CFO Report

The Group has changed its year end to 31 December. As a result, this year's results will present an 18-month accounting period, which ended on 31 December 2021. The comparison to the previously reported 12 months ended 30 June 2020 therefore presents a substantial period-on-period increase due to the longer period of account in the current reporting period and provides little helpful insight into the underlying performance of the business. In order to provide a more useful comparison, this review largely focuses on the comparison of the 12 months ended 31 December 2021 ("CY2021") to the 12 months ended 31 December 2020 ("CY2020").

The audited financial statements in the back of this report contains the statutory results for the 18 months ended 31 December 2021 and a comparison to the year ended 30 June 2020.

The CFO's Report and Financial Review includes discussion of alternative performance measures which are defined further in the Notes to the Consolidated Financial Statements. These measures include adjusted financial measures, which are explained in note 1c 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 audited financial statements 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 Performance

	Reported Results				Adjusted Results			
	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 June 2020 (audited, restated) £m	**12 months ended 31 Dec 2021 (unaudited) £m**	**12 months ended 31 Dec 2020 (unaudited) £m**	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 June 2020 (audited, restated) £m	**12 months ended 31 Dec 2021 (unaudited) £m**	**12 months ended 31 Dec 2020 (unaudited) £m**
Revenue	462.9	260.0	**315.4**	269.3	462.9	260.0	**315.4**	269.3
Gross profit	329.2	180.2	**224.6**	188.5	332.3	180.2	**227.7**	188.5
Gross profit margin (%)	71.1%	69.3%	**71.2%**	70.0%	71.8%	69.3%	**72.2%**	70.0%
Operating profit	24.4	10.4	**7.1**	1.0	95.5	54.0	**60.4**	50.6
Operating profit margin (%)	5.3%	4.0%	**2.3%**	0.4%	20.6%	20.8%	**19.2%**	18.8%
Earnings per share								
Basic earnings/(loss) per share	7.7p	6.0p	**1.9p**	(0.4)p	33.2p	20.5p	**20.8p**	18.0p
Diluted earnings/(loss) per share	7.6p	6.0p	**1.9p**	(0.4)p	32.9p	20.3p	**20.6p**	17.8p
Net (debt)/cash at end of the year	(24.1)	80.9	**(24.1)**	211.9	(24.1)	80.9	**(24.1)**	211.9
Return on Capital Employed	3.1%	1.6%	**0.9%**	0.1%	12.0%	8.3%	**7.6%**	6.6%

Continued strong performance

The Group reported revenue for CY2021 of £315.4m (CY2020: £269.3m), a CER growth rate of 22%. This figure includes a contribution of approximately one percentage point, or £2.6m, from BioVision following the acquisition's completion on 27 October 2021. Growth in revenue from our own, in-house (catalogue) products was 41% (CER) for CY2021, including a four-percentage point contribution from BioVision.

While laboratories continued to relax COVID-19 related restrictions during the period, and data indicates overall lab activity levels increased through 2021, activity had not fully returned to pre-COVID levels by the end of the period due to the emergence of the Omicron variant in late 2021.

Adjusted operating profit (before all share-based payment costs) for CY2021 was up 19%, to £60.4m (CY2020: £50.6m). This equates to an adjusted operating profit margin (excluding share-based payments) of 19.2% (CY2020: 18.8%). After share-based payment charges related to share incentive schemes in force prior to the start of the year, of £12.9m, like-for-like adjusted operating profit was £47.5m, equivalent to an adjusted operating profit margin of 15.1% (CY2020: 13.9%).

Total revenue and adjusted operating profit for the 18 months ended 31 December 2021 was £462.9m and £95.5m respectively. The Group's statutory results for the 18 months ended 31 December 2021 are covered in more detail in our audited financial statements contained herein.

Investing in future growth

Despite the disruption inflicted on our customers and industry by COVID-19, the long-term opportunities for growth across our markets continue to strengthen and, consistent with the strategic plans we set out in November 2019, we have further invested in our business through the period to capture these opportunities. Our global team increased to approximately 1,750 colleagues by the end of 2021 (31 December 2020: 1,600) and, overall, total adjusted operating costs in CY2021 rose 21% to £167.3m. We also committed a further £47m in capital expenditure (net of landlord contributions) during CY2021 to growth and scaling opportunities across the business, including capitalised product innovation, global footprint enhancements – including the opening of our flagship US site in Waltham, Massachusetts – and the implementation of the final stages of our ERP implementation.

