



ArborGen
— HOLDINGS —

INTERIM REPORT

**FOR THE SIX MONTHS ENDED
30 SEPTEMBER 2023**

The Board of ArborGen Holdings Limited is pleased to present the Interim Report for the six months ended 30 September 2023 (1H24). **All dollar values are in US currency unless otherwise stated.**

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There are statements in this Report that are ‘forward looking statements.’ As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to the Group, many of which are beyond our control.

In particular, ArborGen’s operations and results are significantly influenced by the general level of economic activity in the various sectors of the economies in which it competes, particularly in the United States and Brazil.

Fluctuations in industrial output and the impact that has on global demand for wood fibre and hence harvest and reforestation levels, government environmental and regional development policies, capital availability, relative exchange rates, interest rates, the profitability of our customers, can each have a substantial impact on our operations and financial condition.

ArborGen-specific risks and uncertainties include (in addition to those broad economic factors noted above) the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, the rate of customer adoption of advanced seedling products, the success of its research and development activities, weather conditions, cone and seed inventory, biological matters, and the fact that ArborGen’s annual crops and seed orchards are not the subject of insurance cover.

As a result of the foregoing; actual results, conditions and conclusions may differ materially from those expressed or implied by such statements.

All references to currencies in this document are in US dollars (US\$) unless otherwise stated.

OUR BUSINESS



VISION

To be the world-leading provider of value-added, high-quality seedlings for the forestry industry, creating thriving forests that benefit landowners, the environment, and future generations through unmatched industry expertise.



STRATEGY

GO TO MARKET:
Grow demand and sales of higher value advanced genetics seedlings

- Expand our market share and increase Mass Control Pollinated adoption in the US
- Opportunistic and measured expansion in Brazil
- Optimise total productivity

OPERATING STRENGTH:
Enable a strong foundation for growth

- Focus our product development efforts on market driven genetics for the future
- Strengthen the organisation and develop a performance culture
- Drive improving shareholder value



VALUES

- Business excellence
- Commitment to our people
- Integrity in all we do
- Customer partnership and respect
- Sustainable forestry

SIX MONTH HIGHLIGHTS AND KEY EVENTS

New leadership with the appointment of Justin Birch as Group CEO from June 2023, and Adriano de Almeida as the General Manager of ArborGen's Brazil operations from August 2023.

Completed review of business model, strategic initiatives and resource. Focus remains on two regional markets, which offer strong growth and commercial prospects for ArborGen.

Improved productivity planning and processing systems implemented.

US South:

- Orders for approximately 87% of all seedlings available in US, despite increase in cancellations in September 2023 due to industry, weather and economic headwinds; year on year improvement in average sales price.
 - Lower than expected cone harvest following freeze in late 2022 during flowering, particularly in the Coastal region. This will impact on available seedlings to plant in FY25.
 - Review of seed inventory resulting in non-cash \$1.8m provision for older, low demand and low quality seed.
-

Brazil:

- Strong continued growth with record 1H seedling sales volumes, prices and margins. Positive momentum expected to continue.
 - Announced acquisition of 15 million capacity eucalyptus nursery in Rio Grande do Sul State (settled on 2 October 2023), expanding Brazilian capacity to six eucalyptus nurseries (and one pine nursery plus a network of contract producers). This lifts ArborGen's internal Brazil eucalyptus production capacity to approximately 80 million seedlings per annum.
 - Investing in internal production capabilities.
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SIX MONTH FINANCIAL SNAPSHOT

	30 Sep 2023	30 Sep 2022
<i>US\$ millions</i>		
Revenue	13.2	7.4
Gross profit	4.8	1.8
Operating profit before financing costs and tax	2.3	(0.6)
One-off and unusual items	(3.1)	(0.3)
Net earnings after tax	(0.1)	(1.6)
Net debt	16.7	17.5
Adjusted US GAAP EBITDA ¹	(0.5)	(2.9)

During the six-month period, the Group reported:

- Sales volumes up 16% to 55.8m seedlings, predominantly from Brazil with US sales recognised in the second half of the year
- Revenue of \$13.2m, up 78% year on year, reflecting strong pricing and sales in Brazil
- Uplift in Operating profit before financing costs and tax to \$2.3m
- Net debt (excluding capitalised leases) at \$16.7m as at 30 September 2023
- Improved Revenue and EBITDA in Brazil are reflected in a favourable Adjusted US GAAP EBITDA result

¹ Adjusted US GAAP EBITDA is a non-GAAP financial measure and excludes one-off and unusual items which may include restructure costs, impairments and write downs on assets, acquisition/sale transaction costs and other one-off items. See page 10 for more information.

CHAIRMAN'S REPORT

Dear Shareholder

We are pleased to report on our progress over the first six months of the 2024 fiscal year (1H24). This has been an important time for ArborGen as we have welcomed new leadership, invested into the continuing growth of our Brazilian business, tackled macro-economic headwinds in the US market and undertaken a review of our strategic initiatives and resources.

Justin Birch commenced as CEO of our group in June 2023 and Adriano de Almeida joined as the General Manager of ArborGen's Brazil operations in August 2023.

