

Covid – 19 Pandemic

**A Case Study in
Business Resilience**



MAY 2020

VISION AND MISSION

“To improve patient care through transformational technology and integrated solutions working as a trusted partner with our customers to deliver therapeutic outcomes”

“To delight our life science customers by fully satisfying their contract research, development and manufacturing needs with agility, innovation, seamless teamwork and best value delivery”

OUR VALUES



CUSTOMER FOCUS

- + We seek to fully understand our customers' requirements
- + We focus our efforts and time on customer needs
- + We value our customers equally
- + We work to achieve cost effective solutions
- + We develop partnerships with our customers through providing expert advice



RESPECT

- + We treat everyone fairly
- + We value diversity of people and opinions
- + We listen and always respond thoughtfully
- + We value, recognise and reward individual and team performance
- + We recognise that outstanding performance is based on people more than process



TRANSPARENCY

- + We are open and honest
- + We share information in a timely and appropriate way
- + We agree clear goals
- + We encourage and welcome feedback
- + We have the courage to address and overcome problems



INTEGRITY

- + We do what is right
- + We build trust through honesty and reliability
- + We are fair and ethical
- + We do what we say we will do
- + We are accountable



PASSION FOR PERFORMANCE

- + We innovate and invest to improve efficiency and productivity
- + We set high standards and learn from our mistakes
- + We plan and review to create an environment of continuous improvement
- + We keep things simple wherever we can
- + We go the extra mile with enthusiasm, energy and determination

