

Australian Equity Research

30 May 2016

Matthijs Smith, Ph.D., MBA | Analyst | Canaccord Genuity (Australia) Ltd. | matthijs.smith@canaccord.com.au | +61.3.8688.9107

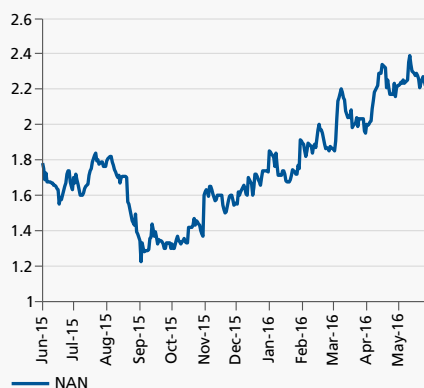
HOLD*unchanged***PRICE TARGET** A\$2.20*unchanged*

Price (31-May) A\$2.45

Ticker NAN-ASX

52-Week Range (A\$):	1.16 - 2.47
Avg Daily Vol (000s) :	433.3
Market Cap (A\$M):	725
Shares Out. (M) :	295.9
Enterprise Value (A\$M):	690
Last Cash Balance (A\$M):	44.2
Last Quarter Cash Burn (A\$M):	4.5
Major Shareholders:	M Stang Allan Gray B Stang

FYE Jun	2015A	2016E	2017E	2018E
Sales (A\$M)	22.2	39.0	57.3	89.1
PBT (A\$M)	(5.5)	(4.0)	10.0	34.3
Net Income (A\$M)	(5.5)	(4.0)	10.0	34.3
EPS (Auc)	(1.96)	(1.37)	3.42	11.78
Cash Position (A\$M)	45.7	39.5	47.1	79.1



Source: FactSet

Company Update

Nanosonics takes the high road

Investment Perspective

NHSScotland has issued new guidelines for the decontamination of semi-critical ultrasound probes. These new guidelines demonstrate the importance of infection control to healthcare facilities, and require that all intracavity ultrasound probes that come into contact with mucous membranes and all surface probes that come into contact with broken skin are high level disinfected (HLD) between patient examinations. The guidelines outline three methods that can provide HLD (ultraviolet light, hydrogen peroxide and manual wipes) and six criteria that healthcare facilities should take into consideration when purchasing a probe decontamination system (evidence, safety, compatibility with different probes, validation, compatibility with wipes, cost, and environmental impact). In our view, NAN's trophon meets all of these criteria as well as the increasing requirement to provide tracking and traceability of HLD procedures. We believe these new guidelines will help drive adoption of trophon in Scotland. We maintain our HOLD recommendation for NAN with a price target of \$2.20 based on a 12-year DCF (10.1% discount rate, no terminal value).

Key Points

The new guidelines issued by NHSScotland recommend that all ultrasound probes used in semi-critical procedures are HLD between patients. When purchasing a probe decontamination system, it recommends healthcare facilities take into consideration:

Evidence: Several microbiological and two clinical studies have been published that show trophon is effective at providing HLD. Last year, NAN reported that trophon is the only system that has demonstrated inactivation of the HPV virus. We believe that NAN's clinical studies, which were published outside the timeframe covered by Health Protection Scotland's (HPS) literature search, would meet the criteria for level-1 evidence.

Safety: trophon is completely self-contained and generates oxygen and water as by-products from the sterilising solution.

Compatibility: trophon has been validated by manufacturers for use with over 1,000 probes and is included in their care cards. By comparison very few probes have been validated for UV-HLD due to the destructive effect that UV light has on plastics.

Validation: in addition to the published microbial and clinical studies, NAN has produced a kit that allows annual validation of trophon at its site of use.

Wipes: while trophon is compatible with wipes for cleaning its internal surfaces, this is not required as the disinfection chamber is completely exposed to the sterilising agent.

Cost: trophon is significantly more cost effective than wipes with Barts Hospital estimating its use will result in significant savings of several hundreds of thousands of pounds.

Environment: the breakdown products from the sterilising solution used in trophon are oxygen and water.

