

INNOVATIVE. GROWING. SCISYS 30+ YEARS OF LONG-TERM GROWTH

Business Strategy & Model

OUR STRATEGY & PURPOSE

At SCISYS, we strive to create premium value for our customers based on our excellence in a variety of niche markets. We have demonstrated this fundamental capability for more than three decades, flexibly responding to the ever-changing market demands in a fast-moving software industry with our well-balanced portfolio of solutions, services and products.

Based on this foundation, we continue to aspire to grow our commercial success in a balanced and resilient way, providing products, systems and services that form an indispensable part of our customers' value generation, helping us to establish and maintain long-term relationships.

Trusted relationships with all our stakeholders are essential to progress our vision – all the more so as we strive to grow further. Honesty, transparency and respect are at the core of our corporate values. Our corporate culture focuses on commitment and flexibility and we strongly rely on our excellent staff, who help us innovate in line with customer and market needs, frequently as thought leaders.

OUR BUSINESS MODEL

Our value proposition

SCISYS' solutions empower leading organisations and agencies to achieve their business goals. We combine and apply leading-edge knowledge and technology to solve complex problems by delivering reliable, robust solutions. In many cases, this requires a deep understanding of the wider context of how the software is being operated and the expert ability to connect it to the real world. This is a valuable capability that generates important know-how that we can exploit in similar, or other, fields. We believe our markets have scope for continued growth and that our skills and products will continue to be valued in them.

The depth and breadth of our knowledge and experience ensures that customers with complex issues can rely on us. Our business model shows how we seek to deliver sustainable value to our shareholders by achieving sales, profit and margin growth. Viewed from the perspective of our staff, healthy growth delivers career opportunities and the upholding of SCISYS' values and culture. From the customer perspective, this inspires confidence in the long-term prospects of the Group. Investing in growth helps us further improve each of these aspects.

OUR STRATEGY IN ACTION.

HOW WE SUCCEEDED
ACROSS THE GROUP IN 2018

PETS AT HOME GROUP, UNITED KINGDOM:

Pets At Home awarded contracts to Xibis and SCISYS for development of Vets4Pets iOS and Android apps, including comms traffic monitoring through a bespoke 'middleware' layer. The apps allow clients to register with a practice, add their pets, book appointments and receive reminders.

Our projects are usually critical to our customers' operational success, so our record of strong delivery performance and premium quality is important to them. Value is achieved because the vast majority of our client relationships are long-term and on-going. All of these factors result in an ability to win contracts when bidding against larger companies.

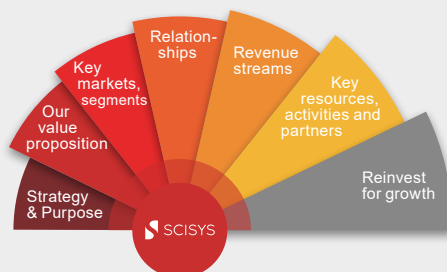
Key markets, segments & relationships

The market-facing divisions within the SCISYS Group drive their divisional businesses with a high degree of autonomy, positioning themselves as experts and recognised thought leaders in their respective markets. Each of our divisions focuses on a variety of vertical markets, in which they have been active for many years. They excel using their specialised, in-depth and sector-specific domain knowledge, as well as their proven technical and programmatic capabilities.

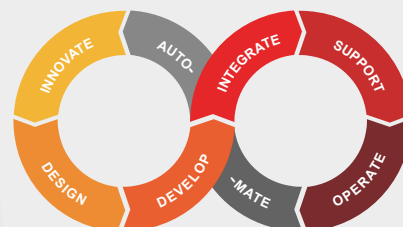
The majority of our customers across all sectors are blue-chip organisations. Many of them are in the public sector (such as the European Space Agency), major public broadcasters or government ministries and institutions, although the balance of work with commercial customers is increasing.

Long-term relationships with our customers and business partners are fundamental to our business and we strive to maintain these relationships over many years, if not decades. Frequently and increasingly, we work directly for the end customer, but we also engage with business partners on various levels. Large system integrators act as our prime contractors when we work as a sub-contractor, particularly in the space and defence sectors where they rely on us as a specialised sub-contractor. Wherever needed, we in turn complement our own capabilities by involving our own specialist subcontractors, premium suppliers of standard hardware and software products and reputed research institutes. Local agents and strategic partners also support our sales team in certain international markets.

