

Surgical Innovations

Final Results - Year Ended December 2019

31 March 2020

*David Marsh – CEO
Nigel Rogers - Chairman*

Overview

2019 results

- Challenging UK climate
- Worldwide 10% revenue growth H2 over H1
- Financials in line with September expectations

Key Activities

- Strengthened Quality Assurance (QA) & Regulatory Affairs (RA) structure
- Defined Marketing message
- Developed customer base and strengthened relationships

- Effects of Covid-19 on short-term outlook
- Positive prospects in medium to long-term

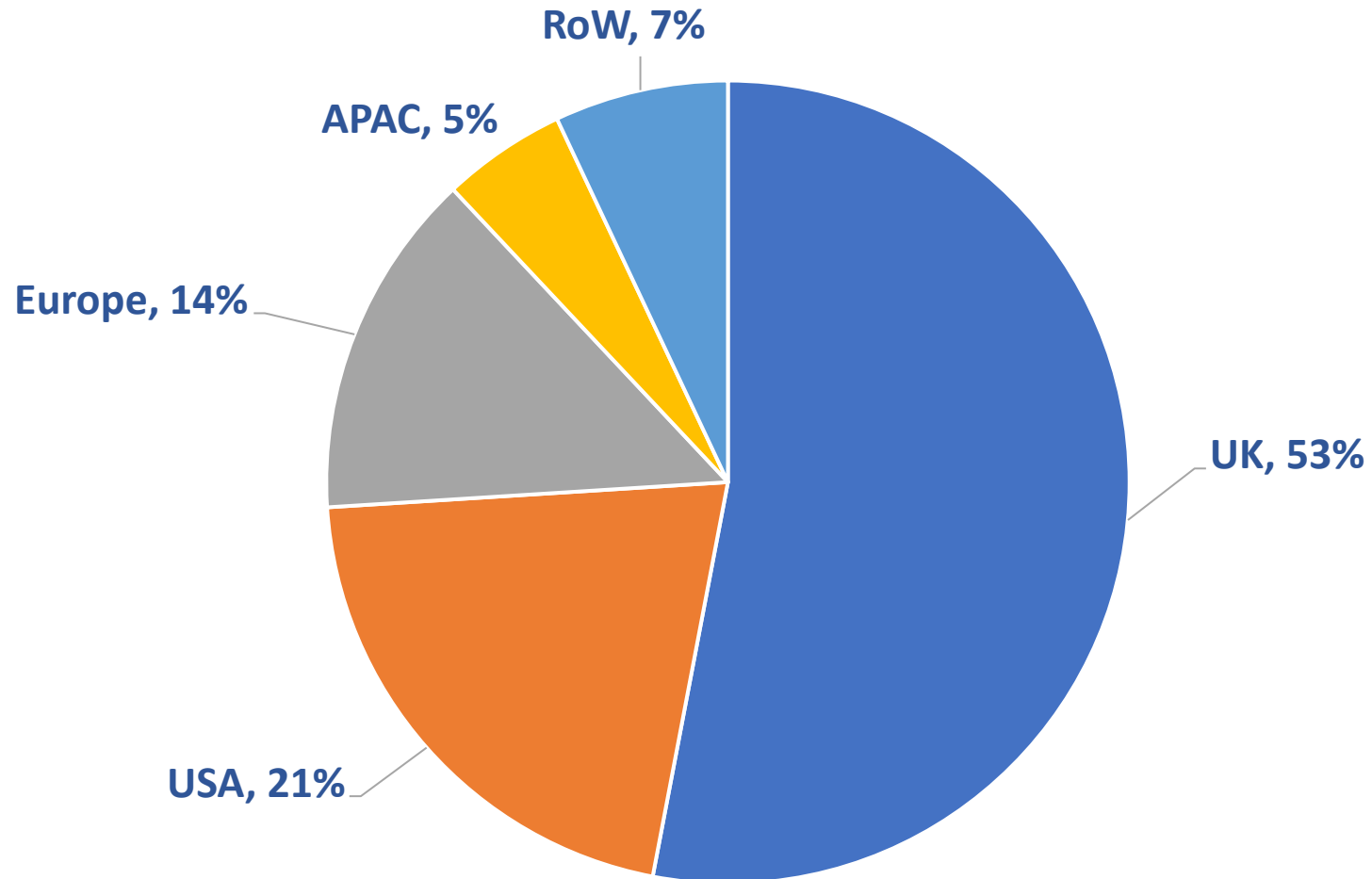
Financial Summary

- Revenues of £10.73m (2018: £10.97m)
- Gross margin 40.4% (2018: 42.6%)
- Increased overhead base in operations and RA/QA
- Impairments to Goodwill (£1.63m) and Development costs (£0.63m)
- Adjusted** PBT of £0.38m (2018: £1.43m)
- Adjusted** EPS 0.05p (2018: 0.21p)
- Cash conversion 127% of operating profit (2018: 118%)
- Closing net cash *£0.47m (2018: £0.38m)

