

Carbonxt Group Limited – HY24 Results

Carbonxt Group Ltd (ASX:CG1) (“Carbonxt” or “the Company”) has released its Half-year report for the half-year ending 31 December 2023 and provides the following update on the key areas of activity for the period – all numbers are in A\$.

OPERATIONS OVERVIEW

- Half year revenue of \$8.4 million, down 5% on HY23, primarily due to a once-off impact on sales to the group’s largest pellet customer following outages at that customer’s facility.
- Operations during the half-year highlighted by great progress on the construction of the Company’s flagship Activated Carbon production facility in Kentucky, jointly owned with Kentucky Carbon Processing, LLC (“KCP”). Commissioning of the facility is now underway with a significant production ramp-up to occur next quarter.
- Pellet sales accounted for 54% of revenue and 37% of sales volume. Carbonxt continues to see strong demand for industrial pellets which is very encouraging given the near-term entry into production at the Kentucky facility.
- Powdered activated carbon (PAC) accounted for 46% of revenue and 63% of sales volume – PAC revenue increased by 31% from HY23.
- HY24 gross margin of 44%, up from 28% in HY23 principally due to positive flow-on effects from the successful rollout of operating cost reduction initiatives, as well as a reduction in manufacturing shifts at Arden Hills. The production performance of the Company’s other major ACP customer continues to decrease and is at a record low manufacturing cost.
- Underlying EBITDA for HY23 was a loss of \$286K, compared to HY23 EBITDA loss of \$930K, an improvement of 69%.

FINANCIAL OVERVIEW [All results in AUD]

AU \$'000	1H24	1H23	Change
Revenue	\$8,424	\$8,912	-5%
Gross margin	\$3,682	\$2,521	46%
Gross margin %	44%	28%	57%
Other income	\$69	\$84	
Shipping costs	(\$1,096)	(\$972)	-13%
Operating costs	(\$2,941)	(\$2,563)	-15%
EBITDA	(\$286)	(\$930)	69%
Depreciation and amortisation	(\$1,209)	(\$1,226)	1%
EBIT	(\$1,495)	(\$2,157)	31%
Net interest	(\$2,157)	(\$529)	-308%
Share based payment expense	-	(\$145)	
Non-cash items (net)	\$141	\$166	15%
Net loss before tax	(\$3,368)	(\$2,665)	-26%

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REVENUE

- Total revenue was down 5% from HY23, driven primarily by downtime at our largest customer who had significant equipment issues at their facility in the December quarter.
- Pellet revenue was down 24% from HY23 reflecting the aforementioned reduction in demand from our largest pellet customer.
- PAC revenue was up 31% from HY23 reflecting the impact of material price increases across the customer portfolio and the increase in volume from one existing customer of approximately \$1.5 million per annum.

MARGIN

- 1H23 gross margin was 44%, an increase from the 28% recorded in 1H23, reflecting the improvements made to operating costs over the past year.
- As noted earlier, continuous improvement is evident at Arden Hills based on lower fixed plant costs on a per unit basis.
- Several initiatives are also underway at Black Birch to further lower operating costs, including changes to the underlying lease structure. Negotiations on this matter will continue over the next quarter but are expected to lead to noticeable ongoing improvements in profitability.

OPERATING COSTS

- Shipping costs to customers increased in 1H24 to 13% of sales, compared to 1H23 at 11% of sales. The higher shipping costs reflect a customer mix change (lower sales to a major pellet customer who is located close to our Arden Hills plant).
- Operating costs of \$2.9m were up 15% on 1H23 primarily reflecting additional one-off expenditure associated with entering into the Kentucky investment.

KENTUCKY PLANT

- During this period, construction has been underway for the new activated carbon plant in eastern Kentucky, USA. The plant will have an initial capacity of 10,000 tons per annum, with the ability to expand to 20,000 tons per annum for a small additional investment.
- Carbonxt has contributed USD \$5.5 million to NewCarbon Processing, LLC ("NewCarbon"), alongside its US partner KCP. Carbonxt holds a 35.5% ownership interest in NewCarbon as of 31 December 2023, with options to invest a further USD \$4.5m to move to 50% ownership interest.
- Construction progress has been pleasing with the plant now moving into the testing of front-end equipment and processes. The final electrical activities are expected to be undertaken in March with the delivery of the control systems, prior to the commencement of production.
- Near-term sales efforts are well underway with a very positive reception being received by our former industrial pellet customers. The next step for nearly all prospective customers is to provide pellet samples from the facility. This is expected to continue over the next few months.
- The JV project provides Carbonxt with a unique opportunity to benefit from major investments in pollution reduction technologies across the US market.



