

News Release

1 December 2011

## **Consort Medical plc**

### **Interim results for the six months ended 31 October 2011**

Consort Medical plc delivers record first half revenues and profits.

Consort Medical plc (LSE: CSRT), a leader in drug delivery and device technologies, today announces a strong performance during the six months ended 31 October 2011.

#### Highlights:

- Revenues from products and services up 5% to £68.8m (2010: £65.6m)
- Earnings before interest, tax depreciation and amortisation (EBITDA) up 16% to £16.2m (2010: £14.0m)
- Operating profit before special items up 11% to £11.2m (2010: £10.1m)  
Operating profit up 36% to £12.4m (2010: £9.2m)
- Profit before tax and special items up 22% to £10.2m (2010: £8.4m)  
Profit before tax up 54% to £11.5m (2010: £7.5m)
- Adjusted earnings per share up 25% to 26.7p (2010: 21.3p)  
Basic earnings per share up 53% to 30.3p (2010: 19.8p)
- Interim dividend maintained at 7.0p per share (2010: 7.0p per share)
- Strong volume growth in Bepak's core respiratory business
- Two new nasal development contracts diversifying Bepak into new drug delivery markets
- New medicinal nicotine delivery device development contract
- King underlying trading solid with King Vision initial sales progressing well.

Jon Glenn, Chief Executive Officer, commented:

"We are pleased to report a record set of results in what can only be described as a challenging and uncertain global economic environment. Our strategy to deliver sustainable organic growth is now delivering ahead of expectations and we are confident for the outlook for the rest of the year and beyond."

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**Consort Medical plc** is a leader in medical devices for drug delivery and device technologies. The Group develops drug delivery systems for the pharmaceutical industry and disposable airway management products for critical care settings in hospitals and for use by the Emergency Medical Services (“EMS”).

Consort Medical develops and manufactures drug delivery devices, including metered dose inhaler valves, autoinjectors, needle free injectors, actuators, dry powder inhalers and nasal delivery devices, POC diagnostics devices, and devices for use by anaesthetists and other medical professionals such as disposable facemasks, breathing circuits, video laryngoscopes and laryngeal tubes. The Group has a Head Office in Hemel Hempstead, UK and manufacturing facilities in King’s Lynn, Norfolk, and Nelson, Lancashire in the UK, Indianapolis, Indiana and Kent, Ohio in the US. Consort Medical is a public company quoted on the full list of the London Stock Exchange (LSE: CSRT).

## **Consort Medical plc**

### **Interim results for the six months ended 31 October 2011**

We are very pleased to report that Consort Medical has continued to grow in a difficult global economic environment and has delivered record first half revenues and profits. Consort Medical's businesses have strong franchises and profitable platforms, which underpin a growing range of opportunities for organic growth over the medium term.

Consort Medical has two business divisions: Bepak and King Systems.

- The Bepak Division is a world leading manufacturer of drug delivery devices. It is a market leader in the supply of devices for respiratory applications to global pharmaceutical companies and has a number of self-injection products approaching market launch. It has most recently diversified into Point-of-Care diagnostic devices and nasal drug delivery devices.
- King Systems Division is a leading US supplier of life-saving patient care solutions to the global anaesthesia market: including breathing circuits, face masks and other disposable airway management and airway visualisation products. These are sold to anaesthetists in hospitals and to emergency medical practitioners.

### **Group interim results**

In the six months to 31 October 2011, revenue from products and services grew by 5% to £68.8m (2010: £65.6m). Bepak delivered good revenue growth with a continuing strong performance from its respiratory business, while King Systems saw a drop in revenue due mainly to pipeline fill in the comparable period last year, and due to the translation effect of a weaker dollar. Total revenue was £71.1m (2010: £69.6m), which included £2.4m (2010: £4.0m) of customer tooling costs which are passed directly on to customers.

Operating profit before special items grew by 11% to £11.2m (2010: £10.1m), with strong volumes driving further margin growth in Bepak. EBITDA rose by 16% to £16.2m (2010: £14.0m). Profit before tax and special items rose by 22% to £10.2m (2010: £8.4m). Profit before tax rose 54% to £11.5m (2010: £7.5m), with organic growth further boosted by a one-off credit to special items and finance expenses due to the reversal of historic provisions.

