

28 November 2018

Market Update – Impact of US Tariff Changes

Azure Healthcare Limited (“Azure”) wishes to advise that while it is currently experiencing higher level of demand than forecast for its hardware and software, it is also experiencing some short-term issues in its supply chain to deliver on this demand arising as a result of the Trump administration’s new US Tariff regime.

While strong orders were indicating revenue growth over the prior corresponding period, Azure is now anticipating a softening of revenues in 1H FY19 due to the impact on our supply chain of the US administration’s new tariff regime. However, revenue across the full financial year is expected to be at least in line with FY18 once the supply chain issues are resolved.

Impact of New US Tariffs

Over the past six months, the Trump administration has made a series of announcements regarding the introduction of tariffs on goods imported from China. Whilst these tariffs have been imposed on a selection of goods at an initial rate of 10% (none of Azure’s component raw materials were captured in these rounds), from 1 January 2019 it has subsequently been proposed that all goods will be tariffed, and at an increased rate of 25%. These tariffs represent a significant impost on businesses manufacturing in the US which need to import raw materials and componentry from China. The dynamic nature of these tariff change announcements has caused volatility across many of our supply chain markets. This volatility has been challenging to anticipate.

Many US businesses have dramatically increased their forward ordering of componentry to be delivered from China in advance of the commencement of these tariffs. In turn, this has led to production bottlenecks in China, lengthening the time required to fulfil orders. Thus, the time between receipt and fulfilment of a sales order has increased significantly. This delay has had an impact on the Company’s ability to convert contracted sales and orders into revenue.

New suppliers are currently being sourced outside of China and we have identified at least two potential manufacturers of our components, in advantageous locations, to mitigate the impact of these US tariffs. Until we successfully migrate all componentry from China to other locations, the Company will incur additional costs (tariffs) that Azure is not confident can be passed onto customers.

Short Term Financial Impact

In light of the impact of the tariffs we now forecast our result for 1H FY19 will show:

- (a) a softening of revenues compared with the prior corresponding period of ~5%; and
- (b) a loss after tax of between \$0.50m to \$0.75m, compared to a profit of \$0.44m in the prior corresponding period. This includes one-off costs in relation to the recent management restructure.

Additionally, until the supply chain restructuring is completed, additional costs of between \$0.5m to \$0.8m may be incurred in calendar 2019. The quantum is subject to the final implementation of the US tariffs and the timing of our component procurement migration. The financial impact of these tariffs reduces over time in line with our migration plan, which sees higher value items moving as a priority.

Clayton Astles, Chief Executive Officer and Managing Director, said, “The delay in receiving components from China means that a portion of our revenue that we would have expected to achieve in the first half has been pushed out to the second half. This represents a revenue delay not a reduction in demand for our products.

“Despite the introduction of this tariff, our order book is significantly higher than forecast. As such, I expect our 2HFY19 sales revenue to compensate for the first half reduction,” he said.

Further Information

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About Azure Healthcare Limited (ASX:AZV)

Azure Healthcare Limited is an international provider of healthcare communication and clinical workflow management solutions. Headquartered in Australia, the company has subsidiaries in six countries and supports healthcare facilities through its global reseller network which includes growing markets in health, aged care and acute care. Azure Healthcare services markets including Australia, New Zealand, Canada, UK, USA, Asia and the Middle East. For further information please refer to the Company’s website www.azurehealthcare.com.au