



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

Jly-17	Finals
Aug-17	AGM

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

Food intolerance driving growth

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 CD4 for monitoring of HIV positive patients. Interim results highlighted the opportunities to accelerate growth of the business, particularly Allersys, which has drawn attention from its partner.

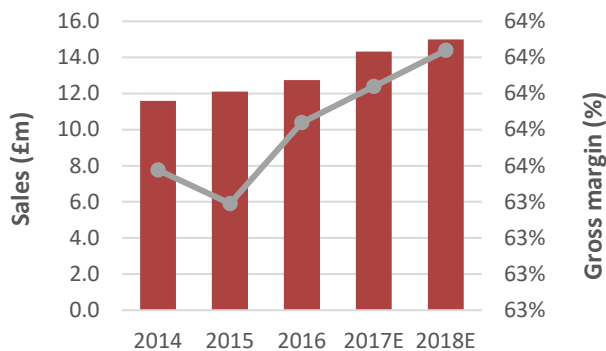
- ▶ **Interims:** 1H'17 results highlight the solid underlying growth of Omega's established operations and growth opportunities within each business segment. Further progress is anticipated in 2H'17 which will be boosted on a reported basis by GBP weakness to deliver results at the top end of market expectations.
- ▶ **Allersys:** Omega received CE Mark and launched a new panel of tests for 41 common allergens to be run on Immunodiagnostics' (IDH) IDS-iSYS platform, with the first order received from a German customer. However, IDH has approached ODX with a view to changing their commercial relationship.
- ▶ **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 ODX attractive. Careful management and re-investment of resources is resulting in an exciting period of new product launches. However, the unexpected approach from IDH, which may or may not result in the acquisition of the whole or part of ODX's allergy business, would provide significant resource to increase the growth rate of its other products.

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

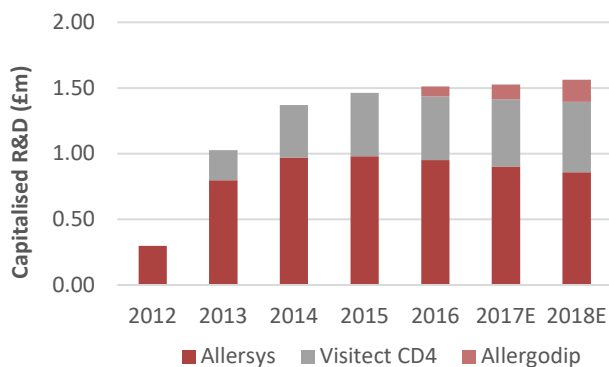
Source: Hardman & Co Life Sciences Research

Sales & Gross margin



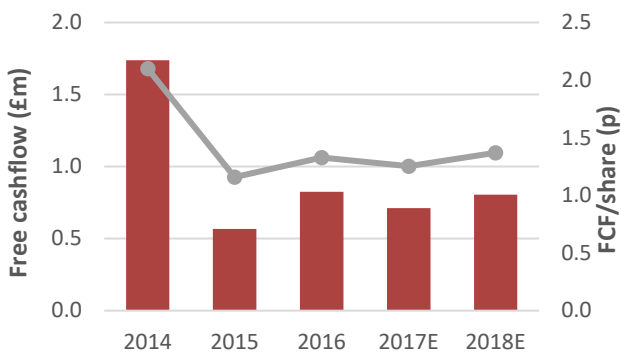
- ▶ Historically, sales have shown steady low-single digit growth; underlying forecasts are based on 3-5% growth
- ▶ Most sales are generated overseas, but many are invoiced in GBP; the EUR and USD are also important currencies
- ▶ Food Intolerance is the main segment – driven by EMEA, China, and latterly 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 from the weakness of sterling

Capitalised R&D investment



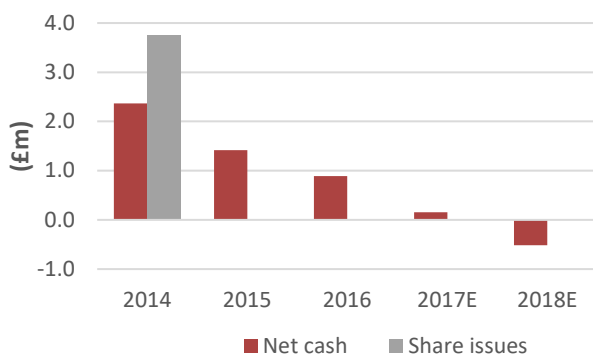
- ▶ Given that there is a reasonable probability of a commercial product, Omega capitalises R&D investment
- ▶ The level of R&D investment has been consistently around £1.5m per annum
- ▶ About two-thirds of R&D is spent on the new allergy panel, with most of the remainder on Vistect
- ▶ Given that the 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

