

# Surgical Innovations

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Interim results  
2021

# Operational Highlights

- Healthcare providers returning towards normal (pre-pandemic) activity levels
- Service levels, cost base and R&D output benefiting from streamlined operational and regulatory processes
- Strengthened international market exposure through closer relationships with key partners
- Distribution network in key US market re-organised and expanded
- Environmentally sustainable product ranges continue to gain global market traction
- Further strengthened executive team through addition of new Sales & Marketing Director
- Relocation of UK distribution business (Elemental) to Leeds site to be completed in second half

# Financial Highlights

	2021 H1	Change vs. comparable	2020 H1	% of pre-pandemic	2019 H1 (pre-pandemic)
Revenues	£4.22m	+63%	£2.59m	82.6%	£5.10m
Direct Gross Margin <sup>1</sup>	42.4%	-2.1% pts	44.5%	97.9%	44.5%
Adj. EBITDA <sup>2</sup>	£0.21m	+0.67	£(0.46)m	32.3%	£0.65m
Adj. operating loss	(£0.15m)	+1.02	£(0.87)m	11.2%	£0.22m
Adj. (loss)/earnings per share (pence)	(0.004)p	0.108p	(0.112)p	-	0.023p

- Planned reflation of working capital; cash used in operations managed at £0.17m (full year 2020 cash generated: £1.07m)
- Net cash<sup>3</sup> at end of period of £2.66m (as at 31 Dec 2020: £3.10m)

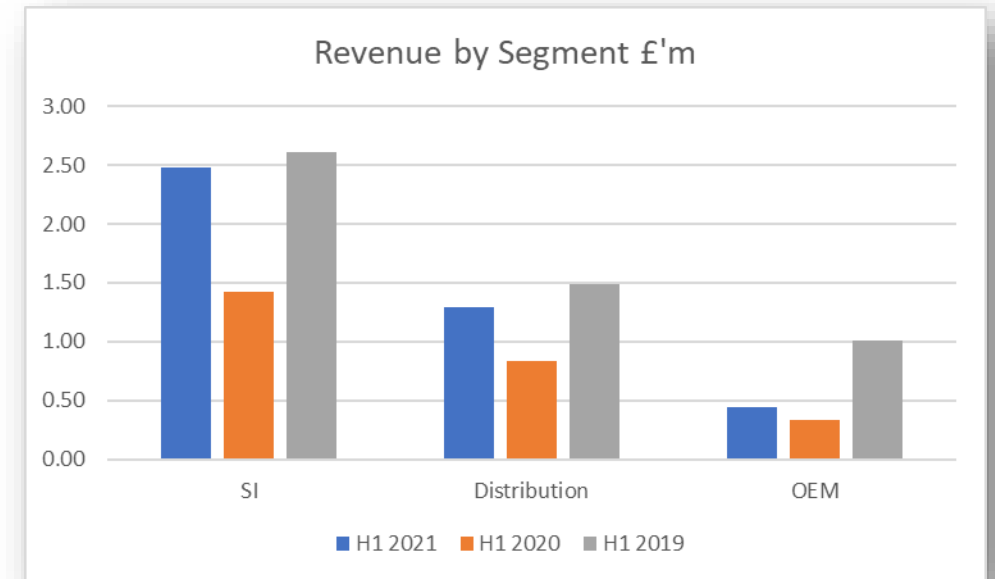
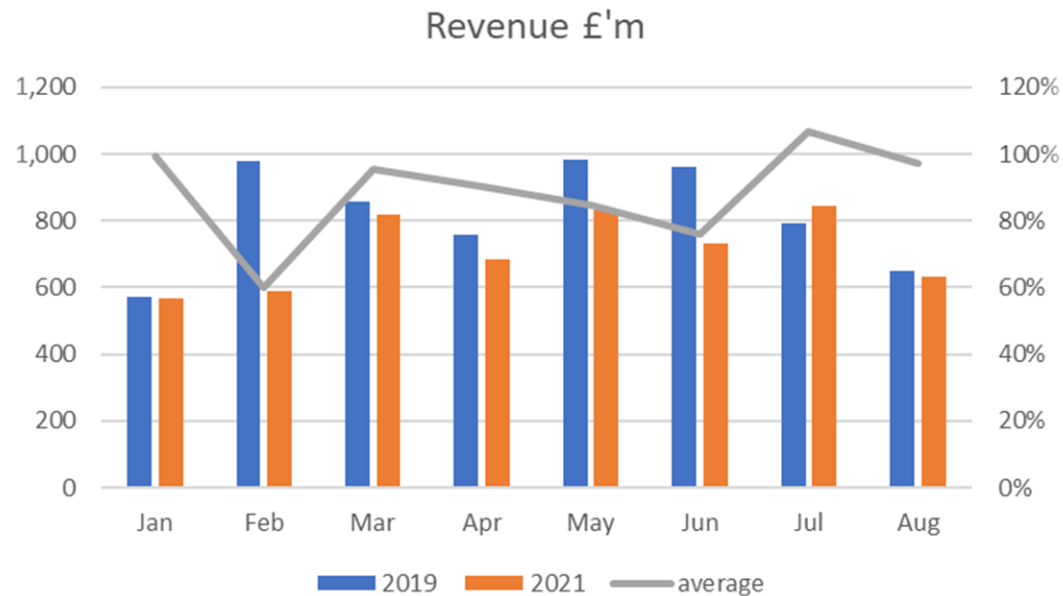
<sup>1</sup> Comparative information is shown for the six months ended 30 June 2020, except where otherwise stated. Further comparative information for the six months ended 30 June 2019 has been included to provide a comparison with pre-pandemic trading.

<sup>2</sup> Adjusted EBITDA, adjusted operating (loss)/ profit and Adjusted EPS are stated before deducting non-recurring exceptional costs of £nil (2020 H1: nil, 2019 H1: £0.1m), amortisation and impairment of intangible acquisition costs of £nil (2020 H1: £1.59m, 2019 H1: £0.18m) and share based payment costs of £0.01m (2020 H1 £0.06m, 2019 H1: £0.10m).

