

Surgical Innovations

Surgical Innovations Group plc
Year end 2020 Results

Nigel Rogers, Non-Exec Chairman
David Marsh, CEO
Charmaine Day, Financial Controller and
Company Secretary

March 2021

Financial highlights

- Revenue down 41% as elective surgery postponed across global market
- Recovery in second half - up 44% on H1
- Underlying gross margin improved 110bps to 44.4% of revenue
- OPEX reduced and CJRS¹ relief obtained in mitigation
- Adjusted EBITDA loss of £0.66m; returned to breakeven during HY2
- Adjusted LBT of £1.61m, in line with management expectations
- Increased bank facilities and equity fundraise completed
- Net cash inflow from operations of £1.04m (2019: £0.59m)
- Year end net cash of £3.1m; headroom of £5.78m

Operational highlights

- Strong financial platform
- Protected core skills and capabilities throughout pandemic
- Streamlined and improved operational and regulatory processes
- Reinforced international distribution partnerships
- Broad international engagement provides diversification of risk effects
- Environmentally sustainable product ranges gaining market share in UK and overseas
- Successful UK launch of Cellis Breast Pocket range in Q4

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

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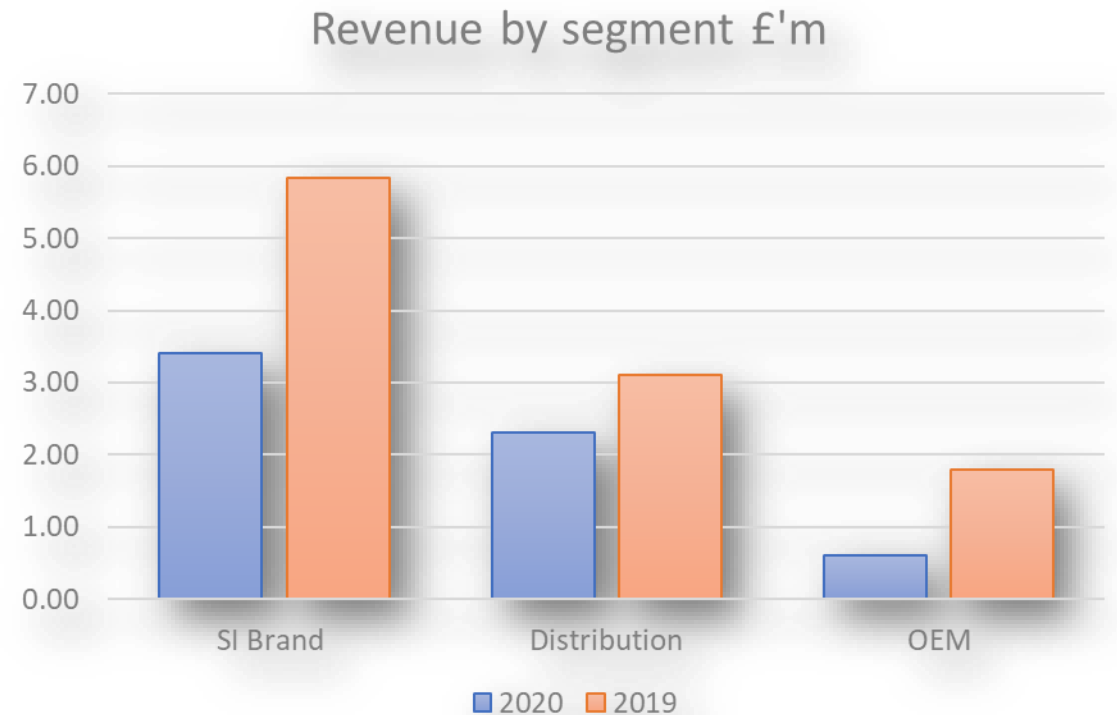
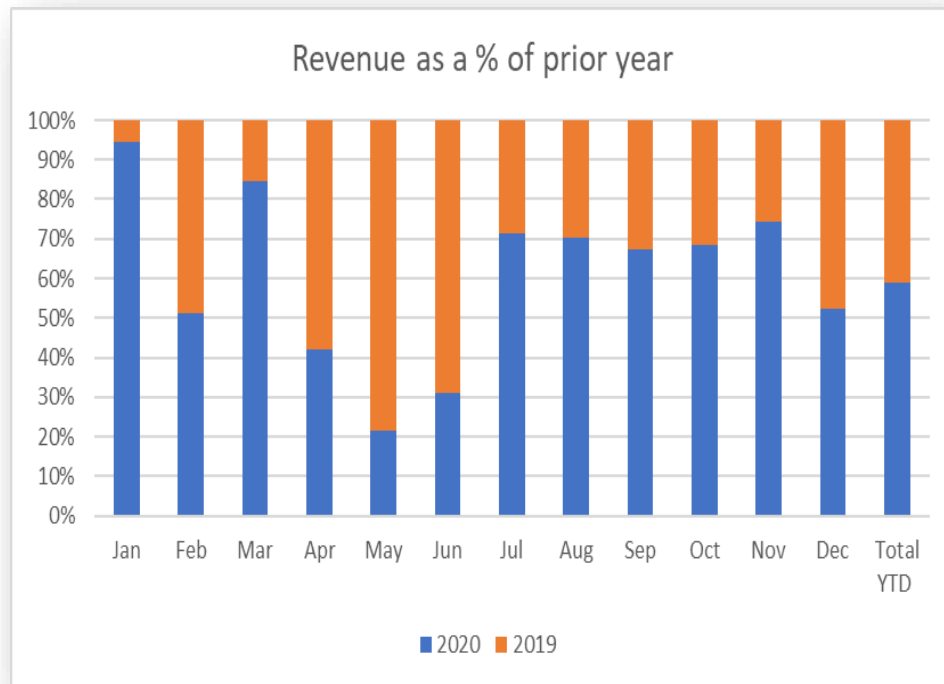
The background of the slide is a photograph of a surgical procedure. It shows a patient's back with several incision sites, each covered by a yellow cap. A surgeon's gloved hand is visible, holding a surgical instrument. The entire image is covered by a semi-transparent teal overlay.

