

Surgical Innovations

Interim Results

Six months ended 30 June 2019

David Marsh – CEO

Charmaine Day – Co Sec/GFC

Introduction

Results reflect challenging environment

Maintained/grew market share in key territories

Improved gross margins

Strengthened management structure & team

Progress on NPI despite regulatory hurdles

Well positioned as markets improve



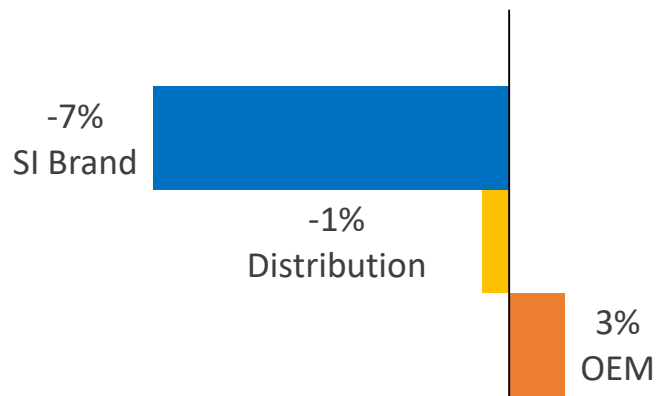
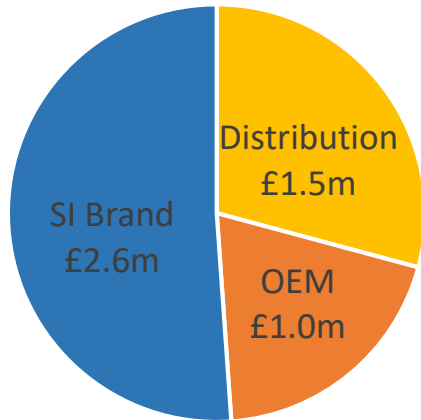
Financial highlights-Income statement

- Revenues of £5.10m (2018H1: £5.28m) -3% down overall
- Gross margin up by 4.1% to 43.1% (2018H1: 39.0%) due to manufacturing efficiencies
- Adjusted EBITDA of £0.65m (2018H1: £0.93m)-reduced by 30% due to increased spend on Ops and RA/QA
- Adjusted operating profit of £0.22m (2018H1: £0.42m)
- Adjusted earnings per share of 0.02p (2018H1: 0.05p)-down by 60%

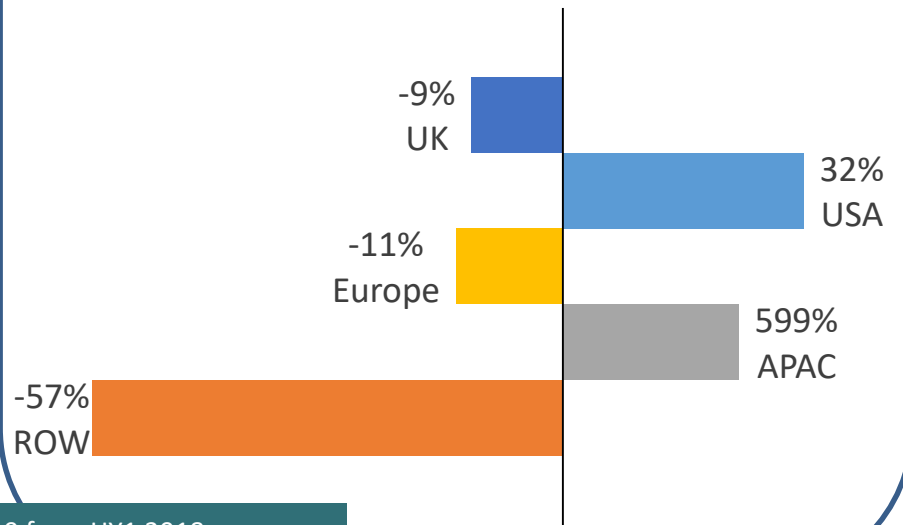
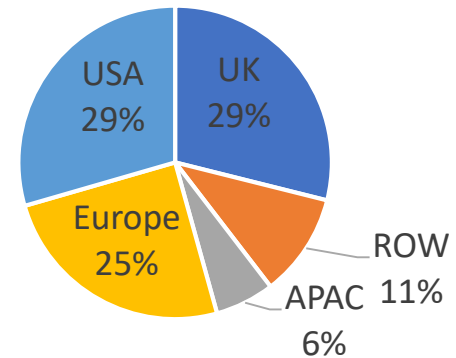
With reference to Appendix I

