

science group

23 July 2015

SCIENCE GROUP PLC

("Science Group" or the "Group" or the "Company")

INTERIM RESULTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2015

Science Group plc (AIM:SAG) (formerly Sagentia Group plc) and its subsidiaries is an international group providing science and technology consultancy services and product development for the consumer, energy, industrial and medical markets.

Summary:

- In-line operating performance with continued strong operating margins
- Basic EPS increase of 8% to 4.0 pence. Diluted EPS of 3.6 pence
- Acquisition of Oakland Innovation Limited completed in February 2015
- Cash balance of £21.5 million at 30 June 2015 (30 June 2014: £22.8 million) and net funds of £13.2 million (30 June 2014: £13.5 million) after net cash outflows of £5.1 million related to the acquisition of Oakland, share buy-backs and dividend payment

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Interim Results 2015

Science Group plc (including its subsidiaries) is an international group providing science and technology consultancy services and product development for the consumer, energy, industrial and medical markets. The Company changed its name from Sagentia Group plc to Science Group plc on 1 July 2015.

Group Financial Performance

For the six months ended 30 June 2015, the Group generated adjusted operating profit of £2.4 million (H1 2014: £2.4 million) on revenue of £14.1 million (H1 2014: £13.3 million), in-line with the Board's expectations. Excluding the revenue contribution from Oakland Innovation Ltd ('Oakland'), the underlying business was broadly flat on the prior year. The Group has benefited from the more benign US dollar exchange rate environment, partially offset by the Euro exchange rate weakness, in H1 2015, which has been used to increase investment in the business and increase the Group's employee profit share accrual. As anticipated, Oakland did not provide any profit contribution in the period due to the costs incurred in integration, including the relocation of the business into Harston Mill, the Group's primary location. Profit before tax ('PBT') was £1.9 million (H1 2014: £1.8 million). (Throughout this report, adjusted operating profit excludes amortisation of acquisition related intangible assets and share based payment charges).

Consultancy fees from Core operations were £12.9 million (H1 2014: £11.9 million) and 'Other Core' revenues, which comprise primarily recharged project material revenues and licence income, were £0.7 million (H1 2014: £0.8 million). Other (non-Core) revenues, primarily now property income from sub-let space in the Harston Mill facility, declined as anticipated relative to 2014 which included IT support revenue from M5N during the wind down phase.

Basic earnings per share was 4.0 pence (H1 2014: 3.7 pence), and diluted earnings per share in H1 2015 was 3.6 pence (H1 2014: 3.4 pence). As previously explained, the Group's tax losses, anticipated to be used to offset future trading profits, are now fully recognised as an asset on the balance sheet. As a result, the earnings per share of the Group reflect standard rates of corporation tax, although the cash effect remains significantly lower due to the tax losses carried forward.

The Group retains a robust balance sheet with Shareholder Funds at 30 June 2015 of £34.6 million (30 June 2014: £32.5 million), including net cash and freehold property of £26.7 million (30 June 2014: £27.1 million). Net funds at 30 June 2015 were £13.2 million (30 June 2014: £13.5 million) after net cash outflows of £5.1 million which included £3.0 million related to the acquisition of Oakland Innovation, share buy-backs of £0.6 million and the increased dividend of £1.5 million.

Geographical and Sector Revenue

In the period to 30 June 2015, the Group's Product and Technology Development services accounted for £10.3 million revenue (H1 2014: £10.2 million) and the Technology Advisory services (including Oakland Innovation acquired in February 2015) accounted for £3.2 million (H1 2014: £2.5 million).

Approximately 39% of the Group's Core Business revenue was derived from the Medical Sector in the first half of 2015 (H1 2014: 45%) and 61% from the Commercial Sector (H1 2014: 55%). North America, the Group's largest international market contributed 63% of Core Business revenue (H1 2014: 62%). The top five clients accounted for approximately 36% and the top ten clients for approximately 52% of the Consultancy fee revenues (H1 2014: 33% and 49% respectively).

