



ZOTEFOAMS

Zotefoams plc

Preliminary 2013 results presentation

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Highlights

- High-Performance Products ('HPP')

 - Revenue increase of 20% to £4.31m (2012: £3.60m)

 - First full-year segment profit of £0.42m (2012: loss of £0.08m)

- MuCell Extrusion LLC ('MEL')

 - Increased sales by 17%, with an underlying growth rate of 44%

- Polyolefin foams

 - Sales down 8% with customer destocking particularly in Continental Europe

 - Strong levels of order intake in 2014 to date

- Overall Group revenue £44.63m (2012: £47.19m)

- Adjusted¹ profit before tax of £4.18m (2012: £6.08m²)

- Profit before tax of £3.86m (2012: £5.78m²)

- Strong balance sheet with gearing under 3%

- Increase in proposed final dividend to 3.6p per ordinary 5p share (2012: 3.5p)

¹ Before amortisation of intangible assets

² Restated following adoption of revised IAS 19 Employee Benefits standard



Contents

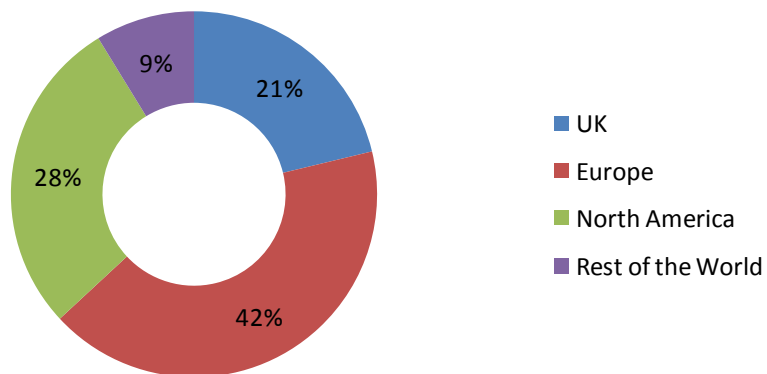
1. Group Overview
2. Group Business model
3. Zotefoams' Strategy
4. 2013 Results and Financial Statements
5. Business Review
6. Outlook

