

Managing risk to ensure growth is sustained

Risk management is an essential part of achieving the Group's vision to be the most influential life sciences company for researchers worldwide and is crucial to ensuring that Abcam can deliver on its strategic priorities. Abcam operates a risk management process that is effective and aligns with its dedicated, agile and audacious organisational culture.

The Group continuously improves and evolves its risk management framework, policies and procedures in order to

identify, prevent and mitigate risks in the execution of strategy and day-to-day operations. Although no system of risk management can completely eliminate uncertainty, Abcam aims to ensure it is only exposed to appropriate risks which are managed effectively in accordance with the Group's tolerance to risk.

The Board has overall responsibility for Abcam's approach to risk management. Management takes responsibility for day-to-day risk management in line with the policies, responsibilities and accountabilities set by the Board. The Executive Leadership Team (ELT) and senior management are accountable for the identification and evaluation of risks across the business, and the implementation and monitoring of mitigating actions.

Risk management process

Identify risks →

- The Board identifies Abcam's principal and emerging risks and threats, including a detailed review annually.
- Throughout the year conversations are held with each business function to identify and assess risks and issues.
- The most significant risks are scored and escalated to the consolidated risk register.

Set risk appetite →

- The Board has defined a set of risk appetite statements which describe the types and amount of risk the Board is willing to tolerate in achieving Abcam's strategy and objectives.
- The risk appetite statements are shared with senior management, who control risks and make strategic decisions based on the Board's appetite.

Mitigate risks →

- Each business function implements policies and controls to manage its risk appropriately and to ensure risks are reduced to an acceptable level.
- A key financial controls framework is in place and certified by control owners annually
- New this year, the key financial controls framework is complemented by Sarbanes-Oxley ("SOX").

Risk assurance →

- The Group Finance function facilitates the risk management process and provides guidance and oversight.
- Independent assurance is obtained through the Group's internal audit function which reviews key areas of risk and the operation of controls.
- Specialist third parties are engaged to review specific areas of risk as necessary.

Risk reporting →

- The status of significant and emerging risks is reported to each meeting of the Audit and Risk Committee (ARC).
- The ARC reviews the outputs from internal audit and other information on the operation of controls, including SOX.
- Abcam maintains open communication with employees, ensuring top-down and bottom-up communication of risks and issues.

Enhancements to the framework in the year

- The Board undertook a detailed review of principal and emerging risks, ensuring they remain relevant and up-to-date.
- Widened the pool of those consulted on risk management.
- Expanded the in-house audit team, building on its establishment in 2019.
- Further developed the maturity of risk management processes and reporting, particularly with reference to environmental risk.

Further information on the Audit and Risk Committee, and how it has discharged its responsibilities in relation to risk management throughout the year can be found on pages 83 to 87.

Climate risk

In 2021, Abcam commissioned Anthesis, a leading climate change consultancy, to support the Group in its assessment of relevant climate-related risks and opportunities. Additional information can be found on page 68.

Principal risks

During the year, the Board carried out a robust assessment of the emerging and principal risks facing the Company, including risks that would threaten Abcam's business model, solvency or liquidity and reputation. Although the nature of the risks to which Abcam is exposed have not changed substantially, the assessment resulted in some revision to how the principal risks are grouped and expressed.

The principal risks are set out below, along with the Group's tolerance to that risk, how the risk is managed or mitigated, and a summary of and our assessment of emerging threats in each area. The ordering of the risks reflects the Board's view on their significance in achieving Abcam's strategy and objectives as set out on pages 28 to 32.

Continued disruption as a result of the ongoing COVID-19 pandemic is not considered an additional risk specific to Abcam, and its impacts are contained within the existing risks as set out. It is not, therefore, considered as a principal risk in its own right.

Further information on the Group's financial risk management activities can be found in note 26 to the financial statements.

