



FY20 Q3 Quarterly Report
1 January to 31 March 2020



Highlights

- Across all three of our businesses, we have added 127,321 new customers year-to-date. We've achieved 91 percent of our annual target of 142,000 new customers.
- Even with the start of the global COVID-19 crisis in February, we should be able to achieve our year-end (in June) target for new customers.
- Our farm irrigation system sales were up over 30 percent compared to Q3 last year.
- Demand is strong for all three of our core offerings. We beat our quarterly targets across every product/service area – irrigation, agronomy and farm financing.
- The COVID-19 outbreak didn't reach Myanmar until end of March when the first confirmed case was announced and international arrivals were shut down.
- Myanmar went into a partial lockdown in first week of April causing some disruptions to farming and food supplies.

Opening Thoughts

The period of January to March 2020 represented a relatively normal period of growth for us before the COVID-19 pandemic reached Myanmar. In mid-January, we saw the development of the coronavirus in neighboring China and began preparing our staff with a watchful eye towards its potential spread to Myanmar.

The first cases of COVID-19 were not reported in Myanmar until the end of March, just a few days shy of the end of our third quarter. Thus, Proximity's operations were not significantly impacted during Q3. But by early March, we could see it was likely to develop into a global pandemic as Iran and Italy went into lockdown. Then in mid-March, Myanmar banned all commercial flights from landing and most of our expat staff left the country. Our Burmese staff began leaving Yangon to return to their home villages to be with their families.

The month of March was spent establishing an emergency leadership team headed by Phyu Hninn Nyein, Head of Business Operations and Yamin Myo Nyunt, Head of People Operations (both based in Yangon), closing our main office and branches, preparing for remote working arrangements, and making sure our employees were safe and equipped with personal protective equipment.

We could see how the pandemic had the potential to be a humanitarian crisis because of the poor condition of the public health system across Myanmar, and particularly in rural areas. But equally, COVID-19 would disrupt cross-border trade, tourist arrivals and garment manufacturing orders – the big drivers of the Myanmar economy. The farming sector was immediately affected by the government lockdown during the last week of March. Food transport was disrupted at the borders with China and India and intra-regional transport was limited. At first, farmers took most of these restrictions in stride – they constantly experience disruptive events beyond their control while farming.

But we began to be concerned about Myanmar's food supply system and its ability to deliver food to the population of over 54 million people. A COVID-19-induced severe recession was going to lead to many small business closures across the country. Myanmar's shaky financial system could seize up, depriving farmers of much needed credit to operate their farming businesses. The entire farm ecosystem – which we are trying to build – is under threat on many fronts.

Summary of Operating Results

Our operating results this quarter were achieved just before the full force of the pandemic emerged around the world and arrived in Myanmar. We continued making progress in building our Yetagon Farm Services platform, by consolidating some of our product and service offerings. We continue to evolve our operations to serve the emerging ‘multi-channel’ farmer in Myanmar: farmers who want to engage with us across several channels, not just in-person delivery. Our investments in lower-cost sales channels are beginning to pay dividends, as much of this year’s growth is coming through these new sales channels.

Results by product and service lines:

- In our irrigation business, we sold systems to 15,740 farmers during the quarter. This represented nearly a 30 percent year-on-year increase, as our quarterly target was 12,241 systems. Of these, 10,007 customers were served through our sales channel of a network of 270 agri-dealer shops.
- Q3 revenue from irrigation system sales totaled USD 437,013. Our new multi-angle mister product represented nearly 50 percent of sales during the quarter.
- For our farm advisory agronomy services, we sold 1,181 soil tests, which is only 51 percent of target. This was due to lower than expected demand from rice growers. As was the case in the previous quarter, rice farmers were shifting to other crops because of low rice prices and the lack of irrigation water from the large dams, due to drought. Our crop protection services (e.g. identifying pests and diseases) had 9,714 farm customers – 24 percent above the quarterly target. We had 2,114 customers for our new bio-pesticide (Trichoderma) product - an effective fungicide for controlling plant disease.
- We had 21,982 total adopters of our targeted agronomy advice, or 65 percent over target. Of these, 14,857 (68 percent) were delivered through digital channels. The advice focuses on seed quality and effective fertilizer use for rice farmers.
- Total customers for farm advisory agronomy services during the quarter was 32,877, exceeding the quarterly target of 23,650 by 39 percent.
- Demand remains strong for our unique farm loans. Proximity Finance disbursed 42,718 loans in Q3 – 22 percent over their target of 35,000 loans. 15,304 of these loans were to new farmers. YTD, we have 122,253 active borrowers, exceeding our target of 117,425.
- Our farm finance business portfolio reached USD 39 million in outstanding loans by the end of March, with a PAR<30 of under one percent.

