Seed Co Limited

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

Seed Co Group

Operations Review

By

Morgan Nzwere <u>GCEO</u>

General environment

- Unstable operating environment in Zimbabwe characterized by:
  - ✓Hyperinflation
  - ✓Usurious ZWL interest rates
  - ✓Local currency depreciation on both the official and alternative markets
  - ✓Crippling shortage of power and other utilities
  - ✓Crippling liquidity crunch
  - ✓**Pricing and reporting currency quagmire -** the economy is largely dollarized, but the ZWL is still the official local currency
- Mixed rainfall forecasts and developments -normal to above normal rainfall expected in Zimbabwe and Southern Africa, uncertain forecasts in Central Africa whilst most parts of East Africa not that fortunate this year
- Weakening regional currencies adversely impacting value preservation, save for Zambia and Tanzania
- Sharp increases in the prices of critical imported agro-inputs because of the conflict in Europe
- Regional power crisis as hydro sources dry up and power infrastructure failure
- Socio-economic challenges in Malawi, Ghana, Nigeria, Kenya and instability in Ethiopia & Sudan as well as some countries in Francophone West Africa

Research

New product releases in Zimbabwe

- ❖3 new maize hybrids (SC307, SC449 & SC561)
- ❖Sorghum hybrid SC XH101
- ❖Three Pearl Millet hybrids (SC PGH01, SC PGH03 & SC PGH05)
- ❖Two cowpea varieties (SC VU01 and SC VU03)
- ❖Advanced stages to release 2 sunflower varieties to add to the increasing demand for oilseeds

Regional developments:

- ❖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
- ❖Continuing with Rice hybrid trials in Southern, East and West Africa
- ❖Continuing to screen and introduce new vegetable hybrids Group wide

New products -rice

Production

- Production in Zimbabwe defied the challenges associated with difficult grower pricing negotiations, high input costs and erratic rains:
  - ✓maize seed stocks at 22,600mt are nearly 60% higher than prior year
  - ✓stockholding a good store of value in view of inflation and helps the Zim business exploit export opportunities
- Regional product availability also good though some countries stocked out and are being replenished out of Zimbabwe, Zambia and Malawi

Processing

❖Artificial Seed Conditioning Plant (Drier) commissioned in Zimbabwe last year fully operational

✓Plans still underway to replicate this technology in key regional markets like Zambia after drawing lessons from pilot Zim plant

❖The main processing plant is in good working condition but full utilisation is being impacted by power shortages

❖In the region, the new Seed Processing & Packaging Plant commissioned in Nigeria is now fully operational

❖Own farm storage (4,000sqm) and drier (14 bays) construction were completed in Zambia in order to enhance in-house production

Sales & Marketing

- Zimbabwe 1st half sales volume was 20% lower due to:
  - ✓the liquidity crunch in the economy
  - ✓ the delayed launch of Gvt programs
  - ✓non-repeat of wheat exports to Nigeria
- YTD sales volume has since improved significantly with the onset of the rains and the start of Gvt programs
  - ✓Bulk of sales being concluded in USD
- Regional associate 1st half sales volumes were 34% lower than prior year due to:
  - ✓delayed seed distribution in Malawi as the Gvt delayed launching its inputs program this year
  - ✓Stockouts in Nigeria as well as a drought and stockouts in Kenya

