

ECS Botanics Holdings Ltd (ASX:ECS)



ASX Announcement

29 July 2024

ECS Botanics poised for growth following record harvest and strategic investments

ECS Botanics Holdings Ltd (ASX: ECS) ("ECS" or the "Company"), a leading medicinal cannabis company, provides an update on activities for the quarter ending 30 June 2024 (Q4 FY24).

Q4 FY24 Highlights:

- Quarterly revenue of \$4.5 million, up 12% on prior quarter; full year FY24 revenue of \$20.0 millionⁱ, up 29% on prior year
- Outdoor grow expansion delivered a record crop of 6.8 tonnes the majority of which was harvested and processed in the quarter
- Well capitalised with \$3.2 million cash at bank, with additional \$2 million undrawn NAB debt facility.
- IP Portfolio strengthened with new propagation and genetics room completed
- Launch of direct-to-consumer (B2C) sales through 'RAP' brand
- Heating & lighting added to six Protective Crop Enclosures (PCEs)
- Nine new PCEs ordered to keep up with growing demand – construction commenced in June with funding secured from NAB to complete
- GMP License expanded to encompass packaging, labelling, storage, and supply of pastilles (gummies) and soft-gel capsules

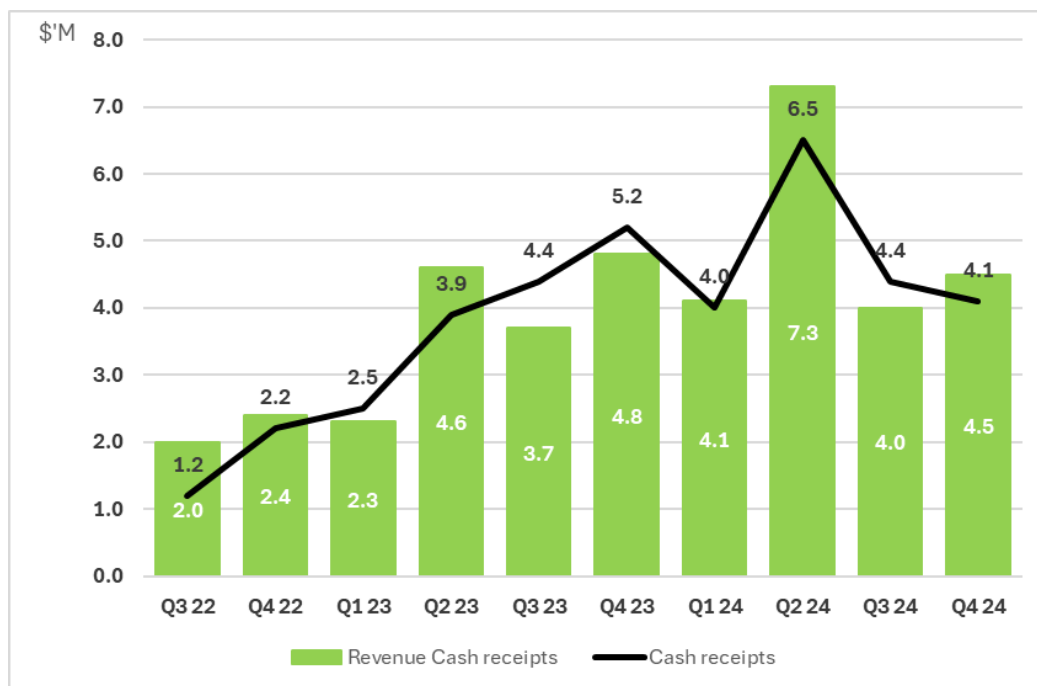
Financial Update

ECS delivered Q4 FY24 revenue of \$4.5 million, a 12% increase from the prior quarter (\$4.0 million). Compared to the prior corresponding period (pcp), revenue was down slightly from \$4.8 million. This decrease is attributed to pricing pressure in the Australian market, while B2C sales and exports to Germany remain in their early stages of development.

Operating costs increased over the quarter due to the 62% increase in crop production, the majority of which was harvested during the quarter, and the costs associated with the launch of the B2C brand. The strategic investments in ECS' own brand, retail strategy and the establishment of global strategic partnerships are key to the Company's long term growth plans.

Despite lower-priced non-GMP imported products continuing to enter the Australian market, ECS has retained its customer base and continues to receive interest from new local and export customers. ECS is well-positioned for revenue growth following record production. Large volumes of outdoor production will afford the Company the ability to more effectively compete against these imports whilst retaining and expanding Protective Cropping production allows ECS to meet export and local market demands for higher quality product.

