

## ASX RELEASE

25 October 2023

### Quarterly Activities and Appendix 4C – September 2023

The Board of sustainable Biopolymer producer SECOS Group Limited (ASX: SES, “SECOS” or “the Company”) presents its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the September 2023 quarter. All figures are in A\$ and are provided on an unaudited basis.

### Financial Summary

- Positive net operating cash flows of \$0.03 million for Q1 FY24
- Q1 FY24 sales of \$4.5 million were down 21.8% on Q4 FY23 and down 24.4% on prior corresponding period (PCP). This primarily reflects the combined effect of:
  - Traditional plastic sales decreasing by 26.3% on Q4 FY23 and 29.9% on PCP in line with the planned reduction of low margin traditional plastic business in preparation for the exit from this category in H1 FY24.
  - Q1 FY24 total Biopolymer sales being down 19.7% on Q4 FY23 and down 21.6% on PCP. This decrease predominantly relates to white label sales in Lucky Dog® reflecting timing of re-orders which are expected to be received in the current quarter.
- 57.9% growth in MyEco™ brand sales in major Australian retailers and independent distributors in Q1 FY24 versus PCP.
- Q1 FY24 gross margin improved on PCP due to the strategic decision to exit low margin traditional plastic business.
- Closing cash of \$8.1 million with no debt.

### Operational Highlights

- Entered into an asset sales agreement to divest traditional plastic assets by 1 December 2023 to Advent Packaging Sdn Bhd (Advent). (ASX Announcement 1 August 2023)
- Entered into a strategic manufacturing agreement to supply Advent with resin for compostable pallet wrap and sustainable packaging films under the SECOS MyEcoWorld™ brand. (ASX Announcement 1 August 2023)
- MyEcoBag® range achieved 24% market share in compostable bin liner and kitchen caddy sales in 770 Coles stores<sup>1</sup> 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 stores<sup>2</sup>, representing 43% of sales in this category.

### Cash Flows

Net operating cash inflows were positive \$0.03 million for the quarter. Cash receipts from customers in Q1 FY24 were \$5.0 million, down from \$6.8 million in Q4 FY23, impacted by the deliberate reduction in low margin traditional plastic sales and a weaker quarter of biopolymer sales predominantly due to white label sales in Lucky Dog® reflecting timing of re-orders. Cash payments to suppliers/employees in Q1 FY24 were \$5.0 million, down from \$6.2 million in Q4 FY23 due to less manufacturing costs resulting from lower sales in Q1 FY24.

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

<sup>2</sup> Quantum Scan Data between 11/10/22 to 10/10/23

An amount of \$0.2 million was invested in capital expenditure during Q1 FY24 to continue expanding the newly established Malaysian biopolymer film and bag plant and for new equipment for the Company's Research and Development Centre.

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 \$169,763 for Q1 FY24 relating to Directors' remuneration and fees.

