



ADHERIUM LIMITED

ABN 24 605 352 510

ASX: ADR

APPENDIX 4E

PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED

30 JUNE 2018

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 2018
- Previous corresponding period 12 months ended 30 June 2017

Results for announcement to the market

	12 months 30 June 2018 \$000	12 months 30 June 2017 \$000	Change \$000	Change %
Revenue from ordinary activities	5,867	2,347	3,520	150.0%
Profit (loss) from ordinary activities after tax attributable to members	(9,338)	(12,810)	3,472	27%
Net profit (loss) for the period attributable to members	(9,338)	(12,810)	3,472	27%
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	7.2 cents	13.1 cents		

Commentary on results

Adherium is pleased to report achievement of all of its milestones set at the beginning of the 2018 fiscal year. Revenue this year was \$5.9 million, up 150% on 2017 and within guidance given of between \$5.7 million and \$7.0 million; 27,000 Hailie™ (previously known as Smartinhaler™) sensors were sold, with over 25,000 to AstraZeneca as forecasted; the Hailie™ solution was launched online in the United States in June 2018; and closing cash was \$12.1 million compared with the minimum of \$10 million forecasted.

The milestones were achieved across three strategic channels:

- BioPharma Partner volumes with AstraZeneca met guidance, at over 25,000 sensors. In addition, new device design, development and regulatory approval programs achieved the targets needed to support customer roll-outs, while at the same time generating significant revenue for the Company. Notably, Adherium gained two US FDA 510(k) clearances in the year for its Hailie™ sensor for use with AstraZeneca's Symbicort® asthma medication in the US, the most recent being over-the-counter (OTC) clearance to enable sales direct to consumers;
- The direct to consumer program commenced at the beginning of fiscal 2018 with the launch of the New Zealand pilot through an online eCommerce store. Vik Panda, VP of Marketing was hired in Q2, and further development of the online offering and OTC clearances culminated in the US online launch in June 2018 with a target of 1,000 subscribing customers within the first three months. Subscribing customers are anticipated to be acquired through a combination of online store, retailers, pharmacies and consumer product partners looking to add value to their products in the market place;
- For payers and providers, Adherium has the best supporting clinical outcome data in reducing hospitalisations due to poorly controlled asthma. To initiate this channel in the US, Tim Houchin, VP of

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Sales, was appointed in Q3 to focus on payers and providers and in Q4 announced its first program in this channel with Vitalus Health in the southwest region of the United States, targeting patients with chronic obstructive pulmonary disease (COPD) using Adherium's technology.

Revenue was up 150% on the prior year, at \$5,867,000. This increase resulted from:

- Sensor volume increasing from 18,000 in 2017 to over 27,000 in 2018. Commercial to clinical volume continued to increase from a ratio of 25:75 in the first half of fiscal 2017, to 95:5 in 2018, demonstrating a valuable shift in the Company's operations with less focus on clinical business, and significantly increased focus on commercial; and
- The commercialisation with AstraZeneca of innovative product design, engineering and other services which amounted to \$4,049,000 for the period.

Research and development activities for the year ended 30 June 2018 amounted to \$4,447,000 and included:

- Clearance in August 2017 by the US FDA of Adherium's 510(k) application for its SmartTouch™ for Symbicort®. This device has been designed for AstraZeneca's Symbicort® medication that is marketed in the US as a pressurised Metered Dose Inhaler (pMDI), as compared with the Turbuhaler marketed in most other countries in the world and for which Adherium supplies its SmartTurbo device, branded for AstraZeneca as Turbu+;
- Following the initial 510(k) clearance for SmartTouch™ for Symbicort® the Company submitted an application to extend this to over-the-counter (OTC) sales directly to consumers. This OTC clearance was received in March 2018, enabling support of AstraZeneca's Symbicort® medication sales in the US as well as Adherium's direct to consumer and payer initiatives;
- Adherium gained its US FDA 510(k) clearance for its SmartTouch™ device for GlaxoSmithKline (GSK) medications in 2014 and in fiscal 2018 submitted an application to extend this to an OTC clearance. This was received in July 2018, enabling the Company's Hailie™ solution to be sold to users of ProAir®, Ventolin® and Flovent® aerosol asthma inhalers;
- Ongoing development of our mobile apps (iOS and Android) and cloud software platform, enabling self-enrolment by patients, as well as developing an online portal for healthcare professionals and clinicians to provide patient-group data collection and reporting from Hailie™ sensors. This platform will support engagement between healthcare professionals and patients by enabling sharing and monitoring of patient inhaler usage; and
- Continued development of a new SmartTouch™ sensor (ADR ST19) for an inhaled respiratory drug currently in development and scheduled by the drug's owner for clinical trials in calendar 2018.

