Consort Medical plc

13 June 2019

Full Year results

Consort Medical reports a solid performance and announces new contract awards

Consort Medical plc (LSE: CSRT) ("Consort", "Consort Medical" or the "Group"), a leading, global, single source drug and delivery device company, today announces its audited results for the year ended 30 April 2019.

Financial Highlights

12 months ended £m	FY2019 30 Apr 19	FY2018 30 Apr 18	Δ % Reported	Δ % CER[2]
Underlying[1]				
Revenue	305.1	311.1	(1.9%)	(1.7%)
EBIT[3]	41.3	42.7	(3.3%)	(3.1%)
PBT[3]	38.2	38.2	0.0%	
Adjusted Basic EPS[3]	63.4p	64.5p	(1.7%)	
Statutory				
Profit before tax (PBT)	12.5	17.3	(27.7%)	
Basic EPS	21.3p	32.9p	(35.3%)	

[1]Underlying amounts are Alternative Performance Measures (APMs) and these are defined in the APM section below. [2]CER – at constant exchange rates; FY2018 actuals retranslated at the FY2019 actual average rates. [3] Before special items of £25.7m (FY2018: £20.9m) that include amortisation of acquired intangibles, reorganisation costs, impairment of assets and a one-off pension charge.

- A solid financial performance, with underlying PBT in line with the prior year at £38.2m despite the impact of the previous delay in approval of Mylan's Wixela® programme, offset by a lower pension charge and favourable foreign exchange movements
- Bespak continued to deliver a sector-leading EBIT margin at 20.3% after investing in R&D on a number of new development opportunities, despite revenue being marginally lower than the prior year
- Aesica maintained its EBIT margin despite lower revenue and the initial impact of streamlining API activities
- Net debt at £97.4m was in line with expectations (30 April 2018: £95.5m) and the balance sheet remains strong with net debt to EBITDA at 1.8x
- Recommended final dividend of 13.8p, resulting in a 1.9% increase in the total dividend to 21.4p (FY2018: 21.0p)

Operational Highlights

- A new contract win utilising our Syrina®/ Vapoursoft® auto-injector technology with a confidential leading biopharmaceutical customer
- Record metered-dose inhaler (MDI) valve volumes achieved across a broad range of customers with plans to further increase capacity to support growth of this core activity
- Bespak was also recently awarded a new development services agreement with an existing customer which is expected to lead to a significant commercial opportunity
- Modest revenue growth expected in the near-term from Mylan's Wixela® (generic Advair®) successfully gaining FDA approval in January 2019 as their pre-launch inventories unwind

- Good progress made on our cross-divisional commercial agreement signed with Opiant Pharmaceuticals, Inc. combining Aesica and Bespak expertise to manufacture and fill the nasal delivery device, Unidose® Xtra
- Encouraging growth in Aesica's pipeline which is expected to convert into future revenue. This is supported by strategic investments in Aesica's liquid filling, packaging and serialisation capabilities

Jonathan Glenn, Chief Executive Officer of Consort Medical, commented:

"Consort has delivered a solid financial performance and has been awarded new contracts that will support the Group's medium-term growth prospects. There is a new Syrina®/ Vapoursoft® injectable opportunity which further validates this technology. We have also entered into a new development agreement with an existing key customer which is expected to translate into a significant commercial opportunity.

We have a clear growth strategy focussing on organic opportunities that will benefit from these recent contract awards and the joint commercial agreement with Opiant on the Unidose® Xtra nasal device announced earlier in the year. We continue to invest in our research and development capabilities expanding our intellectual property and building on our exciting pipeline at both Bespak and Aesica to support our strong long-term growth prospects.

The Board is confident of Consort's future prospects which are further supported by the addition of two new significant contracts. The near-term outlook will reflect the commercial success of Mylan's Wixela® (generic Advair®) and the progression of the development pipeline.

We also continue to assess acquisition opportunities that have the potential to deliver additional growth and a broader offering through access to new geographic markets and complementary technologies and capabilities."

Enquiries:
Consort Medical Tel: +44 (0) 1442 867920
Jonathan Glenn – Chief Executive Officer
Paul Hayes – Chief Financial Officer

FTI Consulting Tel: +44 (0) 20 3727 1000
Ben Atwell / Simon Conway

Notes:

1. Foreign Exchange Rates
    a. Year-end exchange rates 30 April 2019: £1=€1.16; £1=$1.30
    b. Average exchange rates 1 May 2018 to 30 April 2019: £1=€1.13; £1=$1.30
    c. Year-end exchange rates 30 April 2018: £1=€1.14; £1=$1.38
    d. Average exchange rates 1 May 2017 to 30 April 2018: £1=€1.13; £1=$1.34

Consort Medical plc is a leading one-stop developer and manufacturer of drugs and premium drug delivery devices. We partner with pharmaceutical businesses in providing innovative life improving treatments to patients across the world through two integrated activities:

The design, development and manufacture of high performance medical devices for inhaled, injectable, nasal and ocular drug delivery, as well as point-of-care diagnostics products.

The development, formulation and manufacture of active pharmaceutical ingredients (APIs) and finished dose drugs to the highest quality standards.

We employ over 2,000 people globally and are committed to investing in patient, clinician and customer driven innovation to create new treatments.

Consort Medical is a public company quoted on the premium list of the London Stock Exchange (LSE: CSRT) and is organised in two divisions: Bespak and Aesica. www.consortmedical.com

Forward looking statements

This document may contain certain forward looking statements with respect to Consort Medical's financial condition, performance, position, strategy, results and plans based on management's current expectations or beliefs as well as assumptions about future events. These forward looking statements are not guarantees of future performance. Undue reliance should not be placed on forward looking statements because, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Consort Medical's plans and objectives, to differ materially from those expressed or implied in the forward looking statements. Consort Medical undertakes no obligation to update any of the forward looking statements contained in this document or any other forward looking statements it may make. Past performance is not an indicator of future results and the results of Consort Medical in this document may not be indicative of, and are not an estimate, forecast or projection of, Consort Medical's future results.

Alternative Performance Measures

In addition to statutory measures, a number of Alternative Performance Measures (APMs) are included in this announcement to assist investors in gaining a clearer understanding and balanced view of the Group's underlying performance and in comparison with performance across the industry. These measures are consistent with how business performance is measured internally.

The APMs used include operating profit (EBIT), profit before tax (PBT) and earnings per share, adjusted to eliminate special items, being the amortisation of acquired intangibles and other significant one-off items not linked to the underlying performance of the business, and free cash flow after special items. Further, underlying constant exchange rate measures are given which eliminate the impact of currency movements by comparing the current measure against the comparative restated at this year's actual average exchange rates. Where APMs are given, these are compared to the equivalent measures in the prior year.

The APM of EBITDA includes the add-back of interest, tax, depreciation, amortisation, and any profit or loss on disposal of property, plant and equipment to EBIT.

Chief Executive's Review

Summary

Consort has delivered a solid financial performance and made great progress in expanding its development pipeline that presents long-term growth prospects. Bespak has maintained its sector-leading margin with continued growth of its core respiratory products, despite the delay in launch of Mylan's Wixela® programme. Aesica revenues are lower than the prior year with a stronger performance in Germany being offset by lower UK revenue due to lower customer demand on some mature products and commencement of the API plant closure in Queenborough. Underlying PBT is in line with the prior year at £38.2m after incurring lower finance charges during the year.

The Group has made exciting progress in its development pipeline at both Bespak and Aesica. This includes particular success with our injectables franchise with a new development contract signed utilising our own proprietary Syrina®/Vapoursoft® auto-injector technology. Good progress has been made on our cross-divisional agreement entered into earlier in the financial year to produce a pre-filled, nasal delivery device, Unidose® Xtra. Bespak has also been awarded a new development services agreement with an existing customer. We have invested in further automation and sterilisation capabilities at our European operations to support future growth opportunities in Aesica. We continue to work on a number of promising new opportunities with current and potential new customers.

