

## ASX RELEASE

29 April 2020

# SECOS Quarterly Cash Flow Statement and Appendix 4C

## Financial Highlights

- Strong improvement in operating cash flow
- \$2.8 million closing cash as at 31 March 2020
- 9.8% increase in cash receipts vs previous quarter
- Strong balance sheet with debt remaining low at \$0.65m
- Only minor impact from COVID-19 restrictions

## Operating Highlights

- Underlying growth in biopolymer sales of over 35%
- Implementation of COVID-19 policies and procedures to address staff safety and maintain operational capacity
- Malaysian plants supplying hygiene, medical and food markets granted essential industry exemption to continue operation during COVID-19 shutdown
- Newly commissioned film line fully utilized supplying compostable hygiene film to the diaper industry
- Overheads, costs and margins remain within budget
- Achieved record biopolymer plant utilization rates and enhanced daily output
- Further progress with the development of new biopolymer applications and formulations

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 March 2020 quarter.

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

ACN 064 755 237

Level 2, Suite 6, 205-211 Forster Road Mount Waverley VIC 3149 Australia

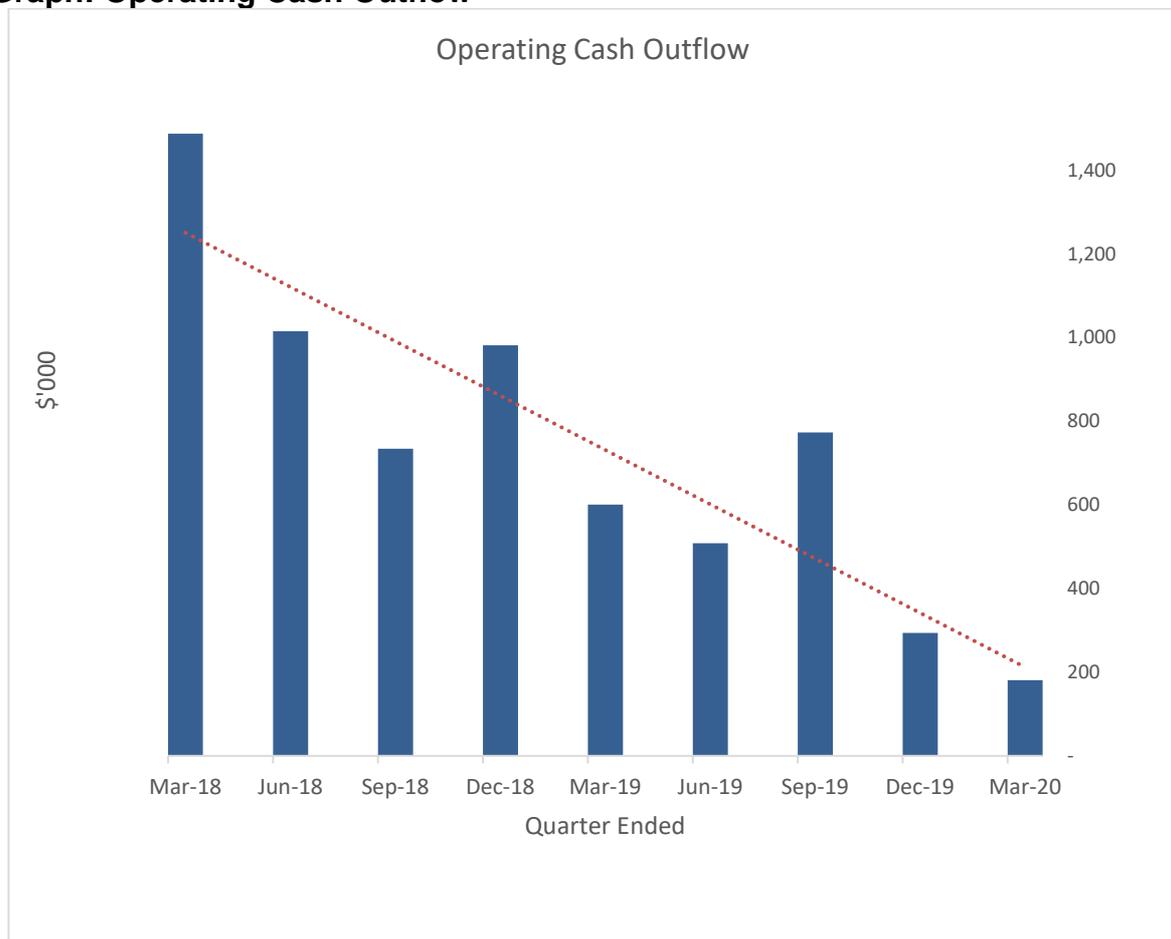
t: +613 8566 6800 e: [info@secosgroup.com.au](mailto:info@secosgroup.com.au) [www.secosgroup.com.au](http://www.secosgroup.com.au)

