

AROA BIOSURGERY DECEMBER 2021 4C – COMMENTARY

Financial Highlights

- Net cash flow outflow from operations was NZ\$0.8 million for the quarter, compared to \$2.8 million in the previous quarter.
- Net cash outflow from investing activities was NZ\$1.4 million for the quarter, reflecting costs of AROA's manufacturing facility expansion.
- Strong cash balance of NZ\$62.9 million as at 31 December 2021, and the Company is debt free.
- FY22 guidance for product revenue (on a constant currency basis¹) **maintained at NZ\$34-37 million**² (up 58%-71% on FY21).

Operational Highlights

- Over five million AROA devices applied in treating patients to date.
- AROA's US direct field sales team continues to penetrate new Myriad™ accounts despite COVID-19 headwinds and limited access, establishing a strong foundation for future growth.
- Construction completed with qualification now underway for AROA's second manufacturing facility to support approximately NZ\$100 million in annual sales. Qualification is expected to be completed in Q1 CY22.
- Peer-reviewed study further validates properties and qualities of AROA ECM technology, providing a deeper understanding of how these features can improve clinical outcomes.
- Launch of new phase IV Myriad Registry study in the US, with patient enrollments now underway. This is AROA's largest prospective study to date, targeting 300 patients across ten US sites over a three-year period, and is intended to document the use of Myriad Matrix™ and Myriad Morcells™ in a broad range of surgical procedures.
- Patient enrollment underway for a pilot study evaluating the use of AROA's Symphony™ products in the treatment of diabetic foot ulcers ('DFUs') in the US. The pilot study is expected to conclude in Mid-CY22.
- AROA will host an investor webinar today at 9.30am AEDT to discuss the results. [Click here](#) to register.

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 31 December 2021.

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 guidance is subject to there being no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities. It assumes an average NZD/USD exchange rate of 0.72.

Financial commentary and outlook

Cash receipts from customers for Q3 FY22 were NZ\$9.1 million, compared to NZ\$8.6 million for Q2 FY22. This increase reflects the continued solid sales performance during the quarter following H1 FY22's strong sales performance.

Net cash outflow from operating activities for Q3 FY22 was NZ\$0.8 million, compared to NZ\$2.8 million for Q2 FY22 (noting that Q2 FY22 included a one-off interest payment of NZ\$1.5 million).

Net cash outflow from investing activities was NZ\$1.4 million for Q3 FY22, compared to NZ\$1.2m for Q2 FY22, reflecting AROA's investment into expanding its manufacturing facility.

Cash inflows from financing activities was NZ\$0.2 million, compared to a net cash inflow of NZ\$38.0 million in the previous quarter.

AROA ended the quarter with cash on hand of NZ\$62.9 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.

AROA maintains its FY22 product revenue guidance (on a constant currency basis) of NZ\$34-37 million. This reflects a 58-71% increase on FY21 product revenue on a constant currency basis. Product gross margins are expected to be between 73-75%. EBITDA will be negative as previously forecast. Given the dynamic and evolving impact of COVID-19, guidance is subject to there being no material decline in US medical procedure numbers and assumes an average NZD/USD exchange rate of 0.72. In view of the community outbreak of Omicron in New Zealand, guidance is also subject to there being no sustained disruption to AROA's manufacturing or transportation activities. AROA continues to monitor and actively manage for these risks.

AROA delivered its half-yearly report for H1 FY22 in November 2021, with highlights including:³

- 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;
- 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;
- Product gross margin percentage was up 13% on H1 FY21 and 5% on H2 FY21, to 75% on a constant currency basis; and
- Cash balance of NZ\$65.3 million as at 30 September 2021, and no debt.

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 for directors' 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.

³ Refer to AROA's ASX announcement dated 25 November 2021 for more information.

Sales

Over five million AROA devices have been applied in treating patients to date.

The Company continued to invest in its US commercial operations, and currently has 28 field sales representatives focused on Myriad sales. Clinical evaluations and value committee approvals within hospital accounts are continuing despite COVID-19 headwinds and limited access. AROA is pleased with the progress made in a difficult operating environment. Myriad is currently approved for use in 46 accounts, further validating its potential and establishing a strong foundation for future growth.

Manufacturing

Construction has completed of AROA's second manufacturing facility to support approximately NZ\$100 million in annual sales. The facility is now undergoing qualification for use, and the Company expects this to be completed in Q1 CY22. Operating capacity from the expansion will come on-line in phases as necessary based on demand.

