

**Nanosonics Limited  
2017 Annual General Meeting  
Chairman's Address**

**Friday, 3 November 2017**

**Brisbane Room, Sofitel Sydney Wentworth Hotel,  
61-101 Phillip Street, Sydney NSW 2000**

**Introduction**

The 2017 Financial Year was both successful and transformational for Nanosonics. Key to our development strategy has been a strong growth in our installed base together with an increasingly powerful and broad new product pipeline. This has been paralleled with an impressive expansion of our patent filings and new technology portfolio, leveraging our team's world leading expertise in automated decontamination and reprocessing.

Key milestones and highlights for 2017 were:

- Increased market penetration and acceptance of trophon in the core markets in which we operate as well as development of new markets as we plan our geographical expansion;
- Ongoing expansion in our North American markets leveraging our own direct operations with a highly focused and expanded OEM strategy strengthening our annuity consumable revenue stream;
- Impressive financial results driving increasing shareholder value and added capacity to significantly increase investment in our new product pipeline whilst accelerating Trophon adoption;
- Nanosonics greatly expanded and deepened its customer engagement program with many infection control societies actively working with us on solving their most pressing problems;
- Several key additions to our team building capability to support the next phase of our development; and
- Positive progress in our global and institutional shareholder base with increasing daily trading volume.

**Financials**

In 2017, Nanosonics reported record sales and profit results with all regions contributing to revenue growth.

As a result of continued strong adoption of the trophon technology and a rapidly growing annuity revenue stream from the Company's consumables portfolio, Nanosonics recorded sales of \$67.58 million in 2017, representing an increase of 58% compared with the prior year.

The Company also reported a significant pre-tax profit of \$13.9 million compared with \$136,000 in the prior year, while free cash flow for the year was \$15.1 million, compared to \$1.9 million in the 2016 financial year. Cash and cash equivalents as at 30 June 2017 was

\$63 million, providing a strong balance sheet for investment in the Company's long term strategic growth agenda.

In addition, Nanosonics' market capitalisation grew 17% to 30 June 2017, with the overall performance and expansion of the Company seeing it enter the S&P/ASX 200 index from November 2016.

### **Key highlights**

During the year, the global installed base of the Company's flagship trophon product increased by 41% to more than 14,100 units, each generating the opportunity for significant annuity revenue.

In North America, Nanosonics has continued to successfully pursue its goal of establishing trophon as standard of care. The North American installed base grew by 42% during the year with approximately 12,400 units now in use across more than 3,000 facilities. In addition to our direct sales operation in North America, this growth in the installed base has been supported by partnerships with the majority of the major ultrasound probe manufacturers who are actively recommending and selling the trophon hardware to their customers.

The adoption of trophon has continued in other markets where we are currently operating supported by a continuing strengthening of the market fundamentals.

An important driver of the fundamentals for adoption are guidelines published by relevant leading local and international organisations backed with the support of key opinion leaders. This year saw the publication of a number of important and strengthened guidelines for high level disinfection of ultrasound probes. These continue to drive increasing global adoption, helping establish trophon as the new "standard of care" and replacing toxic and manual procedures.

Global market expansion continued with the Company establishing its direct sales operations in Canada and the signing of an agreement with Sakura Seiki for the distribution of the trophon system in the important Japanese market. Further geographic expansion is planned across Europe, Middle East and Asia Pacific to broaden our global footprint.

### **GE Healthcare**

GE Healthcare has been an important partner of Nanosonics for the last six years and in August this year we were pleased to announce an extension of our partnership through a new agreement which will come into effect from July 2019. The new 3 year agreement provides GE Healthcare capital reseller rights as part of Nanosonics' ultrasound OEM program ensuring GE Healthcare's customers have ongoing access to the state of the art trophon through the GE Healthcare ultrasound sales channel.

As a result of the new agreement Nanosonics will gain a material increase in both sales and margin on consumables in North America as of July 2019.

### **Research and Development**

Product expansion through strategic investment in Research and Development continues to be a core focus. During the year, the Company increased its investment in R&D by 30% to \$9.5 million. A significant focus of our R&D effort is to grow the trophon ecosystem as a core business and value driver. Importantly, we have been directing our resources on identifying opportunities and developing new products that target high value, regulated,

infection and microbial control markets with the potential for significant recurrent consumables revenue.

As previously announced, the resulting progress on a number of new products means the Company is targeting two new key products releases over the next two years, subject to regulatory approval.

The Company's patent portfolio also continued to make strong progress with nine applications successfully passing examination to proceed to allowance or grant.

Our CEO, Mr Michael Kavanagh will further expand on the financial and operational highlights of the year in his address.

### **Board**

With the election of Marie McDonald and Steve Sargent, we now have added to our outstanding mix of highly skilled and experienced individuals each contributing to driving the Company toward its growth objectives.

As part of our ongoing Board development process, I am delighted to announce the recent appointment of Steve Sargent as the Company's Deputy Chairman and lead Independent Non-executive Director. Steve has been a Board member since July 2016 and brings to his expanded role a wealth of experience, both as a long standing senior executive as well as being a director and chair of other major ASX listed companies. On behalf of the Board, I offer my congratulations to Steve.

