NOVACYT
GROUP

Half-yearly Activity Report

2018

Half-year financial statements ended June 30, 2018

ACTIVITY REPORT

2018 BIANNUAL

HALF-YEARLY ACCOUNTS CLOSED ON 30 JUNE 2018

ABOUT NOVACYT GROUP

The Novacyt Group is a rapidly growing, international diagnostics group with a growing portfolio of cancer and infectious disease products and services. Through its proprietary technology platform, NOVAprep®, and molecular platform, genesig®, Novacyt is able to provide an extensive range of oncology and infectious disease diagnostic products across an extensive international distributor network. The Group has diversified sales from diagnostic reagents used in oncology, microbiology, haematology and serology markets, and its global customers and partners include major corporates.

KEY FIGURES:

- Consolidated unaudited Group revenue of €7.0m, marginal increase compared to H1 2017
    - Primerdesign revenue increased 15% (18% CER) to €3m
    - Lab21 revenue increased 3% (6% CER) to €3.4m
    - NOVAprep® revenue of €0.6m versus €1.1m in H1 2017
- Group revenue increased 1% at CER compared with H1 2017 as a result of a previously announced decision to re-optimise the NOVAprep® product, exacerbated by supply issues
- Excluding the impact of NOVAprep®, Group revenue increased 8% (11% at CER)
- Gross profit increased from €4.3m to €4.5m representing a three-percentage point increase from 61% to 64%
- EBITDA loss of €0.5m in H1 2018 was broadly similar to the same period in 2017 as a result of higher gross profit offset by NOVAprep® losses
- Excluding the impact of NOVAprep® EBITDA was at break-even for the first half
- Novacyt had €2.1m in cash and cash equivalents at the end of 30 June 2018

OPERATIONAL PERFORMANCE:

- Completed the acquisition of Omega Diagnostics ID business on 28th June 2018, a profitable and cash generative infectious disease business unit
- Following further investment in commercial infrastructure, Primerdesign revenue increased 15% (18% at CER) to €3.0m compared with H1 2017 which is being directly driven from the investment in the core research use only (RUO) business
- Group gross margin improved again during the period to 64% through a combination of higher than expected margin in Primerdesign and Lab21 offset by the disappointing performance of NOVAprep®
- As a result of the previously announced product optimisation process and unexpected supply chain issues, NOVAprep® sales fell greater than anticipated by 44% to €0.6m compared with H1 2017 (-44% versus H2 2017) and the Board

announced a strategic review of how to maximize future value of the NOVAprep® business unit

CORPORATE REVIEW:

In the first half of 2018, Novacyt made further progress in shaping and defining the business to deliver long-term sustainable growth. At the heart of the strategy is a resolute commitment to the three pillars of growth based on organic expansion, a commitment to investment in R&D and a judicious approach to acquisitions.

Revenues of €7.0m were flat on 2017 as a result of the effects of the previously announced NOVAprep® product re-optimisation and supply chain issue being offset by strong growth in Primerdesign and solid growth at Lab21. Group revenues, excluding NOVAprep®, advanced 8% (11% at constant exchange rates CER). Organic growth was driven by business to business contract wins at Primerdesign, new tenders in Lab21 and the launch of several newly developed clinical products.

The Board continues to progress its strategic review of options for the NOVAprep® business, which was announced on 2nd August, including a sale of the NOVAprep® business. In the event of a successful sale, Novacyt would benefit from a significant reduction in ongoing losses due to the investment still needed to optimize the NOVAprep® business and the remaining core business would be expected to become immediately EBITDA profitable and move towards becoming cash flow generative.

The integration of Omega Diagnostics infectious disease business, acquired on 28th June 2018, is progressing well and going according to plan. The Group has started to capture the identified cost and growth synergies and the additional profitability from this acquisition could exceed expectations during the second half of this year.

