# Advanced Medical Solutions Group plc

Interim Report 2020

# About us

AMS is a world-leading independent developer and manufacturer of innovative and technologically advanced products for the global surgical and woundcare markets, focused on quality outcomes for patients and value for payers. AMS has a wide range of surgical products including tissue adhesives, sutures, haemostats and internal fixation devices, which it markets under its brands LiquiBand®, RESORBA® and LiquiBandFix8®. AMS also supplies woundcare dressings such as silver alginates, alginates and foams through its ActivHeal® brand as well as under white label. In 2019, the Group made two acquisitions: Sealantis, an Israeli medical device company with a patent-protected sealant technology platform; and Biomatlante, an established developer and manufacturer of innovative surgical biomaterial technologies based in France.

AMS's products, manufactured in the UK, the Netherlands, Germany, France, the Czech Republic and Israel, are sold globally via a network of multinational or regional partners and distributors, as well as via AMS's own direct sales forces in the UK, Germany, France, the Czech Republic and Russia. The Group has R&D innovation hubs in the UK, Germany, Israel and France. Established in 1991, the Group has approximately 700 employees.

## Financial Highlights:

**Group revenue (£ million)**
**2020 H1:**
**£39.3m**
**2019 H1: £48.7m**
Reported change: -19%

**Operating margin (%)**
**2020 H1:**
**£11.3m**
**2019 H1: £23.4m**
Reported change: -52%

**Adjusted[1] operating margin (%)**
**2020 H1:**
**£14.0m**
**2019 H1: £26.7m**
Reported change: -47%

**Profit before tax (£ million)**
**2020 H1:**
**£4.3m**
**2019 H1: £11.2m**
Reported change: -62%

**Adjusted[1] profit before tax (£ million)**
**2020 H1:**
**£5.3m**
**2019 H1: £12.8m**
Reported change: -59%

**Diluted earnings per share (p)**
**2020 H1:**
**1.68p**
**2019 H1: 4.06p**
Reported change: -59%

**Adjusted[1] diluted earnings per share (p)**
**2020 H1:**
**2.16p**
**2019 H1: 4.80p**
Reported change: -55%

**Net operating cash flow (£ million)**
**2020 H1:**
**£8.8m**
**2019 H1: £10.3m**
Reported change: -14%

**Net cash[2] (£ million)**
**2020 H1:**
**£67.9m**
**2019 H1: £63.9m**
Reported change: +6%

**Interim dividend per share (p)**
**2020 H1:**
**0.50p**
**2019 H1: 0.50p**
Reported change: +0%

## Inside this report



Notes

1 Adjusted profit before tax is shown before exceptional items which, in 2020 H1 were £nil (2019 H1: £0.9 million), before amortisation of acquired intangible assets which, in 2020 H1, were £1.1 million (2019 H1: £0.7 million) and a credit of £0.03 million (2019 H1: £nil) due to a change in the fair value of long-term liability as defined in the Financial Review. Adjusted operating margin is shown before exceptional items and amortisation of acquired intangible assets.

2 Net cash in 2020 H1 was £67.9 million (2019 H1: £63.9 million) defined as cash and cash equivalents of £68.4 million (2019 H1: £63.9 million) plus short-term investments less financial liabilities and bank loans in 2020 H1 of £0.5 million (2019 H1: £nil).

3 Constant currency adjusts for the effect of currency movements by re-translating the current period's performance at the previous period's exchange rates.

# Business Highlights (including post period end)

**Throughout this unprecedented period, AMS has retained its employee base in safe conditions and maintained supply to hospitals and other healthcare providers. The Group has remained profitable and cash generative whilst continuing to invest in R&D and maintaining its dividends. With COVID-19 impacts expected to reduce in each subsequent quarter and balance sheet strength, the Group is well-positioned to return to strong growth as our underlying markets continue to recover.**

- Trading was in line with our trading update of 9 July 2020, with the majority of the business impacted by government-led restrictions to control COVID-19 and a slowdown in demand across all regions and product categories.
- All manufacturing sites have remained in operation throughout the COVID-19 pandemic, servicing customers and order demand, and having implemented strict controls to ensure employee safety at all times
- First half revenue was £39.3 million (2019 H1: £48.7 million) down by 19% on a reported and constant currency[3] basis
- Despite the significant challenges, the Group reported an adjusted operating profit of £5.5 million (2019 H1: £13.0 million) and an increase in net cash to £67.9 million (2019 H1: £63.9 million)
- Investment in R&D increased to £3.8 million (2019 H1: £2.9 million) as progress continued on all core projects across the Group
- US LiquiBand® recovery plan remains on track with sales initiatives recovering 2% share of end market volumes. LiquiBand® Rapid launched with a key partner as planned and regained product listings on the two previously lost Group Purchasing Organisation (GPO) contracts
- Product approvals for new geographies have continued with our first approvals in India for both LiquiBand® and LiquiBandFix8®
- Patents granted for LiquiBand® Exceed in the UK and US, providing protection and tax benefits until 2034, and
- Interim dividend maintained at 0.50p per share (2019 H1: 0.50p) payable on 23 October 2020 to shareholders on the register at the close of business on 25 September 2020. The Board expects to return to dividend growth in the near future, as business returns to normal.

Commenting on the interim results, Chris Meredith, Chief Executive Officer of AMS, said:

"The Group has faced an unprecedented first half of the year as a result of the severe impact on our core markets arising from the COVID-19 pandemic. As a business, we have responded well to the challenge, prioritising our employees' safety and continuing critical supply to customers. Whilst the short-term impact has been stark, we are proud that the Group remains profitable and cash generative during this time whilst maintaining a robust balance sheet.

The Group has maintained investment in R&D to progress its key projects and is well positioned for growth as our markets continue to recover. Whilst we expect COVID-19 to continue to impact sales and profitability in the short-term, the Board remains positive about our medium to long-term prospects."

**Chris Meredith**
Chief Executive Officer

# Chief Executive's Review

## Group performance

This has been an unprecedented period for the Group and, as previously announced, the COVID-19 pandemic has had a significant impact on trading within both Business Units, primarily due to the consequential reduction in elective surgery volumes. Despite the challenges, we have continued to invest in R&D and progressed our key projects, ensuring we are well placed to exploit future growth opportunities across the Group as conditions normalise.

## Business Unit performance

### Surgical Business Unit

The Surgical Business Unit includes tissue adhesives, sutures, biosurgical devices and internal fixation devices marketed under the AMS brands LiquiBand®, RESORBA® and LiquiBandFix8®. In the first half of 2020, Surgical revenues decreased by 19% to £21.4 million (2019 H1: £26.5 million).

| Surgical Business Unit | 2020 H1 £'000 | 2019 H1 £'000 | Reported Growth | Growth at constant currency |
|---|---|---|---|---|
| Advanced Closure | **8,875** | 13,605 | (35%) | (35%) |
| Internal Fixation and Sealants | **967** | 1,179 | (18%) | (18%) |
| Traditional Closure | **6,188** | 7,189 | (14%) | (13%) |
| Biosurgical Devices | **5,398** | 4,518 | 19% | 21% |
| **Total** | **21,428** | 26,491 | (19%) | (19%) |

## Advanced Closure

Advanced Closure comprises predominantly the LiquiBand® topical skin adhesive range of products, incorporating medical cyanoacrylate adhesives in combination with purpose-built applicators. These products are used to close and protect a broad variety of surgical and traumatic wounds.

| Advanced Closure | 2020 H1 £'000 | 2019 H1 £'000 | Reported Growth | Growth at constant currency |
|---|---|---|---|---|
| Americas | **5,094** | 7,927 | (36%) | (37%) |
| UK/Germany | **1,956** | 3,353 | (42%) | (41%) |
| Rest of World | **1,825** | 2,325 | (22%) | (22%) |
| **Total** | **8,875** | 13,605 | (35%) | (35%) |

Revenues decreased by 35% to £8.9 million (2019 H1: £13.6 million) as demand fell in all territories due to lockdown measures that resulted in much lower volumes for all categories of surgical procedure. The US and UK markets were most heavily impacted as these were the hardest hit by the pandemic, resulting in lockdowns that were longer and more widespread.

