20 August 2018

Company Announcements Office
Australian Securities Exchange

Nanosonics 2018 full year financial results

HIGHLIGHTS

- **Continued strong installed base growth of trophon® EPR units with global installed base increasing 25% to 17,740 including 26% growth in North America to 15,620 units and 49% growth in Europe to 730 units.**
- **Momentum continues in United Kingdom with installed base of Managed Equipment Service (MES) units growing 146% year on year.**
- **Fundamentals for ongoing adoption of trophon continued to strengthen internationally with a number of new guidelines and supporting studies released in Europe with more anticipated in FY19.**
- **Earlier than anticipated regulatory approval of trophon2 received in North America and Europe in April and June respectively with commercial launch commenced in August.**
- **Total sales of $60.7 million ($62.2 million in constant currency) were down 10% (7.8% in constant currency) on prior year. Sales of consumables and service were up 25% (28% in constant currency) to $35.2 million ($36.0 million in constant currency) reflecting the increasing installed base, demonstrating strong growth in the annuity revenue profile. Total sales reflect:**
  - **A transitionary reduction in capital revenue associated with the earlier than anticipated regulatory approval of trophon2 and subsequent run down of trophon EPR inventory by distributors;**
  - **Some customers deferring purchase pending launch of trophon2; and**
  - **A broadening number of selling models each with different revenue profiles, including Managed Equipment Service in the UK where a growing number of trophon units were placed with no upfront capital revenue recognised.**
- **Resulting operating profit before tax was $5.6 million, compared with $13.9 million in the prior year.**
- **Cash reserve of $69.4 million, up from $63.0 million at 30 June 2017, maintaining a strong balance sheet to support an active growth strategy.**
- **Business development manager for the Europe and Middle East region appointed to drive geographic expansion and leverage continued introduction of new international guidelines.**
- **Clinical study commenced in Japan with preliminary data demonstrating similar rates of microbial contamination on probes as identified in other international studies, supporting the development of high level disinfection guidelines.**
- **Strategic investment in new product development program with further increased investment anticipated in FY19, targeting one or more new infection prevention solutions by the end of FY20, subject to regulatory approvals.**

Nanosonics (ASX: NAN), a leader in infection control solutions, today announced its Appendix 4E Full Year Report for the full year ending 30 June 2018.

"The 2018 financial year has been a year of ongoing achievement and success with very solid progress across all aspects of the Nanosonics business as we continue to execute on our long term

strategic growth agenda," said Michael Kavanagh, Nanosonics' Chief Executive Officer and President.

"The goal of establishing trophon as the standard of care for the high level disinfection of all semi-critical and critical ultrasound probes progressed positively. By 30 June 2018, the global installed base (IB) grew 25% to 17,740 units with North American IB growing 26% to 15,620 units and Europe up 49% to 730 units. This means that approximately 55,000 patients are protected every day from the risk of cross contamination because their probe has been trophoned. Importantly, the fundamentals for adoption continued to strengthen, particularly in Europe, with the release of a number of new guidelines and supporting studies which further support ongoing strong growth in adoption.

"Earlier than anticipated regulatory approvals were received, in April in the USA and June in Europe, for trophon2, our next generation trophon device. Building on the success of the original trophon® EPR, trophon2 reflects a completely new mechanical and software design that delivers a range of new benefits based on input and feedback from our global community of customers. trophon2 delivers new functionality including AcuTrace™ for paperless traceability and documentation, and capabilities for it to be seamlessly integrated with hospital IT systems, as well as a range of new features to further optimise point of care usage and clinical workflow. trophon2 was made commercially available in North America and Europe from mid-August.

"Significant investments were made throughout the year in our direct operations' capacity and capability. The resulting expansion of our direct operations and infrastructure in the USA, Canada, UK and Germany will support and drive ongoing growth in the installed base of trophon and prepares the organisation of the introduction of an expanded portfolio of products.

"Our Research, Design and Development strategy progressed in accordance with internal milestones as we target one or more new infection prevention solutions by end FY20 subject to regulatory approvals."

FINANCIAL RESULTS

As foreshadowed, the FY18 financial results reflect a transitionary reduction in capital revenue associated with earlier than anticipated regulatory approval of trophon2 and subsequent run down of trophon EPR inventory by distributors, as well as some customers deferring purchase until the release of the new trophon model. Sales also reflect a broadening number of selling models each with different revenue profiles, including Managed Equipment Service (MES) in the UK where a growing number of trophon units were placed with no upfront capital revenue recognised.

