

Overview

About this report

Scope and boundary

This report covers the integrated performance of Acorn Agri & Food and its subsidiaries and associates for the year ended 28 February 2022. It provides our key stakeholders with material information relating to our business, strategy, performance, governance and prospects. Throughout this report, short-term is defined as less than 12 months, medium-term as one to three years, and long-term as beyond three years.

Extracts from the consolidated financial results are published in the integrated annual report, with the audited consolidated annual financial statements available on the website at www.acornagri.co.za/financial-information.

Reporting frameworks

- King IV Report on Corporate Governance™ for South Africa, 2016 (King IV¹)
- Companies Act of South Africa, No. 71 of 2008, as amended (Companies Act)
- We are continuously working towards aligning our reporting with the International Integrated Reporting Council's Integrated Reporting <IR> Framework

Material matters

We considered our strategic risks and reviewed internal and external factors that could materially impact the Group's profitability and ability to sustain value through its strategy. We tested these against the material matters reported by our South African peers and believe the matters are robust, balanced and complete. We continue to consider any possible material effects of COVID-19 on our operations. Read more about our Material matters on page 32.

Forward-looking statements

This report may contain forward-looking statements related to Acorn Agri & Food's future performance and prospects. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. As such, they are not guarantees or predictions of future performance. Readers are advised not to place undue reliance on such statements. Acorn Agri & Food undertakes no obligation to update publicly or release any revisions to these statements that reflect events or circumstances after the date of this report, or to reflect the occurrence of anticipated events.

Comparability issues/events

Due to the termination of the proposed B-BBEE transaction, prior comparatives have been restated to account for ACG Fruit as a continuing operation, where it was previously a discontinued operation. 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.

No new shares have been issued or repurchased by Acorn Agri & Food Ltd during the period under review. However, the Group's treasury shares have increased by 409 177 shares due to Overberg Agri purchasing shares in the open market in terms of issuing the shares as part of their new loyalty programme. Historical per share ratios were adjusted for the share split which occurred on 2 May 2018, whereby nine additional shares were issued for every one share in issue.

Independent assurance

The consolidated annual financial statements were prepared following International Financial Reporting Standards (IFRS) and the Companies Act. They were externally assured by the Group's external auditor, PricewaterhouseCoopers Inc. (PwC), who expressed an unmodified opinion thereon. The financial information that appears in the integrated annual report is extracted from the audited consolidated annual financial statements.

Approval of the report

The integrated annual report was reviewed by the board and executive team. Acorn Agri & Food's board further acknowledges responsibility for the integrity of the integrated annual report. Following collective assessment, the Audit and risk committee, responsible for oversight of the integrated annual report, recommended the report to the board for approval.

In the board's opinion, the integrated annual report is a fair, balanced and unprejudiced representation of the business's integrated performance, strategy, governance processes, material matters and future prospects over the short, medium and long term. Accordingly, the board approved the 2022 integrated annual report on 25 May 2022 for publication.

Cobus Visser
Chairperson

André Uys
Chief executive officer

Feedback

We value your feedback to improve our integrated annual report. Kindly direct any comments or suggestions to:

Email: investors@qaafservices.co.za Tel: 021 852 2887

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“We will need to approach the new financial year alert, aware and keenly adaptable to the new headwinds that await us as we continue to execute our strategy.”

Cobus Visser



Chairperson's report

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. More detail surrounding these challenges can be found in our operating context on page 28.

Record revenue growth

This year, Acorn Agri & Food reports record growth in revenue of 40%. This comes from multiple wins: the successful conclusion of three acquisitions, a second consecutive above-average harvest and excellent trading conditions in the retail and fuel industry.

This record revenue translated to a 17% improvement upon last year's operating profit before capital items. Similarly, EBITDA before capital items increased by 12%. The above-average harvests as well as our continued pursuit of improved margins and optimising cost structures contributed to this increase.

While the record revenue improved profitability for the Group, ACG Fruit and Grassroots Group detracted from the Group's performance and resulted in a 10% decrease in total net profit after tax. Find more information about our financial performance in our CFO's report on page 47.

Declining share price

The declining trend in our Group's share price since amalgamation has been a cause for concern for our management team and board for the past two years. We have seen a sideways movement in our share price after ending the previous financial year at R12.00 per share and ending the 2022 financial year at R11.50. This share price represents a 50% discount on net asset value (NAV). Throughout the year, the share price moved between R9.00 (low) and R16.00 (high). The board and management are considering numerous initiatives to improve this position.

