



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ODX
Price (p)	17.5
12m High (p)	21.0
12m Low (p)	13.3
Shares (m)	108.7
Mkt Cap (£m)	19.0
EV (£m)	17.6
Free Float*	81%
Market	AIM

*As defined by AIM Rule 26

Description

Omega Diagnostics Group is a medical diagnostics company involved in Food Intolerance, Allergy & Autoimmune, and Infectious Disease. It has an established core diagnostics business where the offering is being significantly expanded and is developing a point-of-care molecular diagnostics test for use in HIV that offers fast and accurate results.

Company information

CEO	Andrew Shepherd
CFO	Kieron Harbinson
Chairman	David Evans
	+44 1259 763 030
	www.omegadiagnostics.com

Key shareholders

Directors	5.8%
Legal & General	12.9%
Liontrust	8.0%
Octopus Invests.	6.1%
Mobeus Partners	6.0%

Next event

21-Nov	Interims
Jly-17	Finals

Analysts

Martin Hall	020 7148 1433	mh@hardmanandco.com
Dorothea Hill	020 7148 1433	dmh@hardmanandco.com
Gregoire Pave	020 7148 1434	gp@hardmanandco.com

Omega Diagnostics Group

Diagnosing growth opportunities

Omega Diagnostics Group has an established core business providing high quality *in vitro* diagnostic tests within three core areas of competence – Food Intolerance, Allergy & Autoimmune, Infectious Disease – that are sold in over 100 countries. The group offers steady low single-digit growth which is profitable and cash generative. Investment in new products has seen the launch of a new panel of automated allergy tests and progress on Visitect for diagnosis of HIV. Given Omega's established position, the Board sees opportunities for an accelerated growth strategy.

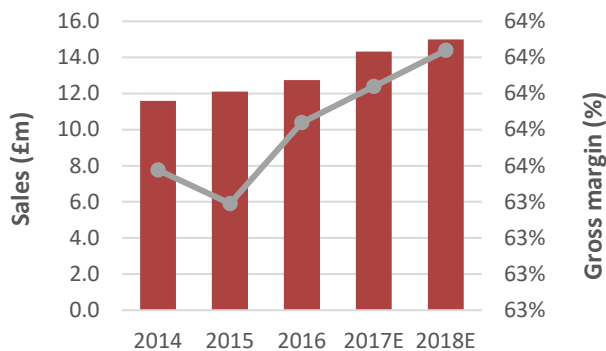
- **Strategy:** Omega's established core business of providing over 100 *in vitro* diagnostic tests to over 100 countries provides a steady, profitable and cash generative business. Global healthcare demand for preventative measures is generating a number of high growth opportunities.
- **New allergy tests:** Following considerable investment, Omega recently received CE Mark and launched a new panel of tests for 41 of the most common allergens to be run on Immunodiagnostics' IDS-iSYS platform. The first order has been received and plans are progressing to make these tests more widely available.
- **Visitect® CD4:** The cause of variability in the performance of the test appears to have been identified and corrected. The re-designed Visitect point-of-care HIV monitoring test has been re-validated in over 500 samples at 3 UK hospitals, with results comparable to the current gold-standard flow cytometry test.
- **Valuation:** Omega is being valued by the market as a steady low growth business. However, this does not reflect the potential that can be derived from the new products. The stock trades on an EV/sales of ca.1.2x which places it at the bottom end of a peer group. It also trades at a discount to NAV.
- **Investment summary:** Being an established player with a wide range of products available globally makes Omega an attractive company. Careful management and re-investment of resources is resulting in an exciting period of new product launches. However, the dilemma for management is deciding which opportunities for an accelerated growth strategy could be delivered from existing resources.

Financial summary and valuation

Year end March (£m)	2014	2015	2016	2017E	2018E
Sales	11.59	12.11	12.74	14.32	15.00
EBITDA	1.75	1.67	1.66	1.52	1.66
Underlying EBIT	1.07	1.35	1.34	1.18	1.30
Reported EBIT	0.94	0.67	0.67	0.51	0.63
Underlying PBT	1.08	1.36	1.33	1.17	1.28
Statutory PBT	0.96	0.68	0.66	0.50	0.61
Underlying EPS (p)	1.19	1.30	1.14	1.14	1.25
Statutory EPS (p)	0.99	0.05	0.93	0.52	0.63
Net (debt)/cash	2.37	1.42	0.89	0.13	-0.56
Capital increases	3.75	0.00	0.00	0.00	0.00
P/E (x)	14.8	13.5	15.3	15.4	14.0
EV/sales (x)	1.5	1.5	1.4	1.2	1.2

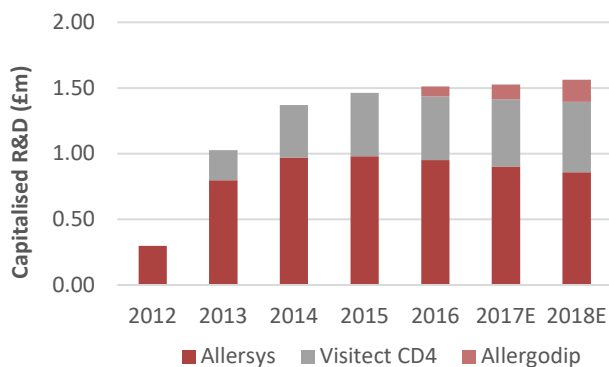
Source: Hardman & Co Life Sciences Research

