

ASX RELEASE

27 October 2022

Quarterly Activities and Appendix 4C – September 2022

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 September 2022 quarter. All figures are in AUD\$ and are provided on an unaudited basis.

Financial Summary

- Positive net operating cash of \$1.0 million for Q1 FY23 supported by effective working capital management.
- Q1 FY23 sales of \$6.0 million were down 14.4% on PCP impacted by distributors and convertors working through inventories built up to manage the lengthy shipping delays earlier in the year.
- Q1 FY23 sales of Biopolymer were up 9.1% on Q4 FY22, although were 13.7% lower than PCP.
- Based on increasing sales activity Q2 FY23 sales are expected to be greater than 30% up on Q1 FY23.
- Capital investment in capacity expansion for Q1 FY23 was \$0.2 million.
- Closing cash was \$4.7 million with no debt.

Operational Highlights

- In addition to the continued roll-out in Woolworths from 237 to 970 stores, the MyEcoBag range is being rolled out to more retailers, with the number of stores within Australia expected to grow from 1200 stores to over 2000 stores in Q2 FY23.
- MyEcoBag™ range is now stocked over 150 stores in the USA and this is expected to reach over 300 stores by end 2022.
- SECOS has expanded distribution channels in the USA Pet market following the establishment of distribution arrangements with KeHE, one of the largest pure-play grocery and natural product distributors with a 16-distribution centre network across USA.
- Growing partner-branded sales of compostable bags with Jewett Cameron Company (JCC) and EzyDog and own-branded MyEcoPet sales is increasing asset utilisation rates in China and the new Malaysia compostable film & bag plant.
- SECOS’ new Research and Development (R&D) Centre has completed initial trials of certified compostable film to create higher-clarity biopolymer films which provide clear see-through for transparent food packaging or mailing items. Initial samples will be supplied to significant brands for evaluation shortly.
- SECOS attained a Bronze EcoVadis rating. EcoVadis audits a broad range of non-financial management systems including Environmental, Labour & Human Rights, Ethics and Sustainable Procurement measures.
- Confirmation and installation of new automated bagging lines for production of compostable bags will enable improved labour efficiencies
- Product margins are returning to pre-Covid levels with reduced freight rates and normalising of supply lines.

SECOS Group Limited (ASX: SES)

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Cash Flows

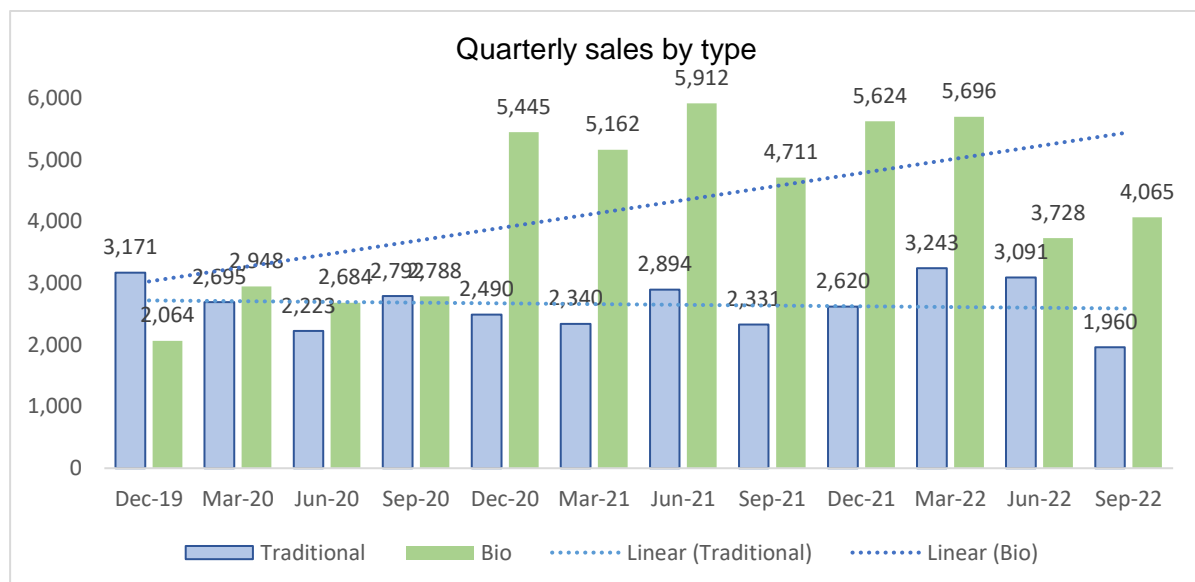
Cash receipts from customers in Q1 FY23 were \$8.5 million, up from \$6.9 million in Q4 FY22 due to heightened focus on customer collections and phasing of sales. Net operating cash inflows were positive \$1.0 million, reflecting effective working capital optimisation.

During the quarter, \$0.2 million was invested in capital expenditure to continue expanding the newly established Malaysian biopolymer film and bag plant and for new equipment for the Research and Development Centre.

