

Carbonxt Group Limited – FY21 Results

ABOUT Carbonxt Group Limited (CG1.ASX)

Carbonxt is a cleantech company that develops and manufactures environmental technologies to maintain compliance with air and water emission requirements and to remove harmful environmental pollutants. The Company's primary operations are in the United States and include a significant R&D focus as well as manufacturing plants for Activated Carbon ('AC') Pellets and Powder Activated Carbon. Carbonxt continues to expand its pellet product portfolio to address a broader range of industrial applications and sectors.

[All results in AUD]

- The Company's Activated Carbon Pellet business segment continued to show strong market penetration, where revenue growth outside of its largest pellet customer was 118% compared to FY20. This is consistent with the Company's market diversification strategy. Pellet sales accounted for 55% of revenue and 42% of sales volume.
- Revenue of \$12.3 million, down 22% on FY20 due to several non-recurring factors including the impact of COVID-19 on business activity, the deferment of pellet manufacturing for certain industrial pellets due to high raw material costs, and unplanned outages at select customer's power generation facilities. Exchange rate fluctuations also impacted comparative revenue accounting for 9%, or \$1.4m of the decrease.
- Underlying EBITDA loss for FY21 of \$2.2m, compared to FY20 EBITDA loss of \$1.3m – with FY21 EBITDA being impacted mainly by the decrease in revenue as a result of the impact of COVID-19.
- Annual gross margin of 28% (prior year: 32%) principally due to higher production costs for the CTC pellets product line as the declining trade terms and higher costs impacted the Arden Hills facility (now resolved). As noted in earlier announcements, industrial pellet production was deferred in April 2021 until the new Kentucky facility becomes operational.

Activated Carbon Pellets – Arden Hills, Minnesota (USA)

- The Company continued building its customer base in the industrial vapor application market in FY21 and increased its revenue here by 118% year-on-year. Pellet inventory for this market was quickly sold out following production. Due to the high cost of third party carbons used for raw material in these pellets, the Company deferred production part-way through the year resulting in a decrease to expected revenue.
- Pellet deliveries continued to a single large utility customer under contract with sales since the plant's commissioning in July 2018. Sales volume was 1,600 tons for FY21 compared to 2,600 tons in the prior financial year. Volume was lower due to reduced operation of the facility. Demand for this product has increased significantly in early FY22 and is expected to continue through the remainder of the upcoming financial year.
- Pellet tolling production at the Arden Hills facility commenced during FY21 where the Company's world-class R&D team collaborated closely with a large industrial customer to develop a customized pellet which met their specification, quality, and economic requirements. The Company expects to grow sales with this custom engineered pellet through the customer's extensive sales pipeline and developed market channels.

Powdered Activated Carbon – Black Birch, Georgia (USA)

- The Black Birch facility continued to support the Arden Hills pellet facility with production of low-cost powdered activated carbon which supported strong margins in the mercury-reduction pellet product line.
- In December 2020, deliveries commenced under a 3-year contract for powdered activated carbon for a wastewater treatment facility with expected volumes of 1,000 tons per year.
- The facility continued to mature its operations and maintenance practices following commissioning in mid-2018, significantly reducing repair costs and downtime.
- The Company also negotiated a reduced lease cost which was implemented in July 2020, lowering lease costs by over US \$240k per year (A \$321k).

OUTLOOK

- FY2022 has commenced with high demand in both the pellet and powdered activated carbon segments, and we anticipate this rate to continue for the foreseeable future. The increased demand primarily reflects:
 - 1) orders from the utility sector as higher natural gas prices and a hot summer support coal electricity generation, and
 - 2) overall higher industrial demand as companies rebound from Covid related impacts.
- The Company signed a 3-year agreement for activated carbon pellet supply with an investment group that is building a specialty activated carbon plant in Kentucky, and is expected to be fully operational in 2H22. This will give the company the ability to target the ACP market with a total of 11,000 tons per annum of industrial activated carbon pellet production, without any further capital contribution requirements.
- The Company's current and prospective customers continue to emphasize a desire for US-made pellets. Carbonxt is the only activated carbon industrial pellet producer located in the United States. With import freight prices that have tripled in FY21, many companies are seeking local suppliers to enable more consistent purchase prices.
- Subsequent to the fiscal year end, the Company announced a significant contract award for additional activated carbon pellet volume from an existing customer (a Midwest utility) with this higher volume projected to run at least through the upcoming fiscal year.
- The company is on-track to deliver quarterly revenue of >A\$4.2m (prior quarter: A\$2.7m) in the September quarter; up 55% quarter-on-quarter and driven by first revenue from expanded AC Pellet customer order which will add A\$1.5m to quarterly revenue
- The continued focus on higher margin Activated Carbon Pellets and technologies is consistent with the company's vision whereby it can take advantage of its R&D and manufacturing capabilities and commercial relationships.