Segmentation

By Product/Market



By Geography - SI Brand



Comparing HY1 2019 from HY1 2018

Financial Position

	2019H1 £m	2018 £m	2018H1 £m
Tangible fixed assets	0.81	0.93	1.14
Intangible assets	10.05	10.19	10.72
Total non-current assets	10.86	11.12	11.86
Inventories	2.66	2.08	1.97
Trade receivables	2.45	2.58	1.77
Other current assets	0.15	0.46	0.36
Trade & other payables	(1.44)	(1.55)	(1.13)
Accruals & deferred income	(0.69)	(0.64)	(0.86)
Total working capital	3.13	2.93	2.11
Cash & equivalents	2.30	2.49	2.30
Bank borrowings	(1.96)	(2.11)	(2.27)
Finance lease obligations	-	-	(0.01)
Total net cash	0.34	0.38	0.02
Other	(0.05)	(0.01)	(0.08)
Net assets/total equity	14.28	14.42	13.91

Increased inventories reflect Brexit contingencies

Slight increase in working capital, managed reduction in H2

Maintained net cash position at period end with significant headroom on bank facilities

Cashflow

	2019H1 £m	2018H1 £m	2018 £m
Cash flows from operating activities			
Operating profit	(0.24)	0.14	0.62
Depreciation & amortisation	0.52	0.74	1.62
Other	0.19	0.37	0.15
Working Capital	(0.22)	(0.22)	(0.59)
Cash generated from operations	0.25	1.03	1.81
Taxation received / (paid)	-	0.04	(0.07)
Interest paid (net)	(0.04)	(0.05)	(0.09)
Net cash generated from operations	0.21	1.02	1.65
Cash flows from investing activities	(0.25)	(0.26)	(0.49)
Capex on tangible FA	(0.09)	(0.06)	(0.09)
Capitalised development costs	(0.16)	(0.20)	(0.40)
Cash flows from financing activities	(0.15)	(0.16)	(0.33)
Issue of equity	0.13	-	-
Bank loans	(0.15)	(0.15)	(0.32)
Repayment of lease obligations/other	(0.13)	(0.01)	(0.01)
Net change in cash & equivalents	(0.19)	0.60	0.83
Net cash	0.34	0.02	0.38

Generated net cash from operations despite reporting small loss overall

Net investment in working capital of £0.22m

Net interest cost of £0.04m. Bank loans not prepaid to maintain maximum flexibility

Capex less than 50% of depreciation/ amortisation

Market Environment - UK

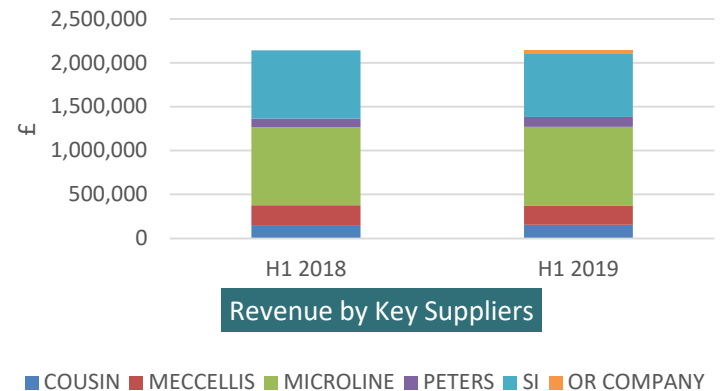
UK Market remains challenging given the NHS funding issues

