



# Interim Results for the six months ended 30 June 2022

September 2022





**Jay LeCoque**  
Executive Chairman

- Experienced CEO in the Life Sciences sector for over 20 years with main concentration on UK listed companies
- Joined SourceBio in 2016 as Non-Exec Chairman, becoming Executive Chairman and CEO in 2017
- Commercial Director, Bioquell plc., 2016 to 2019
- CEO of Celsis International plc from 2000 and part of the take private team in 2009. Exited in 2015 with a 6.8 x cash return to shareholders.
- MBA, Kellogg School of Management



**Tony Ratcliffe**  
Chief Financial Officer

- Over 20 years technology experience including healthcare and biotechnology at Celsis International plc, Gemini Genomics plc and as founding CFO of Lab 21
- Strong strategic, operational and transaction experience in both private and public markets (AIM and Nasdaq)
- Change management and successful international buy-and-build execution on AIM at Brady plc
- Chartered Accountant trained with KPMG, MBA

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# Executive summary

Leading provider of clinical, precision medicine and drug development laboratory services to blue chip pharma, NHS & private healthcare providers.

H1 2022 focus on accelerating growth in core business units, all are delivering

Significant opportunity in Cellular Pathology and emerging Digital Pathology

First M&A deal, LDPath - closed in March, integration going well, out-performing plan

COVID-19 PCR market winding down, non-core, lab space repurposed to Cellular Pathology

Cost base significantly reduced, full impact to benefit H2 and beyond

Strong balance sheet enables organic investment and strategic M&A

## Blue chip clients



Wyeth|Nutrition

Imperial College  
London



Johnson & Johnson



WELLCOME  
GENOME  
CAMPUS

## Growth from core business units, particularly SourceLDPATH

- **Revenue from core business units increased 74% to £13.7m, from £7.9m in H1 2021**
  - **Healthcare Diagnostic business increased 312% to £6.8m, from £1.7m in H1 2021**
  - **Strong delivery from LDPATH, £2.2m of revenue (since 8 March), trading 14% above plan**
  - **Genomics business increased 11% to £3.7m, from £3.3m in H1 2021**
  - **Stability Storage business (ex manufacturing) increased 9% to £3.2m, from £2.9m in H1 2021**
  - **Adjusted EBITDA £2.1m, expected reduction from £11.2m in H1 2021, as PCR declines**

- **Significant reductions in variable and SG&A costs as expense base right-sized post PCR**

- **Inventory position managed down, from £5.0m opening to £1.6m at close of H1**

- **Closing H1 cash of £15.2m, strong balance sheet with no borrowings**

# Revenues by business unit

£'000	H1 2022	H1 2021	% change	FY 2021
Healthcare Diagnostics	6,823	1,658	311%	4,866
Genomics	3,656	3,290	11%	6,505
Stability Storage	3,190	2,927	9%	6,059
<b>Revenues from core business units</b>	<b>13,669</b>	<b>7,875</b>	<b>74%</b>	<b>17,430</b>
Infectious Disease Testing, non core	6,639	28,376		73,567
Manufacturing, ceased	166	638		978
Other non core, ceased	-	371		422
<b>Total Revenues</b>	<b>20,474</b>	<b>37,260</b>		<b>92,397</b>

## Solid revenue growth in core business units:

- Focus is the growth in three core business units, 74% overall increase
- Highlight is exponential growth in Cellular and Digital Pathology business, driven by strong market opportunity. Key management objective is expanding capacity and throughput to meet market demand

Note: Comparatives adjusted to show Reference Laboratory in Genomics, and Manufacturing as non-core