Summary of Financial Performance

Group revenue declined by 1.9% to £305.1m (FY2018: £311.1m) and by 1.7% at constant exchange rates. As a result EBIT before special items decreased by 3.3% to £41.3m (FY2018: £42.7m) and by 3.1% at constant exchange rates.

Special items before tax were £25.7m in the year (FY2018: £20.9m). This includes: £10.8m of amortisation of acquired intangibles; £9.8m relating to the closure and decommissioning of the Aesica API plant at Queenborough; £4.4m relating to the impairment of API plant assets and inventory; and a one-off £0.5m pension charge in respect of the equalisation of male and female Guaranteed Minimum Pension (GMP) entitlement. The API restructuring programme is described in more detail in section 2 of the strategy section below.

Net finance costs at £3.1m were lower than the prior year (FY2018: £4.5m) due to the effects of a lower pension finance charge and foreign exchange movements. Group underlying profit before tax and special items of £38.2m was in line with the prior year (FY2018: £38.2m). Adjusted basic EPS decreased by 1.7% to 63.4p (FY2018: 64.5p) reflecting a higher tax rate. Basic EPS decreased by 35.3% to 21.3p (FY2018: 32.9p), driven by costs associated with the API restructuring programme.

Cash generated from operations was £39.9m (FY2018: £37.1m). EBITDA before special items decreased by £1.2m to £55.2m (FY2018: £56.4m) which was offset by capital investments of £23.6m (FY2018: £22.2m) and increased working capital driven by higher inventory levels after supporting customers on their Brexit contingency plans and a £4.4m one-off settlement of a long-standing payable. The cash effect of the special items paid in the year was £4.9m (FY2018: £2.0m).

The Group balance sheet remains strong with a net debt position of £97.4m (30 April 2018: £95.5m), representing gearing of 1.8x Net debt: EBITDA. The Group agreed a new five year £200m committed multi-currency banking facility during the year with an £80m accordion.

The Board is proposing an increased final dividend of 13.8p (FY2018: 13.6p), resulting in a total dividend for the year of 21.4p (FY2018: 21.0p).

Progress on the Group's strategy

Consort Medical has a well-established strategy, which has four key elements:

1. Driving sustainable organic revenue growth

Consort is driving revenue growth through leveraging its strong relationships with existing customers, developing opportunities with new customers and broadening its product offering.

We have deep, long-term contractual relationships with many leading pharmaceutical companies in both Bespak and Aesica, supplying customers with high quality products from our highly regulated facilities. There is a broad range of existing production programmes where we work closely with customers to support their growth strategies. We supplement this with development opportunities by providing innovative solutions utilising our market-leading expertise.

In Bespak, we made good progress in the year with our marketed respiratory portfolio, continuing to grow revenues of our core respiratory metered dose inhaler (MDI) valves and dry powder inhaler (DPI) devices. We have had significant success with expanding our development pipeline of device opportunities including our innovative proprietary gas-powered auto-injector technology and nasal products described in more detail below. We provide a summary of the more significant drug delivery device opportunities in the table in the Business Review section below.

In Aesica, there is a significant amount of activity on finished dose development where we continue to quote for a number of new opportunities. We remain excited about these opportunities but as this information is commercially sensitive we can only provide a broad overview of these opportunities.

2. Delivering margin improvement

In addition to delivering further organic growth we continue to focus on improving our operational efficiency and underlying EBIT margin. Bespak performed well in the year, preserving its sector leading margin at 20.3%. Aesica's margin was maintained at 8.8%, despite lower revenue. Since the acquisition of Aesica, we have made good progress, having increased its margin from 5.2% at acquisition to 8.8% during this year.

The majority of Aesica's activities are finished dose formulation and the production and packaging of tablets, capsules and liquids. Aesica also manufactures active pharmaceutical ingredients (APIs) mainly in its Cramlington plant and also in a smaller facility within the large multi-activity Queenborough site.

In December 2018, we announced that we would commence a process of withdrawing from API activities at our Queenborough site to focus on its core competency of finished dose formulation and manufacturing. Following the announcement, we have consulted with our employees and customers and have agreed last production runs with them. We are developing our plans to fully decommission the plant which includes demolishing parts of the site and remediating historic environmental issues. We have commenced decommissioning some of the plant and anticipate that we will complete production in the coming months.

We have booked a £9.8m charge during the period which includes £3.3m of cash costs incurred to date and our estimate of the one-off costs to exit the API activities. This exit process is underway and we will provide updates on progress in due course. We have also incurred non-cash impairment charges of £4.4m which includes the £3.5m impairment of fixed assets that was recognised in the first half of the year and a £0.9m impairment of inventory.

3. Innovating and developing new devices and formulation technologies

We utilise our core expertise and strong relationships to partner with pharmaceutical businesses in developing and providing innovative life improving treatments. Since 2010, Consort has consistently invested in innovation and expanded from a predominantly respiratory products business to growing positions in a number of attractive markets. We have well established development programmes in both divisions, including our one-stop capability to develop and manufacture both a drug and its delivery device, which is a key differentiator to our competitors.

A good example of this is the development agreement with Opiant Pharmaceuticals, Inc. which involves both Bespak and Aesica in jointly developing a ready-to-use nasal delivered version of nalmefene to treat opioid overdoses.

The Group has continued to broaden its capabilities including growing its medical device business by adding highly innovative proprietary injectable delivery technologies to its well established respiratory franchise.

Our injectables activities include an innovative gas powered auto-injector technology designed to support the safe operation of single-use syringes capable of injecting higher viscosity liquids. There is a growing demand for products serving this technically challenging area, particularly with the growth of large molecule biological drugs which are often highly viscous. We are developing specific products using our proprietary technology, including promising opportunities with a number of leading global biopharmaceutical customers, with another recently signing a new development agreement.

We offer sterile liquid filling manufacturing as part of our broad range of finished dose capabilities within Aesica and have continued to invest in expanding this offering during the year. This is supported by our finished dose development team. Our strategy is to further differentiate our capabilities by investing in pre-filled syringe capacity. This will enable the Group to provide a complete range of pre-filled syringe solutions to our customers including our unique auto-injector device technology.

Consort believes that each of the auto-injector business and the nasal franchise have the potential to be at least the size of the respiratory franchise in the medium to long-term.

4. Making selective acquisitions and investments

Consort generates strong operating cash flow that supports investment in organic growth and has allowed us to increase the dividend in recent years. Our strategy is to supplement this with appropriate strategic investments.

Our non-organic growth strategy is to make selective acquisitions or investments in new geographical markets and complementary technologies/capabilities that have the potential to broaden our geographic footprint and customer offering.

We will continue to review appropriate opportunities that present attractive long-term shareholder value.

Business Review

Bespak *(Drug Delivery Devices)*

Operations

	FY2019[1]	FY2018[1]	Δ% Reported	Δ% CER[2]
Revenue	£126.2m	£126.9m	(0.6%)	(0.6%)
EBITDA[3]	£31.5m	£32.7m	(3.7%)	(3.7%)
EBITDA margin %	25.0%	25.8%		
EBIT[3]	£25.6m	£26.5m	(3.4%)	(3.4%)
EBIT margin %	20.3 %	20.9%		

[1]Underlying amounts presented above are defined by our Alternative Performance Measures (APM) methodology. [2]CER – at constant exchange rates; FY2018 actuals retranslated at the FY2019 actual average rates. [3]Before special items of £1.5m (FY2018: £6.4m) comprising the amortisation of acquired intangibles and a one-off pension charge.

