

## Zotefoams plc

### Interim Report for the Six Months Ended 30 June 2024

#### Strong sales and HPP growth drives record H1 profit

6 August 2024 - Zotefoams plc (“Zotefoams”, the “Company” or the “Group”), a world leader in cellular materials technology, is pleased to announce its interim results for the six months ended 30 June 2024.

#### Results highlights

- Record H1 sales performance, with Group revenue up 10% to £71.1m (HY 2023: £64.6m) and by 13% at constant currency
  - High-Performance Products (HPP) revenue up 37% to £36.1m (HY 2023: £26.4m)
- Record H1 earnings and continuing improvements in profit margins
  - Gross margin up 40 bps to 33.2% (up 50 bps to 34.3% excl. MEL)
  - Profit before tax up 12% to a record £8.3m (HY 2023: £7.4m)
  - Profit before tax excl. MEL up 12% to a record £10.5m (HY 2023: £9.4m)
- Basic earnings per share up 12% to 12.89p (HY 2023: 11.53p)
- Strong balance sheet
  - Improved cash generation from operations of £8.5m (HY 2023: £5.8m) supporting higher levels of growth investment
- Interim dividend increased by 4.4% to 2.38p per share (2023: 2.28p per share)

#### Strategic highlights

- Continued strong performance in Footwear, driven by our partnership with Nike
- Significant progress in ReZorce®, a transformative opportunity for the consumer packaging market with our recyclable barrier packaging technology. Our initial target market is liquid paperboard (LPB) cartons, where an estimated 300 billion cartons are currently made globally per annum
  - Announced Refresco, the world's largest independent beverage packager, as joint development partner.
  - Preparing for market trial of 150,000 sterile juice cartons in Western Europe
  - Exploring strategic investment partnership during H2 2024 to facilitate the scale-up and delivery of the ReZorce solution globally
- Future organic growth in North America supported by capital investment on a second low-pressure vessel on track for mid-2025 commissioning
- Expanded technical capabilities and growth potential in new and existing markets through global alliance agreement signed with Suzhou Shincell New Materials Co. Ltd., China

## Financial summary

	June 2024	June 2023	Change
Revenue (£m)	71.1	64.6	10%
Gross margin (%)	33.2	32.8	40 bps
Operating profit <sup>1</sup> (£m)	9.7	8.5	14%
Operating margin (%)	13.6	13.1	50 bps
Profit before tax <sup>1</sup> (£m)	8.3	7.4	12%
Basic EPS <sup>1</sup> (p)	12.89	11.53	12%
Net debt (£m)	44.6	28.3	(58%)
Net debt (£m) covenant basis <sup>2</sup>	35.1	26.7	(31%)
Leverage ratio <sup>3</sup>	1.4	1.1	-
Interim dividend (p)	2.38	2.28	4.4%

<sup>1</sup> This is a reported number under UK adopted IAS and is after the deduction of amortisation of acquired intangibles amounting to £0.126m (HY 2023: £0.131m)

<sup>2</sup> Net debt (covenant basis) is that defined under the bank facility, adjusted for the impact of IFRS16. The main adjustment is the elimination of Shincell (£7.1m), treated as a right-of-use asset and a corresponding lease liability

<sup>3</sup> Leverage is not an IFRS measure and is that defined under the bank facility, with net debt, adjusted for IFRS16, at the end of the period divided by the preceding 12 months' EBITDA, adjusted for IFRS2 and IFRS16

### Commenting on the results and the outlook, Ronan Cox, Group CEO, said:

"I am pleased to report a strong first half performance for Zotefoams, demonstrating the resilience and growth potential of our business. Group revenue grew by 10% to £71.1m, driven primarily by exceptional demand from Nike, where underlying platform growth was amplified by an Olympic year and inventory build at Tier 1 suppliers. Coupled with our focus on operational efficiency, we achieved an increase in profit before tax of 12% to a record £8.3m (HY 2023: £7.4m). This figure includes cost an operating loss of £2.2m (HY 2023: £2.0m) in our MEL business as we progress our ReZorce recyclable barrier packaging technology.

ReZorce is a transformative opportunity for the consumer packaging market. In May, we announced Refresco, the world's largest independent beverage packager, as our joint development partner, generating significant industry interest globally. We are now preparing for a trial of sterile juice cartons in Western Europe and in parallel are holding discussions with potential strategic partners to drive this initiative forward.

