



Horizon Discovery Group plc

("Horizon" or "the Company")

Preliminary Results for the Year Ended 31 December 2016

- Revenue of £24.1m in line with guidance
- Revenue growth of 19% driven by outperformance in Products business
- Gross margin improvement to 54% driven by increased Product sales volumes
- Operational efficiencies taking effect as the Group progresses its Path to Profit strategy

Cambridge, UK, 30 May 2017: Horizon Discovery Group plc (LSE: HZD), ("Horizon" or "the Group"), a world leader in the application of gene editing technologies, announces its preliminary results for the year ended 31 December 2016.

Financial highlights

- Group revenue increased by 19% to £24.1m (FY15: £20.2m)
- Product revenues increased by 45% to £11.3m (FY15 £7.8m)
- Services revenues increased by 5% to £12.7m (FY15: £12.2m) with growth of 30% from *in vitro* and *in vivo* services offset by a revenue capacity reduction resulting from consolidation of Boston, USA molecular screening operations into the new Cambridge, UK headquarters
- Increased share of revenues derived from Products to 47% (FY15: 39%)
- Group gross margin increased to 54% (FY15: 49%) driven by significantly increased Product margins of 70% (FY15: 57%)
- Research milestone portfolio of approximately £208m (FY15: £208m) plus royalties enhanced by equity upside from Avvinity joint venture
- EBITDA loss from Products and Services before exceptional items improved to £3.8m (FY15: £4.6m)
- Closing cash and cash equivalents of £6.1m (FY15: £25.1m) underpinned by additional debt facility of £8m, undrawn at end of 2016

Post-period highlights

- Strong start to 2017, with Q1 revenue up c25% year on year, underpinning guidance of FY17 revenue between £30-35m
- Immuno-oncology set to be a powerful growth driver generating £1.5m in current and ongoing Products and Services in FY17 to date, c40% increase over FY16, and >10 novel drug targets and molecules in development for future or via joint-ventures or spin-outs
- Exclusive licenses for the use of a novel transposon-based gene editing platform, providing a unique approach to gene editing and DNA delivery and enabling the use of gene editing in bioproduction, diagnostics products and for the first time directly as a cell or gene therapy
- Signing of a Master Services Agreement with a top three global pharmaceutical company, extending support for their drug discovery and development efforts to Horizon's full suite of services
- Expansion of license for the use of CRISPR with ERS Genomics to allow the generation of GMP biomanufacturing cell lines



FY16 corporate highlights

- Strong commercial leadership recruited following business reorganisation, with multiple long term partnerships entered into across the business, driving recurring, visible, high margin revenue
- Launch of eCommerce, Enterprise Resource Planning system and laboratory automation systems and improved business infrastructure
- Formation of a joint venture, Avvinity Therapeutics, with Centauri Therapeutics Ltd, to explore the development and discovery of novel therapeutics for immuno-oncology
- Establishment of Centre of Excellences for *in vitro* work in Europe and for *in vivo* work in the US
- Focus on operational efficiencies through consolidation of Boston, USA operations into Cambridge, UK headquarters and management and business reorganisation into a more scalable and efficient organisational design

Dr. Darrin M Disley, CEO of Horizon Discovery Group plc, commented: “2016 was a strong year for the Group characterised by continued robust revenue growth and the realisation of operational efficiencies which are all driving the Group towards a positive EBITDA on our trading business this year.

“As outlined at the IPO, the focus of the Group has been to invest for scale to drive a long-term high growth trajectory for the business, and to support the Group’s Path to Profit strategy. Our Services business has a target to deliver at least 15% revenue growth at a greater than 50% gross margin, and our Products business has a target to deliver at least 30% growth with at least a 70% gross margin. This revenue mix increasingly contains a larger share of Products and so we are confident that our path to profitability and high growth trajectory are truly underpinned.

