

24 August 2017

Company Announcements Office
Australian Securities Exchange

Nanosonics 2017 full year financial results

HIGHLIGHTS

- **Record sales of \$67.5 million, up 58% on prior year sales of \$42.8 million.**
- **Operating profit before tax of \$13.9 million, compared to \$136,000 in the prior year.**
- **Free cash flow for the year of \$15.1 million, up from \$1.9 million in the prior year.**
- **Cash reserve of \$63.0 million, maintains strong balance sheet for ongoing investment in growth strategy.**
- **North American installed base increased 3,700 units, or 42%, to approximately 12,400 at 30 June 2017. Global installed base now over 14,100 units, each generating the opportunity for significant annuity sales.**
- **Growth in the installed base in the United Kingdom gaining momentum through new trophon adoption business model.**
- **Master distribution agreement established with Sakura Seiki in Japan, supporting ongoing geographical expansion strategy.**
- **All regions contributing to installed base and revenue growth with the introduction of a number of new guidelines strengthening fundamentals for adoption globally.**
- **R&D program progressing well with a number of projects moving to next phase of development in FY18 and a minimum of two new products expected to be launched over the next two years.**

Nanosonics (ASX: NAN), a leader in infection control solutions, today announced its Appendix 4E Preliminary Final Report and Annual Report for the year ended 30 June 2017.

“The 2017 financial year has been one of significant achievement and progress across all aspects of Nanosonics’ business. Record sales and profit results were achieved, the installed base of trophon grew strongly and market fundamentals continued to strengthen internationally with the introduction of a series of new guidelines. Our geographical expansion strategy progressed with entry into the important Japanese market through a master distribution agreement with the leading Japanese infection prevention company, Sakura Seiki. Negotiations with a number of distribution partners in the Middle East also progressed and are close to finalisation,” said Michael Kavanagh, Nanosonics’ Chief Executive Officer and President.

“Operational capabilities and capacity expanded through growth of our talented workforce as well as implementation of important scalability initiatives such as Lean Manufacturing. Our R&D program made significant progress with a number of novel and innovative infection prevention solutions allowing us to move to the next phase of development work and investment in FY18. Together, these outcomes not only delivered excellent financial results but importantly have set the stage for the next phase of our strategic agenda.”

FINANCIAL RESULTS

Total sales for FY17 of \$67.5 million were up 58% compared with FY16 sales of \$42.8 million.

Gross profit increased by 56% to \$50.2 million compared with \$32.2 million in the prior year. Gross margin as a percentage of sales was 74% compared with 75% in prior year, reflecting changes in the sales mix between distribution channels and product categories.

Operating expenses grew to \$38.1 million for the year, up from \$32.7 million in the prior year. This increase is consistent with our planned ongoing increased investment in the overall growth strategy across R&D and sales & marketing, as well as expanding internal operational capacity and capabilities to support a growing global organisation.

Operating profit before tax was \$13.9 million compared with \$136,000 in the prior year.

Free cash flow for the year was \$15.1 million, compared to \$1.9 million in FY16. Cash as at 30 June 2017 totalled \$63.0 million, providing a strong balance sheet for the Company to continue investing in its long term strategic growth agenda.

\$ millions	FY17	FY16	Change
Sale of goods and services	67.5	42.8	58%
Gross profit	50.2	32.2	56%
%	74%	75%	
Selling, general and administration expenses	(28.6)	(25.4)	13%
Research and development expenses	(9.5)	(7.3)	30%
Other income	0.8	0.1	700%
Finance income (net)	1.0	0.5	100%
Operating income before income tax	13.9	0.1	
Income tax benefit/(expense)	12.3	-	
Profit after tax	26.2	0.1	

REGIONAL REVIEW

North America

Sales in North America were up 60% to \$62.3 million. The installed base in North America continued to grow strongly during FY17, increasing by 3,700 units or 42% on the prior year to approximately 12,400 units. The trophon system is establishing itself as standard of care with over 3,500 facilities commencing adoption across all their relevant clinical departments. Investments in education, sales and marketing activities continue to drive awareness of the risks of cross contamination associated with all semi-critical ultrasound probes. Nanosonics' education programs emphasise the requirement for High Level Disinfection (HLD) across a much broader set of procedures where ultrasound transducers are used. A key goal for FY18 is the expansion of adoption across all relevant departments in those facilities already using trophon, in addition to ongoing expansion into new hospitals and across the relevant private physician market.

