

# Chief Executive Officer's Review



**David Allmond**  
Chief Executive Officer

## 2021 highlights

- Established an international scientific advisory board, and in-country and therapeutic area advisory boards to assist with market surveillance and directing future innovation
- Significant investment in new product development programmes
- Continued geographic expansion and built marketing, direct sales, and distribution channels with hand-selected partners, leveraging adjacent markets across Europe

In 2021, Novacyt achieved revenues of £95.8 million in line with market expectations, excluding £40.8 million of DHSC revenues under contractual dispute, with a gross margin of 68% and an EBITDA margin of 39% in the underlying business, excluding the DHSC dispute. Revenue derived from COVID products accounted for 86% compared to 95% in 2020, with the UK representing 45% of total revenue compared to 79% in 2020. The Company remains debt free with a cash position of £101.7 million on 31 December 2021.

The Company's vision is to become a leading global clinical diagnostics company in the fight against infectious diseases by enabling informed clinical decision-making through quality diagnostics delivered in the right place at the right time.

Having undergone a period of internal review, Novacyt's management remains focused on the previously announced strategic development pillars of portfolio development, geographic expansion, and business development. This will support the development of a substantive, sustainable base business and will serve to provide financial stability for the Company moving forward. It will also act as an innovation engine so Novacyt can continue to be a global first responder, tackling disease outbreaks and neglected tropical diseases, working with a global leading health organisation, other NGOs and philanthropic organisations.

During 2021, the Company demonstrated its flexibility and agility to rapidly respond to customer needs for COVID-19 testing, moving from a largely government contract base, to supplying a highly diversified set of customers in the private sector focusing on film and media, events, employee, and travel testing. Taking testing to the front line with highly sensitive, medium throughput, scalable, molecular testing solutions with exceptional customer service and technical support puts Novacyt in a strong position as it looks to continue diversifying beyond COVID-19.

Novacyt is adapting and maturing its offering to become market and customer-led, as outlined in our strategy update in January 2022, focusing on solutions to serve high unmet needs in infectious diseases. The integrated near-patient workflow the Company has developed, with its proprietary q16 and q32 PCR instruments and user-friendly direct-to-PCR assays, has been further enhanced with semi-automation through the recent launch of CO-Prep™. This product automates liquid handling, reducing hands-on time and risk of contamination, whilst providing robust sample stewardship to reduce the chance of human error. This workflow platform can, in the future, be used where currently decentralised sample-to-result solutions are not easily scalable, slow and very costly.

In 2021, the Company continued to diversify its revenue streams beyond the UK, with over half its revenues from international markets. This trend is expected to continue as the Company strengthens its focus in Europe, where CE Mark accreditation applies across the European Economic Area largely without additional regulatory hurdles, and in the Americas and Asia Pacific where Novacyt's distributor network is being refined and enhanced.

With the impending implementation of the European IVDR in late May 2022, the Company is well-placed to manage this increased clinical and regulatory complexity where other smaller organisations may struggle. It is anticipated this change will ultimately be a competitive advantage for a mid-size, established clinical diagnostics company which can take advantage of opportunities with lower competition.

In addition to the clinical diagnostics and instrument portfolio, Novacyt has an extensive life sciences portfolio of research-use-only ("RUO") products developed before the pandemic. In 2021 and early 2022, the portfolio has been refreshed and refined to ensure the primers and probes are up to date to reliably target given pathogens. The portfolio will be relaunched in the second half of 2022 to deliver near-term growth to underpin the base business. This portfolio will also act as an innovation engine for future IVD products for use in human health.

To support the Company's growth, the Executive team has been reorganised and strengthened and we continue to enhance capability across key areas of the business, including R&D, regulatory and manufacturing/supply.

Most notably, in 2021, the Company invested significantly to strengthen the commercial organisation, recruiting commercial leaders with significant diagnostic industry experience to execute on the international growth strategy.

Whilst we note COVID-19 remains with us, and we continue to offer one of the market's best diagnostic portfolios for SARS-CoV-2 enabling our customers to continue tackling the virus on the front line, we are excited by the future of Novacyt as we evolve the business beyond the pandemic.

Looking ahead, Novacyt's management believes it can achieve annual revenue in excess of £100 million in five years, whilst also delivering profit margins comparable to its peer group. This projection is based on the successful implementation of the strategy to deliver material growth in non-COVID-19 revenues.

The Lab21 Products business continued to be impacted in 2021 by its core customers diverting testing from veterinary and food testing to COVID-19

testing and as communicated in January 2022, the Company commenced a strategic review of the business. As outlined in the review, the costs associated with updating the existing portfolios in these businesses to comply with IVDR and ISO regulations are prohibitive versus the sales opportunity it presents.

### Ongoing dispute with the DHSC

As previously disclosed, the business remains in dispute with the DHSC in relation to a supply contract entered into in Q4 2020, which has now become a legal claim. The 2021 accounts show the underlying performance of the business by excluding any financial impact of the disputed revenue. The Company is disappointed a satisfactory resolution has not yet been found and continues to believe it has strong grounds to assert its contractual rights in the claim. The Board is determined to carry on with the core business and to use the Company's balance sheet to invest in both continued organic growth and M&A opportunities to support its strategic aims.



I am excited for what we can achieve in 2022 and beyond. I truly believe we can deliver great success in the future and leave a legacy by applying our science and innovation, ensuring integrity in everything we do to create long-term Shareholder value."

**David Allmond**  
Chief Executive Officer