



# INVESTOR PRESENTATION

FEBRUARY 2018



- SECOS Group Ltd (ASX: SES) is an established leading global provider of eco-friendly bioplastic materials.
- The Company is delivering long-term revenue growth driven by several macro megatrends: international legislation banning traditional plastics, rising pressure on landfill sites and the environmentally conscious 'war on waste'.
- SECOS' proprietary bio-based resin technology is central to the Company's investment and growth strategy.
- Supportive macro trends and rising interest from new and existing blue-chip customers are driving a sharp rise in sales growth for SECOS' resin division (+400% in H1 FY18).
- The Company is pursuing an opportunity to meet fast-growing demand for resin by expanding manufacturing capacity at its China and Malaysia plants. Investment of every \$1m in resin equipment could yield an additional \$5-6m in annual resin sales.
- FY18 sales guidance of more than \$24 million, with expectation for the business to reach a revenue run rate of \$28 million by June 2018. A clear path to profitability through sales growth and scale benefits leveraging fixed costs, with further opportunities for cost reduction.

# SECOS INVESTMENT HIGHLIGHTS





# SECOS GROUP LTD (ASX: SES)



## Corporate snapshot

- 187.9m shares on issue
- Market cap of \$24m at 13c/share
- Top 20 hold 57.4% of issued capital
- 80% Australian and 20% overseas shareholders
- Management and staff own 42.2% of company



Six month share price performance chart with volume





## **Richard Tegoni**

**Executive Chairman**

Richard has held executive positions with multiple large private companies and brings a strong background in finance, banking, sales and marketing. He has an MBA (AGSM) and a Diploma in Financial Markets (SIA).



## **Stephen Walters**

**Managing Director**

Stephen brings a 30-year record of achievement in the plastics and packaging industries in management, commercial and sales roles with Orica, ICI Australia and Borden Chemical. He has a Bachelor of Business from Kuringai College.



## **Trevor Haines**

**Director of Corporate Development**

Trevor has more than 30 years' experience in financial management, M&A and accounting roles with Orica, ICI Australia and the Australian Vinyls Corporation. He is a Fellow of CPA Australia and holds a Bachelor of Commerce from Melbourne University.



## **Edmond Tern**

**CFO and Company Secretary**

Edmond has over 30 years' experience in senior financial management working across several multinational companies including AMCOR and Assa Abloy, and in recent years held the dual positions at three ASX-listed companies.



## **Donald Haller Jnr**

**Non-Executive Director**

Don brings a distinguished background in accounting, finance and management consulting. He has served in senior roles with PWC and IBM and is a former Ernst & Young partner.

