

EcoSynthetix Reports Fourth Quarter and Year End 2018 Results

BURLINGTON, ON, March 5, 2019 /CNW/ - EcoSynthetix Inc. (**TSX: ECO**) ("**EcoSynthetix**" or the "**Company**"), a renewable chemicals company that produces a portfolio of commercially proven bio-based products, today announced its financial and operational results for the three months (Q4 2018) and twelve months ended (FY 2018) December 31, 2018. Financial references are in U.S. dollars unless otherwise indicated.

Highlights

- Recorded net sales of \$6.0 million, up 19%, and \$22.8 million, up 27%, in Q4 2018 and FY 2018, respectively compared to the corresponding periods in 2017
- Generated \$0.1 million of positive operating cash flow in Q4 2018, an improvement of \$1.0 million, and cash used in operating activities was \$1.9 million in FY 2018, an improvement of 56%, compared to the respective corresponding periods in 2017
- The SWISS KRONO GROUP launched a NAF (No-Added Formaldehyde) Solution particleboard product using DuraBind™ technology
- Purchased and cancelled 2,045,500 common shares for total consideration of \$2.9 million under the normal course issuer bid during 2018, including 1,316,500 shares acquired for \$2.0 million during the quarter
- Maintained a strong balance sheet with cash and term deposits of \$44.8 million as at December 31, 2018

"We continue to drive revenue and bottom-line improvements through our growth in the paper & paperboard and the wood composites markets. Our results reflect both higher volumes and improved pricing," said Jeff MacDonald, CEO of EcoSynthetix. "Our value proposition in the wood composites market has improved significantly as pMDI prices, the co-binder that works with DuraBind, have receded in late 2018 and into 2019. Manufacturers are actively pursuing No-Added Formaldehyde alternatives for their wood composites products and DuraBind offers a solution that is competitive with formaldehyde in both value and performance. The pricing dynamics in paper & paperboard are more competitive for new accounts, but we have demonstrated that the manufacturers that use EcoSphere® recognize its benefits and view it as a core input to their process. We are committed to running a profitable business in 2019 – driven by our growth in these two key markets, expanding our platform to new product categories and continued disciplined cost management."

Financial Summary

Net Sales

Net sales were \$6.0 million and \$22.8 million for Q4 2018 and FY 2018, respectively, compared to \$5.0 million and \$17.9 million in the corresponding periods in 2017. The 19% increase in the quarter was primarily due to higher sales volume of \$0.8 million, or 15%, and higher average selling prices which improved sales \$0.2 million, or 4%. The 27% increase in the annual period was primarily due to higher sales volumes of \$4.0 million, or 22%, and an increase in average selling price which positively impacted sales by \$0.9 million, or 5%. The increase in sales volume and average selling prices in both periods was primarily due to favourable market conditions.

Gross Profit

Gross profit was \$1.2 million and \$4.5 million for Q4 2018 and FY 2018, respectively, compared to \$0.8 million and \$3.7 million in the corresponding periods in 2017. The increases were primarily due

to higher sales volumes and higher average selling prices, partly offset in the annual period by an increase in manufacturing costs. Depreciation expense included in gross profit was \$0.2 million and \$0.8 million for Q4 2018 and FY 2018, respectively, compared to \$0.3 million and \$0.8 million in the corresponding periods in 2017.

Gross profit as a percentage of sales was 19.9% and 19.7% in Q4 2018 and FY 2018, respectively, compared to 16.7% and 20.5% in the corresponding periods in 2017. Gross profit as a percentage of sales adjusted for depreciation expense was 23.5% and 23.4% for Q4 2018 and FY 2018, respectively compared to 22.1% and 25.1% for the corresponding periods in 2017. The increases in the quarterly period were primarily due to higher average selling prices. The decreases in the annual period were primarily due to higher manufacturing costs partly offset by an increase in average selling prices.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses were \$1.4 million and \$5.5 million for Q4 2018 and FY 2018, respectively, compared to \$1.3 million and \$6.0 million for the corresponding periods in 2017. The \$0.1 million or 4% increase in the quarterly period was primarily due to \$0.2 million of foreign exchange losses partially offset by lower people related costs and discretionary spending. The \$0.5 million or 8% decrease in the annual period was primarily due to lower people related costs and discretionary spending partly offset by an increase in foreign exchange losses of \$0.3 million. The change in foreign exchange losses in both periods were primarily unrealized and due to the translation of cash balances denominated in Canadian dollars and foreign exchange rate fluctuations between the Canadian dollar and U.S. dollar. The decrease in people related costs and discretionary spending in both periods was primarily due to a cost reduction plan which was implemented during the first quarter of 2018.

