



ZOTEFOAMS

**Zotefoams plc**

Interim 2013 results presentation

August 2013

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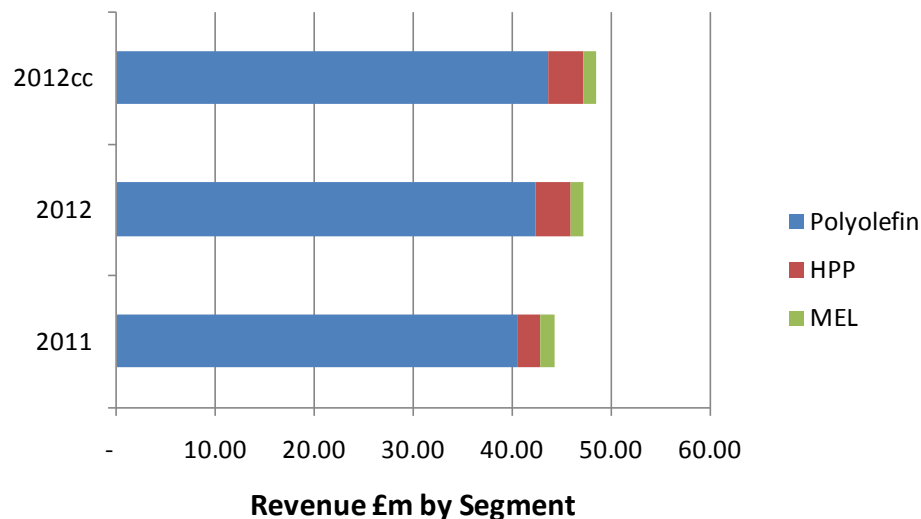
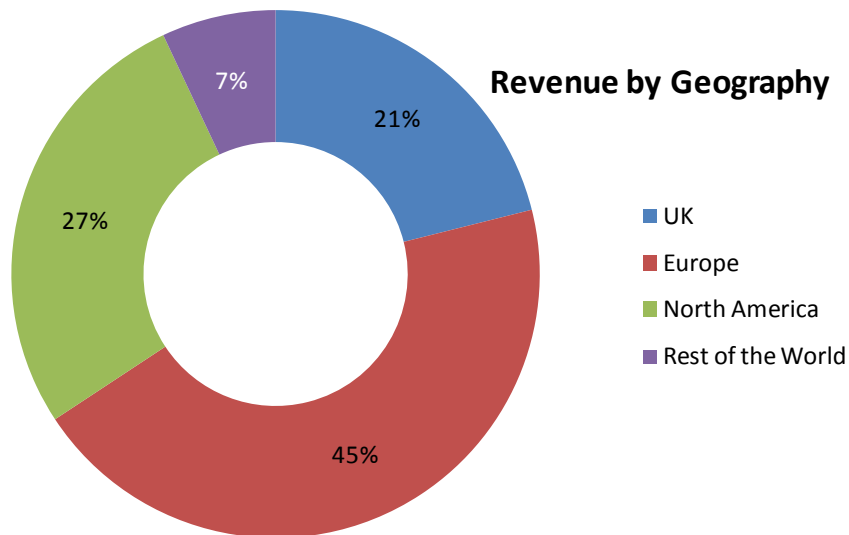
# Contents

1. Group Overview
2. Group Business model
3. Zotefoams' Strategy
4. 2013 Interim Results and Financial Statements
5. Business Review
6. Outlook

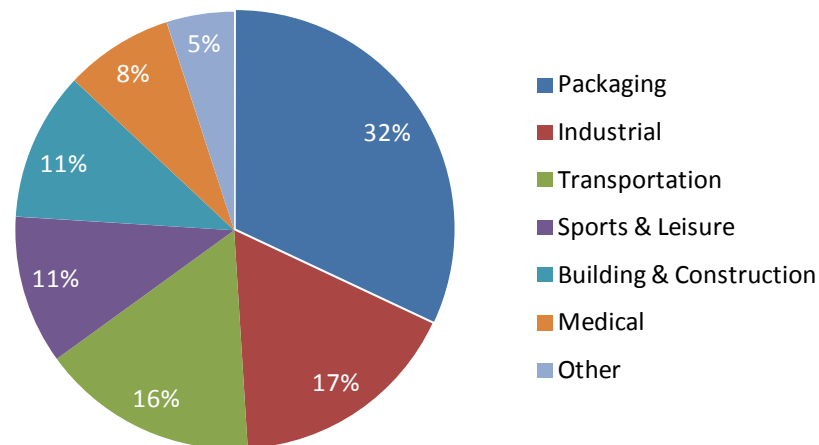
Appendices



# Group Overview : year end 2012



Revenue Split by Application Area



Zotefoams is a world leader in cellular materials technology. Using a unique manufacturing process with environmentally friendly nitrogen gas expansion, Zotefoams produces lightweight foams in UK and USA for diverse markets worldwide. Zotefoams also owns and licenses patented MuCell<sup>®</sup> microcellular foams technology from a base in Massachusetts, USA to customers worldwide and sells T-Tubes<sup>®</sup> advanced insulation.



