

## Regulatory Story

[Go to market news section](#)

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**OMEGA DIAGNOSTICS GROUP PLC**  
 ("Omega" or the "Company" or the "Group")

**FINAL RESULTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

Omega, the AIM listed medical diagnostics company, announces final results for the year ended 31 March 2011, a year in which the Group acquired a leading German allergy business effecting a transformational change in the business opportunity.

Omega is one of the UK's leading companies in the fast growing area of food intolerance and also operates in markets supplying tests for allergies and autoimmune diseases and specific infectious diseases through a strong distribution network in over 100 countries.

**Financial Highlights:**

- Turnover up 27% to £7.9m (2010: £6.2m)
  - Food intolerance revenue up 21% to £3.6m (2010: £3.0m)
  - Infectious disease/other revenue up 8% to £2.8m (2010: £2.6m)
  - Allergy and autoimmune revenue up 134% to £1.56m (2010: £0.66m)
- Gross profit up 30% to £4.7m (2010: £3.6m)
- Adjusted profit before tax up 25% to £0.74m (2010: £0.59m)
- Adjusted EPS 1.7p (2010: 3.1p)
- Placing raised £7.75m before expenses
- Net cash at the period end of £0.45m (2010: net debt of £1.26m)

**Operations highlights:**

- Acquisition of allergy IVD business of Allergopharma
- Expanded coverage of Genarrayt<sup>®</sup> microarray systems with 95 systems now installed in 24 countries with sales in the year of £1.68m (2010: £1.04m)
- Distribution agreement signed for Food Detective<sup>®</sup> in India
- Exclusive licence agreement signed with IDS for use of their IDS-iSYS system for allergy testing
- Board and Management team strengthened with key senior appointments
- Ten year exclusive agreement signed with Toyota Tsusho America Inc. covering the future sale and distribution of Food Detective<sup>®</sup> into the US market

**Regarding outlook, David Evans, Chairman, said:**

"The strategy to achieve growth through acquisition took a major step forward in the year with the completion of the acquisition of Allergopharma's allergy business in December. Our ability to grow strategically in the allergy space is predicated on our ability to develop new tests on the IDS-iSYS system and the early signs from the development programme are cause for encouragement."

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## Chairman's Statement

I am pleased to report the progress we have made this year, particularly in driving the continued growth of food intolerance products, along with the successful fundraising and acquisition of Allergopharma's IVD Allergy business.

### Strategy

The strategy to achieve growth through acquisition took a major step forward in the year, with the completion of the acquisition of Allergopharma's allergy business in December. As well as gaining control of the existing business in Germany with annual revenues of approximately €4m, we have also gained access to a large bank of over 600 allergens. As part of the strategy to build a global allergy business, we sought to expand the market potential by identifying the need to offer an automated instrument for such a large product range to meet the workflow needs of larger laboratories. To this end, the Group was successful in exclusively licensing the use of Immunodiagnostic Systems' IDS-iSYS automated system for allergy testing on a global basis. Whilst it will take time to develop tests on this platform, I believe the combination of a large number of allergens and the proven capabilities of the IDS-iSYS system provides a major opportunity to build a strategically coherent presence in the expanding allergy market. We also aim to adapt our in-house microarray system to provide a broad screening option for allergy providing a choice of diagnostic approaches to allergy specialists and if successful, we will also look to use the microarray platform to develop a panel of autoimmune tests.

Within our underlying business, we have previously recognised the need for continued growth of the Food Intolerance business and I am pleased to report that this division has again delivered growth in turnover. Sales of Genarray® systems and reagents have continued to perform with combined revenues of close to £1.7m compared to just over £1m last year. Elsewhere, our Infectious Disease business benefited from a full year of ownership of Co-Tek with sales of bacterial suspensions of £349k versus £176k the year before.

After the year end, we also announced a distribution agreement with Toyota for Food Detective® in the United States. Whilst it will take some time to complete the regulatory procedures, this will also be the first time the Group has been able to initiate a strategy of potentially building a presence in the US.

### Financial

Turnover for the Group increased to £7.9 million (2010: £6.2 million), an increase of 27% over last year, and includes three months of post acquisition trading from our German business. On a like-for-like basis excluding the acquisition, turnover has increased by 12% over the previous year. On the measure of profit, we consistently report on adjusted profit before tax so shareholders can more easily gauge our performance as compared to external market forecasts. The Group achieved an increase in adjusted profit before tax of 25% to £736k. This figure is arrived at by taking statutory profit before tax of £105k and then adding back analyst-adjusted items including IFRS-related discount charges of £22k, amortisation of intangible assets of £193k, share-based payment charges of £8k, acquisition costs of £412k, and fair value adjustments to financial derivatives of (£4k). In line with revised accounting standards, acquisition-related costs are now charged through the income statement which is a change over previous years.

Net finance costs have reduced further to £31k (2010: £97k) as the Company has continued to benefit from the benign environment for interest rates along with a continued reduction in loan balances and unwinding of discounts.

The Group achieved an adjusted profit after tax of £662k being adjusted profit before tax of £736k less the tax charge of £74k. This resulted in adjusted earnings per share of 1.7p (2010: 3.1p). Statutory profit after tax amounted to £31k (2010: £187k) which resulted in earnings per share of 0.1p versus earnings per share of 1.0p in the previous year.

In recognition of our presence in the allergy market, we are also amending the way we manage, review and report the performance of the business into three key segments; Food Intolerance, Allergy and Autoimmune and Infectious Disease/other. Where central costs are not allocated to any specific segment, these are shown as corporate costs and excluded from the divisional reporting results.

### Food Intolerance

The Food Intolerance division benefited from the continued growth in Genarray® systems. Total systems placements reached 95 by the end of the year and the relatively low cost per system means we continue to generate revenue from this activity with sales this year of £192k (2010: £213k). Reagent sales grew substantially, particularly in Spain, and total revenues reached £1.5 million compared to £0.8 million last year.