<sup>3</sup> Net cash equals cash less bank debt only

# Revenue Analysis

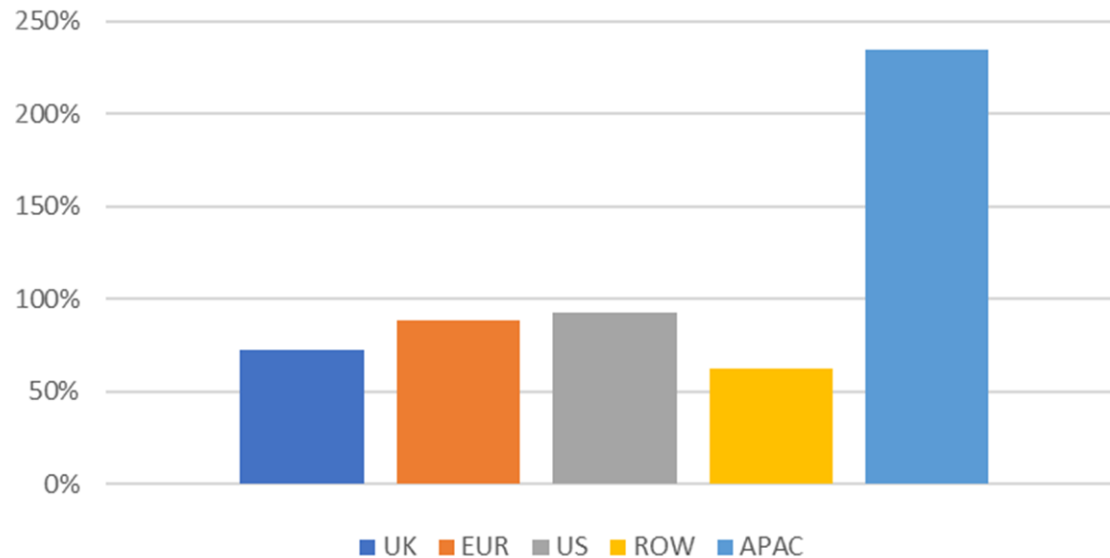
- Revenue H1 £4.22m up 63% on prior (2020H1:£2.59m)
- 83% of pre-pandemic levels in 2019 (2019H1:£5.10m)
- Averaging around 3% over pre Covid levels in the same comparable period since the start H2
- YTD averaging 87% over pre Covid levels
- Stronger revenue in H2 anticipated, but monthly variability likely to continue over the coming months, with increased demand in 2022



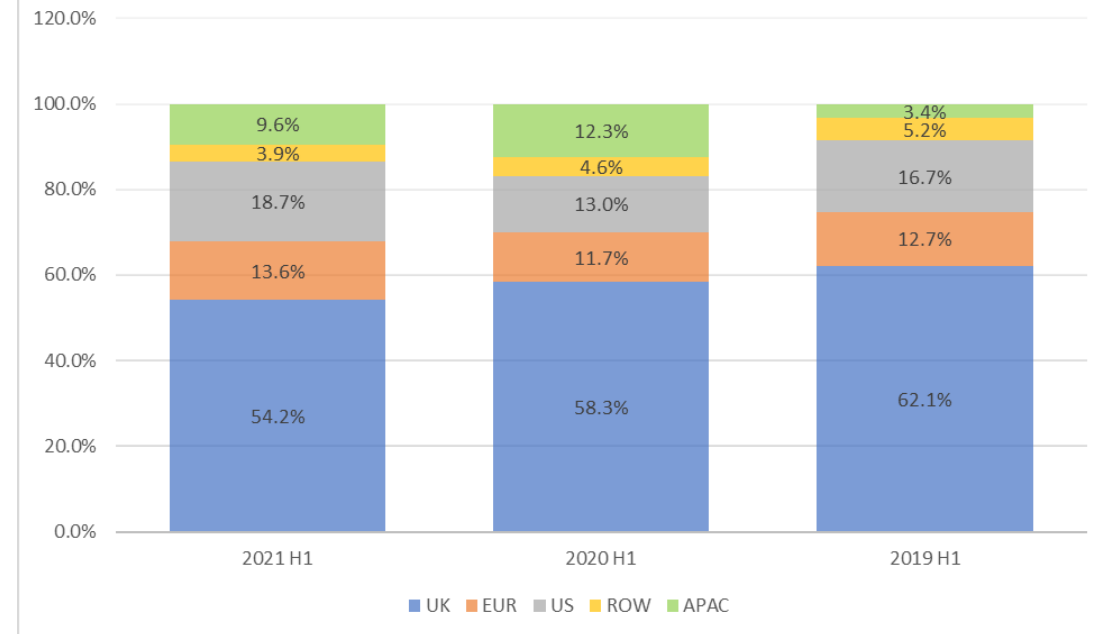
# Revenue by territory

- UK continuing to improve into HY2
- APAC - strong growth, led by Japan
- US activity levels continue with new anticipated evaluations
- European - elective surgery at reduced levels

