

Summarised consolidated interim results

for the six months ended
31 August 2020

Group CFO position filled
with effective start date 1 January 2021

Progress on ACG Fruit exit
with three farms sold during the period

Core headline earnings improved to R24 million profit
due to progress regarding disposal assets

No interim dividend declared

Introduction

2020 marked the first full year of operation and reporting for Acorn Agri & Food Ltd since the amalgamation on 2 May 2018. Only weeks into the 2021 financial year, the South African government declared a national state of disaster due to the COVID-19 pandemic and placed the country in an extended period of lockdown.

The Group entered the lockdown with a strong balance sheet and healthy cash flow, positioning it well for the uncertain and volatile business climate that followed. At the onset, all our group companies assessed the immediate impact of the pandemic on their respective businesses and speedily put protocols in place to ensure the safety of our personnel and clients.

Due to these unprecedented conditions and the seasonal nature of many of our group companies, the results for the first six months of the financial year could differ markedly from the second six months as well as from the comparable figures of last year. Shareholders should also note that the comparable figures pertaining to the six months ended 31 August 2019 have been adjusted to reflect ACG Fruit in its entirety as a discontinued operation.

Operational performance

Although all our group companies, apart from Boltfast, have been permitted to trade as essential services throughout all levels of lockdown, the vast decline in the economy's trading activity due to constrained consumer income impacted our profitability. While we are optimistic about the second half of the year, we do not expect lost sales of the first half to be recovered.

Agri Inputs & Services

Overberg Agri and its customers endured a difficult 2020 financial year due to climate realities. The carry-over effects are still being felt and were exacerbated by a loss of sales during the lockdown. Overberg Wealth and Risk Management suffered cancellations of some private policies, causing income pressure.

Boltfast was hardest hit as it was unable to trade for the months of April and May. Other than experiencing lost sales during lockdown, P&B Lime Works was able to reach a new market in the feed lime industry and expects to expand the market further. Moov Fuel was directly affected by the lockdown as very few vehicles were on the road and litres sold over peak holiday periods were eradicated. As expected, litres sold have increased with the gradual reopening of the economy.

Fresh Fruit

Demand for ACG Fruit's produce has been unaffected by the pandemic, and the weaker rand has worked in our favour as we export this produce. We had a good table grape harvest in terms of price and quality, but could not provide the volume we anticipated. The citrus season ended with lower than expected volume in the Limpopo area and costs that were above expectations. As part of the decision to exit ACG Fruit, progress was made with three farms in the Limpopo area sold at higher than carry value prices.

Food Processing

Overberg Meat was not adversely impacted by the lockdown. Good year-to-date results of the company are mainly due to the availability of livestock and the stellar performance of the feedlot, which experienced substantially more throughput of lambs than budgeted.

Lesotho Milling has been performing far beyond expectations this year. It has seen solid product demand and the excellent results from last year's expansion of product reach into surrounding bakeries have persisted into the 2021 financial year.

Health Foods

The halting of exports and travel restrictions delayed movement on the two biggest foreign target listings of Grassroots Group. Management employed cost cutting initiatives and different sale strategies and products, such as producing and selling sanitizer, which contributed to keeping losses to a minimum. As of August 2020, there has been an improvement in local sales of Grassroots' fruit-based products as well as traction on the foreign listings, with the first container shipped in August after the reopening of international borders.

Montagu Snacks was severely impacted by the pandemic, with April being the worst month. Operating expenses were strictly managed and ended well below budget while bulk stock was liquidated to ease cash flow constraints. Management is expecting the second half of the year to remain difficult due to lower sales in the retail channel and lower margins due to the weaker rand.

Financial results

Income statement

Revenue from continuing operations reflected a 17% decline to R3.22 billion (2019: R3.89 billion). Gross profit declined by only 12% to R373 million (2019: R423 million) while gross profit margin favourably increased to 12% (2019: 11%).