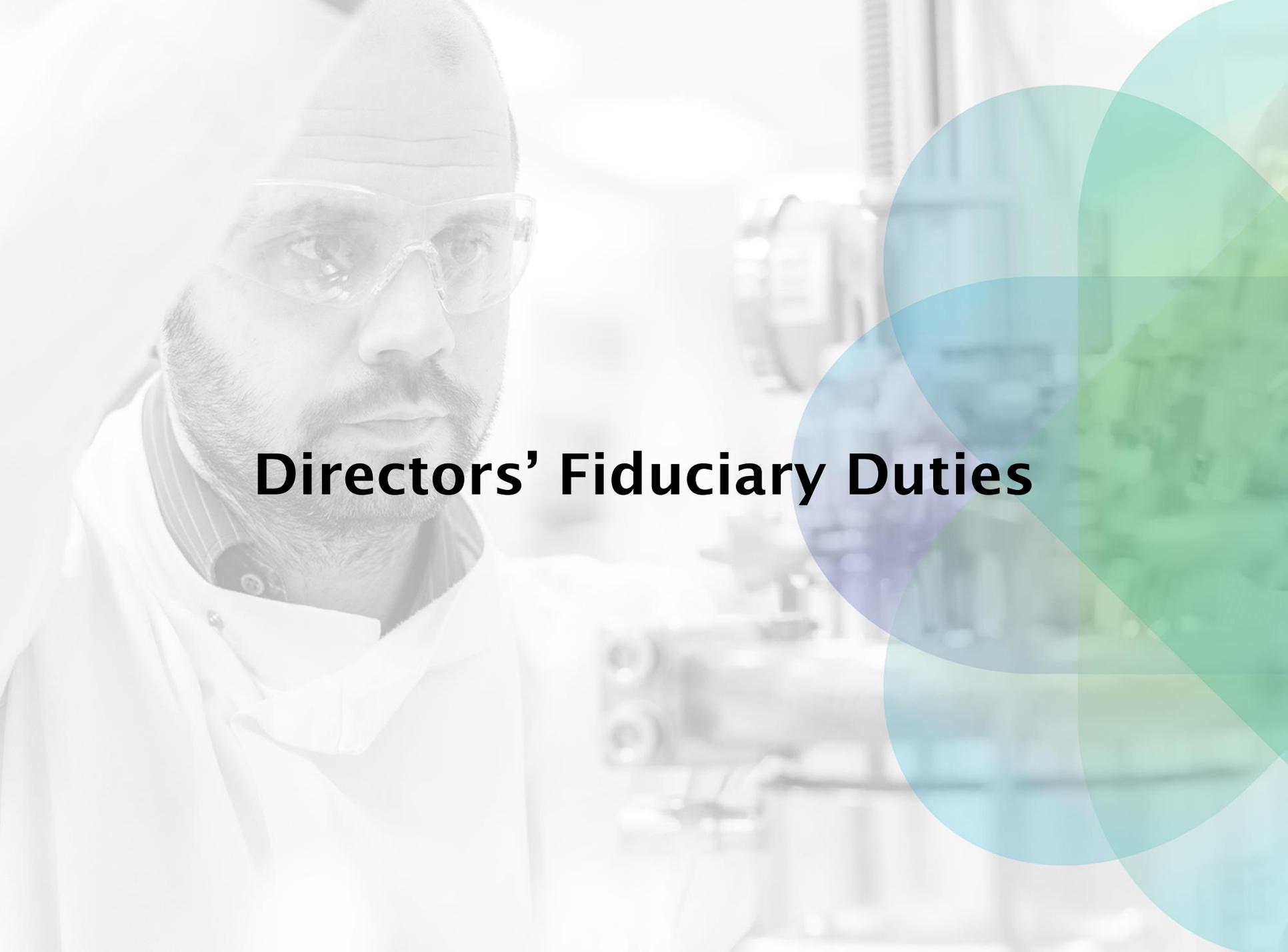


COVID-19 PANDEMIC

1. Protect our staff as key workers
2. Protect our business
3. Protect our client milestones

DEFINING PRIORITIES

1. Safety; take all practicable steps to minimize employee risk
2. Business; identify all necessary actions to improve business resilience
3. Clients; further improve agility and flexibility to maintain support for clients



Directors' Fiduciary Duties

DIRECTORS' DUTIES

Under the Companies Act 2006, s170 to 181, a director must:

- 1) Act within the powers as granted by the Company's constitution
- 2) Promote the Company's success
- 3) Exercise independent judgment
- 4) Exercise reasonable care, skill and diligence
- 5) Avoid conflicts of personal interests
- 6) Not accept benefits from third parties
- 7) Always declare personal interests in any proposed transactions

Other rules of Company Law may apply, including a duty for directors to act in the interests of creditors, especially if the company is in financial difficulty.

Take professional advice. Avoid wrongful trading.

A man with a beard and safety glasses, wearing a white lab coat over a collared shirt, is looking towards the camera in a laboratory setting. The background is slightly blurred, showing laboratory equipment. On the right side of the image, there is a decorative graphic consisting of several overlapping circles in shades of teal and green. The text "13-week cashflow" is overlaid in the center of the image.

