

Surgical Innovations

Interim Results
September 2020

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The Team



David Marsh
Chief Executive Officer

- Over 25 years' experience within the medical industry, 20 of which in senior management positions
- Joined Auto Suture (Medtronic) in 1991, before becoming Sales Director then General Manager of SkyMed Ltd.
- Managing Director of the Direct Operations in UK, Benelux & Germany, then VP of Sales and Marketing for Europe at Gyrus, which acquired SkyMed
 - Led the European integration of the enlarged business
 - Involved in many of the group's acquisitions
- Responsible for the introduction of a number of key technologies across a broad spectrum of specialities throughout his career
- Co-Founder of Elemental Healthcare Ltd. In 2006 and appointed CEO of Surgical Innovations plc in February 2019



Charmaine Day
Group Financial Controller
& Company Secretary

- Qualified as a Chartered Certified Accountant in 2012
- Began career in finance for Eville & Jones Ltd whilst qualifying as an Accounting Technician
- Progressed through various roles and moved on to Ellis Fairbank PLC as a Management Accountant
- Financial Controller at Surgical Innovations since 2012, taking on the role of Company Secretary in 2017
- Appointed Finance director for the subsidiary Companies in July 2019 and is now responsible for Group finance

Agenda

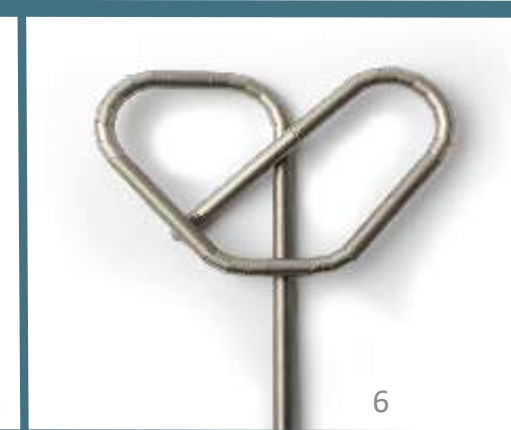
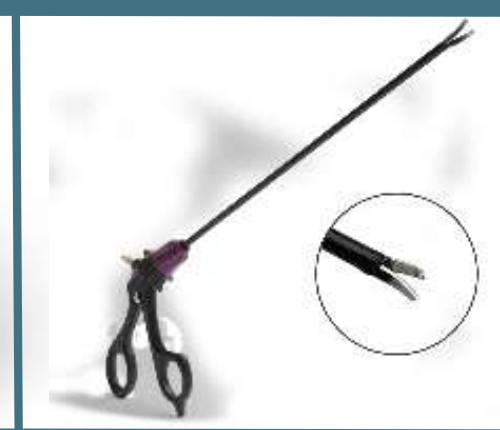
- Company Overview
- Performance Overview
- Financial Overview
- Rebound from COVID-19
- Additional Growth Opportunities
- Summary and Outlook
- Appendices

Surgical Innovations

Company Overview

Surgical Innovations (SI) - Company Overview

- Specialists in the design, development and manufacture of creative solutions for minimally invasive surgery (MIS); well established techniques allowing for better patient outcomes and shorter hospital stays
- The SI product portfolio, including access devices and laparoscopic instruments, have applications in all MIS procedures across Bariatric, Colorectal, Gynaecological and Urological surgery
- Proprietary technology (32 live patents with 4 pending), rigorous quality controls and robust regulatory processes
- Market leaders in Resposable™ systems (part re-usable, part disposable): economically and ecologically beneficial
- Pioneered the development of Flex technology which enables surgeons to overcome the challenges of tissue retraction in MIS
- Additional 3rd Party Products sold in UK have applications in Reconstructive and Robotic Surgery



Routes to Market

- Customers are primarily healthcare providers and GPOs (general procurement organisations)
- Strong engagement with and endorsement from surgeons
- Well established sales channels:
 - *UK: Elemental Healthcare Ltd*
Wholly owned distribution company with a highly trained direct sales team which provides access to private and public (NHS) market and surgeons
 - *Global network of specialist distribution partners*
Marketing products in 47 countries supported by our international sales and marketing team
- OEM design and manufacturing partnerships: AMS, Olympus, BD (CareFusion) and Rolls Royce



Advanced Medical Solutions

OLYMPUS[®]

