

ABCAM PLC

Full year results for the 12 months ended 30 June 2019

Continued growth from in-house innovation; revenue doubled in last five years
Long-term plan incorporates investment to achieve revenue of £450-500m by FY24

Cambridge, UK: Abcam plc ("Abcam" or "the Group", AIM: ABC), a global leader in the supply of life science research tools, today announces its preliminary results for the 12 months ended 30 June 2019.

SUMMARY PERFORMANCE

	Reported				Adjusted ²		
	2018/19 £m	2017/18 £m	Growth	CER ¹ growth	2018/19 £m	2017/18 £m	Growth
Revenue	259.9	233.2	11.4%	9.2%	259.9	233.2	11.4%
Gross profit margin, %	70.5%	69.9%	+60bps		70.5%	69.9%	+60bps
EBITDA ²	84.3	81.7	3.2%		92.4	88.3	4.6%
Operating profit	56.1	68.8	(18.5)%		83.6	81.3	2.8%
Profit Before Tax (PBT)	56.4	69.1	(18.4)%		83.9	81.6	2.8%
Diluted earnings per share (EPS) (pence)	21.8p	30.2p	(27.8)%		32.6p	32.4p	0.6%
Annual dividend per share (pence)	12.13p	12.00p	1.1%		12.13p	12.00p	1.1%

FINANCIAL HIGHLIGHTS

- Total revenue up 11.4% on a reported basis and 9.2% on a constant exchange rate (CER) basis¹
- Gross margin up 60 basis points to 70.5%, benefiting from an increasing mix of in-house products
- EBITDA margin of 32.4% (2017/18: 35.0%), with Adjusted EBITDA margin² of 35.6% (2017/18: 37.9%), reflect planned strategic investments in the business
- Operating profit margin of 21.6% (2017/18: 29.5%), after a £12.8m non-cash impairment charge relating to historic Enterprise Resource Planning (ERP) development costs. Adjusted operating profit margin² of 32.2% (2017/18: 34.9%)
- Reported PBT declined to £56.4m (2017/18: £69.1m). Adjusted PBT grew 2.8% to £83.9m
- Reported diluted EPS was 21.8p whilst adjusted diluted EPS grew 0.6% to 32.6p
- Net cash inflow from operating activities of £70.2m (2017/18: £63.3m)
- Proposed final dividend of 8.58p (2017/18: 8.58p), taking the proposed total annual dividend to 12.13 pence per share, an increase of 1.1%

STRATEGIC & OPERATIONAL HIGHLIGHTS

- All product categories growing above underlying market rates and all strategic performance targets achieved:
 - Recombinant antibody revenue growth (CER) of +22.4% (vs. target 20%+)
 - Immunoassay product revenue growth (CER) of +21.9% (vs. target 20%+)
 - 12-month rolling transactional Net Promotor Score (tNPS) of 59%³ (vs. target 57-67%)
- Continued in-house innovation, with in-house product revenue growth of 13.6% (CER) and the introduction of the Group's 18,000th recombinant antibody
- Further enhancements made to product quality through knockout validation, recombinant antibodies, and other initiatives to improve quality
- Ongoing development of our addressable market in Custom Products and Licensing (CP&L), with 57 new agreements entered into with biopharmaceutical and diagnostic partners and over 160 custom projects completed during the year
- Implemented the financial and non-stock procurement modules of our global ERP system
- Successfully relocated to our new global headquarters in Cambridge, UK

NEW FIVE-YEAR PLAN AND LONG-TERM OUTLOOK TO 2023/24

- New five-year plan targeting revenue of £450-500m in 2023/24, with an accelerating growth rate expected over the life of the plan
- 2023/24 Adjusted Operating Profit margin expected to reach low-thirties %, dependent on the phasing of investment in strategic initiatives
- Plan encompasses a series of further strategic operational and capital investments to remove constraints to growth and realise market opportunities
 - Total capital expenditure over period expected to be £175-225m
- Targeting pre-tax Adjusted Return on Capital Employed (ROCE) of above 18% in 2023/24

2019/20 OUTLOOK⁴

- Trading performance year to date is in line with the Board's expectations;
- Targeting total revenue of £288-294m, equivalent to constant currency revenue growth of 9-11%;
- Anticipated Adjusted Operating² Profit margin of 25-28%, dependent on the phasing of strategic investments
 - Equivalent Adjusted EBITDA margin of 32-35%
- Total estimated capital expenditure in the region of £30-50m, including IT transformation

Alan Hirzel, Abcam's Chief Executive Officer, said:

"Our dedication to customer needs, team performance and our long-term investment perspective has helped Abcam to achieve sustained growth and expand its reach and influence over the last five years. Today, we are in a better position than ever before to pursue opportunities to continue to invest in, build and grow a successful global company."

"We are reassured that there is more to do and excited about the future prospects for our industry and our business. We are eager to enter a new phase of growth in the coming five years to extend further our impact on research discovery and clinical applications to improve patient lives."

Analyst and investor webcast and conference call:

A conference call and webcast will be held for analysts and investors today at 10.00am (UK time). For details of the conference call and webcast, and to register, please visit www.abcampc.com/investors/reports-presentations

Notes:

1. Constant currency results (CER) are calculated by applying prior period's actual exchange rates to this period's results.
2. These preliminary results include discussion of alternative performance measures which are defined in further detail in note 9. These measures include adjusted financial measures, which are explained in note 1(c) and reconciled to the most directly comparable measure prepared in accordance with IFRS in note 3 to the financial information. Further detail on the Group's financial performance is set out in the financial information and notes thereto.
3. In November 2018, the Company appointed a new tNPS survey partner. As a consequence, the mechanism by which customer feedback is obtained changed and resulted in a tNPS outcome that is approximately 10% lower than under the previous mechanism.
4. 2019/20 outlook based on the following budgeted foreign exchange rates to Pound Sterling: USD: 1.27; EUR: 1.12; RMB: 8.72; JPY: 134.0. All guidance is provided on a post IFRS16 basis

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

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This announcement, including any information included or incorporated by reference in this announcement, may contain forward-looking statements (including words such as 'believe', 'expect', 'estimate', 'intend', 'anticipate' and words of similar meaning) which are based upon current expectations and assumptions regarding anticipated developments and other factors affecting Abcam. All statements other than statements of historical facts may be forward-looking statements and should not be treated as guarantees of future performance. These forward-looking statements involve risks and uncertainties, many of which are beyond the control of Abcam, and there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements speak only as at the date of this announcement and accordingly undue reliance should not be placed on such statements. Abcam does not assume any obligation to, and does not intend to, revise or update these forward-looking statements, except as required pursuant to applicable law.

Chairman's statement

I am pleased to report that Abcam has made good progress, both financially and strategically, over the past twelve months. We have continued to successfully implement our growth strategy whilst strengthening the organisation's underlying capabilities to deliver further growth in the future.

Financial performance

We are pleased to report a 11.4% increase in revenue to £259.9m (2017/18: £233.2m), representing growth of 9.2% on a constant currency (CER) basis and an increase in adjusted profit before tax of 2.8% to £83.9m (2017/18: £81.6m).

On a reported basis, profit before tax declined by 18.4% to £56.4m (2017/18: £69.1m), predominantly due to a non-cash impairment charge of £12.8m relating to historical costs associated with the ERP system. Free Cash Flow increased to £34.3m (2017/18: £26.8m) and we ended the year with net cash of £87.1m (2017/18: £90.2m) after investing close to £50m on acquisitions, R&D and major capital projects.

Implementing our strategy to sustain profitable growth: Five-year plan to 2023/24

Investment in the business over the last five years, which has seen us deliver on our strategy and generate significant value to our shareholders, has laid the foundation for growth in 2019/20 and beyond, as well as highlighting numerous new opportunities.

To ensure we can take full advantage of these opportunities and remove constraints to growth, the Board conducted an in-depth review of our strategy and investment plans during the year. This resulted in a new five-year plan being developed, which provides for an increase in the pace of investment over the medium-term.

