



ASX Announcement

26th August 2020

PET reports half year results for 6 months to 30th June 2020

- COVID globally and flooding in China impact results
- First half revenues, earnings and cash flow down on prior period
- Delayed projects expected to resume in second half of FY20 and into FY21
- Project pipeline strengthened with new contracts and/or trials in all regions
- Financial position remains very strong, with cash/cash equivalents, receivables, and inventory of \$54 million and no debt at end of reporting period

ASX Code: **PET**

Share Price: **A\$0.28**

52 Week High: **A\$1.55**
52 Week Low: **A\$0.19**

Issued Shares: **625.0m**

Market Cap: **A\$175m**

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PHK BLOG on Water Issues:
www.phoslock.com.au

Key Financial Results	6 months to 30 June 2020	6 months to 30 June 2019
Revenues	\$1.2 million	\$9.8 million
Gross Profit	\$0.61 million	\$6.3 million
EBIT¹	(\$5.1 million)	\$1.7 million
NPAT²	(\$5.1 million)	\$1.0 million
Net Operating Cash Flow	(\$8.4 million)	\$10.8 million

1. Earnings Before Interest/Finance Costs and Tax
2. Net Operating Profit/(Loss) after Tax

Operations review:

Phoslock Environmental Technologies (ASX: PET) today provided the following review of its operations for the six months ended 30th June 2020.

The business faced considerable headwinds during the first half, with both flooding in China and COVID-related impacts contributing to project delays and higher working capital levels. Despite these challenges, a number of important projects were progressed and several new treatment programs were confirmed, leaving the Company in a strong position to return to growth in coming reporting periods.

Unusually high rainfall in several regions in China late in the period resulted in substantial and disruptive flooding and a consequent interruption to PET remediation projects underway in those regions. While some flood waters have receded, others remain in flood. Safety and water quality issues continue to

prevent a restart on some applications. It is expected that these projects will recommence late in the second half period.

COVID-19 impacts resulted in delays to the commencement of some new projects, including those in Europe, USA, and Brazil and later than expected payments. Outstanding receivables at 30 June amounted to some \$15 million, with the largest component of that amount relating to the Xingyun Lake project in China which has incentive-based long-dated payment terms (due late FY20 / early FY21). This combination of project delays and the need to manufacture and hold adequate stocks resulted in higher inventory levels. Elevated working capital – together with the lower sales activity – contributed to negative cash flow for the period.

Importantly, no PET application projects were cancelled during this difficult period, with customers reaffirming their commitment to proceed with the remediations when circumstances relating to COVID and the flood impacts allow.

In January, PET signed a long-term lease for a second manufacturing facility in Changxing Province in China. The new facility will provide triple the floor space of the Company's existing facility and enable PET to significantly increase production output when fully commissioned. In response to the temporary downturn in business, the Company is rescheduling construction and fit-out, which will now be completed in stages as volume demand recovers.

CHINA

In China, as stated above, torrential and extended rains and localised flooding in the South Western Province of Yunnan delayed several projects.

The Xilongba Lake project was impacted by floodwater damage to infrastructure in catchment basins and the lake itself. The area has also been affected by large inflows of pollutants, which must stabilise to ensure appropriate results are achieved from treatments. The overall project involves a three-year delivery plan and work is underway to re-establish infrastructure and begin treatment as expeditiously as possible. At this point in time, a recommencement is not anticipated this year.

Assessment of the initial trial application post flooding and associated uncontrollable inflows at Dianchi Lake has seen this project delayed. All government bureaus remain committed to proceeding with the trial project as soon as local conditions are more favorable.

At present, the phosphorous levels in Xingyun Lake have been confirmed by the local Environmental Protection Bureau as meeting target levels for Phoslock treatment to date. Based on these successes, remediation works are scheduled to continue in the second half of FY20 and into FY21.

The new restoration plan at South Lake in Wuhan (Hubei Province) is expected to commence in the latter half of this year. This follows successful Phoslock treatments in East Lake which have met the client's expectations for water quality improvement. After the initial new project treatment at South Lake, further ongoing maintenance applications are planned for FY21.

In August, a contract was finalised for Phase I of the restoration project in a canal system in Hengshui City (Hebei Province) and work is planned to commence in the second half. The 30 km long canal will receive an initial combined treatment strategy of approximately 200 tonnes of Phoslock followed by the planting of suitable water plants to assist with the ongoing filtration of dissolved pollutants.

Several other projects are underway across different regions of China, with updates on those projects to be provided in due course.

Cost control measures were also put in place to efficiently manage cash reserves until business activity returns to normal.

