

Surgical Innovations Group plc (AIM: SUN), a leading creator of innovative medical technology addressing unmet clinical needs in minimally invasive surgery, today announces its preliminary results for the financial year ended 31 December 2013.

### **Summary**

- Revenue of £8.55 million (2012: £7.64 million), a 12% increase against the previous year
- Revenue of SI branded products increased by 22% to £6.50 million (2012: £5.33 million), driven by the demand for the Group's Resposable® technology
- 73% increase in revenue to the US of SI branded products, through multiple new routes to market
- Significant investment in manufacturing and revenue infrastructure to support the US market and related uplift in demand
- Adjusted EBITDA of £2.51 million (2012: £2.89 million) was impacted by the introduction of improved manufacturing processes and currency fluctuations
- Basic earnings per share increased to 0.20p (2012: 0.17p)
- SI continues to be at the forefront of 3mm 'Ultra' MIS as it becomes a globally accepted technique
- Further progress on development of world-class clinical training facility underpinned by Regional Growth Fund (RGF) award of £5.05 million

Doug Liversidge, Non-executive Chairman, commented: "During the period the Group has driven revenue in the US, vindicating the Board's investment into this market. Being the principal consumer of medical devices in the world, the US offers real opportunities for SI both in terms of revenue and brand recognition. The Board believes that the Group is now well placed to develop its revenue channels both in the UK and internationally, particularly capitalising on the demand from the US.

"Ultra MIS creates an opportunity for the Group to develop a unique clinical proposition. The Board is confident that this strategy will result in future growth in revenues and looks forward with confidence."

### **Results and operating review**

We are pleased to report that, following strategic investment into the Group's revenue channels in the US, there has been an increased exposure to the SI Branded product offering, which has underpinned the overall 12% increase in Group revenue to £8.55 million (2012: £7.64 million). The appointment of Rick Barnett, President of US Sales and Operations, as reported previously, has driven this growth and the Board is encouraged by the further opportunities that this market offers SI. Overall there has been an increase in the demand for the Group's Resposable® technology as SI branded product revenues have grown by 22%. The growth in revenue of consumable elements reflects an important measure of our performance worldwide.

As previously announced, due to the considerable demand for the Group's products and the step change in manufacturing volumes in the final quarter of 2013, the Group experienced

difficulties in delivering the quantities required. Significant management time was invested in resolving these issues and the Board is pleased to report that new improved production processes have now been introduced. Following this investment, output capabilities are improving, whilst maintaining the exacting standards required for medical devices. Underpinning this is the recent appointment of Richard Tattersall as Director of Manufacturing. Richard brings with him a wealth of experience and knowledge within large-scale manufacturing that is already proving invaluable to our manufacturing and planning operations.

The Group's profitability was adversely affected by the combined effect of the US Dollar exchange rate in the final quarter of 2013 and the necessary improvements in manufacturing operations designed to streamline and improve process flows of individual product lines, in particular to support the 73% growth in US revenues. As a result, operational capacity was initially reduced, inevitably impacting on manufacturing contribution to profitability, before being re-established at the end of the year to deal with the order backlog. These changes in the product processes initially resulted in higher than anticipated levels of material wastage, but subsequently, following the validation of production lines, substantial improvements are now evident.

The consequence of the above is overall lower Group profitability than expected, with an adjusted EBITDA (excluding exceptional items) for the year ended 31 December 2013 of £2.51 million (2012: £2.89 million). Retained profit for the year was £800,000 (2012: £686,000) and basic earnings per share was 0.20p (2012: 0.17p).

The bank overdraft position at the year-end was £2.58 million (2012: £1.41 million). Since the year end, the Board has successfully concluded a refinancing of bank facilities providing the necessary working capital headroom for the foreseeable future.

## **Strategy**

The core strategy of the Group is to deliver sustained growth of SI branded products within the MIS clinical space, and, at present, revenues are purely derived from the specific area of laparoscopic surgery. The secondary OEM segment of the business provides a revenue stream from devices again targeted at laparoscopic surgery. Importantly, these instruments, although third party branded, have intellectual property and manufacturing "know-how" under SI ownership and control.

Laparoscopic surgery is the strategic focus of the business, in both the SI Brand and OEM segments. Within this environment SI has traditionally developed and manufactured devices to address access, manipulation and retraction into and within the abdominal cavity. Current surgical techniques command specific diameter instrumentation of 12mm, 10mm and 5mm. There has been a logical progression towards smaller sizes and, being appreciative of Clinical Advisory Board (CAB) input, the Group is committed to the development of 3mm laparoscopic surgery, "Ultra MIS". In order to convert the vast majority of laparoscopic procedures to this clinical technique, SI intends to promote a complete range of 3mm devices. The Group is now committed to an internal development programme and, importantly, a "buying in of technology" approach, through OEM / licence opportunities that will together deliver these surgical requirements.

The Group's objective is to deliver the overall core strategy of growth in SI Branded products by developing a unique and dominant position within 3mm laparoscopic surgery.

Our philosophy of providing cost-effective, quality instrumentation remains a key component of our value-added proposition to hospital procurement managers worldwide. Our aim is, wherever possible, the development of Resposable® devices, which consistently provide cost savings against mainstream disposable alternatives.

The Group has substantially invested in the creation of a US infrastructure that will support this campaign towards Ultra MIS, and in Europe key distributors have been identified to raise its profile. Clinical endorsement and support will be achieved through the ongoing expansion of our CAB, both in the UK and internationally, together with attendance at specific clinical congresses.

SI's OEM strategy is now dictated by the added value an OEM agreement will have on both our OEM and SI Branded segments.

Our current OEM project with Advanced Medical Solutions (AMS) to develop a device for laparoscopic deployment of glue for hernia mesh fixation aligns itself to this strategy as we envisage increased revenues from our own products within the hernia procedure market. The Group looks forward to the device receiving CE approval and a subsequent UK launch later in 2014.

SI currently occupies the laparoscopic field within the discipline of MIS. It is an objective of the business to transfer our core competences into other areas of MIS. Such technology transfers are classified as "blue sky" development projects and are primarily funded through Technology Strategy Board (TSB) awards. Our first project remains focused on hip arthroscopy and associated procedures and is supported by two eminent hip arthroscopy surgeons from our CAB.

The advances towards Ultra MIS and the move into new areas of MIS will be supported by the new clinical training centre in Leeds. The project, backed by the RGF award, is progressing well in terms of agreed timescales and budget requirements. The training centre aims to further enhance our global reputation as an innovative medical device company, building and developing our links with both UK and international surgeons. With the training centre located within our new design and manufacturing facility, attending surgeons will have the opportunity to make a positive contribution towards all aspects of the design process.

### **Dividend**

The Board maintains the belief that at this stage in the Group's development it would be more appropriate to continue its focus on strong inward investment and does not intend to pay a dividend for the year ended 31 December 2013.

### **Outlook**

The first quarter of 2014 has seen a focus on further improvement in manufacturing operations to ensure the Group is positioned to support the execution and implementation of the Group's clinical and development strategy.

By working towards a unique product offering within a developing area of laparoscopic surgery, the Board looks forward to the future with confidence.

Doug Liversidge  
Non-executive Chairman  
14 April 2014