# Group Business Model

Our business model is designed to harness our unique manufacturing technologies and intellectual property to produce added value products that meet or anticipate market requirements.

**INVEST**

## *People*

## *Products*

## *Processes*

We ensure Zotefoams' investment is balanced across people, products and business processes ("PPP"). Investment, or the lack of it, in plant and equipment is easy to see while our PPP investment is less visible. Profitable and sustainable growth relies on the number and quality of our people, the range and differential advantage of our products and the robustness of our processes.

**CREATE**

## *Defensible technology leadership*

## *Market position*

## *Unique attributes*

By investing in our technology, usually as an extension of our existing knowledge, we can differentiate from our competitors. Our market position is based around the uniqueness of our products and the advantages that brings to our customers. We are active in many markets, both geographical and across industries, and are well positioned to identify and deliver these benefits for users of Zotefoams products and technology. This is particularly important for MuCell Extrusion who license our patents and know-how.

**DELIVER**

## *Customer value*

## *Sustainable margin*

## *Accelerated growth*

The delivery of customer value is at the heart of our business. Creating this value and charging the right price gives us sustainable margin. Over 90% of our business is with customers we were supplying five years ago and these customers are the bedrock of our success. Accelerated growth comes from continuing to deliver value on core products augmented by success in new and innovative areas.



# Zotefoams' strategy

Zotefoams' strategy is to expand through a combination of profitable organic growth of our Polyolefin and HPP foams businesses, new customers for our MuCell Extrusion technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.

## AZOTE SALES

Objective: Sales growth in our polyolefin business to exceed twice the average rate of GDP growth.  
Outcome: Sales of polyolefin foams fell by 9% mainly due to customer destocking and economic conditions in Europe.

## HPP SALES

Objective: Develop a HPP portfolio to deliver enhanced margins.  
Outcome: HPP sales grew by 15% with the segment delivering operating profit

## GROUP MARGIN

Objective: Improve our operating margins.  
Outcome: Group operating margins declined to 11.5% (2012 H1: 14.7%) due to lower sales and operating leverage.

## GROUP ROCE

Objective: Improve our return on capital employed.  
Outcome: Pre-tax return on average capital employed, excluding intangible assets and their amortisation costs, fell to 17.4% (2012 H1 : 24.0%)



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# Financial Highlights

	H1 13 £m	H1 12 £m	Change
Revenue	23.2	24.8	-6%
Profit before Tax	2.5	3.5	-28%
Basic earnings per share (p)	5.1	7.2	-29%
Interim dividend (p)	1.7	1.7	0%
Net (debt)/funds	(0.8)	1.8	





