Seed Co Limited Full-year Results Presentation FY22

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

By John Matorofa

Group Finance Director

Seed Co the Pan African Giant

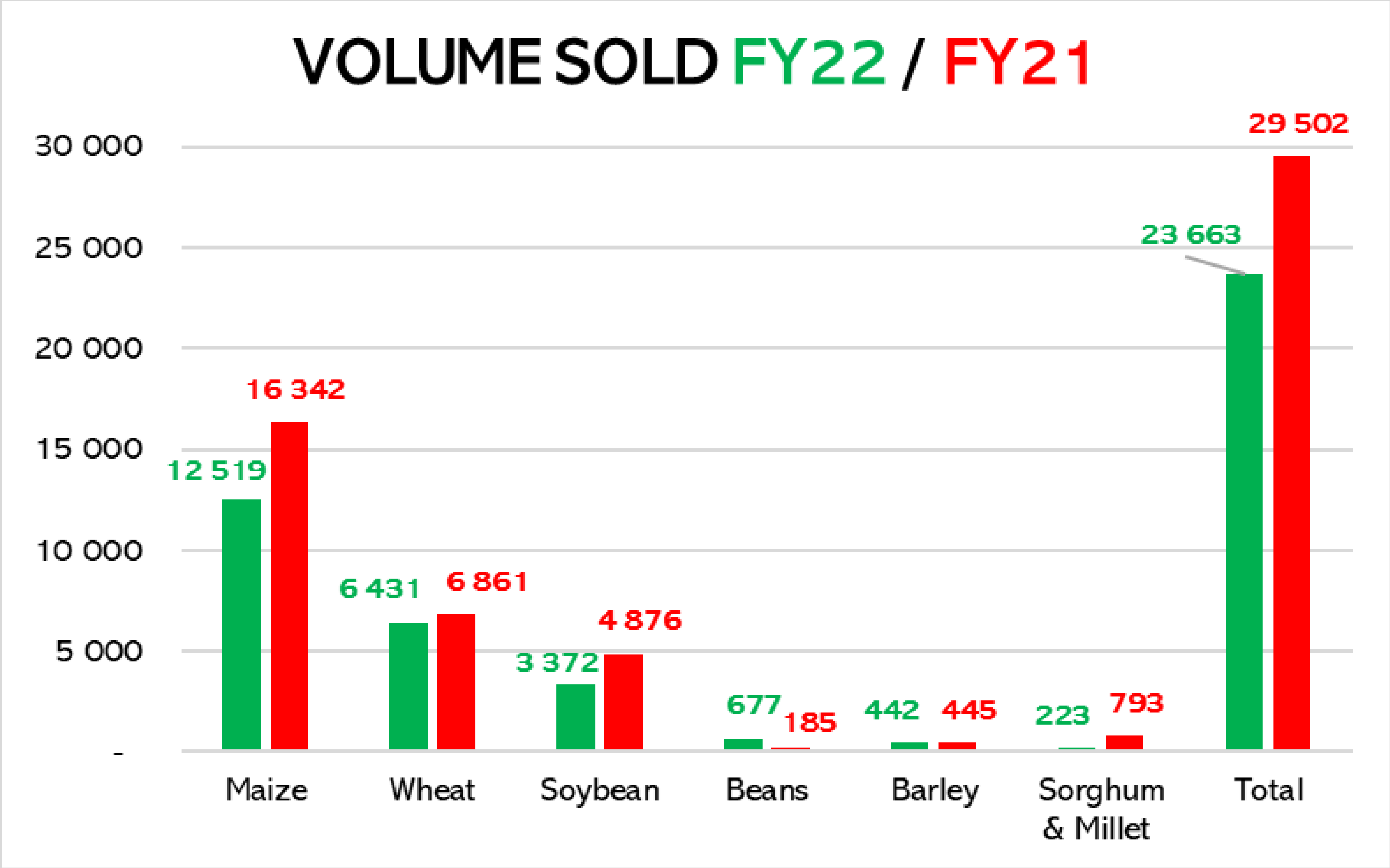
Income Statement: Inflation Adjusted

ABRIDGED GROUP INCOME STATEMENT	Inflation adjusted		Historical cost	
	Audited	Restated*		Unaudited
	Mar 2022	Mar 2021	Mar 2022	Mar 2021
	ZWL'BN	ZWL'BN	ZWL'BN	ZWL'BN
Revenue	9,3	10,1	6,9	4,8
Cost of sales	(6,2)	(3,6)	(3,2)	(1,7)
Gross profit	**3,1**	**6,5**	**3,7**	**3,1**
Other income	1,9	1,6	1,5	0,8
Operating expenses	(2,8)	(2,5)	(2,2)	(1,1)
Operating profit	**2,2**	**5,6**	**3,0**	**2,9**
Net finance costs	(0,9)	(0,8)	(0,6)	(0,4)
Monetary loss	(1,0)	(3,3)	-	-
Share of profit from associates & JV	0,3	0,4	0,5	0,4
Profit before tax	**0,6**	**1,9**	**2,8**	**2,9**
Income tax expense	(1,2)	(0,5)	(0,6)	(0,6)
Profit/(loss) for the year	**(0,6)**	**1,4**	**2,2**	**2,3**

- **ZWL0.6BN** Inflation adjusted PBT a significant reduction from Prior year's **ZWL1.9BN**, despite a significant monetary loss decline from **ZWL3.3BN** to **ZWL1BN**,
- PBT reduced due to:
  - ✓ 8% revenue drop as volume declined by 20% -*late rains & pricing confusion in the market*
  - ✓ margin shrinkage from 64% down to 33% in a distorted market with *de facto* price controls
  - ✓ 15% increase in Opex due to both local [FX] & global pressures [Oil]

- Finance costs went up 10% due increased interest rates and growth in working capital funding needs
- Associates & JV contribution was lower mainly because the continental associate, Seed Co International, posted 35% reduced USD profit from US$11.1M to US$7.1M in FY22

❖ The impact of deferred tax on revalued assets reversed the PBT into a net loss of **ZWL0.6BN**



- Maize remains the flagship seed crop contributing 53% of the volume despite dropping by 23% due to:
  - ✓ pricing confusion at start of season
  - ✓ late rains affecting planting both in Zimbabwe and in the region (reduced exports)
- Wheat sales dropped by 6% only despite non-repeat of exports *[2000mt export to Nigeria in FY21]*
- Soybeans volume dropped 31% because of erratic rains and pricing challenges