2021 H1 revenue as a % of 2019 H1 pre Covid



% OF REVENUE BY TERRITORY

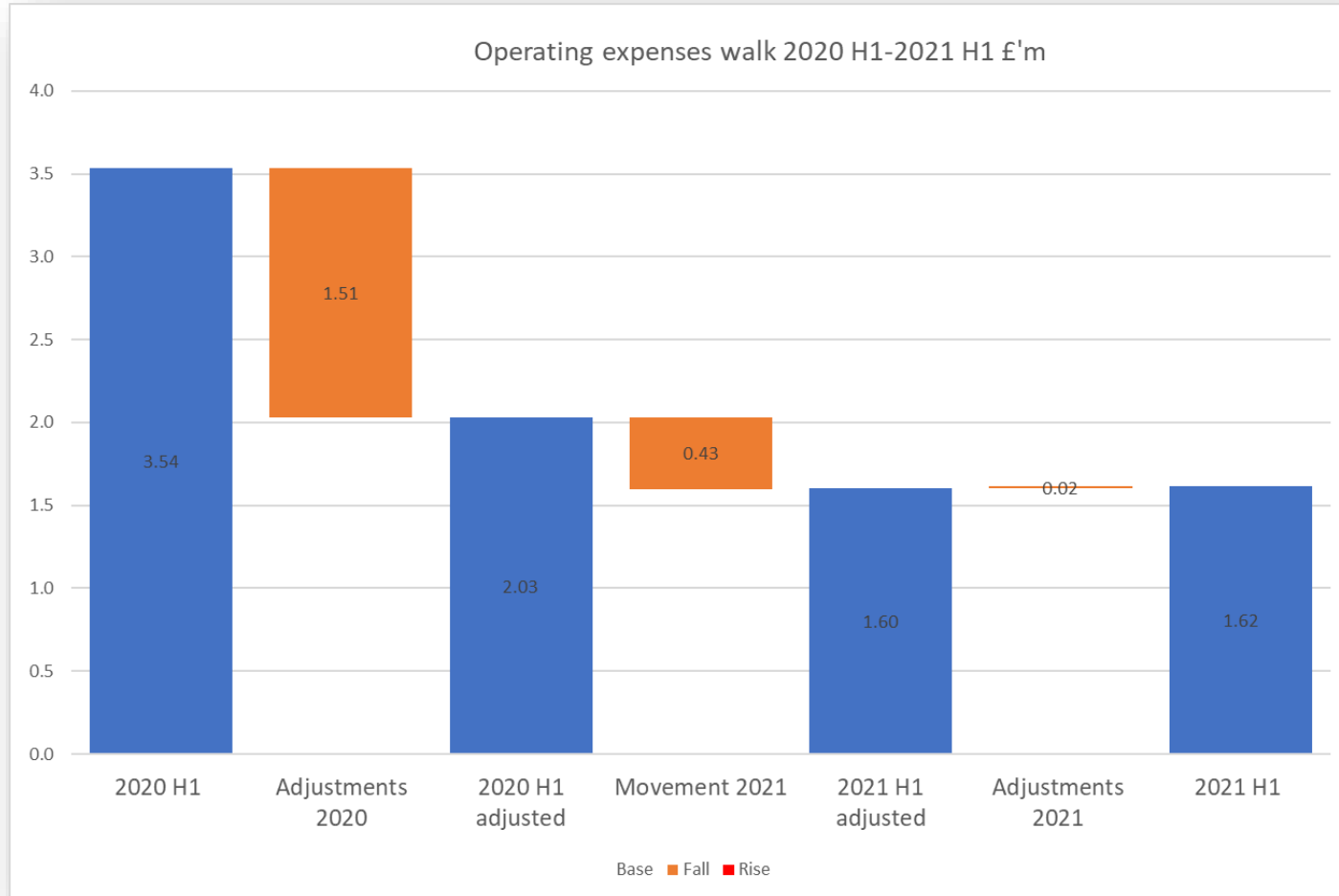


# Gross Margins

<b>Gross margin analysis</b>	<b>H1 2021</b>	<b>H1 2020</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revenue	4.22	2.59	6.33
Cost of Sales	(2.43)	(1.44)	(3.52)
Underlying Gross Margin	1.79	1.15	2.81
<b>Underlying Gross Margin %</b>	<b>42.40%</b>	<b>44.50%</b>	<b>44.40%</b>
Net Cost of Manufacturing	(0.36)	(0.47)	(1.54)
<b>Contribution Margin</b>	<b>1.43</b>	<b>0.69</b>	<b>1.27</b>
<b>Contribution Margin %</b>	<b>33.90%</b>	<b>26.50%</b>	<b>20.10%</b>

- Underlying gross margin within target range
- Net cost of manufacturing affected by reduced manufacturing activity
- Planned increase in factory activity in Q2 improved margins; better volume is continuing into H2

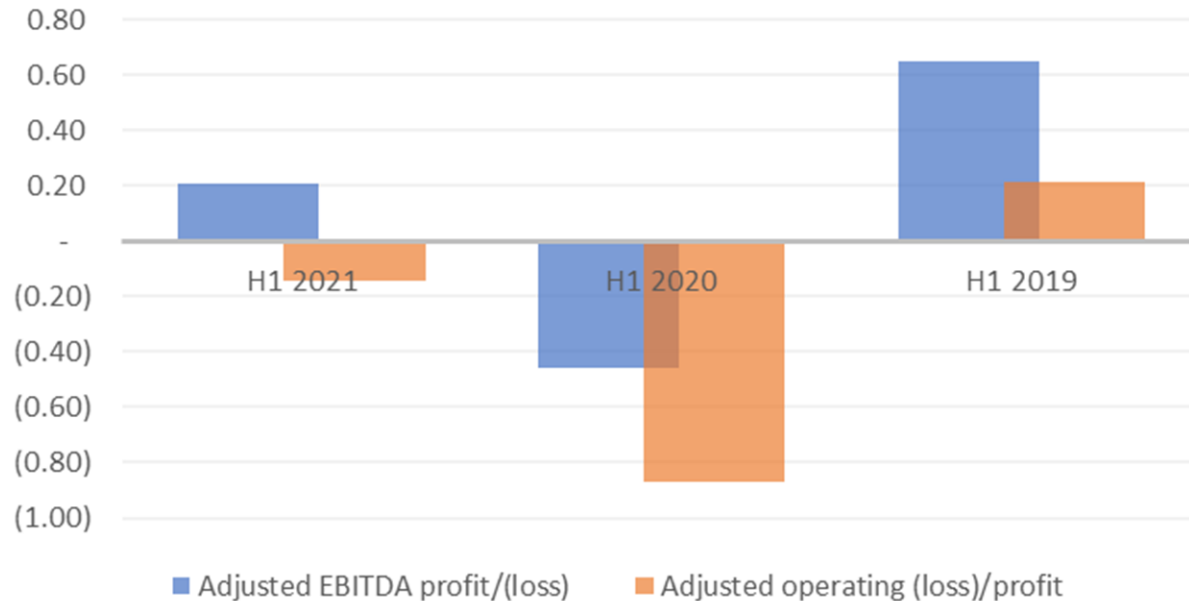
# Operating Expenses



- Adjusted Operating Expenses<sup>1</sup> decreased by £0.43m
- Decrease due to natural reduction in sales heads combined with Covid restricted travel and marketing costs
- Increased expenditure in sales and marketing anticipated in H2

