Seed Co International Limited

Unaudited Interim (Half-year) Results Presentation F2022/23

The African Seed Company

Seed Co International
Group Operations Review

General environment

- Continuation of the Russo-Ukraine war and its adverse global economic impact (logistics, critical inputs' shortages, power inflation and rising interest rates)
- Continuing optimism and economic recovery in Zambia and continued economic stability in Tanzania
- Socio-economic challenges in Malawi, Ghana, Nigeria, Kenya and instability in Ethiopia & Sudan as well as some countries in Francophone West Africa
- Currency devaluation pressure in Malawi, Kenya, Nigeria and Ghana
- Regional power shortages are a serious bottleneck facing all businesses
- Enhanced focus on primary food production self-sufficiency in Africa

Research

- Four Maize hybrids; SC 649, SC 653, SC 665 and SC 729 were listed on the SADC Regional Catalogue
- Three additional Soyabean varieties; SC Serenade, SC Signal and SC Saga were also listed on the SADC Regional Catalogue
- Hybrid True Potato varieties, SOLY07 and SOLY12, released in Kenya in partnership with Solynta USA
- Advanced stages to release 2 sunflower varieties to add to the increasing demand for oilseeds
- Continuing with Rice hybrid trials in Southern, East and West Africa
- Sorghum, Sunflower and Cowpea hybrid registration trials on-going
- Continuing to screen and introduce new vegetable hybrids Group wide

Production

- Product availability higher than last year with the key crop, maize, stocks 11% higher at 51,500mt
- Some markets (Kenya & Nigeria) stocked out last year due to local production challenges and these markets are being supplied out of Zambia and Malawi
- Logistics have been however a challenges at boarders
- Local production improved in Nigeria this year and harvesting is currently under way expecting 1,500mt maize
- Trial production activities are underway in Ghana

MAIZE SEED VARIETIES

Processing

- Seed processing plants in good working condition
- The new plant installed in Nigeria last year is delivering expected efficiencies
- Additional drying capacity is being constructed at Zambia’s Mkushi Farms
- Advanced stages of procuring and installing a new plant in Tanzania to handle the growing business

VEGETABLE SEED PORTFOLIO

Broccoli Formoso F1

Cabbage Vikima VS209 (F1)

Cucumber Dreamliner F1

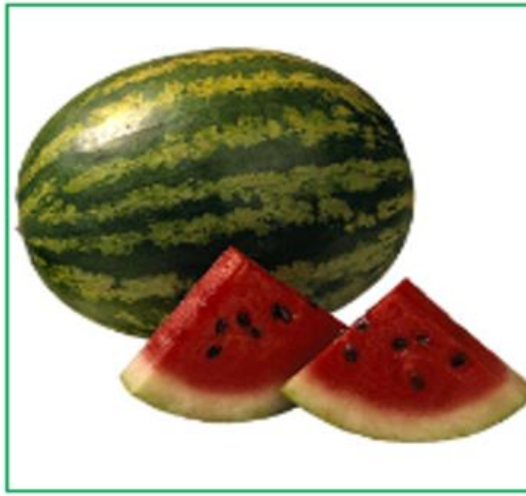
Daisy F1

Majesty F1 Cabbage

Maxim F1

Onion Regent

Pepper Hercules



Squash Winter

Tomato Alambra

Tomato Candela

Watermelon Kito

Sales & Marketing

- By the end of the 1st half, sales volumes were 34% lower than prior year same period because of:
  - ✓non-recurrence of early sales in Malawi as the Gvt delayed launching its program
  - ✓stockouts in Nigeria after prior year production was affected by heavy rains
  - ✓stockouts and drought in Kenya
  - ✓delayed uptake of soybean under the Gvt program in Zambia
- The Group is reconfiguring the distribution model through online shops and own shops to harness more direct sales and internalize margins

Development files

❖ **Mozambique**

– Good prospects out of Mozambique continuing with a growing order book and sales activity

❖ **Ethiopia**

– Instability slowed down planned commencement of operations

❖ **Ghana & Francophone West Africa** (13-country coverage)

– Business development ongoing in this region covering 13 countries

– Product promotion & demand creation in full swing albeit affected by 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
- We are working on developing the Angolan open market for seed to reduce reliance on Gvt
- We have signed up a few distributors to start open market sales starting small