Appendices

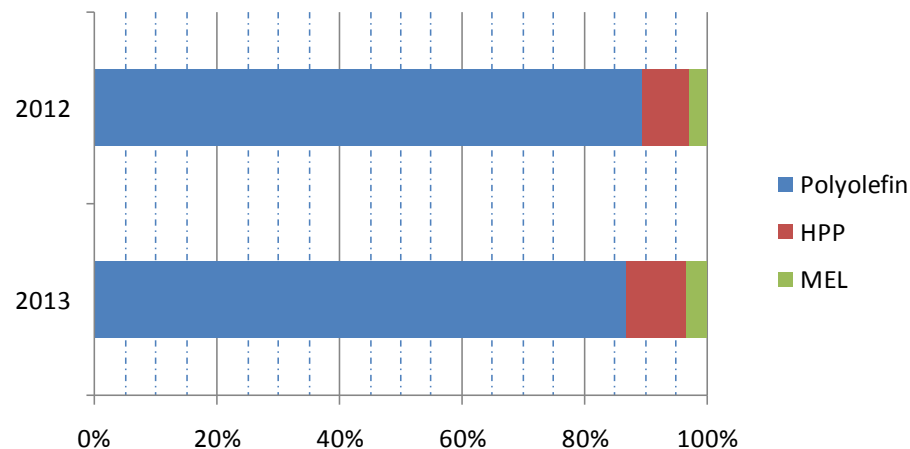


Group Overview : year end 2013

Revenue by Geography

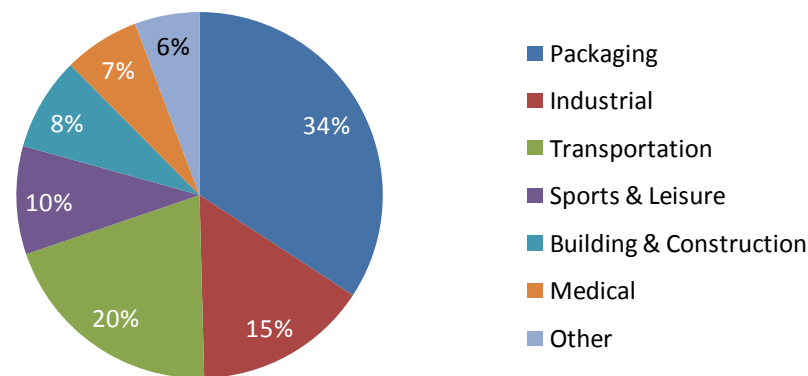


Revenue by Segment



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® microcellular foams technology from a base in Massachusetts, USA to customers worldwide and sells T-Tubes® advanced insulation.

Revenue by Application





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 80% 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 8%, primarily due to customer destocking.
CAGR since 2009 is 7%

HPP SALES

Objective: Develop a HPP portfolio to deliver enhanced margins.
Outcome: HPP sales grew by 20% with the segment delivering operating profit of £0.42m.
Equivalent to a marginal profit rate of 70%

GROUP MARGIN

Objective: Improve our operating margins.
Outcome: Group operating margins declined to 9.3% (2012 : 12.8%) due to lower sales and the negative impact of 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 12.9% (2012 : 20.3%)



Contents

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

Appendices



Financial Highlights

	2013	2012
	£m	£m
Revenue	44.63	47.19
Adjusted PBT excl amortisation	4.18	6.08
Profit before tax	3.86	5.78
Basic earnings per share (p)	8.0	11.8
Dividends for year (p)	5.3	5.2
Net debt	(1.12)	(0.62)



