Quantum Pharma Plc ('Quantum' or 'the Group')
Final audited results for the year ended 31 January 2017 ('the year')
3 May 2017

For immediate release

Financial highlights

- Revenue increased by 28% to £88.8m (2016: £69.2m).
- Gross profit remained flat at £25.9m (2016: £25.9m).
- Adjusted EBITDA[1] of £10.1m (2016: £12.5m) with profitability run-rate increasing.
- Statutory operating loss of £9.8m (2016: £7.5m profit) resulting from the decisive and one-off actions highlighted in the January trading update to simplify and focus the business.
- Net debt[1] reduced by almost half to £13.0m (2016: £24.6m).

Key developments

- Transition to a more focused and simplified business strategy led by a new Board.
- Group repositioned with a leaner operating structure and balance sheet aligned to simplified strategy.
- Secured renewal of long-term exclusive contracts to supply unlicensed medicines to three of the largest wholesale and pharmacy chains in the UK.
- Successfully launched a number of new products during the year and post year-end, including key unlicensed-to-licensed ('UL2L') product Glycopyrronium Bromide Oral Solution.
- Simplified product portfolio performing well and refocused pipeline progressing to plan.
- Successful placing in November 2016, raising £15.0m (before expenses) to significantly reduce net debt.
- Closure of loss-making business NuPharm Laboratories Limited ('NuPharm').

Ian Johnson, Non-executive Chairman of Quantum, said: "This year's results draw a line under the past performance of the Group. They mark the transition to a more focused and simplified business led by a new Board, and demonstrate real progress in executing our strategy. The Board is confident in the future prospects of the Group and we look forward to reporting on further strategic progress as we move forward."

Chris Rigg, CEO of Quantum, said: "I am very pleased with the progress we have made to date. We have driven a step change in the profitability of the Niche Pharmaceuticals division in the second half by focusing on launching and commercialising products where we have a competitive advantage. In addition, the Group has cemented its position as the UK's market-leading specials business by renewing exclusive contracts with three of the four main wholesale and pharmacy chains in the UK. Operating costs across the Group have been reduced and our net debt position at the year-end was lower than expected at £13.0m. We exited the financial year with a much improved profitability run-rate that is supportive of market expectations for the current financial year and we are well-placed to deliver future growth by focusing on our core Niche and Specials businesses."

An analyst briefing will be held at 09:30am today, at the offices of Buchanan, 107 Cheapside, London, EC2V 6DN. A copy of the final results presentation given by Chris Rigg (Chief Executive Officer) and Gerard Murray (Chief Financial Officer) will be released later this morning on Wednesday 3 May 2017 on the Group's website http://ir.quantumpharmagroup.com/content/investor/presentations.asp.

[1] For a list of definitions of non-GAAP measures and references to reconciliations to GAAP measures turn to page 13.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

For further information

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Notes to editors

Quantum Pharma Plc is a service-led, niche pharmaceutical developer, manufacturer and supplier to the retail pharmacy, pharmaceutical wholesale, hospital and homecare markets. Quantum Pharma Plc operates through three divisions – Specials, Niche Pharmaceuticals and Medication Adherence – offering a portfolio of innovative and complementary products and services.

For further information, please visit www.quantumpharmagroup.com.

As a result of rounding throughout this announcement it is possible that tables may not cast and change percentages may not calculate precisely.

Chief Executive's review

I am pleased to report that the Group has made excellent progress in implementing its more focused and simplified strategy and that our performance in the second half of the year was very encouraging. The impact of the actions taken to confront the challenges we have faced leave the Group with a clean balance sheet and a leaner operating structure on which we intend to build and grow. The Group's profitability run-rate has been materially improved and we are now well-placed to take advantage of existing and future opportunities within our core businesses.

The Specials division ('Specials') remains profitable and cash generative, providing a strong platform for our development programme that is predominantly focused on unlicensed-to-licensed ('UL2L') products. The trading performance of the Niche Pharmaceuticals division ('Niche') has been transformed by the successful launch of a number of products during the year and post year-end, including our largest product to date Glycopyrronium Bromide Oral Solution 1mg/5ml ('Glyco'), and the elimination of on-going losses, unnecessary costs and marginal activities. In addition, the drive to grow our network of commercial partnerships is showing clear signs of progress. Our focus on the two core pillars of Specials and Niche will continue to drive performance improvement.

The long-term fit of the Medication Adherence ('MA') division within the Group, particularly given its low gross margin contribution, is under review.

A focused and simplified strategy

Following the conclusion of a strategic review performed during the year, we have refocused and simplified the business to:

- Closely align our business model to the UK prescribing hierarchy by moving products from an unlicensed-to-licensed status.
- Maintain market-leading position in the specials market whilst we progress the development and licensing of products in our pipeline where we have a competitive advantage.
- Invest in our UL2L development programme to license key unlicensed specials so that we can protect and grow our market share and secure economies of scale.
- Broaden our network of commercial partnerships to secure multiple routes to market for our product portfolio.

UL2L prioritisation

Prioritising our UL2L product developments delivered through Niche, emphasising those products where we can be first to market, is a key part of our strategy. This type of development plays to our strengths, with less time and investment needed to penetrate the market and achieve scale.

Having simplified the product portfolio to prioritise development of the Group's top specials licensing opportunities, it currently comprises 57 products. 19 of these products have been launched or out-licensed in the UK, with 12 having been commercialised post-simplification. The overall performance of these products since simplification has been very good, with the benefits of portfolio rationalisation evident. A further 3 products have been licensed in the UK and are in the process of being commercialised. There are an additional 35 products in various phases of development, of which 25 are UL2L developments. All developments are currently progressing to timetable. Going forward we will provide updates with respect to our licensed product portfolio as part of our interim and final results communications.

In order to release investment capacity to support UL2L prioritisation we have cancelled all development programmes where we cannot identify a commercial partnership and do not believe we can commercialise the opportunity ourselves. As a consequence, £7.2m of balance sheet investment in these products has been impaired, which is a key constituent of the reported statutory operating loss.

