NOVACYT GROUP

Half-yearly Activity Report

2021

Half-year financial statements ended June 30, 2021

ACTIVITY REPORT

2021 BIANNUAL

HALF-YEARLY ACCOUNTS CLOSED ON 30 JUNE 2021

Novacyt Group

The Novacyt Group is an international diagnostics business generating an increasing portfolio of invitro and molecular diagnostic tests. Its core strengths lie in diagnostics product development, commercialisation, contract design and manufacturing. The Group's lead business units comprise of Primerdesign and Lab21 Products, supplying an extensive range of high-quality assays and reagents worldwide. The Group directly serves microbiology, haematology and serology markets as do its global partners, which include major corporates. Novacyt S.A. (the "Company") is the parent company of the Novacyt Group and its registered office is located at 13 Avenue Morane Saulnier, 78140 Vélizy Villacoublay.

Financial highlights

- Group consolidated unaudited revenue of £54.0m (H1 2020: £63.3m) excluding £40.8m of H1 DHSC revenues whilst the contract dispute continues
- Non-DHSC revenue increased by 20% to £54.0m (H1 2020: £44.8m) supported by growing UK private testing market
- The Group has booked exceptional cost of sales of £35.8m in connection with the DHSC contract dispute to write down inventory and terminate supply agreements that the Company had built in anticipation of further DHSC demand and to book the cost of products supplied to the DHSC in 2021 that have not been paid for
- Group gross margin before exceptional items was 71%, delivering a gross profit of £38.0m. After the exceptional DHSC related cost of sales, gross margin drops to 4%, delivering a gross profit of £2.3m
- Group adjusted EBITDA of £23.2m before exceptionals (H1 2020: £43.1m)
- Operating loss of £13.6m compared to a profit of £42.2m in H1 2020, driven by the one-time exceptional cost of sales and stock write-down
- Loss after tax of £12.7m compared to a profit of £35.1m in H1 2020
- Cash at 30 June 2021 of £77.2m with zero debt

Operational highlights

- Rapid development and launch of 18 new assays to support laboratories, clinicians, and private testing for COVID-19 since the beginning of 2021
  - Launch and continued expansion of PCR genotyping portfolio, SNPsig®, to detect variants of SARS-CoV-2, including VariPLEX™ to detect six key mutations in a single test
    - Portfolio included in the NHS England Framework for detecting Variants of Concern
  - Expansion of PROmate® COVID-19 PCR portfolio for workflow efficiency in a near-to-patient setting
  - Expansion of genesig® COVID-19 PCR portfolio
  - Expansion of PathFlow® LFT portfolio with antibody and antigen tests for COVID-19
- Launch of VersaLab™ mobile processing laboratories and VersaLab™ Portable to expand near-patient testing opportunities in private sector testing
- Inclusion in PHE National Framework Agreement, resulting in a new contract with the DHSC for the supply of PROmate® COVID-19 tests to the NHS (post period)

- Secured new contracts with WHO and UNICEF for the supply of COVID-19 products
- Strengthened executive team and commercial operations to support future growth
    - Appointment of James McCarthy as Chief Financial Officer
    - Anthony Dyer assumed a new role of Chief Corporate Development Officer to focus on business development
    - Appointment of Guillermo Raimondo to newly formed role of Chief Commercial Officer to lead global commercial operations
    - Appointment of US General Manager and set-up of Novacyt US Inc
- David Allmond appointed as Chief Executive Officer, effective from 18 October 2021, following Graham Mullis' decision to retire (post period)

Chief Executive Officer's Review

Continued strong momentum in H1 2021

Novacyt has continued to experience strong demand for its COVID-19 products during 2021, following its early mover advantage in 2020 and continued innovation, strengthening the Company's reputation as a global clinical diagnostics player. This has been demonstrated by the launch of 18 new products since the beginning of 2021 and the generation of £54.0m in revenues from customers, excluding the DHSC.

