

## ASX RELEASE

27 July 2021

# SECOS Quarterly Cash Flow Statement and Appendix 4C

## Highlights

- Record quarterly cash receipts of \$8.9 million, up 24% on previous quarter (\$7.1 million)
- Net operating cash outflow was \$0.9 million, substantially lower than the previous quarter outflow of \$1.6 million
- Achieved record quarterly sales of \$8.8 million with full year sales exceeding \$30 million (unaudited) – year on year growth of 45%
- Growth in compostable product sales continues with a 14.5% increase quarter on quarter and a 120% increase over the prior corresponding quarter
- SECOS expects to report a significant improvement in its full year profit compared to FY20.
- The company continues to invest in building new manufacturing capacity in Malaysia having completed the doubling of China compostable bag capacity in January 2021
- The Balance Sheet remains strong with \$11.3 million in cash and no debt
- SECOS continues to operate prudently in a COVID safe manner in all jurisdictions as a supplier to essential services sectors.

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 June 2021 quarter.

## Cash Flow

Cash receipts from customers in the quarter were \$8.9 million, up 24% from \$7.1 million in the March 2021 quarter. The Company invested a further \$1.2 million in working capital to support increased sales growth of biopolymer products which led to a net operating cash outflow of \$0.9 million.

As part of its capacity expansion program, SECOS invested \$0.2 million in its Malaysia bioresin plant during the June quarter bringing total capital expenditures for the Group to \$1.1 million for the year. The Group is committed to building capacity to support strong ongoing growth in biopolymer sales. With the recent announcement (ASX announcement 7 July 2021) on establishing a Research and Development Centre of Excellence, the Company is well resourced and positioned to support the development of new bioresin formulations and film structures for use in the food and consumer packaging sector.

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

ABN 89 064 755 237

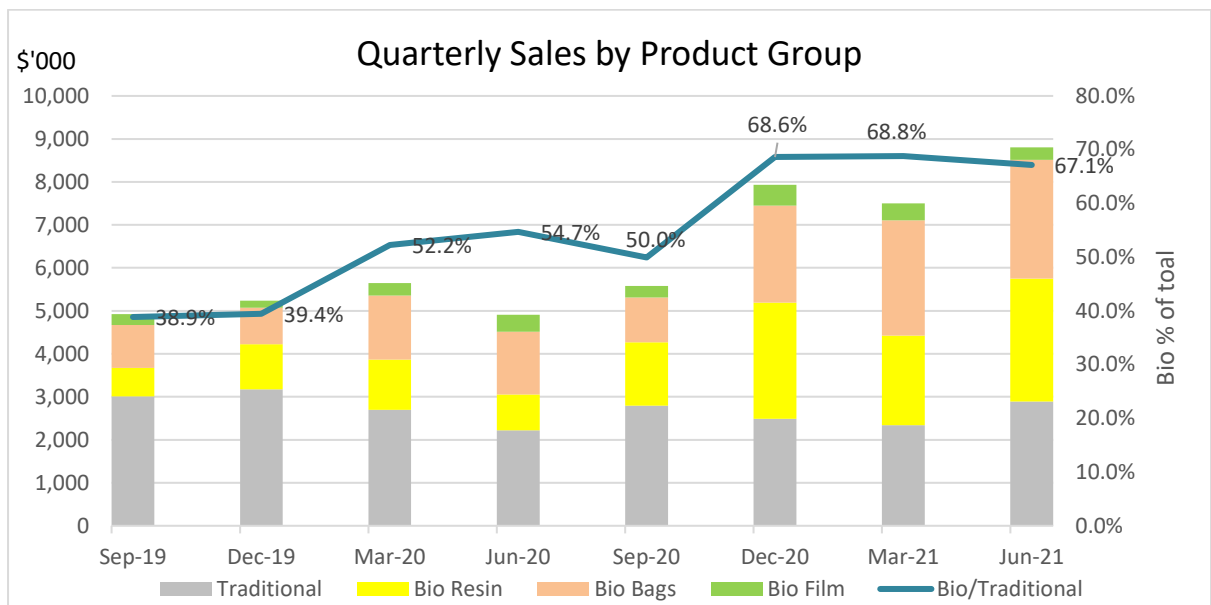
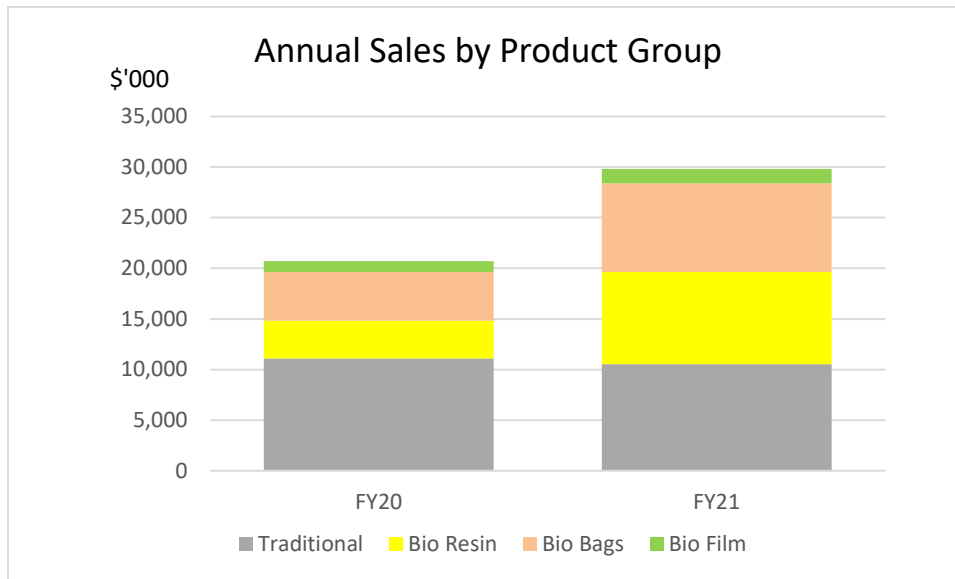
Level 3, 302 Burwood Road, Hawthorn, VIC 3122 Australia