While the US dollar exchange rate has been favourable relative to 2014, the strength of Sterling against the Euro has been materially negative, affecting competitiveness of UK services and/or margins on European customer projects. In addition, the dramatic fall in the crude oil price in the second half of 2014 has resulted in a reduction in investment within the energy sector. While such factors produce operational challenges, the Board seeks to mitigate such effects by servicing diverse geographical markets and industry sectors and continues to invest in exploring new market opportunities.

Summary

The Group performance in the first half of 2015 has been in line with the Board's expectations, incorporating positive and negative international external factors. With a robust balance sheet, the Board remains committed to managing the business for the long term benefit of shareholders, customers and employees.

The acquisition of Oakland has significantly strengthened the Group's advisory offering. The integration has progressed well and the business has been relocated to the Group's Harston Mill facility. While the Board does not currently anticipate any further acquisitions in the current year, opportunities are continually being explored, consistent with the long term strategy of Science Group plc.

Consolidated Income Statement
For the period ended 30 June 2015

	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
Notes	£000	£000	£000
Revenue	14,096	13,344	28,329
Operating expenses	(11,667)	(10,978)	(22,926)
Adjusted operating profit	4 2,429	2,366	5,403
Amortisation of acquisition related intangible assets	(236)	(173)	(229)
Share based payment charge	(203)	(219)	(431)
Operating profit	4 1,990	1,974	4,743
Finance costs	(166)	(188)	(570)
Finance income	77	13	28
Profit before income tax	1,901	1,799	4,201
Income tax (charge)	(393)	(360)	(765)
Profit for the period from continuing operations	4 1,508	1,439	3,436
Profit for the period attributable to equity holders of the parent	1,508	1,439	3,436
Earnings per share			
Earnings per share (basic)	5 4.0p	3.7p	8.9p
Earnings per share (diluted)	5 3.6p	3.4p	8.1p

Consolidated Statement of Comprehensive Income
For the period ended 30 June 2015

	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	£000	£000
Profit for the period	1,508	1,439	3,436
Other comprehensive income:			
Fair value gain / (loss) on interest rate swap, net of tax	-	9	41
Exchange differences on translating foreign operations	41	(4)	43
Other comprehensive income for the period, net of tax	41	5	84
Total comprehensive income for the period	1,549	1,444	3,520
Total comprehensive income for the period attributable to owners of the parent	1,549	1,444	3,520

**Consolidated Statement of Changes in Shareholders' Equity
For the period ended 30 June 2015**

Group	Issued capital	Share premium	Treasury Stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total – Shareholders funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2014	420	7,775	(2,937)	10,343	195	1,476	13,796	31,068
Issue of shares out of treasury stock	-	-	278	-	-	-	(136)	142
Issue of shares out of share capital	-	31	-	-	-	-	-	31
Dividends paid	-	-	-	-	-	-	(428)	(428)
Share based payment charge	-	-	-	-	-	219	-	219
Transactions with owners	-	31	278	-	-	219	(564)	(36)
Profit for the period	-	-	-	-	-	-	1,439	1,439
Other comprehensive income:								
Fair value gain / (loss) on interest rate swap	-	-	-	-	-	-	9	9
Exchange differences on translating foreign operations	-	-	-	-	(4)	-	-	(4)
Total comprehensive income for the period	-	-	-	-	(4)	-	1,448	1,444
Balance at 30 June 2014	420	7,806	(2,659)	10,343	191	1,695	14,680	32,476
Balance at 1 July 2014	420	7,806	(2,659)	10,343	191	1,695	14,680	32,476
Purchase of own shares	-	-	(1,801)	-	-	-	-	(1,801)
Issue of shares out of treasury stock	-	-	22	-	-	-	(2)	20
Issue of shares out of share capital	1	-	-	-	-	-	-	1
Share based payment charge	-	-	-	-	-	212	-	212
Deferred tax on share-based payment transactions	-	-	-	-	-	-	465	465
Transactions with owners	1	-	(1,779)	-	-	212	463	(1,103)
Profit for the period	-	-	-	-	-	-	1,997	1,997
Other comprehensive income:								
Fair value gain / (loss) on interest rate swap	-	-	-	-	-	-	32	32
Exchange differences on translating foreign operations	-	-	-	-	47	-	-	47
Total comprehensive income for the period	-	-	-	-	47	-	2,029	2,076
Balance at 31 December 2014	421	7,806	(4,438)	10,343	238	1,907	17,172	33,449
Balance at 1 January 2015	421	7,806	(4,438)	10,343	238	1,907	17,172	33,449
Purchase of own shares	-	-	(575)	-	-	-	-	(575)
Acquisition of Oakland	-	424	940	-	-	-	-	1,364
Issue of shares out of treasury stock	-	-	214	-	-	-	(39)	175
Dividends paid	-	-	-	-	-	-	(1,527)	(1,527)
Share based payment charge	-	-	-	-	-	203	-	203
Transactions with owners	-	424	579	-	-	203	(1,566)	(360)
Profit for the period	-	-	-	-	-	-	1,508	1,508
Other comprehensive income:								
Fair value gain / (loss) on interest rate swap	-	-	-	-	-	-	-	-
Exchange differences on translating foreign operations	-	-	-	-	41	-	-	41
Total comprehensive income for the period	-	-	-	-	41	-	1,508	1,549
Balance at 30 June 2015	421	8,230	(3,859)	10,343	279	2,110	17,114	34,638