# Net result

Net result comparison £'m



	H1 2021	H1 2020	2020
Net result:	£'m	£'m	£'m
Adjusted EBITDA profit/(loss)	0.21	(0.46)	0.65
Less depreciation & amortisation <sup>1</sup>	(0.35)	(0.41)	(0.43)
Adjusted operating (loss)/profit	(0.15)	(0.87)	0.22
Net finance costs	(0.06)	(0.06)	(0.09)
Adjusted (loss)/profit before tax	(0.21)	(0.93)	0.13

- Adjusted EBITDA<sup>2</sup> profit £0.21m (2020H1:£0.46m loss)
- Adjusted operating<sup>2</sup> loss of £0.15m (2020H1:£0.87m loss)
- H2 expected to be profitable at adjusted EBITDA

<sup>1</sup> Amortisation excluding amortisation of acquisition related costs of £nil ( 2020H1 £0.15m, 2019H1 £0.18m)

<sup>2</sup> Adjusted EBITDA and Adjusted operating (loss)/ profit are stated before deducting non-recurring exceptional costs of £nil (2020 H1: nil, 2019 H1: £0.1m), amortisation and impairment of intangible acquisition costs of £nil (2020 H1: £1.59m, 2019 H1: £0.18m) and share based payment costs of £0.01m (2020 H1 £0.06m, 2019 H1: £0.10m).



# Financial Position

	2021 H1	2020
	£m	£m
Tangible assets	1.26	1.44
Intangible assets	6.23	6.17
<b>Total non-current assets</b>	<b>7.49</b>	<b>7.62</b>
Inventories	<b>2.36</b>	<b>2.17</b>
Trade receivables	1.20	0.96
Other current assets	0.33	0.32
Trade & other payables	(1.46)	(1.45)
Accruals & deferred income	(0.42)	(0.37)
<b>Total working capital</b>	<b>2.01</b>	<b>1.63</b>
Cash & equivalents	4.69	5.28
Bank borrowings	(2.03)	(2.18)
Lease obligations	(0.99)	(1.09)
<b>Total net cash</b>	<b>1.67</b>	<b>2.01</b>
<b>Adjusted net cash</b>	<b>2.66</b>	<b>3.10</b>
Other	(0.17)	(0.17)
<b>Net assets/total equity</b>	<b>11.01</b>	<b>11.09</b>

- Planned reflation of working capital
- Cash used in operations £0.17m (FY2020:£1.07m generated)
- Adjusted net cash £2.66m<sup>1</sup> (31 Dec 2020:£3.10m)
- Financial headroom £3.16m<sup>2</sup> (31 Dec 2021:£3.60m)



Phased investment in Capex anticipated in 2022 as appropriate

<sup>1</sup> Adjusted net cash excludes lease obligations £0.99m (2020:£1.09m)

<sup>2</sup> Financial headroom comprising of net cash plus undrawn facility

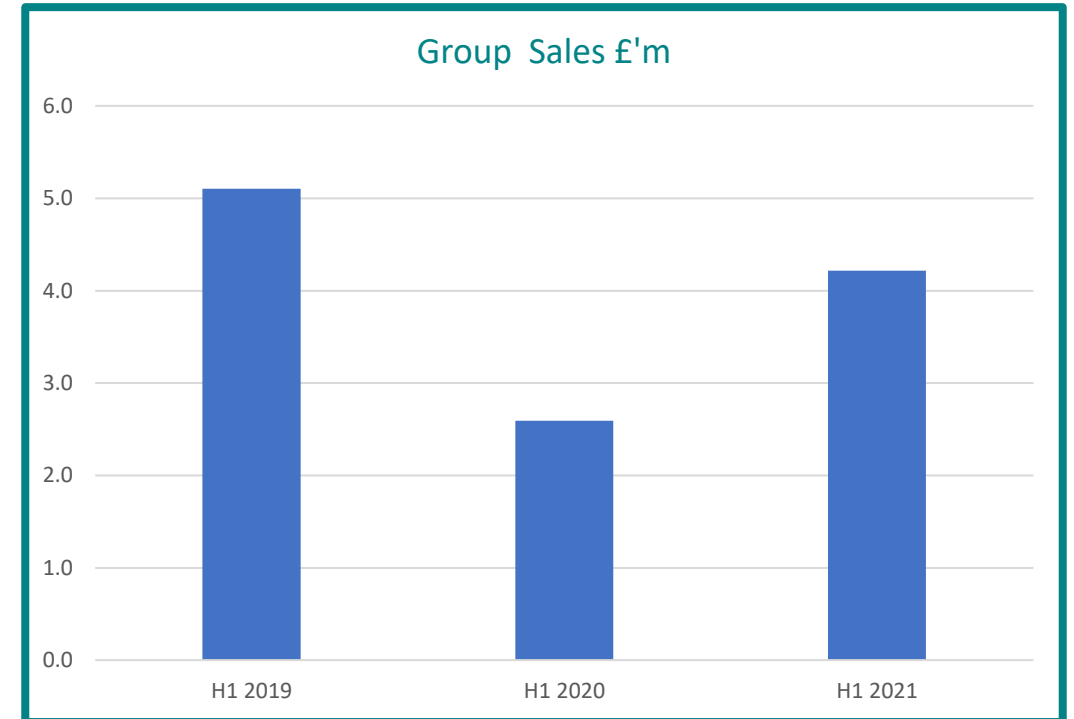
# Surgical Innovations

A photograph of a surgeon performing a minimally invasive laparoscopic procedure. The surgeon's hands, wearing white gloves, are visible, holding a laparoscopic instrument. The patient's abdomen is covered with a sterile drape, and several ports are visible. The background is a blurred operating room environment. The entire image is overlaid with a semi-transparent teal color.

