



ADHERIUM LIMITED

ABN 24 605 352 510

ASX: ADR

APPENDIX 4E

PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED

30 JUNE 2017

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 2017
- Previous corresponding period 15 months ended 30 June 2016

In the previous corresponding period, the Group transitioned to a 30 June balance date, and accordingly the comparative information in these financial statements is for the fifteen-month period from 1 April 2015 to 30 June 2016.

Results for announcement to the market

	12 months 30 June 2017 \$000	15 months 30 June 2016 \$000	Change \$000	Change %	Change (12 months*) %
Revenue from ordinary activities	2,347	2,626	(279)	(10.6)%	11.7%
Profit (loss) from ordinary activities after tax attributable to members	(12,810)	(7,885)	(4,925)	(62.5)%	(103.1)%
Net profit (loss) for the period attributable to members	(12,810)	(7,885)	(4,925)	(62.5)%	(103.1)%
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	13.1 cents	18.1 cents			

* % change calculated to take into account the differing lengths of the current and comparative reporting periods i.e. twelve and fifteen months respectively.

Commentary on results

During the 2016 fiscal period Adherium transitioned its financial year end from March to June. Accordingly, the 2016 comparatives presented are for a fifteen-month period whereas this report is for the twelve-month period to 30 June 2017.

Revenue this year was \$2,347,000, up 12% on 2016 on a twelve-month (versus fifteen-month) basis with the delivery of 18,000 Smartinhaler™ devices and related mobile app and cloud services, mostly to our major commercial partner AstraZeneca in relation to:

- AstraZeneca's ongoing deployments of our monitoring technology into Europe;
- the Australian commercial pilot programme involving over 130 respiratory clinicians and several channels to distribute the Smartinhaler™ asthma management solution to consumers; and
- the BreatheMate COPD study across a number of US sites using Adherium's SmartTouch™ for Symbicort® with supporting services provided by Adherium.

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In the latter part of fiscal 2017 this included delivery of 10,000 new Turbu+ devices (based on a new version of Adherium's SmartTurbo) and software license updates to AstraZeneca for launches and expansion in key global markets including Australia, Austria, Italy, The Netherlands, and Switzerland.

In addition, milestones were completed with the Medical Research Institute of New Zealand for two international studies being run with Adherium's Smartinhaler™ platform during fiscal 2017.

Revenue of \$2,626,000 in the comparative fifteen months was generated on the supply of 30,000 Smartinhaler™ devices, mostly as an initial market launch volume to AstraZeneca's commercial programme.

Sales and marketing expenses were \$3,312,000 for the year (2016: \$2,148,000), reflecting the expansion of the global business development team in the current and previous period, and formal market research projects undertaken in the year related to new sales channels for Adherium. The Company also attended, presented, and exhibited at a number of global respiratory industry meetings, including European Respiratory Society (ERS) and American Thoracic Society (ATS).

Research and development expenses for the year to 30 June 2017 of \$4,242,000 (2016: \$2,713,000) included:

- development of the new version of Adherium's SmartTurbo™, distributed as Turbu+ by AstraZeneca for their block-buster drug Symbicort® Turbuhaler, incorporating new sensor technology that generates more data for enhancing medication adherence and user experience. This device completed development, was transferred to manufacturing, and launched into multiple new markets by AstraZeneca;
- grant by the US Patent and Trademark Office (USPTO) of a key patent covering medication adherence monitoring devices that include an optical dose counter, further strengthening the Company's growing intellectual property portfolio;
- preparation and submission of an FDA 510(k) application for Adherium's SmartTouch™ for Symbicort®. This is currently under review with clearance expected by the end of 2017; and
- development of the next generation of our mobile apps (iOS and Android) and cloud software platform, enabling self-enrolment by patients.

Adherium's research and development activities are subsidized by grant income received from a New Zealand Government (Callaghan Innovation) Growth Grant. The increase in grant income from \$290,000 in fiscal 2016 to \$409,000 was reflective of increased research and development activities in fiscal 2017.

Administrative expenses of \$6,259,000 (2016: \$3,906,000) included hires in the roles of Chairman, Chief Executive Officer, Chief Operating Officer, and Head of Corporate Development in the year, and the assistance of global consulting company Arthur D. Little in the development of the Company's strategic plan to target new markets for the Smartinhaler™ technology.

Non-cash costs in the year included share and option compensation expense of \$478,000 (2016: \$198,000), and depreciation and amortisation expenses of \$270,000 (2016: \$164,000). The 2016 period also included non-cash interest and fair value expenses of \$378,000 related to increments in borrowing and embedded derivative classifications of the Convertible Notes prior to their conversion to Adherium shares, and the expensing of previously capitalised product development costs of \$270,000.

Cash reserves at 30 June 2017 were \$22,779,000 (2016: \$27,211,000), a net use of funds of \$4,432,000 reflecting the operations discussed above together with an \$8m share placement to Fidelity International Limited, one of the world's leading investment institutions.

