Solid financial performance delivered in 2018

Abcam delivered another solid financial performance in the year. Our strong financial position and cash generation provide the resources to invest in our long-term strategy to build the platform for a much larger company, sustain our long-term profitable growth and serve the needs of our customers.

Gavin Wood
Chief Financial Officer

This financial review includes discussion of alternative performance measures which are defined in further detail in the investor information on page 146. 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 7 to the financial statements. Further detail on the Group's financial performance is set out in the Financial Statements and notes thereto.

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

Highlights

- Total revenue increased by 7.4% on a reported basis and 10.7% on a constant exchange rate (CER) basis
  - Catalogue revenue grew 7.1% on a reported basis to £216.8m (2016/17: £202.4m) and 10.2% CER
  - Custom Product and Licensing (CP&L) revenue grew 11.6% on a reported basis to £16.4m (2016/17: £14.7m) and 17.6% CER
- EBITDA margin was 35.0% (2016/17: 32.5%) whilst Adjusted EBITDA margin increased to 37.9% (2016/17: 33.8%), primarily due to the rolling-off of hedging contracts in the prior year
- Reported PBT grew 33.1% to £69.1m and adjusted PBT grew 26.3% to £81.6m
- Reported diluted EPS grew 45.9% to 30.2p and adjusted diluted EPS grew 27.1% to 32.4p
- Strong cash generation continued, with net cash inflow from operating activities of £63.3m (2017/18: £66.4m)
- Proposed final dividend of 8.58 pence (2016/17: 7.36 pence), taking the proposed total annual dividend to 12.00 pence per share, an increase of 17.9%

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Overview of 2018 performance

	Reported results Year ended 30 June			Adjusted results Year ended 30 June		
	2018 £m	2017 £m	*Growth*	**2018 £m**	2017 £m	*Growth*
Revenue	**233.2**	217.1	*7.4%*	**233.2**	217.1	*7.4%*
Gross profit	**163.0**	152.1	*7.2%*	**163.0**	152.1	*7.2%*
Gross profit margin (%)	***69.9%***	*70.1%*		***69.9%***	*70.1%*	
EBITDA	**81.7**	70.5	*15.9%*	**88.3**	73.3	*20.5%*
EBITDA margin (%)	***35.0%***	*32.5%*		***37.9%***	*33.8%*	
Depreciation and amortisation	**(12.9)**	(15.4)	*(16.2)%*	**(7.0)**	(8.9)	*(21.3)%*
Operating profit	**68.8**	55.1	*24.9%*	**81.3**	64.4	*26.2%*
Operating profit margin (%)	***29.5%***	*25.4%*		***34.9%***	*29.7%*	
Net finance income/(expense)	**0.3**	(3.2)	*n/a*	**0.3**	0.2	*50.0%*
Profit before tax	**69.1**	51.9	*33.1%*	**81.6**	64.6	*26.3%*
Taxation	**(6.9)**	(9.5)		**(14.9)**	(12.6)	
Profit after tax	**62.2**	42.4	*46.7%*	**66.7**	52.0	*28.3%*
Earnings per share						
Basic	**30.5p**	20.9p	*45.9%*	**32.7p**	25.7p	*27.2%*
Diluted	**30.2p**	20.7p	*45.9%*	**32.4p**	25.5p	*27.1%*
Annual Dividend per share	**12.00p**	10.18p	*17.9%*	**12.00p**	10.18p	*17.9%*
Net cash at end of period	**90.2**	84.8	*6.4%*	**90.2**	84.8	*6.4%*
Return on capital employed	**18.8%**	16.7%		**22.2%**	19.6%	

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

Abcam has delivered another year of solid financial performance and this is reflected in the growth in adjusted earnings per share (adjusted EPS) of over 27%. On a reported basis EPS grew over 45%. Total CER revenue growth was up 10.7% and, as expected, our Custom Products & Licensing (CP&L) revenues returned to growth, rising 17.6% (CER). We believe we have once again delivered growth above underlying market rates in every region and whilst Japan experienced a more challenging market backdrop in the second half, China has continued to deliver at the high end of our expectations. We have maintained gross margin and we have continued to invest in the future of our business.

