

31 August 2020

## Carbonxt Group Limited – FY20 Results

### ABOUT Carbonxt Group Limited (CG1.ASX)

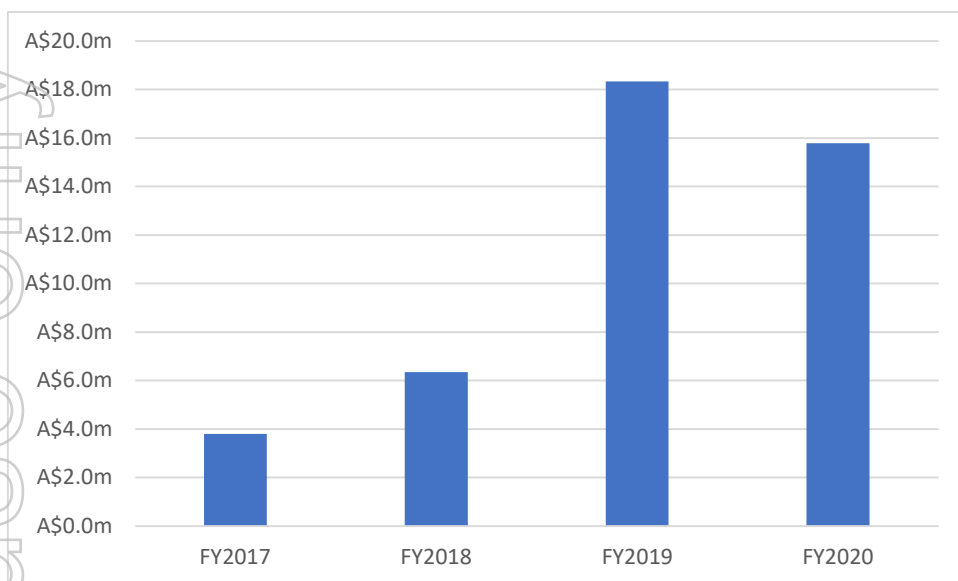
Carbonxt produces patented, non-brominated Activated Carbons that are used to eliminate mercury and other toxic pollutants. Our US-based manufacturing plants produce both Powdered and Pelletised products which are used by customers, predominantly operating coal-fired power stations, cement plants, and various other industrial companies

Carbonxt has the only US manufacturing facility that makes pelletised activated carbon for industrial markets which provides our customers with sourcing surety relative to foreign sourced products. In addition, emission reductions are mandated by the Environmental Protection Agency (EPA), and the US power and other industrial industries have invested billions of dollars installing equipment to mitigate the release of mercury and other contaminants. Unlike industry peers, our products are non-brominated, which means they do not corrode capital equipment. Our products are single use creating reoccurring revenue with contracts typically several years in duration.

### [All results in AUD]

- Revenue of \$16.6m (post grant monies) or \$15.8 m (pre-grant monies), is down 9% (post grant) and 14% (pre grant) respectively on FY19 primarily reflecting lower energy demand during the COVID-19 pandemic lockdown.
- The U.S. Energy Information Administration reported a dramatic drop in energy consumption over the March – April 2020 timeframe (most recent period available) showing the lowest energy consumption levels in more than 30 years. [refer <https://www.eia.gov/totalenergy/data/monthly/>]
- Revenue in the activated carbon pellet business was well below expectations due to a delay in expected new contracts, as well as reduced demand from two significant existing customers. Underlying demand for both these latter two customers has been impacted by COVID-19. However, the Company did sign two new contracts in June 2020 which we expect to contribute materially to FY21 Revenue.
- Annual gross margin of 32% is up from 19% in FY19 principally due to operating efficiencies as the Company moved away from the start-up production issues at the Arden Hills facility experienced in FY19. These issues have been resolved and the plant ran efficiently during FY20.
- Underlying EBITDA loss for FY20 of \$1.3m, a very significant improvement on the FY19 EBITDA loss of \$5.1m.
- Operating cashflow, adjusted for one-time costs, has been at breakeven for the past three quarters. This compares favourably to FY19 when operating cash flow was negative in all four quarters.

## Annual Revenue



### Activated Carbon Pellets - Arden Hills, Minnesota (USA).

- Sales commenced in June 2018 and increased through FY19 when a single large utility customer ordered 3,600 tons to both meet consumption and build their inventory. FY20 volume for this customer was 2,600 tons reflecting current consumption requirement, also reflecting lower overall energy demand for that utility mainly because of COVID-19
- The Company developed and initiated sales of AC pellets into the industrial vapour application market in FY20 and will be entering the industrial liquid application market (e.g., liquid natural gas) in early FY21. These markets will provide increased sales in FY21 compared with FY20.
- Carbonxt developed a technology (HydRestor) centred around AC pellets for phosphate removal applications and has commenced commercialisation with four pilots recently identified. HydRestor has been recognized by the United States Department of Energy (DOE) as Carbonxt has been awarded the Water Resource Recovery Prize by the DOE.

### Powdered Activated Carbon - Black Birch, Georgia (USA)

- The facility is running efficiently with lower costs compared to third party sourcing as well as relative to FY19.
- Expanded customer base in FY20 includes additional US utilities and cement plants.

