

AROA BIOSURGERY FY23 RESULTS AND FY24 OUTLOOK

HIGHLIGHTS

FY23 Results

- All audited FY23 full year results within guidance.
- Audited full year product revenue of NZ\$60.5 million, reflecting a 55% increase on FY22 (38% on a constant currency¹ basis). Total revenue (inclusive of project and license fees) was NZ\$63.4 million, representing 60% growth on FY22.
- Full year Myriad™ product revenue of NZ\$13.5 million, reflecting an increase of 268% on FY22 (236% on a constant currency basis).
- Product gross margin of 84%, representing an 8% increase on FY22 (5% increase on a constant currency basis).
- Normalised² EBITDA profit for FY23 of NZ\$1.5 million, compared to a NZ\$1.5 million loss in FY22. Normalised loss before income tax was NZ\$0.9 million (NZ GAAP Loss before income tax of NZ\$0.4 million) compared to loss of NZ\$5.6 million in FY22 (NZ GAAP Loss before income tax of NZ\$8.3 million).
- Strong cash balance of NZ\$44.7 million with no debt.

FY24 Outlook

- Product revenue guidance of NZ\$72-75 million (delivering 25-30% constant currency growth on FY23) and total revenue of NZ\$73-76 million. Guidance assumes an average NZD/USD exchange rate of 0.65, compared to the average rate of 0.62 in FY23. Myriad and Symphony™ are expected to be the primary drivers of AROA's product revenue growth. TELA Bio, Inc. has forecasted 45%-57% CY23 revenue growth and is expected to consume high safety stock levels during H1.³ This may temper FY24 demand.
- Product gross margins are expected to improve to 85%, reflecting growth in the sales mix of the higher margin Myriad and Symphony products despite assumed currency headwinds.
- AROA is continuing to invest in its US sales operations and product development to drive medium term growth. Normalised EBITDA profit expected to be maintained at NZ\$1-2 million and targeting increasing profitability beyond FY24.
- Guidance is subject to no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities and TELA Bio, Inc. delivering on its CY23 revenue guidance.³
- AROA will host a webinar today at 9.00am AEST to discuss the results. [Click here to register.](#)

¹ Constant currency removes the impact of exchange rate movements. This approach is used to assess the AROA group's ('Group') underlying comparative financial performance without any distortion from changes in foreign exchange rates, specifically the USD. The exchange rate of US\$0.62/NZ\$1.00 has been used in the constant currency analysis. All references in this announcement to 'constant currency' or 'CC' are as set out in this footnote.

² Normalised EBITDA is non-conforming financial information, as defined by the NZ Financial Markets Authority, and has been provided to assist users of financial information to better understand and assess the Group's comparative financial performance without any distortion from the one-off transactions. The impact of non-cash share-based payments expense and unrealised foreign currency gains or losses has also been removed from the Profit or Loss. This approach is used by Management and the Board to assess the Group's comparative financial performance. All references to normalized EBITDA in this announcement are as set out in this footnote.

³ Refer to TELA Bio, Inc.'s news release dated 11 May 2023.

Soft tissue regeneration company Aroa Biosurgery Limited (ASX: ARX, 'AROA' or the 'Company') is pleased to release its audited full year results for the period ended 31 March 2023.

