

2017 Preliminary Results

Martyn Ratcliffe
Chairman

Rebecca Archer
Finance Director

To be read in conjunction with the audited preliminary results announcement released on 28 February 2018

In addition to IFRS measures, alternative performance measures are used in this presentation. Refer to the Notes to the financial statements within the preliminary results announcement for detail and explanation.



Financial Summary

Group revenue of £40.8m (2016: £36.9m)

Adjusted operating profit of £6.9m (2016: £6.2m)

- Adjusted EBITDA of £7.6m (2016: £7.0m)

Statutory PBT of £3.9m (2016: £3.0m)

Adjusted basic EPS increased to 12.8 pence (2016: 11.4 pence)

- Basic EPS of 7.7 pence (2016: 6.8 pence)

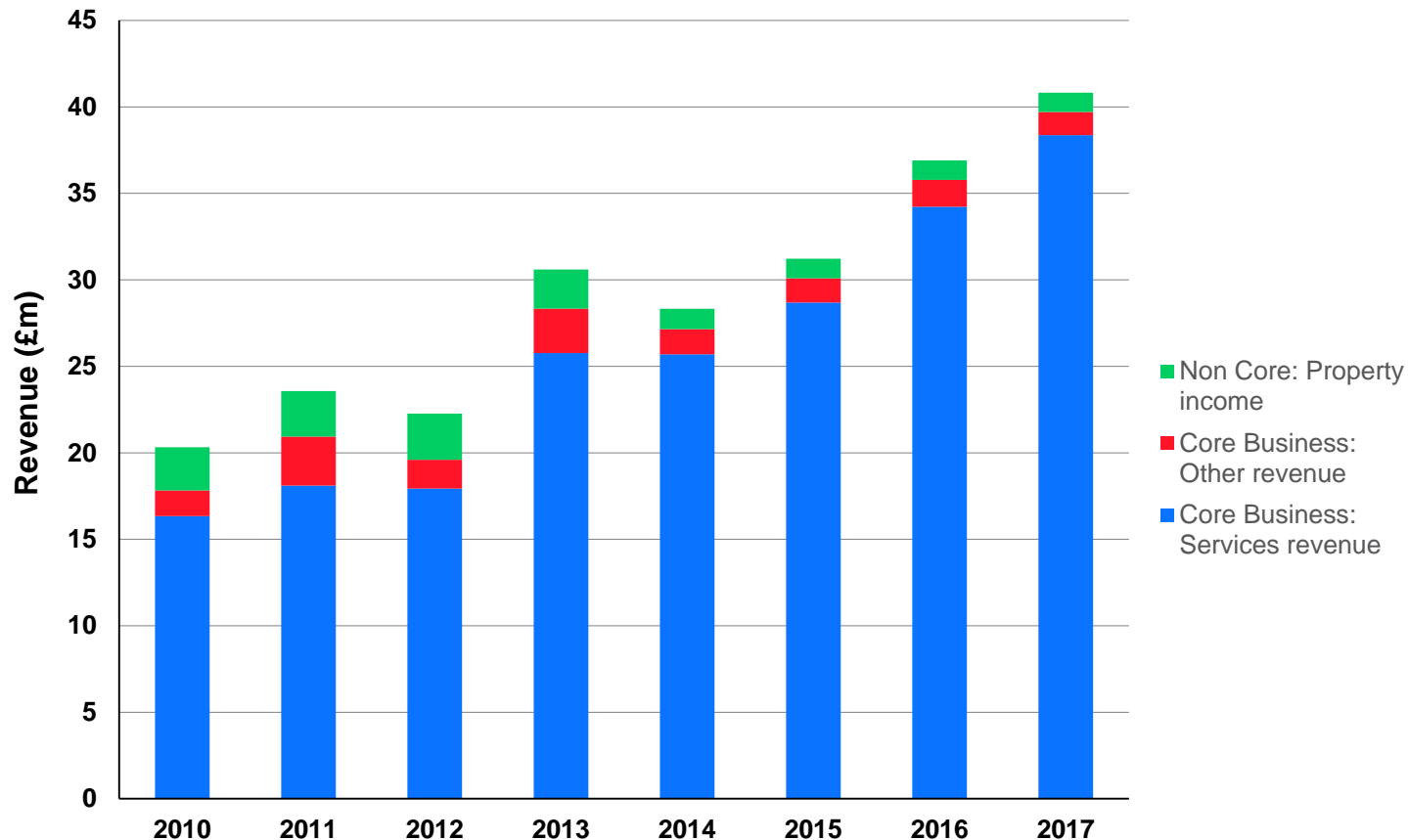
Cash balance of £19.9m (2016: £26.0m) and Net Funds of £6.0m (2016: £11.3m)

- After capital of £13.2m deployed via acquisition of TSG (net capital outflow of £10.4m)
- Excludes cash held on behalf of clients for regulatory registration of £0.9m
- Cash generated from operations (excluding client registration funds) of £7.8m (2016: £11.6m)

Proposed dividend increase to 4.4 pence per share (2016: 4.2 pence per share)

