Seed Co International Limited

Interim (Half Year) Results Presentation

F2019-20

THE HOME OF BUMPER HARVESTS

IT STARTS WITH THE RIGHT SEED

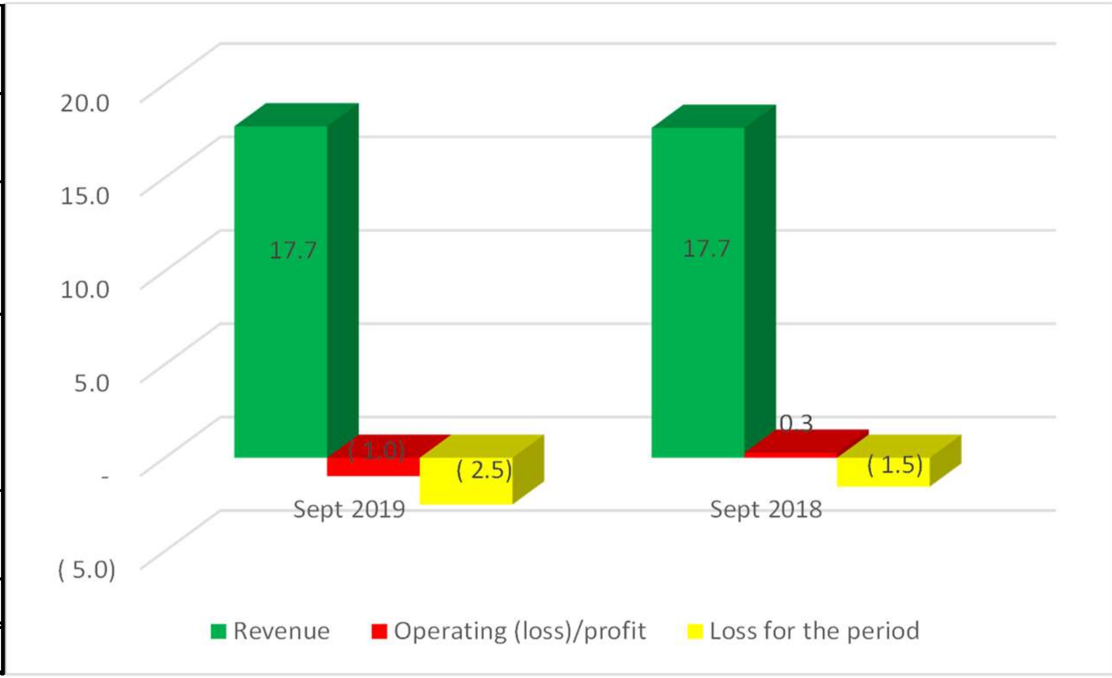
Seed Co International Limited
Half-Year to 30 Sept 2019 Financial Review
By
John Matorofa- Group Finance Director

IMPORTANT BACKGROUND

Group's operations are highly seasonal with the first half of the financial year being a cost accumulation phase. Meaningful sales activity usually only takes place in the rainy second half of the year which explains the traditional losses the Group incurs during the first six months.

Income Statement (US$m)

