IFRS 18: What it means for technology, software and life sciences growth companies

IFRS 18, effective for annual reporting periods beginning on or after 1 January 2027, introduces significant changes to the presentation and disclosure of financial performance. For technology, software and life sciences growth companies, the most visible impacts are likely to arise from:

- The new structure of the statement of profit or loss, including the mandatory operating profit subtotal and classification of income and expenses into the operating, investing and financing categories
- Enhanced disclosures for entities presenting expenses by function
- Increased emphasis on aggregation and disaggregation, and
- New disclosure requirements for management-defined performance measures (MPMs).

Although IFRS 18 does not change the recognition or measurement of income and expenses, many growth companies will need to reconsider how financial performance is presented and communicated to investors.

Operating profit and the statement of profit or loss

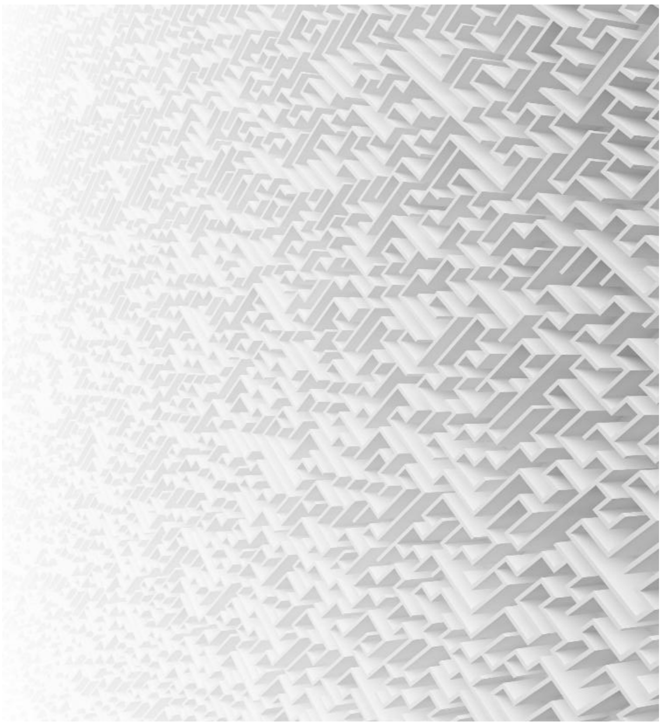
Technology, software and life sciences growth companies frequently report operating profit or loss, adjusted operating profit, EBITDA and similar performance measures to communicate financial performance. IFRS 18 introduces a mandatory operating profit subtotal and requires all income and expenses to be classified within the operating, investing or financing categories of the statement of profit or loss. While many operating expenses will continue to be presented within operating profit, the new structure may change how users compare IFRS operating profit with management's alternative performance measures.

- The new mandatory operating profit subtotal may differ from operating profit measures currently presented by the entity.
- Income and expenses should be reviewed to determine whether they are appropriately classified within the operating, investing or financing categories.
- Existing statement of profit or loss line items and performance metrics should be reviewed to ensure they remain consistent with the new presentation requirements.

Financing arrangements and financing income and expenses

Growth companies often use a range of funding structures to finance expansion, including venture debt, convertible loan notes, hybrid financial instruments, deferred consideration arrangements and lease financing. IFRS 18 may affect where the related income and expenses are presented within the statement of profit or loss.

- Interest expense on borrowings, venture debt, lease liabilities and other financing arrangements will generally be presented within the financing category.
- Finance costs recognised using the effective interest method on financial liabilities, including many convertible loan notes, will generally be presented within the financing category.
- Hybrid financial instruments, including convertible debt and contracts containing embedded derivatives, should be assessed carefully as the classification of related income and expenses depends on the accounting for the instrument under IFRS Accounting Standards.
- Foreign exchange differences arising on financing liabilities will generally follow the classification of the underlying financing item.



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Research and development, intangible assets and innovation costs

Research and development expenditure and intangible assets are often significant for technology, software and life sciences companies. While IFRS 18 does not change the accounting requirements of IAS 38, companies should consider how these items are presented within the new statement of profit or loss and reflected in performance measures communicated to investors.

- Research expenditure and development costs recognised as expenses will generally be presented within operating profit.
- Amortisation and impairment of capitalised development costs and other operating intangible assets will generally be presented within operating profit.
- Companies should consider how these costs are reflected in performance measures that may qualify as management-defined performance measures.

