

# Ellex Medical Lasers

Investor Presentation for year ended 30 June 2015 based on Appendix 4E Preliminary Financial Report

**(prepared 27 August 2015)**



Ellex manufactures and sells innovative products that help eye surgeons around the world to effectively and efficiently treat eye disease; this is one powerful vision



# One Powerful Vision

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# Contents

- Introduction and Company Overview
- FY15 Financial Results
- Growth Strategy Update and Outlook
- Reformatted Profit and Loss



# Introduction to Ellex – Growing Market, World Leader and Profitable

## Overview of Ellex

- Ellex is a global leader in the design, development manufacture and sale of ophthalmic devices to eye surgeons around the world to treat eye disease, including: glaucoma, diabetic eye disease, secondary cataract and vitreous opacities and age-related macular degeneration
- Head office in Adelaide, Australia with sales offices in Minneapolis, Berlin, Lyon, Tokyo, Osaka and service and manufacturing sites in Osaka and Fremont, California.

## Combination of underlying market growth with major growth opportunities

- Ellex achieving better-than-industry growth (14% CAGR achieved over last 3 years) in markets for its products for treatment of diabetic eye disease, secondary cataracts, glaucoma in developed market and diagnostic ultrasound as Ellex devices replace pharma treatments.
- In addition, major transformational growth opportunities exist for; (i) 2RT™ for intervention in patients with early AMD, (ii) iTrack™ microcatheter for glaucoma and (iii) the expansion of usage of SLT as a primary therapy for glaucoma.

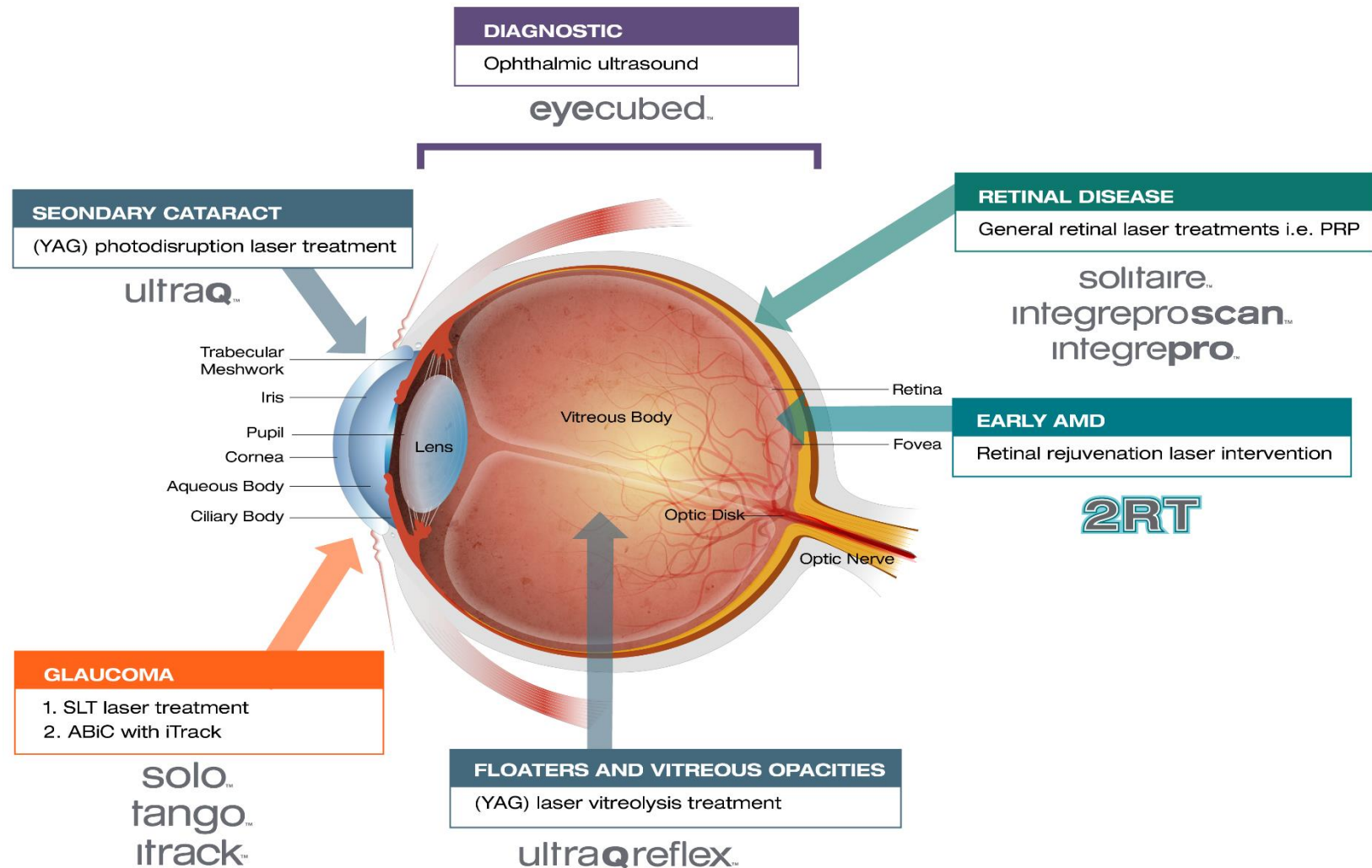
## Third consecutive year of improved financial performance

- Sales of \$62.7m in FY15, 15.5% up on FY14 and CAGR of 14% over last 3 years compared with industry growth rate of 4.5%
- EBITDA of \$5.6m in FY15 is 87% up on FY14 level, CAGR of 49% over last 3 years
- Free cash flow from operations of \$2.1m up from \$0.5m negative in FY14 and \$0.9m negative in FY13
- EBITDA growth achieved after \$1.0m investment in the 3 major post-FY15 growth opportunities
- EBITDA negatively impacted by \$2.0m compared with pcg due to loss from business in Japan