+ Move to lower-cost sales channels

In an effort to reduce our unit costs to serve, we have been shifting our focus to two lower-cost sales channels: a retail network for our irrigation systems and digital channels for our agronomy advice.

For our irrigation system sales, we have put more emphasis on building out a more robust dealer network. Much of our sales growth has come from this network during the year. We have expanded the network to over 250 shops for better market coverage. Demand for our irrigations systems has been especially strong among onion growers this season; they have been purchasing our new easy-to-install mister system from our retailers. We've also been investing in better marketing of our "Yetagon" (meaning "waterfall" in Burmese) brand, which we believe is contributing to farmers moving to this channel.

We are rapidly migrating our farmer training of improved agronomy practices, from in-person village level delivery to our online channel via Facebook (the "de facto internet" in rural Myanmar). Formerly, most of these improved cropping techniques were introduced to farmers by our field staff operating out of 16 branches, and who typically visit villages and conduct meetings with small groups of interested farmers. Now, we're engaging with farmers via Facebook campaigns and the use of chatbots. We conduct the same campaigns as the in-person sessions, but at a much lower unit cost. Our early evaluations show that adoption levels from online campaigns compare favorably with those conducted in-person. We will continue to run additional tests and evaluations to ensure we maximize the actual adoption by farmers.

+ COVID-19 response – public health campaigns focused on farmers and ensuring the food system keeps functioning

In March, we began discussions with the ministries of Social Welfare, Relief and Resettlement and Health and Sports to partner with the government in their pandemic response. We quickly signed an MoU to design and deliver public health messages focused on the appropriate behaviors for rural communities. (Most public health messages being put out were quite generic and focused on urban behaviors.) We saw an opportunity to design engaging content focused on specific farming behaviors – e.g., how to social distance when selling crops or visiting open markets.

Our 13 pieces of public health communications have been watched to near-completion 12m times by a total of 3.1m rural people. We conservatively estimate that at least 650,000 farmers – likely more – have changed their behavior as a result of our campaigns. The real impact is probably higher: family and friends of farmers made up 42% of the viewers of the videos, and an average of 22% have passed the advice on to at least one farmer they know.



+ Tracking farmer behaviors, sentiment and the food supply system

By late March, we began seeing the importance of better understanding how farmers behaviors and expectations were going to change – and how this could affect both the products and services we offered, and how we delivered them. We also wanted to track farmer/consumer sentiment to better understand how farmers were viewing their economic and financial prospects. Finally, we were concerned about how well the national food system would function under the stress of government lockdowns. Therefore, beginning in the first week of April, we started conducting weekly surveys of several hundred farmers to understand shifting conditions. We did this through: a) an online survey, b) a phone survey and c) our own field staff reporting from regions across the country. The results of these surveys helped us provide information and advice to the National COVID-19 Response Committee. We also provided insights to key leaders within the Ministry of Finance and the Central Bank.

+ Employee health and safety

When the COVID-19 crisis began to emerge, there was some reluctance among many Myanmar companies to take the fast-developing situation seriously. As a leading employer in Myanmar, we wanted to set an example as a company that takes the health and safety of its employees seriously. We made preparations to close our offices, set up systems for working remotely, helped staff return to their families, established clear decision-making authority and created a regular cadence of communication. We worked with the local health authorities and as a result we were one of the first companies to gain permission to re-open our branches in Q4.

