



EcoSynthetix Reports Second Quarter 2020 Results

Burlington, Ontario, July 29, 2020 - 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 (Q2 2020) and six months (YTD 2020) ended June 30, 2020. Financial references are in U.S. dollars unless otherwise indicated.

Highlights

- Recorded net sales of \$3.1 million in Q2 2020, down 39% compared to the same period in 2019 due to the rapid decline in paper demand as a result of the COVID-19 pandemic
- Recorded cash used in operating activities of \$28 thousand in Q2 2020, an increase of \$250 thousand compared to the same period in 2019
- Recorded Adjusted EBITDA loss of \$0.2 million in Q2 2020, compared to a nominal gain for the same period in 2019
- Purchased and cancelled 744,700 common shares for total consideration of \$1.0 million under the normal course issuer bid during Q2 2020
- Maintained a strong balance sheet with cash and short-term investments of \$42.3 million as at June 30, 2020

“The rapid decline in paper demand as a result of the COVID-19 pandemic is reflected in our sales performance. Industry reports show North American coated freesheet shipments were down 43% in the quarter compared to the same period last year. Despite ongoing pressure, the cost discipline measures we implemented in the past two years have mitigated the impact on our adjusted EBITDA and cash flow which held up better than demand,” said Jeff MacDonald, CEO of EcoSynthetix. “The paper and paperboard markets are foundational to the business, however we believe our growth drivers remain the wood composites and personal care applications. Our key strategic prospect in wood composites remains highly engaged and their activities with our DuraBind™ binder continue to progress well. As consumers, retailers and manufacturers pursue a healthier, No-Added Formaldehyde binder in wood composites, our DuraBind™ resin is positioned as the leading alternative. With green ingredients for healthy homes and lifestyle choices receiving increased interest, our biopolymer technologies are well-positioned to benefit from these long-term trends.”

Financial Summary

Net Sales

Net sales were \$3.1 million and \$7.3 million for Q2 2020 and YTD 2020, respectively, compared to \$5.1 million and \$9.5 million in the corresponding periods in 2019. The decrease in the quarterly period was due to lower sales volumes which reduced sales \$1.7 million, or 34%, and a lower average selling price which reduced sales by \$0.3 million, or 5%. The decrease in the YTD period was due to lower sales volume which reduced sales \$1.8 million, or 19%, and a lower average selling price which reduced sales by \$0.4 million, or 4%. The decrease in volume and average selling price in both periods was primarily due to unfavorable market conditions brought on by the COVID-19 pandemic which reduced the global demand for paper products and created adverse market pricing dynamics.

Gross Profit

Gross profit was \$0.5 million and \$1.6 million for Q2 2020 and YTD 2020, respectively, compared to \$1.0 million and \$2.0 million in the corresponding periods in 2019. The decrease in both periods was primarily due to lower sales volume and a lower average selling price partly offset by lower manufacturing costs.

Gross profit as a percentage of sales was 16.6% and 22.1% for Q2 2020 and YTD 2020, respectively, compared to 20.1% and 21.1% in the corresponding periods in 2019. Gross profit as a percentage of sales adjusted for manufacturing depreciation was 23.6% and 27.2% for Q2 2020 and YTD 2020, respectively, compared to 24.8% and 25.2% for the corresponding periods in 2019. The decrease in gross profit as a percentage of sales adjusted for manufacturing depreciation in the quarter was primarily due to a lower average selling price partly offset by lower manufacturing costs. The increase in the YTD period was primarily due to lower manufacturing costs partly offset by a lower average selling price.

Selling, General and Administrative

Selling, general and administrative expenses (SG&A) were \$0.9 million and \$2.2 million for Q2 2020 and YTD 2020, respectively, compared to \$1.1 million and \$2.3 million for the corresponding periods in 2019. The decrease in the quarter was primarily due to payments received under the Canadian Employer Wage Subsidy program (CEWS) in the amount of \$0.1 million, a change in foreign exchange gains and losses and lower discretionary spend. The decrease in the YTD period was primarily due to payments received from CEWS and lower discretionary spend which was partly offset by a change in foreign exchange gains and losses. Changes in foreign exchange are primarily due to fluctuations between the U.S. dollar (the Company's functional currency) and foreign currencies (primarily Canadian dollars) and the related impact on the net monetary position in those respective currencies.