Peer-reviewed study further validates AROA ECM technology

The Company gained further validation for its AROA ECM platform technology, through the publication in November 2021 of a peer-reviewed study which provides a deepened understanding of the biological properties and potential healing qualities of that technology.

AROA undertook the study, titled "Further Structural Characterization of Ovine Forestomach Matrix and Multi-Layered Extracellular Matrix Composites for Soft Tissue Repair"⁴ (published in the Journal of Biomaterials Applications and available online at <https://journals.sagepub.com/doi/10.1177/08853282211045770>), to scientifically characterize AROA ECM.

The study found that AROA's proprietary non-destructive processes remove unwanted cells from the tissue while leaving other native structural features of the tissue extracellular matrix intact. These include 'residual vascular channels' which are a unique feature of the AROA ECM platform technology due to its highly vascular source tissue, ovine forestomach matrix. The residual vascular channels serve as templates to enable rapid cell repopulation and vascularization of the AROA ECM grafts, and is thought to support a more rapid establishment of a capillary bed and vasculature in patients. Overall, the products were also shown to promote and accelerate the migration and proliferation of keratinocyte, a process that is known to aid wound closure.⁵

The research also described the unique composition of AROA's Symphony device, which combines the structure and biology of AROA ECM with hyaluronic acid, a naturally occurring polymer which is known to play a key role in wound healing, moisture retention, cellular processes, and blood vessel

⁴ Smith, M. J., S. G. Dempsey, R. W. Veale, C. G. Duston-Fursman, C. A. F. Rayner, C. Javanapong, D. Gerneke, S. G. Dowling, B. A. Bosque, T. Karnik, M. J. Jerram, A. Nagarajan, R. Rajam, A. Jowsey, S. Cutajar, I. Mason, R. G. Stanley, A. Campbell, J. Malmstrom, C. H. Miller and B. C. H. May (2021). "Further structural characterization of ovine forestomach matrix and multi-layered extracellular matrix composites for soft tissue repair." J Biomater Appl 36(6): 996-1010.

⁵ Pastar, I., O. Stojadinovic, and M. Tomic-Canic. 2008. 'Role of keratinocytes in healing of chronic wounds', Surg Technol Int, 17: 105-12.

formation.⁶

Launch and enrollment for Myriad Registry study

AROA has launched a Phase IV Registry study to evaluate AROA's Myriad Matrix and Myriad Morcells products in a wide range of surgical specialties and procedures. This is AROA's largest prospective study to date, targeting 300 patients across ten US sites over a three-year period. Patients enrolled in the study will undergo a range of surgical procedures, including abdominal dehiscence repair, necrotizing soft tissue infection, lower extremity complex non-healing wounds, pressure injury reconstruction, pilonidal sinus disease reconstruction, hidradenitis suppurativa reconstruction and anal fistula. The study will assess factors including time to complete healing, percentage rate of surgical complications and time to 100% granulation of the graft. The first patient was enrolled in the study in January 2022.

Enrollment for DFU pilot study

Enrollment commenced and is currently underway for AROA's pilot study evaluating AROA's Symphony products in the treatment of non-healing DFUs. Symphony has been developed to support the 'proliferative' phase of healing to reduce the time to wound closure, particularly in patients whose healing is severely impaired or compromised due to disease. Research indicates that up to one-third of the half a billion people with diabetes worldwide will develop a DFU over the course of their lifetime⁷ and that an estimated one in six patients with a DFU will go on to require lower limb amputation.⁸ DFUs are the leading cause of non-traumatic amputations in the US and are estimated to cost the US health care system \$9-13 billion per annum.^{9,10}

The pilot study will involve ten patients in the US and will evaluate treatment, over a 12-week period, of their non-healing DFUs with Symphony. The study is expected to conclude in mid-CY22, following which the Company intends to launch a Phase IV clinical study.

Quarterly webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Friday 28 January 2022 at 9:30am AEDT, to discuss the December 2021 quarterly results released to the ASX this morning.

Investors can register for the webinar via the following link:

<https://us02web.zoom.us/j/86383529033?pwd=Q2VmZGc4SFdJN2F0VXMxbUxSYnEyQT09>

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

⁶ Allison, D. D., and K. J. Grande-Allen. 2006. 'Review. Hyaluronan: a powerful tissue engineering tool', *Tissue Engineering*, 12: 2131-40.

⁷ Armstrong, D.G., et al., Five year mortality and direct costs of care for people with diabetic foot complications are comparable to cancer. *J Foot Ankle Res*, 2020. 13(1): p. 16.

