

ECS Botanics Holdings Ltd (ASX:ECS)



ASX Announcement

23 October 2024

ECS delivers strong Q1 with key license agreement, funding boost and leadership appointments

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis company, provides an update on activities for the quarter ending 30 September 2024 (Q1 FY25).

Q1 FY25 Highlights:

- Quarterly revenue of \$5.0 million, up 22.0% on prior corresponding period (pcp) and up 11.1% on prior quarter (QoQ)
- Cash receipts of \$4.4 million, up 10.0% on pcp and up 7.3% QoQ
- Entered eight-year exclusive license agreement with Terphogz™, a leading cannabis breeding group from California
- \$118k Victoria Government manufacturing grant received
- Strengthened leadership team with the appointment of Dr Rachel Swift to the Board as Non-Executive Director and Nicholas Thomas as Chief Operating Officer
- Secured additional \$3.4 million Asset Finance Facility with National Australia Bank (NAB) bringing to the total to \$4.4 million

Financial Update

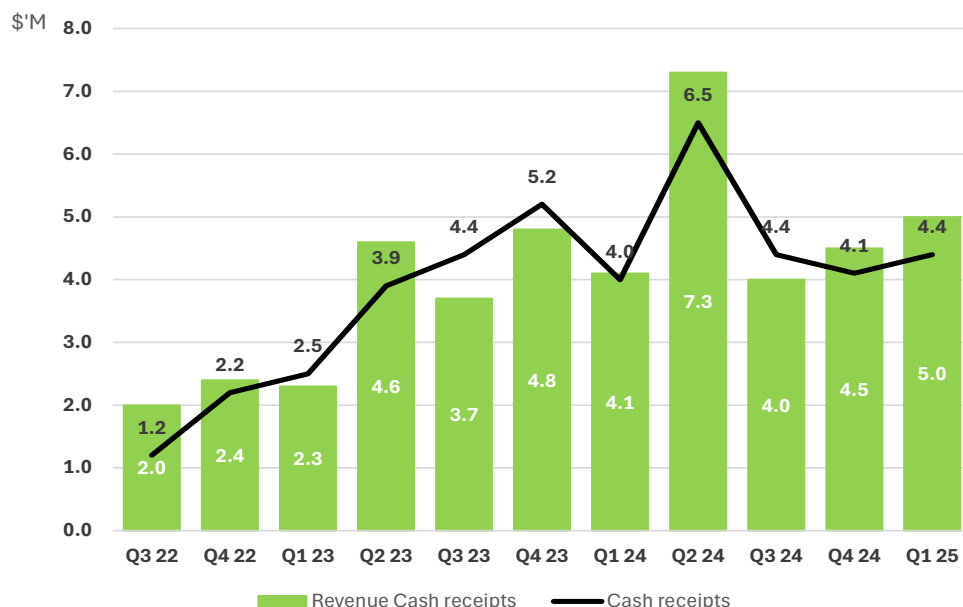
ECS delivered revenue of \$5.0 million in Q1 FY25, a 22.0% increase on pcp (Q1 FY24: \$4.1 million) and up 11.1% QoQ, driven by increasing B2C sales and exports. Quarterly cash receipts from customers of \$4.4 million were up 10.0% on pcp (Q1 FY24: \$4.0 million) and up 7.3% QoQ.

ECS' B2C business is growing strongly, with its Prescribing Doctors strategy to accelerate further with the launch of Avani flower in October and VESIsorb® soft capsules in November. Introducing a B2C strategy has provided a valuable diversification in the business, particularly as B2B sales continue to come under pressure due to large volumes of product in the market.

Net operating cash outflow for Q1 FY25 was \$0.8 million. Operating costs increased by 1.5% on prior quarter and 28% on prior corresponding period, due to larger scale operations, and the strategic investments in ECS' own brand, retail strategy and the establishment of global strategic partnerships, which are key to long term growth.

Further investments of \$0.8 million included financing the construction of new Protective Cropping Enclosures (PCEs), including heating and lighting.

ECS remains well funded as at 30 June 2024, with a cash balance of \$2.7 million and \$2.0 million undrawn from the NAB Facility.



Revenue and Cash Receipts in AUD millions

Operational Update

Terphogz™ license agreement

During the quarter, ECS entered into an exclusive eight-year license agreement with cannabis breeding group, Terphogz™ to manufacture and sell a range of its medicinal cannabis products in Germany, Australia and New Zealand.

Terphogz is an award-winning cannabis breeding group from California. It owns a genetic library known for creating the popular cannabis strain “The Original Z™ (Zkittlez)”. The unique terpene profile of “The Original Z” and its crosses makes them some of the most sought-after and desirable strains in the cannabis industry and have won many awards including numerous first place trophies at competitions such as The Emerald Cup.

The License Agreement leverages ECS’ cultivation capabilities, licensed GMP facilities and global reach, with Terphogz’s unique genetics, product portfolio, and strong brand recognition to provide patients with sought-after products, previously limited to Californian markets.

Additional financing

ECS received a \$118k manufacturing grant from the Victorian Government and secured an extension of its Asset Finance facility with National Australia Bank (NAB), increasing the facility limit by an additional \$3.4 million.

ECS will use the funding from the 'Made in Victoria – Manufacturing Growth Program Round 2' initiative to expand into the production of live rosin cartridges for both own-brand and white-label products, with procurement expected to commence in the coming quarter.

The asset finance facility extension, provides ECS with greater flexibility to expand its growing and production facilities without equity dilution, boosting cannabis production and driving increased sales.



