Trajan Scientific and Medical

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Trajan Group Holdings Limited
ACN 152 617 706

ASX RELEASE

Trajan business growth in H2; however expected to fall short of full year guidance

Key points

- A record half in H2 for Net Revenue is expected for the Company's Components and Consumables segment as demand continues to normalise.
- Conversion of orders to revenue is slower than expected and at a higher cost, impacting FY nEBITDA results. Some overdue orders will carry over into FY25.
- Unexpected softness in Pharmaceutical related capital equipment. Remaining capital equipment order book strong but unlikely to convert by June 30th.
- Microsampling demand growing strongly, tracking to be up circa 30% on H1.
- Losses in Disruptive segment in H2 expected to be contained to $1.8M, a $1.1M improvement over H1.
- FY24 Net Revenue likely to be in the range $154.0M to $157.0M, short of the low end of previously stated guidance ($163M).
- Core nEBITDA expected to be up nearly 40% on H1 at circa $9.5M. Consolidated nEBITDA will be close to double H1 at circa $7.8M.
- FY24 Core nEBITDA likely to be $15.7M to $17.1M, short of the lower end of previously stated guidance ($22.3M).
- Further actions to strengthen balance sheet and FY25 operating margins already underway.

9 May 2024 – Global analytical science and device company Trajan Group Holdings Limited (ASX: TRJ) (Trajan or the Company) has today provided an update on its operational and financial performance for the year to date, FY24.

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Operational Update

The demand for Trajan's Components and Consumables segment has continued to return to normal levels post the conclusion of the customer destocking activity in FY23 and Q1 of FY24. This is expected to result in record segment Net Revenue result for H2 of more than $50M. Demand levels were up on Q1 levels by approximately 14% in both Q2 and Q3. The month of April has demonstrated a similar trend.

The Company has been ramping up global production in response to this demand, with recent months demonstrating approximately 10% uplift in output. It is however, not yet at the level required to address the growing order book demand. May and June shipments are expected to lift further.

Despite the strong order growth, current projections for H2 revenue in the Components and Consumables are likely to be short of previously stated guidance and land in the range $96M to $98M. This assumes a significant level of current orders will carry over to FY25. The inferred range in the February guidance for this segment was $100.7M to $103.1M.

In the Capital Equipment segment, Trajan has experienced an unexpected softening of demand in the Pharmaceutical sector for its specialised automation platforms due to timing and budget cycles. There is no indication that market share or long-term demand has fundamentality changed. However, the current order book does not support the usual strong finish to the financial year assumed in the revenue projections that were previously provided.

Unfortunately, a strong order book across the remainder of the Capital Equipment segment is unlikely to offset this shortfall as the mix is biased towards complex high value systems. With some sales the timing will extend into FY25 and in some cases customers have advised that their laboratories are unlikely to be ready for installation within the FY24 window.

While it is difficult to estimate the revenue shortfall to the mid-range of the H2 guidance for the segment, $30.6M, current estimates have the shortfall at circa $5.5M. H2 Net Revenue for this segment is therefore expected to be in the range $24.4M to $26.4M, with the full year result likely to be $53M to $54M.

In Disruptive Technologies the Company is pleased to report a significant acceleration of demand for its microsampling tools that is tracking at circa 30% growth in H2 over H1 delivering FY revenue of approximately $5M. Revenue growth plus cost reductions should see the EBITDA losses in the segment for H2 at around $1.8M, approximately $0.7M improved from the Company's expectations stated at the H1 results release.

As announced in February, the Microsampling related component of the Disruptive technologies is expected to break even in FY25. The cost reduction initiatives have already been actioned to achieve this objective, with the benefits to be realised from July 2024. The adjusted cost base combined with the surge in demand reinforces the Company's confidence in achieving that FY25 goal.

Taking into consideration all these elements, consolidated Full Year Net Revenue is likely to be between $154.0M and $157.0M.

