horizon

Annual Results

Released : 08/05/2018 07:00

RNS Number : 2669N
Horizon Discovery Group plc
08 May 2018

Horizon Discovery Group plc

("Horizon" or "the Company" or "the Group")

Preliminary Results for the Year Ended 31 December 2017

Cambridge, UK, 8 May 2018: Horizon Discovery Group plc (LSE: HZD), a global leader in gene editing and gene modulation technologies, announces its preliminary results for the year ended 31 December 2017.

Highlights (including post period end)

Financial

- Group revenue increased by 52% to £36.5m, 50% on a constant currency basis (FY16: £24.1m)
- Organic Group revenue excluding Dharmacon increased by 14% to £27.5m
- Product revenues increased by 101% to £22.8m, 101% on a constant currency basis (FY16: £11.3m)
- Organic product revenue growth of 22.8% to £13.8 million, excluding acquired Dharmacon revenues
- Services revenues increased by 7% to £13.7m, 4% on a constant currency basis (FY16: £12.8m)
- Group gross margin increased to 62% (FY16: 54%) driven by significantly increased Services margins
- EBITDA from Products and Services before exceptional items and non-recurring site closure costs of £1.1m (FY16: £4.0m loss)
- Closing cash and cash equivalents of £28.1m (FY16: £6.1m) strengthened by £80m(gross) capital raise in August 2017 which satisfied the £38.0m cash consideration component for the Dharmacon acquisition

Operational

- Uniquely positioned to capitalise on significant market opportunity with our addressable markets estimated by management to be worth £2.2 billion and growing at approximately 20% per year
- Transformational acquisition of Dharmacon from General Electric adding gene modulation capabilities, additional revenue and global cross-selling opportunities to the Group
- Strong Dharmacon gross margin of 63% in the four months from 1 September 2017
- Completed the consolidation of Boston high-throughput screening facility and Vienna cell line manufacturing facility into *in vitro* Centre of Excellence at Cambridge, UK, headquarters
- Strengthened commercial operation and enhanced eCommerce function through Dharmacon acquisition
- Deepening of core gene editing capabilities through global exclusive license of novel Transposon technology and expansion of CRISPR licenses
- Terry Pizzie appointed as Chief Executive Officer of the Group with immediate effect - see separate announcement issued today

Terry Pizzie, the newly appointed Chief Executive Officer of Horizon Discovery, said: *"2017 was a transformational year for the Group with: the acquisition of Dharmacon - which is already performing well with more value enhancement synergies becoming apparent every day; an over-subscribed £80 million fundraising; the deepening of our core gene editing capabilities; the strengthening of our commercial operations; and the rationalisation of internal operations, such that the business is fit to scale. These activities have significantly enhanced the Group's operations and Horizon Discovery is now a global leader in the gene editing and gene modulation market and has the technical and commercial platforms in place to deliver significant value for shareholders.*

"In the first quarter the Group has made a solid start to the year and is trading in line with Board expectations. We have continued to deliver growth, while implementing operational efficiency and cost control measures that together have put the Group on a path to sustainable and profitable growth. With a clear vision and strategy for the business, a strong team in place focused on delivery, and good long-term growth prospects from our underlying business, we have high confidence for the future."

Ian Gilham, Executive Chairman, added: *"Horizon has had a successful 2017 and has established itself as a market leader across the RNAi and CRISPR end-markets, which are expected to grow at a CAGR of approximately 18 percent between 2017 and 2021. Furthermore, given limited direct competition in its core focus areas, the Company expects to accelerate its penetration of multiple fast growing gene modulation and gene editing market segments including engineered in vitro and in vivo disease models, cell based assays and screening, bioproduction and molecular diagnostics, all of which are expected to grow at double-digit percentages in the near term.*

"With Terry's appointment today, Horizon has a strong and highly experienced management team who are ideally positioned to execute Horizon's growth plan and create value for shareholders."

ENDS

Analyst briefing

An analyst briefing will be held at 12:00pm BST on Tuesday 8 May 2018 at the offices of Numis Securities Ltd., 10 Paternoster Sq., London, EC4M 7LT. There will be a simultaneous live conference call and the presentation will be available on the Group's website at www.horizondiscovery.com.

Please visit the website approximately five minutes before the conference call, at 11:55 am BST, to download the presentation slides. Conference call details:

- **Participant UK dial-in:** 0800 694 0257
- **Participant US dial-in:** +1 631 5107 498
- **International dial-in:** +44 (0) 1452 555566
- **Participant code:** 5580199

An audio replay file will be made available by the end of the day on the Group's website at https://www.horizondiscovery.com/about-us/investor-relations.

For further information, please contact:
Horizon Discovery Group plc
Ian Gilham, Executive Chairman
Terry Pizzie, Chief Executive Officer
Richard Vellacott, Chief Financial Officer
Tel: +44 (0) 1223 655 580

Consilium Strategic Communications (Financial Media and Investor Relations)
Mary-Jane Elliott / Matthew Neal / Melissa Gardiner
Tel: +44 (0) 20 3709 5701
Email: horizon@consilium-comms.com

Numis Securities Limited (Broker and NOMAD)
Michael Meade / Freddie Barnfield
Tel: +44 (0) 207 260 1000

About Horizon Discovery Group plc www.horizondiscovery.com

Horizon Discovery Group plc (LSE: HZD) ("Horizon") is a world leader in gene editing and gene modulation technologies. Horizon delivers inspired cell solutions using its translational genomics platform, a highly precise and flexible suite of DNA editing (rAAV, ZFN, CRISPR and Transposon) and modulation (RNAi, cDNA and ORF) tools for research and clinical applications that advance human health. Horizon's platforms and capabilities enable researchers to alter almost any gene or modulate its function in human or mammalian cell lines.