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

## Sales Development

Having achieved quarterly sales of \$8.8 million (unaudited) up 22.2% over March 2021 quarterly sales. SECOS expects to report annual revenue of \$30 million (unaudited) for FY21 representing annual revenue growth of 45%.

Compared with FY20, all certified compostable product lines have grown in sales revenue; Compostable Bioresin by 145.4%; Compostable Biobags by 82.2% and Compostable Biofilm by 31.9%. Traditional hygiene film sales softened by 2.9% year-on-year.



Quarterly comparative

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

ABN 89 064 755 237

Level 3, 302 Burwood Road, Hawthorn, VIC 3122 Australia

T: +613 8566 6800 E: [info@secosgroup.com.au](mailto:info@secosgroup.com.au) E: [www.secogroup.com.au](http://www.secogroup.com.au)

Biopolymer sales in the quarter were up 120.3% against the comparative period last year. Biopolymer sales now represent 64.7% 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 continue their switch to environmentally friendly products.

### **Compostable Resin**

Sales of compostable resin to converters continued to strengthen in the quarter, up 244.8% vs the June 2020 quarter. Our resin customers are experiencing increased demand from retailers who are seeking certified compostable end-products often comprising bags or film. Cardia™ is well positioned and is expanding its market reach and penetration.

### **Compostable Bags**

Sales of compostable bags increased 88.6% vs the June 2020 quarter. The growth was driven by strong Dog Waste bag sales, Australian City Council 8L kitchen caddy bags, and our branded MyEcoBag™ bin liners through Woolworths. Sales through Woolworths continue to grow with Woolworths agreeing to expand the MyEcoBag™ products to 208 stores (up from 92 stores).

The establishment and strengthening of initial retail sales for MyEcoBag™ supports our strategy to launch 'MyEco' branded pet waste bags, bin liners, produce bags, and courier bags into new retail markets in Australia and the USA.

### **Compostable Film**

Sales of compostable film for hygiene and medical applications are anticipated to improve from a low base with the introduction of new resin formulations developed by SECOS. Our Film products are being qualified by several major hygiene and medical converters.

### **Traditional Film**

Traditional film sales were \$2.7 million, representing 30.2% of total quarterly revenues, up significantly from the previous quarter, having recovered from production interruptions experienced in that quarter.

