

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ODX
Price (p)	23.0
12m High (p)	25.7
12m Low (p)	15.1
Shares (m)	108.7
Mkt Cap (£m)	25.0
EV (£m)	24.7
Free Float*	81.3%
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
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	www.omegadiagnostics.com

Key shareholders

Directors	5.8%
Legal & General	12.9%
Private	12.0%
Liontrust	8.0%
Octopus Invests.	6.1%
Hargreaves	5.8%

Diary

Mid Jly-17	Finals
Aug-17	AGM

Analysts

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Omega Diagnostics Group

An accurate diagnosis: financial results as expected

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 optimisation of an additional nine allergens. Manufacture of Visitect CD4 for monitoring of HIV patients is now optimised. The new Pune facility has received full regulatory approval and is fully operational.

- ▶ **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.
- ▶ **Trading update:** Results for the year ending 31st March were in line with market expectations, growing +3% CER to £14.3m from £12.7m in 2016, predominantly driven by sales in the Food Intolerance segment. Expected investment in SG&A costs acted as a drag on 2017 PBT to £1.1m (£1.33m).
- ▶ **Allersys:** ODX has achieved optimisation of nine additional allergens to add to the existing initial panel of 41 Allersys tests that received CE Mark during fiscal 2017. Advanced discussions are ongoing with Immunodiagnostics Holdings (IDH) for wider geographic distribution of ODX's advanced allergy tests.
- ▶ **Infectious disease:** An important milestone was achieved in the development of the Visitect CD4 test for point-of-care diagnosis and monitoring of patients with HIV. The design has been locked-down following successful testing in UK hospitals. The new India manufacturing facility passed Indian FDA inspection.
- ▶ **Investment summary:** Being an established player with a wide range of tests available globally makes ODX an attractive opportunity. Careful management and re-investment of resources is resulting in an exciting period of new product launches. Expansion of the current relationship with IDH for Allersys towards a more extensive global distribution arrangement makes strategic sense.

Financial summary and valuation

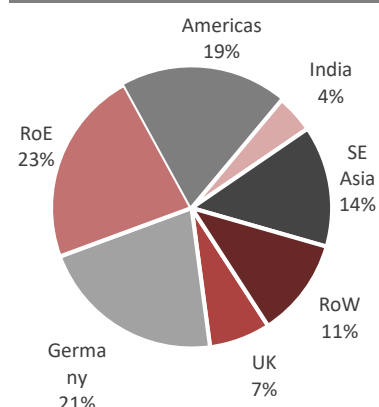
Year end March (£m)	2014	2015	2016	2017E	2018E
Sales	11.59	12.11	12.74	14.25	14.92
EBITDA	1.75	1.67	1.66	1.44	1.58
Underlying EBIT	1.07	1.35	1.34	1.10	1.22
Reported EBIT	0.94	0.67	0.67	0.43	0.55
Underlying PBT	1.08	1.36	1.33	1.09	1.20
Statutory PBT	0.96	0.68	0.66	0.42	0.53
Underlying EPS (p)	1.19	1.30	1.14	1.07	1.19
Statutory EPS (p)	0.99	0.05	0.93	0.45	0.58
Net (debt)/cash	2.37	1.42	0.89	0.29	-0.89
Capital increases	3.75	0.00	0.00	0.00	0.00
P/E (x)	19.4	17.7	20.1	21.5	19.2
EV/sales (x)	2.0	1.9	1.9	1.7	1.7

Source: Hardman & Co Life Sciences Research

Trading update – 2017 full year

Summary

Sales by geography – 2017E



Source: Hardman & Co Life Sciences Research

- ▶ **Group sales:** Underlying growth of +3% to £14.3m, was only a shade lower (-£0.07m) than our forecasts and in line with market expectations. Most sales are outside the UK: weakness of sterling boosted 2017 sales by £1.1m
- ▶ **Food Intolerance:** Underlying growth in the largest segment, estimated at +6%, was boosted at the reported level by £0.6m to £8.0m. Being high margin and cash generative, it was likely to be the main driver of profits
- ▶ **Allergy/Autoimmune:** Sales of £3.6m were in line with forecasts, with 2H growth improving to give CER growth of +1% for the full year. ODX is in advanced discussions with IDH regarding wider geographical supply of allergy tests
- ▶ **Infectious Disease:** Sales were slightly ahead of forecast at £2.7m, with underlying growth estimated at -1%, similar to that seen in 1H'17
- ▶ **Profit before tax:** Indicated to be £1.1m for 2017, a decrease of -13% due to ongoing investment in developing the allergen range and in optimising the development and manufacture of the Visitect CD4 device

Actual vs forecast summary 2017

Year end March (£m)	2016 actual	2017 actual	CER growth %	2017 forecast	Delta
Group sales	12.74	14.25	+3%	14.32	-0.07
Food Intolerance	7.06	8.00	+6%	8.21	-0.21
Allergy/Autoimmune	3.16	3.59	+1%	3.54	+0.05
Infectious Disease/Other	2.52	2.66	-1%	2.58	+0.08
Adj. profit before tax	1.33	1.10		1.17	-0.07

Numbers may not add up exactly due to rounding

Source: Hardman & Co Life Sciences Research

Allergy/Autoimmune

Omega hit a significant milestone with CE Mark for an initial panel of 41 tests in the Allersys range to be run on the IDS-iSYS automated instrument. A further nine tests have now been optimised and ready for final claim support work. Discussions with IDH over international distribution of Allersys continue and have reached an advanced stage. In 2017, sales of established Allergozyme tests (€3.6m/£3.0m) were +3% higher in Germany, reversing a recent declining trend.