We are investing to ensure that we have the people, infrastructure, processes and IT systems to establish the platform that will allow the Group to grow to twice its 2016 scale by 2023. This year we have invested significantly in our Oracle Cloud ERP system making steady progress in the design, build, test and change management associated with the project. We have decided to adopt a phased approach to the implementation of the remaining modules to reduce the risk to our business and customers. During calendar 2019 we expect the most significant roll out will be the implementation of Oracle Fusion Finance modules in the majority of our global locations. The construction and preparations for our new headquarters in Cambridge, UK are progressing well, and we are looking forward to moving in early calendar 2019.

We continue to invest in our people, not only by ensuring we have the right teams, skills and capabilities globally, but also in their development, training and remuneration. In this regard, we are delighted to be launching a new global share scheme, available to all of our employees in the coming year. Looking forward, we are confident that our strong financial position and cash generation provide the resources to invest in our long-term strategy to build the infrastructure required for a much larger company, sustain our growth and serve the needs of our customers.

Revenue

	Reported Revenue 2018 £m	Reported Revenue 2017 £m	Increase/ (decrease) in reported revenue	CER growth rate
Catalogue regional split				
The Americas	**88.5**	86.5	*2.3%*	*8.0%*
EMEA	**62.6**	57.1	*9.6%*	*7.7%*
China	**33.0**	26.4	*25.0%*	*26.0%*
Japan	**16.2**	17.3	*(6.4%)*	*1.1%*
Rest of Asia Pacific	**16.5**	15.1	*9.3%*	*14.3%*
Catalogue revenue	**216.8**	202.4	*7.1%*	*10.2%*
Custom Products and Licensing (CP&L) revenue[1]	**16.4**	14.7	*11.6%*	*17.6%*
Total reported revenue	**233.2**	217.1	*7.4%*	*10.7%*
Catalogue product split				
Primary and secondary antibodies	**174.5**	165.5	*5.4%*	*8.4%*
of which Recombinant antibodies	***48.0***	40.4	*18.8%*	*22.3%*
Other products[2]	**42.3**	36.9	*14.6%*	*18.2%*
of which Immunoassay products	***15.0***	12.4	*21.0%*	*25.4%*
Catalogue revenue sub-total	**216.8**	202.4	*7.1%*	*10.2%*

1 Includes royalty income, custom services, IVD/IHC and licencing revenue.
2 Includes kits, assays, proteins, peptides, lysates and biochemical (AAAI) products

Total reported revenues for the year increased by 7.4% to £233.2m. Sterling was stronger against the basket of foreign currencies in which the Group trades which adversely impacted our reported revenues. Adjusting for this strengthening in Sterling, CER revenue growth was 10.7% (2016/17: 9.9%).

Catalogue revenue grew by £14.4m or 7.1% on a reported basis and 10.2% on a constant currency (CER) basis. Within this, the key product growth drivers were recombinant antibodies, with sales up by £7.6m or 18.8% to £48.0m (22.3% at CER), and immunoassay sales, which grew by £2.6m or 21.0% (25.4% at CER) to £15.0m. By region, China continues to be our fastest growing major market, up 25.0% (26.0% CER) and contributing 15.2% of Catalogue revenue, whilst Japan fell by 6.4% on a reported basis (up 1.1% CER), reflecting the more challenging market conditions.

CP&L revenue, comprising custom services, in vitro-diagnostic (IVD)/immunohistochemistry (IHC) and royalties and licence income, continues to remain an area of increased focus and investment for the Group. In line with our expectations, this area returned to growth in the year, rising by £1.7m or 11.6% (17.6% CER) to £16.4m (2016/17: £14.7m).