Group Revenue Breakdown

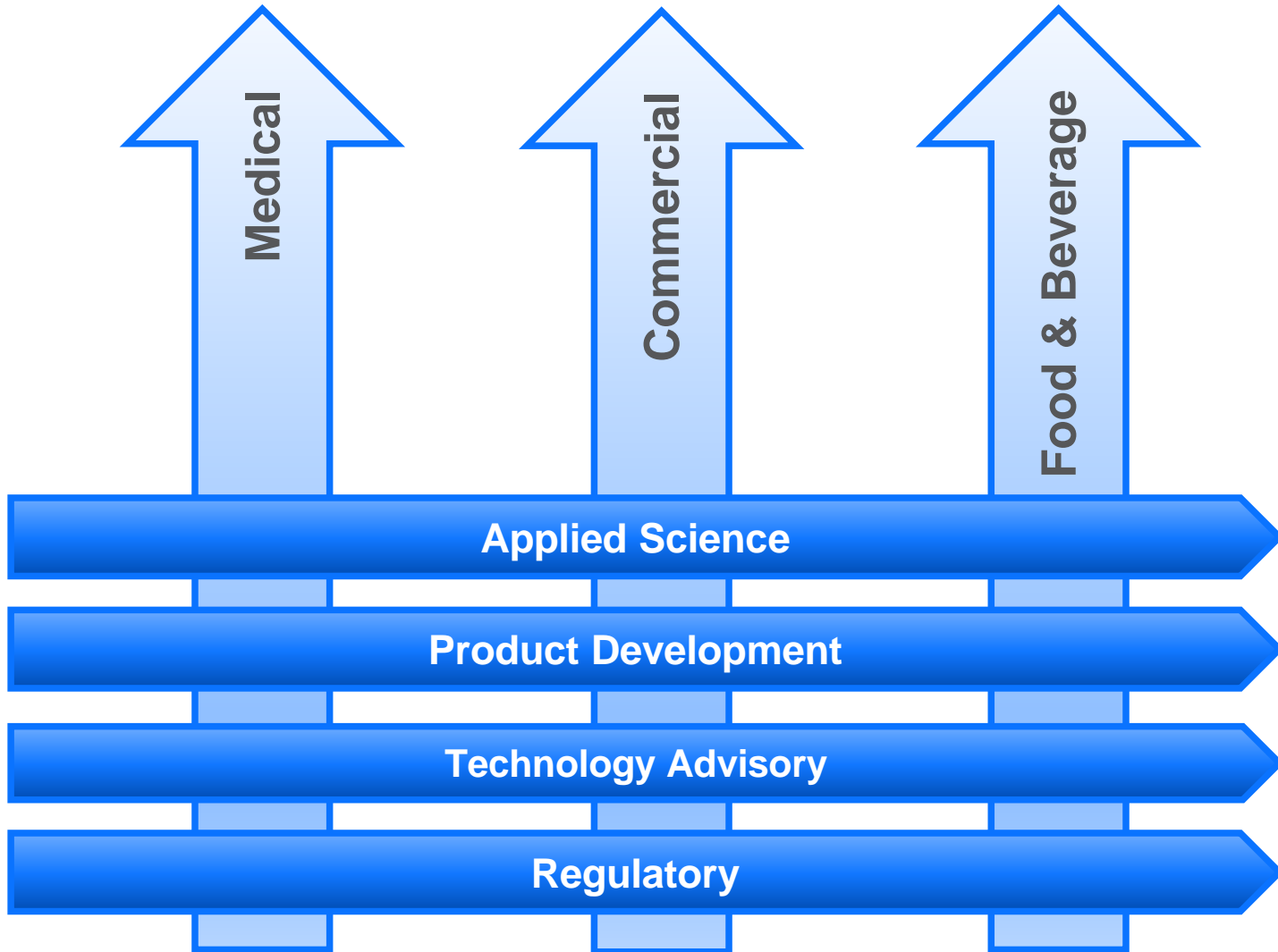
- Largest customer accounted for approx 10%
- 2017 includes only 4 months of TSG revenue (post-acquisition period: £4.9m)
- Group revenue benefitted by £0.7m from favourable forex rates compared to 2016



Strategic Axes



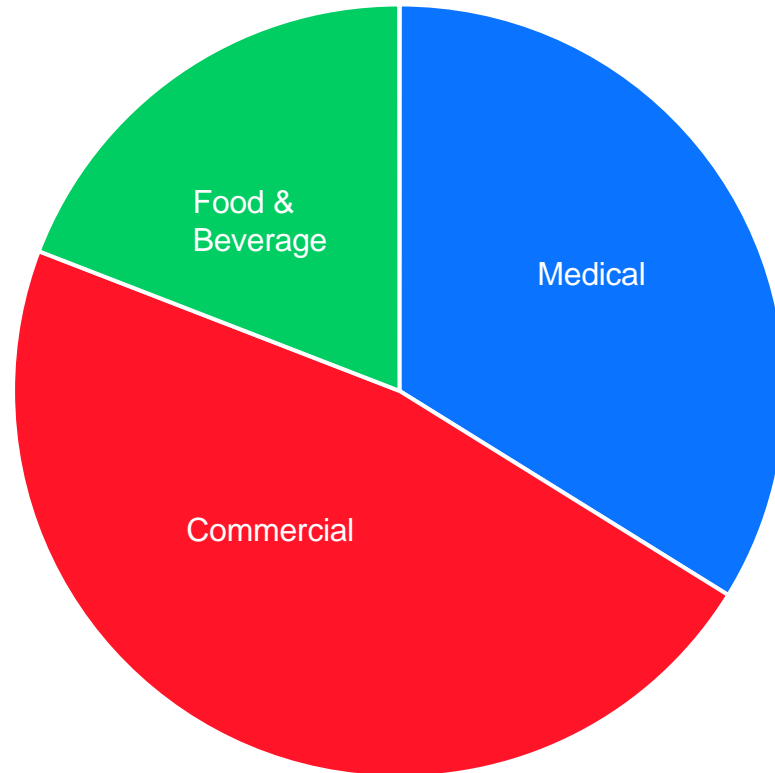
Markets & Services



Market Sector Revenue Profile

- Business model structured around vertical markets
- Five distinct brands under Science Group umbrella brand

Market Sector Overview

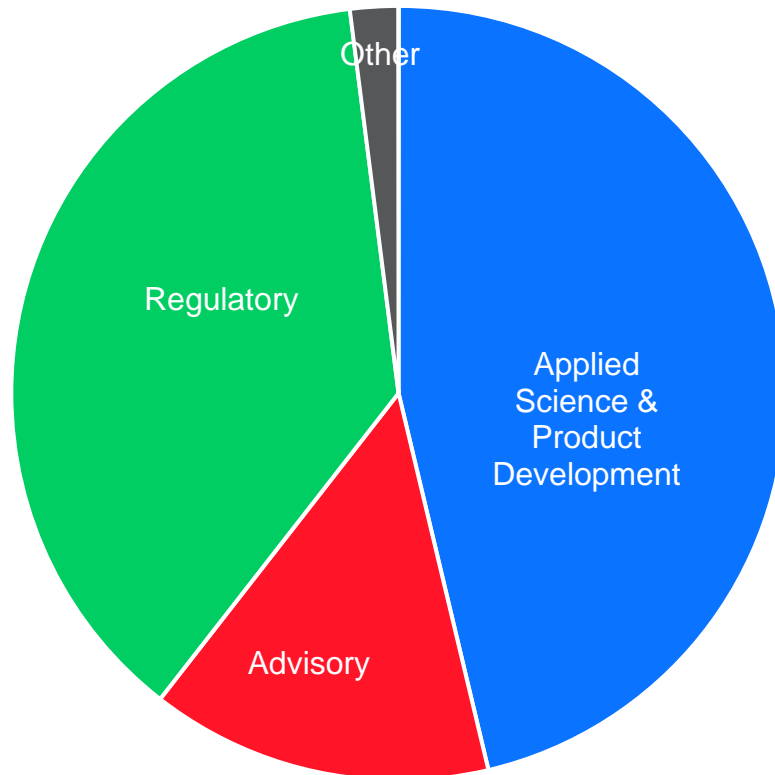


- Medical: Very strong performance in PD in 2017 and excellent momentum entering 2018.
- Commercial: Satisfactory performance in Advisory but disappointing in PD due to combination of market and internal execution. PD management change undertaken.
- Food & Beverage: Good performance in Regulatory services. Increasingly integrated sector offering with Science and Advisory services under Leatherhead brand.