Throughout the year, capital reseller agreements were established with the majority of the major ultrasound OEMs. These agreements provide the ultrasound OEMs the opportunity to sell the trophon capital equipment to their customers and Nanosonics is then responsible for the ongoing requirements of those customers in terms of training and supply of consumables and service. This OEM partnership program will continue to be a key component of our trophon business strategy.

At the end of FY17, the Nanosonics North American services and logistics group relocated to a larger facility to support growth. This new facility not only expands our direct service operation but also enables full in-house direct order fulfilment capabilities which will be phased in over FY18.

Europe

Sales in Europe were \$1.7 million, an increase of 58% compared with the previous year.

In the UK, Nanosonics expanded its operations with the addition of sales and service employees as well as the introduction of direct warehousing and order fulfilment capabilities. New Scottish guidelines were introduced and by the end of June 2017, eight of the fourteen Scottish NHS trusts had commenced adoption of trophon.

During the year, a Managed Equipment Service (MES) business model was introduced. This model helps hospitals overcome capital budget constraints and provides an immediate benefit to the customer through earlier access to trophon. Under the MES model, trophon capital equipment, which is owned by Nanosonics, is placed in hospitals, for a contracted period, and the facility pays an all-inclusive price for consumables in return for the use and maintenance of the capital equipment. Pleasingly, this model gained momentum with approximately 130 trophon units being placed during the year, the majority in the second half. Had the MES units been purchased by the hospitals under a traditional capital sales model, FY17 sales in Europe would have been approximately \$1.2 million higher. The benefits of the MES model to Nanosonics are attractive and it is expected that the majority of hospitals in the UK will utilise this model.

Ahead of the publication of the expected new English guidelines, a number of the largest NHS trusts in England have also commenced the adoption of trophon and the pipeline continues to build across the English NHS trusts as well as in the private hospital market.

In France and Germany, the major focus throughout FY17 was on education and market development including numerous awareness initiatives, publications as well as consultations with key infection prevention societies and authorities. A number of important developments progressed during the period, which has positive implications in strengthening the fundamentals for adoption of trophon. As a result of these activities, Nanosonics plans to expand its sales operations in both countries in FY18.

In the Middle East, product registrations are now in place in Saudi Arabia, Kuwait, Qatar and the United Arab Emirates. Discussions regarding distribution arrangements in a number of these countries have progressed with a number of agreements expected to be completed in early FY18.

Asia-Pacific

Sales in Asia-Pacific were \$3.5 million, an increase of 30% compared with the previous year. Sales in Australia and New Zealand increased by 22% to \$3.1 million with adoption of trophon continuing in a highly penetrated market. A new joint guideline between the Australian Society of Ultrasound in Medicine (ASUM) and the Australasian College for Infection Prevention and Control (ACIPC) was published in the second half of the year which emphasised the importance of HLD of all semi-critical ultrasound devices.

A core part of Nanosonics' growth strategy is geographical expansion and a key focus in FY17 was finalising the market commercialisation and distribution strategy for the important Japanese market. In June 2017, Nanosonics signed a master distribution agreement with Japan's leading infection prevention company, Sakura Seiki, for the introduction of trophon. Local pre-marketing and clinical activities have commenced and will continue throughout FY18.

RESEARCH AND DEVELOPMENT

Product expansion through investment in R&D is a core aspect of Nanosonics' growth strategy. Nanosonics' new product pipeline includes a number of innovations which aim to address global unmet needs in the infection prevention field. In FY17, our investment in R&D increased 30% to \$9.5 million. Throughout the year, excellent progress was made on a number of new products, which are moving from the research phase into the development phase with the aim of launching a minimum of two new products over the next two years, subject to expected regulatory approvals.