Broadening our commercial partnerships

Our non-UL2L portfolio is comprised of niche generic products where, although we will not have first-mover advantage and significant sales and marketing capability will likely be required to market them, we believe there remains a market opportunity.

Past experience tells us that taking share from incumbent competitors can be very challenging without an existing sales and marketing capability, and that converting these non-UL2L opportunities takes time and significant investment unless there is an established market presence.

We have therefore taken steps to commercialise selected non-UL2L products in our portfolio by partnering with other businesses that have more experience of taking generic products to market, which will help us to commercialise these developments to their fullest potential and accelerate our access to revenues through revenue-sharing agreements. We are progressing partnerships to support this strategy.

International opportunities

Our product pipeline holds significant value potential. In the UK market, the Group is well-established due to its existing infrastructure and commercial relationships built through our market-leading Specials division. We also have extensive experience and understanding of the UK's development and regulatory approval process as governed by the MHRA through the activities of our Niche division. Our strategic position in the UK is therefore strong.

We are currently seeking to realise the potential of our product portfolio beyond the UK and extend our reach into other geographies by broadening our network of international commercial partnerships. These partnerships will seek to emphasise both export and localised manufacture together with distribution opportunities to secure market access without the need to establish our own local presence.

Consolidating our position in the specials market

Our Specials division continues to perform robustly and reliably, and is cash generative. This resilient performance is particularly encouraging given the increasing competitiveness and regulatory pressure within the specials market. We have cemented our market-leading position by agreeing new long-term exclusive supply contracts with three of the largest UK wholesale and pharmacy chains, being AAH Pharmaceuticals Limited, Bestway Panacea Healthcare Limited, trading as Well Pharmacy, and Phoenix Healthcare Distribution Limited. Quantum Pharmaceutical Limited, a business within the Specials division, is the UK market leader in the supply of unlicensed medicines and around 89% of its volumes are under exclusive contracts.

Our attention is now turning to driving operational efficiencies and improvements in the Specials division to underpin profitability and provide us with the commercial agility necessary to react to market dynamics.

NuPharm closure

Following a period of sustained trading losses, the Board took the decision in October 2016 to commence consultation on the closure of NuPharm. Trading ceased at NuPharm in January 2017 in line with our stated intention and it was placed into administration on 26 April 2017 following an orderly closure process.

The total loss incurred on the closure of NuPharm is £13.7m, which reflects trading losses and closure costs of £1.7m, and £12.0m of written down balance sheet investment. This loss is shown as a discontinued operation in the consolidated income statement as NuPharm's activities as a contract manufacturer are considered to be a separate major line of business. The cash impact of NuPharm's trading losses and closure costs during the year was £2.4m.

Summary and outlook

I am very pleased with the progress we have made to date. We have driven a step change in the profitability of the Niche Pharmaceuticals division in the second half by focusing on launching and commercialising products where we have a competitive advantage. In addition, the Group has cemented its position as the UK's market-leading specials business by renewing exclusive contracts with three of the four main wholesale and pharmacy chains in the UK. Operating costs across the Group have been reduced and our net debt position at the year-end was lower than expected at £13.0m. We exited the financial year with a much improved profitability run-rate that is supportive of market expectations for the current financial year and we are well-placed to deliver future growth by focusing on our core Niche and Specials businesses.

Divisional Review

Niche Pharmaceuticals division ('Niche')

The financial year ended 31 January 2017 has been a pivotal year for the Niche division following the launch of a number of new products, the most significant of which has been Glycopyrronium Bromide Oral Solution 1mg/5ml ('Glyco'), and substantial operational changes to focus and simplify the business in line with our strategy.

Revenue grew 35% during the year to £5.8m (2016: £4.3m), driven primarily by the contribution from Glyco following its launch in August 2016. Adjusted EBITDA contracted by 33% to £1.4m (2016: £2.1m) with Glyco's trading contribution offset by a reduction in out-licensing income of £0.5m and an increased operating cost base that has now been addressed.

The adjusted EBITDA monthly run-rate of Colonis, the commercialisation arm of the Niche division, has been transformed during the second half of the year. During the first half of the year Colonis had invested ahead of meaningful sales activity to support the launch of a number of products in the portfolio where we needed engagement with healthcare professionals.

Following the decision to prioritise UL2L developments a number of underperforming product lines were discontinued, including the Mucodis range and Ergocalciferol 50,000 IU. This decision has allowed the division to focus investment on what it believes are the right products and stop on-going investment in the discontinued products, yielding significant savings. Colonis therefore exited the year with a positive monthly adjusted EBITDA run-rate, underpinned by strong contributions from Glyco alongside a number of other launched products, and a lower cost base.

In addition to Glyco, we launched several other products during the second half of the year and just after the year-end, which are delivering in line with management expectations. These include:

- Aviticol™ and Colecalciferol capsules (licensed for the treatment and prevention of Vitamin D deficiency) in an 800 IU strength in July 2016 and 1000 IU strength in August 2016;
- Metformin Oral Solution (licensed for the treatment of type 2 diabetes) in 500mg/5ml, 850mg/5ml and 1000mg/5ml strengths in December 2016;
- Folic Acid 1mg/1ml Oral Solution (licensed for the treatment of folate deficiency) and Acetylcysteine Sachets 200mg (licensed as a mucolytic) during February and March post year-end; and
- Levothyroxine Oral Solution (indicated for hyperthyroidism) in 25mcg/5ml, 50mcg/5ml and 100mcg/5ml strengths launched in April 2017.

Lamda, the product development and licensing arm of the Niche division, delivered another good performance. The development pipeline is now fully integrated at Lamda, absorbing around 60% of Lamda's total development capacity this year. The business has also continued to generate strong development, supply and royalty revenue from a range of third-party projects.

Specials division (‘Specials’)

The Specials division delivered another solid performance during the year, generating 89% of the Group’s adjusted EBITDA before Group costs. The division provides a strong platform for our product development and licensing activities, as well as valuable insights into trends within the specials market that we use to inform our new product development decisions.

