

# science group

16 September 2016

## **New 10 Year Bank Facilities**

Following the 2015 acquisitions and the purchase of the additional freehold property at Great Burgh, Epsom, the Board of Science Group plc (the 'Group') has been reviewing the Group's capital structure. With significant freehold property assets and the unprecedented current low interest rate environment, the Board concluded that a potential increase in both the amount and term of the Group's debt could benefit long term planning and corporate strategy implementation, particularly if this could be achieved without a material increase in the Group's financing risk profile.

Bank negotiations have now been successfully concluded and the Board has agreed a new 10 year fixed term loan of £15 million. Phased interest rate swaps will fully hedge the loan resulting in a 10-year fixed effective interest rate of approximately 3.4%, comprising a margin over 3 month LIBOR and the cost of the swap instruments to fix the interest rate over the period. (For comparison, the effective interest rate on the 5-year term loan, which was scheduled to expire in 2018, is approximately 3.9%. This loan has been repaid.) This increase in loan value and extended loan term enables the benefit from the current attractive financing climate to be sustained into the future.

The new term loan has no operating covenants as long as the Group net bank debt is less than £10 million. If this threshold is crossed, two conditions apply: a financial covenant, measured half-yearly on a 12 month rolling basis, such that annual EBITDA must exceed 1.25 times annual debt servicing (capital and interest); and a security covenant whereby the loan to value ("LTV") ratio of the securitised properties must remain below 75%. If either of these conditions is breached, a remedy period of 6 months is provided, during which time the EBITDA or LTV condition can be remedied or the net bank debt can be reduced to less than £10 million.

The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repaid on expiry of the loan. One-off costs of approximately £0.3 million will be incurred arising from cancellation of the prior loan and associated swap, together with arrangement and legal fees associated with the new loan.

In summary, the Group's freehold properties provide a far more cost-effective and more flexible business operating model compared to a fully repairing leasehold. Securing longer term debt against these freehold property assets provides an attractive capital structure without onerous operating covenants. Through this asset-backed financing model, the new 10 year term loan provides a fixed, low cost of capital which should support the Group strategy and enable the Board to make medium term investment and capital allocation decisions.

## Background

Science Group plc owns freehold property assets with a carrying value of £20.9 million at 31 December 2015. At 30 June 2016, the Group had gross cash of £17.2 million and net funds of £9.9 million. The Group's banking facilities were renewed on a 5 year term in 2013 with £7.3 million outstanding at 30 June 2016. Since that time, as previously announced, the Group has undertaken a further share buy-back programme and has paid the cash settlement for waived share options, at a total net cash outflow of £2.3 million. At 31 August 2016, the number of shares, excluding treasury shares, in issue was 39,973,795 and the Group had approximately 1.8 million share options outstanding, of which 1.2 million are unvested.

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