Q4 2017 Data

Services Revenue Profile

Services Developments

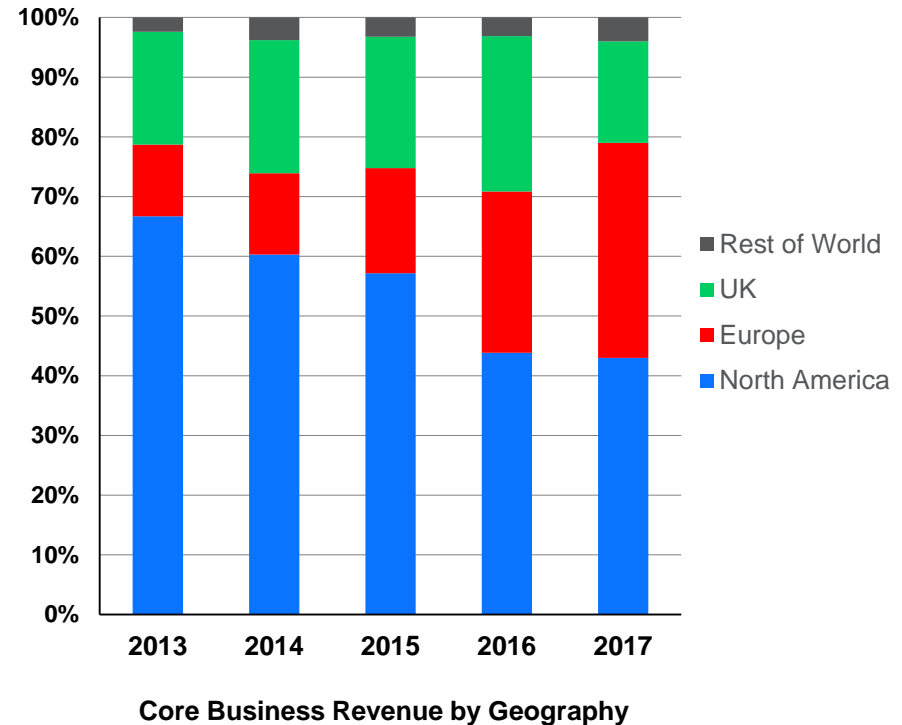
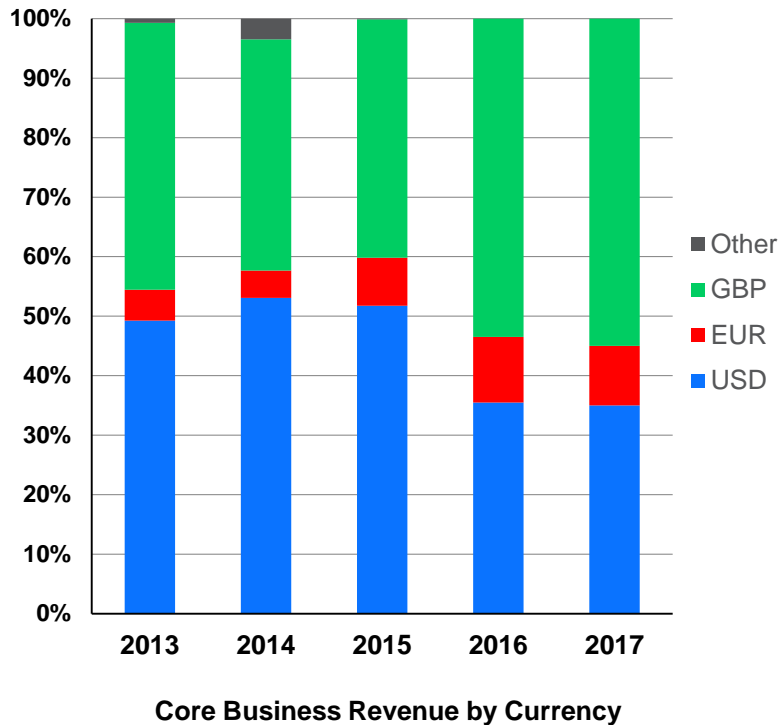


- Applied Science : Consolidated Sagentia and Leatherhead science teams into single function.
- Advisory : Consolidated all advisory activities into single organisation with 4 vertical markets: Food & Beverage; Medical; Commercial and Chemicals & Energy
- Regulatory : Significantly expanded service offering and geographical footprint through TSG acquisition. Strong performance in Food & Beverage sector. Increasing coordination of all Regulatory services across Europe

Q4 2017 Data

Revenue by Currency/Geography

- 83% (2016: 74%) of Core Business revenue is derived from outside UK
- 35% of Core Business revenue invoiced in USD (2016: 35%) and 10% in EUR (2016: 11%)
- TSG acquisition did not materially change the currency/geographic revenue profile
- Increase in revenue from Europe due to large Sagentia contracts