“With a world-leading position in the application of gene editing, Horizon now operates at the nexus of three powerful forces that will drive life science research and healthcare paradigms for decades to come, namely 1) the provision of novel research and drug discovery tools designed to develop personalised medicine and associated companion diagnostics; 2) the development of novel cancer immunotherapies; and 3) the development of cell and gene therapies. With our gene editing expertise and scientific leadership, and global commercial resources, sales channels and business systems now all in place, we are extremely well positioned to take advantage of the international opportunities before us and the Board is confident and excited about Horizon’s future.”

ENDS

An analyst briefing will be held at 09:30am BST on Tuesday 30 May 2017 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 09:25 am BST, to download the presentation slides. Conference call details:

Participant dial-in: 08006940257

International dial-in: +44 (0) 1452 555566

Participant code: 11812778

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>.



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About Horizon Discovery Group plc www.horizondiscovery.com

Horizon Discovery Group plc (LSE: HZD) ("Horizon"), is a world-leading gene editing company that designs and engineers genetically-modified cells and then applies them in research and clinical applications that advance human health.

Horizon's core capabilities are built around its proprietary translational genomics platform, a highly precise and flexible suite of gene editing tools (rAAV, ZFN, CRISPR and Transposon) able to alter almost any gene sequence in human or mammalian cell-lines.

Horizon offers over 23,000 catalogue products and related research services, almost all of which are based on the generation and application of cell and animal models that accurately recapitulate the disease-causing genetic anomalies found in diseases like cancer. Horizon's commercial offering has been adopted by more than 1,600 unique research organisations in over 50 countries as well as in the Company's own R&D pipeline to support a greater understanding of the genetic drivers of disease and the development of molecular, cell and gene therapies that can be prescribed on a personalised basis.

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

Chairman's statement

A time of rapid change in the life sciences is driving our opportunity

Our understanding of the genetics of disease is deepening at an incredible pace as tens of millions of genomes are set to be sequenced over the next several years. This holds the potential to transform the life sciences, and revolutionise the way new drugs are identified and brought to market.



The wealth of genomic data now emerging is informing drug programmes, enabling trials to be focused on the patients most likely to benefit and promising to significantly decrease their cost, length and risk of failure. What is needed to make this a reality are the tools and services that 'translate' genomic knowledge into personalised medicine. Horizon provides that translation.

The Cell Builders

Horizon is leading this revolution by building cells that resemble real patients at a genetic level. Our models empower researchers, allowing them to ask critical questions about the underlying cause and development of disease, and to probe the effectiveness of potential new therapeutics earlier and more efficiently in the drug discovery process than had previously been possible.

The opportunity is significant as Horizon sits at the centre of three major growth areas in the life sciences: the demand for powerful life science tools centred around genetics, the emergence of cell and gene therapies a market estimated to be worth up to £14 billion by 2025¹, and immuno-oncology, attracting significant investment with its potential to revolutionise the treatment of cancer.

The Business Builders

Horizon is realising this opportunity through our extensive catalogue of more than 23,000 cell lines and other genetic models. By transforming these models into multiple high value product and service offerings, we support the needs of our customers across the life sciences, from academic research, drug discovery and drug manufacturing through to clinical diagnostics. This approach is founded on providing high value solutions to customers in areas of significant unmet need.

In this way, each model is leveraged to deliver high margin revenue for the business. Based on this approach, Horizon has now built a business that spans the life sciences, providing high value Products and Services to a wide range of customers, whilst, in certain cases, also allowing Horizon to access the significant upside potential of therapeutic development through our Research Biotech business.

Since our IPO, Horizon has been in a period of investment, building for scale and positioning the Group for long-term sustainability of the business. Acquisitions have been an integral part of this strategy, enhancing our offering and providing the Group with an engine for product development. So too have been our investments in business and operational infrastructure as we have built for scale and efficiency, culminating in the opening of our world-leading center of excellence in gene editing in Cambridge in May 2016. These targeted investments, along with a keen focus on cost management, have placed us in an excellent position as we transition towards sustainable profitability.

Organising for the future

In 2016, the Group went through a period of significant organisational change. Our structure is now streamlined, with the operational divisions between Products and Services having been dissolved from the management team down, letting us operate more efficiently for better use of resources and to better provide value to our customers. This restructuring has also provided the opportunity to recruit excellent new leaders both externally, such as Terry Pizzie, Horizon's new Head of Commercial, and to promote talent from within, such as Dr. Chris Lowe who has been with Horizon for over six years and is now Head of Research Operations.