New trials were initiated in all regions, providing strong growth momentum as the Phoslock technology continues to demonstrate its efficacy, safety, and environmental benefits.

AMERICAS

In **North America**, trial work commenced on an area of Utah Lake and a trial was completed in Kitsap Lake in Washington State, as well as several lakes in New Jersey and Morrison Lake in Michigan, where a three-year program is now underway. These projects provide a solid foundation for building PET's US footprint.

In **South America**, further treatments were completed at several sites in Brazil, including Pampulha (Belo Horizonte) and follow-up applications are expected to be confirmed over coming months in Rio de Janeiro , North Eastern (Bahia state), and Southern Brazil (Rio Grande do Sul).

EUROPE

Although the European business was impacted by COVID related interruptions and delays, projects in the Netherlands, Belgium, Germany and Italy are expected to proceed in the second half.

Several high potential opportunities were identified in the Nordic region, with early work underway in both Norway and Finland. Recently a drinking water reservoir in Belgium was successfully treated.

Consistent with the Company's strategy to continue to diversify PET's geographic and customer base, an investment has been made in additional resources to develop the international business. Discussions have commenced with potential distributors in Singapore and Thailand and work is also underway to assess potential opportunities in India.

Management

Notwithstanding the ban on international travel, the Company has taken significant steps to strengthen management capabilities at both a corporate and regional level, including the appointment of a highly qualified and experienced new Chief Financial Officer, Matthew Parker. Several senior commercial and engineering appointments were made in China, and recruitment is underway for suitable additional commercial resources in the USA, Australia/New Zealand, and Europe. Appointments have also been made to strengthen the PET brand and profile in international markets.

To support the Company's growth prospects and provide additional balance sheet strength, PET completed a successful capital raising during the first half. The capital raising included both an institutional placement and a share purchase plan for retail shareholders and, in total, raised \$30 million.

Outlook

PET expects business and market conditions to remain challenging, due to external factors, with some short-term uncertainty on the timing of project resumptions. Despite this, the Company continues to secure additional opportunities to trial its proprietary Phoslock remediation technology, reflecting increased interest and demand across all geographic regions. It is particularly encouraging to see an increasing awareness of the benefits of applying Phoslock to lakes and dams across the United States.

The Company's pipeline remains strong, with a contract value of some \$380 million. Several new and significant projects are in advanced stages of negotiation and are expected to be confirmed in due course.

PET will continue to focus on the diversification of its geographic and customer base and will accelerate its R&D programs to support new product introductions and business opportunities, leading to an expanded and resilient business, with strong growth potential.

Managing Director and CEO, Lachlan McKinnon, stated:

“The challenges faced in our first half reporting period were outside of the control of the Company and underline the impact of timing issues on our revenues, earnings and cash flow. This impact will be lessened as we continue to grow and diversify the business.

“I am highly encouraged by the growing awareness of and support for PET’s products and services and the success we are having in attracting new potential customers around the world. We have a strong balance sheet and the funding in place to develop and expand the business.

“Finally, it is important to note that the longer remediation is delayed, and as global warming continues, algae will flourish. Phoslock remains the gold standard for algae control worldwide.”

INVESTOR CALL

Management will host an inaugural investor call via Zoom on Thursday 27th at 2pm

When: Aug 27, 2020 02:00 PM Canberra, Melbourne, Sydney
Topic: Phoslock Investor Call

Please click the link below to join the webinar:

<https://zoom.us/j/98180593058>

NB Audited Accounts

Due to circumstances beyond KPMG’s and PET’s control, KPMG has not been able to complete the audit of PET’s businesses in time for this release. PET will lodge the final audited accounts as soon as sign-off from KPMG is received.

This announcement has been approved by the Chairman and Managing Director

Laurence Freedman AM
Chairman

Mr Lachlan McKinnon
Managing Director and CEO

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ABOUT PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED (PET)

Phoslock Environmental Technologies Limited (ASX: PET) specialises in engineering solutions and water treatment products to remediate polluted lakes, rivers, canals and drinking water reservoirs.

Headquartered in Melbourne, PET has offices in Brisbane, Beijing and Manchester and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors, and agents in ten other countries including SePRO Corporation in the United States and HydroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments, inhibiting the growth of Harmful Algal Blooms (HAB).

Phoslock® is certified to be used in drinking water in North America, Europe, Brazil, Australia and China. Along with Phoslock®, PET also supplies zeolites and specialised strains of bacteria that address water pollution issues.

For more information visit www.phoslock.com.au