Consort Medical

News Release

4 December 2013

Consort Medical plc

Interim results for the six months ended 31 October 2013

Solid performance; strengthening organic growth platforms

Consort Medical plc (LSE: CSRT) ("Consort" or the "Group"), a leading designer and manufacturer of drug delivery and device technologies, today announces its interim results for the six months ended 31 October 2013.

Financial Highlights[1]

GBPm *6 months ended*	**H1 FY2014 Actuals** *31 Oct 2013*	**H1 FY2013 Restated[4]** *31 Oct 2012*	**Growth**
Revenue from products and services	51.2	48.1	6.5%
EBIT (before special items)	9.6	9.1	4.8%
Profit before tax and special items	8.9	8.0	12.4%
Profit before tax	8.3	7.0	18.0%
Adjusted basic earnings per share[2]	24.5p	20.8p	17.3%
Total basic earnings per share[3]	24.3p	24.0p	1.3%
Interim dividend per share	7.35p	7.0p	5.0%

Special items credit of £0.4m include £0.4m amortisation of intangible assets, £0.2m of acquisition related expenses offset by a £0.1m related tax credit and a £0.9m special tax credit. The special tax credit is in respect of a significant credit arising as the Group's deferred tax assets and liabilities are revalued using the lower rate of UK Corporate Tax of 20% (reduced from 23%).

Other Financial Highlights

- Sustained strong EBIT margin before special items of 18.8% (H1 FY2013: 18.9%) reflecting central cost savings and growing service revenue, following King Systems disposal
- Continuing strong cash flow from operating activities and maintained balance sheet strength, with net cash of £33.6m at the period end
- 5% increase in Interim dividend to 7.35p / share, reflecting strength of results, and Board's confidence in the Group's outlook

Operational Highlights

- Positive market acceptance for Chiesi NEXThaler in Germany and in recently launched markets of Italy, Holland and Spain
- Secured first commercial drug handling licence for Nicoventures programme
- Awarded major multi-year exclusive supply contract for a respiratory dry powder inhaler (DEV610)
- Development pipeline advanced towards further product launches, and addition of Nasal contract (NAS030)
- Commercial unveiling of novel Syrina®, Vapoursoft® and Lila® injection technology ranges from Cambridge Innovation Team

[1] – financial highlights relate to continuing operations unless stated otherwise.
[2] – adjusted basic earnings per share is calculated using profit after tax from continuing operations before special items.
[3] – total basic earnings per share is calculated using profit after tax from continuing and discontinued operations.
[4] – the disposal of King Systems on 15 February 2013 gave rise to a discontinued operation and the comparatives have been restated accordingly.

Jon Glenn, Chief Executive Officer, commented:

We have had a very solid first half of the year, with a number of significant milestones in our development pipeline being achieved. The strategy laid out over three years ago to achieve sustained organic growth is delivering.

The award of the commercial supply contract on DEV610 is another substantial achievement in converting the pipeline into organic revenue growth. Our Innovation Team continues to perform strongly, most recently evidenced by the award of the NAS030 development contract, and the commercial unveiling of the novel Syrina®, Vapoursoft® and Lila® technologies.

The Board expects the organic growth initiatives, particularly from further development programme wins, to continue to convert into increased revenue and operating leverage for Consort over time. The Group also continues to evaluate suitable inorganic opportunities which are consistent with its strategy.

Consort is trading in line with its expectations, and the Board remains confident of its outlook for the full year.

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Consort Medical plc is an international medical devices company, focused on developing and manufacturing disposable medical devices for drug delivery and point of care diagnostics ("POC"). The principal business of the Company is Bespak, a global market leader in the manufacture of drug delivery devices for pharmaceutical partner companies, including respiratory, nasal, and injectables products, and the manufacture of devices for the point of care diagnostics market.

The Group has facilities in King's Lynn, Cambridge, Nelson and Hemel Hempstead in the UK. Consort Medical plc is a public company quoted on the full list of the London Stock Exchange (LSE: CSRT). The Group's website address is www.consortmedical.com.

Consort Medical plc

Group Interim Results

The first six months of the year have delivered solid growth, with progress in our development pipeline and IP portfolio continuing at pace:

- Solid revenue, EBIT and EPS growth
- Secured first commercial drug handling licence for Nicoventures programme
- Sustained execution of delivery pipeline milestones towards product launches
- Award of novel own-IP nasal device development contract, developed by Innovation Team
- Awarded potentially transformational supply contract on DEV610
- Commercial unveiling of Syrina®, Vapoursoft® and Lila® technologies, developed by Innovation Team

Financial Performance[1]

Revenue from products and services increased by £3.1m (6.5%) to £51.2m (H1 FY2013: £48.1m), and operating profit before special items increased by 4.8% to £9.6m (H1 FY2013: £9.1m). EBIT margin before special items was constant at 18.8% (H1 FY2013: 18.9%), as the strength of service income arising from the development pipeline continued, together with central cost savings, following the disposal of King Systems.