FY23 Results

Normalised Profit or Loss

	Reported 2023 NZ\$000	Reported 2022 NZ\$000	Reported YoY %	CC 2023 NZ\$000	CC 2022 NZ\$000	CC YoY %
Product revenue	60,512	39,154	55	60,383	43,816	38
Normalised other revenue ¹	1,090	526	107	1,083	589	84
Total revenue	61,602	39,680	55	61,466	44,405	38
Gross profit	51,718	30,303	71	51,582	35,028	47
Product gross margin %	84%	76%	800 bps	84%	79%	500 bps
Other income	1,734	1,116	55	1,734	1,116	55
Normalised selling and administrative expenses ¹	(45,131)	(27,693)	63	(45,446)	(29,856)	52
Research and development	(10,612)	(8,354)	27	(10,612)	(8,354)	27
Total normalised operating expenses	(55,743)	(36,047)	55	(56,058)	(38,210)	47
Normalised EBIT	(2,292)	(4,629)	(50)	(2,741)	(2,066)	33
<i>Add back: Depreciation & amortisation</i>	3,834	3,132	22	3,834	3,148	22
Normalised EBITDA	1,542	(1,498)	203	1,093	1,081	1
Normalised net finance income (expense) ¹	1,394	(954)	246	931	(749)	224
Normalised loss before income tax	(898)	(5,583)	(84)	(1,810)	(2,815)	(36)

1. These items have been normalised by the amounts outlined within the section headed 'Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss' at the end of this announcement.

Product Revenue

Product revenue for the year was NZ\$60.5 million (NZ\$60.4 million in constant currency) representing growth of 55% on the previous year (38% in constant currency). Myriad, OviTex™⁴ and OviTex PRS products were the major contributors to the growth whereas Endoform™ grew modestly as expected. Myriad sales contributed 22% to total product sales, growing 2686% (236% on a constant currency basis) to NZ\$13.6 million. OviTex and OviTex PRS contributed 58% to total product sales, with Endoform making up the balance.

Ex-USA product revenue for the year was NZ\$1.7 million, representing 60% growth on the prior year.

Normalised Other Revenue

Normalised other revenue grew to NZ\$1.1 million, compared to NZ\$0.5 million in the previous year. Normalised other revenue represents project fees income received for product development projects undertaken with TELA Bio, Inc. ('TELA Bio'), but excludes the 'one off' royalty payment of NZ\$1.8m received from TELA Bio during the year.

Product Gross Margin %

FY23 full year product gross margin of 84% (84% on a constant currency basis), representing an 8% increase on FY22, primarily resulted from growth in sales of high margin Myriad products, manufacturing efficiency improvements and favourable foreign exchange movements. Product

⁴ OviTex is a trademark of TELA Bio, Inc.

gross margin grew 5% on FY22 on a constant currency basis.

Other Income

Other income was NZ\$1.7 million, compared to NZ\$1.1 million in the previous year. This comprised of tax credits of NZ\$1.6 million under the Research & Development Tax Incentive program (compared to NZ\$1.0 million previously), rental and grant income.

Normalised Operating Expenses & EBITDA

Selling and administrative expenses were NZ\$45.1 million, representing a 63% increase (52% in constant currency) from NZ\$27.7 million in FY22. This increase primarily reflects annualization of the prior year's investment and incremental investment during FY23 into the Company's US-based sales operations and aggregate commission payments to US sales staff for increased Myriad sales.

Research and development expenses were NZ\$10.6 million, compared to NZ\$8.4 million in FY22. This was largely attributable to the increased investment into the Company's second platform technology (Enivo™) increasing from approximately NZ\$5 million in FY22 to NZ\$7 million in FY23.

AROA capitalised NZ\$1.3 million of development costs in FY23 in line with the NZ Equivalent to International Accounting Standard (NZ IAS 38). These development costs primarily represent investments made into existing product line extensions and manufacturing process improvements, where the Company has certainty of the investments generating future economic benefits.

AROA generated a normalised EBITDA profit of NZ\$1.5 million in FY23, compared to a NZ\$1.5 million loss in FY22. The Normalised loss before income tax was NZ\$0.9 million (NZ GAAP Loss before income tax of NZ\$0.4 million) compared to loss of NZ\$5.6 million in FY22 (NZ GAAP Loss before income tax of NZ\$8.3 million).

Notably in the absence of the Enivo investment in FY23, AROA would have delivered a normalised EBITDA profit of NZ\$8.5 million, reflecting a normalised EBITDA margin of 14%.

