

Bioceres Crop Solutions Fiscal Fourth Quarter 2021

Financial Results Conference Call

September 9, 2021 - 8:30 A.M. Eastern Time

Operator: Good day and thank you for standing by. Welcome to the Bioceres Crop Solutions Fiscal Fourth Quarter 2021 Financial Results Conference Call. At this time, all participants are in a listen-only mode.

After the speakers' presentations, there will be a question and answer session. To ask a question during the session, you'll need to press star-one on your telephone. Please be advised today's conference is being recorded. If you require any further assistance, please press star-zero.

I would now like to hand the conference over to Maximo Goya. Thank you. Please go ahead.

Maximo Goya: Good day, everyone, and thank you for joining us. Presenting during today's call will be Federico Trucco, our Chief Executive Officer, and Enrique Lopez Lecube, our Chief Financial Officer. Both will be available for the Q&A session.

Before we proceed, I would like to make the following safe harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statements

section of today's earnings release and presentation as well in our recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

Also please note that, for comparison purposes and a better understanding of our company's underlying performance, in addition to discussing as-reported results during our presentation today, we will discuss comparable results, which exclude the impact of hyperinflation accounting in Argentina. Additional information in connection with the application of the rule IAS 29 can be found in our earnings report.

Finally, this conference call is being webcast. The webcast link is available in investor relations sections of biocerescrop.com. At this time, I would like to turn the call over to our CEO, Federico Trucco.

Federico Trucco: Thanks, Max, and thank you all for joining us today. Please turn to slide three for a brief overview of the business and financial highlights we will discuss in today's call.

From a baseline business perspective, comparable revenues were up 39% to \$72.4 million in the quarter and 13% to \$197.4 million for fiscal year '21, with LTM adjusted EBITDA at \$48.3 million. Momentum consolidated in the fourth quarter, confirming a very strong second half to fiscal year '21, driven

predominantly by sustained micro-bead fertilizer sales and the reorganization of the crop protection business.

These revenues do not account for approximately \$7.2 million of the total of \$8.3 million of HB4 program contributed goods, with an average gross margin of 43%. However, associated operating expenses were fully discounted from the adjusted EBITDA indicated above. HB4 program revenues will be recognized once realized inventories are no longer contributed but rather sold as seed or grain.

Topline growth for the quarter allowed us to remain on track with our historical LTM double digit growth trajectory, while at the same time supporting the HB4 program rollout. Enrique will provide greater details around our financial performance for the quarter and full fiscal year later on this presentation.

On the HB4 front, we have scaled up eight times compared to the previous year, with a total of close to 80,000 hectares planted with over 10 different wheat and soy HB4 varieties. As we have done in previous calls, I will provide a more detailed update on agronomic performance, farmer acceptance, inventory scaling up process, our breeding efforts and collaborations across the Americas, and the current regulatory status for each crop.

Two relevant highlights worth noting ahead of our more in-depth discussion are the regulatory clearance obtained in Canada for HB4 soy and the expansion of our collaboration agreement with Grupo Don Mario to North America, especially targeting the southern Canada, Minnesota, and the Dakotas region. We will also discuss these two highlights in greater depth in the next slides.

Please turn to slide four for an update on the ongoing HB4 wheat season. HB4 wheat was planted in 55,000 hectares, with contributed goods totaling \$6.4 million. As previously explained, the value of these contributed goods will be recognized as revenues once the realized inventories are sold as seed or grains, but no longer contributed.

The current multiplication area represents a 7.8 times increase over last year's effort, including varieties adopted, to 75% of Argentina's addressable market. The number of participating growers increased eightfold, with 100% grower repeat rate and, very importantly, with 95% of participants onboarding digitally. The crop is evolving favorably, with recent rains normalizing the drought situation suffered in some of the subregions.

In slide five, you will see the results of our HB4 soy ramp up process, as we finished harvesting all 23,000 hectares planted last season. From a trait performance perspective,

results were aligned with technology expectations, with HB4 materials showing significant yield benefits in highly restricted environments, particularly in those with average yields below 1.5 tons per hectare.

However, the accumulated yield benefit was diluted as moderate to highly productive environments were aggregated, as current germplasm is still behind some of the most competitive commercial materials. This germplasm drag can be better observed as we zoom into the discrete yield intervals in the next slide, with as much as 9.1% yield reduction on average in environments between 2.5 and 3.5 tons per hectare.

This phenomenon was more pronounced in our earliest varieties, which yielded on average 11% less than a selected group of top commercial performers. The germplasm drag became less concerning as we evaluated newer materials with second-generation materials only 3% below the same group of commercial controls, and some third-generation varieties matching and even beating top commercial performers.

