

The background of the slide is a photograph of surgeons in an operating room. The image is partially obscured by a teal-colored rectangular overlay on the left side, which contains the text. The surgeons are wearing blue scrubs, masks, and hairnets. One surgeon in the foreground is looking down at a patient, while another is visible in the background. The lighting is bright, typical of a surgical environment.

Interim Results 2018

For the half year ended 30 June 2018

“Growth in revenue and profit despite significant headwinds.....building a valuable portfolio of specialised products....”

Nigel Rogers – Executive Chairman

Melanie Ross – COO & CFO

September 2018

Surgical Innovations
Group Plc

Overview

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- Revenues and profits increased despite market and regulatory challenges
- Strong cash flow: net indebtedness eliminated
- Continued investment in Elite range expansion
- Simplified routes to some key geographical markets
- OEM – important design milestones completed
- UK distribution – signed new & extended deals with high potential
- Positive outlook for H2 & beyond

Notes

Income statement

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	2018H1 £m	2017H1 £m	2017 £m
Revenue	5.28	3.47	8.75
Cost of sales	(3.22)	(2.15)	(5.03)
Gross profit	2.06	1.32	3.72
Other operating expenses	(2.08)	(1.01)	(3.16)
Other Income	0.15	-	0.02
Adjusted EBITDA	0.93	0.83	2.22
Amortisation of intangible R&D costs	(0.27)	(0.26)	(0.52)
Depreciation of tangible assets	(0.25)	(0.27)	(0.56)
Adjusted operating profit	0.41	0.31	1.14
Exceptional items	-	-	(0.22)
Amortisation of intangible acquisition costs	(0.22)	-	(0.32)
Share based payments	(0.06)	-	(0.02)
Operating profit	0.13	0.31	0.58
Net finance costs	(0.04)	(0.01)	(0.04)
Profit before taxation	0.09	0.30	0.54
Taxation credit/(charge)	0.04	-	0.08
Profit attributable to shareholders	0.13	0.30	0.62
Adjusted EPS (adj for acquisition related costs)	0.05p	0.06p	0.19p

Revenue growth of 52.4% led through full impact of acquisition

Gross margin 39.1% (2017H1: 37.9%) – see next page

Increase due to incremental cost of acquisition overheads.

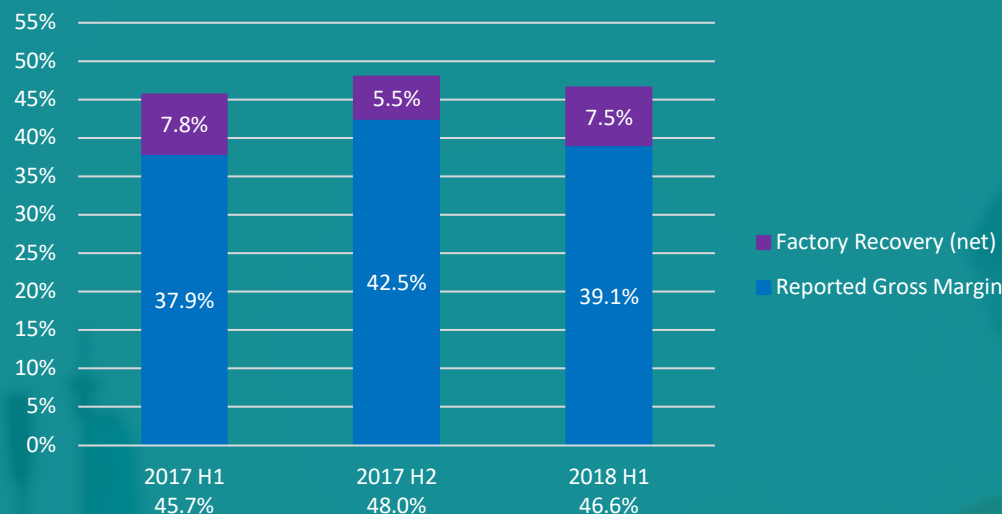
Increased by 35.5% on prior year

Increase in finance costs to service loan due to acquisition

Notes

Gross margins

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- Commercial gross margin at or above 45% target throughout
- Reported 2018H1 gross margin diluted by under-recovery of factory overhead
- Factory activity reduced to accommodate £0.5m (or 20%) inventory reduction
- Activity level ramping up in Q3 to meet increasing demand

