

science group

24 July 2023

SCIENCE GROUP PLC

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

INTERIM RESULTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023

Summary

- Record H1 results despite economic environment
- Revenue increased by 25% to £56.1m (H1 2022: £44.8m)
- Adjusted* operating profit increased by 18% to £10.4m (H1 2022: £8.8m)
- Adjusted* basic EPS increase of 14% to 16.6 pence (H1 2022: 14.6 pence)
- Strong balance sheet with Group cash of £29.2m and net funds of £15.7m (H1 2022: £38.6m and £23.9m) after completion of TP Group acquisition
- Integration of TP Group progressing in line with the Board’s expectations

Science Group plc

Martyn Ratcliffe, Chairman
Jon Brett, Group Finance Director

Tel: +44 (0) 1223 875 200
www.sciencegroup.com

Stifel Nicolaus Europe Limited (Nominated Adviser and Joint Broker)

Nick Adams, Alex Price, Richard Short

Tel: +44 (0) 20 7710 7600

Liberum Capital Limited (Joint Broker)

Max Jones, Miquela Bezuidenhout

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 2023

Science Group is a science & technology business providing consultancy and systems to an international client base. The Group comprises five operating divisions, supported by a strong balance sheet including significant cash resources and freehold property assets.

For the six months ended 30 June 2023, Group revenue increased by 25% to £56.1 million (H1 2022: £44.8 million). Adjusted operating profit increased by 18% to £10.4 million (H1 2022: £8.8 million) producing an adjusted basic earnings per share increase of 14% to 16.6 pence (H1 2022: 14.6 pence).

The Group retains a robust balance sheet with Group cash (excluding client funds) at 30 June 2023 of £29.2 million (30 June 2022: £38.6 million) and net funds of £15.7 million (30 June 2022: £23.9 million). During the period ended 30 June 2023, cash outflow funding the TP Group ('TPG') acquisition was c.£17 million and £3.3 million was returned to shareholders through dividends and share buybacks. In addition to the long-term debt of £13.5 million, which expires in September 2026, the Group has a £25 million Revolving Credit Facility which to date has not been drawn.

Excluding treasury shares, at 30 June 2023, the Company had 45.2 million shares in issue (30 June 2022: 45.5 million) and held 1.0 million shares in treasury (30 June 2022: 0.7 million). Total voting rights at 30 June 2023 were 45.1 million. During the period, an aggregate of 0.3 million shares were purchased for treasury at an average price of 401 pence per share.

Consultancy Services

The Consultancy Services Segment comprises Research & Development, Regulatory & Compliance and Defence & Aerospace divisions.

Revenue in the first half of the year increased to £42.3 million (H1 2022: £29.1 million), producing an adjusted operating profit of £11.5 million (H1 2022: £7.0 million). Revenue for Consultancy Services includes a contribution from Defence & Aerospace from 26 January 2023, following the completion of the TPG acquisition.

Research & Development

The R&D Consultancy Division combines leading science and engineering capabilities with market and commercial expertise, to provide product development and advisory services to key vertical sectors. The largest sector continues to be Medical and all sectors performed broadly in line with the Board's expectations despite the more challenging economic environment. The Consumer and Food & Beverage sectors have recently been consolidated reflecting the similarity in customer profiles and, following the completion of the TP Group acquisition, the first sales into the Defence sector have been achieved, confirming the corporate strategy.

For the six months ended 30 June 2023, R&D Consultancy generated revenue of £18.5 million (H1 2022: £18.4 million). Operating margin for the Division increased in the period, benefitting from the strong US Dollar and the currency hedge (at \$1.20/£1) implemented in 2022 which extends to the end of 2023.

Regulatory & Compliance

The Regulatory & Compliance Division includes the European and North American operations of TSG and Leatherhead Food Research, providing scientific and regulatory advice to a diverse client base.

