

science group plc

2015 Preliminary Results

March 2016

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Chairman

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To be read in conjunction with the audited preliminary results announcement released on 3 March 2016

Science Group plc

Science Group plc is a Holding Company and Umbrella Brand

- Name changed from Sagentia Group plc in July 2015

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 – acq 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

- Headquarters and laboratories based in freehold property in Harston, near Cambridge, UK
 - Sagentia and Oakland Innovation
- Epsom - New freehold property acquired for South-of-London Hub
 - Leatherhead Research and OTM (replacing Leatherhead and Guildford offices)
- Other leasehold offices: UK – London; USA – Boston & Houston

Financial Summary - 1

Satisfactory operating performance. Significant strategic development

- Acquisitions of Leatherhead Research (Sept 2015) and Oakland Innovation (Feb 2015)
- Acquisition of freehold property near Epsom

Group revenue of £31.2m (2014: £28.3m)

- Acquisitions generated revenue of £5.2m in 2015
- Sagentia-Commercial stronger performance than Sagentia-Medical. Approx equal revenue
- Challenging oil & gas market resulted in OTM revenue decline of 8%

Adjusted** operating profit of £5.3m (2014: £5.4m)

- Leatherhead acquired business reported loss in 2015 of (£0.4)m*, better than anticipated
- Oakland contributed profit of £0.4m* with strong Q4 following completion of acquisition integration
- FX benefit of £0.7m offset by increased costs due to acquisition timings and employee profit share

Statutory PBT of £2.4m (2014: £4.2m)

- One off costs relating to Leatherhead, including restructuring/investment of £0.5m
- Increase in amortisation of acquisition related intangible assets arising from acquired companies
- Impairment of goodwill attributable to OTM of £1.1m due to challenging oil and gas market

Operating cash inflow: £4.9m (2014: £4.9m)

Financial Summary - 2

Basic EPS of 7.2 pence (2014: 8.9 pence) and diluted EPS of 6.8 pence (2014: 8.1 pence)

- Complex tax movements (see attached slide)
- Non-recurring and other exceptional items

Proposed dividend maintained at 4.0 pence per share (2014: 4.0 pence)

Cash balance of £14.5m (2014: £23.8m) and Net Funds of £6.7m (2014: £15.0m)

- Acquisition cash outflow (business and property): £13.6m, incl VAT of £1.5m reimbursed in Q1 2016
- Share buy-back, share option exercises and payment of dividend: net total outflow of £0.6m
- Bank debt at 31 Dec 2015: £7.8m (2014 : £8.8m)

Freehold property assets : £20.9m (2014 : £13.6 m)

- Harston Mill : £13.5m; approx 100k sq ft; c.70% used by Science Group and remainder sub-let
- Great Burgh : £7.4m; approx 50k sq ft; will be fully used by Science Group from mid 2016

- * Oakland and Leatherhead operating profit/(loss) are stated excluding allocation of central and management overhead and exceptional costs
- ** Throughout this presentation, adjusted operating profit and margin excludes amortisation and impairment of intangible assets, share-based payment charges and other exceptional costs

Tax

Effective tax rate in 2015 is a tax credit of 14.8% (2014: tax charge of 18.2%).

Tax credit in P&L of £0.4m in 2015 due to one-off items (2014: tax charge of £0.8m)

