

ASX RELEASE

26 July 2023

Quarterly Activities and Appendix 4C – June 2023

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 June 2023 quarter. All figures are in A\$ and are provided on an unaudited basis.

Financial Summary

- Positive net operating cash flows of \$0.5 million for Q4 FY23 (positive \$2.0 million for FY23).
- Q4 FY23 sales of \$5.9 million were up 3.6% on Q3 FY23 and down 14.0% on prior corresponding period (PCP) due to traditional plastic sales decreasing 40.5% on PCP in line with the strategic direction to reduce low margin traditional plastic business.
- Q4 FY23 Biopolymer sales were up 10.5% on Q3 FY23 and up 8.0% on PCP.
- Over 140% growth in MyEco™ retail brand sales in major retailers and independent distributors in FY23 versus PCP.
- FY23 gross margin improved on PCP as freight rates and lead times have returned to pre-pandemic levels, which is enabling more predictable working capital management.
- Strong support from existing shareholders in the Share Purchase Plan which raised \$0.93 million in April 2023, in addition to the Placement of \$3.02 million in March 2023.
- Closing cash was \$8.4 million with no debt.

Operational Highlights

- The roll out of MyEco™ retail brand products in the USA via the exclusive sales agreement with Jewett Cameron (JCC) is now complete with sales underway.
- MyEcoBag® range achieved 25% market share in compostable bin liner and kitchen caddy sales in 770 Coles stores¹ since the launch in November 2022.
- MyEcoBag® has maintained its position as the number one brand for compostable bin liner and kitchen caddy sales in 970 Woolworths stores², representing 41% of sales in this category.
- Sales to white label partners continue to perform well through JCC's Lucky Dog® in the USA and EzyDog's Login® dog waste bags in major Australian pet stores. JCC' Lucky Dog® is up 141% in FY23 on PCP and EzyDog has achieved sales of over \$0.4m since its launch over 12 months ago.

¹ IRI Scan Data between 12/11/22 to 20/6/23

² Quantum Scan Data between 22/6/22 to 20/6/23

Cash Flows

Net operating cash inflows were positive \$0.5 million for the quarter. Cash receipts from customers in Q4 FY23 were \$6.8 million, down from \$7.3 million in Q3 FY23, impacted by the deliberate reduction in low margin traditional plastic sales.

The Share Purchase Plan of \$0.93 million was settled in April 2023.

\$0.06 million was invested in capital expenditure during Q4 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 \$8.4 million cash in the bank and no debt.

Pursuant to ASX Listing Rule 4.7C, as noted in Section 6.1 of the Company's Appendix 4C Cashflow Statement, payments made to related parties and their associates totals \$156,700 for Q4 FY23 relating to Directors' remuneration and fees.

Sales Development

Compostable Bags

Compostable bag sales in Q4 FY23 were up 8.3% on Q3 FY23 and up 47.4% on PCP. Council bag sales have grown by 74.0% in H2 FY23 compared to H1 FY23. For the financial year ending 30 June 2023, compostable bag sales were up 21.1% on PCP. A large portion of the growth in bag sales reflects the success of the Company's MyEco™ branded products and the shift to focus on developing a leading global brand for sustainable products that customers can trust.

Compostable Resin

Compostable resin sales in Q4 FY23 were up 19.4% on Q3 FY23 and down 1.3% on PCP. For the financial year ending 30 June 2023, compostable resin sales were down 51.9% on PCP. Resin sales during FY23 were impacted by the unwinding of excess inventory from some LATAM customers and has resumed growth in Q4 FY23 through new orders from several new resin converters. SECOS continues to develop new resin grades aimed at meeting the differing sustainability needs in markets globally.

Compostable Film

Compostable blown film sales currently represent a relatively small component of the Biopolymer business (\$0.1 million for Q4 FY23) and in Q4 FY23 were down 26.6% on Q3 FY23 and down 89.2% on PCP. For the financial year ending 30 June 2023, compostable film sales were down 59.4% on PCP due to one of our main converters losing a major hygiene film customer in the USA. 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 pallet and magazine wrap markets.

Traditional Plastic

Traditional sales in Q4 FY23 were down 8.9% on Q3 FY23 and down 40.5% on PCP. During Q4 FY23, the company continued to execute the strategic decision to cease sales to certain low margin traditional plastic customers. This has reduced 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. For the financial year ending 30 June 2023, the traditional plastic sales were down 30.0% on PCP. A review of SECOS' traditional film assets is being conducted with the objective to determine the best way these assets can contribute to the Company's aspirations of developing high speed compostable cast films.

Outlook

SECOS will continue its focus on developing its MyEco™ branded product range and to expand its Cardia™ compostable resin grades for supply to retailers and converters respectively.

SECOS achieved growth of approximately 140% in MyEco™ retail brand sales in major retailers and independent distributors in FY23 sales versus PCP. This has been primarily driven by expansion into the 970 stores in Woolworths, the launch into Coles' 770 Australian store network and the continued momentum from white-label partners. 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. This was reflected in the council business achieving significant growth in the second half of FY23.

SECOS continues to diversify the geographic market reach of resin sales. Increasing the number of new converters that have chosen to use SECOS' Cardia™ resins will reduce the company's dependence on the few larger converters that have been purchasing our resin over the last few years.

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.

The national marketing campaign was successfully launched in Q4 with the aim of building brand awareness and driving sales via our large retail distribution footprint within Australia. The main part of the marketing campaign is expected to be rolled-out over the next twelve months.

There have been a range of investments in the development of new compostable products and film applications. 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.

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

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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")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,774	29,289
1.2 Payments for		
(a) research and development	(125)	(380)
(b) product manufacturing and operating costs	(4,560)	(20,739)
(c) advertising and marketing	(325)	(1,437)
(d) leased assets		
(e) staff costs	(858)	(3,287)
(f) administration and corporate costs	(372)	(1,243)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(39)	(185)
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	495	2,018
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(59)	(639)
(d) investments		
(e) intellectual property		

SECOS Group Limited (ASX: SES)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	(f) other non-current assets 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	(59)	(639)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	926	3,946
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	(86)	(229)
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)	(204)	(780)
3.10	Net cash from / (used in) financing activities	637	2,938

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	7,384	4,122
4.2	Net cash from / (used in) operating activities (item 1.9 above)	495	2,018
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(59)	(639)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	637	2,938
4.5	Effect of movement in exchange rates on cash held	(32)	(15)
4.6	Cash and cash equivalents at end of period	8,424	8,424

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	8,424	7,384
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)	8,424	7,384

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	157
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>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.</i>		

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
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	<p>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.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	2,018
8.2	Cash and cash equivalents at quarter end (item 4.6)	8,424
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	8,424
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: 26 July 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.