

ASX RELEASE

6 June 2022

SECOS GROUP BUSINESS UPDATE

The Board of sustainable and eco-friendly Biopolymer producer SECOS Group Limited (ASX: SES, "SECOS" or "the Company") is pleased to provide the market with an update on the progress of its business activities.

TRADING OVERVIEW

SALES

SECOS is on track to post moderate top line growth for the full year ending 30 June 2022 despite unprecedented global events and a long pause in significant sales orders from SECOS' largest customer, Jewett-Cameron Trading Company ("JCC") (ASX 27-Jan-2022 "Quarterly Activities and Appendix 4C").

JCC has advised SECOS that it has completed the packaging design changes for the relaunch of Lucky Dog® in the USA. SECOS expects to recommence volume deliveries by late June, with initial orders from JCC for \$500k, subject to shipping conditions. In addition, during the current quarter, SECOS was awarded major sales contracts including the extension of its MyEcoBag® branded products to over 970 Woolworths stores (ASX 20-May-2022), the launch of EzyDog® pet bags to over 600 stores (ASX 02-May-2022), and distribution via one of USA's largest speciality wholesalers, UNFI for MyEcoPet® products (ASX 02-Mar-2022).

Current orders will position SECOS for strong growth in FY23 with further contract success expected in the coming year.

The Company's short to medium term sales pipeline is focused on developing compostable resin sales, flexible films, a range of bag products with both partner and MyEco™ branded products together with sustainable council and waste management solutions. SECOS' sales development pipeline remains substantial with over 60 major customers engaged in product development, trials, sales development negotiations and/or category review discussions. The total value of the incremental short to medium term sales pipeline is estimated to exceed \$20 million based on a 75% weighted average probability of success. Potential new customers currently engaged with SECOS include local governments, independent and major retail chains, global manufacturing converters of flexible films and products, global brands, and global packaging companies.

SECOS Group Limited (ASX: SES)

ABN 89 064 755 237

Unit 1, 247 Ferntree Gully Road, Mount Waverley, Victoria 3149 Australia

t: +613 8566 6800 e: info@secosgroup.com.au www.secosgroup.com.au

SECOS' medium to longer term aims are to build on the above categories while also developing the capability and products to expand its product range in the medical and hygiene market and to enter the food packaging market.

CASHFLOW

SECOS' cash position as of 31 May 2022 remains strong with \$4 million closing cash. During the year the Company invested significantly in expanding its working capital position by building inventories and receivables. This played a key role in countering the unprecedented delivery delays being experienced because of the current global supply chain crisis.

During the current quarter, SECOS is successfully utilising its inventory reserves to meet the immediate supply requirements of customers to optimise working capital in the short term. This should result in a reasonably neutral operating cashflow position in Q4FY22. With the Company's new Malaysian biopolymer plant now operational, SECOS has substantial spare capacity to support significant growth in production and sales. In the current quarter, a further \$0.4 million cash would be spent on R&D equipment with no major capital expenditure expected until spare capacity is mostly utilised.

SECOS remains debt free and has access to approved trade finance facilities which can be activated if the need arises. Notwithstanding a potential out of budget investment, the Company remains confident that its current cash position together with its access to trade finance facilities will provide adequate working capital to support foreseeable growth opportunities.

OPERATING RESULTS

SECOS has already flagged (ASX 27-Apr-2022 "Quarterly Activities and Appendix 4C") that it 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.

The Company is pleased to advise that elevated materials prices and shipping costs have started to decrease and are expected to progressively return to normal levels. SECOS has been successful in passing on product price increases to customers.

The Company has made significant investments in branding and marketing its own branded pet and bin liner products and getting distributors and sales channels in place to expand sales in Australia and the US. These investments have already started to pay off with significant and increasing sales to Woolworths and UNFI, among other new sales to distributors and customers.