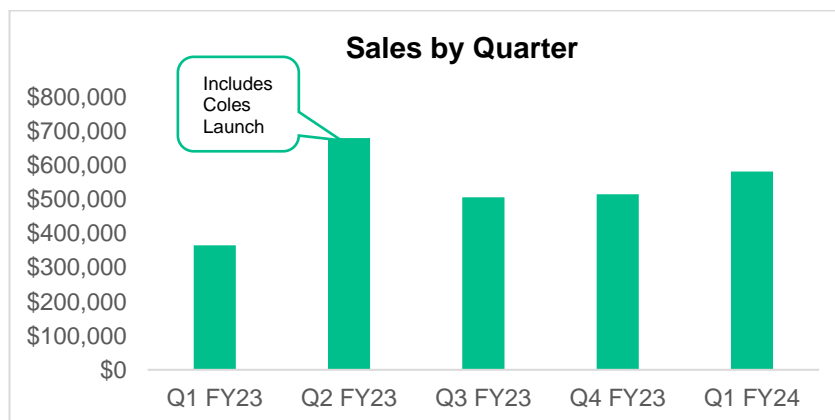
## Sales Development

### Compostable Bags

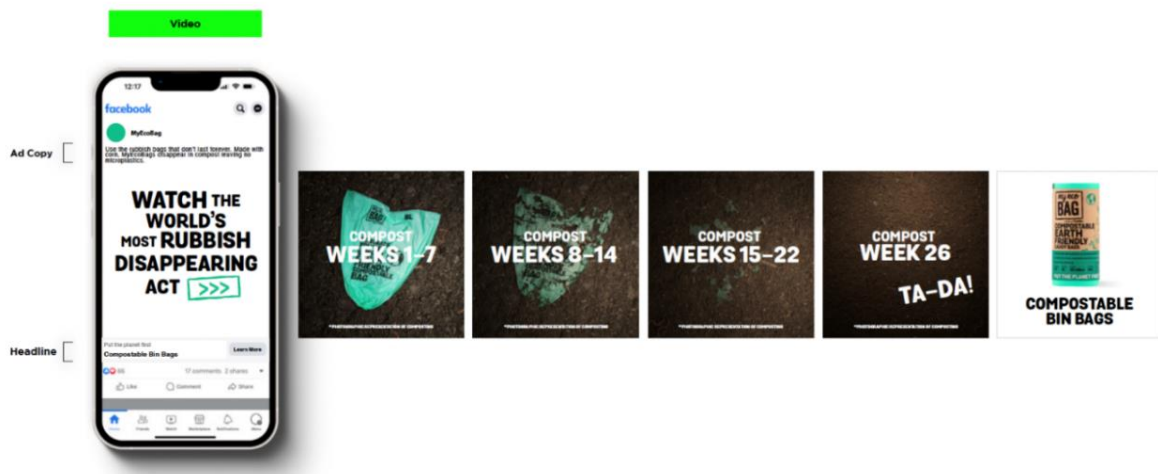
#### *MyEco™ branded products (Australia)*

Sales of the Company's MyEco™ branded products (Australia) which comprise Woolworths, Coles and Independent Distributors were up 17.9% on Q4 FY23 and 57.9% on PCP. The Company has also started supplying 4 SKUs to 80 Ritchies stores in Australia during the current quarter, which will be subject to meeting sales projections as part of the annual range review. The MyEco™ branded products remain a key pillar of the Company's growth strategy and will be driven through increases in the number of products/SKUs and increased retailers/stores, together with the organic growth of existing products in stores.

The growth in MyEcoBag™ sales via major retailers within Australia is highlighted in the below graph and shows the ongoing success of our range over the last 5 consecutive quarters including the initial launch of MyEcoBag™ into Coles during Q2 FY23.



The findings gained from the successful soft launch in Q4 FY23 formed the basis of the expanded national social media marketing campaign to launch in the current month, which aims to build awareness of the benefits of MyEcoBag™ products. The new campaign focuses on video content of a MyEcoBag™ compostable bag "disappearing" in the composting process. An example of the social media advertisement is shown below.



### *MyEco™ branded products (USA and Canada)*

There were no sales in MyEco™ branded products during Q1 FY24 to Jewett Cameron Company (JCC), which is the exclusive distributor in USA and Canada. Initial sales were made to JCC in Q4 FY23 and they have sold that inventory to retailers during the current quarter. JCC continues to develop the market for MyEco™ branded products in the USA and Canada and they remain a valued strategic partner in the region. We are now waiting for re-orders to occur as JCC work through the ongoing process of onboarding major USA retailers to expand our distribution footprint. The launch of MyEco™ branded products in major online retailers such as Amazon and Costco went live in the current month.

### *Council and Waste Management*

Council and waste management sales in Q1 FY24 were up by 5.6% on PCP although they were down by 23.0% on Q4 FY23 due to seasonal fluctuations. Sales are expected to grow in the current financial year compared to FY23 based on the current FOGO orders and contract book. The roll-out of FOGO programs to householders remains a key focus for councils to introduce food scrap diversion to organic composting programs in line with related regulations. Certified compostable bin liners have been proven to increase the amount of food waste diversion by as much as 32%.<sup>3</sup>

### *White Label*

Ezy Dog Login® dog waste bags sales remain steady. However, the Company made no sales of Lucky Dog® to JCC during the current quarter reflecting timing of re-orders. The Company continues to invest in a number of trade shows globally to promote its white label product offering. The Company has been successful in the current quarter in securing more white label partnerships from Europe to diversity its global reach. Although initial orders are small, the Company aims to build on this portfolio of white label customers.