Underpinning our invest-to-grow strategy is our robust balance sheet and financial position. Net cash generation from operating activities increased to £62.9m in CY2021 (CY2020: £58.9m) and we ended the period with a small net debt position of £24.1m.

Operational leverage and increased profitability

As expected, over the last two years the Group's profit margins have been suppressed by the effects of both COVID-19 and the implementation of the Group's Five-Year Growth Plan. Many of our major investment plans are now substantially complete, and as we look forward, we expect to see the rate of investment reduce and the resultant delivery of operational leverage as the value of our investments are realised. We are pleased with the progress made over the most recent six-month period, where our adjusted operating margin (excluding share-based payments) was 20.3% as compared to 17.8% for the first six months of CY2021 (or 16.5% in H2 compared to 13.3% in H1 on a 'like-for-like' basis, including share-based payments relating to pre-2021 share plans).

As we look forward, we expect this operating leverage to continue to levels consistent with those levels laid out in our Five-Year Growth Plan, with a goal to reach over 30% in CY2024.

Acquisition of BioVision

In July 2021, we announced the signing of an agreement to acquire BioVision for $340m on a cash-free, debt-free basis. The purchase closed in October 2021, and we are now working on the integration, building on our combined expertise, and enhancing our presence in cell-based and metabolic assays. To support the financing of the acquisition, we drew down approximately £120m on our revolving credit facility in October 2021.

US Nasdaq listing

The Group successfully added a secondary US listing on Nasdaq in October 2020, supplementing its existing admission to trading on the London Stock Exchange's AIM market whilst raising approximately £127m ($180m). The listing supports the Group's plans to enhance liquidity in our shares, attract a greater number of US-based life science and growth investors and provide the Group with an acquisition currency in the US market. We were pleased with the demand for the offering from long-term, life science investors. Interest has grown since, with the number of American Depository Receipts (ADRs) in issue doubling.

The board continues to review options to increase share liquidity, to ensure investor demand is met and intends to consult with shareholders on these options in due course.

Outlook, 2022 guidance and long-term goals to 2024

We have made good progress in many areas during the year and our top line performance has seen good momentum coming out of the pandemic. Whilst short-term returns on our core business have inevitably been reduced by COVID-19 and our investments, I am confident in a continuation of the trajectory we have seen over the last six months, and the potential return our organic and inorganic investments will generate over the medium- and long-term.

CY2022 Guidance

Global lab activity continues to recover, though some uncertainty remains, with trading performance in the first two months of CY2022 in line with our expectations.

For CY2022 overall, we currently estimate total reported revenue to increase by approximately 20% on a constant exchange rate basis, including the impact from the acquisition of BioVision, with organic CER growth of mid-teens. We expect continued adjusted gross margin improvement through CY2022, due to the contribution of higher margin in-house products and the full year effect of BioVision transaction. Total adjusted operating costs (including depreciation and amortisation) are expected to grow at a mid-teens percentage rate, as we slow the rate of investment and leverage our recent investments.

Long-term goals to CY2024

The Group expects to deliver improving operating leverage as the pace of investment graduates. We are increasing our 2024 revenue goal by £25m to £450m-£525m, adjusting to incorporate BioVision and our current operating performance. Our adjusted operating margin and ROCE targets remain unchanged.

This commentary represents management's current estimates and is subject to change. See the Cautionary statement regarding forward-looking statements on page 188 of this Annual Report.

Michael Baldock
CFO

Non-GAAP Alternative Performance Measures (APMs) – Calendar Year Results

Following the change in the Group's accounting reference date to 31 December, management has prepared calendar year results to enable a more consistent like-for-like review of the trading performance of the business. The calendar year results are Alternative Performance Measures and cover the trading periods for the 12 months ended 31 December 2021 (CY2021) compared with the 12 months ended 31 December 2020 (CY2020). The basis of preparation applied to these results is set out below and they are reconciled to the Group's Statutory IFRS Results on pages 142 and 143.

Basis of preparation

The CY2021 results have been derived from the audited IFRS results for the 18 months ended 31 December 2021 (as set out on pages 129, 132 and 156), less the unaudited results for the six months ended 31 December 2020. The CY2020 results have been derived from the audited IFRS results for the 12 months ended 30 June 2020 (as set out on pages 129, 132 and 156), less the unaudited results for the six months ended 31 December 2019, and adding back the unaudited results for the six months ended 31 December 2020.