Your Vision, Our Future



Broad International Reach

FY 2019 Revenue data



£1.85m Sales
(Scissors Only)



£4.65m Sales
(SI Brand &
3rd Party)



£1.28m Sales
(SI Brand)



£0.46m Sales
(SI Brand)



£0.64m Sales
(SI Brand)

OEM
Original Equipment Manufacturer

£1.79m Global Sales

51 Partners in 47 countries
4 Medical OEM Partners with global reach

Opportunities to expand reach in existing and new markets

Surgical Innovations

Performance Overview

Performance Overview

- Encouraging outlook as elective surgery resumes and 'healthcare separation' is implemented
- Performance ahead of management expectations during 'lockdown' and subsequent months
- Recovery in monthly revenues towards end of H1 and continuing into H2
- Financial stability via bank support and operational/regulatory strength
- Broad international coverage and diversity
- Sustainability message resonating in key territories
- Healthcare providers are moving towards lower risk vendors in developed markets (lower risk: locally validated, quality assured and with reliable supply chains)
- Markets are continuing to re-open in-line with/ ahead of SI internal modelling
- Opportunities to recapture lost growth as markets improve and invest in new product development

Managed Response to COVID19

Financial Stability

- Preservation of Cash
 - Deferment of Creditors
 - Furlough Scheme
 - Control of Receivables
- CBILS Loan via existing lender

Operational

- Inventory Management
- SKU Analysis
- Facility upgraded to MDR¹ Compatible
 - Refurbished assembly room
 - Updated clean room

Quality Assurance / Regulatory Affairs (QA/RA)

- Streamlined QMS (Quality Management System)
- MDR¹ Pathway on track

Achieved financial stability and operational/regulatory strength

Surgical Innovations

Financial Overview

Financial Highlights

- Revenues reduced by 49% to £2.59m (2019H1:£5.10m) with low point passed in May 2020
- Direct gross margin (before net manufacturing cost) unchanged at 44.5% (2019H1:44.5%)
- Net adjusted operating expenses¹ reduced to £1.15m (2019H1:£1.55m)
- Adjusted EBITDA² loss of £0.46m (2019H1:£0.65m profit)
- Adjusted operating loss² of £0.87m (2019H1:£0.22m profit)
- Adjusted loss per share of (0.11p) (2019H1 earnings:0.02p)

- Managed reduction in net working capital to release cash resources
- Cash generated from operations £0.54m (Year ended 31 Dec 2019:£0.67m)
- Increased financial headroom to £3.44m (as at 31 December 2019:£1.78m)
- Net cash at end of period of £0.69m (as at 31 Dec 2019:£0.47m)

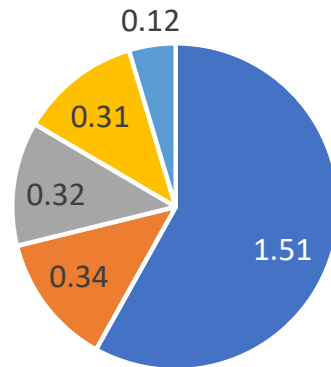
¹ Net adjusted operating expenses (before depreciation & amortisation) stated after deducting the income support from Coronavirus Job Retention Scheme (CJRS) of £0.33m

² Adjusted measures stated before deduction of exceptional costs, impairment of intangibles & amortisation relating to acquisition, and share based payment costs