❖DRC

- Insecurity, bureaucracy, and limited road infrastructure remain the biggest bottlenecks in this vast country with immense potential
- We continue to opportunistically export into the DRC out of Zambia

❖Vegetable seed JV

- The regional vegetable seed JV registered a small loss in the 1st half due to exchange losses as the business relies on imported vegetable seeds
- Above breakeven performance anticipated for the full year

❖RSA JV -20% effective Seed Co equity

- Now firmly established following its creation in June 2020 and all integration costs have been absorbed
- Significantly reduced its first half loss from $0.9M prior year to $0.2M this half

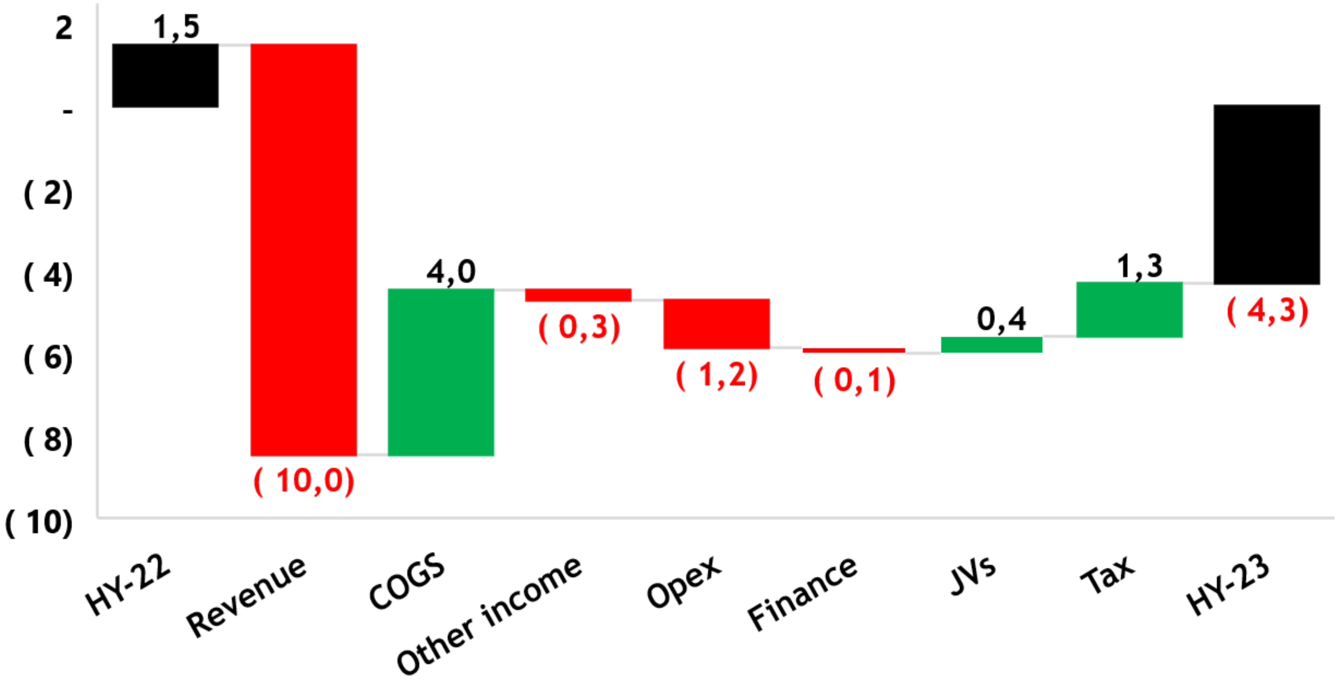
Seed Co International Limited

Half-Year to 30 Sept 2022
Financial Review
By
John Matorofa- GFD

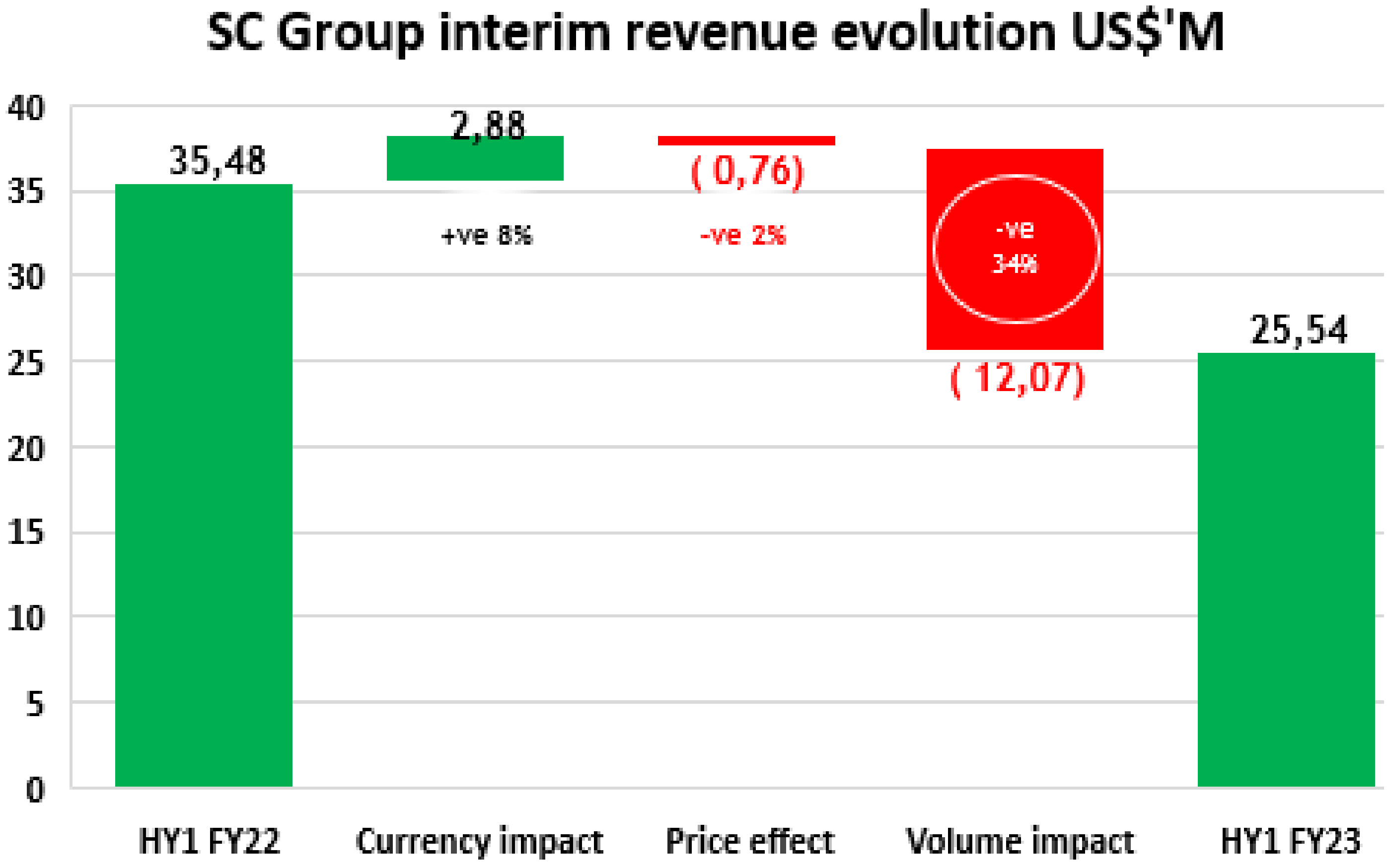
ABRIDGED GROUP INCOME STATEMENT

	Unaudited period ended	
	Sept 2022	Sept 2021
	US$'M	US$'M
Revenue	**25.5**	**35.5**
Cost of sales	(14.2)	(18.2)
Gross profit	**11.3**	**17.3**
Other income	1.1	1.3
Operating expenses	(15.0)	(13.8)
Operating (loss)/profit	**(2.6)**	**4.8**
Net finance cost	(1.4)	(1.3)
Share of loss from associate & JVs	(0.5)	(0.9)
(Loss)/profit before tax	**(4.5)**	**2.6**
Income tax expense	0.2	(1.1)
(Loss)/profit after tax	**(4.3)**	**1.5**

