

# KAKUZI PLC

## VIRTUAL AGM (92<sup>ND</sup>) SHAREHOLDER QUESTIONS (Q) RECEIVED AND RESPONSES (R)

### General Business Economics:

Q1. Avocado & macadamia produced by the company is mostly sold to foreign markets like the EU. I wanted to get a feel of the kind of customers you sell to in those markets. Who exactly are they (e.g supermarkets, wholesale food distributors etc?) and what sort of selling arrangements do you have with them?

R1. For avocado we sell through two independent agents to all of the markets you have listed. We have both spot prices and pre agreed price ranges depending upon the end customer. The actual market price is set by the supply and demand dynamics at the time of sale

For macadamia the price is agreed prior to shipment, often months in advance. We have a primary selling agent and a second selling agent for certain markets.

Q1a. Do they pre-order specific volumes from you?

R1a. We have pre orders exclusively for macadamia and a mixture of pre orders and spot prices for avocados.

Q1b. Or do you market your products in those markets and wait for orders? How intertwined are these selling arrangements with your sister companies (SA, Malawi subsidiaries of Camellia plc) own selling arrangements especially when the product is the same.

R1b. The selling agents for avocados are not intertwined with Camellia Plc or any other subsidiary of Camellia Plc at all. For macadamia's Camellia Plc has a number of companies who also produce macadamia nuts. These companies also use the same selling agents however Camellia Plc as no interest in these selling agents, one agent based in Australia the other in Japan.

Q2. How exactly does the pricing for avocados & macadamia in the export markets work? Are the selling prices, at a particular time, similar across different countries/customers? Please share details on how the pricing of your avocados & macadamia works in various export markets.

R2. Sales prices operate on a market supply demand and speculation basis. With macadamia, the prices change for certain styles and certain countries of origin and depending upon how you wish to position your product in the market. It is also possible to hedge your price through contracting many months before you have produced the product. As avocados are fresh produce it is very difficult to hedge the price but this can be done to some extent with supermarket programs. The price varies depending upon the country of origin, the quality, size of fruit and the amount of fruit in the market at the time of sale.

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Q3. What are the fundamental differences between the US and EU/UK avocado market? Why does most of your produce go to EU not US?

R3. The markets are similar although as the USA is so far away from Kenya the shipping timing and costs would make this market out of reach. The USA is predominately supplied by Mexico, its own production and Peru.

Q4. A look at your segment reporting shows significant amounts of admin costs lumped under *All other Segments* termed as 'unallocated admin expenditure'. Doesn't this make the reported profitability per segment unrepresentative of the reality? Please share more light on how the Mgt evaluates profitability of each segment and how separate is the management of the different divisions/segments.

R4. Where there are cost cross overs it is very difficult to apportion these to one crop or another. It is also more efficient and practical to control general admin costs in one place than to spilt them into small parts.

Q5. The valuation of biological assets in 2018/19 annual report shows an estimated selling price for avocados of between about EUR4 to 5 per carton and USD16 to 17 per kg for avocado and macadamia respectively. What does Mgt estimate is the cost of production per carton and per kg for avocado and macadamia respectively? In the past, Kakuzi has divested from operations of coffee, pineapples, passion fruits, piggery etc. What unfavorable factors present (or potential) would cause Mgt to consider divesting from the current operations of Avocado, macadamia, forestry, livestock & tea.

R5. The segmental reporting re Note 5 in the financial statements indicates the gross profit per crop. Kakuzi is always looking for ways to diversify its income stream which is the basis to the many agricultural trials you have noted. We also need to note that commodities generally cycle through good and bad years and hence it is very difficult to look at short term assessment for crop viability. We produce crops which we feel have a long term future and having diversity of crop protects Kakuzi long term.

### **Future Projects/Prospects:**

Q6. How many hectares have immature crop as of Q1 2020? Please share breakdown per crop. The 2016 annual report mentioned that a trial for sorghum and maize was carried out. Please share some details on how that trial went and where it stands today.

R6. The sorghum grew well but we were unable to protect the crop from birds. We have subsequently moved to animal feed production

Q7. In 2014, you also mentioned barley as a suitable crop. Were any trials done and where does it stand today?

R7. The trials were not successful.

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Q8. Has there been any progress on selling avocados to China?

R8. Kakuzi has been at the forefront of working with the Chinese and Kenyan authorities to develop protocols for these exports. This is very much a work in progress.

Q9. What were your findings from the trial phase of blueberries you carried out in 2019?

R9. It is very early days and we are experiencing some interesting findings which we hope to have more clarity on by the end of 2020.

