges, Seed Co stands to benefit from its vantage position of being at the start of primary food production
- Key focus areas going forward:
  - ✓ winter cereal sales
  - ✓ seed intake and processing
  - ✓ cash preservation & strategic deployment (stocking critical supplies to mitigate supply chain bottlenecks)
  - ✓ cost containment in view of global uncertainty

Questions