

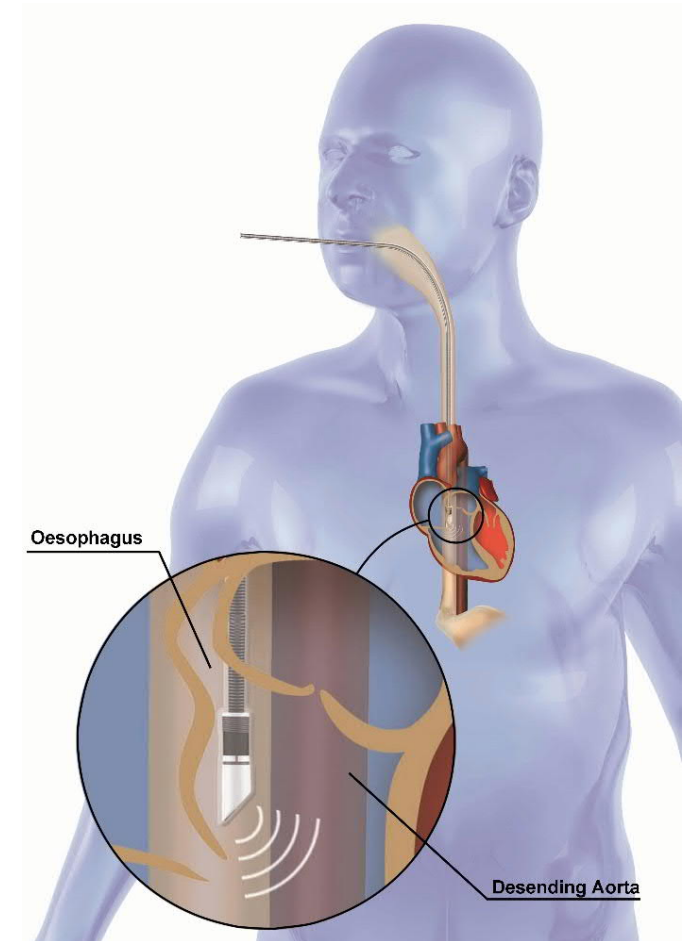
Deltex Medical Group plc

Interim results to 30 June 2018

24th September 2018

Andy Mears
Chief Executive Officer

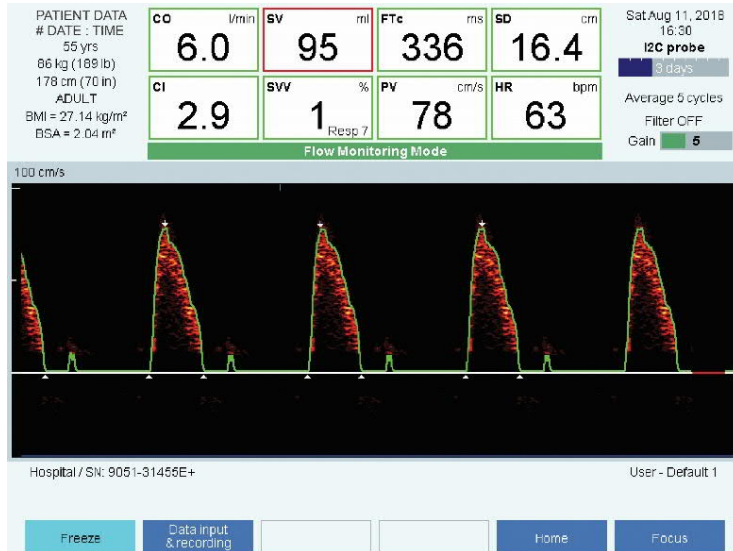
Jonathan Shaw
Finance Director



Navigating Haemodynamics
see what we see

Overview of Deltex Medical (DEMG)

DEMG - haemodynamic monitoring



TrueVue System

TrueVue System haemodynamic platform enables clinician to select technology depending upon patient risk: improved outcomes

- TrueVue Doppler
- TrueVue Impedance
- TrueVue PressureWave

Robust scientific evidence base

- **Unequivocal clinical evidence** relating to TrueVue Doppler – FEDORA study shows 75% reduction in total complications (36 vs 149)
- **significant reduction in complications & costs** e.g. surgical site infections (SSIs); acute kidney injuries (AKIs)
- **proven reduction in length of stay** – cost savings

Key drivers of the business

- **Probes** – core technology, used on TrueVue. H1 Gross margin 78% - recurring revenue stream
 - **Improved outcomes**
 - **Patient safety**
 - **Financial penalties**
- } avoidable post operative complications such as SSIs & AKIs

Market coverage (% of H1 2018 revenues)

- **USA** - direct sales; strategically critical (36%)
- **UK** - direct sales; challenging market (33%)
- **International** – via c. 40 distributors (31%)

