

A scientist in a white lab coat is looking through a microscope in a laboratory. The background is slightly blurred, showing a computer monitor and other lab equipment. The text is overlaid on a semi-transparent white box.

# 2016 Preliminary Results

Martyn Ratcliffe  
Chairman

Rebecca Hemsted  
Finance Director

To be read in conjunction with the audited preliminary  
results announcement released on 2 March 2017

# Science Group plc

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## Science and technology services

- Science-based Consultancy and Advisory Services
- Technology & Product Development

## Four subsidiary companies/brands

- Sagentia – founded 1986, provides services to medical and commercial markets
- OTM Consulting – acq July 2013, provides services to oil and gas industry
- Oakland Innovation – acq February 2015, provides services to consumer, healthcare and food & beverage markets
- Leatherhead Research – acq September 2015, provides services to food & beverage industry

## Significant freehold property assets

- North-of-London Facility – offices and laboratories based in freehold property in Harston, Cambridge
  - Sagentia and Oakland Innovation
- South-of-London Facility – offices and laboratories based in freehold property in Epsom
  - Leatherhead Research and OTM Consulting
- Other leasehold offices: UK – London; USA – Boston & Houston
- Opening new office in California in early 2017

# Financial Summary

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Group revenue of £36.9m (2015: £31.2m)

Adjusted\* operating profit of £6.2m (2015: £5.3m)

Statutory PBT of £3.0m (2015: £2.4m)

Adjusted\* basic EPS increased by 11% to 11.4 pence (2015: 10.3 pence)

- Basic EPS of 6.8 pence (2015: 7.2 pence) and diluted EPS of 6.6 pence (2015: 6.8 pence)
- Increase in PBT offset by increase in corporation tax to a £0.2m charge (2015: £0.4m credit)

Cash balance of £26.0m (2015: £14.5m) and Net Funds of £11.3m (2015: £6.7m)

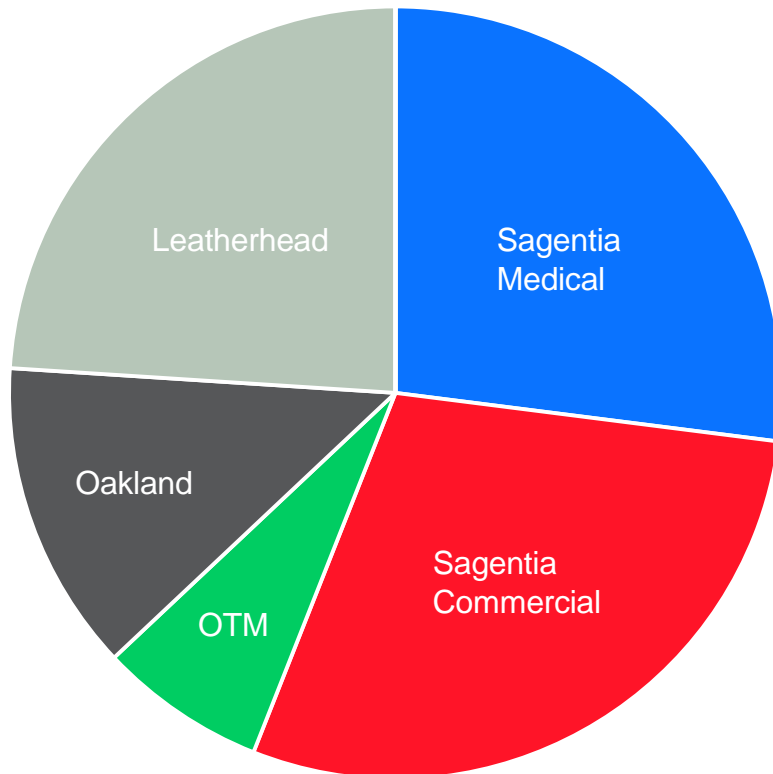
- Net funds + freehold property per share increased by 26% to 84.5 pence (2015: 67.3 pence)
- Cash generated from operations of £11.6m (2015: £5.2m)
  - Includes £1.5m VAT rebate and beneficial working capital movement from project cash flow timing
- Refinancing with new £15m loan; net increase of £7.8m
- Share buy back of £2.8m (2015: £0.6m) and dividend paid of £1.6m (2015: £1.5m)

Proposed dividend increased by 5% to 4.2 pence per share (2015: 4.0 pence per share)

\*Throughout this presentation, adjusted operating profit and margin is calculated as operating profit excluding impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs, share based payment charges and other specified items. Adjusted EPS is calculated as adjusted profit after tax divided by the weighted average number of shares in issue. This includes a tax charge at the substantively enacted UK Corporation Tax Rate for the year.