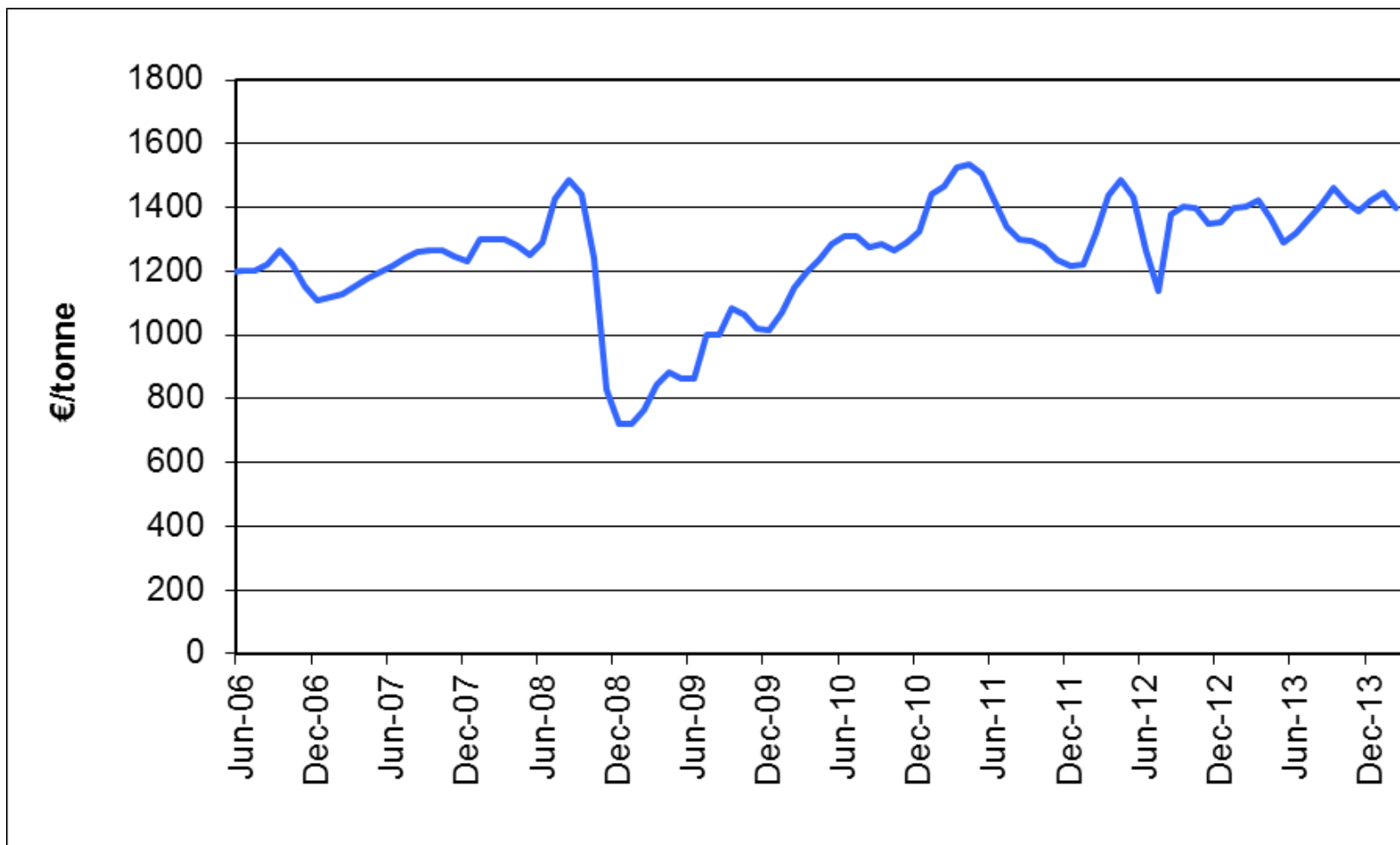
Profit Before Tax

	2013 £m	2012 £m
Revenue	44.63	47.19
Gross profit	11.62	13.67
<i>Gross margin</i>	26%	29%
Operating profit	4.16	6.03
Net interest	(0.31)	(0.26)
Profit before tax	<u>3.86</u>	<u>5.78</u>
Including amortisation of:	0.32	0.30

2012 has been restated for IAS 19 which has a negative impact of £0.15m on PBT



Polymer (LDPE) Prices





	2013 £m	2012 £m
Profit before tax	3.86	5.78
Tax	(0.70)	(1.16)
<i>Effective tax rate</i>	18%	20%
Basic earnings per share (p)	8.0	11.8
Dividend for year (p)	5.3	5.2
Cover	1.5	2.3



Free Cash Flow

	2013 £m	2012 £m
Operating profit	4.16	6.03
Depreciation & amortisation	3.61	3.31
Working capital	(0.71)	(2.56)
Pension contributions	(0.66)	(0.66)
Share options charge	0.23	0.16
Cash generated from operations	<u>6.63</u>	<u>6.29</u>
Tax paid	(1.01)	(0.99)
Capital expenditure	(4.14)	(3.68)
Other	(0.05)	(0.05)
Free cash flow	<u>1.43</u>	<u>1.56</u>



Working Capital

	2013 £m	2012 £m	2013 % of sales	2012 % of sales
Stock	8.02	6.64	18.0%	14.1%
Receivables	10.99	11.61	24.6%	24.6%
Payables	(5.56)	(4.92)	-12.5%	-10.4%
Net working capital	<u>13.45</u>	<u>13.33</u>	<u>30.1%</u>	<u>28.3%</u>



Net Funds

	2013 £m	2012 £m
Free cash flow	1.43	1.56
Acquisition	0.00	(2.23)
Dividends	(2.05)	(1.96)
Net debt movement	<u>(0.62)</u>	<u>(2.63)</u>
Net (debt)/funds brought forward	(0.62)	1.92
Exchange adjustments/roundings	0.13	0.08
Net debt	<u>(1.12)</u>	<u>(0.62)</u>
Comprising:		
Cash funds	1.96	3.70
Borrowings	<u>(3.07)</u>	<u>(4.32)</u>
	<u>(1.12)</u>	<u>(0.62)</u>