One interesting observation illustrated in slide seven is that when cropped after wheat in double cropping systems, the germplasm drag is minimized and performance greatly improved, at least in some of the second-generation materials where this could be tested. And this is shown here in the current slide.

In summary, turning to the next slide, HB4 wheat inventory ramp up is progressing as expected considering that we still have not received Brazil's regulatory clearance, which we will discuss in a moment. HB4 soy inventory ramp up is being redesigned to address germplasm drag in earlier materials, with ramp up of first generation materials discontinued and second-generation materials repositioned to double cropping systems as we accelerate multiplication of third-generation materials, targeting the broadest HB4 acreage opportunity.

Now turn to slide nine. Concomitantly with our internal efforts, we are expanding our existing collaboration with top-tier soybean germplasm developer, Grupo Don Mario, with which we signed a new agreement during the quarter to jointly develop and commercialize HB4 soy in North America, more specifically in the subregion including southern Canada, Minnesota, and the Dakotas, where we believe there are approximately 10 million hectares highly prone to water deficit.

As you may recall, Grupo Don Mario is an early licensee of the HB4 trait for its Latin America soybean programs. And also during the last year, we have expanded our breeding collaboration with TMG, one of Brazil's top providers of soybean genetics, with 173 pre-commercial HB4 soy varieties currently being tested and approximately 100 hectares of demo plots being organized with selected farmers during the upcoming season in

that country. So, GDM and TMG are expected to provide materials as soon as 2023 for the HB4 program in LATAM, as well as commercialize directly in the future using their existing go to market models.

Finally, turning to the next slide, I will discuss the main regulatory highlights for the quarter. We received regulatory approval for HB4 soy from the Canadian Health Agency and the Canadian Food Inspection Agency. As you know, with approximately 2.5 million hectares farmed every year and yields often below three tons per hectare, Canada's soybean production regions are well-suited for HB4 value generation. So, HB4 soybean is approved today for production in the United States, Brazil, Argentina, Paraguay, and Canada, representing 85% of the world's soybean hectarage.

During the quarter, our regulatory team submitted HB4 wheat consumption approval requests in Australia, New Zealand, South Africa, and Indonesia. Near the end of the quarter, Bioceres received a formal requirement from CTNBio, the Brazilian regulatory body, to provide additional gene expression information for native non-targeted genes of relevance to regulators. This information was produced and filed with CTNBio by August 18th, continuing the HB4 wheat regulatory process in that country.

No additional information has been requested during the quarter by Chinese regulatory authorities regarding HB4 soy, and we believe both the regulators, Brazil and China, should be able to resolve approval requests in their upcoming proceedings and look forward to communicating their findings as they are informed to us.

This concludes my prepared remarks. I will now turn the call over to our CFO, Enrique Lopez Lecube, to discuss our fiscal fourth quarter financial results. Enrique?

Enrique Lopez Lecube: Thanks, Federico. Good day to everyone and thanks for joining us today. Getting to the financials, please turn to slide 11 for a review of the revenue performance during the quarter and full fiscal year.

As Federico outlined a few minutes ago, we had a strong fourth quarter performance, with comparable revenue rising to \$72.4 million from \$51.9 million in the fourth quarter of fiscal year 2020, a solid 39% increase that consolidated momentum from the third quarter.

Growth during the quarter was mainly driven by a successful outcome from the reorganization initiatives taken earlier in the fiscal year to reignite growth in our crop protection business segment. Crop nutrition also contributed to the increase in comparable revenues, as the micro-bead fertilizer business line continue to expand, confirming the growth trend that had been

displayed in the third quarter. The 48% and 46% increase in crop protection and crop nutrition comparable revenues respectively were slightly offset by an 8% drop in seed and integrated products.

On a reported basis, the increase for the quarter was 71% from \$48.2 million to \$82.2 million. This increase in reported revenues was significantly higher than the evolution of comparable revenues, as IAS 29 adjustments decreased the basis of the reported figure in the fourth quarter of 2020 and expanded the reported metric for the fourth quarter of 2021.

For the full fiscal year period, total comparable revenues were up 13% to \$197.4 million compared to the year-ago period, with revenue growth across all three business segments. Despite the softened performance during the second quarter, which had been negatively impacted by drought in key markets across South America, a strong second half of the fiscal year allowed the business to maintain a double-digit growth trajectory, even without the inclusion of \$7.2 million out of the total \$8.3 million of contributed goods from the HB4 program.

Please move on to slide 12 now for a breakdown of fourth quarter revenues per business segment. The \$20.5 million increase in comparable revenues was driven by crop protection and crop nutrition, with a slight drop in seed and integrated products. Crop protection sales were up 48% from the year-ago

quarter, reaching \$42.9 million. Growth across the segment portfolio resulted from the implementation of the reorganizational strategy intended to uncouple market access channels and teams dedicated to proprietary products from lower margin third-party products.