Sales initiatives focused on US LiquiBand® started to recover some momentum resulting in strong end sales volumes in Q1 2020 and a 2% market share gain in the period. Q2 2020 volumes were much reduced, as anticipated, due to the various restrictions in place but we are pleased to have retained our increased market share position for the full H1.

The LiquiBand® Rapid™ launch went ahead with one of the Group's main US partners as planned and LiquiBand® is now already listed on both of the major US GPO contracts that were lost in 2019.

Development on our lead LiquiBand® XL formulation continues to progress well, and we expect to re-run the clinical study in Q3 2020 – keeping us on track to file for 510(K) in Q1 2021. In the run up to this, we have implemented some short-term commercial agreements with US hospitals to encourage additional LiquiBand® adoption, which have contributed to the recent market share improvement. Once approved, LiquiBand® XL is expected to unlock further growth potential in the LiquiBand® business with all partners.

We continue to obtain approvals for LiquiBand® in new geographies and notably obtained approval for LiquiBand® in India in the first half of the year. We are in the process of selecting our best route-to-market partner for this market and anticipate launch in 2021.

While there is continued uncertainty and varying state-by-state impacts of COVID-19, it has been encouraging to see that, by August, end market sales volumes for medical adhesives in the US had already recovered to more than 80% of its historical (pre-COVID-19) usage rate.

### Internal Fixation and Sealants

This category comprises our LiquiBandFix8® devices, indicated for the internal fixation of hernia meshes using our LiquiBand® technology. LiquiBandFix8® is used to fix the hernia meshes in place inside the body with accurately delivered individual drops of cyanoacrylate adhesive, instead of traditional tacks and staples. Global hernia surgery volumes are especially impacted by the COVID-19 pandemic as the vast majority are considered non-essential elective surgery, resulting in revenue decreasing by 18% to £1.0 million (2019 H1: £1.2 million).

Despite the restrictions and reduced surgical procedures, we are pleased to have made significant progress in both product training and product approvals. We have delivered virtual symposia in association with prominent hernia societies attended by more than 8,000 surgeons from around the world to increase awareness of the reduced post-operative clinical complications when using LiquiBandFix8® instead of staples or tacks. We also obtained H1 approvals for LiquiBandFix8® in other geographies, notably in India and Brazil, with distributor selection and launch planning now in process. Entry into the US market for Fix8® requires a Pre-Market Approval process and successful completion of our clinical trial that commenced in August 2019. Although all clinical activity was suspended for approximately six months, we are pleased to report that all five sites are now enrolling patients again and one third of procedural volumes have been completed. We expect to file for FDA approval in 2022 and continue to be excited about the long-term prospects for the LiquiBandFix8® portfolio with entry into the US being a significant milestone for the Group.

Following the acquisition of Sealantis in 2019, we have used the Medical Device Directive (MDD) extension period to work with our Notified Body in making progress towards gaining our first CE approval for the Seal-G® laparoscopic device. We have also expanded the existing CE approval for the open device to include a blue visual indicator that significantly aids visibility for the surgeon during product usage. These approvals are both expected before the end of 2020 along with the start of the first clinical trial, delayed due to the postponement of all patient recruitment since March 2020. In October, we also expect to complete our commercial soft launch research activity with 30 European Key Opinion Leaders ahead of full European commercial launch which is on track for H1 2021.

## Traditional Closure

The Traditional Closure category includes our RESORBA® branded Absorbable and Non-absorbable Suture ranges which include certain surgical specialties (such as dental and ophthalmic) and are sold in Germany and numerous other territories. Due to the COVID-19 pandemic, revenue decreased by 14% to £6.2 million or 13% at constant currency (2019 H1: £7.2 million).

The Group continues to assess further opportunities to expand its suture offering.

## Biosurgical Devices

The Biosurgical Devices category principally comprises RESORBA® antibiotic loaded collagen sponges, collagen membranes and cones and oxidised cellulose. Following the Biomatlante acquisition, synthetic bone substitutes and bio-absorbable screws have been added to this category. Despite the impacts of the COVID-19 pandemic, Biosurgical revenue increased by 19% to £5.4 million (2019 H1: £4.5 million) and by 21% at constant currency, reflecting the inclusion of Biomatlante sales following its acquisition by the Group in November 2019. We expect to make significant progress selling Biomatlante products under the RESORBA® brand through our existing sales infrastructure and we made some initial sales into Germany in the first half of the year.

Collagen loaded with Vancomycin has been sold in Germany for several years on a named patient prescription only basis and we continue to progress a full CE mark to allow broader promotion and sales. We are currently progressing with an MDD application, but will move to proceed under Medical Device Regulation (MDR) if necessary. We also continue to work with both EU and US regulators on wider market approvals for our antibiotic loaded collagen pacemaker pouch, also currently sold via prescription in Germany. FDA guidance has indicated the need for further clinical work which we intend to start in Europe in 2021.

Our innovative MBCP® synthetic bone substitutes are approved for use in Europe and the US and represent most of our current Biomatlante sales. To access another significant part of the market, we have developed a freeze dried bone substitute (FDBS), which has strong cohesive properties when mixed with fluids and can be easily moulded for optimal placement in orthopaedic and spine surgery. The US approval process is progressing well and we expect to file for 510(K) before the end of 2020. European approval under MDR is expected to follow in the next few years. The FDBS platform will also open up opportunities for the addition of active ingredients such as platelets, stem cells or synthetic peptides.

## Woundcare Business Unit

The Woundcare Business Unit is comprised of our multi-product portfolio of advanced woundcare dressings and bulk materials, sold under partner brands, plus the AMS branded ActivHeal® range, sold predominantly to the NHS.

In the first half of 2020, revenue decreased by 20% to £17.9 million (2019 H1: £22.2 million) driven by factors associated with the COVID-19 pandemic such as lower wound treatment volumes globally, deferral of elective surgery, the temporary closure of wound clinics and lack of community and long-term care services. In addition, the year-on-year comparator was affected by some customers' Brexit preparations in 2019.

| Woundcare Business Unit | 2020 H1 £'000 | 2019 H1 £'000 | Reported Growth | Growth at constant currency |
|---|---|---|---|---|
| Infection Management | **7,281** | 9,407 | (23%) | (23%) |
| Exudate Management | **7,205** | 10,082 | (29%) | (29%) |
| Other Woundcare | **3,368** | 2,734 | 23% | 22% |
| **Total** | **17,854** | 22,223 | (20%) | (20%) |

The Business Unit has continued its regulatory activity during the first half of the year and has successfully obtained MDD extensions until 2024 for all the remaining products in its woundcare range. Consequently, the Group has secured the maximum time possible to complete compliance with the new MDR certification requirements.

