

## Justin Birch – CEO's address

### *Slide – CEO Review*

Thank you, David. On behalf of the ArborGen team, I would like to extend a warm welcome to our shareholders joining us today, both in person and virtually. It has certainly been a busy three and a half months since I joined ArborGen, and it is an absolute pleasure to be here in person to address you.

### *Slide – Management Transition*

As you will know, the last few months have seen some significant changes at senior management level, with me joining as Andrew Baum's successor as CEO of the ArborGen Group in June, and the appointment of Adriano de Almeida as General Manager of ArborGen's Brazil operations in August, succeeding Gabriela Monnerat.

Needless to say, it is early days and I am still learning a great deal about the business. However, from what I have seen so far, I am truly excited about ArborGen's growth prospects and the opportunities for step change. I am also privileged to be working alongside a great team of people, including recognised industry leaders, across the entire organization who are passionate about the business and what we have to offer. To ensure a smooth leadership transition, we also have the benefit of both Gabriela and Andrew's continued support in a consulting capacity.

Over the last couple of months, I have visited nearly all of our sites in the US and Brazil and spent time understanding the uniqueness of ArborGen's value proposition, in particular its advanced genetics know-how, production capability, and high-quality product and service offering. ArborGen is undeniably the market leader in advanced genetics' seedlings with the ability to make transformational changes to forest productivity. I'm sure you've heard this before, but our products truly are game-changing for forest owners. We are also fortunate to have a strong balance sheet, helped by the sale of ArborGen's businesses in NZ and Australia, giving us the headroom for growth in our core and emerging growth markets.

### *Slide – March 2023 YE Commercial Highlights*

Turning then to our fiscal year ending 31 March 2023 (FY2023), I am pleased to report ArborGen achieved several commercial objectives as we focus on our vision of being a world-leading provider of value-added, high-quality seedlings for the forestry industry. In particular –

- We produced our highest ever Mass Control Pollinated<sup>1</sup> seed volumes from our US orchards in a single year. Specifically, our 2023 orchard cone harvest produced seed equivalent to around 240 million MCP seedlings – 2.5x the MCP seed produced in the prior year. Importantly, approximately 65% of this seed is for the Eastern provenances, where we have been the most supply constrained

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<sup>1</sup> MCP® stands for Mass Control Pollinated seed which is produced from crossing specific elite mother and father parent trees to generate seed with the highest genetic potential.

following Hurricane Michael in 2018. This seed was partly used for the current fiscal year's MCP seedling production, with the balance being held in seed inventory allowing us to build buffer inventory to mitigate risk for future years' seedling production;

- We achieved significant growth in Brazil with our Brazilian operations achieving record sales volumes, revenue, gross margin, and earnings;
- We successfully completed our US container expansion approved for FY2023, effectively increasing in-house container capacity by approximately 70% to nearly 20 million seedlings per annum; and
- We successfully integrated a new 10 million capacity pine seedling nursery, and a fourth 15 million capacity eucalyptus seedling nursery into our operations in Brazil, increasing overall internal production to almost 60 million seedlings per annum.

### *Slide – March 2023 YE Financial Results*

Turning to our financial results for FY2023, the Group reported (in USD) –

- Revenue from continuing operations of \$56.1 million, up 18% on the prior year, comprising sales of \$39.3 million in the US and \$16.8 million in Brazil
- Gross margin from continuing operations of \$18.2 million, up from \$17.8 million in FY22
- Operating profit including items outside normal operations of \$2.2 million, up from a loss of \$1.3 million in the prior year
- Net loss after tax of \$2.5 million, down from net earnings after tax of \$1.7 million in the prior period
- US-GAAP EBITDA<sup>2</sup> of \$10.3 million, up 35% from the \$7.6 million reported in FY22
- Adjusted US-GAAP EBITDA<sup>3</sup> of \$9.2 million, down from \$10.1 million in the prior period
- Net cash from operating activities of \$6.5 million, down from \$7.5 million in the prior period
- Net debt (excluding capitalised leases) of \$13 million, up from \$11.5 million.

### *Slide – March 2023 YE Financial Results (cont)*

Items outside of normal operations during the period was a gain of \$0.6 million, compared to an expense of \$4 million in the prior period, comprising –

- \$1.2 million of Employee Retention Credits (ERCs) received under the Coronavirus Aid Relief and Economic Security (CARES) Act.
- \$0.6 million relating to residual strategic review costs and a portion of CEO severance costs.

Net loss of \$2.5 million included a non-cash net deferred tax loss recognition of \$2.6 million comprising a deferred tax liability of \$8.3 million related to how the Group expects to recover the carrying value of intellectual property, offset by a deferred tax asset of \$5.7 million relating to the recognition of previously unrecognised losses in the US. In contrast, the prior period net earnings of \$1.7 million included a \$4.7 million tax benefit.