The investment will see us increase our capacity for innovation and new product development, improve our IT infrastructure and global supply chain to meet the demands of a global business and enhance our digital platform and capabilities, improving our customers' experience.

Thoughtful partnerships and acquisitions can accelerate this trend and we are confident that these organic and inorganic investments will drive further growth and value for shareholders over the coming years.

Dividend

The Group's strong balance sheet and cash generation capability has allowed the Directors to propose an increase in the dividend for the year. Subject to approval at the AGM on 13 November 2019, the Board proposes to pay a final dividend of 8.58 pence (2017/18: 8.58 pence) per share. Together with the interim dividend of 3.55 pence per share paid on 12 April, this makes a total dividend for the year of 12.13 pence (2017/18: 12.00 pence) per share, representing an increase of 1.1% compared to last year. If approved, the final dividend will be payable on 29 November 2019 to shareowners of record at the close of business on 8 November 2019. The ex-dividend date is 7 November 2019.

Board changes and governance

Following a rigorous recruitment process for a Non-Executive Director, Giles Kerr was appointed to the Board in December 2018. Giles brings extensive experience as both an Executive and Non-Executive Director. His appointment strengthens the Abcam Board as he brings experience of life sciences, finance and first-hand understanding of our academic research customers.

On 19 July 2019 Gavin Wood notified the Board of his intention to step down at the end of his notice period, or when we appoint a successor. The Board appreciates the work Gavin has achieved in the previous three years but recognises his desire to be closer to his family in Oxford.

On 6 September 2019 Sue Harris notified the Board that she would not be seeking re-election at the 2019 AGM. Sue has played an important role in chairing the Audit and Risk Committee to high standards over the last five years. The Board thanks her for support in performing this critical leadership role.

Abcam remains committed to high standards of governance and continues to comply with almost every principle and provision of the UK Corporate Governance Code. In addition, we maintain a robust framework of systems and controls to maintain high standards throughout the Company, more details of which can be found in the Directors' report.

The Board strongly believes that effective corporate governance assists us in the delivery of our corporate strategy, the sustainable generation of shareholder value and the safeguarding of our stakeholders' long-term interests.

Recognition and thanks

Finally, I would like to pay tribute to our colleagues around the world for their continued dedication and hard work, as well as our customers, suppliers, business partners and shareholders for their continued support over the last year.

Peter Allen

Chairman

CEO's review and operational report

The life science industry is vibrant, with increased research funding and capital investment supporting collaborative and global discovery networks.

Those research discovery networks – spanning genomics, epigenetics, proteomics and metabolomics – are converting physical biology into data at an unprecedented rate at a time when we are approaching unconstrained computing power. The insights from this data are not fully realised, and yet this progress is already producing rapid advances in scientific discovery and improving patient lives. Indeed, we expect the impact of the endeavours of researchers today to redefine how we will be treated in the future.

In this context we are proud of the role Abcam plays in serving scientists and the success for our company. We have achieved a great deal in the five years since the launch of our invest-to-grow strategy in 2014. Our commitment to product innovation, quality and our customers has seen us strengthen our position in our core markets and provide greater choice to researchers through the addition of new product lines. In doing so, we have doubled our revenue and delivered strong returns to our shareholders.

Driven by our purpose and with the confidence in our ability to sustain success, we have taken the opportunity to review our plans for the next phase of Abcam's development and growth. It is an exciting time for our industry, and we believe we are ideally positioned to increase our influence and impact whilst creating further value for our stakeholders.

Serving science; sustaining growth

Abcam exists to pursue two aims. The first is to realise our purpose: to serve life scientists to achieve their mission, faster. The second is to build a sustainable enterprise that creates value for all stakeholders and makes it possible for us to do more at a greater scale and wider impact.

As we seek to realise these aims, we take a multi-decade view of our strategy and objectives. Abcam's work to support customers on the cutting edge of discovery today, is the seedbed for improvements to human health and lifestyles ten to twenty years from now. With two decades behind us, we are now at a point where researchers know they can trust our capabilities and quality to accelerate the impact they will have on patients' lives.

A dedicated team delivering for customers

Our more than 1,150 colleagues around the world are vital to the delivery of our purpose and the continued success of our business. I am proud of what they have accomplished in 2019. Together, we successfully implemented our growth strategy to become a stronger partner for our customers. For our team, we continued to enhance our culture to be an even better place to work. And for our shareholders, we have delivered a solid financial performance, positioning our company for an exciting future.

As our global impact and influence continues to grow, it encourages each of us to keep improving what we do for science and how we build our business. Everything we do is anchored in the belief that customers provide the urgency and direction for our business. It is this belief that drives us forward in our efforts to build a culture and implement a strategy that ensures we continue to delight our customers, develop our team and execute against our plans, at all times acting with responsibility and integrity.

Our performance in 2019

We delivered another solid financial performance in 2018/19, with total revenue growth of 11.4% on a reported basis and 9.2% on a constant currency basis. On a reported basis, Catalogue revenue rose 12.0% to £242.8 million whilst Custom Products & Licensing revenue rose 4.3% to £17.1 million.

Adjusted profit before tax rose 2.8% to £83.9m, whilst reported profit before tax decreased to £56.4m (2017/18: £69.1m) due mainly to the non-cash impairment charge of £12.8m relating to historical costs

associated with the ERP system. We continue to be highly cash generative, with net cash inflow from operating activities of £70.2m (2017/18: £63.3m). Return on capital employed remained above 20%.

Sustained positive catalogue revenue growth came from continuing to gain share in each of our global markets. This part of our business is maintaining growth at approximately twice market rates. The drivers of this growth arose from our success in expanding our quality product range in recombinant antibodies and continuing to build out immunoassays as a new business line.

Whilst our overall revenue growth was impacted by Custom Products and Licensing (CP&L), two observations give us confidence we are on the right track for this part of our business:

1. The "Abcam Inside" strategy is working – that is, allowing our products to be used by partners beyond research in the development of clinical products that will help patients across the globe. In 2018/19 we executed 57 agreements with diagnostic and biopharmaceutical organisations that have the potential to lead to new diagnostic tools and completed over 160 projects; and
2. It is still early in the development of the economic model. For the full year the increase in revenue from licenses, royalties and supply agreements (contributing approximately 70% of CP&L revenue) was offset by a decline in revenue generated from custom projects.

Our successes, as well as our strength in customer engagement, are seen most clearly in our strategic performance indicators where the business achieved each of the targets it set out at the start of the year:

Strategic Performance Indicators	2018/19 target	Actual
Recombinant antibody product revenue growth ¹	>20%	22%
Immunoassay revenue growth ¹	>20%	22%
Customer engagement: transactional NPS	57-67%	59% ²

¹ Constant exchange rate

² In November 2018, the Company appointed a new tNPS survey partner. As a consequence of this, the mechanism by which customer feedback is obtained changed and resulted in a tNPS outcome that is approximately 10% lower than under the previous mechanism.

Alongside delivery of our strategic goals, I am pleased with the successful accomplishment of many business building objectives for the year, including the following select highlights:

- Introduction of our 18,000th in-house recombinant antibody to the market;
- Successfully launched several projects and partnerships with biopharma and diagnostic customers that have the potential to take discoveries beyond research and into products that will help patients across the globe ("Abcam Inside"), including:
 - o Licensed our Pan-TRK antibody (clone EPR1734) for use in Roche Diagnostics' IHC kit for N-TRK gene fusion positive cancers;
 - o Licensed a second PD-L1 antibody (clone 73-10) in Leica's BOND platform;
 - o Entered into a partnership with NanoString Technologies to supply Abcam's recombinant monoclonal antibodies for the GeoMx Digital Spatial Profiler platform; and
 - o Entered a strategic agreement with Qiagen (Suzhou) to co-develop companion diagnostic and in-vitro diagnostic reagents and kits for the Chinese market
- Expanded and enhanced our executive leadership team with the addition of Dr Cheri Walker as SVP of Corporate Development and Jac Price as SVP of Supply Chain and Manufacturing;
- Acquired and integrated Calico Biolabs, enhancing our antibody capabilities and expanding our recombinant antibody portfolio.
- Implemented an award-winning all-employee share ownership scheme;
- Successfully moved into our new global headquarters in Cambridge, UK, on budget and without disruption to customers; and
- Completed the transition of our financial and non-stock procurement operations to our cloud-based ERP platform.

