



ArborGen Holdings FY2022 Results

30 May 2022

Audited results for the twelve months to 31 March 2022 (FY22)

All dollar values in US dollars unless otherwise stated

- Pleasing results and record US advanced genetics seedling sales as ArborGen focuses on higher growth markets following sale of its New Zealand and Australian businesses (ANZ business) during FY22
- Despite the ongoing impact of the pandemic on overall sales volumes, sales of advanced genetics seedlings increased 32% year-over-year
- Operating earnings (before other significant items) of \$2.7 million for continuing operations in US and Brazil, up from \$1.0 million in FY21
- Revenues from continuing operations of \$47.6 million, up from \$42.8 million in FY21
- Gross margin from continuing operations of \$17.8 million, up from \$15.6 million in FY21
- Adjusted US-GAAP EBITDA result of \$10.1 millionⁱ excluding the ANZ business sold and other significant items, up from \$7.4 million in FY21
- Completion of sale of ANZ business for NZ\$22.25 million (ANZ Transaction), significantly strengthening ArborGen's balance sheet
- Net debt reduced substantially to \$11.5 million, from \$27.4 million in the prior period
- Repayment of \$2.9 million of sub-ordinated debt raised in 2019 to fund the \$14.4 million acquisition of ArborGen's headquarters in Ridgeville, South Carolina, and reduction in ArborGen's Synovus working capital facility by \$5.5 million, collectively resulting in annual cash interest cost savings
- \$4.7 million of deferred tax recognition including \$3.8 million of previously unrecognised tax losses available
- Completion of acquisition of an 8-10 million capacity pine nursery located in Canoinhas, Santa Catarina, Brazil for approximately BR\$4 million (US\$0.7 million)
- Materially improved performance projected in Brazil in FY23 (fiscal year ending March 2023) driven by stronger pricing for both eucalyptus and pine seedlings and increased sales volumes

Pleasing results and strong advanced genetics sales growth as ArborGen focuses on growth markets

ArborGen Holdings Limited (NZX: ARB) (ArborGen or the Company) has announced operating earnings from continuing operations (before other significant items) of US\$2.7 million for the year ended 31 March 2022, up from \$1.0 million in the prior year, as the Company delivered its highest ever US advanced genetics sales year – 32% higher than the prior year.

ArborGen has also delivered an adjusted US-GAAP EBITDAⁱ result of \$10.1 million excluding the New Zealand and Australian operations sold and other significant itemsⁱⁱ, up from \$7.4 million in the prior year.

Key to this result is the continued execution of the Company's advanced genetics strategy, resulting in record sales of its advanced genetics products in the US, up from 81 million seedling units in FY21 to 107 million in FY22. This is despite COVID continuing to adversely impact sawmill production and, in turn, seedling demand in the US South.

In particular, advanced genetics seedling sales to the private landowner segment, where the majority of sales growth will occur, was up almost 60% compared to prior year, driven by increasing recognition of the value of ArborGen's advanced genetics products. Although larger National Accounts (primarily REITs and TIMOsⁱⁱⁱ) 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.

Advanced genetics (Mass Control Pollinated (MCP)) seed supply

ArborGen continues to focus on building advanced genetics MCP seed inventory to minimise reliance on single year cone harvests as a key risk mitigation strategy. Seed inventory can be held in storage for several years, and, while the Company has approximately 1-2 years of MCP seed inventory on hand for the Western regions, there are still constraints in the larger Eastern region. Younger orchards represent approximately 70% of the Company's overall orchard footprint, and as these continue to mature and become more productive, ArborGen's strategy will be to bag as many flowers as possible to maximise the seed output in the medium term. In addition, ArborGen will be targeting production of certain provenance crosses (i.e. Coastal x Texas, and Coastal x Piedmont) which can be utilised in multiple provenances.

On 1 April 2022, ArborGen announced a freeze event, which combined with very high winds during this year's pollination season, caused damage to pine flowers at ArborGen's Eastern orchards which will impact cones and seed to be harvested in November 2023 (i.e. available for FY25 sales). The Company has recognised \$1.5 million of costs related to this in the FY22 results. Importantly, this isolated event did not impact the cones currently on the trees that will be harvested in November 2022 (available for FY24 and beyond), nor did it cause any long term damage to the orchards themselves, which will be at full productive capacity again, the following pollination season. ArborGen's Western orchards were not impacted.

ArborGen is projecting to harvest advanced genetics MCP seed equivalent to over 200 million seedlings across all of its orchards in the US South in November 2022, well in excess of projected sales for FY24. The projected surplus in advanced genetics MCP seed harvested this year, combined with the ability to utilise some material from neighbouring provenances, will help mitigate the freeze impact on FY25 seedling sales. In addition, ArborGen will continue to focus on growing advanced genetics adoption in the Western regions to achieve higher overall MCP sales in FY24 and FY25.

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

M&A activity

The Company's FY22 results exclude ArborGen's New Zealand and Australian businesses, with the completion of the sale of these businesses for NZ\$22.5m occurring as scheduled on 30 November 2021. The proceeds have significantly strengthened ArborGen's balance sheet, affording it greater strategic and financial flexibility to pursue growth opportunities.

An initial example of such growth initiatives is the recent acquisition of an 8-10 million capacity pine nursery located in Canoinhas, Santa Catarina, Brazil for BR\$4 million (US\$0.7 million) including certain capital expenditure items.

ArborGen's CEO, Andrew Baum, said "Brazil's earnings are projected to be well over US\$1 million this fiscal year (FY23), materially higher than the breakeven result recorded in FY22, driven primarily by stronger pricing for both ArborGen's eucalyptus and pine seedlings, and increased sales volumes. The acquisition of the Canoinhas nursery will further accelerate this earnings growth and strengthen ArborGen's position as the leading supplier of pine genetics in Brazil. Increasing domestic and export demand, new pulp mills and strong charcoal markets resulting from increasing iron ore demand, are 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."

Outlook

While nearer term, the pandemic and certain customer specific issues continue to affect industry activity in the US South, ArborGen continues to project solid growth in advanced genetics sales from FY24 onwards with both its National Account customers and private landowner customers.

ArborGen's US business is very well poised to benefit from its leadership position in tree improvement technology, and as the leading commercial supplier of advanced genetics in the US South.

Similarly in Brazil, ArborGen has grown to become one of the largest commercial suppliers of eucalyptus and loblolly pine seedlings in the Brazilian market.

Chair of ArborGen, David Knott Jr, said: "ArborGen is poised for growth, as we proceed with a strong balance sheet and funding. Our approach is working and the benefits of our long term focus on advanced genetics is now becoming clear. The growing demand for our advanced genetics seedlings is testament to the value we offer and gives us real confidence to continue with that focus, as we recover from the pandemic effects and focus on higher growth markets."

ENDS

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ⁱ US GAAP EBITDA excludes NZ public company costs and Other Significant Items (refer footnote ii)

ⁱⁱ Other Significant Items total \$4 million (FY21 : \$(1.9) million) and include Government grant income of \$0.9m, COVID impact on unsold seedlings and associated write off of \$1.6m, \$1.5m related to the freeze event, and strategic review and other costs of \$1.8m (primarily financial, tax and legal advice, and including M&A activity during the period)

ⁱⁱⁱ Real Estate Investment Trusts and Timber Investment Management Organisations

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