

**Recent Events:** *Aytu's business model is gaining momentum through acquisitions, in-licensing, co-promotion arrangements and organic growth. Revenue for the first fiscal 2021 quarter (ended 9/30/20) increased nearly ten-fold over the year-ago quarter to \$13.5 million, putting the annualized revenue run rate at \$54 million. The adjusted EBITDA loss for the period dropped to \$1.3 million, suggesting a solid move toward profitability.*

## KEY CONSIDERATIONS

- The acquisitions of the Cerecor Portfolio in late 2019 and Innovus Pharmaceuticals in early 2020 furthered Aytu's founding strategy of acquiring differentiated products in large, well established markets where a small share can represent significant revenue.

- The acquisitions expanded Aytu's Rx portfolio from three products to nine, created a consumer healthcare unit with more than 20 products sold direct to consumers, strengthened its in-house Rx sales organization, and helped open multiple cross-selling opportunities in family practice and pediatric doctor offices nationwide.

- The company also initiated co-promotion arrangements for three of its Rx products, expanding its reach into specialty practices not normally covered by Aytu's internal sales force.

- In response to urgent national needs in fighting Covid-19, Aytu secured exclusive channel licenses to a rapid point-of-care Covid-19 antibody test and a rapid Covid-19 antigen test, and licensed rights from Cedars-Sinai Medical Center to Healight®, a novel UV(A) light therapeutic device currently in human clinical trials for Covid-19 lung infections. The first Healight safety study in humans is now complete.

- The addressable markets covered by Aytu's 40+ Rx and consumer health products total roughly \$54 billion.

- The company's founders, twin brothers Josh and Jarrett Disbrow, grew Arbor Pharmaceuticals until their stake was bought by KKR in a private transaction that valued Arbor at four times revenue, or just over \$1 billion. Shortly after their exit they formed Aytu.

## Aytu BioScience, Inc.

(Nasdaq: AYTU)

Recent Price:	\$6.00
52 Week Range:	\$3.35-29.90
Approx. Shares O/S:	17.8 Million*
Approx. Mkt Cap:	\$107 Million
Fiscal Year Ends:	June 30

\*After giving effect to a 1:10 reverse stock split in December 2020

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## AYTU RX PORTFOLIO

Aytu's Rx portfolio includes six core products detailed to pediatric and family practice physicians by the company's own sales force and through co-promotion agreements with three partner companies.

The portfolio includes a fast-acting sleep aid, the only 12-hour codeine-based cold-cough syrup, the only nasally delivered testosterone therapy and three core pediatric products acquired from Cerecor, including a proprietary line of prescription fluoride multi-vitamin supplements containing a novel body-ready folate for children.

**Sleep Aid—Fast acting ZopliMist®** is an oral spray formulation of the active ingredient in Ambien®, the most widely prescribed sleep aid.

**Cough-Cold—Tuzistra XR®**, an all-day, all-night cold-cough remedy, is the only FDA-approved codeine syrup indicated for 12-hour dosing.

**Low-T Therapy—Natesto®**, the only FDA-approved nasally delivered low-T therapy, is gaining popularity, especially among men with low-T who wish to continue family building.

**Antibiotic—Cefaclor®** is the only oral suspension of cephalosporin, a popular antibiotic.

**Antihistamine—Karbinal® ER**, an antihistamine from Cerecor, is expected to round out the seasonality of Aytu's Tuzistra XR.

**Fluoride Supplements—Poly-Vi-Flor® and Tri-Vi-Flor®** are two popular fluoride

## LATE BREAKING NEWS

On December 10, 2020, Aytu announced a definitive agreement to acquire Neos Therapeutics, Inc. (Nasdaq: NEOS), creating a combined company with \$100 million in *pro forma* revenue. Neos' established multi-brand ADHD portfolio will enhance Aytu's footprint in pediatrics and expand its presence in adjacent specialty care segments. The all-stock transaction is valued at \$44.9 million.

Neos generated \$57.0 million in revenue for the 12-month period ending September 30, 2020. Its multiple ADHD branded products address a \$8.5 billion market.

The planned acquisition continues Aytu's strategy to be a consolidator of choice in specialty pharma. Acquisitions completed in late 2019 and early 2020, transformed it from a \$7.3 million revenue company to one with a \$54 million annualized revenue run rate in close reach of profitability. The Neos transaction will expand Aytu's *pro forma* annual revenue to \$100 million.

Aytu management sees continuing opportunities for additional acquisitions.

"Our prime interest is companies with clinically-distinctive products in large, established markets," notes Josh Disbrow, CEO of Aytu. We can grow those products through our existing rep sales force and digital marketing capabilities and – importantly – eliminate redundant costs. We have deep product and marketing experience and a proven track record in managing the consolidation process."

The Neos transaction is expected to close by 2Q21.

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supplements in chewable tablets and drops that help overcome the deficiencies of non-fluoridated water. Estimates indicate 25 percent of Americans live in areas where water is not treated with fluoride, despite its proven benefits.

