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AirXpanders issues Investor Newsletter

Palo Alto, CA, United States – AirXpanders, Inc. (ASX: AXP) (AirXpanders or Company) a medical device company focused on the design, manufacture, sale and distribution of the AeroForm® tissue expander, has lodged its Investor Newsletter with the ASX today.

Investors interested in receiving Company news into their email inbox should sign up at <http://airxpanders.com/contact.php>.

- ENDS -

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About AirXpanders:

Founded in 2005, AirXpanders, Inc. (www.airxpanders.com) designs, manufactures and markets innovative medical devices to improve breast reconstruction. The company's AeroForm Tissue Expander System, is used in patients undergoing two-stage breast reconstruction following mastectomy. Headquartered in Palo Alto, California, AirXpanders' vision is to be the global leader in reconstructive surgery products and to become the standard of care in two-stage breast reconstruction. AirXpanders is a publically listed company on the Australian Securities Exchange under the symbol "AXP." AeroForm was granted U.S. FDA de novo marketing authorisation in 2016, first CE mark in Europe in 2012 and is currently licensed for sale in Australia.

Forward-Looking Statements

This announcement contains or may contain forward-looking statements that are based on management's beliefs, assumptions and expectations and on information currently available to management.

All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. These include, without limitation, U.S. commercial market acceptance and U.S. sales of our product as well as, our expectations with respect to our ability to develop and commercialize new products including our ability to obtain reimbursement for our products; ability to become the global leader in reconstructive surgery products and to become the standard of care in two-stage breast reconstruction.

Management believes that these forward-looking statements are reasonable when made. You should not place undue reliance on forward-looking statements because they speak only as of the date when made. AirXpanders does not assume any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. AirXpanders may not actually achieve the plans, projections or expectations disclosed in forward-looking statements. Actual results, developments or events could differ materially from those disclosed in the forward-looking statements.

Foreign Ownership Restriction

AirXpanders' CHES Depositary Interests (CDIs) are issued in reliance on the exemption from registration contained in Regulation S of the US Securities Act of 1933 (Securities Act) for offers or sales which are made outside the US. Accordingly, the CDIs have not been, and will not be, registered under the Securities Act or the laws of any state or other jurisdiction in the US. The holders of AirXpanders' CDIs are unable to sell the CDIs into the US or to a US person unless the re-sale of the CDIs is registered under the Securities Act or an exemption is available. Hedging transactions with regard to the CDIs may only be conducted in accordance with the Securities Act.

For more information, refer to the Company's website at www.airxpanders.com.

**Scott Dodson CEO**

Highlights

- Message from the CEO
- Update on U.S. Commercialisation
- Manufacturing Capacity Addressed
- Australian Market Update
- Financial Position
- AirXpanders in the News and Coverage

A message from the CEO

Dear investors,

You would have seen from AirXpanders' most recent Appendix 4C and Quarterly update, that we have had a very positive start to our limited commercial launch in the U.S. and continue to deliver exceptional year-on-year growth in the Australian market. For the first quarter of our 2017 financial year, we delivered a 172% increase in revenue, when compared to Q1 2016, driven by a 128% growth in unit sales. This strong result reflects our steady expansion in Australia, where 83 units were sold in the quarter, versus 53 in the previous corresponding period – an increase of 64%.

These quarterly sales also include our first U.S. sales, where – with 38 units sold – we are on track and in line with our overall expectations for sales at this stage of U.S. commercial launch. In addition to the 38 units sold, we placed an additional 10 units for evaluation purposes, which resulted in approvals at two hospitals. Additionally, we have been able to preserve a higher ASP (average selling price) than our initial assumptions. We are delighted with the progress being made in the U.S. and provide further detail on these advancements later in this newsletter.

From a regulatory position, we received 510(k) clearance from the FDA for the latest version of AeroForm in early April. This new version utilises an enhancement to the film material that contains

the CO2 within the device. The FDA clearance is in addition to the CE Mark and the TGA approval that we have already received, and will enable us to commence full commercial launch in the second half of the year in the U.S. with the product.

Lastly, as announced to the ASX, AirXpanders will hold its Annual Meeting of Stockholders at Johnson Winter & Slattery's Melbourne office on Tuesday 23rd May at 9.00am AEST (Monday 22nd May at 4.00pm PDT). Given AirXpanders' management team is firmly focused on being 'on the ground' for the U.S. commercial launch, and will be in Australia in early June, the Company has decided to participate in the meeting remotely. Barry Cheskin, the Chairman of the Board, and Zita Peach, our Australian-based non-executive director, will be in attendance, in addition to the virtual presence of other Board members and myself. We welcome investors to attend in person at the offices of Johnson Winter & Slattery at Level 34, 55 Collins Street, Melbourne, where they will be able to hear the presentations, ask questions and vote (if eligible).

Yours sincerely,

Scott Dodson

President and CEO
AirXpanders Inc

Update on U.S. Commercialisation

Since AeroForm received *de novo* clearance from the FDA in December 2016, the Company has exceeded critical market development objectives surrounding our U.S. commercial launch. Our key accomplishments thus far include:

- Hiring and training 10 direct sales representatives;
- Hiring and training 7 commission-only representatives;
- Onboarding new sites – with an initial 12 clinical sites through the approval process. At these first 12 sites, our initial customers have primarily been surgeons who were involved in our XPAND and continued access clinical trials. Our goal now is to deepen our presence at these first sites, and bring additional surgeons on board;
- Onboarding more than half of a pre-selected group of 120 plastic surgeons in preparation for full commercial launch in the second half of 2017;
- Remaining on track with the capacity expansion at the contract manufacturing facility in Costa Rica;
- Securing FDA 510(k) clearance for an enhanced film material – which, along with the manufacturing capacity in Costa Rica, clears the way for the broader market launch in the second half of the year;
- Driving increased awareness and enquiry for AeroForm through a successful public relations program – this includes coverage on The Doctors, America's highest rating medical program, as well as Fox News and NBC.



