

29 March 2023

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

Final Results
Audited results for the year ended 31 December 2022

Surgical Innovations Group plc (AIM: SUN), the designer, manufacturer and distributor of innovative technology for minimally invasive surgery, reports its audited financial results for the year ended 31 December 2022. During the year, the business achieved a strong recovery with sales up 24.3% year-on-year exceeding pre-pandemic levels. The return to profitability positions the Group well to deliver robust organic growth in 2023 and beyond.

Financial highlights:

- Revenues increased by 24.3% in 2022 to £11.34m (2021: £9.13m) and 6% ahead of the comparable pre-pandemic period in 2019 (£10.73m)¹
- Underlying gross margin (before net manufacturing cost) slightly higher and within target range at 42.5% (2021: 42.3%)
- Adjusted EBITDA² profit of £0.70m (2021: £0.50m)
- Adjusted operating profit before tax² of £0.01m (2021: loss of £0.33m)
- Adjusted EPS² amounted to a profit of 0.036p per share (2021: loss of 0.022p)
- Net cash generated from operations £0.48m (2021: net cash used in operations £0.43m)
- Increased investment activities £1.24m (2021: £0.66m) and higher inventory holdings reflecting ongoing supply chain issues
- Net cash³ at end of period of £0.99m (as at 31 Dec 2021: £1.76m) with additional undrawn headroom of a £1.0m invoice discounting facility

Commercial and operational highlights:

- Strong sales in UK, Japan and key EU markets
- Investment in sales and marketing team driving commercial opportunity
- Geographical expansion into India and Germany gaining traction
- Ongoing capex investments driving efficiencies and cost reductions through manufacturing
- Regulatory investment in people and processes position the Company for early MDR transition in 2023
- Continued investment into new product development, with launch of YelloPort Elite™ 5mm and a new Optical trocar

Current trading and outlook:

- Revenues in the current year to date for SI brand and Distribution sales are 9.2% ahead of the corresponding period last year
- The forward order book is strong, notwithstanding some deferral of Q1 revenue into Q2 due to longer lead times in sourcing certain OEM components
- The Group is expected to continue to trade profitably at the level of adjusted EBITDA supported by the continual investment in operations during 2023

1. Comparative information is shown for the year ended 31 December 2021, except where otherwise stated. Further comparative information for the year ended 31 December 2019 has been included to provide a pre-pandemic benchmark for trading.

2. *Adjusted EBITDA, adjusted operating profit/(loss) before tax and Adjusted EPS are stated before deducting non-recurring/ exceptional costs of £0.03m (2021: £0.08m), impairment of intangible costs of £nil (2021: £0.15m) and share based payment costs of £0.04m (2021: £0.03m).*
3. *Net cash equals cash less bank debt only.*

Chairman of Surgical Innovations, Nigel Rogers said: *“Whilst the backlog of patients requiring treatment in the UK continues to increase, standing at 7.2m in December 2022, sales remain strong. Revenue in the current year to date for SI brand and Distribution sales are 9.2% ahead of corresponding period last year and the future order book is looking positive going into Q2. There is a similar picture globally however the unique selling proposition of our product portfolio, which are high performing, sustainable and cost-effective solutions, leave us well placed to address this pent-up demand and make a positive impact on the environment.*

“New geographical markets are providing some significant prospects for the forthcoming year. In India, where registration was obtained earlier this year, evaluations with key surgeons in a group of Delhi based hospitals are progressing well. A new partner in Germany has seen the conversion of a new account with further evaluations scheduled. In the US the partnership with Microline is seeing progress with a number of hospital conversions and again further evaluations are underway. The Company continues to work with key partners to strengthen the overall growth opportunities.

“Given the multiple factors driving improved prospects for growth, the Board has increased confidence in not only the outlook for 2023 but also the longer-term growth trajectory for the Group.”

For further information please contact:

Surgical Innovations Group plc

David Marsh, CEO
Charmaine Day, CFO

www.sigroupplc.com

Tel: 0113 230 7597

Singer Capital Markets (Nominated Adviser & Broker)

Aubrey Powell / Oliver Platts

Tel: 020 7496 3000

Walbrook PR (Financial PR & Investor Relations)

Paul McManus / Lianne Applegarth

Tel: 020 7933 8780 or si@walbrookpr.com

Mob: 07980 541 893 / 07584 391 303

About Surgical Innovations Group plc

Strategy

The Group specialises in the design, manufacture, sale and distribution of innovative, high quality medical products, primarily for use in minimally invasive surgery. Our product and business development is guided and supported by a key group of nationally and internationally renowned surgeons across the spectrum of minimally invasive surgical activity.

We design and manufacture and source our branded port access systems, surgical instruments and retraction devices which are sold directly in the UK home market through our subsidiary, Elemental Healthcare, and exported widely through a global network of trusted distribution partners. Many of our products in this field are based on a "responsible" concept, in which the products are part reusable, part disposable, offering a high quality and environmentally responsible solution at a cost that is competitive against fully disposable alternatives.

Elemental also has exclusive UK distribution for a select group of specialist products employed in laparoscopy, bariatric and metabolic surgery, hernia repair and breast reconstruction.

In addition, we design and develop medical devices for carefully selected OEM partners and have also collaborated with a major UK industrial partner to provide precision engineering solutions to complex problems outside the medical arena.

We aim for our brands to be recognised and respected by healthcare professionals in all major geographical markets in which we operate and provide by development, partnership or acquisition a broad portfolio of cost effective, procedure specific surgical instruments and implantable devices that offer reliable solutions to genuine clinical needs in the operating theatre environment.

