



Advanced Medical Solutions Group plc

Innovative solutions creating quality outcomes

Interim Report 2018



About us

Advanced Medical Solutions is a world-leading independent developer and manufacturer of innovative and technologically advanced products for the global surgical, woundcare and wound closure markets, focused on quality outcomes for patients and value for payors.

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Highlights 2018

Financial

	H1 2018	H1 2017	Reported growth	Growth at constant currency ¹
Group revenue (£ million)	47.6	46.1 ⁶	3%	6%
Adjusted ⁵ profit before tax (£ million)	13.7	11.5	19%	–
Profit before tax (£ million)	13.6	11.4	19%	–
Adjusted ² diluted earnings per share (pence)	5.01	4.31	16%	–
Diluted earnings per share (pence)	4.99	4.26	17%	–
Net operating cash flow ³ (£ million)	13.7	9.1	51%	–
Net cash (£ million) ⁴	71.1	55.2	29%	–
Interim dividend per share (pence)	0.42	0.35	20%	–

Business (including post-period end):

- Group revenues up 3% to £47.6 million and by 6% at constant currency
 - Strong growth in Branded, offset by slow-down in OEM
- Gross margin improvement of 300 basis points to 63% (2017 H1: 60%)
- Branded revenues up 10% to £30.1 million (2017 H1: £27.4 million⁶) and by 12% at constant currency
- Continued strong performance with LiquiBand[®] tissue adhesives
 - US revenues up 16% to £10.5 million (2017 H1: £9.1 million), and by 27% at constant currency
 - US market share volume increased to 28% (June 2017: 24%)
 - LiquiBand[®] Fix8[™] revenues up 16% at reported and constant currency to £1.0 million (2017 H1: £0.8 million) following the successful completion of recent design modifications
- RESORBA[®] branded products, up 9% to £11.1 million (2017 H1: £10.2 million) and by 6% at constant currency
- OEM revenues down 6% to £17.6 million (2017 H1: £18.7 million⁶) and by 4% at constant currency
 - Impacted by weakness in the woundcare market and by the decision of one partner to exit the market altogether
 - Approval to market Surgical Silver Post-Operative dressings and PHMB Foam dressings in US received in August 2018 and launches planned for the fourth quarter

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Notes

- ¹ Constant currency adjusts for the effect of currency movements by re-translating the current period's performance at the previous period's exchange rates.
- ² All items are shown before amortisation of acquired intangible assets which, in 2018 H1, were less than £0.1 million (2017 H1: £0.1 million) as defined in the Financial Review.
- ³ Operating cash flow is arrived at by taking the operating profit for the period and adjusting it for depreciation, amortisation, working capital movements and other non-cash items (see Table 3).
- ⁴ Net cash is defined as cash and cash equivalents plus short term investments less financial liabilities and bank loans.
- ⁵ Adjusted profit before tax is adjusted for exceptional items and amortisation of acquired intangible assets.
- ⁶ 2017 H1 Revenue increased by £0.2 million (Branded £0.1 million, OEM £0.1 million) as a result of adoption of IFRS 15 (Revenue from Contracts with Customers) in 2017, with these amounts being reclassified from Other Income to Revenue.

Chairman's Statement

AMS continues to perform well and is well positioned to deliver another year of good growth and strong financial performance.

The Group's strategic initiatives continue to be to deliver growth by:

- Innovation
- Geographic expansion
- Licencing and acquisition

Revenue increased by 3% to £47.6 million (2017 H1: £46.1 million⁶) and by 6% at constant currency. Adjusted profit before tax⁵ increased by 19% to £13.7 million (2017 H1: £11.5 million). Our net cash position⁴ at 30 June 2018 was £71.1 million (31 December 2017: £62.5 million).

Good progress has been made with our surgical brands. LiquiBand[®] continues to gain market share in the US, now at 28%, gaining 4% since June 2017. Our RESORBA[®] brands grew steadily across all territories and LiquiBand[®] Fix8[™] demonstrated strong growth following the completion of recent design modifications.

Our financial progress in OEM has been impacted by both a general slow-down in the woundcare market and by one of our US partners deciding to exit the market. Whilst this temporary setback is disappointing, we have multiple opportunities underway to drive future growth through market expansion and from the launch of new products later this year. These new products demonstrate the inherent value of our R&D and Regulatory capabilities which are a key pillar of our strategy to drive organic growth, supporting our OEM customers and end users.

Dividend

The Board intends to pay an interim dividend of 0.42p per share (2017 H1: 0.35p), an increase of 20%, on 26 October 2018 to shareholders on the register at the close of business on 28 September 2018.

Team

As announced at our AGM in June 2018, Mary Tavener intends to retire from the role of Chief Financial Officer and Board Director on 31 December 2018 after 19 years with AMS, and that Eddie Johnson, who has been with AMS for more than six years, and is currently the Group Financial Controller, will assume the role of Chief Financial Officer and join the Board. We would like to thank Mary for her 19 years of dedicated and outstanding service to AMS. In her time with the Group, she has been integral to our listing on AIM, several acquisitions and this has culminated in AMS growing for 13 consecutive years.

We are also pleased to announce that Alan Richardson will be joining the Group as Chief Operations Officer on 5 November 2018 from ConvaTec. He will assume responsibility for our Group Operations, Quality and Regulatory functions and brings with him a wealth of experience.

Mary will be working with both Eddie and Alan to ensure a smooth transition before her departure.

On behalf of the Board, I would like to thank all employees for their continued hard work that has helped AMS to prosper as a global medical technology business, as well as our customers, suppliers, business partners and shareholders for their continued support.

Summary

The Group continues to deliver good results and is trading in line with Board expectations for the year ending 31 December 2018.

Peter Allen
Chairman

Chief Executive's Review

I am pleased to report that the Group again performed well in the period.