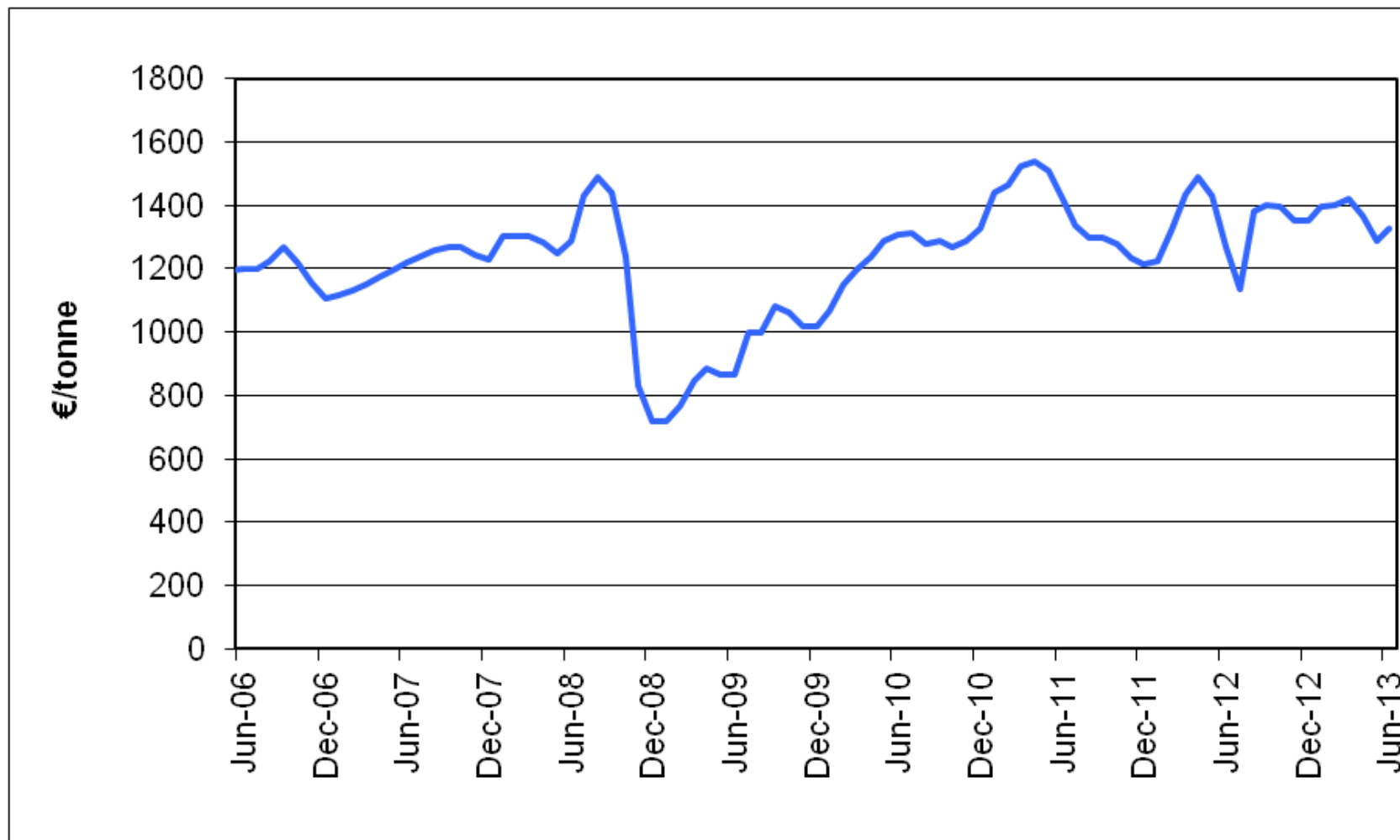
# Profit Before Tax

	H1 13 £m	H1 12 £m	Change
Revenue	23.2	24.8	-6%
Gross profit	6.2	7.8	-21%
<i>Gross margin</i>	<i>27%</i>	<i>32%</i>	
Operating profit	2.7	3.7	-27%
Net interest	(0.2)	(0.2)	
Profit before tax	<u>2.5</u>	<u>3.5</u>	<u>-28%</u>

2012 has been restated for IAS 19 which has a negative impact of £0.1m



# Polymer (LDPE) Prices





	H1 13	H1 12
	£m	£m
Profit before tax	2.5	3.5
Tax	(0.5)	(0.7)
<i>Effective tax rate</i>	<i>21%</i>	<i>21%</i>
Basic earnings per share (p)	5.1	7.2
Interim dividend (p)	1.7	1.7



# Free Cash Flow

	H1 13 £m	H1 12 £m
Operating profit	2.7	3.7
Depreciation & amortisation	1.7	1.6
Working capital	(1.0)	(0.8)
Pensions and share schemes, net	(0.1)	(0.2)
Cash generated from operations	<hr/> 3.3	<hr/> 4.3
Tax paid	(0.5)	(0.5)
Capital expenditure	(1.5)	(1.3)
Free cash flow	<hr/> 1.3	<hr/> 2.5



# Working Capital

	H1 13 £m	H1 12 £m	H1 13 % of sales	H1 12 % of sales
Stock	7.2	6.4	15.5%	13.0%
Receivables	11.6	11.4	25.1%	23.0%
Payables	(4.8)	(6.1)	-10.3%	-12.3%
Net working capital	<u>14.1</u>	<u>11.7</u>	<u>30.3%</u>	<u>23.7%</u>

NB Payables excludes £1.0m deferred consideration in 2012

# Net Funds



ZOTEFOAMS

	H1 13 £m	H1 12 £m
Free cash flow	1.3	2.5
Acquisition	0.0	(1.3)
Dividends	(1.4)	(1.3)
Net funds movement	<u>(0.1)</u>	<u>(0.1)</u>
Net funds brought forward	(0.6)	1.9
Exchange adjustments/roundings	(0.1)	(0.1)
Net (debt)/funds	<u>(0.8)</u>	<u>1.8</u>
Comprising:		
Cash funds	3.0	3.0
Borrowings	<u>(3.8)</u>	<u>(1.2)</u>
	<u>(0.8)</u>	<u>1.8</u>



# Balance Sheet

	H1 13	H1 12
	£m	£m
Intangible assets	5.4	5.6
Tangible assets	26.1	25.2
Net working capital	14.1	10.7
Retirement benefit obligations	(7.0)	(4.7)
Deferred tax, net	(0.2)	(0.8)
Tax payable	(0.7)	(0.9)
Net funds	(0.8)	1.8
Total shareholders' equity	<u>37.0</u>	<u>37.0</u>



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# Polyolefin Foams

## Business Model

- Azote® polyolefin foams are more consistent, lighter, purer and have better mechanical properties than similar foams made by other foaming methods.
- Investment in process equipment, technology, marketing and R&D gives us distinct advantages in both product and market presence
- Process : core high-pressure Nitrogen gas autoclave technology in UK and foam expansion in UK and USA
- Value to customer : consistency in manufacturing with performance in end-use
- Structure : Zotefoams has largest market share in UK, EU and North American markets. Our growth comes from market extension here and penetration elsewhere

