The African Seed Company

Seed Co Limited

Full-Year Results Presentation FY23

Seed Co Limited Full-Year to 31 March 2023 Financial Review

By John Matorofa

Group Finance Director

Seed Co Ltd Income Statement: Inflation Adjusted

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ABRIDGED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2023	INFLATION ADJUSTED		HISTORICAL COST	
	FY23 ZWL' BN	FY22 ZWL' BN	FY23 ZWL' BN	FY22 ZWL' BN
Revenue	**42,7**	**27,3**	**38,2**	**6,9**
Cost of sales	(25,2)	(18,2)	(15,7)	(3,2)
Gross profit	**17,5**	**9,0**	**22,5**	**3,7**
Other income	36,8	5,5	34,7	1,5
Operating expenses	**(18,4)**	**(8,6)**	**(16,0)**	**(2,2)**
Operating profit	**35,9**	**5,9**	**41,3**	**3,0**
Net finance costs	(11,1)	(2,5)	(10,1)	(0,6)
Monetary loss	(4,4)	(2,9)	-	-
Profit share from JVs & Associates	1,9	0,9	3,1	0,5
Profit before tax	**22,2**	**1,3**	**34,3**	**2,8**
Taxation	(6,4)	(3,5)	(7,0)	(0,6)
Profit after tax	**15,8**	**(2,2)**	**27,3**	**2,2**

- **ZWL15.8BN** Inflation adjusted PAT a significant turnaround from Prior year loss of **ZWL2.2BN**
- Profitability was driven by:
  - ✓ 14% volume & 156% revenue growth
  - ✓ increased USD denominated sales
  - ✓ Increased USD denominated but ZWL settled sales - reason for the increase in other income
  - ✓ better margins in inflation adjusted terms [41% Vs. 33%] anchored by carryover stock

- Finance costs went up nearly 5 times due exorbitant interest rates and growth in working capital funding needs
- Associates & JV contribution was higher mainly because of the increased contribution from Quton ($1.3BN 40% profit share) which helped to offset reduced profit from Seed Co International

SEED CO LTD VOLUME TRADED (METRIC TONNES)

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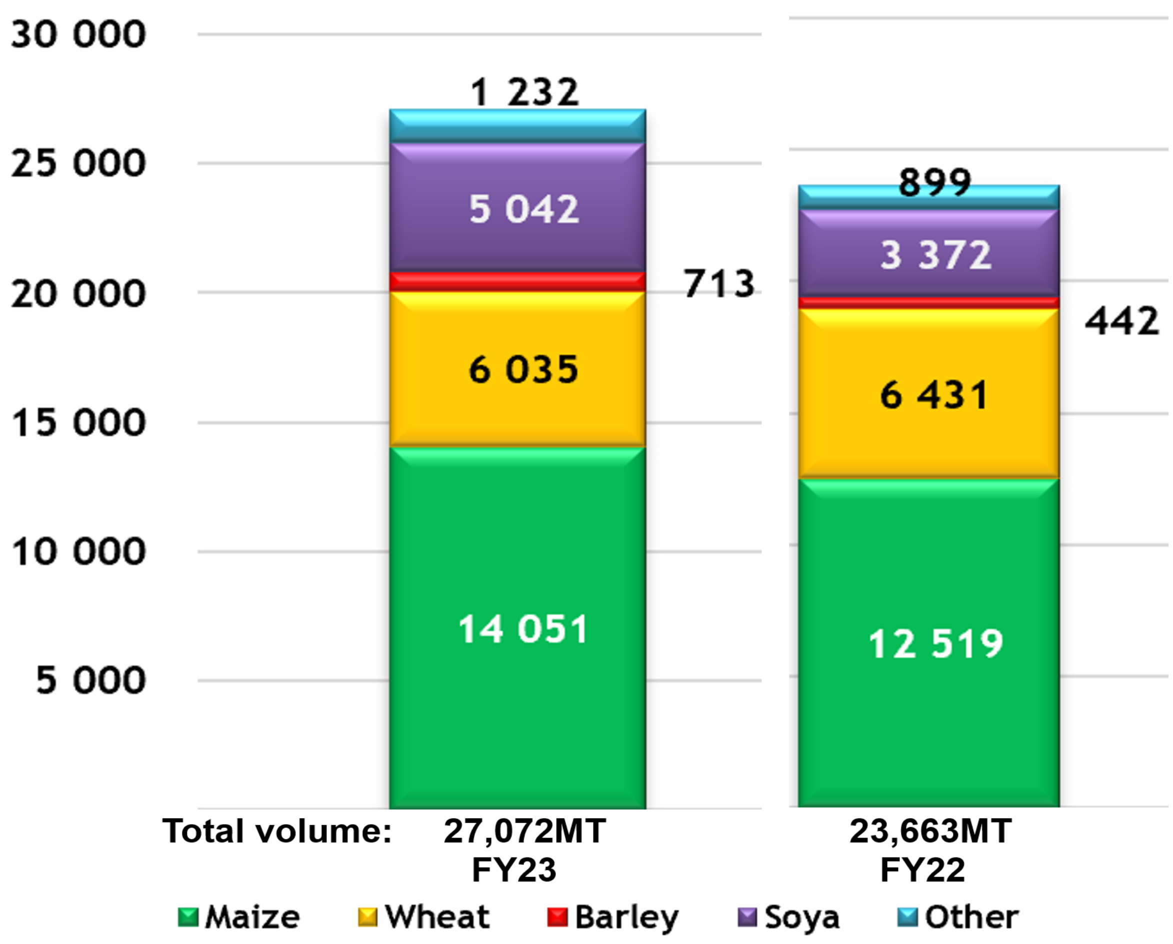