The UK/Europe businesses performed particularly well, benefitting from significant contract wins in 2022. This was partially offset by a more challenging environment in North America as R&D investment in the relevant market sectors reduced from the Covid peak, compounded by the widely reported bottlenecks in product approvals at some USA regulatory authorities. With a stable and strengthening business, the Board has decided that it is now appropriate to consolidate the Division under a single Managing Director, a structure that will support greater trans-Atlantic opportunities whilst providing operational and cost efficiencies.

In aggregate, for the six months ended 30 June 2023, Regulatory & Compliance generated revenue of £12.1 million (H1 2022: £10.7 million). Operating margin in the Division increased considerably, particularly within the European business.

Defence & Aerospace

The Defence & Aerospace Division provides programme management and technical expertise for complex technology-related programmes.

Since completion of the acquisition of TPG on 26 January 2023, the Division has been increasingly integrated into Science Group. A new Managing Director, from within TPG, has been appointed, supported by a new senior leadership team and significant improvements in corporate and operational governance have been introduced. A review of strategy, resourcing model and facilities is progressing well with underperforming activities being addressed to provide a stronger platform for the future. In addition, the anticipated synergies with the Group's Research and Development Division are already producing results.

For the period from 26 January to 30 June 2023, the Division contributed revenue of £11.7 million (H1 2022: nil). The business currently operates at a significantly lower profit margin than the other Consultancy Services Divisions within Science Group. While this is partly due to defence market characteristics, there are a number of areas identified to improve performance.

Frontier Smart Technologies ('Frontier')

Frontier is the leading provider of DAB/DAB+ radio semi-conductors/modules. Consistent with the widely reported, severe decline in consumer electronics markets, and against a very strong comparator in the first half of 2022 when market behaviour was influenced by supply-chain factors, Frontier reported revenue of £5.4 million for the six months ended 30 June 2023 (H1 2022: £15.3 million). This resulted in a small loss in the current period. As with all consumer electronics businesses in the current economic climate, Frontier is focused on operational efficiency and, now under a single Managing Director, is in the process of consolidating operations into Shenzhen to eliminate the costs of an office in Hong Kong.

Despite the current challenging conditions across the consumer electronics sector, Frontier is believed to have maintained its market share and premium market positioning in its target market. The business has continued to invest in new products, all costs of which are expensed with no capitalisation of R&D, such that Frontier recently launched Magic X, a new cost-optimised module, and is investing in a new connected audio module to be released in 2024. As a result, the business is well positioned to benefit from the recovery in consumer electronics which is anticipated to correlate with the economic cycle.

Critical Maritime Systems & Support ('CMS2')

CMS2 is the rebranded TPG Maritime business which designs, develops and manufactures submarine atmosphere management systems for the defence sector. CMS2 became part of Science Group on 26 January 2023 when the TPG acquisition completed. In the period from 26 January to 30 June 2023, CMS2 generated revenues of £7.9 million (H1 2022: nil) and a modest adjusted operating profit.

Subsequent to Science Group's 2021 investment in TPG, significant onerous legacy contracts came to light in the Maritime subsidiary, placing the viability of the business at serious risk. A process of resolving those contracts was undertaken during 2022 with all major contracts now substantially renegotiated. As a result, the Division has a good order book, although the revenue recognition is less predictable due to the long-term project characteristics of the systems business.

CMS2 has a long track record and, despite the challenges previously reported by TPG, remains the leading provider of systems to its target market. With an increasing defence market interest in submarine capability and resolution of the onerous contracts, Science Group is expanding the CMS2 facilities in Portsmouth and, as set out in the Scheme circular in October 2022, also increasing investment in both product upgrades and next-generation systems.

Corporate & Property

On 26 January 2023, the acquisition of TPG completed and from that date the continuing business results are reported as part of the Group. Prior to this date, TPG was accounted for as an associate. Including the share purchases in 2021, the professional fees incurred and restructuring costs, the aggregate investment in TPG was approximately £30 million, with c. £17 million being incurred in the first half of 2023. Westek, a non-core operation of TPG, was disposed of in February 2023.