Adopted new strategy in June - focussing on existing customers with much lower cost base

Summary financial information to 30 June, 2018

£000	2018H1		2017H1		2017FY	
Probe revenues	1,975	85%	2,377	83%	4,936	84%
Other revenues	350	15%	500	17%	934	16%
Total revenues	2,325	100%	2,877	100%	5,870	100%
Probe gross margin	1,541		1,975		4,174	
Other gross margin	33		208		208	
Total gross margin	1,575	68%	2,183	76%	4,382	75%
Administrative costs	(1,026)	44%	(1,088)	38%	(2,070)	35%
Sales & distribution costs	(1,373)	59%	(1,949)	68%	(3,692)	63%
R&D and QA costs*	(255)	11%	(228)	8%	(558)	10%
Exceptional costs	(142)		-		-	
Total overheads	(2,796)	120%	(3,265)	113%	(6,320)	108%
Operating loss** (pre exceptionals)	(1,141)		(1,082)		(1,938)	

Revenues held back by a number of one-off factors:

- strong 2017 comparator for Monitors (elevated level of Monitors sold in H1-2017 which was not expected to be repeated in H1-2018)
- Probes:
 - currency affects
 - changes in ordering by two large US accounts
 - a temporary inventory adjustment by a French distributor

Reduction in overheads

- £576k reduction in sales & distribution.

Exceptional costs represent net amount in H1 associated with cost-cutting programme totalling c. £2m (on an annualised basis)

- “equivalent amount” of exceptionals expected in H2
- see note 15 in interims

Summary balance sheet information

£000	30 June 2018	30 June 2017	31 December 2017
Property, plant & equipment	681	284	274
Intangible assets	2,529	2,521	2,486
Total non-current assets	3,210	2,805	2,760
Inventories	700	921	754
Trade & other receivables	1,480	1,858	2,050
Current income tax recoverable	139	178	94
Cash	1,065	188	219
Total current assets	3,384	3,145	3,117
Total assets	6,594	5,950	5,877
Borrowings	(594)	(706)	(813)
Trade & other payables	(2,043)	(2,223)	(2,645)
Total current liabilities	(2,637)	(2,929)	(3,458)
Non-current borrowings	(1,276)	(983)	(1,004)
Provisions	(235)	(259)	(115)
Total non-current liabilities	(1,511)	(1,242)	(1,119)
Total liabilities	(4,148)	(4,171)	(4,577)
Net assets	2,446	1,779	1,300

Adoption of new strategy



New strategy



In the past DEMG invested significantly – particularly in the USA – to grow the number of users and customer accounts for its TrueVue System

- substantial investment 'ahead of the curve'
- did expand the population of trained potential users for the Group's products...
- ... but deployment of DEMG technology into clinical practices slower than expected
- resulting in the Group using cash & a number of capital raisings from shareholders

The successful £2 million fund raising in February gave the opportunity to re-visit the strategy

- focus on generating cash from the existing customer base
- focus on existing customers also expected to generate incremental revenues
- cash deployed 'behind the curve'
- Andy Mears appointed as CEO
- substantial reduction in costs:
 - removal of a layer of senior management
 - significantly reduced expenditure associated with growing new accounts
- cash generated will be used to develop further users & further technologies on the TrueVue System



New strategy – prioritise profitability over securing new customers: making the Group financially stronger

Cost cutting to stabilise the business... and build a platform for profitable growth

Substantial programme of cost reduction started in 2018 - but expanded and accelerated by new CEO

Estimated annualised cost savings:

- prior to June: c. £0.75 million
- $+$
post appointment of new CEO: c. £1.25 million
- $=$
total estimate of cost savings in year: c.£2 million (n.b. pro forma annualised basis)

Quantum / scale of cost savings during the year also demonstrated by the reduction in Group headcount:

- employees at 31 December, 2017: **84**
- employees at 31 August, 2018: **56**
- **33%** reduction



Continuing to look for further opportunities for cost-savings



“Take control of destiny” – cash generated by trading activities used to expand user-base and finance further development of the TrueVue System



New strategy not just about cost-cutting – also planning to develop the business

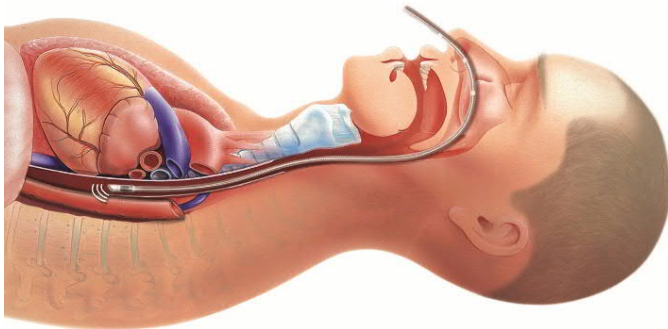
Market dynamics and optimising the Group's position



