Full year 2020 results and update on strategy

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Novacyt S.A.

("Novacyt", the "Company" or the "Group")

Full year 2020 results and update on growth strategy

Transformational performance in 2020

Continued strong demand for COVID-19 testing in 2021

Strategy to deliver long-term growth through test, instrument, and geographic expansion in key areas, supplemented by M&A

Paris, France and Camberley, UK - 22 June 2021 - Novacyt (EURONEXT GROWTH: ALNOV; AIM: NCYT), an international specialist in clinical diagnostics, announces its audited results for the year ended 31 December 2020 and provides an update on its growth strategy.

Graham Mullis, Group CEO of Novacyt, commented:

"2020 was a year of transformation for Novacyt as we responded to the worldwide spread of COVID-19. Historically, we have built a reputation for the innovation and high performance of our diagnostic technologies, which allowed us to rapidly respond to the pandemic through the development of a reliable COVID-19 PCR testing portfolio. As a result of supporting an urgent global demand for PCR testing, the future of Novacyt has been secured, having repaid all long-term debt, significantly strengthened the balance sheet, and delivered on a number of strategic objectives to support future growth.

"As the COVID-19 testing market has continued to evolve in 2021, we have continued to strengthen our core capabilities and apply our bioinformatics and design expertise to expand our product offering. We therefore expect to see Novacyt continue to play a major role in COVID-19 testing and, specifically, we expect to see strong revenue growth in private testing as markets and international travel re-opens.

"As we look to build on our solid foundations, and develop Novacyt into a major diagnostics player, we have updated our strategy for delivering long-term growth with a refined focus in key areas of test, instrument, and

geographic expansion. We will also continue to supplement these growth initiatives through our M&A strategy. The Board believes that Novacyt is well positioned to create sustainable, long-term value.

"I would like to extend my sincere gratitude to all of our employees for their ongoing hard work and dedication, as well as our partners and suppliers for their loyalty throughout 2020 and so far in 2021 as we continue the fight against COVID-19. Finally, I would like to thank our shareholders, long-standing and new, who continue to support Novacyt."

Financial highlights

· Group consolidated revenue increased by over 20x to £277.2m in 2020 compared with £11.5m in 2019

· Group gross margin continued to improve, increasing to 76.3% in 2020 from 64.0% in 2019

· Group EBITDA increased to £176.1m in 2020 compared with £0.2m in 2019, with EBITDA margin increasing to 64% in 2020 compared with 2% in 2019

· Operating profit of £167.4m in 2020 compared to a loss of £1.6m in 2019

· Profit after tax of £132.4m in 2020 compared to a loss of £5.7m in 2019

· Cash at year-end of £91.8m compared with £1.5m in 2019

· The Group exits 2020 debt free after all debt of £7.1 million was repaid during H1 of 2020

£'000	2020 Consol	2019 Consol	2018 Consol
Revenue	277,204	11,468	12,140
Gross profit	211,500	7,340	7,613
Gross margin %	76%	64%	63%
EBITDA	176,145	174	512
Recurring operating profit / (loss) *	174,843	(1,088)	(376)

Operating profit / (loss)	167,441	(1,556)	(1,225)
Profit / (loss) after tax	132,423	(3,419)	(1,869)
Loss from discontinued operations	-	(2,330)	(2,323)
Profit / (loss) after tax attributable to the owners	132,423	(5,749)	(4,192)

Operational highlights

· Rapid development and launch of 10 new products to support laboratories and clinicians testing for COVID-19

o Developed one of the first molecular tests for COVID-19, receiving CE Mark accreditation and Emergency Use Authorisation from numerous regulatory authorities around the world

o Launch of a number of additional innovative PCR products, including Exsig®, PROmate®, genesig® COVID-19 HT 2.0 and Winterplex®, to improve workflow efficiency and address testing needs in both central and near-patient settings

· Significant organisational scale-up, including a manufacturing capacity increase of over 100x, an increase in supply chain capacity, and a significant investment in R&D and commercial infrastructure to support growth

· Strategic collaboration with AstraZeneca plc, GSK plc and University of Cambridge to support COVID-19 testing in the UK

· Secured significant contracts with national governments, including the UK DHSC, and global non-government organisations for the supply of COVID-19 products

· Acquisition and successful integration of IT-IS International Ltd in line with strategy, securing key instrumentation IP and expanding core capabilities and product offering

· Development of VersaLab™ for near-patient PCR testing in the emerging private sector testing market

· Expertise in bioinformatics surveillance used to assess ongoing accuracy of COVID-19 tests and monitor new viral sequences of SARS-CoV-2

Post-period highlights

· Continued expansion of COVID-19 portfolio to support evolving customer needs

o Launch of SNPsig®, a new PCR genotyping portfolio (including VariPLEX™) to diagnose variants, initially focused on SARS-CoV-2, to address the rapidly shifting landscape of new virus variants and vaccine escape detection

o Expansion of PathFlow® lateral flow test portfolio with COVID-19 tests

· Inclusion in Public Health England National Microbiology Framework for Diagnostic Goods and Services and NHS England Framework for detecting Variants of Concern

· Launch of VersaLab™ mobile processing laboratories and VersaLab™ Portable to expand near-patient testing opportunities in private sector testing

· Strengthened executive team and commercial operations to support future growth

o Appointment of James McCarthy as Chief Financial Officer

o Anthony Dyer assumed a new role of Chief Corporate Development Officer to focus on business development

o Appointment of Guillermo Raimondo to newly formed role of Chief Commercial Officer to lead global commercial operations

o Recent appointment of Kevin Crittenton as US General Manager and set-up of Novacyt US Inc

Strategy update highlights

Novacyt has continued to build on its strategy for delivering long-term growth, with the following organic and R&D growth opportunities identified

· Test menu expansion: Continue to leverage the Company's strong bioinformatics and design expertise to develop tests in three areas of focus

o COVID-19 testing - expanding test menu for new variants and innovate to support testing efficiencies and results delivery

o COVID-19 Plus testing - targeting expansion into closely adjacent areas of COVID-19, and biomarker monitoring to predict COVID-19 progression and to diagnose conditions in affected patients

o Post-COVID-19 testing - addressing unmet testing needs, such as pathogens resistant to antimicrobials, sepsis, and transplantation, for central laboratory and near-patient testing

· Instrument expansion: Following the acquisition of IT-IS, Novacyt will expand the placement and use of its q16 and q32 instruments through developing test menus based on the requirements of different near-patient settings. Further expansion of protein based diagnostic technologies, including lateral flow, will also be developed, licensed, or acquired by the Company

· Geographical expansion: High priority geographies (including UK, US, Germany and other European markets) to be targeted with a focus on direct sales, marketing and distribution supported by organic investment and acquisitions

o Commercial infrastructure already established in the UK positions the Company well to support expansion in these diagnostic markets

o Expansion underway in US market, with establishment of Novacyt US Inc and appointment of a US General Manager, with up to 10 additional hires expected in H2 2021

· Novacyt remains focused on M&A to supplement these initiatives

Post balance sheet event / DHSC Dispute

On 9 April 2021, Novacyt announced it was in dispute with the DHSC in relation to its second supply contract and made a further update on 21 May 2021. The dispute primarily relates to Q4 2020 revenue totalling £129.1m in respect of a specific product supplied to the NHS. The Company has taken independent legal advice and a provision has been made in the financial statements with the Board's estimate at this time in respect of this claim with DHSC.

The Board has formed a judgment that, in accordance with the contractual terms, and if required, it should be possible to replace the product in dispute and a product warranty provision has been made accordingly. The Board's best estimate of the cost to replace is up to a maximum of £19.8m, the timing of any outflow is dependent on settlement of the dispute. If no settlement is achieved and legal action is required, the timing of any possible outflow will be extended.

It is possible, but not probable, that the DHSC's claim for a refund under the limited assurance warranty will be successful. The timing of any cash outflow is dependent upon the success of the claim and the terms negotiated for repayment. If the resolution of the claim is materially different from the Board's determination of replacing the product, the financial statements with regard to revenue and the provision for product warranty could be significantly impacted.

Of the Q4 2020 revenue, invoices amounting to £24.0m in respect of product delivered to the DHSC remain outstanding at the date of signing the financial statements and recovery of this amount is also dependent on the outcome of the dispute. In addition, after the year-end, a further £49.0m of product delivered and invoiced to the DHSC in 2021 remains unpaid and is now also part of the dispute. The unpaid invoices total £73.0m and include VAT.

At this time, the Company is unable to provide further clarification on the dispute or the timing of resolution due to the confidential nature of discussions underway. However, the Company has taken legal advice in relation to the dispute and believes it has strong grounds to assert its contractual rights.

Trading update and outlook for the remainder of 2021

For the five months ended 31 May 2021, the Company had unaudited sales of £88.4m compared to £40.8m for the same period in 2020. This £88.4m includes £40.7m of sales to the DHSC, which are part of the dispute. Excluding the DHSC, the Company saw a run-rate of over £10m in sales per month in Q1 2021, which has declined to approximately £7m per month in April and May as infection rates eased and testing has dropped sharply. This is a repeat of the trend seen in 2020 as countries moved into the summer period and the spread of COVID-19 declined.

Looking forward, the Company expects strong growth in private testing as markets and travel re-open, which could lead to higher infection rates, and an increase in testing to return in Q4 2021, in line with Q4 2020, during the winter period. The Company also expects to see significant new growth from the launch of new products during the second half of 2021, including an expansion of its lateral flow antigen testing portfolio for both professional and home use. If demand picks up in line with expectations, the Company expects to see full year sales of approximately £100m, excluding the sales to the DHSC which are in dispute.

