



ArborGen Concludes Strategic Review

12 June 2022

ArborGen Holdings Limited (NZX: ARB) (the “Company” or “ArborGen”) announces today that as a result of the strategic review conducted over the last year, the Board of ArborGen has refocused the business on its core traditional and emerging high growth markets in the US South and Brazil, as well as on new and emerging high growth carbon markets. In line with this refocused strategy, ArborGen sold its more mature Australia and New Zealand business on 30 November 2021 for NZ\$22.25 million, substantially strengthening its balance sheet, and affording it greater opportunities to invest in targeted growth arenas. Accordingly, the Company advises that the strategic review commenced on 30 June 2021 has now been concluded.

Core traditional high growth markets – US South

While nearer term, the flow-on effects of the pandemic and geopolitical tensions are likely to impact industry activity, ArborGen’s core end market, the US housing market, is supported by very strong long term underlying fundamentals, namely –

- An underbuilt US housing stock resulting from years of underbuilding since the global financial crisis,
- An aging US housing stock with the median age of an owner-occupied house now over 40 years, and
- Strong population demographics with a large proportion of young adults moving into the house buying phase.

These strong fundamentals, in turn, support continued growth in demand for wood products, and in this respect, the US South is expected to be the largest beneficiary. In addition, timber access and supply issues have been and will continue to reduce wood product production in Western Canada, which has led many of the major Canadian lumber companies to purchase or build new mills in the US South. Timber supply issues in Central Europe will also lead to reduced wood product production there as well. Based on these factors, Forest Economic Advisors is projecting the strongest increase in lumber production to be in the US South, forecasting 24% growth relative to last year’s output to reach 26.0 BBF¹ by 2025².

As the leading commercial supplier of proprietary advanced genetics loblolly seedlings in the US South, ArborGen believes that it is well positioned to leverage this growth. ArborGen considers it is poised to benefit from over 20 years of investment in developing best-in-class proprietary MCP products, expanding supply of proprietary genetics, and upgrading of customers to higher value MCP seedlings.

With the foundations now laid, ArborGen’s focus will be on the continued conversion of customers to higher value seedlings as our customers increasingly see the commercial potential of our advanced genetics products. In terms of investment opportunities, there is increasing demand for the Company’s containerised MCP seedlings (our highest value seedlings), and in this respect, the Board has approved the expansion of ArborGen’s in-house container capacity across two existing owned sites, effectively lifting in-house production 60% from 10 to 16 million containerised seedlings per annum.

¹ Billion board feet

² Forest Economic Advisors 2nd Quarter 2022 Timber Quarterly Forecast

Chair of ArborGen, David Knott Jr, said “Given the scale of our existing operations, we are able to cost effectively leverage infrastructure at our Belville, GA and Bullard, TX nurseries to achieve this growth for less than US\$1 million. The expected benefits from the investment are twofold – cost savings from increased production efficiencies, and incremental margins from the additional volume produced. The expected returns are very compelling, with a projected payback of 1-2 years. This expansion is expected to be in place for the FY24 seedling sales’ year, and we also continue to have an excellent relationship with our contract container growers. While ArborGen has sufficient bareroot productive capacity to leverage growth post the pandemic lows, the Company will continue to evaluate further potential opportunities to expand in targeted regions. Pleasingly, although we are only in the second month of the current year’s crop season, we have already effectively sold out of all our MCP containerised seedlings and our hardwood seedlings, and approximately 85% of all available MCP seedlings.”

Emerging traditional high growth markets – Brazil

ArborGen believes that the underlying market fundamentals in Brazil are also very strong, with increasing domestic and export demand, new pulp mills and strong charcoal markets resulting from increasing iron ore demand, now collectively driving strong local demand for eucalyptus and softwood.

ArborGen has grown to become one of the largest commercial suppliers of eucalyptus and loblolly pine seedlings in the Brazilian market, replicating its US strategy to convert the market to products with superior genetics in Brazil. ArborGen’s continued focus on this emerging market is now beginning to show tangible gains. Consistent with this, and as noted in the Company’s FY22 earnings results announcement, ArborGen recently acquired an 8-10 million capacity pine nursery located in Canoinhas, Santa Catarina, Brazil for BR\$4 million (US\$0.7 million), to cement its position in the local pine markets. In addition, ArborGen plans to expand its internal eucalyptus production capacity later this year through leasing its third eucalyptus nursery, which is expected to increase internal eucalyptus capacity to nearly 50 million seedlings per year.

As a result of much stronger projected pricing and demand for ArborGen’s eucalyptus and pine seedlings, ArborGen’s Brazil’s earnings are projected to be over US\$1 million this fiscal year (FY23), materially higher than the breakeven result recorded in FY22, with continued strong growth projected going forward.

Substantial emerging global carbon markets

There is now a clear and increasing focus on the importance of reducing greenhouse gases globally, and forests have an important role to play as trees capture carbon dioxide, one of the main greenhouse gases, from the atmosphere and store it in trunks, branches, foliage and roots.

The increasing emphasis on the role trees can play in offsetting carbon emissions is creating significant new opportunities for ArborGen, with its advanced genetics and strong channels to forest landowners in the Southern US uniquely positioning it to exploit this opportunity.

ArborGen is a key participant in this space, and is actively engaged with various carbon registries and major carbon companies, participating in protocol development for plantation forestry.

ArborGen’s CEO, Andrew Baum, said “Forest based carbon projects will be increasingly important in creating new demand for both pine and hardwood seedlings. Carbon project developers are actively pursuing large scale afforestation and reforestation projects in the southern US and ArborGen is actively engaged with several of these companies to provide both advanced genetics pine seedlings and hardwood seedlings. We expect to supply seedlings as the first year of a multi-year agreement with at least one major carbon company, this year.”

Mr Knott, said “We are very excited about ArborGen’s future. We have refined the business, sold the New Zealand and Australian business, significantly strengthened ArborGen balance sheet, and are now well positioned to grow in our core and emerging new markets. In order to ensure we deliver on the Company’s growth potential in these areas, the Board is committed to increasing resources, as needed. As part of our strategic review, the Board has considered all options to unlock value for the benefit of all shareholders, including exploring the potential sale of all the shares in the Company, but have unanimously concluded that the best value maximisation strategy for shareholders is to stay the course. We would like to thank all of our shareholders for their continued support, which is very much appreciated.”

Scope of strategic review

Over the last 11 months, the Board has considered all options to unlock value for the benefit of all shareholders, from reinvestment to sale. PwC gauged the interest in a potential sale of all of the shares in, or all or some of the assets of, the Company. That process resulted in the sale of the Australia and New Zealand business referred to above. While a number of expressions of interest were considered for the whole business, the Board concluded that value would be maximised for shareholders through reinvestment in the business and progressing the strategy as outlined above.

As part of the strategic review process the Board of ArborGen also considered the possibility of a US listing. They concluded that at the current point of time the expected costs of a US listing outweigh the potential benefits.

ENDS

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