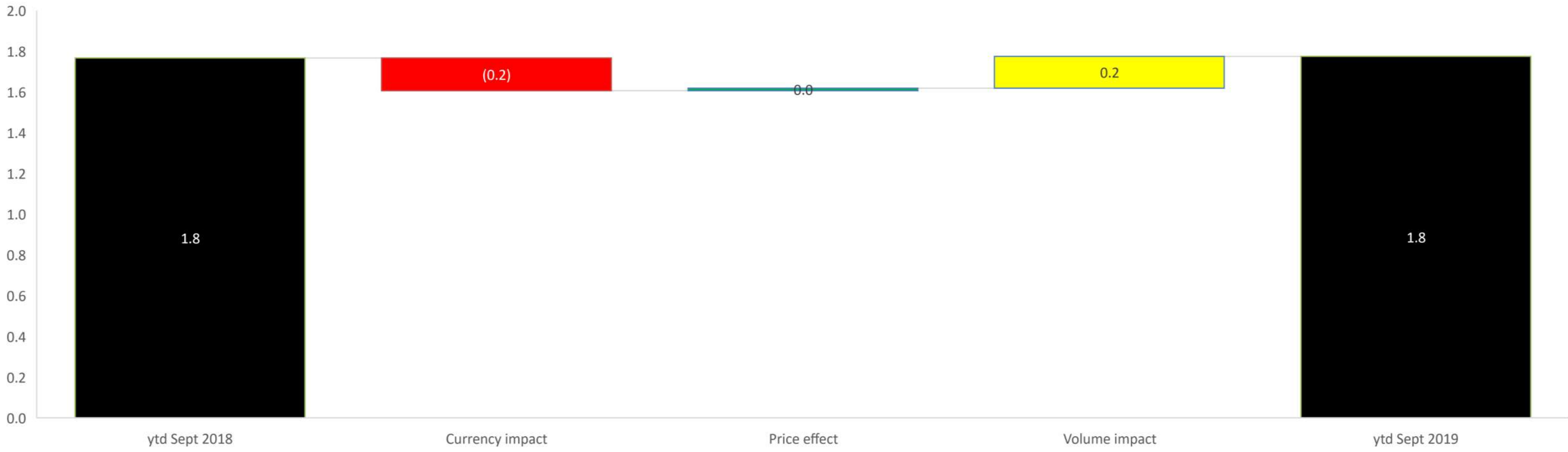
	Unaudited half year ended	
	Sept 2019	**Sept 2018**
Revenue	17.7	17.7
Cost of sales	(8.4)	(8.8)
Gross profit	**9.3**	**8.8**
Other income	1.3	3.0
Operating expenses	(11.6)	(11.5)
Operating (loss)/profit	**(1.0)**	**0.3**
Finance income	0.1	0.0
Finance cost	(1.6)	(0.9)
Share of loss from joint venture	(0.2)	(0.1)
Loss profit before tax	**(2.6)**	**(0.7)**
Income tax credit/(expense)	0.1	(0.8)
Loss for the period	**(2.5)**	**(1.5)**



In spite of stable revenue, net loss widened mainly because of

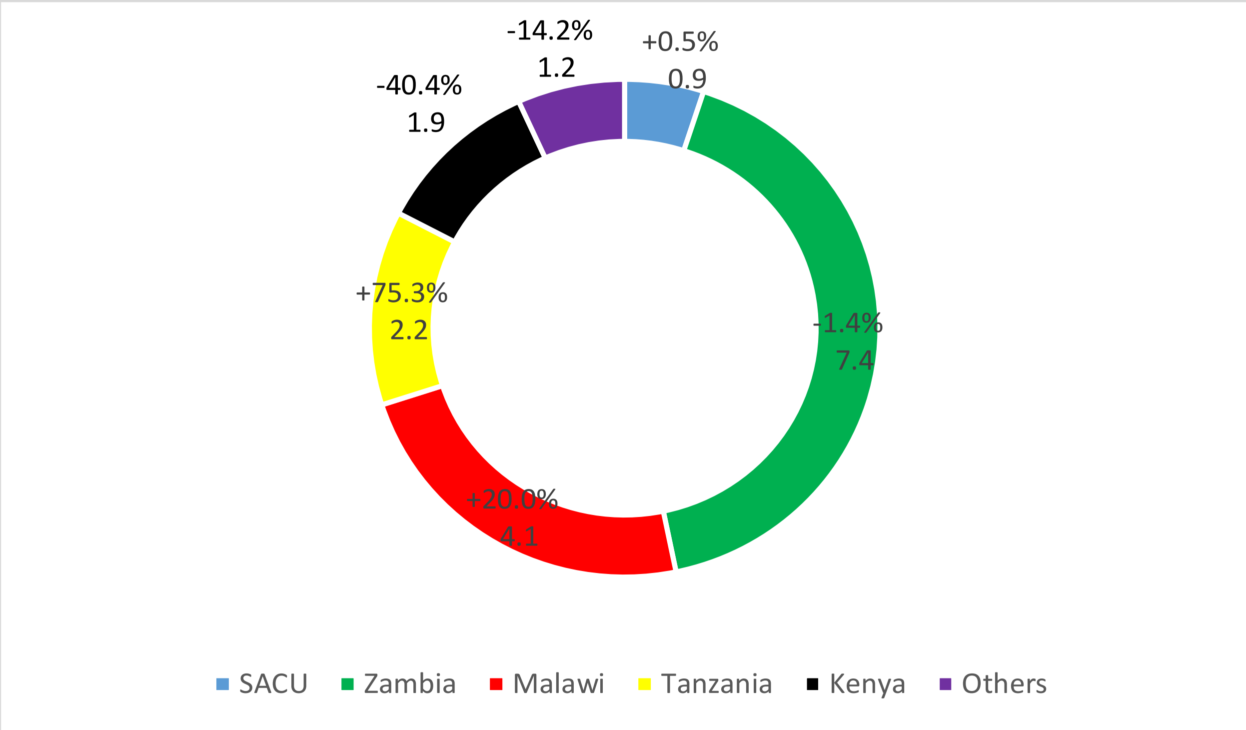
- net exchange rate movements; and
- increase in interest costs.