- Barley was stable
- Beans increased nearly 4 times driven by exports to Mozambique
- Sorghum was also affected by erratic rains

- Coming from FY21 stockout position, the stock carried over into FY23 positions the business well as the market gravitates towards dollarisation

Gross margin

- Notable margin loss a manifest of:
  - ✓ marked increase in the cost of production
  - ✓ no relatively lower cost produced stock was carried over from FY21
  - ✓ pricing conundrum from the huge disparity between official and alternative market exchange rates – selling prices somewhat controlled at official rates while growers and suppliers of other inputs demanded viable prices

	FY22	FY21
Gross margin	33%	64%

Other income - increased due to: -

- Increased profit from chemicals & fertiliser (inputs) sales
- Exchange gains from foreign denominated receivables

Other income ZWL$'BN	FY22	FY21
	1,87	1,57

Operating expenses

- The 15% jump, despite revenue coming down 8%, due to cost of living catch up adjustments labour costs and inflation-forward pricing by suppliers chasing the alternative market exchange rates

Operating Expenses ZWL$'BN	FY22	FY21
	2,85	2,48

Joint ventures & Associates

Profit share from Associates & JV	FY22 ZWL$'M	FY21 ZWL$'M
Seed Co International - 27% Associate	193	368
Quton -40% Associate	17	162
Prime Seed Zimbabwe - 51% JV	81	(124)
TOTAL	291	406

- Associates & JV contribution nearly a third lower mainly because the continental associate, Seed Co International, posted 35% reduced USD profit
- Margin erosion against increasing Opex reduced Quton's profit by 90%
- Prime Seed (local Vegetable JV) had good year boosted by dollar denominated sales to NGOs and growing exports to Mozambique. Inflation-adjusted net-positive was positive compared to a loss prior year

Balance Sheet (ZWL$'BN)

ASSETS	Inflation adjusted		Historical cost	
	Audited	Restated	Unaudited	
	Mar 2022	Mar 2021	Mar 2022	Mar 2021
	ZWL'BN	ZWL'BN	ZWL'BN	ZWL'm
Total assets	**19,2**	**23,0**	**18,3**	**10,1**
PPE & Investments	10,8	12,8	10,8	5,0
Other financial assets	0,6	0,7	0,6	0,4
Inventories	3,3	2,8	2,4	0,8
Receivables	4,1	5,8	4,1	3,3
Cash and cash equivalents	0,3	0,9	0,3	0,5