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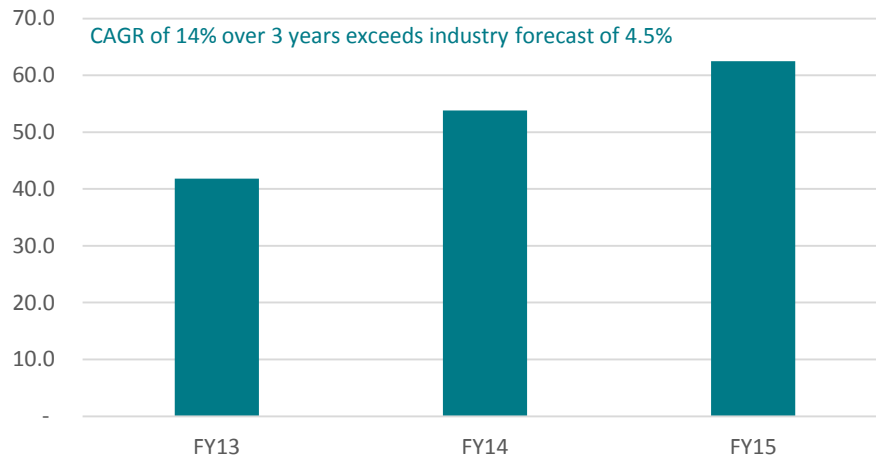
# ELLEX – OPHTHALMIC PRODUCTS



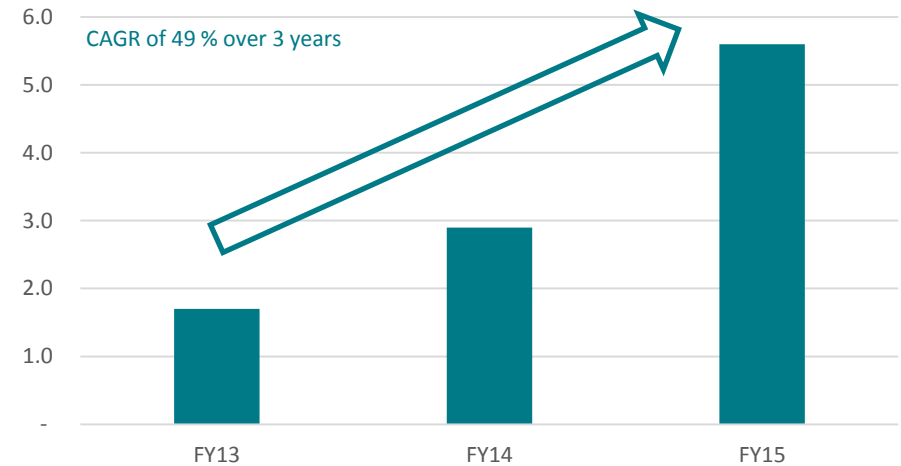
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# Ellex – Balancing Annual Profit with Growth

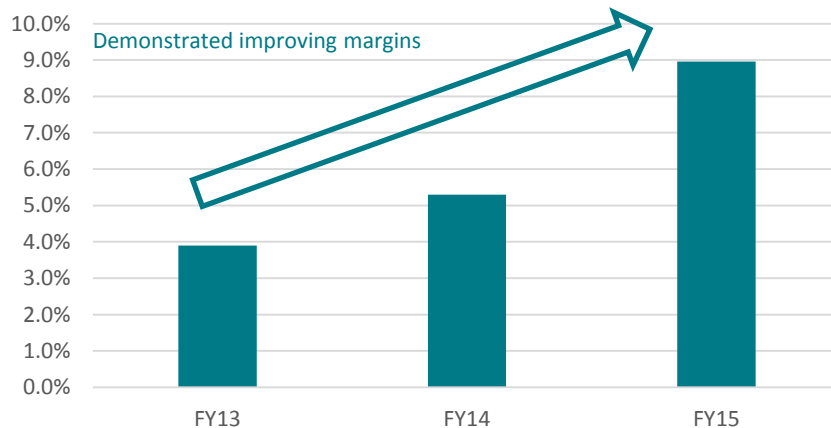
Group Sales in A\$ millions



EBITDA



EBITDA to Sales Ratio



- Last 3 years have seen Ellex consistently improve both top and bottom line performance
- Reported EBITDA in FY15 negatively impacted by \$1m of investments for FY16 and beyond growth for 2RT™, iTrack 250™ and SLT expansion in Asia.

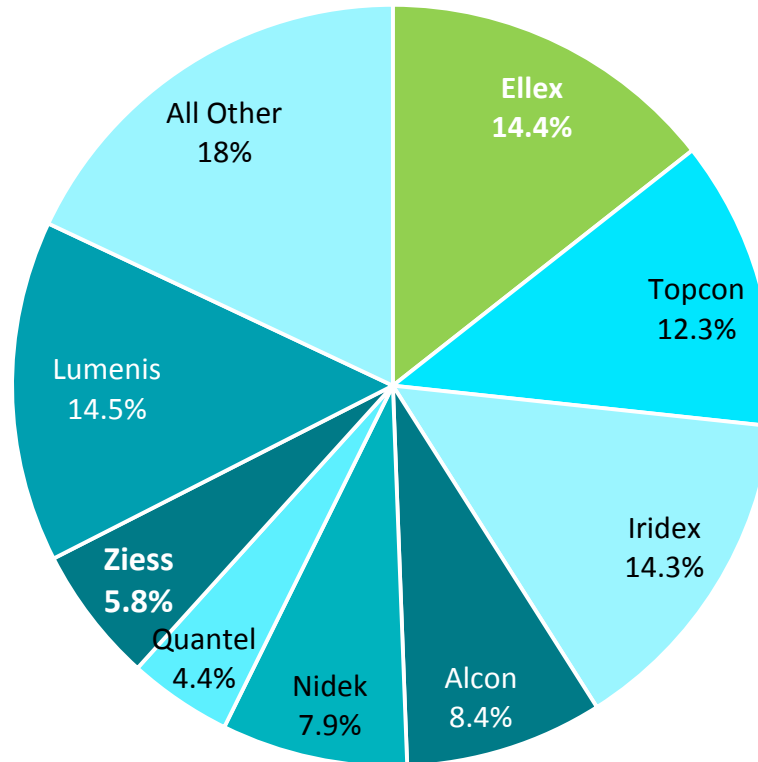


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# Ellex – A Market Leader in Current Ophthalmic Laser Market

Ophthalmic Lasers  
(includes SLT, Photocoagulators & Photodisruptors)



Market size estimate \$380m growing at CAGR of 4.5% to \$450m

Source: Market Scope 2015 Comprehensive Report of the Global Ophthalmic Laser Market



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# Ellex – Large Additional Market Potential