**Consolidated Balance Sheet
At 30 June 2015**

	At 30 June 2015 (Unaudited)	At 30 June 2014 (Unaudited)	At 31 December 2014 (Audited)
	£000	£000	£000
Assets			
Non-current assets			
Goodwill	5,489	3,458	3,458
Acquisition related intangible assets	4,671	1,965	1,867
Property, plant and equipment	14,332	14,576	14,458
Investments	100	-	-
Deferred income tax assets	1,418	2,320	1,868
	26,010	22,319	21,651
Current assets			
Trade and other receivables	4,243	4,478	5,474
Cash and cash equivalents	21,474	22,817	23,802
	25,717	27,295	29,276
Total assets	51,727	49,614	50,927
Liabilities			
Current liabilities			
Trade and other payables	6,221	5,440	6,783
Current income tax liabilities	208	161	22
Borrowings	1,009	1,013	1,009
	7,438	6,614	7,814
Non-current liabilities			
Borrowings	7,278	8,278	7,778
Other payables	-	42	-
Derivative financial liabilities	141	32	203
Deferred income tax liabilities	2,232	2,172	1,683
	9,651	10,524	9,664
Total liabilities	17,089	17,138	17,478
Net assets	34,638	32,476	33,449
Shareholders' equity			
Share capital	421	420	421
Share premium	8,230	7,806	7,806
Treasury stock	(3,859)	(2,659)	(4,438)
Merger reserve	10,343	10,343	10,343
Translation reserves	279	191	238
Share based payment reserve	2,110	1,695	1,907
Retained earnings	17,114	14,680	17,172
Total equity	34,638	32,476	33,449

Consolidated Statement of Cash Flows
For the period ended 30 June 2015

	Six months ended 30 June 2015 (Unaudited)	Six months ended 30 June 2014 (Unaudited)	Year ended 31 December 2014 (Audited)
	£000	£000	£000
Profit before income tax	1,901	1,799	4,201
Depreciation and amortisation charges	505	302	629
Loss on disposal of property, plant and equipment	-	-	7
Change in fair value on interest rate swap	(62)	-	203
Share based payment charge	203	219	431
Impairment of goodwill and acquisition related intangible assets	-	126	126
Change in fair value of contingent consideration	-	(39)	-
Write off fair value of contingent consideration	-	-	(81)
(Increase) / decrease receivables	1,998	794	(202)
Increase / (decrease) in payables	(1,207)	(1,592)	(291)
Cash generated from operations	3,338	1,609	5,023
UK corporation tax (paid) (net)	-	(40)	(155)
Foreign corporation tax (paid) (net)	(1)	-	-
Cash flows from operating activities	3,337	1,569	4,867
Purchase of property, plant and equipment	(111)	(312)	(428)
Purchase of subsidiary undertaking	(2,963)	-	-
Purchase of interest in associated companies	(100)	-	-
Cash flow used in investing activities	(3,174)	(312)	(428)
Issue of ordinary share capital	-	-	32
Issue of shares out of treasury	175	142	162
Repurchase of own shares	(575)	-	(1,801)
Dividends paid	(1,527)	(428)	(428)
Repayment of bank loans	(500)	(500)	(1,000)
Repayment of other loan	-	(7)	(11)
Cash flows used in financing activities	(2,427)	(793)	(3,046)
Increase / (decrease) in cash and cash equivalents in the period	(2,264)	464	1,394
Cash and cash equivalents at the beginning of the period	23,802	22,428	22,428
Exchange gains / (losses) on cash	(64)	(75)	(20)
Cash and cash equivalents at the end of the period	21,474	22,817	23,802