Segmentals by Region and Product Type

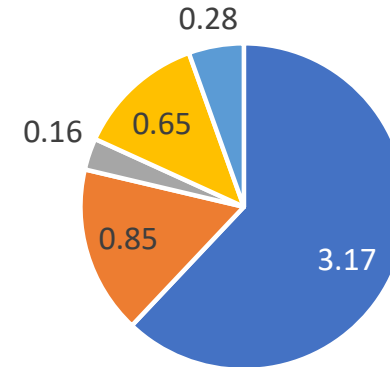
Revenue (£m) by Region

H1 2020



■ UK ■ USA ■ APAC ■ Europe ■ ROW

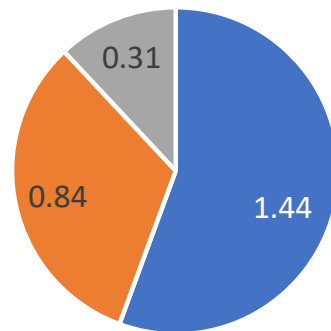
H1 2019



■ UK ■ USA ■ APAC ■ Europe ■ ROW

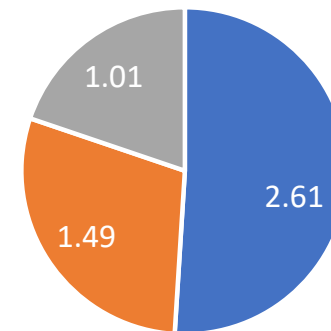
Revenue (£m) by Product Type

H1 2020



■ SI Brand ■ Distribution ■ OEM

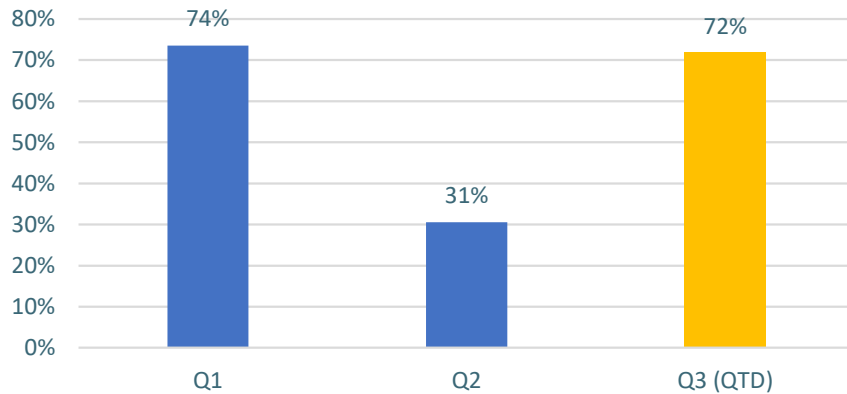
H1 2019



■ SI Brand ■ Distribution ■ OEM

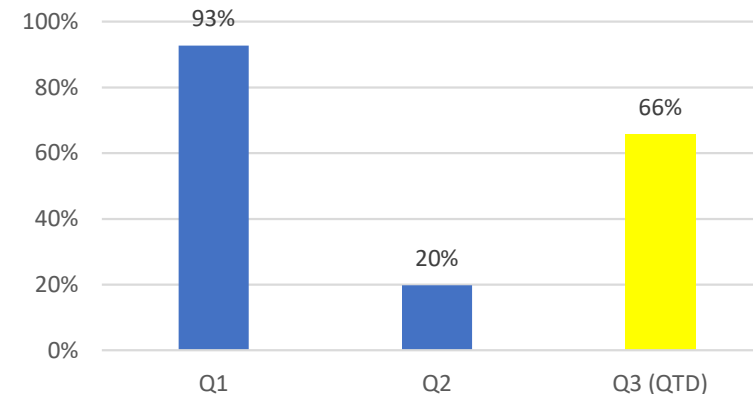
Positive Outlook for H2 and beyond: Stronger Q3 with Resumption of Sales Growth since May

Group Sales as % OPY



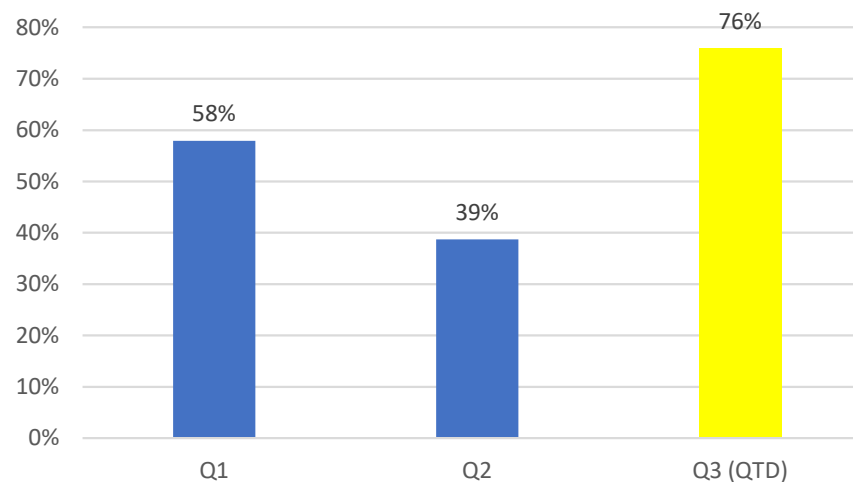
Group sales rebound to 72% of OPY

UK Sales as % OPY



Resumption of elective surgery in the UK resulting in sales in Q3 returning to nearly 70% of OPY