Profit before tax and special items increased by £0.9m (12.4%) to £8.9m (H1 FY2013: £8.0m), reflecting lower finance costs in particular, and profit after tax and before special items rose by 17.8% to £7.0m (H1 FY2013: £6.0m). Adjusted basic earnings per share increased by 17.3% to 24.5p (H1 FY2013: 20.8p).

Including special items, profit after tax increased by £2.1m (38.6%) to £7.4m (H1 FY2013: £5.3m), and basic earnings per share rose by 38.1% to 25.7p (H1 FY2013: 18.6p).

Cash flow from operating activities[2] increased to £7.3m (H1 FY2013: £4.7m). EBITDA before special items[2] was up £0.2m (1.7%) at £12.3m (H1 FY2013: £12.1m). Working Capital was up £0.5m at £8.9m (FY2013: £8.4m) representing 9.1% of sales (FY2013: 8.8%). Capital expenditure of £4.5m (H1 FY2013: £6.1m) was lower than expected due to timing on key Nicoventures programme investments, although it is expected to increase during the second half.

Net cash was £33.6m (H1 FY2013: Net debt £38.5m; FY2013: Net cash £37.0m). With headroom of £75.9m under our undrawn banking facility, and a further £25.0m available under the accordion facility, the Group has significant cash resources available.

The Board is proposing a 5% increase in the interim dividend to 7.35p (H1 FY2013: 7.0p). This increase aligns with the FY2013 final dividend increase, and underlines the Board's confidence in the sustainability of the current performance, and in the prospects the Group. The dividend will be payable on 14 February 2014, with a record date of 17 January 2014.

Operational Performance

Revenue growth of 6.5% in the first half was driven principally by the Chiesi NEXThaler which launched in March 2013. This was launched initially in Germany, and has subsequently been launched in Italy, Holland and Spain. Revenue to date for the Chiesi NEXThaler is consistent with our expectations for the uptake of the drug. In addition, Diskus volumes were stronger than the prior year which were affected by a factory reconfiguration. Valves revenue was up 4.8% on the prior year.

[1] - all items referred to in the financial performance section are from continuing operations unless stated otherwise.
[2] - the disposal of King Systems on 15 February 2013 gave rise to a discontinued operation and the comparatives have been restated accordingly.

Service revenue increased by more than 70% over the prior year, driven by the significant activity in the development pipeline.

The EBIT margin before special items was broadly similar to the prior year at 18.8% (H1 FY2013: 18.9%) supported by the ongoing strength of the service revenue, and savings in corporate costs following the disposal of the King Systems business in February 2013.

Revenue diversification in products continued, with growth in particular in Respiratory – DPI to 31.8% of total sales (H1 FY2013: 25.8%), and Other to 10.7% of total sales (H1 FY2013: 7.0%), the balance being Respiratory – MDI. Customer revenue diversification also continued, with revenue to the top 5 customers at 59.1% of total sales (H1 FY2013: 62.3%), and to the next 5 customers of 15.3% of total sales (H1 FY2013: 9.6%).

As announced on 28 November, Bespak has entered into a commercial supply agreement relating to its development programme DEV610, signing a multi-year contract, with an initial exclusivity period, to serve as the contract manufacturer of a customer's proprietary dry powder inhaler (DPI). The customer is a global pharma company whose details remain confidential at this time. For Bespak this is a significant opportunity, which requires the construction of a further dedicated building at the King's Lynn site to accommodate the additional moulding and assembly capacity to produce the contracted volumes. Revenues from the contract will be dependent on sales following regulatory approval and launch of any products utilizing the device. Initial launch is expected in 2015. The contract further leverages our operational and regulatory expertise in the production of high volume, premium quality drug delivery devices, and represents a further execution of our strategy for organic growth.

In August the MHRA granted Bespak its first commercial drug handling licence for the Nicoventures programme. This was a significant achievement, which underlines Bespak's substantial quality and regulatory competence and expertise, further demonstrating our success in the delivery of our strategy to expand our service offering up the value chain.

Substantial work is in progress to develop Bespak's facilities to accommodate its organic growth. For the Nicoventures programme, construction has begun in King's Lynn to erect a new facility to accommodate the assembly operations, and the refurbishment and reopening of the Milton Keynes facility is also in progress to house the component injection moulding lines. Following the award of the DEV610 DPI supply contract, a further new dedicated facility will be constructed in King's Lynn. With the expansion of the Innovation Team in Cambridge, options are currently under review for expanding the current facilities to accommodate on-going growth.

