

# Bioquell Group

## 2014 Interim results & update on activities

August 2014

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# Two divisions: Bio and TRaC

	Sectors	'Technologies'	'Products'	Key drivers
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**Bio**  
2014  
H1 Revs:  
£12.3m

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|--|--|--|--|
| <ul style="list-style-type: none"> <li>Life Sciences (production, research, clinical trials)</li> <li>Healthcare</li> <li>Defence</li> </ul> | <ul style="list-style-type: none"> <li>Peroxy chemistry (HPV, AOP)</li> <li>Filtration</li> <li>Eradication of micro-organisms</li> <li>Automated room disinfection</li> </ul> | <ul style="list-style-type: none"> <li>Equipment (HPV, Pod, BxQ, defence)</li> <li>Service (RBDS &amp; support)</li> <li>Consumables (HP, BIs, CIs)</li> </ul> | <ul style="list-style-type: none"> <li>Increasing 'bio' in Life Sciences / pharmaceuticals</li> <li>Antibiotic resistant bacteria: some now 'untreatable'</li> <li>Regulatory (FDA)</li> </ul> |
|--|--|--|--|

**TRaC**  
2014  
H1 Revs:  
£8.4m

- |   |  |  |  |
|---|--|--|--|
| <ul style="list-style-type: none"> <li>Aerospace</li> <li>Defence</li> <li>Telecoms</li> <li>Healthcare</li> <li>Industrials</li> </ul> | <ul style="list-style-type: none"> <li>EMC</li> <li>Vibration / shock</li> <li>Safety</li> <li>Telecoms / radio</li> <li>ATEX (Explosive atmospheres)</li> </ul> | <ul style="list-style-type: none"> <li>Testing (product development)</li> <li>Consultancy (using expert TRaC engineers)</li> </ul> | <ul style="list-style-type: none"> <li>More onerous regulations</li> <li>Increasing use of wireless in different sectors (eg medical devices)</li> </ul> |
|---|--|--|--|

*HPV* Hydrogen peroxide vapour

*RBDS* Room Bio-decontamination service

*CIs* Chemical indicators

*AOP* Aqueous oxygen peroxide

*HP* Hydrogen peroxide

*FDA* US Food & Drug Administration

*BxQ* BioxyQuell (woundcare)

*BIs* Biological indicators

*EMC* Electromagnetic compatibility

# Summary revenue data

	H1 2014 £m	H1 2013 £m	Δ%	Constancy currency Δ%
Life Sciences	9.8	10.3	-5%	-1%
Healthcare	1.7	1.7	0%	+6%
Defence	0.8	0.5	+60%	+60%
Total Bio revenues	12.3	12.5	-2%	+2%
TRaC revenues	8.4	8.7	-3%	-3%
Group revenues	20.7	21.2	-2%	0%

# Summary profit & loss data: Group

	H1 2014 £m	H1 2013 £m
Revenues	20.7	21.2
Gross margin	8.8	9.5
<i>GM% - Bio</i>	<i>39%</i>	<i>44%</i>
<i>- TRaC</i>	<i>48%</i>	<i>47%</i>
Overheads	(8.9)	(8.5)
EBIT - Bio	(0.8)	0.2
- TRaC	1.5	1.5
- Corporate	(0.8)	(0.7)
	<hr/>	<hr/>
	(0.1)	1.0
Net finance costs	(0.0)	(0.2)
	<hr/>	<hr/>
PBT	(0.1)	0.8
	<hr/>	<hr/>

# TRaC – profit & loss

	H1 2014 £m	H1 2013 £m
Revenues	8.4	8.7
Gross margin	4.1	4.1
<i>GM%</i>	<i>48%</i>	<i>47%</i>
Sales & marketing	1.0	1.0
Admin	0.9	1.0
Engineering	0.7	0.6
Total overheads	2.6	2.6
EBIT	1.5	1.5

# Bio – profit & loss

	H1 2014 £m	H1 2013 £m
Revenues	12.3	12.5
Gross margin	4.8	5.5
<i>GM%</i>	39%	44%
Sales & marketing	3.2	3.3
Admin	1.0	1.4
R&D / Engineering	0.6	-
Total overheads	4.8	4.7
EBITA	0.0	0.8
Amortisation of development costs	0.7	0.6
EBIT	(0.7)	0.2

