

## AROA BIOSURGERY MARCH 2021 4C – COMMENTARY

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### HIGHLIGHTS

- H2 FY21 product revenues (unaudited) grew 16% on H2FY20 to \$13.8m on a constant currency basis (i.e. eliminating impact of exchange rate fluctuations).
  - FY21 full year product revenue was \$21.5m, exceeding the Company's forecast of \$21.0m. Total revenue (unaudited) of \$22.3m for FY21.
  - Based on H2 FY21, product revenues are already at a run rate of greater than \$25.0m p.a – the Company expects to deliver growth in FY22 (from FY21) with continued improvement in access to hospitals, improving economic conditions and the benefit of the fast-paced US vaccine roll-out.
  - Cash outflow from operations was modest for the March quarter at NZ\$0.7 million, in line with Aroa's internal budget. Cash on hand of NZ\$35.4 million as at 31 March 2021.
  - Successful transition from joint sales operation (Appulse) accompanied by expansion in the direct field sales team from 5 to 20 persons and growth in the inside sales team.
  - FDA clearance received for new Myriad Morcells™ product, immediately followed by commercial launch in the US.
  - Pilot study indicates benefits of Aroa's Myriad Matrix™ in surgical reconstruction of chronic wounds.
  - Aroa added to the S&P/ASX All Ordinaries Index.
  - The Company will host a webinar to discuss the results this morning at 11.00am AEST, registration is available [here](#).
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Soft tissue regeneration company Aroa Biosurgery Limited (ASX:ARX, 'Aroa' or the 'Company') is pleased to provide an update on its activities for the quarter ended 31 March 2021.

### Financial commentary

Aroa continued to see an improvement in product sales in the March quarter, realizing full year FY21 product revenues of \$21.5m (unaudited), despite foreign exchange (FX) headwinds and a COVID-19 surge in the United States ("US") in January. On a constant currency basis to FY20 (i.e. when eliminating the impact of USD vs NZD exchange rate fluctuations), H2 FY21 product revenues were \$13.8m, representing growth 16% on H2 FY20. With product revenues now at a run rate of greater than \$25.0m per annum (based on H2 FY21), FY22 is expected to deliver growth compared with FY21.

Cash receipts for Q4 FY21 (NZ\$5.8 million) were higher than Q3 (NZ\$5.2 million), reflecting the continued improvement in sales over the course of the December and March quarters.

Cash outflow from operations for the March quarter remained modest at NZ\$0.7 million, in line with Aroa's internal budget, ending the quarter with cash on hand of NZ\$35.4 million.

In accordance with ASX Listing Rule 4.7C.3, Aroa advises that an aggregate amount of NZ\$102k was paid during the quarter to Aroa's five Non-Executive Directors in payment of their director fees.

Appendix A provides a summary of actual expenditure, compared to the estimated use of funds set out in Aroa's IPO Prospectus, in accordance with ASX Listing Rule 4.7C. Cash expenditure is consistent with the use of funds set out in that Prospectus.

### Aroa expands fully dedicated US field sales team

In February, Aroa announced it would expand its direct sales capability and capacity in the US market and dissolve its Appulse joint venture. Appulse, was an unincorporated joint venture arrangement which Aroa entered into with Hydrofera, LLC in April 2018, to transition sales and marketing activities away from Hollister Inc in the US and Canada. It had been Aroa's primary channel for selling Endoform™ products to hospital-associated wound centres and home care in the US. Aroa's arrangements with TELA Bio Inc. were unaffected by the Appulse dissolution.

Aroa now has 20 fully dedicated field sales representatives, as well as an inside sales team of 8. This is compared to a half share of the joint venture team of 21. Aroa has also expanded its digital marketing activities.

## FDA clearance for Myriad Morcells™

Subsequent to the end of the period, Aroa announced it had received US FDA 510(k) clearance for Myriad Morcells™, a powder format of Myriad Matrix™ that easily conforms to optimize contact with irregular wound beds.

Myriad Morcells™ delivers a bolus of biologically important extracellular matrix (ECM) proteins known to 'kick start' healing in a format that conforms to the intricacies of a wound. The new product, which is not indicated for implantation, is provided in a tray for hydration, mixing, and pouring and can be combined with Myriad Matrix™ for rapid and sustained delivery of biological components important during tissue regeneration.