Revenue increased by 7% to £57.6m (2016: £53.6m) and adjusted EBITDA contracted by 6% to £10.1m (2016: £10.7m). Sales order volumes in Quantum Pharmaceutical Limited (‘QPL’) increased by 6%, supported by volumes gained as a result of the acquisition of 281 Sainsbury’s stores by Lloyds Pharmacy in September. This was partly offset by the impact of our licensing of Glyco in August 2016, which cannibalised some existing specials sales.

The drive to secure efficiency savings across the NHS continues to create pricing pressures and changes to prescribing trends in favour of more cost-effective medicines. We are seeing this most notably through a gradual shift towards prescription of tariff medicines in place of clinically equivalent but sometimes more expensive non-tariff alternatives. This has been a feature of the industry for a number of years and we are continuing to manage this dynamic through a variety of initiatives, including margin improvement through the manufacture of more products in-house as opposed to external sourcing.

QPL was also successful in retaining all major key accounts during the year, including securing a five-year exclusive supply relationship with our largest customer, AAH Pharmaceuticals Limited, which supplies over 1,800 Lloyds Pharmacy stores and 8,000 independents across the UK. Post the year-end we entered into long-term exclusive supply agreements with Bestway Panacea Healthcare Limited, trading as Well Pharmacy, and Phoenix Healthcare Distribution Limited, who supply Rowlands pharmacies, for two and three years respectively. Securing these agreements mean we supply three out of the four largest national pharmacy chains in the UK on an exclusive basis, satisfying all of their unlicensed medicine and special obtain demand. Around 89% of our specials and special obtains sales volumes in QPL are sourced from customers with whom we have an exclusive supply relationship, providing us with good visibility over our future revenue potential.

UL Medicines, which primarily serves the hospitals sector, exited the year strongly following a softer first half. The business continues to consolidate its position as one of the leading suppliers of unlicensed imported medicines to the NHS. Following the result of the EU referendum in June 2016, the business has faced challenges relating to the impact of Sterling weakness on the cost of imported lines, however underlying hospital volumes are growing and the business has benefited from temporary supply opportunities following shortages of licensed products.

Medication Adherence division (‘MA’)

The MA division comprises Biodose Services, a homecare dispensary and delivery business, and Protomed, which provides medication management services through Biodose, its innovative multi-dose tray system. Divisional revenue increased by 125% to £25.4m (2016: £11.3m), driven by Biodose Services, which secured a number of new homecare contracts and saw continued growth in the Stork Fertility Service (‘Stork’). The division delivered an adjusted EBITDA loss in the year of £0.2m (2016: £0.4m profit) overall, however the division was generating monthly profits as it exited the year.

The significant revenue base in the MA division is due to Biodose Services and the inherent characteristics of its homecare business model. The business model requires high-value medicines to be dispensed and delivered to patients at home, which results in high levels of revenue and costs and a low gross margin profile.

Trading in Protomed has been steady as the number of patients benefiting from the multi-dose tray system has remained similar to last year. The business has historically sought to commercialise Biodose Connect™, which is an extension of the multi-dose tray system. It allows carers and clinicians to remotely monitor a patient’s adherence to their medication regime. It has become clear that Biodose Connect™ will require substantial further investment to establish it in the domiciliary care market, which is no longer a core area of focus for the Group.

Following our decision to focus our efforts on our core Specials and Niche businesses, we have commenced a strategic review of the MA division to conclude on its long-term fit within the Group.

Chris Rigg
Chief Executive Officer
2 May 2017

Chief Financial Officer's review

The cumulative financial impact of the Group's transition over the past financial year saw significant benefits to the underlying profitability run rate although this resulted in substantial non-recurring and non-operational charges arising from discontinued operations, impairment of product developments and costs incurred in implementing the simplified strategy. Underlying these results is a core Specials business model that is profitable and cash generative and a product development programme that is focused on the Group's unlicensed-to-licensed ('UL2L') strategy.

All figures in this section refer to continuing operations unless otherwise stated.

Group performance

The Group performance is summarised in the following measures:

- Revenue increased by 28% to £88.8m (2016: £69.2m)
- Gross profit remained flat at £25.9m (2016: £25.9m)
- Gross margin declined to 29.2% (2016: 37.4%)
- Adjusted EBITDA declined to £10.1m (2016: £12.5m)
- Loss before tax of £10.9m (2016: £6.7m profit)
- Capitalised development expenditure of £4.0m was incurred (2016: £6.4m)
- Net debt reduced by almost half to £13.0m (2016: £24.6m)

Revenue

REVENUE BY DIVISION (£m)	2017	2016
Specials	57.6	53.6
Niche Pharmaceuticals	5.8	4.3
Medication Adherence	25.4	11.3
Group	**88.8**	**69.2**

Group revenue grew by 28% to £88.8m (2016: £69.2m), primarily as a result of the revenue growth delivered in the Medication Adherence ('MA') division of £14.1m, representing 72% of the Group's total revenue increase of £19.6m. The balance of the Group's revenue growth of £5.5m was represented by the Specials division (£4.0m) and the Niche Pharmaceuticals division (£1.5m).

The Specials division delivered a strong performance during the year. It operates in a challenging market that is subject to regulated pricing across some of the division's product range. Despite these challenges, however, unlicensed medicines and special obtains volumes grew by 6% and demand for bespoke, aseptically-prepared specials also drove growth.

The Niche division licensed and launched Glycopyrronium Bromide Oral Solution 1mg/5ml ('Glyco') in the UK in August 2016, its first UL2L product with meaningful volume. Following the licensing of Glyco, other specials manufacturers of the medicine in the UK were required to cease supplying the market, making the Group the only licensed supplier at launch. The launch of Glyco is the main driver behind the Niche division's revenue growth of 35%, albeit this growth is on a low base.

