

Financial review








Chief financial officer's report

Overview

It is with pleasure that I write my first report as Acorn Agri & Food's chief financial officer. The 2021 financial year represents the second full year of operation for Acorn Agri & Food since the amalgamation on 2 May 2018. Therefore, there are no longer any comparability issues in our reported figures.

Our Group was very fortunate in a challenging year, achieving a 334% increase in headline earnings to R140 million on lower revenue opportunities impacted by COVID-19 restrictions. In addition, our cash generated from operating activities increased by an astounding 695% to R434 million. Moving forward, the focus for our existing businesses is on **profitable** revenue growth and utilising our strong balance sheet to respond to the right new business opportunities.

This year is the first that we use the SOTP calculation to report the fair value of each investment from a Group perspective. The SOTP complements the consolidated profitability of Acorn Agri & Food's underlying businesses which is measured through recurring headline earnings. This will provide shareholders with more relevant information about the Group's value and performance.

<i>Revenue continuing operations</i> R7.5 billion (R7.6 billion)	 2%
<i>Net profit after tax</i> R184 million (Loss R204 million)	 190%
<i>Headline earnings</i> R140 million (Loss R60 million)	 334%
<i>Cash generated from operations</i> R434 million (R55 million)	 695%
<i>Sum of the parts</i> value per share	 R23.46

Group Performance

Much of the Group's reassuring results stem from the stellar performance of three of our four segments during the last six months of the financial year. The pandemic caused substantial financial strain in the first half of the year. Interest margins were significantly impacted by unprecedented rate cuts and a decrease in revenue following lockdown measures.

Agri Inputs & Services, Food Processing and Fresh Fruit performed significantly above expectations in a challenging year. Health Foods performed below expectations, but improved on prior year results. We believe this segment is well positioned for future growth opportunities in the health snacking market.

Key Segment Highlights

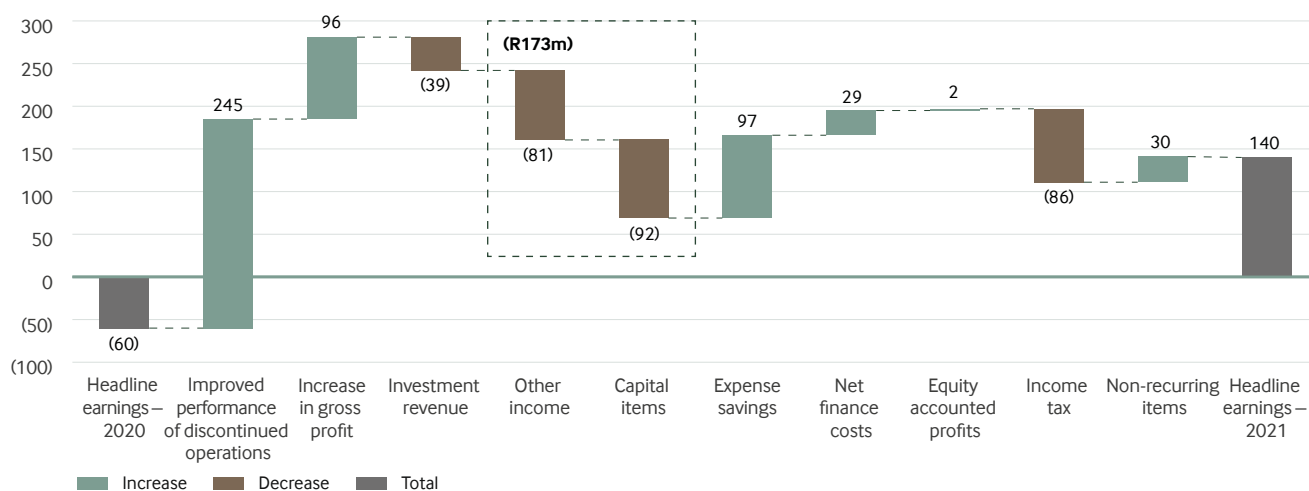
Segment	REVENUE	
	% change	To
Agri Inputs & Services	(2%)	R6 940 million
Food Processing	+9%	R239 million
Health Foods	(13%)	R265 million
Discontinued Operations	(7%)	R575 million

Segment	NET PROFIT/(LOSS) AFTER TAX	
	% change	To
Agri Inputs & Services	+333%	R137 million
Food Processing	+19%	R12 million
Health Foods	(110%)	(R8 million)
Discontinued Operations	+112%	R65 million

Statement of Profit or Loss

Revenue from continuing operations decreased by 2% to R7.5 billion (2020: R7.6 billion). It is estimated that COVID-19 regulations had a R648 million adverse impact on the Group, specifically relating to our businesses in the Agri Inputs & Services, Health Foods and Food Processing segments.

