

CLEANSPACE HOLDINGS FULL YEAR RESULTS FY22

25 August 2022. CleanSpace Holdings Limited (ASX: CSX, “CleanSpace” or the “Company”), an Australian company that designs, manufactures, and sells high level respiratory protection solutions for healthcare and industrial markets, today announces its full year results for the financial year ended 30 June 2022 (FY22).

KEY POINTS

- **FY22 revenue \$13.4m for year ending 30 June 2022, reflecting disrupted market conditions which followed the previous COVID fuelled sales in FY21. The lower sales levels resulted in EBITDA loss of \$14.1m.**
- **Despite residual headwinds, the business is seeing a stabilisation of PPE markets and an uplift in customer activity including significantly improved purchasing patterns in the European industrial market in 2H.**
- **During 2H, the Company executed new initiatives including material investment in US sales and marketing to further execute on market penetration and pursuit of operating cost efficiencies and reductions.**
- **The Company believes it has experienced peak disruption to its markets and is confident the business fundamentals, along with the new initiatives, support the return to growth in FY23.**
- **CleanSpace maintained its high gross margin at 73%.**
- **The Company’s balance sheet remains strong with cash of \$24.3m and minimal debt as at 30 June 2022.**
- **The business remains committed to continued investment in research and development that strengthens our technology leadership against competitors and is customer sales driven.**

SUMMARY OF FINANCIAL PERFORMANCE

A summary of the trading results and selected operational metrics are included in the table below.

| AUD | FY22 | FY21 |
|--------------------|----------|---------|
| Revenue | \$13.4m | \$49.9m |
| Gross margin \$ | \$9.8m | \$38.4m |
| Gross margin (%) | 73% | 77% |
| Operating expenses | \$23.9m | \$21.3m |
| EBITDA | -\$14.1m | \$17.2m |
| Cash in bank | \$24.3m | \$38.2m |

NEW INITIATIVES

The Company undertook the following new initiatives in 2H which are expected to have a material positive impact on the business during FY23.

- **North America.** The business made a material investment in a new, highly skilled sales force in the United States (US) in Q3 which is now fully trained, deployed and meeting sales targets for the new financial year. It is expected that US sales will continue to ramp during FY23.

- **Asia.** Implementation of new sector-focused sales teams has improved momentum in the industrial and healthcare businesses.
- **Distribution.** Relationships with distributors were reviewed with steps taken to enhance sales performance and take advantage of improving market conditions.
- **Cost base.** Considerable costs in the form of head count and other costs were taken out of operations to mitigate the investment in the US and enhance efficiency.

SALES OVERVIEW

Respirator Markets

| Revenue by Region | FY22 | FY21 |
|-------------------|------|------|
| North America | 16% | 45% |
| Europe | 41% | 24% |
| ASIA | 43% | 31% |

| Revenue by Segment | FY22 | FY21 |
|--------------------|------|------|
| Healthcare | 40% | 72% |
| Industrial | 60% | 28% |

The FY22 revenue result was a disappointing \$13.4m (PCP \$49.9m) recognising major COVID fuelled sales made in FY21 and the market turbulence experienced from extended lock downs, disrupted and congested supply chains and stockpiling of disposable masks during FY22.

2H FY22 was marginally weaker in sales (vs 1H FY22) indicating these factors were still at play but initiatives taken during 2H are expected to mitigate any residual effect of these factors and materially grow revenue during the course of FY23.

Europe

- Over 2H FY22 Europe, historically a growth industrial business, saw an uplift in sales as customer activity and investment returned after the extended lockdowns (in 1H) and supply chain disruptions. Higher sales levels look to continue in the new year.

North America

- Healthcare sales in FY22 were lower as purchasing patterns favoured traditional supply arrangements as healthcare providers dealt with the crisis in staff shortages and high disposable mask stockpiles.
- Recent positive indicators from the US investment include healthcare sales returning to growth in the last quarter, with opportunities materialising as the new North American sales team strategically position CleanSpace technology to senior decision makers in healthcare groups and GPOs. A consistent theme amongst US healthcare leaders is that 'now living with ongoing outbreaks', unsustainable consumable PPE costs and staff absenteeism are driving change to high respiratory protection in routine patient care.
- Encouragingly, US industrial sales in the second half were up 60% on PCP 2H FY21. The Company's technology has large opportunities in construction, manufacturing and mining sectors, consistent with traction seen in Europe and Australia.

