# AROA BIOSURGERY SEPTEMBER 2021 4C – COMMENTARY

**Financial Highlights**

- H1 FY22 product revenue (unaudited) grew 110% on H1 FY21 and 39% on H2 FY21, to **NZ$17.2 million on a constant currency basis**.[1] H1 FY22 product revenue (unaudited) was **$17.7 million on a reported basis**.
- Total reported H1 FY22 revenue (unaudited), inclusive of project fees was **NZ$17.9 million**.
- FY22 guidance for product revenue (on a constant currency basis) **upgraded to NZ$34-37 million** (up 58%-71% on FY21) from previous guidance of NZ$30-33 million.[2]
- Net cash flow outflow from operations was NZ$2.8 million for the quarter, which included a one-off interest payment of NZ$1.5 million to Hollister Inc. ('Hollister').
- Net cash inflow from financing activities was NZ$38 million for the quarter, which included the proceeds from the capital raise and full repayment of the debt outstanding to Hollister.
- Strong cash balance of NZ$65.3 million as at 30 September 2021, and the Company is debt free.
- AROA will host an investor webinar today at 11.30am AEDT to discuss the results. Click here to register.

**Operational Highlights:**

- Completion of approximately A$47.4 million capital raise predominantly with institutional investors.
- Contract extension for AROA's Myriad™ products with a leading US group purchasing organization ('GPO'), HealthTrust Purchasing Group, L.P. ('HealthTrust'). This provides approximately 1,500 US hospitals and healthcare systems access to Myriad products.
- Manufacturing and development activities have not been materially affected by extended lockdowns in Auckland, New Zealand to date. Construction is on track to triple manufacturing capacity, and is expected to be completed by the end of CY21. COVID-19 led global supply chain disruptions are not anticipated to materially impact product manufacturing in H2 FY22.
- Further clinical validation for Endoform™ and Myriad Matrix™ with clinical studies published in leading peer-reviewed scientific journals.

Soft tissue regeneration company Aroa Biosurgery Limited (ASX:ARX, 'AROA' or the 'Company') is pleased to provide an update on its activities for the quarter ended 30 September 2021, and update its guidance for FY22.

[1] Constant currency removes the impact of exchange rate movements. This approach is used to assess the AROA group's underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the USD. The NZD/USD exchange rate of 0.72 has been used in the constant currency analysis, representing the AROA group's budget rate for FY22. All references in this announcement to 'constant currency' are as set out in this footnote.

[2] Given the dynamic and evolving impact of COVID-19, the upgraded guidance is subject to there being no material decline in US medical procedure numbers. It assumes an average NZD/USD exchange rate of 0.72.



**AROA BIOSURGERY LIMITED**
**ARBN 638 867 473 NZCN 1980577**
64 Richard Pearse Drive, Auckland 2022, New Zealand
**AROABIO.COM**

## Financial commentary and outlook

AROA's finalised unaudited product revenue for H1 FY22 is NZ$17.2 million on a constant currency basis. This is in line with the Company's preliminary unaudited H1 FY22 product revenues announced on 6 October 2021. The result reflects growth on a constant currency basis of 110% on H1 FY21 and 39% on H2 FY21. Total product revenue (unaudited) for H1 FY22 was NZ$17.7 million on a reported basis, and reported unaudited total revenue (including project fees) was NZ$17.9 million.

Following its strong first half and a review of internal forecasts, AROA is upgrading its FY22 product revenue guidance (on a constant currency basis) to NZ$34-37 million, from NZ$30-33 million. This reflects a 58%-71% increase on FY21 product revenue on a constant currency basis. Product gross margins are expected to continue to improve to be between 73-75%. EBITDA will be negative as previously forecast. Given the dynamic and evolving impact of COVID-19, this guidance is subject to there being no material decline in US medical procedure numbers. Guidance assumes an average NZD/USD exchange rate of 0.72.

Cash receipts from customers for Q2 FY22 were NZ$8.6 million, compared to NZ$5.3 million for Q1 FY22. The large increase in cash receipts reflects both the timing of product shipments and product sales growth.

Net cash outflow from operating activities for Q2 FY22 was NZ$2.8 million, compared to NZ$2.7 million for Q1 FY22. Net cash outflow from operating activities included a one-off payment of NZ$1.5 million, reflecting the accrued interest payable on the outstanding debt to Hollister, which was fully paid during the quarter.

Net cash outflow from investing activities was $1.2 million for Q2 FY22, reflecting AROA's investment into expanding its manufacturing facility.

Cash inflows from financing activities reflects the net proceeds from the Company's capital raise this quarter of approximately NZ$47.4 million, less full repayment of the debt outstanding to Hollister of NZ$9.5 million. As a result of this payment, the Company is now debt free.

