

Rocketing Science

The ONS now provides detailed data monthly for over thirty unique non-financial service sectors. Having in earlier Take Notes run through practically all of these, we come to the one segment that most prominently stands out. And the reason it stands out is a rocketing in sales and margin. The sector in question is the provision from the UK of scientific R&D, with customers far and wide. It is a segment which generates c£55bn of annual revenue, a figure that is to repeat, rocketing in its earnings performance.

For the purpose of anchoring a FTSE listed firm to this very niche but very fast-growing market, the one stock that comes to mind is the rather conveniently named **Science Group**.

To quantify just how fast the UK market for scientific R&D has been growing, one need only point to its 10% annual revenue growth since 2010, twice the far from tepid average of all UK non-financial services. Alongside very impressive top-line growth, the segment has seen its operating margin drive ever more forward. Moreover, in the case of both its top and bottom lines, there is an absence of much cyclicity, instead clear evidence of robust secular growth.

Whilst there is absolutely no reason to expect anything in the way of interruption in the sectors pace of earnings growth, one has every reason to expect the opportunistic likes of PE firms to circle and pounce and deUKequitise **Science Group**. Indeed, with the issue of its equity base in mind, management only recently announced a share buy back programme, doing so in a statement that made no attempt to conceal its contempt for how “the market” values the firm’s stellar growth.

UK Scientific R&D (72)

Sector turnover of £55.1bn (2.0% of all Non-Financial Services) - in the calendar year Nov2023 to Oct2024

Chart 1. Operating Sales, £

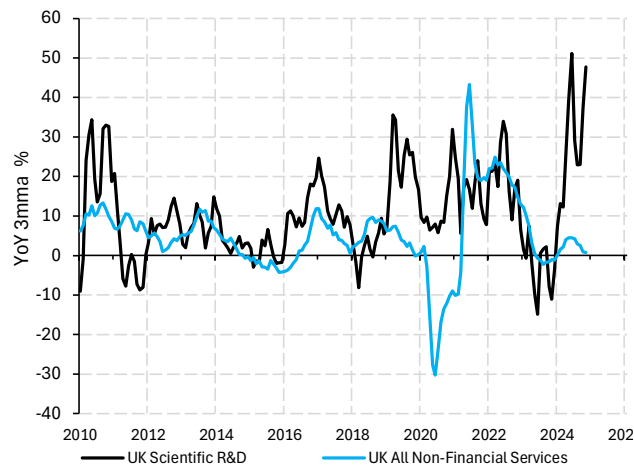
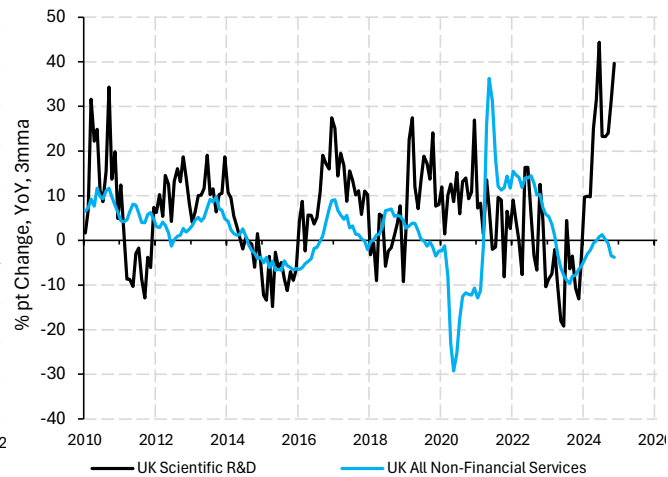


Chart 2. Operating Margin

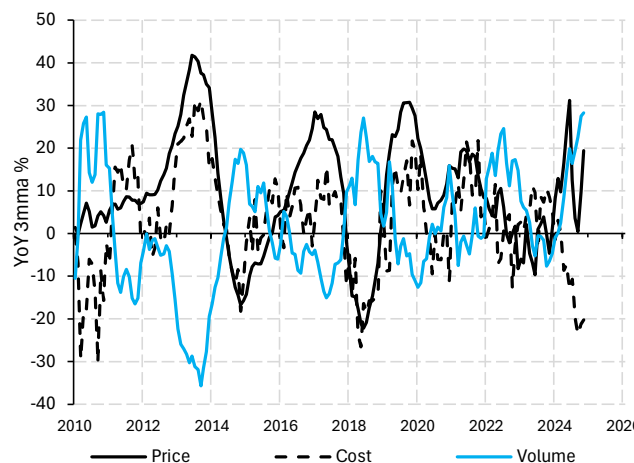


Annual Growth Averages (%) and Inverse Coefficient of variance* in brackets

UK Scientific R&D 10.7 (0.9)
UK All Non-Financial Services 5.2 (0.5)

