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September 2018 Quarterly Update

Carbonxt Group Ltd (ASX:CG1) has released its Appendix 4C Report for the September 2018 quarter and is pleased to provide the following update for the period. All numbers are in A$.

Revenue and Sales

- Revenue of $4.3m was recorded for the September quarter, which is over 180% above the comparable quarter in FY18;
- 1H19 revenue is tracking slightly ahead of prospectus forecast of $8.2 million, with significant further increase in revenue to be realised in 2H19, with growth trajectory expected to continue into FY20 once new AC Pellet facility fully operational
- Higher than expected demand from new and existing pellet customers is being driven by customer concerns about tariffs and trade barriers with China, from where the majority of AC pellets are currently imported. Carbonxt is the only large-scale US manufacturer of AC pellets in general industrial use.
- The company continues to work through previously reported production equipment issues typically associated with new plant operations and is pleased to report that these issues are now largely resolved. This learning experience will become more valuable as the company continues to evaluate new plant opportunities to meet the growing demand for pellets
- Including the impact of start-up issues at Arden Hills, the current annualised revenue run rate is approximately $17 million
- The company continues to progress commercial discussions regarding the 7,000 tons per annum (A$24.9-A$29.9 million) AC pellet pipeline as previously disclosed, with all discussions ongoing

Margin Growth

- Gross margins expanded to 23.6% in FY18, up from 18.6% in FY17. Gross margins are expected to continue to improve in the December quarter and are on track to reach 40% by the end of FY19.
- EBITDA in 1H19 is expected to be in line with the previous half. This includes the unexpected production start-up costs at the Arden Hills facility incurred in the 1st quarter which are expected to have a one off impact of approximately $1.0 million, with improvements being realised in the 2nd quarter
- The company is expected to be profitable and cash flow positive by the end of FY19

Growth Opportunities and Outlook

- Carbonxt will continue to leverage its competitive advantage of its non-brominated PAC that does not cause corrosion to plant equipment to continue to extend its footprint and customer base in the coal fire power station market in the US.
- The business has a strong pipeline of customer trials that it is advancing and hopes to secure further customer contracts in the coming quarter for its powdered activated carbon and pellet products

- As a result of the level of demand being received for its AC pellet product, additional capacity is now being built for the manufacture of the product with new production lines being added at its Arden Hills facility and in Gainesville, Florida.
- The Board and Management are in the early stages of exploring the opportunity to export its pellets to ReACT power plants in markets outside of the US

Summary and Financial Outlook

The September quarter saw the company continue to resolve production equipment issues at both the Black Birch and the Arden Hills facilities. Higher than expected demand from new and existing customers is driving the need for additional capacity. Customer concerns about tariffs and trade barriers with China combined with a growing US economy are providing significant tail-winds for the business.

Based on revenues for the September quarter, the company is on track to slightly exceed prospectus forecasts of $8.2 million for 1H19. Gross margins expanded in the quarter as new plant operations continued to be optimised and are expected to reach 40% by the end of FY19, up from 23.6% in FY18.

The company is on track to be cash flow positive and profitable by the end of FY19.

Carbonxt Managing Director, Warren Murphy, commented: “The potential for AC pellet sales in exciting and it is pleasing to report on the first evidence of this in the strong growth in revenue achieved in 1Q19.”