Food Detective® volumes grew following progress in supplying bulk components into China such that annual volumes reached over 41,000 compared to over 34,000 the year before. Food Detective® revenues fell marginally from £790k to £772k reflecting the mix towards bulk component supply but future growth is foreseen in countries beyond Europe which has historically underpinned much of the growth to date.

Overall, the Food Intolerance division generated revenues of £3.6 million compared to £3.0 million the year before and adjusted profit before tax grew to approximately £1.0 million from £0.6 million.

### Allergy and Autoimmune

In June last year, we set up Omega Diagnostics GmbH ('Omega GmbH') to acquire the allergy business from Allergopharma Joachim Ganzer KG, a transaction which completed on 21 December 2010. Omega GmbH incurred costs of approximately £90k in advance of acquiring the allergy business and incurred costs of a one-off nature of £120k between the acquisition and the end of the year. Divisional turnover was approximately £1.5 million versus £0.7 million the previous year reflecting three months of trading through Omega GmbH not present last year. Sales of autoimmune products fell by 11% to £584k (2010: £658k) reflecting increased competition from other companies, who are able to supply more automated solutions although developing our in-house microarray system may, in part, address this issue. Given the investment costs within Omega GmbH I have referred to, the adjusted profit before tax of this division was £37k compared to £157k the year before. Excluding these start up costs, underlying profitability in this division would have been over £200k. However, in the years ahead we see this division as having the potential to provide significant growth opportunity and I have alluded to the means of achieving this in the strategy section above.

### Infectious Disease/other

Our Infectious Disease division continues to operate in a price competitive environment across all the continental regions. Sometimes however, the supply of a quality product can make the difference and we have seen some business regained, particularly in Russia, where we lost out previously on price but have won back a customer for our Syphilis Immutrep™ product on quality and reputation. Following the acquisition of Co-Tek in 2009, we have also seen some growth both in our Micropath™ range of bacterial suspensions, particularly in Africa and the Middle East, and increased supply through UK OEM contracts. Overall, divisional turnover was approximately £2.8 million (2010: £2.6 million) and

yielded an adjusted profit before tax of £406k (2010: £386k).

#### **Balance sheet**

Following the acquisition in the year, the Group has intangible assets of £9.6 million (2010: £5.2 million) at the year-end comprised of goodwill of £5.0 million and intangible assets of £4.6 million. Those assets purchased as part of a business combination, where capable of being separately identified, are valued in line with current IFRS practice. Also included within intangible assets are paid and contracted licence fees due under the agreement signed with IDS. The Group performs annual impairment reviews and remains comfortable with the carrying value of its intangible assets given the growth and results for the year just ended along with future prospects.

Further to the placing of new shares in the year to raise funds (see below), the Group has eliminated its net debt position and now has net cash at the year-end of £0.4 million (2010: net debt of £1.26 million).

#### **Fund raising**

In December, the Company successfully raised £7.75 million (before expenses) via the placing of 64,583,350 new ordinary shares to fund the acquisition of the German allergy business and the development of the new instrumentation strategy I refer to above (see strategy section). We are very grateful for the support of our existing and new shareholders and hope to deliver a growth in value based on our outlined strategy.

#### **Board and employees**

I am grateful for the work and effort of all employees who ensured we have again delivered a promising set of results. I am also pleased to report that after the year-end, we appointed Jag Grewal as Group Sales and Marketing Director. We have also strengthened the senior management team with the appointment of Mr Ernst Mohler as Managing Director of Omega Diagnostics GmbH and Dr Edward Valente as Allergy systems Director and I look forward to working with Andrew and the expanded team to deliver the new potential that now exists within the Group.

#### **Outlook**

Trading in the first quarter of the year is in line with management expectation and we are optimistic for the export potential of the existing allergy products, having recently showcased these at an international trade show. Our ability to grow strategically in the allergy space is predicated on our ability to develop new tests on the IDS-iSYS system and the early signs from the development programme are cause for encouragement.

I look forward to updating you throughout the year.

#### **David Evans**

Non-executive Chairman  
1 July 2011

#### **Chief Executive's Review**

**I am pleased to report that the Group has seen an increase in revenue for the year to £7.90 million, some 27.4% ahead of last year's figures (2010: £6.20 million) with like-for-like sales increasing by 12%.**

#### **Strategy**

While increasing revenue and profits through organic growth, significant progress was made in the year by acquiring the business and certain assets of the Allergy IVD business of Allergopharma. The allergy tests acquired complement the Group's core Food Intolerance product offering. As well as the acquisition, it was recognised that to add more value we would need to enhance the future product offering by developing two new instrument systems which would allow us to access higher volume testing laboratories. (See Research and development).

#### **Food intolerance**

Food intolerance testing has seen growth of 21% in the year resulting in sales of £3.56 million (2010: £2.95 million).

For the Genarray<sup>®</sup> laboratory system and on-going reagent sales we have seen good growth in sales to £1.68 million (2010: £1.04 million). This growth has been achieved by the installation of 38 new systems as well as increasing the number of countries active with Genarray<sup>®</sup> by six. This now brings the total number of installed systems to 95 since launch. Sales of Genarray<sup>®</sup> systems fell slightly to £192k (2010: £212k) but sales of reagent kits increased dramatically to £1.49 million (2010: £828k). This shows the pull through effect of promoting Food Intolerance testing by placing new instruments and promoting test usage in partnership with our distributors.

