

2019 Preliminary Results

Martyn Ratcliffe
Chairman

Rebecca Archer
Finance Director

Dan Edwards
Group Managing Director

To be read in conjunction with the audited preliminary results announcement released on 3 March 2020

In addition to IFRS measures, alternative performance measures are used in this presentation. Refer to the Notes to the financial statements within the preliminary results announcement for detail and explanation.



Summary

Group organic operating performance in line with expectations

Acquisition of Frontier Smart Technologies Group completed

- Complex transaction of Cayman-domiciled, AIM-listed company
- Substantial operational restructuring effectively completed
- One-off charges taken in 2019

Reporting segmentation for transparency and to facilitate shareholder analysis

- Organic operating business ('Services Operating Business')
- Frontier acquisition ('Product Operating Business')
- Freehold properties
- Corporate

Group maintains strong balance sheet with significant freehold property assets which provide security for long-term debt.

Since 2010, Science Group has delivered significant growth in Revenue and Adjusted Operating Profit without shareholder dilution

Financial Summary

Group revenue of £57.2m (2018: £48.7m)

- Record revenue for the Group, benefitting from Frontier acquisition

Adjusted operating profit of £6.7m (2018: £7.7m)

- Organic Operating Business AOP of £8.2m (2018: £7.6m)
- Frontier loss of £1.3m

Statutory loss before tax of £1.6m (2018: PBT of £4.9m)

- One-off acquisition-related costs in aggregate of £4.1m (2018: £0.1m)
- Acquisition related intangibles and share based payment charge totalled £3.5m (2018: £2.8m)

Cash balance of £13.9m (2018: £21.5m) and net debt of £2.3m (2018: net funds of £8.8m)

- Frontier acquisition primarily financed from existing cash resources
- Increased term loan by £4.8m, secured against freehold properties

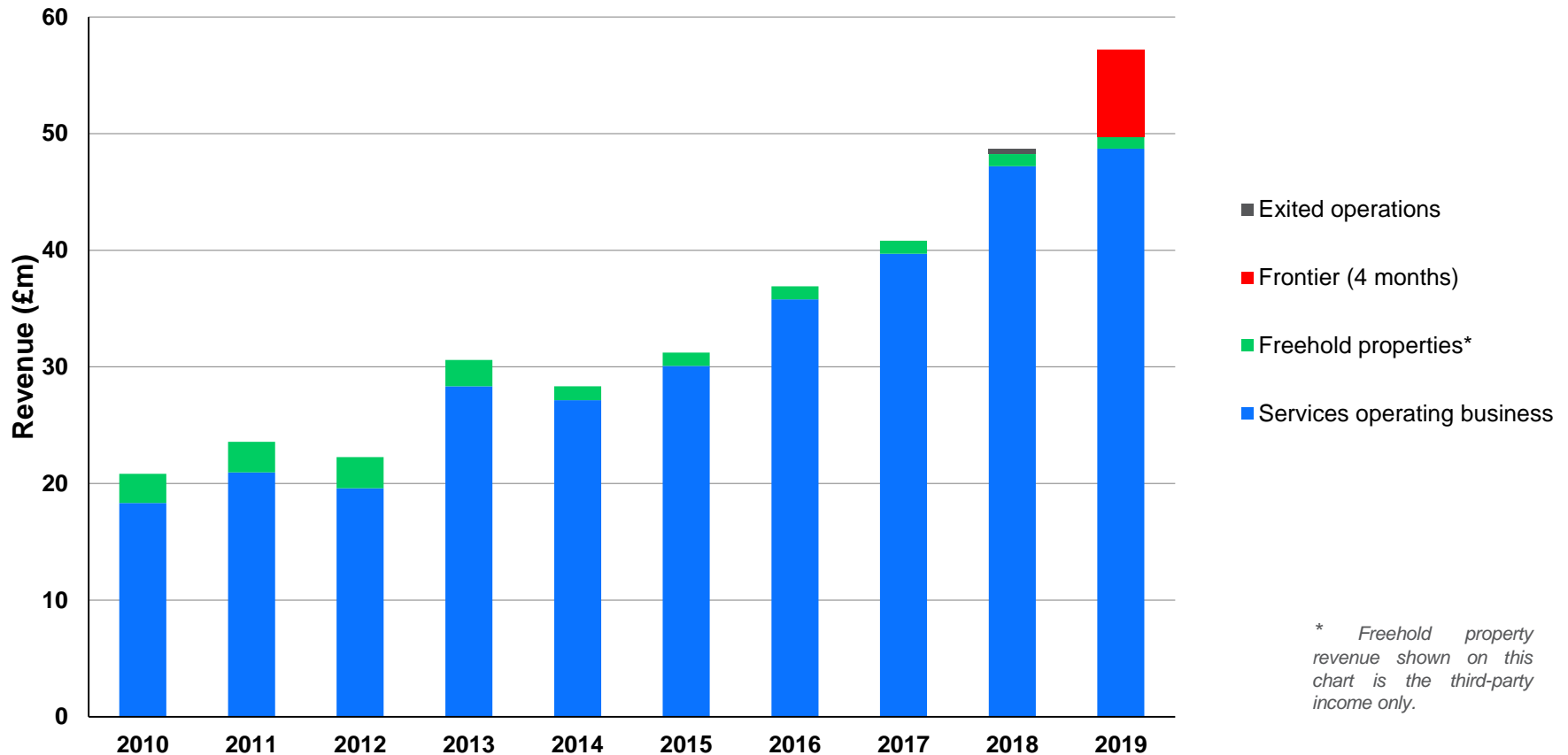
Proposed dividend maintained at 4.6 pence per share (2018: 4.6 pence per share)