Best technology supported by studies vs. low cost / ease-of-use

DEMG has developed 'gold standard' technology for haemodynamic monitoring via its oesophageal doppler (ultra sound) technology (TrueVue Doppler)

- high accuracy / high fidelity, real time – “exquisite data”
- not low-cost, algorithm-derived estimation
- supported by extensive scientific evidence base – which has taken years & substantial sums to compile
- establishes the haemodynamic status of high risk patients to allow optimised clinical interventions / treatment...
- ...leading to **better outcomes**, including reduced surgical site infections & acute kidney injuries, as well as **lower costs** and **improved patient safety**



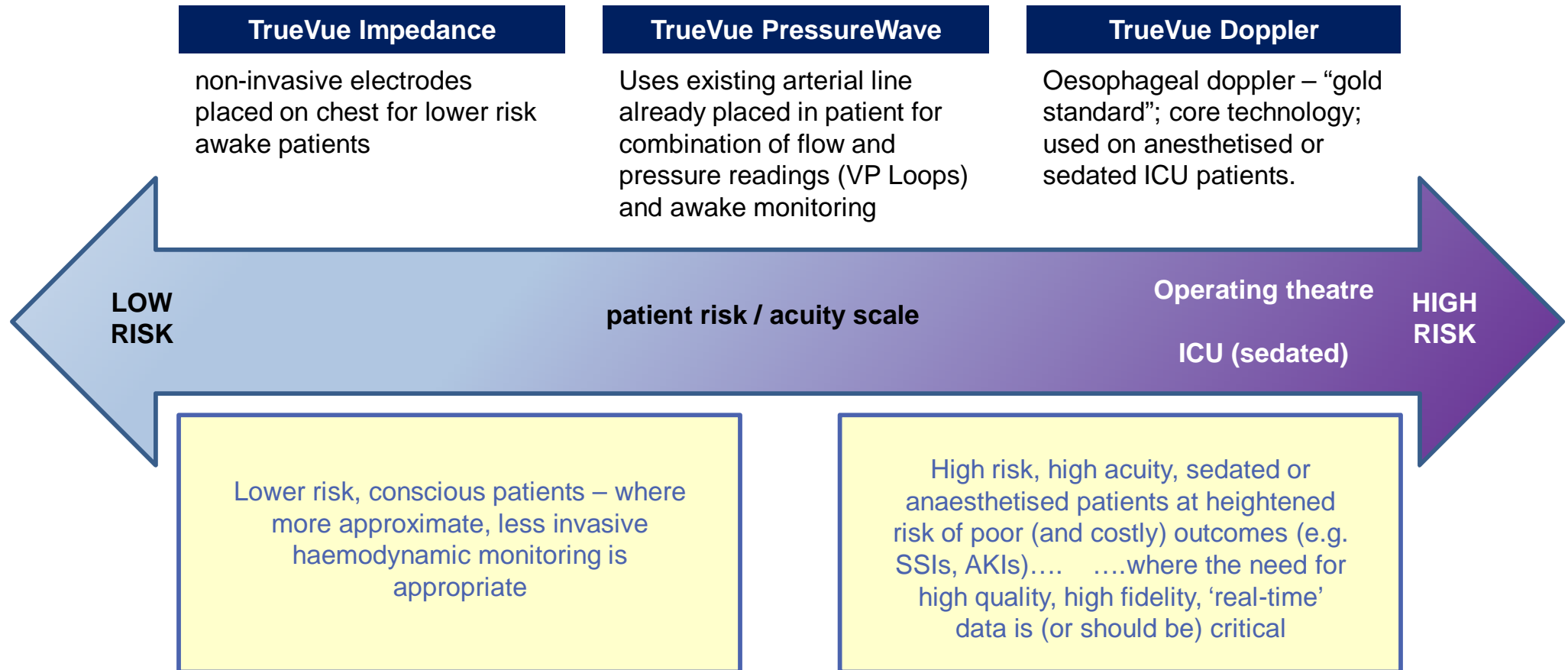
Trade-off between “exquisite data” from TrueVue Doppler and competing lower-cost, easier-to-use algorithm-derived approximations

- sales & marketing challenge associated with the dichotomy between best technology supported by studies vs. low-cost, easier-to-use alternatives - particularly with price-sensitive customers
- some markets (even developing e.g. Peru) accept the TrueVue price points; some represent a bigger challenge, including many NHS hospitals



Existing customers buy-in to advantages of improved outcomes from TrueVue Doppler – hence easier to develop

Future: TrueVue System ‘haemodynamic platform’ – “pick & mix”



➔ ***Deltex Medical’s TrueVue System comprises different haemodynamic monitoring technologies which enable clinicians to select the optimal technology to match the needs of the patient***

