

## ASX RELEASE

19 December 2022

# Strategic USA Contract & Business Update

The Board of sustainable and eco-friendly Biopolymer producer SECOS Group Limited (ASX: SES, "SECOS" or "the Company") is pleased to provide the market with an update on the progress of its business activities.

## Highlights

- SECOS signs an exclusive sales agreement with Jewett Cameron Company (JCC) for supply of MyEcoWorld® products into the USA and Canadian markets with a sales target of US\$2.8 million (~AUD\$4.0 million) to maintain exclusivity
- The appointment of JCC as the exclusive sales agent in the USA will allow SECOS to reduce its budgeted group annual operating costs by circa AUD\$0.7 million
- MyEcoBag® range achieves 19% of all Coles<sup>1</sup> compostable bin liner and kitchen caddy sales within first four weeks of launch with further growth expected
- MyEcoBag® achieves the number one brand position within Woolworths<sup>2</sup> compostable bin liner sales, representing 39% of all sales.
- Forgoing low margin traditional plastic sales has led to higher overall group margins and improved working capital, although this has meant losing some non-strategic traditional plastic revenue during the quarter
- As a result, current quarter sales are expected to be slightly lower to flat compared to prior quarter, with sales guidance reported in the September 2022 4C now shifted to H2 FY23
- SECOS' new clear compostable stretch film to be used for pallet wrap passes stability trials after initial testing, with first orders expected in H2 FY23

## Exclusive Sales Agreement with Jewett-Cameron Company

SECOS has entered into an exclusive sales agreement with JC USA Inc., a wholly owned subsidiary of Jewett Cameron Trading Company Limited (NASDAQ: JCTCF) and Jewett-Cameron Company ("JCC") for the supply of SECOS' MyEcoWorld® product range and other converted compostable products. JCC supplies a wide range of products to retailers throughout the USA and has been successful in supplying Lucky Dog® branded compostable pet waste bags across America which are manufactured by SECOS' white label division.

JCC will launch SECOS' MyEcoWorld® branded range to Big Box stores and major retailers across the USA. JCC only sells their pet waste bags into big box stores, so the agreement expands JCC's compostable product range and allows JCC to enter new markets (retailers, distributors, specialty stores, etc.) with SECOS's MyEcoWorld® branded products.

<sup>1</sup> IRI Scan Data between 12/11/22 to 8/12/22

<sup>2</sup> Quantum Scan Data between 1/12/21 to 29/11/22

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The agreement contains a sales target of US\$2.8 million (~AUD\$4.0 million) in the first twelve months of the agreement effective 31 March 2023 and increases in subsequent years to maintain exclusivity, with upside potential as Jewett-Cameron grows its market reach across retailers and big box stores in the USA. Although there is no guarantee that JCC will achieve the minimum hurdles, they have had prior success in supplying big box stores to that extent and achieved similar volumes for their own branded compostable products. The agreement will also enable SECOS to drive operating cost efficiencies because less fixed resources will be required to maintain its operations in that region. As a result of this agreement, SECOS expects an annual saving of circa AUD\$0.7 million of budgeted group annual operating costs.

The agreement includes standard industry terms and conditions and is aimed at ensuring both parties can grow their market share in these product and market categories within the USA.

JCC will continue the sale of its own branded compostable pet waste bags manufactured by SECOS' white label division, which were relaunched after relabeling changes were implemented in Q1 FY23.

