

Innovative Bio-Science

ONDERSTEPSPOORT BIOLOGICAL PRODUCTS

Presentation to the Portfolio Committee of Agriculture, Land Reform and Rural Development

1st, 2nd, & 3rd Quarter Performance Report

25 February 2022



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1. Executive Summary



1. Executive Summary

- For the period 1 April 2021 to 31 December 2021, OBP generated gross revenue of R146.1 million, compared to the budget of R159.0 million, which is R12.9 million behind year to date.
- For the period 1 April 2021 to 31 December 2021, OBP had operating expenses of R90.3 million with a budget of R121.0 million for the period, a saving of R30.7 million year to date. The company has reduced overall expenses by R14.9 million and aligns with the decreased revenue achieved against budget for the year.
- For the first quarter, OBP generated gross sales of R34 million, compared to the budget of R44 million. Annual Performance Plan implementation for the quarter was 35%.
- For the second quarter, OBP generated gross sales of R62 million, compared to the budget of R55 million. Annual Performance Plan implementation for the quarter is 50%.
- For the third quarter, OBP generated gross sales of R52,3 million, compared to the budget of R59.7 million. Annual Performance Plan implementation for the quarter was 53%.



2. STATE OF THE ORGANISATION



STATE OF THE ORGANISATION

OPERATIONS

- Management of Industrial Relations
- Human Capital Development
- Innovation, Research & Development
- Product Availability
- GMP

GOVERNANCE

- Consequence Management
- ORG Structure
- Capacity of Executive Management
- Stakeholder Management
- Board Effectiveness

INNOVATION, RESEARCH & DEVELOPMENT

NEW PRODUCT DEV

- Inactivated African Horse vaccine
- Snotsieke (Malignant Catarrhal Fever)
- New Heartwater vaccine (Clinical trials in progress)

NEW TECHNOLOGIES

- Molecular technologies (Quantitative PCR)
 - RVF, AHS, BTV, LSD (Validation stage, new equipment being processed for order)
- Radioimmunoassay technologies for Clostridial vaccine quantification (technology transfer stage)

NEW PROD PROCESS INNOVATIONS

- Bluetongue Vaccine Production
- New Media for Tetanus Production
- RVF Clone 13
- Chlamysure

Quantities produced and sold in the past 5 years

Product Name	Total Quantities Produced & transferred in past 5 yrs	Total Quantities Sold in past 5 yrs	Variances
LUMPY SKIN DISEASE (50d)	246 348	226 285	-20 063
BLUE TONGUE	276 679	224 375	-52 304
HORSESICKNESS 12d	51 323	44 501	-6 822
RIFT VALLEY FEVER LIVE	139 065	85 767	-53 298
LUMPY SKIN DISEASE 100ml (25d)	389 078	368 616	-20 462
PASTEURELLA (SHEEP) 100ml	210 692	215 229	4 537
RIFT VALLEY FEVER INACT 100ml	95 294	78 963	-16 331
PASTEURELLA (CATTLE) 100ml	94 020	105 594	11 574
BRUCELLA ABORTUS S19 (25 dose)	84 938	109 629	24 691
B-PHEMERAL 10ml (10 dose)	122 186	127 979	5 793
REDWATER ASIATIC 5ml	50 182	72 338	22 156
ANAPLASMOSIS 5ml	43 275	63 576	20 301
BOTULISM 100ml	106 953	91 751	-15 202
REDWATER AFRICA 5ml	34 237	49 963	15 726
BOTULISM 50ml	17 326	17 914	588
PULPY KIDNEY (ALUM) 100ml	250 947	209 401	-41 546
HEARTWATER 9ml	18 325	28 960	10 635
ANTHRAX 100ml	33 064	33 150	86
PASTEURELLA (25)	8 677	8 529	-148
BOTULISM/BLACK QUARTER 50ml	8 282,	7 324	-958

