

10 September 2013

Surgical Innovations Group plc
("SI" or the "Group" or the "Company")

Interim Results

Surgical Innovations Group plc (AIM: SUN), the designer and manufacturer of creative solutions for Minimally Invasive Surgery ('MIS'), announces unaudited interim results for the six months ended 30 June 2013, which show continued growth in higher margin SI branded products.

Financial highlights

- Revenues up 28.4% to £3.88m (H1 2012: £3.02m)
- Gross margins in core MIS business increased to 45.5% (H1 2012: 44.8%)
- EBITDA up 16.8% to £1.14m (H1 2012: £976,000*)
- Operating profit* up 18.2% to £623,000 (H1 2012: £527,000*)
- Pre-tax profit* up 19.4% to £567,000 (H1 2012: £475,000*)
- Reported pre-tax profit more than tripled to £567,000 (H1 2012: £181,000)
- Adjusted basic earnings per share of 0.12p (H1 2012: 0.09p)
- Net cash of £808,000 generated from operating activities (H1 2011: £888,000*)

*comparative adjusted to exclude H1 2012 exceptional costs of £294,000

Operational highlights

- Revenues from SI branded products up 37.7% to £2.93m (H1 2012: £2.13m)
- Revenues from OEM products down 5.2% to £0.85m (H1 2012: £0.89m)
- Strong sales of Resposable® instruments with continued disposable pull through to follow
- Revenues from SI branded disposable elements up 22.8% to £1.67m (H1 2012: £1.36m)
- Impressive 144% growth in UK SI branded product revenues to £809,000 (H1 2012: £331,000)

Post-period end highlights

- Two more distributors added to growing US distribution network
- Largest ever US order, in financial terms, for SI Branded products secured in H2

Commenting on Outlook, Doug Liversidge, Chairman, said:

"We remain confident about the future growth prospects of the business and the continued growth and success of our own SI branded products. The increased adoption of our cost effective Resposable® products in the UK is particularly encouraging and our access to the US market had been greatly improved through the establishment of additional distribution relationships. We continue to develop innovative new products for hip arthroscopy and a 3mm range and look forward to the launch of the hernia mesh fixation device, all of which will contribute to future revenue growth."

Surgical Innovations Group plc

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Chairman's statement

I am pleased to report another first half of good progress for the business, with further growth in our higher margin SI branded products and continued improvement in gross margins across the core MIS business.

Our strategy of continuous innovation and product development within laparoscopy, particularly in the area of ultra MIS (3mm), coupled with our move into new therapeutic markets, such as hip arthroscopy, ensures that we remain at the forefront of our industry.

Financial Results

Revenue for the period was up over 28% to £3.879 million (H1 2012: £3.022 million). Our higher margin SI branded products saw continued revenue growth of 37.7% to £2.930 million (H1 2012: £2.128 million). OEM sales reduced by 5.2% to £0.847 million (H1 2012: £0.894 million). This reflects a focus on our existing strategic partners, where we remain actively engaged with all of them to secure orders for the second half and 2014. We also recorded a contribution of £102,000 to revenue from our Industrial Business during the period (H1 2012: nil).

We continue to consider the growth in sales of the higher margin disposable elements within our SI branded Resposable® range as an important measure of our overall performance. Disposable elements from SI Branded Resposable® lines increased 22.8% to £1.670 million (H1 2012: £1.360 million), reflecting an increase in SI's global market share in laparoscopic procedures. As a direct result of the growth of SI branded sales, overall gross margins improved further to 45.5% (H1 2012: 44.8%).

Reported operating profit increased to £623,000 (H1 2012: £233,000) and reported pre-tax profit more than tripled to £567,000 (H1 2012: £181,000). Basic EPS increased to 0.12p (H1 2012: 0.07p) and reflects a tax charge of £87,000, compared to a tax credit of £98,000 for the same period last year.

During the comparative period the Company incurred a number of one-off restructuring costs which were included as an exceptional item of £294,000 for the six months ended 30 June 2012. Adjusting for this exceptional item in the comparative period gives an improvement in adjusted EBITDA of 16.8% to £1.140 million (H1 2012: £976,000) and an adjusted operating profit up 18.2% to £623,000 (H1 2012: £527,000). Adjusted pre-tax profit increased by 19.4% to £567,000 (H1 2012: £475,000). Adjusted earnings per share rose 33% to 0.12p (H1 2012: 0.09p).