Further information

Further details of the Group's businesses and products are available on the following websites:

www.sigroupplc.com

www.surginno.com

www.elementalhealthcare.co.uk

To receive regular updates by email, please contact si@walbrookpr.com

Surgical Innovations Group plc

Chairman's Statement

For the year ended 31 December 2022

I am pleased to report that the Group has achieved a strong recovery during 2022, delivering sales which exceeded pre-pandemic levels and are slightly ahead of market expectations, providing a return to profitability in the second half of the year. Opportunities have been created to win new business despite the challenges of recent events, particularly as the sustainability benefits of our products are becoming more widely recognised. The improving market environment is gathering pace as healthcare providers around the world are returning to normalised levels of activity and planning to address backlogs in surgery, and we are well positioned to deliver robust organic growth in 2023 and beyond.

Market Overview

Global healthcare markets are gradually returning to pre-pandemic levels of elective surgery, and are now striving to reduce the increasing backlog of patients requiring treatment by increasing capacity. In the UK market, the process of recovery has been hampered by staff shortages, industrial action and difficulties discharging patients due to restricted social care provision. Despite the combined effect of these factors SI brand and Distribution products have achieved revenue growth over the prior year of 30%. This highlights our success in gaining market share through new hospital conversions based on the quality and sustainability benefits our products deliver to customers.

The rates of recovery in the volume of patients treated across our international markets have been variable, but we enter 2023 in more normalised market conditions in all of our key markets.

Supply chain challenges have continued to impact the Company's ability to deliver some key products on time. Whilst this has had only minimal impact on ongoing business, in some new markets the launch of key products was delayed, slowing overall growth as a consequence. This has also affected input costs, and it has been necessary to pass an equitable proportion of these on in selling prices. Order backlogs were largely cleared by the end of the financial year, as a result of robust actions to address component shortages including elevated levels of safety stock. Sporadic issues continue to arise, however, and vigilance coupled with contingency planning continue to be important in mitigating the impacts of these issues.

Financial Overview

Revenues for the year exceeded market expectations at £11.34m, an increase of more than 20% versus the prior year (2021: £9.13m) and 6% ahead of the pre-pandemic reference year (2019: £10.73m). Sales continued to strengthen in the second half of the year, being 10% higher than the first half (2022 H1: £5.41m).

Underlying trading margins¹ were within target range at 42.5% (2021: 42.3%) of revenues, despite inflationary cost pressures. Mitigating these costs and passing them on where possible has been a key focus throughout the year. Supply chain disruption continued to present challenges in the second half of the year and across the industry, but these were overcome by maintaining adequate buffer inventories, and consequently customer back orders were managed down to normal levels by the end of the year. Inventories remain above normalised levels to provide ongoing protection, although it is anticipated that supply chain pressures will abate and reductions in inventory will be achievable during 2023.

Operating expenses were kept under control, but intentionally increased to £3.88m (2021: £3.61m) predominantly due to the increased investment into high-calibre sales and marketing and regulatory headcount. Overall, the Group delivered a positive adjusted EBITDA¹ of approximately £0.70m in line with

market expectations (2021: £0.50m), and a return to overall profitability in the second half of the year. This resulted in a modest adjusted profit before tax¹ for the full year of £0.01m compared with a loss of £0.33m in 2021. Adjusted Earnings Per Share¹ amounted to 0.036 pence (2021: loss of 0.022 pence).

The Group generated cash from operations for the full year which, in addition to targeted recruitment also supported further capital expenditure investment of £0.66m (2021: £0.21m). Product innovation continues to be an essential strategic pillar, total investment in research expenses during the year was 10.3% of revenue. The closing net cash¹ balances of the Group stood at £0.99m at 31 December 2022 (31 December 2021: £1.76m), with available gross cash resources at 31 December 2022 of £3.20m (31 December 2021: £4.06m) including an undrawn invoice discounting facility of £1.0m.

1. Reconciliation to adjusted KPI measures included in the Operating and Financial Review

Strategy and Development

The Group specialises in the design, manufacture, sale and distribution of innovative, high quality medical products, primarily for use in minimally invasive surgery. We design and manufacture and source our branded port access systems, surgical instruments and retraction devices which are sold directly in the UK home market through our subsidiary, Elemental Healthcare, and exported widely through a global network of trusted distribution partners. Many of our products in this field are based on a “responsible” concept, in which the products are part re-usable, part disposable, offering a high quality and environmentally responsible solution at a cost that is competitive against fully disposable alternatives.

Elemental also has exclusive UK distribution for a select group of specialist products employed in laparoscopy, bariatric and metabolic surgery, hernia repair and breast reconstruction. In addition, we design and develop medical devices for carefully selected OEM partners and have also collaborated with a major UK industrial partner to provide precision engineering solutions to complex problems outside the medical arena.

We aim for our brands to be recognised and respected by healthcare professionals in all major geographical markets in which we operate. Through internal development, partnership or acquisition, we provide a broad portfolio of cost-effective, procedure-specific surgical instruments and implantable devices that offer reliable solutions to genuine clinical needs in the operating theatre environment.

The senior leadership team has carried out activities to clarify and focus our understanding of our vision, mission and strategic pillars in order to achieve our objectives. This strengthens the attainment of long-term sustainable growth and promotes the delivery of value to all stakeholders. Cultural values are important in propagating shared goals and behaviours of the business and as we move into 2023 there will be further updates on progress in this regard.

Regulatory and new product development

The Company has made significant advances to obtaining MDR approval with one of the three product categories already receiving certification along with the key Quality Management System (QMS), with another product group to be imminently approved. The QMS approval was vital to allow the Company to continue new product development and plans to launch a range of instruments to complement the Logi™ Responsible® portfolio are in place for Q4 2023. The decision by the EU to extend the transition time for MDR is only applicable for companies who are on the pathway for MDR and this further raises the barrier to entry for not only new entrants but also many existing medtech competitors.

In addition to the extension of the Logi™ Responsible™ portfolio there are a number of projects focused on improving both manufacturing efficiencies, expanding overall capacity and reducing costs. This initiative has

been enabled by the ongoing investment programme in plant and tooling. Further investment in manufacturing and regulatory is planned for the coming year, providing opportunities to further support the growth, improve the efficiencies, and overall enhance the profitability of the business.