Business Review

Branded Business Unit

Branded revenue increased by 10% to £30.1 million (2017 H1: £27.4 million⁶) and by 12% at constant currency.

LiquiBand®

LiquiBand®, our range of cyanoacrylate based medical adhesives, is our largest brand with sales of £14.6 million (2017 H1: £13.0 million), an increase of 12% on prior year and a 19% increase at constant currency. It is sold in over 60 countries and includes different formulations and designs used to close wounds topically in the Operating Room and Accident and Emergency setting.

The US is our largest market and the Group continues to gain market share from the market leader. Our strategy in this market is to work with distributors that are able to target both hospitals and non-hospitals, helping to identify customers and convert opportunities into sales. Sales increased by 16% to £10.5 million (2017 H1: £9.1 million) and by 27% at constant currency with our portfolio of cyanoacrylate formulations successfully addressing the needs of the market. Our overall US market share by volume now stands at 28%, an increase of 4% since June 2017.

Sales of LiquiBand® in the UK and Germany reduced by 4% to £2.7 million (2017 H1: £2.8 million) and by 6% at constant currency. Sales through our distributors in other territories, increased by 20% to £1.4 million (2017 H1: £1.2 million) and 21% at constant currency.

In R&D, we are developing a device for closing large wounds for which we expect to receive approval to market in the US later this year. We also continue to work on extending our ranges of formulations for the base monomers used in our adhesives, with products expected to launch next year.

LiquiBand® Fix8™

The design modifications for LiquiBand® Fix8™, our hernia mesh fixation device, were completed in the first quarter of 2018, and the new version is now being fully promoted. Surgeon feedback has been extremely positive, and we recorded our highest level of quarterly sales for this product in Q2 2018 resulting in H1 2018 sales increasing by 16% at reported and constant currency to £1.0 million (2017 H1 £0.8 million). Clinical work is ongoing to broaden the claims to include other laparoscopic surgical applications, such as gastric sleeve surgery.

At present, the laparoscopic device is approved for use in Europe and those markets that accept European approval standards. We have begun the US approval process which is expected to take another two years and to cost approximately £3 million as it will necessitate a full set of clinical trials. These are expected to start early next year, once we obtain the Investigational Device Exemption with the FDA.

Development of the open surgery hernia mesh fixation device is close to completion and EU approval for this product is expected this year.

We continue to be excited for the long term prospects for LiquiBand® Fix8™.

RESORBA®

Our RESORBA® branded products portfolio is comprised of a comprehensive range of sutures and a range of bio-surgical products that include collagens and oxidised cellulose. Sales of RESORBA® products increased by 9% to £11.1 million (2017 H1: £10.2 million), and by 6% at constant currency.

Within this, sales of sutures increased by 7% to £6.8 million (2017 H1: £6.4 million) and by 4% at constant currency and sales of bio-surgical products increased by 18% to £4.3 million (2017 H1: £3.7 million) and by 14% at constant currency.

Of the £11.1 million sales, £6.6 million (2017 H1: £6.5 million) were in Germany, up 2% on the prior year but down 1% at constant currency, while sales outside Germany increased by 20% to £4.5 million (2017 H1: £3.8 million) and 17% at constant currency. We continue to access new markets, in particular Asia Pacific, and target specific applications for our RESORBA® brands.

In R&D, we are continuing to work on the development and approval of ranges of collagens incorporating a variety of different antibiotics, including an application in cardiac surgery.

ActivHeal®

ActivHeal® is our range of high-quality and cost-effective woundcare dressings sold predominately to the NHS.

Sales of ActivHeal® increased by 6% to £3.4 million (2017 H1: £3.2 million) in the period. The raw material issue, previously reported, was resolved at the end of last year and our new antimicrobial, atraumatic foam and high-performance products have been added to the range.

OEM Business Unit

Our sales in the period were impacted by weakness in the woundcare market, which we reported in 2017, ordering patterns of our partners, and the decision of Hollister, one of our US partners, to exit the market. As a result, revenue decreased 6% to £17.6 million (2017 H1: £18.7 million⁶) and by 4% at constant currency.

- Sales of antimicrobial dressings decreased by 15% to £8.2 million (2017 H1: £9.7 million) and by 13% at constant currency
- Sales of non-antimicrobial foam dressings increased by 6% at reported currency to £3.6 million (2017 H1: £3.4 million) and by 5% at constant currency
- Sales of other technologies, including alginates, gels and royalties, increased by 3% to £5.8 million (2017 H1: £5.6 million) and by 7% at constant currency. This included £0.7 million relating to royalty income from Organogenesis, on sales of PHMB collagen (2017 H1: £nil)

We have multiple opportunities underway to drive future growth through market expansion and from extending our anti-microbial product ranges.

In June 2018, we received European approval for our atraumatic Lite foam which is an extension to our silicone foam portfolio. It is intended for managing wounds with low levels of exudate such as minor burns, leg and foot ulcers and post-operative surgical wounds towards the end of the healing process. The dressing has a soft silicone 'atraumatic' adhesive which can be repositioned during wear. With the Non-Border variant having been CE-Marked in November 2017, and the addition of some new post-operative sizes enabling us to compete in the surgical market we now have the full complement of variants for this product range.

In August 2018, we received pre-market approval from the FDA in the US to market our Surgical Silver Post-Operative dressings and PHMB foam dressings. It is expected that both ranges will be launched into the US around the end of 2018.

The Surgical Silver Post-Operative dressing consists of two skin-friendly layers of hydrocolloid securing a silver-containing absorbent antibacterial alginate dressing and has been shown to be effective against Methicillin-Resistant *S. aureus* (MRSA) as well as a broad spectrum of microbes including other antibiotic resistant strains.

