



# FY23 Results Presentation

For the 12 months ended 31 March 2023



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



**“Our transformative technology and advanced genetics seedling products are a game changer for our forest landowners, delivering bigger and better trees, faster.”**



## FY23 Operational Highlights

- Positive year of commercial progress following sale of Australasian business in FY22 and refocussing of business on higher growth existing and emerging markets.
- Investments made in increasing internal seedling production capacity in Brazil and the US, and in growing advanced genetics (mass control pollination (MCP)) seed supply in the US.
- Continued strong performance in Brazil in the second half of the fiscal year ending 31 March 2023 (FY23) with record sales volume, revenue, gross margin and earnings, benefitting from being the only company providing superior genetics to pine and eucalyptus growers in Brazil, and strong underlying demand conditions.
- Highest ever MCP seed production from US orchards with cone harvested producing seed equivalent to approximately 240 million MCP seedlings – over 60% for the Eastern regions where MCP seedling sales have been the highest but seed supply has been limited.
- Successful completion of expansion across two existing owned sites, increasing in-house container seedling production by approximately 70% to nearly 20 million containerised seedlings per annum in the US.
- Successful integration of a 10 million capacity pine nursery located in Canoinhas, Santa Catarina, and of ArborGen's fourth eucalyptus nursery in Brazil, bringing ArborGen's internal eucalyptus production capacity in Brazil to nearly 50 million seedlings per annum.



## FY23 Financial Highlights

- 18% increase in Revenue to \$56.1 million.
- Operating Profit before financing expenses of \$2.2 million, up from a loss of \$1.3 million.
- 35% increase in US-GAAP EBITDA <sup>1,2,3</sup> to \$10.3 million.

1. US GAAP EBITDA excludes NZ public company costs and strategic review costs. Please refer to page 20 for a summary of US GAAP EBITDA.
2. The Company 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.
3. Continuing operations

## Outlook

- Materially improved performance projected in FY24 (fiscal year ending March 2024) driven by higher pricing and seedling sales volumes in Brazil (eucalyptus and pine) and higher seedling sales in the US (including MCP and hardwoods for carbon markets).
- Increased internal container production and lower MCP seed costs in the US and increased internal pine and eucalyptus seedling production in Brazil driving improved gross margins in FY24.



**ArborGen**  
— HOLDINGS —

## FY23 Performance

All financial results are in US dollars (US\$) unless otherwise stated

# FY23 Financial Performance

## 12 months ended 31 March

US \$m	FY23	FY22	% change
Revenue <sup>1</sup>	56.1	47.6	18%
Gross Profit <sup>1</sup>	18.2	17.8	2%
Operating Earnings (before Other Significant Items) <sup>2</sup>	1.6	2.7	-41%
Operating Profit before Financing Expenses	2.2	(1.3)	N/A
Net Earnings After Taxation	(2.5)	1.7	N/A
Net Cash from Operating Activities	6.5	7.5	-13%
US GAAP EBITDA <sup>1,3</sup>	10.3	7.6	35%
Adjusted US GAAP EBITDA <sup>1,3</sup>	9.2	10.1	-9%
Net Debt	13.0	11.5	-13%

1. Continuing operations

2. Other significant items of \$0.6 million comprise \$1.2 million of Employee Retention Credits (ERCs) under the Coronavirus Aid Relief and Economic Security (CARES) Act (net of costs) recognised as income in FY23, \$0.3 million of strategic review costs and \$0.3 million of employment cessation costs (FY22: \$(4) million; comprised Government grant income of \$0.9m, COVID-19 impact on unsold seedlings and associated write off of \$1.6m, \$1.5m related to a 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).