We remain committed to developing our Board capability and striving for a fusion of commercial and social outcomes by focusing on innovative practices whilst managing risk in an ever more dynamic commercial environment.

### **Capital management**

Nanosonics has established a strong cash balance of approximately \$63 million. In relation to capital management, I'd like to emphasise that the generation of shareholder value is central to our strategy. With the market opportunities growing daily, we consider that shareholder value is best delivered by leveraging our robust cash reserve to support investment in our growth strategy, global expansion and crucially driving increasing resources towards our innovation programs. We continue to evaluate a future window for dividends whilst believing that a broadening of our product portfolio and ever greater recurrent consumable revenue will enable future sustainable and growing dividends.

### **Environmental, Social and Governance**

I am pleased to say that on the 25<sup>th</sup> of October, Nanosonics was recognised as the winner in the Environmental Solutions industry category at the Premier's NSW Export Awards for contributions to the environment and now moves forward as a National Finalist in this category.

The important topic of Environmental, Social and Governance is embedded in the Company's culture and approach to business. A core aspect of our corporate mission is to "improve the safety of patients, clinics their staff and the Environment". Consequently, environmental responsibility lies at the heart of our mission.

Our trophon technology eliminates the need for the use and disposal of toxic chemistry where the by-product of our disinfection process is only oxygen and water. Approximately 70% of the trophon components are recyclable as are all bottles used for our disinfectant

Sonex. The organisation also follows the General Guidelines for Environmental Management in an organisation. Further, the company has established a “Green Team” which was set up to encourage and implement environmental initiatives all throughout the company.

Nanosonics also takes its social responsibility seriously. This takes many forms including:

- Advancing required knowledge in infection prevention practices around the world through our education programs as well as partnerships such as the Armstrong Institute for Patient Safety and Quality which aims to improve health care delivery at Johns Hopkins Medicine, Baltimore and around the world;
- Providing intern placements for students from Sydney University, the University of NSW and University of Technology Sydney; and
- Nanosonics has a number of charitable initiatives, supports employees to undertake charity events and fundraising and also supports workplace giving via a Corporate Citizen Program.

These are all important initiatives which we plan to continually build on.

### **Change of Auditor**

I would like to thank our Auditors, UHY Haines Norton who have been our auditors since our earliest days as a publicly listed Company and during this time we have enjoyed a highly professional and productive working relationship with the firm.

As our business has expanded globally and taking into consideration the future growth plans of the Group, the Board determined to review our requirements and initiate a tender process for the audit. Following this process, it has been determined that, subject to the passing of shareholder resolution 4, which we will come to shortly, the Company proposes to appoint Ernst & Young as its auditor from today.

Looking forward, we are confident that EY will be an important partner as the operations of the Group grow in scale and a broadening international focus.

### **Outlook**

Specifically, for FY18, as announced in August:

- Our investment in R&D is planned to grow this year with the aim of bringing two new products to market over the next two years subject to regulatory approvals;
- We are continuing to expand our regional operations and invest in new markets such as Japan; and
- As a result of this investment in our growth we expect our operational expense for the full year to be approximately \$48 million which includes \$14 million in R&D.

We expect the fundamentals for adoption to continue to strengthen across different markets around the world with the introduction of new studies and guidelines.

In the US, a degree of uncertainty around healthcare reform remains which can impact the timing of capital equipment purchases. That being said, we expect the installed base in the US to increase by a similar number in the first half of FY18 as it did in the second half of FY17 leading to an attractive and strategic cumulative installed base growth which will drive growing annuity revenue from our consumables.

Some variability in the volume and phasing of purchases from our distributor GE Healthcare in North America is expected as they closely manage their inventory levels from a working capital perspective. In addition, foreign currency is a variable which Nanosonics exposed to.

Our European business is expected to grow with the UK taking the lead. It is expected that up to 90% of units installed in the UK will be under our Managed Equipment Service model rather than under the capital sale model. Therefore, while we won't see upfront revenue from the sale of capital equipment this model is expected to deliver strong annuity returns and drives faster adoption.

### **Conclusion**

From its origins as a small Australian medtech start-up, Nanosonics has now established itself as an emerging global leader and innovative pioneer delivering new products and services based on its commitment to "infection prevention for life".

Nanosonics has continued to expand its team and now has over 170 employees located around the world. I would like to acknowledge the contribution of each member of our team whose skills and commitment is an integral part of our ongoing success. I would also like to thank my fellow Board members for their efforts and valuable contribution throughout the year.

Of course, none of this would be possible without the continued support of our loyal and increasing shareholder base along with capital markets supporters and analysts.

Nanosonics is in a strong position to leverage its experience, global market presence, cash resources and, most importantly, its human capital and expanding IP portfolio to drive success and shareholder value now and into a bright future. Our "point of care" focus and automated, environmentally friendly stream of innovation ensure our products are recognised as setting a new "standard of care".

I would now like to invite the Company's CEO & President, Mr Michael Kavanagh to deliver his presentation. Michael has served as CEO for the past four years and, under his outstanding leadership, Nanosonics continues to go from strength to strength.

**Mr Maurie Stang**  
**Chairman**