Bespak has a well-established and diverse business of designing, developing and manufacturing high performance medical delivery devices. This business has a strong pipeline of innovative products including: respiratory, injectable, nasal and ocular drug delivery, as well as point-of-care diagnostics.

Revenue was broadly in line with the prior year at £126.2m (FY2018: £126.9m) despite the delay in the Mylan Wixela® product launch, which received FDA approval in January 2019**.** Bespak has continued strong demand for its broad range of leading advanced medical delivery devices with another record year of MDI valve production. This growth was with established customers while continuing to invest in and make good progress on existing and new development programmes.

We have continued to grow revenues of our market leading metered-dose inhaler (MDI) valves and devices which now cover over one hundred commercial products. Our broad range of products and programmes has grown over many years and we continue to supplement it with new products, with promising developments coming through for our nasal and injectables franchises. Revenue was also impacted by our planned exit from the sale of low margin, non-core anodised aluminium components to external customers at our Nelson facility in order to concentrate on internal valve production.

As anticipated, service revenue decreased slightly during the year to £8.1m (FY2018: £8.4m). This is due to a number of successful development programmes having been converted to commercial product revenue following approval and launch and reduced programme activities.

Bespak realised a 3.4% decrease in underlying EBIT to £25.6m driven by the mix of valves and lower service revenue. Bespak continued to deliver a sector-leading EBIT margin at 20.3%, slightly down on the prior year's 20.9%.

Product Development

Bespak has a wide range of commercial programmes, supported by a broad product development pipeline that present further growth opportunities. This development pipeline is across a range of therapeutic areas, including both contract manufacturing and products with our own proprietary intellectual property (IP).

To provide visibility of Bespak's strong position, we have set out in the table below a summary of our more significant development opportunities recognising that timescales are difficult to predict. For inclusion in the table, projects must have a reasonable expectation of success and are forecast to produce peak annual revenues of at least £3m per annum.

In January we had the positive news of Mylan receiving US Food and Drug Administration (FDA) approval for their Wixela® programme (DEV610). Mylan, supported by Consort Medical, now has the first to market generic Advair® product. As we have previously highlighted, Mylan had been building inventory ahead of the Wixela® launch and as such our sales of products to Mylan will reflect the product's success in the market and Mylan's inventory profile. We anticipate modest revenue growth in the near-term as pre-launch inventories are utilised and the product gains market share.

Our Syrina®/ Vapoursoft® auto-injector offering continues to generate significant interest and we have recently signed a new development contract with a leading global pharmaceutical customer. This contract involves Consort's innovative Vapoursoft® driven auto-injector technology and is an adaptation of the Syrina® platform, designed to deliver formulations with very high viscosities.

We have recently entered into a new development services agreement with an existing global pharmaceutical company. Under the agreement, Consort will support the development of a novel drug delivery device for the customer and this is expected to be followed by a commercial manufacturing and supply agreement. The proposed drug delivery device, in late stage design, is a new format for a product that is already registered and marketed by the customer. The product is in a significant and growing market segment where the delivery method for the drug formulation has high commercial value as a differentiator.

During the year we received notice that a customer, Amphastar Pharmaceuticals, Inc. has been granted FDA approval for the only asthma inhaler available without prescription in the United States (Primatene® MIST). The product will be delivered using Bespak's MDI valve and actuator offering. We commenced production in the latter half of FY2019.

Further programmes include additional respiratory product opportunities and continued progress on point-of-care, nasal and ocular programmes. The current status of the major programmes in our development pipeline is listed below:

Project	**Description**	**Customer**	**Status**
VAL020	MDI valve	Global Pharma	Programme under review by customer
POC010	POC test cartridge	Binx Health (previously Atlas Genetics)	CE marking obtained and FDA filing submitted
DEV610	DPI	Mylan	Approved by FDA
NAS030	Nasal device	Pharma Co.	Early stage programme
NAS040	Nasal device	Opiant Pharmaceuticals	Early stage programme progressing to plan
INJ650	ASI® Auto-injector	Global Generic	Programme not expected to progress
INJ700	Lila® Mix Injector	Pharma Co.	Programme under review
IDC300	Oral IDC	Pharma Co.	Awaiting FDA approval
VAL050	MDI valve / actuator	Aeropharm	Development contract ongoing
OCU050	Ocular device/ formulation / filling	Oxular	Early stage programme
SYR075	Syrina® / Vapoursoft®	Global Biopharma	Programme under review
INJ750	Injectable device	Existing Customer	Development services agreement signed
SYR080	Syrina® / Vapoursoft®	Global Biopharma	Development agreement signed

DPI = Dry Powder Inhaler, MDI = Metered Dose Inhaler, POC = Point-of-Care, IDC = Integrated Dose Counter

Innovation

Bespak has an innovation team of 30 at its dedicated facility in Cambridge and is busy working on a growing number of opportunities. We continue to invest in and expense the majority of this significant investment in developing our new technology platforms with our proprietary technology.

We have seen the number of opportunities continue to grow, particularly in the injectables franchise from biotech and pharmaceutical companies including the new programmes that we have recently added to our development pipeline.

The team is also supporting the Group's proprietary nasal programmes which include unique IP protected technology that accurately delivers a single precise dose of a pharmaceutical product to a patient. This Unidose® Xtra product in conjunction with the proposed Aesica sterile fill capability has the potential to provide significant growth opportunities for the Group.

One such opportunity of the Unidose® Xtra product is a significant joint development agreement with Aesica to manufacture and fill the device for a US customer to treat opioid overdose. Opioid overdose is the leading cause of death in the US for adults under the age of 50.

Aesica *(Development and Manufacture of API & Finished Dose)*

Operations

	FY2019[1]	**FY2018[1]**	**Δ% Reported**	**Δ% CER[2]**
Revenue	£178.9m	£184.2m	(2.9%)	(2.6%)
EBITDA[3]	£22.4m	£23.6m	(5.1%)	(4.7%)
EBITDA margin %	12.5%	12.8%		
EBIT[3]	£15.7m	£16.2m	(3.1%)	(2.5%)
EBIT margin %	8.8%	8.8%		

[1]Underlying amounts presented above are defined by our Alternative Performance Measures (APM) methodology. [2]CER – at constant exchange rates; FY2018 actuals retranslated at the FY2019 actual average rates; [3]Before special items of £24.2m (FY2018: £14.5m) comprising amortisation of acquired intangibles, reorganisation costs and impairment of assets.

Aesica develops, formulates and manufactures APIs and finished dose drugs to the highest quality standards. It has strong and well-established relationships with many of the world's leading pharmaceutical companies and works closely with them to support their growth strategies. Aesica has regulatory approved facilities in the UK, Germany and Italy.

Aesica's reported revenue decreased by 2.9% to £178.9m (FY2018: £184.2m). This includes continued growth from the German business offset by lower volumes of more mature products in the UK business and the near-term impact from the closure of the API plant at Queenborough.

Despite slightly lower revenue, Aesica has maintained its EBIT margin of 8.8% in line with the prior year. EBIT declined 3.1% (2.5% at constant currency) to £15.7m (FY2018: £16.2m). The business has significantly improved its margin since acquisition in 2014 when it was making 5.2%.

We continue to invest in the business with the expansion of the packaging facility in Germany, a new liquid filling production line in Italy and further API capabilities in Cramlington. The German business continues to perform well with increased demand and price increases from the established customer base supplemented by opportunities with new customers.

In the prior year, we commenced the manufacture of a new innovative API product at our Cramlington facility. Good progress has been made on this complicated multi-stage process in the current financial year, on which we expect to continue to build upon into FY2020.