SCISYS BUSINESS MODEL



WHAT WE DO



KEY MARKETS

MEDIA & BROADCAST PRODUCTION & PLAYOUT	SPACE (INSTITUTIONAL & COMMERCIAL)	SECURITY & DEFENCE	GOVERNMENT
COMMERCIAL	MARITIME	TRANSPORTATION	MEDIA NEWS



The diversity of our divisions gives us a high level of resilience against changing market trends and we also benefit from sharing divisional expertise internally to innovate with customers.

Our revenue streams & outcomes

Our activities span the entire software lifecycle: engaging with customers leads to innovative concepts that we translate into high-quality, robust software solutions. We integrate these solutions at system level in the customer's environment, where they typically become part of the customer's core infrastructure. In addition, we frequently maintain and support – and even operate – systems for our customers.

As a consequence, the revenue streams for each of our divisions range from fixed-price projects to time & material-based services, as well as multi-year maintenance and support contracts. In general – and particularly with the increased weight of our now-integrated Media Solutions division – we are increasingly adding licence and royalty-based revenues as we progressively create portfolios of re-usable software that allow us to employ our solutions in similar environments or in adjacent markets.

All our divisions generate a large proportion of recurring revenues that add to the underlying strength and reliability of our business and provide us with a solid basis for ▶

CARTOSYS LAUNCH:

SCISYS relaunched its Cartosys location-based services toolkit. Delivered through a web-browser, it is designed to drive the deployment and take-up of location-based services by offering a new approach to how organisations discover, create and share location-based data, maps and apps.

UAV RESCUE TRIALS, UNITED KINGDOM:

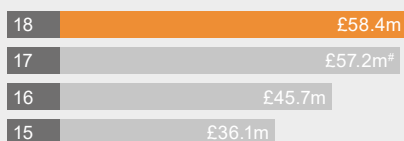
A team from SCISYS took part in a two-week technology demonstration to investigate the use of advanced Unmanned Air Systems (UAS) in Search and Rescue (SAR) operations. The collaborative work hopes to discover how new technologies can save lives faster while keeping crews safer than ever before.

Key Performance Indicators

Measuring our progress against our strategic goals, which we have not adjusted below for IFRS 15 as goals were set pre implementation.

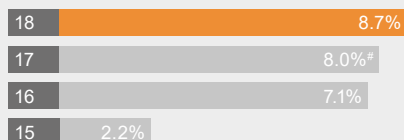
Revenue

Medium-term target of £60m revenues. 4yr CAGR starting 2016 (for £60m revenues by 2020) = 7% on average year-on-year. Achievement 2018 (on 2016): 13%.

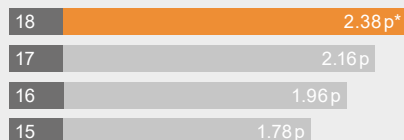


Adjusted Operating Profit Margin

Medium-term target of min. 10% adjusted operating margin.



Dividend*



* subject to shareholder approval at the AGM

[#] pre-IFRS 15 adjustments



future revenue, profit and margin growth.

Being a successful business that excels at generating value for our customers makes us attractive to highly qualified staff, which in turn supports our objective to develop and retain a team that can deliver excellence.

Key resources, activities and partners

Our key resource is a team of more than 650 highly qualified staff, working in major offices and smaller branches across the UK, Germany and France. This committed team provides us with in-depth domain knowledge and superior technical expertise. We achieve this by working to recruit and retain highly motivated, talented and skilled employees.

Strong financial resources complement our team's excellence. We benefit from our strong balance sheet, a number of substantial freehold properties, long-term relationships with our financial partners and our robust working capital facilities.

Re-invest for growth, research and development

Our objective is to grow the business on a steady basis. We therefore continue to re-invest in the areas that we see are the main drivers for our business success. We constantly develop our sales team to establish new customer relationships, foster existing relationships and to expand into untapped regions. Permanent technical innovation, including activities relating to continued research and development of proprietary software (including by way of example research and development activities in respect of PLENITER, OpenMedia, NEWSBOARD, dira!) as well as regular

staff development, allows us to maintain our reputation as leading-edge technology experts. As we invest for growth, we ensure that we keep improving our processes and the infrastructure required to run a resilient, sustainable business. We invest in acquisitions to complement our organic growth aspiration; always thoroughly assessing the business benefit and cultural fit.

