

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

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* 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 Treasury Stock	Merger reserve	Translation reserve	Cashflow hedge reserve	Retained earnings	Total – Share- holders' funds	Total equity	
	£000	£000	£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 -