

NOVACYT

Limited company with registered capital of 4,708,416.54 euros
Registered office: 13 avenue Morane Saulnier – 78140 Vélizy-Villacoublay
491 062 527 Versailles Trade and Companies Register

(hereinafter the “Company” or “Novacyt”)

ACTIVITY OF THE COMPANY AND ITS SUBSIDIARIES AND BUSINESS TRENDS DURING THE YEAR ENDED 31 DECEMBER 2021

COMBINED GENERAL MEETING DATED 21 JUNE 2022

1.1 Overview of Novacyt’s activity

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 Group’s lead business units comprise of Primer Design, and IT-IS International, supplying an extensive range of high-quality assays, reagents and instruments worldwide. The Group directly serves microbiology, haematology and serology markets as do its global partners, which include major corporates.

The following companies make up the Novacyt Group:

Biotec Laboratories Ltd

IT-IS International Ltd

Lab21 Healthcare Ltd

Novacyt US Inc

Novacyt Inc

Microgen Bioproducts Ltd

Novacyt SA

Novacyt Asia Ltd

Novacyt China Ltd

Novacyt UK Holdings Ltd

Primer Design Ltd

1.2 Situation and activity / Analysis of business trends

- Group revenue of £95.8m in 2021 compared with £277.2m in 2020, excluding £40.9m of 2021 DHSC revenue under contractual dispute.
- Revenue derived from COVID-19 products accounted for 86% in 2021, compared with 95% in 2020.
- 2021 saw a significant shift away from large, centralised contracts towards independent testing, focused on private laboratories and non-governmental organisations (NGOs):
 - Private laboratory revenues increased by 98% year-on-year from £28.3m to £55.9m, which includes £10.5m revenue from NGOs.

- Private testing accounted for 58% of 2021 revenue at £55.9m, compared with 10% in 2020 at £28.3m.
- The UK represented 45% of total revenue in 2021 at £42.7m versus 79% in 2020 at £219.4m.
- Due to the ongoing commercial dispute with the DHSC, £35.8m exceptional cost of sales have been incurred in 2021 that are one-off in nature. Group results are stated before and after these cost of sales exceptional items to show the performance of the underlying business;

Group results before cost of sales exceptional items

- Group gross profit was £65.4m resulting in a 68% gross profit, down from £211.5m (76%) in 2020.
- Group EBITDA was £37.1m compared with £176.1m in 2020. EBITDA margin was 39% compared with 64% in 2020, with lower sales generating less gross profit to cover operating expenditure.
- Group operating profit was £28.0m in 2021 compared with £167.4m in 2020, driven by lower sales.
- Group profit after tax was £19.2m in 2021 compared with £132.4m in 2020.

Group results after cost of sales exceptional items

- Cost of sales exceptional items totalled £35.8m in 2021 compared with £nil in 2020. The two largest items were a £26.1m stock provision, as a result of the Group buying stock to fulfil expected future DHSC orders that did not materialise; and the expensing of £6.9m of stock delivered to the DHSC which has not been paid for as it is now part of the ongoing contract dispute.
- Group gross profit was £29.7m in 2021, resulting in a 31% gross profit.
- Group EBITDA was £1.3m in 2021, resulting in a 1% EBITDA margin.
- Group operating loss was £7.8m in 2021.
- Group loss after tax was £9.7m in 2021.

- The Group exited 2021 with cash of £101.8m, compared with £91.8m in 2020.
- The Group remains debt free.

1.3 Results, progress achieved and difficulties encountered

Overview

The underlying business performed well in a much more challenging and diverse Covid market in 2021, generating sales of £95.8m and an EBITDA of £37.1m excluding the impact of cost of sales exceptional charges. Group EBITDA was positive for the fifth year running both before and after cost of sales exceptional, contributing to the year-on-year cash increase.

Cash at the end of 2021 was £101.8m, providing the Group with a solid foundation for its future strategy.

Operational highlights

- Managed significant transition from central Government contracts to a much more diverse and fast paced private testing market by developing and delivering relevant products (15 new assays) and innovative workflow solutions (VersaLab™ mobile processing laboratories and VersaLab™ Portable) during the course of 2021.
- Strengthened R&D function whilst shifting the focus to the post-COVID-19 portfolio and ensuring we are IVDR ready.
- Integrated IT-IS into the Novacyt group to develop end-to-end testing solutions and drive Instrumentation sales.

- Cement our position as “global first responder” securing new contracts with WHO and UNICEF for the supply of COVID-19 products.
- Key contract wins with major customers:
 - Private test providers, including travel, sport, film, media, and workplace settings
 - Inclusion in National Framework Agreement, resulting in a new £4.7m contract with the DHSC for the supply of PROmate® COVID-19 tests to the NHS.
- David Allmond appointed as Chief Executive Officer and strengthened executive team and commercial operations to support future growth.