Upgrading our IT systems

With the installation of the latest modules of our global ERP system, we have concluded the programme that initiated in 2015/16 to provide more scalable back-office systems at Abcam. Many global functional

areas have been improved by the programme including process and data management in Human Resources, Customer Experience, Finance, and non-stock Procurement. We are already seeing benefits to scale, better data and better controls from these changes.

Manufacturing and Warehouse Management remain functional areas not yet addressed by this IT upgrade programme. Following an extensive review of business requirements and the current state of Oracle Cloud software as well as other best-in-class software providers, we have decided to make some changes to the approach and software used in these areas.

As we also look to improve our customers' end-to-end experience, including our website, it would be a missed opportunity to address these areas discretely. Accordingly, we intend to integrate improvements in the remaining functional areas with enhancements to our front-end system to further improve our customers' overall experience.

Removing constraints and increasing the potential of our business

We are now five years into the strategy set out in 2014, which included the following five strategic objectives to guide our business activities and deliver efficient growth:

- Sustain antibody and digital marketing leadership;
- Expand in related growth markets;
- Invest in operating capabilities to double our scale;
- Sustain attractive economics; and
- Supplement organic growth through acquisitions and partnerships.

In the five years since, we have achieved much in the pursuit of those goals. Today, Abcam is the top cited company for approximately 40% of the two thousand protein targets most studied in global academic research, up from 22% in 2013 (source CiteAb). We have doubled the revenue of the business, successfully launched adjacent product lines that our customers need, invested in our people, processes and operations and delivered healthy returns to our shareholders.

Whilst it is tempting to pause and celebrate our past, and I am certainly proud of what the team has accomplished, I prefer to look at the company as if we were just getting started. We have a backlog of attractive ideas to grow our sales and global influence whilst creating value for shareholders, customers and other stakeholders.

When we talk about our business strategy and what it will take to remove constraints and do more, we focus on two main elements: converting ideas to innovation and scaling up efficiently to sustain growth.

Converting ideas to innovation: As the percentage of Abcam's total revenue from products developed internally (including CP&L) has grown from approximately 12% at the time of the Company's IPO in 2005 to almost 50% today, the nature of how we innovate has changed considerably. Abcam's scientific skills have grown exponentially in that period. Today, our main constraint tends to be putting the right scientific and commercial teams in place to bring new ideas successfully to market.

Scaling up to sustain efficient growth: This is Abcam's capacity as an organisation to scale efficiently, grow and lead successful change; both in bringing innovation to market and in business building. As a high growth business this capacity is always constrained, with solutions that may have worked in the past requiring rapid improvement or replacement.

Investing in our future: new five-year plan to 2024

The fundamentals of our business are strong, and the medium- and long-term prospects of our markets are attractive. As a result, we are challenging ourselves to increase our rate of investment to accelerate the implementation of initiatives that will allow us to seize more of the market opportunities for growth. These initiatives and our investment priorities are focused on the following long-term goals, representing our three-pillar strategy for sustainable growth:

1. Sustain and extend antibody and digital leadership

- Antibody innovation and validation: supporting the creation of best-in-class binders to high value targets, pathways and research areas; and
- E-commerce and digital: Our website, search engine optimisation and data have been a major strategic advantage. We now see opportunities to make step changes to improve the customer experience and enhance our competitive position over the next five years.

2. Drive continued expansion into complementary market adjacencies

- Immunoassays: further development of our proprietary portfolio of high-performance products;
- Proteomic reagent innovation: extending our proprietary offering in adjacent life science reagents where doing so will also strengthen our antibody development capabilities, for example in recombinant proteins, cell lines and lysates, and imaging and multiplexing consumables; and
- 'Abcam Inside': building our reputation and leveraging our unique capabilities as an antibody discovery partner for biopharmaceutical and diagnostic organisations.

3. Build organisational scalability and sustain value creation

- Removing operational constraints to growth: including replacing the final areas of legacy IT systems, automation at process bottlenecks, simplification of our global facilities footprint and enhancement of our talent; and
- Realising operational improvements and efficiencies.

At the same time, we will continue to focus on the selective pursuit of acquisitions to supplement our organic growth and fill capability gaps. We are excited by the potential impact on biomedical research, human health and the financial returns these investments will have over the long term.

Updated Strategic Performance Indicators, new long-term and 2019/20 outlook

Updated Strategic Performance Indicators

Aligned to these plans, we have revised our strategic performance indicators moving into 2019/20 to reflect the strategic direction of the business and our updated goals:

Strategic Performance Indicator	2019/20 target
Catalogue revenue growth from in-house products ¹	12 – 15%
Customer engagement: transactional NPS	54 – 60%

¹ At constant exchange rates

Long-term outlook to 2023/24:

We are also providing the following long-term outlook which demonstrates our focus on growing our businesses while continuing to aim for attractive margins and returns:

Financial Metric	2023/24 Outlook
Revenue	£450 - 500m ¹
Adjusted operating profit margin ^{3,4}	Low-thirties %
Pre-tax Adjusted ROCE ³	>18%+
Total FY2020-24 Capex ⁴	£175 – 225m

¹ At constant exchange rates

² With an accelerating level of growth through the period

³ Proforma for impact for IFRS16

⁴ Contingent upon the phasing of existing plans and future projects

2019/20 Outlook

The new financial year has started in line with our expectations and for the full year we currently expect revenues to be between £288–294m, equivalent to a constant currency growth rate of approximately 9–11%. Whilst profit margins over the next few years will be partially dependent on the phasing of investment behind our plans, we anticipate our adjusted operating profit margin in 2019/20 to be 25 – 28% as a result of planned scaling and growth investments, whilst capital expenditure is expected to be £30–50m.

Looking forward

The dynamics of the markets we serve remain positive. The investments we have made and will continue to make are enabling Abcam to sustain profitable growth and achieve the strategic and financial targets we have set for ourselves.

I am confident that the investments we are making will generate long-term value for our shareholders whilst helping us serve life scientists around the world to achieve their mission, faster.

Alan Hirzel

Chief Executive Officer

CFO Report and Financial Review

The CFO's Report and Financial Review includes discussion of alternative performance measures which are defined further in the Notes to the Preliminary Financial Information. These measures include adjusted financial measures, which are explained in note 1b and reconciled to the most directly comparable measure prepared in accordance with IFRS in note 3. Further detail on the Group's financial performance is set out in the Preliminary Financial Information and notes thereto.

Constant exchange rates ("CER") growth is calculated by applying the applicable prior period average exchange rate to the Group's actual performance in the respective period.

Summary of 2018/19 Performance

The following table summarises the Group's performance for each of the last two years on a reported and adjusted basis.

	Reported Results			Adjusted Results		
	Year ended 30 June			Year ended 30 June		
	2019 £m	2018 £m	Growth	2019 £m	2018 £m	Growth
Revenue	259.9	233.2	11.4%	259.9	233.2	11.4%
Gross profit	183.2	163.0	12.4%	183.2	163.0	12.4%
Gross profit margin (%)	70.5%	69.9%		70.5%	69.9%	
EBITDA	84.3	81.7	3.2%	92.4	88.3	4.6%
EBITDA margin (%)	32.4%	35.0%		35.6%	37.9%	
Depreciation and Amortisation	(15.4)	(12.9)	19.4%	(8.8)	(7.0)	25.7%
Impairment	(12.8)	–		–	–	
Operating profit	56.1	68.8	(18.5%)	83.6	81.3	2.8%
Operating profit margin (%)	21.6%	29.5%		32.2%	34.9%	
Net finance income	0.3	0.3		0.3	0.3	
Profit before Tax	56.4	69.1	(18.4%)	83.9	81.6	2.8%
Taxation	(11.4)	(6.9)	65.2%	(16.5)	(14.9)	10.7%
Profit after Tax	45.0	62.2	(27.7%)	67.4	66.7	1.0%
Earnings per share						
Basic earnings per share	22.0p	30.5p	(27.9%)	32.9p	32.7p	0.6%
Diluted earnings per share	21.8p	30.2p	(27.8%)	32.6p	32.4p	0.6%
Annual Dividend per share	12.13p	12.00p	1.1%	12.13p	12.00p	1.1%
Net cash at end of period	87.1	90.2	(3.4%)	87.1	90.2	(3.4%)
Return on Capital Employed	14.0%	18.8%		20.8%	22.2%	

2018/19 performance

I am pleased to report that Abcam delivered another solid financial performance in the year and at the same time we have continued to execute our long-term 'invest-to-grow' strategy. Revenues grew 11.4% to £259.9m (CER 9.2%), and after gross margin expanded by 60 basis points, benefiting from an increasing mix of in-house products, gross profit grew by £20.2m or 12.4%, to £183.2m (2017/18: £163.0m).