Horizon offers an extensive range of catalogue products and related research services to support a greater understanding of the function of genes across all species and the genetic drivers of human disease and the development of personalized molecular, cell and gene therapies. These have been adopted by over 10,000 academic, drug discovery, drug manufacturing and clinical diagnostics customers around the globe, as well as in the Company's own R&D pipeline.

Horizon is headquartered in Cambridge, UK, and is listed on the London Stock Exchange's AIM market under the ticker "HZD".

Chairman's statement

This year Horizon has taken significant strides in delivering its growth strategy as we transition from building scale organically and through acquisitions towards becoming a sustainably profitable business driven by customer demand for our market-leading products and services. I believe we have the technology and commercial platforms in place to generate significant value for shareholders.

The most impactful of our acquisitions was Dharmacon, Inc. from General Electric in August 2017. Horizon is now a global market leader in the application of gene editing and gene modulation, offering integrated cell solutions to customers supported by a talented commercial team and a robust eCommerce platform. Horizon is able to provide an ever more complete understanding of the function of genes and support the genomic research that is taking place throughout academia and in pharmaceutical and biotechnology companies around the world. This highly synergistic approach has the potential to act as a platform for the addition of further complementary products in the future to bolster Horizon's comprehensive and world-leading toolkit for genomic research and drug discovery.

The Dharmacon acquisition was funded through a successful £80 million (gross) financing, raised from new and existing shareholders including a number of new blue-chip specialist US healthcare investors. We are also delighted to welcome General Electric to the shareholder register as an over eight percent shareholder in Horizon following its receipt of shares in the Company as part-consideration for the acquisition.

Horizon made significant progress during the year by augmenting the highly capable Executive Leadership Team with a Head of Commercial, Head of Research Operations, Head of Talent and the appointment of Kim Nichols from Dharmacon as Head of Global Operations.

In February 2018, Dr. Darrin Disley decided to step down as Chief Executive Officer of the Company in order to pursue other business interests. Horizon's growth into a global leader in the life sciences during Darrin's tenure was remarkable, and I would like to take this opportunity to express my sincere appreciation for his achievements and dedication to the business over the past eleven years. Following Darrin's departure, I assumed the role of Interim Executive Chairman and Richard Vellacott, Chief Financial Officer and Deputy CEO, became Interim Chief Executive Officer.

We are delighted to announce the appointment of Terry Pizzie as Horizon's new Chief Executive Officer with immediate effect. Following a rigorous recruitment process that assessed both internal and external candidates, it became clear that Terry was the stand out candidate to deliver on the strategy and growth of the Group. Since joining Horizon in early 2017, Terry has been instrumental in building a world-class commercial team, and his outstanding leadership and highly valuable commercial experience will help lead the Company through its next phase of growth and development.

I would like to take this opportunity to thank Richard for his dedicated work as interim Chief Executive Officer, ensuring the smooth day-to-day running of the business. He will resume his role as Chief Financial Officer with the Company following an orderly transition to Terry.

Summary

Horizon has built a global business that is realising significant opportunities presented by the gene editing and genomics revolution and the widespread acceptance of personalised medicine as the future of healthcare. Our growth to date, and the positive momentum seen since we entered 2018, demonstrate that we are playing an important role on this global stage. I would like to thank our investors for continuing to support us, our staff for their ongoing significant contribution to the business, and our customers for allowing us to become an important part of their work. We very much look forward to making an ever-greater impact in the years to come.

Dr Ian Gilham
Executive Chairman
8 May 2018

Chief Executive Officer's Statement

Overview

Our customers are undergoing a period of rapid transformation as the genomic revolution continues to drive the future of medicine. Our goal is to build a life science tools business, based on our world leading cell engineering platform delivered through a repeatable business model, that helps our customers adapt to this revolution and make the next breakthroughs in drug discovery.

Horizon's technology agnostic gene editing and gene modulation toolbox allows us to build cell-based models that represent "patients in a test tube". These core research tools are further augmented by products and services that enable high value applications in drug discovery, drug manufacturing and clinical diagnostics.

Our market opportunity is substantial. We estimate our addressable markets to be worth £2.2 billion growing at approximately 20% per year. With limited direct competition, Horizon has tremendous prospects for growth and is moving swiftly to seize its opportunities. During 2017, we delivered £36.5 million of revenues (FY16: £24.1 million), representing solid year on year growth of 52%, including £9.0 million from the acquisition of Dharmacon.

Transformational Dharmacon acquisition

In August 2017, Horizon acquired Dharmacon from General Electric, coupled with a successful £80 million (gross) financing, making us a global market leader in the application of both gene editing and gene modulation. Integration is going well and, as time progresses, the success of the acquisition will continue to bear fruit through commercial and operational synergies as the businesses demonstrate their complementarity and opportunity for cross selling.