AROA ended the quarter with cash on hand of NZ$65.3 million, providing the Company with adequate cash reserves to further invest in expanding its US commercial operations and to accelerate and broaden its research and development pipeline.

In accordance with ASX Listing Rule 4.7C.3, AROA advises that an aggregate amount of NZ$102,000 was paid during the quarter to the Company's five Non-Executive Directors in payment of their director fees.

Appendix A provides a summary of actual expenditure, compared to the estimated use of funds set out in AROA's IPO Prospectus, in accordance with ASX Listing Rule 4.7C. Cash expenditure is consistent with the use of funds set out in that Prospectus.

## Capital raise

With the release of AROA shares from 12-month escrow and limited selling by existing shareholders, the Company received strong inbound demand from institutional investors. AROA elected to complete a capital raise to ensure that it is well positioned to respond to emerging



**AROA BIOSURGERY LIMITED**
**ARBN 638 867 473 NZCN 1980577**
64 Richard Pearse Drive, Auckland 2022, New Zealand
**AROABIO.COM**

opportunities to drive faster growth. The capital raise included an oversubscribed A$47 million institutional placement (approximately NZ$50 million).

## US sales

AROA continues to increase investment in its US commercial operations. The Company now has 26 field and 8 inside sales representatives.

As recently announced, Myriad Matrix and Myriad Morcells™ have been added to the Company's agreement with HealthTrust, the third largest GPO in the US. This opens up access to approximately 1,500 new hospitals and healthcare systems in the US.

## Manufacturing and development activities on track

AROA is pleased to report that despite Auckland, New Zealand being in COVID-19 led lockdown since 17 August 2021, this has not materially impacted the Company's manufacturing and development activities. The Company is taking all necessary precautions to operate at full capacity to meet growing demand and does not anticipate supply chain disruptions in H2 FY22.

Construction of the second manufacturing facility is proceeding to plan. It is expected to be completed in CY21 and qualified for use in Q1 CY22. This will provide the capacity to support approximately NZ$100 million in annual sales.

Development activities for AROA's dead space management platform technology are on track. Final verification and testing has commenced for the first product, which is expected to be commercialized in CY23.

## Further clinical validation

AROA gained further clinical validation for its Endoform and Myriad products, with two studies published in leading peer-reviewed scientific journals.

The first study was a large retrospective study of real-world data, comparing the healing efficacy of Endoform Natural to a reconstituted collaged product (collagen/oxidized regenerated cellulose 'ORC'). It was also the first large clinical study comparing advanced extracellular matrix technology to collagen/ORC.

The study, "*Retrospective Real World Comparative Effectiveness of Ovine Forestomach Matrix and Collagen/ORC in the Management of Diabetic Foot Ulcers*", was published in 'International Wound Journal' (available online at https://onlinelibrary.wiley.com/doi/10.1111/iwj.13670). It analysed 'real-world' use of both products from 2222 qualifying diabetic foot ulcers ('DFU') from 1590 patients treated in US-based wound care centers.

The study showed significantly improved wound closure times (between 1.9 weeks and 5.3 weeks faster), and a greater probability of wound healing (between 18% and 38%), for DFUs in wounds treated with Endoform Natural compared to wounds treated with collagen/ORC. DFUs are the



**AROA BIOSURGERY LIMITED**
**ARBN 638 867 473 NZCN 1980577**
64 Richard Pearse Drive, Auckland 2022, New Zealand
**AROABIO.COM**

leading cause of non-traumatic amputations in the US and are estimated to cost the US health care system $9-13 billion per annum.[3,4]

The second study involved six patients undergoing surgical reconstruction of Pilonidal Sinus Disease ('PSD'), where Myriad Matrix was used as an implant during surgical reconstruction of affected soft tissues. All patients healed well with no major complications reported, even when used in contaminated fields.

The study titled "*Surgical Reconstruction of Pilonidal Sinus Disease with Concomitant Extracellular Matrix Graft Placement*" was led by plastic surgeon Dr. Abigail Chaffin and colleagues from Tulane University, New Orleans. It was published in the Journal of Wound Care and is available online at https://www.magonlinelibrary.com/doi/full/10.12968/jowc.2021.30.Sup7.S28.

PSD is a chronic inflammatory disease of the soft tissues of the buttock cleft that affects around 70,000 patients a year in the US and leads to long term non-healing wounds that are hard to heal and challenging for clinicians to treat. The study results suggest that Myriad Matrix may effectively be used to reduce post-surgical complications associated with that surgical reconstruction.

AROA is continuing to focus on building clinical evidence for its products and has received ethics approvals for two further studies. The first is a pilot study in the US for Endoform and Symphony™ products in the treatment of DFUs. The second is a Phase IV clinical study in India for Endoform and Myriad.