# **SECOS LEADERSHIP TEAM**

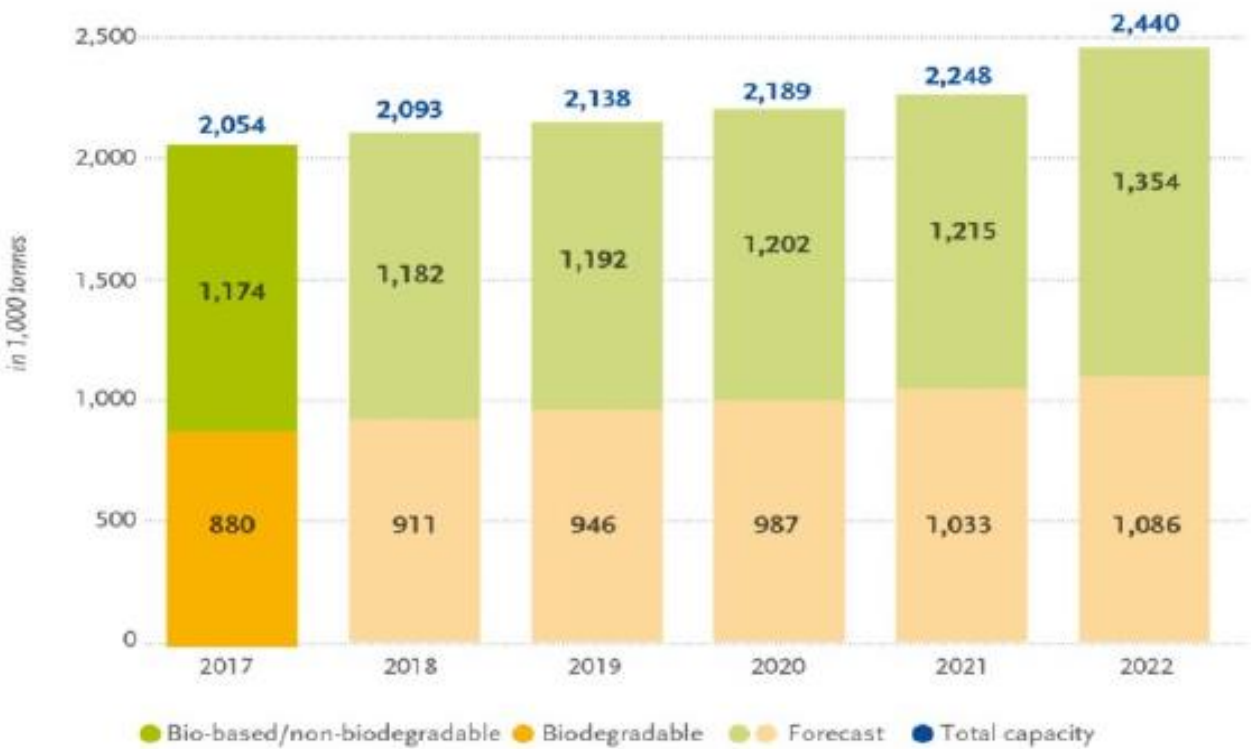


# BIOPLASTICS MARKET



*The global annual production of bioplastics now exceeds 2 million tonnes, with over 50% of capacity available in the packaging industry*

Global production capacities of bioplastics



Source: European Bioplastics, nova-Institute (2017).  
More information: [www.bio-based.eu/markets](http://www.bio-based.eu/markets) and [www.european-bioplastics.org/market](http://www.european-bioplastics.org/market)

Global production capacities of bioplastics in 2017 (by market segment)



Source: European Bioplastics, nova-Institute (2017). More information:  
[www.bio-based.eu/markets](http://www.bio-based.eu/markets) and [www.european-bioplastics.org/market](http://www.european-bioplastics.org/market)





*With more than 10 years of experience developing and marketing bioplastic products, SECOS is leveraging its first-mover advantage to meet growing global demand for sustainable plastic solutions.*

*The Company is well positioned for growth with proven technology, growing market acceptance and a highly respected brand in bioplastics.*

**The pool of buyers of bioplastic products is growing sharply, with positive supply and demand dynamics underpinned by:**



Legislators moving to ban single-use plastic bags, most recently in jurisdictions in Australia, Malaysia, Sri Lanka, Canada, China, the EU and USA



The rising cost of landfill forcing communities to find innovative ways to divert organic food waste, and to prevent the unnecessary production of methane, a greenhouse gas 23 times more hazardous than carbon dioxide



Consumer sentiment increasingly demanding environmentally sustainable products, as captured by ongoing media focus on the 'War on Waste' and recent publicity highlighting the enormous quantity of plastic in the oceans

