Surgical Innovations Group Plc

2022 Interim Results

David Marsh, Chief Executive Officer
Charmaine Day, Chief Financial Officer

Company Overview

Surgical Innovations Group Plc

Founded by Prof. Michael McMahon, leading Laparoscopic surgeon

Design & Manufacturing expertise in innovative surgical devices

Focus on Minimally Invasive Surgery (MIS)

Leading the change to sustainable surgical devices

Direct sales in UK. Global distribution through a network of Global Partners

Strong industry partnerships, most recently in robotics, leveraging design expertise

Financials

Financial Highlights

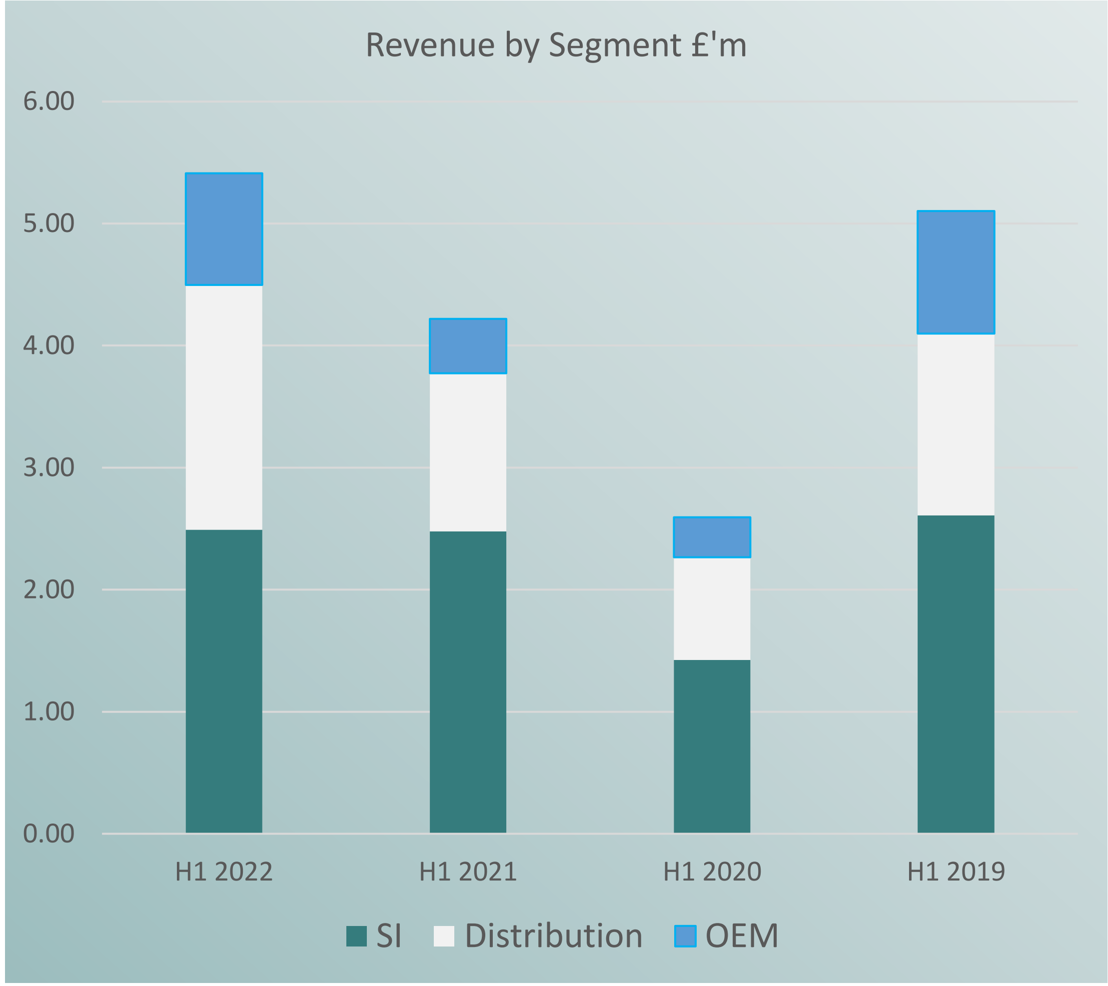
Surgical Innovations Group Plc

	2022 H1	Change vs. prior comparative	2021 H1	Change vs pre-pandemic	2019 H1 pre-pandemic
Revenues[1]	£5.41m	+28%	£4.22m	+6%	£5.10m
Underlying Gross Margin[1]	45.3%	+2.9%	42.4%	+3.0%	42.3%
Adj. EBITDA[2]	£0.29m	+0.44m	£(0.15)m	-0.36m	£0.65m
Adj. operating (loss)/profit[2]	(£0.01)m	+0.14m	£(0.15)m	-0.23m	£0.22m
Adj. (loss)/ earnings per share (pence)[2]	(0.004)p	-	(0.004)p	-0.027p	0.023p