Justin has driven a refresh of our business model and strategy, as well as continuing to execute on strategic initiatives already in play. The Board has endorsed key focus areas and we are moving ahead with a clear view of our goals and what we need to do to achieve our ambitions.

Our focus remains on our two regional markets, where we have identified strong growth and commercial prospects for ArborGen, and where we can build on our existing footprint and market share.

In the US we are the leading commercial supplier of advanced genetics loblolly seedlings. Our goal is to increase adoption of advanced genetics across the US South.

In Brazil, we are leveraging our strong position in the pine and eucalyptus seedling markets to build a sustainable, highly profitable business that is recognised as the preeminent seedling supplier.

United States: Expand market share and increase Mass Control Pollinated (MCP) adoption

The US South is our home base and where we first established our MCP² orchards and verified our intellectual property. We remain one of the largest commercial providers of advanced genetics tree seedlings in the US South, with production capacity of over 300 million seedlings annually.

In 1H24, industry challenges, weather and economic headwinds continued to impact on our customers. Historically low pulp prices have led to the closure of several large pulp mills, thereby reducing processing capacity and, along with moderating demand for saw timber, some customers have chosen to delay harvesting for another year. This then reduces their demand for seedlings. Additionally, wet weather over the summer months has made it more difficult for our customers to prepare ground for replanting. Alongside this, more suppliers have entered the market.

The conditions noted above have had a flow-on effect on US seedling sales for FY24. September is normally when buyers will cancel or withdraw seedling orders and we have seen a significant uptick in cancellations in recent weeks as buyers press pause on their planting plans for the coming year. As a result, FY24 seedling sales are now expected to be lower than originally anticipated. We have strengthened our sales team and continue to work with our customers to encourage MCP adoption and uptake when demand recovers.

Once the pulp mill rationalisation has been completed, we expect processing to return to a more commercial cycle. However, long term US pulp production is expected to continue its downward trend. Recent demand for saw timber has been muted as the construction market has softened in response to economic pressures, however, the market is projected to recover by 2025.

² Mass Controlled Pollinated (MCP) seed is produced from crossing specific elite mother and father parent trees from ArborGen to generate seed with the highest genetic potential.

These market dynamics support ArborGen's go-to-market story. Our advanced genetics seedlings provide our customers with the opportunity to generate better yield and higher returns from higher grade timber for which there is growing demand.

In 2H24, ArborGen expects to acquire the Jasper nursery in Texas which it has leased since November 2018. Under the initial agreement, the vendors have a put option to sell the leased properties to ArborGen for \$2.5m upon expiration of the 5-year term. The nursery provides production capacity of approximately 30 million seedlings per annum and the acquisition will protect ArborGen's footprint in Texas.

Brazil: Opportunistic and measured expansion

ArborGen Brazil has grown to become one of the largest commercial suppliers of eucalyptus and pine seedlings in the Brazilian market. Production and sales continue to grow exponentially from our commercial start up in 2014, with sales revenue of \$13.0m for 1H24. This was despite a softening in demand in September due to weather patterns which continued into October 2023.

Brazil is the world's largest producer and exporter of hardwood pulp. Production capacity has expanded rapidly over the last few years and continues to do so. Conversely, yields per acre are falling as a result of environmental and weather issues. This is leading to a eucalyptus seedling supply/demand imbalance. This provides an opportunity for ArborGen, with our trees offering higher yields and higher wood density than standard market clones, improved disease and insect resistance, and good drought tolerance.

We continue to grow our production capacity, through our own nurseries as well as contract growers. In August 2023, we announced the acquisition of an additional eucalyptus nursery for approximately US\$3m to be paid over seven years, with ArborGen taking control from early October 2023. This takes production capacity to approximately 80 million seedlings per year and we are focused on maximising and expanding on this to take advantage of market demand.

Optimise total productivity

An important part of management effort in the past six months has been formalising productivity plans and processes across the organisation. This has included continuous improvement training, standardising KPIs to track progress, improving inventory systems and updating our long-term nursery production strategy. We are working with our customers to establish a model that better aligns ownership of risk in the sales process. Across our organisation, our team has been tasked with identifying cost and operational efficiencies to ensure we remain a lean and effective business.

Product development

Our position as a market leader is built on our valuable intellectual property and our continual investment in product development. We use market intelligence to identify germplasm and product development and are building out our 10-year orchard plan to support our long-term strategy.

In the US, we continue to invest in our pine tree improvement programme, allowing us to widen the gap between ourselves and the rest of the market. In Brazil, we are investing in our internal product development capabilities.

This year, we have undertaken a review and quality audit of our US seed inventory. As customers shift to advanced genetics, the supply of Open Pollinated (OP) seed required to meet demand each year continues to decrease. In line with this, a decision has been made to cap the number of years of supply maintained for lower grade genetic seed. A clean up of our seed inventory has been undertaken, resulting in a non-cash \$1.8m provision for older, low demand and low quality seeds. This strengthens the overall value of the remaining seed and frees up space for higher value and higher demand seed.