Sales & Gross margin



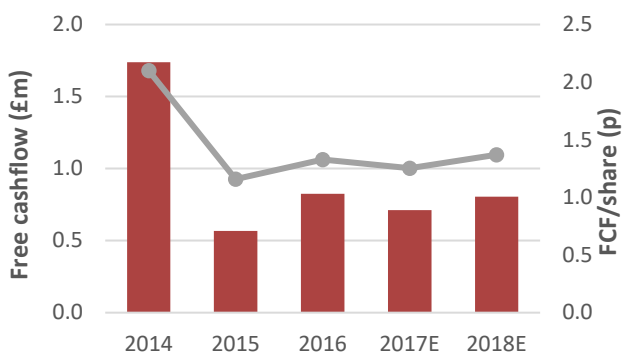
- ▶ Historically, sales have shown steady low-single digit growth; underlying forecasts are based on 3-5% growth
- ▶ Most sales are generated overseas, but many are invoiced in GBP; the EUR and USD are also important currencies
- ▶ Food Intolerance is the main segment – driven by EMEA, China, and latterly the Americas; Allergy main markets are Germany/Europe
- ▶ Gross margins have been rising modestly on an underlying basis, but forecasts have also benefited to a large extent on the weakness of sterling

Capitalised R&D investment



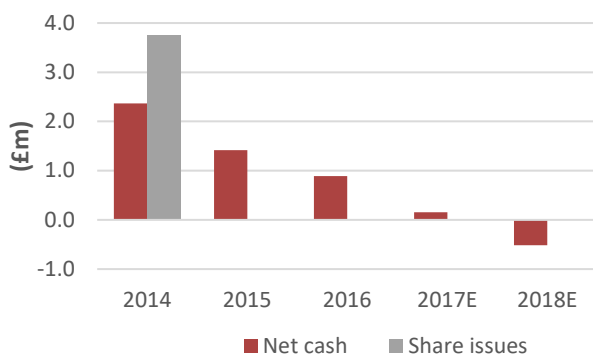
- ▶ Given that there is a reasonable probability of a commercial product, Omega capitalises R&D investment
- ▶ The level of R&D investment has been consistently around £1.5m per annum
- ▶ About two-thirds of R&D is spent on the new allergy panel, with most of the remainder on Vistect
- ▶ Given that the majority of R&D is performed in the UK, it is not sensitive to forex

Free cashflow



- ▶ Omega has been consistently cash generative from ongoing operations
- ▶ Cash generated from core businesses has been re-invested into future product development
- ▶ Cash generation in the forecast period (2017-2018) has been boosted by the weakness in sterling

Net cash



- ▶ At the end of March 2016, Omega had cash of £1.3m, offset by long and short-term loans of £0.4m
- ▶ Cash generated from operations has been used for investment into new product development
- ▶ Omega has not made any demands on shareholders in recent years; last funding round was in 2013 (fiscal 2014)
- ▶ A strategic move to an accelerated growth model may require more working capital

Source: Company data; Hardman & Co Life Sciences Research

1H'17 trading update

Sound core business with underlying sales growth of ca.3%...

CE Mark on 41 allergens was an important milestone

Omega has a sound core business which entered the current financial year in a good position with a robust order book. This statement was reinforced in the first half trading update provided on 17th October, with underlying sales growth of +3%. The company has identified a number of opportunities to accelerate the growth rate of these core businesses whilst maintaining investment into new products. During the first six months of fiscal 2017, Omega has made significant progress with its products of the future. CE Mark has been received for the first 41 allergens, for testing on the automated IDS-iSYS benchtop analyser (Immunodiagnosics), that will be branded under the Allersys test range. Also, the variability problems encountered with the point-of-care Visitect CD4 test are considered to have been resolved.

Key features

- ▶ **Sales:** Underlying sales have grown +3% to a reported £6.83m (£6.15m), with a particularly strong performance from Food Intolerance in North America

1H'17 sales performance				
Interims to September (£m)	1H'17	1H'16	*CER	Reported
Food Intolerance	3.84	3.34	+7%	+15%
Allergy/Autoimmune	1.76	1.59	-1%	+11%
Infectious Disease	1.23	1.22	-3%	+1%
Group sales	6.83	6.15	+3%	+11%

**Hardman & Co Life Sciences Research estimates
Source: Omega Diagnostics*

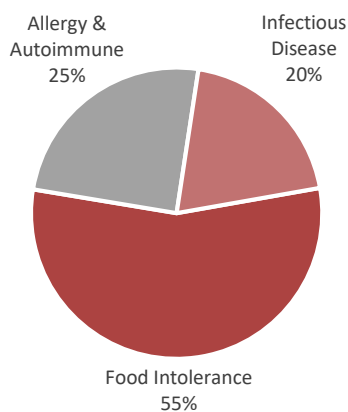
- ▶ **North America:** Continuing the trend of recent reporting periods, Omega has seen good growth in North America, particularly from its FoodPrint test for food intolerance. The addition of another potentially large customer augurs well for the future
- ▶ **Europe:** Sales in the first half were broadly flat, which is considered to be a good performance as it reverses the downward trend of the last 18 months caused by reimbursement pressures in Germany, a key market for the group
- ▶ **Allersys:** Following extensive testing, validation, and preparation of the technical files, Omega received CE Mark for its panel of 41 of the most common allergies to be run on Immunodiagnosics' IDS-iSYS automated benchtop analyser. An initial order has been received already and the company is working with IDS to make the tests more widely available
- ▶ **Visitect:** Each part of the test has now been fully characterised and the new design has produced reliable results over the operating range of 20-35°C, both in-house and externally. Comparable results to the current recognised gold standard have been achieved in samples from over 500 HIV-infected subjects across three centres
- ▶ **Pune:** The final factory inspection has taken place at Pune, India, and the facility has been recommended for a license from the Maharashtra State Government allowing commercial production. Stage 1 of the British Standards Institution (BSI) quality management system for ISO 9001:2008 and 13485:2012 has been undertaken, with Stage 2 assessment and a final external audit by BSI to take place in a matter of weeks. Omega is expecting to have malaria and pregnancy tests available for commercial sales in the current financial year

Re-designed test overcomes ambient temperature issues...