Seed Co Limited

30 Sept 2022 Half-Year Financial Review

by John Matorofa GFD

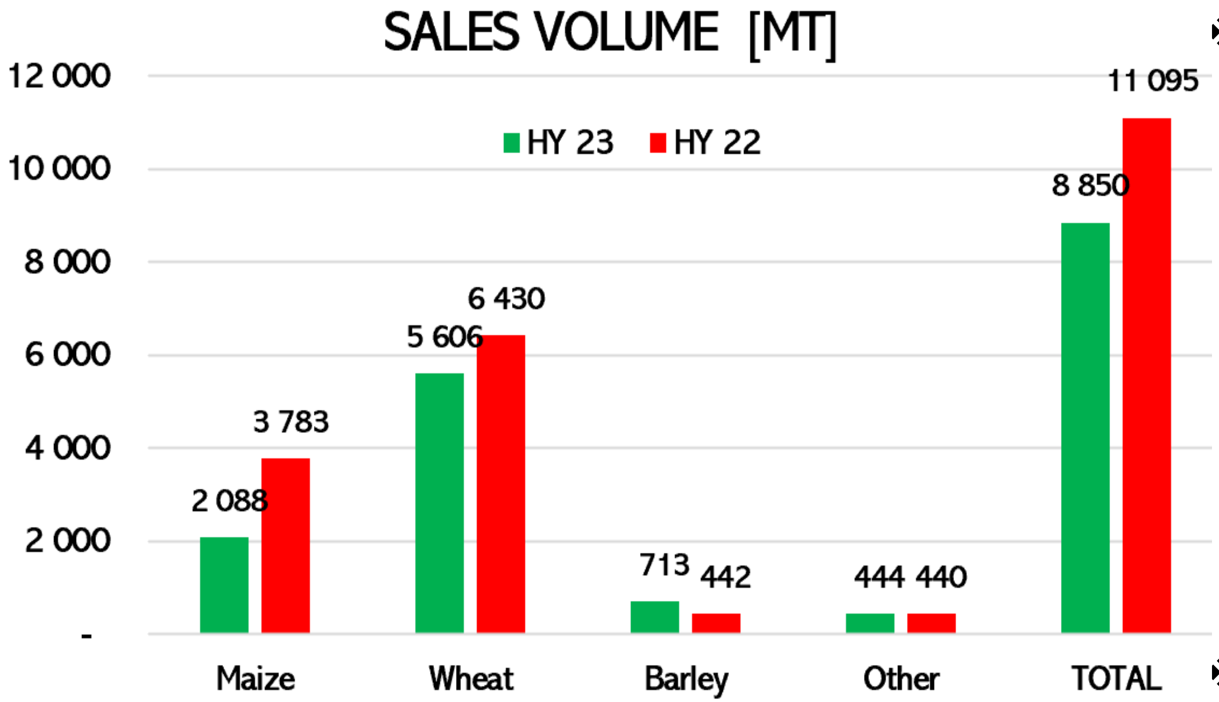
SEED CO LIMITED Group 1st Half ended 30 Sept 2022

	INFLATION ADJUSTED		UNAUDITED HISTORICAL COST	
	30 SEPTEMBER 2022 (Reviewed)	30 SEPTEMBER 2021 (Unaudited)	30 SEPTEMBER 2022	30 SEPTEMBER 2021
	ZWL$'000			
Revenue	8,439,095	8,062,908	5,917,864	1,965,283
Cost of sales	(6,154,058)	(5,901,776)	(2,720,226)	(1,098,710)
Gross profit	**2,285,037**	**2,161,132**	**3,197,638**	**866,573**
Other income	20,454,863	2,084,536	16,813,323	442,769
Operating expenses	**(4,632,567)**	**(3,456,445)**	**(3,742,880)**	**(853,712)**
Sales and marketing costs	(1,031,666)	(489,396)	(535,955)	(132,847)
General and administrative costs	(1,919,467)	(1,935,974)	(1,938,237)	(470,983)
Research costs	(1,308,395)	(1,031,075)	(1,035,186)	(249,882)
Movement in expected credit losses	(373,039)	-	(233,502)	-
Operating profit	**18,107,333**	**789,223**	**16,268,081**	**455,630**
Finance income	1,816	1,106	1,291	271
Finance cost	(3,902,880)	(1,212,390)	(3,403,701)	(294,354)
Net monetary gain/(loss)	(8,418,295)	(3,845,820)	-	-
Share of profit from associates and joint venture (JV)	(1,163,968)	(275,929)	(591,109)	52,686
Profit/(Loss) before tax	**4,624,006**	**(4,543,810)**	**12,274,562**	**214,233**
Income tax expense	(2,017,440)	(2,886,709)	(6,246,466)	(137,788)
Profit/(Loss) for the period	**2,606,566**	**(7,430,519)**	**6,028,096**	**76,445**

