

## ASX RELEASE

28 October 2021

# Quarterly Activities and Appendix 4C – September 2021

## Highlights

- \$7.0 million sales revenue for September 2021 quarter, up 23% from same quarter last year;
- Net operating cash outflow of \$0.9 million to support working capital for growth;
- \$0.7 million invested in plant expansion and new Research and Development Centre;
- Covid-19 disruptions continued throughout the first quarter, however growth expectations for the second half (as previously communicated) remain on track;
- Expansion of the new Malaysian biopolymer plant continuing to plan with 50% of new film lines installed;
- R & D collaboration agreement signed with the University of Queensland with equipment ordered for the new SECOS R&D Centre;
- The Balance Sheet remains strong with \$9.6 million in cash and no debt.

The Board of sustainable and eco-friendly Biopolymer producer SECOS Group Limited (ASX: SES, “SECOS” or “the Company”) is pleased to present its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the September 2021 quarter.

SECOS continues to experience strong underlying year on year growth, being driven by increasing industry demand for compostable resin, film and bags. The Company is also pleased with progress on expanding its production capacity in Malaysia with 50% of the increased capacity now installed to plan.

The latest quarter was however impacted by several short-term factors, including Covid-19 related shutdowns and restrictions which have affected the Company’s Malaysian operations as well as ordering patterns for some customers, supply chain delays, and electricity supply restrictions in China.

SECOS expects these short-term factors to normalize progressively with growth expected to return to the strong positive long-term trend through the balance of this financial year.

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## Cash Flow

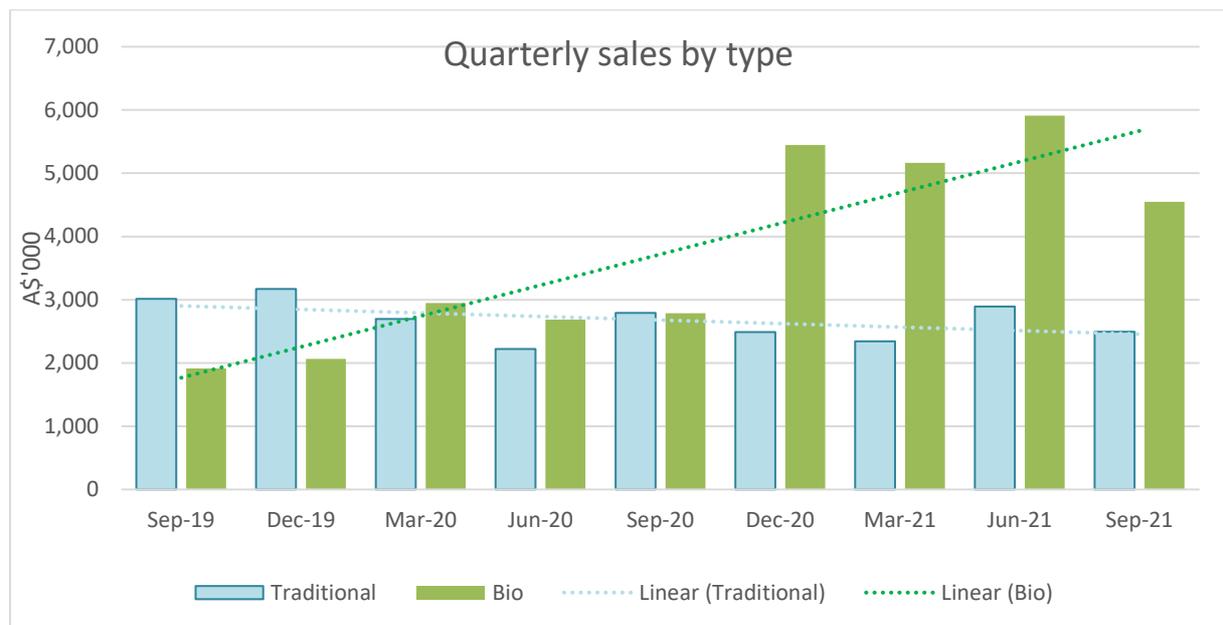
Cash receipts from customers in the quarter were \$7.9 million, up from \$6.3 million or a 25% improvement from the September quarter last year. Net operating cash outflows were \$0.9 million representing the Company's decision to increase our investment in working capital to secure supplies of key raw materials in light of shipping delays and Covid-19 disruptions.

During the quarter \$0.7 million was invested in capital expenditure to continue the expansion of the newly established Malaysian biopolymer plant and for new equipment ordered for the recently announced Research and Development Centre. The Company maintained a strong balance sheet with \$9.6 million cash in the bank and no debt.

## Sales Development

Q1FY22 sales were \$7.0 million (unaudited) up from \$6.3 million in the same quarter last year and down from \$8.8 million in the previous quarter.

This result was achieved despite increased disruption to Malaysian operations which were affected by Covid lockdowns and further delays to shipping during the quarter. As a result, several sales orders were delivered after the end of the quarter which is expected to contribute to an improved result in the second quarter.



