

MEDICA GROUP

Market and Trading update

23 March 2020



On 21 March 2020 the Financial Conduct Authority (FCA) wrote to the Group and other listed businesses requesting them to delay any forthcoming announcements of preliminary financial accounts. The board of Medica Group PLC has taken the decision to comply with this request. However, in order to comply with the Market Abuse Regulations, the Group today provides a Market and Trading Update which includes the impact of COVID-19, the outlook for the business, and a strategy update including unaudited numbers.

Full impact as yet unknown. Situation unfolding and difficult to forecast at present

- **Contingency plans activated and working:** Medica team able to provide service remotely from home
- Entire business model focused around reporters **'working from home'**
- **Early signs of reduction in NightHawk cases of c.30%** as people self isolate (reduced A&E admission)
- **Medica has strong balance sheet**

- **Potential scenario: reduction in activity and capacity**
 - i. Reduction in non essential elective routine cases (excludes cases such as oncology)
 - ii. Reduction in Medica sessions as radiologists are doing more shifts to support hospital
 - iii. Impact of sickness on ability to process and report studies
- **Possible mitigations:**
 - i. Hospitals could shift more non urgent cases to Medica to focus on urgent
 - ii. Reporters able to work remotely for Medica/cancelling leave => increase in capacity
 - iii. Increase in routine work from deferred elective procedures (catch-up) later in year

Medica working closely with NHS clients to invoke contingency planning and offer pro bono 'pass through' service to enable their radiologists to report from home using Medica system

FY 2019 UNAUDITED RESULTS

STRATEGY UPDATE

Financial Highlights

- Revenue +19% year on year
- Modest reduction in gross profit margin as previously guided to 47.8%
- Investment of £2.3m in our platform (people and infrastructure) to support radiologist output and future revenue growth

Operating Highlights

- Strong reporter recruitment boosting reporting capacity. Progress in overseas recruitment
- Investment in data centre to improve resilience, scalability and workflow
- Assessed artificial intelligence (AI) capabilities and commencing two projects with leading player
- IR35 strategy in place. No change anticipated to employment status