Strengthen the organisation and develop a performance culture

New management has led a review and refresh of our purpose, mission, values and culture. Our success will be driven by our people and we are implementing initiatives to better connect our team with our goals and company performance.

The New Zealand corporate office has been downsized and are looking to appoint two new US-based roles - Chief Financial Officer and VP of Operations. An executive search has commenced and we hope to have both of these positions filled in Q1 of the 2024 calendar year. We are also undertaking a strategic review of assets within our business, to ensure these meet the Board's investment criteria and provide value for shareholders.

Financial performance

To best understand our financial performance, it is important for shareholders to be cognisant of our harvest and sales timeline. In the US, while harvest and planting costs are recognised in the first half of our financial year, the majority of our US revenue is generated in the second half. Therefore, our first half revenue mainly comprises sales from our Brazilian operations, which are more consistent across the year. We encourage you to read the financial commentary on pages 9 and 10 for further explanation.

Revenue grew strongly year on year and was up 78% to \$13.2m. This was predominantly driven by strong sales in Brazil, with US sales to be recognised in the second half of the year. Brazil's strong performance was the driver for a 167% increase in Gross profit to \$4.8m for the six months.

The results include one-off and unusual transactions of \$(3.1)m, comprising CEO transition costs and a non-cash \$1.8m provision for obsolete seed inventory. The CEO's remuneration package reflects market rate and includes an equity portion which allows the company to conserve cash for ongoing growth and maintenance capex, further aligns the CEO's interests with shareholders and incentivises performance. Excluding one-off and unusual transactions, Adjusted US GAAP EBITDA improved to \$(0.5)m for the six months, compared to \$(2.9)m in the prior year.

As previously communicated, in May 2023 ArborGen repurchased all outstanding warrants, equating to approximately 5% of ArborGen Inc (a wholly owned US subsidiary of ArborGen Holdings) fully diluted common stock for \$1.4m. The purchase price represented a significant discount and was in cash.

Net debt increased by \$3.7m over 1H24. This includes favourable working capital movement from the higher collection of deposits in the US offset by early losses due to the seasonality of the US business, along with the warrant repurchase, capital expenditure, interest expense and taxes. Cash was \$4.3m at 30 September 2023, with net debt of \$16.7m compared to \$13.0m as at 31 March 2023.

Outlook and updated guidance

Your Board and management team remain focused on achieving our strategic goals and delivering value to our shareholders. ArborGen is a market leader, has a robust strategy in place, with new leadership and growth opportunities.

Overall, we expect revenues to be at record levels for the full year, driven by strong growth in our Brazil business and despite the lower seedling sales now expected in the US. On a normalised basis, operating profit is expected to improve year on year, although will be lower than originally anticipated due to the subdued US seedlings sales.

ArborGen has provided updated guidance for the 12 months ending 31 March 2024 (FY24):

FY24 Adjusted US GAAP EBITDA (which excludes one-off and unusual transactions) is expected to increase by at least 25% to be between \$11.6m to \$12.6m (FY23: \$9.2m).

Including one-off and unusual transactions, FY24 US GAAP EBITDA is expected to be between \$7m to \$8m (FY23: \$10.3m).

Net debt (excluding capital leases) is expected to be between \$18.3m and \$19.3m (\$13.0m as at 31 March 2023, \$16.7m as at 30 September 2023). This reflects the \$1.4m warrant purchase, an amendment to working capital movements associated with the acquisition of the Erval Grande nursery in Brazil and the expected \$2.5m acquisition of the Jasper Nursery in the US, lower US earnings and one-off costs.

Thank you to our shareholders for your continued support.



Dave Knott
Chairman

UNDERSTANDING OUR FINANCIALS

Key reporting measures

Historically, the majority of ArborGen's operating business has been based in the US. Therefore, financial statements are presented in US dollars.

As a New Zealand listed company, our financial statements are prepared in accordance with NZ International Financial Reporting Standards.

The Company uses US GAAP EBITDA and Adjusted US GAAP EBITDA when discussing financial performance. Adjusted US GAAP EBITDA excludes transactions considered to be non-trading in their nature or size, and one-off or unusual transactions, which can arise as the result of a specific event or circumstance or transaction that is not expected to occur frequently. Excluding these items can assist users in forming a view on the underlying performance of the group. Management believes these measures provide useful information, as they are used internally to evaluate performance, and are also the measures that equity analysts focus on for comparative company performance purposes.

Harvest, sales and revenue recognition timeline

In the US, we recognise the majority of revenue in the second half of the financial year, however, harvesting and production costs are incurred and recognised throughout the year.

- In year 1, we collect pollen from selected trees, bag flowers and pollinate. We then leave these for 18 months to mature.
- In year 2, between October and December we harvest the pinecones and extract the seeds, and then sow the seeds from January to March. These seedlings take approximately nine months to grow and are classified as 'biological assets' in our inventory. Each financial period, we adjust the fair value of these biological assets, based on our expected sales price. This is a non-financial fair value adjustment.
- We pre-sell these seedlings to customers from March and throughout the planting season and then lift and dispatch them to customers December through to March of the following year. We recognise the revenue at the time of sale, that is, in the second half of our financial year.