Current trading and outlook

Whilst the backlog of patients requiring treatment in the UK continues to increase, standing at 7.2m in December 2022, sales remain strong. Revenue in the current year to date for SI brand and Distribution sales are 9.2% ahead of corresponding period last year and the future order book is looking positive going into Q2. There is a similar picture globally however the unique selling proposition of our product portfolio, which are high performing, sustainable and cost-effective solutions, leave us well placed to address this pent-up demand and make a positive impact on the environment.

The launch of the new YelloPort Elite™ 5mm in Q2 2022, designed in a collaboration with CMR Medical, alongside the introduction of the Optical trocar provides increased opportunity in USA, Japan and India where there is a significant requirement for an Optical 5mm trocar. The planned launch of the additions to the Logi™ range were delayed as a consequence of the MDR process and will now be launched later in the year. In addition, a number of cost down R&D projects will provide the opportunity for margin improvement throughout 2023 and into next year.

New geographical markets are providing some significant prospects for the forthcoming year. In India, where registration was obtained earlier this year, evaluations with key surgeons in a group of Delhi based hospitals are progressing well. A new partner in Germany has seen the conversion of a new account with further evaluations scheduled. In the US the partnership with Microline is seeing progress with a number of hospital conversions and again further evaluations are underway. The Company continues to work with key partners to strengthen the overall growth opportunities.

Given the multiple factors driving improved prospects for growth, the Board has increased confidence in not only the outlook for 2023 but also the longer-term growth trajectory for the Group.

Nigel Rogers
Non-Executive Chairman
28 March 2023

Operating and Financial Review

Operational overview

People

In the first half of the year there were challenges in retaining key skilled manufacturing personnel, with employee turnover at its highest level for a number of years, combined with the well publicised challenges of attracting new staff. To address these issues, the Company introduced a number of initiatives, with the trial implementation of a four-day working week which started at the beginning of August, being the most significant. The trial is supported by the UK pilot programme and has been carefully managed to ensure five-day continuity of service and support. The scheme is set to benefit from improved productivity levels from improved employee wellbeing. Efficiency initiatives are also being rolled out to ensure that the trial remains operationally effective. In addition, financial packages were increased to be comparable with market rates which have been exacerbated by the current inflationary pressures. Since the trial has started, there have been successful hires and employee turnover has lowered. The trial has been extended for a further two months and will be continually reviewed.

Supply chain

Supply chain disruptions continued throughout 2022 but have started to ease; lead times on materials and parts needed for new machinery have been lengthier than historical norms. As a consequence, this has impacted manufacturing efficiencies and delayed sales orders. Inventory holdings have remained at higher levels to alleviate the pressure. Investment in new skilled labour and plant and machinery have allowed some of the manufacturing processes to be brought back in house which will improve both efficiency and capacity. The supply chain and people challenges remain but are under better control and it is anticipated that these obstacles will gradually recede through 2023.

Regulatory

The regulatory pathway continues to be on track with the EU Medical Device Regulation (MDR), and additional resource towards the end of the year has been brought in to support the process. In August, the Company successfully completed a quality management system (QMS) audit. The regulatory environment continues to be fluid, including a recent change to the deadlines for most of the Company's competitors to achieve certification under MDR from 2024 until 2028. The Company has, however, been quicker to adapt to the changing landscape and remains well placed to achieve MDR during 2023.

Financial overview

Revenue

The board reviews the revenue in terms of year-on-year growth and with reference to the 2019 financial year as a pre-pandemic comparative period, which provides a measure of the revenue recovery since the effects of Covid-19 on the Company's operating markets.

The Group recorded strong revenue growth in 2022, increasing by 24.3% to £11.34m. This compares with the full year revenues of £9.1m in 2021, £6.3m in 2020 and £10.7m in 2019 as a pre-pandemic comparative.

Revenues from the sale of Surgical Innovations Brand (SI Brand) products increased by 15.6% to £5.56m (2021: £4.81m) and recovered to 95.2% of pre-pandemic levels (2019: £5.84m).

Distribution sales represent third party products that complement the portfolio of manufactured products. This segment represents 37.2% of the revenue for 2022 (2021: 34.1%, 2019: 28.9%). This represents growth of 30.2% compared to 2019.

The UK distribution sales had a strong finish to the year £4.04m (2021: £3.12m) with sales up 13.1% in the second half of the year (2022H1: £1.90m, 2022H2: £2.15m).

The robust revenue growth in the second half of the year was predominantly UK led. New hospital conversions were underpinned by the Company's sustainability strategy and led to annual sales for the UK (excluding OEM) which at £5.72m were up 30% (2021: £4.42m) and 20% above pre-pandemic levels (2019: £4.72m).

The more pronounced level of sales growth seen in the second half has continued into the current year, with new business wins contributing to year-on-year growth.

OEM sales grew overall to £1.73m, up 45% (2021: £1.20m) and are now very close to pre-pandemic levels (2019: £1.79m). The underlying drivers of growth have been an expansion of both new and existing relationships.

SI brand revenues for Europe were up 28% to £1.38m (2021: £1.08m) and were 7.4% ahead of those achieved in 2019. Investment in supporting the dealer network has improved distributor relations helping them to grow their territories.

Revenues from the US (excluding OEM) are slightly down year-on-year to £1.24m (2021: £1.33m) and are not yet back to the level seen in 2019 (£1.85m). Restricted hospital access affected evaluations at the beginning of the year with increases in US activity in the second half of the year.

Further investment into supporting the dealer network through additional sales training, and the new product launches will improve the revenue growth in 2023.

The APAC region continues to generate strong revenue growth to £0.93m, a 24.6% increase on 2022 (2021 £0.74m) and surpassing levels seen in 2019 (2019: £0.46m). We continue to work closely with our Japanese distributor as they gain market share. The focus on sustainability continues to gain traction here also, initial stocking orders have been placed for launching the Logic reusable instrument range.

