

Nanosonics Limited Half Yearly Report

ABN: 11 095 076 896

Reporting period: 31 December 2023

Previous period: 31 December 2022

Results for announcement to the market

	31 December 2023 \$'000	31 December 2022 \$'000		Movement %	\$'000
Revenue from ordinary activities	79,638	81,565	down	2%	1,927
Profit from ordinary activities before tax	4,862	11,376	down	57%	6,514
Profit from ordinary activities after tax attributable to members	6,168	10,369	down	41%	4,201
Net profit for the period attributable to members	6,168	10,369	down	41%	4,201
	Cents	Cents			Cents
Basic earnings per share	2.04	3.44	down	41%	1.40
Dividend per share	-	-			
Net tangible assets per share ¹	52.78	45.63	up	16%	7.15

¹ For the period ended 31 December 2023 and prior period, the Company has included the right-of-use asset in the calculation of the net tangible asset backing per ordinary security.

The information in this report should be read in conjunction with the 30 June 2023 Annual Report.

Record date for determining entitlements to the dividend and dividend payment date are not applicable. There were no distributions of dividends during the period or in the previous corresponding period. No dividend reinvestment plans were in operation during or since the half-year.

There were no entities over which control has been gained or lost during the period.

The Group has no associates or joint venture entities.

The Group applies International Financial Reporting Standards in compiling the financial report of its wholly-owned subsidiaries, Nanosonics Europe GmbH, Nanosonics, Inc., Nanosonics Canada, Inc., Nanosonics Europe Limited, Nanosonics UK Limited, Nanosonics Japan K.K., Nanosonics (Shanghai) Co Ltd, Nanosonics Investments Pty Ltd and Saban Ventures Pty Ltd.

The financial statements included in the half yearly report are not subject to audit dispute or qualification.

The information set out above and in the attached half year report is provided to the ASX in accordance with a resolution of the Directors.

Attachments:

The Half-Yearly Report of Nanosonics Limited for the period ended 31 December 2023 is attached.

On behalf of the directors


Geoff Wilson

Director

Sydney, 26 February 2024



HALF-YEARLY REPORT

Given to the ASX under listing rule 4.2A.

31 DECEMBER 2023

The information in this report should be read in conjunction with the 30 June 2023 Annual Report.

Directors' report

For the half-year ended 31 December 2023

Your Directors present their report, together with the interim consolidated financial statements and notes for Nanosonics Limited (the Company) and its subsidiaries (together the Group) for the half-year ended 31 December 2023, and the Auditor's review report thereon.

Principal activities

During the year, the principal activities of the Group consisted of:

- Manufacturing and distribution of the trophon[®] ultrasound probe disinfectant and its associated consumables and accessories; and
- Research, development and commercialisation of infection control and decontamination products and related technologies.

Further information is included in the review of results and operations below and in the financial statements.

Other than as discussed in this report, there have been no significant changes in the nature of these activities for the half-year ended 31 December 2023.

Directors

During the period and to the date of this report, the Board of Nanosonics Limited comprised of Non-Executive directors, Steven Sargent (Chairman), David Fisher, Marie McDonald, Geoff Wilson, Lisa McIntyre, Larry Marshall, Tracey Batten and executive director, Michael Kavanagh (CEO & President and Managing Director). Tracey Batten was appointed as a Non-Executive Director on 26 September 2023 and Larry Marshall was appointed as a Non-Executive Director on 3 October 2023.

Review of results and operations

	31 December 2023	31 December 2022
	\$'000	\$'000
Revenue from contracts with customers	79,638	81,565
Cost of sales	(16,194)	(17,202)
Gross profit	63,444	64,363
Selling and general expenses	(32,348)	(29,475)
Administration expenses	(12,271)	(11,412)
Research and development expenses	(16,209)	(13,636)
Other income	815	647
Other (losses)/gains - net	(404)	159
Finance income - interest	2,314	1,016
Finance expense	(479)	(286)
Profit from ordinary activities before tax	4,862	11,376
Income tax benefit/(expense)	1,306	(1,007)
Net profit for the period attributable to members	6,168	10,369

	31 December 2023	30 June 2023
	\$'000	\$'000
Cash and cash equivalents	118,315	112,159
Net assets	175,536	163,860

Directors' report

For the half-year ended 31 December 2023

Sales for the period were \$79,638,000. This compares with sales of \$81,565,000 in the prior corresponding period. The global installed base of trophon increased by 1,100 units, growing to approximately 33,550 units.

Gross profit was \$63,444,000 compared with \$64,363,000 in the prior corresponding period. Gross margin as a percent of sales increased to 79.7% compared with 78.9% in the prior corresponding period.