Basic earnings per share rose by 53% to 30.3p (2010: 19.8p). Earnings per share, adjusted for special items, rose by 25% to 26.7p (2010: 21.3p) The Group's underlying tax rate fell from 27% to 25% mainly as a result of the continuing reduction in the rate of UK corporation tax.

Net debt rose during the period as we continued planned capital and working capital investment activities to support growth. As at 31 October 2011, net debt was £42.6m (31 October 2010: £31.8m), which at 1.3 times EBITDA remains comfortably within our borrowing covenants and facilities.

The Board is maintaining an interim dividend of 7.0p per share, which is payable on 17 February 2012 to those shareholders on the register on 20 January 2012.

Notes regarding financial definitions:

- All references to revenues are to revenues from goods and services, unless otherwise stated. It excludes revenues from sales of tooling to customers, which are passed on at cost as and when incurred.
- All references to operating profit are before special items unless otherwise stated.
- All references to operating margin refer to operating profit before special items as a percentage of revenues from goods and services

The above definitions are those used by the Group's management in the operation of the business

## Strategy

The last year has seen us successfully delivering on our strategy: to focus on building and strengthening our core businesses through new product innovation, diversification and higher value business models. We have made particularly good progress in further diversifying the Group into adjacent markets and technologies which leverage our exceptional capabilities in drug delivery and medical device technologies. We have won two nasal drug delivery contracts, one of which includes our handling drugs for the first time, reflecting our strategy of moving up the value chain. We additionally announce today another development contract in the respiratory segment that will also involve our handling of drugs into the finished product. We have launched the innovative King Vision video laryngoscope into the global market. Finally, we have invested further in Atlas Genetics' Point of Care technology alongside new blue chip diagnostics companies. While we focus on delivering this expanding portfolio of new products over the coming years, we will also continue to manage costs aggressively in order to maintain and increase margins in the current demanding economic environment. We are confident that this strategy will deliver our target of sustained profit growth over the medium term.

## Business performance

### Bespak Division

Bespak is a leading drug delivery device manufacturer which has some of the world's top pharmaceutical companies as its largest customers. It has focused historically on the inhalation market, with devices primarily used to treat asthma and COPD (Chronic Obstructive Pulmonary Disease). Over 300 million people worldwide have been diagnosed with these diseases and Bespak devices deliver over one third of their inhaled medication. Bespak moulds or sources over 3 billion parts a year to make 500 million products, from valves and actuators to complete devices. More recently, the strategy has expanded to seek other opportunities in which Bespak can leverage its design and manufacturing skills within the regulated healthcare markets. With Bespak's acquisition in 2009 of its injectables business, Bespak broadened its product portfolio to include the growing autoinjector market, which allows patients to self-administer a range of drugs including an expanding portfolio of biological products. During 2011, Bespak has won contracts in the nasal drug delivery and the Point of Care diagnostics segments.

Bespak enjoyed a very strong six months to 31 October 2011, with revenues up 17% to £47.9m (2010: £41.0m). Operating profit rose by 24% to £9.3m (2010: £7.5m) and operating margins increased over the period to 19.5% (2010: 18.3%). The valve business performed particularly well: customer demand was generally positive, supplemented by high demand from a smaller number of customers. Valve volumes grew by 22% and devices revenues also grew by 17%, with increased demand for Diskus® and our second GSK dose counter manufacturing line coming on stream. We are pleased to report that we have now been awarded a third GSK dose counter line, which will be commissioned by summer 2012.

Good progress continued to be made across Bespak's development portfolio. INJ300, an autoinjector for Dr Reddys Laboratories, continues to await FDA approval, which is expected by the end of our fiscal year. Pre-launch validation runs are being conducted and tested at the subcontractor assembler. All other programmes have achieved milestones on schedule for expected launch as previously communicated. Installation of a new clean room and assembly line to manufacture our proprietary dose counter for the IDC220 programme is complete, with the capacity available from early 2012. We have also added three new programmes to the pipeline during the period. Two of them are nasal drug delivery programmes, one of which will use our own proprietary Unidose™ technology and will involve Bespak handling the drug during product assembly.