## Quarterly webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Wednesday 27 October 2021 at 11:30am AEDT, to discuss the September 2021 quarterly results released to the ASX this morning.

Investors can register for the webinar via the following link:

https://us02web.zoom.us/webinar/register/WN_m3B-6P9-T42QoBBPl4jgtQ

Investors can submit questions prior to the webinar to shinsley@aroabio.com or do so via the Q&A function on Zoom.

**< ENDS >**

**Authorised on behalf of the Aroa Biosurgery Board of Directors by Brian Ward, CEO.**

[3] Rice, J.B., et al., Burden of diabetic foot ulcers for medicare and private insurers. Diabetes Care, 2014. 37(3): p. 651-8.
[4] Barshes, N.R., et al., The system of care for the diabetic foot: objectives, outcomes, and opportunities. Diabet Foot Ankle, 2013. 4.



**AROA BIOSURGERY LIMITED**
**ARBN 638 867 473 NZCN 1980577**
64 Richard Pearse Drive, Auckland 2022, New Zealand
**AROABIO.COM**

**About AROA™**
Aroa Biosurgery is a soft-tissue regeneration company committed to 'unlocking regenerative healing for everybody'. We develop, manufacture, sell and distribute medical and surgical products to improve healing in complex wounds and soft tissue reconstruction. Our products are developed from a proprietary AROA ECM™ technology platform, a novel extracellular matrix biomaterial derived from ovine (sheep) forestomach. AROA's products have been used in more than four and a half million procedures to date, with distribution into our key market of the United States via our direct sales force and our partner TELA Bio. Founded in 2008, AROA is headquartered in Auckland, New Zealand and is listed on the Australian Securities Exchange (ASX:ARX). www.aroabio.com/

**About Myriad™**
Myriad Matrix™ is an extracellular matrix graft, composed of AROA ECM and designed for soft tissue reconstruction and complex wounds. Myriad Morcells™ is a powder format of Myriad Matrix that easily conforms to optimize contact with irregular wound beds.

**About Endoform™**
Endoform™ products are unique extracellular matrix products, composed of AROA ECM, for the management of acute and chronic wounds.

**About Symphony™**
Symphony is a new product which has been developed off the strength of AROA ECM. It is applied as a graft and is surgically fixed at the margins. It is designed to support healing during the proliferative phase to reduce time to wound closure, particularly in patients whose healing is severely impaired or compromised due to disease.

**About AROA's dead space management platform technology**
This is a new system which AROA is developing, designed to close tissue cavities at a surgical site created by surgical dissection or tissue removal. It is comprised of a specially designed AROA ECM implant that is coupled to an external single-use negative pressure pump. When the product is deployed, the tissue surfaces are drawn together, held in place and tissue fluids are carried by the vacuum to an external fluid collection bag. AROA intends to develop and launch a new class of products utilising this new platform technology.

**Contacts**

*Investor*
Simon Hinsley
Investor Relations
shinsley@aroabio.com
+ 61 401 809 653

*Media*

Australia
Matthew Wright
matt@nwrcommunications.com.au
+61 451 896 420

New Zealand
Piet De Jong
piet.dejong@baldwinboyle.com
+64 21 812 766

## APPENDIX A

In accordance with ASX Listing Rule 4.7C, Aroa provides the following use of funds information:

| Use of funds | Prospectus Estimate NZ$m | Actual Funds Used NZ$m | Actual as a % of Estimate | Note |
|---|---|---|---|---|
| Investment in sales and marketing | $5.0 | $5.0 | 100% | 1 |
| Investment in additional manufacturing capacity, investment in new products, plant and equipment and other general corporate capital expenditure | $5.0 | $3.1 | 62% | 2 |
| Working capital, other operating costs | $5.0 | $4.4 | 88% | 3 |
| Repayment of borrowings | $13.1 | $11.1 | 85% | 4 |
| Offer costs | $3.8 | $3.9 | 103% | 5 |
| **Total** | **$31.9** | **$26.2** | **82%** | |

Notes:

1. Continued rollout of new sales and marketing initiatives including management of over 20 direct sales personnel hired in Q4 FY21.
2. Includes all preliminary costs to date for manufacturing expansion.
3. Net operating cash outflows since July 2020, excluding cash outflows relating to the investment in sales & marketing.
4. Full repayment of borrowings made during Q2 FY22. The variance between actual and estimate reflects the interest cost savings for early repayment and the favourable foreign exchange rate at the time of payment compared to the time of estimate.
5. Includes cash outflows prior to IPO. Remains unchanged from the prior quarter.