# Services Revenue Profile

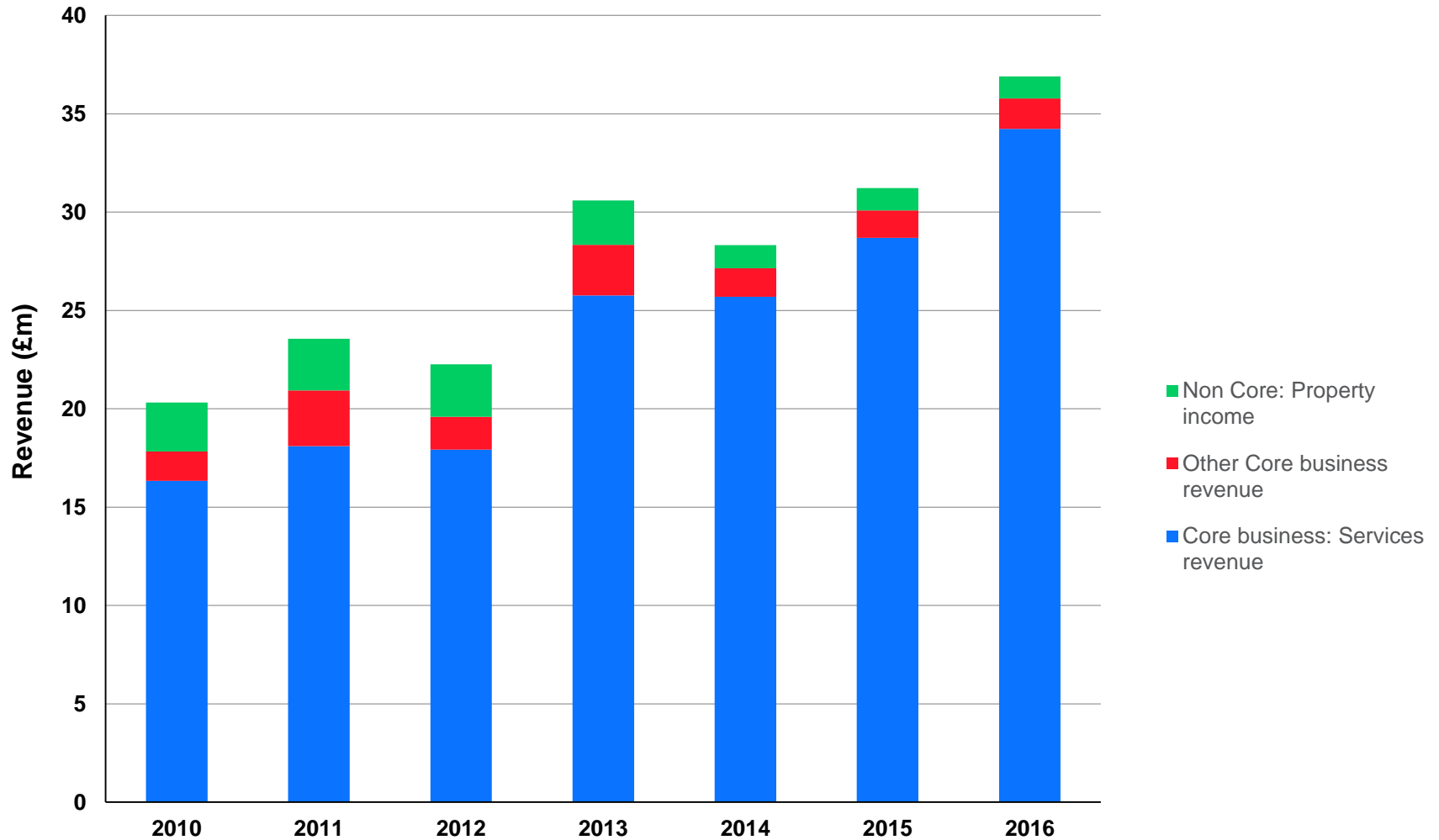
- Science Group comprises five operating businesses
- Four distinct brands under Science Group umbrella brand