Selling and general expenses were \$32,348,000, an increase of \$2,873,000 compared with \$29,475,000 in the prior corresponding period. This increase is attributable to annualisation of staffing costs driven by new hires in the prior period and the impact of annual inflation.

Research and development expenses for the half-year to 31 December 2023 were \$16,209,000, an increase of \$2,573,000 compared with the prior corresponding period. This is mainly attributable to increased investment being made in preparation for the commercialisation of the Company's new endoscope reprocessing platform, CORIS®.

Other income for the period was \$815,000 (31 December 2022: \$647,000) which includes \$764,000 grant revenue associated with the New South Wales Jobs Plus Program (31 December 2022: \$632,000).

Finance income for the period was \$2,314,000 (31 December 2022: \$1,016,000) and is attributable to interest earned on term deposits.

Other losses - net for the period were \$404,000 compared with a net gain of \$159,000 in the prior corresponding period, mainly as a result of net loss in foreign currency changes and derivative financial instruments.

Income tax benefit for the period was \$1,306,000 compared with an income tax expense of \$1,007,000 in the prior corresponding period.

Cash and cash equivalents at 31 December 2023 totalled \$118,315,000 compared with \$112,159,000 at 30 June 2023. The cash on hand provides a strong balance sheet for the Company to continue executing on its growth strategies. Free cash inflow amounted to \$7,919,000 compared with free cash inflow of \$6,113,000 in the prior corresponding period.

Subsequent events

Note 8.2 sets out details of events subsequent to 31 December 2023 that may significantly affect the interim consolidated financial statements or require disclosure.

Apart from the items included in Note 8.2 and in the half-year report, there are no matters or circumstances that have arisen since 31 December 2023 that have significantly affected, or may significantly affect:

- a) the Group's operations in the current or future financial years;
- b) the results of those operations in the current or future financial years; or
- c) the Group's state of affairs in the current or future financial years.

Rounding

The amounts contained in this report and in the interim consolidated financial statements have been rounded to the nearest \$1,000 (where rounding is applicable) and where noted (\$'000) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which that instrument applies.

Directors' report

For the half-year ended 31 December 2023

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This Report is made and signed in accordance with a resolution of the Directors made pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Geoff Wilson

Director

Sydney, 26 February 2024

Auditor's Independence Declaration to the Directors of Nanosonics Limited

As lead auditor for the review of the half-year financial report of Nanosonics Limited for the half-year ended 31 December 2023, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nanosonics Limited and the entities it controlled during the financial period.

Ernst and Young

Ernst & Young

Vida Virgo

Vida Virgo
Partner
26 February 2024

Directors' declaration

In the opinion of the Directors:

- (a) the half-yearly financial statements and notes of the Company and of the Group are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and Group's financial position as at 31 December 2023 and of their performance for the half-year ended on that date; and
 - (ii) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.



Geoff Wilson

Director

Sydney, 26 February 2024

Nanosonics Limited

Interim consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2023

		31 December 2023	31 December 2022
	Notes	\$'000	\$'000
Revenue from contracts with customers	2.2	79,638	81,565
Cost of sales		(16,194)	(17,202)
Gross profit		63,444	64,363
Selling and general expenses		(32,348)	(29,475)
Administration expenses		(12,271)	(11,412)
Research and development expenses		(16,209)	(13,636)
Other income	2.3	815	647
Other (losses)/gains - net	2.5	(404)	159
Results from operating activities		3,027	10,646
Finance income - interest		2,314	1,016
Finance expense		(479)	(286)
Net finance income		1,835	730
Profit from ordinary activities before tax		4,862	11,376
Income tax benefit/(expense)	3.1	1,306	(1,007)
Net profit for the period attributable to members		6,168	10,369
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on foreign currency translation		1,077	(590)
Effective portion of changes in fair value of cash flow hedges		2,677	693
Income tax on items of other comprehensive income		(803)	(208)
Total items that may be reclassified subsequently to profit or loss		2,951	(105)
Total other comprehensive income/(loss)		2,951	(105)
Total comprehensive income for the period attributable to owners of the parent entity		9,119	10,264
Earnings per share for profit attributable to ordinary shareholders of the Company:			
		Cents	Cents
Basic earnings per share	2.6	2.04	3.44
Diluted earnings per share	2.6	2.02	3.40

