

SILVERLANDS TANZANIA LIMITED  
INVESTMENT PROPOSAL: ARUSHA HATCHERY

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Submitted to: Tanzania Investment Centre

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## 1. Executive Summary

Silverlands Tanzania Limited (“STL”) aims to develop into one of Tanzania’s flagship integrated agricultural operations focussing on primary production, processing, poultry and beef. STL has already obtained TIC approval for its poultry and feed division, and for its cropping and livestock division. This proposal relates only to the acquisition and further investment into the “Poultry division”, to grow STL’s hatchery capacity.

STL intends to establish a hatchery in Arusha. The hatchery is being established to increase its capacity to produce day-old chicks and to take advantage of export opportunities in the East Africa region. This is in line with the company’s intention to expand chicken production across the country and the region to support the growing population’s appetite for protein products.

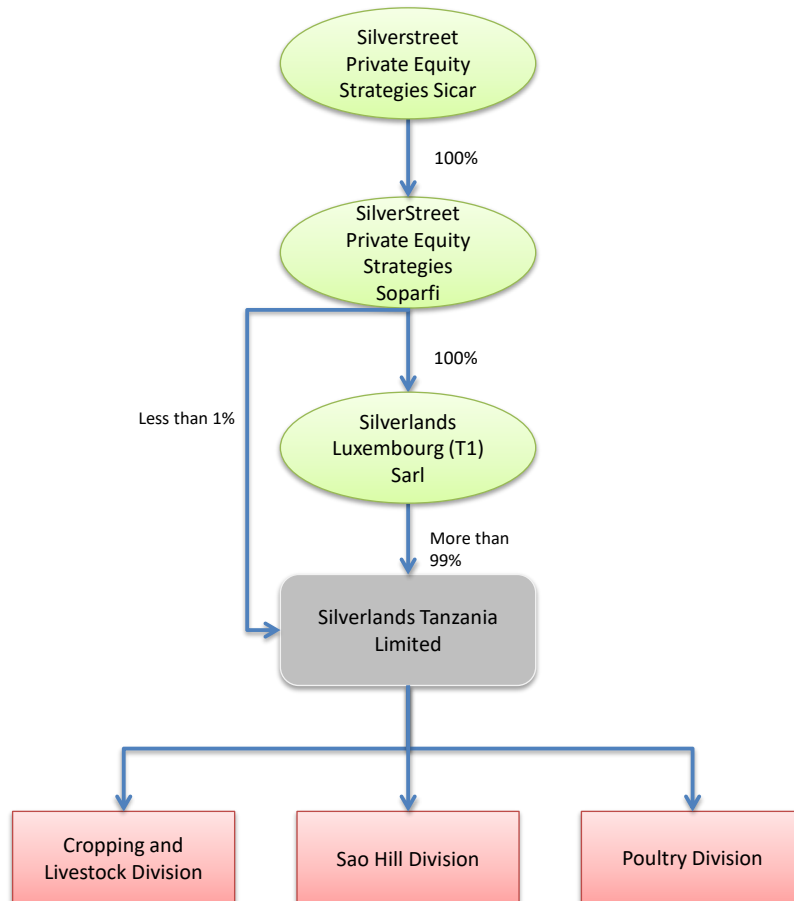
Silverlands Tanzania Limited is in the process of acquiring from USA River Investment Company Limited (**USA River**) Farm nos. 122b and 123/1 situated between the Kigeri and the USA river (E.P. Lot No. 408) in the District of Arusha, containing together approximately 40 acres held under Certificate of Occupancy bearing Title No. 37583/1. This property is in the process of being transferred to Silverlands Tanzania Limited.

The hatchery will require approximately \$3.7 million of capital investment, which will be provided through third-party financing from a local commercial bank. The long-term capital requirement for the division is estimated to be approximately \$4.6 million. Long-term annual profitability of the existing poultry division combined with the new Arusha hatchery is forecast at around \$5.1 million.

## 2. Group Profile

### *2.1. Silverlands Tanzania Limited*

STL is owned by SilverStreet Holdings (T1) Sarl (Luxembourg) and SilverStreet Private Equities Strategies Soparfi (Luxembourg). The holding companies are 100% owned by Luxembourg based SilverStreet Private Equities Strategies Sicar (the “Fund”), a \$215 million private equity fund which is investing in sub-Saharan Africa across the agricultural value chain.



In October 2012, STL obtained TIC approval for its poultry and feed division (TIC Certificate of Incentives No. 010465). In November 2013, STL obtained TIC approval for its cropping and livestock division (TIC Certificate of Incentives No. 010519).

## 2.2. Business Model

The Fund is investing in the agricultural sector across the value chain, including inputs, primary production, processing, protein and food manufacturing business.

