



ADHERIUM LIMITED

ABN 24 605 352 510

ASX: ADR

APPENDIX 4E

PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED

30 JUNE 2019

Adherium Limited

ABN 24 605 352 510

Adherium Limited provides the following information under listing rule 4.3A:

Details of the reporting period and the previous corresponding period

- Reporting period 12 months ended 30 June 2019
- Previous corresponding period 12 months ended 30 June 2018

Results for announcement to the market

	12 months 30 June 2019 \$000	12 months 30 June 2018 \$000	Change \$000	Change %
Revenue from ordinary activities	2,779	5,867	(3,088)	(52.6)%
Profit (loss) from ordinary activities after tax attributable to members	(11,794)	(9,338)	(2,456)	(26.3)%
Net profit (loss) for the period attributable to members	(11,794)	(9,338)	(2,456)	(26.3)%
Dividends:				
Amount per Ordinary Share	Nil	Nil		
Franked amount per Ordinary Share	Nil	Nil		
Record date for determining entitlements to the dividends	N/A	N/A		
Net tangible asset backing per Ordinary Share	0.4 cents	7.2 cents		

Commentary on results

The second half of fiscal 2019 has been about refocussing the Adherium business in order to scale commercially. In early December 2018 the Board announced a reorganization to create a smaller, simpler, more dynamic operational structure, and from it has developed discrete programs with partners in line with scaling commercially. This reshaping of the business saw the discontinuation of a number of non-core activities, including the “direct-to-consumer” offering. The focus is now on overseeing development of enterprise solutions and supporting our current and new customers’ growth with Hailie™ (formerly Smartinhaler™) sensors and related software.

Adherium’s Hailie™ mobile patient app and physician platform has now been completely reconcepted, with strategic partner Arthur D. Little (ADL) and their Digital Practice. The ADL team have led the ground-up development of the next generation Hailie™ platform using a leading and globally scalable architecture model. This architecture leverages cloud-first, horizontally scalable and serverless design and is constructed using a microservices architecture with platform-agnostic languages. The Company believes the platform fully meets health regulatory compliance needs (including ISO 13485, HIPPA, GDR). Further, integration with customer platforms extending commercial deployment opportunities has now been made easier as the reconcepted platform is interoperable and meets emerging HL7/FHIR standards (enabling integration with EHR and other healthcare platforms) and can be easily “white-labelled” for customer-branding.

Importantly, the new architecture will enable Adherium to quickly enter markets that have stringent data protection regulation, by ensuring that data stays in the geographical boundaries as per regulatory requirements.

Revenue to 30 June 2019 was \$2,779,000, compared with \$5,867,000 in fiscal 2018. The reduction was due largely to a significant level of innovative product design and engineering service revenue of \$4,049,000 in the prior year, compared with \$1,280,000 in the current period. In addition, while sensor sale volume increased from 27,000 in the prior year to 28,000 in fiscal 2019, revenue declined from \$1,818,000 to \$1,499,000 due largely to promotional pricing as part of Adherium’s direct-to-consumer channel launch in calendar 2018. This promotional pricing also impacted gross margin on sensor sales.

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Research and development activities for the year ended 30 June 2019 amounted to \$5,120,000 compared with \$4,447,000 in the prior year. The increase was predominantly associated with the above-noted re-architecture of the Hailie™ mobile patient app and physician platform, but activities also included:

- Multiple clearances by the US FDA for “over-the-counter” (OTC) sales in the US. These included Adherium’s Hailie™ range of sensors for use with GSK’s Advair® Diskus®, Flovent Diskus®, Flixotide Accuhaler®, and Seretide Accuhaler®, Boehringer Ingelheim’s Spiriva® Handihaler®, and AstraZeneca’s Bevespi® medication. These clearances from the US FDA add to Adherium’s existing range of OTC cleared sensors and increase coverage to an estimated 80% of US asthma and COPD medications.
- Successful completion of US FDA and ISO 13485:2016 audits, with no significant findings arising.
- Continuing development of Hailie™ sensors, most recently to incorporate advanced diagnostic capabilities.

Sales and marketing costs were \$3,028,000 in the year to 30 June 2019, compared with \$3,687,000 in the prior year. The first half of fiscal 2019 predominantly related to the US focussed direct-to-consumer channel activities, and in the second half attention has been focussed on programmes with payers and providers in the US as well as territory pharmaceutical marketing companies. The rollout of our Hailie™ technology continues to gather pace through commercial deployments based on our new platform with customers around the world. Adherium is also supporting new clinical trials in Europe, expected to launch in the second half of calendar 2019.

Administration expenses reduced from \$5,412,000 in 2018 to \$4,345,000 in 2019 as a result of the reorganisation and the resultant reduction in corporate staff and rationalisation of overhead. Non-cash costs included asset depreciation and amortisation expense of \$413,000 (2018: \$310,000), and fixed asset write-offs associated with office closures in the re-organisation of \$270,000 (2018: nil).