Table of principal risks

-  Increased risk
-  Stable
-  Decreased risk

Strategic risk

| | |
|---|---|
| Competition and customer | 1 |
| Change in year |  |
| <p>The risk that competitors introduce new technologies, channels or workarounds to respond better to rapidly evolving scientific and technological developments; or the risk that Abcam fails to understand and respond to changing consumer needs, strengthen product offerings and routes to market as well as our competitors.</p> | |
| <p>Tolerance to risk</p> <ul style="list-style-type: none"> - Abcam is open to a higher level of competitive risk in order to achieve the Group's vision to be the most influential life sciences company for researchers worldwide. | |
| <p>How the risk is managed</p> <ul style="list-style-type: none"> - Continuously improve the quality, reliability and range of products and services offered, striving to be a trusted partner to life scientists. - Abcam is dedicated to understanding the requirements of customers. As such, customer feedback is monitored constantly to ensure expert customer service and scientific support is provided. - Innovation and investment in new and potentially disruptive technologies as appropriate in line with strategy. | |
| <p>Emerging threats</p> <ul style="list-style-type: none"> - The competitive environment is continually changing; It is anticipated that the level of competitive risk will continue to be significant. | |
| <p>Link to strategy</p> <ul style="list-style-type: none"> - Sustain antibody and digital marketing leadership. - Drive continued expansion into complementary market adjacencies. - Build organisational scalability and sustain value creation. | |

Strategic risk

Acquisitions and integrations 2

Change in year →

Risks include overvaluation of targets, failing to identify issues or risks in due diligence, or failing to integrate acquired operations or technologies effectively in order to realise the benefits.

There is also a risk of failure to identify and acquire businesses which could bring added value.

Tolerance to risk

- Abcam only has appetite for acquisitions that are compatible with the strategic goals of the company.

How the risk is managed

- The Group's experienced in-house Corporate Development team oversee all acquisition and integration activities and have been further strengthened during the year.
- External advisors are engaged as necessary.
- A rigorous due diligence process is always conducted to ensure Abcam fully evaluates the costs and benefits expected to accrue before any business purchase.
- The Board reviews and challenges the rationale and business case for any acquisition, challenging key assumptions. A separate investment committee also reviews all acquisition cases up to a certain threshold.
- Higher levels of capital are available to be committed for the right strategic investment opportunities.
- A detailed integration plan and dedicated integration teams are put in place prior to acquisition. Progress against the plan is tracked to ensure an effective process.

Emerging threats

- Increased frequency, scale and diversity of acquisitions results in management of integrations becoming more complex.

Link to strategy

- Drive continued expansion into complementary market adjacencies.
- Build organisational scalability and sustain value creation.

Operational risk

People and resources 3

Change in year →

The risk of failure to recruit and develop people at the right rate to support Abcam's strategy, failing to maintain an engaged and motivated workforce or to provide the tools and resources for employees to do their work effectively.

Tolerance to risk

- The Group has a lower level of tolerance to this risk.

How the risk is managed

- Ensuring sufficient investment in attracting and retaining high-quality personnel by providing employees with a rewarding package of salary and benefits. Executive and senior leaders were granted the Profitable Growth Investment Plan during the year. The award winning Abshare programme matured during 2021 and is being replaced by the equally attractive Abcam Growth Plan.
- Maintaining a high level of employee satisfaction and engagement by investing in appropriate quality resources and infrastructure to support the staff and efficient working practices. This includes focus on providing learning and development opportunities, training and career paths to enable people to fulfil their potential.
- Investment in custom-built premises across the globe to ensure they are fit to support current operations and growth plans.
- Regular monitoring of employee satisfaction and engagement to ensure Abcam remains an exceptional place to work.

Emerging threats

- As Abcam continues to strive for rapid growth, the need to attract, retain and develop the right people will increase.

Link to strategy

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Table of principal risks

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-  Stable
-  Decreased risk

Strategic risk

Transformation projects 4

Change in year 

The risk of failure to deliver on Abcam's transformational growth projects, including our ongoing ERP implementation and reinvention of the digital channel.

Tolerance to risk

- A moderate tolerance to this risk, but no appetite for investment that does not have an appropriate business case and full oversight.

How the risk is managed

- Abcam is investing what is required to ensure the Group maintains an exceptional public website and digital experience.
- The ERP transformation programme continues with a dedicated team including internal subject matter experts and highly experienced external consultants.
- The project is being supported by an effective governance structure and senior leadership in place to oversee delivery.
- The Group is working closely with an experienced third party systems implementation partner to ensure we implement best-in-class systems and processes.