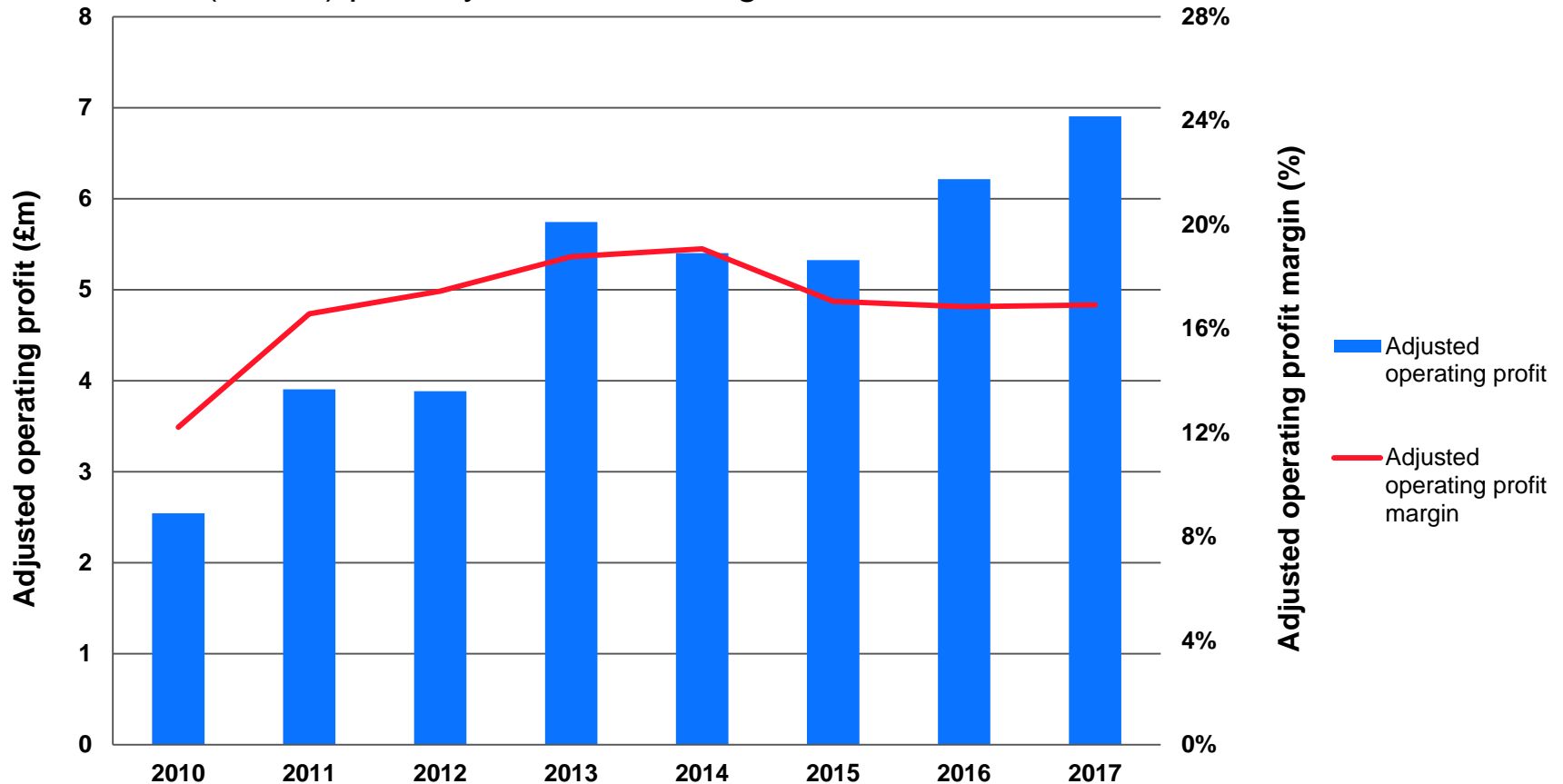


Geographical Presence



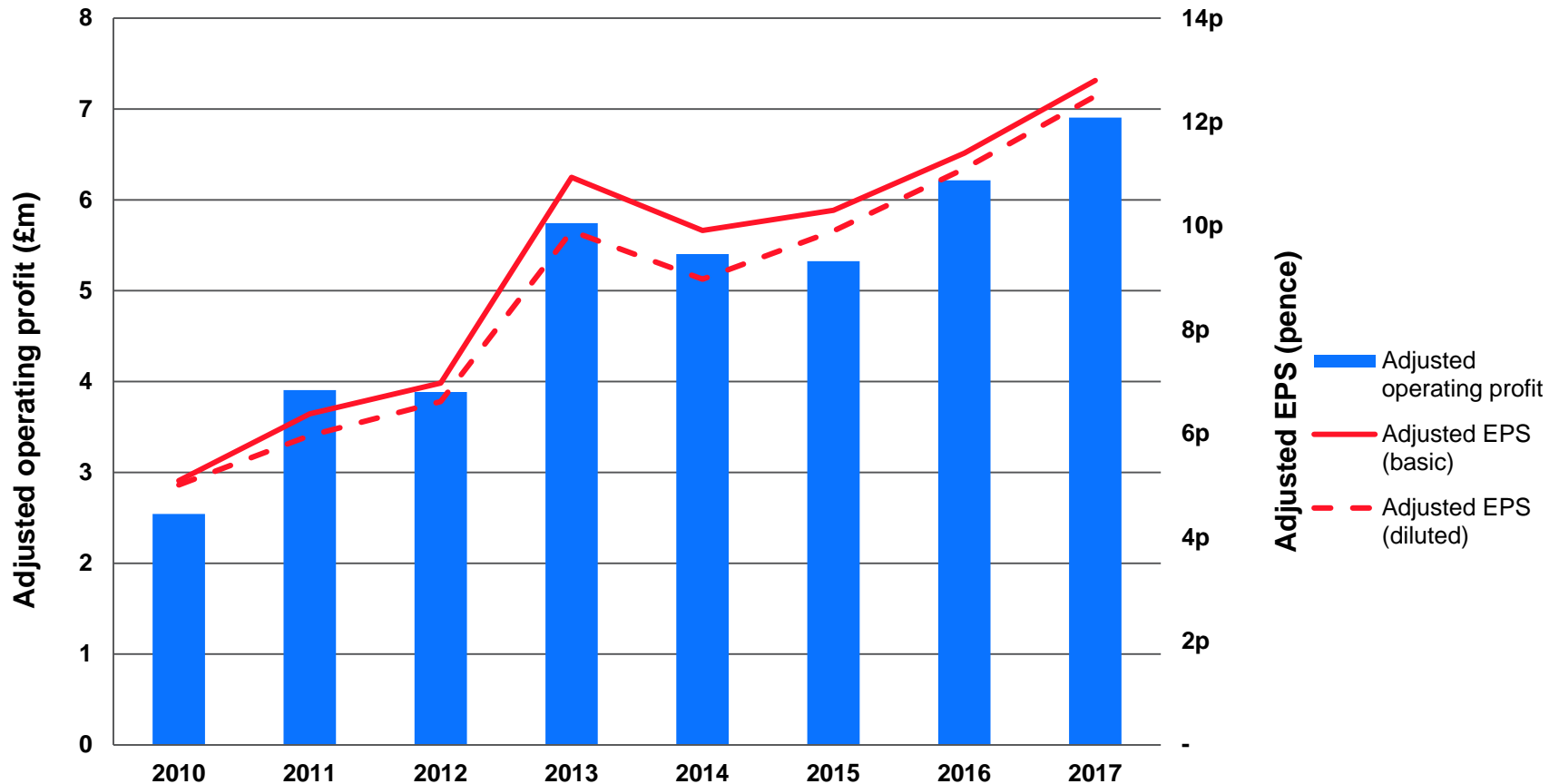
Adjusted Operating Profit

- Adjusted operating profit increased to £6.9m (2016: £6.2m)
- Adjusted EBITDA of £7.6m (2016: £7.0m)
- Strong operating margin performance maintained despite acquisition integration disruption
- FX benefit (£0.6m) partially allocated to organic investment



Adjusted Earnings per Share

- Adjusted basic EPS increased to 12.8 pence (2016: 11.4 pence)
- Weighted average number of shares decreased by 3% due to 2016 share buy backs
- At 31 December 2017, ISC was approx 5% less than at end 2010