Consolidated statement of profit and loss for the 12 months ended 31 December

	CY2021 (unaudited)			CY2020 (unaudited)		
£m	Adjusted	Adjusting items	Reported	Adjusted	Adjusting items	Reported
Revenue	**315.4**	**—**	**315.4**	269.3	—	269.3
Cost of sales	**(87.7)**	**(3.1)**	**(90.8)**	(80.8)	—	(80.8)
Gross profit	**227.7**	**(3.1)**	**224.6**	188.5	—	188.5
Selling, general and administrative expenses	**(150.6)**	**(39.1)**	**(189.7)**	(120.6)	(23.9)	(144.5)
Research and development expenses	**(16.7)**	**(11.1)**	**(27.8)**	(17.3)	(25.7)	(43.0)
Operating profit	**60.4**	**(53.3)**	**7.1**	50.6	(49.6)	1.0
Finance income	**0.3**	**—**	**0.3**	0.4	—	0.4
Finance costs	**(2.7)**	**—**	**(2.7)**	(3.6)	—	(3.6)
Profit/(loss) before tax	**58.0**	**(53.3)**	**4.7**	47.4	(49.6)	(2.2)
Tax credit/(charge)	**(10.2)**	**10.5**	**(0.3)**	(8.8)	10.1	1.3
Profit/(loss) for the financial period	**47.2**	**(42.8)**	**4.4**	38.6	(39.5)	(0.9)

Consolidated cashflow statement for the 12 months ended 31 December

£m	CY2021 (unaudited)	CY2020 (unaudited)
Operating cash flows before working capital	**68.2**	63.0
Change in working capital	**4.0**	(7.8)
Cash generated from operations	**72.2**	55.2
Income taxes paid	**(9.3)**	3.7
Net cash inflow from operating activities	**62.9**	58.9
Net cash inflow/(outflow) from investing activities	**(291.5)**	(153.7)
Net cash inflow from financing activities	**111.4**	116.0
Net (decrease)/increase in cash and cash equivalents	**(117.2)**	21.2
Cash and cash equivalents at beginning of period	**211.9**	189.9
Effect of foreign exchange rates	**0.4**	0.8
Cash and cash equivalents at end of the period	**95.1**	211.9
Free Cash Flow*	**6.0**	5.6

* Free Cash Flow comprises net cash generated from operating activities less net capital expenditure, cash flows relating to committed capital expenditure and outflows in respect of lease obligations

Reconciliation of the consolidated statement of profit and loss between the 18-month period ending 31 December 2021 and the 12-month period ending 31 December 2021

	18 months ended 31 December 2021			6 months ended 31 December 2020 (restated)			**12 months ended 31 December 2021 (CY2021)**		
	Adjusted	Adjusting items	Total	Adjusted	Adjusting items	Total	**Adjusted**	**Adjusting items**	**Total**
Revenue	462.9	—	462.9	147.5		147.5	**315.4**		**315.4**
Cost of sales	(130.6)	(3.1)	(133.7)	(42.9)		(42.9)	**(87.7)**	**(3.1)**	**(90.8)**
Gross profit	332.3	(3.1)	329.2	104.6	—	104.6	**227.7**	**(3.1)**	**224.6**
Selling, general and administrative expenses	(211.5)	(51.8)	(263.3)	(60.9)	(12.7)	(73.6)	**(150.6)**	**(39.1)**	**(189.7)**
Research and development expenses	(25.3)	(16.2)	(41.5)	(8.6)	(5.1)	(13.7)	**(16.7)**	**(11.1)**	**(27.8)**
Operating profit	**95.5**	**(71.1)**	**24.4**	**35.1**	**(17.8)**	**17.3**	**60.4**	**(53.3)**	**7.1**
Finance income	0.5	—	0.5	0.2		0.2	**0.3**	**—**	**0.3**
Finance costs	(4.6)	—	(4.6)	(1.9)		(1.9)	**(2.7)**	**—**	**(2.7)**
Profit before tax	**91.4**	**(71.1)**	**20.3**	**33.4**	**(17.8)**	**15.6**	**58.0**	**(53.3)**	**4.7**
Tax credit/(charge)	(16.9)	13.8	(3.1)	(6.1)	3.3	(2.8)	**(10.8)**	**10.5**	**(0.3)**
Profit for the period	**74.5**	**(57.3)**	**17.2**	**27.3**	**(14.5)**	**12.8**	**47.2**	**(42.8)**	**4.4**

