

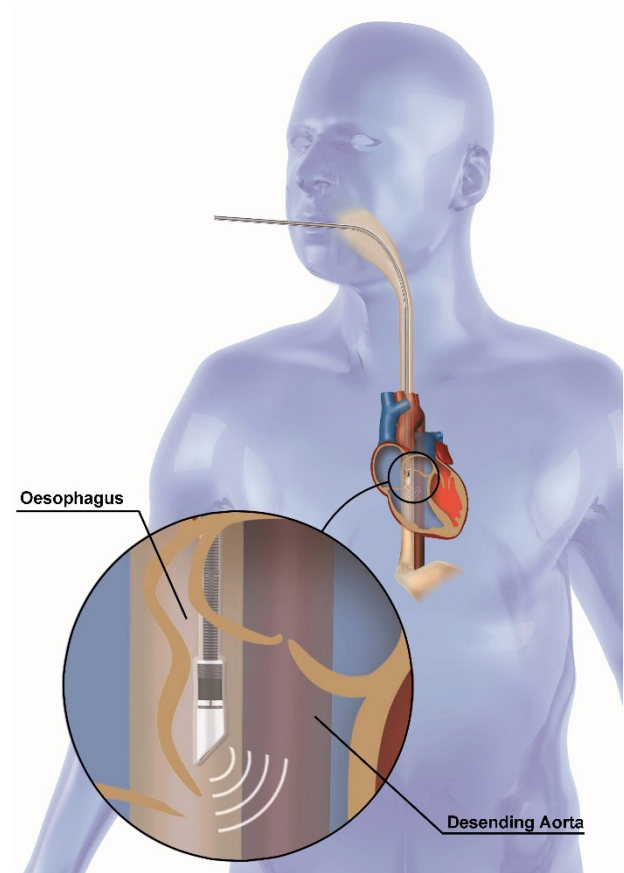
Deltex Medical Group plc

Results to 31 December 2018 & update on progress

April 2019

Andy Mears
Chief Executive Officer

Jonathan Shaw
Group Finance Director



Why monitor haemodynamics? Why Deltex Medical?

Haemodynamic monitoring

- Visualisation & measurement of circulating blood volume, which is a function of blood flow, blood pressure and resistance

Criticality of blood flow

If circulating blood flow is not optimised e.g. during surgery, then:

- inadequate blood and oxygen supply to vital organs (e.g. gut, kidneys, liver) can occur
- increases the risk of organ under-perfusion & harm
- increased risk of over-perfusion and patient injury

Scientific evidence

The use of Deltex Medical's TrueVue Doppler haemodynamic monitoring technology has been shown in > 21 randomised controlled trials (RCTs) to:

- reduce avoidable complications, including major ones such as Acute Kidney Injuries (AKIs) & Surgical Site Infections (SSIs)
- improve outcomes for both high risk and low-to-moderate risk patients
- give rise to shorter patient length of stay
- lower costs to healthcare systems
- improve patient safety

Deltex Medical TrueVue System

The only haemodynamic monitoring technology that can independently measure both blood flow & blood pressure across every heart beat

TrueVue

- Doppler
- Impedance
- PressureWave

- core technology within Deltex Medical's portfolio
- high precision, beat-to-beat real-time information on the patient's circulating blood volume
- global 'gold standard' for precision haemodynamic monitoring
- high margin, single-use disposable ultrasound probe



Highlights

Key financial information

- 2018 full year revenues: £5.0m (2017: £5.9m)
- 2018 operating loss (pre-exceptional costs & other gain): £(0.9)m (2017: £(1.9)m)
- H2 2018 operating profit (pre-exceptional costs): £0.1m (H2 2017: loss £(0.9)m)
- Q4 2018 operating profit (pre-exceptional costs): £0.4m (Q4 2017: loss £(0.2)m)
- Q4 2018 cash generation: £0.2m (Q4 2017: cash used: £(0.3)m)
- cash at 31 December 2018: £0.6m (2017: £0.2m)

Key operating information

- increasing interest in haemodynamic monitoring from the market, due to heightened focus on patient safety
- implementation of new strategy started in June 2018:
 - targeting profit and cash generation, over top-line revenue growth
 - lower operating costs associated with re-sized business, including substantially smaller US and UK direct sales teams
 - currently establishing a sustainable platform allowing growth to be targeted from the re-sized business
 - once a robust platform in place, the business will start to strategically target growth
- lower year-on-year revenues attributable, in large part, to substantially reduced expenditure on sales and marketing in H2 2018

Nigel Keen, Chairman of Deltex Medical, said:

“I am delighted to see the profitability and cash generation in the fourth quarter of 2018, which helps to validate Deltex Medical’s new strategy.”