1 *Comparative information is shown for the six months ended 30 June 2021 ("2021H1"), except where otherwise stated. Information for the six months ended 30 June 2019 ("2019 H1") has been included to provide a comparison with pre-pandemic trading.*

2 *Adjusted EBITDA, adjusted operating (loss)/ profit and adjusted EPS are stated before deducting non-recurring exceptional costs of £0.03m (2021 H1: nil, 2019 H1: £0.18m), amortisation and impairment of intangible acquisition costs of £nil (2021 H1: nil, 2019 H1: £0.18m) and share based payment costs of £0.02m (2021 H1 £0.01m, 2019 H1: £0.10m).*

Revenue Analysis



- SI Brand sales back to relatively normal levels
- Distribution showing strong growth, exceeding 2019 and up by 34.7%
- OEM recovering with new partner collaborations, additional orders in H2
- Continued overall momentum into H2

Margin Analysis

Gross Margin Analysis	**2022 H1**	2021H1	2021
	£'000	£'000	£'000
Revenue	5.41	4.22	9.13
Cost of Sales	(2.96)	(2.43)	(5.27)
Underlying Gross Margin	2.45	1.79	3.86
Underlying Gross Margin %	**45.34%**	**42.36%**	**42.28%**
Net Cost of Manufacturing	(0.58)	(0.36)	(0.73)
Contribution Margin	1.87	1.43	3.13
Contribution Margin %	**34.60%**	**33.90%**	**34.31%**

- Underlying gross margin within target range
- Inflationary pressures from suppliers mitigated and passed on where possible
- Net costs of manufacturing increased
- Overheads amplified throughout H1, due to inflationary pressures in the labour market
- Extended supply chain lead times and shortage of skilled labour has impacted productivity so costs are under recovered
- Strategies implemented to improve staff retention, productivity and overall efficiencies

Operating Expenses

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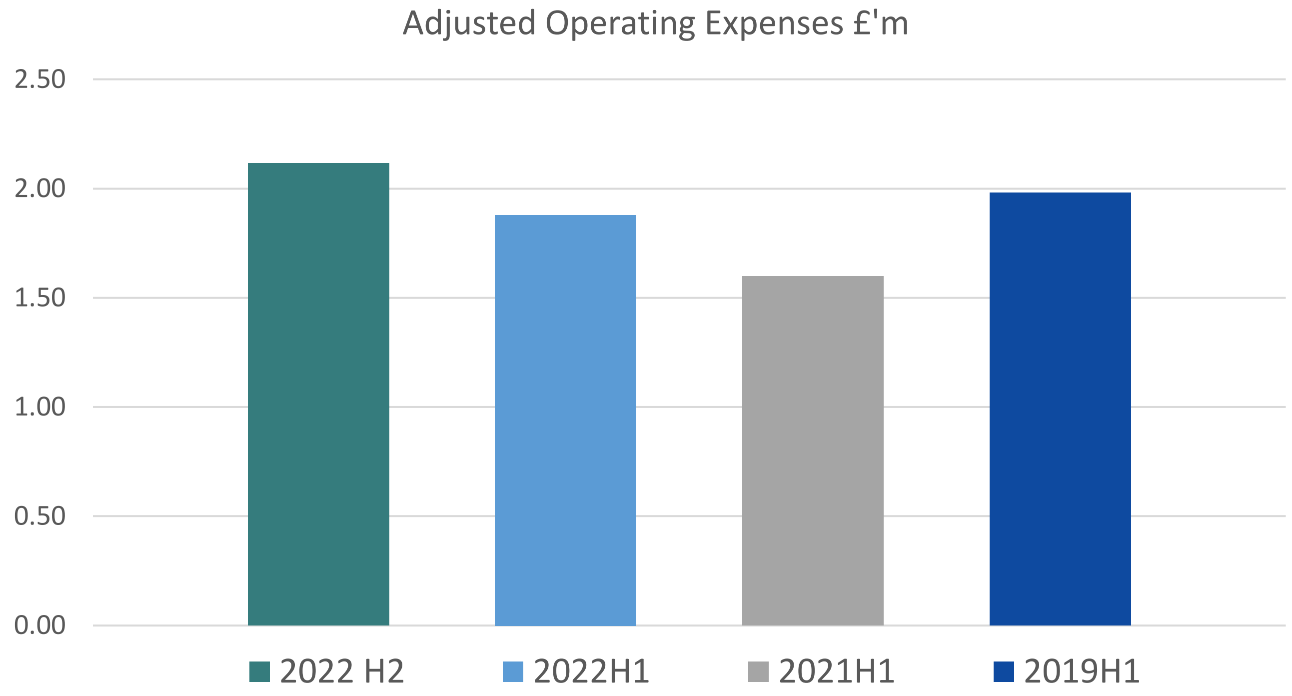

