28 May 2020

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

Update on current trading and extension to banking facilities

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative technology for minimally invasive surgery, provides an update on current trading, the steps taken to mitigate the short-term commercial effects of the Covid-19 pandemic, and the agreement of extended banking facilities.

The Company is well positioned with stable finances, broad international markets, and product ranges which are increasingly being recognised as ideally suited to the sustainability agenda and demands of a post-Covid world.

In the final results announcement released on 31 March 2020, the Board indicated short-term reductions in revenues in the current year as a result of the Covid-19 pandemic, due to the suspension of elective surgery in the UK and several other major geographical markets. As expected, the impact was experienced from March, and aggregate revenues in the first quarter of 2020 were approximately 25% below the level achieved in the prior year. A further reduction to approximately 70% below the prior year level was experienced in April and is likely to continue in the second quarter.

Stable financial position

The Company responded quickly to meet this challenging environment by implementing strict spending controls in order to preserve cash, whilst also focusing on timely collection of receivables and deferral of non-essential payables by renegotiating terms. Once the Government Coronavirus Job Retention Scheme was announced on 20 March, an initial 50% of the workforce was furloughed with effect from 1 April. In addition, the Company implemented short-term salary reductions for all personnel above the furlough threshold, up to an upper limit of 50% for Board directors. A small manufacturing team continued to function, focusing on key products to build a 3-month buffer stock which enables us to support our customer requirements, and also to have the flexibility when planning a phased restart as the crisis eases. By 1 May, with sufficient inventory of key products in hand, the Company furloughed all but 15% of the workforce, with those remaining undertaking essential operational and financial projects.

On 1 May 2020, these cash conservation measures resulted in aggregate cash balances maintained by the Group of approximately £1.65m (1 January 2020: £1.28m), and all significant payables remaining within agreed terms. Aggregate cash at the end of May is expected to be at a similar level, and the Board considers that the Group has sufficient liquidity to maintain its full commercial and operational capabilities, despite substantially reduced demand, for several months. To further protect the availability of cash resources, the Company has agreed with its bankers to suspend normal capital repayments of £0.075m per quarter under the existing loan facility of £0.75m until 31 October 2020, and to maintain the flexibility of the existing £0.50m revolving credit facility. In addition, the Company has agreed a new facility of £1.50m under the Coronavirus Business Interruption Loan Scheme. In aggregate, these facilities offer available financial headroom of approximately £3.65m and are repayable in May 2022. Financial covenants will continue to be tested on a quarterly basis with ample headroom at drawdown. The Board is satisfied that this provides the appropriate platform from which to benefit from the anticipated recovery in demand.

U.K. and international market perspective

In the UK market, NHS hospitals are at an early stage of normalisation following the peak rate of Covid-19 infection in recent weeks. Operating theatres which had been converted to provide emergency critical care are being returned to normal use, with the initial focus on treating urgent cases, especially cancer related. Early signs are positive that elective cases may recommence in August, and caseloads may return to pre-Covid levels in the final quarter of the year. Our internal financial forecasts, used for banking and planning purposes, are more cautious. This reflects the significant challenges which may be encountered in accessing hospitals to provide sales and technical support in surgery.

Despite these challenges, there are also encouraging signs that additional hospital capacity will be retained to make inroads into the significant backlog of elective cases that has built up, partly as a consequence of Covid-19. A recent study by the University of Birmingham concluded that some 28m elective surgeries will have been cancelled or postponed worldwide in a twelve week period (including approximately 0.5m in the UK alone), and recommended that Governments should mitigate against this major burden on patients by developing recovery plans and implementing strategies to safely restore surgical activity.* On 29 April 2020, Simon Stevens, CEO NHS England, recommended to all chief executives of NHS trusts and foundation trusts that, over the subsequent six weeks, hospitals should restart routine elective procedures where capacity allows.**

Dialogue within our distribution base suggests that some territories are recovering at a faster rate than the UK, including Japan, Canada and Israel. The picture in Continental Europe presents regional differences, but is broadly consistent with our home market. Our largest export market in the US has official guidance in place regarding a phased restoration of elective surgery, but practice also varies across regional boundaries. The southern states appear to be returning to elective cases more rapidly than either the East or West coasts. Although signs in the US are encouraging, the risk of a return to hospital restrictions due to a second wave are considered significant.

Sustainable products for a post-Covid green agenda

Prior to the Covid-19 pandemic, there was clear evidence of market share gains within the NHS as a consequence of the sustainability advantages that our resposable products offer over fully disposable alternatives. This work has continued despite current restrictions, and we are encouraged by feedback from senior management, clinicians, theatre staff and procurement that there is further potential for significant new business wins.

Operationally, we are planning for a restart of manufacturing operations at Leeds during the third quarter, whilst maintaining strict Health & Safety guidelines to keep our keep people safe at work and, where possible, allowing staff to continue working from home. Detailed planning is completed, however the start date and rate of increase can be flexed to accommodate the most up to date information on actual and likely future demand. The recent hiatus in production has been used to strengthen and simplify internal business processes, and optimise our operational capabilities after restart. Importantly, communication and morale amongst our workforce has been excellent and we applaud their pragmatism and positivity.

Summary

During this period of continuing uncertainty, we consider it premature to reinstate earnings guidance for the current and subsequent financial years. Looking to the future, however, the Board is confident that robust measures have been successfully implemented to protect and strengthen our core capabilities. We therefore believe that the business will emerge from the crisis well prepared to support our worldwide customers in their efforts to catch up with the substantial backlog in cases, whilst offering sustainable products that meet the growing demands of a green agenda.

* Elective surgery cancellations due to the COVID-19 pandemic: global predictive modelling to inform surgical recovery plans. Author: Mr Aneel Bhangu, NIHR Global Health Research Unit on Global Surgery, Heritage Building, University of Birmingham, England

** hiips://www.england.nhs.uk/coronavirus/wp -content/uploads/sites/52/2020/04/second-phase-of-nhs-response-to-covid-19-letter-to-chief-execs-29-april-2020.pdf

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