

25 February 2019

Company Announcements Office  
Australian Securities Exchange

## **Nanosonics 2019 half year financial results**

### **HIGHLIGHTS**

- **Record first half sales of \$40.7 million up 36% on prior corresponding period and 33% on prior half.**
- **trophon<sup>®</sup>2 successfully launched in North America, Europe and Australia end August / September 2018.**
- **Continued strong installed base growth with global installed base increasing to 19,310, up 20% in last 12 months and 9% in last 6 months.**
- **Capital sales of \$16.4 million up 11% on prior corresponding period and 52% on prior half.**
- **Sales of \$24.3 million associated with consumables and service up 59% on prior corresponding period and 22% in prior half.**
- **Operating profit before tax of \$11.0 million up 195% on prior corresponding period and 493% on prior half.**
- **Cash balance up \$1.8 million to \$71.3 million.**
- **Distribution agreement with GE Healthcare expanded to include Denmark, Finland, Spain and Portugal.**
- **Preliminary clinical study in Japan demonstrates over 90% of probes studied contaminated.**
- **New product development program progressing well.**
- **Three senior executives appointed to leadership team (February 2019) to support growth strategy.**

Nanosonics (ASX: NAN), a leader in infection control solutions, today announced its Appendix 4D Half Yearly Report for the half year ending 31 December 2018.

“The organisation has delivered a strong set of results for the first half where we continued to grow the trophon installed base, deliver record half year financial results and progress many aspects of our strategic growth priorities, including geographic expansion and new product development” said Michael Kavanagh, Nanosonics’ Chief Executive Officer and President.

“Our new trophon2 technology was released in North America and Europe at the end of August 2018 and in Australia at the end of September 2018. Customer reaction to the new features and benefits of trophon2 has been very positive with increasing numbers of trophon2 being adopted over trophon EPR every month since launch. Taking into consideration the timing of the trophon2 launch, in the six months to 31 December 2018, the global installed base grew 9% to 19,310 units (up 20% in last 12 months) with the North American installed base growing 9% to 17,020 units and EMEA up 16% to 850 units. This means that approximately 60,000 patients are protected every day from the risk of cross contamination because their probe has been high level disinfected using a trophon system.

“Our geographical expansion activities progressed with new agreements established with GE Healthcare for distribution in Denmark, Finland, Spain and Portugal effective February 2019. This is in addition to existing agreements with GE Healthcare in Sweden and Norway. A new distributor was also appointed for Switzerland. These new agreements indicate the strengthening fundamentals for adoption of the trophon technology across Europe.

“A new agreement was also signed for Mexico and a market assessment study in China has commenced.

“As part of our market development activities in Japan, a local clinical study examining the level of contamination on ultrasound probes was completed. This study demonstrated over 90% of the probes studied were contaminated and of the contaminated probes over 50% harboured potentially pathogenic bacteria including methicillin resistant Staphylococcus aureus (MRSA). A second study is now planned to evaluate the efficacy of trophon in the Japanese clinical setting. During the period Nanosonics also established a wholly owned subsidiary in Japan which provides flexibility in our commercialisation models in that market for trophon and for the introduction of new products.

“Investment in our product development efforts continued with R&D expenditure of \$5.5 million, up 18% on prior corresponding period and up 5% on prior half. Our new product development program progresses well.

“As part of our growth program, three senior executives were recently added to Nanosonics’ leadership team. Renee Salaberry joined as Chief Marketing Officer, David Morris as Chief Strategy Officer & Regional President Asia Pacific and Rod Lopez as Chief Operating Officer. These new positions further expand the breadth and depth of experience and capability within the business and will play a pivotal role in the next phase of Nanosonics’ growth.”

## FINANCIAL RESULTS

| \$ millions                                  | FY19<br>H1  | FY18<br>H1  | Change<br>(vs H1 FY18) | FY18<br>H2  | Change<br>(vs H2 FY18) |
|----------------------------------------------|-------------|-------------|------------------------|-------------|------------------------|
| <b>Revenue from contracts with customers</b> | <b>40.7</b> | <b>30.0</b> | ▲ 36%                  | <b>30.7</b> | ▲ 33%                  |
| <b>Gross profit</b>                          | <b>30.6</b> | <b>22.3</b> | ▲ 37%                  | <b>23.0</b> | ▲ 33%                  |
| %                                            | 75%         | 74%         |                        | 75%         |                        |
| Selling and general expenses                 | (11.2)      | (10.2)      | ▲ 10%                  | (12.7)      | ▼ 12%                  |
| Administration expenses                      | (4.8)       | (4.5)       | ▲ 8%                   | (5.3)       | ▼ 8%                   |
| Research and development expenses            | (5.5)       | (4.6)       | ▲ 18%                  | (5.2)       | ▲ 5%                   |
| Other income                                 | 0.0         | 0.0         |                        | 0.1         |                        |
| Other gains - net                            | 1.3         | 0.1         |                        | 1.4         |                        |
| Finance income - net                         | 0.6         | 0.6         | ▲ 16%                  | 0.6         | ▲ 1%                   |
| <b>Operating income before income tax</b>    | <b>11.0</b> | <b>3.7</b>  | ▲ 195%                 | <b>1.9</b>  | ▲ 493%                 |
| Income tax (expense)/benefit                 | (3.9)       | (1.5)       |                        | 1.6         |                        |
| <b>Profit after income tax</b>               | <b>7.1</b>  | <b>2.2</b>  | ▲ 221%                 | <b>3.5</b>  | ▲ 101%                 |