Revenue (US$m)



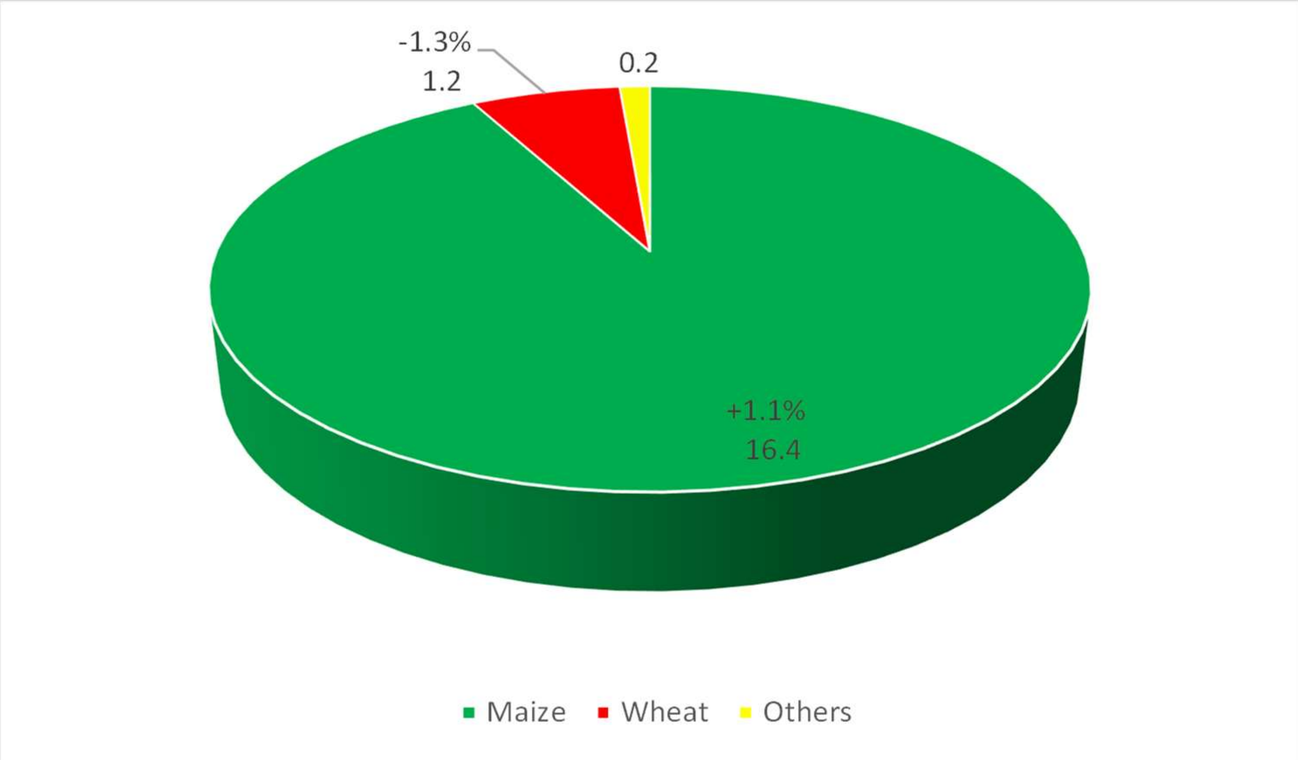
- Revenue remained unchanged at $17.7m as:
  - ✓ negative currency movements in Zambia were offset by
    - volume growth in Malawi and Tanzania with
  - ✓ real price changes across the Group negligible
- However, YTD is comfortably above both budget and same period prior year

Revenue performance by SBU



- The Southern African Customs Union region (SACU) maintained revenue at prior year levels at $0.9m;
- Turnover in Zambia marginally decreased by 1.4% to $7.4m;
- Sales in Malawi were buoyed by early demand through a Gvt initiative to support the victims of Cyclone Idai resulting in a 20.0% growth to $4.1m;
- In Tanzania; the 75.3% increase in revenue to $1.9m was driven by rebound in demand driven by normal to above normal rainfall forecast.
- The 40.4% decrease in turnover in Kenya resulted from the delayed commencement of the first and shorter planting season owing to a seasonal shift.

