

SECOS
GROUP



Changing the World of Packaging

FY21 Half-yearly Results Presentation

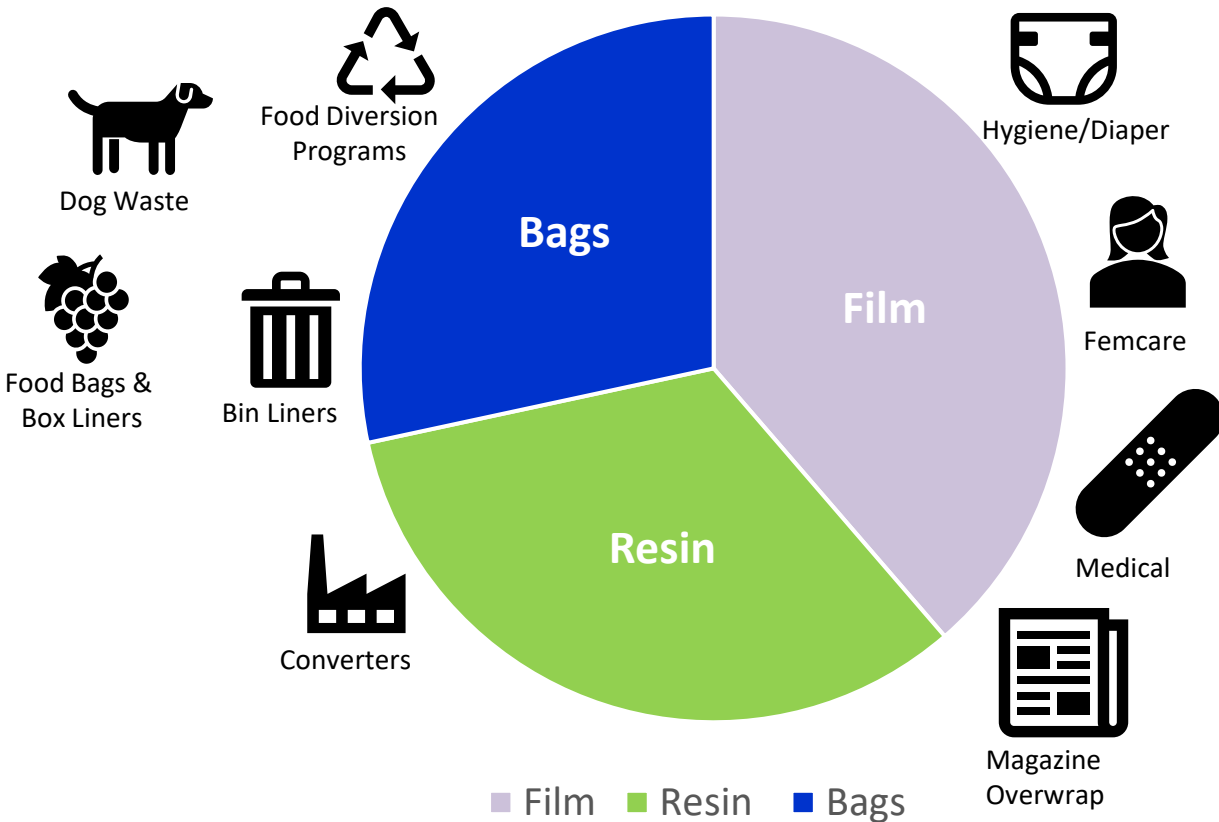
February 2021

SECOS Company Profile

SECOS Group Limited (ASX: SES) is a leading developer and manufacturer of sustainable packaging materials.

SECOS produces eco-friendly bioplastics using starch-based polymers to create a wide range of certified (Industrial & Home) compostable & bio-based resin, film and bag products.