Plus £4.9m overdraft facility



Balance Sheet

	2013 £m	2012 £m
Intangible assets	4.92	5.25
Tangible assets	27.33	25.87
Net working capital	13.45	13.33
Retirement benefit obligations	(4.28)	(7.17)
Deferred tax, net	(0.79)	(0.16)
Tax payable	(0.51)	(0.80)
Net debt	(1.12)	(0.62)
Total shareholders' equity	<u>39.01</u>	<u>35.69</u>
Gearing	2.9%	1.7%



Contents

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

Appendices



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 signed 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

- NARRATIVE THROUGH THE YEAR
 - Capacity improvement in early 2013 leads to inventory reversal at a few customers
 - Improved lead times , better service and market position but with reduced visibility of demand
 - Changes to customer approach not well managed
- INVESTMENT IN CROYDON SITE INFRASTRUCTURE
 - Factory expansion progressing to plan
- INVESTMENT IN CAPACITY
 - Polyolefin Extruder : now planned commissioning Q2:2014 due to supplier delays, adds c 17% to extrusion capacity
 - High Pressure Gas Services : ancillary investment to increase capacity

	Polyolefin	
	2013	2012
	£000's	£000's
Revenue	38,825	42,295
Segment Result	4,199	6,434

- REVENUE
 - Decline of 8% in value, 11% in volume
 - Main Factors
 - Destocking (particularly in Germany)
 - US government spending
- COSTS
 - LDPE pricing slightly adverse and energy unfavourable
 - Operational gearing impact
 - Sales volatility led to operational inefficiency
 - Higher depreciation following Expansion Capacity investment in 2012
- PRICING
 - Increases implemented across Q2:2013



Polyolefin Foams : JV in Asia

Structure

- SALES
 - Signed July 2013
 - 50:50 shares, Zotefoams operated
 - INOAC as significant customer
 - Location HK
 - 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
- ZOTEK® PEBA specialty foam
 - Sports mainly & some industrial markets



HPP : Results

• REVENUE

- Growth of 20%
- CAGR 40% from 2008
- Represents 10% of group sales
- ZOTEK[®]F fluoropolymer foam is the largest constituent, with growth mainly from aviation
- Other products in this segment : T-Tubes[®], ZOTEK[®] PEBA specialty foam & ZOTEK[®] N nylon foam

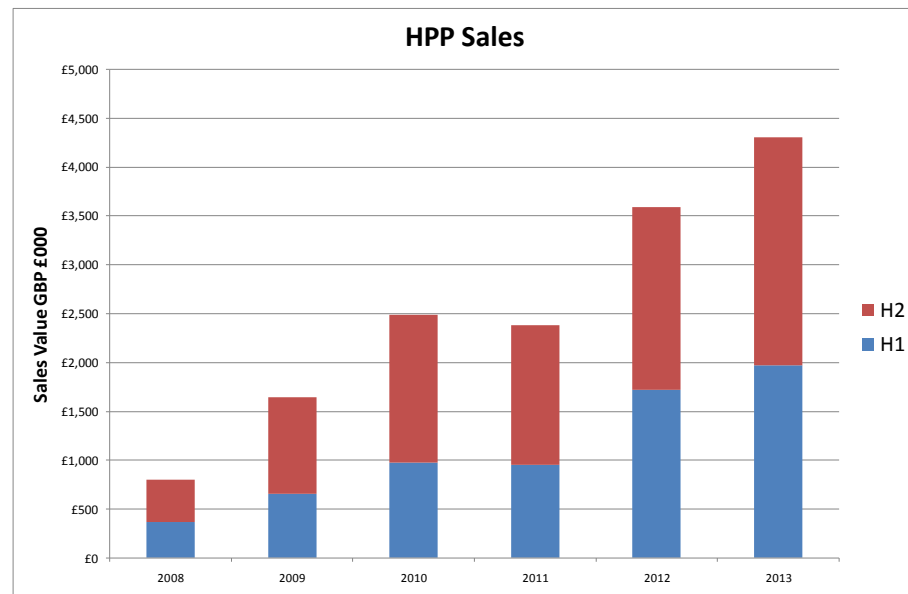
• COSTS

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

• MARGIN

- Incremental margin at 70% of incremental revenue

	HPP	
	2013	2012
	£000's	£000's
Revenue	4,311	3,595
Segment Result	423	(82)



