



INTERIM REPORT

2022

INTERIM REPORT 2022

The Board of ArborGen Holdings Limited is pleased to present the Interim Report for the six months ended 30 September 2022. All dollar values are in US currency unless otherwise stated.

Highlights for the Six Months to 30 September 2022

- Harvested highest ever MCP cones in bushels in the US in November 2022, estimated to produce seed equivalent to over 200 million MCP seedling equivalents
- Very strong FY23 sales and margin growth in Brazil where ArborGen is the only company providing superior, proprietary genetics to pine and eucalyptus growers
- Execution of seedling supply agreements in the US with two well-funded, experienced companies with programmes to afforest (plant new forests) on pasture land or farmland designed to sequester carbon to help address global warming
- Expansion of ArborGen's in-house container capacity across two existing owned sites underway, increasing ArborGen's US in-house container seedling production from 12 to 20 million containerised seedlings per annum
- Acquisition of a 10 million capacity pine nursery located in Canoinhas, Santa Catarina, Brazil now complete
- New long term lease agreement commencing on 1 December 2022 for a nursery located in Martinho Campos, Minas Gerais, increasing ArborGen's internal eucalyptus production capacity in Brazil to nearly 50 million seedlings per year
- Evaluation of additional opportunities for expansion in Brazil

Financial Performance

Continuing Operations for the Six Months ended 30 September*

US \$m	30 Sep 2022	30 Sep 2021
Revenue	7.4	4.6
Gross Profit	1.8	0.5
Operating (Loss) / Earnings (before other significant items)	(0.6)	0.6
Other Significant Items ¹	(0.3)	(0.6)
Net (Loss) / Earnings from Continuing Operations ²	(1.6)	(0.5)
Net Debt	17.5	29.9

* The six month consolidated result has been restated to exclude ArborGen's New Zealand and Australian businesses, following the sale of these business in November 2021.

During the six-month period, the Group reported:

- Revenue of \$7.4 million from continuing operations in the US and Brazil, up 61% on the prior comparative period (pcp), driven by strong sales growth in Brazil.
- Gross Profit of \$1.8 million, up 260% on pcp as a result of strong sales and margin growth in Brazil.
- Operating loss (before other significant items)¹ of \$0.6 million, \$1.2 million lower than the \$0.6 million operating gain reported in the pcp. Operating loss includes higher amortisation expense of \$3.8 million (\$3.1 million in the pcp) consistent with the change in FY22 reducing the useful life of intellectual property to 17 years. The operating loss also includes a lower biological assets gain in the US of \$5.9 million (\$7.2 million gain in the pcp) due to lower seedling margin expected this fiscal year in the US².
- Net loss of \$1.6 million² including \$0.3 million of strategic review costs incurred prior to the completion of the review in June. This compares with a net loss from continuing operations of \$0.5 million in the prior period which included \$0.6 million of other significant items¹.
- Net debt (excluding capitalised leases) of \$17.5 million, down from \$29.9 million in the prior comparable period including the proceeds from the sale of ArborGen's New Zealand and Australian businesses in November 2021. Treestock sales in the US occur in the second half of the fiscal year, which will result in lower net debt at 31 March 2023.
- US GAAP EBITDA³ for continuing operations is expected to be in the range of \$10 million to \$10.5 million for the fiscal year ending 31 March 2023 (FY23), subject to unknown factors, including \$2 million of expected Employee Retention Credits payable to ArborGen under the Coronavirus Aid Relief and Economic Security (CARES) Act.

¹ Other significant items comprise strategic review costs of \$0.3 million incurred in the first quarter of the current fiscal year ending 31 March 2023 (\$0.6 of government grant income and \$1.2m of strategic review costs).

² Operating Loss and Net loss includes a biological asset gain of \$5.9 million (\$7.2 million gain in the prior period) which relates to a share of earnings on seedling crop still in the ground to be lifted in the second half of the fiscal year, as required under IFRS.

³ US GAAP EBITDA excludes NZ public company costs and strategic review costs.

Dear Shareholder

Key Growth and Strategic Initiatives

We remain focused on executing the key strategic, operational, and financial goals we have set for the business:

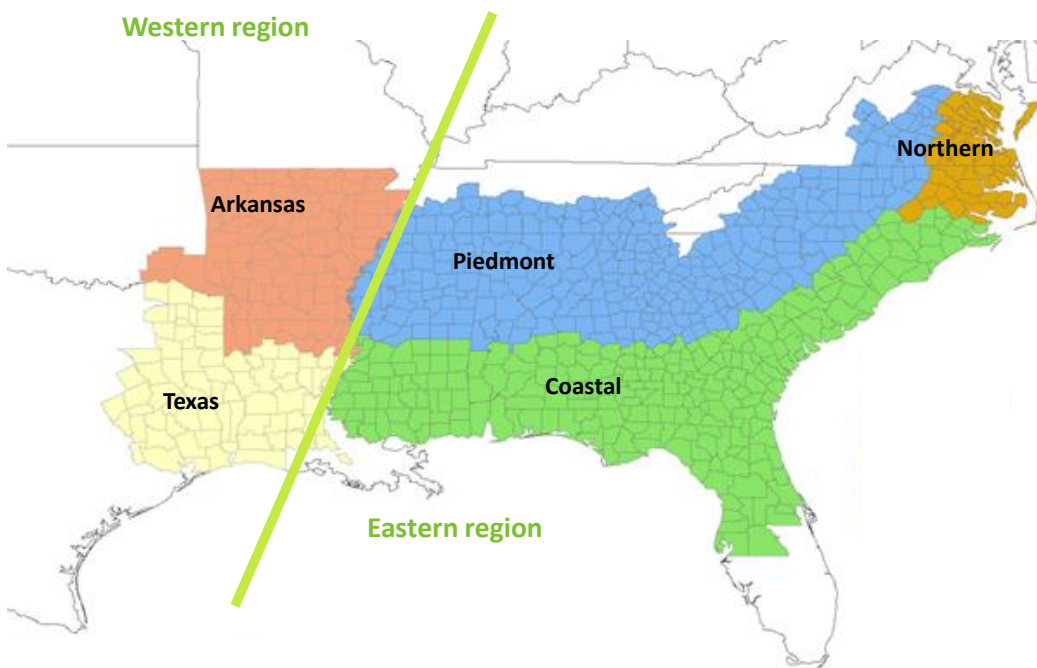
- Expanding our supply of proprietary advanced genetics, and growing sales of advanced products;
- Expanding our footprint in our core growth regions;
- Improving cash flow generation; and
- Mitigating the risk of adverse climatic events.

