



ADHERIUM LIMITED

ABN 24 605 352 510

ASX: ADR

APPENDIX 4E

PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED

30 JUNE 2020

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 2020
- Previous corresponding period 12 months ended 30 June 2019

Results for announcement to the market

	12 months 30 June 2020 \$000	12 months 30 June 2019 \$000	Change \$000	Change %
Revenue from ordinary activities	2,218	2,779	(561)	(20.2)%
Profit (loss) from ordinary activities after tax attributable to members	(11,397)	(11,794)	397	3.4%
Net profit (loss) for the period attributable to members	(11,397)	(11,794)	397	3.4%
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	0.6 cents	0.4 cents		

Commentary on results

Following the reorganisation in fiscal 2019 and the refocussing of the Adherium business in order to scale commercially, the 2020 year has been about taking those steps to implement the revised strategy to target reimbursement opportunities in the US within remote patient monitoring and telehealth services. These steps have included:

1. Building a new highly qualified management team which has seen the appointment during the year of James Ward-Lilley as Chairman, Mike Motion as CEO, Anne Bell as CFO, Geoff Feakes as CTO and Jane Lapon as Head of Pricing & Reimbursement;
2. Melbourne-based healthtech innovation and commercialisation company Planet Innovation has been retained as Adherium's strategic R&D partner. A number development work streams are now underway in both hardware and software to capture physiological measures in the Hailie® platform which will support access to reimbursement by physicians and providers; and
3. To support commercialisation initiatives funding was obtained through the issue of \$2.9 million of Convertible Notes, and a \$5.4 million Rights Issue to shareholders and new investors. Significant contributors to this funding included existing shareholders K One W One and Fidelity International, and new investors EGP Capital and Trudell Medical. In addition and most recently, a \$5 million share placement to the BioScience Managers Translation Fund 1 has been completed.

Progress has already been made in entering the US disease management market in the US. Relationships have been established with strategic partners HGE Health, a full-service remote COPD disease management specialist in the US, and Monaghan Medical Corporation, the specialist US respiratory device subsidiary of the Trudell Medical Group, a globally recognised leader in the manufacture and supply of innovative, high-quality, patient-oriented aerosol drug delivery devices and respiratory management solutions. Programmes involving Adherium's Hailie® solution in a US-based COPD patient population have already commenced.

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Revenue to 30 June 2020 was \$2,218,000, compared with \$2,779,000 in fiscal 2019. The reduction occurred across both sensors sales and engineering services on reduced customer orders, although per unit revenue on the 14,000 sensors delivered in 2020 was higher than in 2019 when 28,000 were sold, but included promotional pricing as part of Adherium's direct-to-consumer channel launch in calendar 2018. This promotional pricing also impacted gross margin in the previous year.

Research and development activities for the year ended 30 June 2020 amounted to \$3,953,000 compared with \$5,120,000 in the prior year. The reduction was predominantly associated with the significant re-architecture of the Hailie® mobile patient app and physician platform in the prior year. Current year activities have included:

- customer specific feature development and customisation in the Hailie® mobile patient app and platform to support notifications for remote patient monitoring by physicians;
- investigation of integrations with country specific health platforms in Europe and Asia;
- strategic sensor and software development work with Planet Innovation to enhance Adherium's leading device coverage position in both asthma and COPD with sensors and software developed to capture and integrate physiological data and enable physician monitoring and reimbursement activity in the US.

Sales and marketing costs were \$1,766,000 in the year to 30 June 2020, compared with \$3,028,000 in the prior year. This reduction was largely a result of a full year of the more focussed organisational structure in fiscal 2020 compared to fiscal 2019. Sales and marketing initiatives in the current year have been very focussed and targeted in the US resulting in the relationships with HGE Health and Monaghan Medical noted above.

Administrative expenses reduced from \$4,345,000 in 2019 to \$3,769,000 in 2020, again as a result of the full year impact of the reorganisation undertaken in the previous year and the resultant reduction in corporate staff and rationalisation of overhead. Non-cash costs included asset depreciation and amortisation expense of \$335,000 (2019: \$413,000), and fixed asset write-offs associated with further office rationalisation of \$32,000 (2019: \$270,000).

While cost reductions were achieved across all areas compared to the previous year, the loss for the year was not significantly reduced at \$11,397,000 compared to \$11,794,000 in 2019. This was due largely to the financing cost of \$2,601,000 in the year to 30 June 2020 related to the Convertible Notes prior to their conversion into shares and options. This financing cost is a non-cash expense and arose under accounting treatments from recognising finance charges and fair value measurements on the debt and derivate elements respectively of the Convertible Notes.

Adherium ended the year to 30 June 2020 with cash of \$4,584,000. In addition, subsequent to year end, and following approval by shareholders, the balance of \$1.9 million of the \$5 million investment commitment from BioScience Managers Translation Fund 1 was received.

Dividends

The board has not declared dividends or made dividend payments in the periods ended 30 June 2019 and 2020. 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 2020.

