ACORN AGRI & FOOD

Summarised consolidated financial results

for the year ended 28 February 2022

Key Metrics

ADJUSTED HEADLINE EARNINGS PER SHARE (CENTS)*

2022	115
2021	102

+13%

+12%
R473m
EBITDA*
(2021: R422m)
* Before capital items

-10%
R161m
NET PROFIT AFTER TAX
(2021: R178m)

+10%
R531m
CASH GENERATED FROM OPERATIONS
(2021: R484m)

+40%
R11.2bn
GROUP REVENUE
(2021: R8.0bn)

+11%
R25.96
SUM OF THE PARTS PER SHARE
(2021: R23.46)

+67%
50c
DIVIDENDS PER SHARE
(2021: 30c per share)

* Adjusted for impairment on loans to Berekisanang Empowerment Farm (Pty) Ltd

Introduction

2022 encompassed rapid change worldwide, and South Africa was no different. Our Group withstood another pandemic year admirably and adapted to the flurry of structural, civil and economic challenges that arose. The Group has again proven the effectiveness and importance of our diversified business model, and we are pleased to report growth in operating profit before capital items of 17% to R326 million.

Two matters impacted the comparability of our results. The Group entered a sale and purchase agreement with certain shareholders to dispose of 100% of ACG Fruit and 25% of The Health Food Group. This transaction was communicated to shareholders by circular on 5 July 2021, but was subsequently cancelled by the board of directors. ACG Fruit has consequently been reclassified from disposal group in the consolidated financial statements. The Group further reclassified Boltfast as a continuing operation, as the board does not believe current market conditions support the realisation of the business at a reasonable price within the next 12 months.

Operational performance

Our Group's diversification strategy has proven successful by delivering consistent growth in headline earnings and dividends to shareholders over the past three years, despite significant changes in our various business environments brought on by the pandemic and changes in market conditions of primary agriculture. All three acquisitions planned for the 2022 financial year closed successfully, namely Ascendis Animal Health (now known as Kyron Group), Meat Matrix (now known as Matrix Software) and Bachmus Oil and Fuel Supplies. These acquisitions resulted in a redefinition of our operating segments.

Agri Inputs & Services

The South African agricultural sector saw material growth during 2020 and 2021 due to above-average harvests and favourable commodity prices. The above-average harvests in 2020 and 2021 boosted cash flow and improved the financial position of Overberg Agri, with all its divisions profiting from these favourable conditions. We will continue to reap many benefits of the most recent harvest well into the new financial year. Moreover, the business's clients' financial positions improved significantly, which boosted retail sales and cash flow. Overberg Wealth & Risk Management had another exceptional year with profitability increasing on the back of a bigger customer base.

As of 1 December 2021, Kyron Group was included in our Group's figures and we saw performance above expectations on the back of the expanding agriculture sector. AgVentures successfully concluded its acquisition of Matrix Software.

Production

P&B Lime Works performed above expectations due to the increased demand for feed lime, increased sales of hydroxide and good agricultural lime sales following the growth in the agriculture sector. However, the business also experienced wet conditions in the Western Cape that prohibited the crushing and screening of material, and therefore reported challenges in producing enough chicken grit to meet demand.

Boltfast's industry trading conditions remained subdued. However, a new business model for the company, following a restructuring of the business, proved to be the right decision and the business returned to profitability.

Energy & Logistics

Moov Fuel was positively impacted by improved business sentiment and increased economic activity following the easing of lockdown restrictions. The business also concluded its acquisition of Bachmus Oil and Fuel Supplies, which gives our Group access to a distribution network in Namibia which provides excellent expansion and growth opportunities in Botswana, Zambia, Zimbabwe and Mozambique.

Bachmus Oil and Fuel Supplies has far exceeded our expectations in terms of earnings contributions and the growth prospects for this business look promising.

Agri Production

Although weather conditions in 2021 were favourable for many farmers in South Africa, ACG Fruit has suffered from significant rainfall in the Northern Cape and extremely cold conditions in the Kakamas area. Furthermore, a material decrease in the citrus price along with a strong rand adversely impacted its citrus exports and earnings. As we have now disposed of three farms during the last two financial years, we have embarked on a business restructuring process to ensure our cost structures are fit for purpose – we believe this will have a positive impact on the Group.

Food Processing

Although Overberg Meat's revenue line has remained relatively stable, material price pressure has impacted gross profit margins and has resulted in performance below expectations.

After a rebuilding and repositioning phase over the past two years, we have finally started to see growth initiatives come through for The Health Food Group. The reopening of borders allowed us to revisit our international growth strategy and opened up new markets internationally. We are also excited about the prospects of a more efficient value chain following the strategic decision to relocate Montagu Snacks' factory operations to Cape Town.

Financial results

Key highlights of the Group included increasing quality of earnings mainly through improved margins, cash generation and investment in strategic business opportunities that pave the way for stronger growth prospects. Our substantial recovery in profitability, excluding ACG Fruit, has been very positive and our growth trajectory over the last two years pleasing.

Income Statement

This year, Acorn Agri & Food reports record growth in revenue of 40% to R11.2 billion (2021: R8 billion). Gross profit increased by 18% to R1.2 billion (2021: R982 million). The gross profit margin (normalised by excluding the Energy & Logistics segment and grain trading) remained consistent at 19% due to our continued focus on doing profitable business.

Operating profit before capital items increased by 17% to R326 million (2021: R279 million). This line items excludes capital items and non-core profits and losses. The increase is attributable to more robust businesses after a critical look at cost structures as well as significant contribution from our new acquisitions and optimising operating capital requirements across the Group.