Extracts from notes to the financial statements

1. General information

The financial information for the 6 months ended 30 June 2015 set out in this interim report is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information included has been extracted from the 2014 Financial Statements of Science Group plc (formerly Sagentia Group plc). The Group's statutory financial statements for the year ended 31 December 2014 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

These un-audited interim results have been approved for issue by the Board of Directors on 22 July 2015.

The group and company financial statements of Science Group plc (formerly Sagentia Group plc) for the year ended 31 December 2014 were prepared under IFRS and have been audited by Grant Thornton UK LLP. Copies of the Financial Statements are available from the company's registered office: Harston Mill, Harston, Cambridge, CB22 7GG and can be found on the company's website at www.sciencegroup.com.

Science Group plc ('Company') and its subsidiaries (together 'Group') is a technology consulting organisation. The Group creates, develops and delivers business opportunities, products and services for its clients in the consumer, energy, industrial and medical markets. The Group's facilities include offices and laboratories located in Cambridge and Guildford in the UK, in Boston and Houston in the USA, and in Dubai.

The Company is the ultimate parent company in which results of all the Science Group companies are consolidated.

The Company is incorporated in England and Wales and has its primary listing on the AIM Market of the London Stock Exchange (SAG.L).

Income statement presentation

To provide a better guide to underlying business performance, adjusted operating profit excludes amortisation of acquisition related intangible assets and share based payment charges.

2. Accounting policies

The principal accounting policies applied in the preparation of these interim financial statements are unchanged from those set out in the financial statements for the year ended 31 December 2014. These policies have been consistently applied to all the periods presented.

2.1 Basis of preparation

These interim consolidated financial statements are for the six months ended 30 June 2015. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards (IFRS) and IFRC interpretations issued and effective at the time of preparing these statements.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets at fair value, as required by IAS39 Financial Instruments: Recognition and Measurement.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

4. Segmental information

The Group is organised on a worldwide basis into two segments, Core Business and Other. Core Business activities include the two industry sectors (Medical and Commercial) which the Group services and includes all Consultancy fees for services operations, including recharged expenses and product/licence revenue generated directly from these activities. 'Other' activities include rental income from Harston Mill and income from the provision of external IT services (which was wound down during the year ended 31 December 2014). The segmental analysis is reviewed to adjusted operating profit. Other resources are shared across the Group.

Period ended 30 June 2015 (Unaudited)	Core Business	Other	Total
	£000	£000	£000
Fees	12,850	-	12,850
IT support	-	34	34
Property income	-	537	537
Recharged project materials	646	-	646
Product and licence income	29	-	29
Revenue	13,525	571	14,096
Adjusted operating profit	2,392	37	2,429
Amortisation of acquisition related intangible assets			(236)
Share based payment charge			(203)
Operating profit			1,990
Finance charges (net)			(89)
Profit before income tax			1,901
Tax charge			(393)
Profit for the period from continuing operations			1,508
Period ended 30 June 2014 (Unaudited)	Core Business	Other	Total
	£000	£000	£000
Fees	11,916	-	11,916
IT support	-	140	140
Property income	-	499	499
Recharged project materials	735	25	760
Product and licence income	29	-	29
Revenue	12,680	664	13,344
Adjusted operating profit	2,336	30	2,366
Amortisation of acquisition related intangible assets			(173)
Share based payment charge			(219)
Operating profit			1,974
Finance charges (net)			(175)
Profit before income tax			1,799
Tax charge			(360)
Profit for the period from continuing operations			1,439

Year ended 31 December 2014
(Audited)

