
Andrew Baum – CEO's address

Thank you David. It is a pleasure speaking to you again, although I regret that Covid-19 has prevented me from doing so in person.

Before I speak to last year's results, I would like to take the opportunity to comment on the current impact of Covid-19 on our business, and our team's efforts to deal with it. The management of all of our business units have, and continue to effectively deal with the pandemic just as they would any other challenge. Operationally, we have implemented social distancing and a number of other protocols to protect our workers, contractors and other stakeholders. To date we have been able to continue the usual production activities at all of our facilities around the world, although we have had to furlough high risk employees and have had employees quarantined as a result of exposure to the virus. David will address any impact on current year sales during his comments.

Turning now to the results for the fiscal year ending 31 March 2020, as previously explained, last year was particularly challenging for ArborGen due to a combination of factors and events that largely occurred in prior periods. Despite these challenges, the Group reported for the period –

- A 16% increase in revenue to \$56.9 million, up from \$49.1 million in the prior period, and
- An IFRS net loss of \$2.7 million, inclusive of \$3.9 million of abnormal items. That is, after adjusting for abnormal items, an IFRS net profit result of \$1.2 million, up from a loss of \$0.6 million in the prior period.

ArborGen Inc. reported a record US-GAAP underlying earnings result of \$9.3 million (adjusted for abnormal items) – 52% higher than the prior year's US-GAAP underlying earnings of \$6.1 million.

As outlined in our Annual Report, we expensed \$3.9 million of abnormal items during the period – the majority of which were non-cash items relating to prior year events.

The single largest item was a \$2.3 million seed cost adjustment that arose due to the impact of a combination of prior year weather events (including Hurricane Michael) and unusual biological factors that materially reduced seed harvest yields in the prior period. This in turn, resulted in substantially higher than normal seed costs (on a per pound basis) impacting adversely –

- the cost of goods of seedlings sold during the fiscal year ending March 2020 by \$1.1 million, and
- closing seed inventory costs at year end by \$1.2 million.

In accordance with accounting standards, these higher than normal costs were fully recognised as a seed cost adjustment charge in the fiscal year ending March 2020.

During the period, we also incurred approximately \$1 million in seedling credits as we addressed record levels of seedling mortality experienced by our customers during the prior 2018-2019 planting season due to weather events both during and after our customers' planting of seedlings. While we do not believe that our seedlings were a contributing factor to seedling survival post planting, given the extremely unusual and widespread issues, we agreed in some limited instances to provide replacement seedlings in the following 2019-2020 season (i.e. last fiscal year), consistent with the actions of our competitors. Although this did unfortunately reduce cash collections from the 2020 planting season, we believe that our decision to share some of customers' pain will serve us in good stead going forward, and further strengthen our relationships with customers.

Additional abnormal items included –

- \$0.4 million of yield losses relating to varieties available for sale in the current fiscal 2021 year, and
- The final expensing of ArborGen acquisition related costs of \$0.2 million.

As I mentioned earlier, ArborGen reported a 16% year over year increase in revenues globally as we lifted, packed and delivered a record level of seedlings during the year. Total seedling units sold during the period were 437 million seedlings including –

- 333 million seedlings in the US of which 300 million were loblolly pine (and of the 300 million loblolly, 30% were advanced genetics - MCP and varietal seedlings)
- 39 million seedlings in Australasia, and
- 65 million seedlings in Brazil.

Our US sales increased by nearly 20% from the 280 million units sold in the prior year, with this increase driven by –

- the integration of the TexMark Timber Treasury (or TTT) nursery in Texas into our operations,
- increased sales from our Taylor nursery in South Carolina which was added to our production capacity in 2018, as well as
- continued progress in our sales and marketing efforts aimed at private landowners.

MCP seed constraints due to the materially lower seed harvest yields in the prior period described earlier, meant that MCP seedling sales in the fiscal year ending March 2020 were relatively flat over prior year. It is important to note though that demand for MCP was particularly strong with all MCP seedlings planted sold very early in the season, confirming that our Acquire, Build Confidence, and Convert (ABC) strategy with customers is succeeding in building demand for our advanced genetics. Importantly, it gives us confidence that as our MCP seed supply materially increases this harvest season, we should see a significant lift in MCP seedling sales from fiscal year 2022 onwards.

