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21 August 2019

Frontier Smart Technologies Group Ltd

(‘Frontier’ or the ‘Company’)

Board Transition, Refinancing and Strategy

The Boards of Frontier Smart Technologies Group Limited (“Frontier” or “Company”) and Science Group plc (“Science Group”) are pleased to announce agreement on the Board transition, a refinancing of Frontier and the future strategy of the Company.

Following the resignations of Martin Harriman, non-executive director, on 30 July 2019, and Paul Taylor, non-executive director, and Hossein Yassaie, non-executive chairman, on 14 August 2019, and following the agreements set out below, Science Group has now withdrawn the EGM requisition issued to Frontier, dated 29 July 2019.

The Frontier announcement released on 7 August 2019 provided an update on Frontier’s cash position, its bank relationship and its plans to return the Company to profitability at a Trading EBITDA level. At 30 June 2019, the Company’s gross cash position of $3.6 million was in line with the earlier guidance provided. This cash position benefited from working capital movements, particularly extended supplier payments, which may not be sustainable in the long term. The Company’s working capital has since partially realigned, and as at 31 July 2019 the Company’s gross cash balance was $2.1 million with net debt of $3.9 million.

The Frontier Board also confirms that, whilst it expects that the covenant testing associated with the Clydesdale Bank credit facility (“Bank Facility”) will be met at the next test date in September 2019 it is probable that this will not be the case at December 2019. As announced on 7 August 2019, the Company is in ongoing discussions with Clydesdale Bank in relation to future covenant testing. The Bank Facility terms also include positive, negative and financial covenants along with other provisions which could potentially trigger an “exit event” requiring repayment of the loan with an exit fee.

As outlined in its trading update of 9 May 2019 and repeated in its 7 August 2019 announcement, the Frontier Board recognises the necessity to substantially reduce the cost base of the Company, and has in place a plan for cost mitigation and potential restructuring (the “Mitigation Plan”). The key aspects of the Mitigation Plan developed and approved by the Frontier Board have now been agreed with Science Group and, importantly, do not compromise the potential commercial benefits to be gained through a collaboration and/or combination of the two businesses. This process will incur significant costs in the current financial year but will provide a structure aligned with the future strategy and profitability objectives of the Company.

In order to address the concerns set out in Science Group’s subsequent announcement on 7 August 2019 and to enable the Science Group proposed director appointments to proceed, Science Group and Frontier intend to enter into a subscription agreement (the "Subscription Agreement") whereby Science Group will subscribe £1.0 million for 4.0 million new ordinary shares in the capital of the Company (the "Subscription Shares"), to be issued under share authorities granted to the Frontier Board at the 2019 Annual General Meeting (the "Investment"). It is anticipated that the Investment will be made in the coming days. Following the Investment, (assuming no other acquisitions of Frontier shares) Science Group's shareholding in Frontier will be 23,447,431 shares, representing approximately 52% of the voting share capital.

Furthermore, the Company is finalising the terms of an arrangement with Science Group under which, in the event that repayment of the Bank Facility is called, or the newly constituted Frontier Board considers it appropriate to repay or prepay the Bank Facility for any reason, Science Group will make available to Frontier a replacement credit facility (the "Standby Facility").

The Standby Facility will expire on 30 April 2022 and will be on broadly the same terms and conditions as the Clydesdale facility, save that, reflecting the current circumstances of Frontier:

(i) the Standby Facility is structured as a term loan rather than revolving credit facility;
(ii) the interest rate on drawn amounts will be 12% above 3 month LIBOR;
(iii) for the purposes of the Standby Facility, Science Group has agreed that the first covenant test date will be March 2020; and
(iv) to the extent that the Standby Facility is drawn, the drawn amount will be convertible, at Science Group's sole discretion, into new Frontier shares at 25 pence per share at any time on or after 1 January 2020. (While shareholder approval for the issue of Frontier shares upon conversion may or may not be required, any such approval would be by ordinary resolution at a General Meeting and the Science Group shareholding in excess of 50% would ensure such resolution was approved.)