Expanding supply of advanced genetics in the US

In November 2022, we harvested our highest ever number of Mass Control Pollinated (MCP) cones in bushels from orchards we planted over a decade ago in 2011 and 2012 which are coming into full production. The seed from these harvested cones will be extracted over the next two months, and is currently expected to generate over 200 million MCP seedling equivalents. Importantly, approximately 60% of the forecast seed expected will be for the Eastern provenances (30% for the Coastal region) which have been severely supply constrained over recent years. Seed extracted from this year's cone harvest will partly be used to produce MCP seedlings in 2023 (i.e. seedling sales in fiscal year ending March 2024), and partly to build critical seed inventory in all provenances available for future periods, reducing our reliance on single year harvests.

As part of our risk mitigation, our goal is to have 2-3 years of MCP seed inventory on hand for each genetic class / provenance to mitigate against single-year harvest shortages. We have achieved this target in Piedmont and Texas, and we are working to achieve the same in the other deployment zones we operate in. ArborGen already has several years of Open Pollinated (OP) seed inventory for most provenances.

The map below shows the five loblolly deployment zones in the US South, spanning the Coastal, Piedmont, and Northern region (or collectively the Eastern region), and Arkansas and Texas (i.e. the Western region).



ArborGen is the only company with a portfolio of MCP products addressing the entire US South loblolly market. As can be seen in the table below, our advanced products are in all regions, with additional products currently in the pipeline.

Region	MCP-A	MCP-S	MCP-E	MCP 2.0	Var1	Var2	MCP RR
Coastal	✓	✓	✓	✓	✓		2022
Piedmont	✓	✓	✓	✓	✓	2024	
Texas	✓	✓			✓	2024	
Arkansas	✓	✓			✓	✓	
Northern	✓	✓	✓				

Importantly, we continue to invest in our pine tree improvement programme, allowing us to widen the gap between ourselves and the rest of the market. In recent years we have launched the next generation of MCP products (MCP 2.0) for some provenances, with MCP 3.0 now already in development.

Expanding our footprint in the US and Brazil

United States

Earlier this year, the Board approved the expansion of ArborGen’s internal container capacity across two existing owned sites. We have since been able to increase our total target container capacity by increasing our Bellville capacity from 13 to approximately 16 million seedlings, while remaining on track on the first phase of container production in our Western regions with the construction of a new five million unit container facility in Bullard, Texas.

We have been able to do this very cost effectively as we leverage existing physical infrastructure at our nurseries in Belville, Georgia and Bullard, Texas. Utilising our existing operating infrastructure will also result in improved contribution margins from this new container facility. We have already begun discussions with customers who want to make sure they are “in line” to access this new capacity. The container expansion project is on track at both facilities, and we expect to begin producing container seedlings for sale next fiscal year (FY24).

Brazil

The Brazilian forestry industry is one of the largest and fastest-growing in the world. Brazil is the world’s largest producer and exporter of hardwood pulp, with domestic eucalyptus plantations utilising approximately 800 million seedlings per year. Brazil also produces softwood, requiring approximately 80 million seedlings per year.

To address these markets, ArborGen began its commercial pine and eucalyptus seedling operations in Brazil in 2014. Our strategy was predicated on our belief that by combining proprietary genetics and tree improvement capabilities with our deep understanding of seedling production, we would be uniquely positioned to address markets that were poised for strong growth due to expansion of the pulp and other wood consuming industries in Brazil.

ArborGen uses a combination of in-house and outsourced production to allow us to meet demand in a capital efficient and flexible way. ArborGen now has three eucalyptus nurseries and one pine nursery in Brazil, as well as a network of seedling contract producers, allowing 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.

Earlier this year, we completed the acquisition of a 10 million seedling pine nursery located in Canoinhas, Santa Catarina, Brazil. Sales from this newly acquired pine nursery are occurring ahead of schedule supporting overall pine seedling sales of approximately 20 million seedlings in the current fiscal year. Sales of proprietary pine products represent over 95% of total pine volume forecast.

More recently, ArborGen Brazil executed a long term lease agreement commencing 1 December 2022 for a eucalyptus nursery located in the community of Martinho Campos in Minas Gerais state, which has the largest eucalyptus footprint in Brazil. This new 20 million seedlings per annum nursery, will increase ArborGen's internal eucalyptus production capacity in Brazil to nearly 50 million seedlings per year. ArborGen is leasing the nursery from the S&D group, an integrated steel company with forest holdings, charcoal production, pig-iron production (which uses wood based charcoal) and other activities. The agreement with S&D will allow ArborGen to increase the proportion of our internally produced eucalyptus seedlings to over 50% of our total requirements currently, up from approximately 30% today, providing us greater control over eucalyptus production in a very high demand environment.

