



## **ARBORGEN RESULTS FOR YEAR ENDED 31 MARCH 2023 (FY23)**

### **Strong revenue growth and operating profit uplift under refocused strategy**

30 May 2023 - ArborGen Holdings Limited (NZX: ARB) (ArborGen or the Company) has reported its audited results for the 12 months ended 31 March 2023 (FY23)<sup>1</sup>, with an 18% increase in group revenues to US\$56.1 million, and a US\$3.5 million increase in operating profit to US\$2.2 million. ArborGen also reported a 35% increase in US-GAAP EBITDA<sup>2,3</sup> to US\$10.3 million in FY23, and positive commercial progress under its new strategy.

ArborGen is the largest commercial global seedling supplier and a leading provider of advanced genetics seedlings for the forest industry. As a result of the strategic review completed in Q1 FY23, the business has refocused on high growth markets in the US South and Brazil, as well as on new and emerging high growth carbon markets.

In the US South, ArborGen continues to build on its position as the leading commercial supplier of advanced genetics loblolly pine seedlings. In Brazil, the company is benefitting from being the only company providing superior genetics to pine and eucalyptus growers in Brazil, and very strong underlying demand conditions. The carbon market is in an early stage, however, ArborGen has entered into seedling supply agreements in the US (one long term) with two well-funded companies with programmes to afforest (plant new forests) on pastureland or farmland designed to sequester carbon to help address global warming.

Chairman of ArborGen, Dave Knott, said: "It has been gratifying to see the benefits of the significant work being done under our refocused strategy, with improved financial results and a stronger foundation for ArborGen's future. The commercial benefits of our higher value, advanced genetics seedlings in both Brazil and the US are increasingly being recognised by customers. Our investments this year will further expand our internal production capacity, allowing us to increase our sales and market share."

### **Financial performance**

The strong FY23 financial performance has been driven by record sales volumes, seedling sales prices and earnings in Brazil, resulting in an 18% increase in group revenues to US\$56.1 million.

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<sup>1</sup> Audited results for the twelve months to 31 March 2023 (FY23). FY22 restated for continuing operations only following the divestment of the NZ and Australian business in FY22. All dollar values in US dollars unless otherwise stated.

<sup>2</sup> US GAAP EBITDA *excludes* NZ public company costs and strategic review costs. Please refer to page 20 of the FY23 Results Presentation for a summary of US GAAP EBITDA.

<sup>3</sup> The Company uses US-GAAP EBITDA when discussing financial performance. This is a non-GAAP financial measure and is not recognised within IFRS. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with GAAP. Management believes that US-GAAP EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in asset age, depreciation policies and debt:equity structures.

Operating profit before financing costs and tax increased to US\$2.2 million, up from a loss of US\$1.3 million in the prior year. Including a non-cash net deferred tax loss recognition of US\$2.6 million, net earnings after tax was US\$(2.5) million, a reduction on the prior year's result of US\$1.7 million which included a US\$4.7 million tax benefit. US-GAAP EBITDA<sup>2,3</sup> increased 35% to US\$10.3 million in FY23.

Net debt increased to US\$13.0 million at year end following investment into growth initiatives and higher working capital requirements as the company expands, as well as delayed receipts of Employee Retention Credits (ERCs) under the Coronavirus Aid Relief and Economic Security (CARES) Act (US\$1.6 million since received in May). Investments have been made into expanding internal seedling production capacity in both Brazil and the US, and growing advanced genetics (seed supply) in the US, with benefits expected to be seen from FY24 onwards.

### **Seedling sales and production**

During the year, ArborGen sold 375 million seedlings, with a growing percentage from Brazil (27% in FY23 vs 21% in FY22) and the remainder from the US.

ArborGen is the only company offering superior genetics to pine and eucalyptus growers in Brazil and is benefitting from very strong underlying demand conditions. Advanced genetics sales comprised approximately 50% of total eucalyptus sales in FY23 and is expected to increase significantly in FY24.

Demand for advanced genetics Mass Control Pollinated (MCP) seedlings in the US remains strong, particularly in the private landowner segment where the majority of sales growth is expected to occur. In FY23, 41% of loblolly pine seedling sales were advanced genetics, in line with the prior year.

Pleasingly, the company has reported its highest ever MCP seed production from its orchards in the US with cone harvested producing seed equivalent to approximately 240 million MCP seedlings. The surplus seed will help mitigate the impact of the freeze experienced during last year's MCP pollination season (cones to be harvested in November 2023) on FY25 MCP seedling sales.

### **Growth initiatives**

The company has invested in increasing seedling production capacity across both the US and Brazil.

In the US, internal container capacity has been expanded across two existing owned sites, increasing in-house container seedling production by approximately 70% to nearly 20 million containerised seedlings per annum.

In Brazil, ArborGen has successfully integrated a new 10 million capacity pine nursery, and a fourth nursery for eucalyptus production, bringing ArborGen's internal eucalyptus production capacity in Brazil to nearly 50 million seedlings per annum. In early FY24, ArborGen leased its fifth eucalyptus nursery, with 5 million seedlings production capacity, further expanding ArborGen's capacity and nursery footprint in Brazil.

In FY23, the status of ArborGen's US seed orchards and seed production capacity was reviewed with the goals being to build seed inventory where required, advance the genetics of the company's portfolio of products to maintain its strong competitive lead, while also controlling costs and working capital related to seed production. Initiatives are underway including building at least two years of MCP seed inventory for each provenance thereby minimising reliance on single year cone harvests, as well as new, faster methods of trialling and producing new genetics.

## Outlook

Looking to FY24, ArborGen is projecting a materially improved performance, driven by higher seedling sales in Brazil (eucalyptus and pine) and in the US (including MCP seedlings and seedling sales for carbon markets).

In the US, while the overall market is not expected to grow in FY24 due to macro-economic headwinds, gross margin and earnings are expected to improve as a result of increased internal container seedling production, lower MCP seed cost, operational efficiencies and higher average selling prices.

In Brazil, strong underlying market demand for both eucalyptus and pine seedlings combined with the annualised benefits of ArborGen's newly acquired pine and eucalyptus nursery leases, and higher pricing and margins for both pine and eucalyptus seedlings sold, support substantial increases in profitability and cash flow generation.

Although only in the second month of ArborGen's new fiscal year (FY24), approximately 65% of budgeted seedling volumes in the US (including approximately 75% of budgeted MCP volumes) have been sold. In Brazil, ArborGen has sold all of its budgeted eucalyptus seedlings and 80% of budgeted pine seedlings' sales.

The company is looking forward to progressing its strategic plans in FY24 under the leadership of new CEO, Justin Birch, an experienced executive with significant exposure to the agriculture sector. Justin will join the company on 1 June 2023.

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### ArborGen

*ArborGen is the largest commercial global seedling supplier and a leading provider of advanced genetics, for the forest industry. Employing state-of-the-art technology, ArborGen is developing high-value products that significantly improve the productivity of a given acre of land by enabling our customers to grow trees that yield more wood per acre with greater consistency and quality in a shorter period of time. For more information, please visit ArborGen's website at [www.arborgen.com](http://www.arborgen.com).*