Regulatory Story

Go to market news section

Omega Diagnostics Group PLC - ODX Final Results
Released 07:00 30-Jun-2017

RNS Number : 6666J
Omega Diagnostics Group PLC
30 June 2017

30 June 2017

OMEGA DIAGNOSTICS GROUP PLC
("Omega" or the "Company" or the "Group")

FINAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2017

Omega (AIM: ODX), the medical diagnostics company focused on allergy, food intolerance and infectious disease, announces its audited results for the year ended 31 March 2017.

Omega is one of the UK's leading companies in the fast growing area of food intolerance, operating in markets supplying tests for allergies and autoimmune diseases as well as specific infectious diseases. The Company is able to do this through a strong distribution network in over 100 countries, a direct presence in Germany and India, and with a growing network of global partnerships.

Financial Highlights:

- Turnover up 12% to £14.2m (2016: £12.7m)
  - Food intolerance revenue up 13% to £8.00m (2016: £7.06m)
  - Allergy and autoimmune revenue up 14% to £3.59m (2016: £3.16m)
  - Infectious disease/other revenue up 5% to £2.66m (2016: £2.52m)
- Gross profit up 13% to £9.2m (2016: £8.1m)
- Adjusted profit before tax* of £1.13m (2016: £1.35m)
- Adjusted EPS 1.1p (2016: 1.2p)
- Cash at the period end of £0.74m (2016: £1.30m)

* Adjusted for amortisation of intangible assets, share based payment charges and IFRS-related discount charges

Operational Highlights:

- Scottish Enterprise grant funding of £1.8 million secured towards planned expansion of Allersys menu
- CE-mark achieved for 41 allergens to run on IDS-iSYS platform
- CE-mark achieved for VISITECT® malaria tests to be manufactured at our facility in Pune
- Four new Allergodip® panels now optimised
- Formal design freeze attained with our VISITECT® CD4 test
- Recruitment of skilled project managers and leaders into scientific teams

Commenting, David Evans, Chairman, said:

"We are encouraged that trading in the first quarter of the new financial year is in line with our expectations.

"CD4 testing remains a practical and necessary marker for assessment of the baseline status of HIV infection. We are confident that we will meet the remaining challenges within the validation programme that will determine our ability to manufacture a product at scale which meets the market's need.

"As separately notified today, we have announced a placing and open offer to secure funding to ensure that a number of organic growth opportunities can be exploited across all three of our segments in terms of market expansion, manufacturing expansion and product line extensions. We believe this will provide us with a solid foundation for future growth in shareholder value."

Omega Diagnostics Group PLC Tel: 01259 763 030
Andrew Shepherd, Chief Executive
Kieron Harbinson, Group Finance Director www.omegadiagnostics.com
Jag Grewal, Group Sales and Marketing Director

finnCap Ltd Tel: 020 7220 0500
Geoff Nash/James Thompson (Corporate Finance)
Mia Gardner (Corporate Broking)

Walbrook PR Limited Tel: 020 7933 8780 or omega@walbrookpr.com
Paul McManus Mob: 07980 541 893
Lianne Cawthorne Mob: 07584 391 303

Chairman's Statement

Strategy
Point-of-care (POC) testing
VISITECT® CD4

We achieved a significant milestone in attaining formal design freeze with our VISITECT® CD4 test for monitoring the immune status of people living with HIV following the successful manufacture of three pilot batches. Devices from these batches were tested at three UK hospital sites, on sufficient numbers of patient samples to demonstrate that we now have a method for manufacturing devices which consistently meets our design goal specifications regarding sensitivity and specificity.

We have now moved into the validation and verification phase of the programme which can be summarised across the following activities:

- manufacturing of validation batches to confirm manufacturing robustness/reproducibility;
- utilising validation batches to verify performance;
- external performance evaluation trials; and
- CE mark.

We have selected two sites in the UK and one site in India to undertake evaluation studies. This is an important phase in the project and we will give ourselves sufficient time to demonstrate that we can transfer the product from development to routine manufacturing.

We continually assess the market landscape for this product and it seems clear that there is an increasing emphasis on the continued need for monitoring CD4 levels in people living with HIV, particularly those patients with low CD4 counts who are at significant risk of contracting opportunistic infections. The Company has built up relationships with a number of key opinion leaders over the years and so we have a voice that enables us to input into key stakeholder meetings. We have been invited to attend the ninth International AIDS Society Conference on HIV Science (IAS 2017) to be held in Paris in late July where VISITECT® CD4 will be showcased.

Pune manufacturing facility
We made a significant amount of progress during the year with our manufacturing facility in Pune, India.

In January, we announced that we received certificates of accreditation from BSI confirming our Quality Management System is compliant with ISO 9001:2008 and ISO 13485:2003. In March, we confirmed the facility underwent an annual inspection from the Indian FDA, confirming that the facility is compliant with GMP processes for manufacturing, testing, storage and QA, and that we were issued with a manufacturing licence which is valid until January 2021.

We also announced that we were successful in CE-marking and launching our VISITECT® range of malaria tests comprising:

- VISITECT® Malaria Pf (detection of HRP2 antigen in *P. falciparum*);
- VISITECT® Malaria Pf/Pan (detection of *P. falciparum*, non-*P. falciparum* or mixed infections); and
- VISITECT® Malaria Pf/Pv (detection and differentiation of *P. falciparum* and *P. vivax*).

