

ASX RELEASE

25 January 2023

Quarterly Activities and Appendix 4C – December 2022

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 2022 quarter. All figures are in AUD\$ and are provided on an unaudited basis.

Financial Summary

- Positive net operating cash of \$0.2 million for Q2 FY23.
- Q2 FY23 sales of \$5.7 million were down 4.8% on Q1 FY23 and down 30.4% on prior comparative period (PCP), impacted by excess resin inventory being held by customers and the Company’s decision to reduce low margin traditional plastic sales (ASX announcement 19 December 2022). Forgoing low margin traditional plastic sales has led to higher overall group margins and improved working capital, although this has meant losing some non-strategic traditional plastic revenue during Q2 FY23.
- Gross margin is improving as freight rates and lead times continue to normalise, which is enabling more predictable stock and working capital management.
- Capital investment in capacity expansion for Q2 FY23 was \$0.2 million.
- Closing cash was \$4.5 million with no debt.

Operational Highlights

- SECOS signed an exclusive sales agreement with Jewett Cameron Company (JCC) during Q2 FY23 for the supply of SECOS’ MyEcoWorld® products into the USA and Canadian markets with a sales target of US\$2.8 million (~AUD\$4.0 million) to maintain exclusivity. Sales to Jewett Cameron are expected to commence in the current quarter.
- Continued success in developing MyEcoBag® branded range during H1 FY23 with distribution through 970 Woolworths stores and the launch into 770 Coles stores during the quarter.
- MyEcoBag® range achieved 24% of all Coles¹ compostable bin liner and kitchen caddy sales in eight weeks since the launch in November 2022.
- MyEcoBag® maintains its position as the number one brand within Woolworths² compostable bin liner and kitchen caddy sales, representing 34% of sales in this category.
- Sales to white label partners continue to gain momentum through the relaunch of JCC’s Lucky Dog® in the USA and launch of EzyDog’s Login® dog waste bags into major Australian pet stores. JCC is up 60% in H1 FY23 on PCP and EzyDog has achieved sales of over \$0.3m since its launch eight months ago. White label partners are expected to deliver higher sales growth as their products are rolled out and stocked in more stores in the coming year.
- SECOS’ new Research and Development (R&D) Centre has successfully completed initial testing of compostable stretch film to create higher-clarity biopolymer films, with initial orders expected in Q4 FY23.

¹ IRI Scan Data between 12/11/22 to 10/1/23

² Quantum Scan Data between 12/01/22 to 10/01/23

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Cash Flows

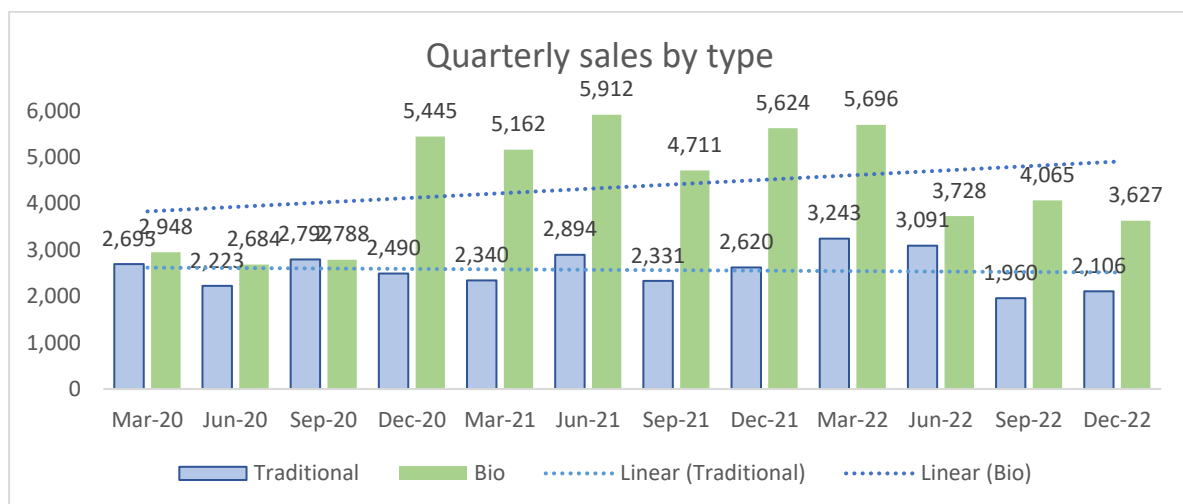
Cash receipts from customers in Q2 FY23 were \$6.7 million, down from \$8.5 million in Q1 FY23 due to fulfilment timing and the reduction in low margin traditional plastic sales. Net operating cash inflows were positive \$0.2 million.

\$0.2 million was invested in capital expenditure during Q2 FY23 to continue expanding the newly established Malaysian biopolymer film and bag plant and for new equipment for the Company's Research and Development Centre.

The Company continues to maintain a strong balance sheet with \$4.5 million cash in the bank and no debt.

Sales Development

Q2 FY23 sales of \$5.7 million were impacted by excess resin inventory being held by customers that reduced new orders from the Latin American market (LATAM) and by the deliberate reduction in low margin traditional plastic sales. With lower resin sales during H1 FY23, resin capacity has been utilised internally to produce compostable bags such as MyEcoBag®, which have been growing in 1H23 versus PCP, but not at the rate that can offset the full extent of the lower resin sales.



