

# Strategic and operating context



## Chief executive officer's report

### *Introduction*

We navigated another year of challenging economic conditions and the impacts of the hard lockdown. Fortunately, the agriculture and food value chain remained operational through all levels of lockdown, resulting in all but one of our group companies being able to continue operations throughout. Our Group once again showed resilience amid the economic downturn and reported increased profitability and cash generation despite the impact of COVID-19. We are in the privileged position of reporting that the Group exceeded its budget for the year.

In terms of the new financial year, the Group is better aligned with its 2024 strategy. This follows the upcoming exit of higher-risk group companies through the proposed B-BBEE transaction, which is detailed in our investment report on page 29. The remaining group companies are well positioned for growth and economic upturn due to taking a critical look at our cost structures and working capital requirements and strengthening our management teams.

While this report provides a brief summary of each segment's operational performance, readers are referred to our operating context on page 30 for more detail.

“Our Group once again showed resilience amid the economic downturn and reported increased profitability and cash generation despite the impact of COVID-19. We are in the privileged position of reporting that the Group exceeded its budget for the year.”

André Uys

## Strategic Priorities

Our Group's overarching goal is to create long-term, sustainable value for all our stakeholders. This includes our shareholders, customers, employees and the communities we do business in. To fulfil this objective, we revised our strategic priorities:

- **Enhance shareholders' value through long-term sustainable growth:** To assist shareholders to evaluate this, we implemented a Group SOTP valuation that has come into effect during the 2021 financial year. Refer to the CFO's report on page 47 for more information.
- **Effective capital allocation and growth:** We focus on earnings-enhancing and cash generative opportunities in the agriculture and food value chain. The proposed B-BBEE transaction will significantly impact the Group's strategic financial goals.
- **Achieve operational excellence:** For the Group to achieve its objectives, each group company should understand their customers' needs and achieve operational excellence. We achieve this by focusing on sustainable growth, profitability and cash generation. We made good progress with operational performance throughout the Group, with profitability exceeding our budget for the 2021 financial year. While not all of our group companies are performing as expected, we are well positioned to achieve our 2024 goals.
- **Good corporate citizenship:** We are committed to good corporate governance, ethical business and adding value to the communities we do business in. We continued our CSI initiatives over the past year and ensured strict Group-wide safety protocols to ensure the safety of all our exposed stakeholders.

In terms of the above priorities, we identified specific measures, action plans and targets for the Group until 2024. We will measure these targets monthly and implement mitigating measures to ensure we achieve these targets, if needed. More information on our strategy can be found in the Group strategy section on page 39.

## Operational Summary

The Group's resilient results are largely attributable to exceptional performances by three of our largest contributors: Overberg Agri and ACG Fruit both saw a remarkable turnaround from the 2020 financial year while Moov Fuel again produced solid results. P&B Lime Works and Lesotho Milling outperformed their budgets. Boltfast performed in line with its budget, supported by a more robust and agile business model. COVID-19 adversely impacted the sales of Overberg Meat, Grassroots Group and Montagu Snacks, which do business closer to the retail space.

### Agri Inputs & Services

Overall, Agri Inputs & Services experienced irrecoverable revenue losses as a result of the hard lockdown. However, three group companies in this segment – Overberg Agri, Moov Fuel and P&B Lime Works – experienced impressive upturns in the second half of the year. Boltfast was hardest hit by the lockdown but remained at our budgeted level due to business restructuring that resulted in a substantial cost reduction. We commend the teams at these group companies for what they achieved despite COVID-19.

### Fresh Fruit

Over the past year, ACG Fruit benefitted from several favourable variables: table grape and soft citrus harvests were strong due to good weather; fruit prices and exchange rates were advantageous; and demand for citrus fruit high in Vitamin C rose following the pandemic. The company's improved capital structure further allowed for healthier profitability. The sale of ACG Fruit will be fully realised during the coming year as part of the B-BBEE transaction, should it be approved by shareholders, and we will collapse the Fresh Fruit segment from the 2022 financial year onwards.

### Food Processing

Food Processing held up well under the pandemic. Overberg Meat performed well on volumes. However, this did not translate to increased profits due to a competitive market and reduced consumer spend. Lesotho Milling far outperformed its budget due to an increased demand for wheat flour and higher grain prices.

### Health Foods

Health Foods was arguably most adversely affected by the pandemic. The depressed consumer environment, coupled with travel restrictions and the halting of exports, delayed the roll-out of Grassroots Group's and Montagu Snacks' new strategies. In response, both businesses implemented impressive cost cutting initiatives to decrease losses. We further saw promising progress in their strategies toward the latter part of the year and expect continued progress in the 2022 financial year. Readers should note that Green Machine was incorporated into Montagu Snacks during the year to capitalise on synergies between the two companies.

## *Investments*

We are pleased to introduce AgVentures to our readers this year. Still in its early development phase, this company is our Group's dedicated agriculture and food technology arm. The team made excellent progress on three investments in the agricultural technology space over the past year – FruitSpec, Skudu and Matrix Software, which was concluded after year-end. FruitSpec uses technology to predict yields of various products for customers. Skudu is an innovative online market place while Matrix Software is a leading specialist enterprise resource planning software provider for the meat and food industry. We look forward to the growth expected to come from each of these businesses.

## *Executive Team*

We strengthened our management team and those of the group companies. We welcomed Andries Geertsema as CFO. He brought new insights to the team and hit the ground running. We saw the benefits of the amended Fund Management Agreement, with the executive team's focus and execution capabilities strengthened. New senior management appointments in P&B Lime Works, Moov Fuel, Grassroots Group and ACG Fruit strengthened the Group's extended management structure and delivered an immediate favourable effect on the bottom line.

## *Outlook*

### **Agri Inputs & Services**

We anticipate a good performance in the coming year, supported by the positive effects of the 2020 harvest and good climatic expectations for the 2021 season. Boltfast's performance will remain under pressure due to slow economic recovery after COVID-19. Any improvements to the mining sector and expected infrastructure investment will support Boltfast's performance.

### **Fresh Fruit**

Management anticipates another good year for ACG Fruit as table grape and citrus prices should remain favourable. Unfortunately, unexpected rain in the Northern Cape negatively impacted the quality of the recent table grape harvest. However, a remarkable harvest in the Halfmanshof area made up for this loss.

### **Food Processing**

Given the impact of the pandemic on consumer disposable income and discretionary spend, we expect a challenging year for the meat and milling industries.

### **Health Foods**

Grassroots Group is poised for take-off over the coming year. The company's international Russian and German retail supply contracts are finalised and delivery commenced in the first quarter of 2021. We therefore expect international volumes to increase significantly. Montagu Snacks' sales are expected to remain challenged as the local consumer market remains under pressure.

### **André Uys**

*Chief executive officer*

“As with all companies across the globe, COVID-19 presented various unforeseen challenges to the Group. The Acorn Agri & Food team and all employees can be proud of our ability to adapt to and overcome these challenges. I am deeply grateful for the commitment of each employee to ensuring the continuation of our business and the safety of all our stakeholders. The future is looking steady.”



# Investment report

## *Introduction*

Against the backdrop of the pandemic, Warren Buffett's familiar quote became all the more relevant – "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." The pandemic has proven that we have a portfolio of companies that can withstand trying times with the resilience you would expect to see from a prudent asset allocator.

Acorn Agri & Food's 2021 integrated annual report makes for a pleasant read and the Group has demonstrated profitability at levels that exceed those of the 2019 financial year. While the pandemic brought significant challenges and uncertainty to many businesses, it also resulted in numerous new opportunities that kept the investment team very busy over the past year.

