

## ASX RELEASE

28 January 2020

# SECOS Quarterly Cash Flow Statement and Appendix 4C

## Financial Highlights:

- **Strong improvement in operating cash flow**
- **\$2.4 million closing cash as at 31 December 2019**
- **5.5% increase in cash receipts vs previous quarter**
- **26.4% increase in calendar year bioplastic sales**
- **Sales commence for new resin formulations and sales pipeline suggests stronger second half sales growth**

The Board of sustainable and eco-friendly Biopolymer producer SECOS Group Limited (ASX: SES, “the Company”) is pleased to present its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for SECOS Group Limited (“SECOS Group”) for the December 2019 quarter.

SECOS has grown customer revenues, improved margins, lowered fixed costs and achieved a record low operating cash outflow for the December quarter 2019, closing with \$2.4 million cash on hand.

## Cash Flow

Cash receipts from customers in the quarter were \$5.8 million, up from \$5.5 million last quarter (growth of 5.5%).

Net cash outflow from operations was below \$0.3 million, representing the lowest operating cash outflow in the Company’s history as cost savings are realized from the Company’s business transformation program even as SECOS continues to invest in its biopolymer R & D development program.

SECOS’s strong improvement in operating cash outflows is depicted in graph below.

**SECOS Group Limited (ASX: SES)**

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Graph: Operating Cash Outflow