Employee costs, share-based payments and operating expenses

Technology and life sciences companies typically incur significant employee-related costs, including salaries, bonuses, share-based payment awards, employer taxes and contractor costs. Many entities also present operating expenses by function, such as research and development, sales and marketing, and general and administrative expenses.

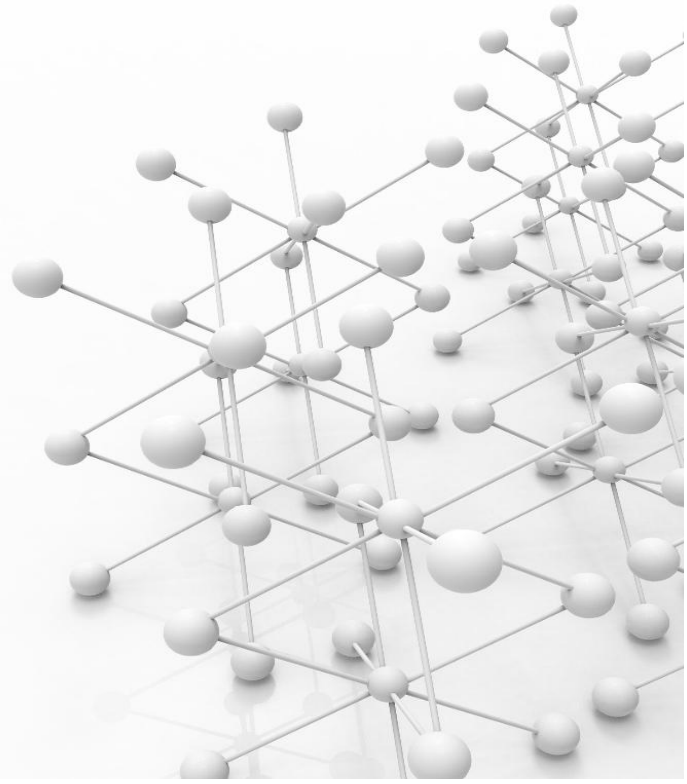
IFRS 18 introduces new disclosure requirements for entities presenting expenses by function, requiring additional disclosures about specified operating expenses by nature within the notes to the financial statements.

- Existing systems and reporting processes should be assessed to determine whether they capture employee costs, depreciation, amortisation, impairment and other specified operating expenses by both function and nature.
- Additional processes or system changes may be needed where expense information by nature is not currently captured at the required level.
- Share-based payment expense, including the remeasurement of cash-settled awards, will generally be presented within operating profit.

Equity-accounted investments, associates and joint ventures

Technology, software and life sciences companies often use joint ventures, strategic partnerships and equity-accounted investments to develop products, share research costs or access new markets. While IFRS 18 does not change the equity method accounting requirements of IAS 28, it introduces new presentation requirements that may affect where income and expenses relating to these investments are presented in the statement of profit or loss.

- Share of profit or loss from associates and joint ventures accounted for using the equity method will be presented within the investing category.
- Companies should consider how the presentation of results from equity-accounted investments affects commonly used performance measures, particularly where investors assess operating performance or adjusted operating metrics excluding contributions from strategic partnerships.
- Where equity-accounted investments are significant, companies should review investor communications and alternative performance measures to ensure they explain the relationship between reported operating performance and returns generated through strategic investments.



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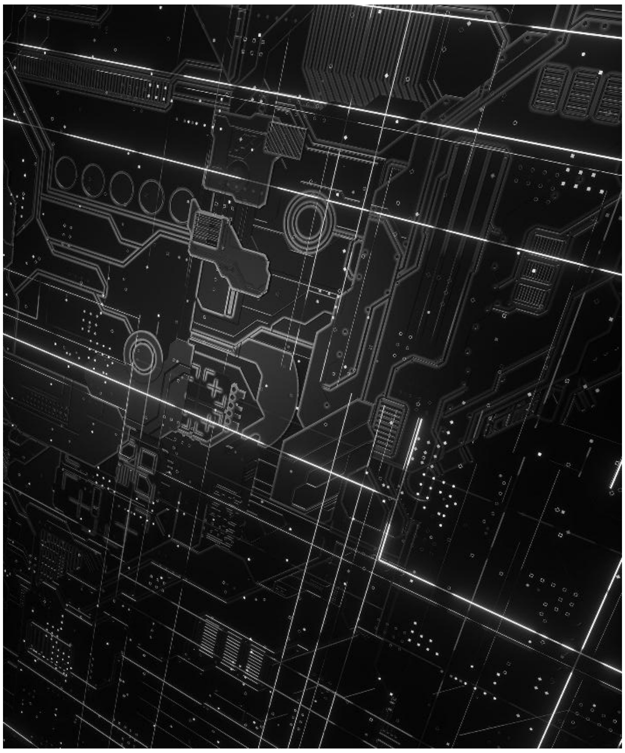
Aggregation and disaggregation