Adapting to a new way of working and deal-making was certainly challenging. The team has grown in leaps and bounds while learning valuable lessons during the process of becoming leaner and more effective.

“ We expect that activity and competition in the deal-making space will be elevated given the increased availability and lower cost of funding. This is where our network, market knowledge and the strength and quality of our investment team give us a distinct advantage.”

**Carl Neethling**

## *The Year That Was*

Agility and responsiveness are key to our future success and one of our crucial focus areas over the past year has been to limit losses while positioning ourselves for acquisitive growth. We have been busy with exciting opportunities and although the developments over the past year have not all been positive, we remain upbeat about the future of our Group. The uncertainties in the market from a financial and operational perspective have refocused the team to ensure that we only conclude transactions that are value accretive and priced to the benefit of our shareholders.

Despite the opportunities in the market, COVID-19 hampered the deal-making process by limiting the ability of the investment team to travel and engage in face-to-face meetings as well as by increasing the level of due diligence required to adequately mitigate risk. The team spent considerable time evaluating multiple opportunities for group companies and standalone investments and although we have rejected a number of these opportunities, we are optimistic about several remaining investment prospects that are currently at an advanced stage.

This time last year, we reported encouraging progress on the internal clean-up of ACG Fruit and we are pleased that our strategy has borne fruit over the past year. The business benefited from a strong harvest which, coupled with the debt restructuring of last year, has resulted in a return to profitability with a much healthier statement of profit or loss. We have successfully disposed of non-core assets and although we are satisfied with the turnaround, ACG Fruit remains a high-risk asset for Acorn Agri & Food. Thus, we are still intent on exiting our investment.

The Health Food Group was another major focus point over the past year. Unfortunately, the pandemic played a big role in the collapse of most international deals. The impact of this extended to the implementation of the individual strategies of Montagu Snacks and Grassroots Group and accordingly, they have not performed as expected. The easing of restrictions around the world has, however, allowed much progress to be made in the latter half of the year and we expect to carry this momentum going forward.

## *B-BBEE Transaction*

I am excited by the prospects of the proposed B-BBEE transaction and the role it will play in unlocking value for our shareholders. The transaction is the product of many hours spent discussing and assessing opportunities to create value within the Group and I am confident that it will be advantageous to our stakeholders.

The transaction, should it be approved by shareholders, will result in the creation of a B-BBEE empowered agriculture and food investment vehicle – Newco – borne of Acorn Agri & Food. The idea underlying the transaction has been in the pipeline since before the amalgamation in 2018 and is a collaborative effort between our Group and African Rainbow Capital.

The transaction will result in Newco housing 100% of ACG Fruit and 25% of The Health Food Group. Newco will be managed by Acorn Private Equity with African Rainbow Capital as the majority shareholder.

This will pass significant empowerment credentials to ACG Fruit, Grassroots Group and Montagu Snacks. The transaction is subject to extensive legal requirements and we have undertaken a thorough process to ensure that all are adhered to.

All Acorn Agri & Food shareholders will be given the opportunity to exchange all or a portion of their Acorn Agri & Food shares for shares in Newco, thereby creating a diversification opportunity.

We believe this transaction has a number of advantages:

- Realisation of ACG Fruit as an asset held for sale;
- Reduction in the management fee payable to Acorn Private Equity for the fund management service;
- Reduction of the risk profile of Acorn Agri & Food which is more aligned with perceived risk of the Group;
- Creates a vehicle where the remaining higher-risk assets of the Group can be nurtured;
- Creates a preferred partner for Acorn Agri & Food for all future B-BBEE transactions; and
- It creates a diversification opportunity for the shareholders of the Group.

It is important for shareholders to note that Newco will have a much higher risk profile than Acorn Agri & Food and shares in the entity will not be publicly traded. Shareholders are encouraged to read the latest Circular, which will be made available on our website at a later date, for more detailed information regarding the transaction.

## *The Journey Ahead*

“Cash combined with courage in a time of crisis is priceless.” – Warren Buffett

In the coming months, we anticipate the number of opportunities available in the market to continue increasing and we are enthusiastic about the prospects. It has become increasingly important to thoroughly investigate and analyse potential opportunities to ensure that we are investing in quality businesses with strong underlying fundamentals.

We expect that activity and competition in the deal-making space will be elevated given the increased availability and lower cost of funding. This is where our network, market knowledge and the strength and quality of our investment team give us a distinct advantage.

I wish to remind our shareholders that our investment track record reflects its best performance in the years immediately following market crises and I expect this time to be no different. We remain committed to keeping the best interests of our shareholders top of mind and ensuring that we adhere to Acorn Agri & Food’s investment philosophy, approach and criteria as outlined on page 46 of this report.

**Carl Neethling**  
*Chief investment officer*

# Operating context

Characterised by the COVID-19 pandemic, 2020 saw global social and economic disruption, mass cancellations and postponements of events, worldwide lockdowns and the deepest global recession since World War II. Several major climate disasters flooded news headlines worldwide. In South Africa, the agriculture sector emerged as a resilient industry and the pandemic has given citizens a new understanding of the sector's importance.

## 1. Global uncertainty stemming from the COVID-19 pandemic

The COVID-19 pandemic severely impacted South Africa's economy and businesses. Stats SA reports that economic activity declined by 7% in 2020 compared to 2019. This is the biggest annual fall in economic activity since at least 1946. Most industries recorded decreased economic activity for the year; construction contracted by 20.3%, manufacturing by 11.6% and mining by 10.9%. However, agriculture flourished with 13.1% growth driven by exports and favourable climate conditions.

### How this impacted us

The Group was impacted directly and indirectly by the pandemic despite all but one of our group companies being classified as essential services during all levels of lockdown. Several group companies were directly affected by restricted operations due to lockdown regulations or decreased revenue due to lower demand and consumer spend.

More specifically, lockdown-induced travel restrictions and remote working hampered Moov Fuel's revenue. Under the most restrictive lockdown levels, infrastructure projects were postponed. This constrained demand for goods offered by Boltfast and P&B Lime Works. Overberg Wealth and Risk Management experienced cancellations and policy discounts due to mounting pressure on businesses.

The Group noted a marked increase in the cost of operations required to maintain a safe working environment for its employees.

### Strategic objectives



### Material matters

- Economic environment
- Technological change, disruption and IT-related risk
- Commodity prices

### Our response

Our group companies responded to the lockdown with swift cost cutting initiatives. In addition, all directors (non-executive and executive) as well as Acorn Private Equity forgave 25% of their cash remuneration from August 2020 for a period of 12 months. Some group companies turned to temporary alternative sales strategies, such as sanitiser. Capital expenditure was restricted to maintenance upkeep only. Strict protocols were implemented throughout the Group to ensure the safety of employees and customers, while those employees who could work from home were encouraged to do so. This allowed group companies to continue operating effectively with reduced disruption and cost structures.



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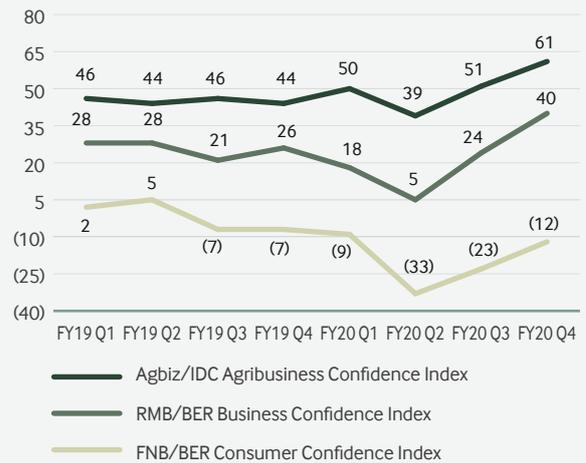
Good corporate citizenship

## 2. Recession, depressed consumer confidence and political uncertainty

During the first half of the year, consumer sentiment was already weak due to negative economic growth, a dire fiscal position and political instability. This was exacerbated when the pandemic caused many industries to halt their operations and national debt levels soared after South Africa borrowed billions from the International Monetary Fund (IMF). Although South Africa recorded positive GDP growth in the third and fourth quarters of the year, it was not enough to offset the devastating impact of COVID-19. The economy is only expected to reach pre-pandemic levels in 2025, according to some economists.