Financial Summary

	Revenue 2019 £m	Adjusted Operating Profit 2019 £m	Revenue 2018 £m	Adjusted Operating Profit 2018 £m
Revenue from services operating business (excluding Frontier and exited operations)	48.7	8.2	47.2	7.6
Freehold properties	3.9	1.5	3.9	1.6
Corporate costs	-	(1.7)	-	(1.6)
Intra-Group elimination	(2.9)	-	(2.8)	-
Group excluding Frontier and exited operations	49.7	8.0	48.3	7.6
Exited operations	-	-	0.4	0.1
Frontier	7.5	(1.3)	-	-
Group	57.2	6.7	48.7	7.7

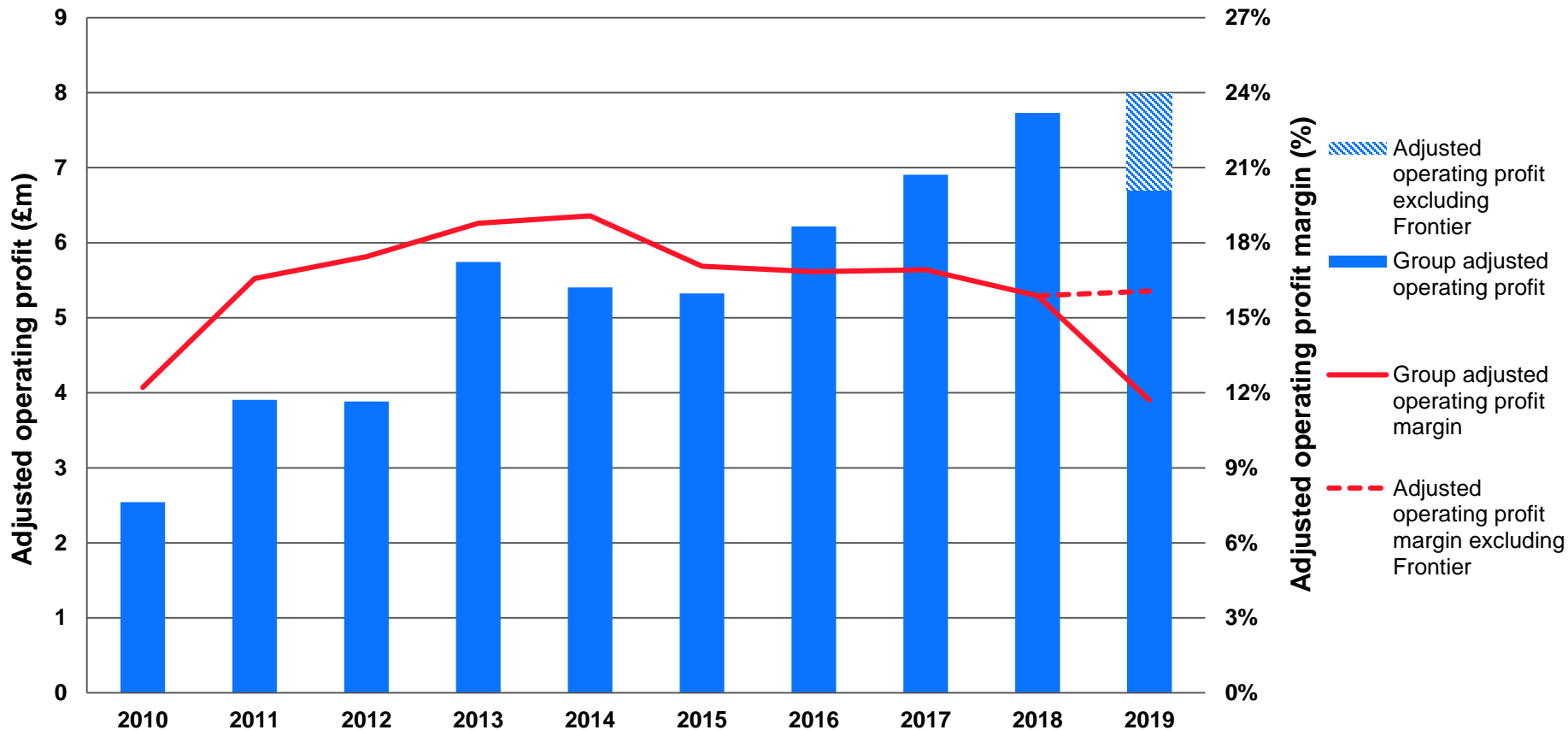
Group Revenue Breakdown

- >200% revenue growth (annualised) without shareholder dilution
- 2019 includes only 4 months for Frontier
- Third-party income from property reducing as Harston Mill used by acquired companies