Trading of Acorn Agri & Food shares remained subdued at 0.79%. Our adjusted headline earnings for the year increased by 11% to R150 million (2021: R135 million). This should support a higher share price even at conservative price earnings ratios. We will continue to focus on improving our results, which should improve the value per share. To quote Elon Musk: **“If something is important enough, even if the odds are against you, you should still do it.”**

Unpacking the board's focus areas for the year

Enhancing the board's composition

It is my pleasure to welcome Alwyn Van Der Merwe to the board of directors. Alwyn brings 32 years of experience in the financial services industry to the table and we have already benefitted from his wisdom.

Disposing of non-strategic operations

Last year, we were excited about a B-BBEE deal which would have allowed us to exit ACG Fruit while simultaneously reducing the management fee payable to Acorn Private Equity. We were disappointed that this deal did not materialise. The net effect of this was that ACG Fruit remained part of the Group, and its results had a detrimental effect on our overall results for the year. Continued unfavourable performance by ACG Fruit represents a significant risk in not achieving our 2024 targets. As a result, management has been tasked to make substantial progress in restructuring (including ACG Fruit's head office) and consolidating the business while improving its strategic alignment, performance and profitability for the new financial year.

Monitoring Acorn Private Equity

Under the amended Fund Management Agreement last year, we implemented performance measurement criteria for Acorn Private Equity. These criteria align performance with shareholder and Group expectations and allow us to measure the value we derive from the agreement. The criteria are measured quarterly and can be revised if dictated by prevailing circumstances.

The board is satisfied that Acorn Private Equity performed well during the year. The successful implementation of the Kyron Group deal and the recent winning of the Private Equity Deal of the Year award for said deal is testament thereof.

Ongoing empowerment and transformation

Our specific diversity goals for each group company are annually evaluated by our Remuneration and nomination committee. We acknowledge the enduring need for B-BBEE empowerment in our group companies. Management continues to investigate solutions for this.

However, we are fortunate that one of our shareholders committed to increasing their shareholding in the Group to 25% within a reasonable time, which will benefit our Group significantly in terms of B-BBEE credentials.

Assisting group companies regarding strategy, growth and human capital

In line with our parenting strategy, the Group provided strategic leadership to our group companies, while ensuring that they create value. We strive to ensure that the corporate structure adds value to the link between the Group and group companies, as well as between group companies. We ensured that executive management set key multi-year objectives, but that our group companies are accountable for achieving the objectives. We centralised certain functions that support synergies between the group companies, focusing on integration opportunities between them.

Responding to COVID-19

The mass roll-out of vaccinations resulted in a slow return to normality for many countries. Safety protocols were kept in place throughout the Group to prevent the risk of infection. This allowed group companies to continue operating effectively with reduced disruption and cost structures. We endeavour to continue with these protocols for as long as is necessary to ensure the safety of our stakeholders.

Digitalisation has become increasingly important during COVID-19 and will likely remain so. We have recently formed a Group IT task team. We are excited about the focus that it is placing on using technology as an enabler for broader customer interaction, new business and unlocking internal efficiencies. We look forward to continued improvement in our digitalisation through this team.

A challenging, but optimistic outlook

When we reflect on the year that's been, we also need to look ahead. Acorn Agri & Food has enjoyed a productive start to the new financial year. Indeed, several initiatives across our group companies look promising. The continued vaccination roll-out, as well as the relatively low new COVID-19 cases being reported, has brought renewed hope that the end of the pandemic is in sight. We foresee continued easing of restrictions and improving trading conditions for the coming year. Good agricultural production conditions materialised for a second consecutive year. This should bring continued favourable knock-on effects. We are also pleased to report that our new acquisitions are performing above our expectations. Along with the reopening of international trade and borders, we expect some promising prospects to come to fruition.

Unfortunately, the structural and economic challenges facing South Africa seem to be mounting. 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 hardship for consumers. They 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 headwinds that await us as we continue to execute our strategy. However, I am 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.

Appreciating stakeholder support

As a Group, we are endlessly grateful to our Heavenly Father for His grace and guidance over the past year.

I continue to marvel at the commitment of our employees – without whom, we would not be in the fortunate position we are in today. Thank you for your dedication.

