NOVACYT
GROUP

Interim Activity Report

2019

Interim financial statements for the period ended 30 June 2019

ACTIVITY REPORT

2019 INTERIM

INTERIM REPORT FOR THE PERIOD ENDED 30 JUNE 2019

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 oncology, microbiology, haematology and serology markets as do its global partners, which include major corporates.

FINANCIAL HIGHLIGHTS

- Consolidated unaudited Group revenue of €7.2m, an increase of 12% (11% CER) compared to the restated revenues for H1 2018 of €6.4m
  - Primerdesign revenue increased 8% (7% CER) to €3.3m
  - Lab21 revenue increased 17% (16% CER) to €4.0m as a result of the incremental revenue from the Omega ID acquisition in June 2018
- Group gross margin remained strong at 63%, a reduction of 2% from H1 2018, due to the anticipated dilutive gross margin effect of the Omega ID revenue streams. On a like-for-like pro forma basis (excluding Omega ID) gross margin increased by 3% year on year to 68%
- Primerdesign gross margin improved year-on-year by 2% to 87%, demonstrating the significant current and potential future value of this business unit to the Group
- Group EBITDA profitability of €0.2m in H1 2019 versus a €0.1m loss in H1 2018
- Operating loss reduced by €0.1m to €0.7m despite incremental Omega ID amortisation of €0.1m
- Omega ID contributed a strong EBITDA profit of 19% in H1 2019 and synergies have been identified to further improve gross margin and EBITDA profitability
- Novacyt held €0.6m in cash and cash equivalents at the end of 30 June 2019
- Working capital constraints in second and third quarters will result in consolidated revenue and EBITDA below market expectations for the full year but ahead of the EBITDA for the prior year.

NOVAprep® revenues are excluded, reflecting the strategic decision to sell the division, as announced on 11 December 2018. Group revenue includes the Clinical Lab (€0.3m) for the first half of the year, which was subsequently sold on 18 July 2019.

OPERATIONAL HIGHLIGHTS

- The working capital restrictions have significantly impacted the Group, especially the Lab21 Products business during the second quarter. Despite this, the Group has continued to grow sales and EBITDA profitability, underscoring the potential profitability of the Group as it continues to scale
- Primerdesign revenues increased by 8% to €3.3m compared to H1 2018 as a result of growth of 22% in B2B sales and 10% in International Markets. Sales in the Middle East and US markets were the fastest growing regions for molecular products at 114% and 33%, respectively, compared to H1 2018
- Integration of Omega ID is progressing well, and a decision to close and consolidate the Axminster facility, acquired with the Omega ID assets, was implemented during the first quarter, which has further reduced costs and increased the profitability of this business
- The molecular R&D pipeline of CE-Mark assays focused in transplant diagnostics continues to make good progress, and two new CE-Mark products - EBV and BKV - were launched in the third quarter of 2019 as planned

POST PERIOD END

- Sale of the Clinical Lab to Cambridge Pathology BV completed on 18 July 2019 for a total consideration of £400,000. The sale will enable Novacyt to focus more closely on the expansion and value of its core products businesses, Primerdesign and Lab21 Products. A second deferred payment of £100k was received in September as expected
- The Company continues to look for a buyer(s) of its NOVAprep® business unit but is also taking steps to close the remaining business by the end of 2019 in the event a sale has not completed. All customers, suppliers and employees have been informed of the decision, and the Company will work sensitively and diligently to support all those who will be impacted by this decision. Due to significantly reduced costs, the liquidation of certain assets and an increase in consumables sales orders, the negative cash flow impact on the business unit will be greatly reduced with the potential for it to generate cash for the Group during the second half of 2019

Graham Mullis, Group CEO of Novacyt, commented:

"We have continued to experience increasing demand for our products throughout 2019, which led to 12% growth in sales in H1. However, this growth has been somewhat moderated by working capital constraints, which we continue to make good progress on resolving. As a result, this shortfall will impact our full year revenue and profit performance as we continue to work through our forward order book. With sufficient working capital, we will continue to build on the robust operational performance of our Primerdesign and Lab21 Products business units, which delivered record sales growth in a number of territories in H1.

"We successfully completed the sale of the Clinical Lab, which allows us to further streamline and focus our operations. This will save the the Group €0.1m due to the elimination of overheads associated with the operating site. The decision to dispose of, or close, the NOVAprep® business unit by year end also removes the uncertainty of the sale process.

