Bioquell PLC

Interim Report & Accounts 2017

Contents

Financial highlights

- Total revenues including defence sales increased by 19% to £14.3 million (2016: £12.1 million); up 10% at constant currency rates.
- Bio-decontamination revenues increased by 27% to £14.0 million (2016: £11.1 million); up 17% at constant currency rates.
- Non-UK revenues amounted to £11.3 million (2016: £9.0 million) – 79% of total revenues (2016: 75%)
- Gross margin increased to 52% (2016: 46%)
- EBITDA increased 56% to £2.5 million (2016: £1.6 million)
- Profit before tax more than trebled to £1.4 million (2016: £0.4 million)
- Basic earnings per share were 5.5p (2016: 0.8p)
- Net cash of £11.8 million at 30 June 2017 (2016: £7.3 million)

Operational activities

- US organisation restructured and additional sales resource recruited for Life Sciences
- Management focused on simplifying the Group and further developing and improving the bio-decontamination business
- Strong focus on generating recurring revenues from service activities and consumables sales

Ian Johnson, Chairman of Bioquell PLC, said:

"I am pleased to report that after a number of years of little growth, total revenues increased by 19% in the half year and that our core bio-decontamination division produced strong revenue growth of 27%. Profitability improved as a result of a significant improvement in margins coupled with tight cost control. Management continues to seek ways to simplify and focus the business around the core bio-decontamination products and services driving higher margin sales and yielding higher quality earnings. Given the momentum in the business the Board believes that the Company's profit before taxation for the current financial year will exceed current market expectations"

CHAIRMAN'S STATEMENT

INTRODUCTION

The Company achieved total revenues in the half year of £14.3 million and continues to generate the large majority of its revenues from its core bio-decontamination division.

For the six months ended 30 June 2017, the split of revenues between these Divisions was:

- **Bio-decontamination**: £14.0 million (2016: £11.1 million) – 98% of H1 revenues and a 27% increase over prior year H1 revenues;
- **MDH Defence**: £0.3 million (2016: £1.0 million) – 2% of H1 revenues and a 68% decrease over prior year H1 revenues.

BUSINESS ACTIVITIES

Bio-decontamination Division

Bioquell's patented 'Hydrogen Peroxide Vapour' technology has been adopted around the world as the 'gold standard' for bio-decontamination. It is used in pharmaceutical manufacturing and life science research laboratories to eradicate contamination and in critical care facilities in hospitals to control the spread of infection. The Company is well placed to grow revenues from the life sciences, pharmaceutical and healthcare markets and has recently restructured its sales and marketing organisation to better address these markets.

There are an increasing number of regulations affecting these markets. Typically we find more onerous regulation tends to help increase demand for Bioquell's highly effective bio-decontamination systems and services as our clients remain focussed on attaining - and retaining - regulatory compliance.

The Company provides two options to customers requiring regular or ad hoc bio-decontamination of their facilities. They can either purchase a 'system' and carryout the bio-decontamination process using in-house staff or request our Rapid Bio Decontamination Service (RBDS), in which case we will carry out the required work using our own systems and highly trained staff.

In the first half of 2017 'system' revenues, which includes equipment, consumables, service and validation grew by 18% to £10.1 million (2016: £8.5 million) whilst revenues generated from RBDS grew by 40% to £3.5 million (2016: £2.5 million). Recurring revenues increased 14% to £5.7 million (2016: £5.0 million)

The new ergonomic fixed, wall-mounted bio-decontamination system – Bioquell Sequre, launched in the fourth quarter of 2016 has demonstrated strong growth and continued interest from the pharmaceutical sector. A dedicated aeration unit will be launched early in the second half of 2017 to support its use in the absence of available HVAC systems. A programme of product improvements, upgrades and enhancement of the RBDS equipment fleet is underway.

Bioquell also delivers technologies that incorporate Hydrogen Peroxide Vapour bio-decontamination technology into complementary product and service offerings. For example:

- the Bioquell QUBE comprises a novel, modular aseptic work-station incorporating Hydrogen Peroxide Vapour technology. The QUBE is used to provide an aseptic environment for a range of applications including: sterility testing; the production of toxic, intravenous oncology drugs; and the production of small-scale cell-based healthcare products.
  QUBE revenues in the first half of 2017 more than doubled to £1.6 million (2016: £0.7 million) Over time we expect the range of specialist applications for the QUBE to increase, with an associated growth in revenues.
- The Bioquell POD enables hospitals to convert multi-bed, open-plan units at high risk of the spread of hospital acquired infection into single-occupancy rooms. PODs can be installed within a day and decontaminated using Bioquell's Hydrogen Peroxide Vapour technology. PODs are available to purchase or rent. POD revenues, which are predominantly recurring, grew by 22% in the first half of the year to £0.4 million (2016: £0.3 million)

The Group has direct sales operations in UK, Ireland, France, Germany, USA, China and Singapore and a network of distributors around the world.