Business Development and Innovation

Aesica has deep, long-term relationships with a strong, blue-chip customer base. These relationships are supported by contracts that typically range between three and ten years generating recurring revenues, the majority of which are renewed at the end of their term. Our technological and regulatory expertise supports Aesica in providing a broad variety of high quality products to many markets. These long-term relationships from our approved sites enable us to provide additional products and services in partnership with these valued customers.

The Aesica commercial team is focused on a growing number of formulation development and manufacturing opportunities. These include businesses looking for support on new products and pharmaceutical companies seeking to either out-source an activity or change suppliers. Aesica's business development team has a regional structure to ensure that we can effectively support our customers from our manufacturing facilities in the UK, Germany and Italy.

Aesica's track record provides potential customers with an established partner, able to provide a high level of service supported by regulatory compliance. We have regular routine compliance audits from regulatory bodies including the MHRA, FDA, Russian HA and many other regional regulatory authorities. We share our regulatory expertise across the wider Group.

Of significance, is the cross divisional commercial agreement signed with Opiant Pharmaceuticals, Inc. combining Aesica and Bespak expertise to manufacture and fill the Unidose® Xtra medical device. This combined offering is a good example of fulfilling an objective of the Aesica acquisition, with Consort being a truly single source drug and delivery device company.

The business has identified a number of attractive business development opportunities with pharmaceutical companies looking to source oral product. This is supported by our investment in a new liquid filling production line in Italy which became operational in March 2019 and will significantly increase capacity.

We have also expanded our packaging capabilities in Germany alongside continued strategic investments across the Group in serialisation which facilitates the identification of products at the individual pack level. We have supported our customers as they implement serialisation across their product ranges utilising the Group's expertise with this technology.

Consort's Brexit Preparations

The Group has considered the nature and extent of risks and uncertainties arising from the result of the Brexit referendum and the impact on the future performance and position of the business. The main risks to the Group have been assessed as being,

- Disruption to the supply chain: we have increased our inventory holdings of raw materials that is anticipated to mitigate any delays in importation, and
- Lower sales activity: the Group has long-term agreements in place with large international pharmaceutical businesses that operate on a global basis. The Group's existing plants in Germany and Italy would be utilised to effectively manage any disruption to the supply chain.

The Board does not consider that a hard Brexit will have a significant impact on the Group's operations and ability to service its supply chain. As negotiations continue, the Board will monitor outcomes, assess the impact on the regulatory environment in which the Group operates, its customers, supply chain and employees and will implement an appropriate response.

Board and Company Secretary Changes

We were pleased to announce the appointment of Chris Brinsmead CBE as a non-executive director and Chairman designate. Chris joined the Board on 7 February 2019, succeeding Dr. Peter Fellner as Chairman on 24 April 2019 who stepped down from the Board on the same date, having announced his intention to retire on 14 June 2018. We would like to thank Peter for his very significant contribution to Consort Medical's success during his tenure.

Andrew Jackson was appointed as our General Counsel and Company Secretary in August 2018, joining us from his previous role as Group Counsel at KP Snacks Limited.

Outlook

Consort has delivered a solid financial performance and has been awarded new contracts that will support the Group's medium-term growth prospects. There is a new Syrina®/ Vapoursoft® injectable opportunity which further validates this technology. We have also entered into a new development agreement with an existing key customer which is expected to translate into a significant commercial opportunity.

We have a clear growth strategy focussing on organic opportunities that will benefit from these recent contract awards and the joint commercial agreement with Opiant on the Unidose® Xtra nasal device announced earlier in the year. We continue to invest in our research and development capabilities expanding our intellectual property and building on our exciting pipeline at both Bespak and Aesica to support our strong long-term growth prospects.

The Board is confident of Consort's future prospects which are further supported by the addition of two new significant contracts. The near-term outlook will reflect the commercial success of Mylan's Wixela® (generic Advair®) and the progression of the development pipeline.

We also continue to assess acquisition opportunities that have the potential to deliver additional growth and a broader offering through access to new geographic markets and complementary technologies and capabilities.

Financial Review

Consort has delivered a solid financial performance with revenue down by 1.9% and EBIT slightly lower than the prior year. Despite this, profit before tax remained unchanged from the prior year at £38.2m and we continue to invest in the business to support future growth opportunities. Statutory PBT for the year was £12.5m (FY2018: £17.3m), reflecting the cost of the API plant closure at Queenborough and a number of other one-off items included in special items.

Revenue

Group revenue decreased by £6.0m (1.9%) to £305.1m with a 1.7% decrease in underlying revenue when taking into account constant currency. Bespak revenue decreased marginally by £0.7m (0.6%) with continued growth in valves offset by marginally lower volumes in other products and services. Aesica was impacted by lower volumes of mature products and the API plant closure at Queenborough partially offset by growth in the German business. As a result, Aesica's revenue was £5.3m (2.9%) lower than prior year or by 2.6% at constant exchange rates.

EBIT

Group EBIT before special items decreased by 3.3% to £41.3m with a 3.1% decrease in underlying EBIT at constant currency. The lower EBIT reflected the drop through of lower revenue in both divisions. Despite the lower EBIT, our continued focus on operational efficiencies resulted in Bespak maintaining its sector leading margin at 20.3% (FY2018: 20.9%), with Aesica achieving an EBIT margin unchanged from the prior year at 8.8%. At the Group level, underlying EBIT margin decreased 20bps to 13.5% (FY2018: 13.7%).

Finance costs and profit before tax

Net finance costs at £3.1m (FY2018: £4.5m) benefitted from a lower pension finance charge as a result of a reduced pension deficit obligation and foreign exchange.

Profit before tax and special items was in line with the prior year at £38.2m with the benefit of lower finance costs offsetting the reduced EBIT.

Special items

Special items are those items which the Group considers to be non-recurring or are not part of the underlying performance of the business. In FY2019 special items amounted to £25.7m (FY2018: £20.9m), which includes £10.8m of amortisation of acquired intangibles (FY2018: £12.1m); £9.8m relating to the closure and decommissioning of the Aesica API plant at Queenborough; £4.4m impairment of the API plant assets and inventory and a one-off £0.5m pension charge in respect of the equalisation of male and female Guaranteed Minimum Pension (GMP) entitlement.

Statutory profit before tax was £4.8m lower at £12.5m (FY2018: £17.3m) as a result of these special items incurred.

Taxation

The effective tax rate (ETR) on profit before tax and special items was in line with expectations at 18.6% (FY2018 17.3%) giving rise to an underlying tax charge of £7.1m (FY2018: £6.6m). The effective tax rate (ETR) reflects a combination of factors including the continuing benefits of the Patent Box regime in the Bespak business and the proportion of profits arising in our European Aesica businesses in Germany and Italy where there are higher jurisdictional tax rates.

The Group benefits from the Research and Development Expenditure Credit (RDEC) and realised an R&D tax credit of £1.9m in the year (FY2018: £2.2m) that is recognised in EBIT and benefits both Bespak and Aesica.

Bespak continues to benefit from the progressive implementation of the UK's Patent Box regime on earnings from its patented products amounting to a benefit in the year of £1.5m in its cash tax (FY2018: £1.9m).

A tax credit of £5.1m (FY2018: £5.4m) arose in respect of special items. The total tax charge was £2.0m (FY2018: £1.2m).

The outlook for the ETR for FY2020 is 20%, subject to the mix of Bespak revenues (IP and non-IP protected), and the mix of Aesica profits between UK, Germany and Italy.

The Group's tax strategy continues to follow the commercial development of the business, whilst taking advantage of government tax incentive policies. The Group continues to be rated low risk by HMRC.