# Outsourced pathology: Market opportunity

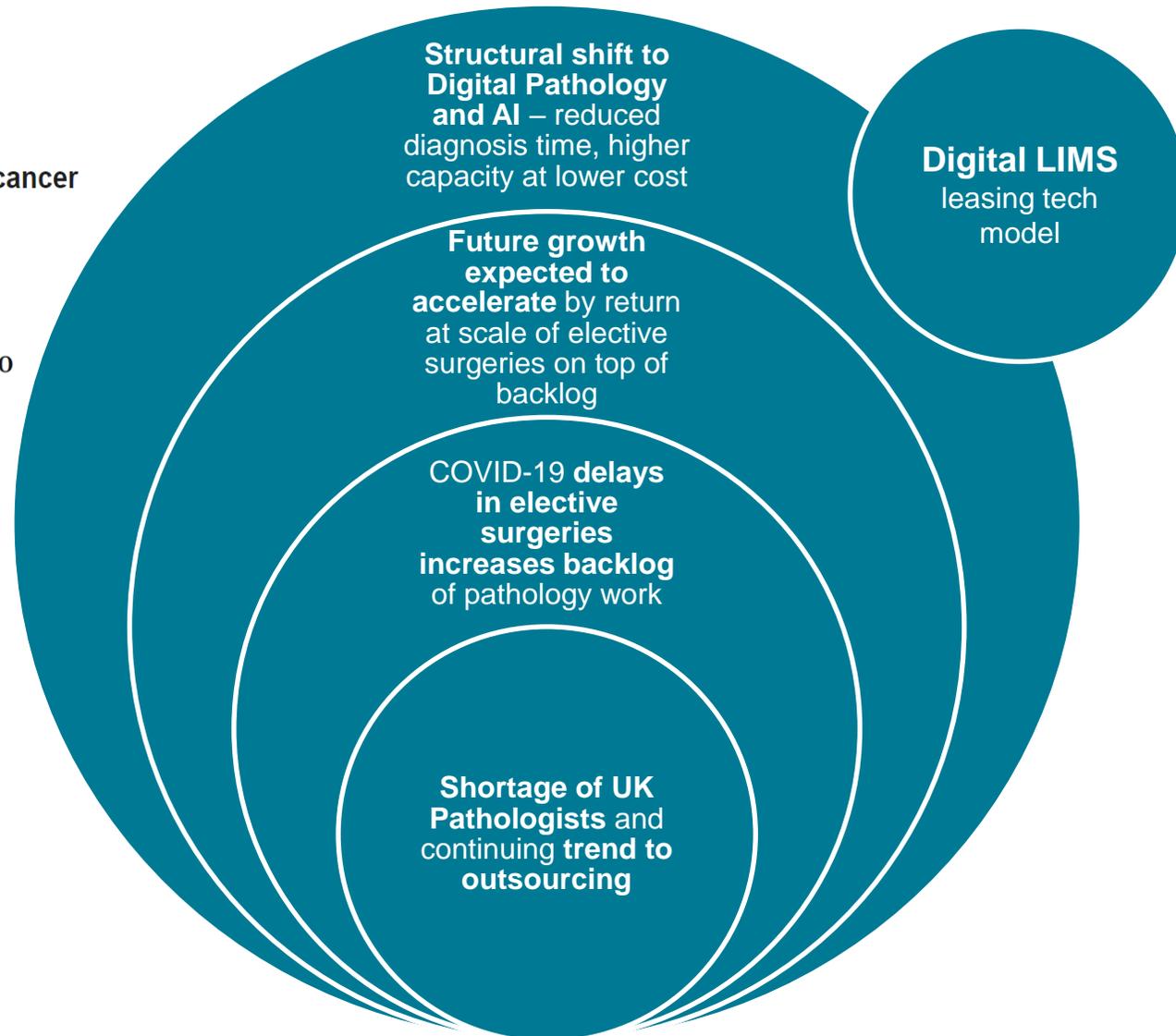
BBC Sign in

NEWS

Pathologists shortage 'delaying cancer diagnosis'

