



## PolyNovo 2021 AGM Report

ASX Code	PNV
Meeting Time/Date	1.00 pm, Tuesday 26 October
Type of Meeting	Virtual with voice option
Monitor	Paul Fanning assisted by Mike Robey
Pre-AGM Meeting?	Yes, with Chair David Williams on Monday, 4 October

## Growth expected to continue in next 12 months

### What the Company Does

Polynovo Limited (PNV) has developed innovative medical devices for a number of applications, utilising the patented bioabsorbable polymer technology NovoSorb. PolyNovo has only one business segment being the development of the NovoSorb technology for use in a range of bioresorbable medical devices, typically targeted for breast and hernia operations.

NovoSorb BTM: NovoSorb Biodegradable Temporising Matrix (BTM) is used in a fully debrided clean surgical wound to physiologically close the wound. With the BTM scaffold in place the dermal layer is regenerated within the scaffold. Once fully integrated, the outer layer is delaminated and the wound closes through secondary intention (smaller wounds) or through application of a split skin graft. The BTM is commercially sold in Australia, USA, Canada (by exemption), New Zealand, United Kingdom, Ireland, Germany, Austria, Switzerland, Singapore, Malaysia, South Africa, India, Saudi Arabia and Israel.

### Developments in the Financial Year

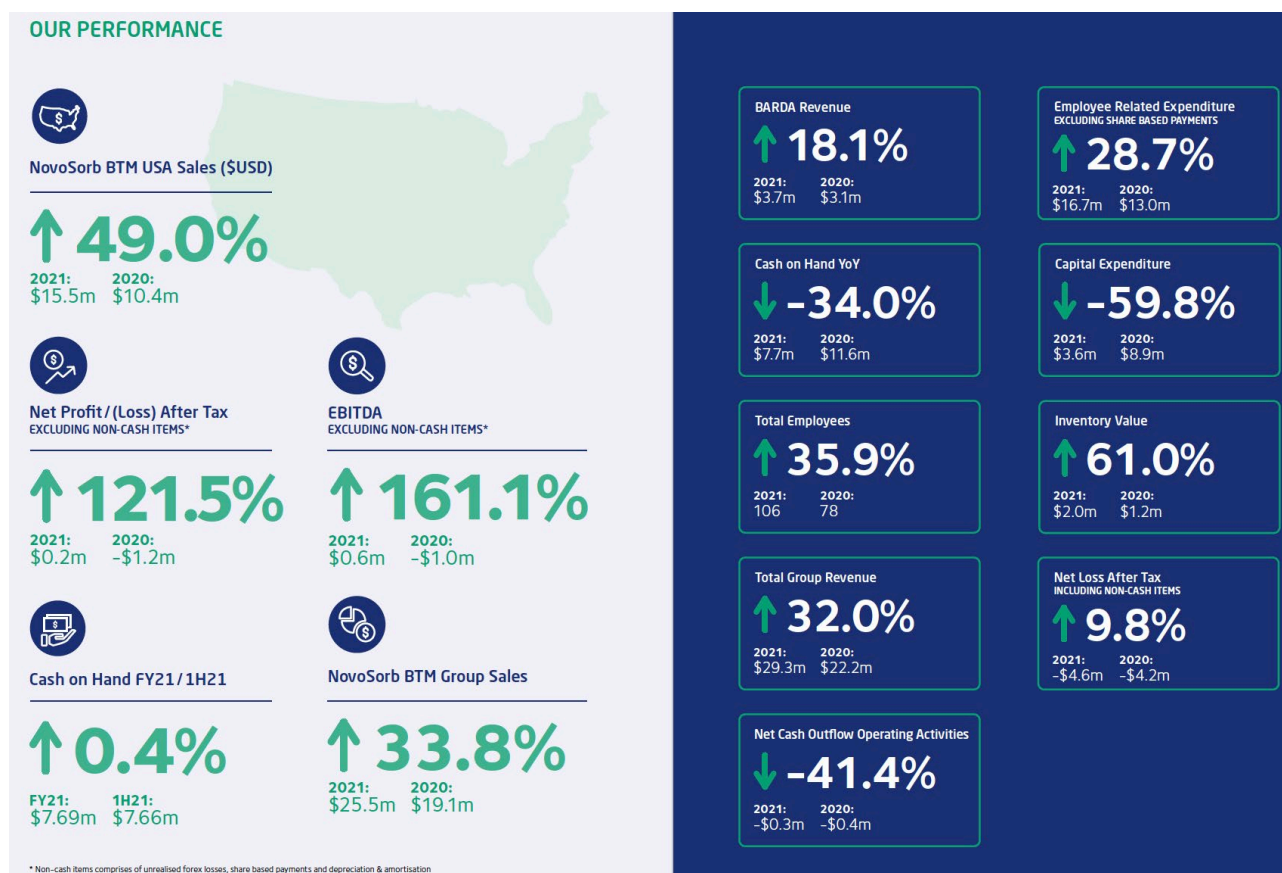
The company reported its first underlying profit, excluding non-cash expenses. This significant milestone was achieved with strong sales growth and significant investment in sales personnel. PolyNovo appointed Dr Anthony Kaye as Chief Operating Officer on 9 November and Mr Andrew Lumsden as an additional director on June. Mr Max Johnson and Mr Phillip Powell resigned as board directors on 13 November.

