

## 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 2022**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	8,776	24,905
1.2 Payments for	-	-
(a) research and development	(79)	(206)
(b) product manufacturing and operating costs	(9,154)	(25,176)
(c) advertising and marketing	(376)	(923)
(d) leased assets	-	-
(e) staff costs	(826)	(2,301)
(f) administration and corporate costs	(192)	(664)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(38)	(131)
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>(1,889)</b>	<b>(4,496)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(354)	(1,572)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
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</b>	<b>Net cash from / (used in) investing activities</b>	<b>(354)</b>	<b>(1,572)</b>

<b>3.</b>	<b>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	(178)	(567)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(178)</b>	<b>(567)</b>

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<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	7,072	11,286
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,889)	(4,496)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(354)	(1,572)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(178)	(567)
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>4,651</b>	<b>4,651</b>

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	4,651	4,072
5.2	Call deposits	-	3,000
5.3	Bank overdrafts		
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>4,651</b>	<b>7,072</b>

<b>6. Payments to related parties of the entity and their associates</b>		<b>Current quarter \$A'000</b>
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	
<p><i>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.</i></p>		

7.	<b>Financing facilities</b> <i>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.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	<b>Total financing facilities</b>		
7.5	<b>Unused financing facilities available at quarter end</b>		
7.6	<p>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.</p>		

8.	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,889)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,651
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,651
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	2.5
8.6	<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p> <p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p>	
8.6.1	<p>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?</p> <p>Answer: N/A</p>	
8.6.2	<p>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?</p> <p>Answer: N/A</p>	
8.6.3	<p>Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?</p> <p>Answer: N/A</p>	
	<p><i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i></p>	

## 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 2022

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.

## ASX RELEASE

27 April 2022

# Quarterly Activities and Appendix 4C – March 2022

## Financial Highlights

- \$8.8 million cash receipts for March 2022 quarter, up 23.0% on prior corresponding period (PCP) and up 7% from December quarter.
- Nine months sales to 31 March 2022 were up 15.3% on PCP at \$24 million (unaudited).
- Biopolymer sales up 28% on PCP and by 22% on December quarter 2021 supporting growth in core business strategy.
- March 2022 quarter sales of \$8.9 million revenue (unaudited) was 9% up on December quarter despite traditional hygiene film sales being \$0.5 million lower than last quarter.
- Net operating cash outflow of \$1.9 million largely to support working capital for sales growth, investments in developing, marketing and distributing MyEco products and costs associated with Covid-19 disruptions.
- Capital investment in capacity expansion for the quarter was \$0.4 million.
- Closing cash was \$4.7 million with no debt.

## Operational Highlights

- SECOS' commenced production from its newly commissioned Malaysian biopolymer plant during the quarter to supply 5 million compostable bags and 550 tonnes of bioresin to meet increasing demand. Production at the facility can be increased to 480 million compostable bags and 3,600 tonnes of bioresin per annum, equivalent to approximately \$25-30 million sales revenue per annum.
- The new plant will increase production in the current quarter to meet demand from the recently announced contract extension with Woolworths Group ("WOW") expanding the number of stores carrying SECOS products in Australia to 970 stores selling the Company's 8L compostable kitchen caddy bag range and 930 stores selling the 36L compostable bag range beginning next month.
- MyEcoBag® and MyEcoPet® branded product successfully expanded via major retailers including Woolworths, Officeworks, Pacchini in Australia, and Veteran Canteen Services (VCS) and distributors like UNFI in the USA. SECOS compostable eco-products have access to potentially over 1800 retail stores within Australia, with further major retail chains in Australia and the USA expected to begin sales distribution over the coming months.

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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 March 2022 quarter.

SECOS achieved another strong revenue result during the March 2022 quarter with sales of \$8.9 million. This is despite a stronger Australian dollar at March Quarter end. Circa \$9.4 million of quarterly sales would have been reported based on the December 2021 foreign currency translation rate. Despite this, the Company still reported growth in sales of over 19.2% vs PCP and 8.4% compared to the December 2021 quarter. Biopolymer growth was stronger at 28% PCP and 21.9% up from December 2021 compared to traditional plastic sales which were down 17.6% and 1.0% on Dec-21 quarter and Mar-21 quarter respectively

Key initiatives implemented during the first half have played a key role in providing the capability to deliver growth including significant capacity from the launch of the new Malaysian plant (ASX announcement 18-March-2021) with an extra 3,600 tonne production capacity now online and first orders shipped. Also of significance was the expansion of retail chains and distribution outlets carrying our branded products, a stronger supply chain and inventory position and the growing pipeline of sales opportunities.