EQUITY & LIABILITIES	Inflation adjusted		Historical cost	
	Audited	Restated	Unaudited	
	Mar 2022	Mar 2021	Mar 2022	Mar 2021
	ZWL'BN	ZWL'BN	ZWL'BN	ZWL'BN
Total Equity & Liabilities	**19,2**	**23,0**	**18,3**	**10,1**
Shareholders' equity	12,9	16,3	12,9	6,3
Loans and borrowings	3,1	3,9	3,1	2,3
Deferred tax liability	2,3	1,2	1,4	0,5
Payables and provisions	0,9	1,6	0,9	0,9

-**Non-current assets (Inflation Adjusted):** -

- ✓ CAPEX & PPE revaluations behind inflation hence the reduction compared to prior year
- ✓ Not much CAPEX in FY22 as much of the drier was in FY21

-**Inventory** value increased due to reduced sales

-**Receivables** bulky was Gvt related which is largely now cleared

-**Cash** balance declined after debt repayments close to year end

-**Equity (Inflation Adjusted): -**

- ✓ Increased declined due to monetary losses

-**Debt: -**

- ✓ Peaked during the year and declined close to year end following repayments
- ✓ Included in debt is the export-ringfenced US$12.5M 7-year Proparco drawn down at the end of FY21 to refinance the Drier Project

ABRIDGED GROUP STATEMENT OF CASH FLOWS	Inflation adjusted		Historical cost	
	Audited	Restated	Unaudited	
	Mar 2021	Mar 2020	Mar 2022	Mar 2021
	ZWL'BN	ZWL'BN	ZWL'BN	ZWL'BN
Opening cash flows - 1 April	0,9	0,2	0,5	0,03
Operating cash flows	2,4	0,7	0,2	(0,5)
Investing cash flows	(0,3)	(1,4)	(0,6)	(0,7)
Financing cash flows	1,2	4,9	0,2	1,8
Monetary changes effects	(3,8)	(3,4)	-	-
Effects of exchange rate	(0,1)	(0,1)	(0,1)	(0,1)
Closing cash and cash equivalents	0,3	0,9	0,3	0,5

- **Operating cash inflow:**
  - ✓ Operating cash flow improvement in FY21 on the back of:
    - ✓ significant reduction in receivables – a significant chunk of prior year debtors was collected this in FY22.
    - ✓ growing contribution of open market sales on cash terms
  - ✓ The bulk of FY22 is now largely collected
- **Investing cash outflow:**
  - ✓ Spent on CAPEX was lower in FY22 as most of the Drier project works were completed in FY21
- **Financing cash inflow:**
  - ✓ US$12.8M receipt from Proparco towards end of FY21 boosted prior year debt compared to FY22

Seed Co Limited Group

Operations Review

By

Morgan Nzwere
Group CEO

SEED CO ZIMBABWE STAPLEFORD ARTIFICIAL SEED DRIER

THE HOME OF BUMPER HARVESTS

SEED CO

IT STARTS WITH THE RIGHT SEED

General environment

- ❖Unstable economy highlighted by hyperinflation & currency erosion not helped by pricing distortions due to countless monetary and fiscal regulations not in sync with market developments
- ❖De facto price controls arising from exchange rate disparities affecting the ease of doing business viably
- ❖Temporary lending ban, interest rate hikes and increasing taxes on the stock market caused and continue to cause apprehension in the market coming soon after the closure of the stock market in 2021
- ❖Authorities sending mixed signals about dollarization (dual-currency with state enterprises collecting revenue in USD
- ❖Globally, the Covid-19 Pandemic and more recently the Ukraine war adding to economic woes
- ❖Erratic rains in Southern Africa not in line with forecasts (climate change) and drought East Africa affected the selling season

Research

- ❖ Continuing with the thrust to renew the pipeline in line with climate change and released the following maize varieties
- ❖ **NB:** SC547, SC553, SC555, SC559, SC665 and SC729 were listed on the SADC catalogue
- ❖ Efforts to find a solution to fall army worm and cob rot tolerant maize germplasm continuing