We are currently working on an opportunity to further expand our in-house eucalyptus capacity by an additional ten million seedling per annum for next fiscal year (FY24).

Expanding in-house eucalyptus production will help accelerate customer conversion to advanced genetics eucalyptus clones. Advanced genetics clonal sales currently represent over 40% of ArborGen Brazil's eucalyptus sales of over 70 million seedlings, with the balance comprising market clones that are broadly available to most seedling producers. ArborGen's portfolio of advanced eucalyptus 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 expand into dryer regions and as rainfall patterns change as a result of global climate change.

New growth opportunities – reducing greenhouse gas emissions

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. Forest based carbon projects will be increasingly important in creating demand for both pine and hardwood seedlings in the Southern US as carbon project developers actively pursue large scale afforestation and reforestation projects.

ArborGen, with its high yielding MCP products, its hardwood production capabilities and its extensive channels to forest landowners is very well positioned to address this new opportunity. In the current FY23 fiscal year, we began supplying hardwoods and pine seedlings to two of the leading carbon companies operating in the South. We have executed a long term exclusive supply agreement with one of these companies and are currently negotiating a similar agreement with the second.

While it is difficult to predict how quickly the carbon opportunity will grow, we believe that over time it potentially represents a new market with different dynamics, and could represent a significant new source of revenue and earnings.

Outlook

Turning to our current fiscal year, **in the US** we expect sales to be affected by supply chain challenges, cost inflation, temporary customer specific demand matters with some of our large National Accounts, and reduced seedlings (including advanced genetics MCP seedlings) available for sale compared to prior fiscal year. As a result, we are expecting current FY23 unit seedling sales in the US, including advanced genetics sold, to be approximately 5% lower than FY22 unit sales.

In addition, higher historic MCP seed costs relating to pollination activity two years ago (when production from our younger orchards was less than optimal), combined with general cost inflation pressure, are expected to adversely impact gross margins in the US this fiscal year. As seedling prices are typically set at the beginning of the seedling production year, we were unable to pass cost increases on in the current year. We are however working on initiatives (including pricing) to improve margins next fiscal year.

In **Brazil**, the underlying market drivers continue to be very strong, with new pulp mills and strong charcoal markets driving domestic demand for eucalyptus and softwood. As a result, demand for eucalyptus and pine seedlings is very strong, which is also driving cost increases, seedling price increases and importantly, margin expansion for ArborGen's eucalyptus and pine seedlings. The profitability of our Brazilian operations in FY23 is projected to be materially higher than the breakeven result recorded in FY22, with ArborGen Brazil already recording \$1 million of EBITDA in the first six months of this year.

Taking into account all of the above factors, we are currently projecting US GAAP EBITDA³ for FY23 to be in the range of \$10 to \$10.5 million for continuing operations. This includes \$2 million of Employee Retention Credits under the Coronavirus Aid Relief and Economic Security (CARES) Act⁴.

While we have incurred greater growth spend with the larger container facility at Bullard, Texas and addition of the S&D eucalyptus nursery in Brazil, we are targeting net debt to be below \$10 million by fiscal year-end (31 March 2023), further strengthening ArborGen's balance sheet in a tightening monetary policy environment.

We would like to thank all of our stakeholders for their continued support – it is very much appreciated.



Dave Knott Jr
Chairman



Andrew Baum
CEO

28 November 2022

⁴ Under the CARES Act, businesses can apply for a credit of the payroll taxes paid on wages between March 2020 and September 2021 for wages not forgiven under the CARES Act Paycheck Protection Program (PPP). While as a next step, ArborGen Inc. will need to file amended quarterly payroll tax forms with the Internal Revenue Service (IRS) to notify the IRS of the credit due to the Company, there is a high probability that the Company will receive the reimbursements approximating US\$2 million.

Consolidated Income Statement

For the six months ended 30 September 2022

		Unaudited	Audited	Unaudited
	Notes	6 months Sep 2022 US\$m	Year ended Mar 2022 US\$m	6 months Sep 2021 US\$m
Revenue		7.4	47.6	4.6
Cost of sales	5	(5.6)	(29.8)	(4.1)
Gross profit		1.8	17.8	0.5
Change in fair value of biological assets	4	5.9	-	7.2
Intellectual property amortisation	5	(3.8)	(7.3)	(3.1)
Administration expense	5	(4.5)	(7.8)	(4.0)
Operating earnings excluding items below		(0.6)	2.7	0.6
Strategic review costs, government grants and other	5	(0.3)	(4.0)	(0.6)
Operating profit (loss) before financing expense		(0.9)	(1.3)	-
Financing expense		(0.7)	(1.7)	(0.9)
Profit (loss) before taxation		(1.6)	(3.0)	(0.9)
Tax expense		-	4.7	0.4
Net earnings (loss) after taxation from continuing operations		(1.6)	1.7	(0.5)
Net earnings after taxation from discontinued operations	10	-	-	0.6
Net earnings (loss)		(1.6)	1.7	0.1
Earnings (loss) per share information (cents per share)				
From continuing operations				
Basic		(0.3)	0.3	(0.1)
Diluted		(0.3)	0.3	(0.1)
From continuing and discontinued operations				
Basic		(0.3)	0.3	-
Diluted		(0.3)	0.3	-
Weighted average number of shares outstanding (millions of shares)				
Basic		502.1	500.8	500.3
Diluted		503.7	503.5	504.2

