



Final Results 2017

For the year ended 31 December 2017

Nigel Rogers – Executive Chairman

Melanie Ross – COO & CFO

March 2018

**Surgical Innovations
Group Plc**

Mission Statement

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“Inspired by surgeons for the benefit of patients”

- Aim to provide a broad portfolio of products
- Cost effective, procedure specific instruments and devices
- Developed in-house, and through partners and acquisition
- Manufacture & design: innovative and user-friendly
- Integrity & respect for all stakeholders

Notes

Business model & segmentation

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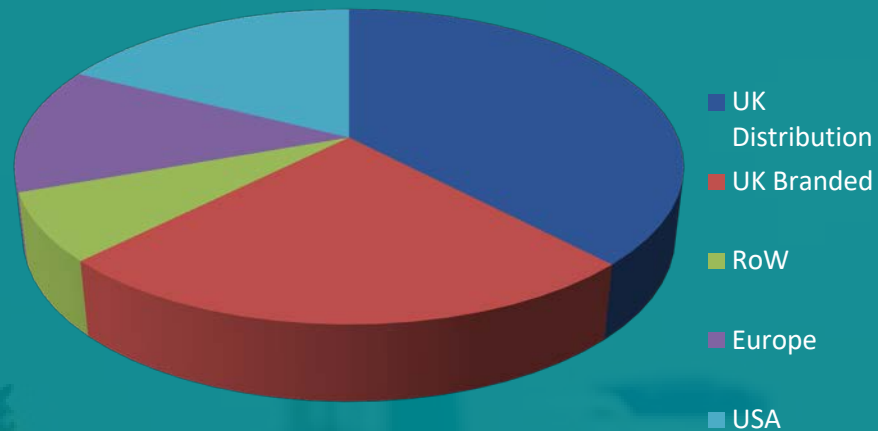
- SI Branded products as core activity
- Sold direct in UK home market via Elemental
- Distribution in over 35 countries worldwide via third parties
- UK distribution of complementary product ranges from other manufacturers via Elemental
- OEM – design & manufacture of products for selected other companies, (also includes precision engineering services for major industrial partner)

Notes

Key markets

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Branded and distributed Sales 2017 FY proforma



Fields of use

- Laparoscopy
- Obesity
- Breast & AW reconstruction
- Hernia repair

Notes

Progress in 2017

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- Financial results in line with upgraded forecasts
- Acquired Elemental Healthcare: integration completed
- New board appointments: commercial leadership
- Overseas distribution relationships strengthened
- Yelloport® Elite launched & roll out progressing well
- Managed transition to new Notified body
- UK distribution agreements extended and supplemented by new lines

Notes

Income statement

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	2017 £m	2016 £m
Revenue	8.75	6.09
Cost of sales	(5.03)	(4.03)
Gross profit	3.72	2.06
Other operating expenses	(3.16)	(1.59)
Other Income	0.02	-
Adjusted EBITDA	2.22	1.43
Amortisation of intangible R&D costs	(0.52)	(0.43)
Depreciation of tangible assets	(0.56)	(0.51)
Adjusted operating profit	1.14	0.49
Exceptional items	(0.22)	-
Amortisation of intangible acquisition costs	(0.32)	-
Share based payments	(0.02)	(0.02)
Operating profit	0.58	0.47
Net finance costs	(0.04)	(0.19)
Profit before taxation	0.54	0.28
Taxation credit	0.08	0.44
Profit attributable to shareholders	0.62	0.72
Adjusted EPS (adj for acquisition related costs)	0.19p	0.15p

Revenue growth of 44%, includes 8% like for like and 3% due to FX

Gross margin 42.5% (33.8% in prior year)

Increases in OPEX reflect additional EHL costs and underlying spend on additional regulatory and NPI spend

Operating margin 13.0% (before acquisition related costs and share based payments)