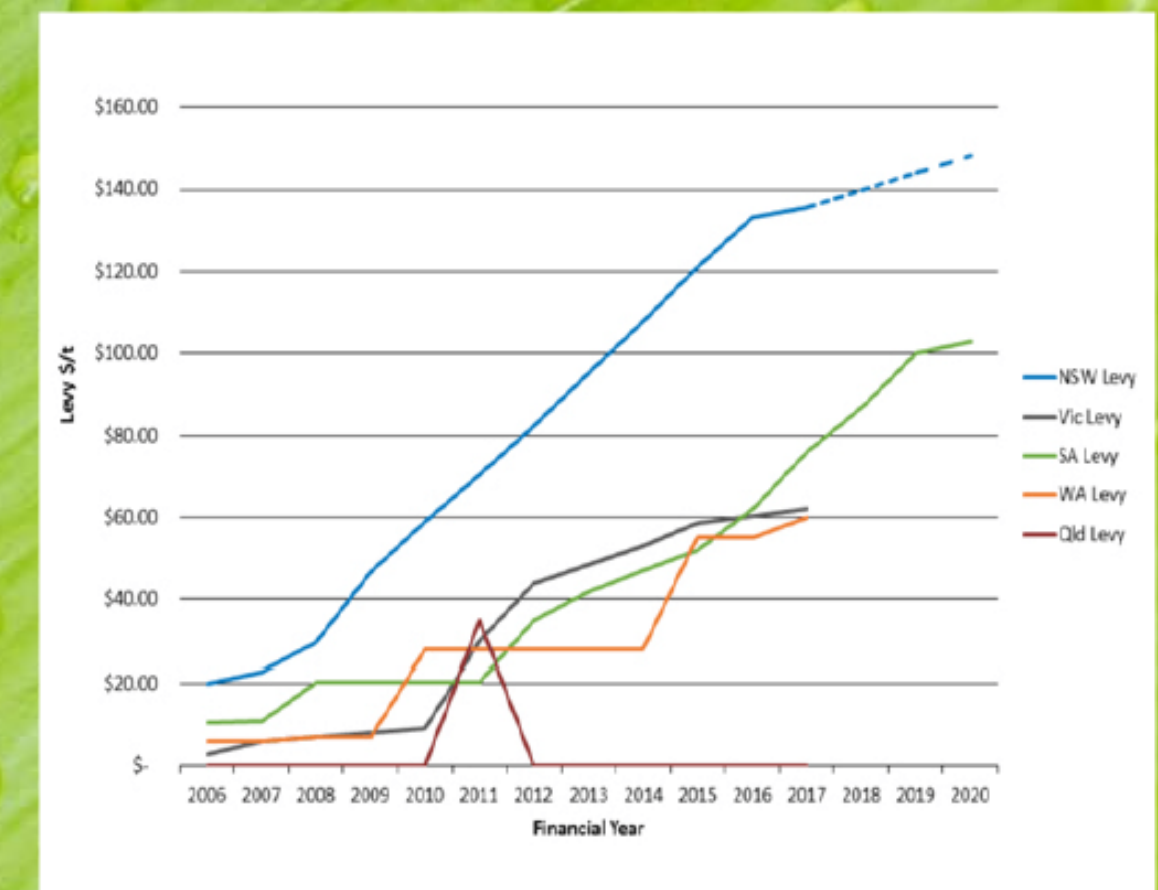


The recent restriction by China on the importation of low quality recycle. This will increase pressure on Australia's landfill sites and should prompt local councils to accelerate the food organic waste diversion programs which SECOS supports



Long-term worldwide increase in bioplastic production capacity

# GLOBAL GROWTH DRIVERS



*Historic and planned landfill levies per Australian state  
(Source: MRA Consulting, 2016)*



# THE SECOS ADVANTAGE



## MATERIAL, FINANCIAL AND SOCIAL BENEFITS FOR CUSTOMERS AND CONSUMERS

**SECOS' proprietary compostable bioplastic resin and finished products are underpinned by unique intellectual property, offering multiple benefits...**

- A reduced carbon footprint of up to 70% compared to conventional oil-based polyethylene
- High renewable content (>30%) & carbon sequestration
- Fully recyclable via the standard plastic waste stream
- Heavy metal and GMO free, certified compostable and food-safe compliant

**...with great features at a price competitive with traditional plastics:**

- Uncompromising performance, softness, quietness, strength and breathability
- A tangible way for high profile brand owners, retailers, packaging companies and local governments to implement sustainable environmental policies

***Direct access to key markets through a global network of sales offices and distribution partners — with particular strengths in Australia, USA, Southeast Asia and China — brought FY17 revenue of \$22 million.***