Novacyt has continued to drive revenue growth from new customers, particularly in private testing markets which is expected to be a key part of the Company's future success. Alongside strong sales into private testing in markets, such as the UK and Germany, the Company secured, post-period, new or extended supply contracts with non-governmental organisations, including with the World Health Organization (WHO) for the supply of its genesig® COVID-19 tests and UNICEF, where the Company has received confirmation that its existing Long-Term Agreement with the organisation has been extended by 12 months to July 2022. The Group has also signed a new contract with the DHSC under the PHE National Microbiology Framework, as announced on 18 August 2021, for the supply of PROmate® COVID-19 tests to the NHS until 31 March 2022.

In H1 2021, the Group delivered revenue of £54.0m, excluding DHSC revenue, compared to total group revenue of £63.3m in H1 2020. Excluding H1 2020 DHSC revenue, the Group delivered 20% year-on-year revenue growth. Group gross margin before exceptional items was 71%, delivering a gross profit of £38.0m and EBITDA, excluding exceptional charges, was £23.2m compared to £43.1m last year. The Group finished H1 2021 with £77.2m of cash and zero debt. This strong underlying financial performance provides the Company with a solid foundation as it continues to grow the business in line with the updated strategy, as announced at the time of the Company's full year results on 22 June 2021.

As announced on 22 June 2021, the Company is focused on key areas of test menu, instrument, and geographic expansion. The test portfolio expansion in COVID-19 and beyond COVID-19 will be achieved by leveraging the Company's strong bioinformatics and design expertise. With instruments, the Company is focused on improving capabilities in near-patient testing and offering full work-flow solutions which will include extraction and sample handling automation. Expanding the geographic footprint will be helped by selective investment in key countries and by leveraging the international relationships and reputation Novacyt has built up over the last 18 months.

Novacyt has continued to make good progress in these areas during H1 2021, including expansion of the Company's respiratory portfolio for COVID-19 testing combined with a growing patent portfolio, expansion of VersaLab™ to provide further near-patient testing solutions in the private sector, and expansion and establishment of the Company's commercial infrastructure in the UK and the US, respectively. This growth has been supported by a strengthened leadership team during the period.

Novacyt is well-positioned to continue its trajectory towards becoming a leading global diagnostics player

Novacyt is building upon its reputation for the innovation and high performance of its diagnostic products and believes it is well positioned as a global manufacturer rapidly developing and commercialising market leading and proprietary technologies in high value and growing markets. This confidence stems from the key competitive advantages the Company has established over a number of years and validated during Novacyt's successful response to the COVID-19 pandemic.

These features of the Novacyt business include:

Market leading molecular diagnostics development capability

- A leading development capability of in-vitro diagnostics which enables Novacyt to design, prototype, develop and optimize PCR tests rapidly and deliver best-in-class clinical performance. Consequently, Novacyt has been at the forefront of a number of global disease responses, including Zika, Ebola, SARS and now COVID-19
- This includes a proprietary and automated bioinformatics capability which enables the Company to evaluate over 30,000 full genome sequences daily for the design of probes and primers to support accelerated product development for first-to-market PCR assays
- The Company continues to scale this rapid development capability to enable Novacyt to deliver significant numbers of new PCR tests in the future
- A vertically integrated PCR business which is able to design, develop and manufacture instruments and reagents in-house to control costs, quality and performance. The Company can deliver complete PCR work-flow solutions to its growing customer base

Ability to leverage existing core business to underpin future growth

- An extensive portfolio of over 250 research-use-only (RUO) PCR diagnostic pathogen tests, which can be leveraged further into existing life science markets due to the Company's growing distribution channels and brand reputation
- Expansion of the Company's PathFLOW® brand for new lateral-flow tests (LFTs), particularly into new and emerging sales channels such as private testing markets
- Able to leverage Novacyt's COVID-19 business into other related respiratory diseases, such as Winterplex®, the Company's test panel technology able to differentiate between respiratory diseases

A significant clinical trial infrastructure

- A clinical trial capability of skilled scientists across the Company's two R&D sites for the planning, running and validation of new clinical trials covering new technologies, new products, or regulatory/market studies for current products
- The Company also has a growing network of international clinical specialists to support its clinical trial capability on a global scale as the business continues to expand its geographic footprint
- This capability, established over the past 18 months, has supported the Company's rapid response to innovation, having conducted more than 15 trials in over 20 locations in the UK and worldwide, and will continue to enable the business to launch new products and new technologies in a rapid and cost-effective ways