OUTLOOK

"Our three year plan, established in 2014 has delivered on the core growth objectives for the business defined at that time. Nanosonics is now entering the next phase of its long-term growth strategy which is focussed on:

- continuing to grow and establish trophon as standard of care within existing markets;
- geographical expansion into new markets; and
- product line expansion.

Our investment in R&D is planned to grow in FY18 with the aim of bringing a minimum of two new products to market over the next two years. As a result of this increasing investment, it is expected our total operational expense for the full year will be approximately \$48 million including \$14 million in R&D", said Mr Kavanagh.

"In the US, the fundamentals for adoption of the trophon technology remain strong. A degree of ongoing uncertainty surrounding healthcare reform remains, which may impact the timing of capital equipment purchases. Some variability in the volume and phasing of GE's capital equipment purchases from Nanosonics is expected throughout the FY18 financial year as GE inventory levels are managed. The installed base in the US is expected to grow in the first half of FY18 by a similar number as H2 FY17 driving an increasing annuity revenue stream from our consumables business.

"Our European and Asia Pacific business is expected to grow, in particular in the UK where momentum builds as a result the MES program. A number of new guidelines are also expected which could open up the opportunity for entry into new markets".

"Nanosonics is well positioned to leverage its expanding IP Portfolio, growing global presence, existing customer base and reputation amongst the infection prevention community and is committed to its ongoing investment strategy for the long term success of the business".

Michael Kavanagh
CEO / President

Investor conference call

Investors are invited to join a conference call hosted by Mr Michael Kavanagh, CEO and President and Mr McGregor Grant, CFO at **11.00am AEST on Thursday, 24 August 2017.**

Conference ID: 307061

Australian Participant Dial-in Numbers

Toll: + 61 2 9007 3187 (can be used if dialing from international location)

Toll Free: 1 800 558 698

International Participant Dial-in Numbers

Toll-free dial-in numbers for each country are listed below. For countries not listed below, the Australian Toll number provided above may be used.

New Zealand Toll Free:	0800 453 055
China Wide:	4001 200 659
Canada:	1855 8811 339
France:	0800 913 848
Germany:	0800 182 7617
Hong Kong:	800 966 806
Japan:	0053 116 1281
Singapore:	800 101 2785
United Kingdom:	0800 051 8245
United States:	(855) 881 1339

An archive of the conference call will be available at www.obenbriefing.com.

For more information please contact:

Michael Kavanagh, CEO / President or McGregor Grant, CFO, on (02) 8063 1600

Kyahn Williamson, Investor Relations, Buchan Consulting on (03) 9866 4722

Ben Walsh, Media Relations, Buchan Consulting on (03) 9866 4722.

About Nanosonics

Nanosonics Limited is developing a portfolio of decontamination products designed to reduce the spread of infection. The Company owns intellectual property relating to a unique disinfection and sterilisation technology which can be suited to a variety of markets. Initial market applications are designed for the reprocessing of reusable medical instruments. The Company's first product is designed to disinfect Ultrasound Transducers. For more information about Nanosonics please visit www.nanosonics.com.au

Appendix 4E

Preliminary Final Report – Results for Announcement to the Market

Name of entity: **NANOSONICS LIMITED**

ABN 11 095 076 896

Year ended: **30 June 2017**

Nanosonics Limited (the Company) gives the following information to ASX under listing rule 4.3A and Appendix 4E.

1 Reporting period: Year ended 30 June 2017

Previous corresponding period: Year ended 30 June 2016

2 Results for announcement to the market

		% change		\$000's
Sale of goods and services	up	58%	to	67,507
Earnings before interest and taxes	up	*nm¹	to	12,866
Operating income before income tax	up	*nm²	to	13,852
Profit from ordinary activities after tax attributable to members	up	*nm³	to	26,158
Net profit for the period attributable to members	up	*nm³	to	26,158
Dividends		Amount per security		Franked amount per security
Interim dividend paid per share		-		-
Final dividend paid per share		-		-
Dividends proposed per share		-		-
Record date for entitlement to dividend proposed		n/a		n/a
Net Tangible Asset Backing		30 June 2017		30 June 2016
Net tangible asset backing per ordinary security on issue at period end:		24.46 cents		19.06 cents

*nm % change not meaningful.