Revenue performance by crop



- Maize seed dominated revenue contribution with a 1.1% growth arising from strong early demand in Malawi, Tanzania and Zambia.
- Wheat seed sales registered a slight decline compared to last year on account of:
  - ✓ constrained irrigation capacity arising from water; and
  - ✓ electricity shortages experienced in Zambia.

	Unaudited half year ended	
	Sept 2019	Sept 2018
Gross margin	52.6%	50.0%

Gross margin

- The 2.6 points improvement was mainly due to the greater contribution of higher margin maize seed in the product sales mix.

	Unaudited half year ended	
	Sept 2019	Sept 2018
	US$m	
Other income	1.3	3.0

Other income

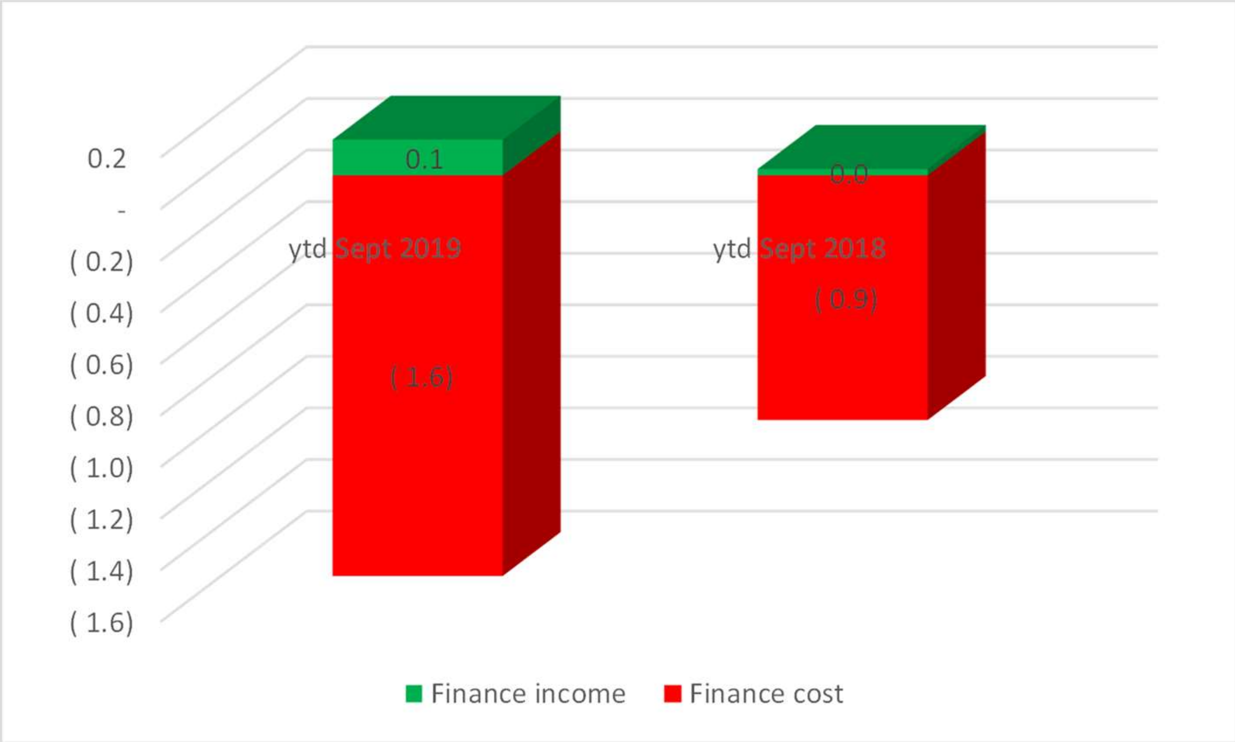
- The $1.7m decrease largely arose from
  - the reduction in exchange gains in Zambia on foreign denominated assets due to the deceleration in the devaluation of the Zambian Kwacha (ZMW); and
  - exchange losses in Kenya on foreign denominated liabilities as the Kenyan Shilling (KES) depreciated.

	Unaudited half year ended	
	Sept 2019	Sept 2018
	US$m	
Operating expenses	(11.6)	(11.5)

Operating expenses

- The 0.9% increase was under control and well within the regional inflation range due to cost containment efforts my management.