Infectious Disease

Another significant milestone was achieved in 2017 in the commercial development of the VISITECT CD4 test for point-of-care HIV diagnosis and monitoring. Following successful manufacture of three pilot batches, and testing of the product at three UK hospitals, ODX has formally frozen the design as it consistently achieves sensitivity and specificity thresholds. The next stage will be a formal verification and validation phase, in which three batches will be manufactured for trials in the UK and India. If successful, the company will be able to CE Mark the test.

In terms of the Visitect Malaria tests, full operational capability was reached in the Pune, India, manufacturing facility, laying the foundations for future growth. In March 2017, the company achieved CE Marking of the three tests, meaning that general sales can now be made in countries that do not require individual registration. Finally, the Pune facility passed annual inspection by the Indian FDA and is GMP and QA licensed until January 2021.

Financial summary

- **Sales:** Modestly below our last published forecast, but exactly in-line when final currency adjustments were made, rising +3% to £14.3m
- **Profit before tax:** Expected investment in marketing and administration costs to get the new facilities in Pune regulatory approved and fully operational, was always going to result in lower PBT in 2017. The indication of £1.1m is fractionally below our forecast and about 13% lower than 2016. Our forecasts predict PBT recovery in 2018 as the benefits of investment over the last 12 months start to show through.

Forecast summary						
Year end March (£m)	2013	2014	2015	2016	2017E	2018E
GBP/EUR	1.228	1.198	1.276	1.366	1.190	1.190
GBP/USD	1.580	1.626	1.612	1.508	1.304	1.304
Profit & Loss						
Sales	11.26	11.59	12.11	12.74	14.25	14.92
COGS	-4.21	-4.22	-4.43	-4.61	-5.12	-5.33
Gross profit	7.05	7.37	7.67	8.14	9.13	9.58
Gross margin (%)	62.6%	63.6%	63.4%	63.8%	64.0%	64.2%
Marketing costs	-2.30	-2.10	-1.89	-1.82	-2.14	-2.22
Administration	-4.38	-4.20	-4.61	-5.25	-6.09	-6.34
Underlying EBIT	0.38	1.07	1.35	1.34	1.10	1.22
EBIT margin (%)	3.4%	9.2%	11.1%	10.5%	7.7%	8.2%
Net interest	-0.03	0.02	0.01	-0.01	-0.01	-0.02
Pre-tax profit	0.35	1.08	1.36	1.33	1.09	1.20
Tax	0.31	0.15	0.05	-0.09	0.07	0.10
Net income	0.65	1.23	1.41	1.24	1.16	1.30
Underlying Basic EPS (p)	0.77	1.19	1.30	1.14	1.07	1.19
Statutory Basic EPS (p)	0.67	0.99	0.05	0.93	0.45	0.58
Balance sheet						
Share capital	12.98	16.73	16.73	16.73	16.73	16.73
Reserves	0.99	1.73	2.09	3.46	3.95	4.58
Provisions	1.83	1.69	2.06	2.01	2.25	2.35
Debt	1.35	0.75	0.55	0.41	0.43	0.43
less: Cash	0.16	3.12	1.97	1.30	0.73	-0.46
Invested capital	15.18	16.27	17.59	19.36	20.50	22.31
Cashflow						
Underlying EBIT	0.38	1.07	1.35	1.34	1.10	1.22
Depreciation	0.27	0.27	0.32	0.32	0.34	0.36
Change in working capital	0.36	-0.02	-0.34	-0.15	0.09	-0.02
Tax & interest	0.01	0.03	0.02	0.20	0.12	-0.02
Operational cashflow	0.56	2.15	1.24	1.24	1.85	1.56
Capital expenditure	-0.31	-0.48	-0.70	-0.62	-0.65	-0.68
Free cashflow	0.27	1.74	0.57	0.83	1.32	0.85
Acquisitions	-1.19	-1.88	-1.39	-1.42	-2.00	-2.04
Share issues	0.00	3.75	0.00	0.00	0.00	0.00
Change in net debt	-0.92	3.56	-0.95	-0.53	-0.58	-1.19
Hardman FCF/sh. (p)	0.7	2.1	1.2	1.3	1.8	1.4

Source: Hardman & Co Life Sciences Research

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