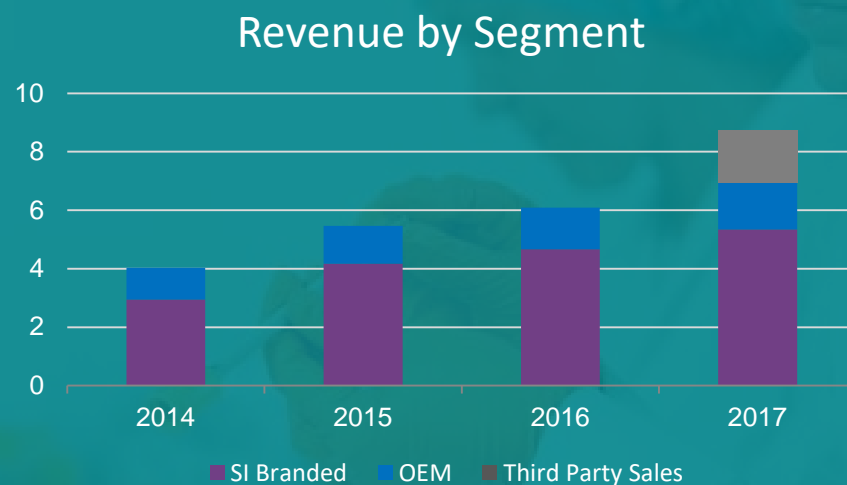
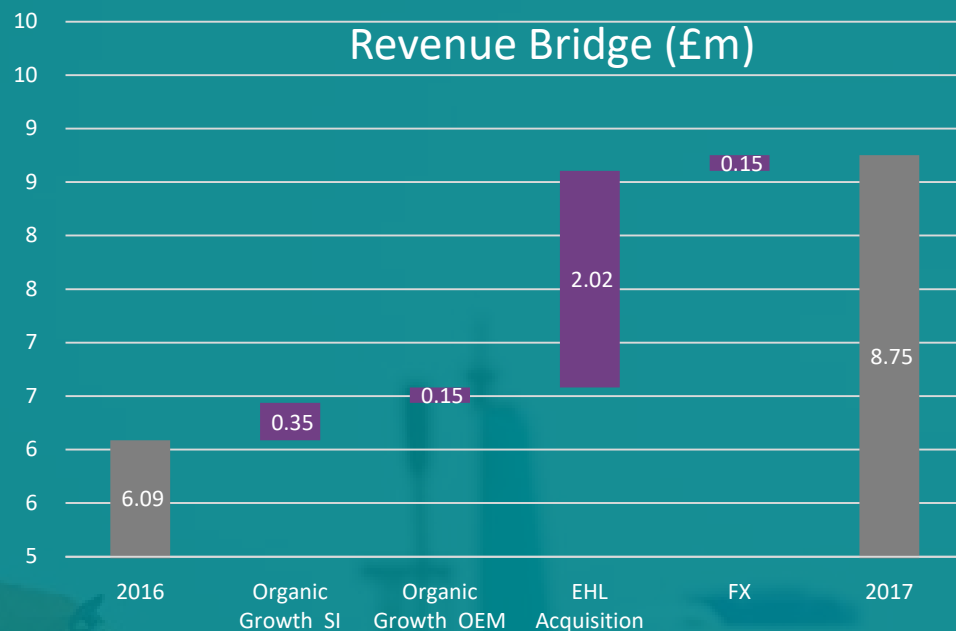
Financing costs reduced in comparison to prior year but expected to increase in 2018 relating to acquisition financing

Adjusted EPS increased by 26.7%

Notes

Income statement - detail

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Notes

Income statement – EBITDA Bridge (£m) ⁸



Notes

Segmental – SI Brand

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- Overview/Recap

- Port access devices
- Surgical Instruments
- Retraction
- Resposable® concept

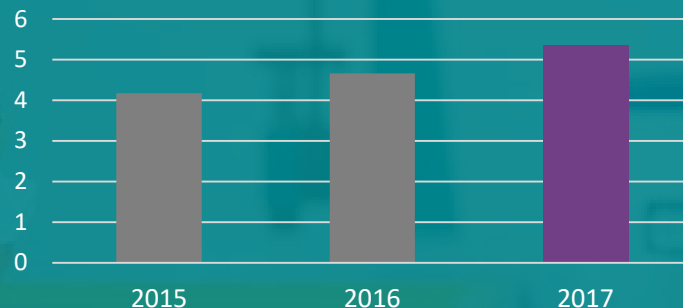
- Route to market

- Direct Sales force (UK)
- 3rd Party Distribution (RoW)

