MARKET UPDATE – INCREASE IN NANO PRODUCTION ON RISING GLOBAL DEMAND

Nano production being scaled up in response to unprecedented COVID-19 market demand and conditions

Adelaide, Australia, 26th March 2020: Australian hi-tech company Micro-X Ltd (ASX:MX1) (**Micro-X** or the **Company**), a leader in cold cathode X-ray technology for health and security markets globally, provides the following Market Update of a major scale up in production of the *Carestream DRX Revolution Nano* (the **Nano**).

Since last updating the market the Company has seen further increased demand for Carestream's Nano product to meet the rapidly growing global need for diagnostic X-ray imaging associated with the COVID-19 pandemic. The Board of Micro-X has today approved a strategic decision to position the Company for these changed market conditions by scaling up the capacity and readiness of the Nano production line. This is to ensure Micro-X can meet the burst-order volumes and reduced delivery time requirements which characterise this new global purchasing trend.

Key Points

- **Additional $0.6M Nano purchase orders – total orders this Quarter now $2.4M**
- **Changing market conditions - sustained, major increase in demand for mobile x-ray units**
- **Meeting high volumes with < 4 weeks delivery times now key to securing Nano orders**
- **Nano production peak capacity scaling up to 2 units per day**
- **Cost benefits with higher production volumes and reduced cycle times**
- **Supply chain secured with staged investment in inventory and finished goods**
- **Small CapEx investment in equipment for increased tube manufacture throughput**
- **USD strength against AUD increases customer receipts and overall gross margins**
- **Prudent cash management in all other areas of the business to manage funding runway**

Ramp up in Nano production

As recently announced, orders for the Nano have increased significantly in the past quarter. In addition to the $1.8M in sales orders previously announced in the March quarter, the Company has received further orders totalling $0.6M. While it is difficult to predict the scale and nature of the possible increase in Nano sales, the Company's view is that the increasing demand for mobile x-ray imaging is clear and demonstrable and there is strong market feedback that Nano is well designed to meet the imaging needs of a COVID-19 response. Capitalising on this demand requires an ability to provide bursts of high volume deliveries in a rapid response of 4 weeks or less from the date of order, as compared to the normally expected business terms of 8-12 weeks delivery time.

This scaling initiative has been in planning for some time and involves the three key elements of the production process, namely, material inventory, production equipment capex and staffing. As previously reported, the Company has designed its facility and Nano/Rover assembly line to be easily scalable to 4 units per day on a single shift and is now investing in implementation towards that. While funding will be staged with production volume, the Company is committing an initial $1 M for increased inventory levels and $0.6 M for equipment capex so that the resulting increased production capacity will be available in stages from May culminating in July 2020. These commitments were originally planned to have been incurred in subsequent financial years but are now being accelerated to meet this unexpected growth in demand. The Tonsley facility has sufficient floor space and utilities to support this growth without any further changes.

From a supply chain perspective, the Company has been engaging with all vendors, particularly those with long lead times, to secure increased inventory levels of the critical raw materials and components. This commitment to acquire in higher volumes enables us to achieve a reduction in overall costs of goods. Associated with these increases in material

inventory the Company also plans an increase in sub-assembly and substantially finished Nano units. This is a shift from previous manufacturing policy which has been on a just-in-time basis due to the early growth stage of the business. This intended inventory of completed or partially-completed Nano units will allow a highly responsive delivery time for new orders while the modularity of the Nano design preserves the flexibility to build for each region's unique configurations. It is expected that all raw material and finished goods inventory will remain useable for up to 5 years due to the large commonality of parts between the Nano and the Rover.

These increased production rates will require a small investment in additional processing equipment in the new, purpose-built x-ray tube production facility in Tonsley. This investment in capital equipment will support a daily throughput of at least 2 x-ray tubes.

The final element is accessing and training flexible, additional production staffing. This will be introduced as needed with the expectation that a second manufacturing shift may be required at some stage. Wherever possible, employee costs and commitments will be managed with the expected variable production requirements of the Nano.

Rover Production

Because of the high level of parts commonality between Nano and Rover, both products will be built on the same production line and the volume, supply chain improvements and cost reductions will directly translate to the Rover product from later this calendar year.

Capital Management

Micro-X is carefully managing its cash position in the light of current uncertainty in capital markets to ensure the length of its funding runway.

As the Nano unit is priced in United States dollars (USD), the recent approximately 20% devaluation of the Australian dollar against the USD will have a favourable impact on customer receipts and gross margin earned on each Nano notwithstanding that some imported components are denominated in USD.

Micro-X's Managing Director, Peter Rowland, commented:

"We are responding rapidly but very carefully to this unprecedented shift in the scale and market dynamics for mobile medical X-ray units by increasing our production capacity and responsiveness for the Nano. We see bringing forward our planned investment from next year as a key strategic decision to position the Company to best respond to the explosion in market demand we have seen from this global pandemic.

Our supply chain focus is to build supporting inventory levels and add the capital equipment to build 2 Nano units per day in the coming months with a target to be able to offer delivery within less than two weeks. Whilst this ramp up will impact our short term cashflow, we see this is a prudent decision in the long run as we will driver greater margins at these higher volumes and all spare parts and finished goods inventory will be saleable for some time to come. We will also derive greater revenues as more Nano units are sold and deliver greater margin contribution. This ramp up also extends margin and delivery benefits for the Rover product, expected to come online later this year."

This ASX Announcement is authorised by the Board of Micro-X

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About Micro-X

Micro-X Limited (the **Company**) is an ASX listed hi-tech company developing and commercialising a range of innovative products for the global health and security markets, based on proprietary cold cathode, carbon nanotube emitter technology. The electronic control of emitters with this technology enables X-ray products with significant reduction in size, weight and power requirements, enabling greater mobility and ease of use in

existing x-ray markets and a range of new and unique security and defence applications. The Company has its core R&D, engineering and production capability at its facility in Adelaide, Australia.

The Company's first product, the *Carestream DRX Revolution Nano*, is an ultra-lightweight digital medical x-ray system for the rapidly expanding mobile x-ray market in hospitals and healthcare. The *Carestream DRX Revolution Nano* holds 510(k) and CE Mark certifications and is sold commercially in a number of global markets by the Company's exclusive distributor, Carestream Health, Inc. The Company has a portfolio of innovative products in development, aimed at customer solutions where there is little or no competition. This includes the Mobile Backscatter Imager or MBI which will image Improvised Explosive Devices for airport security, defence and counter-terrorism applications. The MBI is being jointly developed in partnership with Thales, a global supplier of defence and security technology systems, who are providing technical support and $10 million of funding.

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