



Q2 Report – Oct 1st to Dec 31st 2017

Headlines

- **Added 39,673 new farmers – one of our strongest quarters in our 14-year history**
- **Secured US\$2.75 million in new grant funding from 7 donors**
- **Earned revenue from operations was US\$1.7 million**
- **Launched new Mist-Irrigation product adding to our line of water efficient products**

Opening Thoughts

As we mark our 14th year, Proximity has now reached a significant scale of impact and growth. While we are proud of our growth, we realize the inevitable paradox. As we increase our scope and scale, complexity is also increasing. And we know that complexity, particularly internal complexity, can be the “silent killer” of our growth. A re-focus on the mission (to tackle decades of private, government and aid sector neglect of millions of small agricultural producers in Myanmar) has proven there is still a need, and a market, for our work. Our front-line staff of agronomists, loan officers and irrigation salespersons are the key to our success with customers. Throughout the organization, we are trying to instill an ‘owner’s mindset’ with its bias for action, speed and effective use of money to get our mission done. We enter a stage of growth knowing our original ‘big idea’ of helping underserved farmers where they are and treating them as customers, is as relevant today as ever.

Summary of Operations

We had one of our strongest quarters ever, adding 39,673 new customers. As of our mid-year mark, we have added 56,543 farm customers – on target to reaching 118,000 new customers by the end of the fiscal year in June 2018.

Our Farm Tech business had a strong second quarter with 3,672 new farm customers purchasing one of our irrigation products – a striking 81.5 percent YoY increase. Earned revenues totaled US\$303,000 representing a YoY increase of 66 percent. We launched a new mist micro-irrigation product designed to replace inefficient furrow irrigation on small horticulture plots of half an acre. We sold 138 “Lotus” solar-powered irrigation pumps compared to 28 unit sales during the same period last year. This quarter Ryan McCoy assumed leadership of this business unit. He joins with extensive business and finance experience and holds an MBA from Duke and a finance degree from MIT.

Our Farm Advisory Services had another strong quarter with over 20,000 farmers attending a technique training, given average uptake rates of 40–50 percent, we anticipate at least 8,000 new farmers will adopt one or more of our techniques, hitting our target for the quarter (actual adopter numbers are finalized after the rice season). Our field agronomists engaged farmers through 1,283 in-village presentations, which remain our primary service delivery channel. These field agronomists are essential to our mission as they deliver technique advice, pest and disease solutions, and tailored responses to farming challenges throughout the farming cycle. Across our 21 different townships, we've reached an estimated 40 percent market penetration among farmers growing rice. Our year-end target is to reach 48,400 new farmers and a total of 96,000 active adopting farmers.

Farm lending efforts added 14,709 new customers this quarter. Across our lending operations in 2,065 villages we now have 91,208 active customers. Our portfolio is now USD18.2 million with a PAR 30 delinquency rate of 0.36 percent. Savoeung Chann, our General Manager resigned this quarter after two years of service. A three-person leadership team is overseeing management during the transition period until a replacement is settled. The legal separation of Proximity Finance from Proximity Designs continues to face delays from the government but is expected to be completed by April 2018.

Economic research efforts this quarter focused on deepening our analysis of the current situation in Rakhine State and researching options for addressing the crisis of 650,000 refugees who fled to Bangladesh. As conditions in the camps become more extreme with increased international pressure and ongoing instability, the threat of a long-running internal, regional and international conflict is growing. It is uncertain if either Bangladesh or Myanmar would agree to accept large numbers of refugees as citizens, even with resettlement aid. Reversing the damage will take a multipronged effort beyond the ability of any single country.

Market Conditions and Outlook

- Rice exports (Myanmar's main crop) have nearly doubled this year – which translated into strong domestic rice prices for our producer customers.
- The crisis in Rakhine state continues with little progress on repatriating refugees. The crisis has weakened the prospects for economic growth in the short term, as the lack of transparency, or momentum for reform and good governance has become more apparent. The crisis has so far not affected our operations or financial support.
- During Q3 we'll be focusing on updating our business plans and operating model as we roll out a more integrated offering to customers and a new round of raising capital.
- During Q2 we successfully raised the funds to be fully funded for our Fiscal Year ending 30 June 2018.

Fast Stats

50% Percent of senior managers who are women	39,673 New customer households added this quarter	366 Employees participated in cross-team and in-house trainings	536 Size of our field staff
--------------------------------------------------------	-------------------------------------------------------------	---------------------------------------------------------------------------	---------------------------------------

Financial Results

Fiscal Year 2017-2018: Q2 (October 2017 to December 2017)

*in thousands of US Dollars	ACTUAL					BUDGETED
	YETAGON IRRIGATION	FARM ADVISORY	PROXIMITY FINANCE	POLICY RESEARCH	TOTAL	TOTAL
INCOME						
Grant Income	1,163	1,527	163	541	3,394	1,775
Product Sales Income	296	0	0	0	296	325
Service and Other Income	6	6	1,456	2	1,470	1,409
Total Income	1,465	1,533	1,619	543	5,160	3,510
Total Income Excluding Grants	302	6	1,456	2	1,766	1,735
TOTAL OPERATIONAL EXPENSES	-713	-595	-1,099	-166	-2,572	-3,441
% covered by Sales and Service income	42%	1%	133%	1%	69%	50%
TOTAL EXPENSES ACCOUNTING FOR EXCHANGE RATE					-2,542	-3,441
NET INCOME	753	938	530	377	2,618	69

Lens



CREATIVE SERVICES

team members Min Yin and Aye Thu Thu Aye, joined in November. When it comes to Proximity's brand, the buck stops with Creative Services; they have a hand in designing all of our products and services, from solar pump packaging, instructions for installing the new Mister irrigation system, to demonstration videos for identifying pest and disease.



EXTENSION OFFICERS

from our Farm Advisory Services team measure rice stalk heights in Pokkoku Township. Our Extension Officers are trained in extensive customer engagement skills and provide valuable techniques to handle unexpected agricultural and environmental conditions. They deliver tailored solutions to the challenges that our rural customer's face throughout the farming cycle.



KO SOE MYANT and his wife stand in front of their seven acre farm in Kyat Pyan Village, an hour north of Mandalay. They, like all farmers in the village, grow rice during the monsoon season, and are transitioning to cash crops like green gram, sesame, and chickpeas during the dry season. Since adopting our Rice Seed Grading and Effective Fertilizer Usage techniques last year, Koe Soe Myant has increased his rice yields per acre by 44 percent, and plans to continue using the techniques in the upcoming monsoon season.



INSEAD, one of the world's leading business schools, hosted a course on the life-cycle of social innovations at their Singapore campus. Phyu Hnin Nyein, general manager of FAS, Gabriel Smales from Proximity Labs, and Seng Nu Pan, head of People Operations represented Proximity at the course. They were part of a small group of key leaders and impact-driven organizations from the region who attended to share challenges and successes in using business for good. This is the second year our staff members have attended the course, and facilitators used Proximity's business model as a case of a successful social enterprise.