Sales Split By Product Type, 1H FY 21



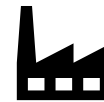
129% increase in bioproduct sales in 1HFY21 vs PCP
Maiden half-year profit at \$66k (Dec Qtr \$210K) vs \$1.1m net loss PCP



Gross margin 18.2% in H1 FY21 up from 14.2% PCP



Bio-based sales as a % of total sales increased to 73% in 1H FY21 vs 39% PCP



Completed first phase expansion in our China plant to meet increased demand, which will enable an extra US\$3 million annual compostable bag sales



Global sales to 20 countries; protected by strong patents, technical knowhow and distribution channels

1HFY21 Performance Highlights

SECOS is a global leader in the supply of compostable and biodegradable bioplastic resins and products



Financial

- Positive EBITDA \$576K and NPAT \$66K
- Revenue up 30.5% vs PCP
- Biopolymer sales up 129% vs PCP
- Gross profit margin 18.2% vs 14.2% PCP
- Strong balance sheet: \$14.3m cash with no debt



Operational

- All plants and offices implemented a COVID safe plan to protect staff and operations
- First phase expansion: Nanjing plant increased Dog Waste Bag production capacity in Dec-2020 to secure additional US\$3 million in sales annually
- Second phase expansion: Malaysia initiated expansion of compostable resin and bag production
- Proven operational capability to respond to increased demand



Strategic

- Vertical integration is a strength with expertise across the value chain from Resin -> Film -> Bags
- Increasing importance of Compostable business which now comprises 73% of overall business
- Strong IP and technical know-how in biopolymer resin formulation and film production
- Launch of MyEcoBag™ and MyEcoWorld™ portals targeting own brand sales and integrated margins
- Continued focus on supplying retailers with their own branded products is accelerating growth in key retail segments

SECOS Integrated Business Model

Fully vertically integrated production capacity from raw materials to finished product

Provides cost and supply chain efficiencies, and flexibility in best utilising production capacity

At each stage SECOS can sell globally to converters or use internally to create & sell end product, either resin film or bags



Cardia Biopolymer
Resin

Cardia Biopolymer Film

Film converted to bags

Direct sales under
MyEcoBag brand

B2B

Sold to converters

B2B

Sold to converters such as
Hygiene & Femcare
manufacturers

B2B

Sold to directly to
retailers under Cardia
or retail brands

B2B & B2C

Sold to directly to retailers and
direct under MyEcoBag™ or
MyEcoWorld™;

Corporate Overview

ASX Code: SES

Share Price (1 March 2021)	\$0.30
Market capitalisation (@ 30 cents)	\$160m
Shares on issue (listed)	533m
Cash on hand (31 December 2020)	\$14.3m

Secos Group Ltd
ASX: SES

0.30 AUD +0.010 (3.39%) ↑

2 Mar, 4:10 pm AEDT · Disclaimer

1 day 5 days 1 month **6 months** YTD 1 year 5 years Max



Open	0.30	Div yield	-
High	0.30	Prev close	0.30
Low	0.29	52-wk high	0.35
Mkt cap	162.73M	52-wk low	0.045
P/E ratio	-		

Substantial Shareholders

R&K EDWARDS INVESTMENTS LLC	10.7%
BELGRAVIA STRATEGIC EQUITIES	9.4%
DONALD HALLER JR	8.5%
Top 20	62.4%
Total Board and management shareholdings*	20.2%

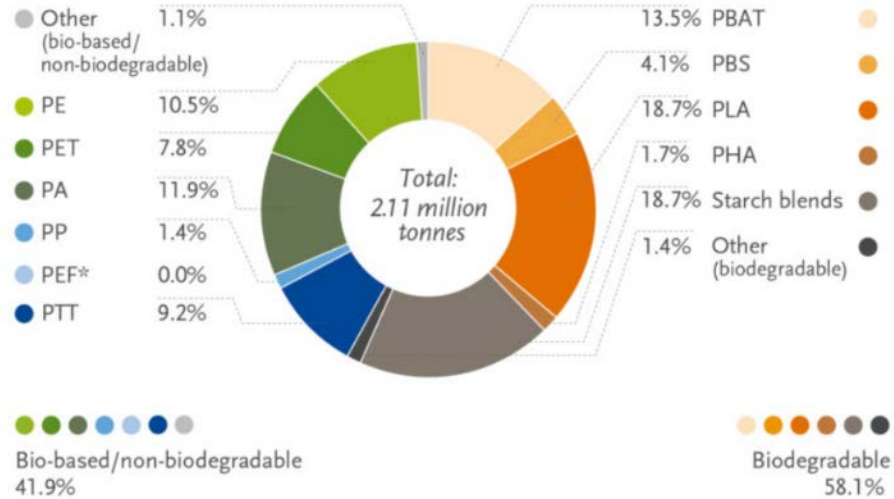
*Includes indirect holdings

Board Members

Richard Tegoni	Executive Chairman
Ian Stacey	Chief Executive Officer
Don Haller Jnr	Non-Executive Director
David Wake	Non-Executive Director
Jim Walsh	Non-Executive Director
Stephen Walters	Executive Director
Edmond Tern	Chief Financial Officer, Company Secretary