Quarterly comparative

### **Compostable Resin**

Cardia™ compostable resin sales were up by 45% vs the same quarter last year but quarter to quarter sales trend was negatively impacted by shipping delays which pushed sales into the following quarter.

### **Compostable Bags**

Compostable bag sales were up by 99% vs the same quarter last year, but the quarter to quarter sales trend was negatively impacted by shipping delays and some order delays due to packaging changes in the USA. Australian Council sales volumes are traditionally lower during the September quarter each year and this quarter was no exception. Cardia™ is in advanced planning stage to launch its own 'MyEco' brand products into a number of new Australian retail outlets, adding to our existing business with Woolworths.

### **Compostable Film**

Compostable film is mainly for hygiene and medical applications. Sales were up by 28% vs the same quarter last year and by 15.8% compared with last quarter. Continued qualification with new customers is occurring which is expected to convert into sales in subsequent quarters.

### **Traditional Film**

Our Traditional film plant was shut for two weeks in August due to a Covid-19 health order following a Covid-19 confirmation amongst staff at the SECOS cast film plant in Malaysia. This temporary shutdown was followed by movement control orders across Kuala Lumpur, which restricted manning to 50% of normal levels. However, the plant was able to supply all orders once operations resumed. Covid-19 impacted the usual ordering patterns of some customers in certain geographies, such as Thailand, which had significant Covid-19 infection rates during August and September.

## **Operating Highlights**

SECOS is in the process of establishing additional bag-making capacity with a new plant in Malaysia (ASX announcement dated 18 March 2021). Half of the new film lines have been installed and these are being commissioned. The balance of film lines and bagging lines will arrive by December 2021. In addition to new resin compounding capacity commissioned (ASX 18 May 2021) in Malaysia, SECOS has ordered additional bioresin capacity which will arrive in by December 2021.

When completed, the expansion will mean SECOS has two fully integrated manufacturing sites for compostable resin, film and bags, one in Malaysia and one in China to support our geographically diverse customer base.

Further to the 7 July 2021 ASX announcement regarding the establishment of an Australian-based Global Research and Development Centre to support burgeoning demand for bioproducts, SECOS also announced the intention to form alliances with Australian Universities to accelerate new product developments and to access technical expertise in the biopolymer field. Following these announcements SECOS has secured new compounder for the R&D Centre and recently announced that it was co-operating with the University of Queensland on a project involving compostable film used in advanced barrier property compostable food applications.

## Outlook

The company continues to remain very optimistic about its ability to deliver strong growth in the coming years with the Company's focus centred around expanding production capacity, investing in research and development of new products and resin grades, and developing a strong retail brand under the MyEcoBag™ and MyEcoWorld™ trademarks. SECOS has made significant progress in securing a new US retail chain and will announce details of the company upon receipt of initial supply orders which are expected in the current quarter.

As previously communicated, the Company expects more growth in the second half of the current financial year in line with the planned installation of biopolymer manufacturing assets in its new Malaysian plant. This together with a rapidly expanding sales development pipeline is expected to provide increased demand for SECOS bioplastic products and technology.

SECOS has invested considerable efforts in mitigating the influence of Covid-19 on its business. The influence of Covid-19 is seen in extended shipping times and logistics issues which have created delays in raw material supplies and shipments to customers globally. SECOS has moved to mitigate these impacts by increasing stocks of key raw materials and identifying less congested ports by which to land goods and transit them to markets in the Americas. SECOS is also evaluating warehouse options, which would serve its North America and Latin American markets, offering more predictable delivery outcomes at a lower overall delivered cost.

The rebound in demand from Covid-19 impacts in the USA and Europe markets plus low coal stocks have resulted in recent restrictions on electricity supply in China which has had a further disruptive effect on the Company's production in China. The provision of expanded capacity at the Company's new Malaysian biopolymer plant is expected to mitigate China's electricity limitations and further highlights the benefits of having a multi-geographic manufacturing footprint and supply chain capabilities.

The strong demand for certified compostable alternatives continues to be driven by the worldwide shift to environmentally acceptable packaging, legislative and regulatory changes, consumer buying behaviors and knowledge, and the expansion of composting infrastructure and technology.

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

The Company's September 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")

30 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	7,927	7,927
1.2 Payments for		
(a) research and development	(57)	(57)
(b) product manufacturing and operating costs	(7,325)	(7,325)
(c) advertising and marketing	(232)	(232)
(d) leased assets	(192)	(192)
(e) staff costs	(711)	(711)
(f) administration and corporate costs	(243)	(243)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(51)	(51)
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>(882)</b>	<b>(882)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 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	(654)	(654)
(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>(654)</b>	<b>(654)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	(192)	(192)
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>(192)</b>	<b>(192)</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	11,286	11,286
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(882)	(882)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(654)	(654)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(192)	(192)
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>9,558</b>	<b>9,558</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	6,558	8,286
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>9,558</b>	<b>11,286</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)	(882)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	9,558
8.3	Unused finance facilities available at quarter end (Item 7.5)	-
8.4	Total available funding (Item 8.2 + Item 8.3)	9,558
8.5	<b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>11</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: **28 Oct 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.