- Key Achievements

- Revenue up 15%
- Yelloport® Elite launch
- Regulatory Challenges
- Range expansion progress

Revenues £m



Notes

Segmental – UK Distribution

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- Overview/Recap
 - Elemental acquired August 2017
 - SI Branded direct sales
 - Complementary MIS devices
 - New/Innovative developments
- Routes to market
 - Network of regional territory managers supported by experienced Sales Management
 - NHS & private hospital groups
 - Strong relationships with surgeons & theatre staff
- Key vendors
 - Microline Inc
 - Meccellis Biotech
 - Péters Surgical
 - Cousin Biotech
 - Bariatric Solutions
 - GID/Novadaq now ceased
- Key Achievements
 - Acquisition well received
 - Secured compensation for termination by Novadaq/Stryker
 - Signed up extensions to existing supplier base and new lines

Notes

Case Study - Meccellis

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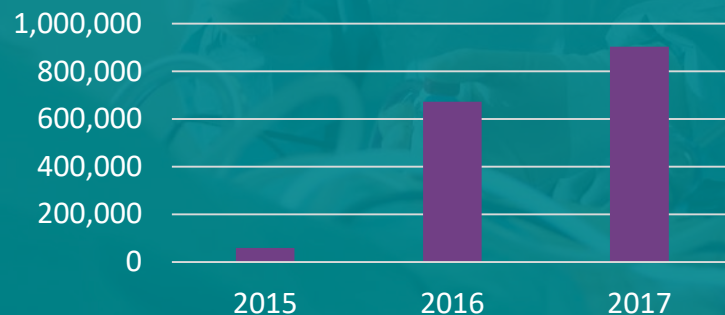
What is Cellis® Acellular Dermal Matrix (ADM)

ADM's are soft tissue **matrix** grafts created by a process that results in decellularization but leaves the Collagen **matrix** intact. The **matrix** is purified from its genetic elements (cells, DNA, RNA, epitopes) allowing optimal support throughout the tissue regeneration process. Cellis® is made from a Porcine Dermis and has applications in Abdominal and Breast reconstruction.

Who are Meccellis?

Meccellis Biotech, based in La Rochelle, France, was founded in 2013 by a Biological Engineer and 2 industry experts. Cellis® is now the market leading ADM in France with an estimated 75%+ market-share. With the UK being a key market for ADM Elemental Healthcare identified Meccellis as the supplier of choice. Following a meeting at the European Hernia Society Meeting in Milan in June 2015 an exclusive distribution contract was signed later that year.

UK Cellis® Sales



Market Value

Worldwide Market \$5,070m
UK Market \$30m

Competition

Allergan – Alloderm – Human Dermis
Allergan – Strattice – Porcine Dermis
Medtronic – Permacol - Procine
Integra – Surgimend – Bovine Dermis
Cook Medical – Surgisis – Subcutaneous Porcine

Notes

Segmental – OEM

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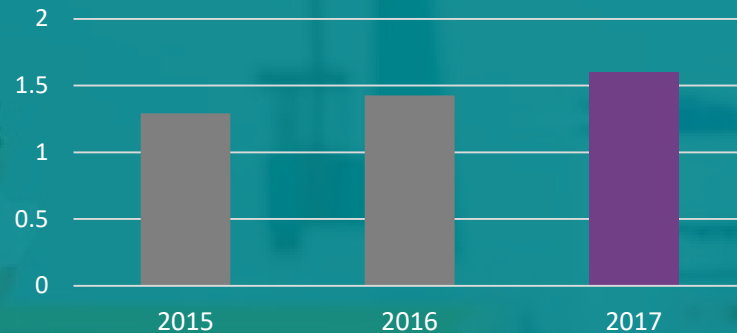
- Overview/Recap