Financial Overview
Year Ending 2020

Revenue Analysis

Revenue analysis	HY1 2020	HY2 2020	2019
	£m	£m	£m
Revenue	2.59	3.74	10.73

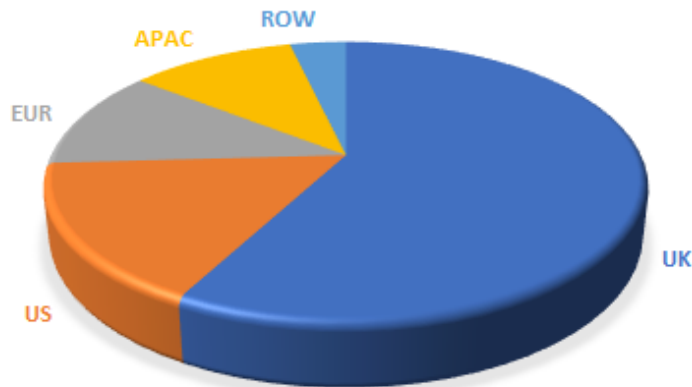
- HY2 revenue averaged 70% of HY2 19
- Averaging around 70% on prior year in HY2
- Current trading-revenue up 11% on prior YTD



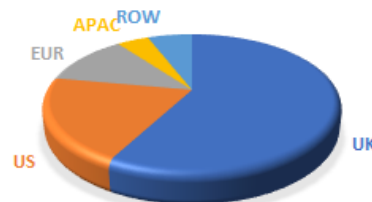
Revenue by territory

- HY2 revenue up 44% from HY1 £3.74m (H1:£2.59m)
- UK and US markets recovering
- APAC-healthy growth, led by Japan
- European demand is more muted