UK Scientific R&D 6.7 (0.6)
UK All Non-Financial Services 1.9 (0.2)

Chart 3. Price, Cost & Volume



Price 9.4 (0.7)
Cost 2.7 (0.2)
Volume 1.4 (0.1)

Chart 4. Detailed price & cost dynamics

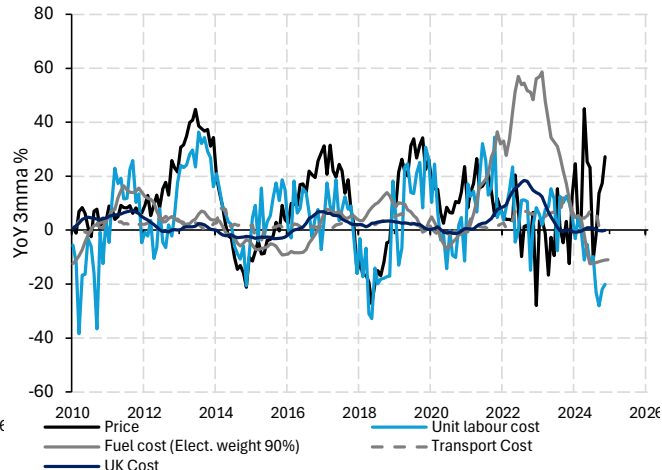
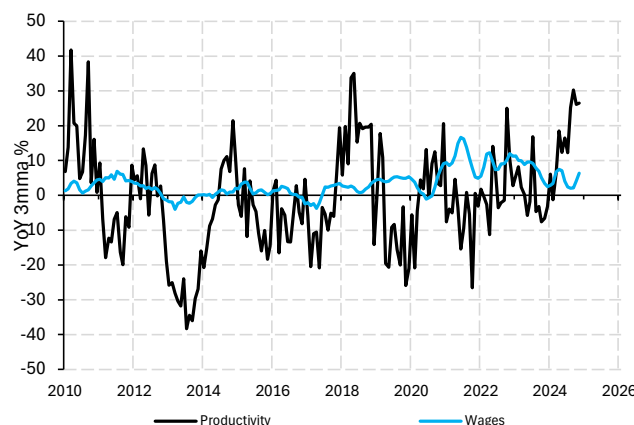
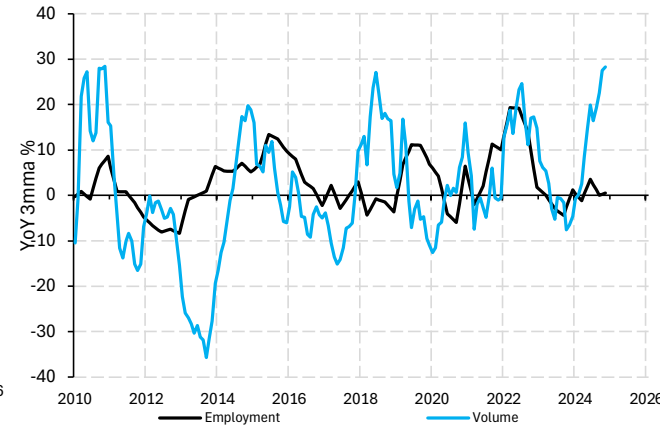


Chart 5. Labour Productivity vs Wages



Productivity -0.9 (-0.1)
Wages 3.6 (0.9)

Chart 6. Employment vs Volume



Employment 2.7 (0.4)
Volume 1.4 (0.1)

* Inverse Coefficient of Variance = Mean / Standard Deviation

UK All Non-Financial Services (45-96)

Sector turnover of £2820.8bn (100.0% of all Non-Financial Services) - in the calendar year Nov2023 to Oct2024