Adherium ended fiscal 2019 with cash of \$763,000. Subsequent to year end, the Company completed negotiations for a secured funding facility with major shareholders and new investors, receiving commitments for \$1.8 million, and the ASX provided a waiver enabling participation by certain related parties. The terms of the funding and the ASX waiver were announced to the market on 22 August 2019, and can be found on the Company’s website at www.adherium.com.

Dividends

The board has not declared dividends or made dividend payments in the periods ended 30 June 2018 and 2019. The Company does not have any dividend or distribution reinvestment plans in operation.

Details of entities over which control has been gained or lost

There have been no changes in control over entities in the year ended 30 June 2019.

Details of associates and joint venture

Adherium does not have any associates or joint ventures.

Audit status

This Appendix 4E and the included financial information are based on financial statements which are in the process of being audited.

Financial report

The following financial report included in this Appendix 4E does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. The financial report should be read in conjunction with any public announcements made by Adherium Limited in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The accounting policies applied are the same as those noted in the most recent interim financial report and the previous annual report.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

		12 months June 2019 \$000	12 months June 2018 \$000
Continuing Operations			
Sales	1	2,779	5,867
Cost of sales		(1,133)	(1,099)
Gross profit		1,646	4,768
Grants income	1	279	503
Manufacturing support		(1,293)	(1,364)
Research and development costs		(5,120)	(4,447)
Sales and marketing costs		(3,028)	(3,687)
Administrative expenses		(4,345)	(5,412)
Operating loss		(11,861)	(9,639)
Interest income	1	71	301
Interest expense		(4)	-
Finance income (cost) - net		67	301
Loss before income tax	1	(11,794)	(9,338)
Income tax expense		-	-
Loss for the period attributable to equity holders		(11,794)	(9,338)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss when certain conditions are met:			
Foreign exchange differences on translation of foreign operation		(99)	(615)
Other comprehensive income for the period, net of tax		(99)	(615)
Total comprehensive loss for the period		(11,893)	(9,953)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(11,893)	(9,953)
Basic and diluted loss per share	3	(6.8) cents	(5.4) cents

The accompanying notes form part of this financial report.

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Consolidated Statement of Financial Position as at 30 June 2019

ASSETS	<i>Notes</i>	June 2019 \$000	June 2018 \$000
Current assets			
Cash and cash equivalents	4	763	12,118
Short term cash investments		-	427
Trade and other receivables	5	436	1,205
Inventories	6	417	509
Prepayments		156	281
Total current assets		1,772	14,540
Non-current assets			
Property, plant and equipment		380	515
Intangible assets		92	266
Total assets		2,244	15,321
LIABILITIES			
Current liabilities			
Trade and other payables		1,375	2,511
Income received in advance		39	-
Total current liabilities		1,414	2,511
EQUITY			
Share capital	7	74,349	74,349
Accumulated deficit		(46,952)	(35,158)
Other reserves		(26,567)	(26,381)
Total equity		830	12,810
Total liabilities & equity		2,244	15,321

The accompanying notes form part of this financial report.

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Consolidated Statement of Changes in Equity for the year ended 30 June 2019

	Share Capital	Accumulated Deficit	Share & Option Compensation Reserve	Foreign Currency Translation Reserve	Merger Reserve	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Equity as at 1 July 2018	74,349	(35,158)	1,097	57	(27,535)	12,810
Loss for the period	-	(11,794)	-	-	-	(11,794)
Other comprehensive income (loss)	-	-	-	(99)	-	(99)
Total comprehensive loss	-	(11,794)	-	(99)	-	(11,893)
<i>Transactions with owners:</i>						
Share and option grants for services	-	-	(87)	-	-	(87)
Equity as at 30 June 2019	74,349	(46,952)	1,010	(42)	(27,535)	830

	Share Capital	Accumulated Deficit	Share & Option Compensation Reserve	Foreign Currency Translation Reserve	Merger Reserve	Total Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Equity as at 1 July 2017	74,278	(25,820)	1,110	672	(27,535)	22,705
Loss for the period	-	(9,338)	-	-	-	(9,338)
Other comprehensive income (loss)	-	-	-	(615)	-	(615)
Total comprehensive loss	-	(9,338)	-	(615)	-	(9,953)
<i>Transactions with owners:</i>						
Shares issued on option exercise	71	-	-	-	-	71
Share and option grants for services	-	-	(13)	-	-	(13)
Equity as at 30 June 2018	74,349	(35,158)	1,097	57	(27,535)	12,810

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Consolidated Statement of Cash Flows for the year ended 30 June 2019