Expanding patent portfolio to protect and secure future growth

- The Company has invested in growing its patent portfolio, with 22 patents filed since the beginning of 2020 to protect its proprietary position. This will be a continued focus for Novacyt in the future and cover specific products in terms of design sequences, processes and workflow solutions

Highly flexible manufacturing capability

- Able to rapidly scale, up and down, internal manufacturing capacity to address changes in the market and add the complexity of more new products
- A responsive and flexible third-party supply-chain to boost capacity as required

Core business values to support employee and business development

- Underpinning the business are the core values of the Novacyt team which include integrity, creativity, a can-do attitude, and an environment which allows its employees to challenge and grow with the Company

Outlook

The Company reiterates full year 2021 revenue and EBITDA guidance announced on 16 September 2021.

Financial Review

Overview

Unaudited revenue for the first half of 2021 was £54.0m compared to revenue for 2020 of £63.3m. This £54.0m excludes all H1 2021 DHSC revenue and represents a 20% or £9.2m growth versus the equivalent sales in 2020 if the DHSC revenue is excluded for this comparator period. This growth is driven by sales to private laboratories driven by a shift in demand from central government led testing to more devolved private testing to support the re-opening of businesses and international travel.

H1 2021 revenue excludes £49.0m (including VAT) of product that was delivered and invoiced to the DHSC and this has now also been included as part of the contract dispute. Payment for the £49.0m invoiced remains outstanding at the time of signing these interim accounts. As announced on 16 September 2021, the Board has made the decision that, in accordance with IFRS 15 accounting standard on revenue from contracts with customers and while the dispute with the DHSC remains unresolved, the Company will not recognise H1 2021 revenue from the DHSC. The Company continues to work with its legal advisers to progress the dispute with the DHSC and believes it has strong grounds to assert its contractual rights.

The underlying business before exceptional cost of sales delivered a **gross profit** of £38.0m or 71%, but after exceptional cost of sales items gross profit fell to £2.3m or 4%, compared to £52.7m (83%) in the first half of last year. This margin, at 71%, is slightly below Primerdesign's historic margin predominantly as a result of booking a higher stock provision than normal. There was margin dilution year-on-year as a result of significantly higher instrument sales in H1 2021 totalling £1.4m as the Group builds its installed base versus sales of £0.1m in H1 2020 and as a result of commencing the donation of approximately one million test kits to UNICEF, of which as at the end of June 2021 over 194,000 had been delivered free of charge.

Group operating costs increased in the first half of 2021 by £5.4m, to £14.9m compared with £9.5m in H1 2020. This reflects the step-change in investment in R&D, Sales & Marketing and General Admin over the past 12 months as the Company continued its significant scale up of the business. This is also evident in headcount which has increased from 110 at the start of 2020 to in excess of 275 at the end of June 2021, driving up costs year-on-year.

The Group delivered an **adjusted EBITDA** of £23.2m or 43% in line with guidance given. This is £20.0m lower than in H1 2020, driven by a lower gross profit contribution of £14.6m as a result of lower sales and a reduced gross margin percentage, with the remainder being due to an increase in operating expenditure.

The Group delivered an **EBITDA** loss of £12.6m after taking a one-off exceptional cost of sales charge of £35.8m due to the DHSC contract dispute. This includes £28.9m to write down inventory that the Company had built in anticipation of further DHSC demand and to terminate supply commitments with third parties in respect of this supply that are no longer required and £6.9m of manufacturing costs relating to the 2021 disputed sales.

Operating Loss / Profit

The Group delivered an operating loss of £13.6m compared with a H1 2020 profit of £42.2m. The swing from a profitable position to a loss in H1 2021 is driven by the one-time exceptional cost of sales items. Year-on-year, exceptional charges and depreciation/amortisation costs are only £0.1m higher in H1 2021 at £1.0m (H1 2020: £0.9m), with higher depreciation being driven by increased capital expenditure.

Net Loss / Profit After Tax

The Group delivered a net loss after tax of £12.7m in H1 2021 from a profit of £35.1m in H1 2020. Financial income and expense fell by £0.4m to a net charge of £1.5m driven by the settlement of all outstanding Group debt in June 2020 resulting in lower borrowing costs but offset by higher non-operational financial foreign exchange expenses. Tax has moved from a £5.2m charge in H1 2020 to a £2.5m credit in H1 2021, the intent is to carry back the credit against 2020 profits.

