Horizon Discovery Group plc
Full Year Results for the Year Ended 31 December 2018

Cambridge, UK, 29 April 2019: Horizon Discovery Group plc (LSE: HZD) ("Horizon", "the Group" or "the Company"), a global leader in the application of gene editing and gene modulation technologies, today announces its full year results for the year ended 31 December 2018.

Financial highlights

- Reported revenue increased 68% to £58.7m (FY17 restated[1]: £35.0m) or up 73% to £60.5m on a constant currency basis[3]
- Like-for-like[3] revenue (i.e. excluding Dharmacon business) of £30.1m, growth of 16%[1]
- 148% increase in Research Products revenue and 72% increase in Applied Products revenue partially offset by a 21% decline in Services revenue
- Gross margin increased to 67.3% (FY17 restated[1]: 61.1%) driven by a combination of the full-year effect of Dharmacon, increase in licence revenue, product optimisation and change in mix towards higher-margin products
- The Group reports a loss after taxation of £35.8m for the full year (FY17 restated[1]: loss of £11.0m).
- Positive adjusted EBITDA[3] of £0.7m (FY17 restated[1]: loss of £3.0m) due to improved revenue, margin performance and a focus on cost management (refer to Financial Review for further detail)
- The Group experienced a positive operating cash flow versus the prior year due to the improved adjusted EBITDA performance coupled with a focus on working capital management.
- Robust cash position with cash of £26.7m[2] at 31 December 2018 (FY17: £28.1m)
- Exceptional[3] non-cash impairment relating to the Group's In Vivo business of £32.1m
    - In Vivo business contributed ca. 8% of revenue in FY18
- Review led to a change in revenue recognition of licence contracts leading to a restatement of FY17 revenue from £36.5m to £35.0m[1]

Business highlights (including post-period end)

- Development and implementation of new investment strategy, focusing on core markets with highest growth potential
- Integration of Dharmacon business completed, with Dharmacon returning to high single digit growth driven by market share gains in RNAi in all territories and growth in CRISPR reagents
- CRISPR screening agreements signed with major pharmaceutical companies
- BioProduction: two commercial licences, each worth approximately £1 million, signed with major pharmaceutical companies
- Exclusive strategic partnership signed with Rutgers, The State University of New Jersey (US), to develop and commercialise base editing, a novel gene editing technology
- Partnership signed with Celyad for use of Horizon IP in next generation CAR-T therapeutic developments
- Terry Pizzie appointed as Chief Executive Officer of the Group and, post-period end, Jayesh Pankhania appointed as Chief Financial Officer of the Group

---

[1] FY17 comparatives and growth numbers are presented or calculated after restatement for prior year adjustment as set out in Note 2
[2] Includes £1.7m of cash received in error associated with the acquisition of Dharmacon. This was returned in 2019
[3] Refer to the financial review for the definition and reconciliation of alternate performance measures

Outlook

- New eCommerce platform to be launched in H219 will support enhanced customer experience and drive future revenue growth
- Process improvements and automation expected to increase capacity in cell line engineering
- Positive sales momentum in the first quarter of 2019 and the Board expects FY19 revenues to be in-line with current market expectations and to maintain a positive EBITDA performance.

Terry Pizzie, Chief Executive Officer of Horizon Discovery, commented: *"Given that 2018 was a year of change for the business, it is even more pleasing that the Group was able to report a strong set of results for the year, with a substantial increase in reported revenues, gross margin improvements and, for the first time, a positive adjusted EBITDA.*

"Our customers include many of the world's leading academic institutes and global pharmaceutical companies. Our expertise and insights into the challenges that they face is driving us to create products and services that not only differentiate our business, but also help our customers to achieve a deeper understanding of biological systems, thereby fuelling the development of the next wave of precision medicine.

"I believe that our commercial excellence, scientific innovation and industry know-how remain key differentiators. Our 'Investing for Growth' strategy will see the business shift from a scientifically-led life sciences company to a fully commercial tools company, which will mean that Horizon is increasingly well placed to capitalise on its market-leading position to drive sustained top-line growth.

"With a robust balance sheet and an already strong order book for 2019, we are confident in our growth prospects. The Board expects FY19 revenues to be in-line with current market expectations and to maintain positive EBITDA development."

ENDS

Analyst briefing

An analyst briefing will be held at 12:00pm BST on Monday 29 April 2019 at the offices of Numis, 10 Paternoster Sq., London, EC4M 7LT. There will be a simultaneous live conference call.

Conference call details:

- *Participant UK dial-in: 08003767922*
- *Participant US dial-in: 18669661396*
- *International dial-in: +44 (0) 2071 928000*
- *Participant code: 4495339*

A live webcast of the meeting and presentation slides, will be available on the Group's website:

https://www.horizondiscovery.com/about-us/investor-relations.

