

ASX RELEASE | OSTEOPORE LIMITED

23 January 2023

OSTEOPORE TO ACQUIRE MULTIPLE MEDICAL DISTRIBUTION BUSINESSES & BECOME VERTICALLY INTEGRATED

Highlights:

- *Osteopore has entered into a binding asset purchase deed to acquire multiple medical distribution businesses that are currently responsible for approximately 40%-45% of Osteopore's total sales globally.*
- *The acquisition is a direct result of Osteopore's strategy to supercharge revenue growth, become cash flow positive and profitable at a faster rate whilst maintaining steady organic growth.*
- *The acquisition will transition Osteopore towards a vertically integrated business, controlling the entire process from manufacturing and marketing, through to direct retail sales.*
- *By selling direct to customers (as opposed to via distributors) the Company expects to achieve greater revenue and increased margins, due to removing the distribution layer between Osteopore and its end customers.*
- *The transaction will create a dedicated sales team with localised knowledge and networks across key target markets, along with an internal business development team with deep expertise in the aesthetic segment to lead our strategy for deeper penetration into the global aesthetic market in 2023.*
- *The acquisition consideration is part cash (no cash upfront due to the offsetting of debtor balances) and performance rights (subject to achieving performance milestones).*
- *Osteopore continues to investigate the viability of additional potential acquisitions and partnership opportunities in the 20 countries which it is already selling products, including the US, Europe, and Asian markets like Singapore, South Korea, Vietnam, Malaysia, and Indonesia.*

Osteopore Limited (ASX: OSX) ("**Osteopore**" or the "**Company**"), a revenue-generating manufacturer and distributor of regenerative implants that empower natural tissue regeneration, is pleased to announce it has entered into a binding asset purchase deed ("**Asset Purchase Deed**") with Mr Lim Jae Hoon (an unrelated party to the Company) ("**Vendor**") to acquire ("**Proposed Acquisition**") 100% of the Osteopore distribution businesses carried on by Lomic Korea Co., Ltd, 3D Aesthetic Solutions Pte Ltd, 3D Healthcare Solutions Co., Ltd and 3D Aesthetic Medical Equipment and Supplies Trading ("**Target Businesses**").

The Proposed Acquisition was first announced by the Company on 22 December 2022.

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The Target Businesses are currently responsible for distributing Osteopore products and have historically been the Company's top distributor groups - contributing approximately 40%-45% of Osteopore's total sales over the past few years. The sales are primarily related to the aesthetic market in South Korea, complemented by sales in Singapore, Thailand, Vietnam and the Philippines.

Osteopore will acquire 100% of all business activities relating to the marketing, sales and distribution of Osteopore products from the Target Businesses (see key terms below), including the sales teams, office premises, distribution networks and business contracts. The Target Businesses are estimated to be fully integrated into Osteopore shortly, with no disruptions expected to occur in regards to current business activities and sales during the process.

Osteopore's CEO, Goh Khoo Seng said: *"This acquisition will allow Osteopore to be vertically integrated across an estimated 40%-45% of our business. This means we will control the entire process from manufacturing, marketing and direct "retail" sales. The potential benefits of this are highly encouraging, including the immediate creation of a proven direct sales team, direct access to an extensive network of hospitals and surgeons, along with the anticipated benefit of supercharging revenue and increasing margins."*

Osteopore's Executive Chairman, Mark Leong added: *"We are enthused as this transaction marks our first acquisition since listing on the ASX, adding complementary synergistic value and exciting organic growth to complement the strong traction seen to date. This sets us on an accelerated path towards positive cashflows. This is the start of an exciting chapter and we will continually seek more opportunities to further boost our trajectory."*

Commercial Benefits

Osteopore believes that by acquiring the Target Businesses, the Company will add additional revenue to its top line. There is also expected to be an increase in margins that will be achieved by selling full priced products direct to customers, instead of selling wholesale to the Target Businesses. This approach is expected to lead to greater revenue per product sold, and is a direct result of Osteopore's strategy to become cash flow positive and profitable at a faster rate to complement its steady organic growth.

The Target Businesses historically contributed 50%-60% of Osteopore's total sales revenue until the COVID-19 pandemic began, where its share dropped to approximately 40%-45% as countries closed their borders and elective surgeries were put on hold. The Company believes that in conjunction with revenue growth and increased margins on current sales, there is encouraging potential to scale sales across the Target Businesses to levels beyond the pre-pandemic period.

