CHIEF FINANCIAL OFFICER'S REVIEW

Delivering solid year-on-year growth

2019 was a year in which the Group focused its investment on its high-growth opportunities. The additional investment in Base editing and our collaboration with Mammoth Biosciences further strengthen our position as a world-leading expert in cell-based technologies.

"During 2019, the Group delivered year-on-year growth of 7.8% driven by strong performance of our Screening and Research Reagents business units."

JAYESH PANKHANIA, CHIEF FINANCIAL OFFICER

FINANCIAL HIGHLIGHTS

- Group revenue on continuing operations of £58.3m up 7.8%, driven by screening and research reagents business units
- Revenue on a Constant currency[1] basis for continuing operations of £56.7m up 4.8%
- Gross profit on continuing operations up 30bps to 70.0%
- Loss before tax on continuing operations £11.5m
- Adjusted EBITDA[2] on continuing operations of £3.9m up £1.8m

1 Constant currency is a non-IFRS financial measure that we define as the impact of applying the prior period average exchange rates to the current period revenues.

2 Adjusted EBITDA is a non-IFRS financial measure that we define as loss for the year on continuing operations adjusted for finance costs, investment income, amortisation and depreciation, and items considered as non-recurring and infrequent in nature as disclosed in Note 6 of the Financial Statements. Adjusted EBITDA incorporates a positive £2.5m impact of IFRS 16 which was adopted on 1 January 2019.

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GROUP FINANCIAL PERFORMANCE

During 2019, the Group delivered £58.3m of revenues on continuing operations (FY18: £54.1m), representing solid year-on-year growth of 7.8% (4.8% growth on a constant currency basis). The increase is primarily driven by strong performance of our screening and research reagents business units, which offset a weaker performance of the Diagnostics business unit.

On 2 December 2019 the Group completed the sale of the Group's In Vivo business unit ("In Vivo") to Envigo RMS LLC ("Envigo"), for a nominal consideration satisfied in cash. The consolidated income statement (page 72) reports the results for the In Vivo business unit as discontinued. The combined continued and discontinued operations reported revenues of £62.9m (FY18: £58.7m), up 7.2%.

The Group maintained overall gross profit levels reporting a slight increase to 70.0% (FY18: 69.7%) driven by improved margins in Research Reagents and BioProduction. The discontinued operations reported a gross profit of 40.4% (FY18: 39.3%).

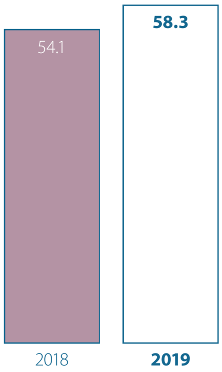
The Group reports a loss after taxation on continuing operations of £9.2m (FY18: loss after tax on continuing operations of £3.7m) for the full year and a positive adjusted EBITDA of £3.9m (FY18: £2.1m). The increased loss is a result of continued investment for growth, but particularly fees associated with a U.S. Listing and the impairment of our joint venture in Avvinity.

We present alternative performance measures because we believe they are frequently used by analysts, investors and other interested parties to evaluate companies in our industry and facilitate comparisons on a consistent basis across reporting periods. The reconciliations are presented below.

ADJUSTED EBITDA

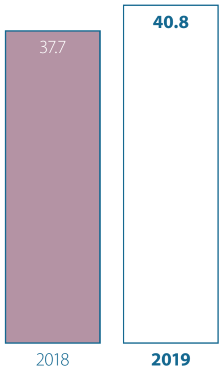
The following is a reconciliation of our loss for the period from continuing operations, the most directly comparable financial measure calculated under IFRS, to adjusted EBITDA:

REVENUE – CONTINUING OPERATIONS (£M)



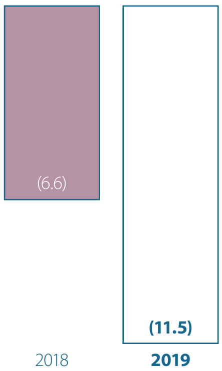
£58.3M +7.8%

GROSS PROFIT – CONTINUING OPERATIONS (£M)



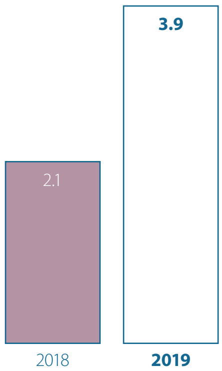
£40.8M +£3.1M

LOSS BEFORE TAX – CONTINUING OPERATIONS (£M)