### FINANCIAL HIGHLIGHTS

On November 12, 2020, Aytu reported results for its first fiscal 2021 quarter ended September 30, 2020, posting net revenue of \$13.5 million, a roughly eight-fold increase over the year-ago period. Consumer health net revenue reached an all-time high of \$7.8 million vs \$6.9 million in 4Q20, and Rx revenue was \$5.8 million, compared to \$1.4 million in the year-ago quarter, a more than three-fold increase.

Adjusted EBITDA for the quarter produced a loss of \$1.3 million, the lowest in the company's history.

The first quarter of fiscal year 2021 was the second full fiscal quarter that combined the operations of Aytu's legacy business with those of its two recent acquisitions, Innovus Pharmaceuticals and the Cerecor Portfolio.

1Q21 gross profit was \$9.7 million compared to \$1.1 million in the year-ago quarter. The 1Q gross profit margin was approximately 72 percent compared to 74 percent for 1Q a year-ago, which is in line with expectations of 70-75 percent gross margins going forward, depending on business mix.

Operating expense for 1Q21, excluding cost of sales and non-cash amortization expense, was \$11.7 million compared to \$5.2 million in the year-ago quarter.

The ratio of revenue to operating expense for 1Q21, excluding cost of sales and amortization, was approximately 1.15x, almost four times stronger than last year's ratio of 0.3x.

This narrowing of losses was accomplished by removing redundant costs from acquired operations, the effect of greater scale on absorbing proportionally less operating expense, and a continuing focus on growth and cost control.

The net loss for the quarter was \$4.3 million, or 4 cents per share, compared to a loss of \$4.9 million, or 32 cents per share, in last year's 1Q based on shares outstanding of 121.6 million and 15.3 million respectively.

For the quarter ended September 30, 2020, Aytu reported assets of \$141 million, equity of \$91 million, and approximately \$38.2 million of cash.

A financing subsequent to the quarter's close brought *pro forma* cash to approximately \$60 million.

### WELCOME INNOVUS!

Early last year Aytu completed the purchase of publicly traded Innovus Pharmaceuticals, a transforming acquisition giving Aytu a foothold in the \$40 billion consumer healthcare products market at a time when more and more people are taking more control of their healthcare options.

Innovus, which is now Aytu's Consumer Health unit, markets more than 20 consumer healthcare products, mainly through direct-to-consumer channels. The line-up includes OTC products for diabetes, men's health, urological and sexual wellness, respiratory health, and general wellness.

One of its lead products, FlutiCare® for relief of seasonal allergies, ranks No. 2 in Amazon sales behind GSK's Flonase®, a roughly \$300 million product.

Aytu Consumer Health has aggressive plans for new products, recently evidenced by the launches of Regoxidine® to compete with Rogaine® (minoxidil) for hair loss, and OmepraCare® to compete against Prilosec® in the acid reflux market. Sold at lower price points than their competitors,

both are becoming best sellers on the unit's e-commerce platforms

Innovus contributed \$7.8 million to FY21 1Q net revenue, up from \$6.9 million in FY20 4Q.

### CO-PROMOTION AGREEMENTS

Aytu augments its internal Rx sales force with co-promotion agreements to expand its marketing reach into specialist physicians' offices with no appreciable increase in SG&A.

--Acerus Pharmaceuticals of Canada is detailing Natesto to US urologists and endocrinologists with a sales force of roughly 20 totally dedicated to Natesto.

--Poly Pharmaceuticals' nearly 30-person sales force is co-promoting Tuzistra XR to approximately 5,000 prescribers through the current cough and allergy season.

--Validus Pharmaceuticals' dedicated sales force specializes in psychiatry products and is co-promoting quick-acting sleep aid ZolpiMist. In the year ending August 2019, psychiatrists wrote 27 million scripts for oral Ambien, worth \$163 million at wholesale.

### SUMMARY

- **Aytu has transformed itself into a fully diversified marketer of specialty prescription and consumer healthcare products via two recent acquisitions.**
- **Based on FY21 1Q results, top line revenue is running at an annualized rate of \$54 million. EBITDA loss shrank to \$1.3 million in the most recent quarter, suggesting profitability may be reached in the near future.**
- **Aytu's six core Rx products are detailed directly to physicians through a sales rep footprint of more than 90 professionals, including co-promotion personnel.**
- **The company's consumer healthcare business has e-commerce access to millions of motivated health conscience consumers.**
- **Keep an eye on Natesto, as more men discover they can father children, even as they avail themselves of FDA-approved low-T therapy. For Aytu, it foretells an unmatched advantage in the \$1.7 billion US low-T therapy market.**
- **Keep an eye on the Healign UV(A) technology as it proceeds through clinical trials for the treatment of viral and bacterial lung infections with a current focus on Covid-19.**
- **Seasoned management team is well equipped to execute on current programs and prepare for the next phase of growth - which includes acquiring more high value products.**
- **Cash at September 30, 2020 stood at \$38.2 million, and the company announced the closing of a \$28.75M financing on December 15, 2020, bringing *pro forma* cash to over \$60 million.**

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