3. Please refer to page 20 of this FY23 Results Presentation.



## Year in Review

- Revenue of \$56.1 million, up 18% on prior period, comprising sales of \$39.3 million in the US (FY22: \$39.9 million) and \$16.8 million in Brazil (FY22: \$7.7 million).
- Gross margin of \$18.2 million, up from \$17.8 million in FY22.
- Operating earnings (before other significant items<sup>2</sup>) of \$1.6 million, down from \$2.7 million in the prior year.
- Operating profit before financing expenses of \$2.2 million, up from a loss of \$1.3 million in FY22. The \$2.2 million includes \$0.6 million of other significant items<sup>4</sup>.
- Net loss of \$2.5 million, down from net profit of \$1.7 million recorded in the prior period. Net earnings include include \$3.4m of deferred tax expense including net deferred tax losses recognised of \$2.6 million (FY22 benefit of 4.7m).
- US-GAAP EBITDA<sup>1,3</sup> of \$10.3 million, up 35% from \$7.6 million in the prior year.
- Adjusted US-GAAP EBITDA<sup>3</sup> of \$9.2 million, 9% lower than the \$10.1 million in the prior period.
- Net debt (excluding capitalised leases) of \$13 million, up \$1.5 million on the prior period – higher than previously forecast due to delayed receipt of ERCs (\$1.6 million since received in May), higher costs associated with the US container expansion project (partly due to greater capacity than initially planned), higher working capital in Brazil associated with the new pine and eucalyptus nurseries, and lower earnings in the US.





# Seedling Sales Performance

million units	FY23	FY22
<b>USA</b>	273	284
<i>USA Loblolly MCP%</i>	41%	41%
<b>Brazil</b>	102	76
<b>Total</b>	375	360

- US sales decreased by 4%, due to production losses (loblolly and non-loblolly)
  - Factors resulting in the lost seedlings have been improved upon in FY24. e.g. rationalising hardwood species grown, planting within optimum planting windows, cessation of pine production at a particular location, and planting buffer OP production.
- Advanced genetics sales to private landowners were up 9% driven by increasing recognition of our products.
- Total seedling sales (including advanced genetics) to National Account customers were lower primarily due to customer specific issues including fires, changes in land holdings and annual site-specific planting regimes.
- Advanced genetics sales as a proportion of total loblolly seedlings sold to National Account and private landowner customers were 59% and 28% respectively (FY22: 64% and 25%).
- Advanced genetics sales to the private landowner segment now represent around 39% of total advanced genetics volume sold
- Seedling sales in Brazil increased by 35% to 102 million units.
- Advanced genetics sales in Brazil comprised approximately 50% of total eucalyptus sales in FY23 and is expected to increase significantly in FY24.

In addition to strong volume growth, ArborGen's Brazil operations also benefitted from solid increases in seedling selling prices, and margin growth – leveraging strong demand conditions, and ArborGen's proprietary genetics and expanded internal pine and eucalyptus production capacity.



# Growth and Strategic Initiatives

The sale of Australasian business in late 2021 released NZ\$22.25m of capital, allowing investment in high growth markets in the US South and Brazil.

## **Growing the Brazil business**

We are leveraging our strong position in the pine and eucalyptus seedling markets to build a sustainable, highly profitable business that is recognised as the preeminent seedling supplier in terms of product breadth and quality, pipeline of new genetics and superior service.

## **Growing our advanced genetics seedlings pipeline and seedling capacity in the US South**

ArborGen is driving increased adoption of advanced genetics across the US South as the leading commercial supplier of advanced genetics loblolly seedlings, leveraging years of investment in developing best-in-class proprietary MCP products, and growing our supply of proprietary genetics.

# Growing the Brazil Business

## Eucalyptus market dynamics

- Eucalyptus pulp is an excellent short-fibre hardwood pulp due to its relatively uniform fibre, simple cell structure, low degree of lignification, smoothness, bulk and water absorption characteristics.
- Brazil is, and will continue to be, the centre of global hardwood pulp production. Expansion in the Brazilian pulp industry is collectively projected to lift pulp production capacity by approximately 30%.
  - Demand for eucalyptus seedlings is projected to be approx. 1.2 billion seedlings per annum for the next several years.
  - An estimated 500 million will be met by the internal nursery production capacity of large integrated pulp companies. A further 500+ million seedlings are supplied by a network of seedling suppliers, leaving a supply / demand imbalance of around 100-200 million seedlings per annum.
  - There has been relatively limited expansion in capacity due to capital constraints of owners, and nursery specific limitations
  - The market is actively seeking new clones with higher yields, that are also more resilient against disease and certain pests

**“As the only integrated seedling company in Brazil, we are in a great position to build on our strong momentum to build a highly profitable business.”**