MOLECULAR PRODUCTS

18% underlying sales growth in Primerdesign reflects strong growth in the core Life Science Research and Food Testing markets and a step up in business to business activities. We have continued to invest in sales and marketing, increasing our catalogue of tests and we continue to make good progress in the development of clinical IVD products.

Primerdesign is increasingly recognised as a leading clinical assay development partner. During the period, the Company secured contracts with ten development customers compared to only three customers in 2017. The collaboration signed with GenePoC in March to develop a triplex molecular diagnostic assay to identify influenza A, influenza B and respiratory syncytial virus A and B (RSV A and B) for deployment on GenePOC's revogene™ instrument is a typical example of such contracts. The initial work is expected to complete in the second half and follow-on work is under discussion.

The Company continues to grow sales of the q16 PCR instrument and has invested heavily in stock expected to sell during the next twelve months. The number of units now sold has risen from 230 in 2017 to 339 and this is expanding the pull-through in genesig® kit sales which is delivering a continued increase in Primerdesign's gross margin. The Company continues to invest in the development of the next generation PCR instrument - the q24 - which is faster, higher throughput and offers higher multiplexing capabilities. The launch of this instrument is planned for H2 2019.

The launch of the next two CE-IVD accredited clinical assays are expected to launch by the end of the year. The assays EBV and BKV are used in the management of immunosuppressed patients and in the monitoring of patients post organ-transplantation. The molecular market for these two assays in Europe is estimated at €20m.

Primerdesign continues to invest in business development and commercial infrastructure and has increased its direct sales force in Norther Europe from two to six people dedicated to specific territories within the region. Additional sales people are being added into other international markets where we also expect to see significant growth opportunities. The investment in B2B commercial infrastructure is building a strong pipeline of potential new partners and we expect sales to continue to grow from this investment.

PROTEIN PRODUCTS

Lab21 revenue of €3.4m demonstrated reported growth of 3% and 6% CER over H1 2017. There is also a strong start to the second half of 2018, with a new high level of tenders of €1.2m being secured. During 2017, we completed the development and launch of 10 new products, all of which are now contributing to growth in 2018. In addition, we launched PathFlow™ Mononucleosis, a qualitative lateral flow immunoassay for the detection of infectious mononucleosis (IM) and the first in a series of infectious disease tests. PathFlow™ Mononucleosis provides a rapid and effective differential diagnosis to patients with IM over streptococcal pharyngitis and will help to address the global issue of antibiotic resistance.

On 28 June Novacyt, through its Lab21 Products division, agreed terms of an asset purchase agreement with Omega Diagnostics to acquire the infectious disease business unit for up to £2.175 million subject to performance, comprising:

- (i) £1.8m upon completion,
- (ii) £175,000 paid after twelve months upon completion of technology transfer and,
- (iii) £200,000 paid upon the successful accreditation of the Axminster, UK production facility to certain standards.

The unaudited sales of the ID business were £2.49 million and EBITDA £310,000 for the year ending 31 March 2018. Integration is progressing well with technical transfer of production to Novacyt underway alongside product re-registration and initiation of direct commercial activities. Novacyt continues to anticipate similar sales in the first twelve months of ownership and to capture material cost synergies from leveraging existing commercial and manufacturing infrastructure within Novacyt and expect profitability in the second half to be greater than expected.

NOVAPREP®

During the period NOVAprep® revenue was €0.6m versus €1.1m in H1 2017 reflecting the previously announced product optimisation actions and the impact of an unexpected supply chain delay. The supply chain issue has now been resolved and sales are recovering during the second half. The strategic review announced in August to consider the optimal way to maximise value for the technology continues and the Company will provide an update in due course. Following the balance sheet date NOVAprep® has also launched its first non-gynaecological CE Marked product which is expected to be an important addition to the NOVAprep® product already used in cervical cancer screening and HPV testing.

CURRENT TRADING AND OUTLOOK :

Novacyt remains committed to successfully delivering on its three pillars of growth strategy which is driving growth in the core businesses and delivering operational efficiency.