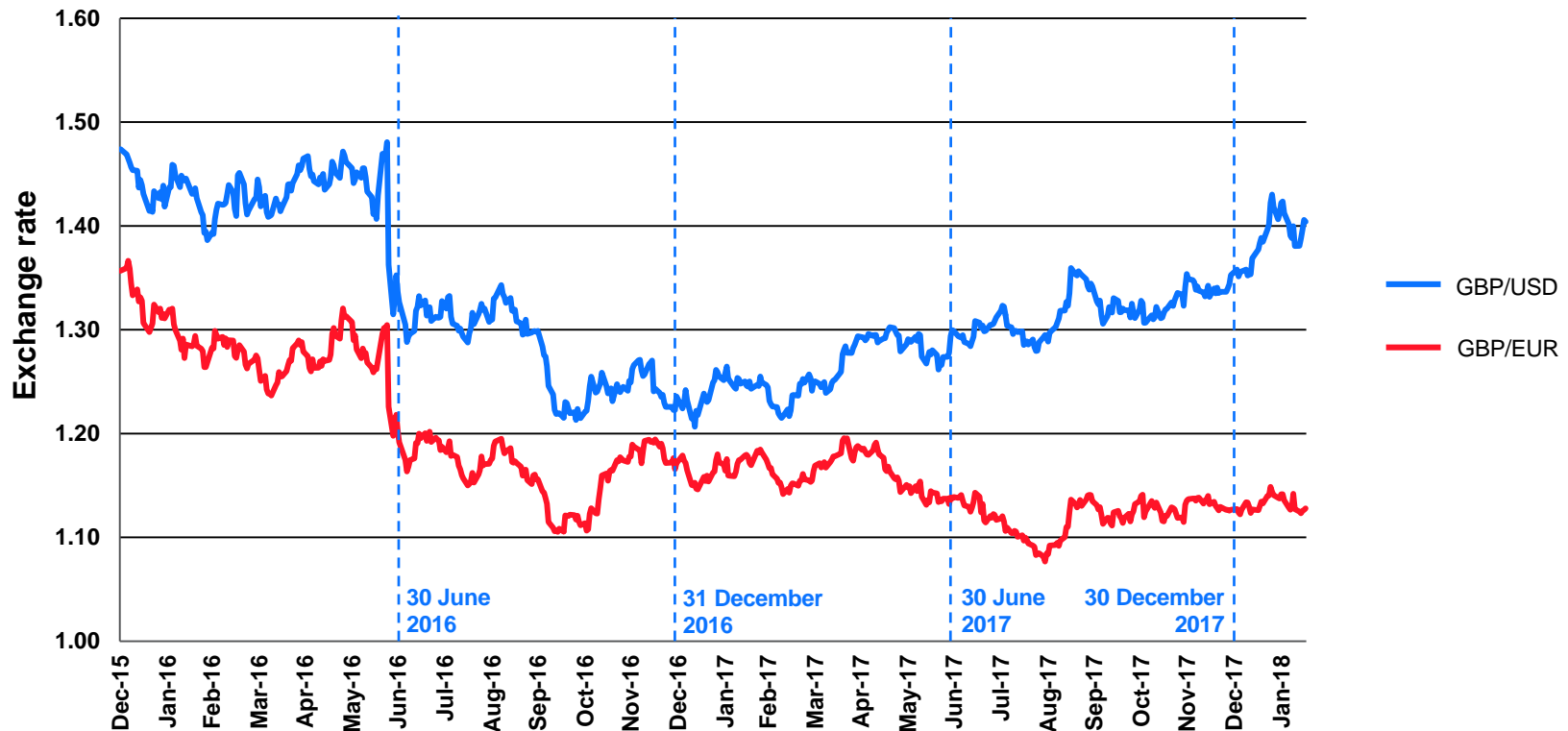


TSG Integration

- TSG acquired in September 2017 for \$17.0m (£13.2m) with additional contingent deferred payment of \$0.75m in December 2019
 - Funded from existing cash resources
 - Acquisition integration costs of £0.8m incurred to date
 - Contributed £4.9m revenue in 2017 (September to December)
- USA and UK account for 78% of revenue
 - Additional presence in Canada, Germany, France, Spain, Slovenia, Slovakia, Poland and Ireland.
 - Branch office in Romania has been closed post-acquisition
- USA Integration Programme
 - Separation of systems (incl payroll, benefits, IT) from vendor
 - Improving poor financial/operational controls and processes
- Europe Integration Programme
 - Creating integrated European strategy rather than historic autonomous units
 - Improving operational processes
 - Strengthening management team