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 film
 2. plastic sheet
 3. extrusion blow moulded packaging
- 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 2012
- Excluding this, revenue increased 44%
- Most licences not yet mature / generating royalties

- COSTS

- Investment to support growth
- Higher level of equipment sales
- All cost increases per business plan

- ACTIVITY LEVEL

- Technology validation press releases **
- Existing licensees rolling-out technology
- Enquiry activity very high
- Focus on limited segments delivers know capability and fast development, but every licence requires negotiation
- Further IP development in 2013/14

	MEL	
	2013	2012
	£000's	£000's
Revenue	1,562	1,330
Segment Result	(138)	(22)



Foamed ducts are being manufactured for automotive companies. Key benefits are: lower noise, lighter weight, lower cost and cooler air delivery.



Outlook

So far in 2014 we have experienced good growth in Polyolefin foams, with demand levels in Europe and North America reflecting improved levels of activity in the marketplace and sales to Asia well up on early 2013. Levels of order intake are strong and, as planned, we are commissioning additional capacity early in the second quarter of this year. The outlook for our HPP foams and MEL licensing businesses remains positive and we are already seeing the benefit of the higher levels of business development activities in 2013, which we expect to translate into growth in 2014 and beyond. Sterling is currently stronger against our major trading currencies than last year and this is unfavourable for our business as the majority of our sales are in local currencies to markets outside UK and the majority of our costs are sterling denominated. Raw material prices are at similar levels to 2013. The wide scope of Zotefoams' business means we are influenced by global economic conditions while the timing of sales from new products and markets, where higher growth rates are anticipated, can be somewhat difficult to predict. While being mindful of near-term economic conditions, the Board anticipates delivering a return to growth and improvement in performance in 2014 and remains confident about the long-term prospects for our business