13-week cashflow

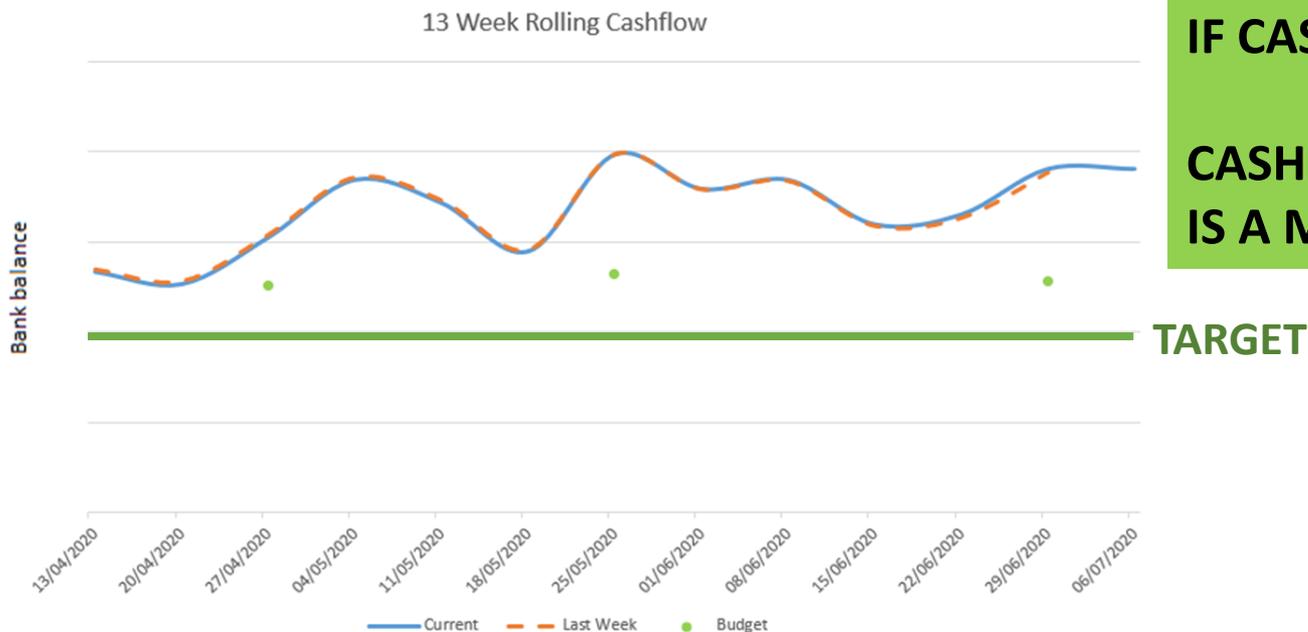
13-WEEK CASHFLOW

What is it?

Key tool used by management to help manage the business

Why is this important?

Cash is king - Profit does not equal cash



IF CASH IS KING...

**CASHFLOW PLANNING
IS A MUST**

13-WEEK CASHFLOW

	Wk 1	Wk2	Wk3	Wk4	Wk5	...Wk13	(1)
Bank balance							(2)
Cash receipts							
Payroll							
Trade suppliers							(3)
ABC Ltd Pyt plan							(4)
Overheads							
Direct debits							(5)
Rent							
Rates							
Govt rate relief ()							(6)
PAYE							
VAT							
Contingency							(7)
Total expenses							
Net inflow (outflow)							
Closing balance							
Creditor backlog							(8)
Trade suppliers							
Rent							
Rates							
Assumptions:							(9)
1. Receipts based on 2% YoY increase							
2. VAT time to pay arrangement 3 months							

- (1) 13 Weeks
- (2) Reconciled to Bank balance
- (3) Balancing item?
- (4) Fixed payment plans
- (5) Fixed payments
- (6) Adjustments shown in forecast
- (7) Reserve for pressing creditors
- (8) Running total of deferred payments
- (9) Key assumptions



C-19 action at Arcinova

CASH IS KING!