Since emerging from COVID-19, increasing numbers of patients are going to hospital to seek treatment, which has led Osteopore to achieve four consecutive quarters of revenue growth. In particular, the Company is witnessing strong demand for rhinoplasty applications within South Korea.

Osteopore is also pleased to announce that Mr Lim Jae Hoon, as the Vendor, will be engaged by Osteopore to ensure business continuity following the acquisition, preserve current customer relationships and oversee the day-to-day operations of the Target Businesses moving forward. Mr Lim Jae Hoon will also work towards growing revenue across the Target Businesses, with a particular focus on leading Osteopore's global commercial strategy for the aesthetics markets.

Mr Lim Jae Hoon is a highly experienced professional with an enviable track record of over 30 years' business experience in medical device sales and marketing, with increasing responsibilities from sale

representative to Country Manager and Regional Manager. A large portion of that time was with Johnson & Johnson Orthopaedic division (12 years), followed by Edwards Lifesciences (9 years). As a distributor for Osteopore, he was instrumental in the Company entering the rhinoplasty market in Asia, which has grown to become a significant revenue driver for the Company. He also co-developed a number of Osteopore products for this market, and has built a growing network of surgeons in the region.

Other commercial benefits could include:

- Vertical integrated commercial process to create synergies across the business, including the ability to rapidly launch new products across the network.
- Immediate creation of a fully dedicated (on-ground) sales team with localised knowledge in marketing and distribution in South Korea and key South East Asian markets.
- Creation of an internal business unit with deep expertise in the aesthetic segment to lead our global aesthetic market strategy in 2023.
- Direct relationships will help Osteopore better understand and adapt to the needs of our customers.
- Ability to coordinate sales interactions with production and marketing strategies for increased cost efficiencies.
- Increased control over pricing and distribution, resulting in greater capability to remain price competitive.

Next Steps

Osteopore will now work with the Vendor towards satisfying the conditions precedent to the Asset Purchase Deed and completing the acquisition. Following this the Company will execute its post-acquisition integration process, whereby the Target Businesses will be brought together smoothly, corporate activities will be standardised and streamlined, and people will be aligned with Osteopore's desired outcomes. There is not expected to be any disruption for current customers of the Target Businesses, and they will continue to have substantially the same terms under their existing sales contracts.

Importantly, the individuals who work within the Target Businesses have localised knowledge in marketing and distribution across South Korea, and deep expertise in the aesthetic segment. Osteopore will utilise this team to lead the Company's 2023 global aesthetic market strategy, as demand continues to increase for Osteopore products that improve the appearance of the face and body.

The Company will continue to execute its commercial strategy to scale the business, and is currently investigating the viability of additional potential acquisitions and partnership opportunities in the 20 countries in which it is already selling products, including the US, Europe, and Asian markets like Singapore, South Korea, Vietnam, Malaysia, and Indonesia. The Company will keep the market updated in accordance with its continuous disclosure obligations.

Asset Purchase Deed – Key Terms

The Company has entered into a binding asset purchase deed with the Vendor to acquire 100% of the Target Businesses in order to increase the distribution of Osteopore products. The Vendor is an unrelated party to the Company. The Target Businesses comprise medical distribution businesses based primarily in South Korea, complemented by sales in Singapore, Thailand, Vietnam and the Philippines.

Pursuant to the Proposed Acquisition, the Company has agreed to pay the Vendor, an aggregate consideration of A\$2,050,000 comprising:

