NEXT SCIENCE®

Next Science Limited (ASX:NXS)
Investor Briefing - Full Year Results
Tuesday, 23 February 2021

Good afternoon and thank you for joining the Next Science Full Year 2020 results investor briefing.

We have released a new powerpoint deck to ASX and we will refer to parts of it during the presentation. We will start on Slide 2.

As you know, Next Science is the company that has a unique technology platform that allows the dispersion of biofilm and the elimination of the bacteria, virus and fungus that can be thriving beneath the biofilm. Our proprietary technology, Xbio, works physically on the biofilm and the bacteria, so our products are currently creams, gels and washes. We are the only company in the world with approved products that resolve biofilm-based infections in humans. Over 150,000 patients have now been treated with our XBio products and Bactisure is now actively used in around 10% of US hospital and ambulatory surgery centres.

Moving to Slide 4. This slide highlights that we have a broad-based opportunity in healthcare (literally from head to toe on humans), and our current number 1 priority for 2021 is the launch of XPerience, first antimicrobial solution that does not require being rinsed out of the surgical cavity – and the product is expected to launch in the 1H of 2021.

Let's move to Slide 5 and take a look back at 2020.

In the 2020 year, we had 3 products being sold in the US market, and Bactisure™ was also sold in Canada, South Africa, Chile, New Zealand and in Q4, Australia.

We also received the CE Mark clearance for Bactisure and in December BlastX was cleared, giving us access to the European market where products will be launched in 2021. This is an important point, as these approvals expand our addressable market and support our growth outlook.

The CE Mark for BlastX is a major milestone as the product was approved as our first Class III product and passed through examination and assessment by the Medical Evidence Board.

Like many companies serving the US hospital and hospital outpatient market, our revenue was impacted by COVID 19, as treatment of chronic wounds was not considered an essential service and many wound care clinics were closed. Our BlastX distributor, 3M, sequestered their Wound Care sales force to work from home through Q2, Q3 and most of Q4.

I am pleased to say by Q4 we had returned revenue to growth (year on year Q4 grew 75% on prior year) and the impact of COVID was restricted to a 15% decrease in annual revenue, all attributable to a reduction in BlastX sales.

During COVID, we were able to continue to work on our product development pipeline and expanded our patent base to 31 patents.

As part of our planned XPerience distribution strategy, we built out the surgical sales network, offering SurgX as the Xbio introduction in preparation for the launch of XPerience in 2021.

As we look at the key contributors to revenue, the product mix was heavily tilted towards Bactisure with minor contributions from SurgX, Acne treatments and BlastX.

As we continue into 2021, we were pleased to see our revenue lift in Q4 and anticipate this run rate holding through Q1 and Q2 of FY21.

This excludes any contribution from XPerience, our major new product.

So deep diving into our key products: on Slide 6.

The Bactisure Wound Lavage is sold by the leader in Hip and Knee Orthopaedic Sales – Zimmer Biomet. Our relationship is global and business continues to grow year on year since launch in 2017. Bactisure continues to grow support as a key treatment of Prosthetic Joint Infection – either during a Debridement and Irrigation procedure (knowns as DAIR), or during the Stages of the joint revision surgery. As noted in the conclusion of the clinical trial, Bactisure can have a profound reduction on the bacteria present.

Our chronic wound product: BlastX – will be distributed by Next Science from Q2 2021. In bringing the product back from 3M (who had distribution rights from January 2019), we can expand the market opportunity to all sites of service for non-healing or chronic wounds and across a broader range of applications. Put simply,bringing BlastX inhouse allows us to more than double our addressable market. This is a different strategy than deployed by 3M, who chose to limit their activities to Outpatient clinics.

We can now address the complete US chronic wound population of 8.2m patients. This market is growing at 5.6% pa.

Why are we excited about BlastX? Because we know how well it works and what a significant patient benefit it delivers. Over the last 15 months clinical trials have shown that the addition of BlastX to a treatment protocol in the early presentation of a chronic wound can quickly change the trajectory of healing and at the same time, for those wounds that are painful – like pressure ulcers – the patient starts to get almost immediate pain relief as the infection in the wound is reduced.

The work of Dr Thomas Serena, in showing how effective BlastX worked to bring wounds that were failing NPWT therapy, to a trajectory of healing by using BlastX under the foam of the wound vac. This underlines the opportunity that exists for us to help manage the 2.5 million pressure ulcers that are currently being reported in the US health system. We will be leaning into these opportunities as the business transitions back to our control.

Further details on those products are available on Slides 7 and 8

Moving now to Slide 9 and our new products for 2021.

Those of you who follow our company would know we are currently awaiting FDA Clearance for our newest product XPerience – a no rinse anti-microbial solution for use in surgery to prevent surgical site infection.