During the year the Group generated net cash of £808,000 from operating activities (H1 2012: £888,000 before exceptional items), and the Group continued to invest in product development, particularly the hernia mesh fixation device and 3mm range of products, with capitalised R&D costs of £955,000 (H1 2012: £871,000).

Operational Review

Trading in the first half was very encouraging, particularly in our home market. Sales of SI branded products to our UK distributor, Elemental Healthcare, grew by 144% to £809,000 (H1 2012: £331,000). This sales growth was particularly driven by our own SI branded Resposable® products. As outlined in our trading update on 16 August 2013, the first half has seen our flagship YelloPort+plus™ Port access system continue to gain UK market share as a cost effective solution for laparoscopic surgical procedures. The total number of UK hospitals to convert to our Resposable® products in 2013 has now reached 25.

Our focus on developing opportunities within the North American market continues to be successful, with US sales up 17.8% to £1.063 million during the period (H1 2012: £0.902 million). The strategic investment in developing the SI Brand throughout the US with the appointment of Rick Barnett as President of US Sales and Operations is already securing a platform for growth. The combination of Logicut scissors and YelloPort+plus™

is a powerful proposition with US healthcare organisations continuing to implement aggressive cost reduction programmes.

Sales in Europe remain robust showing an increase of nearly 15% to £1.168 million (H1 2012: £1.016 million). We continue to build the SI Brand in our major European markets which have a willingness to accept the Resposable® concept.

The first half has seen an encouraging interest in SI's Resposable® technologies. The Company strives to put cost effectiveness within the product development agenda and wherever functionally possible Resposable® is the preferred solution. Resposable®, with its combination of high quality long lasting reusable and low cost disposable appeals to the current decision makers within the MIS sector. We have driven this appeal by working with our distributors to develop a powerful sales proposition that utilises the key strengths of each Resposable® product line, linking guaranteed future revenues against initial capital outlays. Our distributors are now able to compete favourably against the major disposable medical device companies and the growth rates we are now seeing reflect this. Conversion of hospitals from one system to another is not an easy process and substantial clinical evaluations together with financial saving studies need to be undertaken and approvals from all stakeholders obtained. It is with great delight that we have therefore achieved 25 UK conversions this year, ensuring UK hospitals are using UK designed, developed and manufactured medical devices.

The OEM business primarily focused on the sale of instrumentation and retraction devices to our existing OEM partners. During the period we received FDA approval for our 3mm PretzelFlex laparoscopic retractor ensuring we achieved our contracted levels of sales through our eight-year exclusive distribution agreement with CareFusion. We continue to supply laparoscopic instrumentation to both Teleflex Medical and Gyrus Medical and with the forthcoming hernia mesh fixation device for Advanced Medical Solutions to add to the OEM portfolio we will have a secure OEM business model that complements our SI Branded business.

In May the Company announced the approval of funding from its long standing industrial partner worth over £210,000, to develop a bespoke solution for a device delivery system to be used in the on-wing inspection of jet engines. £69,000 of this revenue was recognised in the first half and the project is due for completion at the end of 2013, with the opportunity for a roll-out of these devices in 2014.

Update on new facility

In January SI announced that it had formally signed the Regional Growth Fund ("RGF") Final Grant Offer Letter offering a grant of £5.05 million and more recently the Company announced it had formally approved the budget for the development of a new facility. The total cost of the building project will be funded through the RGF grant and the remainder by a commercial mortgage, with an estimated completion date of July 2015.

Three site locations, all situated on the Eastern side of Leeds, are being assessed for the 58,000sq ft facility which will incorporate a 10,000sq ft Clinical training centre. The Directors believe that a phased move to the new site will not have any impact on short term trading or profitability, but it is expected to bring significant operational efficiencies and the new building will be planned specifically to optimise SI's production capabilities.

The Clinical training centre will act as a catalyst for innovation enabling international surgeons to develop best clinical practice, use and critique SI's latest medical device technologies, and importantly enable SI to expand its development programme into new areas of MIS. The centre will combine classic training methods of laparoscopic work stations with cadaveric and dissection facilities and a simulated operating room. It is envisaged that SI will develop one of the premier facilities in the UK that will support the growing demand for clinical training both from home and abroad.

Clinical Advisory Board (CAB) & International Clinical Advisory Board (ICAB)

The development of the CAB/ICAB is of strategic importance to SI on several levels, critically it provides immediate access to key opinion leading surgeons (KOL), both in the UK and abroad. Our development team, which remains at the heart of the business have tremendous opportunities to work with our KOLs and ensure SI addresses clinical need with highly innovative, functional and, crucially, cost-effective medical devices. By developing an international network of KOLs we are adding value to the distribution network and our objective is to have KOLs in each of our major global markets coupled with KOLs in the UK from every facet of minimally invasive surgery.