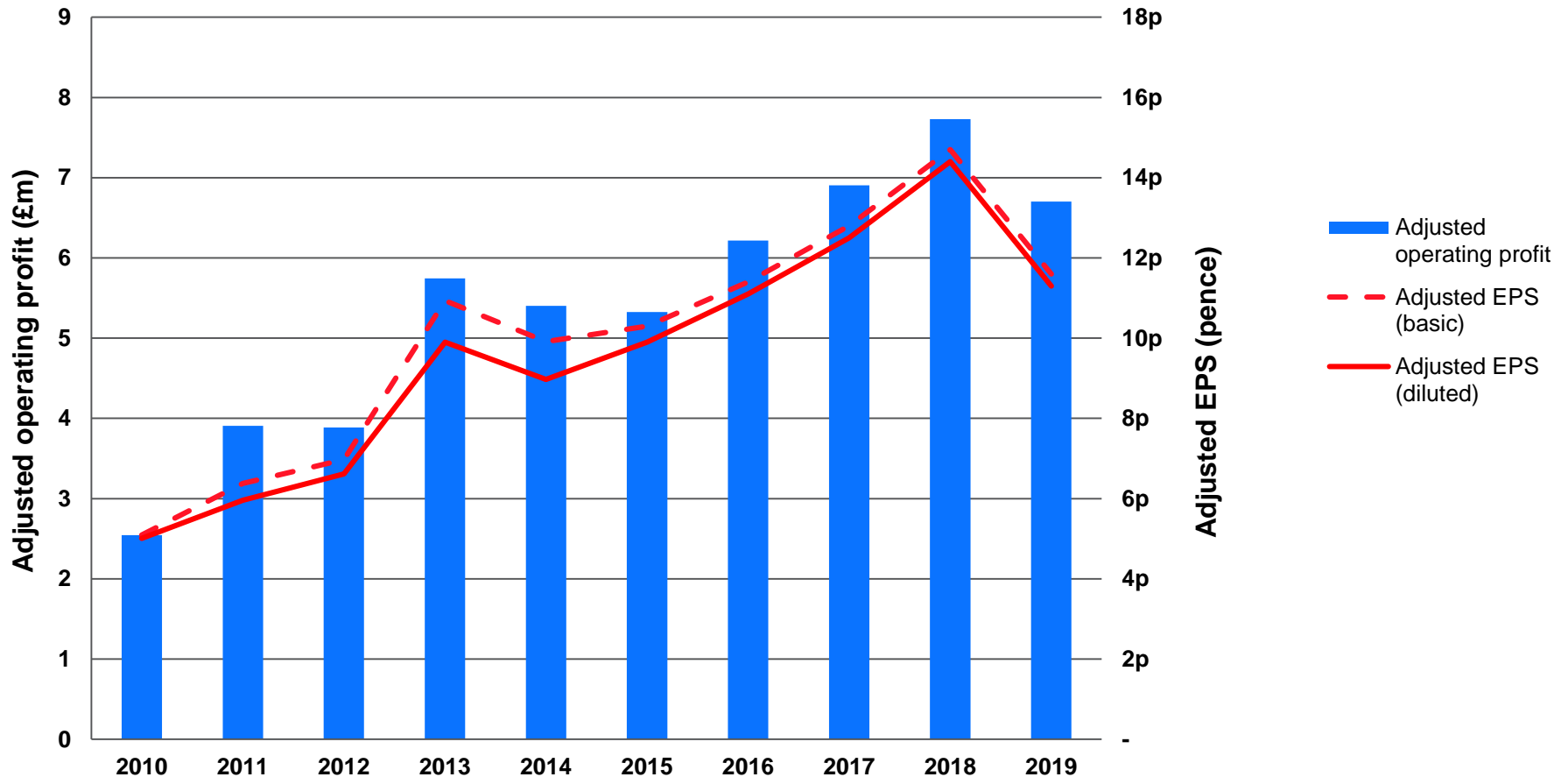
Adjusted Operating Profit

- AOP excl Frontier of £8.0m (2018: £7.7m) with stable margins
- Frontier operating loss of £1.3m
- Group AOP of £6.7m (2018: £7.7m)



Adjusted Earnings per Share

- Issued Share Capital (excluding treasury shares) at Dec 2019 unchanged since Dec 2010 (41.7m)
- Proposed dividend maintained at 4.6p per share (2018: 4.6p)



Corporation Tax

Tax charge in P&L of £0.2m (2018: £0.6m)

- Underlying tax charge on profits in organic business partially offset by tax losses in Frontier
- R&D tax credit of £0.4m (2018: £0.4m)
- Significant proportion of one off acquisition & restructuring costs not anticipated to be tax deductible

Tax cash flow of £0.8m (2018: £1.2m)

- Payments on account in organic business
- Tax payable estimates in 2018 were slightly overstated; reversed in 2019

Carried forward tax losses at 31 December 2019 of £34.7m (2018: £10.8m)

- Trading losses recognised as deferred tax, to be used to offset future profits of £0.2m (2018: £0.4m)
- Tax losses in Frontier of £24.0m
 - Frontier trading company holds £22.4m; anticipate these to be offset against future profits generated by Frontier
 - Not recognised as a deferred tax asset due to uncertainty in timing of utilisation of losses
- Other unrecognised tax losses of £10.5m (2018: £10.4m) will only be recognised if probable that losses can be utilised