ACTION 1: Improve our cash balance



ACTION 2: Protect cash for the next Quarter

Agree cash deferrals with Lenders, HMRC, claim grants, tax refunds, save money

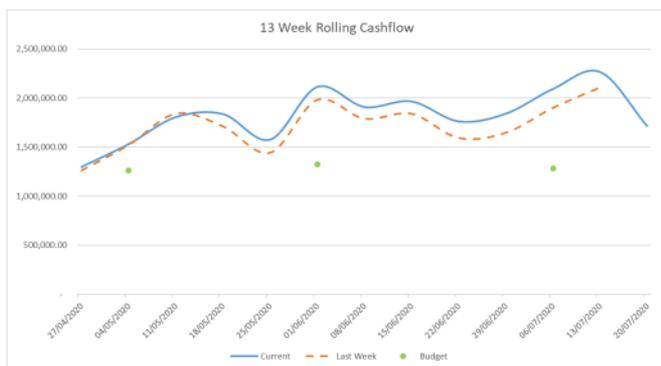
£1.15m secure

£1.10m in progress



WEEKLY TRIGGERS REPORT

13 Week cash flow



Test- Cash balance for next quarter >£1m



TRIGGER:
Cash must be > £1m
Monthly billing must be > £1m

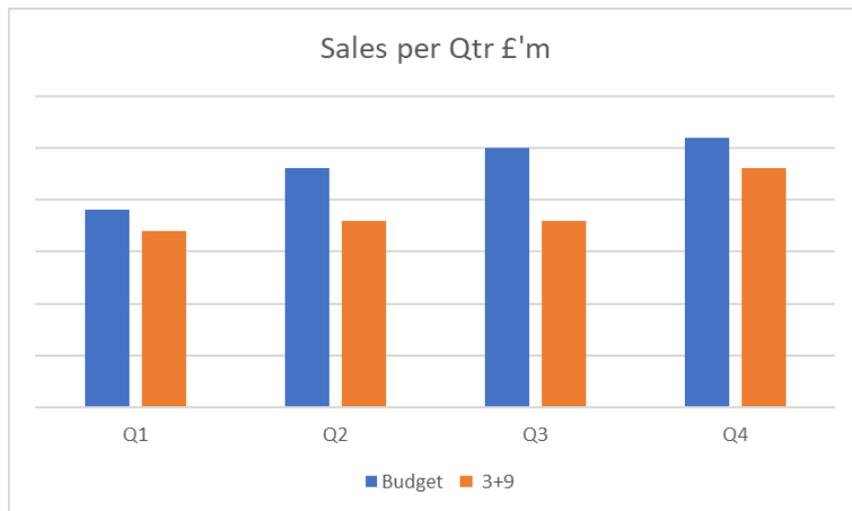
Monthly Billing

BD Adjustments	April 2020	May 2020	June 2020	Total
Project: Practice ↑	Sum of Milestone Amount (converted)			
ARCINOVA	OSP 88,056.22	OSP 97,472.91	OSP 307,969.13	OSP 482,098.26
	GBP 362,000.00	GBP 150,000.00	GBP 150,000.00	GBP 462,000.00
	OSP 0.00	OSP 0.00	OSP 55,403.00	OSP 55,403.00
	GBP 6,453.00	GBP 0.00	GBP 53,967.00	GBP 60,420.00
	OSP 0.00	OSP 27,311.00	OSP 305,857.00	OSP 333,168.00
	OSP 0.00	GBP 9,145.00	GBP 18,290.00	GBP 27,435.00
	OSP 0.00	OSP 11,653.00	OSP 0.00	OSP 11,653.00
				GBP 0.00
Total Adjustments	OSP 255,109.22	OSP 295,583.91	OSP 691,486.13	OSP 1,242,179.26
Total Billings	April 2020	May 2020	June 2020	Total
Project: Practice ↑	Sum of Milestone Amount (converted)			
Analytical Services	GBP 45,756.86	GBP 20,865.58	GBP 28,051.06	GBP 94,673.49
Biomechanical Services	OSP 500,000.00	OSP 500,000.00	OSP 500,000.00	OSP 1,500,000.00
Drug Product Services	GBP 31,335.00	GBP 23,223.00	GBP 77,631.00	GBP 132,189.00
Drug Substance Services	OSP 411,176.11	OSP 406,982.88	OSP 455,294.41	OSP 1,273,453.40
Formulation Development Services	GBP 1,632.00	GBP 15,563.00	GBP 52,185.00	GBP 69,380.00
Integrate Labeling Services	OSP 303,625.71	OSP 182,445.68	OSP 216,511.17	OSP 702,582.57
Regulatory / Consultancy Services	GBP 0.00	GBP 9,145.00	GBP 18,290.00	GBP 27,435.00
Total	OSP 1,299,925.68	OSP 1,158,225.15	OSP 1,348,162.64	OSP 3,806,313.46