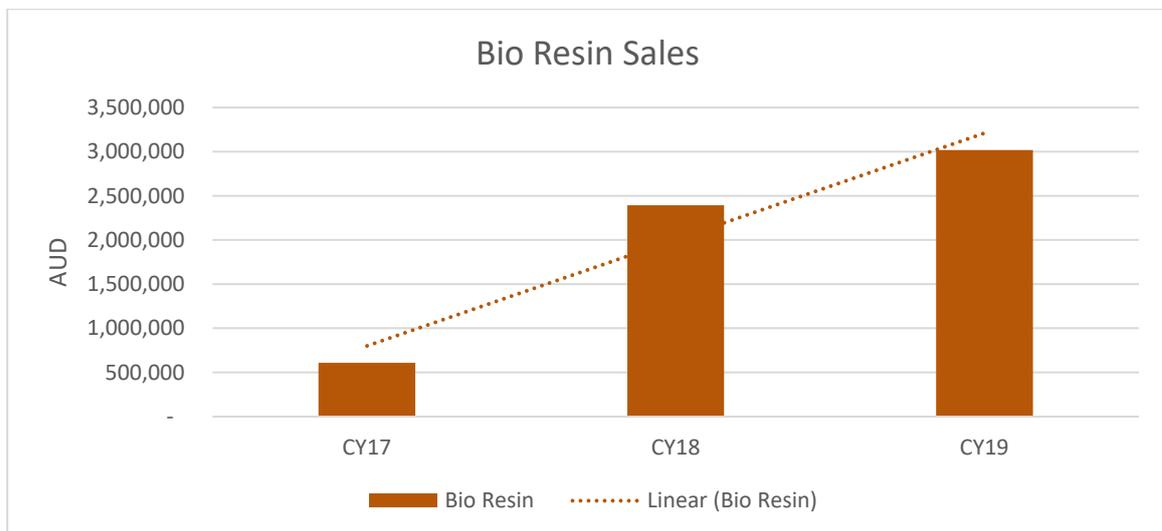
Quarterly comparative.xlsx/chart 1

## Sales Development

### Biopolymer Sales

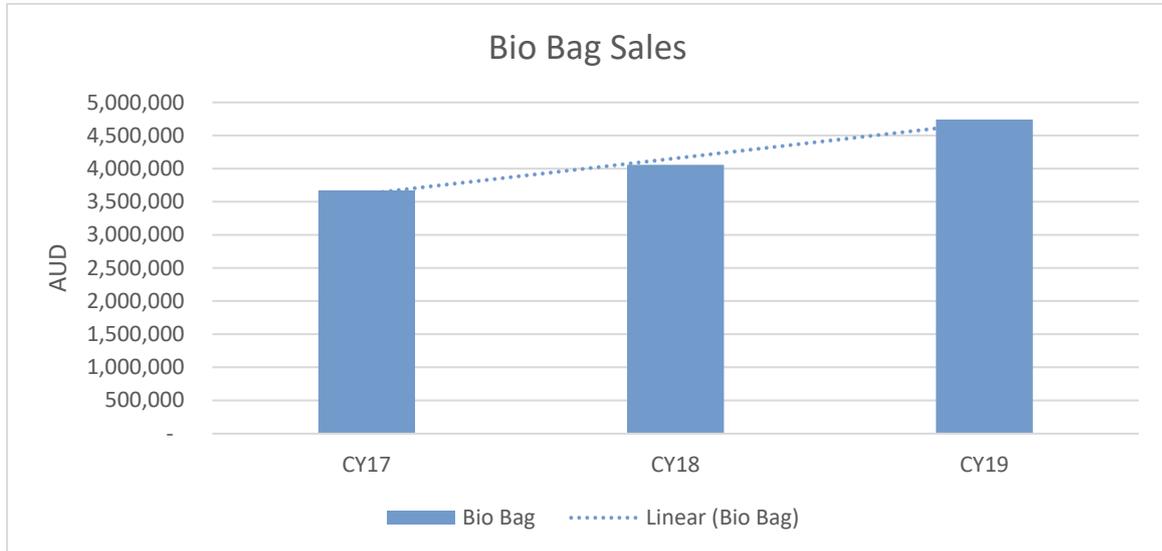
Strong growth in Biopolymer sales continued with Calendar Year (CY) 19 sales increasing by 26.4% on prior year to \$8.3 million (see Graphs below). Demand for our Biopolymer products is continuing to increase for the following reasons:

- Biopolymer Resin:** Increasing number of countries and states banning or considering banning traditional single-use plastics has stimulated biopolymer resin demand in a number of countries including China, India, Mexico, Malaysia and the USA. Plastic bag bans are leading to more converters qualifying SECOS compostable resin in order to supply bags to retail outlets.



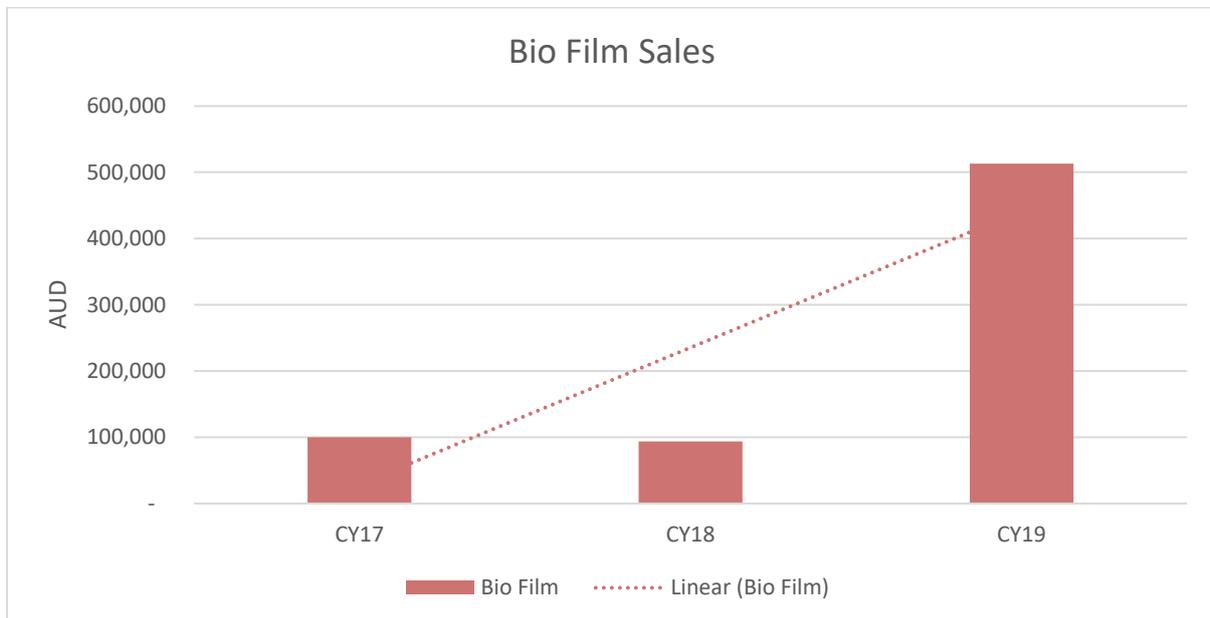
FY19\_FY20 Sales by Prod Mix

- Biopolymer Bags:** In Australia, following increasing tender demand reported in our last quarterly cash flow report, SECOS has secured compostable bag sales with three more city councils. This, plus additional dog waste bag business with European based customers is anticipated to lift compostable bags sales going into the first half of 2020.



