

AROA BIOSURGERY JUNE 2023 4C – COMMENTARY

Financial Highlights

- Increased cash receipts from customers of NZ\$15.2 million during the quarter, compared to receipts of NZ\$12.3 million for the prior quarter.
- In line with expectations, net cash outflow from operations of NZ\$4.8 million for the quarter, compared to the prior quarter outflow of NZ\$1.9 million. This primarily reflected typical post-financial year payments and a planned operating loss for the quarter. Net cash outflow from investing activities was NZ\$1.3 million for the quarter, reflecting further investment into additional manufacturing plant & equipment capacity.
- Strong cash balance of NZ\$38.5 million as at 30 June 2023.
- FY24 product revenue guidance **maintained at NZ\$72-75 million**¹ (25-30% increase on FY23 on a constant currency basis²).
- FY24 product gross margin guidance **maintained at 85%**.¹
- FY24 normalised³ EBITDA profit guidance **maintained at NZ\$1-2 million**.¹

Operational Highlights

- US commercial operations continued to build momentum, delivering wins in key hospitals and health systems; the prestigious Cleveland Clinic, Case Western, and Ohio State University, as well as Banner Health system and Valleywise Burns Center (previously known as Arizona Burn Center). AROA ended the quarter with eight field sales representatives at a current average run rate of at least US\$750,000 per annum (up from five in the previous quarter).
- The Symphony™ launch, which is focused on the hospital outpatient department, is progressing to plan, remaining well-positioned for success. The US Centers for Medicare & Medicaid Services ('CMS') reimbursement proposal for CY24 was released on 13th July. Payments in the hospital outpatient department and physician office setting remain essentially unchanged. However, additional regulatory measures which are being imposed in relation to physician offices, are progressively expected to potentially favour products with high efficacy at a reasonable price.
- First patient enrolment in the Enivo™ pilot (n=10) study in June.
- Four peer-reviewed studies published, including a study assessing the use of Myriad Matrix™ as a non-invasive treatment for anal fistula in 14 patients, in which 78% of patients were reported to be fully healed within the study period. A publication by an interprofessional working group convened by AROA, proposing a surgical algorithm for pressure injuries with adjunctive use of bioscaffolds such as Myriad Matrix, was selected as a finalist for 'Best Advance in Original Research' at the 2023 Advances in Skin and Wound Care awards.
- Enrolments into MASTRR continue tracking well, with a total of 183 patients as at June 30, 2023

¹ 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. It also assumes an average NZ\$/US\$ exchange rate of 0.65 (compared to the average exchange rate of 0.62 in FY23).

² 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.

³ 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.



(increase by 24), with five study sites confirmed (increase by one site).

- AROA has taken delivery of an additional freeze dryer to at least double its freeze-drying capacity.
- Appointment of pharmaceutical executive Scott Sherriff as Chief Operating Officer, effective July 3.
- Hosted a well-attended investor meeting in Sydney, including presentations by a key opinion leader and members of AROA's sales leadership. Presentations by Brian Ward, CEO at the 2023 Macquarie Australia Conference and the inaugural Wilsons & Craigs Investment Partners Rapid Insights Conference in Queenstown, New Zealand. James Agnew, CFO, presented at the 2023 Bioshares Biotech Summit in Hobart, Australia.
- AROA published its 2023 Annual Report during the quarter, and its Annual General Meeting of shareholders is scheduled for 2 p.m. (NZST), 12 p.m. (AEST) on Thursday, 3 August 2023.
- AROA will host a webinar to discuss these results today at 9 a.m. AEST. [Click here](#) to register.

Soft tissue regeneration company Aroa Biosurgery Limited (ASX: ARX, 'AROA' or the 'Company') is pleased to provide an update on its activities for the quarter ended 30 June 2023.

Financial commentary and outlook

Cash receipts received from customers for Q1 FY24 increased to NZ \$15.2 million, compared to NZ\$12.8 million in the prior quarter. This was primarily due to the timing of OviTex™⁴ and OviTex PRS product revenues during the prior quarter, and subsequent receipts during Q1 FY24.

