ANPOP 2015 Annual Report

Jeff Vogel

corrected 16 January 2017

Executive Summary

While we continued to make progress in several aspects, 2015 was overall a disappointing year. Although we had strong prospects to finish the year with positive cash flow, we again posted a loss. While our oil palm harvest and oil production continued to increase, our overall revenues dropped. So, although we managed our expenses well and reduced our operating deficit, we did it with an overall drop in revenue. 2015 had been projected to be the first year with positive cash flow, we did not achieve that milestone, and will need to look to 2016 for that accomplishment. In 2015 we realized ₦2.96 million in revenue against ₦3.73 million in expenses, with an additional estimated nearly ₦1.10 million in inventory on hand at the end of the year. The primary reasons for falling short of our positive cash flow milestone were entirely on the revenue side, with a slightly lower than expected harvest of oil palm fruit, significant reductions in non-oil crops, and another shortfall in sales of seedlings. Although somewhat poor rainfall was a contributing factor, the labor shortage and our failure to anticipate the reduced market size for oil palm seedlings were the major causes of the revenue shortfall. Expenses were reduced mainly in three categories: labor, due to the labor shortage; diesel, as we had significantly overestimated our diesel requirements and were able to complete all the necessary harrowing on less than half of what we had budgeted; and nursery expenses, as we carried over a significant surplus quantity of seedlings and could not justify the nursery investment this year. Our projections for 2016 adjusts for the lessons learned, with the overall revenue projection for 2016 similar to the 2015 projection at ₦5.10 million; the reduced marked for seedlings is expected to be offset by a higher price for the seedlings we do have, a higher price for our oil, and another significant increase in oil production, due to improvements and further maturing of the trees in the farm, and also to the solving of the labor problems. With expenses expected to be reduced from our previous forecast (but higher than 2015 actual expenses) at ₦4.36 million leaves us with a positive projected cash flow of around ₦0.75 million for 2016.

Vision

We envision a medium scale palm oil plantation and mill in Oyo State, Nigeria, including a plantation of Tenera-type hybrid oil palm trees producing more than 100,000 kg of fresh fruit bunches of palm fruit per year, and a mill that will process this fruit to yield at least 25,000 liters of cooking grade palm oil annually.

Mission

The American-Nigerian Palm Oil Producing Corporation was formed to help bring economic development to the people of rural Oyo State, Nigeria, to provide an example of ethical business conduct, and to assist The Good Samaritan Society of America in its vision to serve these people with education and health care. ANPOP is a for-profit enterprise that will, through its Nigerian subsidiary ANPOP-NAMPOP Ltd, provide jobs and economic stimulus to the area. Once profitable, ANPOP will make significant financial contributions to the programs of The Good Samaritan Society Mission in Fiditi, Nigeria.

2015 Financial Results

We estimate having approximately 7,000 - 8,000 trees planted on about 200 acres spread over five farms. In 2015 these trees produced 12077 fruit bunches (against 10374 in 2014) from which we produced 10480 liters of oil (compared to 8190 liters in 2014). This was less than the 12000 litres projected at the beginning of the year, mostly due to labor difficulties. Figure 1 show the entire history of ANPOP oil production since we produced our first two litres in 2007.

A month by month summary of oil production (see Figure 2) is also instructive. The change in produc-

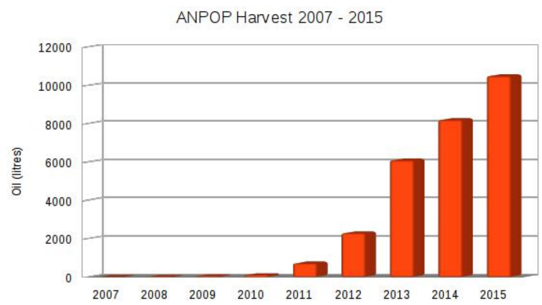

Figure 1: Exponential growth in ANPOP oil production through 2013 now appears to be more linear.