FY19\_FY20 Sales by Prod Mix

- Biopolymer Film:** SECOS compostable film sales increased albeit from a low base. New sales have been generated in the hygiene and overwrap markets and are anticipated to grow further.

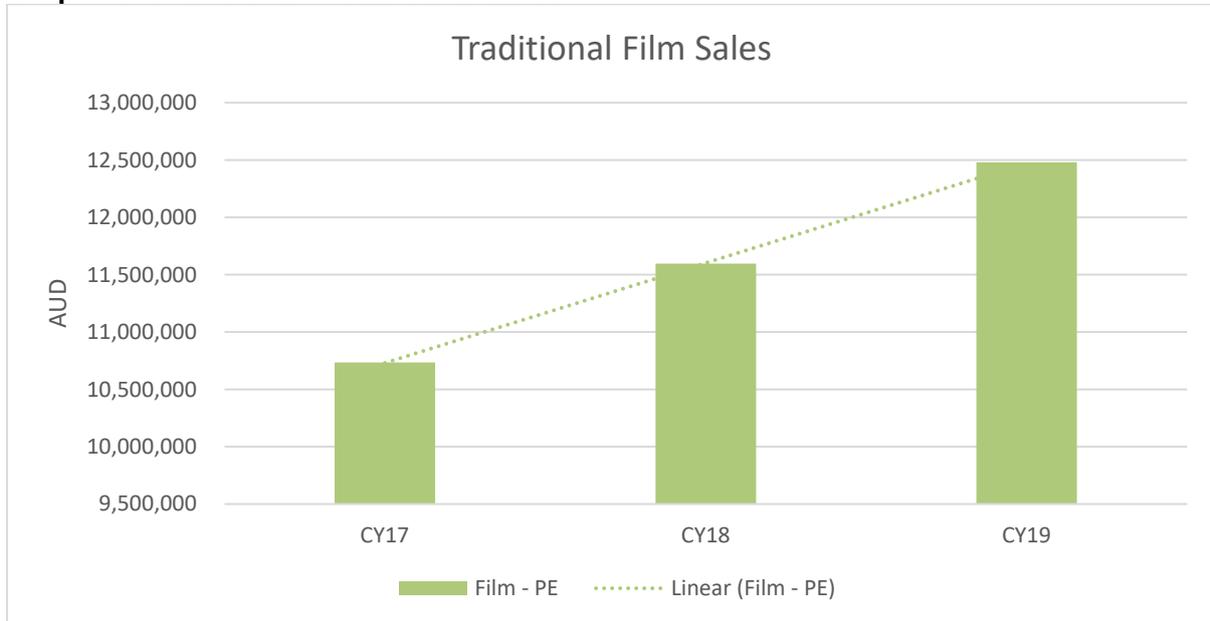


FY19\_FY20 Sales by Prod Mix

### Traditional Plastic Sales

SECOS Group's traditional film business in Malaysia is seeing continued sales growth as a consequence of Asian demand for hygiene and medical applications along with new customer acquisitions within the Asian region.

**Graph: Growth trend in traditional sales**



Excluding Stellar Films Australia Sales which was closed in Jan-2019

FY19\_FY20 Sales by Prod Mix

SECOS Chief Executive Officer, Ian Stacey, said:

“We are pleased with the progress we are seeing in our transformational program to:

- Enhance margins in all areas of the business
  - Reduce and control costs
  - Grow revenue
- We remain well positioned with the new products that our Research and Development department delivered in the December Quarter 2019. These products will allow the business to secure additional revenue growth from biopolymer resin, film and bag sales. Additionally, bag orders received in the December quarter will impact positively on revenue in the March 2020 Quarter.
  - During the December Quarter, SECOS installed additional film production capacity to cater for the rapidly evolving Compostable Courier Bag and Flow Wrap market, which includes outer wrapping for toilet tissue, magazine and baby diapers.
  - At the same time, SECOS enhanced its Bio-Resin production capacity by over 30% through process improvements at its Malaysian Bio-Resin Plant
  - SECOS Group traditional film business in Malaysia sees sales growth continue. SECOS also completed the installation of equipment at its Malaysia cast-line operation, which reduced waste and improved operational efficiencies.

## Operational Highlights:

- Installation of a new film line in China to cater for expanding Compostable Film demand for Hygiene, Medical, Flow Wrap and Courier Bag markets.
- Compostable film trials for hygiene and medical applications utilizing SECOS' Malaysian cast-line assets were promising (cast film lines offer better economies of scale for wide films typically used in the manufacture of hygiene products such as diapers).
- SECOS Group delivered first orders for new compostable resin formulations (Home Compostable and higher mechanical strength grades) to Mexico, South Africa, New Zealand & USA following converters qualifying SECOS Compostable resins.