Weaknesses in regulatory oversight, violent crime, labour unrest, policy and pandemic uncertainty all weighed heavily on business activity and confidence. The graph shows the stark decline in consumer, business and agribusiness confidence following the onset of the pandemic. Thereafter, confidence levels began to recover, with business and agribusiness confidence exceeding pre-pandemic levels. However, this is thought to be unsustainable considering the long-term economic consequences of the nationwide lockdown. Although consumer confidence began to recover, levels remain in negative territory.

**Confidence levels**



### How this impacted us

Weak consumer confidence often translates to subdued consumer demand. This meant subdued sales for most group companies, particularly Montagu Snacks and Grassroots Group. Considering that the mining and construction industries are highly susceptible to recessions, Boltfast and P&B Lime Works experienced reduced demand for building materials and calcined lime. Moov Fuel also experienced lower sales on the retail side.

### Strategic objectives



### Material matters

- Economic environment
- Political uncertainty
- Service delivery

### Our response

Although the demand for discretionary goods such as health foods declined, Montagu Snacks and Grassroots Group target the upper medium to upper income class. This class is least affected by economic turmoil and therefore acts as a hedge for some of the reduced demand for discretionary goods. Our vertically integrated business model results in many benefits, which reduce adverse impacts. Read more about these benefits in the investment case and business model sections on pages 8 and 12 respectively.



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### 3. Abundant rainfall, bumper crops and growth in the agriculture sector

Global grain markets experienced a shortage of supply following dry weather conditions in key production regions. As a result, the global grain price index rose to a five-year high of 102.52 in December 2020. Locally, the 2021 financial year marked the end of a four-year contraction of South Africa's agriculture sector. The Western and southern Cape experienced one of the biggest grain harvests on record. This bumper harvest and the inflated grain price created the ideal environment for local grain farmers. The favourable weather produced good yields for northern and southern region long-term crops such as citrus and table grapes, which also benefitted from favourable export prices.

#### How this impacted us

The 2020 harvest resulted in a much healthier cash flow and financial position for Overberg Agri. Overberg Agri's Grain Handling and Grain Trading divisions directly profited from the large grain harvest, while the Mechanisation division benefitted from increased equipment sales and mechanical work. Furthermore, farmers repaid their outstanding accounts, which boosted Overberg Agri's cash flow. This bumper harvest also resulted in increased commercial fuel sales for Moov Fuel. The good citrus and table grape yields resulted in significant uptick for ACG Fruit, while P&B Lime Works benefited from the increased demand for feed lime and agricultural lime following the growth in the agriculture sector. Lesotho Milling performed well due to the global shortage of grain supply that drove up food prices. We will continue to reap many benefits of this harvest well into the 2022 financial year.

#### Strategic objectives



#### Material matters

- Climate change
- Commodity prices

#### Our response

Climate change is likely to continue and even extensive efforts to curb greenhouse gas emissions will only slow climate change, not mitigate it. Therefore, adaptation is a necessity. A key component of adaptation is technology, which can help protect society from changing climate conditions, improve productivity, and help in the more efficient use of threatened resources. We focus on the role of technology and climate information to help mitigate and adapt to climate risks. From creating more sustainable technologies to building resilience to climate change to more effective use of water, the applications of technology and climate information are crucial for sustainable agriculture.



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## 4. Regulatory environment (including regulation relating to climate change) and constrained exports

According to the World Bank’s latest Ease of Doing Business report, South Africa’s ranking decreased from 74 in 2016 to 84 in 2020. South Africa’s deteriorating score indicates that the regulatory environment is becoming less conducive to starting and operating local business.

South African businesses faced additional restrictions on imports and exports during the 2020 year. Due to COVID-19 measures, international trade was heavily regulated during the months of March to June, with trade only resuming in August.

Regulations related to climate change, and specifically carbon emissions, have recently intensified in South Africa. The Carbon Tax Act, No.15 of 2019 has been in effect for the past two years. The tax rate is set to increase by inflation plus 200 basis points until 2022, and by inflation thereafter.

### How this impacted us

As Grassroots Group derives most of its revenue from foreign markets, export restrictions heavily impacted the company for the first half of the year. Coupled with travel restrictions, this significantly delayed the roll-out of its new strategy and resulted in irrecoverable lost revenue. Similarly, Lesotho Milling endured restrictions on its exports to South Africa.

At the onset of international trade restrictions, ACG Fruit’s table grape exports had already reached their foreign destinations. Although the export of its citrus fruit was not without logistical challenges, there was a solid demand for fresh fruit produce high in Vitamin C. We were fortunate that the export restrictions did not significantly impact our table grape and citrus exports.

P&B Lime Works has emissions generation facilities that exceed the carbon tax threshold and is therefore exposed to carbon tax.

### Strategic objectives



### Material matters

- Climate change
- Commodity prices
- Health and Safety

### Our response

As soon as travel restrictions were eased, Grassroots Group continued the roll-out of its new strategy and secured two major foreign listings. Exports resumed for the second half of the year and the company produced good results.

Due to solid relationships with our exporters, table grape and citrus exports went as planned and our ability to get our products into the market was not impacted.

To reduce the impact of carbon tax on P&B Lime Works, a solar plant was built on site to reduce electricity consumption.

## Outlook for 2021 and Beyond

COVID-19 altered the landscapes of many economies and demand structures. The full extent of COVID-19’s impact on our Group has yet to be established and is dependent on further government-imposed restrictions and the rate of economic recovery. The Group expects to continue being impacted by the following factors:

- changes in customer behaviour and revenue activity due to national or provincial lockdown restrictions;
- additional operating costs attributable to the pandemic;
- potential supply chain disruptions; and
- a weak macro-economic climate, high rate of national unemployment and weakening consumer disposable income.

Acorn Agri & Food’s management critically reviewed the material matters relevant to the Group’s ability to create or preserve value or that could lead to value erosion. We report these matters, along with risks, opportunities and responses, in our material matters section on page 34. Readers are also encouraged to refer to our CEO’s report on page 25 for further insight into management’s outlook as well as to the CFO’s report on page 47 for a more detailed view of the Group’s financial performance.