Core nEBITDA in H2 is expected to be in the range $8.8M to $10.2M, the mid-point representing a 48% lift over H1, bringing the Full Year result to $15.7M to $17.1M.

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Notably the consolidated nEBITDA is projected to be close to double H1 with a mid-point expectation for H2 of $7.8M.

A key factor having a negative impact on margins in H2 has been the delay in additional resources, which impacts the recognition of revenue. This is expected to correct in May/June with the elevated output, and further in FY25 as the cost structure normalises.

A contributing factor to the increase in direct manufacturing costs is the addition of temporary staff in the Penang and Melbourne facilities required to support reducing the backlog of orders. It is anticipated that a small proportion of staff will remain to support the ongoing growth in Emitters for mass spectrometry (continuing at circa 40%pa demand growth rate) and the “Harpera” skin sampling device that is still produced locally.

Capital Deployment

As part of the Company’s annual business planning, the integration process of recent acquisitions was reviewed, and initiatives commenced to rebalance the deployment of capital across the business.

Trajan is now actively working with property agents in both the US and Europe to pursue the divestment, and in some cases lease-back, of property assets that were acquired as part of more recent acquisitions. The objective is to unlock approximately $10M within the next 12 months to be applied to debt reduction.

Further opportunities to consolidate inventory holdings and rationalise some business is expected to unlock capital and contribute to margin enhancement. These actions are scheduled for mid FY25 and are expected to contribute an additional $1M in EBITDA on an annualised basis and with the aim of unlocking around a further $3M to $5M of capital. The Company notes that this type of review cycle is a “normal” occurrence during its 13-year lifetime across 12 acquisitions and has, on previous cycles, gone through the rationalisation of assets and operations in post-merger and integration periods.

The Company confirms it sees no need and has no intention of engaging in any capital raising activity.

Outlook

The demand for the Consumables and Components segment is expected to continue to grow in line with historical trends. A range of new product enhancements likely to deliver additional growth in FY25.

The softness in the Capital Equipment segment, related to the Pharmaceutical sector, is expected to correct based on interactions with customers in this sector. Moreover, the organisation of the capital equipment team into market focused global workflow solutions executed 12 months ago, is gaining momentum and should underpin further growth in FY25.

In the Disruptive segment the blood microsampling order book and opportunity pipeline is continuing to grow, especially in Pharmaceutical and Clinical applications. Demand for the new skin microsampling device “Harpera” will double in FY24 and based on current prospects, is expected to double again in FY25.

Trajan has been notified that US and Chinese patents for the “Hummingbird” miniature instrument system will be granted. Progress has continued with the first unit of the latest version now in assembly. Recent feedback from some 25 Pharmaceutical companies has reinforced the merits of the concept and direction. In Australia, Hummingbird's utility in field deployment for PFAS measurement has been demonstrated. Trajan continues to explore different business models and potential funding arrangements to accelerate commercialisation.

In April, the Company for the first time presented as one consolidated group at Analytica, one of the world's largest scientific exhibitions in Germany. The response was extremely positive and bodes well for future revenue growth.

Trajan organised the display by vertical market solutions: Pharmaceutical, Clinical, Environmental and Food. In Environmental there was strong interest in a new PFAS automated system, while in Clinical for the first time the Company demonstrated the integration of its blood microsampling devices with its own automation platforms.

Authorised for ASX release by the Board of Trajan Group Holdings Limited.

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About Trajan

Trajan is a global developer and manufacturer of analytical and life sciences products and devices founded to enable science that benefits people by enriching personal health through scientific tools and solutions. These products and solutions are used in the analysis of biological, food, and environmental samples. Trajan has a portfolio and pipeline of new technologies which support the move towards decentralised, personalised data-based healthcare.

Trajan is a global organisation of more than 600 people, with seven manufacturing sites across the US, Australia, Europe and Malaysia, and operations in Australia, the US, Asia, and Europe.