Notes

Cash Flow

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	2018H1 £m	2017H1 £m	2017 £m
Cash flows from operating activities			
Operating profit	0.13	0.31	0.58
Exceptional items	-	-	0.01
Depreciation & amortisation	0.74	0.53	1.41
Other	0.37	(0.01)	0.01
Operating cash flows before movements in working capital	1.24	0.83	2.01
Inventories	0.51	(0.23)	(0.24)
Receivables	(0.17)	0.09	0.26
Payables	(0.55)	0.17	(0.13)
Cash generated from operations	1.03	0.86	1.90
Taxation	0.04	-	(0.21)
Interest paid (net)	(0.05)	-	(0.09)
Net cash generated from operations	1.02	0.86	1.60

Increase over 2017H1 due to the amortisation related wholly to the acquisition.

Stock levels managed down whilst maintaining sufficient stock levels to fulfil demand.

Tax credit in 2018H1 relating to R&D tax credit for FY2017

Notes

Cash Flow

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	2018H1 £m	2017H1 £m	2017 £m
Net cash generated from operations	1.02	0.86	1.60
Cash flows from investing activities	(0.26)	(0.42)	(8.34)
Capex on tangible FA	(0.06)	(0.11)	(0.25)
Capitalised development costs	(0.20)	(0.21)	(0.38)
Acquisition	-	(0.10)	(7.71)
Cash flows from financing activities	(0.16)	(0.02)	7.70
Issue of equity	-	-	5.31
Bank loans repaid	(0.15)	-	2.43
Repayment of lease obligations/other	(0.01)	(0.02)	(0.04)
Net change in cash & equivalents	0.60	0.42	0.96

Notes

Balance Sheet

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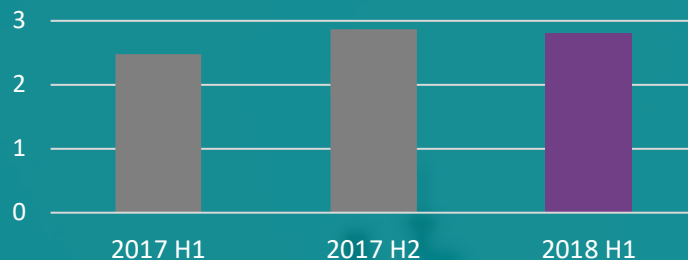
	2018H1 £m	2017 £m	2017H1 £m
Tangible fixed assets	1.14	1.33	1.43
Intangible assets	10.72	11.01	1.55
Total non-current assets	11.86	12.34	2.98
Inventories	1.97	2.47	1.62
Trade receivables	1.77	1.54	1.01
Other current assets	0.36	0.42	0.28
Trade & other payables	(1.13)	(1.58)	(0.39)
Accruals & deferred income	(0.86)	(0.62)	(0.48)
Total working capital	2.11	2.23	2.04
Cash & equivalents	2.30	1.71	1.19
Bank borrowings	(2.27)	(2.42)	0.00
Finance lease obligations	(0.01)	(0.02)	(0.03)
Total net cash/(indebtedness)	0.02	(0.73)	1.16
Net deferred tax assets/(liabilities)	(0.08)	(0.12)	0.00
Net assets/total equity	13.91	13.72	6.18

Notes

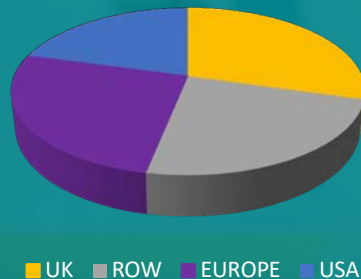
Segmental – SI Brand

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Revenues £m



Branded Revenue by Destination



- Revenue up 13.1% against 2017H1
- UK - market challenging
- US – temporary destocking and price pressures
- Europe steady
- RoW – up 76%
- Simplified supply chain
- YelloPort® Elite range expansion