3. Financials



Quarter 3: Performance Report For Financial Year YTD 2021/22

	Month:				Month: Prior year	Year to Date:				Year to Date: Prior year
	Actual	Budget	Variance: R	Variance %	Actual	Actual	Budget	Variance: R	Variance %	Actual
	Dec-21				Dec-20	Dec-21				Dec-20
Income Snapshot:										
Revenue	19,177,730	13,210,841	5,966,888	45%	7,566,215	146,192,039	159,035,725	-12,843,686	-8%	161,453,656
Discount granted	1,055,267	538,782	516,484	96%	932,101	17,096,943	17,961,193	- 864,250	-5%	20,745,467
Cost of sales	2,702,419	3,545,506	- 843,087	-24%	1,987,153	30,357,228	17,508,813	12,848,415	73%	49,301,184
Gross profit	15,420,044	9,126,553	6,293,491	69%	4,646,961	98,737,867	123,565,719	- 859,521	-1%	91,407,005
			-			-	-	-		
Other income	429,318	573,315	- 143,998	-25%	189,492	14,982,881	4,192,837	10,790,044	257%	15,126,677
Operating expenses	5,971,299	12,782,327	- 6,811,027	-53%	10,154,702	90,377,341	121,089,453	-30,712,112	-25%	109,266,313
Administrative expenses	867,763	1,001,845	- 134,083	-13%	2,090,661	11,849,372	10,089,144	1,760,227	17%	13,025,900
Operating (loss) profit	9,010,300	- 4,084,304	13,094,604	-321%	- 7,787,894	11,494,036	- 3,420,041	14,914,077	-436%	15,758,531
Interest revenue	182,269	930,167	- 747,898	-80%	1,662,540	5,105,162	8,371,500	- 3,266,338	-39%	7,341,031
Appreciation of deferred government grants	758,291	1,632,250	- 873,959	-54%	712,924	6,963,310	14,690,250	- 7,726,940	-53%	7,033,118
(Loss) profit before tax	9,950,859	- 1,521,887	11,472,746	-754%	- 5,412,431	23,562,508	19,641,709	3,920,799	20%	1,384,382
Taxation	-	-	-		1,211,801	-	-	-		11,952,283
Profit (Loss) for the month	9,950,859	- 1,521,887	11,472,746	-754%	- 4,200,629	23,562,508	19,641,709	3,920,799	20%	13,336,665
Change in Revenue	-21%	-39%	18%	-58%	-30%	0%	0%	0%	0%	0%
Cost of Goods Sold (COGS) %	13%	27%	-13%	40%	26%	19%	11%	8%	3%	31%
Gross profit %	85%	69%	16%	53%	61%	76%	78%	-1%	79%	57%
EBITDA %	61%	-12%	72%	-84%	-69%	20%	24%	-3%	27%	-5%
Operating Profit Margin %	49%	-5%	54%	-59%	-90%	14%	16%	-1%	17%	-15%
Net Profit Margin %	55%	-17%	72%	-88%	-90%	18%	16%	2%	14%	50%
Local Revenue %	61%	55%	6%	49%	63%	50%	55%	-5%	60%	50%
Export Revenue %	39%	45%	-6%	51%	35%	50%	45%	5%	40%	48%
Employee cost as % to Revenue	41%	59%	-18%	78%	99%	54%	44%	10%	34%	42%
Utilities Costs/ Energy costs:										
Water and Electricity	- 1,493,480	1,031,083	- 2,524,564	-245%	831,652	- 212,099	9,279,750	- 9,491,849	-102%	6,570,997
Energy - Coal, Gas and Steam	103,545	192,452	- 88,907	-46%	28,682	1,924,502	1,824,466	100,036	5%	1,569,046

Financial Analysis

Revenue

For the period ending 31 December 2021, OBP generated gross sales of R146.1 million, compared to the budget of R159.0 million year to date. There is a budget deficit of R12.9 million.

Revenue Breakdown

Category (R'000)	Q3 – Dec 2021/22 YTD	Q3 - Dec 2020/21 YTD	%
Vaccine Sales	146 192	161 454	97%
Distribution Income	2 759	2 440	2%
Dry ice	214	407	0%
Media Sales	109	142	0%
Rental Income	665	572	1%
Other Income	355	1 180	0%
	150 294	166 195	

Vaccines sales revenue contributes 97% to OBP's overall revenue.