## Cash Flow

Cash receipts from customers in the March quarter were \$6.4 million representing a 9.8% increase from \$5.8 million in the previous quarter. This growth and performance improvement was achieved despite temporary plant closures in China and Malaysia due to COVID-19.

SECOS is approaching positive net operating cash flow as sales continue to strengthen across all categories, manufacturing efficiencies improve, and costs discipline is maintained. Net operating cash outflow for the quarter was below \$0.2 million, the best result in the Company's history as depicted in the graph below.

**Graph: Operating Cash Outflow**



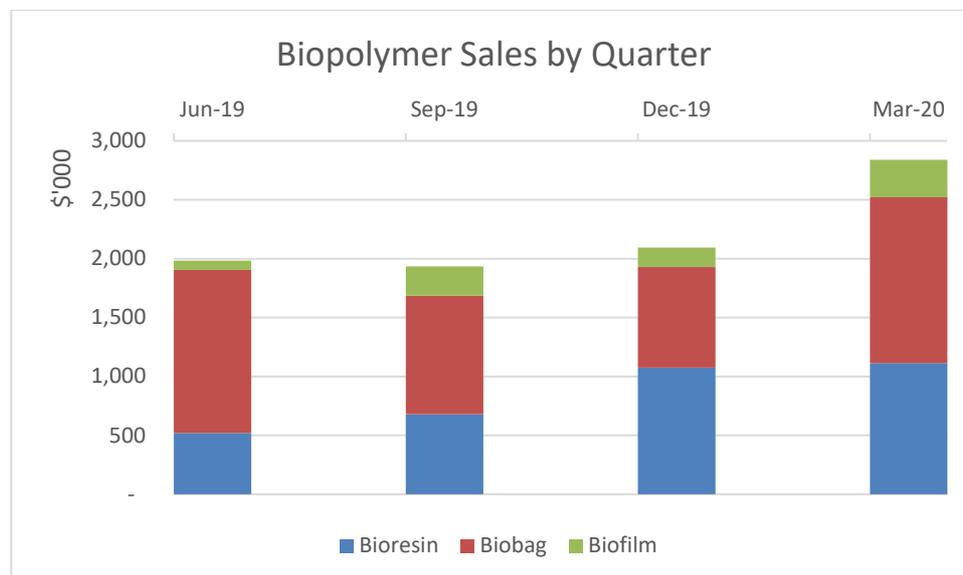
Quarterly comparative.xlsx/chart 1

## Sales Development

Overall sales for the March quarter increased versus earlier quarters.

### Biopolymer Products

After normalizing for foreign exchange movements SECOS biopolymer product sales have recorded an underlying 36% sales growth over December 2019 quarter or 43% since June 2019 quarter. Biopolymer product sales to branded retailers, food providers and other companies continue to grow as consumers switch to environmentally friendly products which, leads to a reduction in single-use traditional plastic bags or packaging film. This change in consumer preferences can be linked to the increasing number of countries, states and cities, introducing controls around plastic use, in response to a global aversion to plastic pollution and use of finite resources. Currently, 127 countries have introduced controls around single use bags or plastics. This leads to opportunities for Compostable solutions.