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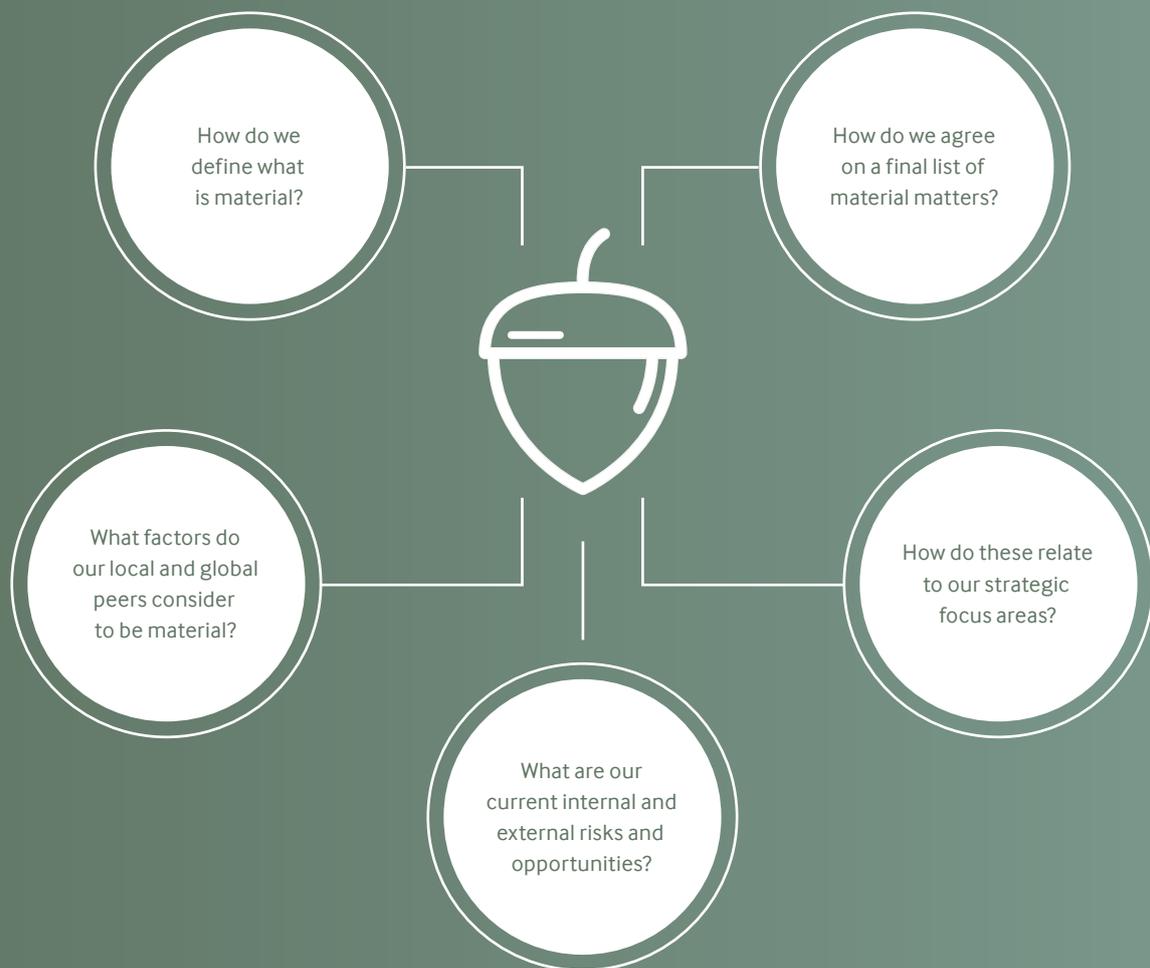
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# Material matters

**Material matters are identified as those issues that have the potential to significantly impact the Group's performance and sustainability.**

## *Determining Materiality*

The process to define Acorn Agri & Food's material matters was designed around a set of questions:



After our materiality review process, Acorn Agri & Food's Executive committee agreed that all material matters reported in 2020 remained relevant for the 2021 year. However, management widened the scope of two matters. First, the technological change and disruption matter was widened by including IT-related risk. IT-related risk encompasses the threat of cyberattacks on company data which could result in disruption or loss for the organisation. Second, the food safety matter was widened to health and safety, which encompasses food safety as well as occupational safety. We continue to monitor the impact of COVID-19 on the Group as well as the extent of this impact on our material matters.

## Climate Change



Climate change is becoming increasingly relevant, and much research links climate change with the occurrence of natural disasters such as floods and droughts. Africa has been identified as one of the most vulnerable continents when it comes to climate change. South Africa's development is highly dependent on climate-sensitive sectors such as agriculture and forestry. Regulations relating to climate change, and specifically carbon emissions, have intensified in South Africa.

Risks	Opportunities	Our response
Harsh weather may limit primary producers' ability to generate income, which could adversely impact demand for our products and services. Climate change could reduce the availability or increase the price of commodities we require for food production, resulting in depressed margins, food price inflation or insufficient food production. Increasing regulations around emissions could increase expenditure for companies and put pressure on margins and profitability.	All players in the agriculture and food sectors can leverage innovation and technological advancement to offset certain climate-related pressures. Acorn Agri & Food may be able to provide producers with technology, products and services that mitigate some of the effects of climate change. The Group could procure from multiple suppliers to ensure a geographically diverse supply base. This would mitigate some of the risk of regional disasters such as floods or droughts. When it comes to climate regulations, our Group can implement measures which will mitigate some of its adverse environmental outputs.	Our strategic objective to vertically integrate the business, combined with our focus on diversifying the Group's geographical footprint, customer base and commodity exposure, assists in mitigating the effects of climate change. We are developing new technologies internally and through our investments via AgVentures that will help mitigate the effects of climate change on our operations and for our customers. We implemented a solar power project at our P&B Lime Works' mine to reduce emissions.

## Economic Environment



South Africa has experienced deteriorating economic conditions over the past decade, exacerbated by COVID-19. The pandemic and recurring lockdowns worsened South Africa's existing structural economic challenges such as unemployment, low economic growth and high debt levels, among others, at an alarming rate.

Risks	Opportunities	Our response
South Africa's deteriorating economic conditions adversely impact business and consumer confidence and disposable income. This affects local supply and demand dynamics that drive business growth. Moreover, criminal activity tends to rise during times of unemployment, and prolonged adverse conditions could give way to civil unrest.	Adverse economic conditions present an opportunity for Acorn Agri & Food to contribute to economic growth and employment through sustainable business practices.	Acorn Agri & Food's vertical integration decreases exposure to business cycles and increases sustainability. Participation in a larger part of the value chain results in more stable margins. The Group is leveraging more opportunities for intra-Group collaboration and cross-selling and reducing costs through shared services across group companies.  By maintaining and increasing export volumes we can negate unfavourable local economic conditions and take advantage of exchange rate opportunities. Our strategy of producing and selling healthier food products in developed markets gives us exposure to higher income customers who are more resilient to economic pressures.  We ensure that group companies do business with financially sound customers to reduce counterparty risks.



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## Political Uncertainty



Political uncertainty influences confidence levels and investment into the South African economy. Significant policy uncertainty still remains surrounding land reform in South Africa, and specifically around expropriation of land without compensation.

Risks	Opportunities	Our response
<p>Political uncertainty could weaken the exchange rate and decrease investment into the country and within the industry. The threat of international trade wars spilling over into South Africa is becoming more imminent.</p> <p>Policy uncertainty affects confidence in the agriculture sector, which could decrease investment. The outcome of the expropriation policy debate could impact on the sustainability of our customers.</p>	<p>Acorn Agri &amp; Food can participate in developing and presenting potential solutions to land ownership inequity in a way that will spur growth in the agriculture and food sectors. However, many of the risks surrounding political uncertainty cannot be mitigated and must be accepted.</p>	<p>We engage with government departments and make contributions to proposed land reform policies via Agbiz structures and other industry bodies. Through The Health Food Group, the Group is diversifying into new markets and lower risk jurisdictions through international expansion.</p>

## Service Delivery



South Africa continues to face an electricity supply crisis, which has adversely impacted the country's economic growth for several years. While President Ramaphosa's government has pledged to tackle corruption in the country, progress has been slow. The 2019 Afrobarometer survey reports that 53% of respondents in South Africa believe that official action in response to a corruption report is not likely.