After planned strategic investments made during the year, Adjusted EBITDA rose £4.1m or 4.6% to £92.4m (2017/18: £88.3m), representing an Adjusted EBITDA margin of 35.6% (2017/18: 37.9%). Adjusted operating profit rose £2.3m to £83.6m, equivalent to an Adjusted operating profit margin of 32.2%, whilst diluted earnings per share (adjusted EPS) grew 0.6% to 32.6p. In 2019/20 the Group's Adjusted operating profit margin is expected to be in the mid- to high-twenties, dependent on the phasing of our strategic

investment plans, before returning to the high-twenties to low-thirties range by the end of the next five-year period.

On a reported basis EPS declined 27.8% to 21.8p, predominantly reflecting the impairment charge relating to historical work on the Group's Oracle Cloud ERP system, following a detailed review of this programme undertaken during the year.

The Group continues to be highly cash generative, with net cash generated from operating activities of £70.2m (2017/18: £63.3m) whilst returns on capital remain healthy, at over 20% (adjusted-ROCE). The Group ended the year with cash of £87.1m and during the year entered into a Revolving Credit Facility (RCF) of £200m with a £100m additional Accordion option, providing additional financial flexibility for future acquisitions. In March 2019, the Board declared an interim dividend of 3.55 pence per share and has proposed a final dividend of 8.58 pence per share, equating to total annual dividends of 12.13 pence for the year (2017/18: 12.00 pence).

Investing to increase scalability and sustain our growth

During the year we invested further in our Oracle Cloud ERP system and successfully went live with Oracle Fusion Finance and non-stock Procurement modules on time and within the budget set at the start of this financial year. Whilst we are early in the post go-live phase of the implementation of these modules, I am confident they will provide us with the ability to grow and scale more efficiently in these areas in the future.

We successfully completed another major capital project when we moved into our new Global Headquarters in Cambridge, UK. Again, I am pleased to report that this multi-year project was completed in line with the budget and the move was completed without any disruption to our customers or operations.

In Autumn 2018, we launched a new global, all employee share scheme ("Abshares") and this has been well received by our colleagues around the world. Finally, in March 2019, we opened a new distribution centre in the Netherlands as part of our Brexit contingency planning that has quickly become an integral part of our global supply chain.

Accounting Standards

During the year, the Group has applied certain changes in accounting standards. These were (i) IFRS 9, Financial Instruments: Classification and Measurement (ii) IFRS 15, Revenue from Contracts with Customers. Their adoption has not had a financial impact on our results.

In addition, the Group has evaluated the impact of the changes of IFRS 16, Leases, which is effective from 1 July 2019. The Group has conducted a review of its lease contracts and based on the leases in place at 30 June 2019 expects a decrease in net assets of £2.1m on transition at 1 July 2019. A right-of-use asset of £69.9m will be recognised as of 1 July 2019 with a corresponding lease liability of £75.8m. For the year to 30 June 2020, we expect operating profit to increase by approximately £1m offset by an increase in interest expense within finance costs of approximately £1m as a result of the adoption of IFRS 16.

Looking forward

The fundamentals of the business remain strong and we remain committed to delivering against our long-term growth strategy. The addressable markets we serve are large, at over \$8bn, and growing. The returns on our core business are good and we expect to make healthy returns on the incremental investments we are making in our long-term future. We therefore believe that the best use of our capital is to redeploy it in the business to drive incremental growth as well as in selected acquisitions that advance our strategy.

This position is reflected in our five-year plans and financial goals, incorporating a planned expansion of investment in the implementation of initiatives that will allow us to seize more of the market opportunities for growth we see around us, thereby sustaining our long-term growth potential, enabling us fulfil our purpose of serving life scientists to achieve their mission, faster, and generating long-term value for all our stakeholders.

Financial Review

Revenue

	Reported revenue		Increase in reported revenue	CER growth
	2018/19 £'m	2017/18 £'m		
Catalogue regional split:				
The Americas	101.3	88.5	14.5%	10.3%
EMEA	66.4	62.6	6.1%	6.0%
China	39.8	33.0	20.6%	20.9%
Japan	16.8	16.2	3.7%	0.0%
Rest of Asia Pacific	18.5	16.5	12.1%	10.0%
Catalogue revenue sub-total	242.8	216.8	12.0%	9.8%
Custom Products & Licensing (CP&L) revenue¹	17.1	16.4	4.3%	0.4%
Total reported revenue	259.9	233.2	11.4%	9.2%
Catalogue product split:				
Primary and secondary antibodies	193.2	174.5	10.7%	8.7%
of which Recombinant antibodies	59.1	48.0	23.1%	22.4%
Other products²	49.6	42.3	17.3%	14.7%
of which Immunoassay products	18.5	15.0	23.3%	21.9%
Catalogue revenue sub-total	242.8	216.8	12.0%	9.8%

¹ Includes royalty income, custom services, IHC/IVD and licensing revenue

² Includes kits, assays, proteins, peptides, lysates and biochemical (AAAI) products

Total reported revenues for the year increased by 11.4% to £259.9m. Sterling was weaker against the basket of foreign currencies in which the Group trades which positively impacted our reported revenues. Adjusting for this weakening in Sterling, CER revenue growth was 9.2%.

Catalogue revenue grew by 12.0% on a reported basis and 9.8% CER. From a product perspective, the key drivers of growth were Recombinant antibodies, which grew 23.1% to £59.1m (22.4% at CER), and Immunoassays, which grew 23.3% (21.9% at CER) to £18.5m. Together, these categories contributed 32.0% (2017/18: 29.1%) of Catalogue sales.

Regionally, China continued to be our fastest growing major market, with revenue up 20.6% (20.9% CER) to £39.8m, contributing 16.4% of Catalogue revenue. Americas and Rest of Asia Pacific performed well, delivering double-digit growth in the period, whilst EMEA sales grew by 6.1%. Japan rose 3.7% on a reported basis but was flat on a CER basis, reflecting market wide challenges in that country.

Custom Products & Licensing (CP&L), comprising revenue from custom antibody development services, in vitro-diagnostic (IVD)/ immunohistochemistry (IHC) sales and royalty and licence income, continues to remain an area of focus and investment for the Group, but remains relatively early in its development. Full year revenues increased by 4.3% (0.4% CER) to £17.1m (2017/18: £16.4m), with an increase in revenue from royalties, licenses and IVD supply agreements (contributing approximately 70% of CP&L revenue) partially offset by a decline in revenue generated from custom services due to the timing and phasing of certain projects.

Gross margin

Reported gross margin increased by 60 basis points to 70.5% (2017/18: 69.9%) in the year, predominantly due to the increasing contribution of Catalogue sales from higher margin products. We anticipate further gradual improvements to gross margin over time, driven by continued product mix and productivity improvements to our manufacturing sites as we introduce more automation.