- Maize remains the flagship seed crop contributing 52% of the volume having increased by 12% driven by:
  - ✓ better stock position
  - ✓ increased demand buoyed by better rains
- Wheat sales dropped by 6% only due to power constraints while barley increased by 61%
- Soybeans volume grew 50% as demand increased driven by import substitution drive
- Other crops include beans and sorghum and the combined volume increased by 37% again on the back of good rains

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Gross margin

- Notable margin gains in real terms from:
  - ✓ increasing USD denominated sales i.e., selling for value
  - ✓ relatively lower cost produced stock that was carried over from FY22

	FY23	FY22
Gross margin	41%	33%

Other income - increased due to: -

- Exchange gains from USD denominated receivables mainly from USD denominated but ZWL settled sales at official exchange rates (*Revenue revaluation as the ZWL weakened before settlement of related debtors*]

	ZWL'BN	
	FY23	FY22
Other income	36,8	5,5

Operating expenses

- The 213% inflationary jump in line with the weakening ZWL that forced cost of living catch up adjustments in labour costs as well as inflation-forward pricing by suppliers chasing alternative market exchange rates

	ZWL'BN	
	FY23	FY22
Operating expenses	18,4	8,6

Seed Co Ltd JV & Associates

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Profit share from Associate & JVs	ZWL'BN FY23	ZWL'BN FY22
Seed Co International - 27% Associate	0,5	0,6
Quton -40% Associate	1,3	0,05
Prime Seed Co Zim - 51%	0,1	0,2
TOTAL	**1,9**	**0,9**

- Associates & JV contribution more than doubled mainly driven by increased share of profit from Quton that helped offset the reduced share of profit from Seed Co International and Prime Seed Co Zimbabwe
- Quton's profitability benefited from FX gains arising from USD denominated sales settled in ZWL at the obtaining official exchange rates
- Seed Co International, posted 60% reduced USD profit (US$2.9m Vs. $7.1m) owing to huge exchange losses in Zambia & Kenya that reversed commendable turnover and volume gains (US$104M Vs. US$89M 17% revenue growth and 49,940mt Vs. 44,836mt 11% volume increase)
- Prime Seed (local Vegetable JV) profit was impacted by finance costs

Seed Co International Abridged Income Statement

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ABRIDGED GROUP INCOME STATEMENT

	Audited year ended Mar 2023 US$'M	Mar 2022 US$'M
Revenue	103.5	88.5
Cost of sales	(57.5)	(48.7)
Gross profit	**46.0**	**39.8**
Net exchange (losses)/ gains	(4.5)	1.5
Other income	2.0	3.4
Operating expenses	(32.9)	(30.9)
Operating profit	**10.6**	**13.8**
Net finance costs	(3.8)	(3.1)
Share of loss from associate & JVs	(1.1)	(0.2)
Profit before tax	**5.7**	**10.5**
Income tax expense	(2.8)	(3.4)
Profit for the year	**2.9**	**7.1**

VOLUME	FY23	FY22	Change %
Maize	35 243	31 004	14%
Soya	6 393	5 166	24%
Wheat	2 274	1 427	59%
Beans	802	919	-13%
Other	5 229	6 321	-17%
TOTAL	49 940	44 836	11%

- Revenue increased 17% driven by 11% volume growth in Tanzania and Kenya as well as Zambia.
- Revenue was also helped by price adjustments.
- Volume growth was registered in maize, soya and wheat while lower commodity sales reduced other sales
- Gross margin reduced marginally from 45% to 44.4% due to inflationary pressures.
- Net exchange impact reversed $6M into negative driven by exchange losses mainly in Zambia and Kenya.
  - ✓ This was a major dent on profitability.
- Overheads increased in line with business growth in East Africa and in response to global inflation.
- Associate and joint venture's negative contribution increased largely on account of exchange losses.
- Overall, Seed Co International’s PAT declined 60% mainly because of exchange losses.