Interim profit evolution HY-22 Vs. HY-23 (US$'M)

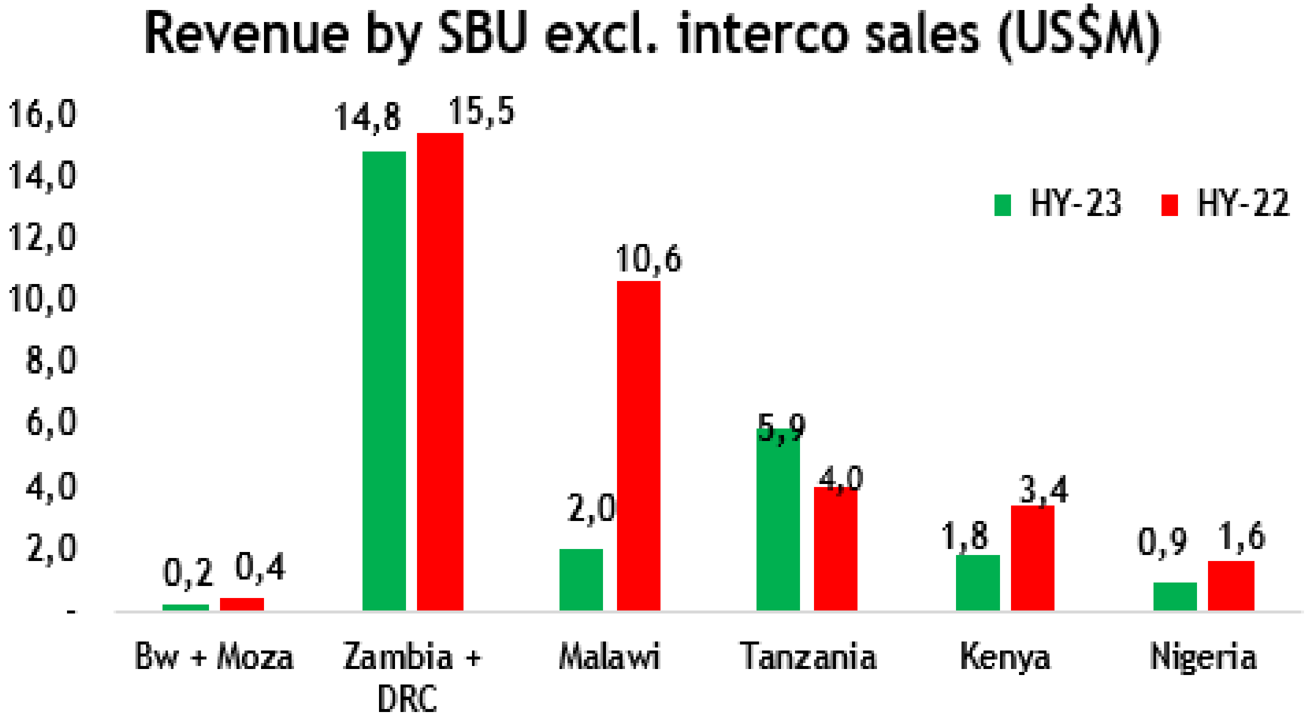


- $4.3M 1st half loss outturn mainly attributable to normalisation of seasonal revenue performance because of:
  - ✓ delayed Gvt program in Malawi unlike prior year when sales were registered early
  - ✓ Stockouts in Nigeria (due to production challenges)
  - ✓ Stockouts in Kenya due to drought and production challenges
  - ✓ inflationary increase in overheads
  - ✓ Increase in finance costs as interest rates increase globally and in regional markets



