
Andrew Baum – CEO's address

Slide – CEO review

Thank you, David and welcome to our shareholders joining us today. As always, it is a pleasure speaking to you again, and I am very happy to be able to do so in person after three long years.

Slide – Our Strategic Focus

With the completion of the Strategic Review, we have refined the business to focus on our core high growth markets in the US South and Brazil, where our key strategic objective continues to be the transformation of forest productivity as the leading commercial provider of advanced genetics. Our superior competitive positioning stems from decades of proprietary R&D investment, strong production capability and supply pipeline, and excellent sales and marketing capability. We have never been in a better position to execute this strategy, with a strong balance sheet now allowing us to take advantage of growth opportunities in our core traditional forestry markets, as well as in new and emerging carbon markets.

Slide – March 2022 YE Results

Turning to our results for the fiscal year ending 31 March 2022, while the global pandemic and supply chain challenges continued to impact overall sales in the United States and Brazil during the year, we were able to continue to execute the Company's advanced genetics strategy, recording our highest level of sales of Mass Control Pollinated (MCP) products in the US.

Slide – March 2022 YE Results (cont)

In summary, the Group reported (in USD) –

- Revenue from continuing operations of \$47.6 million, up 11% on the prior period, comprising sales of \$39.9 million in the US, and \$7.7 million in Brazil
- Gross margin from continuing operations of \$17.8 million, up from \$15.6 million in FY21
- Operating earnings from continuing operations (before other significant items) of \$2.7 million, up from \$1.0 million in the prior year

Slide – March 2022 YE Results (cont)

- Net earnings from continuing operations of \$1.7 million, up from \$1.5 million in the prior period
- Adjusted US-GAAP EBITDA¹ result of \$10.1 million (excluding public company costs of \$1 million and Other Significant Items) – 36% higher than the prior period
- Net cash from operating activities of \$7.5 million, down from \$9.9 million in the prior period which included Covid grants received.

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

Slide – March 2022 YE Results (cont)

Other Significant Items during the period was an expense of \$4 million, compared to a gain of \$1.9 million in the prior period, and comprised –

- \$0.9 million of government grant income (\$4.3 million was received in the prior period from the US Small Business Administration, of which \$3.4 million was recognised in the prior period)
- \$1.6 million relating to the impact of COVID resulting in the write-off of unsold seedlings
- \$1.5m relating to a freeze event that damaged flowers in our Eastern orchards during the critical pollination period this year, and
- \$1.6 million of strategic review costs, and \$0.2 million of other costs. Approximately \$0.6 million of the strategic review costs related to transaction costs incurred, and the balance related to financial, tax and legal advice from the wider strategic review.

As you know, ArborGen sold its businesses in New Zealand and Australia during the period resulting in net debt reducing substantially to \$11.5 million, down from \$27.4 million in the prior period. The sale proceeds were used to repay \$2.9 million of sub-ordinated debt raised in 2019 to fund the acquisition of ArborGen’s headquarters in Ridgeville, South Carolina, and reduce ArborGen’s Synovus working capital facility by \$5.5 million, collectively resulting in annual cash interest cost savings of approximately \$0.5 million.

Slide – FY22 Seedling Sales

ArborGen’s continuing operations in the US and Brazil sold 362 million seedling units in FY22, up slightly on the prior period sales of 359 million units. Specifically –

- 284 million seedlings were sold in the US, including 258 million loblolly pine seedlings of which 42% were advanced genetics seedlings, and
- 78 million seedlings were sold in Brazil.

In the US, unit seedling sales decreased slightly to 284 million units, from 294 million seedling units in the prior period, as the emergence of the Delta and Omicron variants continued to cause significant disruptions in the sawmill industry impacting log harvests, and in turn, seedling demand in the period. However, despite these headwinds, advanced genetics seedling sales were up from 81 million seedling units in FY21 to 107 million in FY22 driven primarily by increased MCP sales to the private landowner segment, which were up almost 60% on the prior year, and increased supply. While our larger National Accounts (primarily REITs and TIMOs²) accounted for the majority of ArborGen’s advanced genetics volume, sales to the private landowner segment now represent around 35% of advanced genetics volume sold, and represent the largest growth segment.