# Growing the Brazil Business continued

## ArborGen's relative positioning

- ArborGen has grown to become one of the largest commercial suppliers of eucalyptus and pine seedlings in the Brazilian market, replicating its US strategy to convert the market to products with superior genetics in Brazil.
- Deploying the same sales and marketing principles used in the US to sell our advanced genetics, we project proprietary product sales will increase from ~50% to 75% of total unit seedling sales over the next few years, at superior prices and margins compared to commodity clones.
- Over the last decade, ArborGen has –
  - Developed a portfolio and pipeline of best-in-class products through in-licensing and internal product development.
  - Established a network of in-house and contract nurseries that allows us to respond to market demand reliably while maintaining capacity flexibility.
  - Established operating and logistical systems that allow us to offer reliable, high-quality products to meet demand across several markets and production sites.
  - Established ourselves as the preferred partner for both suppliers and customers.
- ArborGen's portfolio of products licensed from Gerdau, Sylvamo, Vallourec and Rima as well as pipeline of our own products is very compelling. No other company operates a more extensive set of trials across a broader geography than ArborGen in the industry.



# Growing the Brazil Business continued

## ArborGen's relative positioning

- We believe that there is significant room for innovation in eucalyptus tree improvement and are focused on building a fully integrated programme from development of new parents and crosses through to commercialisation of product clones. We are also “regionalising” our products by determining where they are best adapted and most competitive.
- Consistent with our growth aspirations for this market, and desire to produce approximately 50% of our seedling requirements internally, over the last 12-18 months ArborGen has –
  - Acquired a 10 million seedling capacity pine nursery located in Canoinhas, Santa Catarina, Brazil, to cement our position in local pine markets<sup>1</sup>.
  - Expanded internal production capacity through leasing our fourth eucalyptus nursery in late 2022, bringing ArborGen’s internal eucalyptus production capacity in Brazil to nearly 50 million seedlings per year (located in Luis Antonio in Sao Paulo, Inimutaba and Martinho Campos in Minas Gerais, and Ribas do Rio Pardo in Mato Grosso do Sul).
  - Very recently leased our fifth, 5 million capacity, eucalyptus nursery in Rondonópolis in the state of Mato Grosso, further expanding both our capacity and nursery footprint.
- Although we are only in our second month of the current fiscal year (FY24), ArborGen Brazil has already sold-out all of its budgeted eucalyptus seedlings and 80% of budgeted pine seedlings’ sales.

1. ArborGen purchased the equipment from the former lessee of this location and is leasing the land and buildings for 10 years.



## Growing in the US South

In FY23, we reviewed the status of ArborGen’s seed orchards and seed production capacity with the primary focus of this effort being to ensure that we continue to build seed inventory where required, advance the genetics of our portfolio of products to maintain our strong competitive lead, while also controlling costs and working capital related to seed production.

### Building MCP seed inventory

- ArborGen has vast seed orchards in the US South spanning 1,200 acres (85% of which loblolly pine) across five genetic provenances.
- We are targeting at least two years of “buffer” MCP seed inventory for each provenance thereby minimising reliance on single year cone harvests.
- We expect to achieve the current goal of 2 years of MCP seed inventory in every region by 2028 assuming no significant adverse weather events or biological factors during the intervening years.
- Once the 2-year supply is achieved in a provenance, the scale of the MCP effort for that provenance can be tailored to maintain supply.
- Our team achieved its highest ever MCP seed production from orchards in the US with cones harvested in November 2022 producing seed equivalent to approximately 240 million MCP seedlings.
- The surplus in advanced genetics MCP seed harvested last year, will help mitigate the impact of the freeze experienced during last year’s MCP pollination season on FY25 seedling sales.
- Expected MCP seed production from the cone harvest later this calendar year (impacted by the freeze last year) is around 155 million (in MCP seedling equivalents) based on our latest cone inventory counts.
- We have also completed our 2023 MCP pollination activity, and based on preliminary cone inventory counts expect to generate seed equivalent to just under 200 million MCP seedlings in next year’s harvest.



## Growing in the US South continued

### **Orchard diversification – geographic and age class**

- Risks are generally managed through having multiple orchard locations for each provenance. We are actively addressing provenances that lack adequate geographic distribution as part of our on-going management plans.
- To mitigate the risk of hurricanes hitting our Eastern orchards, we have begun establishing Coastal and Piedmont orchards in the Western regions. While the risk of a major hurricane passing within 50 miles of an orchard facility is low, a single major hurricane could dramatically affect our ability to produce seed for one or more provenances.
- Maintaining a distribution of orchard tree ages for each provenance helps mitigate risk from storms.

