



**Phoslock
Environmental
Technologies**



ASX ANNOUNCEMENT

Thursday 30th July 2020

BUSINESS UPDATE

Flooding and Covid-19 impacts progress on China projects; first half revenues substantially down on prior period; major projects poised to recommence; strategy on track and the pipeline remains extraordinarily strong.

Key points:

- Significant recent flooding in several regions of China delays progress on key projects
- COVID-19 impacts several projects across all geographies.
- Higher than anticipated inventory and receivables impact cash flow in first half
- Technical capabilities and management control have been strengthened
- First half sales down on previous first half period
- Project pipeline unchanged at \$380 million
- Cash position remains strong and strategy is on track
- No projects have been cancelled

Business update (unaudited)

Phoslock Environmental Technologies (ASX: PET) today provides a trading update for the quarter ended 30th June 2020 and for the first half of the Company's financial year. The Company's audited results for the 6 months ending 30th June will be released on Wednesday 26th August 2020.

ASX Code: **PET**

Share Price: **A\$0.27**

52 Week High: **A\$1.55**
52 Week Low: **A\$0.27**

Issued Shares: **625.0m**

Market Cap: **A\$169m**

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PHK BLOG on Water Issues:
www.phoslock.com.au

Unusually high rainfall during June and July has resulted in flooding and deterioration in water quality in several regions of China. This and associated safety issues have delayed progress to PET remediation projects underway at Shilongba, Xingyun Lake, Wuhan, Jiangsu, Zhejiang and Shanghai. The flooding has prevented the application of Phoslock® due to unsafe, elevated water levels and this will result in a delay to those projects until such time as flood waters recede.

The second outbreak of Covid-19, primarily in Beijing since June, is now under control. This has caused challenges to the development of our China business. This was due, in part, to travel restrictions throughout the impacted regions.

It is important to note there are many ongoing projects are unaffected and are continuing as scheduled, for example, the South Beijing canals.

Critically, the initial success of the ecological restoration of Xingyun Lake has provided an effective sales tool to highlight the impact of Phoslock® on a eutrophic waterbody. Our Chinese team has also strengthened process management and technical capabilities on the back of the Xingyun Lake template.

The Company is well prepared to restart projects in China once circumstances improve; increased inventory, a strengthening of the application teams, process management and risk control will allow rapid start-up of delayed projects.

In **Europe**, several projects are being impacted by COVID-19 related delays. In those instances, authorities with which PET has contracted remediation works have cited more pressing expenditure priorities associated with supporting local communities during the pandemic. While these projects are delayed, none have been cancelled and the Company believes they will proceed in due course.

Projects in the Netherlands, Belgium, Denmark and Italy are progressing to plan and will be treated before the end of the calendar year. Two additional large treatments in the Netherlands and Germany may also be completed within that period.

In **South America**, previously announced projects in Brazil are continuing as planned, with positive feedback on the efficacy of the Phoslock® technology. This is despite the challenging situation in Brazil due to the pandemic. We expect Brazil to achieve forecast by financial year end.

In the **North America** region, trial work has commenced on an area of Utah Lake in the US. Together with other successful trial work already completed in Kitsap Lake, Washington State, Hopatcong /Mohawk lakes in New Jersey and a further treatment to Morrison Lake in Michigan, we are building a strong and widespread portfolio of treatments. This is a positive basis for confidence in our developing US business activity. Along with our distribution partner, SePRO, we are continuing work in Florida, Washington State and in the North East of the US.

GLOBAL PIPELINE

The Company's pipeline remains strong with a current contract value of \$380 million. Only those projects that PET confidently believes will proceed are included in our pipeline value estimate. In order to be included, these projects must have substantial existing engagement with the specified water body or appropriate authority managing the reservoir/lake.

Currently in China, the pipeline includes nearly \$200 million in Phoslock® product sales and over \$50 million in major engineering projects. These span the provinces of Yunnan, Hubei, and Hebei, where work continues on the Beijing canals.