PolyNovo Limited reported revenue for the year ended 30 June 2021 of \$29.3m an increase of \$7.1m from the prior year. The net loss after tax (NLAT) of (\$4.6m) for FY21 was \$0.4m larger than the prior year. Excluding non-cash items of share-based payments \$2.6m, unrealised forex loss \$1.1m and depreciation & amortisation \$1.1m the underlying net profit after tax is \$0.26m (2020: loss of \$1.2m). Several factors contributed to the result including:

- NovoSorb BTM revenue for FY21 increased by 34% to \$25.5M from the prior year's \$19.0M.
- Revenue from the BARDA clinical trial program increased by 18% to \$3.6M from the prior year's \$3.1M. This increase reflects the commencement of the pivotal trial. Revenue is expected to increase in FY22 as patients are recruited into the pivotal trial.

- Included in other income is payments from the Australian Government for COVID-19 assistance for \$0.18M
- Employee related expenses increased by 29% to \$19.4M. This increase is due to share-based payments expense provided to key management personnel and headcount increase to drive growth primarily within sales, marketing, production, quality, and finance.
- As at 30 June 2021, the company held \$7.69m in cash and short-term investments.

The charts, from the 2021 Polynovo Annual Report shows the key financials



COVID had a significant impact on hospital trauma, burn and elective surgery activity. Notwithstanding limited hospital access, lockdowns, and travel restrictions, they adapted their business and had continued material sales growth globally and notably in the US with BTM sales up by 49% in \$US and distributor sales up by 53.1%.

PolyNovo continued to invest in building capacity to drive revenue with personnel growing from 78 to 106. Investing in their sales teams as a significant driver of sales momentum. In the second half they achieved a strong improvement in revenues and new accounts. This trajectory and new US sales staff are expected to deliver a strong FY22.

PolyNovo expanded in Europe using distributors to rapidly reach new geographies and establish revenue flow. Finland, Belgium, Netherlands, Luxembourg, Greece, Turkey, Poland, Italy, and Taiwan were added in FY21. Further countries will be added in FY22.

## Summary of Historical ASA Issues with the Company

In early December, Bruce Rathie, Paul Brennan and Leon Hoare concurrently sold parcels of shares, prior to the share price peaking in late December at over \$4.00. PNV issued a trading update on 12 January which triggered a precipitous drop in share price from \$3.39 on Monday 11 January 2021 to \$2.68 on Wednesday 13 January, from which it has not yet recovered. This sequence of events triggered a question from the ASX on matters concerned with the wording of their trading update and the timing of the trading of shares by these Board members and senior management. Their response to the ASX on 18 January appears to have settled the matter, but any such enquiry from the ASX is a cause of concern for retail shareholders.

