

22 February 2022

Company Announcements Office
Australian Securities Exchange

Nanosonics 2022 half-year financial results

HIGHLIGHTS

- **Half year revenue of \$60.6 million, up 41% on prior corresponding period.**
- **Global installed base up 12% in last 12 months.**
- **Half year capital revenue of \$19.0 million, up 102% on prior corresponding period.**
- **Half year consumables and service revenue of \$41.6 million, up 23% on prior corresponding period.**
- **Continued investment in strategic growth agenda with operating expenses of \$42.7 million, up 29% on prior corresponding period.**
- **Operating profit before tax of \$3.3 million, compared with \$0.2 million in prior corresponding period.**
- **Free cash flow for the half year was a net outflow of \$3.8 million with Cash and cash equivalents of \$92.0 million at 31 December 2021.**
- **Continued investment in product expansion strategy with R&D investment of \$10.7 million, up 41% on prior corresponding period with development activities associated with the Company's new endoscope reprocessing product platform, Nanosonics Coris[®] continuing to progress.**

Nanosonics (ASX: NAN), a leader in infection prevention solutions, today announced its Appendix 4D Half Year Report for the half year ended 31 December 2021.

"The first half of the 2022 financial year has seen strong growth compared with the first half the 2021 financial year, which was materially impacted by COVID-19. Despite the significant and rapid increase in infections in the first half of FY22 associated with the Delta and more recently the Omicron variants and the associated impacts on hospital staff shortages and procedure volumes, the Company maintained the positive momentum achieved in the second half of FY21", said Michael Kavanagh, Nanosonics' Chief Executive Officer and President.

INSTALLED BASE GROWTH

The global installed base increased by 1,410 units to 28,160 units, an increase 12% over the last 12 months and 5% in the last 6 months. The increasing COVID-19 infection rates in the first half did result in a variety of restrictions in different markets at different times. However, the overall experience was a general improvement between Q1 & Q2 of FY22 with new installed base growth up 14% in Q2 over Q1.

In North America, the installed base increased 1,200 units in the first half to 24,680 in total representing a 12% increase in the last 12 months and 5% in the last 6 months. The North American installed base now represents approximately 41% of the estimated total addressable market of 60,000 units where trophon[®] is represented in over 5,000 institutions, further consolidating its position as the standard of care in the market.

In the Europe and Middle East region, the installed base increased 140 units in the half to 1,650 units, where the total installed base has grown 25% in the last 12 months and 9% in the last 6 months. The impact of the Delta and Omicron variants of COVID-19 on new installed base growth were particularly felt in the first quarter of the half where lockdowns and hospital restrictions were in place in the majority of the key markets. A significant recovery was experienced in the 2nd quarter as market restrictions eased with the majority of the first half new installed base achieved in the 2nd quarter.

In Asia Pacific, the installed base grew 70 units in the half to 1,830 units, where the total installed base has grown 10% in the last 12 months and 4% in the last 6 months. The COVID-19 restrictions were more pronounced in ANZ and Japan compared with other parts of the world throughout the first half with those restrictions now easing.

Upgrades

A significant opportunity for upgrades from the first generation trophon EPR to trophon2 exists, primarily in North America where approximately 7,000 trophon EPR units have reached at least seven years of age. 380 upgrades were sold in the first half which was a 124% increase over H2 of FY21, demonstrating good growth momentum.

FINANCIAL RESULTS

| \$ millions | FY22 H1 | FY21 H1 | Change % (vs H1 FY21) | FY21 H2 | Change % (vs H2 FY21) |
|---|-------------|-------------|--------------------------|-------------|--------------------------|
| Capital revenue | 19.0 | 9.4 | ▲ 102% | 17.3 | ▲ 10% |
| Consumable/Service revenue | 41.6 | 33.7 | ▲ 23% | 42.7 | ▼ -3% |
| Total revenue | 60.6 | 43.1 | ▲ 41% | 60.0 | ▲ 1% |
| Gross profit | 46.4 | 34.2 | ▲ 36% | 46.2 | ▲ 0% |
| % | 77% | 79% | | 77% | |
| Operating expenses | | | | | |
| Selling and general | (22.3) | (17.8) | ▲ 25% | (19.8) | ▲ 13% |
| Admin | (9.7) | (7.6) | ▲ 28% | (8.4) | ▲ 15% |
| Research and development | (10.7) | (7.6) | ▲ 41% | (9.6) | ▲ 11% |
| Other income | 0.1 | 0.0 | | 0.2 | ▼ -50% |
| Other (losses)/gains-net | (0.5) | (1.2) | ▲ 58% | 2.2 | ▼ -123% |
| Earnings before interest and tax | 3.4 | 0.0 | ▲ | 10.8 | ▼ -69% |
| Finance income (net) | (0.1) | 0.2 | ▼ -150% | 0.0 | ▼ -1% |
| Operating income before income tax | 3.3 | 0.2 | ▲ 1550% | 10.8 | ▼ -69% |
| Income tax benefit/(expense) | 0.6 | 1.3 | ▼ -54% | (3.7) | ▲ 116% |
| Profit after income tax | 3.9 | 1.5 | ▲ 160% | 7.1 | ▼ -45% |