“The Group continued to generate cash in the first quarter of 2019.”

“The focus on patient safety, from both regulators and patient advocacy groups, is increasing which is helping to create interest in Deltex Medical’s TrueVue System.”

Summary P&L information to 31 December, 2018

£000	2018		2017	
Probe revenues	4,035	81%	4,936	84%
Other revenues	920	19%	934	16%
Total revenues	4,955	100%	5,870	100%
Probe gross margin	3,286		4,219	
Other gross margin	245		163	
Total gross margin	3,531	71%	4,382	75%
Administrative costs	(1,721)	35%	(2,064)	35%
Sales & distribution costs	(2,189)	44%	(3,692)	63%
R&D and QA costs	(526)	11%	(558)	10%
Trade debtor impairment	(38)		(6)	
Exceptional costs	(287)	6%	-	
Total overheads	(4,761)	96%	(6,320)	108%
Adjusted EBITDA* (pre exceptionals)	(718)		(1,294)	
Operating loss (pre exceptionals)	(943)		(1,938)	

Key comments

- Reduction in revenues from £5.9m to £5.0m largely reflects significant reduction in sales & marketing spend during year
- Note 'Sales & distribution costs' declined from £3.7m to £2.2m – a reduction of 41%, or £1.5m
- The exceptional costs are associated with the restructuring of the Group which was undertaken following the adoption of a new strategy in June 2018
- The effect of the reduction in costs can be seen more clearly in the H2 comparative data overleaf

Summary H2 comparative P&L information

£000	H2 2018		H2 2017	
Probe revenues	2,032	79%	2,581	85%
Other revenues	548	21%	435	15%
Total revenues	2,580	100%	3,016	100%
Gross margin	1,996	77%	2,380	79%
Administrative costs	(672)	26%	(988)	33%
Sales & distribution costs	(767)	30%	(1,747)	58%
R&D and QA costs	(187)	7%	(217)	7%
Exceptional costs	(145)	6%	-	
Total overheads	(1,771)	69%	(2,952)	98%
Adjusted EBITDA* (pre exceptionals)	225		(572)	
Op. profit / (loss) (pre exceptionals)	123		(853)	

Key comments

- Reduction in revenues from £3.0m to £2.6m again principally reflects the significant reduction in sales & marketing spend in the period
- Note 'Sales & distribution costs' declined from £1.75m to £0.77m – a reduction of 56%, or £1.0m
- EBITDA (excluding exceptionals) is positive in H2 2018: £0.2m – cf. a loss in H2 2017: (£0.6m)
- Operating profit (ex. exceptionals) in H2 2018 of £0.1m cf. a loss in H2 2017 of £0.9m – an improvement of c. £1m

Summary balance sheet information

£000	31 Dec 2018	31 Dec 2017
Property, plant & equipment	587	274
Intangible assets	2,528	2,486
Financial assets at amortised cost	155	-
Total non-current assets	3,270	2,760
Inventories	680	754
Trade & other receivables	1,410	1,618
Other current assets	509	526
Cash	580	219
Total current assets	3,179	3,117
Total assets	6,449	5,877
Borrowings	(553)	(809)
Trade & other payables	(1,983)	(2,649)
Total current liabilities	(2,536)	(3,458)
Borrowings	(1,035)	(1,004)
Other non-current liabilities	(466)	(115)
Total non-current liabilities	(1,501)	(1,119)
Total liabilities	(4,037)	(4,577)
Net assets	2,412	1,300

Key comments

- Cash of £0.6m at year end

The new strategy – and its implementation

The new strategy

There are a number of elements to the new strategy which include:

