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Carbonxt Group Limited – HY21 Results

ABOUT Carbonxt Group Limited (CG1.ASX)

Carbonxt produces patented, non-brominated Activated Carbons that are used to eliminate mercury and other toxic pollutants. Our US-based manufacturing plants produce both Powdered and Pelletised products which are used by customers, predominantly operating coal-fired power stations, cement plants, and various other industrial companies.

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Carbonxt has the only US manufacturing facility that makes pelletised activated carbon for industrial markets which provides our customers with sourcing surety relative to foreign sourced products. In addition, emission reductions are mandated by the Environmental Protection Agency (EPA), and the US power and other industrial industries have invested billions of dollars installing equipment to mitigate the release of mercury and other contaminants. Unlike industry peers, our products are non-brominated, which means they do not corrode capital equipment. Our products are single use creating reoccurring revenue with contracts typically several years in duration.

[All results in AUD]

Revenue of $7.2 million, down 15% on HY20 reflecting decreased sales in the powdered activated carbon business due to lower COVID related demand for power and related operating impact at select utilities. The strengthened Australian dollar also negatively impacted comparative revenue accounting for 5% or $0.4m of the decrease.

- The Company experienced acceleration in its activated carbon pellet business segment where revenue growth outside of its largest customer was 144% compared to 1H20 which is consistent with the Company's market diversification strategy. Pellet sales accounted for 58% of revenue.
- Gross margin of 26%, down from 34% in HY20 principally due to higher production costs for the CTC pellets product line as we launched this new product at the Arden Hills facility.
- Underlying EBITDA loss for HY21 of $2.0m, compared to HY20 EBITDA loss of $0.7m -- the higher loss reflects the lower gross margin with startup costs in newer pellet lines as well as higher operating expenses reflecting increased insurance and employee costs.

FINANCIAL OVERVIEW

AU $'000	1H21	1H20	Change
Revenue	**$7,153**	**$8,395**	**-15%**
Gross margin	**$1,889**	**$2,835**	**-33%**
Gross margin %	26%	34%	-
Other income	$172	$25	
Shipping costs	($727)	($735)	-
Operating costs	($3,311)	($2,783)	-
EBITDA	**($1,976)**	**($658)**	**-200%**
Depreciation and amortisation	($831)	($613)	-
EBIT	**($2,807)**	**($1,271)**	**-121%**
Net interest	($573)	($389)	-
Non-cash items (net)	$836	$52	-
Net loss before tax	**($2,544)**	**($1,608)**	**-58%**

REVENUE

- Although total revenue was down 15% from HY20, Carbonxt experienced strong growth in its pellet business as it expanded product types offered in this segment.
- Our capability as the only US manufacturer of activated carbon pellets for industrial markets has resulted in a tolling arrangement with a major customer where we anticipate volumes increasing to 100 tons per month in the near term.
- The company recently announced an agreement with a third-party manufacturing company to produce high volume industrial pellets. This partnership will allow Carbonxt to improve margins via avoidance of the high cost of third-party carbons as well as a substantial reduction in working capital and capital expenditure requirements.
- Late in HY21, the Company commenced deliveries for a recently won contract to provide PAC for a Midwestern municipality with volume anticipated to be about 1,000 tons per year.

MARGIN

- HY21 gross margin was 26%, a decrease from the 34% recorded in HY20. Entry into new types of pellet products resulted in reduced efficiencies at the Arden Hills facility as it juggled production runs for multiple pellet products throughout the half.
- Furthermore, materials used in some pellet products were purchased from third parties and comprised a significant portion of cost of production.
- The Company's R&D team is focusing on methods to eliminate third party materials and bring production in house to reduce costs. In addition, the above-mentioned manufacturing outsourcing contract will significantly reduce costs of certain commodity-based pellets. This will avoid capital improvement costs, reduce working capital and provide accelerated capacity to meet the growing sales pipeline.

OPERATING COSTS

- Shipping costs to customers increased from 9% of revenue in HY20 to 10% in HY21 due to increased pricing in shipping lanes primarily as a result of COVID-19.
- Operating costs of $3.3m were 19% higher than HY20 due principally to $0.4m increase in insurance expenses and $0.4m increase in employee costs offset by a $0.4m decrease in selling and marketing expenses driven mainly by termination of the UCC agreement.

STATEMENT OF FINANCIAL POSITION

The Company has a A$5.5 million debt facility provided by PURE Asset Management, maturing in April 2023 with an interest rate of 9.5%.

FURTHER GROWTH OPPORTUNITIES

- The pellet outsourcing contract will allow the Company to focus on higher margin pellet products for specialised markets at its Arden Hills facility.
- Within the MATS market, Carbonxt has two upcoming PAC tests with the products being produced at the Black Birch facility.
- The potential to add new kiln infrastructure at the Black Birch plant is being investigated as it would provide an expanded range of PAC products while further reducing the Company's reliance on third party materials for pellets and other applications.

This announcement has been authorised for release to ASX by the Board of Directors of Carbonxt Group Limited.

ENDS

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