

## ASX RELEASE

27 January 2021

# SECOS Quarterly Cash Flow Statement and Appendix 4C

## Financial Highlights

- December quarterly sales of \$7.9m were up by 50.1% vs the corresponding December 2019 quarter, and increased 34.2% vs the preceding September 2020 quarter,
- Biopolymer sales were up 71.1% from the September 2020 quarter and now represent over 73.3% of total sales,
- Driven by record biopolymer sales, SECOS expects to report a maiden profit for the first half for FY21,
- SECOS reported a net operating cash outflow of \$1.4 million in December 2020 quarter after investing over \$2.6 million in new working capital to support increasing sales volumes,
- The Balance Sheet remains strong with \$14.3 million in cash and no debt,
- Capex investment continues with additional extrusion and bagging lines in China and Malaysia to support increased demand.

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 2020 quarter.

## Cash Flow

Cash receipts from customers in the quarter were \$6.6 million, up from \$5.6 million in December 2019 quarter. The Company further increased investment in working capital (raw materials and inventories) by approximately \$2.6 million to support increased sales of biopolymer resin and products which resulted in net operating cash outflow of \$1.4 million. Sales growth rates exceed the growth in cash receipts. This will normalize as customer payments fall due according to standard industry credit terms.

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

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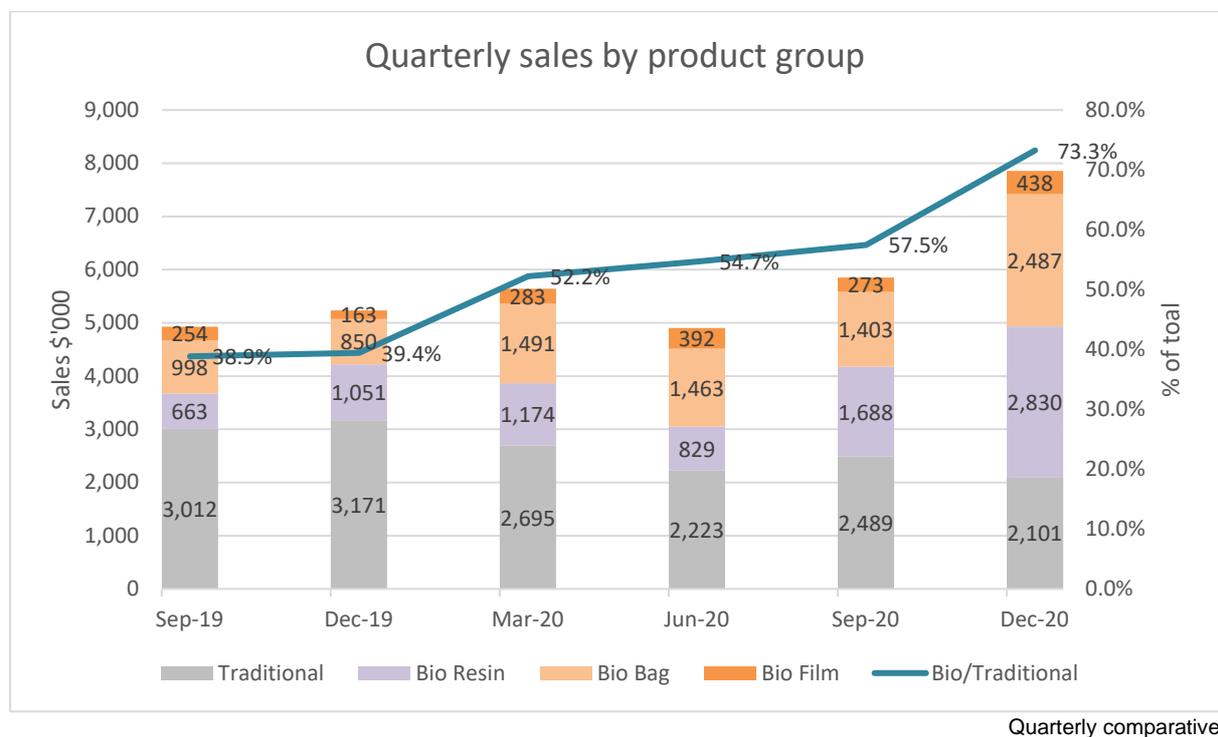
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## Sales Growth

December quarter sales (unaudited) of \$7.9m were up 50.1% on the prior corresponding December 2019 quarter, and were up 34.2% on the September quarter.