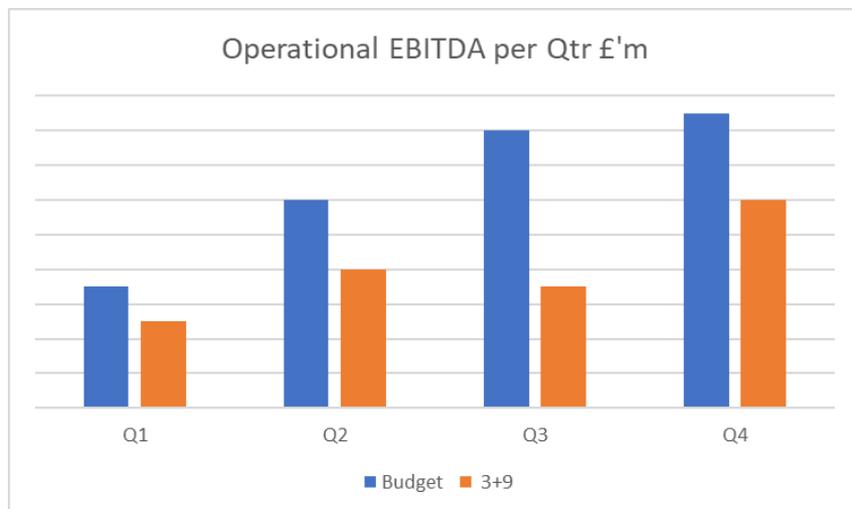


Test- Projected billing for current plus next month >£1m

FY20 REFORECAST



SALES:
Budget = £xm
“3+9” = £x-3.5m



OPERATIONAL EBITDA:
Budget = £ym
“3+9” = £y-2.0m

= cash ca£2.0m to £3.5m



Sensitivity Analysis

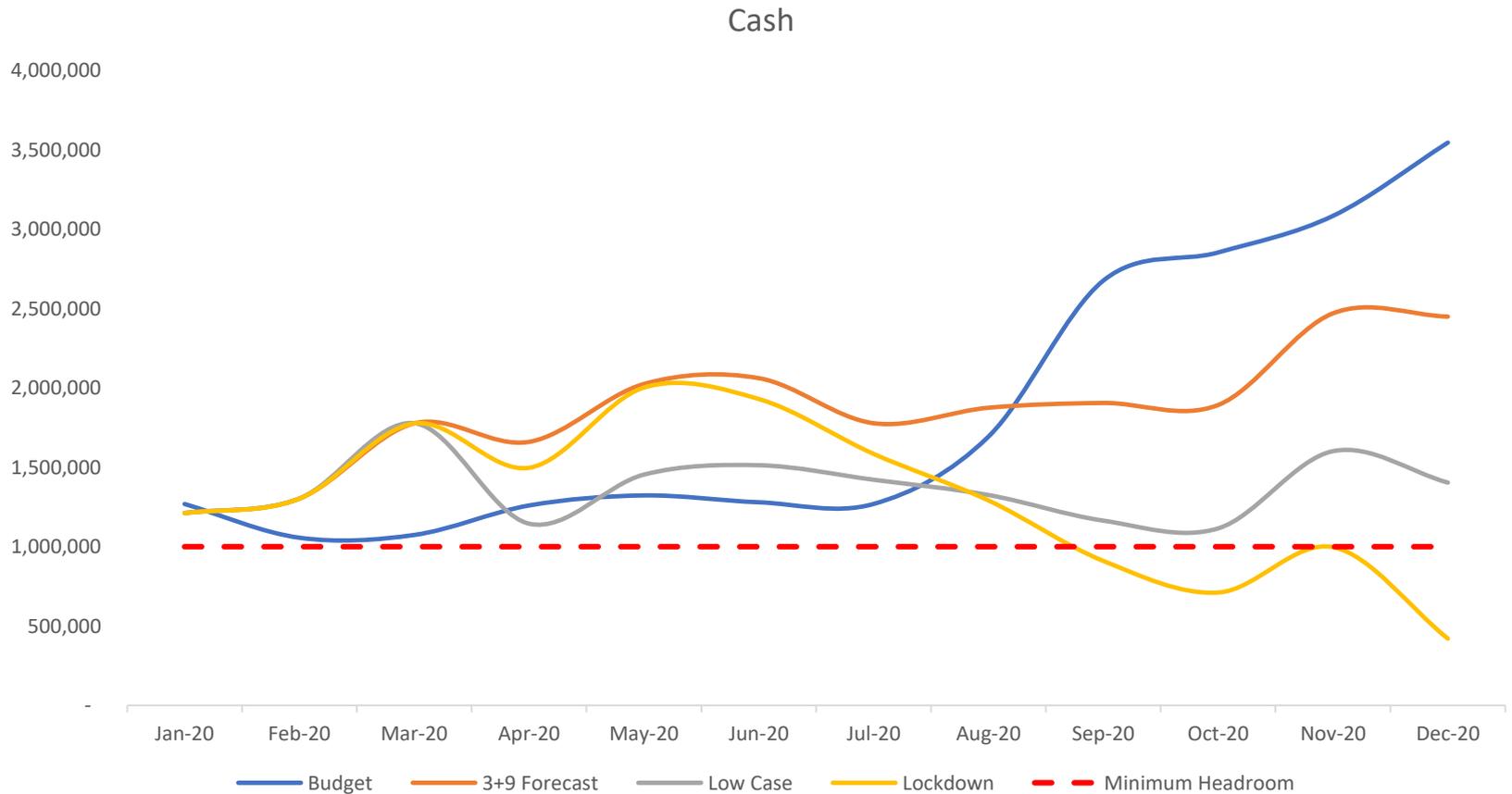
SCENARIO PLANNING

In order to “stress test” the current forecast for the potential impacts of Covid-19 two further downside scenarios have been modelled:

