

## ASX RELEASE

27 January 2022

# Quarterly Activities and Appendix 4C – December 2021

## Financial Highlights

- \$8.2 million cash receipts for December 2021 quarter, up 24.8% from the same quarter last year.
- Biopolymer sales grew 51% in the twelve months to 31 December 2021 compared to the prior twelve months ending 31 December 2020.
- \$8.2 million sales revenue for December 2021 quarter, up 17.1% on the prior quarter and up 3.9% from the same quarter last year despite over \$0.8 million of sales shifted to the third quarter of the fiscal year due to significant freight delays as a result of Covid-19 and major flooding in Malaysia.
- Net operating cash outflow of \$1.7 million largely to support working capital for growth with investment in inventories increasing to \$8.1 million as of 31 December 2021. SECOS' strong inventory position will support sales growth in the second half and provide SECOS customers a more reliable supply chain as a counter measure against the disruption being experienced due to Covid-19.
- Capital investment in capacity expansion increased 200% in H1FY22 to \$1.2 million compared to the prior corresponding period and new capacity is now online to support expanded growth in sales in the second half.
- The Balance Sheet remains strong with \$7.1 million in cash and no debt.

## Operational Highlights

- SECOS' newly established Malaysian biopolymer plant is now operating with first shipments commencing in Q2FY22. Total installed capacity will be capable of supplying an extra 480 mil. compostable bags and 3600mt of bioresin or approximately \$25 million in additional sales revenue per annum. The plant's footprint has the capacity for a further 20% expansion in capacity of bio resin per annum as required to meet further sales demand.
- MyEcoBag® and MyEcoPet® branded product distribution has been expanded via major retailers including Officeworks, Veteran Canteen Services in the USA and via Pacchini Distribution. Together with distribution through Woolworths (WOW), SECOS compostable eco-products have access to potentially over 1300 retail stores within Australia, with further major retail chains in Australia and the USA expected to begin sales distribution over the coming months.

**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)

- The launch of SECOS' Global Biopolymer Research Centre of Excellence was well supported by the signing of a Joint Research Project with the highly regarded University of Queensland (ASX announcement 22-Sep-2021). High quality R&D manufacturing lines are being delivered to the new R&D Centre with initial R&D trials to begin in the current quarter. SECOS has employed a leading PhD qualified Material Scientist and commenced development work with the University of Queensland to enhance bio-barrier properties for film applications for food packaging.
- The expansion of the MyEcoBag® and MyEcoPet® marketing and distribution campaigns led to a 52% increase in marketing spend to \$0.55 million during the first half of the fiscal year. Initial sales have been received by each of the new retail chains and sales progress via Woolworths has been well above budget. SECOS expects to provide a more detailed update on sales growth via its retail channel in the near future as sales in this segment continue to perform well.

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 December 2021 quarter.

SECOS achieved another strong result during the December 2021 quarter and completed the first half of its 2022 fiscal year end with the establishment of the key imperatives required to deliver the Company's planned growth strategy. Underpinning the growth strategy were four growth investments which the Board is pleased to confirm have been achieved during the first half, which position SECOS for growth in the current half year as planned. The four growth investments are:

1. Significant increase in manufacturing capacity largely via the newly built biopolymer manufacturing plant in Malaysia (ASX announcement dated 18 March 2021). The expansion is on track to deliver an extra 3600 tonnes of compostable resin and 480 million compostable bags; equivalent to \$25 million additional sales capacity per annum. Capacity can be further expanded by another 20% or 720 tonnes per annum as demand requires. The first commercial quantity of bio film and bags have recently been delivered.
2. Develop a substantial retail network of major and highly regarded distributors and retail chains throughout Australia and the USA to support the sale of the Company's "MyEco" branded compostable product range. Major retailers now include Woolworths, Veteran Canteen Services in the USA, Officeworks and independent retailers supplied via Pacchini Distribution in Australia. The Company now has increased access for its branded products to potentially over 1300 retail outlets with sales in this segment set to become one of the fast-growing areas for SECOS.

SECOS has invested in digital assets to support retail sales development with the activation of e-commerce domains MyEcoBag.com.au and MyEcoPet.com.au to support retail launch and digital marketing initiatives direct to consumers in Australia. The USA domain MyEcoPet.com has also been activated to support USA digital sales of MyEcoPet® dog bags.