December quarter saw record sales growth as a consequence of:

- Biopolymer resin sales to the Americas recommencing after customers resumed operations when COVID restrictions were eased,
- Increased demand for compostable dog waste bags in Americas,
- Strong Australian Council demand for compostable food waste-kitchen caddy bags,
- Significant ongoing growth in compostable film orders for Hygiene applications.



Biopolymer sales in December quarter were up 71.1% compared with the September quarter and 178.8% compared to the same period last year, delivering the strongest quarterly Biopolymer sales in the Company's history. Biopolymer sales now represent 73.3% of the Group's total sales. Pivotal to this growth was the increasing demand for our proprietary Cardia™ Biopolymer resin by branded retailers, food providers and packaging companies as consumers switch to environmentally friendly products.

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### **Compostable Resin**

Sales of compostable resin by converters continued to strengthen with a 67.6% increase in compostable resin sales vs the September quarter and 169.2% growth vs the same period last year. SECOS also introduced an additional resin formulation for light weight compostable carry bags. All resins are certified as Industrial and Home compostable.

### **Compostable Film**

Sales of compostable film for hygiene and medical applications continues to strengthen off a low base with a 60.5% growth from the September quarter and 168.9% growth from the same period last year.

### **Compostable Bags**

Sales of compostable bags increased by 77.2% vs the September quarter and 192.6% vs the same period last year. The growth in compostable bag sales was assisted by strong Dog Waste bag sales to Jewett-Cameron Company and other customers; Australian city council 8L kitchen caddy orders and Australian retail sales. Retail sales continue to exceed expectations with SECOS products now available in 92 Woolworths stores.

### **Traditional Film Sales**

Traditional sales offtake has been delayed in some markets, due to the impact of COVID. An equipment issue on one production line has reduced output during December. Action to repair and replace affected equipment is underway and we expect output to return to normal levels by the end of January.

## **Operating Highlights**

The Group continues to focus on capacity expansion for all facets of the business.

The Company has ordered a new compound line to support the planned expansion of compostable resin capacity in Malaysia. Additional lines are in the process of being ordered for installation in Malaysia, with work underway to expand electricity supply to the plant to support the additional compostable resin lines.

Additional extrusion and bagging equipment were committed to in December to significantly increase Dog Waste bag capacity and to meet demand for increasing city council kitchen caddy and compostable bin liner business.

Increases in stock and accounts receivable are in line with customer orders and forecast demand.

## Outlook

SECOS sales growth is in line with our expectations for the year. The ramp up in new capacity in China and higher utilization rates in our Malaysian resin plants have resulted in positive EBITDA and NPAT in first half results to 31 December 2020 (unaudited).

SECOS is investing in a significant asset expansion program in 2H FY21 in response to increasing demand from both existing and new customers.

The Company expects earnings will be further enhanced as this new capacity in China and Malaysia comes online in 2H FY21.

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

The Company's December 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. 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, and USA, with a network of leading distributors across North Americas, Mexico and Latin 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")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	6,573	12,867
1.2 Payments for	-	-
(a) research and development	(83)	(170)
(b) product manufacturing and operating costs	(6,421)	(12,195)
(c) advertising and marketing	(144)	(273)
(d) leased assets	(137)	(268)
(e) staff costs	(936)	(1,813)
(f) administration and corporate costs	(294)	(411)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	-	(34)
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>(1,442)</b>	<b>(2,297)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(443)	(745)
(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>(443)</b>	<b>(745)</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	14,900
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options	-	619
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(531)
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings	(123)	(442)
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>(123)</b>	<b>14,546</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
<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	16,390	2,879
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,442)	(2,297)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(443)	(745)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(123)	14,546
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>14,383</b>	<b>14,383</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	14,383	16,335
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (bank guarantee)	-	55
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>14,383</b>	<b>16,390</b>

**6. Payments to related parties of the entity and their associates**

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

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

**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.*

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	-	-
7.2		
7.3	-	-
7.4	-	-

**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)	(1,442)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	14,383
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	14,383
8.5	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>10</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: **27 January 2021**

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.