The MA division exited the care home sector in the prior financial year to focus on pursuing alternative dispensing contract opportunities in the homecare sector. This revised strategy has been implemented successfully resulting in a number of important contracts with large pharmaceutical companies and NHS Trusts being secured during the financial year. The characteristic of this business is that the revenue recognised relates to the value of the medicines being dispensed, which generates a high level of revenue in this division and low levels of gross profit.

Gross profit

Despite the increase in Group revenue, gross profit was unchanged at £25.9m (2016: £25.9m) leading to a reduced gross profit margin of 29.2% (2016: 37.4%). This reduction is the result of the divisional revenue mix changing year-on-year and, in particular, the increase in lower margin homecare contracts in the MA division. The gross profit margin in the core Specials business remained stable.

Adjusted EBITDA

ADJUSTED EBITDA BY DIVISION (£m)	2017	2016
Specials	10.1	10.7
Niche Pharmaceuticals	1.4	2.1
Medication Adherence	(0.2)	0.4
Group costs	(1.2)	(0.7)
Group adjusted EBITDA	**10.1**	**12.5**

RECONCILIATION TO OPERATING (LOSS) PROFIT (£m)	2017	2016
Group adjusted EBITDA	10.1	12.5
Intangible amortisation and impairment	(11.2)	(0.7)
Depreciation and impairment	(1.6)	(0.9)
Impairment of investment	(0.1)	-
Board restructuring	(1.1)	-
Deferred consideration (Lamda)	(2.0)	(1.5)
Share based payments	(0.8)	(0.1)
Niche reorganisation	(2.7)	-
Non-recurring costs	(0.4)	(0.4)
Deal costs	-	(0.6)
Divestment of Care Home operation	-	(0.8)
Group statutory operating (loss) profit	**(9.8)**	**7.5**

Adjusted EBITDA declined to £10.1m (2016: £12.5m) after adjusting for; depreciation, amortisation and impairments of £12.9m (2016: £1.6m); non-recurring or non-operational items totalling £6.2m (2016: £3.3m); share based payments of £0.8m (2016: £0.1m); and excluding a loss on discontinued operations of £13.7m (2016: £0.3m). The contraction in adjusted EBITDA was evenly spread across all of the Group's divisions. Notable drivers include a year-on-year reduction in out-licensing revenue, an increased operating cost base in the first half and underperformance in certain areas of the business during a period of substantive change. Management actions taken during the second half of the financial year, particularly in the Niche division, have successfully addressed a number of these underperformance issues.

Non-recurring or non-operational items include a charge of £2.0m (2016: £1.5m) of deferred consideration for the Lamda acquisition, £1.1m (2016: £nil) for Board restructuring and a £2.7m loss (2016: £nil) relating to the Niche reorganisation and discontinuation of products where management do not believe the Group has a strategic market advantage.

Discontinued operation

In July 2015 the Group acquired NuPharm Laboratories Limited ('NuPharm'), a small-scale batch-made specials manufacturer, which was intended to provide the Group with an internal capability to batch manufacture both unlicensed and licensed medicines. At the time of acquisition NuPharm was under MHRA manufacturing restrictions. Following acquisition the Group encountered further operational issues that needed to be addressed. Despite additional investment by the Group and the dedication of management time since its acquisition, NuPharm suffered trading losses.

The Board concluded that it would take unacceptable additional investment, further cash losses and management time to address the operational issues and that NuPharm was not capable of becoming earnings-enhancing. Consequently the Board took the decision to proceed with a closure plan for NuPharm and trading ceased in January 2017. Following an orderly closure process NuPharm was placed into administration on 26 April 2017. NuPharm's results are included along with the impairment of its associated intangible assets and closure costs within the loss from discontinued operations of £13.7m (2016: £0.3m) shown in the consolidated income statement as it represents a separate major line of business.

(Loss) profit before tax

RECONCILIATION TO (LOSS) PROFIT FOR THE YEAR (£m)	2017	2016
Group statutory operating (loss) profit	(9.8)	7.5
Net financing expense	(1.2)	(0.9)
Share of profit of equity-accounted investees, net of tax	0.1	0.1
Taxation	1.8	(0.8)
(Loss) profit for the year – continuing operations	**(9.1)**	**5.9**
Loss from discontinued operations	(13.7)	(0.3)
(Loss) profit for the year	**(22.8)**	**5.6**

The Group incurred a loss for the year of £22.8m (2016: £5.6m profit) comprising losses from discontinued operations of £13.7m (2016: £0.3m) and from continuing operations of £9.1m (2016: £5.9m profit). The statutory loss from continuing operations includes a number of non-recurring and non-operational costs associated with the transition to a more focused and simplified strategy that have been explained in the adjusted EBITDA section above.

(Loss) earnings per share - continuing operations

MOVEMENT IN BASIC (LOSS) EARNINGS PER SHARE (Pence)	2017	2016
Prior year earnings per share	4.7	1.3
Change due to:		
(Loss) profit for the year	(12.3)	8.9
Weighted average number of shares in issue	0.9	(5.5)
Current year (loss) earnings per share	**(6.7)**	**4.7**

The table bridges the movement in (loss) earnings per share year-on-year, showing the value of the movement that is attributable to the change in earnings and the value that is due to a change in the number of ordinary shares in issue.

Operating cash flow

The Group generated net cash inflows from continuing operating activities of £6.1m (2016: £7.9m) from a loss after tax for the year of £9.1m (2016: £5.9m profit). The loss after tax from continuing operations includes non-cash charges relating to depreciation, amortisation and impairment of £12.9m (2016: £1.6m). These non-cash charges explain why the Group's net cash inflows from operating activities in the current year are only £1.8m lower than the prior year. The other contributing factor is the improved working capital controls that have been implemented during the year. Net cash inflows from working capital during the year were £2.6m compared to £0.7m net outflows in 2016.

Discontinued operations incurred net cash outflows from operating activities of £2.2m (2016: £0.9m).