Integration of TPG into Science Group's governance model is well advanced. In addition, operating business improvements are being implemented and business strategy reviewed to improve margins and operational efficiency. TPG central costs have been significantly reduced, dormant companies are being struck off and consolidation of facilities is progressing. In addition, a warranty claim related to the disposal of Sapienza in 2022 was settled removing future distraction and liability. In parallel the Group is increasing investment in both TPG Services and CMS2 to position for the future.

The Group retains two freehold properties, Harston Mill (Cambridge) and Great Burgh (Epsom). The properties are held at a book value of £20.7 million (H1 2022: £20.9 million) although the last independent valuation (March 2021) valued them in a range of £21 million to £35 million. Revenue from Property, excluding inter-group charges, was £0.4 million (H1 2022: £0.3 million).

Summary and Outlook

In summary, the first half of 2023 has continued the Group's track record of resilient performance, delivering record results in line with the Board's expectations. However the Board does not underestimate the potential impact of the prolonged uncertainty in the current economic environment, both UK and international, and is maintaining its conservative attitude to risk, governance and financial discipline.

At the same time, economic downturns may present further acquisition and/or investment opportunities for Science Group. With a very strong balance sheet, including significant cash resources and undrawn debt facilities, Science Group is well placed to explore any such opportunities.

Consolidated Income Statement
For the period ended 30 June 2023

		Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
	Note			
Revenue	5	56,099	44,783	86,301
Direct operating expenses		(32,786)	(26,043)	(47,947)
Sales and marketing expenses		(4,493)	(4,684)	(9,754)
Administrative expenses		(12,269)	(7,825)	(17,504)
Share of (loss)/profit of equity accounted investment		(163)	-	602
Adjusted operating profit		10,420	8,832	17,602
Acquisition integration costs		(247)	-	(1,128)
Amortisation of acquisition related intangible assets		(2,520)	(1,851)	(3,766)
Share-based payment charge		(1,102)	(750)	(1,612)
Share of (loss)/profit of equity accounted investment		(163)	-	602
Operating profit		6,388	6,231	11,698
Finance income		229	175	375
Finance costs		(501)	(479)	(977)
Profit before income tax		6,116	5,927	11,096
Income tax charge (including R&D tax credit of £420,000 (H1 2022: £270,000))	6	(730)	(1,283)	(541)
Profit for the period		5,386	4,644	10,555
Earnings per share				
Earnings per share (basic)	7	11.9p	10.2p	23.2p
Earnings per share (diluted)	7	11.5p	9.9p	22.6p

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2023

	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Profit for the period attributable to:			
Equity holders of the parent	5,386	4,644	10,555
Profit for the period	5,386	4,644	10,555
Other comprehensive income items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	(723)	1,927	2,372
Fair value gain on derivative financial instruments	289	700	1,499
Deferred tax charge on derivative financial instruments	(50)	(219)	(414)
Other comprehensive (expense)/income for the period	(484)	2,408	3,457
Total comprehensive income for the period attributable to:			
Equity holders of the parent	4,902	7,052	14,012
Total comprehensive income for the period	4,902	7,052	14,012

Consolidated Statement of Changes in Shareholders' Equity (unaudited)

Group	Share capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2022	462	26,834	(1,242)	10,343	(758)	74	30,579	66,292
Purchase of own shares	-	-	(910)	-	-	-	-	(910)
Issue of shares out of treasury stock	-	-	21	-	-	-	(21)	-
Dividends paid	-	-	-	-	-	-	(2,270)	(2,270)
Share-based payment charge	-	-	-	-	-	-	750	750
Deferred tax charge on share-based payment transactions	-	-	-	-	-	-	(360)	(360)
Transactions with owners	-	-	(889)	-	-	-	(1,901)	(2,790)
Profit for the period	-	-	-	-	-	-	4,644	4,644
Other comprehensive income items that may be reclassified to profit or loss:								
Fair value gain on derivative financial instruments	-	-	-	-	-	700	-	700
Exchange differences on translating foreign operations	-	-	-	-	1,927	-	-	1,927
Deferred tax charge on derivative financial instruments	-	-	-	-	-	(219)	-	(219)
Total comprehensive income for the period	-	-	-	-	1,927	481	4,644	7,052
Balance at 30 June 2022	462	26,834	(2,131)	10,343	1,169	555	33,322	70,554