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of financial position

As at 31 December 2023

		31 December 2023	30 June 2023
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents	5.1	118,315	112,159
Trade and other receivables		31,257	38,754
Inventories		28,716	25,490
Derivative financial instruments	5.2	1,665	360
Cost to obtain customer contracts		489	385
Income taxes receivable		76	-
Prepayments and other current assets		5,813	4,473
Total current assets		186,331	181,621
Non-current assets			
Property, plant and equipment	6.1	12,257	12,733
Right-of-use assets	6.2	9,725	9,762
Intangible assets		44	96
Net deferred tax assets		16,243	14,452
Other non-current assets		74	70
Derivative financial instruments	5.2	2,057	841
Costs to obtain customer contracts		384	345
Total non-current assets		40,784	38,299
Total assets		227,115	219,920
LIABILITIES			
Current liabilities			
Trade and other payables		8,990	10,842
Income taxes payable		1,120	2,126
Contract liabilities		8,715	7,796
Employee benefit liabilities	4.1	5,773	7,654
Provisions	6.3	645	629
Lease liabilities	5.3	3,020	2,882
Derivative financial instruments	5.2	156	1,103
Total current liabilities		28,419	33,032
Non-current liabilities			
Contract liabilities		14,856	13,913
Employee benefit liabilities	4.1	579	473
Lease liabilities	5.3	7,632	7,838
Provisions	6.3	93	30
Derivative financial instruments	5.2	-	774
Total non-current liabilities		23,160	23,028
Total liabilities		51,579	56,060
Net assets		175,536	163,860
EQUITY			
Contributed equity	7.1	114,378	114,211
Reserves		30,248	24,907
Retained earnings		30,910	24,742
Total equity		175,536	163,860

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of changes in equity

For the half-year ended 31 December 2023

	Contributed equity	Reserves			Total reserves	Retained earnings	Total equity
		Share-based payments	Foreign currency translation	Hedging			
Note 7.1							
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2023	114,211	29,096	(4,179)	(10)	24,907	24,742	163,860
Profit for the period						6,168	6,168
Other comprehensive income	-	-	1,077	2,677	3,754	-	3,754
Income tax on items of other comprehensive income	-	-	-	(803)	(803)	-	(803)
Total comprehensive income	-	-	1,077	1,874	2,951	6,168	9,119
Transaction with owners in their capacity as owners							
Issue of shares under employee share plans	167	-	-	-	-	-	167
Share-based payments		2,512			2,512		2,512
Income tax on share-based payments	-	(122)	-		(122)	-	(122)
At 31 December 2023	114,378	31,486	(3,102)	1,864	30,248	30,910	175,536
At 1 July 2022	113,855	23,170	(2,142)	(1,051)	19,977	4,859	138,691
Profit for the period	-	-	-	-	-	10,369	10,369
Other comprehensive income	-	-	(590)	693	103	-	103
Income tax on items of other comprehensive income	-	-	-	(208)	(208)	-	(208)
Total comprehensive income	-	-	(590)	485	(105)	10,369	10,264
Transaction with owners in their capacity as owners							
Issue of shares under employee share plans	151	-	-	-	-	-	151
Share-based payments	-	2,100	-	-	2,100	-	2,100
Income tax on share-based payments	-	182	-	-	182	-	182
At 31 December 2022	114,006	25,452	(2,732)	(566)	22,154	15,228	151,388

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Interim consolidated statement of cash flows

For the half-year ended 31 December 2023

	31 December 2023	31 December 2022
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST/VAT)	93,655	82,410
Payments to suppliers and employees (inclusive of GST/VAT)	(83,715)	(73,286)
Interest received	1,796	295
Income taxes paid	(2,713)	(1,183)
Net cash provided by operating activities	9,023	8,236
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,115)	(2,117)
Purchase of intangible assets	(1)	(6)
Proceeds from disposal of property, plant and equipment	12	-
Net cash used in investing activities	(1,104)	(2,123)
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(1,452)	(1,347)
Interest paid on lease liabilities	(175)	(169)
Proceeds from issue of shares under employee share plans	167	151
Net cash used in financing activities	(1,460)	(1,365)
Net increase in cash and cash equivalents	6,459	4,748
Cash and cash equivalents at the beginning of the financial half-year	112,159	94,512
Effect of exchange rate changes on cash and cash equivalents	(303)	25
Cash and cash equivalents at the end of the financial half-year	5.1 118,315	99,285

The notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

Nanosonics Limited

Notes to the interim consolidated financial statements

For the half-year ended 31 December 2023

1 General accounting policies

1.1 Reporting entity

Nanosonics Limited (the Company) is a listed public company, limited by shares, incorporated and domiciled in Australia. The interim consolidated financial statements of the Company as at and for the half-year ended 31 December 2023 comprises Nanosonics Limited and its subsidiaries (the Group). The interim consolidated financial statements are presented in Australian dollars.

1.2 Basis of preparation

a. Statement of Compliance

The interim consolidated financial statements and notes for the reporting period ended 31 December 2023 are prepared in accordance with AASB134 Interim Financial Reporting (IAS34 Interim Financial Reporting) and the *Corporations Act 2001*.