The Food Detective<sup>®</sup> test for food intolerance has seen sales fall marginally to £772k (2010: £790k). The number of countries where we have now sold product has continued to increase to 54 (2010: 46) with an increase in volumes to 41,665 kits (2010: 34,241). These volumes included bulk components supplied to a Chinese customer who assembles the kits locally with the effect that revenue has fallen marginally. The process of product registration in China is still proceeding but we are still managing to secure small sales for market seeding and evaluation purposes. Product registration has recently been achieved in India for an Indian specific test panel and the product was launched in February 2011 by our partner in India, Thermo Fisher Scientific.

The UK market for Food Detective<sup>®</sup> has seen a reduction in sales to £127k (2010: £216k) following a move to using professional re-sellers with lower transfer pricing in return for higher volume sales. In response to this result we have taken steps to return to direct selling ourselves by using web-based marketing activities and targeted marketing to key customer groups. The testing services for food intolerance and other related tests have shown an increase in business to £452k (2010: £371k) which has mainly been due to increased sales to offshore accounts who send samples into the CNS laboratory for testing.

After the year end we signed an agreement with Toyota Tsusho America Inc for distribution of Food Detective<sup>®</sup> in the United States. There is an anticipated timeline of approximately one to two years to gain clearance by the US Food and Drug Administration ("FDA") before we can start selling the product but we believe the potential market to be substantial.

#### **Allergy/Autoimmune Disease**

##### **Allergy**

Since acquiring the Allergy range in December 2010 sales of £955k have been achieved which has been dominated by sales to the German domestic market. Export sales to Russia and Poland have commenced and it is the growth of export sales through the Omega distribution network that is a priority for the Financial Year ahead.

#### Autoimmune Disease

Sales of autoimmune tests decreased by 11% to £584k (2010: £658k) as a direct result of not being able to supply a dedicated instrument platform in an increasingly automated market. We see further reductions in this business likely unless we can offer an instrument platform or technology to compete in this market. The application of the Genarray<sup>®</sup> microarray technology to autoimmune disease testing still remains a possibility but other options are also being explored.

#### Infectious disease/other tests

Sales of infectious disease and other tests increased to £2.80 million (2010: £2.59 million) for the year representing an increase of 8% which reversed the trend over recent years. This was in part due to increased sales of the Micropath<sup>®</sup> stained bacterial suspensions produced by our Co-Tek subsidiary which we acquired in September 2009. Other growth came from regaining previously lost business and new OEM contract wins with our Immutrep<sup>®</sup> Syphilis product range.

#### Distribution Network

Growth has been recorded in most geographic regions of the world with the exception of North America which reduced by 13% to £267k (2010: £307k) due to lost tenders in several markets. The Asia/Far East region dropped marginally by 1% to £1.35 million (2010: £1.36 million). These reductions were more than offset by good growth in Africa/Middle East with sales rising by 24% to £1.47 million (2010: £1.19 million) and in the UK/European market by sales rising 48% to £4.45 million (2010: £3.01 million) as a result of the new additional allergy tests from our German subsidiary and strong performance with key users of the Genarray<sup>®</sup> Food Intolerance products. Sales to South/Central America rose by just over 10% to £361k (2010: £328k).

In last year's Report I mentioned the good growth rates being experienced in the IVD sector in Brazil, India and China. In the year, we have made efforts to concentrate on and expand our business in the BRIC group of countries (Brazil, Russia, India and China) and we have achieved some success in three out of the four target countries. In Brazil we increased sales by 50% across the Group, achieving total sales of £220k (2010: £147k), in Russia we increased sales by over 500% to £89k (2010: £13k) and in China we increased sales by 49% to £97k (2010: £65k). Only India showed marginal growth at 4% with sales rising to £499k (2010: £480k). However, with the signing of the Food Detective<sup>®</sup> distribution agreement with Thermo Fisher Scientific in the latter part of the year, we expect this to provide a positive impact in the year ahead. Several other initiatives are being explored to enhance our growth in these key countries.

#### Research and development

Our move into the allergy testing market now drives our R&D activity with the development of two new allergy instrument platforms, both of which are being funded by the Allergopharma acquisition fund-raising.

1. IDS-iSYS - in March 2011 we signed an exclusive Licence Agreement with Immunodiagnostic Systems Holdings plc (IDS) for the worldwide rights to develop and distribute allergy tests on its successful and US FDA-cleared IDS-iSYS automated instrument. IDS will supply the instruments and other consumables necessary to enable us to develop and distribute allergy tests through our worldwide distribution network. Although the development will take around one year to complete, the early signs are encouraging.
2. Genarray<sup>®</sup> - we are aiming to apply the expertise used to develop and produce the IgG Food Intolerance microarray technology to routine IgE allergy testing. This requires development and adaptation of the existing technology so that it can be used on an automated testing instrument which will allow the test to be used in higher test volume laboratories. Initial feasibility studies have proven successful but a substantial effort is still required before a product and new instrument can be launched.

Work was also completed on an Indian variant of the Food Detective<sup>®</sup> macroarray test which completed its registration formalities during the year and was formally launched in India in February 2011.

#### Outlook

The outlook for the new financial year is very encouraging with the addition of the allergy test range and with other organic growth opportunities being actively pursued. There are still difficulties with some Eurozone countries but we fully expect that our anticipated growth in the BRIC countries will yield major growth going forward and counter any negative effects experienced elsewhere in the world.

The recent announcement of 19 May 2011 regarding Cinven's intended disposal of Phadia to Thermo Fisher Scientific on a 6.7x multiple of revenue and 16.6x EBITDA only goes to show the high valuations possible in the world of allergy testing. With our recent acquisition and the new development programmes which we have commenced in this year, it is our ambition to add significant value to the Group. Going forward we expect to see this reflected in a share price which more accurately reflects the true value of the Group.

