23 February 2023

Company Announcements Office
Australian Securities Exchange

Nanosonics 2023 half-year financial results

HIGHLIGHTS

- **Half year revenue of $81.6 million, up 35% on prior corresponding period (27% in constant currency[1]).**
- **Half year capital revenue of $25.9 million, up 36% on prior corresponding period.**
- **Half year consumables and service revenue of $55.7 million, up 34% on prior corresponding period.**
- **Global installed base up 1,270 units to 31,120 (up 4% in last 6 months and 11% in last 12 months).**
- **trophon®2 upgrades of 800 units, up 100% on prior corresponding period.**
- **Total trophon2 units placed[2] of 2,070, up 14% on prior corresponding period.**
- **Gross profit margin of 78.9% up from 76.6% in prior corresponding period reflecting favourable pricing and consumables volume growth.**
- **Continued investment in strategic growth agenda with operating expenses of $54.5 million, up 28% on prior corresponding period (26% in constant currency) and up 14% compared with H2 FY22, reflecting move to largely direct sales model in North America and continued investment in R&D program.**
- **Operating profit before tax of $11.4 million, compared with $3.3 million in prior corresponding period.**
- **Free cash flow for the half year was $6.1 million with cash and cash equivalents of $99.3 million as at 31 December 2022.**

Nanosonics (ASX: NAN), a leader in infection prevention solutions, today announced its Appendix 4D Half Year Report for the half year ended 31 December 2022.

“The anticipated benefits of our recent transition to a more direct sales model in North America are becoming evident as demonstrated through the first half results”, said Michael Kavanagh, Nanosonics’ Chief Executive Officer and President. “Favourable pricing across capital and consumables, increased total number of units placed and consumables volume growth all contributed to strong revenue growth and improvements in gross profit margin and operating profit. These positive outcomes in the half, coupled with anticipated ongoing growth momentum results in a positive upgrade to the outlook for the full year as announced on 19 January 2023”.

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[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 2022 was 0.6736 (2021:0.7355).
[2] Units placed comprises new installed base units and upgrades including UK MES units.

trophon2 UNITS

New installed base

The global installed base increased by 1,270 units to 31,120 units, an increase of 4% in the last 6 months (11% in last 12 months). The number of new installed base units placed increased between Q1 and Q2, with Q2 representing 61% (780 units) of units installed.

Upgrades

A significant opportunity exists for upgrades from the first generation trophon EPR to trophon2 primarily in North America where Nanosonics now manages and supports the total installed base following the transition to a largely direct sales model.

trophon2 upgrades grew 100% in the first half compared with prior corresponding period with 800 upgrade units placed. The majority of the upgrade units were in North America with growth also in ANZ and the UK. As with installed base growth, momentum in upgrade uptake in Q2 was evident with 68% (540 units) of the units placed in that quarter.

Total units placed

Global total trophon2 units placed grew 14% on prior corresponding period with 2,070 units placed in the half. Growth momentum in Q2 was evident with 64% (1,320) of total units for the half placed in Q2.

Regional unit review

In North America, the transition to the largely direct sales model was finalised and the expansion of local infrastructure complete.

The installed base increased 1,110 units in the first half to 27,240. This represents a 4% increase in the last 6 months (10% in the last 12 months). Of the new installed base, 61% (680) were installed in Q2. The North American installed base now represents approximately 45% of the estimated total addressable market of 60,000 units where trophon is represented in over 5,000 institutions. A significant opportunity remains to further consolidate the trophon technology's position as the standard of care in the market within existing and new institutions.

Growth momentum in trophon2 upgrade volumes continued into the first half of FY23 with 600 units installed in the first half up 58% on prior corresponding period. 67% (400 units) of those units were sold in Q2 demonstrating growth momentum.

Total units placed grew 8% on prior corresponding period with 1,710 units placed in the first half. Q2 represented 63% (1,080) of total units placed demonstrating growth momentum throughout the half.

In Europe and Middle East, performance in the first half was impacted by COVID-19 related staff issues, NHS pressures and general inflationary pressures.

The installed base increased 80 units in the half to 1,900 units, where the total installed base has grown 4% in the last 6 months (15% in the last 12 months). 75% (60 units) of the new installed base were placed in the Q2.

70 trophon2 upgrades were also placed in the first half of FY23 with 86% (60 units) of those placed in Q2.

Total units placed grew 7% on prior corresponding period with 150 units placed in the first half with 80% of those units placed in Q2.