Services Operating Business Overview

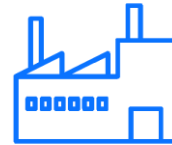
Markets & Services



Medical



Consumer
Food & Beverage



Industrial

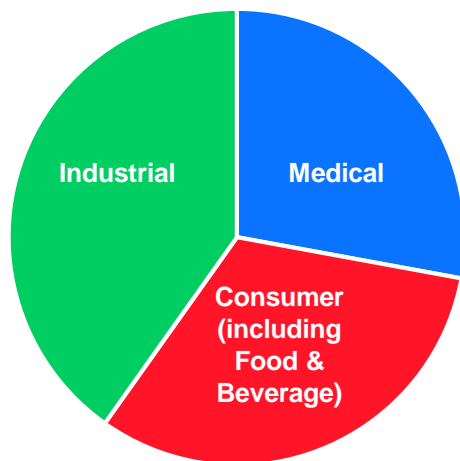
Applied science & Product development

Technology advisory

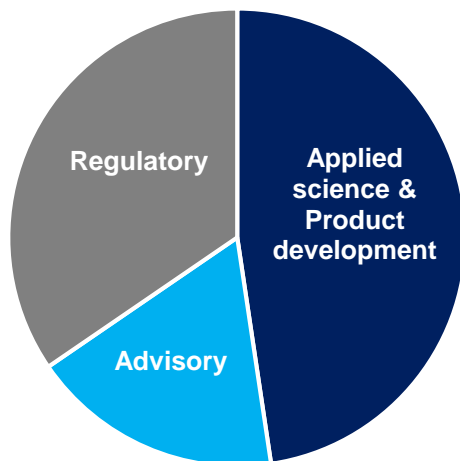
Regulatory

Services Revenue Profile

Services revenue by market sector



Services revenue by service offering



Sector Overview

- Medical: Recovery in H2 after weaker H1 due to some large projects successfully completing in 2018.
- Industrial: Satisfactory performance across the Group with notable growth in Product Development.
- Consumer/Food & Beverage: Strong performance in Regulatory services and Advisory.

Frontier Smart Technologies

Frontier Smart Technologies

Frontier is a leader in technologies for digital radio and smart IoT devices

Designer and manufacturer of chips and modules

- Now located in Cambridge, London, Hong Kong and Shenzhen
- Reputation for quality and high-end market position

80% market share of digital (DAB/DAB+) radio market (excl automotive)

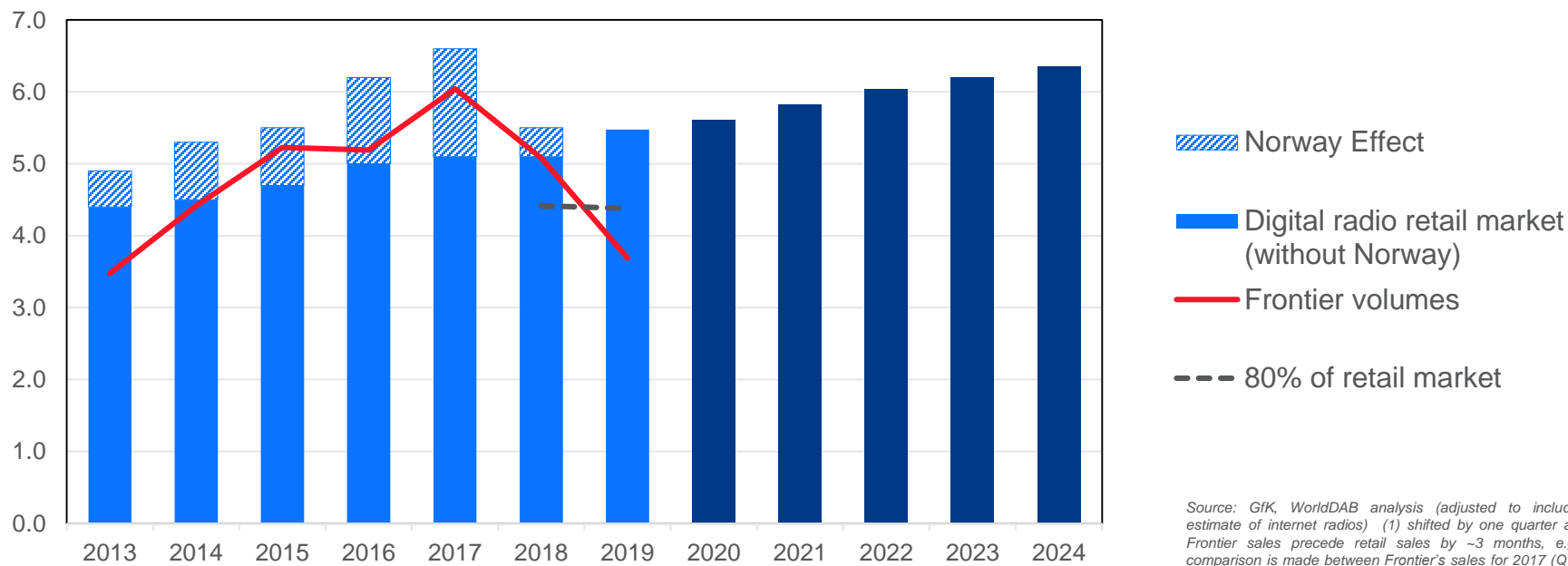
- High market share is attractive but business performance linked to market
- SmartRadio : Devices that give consumers access to broadcast radio through DAB/DAB+ together with global internet radio stations and music streaming services such as Spotify.
- Frontier client brands include: Sony, Panasonic, Harman, Pioneer, Bose, Denon, Marshall, Roberts and Pure

What went wrong?

