

AROA BIOSURGERY HALF YEARLY REPORT H1 FY21

Highlights

- H1 FY22 product revenue (unaudited) grew 110% on H1 FY21 and 39% on H2 FY21, to **NZ\$17.2**
- H1 FY22 product revenue (unaudited) grew 110% on H1 FY21 and 39% on H2 FY21, to **NZ\$17.2 million on a constant currency basis**.¹ H1 FY22 product revenue (unaudited) was **\$17.7 million on a reported basis**.
- Total reported H1 FY22 revenue (unaudited), inclusive of project fees was **NZ\$17.9 million**.
- Product gross margin % up 13% on H1 FY21 and 5% on H2 FY21, to **75%** on a constant currency basis.
- Strong cash balance of NZ\$65.3 million as at 30 September 2021, and the Company is debt free.
- FY22 guidance for product revenue (on a constant currency basis) **maintained at NZ\$34-37 million** (up 58%-71% on FY21).²
- AROA will host a webinar today at 11.30am AEDT to discuss the results. [Click here to register](#).

Soft tissue regeneration company Aroa Biosurgery Limited (ASX:ARX, 'AROA' or the 'Company') is pleased to announce its audited results for the first half of the 2022 financial year, which ended 30 September 2021.

Management Commentary

Managing Director and CEO Brian Ward said "We entered this financial year with momentum, following a number of strategic shifts aimed to elevate and escalate AROA's growth. Whilst the global resurgence of COVID-19 has presented significant challenges, I am proud that our team has remained resilient and focused. They have delivered a strong result and continue to work hard, going above and beyond to implement our targeted growth strategies. This has enabled more patients to access regenerative healing. To date, AROA's products have been used in more than four and a half million procedures globally. On behalf of the Board, I want to acknowledge and thank our employees and partners for their ongoing contribution."

"Looking ahead, we are pleased to maintain our guidance for the 2022 financial year. With strong cash on hand, we plan to continue investing in our US commercial operations to help drive that growth. We expect the coming half year to mark a number of key milestones, including the completion of our second manufacturing facility and limited commercial launch of our new Symphony™ product. These steps will better position us to unlock regenerative healing for everybody."

¹ Constant currency removes the impact of exchange rate movements. This approach is used to assess the AROA group's underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the USD. The NZD/USD exchange rate of 0.72 has been used in the constant currency analysis, representing the AROA group's budget rate for FY22. All references in this announcement to 'constant currency' are as set out in this footnote.

² Given the dynamic and evolving impact of COVID-19, the upgraded guidance is subject to there being no material decline in US medical procedure numbers. It assumes an average NZD/USD exchange rate of 0.72.

Financial Commentary

Following FY21 where sales were relatively flat (compared to FY20) as impacted by COVID-19, AROA saw a significant improvement in sales performance for H1 FY22, exceeding internal expectations. H1 FY21 product revenues were up 39% to H2 FY21 and 110% to H1 FY20. Product gross margin % also improved, as a result of higher sales volumes, increasing sales of Myriad products and improvements in manufacturing efficiencies.

The Company ended the half-year in a strong financial position with cash on hand of NZ\$65.3 million and no debt.

Normalised Profit or Loss³

	Reported H1 FY2022 NZ\$000	Reported H1 FY2021 NZ\$000	Reported YoY %	CC ¹ H1 FY2022 NZ\$000	CC ¹ H1 FY2021 NZ\$000	CC ¹ YoY %
Product sales	17,661	9,002	96	17,204	8,176	110
Other revenue	191	178	7	186	162	15
Total revenue	17,852	9,180	94	17,390	8,338	109
Gross profit	13,469	6,035	123	13,007	5,192	151
Product gross margin %	75%	65%	10 bps	75%	62%	13 bps
Other income	94	1,869	(95)	94	1,869	(95)
Normalised selling and administrative expenses ³	(12,647)	(8,561)	48	(12,449)	(8,150)	53
Research and development	(3,618)	(2,791)	30	(3,618)	(2,791)	30
Normalised other losses*	-	(2)	(100)	-	(2)	(100)
Total normalised operating expenses	(16,265)	(11,354)	43	(16,067)	(10,943)	47
Normalised EBIT	(2,702)	(3,450)	22	(2,966)	(3,882)	24
<i>Add back: Depreciation & amortisation</i>	1,546	1,509	2	1,546	1,509	2
Normalised EBITDA	(1,156)	(1,941)	40	(1,420)	(2,373)	40
Net finance expenses	(980)	(599)	64	(869)	(1,087)	(20)
Normalised loss before income tax	(3,682)	(4,049)	(9)	(3,835)	(4,969)	(23)

Product sales

On a constant currency basis, product sales of \$17.2 million for the half year were up 110%, compared to H1 FY21 (\$8.2 million) and up 39% compared to H2 FY21 (\$12.3 million).

On a reported basis, product sales of \$17.7 million for the half-year were up 96%, compared to H1 FY21 (\$9.0 million).

³ The normalised profit or loss is non-conforming financial information, as defined by the NZ Financial Markets Authority. It has been provided to assist users of financial information to better understand and assess the Group's comparative financial performance without any distortion from NZ GAAP accounting treatment specific to one-off transaction costs associated with financing activities (AROA's IPO on the ASX in July 2021 and its secondary capital raising on the ASX in August 2021). The impact of non-cash share-based payments expense has also been removed from the profit or loss. This approach is used by management and the Board to assess the Group's comparative financial performance.

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Other revenue

Other revenue represents project fees income, received for product development projects undertaken with TELA Bio, Inc.

Gross margin %

On a constant currency basis, gross margin of 75% for the half-year was up 13%, compared to H1 FY21 (62%) and up 5% compared to H2 FY21 (71%), primarily due to the increase in sales in H1 FY22, but also supported by increasing sales of Myriad products and efficiency improvements in manufacturing.