## Market Overview

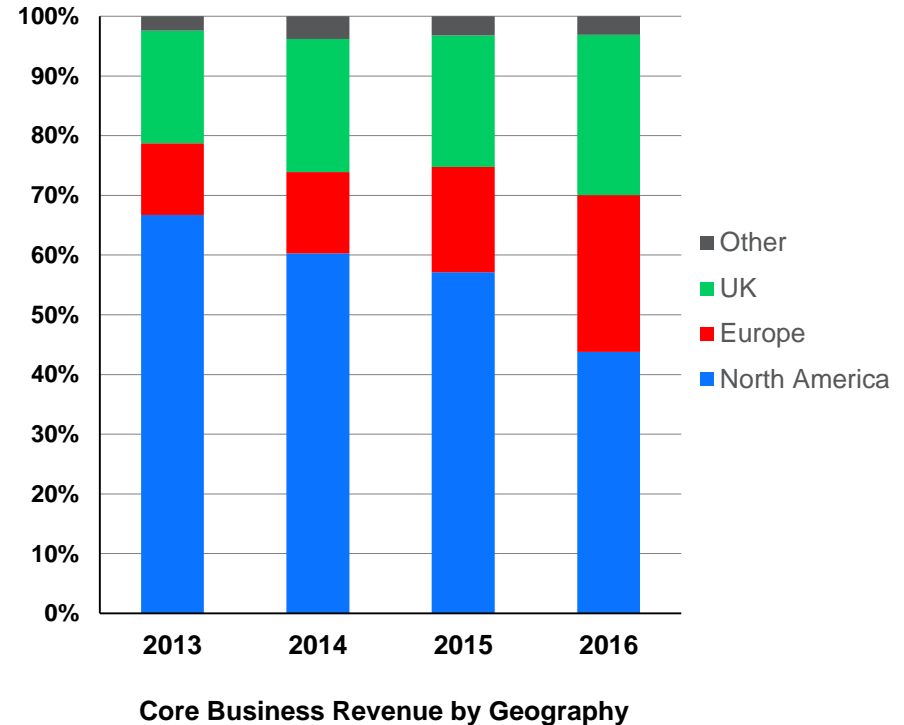
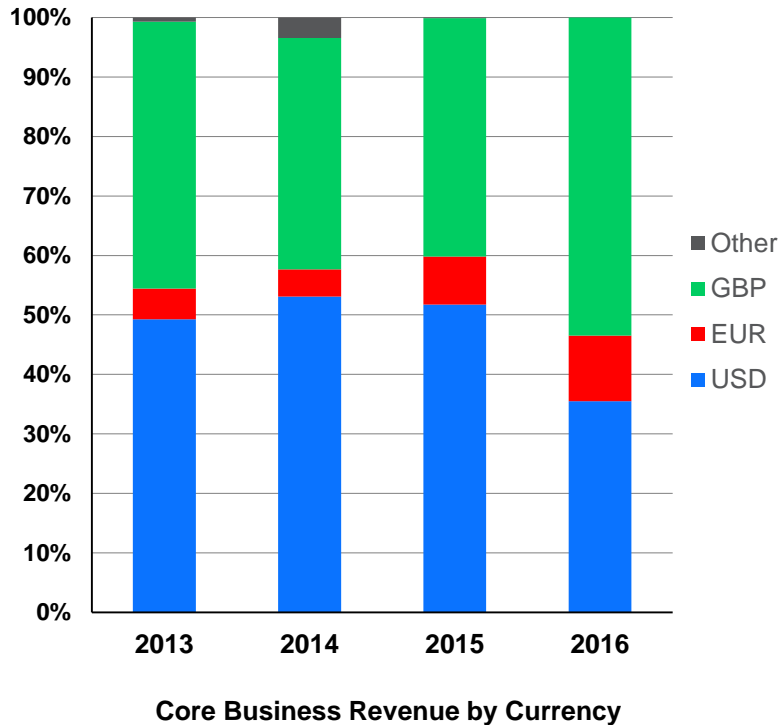
- Medical: Slow first half with strong second half sales performance resulting in good order book entering 2017
- Commercial: Good 2016 but major Sagentia projects completed during second half
- Oil & Gas: Challenging market conditions
- Food & Beverage: Manufacturers investing in innovation but Retailers impacted by Brexit