Earnings per share (EPS)

Earnings before special items decreased by £0.5m to £31.1m (FY2018: £31.6m) as a result of the higher effective tax rate. Adjusted basic EPS decreased by 1.7% to 63.4p per share (FY2018: 64.5p) accordingly.

Statutory earnings after tax decreased by £5.6m to £10.5m (FY2018: £16.1m) with basic EPS at 21.3p (FY2018: 32.9p) as a result of the higher level of special items.

Dividend

The Board has reviewed the dividend and is proposing an increased final dividend of 13.8p (FY2018: 13.6p) making a total dividend for the year of 21.4p (FY2018: 21.0p).

The dividend will be paid on 25 October 2019 to shareholders on the register at 20 September 2019, if approved by shareholders at the AGM on 11 September 2019. Dividend cover, based on underlying EPS, was 3.0 times (FY2018: 3.1 times).

Cash flow & net debt

Cash generated from operations was £39.9m (FY2018: £37.1m) with the Group maintaining a continued focus on working capital management.

Inventories increased by £12.2m during the year (FY2018: £0.7m increase) with a significant amount of this increase relating to supporting key customers on their Brexit contingency plans at both the Bespak and Aesica divisions. Payables also increased by £0.3m (FY2018: £0.9m decrease) reflecting this increase in inventory, offset by the one-off settlement of a long-standing payable (£4.4m). Receivables remained well controlled and current with a £0.3m decrease (FY2018: £16.7m increase).

Capital expenditure of £23.6m was higher than the previous year (FY2018: £22.2m) including investments across the business to enhance facilities and expand manufacturing capacity and serialisation capabilities.

The Group generated free cash flow after special items of £14.1m (FY2018: £12.5m) which funded £10.4m of dividend payments (FY2018: £10.1m) and £2.7m of contributions into the pension plan (FY2018: £2.1m).

Net debt was £97.4m at year end (30 April 2018: £95.5m) or 1.8x EBITDA (30 April 2018: 1.7x).

Financing and liquidity

The Group entered into a new 5 year £200m revolving credit facility on 9 October 2018 with options for two one-year extensions. At 30 April 2019, the Group had drawn £110.9m of this committed revolving credit facility (FY2018: £117.3m).

Margins over LIBOR are charged depending upon the ratio of Net debt to EBITDA. A non-utilisation fee of the interest margin on the undrawn balance applies.

The facility has two covenants: Net debt to EBITDA less than 3.0x and Interest Cover over EBITDA being greater than 3.0x. The Group continues to operate within its covenants at 30 April 2019 with Net debt to EBITDA of 1.8x, and Interest Cover 18.8 times.

An additional £80m accordion facility allows further funding to be made available by the participating banks to support significant investment or acquisition opportunities which may arise. The Group also has uncommitted overdraft facilities in the UK of £4.5m and £1.1m which it utilises to manage its requirements for short term operational funding.

Foreign Currency Exposure

The Group monitors its foreign currency exposures carefully and seeks to mitigate all material transactional exposures. Bespak currently has limited exposure to movements in the Euro and US Dollar while Aesica has an exposure to the Euro. Where appropriate, forward foreign currency is bought and/or sold to protect transactional margin exposure.

As a result of the Group's German and Italian Euro denominated operations, foreign currency translation sensitivity for the Euro is such that a 10¢ strengthening/weakening in the Euro:GBP exchange rate increases/decreases revenue by c.£8.4m and EBIT by c.£1.3m.

Pensions

The IAS 19 pension valuation at 30 April 2019 showed a total deficit of £19.2m (30 April 2018: £14.7m). The defined benefit pension obligations of the Group comprise both Bespak and Aesica schemes.

Bespak scheme

In 2002, the Bespak Retirement Benefits Scheme (a defined benefit pension scheme) was closed to new members. Furthermore from 31 March 2016 the Scheme was closed to further accrual via a deed of amendment between the Group and the Trust. Following the Scheme closure, all former active members became deferred members and the provision of pension benefits was migrated to a defined contribution pension scheme which is also available to new employees.

As at 30 April 2019, the Bespak IAS 19 deficit was £14.8m compared with £10.4m as at 30 April 2018. The increase in the liability is attributable to net changes in the discount rate and inflation linked assumptions as well as a £0.5m one-off charge for the equalisation of GMP entitlement following recent changes in UK legislation.

The latest triennial actuarial valuation of the Bespak Pension Scheme was performed by an independent actuary for the trustees of the scheme and was carried out as at 30 April 2017. In April 2019, the Group and the Trustees agreed this actuarial valuation, which recorded a deficit of £37.3m. As part of the agreement, the Group undertook to make deficit recovery contributions at the following rates:

- November 2017 – October 2019: £2.5m per annum
- November 2019 – October 2021: £3.0m per annum
- November 2021 – November 2029: £3.5m per annum

Aesica scheme

Aesica operates a number of different pension schemes, including defined benefit schemes in Italy and Germany. These schemes are in a total net IAS 19 deficit position of £4.4m at 30 April 2019 (30 April 2018: £4.3m).

Risk Management

The Group is exposed to a number of risks and considers effective risk management to be a high priority. As such the Group operates a detailed framework for assessing risk and implementing processes and procedures to partly mitigate these risks which are further described in the Annual Report & Accounts. This includes the risks associated with Brexit as disclosed earlier in this report.

Jonathan Glenn	**Paul Hayes**
Chief Executive Officer	Chief Financial Officer

Consolidated Income Statement
For the year ended 30 April 2019

	Note	**2019 £m**	2018 £m
Revenue	2	**305.1**	311.1
Operating expenses before special items		**(263.8)**	(268.4)
Operating profit before special items		**41.3**	42.7
Special items	3	**(25.7)**	(20.9)
Operating profit		**15.6**	21.8
Finance income		**0.4**	0.2
Finance costs	4	**(3.7)**	(3.2)
Other finance costs	4	**0.2**	(1.5)
Profit before tax and special items		**38.2**	38.2
Special items	3	**(25.7)**	(20.9)
Profit before tax		**12.5**	17.3
Tax on profit before special items	5	**(7.1)**	(6.6)
Special items – tax	3	**5.1**	5.4
Tax charge	5	**(2.0)**	(1.2)
Profit for the financial year		**10.5**	16.1

Earnings per share, attributable to the equity holders of the parent

Basic earnings per ordinary share	6	**21.3p**	32.9p
Diluted earnings per ordinary share	6	**21.2p**	32.7p

Non-statutory measures	**£m**	£m
Profit before tax and special items	**38.2**	38.2
Profit after tax before special items	**31.1**	31.6
Adjusted basic earnings per ordinary share	**63.4p**	64.5p
Adjusted diluted earnings per ordinary share	**62.8p**	63.9p

Consolidated Statement of Comprehensive Income
For the year ended 30 April 2019

	2019	2018
	£m	£m
Profit for the financial year	**10.5**	16.1
Other comprehensive (loss) / income		
Items that may be reclassified subsequently to profit and loss:		
Net gain / (loss) on hedge of a net investment	**0.5**	(1.3)
Exchange movements on translation of foreign subsidiaries	**(2.7)**	5.7
Items that will not be reclassified subsequently to profit and loss:		
Actuarial (loss) / gain on defined benefit pension schemes	**(6.5)**	29.2
Deferred tax on actuarial loss / (gain)	**1.1**	(5.6)
Impact of change in tax rates	**–**	0.6
Other comprehensive (loss) / income for the year	**(7.6)**	28.6
Total comprehensive income for the year	**2.9**	44.7
Attributable to the equity holders of the parent	**2.9**	44.7