The poultry business model incorporates:

- **Primary Production** of day-old chicks and poultry feed;
- **Adding value along the value chain**, for example, through the production of protein via day-old chicks;
- **Pro-active support for small-scale farmers operating in a similar location.**

## 3. The Investment Objective

STL intends to establish a hatchery in Arusha with the capacity to hatch 8.6 million hatching eggs per annum. The company is currently renting facilities at Kibo and Mkuza as well as using its own hatchery on Makota Farm.

Current hatch capacity is 305,000 eggs per week, with the new hatchery, production capacity will increase by 89%.

Day old chicks will be supplied into northern Tanzania, East and Central Africa.

Expected benefits include

- Ability to supply the cheaper products in higher production cost areas (Kenya)
- Chicks from Tanzania into Kenya due to the large hatching capacity in Tanzania
- Hatching Eggs from Uganda and Tanzania into Kenya
- Regional security as eggs and chicks can be sent to any country to prevent shortages
- Central hub in Central and West Africa

## 4. Assets

### *Overview*

The Hatchery will be established on farm nos. 122b and 123/1 situated between the Kigeri and the USA river (E.P. Lot No. 408) in the District of Arusha, containing together approximately 40 acres held under Certificate of Occupancy bearing Title No. 37583/1. The Arusha Farm has a tenure of 99 years from 01<sup>st</sup> July 1963. USA River Investments is the registered owner of the Arusha Farm.

It is also close to the Arusha Bi-pass, which will easily access a major road. It will be necessary to construct a road of 3.5 km.

Currently, on the farm, there is a residential property, a barn and chicken houses. The company is unlikely to develop these chicken houses.

### *Infrastructure*

An overview of the farm infrastructure is as follows:

**Power:** the farm is connected to the national grid

**Access:** The farm can be accessed through a passage road

**Housing:** STL will construct housing on-site for the hatchery manager.

**Office Block:** the farm has an outbuilding that can be converted into offices. in the centre of the farm, which is in close proximity to the equipment shed, and chemical storage facilities.

**Fencing:** The farm is enclosed with an electric fence.

### *The Staffing Requirement*

The Arusha hatchery will employ between 20-30 staff. Managers employed by STL will be used to assist in implementing and managing the operation as well as training staff.

### *Synergies*

There will be material synergies between STL farms and the existing operation, which will include:

- There will only be a small incremental overhead to integrate this hatchery into the larger STL business.
- Efficient distribution due to the location of the hatchery.
- Economies of scale from future equipment and inputs purchasing.

Spreading the existing management overhead and the equipment between the different divisions will improve margins for the STL business.

## **5. Financing Plan**

### *Capital Development*

It is estimated that \$4.6 million of capital investment will occur at the Arusha Hatchery division over the next three years. This will be financed by STL through a combination of working capital and third-party financing.

### *Capital Expenditure*

The forecast three-year capex schedule for the hatchery is as follows.

| <b>Description</b>            | <b>2022</b> | <b>2023</b> | <b>2024</b> | <b>Total</b> |
|-------------------------------|-------------|-------------|-------------|--------------|
| Building and site preparation | 641,507     |             |             | 641,507      |
| Incubators                    | 554,699     | 554,699     |             | 1,109,398    |
| Automation                    |             | 34,421      |             | 34,421       |
| Climate Control               | 326,877     |             |             | 326,877      |
| Process Control               | 25,046      |             |             | 25,046       |
| Instalation                   | 243,615     |             |             | 243,615      |
| Auxillary Equipment           | 198,835     | 198,835     |             | 397,670      |
| Utilities                     | 110,000     | 110,000     |             | 220,000      |

|                         |                  |                  |                |                  |
|-------------------------|------------------|------------------|----------------|------------------|
| Office and Accomodation | 165,000          |                  |                | 165,000          |
| Land                    | 600,000          | 399,179          | 399,179        | 1,398,357        |
| <b>Total</b>            | <b>2,865,579</b> | <b>1,297,134</b> | <b>399,179</b> | <b>4,651,891</b> |

Of the total forecast Capex expenditure of \$4.6 million, \$1.2 million is the acquisition cost and \$3.4 million is development Capex.

