

# QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2016

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**ALEXIUM**  
SPECIALTY CHEMICALS AND SOLUTIONS

Attached is the fiscal quarterly report for the period ending December 31, 2016 for Alexium (“Alexium”, “the Company”).



Alexium’s growth trajectory continues as you can see from the following highlights:

**Revenue** of A\$7.4M, an increase of 95.7% over the previous period and a nearly 8-fold increase over the last two reporting periods. Added to the previous three reporting periods, this revenue brings the 2016 calendar year-end total to A\$13.2M, a 13-fold increase over the 2015 calendar year-end revenue total of \$0.74M US.

**Cash Receipts** of A\$5.3M for the period, a 38% increase over the previous period and a 6-fold increase in cash receipts over the last two quarters.

**Monthly Recurring Revenue** rising from A\$1.25M to A\$1.5M following expansion of orders under previously announced accounts.

**Increase in Gross Margins** of 14% over calendar year 2016 with average gross margins to exceed 40% in 2017.

**Cash Neutral Position** expected in 2Q calendar 2017 following further R&D investment in new product lines and bottom-line profitability expected in mid-2017.

**Working Capital Debt Facility** of US\$10M in place to finance inventory and advance purchases for rising sales.





## BUSINESS OVERVIEW

### **Increasing Sales Opportunity Pipeline and Strong Base for 2017 Growth and Profitability**

Alexium continues to manage a regularly increasing sales opportunity pipeline across an expanding number of the Company's product areas, including Alexium's initial and target markets of military/protective, outdoor, bedding & decorative, transportation and the more broadly defined polymers, resins and plastics markets.

### **Recent Significant Contracts**

- In October 2016, Alexium signed a contract in the bedding sector with expected A\$4M annual revenues. This fabric finisher customer has since further increased orders to Alexium by selling into additional mattress brands.
- At the end of the quarter, Alexium signed an agreement with Pegasus Home Fashions, a leading U.S. national provider of pillows to a wide range of retail chains, to be their exclusive supplier of cooling chemistry (Alexicool™). This contract is now expected to generate at least A\$13.3M of revenue annually.

### **Highlighted Elements of a Strong Base for 2017 Growth and Profitability**

- Alexium continues to expand its Alexicool™ product line outside of bedding and the company is working with a major supplier of inner-and-outerwear garments to retailers across the globe. Further, Alexium has developed a new cooling product that is cost-effective, wash-durable and has no effect on the hand or drape of the garment—a first in the industry. Due to the successful initial product results with this customer, the Company expects the customer to formally market new products featuring Alexicool™ in the second half of 2017.
- In December, Alexium's Sales and Product Development team travelled to China to assist a customer in the tenting industry scale-up the Alexiflam™ product. Alexium is now finalizing pricing and negotiating a sole source agreement to begin to supply Alexiflam™ with this tent manufacturer whilst it continues ongoing work with additional tent suppliers.



## Highlighted Elements of a Strong Base for 2017 Growth and Profitability, *continued*

- Apart from Alexium's current customers, the Company is further working with six different suppliers to the Bedding Mattress sector with its Alexiflam™ and Alexicool™ series.
- Alexium continues its growth in the initial commercial textile markets: transportation, protective, outdoor and bedding/decorative. In the reporting period, the Company has received 12 separate purchase orders from eight distinct customers. All eight customers are expected to become recurring revenue in the first half of 2017.
- Exclusivity and Licensing Agreements: The Company has been engaged in exclusivity and licensing discussions with multiple players across two specific technologies, Alexiflam SYN™ and Alexiflam™ NF. Given the value of these license opportunities, Alexium has conducted a process of engaging with multibillion-dollar global chemical companies within specific markets. The Company had been expecting to close a license deal in the December quarter but with the need to balance the returns from marketing these products itself versus significant passive license income and the number of engaged companies, the Company is taking additional time to achieve the best value exclusivity agreements for both the NF and SYN products with a global chemical manufacturer and supplier.
- Polymers and Resins: Alexium continues to work with key players in the resins, polymers and coatings markets with UL validation, a precursor to larger sales, well underway on key end products. Due to the initial success of the Company's SYN product in this market, Alexium has been approached for both exclusivity and potential licensing arrangements in specific sectors. The Polymers and Resins market remains a very significant area of future sales growth and R&D for new products.
- Military: To speed up the process of transitioning the Company's Alexiflam™ FR uniform solutions into the wider US Defense sector, Alexium has shifted its efforts from working primarily with the US Department of Defense military research branch in Natick as a standalone product entry, to working directly with fabric suppliers to the various arms of the US Military. Consequently, in the December quarter, the US Marine Corps (USMC) engaged with Alexium for Alexiflam™ treated fabrics and Alexium is now in discussions to exclusively partner with an active fabric supplier to the USMC. Alexium expects US Defense sector FR uniforms treated with Alexiflam™ to be a significant contributor to the Company's top-line revenue model in 2017.