We expect new guidelines will be issued in England that will further reinforce the need for HLD of ultrasound probes and help drive adoption of trophon throughout the UK.

FINANCIAL SUMMARY**Financial Performance**

Year End	June	2014A	2015A	2016E	2017E	2018A	2019A	2020E	2021E	2022E	2023E	2024E
trophon sales (CG Est)	\$M	16.4	16.6	30.1	41.2	63.5	77.3	96.4	116.1	146.3	180.8	188.7
Consumable sales (CG Est)	\$M	5.3	5.7	9.0	16.1	25.6	39.4	60.8	86.0	108.0	134.5	162.8
Sales of goods and services	\$M	21.5	22.2	39.0	57.3	89.1	116.6	157.2	202.1	254.3	315.3	351.5
Cost of sales	\$M	(7.6)	(6.9)	(10.7)	(14.2)	(20.9)	(25.7)	(32.0)	(40.0)	(51.7)	(65.3)	(72.2)
Gross Margin	\$M	13.9	15.3	28.3	43.1	68.2	91.0	125.2	162.1	202.6	250.0	279.3
Interest revenue	\$M	0.7	0.9	1.5	1.9	2.6	3.1	3.8	4.8	5.9	6.1	6.1
Government grants	\$M	1.7	0.1	-	-	-	-	-	-	-	-	-
Other income	\$M	1.7	2.2	-	-	-	-	-	-	-	-	-
Total other income	\$M	4.1	3.2	1.5	1.9	2.6	3.1	3.8	4.8	5.9	6.1	6.1
Staff expense	\$M	(12.0)	(13.9)	(22.2)	(23.4)	(24.5)	(25.1)	(25.8)	(26.4)	(27.1)	(27.8)	(28.4)
Operations	\$M	(8.1)	(9.5)	(10.9)	(11.7)	(12.0)	(12.3)	(12.6)	(12.9)	(13.2)	(13.5)	(13.9)
Total operational expense	\$M	(20.1)	(23.4)	(33.2)	(35.0)	(36.5)	(37.4)	(38.4)	(39.3)	(40.3)	(41.3)	(42.3)
Borrowing costs	\$M	(0.6)	(0.6)	(0.6)	-	-	-	-	-	-	-	-
Net profit before tax	\$M	(2.6)	(5.5)	(4.0)	10.0	34.3	56.7	90.6	127.6	168.3	214.8	243.0
Tax benefit / (expense)	\$M	0.0	0.0	-	-	-	(10.1)	(27.2)	(38.3)	(50.5)	(64.4)	(72.9)
Net profit after tax	\$M	(2.6)	(5.5)	(4.0)	10.0	34.3	46.6	63.4	89.3	117.8	150.4	170.1
Earnings per share (cps)	cps	(1.0)	(2.0)	(1.4)	3.4	11.8	16.0	21.8	30.7	40.4	51.6	58.4
Dividend per share (dps)	cps	-	-	-	-	10.6	14.4	19.6	27.6	36.4	46.4	52.5

Balance Sheet

Year End	June	2014A	2015A	2016E	2017E	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Cash & Cash Equivalents	\$M	21.2	45.7	39.5	47.1	79.1	92.6	111.7	141.6	176.7	220.8	257.3
Current Assets	\$M	31.6	56.4	50.2	57.8	89.8	103.3	122.4	152.4	187.4	231.5	268.0
Non-Current Assets	\$M	1.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
TOTAL ASSETS	\$M	33.5	60.4	54.1	61.8	93.8	107.2	126.4	156.3	191.3	235.4	271.9
Current Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	\$M	4.8	15.2	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Non-Current Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	\$M	8.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL LIABILITIES	\$M	13.1	15.7	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Equity	\$M	78.5	108.2	114.6	112.3	140.8	149.6	162.4	183.4	206.7	235.7	255.2
Accumulated Profits / (Losses)	\$M	-58.0	-63.5	-67.5	-57.5	-54.1	-49.4	-43.1	-34.1	-22.4	-7.3	9.7
TOTAL EQUITY	\$M	20.4	44.7	47.1	54.8	86.8	100.2	119.4	149.3	184.4	228.4	264.9