Margins

Commercial or underlying margins remained within target range at 42.5%, a reduction from the reported numbers in the first half of the year (2022H1: 45.3%). A review was undertaken to analyse the overhead absorption rate. As operating expenses have increased with inflationary pressures the overhead rate has been uplifted reflecting this cost pressure. In addition, pressures from material suppliers continue and both are mitigated and passed on where possible.

The reported gross margin of 34.6% (2021: 34.3%) which includes the net cost of manufacturing, reflects the operational challenges the business has experienced over the course of the year, shortage of skilled labour and extended supply chain lead times on both material and new plant and equipment have hampered manufacturing productivity and therefore costs were under-recovered.

Analysis of gross margin

The Group has disaggregated margins in the following table:

	2022	2021
	£'000	£'000
Revenue	11,340	9,126
Cost of Sales	(6,525)	(5,268)
Underlying Gross Margin	4,815	3,858
Underlying Gross Margin %	42.5%	42.3%
Net Cost of Manufacturing ²	(893)	(727)
Contribution Margin	3,922	3,131
Contribution Margin %	34.6%	34.3%

2. Underlying net cost of manufacturing with the Government support of the CJRS scheme of £2,000 in 2021 allocated in other income added back to adjust the net costs of Manufacturing to £725,000 results in an underlying contribution margin of 34.33%.

Use of adjusted measures

Adjusted KPIs are used by the Board to understand underlying performance and exclude items which distort comparability, as well as being consistent with broker forecasts and measures. The method of adjustments are consistently applied but are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate.

Adjusted EBITDA

Adjusted EBITDA is a measure of the business performance. The Group uses this as a proxy for understanding the underlying performance of the Group. This measure also excludes the items that distort comparability including the charge for share-based payments as this is a non-cash expense normally excluded from market forecasts.

Adjusted EBITDA increased in 2022 to £0.70m due to the increased sales activity and was in line with expectations (2021: £0.50m).

Operating expenses increased to £3.88m (2021: £3.61m) predominately due to the increased investment into sales and marketing to drive the sales activity and regulatory heads to undertake the challenges with the MDR (Medical Device Regulation) transition. Inflationary pressures and the ability to attract and retain key employees also affected the incremental overheads throughout 2022 as the Group aligned with market rates and compensation packages were reviewed accordingly.

Other expensed/non-recurring items relate to employee termination payments amounting to £32,000 (inclusive of NI and legal fees).

CAPEX Investment

Capital expenditure on tangible assets increased with the investment into improving the manufacturing facilities £0.12m as well as the capacity and capabilities, with a new Laser Welder, a financed Citizen L32 Lathe and an Injection Moulder, totaling £0.55m. Property, plant and equipment additions were £0.66m (2021: £0.21m) set against a depreciation charge of £0.17m excluding Right of use assets (2021: £0.26m).

In addition, there is continual investment into new tooling of £0.08m (included in additions above) with a further committed spend of £0.07m which will improve efficiencies in 2023.

The Group continues to review CAPEX plans and will continue to strengthen its investment plans in 2023, expected to be around £0.5m which is anticipated to include £0.08m of committed spend on deposits for larger items of plant and machinery due to be delivered in 2024 circa £0.5m for a replacement Grinder and an additional Lathe.

Investment into new product development has continued as part of the strategy and the Group successfully launched the YelloPort™ 5mm Elite and Optical Trocar during the year. Cash into development expenditure was £0.42m (2021: £0.45m). Development expenditure was tested for impairment, it was decided that the current projects all continue to provide economic benefit and therefore no impairment was recognised (2021: £0.15m).

In addition to the product launches the research and development team have played a pivotal role in the work undertaken for MDR which impacts the amount of time spent on capitalised projects and increases the cost of research expenses.

A review of the goodwill arising on the acquisition of Elemental Healthcare was tested for further impairment. The trading environment in the UK market was significantly impacted by the pandemic throughout 2020 and this continued into 2021, which impacted the cumulative impairment by £2.76m. In the second half of 2021 the UK market showed strong signs of recovery, and this has continued into 2022. With greater visibility on the outlook the Directors anticipate improved forecasting of future net inflows on this cash generating unit (CGU) and on this basis, the recoverable amount of the CGU exceeds its carrying value by £4.5m.

Inventory holdings remain at higher levels, increasing throughout the year by £0.20m to £3.16m (2021: £2.97m). Continued disruption in supply chain with extended lead times have compounded the need to retain higher Inventory levels. This level of holding will be frequently reviewed throughout 2023.

Trade receivables were higher at the year-end £1.76m (2021: £1.4m), affected by the increased revenue, with negligible bad debts or overdue balances. Trade creditors increased over the same period, which reflected the Group's optimisation of working capital (2022: £1.42m, 2021: £1.09m).

Net cash generated from operations was £0.49m (2021 used in: £0.43m) reflecting the improvement in the profitability of the business. The Group closed the year with net cash balances of £0.99m (excluding leases) compared with opening net cash of £1.76m. The movement being impacted by a combination of the increased investment activities £1.08m (2021: £0.66m) and refinancing of the bank borrowings £0.96m (2021: £0.53m).

In March 2022 the Board refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1.00m and in addition extended the CBILS loan of £1.5m to May 2026. The refinance provides greater flexibility than the existing debt and continues to provide ample headroom for the Group. Total bank borrowings as of 31 December 2022 were £1.21m, in addition £0.1m was used to purchase a new Lathe on a finance lease in early 2022. The Group continues to have access to the £1m invoice discounting facility which remains undrawn at the date of this announcement.

The Group recorded a corporation tax credit of £0.32m relating to an enhanced Research and Development claim in respect of 2020 and 2021 (2021: credit of £0.13 relating to 2019) and a deferred tax credit of £nil (2021: £nil). The tax charge on Elemental Healthcare this year has been relieved through Group losses. Overall, the Group continues to hold substantial tax losses on which it holds a cautious view, and consequently the Group has chosen not to recognise those losses fully.