## Strategy

- Product line extension in specific sub-segments where Zotefoams has a lower market share and/or can increase our competitive advantage and margin
- Increased participation (with sales through channel partners) in end-use markets, such as:
  - Construction
  - Automotive
  - Sports & leisure
- Increased presence geographically
  - 50:50 Sales and Manufacturing JV in Asia from 1 July 2013
  - Medium-term increased exposure in South America, India, Middle East
- Investment to deliver quality and capacity improvements
- Price increases based on comparative advantage



# Polyolefin Foams : Results

- ORDER DELIVERY LEAD TIMES
  - Improvement in early 2013 following capacity investment and debottlenecking in late 2012
  - inventory build in 2012 reversed in early 2013, particularly in Germany and Japan
  - Transition to better service provision but with reduced visibility of demand
- INVESTMENT IN CROYDON SITE INFRASTRUCTURE
  - Factory expansion on-going
- INVESTMENT IN CAPACITY
  - Polyolefin Extruder : commissioning Q3:2013 adds c 17% to extrusion capacity
  - High Pressure Gas Services : optimise cycle times and improve capacity

	Polyolefins	
	2013	2012
	£000's	£000's
<b>Revenue</b>	<b>20,325</b>	<b>22,338</b>
<b>Segment Profit</b>	<b>2,678</b>	<b>3,598</b>

- REVENUE
  - Decline of 9% in value, 12% in volume
  - Main Factors
    - Destocking (particularly in Germany and Japan)
    - Market conditions in continental Europe
- COSTS
  - LDPE and Energy unfavourable
  - Operational gearing impact
- PRICING
  - Increases implemented across Q2:2013



# Polyolefin Foams : JV in Asia

## Structure

- SALES
  - Effective 1 July 2013
  - 50:50 shares, Zotefoams operated
  - INOAC as significant customer
  - Location Hong Kong
  - Transfer of Zotefoams existing Azote® sales force and customer base
- MANUFACTURING
  - Location in Masan, South Korea
  - 50:50 shares, INOAC to build and operate (2015 target start)
  - foam expansion similar to KY, USA
- SUPPLY
  - From Zotefoams Croydon
  - Expanded foam or gassed sheet

## About INOAC Corporation

- Japan HQ global manufacturing conglomerate
- US\$ 3.3 bn in sales
  - B2B mainly in plastics and rubbers
  - Automotive, electronics, construction, industrial, packaging
- 25,800 employees
- Experienced in JV approach
  - US, UK, EU, partners in Asia
- Zotefoams customer since 2008

## Business Model

- ZOTEK® HPP foams are manufactured from raw materials offering enhanced properties, such as being fire retardant or having stability at high-temperature. With additional value added and existing installed capacity these foams offer potential for higher margins
- Portfolio of products at different stages of development and market penetration in this segment
- Process : core high-pressure Nitrogen gas autoclave technology in UK
- Value to customer : superior technical performance, often replacing “multi-material composite systems
- Structure : HPP foams are redefining markets with significant opportunity across a variety of segments. Timing and extent of penetration can be difficult to predict

## Strategy

- ZOTEK® F fluoropolymer foams for aviation remains the largest market and medium-term offers the largest opportunity for growth. Focus to grow:
  - Increased content per plane in USA
  - EU and Asia with OEMs
  - Aftermarket and completion centres with “specified products”
- T-Tubes®
  - Resource focused on Asia and India
  - Product-line extension into industrial areas
- ZOTEK® N nylon foams
  - End-user focus in construction, composites and automotive
- Pebaxfoam®
  - Sports mainly & some industrial markets



# HPP : Results

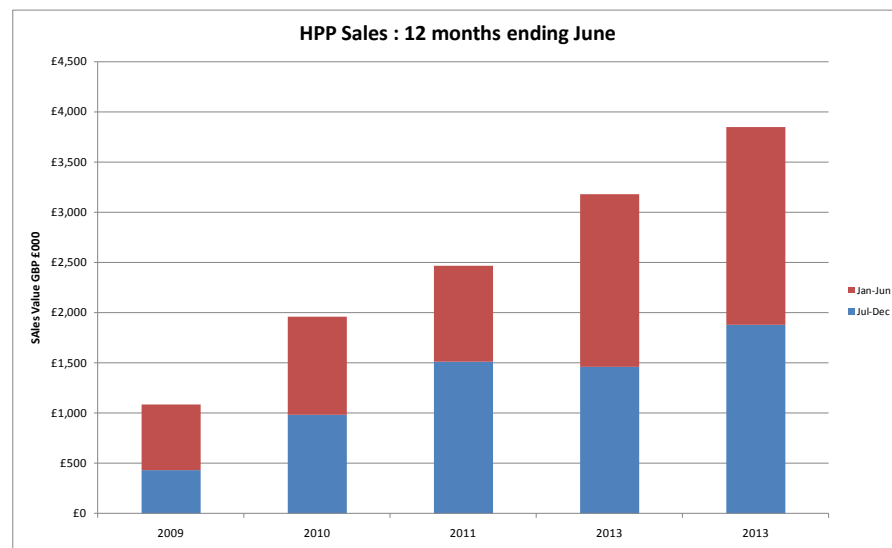
- REVENUE

- Growth of 15%
- ZOTEK<sup>®</sup>F : fluoropolymer foams largest segment with growth mainly from additional content at existing customers in North America aviation
- T-Tubes<sup>®</sup> : sales at similar level to 2012 but activity at higher level. Project-based business
- Pebaxfoam<sup>®</sup> & ZOTEK<sup>®</sup> N : remain <5% of HPP portfolio at this time

