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# Chairman's address to shareholders

This year just passed has been a pivotal year for AtCor with some significant milestones being achieved, which are critical building blocks on the journey towards a sustainable, commercially successful company.

AtCor's technology – The SphygmoCor® System – is a brilliant piece of technology and design. Its ability to capture and interpret a high fidelity signal from the pulse wave of the human heart and, using our patented intellectual property, provide important information to physicians to help them manage and make better decisions as they treat their patients, is invaluable.

There are over 1,000 peer reviewed publications worldwide covering our technology across a wide range of cardiovascular disease states. SphygmoCor is also used in most of the leading medical and research centres globally. As clinical evidence is strong and continues to be generated we are confident that the potential applications for our technology will be significant and broad.

Important studies are underway in utilizing SphygmoCor in diseases such as heart failure and dementia. Mayo Clinic has published a randomised controlled trial showing the superiority in outcomes when heart failure patients are managed with SphygmoCor. A second paper from Mayo is nearing publication.

As of today, however, the most pressing clinical need is better management of hypertension. AtCor is well placed to play an important role in this area of medicine. Using SphygmoCor the physician can get far more detailed and relevant information about a patient's cardiovascular health, allowing him or her to make treatment decisions that are more specific to that patient's condition. This is a very important development. In fact we believe that SphygmoCor will become essential for the personalised management of hypertension.

Our focus, for several years, has been the US market, the largest medical device market in the world. There is a significant prevalence of hypertension amongst the US population and 46% of the hypertension patients do not have their condition under control. This is a very attractive market for us.

To date we have achieved a great deal to set ourselves up for success in this market. Among many achievements we have FDA clearance for our device. There is strong clinical evidence on the benefits of SphygmoCor in the management of hypertension; a CPT1 code that reimburses physicians for the test has been granted – not a mean feat in this environment; and a majority of Medicare regions around the US have agreed to pay for the test as have a number of the private insurers.

In order to pursue an approach that we believe will bring the greatest benefit to the company, we decided that when the CPT1 code was granted, to focus on a small number of defined metropolitan areas in the US to refine our sales strategy and demonstrate commercial success. We hired a small direct sales force plus support personnel and placed them in the targeted geographies that have good insurance coverage.

Such an approach has the best chance of creating the greatest return for our shareholders. Demonstrating commercial success in these regions also gives us the flexibility to pursue a dual strategy of either: a) methodically expanding our salesforce to further capitalize on the opportunity in additional metropolitan markets that have the highest concentration of insurance coverage for our test; and/or b) continuing to develop our corporate relationships with larger medical device companies for both their use of our technology to improve and expand patient procedural outcomes utilising their current devices and to leverage their platform.

We have been focused on this for just over 6 months. During this pilot phase, we have learned a great deal and are now realigning some of our activities based on these findings.

Changing clinical practice is never easy – it takes a lot of perseverance, effort and hard work to become an "overnight" success. Our situation and experience to date is no different. Uptake to date has been slower than we had forecasted though I can assure you from my experience, that this approach is the appropriate one.

As part of our learnings we have shifted our focus, eliminating small generalist practices as targets. We are now entirely focused on two market segments; multi-doctor, multi-office private cardiology and nephrology specialists practices, and large local integrated healthcare delivery networks (IDN's) which comprise a number of equity owned hospitals and clinics. There are a number of IDN's in each major metropolitan area. Converting these networks is complex and time consuming – it involves multiple touch points, peer to peer selling and many more initiatives. The benefits, however, when successful are substantial.

Firstly, the technology will most likely be rolled out across the entire network once you are contracted – this in itself is a significant business opportunity. Secondly, the IDN's become reference sites who promote their premium technology offering. Additionally AtCor can benefit as a competitive tension is created when an IDN offers a new service in a region. Other physician groups in the same region are almost compelled to offer corresponding services, thereby creating more demand for our technology.

While we have some portions of IDN's converted from early adopter sales before the CPT-1 code became available, such as Mayo Clinic and Cleveland Clinic, we have a number of IDN's well along the sales process and we expect to begin to enter contracts with these IDN's during the current half year.

I would like to address the financial results for 2015-2016. Sales for the year were just over $5 million – 8% lower than the prior year. We experienced a strong second half performance with a 29% increase compared to the prior year's second half. The most significant challenge was the indefinite delay of two large pharmaceutical contracts. This was significant as this sector has traditionally been very important to us due to its size and margins – which has helped finance many activities including US clinical sector expansion. On a go forward basis, we are conservatively budgeting our pharmaceutical trials business at a baseline of US$1.0m, although we forecast strong double digit sales growth overall including substantial growth in US clinical sales.

Now I would like to briefly address our remuneration report following some feedback from shareholders. The concerns related to both the Directors' Fees and to Executive Remuneration. Firstly director fees. These were increased marginally in 2016 following the aggregate pool being increased as approved by shareholders, and is the first increase since 2012. We have in the past benchmarked our fees and believe they are in line with other companies of our size and stage of development. This year's report contains an additional amount for directors – being the value attributed to options granted to directors, and also approved at last year's AGM. These options were provided at a 15% premium to the share price at the time of issue, so are priced at $0.256, above the current share price.

With respect to executive pay, the Remuneration Committee have benchmarked key senior employees pay versus similar positions in the markets in which they operate. We have found that they are not out of line with the going rate for comparable positions. Our CEO is US based and is remunerated in US$ so the AU$/US$ exchange rate changes have impacted on the numbers as reported. The reality is that our CEO's base pay increased by less than 3% in FY16, and his actual cash payment (i.e. base pay and bonus) decreased by over 9% compared to the previous corresponding period. We believe we are competitively placed from a remuneration standpoint – and bonuses are only paid once assessed against very clearly specified concrete milestones that are directly linked to the success of the business.

Finally I want to conclude by saying that we have never been nearer to commercial success than we are today. The coming months are crucial as we strive to drive adoption in clinical use.

I want to thank everyone involved with AtCor – our dedicated employees, the doctors and other partners that support our efforts and most importantly, you - our shareholders - for your support of our efforts over the years.

Thank You