These products are currently available for general sale through business-to-business channels in those countries which do not require individual product registration and we are in the process of being evaluated for additional regulatory approvals to enable the Company to participate in higher volume tender business.

We are also in the process of evaluating additional rapid tests for dengue, syphilis, leptospirosis, brucella and S. typhi.

Allergy automation
In October last year, we reported that we CE-marked our initial Allersys® launch panel comprising 41 allergens. Since October, we have optimised a further 11 allergens and these are currently undergoing their claim support work, which should enable us to add them to the menu of tests available for sale. Two initiatives will help support the ongoing work to extend the menu beyond the initial launch panel, ensuring we enhance our product offering on a continuous basis. Firstly, in August last year, we secured a Scottish Enterprise research and development grant of £1.8 million and this has enabled us to accelerate recruitment of skilled project managers and leaders into the scientific team. Secondly, we have invested in creating our own in-house protein purification capability which will help in the optimisation programme of certain allergens that require a higher degree of characterisation to match the performance of the market leader.

Our commercialisation objectives are closely aligned with our partner company, Immunodiagnostic Systems Holdings plc ('IDS'), which is the manufacturer of the automated instrument over which we have exclusive rights to develop and sell our allergy tests. We have explored a number of routes in the last year on how best to take the partnership forward. Whilst IDS previously expressed an interest in acquiring the allergy business, we both subsequently concluded that our mutual objectives were better served with an enlarged distribution model. I believe we have now agreed the main outline terms which should enable the formal contract negotiations to proceed and we thank shareholders for their patience during this process.

Core business
Our core business is divided into our three main areas of operation comprising:
- Food intolerance;
- Allergy and autoimmune; and
- Infectious disease.

Our strategic aims are to ensure that we can drive good growth across all three sectors in a way that achieves a balance such that we are not over-reliant on any single sector. I have already outlined initiatives that support growth in Allergy and autoimmune and Infectious disease.

We believe there are further significant opportunities for growth in Food intolerance and have made progress in North America, where customers are evaluating our products. In China, we are in advanced discussions with a partner company which could provide access to a large market which is increasingly aware of Food intolerance testing products and services.

In relation to our Food Detective® product, the Company has been in discussions this year with our notified body, Lloyds Register Quality Assurance ("LRQA") regarding use of the self-test version of the kit. The Company has agreed a timescale to complete some corrective actions to LRQA's satisfaction. In the event that we are unable to achieve this, the CE-mark for the self-test kit will be suspended for a period of time which would have a modest impact on revenues and profits.

Financial performance
Group revenue grew by 12% to £14.2 million (2016: £12.7 million) with growth in revenue across all three business sectors. As a predominantly export business, we benefited from a weaker sterling throughout the year, which added £1.1 million to reported revenues (2016: £0.2 million). On a constant currency basis, revenue would have been ahead of last year by 3%. Gross profit increased to £9.2 million (2016: £8.1 million), with an increase in gross profit margin to 64.7% (2016: 63.8%). Adjusted profit before tax (statutory profit before tax of £0.7 million with add backs for amortisation of intangible assets, share-based payment charges and IFRS-related discount charges) was £1.1 million (2016: £1.3 million) and adjusted earnings per share were 1.1 pence (2016: 1.2 pence), the small reduction reflecting an increase in overhead expenditure compared to the previous year. Statutory earnings per share were 0.7 pence (2016: 0.5 pence).

The Group's cash position at the year end was £0.7 million (2016: £1.3 million), which represented a neutral cash flow in the second half of the financial year. We continue to monitor our working capital management in the conversion of adjusted operating profit (operating profit excluding share-based payments and amortisation of intangible assets) into operating cash and the conversion factor for the year was 171% (2016: 108%).

Corporate governance
The size and structure of the Board and its Committees are kept under review to ensure an appropriate level of governance operates throughout the year. The Board is comprised of two Non-Executive Directors and four Executive Directors who meet frequently during the year to discuss strategy and to review progress and outcomes against objectives. Board reports containing KPIs, which report on business issues by exception, are circulated in advance of each Board meeting, which contribute to a more efficient Board process allowing sufficient time to consider business-critical issues. The Group is not required to comply with the full requirements of the UK Corporate Governance Code (as an AIM-quoted company) but we believe the Board has the skills and the necessary experience to deliver on its plans and objectives in a way that enables Non-Executive members of the Board to challenge and advise the Executive team as appropriate.

The Audit Committee and the Remuneration Committee are comprised of the two Non-Executive Directors and the Board believes the current make-up and the number of Committees remain appropriate for a group of our size.

Board and employees
There has been no change to the composition of the Board throughout the year. Employees remain a key part of our Group's success and we have introduced new training programmes for our managers and supervisors to enable them to develop themselves to the best of their ability. Wherever possible, we seek to fill new roles in the organisation with internal candidates and we have been able to promote a number of people in the year.

The Group now has 180 employees around the world and I thank them for their hard work and efforts which have achieved much progress on a number of fronts this year.