SI Brand and OEM Sales as % OPY



Q3 (QTD) SI Brand and OEM at near 80% of OPY with projected strong orders to YE

OPY = corresponding period of prior year

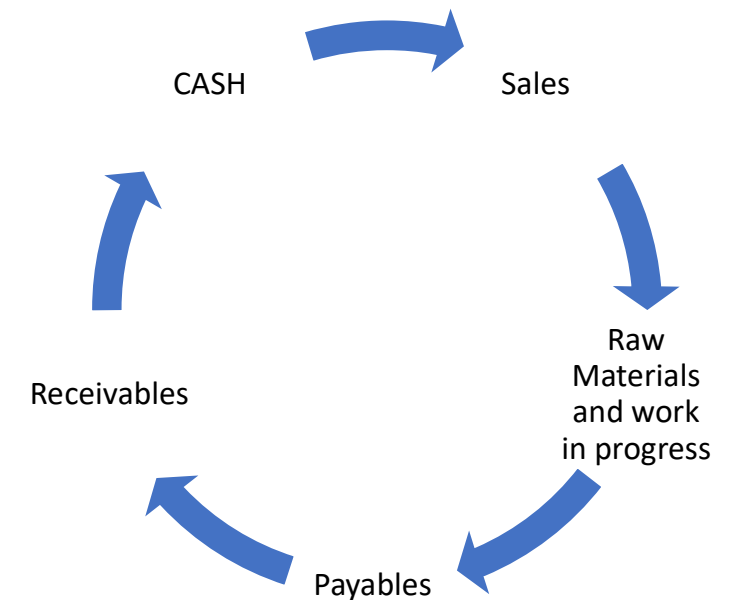
Financial position and Cashflow

Net Cash at the end of the period of £0.69m (31 Dec 2019:£0.47m)

CASH & WORKING CAPITAL MANAGEMENT

Cash generated from Operations £0.54m (31 Dec 2019:£0.67m)

- Inventories remained stable £2.95m (31 Dec 2019:£2.93m)
- Trade receivables £0.60m (31 Dec 2019:£1.95m)
- Trade payables £0.30m (31 Dec 2019:£1.03m)
- Deferred creditors £0.30m (31 Dec 2019:£nil)