The temporary delay in fixed cost absorption in the Company's bag manufacturing facilities in Malaysia was due to postponed JCC sales. Since the new bag capacity

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was completed in Q1FY22 the facility has made a limited contribution to gross profit. The Company is pleased to report that JCC business has resumed with initial orders totalling \$500k which will enhance margins through improved utilisation rates and fixed cost recovery at the Malaysian bagging plant. This is in addition to the fulfillment of orders from Woolworths in Australia and UNFI, Amazon, and Chewy in the US.

SECOS continues to make significant investments in research and development. The Company believes strongly that the new resin formulations it has developed will pay off in the coming months and its work on food packaging aims to place SECOS at the forefront of the huge market shift to compostable/sustainable food packaging.

The Company's petroleum cast plant in Malaysia has seen both reduced sales and margin pressures due to unprecedented flooding and raw material price increases. The Company believes it has taken the necessary short-term steps to increase margins by passing on price increases to customers. Further, newly conceived strategies to manufacture and sell compostable cast film and potentially other compostable products at higher margins are being implemented. Such sales will replace petroleum-based products over the medium term.

The Company believes the investments and management actions discussed above should go a long way to ensuring the Company's margins return to prior levels in FY23 and beyond. SECOS has been very successful in retaining and acquiring new customers during this difficult period and the extra investments and costs incurred are expected to be more than offset from the growth and expansion of the business over time.

OUTLOOK

SECOS' maintains its outlook for strong growth in the coming quarters despite the significant events that have impacted the business over the past year. Uncertainty remains evident in world supply chains and continues to make it difficult to forecast the exact timing of results, however The Company is confident that recent significant orders will flow through to the bottom line and deliver a step change in the Company's performance in the near term.

SECOS outlook includes:

- Achieving top line growth for the financial year to June 2022 despite unprecedented world and operating disruption events including double digit increases in compostable product sales
- The Company's customer pipeline remains robust. Over 60 major customers are working with the company in various stages of the sales process. These customers represent an estimated \$20 million in incremental sales over the short to medium term alone
- Recent significant contract wins will contribute to a strong year of growth in FY23 with deliveries beginning in late June and early July 2022

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- Higher input and freight costs are beginning to normalize and will result in increased margins in FY23
- The Company's investments in its own branded products in Australia and the USA are beginning to pay off and will result in significantly increased sales in FY23 and beyond
- The Company's new research and development centre will position it to take advantage of emerging trends in compostable products and food packaging
- The additional operating capacity associated with the Company's new Malaysian plant will position the Company well to support the strong growth in sales forecasted in FY23
- Work on positioning the Company in the development of new products and markets are expected to be supplemented with new contract wins to be announced in the coming months

Chief Executive Officer, Ian Stacey said, "JCC's Lucky Dog® previously achieved sales volumes of AUD \$3 to 4 million per annum and we hope to achieve similar volumes in coming year which will play a significant role in boosting SECOS' overall sales growth in the coming quarters.

Our recent success will also provide a strong mix of own-branded and partner-branded supply into both the Australia and the USA markets, with expansion to new markets expected via both sales channels over the coming year.

We continue to garner strong support from consumers and the public in general with demand for SECOS' environmentally friendly products continuing to grow globally. Compostable plastics remain safer for the world because they do not contribute to microplastics in our environment and to the food we eat. When composted, they provide a truly circular economy and for that reason, governments and businesses around the world are beginning to invest further in waste streams that can better deal with organics instead of relying solely on recycling fossil fuel-derived plastic products.

While the compostable product segment continues to grow, SECOS Group is developing new products for the pet market which will broaden the range of sustainable products. These products are being evaluated by JCC and our other partner brands".



The availability of SECOS' partner branded products such as EzyDog® and our own MyEcoPet® branded compostable bags via pet stores will further broaden the penetration of pet market channels for SECOS' compostable products.



Along with partner brands, SECOS continues to develop further opportunities for growth in new markets for its own branded MyEcoBag® and MyEcoPet® line of products and is working to garner market share in grocery and convenience stores in Australia, the USA, Latin America, and elsewhere.

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

For more information, please contact:

Richard Tegoni
Executive Chairman
+61 411 110 901
r.tegoni@secosgroup.com.au

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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 resins plant in Malaysia. The Company also has manufacturing plants for 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.

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