Our PHMB Foam Dressing is a polyurethane foam impregnated with polyhexamethylene biguanide that can be used in managing various chronic and post-surgical wounds including, diabetic ulcers and burns and has strong antimicrobial and fluid handling performance. This range was launched in Europe in 2016 following EU approval, whilst launches to our US partners were deferred pending approval for the extended claims.

We have recently received approval from ANVISA, the Regulatory Body in Brazil, to market a range of advanced woundcare products into Brazil and have identified a partner to work with, that expects to launch at the end of this year. This will be our first OEM partner in Latin America. We have also added a new partner for the US that has agreed a four-year contract for a range of advanced woundcare products and also expects to launch in the fourth quarter.

In R&D we continue to extend our product portfolio with atraumatic PHMB foam and silver high performance dressings anticipated to launch in the next two years.

Operations and regulatory

To meet market demand and continue our sustained organic growth, we continue to make investments in our facilities and equipment. In the first six months of the year, we have invested in improved packaging capability at Nuremberg and in initial planning work related to extending the capacity of the Plymouth site.

The new European Medical Devices Regulation (MDR) entered into force on 25 May 2017, marking the start of the transition period for manufacturers selling medical devices into Europe. The MDR, which replaces the Medical Devices Directive (MDD) has a transition period of three years and manufacturers have this transition period to update their technical documentation and processes to meet the new requirements. The MDR brings more scrutiny on product safety and performance and stricter requirements on clinical evaluation and post-market clinical follow up.

There will be fewer Notified Bodies approved to certify medical devices under MDR and they are indicating resource constraints within their organisations as they strive to meet the new regulatory requirements. The backlog is being further compounded as Medical Device companies losing their Notified Body have to transfer to one of those remaining. For all Medical Device companies, there will be significant, additional work and costs associated with meeting the new requirements. Short-term there may be delays in getting products approved and recertified. In the longer term, once the transition is completed, the tighter regulatory standards should prove beneficial for the Group and will provide a significant barrier to market entry. The five year product recertification process for RESORBA® is currently in progress and is consequently proving to be onerous.

In the UK the Group's Notified Body is BSI. Following the triggering of Article 50, BSI expects to remain a full member and influential participant in the single European Standards system as well as an EU Notified Body.

If no withdrawal agreement is achieved with Europe, BSI anticipates that a mutual recognition agreement for UK Notified Bodies will be agreed. Currently there are recognised existing mechanisms in place for non-EU countries to participate as EU Notified Bodies. For example, the designated organisations in Norway (under EEA recognition), Switzerland and Australia (through Mutual Recognition Agreements) are recognised as Notified Bodies for the purposes of the relevant EU legislation.

We further understand that BSI is strengthening its European links to secure BSI's EU Notified Body activity in mainland Europe. BSI has formally applied for designation as a Medical Device Notified Body in the Netherlands and is working through the process of designation. In a worst case scenario, companies would be able to transfer to BSI Netherlands from BSI UK.

Referendum vote to leave the EU

The Group is well placed to deal with the uncertain outcome of the Brexit negotiations. The Group already has a strong footprint in mainland Europe and in March 2018, the UK trading entity was granted Authorised Economic Operator (AEO) status by HMRC. In the event of "no deal", the World Trade Organisation (WTO) tariff rates for our finished goods are currently favourable and on the back of our AEO status, we are in a good position to secure reliefs against import duties on our raw material imports.

Acquisitions strategy

We have an internal team actively working with advisors to identify, appraise and progress targets that meet our strategy of:

- Licensing or acquiring technology that allows us to leverage our global routes to market
- Licensing or acquiring complementary surgical or woundcare brands
- Geographic expansion through acquiring surgically focused companies with strong direct sales capability and ownership of complementary products

The Group is actively monitoring and evaluating acquisition opportunities to capitalise on its strong financial and strategic position.

Summary and outlook

The first half of 2018 has seen another good performance by the Group and we are confident of meeting Board expectations for the full year. With our new product launches, strong partners and the opportunities we see from our R&D pipeline, the Board remains optimistic about our long-term prospects and the potential for further organic growth, as well as by means of acquisitions.

Chief Executive's Statement continued

Financial Review

Overview

Revenue increased by 3.2% to £47.6 million (2017 H1: £46.1 million⁶). At constant currency, revenue growth would have been 5.6%.

Amortisation of acquired intangible assets was less than £0.1 million in the six month period (2017 H1: £0.1 million).

Comparisons with 2017 are made on a pre-amortisation of acquired intangible asset cost basis, as we believe that this provides a more relevant representation of the Group's trading performance. To aid comparison, the Group's adjusted income statement is summarised in Table 1 below.

Table 1: Adjusted Income Statement

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000 (restated ⁹)	Change
Revenue ⁶	47,621	46,126	3.2%
Gross profit	29,995	27,694	8.3%
Distribution costs	(614)	(534)	15.0%
Adjusted administrative expenses ⁷	(15,864)	(15,711)	1.0%
Other income	59	57	3.5%
Adjusted operating profit	13,576	11,506	18.0%
Net finance income	98	–	
Adjusted profit before tax ⁵	13,674	11,506	18.8%
Amortisation of acquired intangibles	(40)	(94)	
Profit before tax	13,634	11,412	19.5%
Tax	(2,866)	(2,301)	24.6%
Profit for the period	10,768	9,111	18.2%
Adjusted earnings per share – basic ⁸	5.08p	4.37p	16.2%
Earnings per share – basic ⁸	5.06p	4.32p	17.1%
Adjusted earnings per share – diluted ⁸	5.01p	4.31p	16.2%
Earnings per share – diluted ⁸	4.99p	4.26p	17.1%

⁷ Administration expenses exclude amortisation of acquired intangible assets.

⁸ see Note 4 Earnings per share for details of calculation.