Outlook
We are encouraged that trading in the first quarter of the new financial year is in line with our expectations. We have made a significant amount of progress with a number of key assets that will underpin future growth:

- Allersys® reagents are now CE-marked with the menu continuing to grow;
- VISITECT® CD4 has achieved design freeze;
- manufacturing facility in Pune, India, is now fully validated; and
- VISITECT® Malaria has now been CE-marked.

Since December last year, the Company has been seeking to agree global distribution terms with its Allersys licensor, IDS. The Company believes that it has made good progress and the directors believe that once we get beyond the contractual process, the sales and marketing teams of both organisations will be capable of making a success of the Company's allergy products.

CD4 testing remains a practical and necessary marker for assessment of the baseline status of HIV infection. We are confident that we will meet the remaining challenges within the validation programme that will determine our ability to manufacture a product at scale which meets the market's need.

As separately notified today, we have announced a placing and open offer to secure funding to ensure that a number of organic growth opportunities can be exploited across all three of our segments in terms of market expansion, manufacturing expansion and product line extensions. We believe this will provide us with a solid foundation for future growth in shareholder value.

David Evans

Non-Executive Chairman

Chief Executive's Review

Dear fellow shareholder
During the year we have made great progress on our three-year vision and are now well positioned to deliver the key aim of accelerated growth in all three business divisions.

Food intolerance
- Expansion of Foodprint® in key market segments is going to plan with new accounts expected to start delivering significant revenue streams over the next few years. Our R&D team in Ely are also making great strides in terms of implementing process improvements to allow us to handle the increasing demand and deliver key improvements to our customers.
- Partners in China have been identified and work on the lengthy registration process will commence in this financial year.

Allergy and autoimmune
- Allersys® - 41 allergens CE-marked and we are making substantial progress with the next phase of development with a further eleven allergens optimised. We believe we have now agreed the main outline terms which should enable the formal contract negotiations with IDS to proceed.
- Allergodip® - four new panels have now been optimised and ongoing work continues with the development of a mobile phone app ahead of the initial launch of panels later this year.

Infectious disease
- VISITECT® CD4 - Achieved our key milestone of design freeze by the end of March 2017 and it has now entered the validation and verification phase which is currently progressing to plan.
- Pune facility has CE-marked three malaria rapid tests and first commercial sales in both India and export have been achieved. This is a great example of everyone involved in the project - from India, South Africa and the UK - all working together to achieve the project goals.

Core business
Segmental revenue performance
Food intolerance

The Food intolerance division has again performed well, producing double-digit growth. For this year, total Food intolerance sales increased by 13% to £8.00 million (2016: £7.06 million).

Sales of Food Detective® reduced by 10% in the year to £2.06 million (2016: £2.29 million). As noted in the half-year results, we took a conscious decision to reduce pipeline stocking in two of our key markets.

Sales of Genarrayt®/Foodprint® reagents grew by 34% to £4.67 million (2016: £3.47 million), with strong performances in Europe, North America and the Middle East. The Group sold a further eight instruments in the year, taking the cumulative number of installations to 176 instruments in 40 countries, and revenue per instrument (excluding Spain) increased by 29% to £23,442 (2016: £18,175). The higher percentage growth rate of reagent sales (as compared to the overall growth in revenue per instrument) reflects the investment that was made into newer North American and Southeast Asian markets in the previous year and these markets are seen as an increasingly important area for long-term growth.

Our CNS laboratory service showed an increase of 7% in sales to £0.62 million (2016: £0.58 million). Sales were still dominated by the markets in the UK and Ireland and we produced and sold 7,167 patient reports in the year (2016: 7,008), maintaining an average price of £86.44 per report (2016: £82.73).

Food intolerance will continue to be a key growth driver and contributor to the bottom line. This has been reflected in the increase in operational and marketing resource to provide high level scientific and technical support for the CNS product range. The growth trajectory is expected to continue, with this core business supported by increasing the range of products and services in the health and well-being market, which now extends to 80 countries.

Allergy and autoimmune
Sales for the Allergy and autoimmune division are comprised of Allergy sales of £3.03 million (2016: £2.57 million) and sales of Autoimmune products of £0.56 million (2016: £0.59 million), an overall increase of 14%. The Allergy sales continue to be derived almost exclusively from our Omega Diagnostics GmbH business in Germany, where our domestic sales increase of 3% in euro terms is a positive contrast to a recent history of decline due to reimbursement pressures. In reported sterling terms, the increase was 15% due to the weakening of sterling against the euro throughout the period.

Allergy development
Following the CE-marking of 41 allergens in October 2016 we have continued to develop further tests to increase the available menu. A further 11 allergens have been optimised, so we are on target to deliver another 20 allergens this year.

In addition to the Allersys® programme, the Allergodip® development pipeline has now been extended with the addition of four new panels. The introduction of a mobile phone app that allows quantification of the test result will assist in the marketing of the test to resource-poor countries with limited laboratory facilities.

Infectious disease

Infectious disease sales increased by 5% to £2.65 million (2016: £2.52 million) with the increase due to the weakening of sterling against the euro and dollar throughout the period.

