Proposed accounting treatment of DHSC dispute

RNS Number : 9251L
Novacyt S.A.
16 September 2021

Novacyt S.A.

("Novacyt", the "Company" or the "Group")

Proposed accounting treatment of ongoing DHSC dispute in 2021 interim results

Paris, France and Camberley, UK - 16 September 2021 - Novacyt (EURONEXT GROWTH: ALNOV; AIM: NCYT), an international specialist in clinical diagnostics, announces the proposed accounting treatment of the ongoing DHSC dispute on its unaudited H1 2021 interim results for the six months ended 30 June 2021. The interim results are expected to be announced on 27 September 2021.

There has been no further update to the announcement made at the time of the Company's full year results on 22 June 2021, and subsequent half year update on 18 August 2021, in relation to the DHSC dispute. The accounting treatment of the DHSC revenue and costs in H1 2021, detailed below, does not change the Company's legal position or rights in relation to the dispute. The Company continues to work with its legal advisers to progress the dispute and believes it has strong grounds to assert its contractual rights.

The Company reiterates revenue guidance, excluding the disputed DHSC revenue, for the full year of approximately £100 million and underlying EBITDA margin of approximately 40%, as announced on 22 June 2021. However, the full year Group EBITDA margin could be materially affected by the outcome of the ongoing dispute with the DHSC and the write down of inventory as detailed below.

At the time of the Company's half year update on 18 August 2021, it was noted that £40.8 million of revenue in H1 2021 was in dispute with the DHSC. For the purposes of the interim results, the Company is required to apply the applicable accounting standards to the disputed revenues. The Board has therefore taken a conservative approach and decided that while the dispute with the DHSC remains unresolved the Company will not recognise the H1 2021 revenue of £40.8 million from the DHSC, in line with IFRS 15 accounting standard on revenue from contracts with customers. The remaining H1 2021 revenue of £54.0 million from non-DHSC sales remains unchanged.

In addition to not recognising the £40.8 million of DHSC sales in its interim results, the Company has prudently decided to recognise manufacturing costs of £6.9 million relating to these disputed sales.

The Company is also taking an exceptional one-off cost of £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. This inventory build was Novacyt's direct response to support the UK Government's call for UK manufacturers to build manufacturing capacity and supply chain flexibility in response to the COVID-19 pandemic and was based on likely demand indicated by DHSC. The Company will continue to look for ways to use this inventory.

As announced on 18 August 2021, Novacyt continues to supply PROmate® COVID-19 tests to the NHS under the terms of a new contract awarded by the DHSC under the Public Health England National Microbiology Framework.

£'000	H1 2021 Underlying	H1 2021 DHSC dispute impact	H1 2021 Total Group
Total Group Revenue	53,950		53,950
Gross Profit	38,044	(35,770)	2,274
GP %	71%		4%
EBITDA	23,169	(35,770)	(12,601)
EBITDA %	43%		-23%

Consistent with the announcement on 22 June 2021, the underlying business will generate gross profit of approximately 71% of sales and EBITDA of approximately 43% of sales for the half year, excluding the impact of the DHSC dispute. The Company's cash position as at 30 June 2021 was £77.2 million.

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) 596/2014.

- End -

Contacts

Novacyt SA

Graham Mullis, Chief Executive Officer

James McCarthy, Chief Financial Officer

+44 (0)1276 600081

SP Angel Corporate Finance LLP (Nominated Adviser and Broker)

Matthew Johnson / Charlie Bouverat (Corporate Finance)

Vadim Alexandre / Rob Rees (Corporate Broking)

+44 (0)20 3470 0470

Numis Securities Limited (Joint Broker)

Freddie Barnfield / James Black

+44 (0)20 7260 1000

Allegra Finance (French Listing Sponsor)

Rémi Durgetto / Yannick Petit

+33 (1) 42 22 10 10

r.durgetto@allegrafinance.com; y.petit@allegrafinance.com

FTI Consulting (International)

Victoria Foster Mitchell / Alex Shaw

+44 (0)20 3727 1000

victoria.fostermitchell@fticonsulting.com / alex.shaw@fticonsulting.com

FTI Consulting (France)

Arnaud de Cheffontaines

+33 (0)147 03 69 47

arnaud.decheffontaines@fticonsulting.com

About Novacyt Group

The Novacyt Group is an international diagnostics business generating an increasing portfolio of in vitro and molecular diagnostic tests. Its core strengths lie in diagnostics product development, commercialisation, contract design and manufacturing. The Company'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.

For more information, please refer to the website: www.novacyt.com

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the

Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our Privacy Policy.

END

MSCFZGMLNKNGMZM