Gross margin

Reported gross margin was down very slightly to 69.9% (2016/17: 70.1%), with modest positive impacts from exchange rate movements and catalogue product mix offset by catalogue regional mix and the increase in CP&L revenue. We continue to anticipate 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 2018 £m	Reported 2017 £m	Reported % Change	Adjusted* 2018 £m	Adjusted* 2017 £m	Adjusted* % Change
Selling, general & administrative expenses	**78.2**	78.4	*(0.3)%*	**69.8**	73.5	*(5.0)%*
Research and development expenses	**16.0**	18.6	*(14.0)%*	**11.9**	14.2	*(16.2)%*
Total operating costs and expenses	**94.2**	97.0	*(2.9)%*	**81.7**	87.7	*(6.8)%*
Depreciation and Amortisation	**(12.9)**	(15.4)	*(16.2)%*	**(7.0)**	(8.9)	*(21.3)%*
Total operating costs and expenses excluding Depreciation and Amortisation	**81.3**	81.6	*(0.4)%*	**74.7**	78.8	*(5.2)%*
Share-based compensation	**3.4**	3.9	*(12.8)%*	**3.4**	3.9	*(12.8)%*

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

Selling, general & administrative expenses

We have continued to invest in Abcam's capabilities, people, processes and IT systems to support and drive our medium and long-term growth aspirations. Excluding foreign exchange related impacts, selling, general and administrative expenses rose by 14.1% on an adjusted basis. On a reported basis, after the impact of the year-on-year movement in exchange rates, expenses decreased by £0.2m or 0.3%.

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

- £3.8m increase in spend relating to the further strengthening of our commercial, marketing and support teams, with key people being recruited into our Portfolio and Business Development team, an area of strategic importance for the business;
- £2.1m cost increase in global operations and logistics, related to the increase in revenue volumes and organisational redesign, including further roles to build in-house expertise in global operational processes and increased premises space to accommodate expansion of operations;
- £2.3m increase in operational costs associated with the work performed on the Oracle Cloud ERP project, to £6.1m (2016/17: £3.8m); and
- £12.8m year-on-year foreign exchange related reduction owing to the relative strength of Sterling. This comprises £1.6m of costs denominated in the currency of the Group's overseas entities (which, when translated into stronger Sterling results in lower charges to expenses), £10.6m of year-on-year net currency benefit from forward selling currency contracts and £0.6m of translational currency impacts.

The charge for share-based payments fell £0.5m in the year, to £3.4m (2016/17: £3.9m). This figure is expected to increase in 2019 following the implementation of a new global all employee share scheme.

Within reported expenses, depreciation and amortisation expenses decreased by £2.0m in the year to £6.3m, including £1.8m related to the amortisation of acquisition intangibles (2016/17: £1.5m). The Group's amortisation and depreciation expense is expected to increase in 2018/19 and step up again in 2019/20 as charges associated with the implementation of the next phase of ERP modules and the completion of the new Group headquarters come into effect. The depreciation charge will also be impacted in 2019/20 by the introduction of the new accounting standard on leases (as described in note 2 to the financial statements).

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 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 £2.6m or 14.0%, to £16.0m (2017: £18.6m). Whilst total reported R&D expenditure decreased, this included an increase of £2.4m on UK R&D tax credits, to £3.1m (2016/17: £0.7m), an year-on-year benefit relating to the change in amortisation period relating to capitalised product development, amounting to £0.7m, as well as the effect of exchange rate movements that contributed £0.7m of the decrease. Following these adjustments, the increase in R&D costs was £1.2m or 6.5%, to £19.8m.

R&D-related depreciation and amortisation charges were £0.5m lower in the year, at £6.6m, including £4.1m related to the amortisation of acquisition intangibles (2017: £4.4m) which are excluded from adjusted costs.

Investment in systems, processes and infrastructure

We continue to invest to maintain our double-digit growth trajectory and provide the operating capabilities required to scale the business. This was underpinned by investment in our people, IT systems, infrastructure, capabilities and business processes during the year to provide us with operational scalability.

Enterprise Resource Planning (ERP) programme

We had targeted a full implementation of the ERP system in 2017/18. We are now planning a phased approach to the remaining modules, which are expected to be implemented over the medium-term as part of a broader investment in our IT infrastructure.

We incurred capital expenditure of £17.5m (2016/17: £10.6m) and operating costs of £6.1m during the year (2016/17: £4.4m), as well as depreciation of £0.8m on the modules already deployed. Total capitalised expenditure relating to the Oracle Cloud ERP programme to date amounts to £33.6m.

In 2018/19 we plan to implement the finance and certain other modules at an estimated cost of approximately £16m (including capital expenditure of approximately £12m). Beyond 2018/19 we anticipate that we will continue to invest in our IT systems and broader business processes through implementing further new Oracle modules as well as investing further in those we have already implemented.