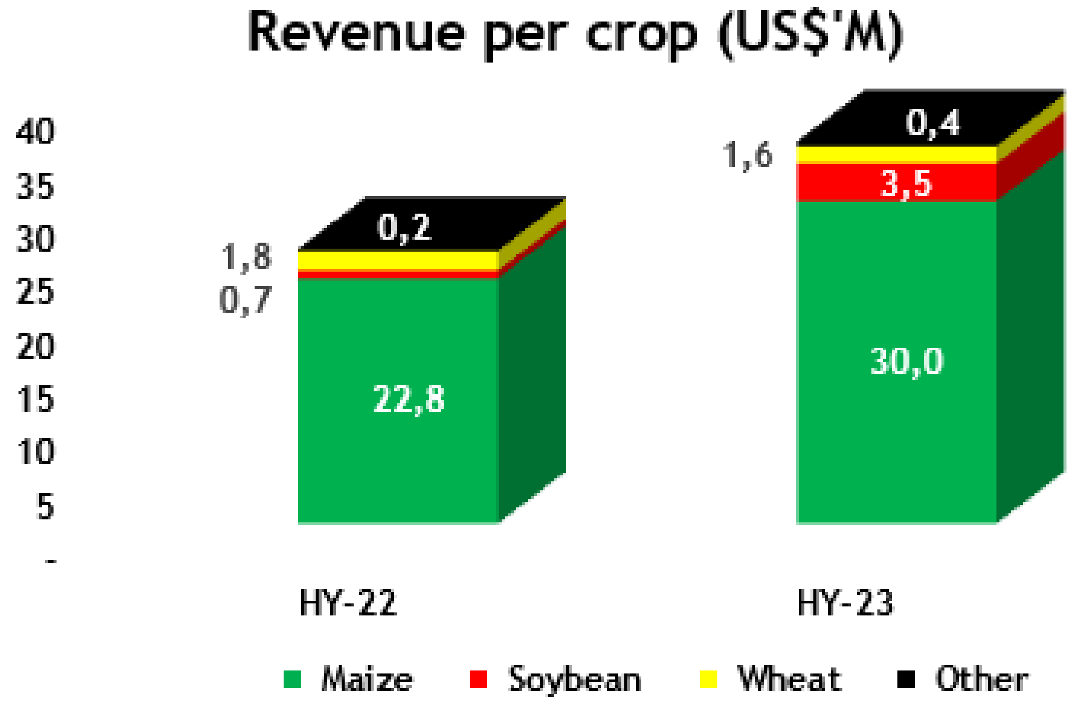
- $3M positive currency impact because of translation gains from a stronger kwacha in Zambia.
  - ✓ the kwacha appreciated 17% from an average exchange rate of 19.92 to the USD prior year to 16.62 during the 1st half of this year

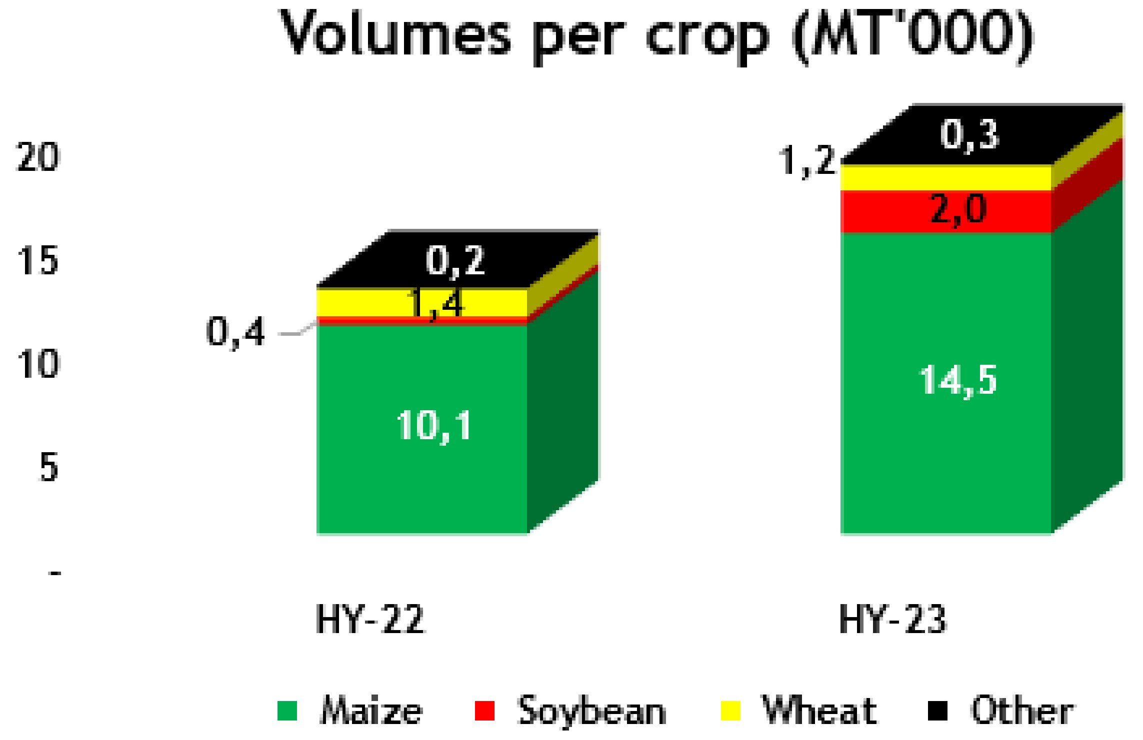
- Revenue dropped to $25.5M from $35.5M reverting to normal season trend due to:
  - ✓ Delayed Gvt program in Malawi – last year Malawi defied seasonal trend and distributed 5,100mt seed worth $10.6M compared with just 1,900mt this year worth $2.9M
  - ✓ Product shortages in Nigeria shrunk volume by 41% to 617mt from 1,720mt prior year
  - ✓ Drought and product shortages in Kenya reducing volume by 46% to 843mt