I sincerely thank André Uys and his management team for their courage and venerable leadership. To my fellow board members – we are indebted to your direction and dedicated labour for our Group.

On behalf of the board, I would like to express our appreciation to our stakeholders. 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

About our group

Acorn Agri & Food is a leading, vertically integrated South African agriculture and food group with a legacy of more than 100 years and over 2 100 employees. We are a public company that operates nationally, with a strong presence in the Western Cape.

Acorn Agri & Food has had a Fund Management Agreement in place with Acorn Private Equity since the amalgamation in 2018. This agreement has resulted in mutually supportive operational and investment approaches being embedded in our strategy.

Our Group recently redefined its operating segments. The updated segments we operate in within the agriculture and food value chain consist of Production, Agri Inputs & Services, Agri Production, Energy & Logistics and Food Processing. Read more about our segments on page 8.

Our business philosophy

Acorn Agri & Food is driven by a forward-thinking passion for the South African agriculture and food industries. We believe we add significant value to the landscape by:

- keeping our products and services on par with innovation;
- taking advantage of technological advancements; and
- growing our business organically and through acquisitions.

We have a deep desire to be a trusted partner for growth, which we believe comes from doing business ethically. We aim for this growth to stretch beyond shareholder returns – we endeavour to have an improving and sustainable impact on all stakeholders.

Purpose

Enabling sustainable agriculture and food production.

Vision

To create a legacy of long-term, sustainable value for all stakeholders in the agriculture and food value chain.

Values



Trusted relationships: We are committed to being the partner of choice for all stakeholders by building strong relationships.



Supportive nature: We strive to be the solid foundation upon which others can grow their potential.



Transparency: We believe that honesty and transparency is the best policy to create trust.



Fairness: We treat others justly and without discrimination.



Passion: We are passionate about our business, its purpose and its people.

Responsibility

Acorn Agri & Food has a responsibility to make a meaningful contribution to food security in South Africa. We do this by enabling sustainable agriculture and food production practices and positively impacting the communities where our businesses operate. Read more about our corporate social responsibility initiatives on page 20.

Investment case

The following investment attractions differentiate the Group from its peers and should enable the Group to generate sustainable returns for shareholders.



Business with a legacy of more than 100 years

- Proven sustainability of value through a variety of business cycles



Market leader in supplying goods and services to agricultural producers in the Overberg region

- Major player in the country's largest wheat, barley and canola producing region – a critical supply source to various industries
- The Overberg is one of the country's more stable agricultural production regions (good weather and soil conditions and diverse farming operations) which strengthens the sustainability case



Vertically integrated in the agriculture and food sectors

- Business model centres around essential products and services, strengthening the sustainability case
- Exposed to the broader agriculture and food value chain, reducing cyclicalities of profits and strengthening the sustainability case
- More stable margins due to greater control throughout the value chain
- More opportunities for intra-Group integration, collaboration and cross-selling
- Enhanced opportunity to identify areas of increased efficiency through innovation



Mutually supportive operational and investment approaches embedded in our strategy

- Group strategy encourages entrepreneurial flare while still providing support and access to operational expertise
- Attractive investment philosophy centred around businesses that we can assist alongside management to develop and grow
- Dedicated investment team with a keen eye for exciting acquisition opportunities



Leading position in the growing health foods industry

- Well positioned to take advantage of the growing local and international health foods industry through The Health Food Group
- Owner of valuable health snacking brands
- Strong research and development capabilities driving product innovation

About our group *(continued)*

Our segments

During the 2022 financial year, the Group and two of its group companies acquired three new businesses. With these acquisitions, we redefined the Group's operating segments to better streamline operational reporting and monitoring.

