

24 May 2022

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Aroa Biosurgery Limited (ARX)

Health Technology

Underperform

ARX A\$0.805

TARGET PRICE A\$0.45

Aroa Biosurgery Limited (ARX) is a soft tissue regeneration company focused on improving the rate and quality of healing in complex wounds and soft tissue reconstruction. It participates in the wound care and surgical reconstruction markets.

Company Data

Number of shares	342.7
Market Capitalisation	\$275.9
Free float (%)	61.0
12-month high/low	\$1.25/\$0.66
Average Daily Turnover (\$m)	0.15
% S&P/ASX200	0.013
DDM Ranking	495
% All Ordinaries	0.01
GICS Industry Group	Medical Specialties

Source: FactSet, Barclay Pearce Capital

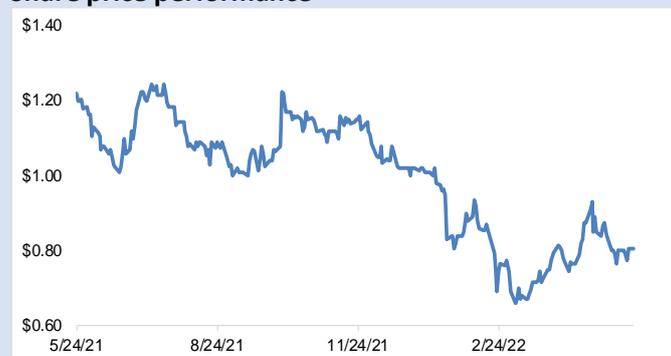
Earnings Summary (AUD)

Year end March	2022A	2023F	2024F
Revenue (\$M)	35.9	48.5	60.1
EBITDA (\$M)	-1.4	-3.6	5.5
Reported NPAT (\$M)	-4.7	-5.9	1.1
Adjusted NPAT (\$M)	-4.7	-6.1	2.4
Reported EPS (c)	-2.2	-1.6	0.3
Adjusted EPS (c - FD)	-2.2	-1.8	0.7
Adjusted EPS growth (%)	-101.3	5.4	-138.5
Adjusted P/E (x)	-36.3	-45.3	117.9
Dividend (c/sh)	0.0	0.0	0.0
Gross yield (%)	0.0	0.0	0.0
Net yield (%)	0.0	0.0	0.0
ROIC (%)	-	-13.4	2.0

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

FY22 Earnings Results

On 24th May 2022, Aroa Biosurgery Limited (ARX) announced its FY22 results for the year ended 31st March 2022 with the following highlights:

Highlights:

- Audited full year product revenue of NZ\$39.2m, reflecting an 81% increase on FY21;
- On a constant currency basis, product revenue was NZ\$37.7m (an increase of 84% on FY21), exceeding the Company's upgraded constant currency guidance of NZ\$34-37 million;
- Total revenue (inclusive of project fees) was NZ\$39.7m, representing growth of 78%;
- Product gross margin of 76% (75% constant currency), representing an 8% increase on FY21;
- Result delivered despite COVID-19 continuing to impact access to hospitals and procedure volumes in the US;
- Normalised EBITDA loss for FY22 was NZ\$1.5m, compared to a loss of NZ\$3.3m in FY21;
- Normalised loss before income tax was \$5.2m (NZ GAAP Loss before income tax of NZ\$8.3m) compared to NZ\$7.5m in FY21 (NZ GAAP Loss before income tax of NZ\$19.1m);
- Reported EPS of (2.45c); and
- Strong cash balance of NZ\$56.1m with no debt.

Comments:

Managing Director and CEO, Brian Ward, commented: "2022 was a year of strategic realignment to accelerate our growth and we are very pleased with the results delivered. As I've previously stated, we consider AROA to be well placed for significant growth in FY23 and beyond. Our investment in our US sales force has delivered a strong pipeline of clinical evaluations, value committee approvals and hospital conversions for Myriad. We expect to continue to build momentum and expand this team over the next 12 months. We are also very encouraged by TELA Bio's strong recent results and CY22 revenue projections."

Outlook:

- Product revenue guidance of NZ\$51-55 million, to deliver 30-40% growth on FY22;
- Product gross margins are expected to improve to 77% due to increased sales of higher margin Myriad™ products and improving manufacturing efficiencies (despite increased indirect overheads from the new manufacturing facility);
- ARX is continuing to invest in its US salesforce and product development to drive growth in FY23 and beyond;
- As a result, ARX is forecasting an EBITDA loss for FY23.

Earnings changes

ARX provided product revenue guidance of NZ\$51m-\$55m, and to deliver 30-40% growth on FY22. Hence we expect ARX's FY23 revenue to be between \$46.7m - \$50.3m from forecasting FY22 revenue with a 30-40% increase. This compares to market expectations of \$45.2m. Furthermore, due to continuing investments in its US salesforce and product development, ARX is forecasting an EBITDA loss for FY23. Both of these are in line with market expectations, hence we do not expect any significant earnings revisions for FY23 or for future periods.

Valuation

We are initiating research coverage on ARX with a 12-month price target of \$0.45 and with an UNDERPERFORM recommendation. The price target is underpinned by our valuation.

Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)