Disease	Current Ellex Devices	Total annual spend on disease treatment with pharma and devices	Current device-market accessible to Ellex <sup>(2)</sup>	Assessed device-market position against listed peers <sup>(1)</sup>
Glaucoma – early stage	SLT with Tango™, Solo™	US\$4.6 billion <sup>(1)</sup>	US\$60 million (CAGR 4.5% plus more with pharma replacement)	1. Ellex 2. Lumenis (LMNS:NASDAQ)
Glaucoma – later stage	iTrack™ (approx. US\$50m invested prior to acquisition by Ellex)		US\$240 million (CAGR 23%)	1. Glaukos (GKOS:NYSE) 3 or 4 Ellex
Cataracts and Vitreous Floaters	Ultra Q™ and Ultra Q Reflex™	US\$3.3 billion plus 24 million cataract operations per year <sup>(1)</sup>	US\$65 million (CAGR 4.5% plus more with vitreous floater treatment)	1. Ellex 2. Lumenis
Diabetic Disease of Retina	Integre Pro™ and Integre Pro Scan™	US\$1.5 billion <sup>(3)</sup>	US\$305 million (CAGR 4.5% plus more with pharma replacement )	1. Iridex (IRIX:NASDAQ) 4. Ellex
Early-Stage AMD and Clinically Significant Macula Edema	2RT™	US\$5.1 billion <sup>(4)</sup> (CAGR 7%) in just 7 major economies	Emerging - market will be a function of the current annual spend of US\$5.1b	1. Ellex (assessed by ELX)

(1) MarketScope LLC Reports, (2) Combination of Ellex estimate and MarketScope LLC Reports (3) “Global Diabetic Retinopathy Market 2015 to 2019” Technavio Insights (4)PharmaPoint: Macular Edema and Macular Degeneration- Global Drug Forecast and Market analysis to 2023” published in Dec 2014

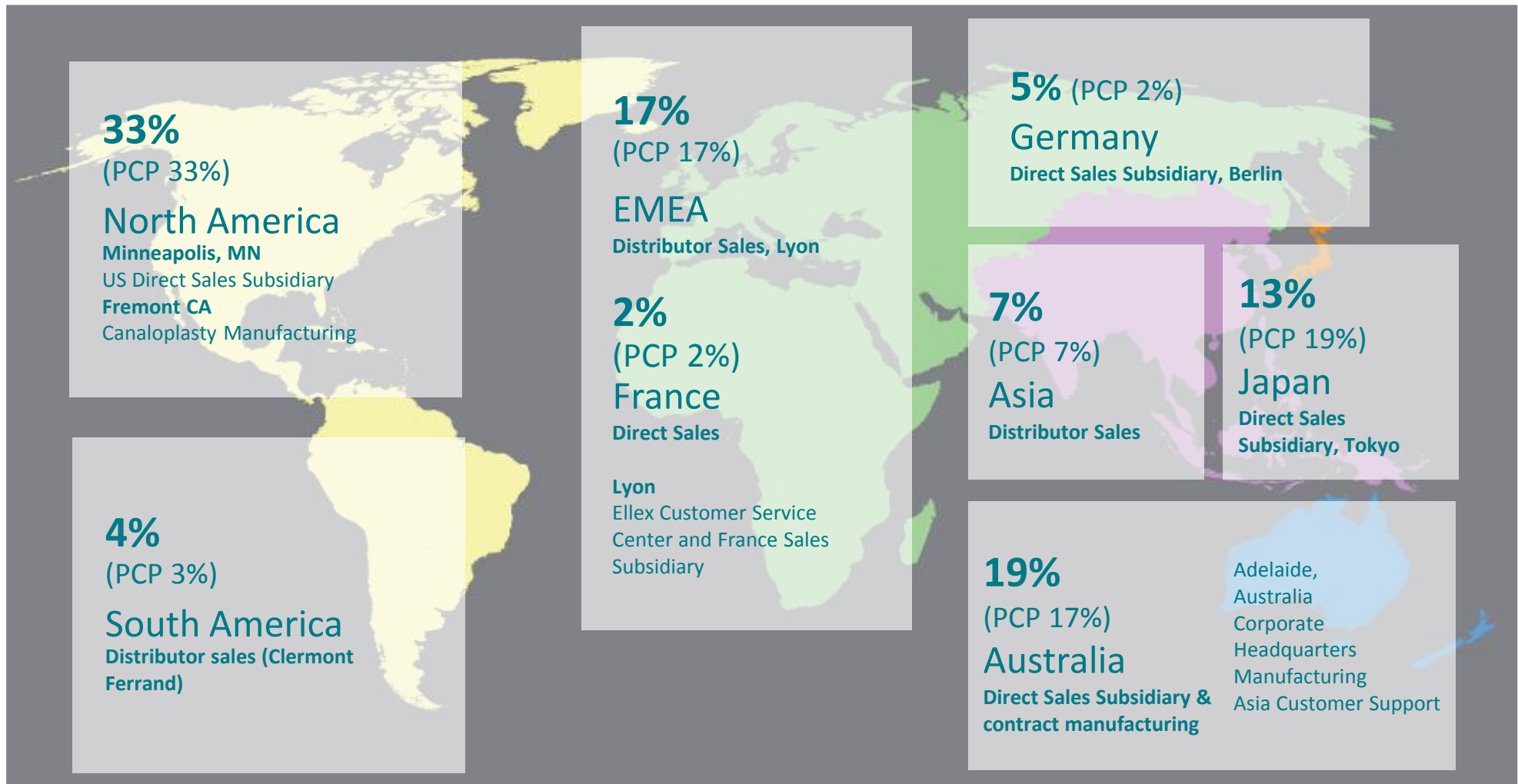


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# Ellex –Global Sales Channels (sales by region)



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# FY15 Financial Results



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# Market and Financial Summary

Summary Financials			
Period	FY14	FY15	Change (%) FY14 to FY15
Revenue (\$m)	54.4	62.7	+15.3%
EBITDA (\$m)	3.0	5.6	+87%
Amortisation and Depreciation	1.4	2.5	+64%
PBT (\$m)	1.3	2.6	+100%
Reported NPAT (\$m)	0.8	1.7	+113%
EPS (cents)	0.7	1.6	+129%
OCF (\$m)	2.7	6.3	+133%
FCF from operations (\$m)	(0.5)	2.1	>+100%
NTA Per Share (c)	15.5	17.6	+13.5%

