ACORN

AGRI & FOOD

Summarised consolidated financial results

for the year ended
28 February 2021

2021

Revenue R7.5 billion (R7.6 billion)	▼	2%
Net profit after tax R184 million (R204 million loss)	▲	190%
Headline earnings R140 million (R60 million loss)	▲	334%
Cash generated from operating activities R434 million (R55 million)	▲	695%
Sum of the Parts value	▶	R23.46

Introduction

The 2021 financial year marks the second full year of operation for Acorn Agri & Food Ltd (Acorn Agri & Food or the Group) and the first year of the COVID-19 pandemic. Fortunately, the agriculture sector weathered the storm well. Despite experiencing adverse effects from the various lockdowns, our group companies proved resilient and most outperformed our expectations.

In response to COVID-19 and as communicated last year, all of our 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. We thank them for their willingness to lead from the front when there are tough and unpopular decisions to be made.

The comparability issues that arose in 2020's results due to the amalgamation were resolved for the 2021 financial year. However, the Group's income statement was re-presented to reflect Boltfast as a discontinued operation.

Operational performance

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.

Agri Inputs & Services

Overall, Agri Inputs & Services experienced irrecoverable revenue losses as a result of the hard lockdown. However, Overberg Agri, Moov Fuel and P&B Lime Works all experienced impressive upturns in the second half of the year on the back of the largest harvest on record. Boltfast was hardest hit by the lockdown but remained at our budgeted level due to business restructuring that resulted in a substantial cost reduction. AgVentures – our Group's dedicated agriculture and food technology arm – made excellent progress on three investments in the agricultural technology space over the past 18 months. We commend the teams at these group companies for what they have achieved despite COVID-19.

Fresh Fruit

ACG Fruit benefited from several favourable variables over the past year: 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 substantially following the pandemic. The improved capital structure of the business, along with these favourable variables, resulted in a return to profitability. 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.

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 as well as good procurement strategy.

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's new strategies. In response, both businesses implemented impressive cost cutting initiatives to limit losses. We further saw promising progress in their strategies towards the latter part of the year and expect continued progress into the 2022 financial year.

Financial results

Income statement

Revenue from continuing operations reflected a decrease of 2% to R7.5 billion (2020: R7.6 billion). Gross profit from continuing operations increased by 13% to R820 million (2020: R724 million). The gross profit margin also increased to 11% (2020: 9.5%) due to a focus on profitable business.

Operating profit before capital items increased by 47% to R228 million (2020: R155 million). This line item excludes capital items and non-core profits and losses. This increase is attributable to robust profitable business after both cash spending restrictions and a critical look at cost structures and working capital requirements across the Group.

Total headline earnings for the Group increased by 334% to a profit of R140 million (2020: R60 million loss). Likewise, headline earnings per share increased to a profit of 106 cents (2020: 46 cents loss).

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

Financial position

The financial position of the Group remained strong due to strict preservation of cash initiatives and the Group was able to decrease debt levels during the period under review. Equity attributable to equity holders of the parent company remained largely constant at R2.94 billion.

For the purposes of the integrated annual report this year, production borrowings has been reclassified as a net working capital item due to its nature relating to the financing of Overberg Agri's trade and other receivables. Our net working capital investment (which excludes net cash and cash equivalents) decreased to R831 million (2020: R1 billion). Net interest-bearing debt of the Group declined to R358 million (2020: R684 million) and along with it, the net interest-bearing debt-to-equity ratio to 0.1 (2020: 0.2).

We performed a sum of the parts (SOTP) valuation – a new initiative – which gives a better indication of the Group's intrinsic value. Our SOTP value of R23.46 per share compares well to our net asset value (NAV) of R22.46 per share and should provide comfort that the prevailing share price, trading at a discount to NAV, is purely a result of market forces.

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.

In response to the pandemic, the Group restricted capital expenditure to only vital maintenance consisting of R72 million (2020: R179 million) while proceeds from the sale of property, plant and equipment were R85 million (2020: R22 million). The Group had net cash balances of R433 million (2020: R484 million) at year-end.