### **Incorporating new genetics**

- New genetics are essential to maintaining a competitive advantage and industry-leading orchards.
- Genomic analysis and clonal progeny testing will increase our ability to offer greater volumes of superior proprietary genetics to our customers more quickly.

### **Expanded container seedling capacity**

- In FY23, ArborGen successfully completed the commissioning of a new container facility at its Bullard nursery in Texas, and the expansion of its existing container facility in Belville, Georgia. Results of these will be seen in the FY24 seedling sales year.



# Ownership Changes

- ArborGen has repurchased all outstanding warrants equating to approximately 5% of ArborGen Inc.'s fully diluted common stock<sup>1</sup> for \$1.35 million. (ArborGen Inc. is the wholly owned subsidiary of ArborGen Holdings).
- The purchase price of US\$1.35 million represents a significant discount and reflects factors that include:
  - the warrants are not traded on any market and are exercisable for shares of ArborGen Inc., rather than shares of ArborGen Holdings
  - ArborGen Inc. is not obligated to repurchase the warrants
  - the purchase price consideration is in cash, giving the holders immediate liquidity
  - ArborGen Inc. owes intercompany advances to ArborGen Holdings
- Following the repurchase of the warrants, there are no more warrants, options or other rights to purchase ArborGen Inc. common stock, and ArborGen Holdings' effective economic interest in ArborGen Inc. will increase from 95% to 100% with no dilution overhang.

1. These warrants relate to the acquisition of the assets, germplasm, technology, and intellectual property of the leading loblolly pine varietal company in the US – CellFor Inc. (CellFor) in August 2012. As consideration for CellFor's assets, ArborGen Inc. (a) paid CDN \$1.1 million in cash and (b) issued warrants to purchase shares of ArborGen Inc. common stock. Pursuant to the warrant documents, each holder of a warrant is entitled, subject to certain terms and conditions and at any time no later than June 19, 2032, to purchase the number of common shares calculated as specified in the warrant documents, at a purchase price per share of US\$0.001.





# Management Transition

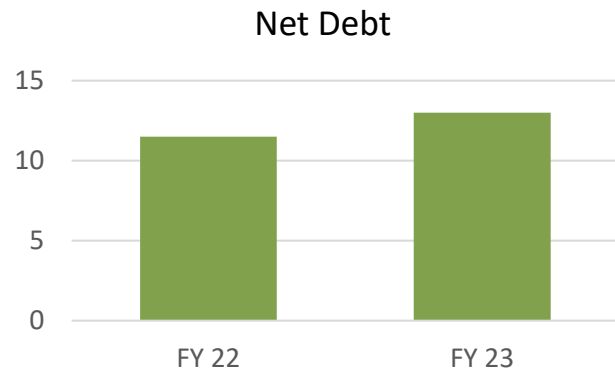
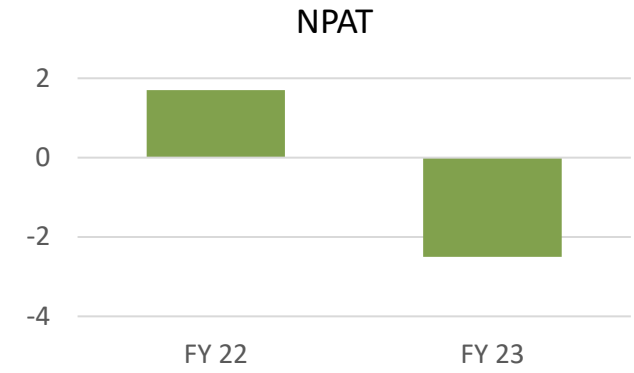
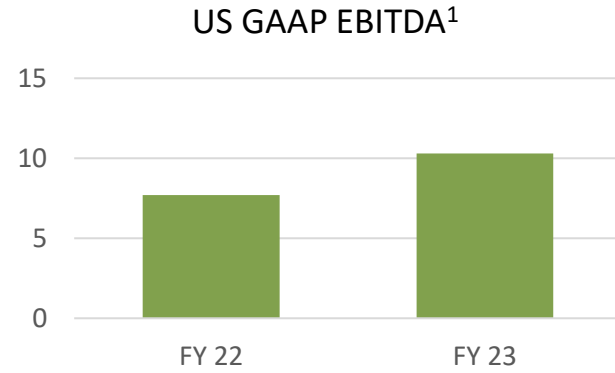
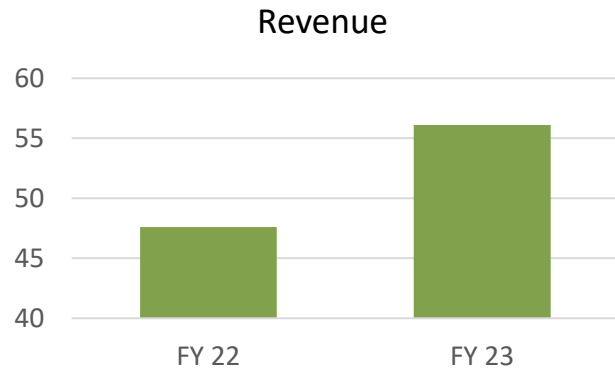
- Justin Birch has been appointed as Chief Executive Officer (CEO) following a comprehensive and extensive search process.
- He is an experienced executive with significant exposure to the agriculture sector and a strong background in private equity, operations, finance, and strategy.
- Mr Birch will be based at ArborGen's headquarters in Ridgeville, South Carolina, in the US, and will succeed Andrew Baum who will remain as CEO until Mr Birch joins ArborGen in June, and thereafter continue in a consulting capacity, to facilitate a seamless leadership transition.