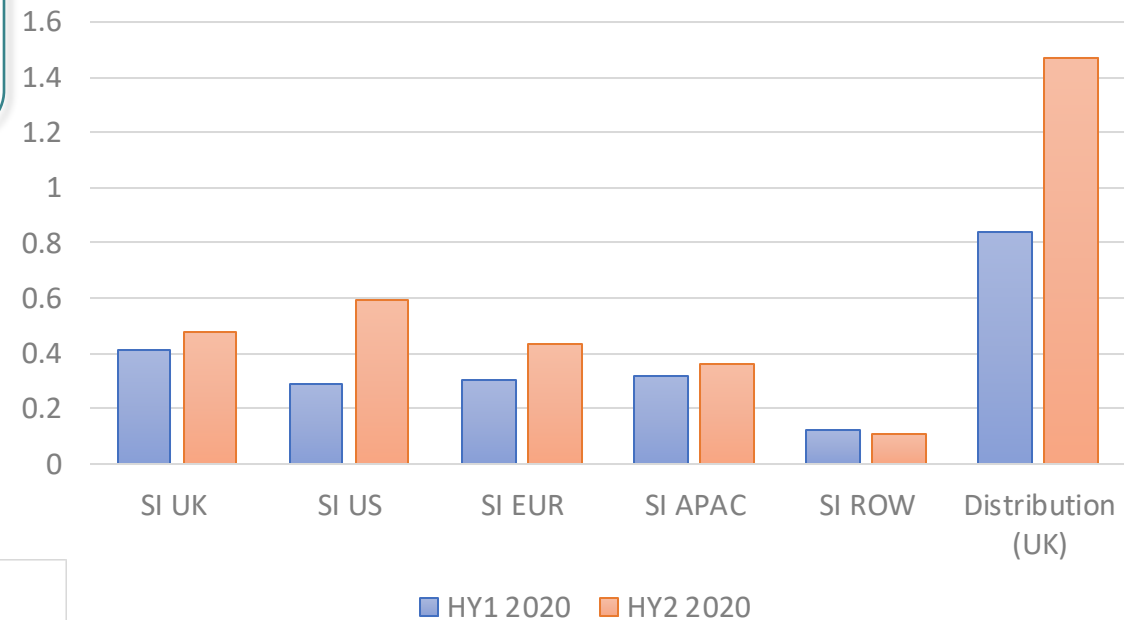
2020 REVENUE BY REGION



2019 REVENUE BY REGION



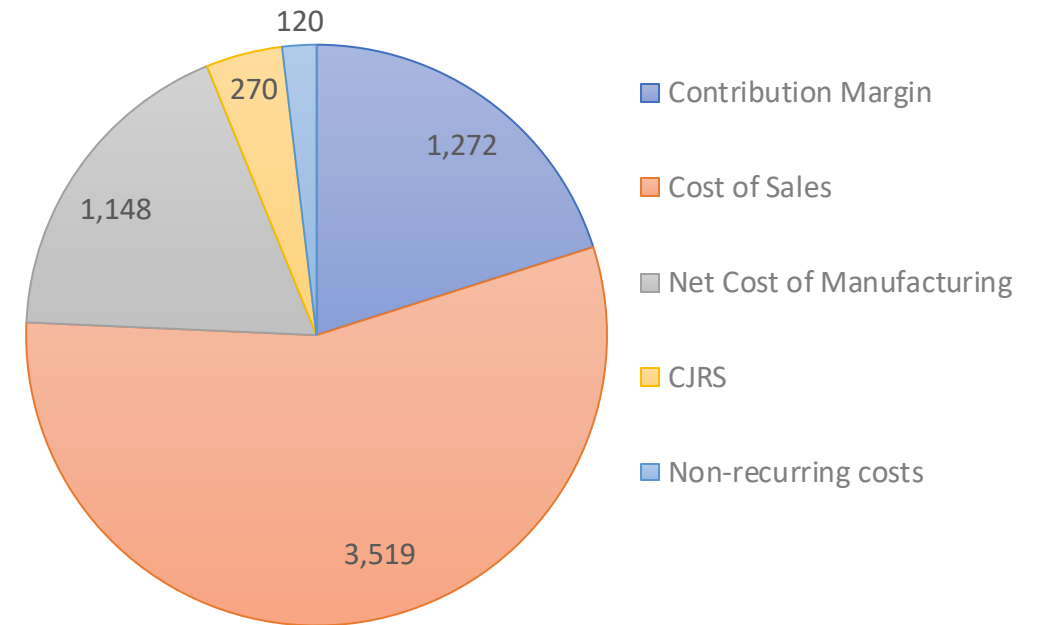
Half year comparison £'m



Gross Margins

Gross Margin analysis	2020	2019
	£'m	£'m
Revenue	6.33	10.73
Cost of Sales	(3.52)	(6.08)
Underlying Gross Margin	2.81	4.65
Underlying Gross Margin %	44.39%	43.33%
Net Cost of Manufacturing	(1.54)	(0.32)
Contribution Margin	1.27	4.33
Contribution Margin %	20.10%	40.37%

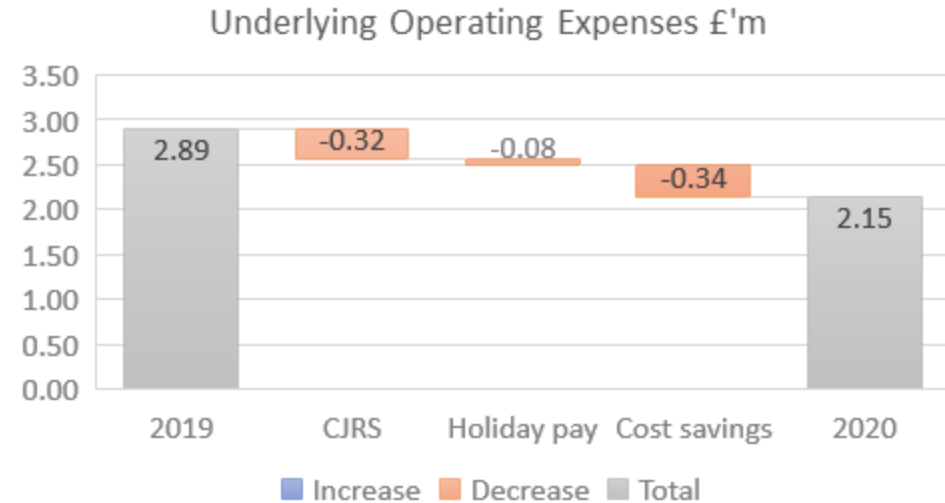
Gross margin analysis 2020 £'000



- Improvements in underlying gross margin
- Net cost of manufacturing significantly higher due to the reduction in factory activity
- £0.4m of additional costs included relating to CJRS¹ (offset in other Income) and non-recurring Covid-related stock provisions
- Resumption of factory activity in the current year

Operating Expenses

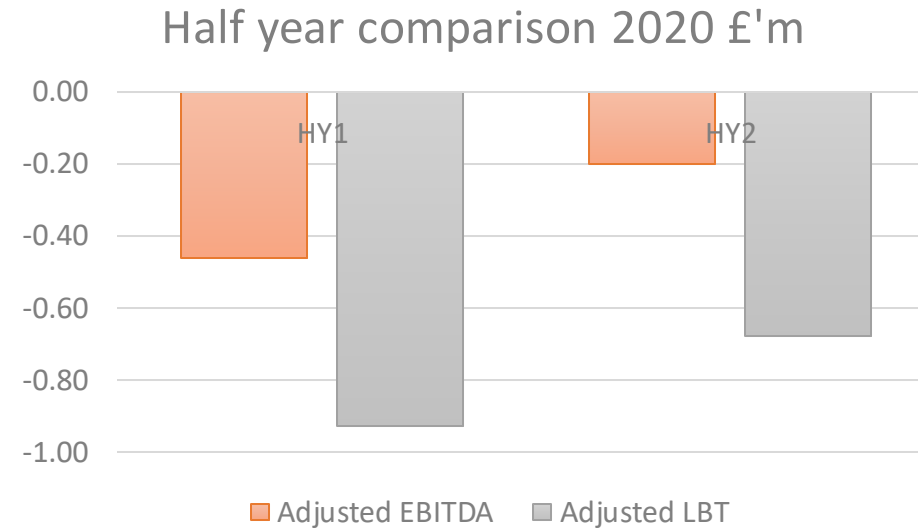
Operating Expenses Analysis	2020	2019
	£'m	£'m
Gross Margin	1.27	4.33
Operating Expenses	(5.06)	(6.77)
Other Income	0.62	-
Adjusted EBITDA	(0.66)	1.45
Impairment of intangibles & goodwill	1.31	2.26
Amortisation & Depreciation	0.97	1.26
Exceptionals	0.11	0.18
Share based payments	0.12	0.19
Operating Loss	(3.17)	(2.44)
Underlying Operating Expenses ¹	(2.55)	(2.88)