In Brazil, the sales cycle is less cyclical with year round sales. This is due to the more temperate climate and growing conditions where seedlings can be grown and planted year round, both for eucalyptus and pine.

Fair value adjustment of biological assets

ArborGen assess the value of seedlings in the US (the expected sales price) and adjusts the fair value of these biological assets, as required under NZ IFRS. The impact of this is in the interim results, with most seedlings lifted and sold by financial year end. In 1H24, assessment of the fair value of biological assets resulted in a \$(6.8)m adjustment in the financial statements (1H23: \$(5.9)m).

Foreign exchange

ArborGen operates in the United States and Brazil. The Brazil operations are to a large degree internally self-sufficient from a funding perspective, which limits the effect of relative currency movements to the net earnings and balance sheet translation impacts.

Adjusted US GAAP EBITDA reconciliation

	Sep 2023	Mar 2023	Sep 2022
<i>Fiscal year ending March</i>	US\$m	US\$m	US\$m
ArborGen - US GAAP			
Revenue			
US	0.3	39.3	0.8
Brazil	12.9	16.8	6.6
Total	13.2	56.1	7.4
Gross margin (excluding DDA)	5.7	19.6	2.6
Less SG&A	(4.5)	(7.4)	(4.2)
Less R&D	(1.9)	(3.4)	(1.3)
Plus Other income (expense)	(2.9)	1.5	(0.2)
US GAAP EBITDA ⁽¹⁾ ⁽²⁾	(3.6)	10.3	(3.2)
<i>Adjustments</i>			
CEO transition costs	1.3		
Seed provision	1.8		
ERCs (net of costs)		(1.2)	
Other		0.1	0.3
Adjusted US GAAP EBITDA	(0.5)	9.2	(2.9)

(1) Under US GAAP, from a statutory reporting perspective, the classification of the expense items, and other significant items in this table may differ from what is presented here.

(2) US GAAP EBITDA excludes NZ public company costs.

FINANCIAL STATEMENTS

ArborGen Holdings Limited and Subsidiaries

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Notes	6 months Sep 2023 US\$m	Year ended Mar 2023 US\$m	6 months Sep 2022 US\$m
Revenue		13.2	56.1	7.4
Cost of sales	5	(8.4)	(37.9)	(5.6)
Gross profit		4.8	18.2	1.8
Change in fair value of biological assets	4	6.8	-	5.9
Intellectual property amortisation	5	(3.9)	(7.6)	(3.8)
Administration expense	5	(5.4)	(9.0)	(4.5)
Operating earnings excluding items below		2.3	1.6	(0.6)
CEO transition, seed review and other	5	(3.1)	0.6	(0.3)
Operating profit (loss) before financing expense		(0.8)	2.2	(0.9)
Financial income		0.2	0.1	-
Financing expense		(0.9)	(1.4)	(0.7)
Profit (loss) before taxation		(1.5)	0.9	(1.6)
Tax benefit (expense)	6	1.4	(3.4)	-
Net earnings (loss)		(0.1)	(1.2)	(1.6)
Earnings (loss) per share information (cents per share)				
From continuing operations				
Basic		-	(0.5)	(0.3)
Diluted		-	(0.5)	(0.3)
From continuing and discontinued operations				
Basic		-	(0.5)	(0.3)
Diluted		-	(0.5)	(0.3)
Weighted average number of shares outstanding (millions of shares)				
Basic		510.7	502.4	502.1
Diluted		528.9	506.6	503.7

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Notes	6 months Sep 2023 US\$m	Year ended Mar 2023 US\$m	6 months Sep 2022 US\$m
Net earnings (loss)		(0.1)	(2.5)	(1.6)
Items that may be reclassified to the Consolidated Income Statement:				
Movement in currency translation reserve	11	0.3	(0.3)	(0.5)
Movement in hedge reserve	11	0.1	0.4	0.5
Other comprehensive earnings (loss) (net of tax)		0.4	0.1	-
Total comprehensive earnings (loss)		0.3	(2.4)	(1.6)

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Notes	6 months Sep 2023 US\$m	Year ended Mar 2023 US\$m	6 months Sep 2022 US\$m
Total comprehensive earnings (loss)		0.3	(2.4)	(1.6)
Movement in ArborGen Holdings shareholders' equity:				
Movement in issued capital	10	0.3	0.2	0.1
Movement in share based payment reserve	11	0.1	0.1	(0.1)
Repurchase of warrants	11	(1.4)	-	-
Total movement in shareholder equity		(0.7)	(2.1)	(1.6)
Opening group equity		149.3	151.4	151.4
Closing group equity		148.6	149.3	149.8

