

ASX Release

Oventus Quarterly Business Review Q2 FY2021

Key highlights:

- **Oventus reports record quarter of device sales and strong increase in collections despite COVID-19 impacted trading environment:**
 - **Booked revenue increased 20% quarter on quarter (QoQ) and 192% compared to the prior corresponding period to A\$301k**
 - **Cash receipts for quarter of A\$251k, up 53% on the previous quarter and 124% on the prior corresponding period**
- **Lab in Lab (LIL) deal funnel continued to grow during the quarter, valued at over A\$100m in potential annualised revenue as at 31 December 2020**
- **64 LIL sites contracted, 36 launched and 24 scanning patients**
- **Agreement with US national member organisation VGM & Associates driving rollout and adoption of telehealth and remote treatment model**
- **Cash balance at quarter end of A\$4.8m**

Brisbane, Australia 21 January 2021: Obstructive Sleep Apnea (OSA) treatment innovator, Oventus Medical Ltd or the Company (ASX: OVN) is pleased to release its Appendix 4C and quarterly business activities review for the three-month period ended 31 December 2020 (Q2 FY2021).

Oventus Founder and CEO, Dr Chris Hart commented, “We are proud to report that Q2 was the best quarter of O2Vent Optima device sales to date, even though the bricks and mortar patient treatment environment remained heavily hampered by COVID-19. December was the best month on record.

After two earlier quarters of very promising progress, the Oventus business model was further adjusted during the December quarter to leverage further increased use of telehealth. We launched a national Lab in Lab (LIL) marketing agreement with VGM & Associates, the largest US network of respiratory care providers in the US. The onboarding of Oventus as a preferred vendor has been completed and the marketing of Oventus technology to VGM members is currently underway.

The agreement between Oventus and VGM represents the first time a dentist-supervised oral appliance program has been offered in the US Durable Medical Equipment setting on a national basis and is a watershed moment in the evolution of the LIL program. Under the agreement, VGM will promote our Lab in Lab program to 2,500+ members as a preferred supplier of oral appliance therapy, with the early feedback being extremely positive.”

Revenues and cash receipts continue to grow

Booked revenue (device sales, consumables, and service fees) for Q2 FY2021 increased 20% QoQ to A\$301k, and 192% compared to the prior corresponding period. This growth was driven by a mix of LIL sites that remained operational, continuing to scan patients, an expansion of the telehealth extension of the LILL program and an increase in direct sales to dentists who are delivering Oventus treatments in their own dental practices as well as being involved in the LIL program.

Cash receipts for Q2 FY2021 totalled A\$251k, up 53% from A\$164k in the previous quarter and up 124% from A\$112k in the prior corresponding period.

The booked revenue is greater than the collected revenue in Q2 FY2021 due to the significant increase in booked revenue QoQ and the longer sell cycle (up to 90 days)¹ from booked revenues to collection of cash receipts. The difference is expected to be collected in the coming quarter as has previously been the case.

The Company's cash balance at the end of the quarter was A\$4.83m, providing over three quarters of cash before the addition of growing revenues. Net cash used for operating activities totalled A\$1.56m for the December quarter, down slightly from Q1 FY2020 (A\$1.6m), resulting from the Company's ongoing cost management program and access to government grants and funding. Payments to related parties for director compensation during the December quarter totalled A\$177,000.

More LIL sites contracted, launched and scanning patients

At the end of the December quarter, Oventus had contracts with 64 LIL sites (57 in Q1 FY2021). Of those sites, 36 had been launched (27 in Q1 FY2021) and 24 sites were physically scanning patients (15 in Q1 FY2021 and 14, pre COVID-19).

Once fully launched, 49 of 64 sites have monthly quotas of 20 units per month and 15 of 64 sites have monthly quotas of 10 units per month, with the potential to generate A\$13.6m annualised revenue once fully operational.

Of all those LIL sites contracted to date, in the last two quarters, agreements with 6 LIL sites have been terminated due to COVID-19-related hardship or poor performance.

Oventus' LIL deal funnel continued to grow during the period, finishing the December quarter valued at over A\$100m in potential annualised revenue, not including the outstanding commercial potential in the recently signed marketing agreement with VGM.

¹ See ASX announcement dated 11 October 2019

Landmark agreement with VGM & Associates

As announced to the ASX on 23 November, Oventus signed a marketing agreement with VGM & Associates, the largest Member Service Organisation (MSO) for durable medical equipment providers in the US, including those that provide sleep and respiratory services for their patients.

Under the agreement, VGM is promoting Oventus' LIL program to 2,500+ members as a preferred supplier of oral appliance therapy. With this significant base exceeding 7,000 locations, the agreement sees Oventus well positioned to significantly expand its distribution and footprint within the US.

This partnership creates the opportunity to offer millions of patients an alternative, effective treatment for obstructive sleep apnea. In the event that a patient fails to adhere to, or refuses CPAP therapy, they will be recommended an O₂Vent as an alternative treatment option in the same facility. The process will utilise the same or similar workflow used to offer CPAP and therefore shorten the patient journey and bring more patients into care. This, in turn, increases access to Oventus' technology and generates additional revenue that these distributors of CPAP would not otherwise have access to.

The agreement is initially for a one-year term, with an automatic annual renewal, unless a party elects not to renew 90 days prior to the end of that term.