Outside of China, the pipeline includes projects to the value of \$130 million. This includes projects in the US - primarily in the Florida lakes and wetlands and in Brazil, where our licensee, HidroScience, continues to perform well. Other projects are planned for Mexico, Canada and some smaller applications in Europe.

FINANCIALS (unaudited)

First half revenues were \$1.2 million, which is significantly down on the same period (\$9.8 million) in 2019. In response to project delays, PET has taken measures to reduce manufacturing activity and costs. The reduced manufacturing activity will also result in some cost savings relating to both inputs and labour. As an additional cost-saving measure, construction, and commissioning of PET's new production plant over the next six months will be re-staged and fast-tracked later when demand requirements become clearer.

The Company's outstanding receivables at the end of the second half period are also higher than anticipated, with several customers also citing COVID-19 impacts to explain late payment. The Company is liaising closely with those customers to agree appropriate payment plans and is confident that those receivables will be secured in due course

The impact of higher than expected inventories and higher receivables has negatively impacted the Company's net working capital position at the end of the half. Combined with the lower sales activity, this has resulted in a negative cash flow position for the period.

The Company's balance sheet remains strong, with \$35m in cash, \$15m in receivables and no debt at the end of the period. The Company has also recently received an indicative term sheet for short term working capital debt facilities with HSBC. Given the Company's inherently long project lead times, securing this debt facility will significantly reduce the cash conversion cycle, enabling increased investment in research and development and enhanced liquidity.

OUTLOOK AND STRATEGY

Given current uncertainty relating to the timing of projects and related revenues, PET is suspending earnings guidance. The negative impacts discussed above are seen as temporary in nature. Demand continues to grow for the Phoslock® technology, and other products & services provided by the Company.

Deputy Chairman Zhigang Zhang commented:

"The Chinese government has repeatedly stressed that we should treat the ecological environment with the utmost respect and build a beautiful China.

"Strong and persistent demand in for China's ecological environment improvement is unchanged. The current difficulties the Company is facing are temporary, our team is confident and well prepared to accomplish our goals."

Managing Director and CEO, Lachlan McKinnon stated:

“The first half of 2020 has been a challenging period for the business. Events outside the control of the Company have resulted in project delays, lower than anticipated revenues and a working capital and cash flow that is currently weaker than expected.

“It is important to stress however, that we have had no project cancellations and all of our announced contracts are expected to be fulfilled in due course.

“The longer these projects are delayed, the worse the problem of eutrophication and water pollution becomes.

“The timing of projects can have a significant impact on reported revenues and earnings on a period to period basis. We have a clear objective to reduce that volatility through continued diversification of our customer and geographic market base. We are making positive progress on that front. Other growth initiatives include enhancing our product portfolio through continued investment in R&D, potential bolt-on acquisitions that align with our strategy and lifting the profile of our product and service offering with a targeted awareness campaign directed at potential customers.

“Our project pipeline is strong, with a current contract value of approximately \$380 million. We have an exceptionally strong balance sheet and no debt and we are seeing growing acceptance of Phoslock® as the gold standard for remediation of algae in water around the world.”

INVESTOR CALLS

PET will initiate regular investor calls to provide access to the Managing Director.

Details of these calls will be announced and posted on the PET website.

The first of these calls will be held around mid-August. It is the Company’s intention to host these calls soon after the lodgement of audited results and/or quarterly ASX lodgements.

This announcement has been approved by the Chairman and Managing Director

Laurence Freedman AM
Chairman

Mr Lachlan McKinnon
Managing Director and CEO

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ABOUT PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED (PET)

Phoslock Environmental Technologies Limited (ASX: PET) specialises in engineering solutions and water treatment products to remediate polluted lakes, rivers, canals and drinking water reservoirs.

Headquartered in Melbourne, PET has offices in Brisbane, Beijing and Manchester and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors, and agents in ten other countries including SePRO Corporation in the United States and HidroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments, inhibiting the growth of Harmful Algal Blooms (HAB).

Phoslock® is certified to be used in drinking water in North America, Europe, Brazil, Australia and China. Along with Phoslock®, PET also supplies zeolites and specialised strains of bacteria that address water pollution issues.

For more information visit **www.phoslock.com.au**