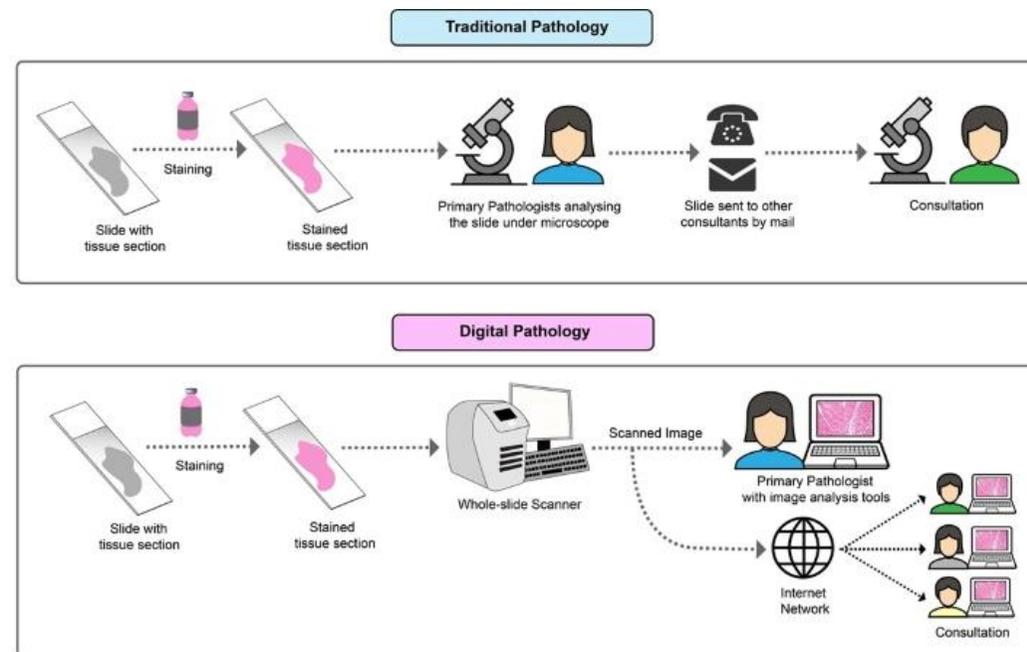
The Guardian

NHS hospital waiting lists could hit 10 million in England this year

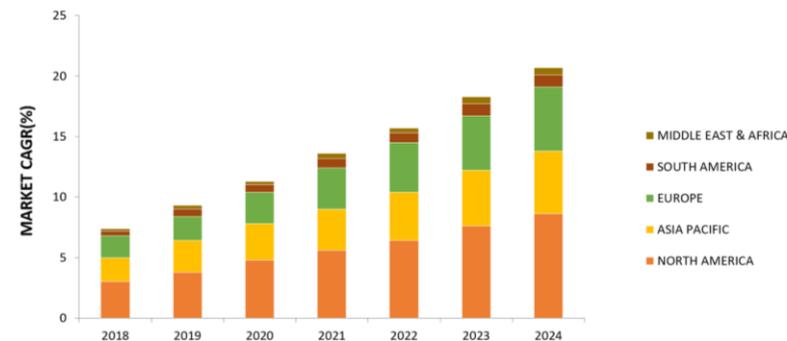


# Source LDPATH: Digital Pathology market overview

- Traditional Pathology relies upon a courier system with reports returned within **5-7 days**
- Digital Pathology **dramatically reduces turnaround times by digitising the reporting process**
- Utilises a **whole-slide scanner and cloud network of pathologists**
- Source LDPATH Pathologists receive the digital slide image and **report results in <24 hours** via the cloud reporting platform
- **Saves 4-6 days in turnaround times**, with Source LDPATH pathologists **reporting in 24 hours or less**
- Global Digital Pathology is a rapidly growing market, with a **circa 15% CAGR forecast from 2020-2024**



DIGITAL PATHOLOGY MARKET SIZE BY GEOGRAPHY (2018-2025)



Source: Envision Intelligence Analysis & Experts Insights

## Earnings accretive acquisition transforming SourceBio's Digital Pathology offering



### SourceBio

- Leading provider of laboratory services
- Core business units: Healthcare Diagnostics, Genomics, Stability Storage
- Strategy: focus on organic growth of core business units, plus M&A



### LDPATH acquisition

- Leader in Digital Pathology testing services
- Proprietary Digital Pathology Platform
- Strong market growth drivers
- Accelerates growth in core Healthcare Diagnostics business

