

## ASX RELEASE

24 July 2024

# Quarterly Activities and Appendix 4C

## June 2024

The Board of SECOS Group Limited (ASX: SES, “SECOS” or “the Company”), a developer and manufacturer of sustainable packaging and materials, presents its Quarterly Activities Report and Appendix 4C Quarterly Cash Flow Statement for the June 2024 quarter. All figures are in A\$ and are provided on an unaudited basis.

## Financial Summary

### Sales

- Total sales of sustainable products in FY24 were \$14.4m which was 3.2% down on PCP
- Total sales of sustainable products in H2 FY24 increased to \$8.3m, up 33.3% on H1 FY24 and up 11.0% on the prior corresponding period (PCP)
- Total sales of sustainable products were \$4.0m in Q4 FY24, down 8.1% quarter on quarter (QOQ) and up 1.7% on PCP
  - MyEco® branded sales were \$0.8m in Q4 FY24, down 15.2% QOQ and up 22.4% on PCP
  - Council and waste management sales were \$1.4m in Q4 FY24, down 26.5% QOQ and up 25.6% on PCP
  - Resin sales were \$0.9m in Q4 FY24, up 13.5% QOQ and down 24.8% on PCP
  - White label and other sales were \$0.7m in Q4 FY24, up 27.4% QOQ and down 22.5% on PCP
  - SECOS ceased trading in traditional plastics in Q2 FY24 and recorded nil sales in Q4 FY24 in this sector compared to \$1.8m in PCP
  - On a continuing operations basis, gross margins grew from 16% in FY23 to 21% in FY24 as freight rates and material costs return to pre-pandemic levels.

### Cash

- Net operating cash flows of -\$0.2m in Q4 FY24
- Closing cash of \$6.1m with no debt.

## Highlights

- SECOS was awarded an order to supply 80 Ritchies stores with reusable compostable check out bags opening a new category that is aimed to replace paper and plastic reusable check out bags in retail stores. The Australian carry bag market represents a \$2.2 billion opportunity if retailers elect to use compostable reusable bags over plastic and paper bags. <sup>1</sup>
- SECOS was awarded orders to supply Woolworths 970 stores with a new 12L MyEcoBag® SKU to be launched in August 2024
- Increased orders received in Q4 FY24 from Jewett Cameron Company (JCC) in response to increased demand from USA retail stores to establish a foundation for sales growth leading into FY25
- SECOS is actively opposing Recycling Victoria's draft proposed Household and Recycling Service Standard 2024 (Draft Service Standard) released on 18 June 2024 which classifies certified compostable caddy bin liners as a non-accepted material in Victoria's new

<sup>1</sup> Morder Intelligence (Australia Retail Bags Market 2023-2028)

standardised four-stream household waste and recycling system. (refer to ASX Announcement 24 July 2024 for a full update)

- The Solving Plastic Waste Cooperative Research Centre (CRC) program is expected to commence in Q1 FY25 with SECOS' share of the \$140.6m allocated to this CRC to be confirmed once the R&D project scope is finalised
- The SECOS MyEcoBag® range continues to be the category leader in compostable bin liner and kitchen caddy sales in both Coles and Woolworths, with 29% market share in 850 Coles stores<sup>2</sup>, and 46% market share in 970 Woolworths stores<sup>3</sup>

## Cash Flows

Net operating cash flows were negative \$0.2m for the quarter. Cash receipts from customers in Q4 FY24 were \$4.1m, down \$0.6m QOQ due to lower sales in Q4 FY24 compared to the previous quarter. Cash payments to suppliers/employees in Q4 FY24 were \$4.3m, down \$1.1m QOQ due to lower manufacturing costs resulting from lower sales in Q4 FY24 compared to the previous quarter.

Capital expenditure of \$0.03m was invested during Q4 FY24 in the Company's Malaysian biopolymer plant and for new equipment for the Company's Research and Development Centre.