In Brazil, sales of 78 million seedlings were 20% higher on the prior year. While the pandemic continued to cause disruptions in the period, ArborGen was able to lift both eucalyptus and pine seedling sales, benefitting from the increasing recognition of the value of our proprietary advanced genetic pine and eucalyptus products.

² Real Estate Investment Trusts and Timber Investment Management Organisations

Slide – Advanced Genetics Adoption

As mentioned earlier, integral to the success of our strategy in the US is moving the market to advanced genetics, primarily MCP products.

Slide – Our Product Portfolio

This next slide shows our Product Portfolio, ranging from Open Pollinated products to our advanced genetics' products, in particular –

- Our Mass Control Pollinated (or MCP) products which are seedlings produced from crossing selected mothers and fathers to produce the best MCP hybrids seedlings, and
- Our Varietal products which are essentially identical copies of our best MCP seedlings

Slide – Our Product Portfolio (cont)

Importantly, ArborGen, has the most advanced, and broadly adapted pipeline in the industry.

This next slide shows the five loblolly deployment zones in the US South – spanning the Coastal, Piedmont, and Northern regions (or collectively the Eastern regions), and the Arkansas and Texas regions (i.e. the Western regions). As can be seen in this table, our advanced products are in all regions, with additional products in the pipeline.

Slide – Value Proposition

The value proposition of our advanced genetics is very compelling, with the key benefits being

- Faster growth rates
- Higher yields of wood per acre
- 30 – 40% more high value sawtimber which typically sells for 2-4 times more than pulpwood
- Improved resistance to disease and stress
- Better straightness, reduced forking and better branch morphology

With over 2 million acres now planted across the US South, the evidence is undeniable.

Slide – Market Leader

By any metric we are the leader with respect to MCP – we have historically sold over 80% of all MCP products to the market, we are the only seedling provider offering products adapted to all the growing regions in our market, and our portfolio is unmatched in terms of depth and quality. We can also produce substantially more MCP products than any other supplier, benefitting from the orchards we planted over a decade ago in 2011 and 2012, which are now coming into full production.

In addition, we continue to invest in our pine tree improvement program, allowing us to continue to widen the gap between ourselves and the rest of the market. In recent years we have launched the next generation of MCP products (MCP 2.0) for some provenances and MCP 3.0 is already in development.

In short we are the market leader, and continue to make the investments that will maintain and improve our market position.

Slide – Sales and Marketing Capability

An integral part of converting new and existing customers to advanced genetics are our sales and marketing efforts.

With most of our industrial customers already committed to MCP, we continue to focus our sales and marketing efforts on private landowners who represent over half of our market.

Customer acquisition and conversion to advanced genetics is achieved through a multitude of financial, multi-channel marketing and direct customer interaction initiatives. These include –

- The use of proprietary seedling revenue calculators, and financial cash flow models, to demonstrate the financial returns to the forest owner from planting different types of genetics on varying sites
- Conducting field tours of maturing MCP stands
- Webinars focused on the value of advanced genetics
- Customer testimonials
- Our website, a wide array of social media and publications like TreeLines which supply technical information to our customers.

We can say with confidence that none of our competitors are conducting a more significant or comprehensive program. The success of our efforts is evidenced by the increase in sales to the private landowner segment mentioned earlier.

Slide – Advanced genetics MCP seed supply

On the supply front, our extensive younger seed producing orchards represent approximately 70% of our overall orchard footprint. These orchards have only recently become productive, with productivity expected to increase steeply over coming years.

Our goal is to build at least 2 years of advanced genetics MCP seed inventory across all provenances to minimise reliance on single year cone harvests as a key risk mitigation strategy. While we have approximately 1-2 years of MCP seed inventory on hand for the Western regions, MCP seed supply is still tight in the larger Eastern region.

On a positive note though, ArborGen is projecting to harvest MCP seed equivalent to over 200 million seedlings late this calendar year. This is seed that will be available for next fiscal year (FY24's) sales, projected to be in excess of seed required for forecast MCP seedling sales, which will help us build essential MCP seed inventory in our Eastern regions for future periods.