- Biopolymer Resin** sales have increased over the December 2019 quarter and earlier quarters. SECOS' investment in R&D to extend its Biopolymer resin range is paying off. SECOS introduced two new resin grades in the last 12 months including a home composting grade and a stiffer film grade which has been well received by the market. Following a qualification period by customers, we are seeing a growing list of customers using our resin for a widening array of applications. Equally pleasing are the positive comments by converters especially around the ease of processing of our new biopolymer resin grades through a wide array of film lines. The Company expects to release further new resin grades in the coming year to cater for new market segments and product applications.

- **Biopolymer Bag** sales grew significantly versus the December 2019 quarter and earlier quarters. The increase is associated with Australian, American and European based pet waste bag customers and Australian Councils' Food Organics and Garden Organics ("FOGO") sales strengthening. In Australia, SECOS continued to see Biopolymer Bag sales growth resulting from the roll out of city council FOGO initiatives. Council led FOGO programs are intended to divert millions of tons of organic food and garden waste from landfill to be repurposed as compost for land and soil enrichment across the county. SECOS' role in supplying compostable bags facilitates household diversion of food waste to green bin collections, so both the bag and food waste can be composted back into the environment. The take up by councils and households in the use of SECOS' compostable bag range provides strong evidence of the quality, price and performance of the Company's products in this category. SECOS supplies 28 councils with compostable bags.
- **Biopolymer Film** sales grew significantly versus the December 2019 quarter and earlier quarters. We anticipate demand for compostable film to continue to rise significantly as hygiene and medical markets experience an increase in compostable film demand. Compostable films are increasingly being used in the production of environmentally preferred hygiene products such as diapers and medical films, which pose a significant environmental challenge in worldwide waste streams. SECOS has been investing in the development of a proprietary compostable film grade to run through its Malaysian high-speed cast film lines. This will significantly increase biopolymer film capacity in line with anticipated demand from hygiene film and other customers. The new grade, expected to be released to the market in commercial volumes during FY20/21, is expected to further bolster sales in this product category.

## COVID-19 Update and Operational Highlights

### COVID-19 Update

- Considering the COVID-19 pandemic, SECOS had acted swiftly by implementing its policies and procedures along with guidelines introduced by various jurisdictions aimed at protecting staff and maintaining operational capacity.
- Overall, SECOS' trading performance has not been materially impacted by the crisis. A summary of the impacts experienced to date are:
  - The Chinese factory resumed full operation in late February following a three-week COVID-19 lockdown. Following the government mandated shut down, the plant was able to obtain an early approval to restart and has since recovered all lost production and met all customer orders.
  - Following a similar government mandated closure in Malaysia, the Company's Malaysian factories were granted an exemption from COVID-19 lockdown requirements because the plants were classified as essential services supporting essential hygiene and food sectors. Following receipt of

the essential service exemption, the Malaysian plant has been running hard to deliver backorders. No orders have been cancelled and we anticipate sales to be captured in subsequent periods.

- There were no health or safety events during the quarter as all businesses took full measures to protect staff, customers and suppliers against any potential issues from COVID-19. The group's subsidiaries will continue to take whatever precautions are necessary to maintain the highest level of safety for all our employees and stakeholders in line with the Company's historically strong track record in safety.

### **Costs & margins**

- Overheads had reduced significantly compared to earlier quarters and remain in line with budget expectations. Global staffing levels remain constant.
- Costs and margins remain in line with budget expectations

### **Asset performance and enhancement**

- Record asset utilization rates achieved across both film and compound assets.
- Process improvements have enabled a significant increase in daily compound output.
- A new film line installed in the Company's Nanjing plant in the December quarter to supply hygiene film to medical customers was in full production almost immediately.
- New Courier bag equipment was verified and tested in preparation for production trials due to commence in the June quarter.
- Additional investments were made in the traditional hygiene film cast lines in preparation of compostable film production from growing demand.