Development Portfolio

Development Contracts

In July we announced the award of a new development contract NAS030 for a novel patented nasal drug delivery device. This is the first development contract which has arisen out of an own-IP product innovation which originated in the Innovation Team in Cambridge - which was established just over three years ago. The major programmes in our development pipeline are listed below.

Project	Description	Customer	Status
INJ300	Auto-injector	Dr Reddy's Laboratories	Response letter received from FDA. Delayed 12 months
VAL310	Easifill primeless valve	US Pharma	Awaiting refile following FDA response. Launch still expected H2 2014
INJ570	Auto-injector	Global Pharma	Awaiting regulatory approval
VAL020	MDI valve	Global Pharma	Final stability trials ongoing. Completion due Q3 2014
DEV200	Nicotine delivery	Nicoventures	Awaiting regulatory approval

POC010	POC Test Cartridge	Atlas Genetics	Good progress. Launch still expected H2 2014
NAS010	Nasal device	Global Pharma	Terminated by customer
NAS020	Nasal device	Global Generic	Continued progress. Launch still expected H1 2015
DEV610	DPI	Global Pharma	Awarded exclusive multi-year commercial supply contract. Launch expected 2015
NAS030	Nasal device	Global Pharma	Development contract awarded July 2013

DPI = Dry Powder Inhaler, MDI = Metered Dose Inhaler, POC = Point of Care

All programmes have made further progress towards launch, except INJ300 following a response letter from the FDA, and NAS010 which has been stopped by the customer following the customer portfolio review indicated previously.

Innovation Team

In addition to the award of the development contract NAS030, the Innovation Team has continued to be highly active on a number of fronts over the last six months. The team has now grown to 16 (9 at 30 June 2013), and is in the process of evaluating its future facility requirements.

Of particular note is the commercial unveiling of the Syrina® and Vapoursoft® technologies at the PDA exhibition in Basel in November. These exciting and breakthrough technologies leverage Bespak's expertise and IP in gas propulsion, and from IP acquired with The Medical House, and combine them in a family of highly innovative next-generation auto-injectors. The IP for this platform of products has been filed, and generic product demonstrations have been enthusiastically received by potential customers.

The team also unveiled the Lila® pre-filled syringe which incorporates a novel valve technology configurable as either a stopper or a drug separation option.

The team is in discussions on a number of early stage opportunities, including potential customer applications for Syrina® and Lila®.

Other financial details

- Special items in the period include the amortisation of acquired intangibles of £0.4m, relating to the Medical House acquisition, and £0.2m of due diligence costs relating to an aborted acquisition opportunity. The application of the lower tax rate to deferred tax liabilities (23% to 20%) creates a £0.9 million credit in tax.
- The IAS19 valuation of the Bespak defined benefit pension scheme has shown an improvement: the deficit now stands at £9.1m, down from £11.8m at the FY2013 year end. The main change relates to an increase in bond yields, causing the discount rate applicable to future liabilities to rise. The next triennial actuarial valuation is due at 30 April 2014.
- The effective tax rate from continuing operations before special items for the period reduced to 21.3% (H1 FY2013: 24.9%) reflecting in particular the reduction in the headline corporation tax rate from 1 April 2013. The Group is at the initial stages of evaluating the provisions of the UK Government's new Patent Box regime and its potential applicability to the Bespak business and, as a result, has not currently assumed any benefit that may arise.
- The Group continues to retain its committed £75.9m bank facilities which are undrawn. The undrawn portion of these USD and GBP denominated facilities attract a non-utilisation fee of 0.8%, which is reflected in finance costs. The Group also has a £25.0m accordion facility available to it. These facilities expire in November 2016. The Group currently carries a significant cash balance, which is earning deposit interest with minimum 'A' credit rated financial institutions.

- With the scale and incidence of new business investment developments, the directors have reassessed the judgments made in accounting for tooling and equipment revenue, and have changed their accounting policy:
    - From: accounting on a gross basis (i.e. recognising gross revenue from tooling and equipment with the related cost recorded in operating expenses);
    - To: accounting for this on a net basis, having regard to the transfer of risks and rewards.

  This accounting policy change is reflected as a prior year adjustment with comparatives restated accordingly with a reduction in both revenue and operating expenses for the year ended 30 April 2013 of £6.3m (H1 FY2013: £2.1m).

Outlook

We have had a very solid first half of the year, with a number of significant milestones in our development pipeline being achieved. The strategy laid out over three years ago to achieve sustained organic growth is delivering.

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