NASDAQ: AYTU

2023 | SHAREHOLDER LETTER

Aytu BIOPHARMA

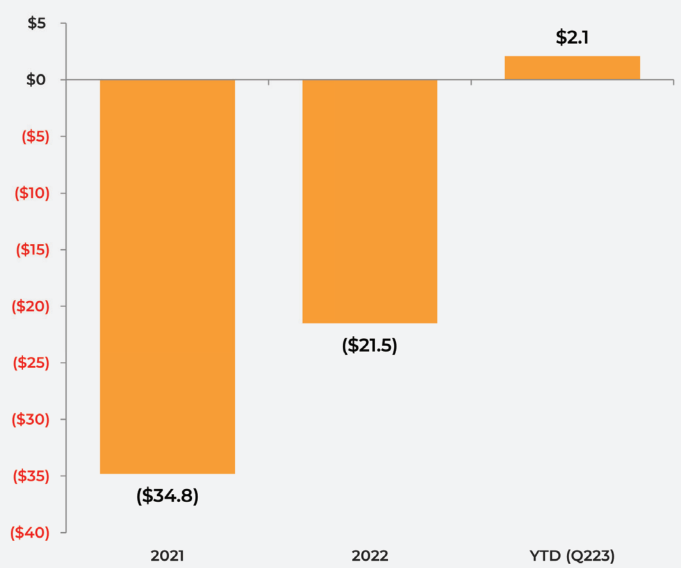
Dear Aytu BioPharma Shareholders,

This past year has proven to be ***transformational*** for Aytu BioPharma.

We made the strategic decision in October 2022 to focus our efforts on achieving revenue growth, while, more importantly, focusing on profitability in our commercial operations. To achieve these goals in the near term, we made the difficult decision to indefinitely suspend our clinical development programs. In today's economic environment, access to capital has become prohibitively expensive for development programs. Thus, it was in the best interest of all stakeholders, for us to focus our efforts on generating free cash flow and net income. From our perspective, this change has positively altered the path forward for the company.

Following that strategic decision, we reported two consecutive quarters (September 2022 and December 2022) of positive Adjusted EBITDA[1], driven by continued strong revenue growth within our Rx segment, improvement in gross margins across the entire organization, and the significant reduction of clinical development expenses. Achieving positive Adjusted EBITDA for the first time in company history was clearly a key milestone for Aytu. We are optimistic that these positive recent trends will continue as we implement further strategies to improve operating margins and profitability, including the anticipated production outsourcing of our ADHD portfolio.

Adjusted EBITDA* ($ in Millions)



Generated second consecutive quarter of positive Adjusted EBITDA in Q2 2023 (Dec)

[1] See reconciliation of Adjusted EBITDA in Appendix.

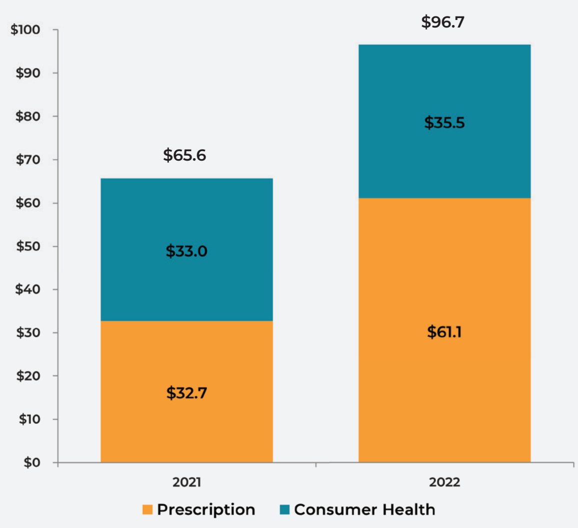
*June 30 Fiscal Year-End

Another key step we took was to enact a series of executive leadership changes aimed at aligning the skills of our key leadership team members to the goals of driving revenue growth, improving gross margins, further consolidating operations to reduce expenses, and driving long-term profitability. Key to this was the appointment of Jarrett Disbrow to the newly created role of Chief Business Officer & President, Consumer Health; Topher Brooke to re-created role of Chief Operating Officer; and Ryan Selhorn to newly created role of Executive Vice President, Finance and Business Optimization.

Operationally, our Rx segment has been a tremendous growth and profit driver for us. In fiscal 2022 (June 2022), Rx revenue was $61.1 million, an increase of 87% compared to the year ago period as we experienced growth in both our ADHD and Pediatric Portfolios. The growth has continued throughout the first half of fiscal 2023, through which we have delivered 29% year-over-year growth.

The key drivers to this growth have been exceptional execution by our sales team, the leverage we are gaining from our Aytu RxConnect platform, and tailwinds in our key prescription markets.

Revenue* ($ in Millions)

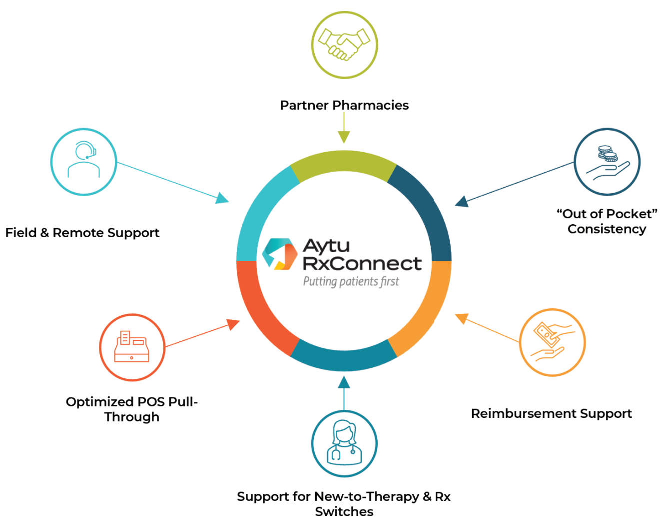


*June 30 Fiscal Year-End

47% YoY growth in Revenue driven by strength in Rx segment (87% YoY growth)

From a sales execution standpoint, we revamped our sales team following the acquisition of Neos Therapeutics. The now consolidated team has been reconstituted with a preference for newer-to-industry sales representatives, coupled with lower base salaries and a stronger incentive compensation model. This transition and change took time, but it has now begun paying dividends as this highly motivated team makes strides with our physician and patient centric messaging.