## Outlook

- ArborGen is projecting materially improved performance in FY24 driven by higher seedling sales in Brazil (eucalyptus and pine) and in the US (including MCP seedlings, and seedling sales for carbon markets).
- In the US, while the overall market is not expected to grow due to macro factors, increased internal container seedling production, lower MCP seed costs expensed in the cost of sales of seedlings sold, and various operational initiatives, combined with higher selling prices, are expected to drive improved gross margins and earnings in FY24.
- In Brazil, strong underlying market demand for both eucalyptus and pine seedlings combined with the annualised benefits of ArborGen's newly acquired pine and eucalyptus nursery leases, and higher pricing and margins for both pine and eucalyptus seedlings sold, support substantial increases in profitability and cash flow generation.
- Although we are only in the second month of ArborGen's new fiscal year, in the US, we have sold approximately 65% of budgeted seedling volumes (including approximately 75% of budgeted MCP volumes), and in Brazil, ArborGen has sold all of its budgeted eucalyptus seedlings and 80% of budgeted pine seedlings' sales.

# Two Year Performance



1. US GAAP EBITDA *excludes* NZ public company costs and strategic review costs. Please refer to page 20 for a summary of US GAAP EBITDA.

# US GAAP

## US GAAP EBITDA<sup>1,2,3</sup>

<i>Fiscal year ending March</i>		<b>2023</b>	<b>2022</b>
<b><i>ArborGen - US GAAP</i></b>			
	Revenue -		
	US	39.3	39.9
	Brazil	16.8	7.7
	Total	56.1	47.6
	Gross Margin ( <i>excluding DDA</i> )	19.6	16.0
<i>Less</i>	SG&A	-7.4	-7.5
<i>Less</i>	R&D	-3.4	-3.1
<i>Plus</i>	Other Income	1.5	2.1
	<b>EBITDA</b>	<b>10.3</b>	<b>7.6</b>
<i>Adjustments -</i>			
	ERCs (net of costs)	-1.2	
	Unsold seedlings written off due to Covid		1.6
	Provision for Feb 2022 Freeze event		1.5
	Gain on ANZ		-1.4
	HQ lease termination costs		0.3
	Other	0.1	0.5
	<b>US GAAP Adjusted EBITDA</b>	<b>9.2</b>	<b>10.1</b>

1. Under US GAAP, from a statutory reporting perspective, the classification of the expense items, and other significant items in this table may differ from what is presented here.
2. US GAAP EBITDA excludes NZ public company costs and strategic review costs.
3. The Company 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.

# Net Asset Backing Non-GAAP

At 31 March 2023 the net asset backing was 30 cents per share (cps) (NZ\$48 cps), (2022: 30 cps, NZ\$43 cps); and net tangible asset backing (including right-of-use assets) was 11 cps (NZ\$18 cps) (2022: 11 cps, NZ\$16 cps), calculated on the basis of shares on issue at 31 March 2023 (excluding treasury stock) 502,772,082 (2022: 501,213,092).