#### Andrew Shepherd

Chief Executive  
1 July 2011

#### Financial Review

The Group has reported an increase in adjusted profit before tax of 25%, up to £735,831 (2010: £589,511). The Group reports on adjusted profit before tax (excluding IFRS-related items of share-based payment charges, amortisation of intangible assets, discount charges, fair value adjustments to financial derivatives and acquisition costs) to provide a better understanding of the results of our normal trading activities compared to external research forecasts. In the year, the Group set up Omega Diagnostics GmbH ('Omega GmbH'), a wholly owned subsidiary to acquire the IVD Allergy Business from Allergopharma which completed at the end of December 2010. The Group results contain the results of Omega GmbH, which include costs incurred before the acquisition of the IVD Allergy Business as well as the contribution from three months of trading for the period from acquisition to 31 March 2011. The Group is also now reporting across three main divisions comprised of Food Intolerance, Allergy/Autoimmune and Infectious Disease/Other.

#### Trading activities

##### Revenue

Total revenue for the year grew by 27% to £7,902,036 (2010: £6,198,742). On a like-for-like basis excluding the allergy

revenue from Omega GmbH, sales grew by 12%. On a divisional basis, revenues were as follows:

#### Food Intolerance

Revenue for our Food Intolerance division underwent good organic growth of 21% to £3,559,110 (2010: £2,953,040). Sales of Genarray<sup>®</sup> systems and kits had a strong performance, particularly in certain European and Middle Eastern countries and the provision of consumables to an overseas customer to enable them to launch their own Foodprint<sup>®</sup> laboratory service has also met with some success.

#### Allergy and Autoimmune

Revenue from the Allergy and Autoimmune division was supplemented by the acquisition of the Allergy IVD Business of Allergopharma in December 2010. Allergy revenue in the three months of trading post acquisition amounted to £955,153, the majority of which is derived in Germany from sales to end-user doctor practices. Sales of Autoimmune products decreased in the year by 11% due to the activity of competitors able to offer more automated instrumentation solutions, particularly in Italy and the UK.

#### Infectious Disease/Other

The Infectious Disease division operates in the most price competitive sector of the IVD market. Despite this, revenue from this division has grown by 8% to £2,803,720 (2010: £2,587,818). The division benefited from a full year of revenue through our Co-Tek subsidiary which supplies products for bacterial infections. We were also successful with our Immutrep<sup>®</sup> range of Syphilis products in Russia, winning back business lost in previous years and in Brazil, gains were made across a range of products. These increases in sales more than offset reductions seen in Australia and Iran.

#### Gross profit

Gross profit for the year was £4,706,294 (2010: £3,616,220) yielding a small overall improvement in gross margin percentage to 59.6% (2010: 58.3%). However, the performance in the second half of the year has shown a bigger improvement, yielding a margin of 61.1% compared to 57.4% in the first half of the year. This is primarily down to two factors; firstly, the benefits of higher margins achievable in the allergy sector and secondly, a reflection of twice as many Genarray<sup>®</sup> systems being sold in the first half compared to the second half and on which lower margins are returned. We expect the gross margin to continue to increase in the future as more of the divisional mix will shift to the higher margin allergy business.

#### Administration costs

Administration costs have increased by £1,000,202 to £3,508,810 (2010: £2,508,608). The single largest rise is attributable to additional costs of £521,102 (2010: £Nil) through Omega GmbH which includes £74,155 (2010: £Nil) of intangible asset amortisation and £32,117 (2010: £Nil) of depreciation through this entity itself. Also included are acquisition-related costs of £412,045 (2010: £Nil) following the adoption of IFRS3 Revised which requires such costs to be shown through the income statement as opposed to the balance sheet as previously.

The remaining net increase of £67,055 may be accounted for as follows; intangible asset amortisation at Group level (i.e. additional to £74,155 above) has increased by £10,002 reflecting a full year of ownership of Co-Tek. Depreciation excluding GmbH has increased by £9,251 reflecting the growth in the capital asset base. General headcount and infrastructure costs have risen by £218,304 in line with the increasing size of the Group and share-based payment charges have reduced by £170,502 which reflects the end of the vesting period in the prior year of a large block of share options granted in December 2008.

#### Selling and marketing costs

Selling and marketing costs have increased by £268,395 to £1,069,027 which is predominantly down to the additional costs through Omega GmbH.

#### Adjusted Profit before tax

As mentioned above, the Group reports adjusted profit before tax to provide shareholders with the measure of profit for a better comparison with external market forecasts. The adjusted profit before tax for the year increased by 25% to £735,831 (2010: £589,511). There is a full reconciliation on page 28 between adjusted profit before tax highlighted here and the statutory profit before tax of £105,124 (2010: £210,008). In line with the new divisional reporting structure, the adjusted profit before tax of each division is summarised as follows:

#### Food Intolerance

This division reported adjusted profit of £983,285 (2010: £550,053) providing a net contribution of 28% (2010: 19%) the growth of which is primarily represented by the increase in the higher margin Genarray<sup>®</sup> business in Spain. This division remains the largest segment of the Group at present and continues to offer growth, especially in BRIC countries as highlighted by Andrew on page 12.

#### Allergy and Autoimmune

This division reported adjusted profit of £36,604 (2010: £157,058) providing a net contribution of 2% (2010: 24%). The apparent reduction is accounted for by the setting up of Omega GmbH prior to the acquisition of the German Allergy Business. Costs of £90,420 were incurred prior to the acquisition to ensure key people and systems were organised and implemented, reflecting the 'carve-out' nature of the transaction and the need to ensure the acquired business was functionally operational from day one. A large element of this cost was the hiring of key personnel on an agency basis which provides for a quicker appointment but is traditionally more expensive than hiring on a permanent basis. The higher level of cost continued to be incurred up until the year-end but we have been fortunate in converting two people into permanent positions after the year end which will save resources going forward.