For further information from Horizon Discovery Group plc, please contact:

Horizon Discovery Group plc
Terry Pizzie, Chief Executive Officer
Jayesh Pankhania, Chief Financial Officer
Jon Davies, Head of Investor Relations
Tel: +44 (0) 1223 655 580

Numis Securities Limited (Broker and NOMAD)
James Black / Freddie Barnfield / Duncan Monteith
Tel: +44 (0) 207 260 1000

Consilium Strategic Communications (Financial Media and Investor Relations)
Mary-Jane Elliott / Matthew Neal / Melissa Gardiner
Tel: +44 (0) 20 3709 5700
Email: horizon@consilium-comms.com

About Horizon Discovery Group plc www.horizondiscovery.com

Horizon Discovery Group plc (LSE: HZD) ("Horizon") is a world leader in gene editing and gene modulation technologies. Horizon designs and engineers cells using its translational genomics platform, a highly precise and flexible suite of DNA editing tools (rAAV, ZFN, CRISPR, Transposon and base editing) and, following the acquisition of Dharmacon, Inc., its functional genomics platform comprising gene knockdown (RNAi) and gene expression (cDNA, ORF) tools, for research and clinical applications that advance human health. Horizon's platforms and capabilities enable researchers to alter almost any gene or modulate its function in human or mammalian cell-lines.

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

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

CEO REVIEW

The life sciences industry, most notably those companies developing novel therapies, is in an era of transformational change. Relatively recent technological innovations have enabled researchers to not only ‘read’ the human genome but also to be able to ‘write’ the code, giving them a better understanding of how DNA is being read and translated into proteins. This is hugely important in a pharmaceutical context, as it helps scientists to determine how drugs work, the pathways they are impacting, any side-effects that they might cause, which patient populations might benefit and importantly, how those drugs can be produced at scale.

Horizon is at the forefront of this innovation wave. We are a world-leader in gene editing and gene modulation tools and their use; we have more than 10 years’ experience of building cell models and our unmatched toolset and expertise allow us to help our customers answer key questions across research, drug discovery, drug development and diagnostics.

Strategic update

2018 was a pivotal year for Horizon and we achieved much that we can be proud of. In May, I was appointed to the role of Chief Executive Officer having spent the previous 15 months restructuring and evolving the Group's commercial organisation. The first order of business for me as CEO was to conduct a review of our strategy to reassess Horizon's long-term outlook, taking into account both internal and external stakeholders and, most importantly, our customers.

Over the years, Horizon has broadened into a number of different markets and it became increasingly apparent that not all opportunities shared the same potential for success. So, the strategic review sought to identify the highest growth segments within our target markets, while also assessing Horizon's internal capabilities to meet current and anticipated market demand. Growth and market leadership need to be counterbalanced by scalability and sustainability, so we also looked at opportunities for strategic investment to enhance our scientific-leadership and market-leading position.

Investing for Growth

The Investing for Growth strategy supports our goal to become the 'go-to' provider of IP-rich cell engineering solutions and to establish leadership positions in our key markets, based on a highly scalable and repeatable business model. In essence it will see the business shift from being a scientifically-led life sciences company to a fully commercial tools company with industrialised processes and commercially directed R&D.

This strategy will see us prioritise the highest value, highest growth areas of our core markets, in particular CRISPR screening and reagents, diagnostic reference standards, bioproduction and cell engineering.

To support this growth, we are making investments in automation to increase production capacity, in improved data handling to add customer and business insight, and in digitisation to enhance customer experience through our eCommerce channel and in other areas of commercially-led scientific innovation. The investment projects commenced in H218 and are expected to complete within 12-24 months. They include:

- Redevelopment of our web and eCommerce platform
- Investment in lab-based areas of automation, with the aim of increasing capacity and decreasing manufacturing costs. This will allow us to more effectively address the broader market at lower prices but with equivalent gross margin
- Further advances in our Laboratory Information Management Systems (LIMS) to enable efficiencies and industrialising our processes for scalable growth

These are significant projects requiring specific expertise to execute, so we have recruited the appropriate talent. We expect these investments to generate significant payback in the short and long-term, by increasing capacity and opening up new avenues of growth.

Focused on our market

Horizon has an excellent commercial team that achieves both scale and focus in the cell biology market through its ability to serve customers through direct field, distribution and digital channels.

The commercial team was transformed during 2018 as we fully integrated our two formerly separate sales teams. The acquisition of Dharmacon in 2017 provided reach into the academic market where Horizon had limited customer presence historically. It also strengthened our position globally, through greater territory coverage in our main markets and enhanced distributor coverage within the Asia Pacific region. We ended the year with a 50-person sales organisation, comprising key account partners, business development and field application specialists, providing global reach.

Partnerships with key accounts

A key feature of our evolving commercial organisation has been our approach to serving key accounts, typically large pharmaceutical and biotech companies with complex global structures. Our highly experienced key account partners look to understand the complex nature and requirements of these international companies by building high-level relationships globally that benefit both parties.

Uniquely, being in a position to offer both products and services, has allowed us to engage with companies looking to outsource services, as well as those choosing to retain expertise in-house. Maintaining these adaptable supply arrangements means that we stay close to our customers whichever route they take, helping us to build an understanding of present and future needs, and often to help drive future product development.