### **Compostable Resin**

Compostable resin sales in Q1 FY24 were down 15.4% on Q4 FY23 and down 23.6% on PCP. Resin sales during Q1 FY24 continue to be impacted by the unwinding of excess inventory from some LATAM customers. SECOS continues to develop new resin grades aimed at meeting the differing sustainability needs in markets globally, including lower cost resin and resin specifically designed for food packaging and magazine wrapping.

### **Compostable and Sustainable Film**

Compostable and sustainable film sales currently represent a relatively small component of the Biopolymer business (\$0.1 million for Q1 FY24) and in Q1 FY24 were up 90.9% on Q4 FY23 and down 54.1% on PCP. High-speed compostable cast film products remain a strategic focus for the company as they offer opportunities to enter the growing sustainable pallet and magazine wrap markets. The Company is working on a distribution channel to support the sale of our compostable and sustainable film products in major markets.

### **Traditional Plastic**

Traditional sales in Q1 FY24 were down 26.3% on Q4 FY23 and down 29.9% on PCP. SECOS announced on 1 August 2023 an agreement to divest traditional plastic manufacturing assets by 1 December 2023. This will enable SECOS to focus purely on the sale and development of sustainable resins and MyEcoWorld™ finished products.

<sup>3</sup> Waste 2022 Conference (Coffs Harbour)

## Outlook

SECOS achieved growth of 57.9% in MyEco™ retail brand sales in major retailers and independent distributors in Q1 FY24 sales versus PCP. This has been driven by sales momentum in the 970 Woolworths stores and 770 Coles stores. MyEcoBag™ sales growth via Supermarkets is expected to continue as Councils continue to introduce FOGO programs and householders adopt food scrap diversion to organic composting programs.

Initial sales of the MyEco™ branded product range in the USA have taken place via JCC as the Company continues to grow this market segment. Chad Summers (JCC President/CEO) stated the following: “We launched our new MyEcoWorld® sustainable bag products during the 4th quarter of fiscal 2023. We expect it will take time for sales of these new and innovative premium products to gain traction with retailers and consumers. Since these products are consumables, once they are established, recurring sales will build over time. Consumers are increasingly seeking more environmentally friendly alternatives to conventional hydrocarbon derived plastic products.”

The divestment of SECOS traditional plastic business aligns with the Company’s strategy of being a leader in sustainable packaging. It allows the Company to focus on compostable resin development, with a growing range of finished products produced via a combination of outsourcing and in-house manufacturing. The strong retail brand of MyEcoWorld™ positions the Company well to source highly competitive large-scale converters to manufacture an entirely new and expanding range of compostable and sustainable products, rather than investing in manufacturing conversion assets to fulfil demand.

Gross margin is continuing its upward trend on a PCP basis as the Company reduces low margin traditional sales and freight rates and material costs maintain pre-pandemic levels.

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

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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 September 2023**

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	5,039	5,039
1.2 Payments for		
(a) research and development	(80)	(80)
(b) product manufacturing and operating costs	(3,165)	(3,165)
(c) advertising and marketing	(450)	(450)
(d) leased assets		
(e) staff costs	(908)	(908)
(f) administration and corporate costs	(357)	(357)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(48)	(48)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>31</b>	<b>31</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(157)	(157)
(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 (3 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	<b>Net cash from / (used in) investing activities</b>	<b>(157)</b>	<b>(157)</b>

3.	<b>Cash flows from financing activities</b>		
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)	(180)	(180)
3.10	<b>Net cash from / (used in) financing activities</b>	<b>(180)</b>	<b>(180)</b>



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	8,424	8,424
4.2	Net cash from / (used in) operating activities (item 1.9 above)	31	31
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(157)	(157)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(180)	(180)
4.5	Effect of movement in exchange rates on cash held	4	4
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>8,122</b>	<b>8,122</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> 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	8,122	8,122
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>8,122</b>	<b>8,122</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	170
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>		



<b>7.</b>	<b>Financing facilities</b> <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>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	<b>Total financing facilities</b>		
7.5	<b>Unused financing facilities available at quarter end</b>		
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>		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	31
8.2	Cash and cash equivalents at quarter end (item 4.6)	8,122
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	8,122
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	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 October 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.