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	6 months Sep 2023 US\$m	Year ended Mar 2023 US\$m	6 months Sep 2022 US\$m
Cash was provided from operating activities			
Receipts from customers	30.9	55.1	18.4
Cash provided from operating activities	30.9	55.1	18.4
Payments to suppliers, employees and other	(28.0)	(48.3)	(20.6)
Tax paid	(0.8)	(0.3)	(0.2)
Cash (used in) operating activities	(28.8)	(48.6)	(20.8)
Net cash from (used in) operating activities	2.1	6.5	(2.4)
Interest received	0.2	0.1	-
Investment in fixed assets	(1.0)	(2.2)	(1.1)
Investment in intellectual property	(1.9)	(3.4)	(1.3)
Net cash from (used in) investing activities	(2.7)	(5.5)	(2.4)
Debt drawdowns	0.6	-	-
Repayment of lease liabilities	(0.8)	(1.1)	(0.2)
Debt repayment	(5.3)	(1.0)	(0.8)
Interest paid	(0.9)	(1.4)	(0.8)
Repurchase of warrants	(1.4)	-	-
Net cash from (used in) financing activities	(7.8)	(3.5)	(1.8)
Net movement in cash	(8.4)	(2.5)	(6.6)
Opening cash, liquid deposits and restricted cash	12.7	15.2	15.2
Effect of exchange rate changes on net cash	-	-	(0.2)
Closing cash, liquid deposits and restricted cash	4.3	12.7	8.4
Net earnings after taxation	(0.1)	(2.5)	(1.6)
Adjustment for:			
Financial income	-	(0.1)	-
Financing expense	0.9	1.4	0.7
Depreciation and amortisations	5.7	10.2	5.0
Tax benefit (expense)	(1.4)	3.4	-
Foreign exchange	0.2	(0.4)	(0.4)
Share based payments	0.4	-	-
Change in fair value of biological assets	(6.8)	-	(5.9)
Other non cash items	-	(0.1)	-
Cash flow from operations before net working capital movement	(1.1)	11.9	(2.2)
Trade and other receivables	7.1	(3.2)	6.7
Inventory	(8.3)	(4.3)	(8.8)
Trade and other payables	5.2	2.4	2.1
Net working capital movement	4.0	(5.1)	-
Cash tax paid	(0.8)	(0.3)	(0.2)
Net cash from operating activities	2.1	6.5	(2.4)

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2023

	Notes	Sep 2023 US\$m	Mar 2023 US\$m	Sep 2022 US\$m
Current assets				
Cash and liquid deposits		4.3	12.7	8.4
Trade and other receivables		6.9	14.0	4.1
Inventory		46.7	31.6	42.0
Total current assets		57.9	58.3	54.5
Non current assets				
Fixed assets		33.8	33.5	33.0
Derivative financial instruments		0.8	0.7	0.8
Right-of-use assets		7.4	4.9	4.6
Intellectual property		90.9	92.9	94.6
Deferred taxation asset		11.0	9.5	3.8
Total non current assets		143.9	141.5	136.8
Total assets		201.8	199.8	191.3
Current liabilities				
Trade, other payables and provisions		(16.3)	(10.8)	(10.7)
Current lease obligation		(3.9)	(0.8)	(0.7)
Current debt	7	(1.1)	(8.1)	(8.1)
Current taxation liability		(0.7)	(0.5)	-
Total current liabilities		(22.0)	(20.2)	(19.5)
Term liabilities				
Term debt	7	(19.9)	(17.6)	(17.8)
Lease obligation		(3.6)	(4.1)	(4.2)
Deferred taxation liability		(7.7)	(8.6)	-
Total term liabilities		(31.2)	(30.3)	(22.0)
Total liabilities		(53.2)	(50.5)	(41.5)
Net assets		148.6	149.3	149.8
Equity				
Share capital	10	203.3	203.0	202.9
Reserves	11	(54.7)	(53.7)	(53.1)
Total group equity		148.6	149.3	149.8



Dave Knott
Chairman of the Board



Paul Smart
Audit Committee Chairman

28 November 2023

Both of the above signatories certifies that these financial statements comply with New Zealand generally accepted accounting standards and present a true and fair view of the financial affairs of the ArborGen Holdings Group.

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

1 BASIS OF PRESENTATION

The unaudited interim financial statements presented are those of ArborGen Holdings Limited and Subsidiaries (the Group) for the six months from 1 April 2023 to 30 September 2023. The financial statements have been prepared in accordance with New Zealand International Accounting Standard 34. Because they are interim statements they do not include all of the information required to be disclosed for full annual financial statements.

These interim financial statements should be read in conjunction with the audited financial statements for the periods ended 31 March 2023 and 31 March 2022, which have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

ArborGen Holdings Limited is registered in New Zealand under the Companies Act 1993, is listed on the New Zealand Stock Exchange, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The presentation currency used in the preparation of these financial statements is United States dollars (US\$), rounded to the nearest hundred thousand dollars. Consequently all financial numbers are in US\$ unless otherwise stated.

Changes in prior year disclosure comparatives have been made to align with the current year presentation.

Accounting Policies

The accounting policies applied are consistent with those applied in the annual financial statements for the period ended 31 March 2023.

2 APPROVAL OF ACCOUNTS

These financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 28 November 2023.

3 USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (refer March 2023 statutory report, note 4, for greater detail). Actual results could differ from those estimates.