## Headline terms

Initial  
consideration  
**£18.5m cash\***

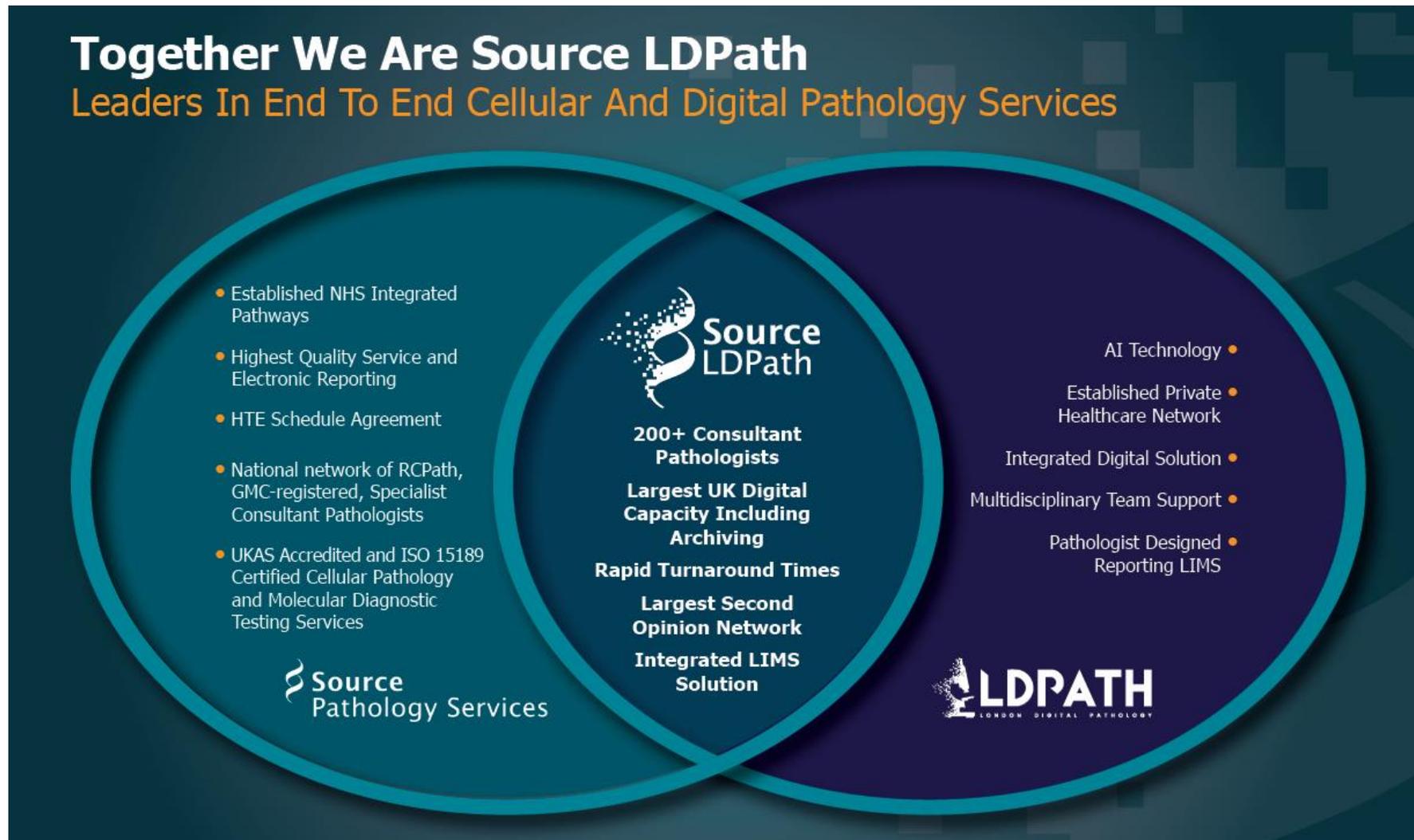
\*Less retentions totalling £2.3m to cover customary reps and warranties and the collection of certain receivables

Maximum earnout ceiling of £15m, subject to exceeding revenue thresholds for the remainder of 2022, 2023 and 2024. Payable in cash following completion of the audit of the accounts for the relevant year