The opening of our world class Centre of Excellence in gene editing and cell biology, has also provided a significant contribution towards Horizon's progress to profitability, consolidating the activities our Boston, USA operations along with savings from investment in business automation, optimisation of our organisational design and senior management changes, are expected to provide significant cost savings to the Group.



Finally, we have made significant efforts to engage closely with our investors. During the year, we were pleased to welcome Numis Securities Limited as our Nominated Advisor and broker to help position us for our next phase of growth. We have been proactive in our interactions with the investment community, holding highly successful investor and analyst days at our new Cambridge headquarters, along with an active outreach programme, which has seen the Group's profile rise in the US with a number of US investors joining the register during the year.

Summary

2017 is set to be an exciting year for Horizon. Our disciplined approach has served us well to date, delivering consistent revenue growth year on year while establishing the capabilities and business foundations needed to enter our next phase of growth. In the year ahead we expect to continue to build momentum, and I look forward to updating you as we continue our progress.

Dr Ian Gilham
Chairman

1. Cell and Gene Therapy market data, ABPI, PWC October 2016

CEO's Statement

A decade of excellence in the application of gene editing

July 2017 marks Horizon's 10th anniversary, and it has been an incredible journey, transitioning from a small UK start-up company focused on contract research services to a multi-national, publically-listed biotech company that operates at the nexus of three powerful forces that will drive life science research and healthcare paradigms for decades to come. These are; 1) the provision of novel research and drug discovery tools designed to develop personalised medicine and associated companion diagnostics; 2) the development of novel cancer immunotherapies; and 3) the development of cell and gene therapies that promise cures for sufferers of rare and common disease.

We have become a world leader in the application of gene editing, using these technologies to design, engineer and apply thousands of cell line products that harbour the genetic drivers of healthy versus diseased patients that are used broadly in research, development and clinical applications. It is a sign of the trust that our customers have placed in us that Horizon works routinely with more than 30 of the top 50 pharmaceutical companies, and has an expanding customer base of over 1,600 organisations across nearly fifty countries. With high repeat business rates, excellent customer satisfaction, and continually deepening relationships, we have developed an outstanding brand reputation that continues to help accelerate the growth of our business.

Even before this surge in demand for our technology platforms, Products, and Services, Horizon has been able to deliver high growth and is now poised to drive towards sustainable profitability.

Our strategy for achieving sustainable growth is based on four priorities:

1. Focus on high growth markets

Worth an estimated £1.6 billion, and growing at 15-20% per year, our combined markets offer us a tremendous opportunity for growth, and our business is well built to seize that opportunity, with our capabilities, brand strength and business models placing us in a very strong position.



Since our IPO in March 2014, Horizon's strategy has been to drive for scale, reaching our customers as broadly as possible through the channels best suited for each customer group, and by looking to drive sustainable and visible revenue growth. We are pursuing the latter through programmes such as subscription services for our cell lines to provide academic researchers with the flexibility they need, assay development partnerships with multiple molecular diagnostic vendors such as Ventana, many of which will result in long-term OEM agreements, and an increasing number of bioproduction cell line evaluations on a global basis to drive the signing of a large number of high value contracts.

2. Apply our leveraged business model

Horizon's 'asset bank' of cell lines is the core of the business and underpins all of our offerings. A single cell line, after being developed and paid for by a customer, remains the property of Horizon, letting us deploy it however we choose in the future. And we do, licensing the cell line out repeatedly to a wide range of academic and pharmaceutical customers, taking the tools and experience used to build that cell and applying it to the development of an *in vivo* model, transforming that cell line and its paired 'healthy' cell line into reference standards that look just like patient samples, and using these models as the basis of Horizon's extensive range of services. We make our cell lines work hard, generating multiple revenue streams from each, and we are always on the lookout for new ways to apply them.

