

# ECS Botanics Holdings Ltd (ASX:ECS)



## ASX Announcement

28 February 2024

## ECS Botanics achieves profitable first half, record sales for oils and flower as order book continues to grow

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis company, today announced its results for the six months ended 31 December 2023 (H1 FY24).

### Financial highlights:

- Profitable operations, with NPAT of \$1.2 million (H1 FY23: loss of \$1.4 million)
- EBITDA of \$1.9 million, up from \$1.0 million loss in prior year, reflecting increased sales and focus on profitable growth
- Half year trading revenue increased to a record \$11.3 million, up 66% (H1 FY23: \$6.8 million)
- Positive net operating cash flow, delivering free cash flow of \$0.4 million
- Comfortably funded with \$2.6 million in cash and an undrawn NAB facility of \$2.0 million as at 31 December 2023
- On 22 February 2024 ECS announced a successful \$4m placement through Bell Potter Securities

### Operational highlights:

- Major long-term Australian and international supply agreements executed
- Outdoor cultivation area expanded by 60%
- Significant expansion of licenced production capacity following approval by Office of Drug Control – increased to 13.7 tonnes
- Investment in additional heating and lighting in four Protective Cropping Enclosures (PCE's) following successful R&D project; first stage will increase the yield by 100% in these PCE's due to year-round cultivation
- Trial shipment to German partner Ilios Santé completed
- Launch preparation of B2C commencing with Avani Rapid CBD capsules with VESIsorb® delivery system for enhanced bioavailability
- Strong demand for ECS' latest product launch of white label Pastilles (gummies)

### Financial update

ECS delivered record revenue and cash receipts in H1 FY24 as its growth rate accelerated due to substantial increases in local and international contract agreements. Receipts from customers were \$10.5 million, up 69% on PCP (H1 FY23: \$6.2 million). This led to positive net operating cash flow for



the half of \$0.4 million, despite the significant investment in the establishment and planting of 25,000m<sup>2</sup> (60% increase) of additional outdoor fields, including irrigation infrastructure.

Trading revenue for the half totalled \$11.3 million, up 66% on PCP (H1 FY23: \$6.8 million), driven by increased sales of both oils and flower from existing customers, along with the addition of new key customers.

### Track record of growing revenue & cash receipts



ECS' disciplined approach to profitable growth resulted in H1 FY24 EBITDA of \$1.9 million and an EBIT of \$1.3 million, both up substantially compared to the losses in H1 FY23.

ECS remains well funded with a cash balance of \$2.6 million as at 31 December 2023, along with a NAB facility of \$2 million which remains undrawn. ECS secured an equipment financing facility with NAB for \$1.0 million, of which \$0.3 million was utilised to fund the heating and lighting project.

Subsequent to the end of the Half Year the Company bolstered its cash position following a successful equity raise undertaken by Bell Potter Securities. The placement raised \$4m which will be utilised to undertake expansion projects and support our international and B2C sales.

#### Commenting on the H1 FY24 results, ECS Managing Director, Nan-Maree Schoerie said:

*"ECS is now seeing the benefits of our capital light-business model and our ability to effectively build scale into our operations. We delivered a strong first half of FY24 with record revenue and customer receipts as our rate of growth accelerated, and importantly, achieved a profit.*

*"The strong sales of oils and flower, and expansion of the white-label product range, underscored the sustained demand for ECS' products from both new and existing overseas and domestic customers. Recent capacity upgrades to our pharmaceutical-grade production facility are allowing us to service our offtake agreements, increase volumes to white label supply partners as demand for ECS medicinal cannabis builds.*



*"To further optimise production and increase revenue growth from existing assets we conducted successful trials on our PCE's where we increased yield and improved uniformity across batches. We also produced seven new cultivars which are now in commercial production which will further support customer demands for exclusive cultivars.*

*"Following the successful launch of the pastilles (gummies) ECS is preparing for the launch of its own Avani Rapid CBD capsules. The Avani range will utilise the VESIsorb® delivery system, a patented technology that improves the bioavailability and effectiveness of cannabis-based formulation products. It will allow us to cost-effectively enter the B2C market and diversify and increase revenue streams."*

## **Operational Update**

### **Major contract agreements signed**

In October 2023, ECS signed a \$24 million binding off-take agreement with Medicann Heath Pty Ltd ("Medicann") to supply medicinal cannabis dried flower over five years. Medicann's consistent purchase of the same strains underscored the strong demand for ECS products.