The gross margin percentage for the Group was 63.0% (2017 H1: 60.0%). This 300 bps increase in gross margin was mainly as a result of sales mix and the out-licensing agreement with Organogenesis for wound dressings containing collagen and PHMB, which generated £0.7 million royalty income in the period.

Adjusted operating profit increased by 18.0% to £13.6 million (2017 H1: £11.5 million) and the adjusted operating margin increased by 360 bps to 28.5% (2017 H1: 24.9%) due to sales mix and the impact of additional royalty income in the period. Administration expenses (excluding amortisation of acquired intangible assets) increased by 1%. Within this, gains from the foreign exchange effects helped to offset a further increase in investment in sales and marketing and increased costs from regulatory and clinical work.

Adjusted diluted earnings per share increased by 16.2% to 5.01p (2017 H1: 4.31p) and diluted earnings per share increased by 17.1% to 4.99p (2017 H1: 4.26p).

The Group generated profit before tax of £13.6 million (2017 H1: £11.4 million) and had net cash of £71.1 million at the half year end (2017 H1: £55.2 million).

The Group has a strong balance sheet enabling financing of further organic growth and acquisitions.

Income Statement

The operational performance of the Business Units is shown in Table 2 below. The adjusted profit from operations and the adjusted operating margin are shown after excluding amortisation of acquired intangibles.

**Table 2: Operating Result by Business Segment
Six months ended 30 June 2018**

	Branded £'000	OEM £'000
Revenue	30,060	17,561
Profit from operations	9,903	3,914
Amortisation of acquired intangibles	40	–
Adjusted profit from operations⁹	9,943	3,914
Adjusted operating margin⁹	33.1%	22.3%
Six months ended 30 June 2017 represented		
Revenue ⁶ (restated)	27,440	18,686
Profit from operations	7,936	3,724
Amortisation of acquired intangibles	89	5
Adjusted profit from operations ⁹	8,025	3,729
Adjusted operating margin ⁹	29.2%	20.0%

⁹ Excludes amortisation of acquired intangible assets which, in 2018 H1, were less than £0.1 million (2017 H1: £0.1 million). Expenses relating to Non-Executive Directors and plc costs are not allocated to business units and are included within unallocated expenses.

Branded

Branded revenues increased by 9.5% to £30.1 million (2017 H1: £27.4 million⁶) and by 11.9% at constant currency, with sales of LiquiBand® into the US being the main driver of growth.

Adjusted operating margin increased by 390 bps to 33.1% (2017 H1: 29.2%) despite ongoing investment in our sales & marketing teams. R&D expense was 2.5% of revenues (2017 H1: 2.1%) with expenditure in this segment being incurred on projects to improve our formulation and applicators for tissue adhesives, as well as ongoing development of the internal use of tissue adhesives.

OEM

OEM revenues decreased by 6.0% to £17.6 million (2017 H1: £18.7 million⁶) at reported currency and by 3.7% at constant currency. R&D expense was 5.2% of revenues (2017 H1: 4.1%) with spend being incurred in the development of post-surgical dressings and high performance dressings.

Adjusted operating margin increased by 230 bps to 22.3% (2017 H1: 20.0%).

Geographic breakdown of revenues

The geographic breakdown of Group revenues in 2018 is set out in Note 5. Sterling sales represent the largest currency with significant sales also in Euros and US dollars. The Group's policy is to put in place natural hedges where possible and to hedge transactional risk. The Group estimates that a 10% movement in the £:US\$ or £:Euro exchange rate would impact Sterling revenues by approximately 5% and 3% respectively and, in the absence of any hedging, this would result in an impact on profit of 3.6% and 0.8% respectively.

Net finance costs/income

Net finance costs/income is comprised of finance income of £157,000 (2017 H1: £50,000) representing interest received on cash balances and finance costs of £59,000 (2017 H1: £51,000) resulting from facility costs.

Profit before tax

Profit before tax for the six months was 19.5% higher at £13.6 million (2017 H1: £11.4 million).

Taxation

The Group's effective rate of current tax for the six months was 21.0% (2017 H1: 20.2%). This reflects the blend of profits and tax rates in the countries in which the Group operates and incorporates UK patent box and R&D relief. The Group expects its anticipated effective tax rate to be approaching 21% for the full year ending 31 December 2018.

Profit after tax and earnings per share

Adjusted profit after tax increased by 17.4% to £10.8 million (2017 H1: £9.2 million), resulting in a 16.2% increase in adjusted basic earnings per share to 5.08p (2017 H1: 4.37p) and a 16.2% increase in adjusted diluted earnings per share to 5.01p (2017 H1: 4.31p).

Profit after tax increased 18.2% to £10.8 million (2017 H1: £9.1 million), resulting in a 17.1% increase in basic earnings per share to 5.06p (2017 H1: 4.32p) and a 17.1% increase in diluted earnings per share to 4.99p (2017 H1: 4.26p).

Dividend per share

The Board intends to pay an interim dividend of 0.42p per share on 26 October 2018 to shareholders on the register on 28 September 2018. This is an increase of 20% compared with the first half of 2017.

Cash flow and Balance Sheet

Table 3 summarises the Group cash flows

Table 3: Cash flow

	Six months ended 30 June 2018 £'000	Six months ended 30 June 2017 £'000
Adjusted operating profit (Table 1)	13,576	11,506
Non-cash items	2,359	1,970
Adjusted EBITDA¹⁰	15,935	13,476
Working capital movement	(2,212)	(4,416)
Operating cash flow	13,723	9,060
Capital expenditure and capitalised R&D	(2,302)	(2,236)
Net interest income	98	–
Tax	(1,650)	(2,048)
Free cash flow	9,869	4,776
Dividends paid	(1,591)	(1,307)
Proceeds from share issues	381	555
Exchange gains	16	11
Net increase in cash and cash equivalents	8,675	4,035

¹⁰ Adjusted EBITDA is earnings before interest, tax, depreciation, intangible asset amortisation and share based payments.