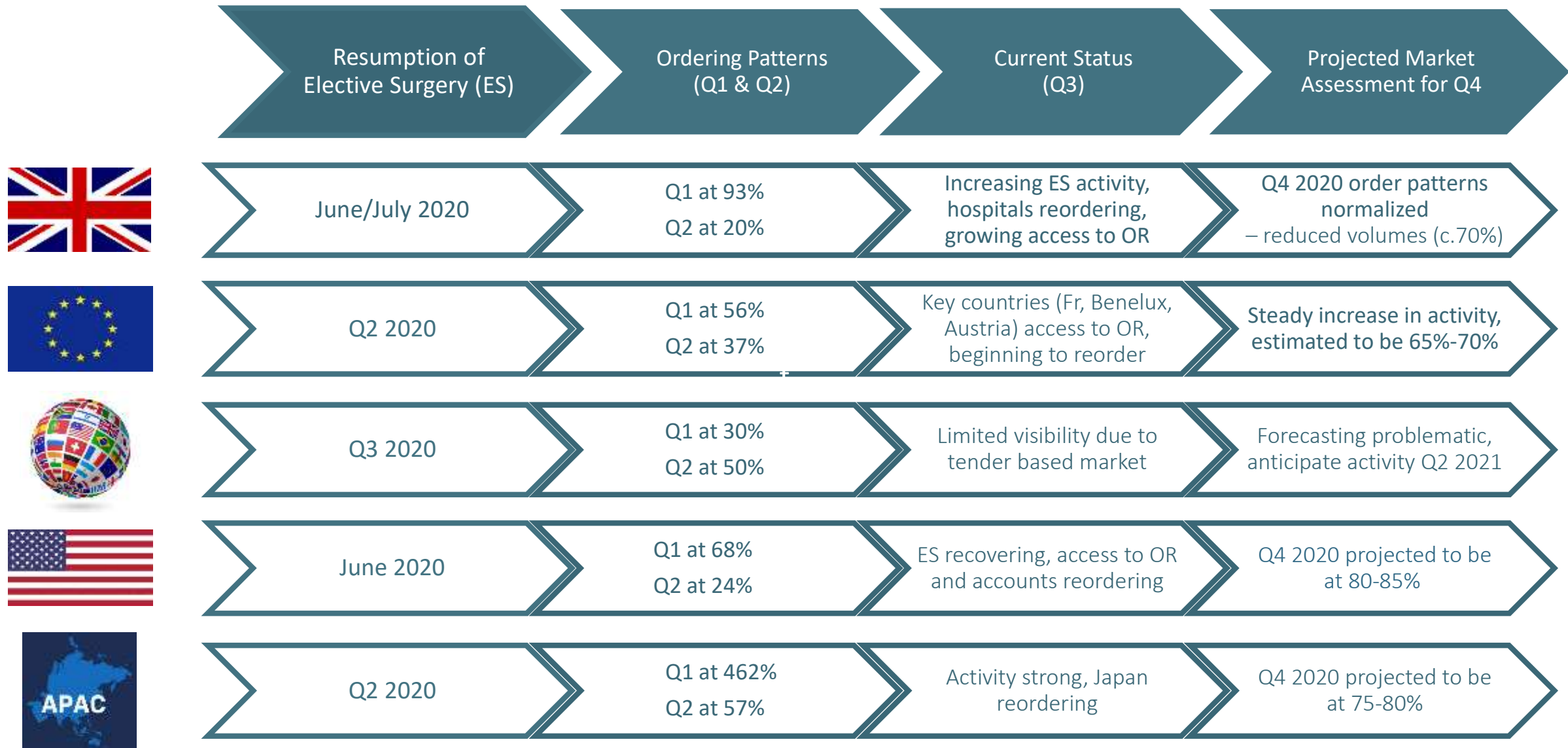
Banking Facilities, Cash and Headroom

- Available headroom¹ £3.65m (30 June 2020: £3.44m, 31 Dec 2019: £1.78m)
- Net cash² £0.90m (30 June 2020: £0.69m, 31 Dec 2019: £0.47m)
- Bank debt £2.25m (31 Dec 2019: £0.81m)
 - Existing term loan with £0.75m outstanding
 - Flexibility from Yorkshire Bank:
 - Relief from covenants plus capital holiday until Q1 2021
 - Capital repayments of £75k per quarter
 - Retain unused RCF of £0.5m
 - New facility CBILS arrangement of £1.5m
 - Two year bullet repayment in Q2 2022
 - Relaxed covenant tests until Q3 2020

1 Cash plus undrawn revolving credit facility (RCF) of up to £0.5m

2 Cash less bank debt– current position as of 31 August 2020

Markets re-opening / Resumption of Commercial Activity



Feedback from international partners showing encouraging trends

Surgical Innovations

Additional Growth Opportunities

Additional Organic Growth Opportunities

1 Sustainability Agenda



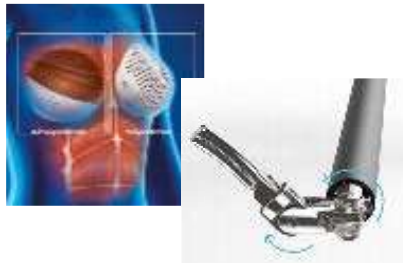
Capitalise on the growing drive to reduce plastic waste in Global Healthcare Systems

2 New Product Development (NPD)



Developing devices with surgeon-led design to address clear challenges in cancer and colorectal surgery

3 3rd Party Opportunities



Through Elemental to leverage our expertise in the UK market to bring new technologies that address unmet or poorly served clinical needs

SI is at the heart of the sustainability agenda



"The NIHR MedTech Co-operative in Surgical Technologies¹ is promoting a campaign to raise greater awareness of strategies to reduce surgical waste. Many strategies, such as the prudent use of plastics, and a greater use of reusable and **Responsible™** instruments, are simple to implement. If adopted at scale they can make a significant difference to waste reduction and produce cost-savings. A change of culture to “greener surgery” makes both environmental and economic sense.”