...and obtains comparable results

Core business segments

Business segments – 2016



Source: Omega Diagnostics

Omega Diagnostics has an established business that provides high quality *in vitro* diagnostic (IVD) tests for use in hospitals, specialist clinics, blood banks and laboratories. Tests are used in over 100 countries and address three main areas of competence – Food Intolerance, Allergy & Autoimmune, Infectious Disease – built on a reputation for quality, innovation and experience. The company is well positioned with traditional laboratory based tests, but is also addressing the increasing demand for point-of-care (POC) tests that can be performed at home or in remote areas where there are no laboratory facilities.

Core business segments

Food Intolerance	Allergy & Autoimmune	Infectious Disease
Genarrayt/Foodprint	Allergozyme	Immutrep syphilis
Food Detective	Allergodip	Micropath bacterial tests
CNS laboratory service	Genesis ELISA	Avitex latex serology tests
	Allersys	

Source: Omega Diagnostics reports

Food intolerance is differentiated from food allergy

Inability to process certain ingested foods properly...

...causing mostly gastrointestinal effects

Omega's tests detect IgG antibodies for foods to identify sensitivities

Food Intolerance

Traditional allergy is defined as a rapid and potentially serious response by the body to allergens. Classic symptoms include rash, itching and wheezing. Some of the most common causes are certain foods, including fish shellfish and nuts. Allergic reactions occur when the immune system produces IgE antibodies to 'fight off a particular allergen.

In contrast, food intolerance or sensitivity can be either an immune or non-immune response and is much more common than food allergy. In most cases, individuals are unable to process properly certain elements in ingested foods which affects their absorption from the digestive system.

Food intolerance/sensitivity is characterised by the slow or gradual response to a food with milder symptoms than allergy but usually involving gastrointestinal effects such as bloating, diarrhoea, nausea and vomiting, and in some cases, skin reactions. It is believed that many food intolerance/sensitivities are related to the antibody IgG.

Food intolerance can have a number of different, but often inter-related, causes:

- ▶ **Enzyme defects** – Enzymes are required to breakdown certain foods and their absence/short supply can mean that certain foods are not properly dealt with
- ▶ **Pharmacological** – Caffeine in tea and coffee; histamine in certain cheeses
- ▶ **Toxins** – e.g. chemicals in kidney beans when not cleaned and cooked properly
- ▶ **Chemicals** – Histamine (blue cheeses) and salicylates
- ▶ **Additives** – Artificial additives for colouring, preserving and processing foods

Omega manufactures tests for IgG antibodies to detect food intolerances. Various studies have demonstrated that symptoms can be reduced if foods producing high IgG levels are eliminated from the diet. The traditional exclusion method of detecting the food which could be responsible for symptoms is extremely time consuming and can be difficult to execute effectively due to many hidden ingredients in foods. By testing the patient for IgG antibodies the foods which have an elevated immune response can be easily identified and therefore targeted. This can reduce the overall time that elapses until symptoms are reduced.

A growth market...

...and the largest and most profitable segment for Omega

Food intolerance testing is a growing market and is the largest reporting segment for Omega, representing 55% of sales in 2016, with growth of 19%. In addition, the Food Intolerance business is profitable, with a trading margin of 35.2%, and cash generative. This is important as the cash being generated for the trading activities of this segment is used, in part, to fund the investment cash needs of the other two segments.

Omega has two products that dominate this reporting segment:

- ▶ **Genarrayt/FoodPrint** – high throughput laboratory test that detects the presence of IgG food specific antibodies to a wide range of foods

Genarrayt/FoodPrint accounts for approximately half the sales in this segment. It is based on microarray technology and offers significant benefits over traditional plate-based ELISA tests.

- ▶ **Food Detective** – point-of-care test for food IgG antibodies that can be performed in a doctor’s clinic or by the patient at home



Source: Omega Diagnostics, Hardman & Co Life Sciences Research

The Food Detective is a simple to use test that does not require any formal training. Results are usually available in about 40 minutes and there are no other products similar to this on the market.

Allergy & Autoimmune

In food allergy...some subjects have a profound reaction to certain substances/foods/insects

An allergy is the IgE-mediated response of the body’s immune system to normally harmless substances such as pollens, foods, and house dust mites. Whilst these substances pose no problem in most individuals, in some subjects the body has an adverse reaction to a particular food or substance in the environment. A substance that triggers such a response is called an allergen. Most substances that cause allergies are normally harmless to the human body and have no effect on the vast majority of people that are not allergic.

Common allergens	
Source	Comment
Grass, tree and ragweed pollen	Hay fever
Dust mites	Modern environment; use of air conditioning
Animal dander	Tiny flakes of skin or hair
Insects	Bee and wasp stings
Food allergy	Particularly nuts, shellfish and fruits

Source: World Allergy Organisation; Hardman & Co Life Sciences Research

Nearly 10% of all children have allergic rhinitis or a food allergy

Omega has extensive range of traditional allergy tests...

...but market pressures...