Per Market

	2021/22 Dec YTD	2020/21 Dec YTD	2021/21 Dec YTD % Composition
Local	66 055	73 614	45%
Export	73 577	79 451	50%
Government	6 560	8 389	5%
	146 192	161 454	

In terms of rand value, the Local market sales equates to 50% of the total sales for the period ended December 2021, while the export market equates to 50%.



Operating income

Operating income of R14.9 million compared to a budget of R4.1million for the period was achieved. Operating income constitutes of distribution, dry ice, rental of accommodation, bad debts recoupment and the sale of raw materials.

Operating expenses (OPEX)

Operating expenses amount to R90.3 million with a budget of R121.0 million for the period ending 31 December 2021. The company has reduced overall expenses by R14.9 million.



The table below indicates the cost for the period under review of actual expenses for OBP.

Fixed Costs and Variable Costs

	R'000	Fixed Costs and variable costs
Payroll	69 955	Fixed
Repairs and Maintenance	6 019	Fixed
Depreciation	9 614	Fixed
Animal feed	942	Fixed
Energy- Coal, Gas, Steam	1 860	Variable



(a) Employee Costs

The employee costs continue to be the biggest contributor to the business total cost component. The period under review; employee costs amounted to R69.9 million as compared to the budget of R70.4 million.

(b) Audit fees

Actual expenditure amounted to R 2.2 million as compared to the budget of R 1.7 million. The over expenditure was due to the conclusion of the mandatory audit conducted by Auditor General for the period of 2020/21 financial year.

(c) Government grant

Grant is recognized after fulfilling the requirements stipulated on the contractual agreement. The current grant recognized for the period under review amounts to R6.9 million with the budget of R14.6 million. The underspent was mainly due to the under spent by research and development department. The department has various grants awarded to them.

(d) Repairs and maintenance

The repairs and maintenance for the quarter were overspent by R3.6 million. The costs of repairs were attributed to aging infrastructure/ equipment that is constantly breaking down.



4. Overall Performance



Overall Performance For The 3 Quarters

Number of Planned Targets for the Year	Number of Targets Planned for Quarter 1	Number of Targets Achieved in Quarter 1	Number of Targets Not Achieved in Quarter 1	Number of Targets Not Reported in Quarter 1	% of Achievements for Quarter 1
23	17	6	11	6	35%

Number of Planned Targets for the Year (Amended)	Number of Targets Planned for Quarter 2	Number of Targets Achieved in Quarter 2	Number of Targets Not Achieved In Quarter 2	Number of Targets Not Reported in Quarter 2	% of Achievements for the Quarter 2
21	18	9	9	3	50%

Number of Planned Targets for the Year (Amended)	Number of Targets Planned for Quarter 3	Number of Targets Achieved in Quarter 3	Number of Targets Not Achieved In Quarter 3	Number of Targets Not Reported in Quarter 3	% of Achievements for Quarter 3
21	15	8	7	5	53%

5. Measuring Outcomes



Programme:**Financial Sustainability****Purpose:**

To increase revenue and profitability

Outcome	Outputs	Output indicator	Annual Targets	Quarter 1 Actual Performance	Quarter 2 Actual Performance	Quarter 3 Actual Performance	Quarter 3 Quarter Target	Variance	Reason for variance	Action Plan
Financial Growth and Sustainability	Increased Revenue	Increased Revenue (R)	R190m	R34m	R62.7m	R49.4 m	R55m	-R5.6 m Not Achieved	Product unavailability	Supply as backorder, as soon as the vaccines become available
	New products	Number of new products dossiers submitted to regulatory authorities for registration	2	-	3	-	-	0	Target only in place in Q4	Target achieved in Q2
	Product dossier submitted to new markets	Number of product dossiers submitted to new markets	2	-	1	-	-	0	Target only in place for Q4	Next target is due in Q4
	Increased EBITDA	Increased EBITDA (%)	3%	-	-	-	-	0	Target only in place for Q4	Target only in place for Q4 It only has an annual measure of 3% overall increase from prior year.
	Increased Vaccines Sold	Increased vaccine doses sold (%)	6%	-22.4%	-33.8%	22.4%	4%	18.4%	Underperformance in Q2 of 2020 financial year contributed to this difference.	We will supply outstanding backorder that was not supplied in Q3.

