

25 August 2020

Company Announcements Office
Australian Securities Exchange

Nanosonics 2020 full year financial results

HIGHLIGHTS

- **Full year revenue of \$100.1 million, up 19% on prior corresponding period.**
 - In the first three quarters of the year, total revenue was up 26% on prior corresponding period, demonstrating strong underlying growth momentum.
 - In Q4, when the main impacts of COVID-19 were experienced, revenue increased 1% compared with the prior corresponding period.
- **Full year global installed base up 13% to 23,720 units.**
 - In the first three quarters of the year, the growth in the installed base in North America was in line with expectations (i.e. similar to FY19). During that period, the number of new units installed in Europe and Middle East was up 37%, and up 56% in Asia Pacific compared with the prior corresponding period.
 - Installed base growth was impacted in Q4 due to COVID-19 pandemic restrictions with the number of new units installed down 46% compared to prior corresponding period.
- **Full year consumables and service revenue up 36% to \$70.1 million.**
 - In the first three quarters of the year, consumables and service revenue was up 39% on prior corresponding period.
 - In the fourth quarter, despite a reduction in the number of ultrasound procedures as a result of the COVID-19 pandemic, consumables and service revenue grew 29% compared with the prior corresponding period.
 - In June, global sales of consumables to end customers trended back to approximately 80% of Q1 to Q3 levels.
- **Full year capital revenue down 9% on prior corresponding period to \$30.0 million, despite increase in installed base reflecting:**
 - The impact of GE Healthcare's inventory management associated with the launch of trophon[®]2 in FY19; and
 - A delay in capital sales to customers during Q4 as a result of the COVID-19 pandemic.
- **Continued increasing investment in growth strategy with operating expenses up 28% to \$63.2 million, including \$15.6 million in R&D, which was up 37% on prior corresponding period.**
- **New business development function established, together with a new investment subsidiary, dedicated to identifying and assessing local and international opportunities to accelerate the growth of our infection prevention portfolio.**
- **As a consequence of accelerating investment in the strategic growth agenda, as well as the impacts of COVID-19 on Q4 revenue, operating profit before tax was \$12.4 million compared with \$16.8 million in the prior corresponding period.**
- **Free cash flow for the year was \$20.9 million compared with \$2.6 million in the prior corresponding period, driven by increased receipts from customers.**
- **Cash and cash equivalents up \$19.6 million to \$91.8 million, providing strong foundation for ongoing investment in growth. The company has negligible debt.**

Nanosonics (ASX: NAN), a leader in infection control solutions, today announced its Appendix 4E Full Year Report for year ended 30 June 2020.

“The 2020 financial year has been another year of significant achievement and progress with many important milestones achieved against our strategic growth agenda. Excellent growth momentum was experienced in the first three quarters of the year demonstrating the underlying strong fundamentals for the business. As expected, the implications of the COVID-19 pandemic impacted the momentum primarily in Q4 which saw the planned adoption of trophon being delayed in hospitals as their focus turned to the management of COVID-19. With healthcare procedures being postponed due to lock down restrictions, some implications on consumables sales were also experienced in this period but commenced recovering towards Q1 to Q3 levels in June” said Michael Kavanagh, Nanosonics’ Chief Executive Officer and President.

“First and foremost, I would like to thank every Nanosonics employee for their resilience, flexibility, dedication and customer focus during what has been an unprecedented year. After a strong first three quarters, Q4 saw the business needing to respond, navigate and adapt to COVID-19 related challenges internally and in the marketplace. Employees’ safety and well-being was prioritised with safe work practices introduced and strategies developed to minimise the impact of the pandemic on our workforce.

“Customers were supported through digital communication and engagement, as access to hospitals became limited. In addition, the Company ensured the supply chain was well positioned to meet customer requirements. As the effects of COVID-19 escalated, the Company continued to support front-line customers in emergency and ICU, where possible, by offering to provide trophon.

“As an infection prevention company we are acutely aware of the impact of COVID-19 and it strengthens our resolve even further to truly deliver on our mission to improve the safety of patients, clinics, their staff and the environment by transforming the way infection prevention practices are understood and conducted and introducing innovative technologies that deliver improved standards of care.

“I would also like to recognise all our customers, in particular the Infection Prevention community, who continue to work tirelessly on the front line during this COVID-19 pandemic.

“During the year we continued to grow our investment across our market and product expansion activities.

“Increased infrastructure investments were made in Europe and Middle East and Asia Pacific, where positive growth momentum was experienced in the first three quarters of the year demonstrating the underlying opportunity for ongoing growth in these regions. Revenue in Europe and the Middle East was up 43% in the first three quarters compared to prior corresponding period and Q4 revenue was up 20% on prior corresponding period. Revenue in Asia Pacific was up 27% in the first 3 quarters compared to prior corresponding period and Q4 revenue was down 10% on prior corresponding period.