Trading environment & outlook

# Current Trading

- Strong Q1 international sales aided by restocking in USA and Japan
- UK recovery in Q2 as elective surgery resumes
- Healthcare providers better prepared for Covid
- Evaluations and conversions in all key geographical areas
- Sustainability continues to drive new evaluations in key markets

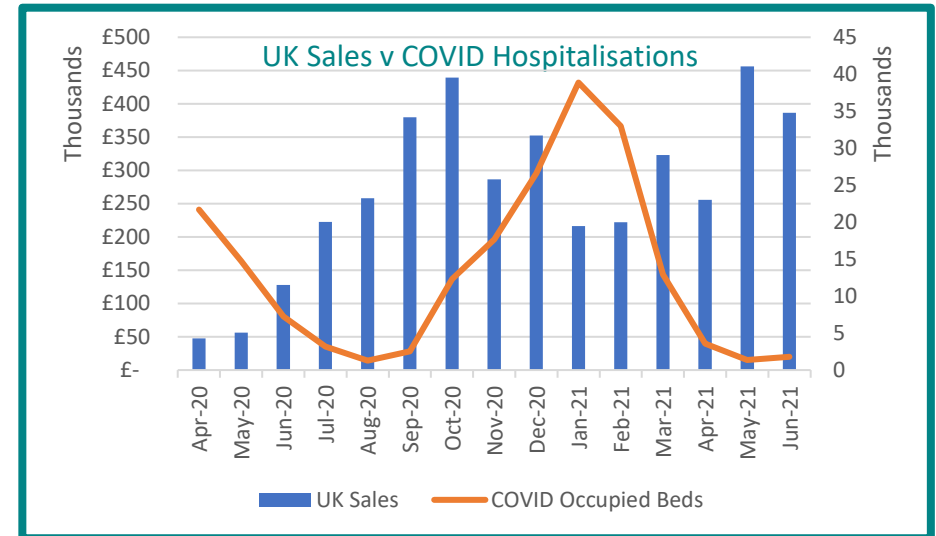


# Trading Environment - UK

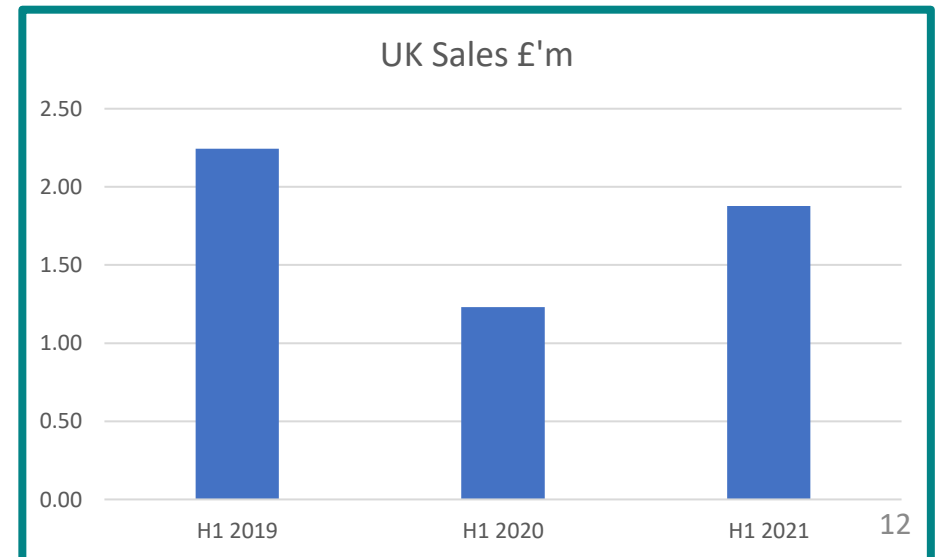
- Hospital access improving
- Activity estimated to be at 80% pre-COVID levels
- Cancer treatment a priority

- 2021 conversions
  - YTD 11 accounts converted (5 SI Brand)
- Strong pipeline of 2021 evaluations
  - 23 hospitals to be completed 2021 (14 commenced)
  - 15 SI Brand

- Renewed distribution agreements with Microline and DistalMotion
- New exclusive agreement with Venclose Inc



<https://coronavirus.data.gov.uk/details/healthcare>



# Trading Environment - USA

## *Adler*

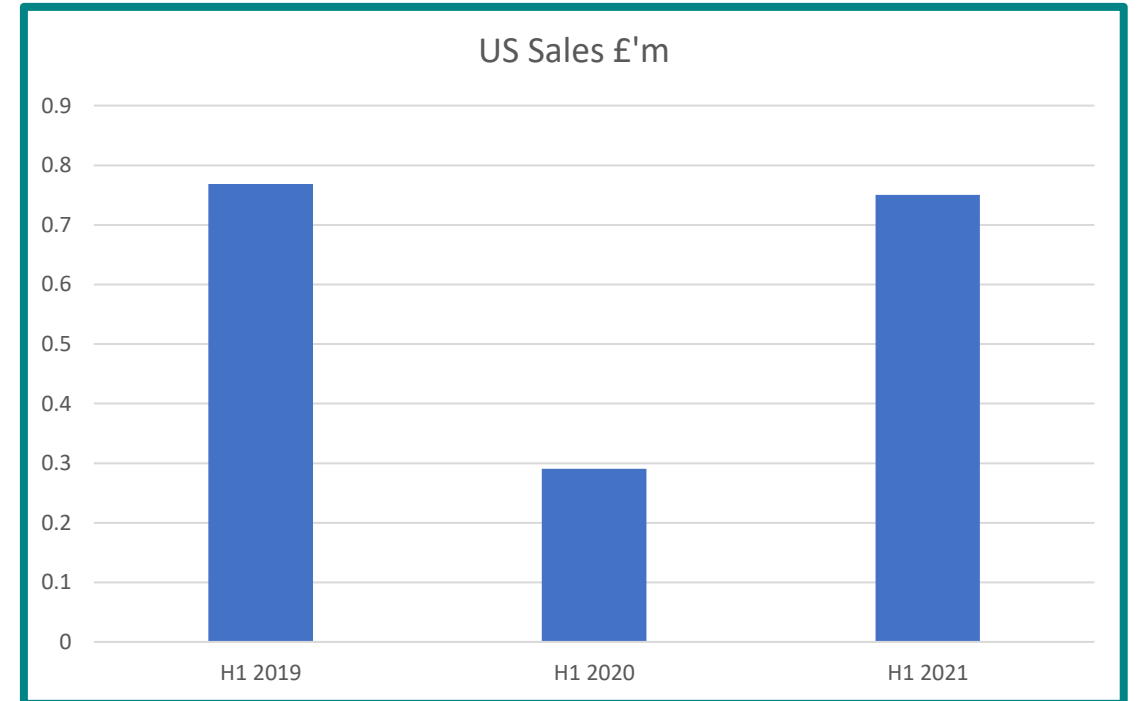
- Consortium trained and active
- 15 new accounts
- Activity in Key GPOs and Healthcare Providers