Low case- where there are further significant and widespread delays to projects meaning for Q2 and Q3 Arcinova can only raise £1m of billing each month.

Lockdown- where all project work stops for 6 months from May-20 due to UK travel restrictions.

CASH (EXCLUDING ID FACILITY)



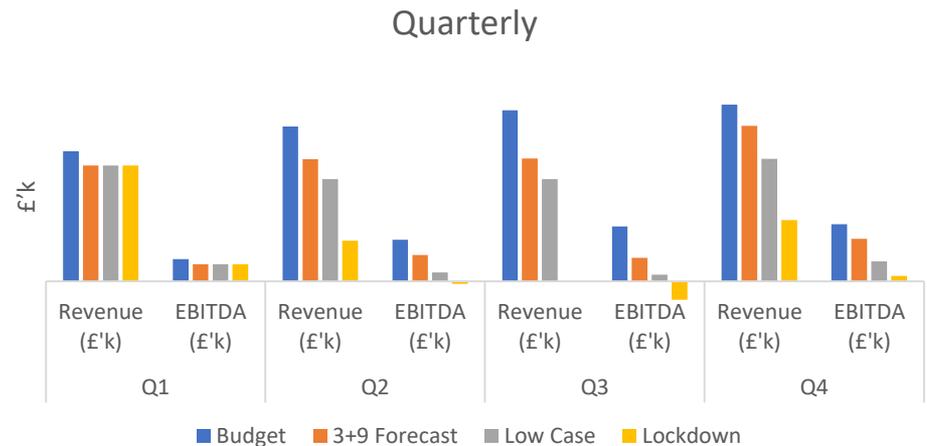
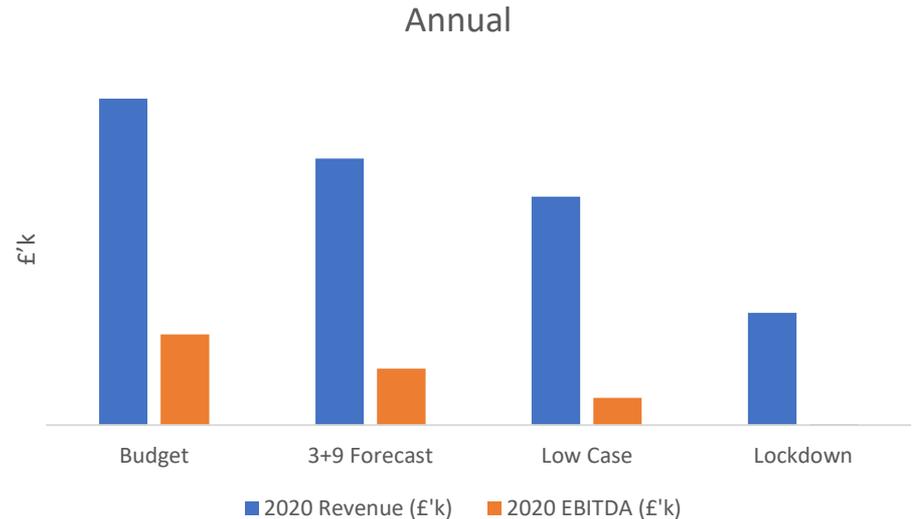
P&L Performance

