

## CHAIRMAN'S REVIEW

## Another successful year

It was a solid year for Horizon, with strong financial performance and continued successful implementation of our 'Investing for Growth' strategic plan. While global macro-economic uncertainty abounds, Horizon is well-placed for future growth having implemented key strategic changes and prepared for a secondary U.S. listing through the year.



“As a result of the changes we have made to the business over the last 12 months, Horizon has never been better placed to capitalise on its unique market position.”

**DR IAN GILHAM, NON-EXECUTIVE CHAIRMAN**

### DELIVERING ON OUR GOALS

I am delighted to report on a very successful year for the Group in which we achieved another solid financial performance and delivered on the goals that we set ourselves under the Investing for Growth strategy.

Key strategic changes implemented during the year include the divestment of our In Vivo business unit and a new strategic collaboration with Mammoth Biosciences. Just after year end, following a year of proof of concept testing, we exercised our option to exclusively license a novel base editing technology from Rutgers, The State University of New Jersey (U.S.).

### INTENTION TO LIST ON NASDAQ

In addition to all of the above the executive management team have been preparing the business for the next stage of its development namely a secondary listing in the U.S.

The rationale for this secondary listing is driven both by the recognition that the U.S. market plays an increasingly important role in Horizon Discovery's growth story, and the greater access that it will give Horizon to a U.S. investor base that is well attuned to growth-oriented life sciences organisations.

In particular, the Board believes that the U.S. capital markets offer Horizon a larger pool of capital and a broader and deeper investor base in the biotechnology and life science tools sectors, both of which we believe would

FOR BIOGRAPHY VISIT **PAGE 42**

provide additional trading liquidity in our ordinary shares. Furthermore, listing in the U.S. would allow the Group to accelerate its 'investing for growth' strategy which could support further growth in shareholder value.

With approximately 50% of our shares already held by U.S. investors at the time of writing, this is a timely move and one the Board has had under review for a considerable time.

Preparing Horizon for the U.S. listing has impacted almost all aspects of the business from strengthening our financial controls and reporting, through to IT, legal and marketing. During the year, Jayesh Pankania (who himself was appointed as CFO in January 2019) significantly bolstered the corporate function and recruited a number of key senior management hires in finance, legal and IR who brought with them relevant experience to help lead the U.S. listing project.

It is testament to the hard work of Terry, the executive leadership and the project team that they have been able to complete the necessary preparations, whilst continuing to restructure and streamline the business at the same time as doing the day job of delivering a solid financial performance against the backdrop of uncertain global macro-economic conditions. At the time of writing the U.S. listing process is currently delayed, but we will continue to pursue it when market conditions are more favourable.

#### ALIGNED TO HIGH GROWTH MARKETS

Our customers use the Group's products and services to identify the genetic drivers behind human disease, gain a greater understanding of drug-gene interactions, develop and validate diagnostic workflows, and deliver biotherapeutics, cellular and gene therapies for precision medicine. In turn, the knowledge that we have gained through our many customer engagements, enables us to identify market areas where cell line engineering expertise can be applied to new market opportunities and the development of novel solutions for existing customers and new customers alike.

Our offerings in BioProduction and Diagnostics are two clear examples of business opportunities which we have created organically by leveraging our cell engineering expertise. Our ambition is to capitalise on this success by launching new disruptive technology platforms in adjacent high value market areas either organically or through selected acquisitions and in-licensing opportunities.

We were therefore delighted to conclude our strategic collaboration agreement with Mammoth Biosciences in December 2019, which will see us jointly develop new CRISPR gene editing tools for the biopharmaceutical industry. If successful, it will provide us with an opportunity to become

a disruptive provider of best in class engineered CHO cells, offering a novel gene editing approach for this high value market.

Similarly, our licencing agreement with Rutgers, The State University of New Jersey (U.S.), for use of its novel base editing technology is potentially transformative for our business. Base editing is a novel highly accurate gene editing platform which has the potential to revolutionise the treatment of genetic diseases. Our license includes the right for Horizon to sublicense the technology to entities seeking to use it for therapeutic development. We are already seeing strong interest from pharma companies seeking early access to help us to shape the development of this exciting technology platform.

