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Company Announcements Office
Australian Securities Exchange

NANOSONICS 2024 FULL YEAR FINANCIAL RESULTS

Significant turnaround in second half and a solid platform for future growth and expansion.

- **Total installed base growth of 7% (2,340 units) to 34,790 units globally.**
- **Sales revenue increased 2% (0% in CC[1]) to $170 million.**
- **Significant turnaround in H2 with revenue up 14% over first half to $90.4 million**
- **Gross profit margin of 77.9% compared with 78.7% in prior corresponding period, driven by one-off manufacturing reduction in H2 to reduce inventory.**
- **Operating profit before tax of $13.0 million compared with $21.6 million in prior corresponding period reflecting investments in long term growth strategy. Trophon only business delivering $40.4 million in profit before tax.[2]**
- **Free cash flow of $20.4 million, with cash and cash equivalents of $129.6 million at 30 June with no debt.**
- **FDA de-novo regulatory application for new endoscope cleaning platform, CORIS, submitted and currently under review.**

Nanosonics (ASX:NAN), a leader in infection prevention solutions, today announces its full year earnings for 30 June 2024 (FY24).

“The growth opportunity for Nanosonics remains significant given the growing pipeline and ever-increasing emphasis on infection prevention”, said Michael Kavanagh, Nanosonics’ Chief Executive Officer and President.

“The effects of inflation on hospital capital budget availability were felt during the year. Despite a growing pipeline for trophon units, an increase in the timeframes to conclude sales was experienced. This was particularly marked in upgrade unit sales in the first half, as customers extended the use of their existing trophon EPR model resulting in lower than anticipated total capital unit sales for the year.

“Despite ongoing capital budget challenges faced by hospitals, a significant turnaround in the second half was experienced, with a considerable upswing in unit sales. The Company experienced a 20% increase in capital revenue in the second half over the first, together with strong growth in consumables and service. This not only reversed the negative revenue growth

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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 year sales of entities that use currencies other than Australian dollars at the average rates that were applicable in the prior year. The average exchange rate used for the Company's major foreign currency (USD) for the year was 0.66 (2023:0.67).

[2] The pro forma profit before tax is unaudited and has been prepared by management to reflect total Company results less operating costs associated with new product development and commercialisation. Operating costs reflect management allocation estimates where resources are shared between trophon and new product development and commercialisation. The pro forma profit and loss statement also includes income received from the Jobs Plus Program. The pro forma was subject to an agreed upon procedure by the Company’s statutory auditor.

in the first half, but steered the Company back to a trajectory of revenue growth for the full year, creating a solid platform for future growth and expansion.

H2 vs H1 Performance

	H1	H2	% CHANGE (H2 VS H1)	FY24 TOTAL
REVENUE ($MILLION)				
Capital	21.9	26.3	20%	48.2
Consumables & service	57.7	64.1	11%	121.8
Total	79.6	90.4	14%	170.0
UNITS[3]				
New IB	1,100	1,240	13%	2,340
Upgrades	620	890	44%	1,510
Total	1,720	2,130	24%	3,850

"The Company saw continued growth in total installed base globally, which was up 7% for the year. A total of 2,340 new installed base were placed during the year.

"After the challenging first half, the number of upgrade units sold accelerated in the second half of FY24, up 44% in H2 over H1. This growth was particularly evident in North America which was up 71% over the first half. North America continues to represent the greatest opportunity for upgrades and the 820 units sold in H2 represented a record half in that region.

"Following the success of our direct strategy in North America, in addition to ongoing growth in new installed base, upgrades represent a significant opportunity for increased capital revenue and new recurring revenue through service contracts – a domain previously managed by GE Healthcare.

"The Company's recurring revenue was up 9% for the year to $121.8 million. Consumables revenue benefitted from tailwinds associated with the growth in ultrasound procedures with ultrasound as a modality becoming more prevalent in healthcare settings. Service also experienced significant growth in the year, with growth in revenue from service contracts up 41% and a major contributor to the Company's free cash flow.

Regional Review

"Total revenue in North America was up 3% to $154.2 million with H2 revenue of $81.9 million up 13% over H1. Total installed base grew by 2,000 units with 30,390 units now in operation representing approximately 50% of the estimated total addressable market.

"With over 270,000 ultrasound units in operation in North America and an estimated TAM of 60,000 trophon units, the opportunity for ongoing growth in trophon installed base remains significant.[4] This growth opportunity exists both in hospitals not currently using trophon and, importantly, in the significant number of hospitals who have already adopted trophon in some but not all relevant departments. A significant percentage of current new IB sales are associated with expansion into these relevant departments. Outside of the hospital segment, it is estimated that 10,000 of the remaining 30,000 TAM is in the private physician office market where we

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[3] Units comprises new installed base units and upgrades including UK MES units.