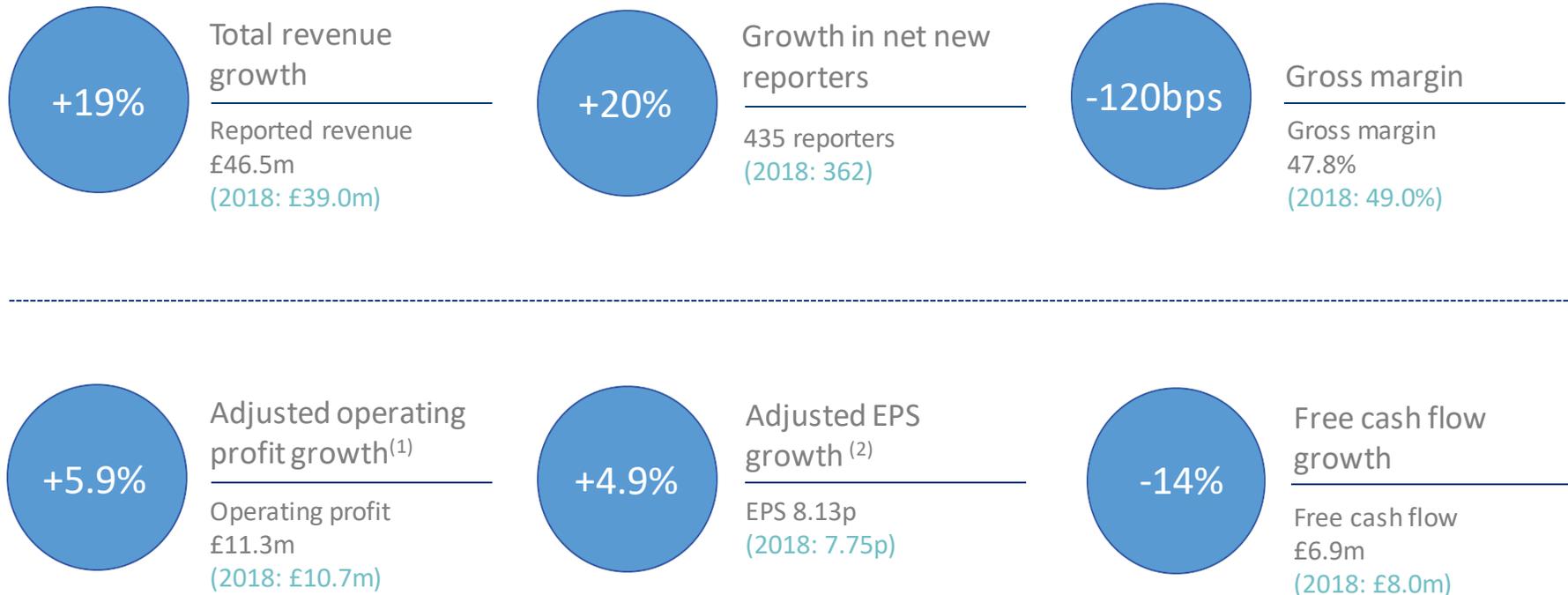
Strategy

- Refocused growth strategy
 - Medium term plan developed to drive future growth and diversification
-

Full year 2019 performance headlines



Strong top line growth; continued investment to support future growth



(1) Adjusted operating profit is a non-IFRS measure and is calculated as operating profit before exceptional items share based payments and amortisation in respect of assets acquired on acquisition

(2) Adjusted earnings per share is a non-IFRS measure and is calculated as earnings per share before exceptional items share based payments and amortisation in respect of assets acquired on acquisition

Cashflow analysis (unaudited)



£000s	Year to 31 December 2019	Year to 31 December 2018
Adjusted EBITDA	13,030	11,938
Exceptional items	(362)	(245)
Tax paid	(2,180)	(2,172)
Working capital movement	(782)	112
Net cash inflow from operating activities	9,706	9,633
Fixed asset expenditure	(2,826)	(1,645)
Free cash flow	6,880	7,988
Net interest	(281)	(251)
Dividends paid	(2,611)	(2,056)
Increase in cash	3,988	5,681
Cash at start of period	12,588	6,907
Cash at end of period	16,576	12,588

- Significant CAPEX investments of £2.8m including £1.3m storage area network (SAN), other data centre equipment and reporter workstations to support in-year and future growth
- Increase in debtors which has started to unwind post year end
- The board will make a decision on payment of final dividend once preliminary financial accounts have been finalised. Intention to issue a dividend in line with previous years subject to the current situation relating to COVID-19
- Cash of £16.6m at period end. No change in borrowing at £12m. £1m RCF if required

Source:

1 Audited group accounts under IFRS full year 2018 audited and 2019 unaudited

NightHawk (NH)

- **Strong volume growth:** price decreases due to increasing competition, but overall good revenue growth
- **Continued service improvements,** NH portal v3 launched and clinical protocol focus
- NH SLA adherence remains at **97%**, but average **time to report has decreased to 23 mins**

	Revenue growth	Volume growth	Gross profit 2019	Gross profit 2018
NightHawk	14.3%	19.4%	48.6%	49.9%
Cross Sectional	26.6%	26.4%	51.9%	51.9%
Plain Film	9.7%	9.4%	49.3%	49.3%

Routine

- Enhanced relationships with clients leading to increased client service provision
- Volume growing faster than the overall rate of UK scans

Client overview

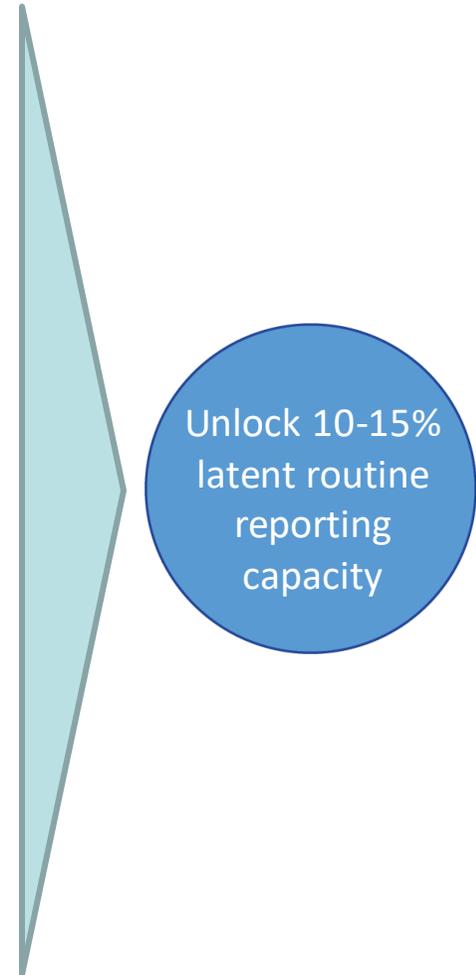
- Majority of growth from existing clients
- More than 85% revenue from clients of >2 years
- New services growing well including PET-CT. Continued new launches planned