Expanding Japanese operations

To expand reach within the APAC region and directly address the valuable Japanese market, we established a new regional office in Tokyo. The small team consists of business development and marketing specialists focused on increasing market share and building localised operations.

Global footprint

The acquisition of Dharmacon not only provided a natural extension of Horizon's product catalogue but also created an important base in North America. At acquisition, the site was predominantly focused on manufacturing and logistics. Since then, we have absorbed key people into executive and senior management roles as we build out a truly global leadership team. Having such a high-profile facility has helped us attract and retain high calibre employees in the US, which allows us to more effectively serve a key customer base that represents over 50% of our global business.

Corporate development

Horizon has made significant progress in revitalising the corporate development function. During the period we appointed Dr Brian Burke as Head of Strategy and Corporate Development. Brian has extensive experience in the life sciences market and was integral to developing some of Horizon's early bioproduction and diagnostics portfolios. To continue to position Horizon as the provider of choice, the Group is evaluating both in- and out-licensing opportunities, as well as merger and acquisition development, in-line with the corporate strategy and to support the annual strategic planning cycle.

Group performance*

Given that 2018 was a year of change, I am pleased to report a solid set of results for the year, with a substantial increase in reported revenues (up 68% at £58.7m (FY 2017: £35.0m) an increase of 73% on a constant currency basis. Our gross margin improved (up to 67.3% (FY2017: 61.1%)) and for the first time, a positive adjusted EBITDA of £0.7m (FY17 restated[1]: loss of £3.0m. Like for like growth from the Horizon business (i.e. excluding Dharmacon) was 16%, which is all the more encouraging given that the two sales forces were only integrated in January 2018 and only at that point did cross-training in the product portfolios begin.

*For the alternative performance measures refer to the Financial review section

Performance by business unit

The following business units represent the core areas in which we structured operations.

- **Research Products**

Revenue: £31.3m (FY17: £12.6m)

Gross Margin: 64% (FY17: 59%)

The availability of gene editing and modulation tools for researchers, underpinned by the increase in sequencing data, has substantially accelerated the use of these tools to understand biology. Horizon's main customers for this revenue stream are academic research labs and biopharmaceutical companies, with sales that are high volume and transactional in nature, captured primarily through our eCommerce platform.

2018 saw the full year impact of the Dharmacon acquisition and we continue to benefit from close synergies across our business. The integration was executed efficiently, with all transitional service agreements from General Electric completed by September 2018. We are pleased to have returned the portfolio to growth and expect this trajectory to continue into 2019, and beyond, as we further invest in the commercialisation of the offering.

The team in Lafayette, Colorado, has extensive experience in global logistics and manufacturing. We continue to leverage this capability to bring cost-effective scale to other areas of the business.

- **Applied Products**

Revenue: £15.0m (FY17: £8.7m)

Gross Margin: 81% (FY17: 73%)

Molecular Diagnostics

Our industry leading Molecular Diagnostic Reference Standards continue to transform the way potential sources of error in molecular diagnostics are controlled. Regulatory shifts are also continuing in Europe that will bring the Continent much more in-line with the approach of the US Food and Drug Administration. This promises to have significant implications for all stakeholders, as the bar is set higher in Europe.

The portfolio continues to deliver good growth and during the year we launched the largest cell line derived reference standard focused on myeloid cancer.

BioProduction

With seven out of 10 new drugs now being biological rather than small molecules, there is significant demand for Horizon's high quality bioproduction cell lines from drug manufacturers, including pharmaceutical and biotechnology companies requiring therapeutic antibodies for research and clinical trials.

With our cell lines validated by successful Investigational New Drug (IND) filings by customers, our market access and credentials are now well established, resulting in an increasing number of customers proceeding directly to full commercial licenses with no evaluation period. Notable developments included two orders worth in the region of £1m, one of which was a site-wide licence with a major pharmaceutical company.

- **Services (including leveraged R&D)**

Revenue: £12.4m (FY17: £13.7m)

Gross Margin: 60% (FY17: 54%)

The Services business proved challenging in some areas due to a difficulty in accessing specific markets, some of which are dominated by much larger and more established competitors and, others where competitors have industrialised processes attracting customers with available capacity and pricing. As a result of the strategic review, the decision was taken to reduce investments in specific parts of the Services portfolio where Horizon is not well positioned, in order to concentrate on the rapidly emerging area of functional genomic screening (also known as CRISPR screening) where Horizon has a market-leading position. In addition, we decided to invest in automation to industrialise areas such as cell line engineering, allowing us to serve a much broader market.

CRISPR screening is emerging as an important technique that is being deployed in various areas of the drug development pipeline, contributing to the efforts to bring better drugs to market faster. In the second half of the year, we were delighted to announce two CRISPR screening agreements with major pharmaceutical companies, which are significant in representing the direction of travel of our customers' focus in the screening services market. Post period-end, in the early part of 2019, we announced the launch of the world's first T-Cell CRISPR screening service, underlining our leading position in this important developing market.

