EfD and Apollo Agriculture Q&A discussion October 2019

What area receives the Apollo "package"?

- Field boundaries are measured or 'marked' by contracted local agents who are paid per task. They are incentivized to make referrals for other services, almost like a salesforce
- Information about the farms is gained by short interview with each farmer, usually takes from 30 minutes to 1 hour for the average acreage of 1.03 acres. Although slightly smaller in new territories, some are up to 3 acres [1 hectare = 2.54 acres]
- Growth in Apollo acreage is hard to predict. Unless farmers have only had a loan on part of their acreage or they buy more land, it is not possible to increase acreage with existing customers.

What is the average revenue for Apollo per farmer?

- Depends on costs of the package of inputs plus a small margin
- Varies with crop type and cost of inputs each season but must be low enough to be attractive to farmers
- Can offer package with or without weather insurance which covers some products, ie. maize and sorghum but not potatoes, some farmers choose to take it and others do not
- The agronomy team are working to make a package that is affordable to encourage higher uptake
- Average yield varies by area and the conditions.

Please describe components of "customer acquisition cost"

- The customer fixed price per acre is $137 with add-ons for pesticides and herbicides
- Cost to Apollo is $85-90 which includes the cost of seed, DAP, CCN and yield insurance ($6)
- $20 bad debt (approx. 10%)
- Cost of customer acquisition $3.5 per agent
- Cost of call centre $?
- Cost of sales and marketing - radio, referrals (farmers, agents, dealers, friends of Apollo) and roadshows, currently approximately $25.00 rising to $29 in new regions
- May see higher costs to get to 100k customers.

Financing costs:

- Apollo have to raise working capital to fund purchase and delivery of inputs to farmers
- Requirement for 100,000 customers - targeting $4-5 million in early part of year up to $8 million at end of year, to finance 100,000 acres for c.90,0000 customers in 2020
- To raise $8million working capital will need to get commercial debt, 2 new providers
- Assumption for interest rate ranges from 6% (social finance) up to 14% (commercial bank)
- Revenue if local currency (shilling), how to raise finance in local currency? Will pay $ debt with shilling revenue? Apollo looking for advice from someone with a banking background to help with hedging arrangements and managing forex risk.

What security would a lender require?

- Receivable back lending – lendable loan by SVPs to Apollo – they have their own tech team to assess risk

What are the Series A funding dynamics?

- Anthemis London based lead investor
- 2-3 impact commercial investors
- Exit is financial reward for equity investors
- 10yr game plan with $5mill – enabling Apollo to achieve growth over next 2 years. Focusing on Kenya
- Opecs funded through equity and grant funding – c.1.8million in debt
- Ceniarth interest at 8%
- Rubberbank some interest at 0% some 8%
- FMO interest at 8%
- Keever 0% interest

What other "corporate" costs have to be funded (senior management team, equity fundraising, comms etc.) and what the estimated costs in each year are assumed to be?

- Technical team of 6 based in Amsterdam office are expensive but have exponential effect in growing the business
- Kenya office accommodates senior and middle management team, human resources, administration, finance, operations
- Call centre costs which will be recovered in 2021 through initial sign-up fee
- Currently $200,000 per month
- Need 250,000 customers to cover running costs.

More generally it would be useful to understand the key sensitivities that will impact on achieving 2021 breakeven eg. what are the key issues involved in building up customer numbers to 100,000 – location/organisation stretch/customer appetite/procurement of inputs and working capital etc. – and how will downside sensitivities be dealt with?

- Will achieve additional customers through going deeper in the same regions, more counties, went from 2 to 7 this year
- Significant variability in repayments which is an unknown when going into new areas
- Aim is to go deeper into areas to grow base of good quality customers more likely to repay
- Will continue to be conservative in financial model ie expect higher default rate in new areas
- Main proposition is based on reduced cost of getting crop harvested relying on experience of farmers
- Believe that they can improve farmer uptake with a lighter touch model ie. by sending messages rather than them having to come to training sessions making it more affordable.

EfD advised they would be interested in contributing to the cost of making Apollo's offering sustainable. EfD also offered knowledge share to help support Apollo's expansion into other areas through the knowledge held by AgDevCo.