

Singular Health Group Ltd: SHG

ASX Announcement

28th July 2023

ACTIVITIES REPORT FOR THE QUARTER – 30th JUNE 2023

Highlights

- Record Customer Revenues of \$830,000, up 195% from \$425,000 in previous Quarter.
- Appointment of Mr Denning Chong, co-founder of Singular Health, as Interim Managing Director and CEO.
- Completion of initial capital works program at Singular 3DP's advanced manufacturing facility with substantial operational expenditure savings realised through new materials.
- Customer retention initiatives led to an all-time low churn rate of 3.66% and an all-time high customer lifetime value (LTV) of A\$233.88 for non-enterprise customers.
- Positive commercialisation milestones achieved subsequent to Period end with appointment of Master Distributor in United States.

28th July 2023 – Medical technology company Singular Health Group Limited (ASX: SHG) (“Singular Health” or the “Company”) is pleased to provide the following update on the Company’s operations and financial position in the attached 4C Quarterly Activities and Cashflow Report for the June 2023 Quarter.

Reflecting on the Quarter, Mr Denning Chong, Singular Health’s Managing Director, and Chief Executive Officer, said:

“Following on from our foundational period in the March Quarter after the acquisition of the Global3D 3D printing business, the June Quarter has seen the team achieve record revenues, significantly enhance the unit economics of our medical imaging software products and complete several large-scale projects to position Singular Health for growth on a global scale.

I’d like to thank our longstanding and loyal shareholders for their support over the past Quarter and financial year, and especially our team for their dedication to our vision and for their work behind the scenes to continually advance longer-term initiatives that aren’t yet recognised.”

Appointment of Mr Denning Chong as Managing Director and Chief Executive Officer

As previously announced on April 17th, Singular Health accepted the resignation of Mr Thomas Hanly as Managing Director and Chief Executive Officer.

Mr Denning Chong, a co-founder, and Non-Executive Director of Singular Health, has been appointed as Interim Chief Executive Officer and Managing Director. As a non-Executive Board Member of Singular Health for the past few years, Mr Chong, who has a solid legal background and proven track record in business and finance, has been actively involved in shaping the Company’s vision, strategy, and operations since its inception.

Completion of Initial Capital Works Program at Singular 3DP's Manufacturing Facility

The June Quarter saw the conclusion of a program of works that commenced in February, post-acquisition of Global3D Pty Ltd, and which has seen significant structural and functional improvements made to the Bibra Lake facility, including:

- Structural improvements in the workshop area with the sealing of the workshop floor and walls (seen left image below), additional compressed air and water services, and rearrangement of working areas for improved efficiencies,
- Improvements to the Company's Selective Laser Sintering (SLS) printer using 3D printed parts to improve performance (see centre image below),
- Purchasing, installation, and commissioning of the Vapor Fuse machine for professional post-processing of 3D printed parts,
- Installation and commissioning of a facility-wide dust extraction system (see right hand image below), and
- The planned shutdown and maintenance of the SLS printer for upgrades and to transition from PA12 Nylon powder with a recycling rate of 30% to a new PAX Nylon Powder with a recycling rate of 70%. This has led to a significant reduction in operational expenditure from cost savings with the most utilised machine.

In addition, in a continuous effort aimed at streamlining operations and sales, a fully functioning online shop has been made available to prospective customers through the Global3D website.

The online shop has been used by consumers nationally for sales of 3D printers and consumables, with several large orders throughout the Quarter for consumables and 3D printers.