In May, we signed a global alliance agreement with Shincell, that combines our century of experience in nitrogen-expanded foams with their innovations in foaming technology. It enhances our technical capabilities and allows us to leverage their technology to get closer to our key customers and enter new markets, further strengthening our competitive position.

We enter the second half with positive momentum and with the expectation that market trends seen in H1 will remain largely consistent going into the latter part of the year. Footwear demand is expected to normalise over the coming months, as some of the near-term factors benefiting H1 work through, which will free up capacity to supply markets in both North America and Europe. We will continue to focus on cost efficiency, supported by a stable outlook for energy and polymer input prices.

The Board is delighted with the Group's continued progress, with the benefits of our diverse market profile providing both stability and opportunities to unlock growth in a mixed economic backdrop. We remain confident that the Company will deliver a full year performance in line with market expectations, underpinned by the strong first half performance, and optimistic that we will continue our positive momentum in the medium term."

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Zotefoams plc (LSE – ZTF) is a world leader in cellular materials technology, delivering optimal material solutions for the benefit of society. Utilising a variety of unique manufacturing processes, including environmentally friendly nitrogen expansion for lightweight AZOTE® polyolefin and ZOTEK® high-performance foams, Zotefoams sells to diverse markets worldwide. Zotefoams uses its own cellular materials to manufacture T-FIT® advanced insulation for demanding industrial markets. Zotefoams also owns and licenses patented microcellular foam technology to reduce plastic use in extrusion applications and for ReZorce® mono-material recyclable barrier packaging.

Zotefoams is headquartered in Croydon, UK, with additional manufacturing sites in Kentucky, USA and Brzeg, Poland (foam manufacture), Oklahoma, USA (foam products manufacture and conversion), Massachusetts, USA, Stilling, Denmark (microcellular foam technology) and Jiangsu Province, China (T-FIT).

[www.zotefoams.com](http://www.zotefoams.com)

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## Results overview

Group revenue in the period increased £6.4m, or 10%, to £71.1m (HY 2023: £64.6m). At constant currency, Group revenue increased £8.3m, or 13%, to £72.9m.

Gross profit increased £2.4m, or 11%, to £23.6m (HY 2023: £21.2m) and gross margin improved to 33.2% (HY 2023: 32.8%). Operating profit for the period increased £1.2m, or 14%, to £9.7m (HY 2023: £8.5m). Profit before tax increased £0.9m, or 12%, to £8.3m (HY 2023: £7.4m) and basic earnings per share increased 1.36p, or 12%, to 12.89p (HY 2023: 11.53p). Operating profit was negatively impacted by £0.4m of currency headwind (HY 2023: positively impacted by £1.2m of currency tailwind).

The underlying foams business, which comprises the Polyolefin Foams and HPP business units, achieved a 12% increase in sales, up £6.5m to £70.5m (HY 2023: £64.0m), a 13% increase in operating profit, up £1.4m to £11.8m (HY 2023: £10.5m) and a profit before tax increase of 12%, up £1.1m to £10.5m (HY 2023: £9.4m).

Cash generated from operations was up £2.6m to £8.5m (HY 2023: £5.8m). On an IFRS basis, net debt after the first six months of the year was up £13.0m to £44.6m (31 December 2023: £31.6m; 30 June 2023: £28.3m). However, over half of this increase is led by the opportunity arising from our alliance agreement with Suzhou Shincell New Materials Co. Ltd, which requires recognition under IFRS 16. On a bank covenant basis, see full explanation in section "Net debt and covenants", net debt was up £4.9m in the period to £35.1m (31 December 2023: £30.2m; 30 June 2023: £26.7m). The leverage multiple (net borrowings to EBITDA, see section "Net debt and covenants" for definition) at the end of the period was 1.4. (31 December 2023: 1.1) and financial headroom at 30<sup>th</sup> June 2024 was £14.6m.

The Board remains confident in the cash generation of the business and an interim dividend of 2.38p per share has been approved by the Board (HY 2023: 2.28p per share).

## Business unit review

### *Markets*

Zotefoams' speciality materials are used in a wide variety of applications globally. Our main markets are footwear, product protection and transportation, which includes aviation and aerospace, automotive and rail. Building and construction is the only other market segment traditionally representing over 10% of sales, while we also supply into medical, industrial and other markets.