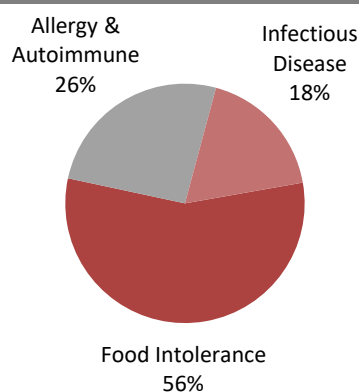


- ▶ At the end of September 2016, Omega had cash of £0.76m, offset by long and short-term loans of £0.42m
- ▶ Cash generated from operations has been used for investment into new product development
- ▶ Omega has not made any demands on shareholders in recent years; last funding round was in 2013 (fiscal 2014)
- ▶ A strategic move by Immunodiagnostics may provide the resource needed for management to adopt a more aggressive growth strategy

Source: Company data; Hardman & Co Life Sciences Research

Interim results summary

Business segments – 1H'17



Source: Omega Diagnostics

Omega Diagnostics had already provided the market with a trading update (17th October) which detailed sales progress in the first half of fiscal 2017. Management has identified several opportunities to accelerate the growth rate of its core businesses whilst maintaining investment into new products. Good progress has been made in both of these activities in the first half of fiscal 2017.

Key features

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

- ▶ **Sales:** As previously announced underlying sales grew +3% which were boosted £0.5m to the reported level of £6.83m (£6.15m)
- ▶ **Americas:** Excellent sales growth was seen in North America (+114%), particularly from its Foodprint test for food intolerance. The addition of another potentially large customer augurs well for the future
- ▶ **Costs:** Manufacturing (COGS) and marketing costs were in-line with forecasts. General admin was lower than expected, but this was offset by the absence of 'other income' which had been expected to be similar to last year's £73k
- ▶ **Net cash:** Taking all the above differences into account, together with R&D investment of £0.85m (£0.65m) the net cash position at the end of September was £0.34m, which was £0.5m better than expected, almost entirely due to improved working capital

Actual vs expectations

Interims to September (£m)	1H'16 actual	1H'17 actual	1H'17E forecast	Delta
Sales	6.15	6.83	6.83	-
COGS	-2.26	-2.36	-2.35	-0.01
Administration	-2.57	-3.02	-3.00	-0.02
Marketing	-0.87	-0.88	-1.00	+0.12
Other income	0.07	0.07	0.00	-0.07
Underlying EBIT	0.52	0.57	0.55	+0.03
Reported PTP	0.18	0.31	0.20	+0.11
Underlying EPS (p)	0.60	0.59		
Net cash/(debt)	0.99	0.34	-0.21	+0.55

Source: Omega Diagnostics

Surprise approach from its commercial partner, Immunodiagnostic Systems Holdings (Ticker: IDH)

- ▶ **Allersys:** Omega received CE Mark for its panel of 41 of the most common allergies to be run on Immunodiagnostics' IDS-iSYS automated benchtop analyser. Following discussions about making the assays more widely available, IDH has approached ODX about changing the commercial relationship which may extend to the acquisition of the whole or part of Omega's allergy business.
- ▶ **Visitect CD4:** 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.

Results in detail

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. The company is very transparent, reporting detailed sales and profit information on a semi-annual basis for its three core business segments. The pattern of performance seen over recent times was repeated again in 1H'17 – Food Intolerance driving sales growth and profits, while investment in future products generated small losses in the Allergy & Autoimmune and Infectious Disease.

The group EBIT margin held steady at 8.3% (8.4%) in 1H'17. However, given that the majority of costs are in the UK and most of the sales are overseas, we believe that the underlying margin was nearer 9.0% in the first half, which was reduced to the reported level of 8.3% on translation.