- COSTS

- Well invested in sales and development
- Manufacturing costs increased in line with revenue, efficiency improvement opportunities identified

	HPP	
	2013	2012
	£000's	£000's
<b>Revenue</b>	<b>1,973</b>	<b>1,717</b>
<b>Segment Profit</b>	<b>118</b>	<b>14</b>



## Business Model

- MEL licenses technology for continuous foaming
- Process : easy to retrofit to existing equipment. Uses CO2 or Nitrogen inert, environmentally friendly gases
- Value to licensee : saving of material cost and environmental benefits (less plastic, fully recyclable, no chemical additives) for their customers
- Payment model : MEL takes a share of savings over the life of the contract
- Market size : very large
- Intellectual property : developed internally and licensed-in where appropriate. Portfolio of patents and know how

## Strategy

- Refocus of activities towards a more limited number of segments with high potential, mainly in consumer packaging
  1. thin films
  2. extrusion blow moulded bottles
  3. plastic sheets
- Leverage : addressing markets through channel partners where possible, e.g.;
  - Automotive blow moulding : signed global agreement with Kyoraku of Japan
  - Thin films : MuCell® capability installed at Dow Chemical global technical centres (Switzerland, Singapore, Texas)
- Machinery sales are enabling technology
  - Further development of capability outside existing supplier base
  - Internally developed 1000barG gas unit



# MuCell Extrusion: Results

- REVENUE

- One legacy licence “paid up” in Q4:2012
- Excluding this, revenue increase 41% vs H1:2012 with increases from all segments (licence fees, royalty, equipment and engineering services)
- Equipment sales (seen as enabling technology) increased more than 100% and represent over 40% of revenue in the period

- COSTS

- Investment to support growth
- All cost increases per business plan

- ACTIVITY LEVEL

- Existing licensees rolling-out technology
- High level trials and enquiry activity
- Focus on limited segments means known capability and faster development

## MEL

	2013	2012
	£000's	£000's
<b>Revenue</b>	<b>920</b>	<b>753</b>
<b>Segment Profit</b>	<b>46</b>	<b>165</b>

*(before amortisation)*



Neocell was launched by PACCOR® in June 2013 for the FFS market, an example of which (not using Neocell) is shown above for illustrative purposes



# Outlook

In our Azote® polyolefin foams business the first half of 2013 saw customers reduce their inventory holding, adjusting to our shorter lead times. These lead time improvements have also resulted in a shortening of our order book resulting in less certainty in the outlook for the year in polyolefin foams. We expect our joint venture to drive growth in Asia in the medium term, although the costs associated with the initial set-up will have a slightly negative effect on profit in 2013. Foreign exchange rates are currently favourable to those in the same period in 2012, although this benefit is partially offset by our hedging policy. The price of LDPE has been relatively stable in the past seven months and current prices are similar to those experienced in this year to date.

The HPP business is showing good growth prospects from specified areas and also from very high levels of enquiries and trials in a variety of industrial and consumer applications. MEL continues to make strong progress in our key focus markets, particularly related to consumer packaging, and the positive trend seen in the first half is expected to accelerate strongly for the balance of this year.

We enter the second half of 2013 with a strong balance sheet and a portfolio of products supported by the investments made in recent years. As a result we continue to maintain a consistency of strategy and approach. While being mindful of economic uncertainty, particularly in continental Europe, and somewhat reduced visibility due to our improved order lead times, we expect higher sales in the second half and an overall performance for the full year that will be similar to last year. We remain confident in the long term prospects for the business.