We were pleased to announce the launch of the VISITECT® Malaria range of rapid diagnostic tests:

- VISITECT® Malaria Pf (detection of HRP2 antigen in *P. falciparum*);
- VISITECT® Malaria Pf/Pan (detection of *P. falciparum*, non-*P. falciparum* or mixed infections); and
- VISITECT® Malaria Pf/Pv (detection and differentiation of *P. falciparum* and *P. vivax*).

In the development of the VISITECT® Malaria range we have a defined strategy to provide affordable but high quality tests that are designed with the user in mind. The devices are easy to use and come equipped with all the necessary components to run the tests effectively at the point-of-care. The range is generating good interest via business-to-business channels and at the same time we continue to work on in-country product registrations and successfully achieving global regulatory standards that will enable us to include the range in high volume public sector tender exercises.

In addition to the malaria rapid tests we are also evaluating additional rapid tests for dengue fever, syphilis, leptospira, brucella and S. typhi.

Global health update

The past year has seen significant progress in the development of VISITECT® CD4, the world's first semi-quantitative, instrument-free rapid test for assessing CD4 baseline status in people living with HIV. Having achieved design freeze we have moved the test into validation and verification to ensure we can manufacture the device in a robust and satisfactory manner. This work will be supported by external evaluation testing at HIV laboratories in Glasgow and London that, if successful, will allow us to commercialise the product.

The landscape for CD4 testing has changed over the past six months; amongst key opinion leaders and policy makers there has been a shift in the strategy for utilising CD4 testing in the care of people living with HIV. This has resulted in a series of regional workshops being held across the African continent that Omega Diagnostics has been invited to attend and participate in. The resulting output from these activities will see an increasing emphasis being placed on CD4 testing to help those people who present for care in the advanced stages of the disease with very low CD4 cell counts. This group of patients represents more than 30% of the overall HIV epidemic. In the advanced stages of HIV, patients are increasingly at risk of developing opportunistic infections that can dramatically reduce life expectancy. We are evaluating opportunities to bring other rapid tests to the market that will complement VISITECT® CD4 in helping public health practitioners combat HIV in low and middle-income countries.

In our efforts to make Omega Diagnostics a key supplier in the global health arena, we have worked hard over the past year to redefine our marketing materials with this audience in mind. In addition, we continue to develop simple but effective training tools that will benefit our customers who use our products in remote settings.

Outlook

Food intolerance continues to keep up its good performance and we expect to see this continuing in the year ahead with the strategic marketing initiatives being planned and executed as part of our accelerated growth strategy.

With renewed effort with regards to our ongoing relationship with IDS we are looking forward to the eventual launch of the initial range of CE-marked Allersys® tests. Expanding the test menu as currently envisaged will only help to increase sales of these products in the new financial year and beyond.

We are looking forward to reporting good sales progress over the coming year, together with our continuing goal of delivering VISITECT® CD4 to the market by the end of this calendar year.

I would like to thank all the Group employees who have made great efforts throughout the year in delivering progress in our core areas of activity. We are all looking forward to a year of growth and further progress.

Andrew Shepherd

Chief Executive

Financial review

Financial performance

Our core business recorded headline growth in revenue across all three divisions. Total revenue increased by 11.8% to £14.2 million (2016: £12.7 million), with both the Food intolerance division and the Allergy and autoimmune division recording double-digit revenue growth of 13.3% and 13.6% respectively. Food intolerance was supported by a strong growth in Foodprint® sales to £4.7 million (2016: £3.5 million), more than offsetting a reduction in sales of Food Detective® to £2.1 million (2016: £2.3 million) as some customers reduced stock levels. The Allergy and autoimmune division benefited from a growth in allergy sales in Germany to €3.6 million (2016: €3.4 million), offsetting a small reduction in autoimmune sales to £0.56 million (2016: £0.59 million). The Infectious disease division also recorded growth of 5.6% in revenue to £2.7 million (2016: £2.5 million). Revenue across all three divisions benefited by a combined £1.1 million (2016: £0.2 million) due to weaker sterling exchange rates following the country's decision in the EU referendum.

Gross profit increased by 13.3% to £9.2 million (2016: £8.1 million), helped by an increase in gross margin percentage to 64.7% (2016: 63.8%). Overheads increased by £0.8 million to £8.5 million (2016: £7.7 million). Administration costs have increased by £0.5 million, principally due to higher costs in the UK relating to undertaking a salary benchmarking exercise and implementing a more formal management training programme. Selling and marketing costs have increased by £0.3 million with a modest increase in costs in India and with the higher proportion occurring in Germany, where there has been a need to upskill in sales management. Other operating income reduced by £0.3 million on the prior year because that year included the final amortisation of a grant received from Unitaid in 2014.

Adjusted profit before tax (statutory profit before tax of £0.7 million with add backs for amortisation of intangibles, share-based payment charges and IFRS-related discount charges) was £1.1 million compared to £1.3 million the year before as the size of the add backs referred to above were lower by £0.2 million than in the previous year. Segmental performance as presented in the notes to the financial statements still shows that the Food intolerance division is the only profitable segment right now, but our plans to address the shortfall remain the same, with opportunities for Allersys® and VISITECT® CD4 as outlined throughout this Strategic Report.

