

## Half Year Results 1HFY23 & Capital Raise Update

### Highlights:

- 1HFY23 Product Sales increased 92%yoy to US\$10.0m
- 1HFY23 Direct Product Sales increased 226% yoy
- 1HFY23 Gross Margin of 68% v 81% pcp reflects changing product mix
- 1HFY23 Underlying EBITDA loss of US\$8.3m v US\$6.6m pcp
- 1HFY23 record cash receipts increasing 118% yoy to US\$9.1m
- A\$12m (before costs) institutional and sophisticated investor placement completed
- A\$10m Walker Group convertible notes to be retired and replaced with share subscription commitment, conditional upon shareholder approval
- Share Purchase Plan to be launched on 1 September 2023 to raise up to an additional A\$5m (before costs), with the right to receive oversubscriptions
- Offer to accredited US investors to be launched on 1 September 2023 to raise up to an additional A\$1.5m (before costs)
- Revenue for 2HFY23 expected to be between US\$16m and US\$19m
- Positive EBITDA and cashflow expected during 2HFY24.

**Sydney Australia Thursday, 31 August 2023:** Next Science Limited (ASX: NXS) (**Next Science or Company**), a medical technology company focused on commercialising its proprietary XBIO™ suite of products to reduce the impact of biofilm-based infections in human health, is pleased to announce its half-year results for the six months ended 30 June 2023, a successful capital raising to institutional and sophisticated investors and the launch of a share purchase plan.

### Product Sales

Product Sales for 1HFY23 increased 92% yoy to a record US\$10.0m. As noted in our June quarterly activity report, Company performance has shown significant growth through 1HFY23. The new Wound Care initiative of offering reimbursed Collagen with BLASTX™ continued to drive performance, with significant growth continuing in the direct XPERIENCE™ business.

Our direct sales team continues to drive the Company's performance and be the leading source of growth, contributing 72% of Product Sales in 1HFY23, up from 42% in 1HFY22.

Next Science ended 1HFY23 with a sales team of 45 across all direct channel product lines, as compared with 23 in 1HFY22. Sales productivity is building with 50% of the Wound Care team reaching an annualised sales rate of US\$500k.

### **Wound Care**

The Wound Care business through the Durable Medical Equipment (DME) structure had a strong result, with clear improvement in prescriber adoption and sales productivity. Prescriber adoption increasing 85% qoq to 819. The Wound Care sales team has more than doubled since 4Q22 from 15 to 37.

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Wound Care sales for 1HFY23 increased over 600% yoy and the DME business increased 99% qoq for the June quarter, reflecting the impact of adoption by high volume wound care centres (WCC) who have been seeking access to BLASTX™ and can now do so through the DME structure. Next Science has now sourced sales volume from approximately 200 out of the 1,800 WCC market in a relatively short space of time, evidence of the demand by Prescribers for access to the unique Collagen / BLASTX™ combination.

Reimbursement for wound care treatment is claimed through Medicare and a range of private payors. The DME is now selling in 42 States across the US. Next Science expects to continue to build its coverage through the private payor market in 2HFY23, further enhancing the predictability of the business.

## **Surgical**

The Surgical business continued to build momentum at a steady pace. Direct Product Sales of XPERIENCE™ increased 65% yoy for 1HFY23. The hospital customer base increased a further 43% yoy to over 200 hospitals. In accordance with the standard insurance cycle, we expect to see stronger growth in 2HFY23 where patients seek to take advantage of reaching their deductible thresholds.

Next Science has appointed 31 new distributors YTD, bringing the contract distribution network to a sales team of over 200, achieving net growth in the distribution footprint. Further net growth in distributors is expected through the course of 2HFY23.

High volume utilisation remains at 10% of customers on a slightly larger footprint, with a second-tier group of customers continuing to build utilisation.

Next Science's top 15 customers now represent less than 44% of XPERIENCE™ sales and concentration has been reducing through the period, demonstrating increasing customer diversification. As the distribution network grows and adoption continues to develop, we expect the concentration of the revenue base to further reduce.

## **First GPO Contract**

Next Science recently announced that it signed a contract with leading Group Purchasing Organisation (GPO) HealthTrust to provide its members access to XPERIENCE™, which commenced on 1 August 2023.

HealthTrust is a leading GPO in the US serving 1,600 hospitals and 43,000 alternate sites of care including ambulatory surgery centres, physician practices and long-term care centres.