Investment

During the year the Group's capitalised development expenditure was £4.0m (2016: £6.4m) with development activities now focused on a clearly defined set of products aligned with the Group's strategy. At the same time all of the Group's development projects with the exception of one have been transferred from a portfolio of third-party contracted development organisations to Lamda to improve efficiency of execution and measurement of progress.

Net debt and banking facilities

NET DEBT (£m)	**2017**	**2016**
Cash and cash equivalents	(7.9)	(4.2)
Term loan	21.2	24.2
Revolving credit facility	-	5.0
Unamortised loan issue costs	(0.3)	(0.4)
Net debt	**13.0**	**24.6**

Net debt was better than expected, reducing by 47% to £13.0m (2016: £24.6m), and comprised borrowings net of unamortised loan issue costs of £20.9m (2016: £28.8m) and cash and cash equivalents of £7.9m (2016: £4.2m). This was mainly due to the successful completion of a £15.0m (before expenses) equity fundraise in November 2016 and tighter working capital management across the year.

During the prior year, the Group agreed new banking facilities with RBS and Lloyds that increased overall debt facilities to £35.0m comprising a £25.0m term loan plus £10.0m revolving credit facility, which was undrawn at the year-end.

Dividend

The Board has decided not to declare a dividend in respect of the current financial year (2016: 1.5 pence per share).

Gerard Murray
Chief Financial Officer
2 May 2017

Appendix I – Non-GAAP measures

<table>
<tr><th>Metric</th><th>Description</th><th>Why we use it</th></tr>
<tr><td>Adjusted EBITDA</td><td>Adjusted EBITDA is statutory operating profit excluding:
Depreciation and impairments of tangible non-current assets;
Amortisation and impairments of intangible non-current assets;
Items that management judge to be one-off or non-operational; and
Acquisition-related items.
A reconciliation is set out on page 10.</td><td>Adjusted EBITDA is profitability stated before the non-cash accounting impact of depreciation, amortisation, impairments, share based payments, and excludes the potentially distorting effects of non-recurring and non-operational items. This is the measure management use internally to assess the underlying trading performance of the business.</td></tr>
<tr><td>Adjusted earnings per share</td><td>Adjusted earnings per share is adjusted profit after tax divided by the weighted average number of ordinary shares in issue during the financial year.

Adjusted profit after tax is adjusted EBITDA:
Less depreciation and amortisation;
Less net financing expenses;
Plus the Group's share of profit of equity-accounted investees, net of tax;
Includes an accrued charge or credit for corporation tax on taxable profits; and
Includes movement in provisions for deferred tax.
All adjustments made to adjusted EBITDA as set out in the definition above are net of tax where applicable.

A reconciliation to earnings per share is provided in note 4 of this announcement.</td><td>Adjusted earnings per share (and the growth or contraction versus previous periods) allows management to assess the post-tax underlying trading performance of the business in combination with the impact of capital structuring actions on the share base (e.g. as a result of a share issue or a share buyback programme).</td></tr>
<tr><td>Net debt</td><td>Net debt comprises:
The carrying value of all bank term loans; and
The carrying value of all drawn revolving credit facilities and overdrafts.
Less:
Cash and cash equivalents; and
Unamortised loan issue costs.
All amounts are closing balances as at the relevant balance sheet date.

A breakdown of net debt is set out on page 12.</td><td>This represents the amount of the Group's funding structure that is provided through debt finance.</td></tr>
</table>

Consolidated Income Statement
for year ended 31 January 2017

	Note	2017	2016
		£000	£000
Continuing operations			
Revenue	*2*	**88,770**	69,227
Cost of sales		**(62,846)**	(43,352)
Gross profit		**25,924**	25,875
Other operating income		**16**	204
Distribution expenses		**(2,600)**	(2,571)
Administrative expenses		**(33,186)**	(16,019)
Operating (loss) profit		**(9,846)**	7,489
Financial expense		**(1,150)**	(902)
Net financing expense		**(1,150)**	(902)
Share of profit of equity-accounted investees, net of tax		**145**	106
(Loss) profit before tax		**(10,851)**	6,693
Taxation		**1,790**	(780)
(Loss) profit for the year from continuing operations		**(9,061)**	5,913
Discontinued operations			
Loss for the year from discontinued operations	*3*	**(13,705)**	(317)
(Loss) profit for the year		**(22,766)**	5,596
Basic and diluted earnings per share attributed to equity shareholders of the Company			
Basic (p):	*4*	**(16.9)**	4.5
Diluted (p):	*4*	**(16.9)**	4.3
Basic (p) – continuing operations only:	*4*	**(6.7)**	4.7
Diluted (p) – continuing operations only:	*4*	**(6.7)**	4.5
Basic (p) – discontinued operations only:	*4*	**(10.2)**	(0.2)
Diluted (p) – discontinued operations only:	*4*	**(10.2)**	(0.2)

Consolidated Statement of Comprehensive Income
for year ended 31 January 2017

	2017	2016
	£000	£000
(Loss) profit for the year	**(22,766)**	5,596
Other comprehensive income		
Items that are or may be recycled subsequently into profit or loss		
Foreign exchange translation differences	**74**	(3)
Other comprehensive income (loss) for the year, net of income tax	**74**	(3)
Total comprehensive (loss) income for the year	**(22,692)**	5,593
Attributable to:		
Equity holders of the parent	**(22,692)**	5,593

Consolidated Balance Sheet
at 31 January 2017

	Note	2017	2016
		£000	£000
Non-current assets			
Property, plant and equipment		**4,211**	5,967
Intangible assets	*5*	**59,493**	78,432
Investments		**-**	105
		63,704	84,504
Current assets			
Inventories		**3,985**	4,887
Tax receivable		**228**	307
Trade and other receivables		**14,965**	13,410
Cash and cash equivalents		**7,941**	4,240
		27,119	22,844
Total assets		**90,823**	107,348
Current liabilities			
Other interest-bearing loans and borrowings		**(2,880)**	(7,880)
Trade and other payables		**(22,433)**	(18,943)
Provisions		**(572)**	(1,355)
		(25,885)	(28,178)
Non-current liabilities			
Other interest-bearing loans and borrowings		**(18,080)**	(20,959)
Other payables		**-**	(19)
Provisions		**-**	(439)
Deferred tax liabilities		**(244)**	(2,244)
		(18,324)	(23,661)
Total liabilities		**(44,209)**	(51,839)
Net assets	*2*	**46,614**	55,509