**SECOS CEO, Ian Stacey, said:**

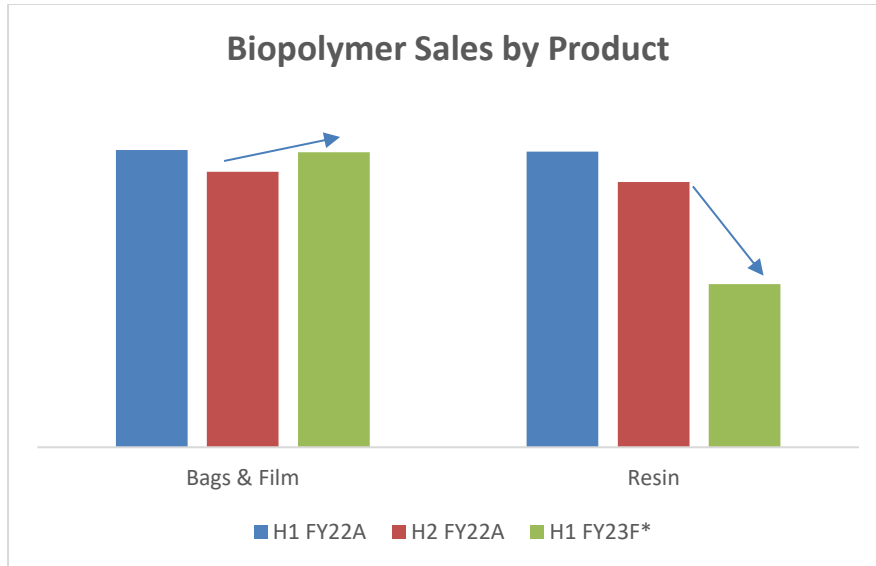
“The USA is seeing significant expansion in demand for sustainable materials that replace the use of conventional plastic in a wide range of packaged products. Accordingly, we are very pleased to announce an extension of our strategic partnership with JCC, who have extensive market reach in USA retail store fronts and others outside the USA. We look forward to working with JCC to launch our line under the MyEcoWorld® brand which will be the USA umbrella brand for a range of compostable & bio-based products. We will also work with JCC to launch additional compostable & bio-based products to markets that we identify as ideal targets for sustainable alternatives to conventional plastics. Conventional plastic production is a major user of finite resources and contributor to CO2 emissions. The replacement of conventional plastic by compostable & bio-based polymers is consistent with circular economy principles being adopted globally.”

**JEWETT CAMERON PRESIDENT/CEO, Chad Summers, said:**

“We are extremely excited to have SECOS Group as a strategic partner for the supply of their MyEcoWorld® sustainable product range in North America. We have clearly seen that not all compostable products perform the same and our customers will appreciate the high quality and performance of SECOS' compostable technology. We look forward to working with SECOS on other opportunities to reduce the use of conventional plastics.”

## Trading Update

Q2 FY23 biopolymer sales are expected to be slightly lower to flat versus Q1 FY23 mainly due to excess resin inventory being held by customers, preventing new resin orders being taken.



\*Based on H1 FY23 latest forecast

The Company's own brand and white label products are currently sold directly via retail outlets to consumers. Sales of these products exceed over 2,900 stores globally including major retail outlets such as Woolworths and Coles.

### Compostable Bags - MyEcoWorld® Branded Range

- Continued success in developing MyEcoWorld® branded range during H1 FY23 due to expansion of 970 Woolworths stores and recent launch into 770 Coles stores.
- MyEcoBag® range achieves 19% of all Coles<sup>1</sup> compostable bin liner and kitchen caddy sales within the first four weeks of launch. Early sales to Coles are going according to plan with stock in the process of arriving at all stores indicating further growth is expected over the coming quarters.
- MyEcoBag® achieves the number one brand position within Woolworths<sup>2</sup> compostable bin liner sales, representing 39% of all sales.
- Scan data also shows that the compostable bin liner and kitchen caddy segment is growing relative to other uncertified sustainable offerings including plant-based ethanol bin liners and recycle plastic, both of which are conventional plastic in nature marketed as sustainable, and do not breakdown safely in soil unlike compostable materials.
- Council bag sales are down in H1 FY23 versus the prior comparative period (PCP) due to phasing of orders and contracts expected to come through in H2 FY23, with the first half of each year historically lower than the second half. Orders and council supply agreements indicate council sales will grow in H2 FY23 and further complement the Company's H2 FY23 growth expectation.

<sup>1</sup> IRI Scan Data between 12/11/22 to 8/12/22

<sup>2</sup> Quantium Scan Data between 1/12/21 to 29/11/22

### Compostable Bags- White Label Range

- Relaunch of JCC's Lucky Dog® in the USA and launch of EzyDog's Login® dog waste bags into major Australian pet stores during H1 FY23 is leading to improved white label sales compared to PCP. JCC is up 48% versus PCP and EzyDog has achieved over \$0.3m in sales since its launch seven months ago. Both white label partners are expected to deliver higher sales growth as their products are rolled out and stocked in more stores in the coming year.
- SECOS' white label division offers the Company a low risk and low-cost channel to new markets, with the ability to extend the Company's sales reach utilising less working capital and without the need to increase fixed costs associated with building new and specific market opportunities.
- SECOS is working with its strategic partners to introduce new products to a broader range of markets globally.

