

science group plc

11 October 2021

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Trading and Business Update

Following the business update on 6 September 2021, Science Group has continued to perform well. Despite component supply constraints, FX headwinds relative to prior year and increasing inflationary cost pressures, the Board anticipates further upside in the Group's 2021 profitability forecasts. This third upgrade during the current year reflects the strength of the Group, the success of the Frontier acquisition and the balance of financial discipline with investment for the future. It should also be noted that the advisor costs associated with the recent corporate activity have been expensed as incurred and are therefore absorbed within this profit upgrade.

Following the successful Placing in September, and after the strategic investment in TP Group plc, at 30 September 2021 Science Group had gross cash of £34.7 million and net funds of £19.1 million. Furthermore, the Board is currently discussing a potential new revolving credit facility of up to £25 million with the Group's bank, incremental to the existing fixed term loan which runs to 2026.

The Board continues to explore opportunities to deploy its capital, in conjunction with the Group's management resources, to enhance value to Science Group shareholders. These include both add-on acquisitions to accelerate the growth of the Group's existing operations and larger opportunities which would increase the scale of the Group.

Services Operations

The Group's services divisions have continued to perform well. The R&D Consultancy division continues to benefit from the global investment in the Medical sector but other industry sectors are now seeing increased activity in line with the economic recovery and Advisory services are experiencing the traditional increased activity as the year end approaches reflecting a progressive return to normality. The reorganisation of the division last year (integrating Advisory and Product Development services) has been well received by key clients and this has generated new service offerings. However, advanced-level technical and scientific resources remain in strong demand and recruitment is a priority.

The Regulatory & Compliance businesses are continuing to make steady progress, benefitting from recent investments, although TSG America has seen the anticipated slowing after the intensity of approval submissions related to the pandemic. The new IT finance system implemented in the TSG European business in 2020 has now also been successfully deployed into the Leatherhead Food Research business and a similar TSG America installation is progressing satisfactorily. When completed, all three operations in this division will be on the same core system. In parallel, the new rules-engine system designed to support the growth in the North American State registration renewals business has also now gone live and should assist in the intensive year end processing period.

Frontier Smart Technologies ("Frontier")

The Frontier acquisition in 2019 has been very successful, delivering substantial value to Science Group shareholders whilst enabling the Frontier business to realise its potential. Although demand continues to exceed supply, the global component shortages have been well managed by the Frontier team, despite lead times progressively extending, with some components now requiring orders for delivery into 2023. This is a tangible example of how Frontier has significantly benefitted from the acquisition and refinancing by Science Group, enabling a substantial improvement in supplier relationships which have been essential in maintaining component supplies during this challenging period. All cost increases have been passed on through the distribution channel.

Following the post-acquisition turnaround and integration, the Frontier strategy review initiated early in 2021 concluded that the business has a positive future, building on Frontier's market leading position in its defined markets and exploring new areas to enhance growth. These investments are now being made, with

all costs being expensed. In addition, Frontier is in negotiations regarding an add-on acquisition to support its future strategy and, although there can be no certainty that the acquisition will complete, this potential investment reinforces the benefits that Frontier has gained as a division of Science Group.

Strategic Investment in TP Group plc (“TP Group”)

Science Group initiated its investment in TP Group in August 2021 and now owns approximately 27% of the issued voting share capital, making Science Group the largest shareholder in TP Group. The total investment to date is approx. £12.5 million and the average cost per share is approx. 5.9 pence. Science Group recognises that additional capital investment may be required to ensure that TP Group has a solid financial foundation. The Science Group Board also anticipates that the market value of the shareholding will be impacted by the lack of liquidity resulting from the Group’s stake, but considers the TP Group shareholding to be a long-term, strategic investment for Science Group.

Prior to, and during, the building of its stake, Science Group made a number of approaches to TP Group to try to discuss potential corporate collaboration models, including both a strategic investment and a possible offer for the company (at a significant premium) subject to satisfactory due diligence and other conditions. All these initiatives were rejected by TP Group without discussion or engagement and the possible Science Group offer was withdrawn on 3 September. Science Group therefore requisitioned a general meeting of TP Group shareholders which was held on 1 October 2021. As a result, two TP Group directors resigned and the appointments of two Science Group director nominees were approved by TP Group shareholders.

The onboarding process for the new directors is now underway and it is hoped that this will be completed shortly. It is anticipated that the future strategy of TP Group will be reviewed by the new Board once the Science Group director appointments are completed. Science Group believes that the strategic investment in TP Group offers an attractive opportunity for both organisations given the considerable similarities between the business operations but minimal overlap in client operating markets. Opportunities for collaboration and cooperation to benefit both organisations should be actively explored.

The Science Group representation on the TP Group Board should also improve financial management, increase focus on capital allocation and ensure greater alignment between stakeholders. The Science Group appointed directors will work with the TP Group management teams to ensure that the company has adequate capital resources and that such capital is invested in those business areas that can realise ambitious growth opportunities for TP Group and its employees, which in turn should ultimately produce an attractive return for shareholders in both TP Group and Science Group.

Summary

Science Group’s resilient operating performance has delivered a third upgrade to the Board’s profitability expectations for the current financial year. This outstanding performance is due to the commitment and endeavours of the management and staff throughout the Group’s operating businesses. These dedicated teams share in the Science Group success and can anticipate another year of excellent profit share and bonus awards.

In parallel, the Science Group strategy of enhancing the organic development of the Group’s businesses through acquisitions and strategic investments continues to make progress. The Group’s strategy will further benefit from the successful Placing in September, which expanded the institutional shareholder base, and the potential increase in credit facilities.

In summary, the Board anticipates that Science Group will close out 2021 as another outstanding year and is now starting to plan for 2022 and beyond.

End

Science Group plc

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Note: This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation (No 596/2014). The person responsible for this announcement is Martyn Ratcliffe, Chairman.