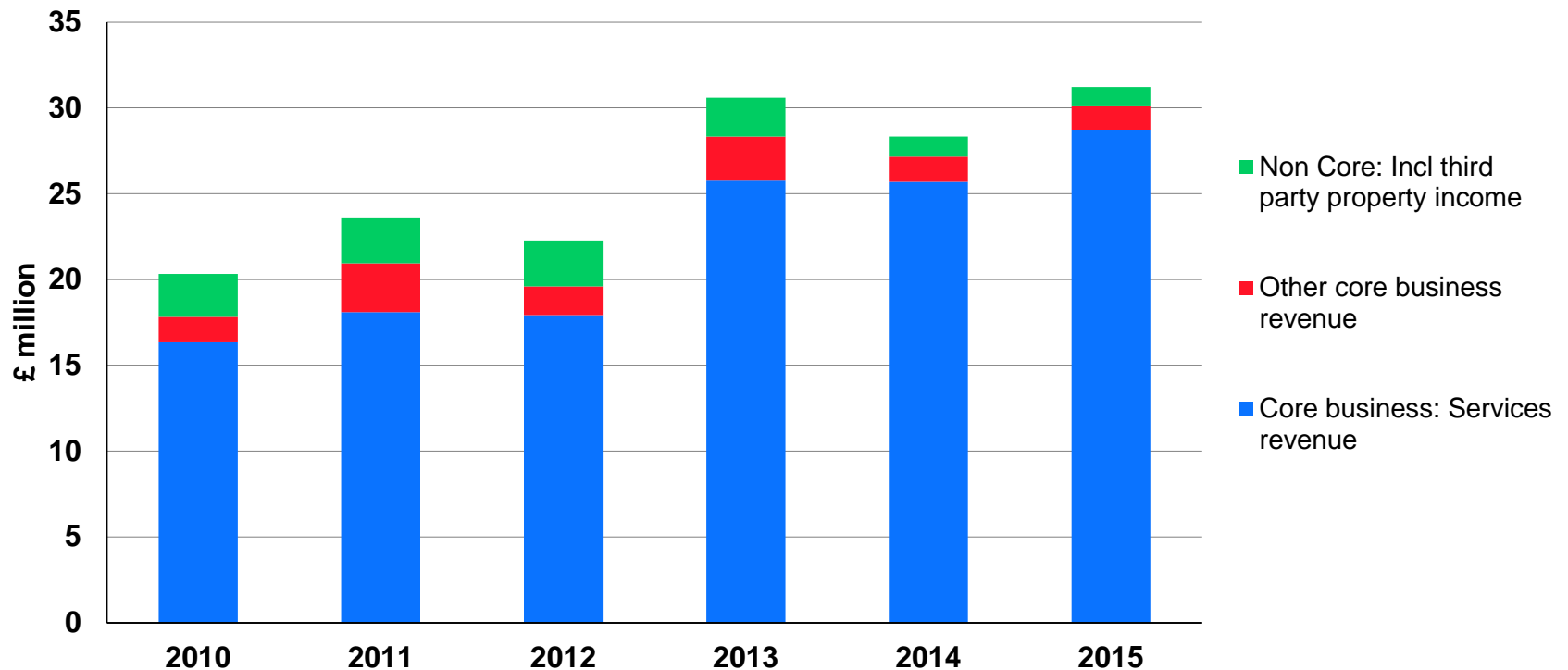
- £0.8m R&D tax credit relating to 2013 and 2014 under new R&D tax regime which will result in tax cash inflow of £0.8m in 2016
- £0.2m credit relating to losses generated by Leatherhead, to be utilised in a future period
- £0.2m credit associated with share options exercised in 2015

Carried forward tax losses at 31 December 2015 of £17.0m (2014: £17.6m)

- Includes £6.6m of trading tax losses (2014 : £9.3m) which should minimise future tax cash payments
 - Additional tax losses of £1.0m recognised in 2015 related to Leatherhead
 - At 31 December 2015, all trading tax losses recognised in full as deferred tax asset
 - Anticipate will reduce tax cash flow for next 1-2 years
- Other unrecognised tax losses of £10.4m (2014: £8.3m)
 - Will only be recognised if probable that losses can be utilised
 - Increase associated with tax losses relating to share options exercised in 2015

Group Revenue Breakdown

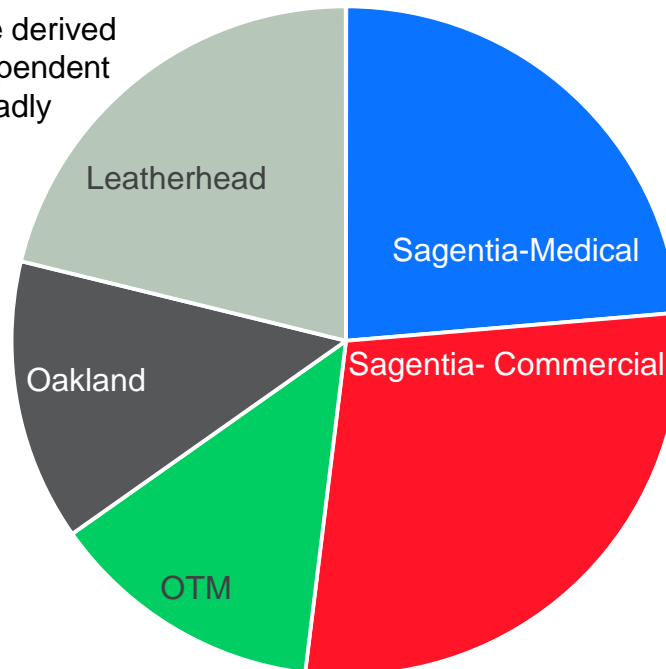
- Continuing business declined slightly
 - Impacted by oil & gas market and phasing of projects in Medical sector
- £5.2m revenue contribution from acquisitions
 - Oakland £3.1m; Leatherhead £2.1m
- Third party property income consistent with prior year
 - Harston Mill fully occupied