The Group had an operating cash flow of £13.7 million (2017 H1: £9.1 million) and a conversion of adjusted operating profit into free cash flow of 73% (2017 H1: 42%). The increase in cash conversion was due to reduced trade debtors and decreased tax payments, resulting from the recovery of overpayments of tax from previous periods.

Working capital increased by £2.2 million. Within this, trade receivables decreased by £1.7 million due to timing of sales with debtor days at 43 (2017 H1: 53 days). Inventory increased by £2.2 million in the first six months with months of supply being 4.1 (2017 H1: 4.1 months). Trade payables decreased £1.7 million.

Chief Executive's Statement continued

We have invested £2.3 million in fixed assets, software and capitalised R&D in the first six months (2017 H1: £2.2 million), including investment in our Nuremberg facility, investigation into potential expansion of our Plymouth facility, new packing machines and microwave dryer machines to enhance our foam manufacturing capabilities. £0.5 million of R&D spend was capitalised in the period (2017 H1: £0.4 million).

Net taxation of £1.7 million was paid which is in line with the Group's profitability within the tax jurisdictions in which it operates.

The Group paid its final dividend for the year ended 31 December 2017 of £1.6 million on 15 June 2018 (2017 H1: £1.3 million).

The Group had a free cash flow as defined in Table 3 of £9.9 million in the period (2017 H1: £4.8 million), with a net increase in cash and cash equivalents of £8.7 million (2017 H1: £4.0 million increase).

At the end of the period, the Group had net cash¹¹ of £71.1 million (2017 H1: net cash¹¹ of £55.2 million).

The Group has a five-year, £30 million, multi-currency, revolving credit facility, obtained in December 2014, with an accordion option under which AMS can request up to an additional £20 million on the same terms. The facility is provided jointly by HSBC and The Royal Bank of Scotland PLC. It is unsecured on the assets of the Group and is currently wholly undrawn.

The movement in net cash during the first half of 2018 is reconciled in Table 4 below:

Table 4: Movement in net cash¹¹

	£'000
Net cash as at 1 January 2018	62,454
Exchange rate impacts	16
Free cash flow	9,869
Dividends paid	(1,591)
Proceeds from share issues	381
Net cash as at 30 June 2018	71,129

¹¹ Net cash is defined as cash and cash equivalents plus short-term investments less financial liabilities and bank loans.

The Group's going concern position is fully described in Note 11 and the Group had no borrowings in the period.

Condensed Consolidated Income Statement

For the six months ended 30 June 2018

	Note	(Unaudited) Six months ended 30 June 2018 Total £'000	(Unaudited) Six months ended 30 June 2017 Total (restated) £'000	(Audited) Year ended 31 December 2017 Total £'000
Revenue from continuing operations⁶	5	47,621	46,126	96,908
Cost of sales		(17,626)	(18,432)	(38,504)
Gross profit		29,995	27,694	58,404
Distribution costs		(614)	(534)	(1,130)
Administration costs		(15,904)	(15,804)	(32,184)
Other income		59	57	150
Profit from operations		13,536	11,413	25,240
Finance income		157	50	147
Finance costs		(59)	(51)	(110)
Profit before taxation		13,634	11,412	25,277
Income tax	7	(2,866)	(2,301)	(5,143)
Profit for the period attributable to equity holders of the parent		10,768	9,111	20,134
Earnings per share				
Basic	4	5.06p	4.32p	9.52p
Diluted	4	4.99p	4.26p	9.39p
Adjusted ¹² diluted	4	5.01p	4.31p	9.46p

Condensed Consolidated Statement of Comprehensive Income

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 £'000	(Audited) Year ended 31 December 2017 £'000
Profit for the period	10,768	9,111	20,134
<i>Items that will potentially be reclassified subsequently to profit and loss</i>			
Exchange differences on translation of foreign operations	(4)	1,548	2,187
(Loss)/gain arising on cash flow hedges	(1,613)	2,556	4,192
Other comprehensive (expense)/income for the period	(1,617)	4,104	6,379
Total comprehensive income for the period attributable to equity holders of the parent	9,151	13,215	26,513

¹² Adjusted for amortisation of acquired intangible assets.

Condensed Consolidated Statement of Financial Position

	(Unaudited) 30 June 2018 £'000	(Unaudited) 30 June 2017 £'000	(Audited) 31 December 2017 £'000
Assets			
Non-current assets			
Acquired intellectual property rights	9,622	9,629	9,675
Software intangibles	2,876	2,730	3,078
Development costs	2,506	1,747	2,135
Goodwill	41,746	41,430	41,801
Property, plant and equipment	17,683	16,951	17,019
Deferred tax assets	199	–	199
Trade and other receivables	19	13	286
	74,651	72,500	74,193
Current assets			
Inventories	13,232	11,182	11,073
Trade and other receivables	18,830	16,712	20,950
Current tax assets	–	461	48
Cash and cash equivalents	71,129	55,160	62,454
	103,191	83,515	94,525
Total assets	177,842	156,015	168,718
Liabilities			
Current liabilities			
Trade and other payables	8,856	11,461	10,547
Current tax liabilities	3,310	2,356	2,290
Other taxes payable	–	103	15
	12,166	13,920	12,852
Non-current liabilities			
Trade and other payables	1,262	341	310
Deferred tax liabilities	3,126	2,748	3,120
	4,388	3,089	3,430
Total liabilities	16,554	17,009	16,282
Net assets	161,288	139,006	152,436
Equity			
Share capital	10,672	10,606	10,632
Share premium	35,148	34,478	34,778
Share-based payments reserve	5,562	4,082	4,676
Investment in own shares	(156)	(152)	(152)
Share-based payments deferred tax reserve	815	861	815
Other reserve	1,531	1,531	1,531
Hedging reserve	(955)	(978)	658
Translation reserve	2,819	2,184	2,823
Retained earnings	105,852	86,394	96,675
Equity attributable to equity holders of the parent	161,288	139,006	152,436