- (a) on completion of the Proposed Acquisition (“**Completion**”):
- (i) a cash payment of A\$550,000 (exclusive of VAT) (Actual net payment will be nil as a result of offsetting existing debtor balances owing from the Target Business to the Company at Completion (“**Outstanding Accounts Receivable**”)); and
 - (ii) 2,400,000 performance rights (“**Performance Rights**”) which convert to Osteopore shares on a 1-for-1 basis, subject to all of the following milestones having been satisfied:
 - A. the Target Businesses generating a cumulative A\$1,000,000 of sales based on audited or reviewed accounts over a twelve (12) month period from Completion;
 - B. no material adverse events arising in respect of the Target Businesses; and
 - C. twelve (12) months having expired since Completion; and
- (b) following Completion, an aggregate of A\$300,000 (exclusive of VAT) of cash payments (collectively, “**Earn-Out Payments**”) in the following tranches (and subject to the following milestones having been satisfied):
- (i) subject to the Target Businesses generating a cumulative A\$350,000 of sales based on audited or reviewed accounts, a cash payment of A\$100,000 (exclusive of VAT);
 - (ii) subject to the Target Businesses generating a cumulative A\$500,000 of sales (i.e. A\$150,000 in addition to the A\$350,000 in the paragraph above) based on audited or reviewed accounts, a cash payment of A\$100,000 (exclusive of VAT); and
 - (iii) subject to the Target Businesses generating a cumulative A\$800,000 of sales (i.e. A\$300,000 in addition to the A\$500,000 in the paragraph above) based on audited or reviewed accounts, a cash payment of A\$100,000 (exclusive of VAT).

To the extent there is any remaining Outstanding Accounts Receivable owing to the Company after having made the set-off contemplated in paragraph (a) above, the Company may set-off a corresponding portion of its obligation to pay the Earn-Out Payments.

The Performance Rights will be issued under the Company’s ASX Listing Rule 7.1 placement capacity.¹

ASX has confirmed that Listing Rules 11.1.2 and 11.1.3 do not apply to the Proposed Acquisition.

¹ Refer to the Company’s Appendix 3B released on 22 December 2022.

In accordance with the Proposed Acquisition, the Company will also engage the Vendor as a contractor as a condition precedent to completion.

The Proposed Acquisition is subject to certain other usual conditions precedent, the material of which include:

- (a) Osteopore having received copies of certain distribution agreements with the Vendor's clients;
- (b) Osteopore having established a new wholly-owned South Korean incorporated subsidiary, procuring that it apply for relevant medical registrations and appoints 2 directors to its board (one nominated by the Company and the other nominated by the Vendor);
- (c) Osteopore being satisfied that the Vendor has been listed as an approved distributor with each client;
- (d) Assignment, novation or entry into a new lease agreement for the Target Businesses premises in South Korea (if required);
- (e) The parties obtaining all required third party consents and approvals; and
- (f) No material adverse change prior to Completion.

The conditions precedent are required to be satisfied by the date that is 15 days after the date of the Asset Purchase Deed (or such later date as agreed between Osteopore and the Vendor in writing).

The Asset Purchase Deed also provides that Osteopore may, elect to re-purchase stock previously sold by Osteopore to the Vendor at a purchase price equal to the landed cost (being the cost originally charged by Osteopore upon initial sale to the Vendor plus applicable freight charges and tax) and which may also be set-off against the remaining Outstanding Accounts Receivable (if any).

The Asset Purchase Deed otherwise contains terms and conditions considered typical for an agreement of this nature.

The Target Businesses have previously been appointed by Osteopore as its distributors to on-sell medical products and provide related services throughout South Korea, Singapore, Thailand, Vietnam and the Philippines. The Board believes the acquisition of the Target Businesses are complementary to the Company's existing business and will benefit shareholders as it will vertically integrate the Target Businesses into the Company's existing operations in order to create synergies to benefit the Company's shareholders.

This announcement has been approved for release by the Board of Osteopore Limited.

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About Osteopore Limited

Osteopore Ltd is an Australian and Singapore based medical technology company commercialising a range of products specifically engineered to facilitate natural bone healing across multiple therapeutic areas. Osteopore's patented technology fabricates specific micro-structured scaffolds for bone regeneration through 3D printing and bioresorbable material.

Osteopore's patent-protected scaffolds are manufactured using a proprietary manufacturing technique with a polymer that naturally dissolve over time to leave only natural, healthy bone tissue, significantly reducing post-surgery complications commonly associated with permanent bone implants. Our 3D printer technology is not available in the market and unique to Osteopore.

Forward-Looking Statements

Statements contained in this press release, particularly those regarding possible or assumed future performance, revenue, costs, dividends, production levels or rates, prices, or potential growth of Osteopore Limited, are, or may be, forward-looking statements. Such statements relate to future events and expectations and, as such, involve known and unknown risks and uncertainties. Actual results may differ materially from those expressed or implied by these forward-looking statements depending on various factors.

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