Programme:

Continuous Improvement of Business Processes

Purpose:

To ensure the supply of improved quality products to the market through advanced technology.

Outcome	Outputs	Output indicator	Annual Targets	Quarter 1 Actual Performance	Quarter 2 Actual Performance	Quarter 3 Actual Performance	Quarter 3 Quarter Target	Variance	Reason for variance	Action Plan
Optimised business processes	Production efficiency index	Improved Production Efficiency	6.0	7%	5.8	6.4	6.0	+0.4 Overachieved	Batch production success rate exceeded (25/28)	Focus on availability of vaccines for transfer to distribution through execution of maintenance plan
	Percentage of achieved progress on action items against the GMP roadmap	Implemented action items against the GMP roadmap (%)	20% of GMP roadmap achieved	0	0%	0%	10%	-10% Not Achieved	QA Manager appointed during Q3	Review the current processes and systems. Develop an action plan on implementation as per the GMP Roadmap
	ICT enterprise architecture plan	Board approved plan to inform ICT strategy	Approved ICT Enterprise Architecture Plan	Achieved	Plan completed	Plan Approved by Board	EXCO Review of Plan	0 Achieved	Target achieved as per quarter	Working on the next quarter's targets
	Vector proof facility	Improved facilities-Accredited vector proof facility	Vector proof facility	Not achieved	Tender Re-advertised	Tender was re-advertised. Due to price escalation because of increase in steel prices, the tender was not approved.	Phase 3 (Completed facility)	Tender process restarted Not Achieved	Suppliers not compliant.	Restart tender process
	GMP facility	Improved facilities GMP	0%	0%	Service provider appointed	Draft Report has been received and final report is to be submitted to Board once noted by EXCO	Completion of Review and phases completed	Achieved	Target achieved as per quarter	Working on the next quarter's targets
	Top 20 products produced	Improved Output of Top 20 Products (%)	70%	50%	57%	52.1%	70%	-17.9% Not Achieved	Vaccine unavailability due to equipment breakdowns and contaminated batches	Detailed equipment maintenance plan for Jan 2022 to March 2023 done. 5 year draft maintenance CAPIN plan done. Detailed root cause analysis technique (5-why) introduced for contaminated batches

Programme: Customer Service

Purpose: To provide excellent customer service.

Outcome	Outputs	Output indicator	Annual Targets	Quarter 1 Actual Performance	Quarter 2 Actual Performance	Quarter 3 Actual Performance	Quarter 3 Quarter Target	Variance	Reason for variance	Action Plan
Improved Customer Services	Satisfied customers	Increased customer satisfaction (%)	80%	-	-	-	-	0	No target for this quarter	Procurement process to appoint service provider will commence
		% of customer complaints resolved	80%	85%	100%	100%	80%	+20% Overachieved	3/3 complaints received were closed	Implement and monitor the relevant corrective actions to eliminate reoccurrence
	Top 20 customers retained	Top 20 customers retained (%)	75%	70%	90%	70%	75%	-5% Not Achieved	Product unavailability	To supply backorder
	New distribution channels	Increased distribution channels	3	0	0	4	1	+3 Overachieved	Managed to register 3 more distributors on the system	More potential distributors will be invited to apply
	Trained farmers	Trained farmers	550	489	284	882	177	+705 Overachieved	More farmers were invited through farmer associations	We will continue to invite farmers

Programme: Governance and Leadership

Purpose: To drive an ethical and accountable corporate culture.

Outcome	Outputs	Output indicator	Annual Targets	Quarter 1 Actual Performance	Quarter 2 Actual Performance	Quarter 3 Actual Performance	Quarter 3 Quarter Target	Variance	Reason for variance	Action Plan
Capable Ethical and Developmental Leadership	Board approved policies	Number of reviewed policies approved	14	0	0	0	4	-4 Not Achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives	Prioritise and finalise recruitment
		Number of new policies developed/ frameworks	2	0	0	-	-	-	No target in quarter	Will work on the next quarter's targets
	Staff Retained	Staff turnover	<5%	New indicator	4.41%	4,9%	<5%	0,1% Achieved	This target is achieved	This target is achieved
	Report with Recommendations from the culture survey	(%) implemented recommendations from the report	65% implementation of recommendations and outcomes	Not done	0	0	15%	-15% Not Achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives.	Prioritise and finalise recruitment
	Trained staff as per WSP	(%) implemented staff training against the WSP	60%	0	0	1.4%	45%	-43.6% Not Achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives. Training only circulated in Q2 therefore time constraints with 7 months of the financial year gone already.	Priority training to be identified. Focus on legal and compliance training