In the first half of this year, we will continue to execute our limited launch in the U.S., while also laying the groundwork for our broader commercial launch in the second half of the year.

AirXpanders' success will be measured in dozens of units in the first part of 2017, then hundreds of units in the middle part of the year, and, eventually, multiple hundreds of units on a quarterly basis as we accelerate into 2018. Our approach is decidedly focused on going deep in a targeted list of hospitals and surgeons to ensure that they, and their patients, have positive experiences. This will not only drive a more solid launch by assuring market share amongst key opinion leaders, but will better match the company's manufacturing capacity expansion in the near term. We continue to believe that we have the opportunity to become the new standard of care for two-stage reconstruction procedures.



Manufacturing Capacity Addressed

Near Term

As AirXpanders continues to witness rising U.S. and Australian demand for AeroForm, we remain confident that the current manufacturing facility in Palo Alto can produce enough units to meet existing demand. Our manufacturing capability in Palo Alto has two principal processes, the assembly of the final tissue expander and the assembly of the canister that holds the CO₂, a critical subassembly commonly referred to as the “driver”. We have been adding production and support resources at our facility to fulfill our current demand from the Australia market and from the limited launch in the United States. These additional resources will enable the Company to bridge the gap between increasing demand and the initiation of our production line in Costa Rica which remains on track for the 3Q timeframe. This strategy will allow us to retain core competency and maintain an active production line in California regardless of the volumes produced through our contract manufacturing partner, as well as continue to build drivers, which we are planning on manufacturing through at least the end of 2018.

Mid term

Commencing in late Q3 2017, AirXpanders will be moving to a new corporate and manufacturing headquarters situated in San Jose, California.

To ensure we have the capacity for future growth, we will be relocating our California Headquarters and Manufacturing facility to this site. This move will support our rapid growth as we continue to scale our manufacturing capacity, especially related to driver manufacturing capacity, and provide the additional space to accommodate our organisation in one building (we are currently spread across two sites at our Palo Alto address) – which delivers benefits in terms of organisational culture and achieving better synergy. This move will be taken on in phases and is expected to be completed before the end of 2017.

Although still located in the heart of Silicon Valley, the commercial leasing price in San Jose is less expensive than our current location in nearby Palo Alto. This dynamic allows us to increase space by approximately 60% on more favorable financial terms.

Updates

Sign up to
receive our
Investor
Newsletter

AirXpanders is moving
to digital-only news.

Please visit
www.airxpanders.com/contact
and register to receive news
and updates from AirXpanders
each quarter.

Update on Australia

AirXpanders continues to see great progress and success in the Australian market. In Q1 2017, we sold 83 units for AeroForm – up from 53 units sold in the previous corresponding period, which represents a 64% increase. Australia is currently having a record breaking month in terms of units sold and cases performed!

During the quarter, we also started working with the Pink Hope Foundation to help breast cancer patients become more educated and informed about their options post-mastectomy, as Australia

has one of the lowest rates of breast reconstruction among developed economies. We will be out in force at the upcoming Plastic Surgery 2017 conference (ASPS conference) to be held in the Gold Coast in early June. This is the major industry gathering for plastic surgeons in Australia and AirXpanders has a fully booked Satellite Symposium with over 100 surgeons and several podium presentations. Following this meeting we will begin training and on-boarding new surgeons throughout the country.

Financial Position

In our Appendix 4C for the most recent quarter, we reported cash balances of \$36.8 million U.S. dollars, and a forecasted cash burn for the second quarter of approximately \$7.7 million U.S. dollars. The increased level of cash spend over 2016 and the first quarter of 2017 represents higher levels of staffing costs, increased sales and marketing and production-related costs,

including inventory, costs to support the validation of our manufacturing capability in Costa Rica, and other costs to support the initiation of commercialization in 2017. The company is managing its burn rate in light of increasing revenues and will strengthen its cash position as necessary in a way that will maximize shareholder value.



ABC Local 10 News

FDA approves advancement for women who undergo breast reconstruction after mastectomy

<http://bit.ly/2oA5F4N>

20 March 2017

Sirius XM Radio

Beyond the Heart

<http://bit.ly/2n9aoKk>

30 March 2017

Mass Device

AirXpanders wins FDA nod for next-gen AeroForm tissue expander components

<http://bit.ly/2oGnMCV>

4 April 2017

Australian Financial Review

Seven IPOs worth a second look

<http://bit.ly/2o0Xyg7>

1 April 2017

Canaccord Genuity

Rapid Expansion

<http://bit.ly/2pzwclm>

28 April 2017

San Francisco Business Times

How blown bike tires led to new hope for women with mastectomies

<http://bit.ly/2q76thd>

4 May 2017

Finance News Network

AirXpanders sales and product update

<http://bit.ly/2pDt80J>

10 May 2017

AirXpanders does not endorse, confirm, or express a view as to the accuracy of, the forecasts or other statements contained in the materials cited above. AirXpanders should not be taken to make any representation about its future performance by citing those materials.