Group	Share capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 July 2022	462	26,834	(2,131)	10,343	1,169	555	33,322	70,554
Purchase of own shares	-	-	(411)	-	-	-	-	(411)
Issue of shares out of treasury stock	-	-	349	-	-	-	(348)	1
Share-based payment charge	-	-	-	-	-	-	862	862
Deferred tax credit on share-based payment transactions	-	-	-	-	-	-	233	233
Transactions with owners	-	-	(62)	-	-	-	747	685
Profit for the period	-	-	-	-	-	-	5,911	5,911
Other comprehensive income items that may be reclassified to profit or loss:								
Fair value gain on derivative financial instruments	-	-	-	-	-	799	-	799
Exchange differences on translating foreign operations	-	-	-	-	445	-	-	445
Deferred tax charge on derivative financial instruments	-	-	-	-	-	(195)	-	(195)
Total comprehensive income for the period	-	-	-	-	445	604	5,911	6,960
Balance at 31 December 2022	462	26,834	(2,193)	10,343	1,614	1,159	39,980	78,199

Group	Share capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2023	462	26,834	(2,193)	10,343	1,614	1,159	39,980	78,199
Purchase of own shares	-	-	(1,064)	-	-	-	-	(1,064)
Issue of shares out of treasury stock	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	(2,259)	(2,259)
Share-based payment charge	-	-	-	-	-	-	1,102	1,102
Deferred tax credit on share-based payment transactions	-	-	-	-	-	-	237	237
Transactions with owners	-	-	(1,064)	-	-	-	(920)	(1,984)
Profit for the period	-	-	-	-	-	-	5,386	5,386
Other comprehensive income items that may be reclassified to profit for loss:								
Fair value gain on derivative financial instruments	-	-	-	-	-	289	-	289
Exchange differences on translating foreign operations	-	-	-	-	(723)	-	-	(723)
Deferred tax charge on derivative financial instruments	-	-	-	-	-	(50)	-	(50)
Total comprehensive income for the period	-	-	-	-	(723)	239	5,386	4,902
Balance at 30 June 2023	462	26,834	(3,257)	10,343	891	1,398	44,446	81,117

Consolidated Balance Sheet

At 30 June 2023

		At 30 June 2023 (Unaudited) £000	At 30 June 2022 (Unaudited) £000	At 31 December 2022 (Audited) £000
	Note			
Assets				
Non-current assets				
Acquisition related intangible assets		28,273	12,667	10,815
Goodwill		24,257	14,964	14,975
Property, plant and equipment		25,336	24,414	23,867
Investments		-	9,239	10,054
Derivative financial instruments		1,639	1,064	1,417
Deferred tax assets		4,346	1,602	2,176
		83,851	63,950	63,304
Current assets				
Inventories		2,238	2,064	2,477
Trade and other receivables		18,851	11,777	12,992
Current tax assets		1,976	1,781	1,607
Derivative financial instruments		365	-	384
Cash and cash equivalents - Client funds	8	2,351	2,323	2,867
Cash and cash equivalents - Group cash	8	29,238	38,621	43,645
		55,019	56,566	63,972
Total assets		138,870	120,516	127,276
Liabilities				
Current liabilities				
Trade and other payables		33,081	29,921	31,546
Current tax liabilities		1,484	664	331
Provisions	9	869	781	849
Borrowings	10	1,200	1,200	1,200
Lease liabilities	11	754	937	720
		37,388	33,503	34,646
Non-current liabilities				
Provisions	9	537	298	248
Borrowings	10	12,348	13,531	12,939
Lease liabilities	11	3,173	1,501	1,162
Deferred tax liabilities		4,307	1,129	82
		20,365	16,459	14,431
Total liabilities		57,753	49,962	49,077
Net assets		81,117	70,554	78,199
Shareholders' equity				
Share capital		462	462	462
Share premium		26,834	26,834	26,834
Treasury shares		(3,257)	(2,131)	(2,193)
Merger reserve		10,343	10,343	10,343
Translation reserve		891	1,169	1,614
Cash flow hedge reserve		1,398	555	1,159
Retained earnings		44,446	33,322	39,980
Total equity		81,117	70,554	78,199