£(11.5)M

ADJUSTED EBITDA – CONTINUING OPERATIONS (£M)



£3.9M +£1.8M

Year Ended 31 December	**Continuing Operations 2019 £'000**	Continuing Operations 2018 £'000
Loss for the year on continuing operations	(9,227)	(3,680)
Add back:		
Taxation	(2,285)	(2,938)
Finance costs	866	7
Investment income	(58)	(90)
Depreciation and Amortisation	9,608	7,700
Costs associated with preparation for NASDAQ listing	1,682	–
Impairment of investment in Joint Venture	3,019	–
Executive management exit costs	281	476
Non recurring legal and advisory fees	–	585
ADJUSTED EBITDA[2]	**3,886**	**2,060**

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

The reported 2019 Adjusted EBITDA incorporates the impact of IFRS 16 (refer to Financial Statements Note 1) which was adopted on 1 January 2019. There is a positive £2.5m impact to EBITDA due to the reclassification of operating lease expenses previously recorded in operating expenses to depreciation, amortisation and interest payments. The Adjusted EBITDA for 2019 before the impact of IFRS16 is £1.4m (FY18 £2.1m). The movement in EBITDA is the result of the continued strategy of investment for growth, as the Group continues to invest in its commercial, marketing and Research, Development and operations functions to support this.

CONSTANT CURRENCY

Constant currency is the measured current year revenues based on the prevailing foreign exchange rates from the prior year.

REVENUE AND GROSS PROFIT BY BUSINESS UNIT – CONTINUING OPERATIONS

Total revenue for continuing operations was £58.3m for the year (FY18: £54.1m, representing an increase of £4.2m, or 7.8%. Summary of the performance by business unit:

	Revenue 2019 £'000	Revenue – constant currency 2019 £'000	Gross Profit 2019 £'000	Gross Profit % 2019	Revenue 2018 £'000	Gross Profit 2018 £'000	Gross Profit % 2018
Research Reagents	33,464	32,491	21,761	65.0%	30,871	19,668	63.7%
Screening	11,409	11,139	7,873	69.0%	8,931	6,402	71.7%
Bioproduction	8,565	8,391	7,397	86.4%	8,717	7,242	83.1%
Diagnostics	4,815	4,659	3,724	77.3%	5,614	4,408	78.5%
CONTINUING OPERATIONS	**58,253**	**56,680**	**40,755**	**70.0%**	**54,133**	**37,720**	**69.7%**

RESEARCH REAGENTS

Research reagents revenue increased to £33.5m for the year (FY18: £30.9m), representing an increase of £2.6m, or 8.4%. The primary driver of the strong performance was growth in sales of our RNAi and CRISPR reagents. As the business unit sustains its gross margin level, reporting 65.0% (FY18: 63.7%) it results in a growth of reported gross margin of £2.1m to £21.8m (FY18: £19.7m).

SCREENING

Screening revenue increased to £11.4m for the year (FY18: £8.9m), representing an increase of £2.5m, or 28.1%. The driver is our CRISPR screening and molecular screening which has seen solid interest from our customers. The business unit reported a slight decrease in gross margin rates to 69.0% (FY18: 71.7%). Overall the business unit reports an increase in gross profit of £1.5m to £7.9m (FY18: £6.4m).

BIOPRODUCTION

Bioproduction experienced a slight decrease in revenue reporting £8.6m (FY18: £8.7m). FY18 was particularly strong with two large orders, as expected they did not repeat in 2019. The business unit reported a gross profit of £7.4m or 86.4% (FY18: £7.2m or 83.1%).

DIAGNOSTICS

Diagnostics revenue decreased to £4.8m (FY18: £5.6m) representing a decrease of £0.8m, or 14.3%. The Group faced challenges during H1 due to organisational issues, being the main driver for the FY19 decline. The action taken to resolve the matters saw an improvement in the business unit during the second half of the year. The business unit reported a gross profit of £3.7m or 77.3% (FY18: £4.4m or 78.5%) which is the direct results of the fall in revenue.

OTHER OPERATING INCOME

Other operating income was £2.1m (FY18: £2.2m) and includes grant income, R&D tax credits and sublease income.

SALES, MARKETING AND DISTRIBUTION COSTS

During 2019, Horizon continued to make substantial investments in building world-class commercial operations, resulting in sales, marketing and distribution expenses of £14.3m (FY18: £12.5m). The increase in cost is primarily due to increased marketing spend and the full-year impact of hires in 2018.