Performance of Business Units

Products

With our focus on research tools substantially enhanced following the Dharmacon acquisition, our Products business continued to drive significant growth for the Group, delivering £22.8 million in revenue in FY17, representing growth of 101% over 2016 (FY16: £11.3 million), £22.8 million (101% growth) on a constant currency basis. On an organic basis, excluding £9.0 million of revenue from Dharmacon recognised following the acquisition, our Products business grew by 22% year on year, generating £13.8 million in revenue. In 2017, gross margin for Products remained strong at 67% (FY16: 70%), benefiting from the mix of high value applied products and a substantial volume of research product sales as we continue to scale the business.

Our Products business comprises two key revenue streams:

1. Research products - a substantial portfolio comprising Dharmacon, cell line and *in vivo* products
2. Applied products - high growth, high value bioproduction cell lines and molecular reference standards

The performance of our products in each revenue stream was as follows:

Research Products

- Revenue: £12.6 million (FY16: £3.9 million)
- Gross Margin: 64% (FY16: 68%)

Following the acquisition of Dharmacon, research products now represent approximately half of our revenues. Horizon's main customers for this revenue stream are academic research labs and biopharmaceutical companies, with sales occurring at high volume and transactional in nature, captured primarily through our eCommerce platforms.

We are very pleased with the performance of Dharmacon in the four months following the acquisition, with revenues of £9 million, and an expansion in gross margins to 63%, helped in part by IP synergies, resulting in a significant contribution to the profitability of the Group and cash generation. The integration has progressed to plan, with notable milestones including the extraction of EU logistical operations from General Electric completed post-period in the first quarter of 2018.

Our organic research products business delivered revenues of £3.6 million (FY16: £3.9 million) at a gross margin of 50% (FY16: 68%), as a large cell line product deal in FY16 did not recur. Our underlying transactional growth in research products post period-end is encouraging and we are starting to see synergies with the Dharmacon portfolio.

Applied Products

- Revenue: £10.2 million (FY16: £7.4 million)
- Gross Margin: 74% (FY16: 76%)

Our Bioproduction business delivered particularly strong revenues of £5.2 million (FY16: £1.9 million) generating gross margins of 79% (FY16: 74%). Our market access and reputation are now well established, resulting in an increasing number of customers proceeding directly to full commercial licenses with no evaluation period. Following the end of the period, we were pleased to announce the successful Investigational New Drug filing by a customer using our bioproduction cell line, which has the potential to significantly expand our market opportunity.

Our industry leading Molecular Reference Standards continue to transform the way that the potential sources of error in molecular diagnostic testing are being controlled. Whilst we saw continued growth in our Off The Shelf business, this was offset by a reduction in OEM revenues generated in FY16 that did not recur in FY17. Additionally the market continues to adjust to the FDA ruling indicating that CLIA labs should be self-regulating. This regulatory change creates significant opportunities for us in the future, as do ongoing potential regulatory changes to Reference Standards in Europe. Our overall revenues reduced as a result to £5.0 million (FY16: £5.5 million) at gross margins of 70% (FY16: 76%).

Geographically, we saw particularly strong growth across our Applied products portfolio in the United States and China.

Services

- Revenue: £13.7 million (FY16: £12.8 million)
- Gross Margin: 54% (FY16: 40%)

Our Services business includes both the paid-for generation of new products and the application of those products to generate valuable data for customers. Services returned to solid growth of 7% in 2017, representing £13.7 million in revenue (FY16: £12.8 million). There was a marked improvement in gross margins to 54% in the year (FY16: 40%), driven by the consolidation of our geographical footprint from Boston to the UK, improved operational efficiencies and headcount rationalisation efforts.

Growth in our Services business in 2017 was underpinned by Custom Cell Line Engineering, where we saw increased demand from customers turning to Horizon's expert capability, exemplified through a 96% cell-line engineering success rate. We are currently increasing our efforts to grow our *in vivo* engineering business based on increased commercial coverage and specialist sales.

Our contract research services also contributed good growth during the period, particularly in Molecular Screening for target identification and validation, where Horizon is a recognised leader. Our capabilities were augmented in 2017 through the first-to-market launch of our CRISPRa and CRISPRi capabilities, and are set to be further enhanced in 2018 through use of Dharmacon's CRISPR and RNAi libraries.

Leveraged Research and Development

During 2017, we continued to leverage Horizon's technology through targeted investments, seeking to form additional Joint Ventures, spin-outs or risk-share deals in the fast-growing areas of immuno-oncology and cell and gene therapy. In 2017 £3.3 million was invested in these activities to drive ongoing programmes.

Subsequently, we have refocused the Horizon business to place greater emphasis on our core products and services. Consequently, we have reduced the level of planned net future investment into internal development of our own therapeutic assets and returned to a leveraged business model that seeks to realise near term value from our existing biological and IP assets and, where appropriate, participate in revenue upside from the value we contribute to third party therapeutic efforts.

Strategy update

Our goals remain ambitious. Our strategy is to harness the power of the cell and be the "go to" provider of IP rich cell engineering solutions. Through our core innovation, our IP and technology platforms, and the strength of our translational science base in delivering valuable applications, we will build a truly transformational business powering the ecosystem of personalised and genomic medicine.

We are delivering a repeatable, scalable business model based on visible and predictable revenue that the services market demands. We are applying commercial excellence and innovation to deliver high value solutions to key challenges facing our customers. We are using our commercial strength, eCommerce platform and brand strength to becoming integral to our customers' needs and to deliver our growth potential on a global basis. We are delivering substantial value for our customers through scientific leadership, by reducing new technologies to practice and launching novel product and service offerings that provide repeatable revenue.