The Biopolymer market is growing rapidly

Global production capacities of bioplastics 2020
(by material type)

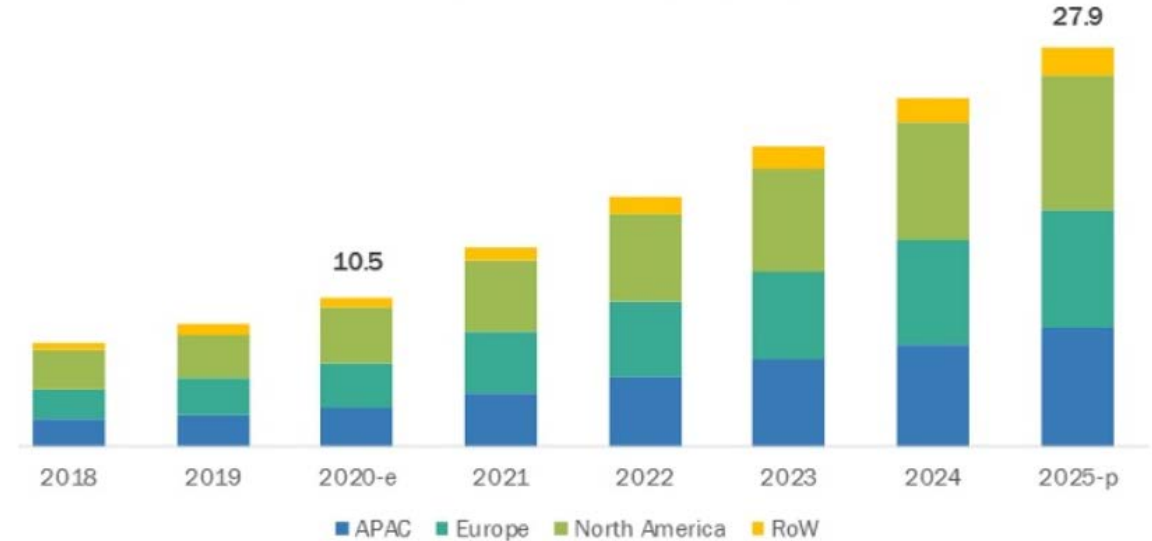


*PEF is currently in development and predicted to be available in commercial scale in 2023.

Source: European Bioplastics, nova-Institute (2020)

More information: www.european-bioplastics.org/market and www.bio-based.eu/markets

Bioplastics & Biopolymers Market, By Region (USD Billion)



Source: <https://www.marketsandmarkets.com/Market-Reports/biopolymers-bioplastics-market>

Source: <https://www.european-bioplastics.org/market/>

- China joins other countries to implement a ban on traditional plastic bags in many cities which will drive demand for compostable resin and its precursors. The significant increase in demand may see tightness in precursor supplies in the short term.
- Global production is split between Biodegradable/Compostable products and for Bio-based non-Biodegradable products.
- SECOS caters to both the Bio-based (non-compostable) and Biodegradeable (compostable) markets through its range of Cardia™ compostable and Biohybrid™ products.
- The value of biobased and compostable sales is anticipated to increase from US\$10.5 billion to US\$28 billion by 2025, as more markets and applications utilize renewable products.