SG&A includes share-based compensation expense which was \$0.2 million and \$0.8 million for Q4 2018 and FY 2018, respectively, compared to \$0.1 million and \$1.0 million in the corresponding periods in 2017. The changes in both periods were primarily due to the achievement of certain vesting conditions related to performance stock options and restricted share units and the issuance of share-based awards in FY 2018. SG&A excluding share-based compensation expense was \$1.2 million and \$4.7 million for Q4 2018 and FY 2018, respectively, compared to \$1.2 million and \$5.0 million in the corresponding periods in 2017.

Research and Development

Research and development (R&D) expenses were \$0.4 million and \$2.2 million for Q4 2018 and FY 2018, respectively, compared to \$1.1 million and \$4.7 million for the corresponding periods in 2017. The \$0.7 million or 63% decrease in the quarterly period was primarily due to lower people related costs and discretionary spending and lower mill trial related costs. The \$2.5 million or 53% decrease in the annual period was primarily due to lower mill trial related costs, a decrease in people related costs and discretionary spending and lower third party development costs.

Depreciation expense included in R&D was \$0.1 million and \$0.4 million for Q4 2018 and FY 2018, respectively, which was flat compared to the corresponding periods in 2017. R&D excluding depreciation expense was \$0.3 million and \$1.8 million for Q4 2018 and FY 2018, respectively, compared to \$1.0 million and \$4.3 million in the corresponding periods in 2017.

Termination benefits

Termination benefits were nil and \$0.2 million for Q4 2018 and FY 2018, respectively, compared to nil and \$0.1 million in corresponding periods in 2017. Termination benefits recorded in FY 2018 related to a cost reduction plan implemented in the first quarter of FY 2018.

Adjusted EBITDA¹

Adjusted EBITDA loss was \$0.1 million and \$1.4 million for Q4 2018 and FY 2018, respectively, compared to a loss of \$1.1 million and \$4.8 million for the corresponding periods in 2017. The 94% and 71% respective improvements were primarily due to lower operating expenses and higher gross profit.

Net Loss

Net loss was \$0.3 million, or \$0.01 per common share, and \$2.5 million, or \$0.04 per common share, in Q4 2018 and FY 2018, respectively, compared to \$1.4 million, or \$0.02 per common share, and \$6.4 million, or \$0.11 per common share, for the corresponding periods in 2017. The improvements were principally due to lower operating expenses and higher gross profit.

Liquidity

Cash on hand and term deposits were \$44.8 million as at December 31, 2018, compared to \$49.3 million as at December 31, 2017. Cash on hand at December 31, 2018, excluding the \$30.6 million in term deposits, was \$14.2 million. In FY 2018 the Company purchased and cancelled 2,045,500 common shares for consideration of \$2.9 million under the normal course issuer bid announced in April 2018.

Notice of Conference Call

EcoSynthetix will host a conference call Wednesday, March 6, 2019 at 8:30 AM ET to discuss its financial results. Jeff MacDonald, CEO, and Robert Haire, CFO, will co-chair the call. All interested parties can join the call by dialling (647) 427-7450 or (888) 231-8191. Please dial in 15 minutes prior to the call to secure a line. A live audio webcast of the conference call will also be available at www.ecosynthetix.com. The presentation will be accompanied by slides, which will be available via the webcast link and the Company's website. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast.

¹Non-IFRS Financial Measures

This press release makes reference to certain non-IFRS measures. These non-IFRS measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of results of operations of EcoSynthetix from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the financial information of EcoSynthetix reported under IFRS. The Company uses non-IFRS measures such as Adjusted EBITDA to provide investors with a supplemental measure of operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess the Company's ability to meet its capital expenditure and working capital requirements.