Consolidated Statement of Cash Flows

For the period ended 30 June 2023

	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Profit before income tax	6,116	5,927	11,096
Adjustments for:			
Share of profit of equity accounted investment	163	-	(602)
Amortisation on acquisition related intangible assets	2,520	1,851	3,766
Depreciation on property, plant and equipment	318	325	655
Depreciation of right-of-use assets	530	398	827
Reversal of impairment of right-of-use asset	-	(197)	(215)
Bank charges on derivative financial instruments	86	74	359
Net interest cost	272	304	602
Share-based payment charge	1,102	750	1,612
Decrease/(increase) in inventories	316	390	(23)
Decrease/(increase) in receivables	2,542	431	(680)
(Decrease)/increase in payables representing client funds	(516)	(551)	(7)
(Decrease)/increase in payables excluding balances representing client funds	(6,116)	159	1,235
Change in provisions	(138)	(280)	(263)
Cash generated from operations	7,195	9,581	18,362
Interest paid	(391)	(430)	(808)
UK corporation tax received/(paid)	338	(500)	(1,017)
Foreign corporation tax paid	(137)	(784)	(1,266)
Cash flows from operating activities	7,005	7,867	15,271
Interest received	166	130	271
Purchase of property, plant and equipment	(74)	(34)	(92)
Purchase of subsidiary undertakings, net of cash/borrowings acquired	(17,839)	-	(213)
Sale of subsidiary undertaking, net of cash sold	638	-	-
Cash flow used in investing activities	(17,109)	96	(34)
Issue of shares out of treasury	-	-	1
Purchase of own shares	(1,064)	(910)	(1,321)
Dividends paid	(2,259)	(2,270)	(2,270)
Purchase of derivative financial instruments	-	(308)	(531)
Repayment of bank loans	(600)	(600)	(1,200)
Payment of lease liabilities	(620)	(667)	(1,135)
Cash flows used in financing activities	(4,543)	(4,755)	(6,456)
(Decrease)/Increase in cash and cash equivalents in the period	(14,647)	3,208	8,781
Cash and cash equivalents at the beginning of the period	46,512	37,189	37,189
Exchange (loss)/gain on cash	(276)	547	542
Cash and cash equivalents at the end of the period	31,589	40,944	46,512

Cash and cash equivalents is analysed as follows:

	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Cash and cash equivalents – Client funds	2,351	2,323	2,867
Cash and cash equivalents – Group cash	29,238	38,621	43,645
	31,589	40,944	46,512

Extracts from notes to the financial statements**1. General information**

The financial information for the six months ended 30 June 2023 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 2022 has been extracted from the 2022 Financial Statements of Science Group plc. The Group's statutory financial statements for the year ended 31 December 2022 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 21 July 2023.

The Group and Company financial statements of Science Group plc for the year ended 31 December 2022 were prepared under the International Financial Reporting Standards ('IFRS') as adopted by the UK in conformity with the requirements of the Companies Act 2006 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 a science & technology business providing consultancy and systems to an international client 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 under the Companies Act 2006 and is listed on the Alternative Investment Market of the London Stock Exchange (SAG).

Alternative performance measures

The Group uses alternative non-Generally Accepted Accounting Principles performance measures of 'adjusted operating profit', 'adjusted earnings per share' and 'net funds' which are not defined within IFRS. These are explained in the 2022 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:

	At 30 June 2023 £000	At 30 June 2022 £000	At 31 December 2022 £000
Cash and cash equivalents – Group cash	29,238	38,621	43,645
Borrowings	(13,548)	(14,731)	(14,139)
Net funds	15,690	23,890	29,506

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 2022. 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 2023. They have been prepared based on the measurement and recognition principles of IFRS as adopted by the UK in conformity with the requirements of the Companies Act 2006 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 £29.2 million (excluding client registration 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. In addition to the existing term loan, in December 2021 the Group agreed a £25 million Revolving Credit Facility with its bank, which to date has not been drawn. The Directors are satisfied that the Group has adequate cash and financial 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 and fair value interest risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Science Group uses derivative financial instruments to hedge certain risk exposures.