Taxation

Our UK companies continue to benefit from government policies on tax that encourage investment in research and development activities. In the year, adjusted tax losses of £0.6 million for the year to 31 March 2016 were surrendered for cash at a rate of 14.5%, generating a cash rebate of £0.1 million. We still have cumulative tax losses of £2.9 million for years ended up to 31 March 2014 that are carried forward for future offset. The current-year tax credit of £0.1 million (2016: £0.1 million tax charge) reflects a lower level of losses surrendered in the year versus the prior year.

Earnings per share

Adjusted earnings per share were 1.1 pence versus 1.2 pence in the prior year. The difference is due mainly to the small reduction in adjusted profit before tax, as described above, leading to adjusted profit after tax of £1.19 million versus £1.26 million in the prior year, calculated on a fully diluted 109.8 million (2016: 109.5 million) shares in issue.

Research and development

As key development programmes continued to make progress, we increased investment in research and development to a total of £2.37 million (2016: £1.74 million), representing 16.6% of Group turnover. Expenditure on our Allersys® project increased to just under £1.1 million (2016: £0.95 million) as we completed

the claim support work and compiled the technical file leading to CE-marking 41 allergens in October. Expenditure on VISITECT® CD4 also increased to £0.62 million (2016: £0.49 million) as we achieved design freeze of the product following the successful manufacture of three pilot batches.

We also incurred £0.3 million (2016: £0.1 million) on further developing our POC allergy dipstick test, Allergodip®, for use in doctors' offices. Other minor areas of expenditure included smaller projects covering food extract optimisation and completion of the malaria technology transfer into Pune, India. Of the total expenditure, £2.2 million (2016: £1.5 million) has been capitalised on the balance sheet in accordance with IAS 38 - Development Costs whilst earlier stage R&D expenditure of £0.2 million (2016: £0.26 million) has been expensed through the income statement.

Intangible assets
Intangible assets have increased to a total of £15.6 million (2016: £13.5 million), comprising goodwill of £4.7 million, separately identifiable intangible assets from previous acquisitions totalling £3.0 million and capitalised development costs of £7.9 million.

Goodwill
There has been no impairment of goodwill on any of the acquisitions to date. Goodwill of £4.7 million (2016: £4.6 million) has increased by £0.1 million relating to the retranslation of goodwill to £1.3 million (2016: £1.2 million) in acquiring the Allergy IVD business in Germany in 2010. £0.4 million arose on acquiring Co-Tek in 2009 and £3.0 million arose on acquiring Genesis/CNS in 2007.

Intangible assets
Separately identifiable intangible assets have been recognised in connection with past acquisitions: £2.0 million on Genesis/CNS, of which £1.0 million has been amortised to date; £0.1 million on Co-Tek, which has been fully amortised; and £1.7 million on Omega Diagnostics GmbH, of which £1.3 million has been amortised to date. A purchased licence of £1.5 million relates to the exclusive global access rights to the IDS-iSYS platform for allergy testing, which, to date, has not been amortised. Minor capitalised software costs amount to £0.1 million.

Capitalised development costs
Capitalised development costs of £2.2 million have been incurred in the year and, as described above, bring the cumulative spend to date on all projects to £7.9 million. A breakdown of the project expenditure is as follows:

	2017	2016
	£	£
Allersys®	**5,069,499**	3,995,021
VISITECT® CD4	**2,221,480**	1,597,367
Allergodip®	**339,650**	74,908
VISITECT® Malaria	**109,431**	-
Other	**132,191**	-
Total	**7,872,251**	5,667,296

There has been no amortisation of these capitalised development costs in the years up to 31 March 2017 but the amortisation of these costs, along with the purchased licence referred to above, will only start after commercialisation of these assets. As stated on previous occasions, this particular subset of amortisation charges will not be added back in the computation of the Group's routinely reported adjusted profit before tax.

Property, plant and equipment
The Group maintained its expenditure on fixed assets at a similar level to last year at £0.6 million (2016: £0.6 million). The largest element included £0.3 million (2016: £0.1 million) invested in Alva to ensure continued compliance with overseas country regulatory audits and to equip the laboratory with the means to undertake protein purification and separation techniques in support of the Allersys® development programme. £0.2 million (2016: £0.2 million) was spent on Genesis/CNS to alleviate certain space constraints with the facility and £0.1 million (2016: £Nil) was spent in Germany on laboratory equipment and instruments supplied on loan to the customer base.

Financing
The Group has a long-standing relationship with Bank of Scotland as principal bankers to the Group and, in May of this year, we agreed an overdraft renewal for an increased facility of £2.0 million (2016: £1.7 million) which is expected to revert to £1.7 million at the end of the first half of the new financial year. In addition to the overdraft, the bank provided an asset finance facility in the year of up to £1.0 million to fund the purchase of new plant and machinery. £0.2 million of this facility was drawn down in the year, repayable over five years, and the Company expects to roll over the balance for another year from the end of July 2017.

Operating cash flow
The Group monitors its cash requirement carefully and it is a key priority to manage working capital efficiently and to be effective in converting operating income into cash. Cash inflow from operating activities during the year was £2.01 million (2016: £1.45 million). The Group has achieved a conversion rate of adjusted operating profit (operating profit plus amortisation of intangible assets plus share-based payments) to operating cash of 171% (2016: 108%). We ended the year with cash reserves of £0.7 million (2016: £1.30 million) which means we were cash neutral in the second half of the financial year.