In the first five months of 2021, Novacyt has delivered a gross margin of over 70% and an EBITDA margin of over 40%, excluding the impact of sales to the DHSC, and the Directors are confident the Company can maintain these levels of underlying profitability for the balance of the year if volumes are in-line with its current expectations. This assumes no further sales to the DHSC for the balance of the year and no further provisions or adjustments relating to the current dispute.

By combining a broad technology base with agile and innovative product development and a clinical trial functionality, the Board believes the Company is well positioned to rapidly address new areas of unmet need with market leading products. The R&D outlook for 2021 is strong, with a number of new products in development that will continue to meet the rapidly changing requirements of COVID-19 testing and address the broader non-COVID-19 respiratory, transplant and infectious disease markets. This is underpinned by a strengthened cash position and the business will continue to invest in innovation, organic expansion, and external business development, in line with its growth strategy. The Company also continues to evaluate M&A opportunities and will consider additional bolt-on acquisitions to add strategic assets and expand its geographic footprint.

The information contained within this Announcement is deemed by the Company to constitute inside information as stipulated under Article 7 of the Market Abuse Regulation (EU) No. 596/2014 (as amended) as it forms part of the domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (as amended). Upon the publication of this Announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

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About Novacyt Group

The Novacyt Group is an international diagnostics business generating an increasing portfolio of in vitro and molecular diagnostic tests. Its core strengths lie in diagnostics product development, commercialisation, contract design and manufacturing. The Company's lead business units comprise of Primerdesign and Lab21 Products, supplying an extensive range of high-quality assays and reagents worldwide. The Group directly serves microbiology, haematology and serology markets as do its global partners, which include major corporates.

For more information please refer to the website: www.novacyt.com

Chief Executive Officer's Review

A transformational year

Novacyt experienced unprecedent sales demand for its COVID-19 products during 2020, which transformed our financial position, resulting in the Company significantly exceeding its full year 2020 budget and surpassing any previous performance.

Our response to the coronavirus pandemic across the entire business has been outstanding and this is down to our employees. I am very proud and humbled at how hard everyone has worked and continues to work during a difficult and challenging time. Despite the pandemic causing havoc with our lives and economies, Novacyt remains focused on helping countries around the world diagnose and manage the spread of SARS-CoV-2 and its variants that naturally follow.

The Group achieved an increase in revenues of over 20x to £277.2m with a gross margin of 76.3% and EBITDA profitability of £176.1m for the full year of 2020. In June 2020, the Company was able to settle all outstanding debt obligations of £7.1m in total with Harbert European Growth Capital ("HEGC") and Vatel Capital SAS ("Vatel"), making the Company debt free for the first time. The Company's cash position at 31 December 2020 was £91.8m.

In February 2020, the Company produced one of the world's first CE-Mark COVID-19 tests for the 2019 strain of the novel coronavirus, with approval received from both the US Food and Drug Administration (FDA) and the World Health Organization (WHO) for the test to be eligible for procurement under the Emergency Use Listing (EUL). The EUL is a risk-based procedure for assessing and listing unlicensed vaccines, therapeutics and in vitro diagnostics with the aim of expediting the availability of these products to people affected by a public health emergency. This product has now received regulatory approval from 53 countries.

As part of the UK government's five pillar plan to increase testing for COVID-19, Novacyt collaborated with AstraZeneca, GSK and the University of Cambridge to take action to support the national effort. Novacyt ensured an effective workflow process for COVID-19 within a new testing laboratory set up by these partners at the university's Anne McLaren laboratory in addition to providing its COVID-19 test to generate results data.

Towards the end of April 2020, Novacyt secured a supply contract with the UK Department of Health and Social Care (DHSC) to supply its COVID-19 test to central testing laboratories. This partnership reinforced Novacyt's existing support of the UK government's five pillar plan to increase testing for COVID-19. This was then followed by a second contract award by the DHSC in September 2020 for the Company's near-patient system of instruments and tests.

Significant operational scale-up

The Company's biggest challenge during 2020 was, and remains, to develop the organisation and systems required to support scale-up of the business at an unprecedented rate. Whilst retaining our core competitive advantages, such as speed to market and the quality of our products, our headcount has increased by more than 200 in the last 18 months.

Our manufacturing function has experienced the largest scale-up over the past 12 months. We remain focused on our manufacturing activities, as the complexity of this function increases, to continue to deliver substantial margins through low cost of goods, as well as adapting to multiple new products being introduced to meet continuously shifting market requirements. This requires the manufacturing function to be designed with flexibility as it accommodates an increasing complexity of PCR tests.

The Company has a number of non-financial key metrics the management team use to monitor, control and make

decisions, balancing demand, supply, stock levels, customer service and capacity decisions, which are reviewed weekly. Multiple quality control key performance indicators are also reviewed weekly and we have established a cross-functional Material Review Board (MRB), which is responsible for manufacturing and product quality.

Acquisition in line with strategy

Novacyt remains focused on executing against its ambitious organic growth and innovation strategy, as well as its M&A strategy to supplement growth initiatives, which includes engaging with potential acquisition targets.

In October 2020, the Company acquired IT-IS International Limited, a profitable diagnostic instrument development and manufacturing company, for a net cash consideration of £8.7m. IT-IS is the exclusive manufacturer of Novacyt's q16 and q32 rapid PCR instruments. The transaction reinforced our strategy, securing key IP, expanding our core capabilities in instrument manufacturing and strengthening our product offering in mobile PCR devices with an immediate increase in earnings.

IT-IS is an important addition to the business's capability, acquiring a deep knowledge of and expertise in PCR instrumentation to support continued innovation, and we now have a guaranteed supply of q16 and q32 instruments which can easily be scaled depending on demand.

Innovative R&D and investment in IP

2020 was a year of agile and innovative product development. One of the Company's key strengths is to innovatively address market needs with our products. We were quick to respond to COVID-19 in January 2020 and we maintained this pace throughout the year, launching new assays and workflow solutions to build a comprehensive COVID-19 product portfolio. This pipeline pace continues in 2021.

The continued development and expansion of our COVID-19 portfolio is a testament to our ability to match the rapid evolution of SARS-CoV-2 with real-time bioinformatics surveillance and accelerated product development. This is demonstrated post-period end by the rapid development and launch of our PCR genotyping portfolio, known as SNPsig®, to detect variants, initially focused on SARS-CoV-2 variants.

To date, Novacyt has launched over 28 new COVID-19 related products since the beginning of 2020 and has moved from one to three major molecular diagnostic product platforms. All three product platforms, detailed below, have proven to be successful and open different potential markets.

· genesig™ PCR tests for small to medium central laboratories

· PROmate® PCR tests for near-patient testing

· High throughput genesig™ PCR tests for large laboratories

Our broad technology base covers both protein and molecular platforms and a range of testing settings: near-

patient, hospital laboratory and high-throughput (HT) laboratories. Therefore, we can develop a range of PCR, ELISA and lateral flow antibody and antigen tests for near-patient, central laboratory, HT settings that can run on many open laboratory systems as well as our own q16/32 rapid-PCR systems. Our internal R&D is complemented by an expert business development function, which has developed a global network of innovative partners and has successfully in-licensed antibody, antigen and work-flow solutions to expand our product offering. These three main molecular platforms complement our PathFlow® LFT protein-based platform.

Across the COVID-19 market, testing requirements are increasing in complexity. There is a regulatory requirement for multigene assays (two and three gene assays) to exclude the (S and N) genes that are most prone to mutations and for suppliers to provide detailed bioinformatic surveillance. We are well positioned with an expert bioinformatics team and will continue to invest in this area as we develop our plans for our focus in product expansion post COVID-19.

During the period, the Group developed a new patent strategy to protect our novel content, with the filing of patents now being a routine part of the Company's product development process, and forming a key part of protecting future value within the business. We have filed over 20 patents since the beginning of 2020 to protect our proprietary assays, the q16/32 PCR systems and workflow innovations. This culture and practice of developing novel and cutting-edge diagnostic technology underpins the Company's continued growth and agility. As such, the R&D team has more than doubled in size and now includes the bioinformatics team and a clinical trial function.

This clinical trial expertise is a key requirement of the new IVD-R regulation being introduced in May 2022. The team consists of more than 40 qualified people dedicated to designing, running and reporting on clinical trials in the UK, Europe, US and Latin America. During the year, this team completed over a dozen product validations. To date, Novacyt has run six clinical trials in support of its product development and is able to assess new products (internal and external) rapidly and thoroughly through this operation. This, coupled to our bioinformatics and surveillance functionality, will enable the Group to remain at the forefront of new diagnostic innovation as part of our growth plans.

Expansion of private sector testing

As COVID-19 has evolved around the world, so have the testing mechanisms used to detect the virus. At the outset of the pandemic, governments looked to use centralised testing facilities based in laboratories to map the spread of COVID-19 as nations around the world went into lockdown. As the pandemic progressed, governments looked to augment their testing capabilities, with decentralised, near-patient services added to ensure hospitals and other non-laboratory settings were able to maintain testing at the height of COVID-19 infections.

As the pandemic has continued to evolve, and countries have started to ease lockdown restrictions around the world, the private sector has offered a growing market for testing. As a result, in November 2020, Novacyt launched VersaLab™ to support private sector testing of infectious diseases, initially focused on COVID-19.

VersaLab™ combines the expert technical and commercial know-how of Novacyt's network with its COVID-19 product portfolio and market intelligence to offer private companies bespoke testing solutions. VersaLab™ was initially launched with four levels of testing available, from on-site testing with Novacyt's rapid PCR platforms to centrally managed COVID-19 antibody testing.