Growth momentum has continued into Q3 and while the Company remains optimistic about the overall growth opportunity in EMEA, it remains cautious under the current market environment.

In Asia Pacific, the market leading position of trophon continued to strengthen with the ongoing increase in the installed base, as well as an increase in the number of upgrade unit sales. In Japan, the Company continued its medical affairs program engaging with opinion leaders and societies working together to develop local guidelines for the high level disinfection of ultrasound probes. In China, the local authority's testing of trophon2 is nearing completion with the product passing all tests to date, and now plans in place for the development and submission for regulatory approval.

The Asia Pacific installed base increased 80 units in the half to 1,980 units. This represents a 4% increase in the last 6 months (8% growth in the last 12 months). A similar number of new installed base units were placed in Q1 and Q2.

130 trophon2 upgrades were placed in the first half with 62% (80 units) of those placed in Q2.

Total units placed grew 133% on prior corresponding period with 210 units placed in the first half.

FINANCIAL RESULTS

$ millions	FY23 H1	FY22 H1	Change % (vs H1 FY22)		FY22 H2	Change % (vs H2 FY22)	
Capital revenue	25.9	19.0	▲	36%	18.7	▲	39%
Consumable/service revenue	55.7	41.6	▲	34%	41.0	▲	36%
Total revenue	**81.6**	**60.6**	▲	35%	**59.7**	▲	37%
Gross profit	**64.4**	**46.4**	▲	39%	**45.5**	▲	42%
%	78.9%	76.6%			76.2%		
Operating expenses							
Selling and general	(29.5)	(22.3)	▲	32%	(25.6)	▲	15%
Admin	(11.4)	(9.7)	▲	18%	(10.6)	▲	8%
Research and development	(13.6)	(10.7)	▲	27%	(11.6)	▲	17%
Other income	0.6	0.1	▲	500%	0.4	▲	50%
Other gains/(losses) - net	0.2	(0.4)	▲	150%	0.3	▼	-33%
Earnings/(loss) before interest and tax	10.7	3.4	▲	215%	(1.6)	▲	769%
Finance income - net	0.7	(0.1)	▲	800%	(0.1)	▲	800%
Operating income/(loss) before income tax	**11.4**	**3.3**	▲	245%	**(1.7)**	▲	771%
Income tax (expense)/benefit	(1.0)	0.6	▲	267%	1.5	▲	167%
Profit/(loss) after income tax	**10.4**	**3.9**	▲	167%	**(0.2)**	▲	5,300%

REVENUE

Total revenue for the half year was $81.6 million, up 35% on the prior corresponding period (27% in constant currency[1]) and 37% compared with the prior half. The key contributors to revenue growth included:

- growth in total units placed (both new installed base and upgrades);
- increased consumable volumes as new installed base continues to grow and ultrasound procedures return to pre-COVID-19 levels;
- favourable pricing on both capital and consumables with the shift from distributor pricing to customer pricing as a result of the transition to a largely direct North American sales model; and
- increase in service revenue; and
- favourable foreign exchange associated primarily with a relatively stronger USD.

Capital revenue for the half was $25.9 million, which was up 36% on the prior corresponding period and 39% compared with the prior half. Total consumables and service revenue for the half was $55.7 million which was up 34% on the prior corresponding period and 36% compared with the prior half.

Regional revenue review

In North America, total revenue for the half was $74.1 million, up 36% on prior corresponding period and 41% compared with the prior half. Capital revenue for the half was $23.4 million up 35% on prior corresponding period and 44% compared with the prior half. This increase in capital revenue reflects growth in total units placed, favourable pricing associated with the transition to the new largely direct sales model and favourable foreign exchange outcomes.

Revenue associated with consumables and service for the half was $50.7 million which was up 37% on prior corresponding period and up 40% compared with the prior half. The increase was driven by growth in consumables usage as the installed base continues to grow and ultrasound procedure volumes return to pre-COVID-19 levels, as well as growth in service revenue.

In Europe and Middle East, total revenue for the half was $3.6 million which was up 6% on prior corresponding period and down 12% on prior half. Performance in the first half was impacted by ongoing COVID-19 related hospital staff issues, NHS pressures and general inflationary pressures.

Capital revenue for the half was $0.9 million up 13% on prior corresponding period. This takes into consideration the Managed Equipment Service (MES) model in the UK where no capital revenue is recognised for placements of trophon under this model.

Revenue associated with consumables and service was $2.7 million up 4% on prior corresponding period.

