

21 December 2020

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

Trading update

Improvement in revenues from H1 Demand for elective surgery is building

Surgical Innovations Group plc (AIM: SUN) the designer, manufacturer and distributor of innovative medical technology for minimally invasive surgery ("MIS"), provides an update on current trading for the financial year ending 31 December 2020.

Revenues in the second half of the year have recovered in line with management expectations, with Group revenue for the full year now expected to exceed £6 million. Direct gross margins (before manufacturing volume variances) have been maintained at around 44% of revenues. Production recommenced in October to service ongoing customer requirements, and direct costs and overheads continue to be managed under close control, enabling the Company to trade close to the cash breakeven level.

The Company raised equity of £2.05m (net of associated costs) in September 2020 to provide investment capital and additional financial headroom. At 30 November 2020, net cash balances amounted to £3.38m¹, an increase of £2.69m since our interim report as at 30 June 2020 (£0.69m).

The Global Healthcare market continues to build some resilience to the ongoing effects of the COVID-19 pandemic, with improved pathways for treating patients with Coronavirus enabling elective surgery to resume to some degree in most markets in the second half of 2020. Elective surgery in the NHS, whilst still reduced compared to pre-COVID-19 levels, has been less impacted by the second wave compared to the first. The USA remains strong despite the well-documented COVID-19 situation and we continue to see sales at levels close to those seen last year. APAC has performed well in 2020 despite COVID-19 and is on plan for the year, and the company expect this to be another key area for us in 2021. Europe is still slower to recover than most markets but we are seeing consistent, albeit lower, levels of ordering by key partners.

Whilst the various COVID-19 vaccines are welcome news, it is anticipated that roll out will take some months. Recent developments suggest that it is reasonable to anticipate greater seasonal pressure on beds, and further reductions in elective surgery over the winter. The Company is well positioned to conserve resources during this period of continued subdued demand, and then benefit from an expected recovery, with a return to normalised activity levels towards the end of 2021.

Since the interim results in September 2020, significant progress has been made across various growth initiatives, including:

- Consolidating routes to market in the USA via:
 - The new agreement announced last week with Adler Instruments Inc. ("Adler"), our longest tenured US partner, for the distribution of our Logicut and Eco-Cut scissor brands worth approximately \$12m over five years. Adler is a highly experienced distribution company with access to nationwide coverage and has already made some exciting account conversions; and
 - Ongoing progress in developing a partnership with a key MIS player to distribute our range of Elite and YP+ access devices in the US, with a training and evaluation phase anticipated to successfully conclude in Q1 2021. The global trocar market is estimated to be worth \$561m in sales in 2020, with the US accounting for approximately \$152m or 27%²
- Further data being generated to support sustainability positioning:

- The recently announced further collaboration with the Centre for Sustainable Healthcare (“CSH”) will enable validation of the environmental benefits messaging for our products and demonstrate the quantifiable cost and environmental savings from a 'greener' operating room
 - Data generated will help develop information and training for NHS hospitals and staff as they seek to fulfil their NHS ‘Net Zero’ obligations on sustainability; our range of Resposable™ surgical instruments reduces plastic waste by approximately 70% compared to that generated from commonly used competing products, whilst still providing class leading quality and functionality
 - Additionally, CSH's global network will help direct the Company's efforts to promote the green credentials of its Resposable™ product portfolio to existing and new international partners
- New product launches and new product development:
 - The full launch of Cellis Breast was recently announced, following favourable early evaluations by clinicians and positive post-operative outcomes, providing an opportunity to capitalise on a UK market worth approximately £16 million per year. The Company expects to see strong growth through 2021 from both Cellis Breast and Cellis AWR (Abdominal Wall Reconstruction) which addresses a similar size UK market. These opportunities reflect the close collaboration of the Group’s subsidiary, Elemental Healthcare, with the manufacturer, Meccellis BioTech, and key UK surgeons over a number of years to facilitate development
 - Surgical Innovations is developing a pipeline of both line extensions and new devices to market over the next 18 months, including larger diameter YP+ trocars to accommodate other devices that are more routinely used in this market and the associated introduction of an Optical 5mm trocar from H2 2021
 - Collaborations on early stage projects with a number of robotic manufacturers who have recognised the Company’s expertise in access devices and instruments; these represent exciting opportunities over the longer term

David Marsh, CEO of Surgical Innovations, said: *“We are pleased with the work we carried out to mitigate against the challenges of COVID-19 pandemic, taking advantage of the production hiatus to streamline operational and regulatory processes. This has been beneficial for the Group as we continue to be at the forefront of the sustainability agenda with our Resposable™ product portfolio. Recent progress suggests our product portfolio is well aligned with the needs of healthcare practitioners and providers and so, notwithstanding the ongoing effects of the pandemic, we are optimistic for the medium to long term outlook.”*

The Company expects to release its audited results for the year ended 31 December 2020 in late March 2021.

Notes:

1. Net cash equals cash less bank debt
2. Research and Markets report, *Trocars - Global Market Trajectory & Analytics*, Sept. 2020

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