Technology, software and life sciences companies often have diverse cost bases, including research and development, sales and marketing, cloud infrastructure, employee costs and acquisition-related activities. IFRS 18 introduces enhanced principles for aggregating and disaggregating information throughout the financial statements, requiring entities to consider whether line items and disclosures provide sufficiently meaningful information about financial performance.

- Companies should review whether existing captions such as "research and development", "sales and marketing", "general and administrative expenses" or "other operating expenses" provide sufficiently meaningful information.
- Consider whether further disaggregation is appropriate for employee costs, cloud infrastructure costs, software development costs, clinical trial expenditure, customer acquisition costs or outsourced research activities where these are material.
- Material impairment charges, restructuring costs or acquisition-related expenses should be presented separately where this provides useful information.
- Judgements supporting the aggregation and disaggregation of income and expenses should be documented to support consistent application.



Management-defined performance measures

Technology, software and life sciences growth companies frequently communicate alternative performance measures to explain underlying business performance. Common examples include adjusted EBITDA, adjusted operating loss, adjusted EBIT, non-GAAP operating income, adjusted loss before tax and measures excluding share-based payment expense, acquisition-related costs or amortisation of acquired intangible assets.

IFRS 18 introduces new disclosure requirements for management-defined performance measures (MPMs), which are profit or loss subtotals that are not specified by IFRS Accounting Standards and are used in public communications to communicate management's view of an aspect of an entity's financial performance. Many of the adjusted performance measures commonly reported by growth companies may therefore meet the definition of an MPM.

Where a measure qualifies as an MPM, it will be subject to additional disclosure requirements within the financial statements, including a reconciliation to the most directly comparable IFRS-specified subtotal and an explanation of how the measure is calculated and why management considers the measure to provide useful information.

Technology, software and life sciences companies should consider the following practical steps:

- Identify all publicly communicated profit or loss subtotals to determine which measures may qualify as MPMs.
- Review whether adjusted performance measures are calculated consistently across annual reports, results announcements, investor presentations, fundraising materials and other public communications.
- Assess whether commonly reported adjustments—such as share-based payment expense, amortisation of acquired intangible assets, impairment charges, restructuring costs, acquisition and integration costs or fair value movements—are reflected in measures that may qualify as MPMs.
- Establish appropriate governance, controls and documentation over the preparation, review and approval of MPMs ahead of first-time application.
- Prepare for the new reconciliation and explanatory disclosure requirements for qualifying MPMs.

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Illustrative classification of common income and expenses

Line item	Typical classification
Revenue from contracts with customers	Operating
Government grant income	Operating
Research and development expenses	Operating
Amortisation of intangible assets	Operating
Share-based payment expenses	Operating
Re-measurement of cash settled share-based payment liability	Operating
Impairment of intangible assets including goodwill	Operating
Foreign exchange differences on trade payables and trade receivables	Operating
Interest income on cash and cash equivalents and other cash deposits	Investing
Incoe and expenses related to equity-accounted associates and joint ventures	Investing
Interest expense on borrowings	Financing
Modification gains and losses on refinancing of borrowings	Financing
Foreign exchange differences on borrowings	Financing

Preparing for implementation

IFRS 18 is effective for periods beginning on or after 1 January 2027, with comparatives restated. Companies that prepare condensed interim financial statements in accordance with IAS 34 will need to present each heading it expects to use in applying IFRS 18 and the subtotals required by IFRS 18 in any interim period commencing on or after 1 January 2027, with comparatives restated. Reconciliations will also need to be disclosed to reconcile line items previously presented under IAS 1 to the items presented in accordance with IFRS 18.

Early planning will make the transition smoother and help ensure that the first IFRS 18-compliant results provide a clear and consistent picture of performance.

Find out more on our dedicated IFRS 18 webpage.

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