ArborGen Holdings Limited and Subsidiaries

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2022

		Unaudited	Audited	Unaudited
	Notes	6 months Sep 2022 US\$m	Year ended Mar 2022 US\$m	6 months Sep 2021 US\$m
Net earnings (loss)		(1.6)	1.7	0.1
Items that may be reclassified to the Consolidated Income Statement:				
Movement in currency translation reserve	9	(0.5)	0.9	(0.2)
Movement in hedge reserve	9	0.5	0.6	-
Other comprehensive earnings (loss) (net of tax)		-	1.5	(0.2)
Total comprehensive earnings (loss)		(1.6)	3.2	(0.1)

ArborGen Holdings Limited and Subsidiaries

Statement of Changes in Equity

For the six months ended 30 September 2022

		Unaudited	Audited	Unaudited
	Notes	6 months Sep 2022 US\$m	Year ended Mar 2022 US\$m	6 months Sep 2021 US\$m
Total comprehensive earnings (loss)		(1.6)	3.2	(0.1)
Movement in ArborGen Holdings shareholders' equity:				
Movement in issued capital	8	0.1	0.3	0.3
Movement in share based payment reserve	9	(0.1)	(0.3)	(0.1)
Total movement in shareholder equity		(1.6)	3.2	0.1
Opening group equity		151.4	148.2	148.2
Closing group equity		149.8	151.4	148.3

Consolidated Statement of Cash Flows

For the six months ended 30 September 2022

	Unaudited	Audited	Unaudited
	6 months Sep 2022 US\$m	Year ended Mar 2022 US\$m	6 months Sep 2021 US\$m
Cash was provided from operating activities			
Receipts from customers	18.4	56.5	24.1
Government grants received	-	-	0.2
Cash provided from operating activities	18.4	56.5	24.3
Payments to suppliers, employees and other	(20.6)	(49.0)	(24.2)
Tax paid	(0.2)	-	-
Cash (used in) operating activities	(20.8)	(49.0)	(24.2)
Net cash from (used in) operating activities	(2.4)	7.5	0.1
Proceeds on sale of discontinued operations	-	15.2	-
Investment in fixed assets	(1.1)	(1.5)	(0.5)
Investment in intellectual property	(1.3)	(3.1)	(1.4)
Net cash from (used in) investing activities	(2.4)	10.6	(1.9)
Debt drawdowns	-	3.2	1.7
Repayment of lease liabilities	(0.2)	(0.9)	(0.1)
Debt repayment	(0.8)	(10.1)	(1.1)
Interest paid	(0.8)	(1.7)	(0.9)
Net cash from (used in) financing activities	(1.8)	(9.5)	(0.4)
Net movement in cash	(6.6)	8.6	(2.2)
Opening cash, liquid deposits and restricted cash	15.2	6.2	6.2
Effect of exchange rate changes on net cash	(0.2)	0.4	(0.1)
Closing cash, liquid deposits and restricted cash	8.4	15.2	3.9
Net earnings after taxation	(1.6)	1.7	0.1
Adjustment for:			
Financing expense	0.7	1.7	0.9
Depreciation and amortisations	5.0	10.1	4.4
Taxation	(0.1)	(4.7)	(0.3)
Foreign exchange	(0.4)	(0.3)	(0.2)
Gain on sale of discontinued operations	-	(2.2)	-
Non cash inventory movement	-	(3.1)	-
Change in fair value of biological assets	(5.9)	-	(6.3)
Other non cash items	-	0.1	0.1
Cash flow from operations before net working capital movement	(2.3)	3.3	(1.3)
Trade and other receivables	6.7	1.4	6.9
Inventory	(8.8)	7.2	(5.1)
Trade and other payables	2.0	(4.4)	(0.4)
Net working capital movement	(0.1)	4.2	1.4
Net cash from operating activities	(2.4)	7.5	0.1

Consolidated Balance Sheet

As at 30 September 2022

		Unaudited	Audited	Unaudited
	Notes	Sep 2022 US\$m	Mar 2022 US\$m	Sep 2021 US\$m
Current assets				
Cash and liquid deposits		8.4	15.2	3.9
Trade and other receivables		4.1	10.8	2.7
Inventory		42.0	27.3	41.4
Assets held for sale	10	-	-	17.6
Total current assets		54.5	53.3	65.6
Non current assets				
Fixed assets		33.0	32.9	32.8
Derivative financial instruments		0.8	0.3	-
Right-of-use assets		4.6	4.7	4.8
Intellectual property		94.6	97.1	99.6
Deferred taxation asset		3.8	3.8	-
Total non current assets		136.8	138.8	137.2
Total assets		191.3	192.1	202.8
Current liabilities				
Trade, other payables and provisions		(10.7)	(8.7)	(10.7)
Current lease obligation		(0.7)	(0.8)	(0.6)
Current debt	6	(8.1)	(1.0)	(4.9)
Current taxation liability		-	-	(0.1)
Liabilities associated with discontinued operations	10	-	-	(3.8)
Total current liabilities		(19.5)	(10.5)	(20.1)
Term liabilities				
Term debt	6	(17.8)	(25.7)	(28.9)
Derivative financial instruments		-	-	(0.3)
Lease obligation		(4.2)	(4.2)	(4.4)
Deferred taxation liability		-	(0.3)	(0.8)
Total term liabilities		(22.0)	(30.2)	(34.4)
Total liabilities		(41.5)	(40.7)	(54.5)
Net assets		149.8	151.4	148.3
Equity				
Share capital	8	202.9	202.8	202.8
Reserves	9	(53.1)	(51.4)	(54.5)
Total group equity		149.8	151.4	148.3