“In North America, revenue was up 25% in the first 3 quarters on prior corresponding period, as trophon continued to be established as the standard of care. Q4 revenue was flat compared to prior corresponding period.

“In addition, there was a significant growth in our R&D investment, which was up 37% on prior corresponding period as we increased our resource and activity across our product expansion strategy.

“The fundamentals for adoption continued to strengthen throughout the year, with the publication of a number of new guidelines internationally, reinforcing the importance of High Level Disinfection for ultrasound. The ongoing emergence of new guidelines and the re-emphasis of the importance of

disinfection by international bodies further supports our geographical expansion plans and the overall global opportunity for trophon.

“Globally, the installed base of trophon grew 13% for the full year to 23,720 units. In North America the installed base grew 13% to 20,990 units which represents over 50% of the current estimated North American market opportunity, where trophon is clearly establishing itself as the standard of care. The installed base in Europe and Middle East grew 27% to 1,120 units and in Asia Pacific the installed base grew 9% for the year to 1,610 units.

“As foreshadowed in the Company’s April Business Update, despite a strong sales pipeline, limited access to hospitals, together with various hospital department shut downs throughout Q4 resulted in the timeline for the expected adoption of new installed base in Q4 being extended with the number of new units installed being 46% lower than the prior corresponding period.

“In the first three quarters however, compared with the prior corresponding period:

- the number of new units installed in North America was in line with expectations (i.e. similar to FY19);
- the number of new units installed in Europe and Middle East was up 37%. Strong growth momentum was building in this period as a result of our expansion investments; and
- the number of new units installed in Asia Pacific was up 56% reflecting ongoing growth across the region.”

FINANCIAL RESULTS

\$ million	FY20	FY19	Change
Revenue	100.1	84.3	▲ 19%
Gross profit	75.5	62.8	▲ 20%
%	75.4%	74.5%	
Operating expenses			
Selling, general and administration	(47.6)	(37.8)	▲ 26%
Research and development	(15.6)	(11.4)	▲ 37%
Other income	-	0.1	
Other (losses)/gains-net	(0.7)	1.8	
EBIT	11.6	15.5	▼ (25%)
Finance income (net)	0.8	1.3	▼ (38%)
Profit before tax	12.4	16.8	▼ (26%)
Income tax expense	(2.3)	(3.2)	
Profit after tax	10.1	13.6	▼ (26%)

Revenue for the year was \$100.1 million (\$93.7 million in constant currency¹), up 19% on prior corresponding period. Revenue in North America was \$90.2 million, up 18% on prior corresponding period. Revenue was up 37% in Europe and Middle East to \$5.2 million and up 17% in Asia Pacific to \$4.7 million.

In the first three quarters of the year, strong growth was experienced with total revenue increasing 26% on prior corresponding period. Q4 Revenue of \$25.3 million was essentially flat compared to prior corresponding period (increase of 1%), driven largely by the expected implications of the COVID-19 pandemic with very limited hospital access and a reduction in a range of healthcare procedures during this period.

¹ 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.

\$ million	FY20	FY19	Change	FY20 Q1-Q3	Change vs PCP	FY20 Q4	Change vs PCP
Revenue							
Consumables and service	70.1	51.5	▲ 36%	52.2	▲ 39%	17.9	▲ 29%
Capital	30.0	32.8	▼ 9%	22.6	▲ 5%	7.4	▼ 34%
Total revenue	100.1	84.3	▲ 19%	74.8	▲ 26%	25.3	▲ 1%

During the year, revenue associated with consumables and service of \$70.1 million was up 36% on prior corresponding period. In the first three quarters of the year, revenue was up 39% on prior corresponding period. In Q4, a reduction in the volume of ultrasound procedures was experienced due to COVID-19 restrictions. Despite this reduction in ultrasound procedures, consumables and service revenue grew 29% in Q4 compared to prior corresponding period. In June, as hospital departments resumed activities in many markets, global sales of consumables to end customers trended back to approximately 80% of Q1 to Q3 levels.

While sales to end customers increased during the year, overall capital revenue was down 9% on prior corresponding period to \$30 million. The key drivers for this reduction were:

- a reduction in the number of units purchased by GE Healthcare compared with the prior corresponding period. This reduction was due to significant destocking in H2 of FY18, resulting from the earlier than anticipated FDA approval of trophon2 and the subsequent restocking of inventory of trophon2 in FY19 upon the launch of trophon2; and
- a delay in capital sales to customers during Q4 as a result of the COVID-19 pandemic.

The Company continued to increase investments in its strategic growth agenda with operating expenses up 28% to \$63.2 million, including \$15.6 million in R&D, up 37% on prior corresponding period.

As a consequence of the planned increase in investment in growth, as well as the impacts of COVID-19 on Q4 revenue, operating profit before tax was \$12.4 million compared with \$16.8 million in prior corresponding period.

Free cash flow for the year was \$20.9 million compared with \$2.6 million in prior corresponding period, driven by increased receipts from customers.

