

Executive Chairman's Letter – FY21 Results

Hydrix Limited (ASX: **HYD**) attaches a letter from the Executive Chairman in relation to its FY21 Results.

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Authorisation: This announcement is authorised for release by the Board of Directors of Hydrix Limited.

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About Hydrix Limited

Hydrix Limited (ASX: **HYD**) is a powerful product innovation company. Hydrix purpose is to enhance the health, safety, and wellbeing of one Billion lives. The company leverages its powerful product innovation capability across multiple growth platforms: **Hydrix Services** design and engineer client products which transform industries; **Hydrix Ventures** generate equity returns through investing in high potential companies; and **Hydrix Medical** bring innovative medical technologies to market.

31 August 2021

Dear Fellow Shareholders,

I would like to begin with a personal note of gratitude to our investors, each Hydrix employee, the Board members, our customers, suppliers, and business partners. You all play a critical and pivotal role in our collective purpose and bold vision *to improve a billion lives*.

Our vision, purpose and stated objectives will drive, sustain, and guide us for the next 20-plus years. It will be our compass and measurement through which we create significant growth trajectory to build a formidable business enterprise and achieve superior stakeholder returns.

FY 2021 Business Highlights

We are pleased with milestone achievements over the past year which affirm our transformation to a high growth medical technology Company, whereby we:

- Made seven sales and implants of the AngelMed Guardian, the world's only implantable heart-attack detection device, establishing market credibility for the technology ahead of planned commercial sales;
- Completed significant regulatory milestones advancing us closer to commercial sales of the Guardian;
- Invested in sales and business development to drive growth in future product sales and product development services;
- Recorded receipts from customers of \$9.9 million and net cash used in operating activities of \$1.9 million;
- Increased our MedTech Ventures portfolio value by 27% to \$2.85 million; and
- Recapitalised the company, paid off all secured debt, ended with \$6.6 million cash on hand.

HYDRIX OBJECTIVE: BUILD A GLOBAL MEDTECH COMPANY

Our vision is to *improve a billion lives*. To achieve this, our Mission is to develop, invest in, and commercialise new and innovative medical technologies: Products which satisfy unmet needs, significantly improve patient quality of life, and reduce cost burdens of chronic health diseases on global healthcare systems. We believe we have the Talent and know-how to pick high potential MedTech product winners to deliver superior stakeholder value.

The successful execution of Hydrix investment strategy is focused on three important value drivers: **Talent, Strategy, Risk (TSR)**. Each strategic initiative we undertake must pass a simple test: *it fits the company purpose; it is good for customers; we can deliver; and the company can create value for all stakeholders*. I will describe briefly what we are doing in each of these key value drivers.

Talent (T) Focused on Business Development

We are future proofing our human resource infrastructure to support our 2025 global growth objectives. We are focused on how best to evolve our employee value proposition to exceed the needs of a more agile, work anywhere, anytime workforce; one that is capable of adapting to a more complex world that restricts face to face engagement traditional to building deeply connected, enduring relationships.

Over the last 12 months we strengthened our high calibre talent pool across product engineering, program management, regulatory, clinical, and importantly, our cardiac medical device sales and operations leadership.

We ended the year with 70 employees located across Australia, USA, Europe, and Singapore. Hydrix annual employee engagement survey results increased substantially year on year to the Company's highest ever recorded level; *proof-positive our talent management strategy is working.*

The majority of employees are in product development services and business development. We have capacity and know-how across the Company to grow and create sustainable value.

Strategy (S) Product Innovation & Commercialisation Know-how Driving Growth

In 2021, a majority of Hydrix revenues were product development services provided to external clients; many of those clients are developing emerging cardiovascular technologies. While revenues to external clients were down 50% year on year, some product development resources were expended on Ventures efforts which provide potential for future equity returns in lieu of fee revenues.

The carrying value of Hydrix ventures grew 27% to \$2.85 million during the year. The portfolio value could grow more than five-fold as commercialisation milestones are achieved by our investee companies over the next 24 months and beyond. Investment returns, in the future, can be reinvested to fund further growth opportunities.

A primary focus for Hydrix is investing in the large addressable market of cardiovascular device technologies:

- cardiovascular disease is the world's leading cause of death at 31%;
- afflicts 14% of the global population; and
- represents a US\$60 billion global market growing at a CAGR of 6.9%.

Into the future, we expect a majority of Hydrix revenues will be from sales of high margin MedTech and cardiac products. Over the past 18 months, we acquired the rights to exclusively distribute unique cardiac devices in the APAC Region and are currently evaluating several more. Current products include:

- the world's only patient implantable heart attack warning system (AngelMed Guardian);
- and a unique surgical pressure sensing catheter guidewire (Phyzhon).