Outlook and Proximity's New Playbook

From a public health perspective, Myanmar has so far escaped the impact of the COVID-19 pandemic, with just over 300 cases of the disease reported. However, it is unlikely that it will not be affected over the coming 12 months. We expect our normal operations of meeting customers in villages could be disrupted during the coming year. The economic fall-out is certain to be severe. Myanmar has entered a severe recession as the major sources of economic growth have been badly hit. The government has chosen to not try a complete lockdown of the country – which would be futile because 80% of the economy is composed of the informal sector.

We're preparing for the potential for lower demand for products and services, if farmer purchasing power is weaker in the coming months. We're also anticipating limited growth in grant funding over the next 12 months due to difficulties in attracting new grant funding. We're moving aggressively to manage our cash, reduce spending and protect our balance sheet. We're pausing, delaying or canceling some investments in new initiatives. Our product and service pipelines are being streamlined to focus on high volume offerings. We're moving aggressively to lower our unit costs, by shifting to lower cost sales channels and reducing our field staff and headquarter staff. Like many companies, we're accelerating our digital initiatives – both on the sales side and on operations. Business travel budgets are being reduced because more activities are moving online.

We anticipate having remote working arrangements in place for the rest of this fiscal year and much of the next year as well – which will result in some office cost savings. Our new operating model will focus more on earned revenue from product sales and less on grant income. We'll reduce cost redundancies by merging our irrigation and farm advisory into a single business unit. Overall, these actions do not represent a departure from our five-year strategy. Rather, the COVID-19 crisis is causing us to accelerate each of our strategic initiatives – achieving what was expected to be accomplished over the next two to three years – during the coming year instead.

Our crystal ball is murky, but we do expect some disruptions to our operations over the next 12 months. While it is difficult to give accurate guidance on future sales and customers served, we hope to achieve our customer targets in the coming 12 months – with perhaps a 10-20 percent downside risk. We remain focused on providing Myanmar’s farmers a path out of poverty to greater resilience as caretakers of our planet’s soils, water and environmental resources. In addition, we’re now being called on to help protect the nation’s food supply system and help reduce the inequalities in Myanmar society between urban and rural peoples.

“I feel like a superhero on my farm with all this knowledge.”



“Farmers from my village used to get their farming advice from shop owners or from each other when they met in the village. Due to COVID-19, that was no longer possible. I recommended to all my friends to use the Yetagon chatbot; they can ask any question, and get a quick answer. Even before the health crisis, it was my go-to for knowledge, especially since I took over my family’s farm. As a young farmer, I was searching for other farming practices, and Yetagon opened up a whole new world of advice. The information about pesticides and how to use them correctly was particularly helpful. I feel like a superhero on my farm with all this knowledge.”