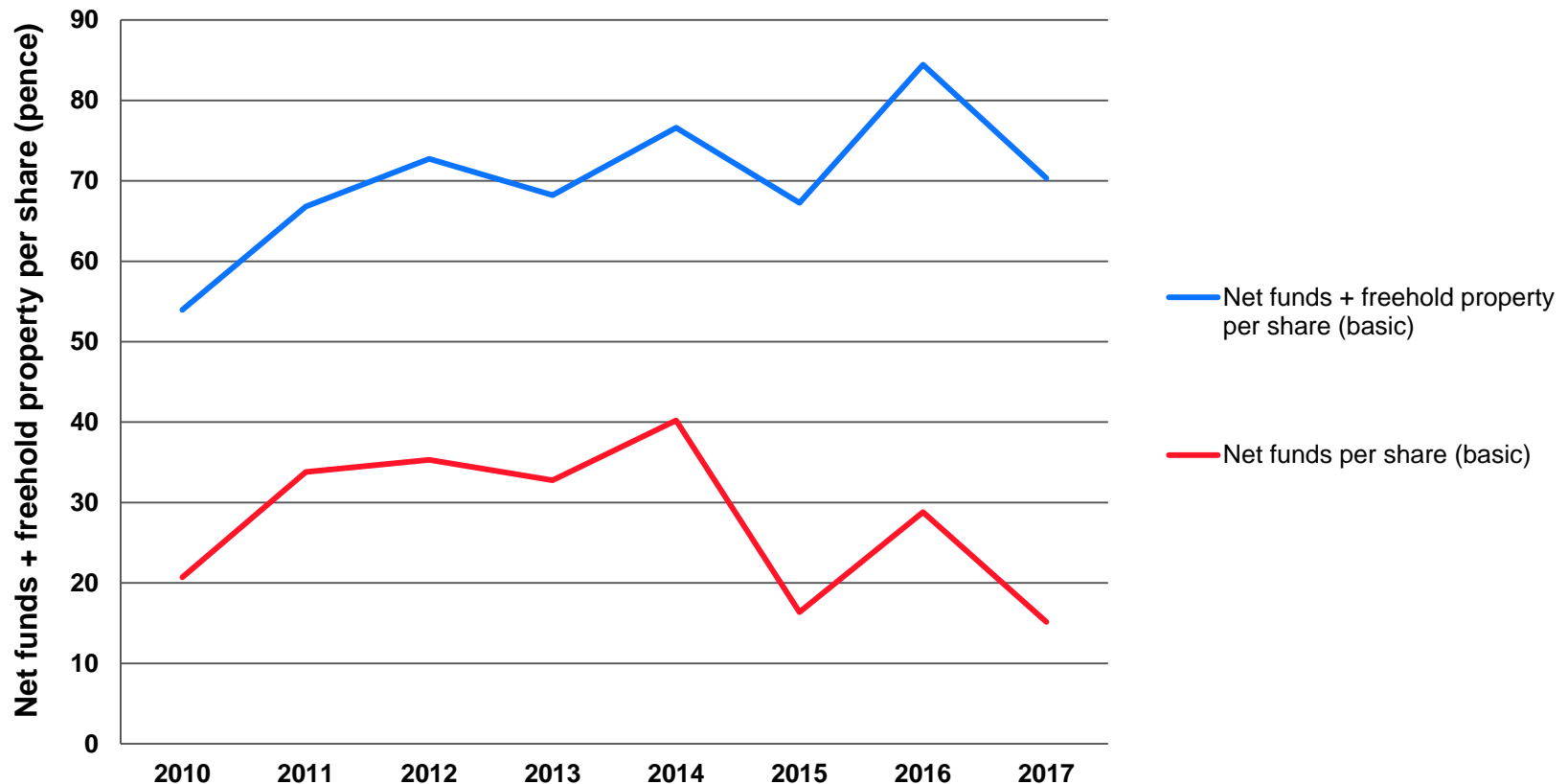
Currency Exchange Rates

- Foreign exchange benefit on Group revenue in 2017 compared to 2016 of £0.7 million
- Average USD rate of 1.26 in H1-17 and 1.32 in H2-17 (H1-16: 1.44 and H2-16: 1.29)
- Average Euro rate of 1.17 in H1-17 and 1.12 in H2-17 (H1-16: 1.30 and H2-16: 1.17)
- While FX always uncertain, Board not anticipating benefit in 2018 and potentially negative



Net Funds + Freehold Property per Share

- Strong asset base, comprising significant cash resources and freehold property assets
- Decrease due to capital allocated to TSG acquisition
- Property valuations to be undertaken in 2018



Corporation Tax

Effective tax rate in 2017 is a tax charge of 22.2% (2016: 7.4%)

Tax charge in P&L of £0.9m in 2017 (2016: £0.2m)

- R&D tax credit of £0.3m relating to 2017 (2016: R&D tax credit of £0.7m relating to 2015 & 2016)
- One off tax cost in US of £120,000, Tax Cuts and Jobs Act (2016: £nil)
- Significant adjustments largely ceased with R&D tax credit recognised in the year to which it relates.
Overall tax charge in line with substantively enacted corporation tax rates

Carried forward tax losses at 31 December 2017 of £11.4m (2016: £11.8m)

- Includes £0.6m of trading tax losses (2016: £1.4m) which should partially reduce tax cash payments
 - In 2017, cash inflow from R&D tax credits offset payments on account to give net cash outflow of £0.1m (2016: cash inflow of £0.6m)
- Other unrecognised tax losses of £10.8m (2016: £10.4m)
 - Will only be recognised if probable that losses can be utilised

Proposed PSP Amendments

Equity based component of remuneration important to attract and retain key staff, particularly senior managers

PSP Option plan has been reviewed and amendments to be proposed at AGM:

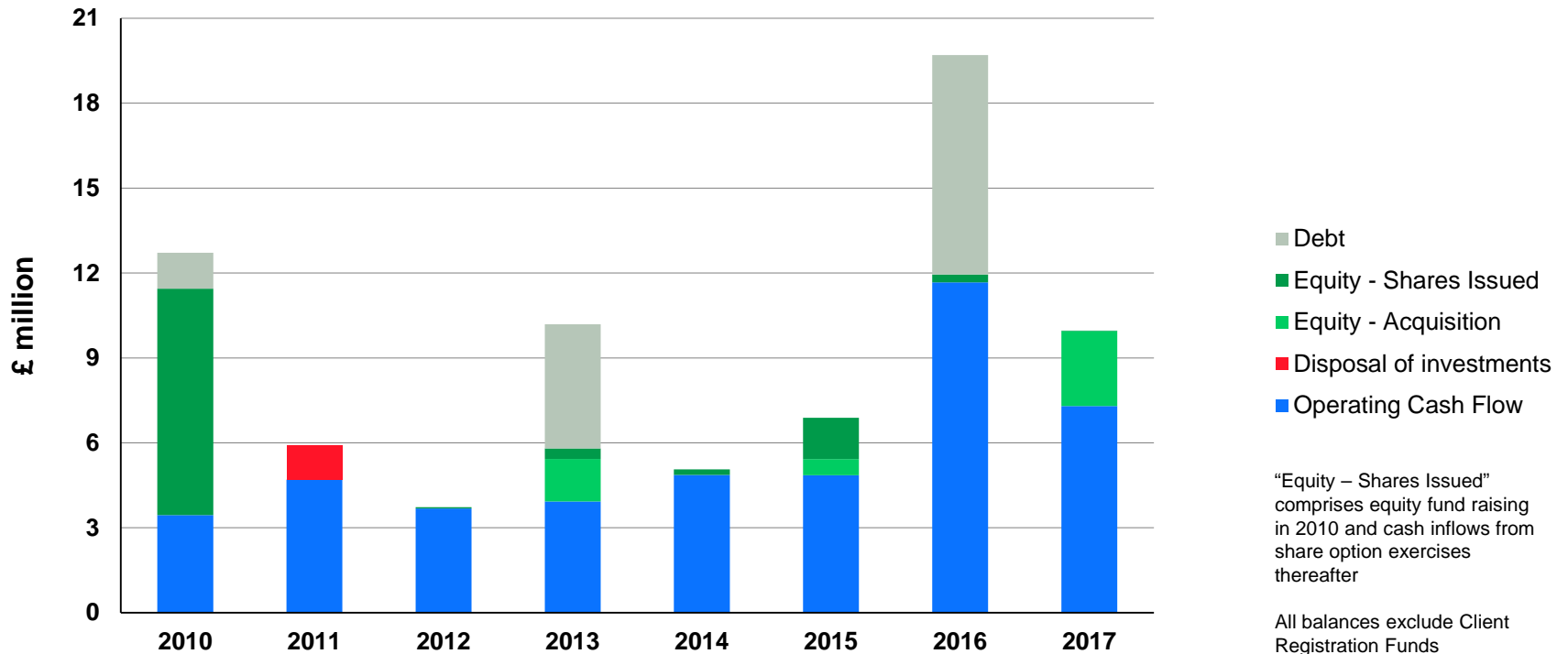
- Exclude option grants related to TSG acquisition (400,000) from Plan limit
- Increase annual limit to 1.5% of ISC (but not to exceed 600,000)
- Remove “grace period” post-termination under normal circumstances
- USA Addendum: Address anomaly to avoid negative tax consequence for USA employee recipients
- EEI Addendum
 - Longer-term incentive with irregular larger awards (50,000 to 250,000).
 - All awards under EEI Addendum to be approved by shareholders (3 years)
 - Max aggregate award at any grant 1.2 million
 - Excludes any holder of 1.5% of ISC in shares or options
 - Vesting period: 5 years
 - Performance conditions based on share price appreciation in range 50% to 100%