Seed Co Limited Balance Sheet (ZWL$'BN)

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ASSETS	INFLATION ADJUSTED		HISTORICAL COST	
	ZWL'BN			
	FY23	FY22	FY23	FY22
Total assets	132,3	56,1	131,5	18,2
PPE	37,2	18,5	37,2	6,3
Investment in associates & joint venture	25,4	13,3	25,3	4,4
Other financial assets	4,1	1,9	4,1	0,6
Inventories	10,8	9,7	10,2	2,4
Receivables	54,1	12,0	54,0	4,1
Cash & Cash equivalents	0,7	0,8	0,7	0,3

EQUITY & LIABILITIES	INFLATION ADJUSTED		HISTORICAL COST	
	ZWL'BN			
	FY23	FY22	FY23	FY22
Total equity & liabilities	132,3	56,1	131,5	18,2
Shareholders' equity	79,8	37,8	81,3	12,8
Loans & borrowings	24,86	9,04	24,86	3,09
Deferred tax liability	15,86	6,77	13,55	1,44
Payables & provisions	11,85	2,54	11,85	0,87

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

- ✓ CAPEX & PPE revaluations largely explain the increase compared to prior year
- ✓ CAPEX in FY23 mainly office renovations and Stapleford flagship own shop constructions

-**Inventory** value increase mainly from current cost valuation

-**Receivables** mainly Gvt related which is largely now cleared

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

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

- ✓ Increased from current year profit and PPE revaluations

-**Debt: -**

- ✓ Peaked during the year because of inflation but local borrowings were fully repaid after year-end
- ✓ Included in debt is the export-ringfenced US$11.4M balance from the US$12.5M 7-year Proparco debt

Seed Co Limited Abridged Cash Flow

ABRIDGED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023	INFLATION ADJUSTED		HISTORICAL COST	
	ZWL'BN			
	FY23	FY22	FY23	FY22
Opening cash flows - 1 April	**0,8**	**2,7**	**0,3**	**0,5**
Operating cash flows	1,4	6,6	(7,3)	0,2
Investing cash flows	(0,7)	(0,9)	(0,7)	(0,4)
Financing cash flows	7,1	3,6	3,7	0,2
Monetary effects	(14,1)	(10,9)	-	-
Currency effects	6,3	(0,4)	4,8	(0,3)
Closing cash & cash equivalents	**0,7**	**0,8**	**0,7**	**0,3**

- **Operating cash inflow:**
  - ✓ Operating cash flow declined in FY23 despite increased profitability due to:
    - ✓ significant increase in receivables at current prices - ZWL$32bn increase in debtors.
  - ✓ The bulk of FY23 debtors are now largely collected and utilized to pay off ZWL borrowings
- **Investing cash outflow:**
  - ✓ Spent on CAPEX was lower in FY23 in the absence of significant Capex projects other than office renovations and own shop construction
- **Financing cash inflow:**
  - ✓ ZWL25bn new borrowings during the year explain the net financing inflows after debt servicing

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SEED CO ZIMBABWE STAPLEFORD ARTIFICIAL SEED DRIER

Seed Co Limited Group

Operations Review

By

Morgan Nzwere
Group CEO

General environment

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- Unstable and unpredictable economy highlighted by currency crisis induced hyperinflation not helped by a plethora of inconsistent and often conflicting monetary and fiscal policy interventions
- However, the relaxation of the currency markets towards year end helped to narrow exchange rate gaps which helped towards value preservation
- The gains from relaxing FX trading markets were however offset by a tight liquidity squeeze by the authorities
- Authorities continue to send mixed signals about dollarization (e.g., liberalization of the imports of some basic needs which promotes informal retailers trading in USD)
- Globally, the Ukraine war continues exacerbating our local and regional to economic woes
- Erratic rains both locally and in the regional markets not in line with forecasts due to climate change continue to present challenges to our business and farmers