Subsequently, in 2021, Novacyt has launched VersaLab™ mobile processing laboratories, to provide rapid turnaround on-site PCR testing, and VersaLab™ Portable, which allows for an additional level of support in near-patient testing environments. These product offerings have been designed to be used in settings ranging from sports, education, travel and leisure, workplace testing and retail and using the Novacyt's PROmate® assays are able to provide rapid results to users in under 80 minutes.

Strategy Update

At the half year results in September 2020, the Company provided an update on its three-pillar strategy of organic, R&D and acquisitive growth, which included the following:

· Investment in R&D to deliver new products in the respiratory and transplant bacterial and viral diagnostic markets

· Investment in commercial infrastructure to establish a direct sales force in key markets in Europe and the US

· Selective product/technology and company acquisitions to generate additional revenues and expand its core capabilities whilst maintaining attractive margins

· Investment in developing new IP portfolio to enhance and secure future value

Since this update, Novacyt has continued to deliver against this strategy, namely investment in R&D to grow its respiratory portfolio for COVID-19 testing, establishment of a direct commercial infrastructure in the UK, the acquisition of IT-IS International Limited (IT-IS) to secure key instrumentation IP and expand the Company's core capabilities and product offering, and expansion of its patent portfolio.

Novacyt has also continued to build on this strategy for delivering long-term growth. Through analysis of the business and the broader IVD market, as well as engagement with global diagnostics experts and key opinion leaders, Novacyt has triaged organic and R&D growth opportunities to be developed by the Company's expertise in molecular and protein diagnostics. These include the following areas of focus:

· Test menu expansion

· Instrument expansion

· Geographic expansion

The Company remains focused on executing against its M&A strategy to supplement these growth initiatives.

Test menu expansion

Historically, Novacyt has built a reputation for the rapid innovation and high performance of its diagnostic technologies in the scientific and clinical community and today the Company has one of the most comprehensive

research-use-only (RUO) PCR test menus in the world, as well as over 60 CE Mark approved clinical diagnostic tests. This test menu capability comes from the Company's strong bioinformatics and test design expertise which, coupled with its regulatory capabilities, means Novacyt is able to rapidly bring new and approved tests to the market. The Company will continue to leverage this chemistry foundation to expand its RUO and approved diagnostic test menu, with a focus on the following three areas:

· COVID-19 testing - Continue to expand Novacyt's COVID-19 test menu for the detection of new SARS-CoV-2 variants as they are identified and any reagent innovations which support testing efficiencies and results delivery

· COVID-19 Plus testing - Targeted test menu expansion into closely adjacent areas of COVID-19, (e.g., Flu A, Flu B), biomarker monitoring to predict COVID-19 progression / response to treatments (e.g., IFI27 biomarker for COVID-19 disease severity) to diagnose conditions in infected / recovered patients (e.g., factors related to "long COVID-19")

· Post-COVID-19 testing - Addressing unmet testing needs beyond COVID-19 building on its established central laboratory customer base with a high value test menu, such as pathogens resistant to antimicrobials (e.g., Carbapenem-resistant Enterobacteriaceae), sepsis, transplantation (CMV, EBV, BKV), as well as building a test menu for its near-patient testing

Novacyt's CE Mark in vitro diagnostic medical devices (IVDs) are regulated by the 1998 IVD Directive 98/79 EC. To receive CE Mark approval, an IVD must meet the "Essential requirements" of the Directive which, for some products, can be self-certified. A new IVD Directive, IVD-R, comes into force across the UK and Europe on 25 May 2022. IVD-R is a more stringent set of requirements including more detailed verification and validation data and, in most cases, clinical studies to demonstrate conformity with the enhanced Essential requirements reviewed by a notified body to approve the CE Mark. To prepare for the implementation of the new Directive, Novacyt is investing in its regulatory and clinical trial expertise to build on its existing resources, which the Directors believe provides the Company with certain competitive advantages compared to many of its competitors to be ready for this change.

Instrument expansion

The acquisition of IT-IS provided Novacyt with a strong mid-throughput near-patient PCR testing platform with the q16 and q32 instruments, which are being deployed in multiple near-patient markets for use in COVID-19 testing, in addition to existing placements for food and clinical testing. As more placements are made, Novacyt will expand its use of these instruments by building out specific test menus beyond COVID-19 based on the requirements of the various placements. Using the Company's core expertise in chemistry development, coupled with its near-patient instrumentation technology, the focus will be on developing multiple tests in one kit (known as multiplexing), which the Company expects to be a major growth area in molecular diagnostics.

The Company believes there will also be a significant shift towards further decentralised PCR testing through the development of easy-to-use tests in areas including asymptotic infection control (e.g., Norovirus, C. Diff), sepsis differentiation, meningitis and neonatal differentiation (e.g., Echovirus; Listeria). These use-cases could also be supported by protein based diagnostic technologies, including lateral flow, which will be developed, licensed, or acquired by the Company.

Geographic expansion

Geographic expansion, with a focus on direct sales, marketing and distribution, is a key growth strategy, which will

be supported by organic investment and acquisitions. High priority geographies include the UK, the US, Germany and other European markets.

Novacyt has invested heavily for the UK market during the past 12 months, with now over 50 people in sales, marketing and field support specialists. This positions the Company well to support the expansion of the UK diagnostics market for a long-term future. Novacyt will look to replicate this direct sales model in its chosen international markets.

Targeted organic investment has already commenced in the US with the recent appointment of a US General Manager based in California. Novacyt US Inc, a wholly owned subsidiary of Novacyt S.A., has recently been established and additional investments in new commercial and regulatory hires will occur in H2 2021 to support the new US operations.

Financial Review

Overview

2020 was a transformational year for the Group from an operational and financial perspective. The Group has seen rapid revenue growth, delivering over £277.2m of revenue as a result of supporting the COVID-19 global pandemic testing strategy, and has been able to maintain and grow its gross margin, demonstrating this is a highly scalable, profitable business.

The Group's strong 2020 financial performance has generated significant cash flow allowing it to strengthen its balance sheet, clearing all debt outstanding at December 2019 and funding the IT-IS International acquisition via its own cash generation.

For the fourth consecutive year, EBITDA was positive, delivering £176.1m for the full year, and the Group gross margin increased to 76%, continuing a trend of annual increases which began at 44% in 2014.

Cash at the end of 2020 was £91.8m, providing the Group with a solid foundation to continue with its successful acquisitive growth strategy.

Financial highlights

· Group consolidated revenue increased by over 2,300% to £277.2m in 2020 compared with £11.5m in 2019.

o Primerdesign grew more than 4,800% year-on-year to £272.8m in 2020 compared with £5.5m in 2019.

o All key territories saw year-on-year growth, with the UK market seeing sales increase by over £217m, to £219.4m, largely driven by contracts won in support of the UK testing response to the COVID-19 pandemic. Sales to Europe (excluding the UK) were up over 1,000%, or £29m, to £32.0m driven by increased distributor sales of our range of COVID-19 tests. American sales were up 340% year-on-year to £10.3m.

· Group gross margin continued to improve increasing to 76.3% in 2020 from 64.0% in 2019.

· The Group delivered a gross profit of £211.5m in 2020 compared with £7.3m in 2019.

o This continues the trend of increasing the gross margin percentage every year since 2014.

o The improvement is due to Primerdesign's share of Group revenue increasing from 48% in 2019 to 98% in 2020.

o Primerdesign's gross margin decreased to 76.5% in 2020 compared with 85% in 2019, as a result of increasing the product warranty provision for the DHSC dispute by £19.8m.

· Group EBITDA increased to £176.1m in 2020 compared with £0.2m in 2019.

o EBITDA margin increased to 64% in 2020 compared with 2% in 2019.

o This continues the trend of positive EBITDA for the Group.

· Operating profit of £167.4m in 2020 compared to a loss of £1.6m in 2019, driven by the growth in sales in the Primerdesign business.

· Profit after tax of £132.4m in 2020 compared to a loss of £5.7m in 2019.

· Cash at year-end of £91.8m compared with £1.5m in 2019, driven by the strong 2020 performance.

· The Group exits 2020 debt free after all debt was repaid during the first half of 2020.

· IT-IS International Limited, a profitable diagnostic instrument development and manufacturing company, was acquired on 15 October 2020. The net consideration for the acquisition after earnouts is £8.7m.

£'000	2019Consol	2019Consol	2018Consol
Revenue	277,204	11,468	12,140
Gross profit	211,500	7,340	7,613
Gross margin %	76%	64%	63%
EBITDA	176,145	174	512
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Operating profit / (loss)	167,441	(1,556)	(1,225)
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Loss from discontinued operations	-	(2,330)	(2,323)
Profit / (loss) after tax attributable to the owners	132,423	(5,749)	(4,192)

* 2020 Recurring operating profit is stated before £7.4m of exceptional charges as follows:

· A £5.8m impairment charge in relation to the goodwill associated with the Lab21 Products business.

· A £1.1m impairment charge in relation to intangible assets associated with the Omega Infectious Diseases business.

· Other non-recurring costs totalling £0.5m, include acquisition related expenses, site closure costs and other miscellaneous costs.

The profit / loss after tax attributable to the owners is stated after the loss attributable to the discontinuing operations of NOVAprep®, which was successfully sold in December 2019.

Divisional performance

Primerdesign sales grew by over 4,800% to £272.8m, and were principally responsible for the Group's growth during 2020, due to the success of the COVID-19 product portfolio.

· UK and Ireland NHS accounts represented £191.2m (70%) of total sales, reflecting the Company's response and contribution to the UK government testing strategy.

· Core distributor and reseller business across UK and international markets represented £49.5m (18%) of total sales, with sales to over 130 countries.

· Private sector testing market represented £32.1m (12%) of total sales.

