

SECOS
GROUP



Changing the World of Packaging

FY20 Full-Year Results Presentation

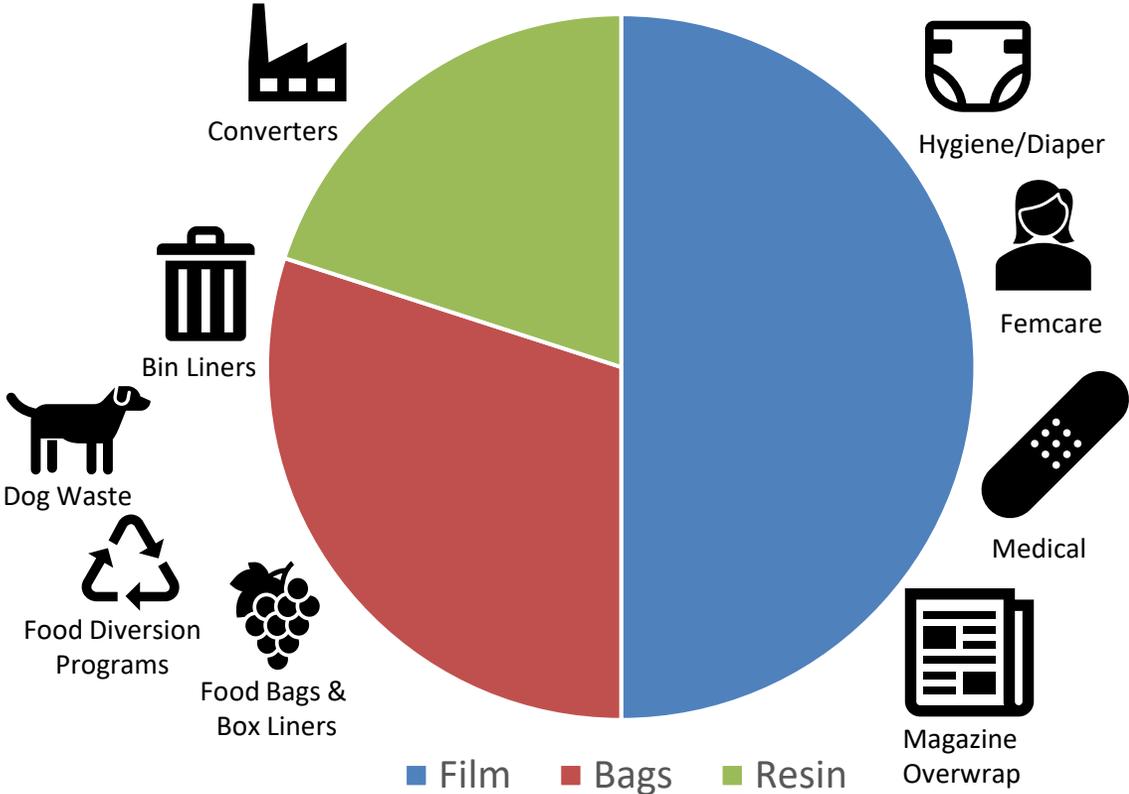
August 2020

SECOS Company Profile

SECOS Group Limited (ASX: SES) is a leading developer and manufacturer of sustainable packaging materials.

Based in Melbourne, Australia, SECOS produces eco-friendly bioplastics using thermoplastic starch-based polymers to produce a wide range of certified (Industrial & Home) compostable & bio-based resin, film and bag products.

SECOS Business Segments



\$21m sales in FY20



Gross Margin up 86% YoY to 17.5%



Bio-based sales now 46% (up from 39%) of total business and growing



Global sales to 14 countries; protected by strong patents, technical knowhow and distribution channels

FY20 Performance Highlights

SECOS has become a leader in the supply of compostable and biodegradable bioplastic resins and products



Financial

- 20% yoy sales growth in Bio-polymer business
- 86% improvement in gross margins year on year
- Positive EBITDA in H2 FY20
- Strong balance sheet: 6% borrowings/equity
- Significant new contract wins in FY20 with a strong pipeline going into FY21



Operational

- Green field biopolymer site in Malaysia achieved positive NPAT in H2 FY20
- All plants improved margin and asset utilization rates and production efficiencies
- All plants implemented COVID plan with main focus on staff safety
- Both Malaysian plants were given essential industry exemptions
- Proven cost structure ready to absorb more volume



Strategic

- Vertically integrated
- Strong IP and technical know-how in biopolymer resin formulation and film production
- Launch of Internet MyEcoBag Portal and marketing competencies to focus on full value chain
- Further progress in new product application and development
- Focus on strategic partners to accelerate growth

Corporate Overview

ASX Code: SES

Share Price (28 August 2020)	\$0.14
Market capitalisation (@ 14 cents)	\$60.3m
Shares on issue (listed)	430m
Current cash (30 June 2020)	\$2.9m

Board

Richard Tegoni	Executive Chairman
Ian Stacey	Chief Executive Officer
Don Haller Jnr	Non-Executive Director
David Wake	Non-Executive Director
Jim Walsh	Non-Executive Director
Stephen Walters	Executive Director
Edmond Tern	Chief Financial Officer, Company Secretary

Substantial Shareholders

BELGRAVIA STRATEGIC EQUITIES PTY LTD	13.2%
R&K EDWARDS INVESTMENTS LLC	11.7%
DONALD HALLER JR	8.8%
Top 20	65.8%
Total Board and management shareholdings*	27.5%