3. Focus on scale and sustainability by building on our core

From our IPO through 2016, Horizon has been in a period of investment, ensuring that we have the business systems, organisational footprint, and world-class staff and capabilities needed to scale the business. Investment has taken two forms, firstly building our core capabilities in gene editing and the application of engineered cell lines to deepen our ability to provide value to our customers, and secondly through M&A to rapidly accelerate access to new markets, product and service offerings, and expertise.

A major focus of our investment in capability has been working towards business scale-up, from the launch of our Group-wide Enterprise Resource Planning (ERP) system in the second half of 2016 so that all reporting is on a unified global system and through a reorganisation of the business so our research, commercial and corporate operations are aligned and capable of functioning through an efficient matrix. This was a tough decision as it involved the closing of our Molecular Screening operation located in Boston, USA to our new global headquarters in Cambridge, UK.

This has enabled the reduction in complexity and network effects on our business and a significant reduction in our business run rate costs which have underpinned our Path-to-Profit and positive market guidance for 2017.

4. Deliver financials

2016 was another strong year for the Group, delivering revenue growth of 19% over FY15, in line with guidance, driven in particular by growth in our Products business of 45% with gross margin improving to 70%.

We are highly focused on our commitment to build a sustainable and profitable business through a combination of strong revenue growth and financial discipline. We now have a strong global commercial infrastructure in place, a fully operational eCommerce platform, and an emerging markets team driving global expansion, and so we are confident in our ability to continue to rapidly drive revenue across the Group.



Outlook

Our disciplined approach to strategy and execution has served Horizon well, placing the Group in a strong position for 2017 and beyond. We are on track with revenue growth, guided at £30-£35m for FY2017, and with realising significant operational efficiencies through reorganising the business to reach positive EBITDA on our trading business this year.

Our future prospects are very encouraging, with recently hired commercial leadership in place, and the personnel, capabilities, and operational excellence to deliver significant value to our customers. I am confident in our ability to build a sustainably profitable business that continues to deliver strong growth and have a real impact on the improvement of healthcare through the expert application of gene editing.

I would like to thank my Board, executive, staff and you our shareholders for your continued support of the Group and look forward to seeing many of you over the course of the next year.

Dr Darrin M Disley
Chief Executive Officer

Financial Review

Financial Performance

2016 was a year of significant progress in our mission to build a highly scalable, world-class life science business that benefits human health and creates long term sustainable value for our shareholders.

We are pleased to report another successful year of revenue growth for the Group, delivering full year revenues of £24.1 million (FY15: £20.2 million), representing year on year growth of 19%. At the same time, gross margins continue to improve, reaching 54% (FY15: 49%) driven by strong product volumes at a reduced cost of goods, showing the power of leveraging our core assets. In addition, the Group is creating upside opportunities through our Research Biotech business, which remains eligible to receive future R&D milestones of up to £208 million plus future product royalties and equity upside via our Avvinity Therapeutics joint-venture.

Our Path to Profit strategy

As well as delivering revenue growth, 2016 marked a year of investment and organisational change. Investments remain integral to the creation of long term value and were targeted towards technology leadership, product and service development and commercial and business infrastructure. We made significant changes to the organisational structure and footprint of the business that will enable the business to continue to scale and drive towards sustainable profitability.

Our commercial investments were focussed on our channels to market, geographic reach, brand presence and direct sales force, with total sales and marketing expenditure totalling £5.3 million (FY15: £5.1 million). In particular, we are pleased that investments in our eCommerce platform are increasingly driving direct sales and inbound inquiries via our website, and we expect this trend to continue in 2017.

Core innovation remains central to our long-term value creation, and we continued to invest in our core gene editing capabilities and innovative product and services offerings. In addition, we are leveraging significant upside through our Research Biotech business, including investment into our partnered research programmes and our new Avvinity Therapeutics joint venture. Investment in R&D during the year totalled £6.2 million, (FY15: £5.3 million), funded in part through government grants which totalled £0.5 million and R&D tax credits of £0.5 million during the year.