...mean that automated benchtop testing is the way forward

When 'allergy' was first described over 100 years ago, the incidence was extremely low, but over the subsequent 100 years it has built up dramatically, particularly in the industrialised world, where an estimated 8-9% of children up to the age of 18 have allergic rhinitis or are allergic to certain foods.

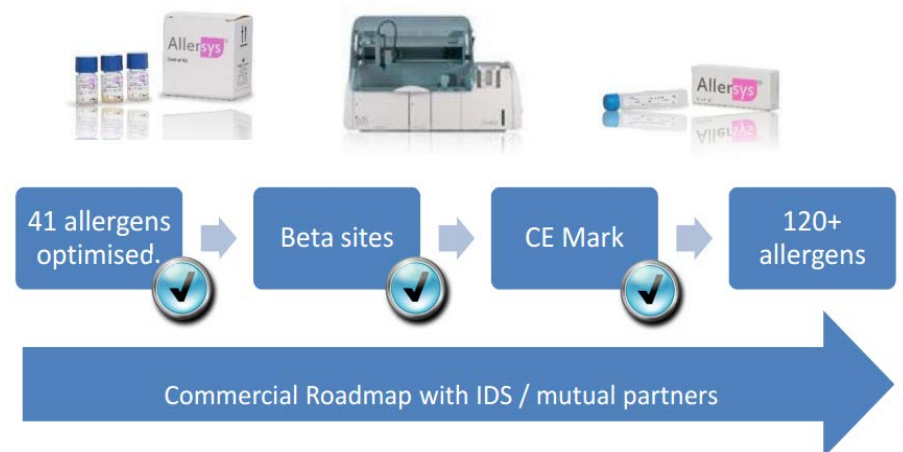
Slightly worrying is the statistic that, on a worldwide basis, in 50% of fatal allergic reactions there had been no previous record of an individual reacting; i.e. the allergic reaction was very severe and the person was unprepared for it.

Omega offers an extensive range of allergy tests covering over 600 allergens. Currently, its Allergozyme range of tests is available in Germany, Poland and Russia. Sales of these products were £3.2m in fiscal 2016, which, despite the increasing incidence of allergies, was modestly down on the sales level in 2015. This was due predominantly to a change in reimbursement rates in Germany, which is a key market for Omega.

Currently, the Omega offering is an ELISA-based test that is run on semi-automated equipment. Such tests are less competitive than those run in high throughput fully automated testing laboratories. In circumstances where physicians do perform allergy testing in the clinic, they tend to use manual tests, screening panels or point-of-care dip-stick tests. Therefore, Omega is being squeezed on both sides.

To overcome these pressures, Omega has been developing a panel of automated allergy tests, Allersys, in conjunction with the automated IDS-iSYS instrument from Immunodiagnosics (IDS.L).

IDS/Allersys automated system



Source: Omega Diagnostics; Hardman & Co Life Sciences Research

Receipt of CE Mark for the first 41 allergy tests is a major achievement...

Allersys

In its recent trading statement, Omega announced that it has received CE Mark for 41 of the most commonly tested allergens for use on Immunodiagnosics' automated IDS-iSYS system. Having been thoroughly tested in Germany, Spain, Italy and France, and with a full inventory of these allergen tests, the company has formally launched this initial panel of 41 tests and received its first purchase order. Discussions are at an advanced stage with IDS over the long-term supply of allergy tests on a wider basis.

...with the aim of increasing this to 120

Over the next three years, Omega's aim is to increase the number of optimised allergen tests to 120. To help fund this development programme, Omega announced recently that it had been awarded a £1.8m Scottish Enterprise research and development grant to accelerate this panel expansion.

Allergodip

To address the competition in the doctor's office/clinic, Omega is in the final stages of optimising the development of a point-of-care dipstick/panel test with the resulting semi-quantitative analysis being converted into a quantitative result *via* a mobile phone app. This technology not only addresses a market segment but also addresses the allergy testing market in developing countries that are still relatively immature compared to North America and Europe.

Infectious Disease

Omega currently offers a range of products for the screening and confirmation of infectious diseases.

- ▶ Syphilis – serological test for screening and confirmation
- ▶ Salmonella, brucella, ricketts – stained bacterial suspensions for detection, identification and quantification
- ▶ Latex serological tests
- ▶ Visitect range – A range of rapid diagnostic tests (RDT) that can be used in remote areas for the detection of malaria, syphilis, leptospirosis and Dengue fever
- ▶ Visitect CD4 under development – Point-of-care diagnostic test for monitoring the immune status of HIV-positive patients in remote areas

Sales of products for infectious diseases were £2.5m in fiscal 2016, down about 1%, and represented 20% of group sales. This segment makes an operating loss, as it is incurring development costs to increase the number of Point-of Care diagnostics.

Visitect® CD4

Inconsistency was caused by different operating temperatures

Omega encountered some difficulties with this promising test a couple of years ago, when field test results did not match those observed under laboratory conditions. This necessitated the development team to look at every aspect/component of the test in order to identify the cause of the discrepancy. After much analysis and time, the main problem was identified as certain components having unforeseen sensitivities to changes in ambient temperatures.

Test now fully characterised...

The consequence of this is that all aspects of the test have been fully characterised, which necessitated a re-design of the product that has been improved with a resulting simplification of the manufacturing process.

...re-designed...

In June 2016, the company reported that the new test design had been tested in-house on volunteer samples and shown to have no ambient temperature effect when used in the operating range of 20-35°C.