*Includes indirect holdings

0.14 AUD 0.00 (0.00%)

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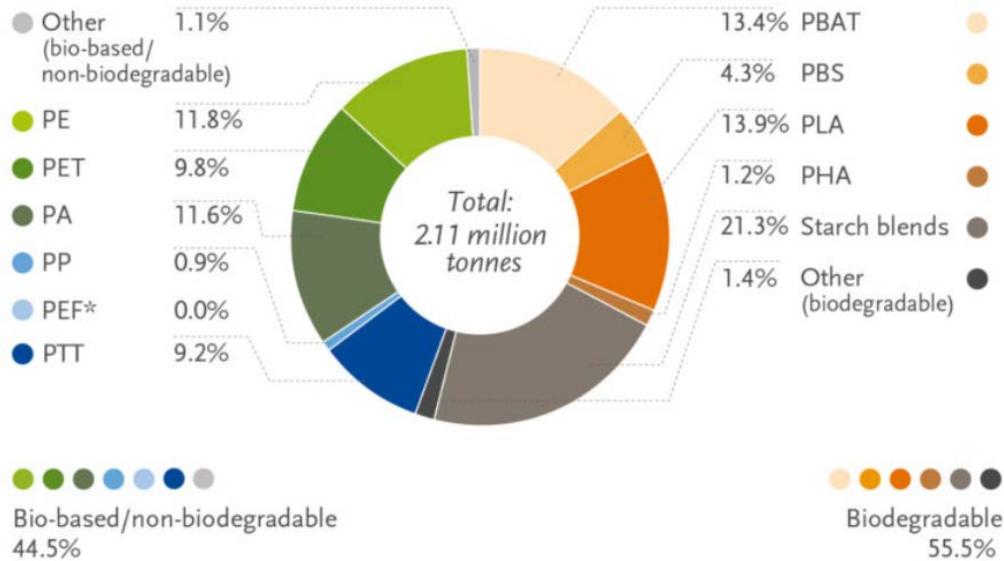
1 day 5 days 1 month 6 months YTD 1 year 5 years Max



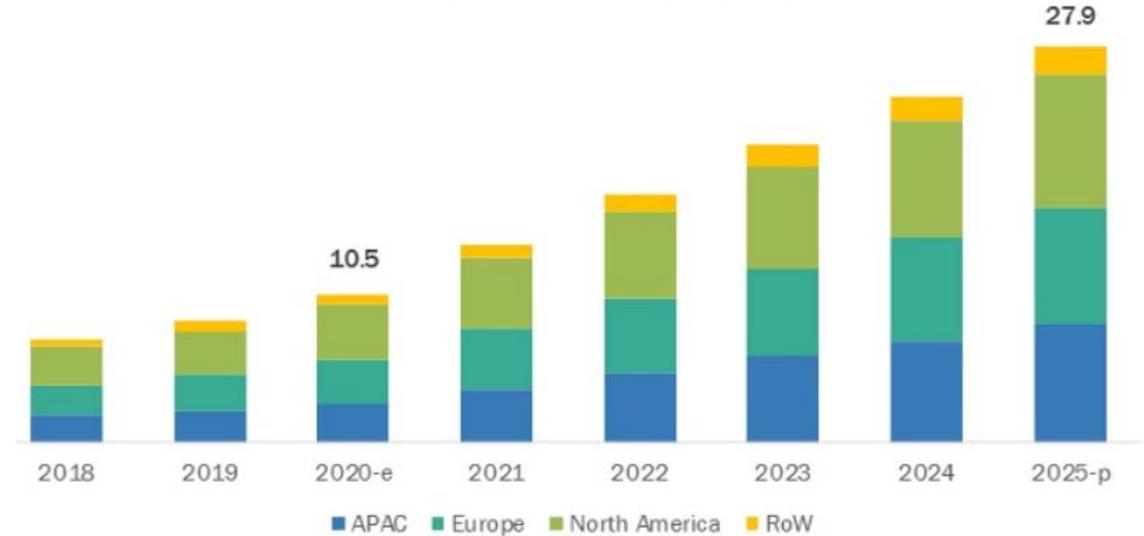
Open	0.14	Div yield	-
High	0.15	Prev close	0.14
Low	0.14	52-wk high	0.20
Mkt cap	62.41M	52-wk low	0.045
P/E ratio	-		

The Biopolymer market is growing rapidly

Global production capacities of bioplastics 2019
(by material type)



Bioplastics & Biopolymers Market, By Region (USD Billion)



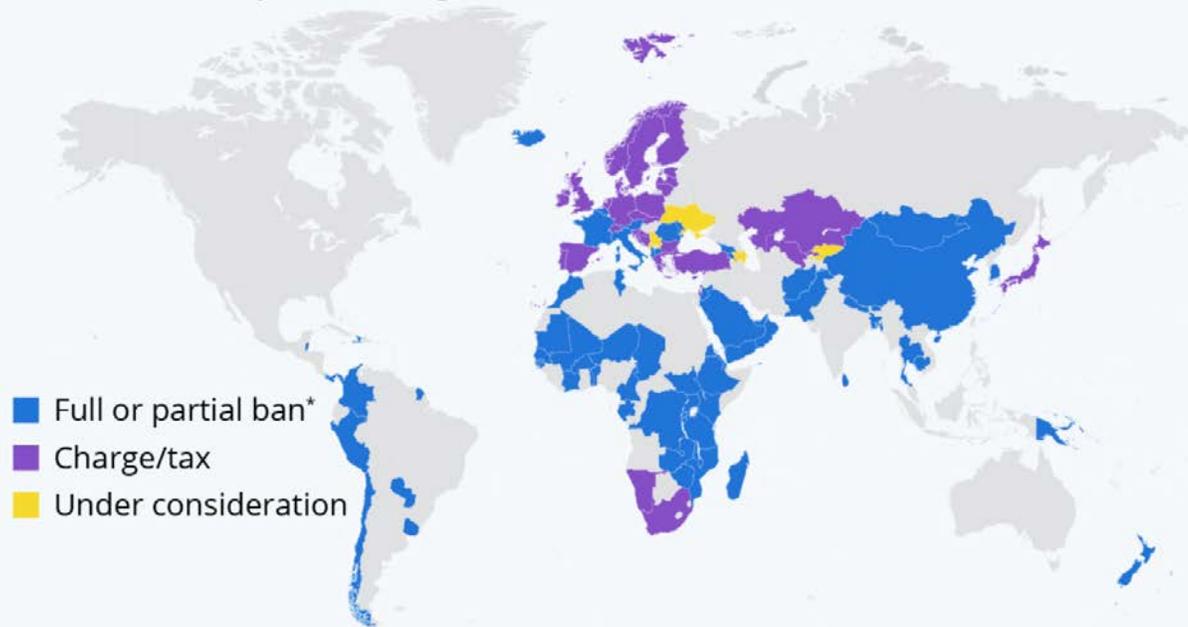
Source: <https://www.marketsandmarkets.com/Market-Reports/biopolymers-bioplastics-market>
 Source: <https://www.european-bioplastics.org/market/>

- Biobased and biodegradable/compostable products utilize renewable materials such as starch and other ingredients which differentiate them to conventional plastics, which take many years to degrade and utilize finite resources.
- Global production is split 55% for Biodegradable/Compostable products vs 45% for Bio-based non-Biodegradable products
- SECOS caters to both the Bio-based (non-compostable) and Biodegradeable (compostable) markets through its range of Cardia compostable and Biohybrid™ products.
- The value of biobased and compostable sales is anticipated to increase from US\$10.5 billion to US\$27 billion by 2025, as more markets and applications utilize renewable products.