Corporate and administrative expenses of £13.3 million (FY15: £11.1 million) before exceptional items include investments in business infrastructure designed to deliver scale for our next phase of growth. During the year we moved to our new corporate headquarters in Cambridge, UK, and invested in business and laboratory automation systems that will allow increased scale and productivity in cell handling and in our molecular and genetic screening businesses. 2016 also saw the launch of our new ERP system that will deliver automated workflows and data intelligence that is fully integrated across the business.

During the year, we consolidated our core capabilities into Centres of Excellence for in vitro work in Europe, including the relocation of our Boston operations to the UK, and for in vivo work in the United States. These Centres of Excellence have allowed us to bring together our expertise in innovation, automation and operational delivery, allowing for increased productivity in a significantly reduced footprint. In addition, we reorganised the business into a more scalable and efficient organisational design. These changes are expected to reduce the run rate cost base of the business by over £5.0 million in FY17. As a result of these changes, combined with the unwinding of the discount of the final earn out payments relating to acquisitions in prior years, we incurred one-time exceptional costs of £1.3 million during the year.

Our EBITDA loss before exceptionals from Products and Services of £3.8 million showed an improvement from prior year (FY15: £4.6 million), driven by strong Product margins. Investment in our Research Biotech activities also increased to £3.1 million (FY15: £2.4 million) as we continued to deploy a limited targeted investment to drive innovation and unlock a portfolio of upside.

Expenses also included £4.2 million of non-cash items relating to share option costs, depreciation, and amortisation of intangible assets arising from acquisitions of £0.2 million, £2.3 million, and £1.7 million respectively.

We report a loss after taxation of £11.4 million (FY15: £9.9 million loss) for the full year, in line with expectations during our planned investment cycle, and we expect improvements in our net loss margin as we drive towards sustainable profitability through our Path to Profit strategy.

Products contribution

Growth in our Products business remains very strong, with revenue of £11.3 million representing a 45% increase over 2015 as the business continues to scale. We sell products both off the shelf directly to customers, and also through partnerships with an increasing number of industry-leading Original Equipment Manufacturers. Our business model allows us to build a balanced portfolio of visible and predictable revenue streams over both the short, medium and long term:

- Our molecular diagnostic reference standards continue to drive the market as the gold standard for the provision of accurate and reliable diagnostic results. We continue to expand our customer base, underpinned through an increasing number of high profile OEM agreements
- Our product catalogue continues to gain traction as we expand into the academic research market, particularly following the successful launch of our Cell Bank subscription programme
- Our biomanufacturing cell line revenues grew at a rapid pace with a large number of evaluations underway by customers, which are anticipated to deliver future commercial license revenues

In 2016, gross margin for Products improved very significantly to 70% (FY15: 57%), driven by strong volumes at a reduced cost of goods. This reflects our ability to leverage value from our core assets – the cell lines and other models that we have built – and we expect margins to remain strong as we continue to drive commercial volumes and deliver continued operational efficiency at scale.



Services contribution

Our Services business reported modest growth of 5% in 2016 (FY15: £12.2m). Strong underlying Services revenue growth of 30% from in vitro and in vivo services was offset by a temporary reduction in molecular screening service capacity as we consolidated our Boston, USA operations into the new Cambridge, UK site.

Horizon's Services business operates in two ways: 1) utilising gene editing to build paid-for products at mid-margin which are subsequently added to our catalogue, and 2) the application of these models in high value, high margin offerings to further customers' research programmes.

The formation of our two Centres of Excellence is expected to support future improvements to margins, which was 40% in 2016 (FY15: 46%). Although margins remained strong in our in vitro gene editing and assay services, overall service margins decreased due to provision of low margin services to the Avvinity JV to support long term value creation, and a short-term increase in reagent costs associated with the consolidation of operations from Boston into the Cambridge UK headquarters.

Research Biotech contribution

Our Research Biotech business deploys targeted investment to create a portfolio of upside opportunities through milestone, product royalties and equity in spinout assets. This helps power our commercially directed innovation engine to continue to develop cutting edge products and services. We leverage our fundamental strength in gene editing, our advanced cell and in vivo models and our knowledge in the application of these models to form partnerships that bring investment or unique technologies to bear. Our investments are focused in three highly attractive areas of immuno-oncology, synthetic lethality and cell and gene therapy.