RESEARCH, DEVELOPMENT AND OPERATIONS COSTS

Innovation remains central to sustainable value creation for the business. During 2019, we continued to invest in our innovation capability, and our expenditure on research, development and operations was £14.2m (FY18: £13.4m). Spending on R&D, new product introduction, customer support, attendance at scientific conferences, and training contribute to this increase.

We expect to increase investment in research and development, specifically concerning the development of our next generation CHO cells and our base editing programme.

In January 2020 we announced that we have entered into a strategic collaboration and licence agreement with Mammoth Biosciences. Horizon gains access to Mammoth's novel CRISPR platform which facilitates the delivery of a new generation of genetically engineered CHO cells to produce biotherapeutics such as therapeutic antibodies.

We are excited to announce we have advanced to the next stage with our agreement with Rutgers University concerning the development and commercialisation of base editing. The gene-editing approach has the potential to provide significant benefits in cell therapy, among other applications.

CORPORATE AND ADMINISTRATIVE EXPENSES

During 2019 we incurred corporate and administrative expenses of £24.4m (FY18: £20.4m). Included in this expense category is the impairment of £3.0m (FY18: nil) of our investment in the Avvinity joint venture. The resultant increase is due to the Group expanding the corporate team to drive improved corporate and financial governance and strengthening the Group's resources in finance and IT to support a potential U.S. listing.

BALANCE SHEET

Non-current assets decreased by £0.2m to £112.3m (FY18: £112.5m), this is primarily the result of the recognition of the right of use assets of £10.0m on the adoption of IFRS 16 offset by the impairment of £3.0m in respect of the Joint Venture and amortisation and depreciation of £9.6m. Non-current liabilities have increased by £8.1m, driven by the recognition of lease liabilities of £10.3m on the adoption of IFRS 16.

Net current assets decreased to £28.9m (FY18: £37.5m), which is significantly driven by the reduction of our cash and cash equivalents of £8m.

CASHFLOW

The Group had cash resources on 31 December 2019 of £18.8m (2018: £26.7m). For the second year, the Group experienced a positive cash flow from operating activities. Overall cash resources decreased as the Group continued to invest for growth, with cash investments mainly consisting of £4.7m in respect of property, plant and equipment and intangible assets, along with change in working capital.

CAPITAL EXPENDITURE

During 2019, Horizon invested £2.7m (FY18: £0.9m) in intangible assets and £2.0m (FY18: £2.7m) in plant and equipment to enhance our intellectual property, automation and business infrastructure including the creation of an enhanced website. In 2020, the Group will continue investing in programmes including automation, eCommerce and improved IT infrastructure, which will enable Horizon to scale up operations and deliver sustainable growth.

COVID-19 AND PLACING

Over the last year we have worked hard in preparing the company for a listing on the Nasdaq in addition to our AIM listing. We are ensuring that our governance, financial controls and processes are strengthened to be appropriate for a dual listed business. The COVID-19 pandemic has caused capital markets to become highly volatile and, whilst it is still our intention to list on the Nasdaq, we will review the timing of a list when market conditions are more appropriate.

Details of how the COVID-19 pandemic could impact the Group are included on page 35 in the risk management section and on page 12 in the Chairman's Review. The first quarter of 2020 was broadly in line with management expectations, however orders towards the end of March 2020 indicated pressure on 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 has continued in Q2 2020.

In response we have proactively implemented plans to conserve cash and raised gross proceeds of £6.9m in a placing on 17 April 2020. The net proceeds of the placing will be used to strengthen the Group's balance sheet, working capital and liquidity position. As the COVID-19 situation is evolving, the full impact for the year remains unclear, however we have modelled a number of downside scenarios which shows cash headroom for at least the next 12 months.

SUMMARY AND FINANCIAL OUTLOOK

2019 was a year that the Group embedded the new strategy focusing investment on our high-growth opportunities. The divestment of our In Vivo business enables us to focus on our areas of growth. The enhanced corporate and financial governance, investment in automation and IT infrastructure will provide a robust platform for continued, sustainable revenue growth. During the COVID-19 pandemic, we intend to minimise cash expenditure whilst prioritising our key strategic projects such as our collaboration with Mammoth Biosciences and Base Editing.

J Pankhania

JAYESH PANKHANIA
CHIEF FINANCIAL OFFICER