Risks	Opportunities	Our response
<p>Inadequate service delivery, especially in rural areas, affects our ability to operate or produce efficiently. It further adds costs, as we have to implement alternative solutions or risk-mitigating initiatives.</p>	<p>Unreliable service delivery presents an opportunity for Acorn Agri &amp; Food to introduce practices that ensure we remain efficient and sustainable.</p>	<p>Acorn Agri &amp; Food's footprint in the Western Cape, the province with the most satisfactory level of service delivery, mitigates some of the effects of inadequate service delivery. Where feasible, we are implementing alternative power sources such as generators and solar power systems to compensate for unreliable electricity supply. We participate in efforts to lobby government departments via Agbiz and maintain direct and indirect involvement with local government to mitigate and improve poor service delivery.</p>



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## Regulatory Environment



South Africa has a mature regulatory environment. It could be argued that the environment is overregulated, as evidenced by the country's position in the Ease of Doing Business Rankings, which fell from 41 in 2014 to 84 in 2020.

Risks	Opportunities	Our response
<p>A cumbersome regulatory environment adversely affects the ease and cost of doing business. Government's turnaround times for approving transactions and awarding licences are lengthy, affecting the speed of execution of our business plans. Financial and other requirements for B-BBEE regulations make it challenging to achieve or maintain a desired rating. This could result in the loss of suppliers and/or customers due to an inadequate B-BBEE score.</p>	<p>Adherence to regulations enables Acorn Agri &amp; Food to remain sustainable and contribute to food security. The Group can encourage and promote a transparent culture and ethical business practices to adhere to regulations.</p>	<p>We adhere to all statutory and regulatory requirements as a good corporate citizen. We have regular interactions with relevant departments via industry bodies to influence processes and outcomes that improve the ease of doing business. The Group continues to implement its whistleblower hotline to promote ethical practices.</p>

## Technological Change, Disruption and IT-related Risk



The application of new technology is gaining momentum and disrupting existing business models within the agriculture and food sectors. The growing digitalisation of society and the workplace causes us to be increasingly reliant on technology. This heightened reliance and increasing global interconnectivity exposes us to the risk of cyberattacks and debilitating IT-related malfunctions. According to the World Economic Forum's Global Risks Report 2021, cybersecurity failure ranked in the Top 10 risks over both the short- and medium-term.

Risks	Opportunities	Our response
<p>This trend poses an opportunity and a threat to established businesses in agriculture and food sectors, including our Group. For example, technological solutions are improving the timeliness and accuracy of crop estimates and online marketplaces will allow producers to purchase goods directly from manufacturers instead of agents.</p> <p>Our Group depends on computer systems in our day-to-day retail and trading activity and to securely maintain data and personal information. Disruption of these systems would impair our ability to service customers. IT malfunctions and cyberattacks could compromise the confidentiality, integrity and availability of information and technology resources. This would not only disrupt operations, but could negatively impact our reputation and brands.</p>	<p>Acorn Agri &amp; Food can lead and capitalise on the technological change and disruption in the agriculture and food sectors by optimising current products, services and systems. The Group must continually evaluate current business models and look for opportunities to reorganise or implement new business models. Our Group can assess our current IT policies and processes against the Cybercrimes and Cyber Security Bill draft.</p>	<p>Acorn Agri &amp; Food has established AgVentures, a group company with a dedicated focus on the evaluation of and investment in innovative and disruptive technology solutions for the agriculture and food industries.</p> <p>The Group has designated IT teams that implement and monitor controls. We also established a centralised IT steering committee. This committee is tasked with monitoring changes in strategy, the business environment or new technology as well as formulating our response to realise benefits, optimise resources and monitor risks.</p>



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## Commodity Prices



Commodity prices are inherently volatile and substantially impact our businesses and clients, particularly our ability to remain competitive and the risk of credit to our clients.

Risks	Opportunities	Our response
<p>Unfavourable or volatile commodity prices for wheat and barley, table grapes and citrus, and meat and wool, could adversely affect our customers' income. This could negatively influence their demand for our products and services or affect our ability to procure raw materials cost-effectively.</p>	<p>We can mitigate the effects of commodity price fluctuation by diversifying our exposure to a broader basket of commodities. The opportunity exists to buy during lower commodity price cycles which impacts cost of sales.</p>	<p>Acorn Agri &amp; Food is diversifying its geographical footprint, customer base and commodity exposure to mitigate the effects of adverse commodity prices. We also ensure that group companies do business with financially sound customers to reduce counterparty risks. We focus on identifying, investing in, adopting or supplying new technologies that mitigate the effect of fluctuating commodity prices on our businesses and our customers.</p>

## Health and Safety



With the onset of the COVID-19 pandemic, our stakeholders' occupational health and safety became paramount. Government and businesses quickly implemented response measures to ensure the safety of all exposed stakeholders.

Food safety is an increasingly important public health issue. According to the World Health Organisation (WHO), governments around the world are intensifying their efforts to improve food safety. A major contributing factor in this regard derives from globalisation and ensuring the safety of food crossing national boundaries in international trade.

Risks	Opportunities	Our response
<p>The socio-economic costs of illnesses resulting from a pandemic or foodborne illness include loss of productivity, income, jobs and trade. In extreme cases, such as with COVID-19 and the listeriosis outbreak in 2018, it can also result in loss of life. Perilous products can lead to product recall, litigation and brand reputation damage, exacerbating the above socio-economic costs. During the pandemic, slack safety protocols within business organisations can have similar effects.</p>	<p>When proper occupational health and safety protocols are established, daily operations can continue with minimal disruption and the risk of infection among employees, customers and other exposed stakeholders is dramatically reduced.</p> <p>Similarly, when food safety protocols are established, mistakes are reduced, the risk of foodborne illnesses is eliminated, profitability grows, employee morale increases, and the company's reputation remains secure.</p> <p>As such, it is imperative for our group companies to monitor their production chains and assure consumers that they adhere to the highest food safety standards.</p>	<p>Each group company implemented strict safety protocols at the onset of the pandemic that are still being adhered to. Employees who were able to work from home remain encouraged to do so. All meetings include a virtual attendance option to reduce travel and protect high-risk employees.</p> <p>Our various food companies are committed to ensuring food safety and have many accreditations according to their relevant practices and standards. For more information on these accreditations, see page 22 within our stakeholders section.</p>



Enhance shareholder value



Effective capital allocation



Achieve operational excellence



Good corporate citizenship

# Group strategy

Management conducted a thorough strategic review after the amalgamation in 2018 and the board approved a five-year strategy until 2024. Over the past year, management updated portions of the strategy in response to the evolving operating environment.

We refreshed our strategy disclosure to give readers an enhanced understanding of our performance. This disclosure will evolve as our tracking history lengthens. The strategy map presented below sets out who we are, why we exist and how we are going to achieve our four new long-term strategic priorities.