Included within this unit is the leveraged R&D projects. In line with our updated strategy, we have monetised our existing leveraged R&D assets, delivering revenue of £1.6m (FY17: £nil) at a gross margin of 82%.

Impairment of In Vivo

During the strategic review, it became apparent that the Group's In Vivo business unit was one of the Service areas facing challenging market headwinds and that its revenue growth would not meet previous expectations. Accordingly, we have taken the decision to reset our expectations to have a more sustainable long-term growth trajectory, which has led to an impairment of £32.1m in the financial statements. This impairment is non-cash in nature and does not affect the business operations going forwards.

Business Unit managers

One of the latest developments in our core market and customer-centric organisational review has been the formation of a business unit management structure. These new positions were filled internally by the promotion of experienced and talented individuals, appointed in January 2019. We are confident that this change will bring about better market focus and understanding. It will allow the Group to better develop and target the product and service offerings increasingly required by our evolving markets.

Maintaining market leadership

Horizon has committed to investing in high value technologies that maintain our market leadership. In addition to internal product development initiatives, during the year we signed a number of strategic partnerships, including with Celyad and Rutgers University.

Celyad (NASDAQ: CYAD) is a clinical-stage biopharmaceutical company developing specialised CAR-T cell-based therapies and recently announced its first-in-class non-gene-edited allogeneic CAR-T candidate. In October 2018, we signed an exclusive agreement that will provide Celyad with access to Horizon's novel shRNA technology to generate its second non-gene-edited allogeneic platform.

The well-established shRNA technology licensed to Celyad is an alternative gene editing approach designed to deliver efficient target knock down with high specificity.

Just after the period end, in January 2019, Horizon signed a strategic partnership with Rutgers, The State University of New Jersey (US), to develop and commercialise base editing, a novel and potentially revolutionary technology platform.

Base editing has the potential to provide more accurate gene editing and fewer unintended genomic changes compared to currently available gene editing methodologies and could help to target many diseases that to date have no treatment. Horizon will collaborate with Rutgers University to further develop the novel base editing platform from the laboratory of Dr Shengkan Jin, associate professor of pharmacology at Rutgers Robert Wood Johnson Medical School. As part of the agreement, Horizon has an option to exclusively license the base editing technology for use in all therapeutic applications. In addition, Horizon will fund further research in base editing at Rutgers University while undertaking its own evaluation and proof of concept studies at Horizon.

By extending our scientific and IP capabilities through such partnerships, Horizon will be able to more fully support our pharma, biotech and academic partners to deliver better cell therapy solutions to patients.

Built by our people

You cannot build a world-class organisation without world-class people, and we are blessed with many. Going through a leadership change, a business integration, coping with the challenges of high-growth businesses and the required changes of approach, is a lot to ask for, but our team has risen to the challenge admirably.

I thank them all for their dedication and hard work during the year.

Summary and outlook 2019

The market opportunity for gene editing and gene modulation is substantial and with limited direct competition, Horizon has strong prospects for growth.

Our customers include many of the world's leading academic institutes and global pharmaceutical companies. Our expertise and insights into the challenges that they face drive us to create products and services that not only differentiate our business but also help our customers to achieve deeper understanding of biological systems, thereby fuelling the development of the next wave of precision medicine.

Our commercial excellence, scientific innovation and industry know-how remain key differentiators and with our Investing for Growth strategy, Horizon is increasingly well placed to capitalise on its position as one of the market-leaders. The new eCommerce platform to be launched in H219, will support enhanced customer experience and drive future revenue growth, while the process improvements and automation are expected to increase capacity in cell line engineering.

With a robust balance sheet and an already strong order book for 2019, we are confident in our growth prospects. The Board expects FY19 revenues to be in-line with current market expectations and to maintain positive EBITDA development.

Terry Pizzie
Chief Executive Officer

29 April 2019

FINANCIAL REVIEW

FY17 comparatives and growth numbers are presented or calculated after restatement for prior year adjustment, refer to Note 2 for details.

During 2018, the Group delivered £58.7m of revenues (FY17: £35.0m), representing solid year-on-year growth of 68% (73% growth on a constant currency basis) highlighting the strong demand for Horizon's products and services. Like-for-like revenues (excluding Dharmacon) were £30.1m (FY17: £26.0m) representing a growth of 16% (£30.8m on a constant currency basis a growth of 18%). Dharmacon continued its strong performance post-integration and delivered revenues of £28.6m (FY17: £9.0m), which would have been £29.7m on a constant currency basis.

Gross margins continued to improve to 67.3% (FY17: 61.1%) driven by a combination of the full-year effect of Dharmacon, increase in licence revenue, product optimisation and mix towards higher-margin product revenues. Gross profit was £39.5m (FY17: £21.4m) an increase of 85% on the prior year.

The Group reports a loss after taxation of £35.8m (FY17: loss after tax of £11.0m) for the full year, which includes a £32.1m non-cash impairment charge in relation to the Group's In Vivo cash generating unit and a reduction in the associated deferred tax liability of £4.7m. The revenue growth coupled with a focus on cost management enabled the Group to report its first positive adjusted EBITDA of £0.7m (FY17: £3.0m loss).

