

science group

26 July 2021

SCIENCE GROUP PLC

(‘Science Group’, the ‘Group’ or the ‘Company’)

INTERIM RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2021

Summary

- Record H1 results, ahead of the Board’s upgraded expectations
- Group revenue growth of 10% to £40.7m (H1 2020: £36.9m) and 16% on constant currency basis
- Adjusted* operating profit increased by 47% to £7.25m (H1 2020: £4.9m)
- Adjusted* basic EPS growth of 51% to 13.3 pence (2020: 8.8 pence) and increase of 125% compared to H1 2019
- Review of future strategy for Frontier Smart Technologies completed, including margin enhancing royalty buyout
- Balance sheet remains strong with gross cash of £29.0m and net funds of £13.0m (2020: £22.0m and £4.9m) providing opportunity for further corporate activity

Enquiries:

Science Group plc

Martyn Ratcliffe, Chairman

Tel: +44 (0) 1223 875 200

www.sciencegroup.com

Stifel Nicolaus Europe Limited (Nominated Adviser and Joint Broker)

Nick Adams, Alex Price

Tel: +44 (0) 20 7710 7600

Liberum Capital Limited (Joint Broker)

Neil Patel, Cameron Duncan

Tel: +44 (0) 20 3100 2000

* Alternative performance measures are provided in order to enhance the shareholders’ ability to evaluate and analyse the underlying financial performance of the Group. Refer to Note 1 for detail and explanation of the measures used.

Interim Results 2021

Science Group is an international, science-led services and product development organisation comprising three operating divisions: R&D Consultancy; Regulatory & Compliance; and Frontier Smart Technologies. The Group has a very strong balance sheet with significant cash resources and freehold property assets.

The Group achieved record results in H1 2021 delivering strong organic growth and a substantial increase in profitability, despite significant currency exchange headwinds. For the six months ended 30 June 2021, Group revenue was £40.7 million (H1 2020: £36.9 million), an organic growth rate of 10%, equivalent to 16% on a constant currency basis. The Group's adjusted operating profit increased by 47% to £7.25 million (H1 2020: £4.9 million) and by approx. 120% relative to the same period two years ago (H1 2019: £3.3 million). Adjusted profit before tax was £6.9 million (H1 2020: £4.6 million).

Due to the Group's strong cash generation, self-funding of acquisitions and share buy-back programme, this strong performance has been achieved without shareholder dilution. As a result, adjusted basic earnings per share increased by 51% to 13.3 pence (H1 2020: 8.8 pence) and 125% over the past two years (H1 2019: 5.9 pence).

The Group retains a robust balance sheet with gross cash (excluding client funds) at 30 June 2021 of £29.0 million (30 June 2020: £22.0 million) and net funds of £13.0 million (30 June 2020: £4.9 million). The long term debt of £15.9 million is secured on the freehold properties. Excluding treasury shares, at 30 June 2021, the Company had 41.2 million shares in issue (30 June 2020: 41.6 million and 30 June 2019: 41.1 million) and held 0.8 million (30 June 2020: 0.4 million) shares in treasury. Total voting rights at 30 June 2021 were 41.1 million.

R&D Consultancy

The R&D Consultancy Division was established through the integration of the Group's Advisory, Applied Science and Product Development business activities. This Division combines leading science and engineering capabilities with expertise in key vertical sectors, namely: Medical; Consumer; Food & Beverage; and Industrial, Chemical & Energy. In the first half of 2021, the Medical Sector continued to be particularly strong, with the other sectors, which were more affected by the pandemic, reflecting their respective market sector environments. Most sectors are now seeing the initial signs of global economic recovery.

For the six months ended 30 June 2021, the R&D Consultancy Division generated services revenue of £15.2 million (H1 2020: £15.2 million). This is a good performance against a challenging comparator since the first half of 2020 included the one-off UK ventilator initiative. Furthermore, since 50% of the division revenue is invoiced in US Dollars and 7% in Euro in the first half of 2021, this performance has been achieved despite the material currency exchange headwinds and growth in services revenue would have been 4% on a constant currency basis.

For the period ended 30 June 2021, the Group's Services businesses (R&D Consultancy and Regulatory & Compliance) reported an aggregate adjusted operating profit margin of 19% (H1 2020: 16%).

Regulatory & Compliance

The Regulatory & Compliance Division includes the North American and European operations of TSG, acquired in 2017, and the Leatherhead Food Research business, acquired in 2015. The Division reported continued progress in the first half of 2021, including the launch of a new US capability in medical device regulatory advice, further strengthening the synergies with the R&D Consultancy Division.