Reconciliation of the consolidated statement of profit and loss between the 12-month period ending 30 June 2020 and the 12-month period ending 31 December 2020

	6 months ended 31 December 2020 (restated)			Year ended 30 June 2020 (restated)			6 months ended 31 December 2019 (restated)			**12 months ended 31 December 2020 (CY2020)**		
	Adjusted	Adjusting items	Total	Adjusted	Adjusting items	Total	Adjusted	Adjusting items	Total	**Adjusted**	**Adjusting items**	**Total**
Revenue	147.5	—	147.5	260.0	—	260.0	138.2	—	138.2	**269.3**	**—**	**269.3**
Cost of sales	(42.9)	—	(42.9)	(79.8)	—	(79.8)	(41.9)	—	(41.9)	**(80.8)**	**—**	**(80.8)**
Gross profit	104.6	—	104.6	180.2	—	180.2	96.3	—	96.3	**188.5**	**—**	**188.5**
Selling, general and administrative expenses	(60.9)	(12.7)	(73.6)	(111.5)	(20.0)	(131.5)	(51.8)	(8.8)	(60.6)	**(120.6)**	**(23.9)**	**(144.5)**
Research and development expenses	(8.6)	(5.1)	(13.7)	(14.7)	(23.6)	(38.3)	(6.0)	(3.0)	(9.0)	**(17.3)**	**(25.7)**	**(43.0)**
Operating profit	35.1	(17.8)	17.3	54.0	(43.6)	10.4	38.5	(11.8)	26.7	**50.6**	**(49.6)**	**1.0**
Finance income	0.2	—	0.2	0.7	—	0.7	0.5	—	0.5	**0.4**	**—**	**0.4**
Finance costs	(1.9)	—	(1.9)	(2.8)	—	(2.8)	(1.1)	—	(1.1)	**(3.6)**	**—**	**(3.6)**
Profit before tax	33.4	(17.8)	15.6	51.9	(43.6)	8.3	37.9	(11.8)	26.1	**47.4**	**(49.6)**	**(2.2)**
Tax credit/(charge)	(6.1)	3.3	(2.8)	(9.4)	13.6	4.2	(6.7)	6.8	0.1	**(8.8)**	**10.1**	**1.3**
Profit for the period	27.3	(14.5)	12.8	42.5	(30.0)	12.5	31.2	(5.0)	26.2	**38.6**	**(39.5)**	**(0.9)**

Reconciliation of the consolidated cashflow statement between the 18-month period ending 31 December 2021 and the 12-month period ending 31 December 2021

	18 months ended 31 December 2021	6 months ended 31 December 2020 (restated)	CY2021
Operating cash flows before working capital	108.9	40.7	**68.2**
Change in working capital	(3.6)	(7.6)	**4.0**
Cash generated from operations	105.3	33.1	**72.2**
Income taxes paid	(9.1)	0.2	**(9.3)**
Net cash inflow from operating activities	96.2	33.3	**62.9**
Net cash inflow/(outflow) from investing activities	(313.7)	(22.2)	**(291.5)**
Net cash inflow from financing activities	126.4	15.0	**111.4**
Net (decrease)/increase in cash and cash equivalents	(91.1)	26.1	**(117.2)**
Cash and cash equivalents at beginning of period	187.3	187.3	**211.9**
Effect of foreign exchange rates	(1.1)	(1.5)	**0.4**
Cash and cash equivalents at end of the period	95.1	211.9	**95.1**
Free Cash Flow*	12.6	6.6	**6.0**

Reconciliation of the consolidated cashflow statement between the 12-month period ending 30 June 2020 and the 12-month period ending 31 December 2020

	6 months ended 31 Dec 2020 (restated)	12 months ended 30 June 2020	6 months ended 31 Dec 2019	CY2020
Operating cash flows before working capital	40.7	61.4	39.1	**63.0**
Change in working capital	(7.6)	4.0	4.2	**(7.8)**
Cash generated from operations	33.1	65.4	43.3	**55.2**
Income taxes paid	0.2	(2.4)	(5.9)	**3.7**
Net cash inflow from operating activities	33.3	63.0	37.4	**58.9**
Net cash inflow/(outflow) from investing activities	(22.2)	(148.1)	(16.6)	**(153.7)**
Net cash inflow from financing activities	15.0	184.6	83.6	**116.0**
Net (decrease)/increase in cash and cash equivalents	26.1	99.5	104.4	**21.2**
Cash and cash equivalents at beginning of period	187.3	87.1	87.1	**189.9**
Effect of foreign exchange rates	(1.5)	0.7	(1.6)	**0.8**
Cash and cash equivalents at end of the period	211.9	187.3	189.9	**211.9**
Free Cash Flow*	6.6	19.0	20.0	**5.6**