- Misguided investment in Smart Audio, trying to compete with Tier 1 ecosystems
- Failure to recognise constraint from high market share resulted in channel over-stocking
- Cost base unsupportable

Digital Radio Market

- Retail sales boosted in run up to FM switch-off in Norway
- 2018 Frontier volumes inflated by end-of-year one-off deal(s)
 - Production and sale of 5.1m exceeded 80% market share by approx. 700k units
 - Impacted 2019 demand by similar amount as customers could not sell excess volume through retail channel
- Underlying market largely flat – UK and Germany markets mature
 - Launch of national DAB+ in France expected Q4 2020
 - Expected switch-off of FM in Switzerland by 2024
- “Substitute” devices (eg smart audio) increasing but adoption varies by demographic



Restructuring of Frontier

- Romanian operations closed - anticipated that the legal entity will be terminated in 2020
- Frontier London office closed and staff relocated to Science Group London office
- Cambridge (Sawston) office closed and staff relocated to Science Group's freehold facility in Harston.
- Hong Kong office space reduced by approximately half
- Reduction in cost base with headcount reduced from 110 in October 2019 to 67 in February 2020
- One-off costs associated with restructuring recognised in 2019
- Rationalisation of module variants, including end-of-life programmes for unprofitable product lines

Business line	Continuing	Discontinuing	New	Oct 2019	End 2020
DAB	Chips <ul style="list-style-type: none"> • Kino 4 • Kino 3 Modules <ul style="list-style-type: none"> • Verona 2 • Siena 	Modules <ul style="list-style-type: none"> • Verona 1 • Tuscany • Venice 9 • Venice 7 (Sept 2020) 	Chips <ul style="list-style-type: none"> • Kino 4 Pro (Q2 2020) Modules <ul style="list-style-type: none"> • Siena Pro (Q2 2020) 	8	6
Smart Radio	Modules <ul style="list-style-type: none"> • Venice 6.5 • Venice X (launched 2019) 	Module <ul style="list-style-type: none"> • Venice 6.6 	Chip <ul style="list-style-type: none"> • Chorus 4 (Q2 2020) 	3	3
Smart Audio		Modules <ul style="list-style-type: none"> • Minuet 1 (End 2020) • Minuet 2 		2	0
Total				13	9

Frontier Smart Technologies Acquisition Timetable

2019	Activity	Accounting Treatment
January	Approached Frontier Board	
Early May	Started to acquire Frontier shares on market and made formal approach to Frontier board	Investment
6 June	Shareholding: 28.3% of voting share capital	Investment
1 July	1 July announced cash offer for 35p per share (which closed 19 July) and opened PG trading facility	Investment
11 July	Shareholding: 35.8%	Associate
19 July	Offer closed Shareholding: 47.6%	Associate
21/23 August	Frontier issued 4m new shares and all acquired by SG taking ownership to obtain control. Re-opened PG trading facility at 25p per share – ran til 6 Sept	Consolidated (proportion relating to other Frontier shareholders separately attributed) An accounting loss of £1.1m due to remeasurement of investment from 30.6p to 25p per Frontier share
28 August	SG holding rose such that statutory merger was initiated. Shareholding: 70.3%	Consolidated (proportion relating to other Frontier shareholders separately attributed)
11 October (onwards)	Statutory merger completed and all remaining shares acquired by SG at 25p	Consolidated (100% owned) Purchase of shares after 23 August at 25p saved SG £2.7m against original offer price of 35p

Freehold Properties

Science Group owns two freehold properties (Harston Mill, near Cambridge and Great Burgh, Epsom) which are managed separately from the operating business

- Total income in 2019 was £3.9m
- Income from third party tenants of £1.0m (2018: £1.1m)
- Income from intra-Group rental charges at market rates of £2.9m (2018: £2.9m). Intra-group rent eliminated at Group consolidation
- Adjusted Operating Profit £1.5m (2018: £1.6m)

Separation of freehold properties from operating business

- Great Burgh held in separate company
- Harston Mill held in Sagentia Ltd. Decision taken to separate but will incur c.£2m tax cash outflow. Following cash deployment in Frontier, action deferred.
- Book value: £21.4m (2018: £21.6m)
- Last valuation (March 2018): £22.6m to £33.9m



Corporate

Corporate costs for the Group for the year increased to £1.7m (2018: £1.6m)

Frontier acquisition

- Largest acquisition in Group history
- Complex acquisition process:
 - Entity was AIM listed and Cayman domiciled
 - Offer was contested by Frontier board
 - Bid was not subject to UK code on Takeovers and Mergers
 - Transaction included: market purchases, a formal offer and a cross-border statutory merger
- Intensive and accelerated post acquisition restructuring