We are seeking to convert our early advantage in high growth markets into a global leadership position. Our capabilities were significantly enhanced by the acquisition of Dharmacon and we are focused on a successful integration in order to deliver commercial and operational synergies. We will seize our global opportunity by remaining a dynamic, innovative business founded upon a solid core that has world class channels to market, production and supply chain capabilities.

We have made excellent progress against our goals throughout 2017, with the following highlights:

In vitro Centre of Excellence in Cambridge

In 2017 we continued to build the capabilities of our *in vitro* Centre of Excellence based in Cambridge UK, which included completion of the consolidation of the operations of our high throughput screening facility from Boston, USA, and in Q4 we completed the integration of our cell-line manufacturing facility from Vienna, Austria. All of our cell-based operations are now under one roof, enabling integrated, high-value solutions to be developed on behalf of our customers and more efficient project management through our matrix approach to research and commercial operations.

License agreements

We significantly deepened our industry leading gene editing platform in 2017. Our license with ERS Genomics was extended twice in the year, first adding full commercial rights for the use of CRISPR edited cell lines for GMP biotherapeutic manufacturing, the benefit of which was seen early in February of 2018 through the announcement of our partnership with a US-based immuno-oncology company for the development of a novel bioproduction cell line to support their biotherapeutic development programmes. Later in the year the license was expanded again and now grants us the rights to have Horizon products made and sold by partners. Additionally, we announced the development and global exclusive licence of a novel transposon-based technology that offers a unique approach to gene editing and DNA delivery, and for the first time provided Horizon with a gene editing tool that we have the freedom to use directly for therapeutic purposes.

Repeatability of business based on deep customer relationships leading to reliable earnings

An important driver of our long-term success is our ability to become embedded in the workflows of our customers so that we provide solutions as partners. We continue to make strides in this area, as evidenced through our deepening relationships with companies such as Roche, and through the announcement of our signing a Master Services Agreement with a top three pharmaceutical company in February 2017, extending our support of their drug discovery and development efforts to Horizon's full suite of services.

Robust eCommerce platform

eCommerce is an important channel to market for Horizon as it significantly extends market reach and scalability for transactional business. In 2017, the number of transactions closed through the eCommerce platform and the amount of revenue generated increased by 27% and 67% respectively over 2016, and over 85% of inquiries originated from online channels. The Group's eCommerce capability was significantly enhanced through the addition of Dharmacon's world-class platform, and efforts are underway to integrate the systems, with an early step to establish an Amazon-like referral program to introduce Dharmacon gene modulation customers to Horizon's gene editing offerings and vice versa.

Enhanced commercial operation

In 2017 and into 2018 we have continued to invest in our commercial function. The Group's appointment of Terry Pizzie as Head of Commercial was a key hire for the organisation and he rapidly took a number of steps to build a world-class global commercial team, recruiting strong commercial talent, aligning our commercial teams to be able to sell the full Horizon portfolio to all customers across different geographies, and forming a team focused on adding value to key accounts.

Following the acquisition of Dharmacon, our commercial teams have fully merged and now sell across the entire Horizon portfolio to enable cross-selling opportunities with substantially improved geographic coverage. The field sales team is supported through technical specialists that provide office-based training and field application specialists for on-site support.

Seizing the APAC opportunity

Asia is a large opportunity for Horizon which has, despite excellent progress in the last two years, particularly in China, yet to be fully exploited. Following the acquisition of Dharmacon, we have in place a robust distributor network managed by an experienced Head of APAC based out of Singapore. We have also taken steps to improve customer experience through localised support including two experienced distributor support specialists in China, and establishing a legal entity in Japan post year end to house our distributor managers, country manager, specialist support, and local marketing.

Summary and Outlook

Horizon has made significant progress this year. Financially we have continued to deliver solid growth, while implementing operational efficiency and cost control measures that together have put the group on a path to sustainable and profitable growth. We have considerably strengthened our commercial and operations capabilities so that we are in a better position than at any other time in our history to deliver value to our customers.

Looking forward, the Group has made a solid start to the year, despite foreign exchange headwinds, and is trading in line with Board expectations. As with previous trading years, we expect Group revenues to be weighted to the second half of the year.

The Company has continued to assess the commercial opportunity in each of the market segments in which it competes and expects to gain share in these markets over the coming years:

- In Research Products (including CRISPR, RNAi and cell lines) the Company estimates the market size to be over £1 billion growing at over 25% per year.
- In Applied Products (including GMP cell solutions for bioproduction and diagnostic reference standards for diagnostic solutions) the Company estimates the market size to be roughly £650 million growing at around 10 - 15% per year.
- In Services (including Biopharma screening solutions) the Company estimates the market size to be roughly £450 million growing at around 15 - 20% per year.

With a clear vision and strategy for the business, a strong team in place focused on execution, and good long-term growth prospects both from our underlying business and following the acquisition of Dharmacon, we have high confidence in our future.

Richard Vellacott
Interim Chief Executive Officer
8 May 2018

Financial Review

2017 was a transformative year for Horizon, with the Dharmacon acquisition and associated fundraising. The acquisition served to increase our focus on customers, employing our unique gene editing and gene modulation research tools, which are augmented by applied products and services with leveraged upside potential.

We are entering an exciting period for the Group, transitioning from building scale through acquisitions into an established world class business focused on delivering profitable growth. With a clear strategy, a strong focus on our business disciplines, and consistent execution, we expect to continue to deliver solid growth in 2018.

