

AROA BIOSURGERY JUNE 2022 4C – COMMENTARY

Highlights

- Cash receipts of NZ\$13.9 million from customers during the quarter.
- Net cash flow outflow from operations of only NZ\$0.2 million for the quarter, down from NZ\$5.1 million in the previous quarter.
- Net cash outflow from investing activities was NZ\$1.1 million for the quarter, reflecting AROA's investment into additional manufacturing plant & equipment capacity.
- AROA ended the quarter with a strong cash balance of NZ\$55.4 million as at 30 June 2022.
- FY23 product revenue guidance **maintained at NZ\$51-55 million¹** (up 30%-40% on a constant currency basis on FY22).
- Improving US sales performance with 95 Myriad™ active accounts at the end of Q1 FY23 (a 32% increase on the previous quarter) and two representatives with a current average run rate of over US\$850,000 per annum.
- Progress is tracking well for AROA's ENIVO™ range of dead space management products, with submission to the US Food & Drug Administration for the first product planned in December 2022.
- All participants in AROA's Symphony™ pilot clinical study (n=10) have completed treatment. Work is underway to set up a randomized controlled trial evaluating Symphony in the treatment of 120 non-healing diabetic foot ulcers in the US.
- Progress is also tracking well on AROA's Myriad Registry study, the Company's largest prospective study with 48 patients enrolled to date.
- Active investor communications schedule, including investor conferences and publication of 2022 Annual Report.
- Annual General Meeting scheduled for 1pm (NZST), 11am (AEST) on Wednesday, 10 August 2022.
- AROA will host an investor webinar today at 9am AEST 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 30 June 2022.

Financial commentary

Cash receipts from customers for Q1 FY23 of NZ\$13.9 million, compared to NZ\$9.1 million in the prior quarter. This increase primarily reflects the timing of Ovivet™ product revenues during the prior quarter and the subsequent cash receipt during the quarter (as outlined in the March 2022 4C commentary).

Net cash outflows from operations for Q1 were only NZ\$0.2 million, compared to net cash outflows of NZ\$5.1 million in the prior quarter. This was primarily due to the increase in customer receipts during the quarter and despite an increase in cash paid for staff costs of NZ\$8.3 million compared to NZ\$6.3

¹ Given the dynamic and evolving impact of COVID-19, guidance is subject to no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities and TELA Bio, Inc. delivering on its revenue guidance of US\$40-45 million in CY22. It also assumes an average NZD/USD exchange rate of 0.70.

million in the previous quarter (reflecting payment of annual short-term incentives and an increase in sales commissions and headcount).

Net cash outflows from investing activities for Q1 were NZ\$1.1 million, primarily reflecting AROA's investment into additional manufacturing plant & equipment capacity.

AROA ended the quarter with a strong cash balance of \$55.4 million, reflecting a total net cash decrease of only \$0.8 million for Q1 FY23 compared to a decrease of \$5.1 million in the previous quarter.

In accordance with ASX Listing Rule 4.7C.3, AROA advises that an aggregate amount of NZ\$110,000 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 and remains unchanged from the prior quarter.

Financial outlook

AROA maintains its FY23 product revenue guidance of NZ\$51-55 million. This reflects a 30-40% increase on FY22 product revenue on a constant currency basis. As previously announced, product gross margins are expected to improve to 77%. Given the dynamic and evolving impact of COVID-19, guidance is subject to no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities and TELA Bio, Inc. delivering on its revenue guidance of US\$40-45 million in CY22.¹ It also assumes an average NZD/USD exchange rate of 0.70.

Commenting on AROA's outlook for FY23, Founder and Chief Executive Officer, Brian Ward said

"Despite the global economic outlook, we remain confident that AROA is well-positioned to deliver strong growth in FY23."

"We have invested into our US commercial operations and now have a sizable team of experienced field sales representatives focused on selling our Myriad products. We expect this to continue delivering increasing momentum throughout FY23. Our higher margin Myriad products are expected to be a larger part of our sales mix and this should help mitigate AROA's exposure to inflationary pressures."

"The current macroeconomic conditions are creating more focus on value. Our products are designed to improve the effectiveness and efficiency of care at a price that expands access. We believe that our offerings represent compelling value, especially as healthcare systems seek to manage increasing demands in the face of rising cost pressures."

US sales

As previously signaled, AROA continued to build its US sales team with five new hires and ended the quarter with 32 US sales representatives. The US sales team delivered 95 Myriad active accounts at the end of Q1 FY23 (a 32% increase on the previous quarter), with two representatives at a current average

¹ TELA Bio, Inc. press release dated 10 May 2022.



run rate of over US\$850,000 per annum.

ENIVO

ENIVO, AROA's new dead space management platform technology, is designed to close tissue cavities at a surgical site created by surgical dissection or tissue removal. The system is comprised of a specially designed AROA ECM™ implant that is coupled to an external negative pressure pump.

AROA remains on track to submit regulatory clearance for its first product in the ENIVO range to the US Food & Drug Administration by December 2022. A manuscript for a preclinical study comparing the first ENIVO product with the standard of care for dead space management has been submitted for publication and is awaiting peer review.

Clinical evidence

All participants in the Company's pilot Symphony study (n=10) have completed their treatment. The pilot study was commenced in December 2021 and evaluates Symphony in the treatment of non-healing diabetic foot ulcers ('DFU's') over a 12-week period.