FINANCIAL OVERVIEW

AU \$'000	FY21	FY20	Change
Revenue	\$12,327	\$15,786	-22%
Gross margin	\$3,392	\$5,044	-33%
Gross margin %	28%	32%	-
Other income	\$1,584	\$817	
Shipping costs	(\$1,371)	(\$1,375)	-
Operating costs	(\$6,017)	(\$5,822)	-
EBITDA	(\$2,413)	(\$1,336)	-81%
Depreciation and amortisation	(\$1,694)	(\$1,404)	-
EBIT	(\$4,107)	(\$2,740)	-50%
Net interest	(\$1,135)	(\$1,226)	-
Share based payment expense	(\$92)	(\$166)	-
Non-cash items (net)	\$0	(\$256)	-
Net loss before tax	(\$5,333)	(\$4,388)	-22%

REVENUE

- Although total revenue was down 22% from FY20, Carbonxt experienced strong growth in its pellet business as it expanded product types offered in this segment. The Company has successfully developed pellet technologies for multiple large customers in addition to toll manufacturing pellets for a large industrial entity. As announced on 21 July 2021, the Company received an additional US\$2 million order from an existing customer to be supplied by end December 2021. With the increased demand, Carbonxt added another shift at its Minnesota pellet plant to support the additional production requirements.
- The Company sold out of its CTC pellet inventory in FY21 but is working on potential paths forward to produce this product to meet new customer opportunities that have been identified.
- In early FY22, the Company has seen a surge in demand for its powdered activated carbon products from several large industry players which is expected to positively impact revenue in the next fiscal year.

MARGIN

- FY21 gross margin was 28%, a decrease from the 32% recorded in FY20. The decrease was attributable to the diversification of the Company's product line to include a broader selection of activated carbon pellets to address the needs of different industrial customers. This is expected to ultimately result in higher gross margins as well as a more varied customer base as we implement operating efficiencies and identify lower sourced raw materials.
- The new pellet product line saw higher raw material costs in FY21, and ultimately due to higher costs and declining payment terms, full scale production of these pellets was deferred until the Company's partners come online with additional capacity. This is expected to increase gross margins on this product in a market where the Company has proven customers and strong demand.



OPERATING COSTS

- Shipping costs to customers were even with prior year but increased as a percentage of revenue, from 9% in FY20 to 11% in FY21. Increases were due to increased pricing in shipping lanes primarily as a result of increased fuel costs, as well as overall high demand for logistics and transportation with the business recovery following the COVID-19 pandemic.
- Operating costs of \$6.0m were increased by 3% over the prior year including increases in commercial insurance.
- In 4QFY21, the Company successfully implemented its \$1m reduction in annual operating costs. The primary components of these cost savings are reductions in personnel expenses as well as a more efficient health insurance program for employees.

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%.

A government grant of US \$474k (AU \$615k) was received in Q4 FY22 to assist with COVID-19 relief –the second coronavirus-related government grant received by Carbonxt.

In May the Company launched a non-renounceable pro-rata entitlement Offer for existing shareholders raising a total of \$1,015,588.80 before costs. The shortfall to this Offer was placed to new and existing investors raising an additional \$1,041,044. The details of the Offer is outlined below:

- One new fully paid ordinary share for every 11 existing fully paid ordinary shares at an offer price of \$0.15 per New Share with one free attaching option with an exercise price of \$0.24 exercisable on or before Wednesday, 21 June 2023, for every two New Shares issued;
- The shortfall placement consisted of 6,940,297 ordinary shares at \$0.15 and 3,470,149 attached listed options with a strike price of \$0.24 being issued.

FURTHER GROWTH OPPORTUNITIES

US Policy Environment Supporting Cleantech

The Biden administration has shown strong support of green policies including investment in the clean energy industry as well as reviewing rules made by the former administration that weakened environmental legislation. Carbonxt anticipates that these policies will lead to additional business opportunities going forward.

Industry Activities

Supply chain consolidation and plant divestments have created indications of raw material shortages within the activated carbon industry putting upward pressure on pricing. The Company is focused on improving its competitive position to take advantage of a pricing environment supporting higher margins.



International applications

The Company continues to develop relationships with global partners and has made commercial progress with a major Asian utility for activated carbon pellet supply.

New Technologies

Carbonxt continues to make excellent progress with Hydrestor – a pellet technology which was developed by the Company's R&D team to remove phosphorous from waterways and wastewater. Related announcements on the commercialization of this new product are anticipated in the near future.

COMMENT

Managing Director Warren Murphy said: *"The new fiscal year has commenced well for Carbonxt and is reflective of the fact that customer activity is returning to pre-pandemic levels. As the only US-based manufacturer of AC Pellets in the United States, we have a major competitive advantage in a sector where there is much greater focus on lowering carbon emissions, something our products help do in multiple industry applications. We expect recently reported revenue forecasts for the first quarter of FY2022 to continue tracking up. We look forward to reporting on further growth in customer orders, an expanded manufacturing footprint when we secure our permit in Kentucky, and penetration into new industries and sectors where there is huge potential for our technologies."*

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

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