FINANCIAL REVIEW

"The Group has reduced Net debt, increased EBITDA, and reduced gearing to below 2.0× Net debt to EBITDA"

Richard Cotton

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Consort has again delivered strong financial performance in FY2016, as material organic revenue growth produced significant operating leverage and EBIT growth, with margin expansion in both businesses. The Group has reduced Net debt whilst continuing its elevated level of capital expenditure to support future development pipeline opportunities, and coupled with growth in EBITDA has reduced its Net debt to EBITDA covenant to below 2.0×, as predicted and to the schedule given at the time of the Aesica acquisition.

Income Statement

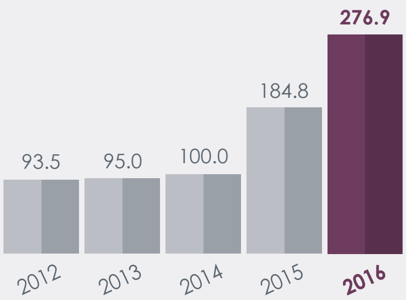
Group revenue grew by £92.1m (49.8%) to £276.9m (FY2015: £184.8m), from organic growth in Bespak and from organic and acquisition growth in Aesica. EBIT before special items increased by £11.9m (47.6%) to £37.0m (FY2015: £25.1m), from organic volume and productivity growth in both businesses, with EBIT margin of 13.4% (FY2015: 13.6%).

Further analysis of Bespak and Aesica Revenue, EBITDA, EBIT and margins is provided in the Business Reviews within the Chief Executive's Review.

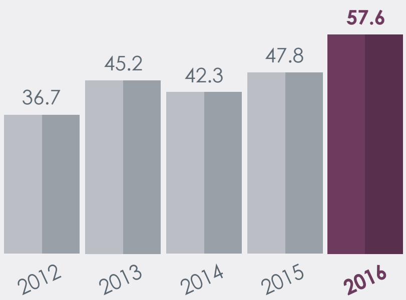
With a full year of utilisation of the Group's borrowing facilities following the acquisition of Aesica in November 2014 (about halfway through FY2015), Finance costs increased to £4.7m (FY2015: £2.4m). The net effect of the increased EBIT and the increased Finance costs was an increase in Earnings before tax before special items of £9.6m (42.2%) to £32.3m (FY2015: £22.7m).

Earnings before tax after special items also increased by £5.7m (104%) to £11.2m (FY2015: £5.5m). Earnings after tax before special items increased 44.6% to £28.1m (FY2015: £19.4m). Adjusted basic EPS increased by 20.5% to 57.6p per share (FY2015: 47.8p). Basic unadjusted EPS increased by 152.2% to 30.7p per share (FY2015: 12.2p) (See note 11).

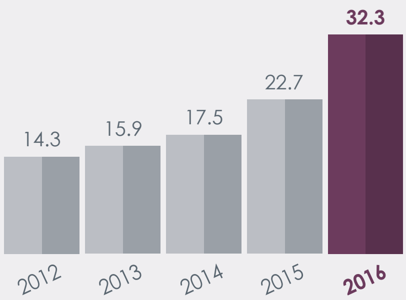
Revenue
£m



Adjusted Earnings Per Share
Pence



Profit before Tax and Specials
£m



Taxation

The tax charge before special items was £4.2m (FY2015: £3.3m) resulting in an effective rate of 13.0% (FY2015: 14.4%). The tax credit on special items was £8.9m (FY2015: tax credit £4.0m). The total tax credit was £4.7m (FY2015: tax credit £0.7m) (See note 10).

Following the introduction in 2013 of the Research and Development Expenditure Credit (RDEC), the Group has realised an R&D tax credit of £2.4m in the year which was recognised through EBIT in the period, benefiting 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. The benefit in the year was £1.2m in its cash tax (FY2015: £1.1m).

The Group's effective tax rate (ETR) has fallen from 14.4% to 13.0%. This has been contributed to by a combination of factors, including the Patent Box, prior year tax adjustments, increased capital allowances, utilisation of brought forward losses in The Medical House. Some of the prior year tax adjustments and utilisation of brought forward losses are not expected to repeat in FY2017, and the ETR is expected to increase to c.18%, subject to the mix of Bespak sales (IP and non IP protected), and the mix of the Aesica sales 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 where available in the jurisdictions within which it operates. The Group continues to be rated low risk by HMRC.

Dividend

The Board has reviewed the dividend and is proposing an increased final dividend of 12.56p (FY2015: 11.68p), making a total dividend for the year of 19.31p (FY2015: 18.11p). The dividend will be paid on 21 October 2016 to shareholders on the register at 23 September 2016, following our AGM on 7 September 2016. The shares will go ex dividend on 22 September 2016. Dividend cover, based on earnings before special items, was 3.0 times (FY2015: 2.6 times) (See note 12).