- targeting profit and cash generation, rather than pursuing top-line revenue growth
- focussing on selling the TrueVue System principally to existing customers, thereby allowing the size of the sales teams in the USA and the UK to be substantially slimmed down
- adjusting the operating costs of the Group taking into account the smaller sales teams and the focus on profit and cash generation
- stabilising the business, following the major changes to the Group, to establish a strong and sustainable commercial platform
- using the more robust platform to create growth through more focussed selling and leveraging the complete suite of TrueVue technologies

Implementation status

The first stage of the implementation of the new strategy has been completed:

- ✓ Andy Mears was appointed Chief Executive
- ✓ the business has been re-sized to a more appropriate level
- ✓ there has been a substantial reduction in Deltex Medical's operating costs

CURRENT

**Establishing a strengthening platform for the Group
- with a focus on ongoing cash generation and
profitability**

FUTURE

**Having re-based the business we can begin to drive
growth once more in the business from this new
baseline**



Summary data from Q4 financial results are encouraging

£000	Q4 2018	Q4 2017	<u>Difference</u>
Revenues	1,603	1,924	(321)
Gross margin	1,244	1,555	(311)
<i>Gross margin (%)</i>	78%	81%	
Overheads (excluding exceptionals)	(822)	(1,711)	889
Operating profit / (loss)	422	(156)	578
Cash generated / (used)	178	(267)	445

- there is still a period-on-period reduction in revenues due to materially smaller sales teams in the US and the UK
- substantial £0.9m reduction in overheads
- £0.6m improvement in Q4 operating profit – with £0.4m EBIT in Q4 (albeit including the usual ‘busy’ December)
- £0.4m improvement in Q4 cash generation – with £178k generated in Q4 2018 (cf. £267k burnt in Q4 2017)
- provides the Board and senior management team with quantitative data suggesting that the new strategy is beginning to work



First stage of the new strategy successfully implemented with encouraging Q4 financial results

Market dynamics / trends affecting the business



Increasing number of more powerful trends / dynamics in the market that should over time be positive for Deltex Medical – particularly in the USA

- increasing power & profile of patient safety advocacy groups
- increasing dialogue around patient safety
 - specific focus on reduction in ‘avoidable complications’
- regulators also promoting improved patient safety and reductions in avoidable complications
 - in part via financial penalties – so increasing financial incentives for hospitals to target initiatives to address these issues
- US “payers” – both governmental and private insurers – reducing reimbursements in the event of avoidable complications
 - increased financial costs associated with poor outcomes
 - extended patient length of stay increasingly paid for by the hospital



The FEDORA study has been helpful for promoting the use of Deltex Medical’s TrueVue Doppler technology to improve patient outcomes – including for low-to-moderate risk patients



Underlying environment towards better outcomes and lower costs – in particular in the USA – helpful for Deltex Medical...



... but hospitals still under acute financial pressure so the TrueVue System sell still remains challenging and the competition tough

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

Prospects / Outlook

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

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

- TrueVue Doppler (n.b. high margin, single-use probe) is the ‘global gold standard’ for haemodynamic monitoring
- TrueVue Doppler has been shown in studies: to reduce ‘avoidable complications’; improve patient outcomes; improve patient safety; and reduce costs for high, moderate and even low risk patients
- many of the Group’s much larger competitors use the impressive data generated from the TrueVue Doppler studies – but use it to market their less precise haemodynamic monitoring technology: this remains a key selling challenge for Deltex Medical

The increasing focus across healthcare systems on patient safety and the introduction of financial penalties associated with avoidable complications (e.g. Acute Kidney Injuries (AKIs) and Surgical Site Infections (SSIs)) is a helpful trend for Deltex Medical

Prospects

- the new strategy is being successfully implemented - the Group has a significantly lower cost-base, has cash on the balance sheet, is showing improving profitability and is starting to generate cash
- the next stage requires the Group to secure and make sustainable this strong base for the business – which allows us to target growth from the re-sized business without substantially increasing the cost base
- the trends in the provision of global healthcare are increasingly to focus on patient safety and the reduction of avoidable complications leading to improved outcomes and lower costs



Deltex Medical is well positioned to capitalise on these trends



Quarterly and H2 data demonstrate a clear path forward – with cash generation in Q4-2018 & Q1-2019