Maize variety	Zimbabwe	Malawi	Zambia	Nigeria
1) SC449			√	
2) SC 547	√		√	
3) SC 553	√		√	
4) SC 555	√	√	√	
5) SC 559		√		
6) SC 665		√		
7) SC 710 new prolific yellow	√			
8) SC 729	√	√		
9) SC 735			√	√

- ❖ MLND breeding program in Kenya is beginning to output proprietary MLND hybrids that are better than local check hybrids
- ❖ A high plant density tolerant soyabean variety, SC SZ04, was officially released in Zimbabwe.
- ❖ SC PV02, new bean stem maggot tolerant variety released in Zimbabwe
- ❖ 4 rice varieties were licensed for commercialization in Zimbabwe, Zambia, and Malawi and pilot productions are ongoing
- ❖ SC POT102 (Soly007), a true potato seed variety was released in Zimbabwe under license from Solynta, a Dutch company
- ❖ Several vegetables hybrids commercialized in our markets.

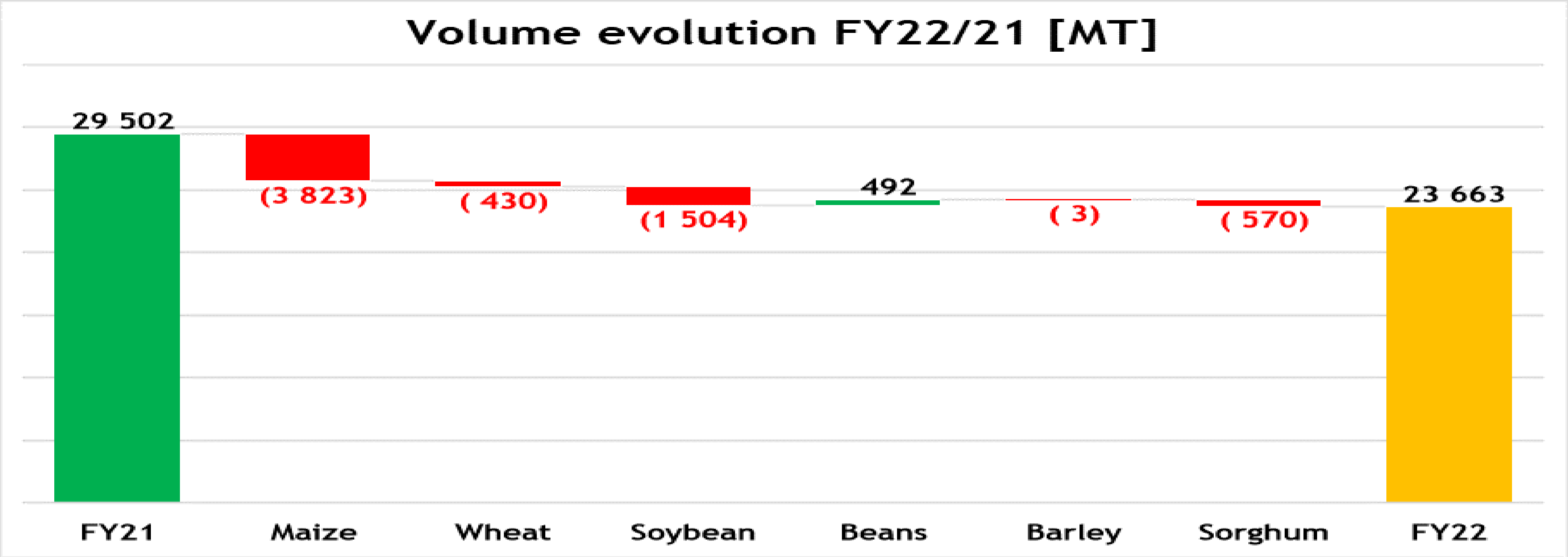
Production

- ❖Product availability was adequate for the season, but uptake was affected by pricing challenges and late rains
- ❖Late rains and pricing confusion at the start of the season resulted in some stock being carried over to FY23
- ❖2022/23 season production now at intake stage challenged by higher costs of inputs but expected to be higher than prior year
- ❖Regional seed production is also expected higher than last year despite rainfall challenges (irrigation helped)