Appendices

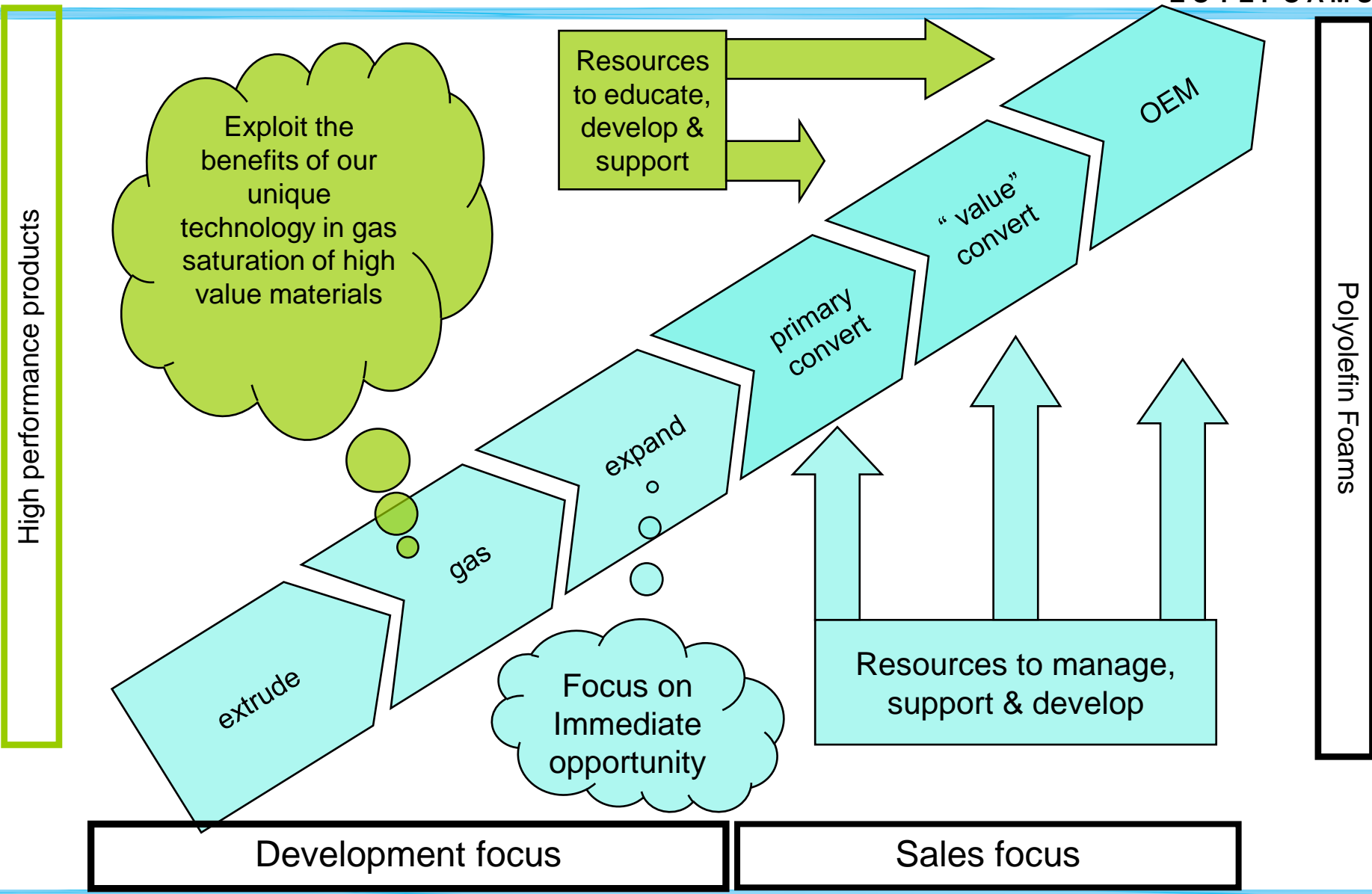


Financial History

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	2013	2012	2011	2010	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sales	44.6	47.2	44.2	39.9	31.8	34.8	31.6	30.1	28.0
Sales growth	-5%	7%	11%	25%	-9%	10%	5%	7%	11%
PBT (excl exceptionals)	3.9	5.8	5.5	4.7	3.2	3.9	3.4	2.7	1.8
Exceptionals	0.0	0.0	0.0	0.6	(0.5)	0.0	0.0	(1.1)	1.5
PBT (incl exceptionals)	3.9	5.8	5.5	5.3	2.7	3.9	3.4	1.6	3.3
Cash generated from operations	6.6	6.3	6.1	7.2	7.0	5.8	4.8	4.7	4.1
Capex	4.1	3.7	2.7	2.7	3.4	1.4	2.7	2.6	1.1
Net (funds)/debt	1.1	0.6	(1.9)	(1.9)	0.4	1.2	1.7	1.4	1.1
Gearing	3%	2%			2%	4%	6%	6%	4%
Basic eps (excl exceptionals)	8.0p	11.8p	11.8p	10.2p	6.8p	8.3p	8.0p	5.4p	3.5p
Dividends	5.30p	5.20p	4.90p	4.65p	4.50p	4.50p	4.50p	4.50p	4.50p