Divisional performance

Primerdesign has grown its revenue in the UK private testing market in the first half of 2021, currently including COVID-19 testing in film, media, travel, and corporate industries, which has gone some way to offsetting the reduced DHSC revenue in H1 2021 (£ nil) versus H1 2020 (£18.4m). The international distribution business, which focuses on providing diagnostic tests and reagents on a reseller basis has seen strong growth. In Europe (excluding the UK), Primerdesign delivered year-on-year revenue growth of £3.8m or 23%, in the America's year-on-year revenue growth of £1.7m or 54%, and in Asia Pacific year-on-year revenue growth £1.2m or 51%, representative of the increased need for testing in these regions as the pandemic continues to evolve.

Lab21 Products revenue of £3.1m (before intercompany eliminations), is up 98% from sales of £1.6m in H1 2020 as the pre-COVID-19 customer base returns after focusing their attention on COVID-19 testing. There is £1.4m of intercompany sales included in the £3.1m of Lab21 Products segment sales that are eliminated in the Group consolidated accounts. This intercompany revenue relates to services that Microgen Bioproducts provided to Primerdesign in its manufacturing of COVID-19 test, rather than outsourcing the task to a third party and to avoid diluting the gross margin.

IT-IS International sales for the first half of 2021 totalled £7.4m, including £5.9m of intercompany sales that are eliminated in the Group consolidated accounts.

Balance Sheet

Gross inventory has increased since the year end to £46.6m from £33.0m as a result of buying stock in the expectation of securing additional contracts with the DHSC that have now not materialised. The stock was ordered in advance due to the lead times for obtaining some raw materials and the Group wanting to ensure there were no supply chain issues. As such, the stock provision has increased from £3.1m at 31 December 2020 to £31.4m at 30 June 2021, of which £26.1m relates to not securing additional contracts with the DHSC and £5.3m relates to the underlying business. This has resulted in a closing net inventory balance of £15.1m at 30 June 2021.

Trade receivables have fallen by £47.0m since the year end to £32.2m, predominantly driven by the payment of an invoice totalling £47.9m by the DHSC in February 2021. £24.0m of the trade receivables balance is in respect of products delivered to the DHSC in 2020, the recovery of this balance is dependent on the outcome of the dispute.

Tax receivables – Value Added Tax balance of £8.3m at 30 June 2021 relates to VAT paid in the UK on sales invoices in dispute with the DHSC. As these sales have not been recognised in accordance with IFRS 15, the revenue, trade receivable and VAT element of the transactions have been reversed, resulting in a VAT debtor balance.

The Group had a tax receivable balance of £17.7m at the end of H1 2021. There are three key items that make up the corporation tax receivable balance; i) a £4.3m overpayment of corporation tax in relation to 2020, ii) an overpayment of £10.0m in relation to 2021, as a result of the late impact the DHSC contract dispute had on the financial results after payments had been made, and iii) £3.2m related to 2021 losses that can be carried back to be offset against 2020 taxable profits.

Trade and other liabilities have fallen from £36.8m at 31 December 2020 to £12.8m at 30 June 2021. Trade payables and accrued invoices have decreased from £13.2m at 31 December 2020 to £6.2m at 30 June 2021 in line with reduced sales in Q2 2021 versus Q4 2020. The closing 2020 Tax liability - Value Added Tax balance of £16.8m relates to VAT payable to HMRC in the UK covering the months of November and December 2020 and was paid in Q1 2021 reducing the balance to £0.1m at 30 June 2021.

Cash Flow

The Group held £77.2m of cash at 30 June 2021 compared to £91.8m at 31 December 2020. At 31 December 2020 the Group owed £16.8m of VAT covering November and December 2020 which it settled in Q1 2021. In January 2021, the Company paid £19.5m UK corporation tax for what it believed to be its outstanding liability, this has subsequently changed primarily driven by the late impact the DHSC dispute had on the 2020 results. In Q1 2021, the Group made the first quarterly instalment of its projected 2021 UK corporation tax liability, paying £10.0m to HMRC prior to the impact of the DHSC dispute being formalised. This £10.0m resides on account with HMRC and the Group will look to see if this can be refunded in the near future as, based on the 2021 interim results, no corporation tax was due for H1 2021.