Our Research Biotech business remains eligible to receive future R&D milestones of up to £208 million plus future product royalties. In addition, during 2016 we began to seek spinout opportunities that create equity upside. In March 2016, Horizon announced the formation of Avvinity Therapeutics, a joint venture with Centauri Therapeutics, to provide a powerful and proprietary platform for the discovery of novel immuno-oncology drugs. To support this initiative, Horizon made an investment of £2.5m in 2016, with a second tranche of £2.8m to follow at Horizon's discretion.

Balance sheet

The long-term assets of the business increased from £52.4 million in FY15 to £66.8 million as a result of investments in our new corporate headquarters, intellectual property, ERP, automation and business infrastructure, our equity holding in our Avvinity Therapeutics joint venture and earn outs relating to acquisitions.

The Group's year end working capital position was represented by cash resources of £6.1 million (FY15: £25.1 million), supported by a strong accounts receivable profile following a record final quarter 2016 sales performance. Cash resources of £5.7 million were deployed in one-time capital investments during the year together with cashflows of £0.9 million associated with the restructuring. During the first part of 2017, we accessed a revolving credit facility of up to £8.0 million which underpins the continued drive to profitability and sustainable cash generation.

Summary

2016 was an important year for Horizon as we continued to make strong commercial progress together with the investments and organisational changes that will enable our next phase of growth. Our markets remain stronger than ever, and 2017 looks set to see us continue to drive strong commercial performance as we look to deliver the next phase of our Path to Profit strategy.

Richard Vellacott
Chief Financial Officer



HORIZON DISCOVERY GROUP PLC

CONSOLIDATED INCOME STATEMENT Year ended 31 December 2016

	Note	2016 £'000	2015 £'000
REVENUE		24,074	20,156
Cost of sales		<u>(10,981)</u>	<u>(10,192)</u>
Gross profit		13,093	9,964
Other operating income		830	806
Sales, marketing and distribution costs		(5,251)	(5,078)
Research and development costs		(6,177)	(5,296)
Corporate and administrative expenses		(13,255)	(11,075)
Share of results in joint venture		(333)	-
Exceptional items	3	<u>(1,270)</u>	<u>391</u>
OPERATING LOSS		<u>(12,363)</u>	<u>(10,288)</u>
Investment income		51	70
Finance costs		<u>(144)</u>	<u>(326)</u>
LOSS BEFORE TAX		<u>(12,456)</u>	<u>(10,544)</u>
Taxation		<u>1,023</u>	<u>661</u>
LOSS FOR THE YEAR		<u><u>(11,433)</u></u>	<u><u>(9,883)</u></u>
LOSS PER SHARE			
Basic and Diluted (Pence)	4	(12.1p)	(11.2p)

All transactions derived from continuing operations.

HORIZON DISCOVERY GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2016

	2016	2015
	£'000	£'000
LOSS FOR THE YEAR	<u>(11,433)</u>	<u>(9,883)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>7,811</u>	<u>2,648</u>
Other comprehensive income for the year net of tax	<u>7,811</u>	<u>2,648</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>(3,622)</u></u>	<u><u>(7,235)</u></u>
Total comprehensive income attributable to:		
Owners of the Company	<u><u>(3,622)</u></u>	<u><u>(7,235)</u></u>