All geographical regions have experienced significant growth during 2020, with the UK, Middle East, Germany and US being the largest revenue generating markets. Primerdesign has been at the forefront of the global response to COVID-19 testing requirements, with over 130 countries sold into during 2020. There have been multiple product launches to address new needs in the market such as multiple gene tests and test panels to help differentiate COVID-19 from common winter diseases and new reagents to aid PCR testing workflow for users.

Lab21 sales decreased by £0.8m in 2020 to £5.2m, compared with sales of £6.0m in 2019. There is £1.9m of intercompany sales included in the £5.2m of Lab21 Products segment sales that are eliminated at a Group level in the consolidated Group accounts. This intercompany revenue relates to services that Microgen Bioproducts provided to Primerdesign in its manufacturing of COVID-19 kits, rather than outsourcing the task to a third party and thus diluting the gross margin. Lab21 Products revenue of £5.2m (before intercompany eliminations), is down 14% from 2019.

· The core business was impacted by customers diverting their testing laboratories and procedures from veterinary and food testing to COVID-19 testing, to support the global pandemic efforts.

· The Asia Pacific region within Microgen Bioproducts grew 6% year-on-year.

As a result of strong partnerships built over many years, a number of Lab21 Products distributors migrated to purchasing COVID-19 tests from Primerdesign and significant sales were generated from key Lab21 Products customers as a result.

IT-IS sales for the period post acquisition, 15 October to 31 December 2020, totalled £6.9m. There is £5.8m of intercompany sales included in the £6.9m of IT-IS segment sales that are eliminated at a Group level in the consolidated Group accounts.

Scale-up in capabilities

During H1 2020, Novacyt identified the need to expand its capacity and quickly scaled the business to meet increasing demands, with elements of manufacturing outsourced. This did not have a detrimental impact on the gross margin as the Group delivered a margin of 76% or gross profit of £211.5m.

Group operating costs increased year-on-year by £28.2m, to £35.4m in 2020 compared with £7.2m in 2019. To support the growth in the business, significant investment has been made in the workforce and headcount increased from 110 at the end of December 2019 to 237 at the end of December 2020, driving up costs year-on-year.

The acquisition of the IT-IS business in Q4 2020 resulted in an additional £0.3m of operating costs in Q4 2020 and the effect in 2021 will be larger as the annualised impact is seen.

The main driver for the year-on-year cost increase was the Long-Term Incentive Plan ("LTIP") that commenced in November 2017 on admission of the Company to trading on AIM at a price of 59 pence per share and vested in

November 2020. The LTIP was linked to the Company's share price performance. As a result of the significant share price increase in 2020, driven by the financial performance of the business, the LTIP liability that crystallised in the 2020 accounts was £19m. The amount of £19m (including social security costs) was due to eight participants, principally the CEO and CFO, at the time, and will pay out over the three years 2020, 2021 and 2022.

Step change in profitability

The Group delivered EBITDA of £176.1m in 2020 compared with breakeven in 2019 (£0.2m), driven by significantly increased sales that have, in turn, increased EBITDA. In 2019, the NOVAprep® business continued to be reported under IFRS 5 and is disclosed as discontinued operations in the income statement, which did not impact EBITDA.

2020 saw a profit being generated at the recurring operating level of £174.8m versus a recurring operating loss of £1.1m in 2019, delivering an improvement of over £175.0m, driven by increased sales. Amortisation and depreciation remained flat year-on-year at £1.3m in 2020 as the significant scale up in manufacturing has been largely supported by third party manufacturers rather than significant capital investments. Total depreciation charges of £0.6m (2019: £0.6m) and amortisation charges of £0.7m (2019: £0.7m) for 2020 are consistent with 2019. The 2020 depreciation charge includes £0.3m of IFRS 16 leasing costs, predominantly covering the rental fees for Novacyt premises.

The Group has moved from an operating loss in 2019 of £1.6m to an operating profit of £167.4m in 2020 which is stated after non-recurring charges amounting to £7.4m. The 2020 charges comprise a £5.8m impairment charge in relation to the goodwill associated with the Lab21 Products business, a £1.1m impairment charge in relation to intangible assets associated with the Omega Infectious Diseases business and other non-recurring costs totalling £0.5m. The other non-recurring costs include acquisition related expenses, site closure costs and other miscellaneous costs.

The Group generated a net profit of £132.4m in 2020, compared with a net loss in 2019 of £5.7m, which is stated after £1.6m of gross borrowing costs (2019: £1.0m), other financial expenses of £0.7m (2019: £0.9m) and tax of £32.7m (2019: nil). Gross borrowing costs increased year-on-year as a result of settling all outstanding debt during 2020 and the tax charge, that predominantly represents corporation tax due in the UK, has significantly increased as a result of the profitability generated by the Group in the year.

2020 saw a profit per share being generated of £1.94 versus a loss per share in 2019 of £0.13 as a result of the Group delivering a net profit for the year compared with a loss in 2019.

Balance Sheet

Goodwill has increased to £17.9m in 2020 from £13.6m in the previous year. Goodwill totalling £9.4m was recognised on the acquisition of IT-IS. This has been partially offset by a reduction in Lab21 Products goodwill following the annual impairment process, where an impairment charge of £5.8m has been recorded reflecting a prudent view of the future expected discounted cash flows generated from the business. The remaining £0.7m goodwill increase is due to exchange differences on balances based in Euros.

A deferred tax asset of £3.0m has been recorded in 2020 compared with a nil prior year balance. £2.1m of the balance relates to the portion of the LTIP charge that is recognised by Novacyt in the UK books, but will be deducted for taxation when payments are made in 2021 and 2022. The remaining balance of £0.9m arises from the elimination of the internal margin on products acquired by Primerdesign from Microgen and IT-IS and still held in stock at the year end.

Other non-current assets have increased to £6.1m from £4.9m in 2019. Other intangibles have increased by a net £0.6m, but includes additions totalling £2.6m predominantly relating to the assets created as part of the IT-IS acquisition (customer relationships and brands) offset by disposals (impairment of the Omega ID business intangible assets) and amortisation totalling a combined £2,0m. Property, plant and equipment has increased by a net £0.8m, and includes £1.2m of capital expenditure offset by charges (mainly depreciation) totalling £0.4m. The remaining £0.2m decrease relates to the reduction in other long-term assets and financial assets.

Inventory increased in the year by £27.8m (1,335%) to £29.9m to support the Group's revenue growth, with significant finished goods being held in stock ready for immediate dispatch. As the lead time for obtaining some key raw materials is significant, bulk orders were placed to ensure there were no supply shortages which also contributed to the higher inventory balance in 2020.

Trade and other receivables have increased in the year by £77.7m (4,200%) to £79.6m. Novacyt finished the year with strong sales in Q4 2020 and this balance is reflective of that trading, with most of the balance being less than 30 days old. An expected credit loss provision of only £0.2m was booked at year-end demonstrating a strong credit control process.

Other current assets have increased to £3.7m in 2020 from £0.4m in 2019 driven by a £3.3m increase in prepayments. The key balances at 31 December 2020 include prepayments for annual Group commercial insurance, stock that was not delivered to Primerdesign in 2020, rent, rates and support costs.

All outstanding debt as at 31 December 2019, totalling £7.1m, was fully repaid during 2020 using cash generated in the year. The Group is now debt free and the closing 2020 balance is nil.

The contingent consideration balance increased from nil in 2019 to £1.8m in 2020 as a result of the two earnout milestones associated with the IT-IS acquisition. It will be settled in two payment tranches, due in September 2021 and 2022 upon the achievement of certain deliverables.

Short-term provisions increased to £19.9m in 2020 from £0.04m in 2019. A product warranty provision for £19.8m has been booked in 2020 to cover the Board's view of the maximum cost of replacing products after receiving notification of a product warranty claim from DHSC.

Trade and other liabilities increased to £36.8m in 2020 from £3.9m in 2019. Trade payables and accrued invoices have increased by £10.7m in line with increased trading activity. In addition, the improved Group liquidity position has meant that credit facilities have been secured with many suppliers who previously did not offer such terms.

The closing year-end Value Added Tax (VAT) liability payable to HMRC in the UK, covering the months of November and December, has increased by £16.7m from 2019. The other key increase for £5.6m is for the second tranche of the LTIP payment that is due to be paid in November 2021.

Corporation tax due at the end of 2020 totalled £15.1m from nil in 2019, which reflects the UK corporation tax liability of the Group. The amount represents the tax due at the full UK rate (19%) on taxable profits, although in due course, if patents are granted and a Patent Box claim is made, future taxable profits should be taxable at a much lower rate.

Other long-term liabilities relate to the third tranche of the LTIP payment that is due to be paid in November 2022. The closing 2020 balance was £5.6m, from nil in 2019.

Cash Flow

Cash has increased to £91.8m in the year from £1.5m in 2019, driven by the strong trading performance of the business. Net cash generated from operating activities increased to £103.0m in 2020 driven by the EBITDA profitability of the business of £176.1m offset by working capital expenditure of £73.2m.

Net cash outflow from investing activities increased to £8.0m in 2020 from £1.0m in 2019. £6.9m of the 2020 balance is due to the net cash consideration paid for IT-IS, where the cash paid in 2020 totalled £11.6m less the £4.7m cash acquired. Capital expenditure increased year-on-year to £1.1m in 2020 to support the growth in the business, this being less than 1% of revenue.

Net cash outflow from financing activities in 2020 totalled £5.0m verses a net inflow in 2019 of £2.5m. The 2020 cash outflow was primarily due to Novacyt paying down all outstanding debt as at 31 December 2019. Debt repayments covering capital and interest, totalled £6.2m, a short-term financing facility was repaid in full totalling £0.7m, lease payments of £0.3m were made and these outflows were offset by a net cash inflow from the conversion of warrants totalling £2.2m.