Our Group is strategically focused on, and positioned in, the following redefined segments of the agriculture and food value chain:

Agriculture

Food



Production



Agri Inputs & Services



Energy & Logistics



Agri Production



Food Processing

Processing of raw materials and supply of procured goods to agricultural producers, manufacturers, wholesale and retail markets

Supply of goods and services to agricultural, wholesale and retail markets

Supply of petroleum and lubricant products to retail, commercial and agricultural clients

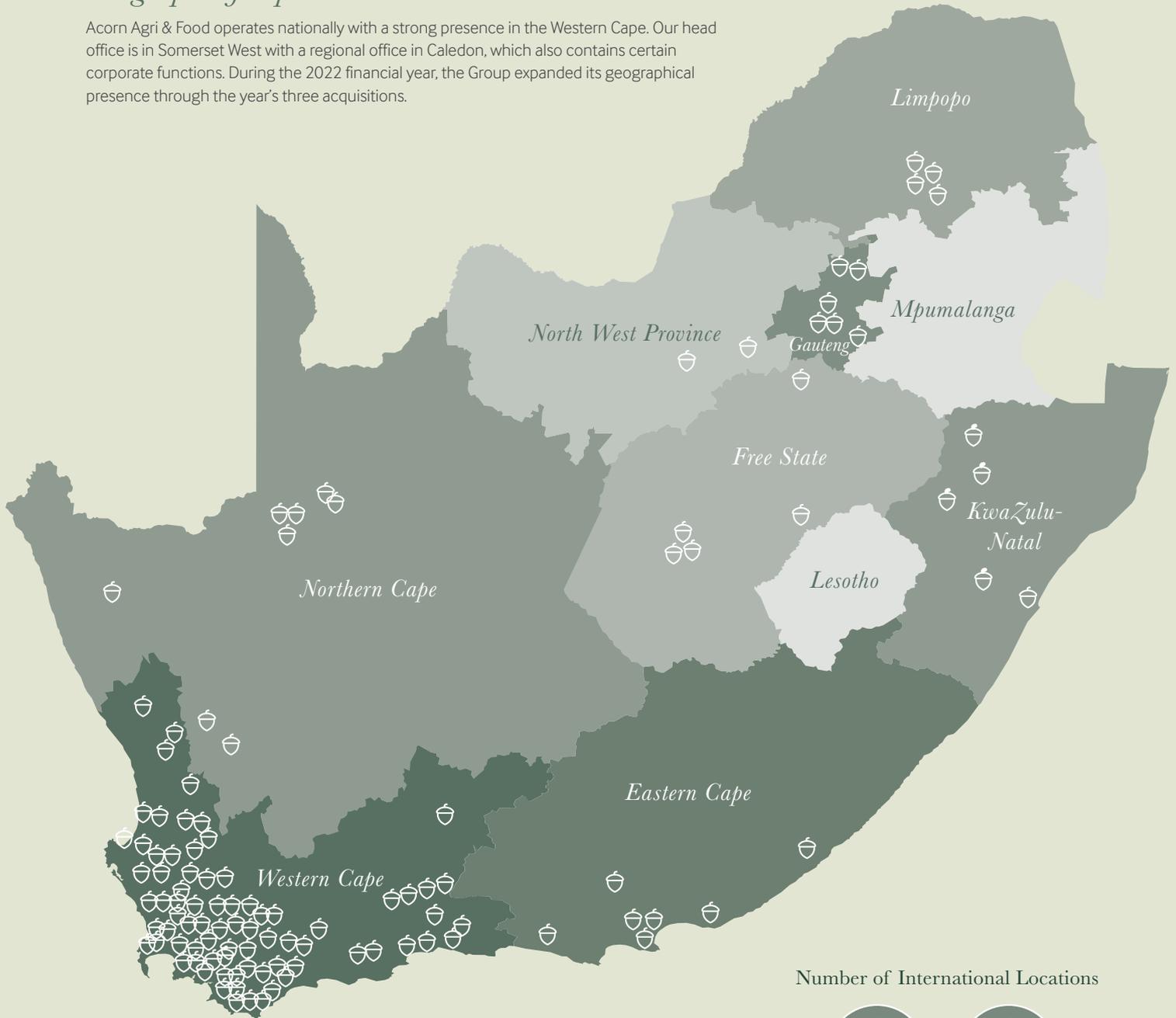
Production, packaging and marketing of fresh fruit, mainly grapes and soft citrus, for the export markets

Processing of various commodities into food products for wholesale and retail customers



Geographic footprint

Acorn Agri & Food operates nationally with a strong presence in the Western Cape. Our head office is in Somerset West with a regional office in Caledon, which also contains certain corporate functions. During the 2022 financial year, the Group expanded its geographical presence through the year's three acquisitions.



Number of International Locations



Israel



Namibia

Number of South African Locations



Western Cape



Eastern Cape



KwaZulu-Natal



North West



Northern Cape



Free State



Gauteng



Limpopo