Defence Division - MDH

MDH has served the defence industry for over 50 years and supplied bespoke solutions for environmental control including chemical, biological, radiological and nuclear filtration systems and air conditioning for military vehicles and shelters. It continues to supply major defence contractors with these systems and spares as part of long term contracts.

In December 2016, MDH Defence was re-launched as a separate division of the Group to create further awareness of its capabilities. Additional sales and marketing resource was put in place to provide better visibility of revenues and to establish a strong order book. There is growing evidence that this is beginning to work as the number of prospects in the pipeline has increased significantly and new customers have been added in the last six months which will generate revenues in the second half onwards.

FINANCIAL RESULTS

Revenues from non-UK sales were £11.3m (2016: £9.0m) and represented 79% (2016:75%) of total sales

Average exchange rates in the first half saw Sterling markedly weaker than in the first half of 2016 against both the US$ and the Euro. As a UK based exporter, Bioquell is a beneficiary of this weakness. Even in constant currency terms, however, revenue growth in the bio-decontamination business in the first half was 17% (2016:4%).

Gross margin in the period rose 6% to 52%. This was partly attributable to the impact of more favourable exchange rates, partly to stronger results from the RBDS and service businesses with associated improved utilisation and partly due to cost reductions and manufacturing efficiencies achieved in the production process.

Research & development costs

As is set out in the table below, the accounting charge for Research & Development ("R&D") costs in the period increased by 40% to £1,139k (2016: £807k). Cash R&D costs were £808k in the first half (2016: £673k), representing a 20% increase over the prior year period.

R&D costs (£000)	H1 2017	H1 2016
Amount of R&D expensed in period	(690)	(308)
Amortisation of previously capitalised development costs	(449)	(499)
Total R&D charge under IFRS	(1,139)	(807)

Total R&D cash expenditure	(808)	(673)
Amount of development costs capitalised	(118)	(365)

EBITDA (Earnings before interest, tax, depreciation and amortisation) increased by 56% in the period to £2.5 million (2016: £1.6 million).

EBITDA (£m)	H1 2017		H1 2016	
	Revenue	EBITDA	Revenue	EBITDA
Bio-decontamination	14.0	3.0	11.1	1.9
MDH Defence	0.3	(0.1)	1.0	0.2
PLC – central costs		(0.4)		(0.5)
Total	14.3	2.5	12.1	1.6

Profit before taxation increased to £1.4 million (2016: £0.3 million) and basic earnings per share were 5.5p (2016: 0.8p)

Capital expenditure was £0.4 million (2016: £0.5 million), compared to a depreciation charge of £0.7m (2016: £0.8m)

Net cash from operating activities more than trebled to £3.8 million (2016: £1.3 million)

Balance sheet

The Group retains a very strong balance sheet. Net cash at 30 June 2017 was £11.8 million (30 June 2016: £7.3 million)

The Group spent £0.3 million buying back 190,000 of its own shares in the period.

OUTLOOK AND PROSPECTS

As we continue to focus on simplifying the Group and concentrating resource on developing the core bio-decontamination business further improvements in financial performance are anticipated. There are a number of different drivers of growth which are positively affecting this business, including the need for customers to achieve regulatory compliance and continuing growth in research and small scale production associated with cell-based healthcare products.

The first half of the year has seen strong growth both at the top line and particularly in profitability. The Board expects revenue to be broadly similar in the second half of the year and the Company's full year profit before taxation for the financial year ending 31 December 2017 is therefore likely to exceed current market expectations.

The Board intends to continue with share repurchases, pursuant to the general authority given to it at the Company's General Meeting held on 26 April 2017, during the second half of the year.