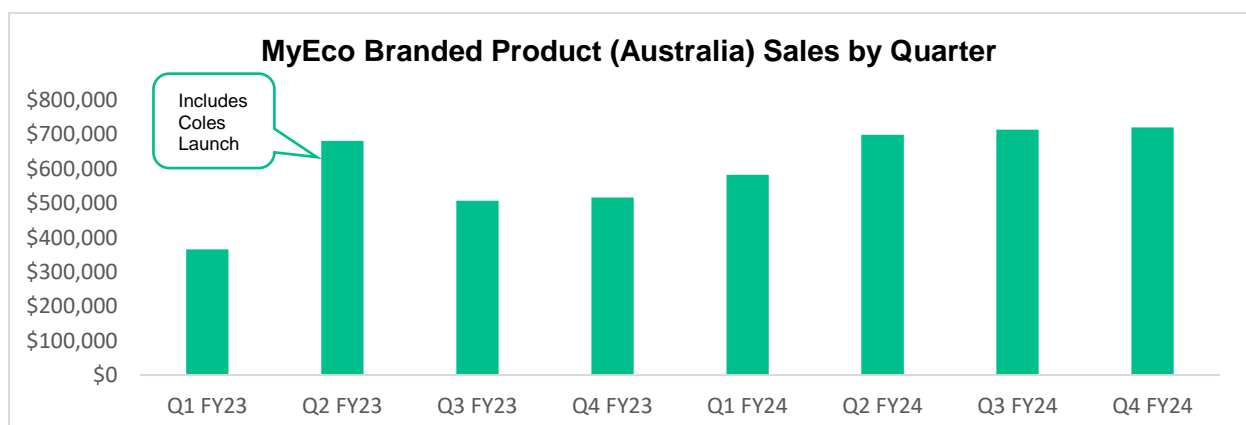
Pursuant to ASX Listing Rule 4.7C, as noted in Section 6.1 of the Company's Appendix 4C Cashflow Statement, payments made to related parties and their associates total \$167,521 for Q4 FY24 relating to Directors' remuneration and fees.

## 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 0.8% QOQ and up 41.2% on PCP. FY24 sales were up 28.3% on PCP. MyEco® branded products remain a key part 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 ongoing success via major retailers within Australia in the last eight quarters is highlighted below.



<sup>2</sup> IRI Scan Data between 12/11/22 to 2/7/24

<sup>3</sup> Quantum Scan Data between 12/7/23 to 9/7/24

### *MyEcoWorld® branded products (USA and Canada)*

SECOS sold \$0.1m in MyEcoWorld® branded products to Jewett Cameron Company (JCC) during Q4 FY24 compared to \$0.2m in Q3 FY24 and \$0.1m in PCP. The Company received orders totalling \$0.3m in Q4 FY24, of which \$0.2m of these orders will be delivered in Q1 FY25. FY24 MyEcoWorld® sales to JCC increased to \$0.3m versus \$0.1m in PCP. JCC is SECOS' exclusive distributor and strategic partner in USA and Canada and continues to develop the retail market for MyEcoWorld® branded products in this region.

Online sales of MyEcoWorld® compostable products continue to perform strongly via costco.com and further sales growth is expected in this category as the MyEcoWorld compostable products are now also available across the USA on amazon.com and myecoworld.com. In addition, several trials at other Big Box retailers across the USA are underway which we hope will underpin continued growth.

In Q4 FY24 JCC was awarded the supply of post-consumer recycled dog bags to Costco Mexico representing the company's first orders of this new product range, which is made by SECOS using Certified 95% recycled soft plastic. This product addresses the critical need for effective recycling solutions in a world where only 9% of plastics, including soft plastics, are recycled globally. Post-consumer recycled plastic is sourced from items that have been used, discarded, and collected through recycling programs. All MyEcoWorld recycled products are certified under the Global Recycled Standard (GRS), guaranteeing the recycled material has been independently verified at each stage of the supply chain, from the source to the final product. This rigorous certification process sets us apart in a market that is increasingly vulnerable to greenwashing practices.



SECOS MyEcoWorld 95% Recycled Plastic Dog Bags  
supplied to Costco Mexico via JCC

### *Council and Waste Management*

Council and waste management sales in Q4 FY24 were down 26.5% QOQ and up 25.6% on PCP. FY24 sales were up 17.5% on PCP where the reach of the Company's product supply increased from 34 councils to 52 councils within the past 12 months. The roll-out of FOGO programs to householders remains a key focus for councils to divert food scrap to organic composting programs in response to increasing sustainability regulations.

### **Compostable Resin**

Compostable resin sales have continued to stabilise as the Company manages through the residual impact of difficult global logistics and market conditions that led to excess resin inventory being held by customers. Compostable resin sales in Q4 FY24 were up 13.5% QOQ and down by 24.8% on PCP. FY24 sales were down 22.6% on PCP.