* Net cash comprises cash and cash equivalents of £1.28m less bank indebtedness of £0.81m.

** Adjusted operating margin, PBT & EPS stated before deduction of exceptional costs, impairment of intangibles & amortisation relating to acquisition, and share based payment costs.

Revenue by Geographical Region (Excl. OEM)



Message hitting home!

Reduce plastic waste by 83%*

by replacing fully disposable instruments with Resposable™ items in an Elemental Healthcare Laparoscopic Cholecystectomy Kit.

The equivalent of **52 plastic bottles, per surgery** could be eliminated from incineration.

The NHS performs 70,000 laparoscopic cholecystectomy operations per year. The saving for the NHS would equate to **3.6 million bottles.**



In the US, it is estimated that **20%-33% of all hospital waste is generated by the operating theatres** and a single operation can generate more waste than a family of four produces in one week. **

* Wastage of supplies and drugs in the operating.
Esaki RK, Macario A. 2009. s.l. : Medscape
Anesthesiology 2009, 2009.



“It’s right that the **NHS and our suppliers** should join the national campaign to **turn the tide on plastic waste**. Doing so will be good for our environment, for our patients and for taxpayers who fund our NHS.”

Simon Stevens, Chief Executive of NHS England

FOR A GREENER

NHS



Market Environment – UK and USA

UK – 53% of SI Branded Revenue

- Challenging UK market conditions
- Increase in patients awaiting treatment
- Reduce, Reuse, Recycle, **RESPONSABLE**
- Customer base growth
- Outlook: uniquely placed to take advantage of NHS drive for Sustainability, Covid-19 makes timing uncertain

USA – 21% of SI Branded Revenue

- Significant hospital groups convert to Eco-Cut
- FDA Approval for Elite
- Sales teams trained and Elite launched
- Geographical & structural challenges in US distribution channel drive need for stronger footprint in USA.
- Outlook: strong in Logi and Eco-Cut challenging to gain traction with Elite

Market Environment – EU, APAC and RoW

EU – 14% of SI Branded Revenue

- Delay in Elite roll-out in key markets
- Pricing pressure
- Disposable for S. European markets
- Reduce, Reuse, Recycle, **RESPONSABLE** effective in France and other smaller markets
- Outlook: uncertain

APAC – 5% of SI Branded Revenue

- New Market Access restricted by QA/RA constraints
- Strong account conversions in Japan, NZ & Australia
- Outlook: continued growth in 2020 with strong Elite sales across region

RoW – 7% Of SI Branded Revenue

- New market access restricted by QA/RA constraints
- Strong account conversions in Canada and new markets opened in SA & Taiwan
- Outlook: continued growth in 2020 with strong Elite sales across region

Market Environment – OEM

AMS – c. 10% of Total Group Revenue

- Extension to agreement to 2024
- Close cooperation on FDA submission
- Expected continued growth
- Supportive through current challenges

Non Medical – c.3% of Total Group Revenue

- Anticipated further RR Orders, reduced on 2019
- Revenue from Refurbishment and Repair

Financial Position

- Net cash £0.47m at year end & currently increased
- Support and flexibility from Yorkshire Bank
 - Repaid £1m term loan early Oct 2019, leaving £0.75m outstanding
 - Relief from covenants and capital holiday in 2020 Q1
 - Offer of increase in unutilised RCF from £0.5m to £1m credit approved
 - Options available to restructure funding in Q2, possible via Coronavirus Business Interruption Loan Scheme

Covid-19 Impact on Activity

- Postponement of all U.K. elective surgery announced 17 March 2020
- Cancer and other emergency surgery continues, but very low volume
- European markets effectively closed
- US beginning to show slowdown
- Japan ordering to buffer inventory
- OEM partners offering volume support

NHS to postpone millions of operations to tackle coronavirus

Hospitals in England urgently discharging patients and private firms called in to help

- [Coronavirus - latest updates](#)
- [See all our coronavirus coverage](#)

NHS considers cancelling non-emergency surgery to free up resources for coronavirus response

However experts have warned that that a "blanket ban" on all non-urgent surgery would be unlikely

By Sarah Newey
14 March 2020 - 9:00pm



...ment outside a triage bay at Norfolk and Norwich University hospital. Photograph: Rosa

tions are being postponed, patients urgently discharged
1 private operators called in to help the NHS cope with the
s.