In Asia Pacific, total revenue for the half was $3.8 million which was up 31% on prior corresponding period and 27% compared with the prior half. Capital revenue for the half was $1.6 million up 78% on prior corresponding period and 60% compared with the prior half reflecting the strong growth in upgrades as well as ongoing growth in new installed base.

Revenue associated with consumables and service for the half was $2.2 million which was up 10% on prior corresponding period and 10% compared with the prior half.

Other financial results

Gross profit margin for the half was 78.9% up from 76.6% in prior corresponding period. The stronger gross margin was driven by:

- favourable capital and consumable pricing in North America associated with the transition to a largely direct sales model;
- increased proportion of consumables resulting from strong sales growth in the first half; and
- favourable impact of foreign exchange associated primarily with a relatively stronger USD.

The above factors were partially offset by higher freight costs.

Operating expenses for the half year totalled $54.5 million, up 28% on prior corresponding period (up 26% in constant currency) and up 14% compared with prior half. The primary drivers for the increase in operating expenses included:

- increase in North American infrastructure supporting the transition to largely direct sales model;
- ongoing investment in R&D supporting expansion of the Company's product portfolio;
- infrastructure expenditure associated with the new Corporate HQ, R&D and Manufacturing facility; and
- the unfavourable impact of foreign exchange on USD denominated expenses.

Operating profit before income tax was $11.4 million, compared with $3.3 million in the prior corresponding period.

Total free cash flow for the half year was $6.1 million with cash and cash equivalents totalling $99.3 million at 31 December 2022. 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 across Ultrasound Reprocessing, Endoscopy Reprocessing and Traceability & Compliance solutions. R&D investment was $13.6 million, up 27% on prior corresponding period and up 17% compared with the prior half.

Progress continues in respect of the Company's new endoscope reprocessing product platform, Nanosonics CORIS®. The new CORIS platform represents a significant opportunity for Nanosonics and aims to deliver a solution to one of the biggest unmet needs in instrument reprocessing – reprocessing failures of flexible endoscopes due to current limitations of manual cleaning resulting in an increased risk of cross-contamination. CORIS is being designed as a global solution ultimately to be used across all types of channeled flexible endoscopes.

Engagement with the FDA under their STeP program (Safer Technologies Program) continues. The Company is also progressing plans for regulatory approvals in Europe and Australia. Progress is also being made across manufacturing readiness, clinical study preparation and supply chain. A number of supply chain delays were encountered in the first half primarily associated with COVID-19 related issues in China. Assuming supply chain risks can be effectively managed, the Company continues to target progressive market introductions aligned with regulatory approvals, with the first introduction targeted towards the end of calendar 2023 in Australia and/or Europe[3]. Further information on the CORIS technology can be found in the H1 FY23 Investor Presentation.

[3] All research and new product development programs involve inherent risks and uncertainties which can impact commercialisation timelines.

BUSINESS OUTLOOK – FY23

As announced on 19 January 2023, based on the H1 FY23 results, the targets for FY23 have been adjusted as follows:

- Total revenue growth of 36% to 41% (previously 20% to 25%).
    - Maintaining pricing benefits achieved in H1.
    - Growing capital revenue with new installed base and upgrade volumes.
    - Increasing consumables sales aligned with growth in installed base and procedure volumes returning to pre COVID-19 levels.
    - Increased service revenue.
- Gross profit margin of between 77% and 79% (previously 75% to 76%).
    - Maintaining pricing benefits achieved in H1.
    - Improved management of freight costs.
    - Note: a moderation in gross profit margin is anticipated in H2 compared with H1. This is a result of an expected increase in the proportion of capital revenue compared with consumables revenue in H2, driven by the anticipated growth in new installed base and upgrades relative to the first half. This moderation is currently expected to continue into FY24 as total unit volumes are anticipated to increase.
- Operating expenses to grow between 22% and 27% (previously 15% to 18%).
    - Additional resources to support new strategy for the expansion of the North American service infrastructure to leverage opportunity for growth in service business.
    - Impact of foreign exchange.

All guidance is subject to ongoing uncertainty in relation to variability in market conditions should the COVID-19 pandemic related measures change in relevant markets, and broader economic and geopolitical uncertainty. The adjusted targets for FY23 assume an AUD/USD rate of 0.70.

Michael Kavanagh
CEO / President

Authorised by the Board of Directors of Nanosonics Limited

Investor conference call
Investors are invited to join a conference call on Thursday 23 February 2023 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/10027793-tdr4ec.html.

For more information, please contact:
Michael Kavanagh, CEO / President or McGregor Grant, CFO, on (02) 8063 1600.