- Design & Build for key partners
- Now also includes precision engineering previously reported separately

- Key Products

- Fix-8 device for hernia repair (AMS plc)
- Valves and Seals for a SILS device sold by a global medical company
- R&D collaboration with UK based global industrial group

Revenues £m



- Key Achievements

- 12% growth in segment year on year
- H2 affected by ongoing design modifications
- Enhanced product for 2018
- Commenced phase III project in PE segment

Notes

Cash Flow

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	2017 £m	2016 £m
Cash flows from operating activities		
Operating profit	0.58	0.47
Exceptional items	0.01	0.00
Depreciation & amortisation	1.41	0.94
Other	0.01	0.08
Operating cash flows before movements in working capital	2.01	1.49
Inventories	(0.24)	0.80
Receivables	0.26	0.18
Payables	(0.13)	(0.06)
Cash generated from operations	1.90	2.40
Taxation	(0.21)	0.53
Interest paid (net)	(0.09)	(0.09)
Net cash generated from operations	1.60	2.85

Increased amortisation due in main to amortising the intangibles relating to the acquisition (see appendix)

Increase in inventories due to both acquisition and stock build in relation to new products

2017 tax paid relates to pre-acquisition profits of EHL

Notes

Cash Flow

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	2017 £m	2016 £m
Net cash generated from operations	1.60	2.85
Cash flows from investing activities	(8.34)	(0.78)
Capex on tangible FA	(0.25)	(0.16)
Capitalised development costs	(0.38)	(0.44)
Acquisition	(7.71)	(0.18)
Cash flows from financing activities	7.70	(2.20)
Issue of equity	5.31	0.00
Bank loans	2.43	(2.00)
Repayment of lease obligations/other	(0.04)	(0.20)
Net change in cash & equivalents	0.96	(0.14)

Notes

Balance Sheet

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	2017 £m	2016 £m
Tangible fixed assets	1.33	1.58
Intangible assets	11.01	1.60
Total non-current assets	12.34	3.18
Inventories	2.47	1.50
Trade receivables	1.54	1.10
Other current assets	0.42	0.29
Trade & other payables	(1.58)	(0.34)
Accruals & deferred income	(0.62)	(0.61)
Total working capital	2.23	1.94
Cash & equivalents	1.71	0.78
Bank borrowings	(2.42)	0.00
Finance lease obligations	(0.02)	(0.05)
Total net cash/(indebtedness)	(0.73)	0.72
Net deferred tax assets/(liabilities)	(0.12)	0.00
Net assets/total equity	13.72	5.84

Intangibles	£m
Capitalised development costs	1.27
Product Knowledge	0.19
Goodwill	8.59
Supplier Agreements	0.96
	11.01

Notes

Future Plans

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- Current Trading
 - FY18Q1 affected by NHS constraints in UK
 - Signs of normalising now evident
 - Prospects remain positive
- Markets
 - Structural changes to dealer network
 - Strengthened dealer position in USA for YelloPort+
 - Elite to drive strong European sales.
- Initiatives
 - Elite promotion to encourage take up a success
 - Enhanced international sales resource
 - New product lines for UK
 - Expect uplift in OEM
- M&A Criteria
 - Focus on building product portfolio
 - Prefer manufacturing/design element with IP
 - Early stage acceptable but not pre-revenue
 - Geographical expansion attractive, especially US and/or Europe