* Free Cash Flow comprises net cash generated from operating activities less net capital expenditure, cash flows relating to committed capital expenditure and outflows in respect of lease obligations

Financial review

Revenue

	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 Jun 2020 (audited) £m	12 months ended 31 Dec 2021 (unaudited) £m	12 months ended 31 Dec 2020 (unaudited) £m	12 month % Change CER	CY2021 % Split**
Catalogue revenue by region						
The Americas	**163.7**	96.8	**112.4**	95.3	**26%**	38%
EMEA	**121.5**	68.4	**82.3**	73.2	**15%**	28%
China	**84.4**	39.1	**57.1**	42.7	**34%**	19%
Japan	**28.4**	18.8	**18.6**	19.3	**5%**	6%
Rest of Asia Pacific	**34.8**	20.0	**23.4**	21.0	**17%**	8%
Catalogue revenue sub-total*	**432.8**	243.1	**293.8**	251.5	**22%**	100%
In-house catalogue revenue*	**245.0**	114.4	**171.5**	128.8	**39%**	58%
Third-party catalogue revenue	**187.8**	128.7	**122.3**	122.7	**4%**	42%
Custom products and services	**8.4**	6.3	**5.7**	5.7	**6%**	30%
IVD	**8.9**	4.7	**6.3**	5.9	**15%**	33%
Royalties and licenses	**10.2**	5.9	**7.0**	6.2	**20%**	37%
Custom Products & Licensing (CP&L) sub-total	**27.5**	16.9	**19.0**	17.8	**14%**	100%
BioVision	**2.6**	—	**2.6**	—		
Total reported revenue	**462.9**	260.0	**315.4**	269.3	**22%**	

* Includes BioVision product sales sold through Abcam channels post closing of the transaction on 26 October 2021 but excludes incremental BioVision sales sold through non-Abcam channels of £2.6m.

** Numbers may not add up due to rounding

In the 18-month statutory reporting period ended 31 December 2021, the Group generated revenue of £462.9m, which represents an increase of 78% on the results for the 12 months ended 30 June 2020, reflecting the extended accounting period.

The Directors believe underlying business performance is better understood by comparing the performance for the 12 months ended 31 December 2021 (CY2021) and the 12 months ended 31 December 2020 (CY2020). In CY2021 revenue was £315.4m, representing CER growth of 22% and reported growth of 17%, after a five percentage point headwind from foreign currency exchange. The acquisition of BioVision added approximately one percentage point to revenue growth.

Revenue growth continues to be driven by a recovery in laboratory activity from the depressed levels experienced in 2020 due to the COVID-19 pandemic, and by increasing demand for our growing portfolio of in-house products.

Catalogue revenue grew 23% CER in CY2021 compared with CY2020 (18% reported), with revenue growth from our in-house products of 41% CER including BioVision (35% reported) or 36% CER excluding BioVision. Except for Japan, which suffered greater COVID-19 related disruption, all major territories grew at double digit rates, with China, which now accounts for 19.4% of revenue, the fastest growing region with CER growth of 34%.

Custom Products & Licensing ('CP&L') revenue, rose 14% on a CER basis (7% reported). Within CP&L, IVD and royalty and license sales grew double digit on a CER basis as the number of out-licensed products and commercial deals continues to grow, whilst custom projects returned to growth as customer activity levels improved following a more muted period of activity due to COVID-19.

Gross margin

	18 months ended 31 Dec 2021 (audited) %	12 months ended 30 Jun 2020 (audited) %	12 months ended 31 Dec 2021 (unaudited) %	12 months ended 30 Dec 2020 (unaudited) %
Reported Gross Margin	**71.1**	69.3	**71.2**	70.0
Amortisation of fair value adjustments	**0.7**	—	**1.0**	—
Adjusted Gross Margin	**71.8**	69.3	**72.2**	70.0

Reported gross margin for the 18 months ended 31 December 2021 was 71.1%. Reported gross margin for the period was impacted by the fair value adjustment of BioVision inventory following the acquisition, totalling £6.0m. Approximately half, or £3.1m, of this cost was amortised in the period, with the balance of £2.9m to be amortised in CY2022. Before this impact, adjusted gross margin for CY2021 increased by just over two percentage points to 72.2% (CY2020: 70.0%), reflecting a favourable movement in product mix towards high margin in-house products, as well as volume leverage resulting from the increase in revenue. In-house product sales (including CP&L revenue) contributed 61% of total revenue in CY2021 (CY2020: 54%).