STRATEGIC OBJECTIVES & KEY PERFORMANCE INDICATORS

Balanced evolution, investing for growth

Our strategic objective is to grow our business in terms of revenues, operating profit and operating margin so that we deliver sustainable long-term value to our shareholders, our customers and to our entire team. We see increased opportunity for organic growth, and we keep investing for growth. This is done in line with corporate values that are reflected in the SCISYS culture of being committed, honest, customer-focused, respectful and supportive to all our stakeholders.

The divisions continuously broaden their pipelines of prospective clients, building on the positive reputation gained with existing clients and seeking to extend their business development and sales activities to new territories. They are also moving into adjacent areas by evolving the range of their services and products.

Our strategy for growing SCISYS also incorporates identifying acquisitions that help us to accelerate progress. We continue to select opportunities carefully and aim to acquire companies that expand our customer

**OUR STRATEGY
IN ACTION.**
HOW WE SUCCEEDED
ACROSS THE GROUP IN 2018

WEST MIDLANDS METRO, UK:

The first 'product' by Xibis to design and deliver a new tram mobile app for iOS/Android allowing users of the West Midlands network to plan their journeys and purchase tickets on the go! Xibis will receive a percentage of ticket sales starting in 2019.

STRATEGIC PRIORITIES FOR 2018

(from the 2017 Annual Report)

We will remain focused on our growth aspiration for operating profit, operating margin, revenues and our earnings per share.

ACHIEVEMENTS DURING 2018

- Operating profit (adjusted) up 16%
- Operating margin (adjusted) up 4%
- Revenues up 10%
- Earnings per share (adjusted basic EPS) up 41%

Strategic objectives for the medium term.

- **Objective:** increased margins
We aim to increase our operating margin to at least 10%.
- **Objective:** top-line growth
We aim for revenues to grow to at least £60m.
- **Anticipate** a corresponding increase in SCISYS' EPS

In 2016 we set our medium-term strategic objectives with a 3-to-5-year term in mind. In 2017 we said that we were increasingly confident of achieving the revenue objective within a couple of years but that we anticipated reaching the operating margin threshold of 10% later than our revenue target.

- Despite the implementation in 2018 of a new international accounting standard, IFRS 15, that reduces SCISYS' reported revenue by ca. £4m p.a., we are well on track to achieve the £60m revenue target ahead of schedule. Indeed, without the accounting change, i.e. on a like-for-like basis, we achieved the target in 2018 two years early.
- We grew our adjusted operating profit in the same accelerated way as our revenues to £5.1m.
- On that basis we ended 2018 with an adjusted operating margin of 8.7%, slightly ahead of 2017.

As we see further opportunity for stronger organic revenue growth we keep investing for top-line growth and adjust our medium-term objectives accordingly; please refer to the corresponding section in this report.

- The integration of Annova into the SCISYS group so that synergies with our Media & Broadcast division and other parts of our business are explored early on, and that preparations are in place for the post ring-fencing era.

We agreed with Annova's former owners in June 2018 to advance the dissolution of the contracted ring-fence. We have built on initial measures already taken during 2017 to make further progress with our internal post-merger integration (PMI) project. The key objective was to establish a single joined-up division for our activities in the media & broadcast technology sector.

As a result, we have formed SCISYS Media Solutions as one division from 1 January 2019, under a single management team led by Michael Schüller (CEO of Media Solutions).

The Media Solutions management team has developed and committed to a joint business plan for the period 2019–2022 that addresses main integration activities in various areas, including combined marketing & sales, product alignment, joint project & service delivery, harmonisation of processes and policies, and team-building.

- Further growing the space business, particularly focusing on satellite navigation and a re-use of the newly established PLENITER product suite for satellite ground-segment solutions.