[4] Nanosonics analysis based on updated ultrasound information commissioned by Nanosonics and an estimated trophon to ultrasound attachment rate, 2022.

partner with a number of distributors that provide Nanosonics with greater access to this segment.

"Total revenue in EMEA was up 24% to $10.1m primarily driven by 33% growth in consumables and service revenue. New installed base also grew 16% in the year. It should be noted that a significant proportion of capital units in EMEA are placed under the MES model which does not require payment for capital, however the Company receives a higher ongoing consumables price. There are now 2,230 installed base in EMEA, with a growing pipeline.

"In EMEA, the Company continues to invest in its growth plans. In France, Nanosonics has recently established a partnership with Ecolab as our distributor for that market. This new collaboration has led to trophon being successfully listed in the independent disinfection device category on the UGAP public hospital tender. This distinction underscores the trophon technology's unique value and broadens its accessibility to French public hospitals. Nanosonics has also signed distribution agreements with Ecolab in a number of the ME countries and Turkey.

"In the UK and Ireland, we've taken a step further by partnering with Ecolab to distribute their Soluscope TEE (Transesophageal Echocardiography) ultrasound disinfection solution, thereby diversifying our product offerings to encompass all ultrasound modalities. This expansion not only strengthens our position in the market but also enhances our ability to meet the diverse needs of our customers.

"In the Asia Pacific region, although the total installed base was up 6% to 2,170 units (120 new installed base during the year), total revenue decreased by 23% to $5.8 million. This was mainly due to lower overall capital revenue (down 55% on FY23). The primary driver of the reduction in capital revenue was a 41% decrease in the number of upgrade units placed during the year (reducing from 220 in FY23 to 130 in FY24). This decline in upgrades was due to successful upgrade campaigns in previous years where a significant percentage of the older trophon EPR fleet in ANZ were upgraded.

"The Company continues to invest in its expansion plans in the Asia Pacific region with primary focus on Japan. Progress is being made on the development of national based guidelines similar to those in other international markets.

Research & Development

"Research and development continues to be a cornerstone of future growth. During the year, the Company invested $32.8 million in R&D, up 11% compared with prior period. In addition to our Endoscope Reprocessing program with CORIS, the R&D organisation also progressed a number of important projects in its ultrasound reprocessing and connectivity product roadmaps to advance our future offerings and leadership in this sector.

"Our next transformational product, CORIS®, reached a critical milestone in April 2024 when the FDA de novo regulatory submission was filed. The FDA submission represents a significant step toward addressing one of the most critical unmet clinical needs in instrument reprocessing: the cleaning of flexible endoscopes.

"The Company has recently received questions from the FDA and is working to address the questions raised as expeditiously as possible.[5] While the regulatory approval process for CORIS is underway, the CORIS scientific program continues with clinical trials, publication of studies and presentations at international infection prevention and clinical conferences.

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

"Recently, a new study demonstrating how CORIS technology outperforms manual cleaning in biofilm removal in endoscopes was published in the Journal of Hospital Infection. https://www.sciencedirect.com/science/article/pii/S0195670124001993.

"Endoscope cleaning represents a significant opportunity. There are over 60 million flexible endoscope procedures conducted per annum across major Western markets including the United States, Canada, Australia and key European markets which form the opportunity for CORIS.

"In March, we announced the retirement of our Chief Technology Officer, Dr. Steven Farrugia. I am pleased to announce the appointment of Derek Minihane as our new CTO, commencing on 23 September 2024. Derek is an experienced global executive with a 30-year career spanning healthcare, semiconductors, and professional services. He held various leadership roles at Cochlear for almost 14 years, where he led global teams that delivered multiple generations of sound processors, connected health initiatives, longer term research projects, and collaborations with industry and clinical partners. Prior to that, Derek worked in various leadership roles for companies situated in Silicon Valley. Most recently, he has been a partner at Deloitte where he focused on helping clients commercialise their technology.

Financial review

$ millions	FY24	FY23	Change %
Capital revenue	48.2	54.2	▼ -11%
Consumable/service revenue	121.8	111.8	▲ 9%
Total revenue	**170.0**	**166.0**	▲ 2%
Gross profit	**132.4**	**130.6**	▲ 1%
%	77.9%	78.7%	
Operating expenses			
Selling and general	65.8	60.9	▲ 8%
Administration	27.0	23.7	▲ 14%
Research and development	32.8	29.5	▲ 11%
Total Operating expenses	125.6	114.2	▲ 10%
Other income	1.7	1.3	▲ 31%
Fx gains/(losses)-net	0.5	1.8	▼ -72%
Earnings before interest and tax	9.1	19.6	▼ -54%
Finance income-net	3.9	2.0	▲ 95%
Operating income/(loss) before income tax	13.0	21.6	▼ -40%
Income tax benefit/(expense)	(0.0)	-1.7	▼ -100%
Profit after income tax	13.0	19.9	▼ -35%

"As outlined above, a significant turnaround in the second half was experienced which reversed the negative revenue growth in the first half to a 14% growth in revenue in H2 over H1. This resulted in overall total revenue for the year growing 2% to $170.0 million.