Cash Flow

Year End	June	2014A	2015A	2016E	2017E	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Receipts	\$M	23.0	26.9	39.0	57.3	89.1	116.6	157.2	202.1	254.3	315.3	351.5
Suppliers & Employers	\$M	-28.0	-30.3	-43.9	-49.3	-57.5	-63.1	-70.3	-79.3	-92.0	-106.6	-114.6
Interest Received	\$M	0.7	0.9	0.9	1.9	2.6	3.1	3.8	4.8	5.9	6.1	6.1
Tax Paid	\$M	1.7	0.1	0.0	0.0	0.0	-10.1	-27.2	-38.3	-50.5	-64.4	-72.9
Cash From Operations	\$M	-2.6	-2.4	-4.0	10.0	34.3	46.6	63.4	89.3	117.8	150.4	170.1
Cash From Investing	\$M	-0.5	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-0.3	1.7
Cash From Financing	\$M	0.3	28.6	0.0	0.0	0.0	-30.9	-42.0	-57.1	-80.4	-106.0	-135.3
Opening Cash Balance	\$M	24.1	21.2	45.7	39.5	47.1	79.1	92.6	111.7	141.6	176.7	220.8
Net Incr / (Decr) in Cash	\$M	-2.8	24.5	-6.3	7.7	32.0	13.4	19.2	29.9	35.1	44.1	36.5
Closing Cash Balance	\$M	21.2	45.7	39.5	47.1	79.1	92.6	111.7	141.6	176.7	220.8	257.3

Valuation

Risk Free Rate	%	4.60%	Forecast Period	years	12
Market Premium	%	5.50%	12-Month Price Target	\$	\$2.20
Beta	x	1.0	Current Price	\$	\$2.45
Discount Rate	%	10.1%	Return	%	-10%

SOURCES: Company reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

Analysts employed outside the US are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the FINRA Rule 2241 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Target Price / Valuation Methodology:

Nanosonics Limited - NAN

Target price is based on 12-year discounted cash flow (10.1% discount rate) with no terminal value of cash profits generated from the sale of the trophon ultrasound disinfection system and associated accessories and consumables.

Risks to achieving Target Price / Valuation:

Nanosonics Limited - NAN

Poor sales support from GE, manufacturing problems, supply of sub-assemblies from external parties, hiccups, resistance from hospital to invest in new technologies, development of alternative systems by competitors, issue with product performance resulting in recall.

Distribution of Ratings:

Global Stock Ratings (as of 05/30/16)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	521	59.14%	34.17%
Hold	275	31.21%	17.82%
Sell	27	3.06%	3.70%
Speculative Buy	58	6.58%	65.52%
	881*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Genuity Company-Specific Disclosures (as of date of this publication)

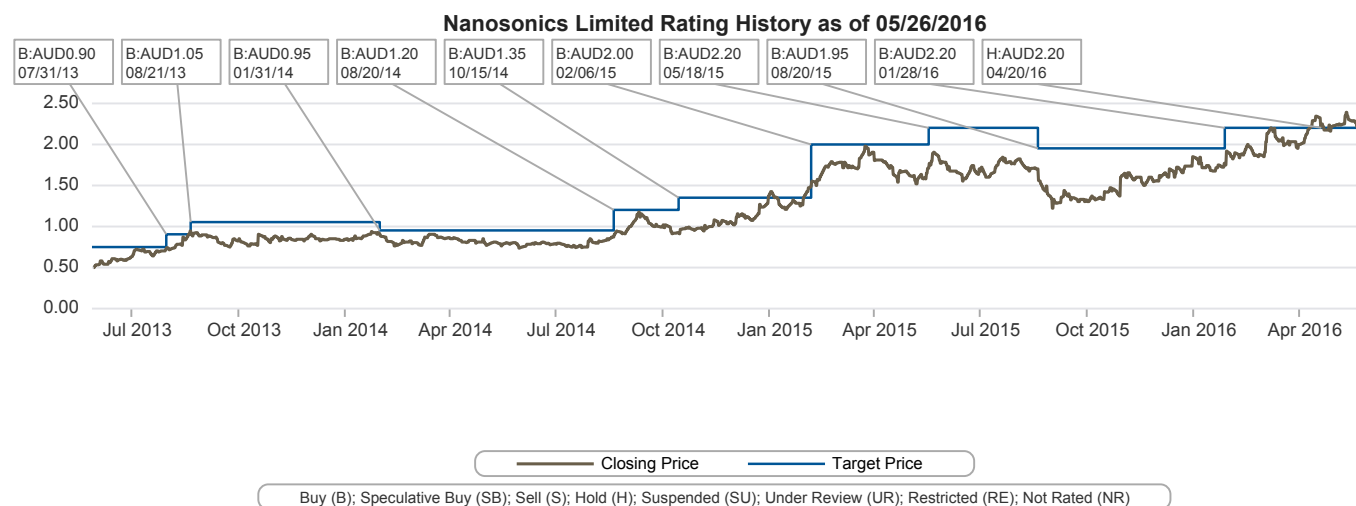
Nanosonics Limited currently is, or in the past 12 months was, a client of Canaccord Genuity or its affiliated companies. During this period, Canaccord Genuity or its affiliated companies provided investment banking services to Nanosonics Limited.