Special Items from Continuing Operations

Special items are those items which the Group considers to be non-repetitive or are not a part of the underlying performance of the business, and often where a material income statement cost or credit is incurred in one year to deliver a future benefit. In FY2016, special items amounted to £21.0m (FY2015: £17.2m). This comprises Amortisation of Intangibles of £13.1m, Aesica integration reorganisation of £6.5m, advisory and acquisition costs of £1.4m (See note 6).

Discontinued Operations

On 15 February 2013, Consort completed the sale of King Systems to Ambu A/S, the results of which are reported within discontinued operations. At the time of sale, contingent consideration mechanisms were agreed as a central element of the value realisation from the disposal. The first of these was a £5.9m (US$10.0m) lump sum payment upon the launch of the King Vision next generation blade. This was received in May 2014 following a successful product launch. Further amounts of US$2.3m and US$2.5m were received on 4 June 2014 and 18 June 2015 respectively, representing the amounts due in respect of the FY2014 and FY2015 King Vision sales.

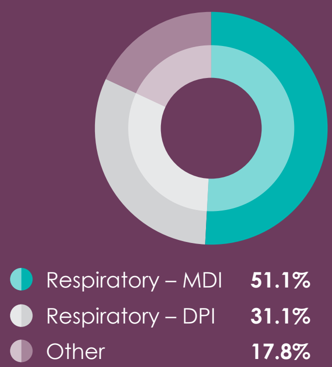
King Vision sales by Ambu in FY2016 were insufficient to trigger a further contingent consideration payment to Consort Medical. As the contingent consideration mechanisms of the disposal agreement have now expired, the remaining contingent consideration debtor balance of £1.0m has been charged to the income statement through Special items within Discontinued Operations.

Acquisition of Aesica

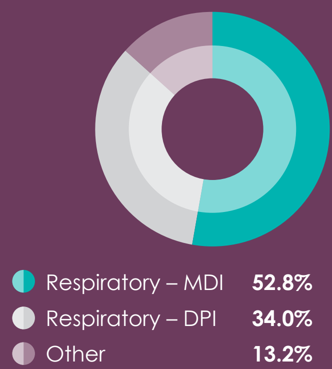
On 12 November 2014, the Group acquired the entire issued share capital of Aesica Holdco Ltd for £226.6m. The transaction was approved by shareholders on 16 October 2014.

Following the acquisition, an integration programme was initiated. The costs of this programme incurred in FY2015 were £1.9m and were charged as Special items in that year. Further integration programme costs of c.£7.7m were anticipated at 16 June 2015 in relation to integration actions announced since 30 April 2015. These actions have been completed on schedule at a cost of only £6.5m, which has been charged to special items in the period.

Bespak Revenue by Product Type 2016



Bespak Revenue by Product Type 2015



FINANCIAL REVIEW
CONTINUED

BESPAK EBIT GREW
20.4%

During the year ended 30 April 2016, the Group completed the initial accounting for the acquisition as disclosed in the 30 April 2015 annual report and accounts. The goodwill balance as at 30 April 2016 in relation to Aesica is £106.8m (FY2015 restated: £101.9m). This resulted in retrospective adjustments to the provisional fair values of the identifiable assets acquired and liabilities assumed as at the date of acquisition as at 30 April 2015. The significant adjustments to fair values made in the year are as follows:

- Property, plant and equipment — decrease of £5.7m as a result of concluding a detailed review and valuation exercise
- Trade receivables — decrease of £1.3m to increase provisions against old debtor balances and credit notes
- Accruals, deferred income, provisions and other payables — decrease of £1.0m mainly as a result of new information obtained which reflects circumstances in existence at the acquisition date
- Current tax — decrease of £1.6m to record additional provisions
- Deferred tax — increase of £2.1m on the non-tax related opening balance sheet adjustments above
- Deferred tax — since 31 October 2015, a deferred tax asset of £1.9m has been recognised, as the amount of spend treated as qualifying for capital allowances has been reduced by customer contributions in Aesica which were received pre-acquisition. The impact of this change has been to decrease goodwill by the same amount.

Investment in Atlas Genetics Ltd

Consort has invested a total of £6.3m in Atlas Genetics Ltd, as set out in note 16 to the financial statements. The other equity partners include Novartis Venture Funds, Johnson & Johnson Development Corporation, Life Science Partners and BB Biotech Ventures, and RMI Partners (See note 16).

Substantial progress has been made in the last year in the POC card development — in conjunction with Bespak who separately provides development and manufacturing services to Atlas — and with the development of the card reader and assay tests. On 8 February 2016 Atlas announced that it had received approval to CE Mark its Chlamydia trachomatis (CT) test to be launched on the Company's io® platform. By meeting the requirements of the IVD Directive (98/79/EC), the CT test is now cleared for sale within the European Union. More information about Atlas Genetics is available via their website www.atlasgenetics.com.

The Group will continue to account for Atlas as an equity investment in the accounts of Consort.

Investment in Precision Ocular Ltd

On 22 February 2016, Consort subscribed to an equity financing completed by Precision Ocular, a retinal therapeutics company. The financing will raise a total of £13.5m. Investors included Imperial Innovations, Hovione, NeoMed and Consort. Of the £13.5m equity raise, Consort's investment is expected to be a total of £3.3m, of which the first tranche was £2.0m, giving the Group a 12.2% shareholding. The second tranche of £1.3m — which is subject to certain conditions — will take Consort's overall shareholding to13.7%. Consort also has a Board seat at Precision Ocular.