In line with expectations, net cash outflows from operations for Q1 FY24 were NZ\$4.8 million, compared to net cash inflows of NZ\$1.9 million in Q4 FY23. This was primarily due to increases in working capital and planned operating losses for the quarter. Working capital increases were realised from an increase in raw materials inventory, payment of annual short-term incentives to employees (including sales commissions for increased Myriad™ sales), and a decrease in trade payables from the prior quarter. One off-clinical development, sales, and marketing activities during the quarter, including attendance at 12 key industry conferences, contributed to the planned operating losses.

Net cash outflows from investing activities for Q1 FY24 were NZ\$1.3 million, primarily reflecting AROA's investment into additional manufacturing plant & equipment capacity.

AROA ended the quarter with a strong cash balance of NZ\$38.5 million.

AROA maintains its FY24 product revenue, product gross margin and normalized EBITDA profit guidance of NZ\$72-75 million, 85% and NZ\$1-2 million respectively. 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. It also assumes an average NZ\$/US\$ exchange rate of 0.65 (compared to the average exchange rate of 0.62 in FY23).

In accordance with ASX Listing Rule 4.7C.3, AROA advises that an aggregate amount of NZ\$137,000 was paid during the quarter to the Company's six non-executive directors for directors' fees.

Appendix A provides a summary of actual expenditure, compared to the estimated use of funds set out in AROA's IPO Prospectus, in accordance with ASX Listing Rule 4.7C. Cash expenditure is consistent with the use of funds set out in that Prospectus and remains unchanged from the prior quarter.

⁴ OviTex and TELA Bio are trademarks of TELA Bio, Inc.

US sales

AROA's US commercial operations continued to build momentum, with the team's previous groundwork delivering wins in key hospitals and health systems. In the period since 1 April 2023 to date, these included approvals to sell to the Cleveland Clinic, Case Western, Ohio State University, Banner Health system and Valleywise Burns Center (previously known as Arizona Burn Center). AROA ended the quarter with 40 field and 8 inside sales representatives. Eight field sales representatives were at a current average run rate of at least US\$750,000 per annum (up from five in the previous quarter).

The Symphony launch, which is focused on the hospital outpatient department, is progressing to plan and remains well-positioned for success. The US CMS reimbursement proposal for CY24 was released on 13th July. Payments in the hospital outpatient department and physician office setting remain essentially unchanged. However, additional regulatory measures which are being imposed in relation to physician offices, are progressively expected to potentially favour products with high efficacy at a reasonable price.

AROA's sales and clinical teams attended and presented in-person, alongside key opinion leaders, at 12 major industry conferences, including sponsorship of the industry-leading conference, Symposium of Advanced Wound Care – Spring.

Enivo clinical study commenced

The first patient was enrolled in the Enivo pilot clinical study in June. The New Zealand-based study follows positive results from a peer-reviewed pre-clinical study published in October 2022 and is targeting enrolling 10 participants undergoing a simple unilateral mastectomy.

Clinical evidence

The Company continued to bolster the clinical evidence supporting the efficacy of its AROA ECM™ products, with four peer-reviewed studies published during the quarter. This included a retrospective study evaluating the use of Myriad Matrix as a non-invasive treatment for perianal fistula in 14 patients.

This is the first published research describing the outcomes of AROA's products in the treatment of these challenging soft tissue defects. The study titled "*Surgical management of perianal fistula using an ovine forestomach matrix implant*" was published in *Techniques in Coloproctology*, a leading international journal on the management of colorectal and pelvic floor diseases.⁵ It showed that 77% of perianal fistula treated with Myriad were fully healed within the study period. Additionally, no patients experienced post-procedural infections or adverse events prior to their last follow-up. The full study is available online [here](#).