# Appendices

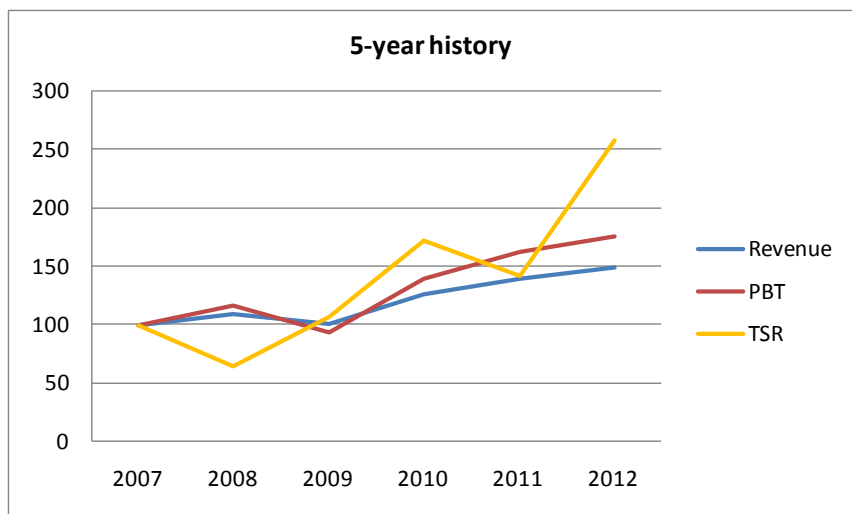


# Financial History

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	2012	2011	2010	2009	2008	2007	2006	2005	2004
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sales	47.2	44.2	39.9	31.8	34.8	31.6	30.1	28.0	25.2
Sales growth	7%	11%	25%	-9%	10%	5%	7%	11%	7%
PBT (excl exceptionals)	5.9	5.5	4.7	3.2	3.9	3.4	2.7	1.8	1.3
PBT (incl exceptionals)	5.9	5.5	5.3	2.7	3.9	3.4	1.6	3.3	1.3
Cash generated from operations	6.3	6.1	7.2	7.0	5.8	4.8	4.7	4.1	5.3
Capex	3.7	2.7	2.7	3.4	1.4	2.7	2.6	1.1	1.3
Net (funds)/debt	0.6	(1.9)	(1.9)	0.4	1.2	1.7	1.4	1.1	1.7
Gearing	2%			2%	4%	6%	6%	4%	7%
Basic eps (excl exceptionals)	12.1p	11.8p	10.2p	6.8p	8.3p	8.0p	5.4p	3.5p	3.2p
Dividends	5.20p	4.90p	4.65p	4.5p	4.5p	4.5p	4.5p	4.5p	4.5p

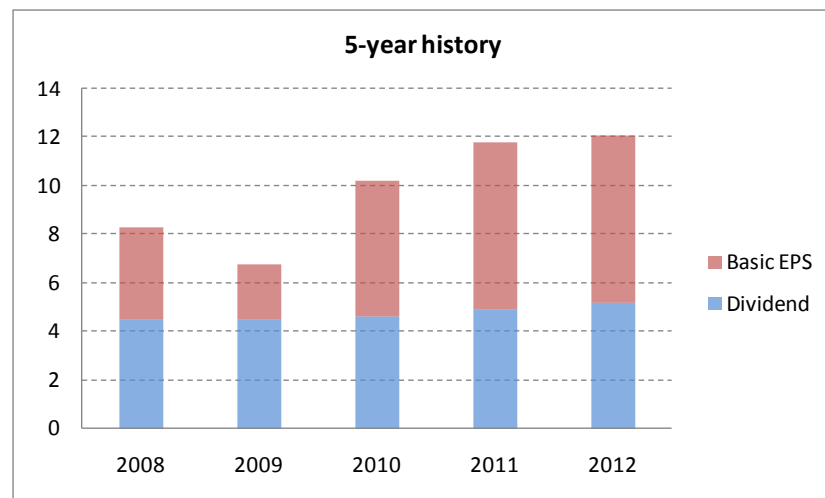


# Financial Track Record (12 months to December)



- Growth in sales and margin
  - Diversified sales growth
  - Operational Gearing and Cost Management
  - Investment in top-line development
- CAGR
  - Sales +8%
  - PBT +12%
  - TSR +21%

