

MARCH 2017

# RHINOMED

CHANGING THE WAY THE WORLD BREATHE

## INVESTOR NEWSLETTER



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# MESSAGE FROM THE CEO

Shareholders,

Welcome to the first Investor Newsletter for 2017. We are pleased to report that Rhinomed has continued another solid 12 months of achieving our major milestones. At the end of 2015 Mute was only available in a little over 900 stores, 12 months later and Mute is now sold in over 3000 stores globally.

Pleasingly this has been linked to a strong uplift in revenues as more and more customers are able to access Mute from their local pharmacy. Revenues reached a record \$1.2M for the first six months of FY17, eclipsing the entire FY16 result.

Rhinomed's unique branded technology is slowly building a significant presence in the global consumer and clinical sleep markets. Our strategy, which we outlined four years ago, is to build a global franchise in breathing and sleep; we are making steady progress in that endeavour.

Our strategy is built on a key assumption: that the global interest in the importance of sleep quality and quantity will continue to grow rapidly. This assumption has proven to be well founded. Medical research continues to be published linking poor sleep to a range of chronic health issues, from dementia and alzheimer's, through to cardiac health. While the link between poor sleep and cognitive impairment has long been recognised, primarily in the transport industry, what is increasingly being highlighted by the likes of media gurus, such as Arianna Huffington, is the link between poor sleep and everyday health and wellness.

We continue to believe that one of the most high value areas for innovation in this market is the link between sleep and respiration. In essence, if you can breathe better at night, you sleep better. Something which anyone who has ever suffered from a bad 'nose' cold can tell you! Rhinomed is perfectly positioned to deliver on this opportunity with our low cost, low invasive, front line solutions.

Our key focus is growing our retail footprint. It was only one year ago that we were just beginning our relationship with Boots in the UK. Some 12 months later and that relationship has been expanded to include the iconic Walgreens and Duane Reade pharmacies in the USA - all part of the global health and beauty pharmacy chain Walgreens Boots Alliance Inc. It is worth considering that there are not many Australian developed brands on the shelves of Walgreens and Boots, and that's something we can all be justifiably proud of. What is particularly pleasing is that as we grow this footprint we have managed to maintain our strong gross margins in excess of 70%.

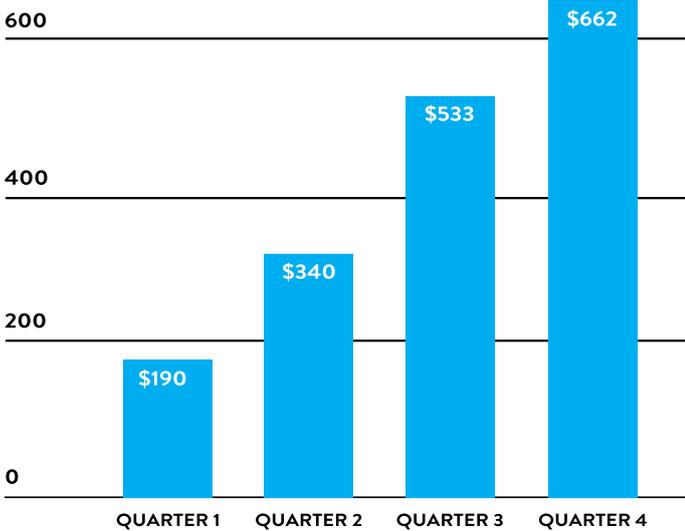
Your company finished 2016 in a strong position completing two important distribution deals. The first was with Vittoria Industries. Vittoria are global leaders in cycling equipment and we are thrilled that they are taking Turbine and Mute to market in the USA. The second was with the global sleep services and distribution company The Linde Group and its Australian subsidiary BOC Ltd. The Linde Group is the market leader when it comes to distribution of sleep apnea equipment and sleep studies and they have a particularly strong presence in the USA. BOC will distribute, sell and provide logistic support for Mute in Australia and New Zealand. They will also take on a similar logistics role for Turbine.