Advisers

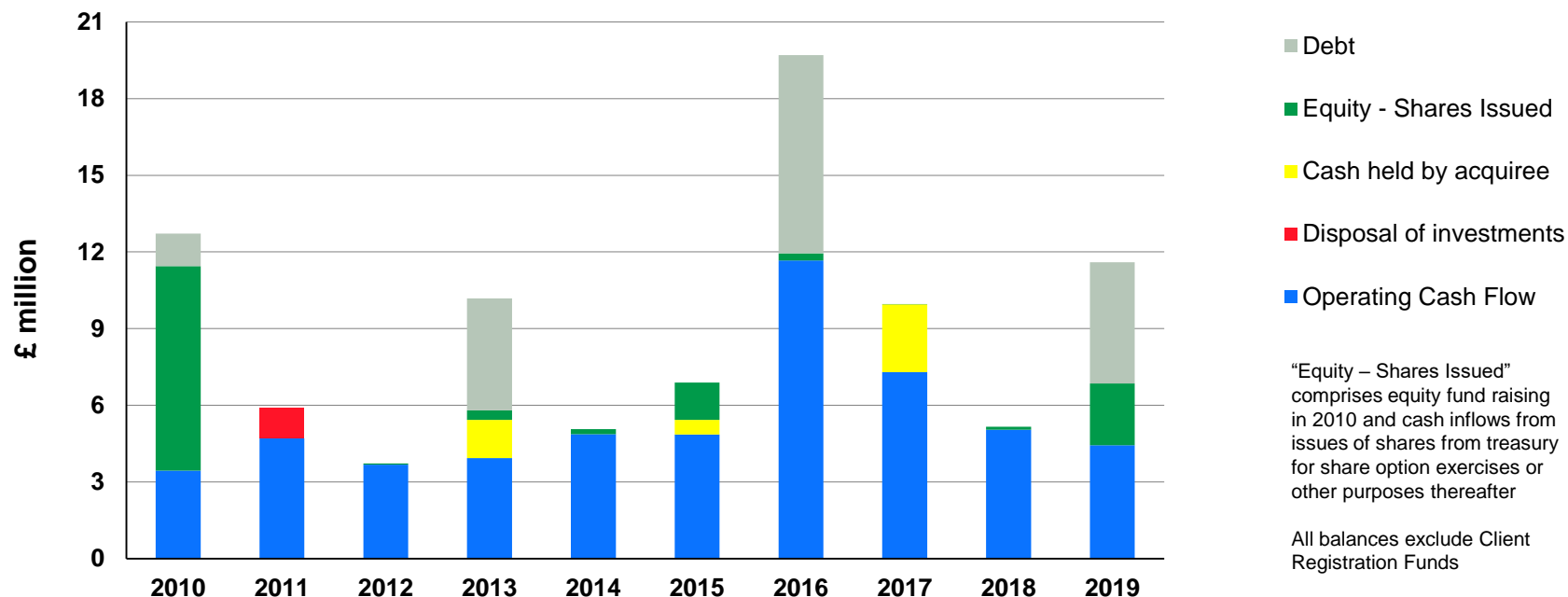
- Appointed joint broker, Liberum Capital Limited, in January 2020
- Auditor tender in 2020
 - Substantial increase in costs – underlying in addition to acquisition-related
 - 3 Audit Partners in 2019 with poor handover
 - KPMG not participating
- New Nomad and Broker to be appointed in H1-2020

