Nanosonics Limited
2016 Chairman's Address
Annual General Meeting

Friday, 4 November 2016

Brisbane Room, Sofitel Sydney Wentworth Hotel, 61-101 Phillip Street, NSW 2000

The 2016 financial year has been a highlight for Nanosonics during which, the Company demonstrated accelerating momentum and continued achievement of its milestones.

Among these were:

- The first full year of our direct operations in the US - which has been a highly successful element of the Company's growth strategy;
- Enjoyment of the benefits from a full year in our new global corporate headquarters, R&D and manufacturing facility, which has positively impacted all dimensions of the business and its future roadmap;
- The Board and management have accelerated the expansion of the Company's product development and R&D activities aimed at addressing a broader cross section of the global infection control market; and
- The delivery of excellent financial results which have resulted in a maiden full year profit.

Financial Results

In 2016 Nanosonics achieved sales of $42.8 million, an increase of 93% compared with the prior year. This increase has been driven by continued broad adoption of the trophon® EPR technology and has led to the Company reporting its maiden full year profit, a year ahead of market expectations.

The 2016 financial year also saw Nanosonics deliver its first full year of positive free cash flow totalling $1.9 million and ending the year with $48.8 million of cash and cash equivalents.

Overall, Nanosonics' market value increased 31% over the 12 months to 30 June 2016 and it has experienced a growth in market capitalisation of around 250% over the last three years. We also have a strong and growing cash position. This gives the Company significant flexibility to pursue its strategy of building on its position as the emerging infection control innovator.

North America

2016 saw the first full year of our direct participation in the United States where we have established a successful sales, service, finance and logistics operation aimed at extending brand awareness, driving additional sales and, critically, getting closer to our customers. We continue to actively support our successful partnership with GE Healthcare as well as expanding the number of OEMs who are now in a position to make the trophon system available to their customers. As a consequence of this proactive strategy, the trophon installed base grew by over 118% in the year to 8,700 units with strong adoption continuing in the new financial year.

An important factor contributing to the Company's sales momentum in North America has been the increased awareness and focus on the importance of appropriate instrument reprocessing and the pivotal role it plays in infection prevention. This is further driven by the spotlight on human papillomavirus (HPV) which is responsible for 99.7% of all cervical cancer cases as well as being linked to a range of other cancers. Clinical studies conducted by Prof. Meyers from Penn State College of Medicine have shown that legacy solutions focussing on toxic liquid disinfectants for the high level disinfection of ultrasound probes are not only risky in their own right but have proven to be totally ineffective against HPV. By contrast, the trophon technology is fully automated and has been shown to be a highly effective bactericidal, virucidal and fungicidal technology. These highly regarded studies are positively impacting the market for compliant technologies, which is being led by trophon and providing real motivation for regulators in other markets to review historic practices and introduce new and more effective guidelines.

Europe and Other Markets

In Europe and other markets, both market development and the evolution of more stringent guidelines present a clear opportunity for the adoption of trophon as the new standard of care. The new health guidelines in Scotland requiring high level disinfection of ultrasound probes used in semi-critical examinations have led to a significant increase in customer awareness, enquiries and sales prospects. This mirrors the market impact when similar new guidelines were released in Wales. Importantly, new guidelines by NHS England are pending. Similar to Scotland and Wales, it is expected that the English guidelines will emphasise the importance of effective high level disinfection of semi-critical devices.

We are pleased to highlight a recently established partnership with Wassenburg Ireland Ltd for the sale and distribution of trophon in the Republic of Ireland.

Nanosonics is also working in the Middle East with a number of parties in respect of current tenders and other opportunities throughout the region.

Following the successful registration of trophon in Japan, Nanosonics is actively reviewing its market entry strategy which includes extensive dialogue with Key Opinion Leaders and associations in what is potentially the world's second largest market for ultrasound probe reprocessing. While this market is expected to take some time to fully develop, positive feedback in respect of the trophon and its benefits were received at the Japanese Society for Ultrasound in Medicine congress held in May this year.

Research and Development

Nanosonics has generated world class expertise in the identification, research and development of emerging opportunities in the global infection control market. The Company is now leveraging its resources and insights into expanding its footprint and broadening its revenue base while continuing to maintain a firm focus on its core trophon product range.