# Capex and R&D

	H1 2014 £m	H1 2013 £m
<b>Capex</b>		
Bio	0.5	0.8
TRaC	0.8	0.5
	<hr/> 1.3	<hr/> 1.3
<b>Depreciation</b>		
Bio	0.8	1.0
TRaC	0.6	0.6
	<hr/> 1.4	<hr/> 1.6
<b>R&amp;D</b>		
R&D costs - capitalised	0.5	1.4
- expensed	0.6	-
	<hr/> 1.1	<hr/> 1.4
<b>Total</b>	<hr/> 1.1	<hr/> 1.4

# Cash flow

	H1 2014 £m	H1 2013 £m
EBITDA	2.1	3.3
Working capital movements	(0.8)	(1.2)
Operating cash flow	1.3	2.1
Capex	(1.3)	(1.3)
Capitalised development costs	(0.5)	(1.4)
(Reduction) in net cash	(0.5)	(0.6)
Net cash at balance sheet date*	1.5	2.0

\* Unutilised borrowing facilities of £7.5m



# Balance sheet

	30 June 2014 £m	30 June 2013 £m
Tangible fixed assets	14.7	13.5
Intangible fixed assets	13.7	13.4
	<hr/>	<hr/>
	28.4	26.9
Net cash	1.5	1.4
Working capital	4.6	5.2
Deferred tax liability	(2.7)	(3.1)
	<hr/>	<hr/>
	31.8	30.4
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# Cost reduction and actions to improve returns

**The Bio division has unique technology - with broad international applicability - to help customers combat problems caused by micro-organisms**

- crudely, there is no shortage of problems caused by bacteria, viruses and fungi – so the potential (nb international) market should be large
- the Bio division should be highly profitable but has not made an appropriate financial return over recent years

**We are taking a number of steps to improve the financial returns**

- reduction in investment in research & development
- review of investment in patents – and associated on-costs
- consolidation of 4 UK service businesses into one
- decrease the size of the technical team dedicated to Pod (due to slow UK uptake so far this year)
- ceasing participation in large defence development contracts (which need significant engineering resources)

**Estimated annualised savings of £1.4m**

- costs of headcount reductions will be broadly neutral in 2014



# Life Sciences - HPV



## **Life Sciences remains the key sector within the Bio division**

- Life Sciences: H1: £9.8m revenues; 80% of Bio division

## **Slow start to year due to subdued equipment sales**

- USA & China held-back: “macro” and “micro” factors
- management changed in both regions

## **Service & consumable revenues increasing**

- RBDS remains an unique, high quality service with quasi ‘go-to’ status, particularly for large facilities
- increasing demand from market for Bioquell biological indicators – used to validate or re-validate HPV systems (and surface sterilisation)

## **Increasing regulatory pressure continues to drive demand for Bioquell’s technology in the Life Sciences sector**

- reducing risk of bio-contamination: product or facilities
- sterility test: used to demonstrate product manufactured under aseptic conditions



# Life Sciences - QUBE

## QUBE – novel aseptic workstation

- low cost system with flexible configuration and similar characteristics to (more expensive) stainless steel units
- integrated HPV bio-decontamination technology – with HP consumable cartridges which give recurring revenues
- unique manufacturing (US defense development contract 'spin-off')

## Principal applications. Currently.

- sterility test
- hospital / compounding pharmacies
- gene & stem cell therapy: personalised medicine / 'Advanced Therapeutic Medicinal Products'

## Revenues growing in Europe...

- ...focus now on growing revenues in the USA & China



# Healthcare – HPV: equipment & service



**Healthcare revenues still small (H1: £1.7m) – but large potential market**

## **Use of HPV technology to eradicate bacteria, viruses or fungi**

- new HPV viral efficacy paper published in March\*: helpful to demonstrate efficacy for MERS-COV (SARS-style virus causing issues in Saudi Arabia) and Ebola
- substantial evidence base: use HPV and Hospital Acquired Infection (“HAI”) rate decreases (ie clinical effect)



## **Broad range of product offerings for hospitals**

- equipment sales: automated room disinfection carried out by hospital staff
- service (RBDS): emergency, scheduled or proactive (in-situ team) surface sterilisation carried out by highly trained Bioquell technicians

## **Increasing focus on real (cf. notional, academic) threat posed by antibiotic resistant bacteria: some strains untreatable – antibiotics no longer effective**

- major issue for patients in intensive care units
- WHO report: April 2014
- UK Prime Minister: July 2014



***Antibiotic resistant bacteria are a real problem – but the Emerging markets have greater issues than the UK & the USA. Currently.***