- **Value** in the business was preserved through:
  - ✓ revenue contracts in USD but settled in ZWL at prevailing FX rates and USD royalties- hence the sizeable other income amount
- **Finance** costs were a major drain to the business
- Despite the jump in overheads, finance costs, lower volume and monetary loss; value and **profitability** was hedged through the FX gains

- **Revenue** trebled in historical terms and grew 5% in inflation-adjusted terms despite volume dropping by 20% as prices moved in line with official exchange rate depreciation

Seed Co Limited Group 1st Half ended 30 Sept 2022



- **Wheat** seed sales volumes 14% lower PYr because of non-recurrence of 2,000mt exports to Nigeria
  - ✓ Notable 25% increase in local wheat volume due to the import substitution drive
- **Barley** volume also grew by 30% from 442mt prior year to 713mt
- **Maize** sales started slower given the liquidity crunch in the economy and delayed launch of Gvt programs – volume was a 55% of prior year
- **NB:** While total volume was 20% below prior year, historical revenue is more than 3 times prior year in line with inflation and 5% higher in IAS 29 terms as pricing is linked to official exchange rates

Seed Co Limited Group 1st Half ended 30 Sept 2022

**GROSS MARGIN: - ** improved by 10%age points in historical terms from 44% to 54% helped by carryover stock carried at historical cost and sold this year at current prices

**OPERATING EXPENSES: - ** surged 4 times in historical terms and were up 34% in inflation-adjusted terms in line with the official sharp depreciation of the ZWL from an average of 86 same period prior year to 410 during this 1st half

FINANCE COSTS escalated dramatically with the 200% policy rate benchmark and this is a major challenge for the business

NEGATIVE SHARE FROM ASSOCIATES & JV this half against positive prior year contribution *weighed down mainly by SCI*:

- **SCI's** performance was subdued compared to prior year due to reduced volume mainly in Malawi, Nigeria and Kenya.
- **Quton Zim** posted a higher profit driven by exchange gains on USD denominated receivables
- **Prime Seed Co Zim**- recorded improved performance owing to increased margins mainly as a result of currency distortions i.e., carryover stock at historical cost sold this year at current prices

Seed Co Limited Financial Position as at 30 Sept 22

	INFLATION ADJUSTED		UNAUDITED HISTORICAL COST	
	30 SEPTEMBER 2022 (Reviewed)	31 MARCH 2022 (Audited)	30 SEPTEMBER 2022	31 MARCH 2022
	ZWL$'000			
ASSETS				
PPE	16,533,886	16,863,434	6,254,961	6,322,021
Investment in associates and JV	6,017,675	12,075,989	3,812,519	4,444,283
Other financial assets	31,192	84,940	32,235	31,843
Inventories	13,242,689	8,833,882	12,439,548	2,431,420
Trade and other receivables	26,035,747	12,591,626	25,480,183	4,709,989
Cash and cash equivalents	1,118,005	691,900	1,118,005	259,391
Total assets	62,979,194	51,141,771	49,137,451	18,198,947
EQUITY AND LIABILITIES				
Equity				
Share capital	126,700	126,700	2,472	2,472
Non-distributable reserves	30,716,510	30,757,165	7,856,333	7,896,988
Retained earnings	1,286,782	3,534,953	10,936,363	4,908,268
Total equity	32,129,992	34,418,818	18,795,168	12,807,728
Liabilities				
Deferred tax liability	5,008,494	6,171,446	4,501,575	1,435,501
Bank borrowings	18,762,294	8,238,446	18,762,294	3,088,560
Trade and other payables	7,078,415	2,313,061	7,078,414	867,158
Total liabilities	30,849,203	16,722,953	30,342,283	5,391,219
Total equity and liabilities	62,979,195	51,141,771	49,137,451	18,198,947

- **PPE** lower carrying value due to depreciation
- **Investments** carrying value lower because of the 1st half seasonal loss by Seed Co International
- **Inventory** higher as the business takes in raw seed from growers and starts adding value/processing during this period
- **Receivables** up mainly because of FX gains on USD denominated revenue contracts and real FX receivables (royalties & exports)

✓ **EQUITY** increased largely from the value-hedging embedded on the balance sheet i.e. FX denominated receivables.