This contractual win is a significant milestone in our commercial strategy to leverage the power of our advanced surgical irrigation solution to combat surgical site infection (SSI), and deliver significant benefit to hospitals, clinicians, and patients.

SSIs are a leading cause of hospital acquired infection (HAI) at an incidence rate of c.20%<sup>1</sup> and a mortality rate of c.3%.<sup>2</sup> By addressing biofilm-based infection in people, Next Science expects to demonstrate a material reduction in overall SSI rates.

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<sup>1</sup> Surgical site infections are the most common and costly of hospital infections; Guidelines for preventing surgical site infections are updated; Loyola University health System. January 19, 2017.

<sup>2</sup> <https://pubmed.ncbi.nlm.nih.gov/22913334/>

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**We note that our annualised sales run-rate has improved through 1HFY23, and the business is on track to substantially exceed the performance reported for FY22.**

## **Clinical Data**

### **Potential Anti-Inflammatory Benefit of XPERIENCE™**

On 9 August 2023, Next Science announced the release of a study into mitigating inflammation post Total Knee Arthroplasty (TKA).

Dr Andrew B. Wickline, MD, FAAOS has released the findings of a pilot study which demonstrated 54% lower inflammation within 14 days compared to the common reference standard.

The study was a 60-patient double-arm study incorporating Dr. Wickline's current strategies to reduce inflammation, with the first group of patients receiving a 3-minute sterile dilute iodine lavage (current industry standard), and, the second group of patients receiving Next Science's advanced surgical irrigation solution, XPERIENCE™.

The study concluded that the lower inflammation outcome, even compared to Dr Wickline's low baseline inflammation rate, resulted in:

- 5-degree increase in range of motion throughout the study period
- 10%-20% improvement in pain score throughout the study period
- 18% lower opioid usage for pain relief at day 7 improving to 70% less usage at day 42, with XPERIENCE™ patients eliminating opiate use in half the time of control patients.
- The significant swelling reduction at several time points is statistically significant. The findings are encouraging and warrant a further multicentre study with a larger patient cohort and additional surgeons.

It is well established that improved range of motion, reduced pain, and accelerated return to mobility correlate to a reduced risk of adverse post-surgical events. These events include potentially fatal complications such as deep vein thrombosis (DVT) and pulmonary embolism (PE) as well as depression, a decline in overall health, and lack of satisfaction with the surgery. Therefore, these results suggest that use of XPERIENCE™ in total knee arthroplasty may have an important impact on health outcomes.

Despite the small sample size, the investigator found a statistically significant ( $P = 0.01$  at day 14) swelling reduction at several time points. The findings are encouraging and warrant a further multicentre study with a larger patient cohort.

Dr. Wickline will be presenting the findings of the pilot study at a number of conferences over the next several months, as detailed in the 9 August 2023 ASX release.

Dr Wickline has informed the Company that he intends to submit the study data for publication in a peer reviewed journal.

This presents as a commercially significant opportunity where surgeons / hospitals see the necessity of using XPERIENCE™ to improve patient outcomes, reduce healthcare cost and subsequently, health system financial performance.

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Next Science expects the findings from the pilot study will assist with the Value Assessment Committee process in larger hospital groups to approve the use and adoption of XPERIENCE™.

A video presentation of the study can be found under the Activity Updates tab of the Company's Investor Hub.

## Periprosthetic Joint Infection Study

Recruitment for the 7,600-patient study into Periprosthetic Joint Infection (PJI) through the Ottawa Hospital Research Institute in Canada (**Canada PJI study**) is up to 88 patients enrolled in the first site. Other sites are pending completion of contracts. This study will be one of the largest orthopaedic studies conducted.

This clinical trial (prospective, multi-centre, double-arm, parallel, interventional, randomised, controlled) will assess the rate of periprosthetic joint infection (<90 days post-surgery) in patients undergoing primary total knee arthroplasty, total hip arthroplasty or hip resurfacing (HR) with XPERIENCE™ Advanced Surgical Irrigation versus dilute iodine.

The scale of the study is designed as part of our objective of XPERIENCE™ becoming standard of care. Next Science will report on progress with recruitment on a quarterly basis.

## New Patents advancing the Intellectual Property of XPIO™

Next Science was granted two patents on 15 August 2023 relating to Disc Degeneration Disease (DDD) and Ciliated Cavities.