Research and Development

Research and development (R&D) costs were \$0.4 million and \$0.8 million for Q2 2020 and YTD 2020, respectively, which are each comparable to the corresponding periods in 2019. R&D expense as a percentage of sales was 14% and 11% for Q2 2020 and YTD 2020, respectively, compared to 8% and 9% in the corresponding periods in 2019. The Company's R&D efforts continue to focus on further enhancing value for its existing products and expanding addressable opportunities.

Adjusted EBITDA¹

Adjusted EBITDA loss was \$0.2 million and \$0.4 million for Q2 2020 and YTD 2020, respectively, compared to a nominal gain and a loss of \$0.1 million in the corresponding periods in 2019. The changes are due to a higher net loss due to lower gross profit partly offset by lower operating expenses.

Net Loss

Net loss was \$0.6 million, or \$0.01 per common share, and \$1.1 million, or \$0.02 per common share, for Q2 2020 and YTD 2020, respectively, compared to \$0.2 million, or \$0.01 per common share, and \$0.6 million, or \$0.01 per common share, for the corresponding periods in 2019. The increases in both periods were primarily due to lower gross profit partly offset by lower operating expenses.

Liquidity

Cash on hand and short-term investments were \$42.3 million as at June 30, 2020, compared to \$43.7 million as at December 31, 2019. Cash on hand at June 30, 2020, excluding the \$35.4 million in short-term investments, was \$7.0 million. Under the normal course issuers bid the Company purchased and cancelled 744,700 and 1,101,600 common shares during Q2 2020 and YTD 2020 for consideration of \$1.0 million and \$1.5 million respectively.

Notice of Conference Call

EcoSynthetix will host a conference call Thursday, July 30, 2020 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 with the conference identification of 4991548. 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 and six months ended June 30, 2020 and June 30, 2019:

(Unaudited)	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net Loss	(608,245)	(200,588)	(1,055,500)	(553,824)
Depreciation	369,103	387,330	682,980	689,959
Share-based Compensation	169,026	113,810	313,278	294,407
Interest Income	(172,351)	(274,857)	(373,464)	(549,902)
Adjusted EBITDA loss	(242,467)	25,695	(432,706)	(119,360)

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 2020. 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 2, 2020. In addition to the risk factors identified in the Company’s Annual Information Form, as of the date of this Press Release, the Company has identified additional risks associated with the COVID-19 global pandemic which are described below.

Beginning in December 2019, a new strain of the coronavirus (COVID-19) has spread rapidly through the world including the United States, Asia, Canada and Europe (where, collectively, fairly large portions of the Company’s operations and customers are located). During the three months ended June 30, 2020 COVID-19 has caused both the global demand for paper products to decrease and a decrease in the pricing of petroleum-related products which the Company’s products compete with. This has resulted in reduced sales volume, lower pricing and reduced gross profit for the Company. COVID-19 has also reduced the Company’s ability to effectively market and trial its products with customers where on-site collaboration is preferred. During the three-month period ended June 30, 2020 the Company also applied for and received government assistance under the Canadian Employer Wage Subsidy (CEWS) program. No other COVID-19 related risks identified below have materialized during the period and there has been no other impact on operating results. For the remainder of 2020, COVID-19 will likely continue to have negative material impacts on the global economy which present significant additional risk factors. For the Company, this outbreak might materially impact the Company’s ability to manufacture, source (including the delivery of raw materials to its facilities) or distribute its products both domestically and internationally; reduce its ability to effectively market and sell its products; reduce demand for its products; cause a significant decrease in the market price for petroleum-related feedstocks which the Company’s products are an alternative, and cause increased credit risk. Any of these additional risks factors could have a significant negative impact on the Company’s financial results in 2020 and beyond. Given the dynamic nature of this outbreak, the extent to which the COVID-19 virus impacts the Company’s results will depend on future developments, which remain highly uncertain and cannot be accurately predicted at this time.

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.