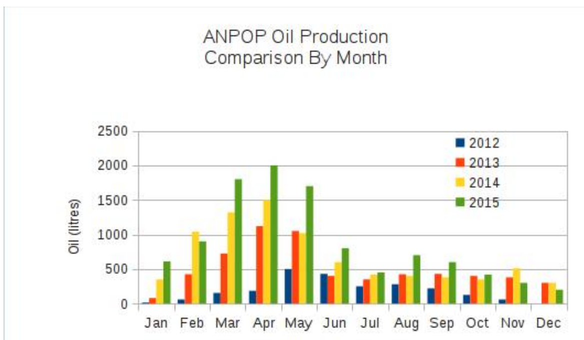

Figure 2: Peak production months, especially March through August, were significantly suppressed by labor difficulties.

tion pattern throughout the year from one year to the next is due both the the maturing of the trees and to variations in weather pattern. In 2015, the late season drop was primarily weather / rainfall related, while production during the peak months through August was significantly suppressed by labor difficulties.

Here is a summary of key financial measures from 2015 operations. As in 2014, the dramatic devaluation of the Naira, and relative instability in the exchange rate (probably due to the continued drop in global oil prices) makes conversion problematic. The effective exchange rate at the beginning of 2015 was around 220 Naira per dollar, but by the end of February of 2016, while the official exchange rate was fixed at ₦197 / dollar, the effective exchange rate in street trading was about ₦330 / dollar. For this report, an approximate U.S. dollar equivalent can be obtained by using a rough estimate of ₦250 / dollar.

- Current number of shares issued is 269,536. We have also sold shares in Nigeria worth another roughly $2,000.

- Expenses were reduced in 2015 due mostly to foregoing about ₦400,000 in nursery expenses and to a similar reduction in labor expenses. We also saw a major drop in diesel expenses as progress in maintaining the farms has led to a significant reduction in the amount of harrowing required. Total expenses in 2015 of ₦3.73 million is compared to ₦4.99 million in 2014. About ₦2.06 million (compared to ₦2.64 million in 2014) of that expense was salaries and other labor expenses. Fuel for the tractor and truck totaled ₦761,000, down from ₦932,000 in 2014, despite frequent shortages that required us to pay well over the posted price. Repairs (tractor, truck and processing equipment) totaled ₦566,000, farm supplies (including seeds and chemicals) totaled ₦196,000, and mill supplies (including nursery expenses) at ₦140,000 accounted for the remainder of the expenses.

- Revenues for 2015 totaled ₦2.96 million, compared to ₦3.20 million in 2014. Of that amount, ₦2.12 million came from palm oil (compared to ₦1.59 million in 2014), ₦460,000 came from the sale of seedlings, and the rest (₦376,000) came from maize, yams, plantains and palm kernels. In addition, at the end of 2015 we had on hand approximately ₦1,280,000 of unsold produce, compared to about ₦975,000 at the end of 2014.

- Accounting for the increase in inventory in produce ready for sale (primarily an increase in seedlings on hand), our operating loss for 2015 was ₦0.47 million, compared to an operating loss of ₦1.23 million in 2014.

- No capital investments were made in 2015. About ₦1.0 - 1.5 million in improvements to the mill are planned, although they are not expected to be completed in 2016.

- As of the end of 2014 the tractor loan had been fully repaid, so the company has no debts.

Table 1 compares the main revenue categories between 2014 and 2015, and Table 2 compares the expenses. Amounts are in thousands of Naira.

The details of monthly income and expenditures is provided in Table 3. Amounts are in thousands of Naira. For reporting in dollars, an approximate exchange rate of ₦250 per dollar may be used. Figure 3 represents the breakdown of expenses categories graphically. A breakdown of revenues is graphically represented in Figure 4.