#### Infectious Disease/Other

This division reported adjusted profit of £405,874 (2010: £386,102) and a net contribution of 14% (2010: 15%). As noted above, this sector is the most competitive sector in which the Group operates and is the most mature by product range. Nevertheless, the Group has managed to maintain performance and will continue to look at niche opportunities.

#### Corporate costs

Centralised costs which are regarded as not relating to any division in particular are treated as corporate costs within our segmental reporting as highlighted on page 40.

#### Finance costs

Finance costs reduced further in the year to £33,052 (2010: £97,909) principally due to lower discount unwinds of £72,990 on the vendor loan note and the falling away of Genesis-related earn-out payments which were finally settled last year. Interest on bank borrowings and finance leases reduced by £17,069, reflecting the average reduction in borrowing levels and net gains on financial derivatives. Currency gains on US dollar borrowings reduced by £25,202 but

still showed a small gain overall of £16,776 (2010: £41,978).

#### **Taxation**

There is a tax charge of £73,667 (2010: £22,909) in the year, comprising a charge for current tax of £125,148 (2010: £33,177) and a deferred tax credit of £51,481 (2010: £10,268). The apparent rise in the tax charge compared to unadjusted profit before tax is due to the non-deductibility of acquisition-related costs and intangible asset amortisation for tax purposes. Prior year adjustments to the tax charge arise when there are differences between estimated figures chargeable to tax and final tax computations.

#### **Earnings per share**

Adjusted earnings per share (EPS) amounted to 1.7p (2010: 3.1p) and is arrived at by taking adjusted PBT of £735,831 minus the tax charge of £73,667 and dividing by 38,278,631 being the weighted average number of shares in issue for the year. The IFRS measure of EPS amounted to 0.1p in the year (2010: 1.0p).

#### **Acquisitions**

##### **Acquisition of IVD Allergy Business from Allergopharma**

During June 2010, the Group set up Omega Diagnostics GmbH as a wholly owned subsidiary with the purpose to acquire the Allergy Business previously belonging to Allergopharma in Reinbek, Germany. The transaction completed on 21 December 2010 following the successful placing of new shares to raise funds to meet the acquisition price. The Group paid a cash consideration of £4.9 million after working capital adjustments at completion and related acquisition costs amounted to £1.1 million. There is further detail in note 8 to the Financial Statements.

#### **Treasury operations**

##### **Currency management**

The Group conducts its operations in three main currencies being sterling, euros and US dollars. In the case of transactions in euros and US dollars, the Group may be exposed to fluctuations in the rates of exchange against sterling. Where possible, the Group operates a natural hedge by entering into transactions of both a buying and selling nature that limits the risk of adverse exchange rate losses. The Company continues to hold a portion of its borrowings in US dollars where this loan can be serviced from a net surplus of US dollars generated from its trading activities. The exchange rate between sterling and the US dollar has been relatively stable throughout the year such that a translation gain of £16,776 (2010: £41,978) has been recorded on these borrowings offset by a loss on trading operations of £22,108 (2010: £28,146) included within Administration costs.

The Group's net investment in and funding of Omega GmbH is in euros, which will give rise to foreign exchange variations from one period to another. In the year, a foreign exchange gain arose of £189,009 which has been included within other comprehensive income.

##### **Interest rate management**

The Group operates certain derivative financial instruments for its sterling and US dollar borrowings. In the case of its sterling loan, the Group has an agreement with Bank of Scotland whereby the base rate element of the interest charge has been capped at 5.5% for the entire remaining term. In the case of the US dollar loan, the Group has two agreements with Bank of Scotland, one to cap the interest rate based on US Libor at 5% and one to operate a floor rate on US Libor of 2.25%. Under IFRS, these derivative financial instruments are required to be disclosed at their fair values as either assets or liabilities and there has been a fair value adjustment gain through the income statement of £4,086 (2010: £2,580). Accordingly, at the balance sheet date, the Group had assets of derivative financial instruments of £Nil (2010: £196) and liabilities of derivative financial instruments of £3,435 (2010: £7,717).

#### **Financing**

In December 2010, the Group successfully raised £7.75 million of new equity finance before expenses of £1.1 million, to fund the acquisition of Allergopharma's IVD Allergy Business for £4.9 million. The additional working capital is being used to fund worldwide exclusive access to the fully automated IDS-iSYS instrument, licensed from Immunodiagnostic Systems, for allergy use. The funds will also be used to develop allergy tests from the wide bank of allergens which we now have so that they may be run on this closed-system platform and we also aim to adapt our in-house microarray platform so that this too may provide a fully automated solution for a broad range of allergens in a single screen.

The fundraising involved the issue of 64,583,350 new ordinary shares to existing and new shareholders and we are grateful to the support we received in enabling the Group to enter the exciting allergy sector of the IVD market.

#### **Cash flow**

Net cash inflow for the year was £1,355,113 (2010: £66,246) which meant that at the year end, the Group had cash and cash equivalents of £2,054,877 (2010: £678,800). Net cash flow generated from operations appears on the face of the Cash Flow Statement as £348,183 (2010: £212,283). The change to adopting IFRS 3 (Revised) requires acquisition-related costs to be expensed through the income statement and to be treated as an operating cashflow, despite the fact that these costs would not have been incurred without the underlying investing activity of acquiring the allergy business. Excluding these acquisition-related costs, cash flow generated from operations is £760,228. With the excess of new funds raised over and above the outflow on the acquisition in the year, the Group has eliminated its net debt and had net cash of £446,546 (2010: £1,258,376 net debt) at the year-end.

