



ArborGen Holdings Reports US\$3.2m Net Profit, Projects Increasing Advanced Genetics Sales

- Pleasing result despite headwinds and challenges in 2021, with a solid year-over-year performance
- Significant improvements in net earnings, operating cash flow, US-GAAP EBITDA¹
- Strengthened balance sheet and renegotiated banking terms and tenure
- Positive progress on cash flow initiatives
- Increasing supply and growing demand for higher value, advanced genetic (MCP²) seedlings
- Well positioned for FY22 with 30% increase in MCP seed harvested
- Advanced genetic (mainly MCP) seedlings expected to increase from 31% of FY21 total US loblolly sales volume, to 35-40% in FY22
- US-GAAP EBITDA guidance for FY22 of US\$13 - \$14.5 million – a material increase on FY21 US-GAAP EBITDA which included government grant income
- Further growth of MCP expected in future years from maturity of orchards and flowers pollinated in FY21
- Strong housing growth and carbon credits provide significant growth opportunities
- Added opportunity to extend proprietary intellectual property into other crop species

ArborGen Holdings Limited (NZX: ARB) has announced an after-tax profit of US\$3.2 million for the year ended 31 March 2021 and is projecting rising availability and sales of its genetically-enhanced seedlings to the plantation forestry sector.

Excellent progress was made on ArborGen's core strategy to grow supply and sale of its proprietary advanced genetic products (MCP seedlings) in its largest market, the US, where it is the unparalleled leader. The company is now positioned to realise the gains from over two decades of investment, with proven MCP performance at commercial scale, increased market awareness of the value of MCP products and an increasing supply of MCP seed.

Results highlights (audited results for the year ended 31 March 2021):

- Profit growth in line with expectations despite Covid impact
- Doubling of US-GAAP EBITDA^{1, 3, 4} to US\$11.3m, up 109% in line with the increased guidance provided in May 2021 (US\$11-\$11.5m)
- Material improvement in Net Profit after Tax to US\$3.2m⁴ (\$2.7m loss in FY2020)
- Strong operating cash flow of US\$9.9m, up 106%⁴
- Reduction in net debt to US\$27.4m, down \$2.2m
- Global seedlings sales were down approximately 10%, to 391 million largely driven by consequences of the Covid pandemic such as sawmill closures and a shortage of planting crews due to temporary suspension of H2-B visas into the US

¹ US-GAAP EBITDA is US-GAAP Earnings Before Interest, Tax, Depreciation and Amortisation. ArborGen 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.

² MCP – Mass Control Pollinated

³ FY21 US-GAAP of \$11.3m excludes public company/corporate costs of US\$1.3m. Further detail and reconciliation provided in FY21 financial statements and investor presentation.

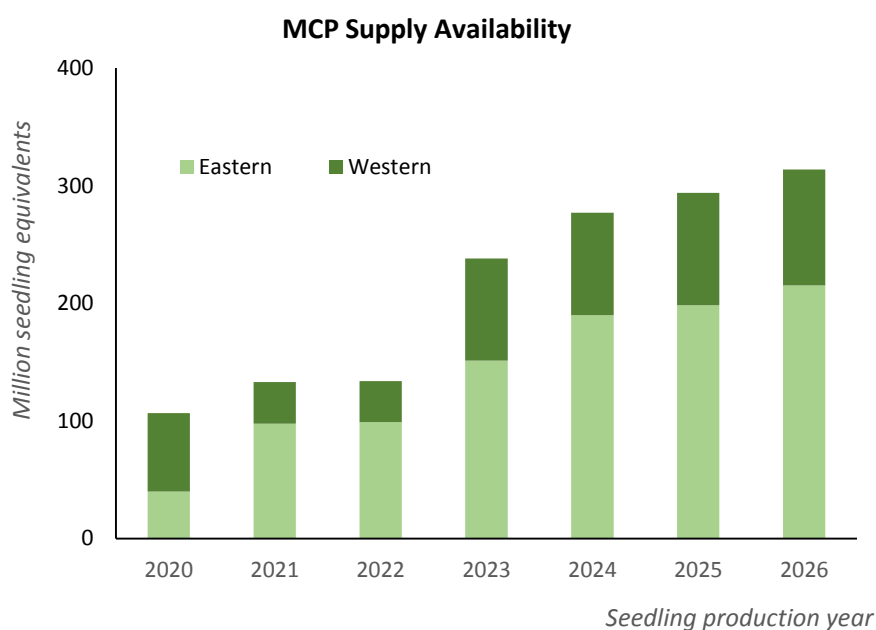
⁴ Includes other significant items comprising government grant subsidies of \$3.7 million, partially offset by expenses in the period of \$1.7 million relating to seedlings written-off and incremental Covid expenses incurred in the period (2020: a loss of \$3.9 million).