For the six months ended 30 June 2021, the Regulatory & Compliance Division generated revenue of £10.5 million (H1 2020: £10.0 million), of which around 23% is of a recurring nature. This organic growth, equivalent to approx. 8% on a constant currency basis, was broadly consistent between the North American and European operations. As noted above, the Group's Services businesses (R&D Consultancy and Regulatory & Compliance) reported an aggregate adjusted operating profit margin of 19% (H1 2020: 16%).

Frontier Smart Technologies ('Frontier')

For the six months ended 30 June 2021, Frontier reported revenue of £13.6 million (H1 2020: £7.5 million) and an adjusted operating profit margin of 22% (H1 2020: 7%). This exceptionally strong performance reflects the momentum from the second half of 2020, but also a weaker comparator in the first half of 2020 due to the post-acquisition integration and the initial impact of the Covid pandemic. The most significant challenge in the current year continues to be the availability of materials associated with the global semiconductor supply constraints.

On 11 January 2021, having successfully completed the turnaround phase, the Board initiated a review of the strategy for the Frontier business. An update was provided on 19 May informing shareholders that the Board had concluded that the review had identified a number of opportunities to further enhance and develop the business and that Frontier was to be retained within the Group.

As part of the review, an agreement was reached with Imagination Technologies Limited ("Imagination") to buy out future royalties associated with the use of the Imagination licensed technology by Frontier and Group entities in consumer electronics (including DAB radio broadcast) for the sum of \$6.0 million. For the year ended 31 December 2020, Frontier paid royalties of \$1.0 million to Imagination in relation to licensing the technology. This agreement is effective 1 July 2021 and is anticipated to enhance the Frontier profit contribution in the second half of the year.

One of the growth opportunities identified in the strategy review was developing the SmartRadio market, an integrated product category that combines DAB, FM and Internet radio. In progressing this opportunity, the Board is exploring both internal developments and potential acquisition opportunities.

In summary, the Board considers the Frontier acquisition to have been very successful and anticipate a rapid payback of the cost of acquisition, including transaction and restructuring costs. The strategy review has set out the future direction for this very profitable business.

Freehold Properties

Science Group owns two freehold properties, Harston Mill near Cambridge and Great Burgh in Epsom. The Group's triennial freehold property valuations were undertaken in March 2021. Despite the timing in the midst of the Covid pandemic, there were only minor changes to the valuations with a range between £23 million and £35 million, the latter being a sale & leaseback model. The properties are held on the balance sheet on a cost basis at £21.1 million (30 June 2020: £21.3 million).

For the six months ended 30 June 2021, the rental and associated services income of £0.3 million (H1 2020: £0.6 million) was generated from third-party tenants and £1.5 million (H1 2020: £1.6 million) from the Group's operating businesses. Intra-group charges are eliminated on Group consolidation but this approach ensures that the reported profit for each operating business includes property rental at market rates.

The Group's debt of £15.9 million at 30 June 2021 (£17.1 million at 30 June 2020) is primarily secured against the freehold property assets and the associated interest charge for the six month period was £0.3 million (H1 2020: £0.4 million). Interest on the debt is reported below operating profit in the consolidated results. There are no operating covenants on the debt provided that net bank debt does not exceed £10 million.

The deferred transfer of the Harston Mill property from Sagentia Limited to Quadro Harston Limited, formerly Sagentia Technology Advisory Limited, is now well advanced and is awaiting final bank approval before being completed. Resolving this legacy issue provides a more appropriate and flexible corporate structure and better aligns with the debt model related to the freehold properties. A tax cash outflow of £2.0 million is anticipated in 2021.

Corporate

The corporate function is responsible for Group and PLC matters, together with the strategic development of Science Group. In the period to 30 June 2021, Corporate costs were £1.4 million (H1 2020: £0.9 million) due to one-off items.

The Board continues to explore opportunities to increase the scale of the Group. In recent months, such opportunities have included add-on acquisitions into each of the operating divisions and larger acquisitions which would extend the Group's capabilities. There can be no certainty that any acquisitions will be completed.

Summary

In summary, the performance of Science Group in the first half of 2021 has been well ahead of the Board's expectations, with all divisions performing well. The excellent first half provides a solid platform for the rest of the year.

Frontier is now an integral part of Science Group. Despite the pandemic, the post-acquisition turnaround was very successful and the Board anticipates a rapid payback of the cost of acquisition. The strategy review identified a number of opportunities to further enhance the profitability of this business and areas for future investment.

The effectiveness of the Group's acquisition strategy and its disciplined operating model, funded by strong cash generation, is clearly demonstrated by the substantial increase in adjusted operating profit and earnings per share over the past decade. This is particularly apparent in the past two years as a result of the larger acquisition in 2019. With a strong balance sheet including significant cash resources, the Board continues to explore both add-on acquisitions and larger opportunities to increase the scale of the Group.