Myriad Matrix™ is a highly perforated, multi-layered ECM graft engineered to have a high volume and surface area with interstitial spaces that are easily and rapidly accessible to cells. It takes advantage of the Aroa ECM™ bioscaffold technology, including important secondary molecules and residual vascular channels to support new tissue growth. Myriad Matrix™ enables rapid vascularization and helps build new tissue, which may lead to faster healing, recovery and hospital discharge. Earlier pre-clinical studies have shown that the Aroa ECM™ technology includes over 150 different components known to aid wound repair, blood vessel formation and attract stem cells.

Aroa received FDA 510(k) clearance for Myriad Matrix™ in June 2017, which led to first sales in early 2020 with a total estimated market size for the product globally of US\$350 million. In late July 2020, it was approved for commercial use in the European Union by European notified body DEKRA Certification B.V.

## Positive pilot study results for Myriad Matrix™

In February, Aroa gained further validation for soft tissue reconstruction device Myriad Matrix™, with a new pilot study indicating that it may be used successfully under a tissue flap to reduce surgical complications in the reconstruction of challenging, non-healing chronic wounds.

The findings were published in journal *Frontiers of Surgery*, in an article titled "Case Report: Surgical Closure of Chronic Soft Tissue Defects Using Extracellular Matrix Graft Augmented Tissue Flaps". It was based on a pilot study undertaken by plastic surgeon Dr Michael Desvigne (MD) and colleagues from Abrazo Arrowhead Hospital in Phoenix, Arizona.

The pilot study saw a total of nine non-healing wounds, including those caused by pressure injuries and surgical wounds, reconstructed using Aroa's Myriad Matrix™ device as an implant under a soft tissue flap. Only one minor surgical complication was observed, and all wounds went on to fully heal, even when Myriad Matrix™ was used in a contaminated field. By contrast, a retrospective review of the flap reconstruction of chronic pressure injuries reported a complication rate of 58%.

The study can be found online at <https://www.frontiersin.org/articles/10.3389/fsurg.2020.559450/full>.

The pilot study included the surgical closure of three pressure injuries, which are estimated to affect 1 to 3 million people in the USA, with prevalence estimates among hospitalized patients ranging from 5% to 15%.<sup>1</sup>

The positive findings follow recently announced studies demonstrating the efficacy of Myriad™ in the surgical treatment of the high-incidence inflammatory skin condition Hidradenitis Suppurativa (HS), and exposed vital structures.

<sup>1</sup> Mondragon N, Zito PM. Pressure Injury. [Updated 2020 Sep 29]. In: StatPearls [Internet]. Treasure Island (FL): StatPearls Publishing; 2020 Jan-. Available from: <https://www.ncbi.nlm.nih.gov/books/NBK557868/>

## Quarterly Webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Wednesday 28 April 2021 at 11:00am AEST, to discuss the March 2021 Quarterly Results released to the ASX this morning.

Investors can register for the webinar via the following link:

[https://us02web.zoom.us/webinar/register/WN\\_Zz7P61uSRHmoXhFE1bb5iA](https://us02web.zoom.us/webinar/register/WN_Zz7P61uSRHmoXhFE1bb5iA)

Investors can submit questions prior to the webinar to [shinsley@aroabio.com](mailto:shinsley@aroabio.com) or do so via the Q&A function on Zoom.

## Aroa added to the S&P/ASX All Ordinaries

In a quarterly rebalance of the S&P/ASX indices, announced on 12 March 2021, Aroa was added to the All Ordinaries index, effective 22 March 2021.

## Investor Relations

Aroa CEO Brian Ward presented at the NWR Communications' Virtual Investor Conference on 18 March 2021.