Even as volumes trend back towards pre-COVID-19 levels, we remain cautious about our advanced woundcare prospects, given the previous year's low market growth rates and some of the ongoing consolidation activity. We do however remain confident that MDR transitions will provide opportunities for us along with optimism around our new product pipeline.

## Infection Management

The Infection Management category comprises advanced woundcare dressings that incorporate antimicrobials such as Silver and Polyhexamethylene Biguanide (PHMB). Revenue decreased by 23% to £7.3 million (2019 H1: £9.4 million).

During the first half of the year, we launched our Silver Moisture Wicking Fabric product with one partner in the US and signed a distribution agreement with a second partner who has placed launch orders for the second half of the year. Silver high-performance dressings also launched with a second US partner in the first half of the year but hampered by the inability to meet customers and promote products.

Our PHMB foam range provides access to the large, growing antimicrobial foam market and demonstrates enhanced product performance in terms of rapid microbial activity and eradication of pathogens. The new Silicone version that provides gentle but secure adhesion obtained US approval in 2019 and we are filing for EU approval in 2020 in advance of the extended MDD deadline.

The R&D pipeline also includes a device for the debridement of wounds which we expect to launch into the US in 2021 whilst also exploring options for European approval.

# Chief Executive's Review
continued

Looking ahead, the Group continues to work on developing next generation high-gelling products with differentiated antibiofilm claims and an application of our tissue scaffold in a woundcare environment.

## Exudate Management

Exudate Management comprises advanced woundcare dressings and gels which do not incorporate any antimicrobial elements. Revenue decreased by 29% to £7.2 million (2019 H1: £10.1 million) predominantly due to the COVID-19 impact on woundcare activity in general.

We have continued with our initiative to find and appoint new distribution partners in markets where our key partners have no or low presence but the demand for a high quality, cost effective woundcare dressing range still exists. A few new contracts have been signed in the first half of the year, contributing more than £1 million of additional sales over the next five years. Registrations are also being pursued in additional territories with a view to further exploiting this growth opportunity.

With the heightened attention on the prevention of pressure ulcers in all major markets, we were pleased to successfully add a pressure ulcer prevention indication to our US silicone foam range.

## Other Woundcare

Other Woundcare comprises royalties, fees and woundcare sealants. Revenue increased by 23% at reported currency and by 22% at constant currency to £3.4 million (2019 H1: £2.7 million) mainly due to higher royalty income from the Group's licensing arrangement with Organogenesis.

## COVID-19

The Group's priority continues to be the safety, health and well-being of its employees and their families. Having taken appropriate steps, all AMS sites have remained in operation throughout the pandemic meaning it has been able to maintain the supply of its vital medical devices to healthcare partners and customers worldwide whilst complying with government measures on social distancing. As part of this, AMS has:

- Enabled working from home arrangements for all roles that can do so
- Utilised Government job retention schemes where employees were unable to carry out their role
- Set up a designated team to closely monitor and risk assess the impact of COVID-19 on our operations and taken steps to establish safe working practices in all AMS sites
- Undertaken a full evaluation of our supply chain to ensure any risks are identified and mitigated
- Adjusted working patterns and put in place controls to minimise interactions and ensure social distancing, and
- Maintained our payment terms to support all of the Group's suppliers.

The Group confirms it is in robust financial condition to weather the continued global disruption and retains a strong net cash position of £67.9 million and an undrawn unsecured £80 million credit facility, which is committed until December 2023.

## Regulatory

As a result of the COVID-19 pandemic, the deadline for Notified Bodies to review Medical Device Directive (MDD) certificates was extended by one year to May 2021, allowing AMS and other suppliers additional time to get new products approved or existing products re-approved under MDD. The end date, when all MDD certificates become invalid, remains as 26 May 2024.

As mentioned above, AMS is utilising the MDD extension to file for new product approvals in 2020 including Sealantis enhancements and Silicone PHMB dressings.

In the first half of 2020, AMS successfully completed its final MDD recertifications so that all products now have extended MDD certificates allowing ample time for compliance with the new European Medical Devices Regulation (MDR) by 2024. AMS is well prepared for the stricter requirements on product safety and performance, clinical evaluation and post-market clinical evidence stipulated by MDR and in the first half of the year submitted its first three MDR files for Notified Body review.

Our extensive preparations leave us well placed to exploit opportunities that will undoubtedly arise in the next few years during the implementation of MDR.

## Brexit

Having completed a comprehensive review of Brexit related risks, we continue to prepare for the possibility of a 'No Deal' Brexit. We have reassigned our UK product certificates to BSI Netherlands and appointed Advanced Medical Solutions BV as EU Authorised Representative for our UK manufactured products. We are maintaining increased stock holdings on all sites and continue to have extensive planning conversations with our customers.

## Summary and outlook

The Group expects the sales impact of COVID-19 to gradually reduce in the second half of 2020 and as we move into 2021, as global lockdowns are eased and a version of normality returns. We are seeing significant variability in the pace of recovery for different geographies and different types of surgical procedures, and with the potential for second waves of COVID-19 infection, it remains difficult to accurately predict the full year financial impact on the Group. We are pleased, however, that we continue to make good progress on key R&D initiatives, and with our US LiquiBand® recovery plan and robust financial position, we anticipate a strong recovery once conditions normalise.

We are encouraged by the improved trading since Q2 and the Group is starting to see signs of recovery in most markets. Second half trading to date in 2020 is in line with Board expectations that were communicated in July 2020.

# Financial Review

## IFRS reporting

To provide the clearest possible insight into our performance, the Group uses alternative performance measures. These measures are not defined in International Financial Reporting Standards (IFRS) and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate. We use such measures consistently at the half year and full year and reconcile them as appropriate. The measures used in this statement include constant currency revenue growth, adjusted operating margin, adjusted profit before tax, adjusted earnings per share and adjusted net cash inflow from operating activities, allowing the impacts of exchange rate volatility, exceptional items, amortisation and the change in fair value of long-term liability to be separately identified. Net cash is an additional non-GAAP measure used.

## Overview

Revenue decreased by 19% at reported and constant currency to £39.3 million (2019 H1: £48.7 million).

Excluding exceptional items, administration expenses increased marginally to £16.9 million (2019 H1: £16.6 million) inclusive of losses arising from foreign exchange movements as effective cost management and the utilisation of Government job retention schemes were offset by higher amortisation of intangibles. The Group operated its factories at much lower volumes, resulting in under-absorption of its fixed costs and, to reflect the need for operational staff to continue attending our sites during the lockdown period, additional one-off payments were made to these employees totalling £0.3 million. The Group incurred £3.8 million of gross R&D spend in the period (2019 H1: £2.9 million), representing 9.6% of sales (2019 H1: 5.9%) which, whilst impacted by a decrease in sales, also reflects an ongoing investment in innovation and in accommodating the heightened regulatory environment.

No exceptional costs have been incurred in the six-month period (2019 H1: £0.9 million).

Amortisation of acquired intangible assets was £1.1 million in the six-month period (2019 H1: £0.7 million) due to the full period effect of the acquisition of Sealantis in January 2019 and Biomatlante in November 2019.