### Disc Degeneration Disease

U.S. Patent No. 11,723,860 "COMPOSITIONS AND METHODS FOR TREATING INTERVERTEBRAL DISCS," expiring November 2038.

The patent refers to a non-surgical method for treating herniated discs with a single image-guided lumbar injection, thus delaying, or negating the need for surgical intervention.

The evidence implicating *C. acnes* biofilms in the manifestation of disc herniation continues to grow<sup>3</sup>. The incidence of symptomatic herniated lumbar discs is estimated to be between 1-2% and over 480,000 discectomies are performed annually in the United States, with recurrence rates after surgery of 3–18%.<sup>4</sup>

The annual cost of healthcare in the US resulting from DDD is estimated at US\$90bn.<sup>5</sup>

### Ciliated Cavities

U.S. Patent No. 11,672,773, "METHODS FOR TREATING CILIATED CAVITIES," expiring December 2041.

The patent indicates that XPIO™ technology may be suitable for introduction into cilia-containing areas of the body including sinus cavities and the middle ear.

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<sup>3</sup> <https://www.ijssurgery.com/content/13/2/146>

<sup>4</sup> <https://neurosurgery.imedpub.com/determining-the-extent-of-lumbar-discectomyin-patients-with-herniated-lumbar-discs.php?aid=8269>

<sup>5</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7536794/>

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The patent refers to a possible treatment for otitis media with effusion as well as possibly preventing recurrence of infection in the middle ear.

Within the coverage of the patent, X BIO™ technology may also aid in removal of the bioburden from the sinuses that is minimally ciliotoxic and could be beneficial in clearing the sinuses and preventing recurrence, particularly during endoscopic sinus surgery.

The annual treatment cost of Otitis Media in the US was US\$2.9bn in 2020.<sup>6</sup> Indicative expenditure of chronic sinusitis is over US\$10bn pa, with the principal driver being sinus surgery costs of at least US\$8,500 per case.<sup>7</sup>

Both patents may offer licensing opportunities with potential development partners.

## **Operating Cashflow**

Net operating cash outflows were US\$7.8m for 1HFY23, as compared with an outflow of US\$6.3m for the same period last year.

1HFY23 cash receipts increased 118% yoy to a record US\$9.1m, whereas payments to suppliers and employees increased 60% to US\$17.0m.

In 2QFY23 operating cash flows improved 7% qoq. The result reflects:

- Cash receipts growth of 40% qoq as compared with cash cost growth of 15% qoq
- Scale efficiencies beginning to come through in the DME
- Staff costs increasing 25% to support growth in Wound Care sales and support functions

Record cash receipts reflect a material improvement in the business. The cash receipts to revenue ratio improved to 95% from 83% at 1QFY23.

Cash receipts are expected to improve further in 2HFY23 and become more predictable through increasing the number of private payor insurance contracts executed through the year, thereby transitioning out-of-network coverage to in-network.

We expect growth in operating costs to moderate over 2HFY23, through scale efficiencies in the supply chain and DME customer acquisition costs, as well as more moderate growth in the sales team.

Cash on hand at 1HFY23 was US\$3.5m.

## **Capital Raise Update**

Next Science is pleased to announce that it has successfully completed a placement to institutional and sophisticated investors raising A\$12 million (before costs) (**Placement**) at a price of A\$0.42 (**Placement Price**) within the Company's ASX Listing Rule 7.1 placement capacity. Approximately 28.57 million new fully paid ordinary shares in the Company will be issued under the Placement.

The Placement received strong support from existing and new eligible investors with applications exceeding the Company's placement capacity.

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<sup>6</sup> <https://www.contemporarypediatrics.com/view/high-cost-acute-otitis-media>

<sup>7</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7883602>

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Funds raised from the Placement will be used for:

- promotion of XPERIENCE™ research
- resourcing to service the HealthTrust opportunity
- expansion of the DME sales force
- expansion of a second fulfillment site for the DME
- provide general working capital

Shares issued under the Placement will rank equally with existing Next Science ordinary shares on issue. Settlement of the shares issued under the Placement will take place on 5 September 2023, with allotment of the new shares expected to occur on 6 September 2023. Trading of these shares is expected to commence on ASX on 7 September 2023.

