

ASX RELEASE

17th November 2022

Chair's Address to Shareholders at the Annual Meeting of Members held on 10.00am Thursday 17th November 2022

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I am pleased to present Cryosite Limited's Chair's report, which is for the year ended 30 June 2022.

The year ended June 2022 was an outstanding year for Cryosite. It recorded its largest ever profit after tax of \$1.36 m, its strongest ever operating cash flow of \$2.5 m and a return to the payment of an annual dividend. The Company is also debt free and had \$5.3 m cash in the bank.

This result is built on the turnaround over the past 4 years during which the Company recorded both accounting losses and operating cash outflows in some years.

The results are a reflection of the board's commitment to the company with large investments in rebuilding its infrastructure, systems, and staff. It is also a reflection of the staff's commitment and ability to grow the company.

Before I discuss the strong FY2022 financial results in more detail let me provide a brief update on the trading results of the first 4 months of the 2023 financial year (FY2023).

#### **Unaudited financial numbers for the four months ended 31 October 2022 show:**

Unaudited trading for the first four months of the year show stable revenues but lower profitability versus the first four months of last year. It should be noted that excluding the 2022 results, the Company is still trading at record levels.

#### **Revenue**

- Total revenue is flat on the prior corresponding period (pcp) at \$3,791 m.
- Revenue from clinical trials, logistics and biological services is up 1.5% on the pcp to \$3.013 m.
- Expected revenue growth has been impacted by a delay in regulatory approval for a new commercial product that the Company is contracted to store and distribute. Although this revenue stream was initially expected to commence in July 2022, once it does, it is expected to be significant, and to continue across future years.
- Revenue from existing customers remains strong.

#### **Profit**

- Net profit after tax down on pcp approximately 15% at \$374k.

#### **Cash**

- Cash on hand of \$5.1 m after the payment of \$488 k dividend is down \$198 k from the 30 June 2022 balance. The Company has no debt facilities.
- Operating cash inflow is reduced on pcp - \$430 k (pcp \$1.01 m).
- The exceptionally high operating cash flow in pcp was inflated by overdue trade receivables being received from FY2021.
- Also influencing net cash flows will be an expected reduction in FY2023 capital expenditure after several years of high investment. In FY2022 capital expenditure was \$900k, whereas the budget for FY2023 is \$300 k.

## **Capital Expenditure**

- The Company is on track to meet the timelines and costs on the latest estimate for capital expenditure of \$300 k. At the end of October 2021, \$115 k of cash had been paid for capital items.

## **Trading conditions**

- FY2022 was the best trading year experienced by Cryosite in 10 years, as the Company experienced very strong demand for storage services, particularly in the pcg, due to efforts by major clinical trial customers to mitigate disrupted global supply chains.
- Revenue in the four months to 31 October 2022 (YTD FY2023) is tracking in line with the pcg, despite the delay in anticipated revenue growth. Demand for distribution and other services has increased, while demand for storage services has returned to expected levels as supply chains normalise.
- The Company continues its ongoing investments in its people, systems and facilities, as it positions itself to take advantage of current and future growth opportunities.

## **2022 Results**

The Review of Operations in the Annual Report for the year ended 30 June 2022 (FY2022) outlined a strong financial result for Cryosite.

FY2022 was the best trading year experienced by the Company for 10 years.

### **Dividend**

- An unfranked final dividend of 1 cent per share was declared and paid in October – the first to be paid in more than five years.

### **Revenue**

- Clinical trials, logistics and biological services revenue grew by 24% to \$9.3 m.
- Total revenue from ordinary activities increased by 17% to \$11.8 m.

### **Profit**

- Net profit before tax of \$1.806 m increased by \$685k (61%) from the prior year \$1.12 m.

### **Cash**

- Cash funds remained strong with a cash balance at financial year end of \$5.3 m, with no debt facilities.
- During the year, there were cash inflows from operations of \$2.524 m, Investing outflows of (\$860k) and financing outflows of (\$181k). These combined resulted in a net \$1.482 m increase in cash on hand.
- Cash inflows from operations of \$2.524 m increased by \$2.0 m from the prior year inflows of \$515k for a number of one-off reasons, whilst supporting a significant growth in operating working capital.