Globally, the interest and importance of sleep and breathing are high on the agenda. While the impact of sleep disordered breathing, snoring and sleep apnea are gaining increasing levels of public attention, at the retail level the focus has largely been on helping people "get to sleep". With a multitude of apps now dedicated to showing you how well (or not well) you are sleeping, there has been little focus on what to do with this data and how you can take action to improve your sleep. Rhinomed sees an enormous opportunity to support people in their breathing, which will ultimately also impact their ability to stay asleep and awake feeling more refreshed.

## SALES MOMENTUM

Rhinomed is well placed to have an exciting 2017. We have established science with impeccable provenance in one of the fastest growing consumer health markets. Pleasingly, our sales momentum continues with the Company recently reporting a record half yearly revenue result of \$1.2 million. This follows another strong quarter of operational revenue of \$662k.

### SALES REVENUE CALENDAR YEAR 2016



To support our growing retail presence in the USA we have built an independent sales team to cover 24 states. These commission only sales representatives are focusing on medical equipment stores, sleep labs, sleep dentists and independent pharmacies. Our team also attended the important trade-related buyer event, ECRM 'Cough, Cold and Allergy' show in Florida in early February, which has added further opportunities to our pipeline.

Our PR efforts in the US are gaining traction with 12 TV segments filmed across news and morning shows in the past 2 months, as well as articles featured in Marie Claire, Brit + Co and Health Central amongst others. Learning that Mute is being referred to patients by respected leaders in the field, such as Dr Michael Gelb, from the Gelb Centre in New York, is a great acknowledgement of the in-roads Rhinomed is making.

We were particularly excited to have Mute featured on 'LIVE with Kelly', the syndicated morning TV show that has a viewership of over 2.5 million! The segment shows 'The Sleep Doctor', Dr Michael J Breus present a 'Snoring Survival Guide'. What is most pleasing is that this happened organically. We don't have any form of relationship with either the doctor who mentions Mute or the program.

It's a great indication that Mute is slowly building a very real and strong brand presence in the rapidly growing US consumer sleep technology market.



Watch it here: <https://youtu.be/PAtSXsriOwk>

In line with these developing opportunities, our share register continues to strengthen. Amongst the top 10 holders are two significant US investors who have bought their entire holdings on market in the last 8 months.

There are considerable opportunities ahead of us in 2017. While we continue to focus on driving sales, we also plan to support our product claims through additional clinical research, which could also broaden marketing opportunities for Mute. The pipeline of retail distribution opportunities both in the AsiaPac and the North American markets are significant. Strong interest from Asia and Europe is also emerging.

Finally, dialogue continues with potential partners. We continue to de-risk the company and its technology and provide clear evidence that our technology platform is of high value to the right partner. Recent visits to the US have also helped build conversations at the corporate, clinical and distribution level, which we will be pleased to report on in due course.

I look forward to your ongoing support of the Company throughout the year.



**MICHAEL JOHNSON**  
MANAGING DIRECTOR  
& CEO  
@rhinomedceo

# MUTE UPDATE



We “Muted” the BOC team!

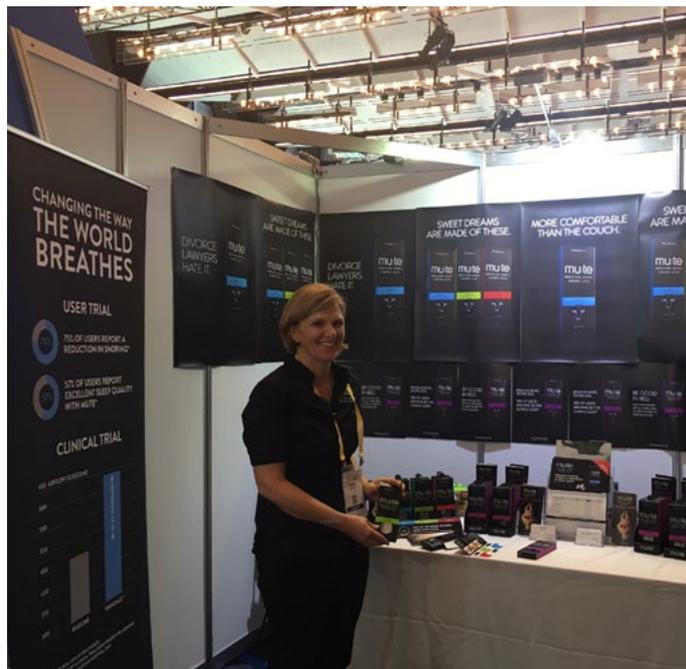
## TRADE UPDATE

We were delighted to announce in December our new partnership with The Linde Group, through its subsidiary BOC Limited. The long term objective of the relationship is to help make sleep information and technology more accessible to individuals within the pharmacy context.