Operating costs and expenses

	Reported			Adjusted ¹		
	2018/19 £m	2017/18 £m	% Change	2018/19 £m	2017/18 £m	% Change
Selling, general & administrative expenses	112.1	78.2	43.4%	88.9	69.8	27.4%
Research and development expenses	15.0	16.0	(6.3%)	10.7	11.9	(10.0%)
Total operating costs and expenses	127.1	94.2	34.9%	99.6	81.7	21.9%
Depreciation and Amortisation	(15.4)	(12.9)	19.4%	(8.8)	(7.0)	25.7%
Impairment	(12.8)	–	–	–	–	–
Total operating costs and expenses excluding Depreciation and Amortisation	98.9	81.3	21.6%	90.8	74.7	21.6%
Share-based compensation	6.5	3.4	91.2%	6.5	3.4	91.2%

¹ Details of items excluded from reported costs and expenses are provided in Adjusting Items below and in note 3 of the financial information

Selling, general & administrative (SG&A) expenses

On a reported basis, after the impact of the year-on-year movement in exchange rates and including the impairment charge of £12.8m, expenses increased by £33.9m or 43.4%. On an adjusted basis SG&A expenses rose by 27.4%.

Included in the year-on-year movement in reported SG&A expenses are the following key items:

- £9.2m increase in costs relating to further investment in teams to support the Group's growth plans, including a £2.6m increase in non-cash share-based compensation to £5.5m;
- £4.8m increase in premise related costs, reflecting the move to the new Global headquarters during the year. This figure includes £3.7m of dual rent and other moving costs which are excluded from adjusted profit, (as detailed in note 3 in the Preliminary Financial Information);
- A net £11.2m increase in costs associated with the work performed on the Oracle Cloud ERP project, to £17.3m (2017/18: £6.1m) including a £12.8m impairment charge (see Investment in systems, processes and infrastructure for further detail);
- £2.9m year-on-year foreign exchange related increase owing to the relative weakness of Sterling. This comprises £1.0m of costs denominated in the currency of the Group's overseas entities (which, when translated into weaker Sterling results in higher charges to expenses), £1.3m of year-on-year net costs from forward selling currency contracts and £0.6m of translational currency impacts.

Within reported expenses, depreciation and amortisation expenses increased by £1.9m in the year to £8.2m, including £2.2m related to the amortisation of acquisition intangibles (2017/18: £1.8m). The Group's amortisation and depreciation expense is expected to increase in 2019/20, reflecting the annualisation of charges associated with the finance and non-stock procurement ERP modules and the Group's UK headquarters. The depreciation charge will also be impacted in 2019/20 as a result of accounting changes required by the introduction of IFRS16 (as described on page 18 of the Preliminary Financial Information).

Research & development expenditure (R&D)

R&D expenditure relates to the development of new products, as well as costs incurred in identifying and implementing production process improvements. We continue to focus on developing new products to serve our customer's needs as well as improving the quality of our existing catalogue. These costs do not meet the requirements to be capitalised as an intangible asset and are therefore expensed through the income statement.

Reported R&D expenses decreased by £1.0m or 6.3%, to £15.0m (2017/18: £16.0m), as a result of the successful completion of key technology milestones on the AxiomX platform which resulted in £2.7m of R&D costs being capitalised this year. Overall, capitalised R&D costs rose by £3.7m to £8.0m (2017/18: £4.3m) and also include £1.0m of non-cash share-based compensation charge.

R&D-related depreciation and amortisation charges were £0.6m higher in the year, at £7.2m, including £4.3m related to the amortisation of acquisition intangibles (2017/18: £4.1m) which are excluded from adjusted costs. The amortisation of acquisition intangibles predominantly relates to the acquisition of Epitomics in 2012.

Investment in systems, processes and infrastructure

We continued to invest in our people, IT systems, infrastructure and business processes during the year to enable operational scalability as the Group continues to grow. Major areas of investment in the year included:

Enterprise Resource Planning (ERP) programme

In 2018/19 the Finance and Non-stock procurement modules of the Oracle Cloud ERP programme were implemented in line with the estimated cost of approximately £16m set out at the start of the year, comprising capital expenditure of £11.6m (2017/18: £17.5m) and operating costs of £4.5m (2017/18: £6.1m). In addition, depreciation charges relating to the ERP of £1.0m were incurred in the year, including £0.5m relating to the Finance and Non-stock procurement modules implemented at the end of April 2019.

With the installation of these latest modules and following a detailed review of the project, we have taken the decision to conclude the programme that initiated in 2015/16 to provide improved and more scalable back-office systems. Over the course of this programme we have successfully implemented Oracle in a number of functional areas including Human Resources, Customer Experience, Finance and Non-stock Procurement. Manufacturing and Warehouse Management remain functional areas not yet addressed by this IT programme. After an extensive review of business requirements and the current functionality of Oracle Cloud software as well as other best-in-class software providers, we have decided to make some changes to our approach and the software used in these areas. We have also taken this opportunity to extend the scope of the programme to integrate improvements in these functional areas with front-end system enhancements to improve the customer's end-to-end experience from website, through logistics and ultimately into manufacturing. The design phase of this new programme is underway.

As a result of the changes in the scope and nature of the programme and the usability of historical work performed, software development costs capitalised to date of £12.8m, have been impaired.

New global headquarters, Cambridge, UK

Construction of the Group's new headquarters on the Cambridge Biomedical Campus was completed during the year and we moved in without disruption to our customers or operations during February 2019. Final capitalised costs of £8.4m were incurred in 2018/19, bringing the total capital cost of the project to £23.6m, in-line with the original budget set at the start of this project. Depreciation costs of £0.4m relating to building were taken during the year, reflecting five months of occupancy.

Adjusting Items

	2018/19 £m	2017/18 £m
System and process improvement costs	(4.5)	(6.1)
Costs associated with the new Group headquarters	(3.7)	(0.3)
Acquisition costs	—	(0.2)
Amortisation of acquisition intangibles	(6.5)	(5.9)
Impairment of capitalised system and process improvement costs	(12.8)	—
Total adjusting items affecting operating profit before tax	(27.5)	(12.5)

System and process improvement costs related to our Oracle Cloud ERP project decreased by £1.6m in the year to £4.5m. In addition, as discussed in the 'Investment in systems, processes and infrastructure' section above, following proposed changes to the approach and nature of the ERP programme, an impairment charge of £12.8m has been made against assets relating to historical development work.

The Group also incurred £3.7m in dual rent and other costs relating to the move to the Group's new headquarters in Cambridge, UK.

Earnings and tax

Reported earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) was £84.3m (2017/18: £81.7m). Adjusted EBITDA rose 4.6% to £92.4m (2017/18: £88.3m), representing an adjusted EBITDA margin of 35.6% (2017/18: 37.9%).

After the non-cash impairment charge of £12.8m and depreciation and amortisation of £15.4m (2017/18: £12.9m), reported operating profit was £56.1m (2017/18: £68.8m).

Profit Before Tax (PBT) on a reported basis was £56.4m (2017/18: £69.1m). This was after net finance income of £0.3m (2017/18: £0.3m). Adjusted PBT was £83.9m (2017/18: £81.6m).

The Group's reported effective tax rate was 20.2% (2017/18: 10.0%) and has increased due to the non-reoccurrence of one-off impacts of US tax reforms in the prior year. The effective rate on adjusted profits was 19.7% (2017/18: 18.3%) with the increase mainly due to adjustments related to the disposal of assets from the Group's former UK Headquarters. Notwithstanding further tax changes in the jurisdictions in which we operate, the effective rate is expected to be around 17% to 18% in the medium-term, predominantly resulting from the anticipated reduction in the UK corporate tax rate to 17% from April 2020.

Basic earnings per share (EPS) was 22.0p (2017/18: 30.5p), with adjusted basic EPS of 32.9p (2017/18: 32.7p). Diluted Earnings Per Share (EPS) was 21.8p (2017/18: 30.2p). Adjusted diluted EPS increased by 0.6% to 32.6p (2017/18: 32.4p).

Foreign exchange

The results of the Group are impacted by movements in foreign exchange rates, particularly movements in Sterling against the US Dollar, Euro and Chinese Renminbi. In 2019, the impact of foreign exchange movements in the year was £5.2m favourable in revenue and £2.4m in adjusted EBITDA, after the impact of hedging.