Sales and marketing expenses were \$3,687,000 for the year. Following a reorganisation at the end of fiscal 2017, the majority of sales and marketing activities are now based in the US where Adherium is headquartered in San Mateo, California. Milestones through the year include:

- Appointment of Vik Panda as Vice President of Marketing, with proven experience in direct to consumer online community growth through digital marketing;
- The addition of Tim Houchin as its Vice President of Sales, bringing over 20 years US sales experience, including key relationships with insurance carriers, and will be primarily responsible for Adherium's US direct to payer channel;
- Initiation of a program with Vitalus Health in the southwest region of the United States, targeting patients with chronic obstructive pulmonary disease (COPD) using Adherium's technology;

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- Launch of Adherium's new Hailie™ global brand and solution, comprising the OTC-cleared Hailie™ sensors, the Hailie™ mobile app, and cloud platform to connect people with asthma and COPD to better care; and
- Launch of Adherium's online direct to consumer channel in both the US and New Zealand.

Administrative expenses of \$5,412,000 included the key hire, Arik Anderson, as Adherium's Chief Executive Officer based in the US, as well as recruitment of the US based Chief Financial Officer role, with David Allinson appointed in the second half of fiscal 2018. Non-cash costs in the six months included a share and option compensation credit of \$13,000 due to employee share plan reversals following the reorganisation completed during the first half of fiscal 2018 (2017: \$478,000 expense), and depreciation and amortisation expense of \$212,000 (2017: \$234,000).

Cash at 30 June 2018 was \$12,118,000, a net use of \$10,661,000 in the year. Included in this net use was \$408,000 invested in cash term deposits in the June 2018 quarter with a maturity greater than three months resulting in its classification as a short-term investment rather than cash under accounting rules.

Dividends

The board has not declared dividends or made dividend payments in the periods ended 30 June 2017 and 2018. 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 2018.

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 2018

		12 months June 2018 \$000	12 months June 2017 \$000
Continuing Operations			
Sales	1	5,867	2,347
Cost of sales		(1,099)	(1,186)
Gross profit		4,768	1,161
Grants income	1	503	409
Manufacturing support		(1,364)	(1,179)
Research and development costs		(4,447)	(4,242)
Sales and marketing costs		(3,687)	(3,312)
Administrative expenses		(5,412)	(6,260)
Operating loss		(9,639)	(13,423)
Interest income	1	301	613
Interest expense		-	-
Finance income (cost) - net		301	613
Loss before income tax	1	(9,338)	(12,810)
Income tax expense		-	-
Loss for the period attributable to equity holders		(9,338)	(12,810)
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		(615)	22
Other comprehensive income for the period, net of tax		(615)	22
Total comprehensive loss for the period		(9,953)	(12,788)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(9,953)	(12,788)
Basic and diluted loss per share	3	(5.4) cents	(7.6) cents

The accompanying notes form part of this financial report.

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Consolidated Statement of Financial Position as at 30 June 2018

ASSETS	<i>Notes</i>	June 2018	June 2017
		\$000	\$000
Current assets			
Cash and cash equivalents	4	12,118	22,779
Short term investments	4	427	-
Trade and other receivables	5	1,205	826
Inventories	6	509	726
Prepayments		281	78
Total current assets		14,540	24,409
Non-current assets			
Property, plant and equipment		515	417
Intangible assets		266	265
Total assets		15,321	25,091
LIABILITIES			
Current liabilities			
Trade and other payables		2,511	2,382
Income received in advance		-	4
Total current liabilities		2,511	2,386
EQUITY			
Share capital	7	74,349	74,278
Accumulated deficit		(35,158)	(25,820)
Other reserves		(26,381)	(25,753)
Total equity		12,810	22,705
Total liabilities & equity		15,321	25,091

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 2018

	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	-	-	-	(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

	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 2016	66,720	(13,010)	632	650	(27,535)	27,457
Loss for the period	-	(12,810)	-	-	-	(12,810)
Other comprehensive income	-	-	-	22	-	22
Total comprehensive loss	-	(12,810)	-	22	-	(12,788)
<i>Transactions with owners:</i>						
Ordinary shares issued	8,023	-	-	-	-	8,023
Share issue costs	(511)	-	-	-	-	(511)
Shares issued on option exercise	46	-	-	-	-	46
Share and option grants for services	-	-	478	-	-	478
Equity as at 30 June 2017	74,278	(25,820)	1,110	672	(27,535)	22,705

The accompanying notes form part of this financial report.

