

science group

25 July 2017

SCIENCE GROUP PLC

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

INTERIM RESULTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

Summary

	H1-17	H1-16
Group revenue	£18.0m	£17.7m
Adjusted operating profit *	£3.2m	£2.5m
Statutory operating profit	£2.5m	£1.4m
Statutory profit before tax	£2.3m	£1.1m
Adjusted basic earnings per share **	6.1p	4.4p
Statutory basic earnings per share	5.1p	2.4p
Net funds	£12.1m	£9.9m
Net-funds-plus-freehold-property-per-share	86.2p	76.0p

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* Throughout this statement, adjusted operating profit 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.

** Throughout this statement, adjusted earnings per share 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.

Interim Results 2017

Science Group is an international Science & Technology Group providing consultancy, advisory and product development services to a diverse client base across multiple vertical markets.

The first half of 2017 has seen continued solid financial performance combined with investment in the future of the Group. Due to the international nature of the Group's revenue sources, serviced by a predominantly UK resource and cost base, the Group has benefitted from currency exchange rate movements relative to the first half of the prior year.

Group Financial Performance

For the six months ended 30 June 2017, the Group generated adjusted operating profit of £3.2 million (H1 2016: £2.5 million) in line with the Board's expectations, on revenue of £18.0 million (H1 2016: £17.7 million).

Approximately 80% (H1 2016: 70%) of the Group's Core Business revenue is derived from international markets, with approximately 32% being denominated in US Dollars (H1 2016: 35%) and 9% in Euros (H1 2016: 11%). The remaining international clients, primarily in Europe, are invoiced in Sterling. The average US Dollar exchange rate in the period was 1.26 (H1 2016: 1.44 and H2 2016: 1.29) and the average Euro exchange rate in the period was 1.17 (H1 2016: 1.30 and H2 2016: 1.17). Customer concentration has increased slightly with 31% (H1 2016: 27%) of Core Business revenue being generated from the 5 largest Group clients. Non Core Business revenue has remained stable at £0.6 million (H1 2016: £0.6 million).

The Medical sector delivered a particularly strong recovery in the period while the Commercial sector, which had some large projects complete late in 2016, had a more subdued period. In aggregate, the combined Outsourced Product Development (Sagentia) business reported good organic growth on an actual and constant currency basis.

The Food & Beverage sector reported a decline in revenue as the effects of the 2016 rationalisation/restructuring programme pass through and, as anticipated, the Oil & Gas market continued to be challenging. The Group's other market areas performed satisfactorily.

The Board continues to use the currency benefit to invest in longer term growth opportunities. The San Francisco office was opened in April and is now fully staffed, with the benefits from this enhanced US geographical coverage already becoming apparent. Additional investment in the Group's business development and technical capabilities,

including exploring new market sectors, is ongoing. In parallel, the potential to accelerate the Group's development through acquisitions continues to be explored, but the Board remains cautious and prudent in evaluating opportunities and there can be no certainty that any such transactions will be completed.

Profit before tax was £2.3 million (H1 2016: £1.1 million) reflecting the effects of the 2016 rationalisation activities referenced above. Profit after tax of £2.0 million (H1 2016: £1.0 million) includes a corporation tax charge of £0.3 million (H1 2016: £0.1 million) with a modest net tax cash outflow now anticipated in the second half of 2017. Basic earnings per share was 5.1 pence (H1 2016: 2.4 pence) and diluted earnings per share in H1 2017 was 5.0 pence (H1 2016: 2.3 pence).

The Group retains a very robust balance sheet with Gross Cash at 30 June 2017 of £26.3 million (30 June 2016: £17.2 million) and Net Funds of £12.1 million (30 June 2016: £9.9 million). Since 30 June 2016, a total of £4.4 million has been returned to shareholders, through the share buy-backs in the second half of last year and the recent dividend payment. In aggregate, Net Funds plus Freehold Property total £33.9 million (30 June 2016: £31.3 million) equivalent to 86.2 pence per share (30 June 2016: 76.0 pence per share). As a result of the share buy backs, at 30 June 2017 the Company had 39.4 million shares in issue (excluding treasury shares) compared to 41.2 million at 30 June 2016.