The Group saw an operating cash outflow of £12.2m in H1 2021. Cash outflows from financing activities reduced considerably year-on-year, falling by £4.6m as a result of the Group settling all outstanding debts in H1 2020. The H1 2021 balance of £0.4m predominantly covers lease payments. Capital expenditure in H1 2021 was £2.0m, up significantly from H1 2020 expenditure as the Group invests in infrastructure to bring previously outsourced work in-house and to drive further automation, leading to improved margins and process controls.

Turnover by operations:

The table below shows revenue from ordinary operations:

Amounts in £'000	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020
Manufactured goods	53,610	63,113
Traded goods	69	23
Other	271	121
Total revenue	**53,950**	**63,257**

£40,759,000 (excluding VAT) of revenue for goods and services delivered to the Department of Health and Social Care "DHSC" during the first half of 2021 have been excluded from the interim accounts in accordance with IFRS 15. This accounting treatment does not change the Group's legal position or rights in relation to the dispute between the DHSC and the Group's subsidiary, Primer Design Limited, and the Group believes it has strong grounds to assert its contractual rights

A portion of the Group's revenue is generated in foreign currencies (particularly in Euros and US Dollars). The Group has not hedged against the associated currency risk.

Breakdown of revenue by operating segment and geographic area

- At 30 June 2021

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Total
Geographical area				
United Kingdom	20,898	320	217	21,435
Europe (excluding UK)	20,201	600	166	20,967
America	4,949	143	392	5,484
Asia-Pacific	3,650	458	709	4,817
Africa	700	103	50	853
Middle East	253	125	16	394
Total revenue	**50,651**	**1,749**	**1,550**	**53,950**

- At 30 June 2020

Amounts in £'000	**Primerdesign**	**Lab21 Products**	**Total**
Geographical area			
United Kingdom	34,349	302	34,651
Europe (excluding UK)	16,379	522	16,901
America	3,221	171	3,392
Asia-Pacific	2,416	453	2,869
Africa	1,760	56	1,816
Middle East	3,567	61	3,628
Total revenue	**61,692**	**1,565**	**63,257**

Consolidated income statement as at 30 June 2021

Amounts in £'000 Continuing Operations	(Unaudited) Six month 30 June 2021	(Unaudited) Six month 30 June 2020 (*)
Revenue	53,950	63,257
Cost of sales	-15,906	-10,584
Cost of sales - exceptional	-35,770	-
Gross profit	**2,274**	**52,673**
Sales, marketing and distribution expenses	-3,370	-1,718
Research and development expenses	-1,881	-518
General and administrative expenses	-10,769	-7,897
Governmental subsidies	208	-
Operating (loss)/profit before exceptional items	**-13,538**	**42,540**
Other operating income	-	4
Other operating expenses	-63	-308
Operating (loss)/profit after exceptional items	**-13,601**	**42,236**
Financial income	233	76
Financial expense	-1,773	-2,002
(Loss)/profit before tax	**-15,141**	**40,310**
Tax income/(expense)	2,466	-5,179
(Loss)/profit after tax attributable to owners of the company	**-12,675**	**35,131**
(Loss)/profit per share (£)	-0.18	0.53
Diluted (loss) /profit per share (£)	-0.18	0.53

(*) The comparative information for 2020 has been restated to reflect the change in presentation currency of the Group.

CONTINGENT LIABILITIES

During the first half of 2021, the Group received notification of a contract dispute between its subsidiary, Primer Design Limited and the DHSC related to revenue totalling £129,124,000 in respect of performance obligations satisfied during the financial year to 31 December 2020. Payment for £23,957,000 of invoices in respect of products delivered during 2020 remains outstanding at the date of releasing the interim accounts and recovery of the invoice is dependent on the outcome of the contract dispute.

Management and the Board of Directors have reviewed the product warranty provision totalling £19,753,000 booked in 2020 in relation to the DHSC contract dispute and have deemed that it remains appropriate at 30 June 2021.

SUBSEQUENT EVENTS

Updates on the contract dispute with the DHSC are included in Note - Contingent Liabilities.