## *Microline Surgical*

- Sales team trained and active
- Pipeline of evaluations

## *Challenges*

- 6 states postponing elective surgery
- Access to OR still restricted in many states



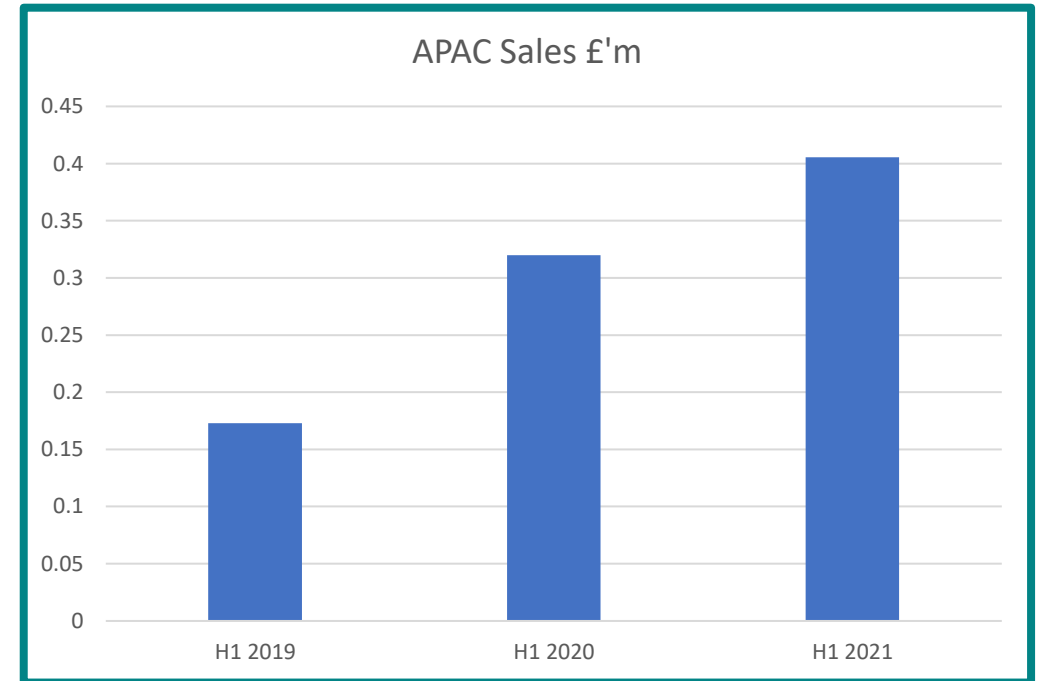
# Trading Environment - APAC

## *Japan*

- Elective surgery at reduced levels
- Access limited but relaxing

## *Surgeon Conversions YTD*

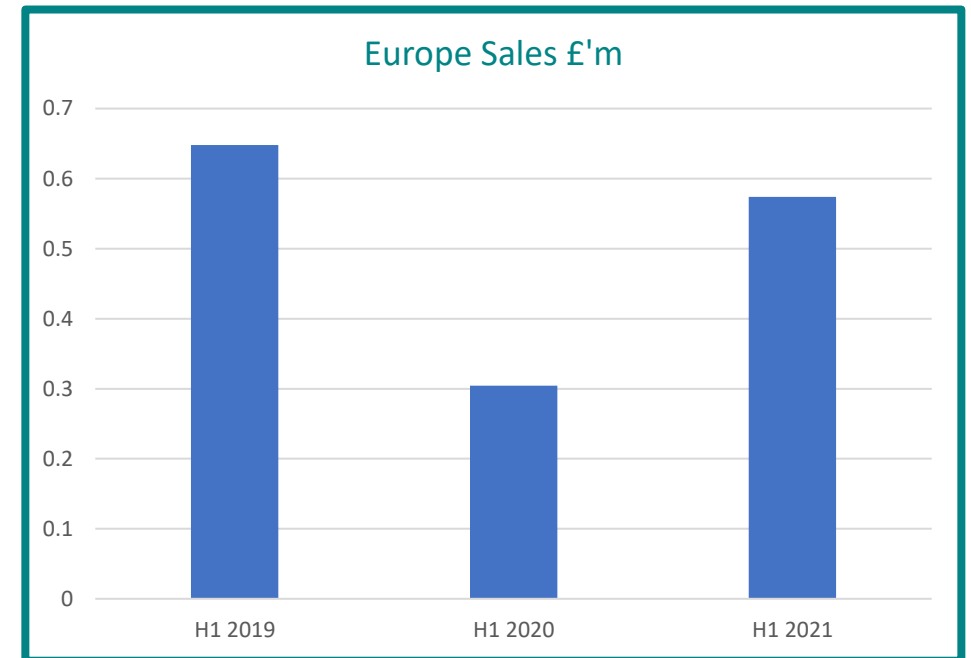
- 28 YelloPort+ new Surgeonss
  - 17 YelloPort Elite
  - 3 YelloPort Single Use
- Evaluations scheduled:
  - 31 YelloPort+ and Elite