Global Sales & Production Infrastructure

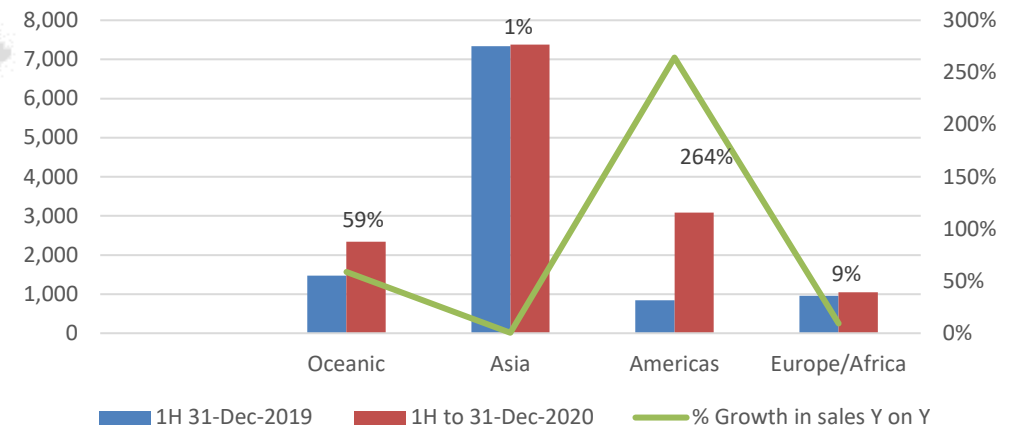


- **Biopolymer resin lines – Malaysia & China**
- **Traditional Film Lines (Malaysia) Biopolymer Film Lines (China)**
- **Direct Sales Offices in Melbourne, Dallas, Nanjing & Kuala Lumpur**
- **Indirect sales resources**
- **Global management, R&D lab (Melbourne)**



SECOS Group experienced sales growth in all regions with significant growth in new markets and customers in Oceanic and the Americas

Geographic Sales Mix (AU\$, '000)



Global Client Base

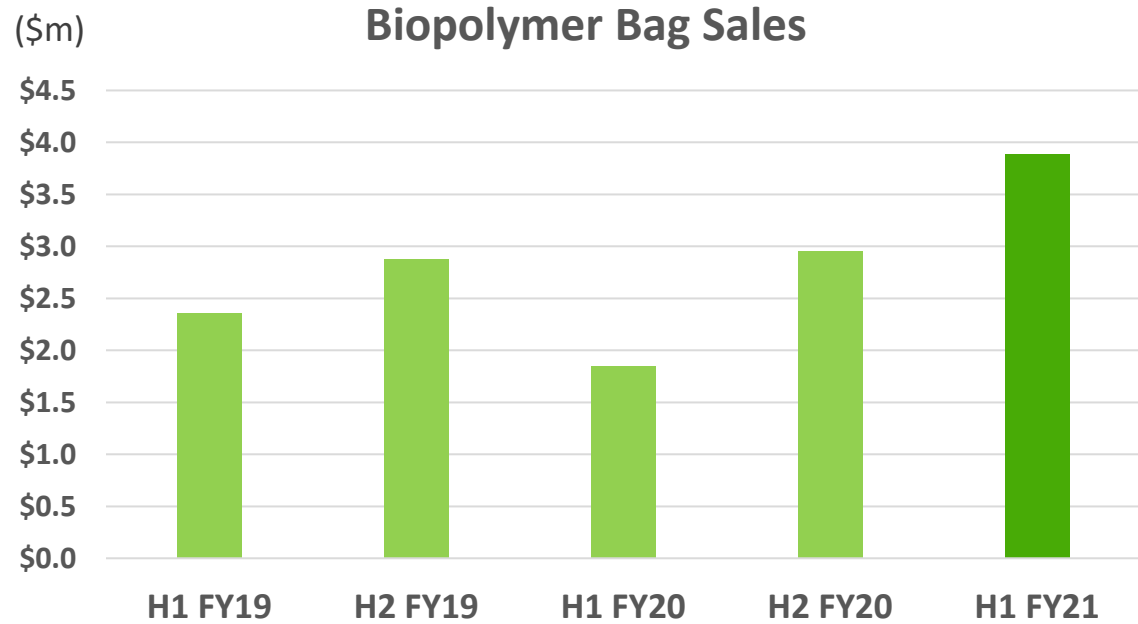
Over 358 Clients globally, including:



