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15 October 2019

Completion of Frontier Acquisition and Trading Update

The statutory merger of Frontier Smart Technologies Group Limited (“Frontier Group”) became effective on 11 October 2019. Trading in Frontier shares was suspended on 14 October and the AIM listing of Frontier Group is anticipated to be cancelled on 21 October 2019. Settlement of the consideration payable to qualifying shareholders is anticipated shortly thereafter. This process completes the acquisition of Frontier Group by Science Group.

Frontier Restructuring

The restructuring plan of Frontier Smart Technologies Limited (“Frontier”), the UK trading subsidiary along with its subsidiaries, has now been confirmed and is being implemented. This programme includes:

- The closure of the operations in Romania, as announced by Frontier Group on 3 October 2019.
- The closure of the Sawston, near Cambridge, site and transfer of resources to Science Group’s facility at Harston Mill.
- The closure of the Frontier London office and transfer of employees to Science Group’s London office and/or Harston Mill.
- The integration of Frontier’s Advanced Technology Group (“ATG”) and IoT infrastructure with Sagentia Limited.
- Repayment of the Frontier bank facility in October to eliminate the risks associated with the bank covenants and continue the realignment of supplier credit/payment profiles.

The restructuring will result in a substantial reduction in the cost base of Frontier and should provide a platform for the future development of the business. Upon completion of this programme, most of which will occur in 2019, Frontier will be focused on Audio Technologies supplying modules, chips and associated designs/development from operations in Cambridge, Hong Kong and Shenzhen.

Anthony Sethill, founder and CEO of Frontier, has decided that this is an appropriate time to leave the company but will be assisting in a smooth transition. Anthony has been supportive of the acquisition of Frontier by Science Group throughout the past 6 months and recognised the benefits of Frontier becoming part of a larger organisation. He will leave at the end of November. Jonathan Apps, CFO, will also leave the company after a transition period and Science Group appreciates the assistance he has provided in facilitating the transition to date.

Frontier Trading

It is now apparent that Frontier revenue, in 2019 will be lower than previously indicated. Frontier profitability in 2019 has been similarly affected and is anticipated to report an operating loss in Q4 2019 in the order of £1 million. However, the 2019 results are not

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anticipated to be a relevant indicator of the future performance of the business due to the restructuring programme and it is anticipated that the business will be profitable at an operating level in 2020.

The DAB retail market overall in 2019 is anticipated to be broadly flat on 2018 (in terms of units) and Frontier's market share is not believed to have changed significantly. It is however apparent that some of Frontier's past operating practices have contributed to the company's challenges. These have included:

- Annual volume-based rebate structures which encourage increased shipments being taken by customers at the end of the year;
- Incentivising early shipments by offering more attractive terms at the end of the year. (In 2018, it is estimated that this practice accounted for the equivalent of over 10% of the global DAB market, inflating 2018 revenue and impacting 2019);
- Over-optimistic forecasts eg in relation to the Norway switchover; and
- Inadequate monitoring of channel sell-through.

These practices have resulted in excess inventory in the distribution/retail channel and corresponding market discounting. While this would create an operating challenge for any supplier, the impact is far greater for the market leader, Frontier. Whilst enhancing reported short-term results, such practices damage the long term prosperity of the business, accelerate ASP/margin erosion and create operational inefficiencies. In future, Science Group will adopt a more conservative operating model to try to mitigate rather than exacerbate market variability.

Frontier Integration

The Audio Technologies business related to module and chip production, which will continue to be branded Frontier, will now be led by Prem Rajalingham (based in Hong Kong) and Bob Heads (based in Cambridge) as Joint Managing Directors. With its market leadership position in DAB, Frontier has an excellent reputation upon which to build.

The acquisition of Frontier also strengthens the Group's capabilities in IoT and Smart Audio, with expertise and software solutions, particularly in voice-control applications, and a resilient cloud infrastructure to support the deployment of IoT systems. These complement Science Group's existing advisory and product development services which are actively engaged with international clients on IoT projects across a range of industry sectors. Science Group anticipates investing around £1 million per annum in IoT-related activities which in time may generate potential new revenue streams although the primary purpose is to ensure that Science Group remains at the leading edge of this rapidly evolving market.

New employment contracts will be offered to Frontier senior managers and key employees which may include grants of share options. A resolution will be put to shareholders at the Group's next General Meeting to make these one-off grants, (in aggregate totalling not more than 300,000 options) incremental to the plan limit defined in the PSP Scheme.

Science Group Trading Update and Outlook

Excluding Frontier, the Group's businesses have continued to perform satisfactorily with a slightly stronger performance over the summer than anticipated.

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The results of Frontier are anticipated to be consolidated from October 2019. One-off costs related to the Frontier restructuring, including provisions associated with onerous leases and some slow-moving inventory, in the order of £3 million, are anticipated to be incurred in 2019. Following the restructuring, the Frontier business is anticipated to be profitable in 2020 and the tax losses carried forward, approximately £21 million at 31 December 2018, should enhance the cash conversion profile for several years. Assuming that further restructuring charges or provisions are not required, the Board anticipates the Frontier acquisition to be earnings enhancing in 2020.

- Ends -

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