

Nanosonics Limited

2020 Annual General Meeting

Chairman's and CEO & President's Address

24 November 2020

Maurie Stang – Chairman



Good morning ladies and gentlemen. My name is Maurie Stang, and it's my pleasure to welcome you to the Nanosonics 2020 Annual General Meeting. Whilst this is our first virtual AGM I can assure you in reality, your Company continues to make outstanding progress during some of the most challenging times we have known.

Foremost in our priorities has been ensuring the wellbeing and safety of our global team whilst delivering to our customers and partners products, service and support seamlessly. As we progress into FY21, notwithstanding our customers facing challenges in various markets, we are now seeing some very encouraging indicators that underscore our belief in the fundamentals of this business.

During this unprecedented year, Nanosonics has continued to grow the installed base of trophon, whilst significantly expanding our investment in research and development programs directed at addressing new and innovative solutions aimed at multiple vectors of infection prevention, consistent with our commitment of 'infection prevention for life'. Nanosonics is leveraging its proven success, expertise and resources in positioning itself as the trusted emerging leader in infection prevention globally.



Every dimension of our activities is consistent with our core mission to improve the safety of patients, staff and health care facilities, all in the context of enhanced occupational health and safety and a positive environmental impact.

People & Culture / Values

Nanosonics' growth and success continues to be driven by our people, our culture, our leadership team and the efforts of our Board.

On behalf of all our stakeholders, I wish to recognise the outstanding efforts of the Nanosonics' team who responded to the challenges of the COVID-19 pandemic. Not only implementing programs to protect the safety of our own people, but via innovation and determination ensuring uninterrupted customer support and continuity of supply.

I am proud to see the Company's values that are driving our ongoing success through "Collaboration, Innovation, Discipline, Agility and the Will to Win", I am confident of a bright future and a Nanosonics team that is already pioneering new standards of infection prevention and enhanced clinical workflow.

People and culture are critical to our success and Nanosonics continues to attract people of outstanding calibre and commitment. To that end, I am pleased to have welcomed during the year our new Chief People & Culture Officer, Jodi Sampson. Jodi brings a wealth of experience to this core function.

Global reach



We now have a global presence in 27 countries, either through direct operations or via distribution partners. Nanosonics has its own offices throughout the world in countries including Australia, the United States, the United Kingdom, Japan, France and Germany with OEM and trade distributors selling our products in many more countries. I am pleased to report we are additionally focusing on a number of new markets, particularly in South East Asia as part of our ongoing geographical expansion.

Opportunity

There are a number of drivers, including COVID-19, creating accelerating demand for infection prevention solutions globally and your Company is strongly aligned with customers, thought leaders and infection control societies around the world in identifying new infection prevention solutions as part of our product expansion strategy. As we have consistently outlined, we anticipate ongoing growth in the trophon ecosystem. We firmly believe that leveraging our skills into the broader infection prevention market will be our growth engine and significant investment is being made in our R&D program as well as new initiatives under a dedicated group to identify and assess strategic acquisition opportunities across all vectors of infection.

Key FY20 highlights

The first half of FY20 demonstrated real momentum across the spectrum of our commercial and technical activities. The second half saw a significant impact on our customers and their priorities, however, the Nanosonics' team responded in a highly focused manner by moving

to online support and working with our customers in a variety of innovative models suiting their needs and adapting to any lockdown cycles that they may have been experiencing. We are pleased to report that this effort has demonstrated that sales of Consumables by Nanosonics have now increased to levels similar to pre-COVID levels of demand and the variety of models under which our Capital equipment can be accessed is also demonstrating improved trend-lines.



In the US, our largest market, we are in over 5,000 hospitals and healthcare facilities, including all of the top 100 hospitals. Globally, in FY20, the trophon installed base grew 13 percent and by the end of June there were 23,720 units performing approximately 78,000 daily cycles. That means 78,000 people are protected from the risk of cross contamination every day by trophon.

During the year, despite the pandemic, sales increased 19% to \$100.1 million and the Company returned another positive profit before tax outcome of \$12.4 million whilst making a significant increase in investment in our in our strategic growth agenda.

Recently Nanosonics received a landmark upgrade order for supply to I-Med Imaging Group, one of the world's largest radiology networks, for well over 200 trophon2 systems, representing not only a powerful endorsement of our road map and new traceability technology but also ensuring an ongoing strategic relationship well into the future.

