

Innovative Bio-Science

ONDERSTEPOORT BIOLOGICAL PRODUCTS Q3 Performance Report Presentation 2021/22

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

15 February 2022



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1. Executive Summary

- For the quarter ending 31 December 2021, OBP generated gross revenue of R52,3 million, compared to the budget of R59.7 million.
- Operating expenses amount to R34.8 million with a budget of R36.7 million for the quarter ending 31 December 2021. The company has reduced expenses by R1.9 million and aligns with the decreased revenue achieved against budget for the quarter.
- Annual Performance Plan implementation for the quarter is 53% achievement.



2. Financials



Quarter 3: Performance Report For Financial Year 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 grant	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 quarter ending 31 December 2021, OBP generated gross sales of R52,3 million, compared to the budget of R59.7 million. There is an budget deficit of R7.4 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	

The Local market sales equates to 45% of the total sales for the period ended December 2021, while the export market equates to 50%. The government sales contributed 5%.



Discount granted

During the quarter OBP offered R 3 million discounts to the customers compared to the budgeted R2.8 million. The current year average discount rate is 12%.

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 776 066 compared to a budget of R 120 065 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 year to date of R 2.8 million was realized for the shipment of vaccines. Customers have an option to opt for collection of their products or 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 665 336.

Operating expenses (OPEX)

Operating expenses amount to R34.8 million with a budget of R36.7 million for the quarter ending 31 December 2021. The company has reduced expenses by R1.9 million.



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

Fixed Costs and Variable Costs (Dec 2021 – Q3)

	R'000	Fixed Costs and variable costs
Payroll	22 339	Fixed
Repairs and Maintenance	1 973	Fixed
Production Material	1 587	Variable
Depreciation	3 163	Fixed
Animal feed	315	Fixed
Travel	411	Variable
Marketing	822	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 R22 million as compared to the budget of R23.5 million.

(b) Travel

During the quarter under review, actual spent amounted to R 410 534 compared to the budget of R 342 480. The over-spent was mainly due to the maintenance of international relations and looking for new business.

(c) Marketing

Marketing activities took place during the quarter under review. The current spent amount is R 822 283 with a budget of R 807 050.

(d) Chemicals

The entity has under spent during the current under review. Actual amount of chemicals procured for the quarter is R 133 268 with the allocated budget of R 328 050. This was a cost saving for the entity.



(e) Water and Electricity

OBP and ARC/OVI share the electricity and water connection from the City of Tshwane municipality whereby the bill is sent to ARC. OVI has changed to a prepaid meter since December 2015 which is shared with OBP. The bill is then split into two between OBP and ARC. For the current quarter under review, current expenditure is R 751 282. The water billing is at a credit currently as the municipality overcharged water usage. A total of credit advanced on the water billing is R6.3 million, on a shared basis OBP is entitled to 50% of this credit and to date OBP has utilized credits to the value of R1.7 million against actual billing.

(f) Research and development

Research and development costs for the period under review are under-spent by R 1 million. The anticipated expenditure by R&D had been interrupted by the national lockdown and delays in projects due to compliance matters of the animal facility. The budget for the quarter was 1.4 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. A yearly insurance has been paid to cover all assets of the entity.

(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 2.3 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.

(k) Repairs and maintenance

The repairs and maintenance for the quarter were overspent by R 262 079. The costs of repairs were attributed to aging 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 314 509 compared to the budget of R 860 000. The entity embarked on a plan to release animals that are not in use. This has translated to cost saving measures as compared to the same period in prior year.

(m) Fuel

Fuel is mainly used when there are power cuts. During the current quarter the entity spent R 303 410 which was over the budget of R 223 375.

(n) Coal

Boilers mainly use coal to produce steam that is being utilized by production departments. Actual expenditure for coal is R 186,228 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 3.4 million and the budget was R 2.7 million.

(p) Administrative expenses

The company has overspent for the quarter under review. Current quarter spent amounted to R 3.4 million with an allocated budget of R 2.7 million. The major expense is professional fees amounting to R 847,068, computer repair and support of R 201,892, security costs of R 738,709, and rental of garment amounting to R 485,603.

Inventory movements

During the quarter under review, inventory movement amounted to R 2.3 million with the budget of R 15.7 million.

Interest on investments

The interest on investments for the quarter ending 31 December 2021 of R 2.3 million was realized against the budget of R2.8 million. Interest is slowing down because of cash being depleted as GMP payments are being executed.



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	Increased Revenue	Increased Revenue (R)	R190m	R55m	R49.4 m	-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	-	-	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	-	-	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%	4%	22.4%	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 Target	Actual Performance	Variance	Reason for variance	Action Plan
Optimised business processes	Production efficiency index	Improved Production Efficiency	6.0	6.0	6.4	+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	10%	0%	-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	EXCO Review of Plan	Plan Approved by Board	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 3 (Completed facility)	Tender was re-advertised. Proposals were received and tender was closed. Evaluation committee met and neither of the suppliers complied to the compulsory documents and / the specifications. The tender was cancelled by the BAC and the tender must be restarted again.	Tender process restarted Not Achieved	Suppliers not compliant.	Restart tender process
	GMP facility	Improved facilities GMP	0%	Completion of Review and phases completed	Draft Report has been received and final report is to be submitted to Board once noted by EXCO	Achieved	Target achieved as per quarter	Working on the next quarter's targets
								Detailed equipment

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	Procurement process to appoint service provider will commence
		% of customer complaints resolved	80%	80%	100%	+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%	75%	70%	-5% Not Achieved	Product unavailability	To supply backorder
	New distribution channels	Increased distribution channels	3	1	4	+3 Overachieved	Managed to register 3 more distributors on the system	More potential distributors will be invited to apply
	Trained farmers	Trained farmers	550	177	882	+705 Overachieved	More farmers were invited through farmer associations	We will continue to invite farmers

4. Overall Performance

Number of Planned Targets for the Year	Number of Targets Planned for the Quarter	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	15	8	7	5	53%

NOTES

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

