

CHAIRMAN'S ADDRESS

ANNUAL GENERAL MEETING

28 NOVEMBER 2018

Introduction

Good morning everyone and thank you for joining us today. I'm Graeme Billings, the Chairman of Azure Healthcare, and I'd like to welcome you all to the 2018 Annual General Meeting.

Given we have a quorum, I now declare the meeting open.

I'd like to begin by introducing my fellow board members. In front of you are:

- Executive Director and the Company's Chief Executive Officer, Mr Clayton Astles;
- Independent Non-Executive Director, and Chair of the Company's Remuneration Committee, Mr Brett Burns;
- Independent Non-Executive Director, Mr Tony Glenning, who accepted a non-executive directorship on our board in August this year;
- and finally, our Company Secretary and Chief Financial Officer, Mr Brendan Maher, who we recently appointed to the position.

I would also like to welcome Ms Joanne Lonergan, who is a Partner of Ernst & Young, our auditors.

Today I'd like to tell you about our FY18 performance, the progress we've made with our products and some of the challenges we face as a result of uncertainty in the global economy.

Performance

In FY18, the company produced an after-tax profit of \$1.19 million. It's our first full year of profit since 2015. During the year we stabilised sales, made further cost reductions, and generated positive cash flows. Our net cash position at year end was \$1.66 million. Recurring revenue from software sales increased to \$3.13 million, or 10.9% of total sales, representing a 79% increase on the last financial year.

Our operational performance built on the gains made possible by the restructure in FY16 and FY17. We released new products to the market which will help us to maintain our market leading position and raise the bar for innovation in the sector. We also secured two large national accounts in the United States that we expect to generate ongoing business.

Consistent with previous years, the board has not declared a final dividend in order to meet the business's short-term working capital requirements.

CHAIRMAN'S ADDRESS

ANNUAL GENERAL MEETING

28 NOVEMBER 2018

Marketplace and Product Relevance

Azure is about fundamentally changing and enhancing the way people communicate when caring for a patient. Our products are designed to optimise the care that patients receive, whether it be in an everyday situation or a life-threatening emergency.

Our customers tell us that Tacera, our flagship product, is superior to any other product available. And one of the reasons for this is our ability to integrate seamlessly with other health service systems. This puts Tacera at the heart of patient centric systems.

An ageing population and the increasing reliance on technology in all aspects of life will drive future demand for innovative products that will save lives and improve patient care in a cost-efficient manner. With these fundamentals, it's safe to say that the demand for our products is not going to diminish while we maintain our technological edge.

In FY18, we released Pulse Mobile, a nurse call alarm management app for smartphones that enables nurses to receive alarms directly on their personal devices. It has become one of our most popular software products and additional features are currently under development.

In terms of R&D, we increased our spend by 9.7% in FY18 and retained our market leading position through:

- firstly, a relentless focus on researching emerging technologies that will further change the way we care for patients in the medium-term; and
- secondly, a number of exciting new products under development that will enhance care and efficiency in clinical environments.

Strategy

With a wholesale restructure of the business in FY16 and FY17, and a year of consolidation and planning for growth in FY18, Azure is now set up to take advantage of a growing market.

The company will now focus on growth by investing in sales and marketing activities in key geographical regions. Product innovation and strategic partnerships will also help drive growth over the next few years.

Challenges for FY19

There is no doubt that Azure is far better positioned to weather the challenges of growth than it was two to three years ago. But just as there are challenges with restructuring, there are challenges with meeting the high demand we are currently experiencing. With the uncertainty surrounding the global environment, most notably looming trade wars between the US and China, the prospect of additional imposts has resulted in businesses rushing to

CHAIRMAN'S ADDRESS

ANNUAL GENERAL MEETING

28 NOVEMBER 2018

shore up inventory levels in advance of the introduction of these tariffs. Consequently, component manufacturers have been swamped with orders and lead times have expanded well beyond historical timeframes. This means lengthy delays in receiving goods and ultimately fulfilling customer orders, not to mention the additional effort necessary to manage customer relationships and satisfaction levels.

To mitigate these risks, we have been actively seeking alternate suppliers in less affected parts of the world and we have identified some initial potential partners to reduce the lengthy timeframes and avoid the additional costs imposed by the tariffs.

Having said that, I'm pleased to tell you that we're facing a high level of demand, with our order book larger than forecast. While this is indeed welcome, it adds another level of complexity to the risks outlined above and may lead to further production bottlenecks.

But we run our business with a close eye on the risks associated with rapid growth. We are fortunate to operate in a global market that is growing with a product that people want. The challenge now is to grow in a manageable way with the usual capital constraints of a business of our size. While we aim to at least match the market in our growth, the reality is that we may not do so every year due to the normal fluctuations in actual year on year growth, but we're confident that we can match the average over the medium term.

Outlook

We are in the fortunate position of enjoying high demand for our products. However, as we announced to the Australian Stock Exchange this morning, the impact of the proposed US tariffs changes on components we import from China to our US manufacturing facility, is having a negative short-term financial impact on us.

The shortage of components is impacting our ability to convert orders into revenue and as such we have announced a likely softening of sales for the first half of financial year 2019 in the order of 5%.

We do however expect to make up that revenue shortfall in the second half of financial year 2019.

The softening of revenue will see a loss after tax for 1HFY2019 of between \$0.50m to \$0.75m, compared to a profit of \$0.44m in the prior corresponding period. This loss also includes one-off costs in relation to the recent management restructure.

Conclusion

So in conclusion, and despite the short term challenges facing Azure and the industry, I am confident that Azure Healthcare is becoming:

CHAIRMAN'S ADDRESS

ANNUAL GENERAL MEETING

28 NOVEMBER 2018

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- **more efficient** – with lower cost manufacturing and improvements in productivity
 - **more robust** – with a clean balance sheet, positive cash flows
 - **more streamlined** – having divested its non-core assets and focusing solely on the nurse call and workflow solutions market, and
 - **more disciplined** – with sustained savings and efficiencies across the business during FY18, as implemented during the restructure.

Add to that list a strengthened board and management team, and I believe we have the experience, the product platform and global footprint, and a business free of legacy issues to navigate through the immediate growth challenges we face and take advantage of a market that is expanding rapidly and widely.

Thank you again for joining our AGM this morning.

I'd now like to invite our Chief Executive Officer, Clayton Astles to update you on the operations.