Professor David Jayne

Professor of Surgery at the University of Leeds and Hon. Consultant Surgeon at Leeds Teaching Hospitals NHS Trust; Clinical Director, Global Health Research Group & Clinical Director NIHR Surgical MedTech Cooperative

“It’s right that the **NHS and our suppliers** should join the national campaign to **turn the tide on plastic waste**. Doing so will be good for our environment, for our patients and for taxpayers who fund our NHS.”²

Simon Stevens

Chief Executive of NHS England



¹ <https://surgicalmic.nihr.ac.uk>

*The Co-Operative is partnering with leading academics, NHS England, the Royal College of Surgeons of England, the Centre for Sustainable Healthcare, and **Surgical Innovations** as the industry partner, to make surgical waste reduction a priority research theme for 2020/21*




² <https://www.england.nhs.uk/2019/10/nhs-bids-to-cut-up-to-100-million-plastic-straws-cups-and-cutlery-from-hospitals/>

³ <https://publishing.rcseng.ac.uk/doi/pdf/10.1308/bull.2020.102.issue-5>





Identified Organic Growth Opportunities (1)

Growth Driver	Description	Observation
<p>Sustainability Agenda</p>  	<p>Momentum building to reduce public sector waste and emissions, much of which comes from NHS surgical procedures</p> <p>Growing international impetus e.g. in US, up to 33% of hospital waste is generated from the operating room</p>	<p>NIHR MedTech Co-operative in Surgical Technologies is promoting strategies to reduce surgical waste given the NHS has 10m operations p.a. and a 'throw away' culture; 30% of plastic waste in a hospital occurs in the OR.</p> <p>70% potential reduction in plastic waste using YelloPort Elite Resposable™ port access system, at <50% of price of popular alternatives</p> <p>Scope to augment carbon footprint data, arrange independent audit of quantified benefits and invest in digital marketing/ support tools in partnership with NHS Sustainability</p> <p>Potential to develop R&D programme to examine opportunities working with new materials</p> <p>Sustainable surgery acknowledged to be economically as well as ecologically vital, as healthcare systems recover to work through the backlog of surgeries caused by Covid-19</p> <p>SI is supporting a study with Centre for Sustainable Healthcare (https://sustainablehealthcare.org.uk) to validate our quantifiable cost and environmental savings from a greener Operating Room, with expected subsequent publication in clinical journals</p>

Identified Organic Growth Opportunities (2)

Growth Driver	Description	Observation
<p>New Product Development</p> <p><i>In response to customer needs, distributor & OEM feedback</i></p>	 <p>Illuminno™ A surgeon-designed range to provide illumination during complex procedures</p> 	<ul style="list-style-type: none"> ▪ The Illuminno range has been designed to address surgical challenges in technically complex procedures, namely the ability to visualise key structures through reduced incisions ▪ Designs incorporate improved features and superior illumination to facilitate reduced access surgery, e.g. <ul style="list-style-type: none"> - breast retractor (285k procedures p.a., £11.4m market) - Eisenhammer rectal speculum (>1,000k procedures p.a., £15m market)
	 <p>Redesign cost effective Graspers & Dissectors to complete Logi™ range</p>	<ul style="list-style-type: none"> ▪ Anticipated potential market in line with existing scissor sales ▪ Plan to relaunch improved, cost effective product line ▪ Further develops sustainability and economic messaging as competing products are fully disposable

Identified Organic Growth Opportunities (3)

Growth Driver	Description	Observation
<p>3rd Party Opportunity</p>  	<ul style="list-style-type: none"> • New acellular collagen matrix product for improved reconstructive surgery 	<ul style="list-style-type: none"> • Naturally cross-linked material allows rapid revascularisation, with reduced inflammatory reaction • Cost effective, better patient outcomes • £15m addressable UK market for breast reconstruction • Full market launch Q4 2020
<p>3rd Party Opportunity</p>  	<ul style="list-style-type: none"> • Dexter Robot • Affordable, reliable and precise robotic arms for MIS • Exclusive UK distribution agreement with DistalMotion 	<ul style="list-style-type: none"> • 6 UK surgeons trained at DistalMotion facility in Lausanne, Switzerland • 2 of SI's key UK accounts have given indications of intent to purchase (from current budgets) • Provides a versatile robotic platform to perform a wide range of surgical operations • Business model reduces capital constraints on NHS budgets • Eliminates infrastructure requirements commonly associated with robotic surgery