#### BOARD AND GOVERNANCE

We have a very strong and diverse Board, comprising directors with a broad spectrum of complementary skills, personalities and competencies. There were no changes to the Board during the year.

Post the date of signing of the Annual Report the Board will be appointing Dr Siddhartha Kadia as Non-Executive Director replacing Dr Susan Galbraith who will be stepping down from the Board as of the same date as a result of an increase in her other commitments.

Dr Kadia has an extensive background in executive management and public company governance in a range of global businesses, and crucially given our U.S.-Listing ambitions, has been a Director of U.S.A. listed companies Newport Corporation (NSDQ: NEWP) and Volcano Corporation (NSDQ: VOLC). We are delighted to welcome him to the Board.

At the same time, we are very sorry to be saying goodbye to Susan who has served the Board with distinction since her appointment in 2014. On behalf of my colleagues I would like to thank her for her invaluable contribution over the last six years and to wish her every success in her expanded role within AstraZeneca.

#### EFFECTIVE CORPORATE GOVERNANCE

The importance of strong and effective corporate governance both at Board level and throughout the Group is not underestimated by the Board and we pride ourselves on clear and transparent reporting. Our corporate governance report on pages 42 to 60 sets out our governance framework.

#### MACRO-ECONOMIC HEADWINDS

On 23 June 2016, the U.K. held a referendum on continuing membership of the EU, the outcome of which was a decision for the U.K. to leave the EU (Brexit). As we have all witnessed, this has become a protracted and divisive issue for the U.K.

## CHAIRMAN'S REVIEW CONTINUED

However, following negotiations on the terms of the U.K.'s exit from the EU, the U.K. parliament, the European Council, the European Commission and the U.K. Prime Minister signed the Withdrawal Agreement on 24 January 2020.

Under the terms of this agreement, the U.K. left the EU at 11:00 p.m. GMT on 31 January 2020 but will remain within the EU single market and customs union for a transitional period through December 2020.

There is still considerable uncertainty concerning the U.K.'s legal, political and economic relationship with the EU after Brexit. The Board reviews the potential impact of Brexit regularly and has responded by engaging proactively with key external stakeholders and establishing a cross-functional team to understand, assess, plan and implement operational actions that may be required.

In the meantime, the Group has adopted a base case planning assumption of a hard Brexit/no deal and the Board believes it is fully prepared in the event of such an outcome.

### IMPACT OF COVID-19

From the beginning of 2020, we have seen the rapid emergence of the COVID-19 (more commonly referred to as coronavirus) pandemic have a dramatic impact on entire countries, industries and global markets.

Consistent with the Group's COVID-19 update announcement of 27 March 2020 and the Placing announcement of 17 April 2020, Horizon initially experienced a limited impact from the COVID-19 outbreak but events in relation to the pandemic continue to evolve rapidly.

Horizon's trading for the first quarter of 2020 has been broadly in-line with management expectations. However, orders towards the end of March indicated pressure in Research Reagents as academic research labs slowed or stopped working following the widespread lock-down in major economies that was implemented in the second half of the month. This trend appears to have continued into the second quarter of 2020.

Separately, the Group has seen increasing interest from its BioPharma clients and a trend towards outsourcing as companies continue prioritising key projects and supplement in-house resources. Both of Horizon's U.K. and U.S. sites are open and running client projects without disruption, and the Group is not experiencing any material delays in either distributing its products or running its service projects. The Group is actively monitoring key suppliers regarding potential supply chain interruptions, and so far, no immediate risks to supply have been identified.

Horizon's first priority remains the health and safety of its employees on site. The Group has implemented appropriate action plans aligned to the latest government advice in each respective country of operation. These focus on safety, travel, hygiene (including self-quarantine) and contingency planning, primarily centred around remote working. Laboratory teams can work flexibly, facilitating different working patterns that should minimise the impact of COVID-19.