Under the agreement, BOC will distribute both Mute and Turbine within Australia and New Zealand. BOC is well known in Australia for its involvement in gas supply. However, the company also has a solid and extensive Health and Homecare business involved in sleep. BOC is a member of the global leader in sleep services and products - The Linde Group, which operates in over 70 countries with an annual turnover of more than €17billion (AUD\$24billion). Linde’s subsidiary, Lincare, is one of the largest suppliers of CPAP and sleep services in the US. Rhinomed already distributes through their online US store [www.1800cpap.com](http://www.1800cpap.com).

We anticipate revenues to start from this partnership in the second half of FY16/17.

*“By opening up a conversation at the pharmacy level about sleep and sleep related issues, we believe we can help patients connect into a wide range of solutions. Rhinomed’s Mute technology is both a brand and a technology that customers are drawn to and want to interact with and that’s a great starting point for that journey,” - BOC Head of Healthcare, Colin Smith.*



Mute showcased at Pharmacy Connect 2016

## INSPIRATIONAL STORIES

We continue to learn of inspirational stories involving Rhinomed’s products. Recently, we came across the story of Eddy’s struggle with fatigue. After battling many years of missed diagnoses and surgeries that did little to alleviate his problems, we are pleased that Mute is now part of his success story and strategy.

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**“Earlier this year I started testing a number of ‘nose dilators’, to physically keep my nose open during my sleep. The only one that worked, was from Mute Snoring. I’m still using that on a daily basis.”**

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Eddy Hagan,  
Belgium

You can read Eddy’s story ‘My 4-year long fatigue issue and how I recovered’ here:  
<http://www.insights4print.ceo/my-4-year-long-fatigue-issue-and-how-i-recovered/>

# TURBINE UPDATE



## TRADE UPDATE

The distribution agreement with Vittoria Industries establishes a strong on-the-ground US presence and support network that we have been seeking for Turbine. Vittoria Industries North America (VINA) is a wholly owned subsidiary of the iconic global tyre and wheel manufacturer, Vittoria Industries, Ltd., which also distributes leading brands such as Selle Italia, Opus, Catlike and 3T. Two agreements were entered into – one for Mute and an exclusive agreement for Turbine. Vittoria will help open sales avenues in new areas for Turbine, including independent bike stores, big box retailers, online e-commerce sites, as well as yoga and fitness clubs. It will be the first time Rhinomed’s products will also have access to the impulse buy retail market and high footfall retail areas, such as in Airport convenience stores, on cruise ships or in hotel chains.

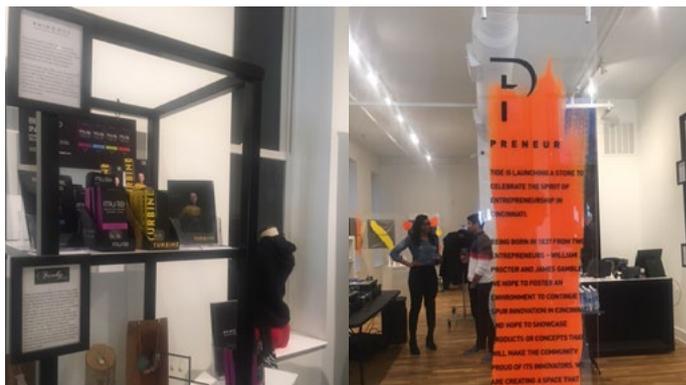
## TRIALING ‘FORMULA FROOME’

In late January we were delighted to welcome global cycling champion Chris Froome to Melbourne. Chris was here to train and compete in the 65th Herald Sun Tour with Team Sky. It was very fortunate we were able to spend some time with Chris during his busy schedule and update him on our developments and get his feedback and input on some of our exciting R+D programs.