4 INVENTORY AND FAIR VALUE ADJUSTMENT ON BIOLOGICAL ASSET

	Unaudited 6 months Sep 2023 US\$m	Audited Year ended Mar 2023 US\$m	Unaudited 6 months Sep 2022 US\$m
Opening balance continuing operations	-	-	-
Change in fair value of biological assets recognised in income statement			
Fair value change for crop to be lifted in the coming period	6.8	-	5.9
Total change in fair value of biological assets recognised in the income statement	6.8	-	5.9
Closing fair value uplift biological asset	6.8	-	5.9

At 30 September only the US crop (which will be lifted prior to year end) is fair valued. This fair value uplift will reverse at year end upon lifting of the crop.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

5 EXPENSES INCLUDE

	Unaudited 6 months Sep 2023 US\$m	Audited Year ended Mar 2023 US\$m	Unaudited 6 months Sep 2022 US\$m
Depreciation and amortisation included in:			
Cost of sales expense	(0.7)	(2.0)	(0.3)
Intellectual property amortisation	(3.9)	(7.6)	(3.8)
Administration expense: general and administration	(0.5)	(0.6)	(0.3)
Total depreciation and amortisations	(5.1)	(10.2)	(4.4)
US Cares ERC credit ⁽⁴⁾	-	1.2	-
Seed provision ⁽¹⁾	(1.8)	-	-
Strategic review and other ⁽²⁾	-	(0.3)	(0.3)
CEO transition costs ⁽³⁾	(1.3)	(0.3)	-
CEO transition, seed review and other	(3.1)	0.6	(0.3)

- (1) As a result of our education efforts, our customers have been shifting up from lower genetic seedlings into higher genetic seedlings. This has led to our inventory of the lower genetic seed growing relative to the total seed inventory. We have reviewed our seed inventory requirements against our 6-year seed demand; taking into account seed age, genetics, customer demand and our availability of alternative genetic seed by provenance. As a result of the review we have expensed \$1.8 million as a seed provision which is netted against inventory, and is approximately 15,000 lbs (6,800 kg) out of a total seed inventory of 75,600 lbs (34,000 kg). Most of the seed will be retained as we attempt to find a use for it, however the lowest quality seed will be destroyed.
- (2) The strategic review was concluded in June 2022, resulting in the sale of the Australian and New Zealand (ANZ) operations, which was completed on 30 November 2021. The Group continued to incur costs in relation to the review, post its conclusion, relating the ANZ sale until September 2022.
- (3) CEO transition costs include payments made to the outgoing CEO (Andrew Baum) of \$0.3 million (March 2023: \$0.3 million), as part of his severance. It also includes costs related to the incoming CEO Justin Birch including; sign-on and relocation costs of \$0.3 million, \$0.5 million accrued for Justin's equity grant (both first and second tranches), as well as legal and recruitment costs of \$0.3 million.
- (4) ArborGen Inc. received a payment for Employee Retention Credits under the Coronavirus Aid Relief and Economic Security (CARES) Act. The credit was for the payroll taxes paid on wages between March 2020 and September 2021 for wages not forgiven under the CARES Act Paycheck Protection Program.

6 TAX BENEFIT (EXPENSE)

At 31 March 2023 a deferred tax liability relating to the temporary differences on intellectual property of \$8.6 million was recognised. This deferred tax liability is being systematically unwound through earnings.

7 CURRENT DEBT AND TERM DEBT

At 30 September 2023 the Group had debt facilities with the following banks: Synovus Financial Corporation (Synovus) and AgSouth Farm Credit (AgSouth) in the United States.

ArborGen has a non-revolving promissory note issued to AgSouth for \$8.0 million bearing interest at 4.95%, with a maturity date of 1 May 2036, which is secured against ArborGen's US real estate properties. Annual principal repayments of \$0.6 million are due 1 May each year. The credit agreements with AgSouth includes a covenant which require ArborGen to maintain a minimum net worth of \$25 million. ArborGen has a three-year revolving facility with Synovus (expiring August 2026), bearing interest at the 30-day SOFR base rate plus 2.75%, with a minimum annual rate of 4.75%, an annual 60-day (continuous) pay down maximum borrowing limit (between 1 March and 31 August) of \$7 million, and with no equity covenants.

Rubicon Industries USA LLC (RIUSA) has a \$9.8 million mortgage from Synovus, which is secured by the headquarter's land and buildings. The mortgage is a seven-year term facility that expires August 2026 and is based on a 20-year amortising loan, incurring interest at the 30-day SOFR base rate plus 2% (currently 5.32%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

7 CURRENT DEBT AND TERM DEBT continued

The Group has entered into a seven-year interest rate swap, with terms that match that of the mortgage, at a fixed rate of 3.52%. The mortgage requires RIUSA to maintain a debt service coverage ratio of not less than 1.25:1 for the trailing 12 months.

At 30 September 2023 the Group held cash and liquid deposits of \$4.3 million (2022: \$8.4 million) and had debt of \$21 million and lease liabilities of \$7.5 million (2022: \$25.9 million of debt and \$4.9 million of lease obligations). The increase in lease liabilities is reflective of the increase in internal production in Brazil.