Adjusted EBITDA is not a measure recognized under IFRS and does not have a standardized meaning prescribed by IFRS. See "IFRS and Non-IFRS Measures." The Company presents Adjusted EBITDA because the Company believes it facilitates investors' use of operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting relative interest expense), the book amortization of intangibles (affecting relative amortization expense) and the age and book value of

property and equipment (affecting relative depreciation expense). The Company also presents Adjusted EBITDA because it believes it is frequently used by securities analysts, investors and other interested parties as a measure of financial performance. Adjusted EBITDA as presented herein are not recognized measures under IFRS and should not be considered as an alternative to operating income or net income as measures of operating results or an alternative to cash flows as measures of liquidity. Adjusted EBITDA is defined as consolidated net income (loss) before net interest expense, income taxes, depreciation, amortization, other non-cash expenses and charges deducted in determining consolidated net income (loss).

The following table reconciles net loss to Adjusted EBITDA loss for the three months and twelve months ended December 31, 2018 and December 31, 2017:

	Three months ended December 31, 2018 (Unaudited)	Three months ended December 31, 2017 (Unaudited)	Twelve months ended December 31, 2018	Twelve months ended December 31, 2017
Net Loss	(348,951)	(1,434,280)	(2,530,758)	(6,442,284)
Depreciation	312,908	376,817	1,248,946	1,229,121
Share-based Compensation	225,357	124,948	780,395	1,034,704
Interest Income	(258,904)	(181,664)	(926,884)	(667,327)
Adjusted EBITDA loss	(69,590)	(1,114,179)	(1,428,301)	(4,845,786)

About EcoSynthetix Inc. (www.ecosynthetix.com)

EcoSynthetix offers a range of sustainable engineered biopolymers that allow customers to reduce their use of harmful materials, such as formaldehyde and styrene-based chemicals. The Company's flagship products, DuraBind™ and EcoSphere®, are used to manufacture wood composites, paper and packaging, and enable performance improvements, economic benefits and sustainability. The Company is publicly traded on the Toronto Stock Exchange (T:ECO).

Forward-Looking Statements

Certain statements in this Press Release constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, objectives or achievements of the Company, or industry results, to be materially different from any future results, performance, objectives or achievements expressed or implied by such forward looking statements. The forward-looking statements in this Press Release include, but are not limited to, statements regarding the Company's plans to execute its commercial strategy, convert late-stage industrial trial prospects into customers and expand the number of lines and the volumes at existing customers, and other statements regarding the Company's plans and expectations in 2019. These statements reflect our current views regarding future events and operating performance and are based on information currently available to us, and speak only as of the date of this Press Release. These forward-looking statements involve a number of risks, uncertainties and assumptions and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such performance or results will be achieved. Those assumptions and risks include, but are not limited to, the Company's ability to successfully allocate capital as needed and to develop new products, as well as the fact that our results of operations and business outlook are subject to significant risk, volatility and uncertainty. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including the factors identified in the "Risk Factors" section of the Company's Annual Information Form dated March 4, 2019. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this Press Release as intended, planned, anticipated, believed, estimated or expected. Unless required by applicable securities law, we do not intend and do not assume any obligation to update these forward-looking statements.

EcoSynthetix Inc.
Consolidated Balance Sheets
(expressed in US dollars)

	December 31, 2018	December 31, 2017
Assets		
Current assets		
Cash	14,207,342	19,116,828
Term deposits	30,635,400	30,171,121
Accounts receivable	2,347,622	2,296,255
Inventory	2,722,742	2,535,234
Government grants receivable	140,000	-
Prepaid expenses	129,240	153,524
	<u>50,182,346</u>	<u>54,272,962</u>
Non-current assets		
Property, plant and equipment	6,174,898	7,115,672
Total assets	<u>56,357,244</u>	<u>61,388,634</u>
Liabilities		
Current liabilities		
Trade accounts payables and accrued liabilities	2,255,430	2,951,220
Accrued termination benefits	-	39,830
Total liabilities	<u>2,255,430</u>	<u>2,991,050</u>
Shareholders' Equity		
Common shares	491,618,125	493,631,495
Contributed surplus	9,798,803	9,550,445
Accumulated deficit	(447,315,114)	(444,784,356)
Total shareholders' equity	<u>54,101,814</u>	<u>58,397,584</u>
Total liabilities and shareholders' equity	<u>56,357,244</u>	<u>61,388,634</u>