R&D



I am pleased to report that Nanosonics is accelerating its investment in its product expansion agenda with over \$15 million invested in FY20 with programs covering a number of vectors of infection prevention. Nanosonics' Investments is a new subsidiary of the business and represents a highly disciplined new dimension of the Company firmly aligned with our core businesses but recognising that innovation can literally occur anywhere. It is in the interest of our shareholders to combine rapid organic growth with world class R&D yet with an openness to access disruptive technology wherever it may be.

NAN Investments is not a VC but rather an internally targeted sourcing of transformational and disruptive technologies which may be either acquired, in-licensed or indeed out-licensed.

It has already identified and assessed a number of opportunities and aims to continue to build the pipeline of opportunities for ongoing assessment. The identification of opportunities provides a window into the broader global activities within our sector and all are assessed in strict alignment with our internal priorities.

ESG and Diversity



Nanosonics was founded on a belief that environmental, social and governance were core to our mission and our future success. This year I am pleased to see ESG being highlighted in a standalone report which showcases our approach to caring for our employees and customers, the broader community and the environment. I am particularly proud to note the strong diversity outcomes across the Company and we recognise the value and creativity this brings to our forwarding-looking business.

Nanosonics has successfully delivered on its diversity programme whilst focusing on capability, merit and experience without compromise. In terms of gender diversity, at June 30, women represented 41 percent of the Nanosonics workforce, with 32 percent in senior management positions and 29 percent at Board level. We are actively driving our diversity programme by recognising the benefits of proactively achieving gender representation across all levels of the organisation.

We continue to recognise and respect our social licence and have an active programme of community contributions.

Capital Management



Nanosonics has successfully generated increased capital reserves whilst accelerating its investment in people, R&D and our global footprint. Your Company intends to pursue an active growth agenda and believes the opportunities are both significant and addressable. Whilst we are mindful of the uncertain times they reinforce more than ever the need for and the role of infection prevention in every aspect of healthcare delivery.

Our Board and management are actively engaged in reviewing our priorities, and indeed setting stretch objectives. Our capital reserves and free cash flow provide both an increased

capability for strategic investment, together with a meaningful risk mitigation in the case of challenges like the world is now experiencing. As a growth company we believe this is not only consistent with building shareholder value but in fact is a strong competitive advantage.

The Board continually reviews our capital management strategy and our cash reserves at the end of June were \$91.8m and we believe are best applied to supporting our growth agenda.

Board



I'm truly appreciative of not only the outstanding calibre and contribution of our Board but also the fact that each of our members brings unique and valuable skills to not only the Board activities but, indeed, through a series of sub-committees. The Directors enjoy a productive and seamless relationship with our Executive team in virtually every aspect of Nanosonics' agenda. Each of our Board members shares a passion for the future of this Company which is core to our culture.

In December 2019 we appointed a new director, Dr Lisa McIntyre, to further enhance the Board's capability. Dr McIntyre brings significant healthcare and commercial experience together with a commendable scientific insight, and has already contributed significantly to the Board and the business.

Conclusion



It is no coincidence that Nanosonics as a company is highly regarded in the capital markets, the healthcare industry and by our employees and partners. This reflects not only on our DNA but also on our senior leadership team led by our CEO, Michael Kavanagh. The business has shown a commendable resilience and agility when responding to the impacts of the pandemic and our team have excelled in spite of the most uncertain conditions we have seen in our lifetime.

Importantly Nanosonics has its eyes firmly on the future with an outstanding team, proven capability in every dimension of the business, and a deep and enduring partnership with its

customers, distributors and OEMs worldwide. This is firmly supported by annuity revenue, a strong installed base and market share, and without doubt a will and commitment to win.

All of this would be impossible without the supportive relationship of our investors, brokers and analysts, board members and above all team Nanosonics.

Nanosonics is firmly committed to the principles of ESG and in fact our commitment to the environment, society and governance are the beginning rather than the end of the Nanosonics journey. We firmly believe that making money for our shareholders will continue to be a direct consequence of prioritising exceptional technology and a focus on improved healthcare outcomes for our customers and their patients worldwide.

I would now like to invite the Company's CEO and President, Mr Michael Kavanagh to deliver his presentation. Michael had been a non-Executive Board member and has now overseen a period of outstanding expansion for seven years.