The expansion during the quarter was mainly driven by higher insecticides, fungicides, and adjuvant sales in Latin America, specifically B2C sales for the latter category in Brazil. Average gross margin for the segment decreased from 39.9% to 36.2%, primarily due to increased sales of lower margin seed treatment therapies. The other growth contributor for the quarter's comparable revenue expansion was the crop nutrition segment, which grew to \$22.7 million across both product categories.

The strong performance of the micro-bead fertilizer product line during the quarter is the outcome of the shift in the commercial strategy that was implemented two quarters ago to enhance the attractiveness of the value proposition to farmers. Following an already improved performance in the third quarter, the trailing last 12 months rate of usage of installed capacity increased from 30% to 40% on a sequential basis.

Inoculant sales also had a very good performance, with volumes increasing from 2.5 million doses to 4 million doses. Increased demand of high value added inoculants in Brazil, which

fully recovered the decline of the third quarter, was the main growth driver in this category. Margins for fertilizers remained stable as volumes scaled up, with the overall crop nutrition gross margins slightly expanding to 54.2%.

Seed and integrated products comparable revenues in the fourth quarter of fiscal 2021 stood at \$6.8 million, slightly below the year-ago quarter. The \$0.6 million decrease was driven by seed treatment packs, despite volumes remaining flat at 1.1 million doses, as a portion of the growth that we had accomplished in South Africa in the fourth quarter of fiscal 2020 was replaced by lower-priced packs in Latin America. Lower packs contribution, as well as a slight shift from B2C to B2B pack sales in Argentina, led to a segment gross margin drop from 63.5% to 53% this year.

Overall, we are very satisfied with growth in revenues during the quarter, which was accomplished with an average 43.4% comparable gross margin. It is worth mentioning that, aside from the pricing, volume, and product mix dynamics I just described, gross margins during the quarter were also affected by FX and inflation dynamics in Argentina, where we hold most of our production facilities.

Inflation related price increases of raw materials and manufacturing costs denominated in local currency exceeded the benefit of the Argentine peso depreciation, which negatively

affected production cost structures of some of our products. The interaction between FX and inflation rates turned into headwinds during the fourth quarter of fiscal 2021 from tailwinds in the year-ago quarter, further emphasizing an unfavorable comparison.

Moving on to slide 13, which shows the breakdown of gross profits per business segment. As a result of the revenues and margins evolution addressed in the previous slides, comparable gross profit for the quarter rose by \$6.9 million, from \$24.5 million to \$31.4 million. Comparable gross profit from crop protection was \$15.5 million, up \$4 million from \$11.5 million during the previous fiscal year quarter.

Seed and integrated products contributed a total of \$3.6 million in comparable gross profits during the quarter, down \$1.1 million from the year ago period, in line with the evolution I described in the previous slide.

Finally, crop nutrition delivered \$12.3 million in comparable gross profit, an increase of \$4 million from \$8.3 million a year ago. It is to be noted that crop nutrition displayed the highest growth within the three business segments, reaching a contribution of almost 40% to total comparable gross profit.

Reported gross profit rose by \$9.6 million to \$32.4 million. The increase in as-reported gross profit was higher

than the increase in comparable gross profit following the same IAS 29 adjustment dynamics described for revenues.

Let's now please move on to slides 14 and 15 for a review on EBITDA performance for the quarter and the last 12 months respectively. The \$9.6 million increase in as-reported gross profit was the main contribution to adjusted EBITDA growth for the quarter, which increased 13% and totaled \$16.6 million compared with \$14.7 million in the year-ago quarter.

Conversely, operating expenses and other income and expenses rose by \$5.6 million and \$0.5 million respectively, including an expense increase of approximately \$1.3 million related to data acquisition within the HB4 program, the rollout of the digital platform, and increased support to the program as hectares scale out.

Setting aside HB4 related expenses, SG&A from the operation of the baseline business increased primarily due to a mix of fixed and variable operating expenses related to the expansion of the business. Employee salaries and social security expenses increased by \$1.6 million, driven by growth in the Brazilian subsidiary as well as the reorganization process to support growth in the crop protection segment. Also, variable sales related tax expenses grew by \$1.2 million, in line with increased revenues during the quarter.

On a different note, similar to manufacturing costs and payroll inflation and FX dynamics in Argentina, where the main administrative and support functions of the company are located, also had a negative impact in expenses. Despite the increase, total SG&A expenses were down 234 basis points as a percentage of revenue, from 21.7% to 19.4%, denoting operational leverage.