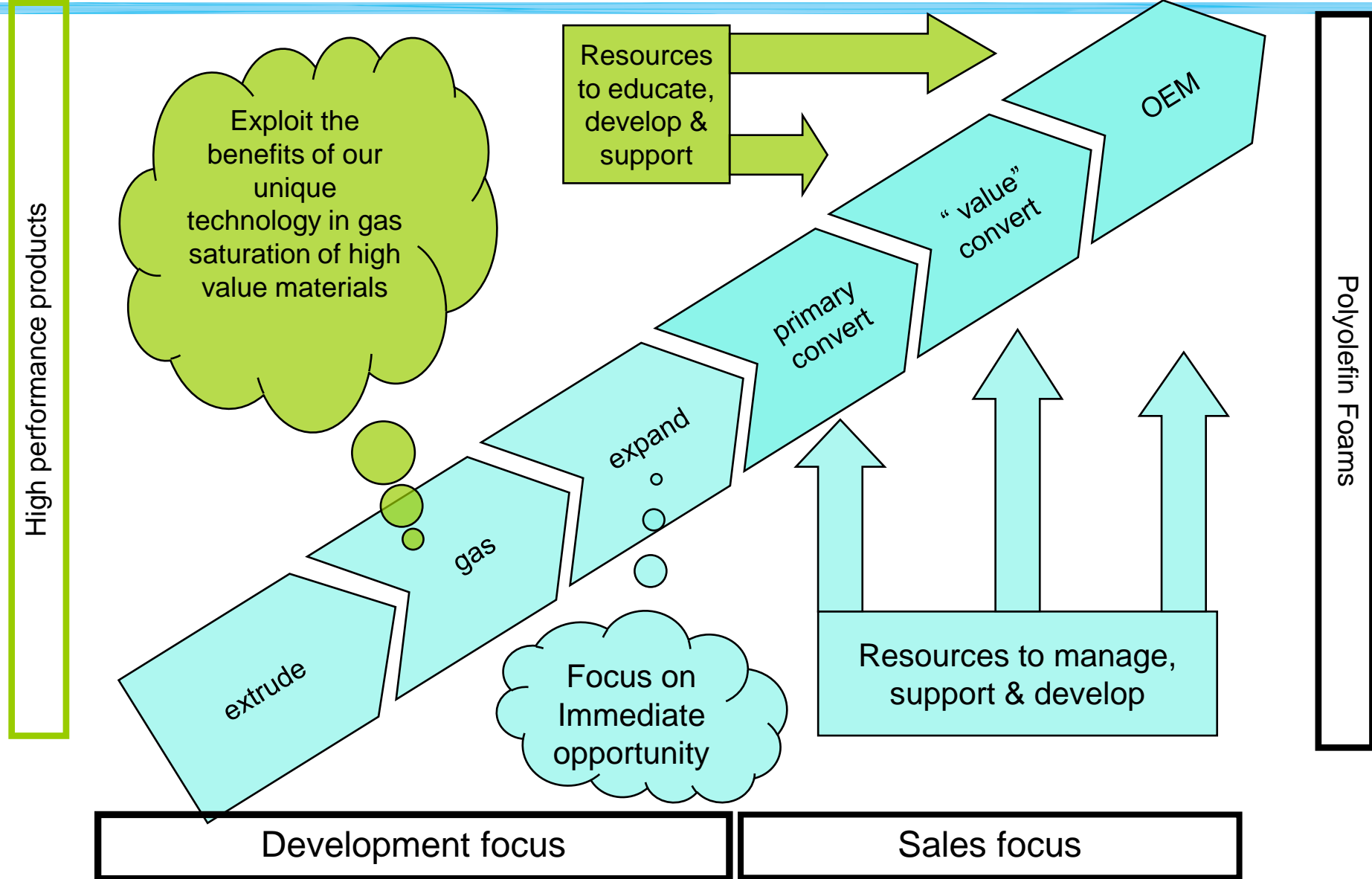
- Progressive Dividend since 2010
- Earnings cover > 2 times
- Strong balance sheet
- Good operational cash flow
- Growth alongside Dividend Yield