Asia

- Early in FY22 this region's sales benefited from strong adoption of PAPR technology in hospitals, as COVID outbreaks hit, with performance declining over the second half.
- In 2H FY22, the business moved to bring on sales leaders with strong sector focus. This initiative is building positive momentum with an anticipated return to growth.
- CleanSpace's advanced PAPR technology, adopted by key customers in both public healthcare and industry, is setting a new standard to address major health concerns from silica and airborne infectious diseases.

Respirator Units, Consumable, Accessories and Services (CA&S)

| Revenue by Segment | FY22 | FY21 | | FY22 | FY21 |
|-------------------------------------|------|------|------|------|------|
| Respirator units | 47% | 51% | GM % | 73% | 77% |
| Consumable, accessories and service | 53% | 49% | | | |

The lower respirator and consumable sales in FY22 reflected the shift from pandemic fuelled demand to further disrupted healthcare markets and depressed industrial activity. The Company notes that consumable and accessory sales are at levels 40% higher than pre-pandemic (FY19).

GROSS MARGIN

CleanSpace maintained a strong gross margin 73%, noting the shift toward industrial sales (done through distribution channels) and higher freight costs over the year. The business has implemented price increases effective in 1H FY23.

OPERATIONAL OVERVIEW

| Operating Expenses AUD | FY22 | FY21 | Change % |
|--------------------------------|-----------------|-----------------|--------------|
| Employee costs | \$13.98m | \$10.50m | 33% U |
| Marketing and selling expenses | \$4.05m | \$3.68m | 10% U |
| R&D and IP expenses | \$1.53m | \$1.38m | 11% U |
| Other operating expenses | \$4.30m | \$5.77m | 26% F |
| Total | \$23.86m | \$21.33m | 12% U |

- FY22 operating expenses were \$23.9m, 12% up from FY21. The increase was largely driven by an increase in employee costs as the business moved to restructure the North America sales capability to leverage early entry in large healthcare and industrial markets in that country.
- The investment in the US was largely accomplished through a re-deployment of funds from other parts of the business (including material reductions in headcount), with the intention to keep any increase in operating expenses to a minimum. The Board felt that the US opportunity for growth based on FY21 sales penetration was such that adding marginally to operating expenses to enhance sales and marketing capability in that market was a sensible deployment of capital.
- CleanSpace Board and management continue to refine initiatives to further reduce operating spend and accelerate lead time to break even. CleanSpace is committed to a growth agenda with its strategy to achieve profitability and a sustainable business model.
 - Inventory level was \$3.7m (as at 30 June 2022) down from FY21 reflecting lower sales activity. The business' supply chains remain sound. To date the company has not experienced disruptions reported by other companies. Inventory levels are continually reviewed against sales and supply chains.
 - The Company's balance sheet remains strong with cash of \$24.3m and minimal debt as at 30 June 2022.

BUILDING MOMENTUM FOR FY23

The Company pursues industry leadership initiatives and partnerships that support validation of the technology's superior advantages: protection, comfort/ease of use and cost effectiveness. These include:

- Completed clinical trials with University of Maryland (Baltimore, USA) where CleanSpace PAPRs are deployed to five hospitals and other clinical facilities. The clinical studies resulted in several publications (currently in review) that report i. successful adoption (acceptance and compliance) by healthcare workers

in routine care settings (emergency, ICU and COVID wards); and ii) results from their reprocessing protocol (use of disinfection wipes on the ward) that eliminated COVID virus contamination on the devices even after 8hrs of use. The simplified protocol dramatically improves device turn-around time and ease of use for healthcare workers.

- Launched White Paper - a world first study measuring workplace protection factors in workers with facial hair undertaking typical tasks (talking, bending and looking up) at high exertion levels and removing/replacing their mask (recognised breach protection in disposable masks). The study was undertaken in a hard rock mining quarry, power plant and stone-mason facility. The results of the study confirmed CleanSpace PAPRs provided reliable high protection (40+ times higher than disposable masks) over the two 25-minute work sessions despite challenges to mask seal.