Total headline earnings for the Group decreased by 7% to R126 million (2021: R135 million). We have adjusted our headline earnings with an unrealised impairment of a loan made to Berekisanang Empowerment Farm (Pty) Ltd to report on an adjusted headline earnings of R150 million for the period under review.

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

Financial Position

We introduced a healthy level of gearing with the acquisition of Kyron Group. Strong cash generation in our businesses during the year facilitated debt repayments of R53 million. Equity attributable to equity holders of the parent company increased to R3.0 billion (2021: R2.9 billion). Our net asset value per share increased to R23.12 (2021: R22.42) per share.

Our net working capital investment remained largely consistent at R1.0 billion. Debt of the Group increased to R1.7bn (2021: R1.2bn) mainly due to our acquisitions and along with it, the net debt-to-equity ratio increased to 25% (2021: 10%).

Cash Flow

Net cash of R392 million was generated from operating activities (2021: R452 million). This is largely attributable to the Group's proactive managing of working capital, cost cutting initiatives and strong cash generation from operations.

The Group's capital expenditure came in at R196 million (2021: R143 million) while proceeds from the sale of property, plant and equipment were R59 million (2021: R137 million). The Group had cash balances of R243 million (2021: R434 million) at year-end.

Capital Allocation

In line with our strategy, the acquisitions of Kyron Group, Bachmus Oil and Fuel Supplies and Matrix Software led to progress in 1) the diversification of our capital base as we expand operations, and 2) reduced concentration risk by expanding our geographic territory and customer base.

Although we hold various attractive group companies, we are now in a position where we need to shift our thinking towards the next phase of the Group's investment journey. Over the next few months we expect to continue our efforts in this regard and we are excited about the possibilities and options currently on the table.

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 50 cents (2021: 30 cents) per share (net of treasury shares) for the year.

Outlook

We foresee continued easing of restrictions and improving trading conditions for the coming year following the mass roll-out of vaccines. Unfortunately, load shedding, civil unrest, high unemployment, corruption and poor economic growth are hard-hitting challenges that will not easily be resolved on our journey forward. In addition, escalating conflict between Ukraine and Russia pose a threat to global food security and could cause major supply disruptions globally. The economic ramifications of the conflict could result in further challenges for our business and consumers and may affect the cost of food production in general as the availability of fertiliser is under threat.

We will need to approach the new financial year alert, aware and keenly adaptable to the new challenges that await us as we continue to execute our strategy. However, we are confident that the leadership of Acorn Agri & Food is up to the task. Although we foresee challenging headwinds in the medium term, we also see a future filled with opportunity and we are poised for growth.

Appreciation

On behalf of the board, we would like to express our appreciation to our stakeholders. It truly is a team effort to remain sustainable and steadfast in the face of adversity. Our employees, shareholders, partners, loyal customers and suppliers – everything we do as Acorn Agri & Food is to continue to create value for you and to serve you as best we can. We cannot thank you enough for your continued and valued support.

Cobus Visser
Chairperson

André Uys
CEO

External assurance

The external auditors, PricewaterhouseCoopers Inc., have audited the Group's financial statements for the year ended 28 February 2022, from which this financial information has been extracted.
Their unmodified auditor's report dated 26 May 2022 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 2022 are available on the website at www.acornagri.co.za/financial-information.

Extracts from the consolidated statement of financial position
as at 28 February 2022

	2022 Rm	2021 Restated* Rm
ASSETS		
Non-current assets	**3 675**	2 610
Current assets		
Inventory	**833**	526
Trade and other receivables	**1 622**	1 354
Cash and cash equivalents	**390**	454
Other current assets	**309**	317
Non-current assets held-for-sale	**–**	114
Total assets	**6 829**	5 375
EQUITY AND LIABILITIES		
Equity	**3 361**	3 210
Non-current liabilities	**724**	596
Current liabilities		
Borrowings and lease liabilities	**1 458**	987
Other current liabilities	**1 286**	582
Total equity and liabilities	**6 829**	5 375
Number of issued shares ('000)	**144 687**	144 687
Treasury shares held by subsidiaries ('000)	**14 282**	13 872
Net asset value per share, excluding treasury shares (Rand)	**23.12**	22.42

Extracts from the consolidated statement of profit or loss
for the year ended 28 February 2022

	2022 Rm	2021 Restated* Rm
Revenue	**11 219**	8 030
Fair value adjustment to consumable biological assets	**10**	(39)
Cost of sales	**(10 072)**	(7 009)
Gross profit	**1 158**	982
Operating profit before capital items	**326**	279
Capital items	**(22)**	39
Net finance costs	**(107)**	(109)
Profit from equity accounted investments	**3**	8
Profit before taxation	**200**	216
Taxation	**(38)**	(38)
Profit for the year	**161**	178
Headline earnings	**126**	135
Adjusted headline earnings	**150**	135

Extracts from the consolidated statement of cash flows
for the year ended 28 February 2022

	2022 Rm	2021 Restated* Rm
Cash flows from operating activities	**392**	452
Working capital changes	**15**	45
Other	**377**	407
Capital flows from investing activities	**(825)**	40
Acquisition of property, plant and equipment	**(161)**	(143)
Payment of business acquisitions, net of cash acquired	**(742)**	–
Other	**78**	183
Cash flows utilised in financing activities	**242**	(519)
Dividends paid	**(49)**	(99)
Proceeds on borrowings pertaining to business acquisitions	**350**	–
Other	**(59)**	(420)
Net cash decrease for the year	**(191)**	(26)
Net cash, cash equivalents and overdrafts at beginning of the year	**434**	460
Net cash, cash equivalents and overdrafts at the end of the year	**243**	434

* *Prior year comparatives have been restated for the effect of the reclassification of ACG Fruit and Boltfast from discontinuing operations to continuing operations.*