Net Asset Backing

US 30 cps

US 30 cps

US 30 cps

Dave Knott Jr
Chairman of the Board

Paul Smart
Audit Committee Chairman

28 November 2022

Both of the above signatories certifies that these financial statements comply with New Zealand generally accepted accounting standards and present a true and fair view of the financial affairs of the ArborGen Holdings Group.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

1 BASIS OF PRESENTATION

The unaudited financial statements presented are those of ArborGen Holdings Limited and Subsidiaries (the Group) for the six months from 1 April 2022 to 30 September 2022. The financial statements have been prepared in accordance with New Zealand International Accounting Standard 34. Because they are interim statements they do not include all of the information required to be disclosed for full annual financial statements.

These financial statements should be read in conjunction with the audited financial statements for the periods ended 31 March 2022 and 31 March 2021, which have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

ArborGen Holdings Limited is registered in New Zealand under the Companies Act 1993, is listed on the New Zealand Stock Exchange, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The presentation currency used in the preparation of these financial statements is United States dollars (US\$), rounded to the nearest hundred thousand dollars. Consequently all financial numbers are in US\$ unless otherwise stated. Changes in prior year disclosure comparatives have been made to align with the current year presentation.

Accounting Policies

The accounting policies applied are consistent with those applied in the annual financial statements for the period ended 31 March 2022, noting the recognition of Australia and New Zealand as discontinued operations in the comparative periods, refer to note 10.

2 APPROVAL OF ACCOUNTS

These financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 28 November 2022.

3 USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (refer March 2022 statutory report, note 4, for greater detail). Actual results could differ from those estimates.

4 INVENTORY AND FAIR VALUE ADJUSTMENT ON BIOLOGICAL ASSET

	Unaudited 6 months Sep 2022	Audited Year ended Mar 2022	Unaudited 6 months Sep 2021
Opening balance continuing operations	-	-	-
Change in fair value of biological assets recognised in income statement			
Fair value change for crop to be lifted in the coming period - continuing	5.9	-	7.2
Total change in fair value of biological assets recognised in the income statement	5.9	-	7.2
Closing fair value uplift biological asset	5.9	-	7.2

At 30 September only the US crop (which will be lifted prior to year end) is fair valued. This fair value uplift will reverse at year end upon lifting of the crop. At 31 March 2022, following the sale of the Australasian operations there were no crops established to be fair valued.

At 30 September 2021 the Australasian business was classified as "held for sale", including the fair value adjustment recognised for the Australasian crop.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

5 EXPENSES INCLUDE

	Unaudited 6 months Sep 2022 US\$m	Audited Year ended Mar 2022 US\$m	Unaudited 6 months Sep 2021 US\$m
Depreciation and amortisations included in:			
Cost of sales expense	(0.3)	(1.8)	(0.3)
Intellectual property amortisation	(3.8)	(7.3)	(3.1)
Administration expense: general & administration	(0.3)	(0.5)	(0.4)
Total depreciation and amortisations	(4.4)	(9.6)	(3.8)
Strategic review costs, government grants and other			
Government grant income ⁽¹⁾	-	0.9	0.6
Seedling write off ⁽²⁾	-	(1.6)	-
Inventory cost adjustment ⁽³⁾	-	(1.5)	-
Strategic review and other ⁽⁴⁾	(0.3)	(1.8)	(1.2)
Strategic review, government grants, inventory adjustment and other	(0.3)	(4.0)	(0.6)

- (1) In March 2021 ArborGen Inc. received a second SBA loan under the CARES Act Paycheck Protection Program (PPP) of \$2.0 million. This funding was to ensure ArborGen retained all employees and avoided any layoffs, and all employees were kept on the payroll for eight weeks and at least 60% of the loan is used for payroll related costs plus rent, mortgage interest, or utilities payments over the eight week period the loan would be forgiven. All of these funds have since been used to fund payroll costs including benefits and other business related costs, both loans have been forgiven.
- (2) The Group incurred significant costs directly related to the Covid pandemic, primarily due to cancellation of ordered seedlings in the US, where sawmill closures in both 2020 and 2021 delayed harvesting and in turn flowed on to a delay in site preparation activities. Compounding these issues was the temporary suspension of non-immigrant worker H2-B visas into the US, which combined with planting crews contracting Covid, led to planting labour shortages during the critical planting season. Sales orders cancelled due to the Covid pandemic left ArborGen with 32 million seedlings that had to be destroyed, resulting in a seedling write off of \$1.6 million.
- (3) In mid-March 2022, a cold front moved across the south-eastern United States, with temperatures dropping to the mid 20 degrees Fahrenheit (negative 4 to 6 degrees Celsius) at our Georgia, South Carolina and Florida orchards. The combination of these extremely low temperatures and very high winds resulted in significant damage to bagged MCP flowers. As a result, the volume of MCP seed ArborGen expects to be harvested in November 2023 has reduced by 35%. The \$1.5 million inventory adjustment returns the carrying value of expected inventory, to normal production levels.
- (4) The strategic review was concluded in June 2022. The review considered all options to unlock value for the benefit of all shareholders, resulting in sale of the Australian and New Zealand (ANZ) operations to ArborGen ANZ Limited Partnership. The sale was completed on 30 November 2021 and the ANZ operations are shown as discontinued. The Group has incurred costs in relation to the strategic review including costs related to the sale of the ANZ operations and completion of the Strategic Review process.