Normalised operating expenses

On a constant currency basis, selling and administrative expenses of \$12.4 million for the half-year were up \$4.3 million, compared to H1 FY21, primarily reflecting the increased investment into the Company's US based sales operations.

Research and development expenses of \$3.6 million for the half-year were up \$0.8 million, compared to H1 FY21, reflecting the increase in staffing on pipeline products.

Cash Flows

Net cash outflow from operating activities of \$5.8 million for H1 FY22 compared to a net cash outflow from operating activities of \$3.0 million in H1 FY21, primarily reflecting the Group's increased working capital from higher sales. Net cash outflow from operating activities for H1 FY22 included an interest payment of \$1.5 million (H1 FY21: \$0.9 million) due on the debt outstanding to Hollister Inc.

Purchases of property, plant, and equipment of \$2.0 million for H1 FY22 compared to \$0.5 million in H1 FY21, reflecting the current investment into the expansion of the Group's manufacturing facility.

Net cash inflow from financing activities of \$37.9 million, reflecting the net proceeds from the Company's capital raise in August 2021 of \$47.9 million, less full repayment of the debt outstanding to Hollister of \$9.5 million. As a result of this payment, the Company is now debt free.

AROA ended H1 FY22 with cash on hand and term deposits of NZ\$65.3 million, providing the Company with adequate cash reserves to further invest in expanding its US commercial operations and to accelerate and broaden its research and development pipeline.

Financial Outlook

AROA maintains its FY22 product revenue guidance (on a constant currency basis) of NZ\$34-37 million. This reflects a 58-71% increase on FY21 product revenue on a constant currency basis. Product gross margins are expected to be between 73-75%. EBITDA will be negative as previously forecast. Given the dynamic and evolving impact of COVID-19, guidance is subject to there being no material decline in US medical procedure numbers. Guidance assumes an average NZD/USD exchange rate of 0.72.

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Half year webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Thursday 25 November 2021 at 11:30am AEDT, to discuss the half year results released to the ASX this morning.

Investors can register for the webinar via the following link:

https://us02web.zoom.us/webinar/register/WN_AiVyX2MaT4uoFwspgHC4Ag

Investors can submit questions prior to the webinar to shinsley@aroabio.com or do so via the Q&A function on Zoom.

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Authorised on behalf of the Aroa Biosurgery Board of Directors by Brian Ward, CEO.

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About AROA™

Aroa Biosurgery is a soft-tissue regeneration company committed to 'unlocking regenerative healing for everybody'. We develop, manufacture, sell and distribute medical and surgical products to improve healing in complex wounds and soft tissue reconstruction. Our products are developed from a proprietary AROA ECM™ technology platform, a novel extracellular matrix biomaterial derived from ovine (sheep) forestomach. AROA's products have been used in more than four and a half million procedures to date, with distribution into our key market of the United States via our direct sales force and our partner TELA Bio. Founded in 2008, AROA is headquartered in Auckland, New Zealand and is listed on the Australian Securities Exchange (ASX:ARX). www.aroabio.com/

About Myriad™

Myriad Matrix™ is an extracellular matrix graft, composed of AROA ECM and designed for soft tissue reconstruction and complex wounds. Myriad Morcells™ is a powder format of Myriad Matrix that easily conforms to optimize contact with irregular wound beds.

About Endoform™

Endoform™ products are unique extracellular matrix products, composed of AROA ECM, for the management of acute and chronic wounds.

About Symphony™

Symphony is a new product which has been developed off the strength of AROA ECM. It is applied as a graft and is surgically fixed at the margins. It is designed to support healing during the proliferative phase to reduce time to wound closure, particularly in patients whose healing is severely impaired or compromised due to disease.

About AROA's dead space management platform technology

This is a new system which AROA is developing, designed to close tissue cavities at a surgical site created by surgical dissection or tissue removal. It is comprised of a specially designed AROA ECM implant that is coupled to an external single-use negative pressure pump. When the product is deployed, the tissue surfaces are drawn together, held in place and tissue fluids are carried by the vacuum to an external fluid collection bag. AROA intends to develop and launch a new class of products utilising this new platform technology.

Contacts

Investor

Simon Hinsley
Investor Relations
shinsley@aroabio.com
+ 61 401 809 653

Media

Australia
Matthew Wright
matt@nwrcommunications.com.au
+61 451 896 420

New Zealand
Piet De Jong
piet.dejong@baldwinboyle.com
+64 21 812 766

APPENDIX A

In accordance with ASX Listing Rule 4.7C, Aroa provides the following use of funds information:

Use of funds	Prospectus Estimate NZ\$m	Actual Funds Used NZ\$m	Actual as a % of Estimate	Note
Investment in sales and marketing	\$5.0	\$5.0	100%	1
Investment in additional manufacturing capacity, investment in new products, plant and equipment and other general corporate capital expenditure	\$5.0	\$3.1	62%	2
Working capital, other operating costs	\$5.0	\$4.4	88%	3
Repayment of borrowings	\$13.1	\$11.1	85%	4
Offer costs	\$3.8	\$3.9	103%	5
Total	\$31.9	\$26.2	82%	

Notes:

1. Continued rollout of new sales and marketing initiatives including management of over 20 direct sales personnel hired in Q4 FY21.
2. Includes all preliminary costs to date for manufacturing expansion.
3. Net operating cash outflows since July 2020, excluding cash outflows relating to the investment in sales & marketing.
4. Full repayment of borrowings made during Q2 FY22. The variance between actual and estimate reflects the interest cost savings for early repayment and the favourable foreign exchange rate at the time of payment compared to the time of estimate.
5. Includes cash outflows prior to IPO. Remains unchanged from the prior quarter.