➔ ***Note one of the key findings of the FEDORA study was that use of the TrueVue Doppler resulted in improved outcomes for (even) low- to moderate-risk surgical patients***

FEDORA study

Effect of goal-directed haemodynamic therapy on postoperative complications in low–moderate risk surgical patients: a multicentre randomised controlled trial (FEDORA trial)

Moderate and severe complications (<i>n</i> GDHT = 209 vs <i>n</i> Control = 211)	GDHT <i>n</i> (%)	Control <i>n</i> (%)		Odds Ratio (95% CI)	<i>p</i> -value
Patients with at least one moderate or severe complication	18 (8.61%)	35 (16.58%)		0.48 (0.27, 0.89)	0.018*
Type of complication					
Stroke	0 (0%)	0 (0%)		1 (0.02, 51.12)	>0.999
AKI	3 (1.44%)	18 (8.53%)		0.16 (0.05, 0.54)	0.001*
ARDS	1 (0.48%)	12 (5.69%)		0.08 (0.01, 0.62)	0.003*
Anastomotic Breakdown	1 (0.48%)	5 (2.37%)		0.2 (0.02, 1.71)	0.215
Arrhythmia	2 (0.96%)	6 (2.84%)		0.33 (0.07, 1.65)	0.284
Cardiac Arrest	0 (0%)	2 (0.95%)		0.25 (0.01, 5.59)	0.499
Cardiopulmonary Oedema	0 (0%)	11 (5.16%)		0.04 (0.01, 0.74)	<0.001*
Surgical Site Infection (Superficial)	2 (0.96%)	10 (4.74%)		0.19 (0.04, 0.89)	0.036*
Surgical Site Infection (Deep)	4 (1.91%)	17 (8.06%)		0.22 (0.07, 0.67)	0.006*

Total complications with TrueVue Doppler = 36 cf. 149 in control arm – a 75% reduction

There were significantly fewer patients with complications in the intervention group (TrueVue Doppler)

- 8.6% vs. 16.5 (p=0.018)

There were also fewer complications (acute kidney disease, pulmonary oedema, respiratory distress syndrome, wound infections, etc.), and length of hospital stay was shorter in the intervention (TrueVue Doppler) group



Note this paper was about low / moderate risk patients – not high risk – which extends the science-base / applicability of the TrueVue Doppler technology, and hence increases the size of the potential market

Sales activities / dynamics by 3 key territories

US market (36% of H1 revs)

- key market due to higher price point for Probes and Monitors
- meaningful financial penalties in the USA around avoidable complications such as AKIs or SSIs
- direct sales team, recently restructured (and simplified) into territory & account managers
- meaningful base of existing / former customers to develop
- primary focus is driving Probe revenues (used by TrueVue Doppler)
- secondary activities around expanding portfolio of TrueVue System technologies

UK market (33% of H1 revs)

- market where TrueVue Doppler technology was developed
- some important KOL / key account / “power users” – but generally NHS market highly cost-sensitive and significant competition in UK
- DEMG product development team interacts closely with UK KOLs re. ‘Voice of the Customer’ new product refinement / optimisation work

International (31% of H1 revs)

- selling via a network of c. 40 distributors
- low cost of sales – but correspondingly lower gross margin
- success story in terms of revenue growth – e.g. French distributor secured a contract with the Paris Hospital network which will be worth a minimum of €4m over 8 years



US market remains key to Deltex Medical



New, simplified, re-focussed sales strategy should lead to growth in Probe revenues across all 3 areas

Prospects / Outlook

**Strong,
scientific,
clinical
& financial
drivers**

Deltex Medical “has the technology” supported by a large body of scientific evidence

- oesophageal doppler (n.b. high margin disposable probe) is the ‘gold standard’ for haemodynamic monitoring
- has been shown in studies to improve patient outcomes & patient safety - and reduce costs for high, moderate and low risk patients

Increasing focus in healthcare systems on patient safety and introduction of financial penalties associated with avoidable complications

- e.g. Acute Kidney Injuries (AKIs) and Surgical Site Infections (SSIs)

The recently-launched TrueVue System ‘haemodynamic monitoring’ platform allows Deltex Medical to sell its haemodynamic monitoring technology into a larger addressable market – going beyond anaesthetised surgical and/or sedated ICU patients

The cost-cutting programme – expanded and accelerated since the appointment of the new CEO – helps to

- stabilise & improve the financial position of the Group (n.b. estimated annualised savings of c. £2 million this year)
- position DEMG’s US subsidiary to contribute significantly to the cost of the UK operations
- materially lowers the Group cash breakeven point
- enable more focussed sales activity around existing customers in order to generate incremental revenues



Still “early days” but some encouraging preliminary signs



Now well positioned to build our international medical device business – with high margin probes