SECOS' resin compounding plant in Nanjing, China

## *SECOS' core product line is its proprietary bioplastic resins.*

- These products empower SECOS' clients to boost their environmental credentials by offering their customers compostable packaging and plastic products with no additional investment needed in existing production equipment.
- Corporate compostable resin sales interest is at an all time high throughout the world, as brands and packaging companies realise the benefits of customer acceptance and boost to loyalty associated with environmental packaging are worth pursuing.
- With petroleum prices on the rise, the price spread between petroleum and compostable resins tightens, furthering acceptance. As SECOS continues to reengineer its resin composition (making it stronger and cheaper), we are working to close the price differential to petroleum even faster.
- After a decade of R&D and customer trials, SECOS is now delivering **significant growth in resin sales, up more than 400% year-on-year** in H1 FY18 to nearly \$0.8 million.
- Compostable resin is the biggest driver of the growth, primarily to countries and localities that have banned traditional plastic bags, including areas of Australia, the US and Europe, with country bans either in effect or soon to be in effect for Malaysia and Sri Lanka.

# RESIN: SECOS' GROWTH ENGINE





# RESIN: SECOS' GROWTH ENGINE



- SECOS is now selling predominantly to large commercial customers in Southeast Asia from its production facilities in China.
- Malaysia makes over US\$1bn of bags/year for both domestic and export markets. BioNexus status (see slide 16 on gov't incentives) in Malaysia gives SECOS certain tax advantages and capital incentives to set up and manufacture in-country.
- Resin demand rising with growth in the global market for biodegradable plastics, forecast to grow at a 22% CAGR from US\$19.5bn in 2016 to US\$65.5bn in 2022<sup>1</sup>. Biggest addressable opportunities are in North America, Europe and Asia Pacific. Compostable resin run rates could easily reach \$15-20m to meet demand in the Malaysian and Sri Lanka markets alone.
- FY18 sales of \$1.5 million expected for this segment with a strong pipeline of orders and sales worldwide, as consumers, industry and regulators continue to shift toward more environmentally conscious products.





- SECOS develops and sells a diverse mix of high-quality films, packaging products and waste management solutions to a blue-chip global client base.
- Key products include cast films for the hygiene market with excellent barrier properties, compostable organic waste diversion bags, bin liners and pet supplies.
- SECOS' breathable film technology allows for low-cost entry into a high-margin business (when compared to non-breathable film). SECOS' significant cost advantage when compared to traditional breathable technologies brings licensing our technology into play.
- By developing and marketing differentiated products, we plan to significantly increase our market share. Utilising our capabilities to produce film and finished products with eco-friendly footprints can build SECOS a sustainable market advantage.
- Our breathable film technology is fully compatible with producing biohybrid and compostable resin.
- FY17 revenue of more than \$20m, with spare capacity to continue growing sales and margins.

## ENVIRONMENTAL FILMS AND BAGS: A SUSTAINABLE REVENUE GENERATOR



# SECOS' BLUE-CHIP GLOBAL CUSTOMER BASE IN ENVIRONMENTAL FILMS AND BAGS







# ORGANIC WASTE DIVERSION (OWD)

- Multiple significant wins with municipal customers including Penrith City Council; significant market share captured in Australia.
- SECOS is well-positioned at the beginning of a global trend toward waste diversion. Certain areas of the US lend themselves well to this growth, with OWD mandated for many restaurants and businesses in many localities.
- SECOS will begin to address the opportunity in the US and throughout the world through online direct marketing and sales efforts.
- The Company is pursuing Chinese growth, with sales personnel added to develop local market relationships.
- Sales run rate in OWD is now c. \$4.5m p.a., up over the prior year by \$3.6m (+500%).