Management consider the following as additional alternative performance measures to supplement statutory measures of performance as they provide additional insight. Constant currency is the measured current year revenues based on the prevailing foreign exchange rates from the prior year.

Adjusted EBITDA	**2018 £'000**	**2017 £'000**
Operating loss	(40,733)	(15,226)
Amortisation and depreciation	8,230	5,701
EBITDA	**(32,503)**	**(9,525)**
Exceptional items	33,185	3,708
Site closures	-	2,524
Unallocated credit	-	281

Adjusted EBITDA	**682**	**(3,012)**

Adjusted loss before tax	**2018 £'000**	**2017 £'000**
Loss before tax	(40,654)	(15,666)
Exceptional items	33,185	3,708
Adjusted loss before tax	**(7,469)**	**(11,958)**

Like for Like revenues	**2018 £'000**	**2017 £'000**
Group revenue	58,733	34,954
Less Dharmacon	(28,655)	(9,040)
Like for Like revenue	**30,078**	**25,914**

Revenue by business unit

Research products

Research products delivered revenues of £31.3m (FY17: £12.6m), a growth of 148% (158% growth on a constant currency basis). Dharmacon recorded revenues of £28.6m (FY17: 9.0m) (£29.7m on a constant currency basis). Gross margins increased from 59% to 64% largely driven by the full year effect of Dharmacon. The business is now fully integrated and is delivering single digit revenue growth driven by market share gains in RNAi in all territories and growth in CRISPR reagents, including CRISPR libraries used for CRISPR screening by AstraZeneca and other major pharmaceutical customers.

Applied products

Applied products reported a strong revenue growth at £15.0m (FY17 £8.7m), a growth of 72% (76% on a constant currency basis). Gross margin increased from 73% to 81% mainly due to a greater proportion of Bioproduction licences sold. Bioproduction, one of the areas identified as a high-growth opportunity in the strategic plan, delivered a robust performance in the second half of the year, including two commercial licences each in excess of £1m.

Revenues from Horizon's molecular diagnostic reference standards also grew robustly during the year, and we continued to expand our offering with the launch of the largest cell-line derived reference standard, focused exclusively on myeloid cancer.

Services

Services revenues were £10.8m (FY17: £13.7m), a decline of 21% (19% decline on a constant currency basis), driven by below expected performance of molecular screening and In Vivo services. Gross margin increased slightly from 54% to 56% due to the mix of services provided This area of the business was challenging due to difficulty in accessing markets which need specialist commercial teams or the price point of some services not aligning with customer demand.

We believe the demand for gene editing services remains strong. We are investing in automation to increase our capacity and bring down the cost of this service to expand the market opportunities available to us.

We continue to consolidate the lower growth areas of our existing screening capabilities as we refocus on our highest growth priorities, which includes CRISPR screening.

Leveraged R&D

In line with our updated strategy, we have monetised our existing leveraged R&D assets, delivering revenue of £1.6m (FY17: £nil) at a gross margin of 82%. During the year we made a further investment of £1.4m into Avvinity our joint venture with Centauri Therapeutics.

Sales, marketing and distribution costs

During 2018, Horizon continued to make substantial investments in building world-class commercial operations, resulting in sales, marketing and distribution expenses of £13.0m (FY17: £7.5m). This includes a full-year effect of the Dharmacon sales force in 2018 and the growth of the team. During the year, we commenced development of a new eCommerce platform which will be launched in 2019.

Research and development costs

Innovation remains central to sustainable value creation for the business. During 2018, we continued to invest in our innovation capability and our expenditure on research and development was £15.2m (FY17: £11.9m). The increase is driven by the full-year impact of Dharmacon in addition to increasing the number of scientists within the legacy Horizon business. It also includes expenditure on R&D, new product introduction, customer support, attendance at scientific conferences and training.

We are excited to have announced our agreement with Rutgers University with respect to the development and commercialisation of base editing, a gene editing approach which has the potential to provide significant benefits in cell therapy among other applications.

Corporate and administrative expenses

Corporate and administrative expenses of £20.7m (FY17: £14.7m) were incurred in the year. This reflects the full-year impact of the Dharmacon business and the Group expanded the corporate team to drive improved corporate and financial governance, and strengthened the Group's resources in procurement, operations, finance and IT.

Exceptional items

Exceptional items, due to their size, nature or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement.

Impairment of In Vivo cash generating unit

As required by IAS 36 Impairment of Assets, goodwill, tangible and intangible assets in relation to the In Vivo cash generating unit are assessed for impairment annually. The assessment is supported by a discounted cash flow analysis and a key factor in supporting the carrying value is the expected growth rate in revenue. During 2018, it became apparent that the current commercial strategy has proved challenging to deliver and that the expected rate of growth in revenues would not meet expectations. Accordingly, the growth rate for the business has been reduced from a CAGR of 27.7% to a CAGR below 10%, which we believe is a more sustainable long-term growth rate for the business. This has led to an impairment of £32.1m in the financial statements. This impairment is non-cash in nature and does not affect business operations going forwards.