Consolidated Income Statement

For the period ended 30 June 2021

| | Note | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--|-------------|---|---|---|
| Revenue | 4 | 40,655 | 36,895 | 73,663 |
| Direct operating expenses | | (23,555) | (22,945) | (43,861) |
| Sales and marketing expenditure | | (4,388) | (4,108) | (8,112) |
| Administrative expenses | | (6,981) | (6,994) | (14,561) |
| Adjusted operating profit | | 7,250 | 4,925 | 10,885 |
| Acquisition integration costs | | - | (127) | (10) |
| Amortisation of acquisition related intangible assets | | (1,208) | (1,259) | (2,507) |
| Share based payment charge | | (311) | (691) | (1,239) |
| Operating profit | | 5,731 | 2,848 | 7,129 |
| Finance income | | - | 5 | 9 |
| Finance costs | | (340) | (376) | (746) |
| Profit before income tax | | 5,391 | 2,477 | 6,392 |
| Income tax (charge)/credit (including R&D tax credit of £124,000 (H1-20 £142,000)) | 6 | (711) | (465) | 647 |
| Profit for the period | 4 | 4,680 | 2,012 | 7,039 |
| Earnings per share | | | | |
| Earnings per share from continuing operations (basic) | 7 | 11.4p | 4.8p | 16.9p |
| Earnings per share from continuing operations (diluted) | 7 | 11.1p | 4.6p | 16.7p |
| Adjusted earnings per share from continuing operations (basic) | 7 | 13.3p | 8.8p | 19.4p |
| Adjusted earnings per share from continuing operations (diluted) | 7 | 13.0p | 8.5p | 19.1p |

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2021

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|---|---|---|---|
| Profit for the period attributable to: | | | |
| Equity holders of the parent | 4,680 | 2,012 | 7,039 |
| Profit for the period | 4,680 | 2,012 | 7,039 |
| Other comprehensive income | | | |
| Items that will or may be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | (186) | 799 | (358) |
| Fair value gain/(loss) on interest rate swap | 382 | (536) | (519) |
| Deferred tax on interest rate swap | (71) | 101 | 96 |
| Other comprehensive income/(expense) for the period | 125 | 364 | (781) |
| Total comprehensive income for the period attributable to: | | | |
| Equity holders of the parent | 4,805 | 2,376 | 6,258 |
| Total comprehensive income for the period | 4,805 | 2,376 | 6,258 |

Consolidated Statement of Changes in Shareholders' Equity (unaudited)

For the period ended 30 June 2021

| Group | Issued capital | Share premium | Treasury Stock | Merger reserve | Translation reserve | Cash flow hedge reserve | Retained earnings | Total – Shareholders' funds | Total equity |
|--|-----------------------|----------------------|-----------------------|-----------------------|----------------------------|--------------------------------|--------------------------|------------------------------------|---------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 January 2020 | 421 | 9,102 | (660) | 10,343 | (679) | - | 17,742 | 36,269 | 36,269 |
| Purchase of own shares | - | - | (166) | - | - | - | - | (166) | (166) |
| Share based payment charge | - | - | - | - | - | - | 691 | 691 | 691 |
| Deferred tax on share based payment transactions | - | - | - | - | - | - | (63) | (63) | (63) |
| Transactions with owners | - | - | (166) | - | - | - | 628 | 462 | 462 |
| Profit for the period | - | - | - | - | - | - | 2,012 | 2,012 | 2,012 |
| Other comprehensive income: | | | | | | | | | |
| Transfer of cash flow hedge reserve from retained earnings | - | - | - | - | - | (115) | 115 | - | - |
| Fair value (loss) on interest rate swap | - | - | - | - | - | (536) | - | (536) | (536) |
| Exchange differences on translating foreign operations | - | - | - | - | 799 | - | - | 799 | 799 |
| Deferred tax on interest rate swap | - | - | - | - | - | 101 | - | 101 | 101 |
| Total comprehensive income for the period | - | - | - | - | 799 | (550) | 2,127 | 2,376 | 2,376 |
| Balance at 30 June 2020 | 421 | 9,102 | (826) | 10,343 | 120 | (550) | 20,497 | 39,107 | 39,107 |