Adjusted operating profit which excludes amortisation of acquired intangibles and exceptional costs, decreased by 57.7% to £5.5 million (2019 H1: £13.0 million) whilst the adjusted operating margin decreased by 1,270 bps to 14.0% (2019 H1: 26.7%) due to the negative impact of the COVID-19 pandemic on the Group's revenues.

The Group generated adjusted profit before tax of £5.3 million (2019 H1: £12.8 million) and profit before tax of £4.3 million (2019 H1: £11.2 million).

| **Reconciliation of profit before tax to adjusted profit before tax** | **Unaudited Six months ended 30 June 2020 £'000** | Unaudited Six months ended 30 June 2019 £'000 |
|---|---|---|
| Profit before tax | **4,260** | 11,219 |
| Amortisation of acquired intangibles | **1,074** | 682 |
| Exceptional items | **–** | 920 |
| Change in fair value of long-term liability | **(29)** | – |
| **Adjusted profit before tax** | **5,305** | 12,821 |

The Group's effective tax rate, reflecting the blended tax rates in the countries where we operate and including UK patent box relief, decreased to 14.4% (2019 H1: 21.8%). The decrease was due to patent box claims relating to the newly granted LiquiBand® Exceed patents which can be retrospectively claimed.

Adjusted diluted earnings per share decreased by 55% to 2.16p (2019 H1: 4.80p) and diluted earnings per share decreased by 59% to 1.68p (2019 H1: 4.06p).

The Board intends to pay an interim dividend of 0.50p per share on 23 October 2020 to shareholders on the register at the close of business on 25 September 2020. This is in line with the interim dividend paid in the first half of 2019. The Board expects to return to dividend growth in the near future, as business returns to normal.

| **Operating result by business segment** | **Surgical £'000** | Woundcare £'000 |
|---|---|---|
| **Six months ended 30 June 2020** | | |
| **Revenue** | **21,428** | 17,854 |
| **Profit from operations** | **1,951** | 2,779 |
| **Amortisation of acquired intangibles** | **1,069** | 5 |
| **Adjusted profit from operations[4]** | **3,020** | 2,784 |
| **Adjusted operating margin[4]** | **14.1%** | 15.6% |
| Six months ended 30 June 2019 | | |
| Revenue | 26,491 | 22,223 |
| Profit from operations | 8,251 | 4,309 |
| Amortisation of acquired intangibles | 678 | 4 |
| Adjusted profit from operations[4] | 8,929 | 4,313 |
| Adjusted operating margin[4] | 33.7% | 19.4% |

4 Adjusted for exceptional items and for amortisation of acquired intangible assets.

Table is reconciled to statutory information in Note 5 of the financial information.

# Financial Review
continued

## Surgical

Surgical revenues decreased by 19% to £21.4 million (2019 H1: £26.5 million) at both reported currency and at constant currency. Adjusted operating margin decreased 1,960 bps to 14.1% (2019 H1: 33.7%) as the Group was unable to offset costs in the same proportion to the decrease in revenue and as a result of increased investment in R&D, clinical and regulatory affairs.

## Woundcare

Woundcare revenues decreased by 20% to £17.9 million (2019 H1: £22.2 million) at reported currency and by 20% at constant currency. Adjusted operating margin decreased by 380 bps to 15.6% (2019 H1: 19.4%).

## Currency

The Group hedges significant currency transaction exposure by using forward contracts, and aims to hedge approximately 80% of its estimated transactional exposure for the next 12 to 18 months. In the first half of the year, approximately one third of sales were invoiced in Euros and approximately one quarter were invoiced in US Dollars. The Group estimates that a 10% movement in the £:US$ or £:€ exchange rate will impact Sterling revenues by approximately 2.4% and 3.5% respectively and in the absence of any hedging this would have an impact on profit of 1.8% and 0.6%.

## Cash Flow

Net cash inflow from operating activities reduced by 14% to £8.8 million (2019 H1: £10.3 million) predominantly due to a reduction in operating profit, partially offset by positive working capital movements.

| **Reconciliation of net cash inflow from operating activities to adjusted net cash inflow from operating activities** | **Unaudited Six months ended 30 June 2020 £'000** | Unaudited Six months ended 30 June 2019 £'000 | Change |
|---|---|---|---|
| Net cash inflow from operating activities | **8,817** | 10,261 | -14.1% |
| Exceptional items | **–** | 920 | -100.0% |
| Adjusted net cash inflow from operating activities | **8,817** | 11,181 | -21.1% |

At the end of the period, the Group had net cash of £67.9 million (31 December 2019: £64.1 million).

In the first half of 2020, receivables reduced by £11.9 million due to lower sales (2019 H1: £2.2 million) with debtor days at 43 (2019 H1: 41 days) and payables reduced by £1.1 million (2019 H1: £2.8 million) with creditor days at 30 (2019 H1: 26 days). Inventory increased to 7.8 months of supply in the period (2019 H1: 5.0 months of supply) as sales shortfalls in the year have led to increased inventory holdings. Whilst we intend to continue to hold higher than usual stocks to mitigate possible Brexit and COVID-19 supply risks, a reduction in inventory levels is planned for the second half of the year.

In the period, we invested £2.4 million in capital equipment, R&D and regulatory costs including investment in converting and packaging machines (2019 H1: £2.6 million).

Tax payments increased to £3.3 million (2019 H1: £2.9 million) which is £2.7 million higher than tax in the income statement due to a one-off change in timing of payments on account in the UK. A back-dated claim for UK patent box relief will be made in respect of the LiquiBand® Exceed patent and the Group therefore expect tax payments to be significantly lower in the second half of the year.

In June 2020, the Group paid its final dividend for the year ended 31 December 2019 of £2.3 million (2019 H1: £1.9 million).

The Group has an unsecured, undrawn £80 million, multi-currency credit facility provided jointly by HSBC and NatWest, which is in place until December 2023. This facility carries an annual interest rate of LIBOR or EURIBOR plus a margin that varies between 0.60% and 1.70% depending on the Group's net debt to EBITDA ratio.