- Adjusted[1] operating expenses increased 17% to £1.88m (2021H1: £1.60m)
- Incremental change in overheads in H1, due to:
  - Investment into sales and marketing to support growth
  - Inflationary pressures on the cost of employment, with compensation and other benefits reviewed to help retain and attract
- Full impact of incremental increases expected to be around 10-15% for H2

1. *Adjusted operating expenses are stated before deducting non-recurring exceptional costs of £0.03m (2021 H1: nil, 2019 H1: £0.1m), amortisation and impairment of intangible acquisition costs of £nil (2021 H1: nil, 2019 H1: £0.18m) and share based payment costs of £0.02m (2021 H1 £0.01m, 2019 H1: £0.10m).*

Net Result

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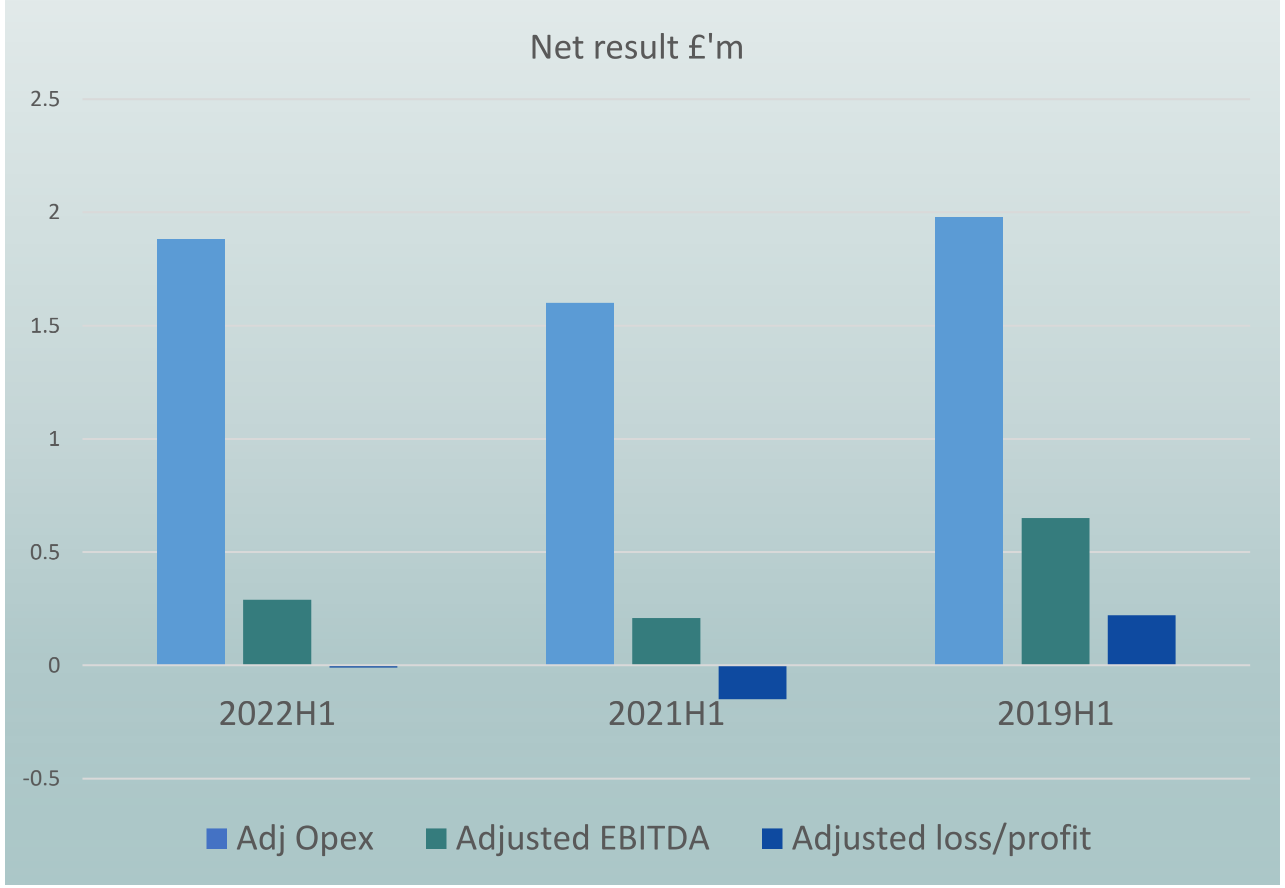