Board and senior leadership appointments

During the quarter, ECS welcomed Dr Rachel Swift to the Board as a Non-executive Director and Mr Nicholas Thomas as Chief Operating Officer (COO).

Dr Swift joins the ECS Board with a strong track record in driving transformative health initiatives and leading strategic change in complex environments. She has held senior positions in companies at the forefront of health system management, public health, infectious diseases, digital health, and medical research, including a decade at The Boston Consulting Group where she focused on business strategy, healthcare innovation, and enhancing patient outcomes.

Additionally, Nicholas Thomas joins as COO to oversee ECS' daily operations, optimising efficiencies, and driving the Company's operational initiatives to support its expansion in the international medicinal cannabis market and introduction of B2C product lines. He brings extensive experience in agricultural compliance and auditing quality systems, including Good Manufacturing Practice (GMP), the Harmonised Australian Retailer Produce Scheme (HARPS) and the Safe Quality Food Institute (SQFI). Additionally, Nicholas has an extensive understanding of end-to-end supply chain management, with a strong focus on FMCG and export systems.

PCE Construction Update

The construction of the new PCEs continues to progress, with one new PCE in production and two more to commence in October. The new PCEs feature concrete beds and a sloping concrete floor with embedded underfloor heating. Although they come at a slightly higher cost, these upgrades provide enhanced environmental control, improved worker ergonomics, and enhanced cleanliness. The sloping floors allow for better drainage and for bed flushing if required. All works for the electrical upgrade have been completed, however, delays by the electricity supplier in undertaking the meter upgrade has delayed the final connection. This is now scheduled for late October.



PCE 18



Outlook

Commenting on the outlook, ECS Managing Director, Nan-Maree Schoerie said:

"ECS has made a number of strategic investments that will support both our immediate and long-term growth objectives. The license agreement with Terphogz™ gives us exclusive access to manufacture and distribute its renowned medicinal cannabis products in Germany, Australia, and New Zealand. This partnership expands our product portfolio with highly sought-after strains and enhances our market reach, tapping into patient demand previously limited to California.

"The first VESIsorb® product, a 25mg CBD soft gel capsule, has been produced and will launch as planned in November. Additional capsules and pastilles are being formulated and will provide prescribers with a value-for-money product, with superior absorption compared to current products available on the market.

"Strengthening our leadership team with the appointment of Dr. Rachel Swift and Nicholas Thomas will help guide ECS through its next phase of growth. Dr. Swift's background in health strategy will be pivotal as we advance our healthcare offerings, while Nicholas Thomas' operational and compliance expertise will streamline efficiencies, support scaling efforts, and ensure our supply chain continues to meet international standards.

"These initiatives coupled with greater production capabilities, increasing global demand, and a rapidly growing B2C business, strongly positions ECS for growth in the global medicinal cannabis market, and will ensure our high quality, certified organic medicinal cannabis is accessible by even more patients around the world."

Corporate

Production and manufacturing costs amounted to \$2.8 million. Payments to related parties (\$177,167) under Section 6.1 of Appendix 4C were made to Director related entities. This comprised \$128,088 for Director fees \$13,860 for Company Secretarial and registered office services, and \$35,219 for Pharmaceutical and IT consultancy services.

Authorised on behalf of ECS Botanics Holdings Ltd by Nan-Maree Schoerie, Managing Director.

-ENDS-

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About ECS Botanics Holdings Ltd

ECS Botanics Holdings Ltd is an Australian medicinal cannabis cultivator and manufacturer located in Northwest Victoria. ECS utilises progressive and innovative cultivation methodologies to produce 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.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ECS Botanics Holdings Limited

ABN

98 009 805 298

Quarter ended ("current quarter")

30 September 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,401	4,401
1.2 Payments for		
(a) research and development	(4)	(4)
(b) product manufacturing and operating costs	(2,798)	(2,798)
(c) advertising and marketing	(45)	(45)
(d) leased assets	-	-
(e) staff costs	(1,876)	(1,876)
(f) administration and corporate costs	(433)	(433)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	4
1.5 Interest and other costs of finance paid	(23)	(23)
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	(774)	(774)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(834)	(834)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(834)	(834)

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	1,171	1,171
3.6	Repayment of borrowings	(58)	(58)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	1,113	1,113

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,156	3,156
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(774)	(774)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(834)	(834)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,113	1,113
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,661	2,661

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	2,661	3,156
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)	2,661	3,156

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	(177)
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>		
6.1	Director and consulting fees paid to Directors and/or Director related entities	\$128,088
	Company secretarial, registered office services	\$13,860
	Pharmaceutical and IT consultancy services fee paid to Director related entities	\$35,219

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	2,000	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	2,000	-
7.5	Unused financing facilities available at quarter end		2,000
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.		
	NAB has approved an increase in the company's loan from \$800K to \$2 million. The loan is structured with a 12-month interest-only period, followed by an amortization schedule that gradually reduces the balance to \$850K over the subsequent 4 years. Additionally, we have secured an increase of \$3.4 million in our Asset Finance facility, raising the total from \$1 million to \$4.4 million. As of 30 September 30 2024, approximately \$2.17 million of this facility has been utilized, leaving \$2.23 million available for capital expenditure. The company will repay the principal and interest on a monthly basis throughout the term of the loan.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(774)
8.2	Cash and cash equivalents at quarter end (item 4.6)	2,661
8.3	Unused finance facilities available at quarter end (item 7.5)	2,000
8.4	Total available funding (item 8.2 + item 8.3)	4,661
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.0
	<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

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.

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: 23 Oct 2024

Authorised by: The Board of ECS Botanics Holdings Limited
(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.