Consolidated Balance Sheet *(continued)*
at 31 January 2017

	2017	2016
	£000	£000
Equity attributable to equity holders of the parent		
Share capital	**16,912**	12,500
Share premium	**74,799**	64,940
Consolidation reserve	**(9,752)**	(9,752)
Translation reserve	**116**	42
Other reserve	**(21,726)**	(21,726)
ESOP own share reserve	**(484)**	(484)
Merger reserve	**8,742**	8,742
Retained earnings	**(21,993)**	1,247
Total equity	**46,614**	55,509

These financial statements were approved by the Board of Directors on 2 May 2017 and were signed on its behalf by:

G T Murray
Director

Company registered number: 9269818

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Consolidation reserve £000	Translation reserve £000	Other reserve £000	ESOP own share reserve £000
Balance at 1 February 2016	12,500	64,940	(9,752)	42	(21,726)	(484)
Total comprehensive income for the year						
Loss for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	74	-	-
Total comprehensive income for the year	-	-	-	74	-	-
Transactions with owners, recorded directly in equity						
Issue of ordinary shares	4,412	10,588	-	-	-	-
Issue costs charged against share premium	-	(729)	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-	-
Equity-settled share based payment transactions	-	-	-	-	-	-
Total contributions by and distributions to owners	4,412	9,859	-	-	-	-
Total transactions with owners	4,412	9,859	-	-	-	-
Balance at 31 January 2017	**16,912**	**74,799**	**(9,752)**	**116**	**(21,726)**	**(484)**

Consolidated Statement of Changes in Equity *(continued)*

	Share capital £000	Share premium £000	Consolidation reserve £000	Translation reserve £000	Other reserve £000	ESOP own share reserve £000	Merger reserve £000	Retained earnings £000	Total equity £000
Balance at 1 February 2015	12,500	64,940	(9,752)	45	(21,726)	(484)	8,742	(3,545)	50,720
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	-	5,596	5,596
Other comprehensive loss	-	-	-	(3)	-	-	-	-	(3)
Total comprehensive income for the year	-	-	-	(3)	-	-	-	5,596	5,593
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners	-	-	-	-	-	-	-	(937)	(937)
Equity-settled share based payment transactions	-	-	-	-	-	-	-	133	133
Total contributions by and distributions to owners	-	-	-	-	-	-	-	(804)	(804)
Total transactions with owners	-	-	-	-	-	-	-	(804)	(804)
Balance at 31 January 2016	**12,500**	**64,940**	**(9,752)**	**42**	**(21,726)**	**(484)**	**8,742**	**1,247**	**55,509**

Consolidated Cash Flow Statement
for year ended 31 January 2017

	Note	2017	2016
		£000	£000
Cash flows from operating activities			
(Loss) profit for the year from continuing operations		**(9,061)**	5,913
Adjustments for:			
Depreciation, amortisation and impairment		**12,956**	1,631
Financial expense		**1,150**	902
Share of profit of equity-accounted investees		**(145)**	(106)
Equity settled share-based payment expenses		**776**	133
Taxation		**(1,790)**	780
		3,886	9,253
Increase in trade and other receivables		**(1,739)**	(920)
Decrease (increase) in inventories		**651**	(575)
Increase in trade and other payables		**3,647**	1,241
Increase (decrease) in provisions		**44**	(501)
		6,489	8,498
Interest paid		**(929)**	(720)
Tax received		**546**	83
Net cash inflow from continuing operating activities		**6,106**	7,861
Net cash outflow from operating activities in discontinued operations		**(2,222)**	(884)
Net cash inflow from operating activities		**3,884**	6,977
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(719)**	(1,845)
Acquisition of subsidiaries, net of cash acquired		**-**	(3,285)
Acquisition of investment		**-**	(105)
Capitalised development expenditure	*5*	**(4,035)**	(6,355)
Acquisition of other intangible assets	*5*	**(212)**	(287)
Net cash outflow from investing activities in continuing operations		**(4,966)**	(11,877)
Net cash outflow from investing activities in discontinued operations		**(238)**	(9,075)
Net cash outflow from investing activities		**(5,204)**	(20,952)
Cash flows from financing activities			
Proceeds from the issue of share capital (net of expenses)		**14,271**	-
Proceeds from new loan		**-**	29,520
Repayment of borrowings		**(8,000)**	(15,754)
Dividends paid		**(1,250)**	(937)
Net cash inflow from financing activities in continuing operations		**5,021**	12,829
Net cash outflow from financing activities in discontinued operations		**-**	(487)
Net cash inflow from financing activities		**5,021**	12,342
Net increase (decrease) in cash and cash equivalents		**3,701**	(1,633)
Cash and cash equivalents at start of year		**4,240**	5,873
Cash and cash equivalents at year end		**7,941**	4,240

Notes

1 Basis of preparation and status of financial information

The financial information set out above has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 January 2017 or 2016. Statutory accounts for 2016 have been delivered to the Registrar of Companies, and those for 2017 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report (iii) did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

These results were approved by the Board of Directors on 2 May 2017.

2 Segmental reporting

The following analysis by segment is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8) to assess performance and make strategic decisions about allocation of resources.

The sectors distinguished as operating segments are Specials, Niche Pharmaceuticals and Medication Adherence. A short description of these sectors is as follows:

- Specials – Manufacture, source and supply special medicines to pharmacies, pharmaceutical wholesalers, hospitals (NHS and private) and other specials suppliers throughout the UK and overseas.
- Niche Pharmaceuticals (Niche) – develop and supply niche pharmaceuticals, provide development and regulatory services and out-license products and dossiers to third parties in the UK and overseas.
- Medication Adherence (MA) – provide products and services designed to enhance adherence to medication regimes.