Separately, the Group entered into a strategic development and manufacturing agreement with Precision Ocular. The agreement will leverage both Bespak's device development and manufacturing capability, as well as Aesica's manufacturing and filling capabilities on Precision Ocular's novel ocular drug products and drug delivery system.

The Group will account for Precision Ocular as an equity investment in the accounts of Consort.

Balance Sheet

The Group has Net debt of £97.0m at the year end (FY2015: Net debt £99.2m). At 30 April 2016 it had drawn £114.5m of its committed revolving credit facility, leaving undrawn facilities of £46.6m. In addition, it has a further £65.0m available under the accordion facility. Gross assets were £445.8m (FY2015 restated: £468.8m). The pension deficit increased to £27.2m (FY2015: £21.1m) and is reviewed separately below. Provisions at 30 April 2016 were £6.2m (30 April 2015 restated: £5.9m).

Cash Flow, Financing and Liquidity[1]

Cash generated from operations increased by £25.7m to £54.1m (FY2015: £28.4m). EBITDA before special items increased by £15.1m (45.3%) to £48.3m (FY2015: £33.2m). Working capital[2] decreased by £20.2m to £14.0m (FY2015: £34.1m).

Capital expenditure of £21.5m (FY2015: £20.7m) was higher than the previous year as Bespak continued to make significant planned investments in facilities and production capacity to fulfil its development pipeline contracts, and a full year of capital expenditure in Aesica.

As part of the acquisition of Aesica Holdco Limited, the Group created a new bank facility and cancelled the previous facility with Royal Bank of Scotland (RBS) and HSBC. The current facility is a £160m five-year multi-currency revolving credit facility with Barclays, Lloyds, RBS and Santander. The facility expires in September 2019. Margins are between 1.25% and 2.2% over LIBOR depending upon the ratio of Net debt to EBITDA prevailing at the time. A non-utilisation fee of 40% of the interest margin on the undrawn balance applies.

The facility has two covenants: Net debt to EBITDA less than 3.0× in April 2016; and Interest Cover over EBITDA being greater than three times. The Group remains comfortably within both its headroom and its covenants at 30 April 2016: Net debt to EBITDA was at 1.92, and Interest Cover was 13.8 times.

Under the terms of the refinancing, the Group also has a £65m "accordion" facility, by which further facilities may be made available by the participating banks under the current terms to support significant investment or acquisition opportunities which may arise.

The Group maintains levels of Sterling cash sufficient to meet imminent obligations and to be a reserve in case of an adverse event. These funds are invested with a range of reputable financial institutions approved by the Board.

Whilst the multi-year revolving committed credit facility does not expire for more than three years, the debt within this is disclosed as less than one year on the balance sheet, as it is drawn for one-month periods, and then redrawn as appropriate to minimise the amount of debt drawn relative to the Group's needs to minimise the interest payable, as assumed in its Viability statement considerations (See note 23).

Foreign Currency Exposure

The Group monitors its foreign currency exposures carefully and seeks to mitigate all material transactional exposures. Bespak currently has low exposure to movements in the Euro and US dollar. Aesica has wider exposure to the Euro. Where appropriate we buy or sell forward currency to protect transaction 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 €1c change in the Euro: GBP exchange rate impacts revenue by £0.6m and EBIT by £0.1m.

Pensions

The IAS19 pension valuation at 30 April 2016 was a total deficit of £27.2m (30 April 2015: £21.1m). 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. During the period, the Group carried out consultations with the Trustees and active members of the Scheme on a proposal to close it to further accrual. Following the consultations, the Scheme was closed with effect from 31 March 2016 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 (See note 21). The costs of the professional services to support the closure have been charged to Special items.

As at 30 April 2016, the Bespak IAS 19 deficit was £23.4m compared with £17.8m as at 30 April 2015. The movement was primarily as a result of lower return on plan assets. The last triennial actuarial valuation of the pension scheme was at 30 April 2014; in September 2015, the Company and the Trustees agreed the actuarial valuation at a deficit of £13.8m. As part of that agreement, the Company agreed to make deficit recovery contributions at the rate of £1.5m per annum until 2028. Since the last triennial valuation, prevailing discount rates have worsened further, and it is expected that this in particular may have a material effect on the updated valuation.

Aesica Schemes

Aesica operates a number of different pension schemes, which are outlined in note 21 to the accounts including defined benefit schemes in Italy and Germany with a net IAS 19 deficit of £3.8m (See note 21).

Risk Management

The Group considers effective risk management to be a high priority. We are pleased to report that the Group incurred no material financial or business losses in the period.

Richard Cotton
Chief Financial Officer

Notes:
[1] Cash flow performance metrics are before any cash paid relating to special items.
[2] Working capital is defined as the total of inventory, trade and other receivables and trade and other payables.