3. Strengthen supply chains by increasing inventory reserves and warehousing capability to ensure SECOS' customers have certainty of supply and to better manage supply chain disruption due to the impacts of Covid-19 globally.
4. Continue to grow the Company's sales and product pipeline with the establishment of a new Global Biopolymer Research and Development Centre. Expand collaboration both with university and industry partners and with potential customers that are seeking to develop new sustainable packaging solutions to replace traditional single use plastic packaging.

## Cash Flows

Cash receipts from customers in the quarter were \$8.2 million, up from \$7.9 million last quarter. Net operating cash outflows were \$1.7 million as the Company invested in working capital to secure supply of key raw materials as well as maintaining its supply chain to service offshore customers. Included in the spend were marketing and distribution setup costs to establish the MyEcoBag® MyEcoPet® sales channels.

During the quarter \$0.6 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.

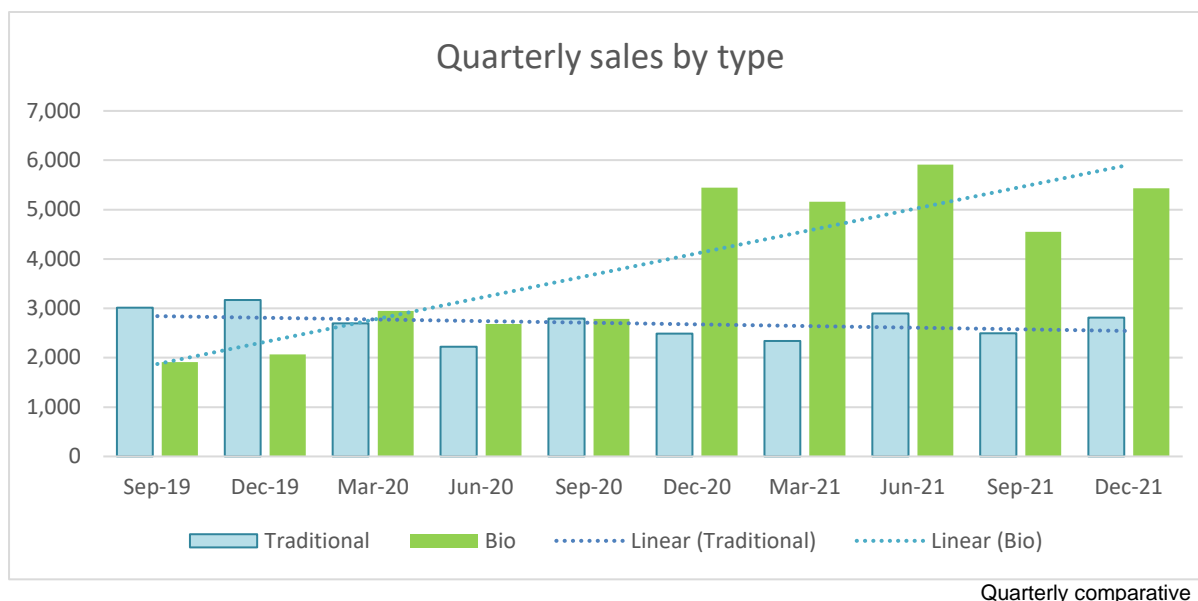
The Company maintained a strong balance sheet with \$7.1 million cash in the bank and no debt.

## Sales Development

Q2FY22 sales were \$8.2 million (unaudited) up from \$7.9 million in the same quarter last year and up from \$7.0 million in the previous quarter.

This result was achieved despite significant Covid-19 supply chain disruptions and shipment delays due to flash flooding in Port Klang, Malaysia in late December 2021. The Company estimates that \$0.8 million in sales were not included in the December 2021 results due to the late loading of containers to ships despite already having left SECOS' manufacturing facilities. The \$0.8 million in delayed shipments would have otherwise resulted in sales of \$9.0 million during the quarter.

Overall, biopolymer sales remain the fastest growing product categories with the quarterly sales by product type below reflecting the substantial improvement in biopolymer sales compared to benign growth in traditional plastic sales. Biopolymer sales have grown by 51% in the last twelve months to 31 December 2021 compared to the prior twelve months ending 31 December 2020.



### Compostable Resin

Cardia® compostable resin sales were 11.5% and 40.8% up on Dec-20 quarter and Sep-21 quarter respectively.