Consolidated income statement for the years ended 31 December 2020 and 31 December 2019

Amounts in £'000	Notes	Year ended 31 December 2020	Year ended 31 December 2019 (*)
Continuing Operations			
Revenue		277,204	11,468

Cost of sales	-65,704	-4,128
Gross profit	211,500	7,340
Sales, marketing and distribution expenses	-4,492	-2,367
Research and development expenses	-1,630	-395
General and administrative expenses	-30,532	-5,669
Governmental subsidies	-3	3
Operating profit/(loss) before exceptional items	174,843	-1,088
Other operating income	--	111
Other operating expenses	-7,402	-579
Operating profit/(loss) after exceptional items	167,441	-1,556
Financial income	83	228
Financial expense	-2,353	-2,098
Profit/(loss) before tax	165,171	-3,426
Tax (expense)/income	-32,748	7
Profit/(loss) after tax from continuing operations	132,423	-3,419
Loss from discontinued operations	-	-2,330

Profit/(loss) after tax attributable to owners of the Company (**)	132,423	-5,749
Profit/(loss) per share (£)	1.94	-0.13
Diluted profit/(loss) per share (£)	1.94	-0.13
Profit/(loss) per share from the continuing operations (£)	1.94	-0.08
Diluted profit/(loss) per share from the continuing operations (£)	1.94	-0.08
Loss per share from the discontinued operations (£)	0.00	-0.05
Diluted loss per share from the discontinued operations (£)	0.00	-0.05

(*) The comparative information for 2019 has been restated to reflect the change in presentation currency of the Group

(**) There are no non-controlling interests.

The 2019 consolidated income statement is presented to reflect the impacts of the application of IFRS 5 relative to discontinued operations, by stating the NOVAprep activity on a single line "Loss from discontinued operations".

Consolidated statement of comprehensive income for the years ended 31 December 2020 and 31 December 2019

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019 (*)
Profit/(loss) after tax	132,423	-5,749
Items that may be reclassified subsequently to profit or loss:		
Translation reserves	290	-194
Total comprehensive profit/(loss)	132,713	-5,943

Comprehensive profit/(loss) attributable to:		
Owners of the Company (**)	132,713	-5,943

(*) The comparative information for 2019 has been restated to reflect the change in presentation currency of the Group

(**) There are no non-controlling interests.

Statement of financial position for the years ended 31 December 2020, 31 December 2019 and 31 December 2018

Amounts in £'000	Notes	Year ended 31 December 2020	Year ended 31 December 2019 (*)	Year ended 31 December 2018 (*)
Goodwill		17,877	13,592	14,548
Other intangible assets		4,255	3,683	4,458
Property, plant and equipment		1,643	846	1,074
Right of use assets		2,259	2,125	-
Non-current financial assets		138	195	203
Deferred tax assets		3,023	-	-
Other long-term assets		96	183	-
Total non-current assets		29,291	20,624	20,283
Inventories and work in progress		29,888	2,083	2,116
Trade and other receivables		79,592	1,851	3,517
Tax receivables		-	3	85

Prepayments and short-term deposits	3,731	356	218
Investments short-term	9	8	9
Cash and cash equivalents	91,765	1,542	1,021
Total current assets	204,985	5,843	6,966
Assets classified as held for sale	-	60	2,068
Total assets	234,276	26,527	29,317
Bank overdrafts and current portion of long-term borrowings	-	1,869	2,809
Lease liabilities short-term	414	229	-
Contingent consideration short-term	1,022	-	1,415
Provisions short-term	19,856	43	90
Trade and other liabilities	36,784	3,920	4,190
Tax liabilities	15,116	-	-
Other current liabilities	950	505	341
Total current liabilities	74,142	6,566	8,845
Liabilities directly associated with assets classified as held for sale	-	-	77
Net current assets/(liabilities)	130,843	-663	112
Borrowings and convertible bond notes	-	5,240	2,037
Lease liabilities long-term	1,964	2,012	-
Contingent consideration long-term	812	-	-

Provisions long-term	242	205	151
Deferred tax liabilities	800	42	48
Other liabilities long-term	5,606	-	-
Total non-current liabilities	9,424	7,499	2,236
Total liabilities	83,566	14,065	11,158
Net assets	150,710	12,462	18,159

(*) The comparative information for 2019 and 2018 has been restated to reflect the change in presentation currency of the Group.

Statement of financial position for the years ended 31 December 2020, 31 December 2019 and 31 December 2018 (continued)

Amounts in £'000	Notes	Year ended 31 December 2020	Year ended 31 December 2019 (*)	Year ended 31 December 2018 (*)
Share capital		4,053	3,311	2,117
Share premium account		50,671	46,999	47,207
Own shares		-49	-141	-144
Other reserves		-2,036	-1,924	-4,395
Equity reserve		1,155	336	355
Retained earnings/(losses)		96,916	-36,119	-26,981
Total equity - owners of the Company		150,710	12,462	18,159

Total equity	150,710	12,462	18,159

(*) The comparative information for 2019 and 2018 has been restated to reflect the change in presentation currency of the Group

Statement of changes in equity for the years ended 31 December 2020 and 31 December 2019

Amounts in £'000						Other Group reserves					
	Notes	Share capital	Share premium	Own shares	Equity reserves	Acquisition of the shares of Primerdesign	Translation reserve	OCI on retirement benefits	Total	Retained earnings	Total equity
Balance at 1 January 2019 (*)		2,117	47,207	-144	355	-2,407	-1,980	-8	-4,395	-26,981	18,159
Translation differences		-	-	-	-	-	2,471	-	2,471	-	2,471
Loss for the period		-	-	-	-	-	-	-	-	-5,749	-5,749
Total comprehensive income/(loss) for the period		-	-	-	-	-	2,471	-	2,471	-5,749	-3,278
Issue of share capital		-	-158	-	-	-	-	-	-	-	-158
Own shares acquired/sold in the period		-	-	3	-	-	-	-	-	-	3
Other changes		1,194	-50	-	-19	-	-	-	-	-3,389	-2,264
Balance at 31 December 2019 (*)		3,311	46,999	-141	336	-2,407	491	-8	-1,924	-36,119	12,462

Translation differences	-	-	-	-	-	-112	-	-112	-	-112
Profit for the period	-	-	-	-	-	-	-	-	132,423	132,423
Total comprehensive income/(loss) for the period	-	-	-	-	-	-112	-	-112	132,423	132,311
Issue of share capital	567	2,011	-	-	-	-	-	-	-	2,578
Own shares acquired/sold in the period	-	-	92	-	-	-	-	-	-	92
Conversion of warrants and debts	175	1,661	-	819	-	-	-	-	612	3,267
Balance at 31 December 2020	4,053	50,671	-49	1,155	-2,407	379	-8	-2,036	96,916	150,710

(*) The comparative information for 2019 has been restated to reflect the change in presentation currency of the Group.

The line "Conversion of warrants and debts" is showing in the column "Share capital" the amount of the share capital increase that was completed by conversion of the Vatel debt and had no impact on the cash situation of the group.

The line "Conversion of warrants and debts" is showing in the column "Share premium" the amount of the share premium increase that occurred by conversion of the Vatel debt and had no impact on the cash situation of the group.

The line "Conversion of warrants and debts" is showing in the column "Equity reserve" the IFRS impact on the group equity of the conversion of the various warrants outstanding at 31 December 2020.

Statement of cash flows for the years ended 31 December 2020 and 31 December 2019

Amounts in £'000	Notes	Year ended 31 December 2020	Year ended 31 December 2019 (*)
Net cash from (used in) operating activities		102,976	-941
Investing activities			
Proceeds from disposal of property, plant and equipment		-	24
Purchases of patents and trademarks		-168	-99
Purchases of property, plant and equipment		-1,013	-105
Variation of deposits		74	-
Acquisition of subsidiary net of cash acquired		-6,858	-1,186
Proceeds from the sale of businesses		-	319
Net cash used in investing activities		-7,965	-1,047
Investing cash flows from discontinued activities		-	138
Investing cash flows from continuing operations		-7,965	-1,185
Financing activities			
Repayments of borrowings		-4,592	-2,756
Proceeds on issue of borrowings and bond notes		-	5,922
Repayment of lease liabilities		-303	-183
Proceeds from issue of shares		2,577	-158
Disposal (purchase) of own shares - net		92	4
Repayment of other short-term financing facilities		-720	-93
Proceeds from other short-term financing facilities		-	677
Negma phantom awards settlement		-439	-

Interest paid	-1,655	-918
Net cash (used in) from financing activities	-5,040	2,495
Financing cash flows from discontinued activities	-	-
Financing cash flows from continuing operations	-5,040	2,495
Net increase in cash and cash equivalents	89,971	507
Cash and cash equivalents at beginning of year	1,542	1,021
Effect of foreign exchange rate changes	252	14
Cash and cash equivalents at end of year	91,765	1,542

(*) The comparative information for 2019 has been restated to reflect the change in presentation currency of the Group.

Notes

The tables included in this announcement are extracted from the audited Group Consolidated Accounts. Defined terms used in the announcement refer to terms as defined in the Group Consolidated Accounts unless the context otherwise requires. The announcement contains a selection of the notes from the full consolidated accounts and notes have been re-numbered in this document for ease of navigation.

1. Corporate Information

Novacyt S.A is incorporated in France and its principal activity is specialising in infectious disease diagnostics. Its registered office is located at 13 Avenue Morane Saulnier, 78140 Vélizy Villacoublay.

2. Basis of announcement

2.1 Basis of Preparation

The consolidated financial statements for the fiscal year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. They are prepared and presented in '000s of Great British Pounds "GBP".

2.2 Change of presentation currency

The Group has opted to change its presentation currency to GBP to better reflect the Group's trading activities,

which are mainly conducted in GBP.