Foreign exchange
The Group has investments in overseas operations and conducts trading transactions in currencies other than sterling. The principal currencies used and the average foreign exchange rates in the year were as follows:

	2017	2016
	£	£
Sterling/US dollar	**1.30**	1.50
Sterling/euro	**1.189**	1.368
Sterling/Indian rupee	**87.18**	98.22

Profit and loss account
The Group has foreign-denominated bank accounts to allow for the receipt and settlement of amounts in connection with its normal trading operations. These transactions are subject to timing differences between when they are transacted and when they are settled, which can give rise to foreign exchange differences. Foreign-denominated receivables, payables and bank balances are restated into sterling at closing balance sheet dates, which also gives rise to foreign exchange differences. During the year, the Group benefited from an exchange gain of £64,000 (2016: £6,000) on these transactions which has been credited through the income statement. The increase in the gain reflects the weakening of sterling generally following the EU referendum result as noted above.

Other comprehensive income
The Group has net assets in Germany and India, held in fully owned subsidiaries. The original investments in these subsidiaries are held at historic exchange rates. The difference between these historic balances and their restated amounts at the most recent closing balance sheet rates gives rise to movements which are recorded through other comprehensive income and carried as a balance sheet reserve. During the year, there has been a gain of £423,000 (2016: £261,000) on the retranslation of foreign operations of £315,000 in Germany and £108,000 in India.

Kieron Harbinson
Group Finance Director

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2017

	2017	**2016**
	£	**£**
Continuing operations		
Revenue	**14,246,930**	**12,743,896**
Cost of sales	**(5,025,376)**	**(4,608,383)**

Gross profit	**9,221,554**	**8,135,513**
Administration costs	**(6,434,227)**	**(5,917,453)**
Selling and marketing costs	**(2,124,203)**	**(1,821,068)**
Other operating income	**31,636**	**272,769**
Operating profit	**694,760**	**669,761**
Finance costs	**(39,984)**	**(24,154)**
Finance income - interest receivable	**1,450**	**16,225**
Profit before taxation	**656,226**	**661,832**
Tax credit / (charge)	**57,035**	**(89,920)**
Profit for the year	**713,261**	**571,912**
Other comprehensive income to be reclassified to profit and loss in subsequent periods		
Exchange differences on translation of foreign operations	**423,478**	**260,960**
Tax charge	**(33,258)**	**(29,098)**
Other comprehensive income that will not be reclassified to profit and loss in subsequent periods		
Actuarial (loss) / gain on defined benefit pensions	**(107,948)**	**255,459**
Tax credit / (charge)	**20,392**	**(47,533)**
Other comprehensive income for the year	**302,664**	**439,788**
Total comprehensive income for the year	**1,015,925**	**1,011,700**
Earnings Per Share (EPS)		
Basic and Diluted EPS on profit for the year	0.7p	0.5p

Adjusted Profit before Taxation
For the year ended 31 March 2017

	2017 £	2016 £
Profit before taxation	**656,226**	**661,832**
IFRS related discount charges	**(5,990)**	**17,793**
Amortisation of intangible assets	**225,660**	**309,163**
Share based payment charges	**254,834**	**362,327**
Adjusted profit before taxation	**1,130,730**	**1,351,115**
Earnings Per Share (EPS)		
Adjusted EPS on profit for the year	1.1p	1.2p

Consolidated Balance Sheet
as at 31 March 2017

	2017 £	2016 £
ASSETS		
Non-current assets		
Intangibles	**15,588,076**	**13,462,355**
Property, plant and equipment	**2,943,312**	**2,691,722**
Deferred taxation	**1,651,945**	**1,426,205**
Retirement benefit surplus	**-**	**44,759**
	20,183,333	**17,625,041**
Current assets		
Inventories	**2,377,575**	**2,011,495**
Trade and other receivables	**2,460,416**	**2,838,269**
Cash and cash equivalents	**737,331**	**1,302,257**
	5,575,322	**6,152,021**
Total assets	**25,758,655**	**23,777,062**
EQUITY AND LIABILITIES		
Equity		
Issued capital	**16,727,516**	**16,727,516**
Retained earnings	**4,753,190**	**3,905,909**
Other reserves	**(22,770)**	**(446,248)**
Total equity	**21,457,936**	**20,187,177**
Liabilities		
Non-current liabilities		
Long-term borrowings	**275,890**	**282,914**
Deferred taxation	**1,811,110**	**1,537,560**
Deferred income	**238,067**	**-**
Retirement benefit deficit	**57,199**	**-**
Total non-current liabilities	**2,382,266**	**1,820,474**
Current liabilities		
Short-term borrowings	**155,494**	**127,783**
Trade and other payables	**1,762,959**	**1,641,628**
Total current liabilities	**1,918,453**	**1,769,411**
Total liabilities	**4,300,719**	**3,589,885**
Total equity and liabilities		