HORIZON DISCOVERY GROUP PLC

CONSOLIDATED BALANCE SHEET 31 December 2016

	Note	2016 £'000	2015 £'000
Non current assets			
Goodwill		35,873	30,778
Other intangible assets		16,241	13,619
Property, plant and equipment		12,025	7,961
Investments		2,238	-
Other receivables		433	-
		<u>66,810</u>	<u>52,358</u>
Current assets			
Inventories		1,955	1,793
Trade and other receivables		12,568	9,652
Cash and cash equivalents		6,071	25,067
		<u>20,594</u>	<u>36,512</u>
Total assets		<u><u>87,404</u></u>	<u><u>88,870</u></u>
Current liabilities			
Trade and other payables		(8,701)	(6,779)
Total current liabilities		<u>(8,701)</u>	<u>(6,779)</u>
Net current assets		<u>11,893</u>	<u>29,733</u>
Non-current liabilities			
Deferred tax		(813)	(1,277)
Deferred consideration		-	(958)
		<u>(813)</u>	<u>(2,235)</u>
Total liabilities		<u>(9,514)</u>	<u>(9,014)</u>
Net assets		<u>77,890</u>	<u>79,856</u>
Equity			
Share capital	5	2,583	2,571
Share premium account		61,999	61,774
Share option reserve		2,177	1,936
Merger reserve		34,452	33,274
Retained earnings		(23,321)	(19,699)
Total equity		<u>77,890</u>	<u>79,856</u>

HORIZON DISCOVERY GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015	2,414	37,583	1,635	29,402	(12,464)	58,570
Loss for the year	-	-	-	-	(9,883)	(9,883)
Other comprehensive income	-	-	-	-	2,648	2,648
Issue of shares on Haplogen acquisition	14	-	-	3,004	-	3,018
Issue of shares on placing agreement	131	24,868	-	-	-	24,999
Issue of shares for deferred consideration on Sage	6	-	-	868	-	874
Issue of shares on exercise of options	6	207	-	-	-	213
Share issue costs	-	(884)	-	-	-	(884)
Credit to equity for equity settled share based payments	-	-	301	-	-	301
Balance at 31 December 2015	<u>2,571</u>	<u>61,774</u>	<u>1,936</u>	<u>33,274</u>	<u>(19,699)</u>	<u>79,856</u>

HORIZON DISCOVERY GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2016

	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	<u>2,583</u>	<u>61,999</u>	<u>2,177</u>	<u>34,452</u>	<u>(23,321)</u>	<u>77,890</u>

HORIZON DISCOVERY GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Net cash outflow from operating activities	6	<u>(7,775)</u>	<u>(10,953)</u>
Investing activities			
Interest received		38	70
Acquisition of investment in joint venture		(2,571)	-
Acquisition of subsidiaries net of cash acquired and associated settlement costs		-	(2,946)
Purchases of property, plant and equipment		(5,726)	(2,689)
Proceeds on disposal of property, plant and equipment		48	1
Purchase of intangible assets		(2,733)	(1,212)
Payment of deferred consideration		(418)	-
Net cash used in investing activities		<u>(11,362)</u>	<u>(6,776)</u>
Financing activities			
Proceeds on issue of shares net of expenses		<u>141</u>	<u>24,328</u>
Net cash from financing activities		<u>141</u>	<u>24,328</u>
Effect of exchange rate changes		<u>-</u>	<u>15</u>
Net increase in cash and cash equivalents		(18,996)	6,614
Cash and cash equivalents at beginning of year		<u>25,067</u>	<u>18,453</u>
Cash and cash equivalents at end of year		<u><u>6,071</u></u>	<u><u>25,067</u></u>

HORIZON DISCOVERY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. BASIS OF THE ANNOUNCEMENT

The preliminary results for the year ended 31 December 2016 were approved by the Board of Directors on 30 May 2017. 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 2016 and year ended 31 December 2015.

The preliminary announcement is prepared on the same basis as set out in the audited statutory accounts for the year ended 31 December 2016. The accounts for the years ended 31 December 2016 and 31 December 2015, 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 2016 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 £6.1m as at 31 December 2016, and net current assets of £11.9m at the same date. Subsequent to the year end, the directors have secured bank financing of up to £8m through a committed three year revolving credit facility of £5m and a further committed revolving credit facility of £3m until 31 March 2018. 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.