Regulators globally are demanding compostable solutions

The Countries Banning Plastic Bags

National-level regulation to ban/limit the use of plastic bags (2020)



* Can also include charges. Some bans not in effect yet
Sources: United Nations, media reports



statista

- Over 130 countries have moved to ban or partially ban the use of single-use plastics.
- Regulatory changes drive demand as brands look to comply with city, state or country bans on plastic bags.
- SECOS' advantage of Integration from Biopolymer resin to film and different compostable offerings in bags and other applications, continues to put SECOS in play with major brands looking for alternative solutions to oil-based single use food and consumer plastic packaging.
- SECOS is well positioned to service hygiene sector as markets adopt environmentally friendly bio-films

Recycling is not the solution

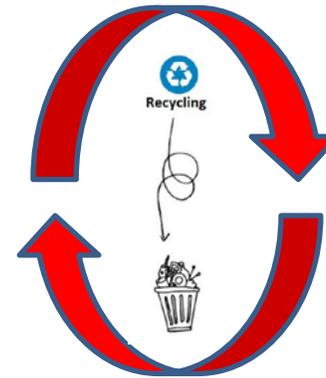


- Since China stopped accepting waste, recycling has reduced
- USA recycle rates have fallen to 9%
- Australian Recycle rates have also fallen
- In all markets very little flexible plastic (single use plastic) is recycled - due to contamination and unfavorable economics
- In many countries recycling = landfill
- Recycling is not the solution
- Compostable technology can replace plastic that cannot be recycled

Recycling is not the solution – Biopolymers are the solution

Australian Packaging Covenant Commitment has 1400 brands signing up to use materials that are either recyclable or renewable

1. Design for Recovery
2. Optimize material efficiency
3. Design to reduce product waste
4. Eliminate hazardous materials
5. Use recycled materials
6. Use renewable materials
7. Design to minimize litter
8. Design for transport efficiency
9. Design for accessibility
10. Provide consumer information on sustainability



Recycling is really downcycling & is still using plastic!

- Continued recycling of plastic degrades polymer mechanical properties
- Eventually all plastics will be incinerated or dumped to landfill
- The only way to extend recycle life is to blend with virgin resin.



Renewable

- A key difference is that Biobased materials are made from “inexhaustible” renewable resources
- Paper is costly on resources and produces 6 times CO2 emissions
- Compostable material is a viable, sustainable alternative.

SECOS produces a wide range of compostable and biodegradable products

Compostable/Bio-Hybrid™ Biopolymer resin



Cardia Resin for Convertors to produce their own biopolymer film & bag

Cast Film using traditional polyolefins & compostable film



Cardia Film for Hygiene & Medical Applications

Blown Film and Bags



Cardia bags for Council food waste diversion, pet waste bags, food & packaging applications, sold by Cardia to branded end users or sold directly to consumers under MyEcoBag brand.

SECOS Business Model

SECOS has a fully vertically integrated production capacity from raw materials to finished product

This provides SECOS with cost and supply chain efficiencies, and flexibility in best utilising production capacity

At each stage SECOS can sell globally to converters or use internally to create & sell end product, either resin film or bags