For the new fiscal year ending 31 March 2022, ArborGen is targeting increased US-GAAP EBITDA of US\$13m to \$14.5m, driven by increased availability of its proprietary MCP seedlings in the US, improving markets in all regions, and increasing recognition of the benefits of its proprietary genetics in the US and Brazil. This target represents significant growth on FY21 which included Covid related government grant income.

Chief Executive, Andrew Baum, said the business made good progress during the year in improving operational performance and cash generation. Pleasingly, after three years of constrained supply, increased MCP seed and, in turn, seedling production is now offering substantial margin growth potential.

“Last year’s cone harvest (completed in late 2020) saw a substantial increase in MCP seed production, particularly in our severely constrained Eastern US (Coastal and Piedmont) regions, allowing us to increase our MCP seedling production this year by over 30%, or approximately 30 million seedlings. The margin growth potential for ArborGen is substantial as MCP margins are 6-8 times higher than OP margins on an absolute basis.

“Added to this, we have also recently completed our 2021 MCP pollination activity which saw an unprecedented number of flowers, resulting in a 35% increase in MCP bagging and pollination activity⁵ over the prior year. Subject to uncontrollable factors, such as extreme weather, the increase in this recently completed 2021 MCP pollination activity will drive a significant boost in MCP seedling supply for the fiscal year ending March 2024.”



Note: MCP supply projections are based on a number of factors including the number of trees in our seed orchards, number of flowers bagged and number of flowers pollinated each year which are subject to climatic variabilities, bushels of cones harvested, pounds of seed extracted per bushel, and the number of seedlings per pound of seed. As such, actuals may vary from projections due to biological factors outside of our control, as well as operational decisions.

Turning to the immediate outlook, Chairman David Knott said strong tailwinds were positioning the business well for FY22.

⁵ Bagging and pollination activity involves the bagging of flowers followed by injection of selected pollen into bags to produce targeted offspring trees utilising ArborGen’s proprietary IP and expertise.

With 50% of adults in the US now fully Covid-vaccinated, and the expectation is that 75% to 85% will be vaccinated by August of this year. Regulations around H2-B non-immigrant labour visas have eased, and strong underlying demand for wood, especially softwood, is driving an expansion of sawmill capacity, which will in turn support strong demand for softwood seedlings this financial year and beyond.

In New Zealand, demand is being driven by replanting of the “wall of wood” forests established in the late 1980s to mid-1990s and new forest establishment to meet government climate change commitments.

In Brazil, ArborGen’s orders to date are nearly 70% higher than at this time last year. The company is projecting increasing sales in Brazil based on increasing softwood exports, recently-announced pulp mills, strong demand for eucalyptus pulp and charcoal products, expansion of ArborGen’s sales and marketing teams, and rising recognition of the value of its proprietary products.

ArborGen continues to progress a range of initiatives to minimise the effects of adverse weather events.

These include building an inventory of reserve seed, reducing supply risk through geographically dispersed orchards and nurseries, a diversified age profile for orchard trees, and nursery procedures protecting vulnerable younger seedlings.

Mr Knott said that beyond converting customers to ArborGen’s higher-value genetics, the company had continued to drive initiatives to improve cash generation performance.

These included reducing discretionary overhead costs and capital expenditure, increasing collaboration income, and improved utilisation of nursery equipment.

Improved funding arrangements with Synovus Financial Corporation provided ArborGen with an additional US\$4.5 million of working capital.

Mr Knott said that “ArborGen is now well positioned to further build on our market leading intellectual property, extensive capabilities and proprietary products. Our team responded with agility and resilience to the Covid pandemic, which affected families, communities and businesses in all our regions. We remained focused on our core goals and are confident of delivering an improving performance in FY22 and increasing value to shareholders.”

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About ArborGen Inc

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 www.arborgen.com.