Consolidated Balance Sheet
At 30 April 2019

	Notes	**2019 £m**	2018 £m
Assets			
Non-current assets			
Property, plant and equipment		**152.5**	147.7
Goodwill		**128.4**	129.6
Other intangible assets		**37.3**	47.6
Investments		**11.6**	11.4
Trade and other receivables		**5.4**	3.8
		335.2	340.1
Current assets			
Inventories		**47.1**	35.2
Trade and other receivables		**67.9**	68.8
Current tax assets		**1.9**	6.6
Cash and cash equivalents	9	**13.5**	21.4
		130.4	132.0
Total assets		**465.6**	472.1
Liabilities			
Current liabilities			
Borrowings	9	**–**	(116.9)
Trade and other payables		**(73.4)**	(71.4)
Derivative financial instruments		**(0.2)**	(0.2)
Provisions and other liabilities		**(6.5)**	(3.4)
		(80.1)	(191.9)
Net current assets / (liabilities)		**50.3**	(59.9)
Non-current liabilities			
Borrowings	9	**(110.9)**	–
Trade and other payables		**(1.7)**	(1.7)
Deferred tax liabilities		**(12.9)**	(16.2)
Defined benefit pension schemes deficit	10	**(19.2)**	(14.7)
Provisions and other liabilities		**(2.6)**	(1.3)
		(147.3)	(33.9)
Total liabilities		**(227.4)**	(225.8)
Net assets		**238.2**	246.3
Shareholders' equity			
Share capital		**4.9**	4.9
Share premium		**139.2**	138.5
Retained earnings		**86.0**	92.6
Other reserves		**8.1**	10.3
Total equity		**238.2**	246.3

Consolidated Cash Flow Statement
For the year ended 30 April 2019

	2019	2018
	£m	£m
Cash flows from operating activities		
Operating profit	**15.6**	21.8
Depreciation	**13.3**	13.1
Impairment	**3.5**	3.8
Amortisation	**11.3**	12.5
Loss on disposal of property, plant and equipment	**0.1**	0.2
Share-based payments	**0.7**	1.1
Pension charge in excess of cash contributions	**0.6**	0.1
Increase in inventories	**(12.2)**	(0.3)
Decrease / (increase) in trade and other receivables	**0.3**	(16.7)
Increase / (decrease) in trade and other payables	**2.3**	(1.2)
Increase in provisions	**4.4**	2.8
Increase in derivative financial instruments	**–**	(0.1)
Cash generated from operations	**39.9**	37.1
Interest paid	**(3.0)**	(2.9)
Defined benefit scheme contributions	**(2.7)**	(2.1)
Tax received	**0.4**	0.3
Net cash inflow from operating activities	**34.6**	32.4
Cash flows from investing activities		
Purchases of property, plant and equipment	**(22.7)**	(20.9)
Purchases of intangible assets	**(0.9)**	(1.3)
Interest received	**0.4**	0.2
Purchase of equity investment	**(0.2)**	–
Net cash outflow from investing activities	**(23.4)**	(22.0)
Cash flows from financing activities		
Proceeds from issues of ordinary share capital	**0.7**	0.5
Purchase of own shares	**(1.8)**	(2.2)
Equity dividends paid to shareholders	**(10.4)**	(10.1)
Proceeds from new bank funding	**143.2**	15.6
Repayment of amounts borrowed	**(149.1)**	(12.7)
Upfront loan facility fees	**(1.7)**	–
Net cash used in financing activities	**(19.1)**	(8.9)
Net (decrease) / increase in cash and cash equivalents	**(7.9)**	1.5
Effects of exchange rate changes	**–**	0.5
Cash and cash equivalents at start of year	**21.4**	19.4
Cash and cash equivalents at end of year	**13.5**	21.4

Consolidated Statement of Changes in Shareholders' Equity

	Attributable to owners of the parent				
	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Total equity £m
Balance at 1 May 2017	**4.9**	**138.0**	**63.3**	**5.9**	**212.1**
Profit for the financial year	–	–	16.1	–	16.1
Other comprehensive income/(loss):					
Net exchange movements on translation of foreign subsidiaries	–	–	–	4.4	4.4
Actuarial gain on defined benefit pension scheme	–	–	29.2	–	29.2
Tax on amounts taken directly to equity	–	–	(5.0)	–	(5.0)
Total comprehensive income	–	–	40.3	4.4	44.7
Transactions with owners:					
Recognition of share-based payments	–	–	1.1	–	1.1
Movement in tax arising on share-based payments	–	–	0.2	–	0.2
Proceeds from exercise of employee options	–	0.5	–	–	0.5
Consideration paid for purchase of own shares (held in trust)	–	–	(2.2)	–	(2.2)
Equity dividends	–	–	(10.1)	–	(10.1)
	–	0.5	(11.0)	–	(10.5)
Balance at 30 April 2018	**4.9**	**138.5**	**92.6**	**10.3**	**246.3**
Profit for the financial year	**–**	**–**	**10.5**	**–**	**10.5**
Other comprehensive income/(loss):					
Net exchange movements on translation of foreign subsidiaries	**–**	**–**	**–**	**(2.2)**	**(2.2)**
Actuarial loss on defined benefit pension scheme	**–**	**–**	**(6.5)**	**–**	**(6.5)**
Tax on amounts taken directly to equity	**–**	**–**	**1.1**	**–**	**1.1**
Total comprehensive income	**–**	**–**	**5.1**	**(2.2)**	**2.9**
Transactions with owners:					
Recognition of share-based payments	**–**	**–**	**0.7**	**–**	**0.7**
Movement in tax arising on share-based payments	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Proceeds from exercise of employee options	**–**	**0.7**	**–**	**–**	**0.7**
Consideration paid for purchase of own shares (held in trust)	**–**	**–**	**(1.8)**	**–**	**(1.8)**
Equity dividends	**–**	**–**	**(10.4)**	**–**	**(10.4)**
	–	**0.7**	**(11.7)**	**–**	**(11.0)**
Balance at 30 April 2019	**4.9**	**139.2**	**86.0**	**8.1**	**238.2**

Notes to the consolidated financial statements

General Information

Consort Medical plc is a public limited company incorporated and domiciled under the law of England and Wales, registered number 406711. The address of its registered office is Suite B, Breakspear Park, Breakspear Way, Hemel Hempstead, HP2 4TZ. The Company is listed on the London Stock Exchange.

1. Presentation of the financial statements

The financial information set out in this preliminary announcement does not constitute Consort Medical plc's statutory financial statements for the years ended 30 April 2019 and 30 April 2018, but is derived from those financial statements. Statutory financial statements for the year ended 30 April 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. Statutory financial statements for the year ended 30 April 2018 have been delivered to the Registrar of Companies. The Auditor has reported on those financial statements; their reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This preliminary announcement has been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board (IASB) and by the EU (Adopted IFRS).

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 applicable to those companies reporting under IFRS, Article 4 of the IAS Regulation and International Accounting Standards and International Financial Reporting Standards (collectively referred to as IFRS) and related interpretations, as adopted for use in the European Union in all cases.

Accounting convention

The financial statements have been prepared using the historical cost convention, as modified by certain financial assets and financial liabilities (including derivative instruments) at fair value. The specific accounting policies adopted, which have been approved by the Board and which have been applied consistently in all years presented except as detailed below, are as described in the statutory financial statements for the year ended 30 April 2018.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operation for the foreseeable future and to meet their obligations as they fall due. As at 30 April 2019 the Group reported net debt of £97.4m (30 April 2018: £95.5m) comprising £110.9m gross debt and £13.5m cash, which compared with committed banking facilities of £200m, leaving £89.1m of headroom undrawn. The Group's primary committed financing facility is available to October 2023. Accordingly these financial statements have been prepared on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant notes included in the consolidated financial statements. Management discusses with the Audit Committee the development, selection, application and disclosure of the Group's critical accounting policies and estimates.