Key Performance Indicators (“KPIs”)

The Group considers the key performance indicators of the business to be:

		2022	2021	Target Measure
Underlying Gross Profit Margin	<i>Gross profit (before net manufacturing cost)/ revenue</i>	42.5%	42.3%	>40%
Direct Gross Profit Margin	<i>Gross profit / revenue</i>	34.6%	34.3%	>40%
Net Cash/(Net Debt) ¹	<i>Cash less debt</i>	£0.99m	£1.76m	N/A

1. Net debt comprised of bank borrowings £1.21m (2021: £1.8m), excluding leases under the adoption of IFRS16.

Reconciliation of adjusted KPI / measures;

	EBITDA ²	Profit before taxation
As stated	£0.63m	£(0.06)m
Share based payments	£0.04m	£0.04m
Other expense/non-recurring items	£0.03m	£0.03m
Adjusted Measure	£ 0.70m	£ 0.01m

2. EBITDA is defined as earnings before interest, taxation, depreciation and amortisation (including impairment). EBITDA is calculated as operating profit of £0.04m adding back depreciation £0.36m, amortisation £0.23m and impairment £nil.

Earnings per share	EPS
Basic EPS	0.028p
<i>Profit attributable to shareholders</i>	<i>£0.26m</i>
Add: Share based payments	£0.04m
Add: other expense/non-recurring items	£0.03m
<i>Adjusted profit attributable to shareholders</i>	<i>£0.33m</i>
Adjusted EPS	0.036p

Principal risks and uncertainties

The management of the business and the nature of the Group's strategy are subject to a number of risks which the Directors seek to mitigate wherever possible. The principal risks are set out below.

Issue	Change vs. prior year	Risk and description	Mitigating actions
Funding risk	At same level	<p>The Group currently has a mixture of borrowings comprising a balance of £1.20m CBILS arrangement, a small finance lease of £0.1m to fund capex along with additional headroom of an undrawn £1.0m invoice discounting facility. The Group remains dependent upon the support of these funders and there is a risk that failure in particular to meet covenants attaching to the CBILS could have financial consequences for the Group.</p>	<p>Liquidity and covenant compliance is monitored carefully across varying time horizons to facilitate short term management and also strategic planning. This monitoring enables the management team to consider and to take appropriate actions within suitable time frames.</p> <p>In March 2022 the Board refinanced the existing debt including the additional undrawn revolving credit facility of £0.5m and replaced it with an invoice discounting facility of £1m and in addition extended the CBILS loan to May 2026. The refinance provides greater flexibility than the existing debt and continues to provide ample headroom for the Group. In aggregate total borrowing at 31 December 2022 was £1.31m (2021: £1.88m). The invoice discounting facility remains undrawn to date.</p> <p>The bank continue to be a supportive stakeholder.</p>
Shortage of skilled labour	Increased	<p>In the early part of the year the Group has struggled to attract and retain key skilled personnel.</p>	<p>The Board reviewed the compensation and other benefits throughout the year to ensure salaries were competitive to market rates.</p> <p>In addition, the Company joined the 4-day week UK trial in August 2022 for a period of 6- months. The Group has continued to extend this trial further in 2023.</p> <p>Overall, the additional package and benefits have allowed the business to attract key staff and continues to retain employees, with staff turnover rates decreasing.</p>

Customer concentration	At same level	The Group exports to over thirty countries and distributors around the world, but certain distributors are material to the financial performance and position of the Group. As disclosed in note 2 to the financial statements, one customer accounted for 8.2% of revenue in 2022 and the loss, failure or actions of this customer could have a severe impact on the Group.	The majority of distributors, including the most significant, are well established and their relationship with the Group spans many years. Credit levels and cash collection is closely monitored by management, and issues are quickly elevated both within the Group and with the distributor.
Foreign exchange risk	At same level	The Group's functional currency is UK Sterling; however, it makes significant purchases in Euros and US Dollars. The US Dollars and Euros are generally mitigated by US Dollar sales by creating a natural hedge.	The Group monitors currency exposures on an on-going basis and enters into forward currency arrangements where considered appropriate to mitigate the risk of material adverse movements in exchange rates impacting upon the business. Euro and US Dollar cash balances are monitored regularly and spot rate sales into sterling are conducted when significant currency deposits have accumulated. The accounting policy for foreign exchange is disclosed in accounting policy 1d in the Annual Report.
Regulatory approval	At same level	As an international business a significant proportion of the Group's products require registration from national or federal regulatory bodies prior to being offered for sale. The majority of our major product lines have FDA approval in the US and we are therefore subject to their audit and inspection of our manufacturing facilities. There is no guarantee that any product developed by the Group will obtain and maintain national registration or that the Group will always pass regulatory audit of its manufacturing processes. Failure to do so could have severe consequences upon the Group's ability to sell products in the relevant country. The Group has until March 2023 to transition the current product portfolio to fall under the Medical Device Regulations (MDR), currently held under Medical Device Directive (MDD). Time constraints of BSI the notified body are out of our control.	The Group has a dedicated Compliance department which assists product development teams with support as required to minimise the risk of regulatory approval not being obtained on new products and ensures that the Group operates processes and procedures necessary to maintain relevant regulatory approvals. Whilst there is no guarantee that this will be sufficient, the Group has invested in people with the appropriate experience and skills in this area which mitigates this risk significantly. We have increased resource into the regulatory team and continued throughout 2022 to ensure internal deadlines are met. MDR transitions are well underway, and we are actively working with our Notified Body regarding the extension to current MDD certificates recently approved by the EU.
Economic factors	Increased	Current wider economic factors are impacting inflationary rates. The cost of living across the UK during 2022 has increased sharply. The annual inflation reached 11.1% in October 2022, a 41 year high, before easing in subsequent months to 9.2% in February 2023. The pressures on employment costs, energy and raw materials have impacted the business and continue to do so in 2023. Supply chain delays in raw materials, finished goods and plant and equipment have impacted the business during 2022, this has eased in the second half of the year but has continued to impact the business albeit to a lesser extent in 2023.	As part of the recruitment and retention strategy the Group reviewed the market rates and compensated employees accordingly during 2022. Additional benefits have also been implemented; this will be continually reviewed throughout 2023. Energy bill have been less affected due to a fixed rate deal; however, this will come to end in July 2023. The Group are constantly reviewing the current tariffs. Energy rates are reducing but will be expected to be at least double the rate of the existing tariff. Raw material purchases are reviewed, and economies of scale are applied. Supply chain increases are passed on where possible to the customer. Margins are reviewed on a continual basis. Inventory levels remain high to mitigate the supply chain delays.