6 CURRENT DEBT AND TERM DEBT

At 30 September 2022 the Group had debt facilities with the following banks: Synovus Financial Corporation (Synovus) and AgSouth Farm Credit (AgSouth) in the United States.

ArborGen has a non-revolving promissory note issued to AgSouth for \$8.7 million bearing interest at 4.95%, with a maturity date of 1 May 2036, which is secured against ArborGen's US real estate properties. Annual principal repayments of \$0.6 million are due 1 May each year.

ArborGen's revolving facility agreement with Synovus is a \$17 million letter of credit (LOC) facility (currently \$7 million) with an expiry of 31 August 2023. The facility requires an annual 60-day (continuous) pay down maximum borrowing limit (between 1 March and 31 August) to \$10 million. The LOC bears interest at the 30 day LIBOR base rate plus 2.75%, subject to a minimum annual rate of 3.5%, and is collateralised by all the ArborGen Inc's United States assets not otherwise pledged under the AgSouth agreement.

The credit agreements with both Synovus and AgSouth include covenants which require ArborGen to maintain a minimum net worth of \$29 million and \$25 million respectively.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

6 CURRENT DEBT AND TERM DEBT continued

Rubicon Industries USA LLC (RIUSA) has a \$10.2 million mortgage from Synovus, which is secured by headquarters land and buildings. The mortgage is a seven-year term facility expiring in August 2026 and is based on a 20-year amortising loan, incurring interest at the 30-day LIBOR base rate plus 2% (currently 3.17%). The Group has entered into a seven-year interest rate swap, with terms that match that of the mortgage, at a fixed rate of 3.52%. The mortgage requires RIUSA to maintain a debt service coverage ratio of not less than 1.25:1 for the trailing 12 months.

At 30 September 2022 the Group held cash and liquid deposits of \$8.4 million (2022: \$15.2 million) and had debt of \$25.9 million and lease liabilities of \$4.9 million (2022: \$26.7 million of debt and \$5.0 million of lease obligations).

7 SEGMENTAL INFORMATION SUMMARY

The Group has only one reportable segment, being 'forestry genetics' and each of the primary statements reflects the full segmental operations.

	Note	Unaudited	Audited	Unaudited
		6 months Sep 2022 US\$m	Year ended Mar 2022 US\$m	6 months Sep 2021 US\$m
Forestry genetics (continuing operations)				
Operating revenue		7.4	47.6	4.6
Net earnings (loss) after taxation		(1.2)	2.7	1.0
Total assets		191.2	191.8	185.2
Liabilities		(41.6)	(40.4)	(50.4)
Reconciliation				
<i>Discontinued operations</i>				
	10			
Operating revenue		-	9.7	9.4
Net earnings after taxation		-	-	0.6
Total assets - discontinued		-	-	17.6
Liabilities - discontinued		-	-	(3.8)
<i>Corporate</i>				
Net earnings (loss) after taxation		(0.4)	(1.0)	(1.5)
Total assets		0.1	0.3	-
Liabilities		0.1	(0.3)	(0.3)
Total Group				
Operating revenue - Total		7.4	57.3	14.0
Operating revenue - continuing		7.4	47.6	4.6
Operating revenue - discontinued		-	9.7	9.4
Net earnings (loss) after taxation - Total		(1.6)	1.7	0.1
Net earnings (loss) after taxation - Continuing		(1.6)	1.7	(0.5)
Net earnings (loss) after taxation - Discontinued		-	-	0.6
Total assets		191.3	192.1	202.8
Liabilities		(41.5)	(40.7)	(54.5)

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

8 CAPITAL

		Unaudited Sep 2022 US\$m	Audited Mar 2022 US\$m	Unaudited Sep 2021 US\$m
Share capital	Note			
Share capital at the beginning of the period		202.8	202.5	202.5
Vesting of shares - Executive & Non-Executive Directors Share Plan ^{(1) (2) (3)}	9	0.1	0.3	0.3
Share capital		202.9	202.8	202.8
Number of shares		Sep 2022	Mar 2022	Sep 2021
Opening shares on issue		501,486,758	499,611,738	499,611,738
Issue of shares ⁽³⁾	9	1,285,324	1,875,020	1,620,391
Closing shares on issue		502,772,082	501,486,758	501,232,129
Treasury stock		Sep 2022	Mar 2022	Sep 2021
Opening shares on issue		273,666	1,102,683	1,102,683
Vesting of shares ^{(1) (2)}		-	(829,017)	(829,017)
Closing treasury stock shares on issue		273,666	273,666	273,666