R&D expenses totaled \$2 million during the quarter, compared to \$0.8 million in the fourth quarter of fiscal 2020. Approximately two-thirds of the R&D expenses in the quarter were related to the development of seed and traits, and the remaining third was related to the development of new biofungicides and biostimulants.

Finally, JV results decreased by \$1.5 million compared to the fourth quarter of fiscal 2020, mainly due to IAS 29 adjustments on Synertech, the company's micro-bead fertilizer manufacturing JV.

In slide 15, adjusted EBITDA for fiscal year 2021 totaled \$48.3 million, a 4% increase versus fiscal 2020. Sales growth spanned all business segments, with as-reported gross profit increasing by a total of \$11.1 million, composed of \$9.3 million increase in comparable gross profit and a \$1.8 million positive adjustment from IAS 29. The divergence between as-reported and comparable metrics for the full year was lower than the fourth quarter figures, as IAS 29 adjustments tend to decrease in a

scenario of convergence of inflation and FX depreciation in Argentina.

Growth in gross profit was partially offset by an increase of \$7.9 million in operating expenses, with the fourth quarter dynamics explaining most of the increase and bolding the yearly trend. Importantly, SG&A for fiscal year 2021 includes expenses related to the ramp up of the HB4 program, while deferred revenues from contributed goods are yet not fully reflected in revenues and gross profits.

Inflation and FX dynamics in Argentina also had a negative impact in the full-year expenses compared to fiscal year 2020. Following the \$48.3 million adjusted EBITDA achieved during the fiscal year, supplementary cash flow information is presented in the right-hand side of the slide.

Investment activities totaled \$16.7 million during the full fiscal year. \$4 million were invested in tangible assets, including maintenance CapEx, as well as the acquisition of land for the expansion of the adjuvant manufacturing facility in Brazil. Investment in intangible assets during the year stood at \$6.4 million, with roughly 35% allocated to the continuous development of the HB4 digital platform.

Finally, the acquisition of Verdeca and other assets from Arcadia Biosciences mainly explain the \$6.3 million in acquisitions during the year.

From a tax perspective, income tax accrued over the period, excluding deferred tax liabilities, stood at \$7.3 million. Additionally, \$1.8 million of deferred tax liabilities from previous fiscal periods were paid during fiscal year 2021.

Finally, net cash financial expenses and commissions accrued for fiscal year 2021 totaled \$14.6 million. Let's now please turn to slide 16 to address our debt evolution and cash position.

We continued to make good use of Rizobacter's partnership with Argentina credit markets throughout the fourth quarter, as we completed a \$26 million public offering of Series V corporate bonds in early March. 20% of the issuance had a one year maturity and an annual coupon rate of 0.98%, and the remaining 80% was issued with a maturity of 36 months and an annual coupon rate of 5.5%.

The total financial debt increased by \$22.5 million from the fourth quarter of fiscal 2020, first left-hand side column, to the fourth quarter of the current fiscal year, while total LTM financial expenses decreased by 16% from \$17.3 million to \$14.6 million.

Total net debt as of June 30th, 2021 was \$121.3 million, 2.5 times net debt to adjusted EBITDA. The increase in the company's debt ratio compared to the prior fiscal year was primarily due to increasing total financial debt as the company

replaced inefficient working capital sources with corporate bonds.

On a sequential basis, net debt to LTM adjusted EBITDA decreased from 2.89 times on March 31st, 2021, primarily due to a reduced short-term debt position and higher LTM EBITDA. On the liquidity front, cash and cash equivalents and short-term investments represented approximately 67% of the current portion of debt.

That concludes the financial remarks for today, so I will now turn it to Federico for concluding remarks.

Federico Trucco: Thank you, Enrique. Moving forward to the next slide, we can summarize some of the major highlights for the fiscal year '21, where we had double-digit topline growth across all three segments despite a softened performance in the second quarter due to the climatic situation in South America, growth mainly driven by the development of the micro-bead fertilizer expansion plan and the fourth quarter crop protection reorganizational strategy.

Contributed goods for HB4 program, both HB4 wheat and HB4 soy, increased significantly to \$8.3 million, approximately \$105 per hectare farmed, with gross margin of approximately 43%. And the value of these contributed goods, as we indicated before, will be recognized as revenues once the realized inventories are sold as seed or grain but not longer contributed.

HB4 wheat was commercially approved in Argentina in October of 2020, subject to Brazilian import approval for full commercial launch in Argentina. This approval represents a historical milestone for the entire global value chain, being the first biotech wheat event to be fully cleared.

We acquired the remaining HB4 soy ownership interest in Verdeca LLC, aiming to accelerate breeding and go to market strategies. Complete ownership will enable us to capture more of the underlying economic value generated by the technology. And as part of the transaction, the company acquired Verdeca's vetted soybean library of gene edited materials for developing new quality and productivity traits, as well as exclusive rights to all of Arcadia technologies applicable to this crop. Bioceres has also been granted Latin American rights to Arcadia's wheat traits and Good Wheat brand and other GLA non-core assets.