Going concern

The Directors have prepared forecasts for the period to March 2024 based on an evaluation of financial forecasts, sensitised to reflect a rational judgement of the level of inherent risk.

In March 2022 the Group refinanced the existing debt, this included the additional undrawn revolving credit facility of £0.5m. The debt was replaced with an invoice discounting facility of £1.0m and an extension of the CBILS loan of £1.5m repayable over four years till May 2026. The refinancing provides greater flexibility for further investment in terms of covenant testing than the prior debt and continues to provide ample headroom for the Group. (Covenant information is provided at disclosure note 13 to the financial statements in the Annual Report). Financial headroom as at 31 December 2022 was £3.2m with the invoice discounting facility remaining undrawn.

The Group continues investment in capital expenditure predominantly on plant and machinery circa £0.35m in the next twelve months. Decisions to take additional finance in the form of hire purchase or use of the existing debt to finance the projects will impact both the cash and the covenant testing and the decisions to utilise such funding will very much depend on the performance of the business.

The Board is satisfied that there is ample headroom including testing any sensitivities under reasonably possible scenarios, and the Directors conclude that it continues to be appropriate to prepare the Annual Report and Accounts on a going concern basis.

Consolidated statement of comprehensive income

for the year ended 31 December 2022

		2022	2021
		£'000	£'000
Revenue	2	11,340	9,126
Cost of sales	2	(7,418)	(5,995)
Gross profit		3,922	3,131
Other operating expenses	2	(3,881)	(3,611)
Other Income		-	25
Operating profit / (loss)		41	(455)
Finance costs		(98)	(130)
Finance income		-	-
Loss before taxation		(57)	(585)
Taxation credit		321	129
Profit/(Loss) and total comprehensive Income		264	(456)
Profit/(loss) per share, total and continuing			
Basic		0.03p	(0.05p)
Diluted	3	0.03p	(0.05p)

The Consolidated statement of comprehensive income above relates to continuing operations.

Profit/(Loss) and total comprehensive income relate wholly to the owners of the parent Company.

Consolidated statement of changes in equity

for the year ended 31 December 2022

	Share capital £'000	Share premium £'000	Capital reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance as at 1 January 2021	9,328	6,587	329	1,250	(6,404)	11,090
Share based payment	-	-	-	-	30	30
Total – transactions with owners	-	-	-	-	30	30
Loss and total comprehensive income for the period	-	-	-	-	(456)	(456)
Balance as at 31 December 2021	9,328	6,587	329	1,250	(6,830)	10,664
Share based payment	-	-	-	-	35	35
Total – transactions with owners	-	-	-	-	35	35
Profit and total comprehensive income for the period	-	-	-	-	264	264
Balance as at 31 December 2022	9,328	6,587	329	1,250	(6,531)	10,963

Consolidated balance sheet

at 31 December 2022

	2022 £'000	2021 £'000
Assets		
Non-current assets		
Property, plant and equipment	858	366
Right of use assets	918	832
Intangible assets	4	6,216
	8,179	7,414
Current assets		
Inventories	3,162	2,965
Trade and other receivables	2,055	1,695
Cash at bank and in hand	2,199	3,644
	7,416	8,304
Total assets	15,595	15,718
Equity and liabilities		
Equity attributable to equity holders of the parent company		
Share capital	7	9,328
Share premium account		6,587
Capital reserve		329
Merger reserve		1,250
Retained earnings		(6,830)
Total equity		10,963
Non-current liabilities		
Borrowings	5	825
Dilapidation provision		165
Lease liability		750
	1,712	915
Current liabilities		
Trade and other payables	6	1,886
Accruals		420
Borrowings		382
Lease liability		232
	2,920	4,139
Total liabilities		4,632
Total equity and liabilities	15,595	15,718

Consolidated cash flow statement

for the year ended 31 December 2022

	2022	2021
	£'000	£'000
Cash flows from operating activities		
Profit/(Loss) after tax for the year	264	(456)
Adjustments for:		
Taxation	(321)	(129)
Finance income	-	-
Finance costs	98	130
Other Income-CBILS interest grant	-	(23)
Depreciation of property, plant and equipment	167	258
Amortisation and impairment of intangible assets	4 232	402
Depreciation Right of Use assets	188	187
Share-based payment charge	35	30
Foreign exchange	(82)	12
Increase in inventories	(197)	(802)
Increase in trade and other receivables	(360)	(412)
Increase in payables	6 204	276
Cash generated/ (used in) from operations	228	(527)
Taxation received	321	129
Interest paid	(63)	(35)
Net cash generated/ (used in) from operating activities	486	(433)
Payments to acquire property, plant and equipment	(659)	(212)
Acquisition of intangible assets	(419)	(445)
Net cash used in investing activities	(1,078)	(657)
Repayment of bank loan	(375)	(300)
Repayment of CBILS	5 (294)	-
Repayment of lease liabilities	(266)	(232)
Net cash used in financing activities	(935)	(532)
Net decrease in cash and cash equivalents	(1,527)	(1,622)
Cash and cash equivalents at beginning of year	3,644	5,278
Effective exchange rate fluctuations on cash held	82	(12)
Cash and cash equivalents at end of year	2,199	3,644

Notes to the consolidated financial statements

1. Group accounting policies under IFRS

(a) Basis of preparation

Surgical Innovations Group PLC (the “Company”) is a public AIM listed company incorporated, domiciled and registered in England in the UK. The registered number is 02298163 and the registered address is Clayton Wood House, 6 Clayton Wood Bank, Leeds, LS16 6QZ.

The consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and UK-adopted international accounting standards. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The financial statements have been prepared under the historical cost convention, are presented in Sterling and are rounded to the nearest thousand.

Going concern

The Directors have considered the available cash resources of the Group and its current forecasts and have a reasonable expectation that the Group has adequate cash resources and support to continue in operational existence for the foreseeable future, considered to be at least 12 months for the date of approval from the financial statements. Further details of the Directors’ assessment are provided in the Chairman’s Statement, the Operating and Financial Review and Directors’ report and disclosed in note 1.(p) of the financial statements in the Annual Report.

2. Segmental reporting

Information reported to the Board, as Chief Operating Decision Makers, and for the purpose of assessing performance and making investment decisions is organised into three operating segments. The Group’s operating segments under IFRS 8 are as follows:

- | | | |
|--------------|---|--|
| SI Brand | – | the research, development, manufacture and distribution of SI branded minimally invasive devices |
| OEM | – | the research, development, manufacture and distribution of minimally invasive devices for third medical device companies through either own label or co-branding. As well as Precision Engineering, this includes the research, development, manufacture and sale of minimally invasive technology products for precision engineering applications |
| Distribution | - | Distribution of specialist medical products sold through Elemental Healthcare Ltd |

The measure of profit or loss for each reportable segment is gross margin less amortisation of product development costs. Assets and working capital are monitored on a Group basis, with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided here. The following segmental analysis has been produced to provide a reconciliation between the information used by the chief operating decision maker within the business and the information as it is presented under IFRS.

Year ended 31 December 2022	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	5,557	4,044	1,739	11,340
Expenses	(4,223)	(2,410)	(1,017)	(7,650)
Result				
Segment result	1,334	1,634	722	3,690
Unallocated expenses				(3,649)
Other Income				-
Profit from operations				41
Finance income				-
Finance costs				(98)
(Loss) before taxation				(57)
Tax credit				321

*There were no revenues transactions between the segments during the year

Included within the segment/operating results are the following significant non-cash items:

Year ended 31 December 2022	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	232	-	-	232
Impairment of intangible assets	-	-	-	-

Unallocated expenses for 2022 include sales and marketing costs (£577,000), research and development costs (£1,164,000), central overheads (£745,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,096,000), share based payments (£35,000), Other expensed/Non recurring (£32,000) note 3 to the financial statements in the Annual Report and Accounts.

Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total* £'000
Revenue	4,813	3,116	1,197	9,126
Expenses	(3,770)	(1,837)	(790)	(6,397)
Result				
Segment result	1,043	1,279	407	2,729
Unallocated expenses				(3,209)
Other income				25
(Loss) from operations				(455)
Finance income				-
Finance costs				(130)
(Loss) before taxation				(585)
Tax charge				129
(Loss) for the year				(456)

*There were no revenues transactions between the segments during the year

Included within the segment results are the following items:

Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
Amortisation of intangible assets	257	-	-	257
Impairment of intangible assets	145	-	-	145

Unallocated expenses for 2021 include sales and marketing costs (£246,000), research and development costs (£973,000), central overheads (£797,000), Direct (Elemental Healthcare) sales & marketing overheads (£1,085,000), share based payments (£30,000), Other expenses/non-recurring (£78,000) are as set out in Note 3 of the notes to the financial statements in the Annual Report and Accounts.

Disaggregation of revenue

Year ended 31 December 2022	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,683	4,044	1,315	7,042
Europe	1,377	-	-	1,377
US	1,240	-	424	1,664
APAC ¹	926	-	-	926
Rest of World	331	-	-	331
	5,557	4,044	1,739	11,340

Year ended 31 December 2021	SI Brand £'000	Distribution £'000	OEM £'000	Total £'000
United Kingdom	1,306	3,116	1,008	5,430
Europe	1,075	-	-	1,075
US	1,333	-	189	1,522
APAC ¹	743	-	-	743
Rest of World	356	-	-	356
	4,813	3,116	1,197	9,126

The Group has disaggregated revenues in the following table:

1. Asia-Pacific

Revenues are allocated geographically on the basis of where revenues were received from and not from the ultimate final destination of use. During 2022 £933,000 (8.2%) of the Group's revenue depended on one distributor in the OEM segment (2021: £901,000 (9.9%)), and £921,000 (8.1%) in the SI Brand segment (2021: £1,050,000 (11.5%)).

Sales of goods were £11,306,000 (2021: £9,062,000) and sales relating to services in the UK were £34,000 (2021: £64,000).

3. Earnings per ordinary share

Basic profit/(loss) per ordinary share

The calculation of basic earnings per ordinary share for the year ended 31 December 2022 was based upon the profit attributable to ordinary shareholders of £264,000 (2021: loss of £456,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2022 of 932,816,177 (2021: 936,564,122).

Diluted profit/(loss) per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31 December 2022 was based upon the profit attributable to ordinary shareholders of £264,000 (2021: loss of £456,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2022 of 935,945,943 (2021: 938,784,384).

Adjusted profit/(loss) per ordinary share

The calculation of adjusted earnings per ordinary share for the year ended 31 December 2022 was based upon the adjusted profit attributable to ordinary shareholders (profit before non-recurring costs and amortisation and impairment costs relating to the acquisition of Elemental Healthcare, impairment of capitalised development costs and share based payments) of £331,000 (2021: loss of £203,000) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2022 of 932,816,177 (2021: 936,564,122).

