

29 April 2016

Dear Shareholder

We have come to the end of another financial quarter, and it is my pleasure to write to you all again and give you a bit more texture on what we have been doing, and where we are heading.

On a personal note, April 13 marked my first anniversary on the job, and it has certainly been a very eventful year, getting to grips with this extraordinary company. Everything has confirmed my initial belief that Avita is a massive unrealized opportunity. With all the good work that has gone before, I do not see a med-tech company of comparable size that has such a clear and proven rationale, and such a strong data package. My team have a well-deserved reputation for their knowledge and commitment to our stated mission: the regeneration of the epithelial layer for wound treatment. Our approach is a powerful means to trigger and optimize healing, has helped thousands of patients, and can save public health bodies a lot of money.

So if 'Massive Opportunity Realisation' is our key task, it would be fair to say that we are making progress. Many of you may be familiar with Geoffrey Moore's 1991 work 'Crossing the Chasm,' which explored how breakthrough technology follows a path of being adopted by early visionaries, before moving out to the pragmatists, and achieving mainstream usage. This is an appropriate observation for Avita's current position, given that in many markets we have been embraced by various 'visionary' medics, but need to broaden our usage amongst the wider medical fraternity. The obvious solution: surround ourselves with the visionaries, and as they increasingly use the devices, the pragmatists will see the results, in the form of healed patients and robust clinical data. Then we will have happily leapt over the adoption chasm, and can really enjoy the significant commercial success that this device deserves.

Commercialisation Continues Apace

Obviously there can be no commercial success without distribution, and we have been making good progress during the last quarter, achieving representation in some key territories: Germany, Austria, Switzerland and China. The last is especially significant: the appointment of Sinopharm – China's largest healthcare group – should stand us well in the world's most populous nation. One can get very heady over China, where everything is on a different magnitude. Real focus is needed and Sinopharm will initially concentrate on the main cities of Beijing, Shanghai, and Guangzhou, and then spread into the hinterland. We will be supporting their reps with training and education initiatives, and supporting the many doctors in China who we have found have no reluctance to be early adopters.

What do we look for in a distributor? As was touched on in my previous missive, the first criteria is a specific focus on the woundcare space, particularly in our key indication areas: widget sellers need not apply. You immediately know when you meet 'kindred spirits' who live, think, breath our space. We like them to have a track record of success in moving medical devices of a similar complexity. They must understand the value of education, of training, and of relaying our particular narrative. And they must be highly motivated to improve the healing process of the many patients who would do better with our devices.

So we are building this foundation with the appointments in the various territories. All the distributors get extensive training from us, and then they must embark on an iterative approach of building the business, doctor-by-doctor, of getting the device used again and again. Results come in, and medical professionals can see for themselves how this can benefit their wider patient group. Peer-group pressure will compel colleagues to try to replicate. So it is a thorough process and it is well under way in our territories, and I am sure that as it gains traction, the numbers will show that the chasm has been truly leapt.

BAT Windfall Deployed for Key Hires

Thorough training is at the heart of the process, and is an area of key strategic focus. We had a rather pleasant task this quarter, which was deciding how to deploy the funds from the \$A2.64m divestment of our respiratory business. In the main, the money is being spent on strategic hiring. Rejuvenating Avita means bring in some new blood, to give a fresh approach,

We now have a new International Sales Director who is a veteran operator in the woundcare space, having held senior positions with leading dermal substitute companies. He brings a well-populated contact book to the Avita, and he has been able to guide us to several of our distributor appointments, as well as initiate some market-tested ways to achieve 'sticky' recurrent sales. We now have two new Distributor Managers: one for Europe, another for Asia-Pacific.

Building clinical support is key to the sales process. We must have people on board who can explain the science, attend procedures and speak knowledgably to a range of parties. We are recruiting for these roles in key territories, and the strategy will be run by a yet-to-be-found Education Director.

We must also strengthen the operational side of the business as we move along the road to US market approval, with many key hires planned in coming months, as we bolster such activities as Quality Systems, Supply Chain, Regulatory. Some of these positions will be funded by BARDA, under their grant, and for their support, we declare ourselves truly grateful.

