

Carbonxt Group Limited – HY23 Results

OPERATIONS OVERVIEW

- Half year revenue of \$8.9 million, down 10% on HY22, primarily due to maintenance for the installation of new equipment at the Arden Hills and Black Birch manufacturing facilities in December 2022.
- Joint Venture terms finalised for the new Kentucky manufacturing facility, with legal framework now targeted for near-term completion and the rapid scale up of construction development in CY2023.
- Pellet sales accounted for 69% of revenue and 47% of sales volume. We continue to see strong demand for industrial pellets but will not restart this business line until the Kentucky facility is in production.
- Powdered activated carbon (PAC) accounted for 31% of revenue and 53% of sales volume – PAC revenue increased by 6% from HY22.
- HY23 gross margin of 28%, down from 36% in HY22 principally due to operational down time mentioned above and resultant lower pellet sales.
- Largest customer renewed supply contract with Carbonxt for 8-year term to 2030, with a 20% increase in the contracted price effective from 1 January 2023.
- Continued advancement of research program to advance Phase 2 development of technology which addresses the mitigation of Florida Red Tide algae blooms – part of broader long-term opportunity in the US market for water treatment processes.
- Underlying EBITDA for HY23 was a loss of \$930K, compared to HY22 EBITDA gain of \$192K.

FINANCIAL OVERVIEW [All results in AUD]

AU \$'000	1H23	1H22	Change
Revenue	\$8,912	\$9,885	-10%
Gross margin	\$2,521	\$3,525	-28%
Gross margin %	28%	36%	-21%
Other income	\$84	\$0	
Shipping costs	(\$972)	(\$810)	20%
Operating costs	(\$2,563)	(\$2,522)	2%
EBITDA	(\$930)	\$192	583%
Depreciation and amortisation	(\$1,226)	(\$1,062)	-15%
EBIT	(\$2,157)	(\$870)	-148%
Net interest	(\$529)	(\$539)	2%
Share based payment expense	(\$145)	(\$705)	79%
Non-cash items (net)	\$166	\$123	-35%



Net loss before tax	(\$2,665)	(\$1,990)	-34%
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REVENUE

- Total revenue was down 10% from HY22, driven primarily by downtime at both plants in December in order to upgrade equipment and optimize manufacturing processes. The new mill installed at Black Birch will result in more consistent production volumes with reduced down-time periods for maintenance.
- Pellet revenue was down 23% from HY22 reflecting planned downtime at the Arden Hills facility, as well as a small reduction in seasonal demand from our largest pellet customer. The contract extension with this customer went into effect in January, including a material price increase (*refer ASX Announcement 19 October 2022*). We expect volumes for this customer in calendar 2023 to be similar to those achieved in calendar 2022.
- PAC revenue was up 6% from HY22 reflecting higher volumes from our largest PAC customer. We extended the contracts of every PAC customer with material price increases.

MARGIN

- 1H23 gross margin was 28%, a decrease from the 36% recorded in 1H22, reflecting a decrease in sales of higher margin pellet products due to seasonal demand fluctuations.
- Improvement in margin is expected for Arden Hills based on lower fixed plant costs on a per unit basis.

OPERATING COSTS

- Shipping costs to customers increased in 1H23 at 20% of sales, compared to 1H22 at 10% 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) as well as higher overall freight costs due to increased fuel surcharge fees.
- Operating costs of \$2.5m were almost unchanged versus 1H22 (up less than 2%) principally due to the ongoing favorable impact from the Company's 2021 cost reduction program and continued emphasis on efficiency actions to offset inflationary pressures.

KENTUCKY PLANT

- During the period, Carbonxt successfully completed a capital raise which funded its initial contribution to a strategic Joint Venture with US partner KCP for the development of a new activated carbon plant in eastern Kentucky, USA
- A state-of-the-art activated carbon plant, the facility is expected to increase Carbonxt's production capacity from ~16,000 tonnes to over 25,000 tonnes (+57%)
- Pellet production costs are also expected to be materially lower, facilitating a significant increase in margin growth with the option for expanded capacity.
- During Q2 FY23, the two parties completed the engineering feasibility work and final legal documentation is expected to be completed in the near future, with construction then scheduled to commence.
- The JV project provides Carbonxt with a unique opportunity to benefit from major investments in pollution reduction technologies across the US market.



NON-CASH ITEMS

- In 1H23, the Company recognized share-based payment expenses of \$145k from equity-based instruments offered to employees and vendors in lieu of cash-based payments.
- Other non-cash items increased from \$123k in 1H22 to \$167 in 1H23. Other non cash items were principally related to a fair value adjustment of Licensing Rights.

STATEMENT OF FINANCIAL POSITION

- The Company currently has a A\$5.5 million debt facility provided by Pure Asset Management which matures in April 2023.
- At the Annual General Meeting in November 2022, a new facility of \$15.0m with Pure Asset Management was approved. This new facility will repay the existing debt and the additional funds of \$9.5m will be utilized in the Company's new Kentucky facility.
- The new facility has been documented and is conditional on the completion of the Joint Venture Agreement, and associated due diligence, for the new facility in Kentucky.
- In 1H 2023, Carbonxt successfully raised \$8.5m through the issuance of 85m new fully paid ordinary shares.
- As at 31 December 2022, the Company held cash and cash equivalents of \$6.2m.

BUSINESS OUTLOOK

The 1H period was marked by a focus on Carbonxt's near-term development strategy to strengthen its position in the fast-growing market for pollution capture and reduction technologies in the US market.

The maintenance and installation upgrades at its existing production facilities in Arden Hills and Black Birch were carried out, leaving the Company well positioned to drive better margin growth in CY2023.

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 unique opportunity to establish a major foothold in the water market which will benefit directly from ongoing regulatory changes targeting a reduction in PFAS levels.

We expect the documentation of the Joint Venture in Kentucky to be completed in the near term and look forward to announcing the final arrangements in the near future.



MANAGEMENT COMMENTARY

“We are pleased with the group’s operational developments in 1H23, which leave Carbonxt well placed to capitalise on major tailwinds in the US market for pollution reduction and water treatment technologies. These were highlighted by the achievement of a number of crucial near-term objectives in connection with the advancement of the Company’s strategic Joint Venture with KCP for the construction of a market-leading processing facility for activated carbon products.”

The maintenance and installation programs carried out for Carbonxt’s existing sites in 1H also provide Carbonxt with the capacity for improved per-unit production economics and margin growth through its existing revenue channels in CY2023, complemented by the 8-year contract renewal with its largest customer at a 20% price premium. With an established platform for growth, Carbonxt looks forward to providing more updates in the months ahead as the Company continues to leverage its established position in the fast-growing US market.

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

ABOUT Carbonxt Group Limited (CG1.ASX)

Carbonxt is a cleantech company that develops and markets specialized 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 Powder Activated Carbon ('PAC') and Activated Carbon ('AC') Pellets for use in industrial air purification, wastewater treatment and other liquid and gas phase markets.

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