Science Group PLC – Interim Results for 6 month period ended 30 June 2021
Released 26 July 2021 07:00

| Group | Issued capital | Share premium | Treasury Stock | Merger reserve | Translation reserve | Cash flow hedge reserve | Retained earnings | Total – Share- holders' funds | Total equity |
|--|-------------------|------------------|-------------------|-------------------|------------------------|-------------------------------|----------------------|--|-----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 July 2020 | 421 | 9,102 | (826) | 10,343 | 120 | (550) | 20,497 | 39,107 | 39,107 |
| Purchase of own shares | | | (1,506) | | | | | (1,506) | (1,506) |
| Issue of shares out of treasury stock | - | - | 436 | - | - | - | (429) | 7 | 7 |
| Dividends paid | - | - | - | - | - | - | (830) | (830) | (830) |
| Share based payment charge | - | - | - | - | - | - | 548 | 548 | 548 |
| Deferred tax on share based payment transactions | - | - | - | - | - | - | 182 | 182 | 182 |
| Total contributions and distributions | - | - | (1,070) | - | - | - | (529) | (1,599) | (1,599) |
| Profit for the period | - | - | - | - | - | - | 5,027 | 5,027 | 5,027 |
| Other comprehensive income: | | | | | | | | | |
| Fair value gain on interest rate swap | - | - | - | - | - | 17 | - | 17 | 17 |
| Exchange differences on translating foreign operations | - | - | - | - | (1,157) | - | - | (1,157) | (1,157) |
| Deferred tax on interest rate swap | - | - | - | - | - | (5) | - | (5) | (5) |
| Total comprehensive income for the period | - | - | - | - | (1,157) | 12 | 5,027 | 3,882 | 3,882 |
| Balance at 31 December 2020 | 421 | 9,102 | (1,896) | 10,343 | (1,037) | (538) | 24,995 | 41,390 | 41,390 |

Science Group PLC – Interim Results for 6 month period ended 30 June 2021
Released 26 July 2021 07:00

| Group | Issued capital premium | Share premium | Treasury Stock | Merger reserve | Translation reserve | Cashflow hedge reserve £000 | Retained earnings £000 | Total – Share- holders' funds £000 | Total equity £000 |
|--|---------------------------|------------------|-------------------|-------------------|------------------------|--------------------------------------|------------------------------|--|-------------------------|
| | £000 | £000 | £000 | £000 | £000 | | | | |
| Balance at 1 January 2021 | 421 | 9,102 | (1,896) | 10,343 | (1,037) | (538) | 24,995 | 41,390 | 41,390 |
| Purchase of own shares | - | - | (238) | - | - | - | - | (238) | (238) |
| Issue of shares out of treasury stock | - | - | 183 | - | - | - | (182) | 1 | 1 |
| Dividends paid | - | - | - | - | - | - | (1,642) | (1,642) | (1,642) |
| Share based payment charge | - | - | - | - | - | - | 311 | 311 | 311 |
| Deferred tax on share based payment transactions | - | - | - | - | - | - | 264 | 264 | 264 |
| Transactions with owners | - | - | (55) | - | - | - | (1,249) | (1,304) | (1,304) |
| Profit for the period | - | - | - | - | - | - | 4,680 | 4,680 | 4,680 |
| Other comprehensive income: | | | | | | | | | |
| Fair value gain on interest rate swap | - | - | - | - | - | 382 | - | 382 | 382 |
| Exchange differences on translating foreign operations | - | - | - | - | (186) | - | - | (186) | (186) |
| Deferred tax on interest rate swap | - | - | - | - | - | (71) | - | (71) | (71) |
| Total comprehensive income for the period | - | - | - | - | (186) | 311 | 4,680 | 4,805 | 4,805 |
| Balance at 30 June 2021 | 421 | 9,102 | (1,951) | 10,343 | (1,223) | (227) | 28,426 | 44,891 | 44,891 |

Consolidated Balance Sheet

At 30 June 2021

| | At 30 June 2021 (Unaudited) £000 | At 30 June 2020 (Unaudited) £000 | At 31 December 2020 (Audited) £000 |
|--|---|---|--|
| Assets | | | |
| Non-current assets | | | |
| Acquisition related intangible assets | 9,221 | 12,512 | 10,514 |
| Goodwill | 13,604 | 13,998 | 13,657 |
| Property, plant and equipment | 23,542 | 24,766 | 23,809 |
| Deferred tax assets | 711 | 51 | 1,322 |
| | 47,078 | 51,327 | 49,302 |
| Current assets | | | |
| Inventories | 1,214 | 1,781 | 1,263 |
| Trade and other receivables | 10,862 | 9,450 | 10,784 |
| Current tax asset | 2,793 | 264 | 1,627 |
| Cash and cash equivalents - Client funds | 8 2,228 | 4,121 | 2,015 |
| Cash and cash equivalents - Group cash | 8 28,962 | 22,001 | 27,059 |
| | 46,059 | 37,617 | 42,748 |
| Total assets | 93,137 | 88,944 | 92,050 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 25,899 | 23,862 | 26,365 |
| Current tax liabilities | 231 | 577 | 394 |
| Provisions | 9 877 | 669 | 678 |
| Borrowings | 10 1,200 | 1,200 | 1,200 |
| Lease liabilities | 11 1,191 | 1,423 | 1,247 |
| | 29,398 | 27,731 | 29,884 |
| Non-current liabilities | | | |
| Provisions | 9 679 | 506 | 659 |
| Borrowings | 10 14,715 | 15,908 | 15,307 |
| Lease liabilities | 11 499 | 1,736 | 1,038 |
| Derivative financial liabilities | 252 | 651 | 634 |
| Deferred tax liabilities | 2,703 | 3,305 | 3,138 |
| | 18,848 | 22,106 | 20,776 |
| Total liabilities | 48,246 | 49,837 | 50,660 |
| Net assets | 44,891 | 39,107 | 41,390 |
| Shareholders' equity | | | |
| Share capital | 421 | 421 | 421 |
| Share premium | 9,102 | 9,102 | 9,102 |
| Treasury stock | (1,951) | (826) | (1,896) |
| Merger reserve | 10,343 | 10,343 | 10,343 |
| Translation reserve | (1,223) | 120 | (1,037) |
| Cash flow hedge reserve | (227) | (550) | (538) |
| Retained earnings | 28,426 | 20,497 | 24,995 |
| Total equity | 44,891 | 39,107 | 41,390 |