END

Michael Kavanagh's CEO & President's Address



Thank you very much Maurie, and a very good morning ladies and gentlemen.

Before I provide a review and update on our business, I would first of all like to acknowledge all the infection preventionists and front line workers globally for their tireless efforts in managing the COVID-19 situation. I would also like to acknowledge every Nanosonics employee around the world for their resilience, flexibility, dedication and customer focus during what has been an unprecedented year.

As I explained in our 2020 annual report, the 2020 financial year was another year of significant achievement and progress with many important milestones achieved against our strategic growth agenda. What I will cover this morning is a review of our FY20 performance and a brief update based on the first 4 months of trading for this financial year. Before doing that however it is worth highlighting the core elements of our strategic growth agenda so the progress of the business can be reviewed in the context of our growth strategy.



Despite the impacts of COVID-19, our growth strategy has not changed. Now more than ever infection prevention is of paramount importance not just within the medical community but the community generally. Indeed, the COVID-19 pandemic has increased our resolve to execute on our strategy.

There are four key strategic priorities your organisation continues to execute on.

1. The first is our work to **Establish our trophon technology as Standard of Care** for ultrasound reprocessing. This includes active sales in countries where the fundamentals for adoption for trophon are strong through mandates and guidelines for high level disinfection as well as supporting the establishment of international guidelines in those countries where the fundamentals for adoption are weak. What is very encouraging is that more and more countries are releasing guidelines as awareness grows about the risk of cross contamination through ultrasound probes.
2. The second aspect of our strategy is to **Expand our Geographical footprint**. The major focus for expansion is across the EMEA region as well as Asia Pacific.
3. The third part of our growth strategy is **Product Expansion** and continuing to invest in building our internal R&D capability and efforts, as well as separate business development activities to assess potential strategic acquisitions or investments in early stage technologies in infection prevention.
4. Finally to enable the first 3 priorities our fourth focus is **Investing to Grow** across all aspects of the business whilst maintaining a strong financial position to be able to continue to invest as well as ensuring the organisation delivers operational efficiencies with the ability to scale and leverage.

Taking each of these priorities in turn:

First of all: **Establishing trophon as Standard of Care.**



A quick reminder of the trophon technology and its value proposition. This image shows a trophon in the clinical setting which is an important aspect of its value proposition i.e. can be used at point of care as it is an enclosed system. Importantly, trophon2, which now makes up almost 100% of trophon sales, delivers an advanced user experience through automation, greater workflow efficiencies and advanced traceability functions all of which are very important to the end user. In addition, the technology is also environmentally friendly with the only by product of a disinfection cycle being water and oxygen.



The strong value proposition of trophon resulted in the overall installed base growing by 13% in FY20 to 23,720 units with growth experienced across all regions.

When reviewing the performance of the business in FY20, it is important to look at the performance across two periods, namely:

- the first three quarters which were really the pre-COVID period; and
- the fourth quarter where COVID-19 had its biggest impact across the business and the market in general.

The performance of the business in the first 3 quarters of FY20 demonstrated the business' excellent underlying growth momentum:

- In North America, based on the performance in the first three quarters and our forecast for the last quarter, the business was on track to deliver a similar number of new trophon installations as we achieved in FY19 being approximately 3,000 units.
- In the Europe/ Middle East region the number of new units installed was up 37% on prior corresponding period showing excellent growth momentum due to our expansion investments made.
- The number of new units installed in Asia Pacific was up 56% vs prior corresponding period reflecting ongoing growth in the region.

So overall in the pre COVID period the business was performing very well.

In the fourth quarter however due to COVID-19 related lock downs, limited access to hospitals together with various hospital department shut downs, the actual number of new units installed in that quarter were 46% lower than the prior corresponding period.

We certainly do not believe that COVID-19 has negatively impacted the underlying fundamentals for the business and indeed the COVID-19 impacts experienced in the fourth quarter of FY20 have significantly reversed in the first 4 months of FY21 which I will cover off in more detail a bit later albeit acknowledging there are still significant uncertainties out in the market.

SIGNIFICANT GLOBAL MARKET OPPORTUNITY



From a standard of care perspective, globally there is still a very large opportunity for trophon with current market penetration of the Global Total Addressable Market at approximately 20% based on current internal estimates. The penetration profile by region is quite different and is correlated to the strength of the fundamentals for adoption for each region or country in particular the stage they are at with respect to the implementation and adoption of guidelines and mandates for high level disinfection.