- Underlying Operating Expenses reduced by £0.34m
- CJRS (offset in other Income) and non recurring/non cash costs relating to holiday pay accounting for £0.40m
- Circa £0.3m in savings from salary reductions and travel and marketing expenditure
- Current year operating expenditure expected to be slightly higher than 2019 with additional investment in product development and sustainability

Net result

Net result:	2020	2019
	£'m	£'m
Adjusted EBITDA	(0.66)	1.45
Less Depreciation & Amortisation ¹	(0.81)	(0.91)
Adjusted Operating (Loss)/Profit	(1.47)	0.54
Net finance costs	(0.14)	(0.16)
Adjusted (Loss)/Profit before Tax	(1.61)	0.38



- Adjusted EBITDA loss of £0.66m with significant improvement from HY1
- HY2 includes £0.2m of non-recurring/ non-cash Covid-related items, resulting in underlying EBITDA break even
- No further non-recurring items anticipated
- Adjusted loss before tax of £1.61m
- Current year expected to be profitable at adjusted EBITDA level from Q2

Financial Position

	2020	2019
	£m	£m
Tangible assets	1.44	1.96
Intangible assets	6.17	7.61
Total non-current assets	7.62	9.57
Inventories	2.17	2.93
Trade receivables	0.96	1.95
Other current assets	0.32	0.59
Trade & other payables	(1.45)	(1.52)
Accruals & deferred income	(0.37)	(0.32)
Total working capital	1.63	3.62
Cash & equivalents	5.28	1.28
Bank borrowings	(2.18)	(0.81)
Lease obligations ¹	(1.09)	(1.28)
Total net cash	2.01	(0.81)
Adjusted net cash	3.10	0.47
Other	(0.17)	(0.20)
Net assets/total equity	11.09	12.19

Managed
Working Capital

- Inventory £2.17m, depletion of stock holdings to release cash
- Debtors £0.96m, significant decrease due to revenue levels, effective credit control
- Trade Creditors £1.45m, continue to be managed and controlled

Cash

- Cash balance including RCF –headroom of £5.78m
- Bank borrowings £2.18m (incl £1.5m CBILS loan)
- Cash generated from operations £1.07m
- Placing net proceeds of £2.05m
- Adjusted net cash £3.1m

2021

Increase in
working capital
as revenue
grows

Investment in
Capital
expenditure

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A background image showing a surgical team in an operating room. A surgeon's gloved hand is visible, holding a laparoscopic instrument. The patient is draped in blue sterile cloth, and several yellow ports are visible on the abdomen. The entire image is overlaid with a semi-transparent teal filter.