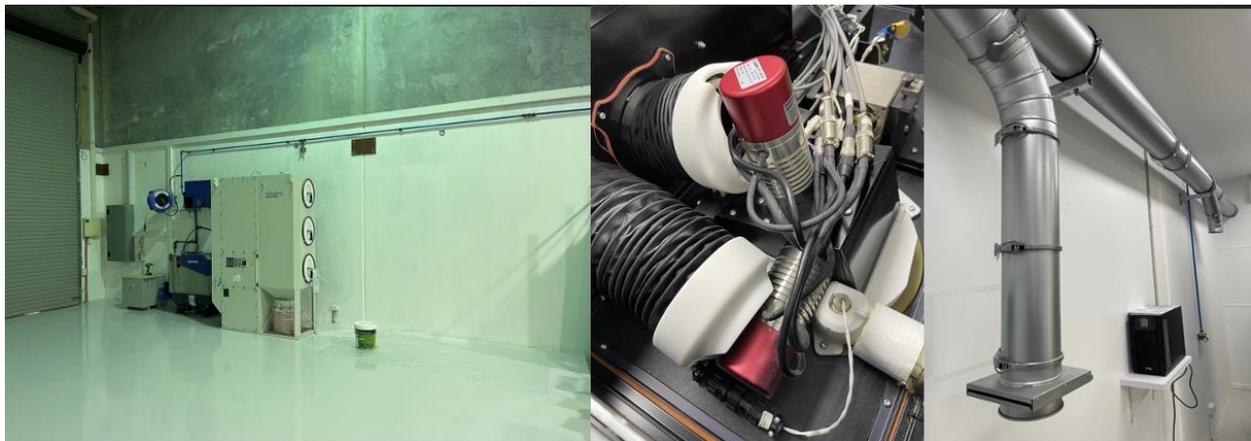


Figure 1: Workshop Improvements, SLS 3D Printer Upgrades, Installation of Facility-wide Dust Extraction System (L-R)

3Dicom v3.4.0 – Price Increases and Improving Subscriber Metrics

With the release of 3Dicom v3.4.0 providing a much higher level of functionality and value to customers, and based on feedback from international sales partners, the Manufacturer's Suggested Retail Price (MSRP) for the 3Dicom software solutions has been increased during the Quarter by 175% and 166% for 3Dicom R&D and 3Dicom MD, respectively, to align Singular Health's pricing strategy with our customer value perception in the US market.

This new price point has resulted in a higher average revenue per user (ARPU) whilst only reducing new subscriber numbers by ~30%, resulting in a higher monthly recurring revenue and customer lifetime value (LTV).

Furthermore, a concerted effort to analyse the behaviour of potential and existing subscribers identified several bottlenecks in the sales funnel. The Company immediately implemented retention initiatives during the Quarter which has led to a 33% reduction in the subscriber churn rate from 5.33% down to 3.66% again increasing the book value of Singular Health subscriber base.

Finally, the Company developed an Enterprise Portal to systemise and streamline the management and operations of our channel partners across the world during the Quarter which is currently being rolled out to the Company's Master Distributor in the United States and sales partners.

Activities Subsequent to Period End

Subsequent to the quarter end, Singular Health's Chief Operating Officer, Mr James Hill, and Global Partnership Manager, Ms Martina Mariano, PhD, visited the United States in the first half of July.

The primary focus of this trip was the appointment of Charlie Golf One LLC, trading under the name of CG1 Solutions, as Singular Health's Master Distributor for the 3Dicom suite of software (ASX Announcement: *Singular Health Group Ltd Appoints Master Distributor in the United States*, 6th July 2023).

During the time in Florida and Washington DC, Singular Health's team actively promoted the latest 3Dicom 3.4.0 technology to CG1 Solution's team and partner organisations, and engaged in a number of in-person meetings with key opinion leaders of large healthcare organisations, investors, hospital and university administrators, and 3Dicom existing users.

Testament to the collaborative effort between parties aimed at the large-scale distribution of the 3Dicom software is the awarding of a 5-year contract by the Interlocal Purchasing System (TIPS) to a consortium of organisations collaborating under CG1 Solutions' channel partner Seventeen Consulting. As a result of this award, the 3Dicom software will be accessible to more than 16,000 pre-qualified purchasing entities in the United States, including private, state, and federal teaching hospitals, universities, and healthcare institutions, thus providing a preferential channel for further large-scale opportunities for sale in the US territory.

While the Company continues working to capitalise on the prospective commercial opportunities emerged during the recent engagement, Singular Health's strategic development plan has been refined by the unique insights and market validation received during the trip. The Company has seen particular interests and demand for the Company's proprietary Medical File Transfer Protocol (MFTP) which enables the secure transfer of patients' medical records, and seamless access via desktop and smartphones.

As a result of the direct engagement with key decision-makers operating in the US healthcare system, the 3Dicom technology has been further optimised to improve user

experience and accommodate US cultural and clinical preferences, and will be presented to stakeholders in the Military Health System during the upcoming 2023 Defence Health Information Technology Symposium (DHITS) in New Orleans.