Operational analysis						
Year end March (£m)	1H'16	2H'16	2016	1H'17	2H'1E7	2017E
Sales						
Food Intolerance	3.33	3.73	7.06	3.84	4.37	8.21
Allergy & Autoimmune	1.59	1.57	3.16	1.76	1.77	3.54
Infectious Disease	1.22	1.31	2.53	1.23	1.34	2.58
Group sales	6.15	6.60	12.74	6.83	7.49	14.32
Sales growth	8.1%	2.5%	5.3%	11.2%	13.6%	12.4%
Trading result						
Food Intolerance	1.09	1.39	2.49	1.60	1.84	3.45
Allergy & Autoimmune	-0.15	-0.17	-0.32	-0.10	-0.22	-0.32
Infectious Disease	-0.15	-0.09	-0.24	-0.14	-0.21	-0.35
Corporate	-0.27	-0.31	-0.58	-0.80	-0.80	-1.60
Underlying EBIT	0.52	0.82	1.34	0.57	0.61	1.18
Amortisation	-0.17	-0.14	-0.31	-0.11	-0.20	-0.31
Share-based payments	-0.17	-0.19	-0.36	-0.14	-0.22	-0.36
Reported EBIT	0.18	0.49	0.67	0.31	0.19	0.51
Trading margin						
Food intolerance	32.8%	37.4%	35.2%	41.8%	42.2%	42.0%
Allergy & Autoimmune	-9.7%	-10.6%	-10.1%	-5.4%	-12.6%	-9.0%
Infectious disease	-12.4%	-7.0%	-9.6%	-11.3%	-15.5%	-13.5%
Group EBIT margin	8.4%	12.5%	10.5%	8.3%	8.1%	8.2%

Source: Hardman & Co Life Sciences Research

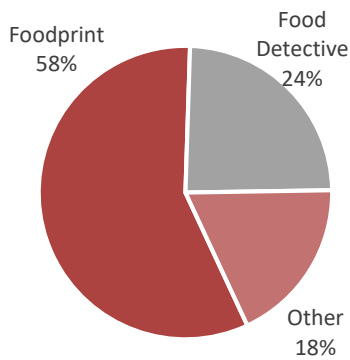
Food Intolerance

Food intolerance is the largest business segment at 56%

Full details of the Food Intolerance business were provided in our recent note – *Diagnosing growth opportunities* (31st October 2016). Food intolerance testing is a growing market and represents the largest reporting segment for Omega. In 1H'17 it generated 56% of sales compared to 54% in the corresponding period last year. This was due to an exceptional performance from Foodprint, a high throughput laboratory test that detects the presence of IgG food specific antibodies to a wide range of foods, particularly in North America.

- ▶ **Foodprint/Genarrayt** – Underlying growth was estimated at +32% which increased to +46% on translation, with sales of £2.2m (£1.52m)
- ▶ **Food Detective** – Conscious decision to reduce distributor stocking levels, particularly in Australia, resulted in reduced sales of £0.93m (£1.20m)

Food Intolerance – 1H'17



Source: Omega Diagnostics

Food Intolerance – 1H'17

£m	1H'16	1H'17	*CER growth	Change
Foodprint	1.52	2.22	+32%	+46%
Food Detective	1.20	0.93	-29%	-23%
Other	0.61	0.71	+5%	+13%
Food Intolerance	3.33	3.84	+6%	+15%

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

Allergy & Autoimmune

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 £1.69m (£1.76m) in the first half of 2017, which, on an underlying basis, was broadly flat over the same period last year. Despite the increasing incidence of allergies, performance in this business has been affected by a change in reimbursement rates in Germany, a key market for Omega.

Currently, Omega offers 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). With a first customer in place in Germany, discussions had been ongoing with IDS over making the new Allersys test more widely available.

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 IDH's 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. 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.