...and externally tested

Subsequently, the test has been tested externally at a UK hospital on over 100 HIV-positive samples. In its October trading statement, Omega reported that Visitect had been tested on 400 HIV-positive samples at two further UK hospitals and the combined data from all three sites for over 500 samples suggest that results are comparable to the recognised gold standard test using flow cytometry.

Visitect has taken longer and at higher cost...

...but potential competitors have fallen away

Although this work has extended the cost and timescales to reach commercialisation, there is no doubting the continued strong market demand for such a product. Meanwhile, it is interesting to note that, for various reasons, some potential competitors have seen their products fail in trials and/or been withdrawn from development.

- ▶ Zyomyx: despite receiving the CE Mark for its CD4 diagnostic tool MyT4 in 2014 and a collaboration with Mylan, the company fell into bankruptcy
- ▶ Daktari stopped the development of its product CD4 Counter at the end of 2015

Operating analysis

Three core business segments...

Omega reports sales and profit information on an annual basis for its three core business segments. Currently, both sales growth and profitability are greatest within the Food Intolerance segment. The fruits of investment in both Allergy and Infectious Disease are expected to follow through beyond the current forecast period.

...consistent 3-5% sales growth on an underlying basis...

Forecasts are prepared on a constant currency basis to provide readers with a better understanding on the real growth with the business. They are then corrected once we have a better understanding of the likely forex outcome nearer the year end.

...but 2017 will see significant benefit on translation

Underlying sales growth in fiscal 2017 is expected to be around +4% to £13.2m, which would represent 2H growth of +5%. However, given that the majority of sales are derived overseas, on the basis that sterling remains at current levels for the remainder of this financial year, reported sales would be £14.3m – a currency benefit of £1.1m. This is not unreasonable given that the company has indicated that the benefit to 1H'17 was around £0.5m. Omega has a reasonable percentage of costs in Germany and India, which will also rise on translation into GBP.

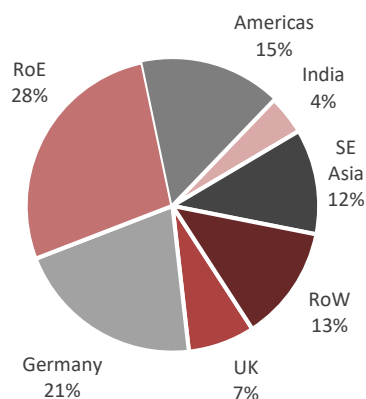
Operational analysis					
Year end March (£m)	2014	2015	2016	2017E	2018E
Sales					
Food Intolerance	5.18	5.95	7.06	8.21	8.78
Allergy & Autoimmune	3.97	3.61	3.16	3.54	3.64
Infectious Disease	2.45	2.55	2.53	2.58	2.58
Group sales	11.59	12.11	12.74	14.32	15.00
Sales growth	+2.9%	+4.4%	+5.3%	+12.4%	+4.8%
Trading result					
Food Intolerance	1.56	2.07	2.49	2.77	3.02
Allergy & Autoimmune	-0.07	-0.24	-0.32	-0.50	-0.47
Infectious Disease	-0.11	-0.27	-0.24	-0.41	-0.50
Corporate	-0.32	-0.22	-0.58	-0.69	-0.74
Underlying EBIT	1.07	1.35	1.34	1.18	1.30
Amortisation	-0.41	-0.38	-0.31	-0.31	-0.31
Share-based payments	-0.13	-0.30	-0.36	-0.36	-0.36
Reported EBIT	0.53	0.67	0.67	0.51	0.63
Trading margin					
Food Intolerance	30.1%	34.9%	35.2%	33.8%	34.4%
Allergy & Autoimmune	-1.7%	-6.6%	-10.1%	-14.0%	-13.0%
Infectious Disease	-4.4%	-10.5%	-9.6%	-16.0%	-19.5%
Underlying EBIT margin	9.2%	11.1%	10.5%	8.2%	8.7%

Source: Hardman & Co Life Sciences Research

Financial analysis

Geographical analysis

Sales by geography – 2016



Source: Omega Diagnostics

New Pune facility will start commercial production by end of 2016

Weak sterling will boost sales by £1.1m in fiscal 2017

As mentioned earlier, tests made by Omega are sold in over 100 countries. In each of its business segments, some products have in certain cases, important differentiators compared to competitors' offerings and, in other cases, no competition in the market.

Europe

Sales to customers based in Europe represent 49% of sales, with Germany being the most important country for the group. Even with the problem of reimbursement in Germany, it is still a large and attractive allergy market.

Americas

Omega sales are under-represented in the Americas. However, its food intolerance offering is very attractive and growth in these territories is a big opportunity for the group. The company already has one large customer in this territory and has just won a contract to supply another large customer.

India

Management sees India and SE Asia as big opportunities for Omega tests. The company has a marketing office located in Mumbai for the distribution and sale of products manufactured at sites outside India, providing the company with direct market access.

In addition, the company has invested in new manufacturing facilities in Pune during the last two years. Equipment has been installed and validated and initial batches have been produced and tested to ensure that the specifications and results are comparable to those manufactured at other sites. This site will target initially a range of rapid malaria tests. This facility, the opportunity in India, and the Visitect CD4 product will mean that India will become a much more important contributor to group performance in coming years.

For clarity, we have added the forex rates used in forecasts. To reiterate, in fiscal 2017, weakness of sterling has boosted group sales from £13.2 (+4%) to £14.3m.