2021 Headline Earnings (Rm)



Headline Earnings

Although our revenue decreased, the Group's strategy and focus on profitable business resulted in all segments reporting improved profitability.

Headline earnings increased by 334% to R140 million (2020: R60 million loss) while headline earnings per share increased to 106 cents (2020: 46 cents loss). The Group believes that headline earnings and headline earnings per share fairly reflect the Group's performance by eliminating the impact of unusual, non-recurring income and/or expenditure.

Financial Position

Liquidity

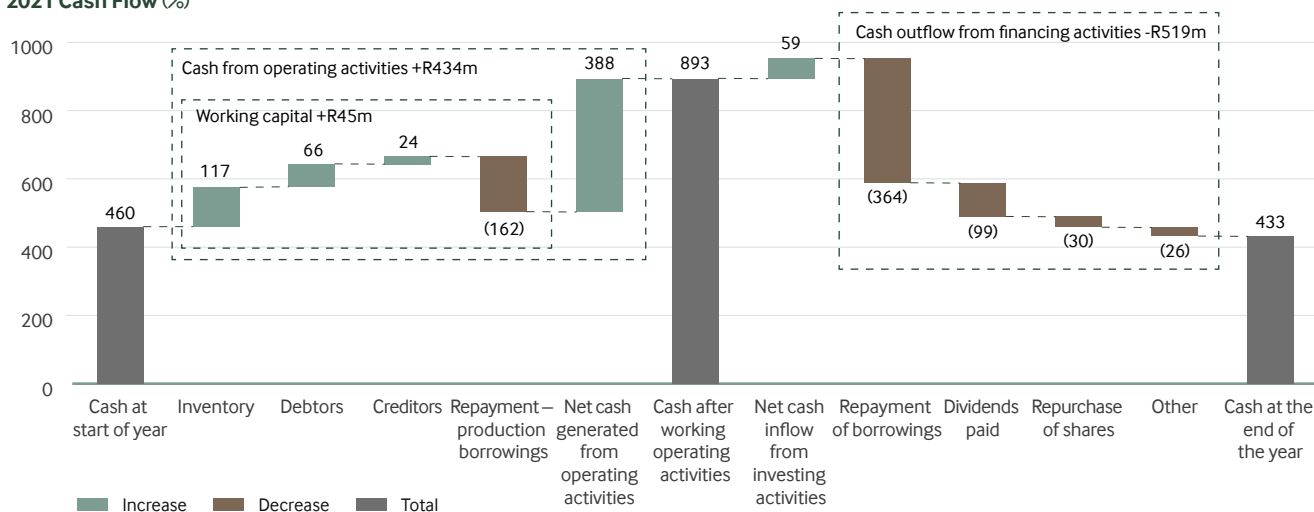
Equity attributable to equity holders of the parent remained almost constant at R3 billion. For the purposes of the integrated annual report this year, we have adjusted our net working capital and interest-bearing debt calculations due to the production borrowings current liability item. The nature of this item relates to the financing of Overberg Agri's trade and other receivables. Therefore, it is more appropriate to treat it as part of net working capital than as part of interest-bearing debt.

Net working capital decreased to R831 million (2020: R1 002 million). The Group has positive net cash balances amounting to R433 million (2020: R460 million) and a largely unencumbered balance sheet. Net interest-bearing debt (excluding items relating to disposal group) is at R358 million (2020: R684 million) and the net interest-bearing debt-to-equity ratio of 11% (2020: 21%).

Our current ratio remained largely the same at 1.5. Our financial leverage, measured as total assets divided by shareholders' equity, declined slightly to 1.7 (2020: 1.9). Overall, the Group's liquidity levels are sustainable.

Cash Flow

2021 Cash Flow (%)



Net cash of R434 million was generated from operating activities (2020: R55 million). This is largely attributable to the Group's proactive managing of working capital, cost cutting initiatives as a result of the pandemic and strong cash generation from operations.

Dividend

Due to our Group's performance being above expectations in a challenging year, and with consideration to available cash in anticipation of exciting new business opportunities, we declared a dividend of 30 cents (2020: 60 cents) per share (net of treasury shares) for the year.

Sum of the Parts

The Group's intrinsic net asset value, or SOTP value, includes valuations of all investments (incorporating group companies, associates and joint ventures at IFRS 13 Fair value valuation). The valuation of these unlisted investments was based on the respective companies' latest financial results (as contained in the Acorn Agri & Food consolidated results) and forecasts.

The SOTP calculation indicates the value of Acorn Agri & Food's underlying portfolio of net assets. However, it does not consider factors such as adjustments for the size of shareholdings, liquidity of the underlying assets, tax on potential disposals of underlying assets or other factors. The full SOTP valuation table can be found in our Group strategy section on page 39.

