ASX Release: 10 May 2021

Respiri Limited's (Respiri) Takeover Bid for Adherium Limited (ASX:ADR) (Adherium)

The Adherium Board has reviewed Respiri's unsolicited off-market takeover offer contained within the draft Bidder's Statement lodged with Adherium on 30 April 2021. Adherium has also discussed the offer with a significant majority (by shareholding) of its Shareholders. Based on the draft Bidder's Statement received, the Board has considered the offer and will, in the absence of a superior offer, unanimously recommend this Respiri bid be REJECTED by Shareholders by taking no action in relation to the offer.

The Adherium Board will make a full and formal response (including detailed reasons for its recommendation) to Shareholders in its Target's Statement to be circulated after despatch of the Respiri's Bidder's Statement to Shareholders.

KEY REASONS FOR BOARD'S RECOMMENDATION TO REJECT RESPIRI'S OFFER

1. Weak Strategic Alignment

While the Bidder's Statement suggests the Respiri offer "de-risks" an investment in Adherium, the Adherium Board believes the Respiri offer, if accepted, would increase risk to Adherium Shareholders rather than de-risk their investment - as those Shareholders who accept the Respiri offer will be subject to the risk profile of both companies.

This is compounded by the weak strategic alignment between the two companies because:

- Respiri's commercial strategy through pharmacies and Direct-to-Consumer is one which was tried and was unsuccessful for Adherium previously. Adherium believes that Respiri's Direct-to-Consumer and pharmacy strategy is yet to be proven, including in its home market of Australia
- Respiri has only one sensor, for which currently to Adherium's knowledge there are no publicly available independent clinical trial results, and nor is it supported by any independently conducted clinical trial publications in peer reviewed journals. Respiri have not announced any other devices in development; and
- The clinical significance of measuring wheeze in the treatment of Asthma and COPD and whether this would qualify for reimbursement, in particular in the US, has currently to Adherium's knowledge not been independently demonstrated or verified.

By contrast, Adherium's key value proposition is clear and lies in the management of the difficult to treat patients incurring the highest cost for healthcare systems, including severe and uncontrolled Asthma and COPD patients with a focussed commercial plan in speciality clinics and disease management groups, including providers and payers.

Adherium's Hailie® solution is a platform technology comprising an established suite of cloud and mobile app software, and six regulatory cleared sensors with 8 US FDA 510(k) clearances for inhaled medication covering more than 56% of the market by unit sales volume in the US. Adherium also holds clearances for Canada, China and Europe, and Adherium's technology has also been used or evaluated in more than 100 independent studies resulting in peer reviewed journal articles.

Adherium has a clear plan for the use of the capital recently provided by its Shareholders in the Adherium development plan; and importantly the commercialisation of Adherium's Hailie® platform. Adherium believes the scope of its development plan and its commercialisation for the Hailie® platform is substantially greater than that of Respiri's Wheezo product, and consequently the Adherium cash burn is higher.

In progressing its broad development portfolio, Adherium is also improving the efficiency of its Research and Development program, as noted in the fundraising process, by reducing its dependency on third party suppliers with the appointment of a small, dedicated software and hardware development team in Australia. Whilst there could be some savings in bringing the two

companies together, the Adherium Board does not believe these savings compensate for the strategy execution and dilution risk associated with a potential combination.

2. Long Term Prospects for Adherium as a Stand-alone Entity

Adherium has clearly articulated its strategy to establish an industry leading position in the development and commercialisation of an integrated multi-sensor respiratory management "ecosystem", providing clinicians and payors a unique capability to track both the use of their inhaled medicine as well as clinically assess their overall respiratory disease control. In addition, the use of physiological measures is anticipated in the US to allow opportunities to generate reimbursed remote monitoring revenue alongside the revenue accessible today through value based and risk share contracts.

The market opportunity is growing and being accelerated by the adoption of telehealth and remote patient monitoring as a result of COVID and, the digitization of a host of medical devices that enhance data capture.

Adherium is well advanced in achieving its goals. In particular:

- Adherium has an active Research & Development roadmap delivering the next generation Adherium sensors with physiological measures which specifically meet the requirements for physician reimbursement through the appropriate CPT codes for remote patient monitoring of patients in the US, increasing market coverage of inhaled medications and therefore patients, and the further development of the Hailie® application software platform
- Adherium submitted a 510(k) application to the US FDA in April 2021 for the first of its "next generation" adherence sensors with physiological measures, with further submissions to follow in the coming months
- Development of the multi-sensor device ecosystem is underway, with prioritisation of additional new devices for integration on the Hailie® platform being validated by clinical Key Opinion Leaders in the US, United Kingdom, Australia and New Zealand (including peak flow meters, spirometers etc.)
- Strong commercial and industry partners (including a key investor) are in place with a growing commercial pipeline of additional partners
- Comprehensive understanding of the complicated US respiratory healthcare and reimbursement market as well as other geographies including Europe; and
- Competent Board and management with deep exposure to relevant markets and technology.