FY 2019 UNAUDITED RESULTS

STRATEGY UPDATE

Unlocking Medica's additional potential

Opportunity	Benefit
People	<ul style="list-style-type: none">• Leadership training• Alignment around incentives and transparency of performance• Improve the relationship with our expert reporting network
Processes	<ul style="list-style-type: none">• Automating manual processes such as allocation and prioritisation of workflow• Improving management of reporter expectations
Systems	<ul style="list-style-type: none">• Capacity to underpin future growth• Enhanced workflow and through-put: "Right first time reporting environment"• Quality improvements• Flexible interface to clients• Flexible AI deployment• Enhanced reporter experience• Improved business intelligence tools





1. Engaged and motivated team

- Motivated and engaged reporters
- Energised and aligned employees
 - Clear and transparent, cascaded objectives
 - Benchmarking remuneration policy to be market competitive
- Investment in key new roles – Reporter Liaison and Clinical Director



Marc O'Brien, CTO

2020 focus: system evolution to underpin future growth and to deliver improvements in workflow, productivity, as well as incorporate AI



Sarah Burns, COO

2020 focus: driving additional capacity from existing reporter network and expanding overseas reporting capacity



Dr. Stephen Davies, Medical Director

2020 focus: continued enhancement of the quality and safety of our NightHawk service is a priority



Kevin Terrins, Business Dev Director

2020 focus: driving continued customer satisfaction, as well as evaluating new sources of diversified revenue

Charity partnership



- We live in a country where **radiologists escaping conflict** are routinely under-employed
- Partnership agreed with RefuAid that provides a **scalable and sustainable solution to requalification** for these radiologists
- Medica providing financial and hands-on **support for radiologists to re-train to join NHS**

Communication training



- **Medica investing in training** both its support staff, as well as team of reporters to improve critical communication
- NightHawk service requires **quick decision making and excellent communication** when urgent patients attend A&E
- Investment will provide **best practice training** for reporters who can also use this in their NHS hospitals

2. Increased reporter capacity



- **Enhanced workflow** and automated allocation of reporting
- **Increase productivity** of reporter sessions
- Unlocking additional capacity by investment in new technology platform and **proprietary workflow orchestration** systems
- Build more committed capacity and continued increase in overseas
- **Deliver operating leverage, improved productivity and quality**

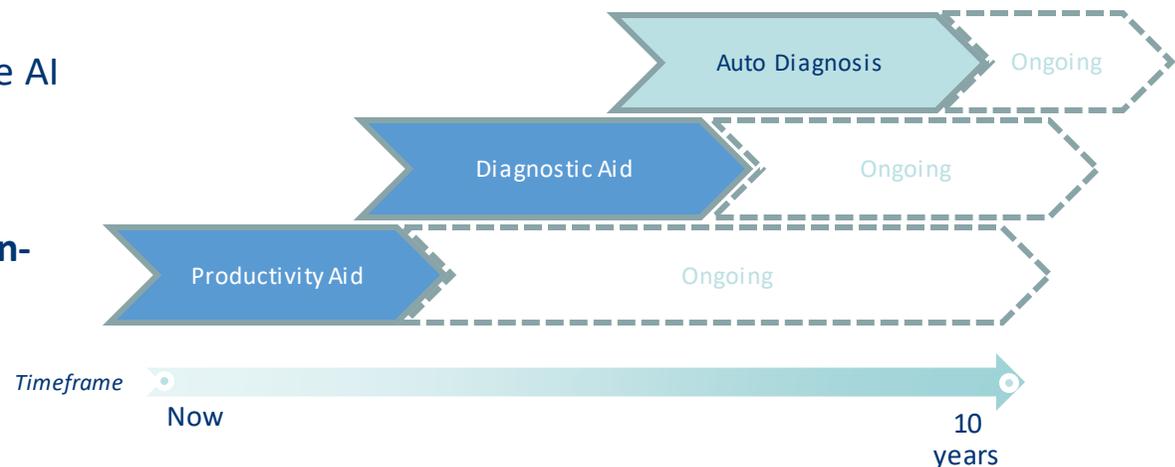
Metric	Previous	March 2020 onwards
Operational	<ul style="list-style-type: none">• Number of net additional Reporters	<ul style="list-style-type: none">• Growth in net rostered reporting hours: <i>measures increase in new reporting hours as well as expanded capacity of existing network</i>• 20% increase 2018-19