# Condensed Consolidated Income Statement

| | Note | (Unaudited) Six months ended 30 June 2020 Before Exceptional Items £'000 | (Unaudited) Six months ended 30 June 2020 Exceptional Items Note 7 £'000 | (Unaudited) Six months ended 30 June 2020 Total £'000 | (Unaudited) Six months ended 30 June 2019 Before Exceptional Items £'000 | (Unaudited) Six months ended 30 June 2019 Exceptional Items Note 7 £'000 | (Unaudited) Six months ended 30 June 2019 Total £'000 | (Audited) Year ended 31 December 2019 Before Exceptional Items £'000 | (Audited) Year ended 31 December 2019 Exceptional Items Note 7 £'000 | (Audited) Year ended 31 December 2019 Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue from continuing operations** | 5 | **39,282** | **–** | **39,282** | 48,714 | – | 48,714 | 102,368 | – | 102,368 |
| Cost of sales | | **(17,540)** | **–** | **(17,540)** | (19,500) | – | (19,500) | (41,885) | – | (41,885) |
| **Gross profit** | | **21,742** | **–** | **21,742** | 29,214 | – | 29,214 | 60,483 | – | 60,483 |
| Distribution costs | | **(483)** | **–** | **(483)** | (459) | – | (459) | (997) | – | (997) |
| Administration costs | | **(16,949)** | **–** | **(16,949)** | (16,607) | (920) | (17,527) | (34,566) | (1,053) | (35,619) |
| Other income | | **115** | **–** | **115** | 157 | – | 157 | 376 | – | 376 |
| **Profit from operations** | | **4,425** | **–** | **4,425** | 12,305 | (920) | 11,385 | 25,296 | (1,053) | 24,243 |
| Finance income | | **166** | **–** | **166** | 200 | – | 200 | 406 | – | 406 |
| Finance costs | | **(331)** | **–** | **(331)** | (366) | – | (366) | (392) | – | (392) |
| **Profit before taxation** | | **4,260** | **–** | **4,260** | 12,139 | (920) | 11,219 | 25,310 | (1,053) | 24,257 |
| Income tax | 8 | **(614)** | **–** | **(614)** | (2,446) | – | (2,446) | (5,338) | – | (5,338) |
| **Profit for the period attributable to equity holders of the parent** | | **3,646** | **–** | **3,646** | 9,693 | (920) | 8,773 | 19,972 | (1,053) | 18,919 |
| **Earnings per share** | | | | | | | | | | |
| Basic | 4 | **1.70p** | **–** | **1.70p** | 4.53p | (0.43p) | 4.10p | 9.30p | (0.49p) | 8.81p |
| Diluted | 4 | **1.68p** | **–** | **1.68p** | 4.48p | (0.43p) | 4.06p | 9.21p | (0.49p) | 8.72p |
| Adjusted diluted[5] | 4 | **2.16p** | **–** | **2.16p** | 4.80p | (0.43p) | 4.37p | 9.83p | (0.49p) | 9.34p |

# Condensed Consolidated Statement of Comprehensive Income

| | **(Unaudited) Six months ended 30 June 2020 £'000** | (Unaudited) Restated Six months ended 30 June 2019 £'000 | (Audited) Year ended 31 December 2019 £'000 |
|---|---|---|---|
| Profit for the year | **3,646** | 8,773 | 18,919 |
| Exchange differences on translation of foreign operations | **6,733** | 930 | (3,538) |
| (Loss)/gain arising on cash flow hedges | **(1,759)** | 284 | 3,091 |
| Deferred tax charge arising on cash flow hedges | **130** | – | (130) |
| Other comprehensive credit/(charge) for the period | **5,104** | 1,214 | (577) |
| Total comprehensive income for the period attributable to equity holders of the parent | **8,750** | 9,987 | 18,342 |

[5] Adjusted for exceptional items, amortisation of acquired intangible assets and for change in the fair value of long-term liability.

# Condensed Consolidated Statement of Financial Position

| | Note | (Unaudited) 30 June 2020 £'000 | (Unaudited) 30 June 2019 £'000 | (Audited) 31 December 2019 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Acquired intellectual property rights | | **10,095** | 9,654 | 9,478 |
| Intangible assets | | **16,134** | 14,875 | 15,985 |
| Software intangibles | | **2,665** | 2,983 | 2,832 |
| Development costs | | **6,103** | 3,696 | 5,039 |
| Goodwill | | **57,470** | 52,333 | 53,558 |
| Property, plant and equipment | | **27,629** | 27,563 | 27,707 |
| Loans and other financial assets | | **–** | 30 | – |
| Deferred tax assets | | **–** | 179 | 96 |
| Trade and other receivables | | **223** | 321 | 531 |
| | | **120,319** | 111,634 | 115,226 |
| **Current assets** | | | | |
| Inventories | | **23,653** | 16,298 | 17,655 |
| Trade and other receivables | | **17,603** | 23,288 | 29,221 |
| Current tax assets | | **1,001** | 22 | 129 |
| Cash and cash equivalents | | **68,355** | 63,888 | 64,751 |
| | | **110,612** | 103,496 | 111,756 |
| **Total assets** | | **230,931** | 215,130 | 226,982 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | **12,577** | 11,086 | 14,043 |
| Current tax liabilities | | **–** | 2,267 | 1,781 |
| Lease liabilities | | **1,140** | 983 | 1,353 |
| | | **13,717** | 14,336 | 17,177 |
| **Non-current liabilities** | | | | |
| Trade and other payables | | **3,470** | 3,540 | 3,150 |
| Other loans | | **498** | – | 664 |
| Deferred tax liabilities | | **6,863** | 5,934 | 6,409 |
| Lease liabilities | | **8,070** | 8,567 | 8,347 |
| | | **18,901** | 18,041 | 18,570 |
| **Total liabilities** | | **32,618** | 32,377 | 35,747 |
| **Net assets** | | **198,313** | 182,753 | 191,235 |
| **Equity** | | | | |
| Share capital | 11 | **10,764** | 10,738 | 10,745 |
| Share premium | | **36,284** | 36,072 | 36,226 |
| Share-based payments reserve | | **10,211** | 8,343 | 9,466 |
| Investment in own shares | | **(161)** | (159) | (159) |
| Share-based payments deferred tax reserve | | **417** | 729 | 649 |
| Other reserve | | **1,531** | 1,531 | 1,531 |
| Hedging reserve | | **(1,074)** | (2,122) | 555 |
| Translation reserve | | **6,484** | 4,219 | (249) |
| Retained earnings | | **133,857** | 123,402 | 132,471 |
| **Equity attributable to equity holders of the parent** | | **198,313** | 182,753 | 191,235 |

# Condensed Consolidated Statement of Changes In Equity

## Attributable to equity holders of the Group

| | Share capital £'000 | Share premium £'000 | Share-based payments £'000 | Investment in own shares £'000 | Share-based payments deferred tax £'000 | Other reserve £'000 | Hedging reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020 (audited)** | **10,745** | **36,226** | **9,466** | **(159)** | **649** | **1,531** | **555** | **(249)** | **132,471** | **191,235** |
| **Consolidated profit for the period to 30 June 2020** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **3,646** | **3,646** |
| **Other comprehensive income** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,629)** | **6,733** | **–** | **5,104** |
| **Total comprehensive income** | **–** | **–** | **–** | **–** | **–** | **–** | **(1,629)** | **6,733** | **3,646** | **8,750** |
| **Share-based payments** | **–** | **–** | **795** | **–** | **–** | **–** | **–** | **–** | **–** | **795** |
| **Share options exercised** | **19** | **58** | **(50)** | **–** | **(232)** | **–** | **–** | **–** | **–** | **(205)** |
| **Shares purchased by EBT** | **–** | **–** | **–** | **(375)** | **–** | **–** | **–** | **–** | **–** | **(375)** |
| **Shares sold by EBT** | **–** | **–** | **–** | **373** | **–** | **–** | **–** | **–** | **–** | **373** |
| **Dividends paid** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,260)** | **(2,260)** |
| **At 30 June 2020 (unaudited)** | **10,764** | **36,284** | **10,211** | **(161)** | **417** | **1,531** | **(1,074)** | **6,484** | **133,857** | **198,313** |