	2022H1	2021H1	2019H1
	£'m	£'m	£'m
Adj. Operating expenses[1]	(1.88)	(1.60)	(1.98)
Adj. EBITDA[1]	0.29	0.21	0.65
Adj. Operating (loss)/profit	(0.01)	(0.15)	0.22
Adj. Operating (loss)/profit before tax[1]	(0.57)	(0.21)	(0.13)

1. *Adjusted operating expenses, Adjusted EBITDA, adjusted operating (loss)/ profit and adjusted operating (loss)/profit before tax are stated before deducting non-recurring exceptional costs of £0.03m (2021 H1: nil, 2019 H1: £0.18m), amortisation and impairment of intangible acquisition costs of £nil (2021 H1: nil, 2019 H1: £0.18m) and share based payment costs of £0.02m (2021 H1 £0.01m, 2019 H1: £0.10m).*

Financial Position

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	30 June 2022	31 Dec 2021
	£'m	£'m
Tangible assets	1.42	1.20
Intangible assets	6.26	6.22
Total non-current assets	**7.68**	**7.41**
Inventories	**3.04**	**2.96**
Trade receivables	1.68	1.40
Other current assets	0.37	0.30
Trade & other payables	(1.95)	(1.62)
Accruals and deferred Income	(0.65)	(0.49)
Total working capital	**2.49**	**2.55**
Cash & cash equivalents	**3.04**	**3.64**
Borrowings	(1.51)	(1.88)
ROU Lease obligations	(0.87)	(0.91)
Total net cash	0.66	0.86
Adjusted[1] net cash	**1.53**	**1.76**
Other	(0.17)	(0.17)
Net assets/total equity	**10.66**	**10.66**

- Inventory levels remain high, to mitigate supply chain risk
- Cash generated from operations at £0.22m (FY to Dec 2021 cash used in operations of £0.53m)
- Net Cash at the end H1 was £1.53m (as at 31 Dec 2021: £1.76m)
- Increased investment into capital expenditure £0.34m (2021: £0.21m), with additional delivery of equipment expected in H2
- Refinance of existing borrowing facilities, providing undrawn headroom of £1m with invoice discounting facility

1 *Net cash equals cash less bank debt and HP leases only.*

Commercial & Operational

Commercial & Operational Highlights

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Strong sales in UK & Japan provides foundation for growth

Investment in Sales & Marketing driving forward new initiatives

Improvements in Manufacturing capacity driving efficiencies

Geographical expansion and sustainability providing opportunities for growth

Investment in New Product Development (NPD), with key launches in Q3 and Q4

Investment in people & processes to ensure Medical Device Regulations (MDR) pathway remains on track

Key Challenges In H1 2022

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Recruitment and retention of key personnel

Implemented 4-day week trial, loyalty incentives and increased financial packages in line with industry norms.

Supply chain disruptions continue

Maintaining higher inventory levels above norm to minimise disruption to customers. dual sourcing of materials and parts.

Regulatory burden increasing as pathway to MDR comes closer

Investment in people and processes to ensure MDR Pathway remains on track.