Condensed Consolidated Statement of Changes In Equity

Attributable to equity holders of the Group

	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018 (audited)	10,632	34,778	4,676	(152)	815	1,531	658	2,823	96,675	152,436
Consolidated profit for the period to 30 June 2018	–	–	–	–	–	–	–	–	10,768	10,768
Other comprehensive income	–	–	–	–	–	–	(1,613)	(4)	–	(1,617)
Total comprehensive income	–	–	–	–	–	–	(1,613)	(4)	10,768	9,151
Share-based payments	–	–	907	–	–	–	–	–	–	907
Share options exercised	40	370	(21)	–	–	–	–	–	–	389
Shares purchased by EBT	–	–	–	(600)	–	–	–	–	–	(600)
Shares sold by EBT	–	–	–	596	–	–	–	–	–	596
Dividends paid	–	–	–	–	–	–	–	–	(1,591)	(1,591)
At 30 June 2018 (unaudited)	10,672	35,148	5,562	(156)	815	1,531	(955)	2,819	105,852	161,288
	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017 (audited)	10,524	34,005	3,469	(152)	459	1,531	(3,534)	636	78,590	125,528
Consolidated profit for the period to 30 June 2017	–	–	–	–	–	–	–	–	9,111	9,111
Other comprehensive income	–	–	–	–	–	–	2,556	1,548	–	4,104
Total comprehensive income	–	–	–	–	–	–	2,556	1,548	9,111	13,215
Share-based payments	–	–	613	–	402	–	–	–	–	1,015
Share options exercised	82	473	–	–	–	–	–	–	–	555
Shares purchased by EBT	–	–	–	(484)	–	–	–	–	–	(484)
Shares sold by EBT	–	–	–	484	–	–	–	–	–	484
Dividends paid	–	–	–	–	–	–	–	–	(1,307)	(1,307)
At 30 June 2017 (unaudited)	10,606	34,478	4,082	(152)	861	1,531	(978)	2,184	86,394	139,006
	Share capital £'000	Share premium £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Other reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017 (audited)	10,524	34,005	3,469	(152)	459	1,531	(3,534)	636	78,590	125,528
Consolidated profit for the year to 31 December 2017	–	–	–	–	–	–	–	–	20,134	20,134
Other comprehensive income	–	–	–	–	–	–	4,192	2,187	–	6,379
Total comprehensive income	–	–	–	–	–	–	4,192	2,187	20,134	26,513
Share-based payments	–	–	1,279	–	356	–	–	–	–	1,635
Share options exercised	108	773	(72)	–	–	–	–	–	–	809
Shares purchased by EBT	–	–	–	(484)	–	–	–	–	–	(484)
Shares sold by EBT	–	–	–	484	–	–	–	–	–	484
Dividends paid	–	–	–	–	–	–	–	–	(2,049)	(2,049)
At 31 December 2017 (audited)	10,632	34,778	4,676	(152)	815	1,531	658	2,823	96,675	152,436

Condensed Consolidated Statement of Cash Flows

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 £'000	(Audited) Year ended 31 December 2017 £'000
Cash flows from operating activities			
Profit from operations	13,536	11,412	25,240
<i>Adjustments for:</i>			
Depreciation	1,080	1,012	2,053
Amortisation – intellectual property rights	40	94	134
– development costs	128	208	380
– software intangibles	244	137	415
(Increase)/decrease in inventories	(2,174)	362	505
Decrease/(increase) in trade and other receivables	1,714	(4,205)	(8,627)
(Decrease)/increase in trade and other payables	(1,752)	(573)	73
Share-based payments expense	907	613	1,279
Taxation	(1,650)	(2,048)	(4,486)
Net cash inflow from operating activities	12,073	7,012	16,966
Cash flows from investing activities			
Purchase of software	(58)	(622)	(958)
Capitalised research and development	(498)	(371)	(860)
Purchases of property, plant and equipment	(1,752)	(1,278)	(2,901)
Disposal of property, plant and equipment	6	35	264
Interest received	157	50	147
Net cash used in investing activities	(2,145)	(2,186)	(4,308)
Cash flows from financing activities			
Dividends paid	(1,591)	(1,307)	(2,049)
Issue of equity shares	385	555	809
Shares purchased by EBT	(600)	(484)	(484)
Shares sold by EBT	596	484	484
Interest paid	(59)	(50)	(110)
Net cash used in financing activities	(1,269)	(802)	(1,350)
Net increase in cash and cash equivalents	8,659	4,024	11,308
Cash and cash equivalents at the beginning of the period	62,454	51,125	51,125
Effect of foreign exchange rate changes	16	11	21
Cash and cash equivalents at the end of the period	71,129	55,160	62,454

Notes Forming Part of the Consolidated Financial Statements

1. Reporting entity

Advanced Medical Solutions Group plc ("the Company") is a public limited company incorporated and domiciled in England and Wales (registration number 2867684). The Company's registered address is Premier Park, 33 Road One, Winsford Industrial Estate, Cheshire, CW7 3RT.

The Company's Ordinary Shares are traded on the AIM market of the London Stock Exchange plc. The consolidated financial statements of the Company for the 12 months ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the design, development and manufacture of surgical and advanced woundcare products for sale into the global medical device market.

2. Basis of preparation

The information for the year ended 31 December 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters of emphasis without qualifying the report and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The individual financial statements for each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each Group company are expressed in Pounds Sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

3. Accounting policies

The same accounting policies, presentations and methods of computation are followed in the condensed set of Financial Statements as applied in the Group's latest annual audited Financial Statements. No new or revised standards adopted in the current period have had a material impact on the Group's Financial Statements, including IFRS 9 financial instruments. IFRS 15 Revenue arising from contracts with customers was adopted in 2017.