In North America, the fundamentals for adoption remain strong and by the end of FY20 trophon had reached 52% of the market potential (based on current internal estimates). Indeed it is telling that trophon can now be found in over 5,000 institutions with every luminary hospital system adopting trophon. This is an outstanding achievement and rate of growth in the largest market in the world.

In the EMEA region, different countries are at different stages in terms of the strength of the fundamentals for adoption with the UK being most advanced. The overall penetration for the region is only at 3% which highlights a great opportunity. However, in the UK where guidelines supporting the High Level Disinfection of ultrasound probes now exist, the penetration is at approximately 16%.

As the fundamentals for adoption continue to strengthen and new guidelines get released across Europe, we expect to experience ongoing positive growth momentum. This was the case in the first 3 quarters of FY20 where the number of new installed base was up 37% on prior corresponding period and involved new installed base across many new countries.

In Asia Pacific our sales are primarily in Australia and NZ and in both these countries the fundamentals for adoption are strong and trophon can be considered standard of care with over 70% penetration (based on current internal estimates). Our focus in this region is for geographical expansion especially into Japan and ultimately into China and South East Asia.

This is a good segue into our second Strategic Priority which is to **Expand our Geographic Footprint**.



Nanosonics now distributes trophon in 27 countries either through direct operations or distributor partners. In FY20 there was a major focus on expanding our footprint and increasing our infrastructure across the EMEA region. As already mentioned, this resulted in positive growth momentum in the first 3 quarters of FY20 with new IB up 37% on PCP prior to the major implications of COVID-19. For the first four months of FY21, growth has now resumed in the EMEA region with new IB up 19% on prior corresponding period.

In Asia Pacific, our main expansion focus has been on Japan. Counterintuitively, Japan does not have requirements in place for the high level disinfection of ultrasound probes.

Working with the various societies and authorities is a major focus for the business and we have conducted local trials that demonstrated that over 90% of the probes tested were contaminated and over 50% of that contamination was pathogenic i.e. can cause disease.

This study has now been published in Japan and we continue to work with the authorities for the development and implementation of local guidelines. It was encouraging to see that in June, the Japanese Society of Ultrasound in Medicine did publish a Japanese translated version of the World Federation in Ultrasound in Medicine and Biology (WFUMB) which is a document that recommends high level disinfection of ultrasound probes.

We now have five distributor partners in Japan as well as a Nanosonics local sales and clinical infrastructure to support those distributors. Current focus is on education and awareness building with a number of clinics commencing adoption.

Recently we received regulatory approval for trophon2 in Indonesia and Thailand and are currently working through the process for seeking regulatory approval in China.

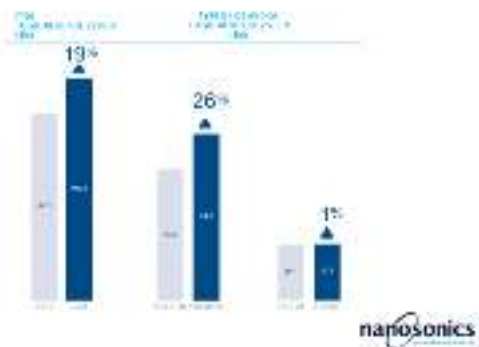
Before moving onto Product Expansion, I'll provide a quick overview of the FY20 financial performance in the context of the installed base growth and geographical expansion.

TOTAL REVENUE

Total Revenue
up 19% to
\$100.1m

19% is the first time in history of this sector among global manufacturers and suppliers of dental services to exceed 10% year-on-year growth.

Q4 Revenue of \$25.2 million was also the first time in the company's history that revenue in the fourth quarter exceeded the revenue in the third quarter. This is due to the impact of COVID-19 on the dental industry and a reduction in the number of dental procedures performed in the period.



Overall for the FY20 year, total revenue was up 19% to \$100.1 million. Again the first 3 quarters showed excellent results with total revenue up 26% compared with the prior corresponding period but in the fourth quarter period where the impacts of COVID-19 were felt, revenue was flat compared to the prior corresponding period.