| | Share capital £'000 | Share premium £'000 | Share-based payments £'000 | Investment in own shares £'000 | Share-based payments deferred tax £'000 | Other reserve £'000 | Hedging reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 (audited) | 10,674 | 35,192 | 7,333 | (156) | 708 | 1,531 | (2,406) | 3,289 | 116,560 | 172,725 |
| Consolidated profit for the period to 30 June 2019 | – | – | – | – | – | – | – | – | 8,773 | 8,773 |
| Other comprehensive income | – | – | – | – | – | – | 284 | 930 | – | 1,214 |
| Total comprehensive income | – | – | – | – | – | – | 284 | 930 | 8,773 | 9,987 |
| Share-based payments | – | – | 1,065 | – | – | – | – | – | – | 1,065 |
| Share options exercised | 64 | 880 | (55) | – | 21 | – | – | – | – | 910 |
| Shares purchased by EBT | – | – | – | (603) | – | – | – | – | – | (603) |
| Shares sold by EBT | – | – | – | 600 | – | – | – | – | – | 600 |
| Dividends paid | – | – | – | – | – | – | – | – | (1,931) | (1,931) |
| At 30 June 2019 (unaudited) | 10,738 | 36,072 | 8,343 | (159) | 729 | 1,531 | (2,122) | 4,219 | 123,402 | 182,753 |

| | Share capital £'000 | Share premium £'000 | Share-based payments £'000 | Investment in own shares £'000 | Share-based payments deferred tax £'000 | Other reserve £'000 | Hedging reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2019 (audited) | 10,674 | 35,192 | 7,333 | (156) | 708 | 1,531 | (2,406) | 3,289 | 116,560 | 172,725 |
| Consolidated profit for the year to 31 December 2019 | – | – | – | – | – | – | – | – | 18,919 | 18,919 |
| Other comprehensive income | – | – | – | – | – | – | 2,961 | (3,538) | – | (577) |
| Total comprehensive income | – | – | – | – | – | – | 2,961 | (3,538) | 18,919 | 18,342 |
| Share-based payments | – | – | 1,856 | – | (59) | – | – | – | – | 1,797 |
| Share options exercised | 71 | 1,034 | 277 | – | – | – | – | – | – | 1,382 |
| Shares purchased by EBT | – | – | – | (603) | – | – | – | – | – | (603) |
| Shares sold by EBT | – | – | – | 600 | – | – | – | – | – | 600 |
| Dividends paid | – | – | – | – | – | – | – | – | (3,008) | (3,008) |
| At 31 December 2019 (audited) | 10,745 | 36,226 | 9,466 | (159) | 649 | 1,531 | 555 | (249) | 132,471 | 191,235 |

# Condensed Consolidated Statement of Cash Flows

| | **(Unaudited) Six months ended 30 June 2020 £'000** | (Unaudited) Six months ended 30 June 2019 £'000 | (Audited) Year ended 31 December 2019 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit from operations | **4,425** | 11,385 | 24,243 |
| Adjustments for: | | | |
| Depreciation | **1,700** | 1,603 | 3,154 |
| Amortisation – intellectual property rights | **1,074** | 682 | 1,683 |
| – development costs | **251** | 244 | 492 |
| – software intangibles | **256** | 218 | 519 |
| Increase in inventories | **(5,357)** | (1,361) | (2,454) |
| Decrease/(increase) in trade and other receivables | **11,260** | 2,162 | (574) |
| Decrease in trade and other payables | **(2,269)** | (2,798) | (1,275) |
| Share-based payments expense | **795** | 1,065 | 1,856 |
| Taxation | **(3,318)** | (2,939) | (5,945) |
| **Net cash inflow from operating activities** | **8,817** | 10,261 | 21,699 |
| **Cash flows from investing activities** | | | |
| Purchase of software | **(52)** | (662) | (826) |
| Capitalised research and development | **(1,217)** | (730) | (2,355) |
| Purchases of property, plant and equipment | **(1,141)** | (1,231) | (2,673) |
| Disposal of property, plant and equipment | **120** | – | 4 |
| Interest received | **166** | 199 | 422 |
| Acquisition of subsidiary | **(39)** | (18,408) | (24,145) |
| **Net cash used in investing activities** | **(2,163)** | (20,832) | (29,573) |
| **Cash flows from financing activities** | | | |
| Dividends paid | **(2,260)** | (1,931) | (3,008) |
| Repayment of principal under lease liabilities | **(493)** | (486) | (925) |
| Issue of equity shares | **60** | 907 | 1,066 |
| Shares purchased by EBT | **(375)** | (603) | (603) |
| Shares sold by EBT | **373** | 600 | 600 |
| Interest paid | **(347)** | (366) | (709) |
| Repayment of secured loan | **(176)** | – | – |
| **Net cash used in financing activities** | **(3,218)** | (1,879) | (3,579) |
| **Net increase/(decrease) in cash and cash equivalents** | **3,436** | (12,450) | (11,453) |
| **Cash and cash equivalents at the beginning of the period** | **64,751** | 76,391 | 76,391 |
| **Effect of foreign exchange rate changes** | **168** | (53) | (187) |
| **Cash and cash equivalents at the end of the period** | **68,355** | 63,888 | 64,751 |

# Notes Forming Part of the Consolidated Financial Statements

## 1. Reporting entity

Advanced Medical Solutions Group plc ("the Company") is a public limited company incorporated and domiciled in England and Wales (registration number 2867684). The Company's registered address is Premier Park, 33 Road One, Winsford Industrial Estate, Cheshire, CW7 3RT.

The Company's ordinary shares are traded on the AIM market of the London Stock Exchange plc. The consolidated financial statements of the Company for the six months ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the design, development and manufacture of surgical and advanced woundcare products for sale into the global medical device market.

## 2. Basis of preparation

The information for the period ended 30 June 2020 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2019 has been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters of emphasis without qualifying the report and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The individual Financial Statements for each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements.

## 3. Accounting policies

The same accounting policies, presentations and methods of computation are followed in the condensed set of Financial Statements as applied in the Group's latest annual audited Financial Statements apart from the adoption of the following new or amended IFRS and Interpretations issued by the International Accounting Standards Board (IASB):

– Amendments to References to the Conceptual Framework in IFRS Standards

– Definition of a Business (Amendments to IFRS 3)

– Definition of Material (amendments to IAS 1 and IAS 8)

– Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFR S7)

No revised standards adopted in the current period have had a material impact on the Group's Financial Statements.

The unaudited condensed set of Financial Statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. These condensed interim accounts should be read in conjunction with the annual accounts of the Group for the year ended 31 December 2019. The annual financial statements of Advanced Medical Solutions Group plc are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

## 4. Earnings per share

| | **(Unaudited) Six months ended 30 June 2020** | (Unaudited) Six months ended 30 June 2019 | (Audited) Year ended 31 December 2019 |
|---|---|---|---|
| **Number of shares** | **'000** | '000 | '000 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **214,985** | 213,876 | 214,730 |
| Effect of dilutive potential ordinary shares: share options, deferred share bonus, LTIPs | **2,585** | 2,452 | 2,107 |
| **Weighted average number of ordinary shares for the purposes of diluted earnings per share** | **217,570** | 216,328 | 216,837 |

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated on the same basis as basic EPS but with the further adjustment to the weighted average shares in issue to reflect the effect of all potentially dilutive share options. The number of potentially dilutive share options is derived from the number of share options and awards granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

# Notes Forming Part of the Consolidated Financial Statements
continued

## 4. Earnings per share continued

### Adjusted earnings per share

Adjusted EPS is calculated after adding back exceptional items, amortisation of acquired intangible assets and change in the fair value of long-term liability and is based on earnings of:

| | **(Unaudited) Six months ended 30 June 2020 £'000** | (Unaudited) Six months ended 30 June 2019 £'000 | (Audited) Year ended 31 December 2019 £'000 |
|---|---|---|---|
| **Earnings** | | | |
| Profit for the year being attributable to equity holders of the parent | **3,646** | 8,773 | 18,919 |
| Exceptional items | **–** | 920 | 1,053 |
| Amortisation of acquired intangible assets | **1,074** | 682 | 1,683 |
| Change in the fair value of long-term liability | **(29)** | – | (345) |
| **Adjusted profit for the year being attributable to equity holders of the parent** | **4,691** | 10,375 | 21,310 |

| | **pence** | pence | pence |
|---|---|---|---|
| Adjusted basic EPS | **2.18p** | 4.85p | 9.92p |
| Adjusted diluted EPS | **2.16p** | 4.80p | 9.83p |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

The adjusted diluted EPS information is considered to provide a fairer representation of the Group's trading performance.