The Group will adopt IFRS 16 'Leases' on 1 January 2019. IFRS 16 provides a single model for leases which recognises a right of use asset and lease liability for all leases which are longer than one year or which are not classified as low value. The most significant impact will be that the Group's land, buildings and car leases will be recognised on the balance sheet. The Group has completed initial impact assessments and anticipates adopting the modified retrospective approach permitted under IFRS 16 with no restatement of comparative information.

The unaudited condensed set of Financial Statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union. These condensed interim accounts should be read in conjunction with the annual accounts of the Group for the year ended 31 December 2017. The annual Financial Statements of Advanced Medical Solutions Group plc are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

4. Earnings per share

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 £'000	(Audited) Year ended 31 December 2017 £'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	10,768	9,111	20,134
Number of shares	'000	'000	'000
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	212,836	210,838	211,563
Effect of dilutive potential Ordinary Shares: share options, deferred share bonus, LTIPs	3,057	2,942	2,760
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	215,893	213,780	214,323

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

Diluted EPS is calculated on the same basis as basic EPS but with the 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.

Notes Forming Part of the Consolidated Financial Statements continued

4. Earnings per share continued

Adjusted earnings per share

Adjusted EPS is calculated after adding back amortisation of acquired intangible assets and is based on earnings of:

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 £'000	(Audited) Year ended 31 December 2017 £'000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	10,768	9,111	20,134
Amortisation of acquired intangible assets	40	94	134
Earnings excluding amortisation of acquired intangible assets	10,808	9,205	20,268

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

	(Unaudited) Six months ended 30 June 2018 pence	(Unaudited) Six months ended 30 June 2017 pence	(Audited) Year ended 31 December 2017 pence
Adjusted basic EPS	5.08p	4.37p	9.58p
Adjusted diluted EPS	5.01p	4.31p	9.46p

The adjusted diluted EPS information is considered to provide a fairer representation of the Group's trading performance.

5. Segment information

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, corporate assets, head office expenses, income tax assets and the Group's external borrowings. These are the measures reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

Business segments

The principal activities of the Business Units are as follows:

Branded

Selling, marketing and innovation of the Group's branded products either sold directly by our sales teams or by distributors.

OEM

Distribution, marketing and innovation of the Group's products supplied to medical device partners under their brands and the distribution of bulk materials to medical device partners and converters.

Segment information about these Business Units is presented below:

Six months ended 30 June 2018 (unaudited)	Branded £'000	OEM £'000	Consolidated £'000
Revenue	30,060	17,561	47,621
Result			
Segment result	9,903	3,914	13,817
Unallocated expenses			(281)
Profit from operations			13,536
Finance income			157
Finance costs			(59)
Profit before tax			13,634
Tax			(2,866)
Profit for the period			10,768

5. Segment information continued

At 30 June 2018 (unaudited) Other information	Branded £'000	OEM £'000	Consolidated £'000
Capital additions:			
Software intangibles	20	38	58
Development	279	219	498
Property, plant and equipment	1,319	433	1,752
Depreciation and amortisation	(653)	(839)	(1,492)
Balance sheet			
Assets			
Segment assets	122,852	54,929	177,781
Unallocated assets			61
Consolidated total assets			177,842
Liabilities			
Segment liabilities	10,861	5,693	16,554
Consolidated total liabilities			16,554
Six months ended 30 June 2017 (unaudited)	Branded £'000	OEM £'000	Consolidated £'000
Revenue ⁶ (restated)	27,440	18,686	46,126
Result			
Segment result	7,936	3,724	11,660
Unallocated expenses			(248)
Profit from operations			11,412
Finance income			50
Finance costs			(50)
Profit before tax			11,412
Tax			(2,301)
Profit for the period			9,111
At 30 June 2017 (unaudited) Other information	Branded £'000	OEM £'000	Consolidated £'000
Capital additions:			
Software intangibles	612	10	622
Development	271	100	371
Property, plant and equipment	591	652	1,243
Depreciation and amortisation	(664)	(787)	(1,451)
Balance sheet			
Assets			
Segment assets	113,873	42,039	155,912
Unallocated assets			103
Consolidated total assets			156,015
Liabilities			
Segment liabilities	10,153	6,856	17,009
Consolidated total liabilities			17,009

Notes Forming Part of the Consolidated Financial Statements continued

5. Segment information continued

Year ended 31 December 2017 (audited)	Branded £'000	OEM £'000	Consolidated £'000
Revenue	55,244	41,664	96,908
Result			
Segment result	14,336	11,354	25,690
Unallocated expenses			(450)
Profit from operations			25,240
Finance income			147
Finance costs			(110)
Profit before tax			25,277
Tax			(5,143)
Profit for the year			20,134
At 31 December 2017 (audited)			
Other Information	Branded £'000	OEM £'000	Consolidated £'000
Capital additions:			
Software intangibles	715	243	958
Development	425	435	860
Property, plant and equipment	1,563	1,338	2,901
Depreciation and amortisation	(1,192)	(1,790)	(2,982)
Balance sheet			
Assets			
Segment assets	112,057	56,580	168,637
Unallocated assets			81
Consolidated total assets			168,718
Liabilities			
Segment liabilities	10,406	5,876	16,282

Geographical segments

The Group operates in the UK, Germany, the Netherlands, the Czech Republic, with a sales office located in Russia and a sales presence in the USA. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services, based upon location of the Group's customers:

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 (restated) ⁶ £'000	(Audited) Year ended 31 December 2017 £'000
United Kingdom	9,190	7,768	17,266
Germany	9,653	9,951	19,062
Europe excluding United Kingdom and Germany	10,957	11,358	22,939
United States of America	16,060	16,082	35,330
Rest of World	1,761	967	2,311
	47,621	46,126	96,908

5. Segment information continued

The following table provides an analysis of the Group's total assets by geographical location.

