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More extraordinary growth in next 12 months

Company/ASX Code	PolyNovo / PNV
AGM date	Tuesday 26 October 2021
Time and location	1.00 pm AEDT - Virtually through https://web.lumiagm.com/323860325
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Paul Fanning assisted by Mike Robey
Pre AGM Meeting?	Yes with Chair David Williams on Monday 4 October

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.

Item 1	**Consideration of financial accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Polynovo Limited (PNV) has developed of 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 biodegradable medical devices.

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.

Financial performance

The company reported its first breakeven/profit, excluding non-cash expenses. This significant milestone was achieved with strong sales growth and significant investment in sales personnel.

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.

Key events

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 continued sales growth globally, most 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 and increased staff 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 their distributors to reach new geographies and grow revenue. Finland, Belgium, Netherlands, Luxembourg, Greece, Turkey, Poland, Italy, and Taiwan were added in FY21. Further countries will be added in FY22.

Key Board or senior management changes

• Appointment of Mr Andrew Lumsden as an additional director on 4 June 2021

• Resignation of board directors Mr Max Johnson and Mr Phillip Powell on 13 November 2020

• Appointment of Chief Operating Officer Mr Anthony Kaye on 9 November 2020

ASA focus issues

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 a number of 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.

Key Financials

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	(4.61)	(4.19)	(3.19)	(5.97)	(5.01)
Share price ($)	2.82	2.54	1.54	0.54	0.21
Dividend (cents)	0	0	0	0	0
Simple TSR (%)	11	64.9	154.8	154.8	(25)
EPS (cents)	(0.69)	(0.63)	(0.48)	(0.95)	(0.89)
CEO total remuneration, statutory ($m)	2.62	2.13	0.32	0.35	0.49

For 2021 year, the CEO's total actual remuneration was **31 times** the Australian Full time Adult Average Weekly Total Earnings of $92,034.80 (based on November 2020 data from the Australian Bureau of Statistics).

Item 3	**Re-election of Bruce Rathie as a Director**
ASA Vote	**Against**

Summary of ASA Position

Mr Rathie was appointed a director of PolyNovo on 18 February 2010. He is an experienced company director with a finance and legal background. He practised as a partner in a large legal firm and acted as senior corporate counsel to Bell Resources Limited in its early years. He then studied for his MBA in Geneva and embarked on his 15-year investment banking career. When head of the Industrial Franchise Group at Salomon Smith Barney he led Salomon's roles in the Federal Government's privatisation of Qantas, Commonwealth Bank (CBA3) and Telstra (T1). He now has over 20 years' experience as a full time professional non-executive director.

He is currently Chairman of Capricorn Mutual Limited and a non-executive director of ASX listed Cettire Limited (ASX:CTT), Capricorn Society Limited and Australian Meat Processors Limited. In the medical device space, he is currently Chairman of ASX listed 4DMedical Limited (ASX: 4DX) and was previously Chairman of ASX listed Anteo Diagnostics Limited and a Director of Compumedics Limited and USCOM Limited. Mr Rathie has a shareholding of 3.05 million shares in PolyNovo.

The ASA does not support Mr Rathie's re-election. Firstly, given the length of tenure on the broad 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.

Item 4	Election of Andrew Lumsden as an additional Director
ASA Vote	**For**

Summary of ASA Position

Mr Lumsden was appointed a director of PolyNovo on 4 June 2021. He is an accomplished chartered accountant and finance executive with more than 20 years' experience locally and internationally. He holds a Master of Arts in Accountancy and Finance (First Class Hons), is an Associate of The Chartered Governance Institute and a member of the Australian Institute of Company Directors. Mr Lumsden is currently Global Chief Operating Officer of Wellcom Group Pty Ltd (formerly Wellcom Group Limited) having previously held the roles of Chief Financial Officer and Company Secretary. Prior to joining Wellcom, Mr Lumsden was a senior manager within the Audit and Assurance practice of PricewaterhouseCoopers.