Part of the Internal Fit out at Bibra Lake

Closer to home, early July saw the completion of an internal office fit out, in addition to the facility upgrades, at the Bibra Lake premises with the addition of a conference room and workspaces for the Company’s development team.

This fit out has occurred ahead of a planned consolidation of Singular Health’s office premises to the Bibra Lake address, and vacation of the Subiaco office which is anticipated to deliver savings of ~\$100,000 per annum.

Business Activities Expenditure

In accordance with ASX Listing Rule 4.7C.1, with respect to operating activities expenditure, Singular can confirm total direct operating expenditure was \$1,647,000 for the June 2023 Quarter, consisting of research and development expenses of \$67,000, product manufacturing and operating costs of \$817,000, advertising and marketing costs of \$12,000, staff costs of \$538,000, administration and corporate costs of \$178,000, lease payments of \$4,000, and interest and other payments of \$31,000. Net cash used in the operating activities was \$739,000 after accounting for cash inflows totalling \$830,000 from revenue.

Corporate Activities

In accordance with Listing Rule 4.7C.3, the Company advises that payments to related parties of the entity and their associates during the Quarter amounted to \$9,000. Amounts included in 6.1 attached 4C relates to remuneration paid to Directors. Please see Cost Control Measures below for further details on Director remuneration.

During the Period, and as part of the Company’s review of operations and cost rationalisation program, it was determined that it was prudent to dissolve the Company’s longstanding, yet dormant, Singaporean joint venture Singular Health SEA Pte Ltd. This has now been actioned.

Subsequent to the end of the Quarter, and after much consideration, the Company has finalised an agreement to dispose of its 25% shareholding in Melbourne-based Australian Additive Engineering Pty Ltd (AAE) in consideration of A\$70,000. This divestment sees Singular Health, and its wholly owned 3D printing subsidiary Singular 3DP, released from various non-compete clauses allowing for further revenue generation opportunities, and streamlines the Company’s group structure and operations.

Additionally, the Company has chosen not to renew the option deed executed by TerraCentric Pty Ltd (ASX Announcement: *Singular Health Announces Planned Divestment of GeoVR Asset*) for the sale of its 50% shareholding of GeoVR Pty Ltd and is instead

discussing means by which to dissolve the joint venture and allow both parties to retain commercial rights to the GeoVR intellectual property.

Commentary on Financial Performance

Revenue Generation

The June 2023 Quarter has seen record revenues for Singular Health derived primarily from the Company's wholly owned subsidiary Singular 3DP which has established strong, diversified revenue streams from industrial 3D printing hardware sales, consumables sales through a new online e-Commerce platform, and the provision of industrial and medical 3D printing sales.

Cash inflows from deposits for Singular's first enterprise sale of 3Dicom MD (ASX Announcement: *Sales Partner Appointed and First Enterprise Licence Order*, 16/03/2023) along with increased monthly recurring revenue figures and smaller enterprise opportunities have led to positive and meaningful increases in the revenue generated from the 3Dicom software.

As at the date of this report, the Company has a substantial pipeline of sales opportunities for the 3Dicom software, and for the 3D printing solutions provided by Singular 3DP.

Extraordinary Expenditure

During the Quarter, the Company incurred several one-off expenses which increased the Product Development and Operating Costs by ~\$300,000 over standard expenditure levels.

Following the resignation of Mr Thomas Hanly and the redundancies of an additional two staff members, the Company incurred redundancy and leave payments of ~\$60,000 during the Quarter.

The Company also completed an initial capital works program of ~\$100,000 at the Singular 3DP facility located in Bibra Lake, 20 km south of Perth. This program of works saw the commissioning of a vapor-fusing machine, a key component required to deliver medical-grade orthotics and prosthetic medical devices, and several upgrades to ventilation, 3D printers, and the materials used to improve part quality whilst reducing operational expenditure by ~30%. Please see ASX Announcement entitled *Operational Update, R&D Funding Facility & Strategic Review* and dated 6th April 2023.

Immediately prior to the end of financial year end, to secure greater resale margins, Singular 3DP pre-paid A\$140,000 of instalments on two industrial 3D printers which have subsequently received purchasing commitments from customers in the current Quarter.

Cost Control Measures

Enterprise-First Approach Leads to Reduced Advertising and Marketing Spend

Commencing as of the June Quarter, Singular Health's technology readiness level was deemed to be sufficiently advanced to transition from a direct-to-consumer led approach, necessitating increased advertising and marketing spend but providing more immediate customer feedback for development, to an "Enterprise-First" approach.