Services Revenue Profile – Q4 2015

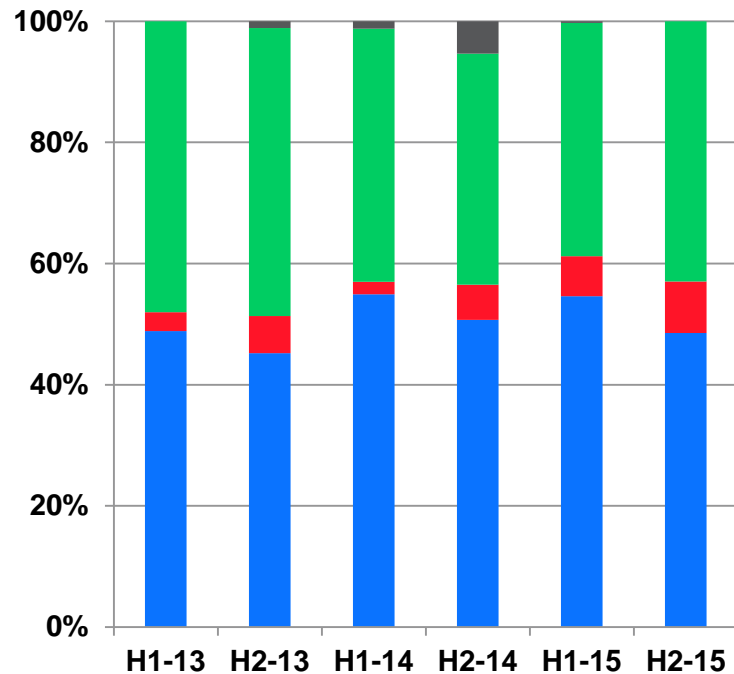
- Group now comprises 5 operating businesses using 4 brands
- 2015 acquisitions have expanded customer base and service offerings
- Food & Beverage market synergies : Sagentia-Commercial, Oakland and Leatherhead

Leatherhead revenue derived from 3 relatively independent business units of broadly similar size