These operating segments have separate management teams and offer different products and services and are considered as reportable segments. The segment results, as reported to the Board, are calculated under the principles of IFRS. Performance is measured on the basis of Adjusted EBITDA which comprises the segment result before non-cash items (amortisation, depreciation and share based payments) and other items that are excluded when the Board assess performance. A reconciliation between Adjusted EBITDA and profit (loss) before tax is included in the tables below:

The results shown below are from continuing operations only.

31 January 2017

	Specials £000	Niche £000	MA £000	Total £000
Result and reconciliation to loss before tax				
Total revenue	62,477	7,862	25,496	95,835
Intersegmental	(4,910)	(2,077)	(78)	(7,065)
Revenue	57,567	5,785	25,418	88,770
Segment Adjusted EBITDA	10,067	1,434	(208)	11,293
Group cost centres				(1,164)
Group Adjusted EBITDA				10,129
Intangible amortisation and impairment				(11,195)
Depreciation and impairment				(1,656)
Impairment of investment				(105)
Board restructuring				(1,085)
Deferred consideration accounted for as remuneration (Lamda)				(1,977)
Share based payments				(776)
Niche reorganisation				(2,666)
Non-recurring costs				(515)
Operating loss				(9,846)
Financial expense				(1,150)
Share of profit of jointly controlled entities				145
Loss before tax from continuing operations				(10,851)
NET ASSETS				
Segment assets	93,035	16,678	8,671	118,384
Segment liabilities	(56,801)	(24,427)	(23,460)	(104,688)
Segment net assets (liabilities)	36,234	(7,749)	(14,789)	13,696
Unallocated net assets				32,918
Total net assets				46,614
Depreciation, amortisation and impairment	1,654	8,319	2,983	12,956
Capital expenditure	121	464	184	769
Capitalised development, patent and software costs	233	3,685	329	4,247

Unallocated net assets include cash and cash equivalents (£1.6m), trade and other payables (£1.1m), bank term loans (£21.0m) and net intra-group loan receivables (£53.4m).

31 January 2016

	Specials £000	Niche £000	MA £000	Total £000
Result and reconciliation to profit before tax				
Total revenue	58,770	6,480	11,508	76,758
Intersegmental	(5,142)	(2,226)	(163)	(7,531)
Revenue	53,628	4,254	11,345	69,227
Segment Adjusted EBITDA	10,723	2,127	405	13,255
Group cost centres				(757)
Group Adjusted EBITDA				12,498
Intangible amortisation and impairment				(723)
Depreciation				(908)
Deal costs				(625)
Deferred consideration accounted for as remuneration (Lamda)				(1,461)
Share based payments				(133)
Divestment of Care Home operation				(796)
Non-recurring costs				(363)
Operating profit				7,489
Financial expense				(902)
Share of profit of jointly controlled entities				106
Profit before taxation from continuing operations				**6,693**
NET ASSETS				
Segment assets	107,708	18,543	9,847	136,098
Segment liabilities	(56,378)	(16,473)	(18,648)	(91,499)
Segment net assets (liabilities)	51,330	2,070	(8,801)	44,599
Unallocated net assets				10,910
Total net assets				55,509
Depreciation, amortisation and impairment	902	329	400	1,631
Capital expenditure	1,157	392	296	1,845
Capitalised development, patent and software costs	232	5,615	795	6,642

Unallocated net assets includes trade and other payables (£0.4m), bank term loan (£28.8m) and net intra-group loan receivables (£40.1m).

In both years revenue is generated almost entirely in the UK. In the year ended 31 January 2017 one *(2016: one)* customer accounted for 23% *(2016: 24%)* of Group revenue.

3 Discontinued operations

The Group's discontinued operation, NuPharm Laboratories Limited, made a loss of £13.7m (2016: £0.3m) after tax during the year. These losses have been classified as discontinued in the current year, with prior year restatement, as NuPharm Laboratories Limited represents a separate major line of business.

	2017	2016
	£000	£000
Revenue	**1,303**	763
Cost of sales	**(2,126)**	(402)
Gross (loss) profit	**(823)**	361
Other operating income	**70**	-
Distribution expenses	**(31)**	(23)
Administrative expenses	**(543)**	(642)
Intangible amortisation	**(209)**	(138)
Impairment of goodwill and other intangibles	**(12,049)**	-
Depreciation	**(200)**	(83)
Impairment of tangible fixed assets	**(590)**	-
Operating loss	**(14,375)**	(525)
Financial expense	**(7)**	(3)
Loss before tax from discontinued operation	**(14,382)**	(528)
Taxation		
Current tax credit	**136**	186
Deferred tax credit	**541**	25
Loss for the year from discontinued operations	**(13,705)**	(317)

	2017	2016
	£000	£000
The major classes of assets and liabilities directly attributable to the discontinued operation are:		
Non-current assets	**-**	12,810
Inventories	**-**	251
Trade and other receivables	**25**	208
Cash and cash equivalents	**5**	35
Trade and other payables	**(377)**	(637)
Provisions	**(459)**	(1,605)
Tax liabilities	**-**	(599)

4 Earnings per share

	Continuing operations 2017 £000	Total Group 2017 £000	Continuing operations 2016 £000	Total Group 2016 £000
(Loss) profit attributable to equity shareholders of the parent	**(9,061)**	**(22,766)**	5,913	5,596

	2017 Number ('000)	2016 Number ('000)
Basic weighted average number of shares	**134,764**	125,000
Dilutive potential ordinary shares	-	6,117
Diluted weighted average number of shares	**134,764**	131,117

	Pence	Pence
Basic (loss) earnings per share	**(16.9)**	4.5
Diluted (loss) earnings per share	**(16.9)**	4.3
Basic (loss) earnings per share – continuing operations	**(6.7)**	4.7
Diluted (loss) earnings per share – continuing operations	**(6.7)**	4.5
Basic loss per share – discontinued operations	**(10.2)**	(0.2)
Diluted loss per share – discontinued operations	**(10.2)**	(0.2)

Basic weighted average number of shares include those shares in the EBT to which the beneficiaries are unconditionally entitled.