In summary, the Group performance in the first half of 2017 has been in line with the Board's expectations. The benefit from the weakness of Sterling is enabling the Board to increase the investment in the long term organic development of the Group's businesses. In addition, with a robust balance sheet, including significant cash resources, the Board continues to explore acquisition opportunities which could accelerate the strategic development of the Group.

Consolidated Income Statement
For the period ended 30 June 2017

	Six months ended 30 June 2017	Six months ended 30 June 2016 Restated	Year ended 31 December 2016
Notes	(Unaudited)	(Unaudited)	(Audited)
	£000	£000	£000
Revenue	18,020	17,693	36,899
Operating expenses before adjusting items	(14,783)	(15,182)	(30,683)
Adjusted operating profit	4 3,237	2,511	6,216
Amortisation and impairment of intangible assets	(557)	(409)	(1,857)
Impairment of other investments	-	-	(50)
Acquisition integration costs	-	(311)	(317)
Share based payment charge	(132)	(427)	(597)
Operating profit	4 2,548	1,364	3,395
Finance income	-	2	2
Finance costs	(245)	(233)	(429)
Profit before tax	2,303	1,133	2,968
Income tax charge	5 (306)	(147)	(219)
Profit for the period	4 1,997	986	2,749
Profit for the period attributable to equity holders of the parent	1,997	986	2,749
Earnings per share			
Earnings per share from continuing operations (basic)	6 5.1p	2.4p	6.8p
Earnings per share from continuing operations (diluted)	6 5.0p	2.3p	6.6p
Adjusted earnings per share from continuing operations (basic)	6 6.1p	4.4p	11.4p
Adjusted earnings per share from continuing operations (diluted)	6 6.0p	4.3p	11.1p

Restatement: Costs have been reclassified within the adjusting items for the six months ended 30 June 2016. Refer to Note 7 for an explanation. Operating profit was not affected by this reclassification.

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2017

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£000	£000	£000
Profit for the period	1,997	986	2,749
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value gain on interest rate swap, net of tax	70	-	197
Exchange differences on translating foreign operations	3	50	30
Other comprehensive income for the period	73	50	227
Total comprehensive income for the period	2,070	1,036	2,976
Total comprehensive income for the period attributable to owners of the parent	2,070	1,036	2,976

Consolidated Statement of Changes in Shareholders' Equity

For the period ended 30 June 2017

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 2016	421	8,230	(1,215)	10,343	308	2,359	16,785	37,231
Issue of shares out of treasury stock	-	-	109	-	-	-	(12)	97
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	(361)
Dividends paid	-	-	-	-	-	-	(1,646)	(1,646)
Share based payment charge	-	-	-	-	-	183	-	183
Deferred tax on share based payment transactions	-	-	-	-	-	-	(97)	(97)
Transactions with owners	-	-	109	-	-	(178)	(1,755)	(1,824)
Profit for the period	-	-	-	-	-	-	986	986
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	-	50	-	-	50
Total comprehensive income for the period	-	-	-	-	50	-	986	1,036
Balance at 30 June 2016	421	8,230	(1,106)	10,343	358	2,181	16,016	36,443
Balance at 1 July 2016	421	8,230	(1,106)	10,343	358	2,181	16,016	36,443
Purchase of own shares	-	-	(2,757)	-	-	-	-	(2,757)
Issue of shares out of treasury stock	-	-	255	-	-	-	(71)	184
Share based payment charge	-	-	-	-	-	170	-	170
Deferred tax on share based payment transactions	-	-	-	-	-	-	23	23
Transactions with owners	-	-	(2,502)	-	-	170	(48)	(2,380)
Profit for the period	-	-	-	-	-	-	1,763	1,763
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	197	197
Exchange differences on translating foreign operations	-	-	-	-	(20)	-	-	(20)
Total comprehensive income for the period	-	-	-	-	(20)	-	1,960	1,940
Balance at 31 December 2016	421	8,230	(3,608)	10,343	338	2,351	17,928	36,003
Balance at 1 January 2017	421	8,230	(3,608)	10,343	338	2,351	17,928	36,003
Issue of shares out of treasury stock	-	-	34	-	-	-	(20)	14
Dividends paid	-	-	-	-	-	-	(1,653)	(1,653)
Share based payment charge	-	-	-	-	-	132	-	132
Deferred tax on share based payment transactions	-	-	-	-	-	-	145	145
Transactions with owners	-	-	34	-	-	132	(1,528)	(1,362)
Profit for the period	-	-	-	-	-	-	1,997	1,997
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	70	70
Exchange differences on translating foreign operations	-	-	-	-	3	-	-	3
Total comprehensive income for the period	-	-	-	-	3	-	2,067	2,070
Balance at 30 June 2017	421	8,230	(3,574)	10,343	341	2,483	18,467	36,711