Cash flow and net cash

	2018/19 £m	2017/18 £m
Operating cash flows before working capital	88.2	81.0
Change in working capital	(4.5)	(8.1)
Cash generated from operations	83.7	72.9
Income taxes paid	(13.5)	(9.6)
Net cash inflow from operating activities	70.2	63.3
Cash outflow of investing activities	(49.9)	(37.7)
Cash outflow from financing activities	(24.7)	(20.6)
(Decrease) / Increase in cash and cash equivalents	(4.4)	5.0
Cash and cash equivalents at beginning of year	90.2	84.8
Effect of foreign exchange rates	1.3	0.4
Cash and cash equivalents at end of the year	87.1	90.2
Free Cash Flow⁽¹⁾	34.3	26.8

(1) Free Cash Flow comprises net cash generated from operating activities less net capital expenditure and cash flows relating to committed capital expenditure

The Group remains strongly cash generative, with cash inflow from operating activities of £70.2m (2017/18: £63.3m) and Free Cash Flow of £34.3m (2017/18: £26.8m), after change in working capital of £4.5m.

Cash outflow on investing activities of £49.9m (2017/18: £37.7m) included £11.8m in relation to the 2018 acquisition of the exclusive license agreement from Roche, £2.8m relating to the acquisition of Calico Biolabs and net capital expenditure of £35.9m. Major capital expenditure items included £13.1m and £9.6m on the Oracle Cloud ERP and new Group headquarters, respectively, as well as £6.2m on laboratory equipment to support future product innovation and £7.8m Internally developed technology, predominantly novel recombinant antibodies.

After net cash outflows from financing activities of £24.7m, relating to dividend payments, together with a small foreign exchange impact, the Group ended the year with closing cash of £87.1m (2017/18: £90.2m).

Balance sheet

Goodwill and Intangibles

Goodwill was £120.9m (2017/18: £114.2m) with the increase relating to exchange rate movements and the acquisition of Calico Biolabs.

Intangible assets were £106.7m (2017/18: £106.3m). Spend of £11.6m in respect of investments made in our new ERP system and £8.0m relating to the additions from internal development of the Group's product range were offset by the impairment charge against the historical capitalised costs of the ERP system of £12.8m, amortisation of £10.6m and exchange rate movements.

Property, plant and equipment

Property, plant and equipment additions of £16.8m (2017/18: £18.3m) have been made in the year, comprising £8.4m (2017/18: £13.5m) associated with the construction of our new Group headquarters and £8.4m of other investments (2017/18: £4.8m). These other investments include £6.5m spent on laboratory equipment and testing assets across our sites in the UK, the US and China.

Trade and other payables

Trade and other payables were £41.8m (2017/18: £45.8m) with the decrease due to the reduction of £11.8m in other payables arising from settlement of deferred consideration on the Spring Bioscience acquisition made in 2017/18, offset by an increase in accruals and future contract liabilities of £8.3m, inclusive of rent accruals on the Group's new headquarters.

Dividends

The Board declared an interim dividend of 3.55 pence per share which was paid to shareholders on 12 April 2019. The Board has proposed a final dividend of 8.58 pence per share, taking the total dividend for the year to 12.13 pence per share, a 1.1% increase on the previous year and equating to approximately £24.9m. The final dividend is subject to shareholder approval at the forthcoming AGM. If approved, the final dividend will be payable on 29 November 2019 to shareholders of record at the close of business on 8 November 2019. The ex-dividend date is 7 November 2019.

The Group has an established track record of consistently generating cash which is expected to continue for the foreseeable future. The ability of the Group to make dividend payments is determined by the availability of distributable retained earnings and liquid cash resources as well as the requirements for these to be held at the Company level. At 30 June 2019, the Company held retained earnings of £268.6m, the majority of which is distributable. The Group has cash resources of £87.1m at 30 June 2019, of which £57.9m was held by the Company.

Gavin Wood

Chief Financial Officer
6 September 2019

Consolidated income statement

For the year ended 30 June 2019

	Note	Year ended 30 June 2019			Year ended 30 June 2018		
		Adjusted* £m	Adjusting items* £m	Total £m	Adjusted* £m	Adjusting items* £m	Total £m
Revenue	2	259.9	—	259.9	233.2	—	233.2
Cost of sales		(76.7)	—	(76.7)	(70.2)	—	(70.2)
Gross profit		183.2	—	183.2	163.0	—	163.0
Selling, general and administrative expenses		(88.9)	(23.2)	(112.1)	(69.8)	(8.4)	(78.2)
Research and development expenses		(10.7)	(4.3)	(15.0)	(11.9)	(4.1)	(16.0)
Operating profit		83.6	(27.5)	56.1	81.3	(12.5)	68.8
Finance income		0.6	—	0.6	0.3	—	0.3
Finance costs		(0.3)	—	(0.3)	—	—	—
Profit before tax		83.9	(27.5)	56.4	81.6	(12.5)	69.1
Taxation	4	(16.5)	5.1	(11.4)	(14.9)	8.0	(6.9)
Profit for the year attributable to the owners of the parent		67.4	(22.4)	45.0	66.7	(4.5)	62.2
Earnings per share							
Basic earnings per share (pence)	5	32.9p		22.0p	32.7p		30.5p
Diluted earnings per share (pence)	5	32.6p		21.8p	32.4p		30.2p

* Adjusted figures exclude costs associated with the new Group headquarters, systems and process improvement costs including impairment, amortisation of acquired intangibles, acquisition costs, the tax effect of adjusting items, significant tax adjustments in respect of new US tax legislation. Such excluded items are described as "adjusting items". Further information on these items is shown in note 3.

Consolidated statement of comprehensive income

For the year ended 30 June 2019

	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m
Profit for the year	45.0	62.2
Items that may be reclassified to profit or loss in subsequent years		
Movement on cashflow hedges	(1.7)	0.2
Exchange differences on translation of foreign operations	7.0	(1.8)
Movement in fair value of investment	(0.1)	(0.1)
Tax relating to components of other comprehensive income	0.3	—
Other comprehensive (loss) / income for the year	5.5	(1.7)
Total comprehensive income for the year	50.5	60.5

Consolidated balance sheet

As at 30 June 2019

	30 June 2019 £m	30 June 2018 £m
Non-current assets		
Goodwill	120.9	114.2
Intangible assets	106.7	106.3
Property, plant and equipment	37.1	25.1
Investment	0.8	0.9
Deferred tax asset	9.4	8.4
	274.9	254.9
Current assets		
Inventories	36.0	29.6
Trade and other receivables	43.1	39.3
Current tax receivable	5.4	—
Derivative financial instruments	0.2	0.8
Cash and cash equivalents	87.1	90.2
	171.8	159.9
Total assets	446.7	414.8
Current liabilities		
Trade and other payables	(41.8)	(45.8)
Derivative financial instruments	(2.0)	(0.5)
Current tax liabilities	(1.5)	(2.7)
	(45.3)	(49.0)
Net current assets	126.5	110.9
Non-current liabilities		
Deferred tax liability	(16.5)	(14.0)
Derivative financial instruments	(0.1)	(0.1)
	(16.6)	(14.1)
Total liabilities	(61.9)	(63.1)
Net assets	384.8	351.7
Equity		
Share capital	0.4	0.4
Share premium	27.0	25.6
Merger reserve	68.1	68.1
Own shares	(2.8)	(3.2)
Translation reserve	33.3	26.3
Hedging reserve	(1.3)	0.1
Retained earnings	260.1	234.4
Total equity attributable to the owners of the parent	384.8	351.7