The interim consolidated financial report does not include all of the information for a full annual financial report. Accordingly, this report should be read in conjunction with the Annual Financial Report for the Group as at and for the year ended 30 June 2023, together with the public announcements made by the Company during the half year and to the date of this report in accordance with continuous disclosure requirements of the *Corporations Act 2001*. The audited Annual Financial Report for the Company as at and for the year ended 30 June 2023 is available upon request from the Company's registered office and principal place of business at 7-11 Talavera Road, Macquarie Park NSW 2113, Australia or from the Investor Centre section of the Company's website: www.nanosonics.com.au. Copies of the Company's public announcements made during the half year and to the date of this report are also available from the Investor Centre section of the Company's website.

The Board of Directors approved the interim consolidated financial statements on 26 February 2024.

b. Changes in significant accounting policies

The accounting policies applied in the interim consolidated financial statements for the half year ended 31 December 2023 are consistent with those applied by the Group in the Annual Financial Report as at and for the year ended 30 June 2023 and the corresponding interim reporting period. Where appropriate, comparatives have been reclassified from the prior year to align to the current period presentation.

2 Performance for the year

2.1 Revenue

AASB 15 *Revenue from Contracts with Customers* establishes a five-step model to account for revenue arising from contracts with customers. Entities are required to exercise judgment in developing revenue recognition policies, taking into consideration all the relevant facts and circumstances when applying each step of the model.

Revenue from contracts with customers is recognised when the control of goods and services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Sale of goods

The Group's sales of goods consist of the sale of capital equipment which includes the sale of trophon and related accessories, and the sale of consumables and spare parts. Revenue is recognised at a point in time when the Group has delivered goods to its customers, and it is probable that consideration will be collected in exchange.

2 Performance for the year (continued)

Revenue is measured on the consideration expected to be received, net of trade rebates and discounts paid. If the contract includes variable consideration, the variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Some contracts for the sale of goods provide customers with volume rebates which give rise to variable consideration. The Group provides retrospective volume rebates to certain customers once certain contracted thresholds have been achieved. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with multi-tiered thresholds. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises an offset against trade and other receivables for the expected future rebates.

Rental revenue

Rental revenue is recognised overtime on a straight-lined basis for the term of the contract. Rental revenue is included in capital revenue.

Service

The Group's sale of services is recognised using a proportionate fair value method based on relative standalone selling prices or in certain circumstances, using the residual method of distinct performance obligations within service contracts. Service contracts have separately identifiable performance obligations that are either provided at a point in time (i.e. upon performance of the service) or over time (i.e. over the duration of the contract). Revenue from the sale of services is recognised when the distinct performance obligation is fulfilled.

Financing component

The timing between upfront consideration received and the fulfilment of services gives rise to a financing component. Using the practical expedient in AASB 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less. Some customers purchase service contracts up-front or enter into multi-period service contracts resulting in the Group holding the payment greater than twelve months in advance of revenue recognition. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2.2 Segment and revenue information

i. Operating segment

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer & President (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The Group operates in a single operating segment, being the healthcare equipment segment. Accordingly, the Group's consolidated total assets are the total reportable assets of the operating segment.

ii. Types of products and services

The principal products and services of the healthcare equipment segment are the manufacture and commercialisation of infection control and decontamination products and related technologies.

2 Performance for the year (continued)

iii. Major customers

The Group has a number of customers to which it provides products and services.

For the current period ended 31 December 2023, our largest customer, Henry Schein (worldwide) contributes approximately 5% of our revenue. Our next significant customer, GE Healthcare (worldwide) accounts for 4% of our revenue. The contribution from Henry Schein has increased from the prior comparable period following their acquisition of the Regional Healthcare Group Pty Ltd in the second half of FY23.

In the prior comparable period, GE Healthcare (worldwide) contributed 5% of our revenue. Our next significant customer was Regional Healthcare Group Pty Ltd, which represented 3% of our revenue for the period ended 31 December 2022.

iv. Geographical information

Geographically, the Group operates globally. Australia is the home country of the parent entity. Revenue is allocated based on the country in which the customer is located.

Revenue from external customers by geographical location is detailed below.