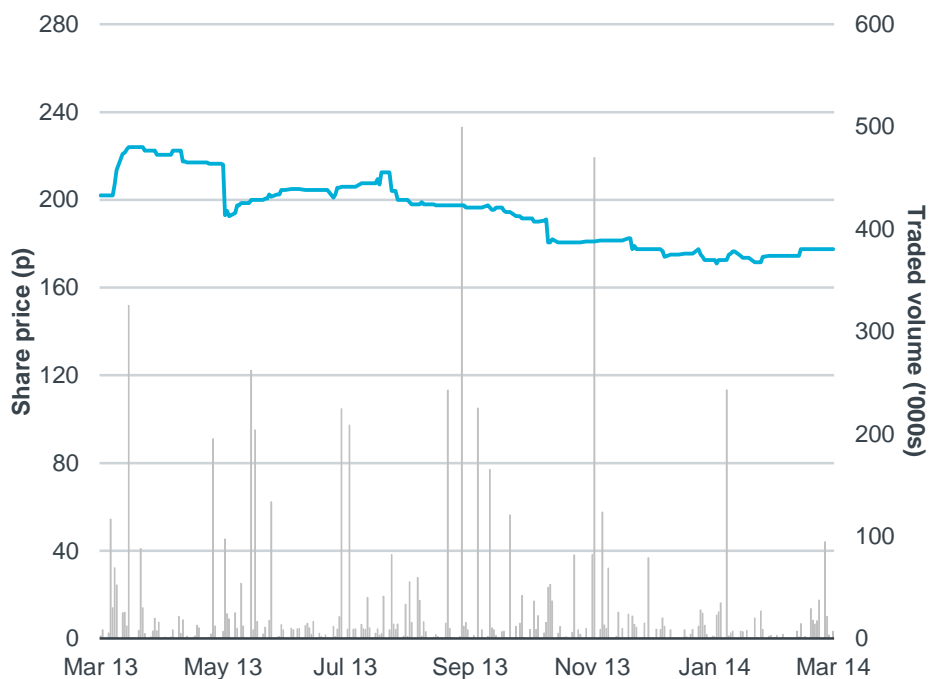
Value Chain / Strategy



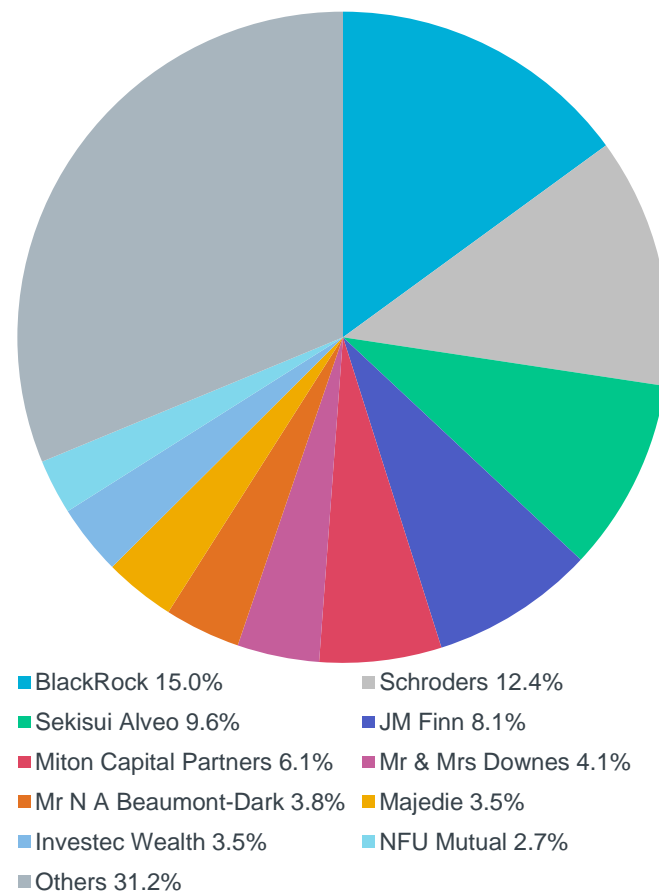


Key Share Information

- Share price 177.5p (14/03/14)
- Market Main Market
- Ticker ZTF.L
- Market cap. £70.7m
- Ord. shares in issue 39,831,312