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

	(Unaudited) June 30, 2020	December 31, 2019
Assets		
Current assets		
Cash	6,987,088	7,975,713
Short-term investments	35,357,260	35,720,548
Accounts receivable	1,226,122	1,824,581
Inventory	2,222,716	2,268,961
Government grants receivable	40,321	114,956
Prepaid expenses	95,455	75,973
	<u>45,928,962</u>	<u>47,980,732</u>
Non-current assets		
Property, plant and equipment	<u>6,261,126</u>	<u>6,729,371</u>
Total assets	<u>52,190,088</u>	<u>54,710,103</u>
Liabilities		
Current liabilities		
Trade accounts payables and accrued liabilities	1,064,025	1,360,568
Non-current liabilities		
Lease liability	<u>1,114,296</u>	<u>1,176,643</u>
Total liabilities	<u>2,178,321</u>	<u>2,537,211</u>
Shareholders' Equity		
Common shares	489,306,465	490,590,406
Contributed surplus	10,529,974	10,351,658
Accumulated deficit	<u>(449,824,672)</u>	<u>(448,769,172)</u>
Total shareholders' equity	<u>50,011,767</u>	<u>52,172,892</u>
Total liabilities and shareholders' equity	<u>52,190,088</u>	<u>54,710,103</u>

EcoSynthetix Inc.
Interim Consolidated Statements of Operations and Comprehensive Loss
For the three and six months ended June 30, 2020 and 2019
(expressed in US dollars)

	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net sales	3,102,881	5,074,363	7,327,297	9,543,084
Cost of sales	2,587,339	4,053,215	5,711,541	7,530,864
Gross profit on sales	515,542	1,021,148	1,615,756	2,012,220
Expenses				
Selling, general and administrative	858,254	1,111,629	2,230,741	2,284,958
Research and development	437,884	384,964	813,979	830,988
	1,296,138	1,496,593	3,044,720	3,115,946
Loss from operations	(780,596)	(475,445)	(1,428,964)	(1,103,726)
Net interest income	172,351	274,857	373,464	549,902
Net loss and comprehensive loss	(608,245)	(200,588)	(1,055,500)	(553,824)
Basic and diluted loss per common share	(0.01)	(0.00)	(0.02)	(0.01)
Weighted average number of common shares outstanding	57,119,605	58,418,779	57,522,911	58,354,928

EcoSynthetix Inc.
Interim Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2020 and 2019
(expressed in US dollars)

	(Unaudited) Three months ended June 30,		(Unaudited) Six months ended June 30,	
	2020	2019	2020	2019
Cash provided by (used in)				
Operating activities				
Net loss and comprehensive loss	(608,245)	(200,588)	(1,055,500)	(553,824)
Items not affecting cash				
Depreciation	369,103	387,330	682,980	689,959
Share-based compensation	169,026	113,810	313,278	294,407
Other	(222,208)	42,966	(143,488)	8,436
Changes in non-cash working capital				
Accounts receivable	1,060,688	(571,935)	598,459	146,371
Inventory	416,906	969,274	45,980	174,956
Government grants receivable	(7,114)	(74,945)	74,635	(71,307)
Prepaid expenses	(58,283)	(90,365)	(19,482)	(50,648)
Trade accounts payables and accrued liabilities	(953,878)	(193,031)	(304,663)	(736,821)
Interest on short-term investments				
Interest received on short-term investments	-	86,301	760,545	741,501
Accrued interest on short-term investments	(194,465)	(249,315)	(397,257)	(473,773)
	(28,470)	219,502	555,487	169,257
Investing activities				
Purchase of property, plant and equipment	(24,905)	(86,362)	(113,860)	(165,049)
Receipts on mature short-term investments	-	-	35,000,000	30,000,000
Purchase of short-term investments	-	-	(35,000,000)	(35,000,000)
	(24,905)	(86,362)	(113,860)	(5,165,049)
Financing activities				
Payments made on lease liability	(45,488)	(44,199)	(93,067)	(96,199)
Common shares repurchased	(987,866)	(6,449)	(1,464,433)	(65,763)
Exercise of common share options	-	101,074	45,530	149,626
	(1,033,354)	50,426	(1,511,970)	(12,336)
Effect of exchange rate changes on cash	270,222	(16,133)	81,718	18,397
Change in cash during the period	(816,507)	167,433	(988,625)	(4,989,731)
Cash - Beginning of period	7,803,595	9,050,178	7,975,713	14,207,342
Cash - End of period	6,987,088	9,217,611	6,987,088	9,217,611