TOTAL REVENUE BY REGION



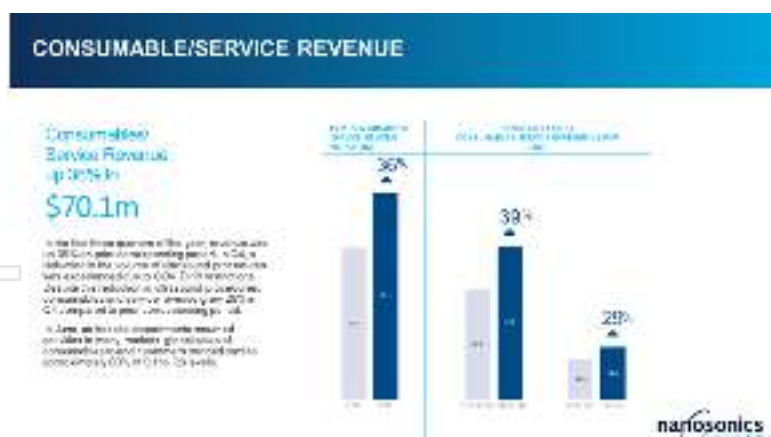
Breaking the revenue down by region, as was the case with Installed Base growth, there was very strong revenue growth across the 3 regions in the first three quarters with North America up 25%, EMEA up 43% and Asia Pacific up 27%. This demonstrated very positive growth momentum pre COVID-19 and in Q4 this momentum was impacted with North America essentially flat, EMEA dropping to 20% growth and Asia Pacific down 10% on prior corresponding period.

Splitting the revenue out by Capital and Consumable:



While unit sales of Capital to end customers increased during the year as demonstrated by the installed base growth, overall Capital revenue decreased 9% to \$30 million. This reduction in revenue reflects:

- A reduction in the number of units purchased by GE Healthcare in North America compared with the prior corresponding period. This reduction can be explained by significant destocking of the trophon EPR by GE in the second half of FY18 which was a result of the earlier than anticipated FDA approval of trophon2 during that second half and the fact we did not launch until early FY19 when GE subsequently restocked their Capital inventory with trophon2.
- A delay in Capital sales to customers during Q4 for FY20 due to COVID-19 also had an impact on Capital revenue.



For Consumables & Service, revenue was up 36% for the year to \$70.1 million with the first 3 quarters up 39%. In the last quarter of FY20, a reduction in the volume of ultrasound procedures was experienced due to a range of COVID-19 restrictions. Despite the reduction in procedural volumes, Consumables & Service revenue was up 29% on prior corresponding period primarily due to the increase in Consumables price to GE Healthcare as part of the new contract as well as the growth in the installed base in the first three quarters of the year. While a reduction in procedural volume was experienced, especially in April and May, this commenced to recover to approximately 80% of pre-COVID levels by

the end of June as hospital departments resumed their clinical procedures. This recovery has continued into FY21.

I will now move on to the third component of our growth strategy: **Product Expansion**.



Your organisation continues to invest in Research & Development with \$15.6 million invested in FY20 and plans for further growth in FY21. Our R&D team, led by Dr. Steve Farrugia, is now more than 70 people strong spanning capabilities across Microbiology, Chemistry, Mechanical, Electrical, Systems and Software engineering as well as advanced prototyping capability.

Our areas of R&D interest span 5 core areas being Instrument Cleaning, Instrument Disinfection, Storage Solutions, Environmental Decontamination and Compliance and Traceability.

With respect to our lead product currently in development, a significant component of our R&D investment together with regulatory, clinical and commercialisation resources are focussed on that project. We remain confident in the opportunity for this product as the unmet need is unchanged and continues to remain significant.

As Maurie mentioned, as part of our product expansion strategy we need to recognise that innovation can occur anywhere and it is in our interest to be open to access disruptive technology externally in addition to our growing internal R&D efforts.

As such, as capabilities within the business have expanded, in addition to our internal R&D efforts, a new business development function was established. Under the umbrella of a new investment subsidiary, this new function is 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. The scope of activities in this group spread across the Technology Readiness Level (TRL) spectrum from early stage technology right through to products ready for or already commercialised where an appropriate screening process is applied.

The activities within this group are separate and therefore non-dilutive in terms of effort and focus to our underlying trophon business and internal R&D efforts. There is oversight of the

activities of this group by a separate management committee as well as by the Board of Directors and R&D sub Committee of the Board.

Our final growth priority focuses on our **overall investment strategy**.