1.4 Foreseeable change in the Company’s position and future prospects

Strategy highlights

- Focus on high growth markets of Infectious diseases, gastro-intestinal (GI) infections, transplant and Insect Borne pathogens.
- Leverage our competitive advantages to secure successful execution:
 - Near patient semi-automated instrumentation solutions for smaller laboratory settings
 - Track record of successful multi-product development
 - Agility as first responder with historical trading relationships with key NGOs.
- Maximise existing non-COVID-19 portfolio to minimise impact of new product development timelines:
 - Relaunch existing RUO in H2 2022
 - Upgrade and re-focus distributor network and add direct sales in targeted countries
 - Expand IT-IS instrument sales using reach of Novacyt distribution channels
 - Prioritise molecular portfolio to drive focus and simplification.
- Maintain our position as a leading supplier of COVID-19 diagnostics:
 - Use Bioinformatics expertise to keep portfolio relevant to the rapidly changing phases of the pandemic
 - Developing “dry” versions of key molecular products to support developing markets
 - Launching key LFT products to follow the shift towards higher prevalence of antigen testing.
- Use our balance sheet to accelerate and enhance the overall strategy:
 - Invest in early innovation in both menu and delivery systems e.g. Co-prep
 - Accelerating our beyond Covid molecular portfolio via distribution and OEM partnerships
 - Actively pursue strategic M&A transactions to build for scale and diversify the Novacyt business.

1.5 Business activity in the year ended 31 December 2021

Amounts in '000 £	Primer Design	Lab21 Products	IT-IS International	Total
Geographical area				
United Kingdom	41,944	624	164	42,732
Europe (excluding UK)	31,045	1,077	355	32,477
America	8,047	270	782	9,099

Asia-Pacific	7,262	856	1,376	9,494
Middle East	501	200	17	718
Africa	1,053	151	56	1,260
Total revenue	89,852	3,178	2,750	95,780

1.6 Research and development activity

- Rapid development and launch of 15 new assays to support laboratories, clinicians, and private testing of COVID-19 since the beginning of 2021.
- Launch of VersaLab™ mobile processing laboratories and VersaLab™ Portable to expand near-patient testing opportunities in private sector testing.
- Focus on surveillance programme ensuring, to date, the Company's PCR product portfolio remains able to detect all published strains of SARS-CoV-2 with the same high level of accuracy.

1.7 Polluting or dangerous activities

None

1.8 Main risks and uncertainties facing the Company and management of financial risks

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including April 2023. In making this assessment, the Directors have considered the following elements:

- The working capital requirements of the business;
- A positive cash balance at 31 December 2021 of £101,746,000;
- Full payment of the remaining Long-Term Incentive Plan ("LTIP") that commenced in November 2017 and concluded in November 2020;
- Payment of the final earn-out milestone related to the IT-IS International acquisition; and
- Management's expectation of settling the outstanding commercial dispute with the DHSC.

In the event the current dispute is fully settled in favour of the counterparty, the forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2022 and until April 2023 without the raising of any banking or other financing facility.

As at 31 December 2021 the Group is debt free and its main financial liabilities are trade and other payables.

Trade and other receivables, cash and cash equivalents held by the Group are generated by operating activities.

- Currency risk

The Group has significant operations in the United Kingdom, where its main subsidiaries are located. The Group is mainly exposed to the Euro and US Dollar currencies as the company now reports in Great British Pounds, which is its main functional currency.

- Credit risk

Credit risk is the risk of financial loss, following the failure by a third party to honour its commitment to repay a debt. The Group is exposed to credit risk due to its operating activities (mainly through trade receivables) and through deposits with banks.

The Group's exposure to credit risk is represented by the risk of counterparty default: maximum exposure is equal to the carrying amount of these instruments.

The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers' risk levels. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group uses debt collection agencies and government backed schemes to collect difficult aged debts as a last resort.

- Liquidity risk

Since its creation, the Group has financed its growth by successive capital increases, loans, grants and public aid for innovation, the reimbursement of research tax credit receivables and has recently self-financed due to its profitability.

1.9 Significant events occurring between the reporting date and the date of this report

Contingent Liabilities

During 2021, the Group received notification of a contract dispute between its subsidiary, Primer Design Ltd, and the DHSC related to revenue totalling £129,125,000 in respect of performance obligations satisfied during the financial year to 31 December 2020. Following the issuance of legal proceedings on 25 April 2022 by the DHSC, this figure has now increased by £1,517,000 due to the inclusion of q16 instruments, taking the total 2020 revenue in dispute to £130,642,000. Payment for £23,957,000 of invoices in respect of products delivered during 2020 remains outstanding at the date of signing the financial statements and recovery of the invoice is dependent on the outcome of the dispute.

Management have reviewed the position at 31 December 2021 and deem this to still be an appropriate reflection of the current commercial dispute.

During 2021, a further £49,034,000 (including VAT) of products and services were delivered and invoiced to the DHSC and has now been included as part of the ongoing dispute. Management have made the judgement that as per IFRS 15, Revenue from Contracts with Customers, it is not appropriate at this stage in the dispute to recognise as revenue, any sales invoices raised to the customer in 2021 that are in dispute. However, Management remains committed to obtaining payment for these goods and services.

Management and the Board of Directors have reviewed the product warranty provision totalling £19,753,000 booked in 2020 in relation to the DHSC dispute and have deemed that it remains appropriate at 31 December 2021.

Subsequent Events

On 25 April 2022, legal proceedings were issued by the DHSC to the Group for amounts paid to Novacyt totalling £134,635,000 (including VAT). This refers to £132,814,000 (including VAT) of reagent sales out of a total disputed amount of £154,950,000 (£129,125,000 excluding VAT) plus £1,821,000 (£1,517,000 excluding VAT) of q16 instruments which have been added to the dispute.

The Group continues to believe it has strong grounds to defend the claim and assert its contractual rights, including in relation to recovering outstanding sums due from the DHSC.

1.10 Existing branches

Novacyt SA closed its UK branch called Novacyt SA UK on the 12 November 2021.