Consolidated Balance Sheet

At 30 June 2017

	At 30 June 2017 (Unaudited)	At 30 June 2016 (Unaudited)	At 31 December 2016 (Audited)
	£000	£000	£000
Assets			
Non-current assets			
Acquisition related intangible assets	4,626	5,591	5,183
Goodwill	4,033	5,073	4,033
Property, plant and equipment	23,556	22,646	23,793
Investments	50	100	50
Derivative financial assets	267	-	197
Deferred tax assets	333	903	287
	32,865	34,313	33,543
Current assets			
Trade and other receivables	5,716	5,183	8,219
Current tax asset	21	595	537
Cash and cash equivalents	26,284	17,199	25,996
	32,021	22,977	34,752
Total assets	64,886	57,290	68,295
Liabilities			
Current liabilities			
Trade and other payables	11,859	10,852	15,213
Borrowings	1,000	1,000	1,000
	12,859	11,852	16,213
Non-current liabilities			
Borrowings	13,169	6,250	13,664
Derivative financial liabilities	-	215	-
Deferred tax liabilities	2,147	2,530	2,415
	15,316	8,995	16,079
Total liabilities	28,175	20,847	32,292
Net assets	36,711	36,443	36,003
Shareholders' equity			
Share capital	421	421	421
Share premium	8,230	8,230	8,230
Treasury stock	(3,574)	(1,106)	(3,608)
Merger reserve	10,343	10,343	10,343
Translation reserves	341	358	338
Share based payment reserve	2,483	2,181	2,351
Retained earnings	18,467	16,016	17,928
Total equity	36,711	36,443	36,003

Consolidated Statement of Cash Flows

For the period ended 30 June 2017

	Six months ended 30 June 2017 (Unaudited) £000	Six months ended 30 June 2016 Restated (Unaudited) £000	Year ended 31 December 2016 (Audited) £000
Operating profit	2,548	1,364	3,395
Adjustments for:			
Depreciation and amortisation charges	915	741	1,562
Loss on disposal of property, plant and equipment	-	-	57
Change in fair value on interest rate swap	-	74	-
Share based payment charge	132	427	597
Impairment of goodwill	-	-	1,040
Impairment of cost of investment	-	-	50
Decrease in receivables	2,508	3,797	675
(Decrease) / Increase in payables	(3,329)	(840)	4,211
Cash generated from operations	2,774	5,563	11,587
Finance costs	(245)	(233)	(354)
UK corporation tax received / (paid)	41	(12)	560
Foreign corporation tax paid	-	(61)	(123)
Cash flows from operating activities	2,570	5,257	11,670
Interest received	-	2	2
Purchase of property, plant and equipment	(121)	(634)	(2,432)
Cash flow used in investing activities	(121)	(632)	(2,430)
Issue of shares out of treasury	14	97	281
Payment in lieu of cancelled share options	-	-	(605)
Repurchase of own shares	-	-	(2,757)
Dividends paid	(1,653)	(1,646)	(1,646)
Proceeds from bank loans	-	-	15,000
Repayment of bank loans	(500)	(500)	(8,000)
Repayment of interest rate swap	-	-	(216)
Cash flows used in financing activities	(2,139)	(2,049)	2,057
Increase in cash and cash equivalents in the period	310	2,576	11,297
Cash and cash equivalents at the beginning of the period	25,996	14,516	14,516
Exchange (losses) / gains on cash	(22)	107	183
Cash and cash equivalents at the end of the period	26,284	17,199	25,996

Extracts from notes to the financial statements

1. General information

The financial information for the 6 months ended 30 June 2017 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 2016 Financial Statements of Science Group plc. The Group's statutory financial statements for the year ended 31 December 2016 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 24 July 2017.