Geographical sales analysis

Year end March (£m)	2014	2015	2016	2017E	2018E
Forex rates					
GBP/EUR	1.20	1.28	1.37	1.18	1.18
GBP/USD	1.63	1.61	1.51	1.32	1.32
Sales					
United Kingdom	0.84	0.98	0.94	1.01	1.07
Germany	3.50	3.07	2.67	3.09	3.24
Rest of Europe	3.08	3.38	3.51	3.25	3.14
Americas	1.11	1.42	1.97	2.68	3.24
India	0.00	0.48	0.55	0.63	0.64
SE Asia	1.09	1.44	1.48	2.04	2.12
Africa/Middle East	1.96	1.33	1.62	1.62	1.55
Group sales	11.59	12.11	12.74	14.32	15.00

Source: Omega Diagnostics; Hardman & Co Life Sciences Research

Profit & Loss

The Board sees opportunities for an accelerated growth strategy

Our forecasts are based on the current profile of the company and a strategy that uses internally generated cash for growth. In the 2016 annual report the Chairman highlighted that the company sees several opportunities to accelerate the growth of the business and is looking into various ways that this could be funded.

- ▶ **Sales** – Underlying growth is forecast to be around 4-5% over the forecast period. However, readers should be aware forex has benefited 2017 by £1.1m and that this has a knock-on effect on future years which are on a CER basis
- ▶ **Gross margin** – The underlying gross margin is rising modestly, but again forex will boost margins given that the majority of product is manufactured in the UK
- ▶ **Marketing** – Given the recent launch of the Allersys panel of 41 allergens, marketing spend is forecast to rise – currently ca.14.5% of sales

Profit & Loss account					
Year end March (£m)	2014	2015	2016	2017E	2018E
Sales	11.59	12.11	12.74	14.32	15.00
COGS	-4.22	-4.43	-4.61	-5.15	-5.36
Gross profit	7.37	7.67	8.14	9.17	9.64
Gross margin	63.6%	63.4%	63.8%	64.0%	64.2%
Marketing costs	-2.10	-1.89	-1.82	-2.07	-2.16
Administration costs	-4.20	-4.61	-5.25	-6.07	-6.32
EBITDA	1.75	1.67	1.66	1.52	1.66
Depreciation	-0.68	-0.32	-0.32	-0.34	-0.36
Other income	0.00	0.17	0.27	0.15	0.15
Underlying EBIT	1.07	1.35	1.34	1.18	1.30
Amortisation	-0.41	-0.38	-0.31	-0.31	-0.31
Share based costs	-0.13	-0.30	-0.36	-0.36	-0.36
Statutory EBIT	0.94	0.67	0.67	0.51	0.63
Net financials	0.02	0.01	-0.01	-0.01	-0.02
Pre-tax profit	1.08	1.36	1.33	1.17	1.28
Exceptional items	0.00	0.00	0.00	0.00	0.00
Reported pre-tax profit	0.96	0.68	0.66	0.50	0.61
Tax liability/credit	0.15	0.05	-0.09	0.07	0.07
Tax rate	-16%	-8%	14%	-14%	-12%
Minorities	0.00	0.11	-0.08	0.00	0.00
Underlying net income	1.23	1.41	1.24	1.24	1.36
Pension gain/loss	-0.13	-0.52	0.26	0.00	0.00
Forex gain/loss	0.00	0.11	-0.08	0.00	0.00
Statutory net income	1.03	0.06	1.01	0.57	0.68
Ordinary shares					
Period-end (m)	108.8	108.8	108.7	108.7	108.7
Weighted average (m)	104.1	108.7	108.7	108.7	108.7
Fully diluted (m)	113.0	117.7	119.7	119.7	119.7
Underlying Basic EPS (p)	1.19	1.30	1.14	1.14	1.25
Statutory Basic EPS (p)	0.99	0.05	0.93	0.52	0.63
U/I Fully-diluted EPS (p)	1.09	1.20	1.04	1.03	1.13
Stat. Fully-diluted EPS (p)	0.91	0.05	0.84	0.47	0.57
DPS (p)	0.00	0.00	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Balance sheet

- ▶ **Net cash** – At 31st March 2016, Omega had net cash of £0.9m, comprised cash of £1.3m and long and short-term loans of £0.4m. Weakness of sterling has boosted operational performance for the forecast period, reducing the underlying cash burn of the company. This situation will reverse in the event that GBP starts to strengthen again in the future
- ▶ **Inventories** – Given the large number of products that Omega makes and supplies around the world, the company does need to maintain sufficient inventory levels. However, stock days have remained consistent at about two months for the last three years
- ▶ **Working capital** – In the run-up to new product launches, coupled with the onset of commercial operations in India, there may be some short-term increase in working capital
- ▶ **NAV/share** – It is noticeable that Omega trades at a discount to NAV which is indicative of the opportunity. The company also has very good financial performance indicators which we will expand upon in a future report