<b>Vision</b>	To create a legacy of long-term, sustainable value for all stakeholders by being the partner of choice in the agriculture and food value chain.			
<b>Mission</b>	To be a profitable and sustainable vertically integrated agriculture and food group.			
<b>Strategic priorities</b>	Enhance shareholder value	Effective capital allocation	Achieve operational excellence	Good corporate citizenship
<b>Strategic objectives</b>	Create long-term sustainable growth in shareholder value	Growth through earnings-enhancing and cash generative opportunities in the agriculture and food value chains (local and international)	Sustainable growth, profitability, and cash flow with effective use of technology, risk management and governance	Creating value for all stakeholders (shareholders, customers, employees, communities, suppliers and partners, government)

Business objectives and strategy map				Measures	Targets
<i>Value</i>	NAV	Share price	Dividend	NAV per share and SOTP Growth in share price Growth in dividend	Support share price via targeted interactions with shareholders Shareholder of reference
<i>Financial (Group)</i>	Increase return on assets	Increase cash flow	Increase profitability	Net profit % of revenue Return on equity EBITDA performance* Headline earnings	Specific targets for the Group set out in the 2024 plan
<i>Operational (group companies)</i>	Increase return on assets	Increase cash flow	Increase profitability	EBITDA performance* Net profit % of revenue Headline earnings	Specific targets for the group companies set out in the 2024 plan
<i>Investment</i>	Minimum IRR	Increase earnings for the Group	Increase cash flow	Diversification of capital base* Concentration risk* Earnings/cash enhancing	Specific targets for the Group set out in the 2024 plan
<i>Organisational capacity</i>	Training and development	Career pathing	Enhance technology	Succession plan* Training Index* Technology Index*	Annual evaluation 80% effective Cost-benefit ratio

High-performance organisation			
Encourage high performing, motivated and collaborative culture	Attract and develop human talent	Enhance technology	Effective total reward system

\* These items will be reported in future as our measurement ability and tracking history grows

## Long-term Strategic Priorities

Despite the significant impact of COVID-19, our Group outperformed expectations and performed significantly better than the prior year. Our performance is in line with our trajectory to reach our 2024 growth targets and we have seen the results of a honed focus on improving profitability. Readers should bear in mind that we operate with a sustainable long-term view which drives our strategic choices. Our performance against our strategy for each strategic priority is reported in more detail on the following pages.



### Enhance Shareholder Value

**Description of objective:** Create long-term sustainable growth in shareholder value.

**Why this objective is important:** A business that does not generate consistent profits will destroy more value than it creates and cease to exist. Our focus on allocating capital to our businesses and deploying capital for new profitable businesses ensures we generate a return and grow shareholder value.

Focusing our actions on the growth of each "Value" business objective (as indicated in the strategy map) will ensure we enhance shareholder value.

### Intrinsic Net Asset Value (SOTP)

This report sees the first instance of our SOTP valuation. This valuation is believed to be a truer reflection of the Group's value than our share price and is designed to inform shareholders of the intrinsic fair value of each group company. Going forward, we will track our SOTP value annually. The composition of our SOTP value is as follows:

Rm	SOTP value
Agri Inputs & Services	1 440
Fresh Fruit	563
Food Processing	133
Health Foods	230
Corporate	703
<b>Total</b>	<b>3 069</b>
Issued shares, net of treasury shares (number)	130 815 032
SOTP value per share (rand)	23.46
Over the counter share price (rand)	12.00
Percentage discount to SOTP value per share	(49%)

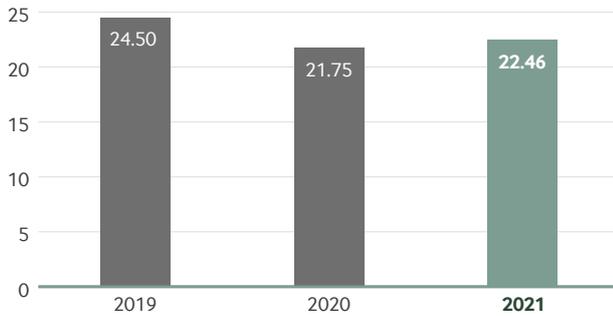
### Actions to Achieve Growth (Short to Medium Term)

- Deploy our cash and utilise our strong balance sheet to acquire cash generative businesses that complement our existing portfolio in line with our investment philosophy
- Focus on better utilisation of current capital allocated for operational use to improve profitability of our group companies via increasing earnings-enhancing revenue activity and optimal cash conversion

## Net Asset Value

Our net asset value as measured by accounting standards is an important measurement tool.

### Net asset value per share (rand)



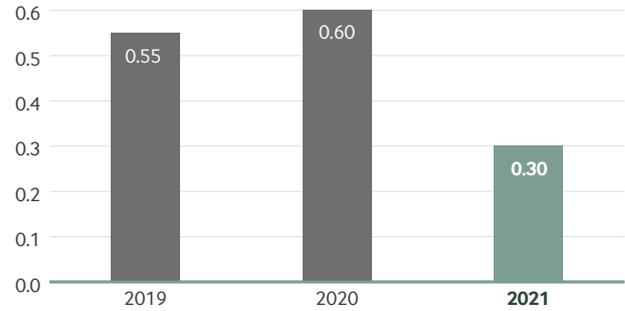
### Actions to Achieve Growth (Short to Medium Term)

- Optimise each group company's capital structure
- Focus on cash conversion and working capital management
- Participate in meaningful earnings-enhancing joint venture relationships that require minimal capital though shared strategic resources

## Growth in Dividend

Returning dividends to our shareholders is a high priority.

### Dividend per share (rand)



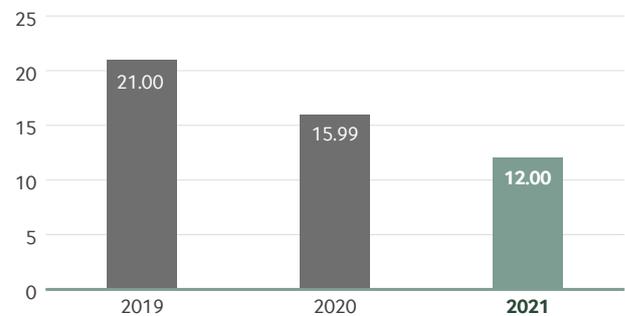
### Actions to Achieve Growth (Short to Medium Term)

- Optimise cash conversion in our businesses to increase free cash flow and enable a return on capital in the form of a cash dividend

## Growth in Share Price

While we cannot control the market, we can control our businesses. We believe that our growing, cash generative and profitable businesses, supported by a growing dividend yield, would support a sustainable increasing share price and ultimately, shareholder value.

### Share price at year-end (rand)



### Actions to Achieve Growth (Short to Medium Term)

- A growing share price will be the result of achieving growth in the previous business objectives



## Effective Capital Allocation

**Description of objective:** Expand earnings-enhancing and cash generative opportunities in the local and international agriculture and food value chains to ensure organic and acquisitive growth in our portfolio.

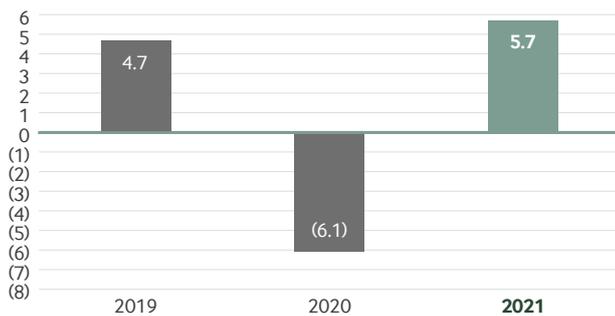
**Why this objective is important:** To fulfil our vision of being the partner of choice we must demonstrate an ability to allocate capital to projects or companies that will result in growth.

Focusing our actions on the growth of the relevant "Financial" and "Investment" business objectives (as indicated in the strategy map) will ensure we are allocating capital effectively.

### Increase Return on Equity

An increasing return on equity means that our assets are being used efficiently.

#### Return on average equity\* (%)



\* Net profit after tax used in the calculation of return on average equity has been normalised to exclude the effects from the sale of the Pioneer Foods shares in 2019.

#### Actions to Achieve Growth (Short to Medium Term)

- Optimise the capital structure per business to ensure effective capital deployment
- Achieve operational excellence

### Increase Cash Flow for the Group

Increasing the Group's cash flow is important for management as it drives growth in dividends and allows a steady flow of cash for capital allocation. This measure is tracked under our Achieve Operational Excellence strategic priority and is reported in that section.



## Achieve Operational Excellence

**Description of objective:** Operational excellence results in sustainable growth, enhanced profitability and healthy cash flow. It encompasses the effective use of evolving technology, good risk management and good governance of each group company.