Other exceptional items

Other exceptional items include legal and advisory costs relating to the rejection of an unsolicited proposal and costs relating to the departure of former CEO Darrin Disley.

Prior year adjustment

In 2019, the Group became aware of potential revenue recognition matters in connection with certain license revenue contracts. As a result, the Group undertook a detailed review of all such contracts and determined that the terms and conditions in some of those contracts had been misinterpreted and as a consequence, the accounting periods in which the revenue is recognised have been reassessed, due to license revenues being recognised before they were committed. This has led to a prior year adjustment to the revenue recognised in 2017 of a reduction of £1.6m, and an associated reduction of £0.2m in expenses, and consequently the prior period numbers have been restated where applicable.

Balance sheet

Non-current business assets reduced by £29.4m to £112.5m (FY17: £141.9m) largely due to the impairment of the In Vivo cash generating unit and the amortisation and depreciation charge for the year, net of the impact of foreign exchange. Net current assets are slightly lower at £37.5m (FY17: £38.4m). This improvement is due to an enhanced EBITDA and better working capital movements. Non-current liabilities are lower at £6.6m (FY17: £10.5m), mainly due to reduced deferred tax liability.

Cashflow

The Group had cash resources at 31 December 2018 of £26.7m including £1.7m of cash received in error, which was returned in 2019. The group experienced a positive movement in cash flow versus the prior year due the improvement in the adjusted EBITDA performance coupled with a focus on working capital management.

Capital expenditure

During 2018, Horizon invested £0.9m (FY17: £1.7m and £39.8m recognised on acquisition of Dharmacon) in intangible assets and £2.7m (FY17: £2.3m and £2.2m recognised on acquisition of Dharmacon) in plant and equipment to enhance our intellectual property, automation and business infrastructure. In 2019, the Group is investing in programmes including automation and eCommerce which will enable Horizon to scale up operations and deliver further revenue growth.

Summary and financial outlook

2018 was a year that saw the completion of the integration of the Dharmacon business into the Horizon Group as well as a new strategy focussing investment on our high growth opportunities. This, combined with an enhanced corporate and financial governance, will provide a robust platform for continued, sustainable revenue growth. The additional investment in innovation, eCommerce and automation are key enablers of this growth.

Jayesh Pankhania
Chief Financial Officer

29 April 2019

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2018

	Note	2018 £'000	2017 £'000 restated (Note 2)
REVENUE	3	58,733	34,954
Cost of sales		(19,205)	(13,597)
Gross profit		39,528	21,357
Other operating income		2,204	1,632
Sales, marketing and distribution costs		(13,003)	(7,485)
Research and development costs		(15,241)	(11,918)
Corporate and administrative expenses		(20,737)	(14,725)
Share of results of joint venture		(299)	(379)
Exceptional items	4	(33,185)	(3,708)
OPERATING LOSS		(40,733)	(15,226)
Investment income		90	1
Finance costs		(11)	(441)
LOSS BEFORE TAX		(40,654)	(15,666)
Taxation		4,833	4,687
LOSS FOR THE YEAR		(35,821)	(10,979)
LOSS PER SHARE			
Basic and Diluted (Pence)	5	(23.9p)	(9.6p)

All transactions derived from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	2018 £'000	2017 £'000 restated (Note 2)
LOSS FOR THE YEAR	(35,821)	(10,979)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	6,936	(6,609)
Tax on items that may be reclassified subsequently to profit or loss	314	-
Other comprehensive income for the year net of tax	7,250	(6,609)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(28,571)	(17,588)
Total comprehensive income attributable to:		
Owners of the Company	(28,571)	(17,588)

CONSOLIDATED BALANCE SHEET
31 December 2018

	Note	2018 £'000	2017 £'000 restated (Note 2)
Non current assets			
Goodwill		51,750	73,831
Other intangible assets		45,644	52,742
Property, plant and equipment		11,680	13,059
Investments		2,960	1,859
Other receivables		433	433
		112,467	141,924
Current assets			
Inventories		2,541	2,573
Trade and other receivables		19,071	17,684
Corporation tax receivable		3,053	1,344
Cash and cash equivalents		26,740	28,084
		51,405	49,685
Total assets		163,872	191,609
Current liabilities			
Trade and other payables		(13,912)	(11,325)
Total current liabilities		(13,912)	(11,325)
Net current assets		37,493	38,360
Non-current liabilities			
Deferred tax		(5,955)	(9,908)
Long-term provisions		(198)	(187)
Other payables		(495)	(361)
		(6,648)	(10,456)
Total liabilities		(20,560)	(21,781)
Net assets		143,313	169,828
Equity			
Share capital	6	3,134	3,121
Share premium account		139,102	137,681
Share option reserve		3,100	2,478
Merger reserve		67,457	67,457
Retained earnings		(69,480)	(40,909)
Total equity		143,313	169,828