During the period, we successfully completed the offer to exchange all 24.2 million outstanding warrants in a cost-effective manner, eliminating the future dilution entailed by these derivatives. There were \$70 million of total financing obtained also during the last fiscal year.

\$43 million of funding was added through the company's main operational subsidiary, Rizobacter, issuing the Series IV and Series V corporate bonds and making considerable progress towards substantially lowering financing costs, extending debt

maturities, and increasing financial flexibility, as indicated by Enrique. \$28.7 million equity financing completed through the aforementioned Verdeca acquisition, and the warrants tender offer transaction.

Management has been focusing on unlocking value from stocks' liquidity. Ad hoc accretive deal structure with strategic equity components as the ones just described, on top of selective and persistent IR efforts, resulted in a 78% year-over-year improvement of the three month trading moving average in terms of stock liquidity.

Moving to the next slides, coming up next in terms of fiscal year '22, you can expect from a baseline business perspective to see reignited profitable growth on the seed and integrated products segment, the same way we saw in the crop nutrition and the crop protection segments over the last two quarters, continue to move forward with our digital platform, releasing some of the developments we have generated in this front.

From a product development and go to market perspective, accelerate or ramp-up of the third generation materials for both HB4 soy and HB4 wheat, and start ramping up inventories for the Good Wheat materials we in-licensed from Arcadia.

On the regulatory front, we are expecting China and Brazil regulatory clearances of HB4 soy and HB4 wheat respectively, and

also continue to work on the downstream and ESG initiatives to build on the data we are accumulating and provide data-driven ESG scoring of produced inventories under the HB4 program targeting downstream specifications.

So, this essentially concludes today's management overview. I will now open up the floor for any questions that you may have.

Operator: And as a reminder, if you'd like to ask a question, simply press star-one on your telephone keypad.

Your first question comes from the line of Ben Klieve with Lake Three Capital Markets.

Ben Klieve: Thank you for taking my questions, first question on the quarter itself. Great result really. Congratulations on a strong end to the year.

I'm curious if you can talk about the initiatives that you've taken in both the nutrition and the protection segment, and talk about kind of your expectations for fiscal '22 around those initiatives. You guys are now coming off of a really difficult comp given how good of a second half you had, so I guess I'm curious how much further improvement do you expect in these two parts of your business throughout fiscal '22.

Enrique Lopez Lecube: Hi, Ben. This is Enrique. Thanks for joining us today. Good to have you on the call. So, from those two business segment standpoints, in crop protection, as I was

saying in the previous remarks, we tried to divide the channel teams, the commercial teams that are focused on the proprietary and more valuable or more profitable products, from other products that are a good business opportunity for the company but that require a different level of attention and a different approach to market, such as third party products, and other services also that are a good opportunity for the business and the company but are not strategically active.

So, that reorganization process already started delivering results. I think it's something that might continue throughout the year, the year incremental results, but this is more of a one-time reorganization process and not something that will continue delivering results year after year. So, that means more of a one-timer versus what we are seeing in crop nutrition, where the new commercial strategy around micro-bead fertilizer is working very well until now.

If you remember from previous calls, we decided to hit the gas with ramping up the volumes of fertilizers, being a bit more aggressive on pricing to farmers but trying to keep margins as we did. And to me, the third quarter and the fourth quarter were a testament to that.

We are also seeing a significant increase in the use of the installed capacity, and that is something that we hope will continue delivering results over the year, fiscal year 2022.

Remember that we are targeting to get to upwards of 60% sometime in the next two years with the use of the installed capacity. So, still a long way to go, but that strategy is delivering.

And in inoculants, that is obviously a very, very attractive business segment to us. In Latin America, we are already a market leader. But we are seeing that growth is still happening and taking place in that product category, and the good thing is that we have a diversified geographic footprint. So, as you saw in this quarter, what we lost in South Africa was recuperated in Latin America. What we probably lost in Brazil last quarter was recovered this year.

So, still a source of growth to us, and I think that the main strategic point there is geographic distribution globally. And remember that this is the product probably for which we are globally known in the adjuvants industry, more specifically in biologicals.

Ben Klieve: Got it. Okay, that's helpful. Thanks, Enrique.

Pivoting over to HB4, there's a lot going on here. And I'll admit I'm a little confused at kind of the near-term expectations, especially for soy. I understand the first, second, third generation breakdown that you gave. But for that second-generation that you've outlined as being pretty efficient on kind of poor quality farmland, is the expectation that you're going to be revenuing a second-generation seed here in fiscal

'22? And if so, what kind of inventory levels do you have of that second-generation material?