Science Group has agreed not to charge Frontier any commitment or undrawn facility fees. If fully drawn and the conversion exercised, it is estimated that Science Group's shareholding on a diluted basis will increase to approximately 69% (assuming no other acquisitions of Frontier shares). If not drawn, either fully or in part, by 30 April 2021, the Standby Facility will be withdrawn. The Company expects to enter into the Standby Facility in the coming days.

The Frontier Directors, being Anthony Sethill and Jonathan Apps, consider, having consulted with the Company's nominated adviser, N+1 Singer, that the proposed terms of the Investment and the Standby Facility are fair and reasonable insofar as Shareholders are concerned.

As a result of the above, following entry into the Subscription Agreement and the Standby Facility; admission to trading on AIM of the Subscription Shares; and the release of Frontier's Interim Results expected on 30 August 2019, Martyn Ratcliffe will be appointed Chairman and Sarah Cole will be appointed a director of Frontier.

Share Trading Facility

Following completion of the Investment by Science Group and the increase in its shareholding to approximately 52% of the voting share capital, Frontier anticipates that future share trading liquidity will be limited.

Science Group has therefore agreed to provide liquidity for a limited period of time to enable Frontier shareholders to sell their shares at 25 pence per share. This facility will commence upon completion of the Investment and is not currently anticipated that to extend beyond 6 September 2019.

This facility will be provided in the market through Panmure Gordon on behalf of Science Group. Science Group may terminate Frontier share purchases at any time at its sole discretion.

Future Strategy

In parallel to the corporate matters, Science Group and Frontier have also been reviewing the future direction and strategy of Frontier. The business will be structured as: Audio Technologies ; IoT Solutions and Cloud Services.

The Audio Technologies business will comprise the DAB, Smart Radio and Smart Audio operations. The operating model and client base for the manufacture of these product-based operations are consistent. Virtually all Frontier revenue, profit and cash flow are currently derived from this business activity. While monthly production demand has material volatility and there is typically a significant seasonality, the business has a strong market position and should be managed accordingly.

Currently the Audio Technologies business includes a Cloud Services infrastructure to provide firmware updates and upgrades to the installed base. Previously, this has been treated as an overhead cost but in future it will be an independent business line, although, at present, the only revenue is derived via the Audio Technologies business. However, to support IoT device deployments, an IoT Service infrastructure is required although the Frontier infrastructure should ideally be enhanced to enable bi-directional data transfer to support IoT applications across a far wider range of market/industry sectors. As a result, increased investment in this capability is anticipated.

The IoT market is still in its infancy but is rapidly developing. While the capabilities of Frontier are highly regarded, the Company's current strategy, which involves incurring the substantial up-front product development costs and then subsequently trying to develop a market, is inherently high-risk and not financially viable for a company of Frontier's scale. While Frontier had started to evolve its business model, this will now be accelerated to rebalance the risk profile of Frontier developments. In future, it is anticipated that Frontier will invest around £1.0 million per annum in developing IoT technology and producing IoT concepts/prototypes based around the Frontier Smart IoT technology/SDK which will then be marketed to potential clients with a view to finalising product developments on a funded basis. This hybrid model should result in increased services revenues but still develop a royalty stream related to the technology licensing. Science Group's subsidiary, Sagentia, has a diverse client base across multiple industry sectors and significant experience in smart device product development, which may provide opportunities for collaboration in voice-based, app-based and remotely-managed IoT devices.

Summary

It is intended that the Science Group Investment and Standby Facility will provide the necessary financial stability to Frontier. The risks associated with the December bank covenant test have thereby been addressed and suppliers can have confidence in the future of the Company.

Furthermore, while the requirement to restructure the business is unfortunate, the strategy is now clear and is considered by Frontier and Science Group to provide a sustainable long-term model. Subject to completion of the restructuring, it is anticipated that Frontier will be profitable at a Trading EBITDA level in 2020.

Now that the financial position of Frontier has been clarified and the refinancing terms agreed, along with Frontier's future strategy, the Science Group Board appointments are anticipated to be completed shortly after the release of Frontier’s Interim Results.

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Market Abuse Regulation

The information contained within this announcement is considered by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 ("MAR"). Upon the publication of this announcement via a Regulatory Information Service, this inside information will be considered to be in the public domain.