Prior to publication, the information contained within this announcement was deemed to constitute inside information under the Market Abuse Regulations (EU) No. 596/2104 ("MAR")

Ian Johnson
Executive Chairman
Bioquell PLC

26 July 2017

Consolidated income statement

Unaudited results for the six months ended 30 June 2017

Continuing operations		Notes	**6 months to 30 June 2017 £'000**	6 months to 30 June 2016 £'000	12 months to 31 December 2016 £'000
Revenue		1	**14,336**	12,063	26,485
Cost of sales			**(6,940)**	(6,473)	(13,740)
Gross profit			**7,396**	5,590	12,745
Gross profit margin			**52%**	46%	48%
Operating expenses:					
Sales and marketing costs			**(2,842)**	(2,367)	(5,154)
Administration costs			**(2,036)**	(2,129)	(4,191)
R&D and engineering costs			**(1,139)**	(807)	(1,826)
Profit from operations before adjusted items			**1,379**	287	1,574
Impairment of intangible assets			—	—	(662)
Costs associated with Board restructuring			—	—	(858)
Profit from operations			**1,379**	287	54
Investment revenues			**111**	118	132
Finance costs			**(97)**	(27)	(110)
Profit before tax			**1,393**	378	76
Tax (charge)/credit on profit on ordinary activities			**(169)**	(47)	321
Profit for the period attributable to equity holders of the parent			**1,224**	331	397
Earnings per share attributable to the owners of the parent	- basic		**5.5p**	0.8p	1.3p
	- diluted		**5.0p**	0.8p	1.2p

Supplementary notes

1. The financial information for the six months ended 30 June 2017 and the comparative figures for the six months ended 30 June 2016 have not been reviewed or audited by the Group's auditors and have been prepared on the basis of the accounting policies adopted by the Group under IFRS. The same accounting policies and methods of computation are followed in the interim financial report as were published by the Company on 7 March 2017 in its annual financial statements, which are available on the Company's website at www.bioquellplc.com.

2. The comparative figures for the twelve months to 31 December 2016 have been prepared under IFRS. They do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The unqualified audited accounts for the twelve months ended 31 December 2016 have been filed with the Registrar of Companies and they did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

3. The tax charge shown on the income statement represents a combined corporation tax charge and deferred tax credit. The charge is based on the Group's anticipated effective tax rate for the full year of 12.1% (2016: 12.5%).

4. Earnings per share for the half year have been calculated on the profit on ordinary activities on continuing operations after taxation and the total earnings attributable to the owners of the parent divided by the weighted average number of ordinary shares in issue during the period. The Group's diluted earnings per share are calculated by including dilutive share options in the denominator.

5. There have been no related party transactions during the first six months of the financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last Annual Report that could do so.

6. Copies of this statement will be available to members of the public at the Company's registered office: 52 Royce Close, West Portway, Andover, Hampshire SP10 3TS and on the Group's website at www.bioquellplc.com.

Principal risks and uncertainties

The Board believes that the principal risks and uncertainties facing the Group have not changed materially from those described in the 2016 Annual Report, including the summary of risks and uncertainties set out on pages 5 and 6 therein. The Group provides complex equipment and specialist services to a large number of clients in the UK and internationally. Accordingly the Group is subject to a broad range of strategic, operational and financial risks and uncertainties, including the following principal risks:

- *Regulatory Risk*

The Group operates in a number of countries and sectors which are highly regulated. There is a risk that the relevant authorities or their interpretation could be changed and such change could significantly adversely affect the Group's business in that country or sector

- *Technological Risk*

The Group is dependent on its technology, and on its products and services, continuing to be efficacious, cost effective and attractive to the marketplace. There is the risk that new technologies, products or services are developed by competitors which perform better, are easier to use or are more cost effective than those of the Group

- *Uncertain adoption rate of new products or services*

The Group is constantly developing new products and services. There is inherent uncertainty as to how quickly new products or services will be adopted by the market.

Going concern

The Group has sufficient financial resources to cover budgeted future cash flows, together with contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors confirm that they have a reasonable expectation that the Group has adequate financial resources to continue to trade for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Responsibility statement

We confirm that to the best of our knowledge: (i) the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting; (ii) the financial statements give a true and fair view of the assets, liabilities, financial position and profit of the undertakings included in the consolidation as a whole as required by DTR 4.2.4R; (iii) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and a description of principal risks and uncertainties for the remaining six months of the year); and (iv) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

IAN JOHNSON	**MICHAEL ROLLER**
Executive Chairman	***Group Finance Director***
26 July 2017	

Consolidated statement of comprehensive income

Unaudited results for the six months ended 30 June 2017

	6 months to 30 June 2017 £'000	6 months to 30 June 2016 £'000	12 months to 31 December 2016 £'000
Profit for the period	**1,224**	331	397
Exchange differences on translation of foreign operations *	**(111)**	422	510
Total recognised income for the period	**1,113**	753	907