Balance sheet					
@31 st March (£m)	2014	2015	2016	2017E	2018E
Shareholders' funds	18.46	18.81	20.19	20.75	21.44
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00
Total equity	18.46	18.81	20.19	20.75	21.44
Share capital	16.73	16.73	16.73	16.73	16.73
Reserves	1.73	2.09	3.46	4.03	4.71
Provisions/liabilities	0.27	0.46	-0.04	0.00	0.00
Deferred tax	-0.09	-0.26	0.11	0.11	0.11
Long-term loans	0.32	0.32	0.28	0.28	0.28
Short-term debt	0.43	0.24	0.13	0.13	0.13
less: Cash	3.12	1.97	1.30	0.54	-0.15
less: Deposits	0.00	0.00	0.00	0.00	0.00
less: Non-core invests.	0.00	0.00	0.00	0.00	0.00
Invested capital	16.27	17.59	19.36	20.73	22.11
Fixed assets	2.28	2.43	2.69	3.00	3.33
Intangible assets	11.26	12.10	13.46	14.91	16.39
Inventories	1.69	2.06	2.01	2.26	2.37
Trade debtors	1.80	2.25	2.44	2.74	2.87
Other debtors	0.62	0.29	0.40	0.40	0.40
Tax liability/credit	0.00	0.00	0.00	0.00	0.00
Trade creditors	-0.82	-1.11	-1.07	-1.20	-1.25
Other creditors	-0.56	-0.44	-0.57	-1.38	-2.00
Debtors less creditors	1.03	1.00	1.20	0.56	0.03
Invested capital	16.27	17.59	19.36	20.73	22.11
Net cash/(debt)	2.37	1.42	0.89	0.13	-0.56
NAV/share (p)	17.7	17.3	18.6	19.1	19.7
Stock days	56	57	58	54	56
Debtor days	64	61	67	66	68
Creditor days	72	79	86	80	83

Source: Hardman & Co Life Sciences Research

Cashflow

- ▶ **Change in net cash** – Omega has utilised cash in each of the last two financial years including capitalised R&D spend, as it invests in Allersys and Visitect. This is expected to be the case again for both forecast years. Even though the weakness of sterling has boosted the reported operational performance, there will still be cash outflows in both 2017 and 2018, leaving the group in a net debt position at the end of fiscal 2018. This situation would be made worse in the event that GBP starts to strengthen during the forecast period
- ▶ **Working capital** – The current forecasts for underlying growth at Omega suggest a modest increase each year in working capital. In the event that the company were to move to an accelerated growth strategy to take advantage of the opportunities throughout the business, there would be a greater working capital requirement
- ▶ **Capital expenditure** – Given that the company operates from modern facilities in Scotland and has just completed a significant investment in new manufacturing facilities at Pune, India, there is no obvious requirement for any investment cap-ex
- ▶ **Dividends** – Given that the company is operating to a growth strategy and investing in future products, there is unlikely to be a dividend paid in the medium term

Cashflow					
Year end March (£m)	2014	2015	2016	2017E	2018E
Trading profit	1.07	1.35	1.34	1.18	1.30
Depreciation	0.27	0.32	0.32	0.34	0.36
Inventories	0.14	-0.37	0.05	0.06	0.06
Working capital	-0.16	0.03	-0.20	-0.22	-0.23
Exceptionals/provisions	0.00	0.00	0.00	0.00	0.00
Disposals	-0.01	0.00	0.00	0.00	0.00
Other	0.85	-0.09	-0.27	0.00	0.00
Company op cashflow	2.15	1.24	1.24	1.35	1.48
Net interest	0.03	0.02	-0.01	-0.01	-0.02
Tax paid/received	0.00	0.00	0.21	0.00	0.00
Operational cashflow	2.18	1.26	1.45	1.34	1.47
Capital expenditure	-0.48	-0.70	-0.62	-0.65	-0.68
Sale of fixed assets	0.03	0.01	0.00	0.00	0.00
Free cashflow	1.74	0.57	0.83	0.69	0.78
Dividends	0.00	0.00	0.00	0.00	0.00
Acquisitions	-1.88	-1.39	-1.42	-1.45	-1.48
Disposals	0.00	0.00	0.00	0.00	0.00
Other investments	0.00	0.00	0.00	0.00	0.00
Cashflow after invests.	-0.14	-0.83	-0.59	-0.76	-0.69
Share repurchases	0.00	0.00	0.00	0.00	0.00
Share issues	3.75	0.00	0.00	0.00	0.00
Currency effect	0.00	0.00	0.00	0.00	0.00
Borrowings acquired	-0.05	-0.12	0.07	0.00	0.00
Change in net cash/(debt)	3.56	-0.95	-0.53	-0.76	-0.69
Hardman FCF/share (p)	2.10	1.16	1.33	1.23	1.35
Opening net cash	-1.19	2.37	1.42	0.89	0.13
Closing net cash	2.37	1.42	0.89	0.13	-0.56

Source: Hardman & Co Life Sciences Research

Company matters

Registration

Incorporated in the UK with company registration number: 5017761

UK HQ & Operations:

Omega House
Hillfoots Business Village
Alva
Scotland
FK12 5DQ

+44 (0)1259 763 030

Website: www.omegadiagnostics.com

Board of Directors

Board of Directors			
Position	Name	Remuneration	Audit
Chairman	David Evans	C	C
Chief Executive Officer	Andrew Shepherd		
Chief Financial Officer	Kieron Harbinson		
Chief Operating Officer	Colin King		
Sales & Marketing Director	Jag Grewal		
Non-executive director	William Rhodes	M	M

M = member; C = chair

Source: Company reports

David Evans – Non-executive Chairman

David has a proven track record in acquiring, integrating and growing businesses in the diagnostic area and in value creation. Whilst Chairman of BBI Holdings, the company was taken from a value of £4m to £84m through acquisition and organic growth before being sold to Inverness Medical Innovations Inc, in 2007. He was chairman of DxS Limited, which was sold in September 2009 to Qiagen for £82m, having stepped down in June 2009. David was also chairman of Sirigen Group, an early stage medical technology company, which was sold in 2012 to Becton Dickinson, a global medical technology company. David is also Co-chairman of Optibiotix Health. Over the last two years, David has been decreasing purposely his Board involvement in companies, including Immunodiagnostics Systems Holdings, Epistem Holdings (now Genedrive), EKF Diagnostic Holdings, Scancell Holdings, Premaita Health plc, and Venn Life Sciences Holdings plc.