EcoSynthetix Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the three and twelve months ended December 31, 2018 and 2017
(expressed in US dollars)

	(Unaudited)			
	Three months ended December 31,		Twelve months ended December 31,	
	2018	2017	2018	2017
Net sales	5,989,317	5,029,995	22,799,329	17,885,423
Cost of sales	4,794,498	4,190,723	18,302,982	14,215,080
Gross profit on sales	<u>1,194,819</u>	<u>839,272</u>	<u>4,496,347</u>	<u>3,670,343</u>
Expenses				
Selling, general and administrative	1,391,958	1,339,650	5,511,936	6,004,556
Research and development	410,716	1,115,566	2,219,275	4,711,913
Termination benefits	-	-	222,778	63,485
	<u>1,802,674</u>	<u>2,455,216</u>	<u>7,953,989</u>	<u>10,779,954</u>
Loss from operations	(607,855)	(1,615,944)	(3,457,642)	(7,109,611)
Interest income	258,904	181,664	926,884	667,327
Net loss and comprehensive loss	<u>(348,951)</u>	<u>(1,434,280)</u>	<u>(2,530,758)</u>	<u>(6,442,284)</u>
Basic and diluted loss per common share	(0.01)	(0.02)	(0.04)	(0.11)
Weighted average number of common shares outstanding	59,032,951	59,573,558	59,498,498	59,551,885

EcoSynthetix Inc.

Consolidated Statements of Cash Flows

For the three and twelve months ended December 31, 2018 and 2017

(expressed in US dollars)

	<i>(Unaudited)</i>			
	Three months ended December 31,		Twelve months ended December 31,	
	2018	2017	2018	2017
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(348,951)	(1,434,280)	(2,530,758)	(6,442,284)
Items not affecting cash				
Depreciation	312,908	376,817	1,248,946	1,229,121
Share-based compensation	225,357	124,948	780,395	1,034,704
Unrealized foreign exchange loss (gain)	184,582	(60,308)	199,154	(60,726)
Other	(221,691)	10,096	(435,619)	(234,891)
Changes in non-cash working capital				
Accounts receivable	(513,133)	(738,943)	(51,367)	(96,966)
Inventory	117,790	541,021	(211,982)	629,813
Government grants receivable	(140,000)	-	(140,000)	-
Prepaid expenses	39,328	45,140	24,284	11,828
Trade accounts payables and accrued liabilities	402,528	144,856	(774,477)	(118,983)
Accrued termination benefits	-	22,683	(39,830)	(376,058)
	<u>58,718</u>	<u>(967,970)</u>	<u>(1,931,254)</u>	<u>(4,424,442)</u>
Investing activities				
Purchase of property, plant and equipment	(201,302)	(44,367)	(218,865)	(360,240)
Receipts on mature term deposits	-	-	30,000,000	15,000,000
Purchase of term deposits	-	-	(30,000,000)	(30,000,000)
	<u>(201,302)</u>	<u>(44,367)</u>	<u>(218,865)</u>	<u>(15,360,240)</u>
Financing activities				
Common shares repurchased	(1,952,047)	-	(2,932,983)	-
Exercise of common share options	853	-	387,576	47,617
Proceeds from government grants	-	-	-	168,562
	<u>(1,951,194)</u>	<u>-</u>	<u>(2,545,407)</u>	<u>216,179</u>
Effect of exchange rate changes on cash	<u>(124,190)</u>	<u>55,415</u>	<u>(213,960)</u>	<u>168,053</u>
Decrease in cash during the period	(2,217,968)	(956,922)	(4,909,486)	(19,400,450)
Cash - Beginning of period	16,425,310	20,073,750	19,116,828	38,517,278
Cash - End of period	<u>14,207,342</u>	<u>19,116,828</u>	<u>14,207,342</u>	<u>19,116,828</u>

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