Double-digit revenue growth delivered; continue to prioritise investment in long-term growth

Financial highlights

- Total revenue increased by 11.4% on a reported basis and 9.2% on a constant exchange rate (CER) basis
- Gross margin improved by 60 basis points to 70.5%
- EBITDA margin of 32.4% (2017/18: 35.0%) and Adjusted EBITDA margin of 35.6% (2017/18: 37.9%), reflect planned strategic investments made during the year
- Reported operating profit margin of 21.6% (2017/18: 29.5%), after impact of £12.8m non-cash impairment charge, and Adjusted operating margin of 32.2% (2017/18: 34.9%)
- Reported diluted EPS decreased by 27.8% to 21.8p as a result of the non-cash impairment charge and adjusted diluted EPS grew 0.6% to 32.6p
- Strong cash generation continued, with net cash inflow from operating activities of £70.2m (2018/19: £63.3m)
- Proposed final dividend of 8.58 pence (2017/18: 8.58 pence), taking the proposed total annual dividend to 12.13 pence per share, an increase of 1.1%
- £200m Revolving Credit Facility secured, providing additional flexibility for future corporate transactions

The Chief Financial Officer's Report and Financial Review includes discussion of alternative performance measures which are defined in further detail in the investor information section on page 141 and which are considered by the Board and management in reporting, planning and decision making. 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. 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. Further detail on the Group's financial performance is set out in the financial statements and notes thereto.

"

The Group delivered another solid financial performance in 2019, underpinning our continued investment in long-term growth.

Gavin Wood
Chief Financial Officer

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 Year ended 30 June			Adjusted results 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	**22.0p**	30.5p	*(27.9%)*	**32.9p**	32.7p	*0.6%*
Diluted	**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%	

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

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 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.

Gavin Wood
Chief Financial Officer
6 September 2019

Revenue

	Reported revenue 2019 £m	Reported revenue 2018 £m	Increase in reported revenue	CER growth rate
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 (ROA)	**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)[1]	**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 products[2]	**49.6**	42.3	*17.3%*	*14.7%*
of which Immunoassay products	18.5	15.0	*23.3%*	*21.9%*
Catalogue sub-total	**242.8**	216.8	*12.0%*	*9.8%*

1 Includes custom services, IVD/IHC and royalty and licence income.
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, licences 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 2019 £m	Reported 2018 £m	Reported % Change	Adjusted* 2019 £m	Adjusted* 2018 £m	Adjusted* % Change
Selling, general and 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%*

* 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 consolidated financial statements.

Selling, general and administrative 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 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 premises-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 IFRS 16 as described in note 2 to the consolidated 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 to serve our customers' 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. Deprecation costs of £0.4m relating to building were taken during the year, reflecting five months of occupancy.

Adjusting items

	2019 £m	2018 £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 and 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

	2019 £m	2018 £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*	**34.3**	26.8

* 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 licence 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).

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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 shareowners 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.

Principal risks which may restrict profitability and cash generation, and therefore fund future dividend growth and payments, are described in 'Risk overview' and 'Principal risks and uncertainties' on pages 36 to 44. Notwithstanding these risks, the Group has an established track record of consistently generating cash which is expected to continue for the foreseeable future.

Gavin Wood
Chief Financial Officer
6 September 2019