Cardia Biopolymer Resin

Sold to converters B2B



Cardia Biopolymer Film

Sold to converters such as Hygiene & Femcare manufacturers B2B



Film converted to bags

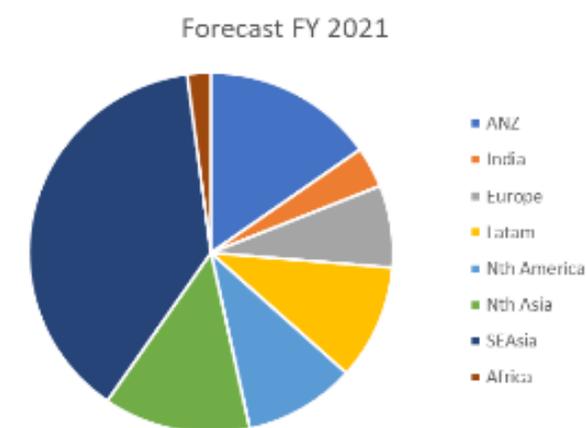
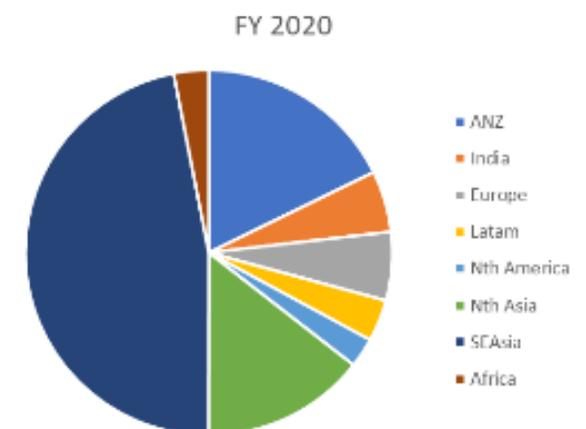
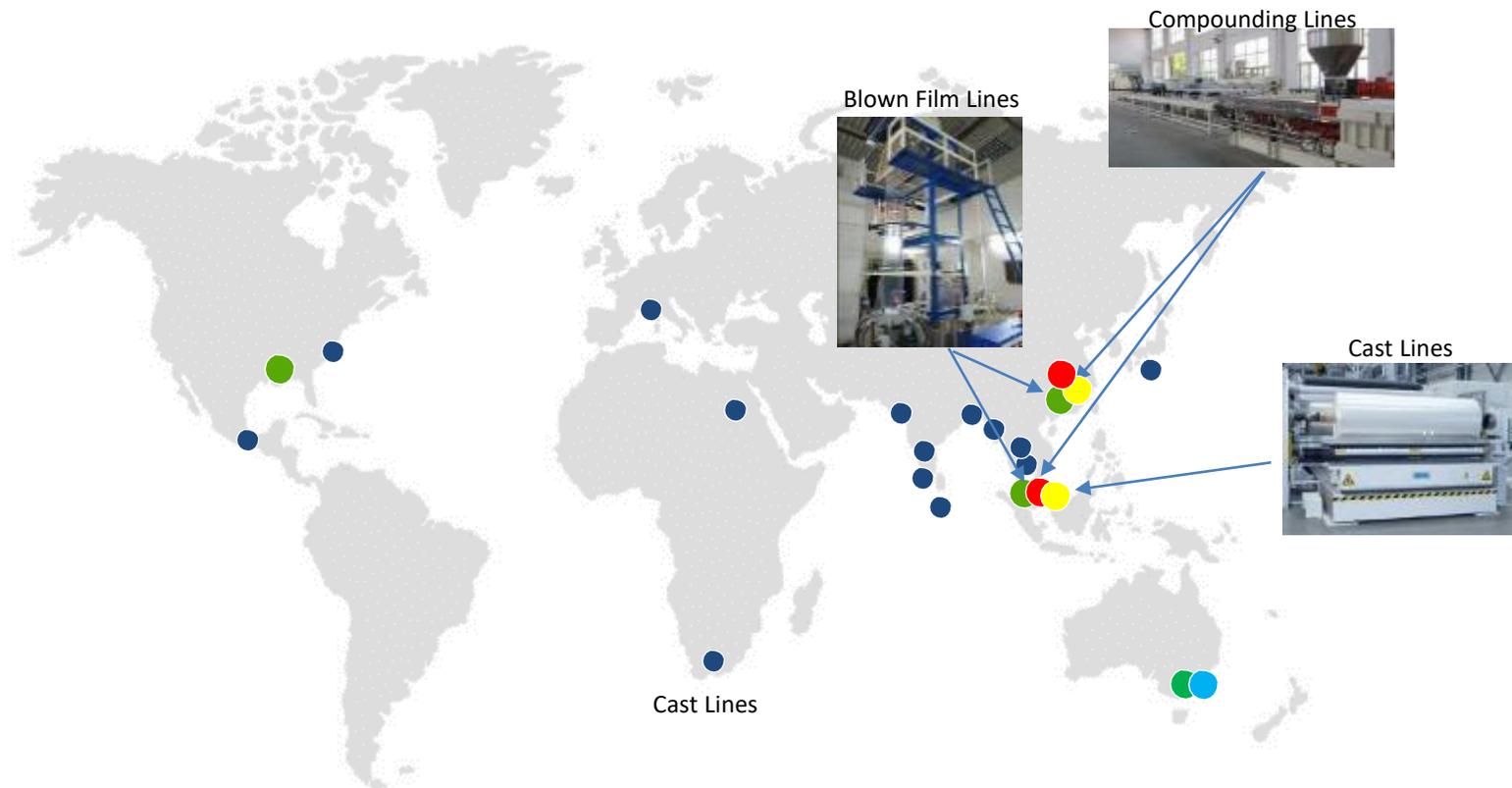
Sold to directly to retailers under Cardia or their brand B2B



Direct sales under MyEcoBag brand

Sold to directly to retailers B2B and direct B2C under our brand: MyEcoBag or MyEcoWorld;

Global Sales & Distribution Infrastructure



- **Biopolymer resin lines – Malaysia & China**
- **Traditional Film Lines (Malaysia) Biopolymer Film Lines (China)**
- **Direct Sales Offices in Melbourne, Dallas, Nanjing & Kuala Lumpur**
- **Indirect sales resources**
- **Global management, R&D lab (Melbourne)**

Geographic sales mix FY20 on FY21, shows anticipated change in sales mix with increasing sales in Europe, Nth. Am and Lat Am markets

Recent Customer Wins

The quality and scale of recent significant new customers demonstrates the strength of SECOS' market position and opportunities for growth

Council Compostable Bin Liners Bags

- New Council Business with 4 new council customers totalling in excess of \$0.6m
- Woolworths; 2 new SKU's launched in 86 Woolworth Eco Stores and launch of newly branded Bin Liners under the MyEcoBag brand
- Launch of MyEcoBag portal in Australia to support Woolworths business and additional retail busines

Compostable Dog Bags

- Jewett Cameron \$3 million annual contact win to supply Lucky Dog compostable waste bags to large retail chains in USA/Europe including Costco and Home Depot
- Launch of MyEcoPet portal in the USA to supply own-branded Dog bags

Compostable Film

- Expansion in compostable film sales into Compostable magazine wrap utilized by Penrith City Council to distribute Council Magazine to householders
- Launch by ANNA of first FemCare range in South Africa utilizing Cardia Compostable film