We are pleased with the skills and expertise that Mr Lumsden will bring to the board. Clearly his forte is accountancy and finance from which the company and board should benefit in his first non-executive role, we support Mr Lumsden's election to the board.

Item 5	Amendment to Managing Director's Long-term Incentive
ASA Vote	**Against**

In the 2020 LTI plan, PolyNovo granted shares up to the value of $10 million dollars in three equal tranches to the Managing Director, Mr Paul Brennan. The vesting hurdle for the share awards is aligned to PolyNovo's market capitalisation reaching and maintaining at all times, $2 billion dollars for a minimum period of three consecutive months in the relevant financial year. This is equivalent to PolyNovo's share price trading at all times above $3.03 for a continuous three-month period. Once vested, the shares can be allotted in three tranches as follows: Tranche 1: 1,100,110 shares, vest over 2 years; Tranche 2: 1,100,110 shares, vest over 2 years; and Tranche 3: 1,100,110 shares, vest over 3 years. Any unvested shares will be cancelled at expiry on 30 June 2023 or on the date of termination or cessation of employment. Once vested, fifty percent (50%) of the shares will be in escrow for twelve months and the remaining fifty percent (50%) for twenty-four months. This plan would permit the award even if the market capitalisation target was achieved by acquisition or merger, so was insufficiently directly tied to the performance of the CEO. Hence the 50.3% against vote for the remuneration report in 2020.

Given the significant first strike PNV proposed amendments to the 2021 plan. These include a) Increase the size of the tranches to 1,320,132 shares (to accommodate the drop in share price in the intervening year) in each of FY22, FY23 and FY24, subject to the satisfaction of the applicable milestones. b) Shares in the Company can be earned only if the Company share price reaches and is always, no less than $3.03 for three (3) consecutive months in the relevant financial year. The share price hurdle is based on a $2 billon market capitalisation *based on the current number of shares on issue* i.e., removing the loophole of a market capitalisation increase by acquisition. 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.

On that basis we will not be supporting this item.

Item 6	Adoption of Remuneration Report
ASA Vote	**Against**

Summary of ASA Position

See the commentary above for the background to the changes from the 2020 remuneration report.

The renumeration structure for the managing director and senior managers (KMP) has three components: a) Fixed annual compensation comprising salary and benefits, superannuation, and non-monetary benefits; b) Medium-and long-term incentives (LTI), through participation in the PolyNovo Employee Share Option Plan (the Plan) with share price thresholds to be achieved; c) Short-term incentives (STI), through a bonus scheme dependent upon performance against objectives and targets linked to PolyNovo's overall corporate strategy.

We appreciate that biotechnology companies generally do not make a profit until a drug or device is licensed or commercialised, which may take a number of years, so incentive plans must take this into account, and use milestones, such as FDA approvals, and the like.

Furthermore, the biotechnology sector is highly volatile, and can be driven by market sentiment and are inherently high risk. The direct link of compensation policy with key financial performance measures such as total shareholder return (TSR), net earnings per share or Company revenue, in the view of the Board, is more suited to more established businesses.

The ASA however has further reservations, in that share-based allocations are calculated using fair value, by the Monte Carlo simulation method, and not face value; STIs are based on a 100% cash payment, rather than 50% cash and 50% deferred equity and as we discussed above, the MD's LTI is too complex, and components of it allow for retesting. For these reasons we will not support this remuneration report this year.

Item 7	Spill motion (contingent resolution)
ASA Vote	**Against**

Summary of ASA Position

The ASA supports the two strikes policy but considers a board spill is generally too disruptive and, in most cases, not in shareholders' interests. We prefer in this instance to retain most of the talent on the existing board (see re-election commentary above) and have them change the remuneration structure to one which is aligned to shareholder value creation, is easier for shareholders to understand, does not permit retesting, uses face value for shares and is a challenge for the Executives.

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