Sales for the half year were \$40.7 million (\$38.4 million in constant currency), up 36% on prior corresponding period and 33% on prior half.

Capital revenue of \$16.4 million was up 11% on prior corresponding period and 52% on prior half. The capital revenue reflects a range of selling models each with different revenue profiles including the Managed Equipment Service (MES) model in the UK where no capital revenue is recognised. Compared to the prior half the capital revenue also reflects the timing of the launch of trophon2 (end August/September 2018) as well as a degree of inventory restocking by GE Healthcare after a period of inventory run down following the earlier than anticipated announcement of regulatory approval of trophon2 in April 2018.

Revenue associated with consumables and service of \$24.3 million was up 59% on prior corresponding period and 22% on prior half. This ongoing strong growth in consumables and service revenue reflects the continuing growth in the installed base.

Operating expenses for the half were \$21.5 million, including \$5.5 million in Research and Development, which was up 18% on prior corresponding period.

Operating profit before tax was \$11.0 million compared with \$3.7 million in the prior corresponding period and \$1.9 million in prior half.

Cash balance of \$71.3 million as at 31 December 2018, up \$1.8 million compared with 30 June 2018. This provides a strong balance sheet to support the Company's long term growth strategy.

Free cash flow for the half was \$1.6 million compared with \$3.9 million in prior corresponding period and \$3.9 million in prior half. Cash flow for the half year was impacted by an increase in inventory of \$3.2 million associated with the launch of trophon2 and an increase in trade and other receivables of \$5.0 million due to realigning payment terms with a key distributor with our standard payment terms and the timing of invoicing/payments by that distributor.

## **BUSINESS OUTLOOK**

"The Company's strategic growth agenda continues to be focussed on three core areas:

1. Establish the trophon technology as the standard of care in those markets where trophon is already represented;
2. Expand into new markets as fundamentals for adoption strengthen with the release of new guidelines; and
3. Develop new products focussing on unmet needs in infection prevention.

"From July 2019, our distribution agreement with GE Healthcare in the USA will change to a Capital Reseller model. This change will result in a material increase during FY20 in both sales and margin from consumables in North America.

"Our guidance for FY19 has not changed materially from that provided at the beginning of the year. Accordingly, Nanosonics expects:

- Continued growth in installed base in North America with FY19 adoption similar to FY18.
- Upgrades/replacements of trophon EPR units over five years old to commence in FY19.
- Adoption in Europe to grow with:
  - Ongoing strong adoption in the UK, where new unit growth is targeted to be in the vicinity of 50% over FY18, of which the majority will be under MES;
  - New guidelines in Germany as well as launch of trophon2 to trigger broader adoption; and
  - New guidelines to be released in France by the Ministry of Health.
- Second clinical study in Japan to be completed by end of FY19. Pre-marketing activities to continue and regulatory approval of trophon2 in Japan expected by the end of FY19.
- Active investment in growth with total FY19 operating expenses expected to be approximately \$50 million including approximately \$12 million in R&D, with the majority of that R&D expense directed towards new product development.

“Beyond FY19 we expect:

- Continued growth in trophon installed base in all core markets as new guidelines continue to be released and the requirements for HLD of all semi-critical probes is understood and followed.
- Further expansion into new markets.
- Continued investment in R&D where we are building a pipeline of new potential product opportunities with a goal of introducing a range of new products over time commencing with the first by the end of FY20 (subject to regulatory approval).
- Ongoing investment in infrastructure, people and capability to drive strategic growth agenda.”

**Michael Kavanagh**  
**CEO / President**

**Investor conference call**

Investors are invited to join a conference call hosted by Michael Kavanagh, CEO and President and McGregor Grant, CFO at **11.00am AEDT on Monday 25 February 2019**.

To pre-register for the call with a diary note sent to you, [Click Here](#). Otherwise, please dial in at the scheduled time using the details below.

**Conference ID: 645114**

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|-----------------------------------------------------|----------------------|
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**For more information please contact:**

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**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](http://www.nanosonics.com.au)