Appendix

Annual Review of Capital Sources & Allocation

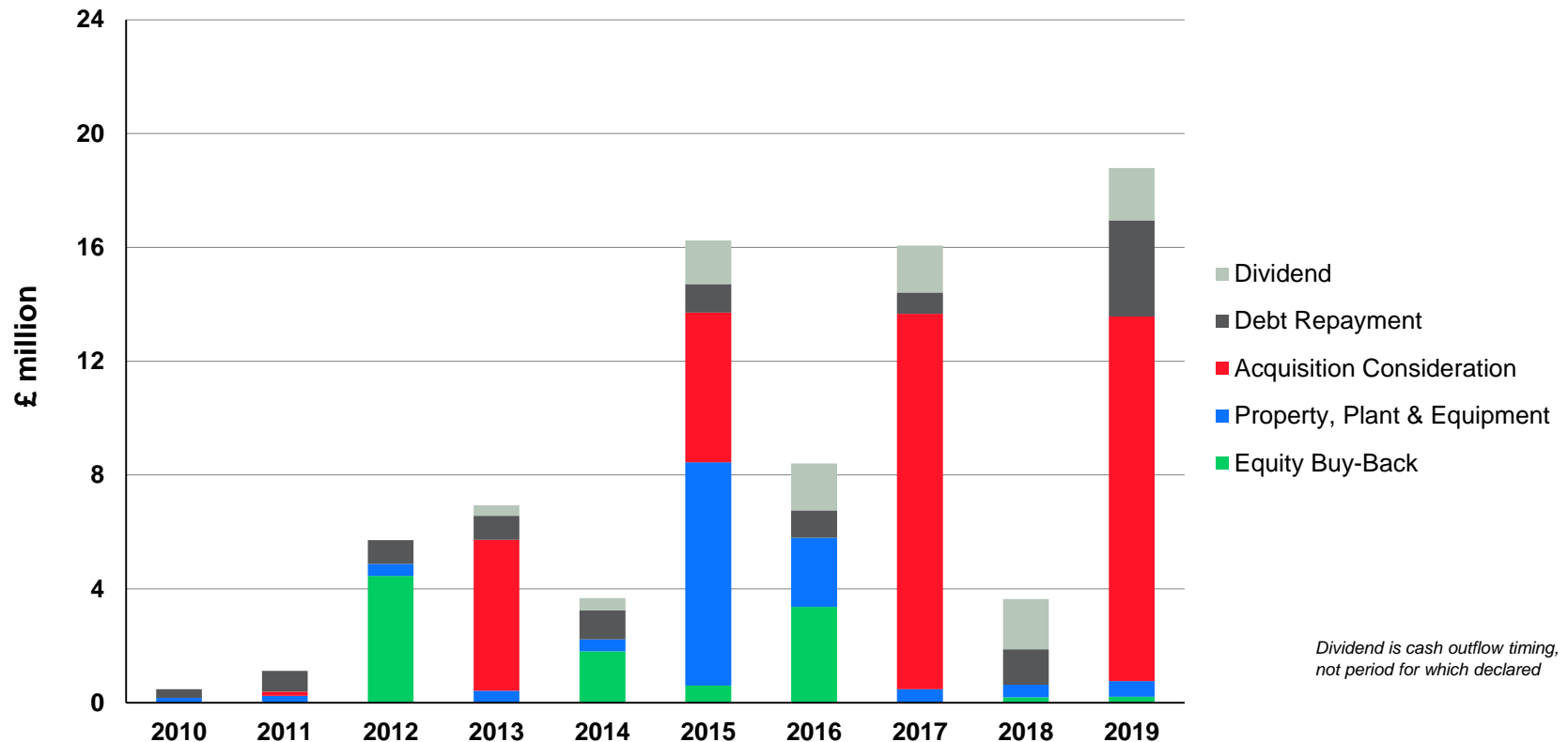
Capital Sources 2010-2019

- Debt funding in 2010, 2013, 2016 and 2019
 - Debt secured against Harston and Epsom freehold properties, limited operating covenants
 - Term loan increased by £4.8m in February 2019
 - 10 year term loan fixed at 3.6% using interest rate swap instruments to 2026
- Strong operating cash flow has been primary capital source
 - Extraordinary operating cash flow in 2016 included one-off items
- Treasury shares issued in settlement of consideration for Frontier shares of £2.2m



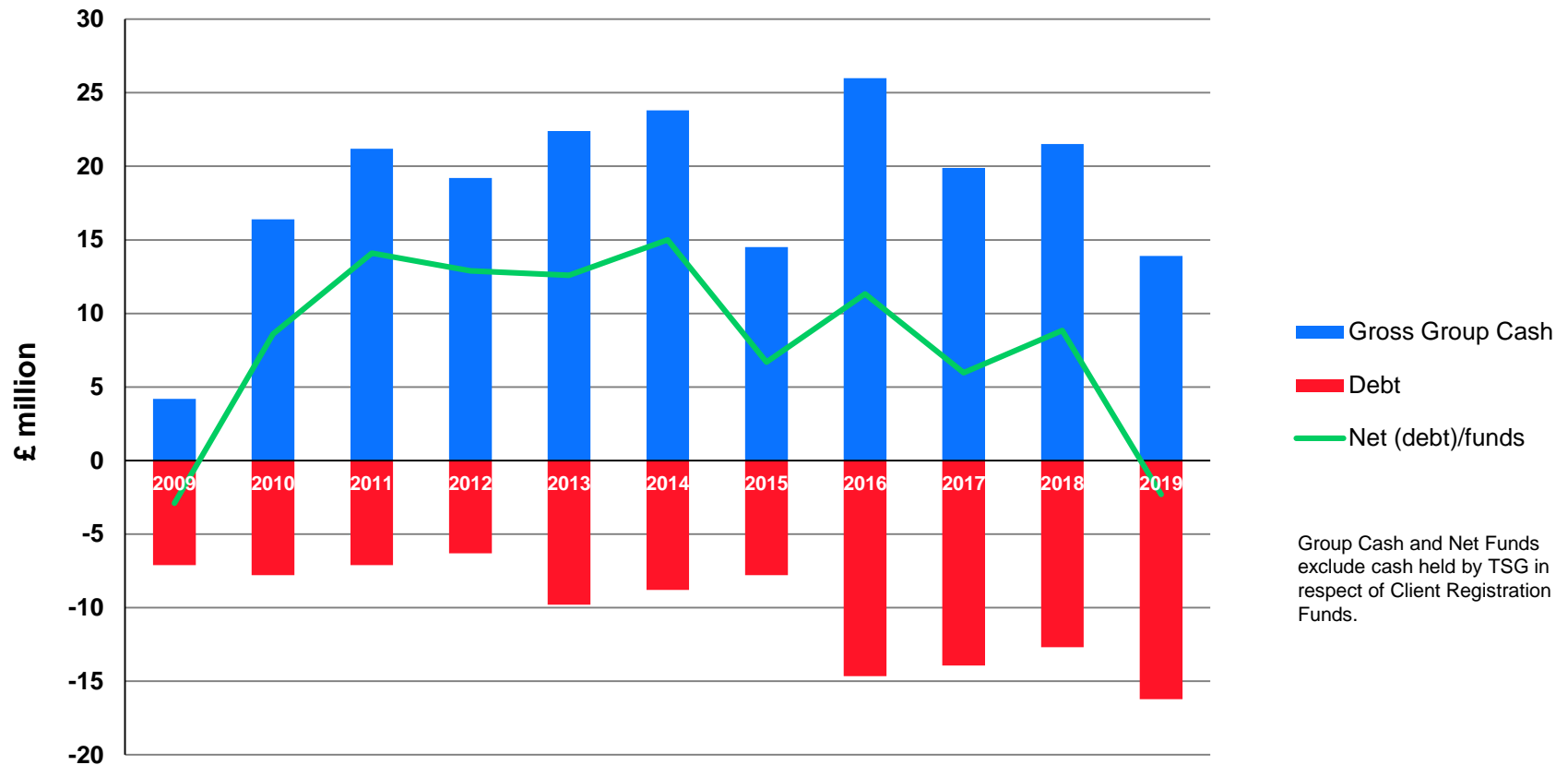
Capital Allocation 2010-2019

- Major capital deployments related to acquisitions
- Proposed dividend maintained at 4.6p per share (2018: 4.6p)
- Equity buy-backs undertaken when appropriate
- Frontier net debt of £2.2m at point of accounting consolidation
 - Debt of £5m less cash of £2.8m; debt repaid following completion of statutory merger