## **Share Purchase Plan & US Offer**

Next Science is pleased to offer eligible shareholders the opportunity to participate in the Company's capital raising via a Share Purchase Plan (**SPP**) at the same price as institutional and sophisticated investors of A\$0.42 (**SPP Offer Price**) to raise up to a further A\$5 million (before costs).

The SPP Offer Price represents a 35.4% discount to the closing price of Next Science shares on the ASX on 28 August 2023 being \$0.65 per share and a 33.2% discount to the 5-day VWAP of \$0.628 as at the same date.

The Company has applied to ASX for a waiver of Listing Rule 7.1 to permit the Company to offer new shares under the SPP at the SPP Offer Price (being A\$0.42), without shareholder approval. In the event that the waiver is not granted, the Company intends to seek shareholder approval to issue new shares under the SPP at the SPP Offer Price and the issue of the new shares would be conditional on receipt of such shareholder approval.

The SPP will provide each eligible shareholder with the opportunity to apply for up to A\$30,000 worth of new shares at the Offer Price.

Existing shareholders of the Company who:

- (i) have a registered address in Australia and New Zealand as at 7.00pm (Sydney time) on 30 August 2023; and
- (ii) are not in the United States or acting for the account or benefit of a person in the United States,

will be eligible to participate in the SPP.

In the event of oversubscriptions, the SPP may be subject to a scale back of applications. Shares issued under the SPP will rank equally with existing Next Science fully paid ordinary shares on issue.

The SPP offer document (**Offer Booklet**) containing further details of the SPP is expected to be released on the ASX on Friday, 1 September 2023, being the date on which the SPP will open, and dispatched to eligible shareholders in Australia and New Zealand on or about 4 September 2023.



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## **Indicative Timetable\*\***

Event	Date, 2023
Record Date for the SPP	7.00pm Wednesday, 30 August
Announcement of SPP	Thursday, 31 August
Opening - SPP and US Placement	Friday, 1 September
Settlement of the Institutional Placement	Tuesday, 5 September
Allotment of New Shares under the Institutional Placement	Wednesday, 6 September
Closing Date - SPP and US Placement	Monday, 18 September
Allotment of New Shares under the SPP and US Placement	By Monday, 25 September
Shareholder Meeting to approve the issue of shares to Next Science substantial holder, Walker Group and Director participation in the Placement	Est. late October
Issue of Walker Subscription Shares and Director Placement Shares	5 Business Days after the Meeting

*\*\* These dates are indicative only and are subject to change. Next Science reserves the right, subject to the Corporations Act 2001 (Cth) and the ASX Listing Rules, to amend this indicative timetable. In particular, Next Science reserves the right to extend the Closing Date, accept late applications under the SPP Offer (either generally or in particular cases), and to withdraw or vary the Placement, the US Placement or SPP Offer without prior notice. Any extension of the closing date will have a consequential effect on the date for the allotment and issue of New Shares. The timetable in respect of the Placement can only be amended by Next Science with the agreement of the Lead Managers.*

## **US Offer**

Next Science is pleased to announce that it is also conducting a US offer to accredited US investors to raise up to a further A\$1.5 million (before costs) utilising the Company's remaining placement capacity under ASX Listing Rule 7.1 (US Offer). The US Offer will open on the same date as the SPP, Friday, 1 September 2023, and will remain open for the same period. The US Offer seeks to address expressions of interest from surgeons and distributors of the Company's product.

## **Director Placement**

Two Directors, Next Science Chair, Aileen Stockburger and Non-Executive Director, Grant Hummel, have applied to participate in the Placement, subject to shareholder approval for ASX LR10.11 purposes.

## **Redemption of Notes**

In conjunction with the Placement, the Company announces that it has agreed with Walker Group Holdings Pty Limited (Walker Group) on the retirement of the A\$10m convertible notes held by Walker Group on the basis that the redemption amount of A\$10m plus accrued interest will be offset against a share subscription commitment by Walker Group at the Placement Price, conditional upon shareholder approval.

The settlement and issue of shares to Walker Group is subject to shareholder approval as Walker Group and its associates are the beneficial owner of around 39% of Next Science's

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issued capital and if approved, will occur after the general meeting which is expected to be held in October 2023.

## **Outlook**

Next Science has had a strong period of business performance with significant growth across our key product lines and built momentum going into 2HFY23.

The commencement of the HealthTrust GPO contract is a significant milestone for the business as it provides Next Science with access to 1,600 hospitals, compared to the current 200+ in our portfolio, and access to 170,000 joint surgeries per year, which represents about 10% of the current hip and knee joint market. This presents a significant opportunity to open new accounts and expand our field representation.