A publication by an interprofessional working group convened by AROA on surgical reconstruction of stage 3 and 4 pressure injuries was selected as a finalist for 'Best Advance in Original Research' at the 2023 Advances in Skin Wound Care awards. The article⁶ proposes a surgical algorithm for stage 3 and

⁵ Hsu, A., K. Schlidt, C. R. D'Adamo, B. A. Bosque, S. G. Dowling and J. H. Wolf (2023). "Surgical management of perianal fistula using an ovine forestomach matrix implant." *Techniques in Coloproctology*.

⁶ Awad, S. S., J. D. Stern, C. T. Milne, S. G. Dowling, R. Sotomayor, E. A. Ayello, L. J. Feo Aguirre, B. Z. Khalaf, L. J. Gould, M. N. Desvigne and A. E. Chaffin (2023). "Surgical Reconstruction of Stage 3 and 4 Pressure Injuries: A Literature Review and Proposed Algorithm from an Interprofessional Working Group." *Advances in Skin & Wound Care* 36(5): 249-258.



4 pressure injury reconstruction with adjunctive use of negative pressure wound therapy and bioscaffolds such as Myriad Matrix (available [here](#)). It was published in the highly regarded peer-reviewed journal, *Advances in Skin & Wound Care* journal, which is jointly sponsoring the 2023 Advances in Skin Wound Care awards with the American Professional Wound Care Association.

MASTRR enrolment

Enrolments for AROA's Myriad Augmented Soft Tissue Regeneration Registry ('MASTRR') continued tracking well, with 24 patients and one study site added during the quarter. The information obtained from MASTRR will be used to evaluate AROA's Myriad Matrix and Myriad Morcells products (including short and long-term healing outcomes and any observed post-surgical complications) across a wide range of surgical specialties and procedures in the US and is targeting 300 patients across 10 sites.

Manufacturing operations

AROA continued investing in expanding its tissue manufacturing capacity and has taken delivery of an additional freeze dryer to at least double its freeze-drying capacity.

Appointment of Chief Operating Officer

In June, the Company announced the appointment of Scott Sherriff as Chief Operating Officer, effective July 3. Scott's most recent role was Chief Commercial Officer at New Zealand headquartered life sciences company, Douglas Pharmaceuticals.

Scott has previously held roles at global pharmaceutical companies Bayer Pharma Ag and Novartis.

Investor Relations

AROA maintained an active investor relations schedule during the period to date, with presentations at institutional conferences and to broker networks. These included presentations by Brian Ward, CEO at the 2023 Macquarie Australia Conference and the inaugural Wilsons & Craigs Investment Partners Rapid Insights Conference in Queenstown, New Zealand. James Agnew, CFO, presented at the 2023 Bioshares Biotech Summit in Hobart, Australia.

The Company hosted a well-attended investor meeting in Sydney, Australia on 1 June, including a presentation by Dr. Samir Awad, a key opinion leader, Professor of Surgery, and Vice Chair for Surgical Quality and Safety at the Baylor College of Medicine (US).

Within the last six months, Morgans initiated analyst coverage of AROA, adding to the coverage by Wilsons, Bell Potter, Jarden and Canaccord Genuity.⁷

Annual Reporting

The Company published its 2023 Annual Report during the quarter. Please click [here](#) to view the Report.

AROA's Annual General Meeting of shareholders is scheduled for 2 pm (NZST), 12 p.m. (AEST) on Thursday, 3 August 2023. Shareholders may attend in person at the Company's registered office

⁷ Unless expressly specified otherwise, AROA does not endorse the content of broker reports.



at 64 Richard Pearse Drive, Mangere, Auckland, New Zealand or register to attend online at:
https://us06web.zoom.us/webinar/register/WN_U17zg7nBQ2G78EmfKaeXiQ#/registration.

Quarterly webinar

The Company will hold a webinar with CEO Brian Ward and CFO James Agnew today, Monday 31 July at 9 a.m. AEST to discuss the June Quarterly Results.

Investors can register for the webinar via the following link:

https://us02web.zoom.us/webinar/register/WN_fs99KUI0SEWP3B5mRHzQ8g

Questions can be submitted prior to the webinar to investor@aroabio.com or live, via the Q&A function on Zoom.