For the half-year ended 31 December 2023	Europe and			Total
	North America	Middle East	Asia Pacific	
Capital revenue before hedging	20,776	746	828	22,350
Foreign exchange (loss) on hedged sales	(420)	-	-	(420)
Total capital revenue	20,356	746	828	21,930
Consumables and spare parts	43,405	2,939	1,414	47,758
Service	9,121	607	814	10,542
Foreign exchange (loss) on hedged sales	(592)	-	-	(592)
Total consumables and service revenue	51,934	3,546	2,228	57,708
Total revenue	72,290	4,292	3,056	79,638
At a point in time	69,057	4,079	2,773	75,909
Over time	3,233	213	283	3,729

For the half-year ended 31 December 2022	Europe and			Total
	North America	Middle East	Asia Pacific	
Capital revenue before hedging	23,552	853	1,632	26,037
Foreign exchange gain on hedged sales	(138)	-	-	(138)
Total capital revenue	23,414	853	1,632	25,899
Consumables and spare parts	43,351	2,342	1,279	46,972
Service	7,460	403	924	8,787
Foreign exchange gain on hedged sales	(93)	-	-	(93)
Total consumables and service revenue	50,718	2,745	2,203	55,666
Total revenue	74,132	3,598	3,835	81,565
At a point in time	70,936	3,477	3,487	77,900
Over time	3,196	121	348	3,665

2 Performance for the year (continued)

2.2 Segment and revenue information (continued)

For the purpose of this note, non-current assets consist of property, plant and equipment, intangible assets and other non-current assets excluding net deferred tax assets and derivative financial instruments. Assets and capital expenditure are allocated based on where the assets are located.

The analysis of non-current assets is detailed below:

	31 December 2023	30 June 2023
	\$'000	\$'000
North America	4,277	3,621
Europe and Middle East	1,777	1,245
Asia Pacific	16,430	18,140
Total non-current assets	22,484	23,006

2.3 Other income

The Company entered into a grant deed with Investment New South Wales under the NSW Jobs Plus Program (the Program) effective July 2021. Under the Program, the Company is committing to create over 100 new jobs in NSW between 2 July 2021 and 30 June 2024. Subject to meeting the conditions of the Program, Nanosonics will receive milestone payments to support creating new jobs and the costs of fitting out new manufacturing, research & development laboratory and office facilities.

Grant revenue received under the Program is recognised systematically as the Company recognises related costs as expenses in line with AASB120 Accounting for Government Grant.

Other income for the period of \$815,000 (31 December 2022: \$647,000) includes \$764,000 (31 December 2022: \$632,000) in relation to the Program. As at 31 December 2023, the Company also recognised accrued grant income of \$878,000 (30 June 2023: \$2,537,000) (included in Trade and other receivables) and a corresponding contract liability of \$2,751,000 (30 June 2023: \$3,189,000) based on expenditure incurred to date associated with the new manufacturing and research & development facilities. As the infrastructure rebate relates to a depreciable asset, this is recognized as income over the periods and in proportions in which depreciation on those assets is charged.

2.4 Profit or loss items

The profit from ordinary activities before income tax includes depreciation and amortisation expenses of \$3,778,000 (31 December 2022: \$3,617,000).

2 Performance for the year (continued)

2.5 Other (losses)/gains - net

Foreign exchange gains and losses are recognised in accordance with the accounting policy set out in the 30 June 2023 Annual Report. Gains or losses on derivative financial instruments are recognised in accordance with the accounting policy referred in Note 5.2.

	31 December 2023	31 December 2022
	\$'000	\$'000
Realised gain on derivative financial instruments	607	391
Unrealised gain/(loss) on derivative financial instruments	902	(644)
Net foreign exchange (loss)/gain	(1,920)	457
Net (loss)/gain on foreign currency	(411)	204
Gain/(loss) on disposal of fixed assets	7	(45)
Total other (losses)/gains – net	(404)	159

2.6 Earnings per share (EPS)

i. Basic earnings per share

Basic EPS is calculated by dividing the net profit attributable to equity holders of the Company for the reporting period by the weighted average number of ordinary shares of the Company outstanding during the half year.

ii. Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of Basic EPS to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	31 December 2023	31 December 2022
	Cents	Cents
(a) Basic earnings per share		
Basic earnings attributable to the ordinary equity holders of the Company	2.04	3.44
(b) Diluted earnings per share		
Diluted earnings attributable to the ordinary equity holders of the Company	2.02	3.40
	\$'000	\$'000
(c) Net earnings used in calculating earnings per share		
Net earnings after income tax expense attributable to shareholders	6,168	10,369

2 Performance for the year (continued)

2.6 Earnings per share (EPS) (continued)

	31 December 2023 Number	31 December 2022 Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	301,694,807	301,352,448
Adjustments for calculation of diluted earnings per share:		
Options and performance rights unvested	3,889,974	3,888,029
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	305,584,781	305,240,477

2.7 Dividends

No dividends were proposed, declared or paid during the interim financial period and to the date of this report (31 December 2022: Nil).

3 Income taxes

Nanosonics Limited and its wholly owned Australian resident entities, Saban Ventures Pty Limited and Nanosonics Investments Pty Limited, are part of a tax consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Nanosonics Limited.

