

Proposed acquisition of Elemental Healthcare Limited

Subscription and vendor placing

July 2017



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Introduction



- Surgical Innovations Group plc (“SI”) is to acquire 100% of the equity of Elemental Healthcare Limited (“Elemental”) www.elementalhealthcare.co.uk
- Elemental is one of the leading suppliers of specialist high quality surgical devices to the NHS and UK private hospital groups, including SI branded range
- Led by founder directors Adam Power and David Marsh, each of whom have built strong contact networks with over 50 years of relevant market experience (see biographical details in Appendix)
- This vertical integration transaction provides SI a direct route to home market in the UK; a significant strategic goal of the SI directors
- Adam & David will retain significant shareholdings in the enlarged business, and will both join the SI board with broader commercial responsibilities



Transaction overview



- SI to acquire 100% of equity for £9.375m (less Net Debt to be assumed at completion*)
- Contracts exchanged on 27 July 2017
- Vendors will retain £1.875m of consideration in shares and join the enlarged Group board
- Balance of £7.5m (plus costs) to be funded from cash resources, new bank facility of £2.5m and institutional subscription/placing of £5.5m



* Expected to be approximately £0.3m, actual value to be agreed at completion

About Elemental



- Elemental is one of the leading UK-based specialist distributors of medical products (including laparoscopic instruments) operating from Hungerford, Berkshire
- In addition to exclusive distribution of SI brand in the UK, Elemental also handles complementary laparoscopic product (Microline) and other specialist products including bariatric (Bioring/gi Dynamics), hernia repair (Cousin/Peters) and breast reconstruction (Meccellis Biotech)
- Unaudited revenue for the year ended 31 March 2017 was £6.5m, with gross margin of 42% and EBIT margin of 17%
- Approximately 30% of revenues are generated by SI brand, 35% by Microline, and the remaining 35% by other specialist product areas



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Benefits to SI



- Profitable, cash generative successful business with strong reputation
- Loyal and committed management with pedigree in medical sector
- High interdependency, hence relatively easier to understand, diligence and integrate
- Access to experienced UK direct sales force
- Significant diversification of product ranges into new/growth areas
- Relationships with other key suppliers
- Management resource to lead NPI priorities, marketing and business development, both in the UK and export markets
- Access to new & innovative thinking in UK clinical & academic communities



Risk factors

Other than the usual commercial risks associated with a transaction of this type, SI have identified the following specific factors:

Risk factor	DD/Mitigation
Low level of asset backing – up to £9m of goodwill on acquisition	Key is to retain top people, as we consider that they are the custodians of value
Margin dilution through FX risk – buy in US\$, sell in £	Have demonstrated some pricing power via recent increases. FX risk offset by opposite exposure in SI
Quality/regulatory risk in other products	Review of approvals and past history of claims & insurance cover
Retention of suppliers	Referencing indicates strong support for enlarged business



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Pro-Forma Income Statement

	SI 12/2016 £m	Elemental 03/2017 £m	Integration £m	Combined Pro-Forma £m
Revenue	6.09	6.53	(0.89)	11.73
Cost of sales	(4.03)	(3.76)	0.89	(6.90)
Gross profit	2.06	2.77	0.00	4.83
Other operating expenses	(1.59)	** (1.67)	0.00	(3.26)
EBITDA	1.41	1.14	0.00	2.55
Amortisation of intangible assets	(0.43)	0.00	0.00	(0.43)
Depreciation	(0.51)	(0.04)	0.00	(0.55)
Operating profit	0.47	1.10	0.00	1.57
Net finance costs	* (0.03)	0.00	(0.13)	(0.15)
Profit before taxation	0.44	1.10	(0.13)	1.42
Taxation credit/(charge)	* 0.20	(0.20)	0.00	0.00
Profit for year	* 0.64	** 0.90	(0.13)	1.42



* Statutory figures normalised to reflect loan conversion in December 2016 and prior year element of tax credit

** Management accounts normalised to reflect non-recurring bad debt cost and directors remuneration

Pro-Forma Balance Sheet

	SI 12/2016 £m	Elemental 03/2017 £m	Transaction £m	Combined Pro-Forma £m
Tangible fixed assets	1.58	0.05		1.63
Intangible assets	1.60	0.00	8.78	10.38
Total non-current assets	3.18	0.05	8.78	12.01
Inventories	1.50	0.63		2.13
Trade receivables	1.10	0.97		2.07
Other current assets	0.29	0.05		0.34
Trade & other payables	(0.34)	(1.04)		(1.38)
Accruals & deferred income	(0.61)	(0.07)		(0.68)
Total working capital	1.94	0.54		2.48
Cash & equivalents	0.77	0.16		0.93
Bank loan	-	(0.06)	(2.50)	(2.56)
Finance lease obligations	(0.05)	0.00		(0.05)
Tax/other	-	(0.40)		(0.40)
Total net cash/(debt)	0.72	(0.30)	(2.50)	(2.08)
Net assets/total equity	5.84	0.29	6.28	12.41



Equity investment proposition

- Total consideration represents 8.53x historic EBIT
- Equity raise of £5.5m to cover balance of consideration & costs
- Money raise at 3.0p (approximately 20% discount to closing on 26 July)
- Represents 23.5% of enlarged entity*
- Vendors accept additional £1.88m equity at same price (= 8.0% of enlarged*)



** Percentages and metrics based on deal structure of £2.5m bank debt and £5.4m placing of equity (excluding vendor equity of £1.88m)*

Enlarged Group - Strategy

SI Group will comprise growing, dynamic businesses that provide innovative high-quality products, predominantly for Minimally Invasive Surgery