	25,758,655	**23,777,062**

Consolidated Statement of Changes in Equity
for the year ended 31 March 2017

	Share capital £	Share premium £	Retained earnings £	Translation reserve £	Total £
Balance at 31 March 2015	**5,086,756**	**11,640,760**	**2,792,842**	**(707,208)**	**18,813,150**
Profit for the year ended 31 March 2016	-	-	571,912	-	571,912
Other comprehensive income - net exchange adjustments	-	-	-	260,960	260,960
Other comprehensive income - actuarial gain on defined benefit pensions	-	-	255,459	-	255,459
Other comprehensive income - tax charge	-	-	(76,631)	-	(76,631)
Total comprehensive income for the year	-	-	750,740	260,960	1,011,700
Share-based payments	-	-	362,327	-	362,327
Balance at 31 March 2016	**5,086,756**	**11,640,760**	**3,905,909**	**(446,248)**	**20,187,177**
Profit for the year ended 31 March 2017	-	-	713,261	-	713,261
Other comprehensive income - net exchange adjustments	-	-	-	423,478	423,478
Other comprehensive income - actuarial loss on defined benefit pensions	-	-	(107,948)	-	(107,948)
Other comprehensive income - tax charge	-	-	(12,866)	-	(12,866)
Total comprehensive income for the year	-	-	592,447	423,478	1,015,925
Share-based payments	-	-	254,834	-	254,834
Balance at 31 March 2017	**5,086,756**	**11,640,760**	**4,753,190**	**(22,770)**	**21,457,936**

Consolidated Cash Flow Statement
for the year ended 31 March 2017

	2017 £	2016 £
Cash flows generated from operations		
Profit for the year	**713,261**	571,912
Adjustments for:		
Taxation	**(57,035)**	89,920
Finance costs	**39,984**	24,154
Finance income	**(1,450)**	(16,225)
Operating profit before working capital movement	**694,760**	669,761
Decrease / (increase) in trade and other receivables	**377,853**	(298,418)
(Increase) / decrease in inventories	**(366,080)**	50,600
Increase in trade and other payables	**121,331**	99,569
Loss on sale of property, plant and equipment	**813**	**-**
Depreciation	**372,103**	322,576
Amortisation of intangible assets	**225,660**	309,163
Movement in grants	**238,067**	(271,269)
Share-based payments	**254,834**	362,327
Taxation received	**91,983**	209,367
Cash flow from operating activities	**2,011,324**	1,453,676

Investing activities

Finance income	**1,450**	16,225
Purchase of property, plant and equipment	**(591,377)**	(620,652)
Purchase of intangible assets	**(2,068,960)**	(1,418,536)
Net cash used in investing activities	**(2,658,887)**	(2,022,963)
Financing activities		
Finance costs	**(39,984)**	(24,154)
New asset backed finance	**163,000**	104,566
Loan repayments	**-**	(120,353)
Finance lease repayments	**(142,313)**	(126,734)
Net cash used in financing activities	**(19,297)**	(166,675)
Net decrease in cash and cash equivalents	**(666,860)**	(735,962)
Effects of exchange rate movements	**101,934**	66,082
Cash and cash equivalents at beginning of year	**1,302,257**	1,972,137
Cash and cash equivalents at end of year	**737,331**	1,302,257

Notes to the Preliminary Announcement
for the year ended 31 March 2017

1. Basis of preparation
The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in Section 434(3) of the Companies Act 2006.

The consolidated balance sheet at 31 March 2017 and the consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and associated notes for the year then ended have been extracted from the Group's financial statements which were approved by the Board of Directors on 29 June 2017 and are audited. The comparative consolidated financial information for the year ended 31 March 2016 is based on an abridged version of the Group's published financial statements for that year, which contained an unqualified audit report and which have been filed with the Registrar of Companies.

The statutory accounts for 2017 will be finalised on the basis of the financial information presented in this preliminary announcement and will be delivered to the registrar of companies following the company's annual general meeting.

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2017.

Basis of consolidation
The Group financial statements consolidate the financial statements of Omega Diagnostics Group PLC and the entities it controls (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are based on consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated.

Going concern
The Group has a committed overdraft facility of £2m provided by Bank of Scotland on 30 May 2017 for the period through to 30 September 2017 and firm indication of support received from the bank that they will renew the facility at 30 September 2017 for the period through to the end of June 2018 at a level of £1.7m. It is this firm indication of support from the bank that supports the director's conclusion to present the accounts on a going concern basis.

2. Segment information

2017	Allergy and Autoimmune £	Food Intolerance £	Infectious/ Other £	Corporate £	Group £
Statutory presentation					
Revenue	3,679,068	9,439,233	2,827,986	-	15,946,287
Inter-segment revenue	(87,692)	(1,438,510)	(173,155)		(1,699,357)
Total revenue	3,591,376	8,000,723	2,654,831	-	14,246,930
Operating costs	(3,980,988)	(4,946,712)	(3,252,893)	(1,371,577)	(13,552,170)
Operating profit/(loss)	(389,612)	3,054,011	(598,062)	(1,371,577)	694,760
Net finance (costs)/income	(65,268)	(3,678)	(16,796)	47,208	(38,534)
Profit/(loss) before taxation	**(454,880)**	**3,050,333**	**(614,858)**	**(1,324,369)**	**656,226**
Adjusted profit before taxation					
Profit/(loss) before taxation	(454,880)	3,050,333	(614,858)	(1,324,369)	656,226
IFRS-related discount charges	(5,990)	-	-	0	(5,990)
Amortisation of intangible assets	114,215	98,960	12,485	-	225,660
Share-based payment charges	-	-	-	254,834	254,834
Adjusted profit/(loss) before taxation	**(346,655)**	**3,149,293**	**(602,373)**	**(1,069,535)**	**1,130,730**