The Board remains confident in the outlook for the core business and expects to achieve EBITDA profitability in 2018 driven by:

- Primerdesign – continued double-digit growth in the core business and conversion of the significant business-to-business pipeline opportunity
- Lab21 – the expected completion of major tender opportunities
- Integration of the Omega ID business and delivery of better than expected profitability
- Successful outcome of the NOVAprep® strategic review to reduce or eliminate the underlying NOVAprep® losses

TURNOVER BY OPERATIONS:

Amounts in '000 €	(Unaudited) Six months ended 30 June 2018	(Unaudited) Six months ended 30 June 2017	(Audited) Year ended 31 December 2017
Manufactured goods	6,155	5,862	12,520
Services	549	502	1,021
Traded goods	146	510	1,045
Other	193	155	368
Total Revenue	**7,044**	**7,029**	**14,954**

BREAKDOWN OF REVENUE BY OPERATING SEGMENT AND GEOGRAPHIC AREA:

- **At 30 June 2018**

Amounts in '000 €	Cytology	Diagnostics	Molecular products	Total
Geographical area				
Africa	-	198	121	319
Europe	431	1,568	1,536	3,536
Asia-Pacific	158	706	444	1,307
America	1	529	825	1,356
Middle East	27	402	98	526
Revenue	**617**	**3,403**	**3,024**	**7,044**

- **At 30 June 2017**

Amounts in '000 €	Cytology	Diagnostics	Molecular products	Total
Geographical area				
Africa	-	138	172	310
Europe	711	1,688	1,345	3,744
Asia-Pacific	346	754	383	1,483
America	-	364	657	1,021
Middle East	44	357	70	471
Revenue	**1,101**	**3,300**	**2,628**	**7,029**

Consolidated Income Statement as at 30 June 2018:

Amounts in '000 €	**(Unaudited) Six month ended 30 June 2018**	**(Unaudited) Six month ended 30 June 2017**	**(Audited) Year ended 31 December 2017**
Revenue	7,044	7,029	14,954
Cost of sales	-2,552	-2,771	-6,030
Gross profit	**4,492**	**4,258**	**8,923**
Sales, marketing and distribution expenses	-1,756	-1,615	-3,249
Research and development expenses	-287	-397	-819
General and administrative expenses	-3,751	-3,389	-7,114
Governmental subsidies	85	144	368
Operating loss before exceptional items	**-1,217**	**-998**	**-1,890**
Costs related to acquisitions	-	-	-
Other operating income	177	7	16
Other operating expenses	-469	-144	-2,197
Operating loss after exceptional items	**-1,510**	**-1,135**	**-4,071**
Financial income	32	301	466
Financial expense	-367	-878	-1,839
Loss before tax	**-1,844**	**-1,712**	**-5,444**
Tax (expense) / income	-	-	3
Loss after tax attributable to owners of the company	**-1,844**	**-1,712**	**-5,442**
Loss per share (€)	-0.08	-0.09	-0.24
Diluted loss per share (€)	-0.08	-0.09	-0.24

Revenue

Revenue remained broadly unchanged at €7.0m and increased by 1% at CER (taking into account a 2% fall in the value of the Pound against the Euro) compared with the same period last year. This underlying increase was achieved due to growth in Primerdesign (18% CER) and Lab21 (6% CER) which was mostly offset by the greater than expected reduction in NOVAprep® revenue of 44% from €1.1m to €0.6m in the first half of this year. At a Group level, sales have grown compared to the first half of 2017 in Africa, the Americas and the Middle East, with year-on-year reductions in Europe and Asia-Pacific caused by weaker NOVAprep® sales. Both Europe and Asia-Pacific achieved growth excluding NOVAprep®.

Gross margin
Gross margin has shown continued positive momentum, increasing from €4.3m (61%) in the first half of last year to €4.5m (64%) in 2018. This year-on-year improvement is due to a combination of higher margins in the Lab21 and Primerdesign businesses and the impact of Primerdesign increasing its share of Group revenue from 37% to 43% whilst delivering an extremely high margin of 85%. This improvement in gross margin continues a trend of annual improvements each year since 2014 when it was 44%.