Summary & Outlook

- Took early and decisive action to protect the business and safeguard its finances
- Used the hiatus to simplify business processes and refine the message
- Recovery now taking shape in global markets with growing demand for sustainable and economically beneficial healthcare solutions
- Growth recapture from backlog of surgical procedures in all major markets
- Opportunities to strengthen organic growth, subject to appropriately timed investment:
 - new product development
 - 3rd party distribution

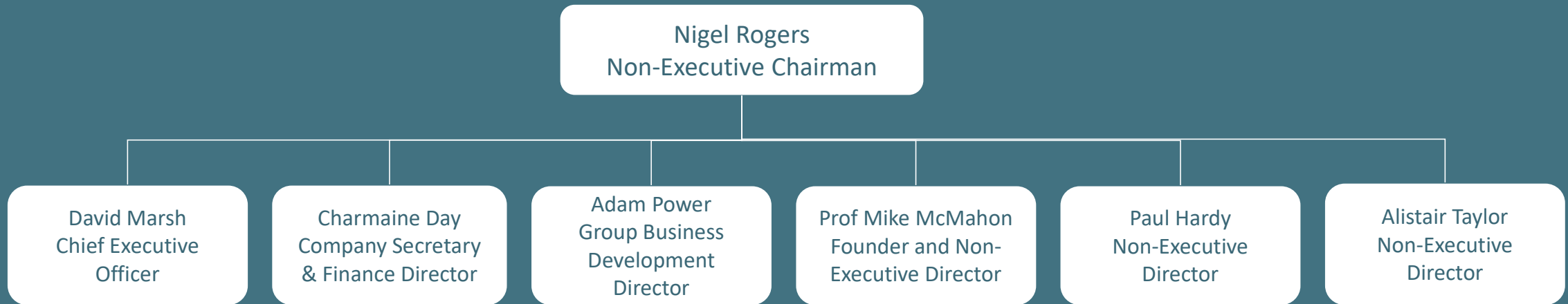
Surgical Innovations

Appendices

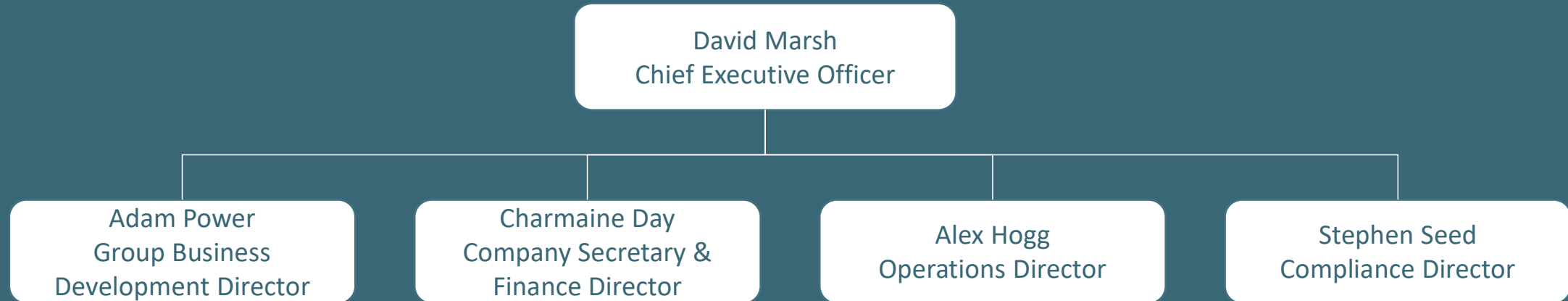
Rigorous Quality Controls

- ISO 13485 & EN ISO 13485:2016 (medical device manufacture / CE marking)
- ISO 9001:2015 (organisational systems)
- MDSAP ISO 13485:2016 (ISO audit standard allowing 'passporting' to US/Canada/Japan/Brazil/ Australia)
- FDA Approvals (across product portfolio)

Surgical Innovations Plc – Board of Directors



Executive Management Team



Snapshot of the Share Register

Significant Shareholders (>3%)