$ millions	**FY18**	**FY17**	**Change**
Sale of goods and services	**60.7**	**67.5**	▼ 10%
Gross profit	**45.3**	**50.2**	▼ 10%
%	75%	74%	
Selling, general and administration	(32.7)	(27.5)	▲ 19%
Research and development	(9.9)	(9.5)	▲ 4%
Other income	0.1	-	▼ nm
Other gains/(losses) - net	1.6	(0.3)	
Finance income (net)	1.2	1.0	▲ 20%
Profit before income tax	**5.6**	**13.9**	▼ 60%
Income tax (expense)/benefit	0.2	12.3	
Profit after income tax	**5.8**	**26.2**	▼ 79%
Cash Balance	**69.4**	**63.0**	▲ 10%

nm – not meaningful

Sales for the year were $60.7 million (or $62.2 million in constant currency), down 10% (or 7.8% in constant currency) compared with the prior year.

Operating expenses for the year were $42.6 million compared to $37.0 million in the prior year. Other net gains, comprising mainly of net gain on foreign currency forward contracts and options, were $1.6 million and compare with a net loss in 2017 of $0.3 million.

Operating profit before tax was $5.6 million compared with $13.9 million in the prior year. Free cash flow for the year was $6.2 million and cash as at 30 June 2018 totalled $69.4 million, up from $63.0 million at end of June 2017.

REGIONAL REVIEW

North America

Throughout FY18, trophon continued to be adopted as the new standard of care with the installed base increasing by 26%, growing from 12,400 units to approximately 15,620. trophon has now been adopted in all of the top 50 hospitals in the USA and in approximately 5,000 hospitals and clinics. While the announcement of the early regulatory approval of trophon2 resulted in a number of customers deferring purchase until its availability, the fundamentals for adoption continued to strengthen.

Total revenue in North America was $54.4 million ($56 million in constant currency) down from $62.3 million in FY17. This reduction in revenue was primarily associated with a transitionary reduction in capital revenue due to earlier than anticipated regulatory approval of trophon2 and subsequent run down of trophon EPR inventory by distributors, as well as some customers deferring purchase, pending the release of the new model. Revenue associated with consumables and service was up 22% to $30.3 million ($31.1 million in constant currency), reflecting the strong ongoing growth in installed base.

An important national survey amongst infection preventionists was published in the American Journal of Infection Control (AJIC) in June 2018, revealing significant non-compliance with guidelines for the decontamination of semi-critical surface ultrasound probes. Until now, the main focus has been on reprocessing intracavity probes. However, there are a growing number of procedures such as ultrasound guided biopsies and wound scanning that use surface probes where high level disinfection (HLD) is required.

A range of education initiatives are now being implemented to ensure customers are aware of the requirements for HLD of all critical and semi-critical surface probes.

Significant investments were made in the region during the year with the appointment of the Regional President for North America, and increasing the team to 54 people across sales, clinical applications, service, finance and logistics functions. These investments support the ongoing growth of trophon as well as setting up the necessary infrastructure as part of our product expansion plans.

Capital reseller agreements are now in place with all major ultrasound companies in North America and sales through this channel are growing. The majority of these resellers now include trophon in their trade displays at major ultrasound conferences, demonstrating to customers the importance of probe HLD and trophon as the recommended standard of care.

Early in FY18, Nanosonics announced it had entered into a new Capital Reseller agreement with GE Healthcare in North America, which comes into effect in FY20. This new three year agreement provides GE Healthcare customers with ongoing access to trophon through the GE Healthcare sales channel. Under the terms of the new agreement, Nanosonics will gain a material increase in both consumables sales and margin in North America from July 2019.

Europe / Middle East

Adoption of trophon in Europe grew by 49% in FY18, where the IB increased from 490 to 730 units. This increase was primarily driven by the UK where our Managed Equipment Service (MES) program resulted in strong growth with the installed base of MES units increasing 146% during the year. Under the MES program, trophon capital equipment owned by Nanosonics is placed in hospitals and the facility pays an all-inclusive price for consumables in return for the use of the fully maintained trophon.

Total revenue in Europe was $3.0 million ($2.9 million in constant currency), up 76.5% from $1.7 million in FY17. This increase in sales was primarily driven by a 100% increase in revenue from consumables and service which was up to $2.2 million compared with $1.1 million in the previous year.

During the year, a number of new guidelines were introduced supporting the requirement for HLD of probes including guidelines from the European Society of Radiology, British Medical Ultrasound Society and the German Society of Ultrasound in Medicine. In addition, an important population based study was completed in Scotland which clearly demonstrated the increased risk of infection and antibiotic prescription when probes are not decontaminated. The new guidelines, together with this study will drive ongoing growth in FY19. Further supporting guidelines are expected in FY19 from the Ministry of Health in France.