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Share capital £m	Share premium account £m	Merger reserve £m	Own shares £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 July 2017	0.4	23.9	68.1	(3.6)	28.1	(0.1)	190.3	307.1
Profit for the year	-	-	-	-	-	-	62.2	62.2
Other comprehensive income	-	-	-	-	(1.8)	0.2	(0.1)	(1.7)
Total comprehensive income	-	-	-	-	(1.8)	0.2	62.1	60.5
Issue of ordinary shares	-	1.7	-	0.4	-	-	(0.5)	1.6
Share-based payments inclusive of deferred tax	-	-	-	-	-	-	4.7	4.7
Purchase of own shares	-	-	-	-	-	-	(0.1)	(0.1)
Equity dividends	-	-	-	-	-	-	(22.1)	(22.1)
Balance as at 30 June 2018	0.4	25.6	68.1	(3.2)	26.3	0.1	234.4	351.7
Profit for the year	-	-	-	-	-	-	45.0	45.0
Other comprehensive income	-	-	-	-	7.0	(1.4)	(0.1)	5.5
Total comprehensive income	-	-	-	-	7.0	(1.4)	44.9	50.5
Issue of ordinary shares	-	1.4	-	0.4	-	-	(0.4)	1.4
Share-based payments inclusive of deferred tax	-	-	-	-	-	-	6.3	6.3
Purchase of own shares	-	-	-	-	-	-	(0.2)	(0.2)
Equity dividends	-	-	-	-	-	-	(24.9)	(24.9)
Balance as at 30 June 2019	0.4	27.0	68.1	(2.8)	33.3	(1.3)	260.1	384.8

Consolidated cash flow statement

For the year ended 30 June 2019

	Year ended 30 June 2019	Year ended 30 June 2018
	£m	£m
Operating profit for the year	56.1	68.8
Adjustments for:		
Depreciation of property, plant and equipment	4.8	4.5
Amortisation of intangible assets	10.6	8.4
Impairment of intangible assets	12.8	—
Derivative financial instruments at fair value through profit or loss	0.4	(0.7)
Loss on disposal of property, plant and equipment	—	0.2
Research and development expenditure credit	(1.9)	(3.1)
Share-based payments charge	6.5	3.4
Unrealised currency translation gains	(1.1)	(0.5)
Operating cash flows before movements in working capital	88.2	81.0
Increase in inventories	(6.1)	(5.8)
Increase in receivables	(6.1)	(5.7)
Increase in payables	7.7	3.4
Cash generated from operations	83.7	72.9
Net income taxes paid	(13.5)	(9.6)
Net cash inflow from operating activities	70.2	63.3
Investing activities		
Investment income	0.6	0.3
Purchase of property, plant and equipment	(17.7)	(16.4)
Purchase of intangible assets	(22.7)	(21.0)
Transfer of cash from escrow in respect of future capital expenditure	4.5	0.9
Net cash outflow arising from acquisitions	(14.6)	(1.5)
Net cash outflow from investing activities	(49.9)	(37.7)
Financing activities		
Dividends paid	(24.9)	(22.1)
Proceeds on issue of shares	1.4	1.6
Facility arrangement fees	(0.9)	—
Interest paid	(0.1)	—
Purchase of own shares	(0.2)	(0.1)
Net cash outflow from financing activities	(24.7)	(20.6)
(Decrease) / increase in cash and cash equivalents	(4.4)	5.0
Cash and cash equivalents at beginning of year	90.2	84.8
Effect of foreign exchange rates	1.3	0.4
Cash and cash equivalents at end of year	87.1	90.2
Free Cash Flow	34.3	26.8

(I) Within cash and cash equivalents is £0.4m of cash relating to employee contributions to the new Group share option scheme 'AbShare' which is reserved for the purpose of purchasing shares upon vesting.

(II) Free Cash Flow comprises those items marked * and comprises net cash generated from operating activities less net capital expenditure and transfer of cash from/(to) escrow in respect of future capital expenditure.

Notes to the Preliminary Financial Information

For the year ended 30 June 2019

1. Presentation of the financial statements

a) Basis of preparation

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and extracts from the notes to the financial statements for the year ended 30 June 2019 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRS issued by the International Accounting Standards Board and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information incorporates the results of the Company and its subsidiary undertakings.

The preliminary financial information has been presented in Sterling and on the historical cost basis, except for the revaluation of certain financial instruments.

The financial information does not constitute statutory accounts within the meaning of Sections 434 to 436 of the Companies Act 2006, but are derived from those accounts. Statutory accounts for the financial year ended 30 June 2018 have been filed with the Registrar of Companies and those for the financial year ended 30 June 2019 were approved by the Board of directors on 6 September 2019 and will be delivered in due course. The auditor has reported on those accounts, their report was unqualified and did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

b) Adjusted performance measures

Adjusted performance measures are used by Directors in their review of the business and exclude certain cash and non-cash items which they believe are not reflective of the normal course of business of the Group. The Directors believe that disclosing such non-IFRS measures enables a reader to isolate and evaluate the impact of such items on results and allows for fuller understanding of performance from year to year. Adjusted performance measures may not be directly comparable with other similarly titled measures used by other companies. These measures are defined in further detail together with an explanation of the reasons for their use in note 7. A detailed reconciliation between reported and adjusted measures is presented in note 3 which also lists out the adjusting items individually.

c) IFRS 16 'Leases' (effective from the Group's 2019/20 financial year).

IFRS 16 supersedes IAS 17 'Leases' and has been endorsed by the European Union. The most significant changes are in relation to lessee accounting. Under IFRS 16 the lessee will recognise a right-of-use asset and a lease liability for all leases currently accounted for as operating leases, with the exception of leases for a short period (less than 12 months) or the underlying asset value is low.

IFRS 16 will have a significant impact on the primary financial statements, including an impact on the operating profit, profit before tax, total assets and total liabilities lines.

The Group intends to take advantage of the modified retrospective transition method whereby the lease liability is recognised as the present value of future payments on transition and the asset is recognised as the present value of the total lease payments at the lease inception and then depreciated on a straight-line basis from this date. As such a transition adjustment is generated due to the difference between the value of the asset and liability. The current transition assessments, detailed below, are based on a weighted average incremental borrowing rate of 1.58%, which in turn takes advantage of the practical expedient on transition to apply a single discount rate to groups of leases with similar risk profiles. As such a single discount rate has been applied to leases in each country in which the Group operates.

The Group has conducted a review of its lease contracts and based on the leases in place at 30 June 2019 expects a decrease in net assets of £2.1m on transition at 1 July 2019. This is the combination of a £5.9m decrease driven by the recognition of liabilities over asset values offset by the release of deferred rent accruals and prepayments of £3.8m. In the years post transition, there would also be an impact on the Group's income statement as the fixed rental expense is replaced by a depreciation charge and an interest expense. This will lead to an increase of approximately £1m in operating profit as a result of removing the operating lease expense net of the new leased asset depreciation charge. The overall impact to the Group's reported profit after tax is expected to be immaterial with a small net decrease in the initial years after transition which will reverse in later years as the leases in existence at transition come closer to ending.

d) Going concern

The Group meets its day-to-day working capital requirements from the cash surpluses generated as a result of normal trading. In considering going concern, the Directors have reviewed the Group's forecasts and projections, taking account of reasonably possible changes in trading performance. These show that the Group should be able to operate within the limits of its available resources.

Accordingly, the directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future and at least one year from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing its consolidated financial statements.

2. Operating segments

Products and services from which reportable segments derive their revenues

The Directors consider that there is only one core business activity and there are no separately identifiable business segments which are engaged in providing individual products or services or a group of related products and services which are subject to separate risks and returns. The information reported to the Group's Chief Executive Officer, who is considered the chief operating decision maker, for the purposes of resource allocation and assessment of performance is based wholly on the overall activities of the Group. The Group has therefore determined that it has only one reportable segment, which is 'sales of antibodies and related products'. The Group's revenue and assets for this one reportable segment can be determined by reference to the Group's income statement and balance sheet.

The Group has no individual product or customer which contributes more than 10% of its revenues.