"We understand shareholders have been disappointed with the share price performance and dilution since the convertible bond facility was executed in April 2019. We continue to assess various financing options for the Company and will update the market in due course.

"Novacyt's solid foundation lies in its strengths in vitro diagnostic product design, development, commercialisation and contract manufacturing. I look forward to building on the base as we work hard to restore shareholder confidence and deliver value through a profitable, high growth diagnostics company."

CORPORATE REVIEW

In the first half of 2019, Novacyt made further progress in shaping and defining the business to deliver long-term sustainable profitable growth. This has been achieved through the progress it is making in restructuring the business to focus on its core, profitable reagents manufacturing businesses. These achievements will reinforce the Company's strategy and commitment to the three pillars of growth based on organic sales expansion, investment in R&D and a judicious approach to acquisitions. Novacyt expects it can further reduce the manufacturing cost base across the Group to grow the Group's gross margins and increase overall profitability.

MOLECULAR PRODUCTS

Primerdesign revenues increased by 8% to €3.3m compared to H1 2018 as a result of a 22% growth in B2B sales and continued growth of 10% in international markets. Direct sales in the UK were down by 6% due to the short-term impact of reorganising the sales management structure with sales growth anticipated to resume towards the end of the year. Sales in the Middle East and US markets were the fastest growing regions for molecular products at 114% and 33% compared to H1 2018.

Primerdesign is increasingly recognised as a leading clinical assay development partner. As of the end of H1 2019, Primerdesign has engaged with over 15 customers throughout the past 18 months, fulfilling their specific development requirements. During the first half of 2019, the Company expanded its assay development contract with Immunexpress for the first US Food and Drug Administration (FDA) cleared host response test for suspected sepsis patients to further support the development of rapid diagnostic assays for the detection of sepsis.

In May 2019, Primerdesign also launched its next-generation genesig® q32 qPCR molecular testing instrument, to complement the established genesig® q16, launched in 2014. Further operational enhancements to both the q16 and q32 instrument platforms are planned in 2020 to provide gold standard PCR cycle times of 30 minutes.

Primerdesign's extensive catalogue of over 550 genesig® Real-Time PCR kits can be run on the q32 instrument, including human, food pathogens and food speciation testing. As all genesig® kits have an identical running protocol, the q16 and q32 instruments are easy to use for customers of all expertise and experience levels and provide results that can be easily compared across the instruments and across different sites or collaborating groups.

During the first half of 2019, Primerdesign successfully launched its CE Mark EBV and BKV assays used to help transplantation and immunosuppressed patients. Both tests provide quantitative detection of viral DNA extracted from blood plasma, whole blood and urine.

They have initially been validated for the Roche LightCycler® 480 II Instrument and the same assays will be available to run on additional instruments, the ABI 7500 and Bio-Rad CFX, later this year. The complementary and important CE-Mark CMV assay development is progressing well and will launch early next year.

PROTEIN PRODUCTS

Lab21 revenue of €4.0m demonstrated growth of 17% (16% CER) in the first half of 2019 compared to H1 2018 driven by the Omega ID acquisition which completed in June 2018. The second quarter of 2019 saw sales restricted by a lack of working capital, which mainly impacted the Lab21 business unit. Despite this, the new sales team increased UK sales of Microgen branded products by 29% compared to the first half of 2018. The order book remains strong for the second half of the year and continued growth is expected depending on how quickly the supply chain can be fully restored.

The Omega ID asset acquisition continues to be EBITDA accretive to the Group, and a number of additional cost savings and synergies have been identified to drive this profitability further. These include (i) the closure of the acquired Axminster site which was consolidated within the Group during Q2 2019 saving overheads of €150k per annum, (ii) consolidating duplicated products to minimise manufacturing costs and (iii) the saving of Omega Diagnostics overhead charges under the Transitional Services Agreement in early 2020.

During the second half of 2019, the Lab21 business unit aims to launch twelve new CE-Mark clinical products which will add to the PathFlow® and PathChek® product ranges. An immediate launch of six new products in the PathFlow™ range will take place this month which will extend the range of tests for the rapid diagnosis of several key pathogens associated with Infectious Disease in humans. These include tests for Clostridium difficile, Helicobacter pylori, Influenza A+B, Norovirus, Rotavirus, Adenovirus and RSV from a range of patient sample types. The products in combination represent some of the most important tests required in a modern hospital laboratory setting, addressing the need for fast and accurate diagnosis of key pathogens to prevent mortality. Quicker and more effective diagnosis also enables clinicans to combat the increasing issues of antimicrobial resistance associated with these pathogens.