A replay of the presentation can be viewed at: <https://youtu.be/RXiORAX1MGM>

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

### About Aroa Biosurgery:

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. Clinically proven with peer reviewed publications, Aroa's products have been used in more than four 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/](http://www.aroabio.com/)

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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	\$1.8	36%	1
Investment in additional manufacturing capacity, investment in new products, plant and equipment and other general corporate capital expenditure	\$5.0	\$0.8	16%	2
Working capital, other operating costs	\$5.0	\$2.1	42%	3
Repayment of borrowings	\$13.1	\$0.0	0%	4
Offer costs	\$3.8	\$3.9	104%	5
<b>Total</b>	<b>\$31.9</b>	<b>\$8.6</b>	<b>27%</b>	

Notes:

1. Commencement of new sales and marketing initiatives including the hire of over 20 direct sales personnel in Q4 FY21.
2. Preliminary costs of manufacturing expansion in H2 FY21.
3. Net operating cash outflows for Q2, Q3 & Q4 FY21, excluding cash outflows relating to the investment in sales & marketing.
4. Maturing 31 March 2022. Remains unchanged from Q3 FY21.
5. Includes cash outflows prior to IPO. Remains unchanged from Q3 FY21.

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

#### Name of entity

Aroa Biosurgery Limited

#### ABN

ARBN 638 867 473

#### Quarter ended ("current quarter")

31 March 2021

Consolidated statement of cash flows	Current quarter \$NZ'000	Year to date (12 months) \$NZ'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers *	5,799	21,117
1.2 Payments for		
(a) research and development	(317)	(1,414)
(b) product manufacturing and operating costs	(599)	(3,394)
(c) advertising and marketing *	(1,605)	(6,788)
(d) leased assets	(3)	(16)
(e) staff costs	(3,710)	(11,795)
(f) administration and corporate costs	(733)	(4,436)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	129	134
1.5 Interest and other costs of finance paid	-	(854)
1.6 Income taxes paid	(60)	231
1.7 Government grants and tax incentives	346	2,318
1.8 Other (rent received)	40	143
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(713)</b>	<b>(4,754)</b>

\* In the December quarter report, 'Receipts from customers' and payments for administration and corporate costs were each overstated by NZ\$665k, due to a misclassification of a balance sheet movement (no impact on net cash from operating activities). The correction of this misclassification is reflected within year-to-date amounts.

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(477)	(1,259)

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Consolidated statement of cash flows		Current quarter \$NZ'000	Year to date (12 months) \$NZ'000
	(d) investments	-	-
	(e) intellectual property	(24)	(235)
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(501)</b>	<b>(1,494)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	85	32,674
3.2	Proceeds from issue of convertible debt securities	-	19,804
3.3	Proceeds from exercise of options	-	2,273
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(4,357)
3.5	Proceeds from borrowings	-	265
3.6	Repayment of borrowings	-	(12,600)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (lease liability payments)	(219)	(730)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(134)</b>	<b>37,329</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	36,815	3,850
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(713)	(4,754)

Consolidated statement of cash flows		Current quarter \$NZ'000	Year to date (12 months) \$NZ'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(501)	(1,494)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(134)	37,328
4.5	Effect of movement in exchange rates on cash held	(86)	451
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>35,381</b>	<b>35,381</b>

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$NZ'000	Previous quarter \$NZ'000
5.1	Bank balances	15,381	16,815
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits >90 days)	20,000	20,000
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>35,381</b>	<b>36,815</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$NZ'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	102
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

7. <b>Financing facilities</b>	<b>Total facility amount at quarter end \$NZ'000</b>	<b>Amount drawn at quarter end \$NZ'000</b>
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	11,278	9,952
7.2 Credit standby arrangements	458	110
7.3 Other (please specify)	-	-
<b>7.4 Total financing facilities</b>	<b>11,736</b>	<b>10,062</b>
<b>7.5 Unused financing facilities available at quarter end</b>		<b>1,674</b>
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
Includes the following: <ol style="list-style-type: none"> <li>1. an unsecured loan of NZ\$10.0m from Hollister Incorporated at 6.25% p.a. with a maturity date of 31 March 2022; and</li> <li>2. a secured facility of NZ\$1.3m with the Bank of New Zealand at 4.93% p.a., which remained undrawn as at 31 March 2021.</li> </ol>		

8. <b>Estimated cash available for future operating activities</b>	<b>\$NZ'000</b>
8.1 Net cash from / (used in) operating activities (item 1.9)	(713)
8.2 Cash and cash equivalents at quarter end (item 4.6)	35,381
8.3 Unused finance facilities available at quarter end (item 7.5)	1,674
8.4 Total available funding (item 8.2 + item 8.3)	37,055
<b>8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>52.0</b>
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	

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8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 April 2021.....

Authorised by: By the board.....  
(Name of body or officer authorising release – see note 4)

### Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.