Revenue

Total revenue for the half year was \$60.6 million, up 41% on the prior corresponding period (up 40% in constant currency¹). Capital revenue for the half was \$19.0 million which was up 102% on the prior corresponding period and up 10% compared with the prior half, reflecting new installed base as well as upgrade sales. Total revenue for consumables and service for the half was \$41.6 million which was up 23% on the prior corresponding period and down 3% compared with the prior half, reflecting some disruption on ultrasound procedure volumes associated with increasing infections rates from the Delta and Omicron variants of COVID-19 including hospital staff shortages in particular in North America.

North America

In North America, total revenue for the half was \$54.4 million, up 47% on prior corresponding period and up 4% compared with the prior half. Capital revenue for the half was \$17.4 million which was up 142% on prior corresponding period and up 23% compared with the prior half. This increase in capital revenue reflects the ongoing increase in new installed base and growth in the sale of upgrades. Revenue associated with consumables and service for the half was \$37.0 million which was up 25% on prior corresponding period and down 3% compared with the prior half.

The Company announced the launch of AuditPro™, a new infection prevention digital product platform for traceability, reporting and compliance at the Association for Professionals in Infection Control (APIC) at the end of June 2021 with subsequent customer introductions to the product in September 2021. First sales of the product have commenced with interest and pipeline continuing to grow. The Company is also working towards ISO27001 accreditation which is the internationally accepted standard for the management of information security which will further streamline customer security assessment requests as part of their AuditPro implementation.

Europe and Middle East

In Europe and Middle East, total revenue for the half was \$3.4 million which was down 6% on prior corresponding period and prior half. This reduction was primarily associated with a reduction in capital revenue due to the impact of the Delta and Omicron variants of COVID-19 on new installed base growth in particular in the first quarter of H1 FY22. New installed base numbers recovered significantly in the 2nd quarter with 79% of the first half new installed base being recorded in the 2nd quarter. Consumables and service revenue was \$2.6 million for the half, which was up 24% on prior corresponding period and up 8% compared with the prior half, with ultrasound procedure volumes not being significantly impacted throughout the half.

Asia Pacific

In Asia Pacific, total revenue for the half was \$2.9 million which was up 11% on prior corresponding period and down 29% compared with the prior half. It's important to note that a significant proportion of the prior half revenue was associated with a one-off sale of 200 trophon2 upgrade units. This is reflected in the capital revenue in the first half of \$0.9 million, which was up 29% on prior corresponding period where fewer upgrades were sold but down 55% compared with the prior half which include the 200 upgrade unit sale. Excluding upgrades, capital revenue in H1 FY22 was flat compared to the prior half. Revenue from consumables and service was \$2.0 million which was up 5% on prior corresponding period and down 5% compared with the prior half, reflecting the strict lockdown measures that were in place throughout the half in both ANZ and Japan.

Other financial results

Operating expenses for the half year totalled \$42.7 million, up 29% on prior corresponding period and up 13% compared with H2 FY21. In line with expectations, the increase was across all areas of the business directed towards expanding capability across all regions, as well as an increase in research and development expenditure.

Operating profit before income tax was \$3.3 million, compared with \$0.2 million in the prior corresponding period.

Total free cash flow for the half year was a net outflow \$3.8 million, driven mainly by capital expenditure associated with the new corporate headquarters.

As at 31 December 2021, cash and cash equivalents totalled \$92.0 million. The Company has no debt and its cash position continues to provide a strong foundation to support its growth plans.

RESEARCH AND DEVELOPMENT

During the half, Nanosonics continued to invest in its product expansion strategy. R&D investment was \$10.7 million, up 41% on prior corresponding period and up 11% compared with the prior half. Progress continues in the development activities² associated with the Company's new endoscope reprocessing product platform Nanosonics Coris®.