Consolidated Statement of Cash Flows

For the period ended 30 June 2021

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--|---|---|---|
| Profit before income tax | 5,391 | 2,477 | 6,392 |
| Adjustments for: | | | |
| Amortisation on acquisition related intangible assets | 1,208 | 1,259 | 2,507 |
| Depreciation on property, plant and equipment | 364 | 580 | 904 |
| Impairment of right of use assets | - | 540 | 513 |
| Depreciation of right of use assets | 401 | 548 | 1,067 |
| Loss on disposal of property, plant and equipment | - | - | 7 |
| Net interest cost | 340 | 376 | 737 |
| Share based payment charge | 311 | 691 | 1,239 |
| Decrease in inventories | 49 | 279 | 394 |
| (Increase)/decrease in receivables | (79) | 825 | (546) |
| Increase in payables representing client funds | 213 | 2,604 | 498 |
| (Decrease)/increase in payables excluding balances representing client funds | (670) | 366 | 5,976 |
| Change in provisions | 228 | 510 | 735 |
| Cash generated from operations | 7,756 | 11,055 | 20,423 |
| Loan interest paid | (293) | (300) | (753) |
| UK corporation tax paid | (1,131) | (292) | (1,799) |
| Foreign corporation tax paid | (540) | (24) | (184) |
| Cash flows from operating activities | 5,792 | 10,439 | 17,687 |
| Interest received | - | 5 | 9 |
| Purchase of property, plant and equipment | (411) | (38) | (143) |
| Cash flow used in investing activities | (411) | (33) | (134) |
| Issue of shares out of treasury | 1 | - | 7 |
| Repurchase of own shares | (238) | (166) | (1,672) |
| Dividends paid | (1,642) | - | (830) |
| Proceeds from bank loans | - | 1,500 | 1,500 |
| Repayment of bank loans | (600) | (600) | (1,200) |
| Payment of lease liabilities | (720) | (742) | (1,339) |
| Cash flows used in financing activities | (3,199) | (8) | (3,534) |
| Increase in cash and cash equivalents in the period | 2,182 | 10,398 | 14,019 |
| Cash and cash equivalents at the beginning of the period | 29,074 | 15,429 | 15,429 |
| Exchange (loss)/gain on cash | (66) | 295 | (374) |
| Cash and cash equivalents at the end of the period | 31,190 | 26,122 | 29,074 |

Cash and cash equivalents is analysed as follows:

| | Six months ended 30 Jun 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--|--|---|---|
| Cash and cash equivalents – Client funds | 2,228 | 4,121 | 2,015 |
| Cash and cash equivalents – Group cash | 28,962 | 22,001 | 27,059 |
| | 31,190 | 26,122 | 29,074 |

Extracts from notes to the financial statements

1. General information

The financial information for the 6 months ended 30 June 2021 set out in this interim report is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information included for the year ended 31 December 2020 has been extracted from the 2020 Financial Statements of Science Group plc. The Group's statutory financial statements for the year ended 31 December 2020 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

These unaudited interim results have been approved for issue by the Board of Directors on 23 July 2021.

The Group and Company financial statements of Science Group plc for the year ended 31 December 2020 were prepared under IFRS (as adopted by the EU) and have been audited by Grant Thornton UK LLP. Copies of the Financial Statements are available from the Company's registered office: Harston Mill, Harston, Cambridge, CB22 7GG and can be found on the Company's website at www.sciencegroup.com.

Science Group plc (the 'Company') and its subsidiaries (together 'Science Group' or 'Group') is an international, science-led services and product development organisation with a freehold property asset base.

The Company is the ultimate parent company in which results of all the Science Group companies are consolidated.

The Company is incorporated in England and Wales and is listed on the AIM Market of the London Stock Exchange (SAG).