2016	Allergy and Autoimmune £	Food Intolerance £	Infectious/ Other £	Corporate £	Group £
Statutory presentation					
Revenue	3,254,725	8,681,553	2,698,113	-	14,634,391
Inter-segment revenue	(95,693)	(1,621,862)	(172,940)	-	(1,890,495)
Total revenue	3,159,032	7,059,691	2,525,173	-	12,743,896
Operating costs	(3,479,086)	(4,572,482)	(2,768,799)	(1,253,768)	(12,074,135)
Operating profit/(loss)	(320,054)	2,487,209	(243,626)	(1,253,768)	669,761
Net finance (costs)/income	(58,283)	(2,137)	(21,625)	74,116	(7,929)
Profit/(loss) before taxation	**(378,337)**	**2,485,072**	**(265,251)**	**(1,179,652)**	**661,832**
Adjusted profit before taxation					
Profit/(loss) before taxation	(378,337)	2,485,072	(265,251)	(1,179,652)	661,832

IFRS-related discount charges	-	-	-	17,793	17,793
Amortisation of intangible assets	200,335	98,907	9,921	-	309,163
Share-based payment charges	-	-	-	362,327	362,327
Adjusted profit/(loss) before taxation	**(178,002)**	**2,583,979**	**(255,330)**	**(799,532)**	**1,351,115**

3. Revenues

	2017 £	2016 £
UK	**978,154**	939,635
Germany	**2,989,268**	2,667,102
Rest of Europe	**3,557,085**	3,513,511
North America	**1,653,797**	1,098,320
South/Central America	**1,005,505**	874,151
India	**616,070**	548,837
Asia and Far East	**1,496,692**	1,480,638
Africa and Middle East	**1,950,359**	1,621,702
	14,246,930	12,743,896

4. Finance costs

	2017 £	2016 £
Interest payable on loans and bank overdrafts	**20,039**	3,104
Finance leases	**19,945**	21,050
	39,984	24,154

5. Tax credit/(charge)

	2017 £	2016 £
Tax credit/(charge) in the income statement		
Current tax - prior year adjustment	91,980	209,368
Deferred tax - current year	49,223	132,794
Deferred tax - prior year adjustment	(84,168)	(432,082)
	57,035	(89,920)
Tax relating to items charged or credited to other comprehensive income		
Deferred tax on actuarial loss/(gain) on retirement benefit obligations	20,392	(47,533)
Deferred tax on net exchange adjustments	(33,258)	(29,098)
	(12,866)	(76,631)

Reconciliation of total tax charge

Factors affecting the tax (credit)/charge for the year:		
Profit before tax	656,226	661,832
Effective rate of taxation	20%	20%
Profit before tax multiplied by the effective rate of tax	131,245	132,366
Effects of:		
Expenses not deductible for tax purposes and permanent differences	66,377	76,734
Research and development and deferred tax credits	(111,354)	(250,622)
Tax repayment on surrender of tax losses in prior year at 14.5%	(91,980)	(209,368)
Tax losses surrendered in prior year at 20%	126,869	288,783
Tax (overprovided)/under provided in prior years	(42,703)	143,299
Adjustment due to different overseas tax rate	(70,690)	(59,975)
Impact of UK rate change on deferred tax	(64,799)	(31,297)
Tax (credit)/charge for the year	(57,035)	89,920

6. Earnings per share

Basic Earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Diluting events are excluded from the calculation when the average market price of ordinary shares is lower than the exercise price.

	2017 £	2016 £
Profit attributable to equity holders of the Group	**713,261**	571,912

	2017 Number	2016 Number

Basic average number of shares	**108,745,669**	108,745,669
Share options	**1,013,126**	780,017
Diluted weighted average number of shares	**109,758,795**	109,525,686

Adjusted Earnings per share on profit for the year

The Group presents adjusted earnings per share which is calculated by taking adjusted profit before taxation and adding the tax credit or deducting the tax charge in order to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends and financial performance.

	2017 £	**2016 £**
Adjusted profit before taxation	**1,130,730**	1,351,115
Tax credit/(charge)	**57,035**	(89,920)
Adjusted profit attributable to equity holders of the Group	**1,187,765**	1,261,195

7. Annual General Meeting

The Annual General Meeting will be held at Omega House, Hillfoots Business Village, Clackmannanshire, FK12 5DQ on 29 August 2017 at 11am.

8. Annual Report

The annual report will be sent to shareholders on 12 July 2017 and will also be available at the registered office of Omega Diagnostics Group PLC at:

One London Wall, London, EC2Y 5AB

and will be made available on the Company's website at:

www.omegadiagnostics.com

This information is provided by RNS
The company news service from the London Stock Exchange

END

FR SEIFUUFWSEEM