# Group Revenue Breakdown



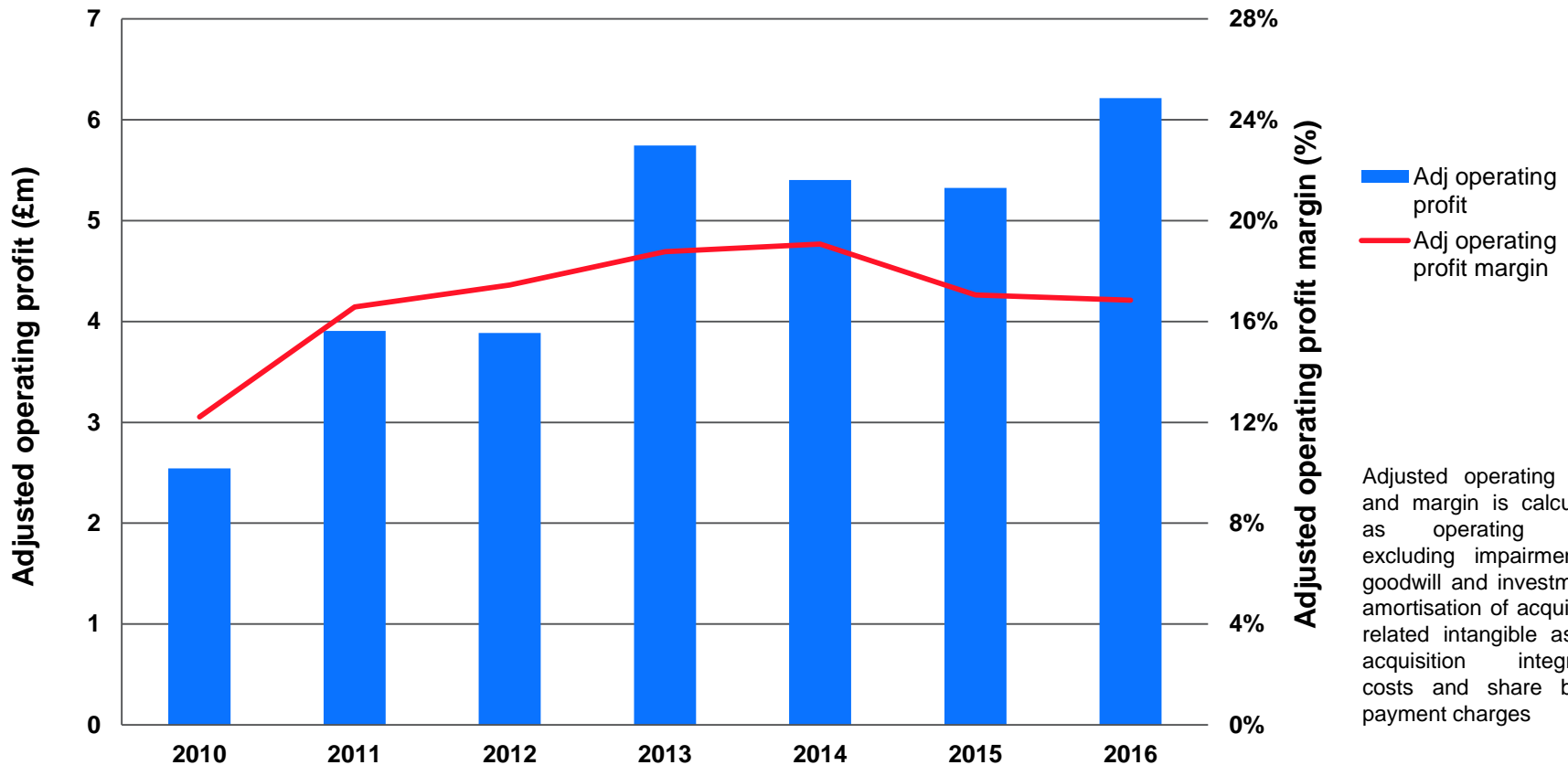
# International Services Business

- Science Group is an international science services business
- 70% of Core Business revenue derived from outside UK
- 35% of Core Business revenue invoiced in USD (2015: 52%) and 11% in EUR (2015: 8%)
- Over 90% of employees are based in the UK



# Adjusted Operating Profit

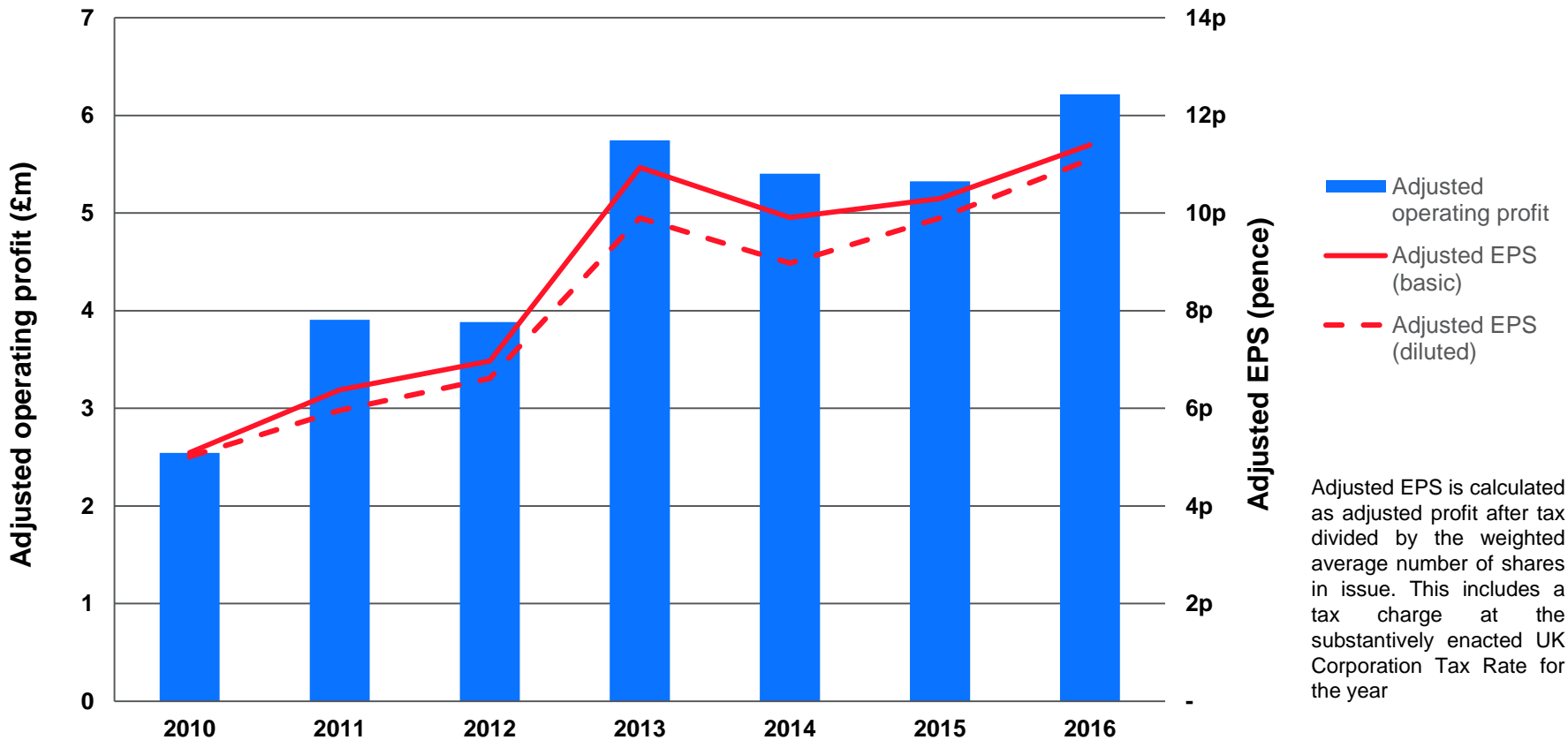
- Oakland contribution strong
- Leatherhead contribution ahead of integration plan
- OTM business impacted by challenging Oil and Gas market
- Sagentia aggregate contribution declined slightly



Adjusted operating profit and margin is calculated as operating profit excluding impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs and share based payment charges