Group financial performance

During 2017, we delivered £36.5 million of revenues (FY16: £24.1 million), representing solid year on year growth of 52%. On a constant currency basis, Group revenues were £36.0 million, representing 50% growth.

We were pleased with the revenue of £9.0 million contributed by Dharmacon in the four months following the acquisition as we continue to return the business to growth. Going forward, Dharmacon products will form a major component of our research products revenue stream.

On an organic basis, Group revenue grew to £27.5 million (FY16: £24.1 million), driven primarily by our applied products, including strong bioproduction cell line sales performance in the United States and China. Over the year, our research products grew to £12.6 million (FY16: £3.9 million) and our services business delivered revenues of £13.7 million (FY16: £12.8 million).

Due to significant geo-political and macro-economic factors, currency markets remained highly volatile in 2017. The acquisition of Dharmacon has amplified the effect of foreign exchange, as the Group now invoices approximately 64% of its revenue in

USD.

Gross margins significantly improved in the period as efforts taken to drive operational efficiencies continue to bear fruit, reaching 62% (FY16: 54%). This margin expansion has been supported by increased scale in our research products combined with our high value applied products which together generated gross margins of 66% (FY16: 70%). In particular, we were pleased with the strong Dharmacon gross margins of 63%. Services margins also markedly improved in the year, reaching 54% (FY16: 40%), as a result of our cost consolidation efforts.

As we continue to increase our focus on customers every day, Horizon has made substantial investments in the period in building world class commercial operations, resulting in sales and marketing expenses of £7.5 million (FY16: £5.3 million). We recruited significant talent into our commercial team during the year, further developed our eCommerce platform and, most significantly, reorganised our commercial team following the Dharmacon acquisition to provide much stronger coverage in our major geographies. We are excited at the opportunity that this high calibre, high-performing sales team with focused territorial coverage will bring to the Group.

Innovation remains central to sustainable value creation for the business. During 2017, Horizon invested in its core innovation and IP portfolio, helping to ensure long-term revenue generation in existing and new markets. The Group also made elective investments of £3.3 million in the leverage of Horizon's technologies that enable Horizon to generate value from cutting edge therapeutic innovations that fulfil significant unmet medical needs. Total investment in R&D during the year totalled £11.9 million, (FY16: £6.2 million), funded in part through government grants which totalled £0.3 million (FY16: £0.5 million), and R&D tax credits of £0.2 million (FY16: £0.2 million) during the year.

Corporate and administrative expenses were £13.7 million in 2017 (FY16: £13.3 million) before exceptional items and non-recurring site closure costs. Expenses included £6.0 million of non-cash items relating to share option costs, depreciation, and amortisation of intangible assets arising from acquisitions of £0.3 million (FY16: £0.2 million), £2.7 million (FY16: £2.3 million), and £3.0 million (FY16: £1.7 million) respectively. Additionally, we targeted investments in our business intelligence systems to further support Group-wide integration and reporting, and in our eCommerce platform to drive additional scale for our products.

Our reported EBITDA loss before exceptional items and non-recurring site closure costs was £1.7 million for the year (FY16: £7.1 million loss). In 2017, Horizon undertook a number of significant changes which impacted spending including: the completion of the acquisition of Dharmacon, reorganisation of the commercial team, consolidation of operations from Vienna and Boston into the UK headquarters, and reduction of headcount of the non-Dharmacon business by 5% to deliver cost and operational efficiencies across the enlarged Group. Due to these changes, the Group incurred one-time exceptional costs of £3.7 million during the year and expenses from non-recurring site closure costs of £2.5 million (FY16: £nil).

We took the decision to delay our site consolidation actions planned for early 2017 to the second half of the year in order to co-ordinate these activities with the acquisition of Dharmacon, which consequently deferred our path to profit goal for 2017 into 2018. Subsequently, with strong revenue performance, the consolidation of our cost base, and the impact of the Dharmacon acquisition, our progress towards profitability accelerated in the second half of the year, with Q4 generating positive EBITDA for the enlarged Group. For the full year, we delivered EBITDA before exceptional items and non-recurring site closure costs of £1.2 million from our core products and services, which was offset by our investment in leveraged R&D of £2.8 million. Our focus on operational efficiency is ongoing and is becoming embedded into our culture, boosted by the capabilities from Dharmacon, and we expect to see additional cost efficiencies through 2018 and beyond.

We report a loss after taxation of £9.6 million for the full year, representing an improvement over the prior year (FY16: £11.4 million loss), in line with expectations at this stage of the Group's transition towards sustainable profitable growth. In addition to the £5.0 million benefit recognised in the year, we expect to derive future benefit from the recent reduction in the top rate of US corporation tax from 35% to 21%, as well as the ability to utilise tax losses carried forward against profits generated by our subsidiaries in the USA.

Balance Sheet
The non-current assets of the business increased to £141.9 million from £66.8 million in FY16, primarily as a result of assets acquired through the acquisition of Dharmacon, together with ongoing capital expenditure in our intellectual property, lab automation and business infrastructure.

The Group is well funded with cash resources increasing to £28.1 million (FY16: £6.1 million) following the £80 million capital raise in August 2017, which satisfied the £38.0 million cash component of the Dharmacon acquisition and strengthened our balance sheet.

Our working capital was impacted by higher than normal trade and other receivables of £20.6 million (FY16: £12.6 million) due to the timing effects of high Q4 revenues and the settlement of Transitional Services Payments by General Electric, which have since been received post period in Q1 of 2018.

