

PACIFIC EDGE LIMITED PRELIMINARY RESULTS FOR YEAR ENDED 31 MARCH 2018

- Pacific Edge's preliminary unaudited results for FY18 reflect increasing test volumes and revenues as more urologists and healthcare organisations adopt Cxbladder into clinical use.
- Pacific Edge has adopted NZ IFRS 15 revenue accounting standard for FY18, with US revenue now recognised only on a cash basis. Prior year results have been restated in line with the new standard.
- Key Company performance metrics going forward will be, cash receipts and billable tests.
- Under the new accounting basis, Pacific Edge reported:
 - Increase in Operating Revenue of 6% on prior year, to \$3.4m from test sales
 - Operating cash flow of \$(18.1)m, in line with expectations and the previous year
 - Reported loss of \$19.7m for the year
 - 28% increase in Laboratory Throughput to 14,446 tests, of which 82% were billable tests
- On a 'like-for-like'¹ accounting basis, laboratory throughput was 91% of forecast and billable tests were 96% of forecast, and revenue was 95% of forecast, despite commercial arrangements with Kaiser Permanente not yet being finalised and slower than planned takeup from the VA.

Reported FY18 results (under the new accounting basis):

(NZ\$M)	FY18 (unaudited)	FY17 Restated (unaudited)	FY17: FY18 (% change)	FY17 (Previously Reported)
Operating Revenue	3.4	3.2	6%	8.1
Other Revenue	1.6	1.5	7%	1.4
Total Revenue	5.0	4.7	7%	9.5
Operating Expenses	24.6	27.3 ²	(10%)	30.5
Total Comprehensive Loss	19.7	22.6	(13%)	21.0
Net cash outflow to operating activities	18.1	17.8	1%	17.8
Cash on hand as at 31 March	16.2	14.6	11%	14.6

Performance against forecast (on a 'like-for-like' accounting basis¹):

	FY18 (Forecast Oct 2017) (Unaudited)	FY18 (on 'like-for-like' ¹ basis) (Unaudited)	Forecast Achieved (%)	FY17 (Previously Reported)
Total revenue (NZ\$m)	12.6	12.0	95%	9.5
Net operating cashflow (NZ\$m)	(18.0)	(18.1)	101%	17.8
Total Laboratory throughput ('000)	15.8	14.4	91%	11.2
Billable tests ('000)	12.4	11.9	96%	8.4

FY17 financials have been restated under NZ IFRS 15 to provide meaningful analysis. A reconciliation between the two accounting standards, with explanations of the transition, will be included in Pacific Edge's 2018 full audited Financial Statements, which will be released to NZX by 30 June 2018.

¹ 'Like-for-like' basis assumes the same accounting standards, calculations and assumptions as was used to define the October 2017 forecast.0.0

² FY17 Operating Expenses included bad debts and doubtful debts expenditure of \$3.2m and one-off non-cash cost of winding up the Employee Incentive Scheme of \$2.9m.

Results commentary:

Listed cancer diagnostics company, Pacific Edge Limited (NZX: PEB), has today announced its preliminary unaudited full year results for the year ended 31 March 2018, reporting increased test numbers and revenues as more urologists and healthcare organisations adopt Cxbladder into clinical use.

In the past 12 months, Pacific Edge has:

- Rolled out the full suite of Cxbladder tests in target markets;
- Received growing clinical recognition and validation of its products highlighting the high performance, clinical utility and cost benefits of Cxbladder;
- Increased test numbers processed with growing adoption from private and public healthcare organisations;
- Commenced commercial business in South East Asia and recorded initial sales;
- Progressed commercial negotiations with targeted large scale healthcare organisations in the USA, including Kaiser Permanente and the Centers for Medicare and Medicaid. Pacific Edge has little to no control over the decision making processes and timings of these large organisations and while these are taking longer than expected to complete, progress continues to be made; and
- The Company has also been recognised in a number of high profile business reports – TIN Top Ten Hot Emerging Companies, Deloitte Fast50 New Zealand, Deloitte Asia Pacific Technology Fast500, FT 1000 High Growth Companies Asia Pacific.

Pacific Edge is commercialising its Cxbladder suite of non-invasive, accurate and simple to use molecular diagnostic tests for the detection and management of bladder cancer. These allow for better care for patients, better decision making by physicians and better resourcing for the healthcare sector, and are increasingly being adopted into the standard of care.

The focus is on changing long standing clinical practices where there have been no new commercial products in market in the US in the last 16 years³. Pacific Edge is the only company in the world to offer four commercial products covering a single cancer pathway, and the Company's suite of products is now providing a one stop shop for urologists.

The increase in the number of tests being processed in the Company's laboratories reflects growing adoption of Cxbladder by physicians, both in the US and in NZ. New Zealand accounted for approximately 14% of total tests processed in FY18.

Chairman of Pacific Edge, Chris Gallaher, said: "The multi-billion dollar US healthcare market remains our most significant opportunity and we are seeking to position Cxbladder as the preferred diagnostic test of choice for physicians in a market that offers more than 5 million potential test opportunities per annum.

"Our success will come as large scale healthcare organisations in the US adopt our product into their standards of care and we are working hard to secure commercial agreements with targeted customers. While this has required significantly more investment of time and resources than originally anticipated, we are making positive progress. We are in this for the long haul and we are continuing to lay the foundations for a sustainable future as we work towards cash flow breakeven."

