

Innovative Bio-Science

ONDERSTEPOORT BIOLOGICAL PRODUCTS Q2 Performance Report Presentation 2021/22

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

15 February 2022



CONTENTS

01

**EXECUTIVE
SUMMARY**

02

FINANCIALS

03

**MEASURING
OUTCOMES**

04

**OVERALL
PERFORMANCE**

1. Executive Summary

- For the quarter ending 30 September 2021, OBP generated gross sales of R62 million, compared to the budget of R55 million.
- There is an under-performance/ shortfall of R7.7 million.
- OBP managed to achieve sales close to the midyear target (YTD) but exceeded the Q2 target.



2. Financials



Quarter 2: Performance Report For Financial Year 2021/22

INCOME STATEMENT FOR OBP 30 SEPTEMBER 2021							
OBP SOC LTD	QUARTER 2 JUL-SEP 2021		SEP YTD 2021		SEP YTD 2020	Var	Full Year Budget 2021/2022
	Actual	Budget	Actual	Budget	Actual		Budget
Gross Sales	62,789,268	55,262,079	96,799,330	99,315,016	128,542,838	▼	190,000,000
Local	26,794,722	30,394,143	42,561,020	54,623,259	60,973,782	▼	104,500,000
Export	35,994,546	24,867,935	54,238,311	44,691,757	67,569,056	▲	85,500,000
DISCOUNT GRANTED	(7,940,193)	(8,086,012)	(10,737,005)	(12,719,840)	(17,862,003)	▲	(20,900,000)
NET SALES	54,849,075	47,176,066	86,062,325	86,595,177	110,680,835	▼	169,100,000
Operating income	2,565,725	325,196	3,460,036	667,892	3,825,873	▲	1,343,533
Total Operating Expenses	(40,711,740)	(41,547,571)	(74,980,085)	(83,316,300)	(75,340,628)	▲	(154,833,330)
Personnel	(23,984,399)	(23,365,706)	(48,374,619)	(46,752,913)	(44,699,263)	▼	(93,446,325)
Travel	(113,973)	(651,960)	(386,451)	(1,295,710)	(43,844)	▲	(2,112,392)
Marketing	(193,825)	(1,238,800)	(250,513)	(2,216,600)	(383,772)	▲	(3,663,200)
Chemicals	(127,502)	(347,700)	(170,320)	(727,900)	(2,603,434)	▲	(1,363,499)
Water and Electricity	(2,979,750)	(2,979,750)	(539,184)	(5,959,500)	(5,510,801)	▲	(11,919,000)
Research and Development	(599,964)	(4,681,652)	(1,226,195)	(9,395,146)	(728,899)	▲	(13,287,296)
Audit services	(1,785,724)	(1,352,500)	(1,931,738)	(2,052,500)	(162,531)	▲	(3,280,000)
Insurance	-	(578,331)	(544,385)	(1,122,716)	(964,318)	▲	(2,279,378)
Amortisation and Depreciation	(3,200,196)	(3,205,083)	(6,401,439)	(6,360,165)	(6,065,386)	▼	(13,016,331)
Government grant	2,184,046	4,896,750	4,621,033	9,793,500	4,866,747	▼	19,587,000
Repairs and maintenance	(2,539,709)	(1,936,354)	(4,656,288)	(4,449,159)	(2,388,314)	▼	(7,854,517)
Animal Feed	(595,942)	(940,000)	(881,969)	(2,170,000)	(1,561,744)	▲	(3,455,000)
Coal	(710,058)	(496,250)	(1,079,486)	(992,500)	(633,600)	▲	(1,985,000)
Fuel and Motor Oil	(271,834)	(249,375)	(696,720)	(475,250)	(299,642)	▲	(919,500)
Other operating expenses	(2,135,474)	(1,631,098)	(5,253,122)	(3,601,608)	(7,275,067)	▼	(5,780,634)
Administrative Expenses	(3,657,435)	(2,789,761)	(7,208,690)	(5,538,133)	(6,886,761)	▼	(10,058,258)
Operation Surplus / (Deficit) before stock movements	16,703,060	5,953,691	14,542,276	3,946,769	39,166,079	▲	15,610,204
Inventory movements	(12,386,288)	3,182,392	(12,643,882)	315,248	(15,559,759)	▼	(4,922,000)
Cost of Sales	(20,038,940)	(10,921,535)	(17,538,684)	(19,757,976)	(32,018,962)	▲	(37,927,562)
Foot and mouth Cost of Sales	-	-	(7,966,055)	-	-	▼	-
Stock Write off	(4,115,621)	-	(4,973,192)	-	4,676,992	▼	-
Included in COS	11,768,272	14,103,927	17,834,049	20,073,224	11,782,211	▼	33,005,562
Operation Surplus / (Deficit) after stock movements	4,316,772	9,136,083	1,898,394	4,262,017	23,606,320	▼	10,688,204
Investment Income	4,834,995	3,382,500	2,776,599	7,127,000	7,005,909	▼	14,463,500
Interest received	1,889,487	2,790,500	2,824,120	5,581,000	5,456,607	▼	11,162,000
Forex gain/(Loss)	2,945,508	592,000	(47,521)	1,546,000	1,549,302	▼	3,301,500
CORPORATE TAX	-	-	-	-	-		-
Net Surplus / (Deficit)	9,151,767	12,518,583	4,674,993	11,389,017	30,612,229	▼	25,151,704