Chart 1. Operating Sales, £

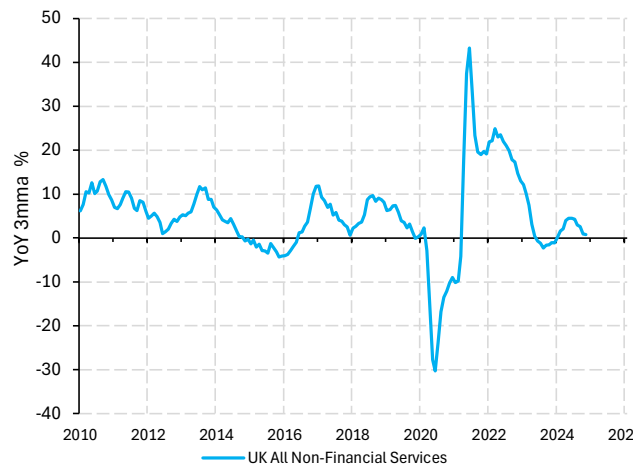
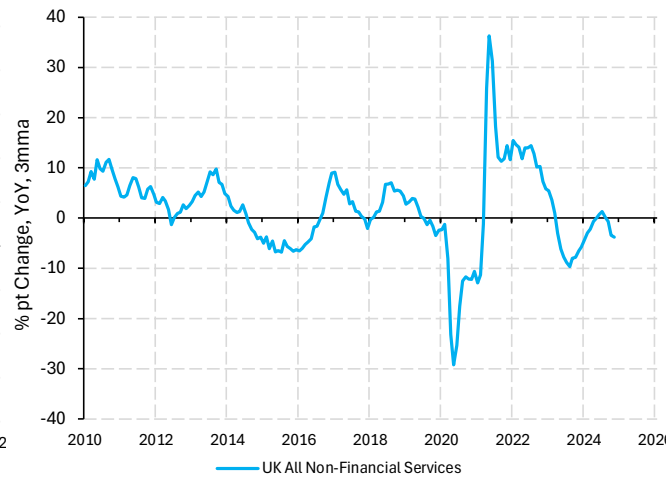


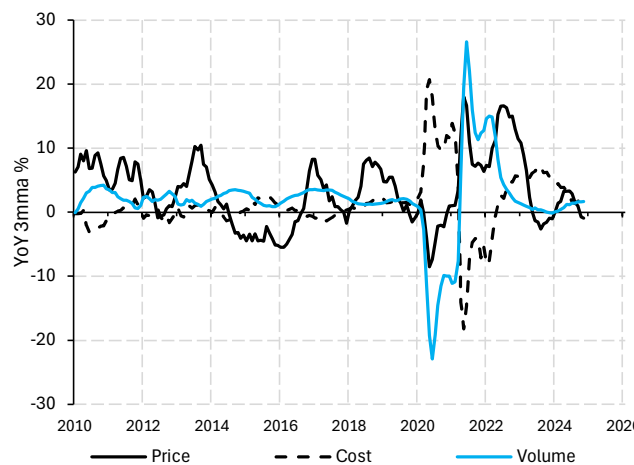
Chart 2. Operating Margin



Annual Growth Averages (%) and Inverse Coefficient of variance* in brackets

UK All Non-Financial Services 5.2 (0.5)

Chart 3. Price, Cost & Volume



Price 3.2 (0.6)

Cost 1.3 (0.3)

Volume 1.9 (0.3)

UK All Non-Financial Services 1.9 (0.2)

Chart 4. Detailed price & cost dynamics

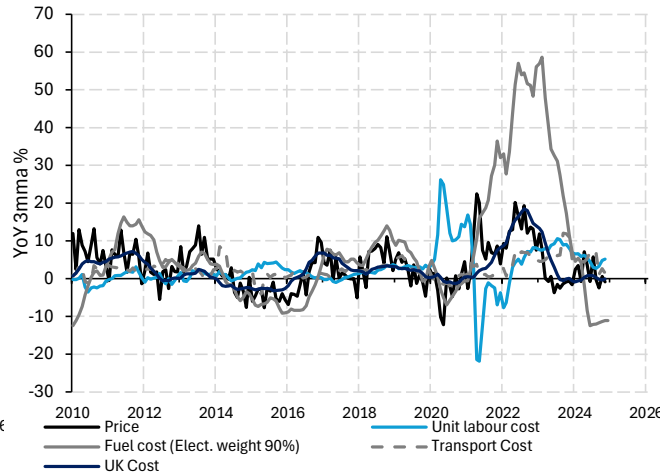
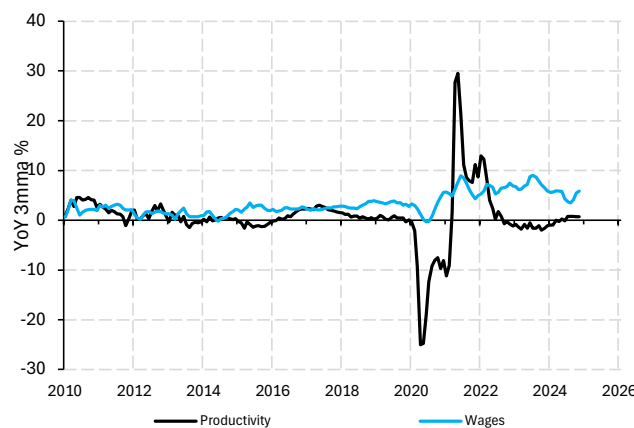