Net debt of \$13 million at fiscal year-end was higher than expected primarily due to the delayed receipts of approximately \$2 million of ERCs (received post fiscal year-end), additional investments made for certain growth initiatives, and working capital timing.

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<sup>2</sup> US-GAAP Earnings Before Interest, Tax, Depreciation and Amortisation (US-GAAP EBITDA) excludes NZ public company costs of \$1.3 million, and strategic review costs.

<sup>3</sup> Adjusted US-GAAP EBITDA is US-GAAP EBITDA adjusted for items outside of normal operations.

### *Slide – Mission, Vision and Values*

Following the recent leadership changes, we have revisited and refined ArborGen’s mission, vision and core values.

To put it succinctly –

- ArborGen’s **Mission** is to produce superior-performing trees for the forestry industry through innovation, strategic partnerships, and dedication to our client’s success,
- Our **Vision** is to be the world-leading provider of value-added, high-quality seedlings for the forestry industry, creating thriving forests that benefit landowners, the environment, and future generations through unmatched industry expertise,

and

- Our **Values** comprise five core elements –
  - **Excellence** – to pursue the maximization and enhancement of all parts of our business
  - **People** – to commit to an environment where teamwork, diversity, safety, and development are valued
  - **Integrity** – to stand by our word and our people
  - **Customers** – to partner with our customers to achieve their long-term goals while treating them with honesty and respect
  - **Sustainability** – to support the future of forestry through socially and environmentally responsible practices.

We are confident that our mission, vision and values, combined with our superior position in pine and eucalyptus advanced genetics, will allow us to build a sustainable, highly profitable business that is recognised as the pre-eminent seedling supplier in terms of product breadth and quality, and superior service delivery.

### *Slide – Our Strategy*

As you have heard before, the sale of ArborGen’s operations in NZ and Australia, has allowed us to refocus the business on our core high growth markets in the US South and Brazil, as well as new and emerging high growth carbon markets.

Our overarching strategy is to increase our sales of advanced genetics seedlings.

To achieve this, we are focused on –

- Continuously converting our customers to higher value advanced genetics loblolly pine seedlings and eucalyptus seedlings
- Leveraging our most advanced and broadly adapted portfolio of advanced genetics in the industry to generate strong returns for forest owners. As we note in our customer slogan, we strive to have “The Best Trees. The Best Results.”

- Building MCP seed inventory to meet demand growth and mitigate seed supply risks from weather or biological risks.
- Leveraging our internal seedling production capacity
- Evaluating opportunities to strategically expand production capacity
- Working to expand the market with opportunities to showcase our superior genetics including for opportunities in carbon.

### *Slide – Key Initiatives to Build our Business*

To achieve our goals, we have recently reviewed our priorities and are focusing our efforts on five key initiatives, each with a range of agreed targeted actions. These are –

- Expanding our market share and increasing MCP adoption in the US
  - We believe that continuing to educate our customers to the value of genetics as well as find new opportunities to show the value of our genetics will allow more sales of MCP
- Focusing our product development efforts on market driven genetics for the future
  - We are working to make sure that product development continues to maintain our industry leadership and ensuring that we are market driven in our efforts
- Opportunistic and measured expansion in Brazil
  - Continuing growth in Brazil capitalizing on the strong market while recognizing the volatility and preparing for it
- Optimising productivity and margins in Brazil and the US
  - Working on improving how we work with our customers, and on pricing while focusing on efficiencies in our cost structure

and

- Strengthening our organizational culture
  - Taking the organisation to the next level professionally and instilling a culture of performance

### *Slide – Brazil*

I would like to spend a few minutes on ArborGen’s business in Brazil which continues to grow on and build as a market leader – a testament of the hard work of ArborGen’s team and market leadership position. Brazil is projected to contribute around 40% of total our revenues in the current fiscal year, FY2024.

ArborGen Brazil has grown to become one of the largest commercial suppliers of eucalyptus and pine seedlings in the Brazilian market leveraging its –

- Strong portfolio of best-in-class seedling products from exclusive in-licensing arrangements, and internal product development capability
- Preferred partnership status with suppliers and customers
- Excellent sales and marketing capability

- Established network of in-house and contract nurseries
- Established operating systems and logistics, collectively allowing us to offer reliable, high-quality products to meet demand across several markets.

Seedling sales increased by 34% to 102 million seedlings in FY2023. In addition to the very strong volume growth achieved, ArborGen Brazil also achieved strong price increases for both pine and eucalyptus seedlings in real terms, and margin expansion, driving exceptional earnings growth.