During the period Marco Scarci, a Consultant Throacic Surgeon specialising in video-assisted thoracoscopic surgery and Henrik Steinbrecher, a Consultant Paediatric Urologist, joined the CAB. In addition we welcomed Sean Barnett, in March, to the ICAB. Sean is a US paediatric and thoracic surgeon specialising in core trauma and bariatric surgery. These appointments help reinforce SI's strategic objectives, to transfer its technology into new areas of MIS and to develop a complete range of 3mm laparoscopic devices.

Current Trading

The growing success in the UK market for our SI branded products is extremely encouraging and demonstrates the successful implementation of our Resposable[®] proposition and development of the CAB. Importantly it aids adoption of the technology within our targeted export markets.

The US remains our primary export focus and with the recent appointment of Rick Barnett substantial interest in SI is being generated. Three new US distributors have now been added since appointment, with the recent appointment of Surgioscopy and Med Devices, in addition to IMS Connecticut. These three distributors cover 16 US states and over 1,700 hospitals. Further additions are anticipated during the remainder of 2013 as we expand our coverage to all key US States.

We have also received confirmation from our major US distributor, Adler Instrument Co. Inc, for a significant increase in orders for Logicut scissors which, in value terms, will be our largest ever single US order for SI Branded products. The current pace of expansion of the US distribution network is exceeding management expectations and we are delighted in both the quality and quantity of the distributors now working with SI. Naturally it will take a period of time until revenues reflect the increase in US coverage however initial indications are positive and when coupled with established distributors driving their portfolio of SI products forward we remain encouraged in our decision to invest in a permanent US presence.

Our concept team continues to work on new hip arthroscopy products and the development of a range of 3mm devices for enhanced minimal invasive surgery. Pilot testing on cadavers for SI's prototype port access products for hip arthroscopy have been successful and the Company will continue to develop, modify and improve the port access system now the core functionalities have been demonstrated. SI has also announced a partnership with JRI, a leading UK Orthopaedic company, to investigate the use of minimally invasive techniques for early stage osteoarthritis of the hip, a collaboration that was recently allocated a £390,000 grant from the TSB Biomedical Catalyst Fund.

Outlook

By establishing a national network of US distributors covering the key States we now have a conduit for future innovative devices in all areas of MIS. Distributors demand new technologies and complementary devices to ensure they remain ahead of their competitors within the sales arena. By working with them and their KOLs we have a tremendous opportunity to exploit this requirement within the world's major laparoscopic market.

We remain confident about the future growth prospects of the business and the continued growth and success of our own SI branded products. The increased adoption of our cost effective Resposable® products in the UK is particularly encouraging and our access to the US market had been greatly improved through the establishment of additional distribution relationships. We continue to develop innovative new products for hip arthroscopy and a 3mm range and look forward to the launch of the hernia mesh fixation device, all of which will contribute to future revenue growth.

Doug Liversidge CBE
Chairman

9 September 2013

Unaudited consolidated statement of comprehensive income

for the six months ended 30 June 2013

		Unaudited six months ended 30 June	Unaudited six months ended 30 June	Audited year ended 31 December
	Notes	2013 £'000	2012 £'000	2012 £'000
Revenue	2	3,879	3,022	7,639
Cost of sales		(2,111)	(1,666)	(3,779)
Gross profit		1,768	1,356	3,860
Other operating expenses		(1,145)	(1,123)	(2,537)
EBITDA*		1,140	976	2,888
Depreciation and amortisation		(517)	(449)	(1,271)
Exceptional items		-	(294)	(294)
Operating profit		623	233	1,323
Finance costs		(56)	(54)	(94)
Finance income		-	2	4
Profit before taxation		567	181	1,233
Taxation	3	(87)	98	(547)
Profit and total comprehensive income for the period attributable to the owners of the parent		480	279	686
Earnings per share				
Basic	4	0.12p	0.07p	0.17p
Diluted	4	0.11p	0.07p	0.17p

* EBITDA is earnings before interest, depreciation, amortisation and exceptional items.