Table 1: 2015 vs. 2014 Revenues

	2014			2015		
Category	Total	Inventory	Adjusted	Total	Inventory	Adjusted
palm oil	1593	455	1796	2120	420	2085
yams	146	80	221	45	50	15
maize	421	100	371	100	180	180
plantain	49	0	21	21	0	21
cassava	0	100	100	150	0	50
kernels	77	0	67	60	30	90
seedlings	916	240	1156	460	600	820
Total	3201	975	3732	2956	1280	3261

Table 2: 2015 vs. 2014 Expenses

Category	2014	2015
salaries	1446	1336
food	240	50
other labor	941	676
Total labor	2638	2062
diesel	466	200
gas	466	561
mill supplies	141	108
farm supplies	169	55
chemicals	140	129
seeds	170	12
nursery	396	32
repairs	405	566
Total	4991	3725

Table 3: 2015 Expenses and Income

Category	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
Salaries	125	125	100	100	100	88	88	159	130	118	118	85	1336
Food	10	20	20										50
Other labor[1]	50	32	55	90	109	100	100	40	10	10	70	10	676
Total labor	185	177	175	190	209	188	188	199	140	128	188	95	2062
Gas	38	38	45	60	72	40	40	42	42	42	60	42	561
Diesel	50									60	80	10	200
Mill supplies	5	5	16	8	14	7	8	10	10	10	10	5	108
Farm Supplies	25			10	25	10	25	67	34				196
Nursery			22		10								32
Rep. & Maint.	37	13	67	30	20	34	12	110	25	106	112		566
Total Expenses	340	233	325	298	350	279	273	428	251	346	450	152	3725
Revenues													
palm oil	428	200	200			22	100	315	105	110	212	428	2120
yams	30								15				45
maize					100								100
plantain	2	2	2						5		10		21
cassava								150					150
kernels					10		50						60
seedlings						460							460
Total Revenue	460	202	202	0	110	482	150	465	125	110	222	428	2956

[1] includes all migrant workers expenses other than food allowance (transportation into the country, annual housing, lump sum salary payments), day laborer wages, and 2014 bonus and vacation allowance

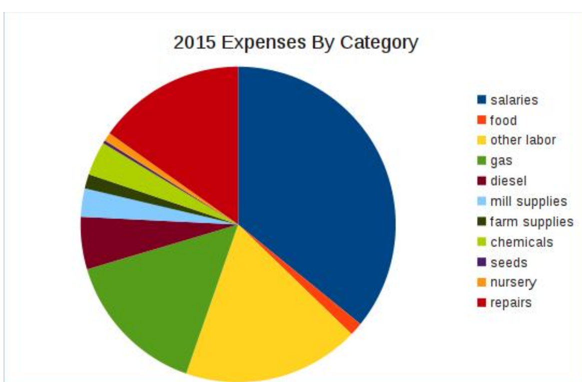

Figure 3: Breakdown in expenses as a fraction of the total by category. As in 2014, the various categories associated with labor represent about 60% of the total.

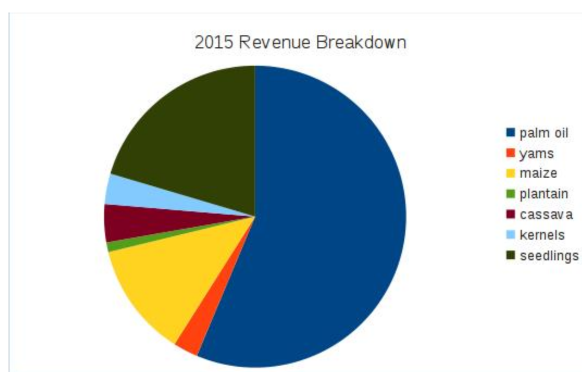

Figure 4: Breakdown in revenues as a fraction of the total. Revenue from sales of palm oil and kernels represents nearly 75% of the total, up from two thirds in 2014.

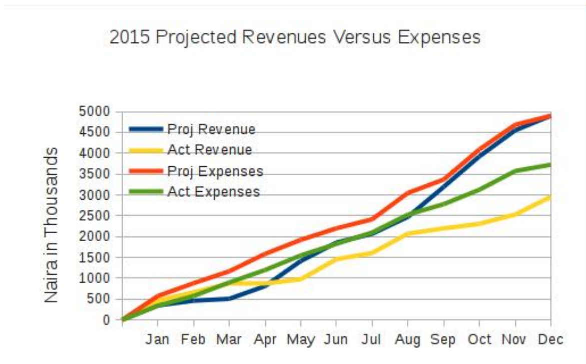

Figure 5: Both revenues and expenses tracked steadily below plan in 2015.