### *Slide – Eucalyptus Market in Brazil*

To provide some context, eucalyptus pulp is an excellent short-fibre hardwood pulp due to its uniform fibre, simple cell structure, low degree of lignification, smoothness, bulk and water absorption characteristics.

Brazil is the world's largest producer and exporter of hardwood pulp, driven by the superior productivity of its eucalyptus plantations.

As this table shows, there has been significant expansion in the Brazilian pulp industry with several announced expansionary projects targeted for the rest of this decade, collectively projected to lift pulp production capacity by approximately 30% in Brazil.

### *Slide – Eucalyptus Market in Brazil (con't)*

This is, in turn, driving a eucalyptus seedling supply / demand imbalance.

On the supply front, the seedling industry in Brazil is fragmented and unsophisticated, and has been shrinking due to recessionary conditions, poor management, and weak capitalization of independent nurseries.

Moreover, after many years of increasing eucalyptus productivity, yields per acre have fallen over the last few years as a result of expanded eucalyptus growing areas, increasing issues with disease and insect pests, and heat and drought stress.

ArborGen has now grown to become one of the largest commercial suppliers of eucalyptus and pine seedlings in the Brazilian market. With our compelling portfolio and pipeline of products, we believe there is significant opportunity for eucalyptus tree improvement.

Our products offer growers higher yields and higher wood density than standard market clones, improved disease and insect resistance and good drought tolerance which is an increasingly important trait as eucalyptus plantings in Brazil expands into dryer regions and as rainfall patterns change as a result of global climate change.

We operate the most extensive set of trials across Brazil as we look to continue to find the next level of genetics and continue our market leading position. This map shows our field trial programme in Brazil which consists of approximately 200 trials involving 1,500 eucalyptus clones, spread across seventeen Brazilian states.

### *Slide – Growing Brazil*

Consistent with our growth aspirations for this market, over the last 18 months we have –

- Acquired a 10 million seedling capacity pine nursery in Canoinhas, Santa Catarina in [April] 2022
- Leased a fourth 20 million capacity eucalyptus nursery in Minas Gerais state in late calendar 2022
- Leased our fifth 5 million capacity eucalyptus nursery in Rondonopolis in the state of Mato Grosso in [April] 2023
- And most recently, acquired our sixth, 15 million capacity eucalyptus nursery in Rio Grande do Sul State which we will assume control of from October 2<sup>nd</sup>.

This latest nursery, which will be referred to as ArborGen Erval Grande, was acquired for a purchase price of Brazilian Real \$15 million (approximately NZ\$5 million, or US\$3 million) and will be financed by the sellers. The deal also includes a ten-year initial lease for the land with no payments for the first seven years.

ArborGen Erval Grande currently has capacity to produce 15 million eucalyptus seedlings per annum, with the opportunity to expand by a further 5 million seedlings. The acquisition increases ArborGen's internal production capacity to approximately 80 million seedlings per annum, and is expected to lift earnings by US\$1 million on an annualised basis initially.

Following the most recent nursery expansion of ArborGen Erval Grande, ArborGen will operate six eucalyptus nurseries and one pine nursery in Brazil complemented by a network of contract producers that allow us to address all of the major pine and eucalyptus markets in the country. ArborGen's eucalyptus products are available in all of the primary eucalyptus growing regions in Brazil including the states of Minas Gerais, Mato Grosso, Mato Grosso do Sul, São Paulo and Paraná.

### *Slide – Current FY2024 Update*

Turning to current year performance, that is for the year ending 31 March 2024, in the US –

- Seedling orders are currently behind prior year orders at the same time last year. While there are still a couple of months before lifting and dispatch of seedlings begins, we are currently expecting to be flattish on last year's overall seedling sales' volumes and slightly ahead on advanced genetics seedlings volumes. Our customers have had some decreases in orders this year due to weather impacting ability to prep areas for planting, and mill closures that have constrained harvest capacity and ability to turn the land for replanting, and normal yearly deviations due to sales and acquisitions.
- On a positive note, we are expecting an increase in total dollar revenues, and solid improvement in gross margin and earnings over prior year as a result of lower unit MCP seed costs expensed in cost of sales, increased internal container seedling production, and higher selling prices year-on-year.

In Brazil –

- Seedling sales are projected to be materially higher than prior year as a result of continued strong underlying market demand for both eucalyptus and pine seedlings, as well as the expansion of ArborGen's internal seedling capacity summarised earlier.
- Added to this, higher pricing and margins for both eucalyptus and pine seedlings is projected to increase profitability substantially.

Dave will provide further guidance on the current year in his outlook comments. Thank you for your support.