Emerging threats

- Customers' increasing expectations with regard to their digital experience, and the pace and complexity of Abcam's growth, mean that this risk will continue to be important.

Link to strategy

- Sustain antibody and digital marketing leadership.
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- Build organisational scalability and sustain value creation.

Operational risk

Cyber security and IT infrastructure 5

Change in year 

The risk that Abcam fails to operate IT systems, software and hardware that are sufficiently effective, reliable and robust to support the business in its operations, or that Abcam's critical IT infrastructure is compromised or subject to cyber attack.

Tolerance to risk

- No appetite for loss of data, for any breaches of laws related to cyber security, or for anything more than infrequent and modest downtime of the website, so that high levels of service and trust with customers can be maintained.

How the risk is managed

- The Group has a dedicated cyber security function, supported by outsourced service providers, which is working to ensure that Abcam has the necessary systems, processes and governance to mitigate key cyber security risks.
- Training and awareness campaigns are carried out to ensure employees know how to identify and deal with cyber security threats.
- Appropriate physical and software safeguards are implemented, including maintaining latest patch levels, software versions and firmware updates, external firewall and advanced antivirus protection.
- Security threats and attacks are actively monitored in real time and protection increased in line with additional demands to do so.
- Investment in IT infrastructure, systems and processes globally so that employees are able to carry out their responsibilities effectively and securely.

Emerging threats

- The volume and variety of cyber threats continues to evolve globally.
- The COVID-19 environment has led to a significant increase in the number of attacks being attempted against companies worldwide.

Link to strategy

- Sustain antibody and digital marketing leadership.
- Build organisational scalability and sustain value creation.

Strategic risk

Geopolitical/economic disruption and research funding 6

Change in year →

The risk of unfavourable geopolitical or economic changes, including the risk of a substantial reduction in funding for life sciences research in one of Abcam's significant territories.

Tolerance to risk

– A moderate tolerance to this risk, accepting that as a large multi-national business, such risks are not all in the Group's control and therefore a willingness to accept that such risks cannot be fully eliminated.

How the risk is managed

- By proactive monitoring of potentially disruptive events such as the geopolitical, economic and research funding environment, and consideration of the impact on our strategy and making relevant required changes to Abcam's policies, footprint and business processes in a timely manner.
- Continued geographic penetration to diversify revenues from any single government funding source and to avoid over-concentration in any particular region.
- Diversification of the range of products and services offered, for example "Abcam Inside" expanding reach outside of academic markets.

Emerging threats

– Although there is an increasing recognition of the value of scientific research in the aftermath of the COVID-19 pandemic and therefore a positive outlook for life sciences funding, the fact remains that there is a global economic recession as a result of COVID-19 which will require close monitoring to ensure that Abcam's sales strategy is targeted to the relevant areas where research funding is being invested.

Link to strategy

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Operational risk

Business continuity 7

Change in year →

The risk that a disruptive event or disaster occurs at a key facility, impacting our ability to serve customers.

Disruption to operations could arise from many different sources including environmental, health and safety or contamination issues, or interruption in service from key suppliers.

Tolerance to risk

– A lower tolerance to this risk where focus is to ensure sufficient investment in business continuity management to react to anything other than planned shutdowns in logistics, distribution or production facilities.

How the risk is managed

- We have appointed a member of the senior leadership team to oversee all business continuity plans. These plans are to always have back-up sources or pathways which can be used in a timely manner to continue to deliver high levels of customer service.
- Geographic diversification of manufacturing and logistics/warehousing facilities, and flexibility of operations, means that we can continue to serve customers if a particular office or site is disrupted.
- Diversification of suppliers for third party product and critical manufacturing materials, avoiding over-reliance on any particular third party.
- Environmental, health and safety policies and procedures are in place and adhered to, supported by routine internal checks.
- Strict inbound quality control and quarantine procedures.

Emerging threats

– Business continuity threats arising from the external environment are inherently unpredictable, however Abcam's response to the COVID-19 pandemic has demonstrated the ability to respond to a major crisis effectively.

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Table of principal risks

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-  Stable
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Compliance risk

Laws, regulations, legislation and compliance 8

Change in year 

Failure to comply with legislation and regulation in the markets and countries in which Abcam operates.