#### **Capital management**

The Group funds its operations with a mixture of short-term and long-term borrowings or equity as appropriate with a view to maximising returns for shareholders whilst safeguarding the ability to continue to operate as a going concern. The financial performance of the Group is measured and monitored on a monthly basis and the Group manages its working capital requirements to ensure it continues to operate within the covenant limits applicable to any borrowing facilities. The use of funds for acquisitions is closely monitored by the Board so that existing funds are not adversely impacted by such activity and the Board reviews and approves an annual budget to help ensure it has adequate facilities to meet all its operational needs.

#### **Outlook**

I am encouraged with the ongoing integration of Omega GmbH into the Group and trading in the first two months of the new financial year has contributed unaudited profit of approximately £120k in this period.

**Kieron Harbinson**  
Group Finance Director

1 July 2011

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 March 2011

	2011 £	2010 £
<b>Continuing operations</b>		
<b>Revenue</b>	7,902,036	6,198,742
Cost of sales	<u>(3,195,742)</u>	<u>(2,582,522)</u>
<b>Gross profit</b>	4,706,294	3,616,220
Administration costs	(3,508,810)	(2,508,608)
Selling and marketing costs	(1,069,027)	(800,632)
Other income - government grants and related assistance	<u>7,769</u>	<u>500</u>
<b>Operating profit</b>	136,226	307,480
Finance costs	(33,052)	(97,909)
Finance income - interest receivable	1,950	437
<b>Profit before taxation</b>	105,124	210,008
Tax charge	(73,667)	(22,909)
<b>Profit for the year</b>	<u>31,457</u>	<u>187,099</u>
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign operations	189,009	-
Actuarial gain on defined benefit pensions	<u>41,984</u>	<u>-</u>
<b>Other comprehensive income for the year</b>	230,993	-
<b>Total comprehensive income for the year</b>	<u>262,450</u>	<u>187,099</u>

**Earnings Per Share (EPS)**

Basic and Diluted EPS on profit for the year

0.1p

1.0p

**Adjusted Profit before Taxation**  
For the year ended 31 March 2011

	2011 £	2010 £
<b>Profit before taxation</b>	105,124	210,008
IFRS related discount charges (included within Finance costs)	21,968	94,958
Fair value adjustments to financial derivatives (included within Finance costs)	(4,086)	(2,580)
Amortisation of intangible assets (included within Administration costs)	192,907	108,750
Share based payment charges (included within Administration costs)	7,873	178,375
Acquisition costs (included within Administration costs)	<u>412,045</u>	<u>-</u>
<b>Adjusted profit before taxation</b>	<u>735,831</u>	<u>589,511</u>

**Earnings Per Share (EPS)**

Adjusted EPS on profit for the year

1.7p

3.1p

Adjusted profit before taxation is derived by taking statutory profit before taxation and adding back IFRS-related discount charges, amortisation of intangible assets, share-based payment charges, acquisition costs and fair value adjustments to financial derivatives. This is not a primary statement.



**Consolidated Balance Sheet**  
as at 31 March 2011

	2011 £	2010 £
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangibles	9,605,259	5,159,774
Property, plant and equipment	1,954,485	672,903
Deferred taxation	84,913	96,074
Retirement benefit surplus	41,984	-
Derivative financial instruments	-	196
	<u>11,686,641</u>	<u>5,928,947</u>
<b>Current assets</b>		
Inventories	1,273,971	814,344
Trade and other receivables	2,369,701	1,682,263
Income tax receivable	16,683	45,527
Cash and cash equivalents	2,054,877	678,800
	<u>5,715,232</u>	<u>3,220,934</u>
<b>Total assets</b>	<u>17,401,873</u>	<u>9,149,881</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Issued capital	12,977,107	5,930,962
Retained earnings	(10,751)	(281,074)
Total equity	<u>12,966,356</u>	<u>5,649,888</u>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Long-term borrowings	1,275,832	1,593,491
Other financial liabilities	549,663	-
Deferred taxation	520,607	583,249
Derivative financial instruments	3,435	7,717
Total non-current liabilities	<u>2,349,537</u>	<u>2,184,457</u>
<b>Current liabilities</b>		
Short-term borrowings	332,499	343,685
Trade and other payables	1,615,705	862,878
Income tax payable	137,776	108,973
Total current liabilities	<u>2,085,980</u>	<u>1,315,536</u>
Total liabilities	<u>4,435,517</u>	<u>3,499,993</u>
<b>Total equity and liabilities</b>	<u>17,401,873</u>	<u>9,149,881</u>



**Consolidated Statement of Changes in Equity**  
for the year ended 31 March 2011

	Share capital £	Share premium £	Retained earnings £	Total £
<b>Balance at 31 March 2009</b>	1,362,246	3,649,523	(646,548)	4,365,221
Issue of share capital for cash consideration	200,000	800,000	-	1,000,000
Expenses in connection with share issue	-	(80,807)	-	(80,807)
Profit for the year ended 31 March 2010	-	-	187,099	187,099
Total comprehensive income	-	-	(459,449)	5,471,513
Share-based payments	-	-	178,375	178,375
<b>Balance at 31 March 2010</b>	<b>1,562,246</b>	<b>4,368,716</b>	<b>(281,074)</b>	<b>5,649,888</b>
Issue of share capital for cash consideration	2,583,334	5,166,668	-	7,750,002
Expenses in connection with share issue	-	(703,857)	-	(703,857)
Profit for the year ended 31 March 2011	-	-	31,457	31,457
Other comprehensive income - net exchange adjustments	-	-	189,009	189,009
Other comprehensive income - actuarial gain on defined benefit pensions	-	-	41,984	41,984
Total comprehensive income	-	-	(18,624)	12,958,483
Share-based payments	-	-	7,873	7,873
<b>Balance at 31 March 2011</b>	<b>4,145,580</b>	<b>8,831,527</b>	<b>(10,751)</b>	<b>12,966,356</b>