Alternative performance measures

The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share' and 'net funds' which are not defined within the International Financial Reporting Standards ('IFRS'). These are explained in the 2020 Financial Statements and the calculations are as follows:

(a) Adjusted operating profit

The calculation of this measure is shown on the Consolidated Income Statement.

(b) Adjusted earnings per share

The calculation of this measure is disclosed in Note 7.

(c) Net funds

This measure is calculated as follows:

| In £000 unless otherwise stated | At 30 June 2021 | At 30 June 2020 | At 31 December 2020 |
|--|----------------------------|--------------------|------------------------|
| Cash and cash equivalents – Group cash | 28,962 | 22,001 | 27,059 |
| Borrowings | (15,915) | (17,108) | (16,507) |
| Net funds | 13,047 | 4,893 | 10,552 |

2. Accounting policies

The principal accounting policies applied in the preparation of these interim financial statements are unchanged from those set out in the financial statements for the year ended 31 December 2020. These policies have been consistently applied to all the periods presented.

2.1 Basis of preparation

These interim consolidated financial statements are for the six months ended 30 June 2021. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards as adopted by the EU and IFRIC interpretations issued and effective at the time of preparing these statements.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share based payments which are measured at fair value.

Going concern – the Directors have considered the current cash balance of £29.0m (excluding client funds) and assessed forecast future cash flows for the next 12 months. There are no events or conditions which cast significant doubt on the ability of the Group to continue as a going concern. The term loan has no operating covenants while the Group net bank debt is less than £10 million. On the basis of the forecast future cash flows, the Directors do not expect the Group net bank debt to exceed £10 million at any time during the forecast period. The Directors are satisfied that the Group has adequate cash and financing resources to continue in operational existence for the foreseeable future, being a period of at least a year following the release of these unaudited interim results and therefore continue to adopt the going concern basis of accounting in preparing the interim financial statements.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

4. Segmental information

The Group is structured into 4 reporting Segments: Services Operating Business, Product Operating Business, Freehold Properties and Corporate. The Services Operating Business comprises two operating divisions: R&D Consultancy and Regulatory & Compliance. Frontier Smart Technologies, the third operating division, is the Product Operating Business. The performance of the Operating Businesses are shown separately from the value generated by the Group's significant freehold property assets and the Corporate costs to provide greater transparency and facilitate shareholder analysis of the component parts of the Group.

Financial information is provided to the chief operating decision makers ('CODMs') in line with this structure. The divisions of R&D Consultancy and Regulatory & Compliance have been aggregated resulting in one Services Operating Business segment because the divisions have similar economic characteristics such as similar long-term average gross margins, trends in sales growth and operating cash flows and are also similar in respect of their nature, delivery and types of customers that the services are provided to. This aggregation does not impact the user's ability to understand the entity's performance, its prospects for future cash flows or the user's decisions about the entity as a whole as it is a fair representation of the performance of each division.

In the Services Operating Business Segment, services revenue includes all consultancy fees and other revenue includes recharged materials, expenses and licence revenue generated directly from the Services Operating Business activities. Product Operating Business revenue includes sales of chips and modules which are incorporated into digital radios. The Freehold Properties segment includes the results for the two freehold properties owned by the Group. Income is derived from third party tenants from the Harston Mill site and from the Services and Product Operating Businesses which have been charged equivalent to market-based rents for their utilised property space and associated costs. Corporate costs include PLC/Group costs.

The segmental analysis is reviewed to operating profit. Other resources are shared across the Group.

| Services Operating Business | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|---|---|---|---|
| Services revenue | 25,750 | 25,268 | 48,198 |
| Other | 1,029 | 3,506 | 4,077 |
| Revenue | 26,779 | 28,774 | 52,275 |
| Adjusted operating profit | 5,177 | 4,520 | 9,068 |
| Amortisation of acquisition related intangible assets | (746) | (757) | (1,513) |
| Share based payment charge | (278) | (569) | (946) |
| Operating profit | 4,153 | 3,194 | 6,609 |

| Product Operating Business | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|---|---|---|---|
| Product revenue | 13,620 | 7,541 | 20,540 |
| Revenue | 13,620 | 7,541 | 20,540 |
| Adjusted operating profit | 2,967 | 495 | 3,245 |
| Acquisition and integration costs | - | (127) | (10) |
| Amortisation of acquisition related intangible assets | (462) | (502) | (994) |
| Share based payment charge | (98) | (77) | (185) |
| Operating profit/(loss) | 2,407 | (211) | 2,056 |

| Freehold Properties | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|----------------------------------|---|---|---|
| Inter-company property income | 1,522 | 1,573 | 3,189 |
| Third party property income | 256 | 580 | 848 |
| Revenue | 1,778 | 2,153 | 4,037 |
| Adjusted operating profit | 495 | 794 | 954 |
| Share based payment charge | (10) | (7) | (21) |
| Operating profit | 485 | 787 | 933 |