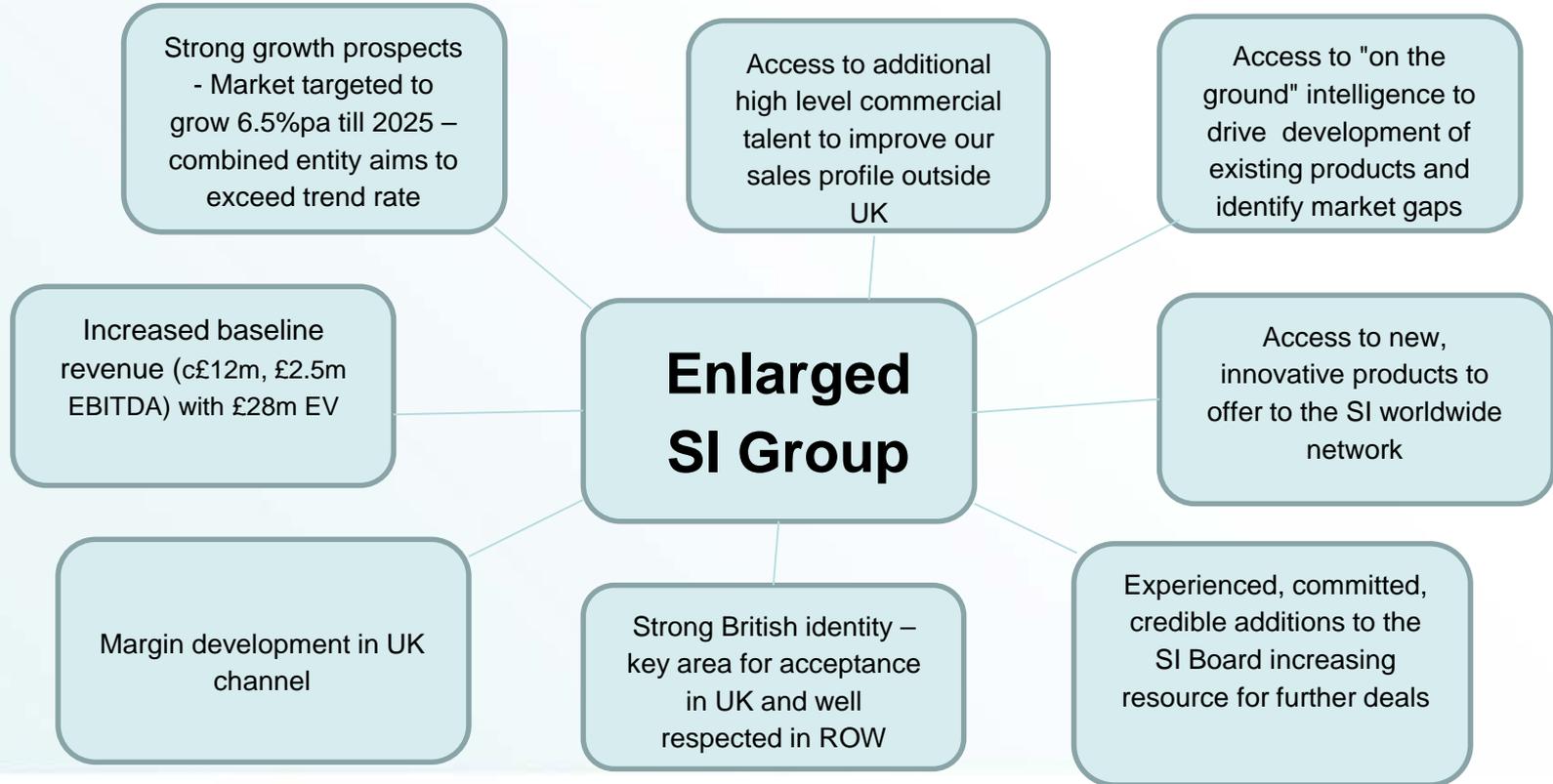
We view ourselves as partners with our distributors, our customers, our employees and our suppliers to achieve the best patient outcomes at an affordable cost

We aim for our brands to be recognised and respected by healthcare professionals in all major geographical markets



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Enlarged Group – Growth Opportunities



Appendix



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Management biographies

Adam Power	David Marsh
<p>Aged 53, BSc in Applied Biology (Bath)</p> <p>1986-91 Schering AG Area Manager (Africa)</p> <p>1991-98 Director Forth Medical Ltd, subsequently acquired by MBO to form:</p> <p>1998-03 Owner/MD, Mantis Surgical Ltd</p> <p>Sold in 2003 to United Drug Plc – remained there as director until:</p> <p>2007-17 – Founder director of Elemental</p> <p>Key achievements: <i>Started robotic surgery with Intuitive (Da Vinci)</i> <i>Introduced gastric band surgery to UK market</i> <i>Introduced Endoluminal Aortic Aneurysm surgery to UK market</i></p>	<p>Aged 52</p> <p>1990-95 USSC (now Medtronic)</p> <p>1995 - 2000 – GM, Sky Medical, built small start-up into £3m distributor of Lap products, until acquired by Gyrus Plc</p> <p>2000-07 Gyrus Plc –GM, UK direct ops (later European ops) . Co-led buy side and integration on five key deals totalling c£200m</p> <p>2007-17 – Founder director of Elemental</p> <p>Key achievements: <i>Launches of Gyrus PK system, Diego Microdebrider, Dornier Laser & Smart Middle Ear implant, each market leading ranges in UK and internationally</i></p>