Market Summary	
Shares on Issue	107.6 million
Share Price @ 24 August	\$0.37
Market Cap	<b>\$39.8 million</b>
Net Debt @ 30/06/14	\$2.2 million
Gearing (D/D+E)	<b>14.5%</b>
EV (\$million)	<b>\$42.0 million</b>

Share Register	
Top 20	46.9%
Key Management Personnel	19.3%



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# Financial Summary – Sales

	FY13	FY14	FY15	Change
Australia	9.5	9.4	11.8	+26%
USA	8.5	17.9	20.5	+14%
EMEA	10.0	11.4	15.4	+35%
Japan	10.7	10.4	8.4	-19%
Asia	3.2	3.9	4.4	13%
South America	0.9	1.4	2.2	+55%
TOTAL	42.8	54.4	62.7	+15%
Recurring Ellex-branded consumables & service component (% of total)	2.1 (5%)	4.7 (9%)	8.3 (13%)	

- Sales team improvements
- Contract manufacturing growth

- Full year of iTrack
- Falling A\$ against US\$
- Improved sales of new products Integre Pro and UltraQ Reflex™

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- See separate slide

- Continued growth in China, Thailand and South Korea

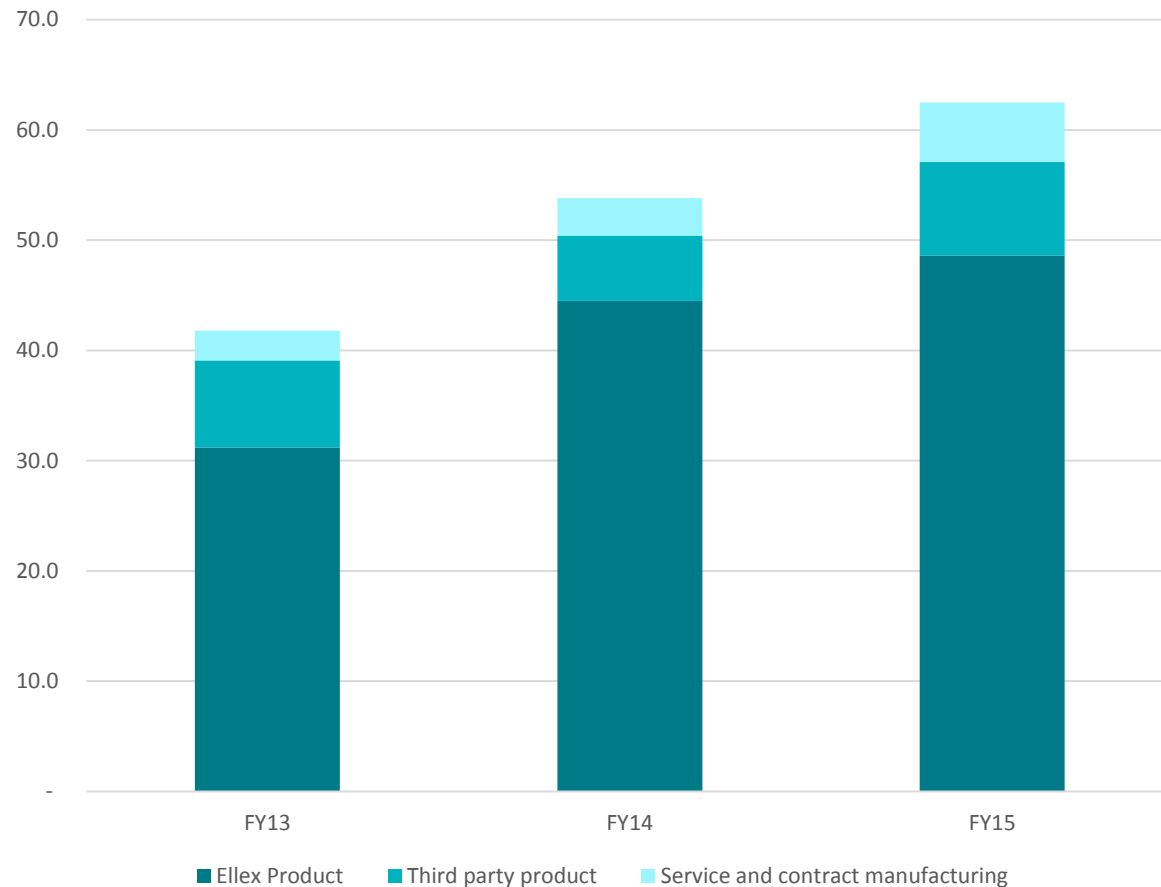
- Application of specific additional sales management



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# Financial Summary – Sales Lines of Revenue



## Three Categories

- Ellex manufactured and branded product for all markets – *Good growth*
- Distribution of products manufactured by third parties mainly by direct sales force in Japan and Australia. Third-party products are complementary to Ellex range and serve to improve revenue per sales representative visit – *growth but change in mix*
- Service and contract manufacturing – *some growth but contract manufacturing was terminated on 30 June 2015 to provide manufacturing capacity in FY16 to meet demand for Ellex products*



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# Financial Summary – Estimated Impact of FX

Impact of Revenue	Total	Composition in millions			
		USD	YEN	EURO	AUD
Sales in AUD FY15 at <u>actual</u> FX rates	62.8	30.1	8.2	8.2	16.3
Sales in AUD FY15 at FY14 rates	60.7	27.6	8.4	8.4	16.3
FX generated revenue improvement/(decrease)	2.1	2.5	(0.2)	(0.2)	-

	Average FX rate v's A\$		Net position of \$A
	FY14	FY15	
USD	0.92	0.84	Devaluation 9%
YEN	92.7	95.5	Appreciation 3%
EURO	0.68	0.70	Appreciation 3%

- Production costs – approximately 30% USD
- Operating Costs – approximately 45% USD