* May be reclassified subsequently to profit or loss in accordance with IFRS

Consolidated statement of changes in equity

Unaudited results for the six months ended 30 June 2017

	Notes	**6 months to 30 June 2017 £'000**	6 months to 30 June 2016 £'000	12 months to 31 December 2016 £'000
Profit for the period		**1,224**	331	397
Exchange differences on the translation of foreign operations		**(111)**	422	510
Total comprehensive income in the period		**1,113**	753	907
Other movements in the period:				
Issued share capital		**26**	68	68
Issued share premium		**187**	574	577
Acquisition of own shares for cancellation	**5**	—	(41,336)	**(41,396)**
Acquisition of own shares to be held in Treasury		**(304)**	—	**(1,269)**
Credit/(charge) to equity reserve for share-based payments		**78**	(23)	35
Deferred tax credit to equity for share-based payments		**94**	—	—
Charge to equity on exercise of share options under the SARS scheme		—	(20)	(6)
Net increase/(decrease) in equity shareholders' funds		**1,194**	(39,984)	(41,084)
Equity shareholders' funds at beginning of period		**23,834**	64,918	64,918
Equity shareholders' funds at end of period		**25,028**	24,934	23,834

Consolidated balance sheet
Unaudited results at 30 June 2017

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Non-current assets			
Other intangible assets	**7,228**	8,645	7,568
Property, plant and equipment	**4,248**	5,023	4,572
Deferred tax assets	**90**	175	90
	11,566	13,843	12,230
Current assets			
Inventories	**3,140**	3,765	2,773
Trade and other receivables	**5,355**	5,772	6,847
Derivative financial instruments	**86**	—	44
Cash and cash equivalents	**11,771**	7,324	8,756
	20,352	16,861	18,420
Total assets	**31,918**	30,704	30,650
Current liabilities			
Trade and other payables	**(5,467)**	(3,961)	(5,404)
Derivative financial instruments	**(62)**	(182)	(72)
Current tax liabilities	**(483)**	(226)	(210)
Provisions	**(186)**	(74)	(240)
Net current assets	**14,154**	12,418	12,494
Non-current liabilities			
Deferred tax liabilities	**(692)**	(1,327)	(890)
Total liabilities	**(6,890)**	(5,770)	(6,816)
Net assets	**25,028**	24,934	23,834
Equity			
Share capital	**2,320**	2,294	2,294
Share premium account	**1,683**	1,493	1,496
Equity reserve	**1,909**	1,767	1,780
Capital reserve	**255**	255	255
Translation reserve	**162**	185	273
Retained earnings	**18,699**	18,940	17,736
Equity attributable to equity holders of the parent	**25,028**	24,934	23,834

Consolidated cash flow statement
Unaudited results for the six months ended 30 June 2017

	Notes	**6 months to 30 June 2017 £'000**	6 months to 30 June 2016 £'000	12 months to 31 December 2016 £'000
Net cash from operating activities		**3,772**	1,270	4,133
Investing activities				
Purchases of property, plant and equipment		**(379)**	(495)	(723)
Purchases of intangible assets		—	(30)	(58)
Expenditure on capitalised product development		(124)	(364)	(409)
Net cash used in investing activities		**(503)**	(889)	(1,190)
Financing activities				
Proceeds on issue of ordinary shares		**213**	642	645
Acquisition of own shares for cancellation	5	—	(41,336)	(41,396)
Acquisition of own shares to be held in Treasury		(304)	—	(1,269)
Net cash used in financing activities		**(91)**	(40,694)	(42,020)
Increase/(decrease) in cash and cash equivalents		**3,178**	(40,313)	(39,077)
Cash and cash equivalents at beginning of period		**8,756**	47,573	47,573
Effect of foreign exchange rate changes		**(163)**	64	260
Cash and cash equivalents at end of period		**11,771**	7,324	8,756

Note to the cash flow statement
Unaudited results for the six months ended 30 June 2017

	6 months to 30 June 2017 £'000	6 months to 30 June 2016 £'000	12 months to 31 December 2016 £'000
Profit before tax	**1,393**	378	76
Adjustments for:			
Investment revenues	**(111)**	(118)	(132)
Finance costs	**97**	27	110
Depreciation of property, plant and equipment	**703**	821	1,544
Amortisation of intangible assets	**464**	534	1,026
Impairment of intangible assets	—	—	662
Accelerated IFRS2 charge	—	—	60
Share-based payments (credit)/charge	**78**	(23)	35
Loss on disposal of fixed assets	—	—	8
(Decrease)/increase in provisions	**(54)**	(10)	156
Operating cash flows before movements in working capital	**2,570**	1,609	3,545
(Increase)/decrease in inventories	**(367)**	(218)	976
Decrease/(increase) in receivables	**1,492**	(343)	(359)
Increase/(decrease) in payables	**63**	131	(51)
Cash generated by operations	**3,758**	1,179	4,111
Investment revenues	**111**	118	132
Interest paid	**(97)**	(27)	(110)
Net cash from operating activities	**3,772**	1,270	4.133

Notes to the interim results

1. Geographical analysis

The Group's bio-decontamination equipment is manufactured within the UK and sold into the UK, Europe and Rest of World markets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origination of the goods or services.