Now more than ever infection prevention is critically important and has gained prominence and we believe there are significant opportunities in the infection prevention space especially across the five core focus areas identified earlier for our R&D focus.



Nanosonics is in a strong position, both from a capability perspective as well as financial perspective, to continue to invest strongly in our growth. The business has positive free cash flow and at the end of June the business had a strong balance sheet allowing us to make ongoing investments.



In FY20 the business operating expenses increased 28% to \$63.2 million reflecting increased investment in our European operations, geographical expansion activities as well as over \$15 million in R&D. For FY21 we expect our total operating expense to be in the range of \$75 to \$78 million as we continue to make investments in our growth strategy.

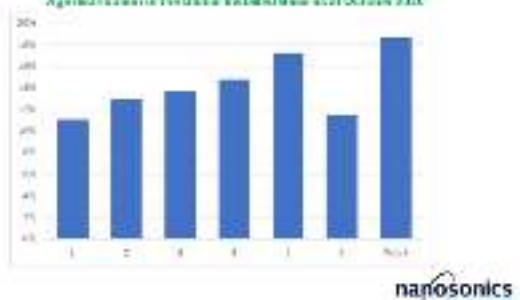
Before I provide a brief trading update for the first 4 months of this financial year a few comments on the upgrade opportunity with trophon2.

UPGRADE OPPORTUNITY

Upgrade 7+ years from installation

Significant upgrade opportunity continues to emerge as existing installed base ages and new generation devices are introduced into the market.

Age distribution of the Global installed Base as of October 2020



Significant upgrade opportunity continues to emerge as the existing installed base ages and importantly as trophon2 and the benefits this brings to customers becomes more established. Currently over 18% of the global installed base is 7+ years of age. While our primary focus is on continuing to grow new installed base we are now seeing upgrades coming through. As announced on Friday, the I-MED Radiology Network has signed an agreement to upgrade their entire fleet of over 200 trophon EPRs to the new trophon2.

I-MED is Australia's largest and one of the world's most respected imaging specialist groups. This is a great testament to the benefits trophon2 brings to existing customers through enhanced clinical workflow as well as full traceability for ultrasound probe decontamination.

FY21 Trading Update



While the business world continues to operate with considerable uncertainty due to the impacts of COVID-19, the first 4 months of FY21 have been encouraging for Nanosonics.

During the second wave of COVID-19 in North America, we have observed that hospitals in that region appear better equipped to manage the impact of the pandemic. Accordingly, ultrasound procedure volumes requiring High Level Disinfection were not impacted to the same degree as we experienced in the first wave. However, this does not guarantee that future waves will follow the same pattern in North America or other regions.

Purchases of Consumables (Sonex/NanoNebulant) by end customers continued to recover in the first four months of FY21 as hospital departments reopened and ultrasound procedure volumes increased towards pre Q4 FY20 levels. Unit purchases of Consumables by end customers in the first four months of FY21 were up 4% compared with prior corresponding period being the four months from July to end October.

Purchases of Consumables by end customers were also up 25% compared with the last four months of FY20, which was the peak impact period associated with the first wave of COVID-19.

Improvements in access to hospitals together with remote customer engagement resulted in a positive recovery in the number of new trophon units installed in the first four months of the year compared with the last four months of FY20. The number of new trophon units installed globally was up 16% in the first four months of FY21 compared with the last four months of FY20. This recovery was experienced in both North America, which was up 14% and EMEA, which was up 64%.

Importantly, in the first four months of FY21, the number of new units installed globally reached 91% of prior corresponding period, with North America at 90% and EMEA at 119%.

In light of the recovery of new installed base growth in the first 4 months of FY21, GE Healthcare in North America will resume their purchasing of Capital equipment by end of the first half given their inventory levels have reduced.

Despite ongoing periods of uncertainty we remain optimistic about the future and investments in our growth agenda continue across the business. We also remain

committed to doing everything we can as an infection prevention company to support all of our customers during these unprecedented times.

Finally, and importantly, I would like to thank you, our shareholders. Over the last five years, shareholder value has grown at a Compound Annual Growth Rate of 32%. In the 12 months to 30 June 2020, the share price of Nanosonics increased 21%.

We very much appreciate the trust and confidence that our shareholders continue to have in the Company to deliver on our long term growth strategy.

I will now hand back to our Chairman, Maurie Stang.

END