New corporate headquarters, R&D and manufacturing facility

The Company will move to a new global headquarters in the Macquarie Park, NSW precinct, during the second half of 2022. The move will result in a significant expansion of the Company's R&D capability with the establishment of new state of the art laboratories in microbiology, chemistry and engineering delivering a three-fold increase in capacity for ongoing research and development. A significant expansion of manufacturing capacity is also planned to support the growing global demand for trophon and the Company's expanding product portfolio. The move to the new global headquarters and establishment of the new R&D and manufacturing facility is being supported through the NSW Government's Jobs Plus Program, facilitated by Investment NSW.

TRANSITION TO REVISED SALES MODEL IN NORTH AMERICA

As announced on 8 February 2022, Nanosonics and GE are revising the current North American sales model effective from February through to the end of the current distribution agreement in June 2022. Discussions are also underway for a new reseller agreement that would come into effect from 1 July 2022 and be based on the revised sales model.

Under the revised North American sales model, GE will consume inventory and transition to a pass-through sales model for its ongoing sales of trophon. The revised model will see Nanosonics manage all inventory, ship, install and train the new GE trophon customers, which will become Nanosonics' customers for the ongoing provision of consumables. GE will also commence the transition of all existing GE trophon customers to Nanosonics for the ongoing provision of all consumables.

From FY23, in addition to 100% of the sales of consumables to be made by Nanosonics' direct operations, an increase in the proportion of new installed base and upgrades is expected to be made through the direct channel. Over time, this is expected to result in a corresponding increase in revenue and margin for the Company.

Nanosonics has the capability and experience to provide an end-to-end customer experience ensuring a smooth transition to the revised capital reseller / pass-through sales model and optimising the full opportunity for the trophon franchise. Transition plans are underway. Nanosonics has an extensive sales capability with twenty-one sales territories established across the United States with plans now in place to further expand this team. The Company also has a well-established and experienced logistics operation based in Indianapolis which will ensure continuity of supply to customers. The current logistics facility in Indianapolis is over 20,000 sq feet and increased warehouse capacity has already been implemented with the opportunity to expand capacity further, if required.

BUSINESS OUTLOOK – FY22

As announced on 8 February 2022, a revenue impact associated with the revised sales model in North America is expected in H2 FY22. The impact is expected to be in the range of \$13.0 million to \$16.0 million and primarily associated with GE transitioning from a stocking distributor to the new pass-through sales model.

Assuming the positive market recovery trends experienced in the second quarter of FY22, which have continued in January, in particular in North America and Europe for new installed base growth and consumables usage, we maintain double digit revenue growth expectations despite the FY22 H2 North American revenue impact of the revised North American sales model.

Gross profit margin is still expected to be approximately 75%.

Operating expenses for the first half were \$42.7 million and with the addition of the extra resources in North America associated with the revised sales model, total operating expenses are now likely to be approximately \$93.0 million.

BEYOND FY22

Nanosonics' forward-looking growth agenda continues with significant opportunities for growth of the trophon franchise as well as significant opportunities from the planned expanded product portfolio. Beyond FY22, Nanosonics is targeting:

- Continued growth in the trophon installed base and associated ecosystem 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;
- New source of revenue opportunity associated with the recent launch of AuditPro as well as future launch of Nanosonics Coris® in endoscope reprocessing;
- Ongoing expansion of the product portfolio through internal product development and opportunities for strategic acquisitions and product licensing across key vectors of infection; and
- Ongoing investment in R&D, infrastructure, people and capability to continue to drive the Company's global growth strategy with the aim of establishing Nanosonics as a global leader in infection prevention.

Michael Kavanagh
CEO / President

Notes

1. Constant currency removes the impact of foreign exchange rate movements to facilitate comparability of operational performance. This is done by converting the current period sales of entities that use currencies other than Australian dollars at the rates that were applicable in the prior period. The average exchange rate used for the Company's major foreign currency (USD) for the 6 months to December 2021 was 0.7355 (2020:0.7163).
2. All research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines.

Authorised for lodgement by the Board of Directors of Nanosonics Limited

Investor conference call

Investors are invited to join a conference call on Tuesday 22 February 2022 at 11:00am (AEDT) hosted by Nanosonics CEO & President, Michael Kavanagh, and Mr McGregor Grant, CFO.

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/10019070-gy38st.html>

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