BMA report increased NHS waiting lists and cancellations

Increased backlog of unresolved cases will need to be addressed

New business wins but overall NHS volumes subdued

Outlook, significant pent up demand, timing uncertain

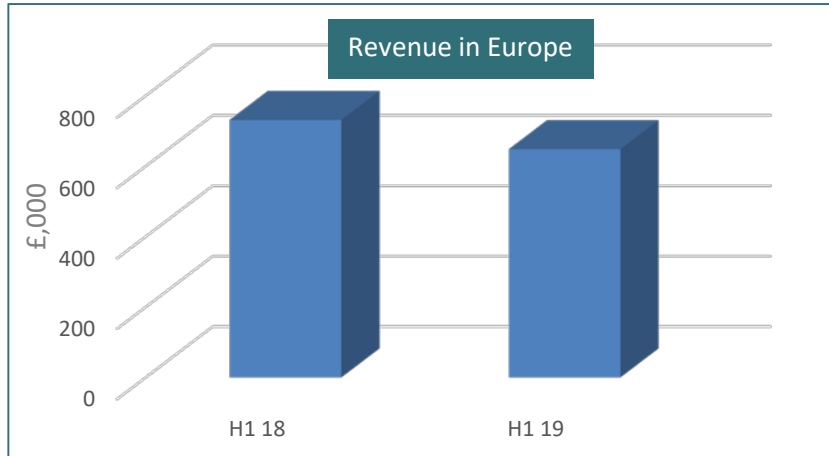


Patients Awaiting Treatment



"NHS Pressures – Winter 2018/19 A hidden crisis" BMA

Market Environment - Europe



Visibility clouded by Brexit disruption

Environmental lobby aiding case for Resposables

Upgrading YelloPort to Yelloport Elite

New products required, but delayed by increased regulatory requirements

Outlook, flat to slow

Fully disposable alternatives generate 350%* more waste than YelloPort Elite™



Market Environment - USA

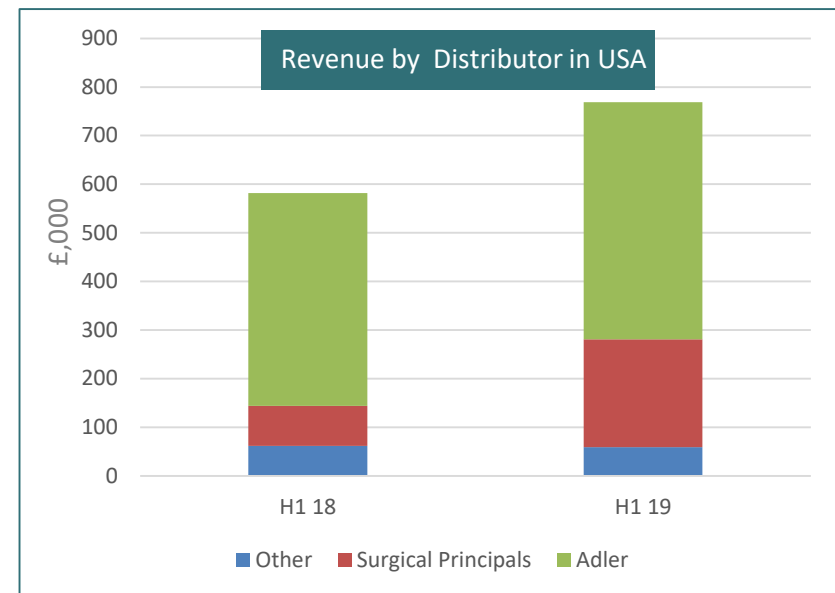
Significant growth in sales of Key Products