Compostable Resin

Compostable resin sales in Q2 FY23 were down 14.6% on Q1 FY23 and down 62.0% on PCP. Resin sales were impacted by excess inventory and the pause in resin orders from some LATAM customers. Resin sales are expected to improve in H2 FY23, as converters that own excess resin stock continue to produce finished products for their customers and begin reordering. Management has started to take orders from several new resin converters in LATAM, Europe and USA, which are expected to fuel resin sales growth in H2 FY23. Management continues to balance its manufacturing capacity between resin sales to converters and its internal needs to produce its own compostable bags that are growing at a faster rate.

Compostable Bags

Compostable bag sales in Q2 FY23 were down 9.5% on Q1 FY23 and up 10.9% on PCP. Council bag sales are down in H1 FY23 on PCP due to phasing of orders and contracts expected to come through in H2 FY23, with the first half of each year historically lower than the second half. Orders and council supply agreements indicate council sales will grow in H2 FY23 and further complement the Company's H2 FY23 growth expectation.

Compostable Film

Compostable blown film sales currently represent a relatively small component of Biopolymer business and in Q2 FY23 were down 3.9% on Q1 FY23 and down 55.5% on PCP. However, high-speed compostable cast film products remain a highly strategic focus for the company because compostable films offer opportunities to enter the growing sustainable hygiene, food, and pallet and magazine wrap markets.

Traditional Plastic

Traditional sales in Q2 FY23 were up 7.5% on Q1 FY23 and down 19.6% on PCP. During Q2 FY23, the company made the strategic decision to cease sales to certain low margin traditional plastic customers. This will have the effect of reducing the group's sales growth in the short term but will benefit SECOS by preserving working capital and improving the group's gross margin and earnings.

Outlook

SECOS achieved growth of over 100% in MyEco™ retail brand sales in major retailers and independent distributors over the past twelve months versus PCP. This has been primarily driven by expansion of 237 to 970 stores in Woolworths and the launch into Coles' 770 Australian store network. In Woolworths, compostable bin liners and kitchen caddy bags are growing faster than the plant-based and recycled plastic ranges³. This trend supports the plan to grow MyEcoBag™ sales via Supermarkets as Councils continue to introduce FOGO programs and householders adopt food scrap diversion to organic composting programs.

The exclusive sales agreement with Jewett Cameron for the roll out of MyEco™ retail brand and other branded products in the USA is anticipated to yield sales in Q3 FY23. This will enable SECOS to take advantage of increasing consumer demand for sustainable alternatives to conventional plastics in the USA, with a lower cost distribution model.

SECOS is broadening its compostable resin customer base with the first sales recorded in new customers in the USA and Europe. Ongoing sales for these new customers will diversify the geographic market reach of resin sales.

Gross margin is continuing its upward trend as freight rates and lead times continue to normalise back to pre-COVID-19 levels, which are also enabling more predictable stock and working capital management.

Operational achievements include the Malaysian operations successfully passing the Costco Supply Audit, which will enable the plant to supply Costco stores in the USA and other countries via arrangements with Jewett Cameron. SECOS continues to work on its certifications to meet the highest standards, which support our ability to supply the largest retailer groups.

Investments in the development of new compostable products and film applications for a range of markets are progressing. A compostable grade of film with enhanced clarity is in the final stages of development, to be used for postal items, including magazine wrap, and for packaging pouches via the form fill and seal process to make food and point of sale packaging.

Further testing of a compostable pallet wrapping film is underway. Trials are suggesting the product is fit for purpose, with cling and mechanical tests being successfully completed, with ongoing additional tests on durability. Major converters and industry partners have shown significant interest and could potentially partner with SECOS to release to the market.

³ *Quantium Scan Data between 24/11/21 – 22/11/22*

Other significant R&D initiatives include the development of an extrusion coating grade of compostable resin that can be coated straight on to paper and other substrates, thus eliminating the need for an adhesive between substrates. SECOS is also working on a new product that will enhance the rate of compostability while eliminating odour which is applicable for all forms of composting.

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

For more information, please contact:

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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 fuelling 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, 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.

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 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,697	15,180
1.2 Payments for		
(a) research and development	(118)	(176)
(b) product manufacturing and operating costs	(4,880)	(10,897)
(c) advertising and marketing	(351)	(690)
(d) leased assets		
(e) staff costs	(848)	(1,657)
(f) administration and corporate costs	(289)	(521)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(34)	(102)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	177	1,137

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(174)	(372)
(d) investments		
(e) intellectual property		

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Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(f) other non-current assets		
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 Net cash from / (used in) investing activities	(174)	(372)

3. Cash flows from financing activities		
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		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (principal component of lease payments)	(169)	(396)
3.10 Net cash from / (used in) financing activities	(169)	(396)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,668	4,122
4.2	Net cash from / (used in) operating activities (item 1.9 above)	177	1,137
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(174)	(372)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(169)	(396)
4.5	Effect of movement in exchange rates on cash held	(2)	9
4.6	Cash and cash equivalents at end of period	4,500	4,500

5.	Reconciliation of cash and cash equivalents 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	4,500	4,668
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,500	4,668

6.	Payments to related parties of the entity and their associates	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	

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.

Financing facilities		Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities		
7.5	Unused financing facilities available at quarter end		
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.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	177
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,500
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,500
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
	<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: 25 January 2023

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.