Outlook and Opportunities

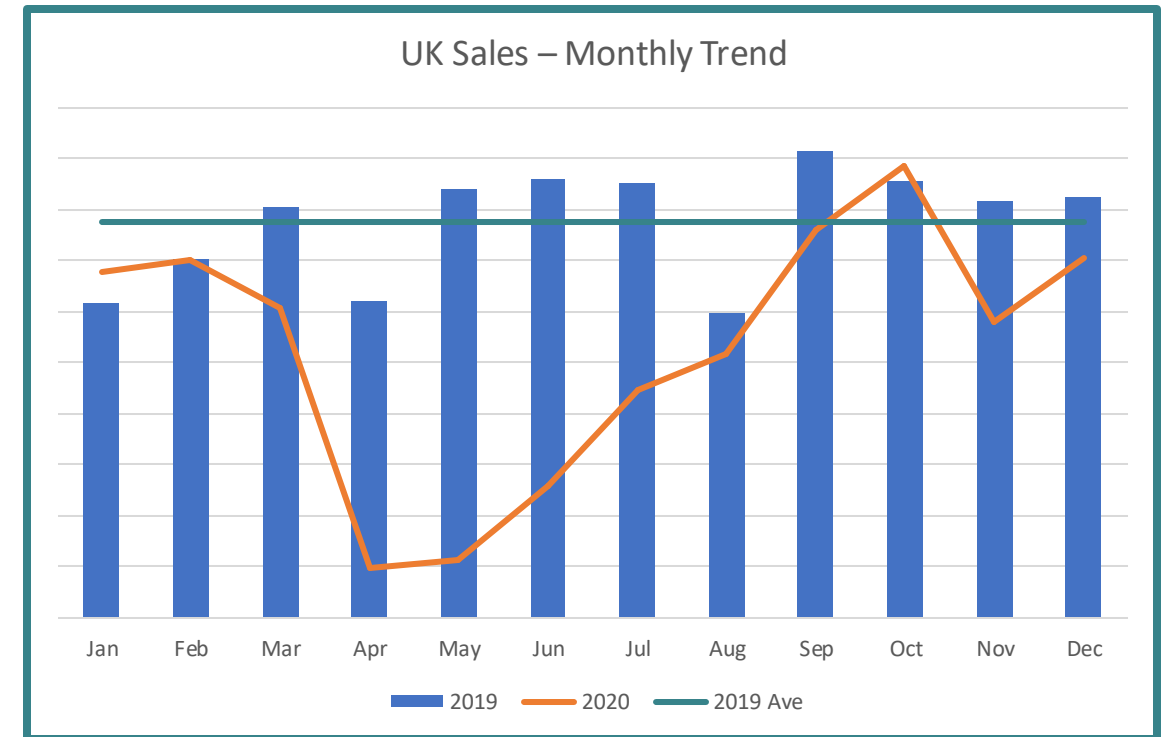
Opportunities in post COVID world

- Anticipate strong recovery as elective surgery backlog tackled
- Increasing focus on sustainable solutions to plastic waste
- Expanding our product range
- Strengthening our international network
- Operational agility
- Innovations in surgery through 3rd party partners

UK Market in a post COVID world

- UK saw strong rebound in Q3 following first wave, sustained to YE
- Sales impacted, to a lesser extent, by 2nd wave
- UK business in strong position for recovery
 - Significant backlog of patients awaiting surgery, estimated between 8.4m* and 10m**
 - Well positioned with converted wins and pipeline of evaluations
 - NHS adoption of sustainability agenda including published net zero carbon targets
 - Strengthening Partnerships
 - New 3-year distribution contract with Microline Surgical Inc
 - Building UK sales structure for DistalMotion (Dexter Robot)
 - Additional 3rd party opportunities

Outlook positive as key initiatives take hold
Anticipate strong resumption from Q2 onwards



*Kings fund
** The Lancet

US Market in a post COVID world

- USA impacted by COVID but stable rebound
- Change in distribution channels and US Customs issues impacted sales in December

- Reshaped routes to US market:

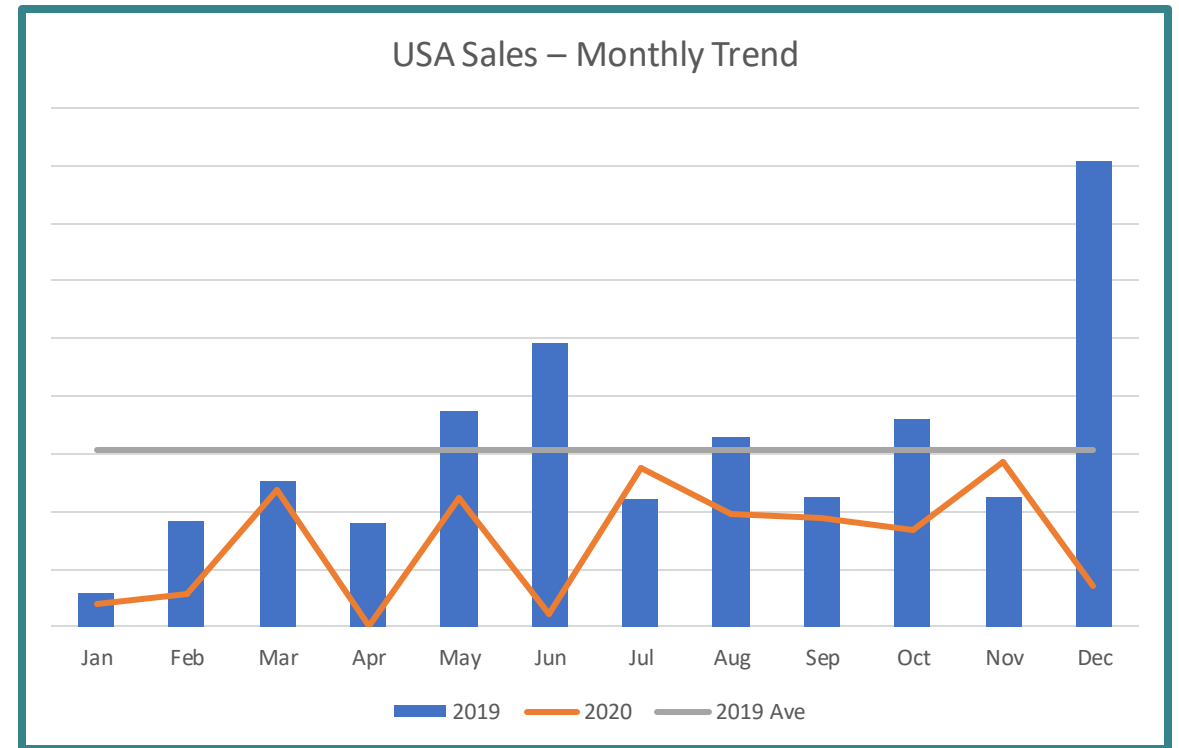
Adler Instrument Company (AIC)

- Scissor and Flex Instruments
- Provide nationwide US coverage
- Highly motivated sales channel
- Key GPO relationships

Microline Surgical Inc (MSI)

- Elite Access Devices
- Leveraging longstanding MSI relationship
- US direct sales organisation with established complementary business in key accounts
- Shared Responsible™ Ethos