As can be seen by a comparison of expenses vs. revenues month by month, shown in Figure 5, both expenses and revenues were less than projected. The primary causes of the revenue shortfall were as follows:

- smaller oil palm harvest, mostly because of a shortage of labor
- reduction in non-oil crop harvest
- a shortfall in sales of seedlings

The tracking summary shows both revenues and expenses steadily below plan.

Mill Operations

The mill equipment is currently set up to produce about 200 litres of palm oil per day, with the sterilizers representing the limiting step in the process. Typically, the mill operates for one or two days a week for two weeks out of the month, but in the peak months fruit is processed every week. Based on the current experience, it seems like we should be able to get up to 4000 litres a month at full capacity before needing additional sterilizers, and that still seems to be at least a year off. We expect to get 200 litres of fruit from about 1000 kg of fruit bunches, usually about 120 bunches. This represents about one truckload of fruit.

Maize continues to be our second largest crop behind oil palm fruit, and the third largest source of revenue (following palm oil and seedlings). Although it can be sold fresh, more often it is dried and shelled, then sold either as seed corn or for further milling into corn flour.

Figure 6: A well-cleared section of Omodeni Farm, March 2015. The tree to the left appears to have fruit.

Figure 7: Ripe fruit on Ogunkunle Farm, March 2015. The bunch to the right is nearly ripe as well.

Farm Operations

One of the most important measures of how well the farms are being managed is the amount of fire damage suffered. We did quite well in 2015, with only minimal fire damage. The tractor and harrow have been critical to the success of our fire prevention efforts, and the good maintenance also has a substantial benefit to fruit production. We now regularly have ripening fruit on many trees on each farm at any time of the year.

Despite significant improvements in recent years, there are still many trees which have yet to start setting fruit or are progressing slowly, but each year sees improvement in that regard as well. Some pictures of the ripening fruit observed during the March visit to the farms are shown in Figures 6-10.

Figure 8: Many ripe and nearly ripe bunches on Ijaye Farm, March 2015.

Figure 9: One ripe and several nearly ripe fruit bunches on Awe Farm, March 2015.

Figure 10: A large ripe fruit bunch on Olaoke Farm, March 2015.

Nursery Operations

After launching the nursery in 2013, with another nursery crop planted in 2014, we did not plant anything in the nursery in 2015. We sold all 1200 of the seedlings held over from 2013, plus another 1100 of the seedlings planted in 2014, leaving approximately 300 seedlings to be sold in 2016. We plan to plant another 4000 seedlings in 2016.

The primary purpose of the nursery this time is still commercial - we plan to sell the majority of the seedlings, but there are specific areas of the farms identified for planting should any of next year's nursery stock remain unsold.

Production by Farm

Although the weight data is very approximate, we can report both bunch counts and estimated harvest weights for 2015. When we do generate a profit, the weight data will form the basis of the calculation of the payments made to each farm. Table 4 has the counts from each farm for the whole of 2015.

Projections

In 2015 we once again fell short of our immediate goal of positive cash flow. Planning for 2016 has attempted to take into account the lessons learned from the previous years, hopefully improving further the likelihood of operating at a profit. The plan anticipates positive cash flow for the year.

Projected income and expenses by month are provided in Table 5. Amounts are in thousand of Naira. As can be seen, the projected revenue significantly exceeds planned expenses. Figure 11 depicts the relationship between income and expenses, showing a slight deficit that occurs in the middle of the year, when a large payment is required for the sprouted nuts for the nursery. Given the year end cash balance of approximately ₦472,750, it seems likely that no additional infusion of cash will be required for the planned nursery stock purchase. A plan for replacing the tractor has not yet been worked out, but will likely require additional capital.