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Consolidated Statement of Cash Flows for the year ended 30 June 2018

	<i>Notes</i>	12 months June 2018 \$000	12 months June 2017 \$000
Cash flows from operating activities:			
Receipts from customers		5,363	2,363
Receipts from grants		570	506
Interest received		299	601
Resident withholding tax refunded (paid)		15	(9)
Payments to employees		(8,014)	(6,333)
Payments to suppliers		(8,057)	(8,709)
Net cash used in operating activities		(9,824)	(11,581)
Cash flows from investing activities:			
Purchase of short term investments		(408)	-
Purchase of property, plant and equipment		(325)	(362)
Purchase of intangible assets		(169)	(202)
Net cash used in investing activities		(902)	(564)
Cash flows from financing activities:			
Proceeds from the issue of shares	7	-	8,023
Proceeds from the exercise of options	7	71	46
Payment of capital raising costs	7	-	(511)
Net cash provided from financing activities		71	7,558
Net increase (decrease) in cash		(10,655)	(4,587)
Cash at the beginning of the period		22,779	27,211
Effect of exchange rate changes on cash balances		(6)	155
Cash at the end of the period	4	12,118	22,779
Reconciliation with loss after income tax:			
Loss after income tax		(9,338)	(12,810)
<i>Non-cash items requiring adjustment:</i>			
Depreciation of property, plant and equipment		212	234
Amortisation of intangible assets		98	36
Share and option compensation expense		(13)	478
Foreign exchange (gain) loss		(633)	(74)
<i>Changes in working capital:</i>			
Trade and other receivables		(582)	80
Inventories		185	(303)
Trade and other payables		251	875
Income received in advance		(4)	(97)
Net cash provided from (used in) operating activities		(9,824)	(11,581)

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 2018

	12 months June 2018 \$000	12 months June 2017 \$000
1. Revenues and expenses		
(a) Income from continuing operations		
Sensor sales and monitoring services	1,818	2,347
Engineering and other services	4,049	-
Grant income	503	409
Interest income	301	613
Total income from continuing operations	<u>6,671</u>	<u>3,369</u>
(b) Loss before income tax includes the following specific expenses:		
Depreciation of property, plant and equipment	212	234
Amortisation of intangible assets	98	36
Operating lease costs	465	459
Employee benefits expense		
- Wages and salaries	8,315	6,787
- Share option compensation	(56)	416
Total employee benefits expense	<u>8,259</u>	<u>7,203</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 2018 \$000	12 months June 2017 \$000
Profit (loss) after income tax attributable to equity holders	<u>(9,338)</u>	<u>(12,810)</u>
Weighted average shares outstanding (basic and diluted)	<u>173,440,493</u>	<u>169,431,030</u>
Basic and diluted loss per share	<u>(5.4) cents</u>	<u>(7.6) cents</u>

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4. Cash and cash equivalents and short-term investments

	June 2018 \$000	June 2017 \$000
Cash at bank and on hand	400	138
Deposits at call	11,718	22,641
	<u>12,118</u>	<u>22,779</u>

In addition to cash and cash equivalents, short-term investments of \$427,000 (June 2017: nil) represent cash deposits with maturities between three and nine months.

5. Trade and other receivables

	June 2018 \$000	June 2017 \$000
Trade receivables and accruals	975	449
Grant income accrued	117	203
GST and other taxes receivable	72	135
Security deposit	41	39
	<u>1,205</u>	<u>826</u>

6. Inventories

	June 2018 \$000	June 2017 \$000
Raw materials and components	218	277
Finished goods	291	449
	<u>509</u>	<u>726</u>

7. Share capital

	Ordinary Shares	\$000
Share capital as at 1 July 2016	151,219,925	66,720
Ordinary share issued	16,046,097	8,023
Share issue costs	-	(511)
Shares issued in employee share plans	4,797,095	-
Cancellation of shares issued in employee share plans	(708,383)	-
Shares issued on option exercise	494,458	46
	<u>171,849,192</u>	<u>74,278</u>
Share capital as at 30 June 2017		
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		

8. Events occurring after the balance sheet date

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