In the past 12 months, Canaccord Genuity or its affiliated companies have received compensation for Investment Banking services from Nanosonics Limited.

Canaccord Genuity acts as corporate broker for Nanosonics Limited and/or Canaccord Genuity or any of its affiliated companies may have an agreement with relating to the provision of Investment Banking services.

Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Nanosonics Limited in the next three months.

The primary analyst, a member of primary analyst's household, or any individual directly involved in the preparation of this research, has a long position in the shares or derivatives, or has any other financial interest in Nanosonics Limited, the value of which increases as the value of the underlying equity increases.



Online Disclosures

Up-to-date disclosures may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx>; or by sending a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2; or by sending a request by email to disclosures@canaccordgenuity.com. The reader may also obtain a copy of Canaccord Genuity's policies and procedures regarding the dissemination of research by following the steps outlined above.

General Disclosures

"Canaccord Genuity" is the business name used by certain wholly owned subsidiaries of Canaccord Genuity Group Inc., including Canaccord Genuity Inc., Canaccord Genuity Limited, Canaccord Genuity Corp., and Canaccord Genuity (Australia) Limited, an affiliated company that is 50%-owned by Canaccord Genuity Group Inc.

The authoring analysts who are responsible for the preparation of this research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity Inc., a US broker-dealer with principal offices located in New York, Boston, San Francisco and Houston, or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London (UK) and Dublin (Ireland), or Canaccord Genuity (Australia) Limited, an Australian broker-dealer with principal offices located in Sydney and Melbourne.

The authoring analysts who are responsible for the preparation of this research have received (or will receive) compensation based upon (among other factors) the Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Investment Banking activities, or to recommendations contained in the research.

Canaccord Genuity and its affiliated companies may have a Investment Banking or other relationship with the issuer that is the subject of this research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their customers, in good faith or in the normal course of market making. Accordingly, Canaccord Genuity or their affiliated companies, principals or employees (other than the authoring analyst(s) who prepared this research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of research. This research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not

independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this research constitute Canaccord Genuity's judgement as of the date of this research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

Canaccord Genuity's salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this research.

Canaccord Genuity's affiliates, principal trading desk, and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

This research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this research may not be eligible for sale in some jurisdictions. This research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this research.

Research Dissemination Policy

To the extent reasonably practicable, research will be disseminated simultaneously to all of the Canaccord Genuity customers who are entitled to receive the firm's research. Canaccord Genuity research is posted on the Canaccord Genuity Research Portal and will be available simultaneously for access by all of Canaccord Genuity's customers who are entitled to receive the firm's research. In addition research may be distributed by the firm's sales and trading personnel via email, instant message or other electronic means. Customers entitled to receive research may also receive it via third party vendors. Until such time as research is disseminated to Canaccord Genuity's customers as described above, Authoring Analysts will not discuss the contents of their research with Sales and Trading or Investment Banking employees without prior compliance consent.