This Enterprise-First approach still sees Singular Health allowing direct consumer signups and individual subscriptions but with a clear preference for Enterprise-level commercialisation through the appointment of sales partners and distributors globally.

Due to the commissions-based remuneration structure for Singular Health’s sales partners, and a distribution of the customer support services, this approach requires minimal Capital Expenditure by Singular Health and sees significantly less advertising and marketing spend required to support the sales partners, distributors, and their sub-agents.

Accrual of Director Wages

As of the June Quarter, Singular Health’s Board of Directors, including the Interim Managing Director and Chief Executive Officer, Mr Denning Chong, have agreed to accrue their Director fees to preserve working capital and provide additional runway whilst the Company scales revenue generation and progresses large scale commercial contracts for the 3Dicom software.

Appointment of New Auditor

Prior to the June Quarter end, Singular Health announced the resignation of Moores Australia Audit (WA)(“Moore”) and the appointment of Nexia Perth Audit Services (“Nexia”) as the Company’s Auditor.

The Singular Health team would like to thank Moore for their contributions to the Company.

Consolidation of Leased Premises

As detailed in the Activities Subsequent to the Period End, a decision has been made not to renew the lease of Singular Health’s current office space in Subiaco upon the lease expiry in September 2023. The Company will be relocating to the Bibra Lake premise. This initiative is anticipated to produce savings of ~\$100,000 per annum.

Authorised for release by the Board of Singular Health Group Ltd.

Ends

For further information contact

Investors	Corporate
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About Singular Health:

Singular Health Group Limited (ASX: SHG) is a medical technology company utilising advanced technologies to develop patient-specific solutions.

Singular Health’s 3Dicom software solutions empower patients and practitioners to better visualise, communicate, and understand medical imaging data. 3Dicom MD® is cleared for diagnostic use in the United States

Singular 3DP, a wholly owned subsidiary of Singular Health, uses advanced 3D printing and post-processing to manufacture TGA-approved patient-specific medical devices.

To learn more, please visit: www.singular.health

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Singular Health Group Limited

ABN

58 639 242 765

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	830	1,300
1.2 Payments for		
(a) research and development	(67)	(438)
(b) product manufacturing and operating costs	(817)	(1,120)
(c) advertising and marketing	(12)	(222)
(d) leased assets	(4)	(74)
(e) staff costs	(538)	(1,572)
(f) administration and corporate costs	(178)	(877)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	1
1.5 Interest and other costs of finance paid	(18)	(30)
1.6 Income taxes paid	(13)	(13)
1.7 Government grants and tax incentives	-	414
1.8 Other	78	(79)
1.9 Net cash from / (used in) operating activities	(739)	(2,710)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(22)	(824)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other	-	-
2.6	Net cash from / (used in) investing activities	(22)	(824)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,050	1,642
3.2	Proceeds from issue of convertible debt securities	-	800
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(36)	(94)
3.5	Proceeds from borrowings	-	740
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	1,014	3,088

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	441	1,140
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(739)	(2,710)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(22)	(824)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,014	3,088
4.5	Effect of movement in exchange rates on cash held	(2)	(2)
4.6	Cash and cash equivalents at end of period	692	692

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	692	441
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Joint Venture Cash Entitlement)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	692	441

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	9
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7.	Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	Loan facilities	740	740
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	740	740
7.5	Unused financing facilities available at quarter end		0
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
	<p>Lender: Tremolat Pty Ltd Principal: \$560,000 Interest: 12% per annum, paid monthly Term: 12 months Security: Secured against 3D Printing Plant and Equipment</p> <p>Lender: HP Enterprise Financial Services Principal: \$180,300 Interest: 4.76% Term: 60 months Security: Secured against Vapor Fuse Plant and Equipment</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(739)
8.2	Cash and cash equivalents at quarter end (item 4.6)	692
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	692
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	0.94
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?
	Answer: Yes.	
	8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
	Answer: Yes, the Company proposes to take steps to raise further cash to fund its operations and will consider more specific funding options as and when required. The Company believes they will be successful, based on multiple previous successful capital raisings.	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes, the Company expects to be able to continue its operations and to meet its business objectives based on its response to items 1 and 2 above.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

28 July 2023

Date:

The Board of Directors

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.