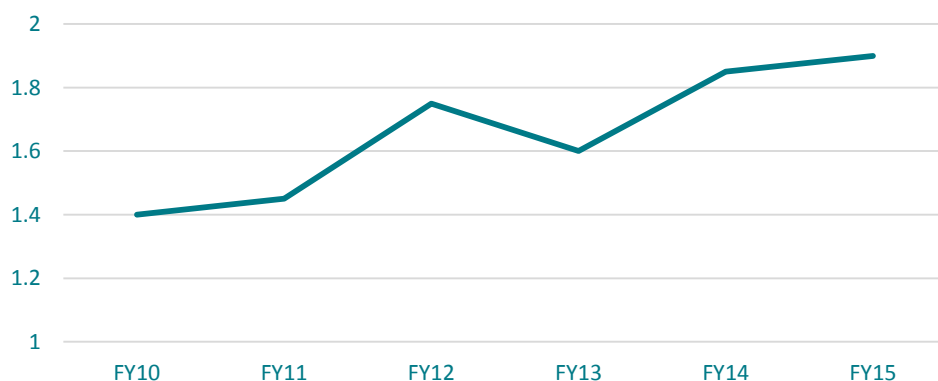
# Financial Summary – Cash Flow

Operating cash flow positively impacted by improved EBITDA inventory turns and working capital management

Increase in Cap'd development costs in FY15 compared with FY14 relates primarily to additional investment in 2RT "LEAD" clinical trial in FY15

PPE investment dominated by cost to fit out new iTrack 250™ manufacturing facility in Fremont, service and sales facility expansion in Minneapolis and production facilities expansion in Adelaide.

Inventory Turns Per Year



The impact of the improvement since FY10 is approximately \$4.0 m inventory saving.

CASH FLOWS	FY13 A\$m	FY14 A\$m	FY15 A\$m
Operating Cash Flows	1.9	2.7	6.3
Investing - PP&E	(0.6)	(0.6)	(1.9)
Cap. Development Costs	(2.2)	(2.1)	(2.3)
<b>Net free cash flow (FCF) from operations</b>	<b>(0.9)</b>	<b>(0.5)</b>	<b>2.1</b>
Acquisition of business	-	(1.6)	-
Debt (repayments)/proceeds	(0.8)	(1.4)	1.0
Proceeds of share issue	-	5.9	-
<b>Net Cash Flow</b>	<b>(1.7)</b>	<b>2.4</b>	<b>3.1</b>



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# Financial Summary - Japan Business Change Management

	FY13	FY14	FY15
Sales in Japan in A\$ millions	10.4	10.2	8.4
Percentage of Sales Complementary Third Party Product	28%	28%	42%
Percentage of Sales Ellex Brand	72%	72%	58%

- Continued sales decline in Japan during the first 4 months of FY15 precipitated change in sales management.
- After several years of being the dominant territory contributing to earnings, restructure costs and poor sales meant that there was an operating loss in Japan costs FY15 Japan of \$1.1m. This was a “drag” on FY15 earnings of \$2.0m compared with the pcg, and a major opportunity for improvement in FY16.
- The goal of the change was to revitalise total sales and, in particular, the relative amount of higher margin of Ellex-branded product. This plan showed impact with improved result in H2FY15 compared with H1FY15.





# Financial Performance – EBITDA and FCF Impacted by Growth Investments

FY15 reported EBITDA and Free Cash Flow have been materially impacted by investments to pursue the 3 major growth opportunities; 2RT™, iTrack 250™ and SLT Expansion.

	FY14		FY15	
	EBITDA	Free Cash Flow	EBITDA	Free Cash Flow
Reported	3.0	(0.5)	5.6	2.1
2RT™:				
- LEAD clinical trial and product engineering	-	0.4	-	0.4
- Clinical support to early adopter program and marketing	-	-	0.5	0.5
iTrack™:				
- Relaunch device with 5-10 minute procedure (ab-interno canaloplasty, ABiC) to replace 25-30 minute procedure	-	-	0.3	0.3
SLT Expansion:				
- Additional staff resources in China and additional product registration and legal	-	-	0.2	0.2
Reported adjusted for investments for growth	3.0	(0.1)	6.6	3.5



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# Financial Summary – Product Development Carried Forward

	\$millions		
Product Development Cost	FY13	FY14	FY15
Opening balance product development cost in balance sheet	6.6	8.3	9.7
Plus: New product investments (including 2RT clinical trial in FY15)	2.2	2.1	2.3
Less: Amortisation of investments in products	(0.5)	(0.7)	(1.3)
Closing balance of product development cost in balance sheet	8.3	9.7	10.7

- Acceleration of amortisation as new products, particularly Integre Pro™ family, including the Integre Pro Scan™ in late FY15, have been brought to market
- After allowing for \$0.4m invested in 2RT™ clinical trial, amortisation of product development is trending to be closer to annual the annual cash spend on product development.



# Financial Summary – Balance Sheet

ASSETS	30 June 14	30 June 15
Cash	1.8	4.6
Trade receivables	11.8	12.5
Inventories	15.7	16.3
Product development capitalised	9.7	10.7
Deferred tax asset	6.8	5.8
PPE, iScience deferred consideration and other assets	8.4	9.1
Total Assets	54.2	59.0

LIABILITIES	30 June 14	30 June 15
Trade creditors	5.5	6.5
Borrowings	5.7	6.8
Deferred consideration	3.1	2.7
Provisions + Other	2.9	3.2
Total Liabilities	17.3	19.2

- Net debt (borrowings less cash) of \$2.2m compared with \$3.9m at June 2014 due to repayments
- Inventory growth to support higher sales evidenced by higher stock turn ratio
- Deferred consideration on iScience acquisition falling as payments made



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# Growth Strategy and Outlook