Federico Trucco: Hi, Ben. This is Federico. Thank you for joining the call, and thank you for the question regarding the HB4 soy ramp up process.

So, what we wanted to basically illustrate there is how, as we move forward in our breeding efforts, we're improving on the general performance in moderate to highly productive environments and not just the HB4 benefit in these highly restricted environments, where we know that technology can deliver 15%, 16% yield improvements, which we believe to be important for the varieties to be used broadly and to minimize any kind of user discomfort, if you will, if for whatever reason situations are good from a rainfall perspective and we and farmers experience a drag due to the germplasm gap.

So, the second-generation varieties of the 23,000 hectares we just harvested, less than 15% of those were planted with second-generation materials. So, what we wanted to tell you here is that our ability to ramp up in the coming season, it's probably going to be less than what we did in the last year. So, last year, we did 8 times what we did the year before.

We think this year we'll be at 3 to 4X because of sort of the constraint generated by the performance in the first-generation varieties, which we will not continue to scale, and

the repositioning of all of the second-generation materials to double cropping systems or highly restricted areas. We want to make sure that the farmer experience is excellent. And that is kind of what we are putting in the balance here as we designed the process for the coming season.

Now, we are still in ramp up mode, so you won't expect to see--you shouldn't expect to see revenues materializing until we get the China approval. Having said this, if we discontinue some inventories and that gets to be sold as grain or sold as a grain derivative, you will see that coming through the P&L process in the coming year.

And maybe Enrique can give you more color regarding as to how that gets materialized. But I'll pause here to see if your question was fully addressed. Otherwise, I'll try it again.

Ben Klieve: No, I think you did, but that presents another question then. Your comment about basically needing to wait here for Chinese approval, does that imply that commercializing HB4 soy via an identity preserved supply chain and ensuring grain customers are domestic, that that's not an initiative that's going to be undertaken here in fiscal '22? That--or fiscal '22 for soy is going to be purely an inventory ramp year and not a commercial year for HB4 soy?

Federico Trucco: It's going to be an inventory ramp year for the materials we get to keep for future sales as seed. And

it will become a revenue year for materials we're discontinuing and we are sending into an identity preserved industrialization path.

Ben Klieve: Okay. All right. Then that makes sense. Okay.

And then I guess the last question on HB4, you talked about the double crop system here now with wheat and soy. Really, what does that look like? Kind of what's a double crop system in Argentina from a timing perspective? When are they planting wheat and when are they following up with soybean planting?

Federico Trucco: So, wheat has already been planted. It's usually a June, July planting, depending on the area. And then depending on the level of humidity, farmers might want to do soy after wheat in November, December.

That is where we are seeing that HB4 performance is enhanced, particularly in the moderate environments and moderate to highly productive environments, where we saw the germplasm drag. And there are six million hectares today that are under the double cropping system in Argentina.

So, this is not an insignificant opportunity, where we have not only performance in soybeans that we can point to, but also where we can leverage on the terrific performance of our wheat varieties. The HB4 wheat performance that is beyond dispute can be a terrific complement to the soy products that outperform commercial materials in double cropping systems.

So, while this is still a fraction of the overall opportunity we are seeking with HB4, I think it's one that we can make use of right away with the second-generation materials we're currently scaling up.

Ben Klieve: Okay. Last one for me and then I'll pass it over. You talked about fast-tracking third-generation materials. Really, what does that mean? What initiatives are you taking to fast-track? And what's your expectation for kind of how inventory build can grow over the next year or two given this fast-track approach?

Federico Trucco: So, the fast-tracking is essentially doing off-season production. So, instead of having one cycle of multiplication every year, we will try to, particularly early on where we are talking about hundreds of hectares and not thousands, do off-season in the U.S. like we have done in the past for some materials. So, that's currently happening.

I believe that we will probably be on a few thousand hectares with third-generation materials in the coming up season in the aggregate. And the remaining, obviously, to achieve the 3 to 4X will be with second-generation materials, and a significant portion of that as a follower to wheat.

We believe that in the next cycle, we should not be hindered by the performance of the materials or by the availability of inventories, but we will be dependent on Chinese

approval. As I've said before, moving identity preserved beyond the 0.5 million hectare mark, it's challenging. So, we think that if we do things right from a multiplication perspective, we should be able to be there, and then the Chinese clearance becomes of greater relevance than what we have today.

Ben Klieve: Okay. Okay, very good. Well, appreciate the comments from both of you. There's more to talk about, but I'll turn it over to the other analysts. Thanks for taking my questions.

Federico Trucco: Thanks, Ben.

Operator: And again, if you'd like to ask a question, simply press star-one.

Your next question comes from the line of Kemp Dolliver with Brookline.