8 CAPITAL EXPENDITURE COMMITMENTS

In November 2018 ArborGen entered into agreements with TexMark Timber Treasury, L.P. (TTT) initially to manage and then from 1 April 2019 lease TTT's nursery and seed orchard facility located in Texas. ArborGen has the right to acquire, and TTT has the right to sell, the leased properties for \$2.5 million, payable upon the expiration of the 5-year lease period. The present value of this payment is recorded as a liability in term lease obligation.

ArborGen has acquired a eucalyptus seedlings nursery operation in Brazil located Rio Grande do Sul State and referred to as ArborGen Erval Grande. The price of Brazilian Real \$15 million (approximately \$3 million) for the nursery business is financed by the sellers and will be paid semi-annually over seven years. ArborGen assumed control of the operations on 2 October 2023.

9 SEGMENTAL INFORMATION SUMMARY

The Group has only one reportable segment, being 'forestry genetics' and each of the primary statements reflects the full segmental operations.

	6 months Sep 2023 US\$m	Year ended Mar 2023 US\$m	6 months Sep 2022 US\$m
Forestry genetics			
Operating revenue	13.2	56.1	7.4
Net earnings (loss) after taxation	0.8	(1.0)	(1.2)
Total assets	201.7	199.7	191.2
Liabilities	(36.5)	(50.4)	(41.6)
Reconciliation			
<i>Corporate</i>		-	
Net earnings (loss) after taxation	(0.9)	(1.5)	(0.4)
Total assets	0.1	0.1	0.1
Liabilities	(16.7)	(0.1)	0.1
Total Group			
Operating revenue	13.2	56.1	7.4
Net earnings (loss) after taxation	(0.1)	(2.5)	(1.6)
Total assets	201.8	199.8	191.3
Liabilities	(53.2)	(50.5)	(41.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

10 CAPITAL

	Note	Unaudited	Audited	Unaudited
		Sep 2023 US\$m	Mar 2023 US\$m	Sep 2022 US\$m
Share capital				
Share capital at the beginning of the period		203.0	202.8	202.8
Vesting of shares - Executive and Non-Executive Directors Share Plan ⁽¹⁾⁽²⁾	11	0.3	0.2	0.1
Share capital		203.3	203.0	202.9
Number of shares		Sep 2023	Mar 2023	Sep 2022
Opening shares on issue		502,772,082	501,486,758	501,486,758
Issue of shares ⁽²⁾	11	419,386	1,285,324	1,285,324
Issue of shares ⁽³⁾	11	3,514,844	-	-
Issue of shares ⁽⁴⁾	11	20,251,477	-	-
Closing shares on issue		526,957,789	502,772,082	502,772,082
Treasury stock		Sep 2023	Mar 2023	Sep 2022
Opening shares on issue		-	273,666	273,666
Issue of shares ⁽⁴⁾	11	20,251,477	-	-
Vesting of shares ⁽¹⁾		-	(273,666)	-
Closing treasury stock shares on issue		20,251,477	-	273,666

(1) In accordance with the resolution passed at ArborGen Holdings Annual Shareholders' meeting held on 17 September 2019, on 18 September 2019 ArborGen Holdings issued 820,998 new shares to the 2019 Rubicon Non-executive Director Share Plan (the 2019 Trust). The 2019 Trust held the shares for George Adams (Director) until the vesting terms were met. The shares vested in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2019), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holding shares of NZ\$18.27 cents per share, for a total value of NZ\$150,000. The share-based transactions are recorded in the share based payment reserve and the shares are accounted for as treasury stock until vesting. On 6 October 2022 the third (and final) tranche of 273,666 shares vested to George Adams (refer to note 9 for share based payment information).

(2) In July 2021 ArborGen awarded 3,933,535 RSU's (restricted share units) to ArborGen Inc executives, in relation to its FY2021 Long Term Incentive (2021 LTI) Plan. Pursuant to this award, in June 2023 ArborGen Holdings issued the final 419,386 new shares, 375,294 of those shares was the final of the three equal tranches under the 2021 LTI Plan and 44,092 shares were issued to one retiring employee (being the final tranche vesting on retirement). 486,080 RSUs were also cancelled pursuant to Andrew Baum's cessation agreement. This brings the scheme to a close with no outstanding shares.

(3) Pursuant to Andrew Baum's employment cessation agreement, Andrew was entitled to the equivalent of one year of his base salary of US\$405,736 in ArborGen Holdings shares. Accordingly on 21 June 2023, 3,514,844 new ArborGen Holdings ordinary shares (separation Shares) were issued at the 5-day VWAP of NZ\$0.184992 per share (equivalent to NZ\$650,218 in value, being US\$405,736 converted at an NZD/USD exchange rate of 0.6240). In addition all outstanding RSUs held by Andrew (per footnote (2) above) were terminated. He also received a cash payment equivalent to the taxes due on the Separation Shares, being \$181,012 (refer to note 5). The separation shares cannot be sold, nor the beneficial interest transferred, for 12 months.