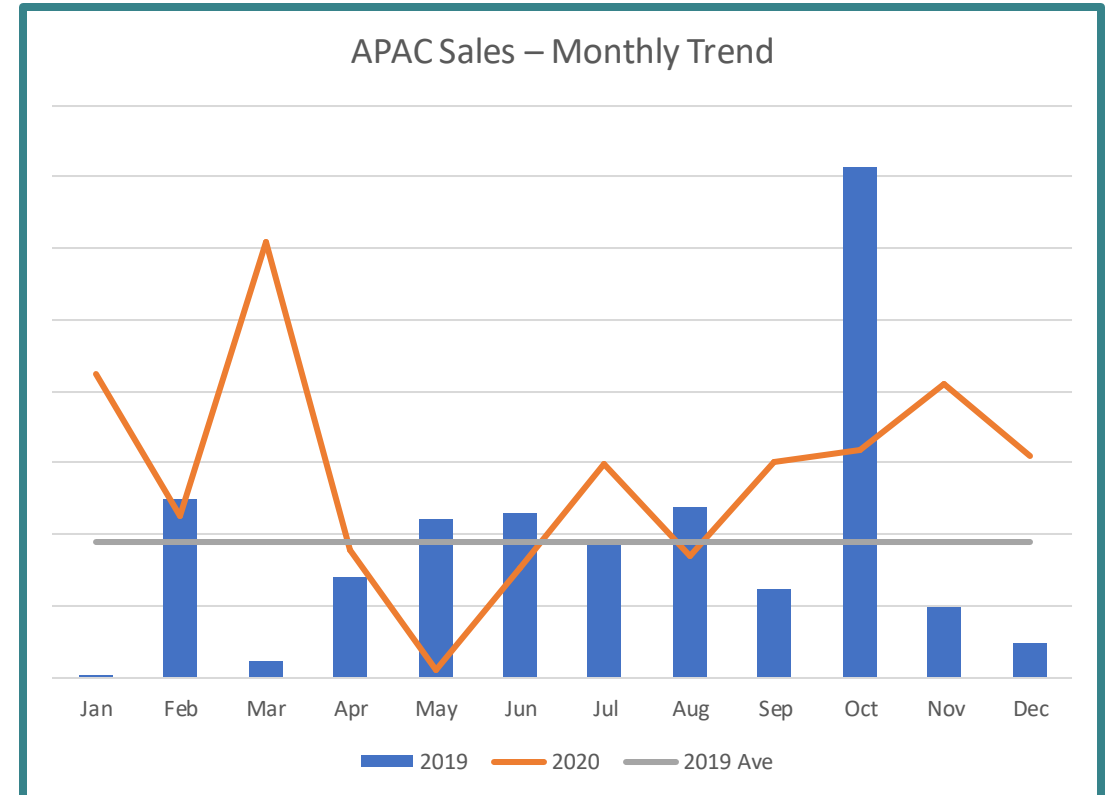
Strong start to 2021



APAC Markets in a post COVID world

- APAC performed consistently, primarily Japan.
- Revenue up approx. 50% over prior year
- Strong and effective partner in Japan
- Environmental message having impact AUS/NZ
- Significant opportunities in region

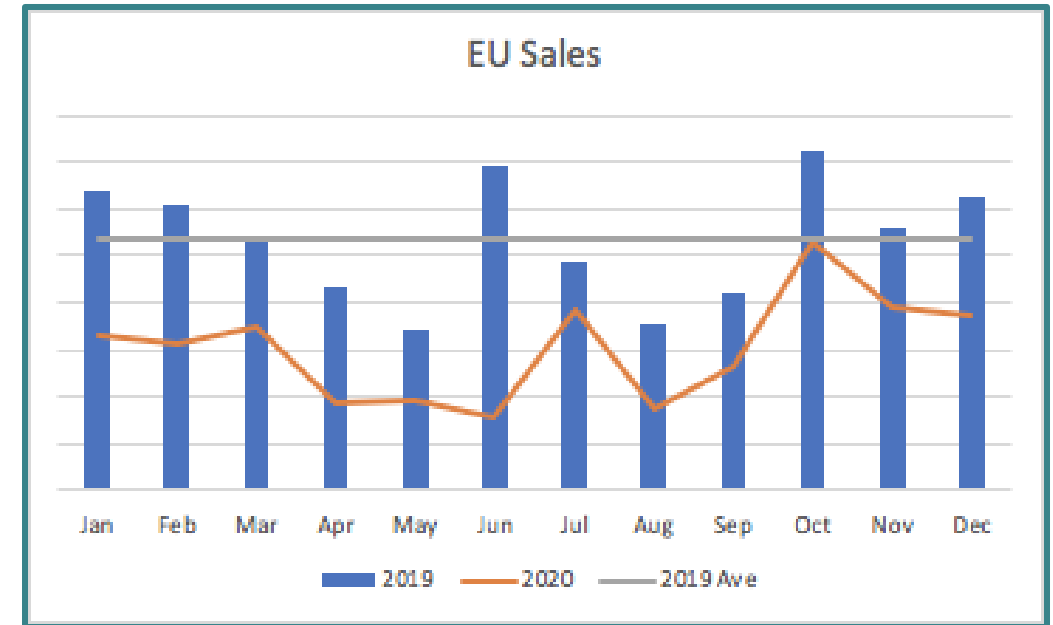
Strong start to 2021



EU & RoW Markets in a post COVID world

- EU sales remain inconsistent as struggles managing COVID persist
- BENELUX positive start to 2021

Outlook uncertain in H1 but anticipate a robust return in H2 notwithstanding ongoing COVID concerns



**Rest of the World visibility remains problematic and unlikely to change in short term
Israel and Canada are performing well and growth anticipated**

Message hitting home!