Capital allocation

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. The team spent considerable time evaluating multiple opportunities for group companies and standalone investments and although a number of these opportunities were rejected, several prospects remain that are currently at an advanced stage.

BEE transaction and further cautionary announcement

The formation of a B-BBEE investment vehicle as contemplated in the AFS involves a series of conditional transactions. These transactions will trigger a full circular to shareholders that will include a fair and reasonable opinion by an independent expert. The board has established an independent board to evaluate the proposed transactions and has co-opted Adv Willem Pretorius as an independent member for that purpose. Until a full announcement is made, and the circular is issued, shareholders are advised to exercise caution in trading in the company's shares.

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.

Outlook

The pandemic caused us to re-evaluate business models throughout the Group and to execute a focused review of cost structures and capital requirements. This unlocked efficiencies and increased the use of electronic media.

We foresee that COVID-19 will continue to be part of our lives for the new financial year – depending on vaccination roll-outs. The economic impact of COVID-19 on the South African economy, growth and consumers will last longer than the pandemic. However, we are encouraged by the resilience of the agriculture and food sectors and believe we are perfectly positioned to weather the storm. We further believe that steps taken to date will mitigate any material adverse effect of the pandemic on our results.

We anticipate good conditions for the coming production season and that favourable knock-on effects from 2020's bumper harvest will continue, supporting our performance in the 2022 financial year.

Appreciation

On behalf of the board of directors, we extend our gratitude to our stakeholders. Our employees, shareholders, partners, loyal customers and suppliers played a role in protecting the sustainability of our business during this difficult time. We thank you for your trust in us. We will continue to strive for excellence, exceptional performance and service. The past year, with all its challenges, has given us a renewed appreciation for just how precious each day is. Carpe diem!

Cobus Visser
Chairperson

André Uys
Chief executive 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.

Extracts from the consolidated statement of financial position
as at 28 February 2021

	2021 Rm	2020 Rm
ASSETS		
Non-current assets	**1 807**	1 812
Current assets		
Inventory	**462**	565
Trade and other receivables	**1 184**	1 384
Cash and cash equivalents	**451**	510
Other current assets	**130**	239
Non-current assets held for sale and assets of disposal group	**1 364**	1 440
Total assets	**5 398**	5 951
EQUITY AND LIABILITIES		
Equity	**3 215**	3 214
Non-current liabilities	**458**	605
Current liabilities		
Borrowings and lease liabilities	**952**	1 344
Other current liabilities	**525**	477
Liabilities of disposal groups	**248**	311
Total equity and liabilities	**5 398**	5 951
Number of issued shares ('000)	**144 687**	144 687
Treasury shares held by subsidiaries ('000)	**13 872**	11 936
Net asset value per share, excluding treasury shares (rand)	**22.46**	21.75

Extracts from the consolidated statement of profit or loss
for the year ended 28 February 2021

	2021 Rm	2020 Rm
Revenue	**7 455**	7 632
Cost of sales	**(6 634)**	(6 908)
Gross profit	**820**	724
Operating profit before capital items	**228**	155
Net finance costs	**(97)**	(126)
Share of net profit from associate	**8**	6
Profit before taxation	**132**	121
Taxation	**(13)**	73
Profit for the year from continuing operations	**119**	194
Profit/(loss) from discontinued operations	**65**	(398)
Profit for the year	**184**	(204)
Headline earnings/(loss)	**140**	(60)

Extracts from the consolidated statement of cash flows
for the year ended 28 February 2021

	2021 Rm	2020 Rm
Cash flows from operating activities	**434**	55
Working capital changes	**45**	13
Other	**389**	42
Capital flows from investing activities	**59**	928
Acquisition of property, plant and equipment	**(72)**	(179)
Other	**131**	1 107
Cash flows utilised in financing activities	**(519)**	(726)
Dividends paid	**(99)**	(248)
Other	**(420)**	(478)
Net cash (decrease)/increase for the year	**(26)**	256
Net cash, cash equivalents and overdrafts at beginning of the year	**460**	204
Net cash, cash equivalents and overdrafts at end of the year	**434**	460