The strong growth in revenue and net profit is attributed to the management team's focus on the customer, ongoing investment in systems and facilities, the resilience of our business and the favourable impact of disrupted supply chains on revenue and earnings in our clinic trials business. The reliability of Cryosite as a business partner was evident as the company demonstrated adaptability and flexibility in a challenging year with global supply chain disruptions and uncertainty from the prolongation of the Covid pandemic.

As a result of continued growth in profits and cash flow in FY2022, an unfranked final dividend of 1 cent per share was declared and paid in October 2022. This is the first dividend to be paid in more than five years.

Cryosite provides a range of services that comply with all relevant Australian government and state government regulations.

Cryosite is committed to developing energy and greenhouse gas management systems to reduce our Greenhouse Gas Emissions and to using sustainable technology. This is reflected in a Silver rating from Eco Vadis Global Supply Chain Sustainability Ratings Organisation in September 2021.

After three years of investment in facilities, business systems, and quality systems Cryosite is well positioned to take advantage of the expected growth in clinical trials, biological services and complex logistics that is emerging and will continue over the remainder of the decade. Cryosite seeks to harness its systems to empower its customers to have visibility to mission-critical and time-sensitive cold chain storage and logistics records.

## **Cord Blood**

As my predecessor did at last year's Annual General Meeting, I will take this opportunity to discuss the cord blood segment of the business as the long-term outlook is looking promising.

As you will know from prior year Annual Reports, Cryosite exited the cord blood collection and processing part of the cord blood business in 2017. It continues to securely store approximately 18,000 cords of which the large majority are under long-term contract.

When these historical cord blood collection, processing and storage contracts were entered into these were structured as 18 to 25 year contracts. The accounting of these long-term contracts is somewhat complex but essentially the contract revenue and associated costs arising when entering into the contract are treated as deferred revenue and deferred costs. Each year we book to the profit and loss a portion of the deferred revenue and costs reflecting one year's portion of the contract. Over time as the contracts expire and are not replaced the deferred revenue and costs being recognized will naturally decline.

It is important to note that the annual recognition of deferred revenue and deferred costs are book entries only and do not impact on cash flows as the cash relating to these contracts was received on the original signing of the contract.

In addition to long-term storage contracts, Cryosite also offers payment plans, annual storage contracts and annual storage extension contracts to its pre 2017 clients. In the 2022 accounts, the Company booked \$2.459 m of cord blood revenue. Of this \$2.459 m of revenue \$2.047 m was the recognition of deferred revenue and \$0.411 m was the receipt of money from payment plans, annual storage contracts and our new annual storage extension contracts. This \$0.411 m is cash inflow to Cryosite.

As previously highlighted, the Company now offers storage extension contracts to those whose initial long-term contracts are expiring. If take up rates continue at current levels, annual storage extension contracts may grow over time to be a significant contributor to cord blood revenue, profits and cashflow.

The effect of this is while the total reported cord blood revenue and profits may show a decline for some time, albeit a slower one, in fact the cash being generated by the cord blood segment will grow. It should be noted that the cord blood database of approximately 18,000 customers has no carrying value in the balanced sheet.

## **Conclusion**

For the 2023 financial year (FY2023) Cryosite sees a return to more normal trading conditions as the supply chain constraints of recent years begin to dissipate – although the need for agility remains as we continue to deal with changing geo-political circumstances and the lingering impact of Covid. Despite experiencing inflationary pressures on costs, Cryosite continues to invest in systems and facilities, as well as in its people, to support both its growth ambitions as well as those of its customers.

In closing, on behalf of the Board I would like to thank all our stakeholders, including our shareholders, customers, clients, suppliers, and partners, for your ongoing support. Most importantly, I wish to express my appreciation to the small but dedicated Cryosite team for their exceptional contribution to deliver the FY2022 results.

Steven Waller

Chair