Market Environment - UK

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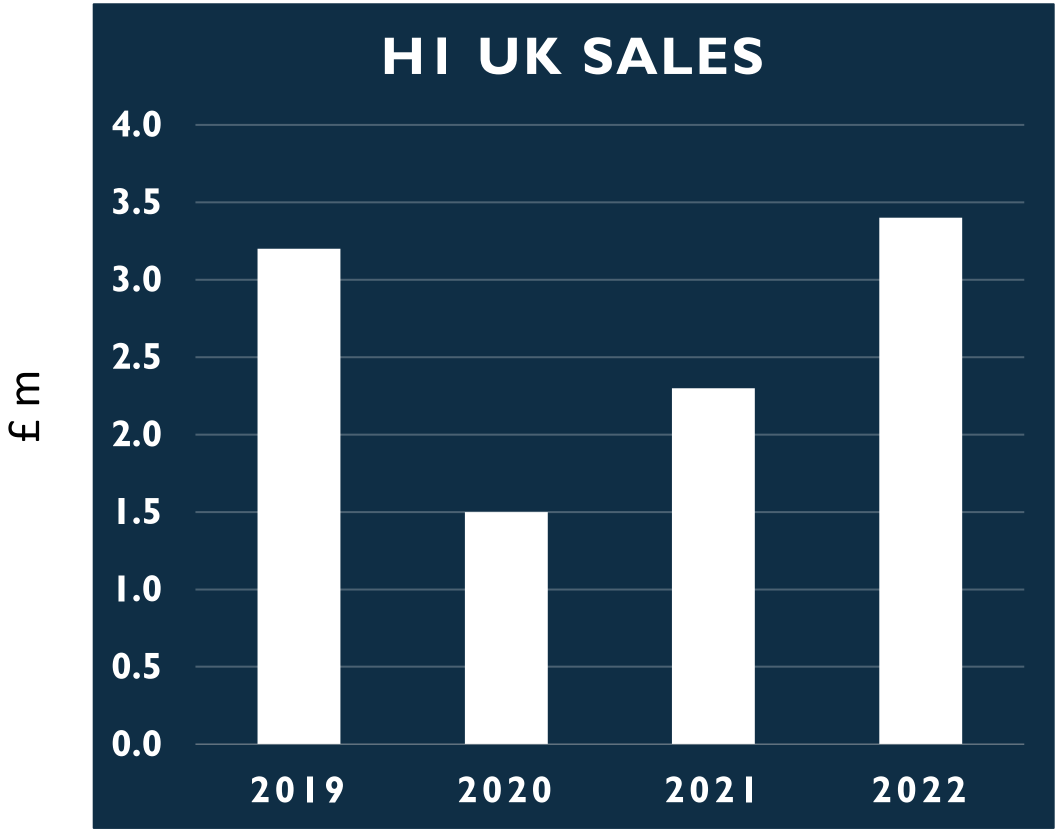
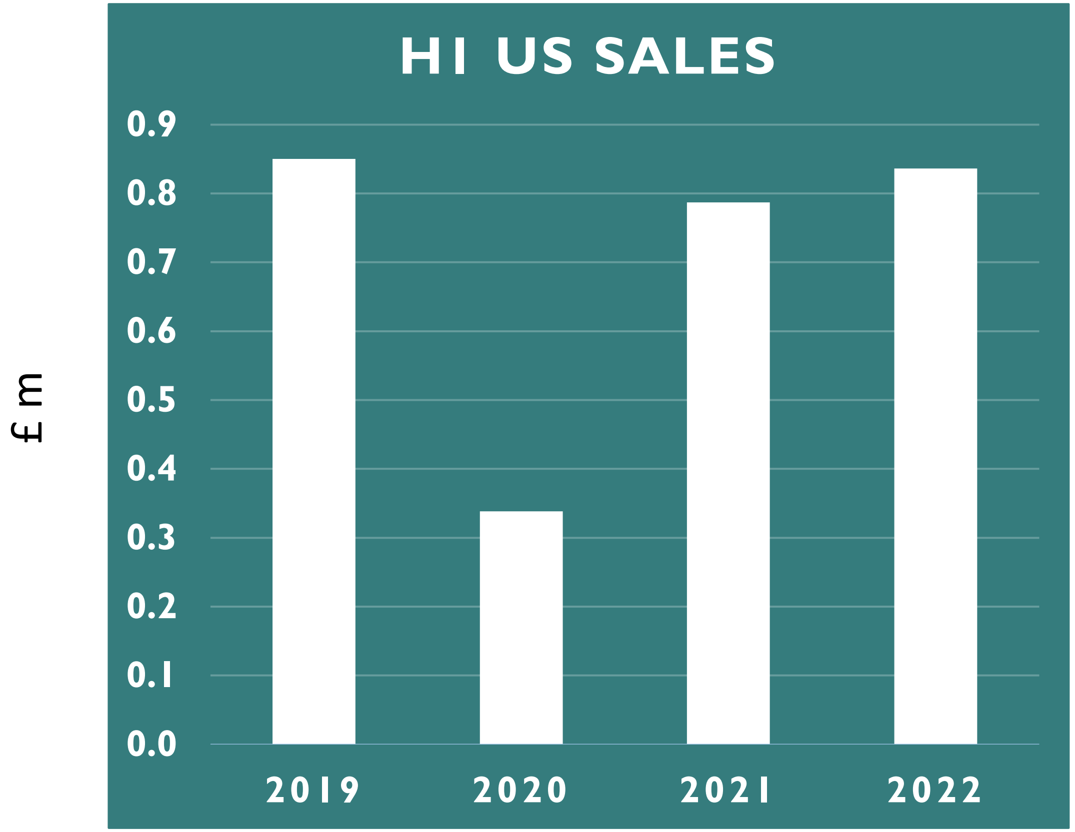


UK sales include SI brand and distribution products.