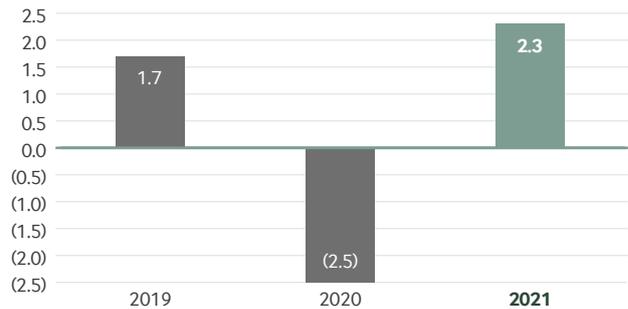
**Why this objective is important:** To fulfil our vision of being the partner of choice, our group companies should operate sustainably and at a high level of efficiency and excellence.

Focusing our action on the growth of the relevant "Financial" and "Operational" business objectives (as indicated in the strategy map) will ensure we are improving operations.

### Net Profit Margin

Profitability is part of our mission. A business producing consistent profits is sustainable.

#### Net profit margin\* (%)



\* Net profit margin for the Group has been normalised to exclude the effects from the sale of the Pioneer Foods shares in 2019.

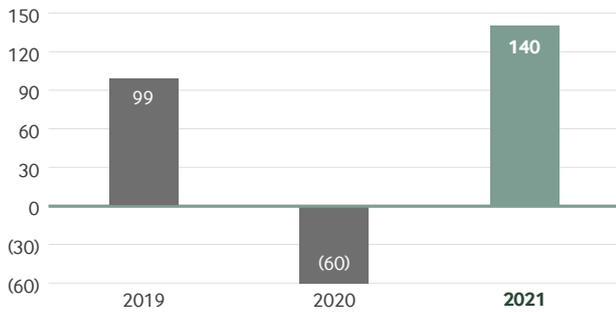
#### Actions to Achieve Growth (Short to Medium Term)

- Focus on earnings-enhancing revenue activity, cost structures and capital requirements
- Actively pursue business opportunities that significantly increase our revenue generating activities by volume and expand meaningful new customer offerings or other geographical expansion

### Increase Earnings for our Group

Streamlined operations mean minimised costs, products and services that cater effectively to consumer demands and maximisation of earnings.

#### Headline earnings (Rm)



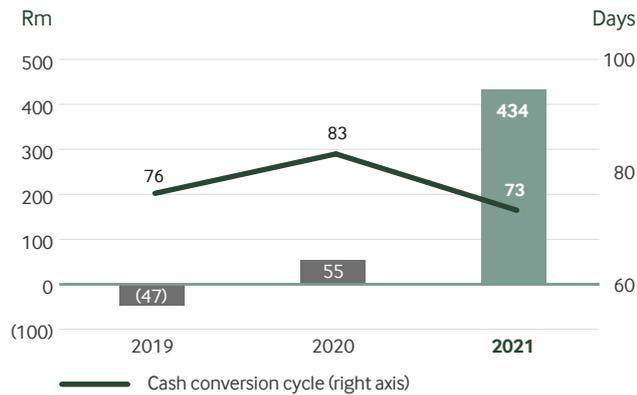
#### Actions to Achieve Growth (Short to Medium Term)

- Operate a lean structure within our businesses, with a focus on cost optimisation and effective business practices
- Participate in meaningful earnings-enhancing joint venture relationships that require minimal capital through shared strategic resources

### Increase Cash Flow

Profitability and healthy cash flow go hand in hand for any business. Good cash flow keeps the business sustainable and provides capital for allocation.

#### Cash flow generated from/(utilised in) operating activities



#### Actions to Achieve Growth (Short to Medium Term)

- Optimise working capital cycle
- Optimise the use of our balance sheet to leverage available and suitable debt to support cash generation



### Good corporate citizenship

**Description of objective:** Create value for all stakeholders (shareholders, customers, employees, communities, suppliers and partners, and government).

**Why this objective is important:** To create long-term sustainable value, our Group strategy should focus on value creation for all stakeholders and not only shareholders.

This strategic priority is the most challenging to measure. We are committed to a continuing journey of tracking meaningful measures for this priority. Readers are referred to our business model on page 12 and our stakeholders section on page 19 for detailed information relating to our Group's impact on its various stakeholders.

## Our Approach

We deliver on our strategy and increase profitability and cash generation through a unique blend of operational and investment expertise.

To leverage these areas of expertise, our management team is split according to two strategic focus areas. While mutually supportive, each team is assigned key responsibilities to support better execution of our strategic objectives.

### Operational

#### Key Focus

Optimise and grow our businesses

#### Key Responsibilities

- Unlock synergies with cross-selling and shared services across the Group and growth opportunities requiring reinvestment of Group capital.
- Optimise allocation of capital within group companies to enhance profitability and cash generation.

### Investment

#### Key Focus

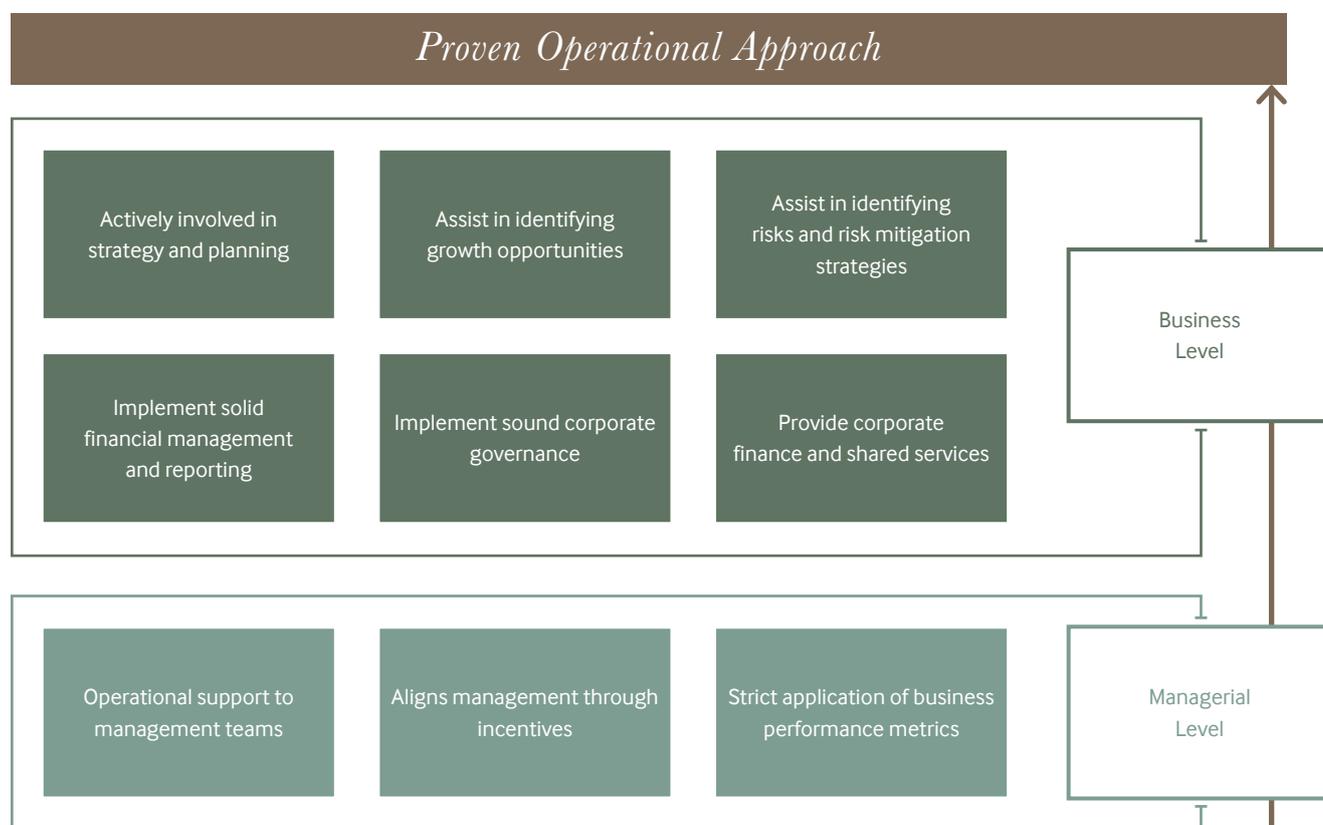
Deploy capital to support long-term strategic objectives

#### Key Responsibilities

- Identify opportunities for effective deployment of capital into growth assets which are earnings and cash flow enhancing.
- Regular evaluation of current group companies and timeous intervention in case of non-performing companies.