Q10. Which operating segment, in Mgt's opinion, has the least favorable prospects and why?

R10. As explained above all of our crops cycle through good and bad periods of trading. Currently the tea market is under considerable pressure but this may change with time.

### **Land Value and Usage**

Q11. Is the freehold land value in the balance sheet a cost value? How many hectares of land does the company own and what do you estimate is the current market value of each acre?

R11. Most of our land is lease hold and as such land is carried as 'Right of use Assets' on the balance sheet, in compliance with IFRS 16 – refer to note 20 in the Accounts.

Q12. From the total Ha. above, is there any un-utilized land? i.e land which is not under plantation or forestry or livestock. If any, why is that so? Please share the breakdown of land occupied by each product per the latest status you have.

R12. Our land includes dams, wet lands, factories, buildings, natural forest, roads and environmental protection areas.

### **Labor/Stakeholder Relations:**

Q13. In 2011/12, the company mentioned that negotiations with workers unions were difficult. What is the nature of these workers unions, what difficulties did Kakuzi face in those negotiations, how they were resolved and how do the current agreements (pay, tenor, number of workers, benefits etc) with these unions look like today?

R13. For the last 10 years Kakuzi and KPAWU have entered into a Collective Bargaining Agreements which covers all of our unionisable employees (approximately 2,300 people). The current agreement expires in December 2021.

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Q14. 2019 report shows that most of the profits made on sales from the smallholder crop is returned to the farmers via bonuses. How long has this practice been on-going and why would you pay bonuses to the farmers after paying them a fair price for their crop?

R14. It is our view that our small holder farmers should receive the majority share of the price paid to allow them to reinvest in their operations and hopefully provide more and better quality fruit in future years. We aim to promote economic empowerment in our communities which is what we hope this initiative achieves

Q15. How is executive pay (MD and CFO) determined and how is the performance of the CEO and estate managers for different operations (livestock, Forestry etc) appraised?

R15. The payment for the CEO and MD is determined by the Board of Directors. All estate managers are appraised annually.

### **Capital Allocation:**

Q16. Livestock seems to take up the most acreage and yet provides the least revenue. Why wouldn't you allocate more acreage to other products like macadamia/avocado since they generate more revenue per Ha.?

R16. This has been occurring within the extensive development program we are and have been undergoing for a number of years - however not all land is suitable for such crops.

Q18. In 2018/19 you seem to have paid out a higher percentage of the earnings (about 38%) as compared to the previous years which were around 23%. Is there any particular dividend policy in place? If so, what is it like?

R18. The Board has responded to the excellent results achieved by Kakuzi in 2019 and is continuing with the resolve to increase dividend returns to shareholders when and where possible, as the company continues to grow and improve its investment returns.

Q19. Would Mgt consider freezing/suspending dividends to retain cash for further development of crops/trails?

R19. Currently we are well positioned not to have to do this.

Q20. The oldest annual report I could access was 1989 and from that time to-date, the company hasn't raised any capital from the stock market (debt or equity). The Co seems to have preferred using internally generated cash for expansion/investment rather than using the options available in the capital/public markets. If this is the case, are the benefits of Kakuzi Plc being listed worth the associated costs?

R.20 Since the Company has managed to raise adequate funds internally there has been no need to get another source of funding (which are usually more expensive sources, in any case)

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Q21. Could you please share how and when the company came to be listed on the NSE. I would also appreciate it if you could share a copy of the prospectus/information memorandum for when Kakuzi listed on the NSE.

R.21 The Company was listed in 1950s/1960s and we do not have any copies of the original prospectus/information from that time.

### **Others**

Q22. Could you consider virtual AGMs and investor conference calls going forward to enable shareholders who are not resident in Kenya a chance to interact with Mgt of the company?

R22. This will be kept under consideration

Q23. Is it possible to schedule a visit to Kakuzi farm for an individual shareholder like myself? This would be very much appreciated.

R23. We organized a shareholders farm visit in 2019. Other visits will be organized in future years when the situation permits.

### **Business Operations:**

Q24. Where in Nairobi are your products sold?

R24. Currently only our livestock products are available in Nairobi through some nominated butcherries. The rest of the products are mainly sold from our shop by the main Thika Nyeri highway.

### **Business Strategy:**

Q25. What became of the arable farming project?

R25. The initial trials were not successful

### **Business Strategy:**

Q26. How is the current performance YTD as at May 2020 and forecast looking like.

R26. This will be covered by the Chairman in his closing remarks during the AGM