The dilutive potential shares relate to the share options. There were no potentially dilutive shares or other instrument that have been excluded from Diluted EPS because they are antidilutive.

Adjusted EPS	2017 £000	2016 £000
(Loss) profit after tax	**(9,061)**	5,913
Add:		
Impairment of intangible assets	**9,403**	-
Impairment of investment	**105**	-
Board restructuring	**1,085**	-
Deal costs	**-**	625
Deferred consideration accounted for as remuneration (Lamda)	**1,977**	1,461
Share based payments	**776**	133
Divestment of Care Home operation	**-**	796
Niche reorganisation	**2,666**	-
Non-recurring costs	**515**	363
Finance costs	**103**	143
Less: tax associated with adjustments	**(874)**	(325)
Adjusted profit after tax	**6,695**	9,109

The adjusted EPS, based on the adjusted earnings above for the year from continuing operations and weighted average number of shares in issue of 134,764,000 (*2016: 125,000,000*) is 5.0 pence (*2016: 7.3 pence*).

The adjusted diluted earnings per share based on the adjusted earnings from continuing operations above and a weighted average number of shares of 134,764,000 *(2016: 131,117,000)* is 5.0 pence *(2016: 6.9 pence)*.

5 Intangible assets

	Software development £000	Development costs £000	Patents and trade-marks £000	Customer relationship £000	Goodwill £000	Total £000
Cost						
Balance at 1 February 2015	42	5,363	252	1,728	60,319	67,704
Internal developments	-	6,355	-	-	-	6,355
External purchases	240	-	47	-	-	287
Acquisitions through business combinations	-	-	-	2,787	12,340	15,127
Balance at 31 January 2016	282	11,718	299	4,515	72,659	89,473
Balance at 1 February 2016	282	11,718	299	4,515	72,659	89,473
Internal developments	-	4,035	-	-	-	4,035
External purchases	72	-	140	-	-	212
Reclassified from tangibles	519	-	-	-	-	519
Transfers	(142)	142	-	-	-	-
Balance at 31 January 2017	**731**	**15,895**	**439**	**4,515**	**72,659**	**94,239**
Amortisation and impairment						
Balance at 1 February 2015	-	128	74	519	9,459	10,180
Amortisation for the year	2	441	26	312	-	781
Impairment	-	80	-	-	-	80
Balance at 31 January 2016	2	649	100	831	9,459	11,041
Balance at 1 February 2016	2	649	100	831	9,459	11,041
Amortisation for the year	46	1,544	29	382	-	2,001
Impairment	-	7,910	249	2,439	10,854	21,452
Reclassified from tangibles	252	-	-	-	-	252
Balance at 31 January 2017	**300**	**10,103**	**378**	**3,652**	**20,313**	**34,746**
Net book value						
At 31 January 2016	280	11,069	199	3,684	63,200	78,432
At 31 January 2017	**431**	**5,792**	**61**	**863**	**52,346**	**59,493**

Impairment and amortisation

The impairment and amortisation charges are recognised in the following line items in the consolidated income statement:

	Impairment		Amortisation	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Administrative expenses	**9,403**	80	**1,792**	781
Discontinued operations	**12,049**	-	**209**	-
	21,452	80	**2,001**	781

An impairment charge of £21,452,000 *(2016: £80,000)* has been recognised in the year arising from the decisions to discontinue NuPharm operations £12,049,000 (2016: £nil), not progress the development of certain medicines £7,210,000 (2016: £80,000) and the write down of goodwill and other intangible assets in respect of Protomed Limited £2,193,000 (2016: £nil) due to uncertainty over the level of future profits.

Impairment testing

Goodwill and indefinite life intangible assets considered significant in comparison to the Group's total carrying amount of such assets have been allocated to cash generating units or groups of cash generating units as follows:

Goodwill	**2017**	2016
	£000	£000
Quantum Pharmaceutical Limited	**37,703**	37,703
U L Medicines Limited	**9,647**	9,647
Colonis Pharma Limited and Lamda	**3,155**	3,155
Total Medication Management Services Limited ("TOMMS")	**1,841**	1,841
Protomed Limited	**-**	1,245
NuPharm Group Limited	**-**	9,609
	52,346	63,200

The recoverable amount of the goodwill allocated to the above cash generating units has been calculated with reference to their value in use. The key assumptions of this calculation are shown below:

	2017	2016
Period on which management approved forecasts are based	**3 years**	3 years
Growth rate applied beyond approved forecast period	**0%**	0%
Discount rate	**8-10%**	10%

Management have assumed 0% growth beyond the forecast period. The forecast period is based on a three year business model approved by the Board. The key assumption in those forecasts is revenue. Forecasts for the more established businesses are based on historical growth trends. For the less mature businesses, forecast revenues are based on management's assessment of market trends and the impact of the Group's growth initiatives. In respect of Colonis and Lamda, forecast revenue is based on estimated revenues for each product in development, which in turn is based on estimated market size and the Group's likely market share.

The recoverable amount of these cash generating units has been calculated with reference to their value in use. Management have used a pre-tax discount rate ranging from 8% to 10% that reflects current market assessments for the time value of money and the risks associated with the CGU. A discount rate of 8% has been applied to the core mature business units within the Group, namely Quantum Pharmaceutical Limited and UL Medicines Limited, with a

10% discount rate applied to the less mature business units and revenue streams, namely TOMMS, 'Colonis Pharma Limited and Lamda'. A further analysis would be done if this suggested that the impairment assessment was sensitive to the discount rate. Management has performed sensitivity analysis on all the impairment calculations by increasing the pre-tax discount rate by 5% to 13% and 15% respectively and sensitising revenue by 5% and no impairment would arise in any period.

- Ends -