	Core Business £000	Other £000	Total £000
Fees	25,672	-	25,672
IT support	-	128	128
Property income	-	1,024	1,024
Recharged project materials	1,423	25	1,448
Product and licence income	57	-	57
Revenue	27,152	1,177	28,329
Adjusted operating profit	5,196	207	5,403
Amortisation of acquisition related intangible assets			(229)
Share based payment charge			(431)
Operating profit			4,743
Finance charges (net)			(542)
Profit before income tax			4,201
Tax charge			(765)
Profit for the period from continuing operations			3,436

5. Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	Six months ended 30 June 2015 (Unaudited) £000	Six months ended 30 June 2014 (Unaudited) £000	Year ended 31 December 2014 (Audited) £000
Profit for the financial period from continuing operations	1,508	1,439	3,436
Weighted average number of shares:	Number	Number	Number
For basic earnings per share	38,000,823	38,729,108	38,500,084
For fully diluted earnings per share	41,908,015	42,639,325	42,529,294

6. Acquisition of Oakland Innovation Limited

On 18 February 2015, the Group acquired 100% of the share capital of Oakland Innovation Limited, an R&D consultancy specialising in technology innovation and market intelligence for the global consumer and healthcare markets. The acquisition is expected to enable the Group to accelerate its development in this identified growth and investment area.

The consideration of £5.0 million was satisfied as to £3.6 million in cash on completion and as to £1.4 million satisfied by the sale of Science Group plc's treasury shares, equivalent to 1,043,333 Science Group shares at the average closing mid-market price of 130.7 pence on the five dealing days immediately prior to completion. The shares are subject to lock-in periods of between 18 months and three years after the acquisition date. At completion, Oakland Innovation Limited held £0.7 million of cash on its balance sheet. Acquisition expenses of £25,000 were expensed in the period.

	Book value £000	Fair value £000
Net assets acquired:		
Acquisition related intangible assets	-	3,040
Property, plant and equipment	32	32
Trade and other receivables	767	767
Cash and cash equivalents	673	673
Trade and other payables	(750)	(750)
Current tax liability	(178)	(178)
Deferred tax liability	(7)	(615)

	538	2,969
Goodwill		2,031
Total consideration		5,000
Satisfied by:		
Cash consideration		3,636
Shares in Science Group plc		1,364
		5,000
Net cash outflow arising on acquisition:		
Cash consideration		2,963

The goodwill arising is attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the businesses. Fair value adjustments have been recognised for acquisition related intangible assets and related deferred tax.

Acquisition related intangible assets of £3.0 million relate solely to the valuation of customer relationships. Oakland Innovation Limited has worked with a number of blue-chip companies for a number of years. Given the long standing relationships and nature of the customer base, the intangible asset is being amortised over eight years.

A deferred tax liability of £0.6 million in respect of the acquisition related intangible assets was established on acquisition. None of the goodwill is expected to be deductible for income tax purposes.

7. Investment in Creactive (ID) Design Limited

On 27 January 2015, the Group acquired 30% of the share capital of Creactive (ID) Design Limited, a Cambridge-based Industrial Design consultancy, for a total cash consideration of £100,000.

8. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. Because these are estimates the resulting accounting entries will not always reflect the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Project accounting

The Group undertakes a number of consultancy projects where the final price to complete the project may be uncertain. The state of completeness of each project, and hence, revenue recognised, requires the use of estimates. The value of work done is calculated based on the proportion of time spent on the project or value of stage gates achieved as set out in the project. Management apply their judgement in assessing time required to complete the projects and the ability to recover the full project costs. Where significant uncertainty exists, income is deferred until costs are recovered or the project is completed.

(b) Accounting for freehold property at Harston Mill

The Group owns and maintains the freehold property at Harston Mill for use in the supply of its Core consultancy services and for administrative purposes. Whilst there is remaining space on site not required to fulfil these activities, the Group lets out space to third party tenants. The revenues and costs attributable to this activity are disclosed as 'Other' activities within the business segment disclosures. Given the property does not form part of the Group's core activities, it is not accounted for as an investment property, the reasons being:

(i) The third party leases include the use of common areas and because of this the areas that are leased to third parties could not be sold separately.

(ii) The leases normally have notice periods of no more than 6 months giving the Group the flexibility to start using the areas if required i.e. the leased areas are not held for capital appreciation or rental income.

- Ends -