No. of shares used in calculation of earnings per ordinary share ('000s)

	2022 No. of Shares	2021 No. of Shares
Basic earnings per share	932,816	936,564
Dilutive effect of unexercised share options	3,129	2,220
Diluted earnings per share	935,945	938,784

4. Intangible assets	Capitalised development costs	Single use product knowledge transfer	Goodwill	Exclusive Supplier Agreements	Total
	£'000	£,000	£'000	£'000	£'000
Cost					
At 1 January 2021	13,702	225	8,180	1,799	23,906
Additions	445	-	-	-	445
At 1 January 2022	14,147	225	8,180	1,799	24,351
Additions	-	-	-	-	419
At 31 December 2022	14,566	225	8,180	1,799	24,770
Accumulated amortisation					
At 1 January 2021	(12,952)	(225)	(2,757)	(1,799)	(17,733)
Charge for the year	(257)	-	-	-	(257)
Impairment provision*	(145)	-	-	-	(145)
At 1 January 2022	(13,354)	(225)	(2,757)	(1,799)	(18,135)
Charge for the year	(232)	-	-	-	(232)
Impairment provision*	-	-	-	-	-
At 31 December 2022	(13,586)	(225)	(2,757)	(1,799)	(18,367)
Carrying amount					
At 31 December 2022	980	-	5,423	-	6,403
At 31 December 2021	793	-	5,423	-	6,216
At 1 January 2021	750	-	5,423	-	6,173

Goodwill and intangibles are allocated to the cash generating unit (CGU) that is expected to benefit from the use of the asset.

Capitalised development costs

Capitalised development costs represent expenditure incurred in developing new products that fulfil the requirements met for capitalisation as set out in paragraph 57 of IAS38. These costs are amortised over the future commercial life of the product, commencing on the sale of the first commercial item, up to a maximum product life cycle of ten years, and taking account of expected market conditions and penetration.

Capitalised development expenditure was tested for impairment, it was decided that the current projects all continue to provide future economic benefit and therefore no impairment was recognised (2021: £0.15m).

Goodwill

The Group tests goodwill at each reporting date for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount of a cash generating unit (CGU) is determined based on value in use calculations. These calculations use cash flow projections based on five-year financial budgets approved by management. Cash flows beyond the five-year period are extrapolated using estimated long term growth rates.

An impairment review is carried out annually for goodwill. Goodwill arose on the acquisition of Elemental Healthcare Limited in 2017 and is related to both the Distribution and SI Brand segments of the Group. Elemental Healthcare

Limited is considered to be a separate cash-generating unit (CGU) of the Group whose recoverable amount has been calculated on a value in use basis by reference to discounted future cash flows over a five-year period plus a terminal value. Principal assumptions underlying this calculation are the growth rate into perpetuity of 1.5% (2021:1.5%) and a pre-tax discount rate of 15.7% (2021:13.2%) applied to anticipated cash flows. In addition, the value in use calculation assumes a gross profit margin of 43.3% (2021:39.5%) using past experience of sales made and future sales that were expected at the reporting date based on anticipated market conditions.

The trading environment in the UK market was significantly impacted by the pandemic throughout 2020 and this continued into 2021, which impacted the cumulative impairment by £2.7m. In the second half of 2021 the UK market showed strong signs of recovery and this has continued into 2022. With greater visibility on the outlook the directors anticipate improved forecasting of future net inflows on this CGU and on this basis, the recoverable amount of the CGU exceeds its carrying value by £4.5m.

5. Borrowings

	2022 £'000	2021 £'000
Bank Loan		
Current liabilities	382	1,880
Non-current liabilities	825	-
Lease liabilities		
Current liabilities	232	157
Non-current liabilities	722	750
	2,161	2,787

In March 2022, the Group refinanced its existing debt with Yorkshire bank consisting of the following:

- Extension to the CBILS of £1.5m repayable in May 2026, interest is calculated at rate of 2.94% repayable monthly over the Bank of England base rate. Monthly installments are £0.029m.
- Covenants attached to the CBILS comprise of EBITDA to debt servicing costs at a minimum of 1.25x. First test 30 June 2022 (last 6 months), then September 22 (9 months), then rolling 12-month basis afterwards.
- Additional headroom with an Invoice Discounting facility of £1.0m across the Group, which replaced loan A and the RCF; 2.5% on margin with a maximum of nominal administration fee of a maximum of £0.018m if not utilised. As at the date of this announcement this facility remains undrawn.

Changes in liabilities arising from financing activities	Non-current loans and borrowings	Current loans and borrowings	Total
At 1 January 2021	1,879	298	2,177
Cash flows	-	(350)	(350)
Transfer between non-current and current	(1,879)	1,879	-
Interest accruing in the period	-	53	53
At 31 December 2021	-	1,880	1,880
Cash flows for repayment of bank loan	-	(304)	(304)
Cash flows for refinance-CBILS	-	(294)	(294)
Transfer between non-current and current	825	(825)	-
Interest paid in the period	-	(57)	(57)
Interest accrued in the period	-	(18)	(18)
At 31 December 2022	825	382	1,207

6.Trade and other payables	2022	2021
	£'000	£'000
Trade payables	1,420	1,090
Other tax and social security	172	230
Other payables	294	294
	1,886	1,614

The Group and Company's financial liabilities have contractual maturities (including interest payments where applicable) which are summarised below.

As at 31 December 2022	Amounts due in	Amounts due in	Amounts due in	Total financial liabilities £'000
	Less than 1 year £'000	2-5 years £'000	5-10 years £'000	
Trade payables	1,420	-	-	1,420
Other payables	294	-	-	294
Bank borrowings-Current	382	-	-	382
Bank borrowings-Non-current	-	825	-	825
	2,096	825	-	2,921

As at 31 December 2021	Amounts due in	Amounts due in	Amounts due in	Total financial liabilities £'000
	Less than 1 year £'000	2-5 years £'000	5-10 years £'000	
Trade payables	1,090	-	-	1,090
Other payables	294	-	-	294
Bank borrowings-Current	1,904	-	-	1,904
Bank borrowings-Non-current	-	-	-	-
	3,288	-	-	3,288

7. Share Capital

Shares in issue reconciliation (Authorised, allotted, called up and fully paid)

	2022	2021
Opening no of shares in issue	932,816,177	932,816,177
Issued in satisfaction of share options exercised	-	-
Closing number of shares in issue	932,816,177	932,816,177