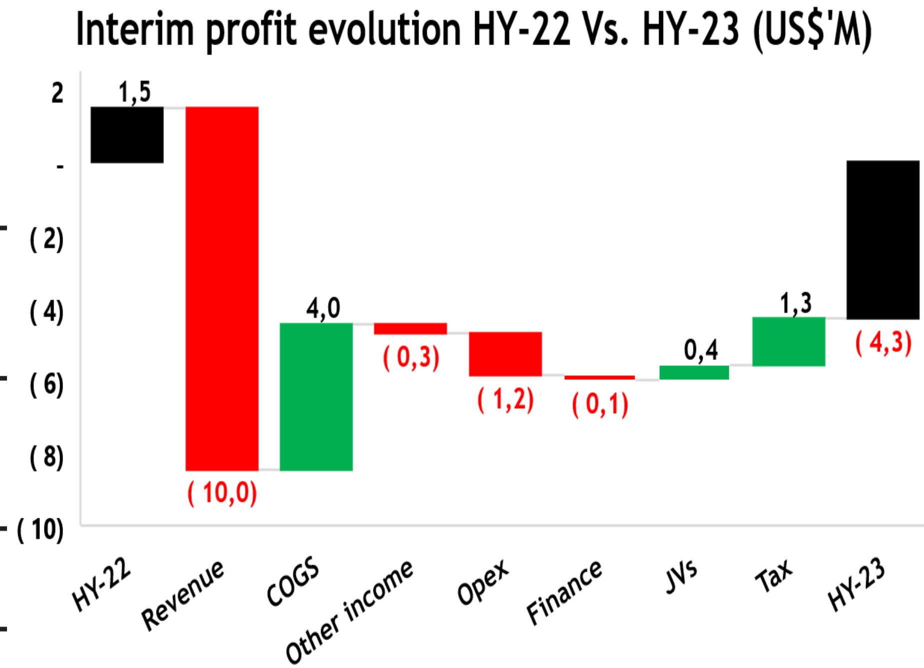
✓ **DEBT** increased due to inflation and the need to finance seed intake, processing and distribution.

✓ **PAYABLES** mainly grower deliveries not yet paid for at reporting date.