New global headquarters, Cambridge, UK

We will relocate from our three existing sites in Cambridge to a single, purpose-built headquarters on the Cambridge Biomedical Campus in early 2019. We anticipate Abcam's total expenditure on the building to be approximately £16m. In addition, we expect to spend approximately £9m on laboratory and office design and office fit-out costs. In 2017/18 we incurred capitalised costs of £13.5m in respect of this project, bringing the total cost to date to £15.2m.

Earnings and tax

The increase in gross profit delivered in the year, together with a net reduction in operating costs, due primarily to foreign exchange related impacts discussed previously, resulted in an £11.2m increase in reported earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) to £81.7m (2016/17: £70.5m), an increase of 15.9%. Adjusted EBITDA rose 20.5% to £88.3m (2016/17: £73.3m), giving an adjusted EBITDA margin of 37.9% (2016/17: 33.8%).

After depreciation and amortisation charges of £12.9m (2016/17: £15.4m), reported operating profit rose 24.9% to £68.8m. Adjusted operating profit rose 26.2% to £81.3m, representing an adjusted operating margin of 34.9% (2016/17: 29.7%).

Profit Before Tax (PBT) on a reported basis was £69.1m (2016/17: £51.9m). This was after net finance income of £0.3m (2016/17: net finance expense of £3.2m). Adjusted PBT rose 26.3% to £81.6m (2016/17: £64.6m).

Due to the impacts relating to the introduction of the US Tax Cuts and Jobs Act, the Group's reported effective tax rate was 10.0% (2016/17: 18.3%). The effective rate on adjusted profits was 18.3% and excludes the impact of the above (2016/17: 19.5%). Further details are provided in note 7 to the financial statements. Notwithstanding further tax changes in the jurisdictions in which we operate, the effective rate is expected to be broadly maintained at around 19% to 20% in the medium-term.

Basic earnings per share (EPS) was 30.5p (2016/17: 20.9p), with adjusted basic EPS of 32.7p (2016/17: 25.7p). Diluted Earnings Per Share (EPS) was 30.2p (2016/17: 20.7p). Adjusted diluted EPS increased by 27.1% to 32.4p (2016/17: 25.5p).

Adjusting items

	2018 £m	2017 £m
System and process improvement costs	**(6.1)**	(3.8)
Costs associated with the new Group headquarters	**(0.3)**	—
Acquisition-related costs	**(0.2)**	—
Amortisation of acquisition-related intangible assets	**(5.9)**	(5.9)
Contingent consideration fair value adjustment	**—**	1.0
Impairment related to system and process improvements	**—**	(0.6)
Total adjusting items affecting operating profit	**(12.5)**	(9.3)
Finance costs: Unwinding of discount factor on contingent consideration and fees	**—**	(3.4)
Total adjusting items before tax	**(12.5)**	(12.7)

System and process improvement costs related to our Oracle Cloud ERP project increased by £1.7m in the year to £6.1m. The Group also incurred £0.3m in costs relating to the move to the new headquarters in Cambridge, UK and acquisition-related costs of £0.2m relating to the exclusive license agreement with Roche relating to the Spring portfolio.

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 2018, the impact of foreign exchange movements in the year was £7.1m unfavourable in revenue and £1.1m in adjusted EBITDA, after the impact of hedging.

Cash flow and net cash

	2018 £m	2017 £m
Operating cash flows before working capital	**81.0**	71.7
Change in working capital	**(8.1)**	4.8
Cash generated from operations	**72.9**	76.5
Income taxes paid	**(9.6)**	(10.1)
Net cash inflow from operating activities	**63.3**	66.4
Cash outflow of investing activities	**(37.7)**	(32.9)
Cash outflow from financing activities	**(20.6)**	(17.8)
Increase in cash and cash equivalents	**5.0**	15.7
Cash and cash equivalents at beginning of year	**84.8**	68.9
Effect of foreign exchange rates	**0.4**	0.2
Cash and cash equivalents at end of the year	**90.2**	84.8
Free Cash Flow*	**26.8**	41.3

* Free Cash Flow comprises net cash generated from operating activities less net capital expenditure and committed funding for future capital expenditure.