Appendix

Annual Review of Capital Sources & Allocation

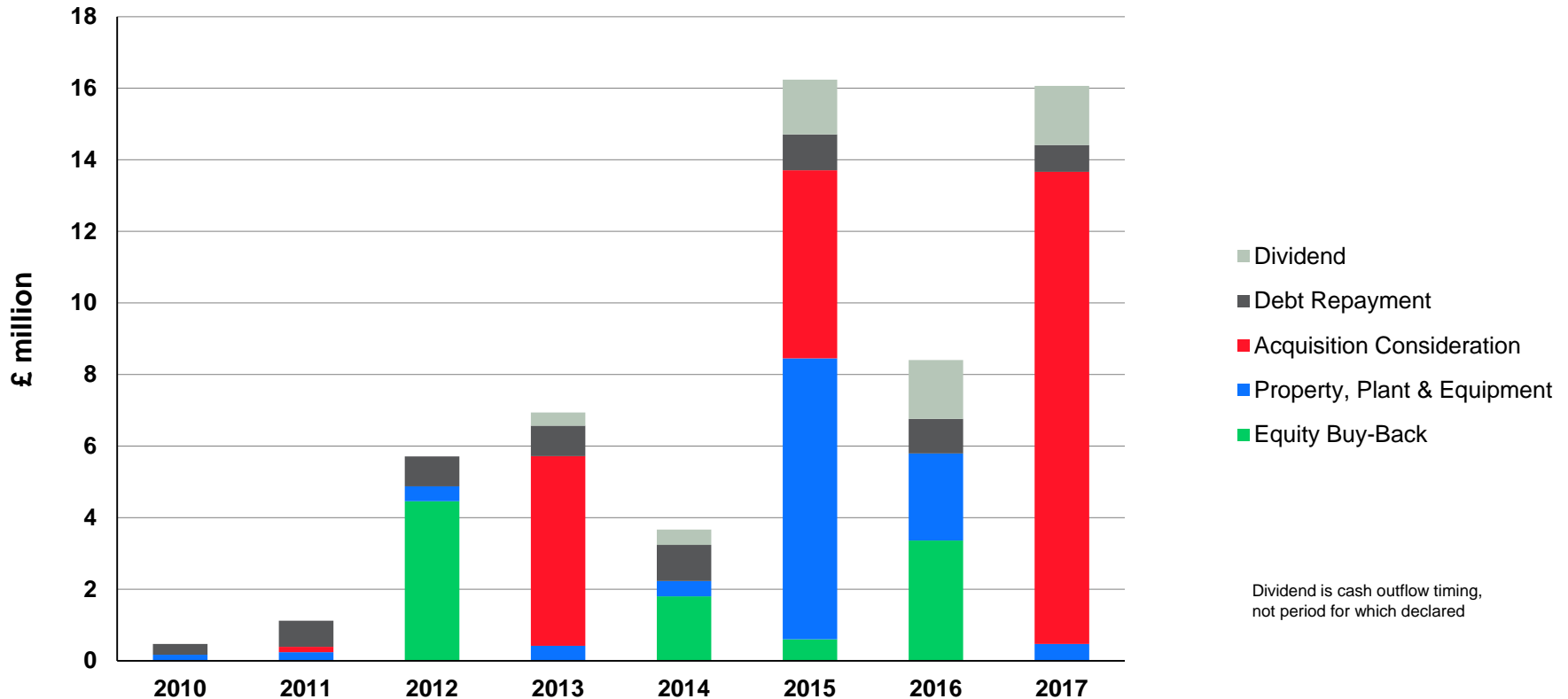
Capital Sources 2010-2017

- Debt funding in 2010, 2013 and 2016
 - Debt secured against Harston and Epsom freehold properties
 - Limited operating covenants due to asset security
 - 10 year term loan fixed at 3.5% using interest rate swap instrument to 2026
- Strong operating cash flow has been primary capital source
 - Extraordinary operating cash flow in 2016 included one-off items



