science group plc

4 May 2020

VENTILATOR PROGRAMME, TRADING AND FINANCIAL UPDATE

As announced on 31 March 2020, Science Group's product development business, Sagentia, has been engaged on the UK Government's Rapidly Manufactured Ventilator System (RMVS) initiative. The initial requirements in the "new-design" stream of the Government's 3-pillar ventilator strategy were based on achieving high volume and rapid manufacture of a new ventilator design in an environment with severely constrained supply chains and global component sourcing conflicts. This enormous challenge was satisfied by Sagentia through a highly innovative software-free approach creating a unique ventilator design, primarily based on mechanical fabrication.

The design, development and prototyping phases of the Sagentia Ventilator have been performed under a time-and-materials Design Contract. While this phase is almost complete, with an initial production unit and associated documentation having been submitted to MHRA, development to refine the device is ongoing. As widely reported in the media, the RMVS specification evolved over the past 7 weeks, reflecting the increasing understanding of the Covid-19 virus. The Sagentia Ventilator continued to evolve in line with the changing functionality requirements. On 28 April, Cabinet Office issued an "*Update on the Ventilator Challenge*" which confirmed that the Sagentia Ventilator is still being supported and further funding under the Design Contract was provided to Sagentia. The latest version of the device is to be re-tested at the MHRA-designated laboratory today.

On the same date, MHRA also updated its guidance on the gov.uk web site, advising that MHRA would not be proceeding with any new applications under the RMVS licensing model since *"The UK has fulfilled the clinical need for ventilators through a combination of existing CE marked ventilators and existing applications to the Ventilator challenge."* This MHRA decision is in fact highly significant, removing a core principle of the RMVS programme for new products. In order to progress into manufacture and be deployed, unless the MHRA ventilator derogation is reinstated, any new design would now need to undergo a full CE mark regulatory approval process, a costly and lengthy activity.

Science Group sought clarification from Cabinet Office and MHRA. It is understood that the MHRA decision will not be reversed and Science Group considers it highly unlikely that, in view of the progress made in containing Covid-19, Cabinet Office will fund such a protracted development programme. Furthermore, at the present time, Science Group is not intending to self-fund the investment required to obtain a full CE mark for the device. As such, it is now improbable that the Sagentia Ventilator will be manufactured.

Sagentia is understood to be the only participant in the RMVS programme to both design a brand new ventilator and to establish its own ISO13485-compliant, volume manufacturing capability for the new device. Materials to assemble the first 500 Sagentia Ventilators have been fabricated and/or procured, together with additional long lead-time parts for the larger volume. All funding for materials procurement was received in advance, with title retained by Cabinet Office, and Science Group understands that all other costs incurred will be reimbursed.

While the MHRA decision means that new ventilator designs are unlikely to be deployed in the NHS, it has been suggested to Cabinet Office that the Sagentia Ventilator is ideally suited for use in developing countries. The robust device, based on a software-free, mechanical fabrication design with efficient oxygen usage, could be locally manufactured and supported, enabling a sustainable, in-country ventilator capability. This was always part of the vision for the Sagentia Ventilator. (Since most of the components are custom-fabricated, negligible value will be realised through inventory liquidation of existing materials while, at minimal incremental cost, the initial 500 units could be rapidly deployed.)

While it is disappointing when any project does not proceed as originally anticipated, in this case, everyone at Science Group is relieved that the demand for ventilators in the UK has moderated, as a result of the

actions taken by the UK Government and the NHS. The MHRA change in policy is understandable and in no way detracts from the success of the Science Group team who have achieved so much in just 7 weeks. The Board express their gratitude for the dedication and commitment of these colleagues.

The Board also wishes to thank the UK Government Cabinet Office for the opportunity to participate in this extraordinary programme which demonstrated the incredible design and engineering capabilities of UK industry and particularly the innovation and ingenuity of Sagentia. Science Group remains committed to providing whatever assistance is required in the fight against the Covid-19 pandemic.

Trading and Financial Update

As reported on 31 March, in aggregate, trading in Q1 of 2020 was broadly in line with the Board's expectations. This performance has continued through April and provides a good foundation for the year.

At 30 April 2020, Group gross cash was £17.5 million and net cash was £1.5 million, excluding client-held funds. The bank loan is secured on the Group's substantial freehold property assets and is not subject to operating covenants unless the net debt level exceeds £10 million, providing substantial headroom for the Group. Furthermore, the Board has decided to take the prudent action to top-up the bank loan back to the maximum level of £17.5 million on similar terms. When completed, this will provide additional gross cash of around £1.5 million.

In summary, while the future impact of Covid-19 on the world economy remains uncertain, Science Group has to date sustained its business performance and retains a very strong balance sheet. The Board remains cautious in the short term but confident in the long term prospects of Science Group.

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Note: This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation (No 596/2014).