If the effects of last year's strategic divestment of Bearnibbles SA are normalised out of operating profit, it saw a 30% decline to R84 million (normalised 2019: R120 million). Unfortunately, cost savings observed across the Group were not enough to completely offset the substantial decreases in sales, interest revenue and other income.

Core headline earnings from continuing operations increased by 1% to R35 million (2019: R34 million) while core headline earnings from continuing operations per share is reported as 26.3 cents (2019: 26.0 cents). As a result of progress made with regards to assets reported under discontinued operations, core headline earnings for the six months ended 31 August 2020 returned to a profit of R24 million (2019: R30 million loss).

The Group is of the view that core headline earnings from continuing operations and core headline earnings from continuing operations per share provide a fair reflection of the performance of the Group by eliminating the impact of unusual, non-recurring income and/or expenditure.

Financial position

The Group's total assets declined to R6.20 billion (2019: R7.78 billion). This is largely as a result of impairments to goodwill and intangible assets made at the end of the 2020 financial year, strategic divestments of assets finalised during the 2020 financial year, and a decline in cash and cash equivalents over the first six months of the 2021 financial year due to the 60 cents per share dividend paid during this period. Similarly, equity attributable to equity holders of the parent company has declined to R2.76 billion (2019: R3.29 billion).

Net working capital (excluding cash and cash equivalents) decreased by 12% to R2.2 billion (2019: R2.5 billion) mainly due to lower inventory at Overberg Agri. Net interest-bearing debt of the Group's continuing operations also decreased to R2.0 billion (2019: R2.4 billion). Due to the decline in equity, the net interest-bearing debt-to-equity ratio increased slightly to 0.65 (2019: 0.63).

Cash flow

During the first six months of the 2021 financial year, the Group utilised R151 million (2019: R463 million generated) net cash to fund cyclical debtors. Shareholders are reminded that net cash generated last year included cash received for multiple strategic divestments, which is a non-recurring event.

In response to the circumstances, the Group lowered its capital expenditure to R30 million (2019: R120 million) to preserve cash.

Capital allocation

We reinvested a large portion of the proceeds received from strategic divestments into our group companies to facilitate growth and efficiencies, and to keep them well-supported and financially sound during the pandemic. Another portion was used in the share repurchase scheme and the substantial dividend declared, both to return value to shareholders.

Another portion was earmarked for use by The Health Food Group and AgVentures to fund their respective acquisition strategies. Due to the pandemic, we have remained cautiously optimistic and continue to wait before making big moves. We are, however, continuing our investigations to identify opportune acquisitions.

The reorganisation of the Group structure is well underway and should see streamlining of group companies and reductions in costs.

Dividend

As current markets are still severely depressed, the board has resolved not to declare an interim dividend.

Outlook

We expect trading conditions to remain challenging for the remainder of the financial year, especially concerning those group companies adversely affected by the pandemic. We do, however, see good prospects on the rise regarding the coming grain harvest, which is expected to be a bumper harvest after favourable weather conditions during the year.

We are proud of how the management teams of our respective group companies have navigated this year's circumstances. As you are aware, various business models were put under severe pressure during lockdown resulting in the complete closure of many businesses. We are humbled that each of our group companies have emerged operational from the lockdown.

Despite some group companies having reported losses for the period, this is not abnormal given South Africa's circumstances, and we are confident that losses from our continuing operations are at manageable levels that will see slow and steady recovery.

The Summarised Consolidated Interim Results

Interim results preparation

The summarised consolidated interim results of Acorn Agri and Food Ltd for the six months ended 31 August 2020, comprise of the company, all its subsidiaries, jointly controlled entities and associates (jointly referred to as "the Group").

The Group's summarised consolidated interim results, including the statement of financial position, statement of comprehensive income and statement of cash flows, for the six months ended 31 August 2020, are prepared in accordance with the requirements of the International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council and the requirements of the South African Companies Act, No.71 of 2008, as amended.