Significant Associate Seed Co International Limited Half-Year Financial Review

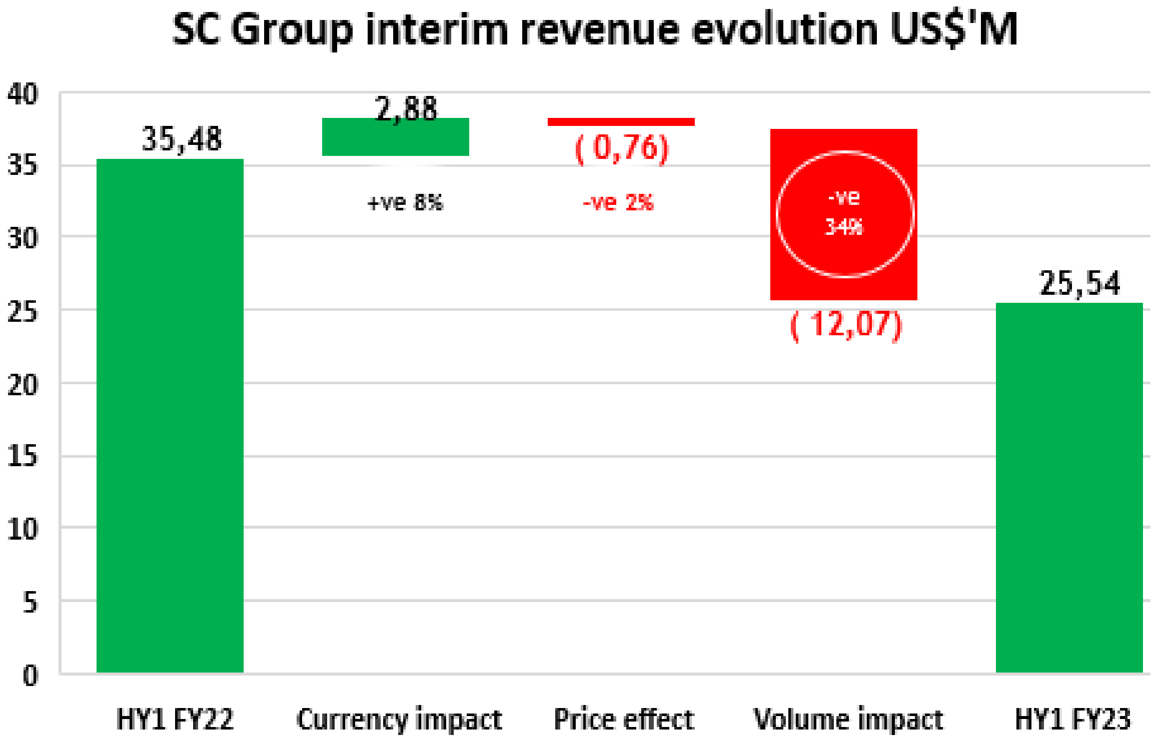
Seed Co International Limited

	Unaudited period ended	
	Sept 2022 US$'M	Sept 2021 US$'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**



- $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

Seed Co International Limited



- $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 Vs. only 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

SBU Updates

Zimbabwe

- ❖Financial performance adversely impacted by funding constraints and hyperinflation
- ❖Volume dropped 20% overall:
  - ✓maize declined 45% to 2,088mt
  - ✓wheat decreased by 13% to 5,606mt with no repeat 2,000mt exports to Nigeria
    - ▪local wheat volume increased by 27% as Gvt intensified import substitution
  - ✓barley increased by 61% to 713mt on the back of increased demand
- ❖Overheads tracking inflation (34% up in inflation adjusted terms and more than 4 times jump in historical terms)
- ❖Profitability weighed down by rising operating expenses & finance costs
- ❖Embedded balance sheet hedge helped to achieve profitability during the 1st half from gains on USD denominated receivables
- ❖Key issues going forward:
  - ✓Finance cost reduction
  - ✓Harnessing more local USD sales
  - ✓Export revenue generation leveraging associate regional operations

Key Regional 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 Vs. 2,040mt prior year

  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 programs
- 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

Key Regional SBU Updates contd

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 better than last year

Key Regional SBU updates contd

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 moved launching this year inputs program to the second 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

Key Regional 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

Zimbabwe Outlook

- Despite the harsh and uncertain operating environment, we will focus on:
  - defending the leading market position
  - stakeholder value enhancement by harnessing hard currency local sales as well as exploiting regional export opportunities.
- YTD sales volume and USD local and export sales are now significantly higher than same period prior year buoyed by:
  - ✓ the onset of rains which are forecast above-normal for most parts of the country
  - ✓ increased uptake under Gvt related programs
- Brand equity and strong R&D capabilities remain our competitive advantage and will continue to receive priority investment

Seed Co Limited

OUTLOOK

by

Morgan Nzwere GCEO

Regional 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

Key focus areas

- ❖Sales & marketing blitz aiming to surpass prior year volume and USD revenue contribution in Zimbabwe
- ❖Managing the interest bill by liquidating expensive ZWL borrowings
- ❖Continue harnessing the opportunities coming out of Mozambique
- ❖Key risks to affect full year outcome in Zimbabwe and the Region are:
  - ✓liquidity crunch, high interest rates and depreciating currency in Zimbabwe
  - ✓inflation and currency devaluation pressure in Malawi, Kenya and Nigeria
  - ✓Mixed rainfall forecasts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The African Seed Company
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