## 5. Segment information

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, corporate assets, head office expenses, exceptional items, income tax assets and the Group's external borrowings. These are the measures reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance.

### Business segments

The principal activities of the Business Units are as follows:

### Surgical

Selling, marketing and innovation of the Group's surgical products either sold directly by our sales teams or by distributors.

### Woundcare

Selling, marketing and innovation of the Group's advanced woundcare products supplied under partner brands, bulk materials and the ActivHeal® brand predominantly to the NHS in the UK.

Segment information about these Business Units is presented below:

| **Six months ended 30 June 2020 (Unaudited)** | **Surgical £'000** | **Woundcare £'000** | **Consolidated £'000** |
|---|---|---|---|
| **Revenue** | **21,428** | **17,854** | **39,282** |
| **Result** | | | |
| Adjusted segment operating profit | **3,020** | **2,784** | **5,804** |
| Amortisation of acquired intangibles | **(1,069)** | **(5)** | **(1,074)** |
| Segment operating profit | **1,951** | **2,779** | **4,730** |
| Unallocated expenses | | | **(305)** |
| Exceptional items | | | **–** |
| Profit from operations | | | **4,425** |
| Finance income | | | **166** |
| Finance costs | | | **(331)** |
| Profit before tax | | | **4,260** |
| Tax | | | **(614)** |
| **Profit for the period** | | | **3,646** |

| At 30 June 2020 (Unaudited)<br>Other information | Surgical<br>£'000 | Woundcare<br>£'000 | Consolidated<br>£'000 |
|---|---|---|---|
| Capital additions: | | | |
| Software intangibles | **25** | **27** | **52** |
| Development | **647** | **570** | **1,217** |
| Property, plant and equipment | **663** | **478** | **1,141** |
| Depreciation and amortisation | **(2,261)** | **(1,020)** | **(3,281)** |
| **Balance sheet** | | | |
| **Assets** | | | |
| Segment assets | **163,143** | **67,467** | **230,610** |
| Unallocated assets | | | **321** |
| Consolidated total assets | | | **230,931** |
| **Liabilities** | | | |
| Segment liabilities | **18,160** | **14,458** | **32,618** |
| Consolidated total liabilities | | | **32,618** |

| Six months ended 30 June 2019 (Unaudited) | Surgical<br>£'000 | Woundcare<br>£'000 | Consolidated<br>£'000 |
|---|---|---|---|
| Revenue | 26,491 | 22,223 | 48,714 |
| Result | | | |
| Adjusted segment operating profit | 8,929 | 4,313 | 13,242 |
| Amortisation of acquired intangibles | (678) | (4) | (682) |
| Segment operating profit | 8,251 | 4,309 | 12,560 |
| Unallocated expenses | | | (255) |
| Exceptional items | | | (920) |
| Profit from operations | | | 11,385 |
| Finance income | | | 200 |
| Finance costs | | | (366) |
| Profit before tax | | | 11,219 |
| Tax | | | (2,446) |
| Profit for the period | | | 8,773 |

| At 30 June 2019 (Unaudited)<br>Other information | Surgical<br>£'000 | Woundcare<br>£'000 | Consolidated<br>£'000 |
|---|---|---|---|
| Capital additions: | | | |
| Software intangibles | 293 | 369 | 662 |
| Development | 455 | 275 | 730 |
| Property, plant and equipment | 734 | 497 | 1,231 |
| Depreciation and amortisation | (1,817) | (930) | (2,747) |
| Balance sheet | | | |
| Assets | | | |
| Segment assets | 151,021 | 63,656 | 214,677 |
| Unallocated assets | | | 453 |
| Consolidated total assets | | | 215,130 |
| Liabilities | | | |
| Segment liabilities | 19,267 | 13,110 | 32,377 |
| Consolidated total liabilities | | | 32,377 |

# Notes Forming Part of the Consolidated Financial Statements
continued

## 5. Segment information continued

| Year ended 31 December 2019 (Audited) | Surgical £'000 | Woundcare £'000 | Consolidated £'000 |
|---|---|---|---|
| Revenue | 56,544 | 45,824 | 102,368 |
| Result | | | |
| Adjusted segment operating profit | 16,086 | 11,378 | 27,464 |
| Amortisation of acquired intangibles | (1,675) | (8) | (1,683) |
| Segment operating profit | 14,411 | 11,370 | 25,781 |
| Unallocated expenses | | | (485) |
| Exceptional items | | | (1,053) |
| Profit from operations | | | 24,243 |
| Finance income | | | 406 |
| Finance costs | | | (392) |
| Profit before tax | | | 24,257 |
| Tax | | | (5,338) |
| Profit for the year | | | 18,919 |

| Year ended 31 December 2019 (Audited) Other information | Surgical £'000 | Woundcare £'000 | Consolidated £'000 |
|---|---|---|---|
| Capital additions: | | | |
| Software intangibles | 364 | 462 | 826 |
| Development | 1,346 | 1,009 | 2,355 |
| Property, plant and equipment | 1,393 | 1,280 | 2,673 |
| Depreciation and amortisation | (3,985) | (1,863) | (5,848) |
| Balance sheet | | | |
| Assets | | | |
| Segment assets | 160,241 | 66,354 | 226,595 |
| Unallocated assets | | | 387 |
| Consolidated total assets | | | 226,982 |
| Liabilities | | | |
| Segment liabilities | 21,647 | 14,100 | 35,747 |
| Consolidated total liabilities | | | 35,747 |

## Geographical segments

The Group operates in the UK, Germany, the Netherlands, France, the Czech Republic and Israel, with a sales office located in Russia and a sales presence in the USA. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services, based upon location of the Group's customers:

| | **(Unaudited) Six months ended 30 June 2020 £'000** | (Unaudited) Six months ended 30 June 2019 £'000 | (Audited) Year ended 31 December 2019 £'000 |
|---|---|---|---|
| United Kingdom | **7,349** | 8,971 | 20,151 |
| Germany | **9,234** | 10,437 | 20,018 |
| Europe excluding United Kingdom and Germany | **12,032** | 12,826 | 23,476 |
| United States of America | **8,922** | 14,473 | 34,879 |
| Rest of World | **1,745** | 2,007 | 3,844 |
| | **39,282** | 48,714 | 102,368 |

The following table provides an analysis of the Group's total assets by geographical location.

| | (Unaudited) Six months ended 30 June 2020 £'000 | (Unaudited) Six months ended 30 June 2019 £'000 | (Audited) Year ended 31 December 2019 £'000 |
|---|---|---|---|
| United Kingdom | **114,466** | 112,794 | 117,055 |
| Germany | **73,163** | 69,024 | 69,502 |
| Israel | **24,478** | 25,961 | 23,175 |
| France | **10,291** | – | 9,612 |
| Europe excluding United Kingdom, Germany and France | **4,924** | 4,912 | 5,106 |
| United States of America | **3,609** | 2,439 | 2,532 |
| | **230,931** | 215,130 | 226,982 |

## 6. Financial Instruments' fair value disclosures

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts.