Shareholder	%*
Getz Bros & Co (BVI) Inc	13.71
Directors	12.07
BGF Investments	7.58
Ruffer LLP	7.54
HealthInvest Partners	4.98
Liontrust Asset Mgt	4.72
Hargreaves Lansdown Asset Mgt	4.18
Mr CWN John	4.17
Cavendish Asset Mgt	4.15
Unicorn Asset Mgt	3.35
Interactive Investor Trading	3.17

*As at 10 June 2020

Income Statement

	2020 H1	2019 H1	2019
	£m	£m	£m
Revenue	2.59	5.10	10.73
Cost of sales	(1.91)	(2.90)	(6.40)
Gross profit	0.69	2.20	4.33
Other operating expenses	(3.54)	(2.43)	(6.77)
Other income	0.33	-	-
Adjusted EBITDA	(0.46)	0.65	1.45
Amortisation of intangible R&D costs	(0.12)	(0.13)	(0.29)
Depreciation of tangibles assets	(0.29)	(0.30)	(0.61)
Adjusted operating (loss)/profit	0.87	0.22	0.55
Exceptional items	-	(0.18)	(0.18)
Impairment of intangible R&D costs	-	-	(0.63)
Amortisation and impairment of intangible acquisition costs	(1.59)	(0.18)	(1.98)
Share based payments	(0.06)	(0.09)	(0.19)
Operating loss	(2.52)	(0.23)	(2.44)
Net finance costs	(0.06)	(0.09)	(0.16)
Loss before taxation	(2.59)	(0.33)	(2.59)
Taxation charge/(credit)	0.03	0.03	(0.02)
Loss on profit attributable to shareholders	(2.56)	(0.29)	(2.61)
Adjusted EPS*	(0.11p)	0.02p	0.05p

* Adjusted Earnings per share is calculated by dividing the adjusted earnings attributable to ordinary shareholders (profit before exceptional and amortisation and impairment costs relating to the acquisition of Elemental Healthcare and share based payments) by the weighted average number of shares in issue

Balance Sheet

	2020 H1	2019 H1	2019
	£m	£m	£m
Tangible assets	1.70	2.08	1.96
Intangible assets	6.15	10.05	7.61
Total non-current assets	7.85	12.13	9.57
Inventories	2.95	2.66	2.93
Trade receivables	0.60	2.45	1.95
Other current assets	0.44	0.15	0.59
Trade & other payables	(1.05)	(1.44)	(1.52)
Accruals & deferred income	(0.42)	(0.69)	(0.32)
Total working capital	2.52	3.13	3.62
Cash & equivalents	2.94	2.30	1.28
Banks borrowings	(2.25)	(1.96)	(0.81)
Lease obligations	(1.19)	(1.34)	(1.28)
Total net cash	(0.49)	(1.00)	0.81
Adjusted net cash	0.69	0.34	0.47
Other	(0.17)	(0.02)	(0.20)
Net assets/total equity	9.70	14.28	12.19

Net cash represents gross cash after deducting bank debt and IFRS16 lease obligations. Adjusted net cash represents gross cash after deducting bank debt only.

Cashflow Statement

	2020 H1	2019 H1	2019
	£m	£m	£m
Cash flows from operating activities			
Operating profit	(2.52)	(0.23)	(2.44)
Depreciation of tangibles	0.29	0.30	0.62
Amortisation & impairment of intangibles	1.71	0.31	2.90
Other	0.13	0.12	0.13
Working capital	0.93	(0.22)	(0.54)
Cash generated from operations	0.54	0.27	0.67
Taxation received/(paid)	0.00	0.00	0.00
Interest paid (net)	(0.01)	(0.04)	(0.08)
Net cash generated from operations	0.53	0.23	0.59
Capex on tangible FA	(0.03)	(0.09)	(0.20)
Acquisition of intangible assets	(0.07)	(0.16)	(0.32)
Net cash used in investment activities	(0.10)	(0.25)	(0.52)
Issue of equity	0.00	0.13	0.20
Bank loans	(0.08)	(0.15)	(1.30)
CBILS	1.50	-	-
Repayment of lease obligations/other	(0.13)	(0.12)	(0.24)
Cash flows from financing activities	1.30	(0.14)	(1.34)
Net change in cash & cash equivalents	1.73	(0.17)	(1.27)
Adjusted net cash	0.69	0.34	0.47