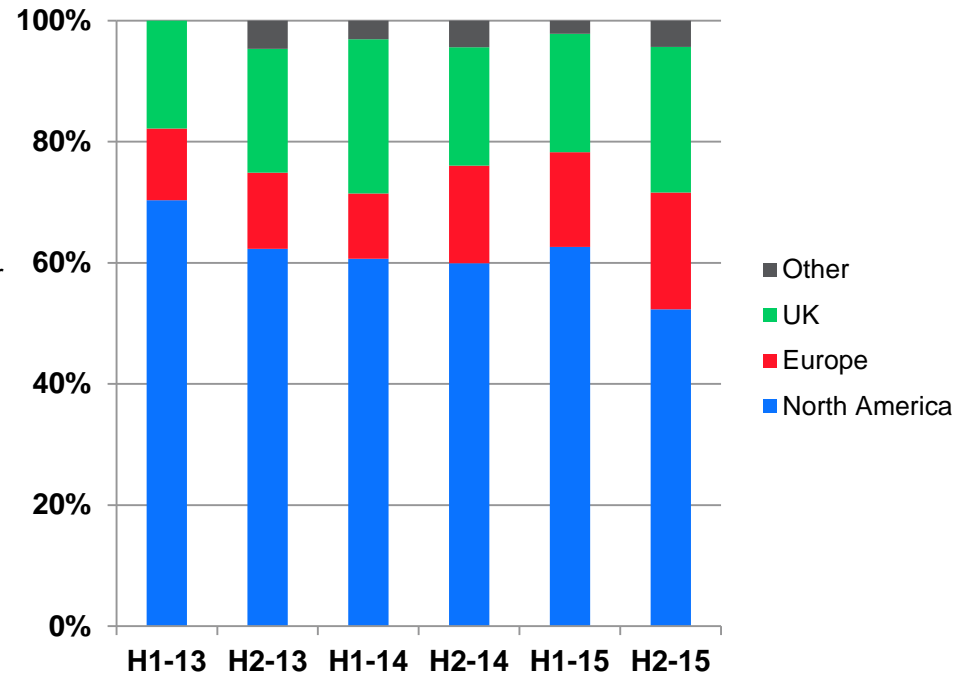


International Services Business

- Science Group is an international business : over 75% of Services revenue outside UK
- 51% of consultancy fees in US\$ (2014: 53%) and 8% in Euro (2014 : 4%)
- Over 90% of employees are based in the UK
- Adjusted operating profit benefit from forex of £0.7m in 2015 compared to 2014



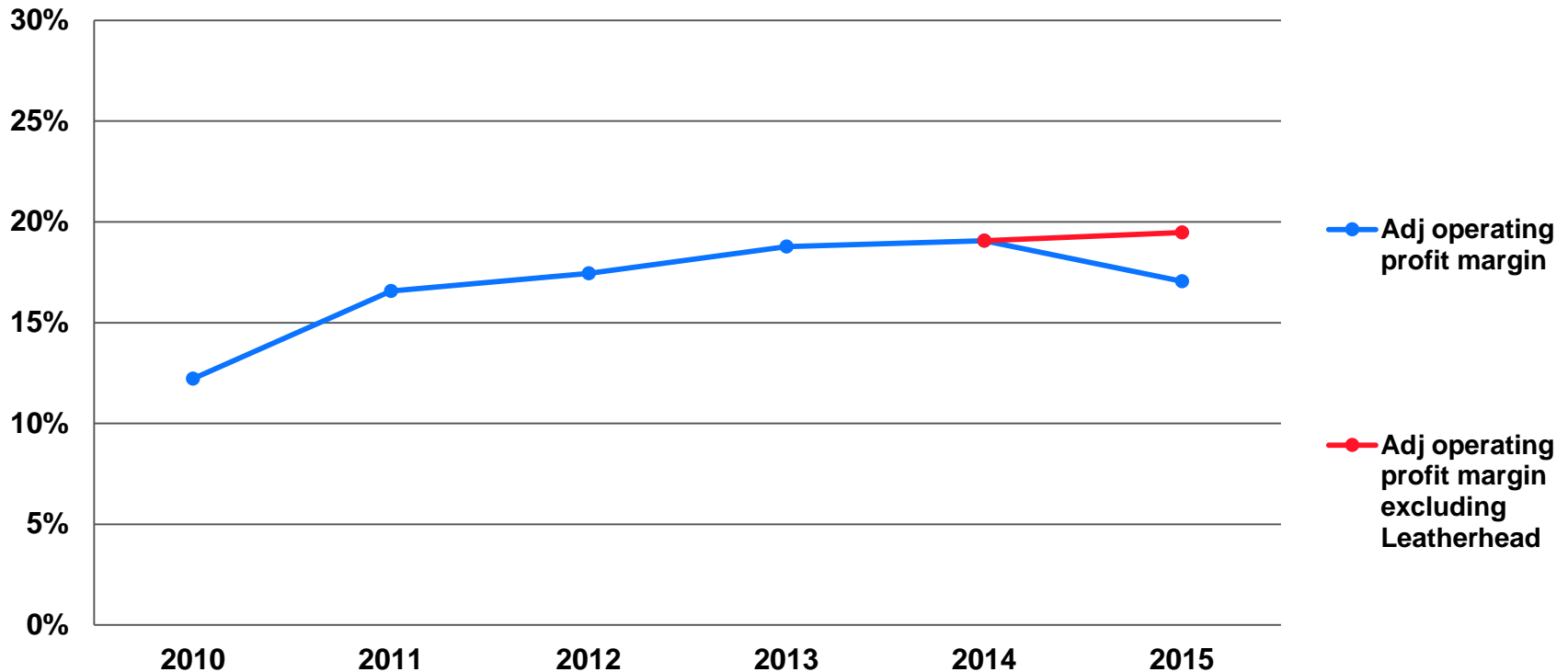
Services Revenue by Currency



Services Revenue by Geography

Adjusted Operating Margin

- Fifth consecutive year of >15% adjusted operating margin
- Strong margin for project based consultancy business
- Leatherhead loss reduces margin, as anticipated
- Oakland margin improved in second half of year following completion of integration



Acquisition of Leatherhead Food Research

Acquisition of business trade and assets completed in September 2015

- Net liabilities acquired of £0.4m
- Acquisition related intangible assets (customer relationships) of £1.3m (net of deferred tax)
- Consideration of £1.625m satisfied in cash on completion
- Purchase resulted in goodwill of £0.7m

Historically a Research Association for the Food Industry. Founded 1919.