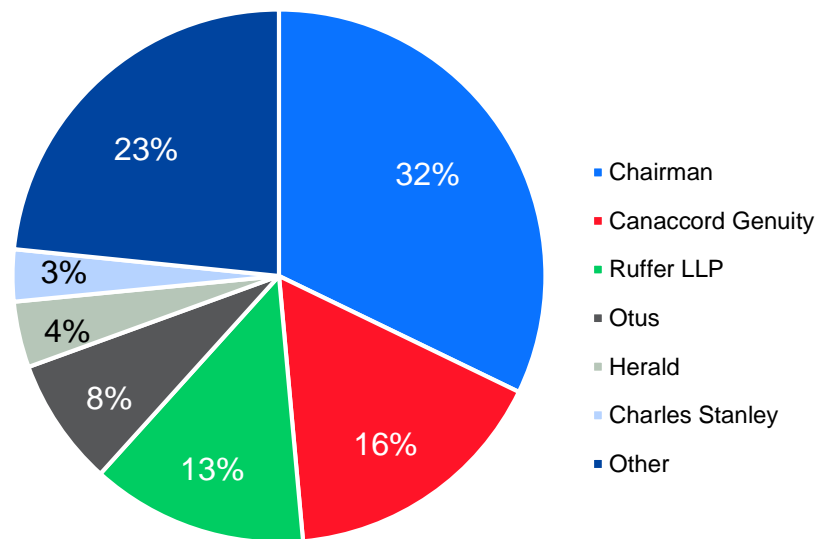
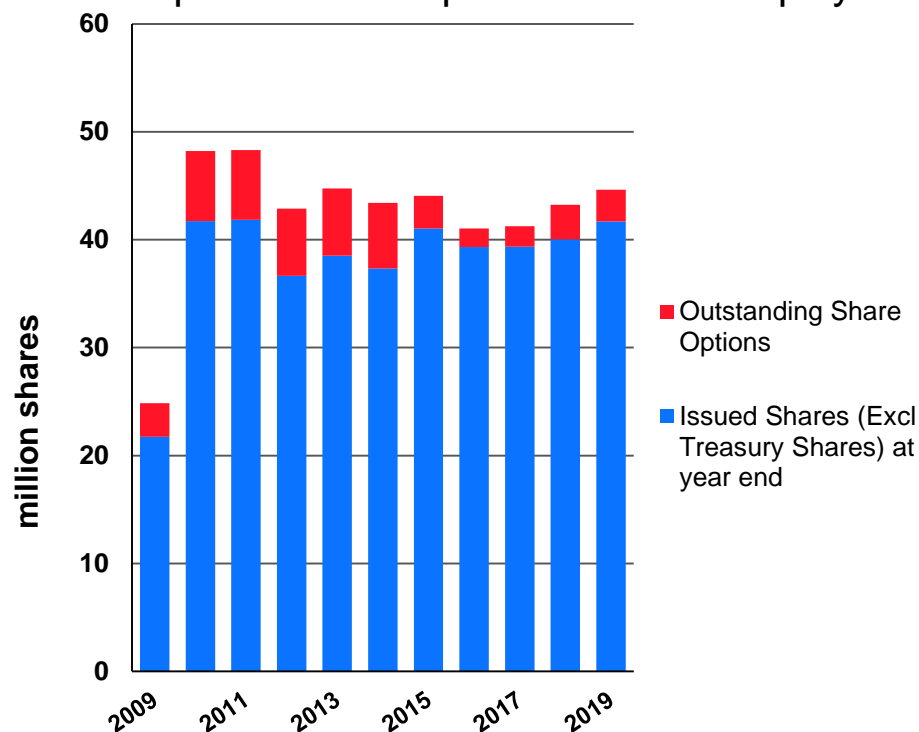
Cash & Debt 2009-2019

- Capital resources deployed for acquisitions (2013, 2015, 2017, 2019)
- Strong balance sheet maintained
- Debt refinanced in 2016 and loan increased in February 2019



Equity Share Capital

- Issued share capital (excluding treasury shares) at 31 Dec 2019 same as Dec 2010 (41.7m)
 - Includes 0.1m of shares held by an Employee Benefit Trust which do not have voting rights
- Acquisitions and investments funded primarily through operating cash flow
- Share options and acquisition-related equity have been offset by share buy-backs



Shareholdings >3% as reported to Company as at 31 January 2020
 Shares in issue (excluding treasury shares): 41.7m (2018: 40.0m)

www.sciencegroup.com

Head office

Harston Mill
Harston, Cambridge
CB22 7GG
UK

Phone: +44 1223 875200
info@sciencegroup.com