

ECS Botanics Holdings Ltd (ASX:ECS)



ASX Announcement

16 October 2023

ECS Botanics achieves another cashflow positive quarter whilst continuing to strengthen its order book

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 2023 (Q1 FY24).

Q1 FY24 Financial highlights:

- Positive net operating cashflow for the quarter, delivering free cash flow of \$0.28 million; receipts from customers of \$4.0 million increased 58% on previous corresponding period (pcp). Revenue of \$4.1 million increased 78% on pcp
- Comfortably funded with \$2.5 million cash and undrawn NAB facility of \$2.0 million as at 30 September 2023

Operational highlights:

- A record 106,000 units of medicinal cannabis oils ordered during the quarter, a 109% increase on the previous highest volume of 50,624 units (Q2 FY23); scheduled to be delivered in the coming quarter
- Formalised agreement with Steritech to provide contract packaging services to ECS customers in Australia and international importers; expected to lower costs
- Secured a \$24 million off-take agreement with Medicann Health in October 2023

Financial Update

The first quarter of FY24 was another strong result for ECS, with momentum continuing across all aspects of the business. Receipts from customers of \$4.0 million were up 58% compared to pcp (Q1 FY23: \$2.3 million), which drove another quarter of positive net operating cashflow. Revenue and receipts in the first quarter of the financial year are historically always slightly lower than the strong last quarter of the financial year due to customer buying patterns. ECS remains well funded with a cash balance of \$2.5 million as at 30 September 2023.





During the Quarter, ECS invested \$0.54 million in Intellectual Property and Plant and Equipment, \$0.26 million of which was funded through National Australia Bank (NAB) equipment finance. The NAB loan facility of \$2 million remains undrawn.

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 has been purchasing the same strains highlighting the high demand for ECS products.

This brings the total of large material off-take agreements executed in the last 10 months to \$48.5 million. These binding off-take agreements demonstrate the benefits of the investment in capacity upgrades to improve yields and the increased capacity of the expanded facility, as well as the long-term demand for ECS medicinal cannabis dried flower.

Steritech partnership

ECS Botanic formalised a partnership agreement with Steritech to provide GMP contract packaging services for medicinal cannabis flower. Under this agreement, ECS will enjoy preferential pricing for packaging of its products and be able to offer competitive pricing for contract packaging for customers wishing to import medicinal cannabis dried flower.

Growth in ECS medicinal cannabis oils

ECS received oil orders during the quarter of 106,000 units, exceeding the previous highest quarter by 109%. The increasing oil volume will deliver higher margins once the ECS/SunPharma extractor is in commercial operation. SunPharma commissioned the extractor in August 2023, but the commercial operation of the extractor has been delayed due to TGA's availability to complete a GMP audit. The audit is expected to be completed in November allowing for commercial production in January 2024, pending the inclusion of the extraction process on SunPharma's TGA licence.

R&D Project Update

The R&D project undertaken to introduce heating and lighting into a Protective Cropping Enclosure (PCE) to assess the ability to grow over winter is showing very promising signs. Harvest will occur in late October when the assay (THC content) of the winter grow will be assessed. The trials of different phenotypes have also highlighted some stand-out genetics that will be developed for use in the December /January plantings. The photos below illustrate the progress of the R&D project. ECS will update the market once results are analysed.



R&D trial Vegetative
9 August 2023



R&D trial flower
30 September 2023



THC trichome rich flower
3 October 2023

Outlook

Commenting on Q1 and the outlook, ECS Managing Director, Nan-Maree Schoerie said:

“Cash receipts from customers marked a solid increase of 58% compared to the previous year, which drove another period of positive net operating cashflow, further demonstrating the robustness of our business model and financial stability. While revenue was slightly down on the previous quarter (Q4 FY23), the last quarter of the financial year is traditionally strong due to customer buying patterns. We are pleased to see a 78% revenue increase on the previous corresponding period, showing the sustained growth of the business.

“We continued to build momentum with further major contract agreements signed, including a binding off-take agreement with MediCann Heath worth \$24 million over the next five years. This agreement underscores the high demand for ECS’ innovative and pharmaceutical-grade products, bringing the total of off-take agreements executed in the last 10 months to \$48.5 million. Additionally, we are experiencing a steep increase in demand for our medicinal cannabis oils with over 100% growth in orders compared with the highest previous quarter, which will be delivered in the second quarter of this financial year.

“We have commenced FY24 with strong momentum and growing portfolio of off-take agreements and orders, underpinned by a strong financial model.”

Corporate

During Q1 FY24, ECS reported a positive operating cash flow of \$282,000. Production and manufacturing costs amounted to \$2.04 million. ECS received government grants and subsidies totalling \$89,600, primarily consisting of \$50,000 for the final flood recovery grants and \$37,000 from the Export Marketing Development Grant. Payments to related parties (\$148,000) under the Section 6.1 of Appendix 4C were



made to Director related entities; \$103,304 for Director and consulting fees paid to Directors and/or Director related entities plus \$12,705, for Company Secretarial, registered office services and a further \$31,930 for Pharmaceutical and IT consultancy services.

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

-ENDS-

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.

For further information, please contact: info@ecs-botanics.com

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 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,028	4,028
1.2 Payments for		
(a) research and development	(5)	(5)
(b) product manufacturing and operating costs	(2,043)	(2,043)
(c) advertising and marketing	(14)	(14)
(d) leased assets	-	-
(e) staff costs	(1,363)	(1,363)
(f) administration and corporate costs	(412)	(412)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	8
1.5 Interest and other costs of finance paid	(7)	(7)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	90	90
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	282	282
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(344)	(344)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	(192)	(192)
(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	(536)	(536)

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	256	256
3.6 Repayment of borrowings	(32)	(32)
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	224	224

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,540	2,540
4.2 Net cash from / (used in) operating activities (item 1.9 above)	282	282

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(536)	(536)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	224	224
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,510	2,510

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	2,510	2,540
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)	2,510	2,540

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	(148)
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	\$103,304
	Company secretarial, registered office services	\$12,705
	Pharmaceutical and IT consultancy services fee paid to Director related entities	\$31,930

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>		
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.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	282
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,510
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)	4,510
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<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	
<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>	

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: 16 October 2023

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.