- Science & Innovation; Global Regulatory Services; Consumer Sensory Services
- Membership model servicing the food & beverage industry

Post acquisition services revenue in 2015: £2.1m

- (£0.4)m adjusted operating loss in 2015, before allocation of central/management overheads
- Exceptional/restructuring costs of £0.5m. Further costs anticipated in 2016 related to integration/relocation

Property relocation

- One year lease on Leatherhead-based facilities, ends Sept 2016 (Rent increases from July 2016)
- Relocation to Epsom site during H1 2016, subject to planning consent. First 50 employees transferred.

Acquisition integration progressing satisfactorily but will continue through 2016

Acquisition of Oakland Innovation Limited

Acquisition of 100% of share capital completed in February 2015

- Net assets on acquisition of £0.5m, including £0.7m cash
- Consideration of £5.0m satisfied by:
 - £3.6m cash on completion
 - £1.4m satisfied through sale of treasury shares - subject to lock-in period up to 3 years

R&D consultancy founded in 1989

- Providing services to Consumer, Healthcare and Food & Beverage markets
- Based in Cambridge UK – approx two-thirds are PhD qualified
- Relocation to Harston facility successfully completed

Post acquisition services revenue in 2015: £3.1m

- Contributed £0.4m adjusted operating profit in 2015 before allocation of central/management overheads

Acquisition integration completed and business synergies being realised

- Integration and relocation costs all expensed
- Some business disruption due to integration; margin improved in H2 2015
- Food & beverage market synergies with Leatherhead and Sagentia-Commercial businesses

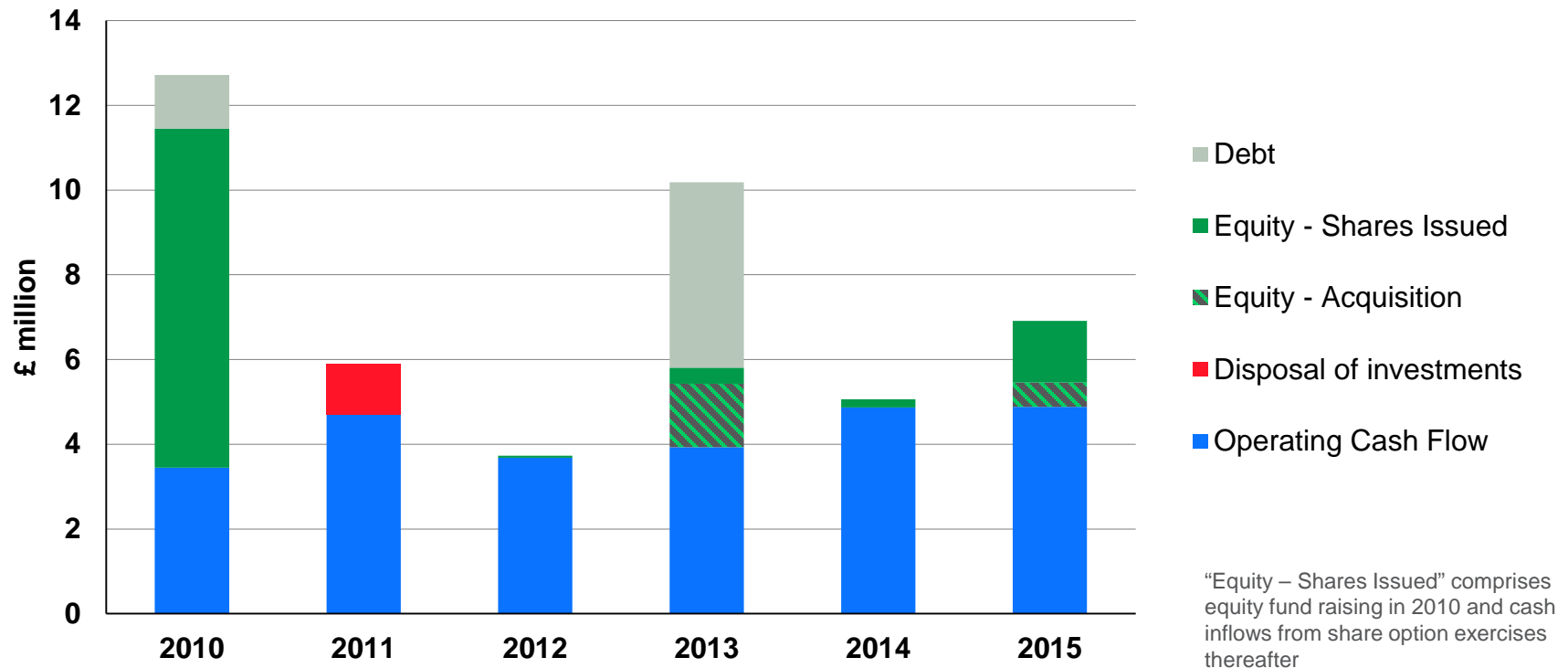
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Capital Sources & Allocation