Operating profit

Operating profit for CY2021 increased to £7.1m (CY2020: £1.0m). Adjusted operating profit for the same 12-month period increased to £60.4m (CY2020: £50.6m), representing an adjusted operating profit margin of 19.2% (CY2020: 18.8%) reflecting the Group's planned investment, the impact of COVID-19, and the step up in depreciation and amortisation. The calculation of adjusted operating profit has been updated to exclude share-based payments of £20.0m and £13.3m in CY2021 and CY2020 respectively. A reconciliation between reported and adjusted operating profit is provided in note 7 to the financial statements.

Reported operating profit for the 18 months ended 31 December 2021 was £24.4m (12 months to 30 June 2020: £10.4m).

Operating costs and expenses

	Reported*				Adjusted*			
	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 June 2020 (audited, restated) £m	**12 months ended 31 Dec 2021 (unaudited) £m**	12 months ended 31 Dec 2020 (unaudited) £m	**18 months ended 31 Dec 2021 (audited) £m**	12 months ended 30 June 2020 (audited, restated) £m	**12 months ended 31 Dec 2021 (unaudited) £m**	12 months ended 31 Dec 2020 (unaudited) £m
Selling, general & administrative	**(263.3)**	(131.5)	**(189.7)**	(144.5)	**(211.5)**	(111.5)	**(150.6)**	(120.6)
Research and development	**(41.5)**	(38.3)	**(27.8)**	(43.0)	**(25.3)**	(14.7)	**(16.7)**	(17.3)
Total operating costs and expenses	**(304.8)**	(169.8)	**(217.5)**	(187.5)	**(236.8)**	(126.2)	**(167.3)**	(137.9)
Depreciation and amortisation	**(57.0)**	(29.7)	**(41.0)**	(32.5)	**(42.9)**	(20.7)	**(31.9)**	(22.0)
Total operating costs and expenses excl. Depreciation and amortisation	**(247.8)**	(140.1)	**(176.5)**	(155.0)	**(193.9)**	(105.5)	**(135.4)**	(115.9)
of which share-based payments	**(29.0)**	(9.3)	**(20.0)**	(13.3)	**—**	—	**—**	—

* Details of items excluded from reported costs and expenses are provided in Adjusting Items below and in note 7 to the financial statements.

CY2021 vs. CY2020
Planned investments made during the period in our platform and team to support the Company's growth saw total reported operating costs and expenses increase by £30.0m, or 16%, to £217.5m. On an adjusted basis, total costs and expenses increased by £29.4m or 21%, to £167.3m (CY2020: £137.9m). Within this, adjusted SG&A expenses, increased by 25% and adjusted R&D expenses decreased by 3.5%, representing 48% and 5% of revenue, respectively.

Adjusted depreciation and amortisation charges increased in line with guidance provided in September 2021, to £31.9m, reflecting increased amortisation charges following the implementation of additional Oracle Cloud ERP modules. Reported depreciation and amortisation charges included an additional £9.1m related to the amortisation of acquired intangibles (CY2020: £9.6m). Total adjusted depreciation and amortisation charges (excluding the amortisation of acquired intangibles) are expected to rise by approximately £5m in CY2022, as a result of the final Oracle ERP deployments and planned investments in our global supply chain. This is around £5m lower than previously expecting, following a change in the assessment of the useful economic life of the Oracle ERP system implemented during the year (see note 1 to the financial statements for further information).

18 months ended 31 December 2021 vs. 12 months ended 30 June 2020
On a reported basis, total operating costs and expenses for the 18 months ended 31 December 2021 were £304.8m. On an adjusted basis, costs and expenses increased £110.6m from £126.2m to £236.8m, reflecting the longer accounting period and investments made in the business.

