

26 February 2020

Company Announcements Office
Australian Securities Exchange

Nanosonics 2020 half-year financial results

HIGHLIGHTS

- Record first half sales of \$48.5 million, up 19% on prior corresponding period and 11% on prior half.
- Continued strong global installed base growth, up 17% in last 12 months and 8% in last 6 months to 22,500 units.
- Sales of \$34.1 million associated with consumables and service, up 40% on prior corresponding period and 25% on prior half reflecting: growing installed base, impact of increased price to GE Healthcare in North America coming into effect during the half, and timing of shipment of GE North America's January consumables order.
- Capital sales for the period were \$14.4 million. This includes sales to end user customers which were up 13% on prior corresponding period, reflecting the transition from trophon®EPR to trophon2 at a higher average selling price. Capital sales to the Company's main North American distributor were down 24% on prior corresponding period due to timing of purchases in prior periods and the distributor's inventory management.
- Continued investment in our growth strategy with first half operating expenses of \$30.7 million up 11% on prior half and 43% on prior corresponding period.
- Operating profit before tax of \$6.7 million, compared with \$11.0 million in prior corresponding period and \$5.8 million in prior half.
- Free cash flow for the half year was \$10.0 million compared with \$1.6 million in prior corresponding period reflecting increased receipts from customers and lower inventory.
- Cash and cash equivalents up \$9.8 million to \$82.0 million, providing strong foundation for continued investment in growth.
- Geographical expansion progressed with market development activities ongoing in Japan including the appointment of five distributors and first units installed. China market entry strategy developing with regulatory and distribution strategies currently being explored.
- R&D activities continued to grow with investment of \$6.8 million, up 24% on prior corresponding period and 15% on prior half. R&D investment spanning a range of R&D programs with current investment weighted towards Nanosonics' next new infection prevention innovation.

Nanosonics (ASX: NAN), a leader in infection control solutions, today announced its Appendix 4D Half Yearly Report for half year ending 31 December 2019.

"The organisation continues to effectively execute on its strategic growth agenda delivering continuing growth in the trophon installed base, expanded geographical reach and significant investment in both local and international infrastructure and operational capability to support ongoing growth. In addition, advances were made in our research and product development program where we are working on a number of new innovations in infection prevention to meet significant unmet needs" said Michael Kavanagh, Nanosonics' Chief Executive Officer and President.

“Establishing trophon as standard of care is a core objective of the organisation and positive progress towards the achievement of this goal was made in the first half. The total installed base increased in the half to 22,500 units, up 17% in last 12 months and 8% in last 6 months. This included 17% growth in North America in the last 12 months with the installed base now at 19,930 units or almost 50% market penetration¹. The European and Middle East region achieved 19% growth in last 12 months to 1,010 units as the fundamentals for adoption improve and our infrastructure expands. The installed base in Asia Pacific grew 8% in last 12 months to 1,560 units primarily in Australia and New Zealand where the market is highly penetrated. Importantly, the total installed base of 22,500 units results in approximately 75,000 patients every day or over 19 million patients every year being protected from the risk of cross contamination because their ultrasound probe has been decontaminated using trophon.

“Throughout the half, the Company continued to invest in organisational infrastructure and capability. The Nanosonics team grew by 10% to 314 employees. In Europe the Company expanded its infrastructure with sales teams increasing in both the UK and Germany, European clinical and regulatory leadership appointed, and the appointment of dedicated resources to support and grow our distributor partners across the region. Further expansion of resources across the European region will continue throughout the second half.

“In Japan, our market development strategy continues. Distribution agreements are now in place with five key distributors. A President for the local Japanese operations and a Vice President of sales were appointed. Early stage sales have commenced in Japan and the trophon2 technology is due for launch in the 4th quarter of FY20.

“The development of our strategies for market entry and regulatory approval of trophon2 in China continued throughout the half. The current situation with Coronavirus will likely slow down our China market development activities in the 2nd half. However, progress to prepare for our regulatory submission is expected to continue as planned. An assessment for further expansion across Asia Pacific is also underway”.