The expansion of the PathFlow™ range of products serves to highlight Novacyt's long term commitment to facilitate clinical improvements to patient outcomes as a result of earlier diagnosis. Novacyt will look to increase the number of PathFlow™ tests with further expansion of the product range during the final quarter of this year.

FINANCIAL REVIEW

Revenue

Unaudited revenues for the first half of 2019 were €7.2m compared to the restated revenues for 2018 of €6.4m, with the addition of Omega ID revenue and solid growth from Primerdesign in the Middle East and US markets. Continuing Group revenue, excluding NOVAprep®, increased by 12% (11% CER). The order book is strong for the second half of the year and continued growth is expected depending on how quickly the supply chain can be fully restored.

Gross margin

Gross profit has shown continued positive momentum, increasing from €4.2m (65%) in the first half of last year to €4.6m (63%) in 2019. This margin reflects the lower gross margin associated with the Omega ID revenue streams. On a pro forma basis, gross margin increased 3% to 68% year on year. Primerdesign's gross margin improved year on year by 2% to 87% as a result of lower manufacturing costs due to economies of scale as sales volumes increase. The gross margin of the Group in 2014 was 44% compared to 63% in H1 2019, an increase of 19 percentage points.

The Lab21 Products business unit has seen a 6% year-on-year gross margin decrease to 45% impacted by the dilutive gross margin effect of the Omega ID acquisition. On a pro forma basis, the gross margin of the business unit would have been largely unchanged at 50% compared to 51% in H1 2018.

EBITDA

The Group has continued its EBITDA profitability trend with an EBITDA profit of €0.2m in the first half of 2019, which saw the underlying Primerdesign EBITDA margin increase to over 40% before Group management charges. With Primerdesign delivering approximately 45% of Group revenue at 87% gross margin, its continued success contributes substantially to the Group's positive EBITDA. The effect of increasing Primerdesign revenues as a percentage of overall Group revenues will continue to enhance the overall profitability of the Group.

The Omega ID acquisition has been immediately EBITDA accretive to the business and during the first half the EBITDA margin of this business was 19%. This strong level of profitability is expected to increase as the business becomes fully integrated within the Group.

A focus on cost control across the Group in H1 2019, in addition to the adoption of IFRS 16, has helped drive EBITDA from a loss of €0.1m in H1 2018 to a profit of €0.2m in H1 2019 at a time when sales were impacted by a lack of working capital. Additional planned cost saving initiatives, particularly in manufacturing, can deliver further profit improvements during the second half and into 2020.

Operating loss

Group operating loss narrowed by over 20% to a loss of €0.7m compared with the H1 2018 loss of €0.8m. The €0.3m improvement in EBITDA and a reduction in exceptional charges of €0.2m year on year have been offset with additional depreciation/amortisation costs of €0.3m resulting from the Omega ID acquisition (€0.1m) and impact of IFRS 16 (€0.1m).

Net loss

The net loss increased by €0.2m to €2.0m between H1 2018 and H1 2019 due to a €0.1m increase in amortisation costs associated with the Omega ID acquisition, a €0.1m increase in the loss in discontinued operations driven by the NOVAprep business performance, and additional financial expenses of €0.2m due to additional borrowing taken on in late Q2 2018, offset by the €0.3m EBITDA improvement.

Balance Sheet

The Group held €0.6m of cash on the balance sheet at 30 June 2019 compared to €1.1m at 31 December 2018. The reduction in cash is, in part, due to the repayments of €0.3m made against the outstanding deferred considerations that commenced in H1 2019 and a net working capital outflow of €0.6m. The €2.0m of cash derived from the bond issued in April was used for debt servicing and working capital to reduce the Group creditor position.

Other non-current assets have increased by €2.3m, primarily driven by the impact of adopting IFRS 16 which has put a long-term asset of €2.6m to the balance sheet comprised mainly of site related costs, offset by depreciation.