The pilot study was executed as a precursor to a more rigorous evaluation of Symphony in a Randomized Controlled Trial ('RCT'). The Company is now progressing set-up for the Symphony RCT, with the first patient expected to be recruited in Q3 FY23. The planned Symphony RCT is a prospective study design, seeking to enroll 120 non-healing DFU's and will compare healing outcomes of wounds treated with Symphony compared to a patient cohort receiving the standard of care treatment. The RCT is expected to run for 24 months and will include multiple study sites across the US.

Progress on the Myriad Augmented Soft Tissue Regeneration Registry (MASTRR) study, AROA's largest prospective study to date, is tracking well with three (3) sites actively enrolling patients and a total of 48 patients enrolled to date. AROA is expecting to recruit 75 patients into the Registry by the end of this financial year and, at this stage, patient recruitment is ahead of target.

The MASTRR study is a prospective single-arm study evaluating AROA's Myriad Matrix™ and Myriad Morcells™ products in a wide range of surgical specialties and procedures in up to 10 sites. The study was launched in Q3 FY22 (with the first patient enrolled in January 2022) and is targeting 300 patients across ten US sites over a three-year period. On conclusion of the study, analysis will assess patient outcomes including any observed post-surgical complications, short and long-term healing outcomes.

Our People

Simone von Fircks, AROA's Chief Operations Officer, has left the Company after eight years to focus on other ventures. Rod Stanley, VP – Manufacturing, joined AROA's Executive Team and has taken over Simone's responsibilities. Rod has been with AROA for over nine years and was previously the Director of Manufacturing.

Investor communications

AROA had an active investor communications schedule in the last quarter, including a presentation of the Company's full-year results on 24 May 2022 and attendance at the NWR Virtual Conference – Series 11, the Jefferies Medtech & Biotech Virtual Summit and the Wilsons Rapid Insights Conference in May 2022.



The Company also published its 2022 Annual Report during the quarter. Please click [here](#) to view the Report.

AROA's Annual General Meeting of Shareholders is scheduled for 1pm (NZST), 11am (AEST) on Wednesday, 10 August 2022. Shareholders may attend in person at the Company's registered office at 64 Richard Pearse Drive, Mangere, Auckland, New Zealand or online at: https://us02web.zoom.us/webinar/register/WN_Akzo_HtXTyGov-u_UfQiMA

Quarterly webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Tuesday 26 July 2022 at 9am AEST, to discuss the June 2022 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_hSjrIVhNQb2clHxle4Gf-A

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

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

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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 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, which remains unchanged from the prior quarter:

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	\$5.0	100%	2
Working capital, other operating costs	\$5.0	\$5.0	100%	3
Repayment of borrowings	\$13.1	\$11.1	85%	4
Offer costs	\$3.8	\$3.9	103%	5
Total	\$31.9	\$30.0	94%	

Notes:

1. Funds fully utilised for investment in new sales and marketing initiatives including the costs of over 20 direct sales personnel hired in Q4 FY21.
2. Funds fully utilised for investment in additional manufacturing capacity. capital expenditure for new products, plant and equipment and other general capital expenditure.
3. Funds fully utilised from 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.

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")

30 June 2022

Consolidated statement of cash flows	Current quarter \$NZ'000	Year to date (3 months) \$NZ'000
1. Cash flows from operating activities		
1.1 Receipts from customers	13,918	13,918
1.2 Payments for		
(a) research and development	(579)	(579)
(b) product manufacturing and operating costs	(1,726)	(1,726)
(c) advertising and marketing	(2,038)	(2,038)
(d) leased assets	(3)	(3)
(e) staff costs	(8,265)	(8,265)
(f) administration and corporate costs	(1,808)	(1,808)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	128	128
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(23)	(23)
1.7 Government grants and tax incentives	171	171
1.8 Other (rent received)	20	20
1.9 Net cash from / (used in) operating activities	(205)	(205)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,073)	(1,073)
(d) investments	-	-
(e) intellectual property	(61)	(61)

Consolidated statement of cash flows		Current quarter \$NZ'000	Year to date (3 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	(1,134)	(1,134)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	38	38
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	157	157
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (lease liability payments)	(251)	(251)
3.10	Net cash from / (used in) financing activities	(56)	(56)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	56,165	56,165
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(205)	(205)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,134)	(1,134)

Consolidated statement of cash flows		Current quarter \$NZ'000	Year to date (3 months) \$NZ'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(56)	(56)
4.5	Effect of movement in exchange rates on cash held	584	584
4.6	Cash and cash equivalents at end of period	55,354	55,354

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	5,354	5,354
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits less than 90 days)	50,000	50,000
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	55,354	55,354

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	110
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>		

7.	Financing facilities <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>	Total facility amount at quarter end \$NZ'000	Amount drawn at quarter end \$NZ'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	556	252
7.3	Other (please specify)	-	-
7.4	Total financing facilities	556	252
7.5	Unused financing facilities available at quarter end		304
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)	(205)
8.2	Cash and cash equivalents at quarter end (item 4.6)	55,354
8.3	Unused finance facilities available at quarter end (item 7.5)	305
8.4	Total available funding (item 8.2 + item 8.3)	55,659
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	271
	<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: 26 July 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.