- The entry into the water market is particularly exciting and does not depend on the upcoming PFAS legislation for viability; however, the latter will provide an exceptionally substantial increase in the addressable market.

NON-CASH ITEMS

- In 1H24, the Company recognized no share-based payment expenses compared to 1H23 where there were \$145k from equity-based instruments offered to employees and vendors in lieu of cash-based payments.
- Other non-cash items decreased from \$166k in 1H23 to \$141 in 1H24. Other non-cash items were principally related to a fair value adjustment of Licensing Rights.

STATEMENT OF FINANCIAL POSITION

- The Company currently has an A\$15 million debt facility provided by Pure Asset Management which matures in May 2027. This facility is up \$9.5m from that in place in 1H23, with the additional funding being utilised in the Company's new Kentucky facility.
- On 4 December 2023, the Company announced the non-renounceable pro-rata entitlement offer for the placement of 30,589,440 fully paid shares at \$0.06 per share to raise \$1.835m before issue costs. The offer was successfully completed and shares were issued on 22 January 2024.
- On 6 December 2023, the Company announced the successful completion to raise \$600,000 from the placement of 10,000,000 fully paid shares at \$0.06 per share before issue costs. The placement shares were issued on 18 December 2023.
- As part of the capital raise, the Company made a further placement of 9,333,333 new fully paid ordinary shares at an issue price of \$0.06 to Pure Asset Management to raise an additional \$500,000. These shares were issued in January 2024.

BUSINESS OUTLOOK

The 1H period saw a heavy focus on the construction activities at the new activated carbon plant in Kentucky, as well as the near-term sales pipeline for that production. The Group remains highly confident that this investment in such high-quality products will greatly strengthen its position in the fast-growing market for pollution capture and reduction technologies in the US market.

Concurrently, the operating cost reduction strategies over the past year have seen a material increase in gross margins for the group, back over 40% of sales.

In addition, Carbonxt is very encouraged with the development of plans to expand our pellet production output at the pending Kentucky plant – a state-of-the-art manufacturing facility to fuel growth and meet industrial demand as companies seek emission-reducing technologies and pollutant-capture products, both of which are central to Carbonxt's business.

As a result of its multi-year business development strategy in the United States, Carbonxt now has a major opportunity to establish a significant foothold in the water market irrespective of the upcoming regulatory changes that directly target a reduction in PFAS levels. The passage of this legislation will see a dramatic further increase in an already large and new addressable market for the Company.



Federal drinking water standards in the US are expected still to be finalised for at least six PFAS compounds in 2024. It is the stated intention of the administration that all regulated public water systems will be required by US Federal law to treat drinking water to these standards.

On 14 March 2023, the EPA issued its proposed levels for those six PFAS compounds. On 15 December 2023, the Office of Management and Budget initiated interagency review of EPA's proposed rule. Such reviews typically take around 90 days, but certain rules that are more complex can take longer.

MANAGEMENT COMMENTARY

Carbonxt Managing Director Warren Murphy said: *"The half-year to December 31 was highlighted by several exciting developments across our existing operations and the advancement of the group's state-of-the-art activated carbon production facility in Kentucky. The hard work of our operations team leaves the business well-placed to extract stronger margin growth from revenues generated by our established customer base, which will complement the pending commencement of production at the NewCarbon facility, which is expected to significantly expand the Company's addressable market for best-in-class activated carbon products.*

"As previously stated, final commissioning works at Kentucky are now well advanced, with the field team overseeing the electrical fitout before the planned rollout of production samples for new and existing customers. The rapid pace of construction and development for the NewCarbon facility since the JV agreement was signed in May 2023 is a testament to the hard work and execution of all parties involved. Carbonxt remains excited by the opportunity to offer a significantly expanded manufacturing capacity to meet structural demand increases in the US market, which are underpinned by key US regulatory changes at the federal level directly targeting solutions to reduce PFAS levels nationally."

This announcement has been authorised for release to the ASX by the Board of CG1.

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About Carbonxt

Carbonxt (ASX:CG1) is a cleantech company that develops, and markets specialised Activated Carbon products, primarily focused on the capture of mercury and other contaminants in industrial processes that emit substantial amounts of harmful pollutants. The Company produces and manufactures Powdered Activated Carbon and Activated Carbon pellets for use in industrial air purification, wastewater treatment and other liquid and gas phase markets.

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