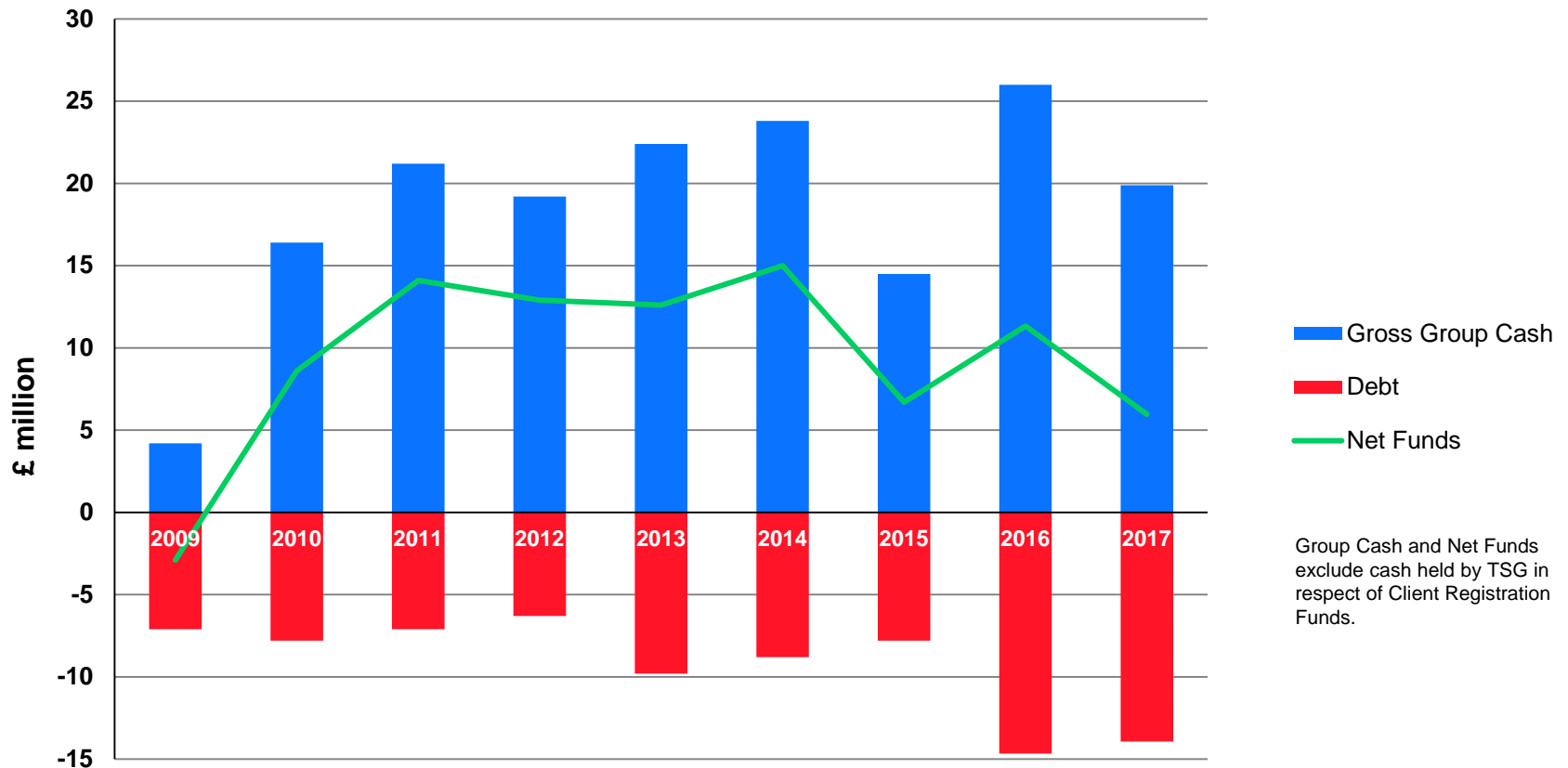
Capital Allocation 2010-2017

- Major capital deployment related to TSG acquisition in 2017
- Proposed dividend increase by 5%
- Equity buy-backs undertaken when appropriate. None in 2017



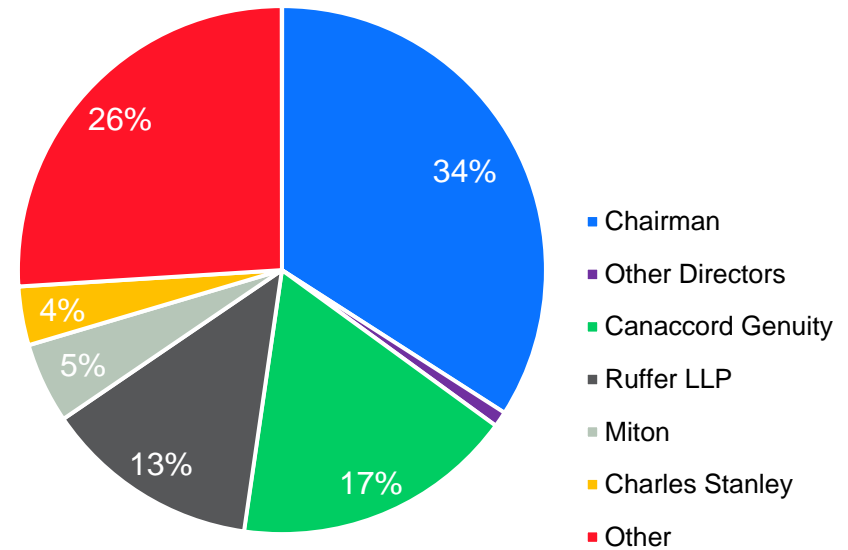
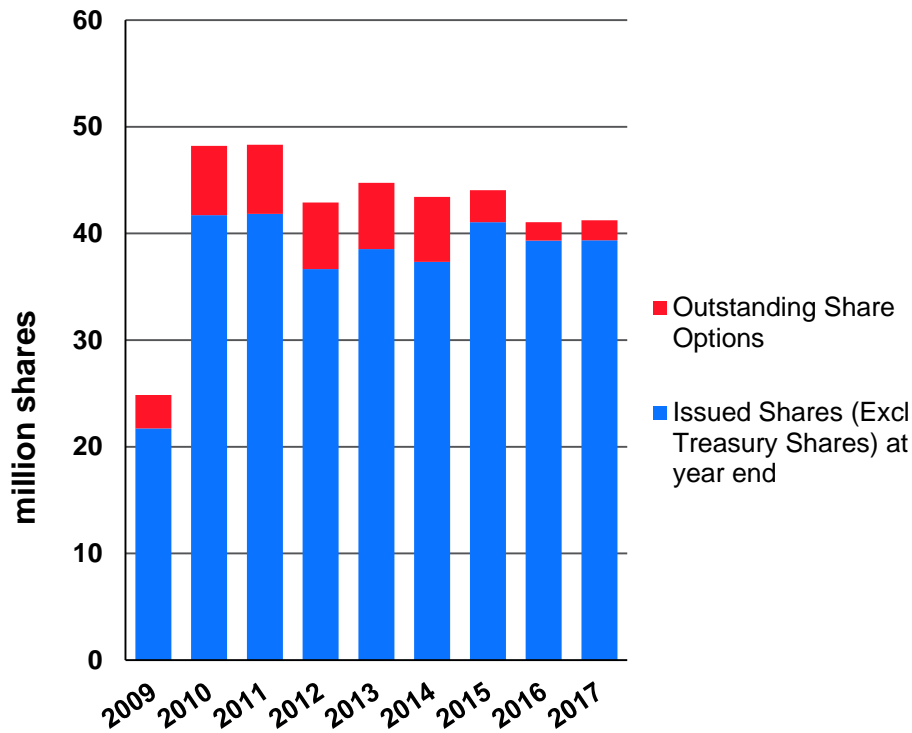
Cash & Debt 2009-2017

- Capital resources deployed for acquisitions (2013, 2015, 2017)
- Strong balance sheet maintained with cash resources for further investment/acquisition
- Debt refinanced in 2016



Equity Share Capital

- Issued share capital has decreased by approx 5% since 2010
- Acquisitions and investments funded primarily through operating cash flow
- Share options and acquisition-related equity have been offset by share buy-backs



Shareholdings >3% as reported to Company as at 26 February 2018
Shares in issue (excluding treasury shares): 39.4m (2016: 39.3m)

www.sciencegroup.com

Head office

Harston Mill
Harston, Cambridge
CB22 7GG
UK

Phone: +44 1223 875200
info@sciencegroup.com