**Consolidated Cash Flow Statement**  
for the year ended 31 March 2011

	2011 £	2010 £
<b>Cash flows generated from operations</b>		
Profit for the year	31,457	187,099
Adjustments for:		
Taxation	73,667	22,909
Finance costs	33,052	97,909
Finance income	(1,950)	(437)
Operating profit before working capital movement	136,226	307,480
Increase in trade and other receivables	(623,918)	(360,405)
Decrease / (increase) in inventories	95,707	(48,964)
Increase / (decrease) in trade and other payables	466,544	(24,926)
(Gain) / loss on sale of property, plant and equipment	(3,949)	1,873
Depreciation	144,294	102,925
Amortisation of intangible assets	192,907	108,750
Share-based payments	7,873	178,375
Taxation paid	(67,501)	(52,825)
<b>Net cash flow from operating activities</b>	<b>348,183</b>	<b>212,283</b>
<b>Investing activities</b>		
Finance income	1,950	437
Purchase of property, plant and equipment	(200,977)	(90,485)
Purchase of intangible assets	(563,653)	-
Sale of property, plant and equipment	5,499	2,540
Outflow on acquisition of subsidiaries	(4,916,049)	(580,699)
<b>Net cash used in investing activities</b>	<b>(5,673,230)</b>	<b>(668,207)</b>
<b>Financing activities</b>		
Finance costs	(26,446)	(42,010)
Proceeds from issue of share capital	7,750,002	919,193
Expenses of Share Issue	(703,857)	-
Loan repayments	(276,744)	(273,283)
Finance lease repayments	(62,795)	(81,730)
<b>Net cash from financing activities</b>	<b>6,680,160</b>	<b>522,170</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,355,113</b>	<b>66,246</b>
Effects of exchange rate movements	20,964	-
Cash and cash equivalents at beginning of year	678,800	612,554
<b>Cash and cash equivalents at end of year</b>	<b>2,054,877</b>	<b>678,800</b>



**Notes to the Preliminary Announcement**  
for the year ended 31 March 2011

**1. Basis of preparation**

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in Section 434(3) of the Companies Act 2006.

The consolidated balance sheet at 31 March 2011 and the consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and associated notes for the year then ended have been extracted from the Group's financial statements which were approved by the Board of Directors on 1 July 2011 and are audited.

The comparative consolidated financial information for the year ended 31 March 2010 is based on an abridged version of the Group's published financial statements for that year, which contained an unqualified audit report and which have been filed with the Registrar of Companies.

The statutory accounts for 2011 will be finalised on the basis of the financial information presented in this preliminary announcement and will be delivered to the registrar of companies following the company's annual general meeting.

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2011.

*Basis of consolidation*

The Group financial statements consolidate the financial statements of Omega Diagnostics Group PLC and the entities it controls (its subsidiaries). Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are based on consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated.

**2. Segment information**

**Business segment information**

	Allergy and Autoimmune £	Food Intolerance £	Infectious/ Other £	Corporate £	Group £
2011					
<b>Statutory presentation</b>					
Revenue	1,539,206	3,997,989	2,862,036	-	8,399,231
Inter-segment revenue	-	(438,879)	(58,316)	-	(497,195)
Total revenue	1,539,206	3,559,110	2,803,720	-	7,902,036
Operating costs	(1,593,544)	(2,654,718)	(2,421,619)	(1,103,599)	(7,773,480)
Operating profit/(loss)	(54,338)	904,392	382,101	(1,103,599)	128,556
Other operating income	-	4,000	3,769	-	7,769
Net finance costs	-	(7,068)	-	(24,133)	(31,201)
<b>Profit/(loss) before taxation</b>	<b>(54,338)</b>	<b>901,324</b>	<b>385,870</b>	<b>(1,127,732)</b>	<b>105,124</b>
<b>Adjusted profit before taxation</b>					
Profit/(loss) before taxation	(54,338)	901,324	385,870	(1,127,732)	105,124
IFRS-related discount charges	-	-	-	21,968	21,968
Fair value adjustments to financial derivatives	-	-	-	(4,086)	(4,086)
Amortisation of intangible assets	90,942	81,961	20,004	-	192,907
Acquisition costs	-	-	-	412,045	412,045
Share-based payment charges	-	-	-	7,873	7,873
<b>Adjusted profit/(loss) before taxation</b>	<b>36,604</b>	<b>983,285</b>	<b>405,874</b>	<b>(689,932)</b>	<b>735,831</b>
2010					
<b>Statutory presentation</b>					
Revenue	657,884	3,368,599	2,625,115	-	6,651,598
Inter-segment revenue	-	(415,559)	(37,297)	-	(452,856)
Total revenue	657,884	2,953,040	2,587,818	-	6,198,742
Operating costs	(521,563)	(2,469,454)	(2,212,218)	(688,526)	(5,891,761)
Operating profit/(loss)	136,321	483,586	375,600	(688,526)	306,981
Other operating income	-	-	500	-	500
Net finance costs	-	(11,544)	-	(85,929)	(97,473)
<b>Profit/(loss) before taxation</b>	<b>136,321</b>	<b>472,042</b>	<b>376,100</b>	<b>(774,455)</b>	<b>210,008</b>

**Adjusted profit before taxation**

Profit/(loss) before taxation	136,321	472,042	376,100	(774,455)	210,008
IFRS-related discount charges	-	-	-	94,958	94,958
Fair value adjustments to financial derivatives	-	-	-	(2,580)	(2,580)
Amortisation of intangible assets	20,737	78,011	10,002	-	108,750
Share-based payment charges	-	-	-	178,375	178,375
<b>Adjusted profit/(loss) before taxation</b>	<b>157,058</b>	<b>550,053</b>	<b>386,102</b>	<b>(503,702)</b>	<b>589,511</b>

**3. Finance costs**

	2011 £	2010 £
Interest payable on loans and bank overdrafts	24,624	35,396
Exchange difference on loans	(16,776)	(41,978)
Unwinding of discounts	21,968	31,131
Fair value adjustment to acquisition	-	63,826
Fair value adjustment to financial derivatives	(4,086)	(2,580)
Finance leases	7,322	12,114
	<b>33,052</b>	<b>97,909</b>

**4. Earnings per share**

Basic Earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Diluting events are excluded from the calculation when the average market price of ordinary shares is lower than the exercise price.