**AROA BIOSURGERY LIMITED**
**ARBN 638 867 473 NZCN 1980577**
64 Richard Pearse Drive, Auckland 2022, New Zealand
**AROABIO.COM**

# Appendix 4C

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

| **Name of entity** | |
|---|---|
| Aroa Biosurgery Limited | |
| **ABN** | **Quarter ended ("current quarter")** |
| ARBN 638 867 473 | 30 September 2021 |

| **Consolidated statement of cash flows** | | **Current quarter $NZ'000** | **Year to date (6 months) $NZ'000** |
|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | |
| 1.1 | Receipts from customers | 8,600 | 13,868 |
| 1.2 | Payments for | | |
| | (a) research and development | (323) | (514) |
| | (b) product manufacturing and operating costs | (1,870) | (2,864) |
| | (c) advertising and marketing | (1,162) | (2,540) |
| | (d) leased assets | (5) | (9) |
| | (e) staff costs | (5,247) | (10,153) |
| | (f) administration and corporate costs | (1,849) | (3,031) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 92 | 93 |
| 1.5 | Interest and other costs of finance paid | (1,548) | (1,548) |
| 1.6 | Income taxes paid | 11 | 11 |
| 1.7 | Government grants and tax incentives | 446 | 1,071 |
| 1.8 | Other (rent received) | 37 | 76 |
| **1.9** | **Net cash from / (used in) operating activities** | **(2,818)** | **(5,540)** |

| **2.** | **Cash flows from investing activities** | | |
|---|---|---|---|
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | (1,116) | (2,026) |
| | (d) investments | - | - |
| | (e) intellectual property | (58) | (95) |

| Consolidated statement of cash flows | | Current quarter $NZ'000 | Year to date (6 months) $NZ'000 |
|---|---|---|---|
| | (f) other non-current assets | - | - |
| 2.2 | Proceeds from disposal of: | | |
| | (a) entities | - | - |
| | (b) businesses | - | - |
| | (c) property, plant and equipment | - | - |
| | (d) investments | - | - |
| | (e) intellectual property | - | - |
| | (f) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| **2.6** | **Net cash from / (used in) investing activities** | **(1,174)** | **(2,121)** |

| **3.** | **Cash flows from financing activities** | | |
|---|---|---|---|
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | 49,931 | 49,964 |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | 80 | 156 |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | (2,214) | (2,214) |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | (9,514) | (9,514) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (lease liability payments) | (241) | (481) |
| **3.10** | **Net cash from / (used in) financing activities** | **38,042** | **37,911** |

| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
|---|---|---|---|
| 4.1 | Cash and cash equivalents at beginning of period | 31,373 | 35,381 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (2,818) | (5,540) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (1,174) | (2,121) |

| Consolidated statement of cash flows | | Current quarter $NZ'000 | Year to date (6 months) $NZ'000 |
|---|---|---|---|
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 38,042 | 37,911 |
| 4.5 | Effect of movement in exchange rates on cash held | (132) | (340) |
| **4.6** | **Cash and cash equivalents at end of period** | **65,291** | **65,291** |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter $NZ'000 | Previous quarter $NZ'000 |
|---|---|---|---|
| 5.1 | Bank balances | 45,291 | 11,373 |
| 5.2 | Call deposits | - | - |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (term deposits less than 90 days) | 20,000 | 20,000 |
| **5.5** | **Cash and cash equivalents at end of quarter (should equal item 4.6 above)** | **65,291** | **31,373** |

| 6. | Payments to related parties of the entity and their associates | Current quarter $NZ'000 |
|---|---|---|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | 102 |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

*Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.*

| 7. | **Financing facilities**<br>*Note: the term "facility' includes all forms of financing arrangements available to the entity.*<br>*Add notes as necessary for an understanding of the sources of finance available to the entity.* | **Total facility amount at quarter end $NZ'000** | **Amount drawn at quarter end $NZ'000** |
|---|---|---|---|
| 7.1 | Loan facilities | - | - |
| 7.2 | Credit standby arrangements | 473 | 113 |
| 7.3 | Other (please specify) | - | - |
| 7.4 | **Total financing facilities** | **473** | **113** |

| | | |
|---|---|---|
| 7.5 | **Unused financing facilities available at quarter end** | **360** |

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Includes the following:
N/A

| 8. | **Estimated cash available for future operating activities** | **$NZ'000** |
|---|---|---|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (2,818) |
| 8.2 | Cash and cash equivalents at quarter end (item 4.6) | **65,291** |
| 8.3 | Unused finance facilities available at quarter end (item 7.5) | 360 |
| 8.4 | Total available funding (item 8.2 + item 8.3) | 65,651 |
| 8.5 | **Estimated quarters of funding available (item 8.4 divided by item 8.1)** | **23.3** |

*Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.*

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

*Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.*

## Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 27 October 2021.....

Authorised by: By the board.....
(Name of body or officer authorising release – see note 4)

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.