3.1 Income tax expense

The reconciliation of income tax benefit to prima facie tax payable is as follows:

	31 December 2023 \$'000	31 December 2022 \$'000
Profit from ordinary activities before tax	4,862	11,376
The prima facie income expense applicable to the operating profit is calculated at the Australian tax rate of 30% (31 December 2022: 30%)	(1,459)	(3,413)
Increase in income tax expense due to:		
Non-deductible expenses	(143)	123
Research and development expenditure	(4,078)	(4,091)
Decrease in income tax expense due to:		
R&D tax credits/benefit generated	6,228	6,256
Other deductible expenses	(36)	20
Net recognition/(non-recognition) of deferred tax assets in foreign jurisdictions	681	100
Effect of tax rate in foreign jurisdictions	113	11
Adjustment relating to prior periods	-	(13)
Income tax (expense)/benefit	1,306	(1,007)

3 Income taxes (continued)

3.1 Income tax expense (continued)

The Group offsets tax assets and liabilities only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

As at 31 December 2023, the Group has unrecognised deferred tax assets in relation to its subsidiaries.

Estimated unrecognised losses carried forward at the end of the period are \$8,687,000 (30 June 2023: \$9,034,000) for a potential tax benefit of \$2,536,000 (30 June 2023: \$2,568,000) at an effective tax rate of 29.19% (30 June 2023: 28.42%). The probability of recovery of unrecognised tax losses in relation to the subsidiaries is reviewed on an on-going basis.

4 Employee benefits

4.1 Employee benefit liabilities

	31 December 2023			30 June 2023		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Provision of annual leave	3,493	-	3,493	3,448	-	3,448
Provision for long service leave	597	579	1,176	627	473	1,100
Provision for bonuses	1,683	-	1,683	3,579	-	3,579
Total employee benefit liabilities	5,773	579	6,352	7,654	473	8,127

4.2 Share based payments

For the half-year ended 31 December 2023, share-based payments expense amounted to \$2,512,000 (31 December 2022: \$2,100,000).

On 16 January 2024 the Company issued 44,054 performance rights with a nil exercise price to the CEO & President under the Nanosonics Omnibus Equity Plan FY23 Short Term Incentive Scheme. The rights will vest on 31 August 2024, subject to meeting the service conditions. Once vested, the rights are subject to a one year exercise restriction period to 31 August 2025 and will be available to be exercised until 31 August 2028.

On 16 January 2024 the Company issued 346,825 performance rights with a nil exercise price to other executives and employees under the Nanosonics Omnibus Equity Plan FY23 Short Term Incentive Scheme. In total 305,100 rights have been awarded which will vest on 31 August 2024 and are subject to meeting the service conditions and 41,725 rights have been awarded which are subject to a restriction period to 31 August 2024.

Following the Annual General Meeting on 3 November 2023, approval was provided to issue 385,140 performance rights to CEO & President under the Nanosonics Omnibus Equity Plan 2023 Long Term Incentive Scheme. The performance rights will vest on 30 September 2026, subject to meeting performance and service conditions. Once vested the rights issued to the CEO & President are subject to a one year restriction period to 30 September 2027 and will be available to be exercised until expiry on 3 November 2033.

5 Financial assets and financial liabilities

The carrying amounts and estimated fair value of the Group's financial assets and liabilities are materially the same, except for derivative financial instruments which are carried at fair value.

5.1 Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments presented at market value that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents at the reporting date as shown in the consolidated statements of cash flows and financial position are as follows:

	31 December 2023	30 June 2023
	\$'000	\$'000
Cash at bank and on hand	19,696	21,835
Deposit on call	2,644	1,842
Short term deposits	95,975	88,482
Total cash and cash equivalents	118,315	112,159

5.2 Derivative financial instruments

The Group uses derivative financial instruments (foreign currency contracts) to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair values of foreign currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit and loss statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

Hedges that meet the strict criteria for hedge accounting are accounted as follows:

- For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the profit and loss statement.
- For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to the profit and loss statement.
- If the forward exchange contract no longer meets the criteria for hedge accounting, expires, is terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs or when cash flows arising from the transactions are received.
- For cash flow hedges, the associated cumulative gain or loss is removed from equity and recognised in the statement of profit or loss in the same period the hedged transactions affect the profit or loss on the same line item as the hedged transactions.

5 Financial assets and financial liabilities (continued)

5.2 Derivative financial instruments (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All of the Group's foreign exchange forward contracts and options were valued using market comparison technique (Level 2) and are calculated using forward exchange rates prevailing at the balance sheet date. There were no transfers between levels during the period. The fair values are based on third party independent valuation. Similar contracts are traded in an active market and the independent valuations reflect the actual transactions in similar instruments.