Cashflows

Net cash outflows from operating activities improved to NZ\$3.8 million (compared to previous outflows of NZ\$11.5 million) as a result of the Company's improved operating performance. AROA's reported positive EBITDA was offset by an increase in the Company's working capital position resulting from year-on-year sales growth. Operating cashflows were also impacted by the timing of OviTex and OviTex PRS sales during the last quarter of the financial year (with subsequent receipts in Q1 of FY24).

Purchases of property plant and equipment were NZ\$6.0 million (compared to NZ\$4.5 million in FY22) primarily reflecting the Company's investment into plant and equipment to further expand its manufacturing capacity. As noted in the previous section, AROA commenced capitalising development costs in FY23.

Cash on hand and term deposits were NZ\$44.7 million as at 31 March 2023 compared to NZ\$56.2 million as at 31 March 2022. The Company remains debt-free.

FY24 Outlook

AROA plans ongoing investments into two key areas to drive growth and to facilitate increasing profitability beyond FY24.

The Company will continue investing into its US sales operations to build on Myriad sales momentum, and the recent launch of Myriad Morcells™ Fine. Symphony, comprised of AROA ECM™ and hyaluronic acid, is also a notable addition to our product portfolio. It targets diabetic and venous ulcers in patients



with severely impaired healing and builds on our established Endoform business in the outpatient setting.

The other key area of investment will be to accelerate the Company's new products pipeline, with a particular focus on Enivo. Management estimates the Total Addressable Market for Enivo alone to be in excess of \$1 billion and it is expected to be used synergistically with existing AROA ECM products.

The Company expects to continue delivering growth in FY24, with forecasted product revenue of NZ\$72-75 million. This reflects constant currency growth of 25-30% on FY23, based on an assumed US\$/NZ\$ exchange rate of US\$0.65/NZ\$1.00 rather than the average exchange rate of US\$0.62/NZ\$1.00 during FY23.

While TELA Bio is expected to continue strong growth of 45-57% in CY23,³ the Company has assumed modest growth in FY24 product sales to TELA Bio due to high safety stock levels during H1 and lumpy shipments of replacement SKU's. This may temper H1 FY24 demand.

The Company anticipates product gross margins to improve to 85%, despite the assumed currency headwinds and increased indirect overheads for further manufacturing capacity expansion. This reflects forecasted increases in sales of Myriad and Symphony (which have higher margins) and expected improvements in manufacturing efficiency.

AROA expects to end FY24 with a normalised EBITDA profit of NZ\$1-2 million, even with the continued investment into its US sales operations and new products pipeline and the assumed currency headwinds.

Had AROA assumed a constant currency at US\$0.62/NZ\$1.00, product revenues, gross margin and normalised EBITDA would have been guided to NZ\$76-\$79 million, 85-86% and NZ\$3-4 million respectively.

This guidance is subject to there being no material decline in US medical procedure numbers or sustained disruption to AROA's manufacturing or transportation activities and TELA Bio delivering on its CY23 revenue guidance of US\$60-65 million.³ It also assumes an average NZ\$/US\$ exchange rate of 0.65 (compared to the average exchange rate of 0.62 in FY23).

Commenting on AROA's outlook for FY24, Managing Director and CEO Brian Ward said: "FY23 was a pivotal year for AROA, marking our first year of normalised EBITDA profitability as a publicly listed company.

We are committed to demonstrating that we can deliver strong top-line growth and manage expenses to transition to become highly profitable in the medium term.

We are particularly focused on disciplined sales expansion and advancing our product portfolio to deliver a step change in healing outcomes. With our current cash balance of ~NZ\$45M we are well placed execute our plans.

We are further encouraged by TELA Bio's revenue forecast which continues to reflect strong year-on-year growth."

Investor Webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Wednesday 31 May 2023 at 9.00am AEST, to discuss the results released to the ASX this morning.