The invitro and animal testing completed with this product delivers stand out results in eliminating and preventing the biofilm and any bacteria, fungus or viruses that may be in the surgical cavity. In September, at the later stage of the review process, the FDA requested further animal testing and bench testing data. All of the requested tests were successfully completed and the dossier went back to the FDA in December.

We will keep the market abreast of updates as the FDA move through their clearance process. We expect to receive clearance and launch XPerience in 1H of 2021 and as you will see on our balance sheet, we have already built inventory to support early sales post Clearance.

Our first launch will be targeted at orthopaedic surgeries in the US. There are currently 5.4M orthopaedic surgeries carried out across the 6000 Hospital and 9000 Ambulatory Surgery Centers (**ASCs**) in the United States. CMS (the agency paying for the Medicare and Medicaid patients) recently approved hip surgeries, as well as knee surgeries and some additional spine procedures for reimbursement in the ASCs, and ASCs are often the preferred site of service for patients who want a short stay episode of care (patient stay is 23 hours).

Orthopaedics is an attractive target for us for multiple reasons:

- Many orthopaedic surgeons know and appreciate the science and benefits behind Bactisure – and are happy to talk about a preventative technology that can work on the same principle

- Orthopaedic surgeons, know, understand and are looking for answers against biofilms – this shortens our education process

- Post the COVID peak surges, as hospitals opened some elective surgery capacity, it is preferentially being given to orthopaedics as the hospitals need to recover their own profitability and these service lines are strong contributors to the hospital bottom line and the majority of our distributors are in the orthopaedic departments day in and day out assisting with surgeries, so they have access to the relevant health care professionals to discuss a new product.

Then, the product advantages of XPerience of:

- Being active for at least 5 hours

- Being the only product that isn't required to be rinsed out, so literally rinse in and close – without any "waiting" or extra rinses. The other products in the market are required to be removed.

- And of course, the performance of the product in eliminating the bacteria – with market leading kill rates against MRSA (golden staph) – so the surgeons can be more confident about their patients going home infection free.

These features have seen us get very positive responses from the sites where we have had introductory discussions about the product. As we have stated previously, we will support the commercialisation of the product with several trials to demonstrate not only the product efficacy but also the savings provided to the hospital by reducing the post-operative complication rate.

We expect two other products to go to market in 2021:

- Torrent X – a wound wash that is going to be sold with Triad Life Sciences' dermal matrix product Innovamatrix

- Hard Surface Disinfectant - which is in the process of being licensed out

I would now like to introduce you to our CFO, Jacqueline Butler, who is going to walk through the P & L, Balance Sheet and Cash Flow.

So if you turn to Slide 12, we can take a look at the financials. You can see revenue was adversely impacted by COVID 19, with a decline of 15% for the year – the majority of the impact being on Quarters 2 and Quarters 3.

Revenue returned to growth in Q4 with 75% increase year on year and this Q4 run rate is continuing into H1 2021.

Gross margins were at 85% in 2020. As we move into 2021, our Gross Margins will be maintained or improve.

Our expenses remained well controlled. We have reclassified some line items along functional lines but total costs remain unchanged.

The largest increase in expenses was in R & D as we finalised the XPerience product development.

Clearly the second half was a tale of two different quarters. While Q3 was depressed due to pandemic related restrictions, Q4 saw a strong recovery. On Slide 13, we show the sequential improvement. Q4 represents a growth of 75% on prior year revenue.

As we move to the balance sheet on Slide 14, you can see we have USD$15.3M in the bank and we are debt free. This includes the proceeds from the successful AUD$15M capital raise we completed in the second half to support the XPerience sales launch and sales growth.

Working capital through accounts receivable and product inventory will increase as we build out the direct distribution model for XPerience for the US market.

I will take the cash flow waterfall on Slide 15 as read and will now hand back to Judy.

Looking at our Outlook on Slide 16, as I mentioned earlier, moving through Q1 and Q2 we are targeting our Q4 revenue run rate. In addition, we expect the XPerience launch in 1H 2021 and the introduction of BlastX into the wider wound care market to provide additional revenues.

Our gross margins will be maintained.

Our working capital is expected to increase to support the XPerience launch and our SG&A will increase reflecting increased commissions for XPerience and the costs associated with the direct sales of BlastX from 1 April 2021.

We have entered 2021 with positive momentum.

With a 2021 focus of bringing XPerience to market and improving our internal sales capability we look forward to the opportunity of our technology being used more broadly.

For those who wish to take a deeper dive, our medical device clinical trials are shown in the Appendix, along with external references for some of the facts in the presentation.

We will now take questions.

Approved and authorised for release by the Managing Director, Judith Mitchell