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Company Announcements Office
Australian Securities Exchange

Nanosonics 2024 half-year financial results

HIGHLIGHTS

- **Half year revenue of $79.6 million, down 2% on prior corresponding period (4% in constant currency[1]).**
- **Half year capital revenue of $21.9 million, down 15% on prior corresponding period primarily related to delays in expected upgrade unit sales.**
- **Half year consumables and service revenue of $57.7 million, up 4% compared with prior corresponding period.**
- **Global installed base up 1,100 units to 33,550 units (up 3% in last 6 months and 8% in last 12 months).**
- **Trophon®2 upgrades of 620 units, down 23% on prior corresponding period with customers extending use of their existing trophon EPR devices due to budgetary constraints.**
- **Gross profit margin of 79.7%, up from 78.9% in prior corresponding period. The stronger gross margin was driven by revenue mix and the positive impact of foreign exchange rates.**
- **Continued investment in strategic growth agenda with operating expenses of $60.8 million, up 12% on prior corresponding period and up 2% compared with H2 FY23.**
- **Operating profit before tax of $4.9 million compared with $11.4 million in prior corresponding period.**
- **Free cash flow for the half was $7.9 million with cash and cash equivalents of $118.3 million at 31 December 2023 and no debt.**
- **The Company continues to target the submission of the FDA De Novo application for CORIS by the end of Q3 FY24.**

Nanosonics (ASX: NAN), a leader in infection prevention solutions, today announced its Appendix 4D Half Year Report for the half year ended 31 December 2023.

“The first half of FY24 brought a number of market challenges resulting in lower than expected capital sales despite a growing sales pipeline for both new installed base and upgrades. This was seen to be driven by customers deferring purchases due to hospital capital budget constraints. This particularly impacted our expected growth in trophon upgrade volumes as customers extended the use of their original trophon EPR unit.

“Despite the market challenges faced in the first half, we expect both unit and revenue growth in H2 over H1. We remain confident in the ongoing growth opportunity of our trophon ultrasound reprocessing business as well as our broader growth opportunities through the investments being made in both product and geographical expansion,” said Michael Kavanagh, CEO & President.

trophon2 Units

The sales pipeline for both new installed base and upgrades continued to grow throughout the half demonstrating the ongoing requirement and demand for automated High Level Disinfection of ultrasound probes. However, the timeframe in which units in the pipeline were converted to sales has increased. This resulted in slower than anticipated adoption of units, in particular upgrade sales, as a result of hospital capital budget pressures.

The impact of this was particularly felt in December which is usually the largest sales month of the half. Several significant upgrade opportunities in North America which were forecast to close in December have now moved into the H2 forecast. The purchase orders for a number of those, including a large single order for over 170 upgrade units, have now been received.

New Installed Base

trophon continues to strengthen its position as the standard of care for automated High Level Disinfection of ultrasound transducers and the opportunity for long term growth remains strong across all three regions. The global installed base increased by 1,100 units to 33,550 units, an increase of 3% in the last 6 months (8% in last 12 months).

In **North America** the total installed base grew by 970 units (3%) to 29,360 units representing 49% of the estimated total addressable market. There remains significant opportunity to continue to grow the installed base in North America:

- For existing hospital accounts, the ongoing adoption of trophon into additional departments that use ultrasound as those hospitals standardise their ultrasound high level disinfection practice throughout the total facility.
- Expansion into hospitals that have not yet adopted trophon to reprocess their ultrasound transducers which represents over 1,000 hospitals.
- Expansion into the private office market through a number of the Company's channel partners dedicated to this segment.

Nanosonics has established a direct infrastructure and partnered with a number of channel partners to enable it to serve and grow each of these segments.

In **EMEA**, the total installed base grew 4% in last 6 months to 2,090 units (10% in last 12 months) with 80 units installed in the first half. A reorganisation was undertaken in the UK during the half resulting in stronger new installed base sales pipeline growth for H2. trophon was also established on the NHS framework which will facilitate easier procurement processes moving forward. The Company went direct in Ireland where trophon has become the standard of care for ultrasound reprocessing and continues to grow. In Germany, new guidelines from the Commission for Hospital Hygiene and Infection Prevention (KRINKO) at the Robert Koch Institute are due for publication in mid-2024 with an expected recommendation for automated and validated disinfection processes for ultrasound probes.