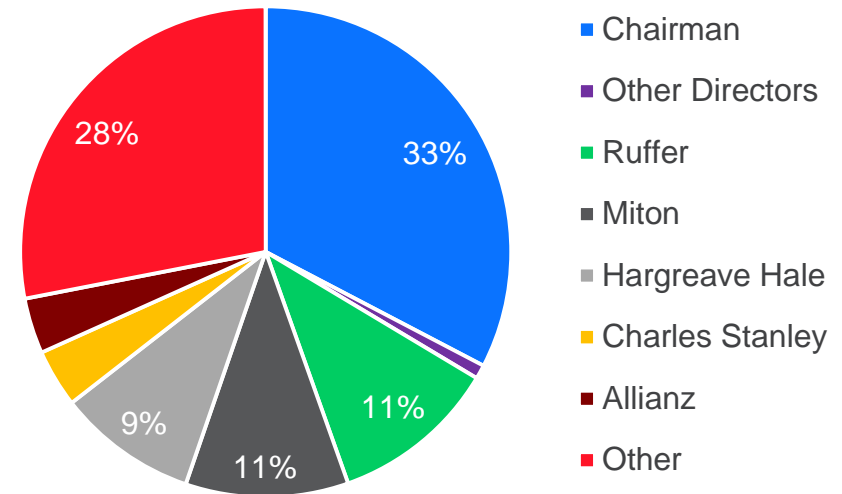
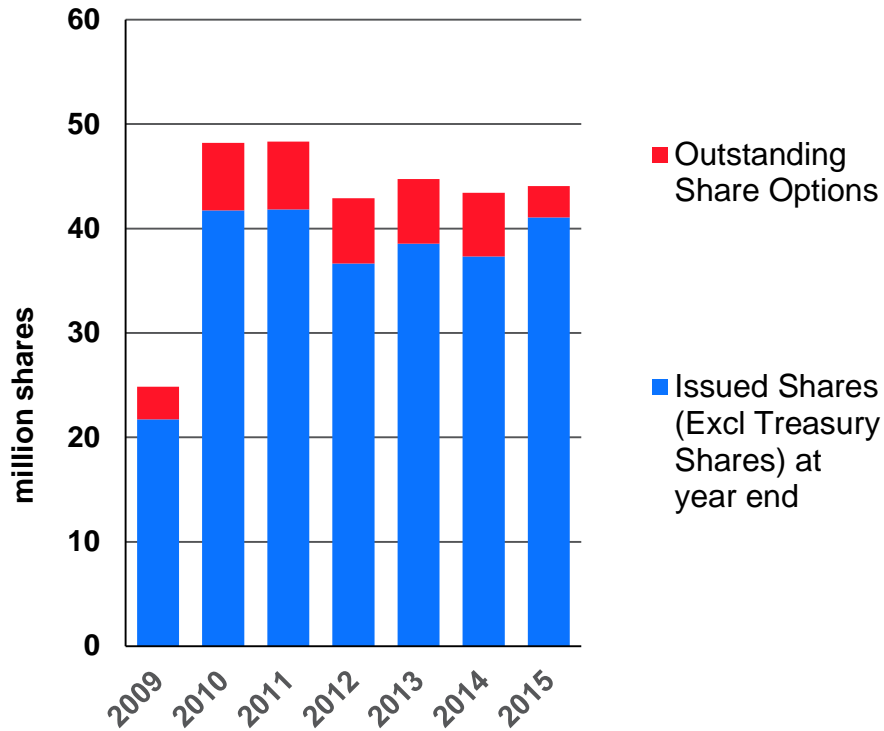
Capital Sources 2010-2015