Global client base

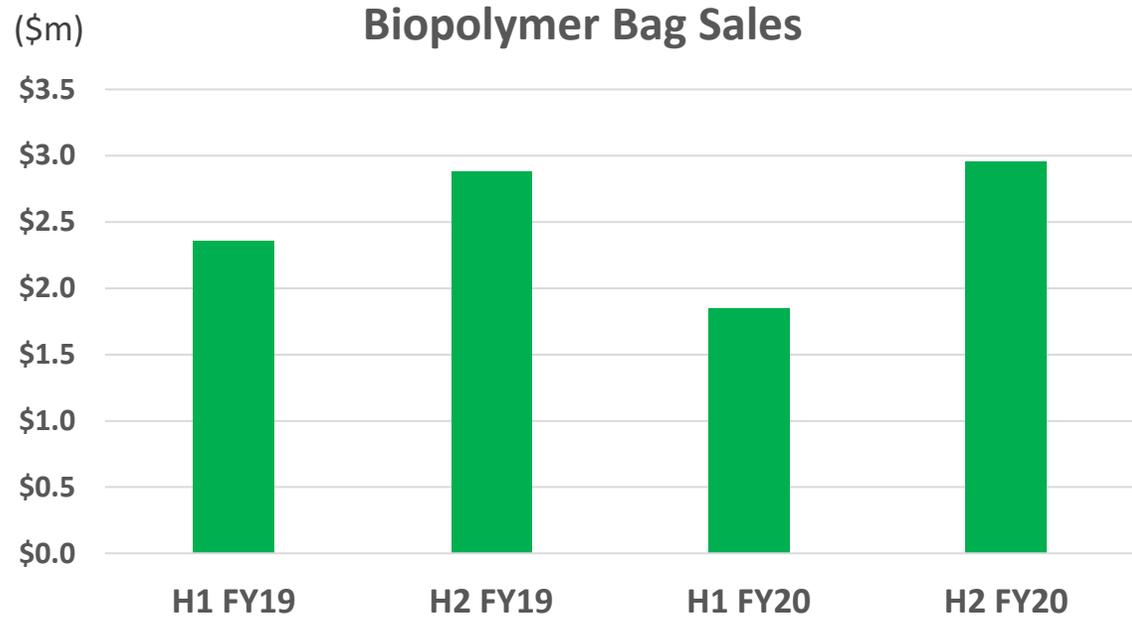
Over 358 Clients globally, including:



Competitive Advantages

- **Superior biopolymer development expertise:** SECOS has extensive expertise in the development of thermoplastic starch based formulations for a wide range of applications which provide superior mechanical properties and higher flow characteristics. SECOS products are certified both industrial and home compostable.
- **Wide Range:** In addition to its range of compostable products, SECOS' BioHybrid™ bio-resins range adds starch to conventional plastic products. BioHybrid™ increases the renewable carbon utilised within packaging applications and reduces the use of finite resources.
- **Film production expertise:** SECOS has expertise in high speed cast and blown film productions. SECOS can quickly adjust formulations to create desired film characteristics. This enables SECOS to offer technical support to our Biopolymer resin, film & bag customers that is second to none.
- **Vertically integrated:** SECOS produces and sells its own Biopolymer resin and also converts into its own range of film and finished products. This enables SECOS to service customers better and capture more margin from the value chain.
- **Extensive IP:** SECOS IP consists of 11 patent families relating to thermoplastic starch based biopolymer resin formulations. Certified Compostable by independent laboratories.
- **Global sales infrastructure:** Operating in all significant markets with strong sales and distribution resources currently selling into 14 countries.
- **Multiple Production sites:** Redundancy back-up offered to customers from different manufacturing sites and multiple lines within sites.
- **ASX listed:** The only ASX listed manufacturer of Compostable bioplastics, providing a reliable partner for brands looking to insure they are dealing with compliance-based, reputable partners.

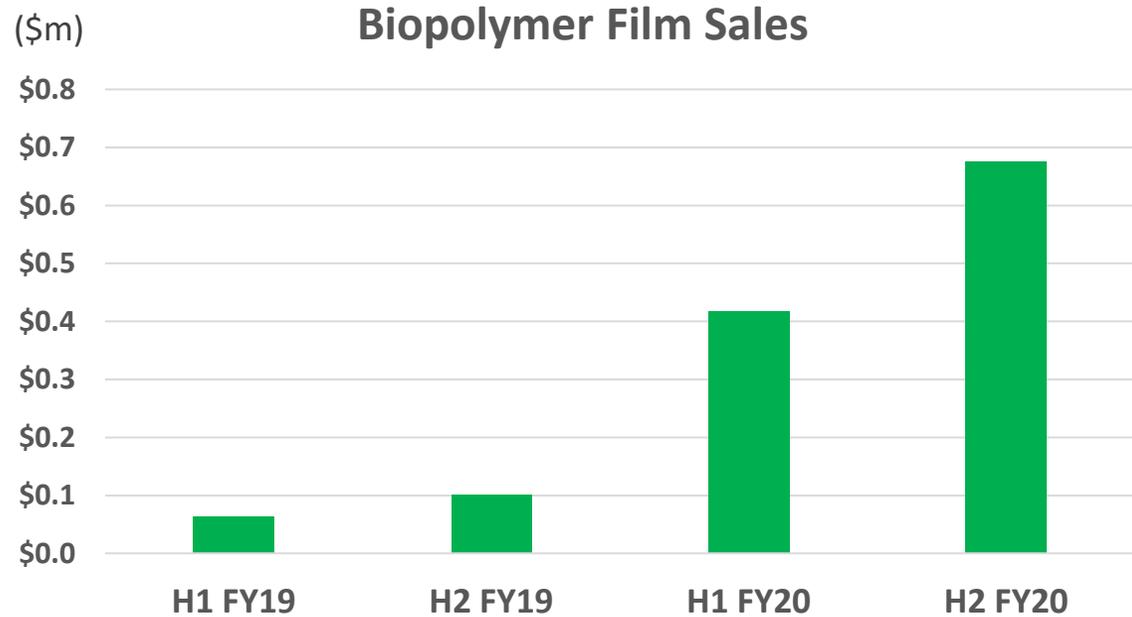
Key Markets – Biopolymer Bags



SECOS biopolymer bag sales are driven by Council Food Organics and Garden Organics (FOGO) programs, bin liner sales and dog bags:

- Launch of MyEcoBag range after investment in consumer marketing programs to support sales of SECOS own Bin Liner range
- Two SKU's selected and launched by Woolworths in their Eco Stores (announced July 2020)
- Dog waste bag sales to grow significantly with new Jewett Cameron dog bag business expected to increase sales to USA and Europe by \$3m (August 2020)
- The Council bag tender pipeline remains strong with more FOGO programs being adopted
- New Carry Bag business development is yielding results in overseas markets