In the 2016 financial year, Nanosonics increased its R&D spend by 50% to $7.3 million, which represented over 17% of sales.

We now have a validated and successful core platform technology which can be leveraged to bring a range of new innovations to a market that is increasingly demanding rapid, automated, non-toxic solutions to the pressing challenges of micro-pathogens in the 21st century.

Critically, the Company has engaged in a number of research programs that have enabled the development of a deep understanding of our customers' needs, which in turn, is directing our core R&D programs.

Nanosonics is working on a pipeline of R&D innovation with the potential to address large scale opportunities consistent with your Company's strategy of affordable capital equipment married with consumables within an ecosystem supported with optimal workflow and above all, safety and validated outcomes.

I would also like to make mention of the current Federal Government's review of the R&D Tax Incentive. Nanosonics, along with other leading Australian medical technology companies has made a submission on the recommendations arising from that review. It is widely acknowledged that Nanosonics has been a text book example of an emerging company that has received early support from both tax incentives and grants, and has delivered a new industry for Australia. We encourage the Government through its review process to closely examine the level of ongoing support that is required to ensure that organisations like Nanosonics can become major global players, and which in turn will bring significant economic benefit to Australia.

The Board

As recently announced, Dr Ron Weinberger will retire from the Board at the conclusion of today's Annual General Meeting. Ron is a long serving executive of Nanosonics, having contributed to the development of the Company since 2004 and is named as a co-inventor of a number of Nanosonics' patents. Ron is a member of the senior executive team and continues in his role as President, Technology Development and Commercialisation.

I would like to thank Ron for his past contribution to the Board and I look forward to his ongoing contribution as he continues to play a vital role in developing new technologies that will position the Company as a leading player in the infection control market.

Reflecting the Company's growth and international expansion, I am very pleased to acknowledge two highly experienced directors who have recently joined the Board.

In July, we announced the appointment Mr Steven Sargent as a Non-executive Director of the Company. Steve has extensive executive experience, having worked across a range of industries, including healthcare, spanning the US, Europe and Asia Pacific. Since joining GE in 1993 Steve has held key leadership positions with the company including President and CEO GE Australia, New Zealand, PNG and the Pacific. Steve was a member of GE's Global Corporate Executive Council and prior to his recent retirement from GE, he was President and CEO of GE's global mining business.

Steve is currently a Non-executive director of Origin Energy Limited, the Great Barrier Reef Foundation and he is Chairman of The Origin Foundation. Previously, Steve served as a Non-executive director of Veda Group Limited and Bond University Limited and was on the board of the Business Council of Australia.

In October, Ms Marie McDonald was appointed as a Non-executive Director of the Company. Marie has an extensive background in corporate and commercial law having practised for many years as a partner of Ashurst. Marie was Chair of the Corporations Committee of the Business Law Section of the Law Council of Australia from 2012 to 2013, and she was also a member of the Australian Takeovers Panel from 2001 to 2010. Marie

is currently a Non-executive director of CSL Limited and a director of the Walter and Eliza Hall Institute of Medical Research.

I am delighted to welcome Steve and Marie to the Nanosonics Board where their skills and experience provide an outstanding addition to support Nanosonics' future growth and development.

With these recent changes the Board is now comprised of a clear majority of independent directors.

Management and Staff

Nanosonics today has over 160 team members located in Australia, the Unites States, Canada and across Europe. I sincerely thank each and every member of the team and our highly experienced and committed Board and numerous individuals who advise and guide us in our mission of "Infection Prevention. For Life."

Equally none of this would be possible without our loyal and increasing shareholder base together with capital markets supporters and analysts.

On behalf of the Board, I would like to thank all our employees for their contribution to the success of the Company over the last year. Similarly, I thank my fellow Board members for their important and ongoing efforts.

Conclusion

In summary, Nanosonics has enjoyed a remarkable journey from start-up to small-cap and now, an ASX300 company which has the respect of the both the global healthcare community and the financial markets.

I would now like to invite the Company's CEO & President, Mr Michael Kavanagh to deliver his presentation. Michael joined the Company as a Non-executive director in 2012 and has served as CEO for the past three years bringing his extensive international executive experience from Cochlear to lead Nanosonics to an even brighter future.

Mr Maurie Stang
Chairman