Our SOTP value of R23.46 per share compares well to our NAV of R22.46 per share. Although the Group's share price is trading at a significant discount to NAV, the SOTP value should provide comfort to shareholders that this discount to NAV is purely as a result of market forces.

Discontinued Operations

The Group is establishing a B-BBEE agriculture and food investment entity that will result in the realisation of ACG Fruit as an asset held-for-sale. Refer to our investment report on page 28 for more detail.

The Group further resolved to dispose of its full investment in Boltfast (prior year only the Johannesburg branch). Both Boltfast and ACG Fruit are classified as discontinued operations and held for sale in the 2021 financial results.

Appreciation

Over the past year, we saw heartening solidarity by all stakeholders and communities at large who did what they could to relieve the plight of many citizens and businesses under financial strain as a result of the lockdowns.

I thank our stakeholders, employees and communities who weathered the storm with us and provided crucial support. Likewise, the commitment and hard work of the Group's finance team is greatly appreciated.

Andries Geertsema

Chief financial officer

External Assurance

The external auditors, PricewaterhouseCoopers Inc., have audited the Group's financial statements for the year ended 28 February 2021, from which this financial information has been extracted. Their unqualified auditor's report dated 31 May 2021 is available for inspection at the registered office of the Group. The Group's auditors have not reviewed nor reported on any of the comments relating to prospects. The full audited consolidated annual financial statements for the year ended 28 February 2021 are available on the website at www.acornagri.co.za/financial-information.

Basis of Preparation

The summarised consolidated financial results are prepared in accordance with criteria developed by management. Under these criteria, management discloses the summarised financial results and information which are derived from the audited consolidated financial statements of Acorn Agri & Food Ltd for the year ended 28 February 2021, prepared in accordance with IFRS.

Extracts from the consolidated statement of financial position

as at 28 February 2021

	2021 R'000	2020 R'000
ASSETS		
Non-current assets		
Property, plant and equipment	981 443	1 027 043
Investment property	276 140	272 704
Intangible assets	211 720	221 724
Biological assets	4 217	4 001
Deferred tax asset	30 708	22 518
Trade and other receivables	187 327	161 985
Loans to related parties	732	5 658
Other financial assets	32 349	27 475
Investments in associates and joint ventures	81 883	68 744
	1 806 519	1 811 852
Current assets		
Inventories	462 009	565 191
Trade and other receivables	1 184 181	1 384 121
Loans to customers	76 553	64 903
Cash and cash equivalents	450 910	510 404
Loans to related parties	792	43 502
Current tax receivable	52 924	130 868
	2 227 369	2 698 989
Assets classified as held for sale	1 364 049	1 439 887
Total assets	5 397 937	5 950 728
EQUITY AND LIABILITIES		
Equity		
Equity attributable to equity holders of parent		
Net issued stated capital	1 434 515	1 464 516
Reserves	(101 740)	(99 136)
Retained income	1 605 686	1 521 311
	2 938 461	2 886 691
Non-controlling interest	276 871	326 963
	3 215 332	3 213 654
LIABILITIES		
Non-current liabilities		
Borrowings	249 719	375 655
Lease liabilities	81 634	102 232
Post-retirement medical liability	13 987	14 478
Trade and other payables	5 798	6 351
Deferred tax	105 400	104 783
Provisions	1 857	1 094
	458 395	604 593
Current liabilities		
Borrowings	931 933	1 324 545
Lease liabilities	20 456	19 656
Post-retirement medical liability	1 858	1 979
Trade and other payables	504 206	448 945
Bank overdraft	17 557	26 353
	1 476 010	1 821 478
Liabilities of disposal group	248 200	311 003
Total liabilities	2 182 605	2 737 074
Total equity and liabilities	5 397 937	5 950 728
Net asset value per share (rand)	R22.46	R21.75

Extracts from the consolidated statement of profit or loss

for the year ended 28 February 2021

	2021 R'000	2020 R'000
Continuing operations		
Revenue	7 454 663	7 631 862
Cost of sales	(6 634 440)	(6 907 606)
Gross profit	820 223	724 256
Interest revenue	104 830	144 127
Other income	25 455	106 064
Sales and marketing cost	(20 710)	(89 893)
Administration cost	(165 769)	(165 534)
Operating expenses	(536 054)	(563 745)
Operating profit before capital items	227 975	155 275
Capital items	(7 296)	85 077
Operating profit	220 679	240 352
Financing income	22 564	55 037
Finance costs	(119 461)	(180 561)
Share of net profit from associate	7 879	5 951
Profit before taxation	131 661	120 779
Income tax expense	(12 786)	73 267
Profit from continuing operations	118 875	194 046
Discontinued operations		
Profit/(loss) from discontinued operations	64 645	(398 472)
Profit/(loss) for the year	183 520	(204 426)
Attributable to:		
Owners of the parent:		
Profit for the year from continuing operations	99 446	82 509
Profit/(loss) for the year from discontinued operations	61 053	(397 600)
Profit/(loss) for the year attributable to owners of the parent	160 499	(315 091)
Non-controlling interest:		
Profit for the year from continuing operations	19 429	111 537
Profit/(loss) for the year from discontinued operations	3 592	(872)
Profit for the year attributable to non-controlling interest	23 021	110 665
	2021	2020
	Cents	Cents
Headline earnings per share	106	(46)