The combination of the study by Dr. Wickline and the release of forthcoming retrospective research on XPERIENCE™ is expected to make a meaningful impact to the Company's efforts to commercialise the X BIO™ technology platform within the surgical arena, in advance of the Canadian PJI study with enrolment progressing in line with expectations.

The new patents on DDD and ciliated cavities, expand the scope of the X BIO™ technology platform, and provide licensing optionality that the Company will consider with a view to maximising shareholder value.

The development of the direct sales channel continues to drive strong growth for the Company, with an acceleration of growth through 1HFY23. The direct sales approach is proving successful with 72% of sales sourced from this channel in the half-year period, and 77% of sales from this channel in 2QFY23.

Through the half-year period, Next Science rapidly expanded its presence in the high volume WCC channel to build upon the foundations laid in the Private Office (PO) market. Penetration into the WCC channel will continue with significant runway ahead. Next Science is also beginning to enter the Long-Term Acute Care (LTAC) and Skilled Nursing Facilities (SNFF) channels where we expect further opportunity to drive revenue expansion and channel diversification in the commercial wound care market.

## **Guidance**

In conjunction with the capital raising, Next Science provides the following guidance encompassing the remainder of 2023 and through 2024:

- Revenue for 2H FY23 is expected to be between US\$16m and US\$19m, compared to US\$6.3m in 2H FY22
- Year on year revenue growth is expected to exceed 85% in CY24
- Positive EBITDA and cashflow expected during 2H CY24
- Next Science emerges from the capital raising with a strong balance sheet and no debt
- The capital raising supports incremental investment in sales and distribution, to be managed in line with sales productivity and performance

## **Managing Director and CEO Comment**

**Commenting on Next Science's outlook, Managing Director and CEO, I.V. Hall said** "I am delighted with the strong level of support for the placement, and I wish to thank existing shareholders for their continued support and welcome new shareholders to our register. This new funding will ensure we can accelerate our growth through both the surgical and wound



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care businesses to capitalise on the opportunities in front of us and enable us to maximise shareholder value.

The last six months has shown positive trends for the business with sales growth nearly doubling over the previous year. This includes exponential growth in the wound business, particularly with the DME doubling sales in the June quarter. Securing our first GPO contract with HealthTrust is a major milestone for the surgical business, and we look forward to the expanded access patients will now have for our advanced surgical irrigation product, XPERIENCE™. The recent release of clinical data adds to the efficacy profile of our XBIO™ platform, and the new patents adds to the intellectual property behind the technology and further commercial pathways that can be considered. The growth in our business is providing a pathway to achieving a positive EBITDA in 2024.

As Next Science's new Managing Director and CEO, I am excited by the prospects for our business and the opportunities that are presenting themselves across both the wound care and surgical businesses. I look forward to the opportunity to engage with all our stakeholders, and to bring them along the journey toward changing standard of care for patients across the different applications for our XBIO™ technology."

## **Next Science Investor Hub**

Next Science welcomes direct engagement and encourages shareholders and interested parties to visit the Next Science Investor Hub which provides additional background information, videos and a forum for stakeholders to communicate with each other and with the Company. Stakeholders can access the Investor Hub through the following link:

<https://investorhub.nextscience.com/announcements>

## **Further Information:**

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Approved and authorised for release by the Board of Directors.

## **About Next Science**

Next Science is a medical technology company headquartered in Sydney, Australia, with a research and development centre in Florida, USA. Established in 2012, the company's primary focus is on the development and continued commercialisation of its proprietary XBIO™ technology to reduce the impact of biofilm-based infections in human health. XBIO™ is a unique, non-toxic technology with proven efficacy in eradicating both biofilm-based and free-floating bacteria. Next Science owns 100% of the patent protected intellectual property relating to its XBIO™ technology. For further information visit: [www.nextscience.com](http://www.nextscience.com)

## **Forward looking statements**

This announcement may contain forward looking statements which may be identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may" and other similar words that involve risks and uncertainties. Such statements are not guarantees of

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future performance and involved known and unknown risks uncertainties, assumptions and other important factors, many of which are beyond the control of Next Science or its Directors and management and could cause Next Science's actual results and circumstances to differ materially from the results and circumstances expressed or anticipated in these statements. The Directors cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.