⁸ Boulton, A.J.M., et al., *Diagnosis and Management of Diabetic Foot Complications*, in *Diagnosis and Management of Diabetic Foot Complications*. 2018: Arlington (VA).

⁹ Rice, J.B., et al., Burden of diabetic foot ulcers for medicare and private insurers. *Diabetes Care*, 2014. 37(3): p. 651-8.

¹⁰ Barshes, N.R., et al., The system of care for the diabetic foot: objectives, outcomes, and opportunities. *Diabet Foot Ankle*, 2013. 4.

function on Zoom.

Update to AROA Share Plan loan

As disclosed in AROA's IPO Prospectus, AROA operated an employee incentive share plan ('Share Plan') from 2014 pursuant to which the Company offered certain employees and senior executives unpaid ordinary shares in the Company ('Plan Shares') with payment due by the 10th anniversary of their issue. The Share Plan was wound-up in connection with AROA's admission to the ASX's official list and the Company offered employees (but not directors) who held unpaid Plan Shares an interest free loan to pay up such shares (the 'Loan'). The maximum aggregate Loan from the Company was approximately NZ\$0.80 million. The Loan terms provide that it must be repaid by the earlier of 31 March 2022 or upon the Plan Shares being sold.

As at 19 January 2022, the aggregate amount of the Loan to existing AROA employees was approximately NZ\$0.38 million. Following consideration of the relevant factors (including employee retention), the Board has approved an extension to the Loan repayment date for employees who remain employed by AROA as at 31 March 2022. Under the new terms, the Loan must be repaid by the earlier of (a) 28 February 2024, (b) the last date of their employment with AROA or (c) upon the Plan Shares being sold. The remaining terms of the Loan are unchanged. Individuals who cease employment with AROA before 31 March 2022 will not qualify for this extension.

Investor Relations

AROA delivered an investor presentation as part of the Bell Potter Healthcare Conference on 9 November 2021.

A replay of the presentation can be viewed at <https://youtu.be/3L-kG8oJL0>.

< ENDS >

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

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

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.

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	\$4.3	86%	2
Working capital, other operating costs	\$5.0	\$3.9	79%	3
Repayment of borrowings	\$13.1	\$11.1	85%	4
Offer costs	\$3.8	\$3.9	103%	5
Total	\$31.9	\$28.2	89%	

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.

Appendix 4C

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

Name of entity

Aroa Biosurgery Limited

ABN

ARBN 638 867 473

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$NZ'000	Year to date (9 months) \$NZ'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,114	22,981
1.2 Payments for		
(a) research and development	(540)	(1,054)
(b) product manufacturing and operating costs	(1,509)	(4,376)
(c) advertising and marketing	(1,185)	(3,725)
(d) leased assets	(4)	(13)
(e) staff costs	(5,175)	(15,327)
(f) administration and corporate costs	(1,569)	(4,600)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	95
1.5 Interest and other costs of finance paid	-	(1,548)
1.6 Income taxes paid	(12)	1
1.7 Government grants and tax incentives	-	1,071
1.8 Other (rent received)	37	113
1.9 Net cash from / (used in) operating activities	(841)	(6,382)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,193)	(3,219)
(d) investments	-	-
(e) intellectual property	(174)	(269)

Consolidated statement of cash flows	Current quarter \$NZ'000	Year to date (9 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	(1,367)	(3,488)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	23	49,987
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	156
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	(2,214)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	(9,514)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (lease liability payments)	(241)	(722)
3.10 Net cash from / (used in) financing activities	(218)	37,693

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	65,291	35,381
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(841)	(6,382)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,367)	(3,488)

Consolidated statement of cash flows		Current quarter \$NZ'000	Year to date (9 months) \$NZ'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(218)	37,693
4.5	Effect of movement in exchange rates on cash held	44	(295)
4.6	Cash and cash equivalents at end of period	62,909	62,909

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	12,909	45,291
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits less than 90 days)	50,000	20,000
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	62,909	65,291

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	-
<i>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.</i>		

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

7. Financing facilities	Total facility amount at quarter end \$NZ'000	Amount drawn at quarter end \$NZ'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	471	172
7.3 Other (please specify)	-	-
7.4 Total financing facilities	471	172
7.5 Unused financing facilities available at quarter end		299
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)	(841)
8.2 Cash and cash equivalents at quarter end (item 4.6)	62,909
8.3 Unused finance facilities available at quarter end (item 7.5)	299
8.4 Total available funding (item 8.2 + item 8.3)	63,208
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	75
<i>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.</i>	
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	
<i>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.</i>	

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: 28 January 2022.....

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.