Extracts from the consolidated statement of comprehensive income

for the year ended 28 February 2021

	2021 R'000	2020 R'000
Profit/(loss) for the year	183 520	(204 426)
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	190	258
Actuarial gains and losses on defined benefit plans	(93)	(1 300)
Income tax effect relating to these items	–	–
Total items that may be reclassified to profit or loss	97	(1 042)
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments at fair value	164	182 709
Income tax relating to these items	–	(95 942)
Total items that will not be reclassified to profit or loss	164	86 767
Other comprehensive income for the year, net of tax	261	85 725
Total comprehensive income/(loss) for the year	183 781	(118 701)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	160 558	(229 366)
Non-controlling interest	23 223	110 665
	183 781	(118 701)

Extracts from the consolidated statement of changes in equity

for the year ended 28 February 2021

	2021 R'000	2020 R'000
Balance at the beginning of the year	3 213 653	3 483 294
Profit/(loss) for the year	183 520	(204 426)
Other comprehensive income for the year	261	85 725
Issue of shares	–	112 750
Share buyback	(30 000)	(16 000)
Transactions with non-controlling interests	(52 615)	(17 497)
Dividends paid	(99 487)	(230 193)
Balance at the end of the year	3 215 332	3 213 653

Extracts from the consolidated statement of cash flows

for the year ended 28 February 2021

	2021 R'000	2020 R'000
Cash flows from operating activities		
Cash generated from operations	466 374	186 153
Interest income	22 564	199 257
Finance costs	(111 710)	(181 685)
Tax paid	56 550	(149 140)
Net cash from operating activities	433 778	54 585
Cash flows from investing activities		
Acquisition of property, plant and equipment	(72 406)	(178 734)
Proceeds from sale of property, plant and equipment	85 082	21 833
Acquisition of investment property	(2 272)	(20 106)
Acquisition of intangible assets	(2 859)	(13 546)
Loans to related parties repaid	51 262	(86 441)
Acquisition of financial assets	(8 381)	(28 246)
Acquisition of investment in associates	(5 261)	–
Proceeds from sale of investments	2 277	635 411
Purchase of biological assets	(5 245)	(22 286)
Sale of biological assets	16 520	9 004
Sale of investment in group company	–	706 553
Tax paid on sale of investments	–	(95 942)
Net cash from investing activities	58 717	927 500
Cash flows from financing activities		
Repurchase of shares	(30 000)	–
Borrowings incurred	6 153 722	4 912 883
Borrowings repaid	(6 517 729)	(5 375 418)
Principal elements of lease payments	(21 127)	(8 062)
Repayments from other financial liabilities	–	2 402
Repayments on instalment sale agreements	(4 281)	(10 041)
Dividends paid	(99 487)	(247 989)
Net cash outflow from financing activities	(518 902)	(726 225)
Net (decrease)/increase in cash, cash equivalents and overdrafts	(26 407)	255 860
Cash, cash equivalents and bank overdrafts at the beginning of the year	460 148	204 288
Cash, cash equivalents and bank overdrafts at the end of the year	433 741	460 148
Continuing operations	433 353	484 051
Discontinued operations	388	(23 903)
	433 741	460 148

Extract from the segment report

for the year ended 28 February 2021

	AGRI INPUTS & SERVICES		FOOD PROCESSING		HEALTH FOODS	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Revenue	6 939 874	7 096 949	238 632	218 855	265 146	306 343
Net profit	136 877	31 594	12 175	10 198	(7 682)	76 664
Net profit margin on external revenue	2.0%	0.4%	5.1%	4.7%	(2.9%)	25.0%
Headline earnings	117 881	5 469	12 178	10 229	(2 981)	(22 107)
Assets	3 582 664	3 533 813	43 505	40 835	374 443	765 048
	CORPORATE AND CONSOLIDATION		DISCONTINUED OPERATIONS		TOTAL	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Revenue	11 701	11 596	574 965	619 810	8 030 318	8 253 553
Net profit	(22 495)	75 590	64 645	(398 473)	183 520	(204 427)
Net profit margin on external revenue	n/a	n/a	11.2%	(64.3%)	2.3%	(2.5%)
Headline earnings	(20 543)	158 706	33 336	(212 089)	139 874	(59 791)
Assets	33 276	171 145	1 364 049	1 439 887	5 397 937	5 950 728