Slide – Advanced genetics MCP seed supply (cont)

As previously reported, a freeze event, combined with very high winds during the MCP pollination period in February 2022, caused damage to pine flowers at ArborGen's Eastern orchards which will impact cones and seed to be harvested in November 2023 (i.e. for FY25 seedling sales). This was an isolated event that did not cause long term damage to the orchards themselves, which will be at full productive capacity again next pollination season (in February 2023). ArborGen's Western orchards were not impacted. Pleasingly though, our most recent comprehensive cone inventory count, indicates that our projected calendar 2023 harvest from our Eastern orchards could be higher than originally estimated, especially in the supply constrained Eastern provenances. We will continue to refine our estimates as we get closer to the 2023 cone harvest.

ArborGen has several years of Open Pollinated (OP) seed in inventory, and will maximize seed harvested in November 2022 from targeted orchards.

Slide – Brazil

Our investments in the development of our Brazilian business are beginning to bear fruit. Strong end use markets, combined with our expanding nursery footprints and increasing recognition of the value of our advanced genetic products, allow us to generate improving profitability this year and in the years to come.

Slide – Brazil - Pine

In pine, we have already sold out for the current 2023 fiscal year and are now negotiating sales for next fiscal year. Sales prices are increasing well ahead of inflation and our margins are increasing as a result. Sales from our newly acquired pine nursery in Canohinas are occurring ahead of schedule at costs lower than projected. In addition, sales of proprietary product in FY 2023 are projected to represent over 95% of total unit volume, validating our belief that the market will adopt advanced genetics as they have in the United States.

Slide – Brazil - Eucalyptus

The situation is similar in eucalyptus. Ongoing and announced expansions in pulp production by Suzano, Arauco, Bracell and others are leading to increased eucalyptus seedling demand in Mato Grosso do Sul and Sao Paulo states, and increased charcoal production to support the booming pig iron and steel sector is driving markets in Minas Gerais. As a result, we are already sold out in FY 2023 and, as with pine, are already negotiating sales for next year. Prices and margins are also increasing. While we sell a greater proportion of non-proprietary eucalyptus products than pine, sales of proprietary products are increasing rapidly as they demonstrate superior performance in commercial production.

Moving forward we are exploring opportunities to expand our internal production capacity for both pine and eucalyptus, and hope to make announcements in this regard.

Slide – Carbon markets

The use of forests to sequester carbon will be an important element of global efforts to address global warming, and represent a potentially significant opportunity for ArborGen. In our US market we are beginning to see active programs to afforest (plant new forests) on pasture land or farmland. We have been in discussions with several companies in this space, and we have executed agreements with two well-funded, experienced companies to supply them pine (including MCP) and hardwoods for this season, and are negotiating longer term supply agreements with both of them.

Both of these companies have ambitious scale-up plans for the next few years, and while there is no guarantee they will execute those plans, if they are successful they will represent new sales opportunities that are incremental to our existing markets in future years.

Slide – Summary

To conclude, although strong sales and earnings growth is projected in Brazil this fiscal year, in the US we are expecting sales to be affected by ongoing pandemic factors, geopolitical tensions, and temporary customer specific demand matters with some of our large National Accounts. As seedlings are planted in late April / May in the US, we had also not planned for the additional sales this year from the recently executed multi-year carbon contracts which has meant some supply constraints. As a result, FY23 unit seedling sales, including the proportion of advanced genetics sold, in the US are not expected to be materially different to FY22 sales. Added to this, higher historic MCP seed costs related to pollination activity two years ago (when production from our younger orchards were less than optimal due to maturity) combined with inflationary pressures, are expected to adversely impact gross margins in the US this fiscal year.

Slide – Summary (continued)

Looking ahead however, increased MCP seed supply (from this year's harvest) and, related to this, lower MCP seed costs, and projected sales growth in our core US forestry markets, as well as incremental sales from new seedling supply contracts with players in the carbon space, are projected to drive solid earnings growth in FY24 and beyond.

We have the organization, people, products and strategy to leverage these fundamentals to continue to drive the value of ArborGen for our shareholders. Thanks again for your commitment and confidence.