³ The last cancer diagnostic test to successfully enter the US market was Abbott's UroVysion test in 2001-2002

CEO David Darling commented: “It has been a busy year for the Company, although commercial progress with key US customers has been slower than we would have liked, with many of the adoption processes outside our control.

“Pleasingly, clinical studies and papers, as well as the recently published⁴ commercial lookback by a leading public healthcare provider, Canterbury DHB, continue to validate the high performance, clinical utility and cost benefits of our tests. More and more urologists are now adopting Cxbladder, either alongside or in place of other tests, in both the public and the private sector.

“We already have two of our four targeted, significant US customers under contract and, while it is taking time to build scale in these organisations as expected, we are now starting to see a steady progression of repeat orders for tests coming through. Our priority remains to conclude negotiations with Kaiser Permanente and attain inclusion in the Local Coverage Determination for reimbursement from the Centers for Medicare and Medicaid as rapidly as possible.”

Adoption of NZ IFRS 15 Reporting Standard

As previously advised, the application of NZ IFRS 15 results in revenue being recognised when the cash is received for US based customers. This accounting treatment is likely to continue until such time as Pacific Edge is included in the Local Coverage Determination (LCD) and coverage contracts are established with commercial insurers. Both of these will provide significant positive impacts on the timing and collectability of revenue from the individual patient contracts.

The US reimbursement system is complex, and commercial agreements with US insurance payers are required to enable reimbursement on a timely basis. Without these, payment can take anywhere from 1 to 24 months to be received, with the bulk of cash receipts coming within 7 to 12 months.

The Centers for Medicare and Medicaid are seen as an industry leader and being included in the Local Coverage Determination will facilitate Pacific Edge’s commercial negotiations with other insurance payers. As Pacific Edge signs new agreements with insurance payers in the US and payment terms are guaranteed, it is likely that revenue will start to be accrued again, in advance of the payment being received.

The Board believes this new reporting model provides a more transparent and clear view of Pacific Edge’s cash revenues, particularly from the US.

Pacific Edge FY18 Preliminary Unaudited Financial Results

Pacific Edge’s FY18 preliminary unaudited results for FY18 reflect increasing sales and revenue, and were in line with the expectations given in the Company’s guidance in October 2017.

On a like for like accounting basis, laboratory throughput was 91%, billable tests were 96% of forecast, and revenue was 95% of forecast, despite commercial arrangements with Kaiser Permanente not yet being finalised and sales to the Veterans Administration only now starting to flow from the initial centres targeted. Both of these were planned to make contributions to the FY18 results.

⁴ CDHB presented the findings of their analysis of the commercial use of Cxbladder Triage in their business, to the USANZ annual meeting in Melbourne in 2017, was published in the British Journal of Urology International (BJUI)

Under the new accounting basis, revenue from test sales increased 6% to \$3.4 million with total revenue for the year of \$5.0 million. This excludes US tests where cash payment has yet to be received, along with tests completed for patients covered by the CMS, which account for up to 50% of US laboratory throughput and for which Pacific Edge will seek reimbursement when it is included in the LCD. These tests remain in the billing and reimbursement process and revenue will be accounted for when the cash is received.

Laboratory throughput is a cornerstone measure of the growth of the business and includes both commercial sales and tests from User Programmes. Throughput increased by 29% to 14,400 tests in FY18, of which 82% were billable tests (FY17: 78%).

Total operating expenses were \$24.7 million, reflecting the increasing laboratory throughput and investment into sales and marketing, particularly in the US.

Cash receipts from customers of \$3.4 million reflect the long reimbursement processes, particularly in the US, with a large portion of cash received in FY18 for tests sold in prior years. Revenue outgrew expenses by a net 13%, with total expenses down 10% on FY17. Net operating cashflows were in line with expectations at \$(18.1) million.

Overall, the Company reported a net loss of \$19.7 million for the year, an improvement of 13% on the prior year loss of \$22.6 million.

Pacific Edge had \$16.2 million in cash and cash equivalents at 31 March 2018, including proceeds from the capital raise in November 2017. The Company remains confident that cash sales will grow progressively over FY19 and is focused on reaching a cash flow breakeven position.

Given the adoption of the new reporting standard and the longer time than anticipated to finalise commercial agreements with Kaiser and attain inclusion in the Local Coverage Determination (LCD) for the CMS patients, the Company expects to provide updated guidance for FY19 later in the calendar year.

ENDS

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Full Year Results Conference Call

Pacific Edge will host a conference call today at 1030am NZST to review the FY18 results.

To attend the conference call, participants will need to dial into one of the numbers below at least 5-10 minutes prior to the scheduled call time and identify yourself to the operator. When prompted, please quote the confirmation code: 7186210.

The results presentation will be released to the NZX and can also be streamed live by following the link. Please note that you need to dial in to hear the audio: <https://slideassist.webcasts.com/starthere.jsp?ei=1193240>

Media are invited to contact the company directly for an interview with management.

Dial toll free from NZ: 0800 423 970
Dial toll free from Australia: 1800 573 793
Dial toll free from USA: 800 239 9838
Dial toll free from Singapore: 800 186 5107