Alternative Performance Measures and the treatment of special items

In addition to statutory measures, a number of alternative performance measures (APMs) are included in this preliminary announcement to assist investors in gaining a clearer understanding and balanced view of the Group's underlying performance and in the comparison with performance across the industry. These measures are consistent with how business performance is measured internally.

The APMs used include operating profit (EBIT), profit before tax (PBT) and earnings per share, adjusted to eliminate special items, being the amortisation of acquired intangibles and other significant one-off items not linked to the underlying performance of the business, and free cash flow after special items. Further, underlying constant exchange rate measures are given which eliminate the impact of currency movements by comparing the current year measure against the comparative restated at this year's actual average exchange rates. Where APMs are given, these are compared to the equivalent measures in the prior year.

The APM of EBITDA includes the add-back of interest, tax, depreciation, amortisation and any profit or loss on disposal of property, plant and equipment to operating profit before special items (EBIT). Further detail on the special items in the year can be found in note 3.

Reconciliation of statutory measures to Alternative Performance Measures

	2019	2018
	£m	£m
Profit before tax	**12.5**	17.3
Add back: net finance costs	**3.1**	4.5
Operating profit	**15.6**	21.8
Add back: Special items	**25.7**	20.9
Operating profit before special items (EBIT)	**41.3**	42.7
Depreciation	**13.3**	13.1
Amortisation	**11.3**	12.5
Less: Amortisation of acquired intangibles	**(10.8)**	(12.1)
Loss on disposal of property, plant and equipment	**0.1**	0.2
EBITDA before special items	**55.2**	56.4

Profit before tax	**12.5**	17.3
Add back: net finance costs	**3.1**	4.5
Operating profit	**15.6**	21.8
Add back: Special items	**25.7**	20.9
Operating profit before special items (EBIT)	**41.3**	42.7
Finance income	**0.4**	0.2
Finance costs	**(3.7)**	(3.2)
Other finance costs	**0.2**	(1.5)
Profit before tax and special items	**38.2**	38.2

Cash generated from operations	**39.9**	37.1
Net interest paid	**(2.6)**	(2.7)
Tax received	**0.4**	0.3
Capital expenditure	**(23.6)**	(22.2)
Free cash flow	**14.1**	12.5

At constant exchange rates (CER) – FY2018 restated at the FY2019 average rate:

	Reported 2018 £m	CER 2018 £m
Revenue	**311.1**	310.5
Operating profit before special items	**42.7**	42.6

Adoption of new and revised standards

The following standards and amendments have been applied for the first time during the year commencing 1 May 2018 but do not have a material impact on the Group:

- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS standards (2014 - 2016 cycle) - Amendments to IFRS 1 and IAS 28

IFRS 16 – Leases was issued in January 2016 and will be adopted by the Group effective 1 May 2019. The standard provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all operating leases unless the term is 12 months or less or the underlying asset has a low value. Going forward, a straight-line depreciation expense will be recognised in relation to the right-of-use assets and an amortising interest charge in relation to the lease liabilities will be recognised in the consolidated income statement. The interest charge will be higher in the earlier periods of a lease as the interest element unwinds. This will replace the operating lease expense currently recognised in the income statement under IAS 17.

The Group performed a review of leases held at the reporting date, and used the modified retrospective transition approach detailed in the standard to understand and quantify how the new accounting model may affect the Group's financial results. As a result of this review, the Group expects to recognise lease liabilities of approximately £7.0m on 1 May 2019, representing total cash commitments under operating leases discounted to present value and right-of-use assets of the equivalent value of approximately £7.0m. No adjustment to equity is expected on transition and comparative results will not require restatement. The approach to lessor accounting is substantially unchanged from the predecessor standard, IAS 17.

IFRS 9 – Financial Instruments is effective for accounting periods beginning on or after 1 January 2018 and replaces existing accounting standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces the new rules for hedge accounting, a new impairment model for financial assets and early recognition of expected credit losses. The Group adopted IFRS 9 on 1 May 2018 which had no financial impact on either the current or comparative period.

The Group is not involved with complex financial instruments, nor has any history of material credit losses. As such, the only impact of adoption has been on disclosures. The Group has determined that the application of IFRS 9 on 1 May 2018 has not had a material effect on the financial statements for the year ended 30 April 2019 and has therefore not restated comparative information for prior periods.

IFRS 15 – Revenue from Contracts with Customers was issued in May 2014 and has been adopted by the Group effective 1 May 2018 using the cumulative effect approach. The standard provides a single, principles-based approach to the recognition of revenue from all contracts with customers.

Under IFRS 15 the Group recognises revenue as performance obligations to deliver products or services are satisfied, and revenue is recorded based on the amount of consideration expected to be received in exchange for satisfying those performance obligations. The Group does not have contracts whose payment terms exceed one year, therefore no adjustment is required for contracts containing a significant financing component.

The Group undertook a detailed impact assessment of the impact of IFRS 15 on its revenues from products and services. The Group has determined that the application of IFRS 15 on 1 May 2018 has not had a material effect on the financial statements for the year ended 30 April 2019 and has therefore not restated comparative information for prior periods.

The following accounting standards relevant to the Group have not been early adopted:

- IFRS 16 - Leases
- IFRIC 23 – Uncertainty over Income Tax Treatments

2. Segmental Information

The Group's operating segments are determined with reference to the information which is supplied to the Executive Committee in order for it to allocate the Group's resources and to monitor the performance of the Group. This information analyses the Group between its two divisions, Bespak and Aesica. The Executive Committee assesses the performance of the operating segments based on a measure of adjusted operating profit which excludes the impact of special items from the operating segments. Special items are analysed in note 3.

The segment information provided to the Executive Committee for both of these reportable segments is as follows:

For the year ended 30 April 2019	Bespak £m	Aesica £m	Unallocated £m	Total £m
Revenue from products	118.2	161.1	–	279.3
Revenue from services	8.0	17.8	–	25.8
Revenue by business segment	**126.2**	**178.9**	**–**	**305.1**
Segment operating profit before special items	**25.6**	**15.7**	**–**	**41.3**
Special items excluding amortisation of acquired intangibles (note 3)	(0.7)	(14.2)	–	(14.9)
Amortisation of acquired intangibles (note 3)	(0.8)	(10.0)	–	(10.8)
Segment operating profit / (loss)	**24.1**	**(8.5)**	**–**	**15.6**
Finance income				0.4
Finance costs (note 4)				(3.7)
Other finance costs (note 4)				0.2
Profit before tax				**12.5**
Taxation (note 5)				(2.0)
Profit for the financial year				**10.5**
Segmental balance sheet				
Total assets	143.6	302.4	19.6	465.6
Total liabilities	(42.0)	(71.4)	(114.0)	(227.4)
Net assets	**101.6**	**231.0**	**(94.4)**	**238.2**

For the year ended 30 April 2018	Bespak £m	Aesica £m	Unallocated £m	Total £m
Revenue from products	118.5	171.8	–	290.3
Revenue from services	8.4	12.4	–	20.8
Revenue by business segment	**126.9**	**184.2**	**–**	**311.1**
Segment operating profit before special items	**26.5**	**16.2**	**–**	**42.7**
Special items excluding amortisation of acquired intangibles (note 3)	(5.6)	(3.2)	–	(8.8)
Amortisation of acquired intangibles (note 3)	(0.8)	(11.3)	–	(12.1)
Segment operating profit	**20.1**	**1.7**	**–**	**21.8**
Finance income				0.2
Finance costs (note 4)				(3.2)
Other finance costs (note 4)				(1.5)
Profit before tax				**17.3**
Taxation (note 5)				(1.2)
Profit for the financial year				**16.1**
Segmental balance sheet				
Total assets	147.4	300.6	24.1	472.1
Total liabilities	(39.4)	(64.9)	(121.5)	(225.8)
Net assets	**108.0**	**235.7**	**(97.4)**	**246.3**

The Group's operations are based in the United Kingdom and Europe.