Following this change in accounting policy, the comparative consolidated financial statements are presented in GBP. Consolidation translation differences were reset to zero as of 1 January 2014, the date of creation of the consolidated Group. The cumulative translation differences on consolidation are presented as if the Group had used the GBP as its presentation currency for its consolidated financial statements since that date, 1 January 2014.

The functional currency of the Parent Company, Novacyt SA, remains the Euro. Translation differences arising from the Parent Company are presented in "other reserves".

2.3 Going Concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing the financial statements.

The going concern model covers the period up to and including June 2022. In making this assessment, the Directors have considered the following elements:

- The working capital requirements of the business;

- A positive cash balance at 31 December 2020 of £91,765,000;

- Payment of the second tranche of the Long-Term Incentive Plan ("LTIP") that commenced in November 2017 and concluded in November 2020;

- Payment of the first earn-out milestone related to the IT-IS International acquisition; and

- Management's confidence in settling the outstanding commercial dispute.

In the event the current dispute is fully settled in favour of the counterparty, the forecast prepared by the Group shows that it is able to cover its cash needs during the financial year 2021 and until June 2022 without the raising of any banking or other financing facility.

2.4 Critical accounting judgements and key sources of estimate uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates

are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.4.1 Critical accounting judgements

· Constraint of revenue

Revenue is only constrained if it is highly probable there will not be a significant reversal of revenue in the future. Highly probable is not defined in IFRS 15 and so it is a significant judgement to be exercised by management. The value of revenue related to performance obligations fulfilled in the period to which constraint has not been applied is £129,124,000.

· Trade and other receivables

An estimate of the risks of non-receipt based on commercial information, current economic trends and the solvency of individual customers is made to determine the need for impairment on a customer-by-customer basis. Management use significant judgement in determining whether a credit loss provision is required.

At the year end, the Group had trade receivables of £79,341,000 against which a credit loss of £160,000 has been applied. At the date of signing the financial statements, £23,957,000 of the year end receivables were overdue due to a contract dispute. Management expects to be able to recover these balances in full; this is a significant judgement.

· Provisions

The carrying value of provisions as at 31 December 2020, 2019 and 2018 are as per the table below:

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Provisions for restoration of premises	242	192	133
Long-term management incentive plan	-	13	18
Provisions for litigation	68	43	90
Provisions for product warranty	19,788	-	-

Total provisions	20,098	248	241

o Provisions for product warranty

The value of provision required is determined by management based on available information, experience and, in some cases, expert estimates. Product warranty provisions are only included if it is considered to be probable that an outflow of economic benefit will be required. Determination of probable is a significant judgement especially in light of the resolution of the dispute.

2.4.2 Key sources of estimation uncertainty

· Measurement of goodwill

Goodwill is tested for impairment on an annual basis. The recoverable amount of goodwill is determined mainly on the basis of forecasts of future cash flows. The total amount of anticipated cash flows reflects management's best estimate of the future benefits and liabilities expected for the relevant CGU. The assumptions used and the resulting estimates sometimes cover very long periods, taking into account the technological, commercial and contractual constraints associated with each CGU. These estimates are mainly subject to assumptions in terms of volumes, selling prices and related production costs, and the exchange rates of the currencies in which sales and purchases are denominated. They are also subject to the discount rate used for each CGU.

The value of the goodwill is tested whenever there are indications of impairment and reviewed at each annual closing date or more frequently should this be justified by internal or external events.

The carrying amount of goodwill on the statement of financial position and related impairment loss over the periods are shown below:

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Goodwill Lab21 Products	16,022	15,122	15,968

Cumulative impairment of goodwill	-14,105	-7,772	-8,206
Net value	1,917	7,350	7,762
Goodwill Primerdesign	6,523	6,157	6,501
Cumulative impairment of goodwill	-	-	-
Net value	6,523	6,157	6,501
Goodwill Omega Infectious Diseases	85	285	285
Derecognition of goodwill	-	-200	-
Cumulative impairment of goodwill	-85	-	-
Net value	-	85	285
Goodwill IT-IS International	9,437	-	-
Cumulative impairment of goodwill	-	-	-
Net value	9,437	-	-
Total goodwill	17,877	13,592	14,548

Sensitivity analysis has been performed on the goodwill balance and there is significant headroom associated with the Primerdesign balance, but there is limited headroom on the Lab21 Products goodwill, which could result in future impairments.

3. Operating segments

Segment reporting

Pursuant to IFRS 8, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

- whose operating results are regularly reviewed by the Group's Chief Executive and the managers of the various

entities to make decisions regarding the allocation of resources to the segment and to assess its performance; and

- for which discrete financial information is available.

The Group has identified four operating segments, whose performances and resources are monitored separately:

o Primerdesign (formerly Molecular Products)

This segment represents the activities of Primerdesign, which is a designer, manufacturer and marketer of molecular 'real-time' qPCR testing devices and reagents in the areas of infectious diseases based in Southampton, UK.

o Lab21 Products (formerly Corporate and Diagnostics)

This segment represents the activities of Lab21 Products, which is a developer, manufacturer and distributor of a large range of protein-based infectious disease IVD products with both Microgen Bioproducts Ltd and Lab21 Healthcare Ltd, now based in Camberley, UK.

o IT-IS International

This segment represents the activities of IT-IS International, a UK based diagnostic instrument development and manufacturing company specialising in the development of PCR devices for the life sciences and food testing industry.

o Corporate

This segment represents Group central/corporate costs and the results of Novacyt UK Holdings Limited. Where appropriate, central corporate costs are recharged to individual business units via a management recharge process.

o Intercompany eliminations

This column represents intercompany transactions across the Group that have not been allocated to an individual operating segment, but is not a discreet segment.

The Chief Operating Decision Maker is the Chief Executive Officer.

Headcount

The average headcount by segment is presented in the table below:

Segment	2020	2019
Primerdesign	81	48
Lab21 Products	47	60
IT-IS International	36	-
Corporate	10	6

Discontinued operations	-	11
Total headcount	174	125

Reliance on major customers and concentration risk

Primerdesign's revenue includes approximately £190,000,000 (2019: £nil) from sales to the Group's largest customer. No other customers contributed 10% or more to the Group's revenue in 2020.

91% of loans and receivables are with one counterparty, with whom there is a contract dispute. Management considers it to be more likely than not that the year end balances are recoverable. £47,926,000 of the year end receivables balance of £71,883,000 with the counterparty in question has been received in 2021.

Breakdown of revenue by operating segment and geographic area

o At 31 December 2020

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Total
Geographical area				
United Kingdom	218,552	591	246	219,389
Europe (excluding UK)	30,917	1,058	56	32,031
Africa	2,896	151	6	3,053
Asia-Pacific	5,305	920	453	6,678
America	9,655	340	316	10,311
Middle East	5,492	250	-	5,742
Total revenue	272,817	3,310	1,077	277,204

o At 31 December 2019

Amounts in £'000	Primerdesign	Lab21 Products	Total
Geographical area			
United Kingdom	1,097	986	2,083
Europe (excluding UK)	1,249	1,476	2,725
Africa	312	560	872
Asia-Pacific	712	1,529	2,241
America	1,696	647	2,343
Middle East	463	741	1,204
Total revenue	5,529	5,939	11,468

Breakdown of result by operating segment

o Year ended 31 December 2020

Amounts in £'000	Primerdesign	Lab21 Products	IT-IS International	Corporate	Intercompany eliminations	Total
Revenue	272,817	5,203	6,905	-	-7,721	277,204
Cost of sales	-63,987	-3,088	-1,627	-	2,998	-65,704
Sales and marketing costs	-3,550	-929	9	-22	-	-4,492
Research and development	-1,515	-3	-112	-	-	-1,630
General and administrative	-25,133	-2,138	-245	-1,725	11	-29,230
Governmental subsidies	-	-3	-	-	-	-3
Earnings before interest, tax, depreciation and amortisation as per management reporting	178,632	-958	4,930	-1,747	-4,712	176,145

Depreciation and amortisation	-795	-416	-70	-21	-	-1,302
Operating profit/(loss) before exceptional items	177,837	-1,374	4,860	-1,768	-4,712	174,843

o Year ended 31 December 2019

Amounts in £'000	Primerdesign	Lab21 Products	Corporate	Intercompany Eliminations	Total
Revenue	5,531	6,037	-	-100	11,468
Cost of sales	-808	-3,418	-	98	-4,128
Sales and marketing costs	-1,266	-1,096	-6	1	-2,367
Research and development	-362	-33	-	-	-395
General and administrative	-1,715	-1,685	-1,007	-	-4,407
Governmental subsidies	-	3	-	-	3
Earnings before interest, tax, depreciation and amortisation as per management reporting	1,380	-192	-1,013	-1	174
Depreciation and amortisation	-734	-519	-9	-	-1,262
Operating profit/(loss) before exceptional items	646	-711	-1,022	-1	-1,088

4. Cost of sales

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Cost of inventories recognised as an expense	20,113	2,693
Change in stock provision	2,978	-
Non-stock items and supplies	2,088	32
Freight costs	284	73
Direct labour	20,243	1,288
Product warranty	19,753	-
Other	245	42
Total cost of sales	65,704	4,128

The cost of inventories recognised as an expense has increased significantly due to the higher sales volumes in 2020. Some elements of manufacturing were outsourced to meet market demands in 2020; these costs are included in direct labour. A 2020 stock provision has been made for inventory that is deemed as being at risk of not being sold.

A product warranty cost has been estimated for the year; this is significantly higher due to the higher sales volumes in 2020 and the notification of a product warranty claim after the year end.