Andrew Shepherd – Chief Executive Officer

Founder and Chief Executive, having spent over 40 years in medical diagnostics. Andrew has used his technical experience and knowledge of exporting to oversee the significant internationalisation of Omega's products. With his industry knowledge and active participation in a number of relevant trade associations, he became a member of the Bill and Melinda Gates Foundation's (BMGF) Global Health Diagnostics Forum, which provided guidance to BMGF in advising on technology and future investments in worldwide diagnostics programmes for developing countries.

Kieron Harbinson – Chief Financial Officer

Kieron has a broad experience in technology related businesses and joined Omega as CFO in 2002. He started his career with Scotia Holdings in 1984 and remained with the company for 14 years, occupying various senior finance roles, which helped Kieron to acquire experience in funding transactions, corporate acquisitions, disposals, and intellectual property matters. He then joined Kymata Limited, a start-up optoelectronics company, and was again involved in raising finance in the form of venture capital funding. Kieron qualified as an ACCA in 1991.

Colin King – Chief Operating Officer

Worked in the medical diagnostics industry for 21 years prior to joining Omega in 2015. Previously, Colin held a number of positions encompassing planning, supply chain, project management and operations at Axis-Shield from 1995 before, ultimately, becoming Managing Director of the Laboratory division in 2007. During this time, he was responsible for leading its diversification strategy, which was successful in maintaining revenues despite retiring two key product revenue lines.

Jag Grewal – Sales & Marketing Director

Jag has extensive marketing experience in medical diagnostics and joined Omega in 2011 as Director of sales and marketing. After starting as a clinical biochemist in the NHS, he joined Beckman Instruments where he spent 15 years in a number of sales, marketing and management positions. In 2009, he helped to establish an out-sourced pathology venture between Serco and St Thomas' NHS Trust. He is a past Chairman and current treasurer of the British *In Vitro* Diagnostics Association (BIVDA).

William Rhodes – Non-Executive Director

An experienced medical diagnostics specialist, with more than 30 years of industry experience, most recently having spent 14 years in senior leadership positions at Becton, Dickinson and Co., a leading global supplier of medical, diagnostic and life science research products. Currently Chairman of the Supervisory Board of Curetis NV, a publicly-traded molecular diagnostics company based in Germany, as well as a Board member of Paramit, a leading medical device contract manufacturer located in California, US. Prior to working for BD, Bill held senior business development positions with Pfizer Inc. and Johnson and Johnson. During his time at BD, he also served as the Worldwide President of BD Biosciences, the USD billion dollar flow cytometry division that was the market leader for CD4 testing globally.

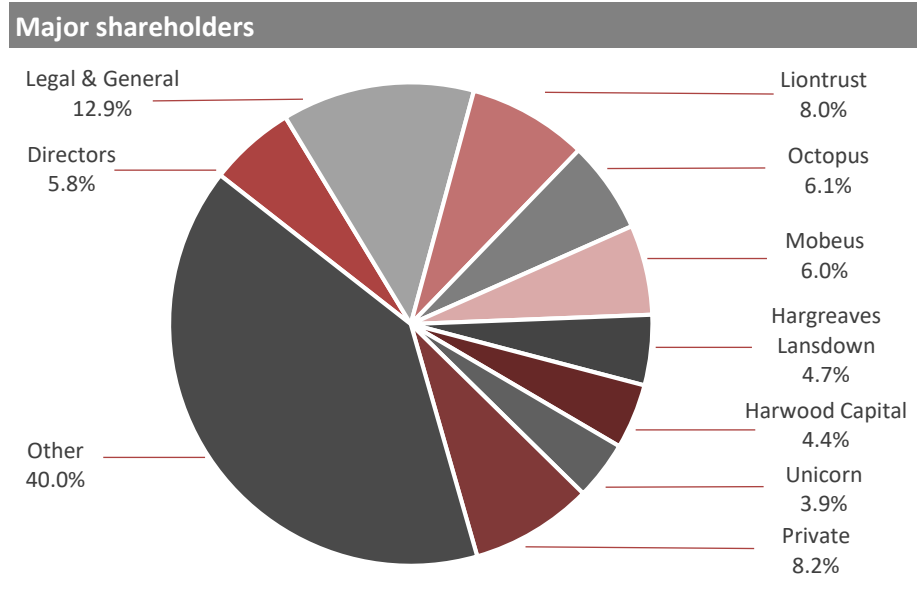
Senior management

Omega Diagnostics – Senior management team	
Name	Position
Mike Gordon	Group Operations Director
Iain Logan	Group Financial Controller
Prashant Maniar	Managing Director – Omega Dx (Asia) Pvt Ltd
Dr Edward Valente	Group R&D Director
Jamie Yexley	Site Manager – Genesis Diagnostics Ltd & Cambridge Nutritional Sciences Ltd

Source: Hardman & Co Life Sciences Research

Share capital

The company has 108,745,669 Ordinary shares of 4.0p nominal value in issue. There are currently 10.983 million options outstanding, or 9.2% of the fully diluted share capital.



Source: Company reports



Source: Eikon Thomson Reuters

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*Hardman & Co Research Limited (trading as Hardman & Co)
11/12 Tokenhouse Yard
London
EC2R 7AS
T +44 (0) 207 929 3399*

Follow us on Twitter @HardmanandCo

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Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