	<i>Notes</i>	12 months June 2019 \$000	12 months June 2018 \$000
Cash flows from operating activities:			
Receipts from customers		3,526	5,363
Receipts from grants		337	570
Interest received		84	299
Resident withholding tax refunded (paid)		2	15
Payments to employees		(7,555)	(8,014)
Payments to suppliers		(8,201)	(8,057)
Net cash used in operating activities		(11,807)	(9,824)
Cash flows from investing activities:			
Short term cash investments maturing (deposited)		436	(408)
Purchase of property, plant and equipment		(325)	(325)
Purchase of intangible assets		-	(169)
Net cash used in investing activities		111	(902)
Cash flows from financing activities:			
Proceeds from the exercise of options	7	-	71
Net cash provided from financing activities		-	71
Net increase (decrease) in cash		(11,696)	(10,655)
Cash at the beginning of the period		12,118	22,779
Effect of exchange rate changes on cash balances		341	(6)
Cash at the end of the period	4	763	12,118
Reconciliation with loss after income tax:			
Loss after income tax		(11,794)	(9,338)
<i>Non-cash items requiring adjustment:</i>			
Depreciation of property, plant and equipment		263	212
Amortisation of intangible assets		150	98
Fixed assets (gain)/loss on disposal		270	-
Share and option compensation expense		(88)	(13)
Foreign exchange (gain) loss		(510)	(633)
<i>Changes in working capital:</i>			
Trade and other receivables		952	(582)
Inventories		114	185
Trade and other payables		(1,203)	251
Income received in advance		39	(4)
Net cash provided from (used in) operating activities		(11,807)	(9,824)

The accompanying notes form part of this financial report.

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Notes to the condensed consolidated financial statements for the year ended 30 June 2019

	12 months June 2019 \$000	12 months June 2018 \$000
1. Revenues and expenses		
(a) Income from continuing operations		
Sensor sales and monitoring services	1,499	1,818
Engineering and other services	1,280	4,049
Grant income	279	503
Interest income	71	301
Total income from continuing operations	<u>3,129</u>	<u>6,671</u>
(b) Loss before income tax includes the following specific expenses:		
Depreciation of property, plant and equipment	263	212
Amortisation of intangible assets	150	98
Operating lease costs	422	465
Employee benefits expense		
- Wages and salaries	6,036	8,315
- Share option compensation	(106)	(56)
Total employee benefits expense	<u>5,930</u>	<u>8,259</u>

2. Segment Information

The chief operating decision maker is the Chief Executive Officer, who reviews financial information for the Group as a whole. The information reviewed is prepared in the same format as included in the financial statements. The Company has therefore determined that one reportable segment exists for the Company's Hailie™ (formerly known as Smartinhaler™) business.

3. Earnings per share

Basic loss per share is based upon the weighted average number of outstanding ordinary shares. For all periods presented, the Company's potentially dilutive ordinary share equivalents (being the options over ordinary shares) have an anti-dilutive effect on loss per share and, therefore, have not been included in determining the total weighted average number of ordinary shares outstanding for the purpose of calculating diluted loss per share.

	12 months June 2019 \$000	12 months June 2018 \$000
Profit (loss) after income tax attributable to equity holders	<u>(11,794)</u>	<u>(9,338)</u>
Weighted average shares outstanding (basic and diluted)	<u>173,896,088</u>	<u>173,440,493</u>
Basic and diluted loss per share	<u>(6.8) cents</u>	<u>(5.4) cents</u>

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4. Cash and cash equivalents and short-term investments

	June 2019 \$000	June 2018 \$000
Cash at bank and on hand	145	400
Deposits at call	618	11,718
	<u>763</u>	<u>12,118</u>

5. Trade and other receivables

	June 2019 \$000	June 2018 \$000
Trade receivables and accruals	287	975
Grant income accrued	72	117
GST and other taxes receivable	34	72
Security deposit	43	41
	<u>436</u>	<u>1,205</u>

6. Inventories

	June 2019 \$000	June 2018 \$000
Raw materials and components	194	218
Finished goods	223	291
	<u>417</u>	<u>509</u>

7. Share capital

	Ordinary Shares	\$000
Share capital as at 1 July 2017	171,849,192	74,278
Shares issued in employee share plans	3,032,072	-
Cancellation of shares issued in employee share plans	(1,554,329)	-
Shares issued on option exercise	946,997	71
	<u>174,273,932</u>	<u>74,349</u>
Share capital as at 30 June 2018	174,273,932	74,349
Cancellation of shares issued in employee share plans	(7,258,581)	-
	<u>167,015,351</u>	<u>74,349</u>

8. Events occurring after the balance sheet date

Subsequent to the balance sheet date, Adherium received subscription commitments from existing shareholders and new investors for \$1.8 million of secured debt notes (2019 Notes) to be issued by the Company. The 2019 Notes contain terms for their conversion into ordinary shares and options over ordinary shares which are subject to approval by shareholders at the next general meeting. Until conversion, the 2019 Notes are secured by charges over the assets of the Company and its wholly owned New Zealand subsidiary.

There are no other events occurring after the balance sheet date which require disclosure or adjustment in the financial statements as at the date of this report.