# Adjusted Earnings per Share

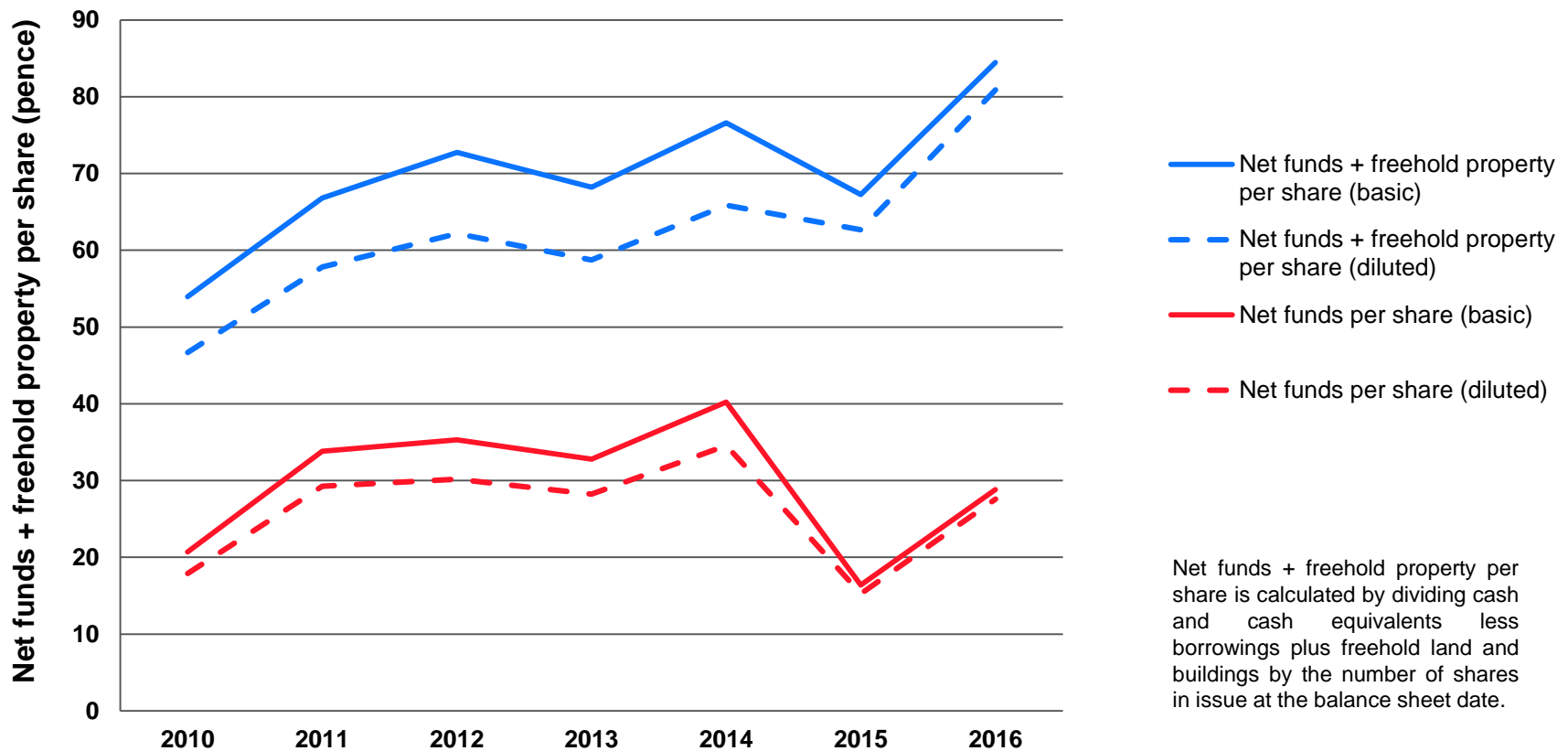
- Increase of 11% in adjusted basic EPS to 11.4 pence (2015: 10.3 pence)
- Basic and diluted measures converging following the reduction in share options





# Net Funds + Freehold Property per Share

- Science Group has a strong asset base comprising significant cash resources and freehold property assets
- 26% increase in “Net Funds + Freehold Property” per share to 84.5 pence (2015: 67.3 pence)



# Tax

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Effective tax rate in 2016 is a tax charge of 7.4% (2015: tax credit of 15.1%).

Tax charge in P&L of £0.2m in 2016 (2015: tax credit of £0.4m) includes

- £0.7m R&D tax credit relating to 2015 and 2016 under R&D tax regime which is expected to result in tax cash inflow of £0.7m in 2017 (2015: £0.8m R&D tax credit relating to 2013 and 2014)
- £nil new losses created (2015: £0.2m credit relating to losses generated by Leatherhead)

Carried forward tax losses at 31 December 2016 of £11.8m (2015: £17.0m)

- Includes £1.4m of trading tax losses (2015: £6.6m) which should partially reduce tax cash payments
  - Due to the use of tax losses and R&D tax credits, actual tax cash inflow of £0.6m (2015: cash inflow of £0.5m)
  - Anticipate net tax cash inflow for 2017 after which modest tax cash outflows expected to commence
- Other unrecognised tax losses of £10.4m (2015: £10.4m)
  - Will only be recognised if probable that losses can be utilised