As part of this process, Chris - and a couple of his team mates took a ‘sneak peak’ at one of our early prototypes - a version of Turbine with a natural nasal decongestant. We will update shareholders on this exciting “Formula Froome” project as it develops.

## P&G POP-UP RETAIL OPPORTUNITY

Rhinomed was delighted to be invited to join the new P&G pop up retail marketplace ‘Preneur’ in Cincinnati. The retail store is about celebrating innovation and entrepreneurship in Cincinnati and to foster interactions between young and established companies in the city. As the home of Rhinomed’s US office, and also home to P&G’s headquarters, it is a great fit. The store will rotate around themes, with Rhinomed part of 12 companies covering ‘wellness’ to kick off the concept.



## RHINOMED IN THE MEDIA

Our sales figures to date show a strong correlation and return on investment between customer engagement and PR. As such, we are continuing to work on expanding our presence in the media. In the US, we are particularly focusing around states where Mute has a strong retail presence.

During December and January, we aired on American Airlines flights and the Lifetime Network. A video about Mute was available on all internal US American Airline flights. This enabled us to be accessed on 27,000 flights across all seat classes - or approximately 4.6 million travelers. To view the video, you can link to it here: <https://www.youtube.com/watch?v=nM3B5W73hY0&feature=youtu.be>



We are also very excited that Mute aired on the 'Access Health' show on Lifetime Network on 18th January in a segment 'Breathe Your Way to a Better Night's Rest'. This show is now syndicated and will air an additional 200 times across ABC, NBC, CBS, FOX and IND networks. We were particularly excited to have the highly regarded and knowledgeable, Nancy H Rothstein, 'The Sleep Ambassador', discuss Mute during the interview.



To watch the segment, you can view it here: <https://www.youtube.com/watch?v=rmJdSEAEw&feature=youtu.be>

Late last year, Rhinomed had the opportunity to meet with Dr Michael Gelb, US sleep dentist and 'dentist to the stars' from The Gelb Centre in New York. Dr Gelb has recently published the book 'GASPI: Airway Health - The Hidden Path to Wellness'. This book reiterates Rhinomed's message on the importance of unobstructed breathing and we are delighted that Mute rates a mention! It is a great read for anyone interested in learning more about sleep disordered breathing and the impact our airways are having on our health. We congratulate Dr Gelb on already reaching 'Number 1 Best Seller' status on Amazon and are delighted that he finds Mute so useful in his practice he does. Offering a non-surgical option that can easily be tried in the dentist chair is certainly gaining attention.

Mute has recently been featured in lifestyle and health TV programs discussing 'Healthy holiday energy and stress makeovers', 'Natural sleep remedies' and 'New Year, New You' segments on US TV stations KSAT TV ABC, KABB-TV, WOAI-TV, WXIX-TV, WKRC-TV, WLWT-TV, WSTR-TV, FOX35 and WCPO-TV.

In print media, we have been included in high profile magazines, such as Marie Claire, Brit + Co, Readers' Digest and Lifezette. The respected industry publication 'Sleep Review Magazine' also covered our new relationship with Linde.

To take a peek at some of the segments - you can view on our website or social media channels at [mutesnoring.com](http://mutesnoring.com) @mutesnoring #mutesnoring

## PIPELINE UPDATE

We are continuing to scope further clinical work for Mute in the nasal congestion area, as well as for INPEAP in sleep apnea. The INPEAP early stage phase I clinical results that we outlined in the Winter 2016 newsletter, provide strong support for us to continue design refinements for this potential product. The Phase I trial showed efficacy plus a 73% adherence rate, with an average of 4.79 hours of usage per night. Significantly, the adherence in this trial was greater than CPAP and the overall mean usage was greater than CPAP.

The Cough, cold and allergy market currently stands at US\$9.5billion, with 4% currently directed to nasal products<sup>1</sup>. The Mute 'Clear' project is targeting a next generation multi formulation platform with an overnight nasal decongestant. Envisaged to be a class 1 product, the Company intends to return to design development and market evaluation of this potential product during 2017.