Net finance costs (US$m)



- Interest earned on cash deposits in Botswana.
- The finance costs increase to $1.6m arose from increased borrowings to finance:
  - ✓ working capital mainly increased stockholding & receivables
  - ✓ current year seed production
  - ✓ capital expenditure
- On-going cash sales & collections debtors set to reduce debt level
- Long-term debt is also being sought to refinance long-term projects

OUTLOOK

- 1st half-year loss has since been reversed
- YTD revenue and earnings ahead of both budget and same period prior year
- Full-year is forecast to close ahead of prior year on the back of:
  - ✓ YTD performance
  - ✓ 2nd season sales in East Africa which takes place in the last quarter of the financial year

Balance Sheet (US$m)

	Unaudited as at Sept 2019	Audited as at Mar 2019
	US$m	
ASSETS		
Property, plant and equipment	39.2	38.5
Investment in joint venture	1.5	1.0
Inventories and biological assets	30.3	18.0
Trade and other receivables	54.2	50.7
Other financial assets	-	0.3
Cash and cash equivalents	13.0	24.5
Total assets	**138.2**	**133.0**

	Unaudited as at Sept 2019	Audited as at Mar 2019
	US$m	
EQUITY AND LIABILITIES		
Total equity	**71.7**	**82.7**
Liabilities		
Deferred tax liability - net	0.9	0.8
Non-current bank borrowings	2.0	2.3
Currrent bank borrowings	46.8	33.3
Trade and other payables	16.8	13.9
Total liabilities	**66.5**	**50.2**
Total equity and liabilities	**138.2**	**133.0**

The total assets value rose by 3.9% driven increases in:

- ✓ PPE - farm purchase for seed production in Mkushi in Zambia
- ✓ inventories
- ✓ receivables.

	Unaudited Sept 2019	Audited Mar 2019
	US$m	
Investment in joint venture	1.5	1.0

Investment in joint venture

- The Company invested additional capital into Prime Seed Co International in Botswana for acquisition of an 80% stake in Alliance Seeds – a South African based vegetable seed company.

	Unaudited Sept 2019	Audited Mar 2019
	US$m	
Inventories and biological assets	30.3	18.0

Inventories

- Inventories surged to $30.3m on the back of:
  - ✓ higher levels of carryover stock following relatively poor sales in East Africa in the last financial year
  - ✓ stock receipts from current year's seed production
- The stock position is reducing from current season sales

Trade and other receivables

- Increase due to late settlements;
- Collections improved subsequent to reporting period;
- Included in trade & other receivables are:
  - ✓ $4m in advances to seed growers which have since been offset by seed deliveries after reporting date;
  - ✓ $2.5m prepayments and provisional tax payments

	Unaudited Sept 2019	Audited Mar 2019
	US$m	
Trade and other receivables	54.2	50.7

	Unaudited as at Sept 2019	Audited as at Mar 2019
	US$m	
Total equity	**71.7**	**82.7**

Equity

- The movement in equity from $82.7m in March to $71.7m at end of 1st half was caused by:
  - ✓ $2.5m loss for the period;
  - ✓ $7.3m exchange differences on translation of foreign operations; and
  - ✓ $1.3m the dividend paid to shareholders ($1.3m).

Seed Co International Group
Operations Review
by
Morgan Nzwere
Group Chief Executive Officer

General environment

- Normal to above normal rainfall positively impacting seed sales
- Weakening regional currencies adversely impacting value preservation
- Delayed settlement by debtors due to macroeconomic challenges
- Worsening macroeconomic fundamentals in Zimbabwe delaying settlement of related-party debt despite Gvt efforts to honour the debt
- Security issues in Francophone West Africa slowing business development in that region

Research

- SC419 – a medium-maturity maize variety was released in Ghana
- MLN tolerant SC441 and SC661 maize varieties were released in Kenya
- Cob-rot resistant SC733 maize variety was released in Zambia
- The R&D pipeline is also loaded with new sorghum, soya, beans, rice and wheat products at various stages of advancement towards market release

Production

- ❖Product availability was good this year but stockouts in specific varieties were experienced in some markets due to production challenges last season
- ❖Current season production is higher than prior year
- ❖Group seed available for sale 30% higher than last year on account of increased seed production in Kenya and Zambia
- ❖2019/20 summer seed production underway and planned to be at same level as prior as a way to manage inventories and reduce carryover stock

Processing

- The project to introduce cob harvesting & seed drying technology across the Group progress well with the pilot plant installation expected to be completed in Zimbabwe next year
- Seed processing plants in good working condition generally and the Group is planning capacity upgrades in Nigeria, Kenya and Tanzania