4. Segmental information

The Group's segmental reporting shows the performance of the operating Segments separately from the value generated by the Group's freehold property assets and the Corporate costs. The Consultancy Services Segment consists of three Divisions: (i) Research & Development, (ii) Regulatory & Compliance, and (iii) Defence & Aerospace. Financial information is provided to the Chief Operating Decision Makers in line with this structure: the three Divisions within the Consultancy Services Segment; the Products Division (Frontier); the Systems Division (CMS2); the Freehold Properties and Corporate costs.

The Consultancy Services Divisions are aggregated as one Consultancy Services Segment because the Divisions and the services they provide have similar economic characteristics. This aggregation does not impact the user's ability to understand performance, prospects for future cash flows or the user's decisions about the Group as a whole as it is a fair representation of the performance.

Consultancy Services revenue includes all consultancy fees and other revenue includes recharged materials and expenses relating directly to Consultancy Services activities. Products revenue includes sales of chips and modules which are incorporated into digital radios. Systems revenue includes the development, manufacture and support of specialist systems for atmosphere management, used in UK and International naval defence markets. 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 Consultancy Services and Products which have been charged fees at an arm's length market rental rate 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.

Consultancy Services	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Consultancy Services revenue	41,492	27,916	58,242
Other	814	1,224	2,423
Revenue	42,306	29,140	60,665
Adjusted operating profit	11,462	6,977	16,200
Amortisation of acquisition related intangible assets	(1,023)	(756)	(1,463)
Share-based payment charge	(636)	(456)	(1,249)
Operating profit	9,803	5,765	13,488

Products	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Products revenue	5,438	15,343	24,979
Revenue	5,438	15,343	24,979
Adjusted operating (loss)/profit	(550)	3,347	3,869
Amortisation of acquisition related intangible assets	(1,155)	(1,095)	(2,303)
Share-based payment charge	(191)	(202)	(265)
Operating (loss)/profit	(1,896)	2,050	1,301

Systems	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Unaudited) £000
Systems revenue	7,933	-	-
Revenue	7,933	-	-
Adjusted operating profit	810	-	-
Amortisation of acquisition related intangible assets	(342)	-	-
Share-based payment charge	(150)	-	-
Operating profit	318	-	-

Freehold Properties	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Intercompany property income	1,818	1,644	3,436
Third party property income	422	300	657
Revenue	2,240	1,944	4,093
Adjusted operating profit	154	10	132
Share-based payment charge	(15)	(17)	(42)
Operating profit/(loss)	139	(7)	90

Corporate	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Adjusted operating loss	(1,456)	(1,502)	(2,599)
Acquisition integration costs	(247)	-	(1,128)
Share-based payment charge	(110)	(75)	(56)
Share of (loss)/profit of equity accounted investment	(163)	-	602
Operating loss	(1,976)	(1,577)	(3,181)

Group	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Consultancy Services revenue	41,492	27,916	58,242
Products revenue	5,438	15,343	24,979
Systems revenue	7,933	-	-
Third party property income	422	300	657
Other	814	1,224	2,423
Revenue	56,099	44,783	86,301
Adjusted operating profit	10,420	8,832	17,602
Acquisition integration costs	(247)	-	(1,128)
Amortisation of acquisition related intangible assets	(2,520)	(1,851)	(3,766)
Share-based payment charge	(1,102)	(750)	(1,612)
Share of (loss)/profit of equity accounted investment	(163)	-	602
Operating profit	6,388	6,231	11,698
Finance charges (net)	(272)	(304)	(602)
Profit before income tax	6,116	5,927	11,096
Income tax charge	(730)	(1,283)	(541)
Profit for the period	5,386	4,644	10,555

Of the total revenue of £56.1 million and operating profit of £6.4million, £19.7 million and £1.2 million respectively is from acquired business.