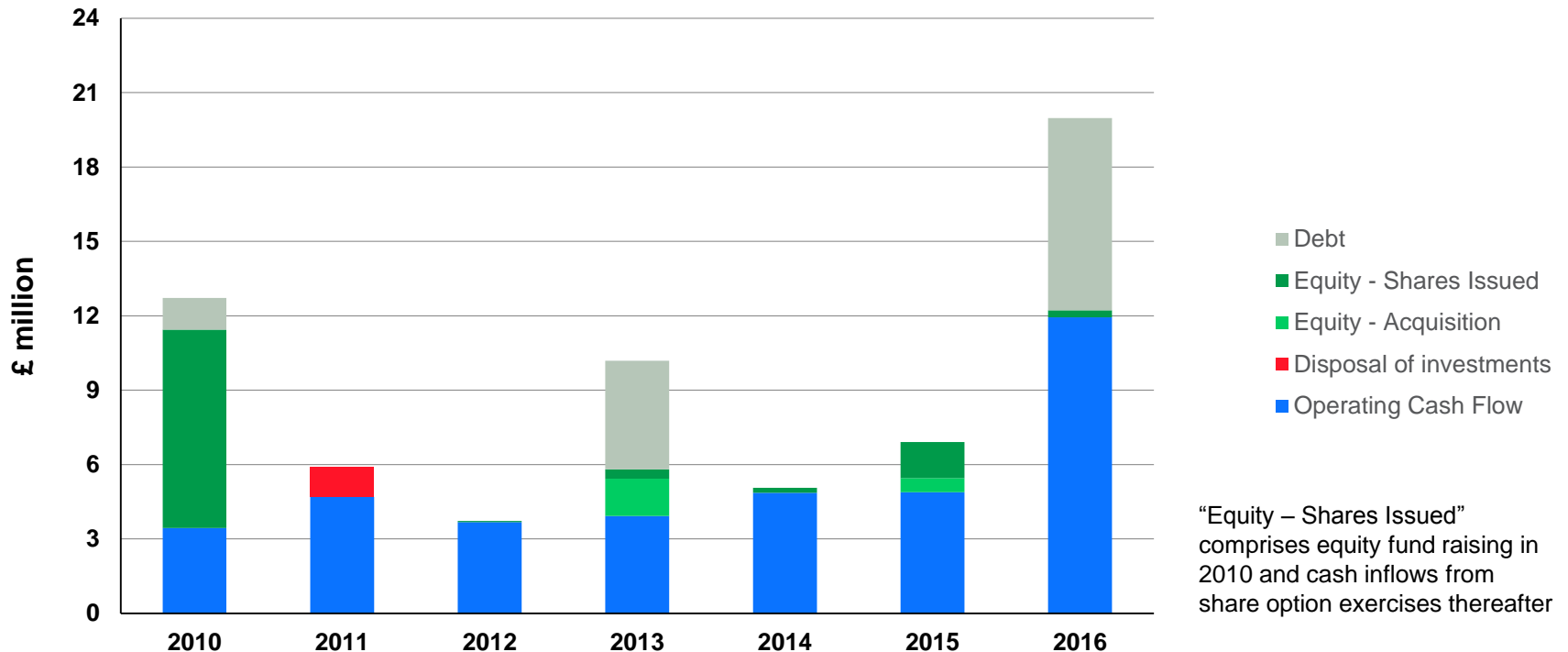
**science group plc**

Appendix

Annual Review of Capital Sources & Allocation

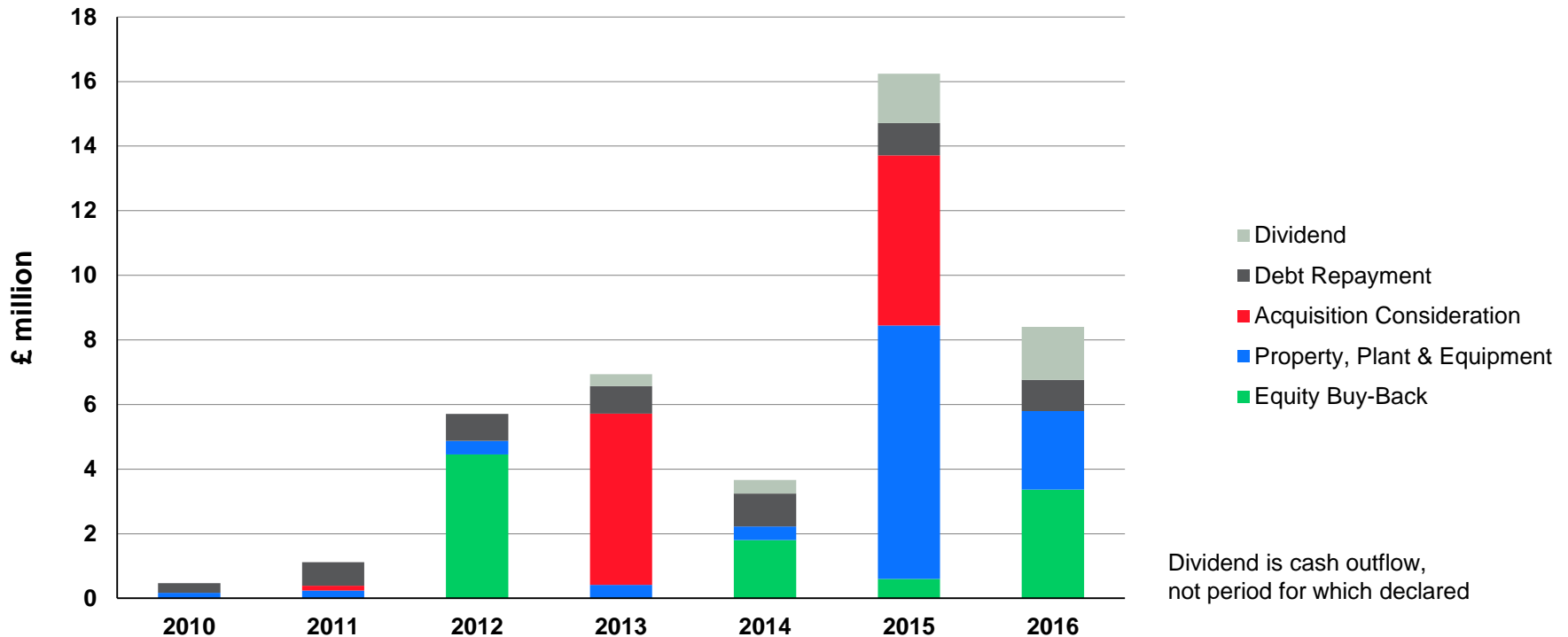
# Capital Sources 2010-2016

- Debt funding in 2010, 2013 and 2016
  - Secured against Harston and Epsom freehold properties
  - Limited operating covenants due to asset security – reducing risk of debt capital to equity
- Strong operating cash flow has been primary capital source