5. General and administrative expenses

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019

Purchases of non-stored raw materials and supplies	373	296
Lease and similar payments	337	159
Maintenance and repairs	278	106
Insurance premiums	574	100
Legal and professional fees	2,350	757
Banking services	231	70
Employee compensation and social security contributions	23,904	2,459
Depreciation and amortisation of property, plant and equipment, and intangible assets	1,302	1,267
Other general and administrative expenses	1,183	455
Total general and administrative expenses	30,532	5,669

Novacyt granted phantom awards to certain employees under a long-term management incentive plan adopted on 1 November 2017. The exercise price was set at the closing share price on the grant date. The phantom awards will be settled in cash in three tranches. The phantom awards vested on the third anniversary of the grant date, 1 November 2020, resulting in significantly higher employee compensation costs in 2020.

6. Other operating income and expenses

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Litigations with employees	-	39

Other operating income	-	72
Total other operating income	-	111
Impairment of Lab21 Products goodwill	-5,768	-
Impairment of Omega Infectious Diseases business intangible assets	-1,111	-
Restructuring expenses	-106	-166
Result of the sale of Lab21 Ltd	-	-46
Business sale expenses	-79	-253
Acquisition related expenses	-187	-
Other expenses	-151	-114
Total other operating expenses	-7,402	-579

Operating expenses

Goodwill associated with Lab21 Products has been impaired following changes in market conditions, which have reduced future expected cashflow generation.

The remaining intangible assets associated with the Omega Infectious Diseases business have been fully impaired.

7. Financial income and expense

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019

Financial foreign exchange gains	32	200
Discount of financial instruments	46	-
Change in fair value of options	-	27
Other financial income	5	1
Total financial income	83	228
Interest on loans	-1,601	-958
Financial foreign exchange losses	-353	-114
Change in fair value of options	-	-684
Discount of financial instruments	-12	-81
Other financial expense	-387	-261
Total financial expense	-2,353	-2,098

Interest on loans

The 2020 interest charge mainly relates to the full settlement of the Harbert European Growth Capital bond notes that amounted to £1,379,000. It also includes £185,000 interest charges in connection with IFRS 16 "Lease Liabilities".

In 2019, the interest charge mainly related to the Kreos, Vatel, Negma Group Ltd ("Negma"), and HEGC bond notes.

Change in fair value of options

The December 2019 balance relates to the revaluation of Harbert European Growth Capital warrants liability of £684,000.

8. Income tax

The Group's tax charge is the sum of the total current and deferred tax expense.

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Current tax expense		
Current year (charge)/income	-35,605	7
Deferred tax expense		
Deferred tax	2,857	-
Total income tax (expense)/income in the income statement	-32,748	7

The charge for the year can be reconciled to the profit in the income statement as follows:

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Profit/(loss) before taxation	165,171	-5,756
Tax at the French corporation tax rate (2020 and 2019: 28%)	-46,248	1,612
Effect of different tax rate of subsidiaries in other jurisdictions	15,593	331
Effect of non-deductible expenses	-1,696	-575
Losses not recognised for deferred tax	-669	-1,374
Research tax expenditure enhancement	169	96
Other adjustments	103	-83

Total tax (expense)/income for the year	-32,748	7

As at 31 December 2020, the Group has unused tax losses of £41,230,000 (2019: £37,445,000) available for offset against future relevant profits. Their period of use is unlimited.

The key item making up the non-deductible expenses in 2020 is the impairment of the goodwill attached to the Lab21 Products. In 2019, the non-deductible expenses relate to the change in fair value of the warrants recorded in Novacyt and the amortisation of the intangible assets acquired with Primerdesign.

Matters affecting the tax charge

During 2020, Novacyt applied for a number of patents for technology it developed during the period. Patents can take several years to be granted, if at all, and at the year end, all the patents were still going through the process for approval. If one or more of the patents ultimately are granted then the Group hopes to be able to benefit from the UK Patent Box regime, which is a special low corporate tax rate used by several countries to incentivise research and development by taxing revenues from patented products differently from other revenues. Subject to a number of adjustments, the effective rate of tax on profits derived from the sale of products subject to patents is close to 10% rather than the current UK corporation tax rate of 19% (due to rise to 25% in 2023). The Patent Box rate can only be claimed once a patent has been granted, although the benefit can be backdated to the time at which the patent was applied for, and so this is not reflected in the 2020 accounts.

9. Profit / Loss per share

The profit or loss per share is calculated based on the weighted average number of shares outstanding during the period. The diluted profit or loss per share is calculated based on the weighted average number of shares outstanding and the number of shares issuable as a result of the conversion of dilutive financial instruments.

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Net profit/(loss) attributable to owners of the Company	132,423	-5,749
Impact of dilutive instruments	-	-
Net diluted profit/(loss) attributable to owners of the Company	132,423	-5,749
Weighted average number of shares	68,187,101	45,731,091

Impact of dilutive instruments	-	-
Weighted average number of diluted shares	68,187,101	45,731,091
Profit/(loss) per share (£)	1.94	-0.13
Diluted profit/(loss) per share (£)	1.94	-0.13

Pursuant to IAS 33, options whose exercise price is higher than the value of the Company's security were not taken into account in determining the effect of dilutive instruments.

The calculation of earnings per share does not take into account potential anti-dilutive actions, which would have the effect of increasing earnings per share.

10. Goodwill

Goodwill is the difference recognised, upon consolidation of a company, between the fair value of the purchase price of its shares and the net assets acquired and liabilities assumed, measured in accordance with IFRS 3.

Cost	£'000
At 1 January 2019	22,754
Derecognition on acquisition of the Omega Infectious Diseases business	-200
Exchange differences	-1,190
At 31 December 2019	21,364
Write-off of the Omega Infectious Diseases goodwill	-85
Recognition of goodwill on acquisition of IT-IS International Ltd	9,437
Exchange differences	1,266
At 31 December 2020	31,982

Accumulated impairment losses	
At 1 January 2019	8,206
Exchange differences	-434
At 31 December 2019	7,772
Impairment of the Lab21 Products goodwill	5,767
Exchange differences	566
At 31 December 2020	14,105
Carrying value at 31 December 2018	14,548
Carrying value at 31 December 2019	13,592
Carrying value at 31 December 2020	17,877

o Lab21 Products

The impairment testing of the CGU as of 31 December 2020 was conducted by the discounted cash flow ("DCF") method, with the key assumptions as follows:

o Five-year business plan;

o Extrapolation of cash flows beyond five years based on a growth rate of 1.5%; and

o Discount rate corresponding to the expected rate of return on the market for a similar investment, regardless of funding sources, equal to 15%.

The implementation of this approach demonstrated that the value of the Enterprise Value amounted to £1,917,000, which is lower than the carrying amount of this asset. As such, an impairment charge was recognised in the year ended 31 December 2020.

On 15 October 2020, Novacyt UK Holdings Ltd completed the purchase of the entire share capital of IT-IS International Ltd, a company incorporated in England and Wales. The company specialises in the development and manufacturing of PCR diagnostic instruments for the life sciences and food testing industry.

IFRS 3 provides for a period of 12 months from the acquisition to complete the identification and measurement of the fair value of assets acquired and liabilities assumed. Until October 2021, the gross amount of goodwill is subject to adjustment.

11. Inventories and work in progress

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Raw materials	14,406	1,195	941
Work in progress	8,999	241	509
Finished goods	9,550	666	666
Traded goods	-	70	-
Stock provisions	-3,067	-89	-
Total inventories and work in progress	29,888	2,083	2,116

Increased inventory levels are supporting the Group's revenue growth, with significant finished goods being held in stock ready for immediate dispatch, as demand remains high.

The lead time for obtaining some raw materials is significant, so bulk orders have been placed to ensure there are no supply chain issues; these contribute to the higher raw materials balance in 2020.

The closing inventory balance is assessed every year and a stock provision is made for stock at risk of not being sold.

12. Trade and other receivables

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Trade and other receivables	79,341	1,720	3,005
Estimated credit loss provision	-160	-397	-42
Accrued income	-	15	88
Tax receivables (excluding income tax)	343	335	444
Receivables on sale of businesses	67	152	-
Other receivables	1	26	22
Total trade and other receivables	79,592	1,851	3,517

Trade receivables balances are due within one year. Once an invoice is more than 90 days overdue, it is deemed more likely to default and as such, these invoices have been provided for in full as part of an expected credit loss model.

The movement in the allowance for doubtful debts is shown below:

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Balance at the beginning of the period	397	42
Impairment losses recognised	163	382
Amounts written off during the year as uncollectible	-400	-5
Amounts recovered during the year	-	-14

Change in the scope of consolidation	-	-8
Balance at the end of the period	160	397

The split by maturity of the clients' receivables is presented below:

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	ended 31 December 2018
Less than one month	77,944	1,029	2,101
Between one and three months	1,364	101	201
Between three months and one year	6	116	206
More than one year	27	473	497
Balance at the end of the period	79,341	1,720	3,005

13. Borrowings

As of 31 December 2020, the Group had repaid or converted all bond notes outstanding at December 2019. During 2020 the main operations were as follows:

- The Vatel bond notes issued in 2017 by Novacyt were repaid in full for an amount of £139,000.

- The Vatel bond notes issued in 2018 by Novacyt were repaid for an amount of £345,000 and the balance was converted in share capital for a total of £1,856,000.

- The Harbert bond granted to Novacyt UK Holdings in 2019 was repaid in full for an amount of £4,108,000.

In addition, the Group repaid in full its short-term financing facility for an amount of £721,000.