The Guardian market opportunity alone has potential to be a significant catalyst for Hydrix. For example, the Guardian:

- satisfies an unmet need for more than 500,000 APAC-region patients suffering annually from acute coronary syndrome events (*including silent heart attacks*);
- there is no competitive product;
- predicate market pricing in the USA and Singapore can deliver strong gross profit margins;
- capturing even 1% to 3% of the unmet market need equates to annual product revenues to Hydrix of \$35 million (~5,000 units) to \$100 million (~15,000 units); and
- on these volumes and gross profit margins, would deliver strong cash flow earnings.

Hydrix has decades of know-how in cardiac product development, and sales and marketing distribution to compete. A successful market launch can be a catalyst to access additional MedTech products, venture investing, and product development opportunities. Subject to the timing of regulatory and reimbursement approvals, we anticipate commencing Guardian product sales in calendar year 2022.

Risk (R) To Deliver Commensurate Rewards

To achieve growth and create value requires appropriate risk-taking and implementation of enterprise risk-management systems. The business is well led and governed. The Board and leadership team each have decades of experience leading, governing, and growing businesses both big and small that create meaningful stakeholder returns.

We continue to review and reshape how we manage **Talent** to execute **Strategy** and manage a high growth **Risk**-adjusted investment agenda to achieve our goals.

Pathway to Sustainable Growth and Profitability

We successfully recapitalised the business raising net \$12.75 million in equity and discharged \$5.0 million debt and interest costs. We ended the year with \$6.6 million cash on hand. Hydrix listed options have the potential to raise \$2.3 million if fully exercised (ASX: HYDO \$0.12 exercise price, 31 July 2022 expiry).

The intended use of available capital is to continue to support and advance:

- sales, marketing, operations, and regulatory efforts to build towards commercial sales of cardiac products commencing in calendar year 2022;
- investments in existing and new high potential MedTech products; and
- product development services working capital requirements.

The audited financial accounts reflect the important investments we are making to build a high growth, cardiac MedTech product sales operation, despite the difficult trading conditions experienced in client product development services. The COVID pandemic has not discouraged us from pursuing our vision and purpose.

The reported loss from ordinary activities after tax was \$9.8 million. After allowing for non-cash expenses and intangible asset adjustments, and working capital movements, that loss translates to \$1.9 million of net cash used in operating activities. A significant amount of the loss from ordinary activities is attributable to product development services, which was significantly impacted by:

- difficult trading conditions caused by the pandemic, such as client project deferrals, funding and budget constraints, hard lockdowns hampering prospecting and face to face client engagement, supply chain component availability and increased lead times, and restricted access to product development facilities and clinics;
- future proofing client services business development, making appointments in the USA and Europe to better support our global client base and improve sales prospecting outcomes;
- investing in product development know-how, systems, tools, and platform technologies to advance our global competitiveness; and
- supporting clients, including through expending resources to develop stronger positions in Venture investments for future equity returns.

We remain optimistic that business conditions will improve beginning in the coming year. For historical context, you might recall sales revenues to external clients in the pre-COVID 6-month period to 31 December 2019, grew 44% over the comparative prior year period; *our focus remains on returning to growth.*

Importantly, we also invested significantly in cardiac product sales operations, regulatory and reimbursement applications, and evaluating additional medical product opportunities, all to pursue new sales growth.

While the financial accounts don't yet reflect the significant progress made transforming Hydrix into the Global MedTech Product Company we plan to be, we remain confident we are on the right track.

The most important focus for Hydrix right now is taking care of our customers and creating value from our investments for all stakeholders.

I encourage you to read the FY2021 Financial Statements lodged with the Appendix 4E for a full explanation of the results.

The Future Creates the Challenge to Think Big

Where are we on our journey for long term business success?

What we aspire to, is to be a highly successful ASX-listed global medical technology company which improves people's health, safety, and well-being. For many of today's successful ASX-listed MedTech companies who have achieved significant and sustained 20, 30, 40-plus times share price growth over a 10-plus year period, the path has been more of a marathon, than a sprint.

Today we are building the solid foundations inspired by the possibilities of a similar trajectory guided by a very clear and singularly focused purpose to improve a billion lives. We believe the course we have chartered, each investment decision we make, and will continue to make in MedTech technologies, is a catalyst for long term sustainable growth and a creator of significant value for all stakeholders.

The Board, the Hydrix team, and I, remain passionately committed to our collective purpose that underpins the long-term success for Hydrix. We are positive and unwavering in our commitment about our future prospects and outlook and are delighted to have you join us on this important journey.

Improving a billion lives matters.

Sincerely,



Gavin Coote
Executive Chairman