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 £'000	(Audited) Year ended 31 December 2017 £'000
United Kingdom	107,561	89,352	98,305
Germany	64,604	61,904	65,212
Europe excluding United Kingdom and Germany	5,193	4,197	4,743
United States of America	484	562	458
	177,842	156,015	168,718

6. Financial Instruments' fair value disclosures

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts.

The Group held the following financial instruments at fair value at 30 June 2018. The Group has no financial instruments with fair values that are determined by reference to significant unobservable inputs i.e. those that would be classified as level 3 in the fair value hierarchy, nor have there been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

The following table details the forward foreign currency contracts outstanding as at the period end:

	Ave. exchange rate		Foreign currency		Fair value	
	30 June 2018 USD:£1	31 Dec 2017 USD:£1	30 June 2018 USD'000	31 Dec 2017 USD'000	30 June 2018 £'000	31 Dec 2017 £'000
Cash flow hedges						
Sell US dollars						
Less than 3 months	1.284	1.382	7,500	8,500	163	(132)
3 to 6 months	1.282	1.369	7,300	6,500	187	(39)
7 to 12 months	1.374	1.283	15,900	14,800	(343)	693
Over 12 months	1.443	1.289	20,000	5,900	(955)	277
			50,700	35,700	(948)	799

	Ave. exchange rate		Foreign currency		Fair value	
	30 June 2018 EUR:£1	31 Dec 2017 EUR:£1	30 June 2018 EUR'000	31 Dec 2017 EUR'000	30 June 2018 £'000	31 Dec 2017 £'000
Cash flow hedges						
Sell Euros						
Less than 3 months	1.146	1.215	650	1,000	(8)	(66)
3 to 6 months	1.134	1.177	1,150	1,100	(7)	(46)
7 to 12 months	1.115	1.138	1,560	1,800	5	(29)
Over 12 months	1.109	–	2,240	–	3	–
			5,600	3,900	(7)	(141)

7. Taxation

The weighted average tax rate for the Group, for the six month period ended 30 June 2018 was 20.7% (first half of 2017: 21.4%, year ended 31 December 2017: 21.9%). The Group's effective tax rate for the full year is expected to be 21.0%, which has been applied to the six months ended 30 June 2018 (first half of 2017: 20.2%, year ended 31 December 2017: 20.4%) after the impact of some disallowable expenditure offset to some extent by the application of patent box and research and development tax relief.

Notes Forming Part of the Consolidated Financial Statements continued

8. Dividends

	(Unaudited) Six months ended 30 June 2018 £'000	(Unaudited) Six months ended 30 June 2017 £'000	(Audited) Year ended 31 December 2017 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2016 of 0.62p per Ordinary Share	–	1,307	1,307
Interim dividend for the year ended 31 December 2017 of 0.35p per Ordinary Share	–	–	742
Final dividend for the year ended 31 December 2017 of 0.75p per Ordinary Share	1,591	–	–
	1,591	1,307	2,049

9. Contingent liabilities

The Directors are not aware of any contingent liabilities faced by the Group as at 30 June 2018 (30 June 2017: Nil, 31 December 2017: Nil).

10. Share capital

Share capital as at 30 June 2018 amounted to £10,672,000 (30 June 2017: £10,606,000, 31 December 2017: £10,632,000). During the period the Group issued 1,317,169 shares in respect of exercised share options, LTIPS, Deferred Annual Bonus Scheme and the Deferred Share Bonus Scheme.

11. Going concern

In carrying out their duties in respect of going concern, the Directors have carried out a review of the Group's financial position and cash flow forecasts for the next 12 months. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the current economic environment.

With regards to the Group's financial position, it had cash and cash equivalents at 30 June 2018 of £71.1 million and a five-year, £30 million, multi-currency, revolving credit facility, obtained in December 2014, with an accordion option under which AMS can request up to an additional £20 million on the same terms. The credit facility is provided jointly by HSBC and The Royal Bank of Scotland PLC. It is unsecured on the assets of the Group and is currently undrawn.

While the current economic environment is uncertain, AMS operates in markets whose demographics are favourable, underpinned by an increasing need for products to treat chronic and acute wounds. Consequently, market growth is predicted. The Group has a number of long-term contracts with customers across different geographic regions and also with substantial financial resources, ranging from government agencies through to global healthcare companies.

After taking the above into consideration, the Directors have reached the conclusion that the Group is well placed to manage its business risks in the current economic environment. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

12. Principal risks and uncertainties

Further detail concerning the principal risks affecting the business activities of the Group is detailed on pages 32 and 33 of the Annual Report and Accounts for the year ended 31 December 2017. There have been no significant changes since the last annual report.

13. Seasonality of sales

There are no significant factors affecting the seasonality of sales between the first and second half of the year.

14. Events after the Balance Sheet date

There has been no material event subsequent to the end of the interim reporting period ended 30 June 2018.

15. Copies of the interim results

Copies of the interim results can be obtained from the Group's registered office at Premier Park, 33 Road One, Winsford Industrial Estate, Winsford, Cheshire, CW7 3RT and are available on our website "www.admedsol.com".

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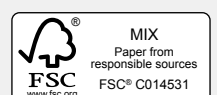
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Advanced Medical Solutions Group plc

Registered Office:

Premier Park, 33 Road One
Winsford Industrial Estate
Winsford, Cheshire, CW7 3RT

Company Number: 2867684

Tel: +44 (0)1606 863500

Fax: +44 (0)1606 863600

e-mail: info@admedsol.com

Web: www.admedsol.com