Notes

Appendices

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Notes

Board of Directors

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- **Nigel Rogers (Executive Chairman)** – FCA, 20+ years as FD/CEO/NED/Chair of various AIM-listed businesses, including SDM, SIXH and TRT
- **Melanie Ross (COO/CFO)** – member of CIMA, previously at AESSEAL plc and Eaton Cooper Lighting & Safety
- **Adam Power (Group Development Director)** – pedigree in medical sales and new product introductions to UK market. 10 years owner/director of Elemental
- **David Marsh (Group Commercial Director)** – strong track record in medical sales and M&A with Sky & Gyrus, before co-founding Elemental in 2007
- **Prof. Mike McMahon (NED and Clinical Lead)** – founder/director, leading Laparoscopic Surgeon
- **Paul Hardy (NED)** – Chartered Accountant – led successful MBO of BI Engineering Ltd (Medtech/aerospace group) and subsequent exit. Now principal at HTML, boutique lead advisory M&A firm
- **Alistair Taylor (NED)** – strong pedigree in medical sales. Experienced director in life sciences sector, previously with Beecham, Pfizer & Biocompatibles Plc and others

Notes

Major Shareholders

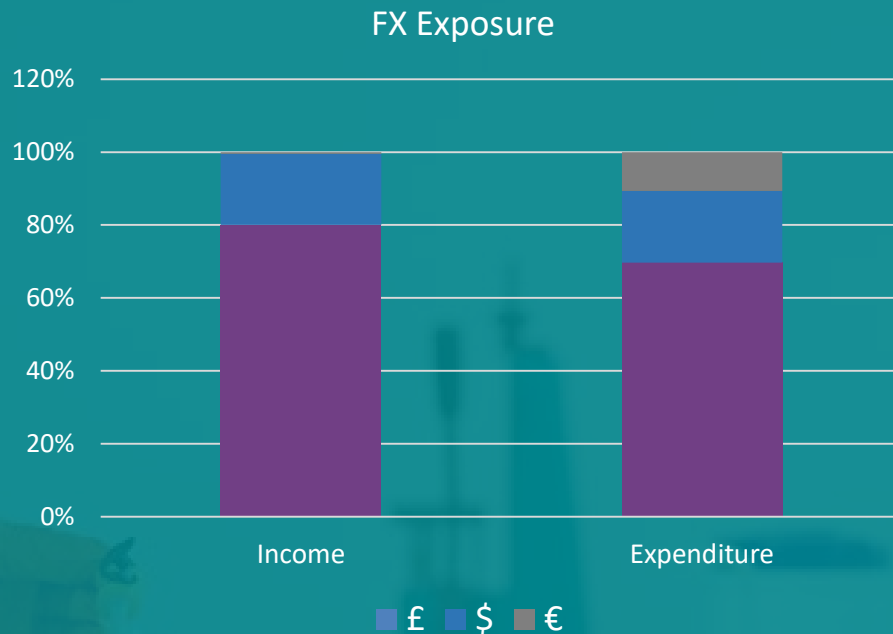
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As at 27 February 2018	%
Getz Bros	13.0%
Directors	12.3%
Ruffer LLP	9.6%
Healthinvest Partners AB	5.1%
CWN John	5.1%
Marlborough	4.9%
Unicorn AIM VCT plc	3.4%

Notes

Foreign Currency

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• Current Position

- The group has a natural hedge in place on \$ where SI sell and EHL buy negating the need for financial hedging.
- No such natural hedge in place with € where EHL buy but SI have limited distributors on € price lists.
- Net buyers of € with exposure to market movements at this current time.

• Initiatives

- Moved European distributors to € price lists with effect from Q2 2018 to offset this risk.
- Will be predominantly hedged internally against market movements and will continue to balance this risk as the company grows and the profile changes.

Notes

Acquisition of Elemental Healthcare

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- In August 2017 SI Group plc acquired 100% of the equity of EHL for £9.375m
 - £1.875m shares retained by vendors
 - £5m equity raised in the market
 - £2.5m new loan facility
- In the 2017 FY accounts this is shown as
 - £1.29m Intangibles to be written off over the next 3 years
 - 2017- £327k
 - 2018- £447k
 - 2019- £351k
 - 2020- £164k
 - £8.59m of goodwill to be subject to fair value assessment annually but not subject to impairment.

Notes