To support growth in our European region, investments were made during the year to expand the sales and service team in the UK and Germany. This included the appointment of a European Business development manager, who will focus on geographical expansion in Europe and the Middle East. Active projects are underway in Scandinavia, Israel, and Saudi Arabia.

Asia Pacific

Australia and New Zealand are currently the primary markets in the Asia Pacific region where trophon has approximately 70% market penetration. Total installed base in the region grew by 9% to 1,390 units, reflecting the already highly penetrated market in ANZ.

Total revenue in the region was $3.3 million, down 6% from $3.5 million in FY17. This reduction was primarily associated with the timing of the purchase of trophon units. However, sales in consumables and service increased 21.7% to $2.8 million, up from $2.3 million in FY17.

In Japan, pre-marketing activities continued during the year and included engagement with key opinion leaders as well as the commencement of an important local clinical study to demonstrate the level of contamination on intracavity ultrasound probes. This study should be completed by the end of Q1 FY19 and preliminary data suggests that the probes have similar levels of contamination as reported in other international studies which has led to the adoption of HLD guidelines.

BUSINESS OUTLOOK

"The Company's strategic growth agenda continues to be focussed on three core areas:

1. Establish the trophon technology as the standard of care in those markets where trophon is already represented;
2. Expand into new markets as fundamentals for adoption strengthen with the release of new guidelines; and
3. Develop new products focussing on unmet needs in infection prevention.

"A number of selling models are now in operation which can be leveraged for specific customer needs. Each model has different implications for the timing of revenue recognition associated with the capital equipment. However, all are attractive, profitable models in the long term with annuity revenue growing as the installed base grows. These models include:

- Capital equipment sales (Direct);
- Capital equipment rentals (Direct);
- Managed Equipment Service model (Direct);
- Ultrasound Capital Reseller model; and
- Distribution model.

"Importantly, in July 2019, our distribution agreement with GE Healthcare in the USA will change to a Capital Reseller model, which will result in a material increase in both sales and margin from consumables in North America from 2019.

"In FY19 we expect:

- Continued growth in installed base in North America with FY19 adoption similar to FY18.
- GE North America to rebuild inventory of Capital Equipment upon launch of trophon2.
- trophon2 upgrades for trophon EPR units over five years old to commence in FY19.
- Adoption in Europe to grow with:
  - MES program in UK continuing to grow positively in FY19, targeting new unit growth of 75% to100% over FY18 of which 90% will be under the MES model;
  - New guidelines in Germany in addition to introduction of trophon2 to stimulate broader adoption; and
  - New guidelines to be released in France by the ministry of health in FY19.
- Final results of clinical study in Japan to be reported in early Q2 to support development of guidelines. Pre-marketing activities to continue throughout FY19. Regulatory approval of trophon2 in Japan expected by the end of FY19.
- Continued investment in growth with total FY19 operating expenses expected to be approximately $53 million including approximately $13 million in R&D, with the majority of that R&D expense directed towards new product development.

Beyond FY19 we expect:

- Continued growth in trophon installed base in core markets as new guidelines continue to be released and the requirements for HLD of all semi-critical probes is understood and adopted.
- Material increase in both sales and margin from consumables in North America from July 2019 resulting from new GE agreement.
- Further geographic expansion into new markets.
- Ongoing development of new infection prevention solutions targeting one or more new products by the end of FY20, subject to regulatory approvals."

Michael Kavanagh
CEO / President

Investor conference call
Investors are invited to join a conference call hosted by Michael Kavanagh, CEO and President and McGregor Grant, CFO at **11.00am AEST on Monday 20 August 2018.**

Conference ID: 964 418

To pre-register for the call with a diary note sent to you, click here.

Australian Participant Dial-in Numbers
Toll: +61 2 9007 3187 (can be used if dialing from international location)
Toll Free: 1800 558 698

International Participant Dial-in Numbers
Toll-free dial-in numbers for each country are listed below. For countries not listed below, the Australian Toll number provided above may be used.

Canada	1855 881 339
China	4001 200 659
Hong Kong	800 966 806
India	0008 0010 08443
Japan	0053 116 1281
New Zealand	0800 453 055
Singapore	800 191 2785
United Kingdom	0800 051 8245
United States	855 881 1339

For more information please contact:
Michael Kavanagh, CEO / President or McGregor Grant, CFO, on (02) 8063 1600
Kyahn Williamson, Investor Relations, Buchan Consulting on (03) 9866 4722
Ben Walsh, Media Relations, Buchan Consulting on (03) 9866 4722.