<sup>1</sup> Drug Store News, February 2016. Source: IRI 52wks end Dec 27, 2015 US multi outlet

# THE IMPORTANCE OF NASAL BREATHING



The US Center for Disease Control is calling sleep deprivation a public health epidemic. Studies show that approximately 70 million Americans are suffering from a chronic sleep disorder. Your body uses sleep as a time to strengthen memory, heal tissue, rebuild and replenish your cells. Research is continuing to link poor sleep to a range of health issues, including cardiac health. According to the University of Michigan Sleep Disorder Centre, less than 7hrs of sleep is problematic and can impair your levels of reasoning, productivity and problem solving skills.

Importantly for Rhinomed, 85% of the population of airway, sleep and breathing disordered patients are still unrecognised and undiagnosed (Gelb M & Hindin H, 2016). Capturing this potential market at the retail and pharmacy level presents a strong market growth opportunity for the Company.

The importance of the nose in sleep and breathing is continuing to gain attention in international research. It is now recognised that one in four people have a problem breathing through their nose (Jenson et al. Allergy 1997;52 (Supp/40):3-6.). Nasal congestion is an important symptom in many diseases of the upper airways (Hilberg O. Allergy 2002;57 Suppl. 70:5-39). The nose is also responsible for at least 50% of total airway resistance. As such, any form of nasal obstruction will have a significant effect on airflow. Nasal resistance particularly increases when people sleep on their backs because of mucosal congestion (Duggan et al. J Asthma 2004;41:701-707).

Quite simply, the nose is the healthiest, most efficient and effective way to breathe. Yet, most of us are not even aware of how we breathe, especially during the night.

The nose is the start of the airway. Yet the nasal valve area is not a simple structure, but a complex three-dimensional construct consisting of several structures. It is also the place of maximum nasal flow resistance (“flow limiting segment”) from a physiology standpoint. As a result even minor constrictions or obstructions in this area can result in a clinically relevant impairment of nasal breathing for the patient.

Poiseuille’s law describes the fact that the flow ( $V/t$ , volume per unit of time) is directly proportional to the radius of the pipe ( $r$ ) and the pressure difference ( $p_1 - p_2 = \Delta p$ ) and inversely proportional to the length of the pipe ( $l$ ) and the viscosity of the liquid ( $\eta$ ).

$$V/t = (\pi * r^4) / (8 * \eta * l) * (p_1 - p_2)$$

Poiseuille’s law shows that an insignificant constriction/obstruction of the nose results in a marked decrease in the flow rate of air, since the radius of the nose changes the flow to the power of four; (i.e. if the cross-sectional area of the nasal valve is halved, the resistance will rise 16-fold,) and if the pressure difference is unchanged, the volume flow rate will decrease to a sixteenth.

Simply put, Mute, by stenting the nose, prevents these obstructions and utilises Poiseuille’s law to ensure you potentially experience a 16 fold increase in airflow.

Because your nose plays such an important part in respiration, poor nasal breathing can often be connected to Sleep Disordered Breathing. As a result, how well your nose works can directly impact and affect the quality and quantity of sleep you get every night. So if you want to sleep better, start by breathing better. And the starting point for better breathing is right at the beginning of your airway - your nose!

**IMPORTANT:** Mute nasal device is not for the treatment of sleep apnea. If you think that your snoring may be a symptom of sleep apnea, you should consult your doctor or a sleep specialist.



## FORWARD LOOKING STATEMENT

Any forward looking statements in this document have been prepared on the basis of a number of assumptions which may prove incorrect and the current intentions, plans, expectations and beliefs about future events are subject to risks, uncertainties and other factors, many of which are outside Rhinomed Limited's control. Important factors that could cause actual results to differ materially from any assumptions or expectations expressed or implied in this newsletter include known and unknown risks.

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**Michael Johnson, CEO**  
Level 1, 4-10 Amsterdam Street,  
Richmond, Victoria 3121

tel: +61 (0) 3 8416 0900  
info@rhinomed.global

RHINOMED.GLOBAL  
ASX: RNO

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