Short-Term Trade Ideas

Research Analysts may, from time to time, include "short-term trade ideas" in research reports. A short-term trade idea offers a short-term view on how a security may trade, based on market and trading events, and the resulting trading opportunity that may be available. A short-term trade idea may differ from the price targets and recommendations in our published research reports that reflect the research analyst's views of the longer-term (one-year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. It is possible, for example, that a subject company's common equity that is considered a long-term 'Hold' or 'Sell' might present a short-term buying opportunity as a result of temporary selling pressure in the market or for other reasons described in the research report; conversely, a subject company's stock rated a long-term 'Buy' or "Speculative Buy" could be considered susceptible to a downward price correction, or other factors may exist that lead the research analyst to suggest a sale over the short-term. Short-term trade ideas will be identified as such in the research report and the factors underlying those ideas and the risks associated with them will be described in the research report. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm generally does not intend, and does not undertake any obligation, to maintain or update short-term trade ideas. Short-term trade ideas may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your salesperson for more information regarding Canaccord Genuity's research.

For Canadian Residents:

This research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this research and its dissemination in Canada. Canaccord Genuity Corp. is registered and regulated by the Investment Industry Regulatory Organization of Canada (IIROC) and is a Member of the Canadian Investor Protection Fund. Canadian clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular province or territory.

For United States Persons:

Canaccord Genuity Inc., a US registered broker-dealer, accepts responsibility for this research and its dissemination in the United States. This research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Inc. Analysts employed outside the US, as specifically indicated elsewhere in this report, are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity Inc. and therefore may not be subject to the FINRA Rule 2241 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

For United Kingdom and European Residents:

This research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Conduct Authority. This research is for distribution only to persons who are Eligible

Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Conduct Authority.

For Jersey, Guernsey and Isle of Man Residents:

This research is sent to you by Canaccord Genuity Wealth (International) Limited (CGWI) for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by an affiliate of CGWI for circulation to its institutional clients and also CGWI. Its contents have been approved by CGWI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CGWI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser.

CGWI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CGWI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Genuity Group Inc.

For Australian Residents:

This research is distributed in Australia by Canaccord Genuity (Australia) Limited ABN 19 075 071 466 holder of AFS Licence No 234666. To the extent that this research contains any advice, this is limited to general advice only. Recipients should take into account their own personal circumstances before making an investment decision. Clients wishing to effect any transactions in any financial products discussed in the research should do so through a qualified representative of Canaccord Genuity (Australia) Limited. Canaccord Genuity Wealth Management is a division of Canaccord Genuity (Australia) Limited.

For Singapore Residents:

This research is distributed pursuant to 32C of the Financial Advisers under an arrangement between each of the Canaccord Genuity entities that publish research and Canaccord Genuity Singapore Pte. Ltd who is an exempt financial adviser under section 23(1)(d) of the Financial Advisers Act. This research is only intended for persons who fall within the definition of accredited investor, expert investor or institutional investor as defined under section 4A of the Securities and Futures Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity Singapore Pte. Ltd. (Contact Tel: +65 6854 6150) in respect of any matters arising from, or in connection with, the research.

For Hong Kong Residents:

This research is distributed in Hong Kong by Canaccord Genuity (Hong Kong) Limited which is licensed by the Securities and Futures Commission. This research is only intended for persons who fall within the definition of professional investor as defined in the Securities and Futures Ordinance. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity (Hong Kong) Limited. (Contact Tel: +852 3919 2561) in respect of any matters arising from, or in connection with, this research.

Additional information is available on request.

Copyright © Canaccord Genuity Corp. 2016 – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited. 2016 – Member LSE, authorized and regulated by the Financial Conduct Authority.

Copyright © Canaccord Genuity Inc. 2016 – Member FINRA/SIPC

Copyright © Canaccord Genuity (Australia) Limited. 2016 – Participant of ASX Group, Chi-x Australia and of the NSX. Authorized and regulated by ASIC.

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, Canaccord Genuity Inc or Canaccord Genuity Group Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.