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

...with the aim of increasing this to 120

IDS/Allersys automated system



Source: Omega Diagnostics; Hardman & Co Life Sciences Research

IDH stated that it had cash of ca.£29m at the end of September

IDH has sought to "...leverage its IDS-iSYS platform through menu expansion..." for several years

Approach from Immunodiagnostics

The interim announcement also stated that Omega had been approached by its Allersys commercial partner, IDH, with a proposal to change their working relationship. Under the terms of the 2011 agreement, management indicated that the licence can be terminated by IDH should they wish to do so. However, in our opinion this is not the ultimate intention of IDH, given that the company has seen a deterioration in its business largely because of the lack of breadth of its menu for the IDS-iSYS automated system (ref: results presentation June 2014), which has led to a number of profit warnings over the last two years. Perhaps it sees Omega’s Allersys automated test as a way of countering this decline. Indeed, ODX stated that the approach by IDH may or may not lead to the acquisition of the whole or part of Omega’s allergy business. IDH certainly has sufficient funds, with cash and cash equivalents of £28.7m on the balance sheet at 30th September 2016.

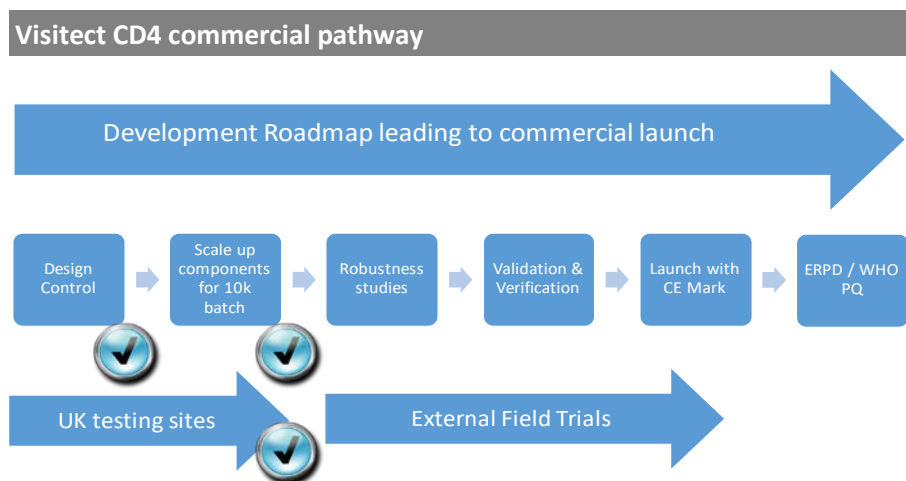
Infectious Disease

Omega currently offers a range of products for the screening and confirmation of a number of infectious diseases under the Visitect brand name – for example, syphilis, salmonella, brucella, ricketts, malaria. However, its new generation of tests is focused more on Point-of-Care (PoC) diagnostic tests for use in remote areas to assist the clinical decision process. One reason for this is that legacy products in this business segment are the most sensitive to pricing pressures. This was evident in 1H’17, when underlying sales were down -3% to £1.23m (£1.22m). This segment made a small operating loss due to the development costs associated with the new PoC diagnostics, notably Visitect CD4.

Visitect® CD4

Inconsistency was caused by different operating temperatures

After the difficulties encountered with this promising test a couple of years ago, the development team assessed every aspect/component of the test in order to identify the cause of the discrepancies between laboratory and field tests. After much analysis and time, the main problem was identified as certain components having unforeseen sensitivities to changes in ambient temperatures.



Source: Omega Diagnostics; Hardman & Co Life Sciences Research

Test now fully characterised...

...and re-designed

The consequence of this is that all aspects of the test have been fully characterised, which necessitated a re-design of the product, resulting in an improved product with a simplified manufacturing process. In June 2016, the company reported that the new test design had been tested in-house on volunteer samples and was shown to have no ambient temperature effect when used in the operating range of 20-35°C. Further testing has shown it to maintain integrity at 40°C.

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

Although this work has extended the cost and time to reach commercialisation, there is no doubting the continued strong market demand for such a product.

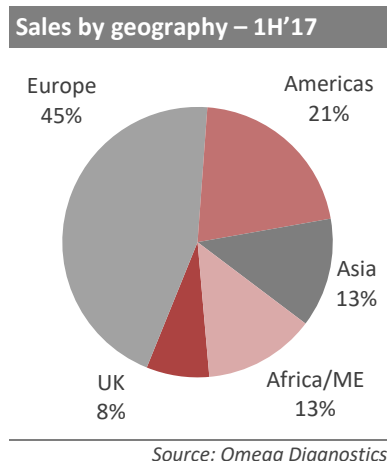
Visitect® Malaria

Although Omega currently offers a malaria test under the Visitect brand, it is externally sourced and uses older technology. With new manufacturing facilities in Pune, Omega intends to launch a high quality, sensitive, PoC Visitect Malaria test. UNITAID estimates that there will be 380m malaria tests undertaken in 2016. Despite this, there is still demand for an easy-to-perform sensitive test. Current tests are sensitive down to 200 parasites/µl, whereas the ODX test is sensitive at 50 parasites/µl, meaning that the infection will be picked up much earlier.