Unaudited consolidated balance sheet

as at 30 June 2013

	Unaudited 30 June 2013 £'000	Unaudited 30 June 2012 £'000	Audited 31 December 2012 £'000
Assets			
Non-current assets			
Property, plant and equipment	2,900	3,242	2,990
Intangible assets	7,076	5,948	6,393
Deferred tax asset	-	563	-
Trade receivables	1,367	-	637
	11,343	9,753	10,020
Current assets			
Inventories	3,140	3,159	3,605
Trade receivables	3,993	2,704	3,953
Other current assets	469	435	679
Cash and cash equivalents	-	3,436	-
	7,602	9,734	8,237
Total assets	18,945	19,487	18,257
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital	4,046	4,031	4,046
Share premium account	325	318	325
Capital reserve	329	329	329
Retained earnings	9,414	8,388	8,863
Total equity	14,114	13,066	13,563
Non-current liabilities			
Obligations under finance leases	637	997	786
Deferred tax liabilities	456	-	369
	1,093	997	1,155
Current liabilities			
Bank overdraft	1,902	3,640	1,419
Trade and other payables	1,242	1,168	1,475
Obligations under finance leases	410	440	422
Accruals	184	176	223
	3,738	5,424	3,539
Total liabilities	4,831	6,421	4,694
Total equity and liabilities	18,945	19,487	18,257

Unaudited consolidated interim cash flow statement

for the six months ended 30 June 2013

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 £'000	Audited year ended 31 December 2012 £'000
Cash flows from operating activities			
Operating profit	623	233	1,323
Adjustments for:			
Depreciation of property, plant and equipment	245	282	571
Amortisation of intangible assets	272	166	700
Share-based payment charge	71	-	68
Operating cash flows before movement in working capital	1,211	681	2,662
Decrease/(increase) in inventories	465	(301)	(747)
(Increase)/decrease in receivables	(775)	683	(1,160)
Decrease in trade and other payables	(252)	(415)	(49)
Cash generated from operations	649	648	706
Taxation received	215	-	-
Interest paid	(56)	(54)	(94)
Net cash generated from operating activities	808	594	612
Cash flows from investing activities			
Interest received	-	2	4
Payments to acquire property, plant and equipment	(118)	(89)	(133)
Acquisition of intangible assets	(955)	(871)	(1,850)
Net cash used in investing activities	(1,073)	(958)	(1,979)
Cash flows from financing activities			
Cash received from issue of shares	-	171	193
Repayment of obligations under finance leases	(218)	(211)	(445)
Net cash used in financing activities	(218)	(40)	(252)
Net decrease in cash and cash equivalents	(483)	(404)	(1,619)
(Net borrowings)/cash and cash equivalents at beginning of period	(1,419)	200	200
Net borrowings at end of period	(1,902)	(204)	(1,419)
Cash at bank and in hand	-	3,436	-
Bank overdraft	(1,902)	(3,640)	(1,419)
Net borrowings at end of period	(1,902)	(204)	(1,419)

Unaudited consolidated statement of changes in equity

for the six months ended 30 June 2013

	Share capital £'000	Share premium £'000	Capital Reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2013	4,046	325	329	8,863	13,563
<i>Employee share-based payment options</i>	-	-	-	71	71
Total - Transaction with owners	-	-	-	71	71
Profit and total comprehensive income for the period	-	-	-	480	480
Unaudited balance as at 30 June 2013	4,046	325	329	9,414	14,114

Notes to the interim financial information

1. Basis of preparation of interim financial information

The interim financial information was approved by the Board of Directors on 10 September 2012. The financial information set out in the interim report is unaudited.

The interim financial information has been prepared in accordance with the AIM Rules for Companies and on a basis consistent with the accounting policies and methods of computation as published by the Group in its annual report for the year ended 31 December 2012, which is available on the Group's website.

The Group has chosen not to adopt IAS 34 Interim Financial Statements in preparing these interim financial statements and therefore the interim financial information is not in full compliance with International Financial Reporting Standards as adopted for use in the European Union.

The financial information set out in this interim report does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The figures for the year ended 31 December 2012 have been extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Sections 498(2) and 498(3) of the Companies Act 2006.

2. Segmental reporting

Information reported to the Board and for the purpose of assessing performance and making investment decisions is organised into three operating segments. The Group's operating segments under IFRS 8 are as follows:

SI Brand - the research, development, manufacture and distribution of SI branded minimally invasive devices.

OEM - the research, development, manufacture and distribution of minimally invasive devices for third party medical device companies through either own label or co-branding.

Industrial - the research, development, manufacture and sale of minimally invasive technology products for industrial application.

The measure of profit or loss for each reportable segment is gross margin less attributable amortisation of goodwill.

Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided here. The following segmental analysis has been produced to provide a reconciliation between the information used by the key decision maker within the business and the information as it is presented under IFRS.

Six months ended 30 June 2013 (unaudited)	SI Brand	OEM	Industrial	Total
	£'000	£'000	£'000	£'000
Revenue	2,930	847	102	3,879
Result				
Segment result	1,215	230	51	1,496
Unallocated expenses				(873)
Profit from operations				623

Finance costs	(56)
Profit before taxation	567
Tax	(87)
Profit for the period	480

Included within the segment/operating results are the following significant non-cash items:

	SI Brand	OEM	Industrial	Total
Six months ended 30 June 2012 (unaudited)	£'000	£'000	£'000	£'000
Amortisation of intangible assets	190	82	-	272

	SI Brand	OEM	Industrial	Total
Six months ended 30 June 2012 (unaudited)	£'000	£'000	£'000	£'000
Revenue	2,128	894	-	3,022
Result				
Segment result	858	332	-	1,190
Unallocated expenses				(957)
Profit from operations				233
Finance income				2
Finance costs				(54)
Profit before taxation				181
Tax				98
Profit for the period				279

Included within the segment/operating results are the following significant non-cash items:

	SI Brand	OEM	Industrial	Total
Six months ended 30 June 2012 (unaudited)	£'000	£'000	£'000	£'000
Amortisation of intangible assets	121	45	-	166

	SI Brand	OEM	Industrial	Total
Year ended 31 December 2012 (audited)	£'000	£'000	£'000	£'000
Revenue	5,334	2,204	101	7,639
Result				
Segment result	2,250	815	95	3,160
Unallocated expenses				(1,837)
Profit from operations				1,323
Finance income				4
Finance costs				(94)
Profit before taxation				1,233
Tax				(547)
Profit for the period				686

Included within the segment/operating results are the following significant non-cash items:

	SI Brand	OEM	Industrial	Total
Year ended 31 December 2012 (audited)	£'000	£'000	£'000	£'000
Amortisation of intangible assets	530	169	1	700

Unallocated expenses include those costs that cannot be split between segments and which are not separately analysed in the management accounts including concept department, sales and marketing, and head office overheads.

Geographical analysis

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 £'000	Audited year ended 31 December 2012 £'000
United Kingdom	1,189	747	1,777
Europe	1,168	1,016	2,392
US	1,063	902	2,149
Rest of World	459	357	1,321
	3,879	3,022	7,639

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use.

3. Taxation

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed and any adjustment to tax payable in respect of previous years. It is calculated using the estimated effective rate for the period, based on the mainstream rate of UK corporation tax and on a basis consistent with that to be used in the full year.

4. Earnings per share

	Unaudited six months ended 30 June 2013	Unaudited six months ended 30 June 2012	Audited year ended 31 December 2012
Earnings per share			
Basic	0.12p	0.07p	0.17p
Diluted	0.11p	0.07p	0.17p
Adjusted earnings per share			
Basic	0.12p	0.09p	0.35p
Diluted	0.11p	0.09p	0.35p

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue. Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the diluted weighted average number of shares in issue. Adjusted earnings per share is calculated by dividing adjusted earnings attributable to ordinary shareholders as set out below by the weighted average number of shares in issue.

The Group has one category of dilutive potential ordinary shares being share options issued to Directors and employees. The impact of dilutive potential ordinary shares on the calculation of weighted average number of shares is set out below.

	Unaudited six months ended 30 June 2013 '000s	Unaudited six months ended 30 June 2012 '000s	Audited year ended 31 December 2012 '000s
Weighted average number of ordinary shares	404,591	401,185	402,201
Dilutive effect of share options in issue	19,700	9,762	13,083
Diluted weighted average number of ordinary shares	424,291	410,947	415,284

Earnings attributable to ordinary shareholders used in the calculation of basic and diluted earnings per share together with a reconciliation to adjusted earnings attributable to ordinary shareholders is as follows:

	Unaudited six months ended 30 June 2013 £'000	Unaudited six months ended 30 June 2012 £'000	Audited year ended 31 December 2012 £'000
Profit for the period	480	279	686
Exceptional items	-	294	294
Deferred tax adjustment	-	(220)	441
Adjusted profit for the period	480	353	1,421

Adjusted earnings per share has been calculated so as to exclude the impact of exceptional items and a one-off deferred tax adjustment in prior periods which are one-off in nature and thus have a distortive impact on the ordinary calculation of earnings per share.