(4) Pursuant to Justin Birch's employment agreement an equity grant of restricted ordinary shares (Restricted Shares) equal to 4% of ordinary shares in ArborGen Holdings was made. On 27 July 2023, 9,780,000 shares were issued to the Trustee. Following shareholder approval at the ASM on 20 September 2023, a further 10,471,477 shares were issued to the Trustee. The total 20,251,477 restricted shares are split into two being; 50% time-based shares and 50% performance-based shares.

The time-based shares will vest one third on the first anniversary of the employment commencement date (16 June 2023); and two thirds on the second anniversary, subject to completion of continuous service with the Group (refer to note 5).

The performance-based shares will vest 50% on the 1 June 2024 and the other 50% on 1 June 2025, subject to satisfaction of applicable performance criteria determined by the compensation committee and completion of continuous service with the Group until the applicable vesting date.

All restricted shares have been issued to the Justin Birch Trust and are treated as treasury stock until vesting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

11 RESERVES

	Note	Unaudited	Audited	Unaudited
		Sep 2023 US\$m	Mar 2023 US\$m	Sep 2022 US\$m
Retained earnings				
Opening balance		(54.1)	(51.6)	(51.6)
Net earnings		(0.1)	(2.5)	(1.6)
Repurchase of warrants ⁽¹⁾		(1.4)	-	-
Closing balance		(55.6)	(54.1)	(53.2)
Cash flow hedge reserve ⁽²⁾				
Opening balance		0.7	0.3	0.3
Fair value gains (losses) for the year		0.1	0.4	0.5
Closing balance		0.8	0.7	0.8
Share based payments reserve				
Opening balance		0.3	0.2	0.2
Executive settlement share plan shares vested ⁽³⁾	10	(0.3)	(0.2)	(0.1)
Executive settlement share plan ⁽⁴⁾	10	0.4	0.3	-
Closing balance		0.4	0.3	0.1
Currency translation reserve				
Opening balance		(0.6)	(0.3)	(0.3)
Translation of independent foreign operations		0.3	(0.3)	(0.5)
Closing balance		(0.3)	(0.6)	(0.8)
Total reserves		(54.7)	(53.7)	(53.1)

- (1) In May 2023 ArborGen Inc repurchased all outstanding warrants (5% of the ArborGen Inc fully diluted shares) for \$1.35 million. Following the repurchase of the warrants, there are no more warrants, options or other rights to purchase ArborGen Inc. shares, and ArborGen Holdings' effective economic interest in ArborGen Inc. increased from 95% to 100%.
- (2) The cash flow hedging reserve records the net movement of cash flow hedging instruments, being interest rate swaps, refer to note 6.
- (3) In July 2021 ArborGen awarded 3,933,535 RSUs to ArborGen Inc. executives, in relation to its FY2021 (2021 LTI Plan). Pursuant to this award, ArborGen Holdings issued the final 419,386 new shares, refer to note 8 for more details.
- (4) Pursuant to Justin Birch's employment agreement an equity grant of Restricted Shares equal to 4% of ordinary shares in ArborGen Holdings. The total 20,251,477 restricted shares are split into two being; 50% time-based shares and 50% performance-based shares (refer to note 5). In addition Justin is guaranteed a short-term incentive of \$425,000; 50% of which will be settled in ArborGen Holdings shares. The movement in the share-based payment reserve represent the share based payment portion of these accrued expenses.

12 RELATED PARTY TRANSACTIONS

Pursuant to Andrew Baum's employment cessation agreement, on 21 June 2023 Andrew was issued 3,514,844 new ArborGen Holdings ordinary shares (refer to notes 5, 10 and 11).

Pursuant to Justin Birch's employment agreement an equity grant of restricted ordinary shares (Restricted Shares) was made, equal to 4% of ordinary shares in ArborGen Holdings. On 27 July, 9,780,000 shares were issued to the Justin Birch Trust.

Following shareholder approval at the ASM on 20 September 2023, a further 10,471,477 shares were issued to the Justin Birch Trust. The 20,251,477 restricted shares are split into two being; 50% time-based shares and 50% performance-based shares (refer to note 8).

INVESTOR INFORMATION

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STOCK EXCHANGE LISTING

The Company's shares (ARB) are listed on the NZSX.

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about share transactions or changes of address should contact the Share Registrar:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
Private Bag 92 119,
Auckland 1142, New Zealand

Telephone: 64 9 488 8777
Facsimile: 64 9 488 8787
Email: enquiry@computershare.co.nz

ELECTRONIC COMMUNICATIONS

You can elect to receive your shareholder communications electronically.

To register, visit www.investorcentre.com/nz. To initially access this website, you will need your CSN or Holder Number and FIN. You will be guided through a series of steps to register your account, including setting up a new user ID and password for on-going use of the website. Once logged in, click on "My Profile". In the Communication preferences panel, click "update".

Alternatively send your name, address and CSN or holder number to ecomms@computershare.co.nz advising you wish to receive your ArborGen Holdings shareholder communications by email.