- (1) In accordance with the shareholders' resolution passed at the ArborGen Holdings Annual Shareholders' meeting held on 17 September 2018, on 18 September 2018 ArborGen Holdings issued 1,666,050 new shares to the Rubicon Non-Executive Directors Share Plan (the Trust). The Trust held the shares on behalf of the three Directors (Tom Avery, Ozey Horton, and Paul Smart, equally) until the vesting terms were met. The shares vested, to each Director, in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2018), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holdings shares of NZ\$27.01 cents per share, for a total value of NZ\$450,000. These shares were accounted for as treasury stock until vesting, and the share based transactions are recorded in the share based payment reserve. In September 2021 the third (and final) tranche of 555,351 shares were vested to the three Directors (185,117 each) (refer to note 11 for related party transactions), this plan has now been completed.
- (2) In accordance with the shareholders' resolution passed at ArborGen Holdings Annual Shareholders' meeting held on 17 September 2019, on 18 September 2019 ArborGen Holdings issued 820,998 new shares to the 2019 Rubicon Non-Executive Director Share Plan (the 2019 Trust). The 2019 Trust will hold the shares on behalf of George Adams until the vesting terms are met. The shares will vest in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2019), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holdings shares of NZ\$18.27 cents per share, for a total value of NZ\$150,000. The share based transactions are recorded in the share based payment reserve and the shares are accounted for as treasury stock until vesting. In September 2021 the second tranche of 273,666 shares vested to George (refer to note 11 for related party transactions). The final tranche of 273,666 shares were vested to George after 30 September (on 6 October 2022).
- (3) In July 2021 ArborGen awarded 3,933,535 RSU (restricted share units) to ArborGen Inc. executives, in relation to its FY2021 Long Term Incentive (2021 LTI) Plan. Pursuant to this award, in July 2022 ArborGen Holdings issued 1,241,232 new shares, 817,282 of those shares are the second of the three equal tranches under the 2021 LTI Plan and 423,950 shares were issued to one retiring employee (with the final tranche vesting on retirement). The remaining RSU of 817,282 will vest at the next anniversary of the award, provided that the holder of the RSU remains employed by the ArborGen Group on the vesting date.

In July 2022, in relation to the FY2022 LTI plan, ArborGen awarded 132,276 RSU to one ArborGen Inc. executive. Pursuant to this award (July 2022) ArborGen Holdings issued 44,092 new shares, being the first of three equal tranches. The remaining 88,184 will vest over the next two anniversaries, provided that the holder of the RSUs remains employed by the ArborGen Group on the vesting dates.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

9 RESERVES

	Note	Unaudited	Audited	Unaudited
		Sep 2022 US\$m	Mar 2022 US\$m	Sep 2021 US\$m
Retained earnings				
Opening balance		(51.6)	(53.3)	(53.3)
Net earnings		(1.6)	1.7	0.1
Closing balance		(53.2)	(51.6)	(53.2)
Cash flow hedge reserve ⁽¹⁾				
Opening balance		0.3	(0.3)	(0.3)
Fair value gains (losses) for the year		0.5	0.6	-
Closing balance		0.8	0.3	(0.3)
Share based payments reserve				
Opening balance		0.2	0.5	0.5
Non-Executive Directors Share Plan shares vested	8	-	(0.1)	(0.1)
Executive settlement share plan ⁽³⁾	8	(0.1)	(0.2)	0.2
Executive settlement share plan shares vested ⁽²⁾	8	-	-	(0.2)
Closing balance		0.1	0.2	0.4
Currency translation reserve				
Opening balance		(0.3)	(1.2)	(1.2)
Translation of independent foreign operations		(0.5)	(1.6)	(0.2)
Transfer to retained earnings ⁽²⁾		-	2.5	-
Closing balance		(0.8)	(0.3)	(1.4)
Total reserves		(53.1)	(51.4)	(54.5)

- (1) The cash flow hedging reserve records the net movement of cash flow hedging instruments, being interest rate swaps, refer to note 6.
- (2) In July 2021 ArborGen awarded 3,933,535 RSUs to ArborGen Inc. executives, in relation to its FY2021 (2021 LTI Plan). Pursuant to this award, ArborGen Holdings issued 1,285,324 new shares, refer to note 8 for more details.
- (3) In July 2021, the Board entered into new RSU agreements for 2,808,845 RSU to ArborGen Inc. executives under the 2022 LTI Plan. One executive achieved the financial performance hurdles, and 132,276 RSU were awarded. The first of three equal tranches vested on the award (44,092) and the remainder will vest over the next two anniversary dates, provided that the holder remains employed by the ArborGen Group on the applicable vesting date.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

10 DISCONTINUED OPERATIONS

Sale of ArborGen's Australia and New Zealand assets

On 30 November 2021 ArborGen completed the sale of its Australian and New Zealand (ANZ) operations to ArborGen ANZ Limited Partnership (ANZLP). ANZLP is a consortium of New Zealand investors predominantly comprising charitable trusts and private families.

ANZLP acquired the business assets (including goodwill) of ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited for a total purchase price of NZ\$22.25 million on a debt free and cash free basis and with a locked box mechanism applying from 1 October 2021. The purchase price of NZ\$22.25 million was reduced by a working capital adjustment of NZ\$450,000 reflecting the seasonality of the business.

Included within the liabilities associated with discontinued operations is the ArborGen New Zealand Unlimited NZ\$2 million line of credit facility, which was subject to renewal on an annual basis.

	Unaudited 6 months Sep 2022 US\$m	Audited Year ended Mar 2022 US\$m	Unaudited 6 months Sep 2021 US\$m
Gross revenue	-	9.7	9.4
Expenses	-	(8.2)	(8.7)
Profit before taxation ⁽¹⁾	-	1.5	0.7
Tax expense on profit before taxation	-	(0.3)	(0.1)
Change in fair value of biological assets	-	(0.9)	(0.9)
Gain on disposal ⁽²⁾	-	2.2	-
Currency translation reserve reclassified	-	(2.5)	-
Net profit after taxation from discontinued operations	-	-	0.6

(1) Profit before taxation from discontinued operations includes:

Depreciation	-	-	0.5
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(2) Gain on disposal

	Year ended Mar 2022 US\$m
Cash inflow on sale of subsidiaries	15.2
Cash balances retained	1.4
Costs of sale	(0.3)
Recognised values on sale	16.3
Inventory	4.4
Trade and other receivables	1.8
Fixed assets	10.2
Right-of-use assets	0.8
Trade and other payables	(2.4)
Lease obligations	(0.7)
	14.1
Net loss on sale	2.2