About Nanosonics
Nanosonics Limited is developing a portfolio of decontamination products designed to reduce the spread of infection. The Company owns intellectual property relating to a unique disinfection and sterilisation technology which can be suited to a variety of markets. Initial market applications are designed for the reprocessing of reusable medical instruments. The Company's first product is designed to disinfect Ultrasound Transducers. For more information about Nanosonics please visit www.nanosonics.com.au

Appendix 4E

Preliminary Final Report – Results for Announcement to the Market

Name of entity: **NANOSONICS LIMITED**

ABN 11 095 076 896

Year ended: **30 June 2018**

Nanosonics Limited (the Company) gives the following information to ASX under listing rule 4.3A and Appendix 4E.

1 Reporting period: Year ended 30 June 2018

Previous corresponding period: Year ended 30 June 2017

2 Results for announcement to the market

		% change		$000's
Sale of goods and services	Down	**10.1%**	to	**60,698**
Earnings before interest and taxes	Down	**66.1%[1]**	to	**4,362**
Operating income before income tax	Down	**59.7%[2]**	to	**5,583**
Profit from ordinary activities after tax attributable to members	Down	**78%[3]**	to	**5,751**
Net profit for the period attributable to members	Down	**78%[3]**	to	**5,751**

Dividends	Amount per security	Franked amount per security
Interim dividend paid per share	-	-
Final dividend paid per share	-	-
Dividends proposed per share	-	-
Record date for entitlement to dividend proposed	n/a	n/a

Net Tangible Asset Backing	**30 June 2018**	30 June 2017
Net tangible asset backing per ordinary security on issue at period end:	**26.40 cents**	24.46 cents

1. In the previous corresponding period, the Company had earnings before interest and tax of $12,866,000 compared to this period's $4,362,000 earnings before interest and tax.
2. In the previous corresponding period, the Company had an operating profit before tax of $13,852,000 compared to this period's $5,583,000 operating profit before tax.
3. In the previous corresponding period, the Company had a consolidated profit after tax of $26,158,000 compared to this period's $5,751,000 consolidated profit after tax.

The Nanosonics Limited audited Annual Report for the year ended 30 June 2018 accompanies this announcement.

Appendix 4E - Preliminary Full Year Report
Year ended 30 June 2018

Additional Appendix 4E disclosure requirements can be found in the Directors' report, the review of operations and the 30 June 2018 financial statements and accompanying notes in the Annual Report.

Where applicable, the Annual Report includes information per items 3 to 16 below:

3 Consolidated statement of profit or loss and other comprehensive income together with notes to the statement, prepared in compliance with AASB 101 Presentation of Financial Statements.

4 Consolidated statement of financial position together with notes to the statement.

5 Consolidated statement of cash flows together with the notes to the statement, prepared in compliance with AASB 107 Statement of Cash Flows.

6 Consolidated statement of changes in equity showing retained earnings/ (accumulated losses) and movements during the year.

7 Details of dividends are shown in the Directors' report and in note 2.7 to the financial statements. No dividends were proposed, declared or paid during the reporting period and the previous corresponding period.

8 No dividend or distribution reinvestment plans operated during the reporting period and the previous corresponding period.

9 Net tangible assets per security with the comparative figure for the previous corresponding period is noted in the table in item 2 above.

10 There were no entities over which control has been gained or lost during the period and the previous corresponding period.

11 The entity had no associates or joint venture entities during the period or the previous corresponding period.

12 Other significant information is available in the Annual Report for the year ended 30 June 2018 that accompanies this announcement.

13 Nanosonics Limited is an Australian company which applies Australian Accounting Standards and also complies with International Financial Reporting Standards.

14 A commentary on the results for the period is available from the review of operations included in the CEO's report on page 6, the Regional highlights on pages 10 to 15 and the Directors' report on page 24 to 50 of the Annual Report. Other relevant information is as follows:

		2018	2017
14.1	Earnings per share	**cents**	cents
	Basic earnings per share	**1.92**	8.79
	Diluted earnings per share	**1.91**	8.70

Details of earnings per share are shown in note 2.6 to the financial statements.

14.2 There were no returns to shareholders during the period or the previous corresponding period.

14.3 Significant features of operating performance are included in the Annual Report.

14.4 The entity has one business segment, being healthcare equipment and operates in three geographical regions – North America, Asia Pacific, and Europe. Segment information is included in note 2.1 to the financial statements.

15 The financial statements included in the Annual Report have been audited and the Auditor's report appears on pages 86 to 91.

16 The financial statements included in the Annual Report are not subject to audit dispute or qualification.

Directors' resolution

The information set out above and in the Annual Report accompanies this announcement is provided to ASX in accordance with a resolution of the directors.

Signed:  Date: 20 August 2018

Print name: McGregor Grant
CFO and Company Secretary