

## ASX RELEASE

22 July 2020

# SECOS Quarterly Cash Flow Statement and Appendix 4C

## Financial Highlights

- Positive operating cash flow for the quarter ended June 2020
- Positive EBITDA (unaudited) for second half 2020
- \$2.9 million closing cash as at 30 June 2020
- Strong balance sheet with significantly reduced debt
- Some deliveries delayed to subsequent quarters due COVID-19 implications

## Operating Highlights

- COVID-19 policies and procedures implemented in Q3 to address staff, supplier, and customer safety and to maintain operational capacity have proven effective to date
- Two new fully compostable bag products introduced into 86 Woolworths (ASX: WOW) Super Eco Stores under the Company's new retail brand MyEcoBag (ASX announcement 9 July 2020)
- ANNA Pure Organic FemCare range launched in South Africa using Cardia's compostable hygiene film (refer ANNA update below)
- Biopolymer sales exceed \$2.5m in two consecutive quarters bringing half year biopolymer sales to \$5.6m representing 53.4% of the Company's total sales
- SECOS wins City of Melville compostable bag contract valued at over \$0.6m p.a. with additional council opportunities at an all-time high
- High-speed compostable hygiene cast film technology on track for launch within FY21

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 June 2020 quarter.

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

ABN 89 064 755 237

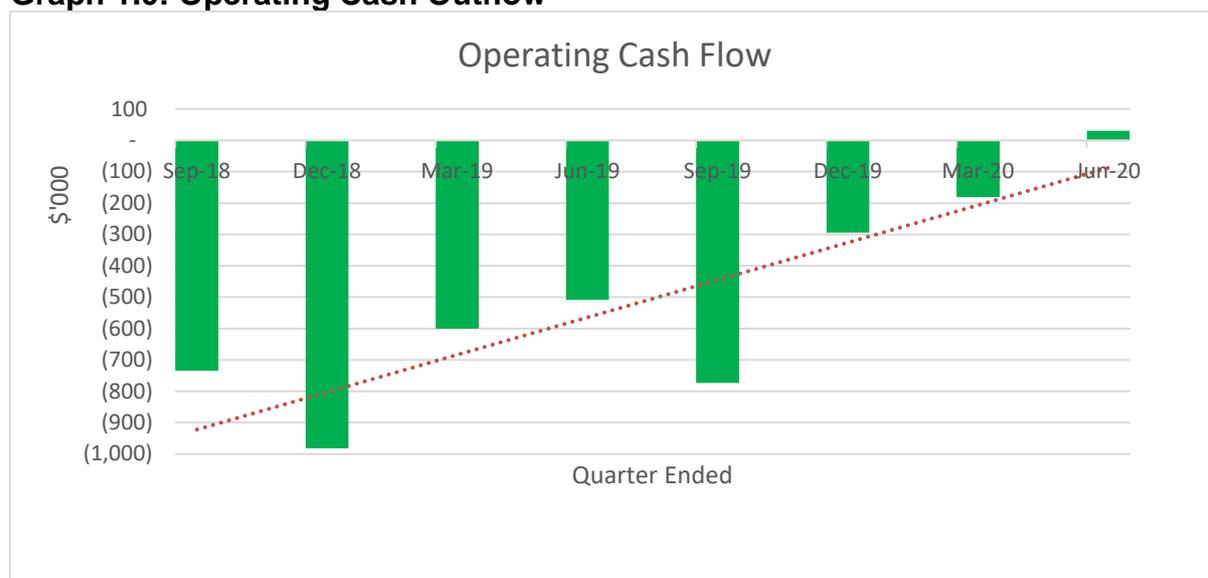
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## Cash Flow

Operating cash flow during the quarter was slightly positive making this the third consecutive quarter of improving cash flow results (*refer Graph 1.0*) despite delays in sales deliveries due to Covid-19 impacting some customer order pipelines. As a result, cash receipts from customers in the June quarter were marginally lower at \$5.4 million. Notwithstanding that, the Group was able to achieve a better result through higher margin product applications, cost discipline and manufacturing efficiency.