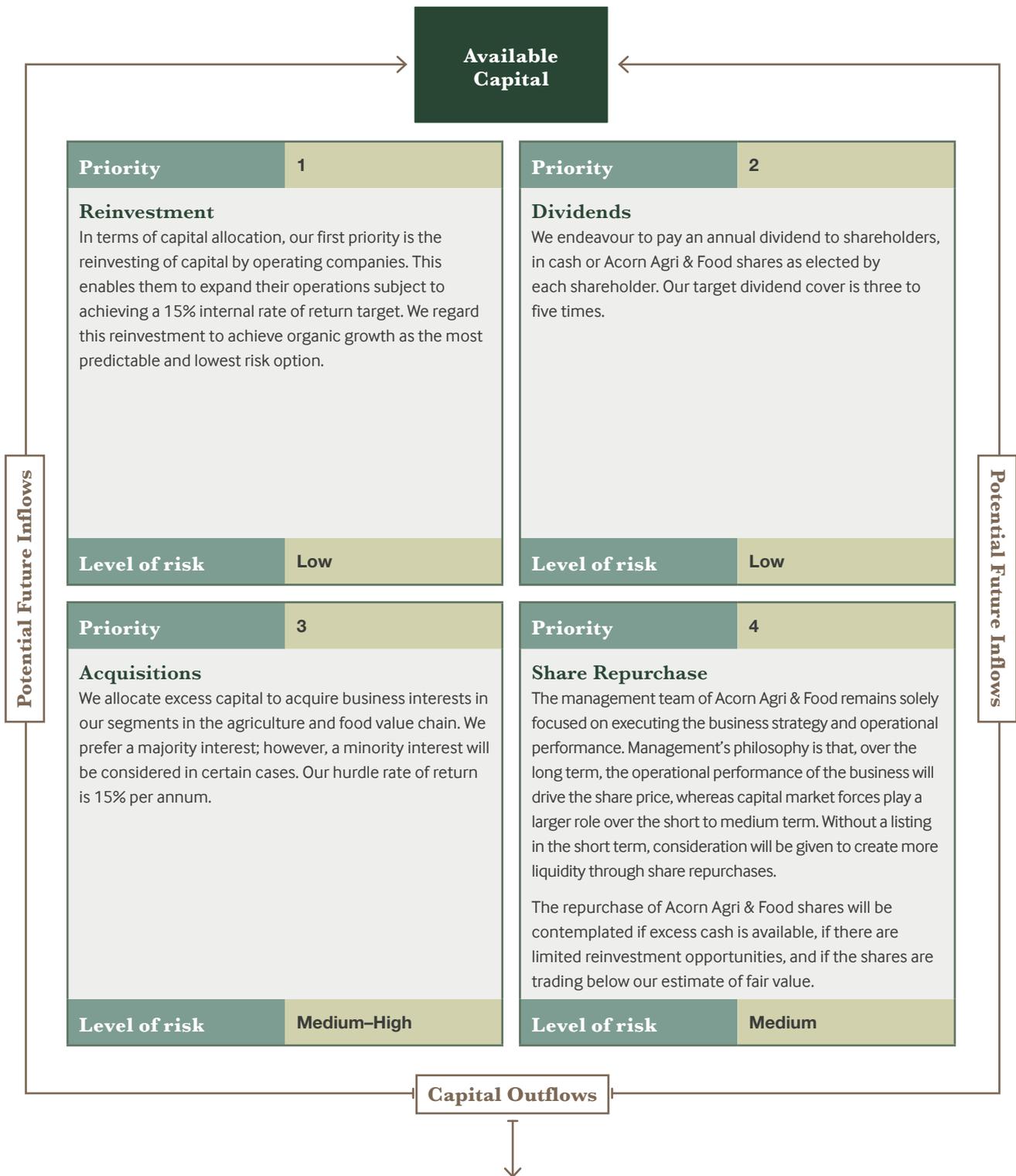
## Operational Approach

Acorn Agri & Food follows a strict operational approach to manage group companies. The diagram illustrates the operational initiatives that Acorn Agri & Food implements within each group company.



## Capital Allocation Approach

Acorn Agri & Food adheres to a strong capital allocation framework and discipline to drive shareholder returns.





## Investment Philosophy

Acorn Agri & Food's investment philosophy is to:

- acquire solid, cash generative agriculture and food businesses, within our value chain segments, with a strong management team and at a price that supports our return targets;
- pursue strategic mergers and acquisitions to drive scale, enhance route to market or facilitate cross-selling within each segment; and
- continue diversifying across geographies, commodities, markets and currencies.



## Investment Approach

Acorn Agri & Food's investment approach is to:

- leverage our established relationships to source quality transactions;
- perform a rigid analysis of the opportunity;
- perform a thorough due diligence to identify opportunities and risks;
- apply sophisticated deal structuring and terms to mitigate risks; and
- utilise our industry knowledge and expertise to drive value creation post-transaction.



## Investment Criteria

Acorn Agri & Food endeavours to invest in businesses with the following characteristics:

- Understandable business
- Robust business model
- Sustainable competitive advantage
- Profitable and cash generative
- Solid growth prospects
- Not highly leveraged
- Experienced, ambitious and trustworthy management team

## Exclusion List

The board of Acorn Agri & Food adopted a comprehensive investment exclusion list which includes the following criteria:

- We do not engage in speculative investment in activities such as commodities, commodity contracts or forward currency contracts that are outside the ordinary course of business.
- We do not invest in any portfolio company where we are aware, or become aware, of it being involved in:
  - a. criminal activities;
  - b. human rights violations;
  - c. unsound labour practices;
  - d. unsound corporate governance practices; or
  - e. unsound environmental practices.
- We do not invest in any portfolio company conducting certain activities as outlined in the investment exclusion list.

## Divestment Criteria

Acorn Agri & Food has a long-term view with regard to its operating companies and investments. However, the board of Acorn Agri & Food approved guidelines for the divestment of group companies or investments.

Guidelines for the divestment of group companies are, inter alia:

- The group company falls outside Acorn Agri & Food's strategic focus;
- The group company engages in activities listed on the Acorn Agri & Food investment exclusion list;
- The group company is not profitable and unlikely to achieve profitability within a reasonable time period, despite various interventions by Acorn Agri & Food;
- The investment in the group company bears substantial risk based on pre-existing or new circumstances;
- Acorn Agri & Food believes that the management or co-shareholders of a group company is unethical and/or criminal in its business dealings and that Acorn Agri & Food could suffer reputational damage through its investment in the group company; and
- Acorn Agri & Food endeavours to redeploy the capital invested in a group company into investments with more attractive attributes and/or growth prospects.