



# ArborGen

— H O L D I N G S —

**Interim Results Presentation**  
Six months ended 30 September 2020

25 November 2020

# Disclaimer

*This presentation has been prepared by ArborGen Holdings Limited (“ArborGen”), to provide a general overview of the performance of ArborGen for the six months ended 30 September 2020. It is not prepared for any other purpose and must not be provided to any person other than the intended recipient. This presentation should be read in conjunction with ArborGen’s interim and annual reports, market releases and other periodic and continuous disclosure announcements, which are available at [www.nzx.com](http://www.nzx.com) and [www.arborgenholdings.com](http://www.arborgenholdings.com).*

*There are statements in this presentation that are ‘forward looking statements.’ As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to the Group, many of which are beyond our control. In particular, ArborGen’s operations and results are significantly influenced by the general level of economic activity in the various sectors of the economies in which it competes, particularly in the United States, Brazil, New Zealand and Australia. Fluctuations in industrial output and the impact that has on global demand for wood fibre and hence harvest and reforestation levels, government environmental and regional development policies, Covid-19, capital availability, relative exchange rates, interest rates, the profitability of our customers, can each have a substantial impact on our operations and financial condition. In addition, ArborGen-specific risks and uncertainties include (in addition to those broad economic factors noted above) the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, the rate of customer adoption of advanced seedling products, the success of its research and development activities, weather conditions, cone and seed inventory, biological matters, and the fact that ArborGen’s annual crops and seed orchards are not the subject of insurance cover.*

*As a result of the foregoing; actual results, conditions and conclusions may differ materially from those expressed or implied by such statements.*

**All references to currencies in this document are in US dollars (US\$) unless otherwise stated.**



# SIX-MONTH SEPTEMBER 2020 SUMMARY



# Six-Month September 2020 Highlights



## Revenue

- \$11.9 million
  - ↓ by \$2.3 million, due to:
    - *Reduction in Government's 1B trees programme*
    - *Impact of Covid-19 on Brazil's 1H sales (recovery expected in 2H)*
    - *Timing of US sales (US sales are heavily weighted to the 2<sup>nd</sup> half)*

## Operating earnings before abnormal items

- \$2.0 million
  - ↑ by \$1.4 million on prior comparable period (pcp) \$0.6 million

## Net Earnings\*

- \$4.0 million
  - ↑ by \$7.0 million on pcp net loss of \$3.0 million

## Net cash generated from operating activities\*

- \$3.3 million
  - ↑ by \$5.7 million on pcp use of \$2.4 million

## Net bank debt

- \$30.3 million
  - ↓ by \$1.3 million on pcp

\* Includes \$2.6 million of government grants, \$2.35 million of which received from the US Small Business Administration under the Paycheck Protection Program'



# Financial Summary for the Six Months to 30 September 2020

## Consolidated Income Statement

	6 Months Sep 20 US\$m	6 Months Sep 19 US\$m
Revenue	11.9	14.2
Cost of sales	(9.2)	(11.2)
<b>Gross profit</b>	<b>2.7</b>	<b>3.0</b>
Change in fair value of biological assets	6.8	6.5
Other income	0.3	-
Administration expense*	(7.8)	(8.9)
<b>Operating earnings excluding items below</b>	<b>2.0</b>	<b>0.6</b>
Government grant income	2.6	-
Inventory adjustment, extreme weather and transaction related expenses	-	(2.8)
<b>Operating earnings (loss) before financing expense</b>	<b>4.6</b>	<b>(2.2)</b>
Financing expense	(1.0)	(1.2)
<b>Earnings (loss) before taxation</b>	<b>3.6</b>	<b>(3.4)</b>
Tax benefit	0.4	0.4
<b>Net earnings (loss)</b>	<b>4.0</b>	<b>(3.0)</b>

\* Administration expense includes the amortisation of capitalised intellectual property of \$2.9 million. Under IFRS, development expenditure of \$1.8 million is capitalised to intellectual property and an amortisation of intellectual property recognised. Under US-GAAP, the \$1.8m of development expenditure is recorded as an expense with no amortisation.





# STRATEGY PROGRESS



# Progressing Our Cash Flow and Earnings Growth Goals

Our core strategy is to drive the customer adoption of higher value genetics – this conversion results in substantial productivity and yield gains for customers and material financial margin expansion.