The Company continues to maintain a strong balance sheet with \$4.7 million cash in the bank and no debt.

Sales Development

Q1 FY23 sales of \$6.0 million were impacted by recent well-documented global events which include Covid-19-related logistics and shipping delays. The global supply chain crisis has resulted in a build-up of inventory and extension of receivables to accommodate the longer lead times to deliver from order to customer. As supply chain and fulfilment timelines have begun to retract, working capital has begun to normalise.



Compostable Resin

Compostable resin sales in Q1 FY23 were up 9.3% on Q4 FY22 and down 37.4% on PCP. Resin sales in the quarter were impacted by converters still working through inventories built up because of the lengthy shipping delays earlier in the year.

Compostable Bags

Compostable bag sales in Q1 FY23 were up 30.8% on Q4 FY22 and up 9.3% on PCP.

Compostable Film

Compostable blown film sales currently represent a relatively small component of Biopolymer business and in Q1 FY23 were down 15.8% on PCP and down 55.0% on Q4 FY22. SECOS Group continues to qualify sales of compostable film through its cast lines for brands interested in adopting a more sustainable offering to replace their traditional plastic products.

Traditional Plastic

Traditional sales in Q1 FY23 were down 15.9% on PCP and down 36.6% on Q4 FY22 as a result of weaker demand for traditional plastic products.

Outlook

We remain confident that the trends that underpinned past growth will continue to underpin future growth. The increasing sales and improved asset utilisation rates across the group are being supported by the return of JCC orders, continuing orders from other partner brands, MyEco™ retail brand sales and stronger council sales as food scrap diversion programs (FOGO programs) continue to roll out in order to meet state-based waste objectives. Q2 FY23 sales are expected to be greater than 30% up on Q1 FY23.

In line with increasing consumer demand for sustainable alternatives to conventional plastics in Australia and the USA, SECOS expects to extend its market reach by securing new commitments from major retailers in Australia and the USA. Following the finalisation of packaging and labelling requirements, SECOS is planning to launch a new compostable bin-liner range of MyEco™ branded products in the USA in Q3 FY23. SECOS has broadened further its channels to market for MyEco™ brands having been accepted as a supplier to KeHE in the USA.

Biopolymer margins are returning to pre-Covid levels and we also are seeing better margins in our traditional plastic business, as raw material costs fall and demand for hygiene and medical film strengthens. The international freight market is also improving, as freight lead times and costs continue to normalise which enable more predictable delivery times ex-Asia leading to more predictable stock management and better customer outcomes.

Operational achievements include SECOS being awarded with a EcoVadis Bronze standard, which measures compliance to Environmental, Labour & Human Rights, Ethics and Sustainable Procurement standards. This will ensure we can continue to deal with our large corporate waste customers who will require suppliers to meet higher standards.

SECOS investments in the development of new compostable products and film applications for a range of markets are starting to yield results. In addition to the installation and commissioning of R&D compound & film lines, SECOS has been working to make a compostable grade of film that has enhanced clarity that can be used for the wrapping of magazines and other postal items as well for the making of pouches via the form fill and seal process to make food and point of sale packaging.

A new grade of compostable pallet wrapping film has also been developed and is currently being tested internally and with major business partners before being released to the market, which has generated significant interest in this product. Major converters and industry partners are showing significant interest in these new compostable products and are looking to partner with SECOS to release them to the market.

Other significant R&D initiatives include the development of an extrusion coating grade of compostable resin that can be coated straight on to paper and other substrates thus eliminating the need for an adhesive between substrates. SECOS is also working on a new product that will enhance the rate of composability whilst also eliminating odour which is applicable for all forms of composting.

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 fueling 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 September 2022

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	8,483	8,483
1.2 Payments for	-	-
(a) research and development	(58)	(58)
(b) product manufacturing and operating costs	(6,017)	(6,017)
(c) advertising and marketing	(339)	(339)
(d) leased assets	-	-
(e) staff costs	(809)	(809)
(f) administration and corporate costs	(232)	(232)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(68)	(68)
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	960	960
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(198)	(198)
(d) investments		
(e) intellectual property		

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	Net cash from / (used in) investing activities	(198)	(198)

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		
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)	(227)	(227)
3.10	Net cash from / (used in) financing activities	(227)	(227)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	4,122	4,122
4.2	Net cash from / (used in) operating activities (item 1.9 above)	960	960
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(198)	(198)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(227)	(227)
4.5	Effect of movement in exchange rates on cash held	11	11
4.6	Cash and cash equivalents at end of period	4,668	4,668

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	4,668	4,668
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)	4,668	4,668

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	
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)	960
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,668
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,668
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<p><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></p>		
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?	
<p>Answer: N/A</p>		
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?	
<p>Answer: N/A</p>		
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?	
<p>Answer: N/A</p>		
<p><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></p>		

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: 27 October 2022

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.