Adjusting Items

	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 June 2020 (audited, restated) £m	**12 months ended 31 Dec 2021 (unaudited) £m**	12 months ended 30 Dec 2020 (unaudited) £m
Amortisation of fair value adjustments	**(3.1)**	—	**(3.1)**	—
Impairment of intangible assets	**(1.1)**	(14.9)	**(1.1)**	(14.9)
System and process improvement costs	**(9.5)**	(4.6)	**(7.0)**	(5.0)
Acquisition costs	**(8.3)**	(4.1)	**(8.3)**	(2.8)
Integration and reorganisation costs	**(6.6)**	(2.1)	**(4.7)**	(4.0)
Amortisation of acquisition intangibles	**(13.5)**	(8.6)	**(9.1)**	(9.6)
Share-based payments*	**(29.0)**	(9.3)	**(20.0)**	(13.3)
Total adjusting items affecting operating profit before tax	**(71.1)**	(43.6)	**(53.3)**	(49.6)

* Share-based payments, which are non-cash items, are now included as an adjusted item as management believes it is more useful to exclude share-based compensation expenses from adjusted profit measures to better understand the long-term performance of the core business.

In the 18 months ended 31 December 2021, adjusting items totalled £71.1m with £53.3m incurred in CY2021. Major adjusting items in CY2021 included £7.0m of system and process improvement costs resulting from the implementation of the Oracle ERP system, due to complete in the CY2022; £8.3m of acquisition costs predominantly related to BioVision; £4.7m of integration and reorganisation costs related to the upgrading of our global footprint and the integration of BioVision; £9.1m related to the amortisation of acquired intangibles; and a charge of £20.0m related to share-based compensation. In previous reporting periods share-based payments have not been included within adjusting items. With the launch of the Profitable Growth Incentive Plan ("PGIP") in October 2021, management considers it to be more appropriate and more consistent with the Group's closest comparable companies to include share-based payments in adjusting items. A breakdown of the share-based compensation charges is as follows:

Share-based payment charges	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 June 2020 (audited, restated) £m	12 months ended 31 Dec 2021 (unaudited) £m	12 months ended 30 Dec 2020 (unaudited) £m
Schemes approved prior to CY2021	**(21.9)**	(9.3)	**(12.9)**	(13.3)
2021 approved schemes, including PGIP	**(7.1)**	—	**(7.1)**	—
Total share-based payments	**(29.0)**	(9.3)	**(20.0)**	(13.3)

Following the launch of the new share-based incentive schemes aligned to the Group's 2024 growth strategy (comprising the Profitable Growth Incentive Plan (PGIP) for senior leaders and Abcam Growth Plan for all other employees globally), it is estimated that total share-based payment charges of approximately £30m will be incurred in CY2022, rising to approximately £45m by CY2024.

Interest and tax

In the 18 months ended 31 December 2021, net finance costs totalled £4.1m with £2.4m incurred in CY2021, a reduction of £0.8m on CY2020 following the repayment of the Group's revolving credit facility ('RCF') in November 2020. The Group subsequently redrew £120m on the RCF in October 2021 following the acquisition of BioVision.

The reported tax rate for CY2021 was 6.4% and the adjusted tax rate was 18.6%. The Group was required to restate its deferred tax balances during the period following the UK government's decision to increase the UK Corporation Tax rate to 25% (from 19%) in 2023. The Group also benefited from 'patent box' relief in the UK in the period (where a lower rate of tax is applied to certain profits on patented income than the standard UK Corporation Tax rate).

The Group currently estimates an adjusted tax rate of 19% in CY2022, before rising in CY2023 following the increase in the UK Corporation Tax rate to 25% from 1 April 2023.

In the 18 months ended 31 December 2021 the Group reported a net tax charge of £3.1m on reported profits and £16.9m on adjusted profits, equivalent to an effective tax rate on adjusted profits of 18.5%.

Cash flow and net cash

	18 months ended 31 Dec 2021 (audited) £m	12 months ended 30 June 2020 (audited, restated) £m	12 months ended 31 Dec 2021 (unaudited) £m	12 months ended 30 Dec 2020 (unaudited) £m
Operating cash flows before working capital	**108.9**	61.4	**68.2**	63.0
Change in working capital	**(3.6)**	4.0	**4.0**	(7.8)
Cash generated from operations	**105.3**	65.4	**72.2**	55.2
Income taxes paid	**(9.1)**	(2.4)	**(9.3)**	3.7
Net cash inflow from operating activities	**96.2**	63.0	**62.9**	58.9
Cash outflow from investing activities	**(313.7)**	(148.1)	**(291.5)**	(153.7)
Cash inflow from financing activities	**126.4**	184.6	**111.4**	116.0
(Decrease)/increase in cash and cash equivalents	**(91.1)**	99.5	**(117.2)**	21.2
Cash and cash equivalents at beginning of period	**187.3**	87.1	**211.9**	189.9
Effect of foreign exchange rates	**(1.1)**	0.7	**0.4**	0.8
Cash and cash equivalents at end of the period	**95.1**	187.3	**95.1**	211.9
Free Cash Flow*	**12.6**	19.0	**6.0**	5.6