Notes

YelloPort Elite

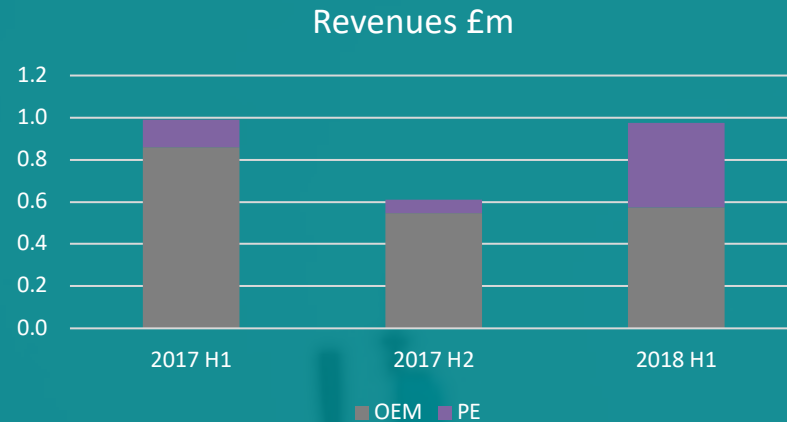
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Notes

Segmental – OEM

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- **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

- **Progress**

- Revenues steady overall against 2017H1
- Fix-8 re-design completed in H1
- Phase III project in PE segment completed and moved to pilot production
- Anticipate strong H2

Notes

Segmental – UK Distribution

- Signed extensions to key agreements:
 - Microline to Q1 2021
 - Meccellis to Q2 2021 plus extension
- Meccellis – CE mark confirmed with formal certification imminent for current range and innovative new products
- Further agreements in place to build specialised business in Breast Reconstruction arena

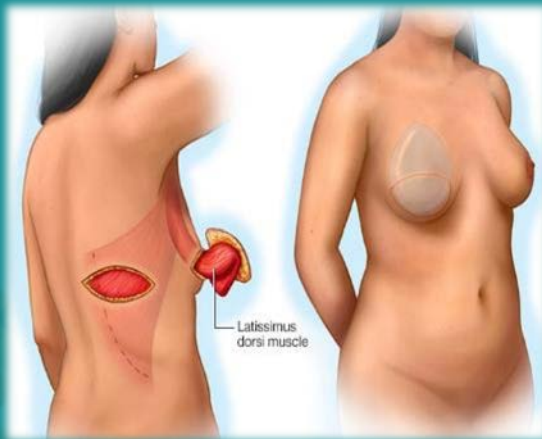
Notes

Segmental – UK Distribution

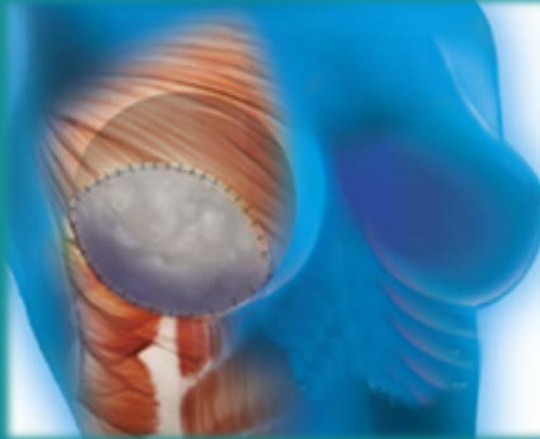
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Immediate Breast Reconstruction Procedures