### Compostable Resin

- Excess inventory and the pause in resin orders from some LATAM customers has resulted in a significant reduction in resin sales during H1 FY23. However, resin sales are expected to improve in H2 FY23, as converters that own excess resin stock continue to produce finished products for delivery to their customers and begin reordering from SECOS as their stock levels begin to deplete.
- With lower resin sales during H1 FY23, resin capacity has been utilised internally to produce compostable bags such as MyEcoBag®, which have been growing during H1 FY23, but not at the rate that can offset the full extent of the lower resin sales.
- During H1 FY23, SECOS management have identified and started to take orders from several resin converters in Europe and other markets, which are expected to increase resin sales during H2 FY23. These sales will supplement the current market share in LATAM.
- SECOS balances its resin manufacturing capacity between resin sales to converters and its internal needs to produce its own compostable bags and film that are growing at a much faster rate. Management is confident that with a wider range of converters, the sell-through of excess resin stocks, and the continuing utilisation of resins to produce SECOS' finished products, resin sales will improve during H2 FY23 versus H1 FY23.

### Compostable Film

- Compostable film sales remain only a small proportion of SECOS' overall biopolymer sales. However, high-speed compostable cast film products remain a highly strategic focus for the company because compostable films offer opportunities to enter the growing sustainable hygiene, food, and pallet/magazine wrap markets.
- During the quarter SECOS successfully trialed a compostable cast film that has greater clarity and transparency and is suitable not only for magazine wrap but also for pallet wrap and food applications.
- SECOS' new clear compostable films will be produced out of its traditional hygiene cast film business Stellar Films Malaysia, which has spare capacity and currently only produces traditional petroleum-based hygiene plastic films. This offers the company the benefit of significantly expanding its new compostable clear film range without major capex expenditure.

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- The move to introduce compostable cast films has been in development for several years and supports the company's strategy to reduce the production of lower margin and non-environmentally friendly traditional plastics. SECOS' success in this area will provide the opportunity for it to partner with other traditional plastic businesses looking to exit the petroleum based plastic industry and move to producing more environmentally friendly alternatives.

## Traditional Plastic

The Company's traditional plastic films are produced from its wholly owned subsidiary, Stellar Films Malaysia, using high speed cast line assets. The Company's strategy remains focused on developing compostable cast films to replace low margin and non-strategic traditional plastic film. With the recent development of the Company's new clear compostable film the prospect of utilising these assets to supply pallet wrap and magazine wrap is becoming much more promising and will allow SECOS to be less reliant on its traditional plastic sales, which currently make up circa 32% of SECOS' revenue.

Sales and margins of petroleum-based products are down significantly and have been difficult to recover since the COVID-19 downturn. During Q2 FY23, the company made the strategic decision to forgo certain additional low margin traditional plastic customers. This will have the effect of reducing the Company's top line growth in the short term but will benefit SECOS by preserving working capital, minimising losses from this segment, and improving the Company's overall consolidated margins.

The timing of forgoing some traditional plastic sales orders, combined with concurrent delays in resin sales during the same period, will result in group sales to be slightly lower to flat during the current quarter compared to the prior quarter. This is lower than the 30% growth outlined in the Company's September 2022 4C. Final Q2 FY23 sales results will be reported in the Company's December 2022 4C.

## Cash Flow Update

The Company continues to maintain a strong balance sheet as of 30 November 2022, with \$4.2 million in cash in the bank and no debt. It is expected that the H1 FY23 operating cash-flow will be positive, with some cash to be utilised in the current quarter to expand working capital to support expected growth in H2 FY23.

## Outlook

The company remains focused on developing its key strategic compostable customers and partnerships and if necessary, will further reduce its lower margin and non-core petroleum customers. However, SECOS expects to achieve a stronger H2 FY23, fuelled by the momentum of key accounts and partnerships such as Woolworths, Coles, JCC, EzyDog®, MyEcoWorld® range expansion in the USA via JCC, and other opportunities relating to major partnerships in dry goods packaging and other innovative compostable product solutions.

The Company also expects resin sales to improve during H2 FY23 as new converters are appointed to broaden its geographic reach. Overall Group sales will be further buoyed by SECOS' fast growing compostable bag category with even further upside if sales of the new compostable clear film range occur in the same period.

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Further reduction in traditional plastics sales is expected but aimed at improving group margins and optimising working capital needed to expand the Company's biopolymer range. The expected growth in the Company's three core biopolymer categories including bags, films and resins is expected to outperform the reduction in traditional plastic sales over the coming year and will position SECOS for further growth in the rapidly emerging sustainable packaging market.

Economic conditions remain uncertain and therefore forecasting of sales and timing of orders is more difficult under these conditions. SECOS' approach is to keep winning new and high-quality business customers and to continue the development of key strategic partnerships. This approach is aimed at preserving capital while growing market share and profitability over time.

The SECOS board remains very confident about the prospects of the business and the opportunities that exist in the rapidly emerging sustainable packaging market.

This announcement was authorised for release by the Board of SECOS Group Limited  
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## About SECOS Group Limited

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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

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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.

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