## 6. Projected Profitability

The projected profitability for the hatchery, including STL, is shown below. As the hatchery will be sharing both overheads and equipment with the existing poultry division, it is not meaningful to model the farm in isolation from the existing poultry division. Forecast profitability is approximately \$1.0 million by FY 2023.

| <b>Silverlands Tanzania</b>      |                  |                  |                  |                  |                  |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Arusha Hatchery</b>           | <b>2023</b>      | <b>2024</b>      | <b>2025</b>      | <b>2026</b>      | <b>2027</b>      |
| Number of chicks                 | 4,729,691        | 5,202,660        | 6,243,191        | 6,243,191        | 6,243,191        |
|                                  | <b>2023</b>      | <b>2024</b>      | <b>2025</b>      | <b>2026</b>      | <b>2027</b>      |
| <b>Total revenue</b>             | <b>2,790,517</b> | <b>3,069,569</b> | <b>3,683,483</b> | <b>3,683,483</b> | <b>3,683,483</b> |
| Cost of sales                    | -                | -                | -                | -                | -                |
|                                  | <b>1,746,492</b> | <b>1,921,142</b> | <b>2,305,370</b> | <b>2,305,370</b> | <b>2,305,370</b> |
| <b>Gross profit contribution</b> | <b>1,044,025</b> | <b>1,148,428</b> | <b>1,378,113</b> | <b>1,378,113</b> | <b>1,378,113</b> |

**Silverlands Tanzania Limited**  
**Poultry Division**  
**FY 2022 Budget**  
**Income statement USD**

|                             | 2022         | 2023         | 2024         | 2025         | 2026         | 2027         |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Revenue               | 49,874,273   | 62,223,764   | 73,651,261   | 85,210,679   | 95,442,136   | 99,555,868   |
|                             |              | 25%          |              |              |              |              |
| Total Cost of Sales         | (37,238,609) | (45,608,464) | (54,591,571) | (63,541,681) | (69,570,190) | (72,663,259) |
|                             |              | 22%          |              |              |              |              |
| Gross Profit                | 12,635,664   | 16,615,300   | 19,059,691   | 21,668,998   | 25,871,946   | 26,892,609   |
|                             | 25%          | 27%          | 26%          | 25%          | 27%          | 27%          |
| Selling Expenses            | (4,429,412)  | (5,270,335)  | (6,137,590)  | (6,980,782)  | (7,266,506)  | (7,565,303)  |
|                             |              | 19%          |              |              |              |              |
| Total other income/(loss)   | 391,169      | 176,455      | 178,184      | 179,948      | 181,747      | 183,582      |
|                             |              |              |              |              |              |              |
| Overheads                   | (3,179,777)  | (3,037,333)  | (3,064,476)  | (3,114,578)  | (3,184,713)  | (3,218,336)  |
|                             | -6%          |              |              |              |              |              |
| EBITDA                      | 5,417,644    | 8,484,086    | 10,035,809   | 11,753,586   | 15,602,474   | 16,292,552   |
|                             | 11%          | 14%          | 14%          | 14%          | 16%          | 16%          |
| Depreciation & Amortization | (2,915,453)  | (3,316,885)  | (4,202,986)  | (4,400,935)  | (4,538,603)  | (4,012,043)  |
|                             |              |              |              |              |              |              |
| EBIT                        | 2,502,191    | 5,167,201    | 5,832,822    | 7,352,652    | 11,063,871   | 12,280,509   |
|                             |              |              |              |              |              |              |
| Finance Costs               | (2,576,446)  | (3,137,776)  | (2,921,417)  | (2,134,875)  | (1,843,699)  | (1,340,268)  |
|                             | -5%          |              |              |              |              |              |
| PBT                         | (74,255)     | 2,029,425    | 2,911,406    | 5,217,777    | 9,220,172    | 10,940,241   |
|                             |              |              |              |              |              |              |
| Tax                         | (187,491)    | (312,001)    | (369,147)    | (426,953)    | (207,257)    | (3,495,812)  |
|                             |              |              |              |              |              |              |
| Net Profit                  | (261,746)    | 1,717,424    | 2,542,258    | 4,790,824    | 9,012,915    | 7,444,429    |
|                             |              |              |              |              |              |              |
| Growth                      | -131%        | -756%        | 48%          | 88%          | 88%          | -17%         |

The results above are for the entire poultry division, including Arusha Hatchery.

## 7. Environment, Social and Governance

The STL Arusha hatchery will comply with Tanzanian law and the Fund's regulations. The accounts will be audited annually by PriceWaterhouseCoopers. A corporate social responsibility review report will also be conducted annually.

The division will also have a positive impact on the local community as various employment positions will be created through the provision of training for all staff. Thorough environmental impact assessments will be undertaken where required under the strictest international guidelines.

**Appendix 1- Schedule Capital Expenditure**

| <b>Description</b>            | <b>Total</b>     |
|-------------------------------|------------------|
| Building and site preparation | 641,507          |
| Incubators                    | 1,109,398        |
| Automation                    | 34,421           |
| Climate Control               | 326,877          |
| Process Control               | 25,046           |
| Installation                  | 243,615          |
| Auxillary Equipment           | 397,670          |
| Utilities                     | 220,000          |
| Office and Accommodation      | 165,000          |
| Land                          | 1,398,357        |
| <b>Total</b>                  | <b>4,651,891</b> |