Ko Chit Ko,
corn farmer and chatbot fan,
Kyangin Township, Ayeyarwady Division

Financial Results

Proximity Designs

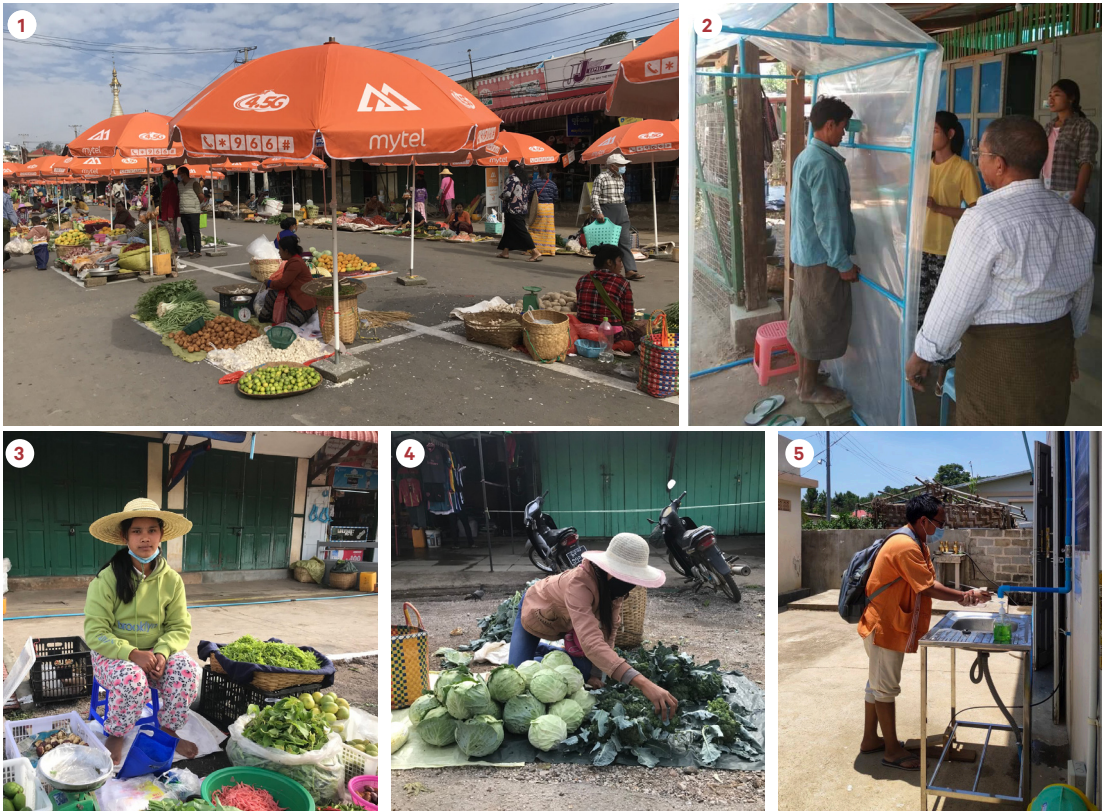
FY20 Q3 YTD: July 2019 - March 2020

*in thousands of US Dollars

	YETAGON IRRIGATION	FARM ADVISORY SERVICES	PROXIMITY FINANCE	PROXIMITY RESEARCH	GENERAL & ADMIN	TOTAL
INCOME						
Grant Income	\$0	\$0	\$328	\$0	\$6,272	\$6,600
Earned Income	\$993	\$109	\$7,838	\$0	\$11	\$8,952
TOTAL INCOME	\$993	\$109	\$8,166	\$0	\$6,283	\$15,552
TOTAL OPERATIONAL EXPENSES	-\$2,282	-\$1,781	-\$6,803	\$24	-\$1,304	-\$12,146
Total Operational Expenses covered by Earned Income (%)	44%	6%	115%			74%
OPERATING INCOME	-\$1,289	-\$1,672	\$1,363	\$24	\$4,979	\$3,406

* In accordance with US GAAP for Not-For-Profits

Please note that Remeasurement Gain or Loss is not included.



1. Government measures to contain the spread of COVID-19 significantly disrupted the daily lives of rural families. To comply with social distancing requirements, town administrators had to reimagine the set up of local markets, which used to take place in crowded spaces.
2. Despite scarce resources, farming communities are often resilient and proactive in a crisis. In Thee Lone village in Sagaing Region, to monitor physical health while keeping all residents safe, volunteers built tents out of blue PVC piping and see-through plastic sheets, which have a hole cut at head height where the temperature guns slot in.
3. Ma Aye Mya Nwe, a mother of two, earns just enough to get by, between MMK 3,000-4,000 per day (around USD 2.5). Her husband used to be the breadwinner, but he lost his job in construction work as the pandemic forced shutdowns across Myanmar. Now she purchases from wholesalers vegetables to sell at the market, and every evening returns what she wasn't able to sell. However, if the produce is damaged or goes bad, she has to pay for it out of her own pocket.
4. In the past, brokers would come directly to Ma Nandar Hlaing's field and buy her entire harvest. However, because of travel restrictions, brokers no longer go to villages. Sin the pandemic began, Ma Nandar's prices have dramatically fallen: she now sells a head of cauliflower for MMK 150 (10 cents) instead of the pre-COVID market price of MMK 500 (35 cents).
5. As the COVID-19 pandemic began to make itself felt in Myanmar, all Proximity branches are complying with the Ministry of Health's safety and health standards and regulations. To help protect employees and customers from potential exposure, all team members wash their hands before entering their workspaces.