Revenue by destination	2019 £m	2018 £m
Europe	**210.8**	201.3
United States of America	**31.1**	48.0
United Kingdom	**23.3**	28.7
Rest of the World	**39.9**	33.1
Total revenue	**305.1**	311.1

The following table provide further information on the Group's related contract assets and liabilities:

	2019 £m	2018 £m
Contract assets	**5.8**	6.2
Contract liabilities	**8.1**	13.0

3. Special items

To improve the understanding of the Group's financial performance the following items, which do not reflect underlying performance, are classified as special items:

	2019	2018
	£m	£m
Amortisation of acquired intangibles	**(10.8)**	(12.1)
Reorganisation costs	**(10.0)**	(4.6)
Impairment of assets and inventory	**(4.4)**	(4.2)
Pension charges	**(0.5)**	–
Special items before taxation	**(25.7)**	(20.9)
Tax on special items	**5.5**	4.6
Special tax item – recognition of capital losses	**(0.4)**	–
Special tax item — deferred tax credit as a result of reduced overseas tax rates	**–**	0.8
Special items after taxation	**(20.6)**	(15.5)

- Amortisation of acquired intangibles represents the charge in relation to Aesica (acquired in 2014) of £10.0m (FY2018: £11.3m) and £0.8m (FY2018: £0.8m) in relation to The Medical House (acquired in 2009).

- Reorganisation costs of £10.0m (FY2018 £4.6m) include costs associated with closure and decommissioning of the API plant at Queenborough.

- Impairment of assets and inventory of £4.4m (FY2018: £4.2m) relates to a write-down of the carrying values of assets associated with the closure of the API plant at Queenborough.

- Pension charges relate to the one-off true-up of the UK's defined benefit pension liabilities as a result of the High Court ruling handed down on 26 October 2018 requiring the equalisation of male and female Guaranteed Minimum Pension (GMP) entitlement.

- A special tax item of £0.4m (FY2018: £nil) was recognised relating to a reduction in capital losses claimable in relation to Aesica assets.

- The prior year special tax item related to the recalculation of the Group's deferred tax assets and liabilities using lower overseas corporate tax rates.

4. Finance costs

	2019	2018
	£m	£m
Interest on bank overdrafts and loans plus amortised fees	**(3.7)**	(3.2)
Finance costs	**(3.7)**	(3.2)

Other finance costs

	2019	2018
	£m	£m
Net interest cost on defined benefit schemes (note 10)	**(0.3)**	(1.1)
Foreign exchange gains / (losses)	**0.5**	(0.4)
Other finance costs	**0.2**	(1.5)

5. Taxation

The major components of the income tax charge are:

	2019 £m	2018 £m
UK corporation tax	**0.5**	0.9
Foreign tax	**4.0**	3.2
Deferred tax	**(2.5)**	(2.9)
Income tax charge reported in the consolidated income statement	**2.0**	1.2

The tax charge is analysed between:		
Tax on profit before special items	**7.1**	6.6
Tax on special items	**(5.5)**	(4.6)
Special tax item – recognition of capital losses	**0.4**	–
Special tax item – deferred tax credit as a result of reduced overseas tax rates	**–**	(0.8)
Income tax charge reported in the consolidated income statement	**2.0**	1.2

Special tax items above are described further in note 3.

6. Earnings per share

	2019 £m	2018 £m
Earnings - basic and diluted:		
Profit for the year – attributable to ordinary shareholders	**10.5**	16.1
Add back: Special items after taxation (note 3)	**20.6**	15.5
Adjusted earnings	**31.1**	31.6

	2019 Number	2018 Number
Number of shares		
Weighted average number of ordinary shares in issue	**49,336,016**	49,257,383
Weighted average number of shares owned by Employee Share Ownership Trust	**(290,695)**	(300,069)
Average number of ordinary shares in issue for basic earnings	**49,045,321**	48,957,314
Dilutive impact of share options outstanding	**402,356**	390,802
Diluted weighted average number of ordinary shares in issue	**49,447,677**	49,348,116

	2019 Pence	2018 Pence
Earnings per share		
Basic:		
Adjusted	**63.4**	64.5
Unadjusted	**21.3**	32.9
Diluted:		
Adjusted	**62.8**	63.9
Unadjusted	**21.2**	32.7

No options over ordinary shares have been exercised since 30 April 2019 to the date of this announcement.

7. Dividends

Dividends declared and paid during the year:

	2019 £m	2018 £m
Final dividend for FY2018 of 13.56p per share (FY2018: final dividend for FY2017 of 13.21p per share)	6.7	6.5
Interim dividend paid in FY2019 of 7.60p per share (FY2018: 7.44p)	3.7	3.6
	10.4	10.1

In addition, the directors are proposing a final dividend in respect of the year ended 30 April 2019 of 13.8p per share, at an estimated total cost of £6.8m. If approved by shareholders at the Annual General Meeting to be held on 11 September 2019, the final dividend will be paid on 25 October 2019 to shareholders on the register on 20 September 2019.

8. Capital expenditure

In the year, there were additions to property, plant and equipment of £23.1m (2018: £20.4m).
Capital commitments contracted for but not provided for by the Group amounted to £8.4m (2018: £11.6m).

9. Net debt

	2019 £m	2018 £m
Current assets:		
Cash and cash equivalents	**13.5**	21.4
	13.5	21.4
Borrowings:		
Interest bearing loans and borrowings	**(110.9)**	(117.3)
Unamortised facility fees	**–**	0.4
Net borrowings	**(110.9)**	(116.9)
Net debt	**(97.4)**	(95.5)

On 9 October 2018 the Group entered into a £200m multicurrency revolving credit facility with an £80m accordion feature. The facility is for a 5 year period which matures in October 2023, with options for two one-year extensions by mutual consent and is subject to covenant testing at certain reporting periods. The Group also has uncommitted overdraft facilities of £4.5m and £1.1m which are in place until November 2019 and October 2023 respectively.

Interest on the revolving credit facility is charged at LIBOR plus a margin depending upon the ratio of net debt to EBITDA and on UK overdrafts at either a fixed margin above UK base rate or at the prevailing rate per the revolving credit facility.

The undrawn facilities are unsecured. The bank loans and overdrafts are subject to cross-guarantees between Group undertakings.

Reconciliation of net cash flow to movement in net debt

	2019	2018
	£m	£m
Net debt at the beginning of the year	**(95.5)**	(92.6)
Net decrease in cash and short-term borrowings	**(2.0)**	(1.3)
Effects of exchange rate changes	**0.5**	(1.1)
Amortisation of facility fees	**(0.4)**	(0.5)
Net debt at the end of the year	**(97.4)**	(95.5)

10. Defined benefit pension schemes deficit

	2019	2018
	£m	£m
Pension deficit at start of the year	**14.7**	44.6
Past service cost	**0.5**	-
Current service cost	**0.1**	0.1
Interest income	**(3.0)**	(2.9)
Interest expense	**3.3**	4.0
Return on scheme assets (excluding amounts included within interest)	**(6.3)**	1.1
Effect of demographic adjustments	**1.2**	(9.2)
Loss / (gain) from change in financial assumptions	**11.6**	(12.3)
Effect of experience adjustments	**–**	(8.8)
Contributions	**(2.7)**	(2.1)
Effects of foreign exchange rates	**(0.2)**	0.2
Pension deficit at end of the year	**19.2**	14.7