The Group held the following financial instruments at fair value at 30 June 2020. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

The following table details the forward foreign currency contracts outstanding as at the period end:

| | Ave. exchange rate | | | Foreign currency | | | Fair value | | |
|---|---|---|---|---|---|---|---|---|---|
| | **30 June 2020 USD:£1** | 30 June 2019 USD:£1 | 31 Dec 2019 USD:£1 | **30 June 2020 USD'000** | 30 June 2019 USD'000 | 31 Dec 2019 USD'000 | **30 June 2020 £'000** | 30 June 2019 £'000 | 31 Dec 2019 £'000 |
| Cash flow hedges | | | | | | | | | |
| Sell US dollars | | | | | | | | | |
| Less than 3 months | **1.300** | 1.406 | 1.386 | **9,000** | 9,500 | 9,000 | **(363)** | (690) | (307) |
| 3 to 6 months | **1.241** | 1.444 | 1.328 | **8,500** | 7,500 | 8,000 | **(17)** | (665) | (5) |
| 7 to 12 months | **1.299** | 1.363 | 1.271 | **14,000** | 16,000 | 17,500 | **(526)** | (705) | 615 |
| Over 12 months | **1.253** | 1.338 | 1.301 | **10,000** | 5,000 | 12,500 | **(87)** | (140) | 262 |
| | | | | **41,500** | 38,000 | 47,000 | **(993)** | (2,200) | 56 |

| | Ave. exchange rate | | | Foreign currency | | | Fair value | | |
|---|---|---|---|---|---|---|---|---|---|
| | **30 June 2020 EUR:£1** | 30 June 2019 EUR:£1 | 31 Dec 2019 EUR:£1 | **30 June 2020 EUR'000** | 30 June 2019 EUR'000 | 31 Dec 2019 EUR'000 | **30 June 2020 £'000** | 30 June 2019 £'000 | 31 Dec 2019 £'000 |
| Cash flow hedges | | | | | | | | | |
| Sell Euros | | | | | | | | | |
| Less than 3 months | **1.138** | 1.112 | 1.125 | **900** | 960 | 620 | **(28)** | 2 | 23 |
| 3 to 6 months | **1.074** | 1.108 | 1.143 | **600** | 960 | 1,200 | **12** | 2 | 25 |
| 7 to 12 months | **1.144** | 1.137 | 1.112 | **1,200** | 1,820 | 1,500 | **(47)** | 46 | 61 |
| Over 12 months | **1.112** | 1.139 | 1.144 | **1,000** | 900 | 1,200 | **(18)** | 28 | 12 |
| | | | | **3,700** | 4,640 | 4,520 | **(81)** | 78 | 121 |

## 7. Exceptional items

During the six months ended 30 June 2020, the Group incurred exceptional items of £nil (2019 H1: £0.9 million in relation to the acquisition and integration of Sealantis as well as the transaction costs to participate in another potential process which was ultimately unsuccessful, year ended 31 December 2019: £1.1 million in relation to the acquisition and integration of Sealantis and Biomatlante as well as the transaction costs to participate in another potential process which was ultimately unsuccessful).

## 8. Taxation

The weighted average tax rate for the Group for the six month period ended 30 June 2020 was 14.4% (2019 H1: 21.8%, year ended 31 December 2019: 22.0%). The Group's effective tax rate for the full year is expected to be 14.4%, which has been applied to the six months ended 30 June 2020 (2019 H1: 21.8%, year ended 31 December 2019: 22.0%). This represents a significant decrease on previous periods as the Group is able to retrospectively claim for patent box relief as a result of the granting of patents on LiquiBand® Exceed in the first half of 2020.

# Notes Forming Part of the Consolidated Financial Statements
continued

## 9. Dividends

| | **(Unaudited) Six months ended 30 June 2020 £'000** | (Unaudited) Six months ended 30 June 2019 £'000 | (Audited) Year ended 31 December 2019 £'000 |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | | |
| Final dividend for the year ended 31 December 2018 of 0.90p per ordinary share | **–** | 1,931 | 1,931 |
| Interim dividend for the year ended 31 December 2019 of 0.50p per ordinary share | **–** | – | 1,077 |
| Final dividend for the year ended 31 December 2019 of 1.05p per ordinary share | **2,260** | – | – |
| | **2,260** | 1,931 | 3,008 |

## 10. Contingent liabilities

The Directors are not aware of any contingent liabilities faced by the Group as at 30 June 2020 (30 June 2019: £nil, 31 December 2019: £nil).

## 11. Share capital

Share capital as at 30 June 2020 amounted to £10,764,000 (30 June 2019: £10,738,000, 31 December 2019: £10,745,000). During the period the Group issued 371,467 shares in respect of exercised share options, LTIPS, Deferred Annual Bonus Scheme and the Deferred Share Bonus Scheme.

## 12. Going concern

In carrying out their duties in respect of going concern, the Directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

Due to the impact that COVID-19 has had on the global economy, the Group has deemed it appropriate to use sensitivity analysis on the Group's forecasted performance, using a mid-case scenario, a 10% sales reduction, and a worst-case scenario, a 25% sales reduction. The results show that in both scenarios AMS is able to continue its operations for a period of at least 12 months, and importantly there remains significant margin between our covenants in place.

With regards to the Group's financial position, it had cash and cash equivalents at 30 June 2020 of £68.4 million and a five-year, £80 million, multi-currency, revolving credit facility, obtained in December 2018, with an accordion option under which AMS can request up to an additional £20 million on the same terms. The credit facility is provided jointly by HSBC and NatWest, is subject to leverage and interest cover covenants, is unsecured on the assets of the Group and is currently undrawn.

While the current economic environment is uncertain, AMS operates in markets whose demographics are favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, long-term market growth is expected. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

After taking the above into consideration, the Directors have reached the conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the condensed Consolidated Financial Statements.

## 13. Principal risks and uncertainties

Further detail concerning the principal risks affecting the business activities of the Group is detailed on pages 46 and 47 of the Annual Report and Accounts for the year ended 31 December 2019. There have been no significant changes since the last annual report, other than the uncertainty surrounding the COVID-19 pandemic, for which, an update has been provided in market announcements and within these Interim Statements.

## 14. Seasonality of sales

There are no significant factors affecting the seasonality of sales between the first and second half of the year.

## 15. Events after the balance sheet date

There have been no material events subsequent to the end of the interim reporting period ended 30 June 2020.

## 16. Copies of the interim results

Copies of the interim results can be obtained from the Group's registered office at Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT and are available on our website "www.admedsol.com".

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