All scenarios are profitable across FY20.

The largest element of our cost base is people (50%).

The Lockdown assumes an extreme cost reduction including all but 15 staff being on the CJRS for 6 months.

The Low case is equivalent to the FY19 P&L.



REMEMBER

DO NOT:

- **Ignore your fiduciary duties**
- **Trade if insolvency is unavoidable – get advice**
- **Let anyone make commitments that cannot be fulfilled**
- **Ignore your forecast – monitor it and keep it updated**

DO:

- **Involve your teams**
- **Communicate**
- **Protect your reputation and credibility**
- **Ask for advice and copy what works for others**
- **Stay calm, think clearly!**

NEW WAYS OF WORKING

- Communicating differently
- Defining our Priorities
- Adapting our workplace, processes and behaviours

COMMUNICATING DIFFERENTLY

□ Communication is key

- Embrace the world of virtual meetings (Teams in our case)
- Daily 'War Room' updates for Senior Team
- Weekly Company wide Town Hall meetings
- Routine management meetings
- Keep pace with the ever changing current advice and update internal guidelines
- Signage, signage and more signage
- Walk the talk

NEW SINK INSTALLATION

Positioned at
building entrance
after glass
security door



SOCIAL DISTANCING

This is canteen/relaxation space with same rigour as workplace space



ADAPTING OUR WORKPLACE, PROCESSES AND BEHAVIOURS

- ❑ Establish a Covid-19 Risk Register
 - Identify all possible risks to the business and develop mitigations where possible
- ❑ Risk assess all changes to current processes/procedures and then communicate the outcomes
 - Be pragmatic, balance the increased risk of the change against the decreased risk to Covid-19 transmission e.g. fire doors wedged open during core hours
- ❑ Reinforce good hygiene behaviours and call out poor compliance

FIRE DOORS

After detailed risk assessments several fire doors are wedged open to maintain essential hygiene



OUTCOMES

Employee Status	(%)
Working on site	68
Working from home	28
Furloughed	6
Sick leave	1
Other leave	7

SUMMARY & CONCLUSIONS

- Arcinova reacted very swiftly to protect our staff, protect the business and protect our customer milestones.
- We focussed on increasing cash headroom with serious scenario planning to understand all downsides and protect the business
- We increased business development action plans with additional rigour to cover lost business
- We introduced revenue and cash threshold tests to trigger emergency measures
- We defined contingency action plans to respond to and mitigate emergency triggers
- The leadership is passionately determined to beat the crisis



Thank you