In **Asia Pacific**, the total installed base grew 2% to 2,100 units (6% in last 12 months) with 50 units installed in the first half. Australia / New Zealand represent the majority of the current installed base where trophon is the standard of care and the market is highly penetrated. The Company's market development activities in Japan continue to progress and there are now 100 trophon units installed in the Japan market. A new multicentre study examining the degree of contamination of ultrasound probes in emergency departments was conducted across a number of major teaching hospitals. Over 75% of the ultrasound probes used in this setting were found to be contaminated. This new study, together with the study conducted in the OBGYN setting demonstrating over 90% of probes were contaminated, further supports the Company's work towards the development of national based guidelines similar to those in other international markets.[2] In China, the regulatory submission for trophon2 has also progressed with expectation of approvals and full registration within the next 9 months with commercialisation plans to follow thereafter.

Upgrades

The trophon2 technology delivers significant benefits for customers and the upgrade opportunity from the original trophon EPR device to trophon 2 represents a significant revenue growth opportunity, particularly in North America. As Nanosonics now directly manages and supports the total installed base, upgrades represent both the opportunity for increased capital revenue as well as further annuity revenue through service contracts which were traditionally sold by GE Healthcare. Currently, over 65% of upgrade units have an associated service contract.

During the first half, the sales pipeline for upgrades continued to grow with strong customer interest based on the value proposition trophon2 offers. The time to purchase however increased due to hospital capital budgetary pressures with customers continuing to use their existing trophon device until budget becomes available. 620 upgrades were installed in the first half which was down 23% vs prior corresponding period.

In North America, 480 upgrade units were sold in the first half which was down 20% compared to prior corresponding period. Several large upgrade sales which were forecast in December have now moved into the H2 forecast. The purchase orders for a number of those, including a large single order for over 170 upgrade units, have now been received.

The size of the upgrade opportunity in EMEA and Asia Pacific is not as significant as North America given the size and age profile of the installed base in those regions. 140 upgrade units were sold across both these regions in the half.

Financial Results

$ millions	**FY24 H1**	**FY23 H1**		**Change % (vs H1 FY23)**
Capital revenue	21.9	25.9	▼	-15%
Consumable/service revenue	57.7	55.7	▲	4%
Total revenue	**79.6**	**81.6**	▼	-2%
Gross profit	**63.4**	**64.4**	▼	-2%
%	79.7%	78.9%		
Operating expenses				
Selling and general	(32.3)	(29.5)	▲	9%
Admin	(12.3)	(11.4)	▲	8%
Research and development	(16.2)	(13.6)	▲	19%
Total Operating expenses	**(60.8)**	**(54.5)**		12%
Other income	0.8	0.6	▲	33%
Other gains/(losses)-net	(0.4)	0.2	▼	-300%
Earnings before interest and tax	3.0	10.7	▼	-72%
Finance income-net	1.8	0.7	▲	157%
Operating income before income tax	**4.9**	**11.4**	▼	-57%
Income tax benefit/(expense)	**1.3**	**(1.0)**		*nm
Proft after income tax	**6.2**	**10.4**	▼	-40%

*nm – not meaningful.

Total revenue for the half was $79.6 million, down 2% vs prior corresponding period (4% in constant currency). The decline in revenue was attributable to lower than anticipated capital unit sales due to delays in hospital capital budget availability. This resulted in capital revenue of $21.9 million for the half, down 15% compared to prior corresponding period.

Consumables and service revenue for the half was $57.7 million, up 4% compared to prior corresponding period.

In North America, total revenue for the half was $72.3 million, down 2% compared to prior corresponding period. Capital revenue of $20.4 million was down 13% compared to prior corresponding period. Consumables and service revenue for the half was $51.9 million, up 2% compared to prior corresponding period.

In Europe and Middle East, total revenue for the half was $4.3 million, up 19% compared to prior corresponding period. While the total number of units installed was similar to the prior corresponding period, capital revenue for the half was $0.7 million, down 22% compared to prior corresponding period. This takes into account the Managed Equipment Service (MES) model in the UK, where no capital revenue is recognised for placements and offset over time with higher consumables price. Consumables and Service revenue was $3.5 million for the half, up 30% compared to prior corresponding period.

In Asia Pacific, total revenue for the half was $3.1 million, down 18% compared to prior corresponding period. Capital revenue of $0.8 million was down 50% compared to prior corresponding period reflecting larger upgrade purchases in prior periods and the timing of distributor purchases of units at the end of FY23. Consumables and service revenue was $2.2 million, consistent with prior corresponding period and up 10% compared to last half.

Other financial results

Gross profit margin for the half was 79.7% up from 78.9% in prior corresponding period. The stronger gross margin was driven by revenue mix and the positive impact of foreign exchange rates.