In North America, there has been ongoing purchasing from reference sites such as Sutter Health and University of Maryland indicating use during low COVID infections levels. New opportunities are opening with several hospital groups looking to replicate deployment models (similar to Sutter and Maryland) that displace N95 masks used in routine care settings. To facilitate growth in healthcare sales, the sales team are leveraging initial large GPO registrations and US Government defence relationships and building partnership models to access high volume sales opportunities.

The business has continued to build market share in the US and Australian mining sectors. In 2H FY22 five new mining clients onboarded (and set to grow) and several mines have MSHA submissions pending and anticipated to come on in FY23. In Australia, renewed pressure from regulators (after COVID lockdowns) around silica, is triggering resource and construction material companies to review and upgrade to higher PAPR protection. In these operations, reliable, practical and usable devices are recognised as imperative to manage compliance and employers' liability risks.

With European markets open, there is renewed activity from our key industrial accounts. Several accounts, (market leaders in their respective sectors - waste management, chemical, transport and metal) have restarted their plans to roll out CleanSpace across their European operations. Indicative of this, CleanSpace PAPR was the personal protection choice for fire investigators and subsequently the contractors conducting the current restoration of Notre Dame. European sales teams are securing higher stock levels with authorised distributors.

GOVERNANCE CHANGES

In 1H FY22, a new Chair, Bruce Rathie, was appointed as part of the Board renewal. Subsequent to Mr Rathie's appointment, two independent directors, Lisa Hennessy and Graham McLean, joined the CleanSpace Board to replace retiring long time directors, William Highland, Craig Lawn and Ron Weinberger. Incoming directors collectively brought contemporary expertise in industrial sales and marketing and experience in successful technology growth enterprises in medical device, healthcare and North American markets. This experience contributed to the strategic review that shaped the market initiatives set to meet the business's growth ambitions.

CleanSpace CEO Dr Alex Birrell said: "Market disruption is still working its way through the respirator industry and healthcare markets. Our operating environment is improving with strong growth in the European industrial business over the second half. Despite the challenges over the last 12 months, the pandemic has been overwhelmingly transformative for the business - accelerating employer education in their duty of care and the role of high level PAPR technology for routine tasks. Management worked closely with the new directors, as the business reviewed its strategy and implemented changes to the sales focus and operations."

“We are pleased to see our revised initiatives take hold and begin to build the sales growth in each of the regions. The positive momentum is continuing in the new year and we look forward to the business returning to high sales growth.”

Outlook for FY23

The company believes it has experienced peak disruption to its healthcare and industrial markets globally given lockdowns are no longer favoured, increasing customer activity, supplies of disposables are being run down and a recognition that PAPRs are the best protection for staff in both the healthcare and industrial settings.

Add to this (1) the material investment made in our sales and marketing team in the US market – one of the largest PPE markets in the world - to capitalise on the significant initial healthcare sales made in the prior year; (2) the strong recovery of the European industrial market in FY22 which is expected to roll on in FY23 and (3) the enhanced sales and marketing initiatives taken in APAC markets with effects to materialise early in FY23, it is anticipated that FY23 will be materially stronger financially for the company than FY22.

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Authorised for release by the CleanSpace Holdings Limited Board of Directors

FOR MORE INFORMATION

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ABOUT CLEANSPACE

CleanSpace is a Sydney-based designer and manufacturer of respiratory protection equipment for healthcare and industrial solutions, founded by a team of biomedical engineers with experience in respiratory medical devices. CleanSpace is passionate about continually improving health outcomes, safety and standards of care for people who need it most. In the last 20 years, technology has driven unprecedented advances in medical equipment and transformed people’s health. We have brought this to personal respiratory protection. The Company continues to invest in research and development programs resulting in differentiated design and approved products that provide compelling employer and user benefits. CleanSpace Respirators are a true game changer.

The respiratory protection market is estimated to grow to US\$10b market with 6% CAGR over the next 6 years. CleanSpace has world class leading technology and advanced solutions for large employers and their staff that significantly increases the level of personal protection (40 times more than disposable masks); improves ease of use and compliance; and achieves material cost savings and sustainability for their operations. Higher protection for frontline workers means better health outcomes for millions of people, now and into the future.