In the Freehold Properties Segment, income includes £1.8 million (H1 2022: £1.6 million) generated from inter-segment recharges. The corresponding costs are included within the operating Segments and are eliminated on consolidation.

5. Revenue

In the following tables, revenue is disaggregated by geographical market and by the currency in which the contract is denominated.

For the period ended 30 June (Unaudited)

Geographical market	North America £000	Europe (excl. UK) £000	UK £000	Asia £000	Other £000	Total £000
2023	17,158	6,968	23,976	7,478	519	56,099
2022	16,958	4,457	6,737	16,364	267	44,783

Currency	USD £000	EUR £000	GBP £000	Total £000
2023	19,642	1,733	34,724	56,099
2022	30,506	1,125	13,152	44,783

6. Income tax

The income tax charge for the period ended 30 June 2023 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 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Profit before tax	6,116	5,927	11,096
Current taxation	(1,686)	(1,246)	(2,666)
Current taxation – adjustment in respect of prior years	-	(5)	539
Deferred taxation	586	(357)	643
Deferred taxation – adjustment in respect of prior years	(50)	55	413
R&D tax credit	420	270	530
Tax charge	(730)	(1,283)	(541)
Effective tax rate	11.9%	21.6%	4.9%

The Group claims Research and Development tax credits under the Research and Development ('R&D') Expenditure Credit scheme.

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 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Profit for the financial period	5,386	4,644	10,555
Weighted average number of shares:			
For basic earnings per share	45,346,375	45,608,956	45,525,568
For diluted earnings per share	46,642,457	46,934,814	46,793,650
Earnings per share:	Pence	Pence	Pence
Basic earnings per share	11.9	10.2	23.2
Diluted earnings per share	11.5	9.9	22.6

The calculation of adjusted earnings per share is as follows:

	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Adjusted* profit after tax for the period	7,521	6,652	13,362
Weighted average number of shares:			
For basic earnings per share	45,346,375	45,608,956	45,525,568
For diluted earnings per share	46,642,457	46,934,814	46,793,650
Adjusted earnings per share:	Pence	Pence	Pence
Basic earnings per share	16.6	14.6	29.4
Diluted earnings per share	16.1	14.2	28.6

*Calculation of adjusted profit after tax:

	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Adjusted operating profit	10,420	8,832	17,602
Finance income	229	175	375
Finance costs	(501)	(479)	(977)
Adjusted profit before tax	10,148	8,528	17,000
Tax charge at the blended corporation tax rate of 25.9% (H1 2022: 22.0%)	(2,627)	(1,876)	(3,638)
Adjusted profit after tax	7,521	6,652	13,362

8. Cash and cash equivalents

	Six months ended 30 June 2023 (Unaudited) £000	Six months ended 30 June 2022 (Unaudited) £000	Year ended 31 December 2022 (Audited) £000
Cash and cash equivalents – Client funds	2,351	2,323	2,867
Cash and cash equivalents – Group cash	29,238	38,621	43,645
	31,589	40,944	46,512

The Group receives cash from clients, primarily in North America, which are pass-through funds solely for the purpose of payment of registration fees to regulatory bodies. This cash is separately identified for reporting purposes and is unrestricted.