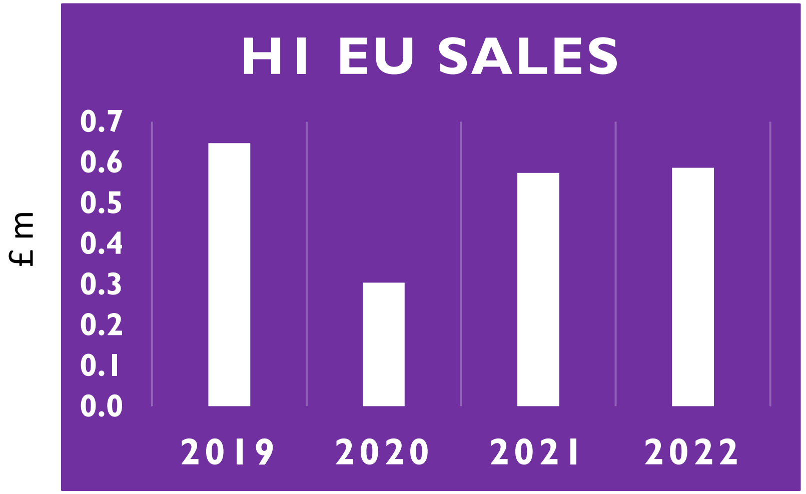
- Strong sales in UK surpassing pre-pandemic levels despite NHS operating below capacity
- Investment in sales resource to focus on Private and Key accounts delivering growth
- Supply chain challenges present some back-order issues deferring revenue to H2
- Positive order book into Q3
- New conversions underpin sustainability strategy and provide growth

Market Environment - USA

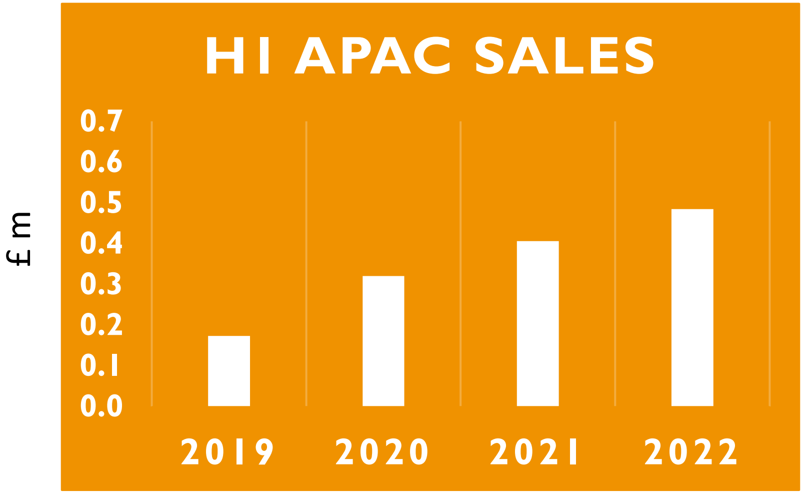


- COVID impacted Q1 with restricted hospital access affecting evaluations
- US dealer network training roll out in H2
- Full launch of YelloPort Elite™ 5mm and Optical Trocar with the Microline Sales Team in Q4
- Initial YelloPort Elite™ evaluations have started in early adaptor accounts

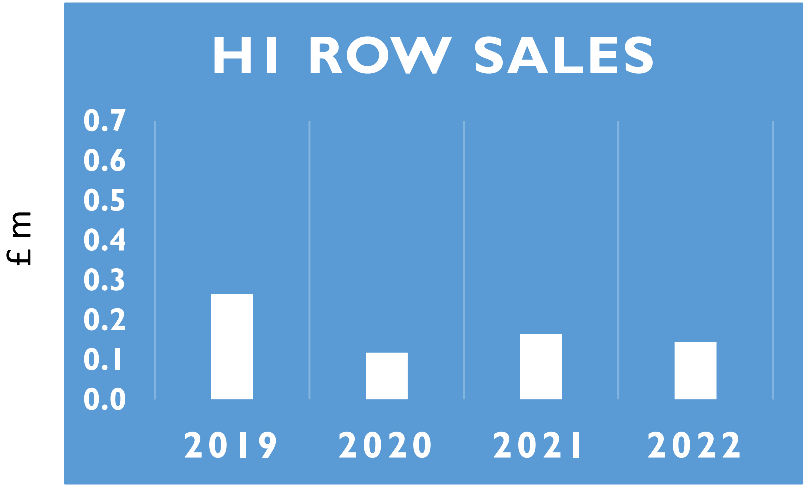
Market Environment – EU, APAC & ROW



- COVID affected start to 2022
- Dedicated Sales resource having positive impact
- Q4 sees launch of YelloPort™ Elite 5mm and Optical Trocar in key EU markets
- Sustainability generating new evaluations