### **Product Range Extension**

- The Company's new home compostable resin grade was certified and qualified by a number of new converters resulting in new sales.
- Further progress made in R&D work carried out during the quarter with advancements in compostable high-speed cast film trials utilizing SECOS' Malaysian cast-line assets
- Additional development work has been conducted by Film and Resin R & D staff on a targeted range of applications and grades to further expand Compostable Bioproduct sales.

## Outlook

The Company acknowledges that the COVID-19 crisis and responses around the globe is creating volatility and uncertainty across supply chains, currency markets, financial markets and consumer confidence. However, barring unexpected shocks, the Company sees a positive outlook for production and sales underpinned by the continued growing demand for environmental alternatives to traditional plastic products, especially in the food, medical and agricultural sectors all of which greatly benefit from the synergies achieved when using compostable packaging.

The Company has made significant progress in its efforts to achieve profitability and positive cash flow. These efforts will continue and our outlook for continued improvement is unchanged despite recent global events. Expected improvement and growth is supported by increased demand for environmental packaging solutions with SECOS ideally positioned due to the Company's strong cash position, low debt and three manufacturing facilities across two countries.

The Company's March 2020 Appendix 4C follows.

**For more information, please contact:**

**Richard Tegoni**

Executive Chairman

+61 411 110 901

[r.tegoni@secosgroup.com.au](mailto:r.tegoni@secosgroup.com.au)

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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.

## Disclaimer and Explanatory Notes Forward Looking Statements

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This document may include forward looking statements. Forward looking statements include, but are not necessarily limited to, statements concerning SECOS' planned operational program and other statements that are not historic facts. When used in this document, the words such as "could", "plan", "budget", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions are forward looking statements. Although SECOS believes its expectations reflected in these are reasonable, such statements involve risks and uncertainties, and no assurance can be given that actual results will be consistent with these forward-looking statements. SECOS confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning this announcement continue to apply and have not materially changed.

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

ACN 064 755 237

Level 2, Suite 6, 205-211 Forster Road Mount Waverley VIC 3149 Australia  
t: +613 8566 6800 e: [info@secosgroup.com.au](mailto:info@secosgroup.com.au) [www.secosgroup.com.au](http://www.secosgroup.com.au)

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**
**SECOS GROUP LIMITED**
**ABN**
**89 064 755 237**
**Quarter ended ("current quarter")**
**31 March 2020**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	6,359	17,666
1.2 Payments for	-	-
(a) research and development	(129)	(351)
(b) product manufacturing and operating costs	(5,027)	(14,610)
(c) advertising and marketing	(166)	(450)
(d) leased assets	(190)	(564)
(e) staff costs	(767)	(2,300)
(f) administration and corporate costs	(158)	(529)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(103) <sup>1</sup>	(108)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(181)</b>	<b>(1,248)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(80)	(331)

<sup>1</sup> 42k related to correction of prior quarters' report

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) investments		
(e) intellectual property		
(f) other non-current assets		
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) 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 Net cash from / (used in) investing activities</b>	<b>(80)</b>	<b>(331)</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	1,132	2,500
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings	(266)	(952)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>866</b>	<b>1,548</b>
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	2,239	2,875
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(181)	(1,248)

Appendix 4C  
**Quarterly cash flow report for entities subject to Listing Rule 4.7B**

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(80)	(331)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	866	1,548
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>2,844</b>	<b>2,844</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	2,789	2,355
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (bank guarantee)	55	55
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>2,844</b>	<b>2,390</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	Nil
6.2	Aggregate amount of payments to related parties and their associates included in item 2	Nil

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements		
7.3 Other (please specify)	650	650
<b>7.4 Total financing facilities</b>	<b>650</b>	<b>650</b>

**7.5 Unused financing facilities available at quarter end**

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

**8. Estimated cash available for future operating activities**

**\$A'000**

8.1 Net cash from / (used in) operating activities (Item 1.9)	(181)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,844
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,844
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>16</b>

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

### Compliance statement

- 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.

Date: **29 April 2020**

Authorised by: **By the board**  

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(Name of body or officer authorising release – see note 4)

### Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.