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There was increased activity across all areas of Adherium's business following its IPO in August 2015, enabling the Company to support AstraZeneca's global distribution of Adherium's technology. This relationship has evolved from development and clinically focused to commercially focused, and continues to be an important strategic cornerstone of our business, in both potential revenue generation and technology validation. The Company's intention is now to add to this segment of its business by distributing its technology through direct to consumer, and payer and provider channels. In preparation for this, a critical review of activities and resources was undertaken at the end of fiscal 2017 for alignment with the Company's revised strategy. Salaries and wages at \$6.8m in 2017 (2016: \$3.7m) was the Company's largest expense, with the increase representing a full financial year after building the internal resource needed to meet expected demand post-IPO and focus on new business development opportunities. As a result of the strategic review, a reorganisation and consolidation of staffing was implemented. In relation to this, approximately \$3m of costs recorded in fiscal 2017 as salaries and wages and other administrative costs relate to roles removed or costs that will not be incurred in fiscal 2018.

Dividends

The board has not declared dividends or made dividend payments in the periods ended 30 June 2016 and 2017. 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 2017.

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 2017

	Notes	12 months June 2017 \$000	15 months June 2016 \$000
Continuing Operations			
Sales	1	2,347	2,626
Cost of sales		(1,186)	(1,336)
Gross profit		1,161	1,290
Grants income	1	409	290
Manufacturing support		(1,179)	(879)
Research and development costs		(4,242)	(2,713)
Sales and marketing costs		(3,312)	(2,148)
Administrative expenses		(6,260)	(3,906)
Operating loss		(13,423)	(8,066)
Interest income	1	613	560
Interest expense	7	-	(379)
Finance income (cost) - net		613	181
Loss before income tax	1	(12,810)	(7,885)
Income tax expense		-	-
Loss for the period attributable to equity holders		(12,810)	(7,885)
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		22	203
Other comprehensive income for the period, net of tax		22	203
Total comprehensive loss for the period		(12,788)	(7,682)
Total comprehensive loss attributable to:			
Equity holders of Adherium Limited		(12,788)	(7,682)
Basic and diluted loss per share	3	7.6 cents	6.6 cents

The accompanying notes form part of this financial report.

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Consolidated Statement of Financial Position as at 30 June 2017

ASSETS	<i>Notes</i>	June 2017 \$000	June 2016 \$000
Current assets			
Cash and cash equivalents	4	22,779	27,211
Trade and other receivables	5	826	948
Inventories	6	726	418
Prepayments		78	49
Total current assets		24,409	28,626
Non-current assets			
Property, plant and equipment		417	298
Intangible assets		265	31
Total assets		25,091	28,955
LIABILITIES			
Current liabilities			
Trade and other payables		2,382	1,394
Income received in advance		4	104
Total current liabilities		2,386	1,498
EQUITY			
Share capital	8	74,278	66,720
Accumulated deficit		(25,820)	(13,010)
Other reserves		(25,753)	(26,253)
Total equity		22,705	27,457
Total liabilities & equity		25,091	28,955

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 2017

	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

	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 April 2015	5,261	(5,125)	434	447	-	1,017
Loss for the period	-	(7,885)	-	-	-	(7,885)
Other comprehensive income	-	-	-	203	-	203
Total comprehensive loss	-	(7,885)	-	203	-	(7,682)
<i>Transactions with owners:</i>						
Shares issued on Convertible Notes conversion	2,204	-	-	-	-	2,204
Shares issued in capital reorganisation	27,535	-	-	-	(27,535)	-
Shares issued in initial public offering	35,000	-	-	-	-	35,000
Share issue costs	(3,706)	-	-	-	-	(3,706)
Shares issued on option exercise	426	-	-	-	-	426
Share and option grants for services	-	-	198	-	-	198
Equity as at 30 June 2016	66,720	(13,010)	632	650	(27,535)	27,457

The accompanying notes form part of this financial report.

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Consolidated Statement of Cash Flows for the year ended 30 June 2017

	<i>Notes</i>	12 months June 2017 \$000	15 months June 2016 \$000
Cash flows from operating activities:			
Receipts from customers		2,363	1,124
Receipts from grants		506	82
Interest received		601	560
Resident withholding tax paid		(9)	(15)
Payments to employees		(6,333)	(3,284)
Payments to suppliers		(8,709)	(6,380)
Net cash used in operating activities		(11,581)	(7,913)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(362)	(297)
Purchase of intangible assets		(202)	(143)
Net cash used in investing activities		(564)	(440)
Cash flows from financing activities:			
Proceeds from the issue of shares		8,023	35,000
Proceeds from the exercise of options	8	46	426
Payment of capital raising costs	8	(511)	(3,471)
Payment of convertible note issue costs		-	(43)
Net cash provided from financing activities		7,558	31,912
Net increase (decrease) in cash		(4,587)	23,559
Cash at the beginning of the period		27,211	3,468
Effect of exchange rate changes on cash balances		155	184
Cash at the end of the period	4	22,779	27,211
Reconciliation with loss after income tax:			
Loss after income tax		(12,810)	(7,885)
<i>Non-cash items requiring adjustment:</i>			
Depreciation of property, plant and equipment		234	152
Amortisation of intangible assets		36	12
Product development costs expensed		-	270
Interest accrued to borrowings	7	-	378
Share and option compensation expense		478	198
Foreign exchange (gain) loss		(74)	(121)
<i>Changes in working capital:</i>			
Trade and other receivables		80	(630)
Inventories		(303)	522
Trade and other payables		875	327
Income received in advance		(97)	(1,136)
Net cash provided from (used in) operating activities		(11,581)	(7,913)