Quarterly cash receipts from customers of \$4.1 million were down on prior quarter (Q3 FY24: \$4.4 million).



Revenue and Cash Receipts in AUD millions

Operating cash outflow for Q4 FY24 was \$0.97 million, reflecting seasonality associated with record crop harvest as well as the phasing of increased cultivation costs and operating costs associated with increasing production capacity and recruitment for and launch of the B2C business.

Further investments of \$0.83 million included new PCEs and associated equipment including heating and lighting, four of which have been completed. Additionally, nine new PCEs were procured, with construction starting in June.

ECS remains well funded as at 30 June 2024, with a cash balance of \$3.2 million and a \$2.0 million undrawn NAB facility. Post-balance date, the NAB Asset Finance Facility was increased by an additional \$3.4 million to be utilised for new PCE's as well as expanding the manufacturing facilities.

Operational Update

Record yield from harvest

During the quarter, ECS achieved its highest-ever harvest of 6.8 tonnes of biomass, a 62% increase in yield over the pc. The increase in this year's harvest has primarily come from outdoor production and will position ECS to compete effectively against cheaper imports, whilst the premium dry flower will continue to attract premium pricing especially in the export market. The quality of the flower surpassed previous harvests, and our product range expanded to include five new and unique strains.

B2C launch and retail expansion

In May, ECS began direct-to-consumer (B2C) sales of medicinal cannabis products through a one-year agreement with Elite Medical Solutions. This partnership will retail ECS's soft gel capsules and oral liquids under the 'RAP' brand – ECS' military veteran's brand. The agreement, which includes automatic renewal options, guarantees a minimum annual order of \$380,000 with anticipated growth. The launch includes ECS soft gel capsules in Australia, following the recent release of white label gummies.



ECS is on track to introduce its AVANI Rapid range of VESIsorb capsules by Q1 FY25, which is expected to capture additional sales and drive margin expansion.

The Australian B2C market for medicinal cannabis is projected to expand at a compound annual growth rate (CAGR) of 27.8% from 2024 to 2030. This rapid market expansion creates significant opportunities for ECS to capitalise on growing consumer demand.

To support its B2C initiative, ECS has appointed an expert medical cannabis sales team to market directly to medical professionals, informing them of the therapeutic benefits and ensuring Avani products and 'RAP' branded soft gel capsules are widely available. The full onboarding of the sales team was completed in June, with initial revenue anticipated in late 2024. ECS' GMP license now covers the packaging, labelling, storage, and release of gummies and capsules, enhancing supply efficiency from its Victorian site.

Own Brand Update

A new GMP-certified supplier has been contracted to manufacture ECS's CBD soft-gel capsules containing VESIsorb. The manufacturer is currently undergoing an audit by ECS to ensure they meet the standards required for local and export markets. Additionally, the supplier is able to produce and supply THC capsules following the successful completion of stability trials.

Construction of propagation and genetics room and PCEs

During the quarter, significant progress was made with the completion of the Propagation and Genetics Room that allows ECS to provide sufficient clones for the expansion and breed genetics best suited to ECS' growing conditions. Material sourcing and foundational construction for nine new PCEs also commenced. These new PCEs, designed to incorporate findings from ECS' recent R&D trials, are expected to increase the production of premium dried flower by over 200% once fully operational. This strategic investment is essential for meeting the forecast export demand and supporting the rapidly expanding Australian market.

White-label products

During the quarter, ECS's GMP license was expanded to include packaging, labeling, storage, and release for the supply of pastilles (gummies) and soft gel capsules. This expansion enhances pricing and supply chain times by allowing packing to order at its Victorian site.

B2B update

In May, ECS commenced its first commercial B2B shipment of medicinal cannabis dried flower to Ilios Santé in Germany, following successful trial feedback and a site visit by Ilios Santé's product manager. The company is experiencing increased interest in dried flower products from UK and German customers, highlighting the importance of capacity increases to meet export demand.

Additional financing

Post reporting period, ECS received a \$118k manufacturing grant from the Victorian Government and secured an extension of its Asset Finance facility with National Australia Bank (NAB), increasing the facility limit by an additional \$3.4 million.

ECS will use the funding from the 'Made in Victoria – Manufacturing Growth Program Round 2' initiative to expand into the production of live rosin cartridges for both own-brand and white-label products, with procurement expected to commence in the coming quarter.



The asset finance facility extension, provides ECS with greater flexibility to expand its growing and production facilities without equity dilution, boosting cannabis production and driving increased sales.

