

# science group

20 May 2019

**Science Group plc**  
("Science Group")

**Investment in Frontier Smart Technologies Group Limited**  
("Frontier")

Science Group has acquired a shareholding in Frontier of 3,685,054 ordinary shares representing approximately 9.0% of the issued share capital of Frontier. The average price of the shares acquired was 12.50 pence per share and the aggregate cost was approximately £460,691. The shares were purchased in the market between 9 May 2019 and 17 May 2019.

## **Background**

Frontier is a pioneer in technologies for Digital Radio and Smart IoT Devices. Science Group is an international consultancy providing product development, applied science, technology advisory and regulatory services to a diverse client base. In recent months, Science Group and Frontier have held discussions with regard to potential cooperation, which have included the possibility of Science Group making an offer for the entire issued and to be issued share capital of Frontier at an attractive premium to the Frontier share price at close of business on 17 May 2019.

The acquisition of the Frontier shareholding is consistent with the strategy set out in Science Group's strategic review undertaken in the second half of 2018 and announced on 24 January 2019. At 30 April 2019, Science Group held gross cash balances in excess of £26 million.

## **Science Group Proposal**

On 8 May 2019, Science Group submitted a proposal ("Proposal") to the board of directors of Frontier (the "Frontier Board"), regarding a potential offer. The Proposal was in cash at an attractive premium to the closing share price on Friday 17 May 2019.

Following the trading update issued by Frontier on 9 May 2019, a further letter, reaffirming and updating the Proposal in light of the trading update, was submitted by Science Group on 10 May 2019. The Frontier Board provided a response to Science Group on 16 May 2019. Subsequent correspondence from Science Group and from Science Group's legal advisers, Allen & Overy, has not received meaningful responses and, after nearly two weeks, there has been minimal tangible progress on any detailed aspect of the Proposal.

Subsequent to receipt of the Proposal, the Frontier Board has sought to selectively apply the principles of the Code, to which Frontier's own website and listing admission document state that it is not subject (see below). The Board of Science Group considers this arbitrary action by the Frontier Board to be a conscious attempt to obstruct the Proposal.

As a result, in the absence of substantive progress on the detail of the Proposal and the lack of formal response to Science Group's most recent correspondence, Science Group has notified the Frontier Board that it has withdrawn its Proposal.

# science group

## **Non-Applicability of UK City Code on Takeovers and Mergers**

Frontier is incorporated in the Cayman Islands and is therefore not within the jurisdiction of the UK City Code on Takeovers and Mergers (the “Code”). Frontier’s admission document dated 10 October 2005 (available on Frontier’s website) made it clear (on page 30) that Frontier was not subject to the Code. This is consistent with the AIM Rule 26 section of the Frontier website, which emphasises that Frontier is not incorporated in the UK and correspondingly shareholder rights differ to those in the UK. The website also explicitly declares that *“Frontier Smart Technologies Group Ltd. is not subject to the UK City Code on Takeovers and Mergers”*.

At any time in the past 14 years, should the Frontier Board have wished Frontier to adopt principles set out in the Code, it could have proposed amendments to the Articles of Association (the “Articles”) to apply those principles to Frontier, as a number of other quoted companies have done. Alternatively, the Frontier Board could, at any time in the past 14 years, have moved the domicile of Frontier from Cayman Islands to the UK. The Frontier Board has consistently elected not to take either of these actions. Indeed, the Frontier Board recently proposed changes to the Articles which were approved by Frontier’s shareholders at the Annual General Meeting on 14 May 2019. None of the proposed changes to the Articles sought to adopt any principles set out in the Code.

## **Frontier Trading Performance**

The trading update released by the Frontier Board on 9 May 2019 provided a revised outlook for the current financial year ending 31 December 2019, advising that the *“short-term trading outlook for the Group is challenging”*. As a result, the Frontier *“Board anticipates an H1 2019 Trading EBITDA loss of US\$2.2 million followed by a return to EBITDA profitability in the second half”*.

This update was in sharp contrast to the Frontier Board’s announcement on 20 March 2019, when it stated *“In FY 2019, the Board expects an improvement in Trading EBITDA as the Group maintains its position in Digital Radio and establishes a presence in software licensing for Smart IoT”*. A similar statement had been made on 17 January 2019, when the outlook in that trading update stated, *“The Board expects a continued improvement in EBITDA in FY 2019”*.

Unfortunately, the announcements in 2019 have followed a similar pattern to the prior year. On 8 March 2018, the Frontier Board issued the results for FY 2017 including an outlook statement which declared that *“In FY 2018, the Board expects to see modest growth in revenues and EBITDA, as the Group continues to invest in Smart Audio”*. However, on 23 May 2018, the Frontier Board announced that *“Challenging trading conditions in Q2-2018 are likely to have an adverse impact on the Group’s FY 2018 trading performance.”*

## **Frontier Cash Position**

In the announcement on 9 May 2019, Frontier advised that net debt at 30 April 2019 was \$3.9 million, a decline of \$1.4 million in just 4 months from the 31 December 2018 level of \$2.5 million and a substantial deterioration from 12 months previously, when Frontier had net cash of \$4.0 million at 31 December 2017.

# science group

This material cash deterioration at the start of 2019 is despite the Frontier balance sheet at 31 December 2018 reporting \$7.6 million in trade receivables due within 60 days, compared to \$2.9 million at the prior year end. The collection of these debts should have resulted in a significant cash inflow in early 2019.

The Frontier loan facility of £5.0 million (approx. \$6.5 million) reportedly “*carries certain covenants on the business which are monitored at a historic and forecast level on a monthly and quarterly basis by the Board*”. The Frontier announcement on 9 May did not provide any detail as to the headroom relative to the bank covenants, despite the reported challenging trading environment and deteriorating cash position.

At 31 December 2018, Frontier reported accumulated retained losses of \$176 million. A proportion of these losses relate to the former Sensium business. However, the 2018 accounts for the primary trading entity and UK subsidiary of Frontier (Frontier Smart Technologies Limited, formerly Frontier Silicon Limited, incorporated in 2001) filed at Companies House (publicly available since 17 May 2019) report accumulated retained losses of \$78.8 million and accumulated UK tax losses of \$27.8 million. Furthermore, these UK statutory accounts highlight in the ‘Going Concern’ section of the Strategic Report that “*if a decision was made to enhance the development expenditure or to accelerate the timing of planned development, additional funding may be required*”.

## Summary

Since early 2018, the share price of Frontier has declined by over 90% from around 200 pence per share to around 15 pence as at close of business on 17 May 2019. At the same time, Frontier’s cash balance has declined by \$7.9 million. Despite

- this substantial reduction in shareholder value;
- the deterioration in operating performance;
- the high cash burn rate at a time when Frontier should be receiving a positive cash inflow; and
- the inability to convert the enormous investment made in Frontier technology into shareholder returns,

the Frontier Board has not progressed, and has even sought to frustrate, the Science Group Proposal.

Science Group considers that there are significant potential synergies with Frontier and that a combination would be in the best interests of Frontier’s employees, customers and shareholders. Science Group has a strong, asset-backed balance sheet, with significant cash resources and an experienced management team which has delivered value to shareholders.

Science Group may or may not make further purchases of Frontier shares in the market and may or may not make an offer for Frontier. There is no certainty that an offer will be made by Science Group nor as to the terms of any such offer should one be made.

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The information communicated in this announcement is inside information for the purposes of Article 7 of the Market Abuse Regulation 596/2014.

Sarah Cole, Company Secretary is the person responsible for the release of this announcement.