Reduce plastic waste by 83%*

by replacing fully disposable instruments with Reusable™ items in an Elemental Healthcare Laparoscopic Cholecystectomy Kit.

The equivalent of **52 plastic bottles, per surgery** could be eliminated from incineration.

The NHS performs 70,000 laparoscopic cholecystectomy operations per year. The saving for the NHS would equate to **3.6 million bottles.**



In the US, it is estimated that **20%-33% of all hospital waste is generated by the operating theatres** and a single operation can generate more waste than a family of four produces in one week. **

* Wastage of supplies and drugs in the operating.
Esaki RK, Macario A. 2009. s.l. : Medscape
Anesthesiology 2009, 2009.



"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."

Simon Stevens, Chief Executive of NHS England

FOR A GREENER
NHS



Sustainability Programme – Published Paper



Environmental impact and life cycle financial cost of hybrid (reusable/ single-use) instruments versus single-use equivalents in laparoscopic cholecystectomy

LCA Carbon footprint of hybrid device (Resposable™) is less than a quarter of Single Use devices

=

That's the equivalent of over 30 metrics tons of plastic waste
&
Equivalent CO2 of 1.2 million miles in a standard family car

Resposable™ devices offer a cost saving of over 50% when compared to Single Use Device*

=

Saving to NHS of £11m pa*

Conclusion

“Adoption of hybrid laparoscopic instruments could play an important role in meeting carbon reduction targets for surgery, and also save money. “

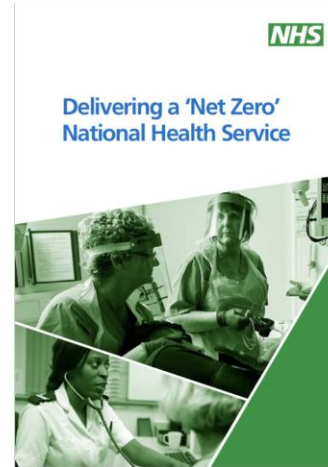
**Results are based on NHS adopting Resposable™ devices for all Laparoscopic Cholecystectomies procedures*

Sustainability Programme – Activity 2021



Launched in conjunction with RCS England and Scotland, CSH, NIHR and CSH

A platform to promote initiatives aimed at reducing the plastic waste in the Operating Room (OR)



NHS to be first healthcare provider to be Net Zero by 2045

NHS Trust Sustainability teams now proactively seeking solutions



Working with MRI as a case study in conjunction with NHSSC to provide a template for cost effective and sustainable options in the OR

Sustainability Programme Driving UK and International Sales

Globally COVID slowed speed of evaluations

United Kingdom

- 3 major University Hospitals converted
- 12 Evaluations in progress or about to start once elective surgery resumes
- UK Private Hospital Group restarting regional evaluations 1st April

International

- EU utilising sustainability as a USP with positive campaigns in BENELUX and France.
- Japan, Canada, AUs/NZ and Israel embracing sustainability with positive results
- USA Elite evaluations in major GPO's
 - First hub roll out despite COVID

Strategic NPD Opportunities

Phase 1

- Immediate market opportunity
- Defined Regulatory pathway under MDD
- Condensed development process

YP 5mm XL Valve

- Accommodate new generation of Energy Devices and general adoption of large diameter Instrument
- Address nuance of USA market
- Allow introduction of 5mm Optical Trocar

5mm Optical

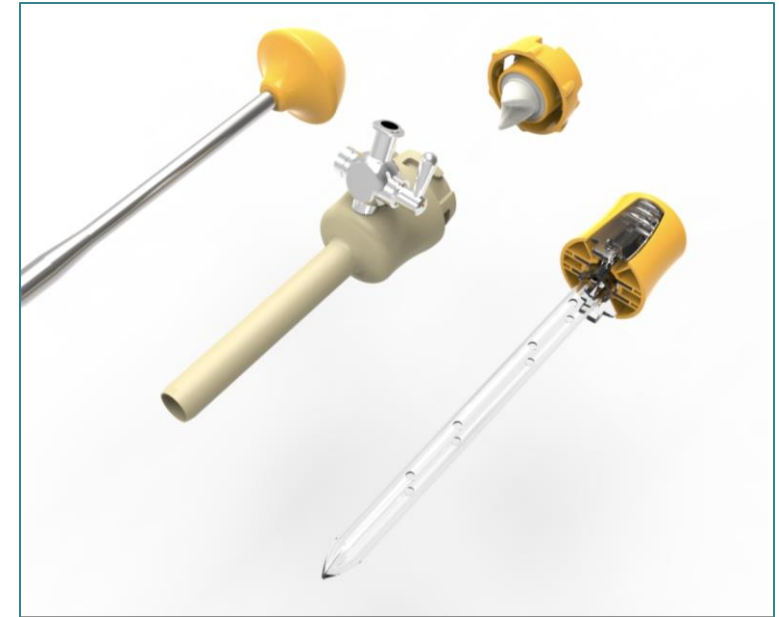
- Key for US and Japanese market
- Growing trend for 5mm Laparoscopy and adoption of inserting primary port under direct vision

Logi Dissect, Grasp and Flex

- Relaunch of low cost Resposable™ dissector and grasper to complete Logi Range
- Re-engineered to allow adoption in wider range of procedures