Covid-19 Response to date

- Followed all appropriate Government H&S advice
- Condensed production activity to match visible demand
- Furloughed non-essential management and staff including sales team
- Implemented short-term salary reductions for all staff above furlough threshold
- Led by Board implementing 50% reduction in cash remuneration from 1 April
- Using pause as opportunity to plan for optimum restart

Prospects

- Navigating a challenging period with resilience
- Whole team approach to problem solving demonstrates commitment
- Streamline operations, QA/RA procedures for MDR implementation
- Maintaining production and inventory to support customers and patients
- Confident of significant market share gains when normality returns

Appendices

- Income Statement
- Cash Flow Statement
- Financial Position
- Major Shareholders

Income Statement

	2019	2018
	£m	£m
Revenue	10.73	10.97
Cost of sales	(6.40)	(6.30)
Gross profit	4.33	4.67
Other operating expenses	(6.77)	(4.33)
Other Income	-	0.28
Adjusted EBITDA	1.44	2.36
Amortisation of intangible R&D costs	(0.29)	(0.35)
Depreciation of tangible assets	(0.62)	(0.48)
Adjusted operating profit	0.54	1.53
Exceptional items	(0.18)	-
Impairment of intangible R&D costs	(0.63)	-
Amortisation and impairment of intangible acquisition costs	(1.98)	(0.79)
Share based payments	(0.19)	(0.12)
Operating (loss)/profit	(2.44)	0.62
Net finance costs	(0.16)	(0.11)
(Loss)/profit before taxation	(2.60)	0.52
Taxation charge/(credit)	(0.02)	0.21
(Loss)/profit attributable to shareholders	(2.62)	0.73
Adjusted EPS	0.05p	0.21p

Cash Flow Statement

	2019	2018
	£m	£m
Cash flows from operating activities		
Operating profit	(2.44)	0.62
Depreciation & amortisation	0.91	1.62
Impairment of Intangibles	2.60	-
Other	0.19	0.15
Working Capital	(0.54)	(0.59)
Cash generated from operations	0.72	1.81
Taxation received / (paid)	0.00	(0.07)
Interest paid (net)	(0.08)	(0.09)
Net cash generated from operations	0.64	1.65
Cash flows from investing activities	(0.52)	(0.49)
Capex on tangible FA	(0.20)	(0.09)
Capitalised development costs	(0.32)	(0.4)
Cash flows from financing activities	(0.75)	(0.33)
Issue of equity	0.20	-
Bank loans	(1.30)	(0.32)
Repayment of lease obligations/other	0.35	(0.01)
Net change in cash & equivalents	(0.63)	0.83
Adjusted Net cash	0.47	0.38

Financial Position

	2019	2018
	£m	£m
Tangible assets	1.96	0.93
Intangible assets	7.61	10.19
Total non-current assets	9.57	11.12
Inventories	2.93	2.08
Trade receivables	1.95	2.58
Other current assets	0.59	0.46
Trade & other payables	(1.52)	(1.55)
Accruals & deferred income	(0.32)	(0.64)
Total working capital	3.62	2.93
Cash & equivalents	1.28	2.49
Bank borrowings	(0.81)	(2.11)
Lease obligations	(1.28)	-
Total net cash	(0.81)	0.38
Adjusted net cash	0.47	0.38
Other	(0.20)	(0.01)
Net assets/total equity	12.19	14.42

Major Shareholders

Getz Bros & Co (BVI) Inc	13.7%
Directors	12.2%
BGF Investments	7.6%
Ruffer LLP	7.5%
Healthinvest Partners AB	4.9%
Liontrust Asset Mgt	4.7%
Hargreaves Lansdown AM	4.2%
Mr CWN John	4.2%
Cavendish AM	4.1%
Unicorn AIM VCT plc	3.4%
Interactive Investor	3.3%