Cash and cash equivalents increased \$19.6 million to \$91.8 million as at 30 June 2020. This strong cash position coupled with negligible debt provides a strong foundation to support accelerating investment in the growth of the business.

The Company's capital management is reviewed regularly. In light of an increasing global focus on infection prevention and the opportunities this presents for Nanosonics, investment in the broader strategic growth agenda of the Company is planned to continue actively and the capital reserves of the Company provide strong support for this.

RESEARCH AND DEVELOPMENT

During the year, Nanosonics continued to invest in its product expansion strategy. R&D investment increased 37% to \$15.6 million, directed across a number of projects. Nanosonics' R&D interests span five key areas of infection prevention:

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

The R&D team achieved many important milestones throughout the year across a number of projects. As a result of ongoing international collaborations, the Company has identified a number of positive enhancements to our new lead technology platform that provide the possibility to deliver superior outcomes to those originally anticipated. Inclusion of these enhancements, coupled with the uncertainties associated with COVID-19 on certain project milestones, means that commercialisation of the new technology is no longer expected to be in FY21 but will likely be in FY22, with the ultimate launch timing continuing to be dependent on the necessary technical milestones being met as well as the timing of individual market regulatory approvals. In addition to the new platform technology, a solution for further digital traceability and reporting is also in advanced development.

In addition to our internal R&D efforts, a new business development function was established, together with a new investment subsidiary, dedicated to identifying and assessing local and international opportunities for strategic acquisitions, product licensing and a range of potential collaboration opportunities to accelerate the growth of our infection prevention portfolio.

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 available;
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 market development, education and guideline establishment.
3. Expand our product portfolio across key vectors of infection prevention through internal R&D as well as external opportunities; and
4. Maintain a strong financial position to support growth investments while delivering operational efficiencies, scale and leverage.

FY21

"Despite the ongoing uncertainties associated with the current COVID-19 pandemic, the fundamentals for the underlying business remain strong as demonstrated again in FY20. While we continue to be faced with the current issues associated with the COVID-19 pandemic, we remain optimistic about the future.

"Considering the inherent uncertainties and ongoing risks associated with the pandemic, in particular those associated with ongoing hospital access, emergence of second and possible further waves and potential further lock downs, it is not possible to provide specific guidance in respect of FY21, particularly on a region by region basis.

“While installed base continues to grow, it is likely that in the first half of the year, trophon capital sales will be impacted by limited hospital access currently being experienced, in particular in North America. This has been the experience to date in FY21. It is expected that this will also have a flow-on effect to the capital equipment requirements of our main North American distributor partner, GE Healthcare. As such, it is anticipated that sales of trophon to GE Healthcare may also be reduced, in particular in the first half, due to the impact of delayed capital sales to customers in Q4 on their ending FY20 inventory, coupled with the ongoing impact of hospital access restrictions.

“In June, global sales of consumables to end customers trended back to approximately 80% of Q1 to Q3 levels. External data suggests the volume of ultrasound procedures continues to recover and sales of consumables to date in FY21 to end customers is consistent with this. There are risks that if the number of ultrasound procedures decreases due to any new restrictions being implemented, then sales of consumables are likely to be impacted, as we saw in Q4 FY20.

“The COVID-19 pandemic has reinforced the importance of infection prevention and given increased prominence to this important topic, not just amongst the medical community but in all communities. The Company considers that this can only be positive for the longer term fundamentals of the business.

“Nanosonics’ infrastructure, people and capability and cash balance provide a strong foundation for the future. Despite the current pandemic related uncertainties, the underlying fundamentals for the business remain strong. We maintain our commitment to continue to invest in our long term strategic growth agenda. As such, total operating expenses for the year are expected to be in the range of \$75 million to \$78 million, with increased investments being made across R&D, regional infrastructure and operational capability to support the organisation globally,” said Mr Kavanagh.

BEYOND FY21

Despite the current challenges of the COVID-19 pandemic our longer term strategic growth agenda remains very much intact. Beyond FY21, Nanosonics is targeting:

- Continued growth in the trophon installed base across all regions;
- Growth in upgrades of trophon EPR to trophon2;
- Japan to become an important contributor to global installed base growth as well as further expansion into Asia Pacific including China;
- Broadening of our product portfolio through internal product development and opportunities for strategic acquisitions and product licensing; and
- Ongoing investment in R&D, infrastructure, people and capability to drive the global strategic growth agenda.

Michael Kavanagh
CEO / President

Investor conference call

Investors are invited to join a conference call hosted by CEO and President, Michael Kavanagh and CFO McGregor Grant on **Tuesday 25 August 2020 at 11.00am AEST.**

To join the conference, simply dial the number and passcode followed by your PIN, and you will join the conference instantly.

You can obtain your dial-in number, passcode, and PIN by registering through this link: <https://s1.c-conf.com/DiamondPass/10009583-invite.html>

For more information please contact:

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