Additional Capital Investment

At the close of 2015, work still remained to fully complete the mill facility, including windows, plaster, painting, ceilings, and a toilet and septic tank. The estimated total for all the remaining work on the

Table 4: 2015 Harvest by Farm

Farm	Bunches	Weight (kg)
Awe	3,672	13,195
Ogunkunle	3,374	14,679
Ijaye	2,022	10,717
Olaoke	1,554	10,109
Omodeni	1,455	5,271
Total	12,077	53,970

Table 5: 2016 Projected Expenses and Income

Category	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Expenses													
Salaries	100	100	100	100	100	100	100	100	100	100	100	100	1200
Food	12	12	12	12	12	12	12	12	12	12	12		132
Other labor[1]	55	20	30	40	50	50	40	30	30	30	360	40	775
Total labor	167	132	142	152	162	162	152	142	142	142	427	140	2107
Gas	42	40	50	60	70	60	50	40	40	40	40	40	622
Diesel	10									60	80	10	160
Mill supplies		10	15	20	20	20	10	5	5	5	5	5	120
Farm Supplies	28		10	10	35	30	30	50					193
Nursery							400						400
Rep. & Maint.	10	50	50	50	50	50	50	50	50	50	50	50	560
Total Expenses	256.5	232	257	292	332	307	692	287	267	297	602	245	4162
Revenues													
palm oil	240	267	220				210	315	420	420	440	675	3207
yams								30	30	30	10		100
maize		180							100	100	100		480
plantain		2	2	2				1	2	2	2	2	15
cassava					30								30
kernels	12		50	50	50		50	50		50	50	25	387
seedlings				300	300	150							750
Total Revenue	252	457	272	352	380	150	270	411	572	622	602	702	4969

[1] includes all migrant workers expenses other than food allowance (transportation into the country, annual housing, lump sum salary payments), day laborer wages, and 2015 bonus and vacation allowance

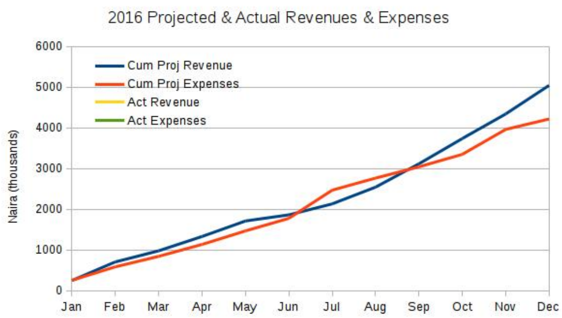

Figure 11: Projected expenses versus income for 2016, showing revenues projected to significantly exceed expenses.

Figure 12: The remains of the tractor are still where it stalled while being used to fight a fire on the TGSSA Mission Village campus.

building is around ₦1.0 - 1.5 million. In addition, although the mill capacity appears to be sufficient for 2016, additional sterilizer capacity is likely to be needed within another few years. The current plan is to fund these additional capital investments out of operating income.

In late January 2016, a fire encroached on the TGSSA site, and in an effort to create a fire break in order to prevent fire damage to the buildings. Although the fire was stopped, the tractor stalled and could not be started, and was destroyed in the fire - a total loss. A photo of the burned carcass is shown in figure 12. After reviewing the situation, it is clear that the farm cannot be operated successfully without a tractor, specifically one that can operate a harrowing disc such as the one we have. Note that our harrow remains functional despite the fire. We intend to find a way to have a replacement tractor in place by October 2016. A number of changes are contemplated or have been implemented to ensure that this kind of disaster does not happen again.

One additional small investment has also been identified, and has been factored into the revenue projections. An investment of approximately ₦100,000 will secure a kernel nut cracker, and the additional revenue obtained from selling cracked kernels as compared to the uncracked kernels we are currently selling would appear to pay for the kernel cracking machine twice within a year.

Summary

Although we did not see the progress expected and hoped for in 2015, we did cut our operating deficit in half compared to 2014. We continue to see our farm mature, with more trees joining the harvest and more areas fully clean each year. The cost of maintenance has dropped with more areas of the farms being opened up, and with repeated harrowing reducing the amount of weed re-growth each time. Accordingly, the prospects for 2016 are to not only break even, but to generate significant operating margin for the first time ever.