Financial Analysis

Revenue

For the quarter ending 30 September 2021, OBP generated gross sales of R62.7 million, compared to the budget of R55 million. There is an over-performance of R7.7 million for the quarter.

Revenue Breakdown

Category (R'000)	Q2 – Sep 2021/22 YTD	Q2 - Sep 2020/21 YTD	%
Vaccine Sales	96 799	128 543	97%
Distribution Income	2 372	2 051	1%
Dry ice	191	311	1%
Media Sales	45	117	0%
Rental Income	487	345	0%
Other Income	335	969	1%
	100 229	132 336	

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



Per Market

	2021/22 Sep YTD	2020/21 Sep YTD	2021/21 Sep YTD % Composition
Local	36 461	53 022	38%
Export	54 238	67 569	56%
Government	6 100	7 952	6%
	96 799	128 543	

The Local market sales equates to 38% of the total sales for the period ended September 2021, while the export market equates to 56%. The government sales contributed 6%.



Discount granted

During the quarter OBP offered R 7.9 million discounts to the customers compared to the budgeted R4.6 million. This was attributed by the over achievement of the sales during the quarter. The current year average discount rate is 13%.

Broadly OBP offers discounts to its clientele at rates depicted below.

Approved Discount structure was adopted during the 2016-2017

Customer/Category	Discount Rate
Wholesalers	10%
Government and approved BEE companies	17.5%
Vets	5%
Co operatives	5%
Exports	Min 10% otherwise negotiable (sale by sale)



Operating income

Operating income of R 2.6 million compared to a budget of R 325 196 for the quarter was achieved. Operating income constitutes of distribution, dry ice, rental of accommodation, bad debts recoupment and the sale of raw materials.

Distribution income of R 2.4 million was realized for the shipment of vaccines. Customers have an option to opt for collecting their products for request for internal shipment.

OBP leases some of its premises to employees, just nature and Vodacom and the rental derived from these premises amounted to R 486 815.

Operating expenses (OPEX)

Operating expenses amount to R40.7 million with a budget of R41.5 million for the quarter ending 30 September 2021. The company has underspent by more than 0.8 million.



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

Fixed Costs and Variable Costs (Sep 2021 – Q2)

	R'000	Fixed Costs and variable costs
Payroll	23 984	Fixed
Repairs and Maintenance	2 540	Fixed
Production Material	5 582	Variable
Depreciation	3 200	Fixed
Animal feed	596	Fixed
Travel	114	Variable
Marketing	194	Fixed



(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 R24 million as compared to the budget of R23.4 million. Over expenditure was due to the back payment of salary increments which was paid under the quarter under review.

(b) Travel

The entity has under spent on travelling costs incurred for the current quarter which is a cost saving. Actual spent is R 113 973 compared to the budget of R 651 960. This is due to the country being on lockdown due to the COVID-19 pandemic as most of the activities are suspended until further notice.