	6 months to 30 June 2017 £'000	6 months to 30 June 2016 £'000	12 months to 31 December 2016 £'000
UK	**3,056**	**3,054**	6,454
EU	**3,872**	**3,172**	7,676
US	**4,300**	**2,643**	5,785
ROW	**3,108**	**3,194**	6,570
Total	**14,336**	**12,063**	26,485

2. Business and geographical segments

For management purposes, the Group is currently organised into two divisions – Bio-decontamination ("BIO") and Defence. These divisions are consistent with the internal reporting as reviewed by the Executive Chairman. Segment information is available only within the Income Statement, the Group does not split out the balance sheet for the Defence business. Segment information about these businesses is presented below:

Six months ended 30 June 2017	**BIO £'000**	**Defence £'000**	**Consolidated £'000**
Revenue			
Total revenue	**14,022**	**314**	**14,336**
Result			
Segment result	**1,932**	**(21)**	**1,911**
Unallocated head office costs			**(532)**
Profit from operations			**1,379**
Finance costs and investment revenue			**14**
Profit before tax			**1,393**
Tax			**(169)**
Profit for the period			**1,224**

Six months ended 30 June 2016	**BIO £'000**	**Defence £'000**	**Consolidated £'000**
Revenue			
Total revenue	11,076	987	12,063
Result			
Segment result	541	250	791
Unallocated head office costs			(504)
Profit from operations			287
Finance costs and investment revenue			91
Profit before tax			378
Tax			(47)
Profit for the period			331

Year ended 31 December 2016	**BIO £'000**	**Defence £'000**	**Consolidated £'000**
Revenue			
Total revenue	25,170	1,315	26,485
Result			
Segment result before exceptional item	2,603	202	2,805
Impairment of intangibles	(458)	(204)	(662)
Segment result after exceptional item	2,145	(2)	2,143
Costs associated with Board restructuring			(858)
Segment result			1,285
Unallocated head office costs			(1,231)
Profit from operations			54
Finance costs and investment revenue			22
Profit before tax			76
Tax			283
Profit for the year			359

3. Financial Instruments

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 70 to 80% of the exposure generated. The Group also enters into forward foreign contracts to manage the risk associated with anticipated sales and purchase transactions out to nine months within 40 to 50% of the exposure generated. Forward exchange contracts are carried at fair value through profit and loss.

At the balance sheet date the total notional amount of outstanding forward foreign exchange contracts to which the Group has committed are as below:

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Forward foreign exchange contracts	**6,571**	3,377	4,974

At 30 June 2017, the fair value of the Group's forward foreign exchange contracts is estimated to be approximately £24,000 (2016: £(182,000)). The fair value has been calculated as the present value of future expected cash flows at market related rates, which are current at the balance sheet date. The value is calculated using readily available market data and represents a level 2 measurement in the fair value hierarchy under IFRS 7.

Other financial assets

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Financial assets carried at fair value through profit and loss	**24**	(182)	(28)

4. Alternative performance measures

The Group uses constant currency revenue growth and Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") as its alternative performance measures as it believes these give its investors a more realistic view of progress within the business.

Constant currency growth is recalculated by reference to the comparable period foreign exchange rates as follows:

	£'000
Revenue	**14,336**
Impact of foreign exchange movements	**(1,075)**
Constant currency revenue – H1 2016 exchange rates	**13,261**

EBITDA calculations for the reported period are as follows:

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Profit from operations("EBIT")	**1,379**	287	54
Depreciation	**703**	821	1,544
Amortisation	**464**	534	1,026
EBITDA	**2,546**	1,639	2,624

5. Acquisition of own shares for cancellation

In the six months to 30 June 2017 190,000 ordinary shares of 10p each were repurchased and transferred into Treasury.

During 2016 20,405,814 ordinary shares of 10p each were repurchased under the tender offer to purchase own shares announced on 2 June 2016 and the repurchased shares have been cancelled. The total consideration for the purchase of the shares was £41,396,375 which includes stamp duty of £204,060 and professional fees of £232,563.

Of this amount £2,040,000 was treated as a reduction of share capital, £60,000 as a charge to the income statement and the remaining charge of £39,396,000 included in retained earnings.

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