## Debate and Voting at the AGM

In the chairman's address he spoke off the cuff, as a practised salesman, about the expansion of the company in the countries they service, including staff growth. He observed that all of the financials were at a high level, with this year just moving into profit. The burn rate of cash is not typical of start-ups. The chair discussed reasons for the share price falling sharply from around \$4.00 to about \$1.80. He spoke at length about the volume of shorters active in the market at the time, and said the share price volatility was not due to any fundamentals. Short positions were up from 1.8% to a high of 6% in two months.

Most of the shareholder questions were related to operational and marketing issues. The ASA asked about PolyNovo share sales issues and consequent share price drop. The chair advised that the company has rather lumpy sales from month to month. He stated the company has a share trading policy to which all directors and key management personnel are required to abide by. The ASA also inquired about the high workload of Bruce Rathie seeking board re-election. The chair stated that workload was within reason and not excessive.

The ASA voted against the re-election of long-term director Bruce Rathie (Resolution 3). Firstly, given the length of tenure on the board we consider he will lose his independence during this term. Our guideline for non-independence is that directors should not stand on public listed company board for more than 12 years. Secondly, we consider Mr Rathie's workload is excessive, as he holds two chair and two other non-executive Director roles. Thirdly we believe there the two female Directors from a board of eight at PNV is below the 30% minimum gender diversity guideline, so they had here an opportunity to replace a long-serving and overloaded Director with a suitable skilled woman. The ASA voted its proxies against the resolution, with only a 3.8% No vote overall.

The ASA questioned reasons why the Managing Director's LTI (Resolution 5) is so complex, having three tranches of shares at 1,320,132 to be issued for FY22, FY23 and FY24 assuming share price reaches and remains at \$3.03 for three consecutive months which is set on a \$2 billion market cap, based on the current number of shares on issue. The chair responded that shareholders want wealth creation and share price growth, so the Managing Director wants the share price to keep rising and stay up at high levels for at least three months. In addition, if the share price target is not met in a particular year, then half of the tranche is added to the tranche of the next year and can be awarded if the hurdle is met in that year. We view this as retesting and so are opposed to this model. The ASA voted its proxies against the resolution, with a No vote Of 29.42% overall.

The ASA took the view that the (re-jigged from 2020) remuneration structure (Resolution 6) was too complex for retail shareholder to come to terms with. The chair responded that as the company has not achieved profitability, so EPS was inappropriate at this stage and is best served by a very simple market cap measure.

The Remuneration Report containing the revised structure received a near strike, of 23.3% vote against, compared to a 2020 AGM strike of 50.3%. The ASA voted it proxies against the resolution, as we had last year. The Chairman stated that the Board is considering further amending the remuneration structure in coming 12 months, for new recruits.

### Outlook Statements from the Company

Chairman David Williams said that COVID's well known effect on hospital openings, surgeon access and elective surgery should have been disastrous for sales. However, PolyNovo was able to quickly pivot and achieve significant growth in FY21 which has continued into 1Q FY22; details of which are provided below:

- EU sales in Q1 FY22 of \$222k were 204% greater than Q1 FY21 \$73k.
- UK and Ireland sales in Q1 FY22 of \$169k were 327% greater than Q1 FY21 \$39k.
- US Q1 FY22 sales total for July and August of \$4.66m was 56% greater than Q1 FY21 \$2.99m. Q1 FY22 sales total was \$6.14m and included mixed results because of the COVID impact on hospital and surgeon access.
- A record 16 new accounts were opened in the US in Q1 FY22. Total accounts in the US increased by 65% from 82 on 30 September 2020 to 135 on 30 September 2021.
- Accounts in their direct markets (excluding distributor markets) increased by 56% from 210 accounts on 30 September 2020 to 327 on 30 September 2021.
- Signed distribution agreements for Finland, Greece, Poland, Turkey, Italy, Denmark, Norway, Iceland, Germany, Netherlands, Luxembourg, and Sweden.
- They expect to sign additional distribution agreements in FY22 and have Czechoslovakia, France and Cyprus on the list.

### Meeting Statistics

Number of Holdings Represented by ASA	36
Number of Shares represented by ASA	739,480
Value of Shares represented by ASA	\$1.42 m
Number Attending Meeting	157 shareholders plus 136 visitors
Market capitalisation	\$1,270 m
Were proxies voted?	Yes, on a poll