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

Statement of Cash Flows

for the period ended

	Unaudited	Audited	Unaudited
	6 months	Year ended	6 months
	Sep 2022	Mar 2022	Sep 2021
	US\$m	US\$m	US\$m
Net cash from:			
Operating activities	-	0.8	1.2
Investing activities	-	(0.4)	(0.3)
Financing activities	-	-	0.7
Net cash from discontinued operations	-	0.4	1.6

Balance Sheet Items

As at

	Unaudited	Audited	Unaudited
	Sep 2022	Mar 2022	Sep 21
	US\$m	US\$m	US\$m
Trade and other receivables	-	-	1.8
Inventory	-	-	5.2
Fixed assets	-	-	10.0
Right-of-use assets	-	-	0.6
Assets held for sale	-	-	17.6
Trade, other payables and provisions	-	-	(2.4)
Current lease obligation	-	-	(0.1)
Current debt	-	-	(0.7)
Lease obligation	-	-	(0.6)
Liabilities associated with assets held for sale	-	-	(3.8)

11 RELATED PARTY TRANSACTIONS

Under the terms of the two Non-Executive Directors Share Plan's approved by shareholders (17 September 2018 and 17 September 2019), in September 2021 the final tranche of shares vested to the three Directors (Tom Avery, Ozey Horton and Paul Smart, 555,351) and second tranche of 273,666 shares vested to George Adams. In September 2022 the final tranche of George Adams shares vested, with the transfer occurring in October 2022.

As part of the acquisition of the US Ridgeville headquarters premises subordinated Notes were issued by ArborGen Inc. to related parties (being Directors, shareholders and senior management) for \$2.88 million. The Notes were fully repaid in December 2021.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2022

12 NON-GAAP PERFORMANCE MEASURE

ArborGen Holdings shareholders and users of the financial statements are very interested in ArborGen Inc's underlying performance under US-GAAP (as well as under IFRS), as that is the result that ArborGen Inc. would report in a US 'listing' situation. ArborGen Holdings believes 'Adjusted US-GAAP EBITDA' provides useful information, as it is used internally to evaluate performance. It is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by different depreciation policies and debt:equity structures.

In contrast with US-GAAP, IFRS requires the capitalisation of ArborGen's development spend, the amortisation of intellectual property, the accrual of the change in fair value of biological assets on the seedling crop each year prior to its sale, and the capitalisation of operating leases. Because of these differences, US-GAAP results, and in particular 'Adjusted US-GAAP EBITDA' cannot be easily derived from reported IFRS numbers. For these reasons and in order to provide users with relevant and understandable information, we provide the reconciliation below.

EBITDA, US-GAAP EBITDA and Adjusted US-GAAP EBITDA are all non-GAAP financial measures and are not recognised under NZ IFRS. As they are not necessarily uniformly defined or utilised, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation or considered as a substitute for measures reported in accordance with GAAP. The following table provides users useful ArborGen Inc. information for year-on-year comparison and reconciles net earnings to 'Adjusted US-GAAP EBITDA'.

		Unaudited	Audited	Unaudited
		6 months	Year ended	6 months
		Sep 2022	Mar 2022	Sep 2021
		US\$m	US\$m	US\$m
ArborGen Inc. (continuing operations)	Note			
Revenue	7	7.4	47.6	4.6
Cost of sales		(5.6)	(29.8)	(4.1)
Gross profit		1.8	17.8	0.5
Net profit (loss) after taxation continuing operations	7	(1.2)	2.7	1.0
less tax benefit		-	(4.7)	(0.4)
plus Financing expense		0.7	1.7	0.9
Operating profit (loss) before financing expense		(0.5)	(0.3)	1.5
plus Depreciation and amortisations		4.4	9.6	3.8
EBITDA (NZ IFRS)		3.9	9.3	5.3
Add back NZ IFRS adjustments				
Investment in intellectual property		(1.3)	(3.1)	(1.4)
Change in fair value of biological assets - continuing	4	(5.9)	-	(7.2)
Other IFRS adjustments (including IFRS 16 adjustment)		0.1	(0.1)	(0.2)
US-GAAP EBITDA profit (loss)		(3.2)	6.1	(3.5)
Add back significant non-recurring items				
Government Grants, Inventory adjustment and other	5	0.3	4.0	0.1
Adjusted US-GAAP EBITDA		(2.9)	10.1	(3.4)

Investor Information

INVESTOR ENQUIRIES/REGISTERED OFFICE

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STOCK EXCHANGE LISTING

The Company's shares (ARB) are listed on the NZSX.

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about share transactions or changes of address should contact the Share Registrar:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
Private Bag 92 119,
Auckland 1142, New Zealand

Telephone: 64 9 488 8777
Facsimile: 64 9 488 8787
Email: enquiry@computershare.co.nz

ELECTRONIC COMMUNICATIONS

You can elect to receive your shareholder communications electronically.

To register, visit www.investorcentre.com/nz. To initially access this website, you will need your CSN or Holder Number and FIN. You will be guided through a series of steps to register your account, including setting up a new user ID and password for on-going use of the website. Once logged in, click on "My Profile". In the Communication preferences panel, click "update".

Alternatively send your name, address and CSN or holder number to ecomms@computershare.co.nz advising you wish to receive your ArborGen Holdings shareholder communications by email.

There are statements in this Report 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 prior to the sale of the ANZ business in November 2021.

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, capital availability, relative exchange rates, interest rates, the profitability of our customers, can each have a substantial impact on our operations and financial condition.

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, 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.