3. Expanded core offering

- Expand network of GMC-qualified international reporters
- Expand portfolio of reporting services
- Strategic partnerships in new and existing markets

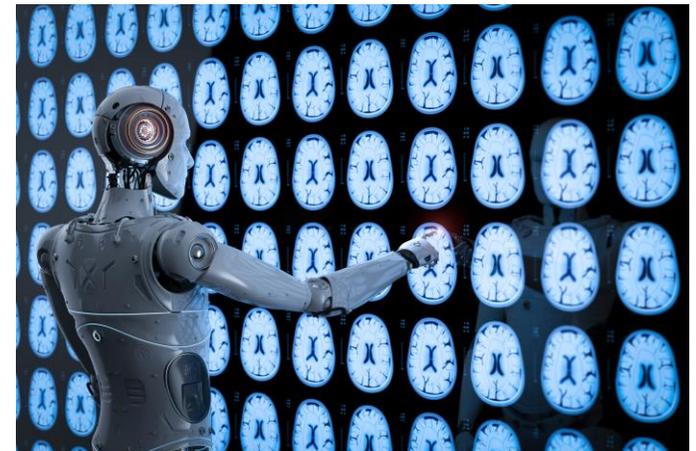
Opportunity to integrate AI into workflow for customers and reporters

- **AI is a decision support tool** for radiologists – not substitution
- **Smart deployment** of AI to improve workflows and enhance quality and speed of reporting remains our focus
- Breadth of radiology means no one AI provider is likely to fulfil our needs
- Investment in new systems will provide **flexibility to deploy best-in-class** AI solutions



Significant resources engaged in evaluating opportunities for the business

- Comprehensive automated reporting remains a long-term prospect in our sphere of radiology
- In short to medium term focus on workflow optimization, quality and speed as decision support tool
- **Selected Qure.ai as initial preferred partner**
- **Contract signed to:**
 1. Co-develop bespoke **workflow improvement** tool;
 2. Deliver **prioritisation and clinical decision support** tool for CT Head examinations
 - ✓ Flag potential urgent examinations allowing reporting based on clinical priority as opposed to chronological allocation
 - ✓ Highlight potential key clinical findings to reporter
- **Expected to be in full deployment in H2, but COVID-19 may delay**



Systematic review and prioritisation of growth options



- **Diversifying teleradiology service:**
 - Leveraging base of radiologists for adjacent services and new customers
 - Diversifying service to enter new markets



- **Expanding breadth of telemedicine services offered**



- **Selective geographic expansion** to penetrate new markets



- **Opportunities** to accelerate strategy via acquisitions

1. Investment in people to underpin future growth trajectory

- **Resources to enable the business to scale at increased rate:** service delivery, clinical, quality, project management, reporter liaison
- Attract GMC-registered reporters from overseas

2. Capex to develop and deploy scalable systems and processes

- **£5-6m total investment** until March 2022 - up to **£2m forecast in 2020**
- Includes investment in Medica proprietary orchestration system
- **Delivering scalability and operating leverage**

3. Investment to drive organic growth and diversification

- **New telemedicine services** leveraging Medica's high quality clinical governance
- Strategic partnerships to access existing and new markets

4. Highly selective opportunities to accelerate business strategy

- Opportunities to **accelerate strategy via acquisitions** in new and existing markets

2020 and longer term outlook

Plan to deliver **strong organic revenue growth in core business** with increased scalability and operating leverage with upside potential from new business lines and **selective M&A**

2020 – short term uncertainty concerning impact of **COVID-19** on reporting capacity and activity