Another key part of our success within our Rx segment lies with Aytu RxConnect, our novel and proprietary patient access program, which enables affordable, predictable, hassle-free patient access to Aytu's prescription products. The platform allows for patients' co-pays to remain consistent and predictable, and the friction clinicians and patients often experience when writing and filling branded prescriptions largely goes away. Compared to prescriptions filled outside the RxConnect platform, Aytu RxConnect results in a nearly 50% reduction in patient out-of-pocket co-payments, a 2X improvement in Aytu's net margin per Rx and a more than a 40% increase in prescription refills. The platform truly drives value for patients, health care providers, and Aytu.



Aytu RxConnect is a proprietary, best-in-class patient access program that enables affordable, predictable, hassle-free patient access to Aytu Rx products.

From a market standpoint, we continue to see overall growth in both the ADHD and pediatric markets. Part of this is being driven by overall trends in the market, and others by supply chain disruptions incurred by our ADHD competitors. Fortunately, we have avoided any such disruptions, and in the case of ADHD, I believe we have gained both market and mind share as a result of the issues our competition faces.

With our Consumer Health segment, our objective has been to improve segment profitability, with a focus on more efficient, higher contribution margin, online sales. We anticipate a small, near-term revenue decline as we phase out selling through the direct mail channel. We anticipate this channel shift will ultimately result in improved sales, margins, and segment profitability.

Further, we are also preparing to launch our C'rcle Health branding initiative later this year. C'rcle Health will represent a brand family of value-based over-the-counter medicines addressing a range of conditions. We believe showcasing our OTC medicines through a single, recognized family brand will build more collective brand equity. In addition, it should create a unified, one-stop-shop for families seeking value brands addressing common, everyday conditions, and ultimately drive more repeat customer use and ordering, leading to higher annuity value and overall margins.

Overall, I am incredibly proud of how the whole organization has rallied together to achieve our goal of building a truly great, execution-oriented commercial company. Our progress is evidenced by our strong revenue growth and two consecutive quarters with positive companywide Adjusted EBITDA. We understand that the suspension of our AR101 clinical development program is a disappointment to the VEDS community. We did not take this pause of our clinical development efforts lightly, but in this unsettled time of financial turbulence, we must focus our efforts on achieving profitability and cash flows. Once that is achieved, we can revisit our developmental programs.

Also, I note the passing, in 2022, of Aytu's Co-Founder and founding board member, Michael Macaluso. Mike was a strong, supportive voice for Aytu since we founded the Company in 2015. It has been a privilege to know and work alongside with Mike, and we are grateful for his many contributions, insight, and counsel. Mike will be sorely missed by us all.

Overall, I am extremely pleased with the significant progress that has been made since our October 2022 strategic decision. With a sound strategy, strong execution, market tailwinds, and an energized team, I believe we are in a stronger position that ever before to drive long-term shareholder value. As we move forward, we will continue our focus on execution, including a strong orientation toward revenue growth, expense management, and financial performance improvements that we expect to achieve through the manufacturing transfer of our ADHD brands and other optimization efforts.

I thank you all for your continued support over the past number of years and look forward to future with tremendous optimism.

Sincerely,

Josh Disbrow, *CEO*

Adjusted EBITDA Reconciliation ($ in Millions)

	ANNUAL		FY 2023	
	FY21	FY22	Q1	Q2
	Jun	Jun	Sep	Dec
Net income (Loss)	$ (58.289)	$ (110.173)	$ (0.701)	$ (6.693)
Interest expense-net	2.836	3.442	1.111	1.199
Income tax (expense) benefit	0.259	(0.110)	0.000	0.000
Depreciation & Amort.	7.688	9.378	1.855	1.853
Impairment of goodwill/intangibles	12.825	75.458	0.000	2.600
Stock-based compensation expense	3.574	5.247	1.177	3.067
Other Expense (Income), net	(0.786)	(2.580)	0.000	0.000
Loss (gain) from contingent considerations	(4.459)	(1.760)	0.128	0.104
Gain (Loss) on debt extinguishment	1.569	(0.169)	0.000	0.000
Gain on Derivative Warrant Liability	0.000	(0.211)	(2.191)	(1.403)
Adjusted EBITDA from continuing operations	**$ (34.783)**	**$ (21.478)**	**$ 1.379**	**$ 0.727**

[1] Aytu uses the term EBITDA, which is a term not defined under United States Generally Accepted Accounting Principles. The Company uses this term because it is a widely accepted financial indicator utilized to analyze and compare companies on the basis of operating performance. The Company believes that presenting EBITDA by segments allows investors to evaluate the various performance of these segments. The Company's method of computation of adjusted EBITDA may or may not be comparable to other similarly titled measures used by other companies.We believe that net loss is the performance measure calculated and presented in accordance with U.S. GAAP that is most directly comparable to EBITDA.

Aytu BIOPHARMA

Aytu BioPharma, Inc.
373 Inverness Parkway, Suite 206
Englewood, CO 80112 USA

+1 (855) AYTU BIO
(+1 855-298-8246)