## Outlook

The Company sees a positive outlook for production and sales growth in coming quarters driven by a range of factors including:

- A global shift towards banning single use plastic. Beijing has just announced that it hopes to cut plastic waste by 30% in five years, banning single use plastic bags.
- Significant increase in the number of Australian Councils adopting Food Organics and Garden Organics ("FOGO") initiatives which incorporate compostable bags and will contribute to an increase in compostable bag sales.
- Recent qualification trials of SECOS' bio-resins conducted in established and emerging markets have been well received by convertors.

The Company's December 2019 Appendix 4C follows.

**For more information, please contact:**

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## About SECOS Group Limited

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SECOS Group Limited (ASX: SES) is a leading developer and manufacturer of sustainable packaging materials. Based in Melbourne, Australia, SECOS supplies its proprietary biodegradable resins, packaging products and high-quality cast films to a blue-chip global customer base. SECOS Group is integrated from resin production, into film (cast and blown) production and can develop bespoke compostable solutions for a range of applications.

SECOS holds a strong patent portfolio and the global trend toward sustainable packaging is fueling the Company's growth.

The Company's headquarters and Global Application Development Centre are based in Melbourne, Australia. SECOS has a Product Development Centre and manufacturing plant for resins and finished products in China and resins plant in Malaysia. The Company also has manufacturing plants for high quality cast films in Malaysia.

SECOS has sales offices in Australia, Malaysia, China and USA, with a network of leading distributors across the Americas, Europe, Asia, the Middle East, Africa and India.

## APPENDIX 4C

### QUARTERLY REPORT FOR ENTITIES SUBJECT TO LISTING RULE 4.7B

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**Name of entity**

**SECOS GROUP LIMITED**

**Quarter ended ("current quarter")**

**ABN 89 064 755 237**

**31 December 2019**

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 Months) \$A'000</b>
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	5,793	11,307
1.2	Payments for	-	-
	(a) research and development	(113)	(222)
	(b) product manufacturing and operating costs	(4,731)	(9,584)
	(c) advertising and marketing	(149)	(284)
	(d) leased assets	(185)	(374)
	(e) staff costs	(767)	(1,529)
	(f) administration and corporate costs	(162)	(371)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	20	(6)
1.6	Income taxes paid (capital gains)	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(294)</b>	<b>(1,067)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(48)	(252)
	(b) businesses (see item 10)		
	(c) investments	-	-
	(d) intellectual property		
	(e) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)		
	(c) investments		
	(d) intellectual property		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(48)</b>	<b>(252)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	586	1,368
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	248	(534)
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid		
3.9	Other (provide details if material)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>834</b>	<b>834</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	<b>1,899</b>	<b>2,875</b>
4.2	Net cash from / (used in) operating activities (item 1.9 above)	<b>(294)</b>	<b>(1,067)</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	<b>(48)</b>	<b>(252)</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	<b>834</b>	<b>834</b>
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>2,390</b>	<b>2,390</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	<b>2,335</b>	<b>1,844</b>
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)		
	Funds in Transit	-	-
	Deposits against Bank Guarantee Issued	55	55
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,390</b>	<b>1,899</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	-
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities	248	248
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	650	650

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered or are proposed to be entered into after quarter end, include details of those facilities as well.

Facility and lender	Interest Rate	Secured/ Unsecured	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<b>Loan facilities</b>				
Debtor Finance Facility Timelio Pty Ltd	9.50%	Secured against invoices	248	248
Unsecured Loan	10.0%	Unsecured	300	300
Convertible Notes	10.0%	Unsecured	350	350
<b>Other Facilities</b>			<b>898</b>	<b>898</b>
<b>Total</b>			<b>898</b>	<b>898</b>

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Research and development	100
9.2	Product manufacturing and operating costs	5,000
9.3	Advertising and marketing	300
9.4	Leased assets	500
9.5	Staff costs	700
9.6	Administration and corporate costs	400
9.7	Other (provide details if material)	-
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>7,000</b>

<b>10.</b>	<b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1	Name of entity	-	-
10.2	Place of incorporation or registration	-	-
10.3	Consideration for acquisition or disposal	-	-
10.4	Total net assets	-	-
10.5	Nature of business	-	-

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1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: [sent electronically without signature] Date: **28 January 2020**  
 Print name: **Edmond Tern** (Director/Company Secretary)

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.