# Trading Environment - Europe

- Elective surgery intermittently interrupted
- Access allowed to OR in key countries

- Sustainability messaging resonates in BENELUX
- Sustainability partnership programme being developed for launch in 2022



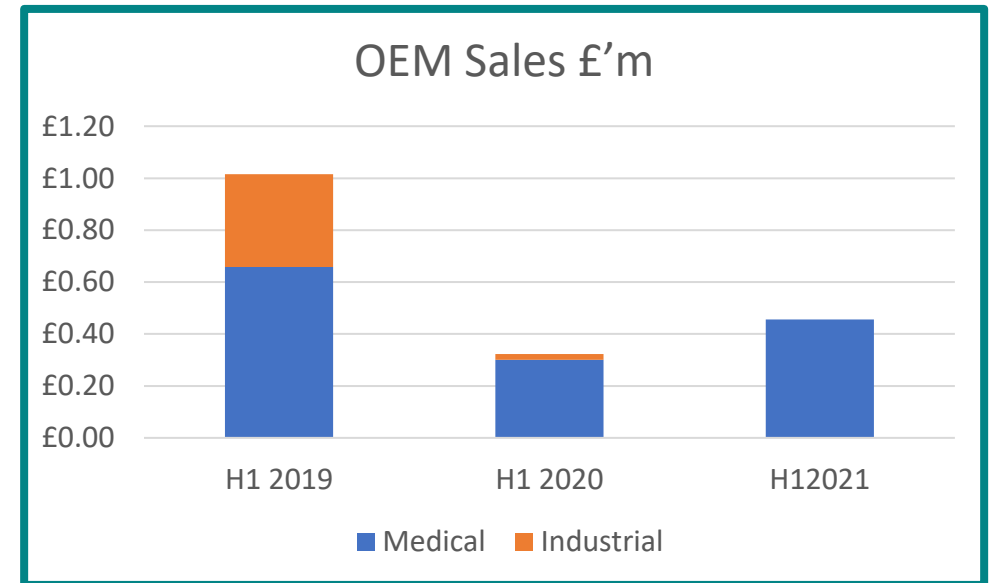
# Trading Environment - OEM

## *Medical*

- Sales suppressed from pre-COVID levels but responding in H2
- Significant opportunities for collaborations with robotic company

## *Industrial*

- Aerospace inspection device suppressed by COVID impact on travel industry
- Unlikely to see recovery until late 2022

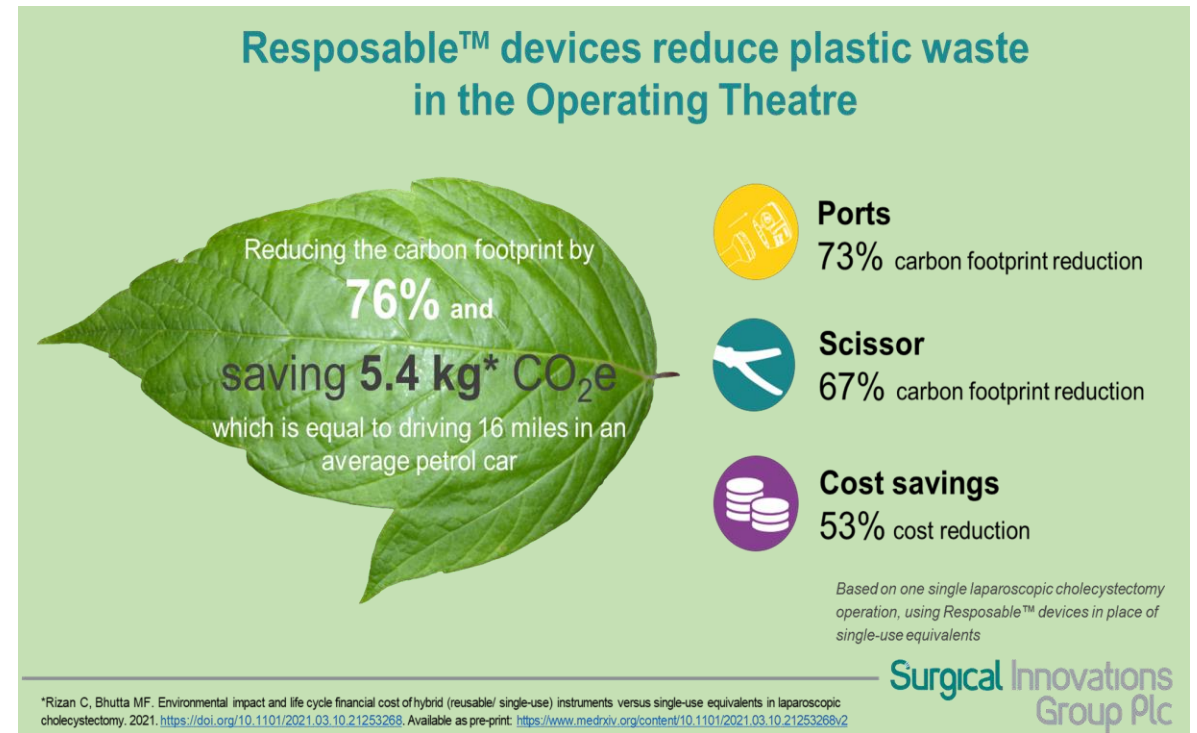




# The Sustainability Agenda

- Launch of the Green Surgery Challenge
- RCS Seminar “Sustainability in surgery – Disposable vs. Reusable”
- Publication of Key Clinical Paper\* (similar to follow)
- Case study awaiting publication (similar outcome)
- Enhanced sustainable marketing /training material