Competitive Advantages

- **Superior biopolymer development expertise:** SECOS has extensive expertise in the development of thermoplastic starch based formulations for a wide range of applications which provide superior mechanical properties and higher flow characteristics. SECOS products are certified both industrial and home compostable.
- **Wide Range:** In addition to its range of compostable products, SECOS' BioHybrid™ bio-resins range adds starch to conventional plastic products. BioHybrid™ increases the renewable carbon utilised within packaging applications and reduces the use of finite resources.
- **Film production expertise:** SECOS has expertise in high speed cast and blown film productions. SECOS can quickly adjust formulations to create desired film characteristics. This enables SECOS to offer technical support to our Biopolymer resin, film & bag customers that is second to none.
- **Vertically integrated:** SECOS produces and sells its own Biopolymer resin and also converts into its own range of film and finished products. This enables SECOS to service customers better and capture more margin from the value chain.
- **Extensive IP:** SECOS IP consists of 11 patent families relating to thermoplastic starch based biopolymer resin formulations. Certified Compostable by independent laboratories.
- **Global sales infrastructure:** Operating in all significant markets with strong sales and distribution resources currently selling into 20 countries.
- **Multiple Production sites:** Redundancy back-up offered to customers from different manufacturing sites and multiple lines within sites.
- **ASX listed:** The only ASX listed manufacturer of Compostable bioplastics, providing a reliable partner for brands looking to insure they are dealing with compliance-based, reputable partners.

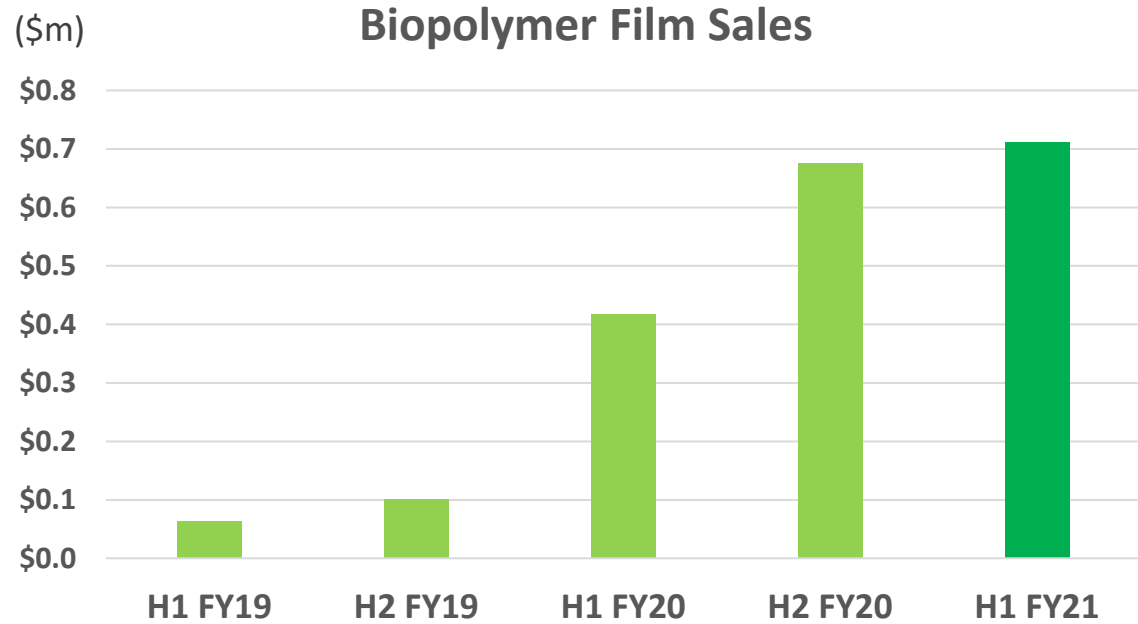
Key Markets – Biopolymer Bags



SECOS biopolymer bag sales are driven by Council Food Organics and Garden Organics (FOGO) programs, bin liner sales and dog waste bags:

- Strong demand for dog waste bag sales was assisted once capacity expansion was completed in China with solid 'own-brand' sales to councils and retailers plus OEM sales to Pogis. Additionally Jewett-Cameron sales to big box retail outlets in the USA and Europe exceeded expectation, presenting further possible upside.
- Two SKU's selected and launched by Woolworths in 92 Stores continue to sell above Woolworths' targets.
- The Council bag tender pipeline remains solid with more FOGO programs being adopted.
- New Carry Bag business development in the Americas market continues.