Key Markets – Biopolymer Film

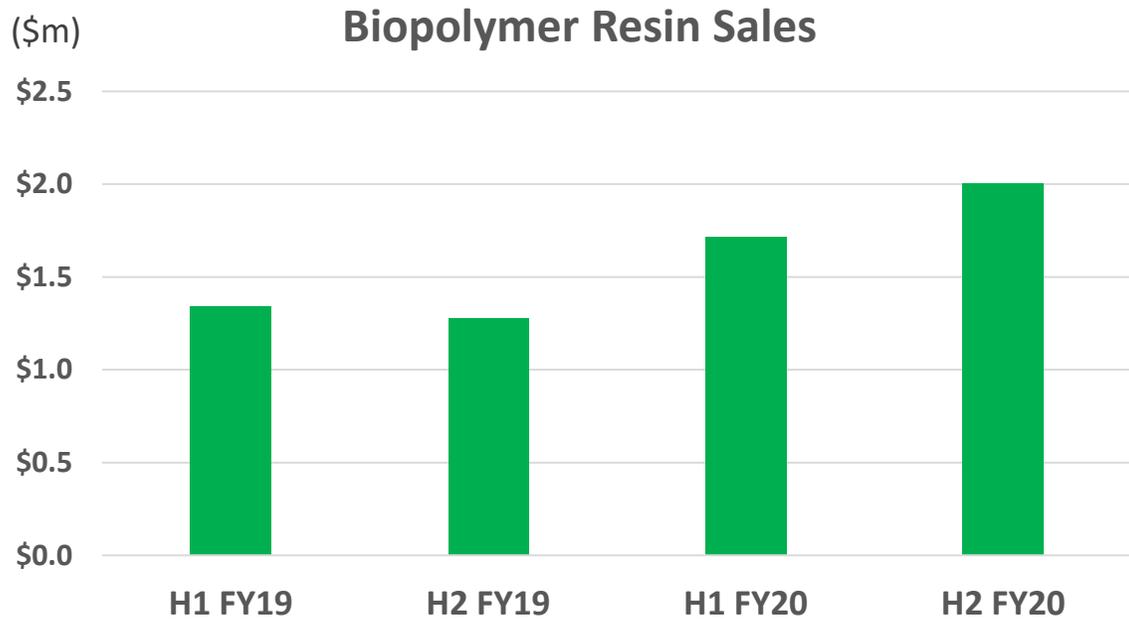


Biopolymer Film sales is the fastest growth category (albeit from a low base):

- Hygiene/Diaper demand for compostable film for diaper back sheet and packaging continues to grow, leveraging SECOS extensive experience in hygiene film sales
- Magazine wrap sales commenced with Mailing Houses in Q4 FY20
- Initial trials advancing for pharmaceutical use of flow wrap for medical applications
- Strong pipeline for new compostable film applications in FY21



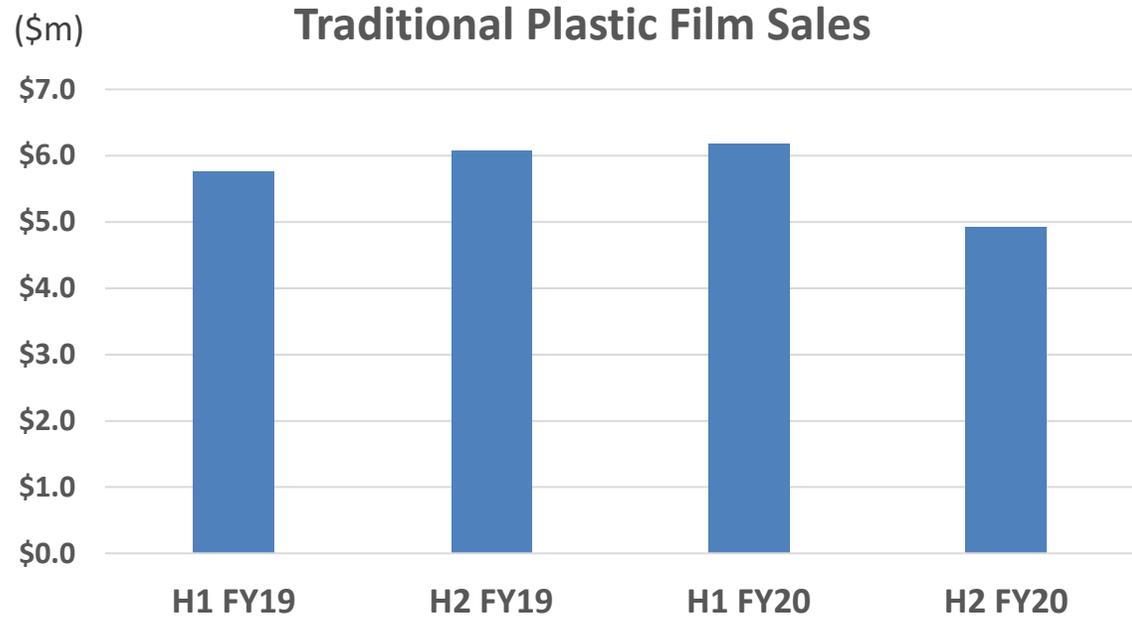
Key Markets – Biopolymer Resin



Bioresin sales continue to demonstrate growth: 57% year on year in H2 FY20

- New grades gaining traction in American market across a wide range of applications
- Development work conducted to adjust melt flow, in order to develop extrusion lamination for paper coating applications
- Biohybrid™ resin interest strong as brands move to reduce reliance on conventional plastics

Key Markets – Traditional Plastic Film



Traditional Film sales has seen some impact from COVID-19

- Effect of lower volumes has been offset by better margins and better plant efficiencies
- Hygiene convertor markets are on the improve so utilization rates are anticipated to return to normal
- Compostable film work is underway to run compostable film at speed through the cast lines
- Magazine overwrap production and sales is expected to commence in Q1 FY21 using cast lines

Growth Strategy

- Sharp focus on growing higher margin sales ensuring plant capacity can be allocated to more profitable business to optimize working capital
- This has seen gross margin grow by 86% FY20 vs FY19
- Strategy to drive growth in biopolymer sales has seen an increase in biopolymer sales of 20% during the same period
- Marketing investment is planned for key retail bag market segments
- A strong sales pipeline of qualified customers positions SECOS to maintain improved margins and to grow sales in FY21
- Focus on strategic partnerships to boost growth opportunities

