

## ASX RELEASE

27 April 2021

# SECOS Quarterly Cash Flow Statement and Appendix 4C

## Highlights

- Another strong sales result of \$7.5 million in the March 2021 quarter up 33% YoY with Biopolymer sales up 75% in the same period. Sales were 5.5% lower than December quarter reflecting the annual Lunar New Year plant shut down in China, a 13% decline in traditional film sales due to equipment repairs and global shipping delays
- Cash receipts for the quarter were \$7.1 million, up 8.5% from previous quarter and 12.2% from the corresponding prior year period
- Net operating cash outflow of \$1.6 million for the quarter reflecting a \$2.0 million investment in working capital to support increasing sales volumes
- Capex investment continues with additional extrusion and bagging capacity established during the quarter in China and commencement of significant expansion in Malaysia to support increased demand
- The Balance Sheet remains strong with \$12.5 million in cash and no debt

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 the March 2021 quarter.

## Cash Flow

Cash receipts from customers in the quarter were \$7.1 million, up from \$6.6 million in the December 2020 quarter. The Company invested a further \$2 million in working capital (raw materials and receivables) to support increased sales of biopolymer products which led to a net operating cash outflow of \$1.6 million.

As part of our capacity expansion program, SECOS invested \$0.2 million in its Malaysia compostable resin plant bringing total capital expenditures for the Group to \$1.0 million for the nine months.

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

ABN 89 064 755 237

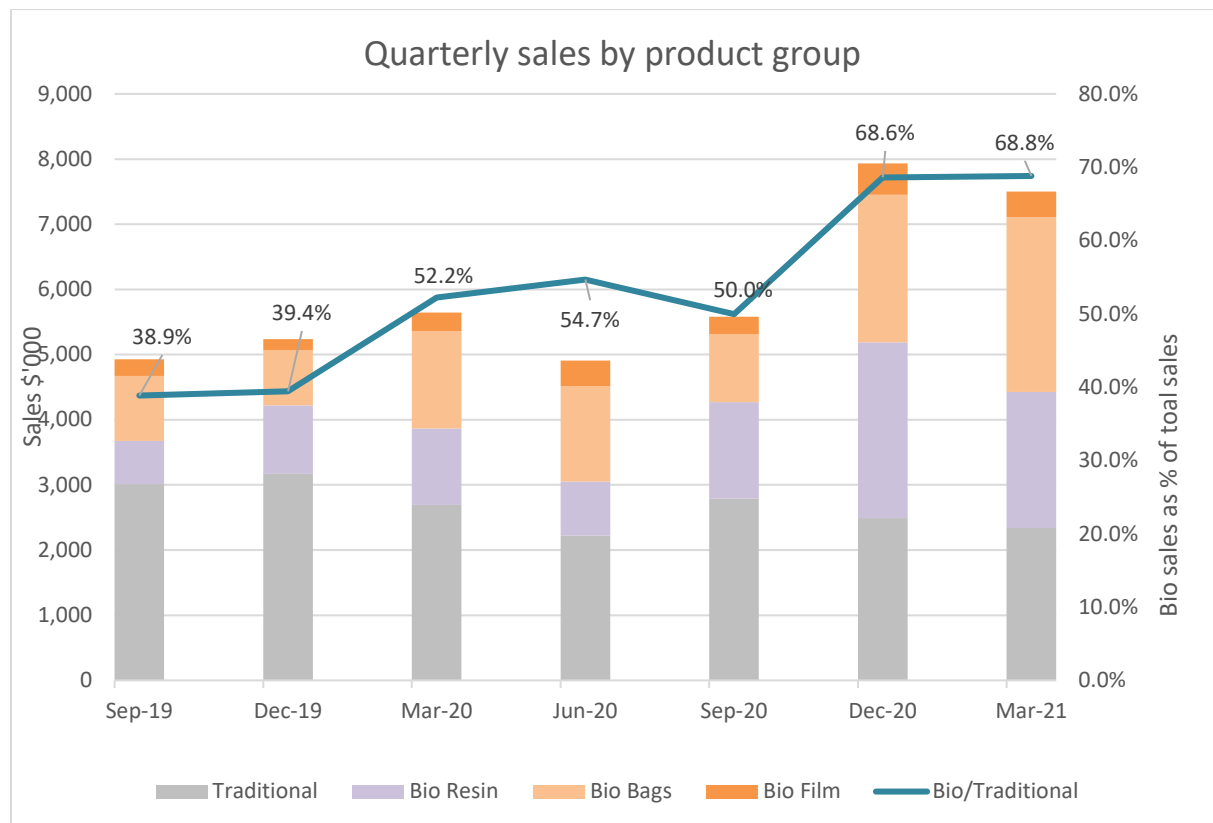
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## Sales Growth

The March quarter included Lunar New Year (“LNY”) in February and, as such, reduced the available production days as our local employees took their annual 10-day holiday. Other parts of Asia also observed the LNY holiday which had an impact on overall volume for the quarter. Unlike previous years, our Nanjing factory was not in a position to build stock prior to LNY given strong demand in the period before the recent production expansion was completed. This additional capacity is now online.