- Equity fund raising undertaken in 2010 to refinance the Group
- Debt funding with limited operating covenants in 2010 and 2013
 - Secured against Harston freehold property
- Strong operating cash flow has been primary capital source



Equity Share Capital

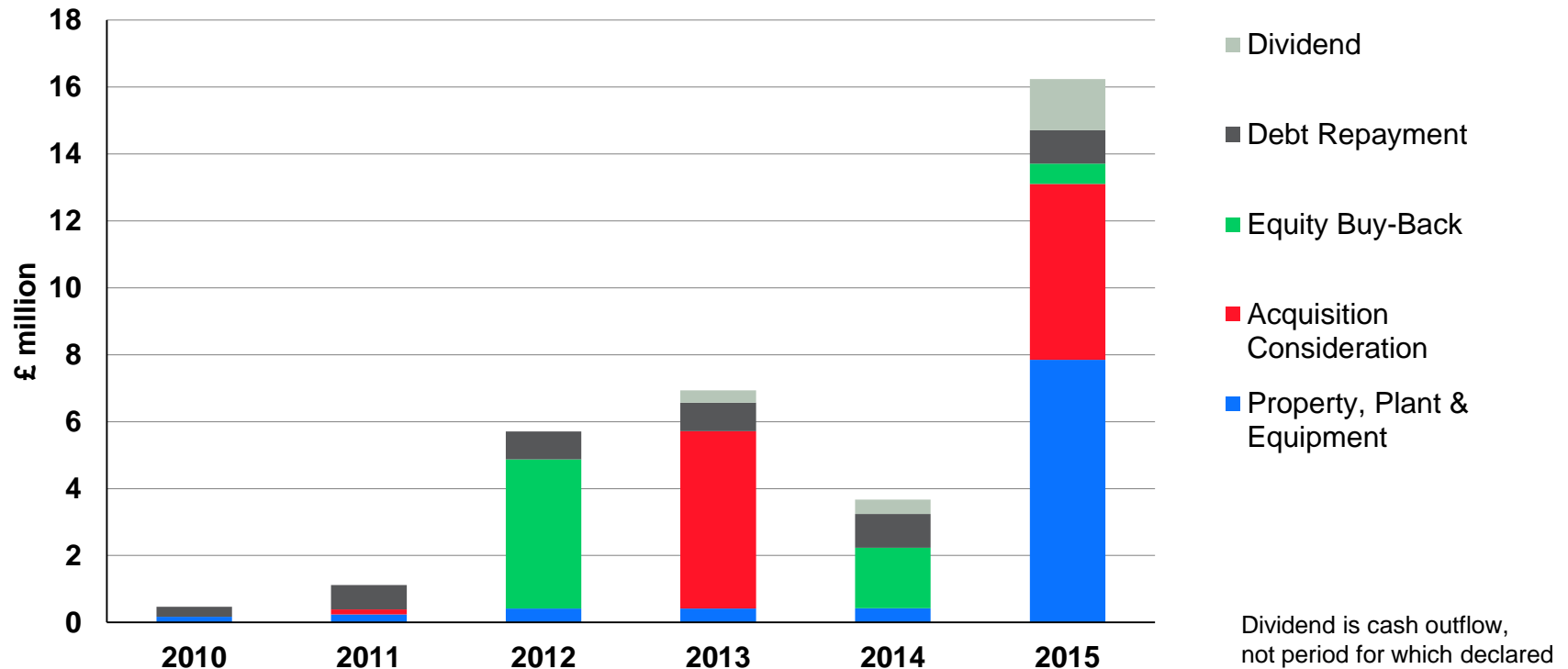
- Following refinancing in 2010, issued share capital has not increased
- Share options and acquisition-related equity have been offset by share buy-backs



Shareholdings >3% as reported to Company as at 29 February 2016
 Shares in issue (excluding treasury shares): 41.1m (2014: 37.3m)