We are also delighted to report today that we have been awarded a development agreement to scale up for manufacture a novel device to safely deliver medicinal nicotine for those who wish to reduce or cease tobacco consumption. The device contains a proprietary refill valve to release controlled doses of a nicotine-containing formulation from a reservoir into a substitute cigarette-like device. The technology has been developed by Kind Consumer Ltd and will be distributed by Nicoventures, a subsidiary of British American Tobacco PLC. The device will be subject to approval and regulation by the Medicines and Healthcare products Regulatory Agency ("MHRA") and is anticipated for launch in our financial year ending April 2014. Bespak's role will include our proprietary valve supply, device manufacture and incorporation of the formulation reservoir into final packaging. An MHRA licence for clinical trial manufacture has already been obtained.

Finally, we were delighted to extend our investment in Atlas Genetics, the Point of Care diagnostics company in which we made an initial investment in February 2011. In July 2011, we joined with a consortium that includes two leading international diagnostics companies, to invest up to £17m over three years (of which Consort Medical's share would be £2.9m) to accelerate and broaden Atlas' route to market.

### **King Systems Division**

King Systems is a leading US manufacturer of medical devices used by anaesthetists and emergency practitioners to establish manage and maintain patient airways: our products are used in around 10 million procedures every year. Products include anaesthesia circuits, masks, breathing bags, laryngeal tubes and visualisation devices.

Total sales fell by 15% at actual exchange rates to £21.0m (10% at constant exchange rates to \$33.9m). The fall in USD terms was largely due to the impact of a sustained pipeline fill in the same period last year. Sales data of hospital consumption suggests that King has maintained its market share over the past twelve months but that the end market is flat to slightly down. The market is expected to remain challenging, with weak hospital demand and increasing compliance with Group Purchasing Organisation ("GPO") contracts for purchasing. In the light of this we have been very pleased to be included on the Novation GPO contract starting from January 2012. This will afford us the opportunity to win business with 2,500 hospitals under the Novation contract that may otherwise not have been available to us.

Operating margins fell due to weaker volumes, higher material costs and the impact of duplicated manufacturing lines from our transformation programme to 8.8% (2010: 10.5%) and operating profits fell by 28% at actual exchange rates (25% at constant exchange rates) to £1.9m. Progress continues with our transformation programme. The automated Flex 2 circuit line has performed above expectations in the first half of the year, with encouraging performance metrics. The mask autoline and breathing bag dip lines will be installed in the second half of the year, with production initiating around year end. The H&M facility at Kent Ohio is expected to close in the third calendar quarter of 2012, around three to four months later than scheduled.

Shipments of King Systems' important new product, the King Vision digital video laryngoscope, commenced in June 2011. Revenues have been in line with our expectations and feedback has been very positive. Following initial presentations and subsequent trials, 85% of US anaesthetists who have trialed the product have expressed an intention to purchase. Early opportunities include Emergency Medical Service ("EMS") settings, where the low cost of deployment compared to alternatives is most compelling. International shipments have also been encouraging following a phased roll out around the world, with the product being approved in 26 countries since launch.

### **Financial**

Special items in the period included a net credit to restructuring charges of £2.3m. This was a result of the reversal of asset impairments and an onerous contract provision taken in 2009 regarding the IAC subsidiary of Bepak that manufactures aluminium ferrules for Bepak and others as well as other personal care products. The business has subsequently returned to sustainable profitability and in October signed a long term supply contract with its largest customer. The reversal also included a £0.3m credit to finance expenses.

We are also pleased to report that the Bepak defined benefit pension scheme had returned to surplus as at 30 April 2011 at the time of its triennial valuation, following a sustained period of increased contributions by the company. As a result, deficit-reduction contributions that had amounted to £2.9m per annum have now ceased, which will benefit operating cashflows. The IAS19 accounting valuation as at 31 October 2011 shows a modest deficit, but this will not have an impact on the resumption of any further deficit payments.

## **Outlook**

Following this strong performance in the first half, we believe that the group will deliver solid results slightly ahead of expectations for the year ending 30 April 2012. The Board further believes that the launch of the King Vision and the progress in the Bepak development portfolio will underpin medium term revenue and profit growth. Our solid balance sheet and cash flows will allow the business to continue investing substantially in R&D, capital programmes and, where value enhancing to our shareholders, in acquisitions.

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