9. Provisions

(Unaudited)	Dilapid- ations £000	Restruct- uring £000	Legal £000	Other £000	Total £000
At 1 January 2022	770	70	440	-	1,280
Increase in provision	27	-	5	-	32
Utilisation of provision	(2)	-	(146)	-	(148)
Provision reversed during the period	(164)	-	-	-	(164)
Loss on foreign currency fluctuations	56	-	23	-	79
At 30 June 2022	687	70	322	-	1,079
Increase in provision	17	-	185	-	202
Utilisation of provision	-	-	(6)	-	(6)
Provision reversed during the period	-	(30)	(149)	-	(179)
Loss/(gain) on foreign currency fluctuations	2	-	(1)	-	1
At 31 December 2022	706	40	351	-	1,097
Assumed in business combination	271	-	135	259	665
Disposal of subsidiary	-	-	-	(138)	(138)
Increase in provision	55	-	98	-	153
Utilisation of provision	(57)	(8)	(43)	-	(108)
Provision reversed during the period	-	-	(149)	(34)	(183)
Gain on foreign currency fluctuations	(71)	-	(9)	-	(80)
At 30 June 2023	904	32	383	87	1,406

	At 30 June 2023 (Unaudited) £000	At 30 June 2022 (Unaudited) £000	At 31 December 2022 (Audited) £000
Current liabilities	869	781	849
Non-current liabilities	537	298	248
	1,406	1,079	1,097

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 restructuring provision relates to the costs associated with the closure of some non-trading Group entities. The other provisions relate to warranty provisions.

10. Borrowings

	At 30 June 2023 (Unaudited) £000	At 30 June 2022 (Unaudited) £000	At 31 December 2022 (Audited) £000
Current bank borrowings	1,200	1,200	1,200
Non-current bank borrowings	12,348	13,531	12,939
	13,548	14,731	14,139

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.

The Group has a Revolving Credit Facility ('RCF') with Lloyds Bank plc in order to provide additional capital resources to enable the execution of the Group's acquisition strategy. The RCF is for up to £25 million, with an additional £5 million accordion option, for a term of four years (commenced in December 2021) with a one-year extension. The RCF is in addition to the Group's existing term loan.

11. Lease liabilities

	At 30 June 2023 (Unaudited) £000	At 30 June 2022 (Unaudited) £000	At 31 December 2022 (Audited) £000
Current lease liabilities	754	937	720
Non-current lease liabilities	3,173	1,501	1,162
	3,927	2,438	1,882

Lease liabilities arise on properties leased by the Group. The leases have remaining periods of between 1 and 10 years from the balance sheet date.

12. Business Combinations

On 26 January 2023, the Group completed the acquisition of 100% of the share capital of TPG. TPG adds significant scale to the Group and provides a strategic entry into the defence sector. TPG contributed revenue of £19.7 million and operating profit of £1.2 million in the Group consolidated income statement for the period ended 30 June 2023.

In connection with the acquisition, the provisional fair values are as follows:

Fair value of consideration transferred	£000
Cash	25,392
Fair value remeasurement (to reflect fair value on 13 October 2021)	(2,470)
Share of loss in associate investment	(622)
Total	22,300

Fair value of acquisition	£000
Goodwill	9,598
Intangible assets – technology-based	3,346
Intangible assets – customer related	15,488
Intangible assets – marketing related	1,611
Property, plant and equipment	2,401
Deferred tax assets	2,175
Current assets	13,554
Current liabilities	(11,825)
Non-current liabilities	(14,048)
Fair value of net assets acquired	22,300

The goodwill is attributable mainly to the skills and technical knowledge of TPG's workforce.

Subsequent to the acquisition, the Group sold the entire issued share capital of Westek Technology Ltd to Roda Computer GmbH in February 2023 for a cash consideration of £0.8 million.

13. Related party transactions

The Group provides support and consultancy services to its subsidiaries and made loans, all of which are eliminated on consolidation, and are therefore not disclosed.

On 16 December 2021, the Group made available a standby revolving credit facility to TPG. The facility, which was unsecured, included an arrangement fee of 3%, interest rate of 1% per month on sums drawn and 0.4% per month on undrawn amounts. The facility was withdrawn when TPG became a subsidiary on 26 January 2023.

14. 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. One additional area for accounting judgement, following the acquisition of TPG, is in respect of the assessment of the percentage of completion of long-term contracts. This requires estimates of labour hours, rates and material costs to determine forecast costs to complete. This assessment has been completed on each long-term contract.

15. Subsequent events

There are no post balance sheet events to disclose.

- Ends -