



ARBORGEN HOLDINGS FY2023 RESULTS

FY23 Highlights

- Positive year of commercial progress following sale of Australian and New Zealand business in FY22 and refocussing of business on higher growth existing and emerging markets.
- Investments made in increasing internal seedling production capacity in both 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 internal container capacity 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.
- 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^{1,2,3} to \$10.3 million.

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.

¹ US GAAP EBITDA *excludes* NZ public company costs and strategic review costs. Please refer to page 20 of the FY23 Results Presentation 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.

CHAIRMAN AND CEO'S REPORT

Dear Shareholder

ArborGen is the largest commercial global seedling supplier and a leading provider of advanced genetics for the forest industry. Our transformative technology and advanced genetic seedling products are a game changer for our forest landowners, delivering bigger and better trees, faster.

As a result of the strategic review completed in FY23, we have refocused our business on our high growth markets in the US South and Brazil, as well as on new and emerging high growth carbon markets.

We are poised to benefit from our decades of investment in research, intellectual property and people capability. With the foundations now laid, ArborGen's focus will be on the continued conversion of customers to higher value seedlings as our customers increasingly see the commercial potential of our advanced genetics products.

Financial Performance

12 months ended 31 March

| US \$m | FY23 | FY22 | % change |
|-------------------------------------------------------------------|-------|-------|----------|
| Revenue ³ | 56.1 | 47.6 | 18% |
| Gross Profit ³ | 18.2 | 17.8 | 2% |
| Operating Earnings (before Other Significant Items ⁴) | 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 ^{1,2,3} | 10.3 | 7.6 | 35% |
| Adjusted US GAAP EBITDA ^{5,3} | 9.2 | 10.1 | (9)% |
| Net Debt | 13.0 | 11.5 | (13)% |

During the twelve-month period, the Group reported:

³ Continuing operations

⁴ 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).

⁵ Please refer to page 20 of the FY23 Results Presentation.

- 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 items⁴) of \$1.5 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 items⁴.
- Net loss of \$2.5 million, down from net earnings of \$1.7 million recorded in the prior period. Net earnings include \$3.4 million of tax expense including net deferred tax losses recognised of \$2.6 million (FY22: \$4.7 million deferred tax benefit).
- US-GAAP EBITDA^{1,2} of \$10.3 million, up 35% from \$7.6 million in the prior year.
- Adjusted US-GAAP EBITDA⁵ 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

ArborGen sold 375 million seedlings globally in the 12-month period to 31 March 2023 – 273 million seedlings in the US (including 250 million loblolly pine seedlings of which 41% were advanced genetics seedlings), and 102 million seedlings in Brazil.

| | Seedling Sales FY23 (m) | Seedling Sales FY22 (m) |
|--------------------------|----------------------------|----------------------------|
| USA | 273 | 284 |
| <i>USA Loblolly MCP%</i> | 41% | 41% |
| Brazil | 102 | 76 |
| Total | 375 | 360 |

In the US, seedling sales decreased by 4% to 273 million units in the period, from 284 million seedling units in the prior period. Sales were down due to production losses of approximately 12 million seedlings (both loblolly and non-loblolly), which otherwise would have been sold. Most of these losses were due to matters that have been improved upon in FY24 including rationalisation of hardwood species grown, ensuring seed sowing is completed within optimum planting windows, cessation of pine production at a particular location, and planting buffer OP production.

Advanced genetics sales were approximately 102 million seedling units in FY23, slightly down on 107 million in FY22. In particular, MCP seedling sales to the private landowner segment, where the majority of sales growth will occur, was up 9% compared to prior year, driven by increasing recognition of the value of ArborGen’s advanced genetics products albeit constrained by Eastern MCP supply. Total seedling and advanced genetics seedling sales to National Account customers (primarily REITs and TIMOs⁶) were lower by 7% and 13% respectively primarily due to customer specific issues including fires, changes in land holdings and annual site-specific planting regimes, as well as constrained Eastern MCP supply. 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.

In Brazil, unit seedling sales increased by 35% to 102 million units in the period, comprising 80 million eucalyptus seedlings and 22 million pine seedlings. ArborGen is the only company offering proprietary, advanced genetic pine and eucalyptus products to the market, including integrated companies with their own tree improvement programmes needing genetic alternatives who represent approximately 40% of ArborGen’s sales in Brazil. Advanced genetics sales 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 ArborGen’s Australian and New Zealand business in late 2021, which released NZ\$22.25 million of capital, fundamentally changed the course of the Company by allowing us to invest in targeted opportunities 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.

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.

Driven by the tremendous productivity of eucalyptus plantations in Brazil and a well-established domestic industry, Brazil is, and will continue to be, the centre of global hardwood pulp production.

⁶ Real Estate Investment Trusts and Timber Investment Management Organisations

This has led to major expansion in the Brazilian pulp industry with several announced expansion projects targeted for the rest of this decade, collectively projected to lift pulp production capacity by approximately 30% in Brazil.