The Group is implementing measures intended to provide the business with financial flexibility in an unknown and volatile environment, and is conserving cash to minimise expenditure whilst maintaining operational delivery through a number of actions:

- Continuing with key strategic projects but deferring certain non-essential ones
- Deferring capital expenditure where there is no impact on key strategic projects
- Hiring freezes where appropriate
- Pay cuts and pension reductions for staff – on a sliding scale aligned to salary band
- Furloughing of c. 24 staff in the U.K. and planned implementation of U.S. Paycheck Protection Programme covering c. 160 U.S. employees (as well as rent and utilities)
- Travel, conferences and discretionary spend savings

Implementing the cash conservation measures listed above is expected to deliver in-year cash savings in the range of £8 million to £10 million.

Horizon has reviewed its financing options, including evaluating support from both the U.K. and U.S. governments including the COVID-19 related loan schemes, and is also in preliminary discussions with providers of working capital facilities.

The Group's contingency planning includes a package of more extensive actions should conditions deteriorate and/or if additional government support is not available. The Group has modelled further downside scenarios under which adverse trading conditions extend in to H2 2020 and return to trading normality extends beyond the current year-end. The potential downside risks include further reduction in Research Reagents business unit revenues and delays to the phasing of BioProduction revenues. Under these scenarios Horizon would have to take further cash conservation measures including but not limited to:

- Further reduction in capital expenditure
- Further remuneration measures
- Review of staffing levels commensurate with revised revenue levels

These further mitigating measures could be augmented by any additional support available from the U.K. and U.S. governments upon a more prolonged period of economic disruption. While we expect the cash conservation measures described to deliver headroom in each of the downside scenarios contemplated, the net proceeds of the Placing executed in April 2020 should mitigate any further downside risk.

### SUMMARY

Despite the continuing macro-economic uncertainties on the global stage, Horizon operates in a number of related attractive, high-growth markets. Gene editing and modulation technologies continue to be increasingly pivotal in drug discovery, development and manufacturing. As a result of the changes we have made to the business over the last 12 months, Horizon has never been better placed to capitalise on its unique position in these markets.

I would like to thank the staff at Horizon for their endless dedication to enabling our customers to deliver better healthcare solutions and our investors and customers for their continuing support.



DR IAN GILHAM  
NON-EXECUTIVE CHAIRMAN

### SECTION 172

The Board considers the interests of the Group's employees and other stakeholders, including the impact of its activities on the community, environment and the Group's reputation, when making decisions.

The Board, acting in good faith, considers what is most likely to promote the success of the Group for its shareholders in the long term.

- How the views and interests of all our stakeholders were represented in the boardroom during the year and how we responded on pages 32 to 33
- The Group's goals, strategy and business model in the Strategic report on pages 4 to 39
- How we manage risks on pages 34 to 36
- Corporate governance on pages 42 to 60 including how governance supported the delivery of our strategic objectives in 2019.

## OUR INVESTMENT CASE

We believe our future growth will be driven by the following competitive strengths:

- 1 Broad portfolio and deep expertise in cell engineering.**

We believe we are a leader in leveraging technologies in gene editing and gene modulation with a proven ability to develop and commercialise them in our markets. We have access to a variety of cell engineering technologies, which allows us to take a technology-agnostic approach to delivering customer solutions.
- 2 High growth business comprising a mix of well-established and potentially disruptive business units.**

Our business is underpinned by our long standing, high growth Research Reagents business which generates over 50% of our revenues from approximately 2,000 customers world-wide. In addition, we are investing in three innovative, non-mutually dependent businesses that we expect will have attractive growth profiles: Screening, BioProduction and Base Editing. All of our business units leverage our core competence in cell engineering.
- 3 Attractive, large and high growth addressable end markets.**

Our portfolio of gene editing and gene modulation tools and services support and enable critical elements of the therapeutic ecosystem, from basic research through to drug discovery and development and therapeutic applications.
- 4 Unique market insights derived from longstanding customer relationships.**

We have established deep customer relationships with leading academic institutes and biopharmaceutical and diagnostics companies globally. The insights we gain from these customer relationships inform our product development and ensure that our tools and services are aligned to customers' needs.
- 5 Established commercial team with global reach led by an experienced management team.**

We have an experienced senior management team whose members have a proven track record of growing successful global life science tools and services businesses and experience in industrialising, scaling and commercialising biological tools and services. We believe our 50-person sales organisation, comprising key account partners, territory sales and field application specialists, provides us with global reach, and is a key differentiator.