| Corporate | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|-------------------------------------|---|---|---|
| Adjusted operating loss | (1,389) | (884) | (2,382) |
| Share based payment credit/(charge) | 75 | (38) | (87) |
| Operating loss | (1,314) | (922) | (2,469) |

| Group | Six months ended 30 June 2021 Total (Unaudited) £000 | Six months ended 30 June 2020 Total (Unaudited) £000 | Year ended 31 December 2020 Total (Audited) £000 |
|---|---|---|---|
| Services revenue | 25,750 | 25,268 | 48,198 |
| Product revenue | 13,620 | 7,541 | 20,540 |
| Third party property income | 256 | 580 | 848 |
| Other | 1,029 | 3,506 | 4,077 |
| Revenue | 40,655 | 36,895 | 73,663 |
| Adjusted operating profit | 7,250 | 4,925 | 10,885 |
| Acquisition and integration costs | - | (127) | (10) |
| Amortisation of acquisition related intangible assets | (1,208) | (1,259) | (2,507) |
| Share based payment charge | (311) | (691) | (1,239) |
| Operating profit | 5,731 | 2,848 | 7,129 |
| Finance charges (net) | (340) | (371) | (737) |
| Profit before income tax | 5,391 | 2,477 | 6,392 |
| Income tax (charge)/credit | (711) | (465) | 647 |
| Profit for the period | 4,680 | 2,012 | 7,039 |

In the Freehold Properties segment, income includes £1.5 million (H1 2020: £1.6 million) generated from inter-segment recharges. The corresponding cost is included within the Operating Business segments and is eliminated on consolidation.

5. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical market and by the currency in which the contract is denominated for the Operating Business. Property revenue is generated in the UK and denominated in GBP.

For the 6 months ended 30 June (Unaudited)

| Currency | USD £000 | EUR £000 | GBP £000 | Other £000 | Total £000 |
|----------|-------------|-------------|-------------|---------------|---------------|
| 2021 | 25,209 | 1,855 | 13,583 | 8 | 40,655 |
| 2020 | 17,316 | 1,669 | 17,844 | 66 | 36,895 |

| Geographical market | North America £000 | Europe (excl UK) £000 | UK £000 | Asia £000 | Other £000 | Total £000 |
|---------------------|-----------------------|--------------------------|------------|--------------|---------------|---------------|
| 2021 | 13,469 | 6,344 | 5,482 | 15,196 | 164 | 40,655 |
| 2020 | 11,215 | 6,752 | 10,475 | 8,188 | 265 | 36,895 |

6. Income tax

The income tax charge for the period ended 30 June 2021 is charged at the effective tax rate calculated for the period using reasonable estimates and incorporating both current and deferred taxation:

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--|---|---|--|
| Profit before tax | 5,391 | 2,477 | 6,392 |
| Current taxation | (958) | (1,114) | (1,492) |
| Current taxation – adjustment in respect of prior years | (126) | - | 240 |
| Deferred taxation | 249 | 507 | 1,806 |
| Deferred taxation – adjustment in respect of prior years | - | - | (155) |
| R&D tax credit | 124 | 142 | 248 |
| Tax (charge)/credit | (711) | (465) | 647 |
| Effective tax rate | 13.2% | 18.8% | (10.1%) |

The Group claims Research and Development tax credits under both the R&D Expenditure Credit scheme and the Small or Medium-sized scheme. In the year ended 31 December 2020, the tax credit arose primarily due to the recognition of tax losses within Frontier as a deferred tax asset.

7. Earnings per share

The calculation of earnings per share is based on the following results and number of shares:

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--------------------------------------|---|--|--|
| Profit for the financial period | 4,680 | 2,012 | 7,039 |
| Weighted average number of shares: | | | |
| For basic earnings per share | 41,217,451 | 41,681,034 | 41,631,118 |
| For fully diluted earnings per share | 42,366,174 | 43,314,594 | 42,229,766 |
| Earnings per share: | | | |
| Basic earnings per share | 11.4 | 4.8 | 16.9 |
| Fully diluted earnings per share | 11.1 | 4.6 | 16.7 |

The calculation of adjusted earnings per share is as follows:

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|---|---|--|--|
| Adjusted* profit after tax for the period | 5,500 | 3,671 | 8,078 |
| Weighted average number of shares: | | | |
| For basic earnings per share | 41,217,451 | 41,681,034 | 41,631,118 |
| For fully diluted earnings per share | 42,366,174 | 43,314,594 | 42,229,766 |
| Adjusted earnings per share: | | | |
| Basic earnings per share | 13.3 | 8.8 | 19.4 |
| Fully diluted earnings per share | 13.0 | 8.5 | 19.1 |