For Visitect Malaria to be successful, Omega will need to satisfy the WHO/FIND prequalification (PQ), which aims to ensure that diagnostics, medicines, vaccines and immunization-related equipment and devices for high burden diseases meet global standards of quality, safety and efficacy. PQ approval is essential for WHO tenders. Omega’s strategy is to have a market leading test performance in a convenient easy-to-use assay at an affordable price. Given that the product will be manufactured in India, ODX is confident that it will be able to be very competitive on price.

Geographical analysis

Tests made by Omega are sold in over 100 countries. In each business segment, in some cases products have important differentiators compared to competitors’ offerings, and in other cases, no competition in the market.



Geographical sales analysis – 1H’17

£m	1H’16	1H’17	*CER growth	Change
UK	0.49	0.51	+5%	+5%
Europe	2.93	3.08	-2%	+5%
Americas	0.86	1.44	+50%	+68%
Asia	1.05	0.89	-30%	-15%
Africa/ME	0.83	0.91	+10%	+10%
Group	6.15	6.83	+6%	+11%

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

Americas

Sales are under-represented in the Americas. However, its Food Intolerance offering is very attractive and growth in these territories is a big opportunity. Omega already has one large customer in North America and has just won a contract to supply another large customer, driving growth in both the short and long term. Underlying growth in North America was +114% in 1H’17, albeit from a relatively small base.

India

Given its offering of high quality, easy to use, rapid PoC tests, India is viewed as a big opportunity for growth. ODX has a marketing office in Mumbai that provides direct market access, and has invested in new manufacturing facilities in Pune which are just coming on stream, initially with a range of malaria and pregnancy tests.

New Pune facility will start commercial production by end of 2016

Financial analysis

Profit & Loss

The Board sees opportunities for an accelerated growth strategy

No changes have been made to our full year forecasts.

- ▶ **Sales** – Underlying growth is forecast to be around 4-5% over the forecast period. However, readers should be aware forex will benefit 2017 by ca.£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 30th September 2016, Omega had net cash of £0.34m, comprised cash of £0.76m and long and short-term loans of £0.42m. 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** – Interim working capital was more positive than expected. However, 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 requirement
- ▶ **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 2017 and 2018. Even though the weakness of sterling has boosted the reported operational performance, there will still be cash outflows over the forecast period, 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 ODX operates from modern facilities in Scotland and has just completed a major investment in new manufacturing facilities at Pune, India, there is no obvious need for significant new cap-ex
- ▶ **Potential disposal** – Omega is focused on a carefully directed accelerated growth strategy largely dictated by existing resources. Should management decide to dispose of part or all of its allergy business, significant extra resource would become available to extend the growth opportunity for its other products

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

Disclaimer

Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.

The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/>

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly, we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.

Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.

This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.

This report may not be reproduced in whole or in part without prior permission from Hardman & Co.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.

*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

(Disclaimer Version 2 – Effective from August 2015)

Hardman Team

Management Team

+44 (0)20 7929 3399

John Holmes	jh@hardmanandco.com	+44 (0)207 148 0543	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 148 0544	CEO

Marketing / Investor Engagement

+44 (0)20 7929 3399

Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Antony Gifford	ag@hardmanandco.com	+44 (0)7539 947 917
Vilma Pabilionyte	vp@hardmanandco.com	+44 (0)207 148 0546

Analysts

+44 (0)20 7929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Thomas Wigglesworth	tcw@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Steve Clapham	sc@hardmanandco.com
Mike Foster	mf@hardmanandco.com
Jason Streets	sc@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com
Chris Magennis	cm@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com
Dorothea Hill	dmh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com
------------------	---------------------

Mining

Ian Falconer	if@hardmanandco.com
--------------	---------------------

Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com
Angus McPhail	am@hardmanandco.com

Property

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Services

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Technology

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Utilities

Nigel Hawkins	nh@hardmanandco.com
---------------	---------------------

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