10/12mm fully disposable

- Finalise SU options for key markets



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Strategic NPD Opportunities

Phase 2

- Market Innovations
- Extended Regulatory pathway under MDR

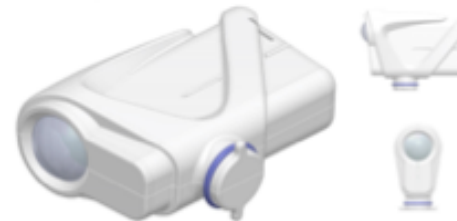
Existing Illuminno™ Design

Eisenhammer Rectal Retractor & Breast Retractor

- Redesign in Resposable™ configuration

Illuminno™ Platform

Exploring opportunities for a multi-application Illumination device to compete with market developments



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Strategic Distribution Opportunities

Dexter Robot

- CE Certification awarded in December 2020
- Devices expected to become available in H2 2021
 - Expected 2 devices placed in 2021
- Elemental building order pipeline
- Clinical and sales team being recruited



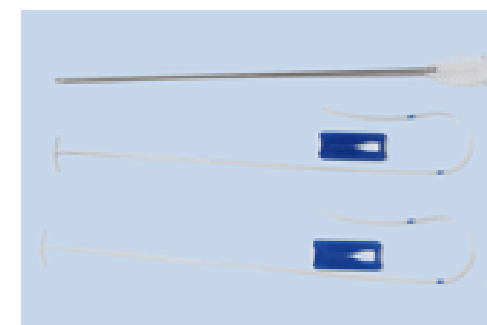
Enhancing Womens Health Portfolio

Gynae-Oncology

Mout Uterine Manipulators
T-lift in-situ retraction device

Breast Reconstruction

Cellis Breast Pocket & Cellis Breast ADM



Operational

Manufacturing

Efficiency Program

- Automation platforms in Scissor line and Packing room

Refurbishment program

- Assembly and Clean Room
- Facility in general

QA/RA

- Onerous Regulatory Audit Program
- Continuation of QMS streamlining
- MDR Pathway
- 1st device (Class I) MDR approved by May 2021
- Completed PMA for Fix8

OEM

Medical

Initially impacted by COVID

Seeing a return to forecasting and growing demand

Building relationships with New Partners

Leveraging expertise in Instrument design and manufacture to support robotics

AMS

Fix8 sales impacted by reduction in Elective Surgery

2021 seeing increasing demand

Completed PMS support for 510(k) application for planned submission in 2022

Industrial (Aviation)

Severely impacted by COVID and subsequent travel restrictions

Unlikely to see resumption in 2021

Summary and Outlook

- Positive start to 2021 despite ongoing COVID challenges
- Buoyant order and forecasting schedule from Q2
- Strong NPD Pipeline for delivery in 2021
- Ongoing investment in R&D
- Stable financial platform
- Well positioned for recovery and growth
- Strengthened Partnerships in USA

Appendices

	2020	2019
Income Statement	£m	£m
Revenue	6.33	10.73
Cost of sales	(5.06)	(6.40)
Gross profit	1.27	4.33
Other operating expenses	(5.06)	(6.77)
Other Income	0.62	
Adjusted EBITDA	(0.66)	1.45
Amortisation of intangible R&D costs	(0.25)	(0.29)
Depreciation of tangible assets	(0.56)	(0.61)
Adjusted operating (loss)/ profit	(1.47)	0.55
Exceptional items	(0.11)	(0.18)
Impairment of intangible R&D costs	(0.18)	(0.63)
Amortisation and impairment of intangible acquisition costs	(1.29)	(1.98)
Share based payments	(0.12)	(0.19)
Operating loss	(3.17)	(2.43)
Net finance costs	(0.14)	(0.16)
Loss before taxation	(3.31)	(2.59)
Taxation charge/(credit)	0.03	(0.02)
Loss on profit attributable to shareholders	(3.27)	(2.61)
Adjusted EPS *	(0.19)p	0.05p

Appendices

Cashflow Statement

	2020	2019
	£m	£m
Cash flows from operating activities		
Operating loss	(3.17)	(2.43)
Depreciation & amortisation	0.81	0.91
Impairment of Intangibles	1.47	2.60
Other	0.13	0.13
Working Capital	1.82	(0.54)
Cash generated from operations	1.07	0.67
Taxation received / (paid)	0.00	0.00
Interest paid (net)	(0.03)	(0.08)
Net cash generated from operations	1.04	0.59
Cash flows used in investing activities	(0.16)	(0.52)
Capex on tangible FA	(0.04)	(0.20)
Capitalised development costs	(0.11)	(0.32)
Cash flows from/(used in) financing activities	3.15	(1.34)
Issue of equity	2.05	0.20
Bank loans	(0.15)	(1.30)
CBILS	1.50	0.00
Repayment of lease obligations/other	(0.25)	(0.24)
Net change in cash & equivalents	4.03	(1.27)
Adjusted Net cash	3.10	0.47

References

- [https://www.thelancet.com/journals/lanrhe/article/PIIS2665-9913\(21\)00001-1/fulltext](https://www.thelancet.com/journals/lanrhe/article/PIIS2665-9913(21)00001-1/fulltext)
- <https://www.kingsfund.org.uk/press/press-releases/impact-covid-19-waiting-times-NHS-patients>
- <https://www.medrxiv.org/content/10.1101/2021.03.10.21253268v1>

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