- Botswana and Mozambique no longer include Vegetables hence the fall in revenue by 50% in the 1st half following the setting of a Vege SBU
- Turnover in Zambia decreased by 6% to $14.8M despite a 19% volume drop due to stronger kwacha translation gains

- Sales in Malawi dropped by 80% to just $2M mainly because of non-recurrence of early sales as the launch of the Gvt inputs program was delayed this year
- Tanzania increased by 40% to $5.9M driven by early demand buoyed by fertiliser subsidy and firm grain prices
- Kenya sales declined 17% due to drought.
- Nigeria turnover down 46% due to stock unavailability following production challenges due to heavy rains last season





- The revenue drop is mainly attributable to the 34% volume loss contributed largely by Malawi, Nigeria and Kenya
- Maize seed dominated both revenue and volume contribution driven by Tanzania and Zambia.
- Wheat volume registered 12% growth in Zambia on the back of import substitution drive
- Soya volume declined 80% from prior year due to delayed uptake in Zambia by the Gvt

Gross margin

- The 5 points drop is mainly due to:
  - ✓ lower economies on reduced volume sold
  - ✓ adverse costs sales translation impact of a stronger Zambian kwacha

	HY23	HY22
Gross margin	44%	49%

Other income

- The $250k decrease due to lower non-seed sales

Other income	HY23	HY22
US$'M	1,06	1,32

Operating expenses

- The 8% increase attributable to:
  - ✓ general inflation across markets
  - ✓ translation impact of currency appreciation in Zambia

Operating	HY23	HY22
Expenses US$'M	14,95	13,79

JVs and Associate

- Loss contribution nearly halved mainly because of:
  - ✓ significant loss reduction in South Africa
  - ✓ Exchange losses weighed down Vegetables as well West & Central Africa performance

Loss share from JVs & Associates	HY23 US$'M	HY22 US$'M
West & Central Africa -50% JV	(0,2)	(0,1)
Vegetables - 50% Vege JV	(0,1)	0,1
RSA - 20% associate	(0,2)	(0,9)
TOTAL	(0,5)	(0,9)

Balance Sheet (US$'M)

BALANCE SHEET	30-Sept-22 US$'M	31-Mar-22 US$'M
Assets	**166.7**	**157.6**
Property, plant & equipment (PPE)	45.1	44.7
Intangible assets	4.7	4.8
Right-of-use assets	0.7	0.9
Investments in associate & JVs	6.1	6.8
Deferred tax asset	0.5	0.5
Inventories & biological assets	42.8	25.6
Receivables	57.9	54.4
Cash & cash equivalents	8.9	19.9

BALANCE SHEET	30-Sept-22 US$'M	31-Mar-22 US$'M
Equity and liabilities	**166.7**	**157.6**
Shareholders' equity	91.4	96.1
Loans & borrowings	48.7	42.1
Lease liabilities	0.8	0.9
Deferred tax liability	2.6	3.3
Payables & provisions	23.2	15.1