The accounting policies applied in the preparation of these summarised consolidated interim results are in accordance with IFRS and are consistent with the accounting policies applied in the preparation of the Group's previous audited summarised consolidated annual financial statements.

Events after the reporting period

We are pleased to report that the position of Chief Financial Officer has been filled by Andries Geertsema, with an effective start date of 2 January 2021. Our interim CFO, Pierre Malan, has done an excellent job of navigating the Group's financial journey through the COVID-19 pandemic and we are grateful for his service.

Appreciation

On behalf of the board, we recognise all our stakeholders, including our employees, shareholders, partners, customers, and suppliers, for their continued support during this difficult time. We have proven to be resilient and we are confident that we will emerge stronger and better equipped to face the challenges of the future.

Cobus Visser **André Uys**
Chairperson Chief executive officer

Disclosures

The summarised consolidated interim results do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 29 February 2020.

In accordance with the Group's accounting policies, impairment of non-financial assets (such as goodwill, intangible assets, and deferred tax) is tested annually for impairment. This test, which includes the evaluation of events or changes in circumstances indicating that the carrying amount exceeds the recoverable amount, will be carried out by management in reporting of the financial position and annual performance for the year ending 28 February 2021.

Director's responsibility

The directors of the Group take full responsibility for the preparation of this report. The preparation of the Group's results was supervised by the interim Chief Financial Officer, Pierre Malan.

Somerset West
13 October 2020

Summarised consolidated statement of financial position

	Unaudited six months		Audited year ended
	31 August 2020 Rm	31 August 2019 Rm	29 February 2020 Rm
ASSETS			
Non-current assets	1 851	3 510	1 812
Current assets			
Biological assets	-	184	-
Inventory	480	604	565
Trade and other receivables	2 030	2 305	1 384
Cash and cash equivalents	352	730	510
Other current assets	170	244	239
Assets of disposal group	1 320	199	1 440
Total assets	6 203	7 776	5 951
EQUITY AND LIABILITIES			
Equity	3 072	3 811	3 214
Non-current liabilities	501	1 099	605
Current liabilities			
Borrowings and instalment sale agreements	1 955	2 247	1 335
Other current liabilities	352	619	487
Liabilities of disposal groups	323	-	311
Total equity and liabilities	6 203	7 776	5 951
Number of issued shares ('000)	144 687	143 618	144 687
Treasury shares held by subsidiaries ('000)	13 872	10 944	11 936
Net asset value per share, excluding treasury shares (Rand)	21.13	24.77	21.75

Summarised consolidated income statement

	Unaudited six months		Audited year ended
	31 August 2020 Rm	31 August 2019 Rm	29 February 2020 Rm
Revenue	3 215	3 889	7 770
Cost of sales	(2 842)	(3 466)	(6 989)
Gross profit	373	423	781
Operating profit	84	373	240
Net finance costs	(40)	(60)	(127)
Profit from equity accounted investments	3	2	6
Profit before taxation	48	314	119
Taxation	(8)	(44)	72
Profit for the year from continuing operations	39	270	192
Loss from discontinued operations	(45)	(83)	(396)
(Loss)/profit for the year	(6)	187	(204)
Core heading earnings/(loss)	24	(30)	(70)

Summarised consolidated statement of cash flows

	Unaudited six months		Audited year ended
	31 August 2020 Rm	31 August 2019 Rm	29 February 2020 Rm
Cash flows from/(utilised in) operating activities	76	(90)	55
Working capital changes	(70)	(121)	13
Other	147	31	42
Capital flows from investing activities	51	576	928
Acquisition of property, plant and equipment	(30)	(120)	(179)
Other	80	696	1 106
Cash flows (utilised in) financing activities	(278)	(23)	(726)
Dividends paid	(98)	(55)	(248)
Other	(180)	31	(478)
Net cash (decrease)/increase for the year	(151)	463	256
Net cash, cash equivalents and overdrafts at beginning of the year	460	204	204
Net cash, cash equivalents and overdrafts at the end of the year	309	667	460