The group and company financial statements of Science Group plc for the year ended 31 December 2016 were prepared under IFRS (as adopted by the EU) and have been audited by KPMG 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 provides independent advisory and product development services focused on science and technology through subsidiary companies branded Sagentia, Oakland Innovation, OTM Consulting and Leatherhead Food Research. Science Group's facilities include offices and laboratories located in Harston near Cambridge, Epsom, Surrey and London in the UK and in the US in Boston, Massachusetts, Houston, Texas and San Francisco, California.

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).

Alternative performance measures

The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share' and 'net-funds-plus-freehold-property-per-share in issue' which are not defined within the International Financial Reporting Standards (IFRS). These are explained in the 2016 Financial Statements and the calculations are as follows:

(a) Adjusted operating profit

The calculation of this measure is shown on the Consolidated Income Statement.

(b) Adjusted earnings per share

The calculation of this measure is disclosed in Note 6.

(c) Net-funds-plus-freehold-property-per-share in issue

The Group calculates this measure by dividing the sum of cash and cash equivalents plus freehold land and buildings less borrowings by the number of shares in issue at the balance sheet date. This is calculated as follows:

In £000 unless otherwise stated	At 30 June 2017	At 30 June 2016	At 31 December 2016
Cash and cash equivalents	26,284	17,199	25,996
Borrowings	(14,169)	(7,250)	(14,664)
Net funds	12,115	9,949	11,332
Freehold land and buildings	21,799	21,325	21,882
Net funds plus freehold property	33,914	31,274	33,214
Number of shares in issue (excluding treasury shares) ('000 shares)	39,363	41,155	39,329
Net-funds-plus-freehold-property-per-share in issue (pence)	86.2	76.0	84.5

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 2016. 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 2017. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards (IFRS) as adopted by the EU and IFRC interpretations issued and effective at the time of preparing these statements.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share-based payments which are measured at fair value.

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

Science Group is organised on a worldwide basis into two segments, Core Business and Non-Core Business. Core Business services revenue includes consultancy fees for services operations. Core Business other revenue includes recharged materials and expenses and product/licence revenue generated directly from Core Business activities. Non-Core Business activities include rental income from Harston Mill and income from the provision of external IT services. The segmental analysis is reviewed to operating profit. Other resources are shared across the Group.

Period ended 30 June 2017
(Unaudited)

	Core Business £000	Non-Core Business £000	Total £000
Services revenue	16,801	18	16,819
Third party property income	-	544	544
Other	657	-	657
Revenue	17,458	562	18,020
Adjusted operating profit	3,132	105	3,237
Amortisation and impairment of intangible assets	(557)	-	(557)
Share based payment charge	(132)	-	(132)
Operating profit	2,443	105	2,548
Finance charges (net)			(245)
Profit before tax			2,303
Income tax charge			(306)
Profit for the period			1,997

Period ended 30 June 2016
Restated
(Unaudited)

	Core Business £000	Non-Core Business £000	Total £000
Services revenue	16,394	17	16,411
Third party property income	-	539	539
Other	743	-	743
Revenue	17,137	556	17,693
Adjusted operating profit	2,464	47	2,511
Amortisation and impairment of intangible assets	(409)	-	(409)
Acquisition integration costs	(311)	-	(311)
Share based payment charge	(427)	-	(427)
Operating profit	1,317	47	1,364
Finance charges (net)			(231)
Profit before tax			1,133
Income tax charge			(147)
Profit for the period			986

Year ended 31 December 2016
(Audited)