At the Board level, we have also had changes during the last quarter, with three new members – Lou Drapeau, Suzanne Crowe and Damien McDonald – each bringing strong expertise in their respective areas, particularly commercialization. We were also very grateful for the continued involvement of Prof Fiona Wood, our founder, in our new Clinical Advisory Board.

The Skin Regeneration Symposium

The extent of the development of Prof Wood's work was shown earlier this month in Cambridge, where we held our 4th annual Skin Regeneration Symposium (SRS). We were very happy to be playing to a capacity crowd, in that all of the 140 possible places had been taken. In fact, we had to turn people away, as word seems to have gotten around in regenerative medicine circles that Avita lays on a pretty good shindig, and that attending is worth one's while.

The SRS event was divided into sessions on Burns, Chronics and Aesthetics, respectively under the titles *Repair*, *Restart* and *Restore*, with about 10-12 experts presenting in each area. From my perspective, it was hard to conclude which was the strongest field. But we did have some stand-outs, and as always, it was the strong patient stories that ignited real interest.

In Burns, we had a compelling opening address from Dr Hong-Hui Liu, from the Tri-Service Hospital in Taiwan. This is a military facility, and when the June 2015 Waterpark disaster struck, leaving 499 people badly burned, it was fascinating to hear how they swung into action. It was the only hospital in which there were no fatalities, and they received the most victims, so their confidence in their treatment regime was well-justified. Note that in Australia, as with most industrialised nations, burns over 20% Total Body Surface Area (TBSA) generally result in about ~20% mortality. In the Taiwan event, the average TBSA was 43%, and sadly, they lost 15 people, but this represents a 3% mortality rate. So that is a real indication of the professionalism of the Taiwan response overall. Shortage of donor skin made ReCell a strong point-of-care option, and it was used in conjunction with other treatments: doctors used all tools at their disposal. Case studies presented clearly showed superior outcomes of victims treated with our device: some, for example, had one limb treated with ReCell, and the other not, and the treated limb clearly had a smoother and better appearance.

In Aesthetics, I was particularly struck by a case study from Kings Hospital, London involving an 85-year-old woman suffering from a Pre-tibial Laceration, basically a ghastly cut on her shin incurred while disembarking from a bus. This had deteriorated to an 8cm x 5cm ulcer, which was proving treatment-resistant. Dressing changes were proving traumatic and pain was constant. Application of ReNovaCell™ did the trick: complete healing within 11 weeks, and this patient is now in full operation again. She, like many treated with our approach, reported an elimination of pain immediately post-treatment, leading one to ponder on exactly how our regenerative approach may be in some way affecting nerve endings that cause pain. Pre-tibial Lacerations are a real problem amongst the elderly, and this could be a new area in which ReNovaCell™ will bring benefit.

In Chronics, we heard more about the detail of our randomized trial of Venous Leg Ulcers (VLU), and you will no doubt have read about these elsewhere. We have statistics about improved quality of life, according to a particular scale, but it was intriguing to hear about what this actually meant. The indomitable Gail Curran, who won the Fiona Wood Award for Passion at the end of SRS, presented on her role as Research Nurse in the trial. One of her patients relayed how she had lost her life for 3 years because of her VLU, which left her immobile and only able to crawl to the bathroom. The ReGenerCell™ treatment was described as 'a miracle' that gave her life back to her. Indeed, delivering a treatment that is preventing people from having their legs amputated, is quite a satisfying business to be in.

So it was fascinating to hear such an array of presentations, from medical professionals from very diverse territories and training, treating a variety of patients for their complicated wounds and conditions. Yet consistently, our regenerative medical approach showed benefit, and it is a heartening thought that on any given day, in hospitals and clinics around the world, our cellular suspension is increasingly being used. My team and I remain dedicated towards that goal, and I thank you for your support towards our noble aim.

Yours faithfully

Adam Kelliher
Chief Executive Officer

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