Own Brand Update

A new GMP-certified supplier has been contracted to manufacture ECS's CBD soft-gel capsules containing VESIsorb. The manufacturer is currently undergoing an audit by ECS to ensure they meet the standards required for local and export markets. Additionally, the supplier is able to produce and supply THC capsules following the successful completion of stability trials.

Outlook

Commenting on the outlook, ECS Managing Director, Nan-Maree Schoerie said:

"Launching our direct-to-consumer (B2C) brand is a crucial step in capturing additional market share and increasing our revenue streams. I am delighted by the strong endorsement our sales team is receiving from medical doctors seeking Australian products. Our investments in infrastructure, including the construction of new PCEs and the propagation and genetics room, ensure that we continue to provide the best possible product for patients. Notably our maiden shipment of dried flower exported to Germany sold out in under two weeks. This robust pipeline of new opportunities reflects the market's confidence in our competitively priced, high-quality GMP-certified products.

"Our record production this quarter, culminating in 6.8 tonnes of untrimmed dried flower, showcases the strides ECS has made in enhancing our production and cultivation to the highest possible standard. These achievements are pivotal as we set up the Company to meet surging demand in both local and export markets. We have invested heavily into growing capacity and the launch of our B2C brand, which are strategic investments to drive the long-term growth of ECS.

"Our strong balance sheet means we have the financial flexibility to continue our expansion without equity dilution. This positions us well to boost our production and drive increased sales through both B2B and direct-to-consumer offerings in the rapidly growing medicinal cannabis market.

"As a result of the B2C initiatives, the increase in exports and the addition product available for sale, we are anticipating strong revenue growth in the next quarter."

Corporate

During Q4 FY24, ECS reported a negative operating cash flow of \$0.97 million. Production and manufacturing costs amounted to \$2.9 million. Payments to related parties (\$142,730) under Section 6.1 of Appendix 4C were made to Director related entities; This included \$117,529 for Director and consulting fees paid to Directors and/or Director-related entities, along with \$20,790 for Company Secretarial and registered office services, and an additional \$4,411 for Pharmaceutical and IT consultancy services.

Authorised on behalf of ECS Botanics Holding Ltd by Nan-Maree Schoerie, Managing Director.

-ENDS-



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About ECS Botanics Holdings Ltd

ECS Botanics Holdings Ltd is an Australian medicinal cannabis cultivator and manufacturer located in Northwest Victoria. ECS utilises progressive and innovative cultivation methodologies to produce quality medicine in a sustainable way, adopting regenerative and organic horticultural practices and renewable energy sources. Licenced by the Australian Therapeutic Goods Administration to manufacture GMP (equivalent to PIC/S, EU agencies are all PIC/S members) certified products, ECS has become a leading provider of high-quality, affordable medicinal cannabis.

ⁱ unaudited

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

ECS Botanics Holdings Limited

ABN

98 009 805 298

Quarter ended ("current quarter")

30 June 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,129	19,065
1.2 Payments for		
(a) research and development	(43)	(110)
(b) product manufacturing and operating costs	(2,900)	(12,965)
(c) advertising and marketing	(74)	(184)
(d) leased assets	-	-
(e) staff costs	(1,820)	(6,511)
(f) administration and corporate costs	(297)	(1,082)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	11	35
1.5 Interest and other costs of finance paid	(10)	(27)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	33	413
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(971)	(1,366)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(826)	(2,261)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	(192)
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(826)	(2,453)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	4,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(220)
3.5	Proceeds from borrowings	294	860
3.6	Repayment of borrowings	(57)	(205)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	237	4,435

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,716	2,540
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(971)	(1,366)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(826)	(2,453)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	237	4,435
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,156	3,156

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,156	4,716
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,156	4,716

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(143)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		
6.1	Director and consulting fees paid to Directors and/or Director related entities	\$117,529
	Company secretarial, registered office services	\$20,790
	Pharmaceutical and IT consultancy services fee paid to Director related entities	\$4,411

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	2,000	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	2,000	-
7.5	Unused financing facilities available at quarter end		2,000
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. NAB has approved an increase in the company's loan from \$800K to \$2 million. The loan is structured with a 12-month interest-only period, followed by an amortization schedule that gradually reduces the balance to \$850K over the subsequent 4 years.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(971)
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,156
8.3	Unused finance facilities available at quarter end (item 7.5)	2,000
8.4	Total available funding (item 8.2 + item 8.3)	5,156
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	5.3
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 July 2024

Authorised by: The Board of ECS Botanics Holdings Limited
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.