-**Non-current assets** increased as a result of:
- ✓ continued capacitation of own production in Zambia
- ✓ translation gains in Zambia

-**Inventory** increased during this normal peak processing period

-**Receivables** increased with first half sales

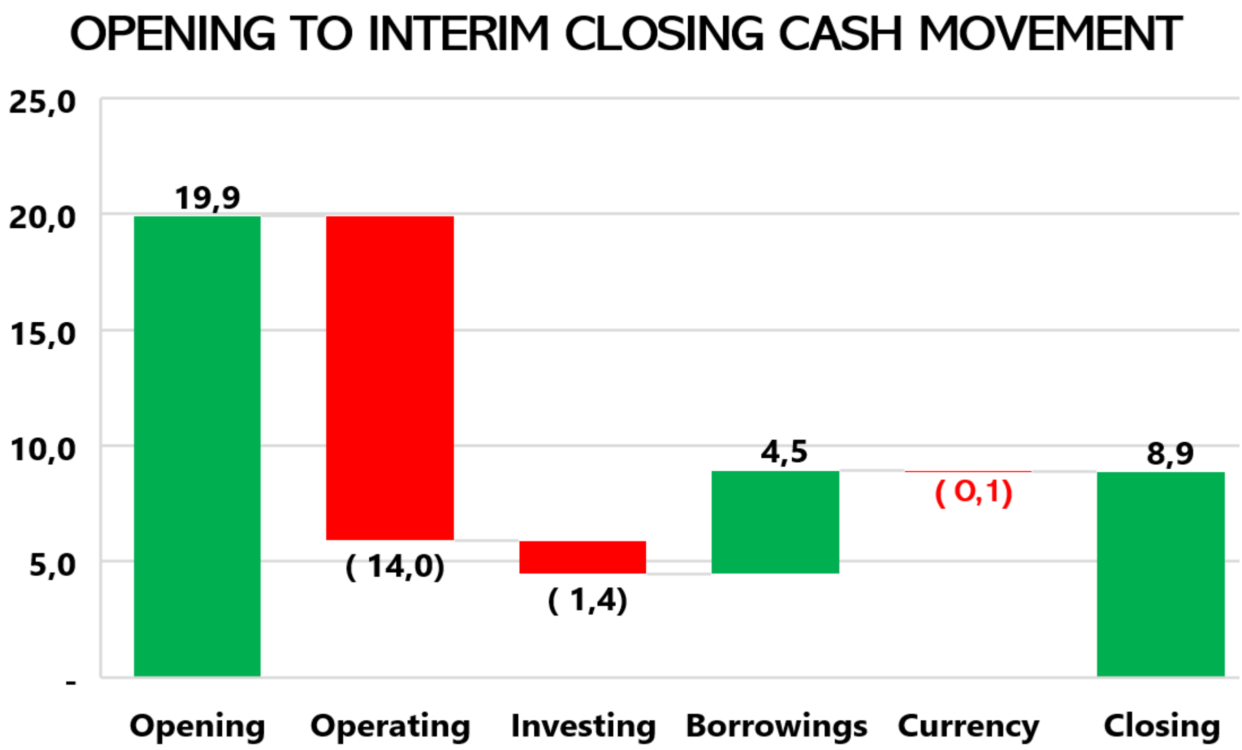
-**Cash** utilisation increased in tandem of with the business cycle of raw seed intake from growers and processing activities during the first half

-**Equity** decreased due to 1st half loss

-**Debt** increased from last year-end to finance raw seed intake, processing and market placement

-**Gearing** also increased from 49% to 53% because of the 1st half loss impact on the equity position of the Group against the increase in borrowings

ABRIDGED GROUP STATEMENT OF CASH FLOWS	HY23 US$'M
Opening cash & cash equivalents -1-Apr-22	19,9
Operating cash flow	(14,0)
Investing cash flow	(1,4)
Financing cash flow	4,5
Exchange rate changes	(0,1)
Closing cash & cash equivalents -30-Sept-22	8,9



- **Operating cash outflow:**
  - ✓ Largely attributable to procurement of raw seed, processing consumables, processing and early trade channel placement for the current year selling season.
- **Investing cash outflow:**
  - ✓ Continued own production farms' capacitation investments mainly in Zambia.
- **Financing cash inflow:**
  - ✓ Borrowing proceeds to fund season's working capital requirements