There are 5 platforms for delivery of \$ margin growth –

1. Expanding supply of our MCP seedlings in the United States
2. Increasing the proportion of superior, further-advanced products in our US advanced genetics portfolio
3. Growth across all regions in a capital light manner
4. Operational cash flow initiatives
5. Improved funding arrangements



# Progressing Our Cash Flow and Earnings Growth Goals (continued)

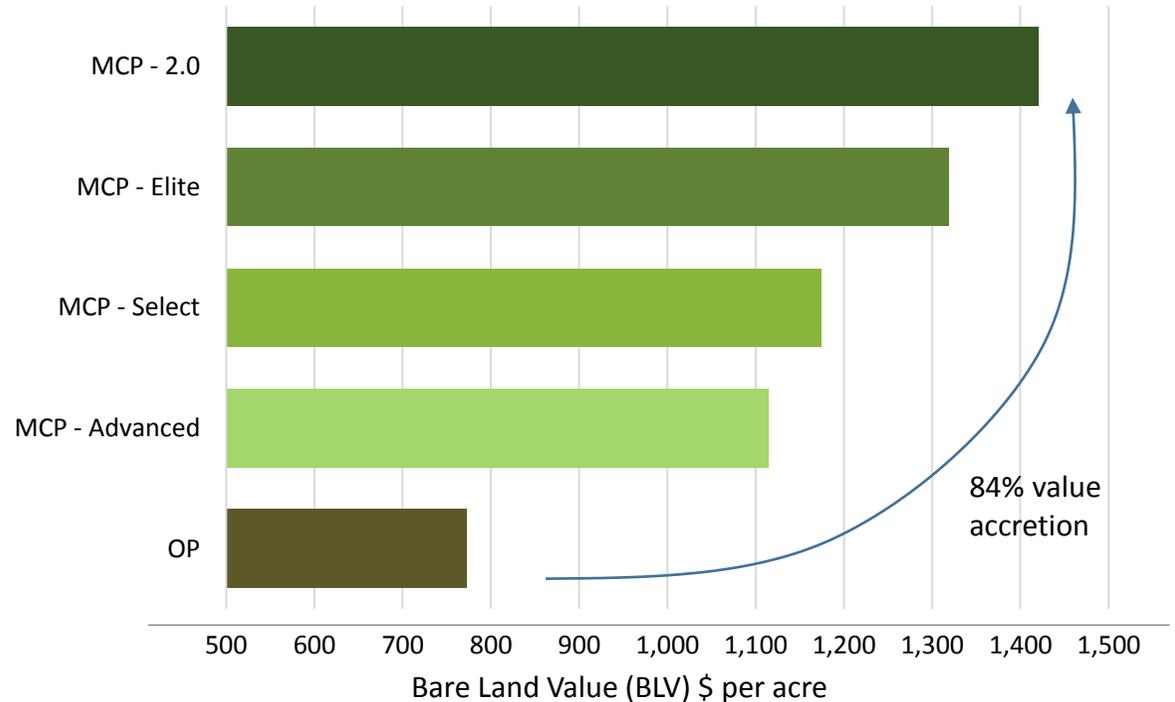
## 1. Expanding supply of our MCP seedlings in the United States

- Increasing MCP bagging and pollination
- Maturation of MCP orchards increasing availability each year going forward
- On-going investment in best-in-class proprietary genetics
- Cone harvesting indicates a material increase in seed production for FY22

## 2. Increasing the US advanced genetics portfolio

- Product development focuses on MCP seedlings being best in the market
- Introduced MCP 2.0, adding to existing portfolio of MCP advanced, select and MCP elite families
- MCP 2.0 is a step-change improvement
- Significant investment in building the supply pipeline
- Field performance data on all products are pushing the boundaries in respect to loblolly

## Substantial value created by our top MCP products \*



\* Indicative only – ultimate value accretion is dependent on site location and silviculture regime adopted, amongst a range of other factors.



# Progressing Our Cash Flow and Earnings Growth Goals (continued)

## 3. Continued growth across all regions in a capital light manner

- *USA*
  - Nursery expansion (through leases) has increased production capacity by 60 million seedlings
  - Industrial customers understand the value in conversion to higher value advanced genetics
  - Focus is now on extending conversion to the large private customer segment
- *Australasia*
  - Next year's seedling sales are expected to increase
  - Business growth includes high-value horticultural species such as hops, blueberries, rubus and tea
- *Brazil*
  - Confirmed orders support a lift in sales
  - The lease of two new nurseries has increased production capacity and lowered costs
  - Exclusive rights to Vallourec's eucalyptus clones in Brazil secured
  - Development of ArborGen's proprietary clones continuing