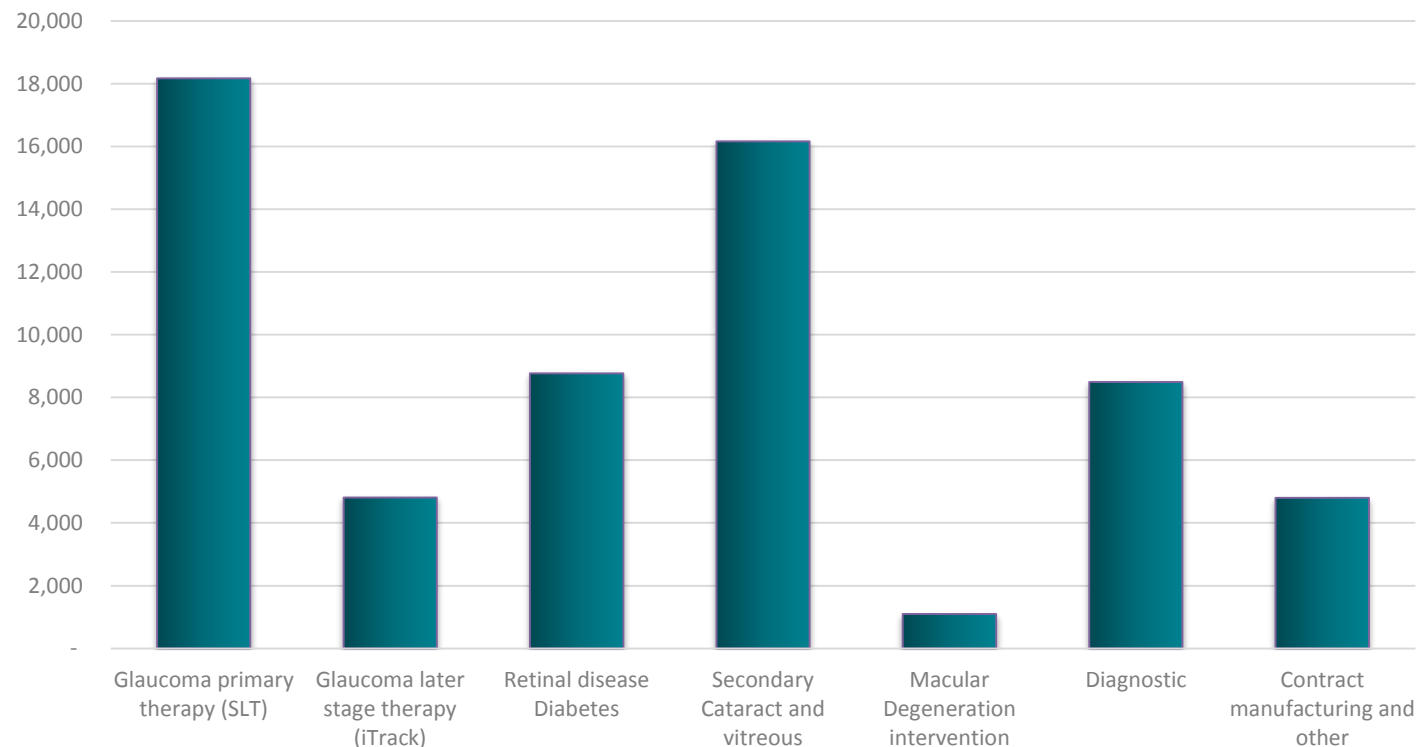
*Ellex is entering a phase of rapid growth and, subject to A\$ to US\$ exchange rate and worldwide economic conditions, expects to achieve in FY16 a continuation of the revenue growth rates recently achieved and to continue to improve profitability.*

*Beyond FY16, underlying industry growth is strong and 2RT™, iTrack™ and SLT products provide transformational growth opportunities.*



# Ellex – Sound Platform for Growth

Revenue by disease FY15



Ellex strategic advantages that support growth:

- Vertical integration from cavity production to sales to doctors provides reliable product and control of customer experience
- Established global brand and worldwide leadership
- Established and proven distribution channels
- Products for all major disease categories with new product pipeline, including potentially transformational products



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# Growth Strategy FY16

## Significant Growth Opportunities

	<b>Glaucoma – SLT (early stage)</b>	<b>Glaucoma – iTrack (later stage)</b>	<b>Early-Stage Macular Degeneration</b>	<b>Retinal Disease Diabetes</b>	<b>Secondary Cataracts and Vitreous floaters</b>	<b>Diagnostic Ultrasound</b>	<b>Cataract Manufacturing and other</b>
Strategic objective and growth plan FY16	Increase global acceptance of SLT as primary therapy for glaucoma, particularly in Asia	Roll out iTrack™ ab-interno procedure (5 to 10 minutes) to give access to cataract surgeon market	First-to-market device for intervention in early AMD with 2RT™ with procedure fee for recurring revenue with sales acceleration expected in FY16	Produce best-in-class family of photocoagulators (“Integre Pro™). Integre Pro Scan™ important new product for FY16	Replace dominant percentage of global installed base of YAG lasers (circa 20,000 units) with UltraQ Reflex™	Maintain leading position in high resolution ultrasound market	Discontinue to free up production and sales capacity for higher margin Ellex products
Market size – current	US\$60m	US\$240m	Not yet known	US\$305m	US\$65m	US\$140m <sup>(1)</sup>	-
Market spend – on device and pharma	US\$4.6bn		US\$5.1bn	US\$1.5bn	US\$3.3bn plus 24m cataract operations		-

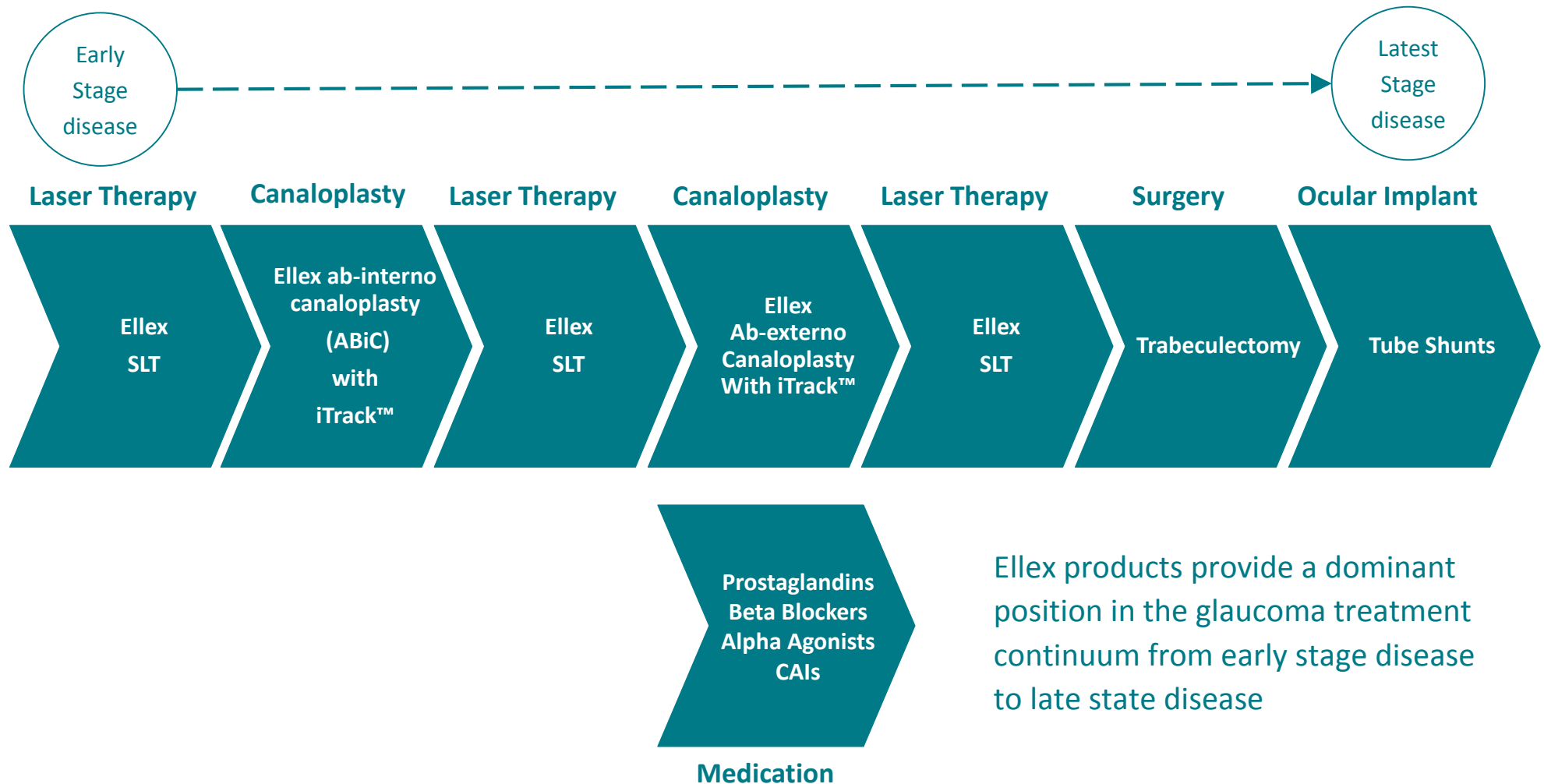
(1) Persistence Market Research “Global Study in Ophthalmic Devices” 2014