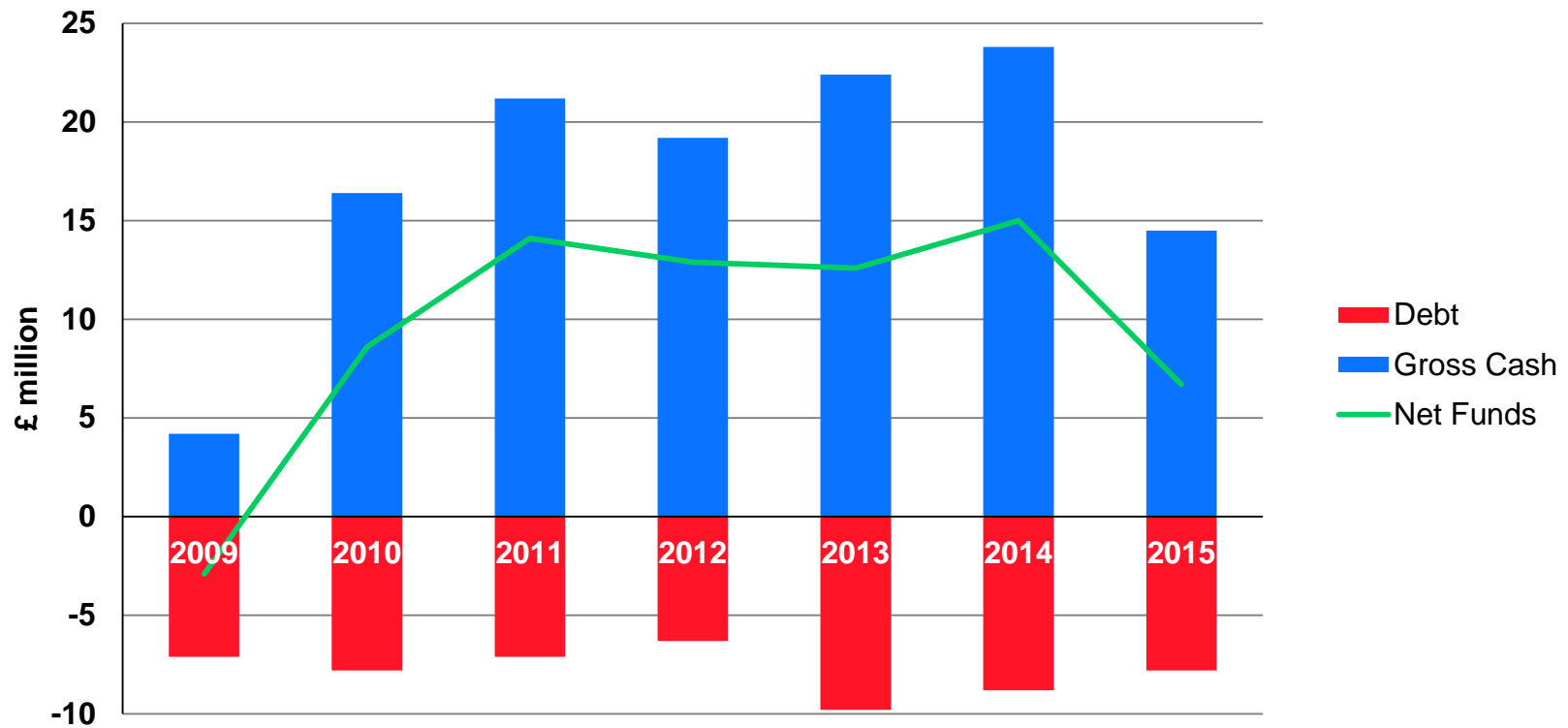
Capital Allocation 2010-2015

- Equity buy-backs undertaken when appropriate
- Maiden dividend paid in 2013 and increased significantly. Now being maintained
- Capital deployed in acquisitions and second freehold property in 2015



Cash & Debt 2009-2015

- Capital resources deployed for acquisitions in 2015
- Strong balance sheet maintained throughout with significant free cash resources
- Freehold property assets in excess of £20 million at December 2015



Capital Source & Allocation

Board regularly review source and allocation of capital for the Group, as appropriate for a project-based science/technology consultancy business with relatively low risk tolerance

Objectives

- Shareholders
 - Medium term capital growth
 - Stable, attractive annual dividend stream
 - Minimising shareholder dilution
- Company
 - Long-term infrastructure investment horizon
 - Maintaining strong balance sheet with adequate free cash resources

Implications

- Issuing significant additional equity is unattractive
- Modest additional bank debt considered if extended loan term achievable
 - Continue to minimise exposure to bank operating covenants
- Alternative long term financing models considered
 - Legacy corporate/tax structure is inhibitor (R&D property expensed within operating company)
- Future corporate development of the Group may be constrained

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