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Merger reserve £'000	Retained earnings £'000 restated (Note 2)	Total £'000 restated (Note 2)
Balance at 1 January 2017	2,583	61,999	2,177	34,452	(23,321)	77,890
Loss for the year	-	-	-	-	(10,979)	(10,979)
Other comprehensive income	-	-	-	-	(6,609)	(6,609)
Total comprehensive income	-	-	-	-	(17,588)	(17,588)
Issue of shares for deferred consideration on Haplogen acquisition	9	-	-	1,258	-	1,267
Issue of shares on Dharmacon acquisition	131	-	-	31,747	-	31,878
Issue of shares on placing agreement	390	76,394	-	-	-	76,784
Share issue costs	-	(1,494)	-	-	-	(1,494)
Issue of shares on exercise of options	8	782	-	-	-	790
Credit to equity for equity settled share based payments	-	-	301	-	-	301
Balance at 31 December 2017	3,121	137,681	2,478	67,457	(40,909)	169,828

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2018	3,121	137,681	2,478	67,457	(40,909)	169,828
Loss for the year	-	-	-	-	(35,821)	(35,821)
Other comprehensive income	-	-	-	-	7,250	7,250
Total comprehensive income	-	-	-	-	(28,571)	(28,571)
Issue of shares on exercise of options	13	1,421	-	-	-	1,434
Credit to equity for equity settled share based payments	-	-	622	-	-	622
Balance at 31 December 2018	3,134	139,102	3,100	67,457	(69,480)	143,313

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2017

	Note	2018 £'000	2017 £'000 restated (Note 2)
Net cash inflow/(outflow) from operating activities	7	1,519	(13,871)
Investing activities			
Interest paid		(11)	(622)
Interest received		90	1
Acquisition of investment in joint venture		(1,400)	-
Acquisition of subsidiaries net of cash acquired and associated settlement costs		-	(37,519)
Purchases of property, plant and equipment		(2,708)	(2,340)
Proceeds on disposal of property, plant and equipment		-	2
Purchase of intangible assets		(851)	(1,725)
Net cash used in investing activities		(4,880)	(42,203)
Financing activities			
Proceeds on issue of shares net of expenses		1,433	77,572
New bank loans raised		-	5,000
Repayment of borrowings		-	(5,000)
Net cash from financing activities		1,433	77,572
Net (decrease)/increase in cash and cash equivalents		(1,928)	21,498
Cash and cash equivalents at beginning of year		28,084	6,071
Effect of exchange rate changes		584	515
Cash and cash equivalents at end of year		26,740	28,084

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

1. BASIS OF THE ANNOUNCEMENT

The preliminary results for the year ended 31 December 2018 were approved by the Board of Directors on 26 April 2019.

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017. The financial information for the year ended 31 December 2017 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the year ended 31 December 2018 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting.

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.

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.

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 £26.7m as at 31 December 2018, and net current assets of £37.3m at the same date. Given the Group's performance and financial position, and the available headroom apparent in the cash flow forecast, the directors are satisfied with the continued adoption of the going concern basis of preparation for the financial statements.

2. PRIOR PERIOD ADJUSTMENTS

In 2019, the Group became aware of potential revenue recognition matters in connection with certain license revenue contracts. As a result, the Group undertook a detailed review of all such contracts and determined that the terms and conditions in some of those contracts had been misinterpreted and as a consequence, the accounting periods in which the revenue is recognised have been reassessed, due to license revenues being recognised before they were committed. This has led to a prior year adjustment to the revenue recognised in 2017 of a reduction of £1.6m, and an associated reduction of £0.2m in expenses, and consequently the opening balances have been restated.

This has been corrected by restating each of the affected financial statement line items in the prior period as follows:

	2017 £'000	Increase/(Decrease)	2017 £'000
Consolidated Income Statement			
Revenue	36,510	(1,556)	34,954
Cost of sales	(13,824)	227	(13,597)
Consolidated Statement of Comprehensive Income			
Total comprehensive income	(16,259)	(1,329)	(17,588)
Consolidated Balance Sheet			
Trade and other receivables	(19,240)	(1,556)	(17,684)
Trade and other payables	(11,552)	227	(11,325)
Retained earnings	(39,580)	(1,329)	(40,909)

Basic and diluted loss per share for the prior year has also been restated. The amount of the correction for both basic and diluted loss per share was an increase of 1.2p per share.

The correction further affected some of the amounts disclosed in notes 3,5,and 7.

3. 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 arise from the sales of Cell Lines, Reagent and other products and the sale of Bioproduction licences. Sales of off the shelf products are recognised when goods are despatched and title has passed, under IFRS 15, this is when the customer takes control of the goods and the performance obligation has been satisfied.

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

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

Revenue from a contract to provide custom services is recognised proportionately when the outcome of each performance obligation of the project can be estimated reliably and is based on the stage of completion of the performance obligation.