# Progressing Our Cash Flow and Earnings Growth Goals (continued)

## 4. Operational cash flow initiatives

- Acquisition of headquarters in South Carolina and leasing out surplus space has lowered annual property costs
- Reductions in discretionary overhead expenditure and capex
- Access to government funding programmes mitigates Covid-19 related disruptions
- Increased margins from improved product mix and improved production yields

## 5. Improved funding arrangements

- Synovus credit line
  - extension provided additional \$4.5m 'cushion', recognition of strengthened performance and seasonality
  - Maturity date extended by two years
  - Interest rate 'floor' of 3.5%





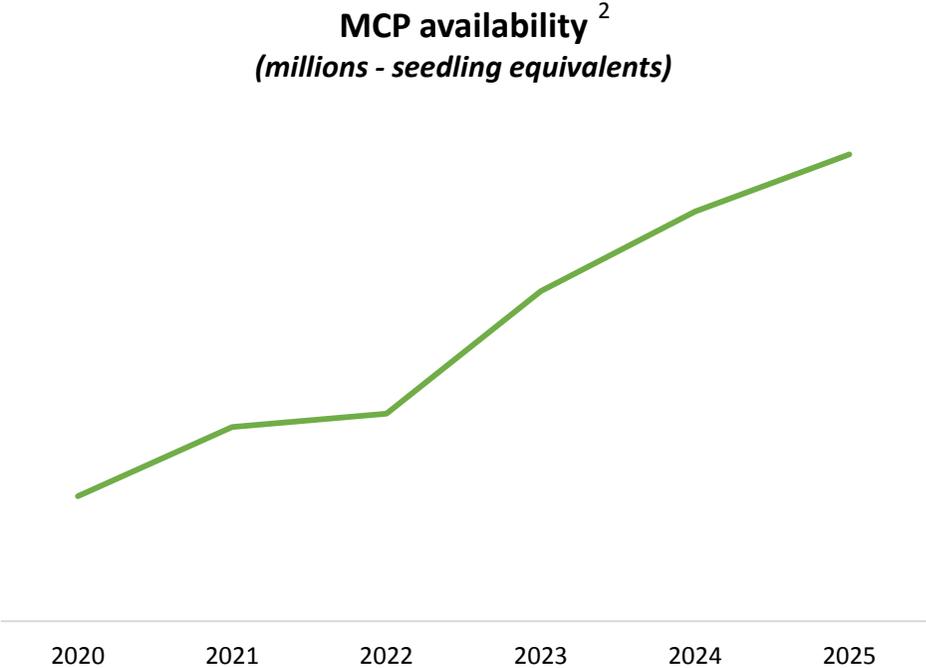
# OUTLOOK



# Outlook

Completion of this year’s cone harvesting activities now indicate<sup>1</sup> –

- a material increase in US MCP seed production over last year’s levels
- ... particularly in our constrained high-value, high-demand coastal region



1. Bushel-to-seed yields are yet to be confirmed  
2. MCP supply projections are based on a number of factors including the number of trees in our orchards, the number of flowers bagged and pollinated, bushels of cones harvested, pounds of seed extracted per bushel, and the number of plantable seedlings per pound of seed. Accordingly, actuals may vary from projections due to biological factors outside of our control.



## Outlook (continued)

In August we said –

*“We expect US-GAAP underlying earnings\* [which is the equivalent of US-GAAP EBITDA adjusted for abnormal items, and before NZ public company costs] for fiscal year ending March 2021, to be higher than the \$9.3 million reported for the prior March 2020 fiscal year, subject to any uncontrollable factors including any impact from Covid-19.”*

We continue to believe this, although it will not be until the close of the sales season in the US and Brazil later this fiscal year before we will actually know the final outcome.

- In the **US**, we –
  - Have confirmed sales orders for approx. 90% of target seedling revenues (sales will only be finalised in Feb/Mar '21)
  - Expect to be sold out of MCP and varieties this year
  - Expect to see a material lift in MCP seedling sales and earnings in fiscal year 2022
- **NZ** is focusing on achieving horticulture and quarantine revenues, and fiscal year 2022 seedling orders which are up ~15%
- In **Brazil** we have confirmed orders for 90% of our target of 60 million eucalyptus seedling sales this year

\* US GAAP underlying earnings is a non-GAAP earnings measure which does not have a prescribed meaning by GAAP, and may not be comparable to similar financial information presented by other entities. Please refer to Note 30 of the 31 March 2020 Financial Statements.