In 2018 the Space division again delivered a very strong performance, which is particularly remarkable in the light of imminent Brexit risks for EU-funded satellite navigation programmes. Steps were taken at PLC board and on divisional level to mitigate any such risks for SCISYS. Recent contract wins for more Galileo work worth £18m complemented the earlier win of the EGNOS V3 contract (£3m) and underpin SCISYS' increasingly robust position in this area.

The €18m contract with OHB for German Heinrich Hertz (H2SAT) mission has progressed and successfully passed a critical design milestone during Q4 2018. PLENITER is instrumental to the H2SAT project as the complete satellite ground control system is based on SCISYS' proprietary product suite. Alongside the continued effort spent on further product development, the division stepped up marketing activities to raise brand awareness in the sector. These have already generated various national and international opportunities which will be pursued over the coming years.

SMART CITIES ALLIANCE, GERMANY :

SCISYS joined the Smart City Alliance Dortmund initiative, aimed at establishing an international Smart City through projects about intelligent networking and digitisation in the city. SCISYS is providing expertise on how satellite communication, earth observation, meteorology and satellite navigation can contribute to new everyday applications and services.

AEOLUS, ESA:

Fourteen years after work on this mission began, the final software was delivered in 2018 for ESA's Aeolus mission. It is the first satellite designed to measure wind speed from space. SCISYS developed the onboard software (OBSW) and a bespoke operational simulator.

STRATEGIC PRIORITIES FOR 2018

(from the 2017 Annual Report)

- Further raising awareness for SCISYS' expertise in the defence, security and maritime sector, and extending the footprint of our ESD division.

ACHIEVEMENTS DURING 2018

ESD secured new contracts in the defence, security and maritime sector during the year, most notably announcing another major win worth £2.4m that further strengthens its position in the arena of Logistics Information Services.

Significant effort went into further improvements of our proprietary MACSYS product for the defence maritime sector, alongside a project where this software was first used for a defence application. These activities are complemented by successful research projects in the same sub-sector. In response to the promising outlook of these activities ESD management will establish a fourth business unit specifically to focus on this area.

The transport & logistics sector has been another focal area for ESD. The division secured a major contract for Transport for London (TfL) together with Trapeze Group (UK) Limited to provide a solution for TfL's timetabling and scheduling as part of its Future Bus Systems programme. Additional activities also involve Xibis, where a ticketing app developed for Nottingham trams went live late in 2018.

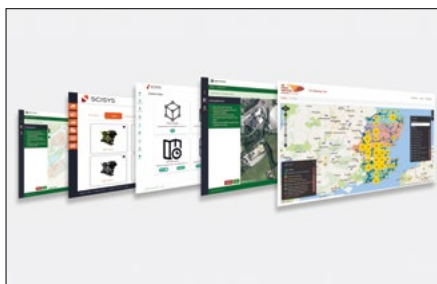
base, geographical reach or add unique expertise – and, most importantly, are a good cultural fit to ensure successful integration.

Progress in 2018: ahead of our medium-term expectations

The key objective for 2018 for the Board was to maintain business growth on a year-on-year basis following the step change in revenues seen in 2017 after the acquisition of ANNOVA Systems GmbH (Annova) in December 2016. Total revenue in 2018 grew organically by 10% and most significantly by 16% for professional fees and licence revenues. The adjusted operating profit was up 16% compared with 2017. All comparisons are on a like-for-like basis, with 2017 figures restated to be compliant with IFRS 15.

In addition to the year-on-year comparative, we have made excellent progress towards our medium-term objectives, which we have declared for the 4-year period ending 2020 to be:

- £60m revenues by the end of that period; and
- double-digit adjusted operating profit margin by the end of that period i.e. £6m adjusted operating profit.



These objectives reflect a compound annual growth rate (CAGR) of 7% for revenue and 17% for adjusted operating profit, through a combination of organic growth and acquisitions.

Midway through this period, we are already approaching our medium-term revenue objective of £60m, and our adjusted operating profit for 2018 has reached £5.1m, at a margin of almost 9%.

From 2016 to 2018, we have grown our top line by 13% p.a. on average, and our bottom line by 26% p.a., well ahead of our aspiration. We have successfully combined solid organic growth and the acquisition of Annova in late 2016, to execute our growth strategy.



This underpins the success of our strategic approach of balanced evolution and sustainable growth in a highly demanding business environment.