Details of associates and joint venture

Adherium does not have any associates or joint ventures.

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Audit status

This Appendix 4E and the included financial information are based on the audited financial statements contained in the Company's Annual Report for the year ended 30 June 2020. The unqualified opinion contained in the independent audit report on those financial statements included an emphasis of matter regarding material uncertainty related to going concern, noting the dependency on raising additional capital or alternative funding until the Company is supported by cash flows from operations, and referencing the Company's expectation that this additional funding would be required by the end of calendar year 2020.

The Company's Annual Report for the year ended 30 June 2020 can be obtained from the Company's website www.adherium.com.

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 Annual Report for the year ended 30 June 2020.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020

		12 months June 2020 \$000	12 months June 2019 \$000
Continuing Operations			
Sales	1	2,218	2,779
Cost of sales		(814)	(1,133)
Gross profit		1,404	1,646
Grants income	1	-	279
Manufacturing support		(727)	(1,293)
Research and development costs		(3,953)	(5,120)
Sales and marketing costs		(1,766)	(3,028)
Administrative expenses		(3,769)	(4,345)
Operating loss		(8,811)	(11,861)
Finance income	1	15	71
Finance expense	7	(2,601)	(4)
Finance income (cost) - net		(2,586)	67
Loss before income tax	1	(11,397)	(11,794)
Income tax expense		-	-
Loss for the period attributable to equity holders		(11,397)	(11,794)
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		(209)	(99)
Other comprehensive income for the period, net of tax		(209)	(99)
Total comprehensive loss for the period		(11,606)	(11,893)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(11,606)	(11,893)
Basic and diluted loss per share	3	(3.6) cents	(6.8) cents

The accompanying notes form part of this financial report.

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Consolidated Statement of Financial Position as at 30 June 2020

ASSETS	<i>Notes</i>	June 2020 \$000	June 2019 \$000
Current assets			
Cash and cash equivalents	4	4,584	763
Trade and other receivables	5	624	436
Inventories	6	1,120	417
Prepayments		150	156
Total current assets		6,478	1,772
Non-current assets			
Property, plant and equipment		235	380
Intangible assets		5	92
Total assets		6,718	2,244
LIABILITIES			
Current liabilities			
Trade and other payables		2,646	1,375
Income received in advance		688	39
Total current liabilities		3,334	1,414
EQUITY			
Share capital	8	87,682	74,349
Accumulated deficit		(58,349)	(46,952)
Other reserves		(25,949)	(26,567)
Total equity		3,384	830
Total liabilities & equity		6,718	2,244

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 2020

	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 2019	74,349	(46,952)	1,010	(42)	(27,535)	830
Loss for the period	-	(11,397)	-	-	-	(11,397)
Other comprehensive income (loss)	-	-	-	(209)	-	(209)
Total comprehensive loss	-	(11,397)	-	(209)	-	(11,606)
<i>Transactions with owners:</i>						
Share and option grants for services	177	-	116	-	-	293
Non-renounceable Rights Issue	5,392	-	-	-	-	5,392
Shares and options issued on conversion of Convertible Notes	4,816	-	711	-	-	
Shares issued in Placement	3,128	-	-	-	-	5,527
Share issue costs	(180)	-	-	-	-	3,128
						(180)
Equity as at 30 June 2020	87,682	(58,349)	1,837	(251)	(27,535)	3,384

	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>						
Shares issued on option exercise	-	-	(87)	-	-	(87)
Share and option grants for services	-	-	-	-	-	-
Equity as at 30 June 2019	74,349	(46,952)	1,010	(42)	(27,535)	830

The accompanying notes form part of this financial report.

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Consolidated Statement of Cash Flows for the year ended 30 June 2020

	<i>Notes</i>	12 months June 2020 \$000	12 months June 2019 \$000
Cash flows from operating activities:			
Receipts from customers		2,731	3,526
Receipts from grants		-	337
Interest received		15	84
Resident withholding tax refunded (paid)		13	2
Payments to employees		(2,736)	(7,555)
Payments to suppliers		(7,340)	(8,201)
Net cash used in operating activities		(7,317)	(11,807)
Cash flows from investing activities:			
Short term cash investments maturing (deposited)		-	436
Purchase of property, plant and equipment		(138)	(325)
Purchase of intangible assets		-	-
Net cash used in investing activities		(138)	111
Cash flows from financing activities:			
Proceeds from the issues of shares	7	8,520	-
Proceeds from the issue of Convertible Notes		2,926	-
Payment of capital raising costs		(105)	-
Net cash provided from financing activities		11,341	-
Net increase (decrease) in cash		3,886	(11,696)
Cash at the beginning of the period		763	12,118
Effect of exchange rate changes on cash balances		(65)	341
Cash at the end of the period	4	4,584	763
Reconciliation with loss after income tax:			
Loss after income tax		(11,397)	(11,794)
<i>Non-cash items requiring adjustment:</i>			
Depreciation of property, plant and equipment		249	263
Amortisation of intangible assets		86	150
Fixed assets (gain)/loss on disposal		32	270
Convertible notes finance cost		2,601	-
Share and option compensation expense		116	(88)
Shares granted for services		177	-
Foreign exchange (gain)		(144)	(510)
<i>Changes in working capital:</i>			
Trade and other receivables		(178)	952
Inventories		(720)	114
Trade and other payables		1,203	(1,203)
Income received in advance		658	39
Net cash provided from (used in) operating activities		(7,317)	(11,807)