Summary and financial outlook
2017 was a transformative year for Horizon following the acquisition of Dharmacon, and we have strong momentum as we move into the next phase of our development as a business that delivers sustainable profitable growth. As an organisation, we are focused on the business disciplines that will drive a repeatable business model that delivers a portfolio of visible and predictable revenue consistently throughout the year with strong forward coverage. The group made a solid start to 2018 and is trading in line with Board expectations for the full year.

Richard Vellacott
Chief Financial Officer
8 May 2018

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2017

	Note	2017 £'000	2016 £'000
REVENUE	2	36,510	24,074
Cost of sales		(13,824)	(10,981)
Gross profit		22,686	13,093
Other operating income		608	830
Sales, marketing and distribution costs		(7,485)	(5,251)
Research and development costs		(11,918)	(6,177)
Corporate and administrative expenses		(13,701)	(13,255)
Share of results in joint venture		(379)	(333)
Exceptional items	3	(3,708)	(1,270)
OPERATING LOSS		(13,897)	(12,363)
Investment income		1	51
Finance costs		(441)	(144)
LOSS BEFORE TAX		(14,337)	(12,456)
Taxation		4,687	1,023
LOSS FOR THE YEAR		(9,650)	(11,433)
LOSS PER SHARE			
Basic and Diluted (Pence)	4	(8.4p)	(12.1p)

All transactions derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	2017 £'000	2016 £'000
LOSS FOR THE YEAR	(9,650)	(11,433)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(6,609)	7,811
Other comprehensive income for the year net of tax	(6,609)	7,811
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(16,259)	(3,622)
Total comprehensive income attributable to:		
Owners of the Company	(16,259)	(3,622)

CONSOLIDATED BALANCE SHEET
31 December 2017

	Note	2017 £'000	2016 £'000
Non current assets			
Goodwill		73,831	35,873
Other intangible assets		52,742	16,241
Property, plant and equipment		13,059	12,025
Investments		1,859	2,238
Other receivables		433	433
		141,924	66,810
Current assets			
Inventories		2,573	1,955
Trade and other receivables		20,584	12,568
Cash and cash equivalents		28,084	6,071
		51,241	20,594
Total assets		193,165	87,404
Current liabilities			
Trade and other payables		(11,552)	(8,701)

Total current liabilities		(11,552)	(8,701)
Net current assets		39,689	11,893
Non-current liabilities			
Deferred tax		(9,908)	(813)
Long-term provisions		(187)	-
Other payables		(361)	-
		(10,456)	(813)
Total liabilities		(22,008)	(9,514)
Net assets		171,157	77,890
Equity			
Share capital	5	3,121	2,583
Share premium account		137,681	61,999
Share option reserve		2,478	2,177
Merger reserve		67,457	34,452
Retained earnings		(39,580)	(23,321)
Total equity		171,157	77,890

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	Share capital £'000	**Share premium account £'000**	**Share option reserve £'000**	**Merger reserve £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 1 January 2016	2,571	61,774	1,936	33,274	(19,699)	79,856
Loss for the year	-	-	-	-	(11,433)	(11,433)
Other comprehensive income	-	-	-	-	7,811	7,811
Issue of shares for deferred consideration on Haplogen acquisition	8	-	-	1,178	-	1,186
Issue of shares on exercise of options	4	225	-	-	-	229
Credit to equity for equity settled share based payments	-	-	241	-	-	241
Balance at 31 December 2016	2,583	61,999	2,177	34,452	(23,321)	77,890

	Share capital £'000	**Share premium account £'000**	**Share option reserve £'000**	**Merger reserve £'000**	**Retained earnings £'000**	**Total £'000**
Balance at 1 January 2017	2,583	61,999	2,177	34,452	(23,321)	77,890

Loss for the year	-	-	-	-	(9,650)	(9,650)
Other comprehensive income	-	-	-	-	(6,609)	(6,609)
Issue of shares for deferred consideration on Haplogen acquisition	9	-	-	1,258	-	1,267
Issue of shares on Dharmacon acquisition	131	-	-	31,748	-	31,879
Issue of shares on placing agreement	390	76,394	-	-	-	76,783
Share issue costs	-	(1,494)	-	-	-	(1,494)
Issue of shares on exercise of options	8	782	-	-	-	790
Credit to equity for equity settled share based payments	-	-	301	-	-	301
Balance at 31 December 2017	3,121	137,681	2,478	64,457	(39,580)	171,157

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash outflow from operating activities	6	(13,871)	(8,151)
Investing activities			
Interest paid		(622)	-
Interest received		1	38
Acquisition of investment in joint venture		-	(2,571)
Acquisition of subsidiaries net of cash acquired and associated settlement costs		(37,519)	-
Purchases of property, plant and equipment		(2,340)	(5,726)
Proceeds on disposal of property, plant and equipment		2	48
Purchase of intangible assets		(1,725)	(2,733)
Payment of deferred consideration		-	(418)
Net cash used in investing activities		(42,203)	(11,362)
Financing activities			
Proceeds on issue of shares net of expenses		77,572	141
New bank loans raised		5,000	-
Repayment of borrowings		(5,000)	-
Net cash from financing activities		77,572	141
Net increase/(decrease) in cash and cash equivalents		21,498	(19,372)
Cash and cash equivalents at beginning of year		6,071	25,067

Effect of exchange rate changes	515	376
Cash and cash equivalents at end of year	28,084	6,071

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

1. BASIS OF THE ANNOUNCEMENT

The preliminary results for the year ended 31 December 2017 were approved by the Board of Directors on 8 May 2018. The preliminary results do not constitute full accounts within the meaning of section 434 of the Companies Act 2006 but are derived from audited accounts for the year ended 31 December 2017 and year ended 31 December 2016.