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 2018:

	Products £'000	Services £'000	Leveraged R&D £'000	Consolidated £'000
Revenue	46,280	10,873	1,580	58,733
Cost of sales	(14,185)	(4,737)	(283)	(19,205)
Gross profit	32,095	6,136	1,297	39,528
Result				
Segment result before exceptionals	1,810	(2,855)	(6,312)	(7,357)
Segment result after exceptionals	(6,175)	(27,957)	(6,410)	(40,542)
Unallocated credit				(191)
Operating loss				(40,733)
Investment income				90
Finance costs				(11)
Loss before tax				(40,654)
Tax				4,833
Loss after tax				(35,821)

3. OPERATING SEGMENTS (continued)

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

	Products Restated £'000	Services £'000	Leveraged R&D £'000	Consolidated Restated £'000
Revenue	21,261	13,693	-	34,954
Cost of sales	(7,255)	(6,342)	-	(13,597)
Gross profit	14,006	7,351	-	21,357
Result				
Segment result before exceptionals	1,422	(9,329)	(3,330)	(11,237)
Segment result after exceptionals	(1,569)	(10,023)	(3,353)	(14,945)
Unallocated credit				(281)
Operating loss				(15,226)
Investment income				1
Finance costs				(441)
Loss before tax				(15,666)
Tax				4,687
Loss after tax				(10,979)

Exceptional items as presented in note 4 are included in operating expenditure and have been allocated across each Business Unit. Included within 2018 exceptional items are impairment charges totalling £32,124k relating to the impairment of goodwill, intangible assets and property, plant and equipment allocated to the In Vivo cash generating unit. £7,669k of the impairment charge has been allocated to the Products segment and £24,455k to the Services segment in proportion to the In vivo products and services revenue recognised in 2018.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. 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	
	2018 £'000	2017 £'000
Products	2,452	2,234
Services	5,023	2,941
Leveraged R&D	755	526
	8,230	5,701

horizon
INSPIRED CELL SOLUTIONS

4. EXCEPTIONAL ITEMS

	2018 £'000	2017 £'000
Acquisition related costs	-	(2,607)
Impairment of goodwill	(25,892)	
Impairment of intangible assets	(4,775)	
Impairment of property, plant and equipment	(1,457)	-
CEO exit costs	(476)	-
Legal and advisory fees	(585)	-
Restructuring costs	-	(1,101)
	(33,185)	(3,708)

The 2017 exceptional items include costs relating to the acquisition of Dharmacon, reorganisation of the commercial team, consolidation of operations from Vienna and Boston into the UK headquarters, and reduction of headcount of the non-Dharmacon business. The associated costs are presented in the cashflow within loss for the year and net cash from operating activities.

The 2018 exceptional items include costs relating to the departure of Darrin Disley as Chief Executive Officer, legal and advisory costs relating to the rejection of an unsolicited proposal and goodwill, intangible asset and property, plant and equipment impairment charges relating to the In Vivo cash generating unit. The CEO exit costs include a payment in lieu of notice of £321k and other recruitment and legal costs relating to the departure. Impairment cost are non-cash and the remaining costs are presented in the cashflow within loss for the year.

5. LOSS PER SHARE

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

Loss

	2018 £'000	2017 £'000 restated
Loss for the purposes of basic and diluted loss per share being net loss attributable to owners of the Company	(35,821)	(10,979)

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	149,597,584	114,755,641
Loss per share	(23.9p)	(9.6p)

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 2018, as the exercise of share options would have the effect of reducing the loss per ordinary share, and therefore is not dilutive.

6. SHARE CAPITAL

	Group	
	2018	**2017**
	£'000	**£'000**
Authorised, issued and fully paid		
150,354,304 (2017: 149,086,601) ordinary shares of £0.01 each	3,134	3,121

During the year, the Company issued 1,267,703 (2017: 893,555) ordinary shares as a result of employee option exercises.

7. NOTES TO THE CASH FLOW STATEMENT

Group	**2018 £'000**	**2017 £'000 restated**
Loss for the year	(35,821)	(10,979)
Adjustments for:		
Investment revenues	(90)	(1)
Finance costs	11	640
Depreciation of property, plant and equipment	2,876	2,707
Amortisation of intangible assets	5,354	2,978
Goodwill, intangible asset and property, plant and equipment impairment charges	32,124	-
Loss/(profit) on disposal of property, plant and equipment	7	(4)
Loss/(profit) on disposal of intangible assets	145	-
Tax credit	(4,833)	(4,687)
Share option charge	622	320
Share of loss of joint venture	299	379
	36,515	2,332
Operating cash flows before movements in working capital	694	(8,647)
Decrease in inventories	33	12
Increase in receivables	(1,894)	(3,673)
Increase/(decrease) in payables	3,610	(1,905)
Cash generated by operations	2,443	(14,213)
Tax (paid)/ credit received	(924)	342

Net cash from operating activities*	1,519	(13,871)

***** this includes £1.7m of cash received in error which was returned in 2019.

8. SUBSEQUENT EVENTS

On 28 January 2019 Mr R Vellacott stepped down as Chief Financial Officer. Mr J Pankhania, has been appointed as Chief Financial Officer and joined the board of Horizon Discovery Group plc on 29 January 2019. At the date these financial statements were authorised for issue there had been no other subsequent events to report.