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 2020

	12 months June 2020 \$000	12 months June 2019 \$000
1. Revenues and expenses		
(a) Income from continuing operations		
Sensor sales and monitoring services	1,171	1,499
Engineering and other services	1,047	1,280
Grant income	-	279
Interest income	15	71
Total income from continuing operations	<u>2,233</u>	<u>3,129</u>
(b) Loss before income tax includes the following specific expenses:		
Depreciation of property, plant and equipment	249	263
Amortisation of intangible assets	86	150
Operating lease costs	93	422
Employee benefits expense		
- Wages and salaries	3,039	6,036
- Share option compensation	91	(106)
Total employee benefits expense	<u>3,130</u>	<u>5,930</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 2020 \$000	12 months June 2019 \$000
Profit (loss) after income tax attributable to equity holders	<u>(11,397)</u>	<u>(11,794)</u>
Weighted average shares outstanding (basic and diluted)	<u>316,010,977</u>	<u>173,896,088</u>
Basic and diluted loss per share	<u>(3.6) cents</u>	<u>(6.8) cents</u>

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4. Cash and cash equivalents and short-term investments

	June 2020 \$000	June 2019 \$000
Cash at bank and on hand	114	145
Deposits at call	4,470	618
	<u>4,584</u>	<u>763</u>

5. Trade and other receivables

	June 2020 \$000	June 2019 \$000
Trade receivables and accruals	489	287
Grant income accrued	-	72
GST and other taxes receivable	115	34
Security deposit	20	43
	<u>624</u>	<u>436</u>

6. Inventories

	June 2020 \$000	June 2019 \$000
Raw materials and components	1,021	194
Finished goods	99	223
	<u>1,120</u>	<u>417</u>

7. Convertible Notes

During the year to 30 June 2020 the Company issued Secured Debt Notes with a face value of \$2,926,000 and maturity date of 31 January 2020. The terms of the Notes included conversion features, which were subject to shareholder approval. These entitled the noteholders to convert the Notes and accrued interest to ordinary shares and options at a discount to the market price of the ordinary shares, or for the Notes and accrued interest to mandatorily convert to shares and options should the Company raise \$2.5 million or more of capital prior to maturity. Shareholder approval of the conversion features was received in November 2019.

The Notes were accounted for as two separate liability components from their issue dates – the debt portion recorded at amortised cost and the embedded derivative conversion option recorded at fair value. In accounting for the debt portion of the Notes, settlement was assumed to take place on 29 January 2020 with interest accruing at 9% to that date. The calculation of the fair value of the embedded derivative conversion option took into account the probability of shareholders approving the conversion features, the market price of the ordinary shares, potential discount options, and the fair value of options that would be granted on conversion.

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On the Company raising \$5.4 million in the Rights Issue completed in January 2020, the Notes mandatorily converted into 137,597,321 ordinary shares and 27,519,467 options over ordinary shares, with an exercise price of \$0.0219 per option, expiring 29 January 2027.

Convertible Notes	Debt component at amortised cost	Embedded derivative conversion option at fair value	Total
	\$000	\$000	\$000
Recognition at Note issue	933	1,993	2,926
Financing cost:			
- Amortised cost	2,080	-	2,080
- Fair value change	-	521	521
Total financing cost	2,080	521	2,601
Carrying value at conversion	3,013	2,514	5,527
Conversion:			
- Shares issued			4,816
- Options issued			711
			5,527

8. Share capital

	Ordinary Shares	\$000
Share capital as at 1 July 2018	174,273,932	74,278
Cancellation of shares issued in employee share plans	(7,258,581)	-
Share capital as at 30 June 2019	167,015,351	74,349
Shares issued in employee share plans	7,016,635	-
Shares issued in Non-renounceable Rights Issue	179,723,413	5,392
Shares issued on conversion of Convertible Notes	137,597,321	4,816
Shares issued in placement	104,261,036	3,128
Shares issued for services	6,292,578	177
Shares issue cost	-	(180)
Share capital as at 30 June 2020	601,906,334	87,682

9. Events occurring after the balance sheet date

In May 2020, the Company agreed a \$5 million investment commitment from the BioScience Managers Translation Fund 1 (BMTF1). The first tranche of \$3.1 million (104,261,036 ordinary shares) was received in June 2020.

Subsequent to the balance sheet date, shareholder approval was received to proceed with the balance of the investment and in August 2020 the Company received \$1.9 million from BMTF1 and allotted a further 62,405,631 ordinary shares and 83,333,333 options with an exercise price of 6 cents for option and expiry date of 17 February 2022.

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