As at 31 December 2023, the Group has \$3,722,000 derivative financial assets (30 June 2023: \$1,201,000) and \$156,000 derivative financial liabilities (30 June 2023: \$1,877,000).

5.3 Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used, residual guarantee, lease term, certainty of a purchase option, modification of the lease terms and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

The Group leases various offices, warehouses, equipment and motor vehicles. Rental contracts are typically made for fixed periods between three to eight years. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. This excludes short-term leases.

The weighted average lessee's incremental borrowing rate applied to operating lease liabilities was 3.55% (30 June 2023: 3.03%).

During the period the Company has entered into a new lease to secure additional warehouse space next to its existing office and warehouse site located in Indianapolis, United States. The five year lease for the additional warehouse space commenced on 1 December 2023 and will end on 30 November 2028. With the signing of this new lease, it is expected that the option(s) to extend the lease of the existing office and warehouse site will also be taken up which will result in the existing site being leased until 30 June 2027.

5 Financial assets and financial liabilities (continued)

5.3 Lease liabilities (continued)

	31 December 2023			30 June 2023		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Lease liabilities	3,020	7,632	10,652	2,882	7,838	10,720

	31 December 2023	30 June 2023
	\$'000	\$'000
Opening balance	10,720	11,712
Additions	1,385	1,731
Interest expense	174	345
Payments	(1,627)	(3,068)
Closing balance	10,652	10,720

The following are the amounts recognised in profit or loss:

	31 December 2023	30 June 2023
	\$'000	\$'000
Depreciation expense of right-of-use assets	1,439	2,857
Interest expense on lease liabilities	174	345
Expense relating to short-term leases included in:		
Selling and general	152	418
Administration	62	151
Research and development	-	15
Total amount recognised in profit or loss	1,827	3,786

The Group had total cash outflows for leases of \$1,627,000 for the 6 months ended 31 December 2023 (\$1,516,000 in 31 December 2022). All leases have fixed payment terms and there are no variable components.

6 Operating assets and liabilities

6.1 Property, plant and equipment

i. Owned assets

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when it is replaced. All other repairs and maintenance are charged to the profit and loss statement during the reporting period in which they are incurred. Production tooling used to manufacture component parts qualifies as property, plant and equipment when the Company expects to use it during more than one period.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the profit and loss statement.

ii. Depreciation

All assets have limited useful lives and are depreciated using the straight-line method over their estimated useful lives, or in the case of leasehold improvements, over the estimated useful life or lease term, whichever is shorter, taking into account residual values. Depreciation is expensed. The depreciation rates or useful lives used in the current and comparative years are as follows: leasehold improvements over the lease term; and plant and equipment 2 to 7 years.

The assets' residual values, useful lives and depreciation methods are reviewed prospectively and adjusted, if appropriate, at least annually.

iii. Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Non-financial assets, other than intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

6 Operating assets and liabilities (continued)

6.1 Property, plant and equipment (continued)

Total property, plant and equipment at net book value

	Leasehold improvements \$'000	Plant and equipment \$'000	Capital work in progress \$'000	Total \$'000
At 30 June 2023				
Cost	10,102	21,840	530	32,472
Impairment	-	-	-	-
Accumulated depreciation	(4,607)	(15,132)	-	(19,739)
Net book amount at 30 June 2023	5,495	6,708	530	12,733
At 31 December 2023				
Opening net book amount	5,495	6,708	530	12,733
Additions	275	1,368	136	1,779
Retirement and others	-	(5)	-	(5)
Transfers	34	392	(426)	-
Impairment	-	-	-	-
Depreciation charge	(773)	(1,468)	-	(2,241)
Foreign currency translation effect (net)	(1)	(9)	1	(9)
Closing net book amount at 31 December 2023	5,030	6,986	241	12,257
At 31 December 2023				
Cost	10,411	23,532	241	34,184
Accumulated depreciation	(5,381)	(16,546)	-	(21,927)
Net book amount at 31 December 2023	5,030	6,986	241	12,257

Plant and equipment include trophon units that are utilised under rental or service contracts, or managed equipment service arrangements, as well as units that are used for internal purposes. The gross and net book value of trophon units included in plant and equipment as at 31 December 2023 is \$8,661,000 (\$8,029,000 as at 30 June 2023) and \$3,249,000 (\$3,269,000 as at 30 June 2023), respectively.