As a direct consequence of this strong end market growth, demand for eucalyptus seedlings is projected to be approximately 1.2 billion seedlings per annum for the next several years, of which 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.

The seedling industry in Brazil is fragmented and unsophisticated and has been shrinking over the last decade due to the weak state of the market, poor management, and weak capitalisation of independent nurseries. While the industry has stabilised more recently, there has been relatively limited expansion in capacity due to capital constraints of owners, and nursery specific limitations (e.g. access to land and water).

Added to this, after many years of increasing eucalyptus productivity, yields per acre have fallen over 10% since 2014 due to expansion of the eucalyptus growing area, increasing issues with disease and insect pests, as well as heat and drought stress. Consequently, the market is actively seeking new clones with higher yields, that are also more resilient against disease and certain pests.

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. We have successfully deployed the same sales and marketing principles we are using in the US to sell our advanced genetics, and 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.

Specifically, 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 a 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. We believe that there is significant room for innovation in eucalyptus tree improvement and are focussed 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 markets⁷.
- 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.

“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 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.

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.

⁷ ArborGen purchased the equipment from the former lessee of this location, and is leasing the land and buildings for 10 years.

To ensure we have adequate seed each year to produce the volume of advanced genetics seedlings required to meet demand and desired sales growth, we are targeting to build at least two years of “buffer” MCP seed inventory for each provenance thereby minimising reliance on single year cone harvests. With our current orchard footprint, 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. We have already met this target in Texas and expect to be close to target in Arkansas and Piedmont in the next 1-2 years. In our largest Coastal market, we expect to achieve the 2-year on hand inventory target by 2028 benefitting from the increasing productivity of our younger orchards which represent approximately 70% of our overall orchard footprint. 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.

Pleasingly, ArborGen achieved its highest ever MCP seed production from its orchards in the US with cones harvested in November 2022 producing seed equivalent to approximately 240 million MCP seedlings – over 60% of which for the Eastern regions where MCP sales are the highest, but supply has been limited. 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 (i.e. cones to be harvested in November 2023) 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 cone harvest (as we limit production in regions that have surpassed buffer seed inventory targets).

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 orchard management plans.

In addition, to mitigate the risk of hurricanes hitting our Eastern orchards, we have begun establishing Coastal and Piedmont orchards in the Western regions. Similarly, we will also use open acres in our Eastern orchards as opportunities to establish Arkansas and Texas orchards. While the risk of a major hurricane passing within 50 miles of an orchard facility is low based on the past 30 years of storm tracking, a single major hurricane could dramatically affect our ability to produce seed for one or more provenances.

An additional way to mitigate risk from storms is to maintain a distribution of orchard tree ages for each provenance. By recycling older orchards and establishing new orchard blocks more regularly, we can ensure there are younger orchards coming into production which can withstand tropical force winds better than older orchards.

Incorporating New Genetics

New genetics are essential to maintaining a competitive advantage and industry-leading orchards. The traditional establishment of orchards using backward selections will be modified so we have the opportunity to incorporate forward selections directly into new orchards. Backward selections are parents whose seedlings have been tested in the field and performance is confirmed in progeny trials. Forward selections are predicted to be good parents but their seed has not been tested in trials. This has previously carried too much risk of failure but new analytical methods and breeding approaches will allow higher confidence. The incorporation of genomic analysis and clonal progeny testing through rooted cuttings will give us higher confidence (greater prediction accuracy) for forward selections. This will increase our ability to offer greater volumes of superior proprietary genetics to our customers more quickly.

Expanded container seedling capacity

While ArborGen has sufficient bareroot productive capacity to leverage growth in the regions in which we operate, there are opportunities to expand internal container capacity supplementing existing contract production. 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. The benefits from these projects will be seen in the FY24 seedling sales year, comprising cost savings from increased production efficiencies, and incremental margins from the additional volume produced.

Ownership Changes

Earlier this month, we announced the repurchase of all outstanding warrants equating to approximately 5% of ArborGen Inc.'s fully diluted common stock⁸ for \$1.35 million (ArborGen Inc. is the US based 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.

⁸ 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

In late April, ArborGen announced the appointment of Justin Birch as Chief Executive Officer (CEO) following a comprehensive and extensive search process.

Mr Birch is an experienced executive with significant exposure to the agriculture sector and a strong background in private equity, operations, finance, and strategy.

He 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

Looking ahead, ArborGen is projecting materially improved performance in FY24 (fiscal year ending March 2024) driven by higher seedling sales in the US (including MCP seedlings) and in Brazil (eucalyptus and pine), and growth in seedling sales for carbon markets.

In the US, while the overall market is not expected to grow due to aggressive tightening monetary policy, increased internal container seedling production, lower MCP seed costs expensed in the cost 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.

We are very excited about ArborGen's future. We would like to thank all of our shareholders for your continued support, which is very much appreciated. We are putting considerable effort into the operational performance and cash generation of this business and are committed to delivering increasing value for our shareholders.



Dave Knott Jr
Chairman

30 May 2023