

Company announcement

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Annual General Meeting 2022 Managing Director & CEO's Presentation

Good morning. I would like to also add my welcome to shareholders, proxies and guests who have joined us here in Melbourne and to others who are joining us via the webcast.

Today, I would like to recap on the performance of the business during the 2021 financial year; update you on progress relating to a number of important reviews we have undertaken; and make some comments on the outlook for the Company.

As the Chairman has outlined, the 2021 financial year represented a period of rebuilding following the challenges associated with the mismanagement and fraud which came to light the previous year. We also continued to see significant impacts, including project delays, resulting in part from COVID-related restrictions on government spending and on business development travel and in part from the slower than anticipated uptake of water remediation projects.

In the 12 months to the end of December 2021, the Company generated \$6.3 million in revenues and a gross profit of \$3.6 million. Elevated expenditure on interim management, restructuring, legal and audit costs and higher freight costs contributed to a Net Profit After Tax loss of \$3.9 million for the 12-month period. We closed the year with \$23 million cash at bank.

The considerable cash burn over the past period – and the cash outflow we have projected for this current year (which we disclosed to the market earlier this week) - is noted by management and directors and while reserves are sufficient to enable the business development to continue as planned, prudent decisions are being made to conserve cash and manage costs wherever possible over the short term.

A significant portion of management time in FY21 was devoted to the restructuring of our China business and the implementation of improved company-wide systems and processes. We also initiated or continued to progress reviews into our global commercial operations; our R&D program; our manufacturing and supply chain; and – importantly – our people and culture. These reviews directly support our growth strategy and I'll speak more about them shortly.

From a business perspective, the highlight of the 2021 year was the successful application of some 1,000 tonnes of Phoslock to Kralingse Plas Lake in the City of Rotterdam. This represented our largest European contract to date and – with the positive results and feedback from the City of Rotterdam authorities – it is helping to increase our profile and help generate new business leads for us in Europe.

Our performance in the USA during FY21 was disappointing and did not meet our expectations. As a result, we have restructured our commercial operations and we are well advanced with arrangements that are resulting in expanded distribution in the US. Orders for product from these new distributors and new trial work under this system have already been received. We are also encouraged by the trials being conducted by the City of Orlando in Florida.



We completed a number of smaller projects in Brazil with other projects continuing on an annual basis and we secured interest in remediation works in both Uruguay and Ecuador which is currently being followed-up with product despatched in the early part of 2022.

Several projects were also completed here in Australia and an application scheduled to be undertaken in Auckland, New Zealand, was deferred due to Covid-related travel restrictions. That project is getting underway in the next few months.

In China, the focus was on resetting the business, with a largely new management team and a refreshed go-to-market strategy. While sales for the year were disappointing and well below expectations, I am confident we now have a team in place that will succeed in rebuilding the business and varying channel strategies on a solid footing and in adherence to the standards we expect from all our operations around the world. As the Chairman has noted, however, this will take time.

Now I would like to briefly recap on the important reviews that I mentioned earlier.

Firstly, in respect of our commercial platform.

Following a thorough review of our capabilities and market access strategies, we have made changes to our sales and distribution set-ups in most of our key target regions. We have moved away from a third-party distribution structure in the USA and appointed our own commercial lead, Harry Knight. We are now in the process of recruiting two additional salespeople to target key geographical regions of the US.

A new commercial lead, Damian Whelan, was also appointed in Europe during 2021 to support our growth and expansion plans, as PET seeks to diversify its pipeline of projects throughout the Western Hemisphere. Damian's appointment to this important role represents a significant step towards strengthening PET's presence in Europe given his extensive experience in water remediation and other commercial activity. In Europe, we are also in the process of recruiting additional sales resources.

In South America, PET's licensee in Brazil, HydroScience, continues to perform well with applications and new leads building steadily off a small base.

As markets continue to open post the COVID travel restrictions, we will invest in a higher level of business development and sales activity across our various regions. Our growth strategy is centred on diversifying our business on a geographic basis and it is critical we support those growth ambitions by ensuring we have the right resources in place to secure new business.

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Having a reliable and cost-efficient supply chain is integral to the success of the business. While important changes have been made in respect of the management of our Phoslock manufacturing operation in China, our review of this area identified benefits in establishing a second manufacturing site to support the growth of the business.

We recently announced a preferred location for a potential second manufacturing base in Casper Wyoming, USA. The site is situated close to Bentonite supplies, is located near a freight hub and offers distinct advantages in terms of cost of manufacture.

In April 2022 we signed an MOU with Advance Casper, which allows us to move forward and fully evaluate the building of a full production site, pending future demand.



We are proceeding with the detailed design work required to complete our assessment of this option. Given the early indicative cost estimates for this build are in the \$10 - \$11m range, it is critical that a solid business case exists to justify that investment and I want to assure shareholders we will not proceed with this second manufacturing facility unless we have the business case to support it and, if required, we have suitable options available to fund it.