New Zealand also had a very strong year as we fully leveraged our extensive nursery footprint, increasing seedling unit sales by 80%, with revenue growth of 51%. Our preeminent position in the seedling market allowed us to play a key role in the NZ government's one billion trees planting program, which was a key contributor to this growth, on top of the growth in demand driven by the maturation of forest estates planted in the early 1990's. Although the billion tree program is not expected to be as much of a factor in market dynamics moving forward, we expect that the maturing of forest estates planted in the early 1990's, combined with the increasing importance of trees in carbon schemes will lead to continued strong markets over the next few years.

In Brazil, our unit sales increased 30% over the prior year, as Brazilian reforestation rates increase in line with the Brazilian economy, and as the value of our proprietary products become increasingly clear. In particular, the products we have licensed from Gerda are showing exceptional promise and we are seeing a high level of customer interest in them. Sales were also bolstered by the integration of the Minas Gerais nursery we leased from Brotale late last year. I should note that we leased an additional nursery from Brotale in the state of Mato Grosso do Sul at the beginning of our current fiscal year. We now have internal production capacity of over 25 million seedlings in the largest eucalyptus growing state (Minas Gerais) and the most rapidly growing eucalyptus market (Mato Grosso do Sul) in the country.

The fact we were able to achieve these results in the context of the challenging conditions in which we operated speaks to the strength of ArborGen, its superior product portfolio and the ArborGen team.

I would like to take this opportunity to comment further on ArborGen's industry leading pipeline of advanced genetics.

As we have previously explained, our MCP seed, and related to this MCP seedling production, is projected to grow exponentially as our extensive, younger and more advanced seed orchards approach their optimum seed yielding years. This of course is the direct result of investments made 5-10 years ago to expand our seed orchards with the best available genetics.

As you can see in the slide, the MCP process, from bagging flowers to selling seedlings to our customers takes nearly three years. As a result, we have good visibility on upcoming MCP seed production volumes. Subject to any uncontrollable factors, we are expecting a step change increase in MCP seed harvest levels this fall (i.e. next month), which will be available for seedling production in the 2021-2022 season. In addition, earlier this year, in March, we set a record for MCP pollination activity, which all going to plan, supports another strong seed harvest next year.

And beyond the next one to two years, we are projecting MCP seed production to continue to grow significantly, approaching 300 million seedling equivalents by 2025.

While this volumetric growth in MCP seed supply is critical to our ability to increase sales of MCP seedlings, and build much needed buffer inventory of this product to mitigate future supply risks, our on-going investments in product development over the last several years, is allowing us to also offer even more advanced products to our customers as we move them up the MCP value chain.

Until recently, we had three broad performance categories of MCP products – MCP advanced, MCP select and MCP-elite, with MCP-elite representing the best in class of our MCP offering to customers. Added to this of course is our range of commercial and pre-commercial varietal products.

I am excited to report, that we have successfully introduced a fourth category of MCP products to the market with performance outcomes that are a further step change improvement over our MCP-elite category. We have called this new category MCP 2.0 and have already pre-sold over 2 million seedlings for the current year's 2020-2021 season, representing all the production available for this year.

We continue to see validation from field performance data of our top MCP families and our varietal products pushing the boundaries of what can be done with respect to loblolly tree improvement. ArborGen is the only global developer and supplier of loblolly varietal products. Varietals represent the pinnacle of genetics value, and beyond the value they create as products themselves, we use varietals as parents to produce our best in class, proprietary OP and MCP products – which no competitor can match.

The chart on this slide is a simple illustration of the substantial value created by our top MCP products and varietal products relative to OP products. Bare land value or BLV is a specialized Discounted Cash Flow technique used for timberland investments that calculates the value of bare land in timber production. It is the Net Present Value of all revenues and costs associated with growing timber on the land in perpetuity (not just those associated with one “rotation of timber” or other time period).

As can be seen, ArborGen MCP and Varietals offer a compelling investment proposition for our customers generating 44-74% more value over OP products.

These cash flow analyses provide our customers the financial metrics needed to transition their perspective on seedlings from historically cost-driven purchases to value-based investments – the Conversion part of our ABC sales strategy.

To conclude, we look forward to continuing to build on the significant investments made to date, and shareholder value in the years to come.

Thankyou.