(c) Marketing

Not many activities relating to marketing were conducted. Most of the activities requires one to travel but due to lockdown restrictions, the entity under spent on marketing costs. Current expense for the quarter amounts to R 193 825 as compared to the budget of R 1.2 million.

(d) Chemicals

The entity has under spent during the current under review. Actual amount of chemicals procured for the quarter is R 127 135 with the allocated budget of R 347 700. This was a cost saving for the entity.



(e) Water and Electricity

OBP and ARC/OVI share the electricity connection from the City of Tshwane municipality whereby the bill is sent to ARC. OVI has changed to a prepaid meter since September 2015 which is shared with OBP. The bill is then split into two between OBP and ARC. For the current quarter under review, provision of R 2.9 million was raised which is equivalent to the budget.

(f) Research and development

Research and development costs for the period under review are under-spent by R 4 million. The anticipated expenditure by R&D might have been interrupted by the continuing national lockdown and delays in projects due to non-compliance of the animal facility. The budget for the quarter was 4.7 million.

(g) Audit fees

Actual expenditure amounted to R 1.8 million as compared to the budget of R 1.4 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.



(h) Insurance

Insurance is very critical to safeguarding of the entity's assets. Currently the entity is in the process of appointing a new service provider as the contract of the predecessor came to an end in June 2021. For the current period under review, no insurance costs were incurred.

(i) Amortisation and Depreciation

Entity's assets are depreciated over their various useful lives. During the quarter, the recognized wear and tear of assets is R 3.2 million which is in-line with the budget.

(j) Government grant

Grant is recognized after fulfilling the requirements stipulated on the contractual agreement. The current grant recognized for the quarter under review amounts to R 2.2 million with the budget of R 4.9 million. The underspent was mainly due to the under spent by research and development department. The department has various grants awarded to them by various stakeholders.

(k) Repairs and maintenance

The repairs and maintenance for the quarter were overspent by R 603 355. The costs of repairs were attributed by old infrastructure/ equipment that is constantly breaking down.



(l) Animal Feed

The cost category represents the feed for both our big and small animals we use in the testing for our products. For the period under review animal feed cost amounted to R 595 942 compared to the budget of R 940 000. There is a cost saving of R 344 058. The entity embarked on a plan to release animals that are not in use. This has paid off to cost saving measures as compared to the same period in prior year.

(m) Fuel

Fuel is mainly used as a backup when there are power cuts in order for the entity to still be operational. During the current quarter the entity spent R 271 834 which was over the budget of R 249 375.

(n) Coal

Boilers mainly use coal to produce steam that is being utilized by production departments. Actual expenditure for coal is R 710 058 compared to a budget of R 496,250.



(o) Other operating expenses

The entity has overspent on other operating expenses. Actual expenditure for the quarter amounted to R 2.1 million and the budget was R 1.6 million. Included in other operating expenses are costs like delivery costs amounting to R 1.4 million and protective clothing of R 409 766.

(p) Administrative expenses

The company has overspent for the quarter under review. Current quarter spent amounted to R 3.7 million with an allocated budget of R 2.8 million. The major expenses are legal fees amounting to R 846 490, computer repair and support including software costs of R 897 839, and rental of garment amounting to R 542 061.

Inventory movements

During the quarter under review, inventory movement amounted to R 20 million with the budget of R 10.9 million. There was a stock adjustment amounting R 4.1 million for the quarter under review.

Interest on investments

The interest on investments for the quarter ending 30 September 2021 of R 1.9 million was realized against the budget of R2.8 million. The decrease of the interest was due to the GMP project funds being depleted.