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# Ellex and Glaucoma treatment



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## Growth Opportunity Details – iTrack™ for middle to late-stage glaucoma

- iTrack™ microcatheter is the only device on the market that targets 360 degrees of Schlemms Canal (eye's drainage system) to address all areas of potential blockage including collector channels
- Acquired by Ellex from iScience Interventional on 31 December 2013. iScience had targeted glaucoma surgeons with the 20-30 minute “ab-externo” canaloplasty procedure
- FDA approval and full insurance reimbursement in USA and approved in all European markets
- Good sales channel synergies with SLT
- Approximately 40,000 procedures have been completed worldwide since launch to glaucoma surgeons in USA and Europe in 2009
- New, simpler and faster (5 to 10 minutes) surgical procedure relaunched by Ellex in April 2015 (ab-interno Canaloplasty, ABiC) is now targeting cataract surgeons for inclusion in cataract surgery procedures. 20% of people who have cataract surgery also have glaucoma.
- Between May 2015 and Mid August 2015 sales of iTrac™k in the USA (approximately 55% of iTrack™ sales in FY15) have grown by approximately 15% compared with the PCP, providing evidence of customer take-up of the new, faster procedure.





## Growth Opportunity Details – 2RT intervention for Early AMD: Milestones Achieved

2RT™ Retinal Rejuvenation therapy is a novel, nano-pulse laser for the retina. The interaction of the very short pulse with the retina stimulates rejuvenation of ageing cells.

Date	Progress so far
2008 - 2010	First clinical pilot study of 2RT™ (“the Pilot Study”) on 50 patients as intervention for early AMD by Professor Robyn Guymer at Centre of Eye Research Australia (CERA) commences. Also work on 2RT™ for clinically significant macular edema commences. Scientific work at University of Melbourne and Hanson Institute also begins based on original work by Prof. John Marshall at Moorfields Eye Hospital, London.
May 2011	Interim 12-month results from the Pilot Study presented at Association of Research in Vision and Ophthalmology (ARVO) conference.
July 2012	CE Mark for 2RT™ obtained for treatment of clinically significant macular edema (CSME).
November 2012	“Laser Intervention in Early AMD” (LEAD) randomised, double-blind clinical trial commences recruitment. Principal Investigator Professor Robyn Guymer. AMD is a very slow progressing disease so three-year follow-up determined as necessary.
July 2013	US FDA approval for 2RT™ for treatment of CSME obtained.
October 2013	Results of the Pilot Study on the progress of 50 patients who received a 2RT™ dose published in peer-reviewed journal “Clinical and Experimental Ophthalmology”.
February 2014	CE Mark for 2RT™ as intervention in patients with early AMD, where it can produce bilateral improvements in macular appearance and function, obtained. Limited release Early Adopter Program commences with first unit sales following thereafter.
May 2014	24-month results of the Pilot Study presented at ARVO conference.
February 2015	Scientific work on the method of action of 2RT™ by Professor Erica Fletcher published in peer-review publication Federation of American Societies for Experimental Biology under title “Nanosecond Laser Burst Reverses Macular Degeneration”. This work included human histology.
April 2015	LEAD trial recruitment complete with 291 patients; approximately 145 patients in control group and approximately 145 patients in treated group.
July 2015	Professor Erica Fletcher awarded ARC Grant to advance work on 2RT™ method of action.



# Growth Opportunity Details – 2RT Intervention for Early AMD: Future Milestones

Date	Future Milestones
Mid September 2015	First case studies to be released by Ellex on outcomes for patients treated by doctors who have purchased 2RT™ under the Early Adopter Program. This will provide first general clinical results of 2RT™ intervention outside a clinical trial setting. To be released at the European Society of Cataract and refractive Surgeons (ESCRS) meeting and EURETINA meetings.
Mid September 2015	Commercial release of 2RT™ at ESCRS in Barcelona, Spain
April 2016	Interim report from LEAD Clinical Trial as of 18 months from the recruitment of the 150 <sup>th</sup> patient (recruited July 2014). This interim report will reveal if there is any difference in disease progression between the patients in the control group (that represent the natural disease progression state) and the patients that received the 2RT™ dose. As the trial will still be blinded the report will not show which group is control and which group is the treated group.
April 2018	Final result from LEAD on 3 year follow up



## Growth Opportunity Details – 2RT™ Intervention for Early AMD - Summary

- 2RT™ is an intervention for a chronic, slowly-progressing disease that is terrible for patients and a major burden on health care systems globally
- Solid scientific and clinical data to demonstrate its efficacy is progressing
- In place brand and distribution channel to exploit the opportunity
- As clinical data demonstrates efficacy, 2RT™ has the potential to transform Ellex and AMD treatment worldwide.