As for our overall financial performance, we have been able to make very good progress against our strategic priorities for 2018 across all our divisions.

OBJECTIVES GOING FORWARD: INVESTING INTO GROWTH

In principle, our main strategic objectives for the medium-term remain largely unchanged. We will remain focused on our growth aspiration for operating profit, operating margin, revenues and our earnings per share.

OUR STRATEGY IN ACTION. HOW WE SUCCEEDED ACROSS THE GROUP IN 2018

DISASTER RELIEF PORTAL, ESA:

The European Space Agency commissioned SCISYS in association with the EU initiative Governmental Satellite Communications (GOVSATCOM), to create a service portal to support disaster relief or any other needs for civil protection agencies and maritime safety agencies at EU and national level.



STRATEGIC PRIORITIES 2019

For 2019 the Board will be focused on a set of key measures that will help to progress our medium-term strategy:

- Further establish the newly formed integrated SCISYS Media Solutions division and keep focused on the integration project. Explore and start to exploit synergies in marketing, sales, products and delivery. Align and improve processes and stabilise structures of the joint business. Maintain and innovate the joint product base with a focus on premium quality and resilience.
- Further grow the space business, particularly focusing on satellite navigation and a re-use of the newly established PLENITER product suite for satellite ground-segment solutions. Prepare for and implement the expanded infrastructure that will be required to support the anticipated growth.
- Continue to increase awareness for SCISYS' expertise in the defence, security and maritime sector. Further establish the newly formed Maritime business unit. Continue to sharpen the focus of the Commercial and Government & Emergency Services business units. Continue to extend ESD's footprint in established and adjacent markets.
- Improve the infrastructure, organisation and governance across the Group and all its divisions to match the medium-term growth objectives; this also covers succession planning and corporate structure. Optimise our risk-management processes so that the inherent business risks are managed, based on our continual improvement approach which covers regular process improvement with respect to cyber security and improved forecasting as focal areas. ●

With our opening 2019 order book just short of £100m providing a sound footing, we see ample opportunity to drive further organic revenue growth over the next few years. We have therefore reviewed our medium-term objectives into 2022 and beyond. The assumptions are based on a projected exchange rate of €1.10/£.

Strategically SCISYS management sticks to its fundamental philosophy of sustained growth and balanced evolution based on cautiously optimistic planning, as the foundation to deliver increasing shareholder value.

- Underpinned by the current momentum we are aiming for double-digit organic top-line growth to continue into at least the next couple of years based on our very strong order book particularly in our Space division, and a slightly slower growth beyond that. We believe that top-line growth of 6% p.a. is a realistic target. We therefore adjust our medium-term revenue objective to be in the range of £75m in around 2022.
- We aim for our adjusted operating profit to grow at a similar rate to our revenue.

In absolute figures our ambition is to be well ahead of the previous £6m target and closer to £7m in the medium term.

- These two objectives represent an adjusted operating margin aimed at around 9%. Being cautious for the margin target is part of our resilience strategy which includes investment in sales, product, processes and structure, in our divisions as well as for our central business services. We will continuously monitor the progress we are making against our revised strategic aspirations and identify potential areas for margin optimisation.
- Acquisitions remain part of our growth strategy even though the acquisition of Annova will continue to attract a significant amount of the Board's attention over the coming years. The Directors review potential opportunities on a regular basis, based on a criteria catalogue which has proved appropriate over the past years. We will continue to look for opportunities that add value to the business by complementing our current activities. Given the current and anticipated size of the Group, we are more focused on mid-size acquisitions.

WELLA, UNITED KINGDOM:

Xibis developed an app for Wella UK for use by professional hair stylists. The apps allow stylists to dispense personalised colour masks via a bespoke machine. It's been a great success with trials rolling out internationally.

RTL2 AND FUN RADIO, FRANCE:

SCISYS Media Solutions makes good progress in placing dira! in the French market. "M6 Group has chosen dira! to unify its playout solutions for its radio stations RTL2 and Fun radio," commented Charles-Emmanuel Bon, Executive Vice President. The dira! product suite provides the high level of customisation required by complex advertising schedules as well as the specific editorial demands of radio hosts.