Kemp Dolliver: Hi. Thank you, a couple of questions. First, on your presentation, you mentioned you expect regulatory approval in fiscal year 2022. Do you have increased confidence or is it based on regulatory interaction, or is this just the-- reflect the passage of time? I'm trying not to read too much into that piece of information in the slide.

Federico Trucco: Well, thanks, Kemp, for joining the call. I think the answer is a combination of all these different aspects that you have indicated.

For instance, in terms of the Brazil process for HB4 wheat, that's an active process. We can follow what happens in every meeting. We got questions sent to us, I believe, in the June meeting, after the process was ready to be decided.

Those questions asked us to generate additional data essentially to look at how HB4 may affect other genes in wheat that can potentially be allergen-linked. And we did something that has no precedence. We basically evaluated every single gene in wheat and showed that there was no change, and we provided that data back to regulators on August 18th.

The first meeting since we provided that data was conducted the first days of September. So, there was not enough time probably between our filing and that meeting for regulators to have a full view of the data package. But there is an upcoming meeting in October, where we believe enough time would have elapsed for them to come to a conclusion.

And then we don't know what that conclusion will be, but there is a process that we can more or less track, and we can get an additional question or we can get an approval. So, that's where we are in terms of wheat.

With the Chinese process, we have less visibility. All that we know is that we are not getting more questions and that this has been the case since last year. So, we didn't get any additional question from Chinese regulators during 2021. They

have not met yet and we don't know when the next meeting is going to occur. There usually is a meeting in the first half of the year, but has not occurred.

And this is not Bioceres related. This is for all GMOs that they evaluate. So, we don't have a meeting diarized that we can sort of point you to today, but that is kind of where we are in our understanding of the process in China. And from a time perspective, we are within the customary timeframe, within which they've made decisions in the past for other events that they have approved.

Kemp Dolliver: Okay, fair enough. That's very helpful.

My second question relates to your comments on Canada. And typically, we've assumed that small subsets, say 20%, 25% of acreage in a given market, would be appropriate for HB4 products. And your comments on Canada today suggest that it might be more than that, given the geography. Does that reflect increased visibility on the market opportunity there?

Federico Trucco: Yeah, that's a very good point, Kemp. The 25% is a rule of thumb across sort of the Americas, I would say.

But when you look at the subregion that is entailed by Southern Canada and some parts of the Northern U.S. like Minnesota and the Dakotas, there are 10 million hectares there all combined, where we expect penetration to be higher than 25%, because these are hectares that are often prone to water

deficits and where average yields tend to be below the three tons per hectare, sometimes even below the 2.5 tons per hectare. So, the value proposition of HB4 becomes even more compelling. That's why we were eager to secure germplasm for this region.

And one thing we're effectively announcing today is the Don Mario collaboration, to be able to have maturity groups two and below that are specifically suited to this part of North America and take advantage of having all the approvals in place to capture these hectares.

Kemp Dolliver: Great, thanks. And this will be my last question and it relates to the partnerships. How do the partnership economics work? And most specifically, do they have any impact relative to doing this on a standalone basis?

Federico Trucco: Well, I think there are two important aspects. Usually the technology is priced on two different fronts, the germplasm, the hardware, if you will, and the trait, the software that goes into that hardware.

So, we are software providers from an HB4 perspective. We have our own hardware company. When we are discussing our proprietary program, the data that you saw from Latin America, from Argentina comes from our hardware company where we are combining HB4 with our proprietary germplasm.

If we use someone else's hardware, that person gets to keep the \$3.00 to \$4.00, sometimes even \$8.00 per bag that are

usually hardware dependent. When we jointly develop the hardware, we split that 50/50, but that doesn't do anything to the price of the software, which we get to keep ourselves for Verdeca, if you will, that we fully own today. That is the developer of the trait.

We might give certain incentives when we are working with partners on the software revenue. And they can be between 15% to 30% of the trait price or trait fees, depending on how deeply involved we are and whether they meet or not certain metrics.

But this is building additional economics beyond what we originally had from a germplasm perspective; Don Mario providing their germplasm capabilities, co-financing that so that we can have ownership into those additional economics, and keeping everything else from the trait side the way it is for a traditional licensee.

Kemp Dolliver: So, to be clear, the net effect for you is minimal, based on what you had previously indicated to us?

Federico Trucco: Yeah, I wouldn't--we are not having a leakage on our HB4 value in general. There will be some germplasm royalties coming to us due to the investment we will be making jointly with Don Mario. But the important thing here is the ability to capture in a geography we would not be able to capture in the absence of Don Mario, because we do not have

varieties adapted to this region of North America from our proprietary efforts.

Kemp Dolliver: Great. Thank you.