Operating expenses for the half totalled $60.8 million, up 12% on prior corresponding period and 2% on prior half. These operating expenses include investments being made in preparation for the commercialisation of the Company's new endoscope reprocessing platform, CORIS. A number of productivity initiatives are underway across the organisation which will see operating expenses for the year reducing from the 17-22% growth outlook to between 9-11% growth. This includes costs associated with the new ERP implementation program which commenced in FY24.[3]

Operating profit before income tax was $4.9 million compared with $11.4 million in the prior corresponding period.

A significant proportion of the Company's operating expenses are associated with future earnings opportunities from new product development and expansion. Excluding operating expenses of approximately $13.3 million associated with the development and commercialisation preparation of the CORIS technology, the unaudited pro forma profit before tax of the current trophon business in H1 FY24 was approximately $18.2 million. This includes all operating and investment costs associated with developing emerging trophon markets that do not currently contribute significantly to revenue as well as R&D associated with the trophon technology roadmap.

The Company's total free cash flow for the half was $7.9 million with cash and cash equivalents totalling $118.3 million at 31 December 2023. The Company has no debt.

Research and Development

During the half, the Company continued to invest in its product expansion strategy across ultrasound reprocessing, endoscopy reprocessing and traceability/cloud solutions. R&D investment was $16.2 million, up 19% compared to prior corresponding period, and up 2% compared to last half. The majority of the investment was focussed on the Company's new endoscope reprocessing platform, CORIS, including all costs associated with clinical trials, regulatory preparation and manufacturing set up.

Preparations for the FDA De Novo regulatory submission continue to progress. The Company is currently conducting the clinical "in use" study in Australia and phase two of the human factors study in USA. Once the data from these studies are available, the Company expects to be in a position to lodge the FDA De Novo submission. The Company continues to target the submission of the FDA application by the end of Q3 FY24.[4]

CORIS represents a significant opportunity for Nanosonics and aims to address what is considered to be one of the biggest unmet needs and challenges in instrument reprocessing – the reprocessing of flexible endoscopes. In the quarter ended December 2023 alone, there were over 8,000 adverse event reports recorded by the FDA for endoscopes and reprocessing equipment[5], many associated with reprocessing issues. CORIS is being designed to address one of the most significant limitations in current reprocessing, the manual cleaning stage, with the aim of establishing a new standard of care in automated cleaning outcomes.

The cleaning efficacy data for CORIS has been presented at a number of international conferences during the first half with further presentations scheduled during H2. The efficacy results of CORIS on biofilm removal in endoscope channels have also been submitted for publication.

Business Outlook – FY24

The underlying fundamentals for the ongoing growth of the trophon ultrasound reprocessing business remain strong with the sales pipeline for both new installed base and upgrades continuing to grow. As the macroeconomic conditions have not materially changed from those experienced in the first half, it is expected that the challenges associated with hospital capital budget constraints are likely to continue throughout the second half. The Company is adapting to the market conditions through the introduction of customer offerings designed to provide customers with greater financial flexibility. In that context, the targets for FY24 have been adjusted as follows:

- **Total revenue** in H2 is expected to grow between 6-15% over H1. Full year revenue is expected to be between $164 million and $171 million. The increase in revenue includes growth in both new installed base and upgrade units over H1.
- **Gross profit margin** between 76-78% driven by the increased proportion of capital sales in H2 over H1 and allowing for the introduction of a number of customer offerings providing them greater financial flexibility.
- **Operating expenses** for the year have been moderated from previous outlook. Operating expenses are now expected to grow by 9-11%, down from previous outlook of 17-22% growth.[3]

The above outlook statements assume an AUD/USD rate of 0.67 where applicable.

All guidance is subject to ongoing uncertainty in relation to hospital budgetary pressures as well as broader economic and geopolitical conditions.

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 2023 was 0.66 (2022: 0.67).
2. *Incidence of residual bacterial contamination of transvaginal ultrasound probes,* Oide S, Kuwata T, Wang L, Imai K, Chikazawa K, Horiuchi I, Takagi K, Konno R, Journal of Medical Ultrasonics, April 2019.
3. For clarity, the 17-22% growth were based on a AUD/USD rate of 0.70, and the 9-11% growth assumes an AUD/USD rate of 0.67.
4. All research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines.
5. Source: FDA MAUDE database Oct-Dec 2023.

Authorised by the Board of Directors of Nanosonics Limited.

Investor conference call
Investors are invited to join a conference call on Monday 26 February 2024 at 11:00am (AEDT) hosted by Nanosonics CEO & President, Michael Kavanagh, and Jason Burriss, 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/10036508-svtab0.html

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