# Growth Opportunity Detail – Geographical expansion of SLT as Primary Therapy for Glaucoma

- SLT penetration as primary therapy for treatment of glaucoma varies around the world
- There is a significant opportunity in all geographies to improve the penetration of SLT as a primary therapy for glaucoma treatment with marketing, doctor training and education as shown in the following table:

Ellex Revenue from SLT/100,000 patients with glaucoma in the regional population	
Australia	\$7,000
USA	\$2,000
Western Europe and Japan	\$1,000

- In addition in China alone, MarketScope estimates that there are 19 million people with Glaucoma. A key initiative for Ellex is marketing, training and education to improve SLT penetration.



# Reformatted P&L (from 4E)

	\$A000's	
	Year ended 30 June 2014	Year ended 30 June 2015
<b>Revenue related:</b>		
Revenue	54,378	62,679
Realised and unrealised FX	(766)	387
Other income	405	281
<b>COGS related items:</b>		
Changes in inventories	(273)	839
Raw materials consumed	(26,457)	(30,644)
	(26,738)	(29,805)
<b>Gross Margin related</b>	29,279	33,542
	54%	54%
<b>Operating costs related:</b>		
Employee benefits expense (includes production labour)	(14,672)	(16,512)
Legal fees	(332)	(467)
Advertising and marketing	(1,895)	(2,254)
Product development expenses	(702)	(797)
Other costs	(6,699)	(7,907)
<b>Total operating cost related</b>	(24,300)	(27,937)
	45%	41%
<b>EBITDA</b>	2,979	5,605
Interest on commercial debt	(252)	(204)
Amortisation and depreciation	(1,424)	(2,532)
Implied interest for deferred consideration	-	(238)
<b>PBT</b>	1,303	2,773

**Changes over PCP**  
**Summary: Approximately \$1m expenditure on 2RT™, iTrack and SLT in Asia that supports future sales growth**

Additional staff iTrack™ ab-interno procedure, 2RT™ clinical and additional production labour

Additional marketing of ab-interno procedure for iTrack™ and 2RT™

Additional regulatory management for China, additional costs of ab interno

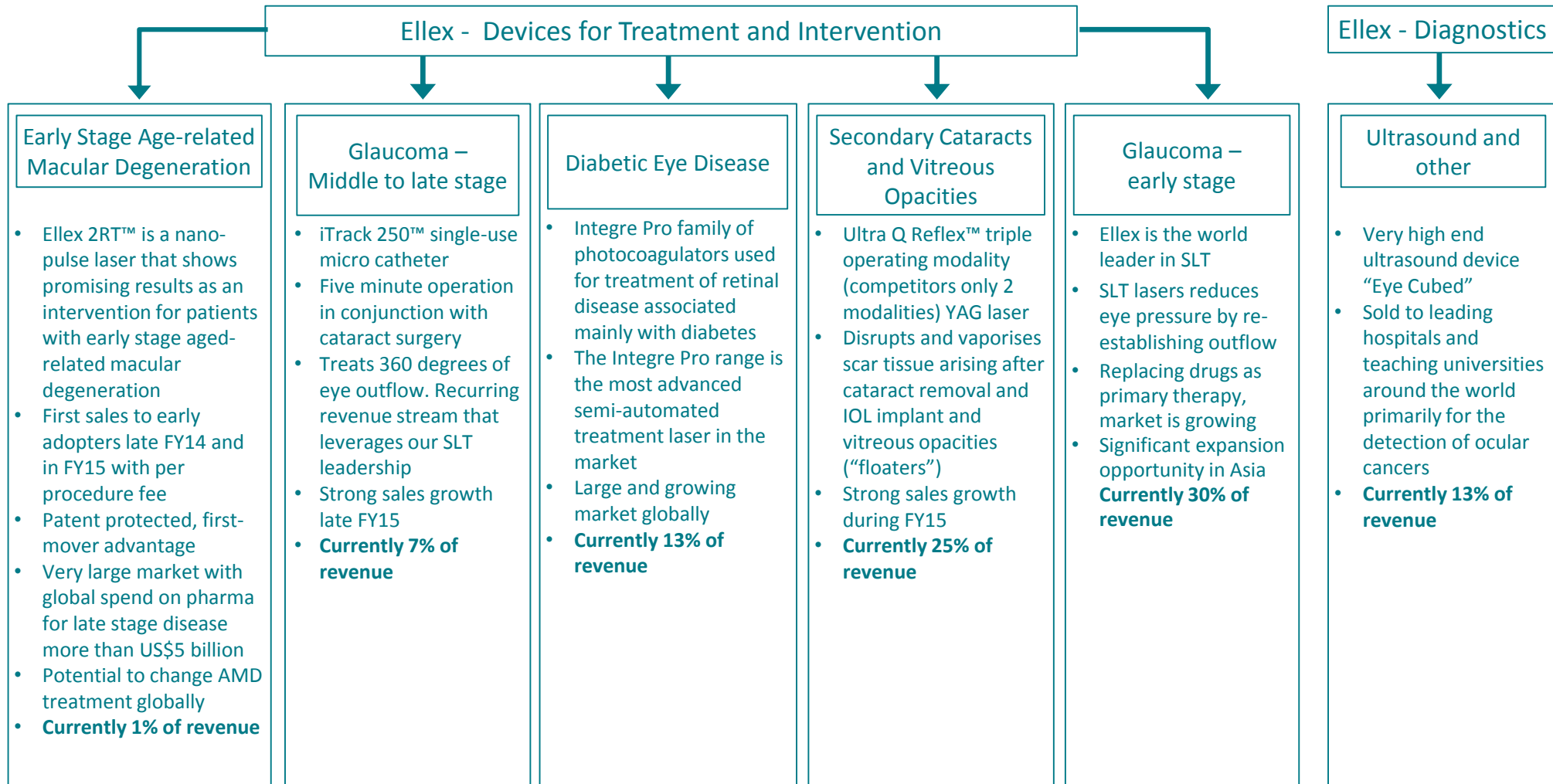
As specified by accounting standards in iTrack™ business acquisition



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# Ellex – Details Six Strong Revenue Lines



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