Competitiveness aided by price support & FX

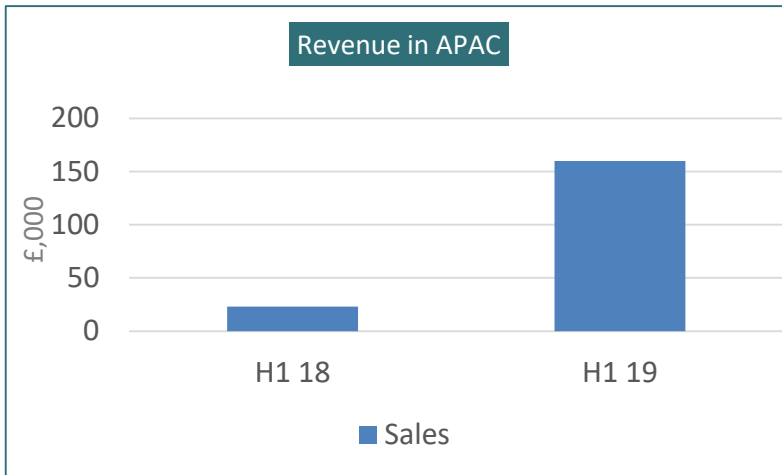
Further gains expected in H2

YelloPort Elite now FDA approved for Q4 launch

Outlook, strong growth



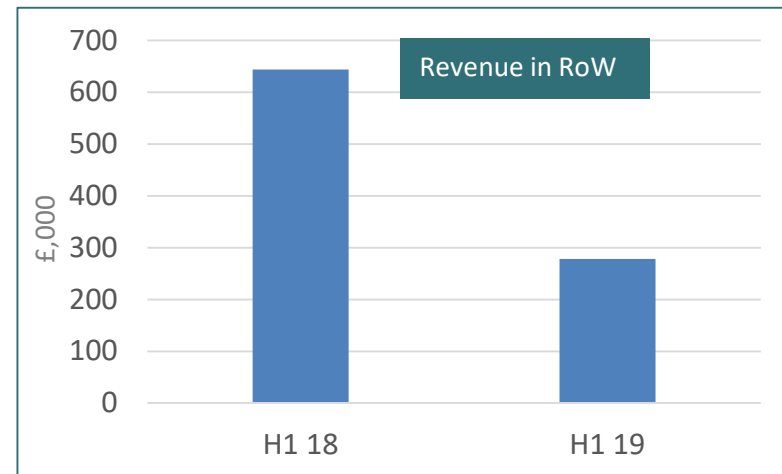
Market Environment – APAC & RoW



APAC
Direct relationship in Japan progressing well

Outlook, Strong Growth going into 2020

- RoW**
- Tender based business
 - Registration delays
 - New markets opened in S. Africa, with Russia to follow
 - Outlook, good recovery and growth



OEM Partnerships - Medical

AMS

Fix8 – SI designed and IP owned device for Mesh Fixation in Laparoscopic Hernia repair



Gyrus/Olympus

SORD – SI designed device for securing the position of the uterus in Total Laparoscopic Hysterectomy (TLH)



OEM Partnerships - Industrial

Industrial – Aerospace



*Example of flex technology
incorporated in design for
Aerospace Engine Inspection*



Continuous Improvement & QA/RA



Heavy H1 audit workload

- Recertified to ISO13485: 2016 and ISO9001: 2015
- Certified to MDSAP
- YelloPort Elite FDA approval

MDD to MDR transition progressing well

Increased investment in QA/RA to support increased regulation

Identifying opportunities to simplify processes and methods

Targeting faster time to market, lower unit costs

Innovation

Line extensions to Elite & Distribution ranges

Progress with DistalMotion on Dexter (robotics)

Progress with Meccellis on relaunch of AWR and Breast Pocket



M&A Activity

Ongoing Target Acquisition Program

Assessing a Number of Potential Opportunities

Summary

Continued close alliances with key distributors, manufacturers & OEM partners

Investing in RA/QA, operations and new products

Anticipate steady improvements in H2 and 2020

Committed to strategic objectives and well positioned

Appendix I-Income statement

	2019H1 £m	2018H1 £m	FY2018 £m
Revenue	5.10	5.28	10.97
Cost of sales	(2.90)	(3.22)	(6.30)
Gross profit	2.20	2.06	4.67
Other operating expenses	(2.44)	(2.08)	(4.33)
Other Income	-	0.15	0.28
Adjusted EBITDA	0.65	0.93	2.36
Amortisation ROU Assets	(0.09)	-	-
Amortisation of intangible R&D costs	(0.13)	(0.27)	(0.35)
Depreciation of tangible assets	(0.21)	(0.25)	(0.48)
Adjusted operating profit	0.22	0.41	1.53
Exceptional items	(0.18)	-	-
Amortisation of intangible acquisition costs	(0.18)	(0.22)	(0.79)
Share based payments	(0.10)	(0.06)	(0.12)
Operating (loss)/profit	(0.24)	0.13	0.62
Net finance costs	(0.09)	(0.04)	(0.11)
(Loss)/profit before taxation	(0.33)	0.09	0.52
Taxation credit	0.03	0.04	0.21
(Loss)/profit attributable to shareholders	(0.30)	0.13	0.73
Adjusted EPS (adj for acquisition related costs)	0.02p	0.05p	0.21p