Research & Development

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- IP generated from a strong R&D innovation pipeline continues to be the bedrock of our business
- We continue to renew the pipeline in line with climate change and released the following maize varieties
  - ✓ 3 maize hybrids: SC 307, SC 449 and SC 561
  - ✓ 1 white sorghum hybrid: SC XH101
  - ✓ 2 cowpea varieties: SC VU01 and SC VU03
  - ✓ 3 x pearl millet hybrids.
  - ✓ Several vegetables hybrids commercialized in our markets.
- **Regional varietal registrations to leverage our regional footprint:**
  - ✓ 9 maize and 7 soyabean varieties successfully listed on SADC catalogue
  - ✓ 5 maize and 3 soyabean varieties successfully listed on the COMESA catalogue.
  - ✓ 1 wheat variety was successfully listed on the COMESA catalogue.
- Efforts underway to find a solution to fall army worm and cob rot tolerant maize germplasm
- We continue to carry out research on new crops like rice and potato in order to widen our product basket

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 in its 2nd operational year, and is continuing to make it possible to start processing seed early with the quality and early market readiness advantages
  - ✓The plan remains to replicate the technology in other markets
- The new seed processing & packaging plant commissioned in Nigeria in 2021 is operating at the desired optimum level
- Planned plant capacity upgrades in Tanzania scheduled to kick off this year
- Seed processing almost in full swing in both Zimbabwe and some regional markets as raw seed is being delivered

JV & Associates

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❖Prime Seed - 51% vegetable JV

- Turnover performance improved buoyed by exports and local USD denominated sales to NGOs
- USD sales help the supply-side of the business that is largely dependent on imported vegetable seed hybrids
- Bottom line performance was however impacted by finance costs resulting in the business posting an inflation adjusted profit of ZWL$100M compared to prior year ZWL$200M

❖Quton - 40% associate

- While 6,763mt cotton seed sales were 10% lower than 7,506mt sold in prior year, better pricing linked to the relaxed exchange rate regime helped boost turnover
- Inflation adjusted profitability improved notably from prior year's breakeven level to ZWL$1.3bn profit anchored by exchange gains from USD denominated sales settled in ZWL at weaker exchange rates

Associates continued -Seed Co International

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- ❖Notable business growth was achieved with volume and turnover growing 11% and 17% to US$104M and 49,940MT respectively
- ❖Business growth was mainly contributed by Tanzania, Kenya and Zambia which helped more than offset reductions in Malawi, Nigeria and Mozambique
- ❖Reduced Gvt support in Malawi pushed back sales performance
- ❖Notwithstanding the brand strength reflected in sales performance profitability suffered from:
  - ✓huge swing of US$6M in the negative caused by US$4.5M in net exchange losses compared to US$1.5M prior year net exchange gains
  - ✓Margin reduction from 45% to 44.4% following unanticipated increases in logistical costs mainly in Zambia
  - ✓US$0.7M increase in finance costs to fund business growth, including higher inventory
  - ✓US$0.9M increase in share of losses from JVs & Associates as the JV in West & Central Africa, the Regional Vegetable JV and the South African associate incurred significant exchange losses and reduced business due to imported products unavailability (Vegetable JV)

Group outlook

- ❖ Global supply shocks and imported inflation remain elevated and a challenge to business regionally.
- ❖ African Governments and development partners continue to prioritise primary food production to mitigate global shocks, and this augurs well for our business.
- ❖ The Group is restructuring both its business model and balance sheet to respond to the rising cost of doing business and to hedge against weakening currencies.
- ❖ Early weather forecasts not favourable and we are therefore planning our varietal placement accordingly

Country specific outlook

- ✓ Zimbabwe's business environment remains uncertain with elections coming up next month –buoyant demand expected
- ✓ Tanzania continues to be a shining beacon amidst regional turbulences
- ✓ Mozambique economy relatively stable and expected to continue to benefit from development partner interventions
- ✓ Zambia economic and currency outlook largely dependent on reaching debt resolution with China
- ✓ Malawi economy continues to face headwinds and the currency is expected to devalue further
- ✓ Kenya facing post-election disturbances and related economic/currency challenges
- ✓ Security challenges in Nigeria continue to hamper the speed of business development
- ✓ We have been granted a non-conditional licence in Ethiopia and efforts underway to establish presence

- ❖ Overall, the Group continues to show resilience backed by climate-smart seeds and robust IP.


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Questions
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