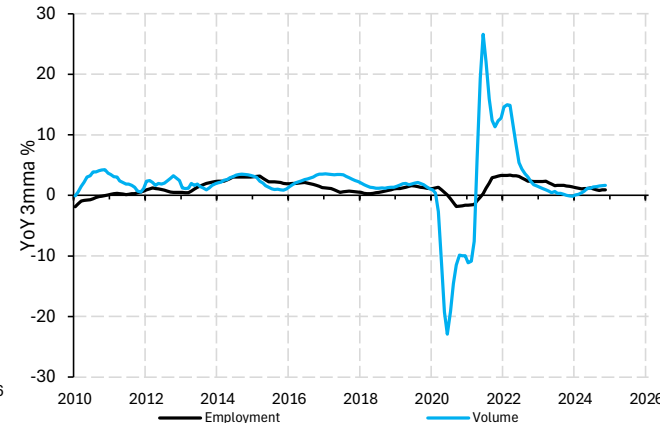
Chart 5. Labour Productivity vs Wages



Productivity 0.7 (0.1)

Wages 3.3 (1.5)

Chart 6. Employment vs Volume



Employment 1.2 (1.0)

Volume 1.9 (0.3)

* Inverse Coefficient of Variance = Mean / Standard Deviation

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List of Companies within the UK Non-Financial Service sectors

List of UK All Non-Financial Services	SIC	Companies
UK Wholesale & retail trade & repair, only of vehicles	45	
UK Wholesale trade services, of everything except vehicles	46	Bestway, Costco, Booker (Tesco), Brakes (Sysco), Bidfood, JJ Food
UK Land transport, trains & buses - people & freight	49.3-5	FirstGroup, Trainline
UK Warehousing & support services for transportation	52	Diploma, Restore
UK Postal & courier services	53	Smiths News
UK Hotels and other short-term accommodation services	55	Accor, IHT, Whitbread (Premier Inn)
UK Food & beverage serving sectors	56	Compass, Sodexo, Aramark
UK Publishing services - newspapers, periodicals & computer games	58	De la Rue, DMGT, AutoTrader, Bloomsbury
UK TV, film & sound production & presentation	59	CineWorld, ITV, STV
UK Telecoms services	61	Maintel, TalkTalk
UK Software developers	62	CPP, ComputerCenter, PCI-Pal, Petards, RWS, Software Circle, Tribal
UK Providers of data processing & hosting services	63	1Spatial, Experian, Journeo, Vianet
UK Real estate activities on a fee or contract basis	68.3	International Workplace, LSL Property Services, Mitie Group, Savills, Foxtons, Rightmove, Winkworths, MAB
UK Legal services	69.1	Gately, Keystone Law, Knights Group, the Ince Group, Begbies Traynor
UK Accountants, auditors & tax consultants	69.2	Begbies Traynor, Knights Group
UK Architects & civil engineers	71	Diales, Hargreaves Services, Intertek, Kier Group, Mears Group, Northern Bear, Renew Holdings, Ricardo
UK Scientific R&D	72	Science Group
UK Advertising & market research services	73	YouGov, WPP, M&C Saachi
UK Property, graphic & fashion design & photography	74	Christie Group, Record, Powerhouse Energy, DCC
UK Veterinary activities	75	Pets At Home, CVS Group
UK Rental & leasing services, non real estate	77	Johnson Service, SZigup
UK Recruitment services	78	Norman Broadbent, Page Group, Robert Walters, RTC, Staffline Group, Sthree, Hays
UK Travel agents & tour operators	79	Hostel-World, OnTheBeach Group
UK Security & investigation services	80	Croma, Synetics, Westminster
UK Office admin & business support - including call centres	82	Capita, IWG
UK Human health services	86	Spire Healthcare
UK Creative arts & entertainment services - theatres etc	90	
UK Library, archive, museum & other cultural services	91	
UK Sporting, amusement & other recreation services	93	GYM Group, Hollywood Bowl
UK Repair services of computers, personal & household goods	95	

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