# MYECOWORLD PLATFORM



- SECOS is developing the MyEcoWorld (MEW) platform to market the Company's broad range of environmental friendly and safe products directly to consumers, businesses, and wholesalers.
- The initial components will be rolled out starting with MyEcoPet (MEP), with additional product-focused sales channels planned.
- The MyEcoPet online sales channel is launching to address the attractive market for earth-friendly and compostable pet supplies – a differentiated offering for the US nonfood pet supply market, currently worth US\$15 billion and growing. Initial introduction will be in the US for all branches of the MEW platform, but they will be easily adaptable for use in other major geographies with only minor modification.
- Capturing both manufacturing and distribution profit brings SECOS the potential to significantly increase group margins.







# GROWTH STRATEGY

1. Meet fast-growing demand for resin by focusing on opportunities to materially grow resin sales to global manufacturers of bags and other plastic products
2. Grow resin manufacturing capacity by expanding in China (plant currently 100% utilised) and in Malaysia. Investment of every \$1m in resin equipment could yield an additional \$5-6m in annual resin sales
3. Investing in further R&D in resin technology (eg. fast composting resins for stadiums and private waste diversion) to stimulate additional resin sales
4. Investing in hi-tech breathable film technology to expand hygiene film sales
5. Review of cast film business to boost scale, reduce costs and improve margins
6. Leverage cross-selling opportunities across SECOS' blue-chip global customer base, with several packaging companies currently trialling biohybrid films made on existing extrusion lines





# ACCELERATING THE PATH TO PROFITABILITY: COST SAVINGS AND SCALE IMPROVEMENTS

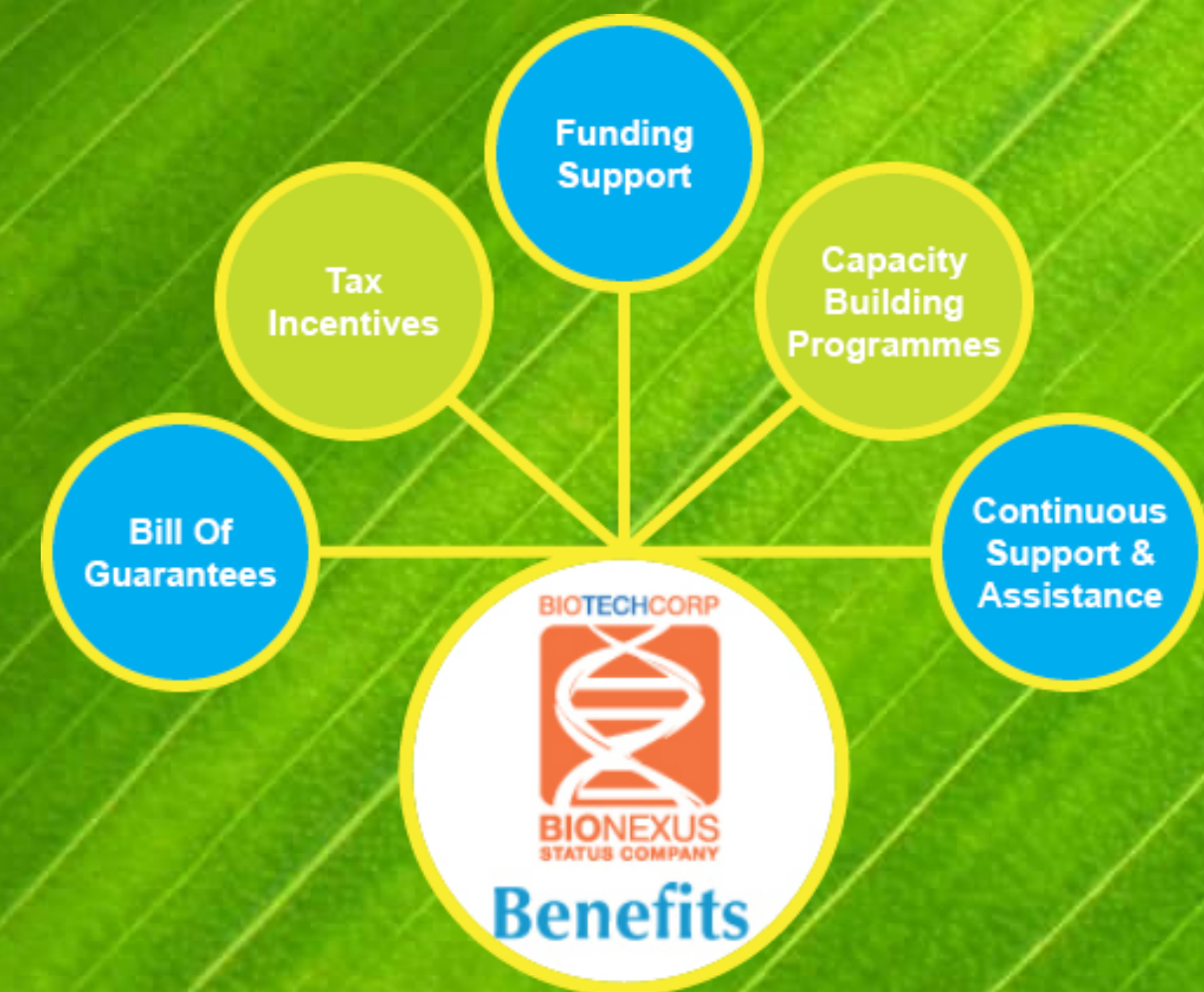
- SECOS' three manufacturing businesses are now jointly profitable on a monthly run rate basis with continued improvement expected through 2018, leaving only head office costs to cover (less than \$2m)
- A detailed business review completed in CY17 brought an operational overhaul in China and staff restructuring in Australia, the US and China, yielding a material improvement in manufacturing costs of c. \$400k/year
- Sale and leaseback of Malaysian facility offers the potential to release c. \$1.6m in free cash after pay down of c. \$1.3m in bank debt
- Review of cast film business offers further cost reduction potential of more than \$1m/year. Plan to reduce overheads < \$5m (\$5.5m FY17)
- Improve gross profit margin > 15% (11.2% FY17) with benefits of scale as resin orders grow, utilisation rises and fixed costs remain flat to down
- Existing capacity in the film business available to support anticipated revenue growth and margin expansion as SECOS rolls out new breathable film technology