# Healthcare - Pod

## Bioquell Pod


- provision of single patient rooms / hospital side rooms on open, multi-bed units (a.k.a. 'Nightingale wards') using automated measuring, modelling and manufacturing technologies
- open units shown to have significantly higher HAI rates than units with single rooms (nb common sense!)
- Pods facilitate the use of automated room disinfection technology – eg Bioquell HPV – on open units

**Original ICE-pod business model was rental only...**

**...but new Pod designed and launched which can be sold**

**Middle East hospital has recently ordered 20 Pods and 4 HPV systems**

- hospital has open, multi-bed intensive care units and is worried about viruses – eg MERS-COV and Ebola
- Bioquell Pod and HPV systems are a unique and elegant solution to the hospital's concerns

 ***Pod will also help hospitals combat highly antibiotic resistant (or untreatable) Gram-negative bacteria***



# Defence



**H1: 2014 revenues of £0.8m**

**Awarded £3.7 million contract for CBRN (Chemical, Biological, Radiological and Nuclear) filtration systems from a Middle Eastern customer**

- contract award later than expected – so slower first half defence revenues than expected



**Number of opportunities for further Bioquell defence standard product sales in the Middle East**

**Ended up in contractual dispute with the Prime Contractor relating to a UK MOD development contract**

- cost Bioquell £0.3m in period
- strategic decision to cease carrying out 'development contracts' as risk / reward profile unacceptable; this decision reflected in reduction of size of Bio division engineering team



# TRaC – Testing, Regulatory and Compliance



## **TRaC: H1 revenues of £8.4m – 40% of Group revenues**

- challenging prior year comparator (2013 H1: large aerospace contract)
- H2 trading expected to be good
- regulators continuing to set more onerous standards (eg European, aerospace)

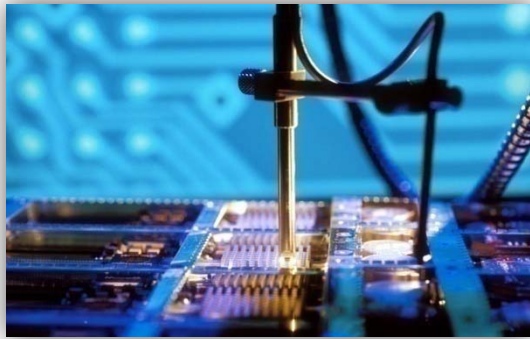
## **Aerospace sector remains significant contributor to revenues and profits**

- most of TRaC's aerospace customers have large order books
- a number of dedicated aerospace "cells" at TRaC facilities – both EMC and environmental
- selective investment in new technologies to help attract aerospace customers



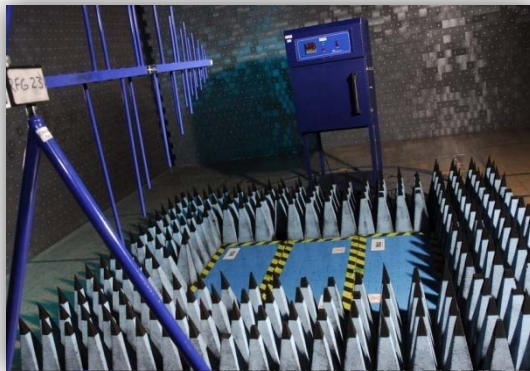


# TRaC – developing consultancy activities



## Good progress made in H1 in diversifying TRaC's business away from its original, core UK-based testing business

- principal testing activities (eg EMC, vibration) require large & expensive test assets
  - eg new large vibration system costs c. £1m
- increasing focus on building consultancy activities
  - leverage TRaC engineer expertise
  - much lower demand for capital investment needed for consultancy activities
  - able to expand internationally



## Increasing international recognition of TRaC's expertise in ZigBee testing

- ZigBee: low-cost, low-power wireless 'machine-to-machine' networks
- TRaC carrying out ZigBee testing in China as well as UK

# Outlook



## **TRaC trading well and building consultancy activities in UK and overseas**

- expecting good performance from TRaC in H2

## **Bio division coming to end of substantial changes:**

- business model, senior management (in UK and overseas), head-count reduction, reduced investment in product development (following completion of substantial programme) & other cost reductions

## **Clear scope to improve Life Sciences activities in USA and China**

## **Healthcare represents a substantial opportunity to increase the size of the Bio division**

- Bioquell Pod / HPV combination offering unique – eg 20 Pods & 4 HPV systems for Middle East hospital
- MERS-COV & Ebola creating new interest in Bioquell's technology
- antibiotic resistance continues to get worse with 'untreatable' bacteria a new reality in intensive care units: global, substantial problem