Processing

- ❖The Artificial Seed Drying Plant is now operational and made it possible as envisaged to start processing seed early with the quality and early market readiness advantages
  - ✓The plan remains to replicate the technology in other markets
- ❖New seed processing & packaging plant commissioned in Nigeria last year is working well delivering efficiencies
- ❖Planned plant capacity upgrades in Kenya and Tanzania deferred to this FY22/23 financial year starting with Tanzania
- ❖Seed processing almost in full swing in both Zimbabwe and some regional markets as raw seed is being delivered

Sales & Marketing



❖Zimbabwe annual sales volumes were 5,838MT (20%) lower than prior year because of:

- ✓pricing challenges which hamstrung the normal plan to place seed in the trade
- ✓late rains which impacted seed uptake
- ✓reduced export opportunities as the regional markets also experienced erratic rains

JV & Associates

❖Prime Seed - 51% vegetable JV

- Sales and general performance improved buoyed by exports and local USD denominated sales to NGOs
- USD sales supports the supply-side of the business that is largely dependent on imported vegetable seed hybrids
- Product availability and better margins from real value revenue saw the business posting an inflation adjusted profit of ZWL$81M compared to prior year loss of ZWL$124M

❖Quton - 40% associate

- 7,506mt cotton seed sales were 7% lower than 8,041mt sold in prior year
- Inflation adjusted financial performance receded to near breakeven from the ZWL$162M achieved prior year. Quton performance was weighed down by:
  - ✓reduced volume
  - ✓lower margins because of pricing distortions
  - ✓ZWL$0.6BN monetary loss that was however lower ZWL$0.9BN restated prior monetary loss

Associates continued -Seed Co International

❖Erratic rains, reduced Gvt support in Malawi, product unavailability in Nigeria and drought in Kenya affected performance

❖The continental associate's turnover was flat at US$88.5M despite volume loss due to:

- ✓pricing adjustments in regional local currencies; and
- ✓translation gains in Zambia which helped to offset the 9% volume loss

❖The regional group margins declined notably from 49% to 45% due to a combination of:

- ✓reduced economies of scale on lower volume
- ✓escalating inbound logistical costs
- ✓the adverse effect of a stronger Zambian kwacha on translating cost of goods sold to USD
- ✓significant reduction in higher margin crop, maize, volume 19%↓
- ✓significant lower margin legume volume contribution diluted margins

❖Margin shrinkage and increased overheads owing to a marketing deployment that anticipated a normal season as well as general inflation resulted in profitability falling by 35% from US$11.1M prior year to US$7.1M in FY22

Outlook

- ❖ Global supply shocks from Covid and now the Ukraine war causing shortages and inflation that is compounding the woes of already fragile African economies.
  - ✓ Zimbabwe's economic situation is not expected to improve soon in view of upcoming elections next year.
  - ✓ the gap between the official and alternative exchange rates in Zimbabwe set to continue weighing down real profitability as it is not easy to de-link selling prices from official rates given the sensitivities around stapple seeds in the country.
  - ✓ 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 however showing signs of recovery based on political confidence and ongoing discussions with international community to work out a debt rescue package
  - ✓ Tanzania continuing to show signs of stability
  - ✓ continuation of development partner activities in Mozambique to help mitigate national budgetary constraints
- Zimbabwe and continental food security will however remain top of the agenda to mitigate global supply shocks as African governments activate import substitution local production strategies.
- The Group is better positioned to leverage the strong brand and intellectual property to actively contribute to primary food production to plug supply gaps.

Taking charge

Zimbabwe value preservation:

- Good opening stocks and early processing owing to artificial dryer
- We are expanding our open market direct and direct reach to create sustainable business
- Opening own selling depots for direct cash sales
- Renegotiating distribution agreements to ensure we earn and collect real value from the sale of our products
- Winter cereal sales showing encouraging hard currency denominated revenue
- Leveraging continental associate to exploit export opportunities

Regional margin recovery:

- ✓ Reconfiguring the distribution model to manage commissions to viable levels
- ✓ Increasing own production as a way to have more control of cost of sales and product availability
- ✓ Localising borrowings to manage exchange losses
- ✓ Converting revenue to quickly to stocks and other inputs to lock value
- ✓ Leveraging COMESA & SADC movement of goods protocols to move stock where it is needed
- ✓ Harnessing the opportunity in Mozambique for long term sustainability
- ✓ Exploring new markets in West, Central, East and North Africa and new products: Rice, Potato, etc.
- ✓ Continuation of development partner activities in Mozambique to help mitigate Gvt budgetary constraints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