Resin

- Continue development of resin grades for new applications
- Both Compostable & Biohybrid (bio-based PE)
- Target Higher margin bioresin markets

Bags

- Continue B2C focus via MyEcoBag initiatives; such as Bin Liners, Courier Bags & B2B opportunities
- Expand Dog waste and bin liner capacity and diversify geographically

Film

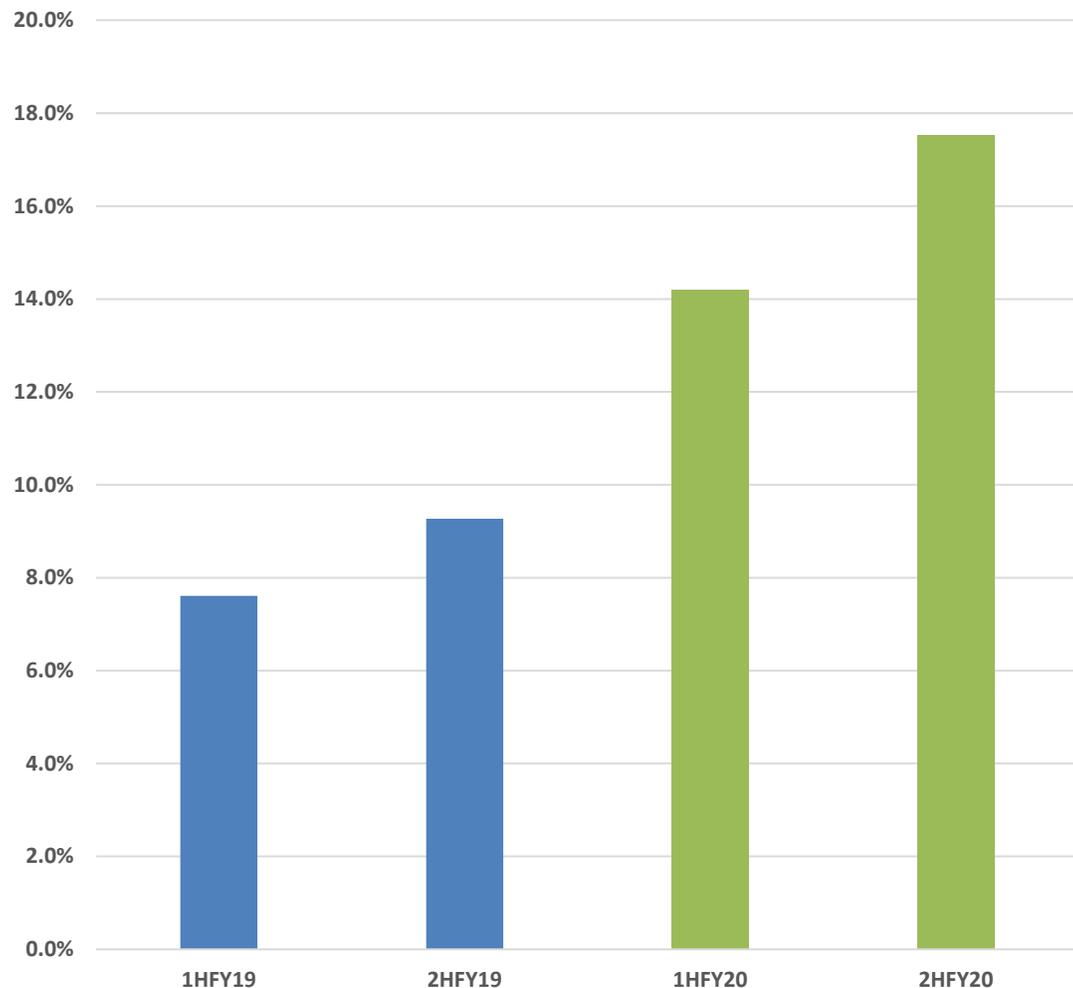
- Develop cast line sales for Hygiene, FemCare & Medical applications
- Expand use in key market segments utilizing different film assets

Channel

- Expand channels to market via digital & e-commerce offerings
- Work with selected partners to enhance growth

Strong Growth Trajectory

Gross Margin %



Significant work has been undertaken to build margins; reduce costs and enhance market position

All plants are now profitable at an EBITDA level and business is moving into positive cash flow from operations

New sales opportunities in retail branded compostable bag space recently announced plus other opportunities will underpin growth for FY 21 and enhance EBITDA position

Biopolymer sales growth in the area of resin, film and bags (both branded and OEM) will underpin profit and sales growth going forward

Summary Profit & Loss

\$'000	2020	2019
Sales	21,038	20,851
Cost of sales	(17,350)	(18,918)
Gross profit	3,688	1,932
Gross Margin %	17.5%	9.3%
Other Income	2	126
Employment related expense	(2,408)	(2,987)
Marketing and distribution expenses	(565)	(806)
Administration expense	(288)	(632)
Legal and compliance	(336)	(623)
Occupancy costs	(146)	(655)
Depreciation expense	(827)	(91)
Finance costs	(303)	(358)
Overheads	(4,874)	(6,029)
Income tax expense	-	(73)
Loss for the year after tax	(1,186)	(4,169)