<ENDS> 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 single-use 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. (US) 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).

APPENDIX A

In accordance with ASX Listing Rule 4.7C, AROA provides the following use of funds information, which remains unchanged from the prior quarter:

Use of funds	Prospectus Estimate NZ\$m	Actual Funds Used NZ\$m	Actual as a % of Estimate	Note
Investment in sales and marketing	\$5.0	\$5.0	100%	1
Investment in additional manufacturing capacity, investment in new products, plant and equipment and other general corporate capital expenditure	\$5.0	\$5.0	100%	2
Working capital, other operating costs	\$5.0	\$5.0	100%	3
Repayment of borrowings	\$13.1	\$11.1	85%	4
Offer costs	\$3.8	\$3.9	103%	5
Total	\$31.9	\$30.0	94%	

Notes:

1. Funds fully utilised for investment in new sales and marketing initiatives including the costs of over 20 direct sales personnel hired in Q4 FY21.
2. Funds fully utilised for investment in additional manufacturing capacity. capital expenditure for new products, plant and equipment and other general capital expenditure.
3. Funds fully utilised from net operating cash outflows since July 2020, excluding cash outflows relating to the investment in sales & marketing.
4. Full repayment of borrowings made during Q2 FY22. The variance between actual and estimate reflects the interest cost savings for early repayment and the favourable foreign exchange rate at the time of payment compared to the time of estimate.
5. Includes cash outflows prior to IPO.

Appendix 4C

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

Name of entity

Aroa Biosurgery Limited

ABN

ARBN 638 867 473

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows	Current quarter \$NZ'000	Year to date (3 months) \$NZ'000
1. Cash flows from operating activities		
1.1 Receipts from customers	15,152	15,152
1.2 Payments for		
(a) research and development	(468)	(468)
(b) product manufacturing and operating costs	(3,374)	(3,374)
(c) advertising and marketing	(3,545)	(3,545)
(d) leased assets	(8)	(8)
(e) staff costs	(11,003)	(11,003)
(f) administration and corporate costs	(2,064)	(2,064)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	541	541
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(140)	(140)
1.7 Government grants and tax incentives	84	84
1.8 Other (rent received)	-	-
1.9 Net cash from / (used in) operating activities	(4,825)	(4,825)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,010)	(1,010)
(d) investments	-	-
(e) intellectual property	(297)	(297)

Consolidated statement of cash flows	Current quarter \$NZ'000	Year to date (3 months) \$NZ'000
(f) other non-current assets	-	-
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 (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(1,307)	(1,307)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	14	14
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (lease liability payments)	(305)	(305)
3.10 Net cash from / (used in) financing activities	(291)	(291)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	44,722	44,722
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(4,825)	(4,825)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,307)	(1,307)

Consolidated statement of cash flows		Current quarter \$NZ'000	Year to date (3 months) \$NZ'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(291)	(291)
4.5	Effect of movement in exchange rates on cash held	227	227
4.6	Cash and cash equivalents at end of period	38,526	38,526

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 \$NZ'000	Previous quarter \$NZ'000
5.1	Bank balances	3,392	9,588
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (term deposits less than 90 days)	35,134	35,134
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	38,526	44,722

6.	Payments to related parties of the entity and their associates	Current quarter \$NZ'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	137
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 \$NZ'000	Amount drawn at quarter end \$NZ'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	-	-
7.2 Credit standby arrangements	877	277
7.3 Other (please specify)	-	-
7.4 Total financing facilities	877	277
7.5 Unused financing facilities available at quarter end		600
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.		
Includes the following: N/A		

8. Estimated cash available for future operating activities	\$NZ'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(4,825)
8.2 Cash and cash equivalents at quarter end (item 4.6)	38,526
8.3 Unused finance facilities available at quarter end (item 7.5)	600
8.4 Total available funding (item 8.2 + item 8.3)	34,301
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	7
<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: N/A	
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: N/A	
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: N/A	
<i>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.</i>	

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.

Date: 31 July 2023

Authorised by: By the board
(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.