Several ECS customers, including Nubu based in New Zealand, have experienced substantial sales growth, with Nubu requiring a 50% increase in supply compared to the previous quarter,

A trial batch of premium dried flower was sent to current customer, Ilios Santé in Germany, during the half.

Post reporting period, in February, ECS signed a \$9.3 million binding off-take agreement with UK based distributor, Rokshaw Ltd. ECS will supply minimum 600kg of pharmaceutical-grade cannabis dried flower each year, which is expected to generate \$9.3 million in revenue for ECS,

### **Expanded growing area**

ECS made strategic investments to expand its outdoor cultivation space by 60%, integrating new fields and establishing a dedicated zone for CBD biomass. Adjustment in plant spacing was implemented to streamline mechanical foliar spraying processes, aiming to enhance productivity. These improvements are expected to significantly increase annual production capacity and further reduce operating costs.

### **R&D Project Yields Positive Results**

During the half, ECS successfully concluded its R&D project. The study, conducted between July and October, successfully identified the optimal lighting and heating conditions necessary for consistent year-round cultivation of cannabis flowers.

During the trial, the impact of heating on yield and potency during colder months was assessed. Various techniques were explored to enhance yield and ensure uniformity across batches, including the utilisation of sensors, lighting, and climate control devices to optimise temperature and humidity. Some of these effective techniques have already been integrated into ongoing PCE operations, promising a substantial increase in yield and subsequent revenue growth from existing assets.

The R&D project successfully led to the development of seven new cultivars, which commenced commercial production in December. This initiative aims to meet customer demands for exclusive cultivars, further diversifying the product offerings.

As a result of the successful trial, ECS has allocated additional funding for lighting and heating in four PCEs. These enhancements will be integrated into a year-round grow cycle, with a 100% increase in production from these PCEs anticipated.



### **Steritech partnership ECS Botanic**

ECS formalised a partnership agreement with Steritech to provide GMP contract packaging services for medicinal cannabis flower. Under this agreement, ECS will benefit from preferential pricing for packaging of its products.

### **Growth in ECS medicinal cannabis oils**

Over the half, ECS saw a significant rise in oil orders during the half with 148,325 units ordered, exceeding the previous highest half by 86%. The increasing oil volume will deliver higher margins once the ECS/SunPharma extractor is in commercial operation after the TGA has availability to complete a GMP audit.

### **Outlook: well-positioned for continued growth**

#### **Commenting on H1 and the outlook, ECS Managing Director, Nan-Maree Schoerie said:**

“ECS is focused on continuing to build scale in its operations and broadening our customer base globally. The expansion of our outdoor cultivation space, coupled with the commercial integration of our successful R&D, positions us well to increase production and optimise quality of our EU-GMP standard products. This ongoing innovation aligns seamlessly with our strategy to grow the business by maximising economies of scale, improve margins through a broader product range and expand our intellectual property.

“We look forward to introducing our proprietary line of medicinal cannabis oils, incorporating VESIsorb® technology. These products represent a new phase in developing our intellectual property, diverging from our existing offerings to B2B customers with an unprecedented choice not currently available in the Australian market.

“We are anticipating a very busy 2HY 24 as we expand facility, harvest our record crop, and launch our VESIsorb B2C range. Furthermore we are pleased to see that the German adult use bill passed on Friday 23<sup>rd</sup> February, which will provide a significant boost to our export opportunities particularly in respect to the differentiation from ECS’ organic credentials.”

*Authorised on behalf of ECS Botanic Holding Ltd by Nan-Maree Schoerie, Managing Director.*

**-ENDS-**

### **About ECS Botanic Holdings Ltd**

**ECS Botanic Holdings Ltd** is an Australian medicinal cannabis cultivator and manufacturer located in Northwest Victoria. ECS utilises progressive and innovative cultivation methodologies to produce high quality medicine in a sustainable way, adopting regenerative and organic horticultural practices and renewable energy sources. Licenced by the Australian Therapeutic Goods Administration to manufacture GMP (equivalent to PIC/S, EU agencies are all PIC/S members) certified products, ECS has become a leading provider of high-quality, affordable medicinal cannabis.

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