Convertors of Cardia® compostable resin from countries mandating plastic alternative have been purchasing from us at increasing quantity through positive conversion experience.

### Compostable Bags

Compostable bag sales were 20.4% and 13.0% down on Dec-20 quarter and Sep-21 quarter respectively. This reflected a shift in the company from OEM to own branded bag sales during the first half in anticipation that one of the Company's key US accounts, Jewett-Cameron (JCC), were required to delay first half sales orders to embark on packaging design changes. JCC are expected to increase orders using their new bag designs in the second half.

As experienced in prior years, sales of compostable bags to Councils in Australia are traditionally lower during first half of the financial year. We expect a stronger second half performance in this category also.

Further to the above, new customers have commenced placing orders such as Pacchini (see announcement "SECOS launches MyEcoBag® and MyEcoPet® through Pacchini" dated 24-Jan-22) in Australia, Veterans Canteen in the USA, and further opportunities in both Australia and the USA are expected to strengthen this category.

### Compostable Film

Compostable film sales were up 28.3% and 82.0% on Dec-20 quarter and Sep-21 quarter respectively.

Compostable film is mainly used for hygiene and medical applications. Continued qualification of our film by new customers is supporting this growth and is expected to become an important category over the coming months and years.

### 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 E: www.secogroup.com.au

### Traditional Film

Traditional film sales were 12.9% and 12.8% up on Dec-20 quarter and Sep-21 quarter respectively.

After a two-week shutdown in August due to a Covid-19 health order, the plant was back in full operation throughout the December quarter. Sales would have returned to usual volumes if not for the end of month delay in shipment due to the flooding at Port Klang referred to above. SECOS is working with its customers to develop more sustainable options including compostable hygiene films 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.

### Outlook

The company remains on track to deliver a step change in growth in the second half as previously communicated to the market (ASX Quarterly Report – Outlook section 27-Jul-21)

The ability to deliver strong growth in the second half and coming years is underpinned by the Company's:

- Expanding production capacity largely due to the establishment of new biopolymer plant in Malaysia which will be able to produce over 480 million compostable bags plus an additional 3600 mt of new compostable resin per month
- Investment in marketing and branding of the Company's MyEco trademarks in selected retail markets, with particular emphasis on waste diversion, courier bags and food applications,
- Investment in research and development of new products and resin grades, with particular emphasis on new laminate structures for food packaging applications,
- Supplying compostable film to evolving hygiene markets utilizing available capacity in the Company's Malaysian cast-film manufacturing plant together with blown compostable film products
- Rapidly expanding sales pipeline indicating increased demand for SECOS bioplastic products and technology.
- Developing smarter and more effective ways to manage supply chain disruption as a result of Covid-19 and to maintain 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.

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 December 2021 Appendix 4C follows.

#### **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)

**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-19-19, 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")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	8,201	16,129
1.2 Payments for		-
(a) research and development	(70)	(127)
(b) product manufacturing and operating costs	(8,505)	(16,022)
(c) advertising and marketing	(315)	(547)
(d) leased assets	0	0
(e) staff costs	(764)	(1,475)
(f) administration and corporate costs	(229)	(472)
1.3 Dividends received (see note 3)	0	
1.4 Interest received	0	
1.5 Interest and other costs of finance paid	(42)	(93)
1.6 Income taxes paid	0	
1.7 Government grants and tax incentives	0	
1.8 Other (provide details if material)	0	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,726)</b>	<b>(2,607)</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	(564)	(1,218)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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)		
2.6	<b>Net cash from / (used in) investing activities</b>	<b>(564)</b>	<b>(1,218)</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	(197)	(389)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	<b>Net cash from / (used in) financing activities</b>	<b>(197)</b>	<b>(389)</b>



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	<b>9,558</b>	<b>11,286</b>
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,726)	(2,607)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(564)	(1,218)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(197)	(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>7,072</b>	<b>7,072</b>

<b>5.</b>	<b>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	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	<b>4,072</b>	<b>6,558</b>
5.2	Call deposits	3,000	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>7,072</b>	<b>9,558</b>

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

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>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 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.		

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,726)
8.2 Cash and cash equivalents at quarter end (item 4.6)	7,072
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	7,072
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	4
<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>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 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	
8.6.2 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	
8.6.3 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	
<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>	

## 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 January 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.