6. AUDIT IMPROVEMENT PLAN TRACKING REGISTER



6. Audit Improvement Plan Tracking Register

Findings raised by External Audit (AG) and Internal Audit	Current Status 2020/ 2021 External Audit Findings (AG) & 2021/ 2022 Internal Audit Findings								Expected date of implementation	Responsible person
	Total Findings	Addressed	Partially Partially Addressed	Not Addressed	Acknowledged, but risk accepted by management	On- Going	Root Cause	Current Status		
EXTERNAL AUDIT FINDINGS										
1. CoAF 15: Construction contract not registered with CIDB	1		✓				SCM did not register contracts on CIDB	Current tenders are being registered on CIDB. Requested CIDB to register GMP project OBP17/09/ GMP02 which commenced in 2017. Follow up email sent in February 2022, awaiting response.	Partially resolved	Indhir Naryan
2. COAF 3: Property Plant and Equipment Useful life. Assets with Nil assets on asset register	1		✓				Incomplete Asset exercise at year end	In process of updating the 28 assets useful lives to R1	Finalised by 28 February 2022	Jabu Mhlongo
3. CoAF 13: Operating leases – as lessor contract not identifiable.	1					✓	Contract with Just Nature not signed	Latest contract copy received in process of being ratified and signed by all the parties involved. Matter with Legal	On-Going	Brenda/ Pieter
TOTAL EXTERNAL AUDIT FINDINGS	3		2	0	0	1				
INTERNAL AUDIT FINDINGS										
4. Salaries not aligned to salary scale	1		✓				Approved salary scale last updated 2019	HR and Finance currently reviewing salary scales to align to the 2021 wage agreement.	On-Going	HR Manager
5. Inadequate induction training conducted for newly appointed employees	1					✓		A "Employee Induction Programme" to be designed and implemented from the beginning of 2022 F/Yr. as part of employee on-boarding. Programme conceptualisation document in progress to guide implementation.	On-Going	HR Manager

Current Status 2020/ 2021 External Audit Findings (AG) & 2021/ 2022 Internal Audit Findings

Findings raised by External Audit (AG) and Internal Audit	Current Status 2020/ 2021 External Audit Findings (AG) & 2021/ 2022 Internal Audit Findings							Root Cause	Current Status	Expected date of implementation	Responsible person
	Total Findings	Addressed	Partially Addressed	Not Addressed	Acknowledged, but risk accepted by management	On- Going					
6. Organizational structure outdated	1	✓						Instability in HR management to finalise review	Board approved proposed organogram in Jan 2022. Consultations with EXCO underway to identify the impact on budget and staff, if any.	Organogram submitted for approval in Jan 2022 Board meeting	HR Manager
7. No evidence of HRM Budget being regularly monitored	1					✓		Instability in HR management to finalise review	Discussion held with FM to consider as part of internal control measures, a system of monthly COE review and sign-off per division executives. HR manager to engage FM on process to implement monitoring process.	On-Going	HR Manager
8. Enhancement of the HR policies and standard operating procedures	1					✓		Instability in HR management to finalise review	HR Policies Gap Analysis review tabled at REMCO meeting of Jan 2022. Terms of Reference being developed to outsource the project given the capacity constraints internally.	On-Going	HR Manager
9. No evidence of onsite audits performed on suppliers	1		✓					No Supplier Management program in place for approving suppliers	Supplier audit schedule created, and suppliers audited accordingly. Schedule will be reviewed annually or when new suppliers come on board. Reports forwarded to SCM once audits are complete. The finding will be resolved once the SOP is completed. Target date for SOP completion is 31.03.2022	Partially Resolved	Soveena Harriepersadh
TOTAL INTERNAL AUDIT FINDINGS	6	1	2	0	0	3					



Thank You