6 Operating assets and liabilities (continued)

6.2 Right-of-use assets

i. Right-of-use assets recognition

A right-of-use asset is recognised at the commencement date of a lease or the effective date of the lease modification. The right-of-use asset comprises of the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

ii. Depreciation

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

iii. Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Non-financial assets, other than intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

iv. Practical expedients

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

6 Operating assets and liabilities (continued)

6.2 Right-of-use assets (continued)

Total right-of-use assets at net book value

	Premises \$'000	Other Equipment \$'000	Total \$'000
Opening net book amount as at 1 July 2022	10,611	247	10,858
Additions	1,548	213	1,761
Depreciation expense	(2,733)	(124)	(2,857)
Closing net book amount at 30 June 2023	9,426	336	9,762
Opening net book amount as at 1 July 2023	9,426	336	9,762
Additions	1,314	88	1,402
Depreciation expense	(1,369)	(70)	(1,439)
Closing net book amount at 31 December 2023	9,371	354	9,725
Cost or fair value	14,969	683	15,652
Accumulated depreciation	(5,598)	(329)	(5,927)
Net book amount at 31 December 2023	9,371	354	9,725

6.3 Provisions

a. Provisions as at the reporting date

	31 December 2023			30 June 2023		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Provision for warranty	645	-	645	629	-	629
Make good provision	-	93	93	-	30	30
Total provisions	645	93	738	629	30	659

b. Movements in provisions

	Provision for warranty \$'000	Make good provision \$'000	Total \$'000
Carrying amount at start of period	629	30	659
Additional provisions recognised	255	63	318
Amounts used and released during the period	(239)	-	(239)
Carrying amount at end of period	645	93	738

The Group has recognised a provision for warranty consistent with the policy applied in prior periods. The Group has made assumptions in relation to the values estimated to be required to settle the warranty obligation on all products under warranty at the balance date.

7 Capital structure

7.1 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Ordinary shares carry one vote per share and entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands, every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote. Ordinary shares have no par value, are fully paid and the Company does not have a limited amount of authorised capital.

Movements in ordinary share capital

	Number of shares	\$'000
Opening balance 1 July 2023	302,315,760	114,211
Issue of shares under employee share plans	513,607	167
Balance 31 December 2023	302,829,367	114,378

8 Other notes

8.1 Commitments

Capital commitments

As at 31 December 2023, the Group had commitments to purchase plant and equipment of \$2,222,000 (30 June 2023: \$580,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Lease commitments

During the period the Company has entered into a new lease to secure additional warehouse space next to its existing office and warehouse site located in Indianapolis, United States. The five year lease for the additional warehouse space commenced on 1 December 2023 and will end on 30 November 2028. The value of this lease commitment is \$690,000.

With the signing of this new lease, it is expected that the option(s) to extend the lease of the existing office and warehouse site will also be taken up which will result in the existing site being leased until 30 June 2027. The value of this lease commitment is \$568,000.

8.2 Events occurring after the balance date

On 16 January 2024, the Company issued the following securities under the terms of the Nanosonics Omnibus Equity Plan:

- 346,825 performance rights with a nil exercise price to other executives and employees in relation to the FY23 Short Term Incentive Scheme; and
- 44,054 performance rights with a nil exercise price issued to the CEO & President in relation to the FY23 Short Term Incentive Scheme.

Other than above and as disclosed in Note 4.2 of the half-year financial report, there are no other matters or circumstances that have arisen since 31 December 2023 that have significantly affected, or may significantly affect:

- a) the Group's operations in the current or future financial years;
- b) the results of those operations in the current or future financial years; or
- c) the Group's state of affairs in the current or future financial years.

Independent auditor's review report to the members of Nanosonics Limited

Conclusion

We have reviewed the accompanying half-year financial report of Nanosonics Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as at 31 December 2023, the interim consolidated statement of profit or loss and other comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Ernst and Young

Ernst & Young

Clingo

Vida Virgo
Partner
Sydney
26 February 2024

Corporate directory

Nanosonics Limited ABN 11 095 076 896 incorporated 14 November 2000

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David Fisher
Marie McDonald
Geoff Wilson
Lisa McIntyre
Tracey Batten
Larry Marshall
Michael Kavanagh

Company Secretary

Matthew Carbines

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Bankers

Australia:

Australia and New Zealand Banking Group Limited
HSBC Bank Australia Limited
National Australia Bank Limited
Commonwealth Bank of Australia Limited

United Kingdom:

HSBC Bank PLC

Germany:

HSBC Trinkaus & Burkhardt AG
Deutsche Bank AG

United States:

HSBC Bank USA NA
PNC Financial Services Group, Inc

Canada:

HSBC Bank Canada

Japan:

MUFG Bank Ltd

China:

HSBC Bank (China) Shanghai

Stock Exchange Listing

Nanosonics Limited shares are listed on the
Australian Securities Exchange
ASX code: NAN
Industry Group: Healthcare Equipment & Services

Website address

www.nanosonics.com.au