Despite this, March 2021 reported quarterly sales of \$7.5 million (unaudited) was 65% up on the March 2020 quarterly comparative period.



Quarterly comparative

Biopolymer sales in the quarter were up 75.1% compared to the same period last year. Biopolymer sales now represent 68.8% of the Group’s total sales. Pivotal to this growth was the increasing demand for our proprietary Cardia™ compostable products by branded retailers, food providers and packaging companies as consumers switch to environmentally friendly products.

### Compostable Resin

Sales of compostable resin to converters continued to strengthen in the quarter, up 77.8% vs March 2020 quarter. Our resin customers are increasingly regular recurring customers with Cardia™ compostable resin becoming an integral part of their production formulations and sales.

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### **Compostable Film**

Sales of compostable film for hygiene and medical applications continues to strengthen from a low base. Sales for the quarter were up 38.8% vs March 2020 quarter.

### **Compostable Bags**

Sales of compostable bags increased by 79.9% vs March 2020 quarter. The growth was driven by strong Dog Waste bag sales to Jewett-Cameron Company and other customers; Australian city council 8L kitchen caddy bags and bin liner bags through Woolworths. Sales through Woolworths continue to exceed expectations with SECOS products now available in 92 Woolworths stores.

### **Traditional Film Sales**

Traditional film sales were 13.2% lower this quarter vs March 2020 affected by production interruptions in order to carry out equipment repairs. The plant has now resumed operations at normal capacity and efficiency. Sales in the quarter were also impacted by global shipping and supply chain delays.

## **Operating Highlights**

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

The Company is in the process of establishing an additional bag-making plant in Malaysia (ASX announcement dated 18-Mar-2021). This is in addition to a new resin compound line and power supply upgrade currently underway at our existing Biopolymer production site to support the growth of compostable Dog Waste bags, compostable city council bags and compostable bin liner business. This expansion in Malaysia, when complete, will potentially add \$25 to 30 million in annual sales in return for a capex investment of \$3 to 4 million.

Additionally, the investment will ensure SECOS has two fully integrated (compostable resin - film - bags) sites to support our geographically diverse customer base. This is very much welcomed by our customers, especially those in USA who will benefit from Malaysia imports compared with China imports which incur import tariffs.

Consistent with the regulatory trends we are seeing in offshore markets, the Australian Federal Government launched the National Plastics Plan on March 4<sup>th</sup>, 2021, which aims to:

- Have 70% of plastic packaging be either certified compostable polymer or recyclable by 2025,
- Phase out plastic packaging with additive fragmentable technology (i.e., oxy-biodegradable products and those products which claim 'biodegradability' without compostable certification) and replace such packaging with compostable products that meet the relevant compostable standards (AS4736-2006, AS5810-2010 and EN13432) by July 2022.

In line with the increase of compostable product use we see in consumer markets both domestic and offshore, SECOS Group is evaluating further manufacturing capacity expansion opportunities to meet increased demand for compostable products.

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### **Compostable Cast Film**

In other developments, we are excited to announce that SECOS has defined a proprietary resin formulation that is producing compostable cast hygiene and medical film at at our Malaysian cast film plant. Trial samples of this new product are being evaluated by several converters, following which we expect to see initial sales from our Malaysian -cast lines.

### **Outlook**

SECOS CEO Ian Stacey said “It is pleasing to see that sales in first three quarters of FY21 have exceeded that of FY20 full year sales. We now expect sales to exceed \$8 million for the June 2021 quarter subject to shipping availability with a further step change in sales expected in the September 2021 quarter as new capacity becomes available from our new Malaysian biopolymer plant”.

The Company’s significant asset expansion program is currently underway in Malaysia which, when fully commissioned, will have the capacity to supply additional compostable products, effectively doubling quarterly sales capacity to \$13-15 million”. First sales from the new plant are anticipated in the July/August timeframe. This expansion will enable SECOS to grow its sales in a number of markets:

- Expand compostable sales in retail outlets in Australia (i.e., Woolworths and other branded outlets via the MyEcoBag brand)
- Expand compostable sales in USA markets (i.e., via MyEcoPet Brand)
- Expand compostable resin sales in emerging markets through film converters

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

The Company’s March 2021 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 a resins plant in Malaysia. The Company also produces 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 March 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	7,135	20,002
1.2 Payments for		-
(a) research and development	(59)	(229)
(b) product manufacturing and operating costs	(7,161)	(19,356)
(c) advertising and marketing	(161)	(434)
(d) leased assets	(231)	(499)
(e) staff costs	(943)	(2,756)
(f) administration and corporate costs	(216)	(627)
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>(1,636)</b>	<b>(3,933)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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	(237)	(983)
(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>(237)</b>	<b>(983)</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	-	(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>-</b>	<b>14,546</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	14,383	2,879
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,636)	(3,933)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(237)	(983)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	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>12,509</b>	<b>12,509</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	9,509	14,383
5.2	Call deposits	3,000	
5.3	Bank overdrafts		
5.4	Other (bank guarantee)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>12,509</b>	<b>14,383</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

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter  
\$A'000**

Nil

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)	(1,636)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	12,509
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	12,509
8.5	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>8</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 April 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.