In the short term, other important measures are being taken in the area of manufacturing. As the Chairman has noted, the Board earlier this month approved an investment of approximately \$1 million in our China manufacturing facility which will allow us to reach a capacity of 6,000 tonne p/a. This capacity equates to a level of sales required for the business to break even at current cost levels.

This capacity increase will be critical in the short term as we build the sales pipeline and continue to evaluate the proposed new facility in the United States.

Finally, I would like to report on the review we have undertaken into people, performance and culture.

Given the very significant challenges recently faced by this business – including past incidents of mismanagement – it was critical that we took the time to review our vision and values, and to make sure we have in place a framework that supports and develops our capabilities and enhances our culture.

Utilising the expertise of outside consultants who are very experienced in this area, we have identified and committed to a clear aspiration; identified the tools and resources needed to attract and support experienced and capable people and undertaken a candid review of company culture involving both our Board and management team.

Coming out of this review, we have invested in strengthening PET's management capabilities via the recruitment and appointment of some very important new hires. These include the already announced appointments of Simon Greaves as Group Executive of Operations and Dr Kate Waters-Hart who returned from maternity leave as group Manager, Aquatic Science.

In our R&D area, we also engaged the services of Dr Michael Doyle on a contractual basis. Michael comes to us with significant experience in research and development and is already making an important contribution as he reviews potential new products and puts in place an efficient plan to bring those products to market. Michael also takes on the Commercial role for ANZ.

Together with a number of important recent appointments in our sales and commercial area, the addition of Simon, Michael and Kate in their new roles will, I'm confident, generate significant benefits for the business.

Throughout 2021 and early 2022, two of our long-standing managers left the business - Nigel Trial who was responsible for International Sales resigned in March 2021 but remains very involved with PET in his role with LSI, who are a significant scientific advisory group and Andrew Winks, who was responsible for Operations and R&D, resigned in February 2022. I would like to thank them both for their contributions to PET over their significant time with the Company.

Before handing back to the Chairman, I would like to make a few comments on how we are seeing the outlook for the business. Noting the Chairman has already outlined the three phases we are progressing I will not repeat those however, as we stated when we released the full year results, the short-term outlook remains somewhat challenging from a revenue perspective as we look to rebuild our sales pipeline and execute on our growth strategy.

Over this FY22 period, we do see positive opportunities in a number of our markets, especially the USA and Europe, however these will be tempered by abnormal costs associated with finalising the legacy matters and shareholders should note that the rebuilding to profitability will take some time.

We are continuing to invest in sales resources and effort in both Europe and the USA as these geographies remain critical to the long-term growth and prosperity of the Company. Registration work continues in Canada but – as mentioned previously – this is taking time as we negotiate and discuss positions with the Canadian authorities – the Canadian market remains important to PET.



In China we continue to review our direct-to-market strategy and put in place alternatives as we evaluate the best options. We note the collection of sales in China remains challenging and is therefore a strong consideration when analysing our options.

As shareholders know, it is a difficult business to forecast as sales take time to move from initial engagement and trials to confirmed orders and many factors can impact that timing. Given these uncertainties, we do not believe it is prudent for the Company to be providing specific earnings guidance. As I have alluded to earlier, we have, however, disclosed to the market an estimate that the business will incur net cash outflows of approximately \$10 million in the current financial year. This estimate includes the impact of the manufacturing-related capital investments I have spoken about today.

I want to emphasise again that management is focused on managing costs and conserving cash while we continue to rebuild the business and grow sales.

Shareholders should be reassured that – as we rotate out of the COVID-related restrictions and distractions, authorities around the world are turning their attention back to addressing major issues associated with water remediation. Those issues have continued to become more serious and the challenge of successfully addressing them are more urgent than ever. This is already reflected in the increasing number of enquiries and sales leads we are now seeing.

Phoslock maintains an important competitive advantage and is leveraging that advantage to secure sustainable and profitable growth over coming years. In doing so, we will deliver value to our shareholders.

Thank you. I'll now hand back to David.

This announcement has been approved by the Managing Director and Chairman

Mr David Krasnostein AM
Chairman

Mr Lachlan McKinnon
Managing Director & CEO

– end –

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About 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, Bremen (Europe) and Manchester (UK). PET also has registered entities in Canada, USA and Belgium, and manufacturing operations based in Changxing, China. PET is represented by licensees, distributors and agents in numerous other countries including HydroScience in Brazil.

Phoslock® is a proprietary and unique water treatment product that permanently binds excess phosphorus in the water column and sediments.

Phoslock is certified for use in drinking water in North America, Europe, Brazil, Australia, and China. Along with Phoslock, PET also supplies zeolites and specialised solutions that address water pollution issues.

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