The Group continues to be strongly cash generative, with cash inflow from operations of £63.3m (2016/17: £66.4m) and free cash flow of £26.8m (2016/17: £41.3m), including a year-on-year increase in working capital of £12.9m. The change in working capital is explained by an increase in stock of top-selling products to improve availability, amounting to approximately £5m, as well as certain other one-off working capital inflows in the prior year.

Cash outflow on investing activities of £37.7m (2017: £32.9m) includes £1.5m in relation to the acquisition of the exclusive license agreement from Roche (with a further commitment of £11.8m payable in 2018/19) and capital expenditure of £36.5m. Major capital expenditure items included £18.3m and £11.6m on the Oracle Cloud ERP and new Group headquarters, respectively, as well as £4.3m on Internally developed technology.

After net cash outflows from financing activities of £20.6m, predominantly relating to dividend payments, together with a small foreign exchange impact, the Group ended the year with closing cash of £90.2m (2016/17: £84.8m), a net increase of £5.4m.

Balance sheet

Goodwill and Intangibles

Goodwill was £114.2m (2017: £115.5m) with the decrease relating mainly to exchange rate movements.

Intangible assets were £106.3m (2017: £73.6m). The increase primarily reflects additions arising from the Spring licence acquisition from Roche (£10.9m) together with £17.5m in respect of investments made in our new ERP system and £10.8m relating to the reclassification of 'Internally developed technology' from property, plant and equipment to intangible assets.

Property, plant and equipment

Property, plant and equipment additions of £18.3m (2016/17: £10.2m) have been made in the year, comprising £13.5m (2016/17: £1.1m) associated with the construction of our new Group headquarters and £4.8m of other investments (2016/17: £9.1m). These other investments include £2.4m spent on laboratory equipment across our sites in the UK, the US and China, as well as £2.0m on continued development of the Group's product range.

Trade and other payables

Trade and other payables were £45.8m (2016/17: £29.3m) with the increase being mainly due to £11.8m of outstanding consideration in respect of the Spring acquisition and increased capital accruals in respect of the new global headquarters.

Dividends

The Board declared an interim dividend of 3.42 pence per share which was paid to shareholders on 12 April 2018. The Board has proposed a final dividend of 8.58 pence per share, taking the total dividend for the year to 12.00 pence per share, a 17.9% increase on the previous year and equating to approximately £24.6m. The final dividend is subject to shareholder approval at the forthcoming AGM.

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 need for both of these to be held at the Company level. At 30 June 2018, the Company held retained earnings of £250.5m, the majority of which is distributable. The Group has cash resources of £90.2m at 30 June 2018, of which £67.2m was held by the Company.

Principal risks which may restrict profitability and cash generation, and therefore fund future dividend growth and payments, are described in 'Our risks' on pages 32 to 38. Notwithstanding these risks, the Group has an established track record of consistently generating cash which is expected to continue for the foreseeable future.

Outlook

The fundamentals of our business remain strong. The revenue growth this year and in previous years remains a measure of the continued success of our strategy and provides a solid foundation from which to invest in the business.

Overall, the outlook for our markets remains positive and we expect our total constant currency revenue growth for 2018/19 to be approximately 11%. Beyond this, we anticipate that the investments we are making, together with our financial strength, will lay the foundation for growth in 2019/20 and beyond, supporting our ambition to maintain revenue growth at low double-digit rates over the medium-term.

In the coming year, alongside our ongoing investment in our capital projects and scalability, we plan to increase investment in a number of strategically important areas including R&D, China, Abcam Inside and data analytics. We are also launching a new share ownership scheme open to all employees globally, to recognise their invaluable contribution and to help maintain our entrepreneurial spirit as we continue to expand. Whilst we will look to partly fund these investments through the continued realisation of efficiencies and savings in our core business, we currently anticipate adjusted EBITDA margin in 2018/19 will be approximately 36%.

Over time, these investments will increase our capabilities, add new products and services for our customers and improve our operational efficiencies, helping us to achieve our ambition to double our 2016 scale by 2023 and fulfil our mission to help life science researchers discover more, faster.

Gavin Wood
Chief Financial Officer
7 September 2018