## Additional Notes

• The regulatory environment in the U.S. continues its momentum away from toxic chemicals, including brominated and halogenated toxic flame retardants (FR), towards eco-conscious solutions such as Alexium's Alexiflam™ suite of FR products. The U.S. political landscape in Washington, D.C. has been unsettled during the presidential transition period. Alexium, however, has been able to capitalize on our extensive work in Washington, D.C. along with our continued advocacy in support of Alexium's environmentally friendly and cost effective products. In addition to past visits to Alexium's South Carolina facilities by Senator Lindsay Graham and Congressman Trey Gowdy, we now have a scheduled visit from South Carolina's second Senator, Senator Scott, and his staff in early February with our CEO.

## Europe and Australia

In Europe, Alexium continues its progress in developing new business opportunities with an emphasis on Alexicool™ for the bedding market and a gain in traction in higher-end markets. Alexium's global expansion with market-leading brands may lead to increased production coming from the Company's Belgium plant in the next quarter to service businesses in Belgium and Romania. In addition, with key account meetings at Heimtextil in Frankfurt earlier this month and a targeted approach with the Company's distributor, iTextiles, Alexium anticipates growth in Europe to be comparable to the success in North America.

In Australia, new business is coming online in the Construction/Window Treatment industry with a global manufacturer and in parallel, Alexium's distributor Chemiplas will be visiting the Company's US lab at the end of 1Q to focus on Alexicool™ technology. In addition to being an expert in Fire Retardant applications, Chemiplas will now be promoting PCM with its key accounts. Chemiplas has a significant market share in the Australian textiles market and Alexium has high expectations of growth in 2017. To date, Alexium has nearly a dozen different lab projects with Chemiplas that the companies are looking to close this year.

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**ABN: 91 064 820 408**  
**ASX: AJX**  
**OTC ADR: AXXIY**



## About Alexium

Alexium International Group Limited (ASX: AJX, AX:AJX, OTC ADR: AXXIY) holds proprietary patent applications for novel technologies developed to provide flame retardancy for a wide range of materials. These environmentally friendly flame retardants have applications for a number of industries and can be customized. Further, Alexium has developed products for a range of other applications including phase-change materials, water repellents, antimicrobials, and combinations thereof. Alexium also holds patents for a process developed initially by the US Department of Defense, which allows for the surface modification and attachment of nano-particles or multiple chemical functional groups to surfaces or substrates to provide functions such as fire retardancy, waterproofing, oil proofing, and antimicrobial treatments. Applications under development include but are not limited to textiles, packaging, electronics, and building materials. Alexium's chemical treatments are currently marketed under the Alexiflam™, Alexiflam FR™, Alexiflam SYN™, Alexiflam NF™, Alexicool™, Alexiflam PB™, Alexiflam AD™ and Alexicool™ brand names. For additional information about Alexium, please visit [www.alexiuminternational.com](http://www.alexiuminternational.com).

## Forward Looking Statement

This release contains forward-looking statements that are based on current expectations, estimates and projections about Alexium's business, management's beliefs and assumptions made by management. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements.

Except where required by applicable law, the Company expressly disclaims a duty to provide updates to forward-looking statements after the date of this release to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them.

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

ALEXIUM INTERNATIONAL GROUP LIMITED

**ABN**

91 064 820 408

**Quarter ended ("current quarter")**

31 December 2016

<b>Consolidated statement of cash flows</b>	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	5,311	9,118
1.2 Payments for		
(a) research and development	(662)	(1,284)
(b) product manufacturing and operating costs	(5,285)	(7,853)
(c) advertising and marketing	(86)	(210)
(d) leased assets	(88)	(128)
(e) staff costs	(1,419)	(2,798)
(f) administration and corporate costs	(876)	(1,669)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	3	9
1.5 Interest and other costs of finance paid	(2)	(5)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	212	212
1.8 Other (GST received)	30	77
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,862)</b>	<b>(4,531)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(700)	(1,545)
(b) businesses (see item 10)	-	-
(c) investments	-	-

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<b>Consolidated statement of cash flows</b>	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	(37)	(37)
(e) other non-current assets	(5)	(5)
<b>2.2 Proceeds from disposal of:</b>		
(a) property, plant and equipment	1	1
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(741)</b>	<b>(1,586)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	388	484
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	6,675	6,675
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	(126)	(126)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>6,937</b>	<b>7,033</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	8,545	11,219
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,862)	(4,531)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(741)	(1,586)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	6,937	7,033

<b>Consolidated statement of cash flows</b>		Current quarter	Year to date (6 months)
		\$A'000	\$A'000
4.5	Effect of movement in exchange rates on cash held	478	222
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>12,357</b>	<b>12,357</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b>	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts			
5.1	Bank balances	11,215	3,993
5.2	Call deposits	1,142	4,552
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>12,357</b>	<b>8,545</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	621
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
N/A		

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	155
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	
N/A		

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<b>8. Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1 Loan facilities	7,674	7,536
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

N/A

<b>9. Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1 Research and development	672
9.2 Product manufacturing and operating costs	7,225
9.3 Advertising and marketing	95
9.4 Leased assets	70
9.5 Staff costs	1,024
9.6 Administration and corporate costs	790
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>9,876</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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**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.

Sign here: *Nicholas Clark* 31 January 2017  
..... Date: .....  
(Director/Company secretary)

Nicholas Clark  
Print name: .....

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.

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