## Key strategic acquisition, creating a dominant position in the Cellular Pathology market

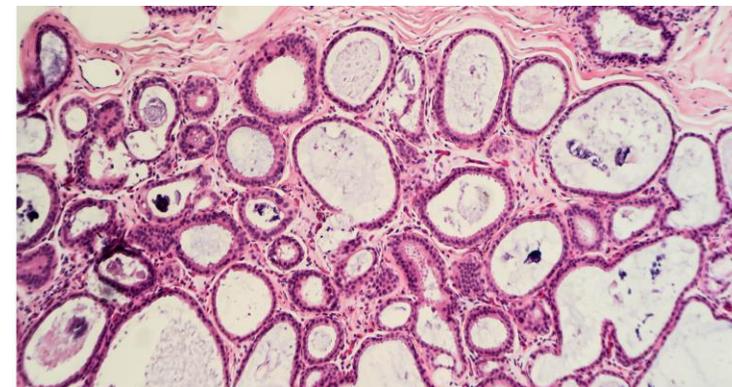
- ✓ **Strengthens SourceBio's position** to be the **leading outsourced provider of Cellular Pathology** testing services to NHS Trusts and Private Healthcare Providers
- ✓ **70% of LDPath business is from its Digital Platform**, which dramatically reduces turnaround time for results
- ✓ **Strong growth opportunities** - upsides to current pipeline could be considerable
  - Increasing **shortage of pathologists** in the UK
  - **NHS backlog** of pathology testing work
  - **Migration to Digital Pathology**
- ✓ **Earnings enhancing** (excluding one-off transaction related costs), **trading above plan**
- ✓ **Plan to accelerate conversion** of both NHS and private clients **to the Digital Pathology offering, including the use of Artificial Intelligence** to further streamline the reporting and ensure highest quality reporting
- ✓ **LIMS technology services offering** for pathology labs
- ✓ **Strategy in place to secure nationwide and regional scale contracts** with private healthcare providers and NHS Trusts, and to **expand with internationally** located consultant pathologists

# Source & LDPATH combined = Source LDPATH

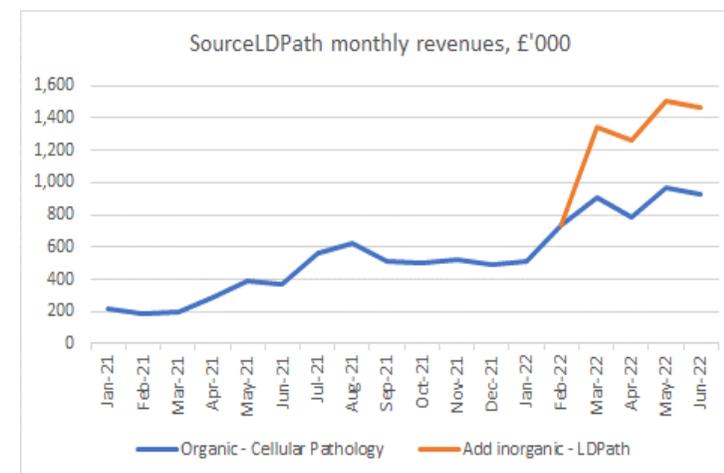


## Business Unit Financial Summary

In £'000	H1 2022	H1 2021	% change	FY 2021
Organic - Cellular Pathology	4,623	1,658	179%	4,866
Inorganic – LDPath acquisition	2,200	-	-	-
<b>Revenue Total</b>	<b>6,823</b>	<b>1,658</b>	<b>311%</b>	<b>4,866</b>
Overall gross profit	2,743	395	594%	1,685
Overall gross margin %	40.2%	23.8%	16.4%	34.6%



## Monthly growth of Cellular Pathology revenue

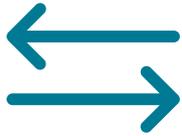


- **Market opportunity compounded by COVID-19 – delays in elective surgeries and increasing waiting lists / backlogs very well publicised**
- **Strong bounce back from H2 2021, volumes now accelerating faster**