Autologous



Sub-Pectoral



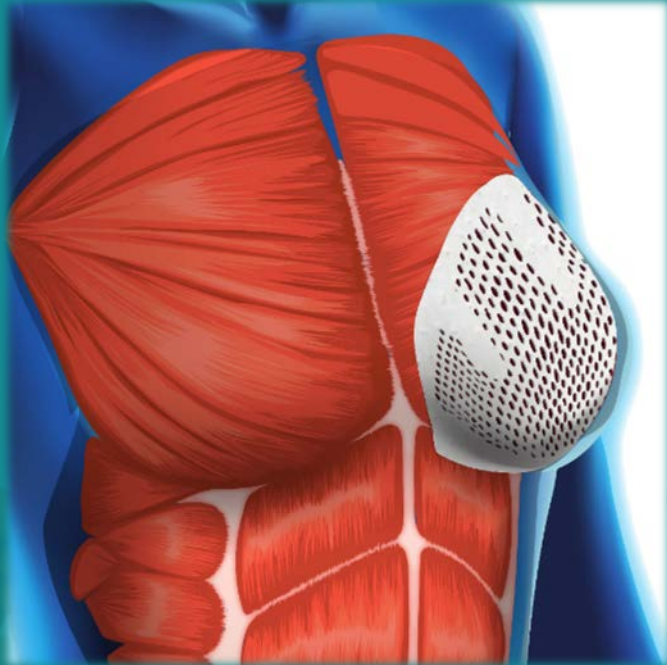
Pre-Pectoral



Notes

Segmental – UK Distribution

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CELLIS Breast Pocket ADM

Ease of Use

Less Post Operative Complications

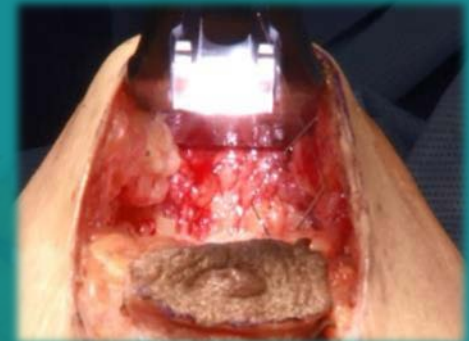
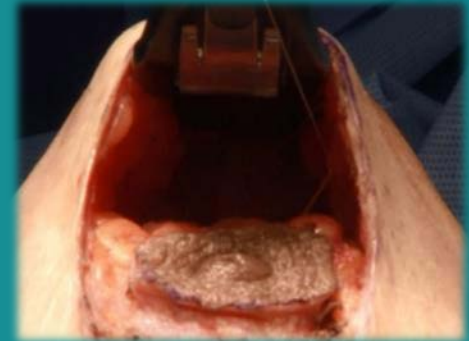
Enhanced Cosmetic Outcome

Developed by UK Surgeons

Notes

Segmental – UK Distribution

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Notes

Other discussion points

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- Regulatory
 - High workload on Notified Body transition
 - Well placed to meet more stringent future obligations
- Brexit
 - Contingency planning for no-deal Brexit
 - Transitioned all key accounts to Euro pricing
 - WTO rules not too onerous; applied for AEO status
 - BSI assurance that CE mark can transition to EU domicile without disruption
- Corporate Governance
 - QCA code used as benchmark
 - Compliant except for formalisation of board evaluation

Notes

Outlook

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- Emerging from a challenging period with improved financial results
- Robust balance sheet, no net debt
- Strong relationships and clear plans for business and product development
- OEM re-designs complete and production ramping
- High potential opportunities in UK distribution
- Continued focus on M&A opportunities
- Board looking forward with confidence

Notes



Appendices

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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