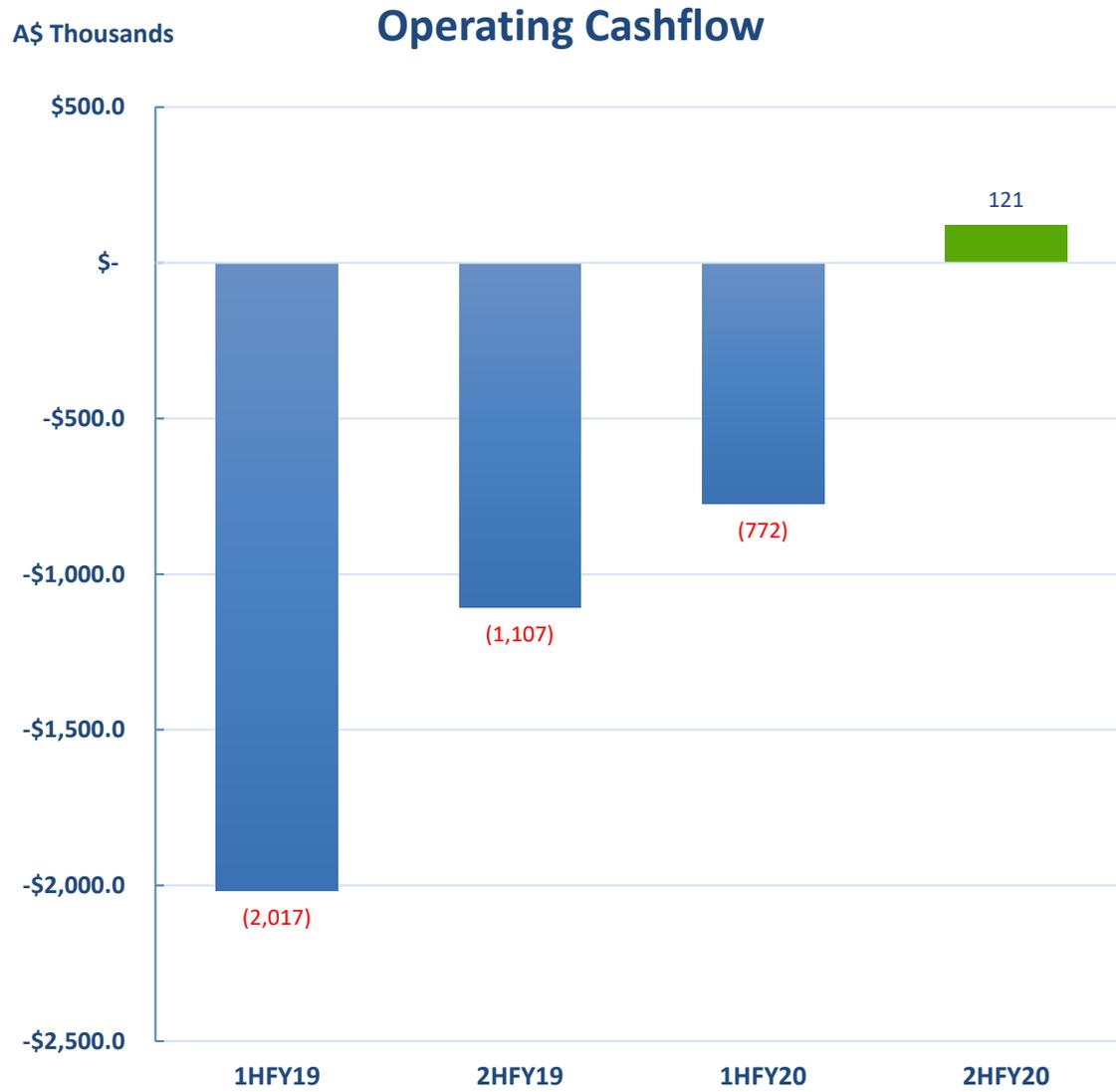
- Better yield focusing on product application and asset utilization
- Leaner corporate structure and cost discipline
- Business transformation program completed in second half of 2019
- Occupancy costs reduction due to plant rationalisation and new lease accounting standard
- Depreciation includes lease accounting amortization

Balance Sheet

\$'000	2020	2019
Cash	2,878	2,874
Inventories	2,449	2,439
Receivables and other receivables	3,780	3,930
Total Current Assets	9,107	9,243
Other assets	23	19
Property, plant and Equipment	1,830	1,768
Right-of-use asset	1,188	-
Intangible assets	3,605	3,532
Total Non-Current Assets	6,646	5,320
Total Assets	15,753	14,563
Trade and other payables	1,539	2,279
Borrowings	672	300
Short term provisions	868	778
Lease Liability	548	-
Total Current Liabilities	3,627	3,358
Borrowings	-	1,132
Long term provisions	55	78
Lease Liability	695	-
Total Non-Current Liabilities	750	1,210
Total Liabilities	4,378	4,569
Net Assets	11,375	9,994

- \$2.9m cash on hand
- Borrowings reduced to \$0.7m (further reduced to \$0.4m post June 2020)
- Net working capital of \$5.5m
- Current ratio of 2.5
- Net Assets increased by \$1.4m

Summary Cash Flow



- Strong and sustained improvement in Operating Cash Flow
- Positive operating cash in second half
- Cash Flow improvement driven by:
 - Strong cost discipline
 - Stable cost base
 - Increased sales
 - Improving margins

Outlook FY21

- SECOS is committed to reducing Single Use plastics; and in so doing reducing environment contamination as well as marine plastic waste
- As margins improve and volumes increase, we believe SECOS Group is heading for improved profitability in FY21
- The forward pipeline for the Company has never been stronger, with significant growth opportunities
- SECOS is delivering on initial biopolymer resin orders now and anticipates significant new sales in the Americas as well as biopolymer film sales to branded product suppliers to the hygiene market
- SECOS also sees a significant number of new tender requests from Australian councils wishing to adopt FOGO initiatives
- New sales of dog waste bags are expected in addition to the \$3 million Jewett Cameron contract announced recently
- SECOS is continuing to invest in developing compost film grade for the Courier Bag Industry utilising cast lines
- SECOS expects to expand its retail branded MyEcoBag range via Woolworths and other retail chains

Investment Highlights

- SECOS is benefitting from a global wave of regulatory and consumer pressure to replace single use plastics
- Accelerating growth in demand for biopolymers being driven by multiple converging industry drivers
 - Regulators demanding elimination of single use plastics
(latest example being China's move to ban plastic bags and mandating compostable alternatives)
 - Global Brands mandating reduced plastic use and improved sustainable footing
 - Consumer and media focus on ecological and environmental damage caused by single use plastics
- Strengthened operational base, reaching positive cash flow, driving down operating costs and overheads to achieve expanded margins
- Significant new business secured with customers who will enable expansion in sales volumes
- Ongoing investment in film and bagging capacity to cater for expanding demand pipeline
- Opportunity pipeline into FY21 and beyond is the strongest in the Company's history
- Experienced Board and management, focussed on accelerating growth

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