14. Provisions

The nature of and changes in provisions for risks and charges for the period from 1 January 2020 to 31 December 2020 are as follows:

Amounts in £'000	At 1 January 2020	Increase	Reduction	Business Combinations Impact	Change in exchange rates	At 31 December 2020
Provisions for restoration of premises	192	37	-	13	-	242
Long-term management incentive plan	13	19,006	-19,018	-	-1	-
Provisions long term	205	19,043	-19,018	13	-1	242
Provision for litigation	43	22	-	-	3	68
Provisions for product warranty	-	19,753	-	35	-	19,788
Provisions short term	43	19,775	-	35	3	19,856

The nature of and changes in provisions for risks and charges for the period from 1 January 2019 to 31 December 2019 are as follows:

Amounts in £'000	At 1 January 2019	Increase	Reduction	Adoption of IFRS 16	Change in exchange rates	At 31 December 2019
Provisions for restoration of premises	133	6	-23	76	-	192
Long-term management incentive plan	18	-	-5	-	-	13

Provisions long term	151	6	-28	76	-	205
Provision for litigation	90	-	-44	-	-3	43
Provisions short term	90	-	-44	-	-3	43

Provisions chiefly cover:

- Risks related to litigations with personnel;

- The restoration expenses of the premises as per the lease agreements; and

- Product assurance warranties.

The provisions for the restoration of the premises is an estimation of the cash payable to cover dilapidations at the end of the rental periods, thus at the following dates:

- Lab21 Healthcare Ltd: August 2025

- Microgen Bioproducts Ltd: May 2032

- Primerdesign Ltd: November 2025

- IT-IS International Ltd: September 2022 and December 2023, as there are two sites that do not have co-terminus leases

The provision for litigations may generate a cash payment during 2021.

The provision for product assurance warranties has increased significantly in the year due to higher sales and the notification of a product warranty claim after the year end.

The long-term management incentive plan crystalised in November 2020 and the remaining costs are shown against other liabilities.

15. Trade and other liabilities

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018

Trade payables	5,228	1,786	2,497
Accrued invoices	8,016	732	1,072
Social security liabilities	1,082	404	269
Tax liabilities	16,831	122	253
Other liabilities	5,627	31	94
Options classified as liabilities	-	845	5
Total trade and other payables	36,784	3,920	4,190

Trade payables and accrued invoices have increased significantly in line with increased revenue. In addition, the improved liquidity position has meant that credit facilities have been secured with many suppliers who previously did not offer such terms.

The 2020 "tax liability" predominantly relates to Value Added Tax ("VAT") payable to HMRC in the UK covering the months of November and December.

The 2020 "other liabilities" balance relates to the second tranche of the LTIP payment that is due to be paid in November 2021.

"Options classified as liabilities" in 2019 relate mainly to the Company's equity warrants granted to Harbert European Growth Capital in connection with the subscription of the €5,000,000 bond issued by Novacyt UK Holdings and to the equity warrants attached to the OCABSAs subscribed by Negma.

16. Tax liabilities

The balance of £15,116,000 at 31 December 2020 (2019: £nil; 2018: £nil) reflects the UK corporation tax liability of the Group. The amount reflects the tax due at the full UK rate (19%) on taxable profits, although in due course, if patents are granted and a Patent Box claim be made, future taxable profits should be taxable at a much lower rate.

17. Other liabilities long-term

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Share-based payment benefits - LTIP, long term	5,606	-	-
Total other liabilities long term	5,606	-	-

The 2020 "other liabilities long-term" balance relates to the third tranche of the LTIP payment that is due to be paid in November 2022.

18. Issued capital and reserves

18.1 Share capital

As of 31 December 2020, the Company's share capital of €4,708,416.54 was divided into 70,626,248 shares with a par value of 1/15th of a Euro each.

	Amount of share capital £'000	Amount of share capital €'000	Unit value per share €	Number of shares issued
At 1 January 2019	2,117	2,511	0.07	37,664,341
Capital increase by conversion of OCABSA	1,194	1,362	0.07	20,430,413
At 31 December 2019	3,311	3,873	0.07	58,094,754
Capital increase by exercise of warrants	567	638	0.07	9,578,813
Capital increase by conversion of bonds	175	197	0.07	2,952,681

At 31 December 2020	4,053	4,708	0.07	70,626,248

The Company's share capital consists of one class of share. All outstanding shares have been subscribed, called and paid.

18.2 Share premium

Amounts in £'000	
Balance at 1 January 2019	47,207
Premium arising on issue of equity shares	112
Expenses of issue of equity shares	-320
Balance at 31 December 2019	46,999
Premium arising on issue of equity shares	3,697
Expenses of issue of equity shares	-25
Balance at 31 December 2020	50,671

18.3 Other reserves

Amounts in £'000	
Balance at 1 January 2019	-4,395

Translation differences	2,471
Balance at 31 December 2019	-1,924
Translation differences	-112
Balance at 31 December 2020	-2,036

18.4 Equity reserve

Amounts in £'000	
Balance at 1 January 2019	355
Conversion of the OCABSA Negma	-19
Balance at 31 December 2019	336
Conversion Vatel bonds	19
Exercise Negma warrants	103
Exercise Harbert European Growth Capital warrants	693
Exercise Primerdesign warrants	4
Balance at 31 December 2020	1,155

This reserve represents the equity component of warrants and loans.

18.5 Retained earnings / Losses

Amounts in £'000	
Balance at 1 January 2019	-26,981
Loss for the year	-5,749
Other variations	-3,389
Balance at 31 December 2019	-36,119
Profit for the year	132,423
Other variations	612
Balance at 31 December 2020	96,916

19. Business Combinations

Acquisition of IT-IS International Ltd

On 15 October 2020, Novacyt UK Holdings Ltd completed the purchase of the entire share capital of IT-IS International Ltd, a company incorporated in England and Wales. The company specialises in the development and manufacturing of PCR diagnostic instruments for the life sciences and food testing industry.

The purchase price was £13,387,000, broken down as follows:

Cash disbursed	£11,564,000
Deferred consideration for reaching a target turnover in year one	£1,016,000
Deferred consideration for reaching a target turnover in year two	£807,000
Total purchase price	£13,387,000

The fair value of the assets acquired and the liabilities assumed are as follows:

Net property, plant and equipment	£108,000
Trademark	£843,000
Customer relationships	£1,366,000
Inventory	£1,774,000
Clients and other receivables	£424,000
Suppliers and other creditors	-£4,680,000
Deferred tax on assets acquired	-£591,000
Cash acquired	£4,706,000
Fair value of assets acquired and liabilities assumed	£3,950,000
Goodwill	£9,437,000

The table above shows how the goodwill figure of £9,437,000 is arrived at after allocating the purchase price across all the assets and liabilities acquired. The residual goodwill arising from the acquisition reflects the future growth expected to be driven by new and existing customers, the value of the workforce, patents and know-how.

The value of "customer relationships" was determined by discounting the additional margin generated by customers after remuneration of the contributing assets.

The value of the trademark was determined by discounting the cash flows that could be generated by licensing the trademark, estimated as a percentage of revenue derived from information available on comparable assets.

IFRS 3 provides for a period of 12 months from acquisition to complete the identification and measurement of the fair value of assets acquired and liabilities assumed. This means that the gross amount of goodwill is subject to adjustment until October 2021.

Goodwill is a residual component calculated as the difference between the purchase price for the acquisition of control and the fair value of the assets acquired and liabilities assumed. It includes unrecognised assets such as the value of the personnel and know-how of the acquiree.

The acquisition costs amounted to £187,000. They are included on the statement of comprehensive income in the year ended 31 December 2020 as "acquisition related expenses".

IT-IS International contributed £1,077,000 to consolidated revenue in the year ended 31 December 2020 between its consolidation on 15 October 2020 and 31 December 2020.

20. Related parties

Parties related to Novacyt SA are:

- the managers, whose compensation is disclosed below; and

- the Directors of Novacyt SA.

Remuneration of key management personnel

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Fixed compensation and company cars	867	990
Variable compensation	495	113
Social security contributions	899	140
Contributions to supplementary pension plans	40	47
Share-based payment benefits - LTIP	14,233	-
Total remuneration	16,534	1,290

Aggregate Directors' remuneration

Amounts in £'000	Year ended 31 December 2020	Year ended 31 December 2019
Fixed compensation and company cars	705	591
Variable compensation	330	60
Social security contributions	658	100
Contributions to supplementary pension plans	29	26
Fees	33	24
Share-based payments - LTIP	11,110	-
Total remuneration	12,866	801

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

21. Subsequent events

After the year end, the Group received notification of a contract dispute.

22. Contingent liabilities

After the year end, the Group received notification of a contract dispute related to revenue totalling £129,124,000 in respect of performance obligations satisfied during the financial year to 31 December 2020. £23,957,000 of invoices in respect of products delivered during the year is outstanding at the date of signing the financial statements and recovery of the invoice is dependent on the outcome of the dispute.

After the year end, a further £49,034,000 of product delivered and invoiced in 2021 is unpaid and part of the commercial discussions that are ongoing.

The Group has taken independent legal advice and a provision has been made in the financial statements in respect of management's best estimate in respect of this claim.

Management and the Board of Directors have discussed the legal advice presented to them and have formed a judgment that, in accordance with the contractual terms, it should be possible to replace the products in dispute and a product warranty provision has been made accordingly.

If a claim under the limited assurance warranty is successful then management's best estimate of the settlement cost is up to a maximum of £19,753,000, the timing of any outflow is dependent on settlement of the dispute. If no settlement is achieved and legal action is required, the timing of any possible outflow will be extended.

It is possible, but not probable, that the refund claim under the limited assurance warranty will be successful. The timing of any cash outflow is dependent upon the success of a claim and the terms negotiated for repayment.

If the settlement of the claim is materially different from management's determination of replacing the products, the financial statements with regards to revenue and the provision for product warranty could be significantly impacted.

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