All figures pre-exceptional items



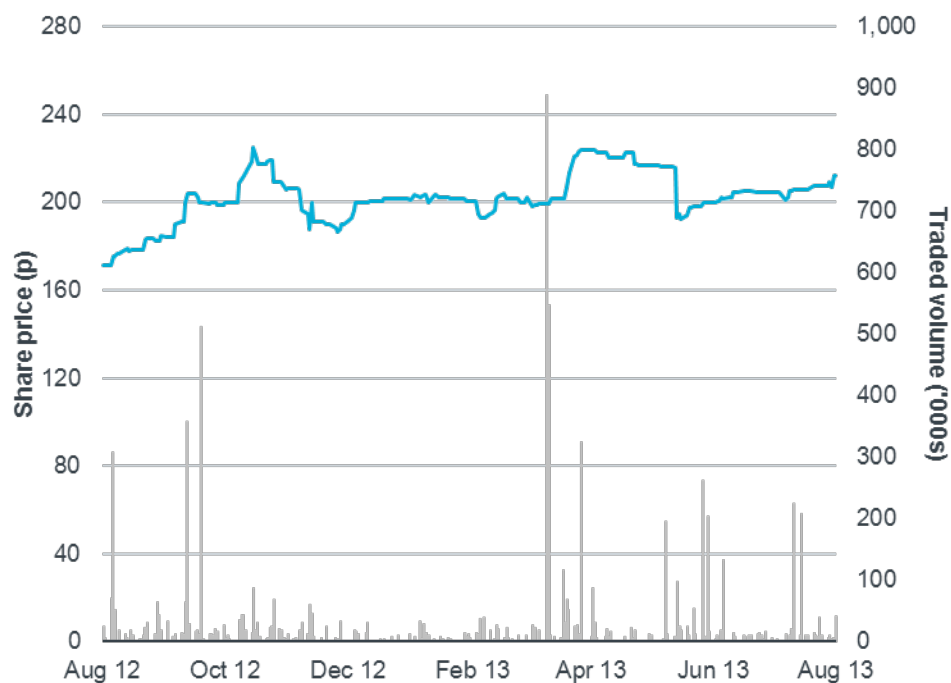
# Value Chain / Strategy



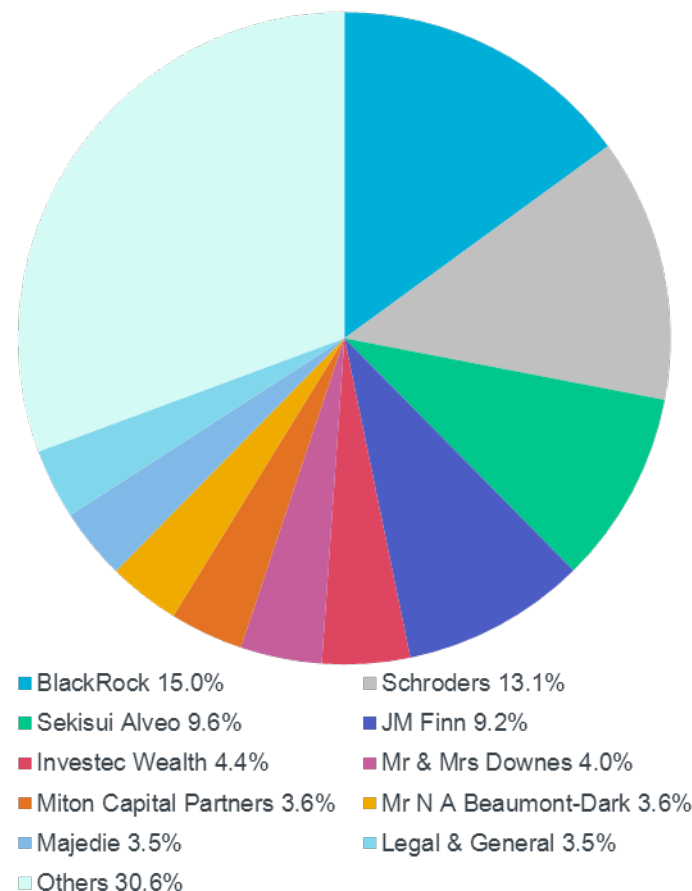


# Key Information

- Share price 212.5p (02/08/13)
- Market Main Market
- Ticker ZTF.L
- Market cap. £84.6m
- Ord. shares in issue 39,831,312



Shareholder profile\*



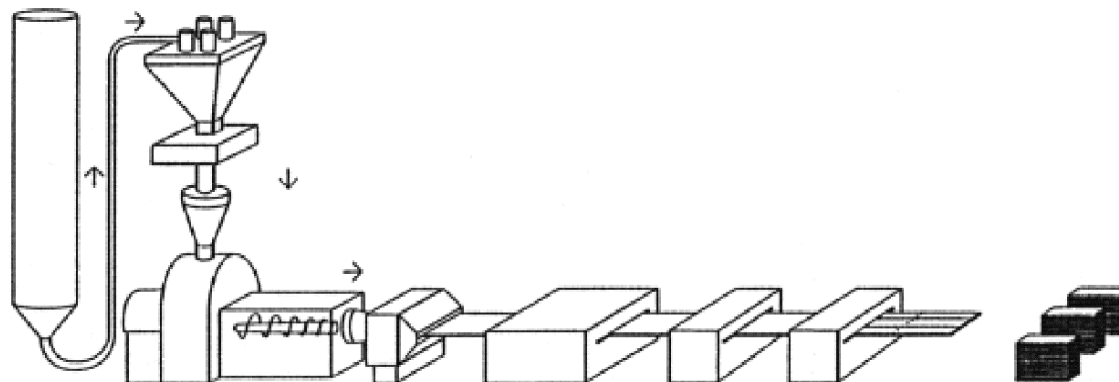
\* Source: Investec Investor Relations (30/06/13)



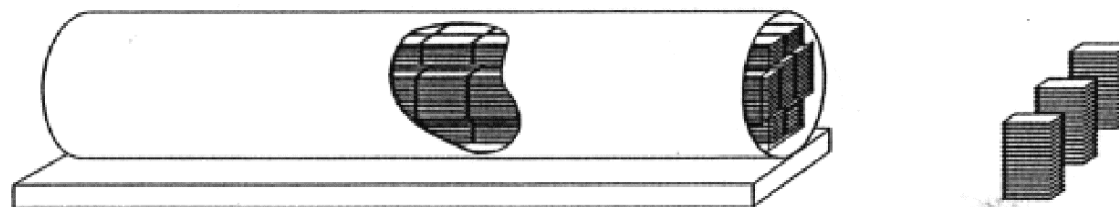
# Process

## Zotefoams Plc process

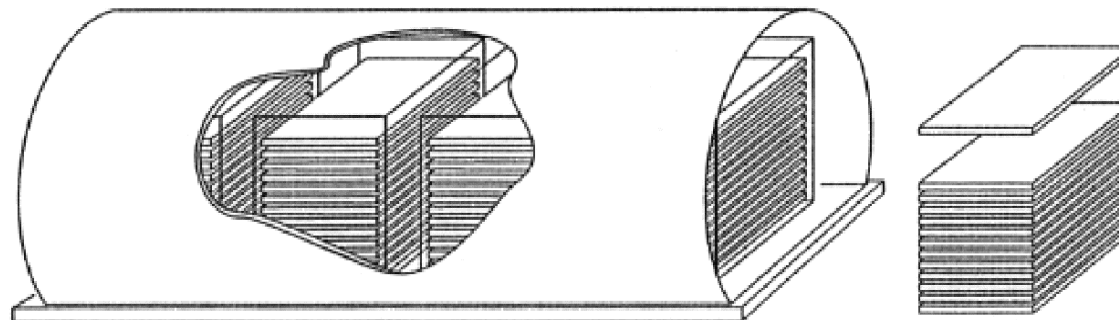
mixing and  
extrusion



impregnation



expansion





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