The preliminary announcement is prepared on the same basis as set out in the audited statutory accounts for the year ended 31 December 2017. The accounts for the years ended 31 December 2017 and 31 December 2016, upon which the auditors issued unqualified opinions, also had no statement under section 498(2) or (3) of the Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards, as adopted by the European Union (EU) (IFRS), this announcement does not in itself contain sufficient information to comply with IFRS.

Horizon Discovery Group plc (the "Company") is a limited liability company incorporated and domiciled in England and Wales and whose shares are quoted on AIM, a market operated by The London Stock Exchange. The consolidated financial information of the Horizon Discovery Group plc ("the Group") is presented in pounds Sterling (£), which is also the functional currency of the Group.

The statutory accounts for the financial year ended 31 December 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting**.**

Basis of consolidation

The group financial statements include the financial statements of the Company and all the subsidiaries during the periods reported for the periods during which they were members of the Group. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation with the exception of those relating to the joint venture, which is equity accounted for.

Going concern

In order to ensure that the Group and Company can meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements, the Board has considered cash flow forecasts for this period, ensuring that these have been appropriately prepared and that they are based on reasonable assumptions. The Group has cash and cash equivalents of £28.1m as at 31 December 2017, and net current assets of £39.7m at the same date. Given the Group's performance and financial position, and the available headroom apparent in the cash flow forecast, the directors are satisfied with the continued adoption of the going concern basis of preparation for the financial statements.

2. OPERATING SEGMENTS

Products and services from which reportable segments derive their revenues

Information reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance is focussed on the revenues, gross margins and operating profits in respect of products, services and leveraged activities. The Group's reportable segments under IFRS 8 are therefore as follows:

Products - Revenues arising from the sales of Cell Lines, Reagent and other products and the sale of Bioproduction licences.

Services - Custom cell line manufacturing services, combination screening and other discovery services which are charged on either a fixed fee contract basis or on the basis of charging scientific FTEs to customers.

Leveraged R&D - This business unit is operated on a portfolio basis, and its revenues will typically be either fees for services with downstream milestones or milestone based.

Assets are not reported by business segment. Depreciation is allocated across the business units.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment in 2017:

	Products £'000	**Services £'000**	**Leveraged R&D £'000**	**Consolidated £'000**
Revenue	22,817	13,693	-	36,510
Cost of sales	(7,482)	(6,342)	-	(13,824)
Gross margin	15,335	7,351	-	22,686
Result				
Segment result before exceptionals	2,751	(9,329)	(3,330)	(9,908)
Segment result after exceptionals	(240)	(10,023)	(3,353)	(13,616)
Unallocated credit				(281)
Operating loss				(13,897)
Investment income				1
Finance costs				(441)
Loss before tax				(14,337)
Tax				4,687
Loss after tax				(9,650)

2. OPERATING SEGMENTS (continued)

The following is an analysis of the Group's revenue and results by reportable segment in 2016:

	Products £'000	**Services £'000**	**Leveraged R&D £'000**	**Consolidated £'000**
Revenue	11,327	12,747	-	24,074
Cost of sales	(3,368)	(7,613)	-	(10,981)
Gross margin	7,959	5,134	-	13,093
Result				
Segment result before exceptionals	(507)	(6,960)	(3,121)	(10,588)
Segment result after exceptionals	(1,013)	(7,692)	(3,153)	(11,858)
Unallocated credit				(505)
Operating loss				(12,363)
Investment income				51
Finance costs				(144)
Loss before tax				(12,456)
Tax				1,023
Loss after tax				(11,433)

Exceptional items as presented in note 3 are included in operating expenditure and have been allocated across each Business Unit.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment loss represents the loss incurred by each segment without allocation of the share of, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Other segment information

	Depreciation and amortisation	
	2017	**2016**
	£'000	**£'000**
Products	2,234	1,500
Services	2,941	2,150
Leveraged R&D	526	345
	5,701	3,995

Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") is calculated by adding back the non-cash items disclosed above to the disclosed operating loss for the year.

2. SEGMENTAL REPORTING (continued)

Geographical information

The Group's revenue from external customers by geographical location are detailed below:

	Revenue from external customers	
	2017	**2016**
	£'000	**£'000**
Americas	21,647	14,932
Europe, Middle East and Africa	10,339	7,188
Asia Pacific	4,524	1,954
	36,510	24,074

Information about major customers

In 2017, the Group had four customers that collectively contributed over 12% of the Group's revenue, with each individual customer contributing 3% or more, due to the increase in customer base. Of this, £2.4m came from the services business unit and £1.9m from the products business unit.

In 2016, the Group had four customers that collectively contributed over 15% of the Group's revenue, with each individual customer contributing 4% or more. Of this, £3.0m came from the services business unit and £0.8m from the products business unit.