## Cash Flows

Cash receipts from customers in the quarter were \$8.8 million, up from \$8.2 million last quarter. Net operating cash outflows were \$1.9 million, driven by several key factors:

- additional investment in working capital to secure supply of key raw materials, expand stock levels as well as maintaining its supply chain to ensure the ability to service offshore customers;
- marketing and distribution setup costs to establish the MyEcoBag® MyEcoPet® sales channels which has since yielded very successful outcomes including the successful expansion of sales of MyEcoBag® products via 970 Woolworths stores;
- increased costs associated with freight, logistics and some raw material price increases associated with Covid-19 and related global supply chain disruptions; and
- the impact on sales and profitability of traditional plastics from higher oil prices causing polymer prices to rise sharply.

As discussed further in Outlook below, the Company has been successful in passing on price increases to lessen the impact of the cost pressures described above. The majority of SECOS customers require certainty of supply, and the Company expects to pass through further price increases as contract terms permit.

During the quarter \$0.4 million was invested in capital expenditure to further expand the newly established Malaysian biopolymer film and bag plant and for new equipment for the Research and Development Centre.

The Company continues to maintain a strong balance sheet with \$4.7 million cash in the bank and no debt.

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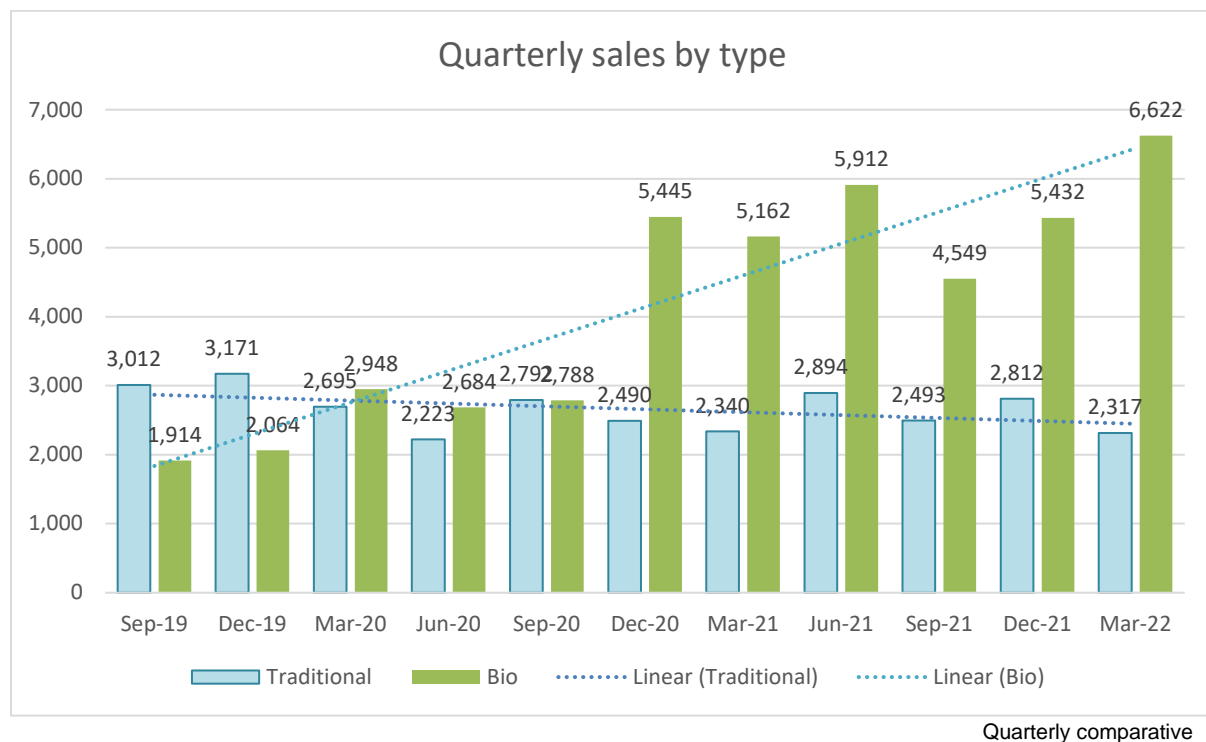
## Sales Development

March 2022 Quarter sales were \$8.9 million (unaudited) up from \$8.2 million in the December 2021 quarter year and up from \$7.5 million in PCP.

The improved revenue result was achieved despite significant Covid-19 supply chain disruptions, Covid-19 related rising freight and logistics input costs, shipping delays, Covid lockdowns in some ports and residual impacts from severe flooding experienced at one of the Company's manufacturing hubs in December 2021.

Overall, biopolymer sales remain the fastest growing product category with the quarterly sales by product type illustrated below reflecting the substantial improvement in biopolymer sales compared to sales from traditional plastics which has declined during the same period.