- Operating cash flow in 2016 includes one-off items eg VAT rebate



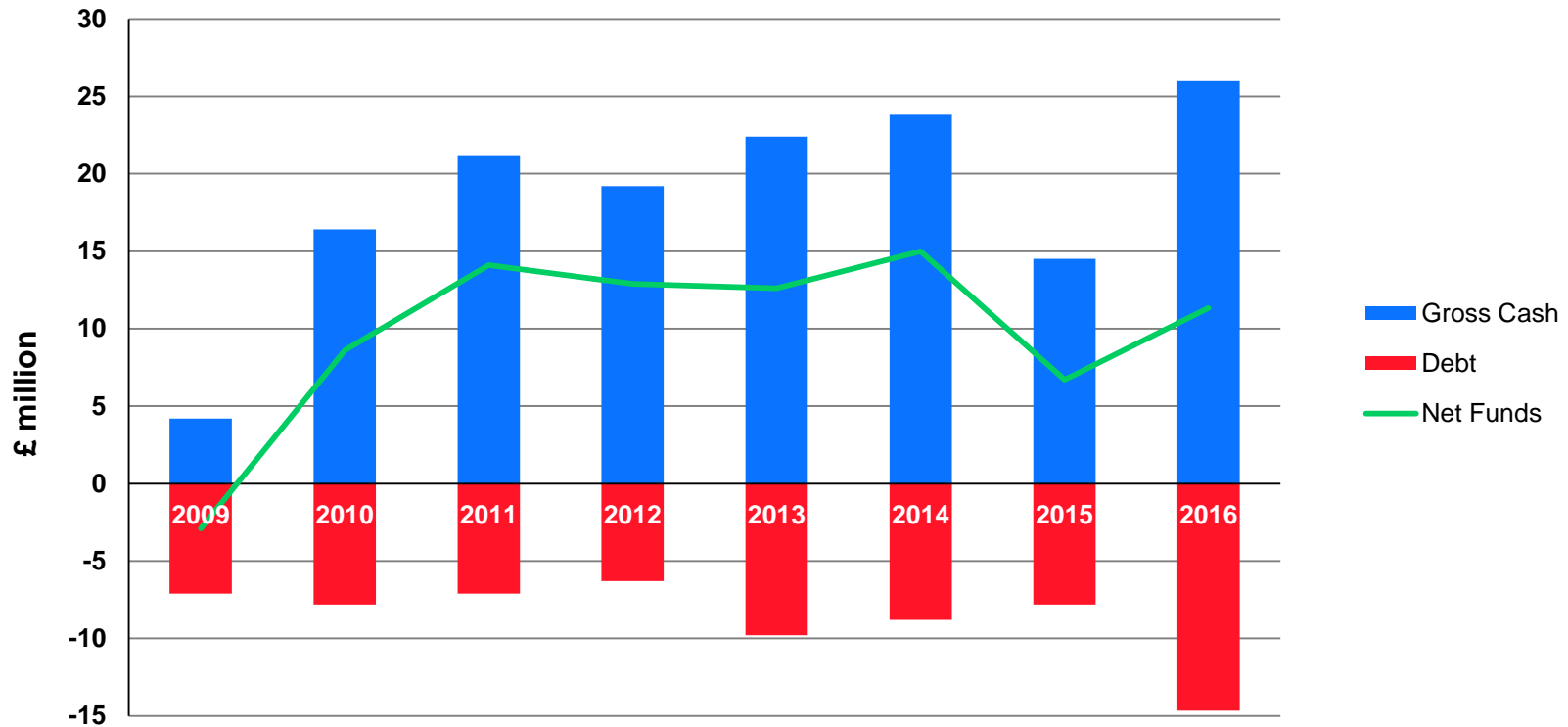
# Capital Allocation 2010-2016

- Equity buy-backs undertaken when appropriate
- Rationalisation of share options included in equity buy-back in 2016
- Maiden dividend paid in 2013 and increased significantly from 2015
- Capital deployed in acquisitions and second freehold property in 2015