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 2017

	12 months June 2017 \$000	15 months June 2016 \$000
1. Revenues and expenses		
(a) Income from continuing operations		
Sales revenue	2,347	2,626
Grant income	409	290
Interest income	613	560
Total income from continuing operations	<u>3,369</u>	<u>3,476</u>
(b) Loss before income tax includes the following specific expenses:		
Depreciation of property, plant and equipment	234	152
Amortisation of intangible assets	36	12
Product development costs expensed	-	270
Operating lease costs	459	222
Employee benefits expense		
- Wages and salaries	6,787	3,737
- Share option compensation	416	67
Total employee benefits expense	<u>7,203</u>	<u>3,804</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 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 and the convertible notes) 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.

In conjunction with the capital reorganisation ahead of the initial public offering and listing in August 2015, the Company undertook a share split of approximately 8.66:1. The effect of this share split has been incorporated into the calculation of weighted average shares outstanding for all periods presented.

	12 months June 2017 \$000	15 months June 2016 \$000
Profit (loss) after income tax attributable to equity holders	<u>(12,810)</u>	<u>(7,885)</u>
Weighted average shares outstanding (basic and diluted)	<u>169,431,030</u>	<u>119,606,316</u>
Basic and diluted loss per share	<u>7.6 cents</u>	<u>6.6 cents</u>

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4. Cash and cash equivalents

	June 2017 \$000	June 2016 \$000
Cash at bank and on hand	138	111
Deposits at call	22,641	27,100
	<u>22,779</u>	<u>27,211</u>

5. Trade and other receivables

	June 2017 \$000	June 2016 \$000
Trade receivables and accruals	449	561
Grant income accrued	203	302
GST and other taxes receivable	135	85
Security deposit	39	-
	<u>826</u>	<u>948</u>

6. Inventories

	June 2017 \$000	June 2016 \$000
Raw materials and components	277	197
Finished goods	449	221
	<u>726</u>	<u>418</u>

7. Interest

In January 2015 Adherium (NZ) Limited offered 2 million NZ\$1 Convertible Notes on a pro rata basis to its shareholders. The Convertible Notes bore no interest from the issue date until 31 August 2015, and thereafter interest would accrue at 5% plus the New Zealand dollar 90-day bill rate per annum until redemption on 1 February 2016, the maturity date of the Convertible Notes.

Management had carried out an assessment of the terms of the Convertible Notes and judged that they consisted of two components:

- a host loan instrument, measured at amortised cost; and
- an embedded derivative representing the features which may convert the Convertible Notes to ordinary shares in Adherium (NZ) Limited.

The Company received approval to be admitted to the official list of ASX Limited on 17 August 2015, and accordingly 4,763,205 ordinary shares in the Company were issued on mandatory conversion of the Convertible Notes.

Interest expenses related to the components were as follows:

Interest	June 2016 \$000
Fair value change on conversion of embedded derivative	163
Interest expense	215
Total interest expense on Convertible Notes	<u>378</u>

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8. Share capital

Share numbers presented below have where applicable been restated to reflect the 8.66:1 share split undertaken prior to the Company's initial public offering in August 2015. Similarly, amounts have been presented in Australian dollars following the change in presentation currency in the period to 30 June 2016.

	<u>Ordinary Shares</u>	<u>\$000</u>	
<i>Adherium Limited</i>			
Shares issued to Adherium (NZ) Limited shareholders	70,000,000	35,000	(a)
Shares issued in initial public offering	70,000,000	35,000	
Share issue costs	-	(3,706)	
Shares issued in employee share plans	6,778,640	-	
Shares issued on option exercise	4,441,285	426	
	<u>151,219,925</u>	<u>66,720</u>	
Share capital as at 30 June 2016			
<i>Adherium Limited</i>			
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			

(a) Capital Reorganisation

During the period to 30 June 2016 Adherium completed an initial public offering and listed on the Australian Securities Exchange. In that process the listing entity, Adherium Limited, was incorporated in Australia by the existing New Zealand based operating company, Adherium (NZ) Limited. Prior to the initial public offering and listing, the owners of Adherium (NZ) Limited swapped their security holdings for securities in Adherium Limited. This was accounted for as a capital reorganisation and the variance between the value of the shares issued to the shareholders of Adherium (NZ) Limited and carrying value of the Group's assets and liabilities (\$27,535,000) has been recorded in the Merger Reserve.

9. 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.