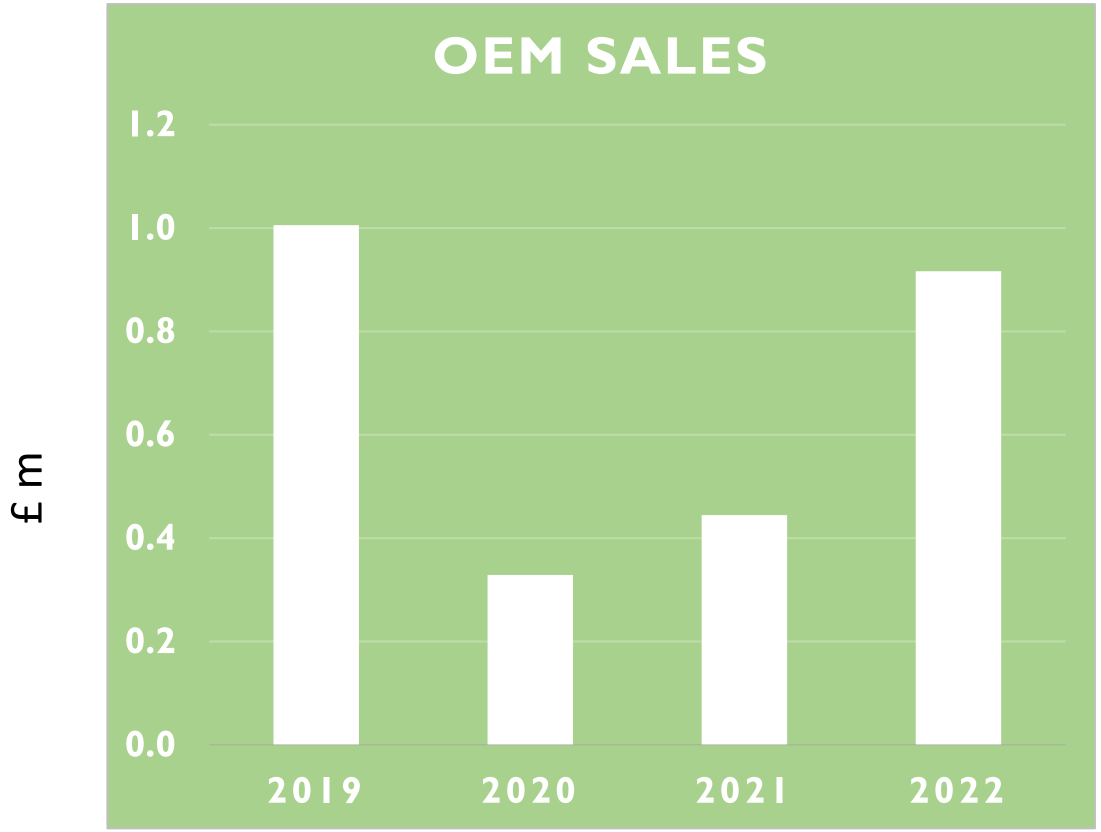


- Strong sales in Japan underpins APAC Regional growth
- Q4 launch of Logic reusable Instrumentation line
- Registration in Q4 of YelloPort™ Elite 5mm & Optical Trocar



- Visibility remains lower
- Evaluating new partnership options
- New product launches provide opportunity to refocus activity in region into 2023

Market Environment – OEM



2019 includes £360k non-medical OEM sales

- Delays in supply chain deferred H1 sales to H2
- Strong H2 2022 orderbook for AMS, CMR and BD/Carefusion
- Developing opportunities for collaboration with key partners
- Opportunities to leverage instrument expertise to exploit opportunities in robotics
- Initiative to improve OEM relationships highlighted by winning the BD/Carefusion most improved supplier award

New Markets Opportunities

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India

- New Partnership in India leveraging CMR and Peters relationships
- Registration and product training to be completed during Q4

Germany

- Developing partnership with specialist distribution company
- Initial evaluations during October
- Significant CMR installed base

Environmental Messaging

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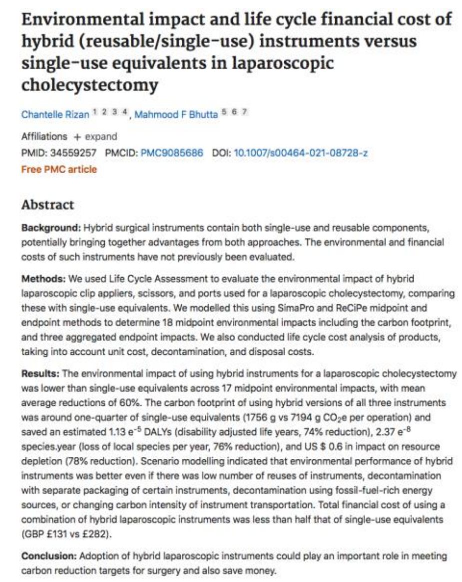
CREATE THE ENVIRONMENT



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

Chantelle Rizan [1 2 3 4], Mahmood F Bhutta [5 6 7]

Affiliations + expand

PMID: 34559257 PMCID: PMC9085686 DOI: 10.1007/s00464-021-08728-z

Free PMC article

Abstract

Background: Hybrid surgical instruments contain both single-use and reusable components, potentially bringing together advantages from both approaches. The environmental and financial costs of such instruments have not previously been evaluated.