HORIZON DISCOVERY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

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.
- 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.
- Research Biotech** - 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 2016:

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

HORIZON DISCOVERY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

2. OPERATING SEGMENTS (continued)

The following is an analysis of the Group's revenue and results by reportable segment in 2015:

	Products	Services	Research Biotech	Consolidated
	£'000	£'000	£'000	£'000
Revenue	7,835	12,151	170	20,156
Cost of sales	(3,350)	(6,556)	(286)	(10,192)
Gross margin	<u>4,485</u>	<u>5,595</u>	<u>(116)</u>	<u>9,964</u>
Result				
Segment result	<u>(2,432)</u>	<u>(5,471)</u>	<u>(2,477)</u>	(10,380)
Unallocated credit				<u>92</u>
Operating loss				(10,288)
Investment income				70
Finance costs				<u>(326)</u>
Loss before tax				(10,544)
Tax				<u>661</u>
Loss after tax				<u>(9,883)</u>

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	
	2016	2015
	£'000	£'000
Products	1,500	1,066
Services	2,150	2,326
Research Biotech	<u>345</u>	<u>316</u>
	<u>3,995</u>	<u>3,708</u>

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.

HORIZON DISCOVERY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

2. SEGMENTAL REPORTING (continued)

Geographical information

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

	Revenue from external customers	
	2016	2015
	£'000	£'000
Americas	14,932	14,886
Europe, Middle East and Africa	7,188	4,482
Asia Pacific	1,954	788
	<u>24,074</u>	<u>20,156</u>

Information about major customers

In 2016, the Group had four customers that collectively contributed over 15% of the Group's revenue, with each individual customer contributing 3% or more, due to the increase in customer base. Of this, £3.0m came from the services business unit and £0.8m from the products business unit.

In 2015, the Group had four customers that collectively contributed over 25% of the Group's revenue, with each individual customer contributing 4% or more. Of this, £3.0m came from the services business unit and £2.2m from the products business unit.

3. EXCEPTIONAL ITEMS

	2016	2015
	£'000	£'000
Acquisition related costs	-	(182)
Legal and intellectual property costs	-	(375)
(Increase)/decrease in expected settlement of contingent consideration	(368)	948
Restructuring costs	(902)	-
	<u>(1,270)</u>	<u>391</u>

HORIZON DISCOVERY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

4. LOSS PER SHARE

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

Loss

	2016	2015
	£'000	£'000
Loss for the purposes of basic and diluted loss per share being net loss attributable to owners of the Company	(11,433)	(9,883)
	<u>(11,433)</u>	<u>(9,883)</u>
	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	94,606,185	88,490,671
	<u>94,606,185</u>	<u>88,490,671</u>
Loss per share	(12.1p)	(11.2p)
	<u>(12.1p)</u>	<u>(11.2p)</u>

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 2016, 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

	2015	2014
	£'000	£'000
Allotted, called up and fully paid		
95,245,817 (2015: 94,090,380) ordinary shares of £0.01 each	92,583	941
Nil (2015: 1,630,215,900) deferred shares of £0.001 each	-	1,630
	<u>92,583</u>	<u>1,631</u>
	<u>2,583</u>	<u>2,571</u>

HORIZON DISCOVERY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2016

6. NOTES TO THE CASH FLOW STATEMENT

Group	2016 £'000	2015 £'000
Loss for the year	(11,433)	(9,883)
Adjustments for:		
Investment revenues	(51)	(70)
Finance costs	144	326
Depreciation of property, plant and equipment	2,317	1,972
Amortisation of intangible assets	1,678	1,736
Profit on disposal of property, plant and equipment	25	-
Tax credit	(1,023)	(661)
Change in fair value deferred consideration	226	(1,290)
Share option charge	241	301
Share of loss of joint venture	333	-
	<u>(7,543)</u>	<u>(7,569)</u>
Operating cash flows before movements in working capital		
(Increase)/Decrease in inventories	162	(402)
(Increase) in receivables	(2,514)	(3,072)
Increase/(Decrease) in payables	1,734	(35)
	<u>(8,161)</u>	<u>(11,078)</u>
Cash invested in operations	(8,161)	(11,078)
Tax credit received	366	125
Interest paid	20	-
	<u>(7,775)</u>	<u>(10,953)</u>

7. SUBSEQUENT EVENTS

The Haplogen related contingent consideration payment of £1,227k was settled through the issuance of share capital in the first half of 2017. There are no other subsequent events to report.