- Changes procurement pathway
- Compliant with NHS 'Net Zero' commitments
- SI seen to be driving green initiatives in OR
- Differentiates from competition



\*Rizan. C, Bhutta. MF, Environmental impact and lifecycle financial cost of hybrid (reusable/single-use) instruments versus single-use equivalents in laparoscopic cholecystectomy, 2021

# Operational Improvements – Key Projects

## *Integration of Elemental*

- Operational efficiencies
  - Nominal reduction in headcount
  - Reduction in operating costs
    - Regulatory
    - Inventory management
    - Consolidation of distribution chain costs
- Greater utilisation of Leeds facility
  - Sales training
  - Clinical training workshops

## *Facilities upgrades*

- Investment in manufacturing (capex)
  - Increase injection moulding & machining capacity to allow for line extensions
  - Upgrade of key technology to increase efficiencies
    - Blade grinder
    - Automated cleaning line
- Ongoing programme of improvements in QA/ RA
- Facility improvements

# New Product Development – Phase One

- Focus opportunities for MDD\* pathway
- Key line extensions to capitalise on market opportunities
- Partnering with robotic company for development of access device
- Establishing pipeline NPD that comes under MDD\*

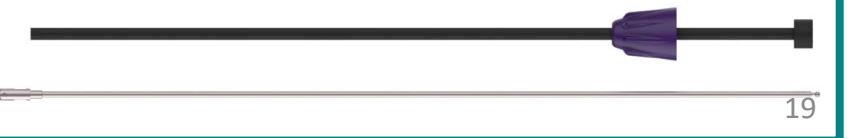
5mm YelloPort Elite



Logi™ Grasp

Logi™ Dissect

Logi™  
Extended Grasp



\*Medical Devices Directive 93/42/EEC

# New Product Development

## Phase Two

- Requirement for MDR\* pathway for approval
- Illuminno™ range
  - Close to design freeze
  - Exploring sustainable options
  - Potential partnership options with illuminated device manufacturer

## Future Opportunities

- Ligating devices
- Collaborations within robotics
- Energy based devices
- Collaborations with universities
- Licensing opportunities

\*Medical Devices Regulation (EU) 2017/745

# 3<sup>rd</sup> Party Opportunities



- Treatment of varicose veins
- Estimated £6m market in UK
- Only one like-for-like competitor
- Improved technology
- Discrete sales team



- New 3-year distribution agreement
- Progress slowed by NHS focus on COVID
- 2 NHS Trusts in mid-stage procurement cycle
- 15+ surgeons evaluated Dexter, 6 more expected by year-end

# Summary

- Activity and revenues returning to pre-pandemic levels in most major markets
- New and extended distribution agreements signed
- Operational and regulatory improvements positively impacting business
- Strengthened senior management team
- Effective NPD planning
- Investment in plant, facility and people
- Enhanced structure in USA providing a more effective route to market
- Further growth in hospital activity is expected to result in a gradual return to pre-pandemic revenue levels going into 2022, with encouraging prospects beyond

# Appendices

	2021 H1	2020 H1	2019 H1
<b>Income Statement</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue	4.22	2.59	5.10
Cost of sales	(2.79)	(1.91)	(2.90)
Gross profit	1.43	0.69	2.20
Other operating expenses	(1.62)	(3.54)	(2.43)
Other Income	0.02	0.33	-
Adjusted EBITDA <sup>1</sup>	0.21	(0.46)	0.65
Amortisation of intangible R&D costs	(0.12)	(0.12)	(0.13)
Depreciation of tangible assets	(0.23)	(0.29)	(0.30)
Adjusted operating (loss)/ profit <sup>1</sup>	(0.15)	(0.87)	0.22
Exceptional items	-	-	(0.18)
Impairment of intangible R&D costs	-	-	-
Amortisation and impairment of intangible acquisition costs	-	(1.59)	(0.18)
Share based payments	(0.01)	(0.06)	(0.09)
Operating loss	(0.16)	(2.52)	(0.23)
Net finance costs	(0.06)	(0.06)	(0.09)
Loss before taxation	(0.22)	(2.59)	(0.33)
Taxation charge/(credit)	0.13	0.03	0.03
Loss on profit attributable to shareholders	(0.09)	(2.56)	(0.29)
Adjusted EPS <sup>1</sup>	0.004p	-0.11p	0.02p

- Adjusted EBITDA, Adjusted operating (loss)/ profit and Adjusted EPS are stated before deducting non-recurring exceptional costs of £nil (2020 H1: nil, 2019 H1: £0.1m), amortisation and impairment of intangible acquisition costs of £nil (2020 H1: £1.59m, 2019 H1: £0.18m) and share based payment costs of £0.01m (2020 H1 £0.06m, 2019 H1: £0.10m).

# Appendices

<b>Cashflow Statement</b>	<b>2021 H1</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
<b>Cash flows from operating activities</b>		
Operating loss	(0.16)	(3.17)
Depreciation & amortisation	0.35	0.81
Impairment of Intangibles	-	1.47
Other	0.02	0.13
Working Capital	(0.38)	1.82
<b>Cash (used in)/ generated operations</b>	<b>(0.17)</b>	<b>1.07</b>
Taxation received	0.13	0.00
Interest paid (net)	(0.01)	(0.03)
<b>Net cash (used in)/generated from operations</b>	<b>(0.05)</b>	<b>1.04</b>
<b>Cash flows used in investing activities</b>	<b>(0.24)</b>	<b>(0.16)</b>
Capex on tangible FA	(0.06)	(0.04)
Capitalised development costs	(0.18)	(0.11)
<b>Cash flows (used in)/from financing activities</b>	<b>(0.27)</b>	<b>3.15</b>
Issue of equity	-	2.05
Bank loans	(0.15)	(0.15)
CBILS	-	1.50
Repayment of lease obligations/other	(0.12)	(0.25)
<b>Net change in cash &amp; equivalents</b>	<b>(0.55)</b>	<b>4.03</b>
<b>Adjusted Net cash</b>	<b>2.66</b>	<b>3.10</b>



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