Board of Directors

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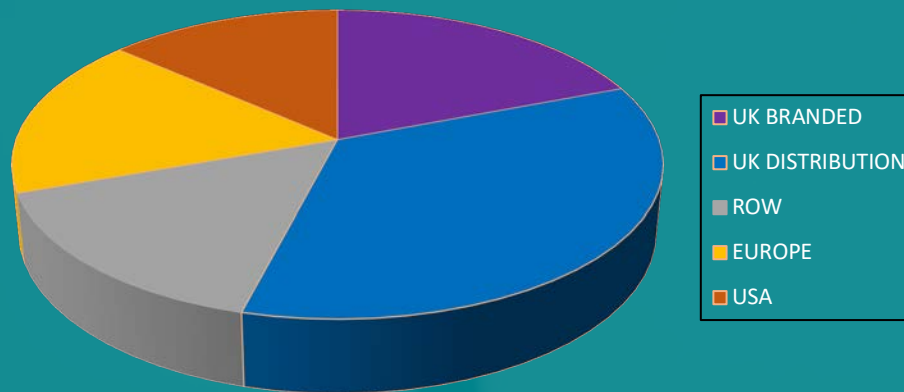
- **Nigel Rogers (Executive Chairman)** – FCA, 20+ years as FD/CEO/NED/Chair of various AIM-listed businesses, including SDM, SIXH and TRT
- **Melanie Ross (COO/CFO)** – member of CIMA, previously at AESSEAL plc and Eaton Cooper Lighting & Safety
- **Adam Power (Group Development Director)** – pedigree 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

Key markets

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Revenue by Destination



Fields of use

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

* Note the chart above excludes OEM and Precision engineering where the end user destination is unknown

Notes

Major Shareholders

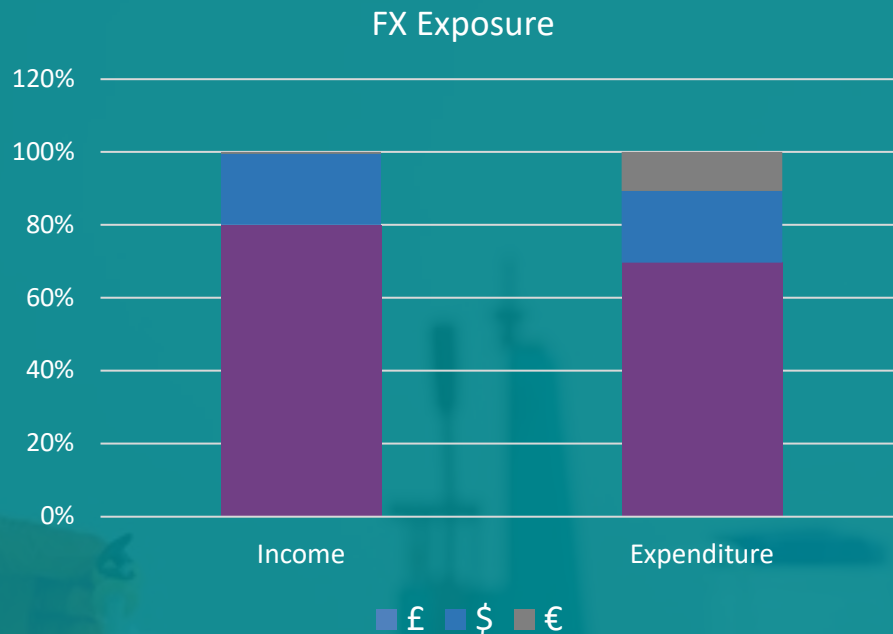
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As at 27 February 2018	%
Getz Bros	13.0%
Directors	12.3%
Ruffer LLP	9.6%
Healthinvest Partners AB	5.1%
CWN John	5.1%
Marlborough	4.9%
Unicorn AIM VCT plc	3.4%

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

Case Study – Meccellis

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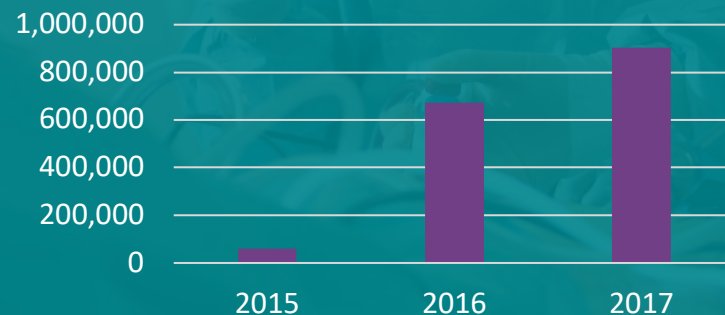
What is CELLIS® Acellular Dermal Matrix (ADM)

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



Competition

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

Notes