- SECOS gained the valuable benefits of BioNexus status in Malaysia in H1 FY18. This recognition, granted by the Malaysian government, bestows various tax incentives and other financial incentives to promote growth.
- SECOS' BioNexus status will provide the Company with tax deductions for its investment in the approved Malaysian entity, a tax exemption on dividends distributed by the entity, plus fiscal benefits including:
  - The opportunity to apply for tax exemption of 100% of statutory income in Malaysia for the first 10 years
  - Double deductions for expenditure incurred for R&D and for the promotion of exports
  - An exemption of duty and sales tax on imported raw material and equipment
  - A 20% income tax rate for the following 10 years after the initial exemption period — with additional incentives as outlined by the Malaysian Bioeconomy Corporation.

# MALAYSIAN GOVERNMENT INCENTIVES TO PROMOTE GROWTH





# OUTLOOK



*SECOS has an immediate opportunity to significantly drive sales growth by investing in new resin capacity to address the global switch to bioplastic products.*

*The Company is well positioned to take up this opportunity through its proprietary biopolymer technologies, strong geographic footprint and enviable global patent protection.*



SECOS forecasts March 2018 quarter-on-quarter sales growth of more than 24%.



FY18 sales guidance of more than \$24 million, with expectation for the business to grow to a revenue run rate of \$28 million by the June quarter.



Ongoing investment in resin equipment in line with growth strategy to drive a material increase in sales in the next 24 months.





- ✓ An established clean tech business, progressing rapidly toward profitability in the attractive market for bio-based resins and finished products
- ✓ Consistent revenue growth driven by macro megatrends, effective sales and marketing and rising interest in SECOS' unique eco-friendly products
- ✓ Newly rationalised manufacturing facilities in strategic hubs with increasing utilisation, low-cost expansion options and global distribution
- ✓ Strong intellectual property and patent protection
- ✓ Compelling valuation with fully diluted market cap of \$24m at 13 cents per share

## INVESTMENT SUMMARY (ASX: SES)

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