Key Markets – Biopolymer Film

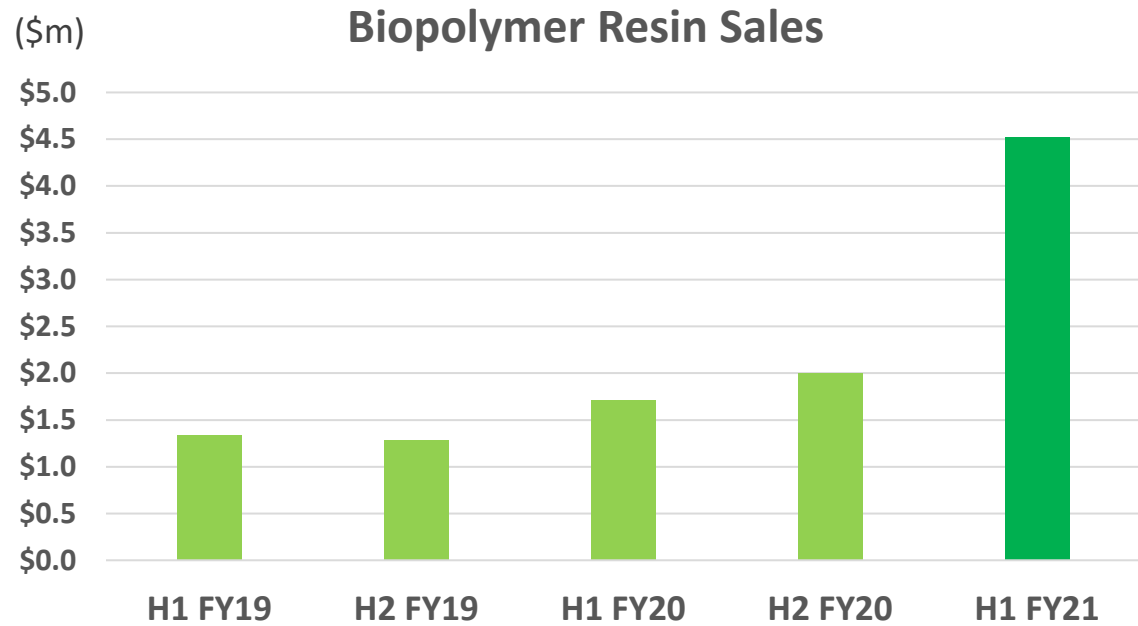


Biopolymer Film sales is the fastest growth category (albeit from a low base):

- Hygiene/Diaper demand for compostable film for diaper back sheet and packaging continues to grow, leveraging SECOS extensive experience in hygiene film sales.
- A formulation was identified as suitable for cast lines, further initial market seeding and verification has been initiated.
- Pipeline remains strong for new compostable film applications in FY21.