*Calculation of adjusted profit after tax:

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--|---|--|--|
| Adjusted operating profit | 7,250 | 4,925 | 10,885 |
| Finance income | - | 5 | 9 |
| Finance costs | (340) | (376) | (746) |
| Adjusted profit before tax | 6,910 | 4,554 | 10,148 |
| Tax charge at approx. blended average tax rate of 20.4% (H1-20: 19.4%) | (1,410) | (883) | (2,070) |
| Adjusted profit after tax | 5,500 | 3,671 | 8,078 |

8. Cash and cash equivalents

| | Six months ended 30 June 2021 (Unaudited) £000 | Six months ended 30 June 2020 (Unaudited) £000 | Year ended 31 December 2020 (Audited) £000 |
|--|---|---|---|
| Cash and cash equivalents – Client funds | 2,228 | 4,121 | 2,015 |
| Cash and cash equivalents – Group cash | 28,962 | 22,001 | 27,059 |
| | 31,190 | 26,122 | 29,074 |

The Group receives cash from clients for the purpose of payment of registration fees to regulatory bodies and other project pass through costs. Client funds are separated in the day to day operations of the business, are separately identified for reporting purposes and are unrestricted.

9. Provisions

| (Unaudited) | Dilapid -ations £000 | Restruct -uring £000 | Legal £000 | Other £000 | Total £000 |
|---------------------------------------|-------------------------------------|-------------------------------------|-----------------------|-----------------------|-----------------------|
| At 1 January 2020 | 562 | 90 | - | - | 652 |
| Increase in provision | 13 | - | 562 | - | 575 |
| Utilisation of provision | (26) | - | (59) | - | (85) |
| Loss on foreign currency fluctuations | 31 | - | 2 | - | 33 |
| At 30 June 2020 | 580 | 90 | 505 | - | 1,175 |
| Increase in provision | 264 | - | 97 | 14 | 375 |
| Utilisation of provision | - | (10) | (90) | - | (100) |
| Provision reversed during the year | (36) | - | - | - | (36) |
| Gain on foreign currency fluctuations | (44) | - | (33) | - | (77) |
| At 31 December 2020 | 764 | 80 | 479 | 14 | 1,337 |
| Increase in provision | 20 | - | 240 | 6 | 266 |
| Utilisation of provision | (5) | (10) | (23) | - | (38) |
| Gain on foreign currency fluctuations | (6) | - | (3) | - | (9) |
| At 30 June 2021 | 773 | 70 | 693 | 20 | 1,556 |

| | At 30 June 2021 (Unaudited) £000 | At 30 June 2020 (Unaudited) £000 | At 31 December 2020 (Audited) £000 |
|-------------------------|---|---|---|
| Current liabilities | 877 | 669 | 678 |
| Non-current liabilities | 679 | 506 | 659 |
| | 1,556 | 1,175 | 1,337 |

Legal provisions represent the best estimate of the future cost of responding to US subpoenas relating to litigation and investigations directed at third parties. The business will seek to recover these costs against the third party but cannot be guaranteed. The restructuring provision relates to the costs associated with the closure of some non-trading Group entities and is anticipated to be utilised during the next 12 months.

10. Borrowings

| | At 30 June 2021 (Unaudited) £000 | At 30 June 2020 (Unaudited) £000 | At 31 December 2020 (Audited) £000 |
|-----------------------------|---|---|---|
| Non-current bank borrowings | 14,715 | 15,908 | 15,307 |
| Current bank borrowings | 1,200 | 1,200 | 1,200 |
| | 15,915 | 17,108 | 16,507 |

The Group has a 10-year fixed term loan and has interest rate swaps in place to fix the interest at an effective rate of 3.5%. The repayment profile of the loan is £1.2 million per annum over the term with the remaining balance repaid on expiry of loan in 2026.

11. Lease liabilities

| | At 30 June 2021 (Unaudited) £000 | At 30 June 2020 (Unaudited) £000 | At 31 December 2020 (Audited) £000 |
|-------------------------------|---|---|---|
| Non-current lease liabilities | 499 | 1,736 | 1,038 |
| Current lease liabilities | 1,191 | 1,423 | 1,247 |
| | 1,690 | 3,159 | 2,285 |

Lease liabilities arise on leased properties held by the Group. The leases have remaining periods of between 1 and 4 years from the balance sheet date.

12. Subsequent events

On 15 July 2021, an agreement was reached with Imagination Technologies Limited, effective 1 July 2021, to settle all future royalties associated with the use of the licensed technology in the consumer electronics market (including DAB radio broadcast) for a single payment of \$6.0 million (£4.3 million).

13. Critical accounting estimates and judgements

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

- Ends -