- **Genomics** is the study of genes to help **progress clinical research and drug discovery**. **Outsourced model is preferred solution** for many Pharma and Biotech companies
- **Source Genomics** offers two types of DNA sequencing:
  - **Sanger Sequencing**
  - **Next Generation Sequencing (“NGS”)**
- High level scientific capabilities with **Centre of Excellence in Cambridge** ideally located for the “The Golden Triangle”
- **Investment** in NovaSeq NGS system from Illumina has led the pull to NGS growth, with increased wins of **larger and repeat projects**
- **Commercial team** led by experienced individuals with significant customer and industry knowledge
- Dedicated **Precision Medicine business line included** to capitalise on market demand (Reference Laboratory in Nottingham)



# Source Genomics: Growth opportunities



Genomics in Cambridge has been constrained by limited and poor quality facilities. **Fit-out underway, move to Endeavor House in Q4 critical to deliver forecasted growth**



Strategic shift to **more NGS projects v Sanger Sequencing**



US sequencing successfully re-launched in San Diego



**New facility - Endeavor House, Histon**

## Business Unit Financial Summary

£'000	H1 2022	H1 2021	% Change	FY 2021
Sanger Sequencing	1,518	1,629	-7%	2,909
NGS	1,288	935	38%	2,051
Precision Medicine	850	726	17%	1,545
<b>Revenue Total</b>	<b>3,656</b>	<b>3,290</b>	<b>11%</b>	<b>6,505</b>
Overall gross profit	1,067	1,352	-21%	2,367
Overall gross margin %	29.2%	41.1%	-11.9%	36.4%

- Solid overall growth delivered in H1 2022
- Successful strategic shift to more NGS projects v Sanger Sequencing
- Gross margin remains the challenge, driven by mix, price increases effected late H1
- Fit out of expansionary Cambridge facility underway



# Source Stability Storage: Overview

- Environmentally controlled **Stability Storage data** is a **regulatory requirement** for drugs & consumer products to be released to market
- **Storage services is high margin (GM 80%) recurring revenue business** with historic 8% to 10% annual growth potential
- **Two revenue streams** servicing **Pharmaceutical and Consumer Health** client base
  1. **Stability Storage services**
  2. **Service and validation** of storage and laboratory equipment
- **Storage growth is driven by capacity** - investments made in Ireland and US add significant new capacity
- **Storage customers provide long-term commitments**, typical trial study periods of three years with multiple studies typically from each client
- **Upside service opportunity** in offering service resource to manufacturers who lack a service capability



# Source Stability Storage: Financials

## Business Unit Financial Summary

£'000	H1 2022	H1 2021	% change	FY 2021
Storage Services	2,047	1,814	12.8%	3,788
Service & Validation	1,143	1,113	2.7%	2,271
<b>Revenue Total</b>	<b>3,190</b>	<b>2,927</b>	<b>9.0%</b>	<b>6,059</b>
Overall gross profit	2,079	1,974	5.3%	3,979
<i>Overall gross margin %</i>	<i>65.2%</i>	<i>67.4%</i>	<i>-2.2%</i>	<i>65.7%</i>

- Storage Services robust through COVID-19
- Service and Validation underlying growth but COVID-19 impacted through travel restrictions
- In-house manufacture ceased in H1 (shown in non-core)
- Price increases effected mid 2022

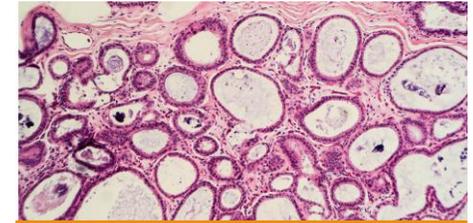


## Stability Storage is High Margin

- Storage Services highly profitable, **GM of 81%**
- Storage Services typically sold under 3 year contracts, **strong visibility of forward (recurring) revenues**
- Service and Validation recurring or repeat revenues