	Core Business £000	Non-Core Business £000	Total £000
Services revenue	34,228	36	34,264
Third party property income	-	1,079	1,079
Other	1,556	-	1,556
Revenue	35,784	1,115	36,899
Adjusted operating profit	6,121	95	6,216
Amortisation and impairment of intangible assets	(1,857)	-	(1,857)
Impairment of other investments	(50)	-	(50)
Acquisition integration costs	(317)	-	(317)
Share based payment charge	(597)	-	(597)
Operating profit	3,300	95	3,395
Finance charges (net)			(427)
Profit before tax			2,968

Income tax charge			(219)
Profit for the period			2,749

5. Income tax

The income tax charge for the period ended 30 June 2017 is charged at the effective tax rate calculated for the period using reasonable estimates and incorporating both current and deferred taxation:

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£000	£000	£000
Profit before tax	2,303	1,133	2,968
Current taxation	(630)	53	(173)
Deferred taxation	169	(200)	(721)
R&D tax credit	155	-	675
Tax charge	(306)	(147)	(219)
Effective tax rate	13.3%	13.0%	7.4%

The Group claims Research and Development tax credits under both the R&D Expenditure Credit scheme and the Small or Medium-sized scheme. In period ended 30 June 2016, the R&D tax credit had been provided for on a cash basis due to uncertainties with respect to estimating the amounts involved. The R&D tax credit provided for in the year ended 31 December 2016 relates to the 2015 and 2016 financial years recognised on an accruals basis. The R&D tax credit provided for in the period ended 30 June 2017 is recognised on an accruals basis for the period to which the R&D tax credit relates and based on a reasonable estimate of the amounts involved.

6. Earnings per share

The calculation of earnings per share is based on the following results and number of shares:

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£000	£000	£000
Profit for the financial period	1,997	986	2,749
Weighted average number of shares:	Number	Number	Number
For basic earnings per share	39,344,121	41,128,774	40,542,379
For fully diluted earnings per share	40,327,332	42,043,546	41,636,652
Earnings per share:	Pence	Pence	Pence
Basic earnings per share	5.1	2.4	6.8
Fully diluted earnings per share	5.0	2.3	6.6

The calculation of adjusted earnings per share is as follows:

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£000	£000	£000
Adjusted* profit after tax for the period	2,415	1,824	4,631
Weighted average number of shares:	Number	Number	Number
For basic earnings per share	39,344,121	41,128,774	40,542,379
For fully diluted earnings per share	40,327,332	42,043,546	41,636,652
Adjusted earnings per share:	Pence	Pence	Pence
Basic earnings per share	6.1	4.4	11.4
Fully diluted earnings per share	6.0	4.3	11.1

*Calculation of adjusted profit after tax:

	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)	Year ended 31 December 2016 (Audited)
	£000	£000	£000
Adjusted operating profit	3,237	2,511	6,216
Finance income	-	2	2
Finance costs	(245)	(233)	(429)
Adjusted profit before tax	2,992	2,280	5,789
Tax charge at substantively enacted tax rate of 19.3% (2016: 20%)	(577)	(456)	(1,158)
Adjusted profit after tax	2,415	1,824	4,631

7. Explanation of restatement in the six months ended 30 June 2016

A cost of £244,000 relating to a one-off accelerated charge due to cancellation of share options in the period was reclassified in the Consolidated Income Statement from other exceptional costs to share based payment charges to align with the Financial Statements for the year ended 31 December 2016. Operating profit was not affected by this reclassification.

The Consolidated Statement of Cash Flows and Note 4 were also restated in line with this change.

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.

Science Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related 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) Critical accounting estimate

Project accounting

Science 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 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) Significant accounting judgement

Accounting for freehold property at Harston Mill

Science 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 surplus space on site not required to fulfil the Group's core operational activities, Science Group lets out space to third party tenants. The revenues and costs attributable to this activity are disclosed as third party property income activities within the business segment disclosures. 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 six months giving Science Group the flexibility to start using the areas if required, i.e. the leased areas are not held for capital appreciation or a return of investment through rental income.

- Ends -