FINANCIAL RESULTS

\$ millions	FY20 H1	FY19 H1	Change (vs H1 FY19)	FY19 H2	Change (vs H2 FY19)
Revenue from contracts with customers	48.5	40.7	▲ 19%	43.6	▲ 11%
Gross profit	36.4	30.6	▲ 19%	32.3	▲ 13%
%	75%	75%		74%	
Operating expenses:					
Selling and general expenses	(17.7)	(11.2)	▲ 58%	(15.9)	▲ 11%
Administration expenses	(6.2)	(4.8)	▲ 29%	(5.9)	▲ 5%
Research and development expenses	(6.8)	(5.5)	▲ 24%	(5.9)	▲ 15%
Other gains- net	0.6	1.3	▼ (54%)	0.5	▲ 20%
Finance income - net	0.4	0.6	▼ (33%)	0.7	▼ (43%)
Operating income before income tax	6.7	11.0	▼ (39%)	5.8	▲ 16%
Income tax (expense)/benefit	(1.0)	(3.9)	▼ (74%)	0.7	▼ (243%)
Profit after income tax	5.7	7.1	▼ (20%)	6.5	▼ (12%)

Sales for the half year were \$48.5 million (\$45.8 million in constant currency²), up 19% on prior corresponding period. Sales in North America were \$43.8 million, up 18% on prior corresponding period.

¹ Based on historical internal estimates of the installed base of ultrasound consoles and those associated with procedures where high level disinfection may be required.

² Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance for Nanosonics. This is done by converting the current year sales of entities that use currencies other than Australian dollars at the rates that were applicable in the prior year.

Sales were up 38% compared to prior corresponding period in the Europe / Middle East region to \$2.4 million and up 26% in the Asia Pacific region to \$2.4 million.

Revenue associated with consumables and service of \$34.1 million was up 40% on prior corresponding period reflecting: growing installed base; impact of increased price of consumables to GE North America and timing of shipment of GE North America's January consumables order.

Capital sales for the period were \$14.4 million. This includes sales to end user customers which were up 13% on prior corresponding period, reflecting the transition from trophon[®]EPR to trophon2 at a higher average selling price. Capital sales to the Company's main North American distributor were down 24% on prior corresponding period due to timing of purchases in prior periods and the distributor's inventory management. Capital revenue is also impacted by the sales mix associated with the range of selling models including Managed Equipment Service and Rental that do not recognise capital revenue upfront.

Considering the significant global opportunity for trophon, as well as broader opportunities from global healthcare challenges associated with infection prevention, Nanosonics continues to make significant investments in its global infrastructure expansion and R&D program. Operating expenses of \$30.7 million for the half year were up 11% on prior half and 43% on prior corresponding period.

Despite record revenue in the half, as a result of the foreshadowed increased investments, operating profit before tax was \$6.7 million, down 39% on prior corresponding period. This operating profit included \$0.6 million net gains on foreign currency.

Free cash flow for the half year was \$10.0 million compared with \$1.6 million in prior corresponding period. The increase was a result of an increase in customer receipts due to the alignment of payment terms for GE North America with the Company's standard payment terms. In addition, the introduction of operational and manufacturing efficiencies resulted in a decrease in inventory. Reported free cash flow in the period is also \$0.6 million higher as a result of the introduction of the new accounting standard for leases which classifies the payment of the principal portion of lease liabilities as a financing activity, previously reported as an operating activity.

As at 31 December 2019, cash and cash equivalents totalled \$82.0 million up \$9.8 million on prior half, providing a strong foundation to support continued investment in the growth of the business.

The Company's capital management strategy continues to be regularly reviewed. Ongoing growth in investment in the long term strategic growth agenda of the Company is considered the best use of the Company's free cash flow and capital reserves at this time.