Key Markets – Biopolymer Resin

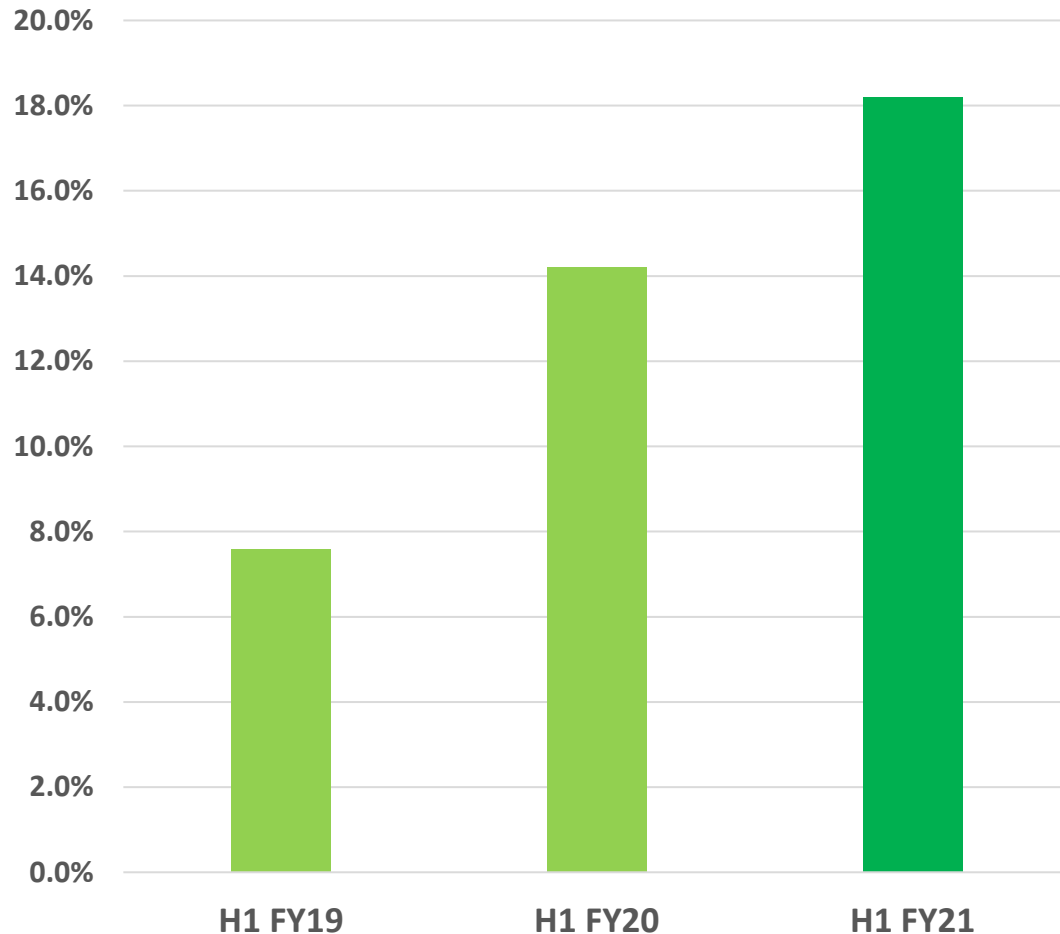


Bioresin sales continue to demonstrate growth: 164% from H1 FY21 vs PCP

- New grades gaining traction in Americas markets across a wide range of applications
- Development work conducted to adjust melt flow in order to develop extrusion lamination for paper coating applications
- BioHybrid™ resin interest is solid as brands continue to scout for alternatives to conventional plastic packaging

Strong Growth Trajectory

Half Yearly Gross Margin Improvement



- Significant work has been undertaken to build margins; reduce costs and enhance market position.
- Some margin compression in 1HFY21 vs the 2HFY20 due to FX impacts, and short-term costs associated with expansion of production capacity, including some outsourced bag manufacturing to deliver on sales ramp-up deadlines. SECOS expects gross margin to improve as the Company's growth trajectory normalises
- All plants are now profitable with cash flow from operations used on working capital requirements.
- New sales opportunities in retail branded compostable bag space recently announced plus other opportunities will underpin growth for FY21 and enhance EBITDA position.
- Biopolymer sales growth in the area of resin, film and bags (both branded and OEM) will underpin profit and sales growth going forward.

Summary Profit & Loss

	\$'000	31-Dec-2020	31-Dec-2019
Sales		13,859	10,619
Cost of sales		(11,330)	(9,112)
Gross profit		2,528	1,507
Other income		148	-
Employment expense		(1,249)	(1,253)
Marketing and distribution expenses		(443)	(392)
Administration expense		(217)	(212)
Legal and compliance expenses		(230)	(185)
Depreciation and amortisation expense		(405)	(318)
Finance costs		(62)	(245)
Profit/(Loss) before income tax		66	(1,100)
Income tax expense		-	-
Profit/(Loss) for the period after tax		66	(1,100)

- Strong sales growth fuelled by growing demand for compostable products
- Sales growth being delivered via expanded production capability, with cost disciplines are yielding favourable results
- NPAT positive in H1 FY21, with the Q2 FY21 being stronger than Q1 - before before peak output from plant expansion in China was attained in December
- Strong cost discipline, with salaries, the main expense, remaining under control
- Some ramp up in marketing investment to support the launch of MyEcoPet™ & MyEcoBag™ brands in select retail markets