## Outlook

- Positive outlook for FY21 with increasing demand for Carbonxt's proprietary pollutant removal technologies, the commercialisation of HydRestor, and continued growth of our customer base for AC pellets.
  - The MATS market in the US continues to see significant activity. We are optimistic about expanding our business within this segment reflecting multiple Request for Proposals that will be issued by utilities in the next several months.
  - In respect of AC pellets, we anticipate piloting within the next quarter opportunities for our product to be utilised with LNG purification facilities which is a significant new potential segment for us in North America.
- Carbonxt is the only AC industrial pellet producer located in the United States at a time of increased import tariffs and international trade uncertainty. The Company is looking to capitalise on these advantages in FY21.
- The Company fortified its R&D team via the hiring of a new Chief Technology Officer and an additional Research Associate to accelerate the Company's execution of its Pellet growth strategy.
- Continued development of new emission regulation technologies with two patents granted in FY20. Carbonxt continues to invest in its R&D expertise via expansion of its research team as well as its laboratory and development capabilities. Customers in multiple industrial segments regularly seek out our ability to develop technologies to meet their emission and regulatory requirements.
- The sales and business development team has been augmented by the hiring of a new Technical Sales Director who will support the commercialization of HydRestor and sales of AC pellets to new customers.
- The company is putting renewed emphasis on marketing with recent website content updates and is planning a website freshening early in FY21 along with new product literature, case studies, and marketing material to support our new products and sales efforts.

## FINANCIAL OVERVIEW

US \$'000	FY20	FY19	Change
<b>Revenue</b>	<b>\$15,786</b>	<b>\$18,325</b>	<b>-14%</b>
<b>Gross margin</b>	<b>\$5,044</b>	<b>\$3,514</b>	<b>44%</b>
Gross margin %	32%	19%	-
<b>Other income</b>	<b>\$817</b>	<b>\$26</b>	-
Shipping costs	(\$1,375)	(\$1,867)	-
Operating costs	(\$5,823)	(\$6,769)	-
<b>EBITDA</b>	<b>(\$1,337)</b>	<b>(\$5,096)</b>	<b>74%</b>
Depreciation and amortisation	(\$1,404)	(\$693)	-
<b>EBIT</b>	<b>(\$2,741)</b>	<b>(\$5,789)</b>	<b>53%</b>
Net interest	(\$1,226)	(\$823)	-
Non-cash items (net)	(\$422)	(\$60)	-
<b>Net loss before tax</b>	<b>(\$4,389)</b>	<b>(\$6,672)</b>	<b>34%</b>

## REVENUE

The revenue base was further diversified in FY20, including activated carbon pellet customers from multiple industrial segments, HydRestor pilot customers and another new customer in the Mercury Air Toxic Standards (MATS) market. The Company also successfully renewed two existing MATS customers.

The Company expects robust revenue growth in FY21 through significant demand for the Company's AC pellets for industrial pollutant removal. We are currently responding to higher levels of customer enquiries and the Company will be expanding its AC pellet portfolio in early FY21 with products for liquid phase applications.

Carbonxt also expects to be able to replace existing granular activated carbon products and technologies with pelletised products for various uses during FY21. This has benefits for our customers, but also offers the opportunity for Carbonxt to provide a more differentiated product, new markets to target, and capture improved margins.

## MARGIN GROWTH

FY20 gross margin percentage was 32%, a significant increase from the 19% recorded in FY19. Total gross margin was up by 44%. With the initial production start-up issues behind us at Arden Hills, margins on industrial AC pellets produced at Arden Hills are expected to increase further in FY21. The Company has a very strong R&D team with an excellent track record of achieving margin expansion over time as products are refined and the Company gains more experience with product formulas and manufacturing processes.

Black Birch (powdered) uses a very low-cost base material for manufacturing Powdered Activated Carbon (PAC) and the Company's margins have improved on these products compared with previous third-party sourcing.

## OPERATING COSTS

Shipping costs to customers decreased from 10% of revenue in FY19 to 9% in FY20 due to a higher mix of AC pellet sales, where the customer is near the Arden Hills plant.

Operating costs of \$5.8m were 14% lower than FY19.

## STATEMENT OF FINANCIAL POSITION

The Company has a A\$5.5 million debt facility provided by PURE Asset Management, maturing in April 2023 with an interest rate of 9.5%.

## **FURTHER GROWTH OPPORTUNITIES**

### **New and growing market segments in the USA**

The AC pellet market for industrial applications is quite diverse. As Carbonxt's initial pellets are targeted to specific applications such as vapour recovery units, there is significant growth opportunity as we develop pellet formulas to address odour mitigation, liquid solvent recovery units, LNG purification, and other specific industrial uses of pellets.

The MATS market is anticipated to grow as existing clean coal tax credits are scheduled to be retired completely by the end of 2021. This market segment growth combined with Carbonxt's proprietary oxidising, but non-brominated technology is expected to lead to volume growth for the Company.

### **Increasingly stringent pollution control regulation**

The Company has representatives on several leading industry bodies and EPA working groups, giving a good line of sight to future regulation and market dynamics. Carbonxt has arguably the most capable R&D/Product Development capability in the USA Activated Carbon market to capitalise on any changes.

### **International applications**

Many of the Company's products, such as AC pellets, have global application and the Company is in the early stages of investigating potential opportunities in other countries outside the US.

This announcement has been authorised for release to the ASX by the Board of CG1.

**ENDS**

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