1. In the previous corresponding period, the Company had a loss before interest and taxes of \$359,000 compared to this period's \$12,866,000 earnings before interest and taxes.
2. In the previous corresponding period, the Company had an operating profit before tax of \$136,000 compared to this period's \$13,852,000 operating profit before tax.
3. In the previous corresponding period, the Company had a consolidated profit after tax of \$122,000 compared to this period's \$26,158,000 consolidated profit after tax.

The Nanosonics Limited audited Annual Report for the year ended 30 June 2017 accompanies this announcement.

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**Appendix 4E - Preliminary Full Year Report
Year ended 30 June 2017**

Additional Appendix 4E disclosure requirements can be found in the Directors' report, the review of operations and the 30 June 2017 financial statements and accompanying notes in the Annual Report.

Where applicable, the Annual Report includes information per items 3 to 16 below:

- 3** Consolidated statement of profit or loss and other comprehensive income together with notes to the statement, prepared in compliance with AASB 101 Presentation of Financial Statements.
- 4** Consolidated statement of financial position together with notes to the statement.
- 5** Consolidated statement of cash flows together with the notes to the statement, prepared in compliance with AASB 107 Statement of Cash Flows.
- 6** Consolidated statement of changes in equity showing retained earnings/(accumulated losses) and movements during the year.
- 7** Details of dividends are shown in the Directors' report and in note 2.5 to the financial statements. No dividends were proposed, declared or paid during the reporting period and the previous corresponding period.
- 8** No dividend or distribution reinvestment plans operated during the reporting period and the previous corresponding period.
- 9** Net tangible assets per security with the comparative figure for the previous corresponding period is noted in the table in item 2 above.
- 10** There were no entities over which control has been gained or lost during the period and the previous corresponding period. In 2016, Nanosonics Canada, Inc. was formed as wholly-owned subsidiary of Nanosonics Limited.
- 11** The entity had no associates or joint venture entities during the period or the previous corresponding period.
- 12** Other significant information is available in the Annual Report for the year ended 30 June 2017 that accompanies this announcement.
- 13** Nanosonics Limited is an Australian company which applies Australian Accounting Standards and also complies with International Financial Reporting Standards.
- 14** A commentary on the results for the period is available from the review of operations included in the CEO's report on page 6, the Regional highlights on pages 10 to 14 and the Directors' report on page 22 of the Annual Report. Other relevant information is as follows:
- | | 2017 | 2016 |
|--------------------------------|--------------|-------|
| 14.1 Earnings per share | cents | cents |
| Basic earnings per share | 8.79 | 0.04 |
| Diluted earnings per share | 8.70 | 0.04 |
- Details of earnings per share are shown in note 2.4 to the financial statements.
- 14.2** There were no returns to shareholders during the period or the previous corresponding period.
- 14.3** Significant features of operating performance are included in the Annual Report.
- 14.4** The entity has one business segment, being healthcare equipment and operates in three geographical regions – North America, Asia Pacific, and Europe. Segment information is included in note 2.1 to the financial statements.
- 15** The financial statements included in the Annual Report have been audited and the Auditor's report appears on pages 94 to 99.
- 16** The financial statements included in the Annual Report are not subject to audit dispute or qualification.

**Appendix 4E - Preliminary Full Year Report
Year ended 30 June 2017**

Directors' resolution

The information set out above and in the Annual Report accompanies this announcement is provided to ASX in accordance with a resolution of the directors dated 24 August 2017.

Signed:



Date: 24 August 2017

Print name: McGregor Grant
CFO and Company Secretary

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