Tolerance to risk

- No appetite for non-compliance with established laws or regulations in countries where the Group operates.

How the risk is managed

- To proactively monitor changes in regulations and legislation, including those relating to taxes and tariffs and ensure that all obligations are complied with and forthcoming legislation is appropriately planned for.
- Senior management monitors changes to laws and regulations and oversees actions to ensure compliance, supported by the Legal department.
- The Group ensures that employees understand legal risks and how to comply via anti-bribery and corruption training for all staff, reinforced by our Code of Conduct.
- Targeted internal and external audit reviews are undertaken to ensure policies and training are embedded.
- External advice is taken for new or emerging legislation or for where capabilities are not available in-house.
- In response to the US listing, the Group has hired skilled personnel with SOX experience

Emerging threats

- Changes to import/export regulations as a result of Brexit and the similar issues arising from the frequently changing political landscape in the US and China.
- Changes to regulation in China concerning the development of intellectual property.
- Listing on Nasdaq further exposes Abcam to regulatory requirements

Link to strategy

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Reputational risk

Ethical business and CSR 9

Change in year 

The risk of not meeting high standards of quality and ethical business practice.

Tolerance to risk

- Low appetite for risks that could lead to damage to reputation or loss of trust of customers or other stakeholders. Ensure Abcam acts as a responsible business within the communities and environments in which it operates, and meets high ethical standards.

How the risk is managed

- Codes of Conduct in place for employees, suppliers and distributors are intended to ensure everyone representing Abcam acts ethically and responsibly.
- Feedback from stakeholders is monitored and responded to, for example through monthly employee pulse surveys, customer transactional Net Promoter Score (tNPS), customer feedback and any complaints.
- Continued drive for improved product quality, including formalised quality management systems and product testing using knockout validation.
- Supplier qualification procedures to ensure high ethical standards are adhered to within the supply chain.
- The section 'Our value creation model' on pages 16 to 45 sets out the Group's work on Sustainability, Ethical business and CSR.

Emerging threats

- The expected standards of corporate social responsibility demanded by customers, other stakeholders and the general public continue to increase, for example in relation to sustainability and climate change.

Link to strategy

- Sustain antibody and digital marketing leadership.

Climate Risk

In 2021, Abcam commissioned Anthesis, a leading climate change consultancy, to support the Group in its assessment of relevant climate-related risks and opportunities. Material risks and opportunities were identified through two variables:

- The effect and vulnerability to the risk
- The effect and management strategy for the opportunity

Vulnerability was assessed by the current management strategies that Abcam has in place to manage and mitigate that risk. A risk and opportunity hotspot analysis considered the potential impacts on our facilities/processes, supply chain, and people. Risks and opportunities were categorised as being not material, low, moderate and high. No high-risk issues were identified.

Abcam intends to use the recommendations to support development of its first Task Force on Climate-Related Financial Disclosure (TCFD). The priority focus area will be the governance pillar, together with a strategy that takes into consideration how climate related risks and opportunities are considered within overall business management decisions.

Longer-term viability statement

The UK Corporate Governance Code requires the Board to assess the prospects of the Group over a period longer than the 12 months required by going concern provisions and to issue a 'viability statement'. The Board has selected a five-year assessment period for the viability statement as this aligns with our innovation pipeline and strategic planning window, and also covers the period of large cash outflows on major capital projects.

The process adopted to assess viability involved collaborative input from a range of business functions to model a series of theoretical 'stress test' scenarios linked to the Group's principal risks. Particular focus was given to business growth being constrained by not having appropriate people, resources and infrastructure and the availability of research funding. These scenarios included both significant adverse financial outcomes and operational failures.

Consideration was given to the impact of mitigations as well as their inter-dependencies. The Audit and Risk Committee reviewed the process before the viability evaluation was provided to the Board to assist in its assessment.

The Directors have assessed the Group's prospects and resilience with reference to its current financial position, its recent and historical financial performance and forecasts, the Board's risk appetite, and the principal risks and mitigating factors. The Group is operationally and financially strong and has a track record of consistently generating profits and cash, and this is expected to continue. The COVID-19 pandemic is not expected to impact the longer-term viability of the Group.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years.