	2011 £	2010 £
Profit attributable to equity holders of the Group	<b>31,457</b>	187,099

  

	2011 number	2010 number
Basic average number of shares	<b>38,278,631</b>	18,153,455
Share options	-	471,581
Diluted weighted average number of shares	<b>38,278,631</b>	18,625,036

**Adjusted Earnings per share on profit for the year**

The Group presents adjusted earnings per share which is calculated by taking adjusted profit before taxation and deducting the tax charge in order to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends and financial performance.

	2011 £	2010 £
Adjusted profit attributable to equity holders of the Group	<b>662,164</b>	566,602

**5. Acquisition of subsidiaries**

On 21 December 2010, the Group acquired the business and certain assets of the in-vitro allergy diagnostics business of Allergopharma Joachim Ganzer KG.

The Group incorporated a 100% owned subsidiary, Omega GmbH, which was used to purchase the business and assets. The business specialises in the research, development, production and marketing of in-vitro allergy tests used by doctors to diagnose patients with allergies.

The consolidated financial statements include the results for the period from 21 December 2010 to 31 March 2011. The fair values of the identifiable assets and liabilities at the date of acquisition were:

	Omega GmbH book value £	Fair value adjustments £	2011 Total £	2010 Total
Intangible assets				
- supply arrangements	-	529,000	<b>529,000</b>	-
- technology assets	-	166,000	<b>166,000</b>	-
- customer relationships	-	1,135,000	<b>1,135,000</b>	100,000
Property, plant and equipment	1,332,491	(151,107)	<b>1,181,384</b>	50,310
Inventories	677,059	(121,725)	<b>555,334</b>	3,000
Trade and other receivables	63,520	-	<b>63,520</b>	66,895
Cash and cash equivalents	-	-	-	1,554
Trade and other payables	(182,156)	(104,130)	<b>(286,286)</b>	(16,079)
Income tax payable	-	-	-	(27,780)
Deferred tax liability	-	-	-	(29,908)
Net assets	1,890,914	1,453,038	<b>3,343,952</b>	147,992
Goodwill on acquisition			<b>1,572,097</b>	332,986
			<b>4,916,049</b>	480,978
Fair value of consideration			<b>4,916,049</b>	400,000
Acquisition costs			<b>1,115,902</b>	80,978
			<b>6,031,951</b>	480,978

#### Cost of the acquisition

The total acquisition cost of £4,916,049 was settled in one cash payment. Acquisition costs amounted to £1,115,902 (£412,045 is included within administration costs in the statement of comprehensive income).

#### Funding

To fund the cost of the acquisition, the Group raised £7,750,002 (before expenses of £703,857) via the placing of 64,583,350 new ordinary shares at a price of 12p per share.

From the date of incorporation, Omega GmbH has contributed revenue of £955,153 and a pre-tax loss of £210,718 to the Group result for the year. This is split between a loss of £90,420 in the period from 30 June 2010 (date of incorporation) to 21 December 2010 and a loss of £120,298 between 21 December 2010 (date of acquisition) and 31 March 2011, being the trading period post acquisition of the business and assets.

The result for the trading period post acquisition would have been an operating profit of approximately £100,000 however the actual result was impacted by one off agency costs, one off IT training costs as well as intangible asset amortisation and inter-group interest charged based on funding levels provided.

The combined revenue and profit before tax for the Group, assuming the business and assets had been acquired at the start of the period would have been £10,767,495 and £405,124 respectively.

#### Goodwill

The acquisition of the business and certain assets of the in-vitro allergy business has resulted in goodwill of £1,572,097. This amount of goodwill is the total amount deductible for tax purposes in line with current German tax law.

This goodwill represents the advantages, synergies and strategic value to be derived from adding the business to the Group as follows:

- driving export sales of current IVD business allergy products through the existing Omega international distribution network
- apply existing Genarray<sup>®</sup> microarray test platform to IgE allergy screening. Automation of the test procedure will allow more rapid processing of higher test volumes
- developing an instrumentation strategy for performing allergy diagnostics through an automated 'closed system' instrument through an agreement with Immunodiagnostic Systems Holdings Plc.

In the prior year, on 28 September 2009, the Group acquired 100% of the voting shares of Co-Tek (South West) Ltd, an unlisted Company in Devon, UK. Co-Tek is a manufacturer of stained bacterial suspensions for the diagnosis of bacterial diseases including Typhoid, Brucellosis and Rickettsia.

The total acquisition cost of £480,978 for Co-Tek comprised a cash payment of £400,000 and acquisition costs amounting to £80,978.

To fund the cost of the Co-Tek acquisition the Group raised £1,000,000 (before expenses of £80,807) via the placing of 5,000,000 new ordinary shares at a price of 20p per share.

#### 6. Annual General Meeting

The Annual General Meeting will be held at the British In Vitro Diagnostics Association, 1 Queen Anne's Gate, London, SW1H 9BT on 23 August 2011 at 11am.

#### 7. Annual Report

The annual report will be sent to shareholders shortly and will also be available at the registered office of Omega Diagnostics Group plc at:

One London Wall, London, EC2Y 5AB

and will be made available on the Company's website at:

[www.omegadiagnostics.com](http://www.omegadiagnostics.com)

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