Trade receivables have decreased since the year end by €0.3m to €3.6m primarily due to the recovery of some older receivables. Prepayments have increased since 31 December 2018 by €0.4m driven by €0.2m of upfront payments for stock that were not received in H1, and €0.2m due to the timing of rent and business rates (property taxes) invoices received without a change in the underlying cost.

Net debt increased to €8.1m at the end of June 2019 from €4.2m in December 2018 following i) the draw down of €2.0m of convertible bonds from the €5m facility signed in April 2019, ii) the impact of adopting IFRS 16 which has added a €2.6m liability to the balance sheet, iii) a €0.5m reduction in cash offset by, and iv) debt repayments of €1.3m including €0.3m of interest.

The Contingent consideration balance has reduced to €1.1m as at June 2019 from €1.6m in December 2018, driven by repayments of €0.3m made during 2019 and by the cancellation of an earn out milestone worth €0.2m.

CURRENT TRADING AND OUTLOOK

Novacyt remains committed to successfully delivering on its three pillars of growth strategy which will continue to deliver increased profitability. A key factor to this success will be the Company's ability to secure financing that will facilitate a restructuring of the debt to put the Company in a much stronger financial position.

The outlook for the Primerdesign and Lab21 businesses remains strong entering the final quarter of the year. Both business units have significant sales pipelines and aim to grow sales above the levels of H1 2019. However, with working capital restrictions, the second and third quarters have been impacted. A consequent reduction in the rate of sales growth is expected for the full year. Novacyt therefore forecasts single digit full year consolidated sales growth and an EBITDA below market expectations but ahead of the EBITDA profitability for the prior year.

TURNOVER BY OPERATIONS:

The table below shows revenue from ordinary operations:

Amounts in '000 €	(Unaudited) Six month ended 30 June 2019	(Unaudited) Six month ended 30 June 2018
Manufactured goods	6 676	5 598
Services	306	549
Traded goods	58	85
Other	183	195
Total Revenue	**7 223**	**6 427**

BREAKDOWN OF REVENUE BY OPERATING SEGMENT AND GEOGRAPHIC AREA:

- At 30 June 2019

Amounts in €'000	Corporate & Diagnostics	Molecular products	Total
Geographical area			
Africa	358	161	518
Europe	1 555	1 352	2 906
Asia-Pacific	1 097	496	1 594
America	409	980	1 390
Middle East	551	264	815
Revenue	**3 970**	**3 253**	**7 223**

- At 30 June 2018

Amounts in '000 €	Corporate & Diagnostics	Molecular products	Total
Geographical area			
Africa	198	121	319
Europe	1,568	1,536	3,104
Asia-Pacific	706	444	1,150
America	529	825	1,354
Middle East	402	98	500
Revenue	**3,403**	**3,024**	**6,427**

Consolidated income statement as at 30 June 2019

Amounts in €'000	(Unaudited) Six month ended 30 June 2019	(Unaudited) Six month ended 30 June 2018
Revenue	7 223	6 427
Cost of sales	-2 643	-2 236
Gross profit	**4 580**	**4 191**
Sales, marketing and distribution expenses	-1 317	-1 217
Research and development expenses	-229	-189
General and administrative expenses	-3 639	-3 387
Governmental subsidies	7	35
Operating loss before exceptional items	**-598**	**-569**
Other operating income	57	177
Other operating expenses	-123	-444
Operating loss after exceptional items	**-664**	**-836**
Financial income	36	32
Financial expense	-579	-368
Loss before tax	**-1 208**	**-1 172**
Tax (expense) / income	0	0
Loss after tax	**-1 208**	**-1 172**
Loss from discontinued operations	-786	-673
Loss after tax attributable to owners of the company	**-1 994**	**-1 844**
Loss per share (€)	-0,05	-0,08
Diluted loss per share (€)	-0,05	-0,08
Loss per share from the continuing operations (€)	-0,03	-0,05
Diluted loss per share from the continuing operations (€)	-0,03	-0,05
Loss per share from the discontinued operations (€)	-0,02	-0,03
Diluted loss per share from the discontinued operations (€)	-0,02	-0,03

The consolidated income statement is presented to reflect the impacts of the application of IFRS 5 relative to discontinued operations, by restating the NOVAprep® activity on a single line “Loss from discontinued operations”.

SUBSEQUENT EVENTS

On the 18th July 2019, Novacyt completed the sale of its non-core Cambridge clinical laboratory businesses to Cambridge Pathology BV for a total consideration of £400,000.