## **Operating Highlights**

SECOS CEO, Ian Stacey commented on the annual performance "The SECOS' multi-national team has certainly achieved a lot in the last financial year, under some very trying circumstances. The sales team achieved substantial sales growth of 45% in the latest quarter on the prior corresponding quarter, while the production team focused on significant bioresin and compostable bag capacity expansion in China and Malaysia. The business has been successful in growing all compostable product categories year on year despite the pandemic and global shipping challenges. I am very proud of the operational team and how are working so effectively to achieve significant sales growth and, as importantly, deliver products to our customers around the world".

SECOS is in the process of establishing additional bag-making capacity with a new plant in Malaysia (ASX announcement dated 18 March 2021). This is in addition to new resin compounding capacity commissioned (ASX 18 May 2021) in Malaysia which will add significant bioresin capacity by calendar 2021 year end. This additional resin capacity will support expanding sales to our bioresin customers as well as supply resin for internal

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

ABN 89 064 755 237

Level 3, 302 Burwood Road, Hawthorn, VIC 3122 Australia

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

production to manufacture and supply our own certified compostable dog waste, bin-liner, and kitchen caddy bags.

The expansion in Malaysia with a capex of \$3-4 million, when complete, will add \$25 to \$30 million in annual sales capacity. When completed, the expansion will mean SECOS has two fully integrated (compostable resin - film - bags) manufacturing sites, one in Malaysia and another China to support our geographically diverse customer base.

Regulatory trends continue to support the evolution of compostable product use. In the USA, its Congress recently took steps to improve the nation's composting infrastructure via the introduction of the US COMPOST Act<sup>1</sup>. The Act is intended to support the growing demand from individuals and businesses to compost food scraps and certified compostable packaging.

In Australia, the government's efforts to facilitate the reduction in conventional plastics is outlined in 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. Additional objectives are in place to phase out plastic packaging with additive fragmentable technology (i.e., Oxo 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.

## Outlook

The company continues to remain very optimistic about its ability to deliver strong growth in the coming years with the Company's focus centered around expanding production capacity, investing in research and development of new products and resin grades, and developing a strong retail brand under the MyEcoWorld™ platform.

With a current annualized sales run rate of over \$35 million (based on the June 21 quarter results of \$8.8m) the Directors and Management expect the trend to continue into FY22. The greater share of this growth is expected in the second half of the fiscal year following the provision of previously discussed new capacity in its Malaysian biopolymer plant. SECOS is also evaluating new compostable bioresin production technology to expand China capacities which will offer enhanced production efficiencies.

The strong demand for certified compostable plastics is being driven by several macro and micro factors including the worldwide shift to environmentally acceptable packaging, legislative and regulatory changes, consumer buying behaviors and knowledge, and the expansion of composting infrastructure and technology.

SECOS expects to report a significant improvement in its full year profit compared to FY20. The Company will inform the market over the coming weeks or as soon as the final numbers confirmed.

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

---

<sup>1</sup> source: <https://www.scrapmonster.com/news/us-composting-infrastructure-coalition-applauds-introduction-of-compost-act/1/80188>

The Company's June 2021 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)

### **About SECOS Group Limited**

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**

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.

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

ABN 89 064 755 237

Level 3, 302 Burwood Road, Hawthorn, VIC 3122 Australia

T: +613 8566 6800 E: [info@secosgroup.com.au](mailto:info@secosgroup.com.au) E: [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")

30 June 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	8,877	28,879
1.2 Payments for		
(a) research and development	(46)	(275)
(b) product manufacturing and operating costs	(8,185)	(27,541)
(c) advertising and marketing	(197)	(631)
(d) leased assets	-	(499)
(e) staff costs	(1,024)	(3,780)
(f) administration and corporate costs	(221)	(848)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(102)	(136)
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>(898)</b>	<b>(4,831)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	(167)	(1,151)
(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>(167)</b>	<b>(1,151)</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	143	763
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	(300)	(742)
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>(158)</b>	<b>14,389</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	12,509	2,879
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(898)	(4,831)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(167)	(1,151)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(158)	14,389
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>11,286</b>	<b>11,286</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	8,286	9,509
5.2	Call deposits	3,000	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>11,286</b>	<b>12,509</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



## 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**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-

**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)	(898)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	11,286
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	11,286
8.5	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>13</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 July 2021**

Authorised by: **By the board**  

---

(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.