A combination with Respiri does not appear to further strengthen the likelihood of Adherium's success, but rather in the Adherium Board's view adds additional execution risk, greater product development risk (in combining with Respiri's Wheezo product risks) and the potential diversion of commercial focus.

3. Opportunistic and Conditional Nature of the Respiri Offer

The Respiri offer consideration is not cash. Instead, Adherium Shareholders would receive Respiri shares which are subject to a range of risks including but not limited to:

- **Regulatory risks**: failure to have a method for measuring "wheeze" recognised as qualifying for reimbursement in the US
- **Commercialisation risks**: failure to successfully launch Respiri's Wheezo in its initial market, Australia, noting:

- the market price of Wheezo has reduced significantly since launch
- based on Respiri's Appendix 4C lodged with the ASX on 29 April 2021, it appears Respiri has not yet gained traction in its Direct-to-Consumer and pharmacy model as:
  - cash receipts from customers in the 31 March 2021 quarter were $1,000
  - cash receipts from customers in the year to date (nine months) to 31 March 2021 were $174,000, compared with Respiri's revenue guidance to the market of $6-8 million in the 2021 calendar year; and

- **Product development risks**: exposure to the additional risks in development of Respiri's technology.

The Adherium Board considers the Respiri offer to be highly opportunistic given Adherium, following conversion of the Viburnum Secured Convertible Notes and completion of the capital raise (which was the subject of the EGM Shareholders approval at the end of April 2021), now has no debt and has just raised $18 million.

4. Premium [1]

The premiums outlined in the Respiri draft Bidder's Statement (based on one Respiri share for seven Adherium shares) are in some cases misleading and in others, very selective. In the 30 days prior to the date of lodgement of the Respiri draft Bidder's Statement, Respiri's shares declined by 22% - whereas Adherium, having announced its capital raise to the market, remained stable rendering the 30-day VWAP comparison less useful, and potentially misleading when compared to different time points.

One key comparative in the Adherium Board's view of "premium" is the closing prices on the date the offer was announced, 28 April 2021 - with Respiri's share price at 12.5c and Adherium's at 1.6c, the premium is only 11.6%, and there is no guarantee at what price Respiri shares may trade in the future.

NEXT STEPS

As outlined above, the Adherium Board recommends Shareholders **TAKE NO ACTION**, particularly as the Bidder's Statement has not yet been registered with ASIC.

In due course you will receive the final Bidder's Statement from Respiri followed within 15 days by Adherium's Target's Statement containing detailed reasons for your Board's recommendation.

The Board strongly encourages Adherium Shareholders to read the Bidder's Statement and the Target's Statement carefully **before taking any action**. They should also consider the Respiri offer having regard to their own personal risk profile, investment strategy and tax position. The Directors encourage Shareholders to seek independent legal, financial, taxation or other professional advice in relation to their overall assessment of the Respiri offer.

In the interim, the errors and misleading statements identified in the draft Bidder's Statement are being reported to Respiri for retraction and correction.

Adherium's Board and management team is committed to continuing to act in the best interests of all Adherium Shareholders as it prepares its formal response to be contained in its Target's Statement.

[1] Prices and premium calculations based on IRESS market data

This ASX announcement was approved and authorised for release by the Board of Adherium.

About Adherium (ASX: ADR)
Adherium is a provider of digital health solutions and a global leader in connected respiratory medical devices, with more than 170,000 sold globally. The Company develops, manufactures and supplies a broad range of connected medical devices for respiratory medications for patients, pharmaceutical companies, healthcare providers and contract research organisations. Adherium's Hailie® solution is designed to help patients achieve better adherence and provide visibility to parents and caregivers. It does this by tracking medication use and reminding the user with helpful nudges when it is time to take doses, and by providing access to usage history to better understand patterns in their asthma and COPD.

Adherium has a series of new asthma and COPD sensors in development which, with their existing capabilities, will also enable the capture of physiological measures enabling access to CPT reimbursement for remote patient monitoring in the US.

These tools ultimately enable patients, with their physicians, to more effectively manage their Asthma and COPD and at the same time as potentially deliver significant healthcare cost savings to payors and providers.

Learn more at adherium.com.