## Execution of strategy

- **H1 2022 was an encouraging first half**
  - Pivoted from PCR to aggressive growth of core business units, solid growth delivered in each
- **Unprecedented market opportunity for outsourced Cellular Pathology** - driven by shortage of pathologists, huge elective surgery backlog and transition to Digital Pathology
- **Completed LDPath acquisition**, integration on track, over-delivered on plan
- **Cost base right-sized**, full benefit to accrue in H2 and beyond
- **Encouraging further growth opportunities in Genomics and Precision Medicine**
- **Strong balance sheet capable** of supporting significant future growth - organic and inorganic
- **Debt free** other than leases, closing cash of £15.2m
- **Expecting a busy H2**



# Appendix

# Income Statement extract

£'000	H1 2022	H1 2021	FY 2021
Revenue	20,474	37,260	92,397
Gross profit	6,986	16,024	36,213
<i>Gross margin %</i>	<i>34.1%</i>	<i>43.0%</i>	<i>39.2%</i>
Net operating expenses and other income	(4,889)	(4,806)	(12,098)
<b>Adjusted EBITDA</b>	<b>2,097</b>	<b>11,218</b>	<b>24,115</b>
<i>Adjusted EBITDA %</i>	<i>10.2%</i>	<i>30.1%</i>	<i>26.1%</i>
Depreciation and amortisation	(1,802)	(1,217)	(2,931)
Share based payments	(153)	-	(77)
Acquisition costs of LDPath	(650)	-	-
Reorganisation costs	(682)	-	-
Inventory provision re COVID-19/PCR	(888)	--	--
Inventory provision re ceasing Manufacturing	(246)	-	--
<b>Operating (loss)/profit</b>	<b>(2,324)</b>	<b>10,001</b>	<b>21,107</b>

**Solid EBITDA but difficult to compare to 2021 which dominated by PCR:**

- See growth in underlying business units
- Material reduction in cost base executed in H1, to benefit H2 and beyond
- One-off costs in H1 as wind down non-core PCR and loss making manufacturing

# Statement of Financial Position extract

£'000	At Jun 2022	At Jun 2021	At Dec 2021
Intangible assets and goodwill	34,189	10,196	10,185
Right of use assets	13,337	10,516	10,347
Property, plant & equipment	8,766	7,973	8,226
Inventory	1,601	5,089	4,999
Receivables and other debtors	7,543	11,848	8,098
<b>Cash</b>	<b>15,209</b>	<b>17,186</b>	<b>33,304</b>
Trade and other payables	(16,464)	(9,756)	(13,856)
Lease liabilities	(16,117)	(13,405)	(12,995)
Deferred tax	(2,140)	-	-
<b>Net assets</b>	<b>45,924</b>	<b>39,647</b>	<b>48,308</b>

## Strong balance sheet dominated by strong cash balance

- No bank borrowings or facilities
- Available to support aggressive growth
- Increase in intangibles and deferred tax driven by LDPath acquisition
- PCR inventory successfully managed down
- Debtor days averaged 48 days v 43 days in H1 2021
- Payables include £1.8m re LDPath retention, £4.1m re revenue earnouts 2022 to 2024 and deferred revenue totaling £4.7m

# Statement of Cash Flows extract

£'000	H1 2022	H1 2021	FY 2021
<b>Cash inflows from operations</b>	<b>1,304</b>	<b>10,187</b>	<b>28,784</b>
Cash outflows from exceptional items	(1,332)	-	-
<b>Total cashflow from operations</b>	<b>(28)</b>	<b>10,187</b>	<b>28,784</b>
Disposal of tangible assets	8	645	647
Purchase of tangible and intangible assets	(1,013)	(1,535)	(3,015)
Purchase of LDPath, net of cash	(15,636)	-	-
Net repayment of borrowings and other finance activities	(1,488)	(524)	(1,501)
<b>Net increase in cash and cash equivalents</b>	<b>(18,157)</b>	<b>8,773</b>	<b>24,915</b>
Opening cash	33,304	8,435	8,435
Foreign exchange difference	62	(22)	(46)
<b>Closing cash</b>	<b>15,209</b>	<b>17,186</b>	<b>33,304</b>

- Net cash inflows reduced as PCR testing reduced, also impacted by exceptional costs
- LDPath acquired for cash (with earnout weighting)
- Borrowings repaid includes acquired LDPath CBILs loans £0.6m
- Nil borrowings at end of H1