Balance Sheet

\$'000	Dec-20	Jun-20
Cash	14,383	2,878
Inventories	3,562	2,449
Receivables and other receivables	5,436	3,245
Total Current Assets	24,060	9,107
Other assets	211	23
Property, plant and Equipment	2,122	1,830
Right-of-use asset	889	1,187
Intangible assets	3,610	3,605
Total Non-Current Assets	6,634	6,646
Total Assets	30,694	15,753
Trade and other payables	1,774	1,539
Borrowings	19	672
Short term provisions	1,322	868
Lease Liability	518	548
Total Current Liabilities	3,634	3,627
Borrowings	-	-
Long term provisions	74	55
Lease Liability	403	695
Total Non-Current Liabilities	478	750
Total Liabilities	4,113	4,378
Net Assets	26,581	11,375

- \$14.3m cash on hand (31 Dec 2020)
- No debt (\$19k overseas government subsidies treated as loan)
- Net working capital of \$7.2m
- Inventory and Receivables investment to cater for expanding sales
- Current ratio of 6.6
- Strong balance sheet to support the growth outlook

Growth Strategy

- Sharp focus on growing higher margin sales ensuring plant capacity can be allocated to more profitable business to optimize working capital
- This has seen H1 FY21 gross profit margin increase to 18.2% vs 14.2% PCP
- Strategy to drive growth in biopolymer sales has seen biopolymer sales increase 129% during the same period
- Marketing investment is planned for key retail bag market segments
- A strong sales pipeline of qualified customers positions SECOS to grow sales in FY21
- Focus on strategic OEM partnerships to boost growth opportunities

Resin

- Continue development of resin grades for new applications
- Both Compostable & BioHybrid™ (bio-based PE)
- Target Higher margin bioresin markets

Bags

- Continue B2C focus via MyEcoBag™ initiatives; such as Bin Liners, Courier Bags & B2B opportunities
- Expand Dog waste and bin liner capacity and diversify geographically

Film

- Develop cast line sales for Hygiene, FemCare & Medical applications
- Expand use in key market segments utilizing different film assets

Channel

- Expand channels to market via digital & e-commerce offerings
- Work with selected partners to enhance growth

Outlook 2H FY21

SECOS is committed to reducing single-use plastics; to reduce environment contamination and marine plastic waste

- The forward pipeline for the Company is strong, with SECOS seeing significant growth opportunities with major brands in various regions
- SECOS is seeing a significant number of new tender requests from Australian Councils adopting FOGO initiatives
- New Dog Waste bag contracts are expected in addition to the US\$3 million in annual Jewett-Cameron sales contract announced recently
- The demand outlook for compostable bags, film & resin is continuing to build, increasing demand for SECOS products
 - SECOS has completed a first stage expansion in China to increase film and bag capacity
 - Second stage expansion of resin, film extrusion and bagging capacity in Malaysia has also been initiated
- SECOS is continuing to invest in developing compostable film grades for personal hygiene and packaging market utilising cast lines
- SECOS expects to further expand its retail branded MyEcoBag™ range via Woolworths and other retail chains.

Investment Highlights

- SECOS is benefitting from a global wave of regulatory and consumer pressure to replace single-use plastics
- Accelerating growth in demand for biopolymers being driven by multiple converging industry drivers
 - Regulators demanding elimination of single use plastics (latest example being China's move to ban plastic bags and mandating compostable alternatives)
 - Global Brands mandating reduced plastic use and improved sustainable footing
 - Consumer and media focus on ecological and environmental damage caused by single use plastics
- Strengthened operational base, reaching positive cash flow, driving down operating costs and overheads to achieve expanded margins
- Significant new business secured with customers who will enable expansion in sales volumes
- Ongoing investment in film and bagging capacity to cater for expanding demand pipeline
- Balance sheet strength to support growth
- Opportunity pipeline into 2H FY21 and beyond is the strongest in the Company's history
- Experienced Board and management, focussed on accelerating growth

DISCLAIMER

Forward-looking statements disclaimer

This presentation contains “forward-looking statements.” Such forward-looking statements may include, without limitation:

- estimates of future earnings;
- estimates of future production and sales;
- estimates of future cash costs;
- estimates of future cash flows;
- statements regarding future debt repayments; and
- estimates of future capital expenditures.

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