**Graph 1.0: Operating Cash Outflow**



Quarterly comparative.xlsx

## Biopolymer Product Sales

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 single use plastics, 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 SECOS' compostable solutions.

SECOS biopolymer sales exceeded \$2.5m for the second consecutive quarter despite delays in sales deliveries impacted by Covid-19. The overall trend in biopolymer sales continues to grow despite some variation in sales across each category on a quarterly basis. Delivery delays during June quarter are expected to be met in the subsequent quarters.

Compostable Film growth is supported by demand from hygiene and diaper manufacturers with considerable movement toward environmentally friendly product solutions. Compostable Resin growth, while consistent, was interrupted by Covid-19 as bag makers around the world experiencing production restrictions.

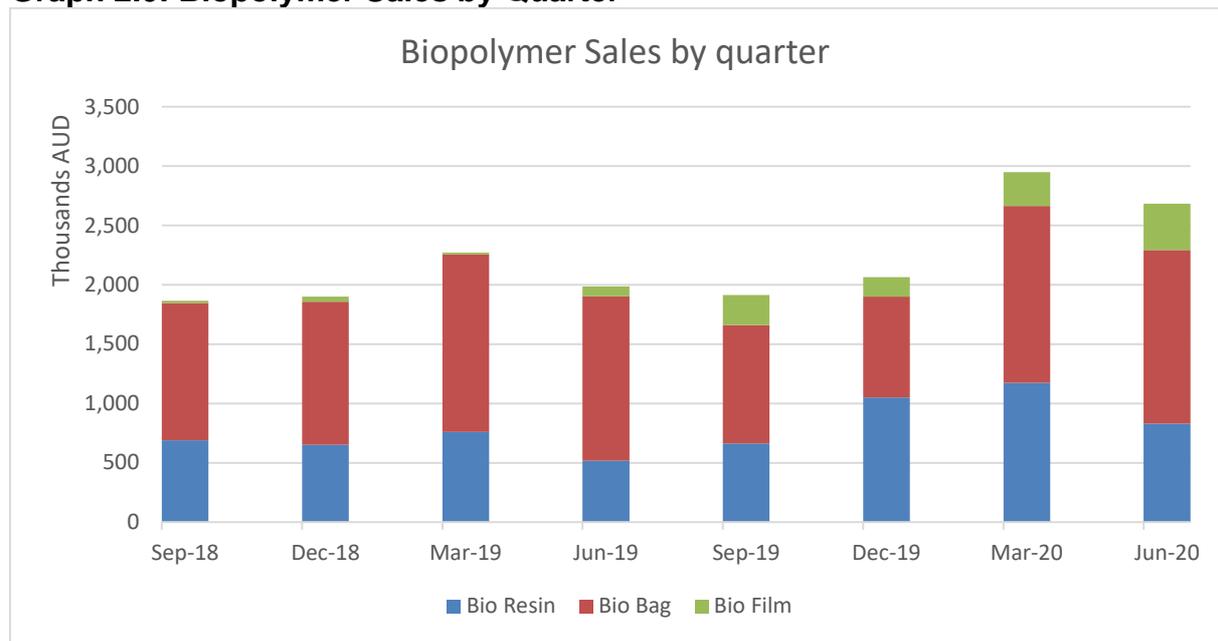
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**Graph 2.0: Biopolymer Sales by Quarter**



FY19\_FY20 Sales by Prod Mix

## FemCare Market Launch

SECOS expands its product applications to include a fully certified compostable hygiene film used by V&G Personal Products (“V&G”) in their ANNA Pure Organic range. V&G is a South African based company whose products are distributed by retailers and supermarkets in South Africa.