Operator: Your next question comes from the line of Steven Ralston with Zacks.

Steven Ralston: Good morning.

Federico Trucco: Good morning, Steven.

Steven Ralston: Congratulations on the great topline. It seems to be that the strategies that you're putting into the crop protection and the crop nutrition segments is gaining traction.

This will be kind of a long-winded question. Just looking at it overall, it appears that the seed business, it's a geographic expansion story and with Argentina, of course. But if lightning could strike here in Brazil and China; the nutrition area is a capacity utilization story, and you have plenty of room to ramp up the utilization. You're on track there.

But looking at the crop protection area, with this reorganizational strategy with bringing on these dedicated teams, it seems like there's a structural increase in the SG&A. And could you talk about that? Because the SG&A jumped up substantially during the fourth quarter. But as you say, it's still a lower percentage of sales because this topline grew so much. But could you talk about what structural implications

there are in the SG&A line concerning the reorganizational strategy?

Enrique Lopez Lecube: Hi, Steven. This is Enrique. Thanks for joining us today, pleasure to have you on the call.

So, I think that your overview of the different initiatives is accurate. On your specific question on SG&A, bear in mind that in SG&A we are today accounting for expenses related to the launch of the digital platform, the rollout of HB4, and that is yet not having an impact neither on the topline nor on profitability. So, to me, that is an important point on SG&A.

And then on your question, your specific question about the crop protection reorganization process, that is something that didn't take much of the increasing SG&A that you see. It might be about 20% to 30%, no more than that.

And that also takes into consideration Brazil, the ramp-up of SG&A, right? This is a geography where, year after year, we are seeing good levels of growth. But in order for that growth to be captured, we need to put in place the support functions to allow for that growth afterwards.

So, we keep track that our SG&A expenses in Brazil that we put in place in one specific period materialize in sales growth on the following period. So, that's the way we think about Brazil. So, the SG&A increase is a combination of those three

things and not specifically attributable to the reorganization process in crop protection.

Steven Ralston: Thank you.

Also, I noticed the R&D line also increased substantially. Is that because of the second and third generation HB4 soy?

Enrique Lopez Lecube: Well, that is a combination of things. Part of the expenses in R&D that you see there had to do with further regulatory approval requests that we made and that you saw in the slide that Federico presented. Part has to do with developing and obtaining registrations for products in our geographies, biologicals mainly. So, it's a split between regulatory expenses for the seed business and further registration for adjuvants and biologicals in our geographies.

Steven Ralston: Thank you, and thank you for taking my questions.

Operator: You have a follow-up from the line of Kemp Dolliver with Brookline.

Kemp Dolliver: Hi. Thank you. Quickly, you had the refinancing with Rizobacter several weeks ago. What range of interest savings do you expect from that?

Enrique Lopez Lecube: Thanks, Kemp, for the question. I think that we have now reached a point at which our average cost of debt is stable, so we don't expect further savings from future issuances. But those issuances do allow to refinance our

existing debt, maintain our leverage ratio. So, we are now stabilized, and I think that opportunities within that space will have to do more with extended maturities than lowering our average cost of debt.

Kemp Dolliver: Great.

And this is my last question. You've made a few comments about Argentinean inflation this period. And the CPI numbers the last couple of months have been, I think, as high as 50%.

How are you thinking--if nothing else changed and inflation stayed at this level, how are you thinking about the margin impact over the course of the next year? Is this something that will taper off, or do you expect that the magnitude of impact on margins could continue?

Enrique Lopez Lecube: That is a great question, Kemp. We don't look at FX and inflation on a standalone basis. In Argentina, you need to look at those two variables together. So, what we've seen in the past, actually decades, is that inflation and valuation or depreciation of the local currency converge in the long run or in the midterm.

It might be that in the short term there is a divergence, like it happened in this last two or three quarters in fiscal year 2021. And that turned into headwinds for our cost structure, manufacturing costs, and that impacted the gross margins but also some of our SG&A costs. But in the last two or

three quarters, depreciation of local currency in Argentina lagged inflation. So, that should catch up at some point.

Kemp Dolliver: Thank you.

Operator: And at this time, there are no further questions. I'll turn the call back over to Federico Trucco for closing comments.

Federico Trucco: Okay. So, thanks, everyone, for joining us. I know this is a lot of information in today's call, so I hope that you can feel free to reach us back. If you need further detail or further explanations, we stand fully available.

We are happy with the performance that was obtained in fiscal year '21, particularly after what we saw in the second quarter. So, second half, that was very strong and allows us to show the results we are showing today. So, thanks again. I hope everyone has a great week. And we are fully available should you have any follow-ups. Thank you.

Operator: Thank you, ladies and gentlemen. That concludes the call for today. You may now disconnect.