3. EXCEPTIONAL ITEMS

	2016	**2016**
	£'000	**£'000**
Acquisition related costs	(2,607)	-
Increase in expected settlement of contingent consideration on Haplogen acquisition	-	(368)
Restructuring costs	(1,101)	(902)
	(3,708)	(1,270)

The 2016 exceptional items comprised the unwinding of the discount of the final earn out payment on the acquisition of Haplogen Genomics GmbH and costs relating to the relocation of our Boston operations to the UK.

The 2017 exceptional items include costs relating to the acquisition of Dharmacon, reorganisation of the commercial team, consolidation of operations from Vienna and Boston into the UK headquarters, and reduction of headcount of the non-Dharmacon business.

4. LOSS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Loss

	2017 £'000	2016 £'000
Loss for the purposes of basic and diluted loss per share being net loss attributable to owners of the Company	(9,650)	(11,433)

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	114,755,641	94,543,764
Loss per share	(8.4p)	(12.1p)

Basic EPS is calculated by dividing the earnings attributable to ordinary owners of the parent by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated on the same basis as basic EPS but with a further adjustment to the weighted average shares in issue to reflect the effect of all potentially dilutive share options. The number of potentially dilutive share options is derived from the number of share options and awards granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period.

IAS 33 - Earnings per Share, requires presentation of diluted earnings per share where a company could be called upon to issue shares that would decrease net profit or increase net loss per share. No adjustment has been made to the basic loss per share as at 31 December 2017, as the exercise of share options would have the effect of reducing the loss per ordinary share, and therefore is not dilutive.

5. SHARE CAPITAL

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
149,086,601 (2016: 95,245,817) ordinary shares of £0.01 each	3,121	2,583

6. NOTES TO THE CASH FLOW STATEMENT

	2017 £'000	2016 £'000
Loss for the year	(9,650)	(11,433)
Adjustments for:		
Investment revenues	(1)	(51)
Finance costs	640	-
Depreciation of property, plant and equipment	2,707	2,317
Amortisation of intangible assets	2,978	1,678
Profit on disposal of property, plant and equipment	(4)	25
Tax credit	(4,687)	(1,023)
Change in fair value deferred consideration	-	367
Share option charge	320	241
Share of loss of joint venture	379	333
	(7,318)	(7,546)
Operating cash flows before movements in working capital		
Decrease/(Increase) in inventories	12	(162)

Increase in receivables	(5,229)	(2,916)
(Decrease)/ Increase in payables	(1,678)	2,107
Cash invested in operations	(14,213)	(8,517)
Tax credit received	342	366
Net cash from operating activities	(13,871)	(8,151)

7. SUBSEQUENT EVENTS

On 20 February 2018 Dr D Disley stepped down as Chief Executive Officer. Consequently, the Chairman of the Board, Dr I Gilham, assumed the role of Executive Chairman and Mr R Vellacott, Chief Financial Officer and Deputy CEO, became Chief Executive Officer, both in an interim capacity. On 8 May 2018 Terry Pizzie was appointed Chief Executive Officer and Board Director with immediate effect. At the date these financial statements were authorised for issue there had been no other subsequent events to report.

8. ACQUISITIONS

Acquisition of GE Healthcare Dharmacon Inc.

On 31 August 2017, the Group acquired 100 per cent of the issued share capital and obtained control of GE Healthcare Dharmacon Inc., which was subsequently renamed Dharmacon, Inc. ("Dharmacon"). Dharmacon was acquired as it is a global leader in gene modulation products with a fast growing gene-editing product portfolio which are highly complementary to the gene editing, translational genomics, personalised medicine, cell and gene therapy products and services of Horizon. The acquisition created immediate market access for Horizon's next generation research product and service offerings through a robust eCommerce platform and established global distribution channels, especially in Asia-Pacific. The acquired assets and liabilities have been allocated to the Research Reagents cash generating unit.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities are as set out in the table below.

	£'000 **Fair value**
Tangible fixed assets	2,223
Identifiable intangible assets	39,777
Inventory	716
Trade and other receivables	1,999
Cash and cash equivalents	287
Trade and other payables	(2,960)
Deferred tax liability	(14,052)
Total identifiable assets	27,990
Goodwill	41,984
Total consideration	69,974
Satisfied by:	
Cash	38,096
Equity instruments (13,064,868 ordinary shares of the Company)	31,878
Total consideration transferred	69,974
Net cash outflow arising on acquisition	
Cash consideration	38,096
Less: cash and cash equivalent balances acquired	(287)
	37,809

The value of the 13,064,868 ordinary shares issued as part of the consideration paid for Dharmacon (£31,878k) was determined on the basis of the closing price of Horizon Discovery Group Plc ordinary shares on the date of completion, 31 August 2017.

The Goodwill of £42.0 million arising from the acquisition consists of benefits derived from the acquired technology, the access to markets for the Group's product and services offerings and the highly skilled workforce. The Goodwill is not expected to be tax deductible.

The gross contractual value of receivables is £1.63 million. The best estimate at acquisition date of the contractual cash flows not to be collected are £0.03 million.

The identifiable intangible assets include the e-commerce platform, technology, customer relationships and the Dharmacon brand.

Acquisition-related costs (included in operating expenses) amount to £2.6 million.

The revenue and profit after tax of Dharmacon, included in the consolidated statement of comprehensive income since 31 August 2017, was £9.0 million and £1.3 million respectively. If the acquisition of Dharmacon had been completed on the first day of the financial year, Group revenue for the period would have been £55.2 million and group loss would have been £7.8 million.

END

FR SSUEFWFASEEI