Investors can register for the webinar via the following link:

https://us02web.zoom.us/webinar/register/WN_wtXo-firRraJrEtlE7aY4A#/registration

Investors can submit questions prior to the webinar to shinsley@aroabio.com or do so via the Q&A function on Zoom.

Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss

Reconciliation of Normalised Profit or Loss to NZ GAAP Profit or Loss

	Reported 2023 NZ\$000	Reported 2022 NZ\$000
Normalised loss before income tax	(898)	(5,583)
Other revenue	1,759	-
Share based payments	(2,578)	(2,965)
Transaction costs		(50)
Unrealised FX gains	1,333	336
Loss before income tax (NZ GAAP)	(384)	(8,261)

Other Revenue

Other revenue of NZ\$1.8 million represents receipt of a royalty payment during the current year (\$nil in previous year), from TELA Bio. This represents TELA Bio's final royalty payment to AROA pursuant to the parties' licensing agreement.

Share Based Payments

Share based payments is a non-cash expense that reflect the three-year grant of share options issued to the CEO and Directors of the Company in H2 of FY23; the vesting of grants made to employees and Directors on the Groups "IPO" in 2020; and to "one-off" grants to certain employees, including the US based sales team during FY23.

Transaction Costs

Transaction costs of NZ\$0.1 million in FY22 reflect the costs associated with the capital raise in August 2021.

Unrealised FX gains

Unrealised FX gains are non-cash gains that reflect the gain on US\$ denominated transactions that have not been completed as at the reporting date.

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Authorised on behalf of the Aroa Biosurgery Board of Directors by Brian Ward, CEO.

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About AROA™

Aroa Biosurgery is a soft-tissue regeneration company committed to 'unlocking regenerative healing for everybody'. We develop, manufacture, sell and distribute medical and surgical products to improve healing in complex wounds and soft tissue reconstruction. Our products are developed from a proprietary AROA ECM™ technology platform, a novel extracellular matrix biomaterial derived from ovine (sheep) forestomach. Over 6 million AROA products have been used globally in a range of procedures to date, with distribution into our key market of the United States via our direct sales force and our partner TELA Bio, Inc. Founded in 2008, AROA is headquartered in Auckland, New Zealand and is listed on the Australian Securities Exchange (ASX: ARX). www.aroabio.com

About Myriad™

Myriad Matrix™ is an extracellular matrix graft, composed of AROA ECM and designed for soft tissue reconstruction and complex wounds. Myriad Morcells™ is a powder format of Myriad Matrix that easily conforms to optimize contact with irregular wound beds.

About Endoform™

Endoform™ products are unique extracellular matrix products, composed of AROA ECM, for the management of acute and chronic wounds.

About Symphony™

Symphony is a new product which has been developed off the strength of AROA ECM. It is applied as a graft and is surgically fixed at the margins. It is designed to support healing during the proliferative phase to reduce time to wound closure, particularly in patients whose healing is severely impaired or compromised due to disease.

About Enivo™

This is a new Tissue Apposition Platform which AROA is developing, designed to close tissue cavities at a surgical site created by surgical dissection or tissue removal. It is comprised of a specially designed AROA ECM implant that is coupled to an external negative pressure pump. When the product is deployed, the tissue surfaces are drawn together, held in place and tissue fluids are carried by the vacuum to an external fluid collection bag. AROA intends to develop and launch a new class of products utilising this new platform technology.

About OviTex™ and OviTex PRS

OviTex and OviTex PRS are reinforced bioscaffolds manufactured by AROA. The products are based on AROA ECM technology, co-developed with our partner, TELA Bio, Inc. ('TELA Bio') and sold by TELA Bio in the United States and Europe. TELA Bio is licensed to sell OviTex for abdominal wall reconstruction and hernia repair. Since the first hernia product was launched in 2016, the portfolio has expanded to include hernia products for minimally invasive surgery (robotic) and the launch of OviTex PRS (licensed to TELA Bio for breast reconstruction).