Geographical information

Revenues are attributed to countries based on customers' location. The Group's revenue from external customers and information about its non-current segment assets (excluding deferred tax and derivative financial instruments) is set out below:

	Revenue		Non-current assets	
	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m	As at 30 June 2019 £m	As at 30 June 2018 £m
US	115.6	97.4	169.9	165.2
China	39.9	33.1	3.8	3.2
Japan	16.9	16.4	0.1	0.1
UK	13.6	13.6	91.3	77.9
Germany	15.2	13.4	—	—
Other countries	58.7	59.3	0.4	0.1
	259.9	233.2	265.5	246.5

Revenue by type is shown below:

	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m
Catalogue revenue	242.8	216.8
Custom products and licensing revenue*	17.1	16.4
	259.9	233.2

*Includes custom services, IVD/IHC, royalties and license income.

3. Adjusted Performance Measures

A reconciliation of the Group's adjusted performance measures to the reported IFRS measures is presented below:

	Year ended 30 June 2019			Year ended 30 June 2018		
	Adjusted £m	Adjusting items £m	Total £m	Adjusted £m	Adjusting items £m	Total £m
EBITDA*	92.4	(8.1)	84.3	88.3	(6.6)	81.7
Depreciation and amortisation	(8.8)	(19.4)	(28.2)	(7.0)	(5.9)	(12.9)
Operating profit	83.6	(27.5)	56.1	81.3	(12.5)	68.8
Finance income	0.6	—	0.6	0.3	—	0.3
Finance costs	(0.3)	—	(0.3)	—	—	—
Profit before tax	83.9	(27.5)	56.4	81.6	(12.5)	69.1
Tax	(16.5)	5.1	(11.4)	(14.9)	8.0	(6.9)
Profit for the period	67.4	(22.4)	45.0	66.7	(4.5)	62.2

* EBITDA = Earnings before interest, tax, depreciation and amortisation

	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m
Analysis of adjusting items		
Affecting EBITDA		
System and process improvement costs	(i) (4.5)	(6.1)
Costs associated with the new group headquarters	(ii) (3.6)	(0.3)
Acquisition costs	-	(0.2)
	(8.1)	(6.6)
Affecting depreciation and amortisation		
System and process improvement costs - Impairment	(iii) (12.8)	—
Costs associated with new Group headquarters	(ii) (0.1)	—
Amortisation of acquisition related intangible asset	(iv) (6.5)	(5.9)
	(19.4)	(5.9)
Affecting operating profit and profit before tax	(27.5)	(12.5)
Affecting tax		
Tax effect of adjusting items	5.3	2.8
Tax benefit arising from new US tax legislation	(0.2)	5.2
Total adjusting items	(22.4)	(4.5)

(i) Comprises costs of the ERP implementation which do not qualify for capitalisation.

(ii) Relates to costs associated with the new Group headquarters. Depreciation relates to assets prior to occupation of the building and being brought into use.

(iii) The strategic ERP project is a complex, multiyear global business transformation with numerous phases extending across multiple Group functions. Following achievement of the most recent implementation milestone, a review was undertaken of historical expenditure incurred to date on outstanding modules to assess whether each element remains appropriate to the business's needs. In addition, whether the work undertaken to date on each module remains usable going forwards was subject to further scrutiny, judgement and challenge. Following the review, it has been concluded that as a result of changes in the scope and nature of the programme and the corresponding usability of historical work performed, software assets of £12.8m have been impaired.

(iv) £4.3m (2018: £4.1m) of amortisation of acquisition intangibles is included within research and development expenses, with the remaining £2.2m (2018: £1.8m) included within selling, general and administrative expenses.

4. Taxation

	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m
Current tax	9.9	14.4
Deferred tax	1.5	(7.5)
Total income tax charge	11.4	6.9
Adjusted income tax charge*	16.5	14.9

*Adjusted income tax charge excludes the tax effects of adjusting items and the impact on tax arising from new US tax legislation, both of which are set out in note 3.

The effective tax rate on reported profits is 20.2% (2018: 10.0%) and has increased mainly due to the non-reoccurrence of one-off impacts of the US tax reforms (in particular the revaluation of deferred tax balances associated with the Group's acquired intangible assets which impacted the 2018 rate). The effective rate on adjusted profits is 19.7% (2018: 18.3%).

The UK corporation tax rate for the year was 19.0% (2018: 19.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

From April 2020, the UK corporate tax rate will reduce to 17.0% in line with Finance Act 2016. This 17.0% rate continues to be applied in the deferred tax valuations based on the expected timing of when such assets and liabilities will be recovered.

5. Earnings per share

The calculation of the basic and diluted EPS, shown below the income statement, is based on the following data:

	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m
Earnings		
Profit attributable to equity shareholders of the parent – adjusted	67.4	66.7
Adjusting items (note 3)	(22.4)	(4.5)
Profit attributable to equity shareholders of the parent – reported	45.0	62.2
	Million	Million
Number of shares		
Weighted average number of ordinary shares in issue	205.4	204.8
Less ordinary shares held by Equiniti Share Plan Trustees Limited	(0.5)	(0.6)
Weighted average number of ordinary shares for the purposes of basic EPS	204.9	204.2
Effect of potentially dilutive ordinary shares: Share options and awards	1.8	1.6
Weighted average number of ordinary shares for the purposes of diluted EPS	206.7	205.8

Basic EPS and adjusted EPS are calculated by dividing the earnings attributable to the equity shareholders of the parent by the weighted average number of shares outstanding during the year. Diluted EPS and adjusted EPS are calculated on the same basis as basic EPS but with a further adjustment to the weighted average number of shares outstanding to assume conversion of all potentially dilutive ordinary shares. Such potentially dilutive ordinary shares comprise 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 year and any unvested shares which have met, or are expected to meet, the performance conditions at the end of the year.

	Year ended 30 June 2019	Year ended 30 June 2018
Basic EPS	22.0p	30.5p
Diluted EPS	21.8p	30.2p
Adjusted basic EPS	32.9p	32.7p
Adjusted diluted EPS	32.6p	32.4p

6. Dividends

	Year ended 30 June 2019 £m	Year ended 30 June 2018 £m
Amounts recognised as distributions to the equity shareholders in the year:		
Final dividend for the year ended 30 June 2017 of 7.355 pence per share	—	15.1
Interim dividend for the year ended 30 June 2018 of 3.420 pence per share	—	7.0
Final dividend for the year ended 30 June 2018 of 8.580 pence per share	17.6	—
Interim dividend for the year ended 30 June 2019 of 3.55 pence per share	7.3	—
Total distributions to owners of the parent in the period	24.9	22.1

The proposed final dividend is subject to approval of the shareholders at the forthcoming AGM and has not been included as a liability in these financial statements.

	Year ended 30 June 2019 £m
Proposed final dividend for the year ended 30 June 2019 of 8.580 pence per share	17.6

7. Alternative performance measures

The Group's performance is assessed using a number of financial measures which are not defined under IFRS and are therefore non-GAAP (or alternative) performance measures. These are set out as follows:

- CER is a measure which allows management to identify the relative year-on-year performance of the business by removing the impact of currency movements which are outside of management's control.
- EBITDA is a metric used to provide an approximation of cash generation from operating activities and is reconciled to its IFRS equivalent profit metric in note 3 to the financial information.
- Margin percentages (which are calculated by dividing the relevant profit figure by revenue) for each of the relevant profit metrics provide management with an insight into relative year on year performance.
- Adjusted profit measures, as described in note 1 (b) to the financial information, are believed by the Directors to enable a reader to obtain a fuller understanding of underlying performance since they exclude items which are not reflective of the normal course of business. Furthermore, such measures are reflective of how performance is measured internally including targets against which compensation is determined. Adjusted profit measures are derived and reconciled to their reported IFRS equivalent on the face of the consolidated income statement as well as in note 3 to the financial information.

Key adjusted income statement measures are: adjusted EBITDA, adjusted operating profit and adjusted profit before tax.

Adjusting items (which are excluded to arrive at adjusted performance measures) are also described on the face of the income statement and in note 3 to the financial information.

- Adjusted earnings per share measures are derived from adjusted profit before tax with the rationale for their use being the same as for adjusted profit metrics and are reconciled to their IFRS equivalent in note 5 to the financial information.
- Free Cash Flow is defined on the face of the consolidated cash flow statement and provides management with an indication of the amount of cash available for discretionary investing or financing after removing capital related items.