As has been the case with the implementation of previous agreements, there is a lead time to revenue of several months. However, the number of sites and patients involved is very significant and is expected to make a large contribution to growth in CY2021.

Cost of Goods improvement initiatives continuing

In order to improve the margin on device sales, Oventus is undertaking a number of projects to increase efficiency in order to continue to reduce costs. Through this process, the Company is targeting gross margin improvements on device sales for the remainder of FY2021.

Outlook

Patient flow is currently subdued, meaning that current sites are trending under their monthly quotas – this is expected to continue in the near term.

In response to this, the Company is relaunching existing sites and launching additional sites to provide a broader base to build revenue from.

Although growth will likely be variable, as the Company launches more sites and patient flow increases to more normal levels with greater conversion rates, Oventus expects revenue growth to continue through CY2021.

While ExVent is currently available in Australia and Canada, the ExVent 510k application has been delayed further due to COVID-19. However, the Company expects this application to be finalised this quarter.

As well as site launches, relaunches and maximising device sales, Oventus' strategic focus for the remainder of FY2021 is as follows:

- Continue contract negotiations for additional LIL sites
- Reduction of COGS combined with investment into accelerating revenue build to increase cashflow from operations
- 510k FDA approval for ExVent in the US
- Launch LIL program in other markets with strategic partners

We look forward to keeping the market updated with further material progress.

—ENDS—

For further information, please visit our website at www.o2vent.com or contact the individuals outlined below.

Dr Chris Hart, Managing Director and CEO: M: +61 409 647 496 or investors@oventus.com.au

Jane Lowe, IR Department: M: +61 411 117 774 or jane.lowe@irdepartment.com.au

About Oventus – see more at www.o2vent.com

Oventus is a Brisbane-based medical device company that is commercialising a unique treatment platform for obstructive sleep apnea (OSA) and snoring. The Company has a collaborative Sleep Physician/Dental strategy that streamlines patients' access to treatment. The Oventus lab model incorporates digital technology via intra oral scanning to achieve operational efficiencies, accuracy and ultimately patient outcomes.

Unlike other oral appliances, O2Vent Optima devices manage the entire upper airway via a unique and patented built-in airway. O2Vent Optima devices allow for airflow to the back of the mouth while maintaining an oral seal and stable jaw position, avoiding multiple obstructions from the nose, soft palate and tongue. The devices reduce airway collapsibility and manage mouth breathing while keeping the airway stable.

O2Vent Optima devices are designed for any patient that is deemed appropriate for oral appliance therapy, but especially beneficial for the many people that suffer with nasal congestion, obstruction and mouth breathing. The O2Vent Optima allows nasal breathing when the nose is unobstructed, but when obstruction is present, breathing is supplemented via the airway integrated in the appliance.

The ExVent® is a valve accessory that fits into the open airway of the O2Vent Optima device, to augment traditional oral appliance therapy by stabilizing the airway. The ExVent valve contains air vents that open fully

on inhalation for unobstructed airflow. The valve closes on exhalation, directing the air through the vents, creating the mild resistance or airway support required to keep the airway stable (known as PEEP, positive end expiratory pressure).

According to a report published by the Sleep Health Foundation Australia, an estimated 1.5 million Australians suffer with sleep disorders and more than half of these suffer with obstructive sleep apnea^[1].

Continuous positive airway pressure (CPAP) is the most definitive medical therapy for obstructive sleep apnea, however many patients have difficulty tolerating CPAP^[2]. Oral appliances have emerged as an alternative to CPAP for obstructive sleep apnea treatment^[3]. The O2Vent Optima and ExVent provide a discreet and comfortable alternative to CPAP for the treatment of OSA.

^[1] Deloitte Access Economics. Reawakening Australia: the economic cost of sleep disorders in Australia, 2010. Canberra, Australia.

^[2] Beecroft, et al. Oral continuous positive airway pressure for sleep apnea; effectiveness, patient preference, and adherence. Chest 124:2200–2208, 2003

^[3] Sutherland, Kate, et al. "Oral appliance treatment for obstructive sleep apnea: an update." Journal of Clinical Sleep Medicine 10.2 (2014): 215-227.

Appendix 4C

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

Name of entity

OVENTUS MEDICAL LIMITED

ABN

12 608 393 282

Quarter ended ("current quarter")

31 DECEMBER 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	251	415
1.2 Payments for		
(a) research and development	(176)	(261)
(b) product manufacturing and operating costs	(181)	(294)
(c) advertising and marketing	(235)	(426)
(d) leased assets	-	-
(e) staff costs	(1,535)	(2,716)
(f) administration and corporate costs	(485)	(940)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	22	33
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	783	1,032
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,556)	(3,157)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(82)	(125)
(d) investments	-	-
(e) intellectual property	(269)	(298)
(f) other non-current assets	(18)	(27)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
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	(369)	(450)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	9
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	(13)	(41)
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 (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(13)	(32)
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,760	8,455
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,556)	(3,157)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(369)	(450)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(13)	(32)
4.5	Effect of movement in exchange rates on cash held	11	17
4.6	Cash and cash equivalents at end of period	4,833	4,833

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 \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,833	6,760
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,833	6,760

6. Payments to related parties of the entity and their associates		Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	177
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

7. Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
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.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,556)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,833
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,833
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.11
<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:	
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:	
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:	
<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: 21 January 2021

Authorised by: 

Dr. Chris Hart (Managing Director and CEO)
(By the Board of Directors)

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.

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