* Free Cash Flow comprises net cash generated from operating activities less net capital expenditure, cash flows relating to committed capital expenditure and outflows in respect of lease obligations

The Group remains highly cash generative at the operating level, with cash inflows from operating activities in the CY2021 of £62.9m (CY2020: £58.9m). After an increase in net capital expenditure (including cash flows relating to committed capital expenditure and capital repayments on leases), Free Cash Flow was £6.0m (CY2020: £5.6m).

Cash outflows on investing activities were £291.5m. This sum includes the acquisition of BioVision for £244.9m as well as net tangible and intangible capital expenditures of £46.6m (CY2020: £43.6m). Net capital expenditure includes a landlord reimbursement of £13.2m relating to leasehold improvement costs, primarily for the new Waltham site. Major areas of capital expenditure included £21.3m in respect of global footprint developments (net of landlord contributions) and £25.3m on intangible assets (CY2020: £29.0m). Intangible assets included £8.3m in respect of the Oracle ERP project, £8.5m in respect of other software developments relating to the Group's digital transformation and £7.5m of internally developed technology relating to new in-house products (CY2020: £10.4m).

Following the drawdown of £120m on the RCF in October 2021 to partially fund the acquisition of BioVision, cash inflows from financing activities totalled £111.4m, resulting in a net debt position (excluding lease liabilities) as of 31 December 2021 of £24.1m (CY2020: net cash of £211.9m). As at 1 January 2022, the combined interest rate on drawdowns from the RCF amounted to 0.9715%.

Balance sheet

Key elements of change in the balance sheet during the 18-month period comprised the following:

Goodwill and Intangibles

Goodwill increased to £364.8m (30 June 2020: £195.0m), predominantly as a result of the BioVision acquisition which added £177.0m.

Intangible assets increased by £84.1m to £234.2m (30 June 2020: £150.1m) where again the impact of the BioVision acquisition, of £80.6m, was responsible for most of the increase. A further £24.5m related to software development, of which £14.8m was in respect of the Oracle Cloud ERP system and a further £12.0m related to the additions from internal development of the Group's product range, reflective of the cash flows described above. These additions were offset by amortisation charges of £28.8m, impairment charges of £3.8m and small exchange rate movements.

Property, plant and equipment

Property, plant and equipment additions of £45.5m were made in the 18-month period, including £28.9m on global footprint developments. Included within the 18-month additions was spend of £7.9m on laboratory equipment across our sites in the UK, the US and China. The Group invested an additional £2.9m on edited cell lines.

Leases: Right of use assets

During the period overall leases reduced £33.2m, predominantly as a result of landlord leasehold incentives received in the US, resulting in a net book value at 31 December 2021 of £88.2m. As at 31 December 2021, the outstanding balance sheet liability in respect of the right of use assets was £110.5m.

Borrowings

The Group's three-year revolving credit facility, which was re-signed in December 2020, was drawn down by £120m in October 2021 in order to fund the acquisition of BioVision. As of 31 December 2021, the drawn down amount remained £120m, leaving £80m undrawn, as well as an accordion option of up to £100m.

Return on capital employed ('ROCE')

£m unless otherwise stated	31 December 2021 £m	31 December 2020 £m
Current assets	**211.5**	306.2
Non-current assets	**774.6**	512.4
Total assets	**986.1**	818.6
Less: Current liabilities	**(187.2)**	(52.0)
Capital employed	**798.9**	766.6
Adjusted operating profit	**60.4**	50.6
Return on Capital Employed, %	**7.6%**	6.6%

Capital employed by the Group rose by £32.3m during the year, to £798.9m, resulting in a modest improvement in ROCE for the period, which increased one percentage point, to 7.6%, reflecting the increased profitability of the Group.

As expected, over the last two years the Group's ROCE has been suppressed by the effects of both COVID-19 and the implementation of the Group's 2024 growth plan. Many of our major investment plans are now substantially complete, and as we look forward, we expect to see the rate of investment reduce and the resultant delivery of operational leverage and subsequent rise in ROCE from current levels as the value of our investments are realised.

Michael S Baldock
Chief Financial Officer
14 March 2022