NEW PRODUCT DEVELOPMENT

Product expansion is a core growth strategy for Nanosonics and in the first half of FY20 \$6.8 million was invested in R&D, an increase of 24% on prior corresponding period and 15% on prior half. Nanosonics' R&D interests span five key areas, namely:

- Instrument cleaning;
- Instrument disinfection;
- Storage solutions;
- Environmental decontamination; and
- Digital solutions for traceability and compliance.

Active programs are in place covering a number of the areas outlined above.

Nanosonics is investing significantly to progress its next new innovative platform technology. This technology is being designed to address a major unmet need in infection prevention today and would involve both capital equipment and consumables targeting a large addressable market which, if successful, is considered to be similar in financial opportunity to trophon. Subject to technical

milestones and timing of individual market regulatory approvals, the Company is targeting commercial introduction in FY21.

BUSINESS OUTLOOK

The Company's strategic priorities continue to be focused on four core areas:

1. Continue to establish the trophon technology as the standard of care in those markets where trophon is currently represented;
2. Expand and invest into new markets driving the awareness of the importance of High Level Disinfection of ultrasound probes and strengthening the fundamentals for adoption through the development and release of relevant guidelines;
3. Develop new products focusing on significant unmet needs in infection prevention and introduce these products globally; and
4. Maintain a strong financial position to support growth investments while delivering operational efficiencies, scale and leverage.

FY20

Further to the FY20 guidance provided at the Company's AGM in November 2019, Nanosonics is targeting:

- Continued growth in installed base in North America with FY20 adoption similar to FY19.
- Adoption of trophon in Europe to grow from:
 - Expanded geographical reach, stronger fundamentals for adoption and growing awareness; and
 - Ongoing investment in Nanosonics' European infrastructure under leadership of new Regional President appointed in the first half.
- Ongoing investment in Asia Pacific growth strategy with continued focus on strengthening the fundamentals for adoption in Japan as well as market opportunity assessments and development across the region including China.
- Continued investment in growth with operating expenses in H2 expected to be between \$36 million and \$37 million, resulting in full year operating expenses of approximately \$67 million to \$68 million. This includes approximately \$15 million in R&D.
- FY20 profit phasing now more balanced between H1 and H2 as a result of timing of consumables sales in H1 and the phasing of operating expenses between each half.

The Company is actively considering and monitoring potential risks associated with the recent Coronavirus outbreak. Currently there are no material impacts to the business operations. However, the situation continues to be closely monitored.

BEYOND FY20

Nanosonics is targeting:

- Continued growth in trophon installed base as new guidelines are released and increasing awareness of the importance of HLD of all semi-critical probes grows.
- Increase in upgrades of trophon EPR to trophon2.
- Japan to become an important growth market for trophon as well as further expansion into Asia Pacific including China.
- Ongoing investment in R&D, infrastructure, people and capability to drive the strategic growth agenda.
- Commercial introduction of Nanosonics' next new innovative platform technology in FY21, subject to technical milestones and timing of individual market regulatory approvals³.

Michael Kavanagh
CEO / President

³ All research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines.

Investor conference call

Investors are invited to join a conference call hosted by Michael Kavanagh, CEO and President and McGregor Grant, CFO on **Wednesday 26 February 2020 at 11.30am AEDT.**

You may dial in with the following details at the scheduled start time:

Conference ID: 10003641

AUSTRALIA:	1800 908 299
ALT. AUSTRALIA:	1800 455 963
SYDNEY:	02 9007 8048
NEW ZEALAND:	0800 452 795
AUCKLAND:	+64 9 929 3905
CHINA:	10800 140 1776
FRANCE:	0800 913 734
GERMANY:	0800 183 0918
HONG KONG:	800 968 273
INDIA:	0008 0010 08070
INDONESIA:	007 803 321 8057
IRELAND:	1800 948 607
JAPAN:	0066 3386 8000
MALAYSIA:	1800 816 441
SINGAPORE:	800 101 2702
SOUTH AFRICA:	0800 984 013
SPAIN:	900 823 322
SWITZERLAND:	0800 802 498
TAIWAN:	0080 112 7377
UAE:	8000 3570 2706
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