Sales & Marketing

- By the end of the 1st half, sales volumes were marginally ahead of prior year driven by excellent performance in Tanzania

- YTD sales volumes ahead of prior year

Development files

- Nigeria
  - Sales volume higher than prior year but growth painstakingly slow
  - Marketing efforts being intensified to raise product awareness and create demand
  - Plant upgrade planned for next year to improve quality and capacity
- Ethiopia
  - Investment Permit has now been secured and efforts are now being directed at issuance of the Operating license and establishing the SBU
- Ghana & Francophone West Africa
  - Product promotion and demand creation activities intensifying in Ghana and Francophone West Africa
  - Sales orders are beginning to come through albeit in small quantities at this stage

Development files

<u>Export markets</u>

- Angola
  - Continuing to show strong potential with increasing export sales out of Zambia
  - Now initiating plans to set up in-country operations
  - A country distributing agent was appointed
- Mozambique
  - Promising opportunity with increasing orders coming through for maize & vegetable seeds
  - Pilot in-country seed production FY18/19 was successful
- Vegetable seed JV
  - Now stabilizing this newly launched business segment in Malawi, Kenya, Tanzania Zambia
  - Recent addition to the segment, Alliance Seeds of RSA, broke even in 1st half and is expected to contribute positively this year

SBU Updates contd

Zambia

- ❖1st half \$10.2m turnover was 12% below prior year due to the depreciation of the Kwacha against the dollar by 23% from 10.54 last year to 12.93 at the end of September 2019
- ❖Overheads were contained 8% below prior year levels
- ❖Half-year profit at \$0.68m was 82% lower than same period last year due to:
  - ✓translation loss on 23% Kwacha depreciation
  - ✓reduced exchange gains on account of lower foreign currency denominated sales in 1st half
  - ✓increase in finance costs due to increased debt to fund working capital & CAPEX –Mkushi Farm
- ❖2nd half YTD performance rebound exciting:
  - ✓All performance metrics (revenue, volume & earnings) are ahead of budget and prior year
  - ✓Exports and US\$ denominated sales mitigating negative effects of the depreciating Kwacha
  - ✓Overall, the full-year outlook is expected to yield results better than last financial year in spite of the currency headwinds and the focus will be on collections

SBU Updates contd

Malawi

- 1st half \$4.2m turnover was up 22% compared to prior
- Collection of prior year debtors was excellent with nearly all debtors being collected leading to a significant reduction in borrowings and finance costs
- Turnover performance coupled with cost containment and good collection of debtors, yielded a positive PBT of \$0.4m compared to \$0.25m loss prior year
- YTD performance by all metrics is ahead of budget and prior year and the momentum is expected to the end of the financial year

SBU Updates continued

Kenya

- $1.8m turnover outturn was 40% below prior-year due to:
  - ✓late onset of the Sept/Oct rainfall season in the Upper North of the country [Mt. Kenya (Meru) area]
- Poor 1st sales resulted in a seasonal loss of $1.2m significantly higher than $0.3m loss recorded same period prior year
- Subsequent to 1st half cut-off, Kenya has registered remarkable recovery and all performance measures are ahead of prior year
- YTD the SBU's earnings are marginally positive compared to a loss position prior year
- Outlook is expected to close better than prior year

SBU updates contd

Tanzania

- Star performer in 1st half with turnover nearly double prior year driven by:
  - ✓strong demand buoyed by good rainfall prospects at the start of the season
  - ✓being early on the market leveraging on good stock position
  - ✓aggressive market presence and expanding reach
- Higher turnover, improved margin and stagnant overheads contributed to containing the seasonal loss at $0.5m compared to nearly $1m loss same period last year
- YTD performance has maintained the bullish trend achieved in 1st half and the outlook is encouraging
- Forecasting good full-year performance out of Tanzania

SBU updates contd

CCU (Botswana, Swaziland and South Africa)

- 1st half turnover performance at just under $1m was flat compared to same period last year
- Period loss was 15% higher than prior year on account of R&D activities in RSA
- YTD turnover and volumes significantly ahead of prior and the YTD loss is 50% lower than same period last year
- Full-year outturn forecast to be better than last year

Outlook

- Sales in all markets expected to close this financial year comfortably ahead of last year
- Key focus areas to year-end:
  - ✓maximize 2nd season sales in East Africa
  - ✓watch overheads
  - ✓collect debtors and manage borrowings
  - ✓hedge currency risk


QUESTIONS????