	2018	2019 (IFRS 16) Unaudited	Short term Outlook Pre-COVID-19	Medium-long term Outlook Pre-COVID-19
Revenue	£39.0m (+15.6%)	£46.5m (+19.4%)	12-14% organic growth. <i>Excludes COVID-19 impact</i>	12-14% organic growth
Gross Profit margin	49.0%	47.8%	Reduce up to 200bps	Ongoing price pressure. Steady state c. 43-45%
Adjusted operating profit	£10.7m 27.3% margin	£11.3m 24.3% margin	c. 20% steady-state	c. 20% steady-state. +ve operating leverage post new system implementation
CAPEX	£1.6m	£2.8m (Additional £1.3m IT storage investment)	Revised run rate £2.5m. Up to £2.0m additional (c. £4.5m total)	Further £3-4m additional over 3 years (project total up to £6m)

5. Driving profitable growth

Illustrative

- Strategy will enable Medica to organically double its revenue within 5 years
- Targeting upside revenue in medium-long term from new services/customers/international



- Current **uncertainty of COVID-19 impact**, but company well prepared and responding. Strong balance sheet
- Core underlying market **fundamentals remain attractive** – highly profitable and cash generative business providing **capital to invest to finance future growth**
- **Clear strategy** to sustain and increase our growth potential, build the enterprise and deliver enhanced and more responsive service for customers and their patients
- **Progress against new strategy** – key additions to team, CFO appointment advanced, investment in AI solutions and systems redesign underway
- **Multiple growth drivers** identified within attractive adjacent markets
- **Aligned and motivated team** including largest UK reporter network



Important disclaimer

The information contained in these slides and the accompanying oral presentation (together, the Presentation) has been prepared by Medica Group plc (the "Company"). The Presentation is subject to updating, completion, revision and amendment without notice and as such it may change materially. Neither the Company nor any of the Company's other advisers or representatives, shall have any obligation to update, complete, revise, verify or amend the Presentation.

The Presentation is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on to any other person or published in whole or in part for any purpose. By accepting receipt of the Presentation, you agree to be bound by the limitations and restrictions set out in this disclaimer.

No undertaking, representation, warranty or other assurance, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions contained in the Presentation. Neither the Company, nor any of their respective directors, officers, partners, employees, agents, advisers or representatives shall have any responsibility or liability whatsoever (for negligence or otherwise) arising from any use of the Presentation or otherwise arising in connection with the Presentation.

Nothing in the Presentation constitutes investment advice or any recommendation regarding the securities of the Company.

The Presentation contains certain statements that are or may be deemed to be "forward-looking statements", which are based on current expectations and projections about current events. These statements typically contain words such as "targets", "believes", "intends", "may", "will", "should", "expects" and "anticipates" and words of similar import. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

APPENDIX

Income statement (unaudited)

	FY 2019 £m	FY 2018 £m	Change
Revenue	46.5	39.0	19.4%
Gross profit	22.2	19.1	16.6%
Gross profit margin	47.8%	49.0%	(1.2%)
EBITDA ⁽¹⁾	13.0	11.9	9.2%
EBITDA margin	28.0%	30.6%	(2.6%)
Adjusted Operating profit ⁽²⁾	11.3	10.7	5.9%
Adjusted Operating profit margin	24.3%	27.4%	(3.1%)
Adjusted EPS (pence) ⁽³⁾	8.13	7.75	4.9%

- Strong revenue growth driven primarily by expanding offering with longstanding customers (pre 2017)
- Gross margin reflects expected continued price reductions for NightHawk contracts
- Impact on Opex of investments in IM&T and development of overseas solution
- Upside from revenue out-performance re-invested into recruitment, systems and processes to support current and future growth
- FY19 exceptional items c. £360k relate to CEO change and recruitment fees

(1) EBITDA is a non-IFRS measure and is calculated as operating profit before depreciation, amortisation, exceptional items, and share based payments.

(2) Adjusted operating profit is a non-IFRS measure and is calculated as operating profit before exceptional items share based payments and amortisation in respect of assets acquired on acquisition

(3) Adjusted earnings per share is a non-IFRS measure and is calculated as earnings per share before exceptional items share based payments and amortisation in respect of assets acquired on acquisition