3. Measuring Outcomes



Programme:
Purpose:

Financial Sustainability
To increase revenue and profitability

Outcome	Outputs	Output indicator	Annual Targets	Quarter Target	Actual Performance	Variance	Reason for variance	Action Plan
Financial Growth and Sustainability	Income	Increased Revenue (R)	R190m	R55m	R62.7m	+R7.7m Overachieved	FMD vaccine sold to Mpumalanga	Supply confirmed outstanding orders
	New products	Number of new products dossiers submitted to regulatory authorities for registration	2	-	3	+3 Overachieved	New products procured through Business Development and third-party agreements	Annual target achieved
	Product dossier submitted to new markets	Number of product dossier submitted to new markets	2	1	1	None	Quarter target achieved	Working on the next quarter's targets
	Increased EBITDA	Increased EBITDA (%)	3%	-	-	0	Target only in place in 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%	3%	-33.8%	-36.6% Not achieved	Most products were not available	Supply confirmed outstanding orders

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 Target	Actual Performance	Variance	Reason for variance	Action Plan
Optimised business processes	Production efficiency index	Improved Production Efficiency	6.0	6.0	5.8	-0.2 Not achieved	Stock input unavailability, inferior quality of stock input, production equipment breakdown, Batch quality criteria not met.	Production equipment repair and maintenance; Process failure review
	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%	No additional building activities have been conducted in Q2 due to dispute with Engineering company.	Dispute referred to legal, once resolved continuation of building activities will follow.
	ICT enterprise architecture plan	Board approved plan to inform ICT strategy	Approved ICT Enterprise Architecture Plan	Completed Plan	Plan completed	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	Phase 2	Tender was re-advertised. Due to price escalation because of increase in steel prices, the tender was not approved.	Tender process restarted (not achieved)	Tender not approved.	Tender was advertised and closed. Evaluation committee to sit on 4 th Oct.
	GMP facility	Improved facilities GMP	0%	Appoint Service Provider Review	Service provider appointed	0 Achieved	Service provider appointed	Reviewing of GMP facility aspects in progress.
	Top 20 products produced	Improved output of Top 20 Products (%)	70%	70%	57%	-13% Not achieved	Stock input unavailability, inferior quality of stock input, production equipment breakdown, Batch quality criteria not	Production equipment repair and maintenance; Process failure review.

Programme: Customer Service

Purpose: To provide excellent customer service.

Outcome	Outputs	Output indicator	Annual Targets	Quarter Target	Actual Performance	Variance	Reason for variance	Action Plan
Improved Customer Services	Satisfied customers	Increased customer satisfaction (%)	80%	-	-	0	No target for this quarter	Specification requiring a service provider will be compiled and RFQ send out
		% of customer complaints resolved	80%	80%	100%	20% Overachieved	4/4 complaints were received and closed. Root cause investigations are conducted to ensure that effective corrective actions are put in place.	Recruit and employ an additional QA Officer to assist in investigations.
	Top 20 customers retained	Top 20 customers retained (%)	75%	75%	90%	15% Overachieved	We did more telemarketing and telesales	We will continue with both telesales and marketing
	New distribution channels	Increased distribution channels	3	1	0	-1 Not achieved	Possible recruits not responding due to products not being available for sale.	More potential distributors will be invited to apply
	Number of farmers trained	Trained farmers	550	177	284	+107 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 Target	Actual Performance	Variance	Reason for variance	Action Plan
Capable Ethical and Developmental Leadership	Board approved policies	Number of reviewed policies approved	14	4	0	-4 Not achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives	9 policies have been reviewed and to be taken through consultative process. These will be presented to REMCO and Board for approval
		Number of new policies developed / frameworks	2	1	0	-1 Not achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives	Planned to have 2 new policies/SOP in the next Quarter
	Staff Retained	Staff turnover	<5%	5%	4,41%	0,59% Achieved	This target is over-achieved	This target is over-achieved
	Report with recommendations from the culture survey	(%) implemented recommendations from the report	65% implementation of recommendations and outcomes	20%	0	-20% Not achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives	To implement at least 40% of the recommendations in Q3
	Trained staff as per Workplace Skills Plan (WSP)	(%) implemented staff training against the WSP	60%	30%	0	-30% Not achieved	Change in HR management has destabilised the unit in focusing on core HR imperatives	We have circulated WSP to managers to have training in Q3 to make up for the variance in Q2.

4. Overall Performance

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

- Reasons for deviation are captured for both achieved and unachieved KPIs.
- Indicators not meant for reporting in this quarter have also been indicated.