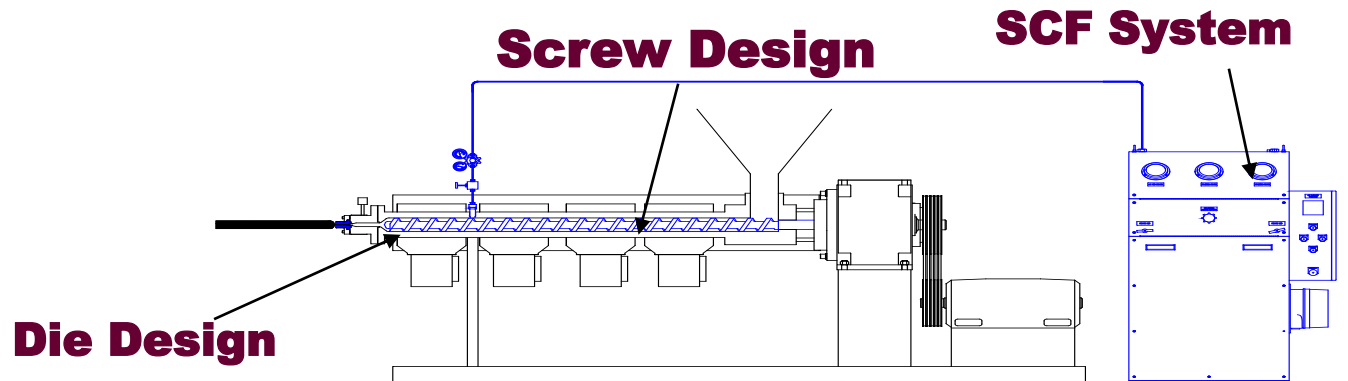
Shareholder profile*



* Source: Investec Investor Relations (30/12/13)



MuCell Process



Key items include

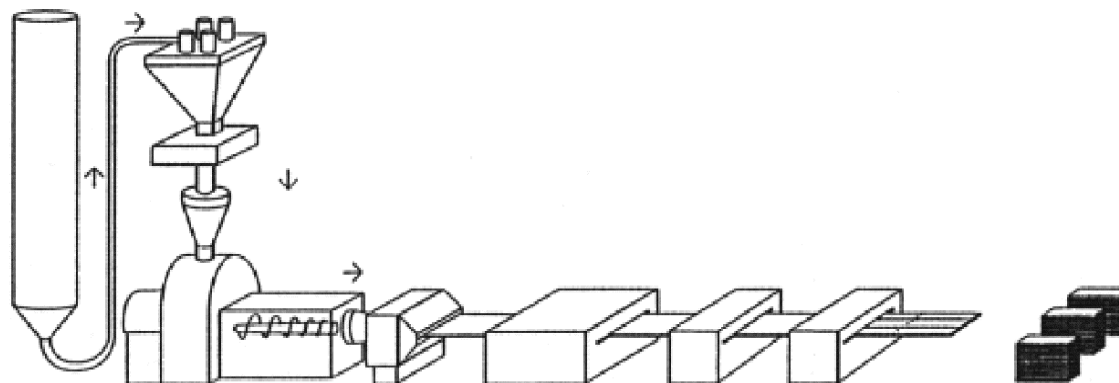
- *Know How*
 - *Material formulation*
 - *Processing*
- *Patents covering*
 - *Method and Apparatus*
 - *Articles*



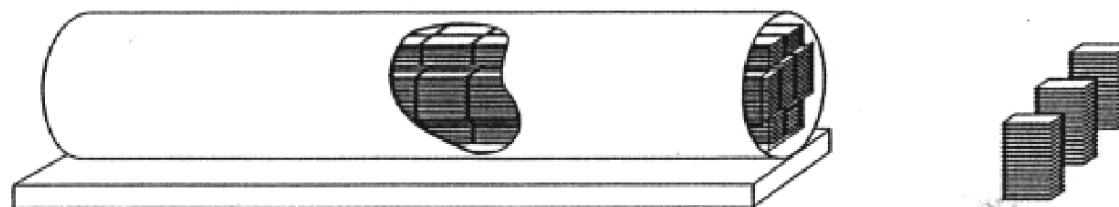
Zotefoams Process

Zotefoams Plc process

mixing and
extrusion



impregnation



expansion