Biopolymer sales have grown by 24% for the nine months to 31 March 2022 compared to PCP. The chart below highlights the Company's continuing growth in Bioplastic sales in contrast to reducing traditional plastic sales.



### Compostable Resin

SECOS compostable bioresin sales were up 12.8% and 62.7% on Dec-21 quarter and Mar-21 quarter respectively.

Convertors of SECOS compostable bioresin from countries mandating plastic alternatives have made increased purchases, with higher forward order volumes due to positive conversion experiences with SECOS bioresin.

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### **Compostable Bags**

Compostable bag sales were up 68.7% and 13.2% on Dec-21 quarter and Mar-21 quarter respectively. Growth was in line with expectation per recent announcements (see announcement “SECOS launches MyEcoBag® and MyEcoPet® through Pacchini “dated 24-Jan-22) in Australia, Veterans Canteen in the USA.

### **Compostable Film**

Compostable blown film sales currently represent a relatively small component of Biopolymer business and were down 69.5% and 51.8% on Dec-21 quarter and Mar-21 quarter respectively. Sales are expected to increase based on larger volume orders from hygiene customers that are expected to be delivered over the next three or four months.

Additionally, Compostable cast film is mainly used for hygiene and medical applications. Continued qualification of compostable cast film by prospective new customers for hygiene and medical applications is expected to become an important category in the near future as the Company develops its high-speed cast-line compostable film. SECOS Group is also qualifying collation users for use in mailing campaigns which would replace traditional plastic outer wrapping

### **Traditional Plastic Film**

Traditional film sales were down 17.6% and 1.0% on Dec-21 quarter and Mar-21 quarter respectively reflecting the Company’s shift to more environmentally friendly bioplastic products.

Increased oil prices have impacted the Company’s traditional plastic business, (Stellar Films Malaysia) with reductions in sales, margin and net profit during the period. Oil prices between March ’21 to March ’22 increased by 120% (US\$ 62/barrel to US\$ 115/barrel), translating into significantly higher raw materials input costs for the traditional polymer business.

SECOS Group continues to qualify sales of compostable film through its cast lines for brands interested in adopting a more sustainable offering to replace their traditional plastic products.

SECOS is working with its customers to develop more sustainable options including sustainable hygiene films; Braskem (Sugar Cane derived, so renewable carbon based) and Biohybrid® which can be produced using existing cast-line manufacturing assets. Approximately 50% to 70% of the Company’s traditional cast-film capacity is available to supply compostable cast-film as this market develops over time which is why these assets remain strategically relevant to the group.

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## Outlook

The company is on track to deliver strong growth over the coming quarters however some uncertainty regarding shipping timing and costs remain challenges for the Company.

The Company expects to report a net loss for the full year due to lower margins than the prior year driven by raw material input increases, freight and logistic cost increases, expenses associated with the multiple Covid-19 disruptions, and flooding at the Company's Malaysian port.

SECOS has been successful in passing through price increases to customers as contracts permit, while still achieving increased sales. The price rises in the quarter were however not sufficient to fully offset rapidly rising raw materials and freight and logistic costs. The Company supplies packaging materials that are a critical component of many of its customers own supply chain requirements, and the Company expects to be able to pass on further price increases in the near term.

Cost pressures will remain a challenge in the short to medium term, however the Company has begun to see initial signs of lower freight and input costs flowing through which are expected to assist with margin improvement in the fourth quarter and coming year.

The Board expects margins to normalize as these input and freight costs reduce and as the continuing growth in bioplastic sales increases capacity utilisation at the new Malaysian plant, reducing the unit cost impact of fixed manufacturing costs.

The Company's outlook and growth will be underpinned by:

- Expanding available biopolymer production in Malaysia which has capacity to produce over 480 million compostable bags plus 3,600 tonnes of compostable resin per annum.
- Increased penetration of the Company's MyEco retail products, with an emphasis on waste diversion, courier bags and food applications, which is already yielding positive results with the expansion to 970 Woolworths stores.
- Development of new products and resin grades, with particular emphasis on new, high value laminate structures for food packaging applications,
- Supplying sustainable film to evolving hygiene and packaging markets utilizing available capacity in the Company's Malaysian cast-film manufacturing plant.
- Developing smarter and more effective ways to manage Covid-19 related supply chain disruptions while also maintaining a safe workplace for staff, suppliers, and customers. SECOS has mitigated this uncertainty by increasing stocks and using less congested ports to land goods and transit them to customers. SECOS is establishing warehouse options to provide supply back-up for North and Latin Americas, offering more predictable delivery outcomes at a lower overall delivered cost.

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The Company continues to experience a rapidly expanding sales pipeline due to increasing demand for SECOS bioplastic products and technology. 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 March 2022 Appendix 4C follows.

**For more information, please contact:**

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**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-19-19, 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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