V&G has been supplying the South African market with traditional plastic FemCare products for 25 years, and this new fully organic compostable ANNA product range marks a significant change in their approach to FemCare products, utilizing more sustainable and renewable components. For more information, please visit [annapureorganic.com](http://annapureorganic.com).



Initial orders to SECOS are modest. However, the Company expects this positive proof of concept for biobased hygiene market has the potential to drive increasing demand as more brand owners search out ‘plastic-free’, certified compostable alternatives.

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**V&G Personal Products Director, Aldré Geldenhuys, said:**

“We are very excited about our launch of the ANNA Pure Organic compostable FemCare range into local supermarkets and will be supporting the launch with both TV advertising and Social Media marketing campaigns. The demand for sustainable FemCare hygiene products is growing in South Africa and we believe our new ANNA range will be well received by consumers looking for pure organic pads and liners”

**SECOS' CEO, Ian Stacey, said:**

“As more and more brands seek to adopt renewable alternatives which are consistent with circular economy principles, we anticipate further adoption and rollout of compostable alternatives by Retail Brands as they seek to establish new offerings amongst established consumer, hygiene, medical & food packaging products which are based on traditional oil-based plastics.

## MyEcoBag

SECOS launched its new retail brand, MyEcoBag with Woolworths (ASX: WOW) awarding the Company two SKUs including the 8L and 36L kitchen compostable bags into 86 of Woolworths Super Eco stores nationally (ASX announcement 9 July 2020).



Stocks of the bags are now available in these stores, supporting SECOS' leading position in helping local Council plans to reduce landfill. The new product lines will be supported by a social media marketing campaign scheduled for the beginning of August 2020. The strategy of the new retail brand is aimed at expanding distribution to other retailers and to build a broader range of eco-products including quality compostable products developed and sold by the Company's many existing customers.

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## Outlook

The Company has made significant progress in FY20 to achieve EBITDA profitability and positive cash flows. The positive results were achieved on the backdrop of very difficult and uncertain trading conditions due to the varied range of Covid-19 restrictions and shutdowns experienced globally during the last two quarters. Although some uncertainties relating to Covid-19 remain unknown the Company believes it is well placed to continue its growth trajectory in the subsequent quarters.

SECOS is experiencing strong and growing demand in its core segments including local council bag tenders, pet waste bag retailers, compostable hygiene biofilms used in the manufacture of products such as compostable diapers and FemCare products. SECOS is also experiencing growing demand for its wide range of bio-resins used in an expanding list of environmentally friendly packaging applications.

This announcement was authorised for release by the Board of SECOS Group Limited.

The Company's June 2020 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 and compostable 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, Mexico 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, including but not limited to risks and uncertainties relating to impacts that may arise from Covid-19, 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.

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## 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")**
**30 June 2020**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	5,466	23,132
1.2 Payments for	-	-
(a) research and development	(84)	(435)
(b) product manufacturing and operating costs	(4,301)	(18,911)
(c) advertising and marketing	(32)	(483)
(d) leased assets	(121)	(686)
(e) staff costs	(713)	(3,013)
(f) administration and corporate costs	(168)	(697)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(17)	(125)
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>31</b>	<b>(1,217)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(162)	(493)
(d) investments		
(e) intellectual property		

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	(f) other non-current assets 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</b>	<b>Net cash from / (used in) investing activities</b>	<b>(162)</b>	<b>(493)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		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	170 <sup>1</sup>	(782)
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>170</b>	<b>1,718</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 period	2,844	2,875
4.2	Net cash from / (used in) operating activities (item 1.9 above)	31	(1,217)

<sup>11</sup> Correct classification of debt and equity

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(162)	(493)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	170	1,718
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>2,883</b>	<b>2,883</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,828	2,789
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>2,883</b>	<b>2,844</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
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
7.4 <b>Total financing facilities</b>	650	650

**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)	31
8.2 Cash and cash equivalents at quarter end (Item 4.6)	2,883
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	2,883
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	N/A

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: **22 July 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.