Methods: We used Life Cycle Assessment to evaluate the environmental impact of hybrid laparoscopic clip appliers, scissors, and ports used for a laparoscopic cholecystectomy, comparing these with single-use equivalents. We modelled this using SimaPro and ReCiPe midpoint and endpoint methods to determine 18 midpoint environmental impacts including the carbon footprint, and three aggregated endpoint impacts. We also conducted life cycle cost analysis of products, taking into account unit cost, decontamination, and disposal costs.

Results: The environmental impact of using hybrid instruments for a laparoscopic cholecystectomy was lower than single-use equivalents across 17 midpoint environmental impacts, with mean average reductions of 60%. The carbon footprint of using hybrid versions of all three instruments was around one-quarter of single-use equivalents (1756 g vs 7194 g CO_2e per operation) and saved an estimated 1.13 e^{-5} DALYs (disability adjusted life years, 74% reduction), 2.37 e^{-8} species.year (loss of local species per year, 76% reduction), and US $ 0.6 in impact on resource depletion (78% reduction). Scenario modelling indicated that environmental performance of hybrid instruments was better even if there was low number of reuses of instruments, decontamination with separate packaging of certain instruments, decontamination using fossil-fuel-rich energy sources, or changing carbon intensity of instrument transportation. Total financial cost of using a combination of hybrid laparoscopic instruments was less than half that of single-use equivalents (GBP £131 vs £282).

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

PROVIDE THE VALIDATION

Our mission is to partner with healthcare providers to meet their sustainability goals, leading the wider industry to deliver more efficient solutions without compromise on clinical performance.

Through our Resposable® technology the carbon footprint associated with Port Access Systems can be drastically reduced by 73%[2].

As part of a bigger collective of devices typically utilised in Laparoscopic surgery, the reduction in clinical waste generated by these devices can be reduced by up to 85%[2] per procedure.

YelloPort Elite™ Leading the Evolution

DELIVER THE EDUCATION

Case Study – UK NHS Trust

ROI & Financial Break Even Point In Month **Four**

3,252
Procedures Per Annum

10,000
Ports Utilised By The Trust Per Annum

£150k
5mm **Incumbent** Ports Investment p.a.

£250k
10/12mm **Incumbent** Ports Investment p.a.

£70k
Initial **YelloPort™** Investment

£149k
YelloPort™ Valve Investment p.a.

6,400kg
CO2e Reduction In The Carbon Footprint Generated By The Trust

85%
Reduction In Plastic Waste p.a.

New Product Development

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2022 Key Product Launches (under MDD):

- Q1 saw the launch of Yelloport Elite™ 5mm designed to facilitate robotic surgery via the CMR Versius Robot
- Q3 launch of the 5mm Optical Trocar
- Q4 launch of Logi™ MIM instrument

Future Pipeline (under MDR):

- Extension of Resposable® portfolio
- Sustainable materials initiative
- Leveraging existing IP for robotics

Compliance & Regulatory

- Investment in people and processes
- Successful recertification on MDSAP
- Unannounced FDA audit passed
- MDR Technical files submission completed
- MDR review of quality management systems successfully completed
- UKCA Certification in process

Summary

- Healthcare markets strong, with pent up demand
- Growing market share from sustainability messaging and NPD
- Supply chain and recruitment constraints; strategies to mitigate being implemented
- Growth opportunities in robotics and through market expansion
- Strong order book for Q4
- Recovering markets and additional new product launches in H2 and beyond support growth into 2023

	2021	2020
	£'m	£'m
Cashflow from operating activities		
Operating loss	(0.06)	(0.46)
Depreciation & amortisation	0.29	0.70
Impairment of intangibles	-	0.15
Other	(0.07)	-
Working Capital	**0.05**	**(0.93)**
Cash generated from Operations	**0.22**	**(0.53)**
Taxation received/ (paid)	0.10	0.13
Interest paid (Net)	(0.03)	(0.04)
Net cash generated from operations	**0.29**	**(0.43)**
Cash used in investing activities	**(0.50)**	**(0.66)**
Capex on tangible FA	(0.34)	(0.21)
Capitalised development costs	(0.17)	(0.45)
Cashflows used in financing activities	**(0.47)**	**(0.53)**
Bank loans	(0.49)	(0.30)
HP leases	0.13	-
Repayment of ROU lease obligations	(0.11)	(0.23)
Net change in cash & equivalents	**(0.69)**	**(1.72)**
Adjusted Net cash	**1.53**	**1.76**

Appendix
Cashflow Statement