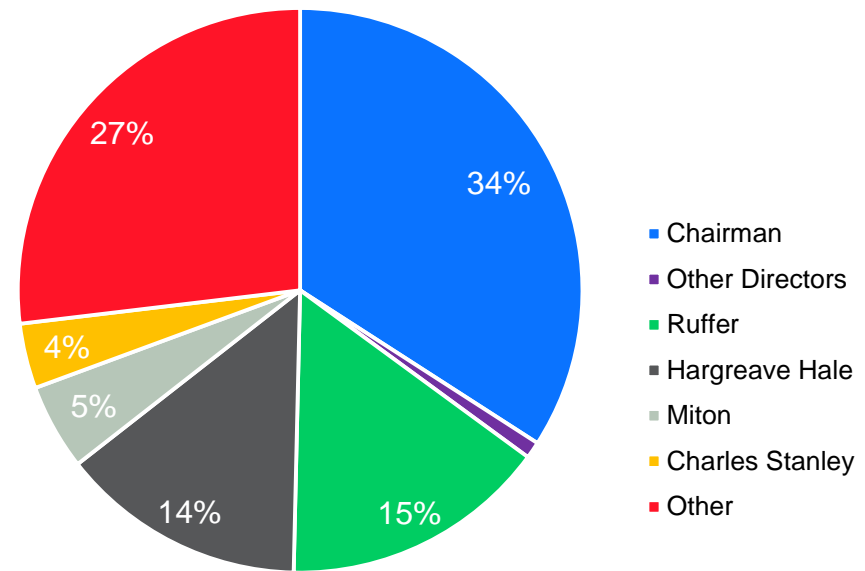
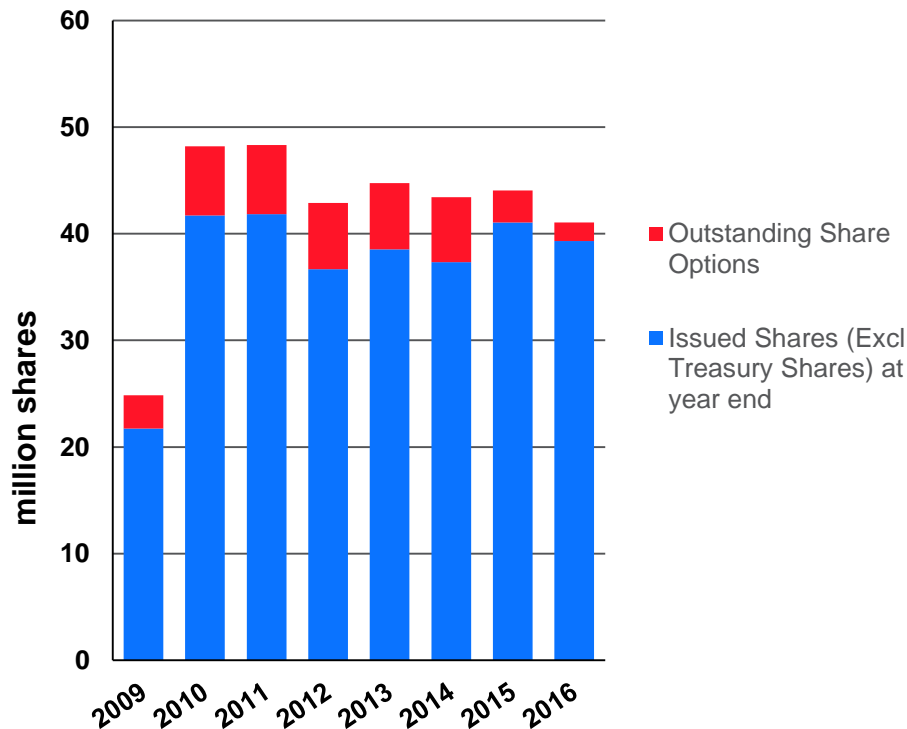
# Cash & Debt 2009-2016

- Capital resources deployed for acquisitions (business and related property) in 2015
- Net funds increased in 2016 due to improvement in working capital
- Strong balance sheet maintained with significant free cash resources
- Debt refinanced in 2016 to 10 year term, secured on freehold property



# Equity Share Capital

- Following refinancing in 2010, issued share capital has gradually decreased
- Share options and acquisition-related equity have been offset by share buy-backs
- 2016 share options rationalisation reduced outstanding options to 1.7m



Shareholdings >3% as reported to Company as at 28 February 2017  
 Shares in issue (excluding treasury shares): 39.3m (2015: 41.1m)

# New 10 Year Bank Facility

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Existing loan facility was scheduled to expire in 2018

- 5 year loan restricted length of investment horizon

Successful bank facility negotiation concluded in September 2016

- 10 year, £15m loan, repayment profile of £1m per year and remainder (£5m) on expiry of loan
- Secured on the freehold properties in Harston, Cambridge and Epsom, Surrey
- Fully hedged via phased interest rate swaps allowing flexibility for early repayment
- Fixed effective interest rate of 3.5% comprising a margin over 3 month LIBOR plus swap cost
- One off cost of £0.3m includes:
  - £0.1m arrangement fee amortised to P&L over the period of the loan
  - £0.2m settlement of previous interest rate swap

No operating covenants when Group net bank debt < £10m

- If net debt threshold is crossed:
  - Financial covenant: EBITDA > 1.25 times annual debt servicing
  - Security covenant: LTV < 75%
- Remedy period of 6 months if either condition is breached

Supports medium term strategic investment horizon



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