SBU Updates

Zambia

- ❖ 1st half $14.6M turnover was 6% below prior year as volume was 19% lower due to:
  - ✓ delayed uptake of soybean - only 375mt sold compared to 2,040mt prior year 1st half

  NB: Translation gains from a stronger Kwacha diluted the impact of the volume loss on revenue
- ❖ Overheads increased by 11% mainly due to the impact of translating kwacha denominated costs using a 17% stronger average kwacha exchange rate
- ❖ Half-year profit at $1.3M lower than $2.4M prior year due to:
  - ✓ reduced volume
  - ✓ currency translation induced increase in overheads
- ❖ YTD performance showing promise with increased open market seed sales despite relatively slower uptake under Gvt inputs program
- ❖ The Gvt has almost fully settled the long-outstanding FY18/19
  - ✓ From a balance of $3.7M at last year-end, $3.1M has been settled and $0.6M is still owed with indications this shall be settled before year end

SBU updates continued

Tanzania

- ❖1st half with turnover of $5.9M is a 46% jump on prior year due to:
  - ✓strong demand which pushed sales volume 40% higher in this growing market
- ❖Overheads were contained 2% lower than same period prior year
- ❖In line with the revenue performance, the bottom line improved from breakeven prior year 1st half to $0.3M this year
- ❖YTD performance is now ahead of prior year on all metrics despite lower rainfall forecasts and logistical challenges importing seed from Zambia, Malawi and Zimbabwe
- ❖Full year net result anticipated to end significantly better than last year

SBU Updates continued

Malawi

- 1st half $2M revenue nearly 80% lower than $10.6M achieved same period prior year as the business delayed seed distribution as the Gvt moveed launching this year inputs program to the 2nd half
- Overheads decreased by about 36% in line with the reduced business activity during the 1st half
- 1st half $1.1M loss as the trend reverted to normal status during the 1st half following the unusual $1.8M profit prior year
- YTD performance showing notable recovery with sales now in full-swing but traditionally most of the sales are registered in December and January
- Gvt budget constraints, inflation, power shortages and sustained currency devaluation pressure are the key risks to watch in Malawi

SBU Updates continued

Kenya

- $1.8M turnover and 843mt volume outturn nearly half of what was achieved prior-year 1st half due to:
  - ✓drought dampening demand
  - ✓stock outs on short season varieties
- Operating expenses increased mainly because of inflation
- Seed Co Kenya's seasonal loss increased significantly to $1.5M from a marginal loss prior year due to the suboptimal turnover
- YTD the SBU's revenue and earnings have improved but still lagging prior year same period trend
- Continuing effects of drought, exchange losses and finance costs are the risks we are carefully monitoring and taking mitigatory measures where possible

SBU updates continued

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 $1M PAT.
- ❖The Gvt debt has made significant progress settling its debt paving the way for this year's sales to start on better credit balance

Seed Co International Limited

OUTLOOK

By
Morgan Nzwere- GCEO

OUTLOOK

- The Group continues to leverage its multi-geography footprint to make seed available in markets (East Africa & Nigeria) facing product shortages
- Zambia open market sales are encouraging this year and uptake under the Gvt system is increasing
- Tanzania is expected to continue on its growth trajectory while Nigeria is anticipated to recover sales volume during the last quarter
- Kenya set to close the year lower than prior due to drought despite securing products from sister SBUs

Outlook

- ❖Key focus areas to year-end:
  - ✓Intensify sales & marketing and claw-back prior year trend
  - ✓Ride on continuing market stability and positive sentiments in Zambia
  - ✓Continue harnessing the opportunities coming out of Mozambique
  - ✓Watch overheads and funding costs
  - ✓Collect debtors to reduce funding costs
- ❖Key risks being monitored and managed going forward are:
  - ✓Inflation in most regional markets due to imported global inflation
  - ✓Hedge currency risks
  - ✓Currency devaluation threats in Malawi, Nigeria, Kenya and Ghana
  - ✓Mixed rainfall forecasts and developments


THE RAINS FIND
WELL
the right seed


Questions