"Gross profit margin for the year was 77.9%. Margin was lower in the second half as the Company elected to do a one-off slowdown in manufacturing to lower working capital improving cash flows and returning inventory to desired levels. The Company plans to return to higher manufacturing volumes in FY25 with anticipated improvements in gross margin.

“Operating expenses for the year were $125.6 million for the year (up 10% or $11.4 million on PCP). These investments included all CORIS related expenses as well as one off expenses associated with the implementation of a new ERP system that is due for completion in FY25.

“Profit before tax for the year was $13.0 million down $8.6 million from FY23 taking into account the impact of hospital capital budget constraints on overall capital sales for the year, as well as ongoing investments in the long-term strategic growth agenda.

“Free cash flow was $20.4 million for the year. This was driven by an increase in service contracts with customers paying up-front for multi-year service as well as a reduction in working capital. The business was able to reduce inventory without impacting customer delivery times.

“Cash and cash equivalents were $129.6 million at 30 June 2024. The Company has no debt, providing a strong foundation for continued investment in growth both organically and inorganically. In this respect, the Company recently hired a dedicated resource to identify potential M&A opportunities with a particular focus on opportunities within the medical instrument reprocessing sector.

CORE TROPHON BUSINESS PROFITABILITY

“The trophon business alone continues to generate strong profitability and high returns. The profit before tax of the trophon business was $40.4 million for FY24.[6] This equates to approximately 24% of revenue. OPEX in the trophon business includes investments being made in emerging markets that are not currently contributing significantly to revenue but have the potential to do so in the future. In addition the Company continues investments in R&D on its ultrasound reprocessing technology roadmap. The one-off costs associated with the new ERP implementation are also reflected in the trophon only business”, said Michael Kavanagh, Nanosonics’ Chief Executive Officer and President.

Business outlook – FY25 and beyond

FY25 outlook

Looking forward, the pipeline for capital units continues to build and we remain confident in the ongoing growth opportunity of our trophon ultrasound reprocessing business.

The targets for FY25 include:[7]

- **Total revenue growth of 8-12%**
  - Growing capital revenue with increased unit volumes over FY24.
  - Increasing recurring revenue aligned with growth in installed base and upgrade sales.

- **Gross margin of between 77-79%**
  - Higher production volumes in FY25 after reducing inventory in FY24

- **Operating expenses to grow between 6-10%** including ongoing investment in CORIS and other R&D, as well as one-off expenses associated with the introduction of a new ERP.

[6] The pro forma profit before tax for the trophon business is unaudited and has been prepared by management to reflect total Company results less operating costs associated with new product development and commercialisation. Operating costs reflect management allocation estimates where resources are shared between trophon and new products development and commercialisation. The pro forma profit and loss statement also includes income received from the Jobs Plus Program.

[7] The FY25 outlook assumes an AUD/USD rate of 0.67.

For the trophon only business, we are expecting positive operating leverage and increases in operating margin in FY25.

Beyond FY25

In addition to the targeted growth in FY25, beyond FY25 Nanosonics is targeting:

- Continued expansion of the trophon business across all regions, including growth in installed base, upgrades, and consumables/service;
- Together with ongoing leadership in North America, it is expected that EMEA and Asia Pacific will become material contributors to the global trophon business;
- International commercialisation of the CORIS endoscope reprocessing platform;
- Opportunities for strategic acquisitions will continue to be identified and assessed; and
- Ongoing investment in R&D, infrastructure, people and capability to continue driving the Company's global growth strategy, with the aim of establishing Nanosonics as a global leader in infection prevention.

All guidance is subject to uncertainty in relation to the impact of inflation on hospital capital budgets and healthcare costs in general.

This announcement has been authorised by the Board of Directors of Nanosonics.

INVESTOR CONFERENCE CALL

Investors are invited to join a conference call on Tuesday 27 August 2024 at 11:00am (AEST) hosted by Nanosonics CEO & President, Michael Kavanagh, and Jason Burriss, CFO.

To join the conference call, 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/10040563-lpgs8k.html

FOR MORE INFORMATION, PLEASE CONTACT:

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