LATAM resin sales have gained traction through the ongoing relationship with SM Resinas, which signed a new distribution agreement with SECOS in Q3 FY24 and local sales within Mexico which increased by over 100% in H2 FY24 versus H1 FY24.

SECOS continues to develop new resin grades aimed at meeting the differing sustainability needs in markets globally, including a lower cost resin and resins specifically designed for food packaging and magazine wrapping to meet increasing competition from lower quality and cost suppliers.

### **Compostable and Sustainable Film**

Compostable and sustainable film sales currently represent a relatively small component of the business (\$0.2m for Q4 FY24) and were up 12.0% QOQ and up 214.5% on PCP. FY24 sales were down 1.7% on PCP. High-speed compostable wrapping film products remain a strategic focus for the company as they offer opportunities to enter the growing and high-volume sustainable pallet and magazine wrap markets. The Company is working to develop a distribution channel to support the sale of our compostable and sustainable film products in major markets.

### **Outlook**

In relation to global MyEco® branded sales in major retailers and independent distributors, SECOS achieved growth of 22.4% in Q4 FY24 sales versus PCP and growth of 33.0% in FY24 versus PCP. We will continue to pursue growth in this category which is being supported by national marketing campaigns to build brand awareness and bolstering sales via our large distribution footprint in Australia. Growth in sales to local Councils is expected to continue in FY25 based on the current FOGO orders and contracts in place and as Councils continue to introduce FOGO programs and householders adopt food scrap diversion to organic composting programs.

The completion of the divestment of the Company's traditional plastic business in Q2 FY24 has enabled SECOS to focus fully on compostable resin development and product sales. The strength of the MyEco® and MyEcoWorld® retail brands position the Company well to work with large-scale converters to manufacture an expanding range of compostable and sustainable products, reducing the requirement for SECOS to invest in manufacturing and conversion plant to fulfil demand.

On a continued operations basis, gross margins expected to continue growth as freight rates and material costs return to pre-pandemic levels.

The Company is committed to preventing the Draft Services Standard released by Recycling Victoria from being implemented to the extent they apply to compostable caddy liners, given the Company's Certified compostable caddy bin liners significantly enhance environmental outcomes by diverting over 30% more organic household waste from landfills. The deadline for consultation is 11.59 pm on 14 August 2024, marking the last opportunity for all stakeholders to express their concerns before the Proposed Service Standards are enacted and enforced from 1 July 2027. (ASX Announcement 24 July 2024)

SECOS continues to scope the R&D projects in the Solving Plastic Waste Cooperative Research Centre (CRC) program where there is matched R&D funding from the Australian Federal Government from a joint Industry University bid. The CRC is expected to commence in Q1 FY25 and SECOS' share of the \$140.6m allocated to the CRC will be confirmed once the R&D project scope is finalised.

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 films to a blue-chip global customer base. SECOS Group is integrated from resin production, into film 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.

SECOS has sales offices in Australia, Malaysia, China Mexico and the USA, with a network of leading distributors across the Americas, Europe and Asia.

### 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 2024**

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	4,136	18,550
1.2 Payments for		
(a) research and development	(85)	(338)
(b) product manufacturing and operating costs	(2,552)	(13,143)
(c) advertising and marketing	(334)	(1,505)
(d) leased assets		
(e) staff costs	(890)	(3,587)
(f) administration and corporate costs	(486)	(1,283)
1.3 Dividends received (see note 3)		
1.4 Interest received	14	114
1.5 Interest and other costs of finance paid	(12)	(95)
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>(209)</b>	<b>(1,287)</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	(33)	(499)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment	93	197
	(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>60</b>	<b>(302)</b>

<b>3.</b>	<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)	(164)	(719)
3.10	<b>Net cash from / (used in) financing activities</b>	<b>(164)</b>	<b>(719)</b>



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 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	<b>6,468</b>	<b>8,424</b>
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(209)	(1,287)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	60	(302)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(164)	(719)
4.5	Effect of movement in exchange rates on cash held	(47)	(8)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>6,108</b>	<b>6,108</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	<b>6,108</b>	<b>6,468</b>
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>6,108</b>	<b>6,468</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	168
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.	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>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	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.	<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)	(209)
8.2	Cash and cash equivalents at quarter end (item 4.6)	6,108
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	6,108
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b> <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>	29.2
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:** 24 July 2024

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.