The Lab21 Products business has seen a 3% year-on-year gross margin improvement predominantly driven by a sales mix change in selling a greater proportion of higher margin products. The NOVAprep® gross margin has improved 5% year-on-year, driven a larger proportion of consumables compared to H1 2017. Lower manufacturing costs have also helped to increase gross margins due to economies of scale as sales volumes increase.

EBITDA
EBITDA is broadly unchanged compared with the same period last year. In the first half of 2018, the Group has continued to invest in further growth, which has been rewarded with 18% underlying growth in Primerdesign, 6% growth in Lab21 Products and a three-percentage point increase in gross margin. However, the reduction in NOVAprep® revenue has temporarily halted the profitability progress.

Higher commercial costs reflect increased staff levels to support the growth plans of the business. Facilities costs have increased year-on-year following the move of the Microgen business to the new group headquarters in Camberley. Due to the dual stock market listing (AIM & Euronext Growth) professional fees have increased year on year, due to the increased regulatory requirements. Until this period, EBITDA had consistently improved each half year from a consolidated loss of €1.6m in H2 2015 to a €0.3m loss in the second half of 2017 driven by strong sales growth and gross margin improvements.

Operating loss before exceptional items
Group operating loss before exceptional items increased by 22% to €1.2m compared with H1 2017. With only a small movement in EBITDA, the movement is due to additional depreciation/amortisation costs of €0.1m and LTIP charges of €0.1m as the scheme was put in place in November 2017.

Net loss
The net loss increased by €0.1m to €1.8m between H1 2017 and H1 2018 due to the increase in depreciation and amortisation costs and LTIP charges described above as well as increases in exceptional charges of €0.1m related to restructuring staff costs, offset by reduced financial expenses of €0.2m due to reduced interest charges on the outstanding loans.

The Group held €2.1m of cash on the balance sheet at 30 June 2018 compared to €4.3m at 31 December 2017. The reduction in cash was due to the EBITDA loss of €0.5m, exceptional charges of €0.3m and working capital usage of €0.9m – primarily driven by a €0.5m increase stock mainly due to the business holding larger quantities of Primerdesign q16 instruments to support planned sales in H2. The €4.0m of cash derived from the bond issued in May was offset by the €2.1m upfront cost of acquiring the Omega ID business in June and debt repayments of €1.8m. Net debt increased to €4.2m at the end of June 2018 from net cash of €0.5m in December 2017 following the issue of a new €4.0m bond facility in May.

Goodwill increased by €1.7m following the acquisition of the Omega ID business for up to €2.5m - including €0.4m of deferred consideration for two milestones related to transitioning operations to the Novacyt Group – less the cost of inventories and fixed assets recognised upon acquisition. Due to the transaction completing very close to the reporting date, purchase price allocation will be reported at the end of the financial year. As at June 2018, the balance sheet includes within current assets €662k of inventories and €47k of fixed assets related to the acquisition.

Inventories have increased €1.2m since the end of last year, which includes €0.7m of stock acquired from Omega Diagnostics and €0.4m higher stock of instruments to fulfil orders in the second half of the year driven by a strong order book.

Trade receivables have increased since the year end by €0.2m to €4.0m. Payments from the large Chinese debtor reported at the year-end have recommenced under an agreed schedule, which we expect will clear a significant portion of the debt by the year end and enable us to build a strong relationship with the customer in order to help the Group maximise opportunities in the Chinese market.

Borrowings have increased by €2.4m to €6.3m since the previous year end due to the €4.0m bond facility (€3.96m net of fees) issued in May offset by debt repayments of €1.54m during the period.

FINANCIAL FACTS

As of 30th June 2018, the Company's share capital of €2,510,956.06 is divided into 37,664,341 shares with a par value of 1/15th of a euro each.

EVENTS POST CLOSURE

No significant events have taken place since the reporting date.