In the first half of 2024, we delivered 10% reported revenue growth (13% at constant currency), with increased volumes from the higher margin HPP business offsetting lower volumes and an unfavourable sales mix in the Polyolefin Foams business, and after foreign exchange rate headwinds that would otherwise have increased revenue by a further 3%. Demand grew in the three main HPP markets of Footwear, ZOTEK® F technical foams and T-FIT® insulation during the period. Footwear was our best performer, however, with volume growth generating increased revenue of 40% compared with H1 2023 and accounting for 44% of Group sales (HY 2023: 34%).

### *Polyolefin Foams*

Polyolefin foams represented 48% of Group revenue (HY 2023: 58%), with segment revenue decreasing 9% to £34.4m (HY 2023: £37.7m) and sales volumes decreasing 4%. At constant currency, segment revenue was £35.1m.

In Continental Europe (43% of segment sales) revenue decreased 15% with volumes decreasing 13% versus the comparative period, and in the UK (16% of segment sales), revenue and volume decreased by 12%. Mixed demand conditions, combined with some customers managing down their inventory holdings, contributed to volume reduction in the period and the Group also made proactive decisions around the level of seasonal H1 business in order to manage margins and Croydon plant capacity. This was partly offset by stronger performance at automotive and aviation customers. In North America (37% of segment sales), revenue increased 13%, driven by growth at Zotefoams MidWest, Tulsa, which focuses on the construction market and where the business is investing in the capability to move further downstream. We continue to work with customers in all markets and offer

more cost-effective materials to combat price inflation. Often this aligns with improved sustainability across the supply chain, given that Zotefoams has solutions offering foams with lower-density or 30% recycled content, both of which reduce polymer and energy usage.

In the period, the average cost of low-density polyethylene (LDPE), our main raw material, was slightly below the long-run historical average polymer pricing after falling significantly in 2019 and 2020, rising from 2021 and peaking in Q2 2022. Energy prices have stabilised and are similar to the average of the prior year comparative. In the current year, labour costs across all geographies are likely to represent the largest inflationary component within our cost base.

Segment profit decreased 35% to £3.2m (HY 2023: £5.0m), yielding a segment profit margin of 9% (HY 2023: 13%). At constant currency, segment profit was £3.4m. In the UK, Europe and Asia, segment margin was relatively unchanged from the prior year comparative period, with profits reducing in line with reduced revenue. The USA operations experienced margin decline as the investment in employee headcount and capability are yet to be recovered by higher sales and further improvements in operational efficiency. While we have made operational progress, we continue to see opportunities to reduce costs and release capacity to meet medium-term regional demand. In this regard, we announced in our 2023 results the investment in a second low-pressure vessel, which will overcome some of the inefficiencies generated by the existing ageing asset while also adding capacity, and this is on track for commissioning around the middle of 2025.

#### *High-Performance Products (“HPP”)*

HPP represented 51% of Group revenue in the period (HY 2023: 41%), with segment revenue increasing 37% to £36.1m (HY 2023: £26.4m). This is the first time HPP sales have exceeded those of the Polyolefin Foams business and reflects the success of our mix enrichment strategy. At constant currency, segment revenue was £37.2m. Sales volumes in HPP were also 37% higher than the comparative prior year period.

Sales of our largest application, footwear, showed considerable growth in the period, increasing 40% to £31.1m (HY 2023: £22.3m). This is led by significant growth in existing Nike platforms, amplified by higher demand during an Olympic year, the addition of basketball sales, and increased orders from Tier 1 suppliers resulting from a rebuilding of inventory. We expect this growth to continue in H2 2024 before moderating to more normalised levels in 2025.

Other than footwear products, we offer a range of foamed sheet materials to technically demanding applications globally under the ZOTEK® brand. The main market is currently aviation, where insulation and fire performance at minimal weight is paramount, driven by safety and sustainability. Other markets include space, healthcare, packaging, military and personal protection. Zotefoams offers a variety of foams with specific properties, delivered through a combination of raw material selection and our unique foaming technology. Sales of ZOTEK F materials grew by 3% to £1.8m (HY 2023: £1.7m), and as with previous years, sales will be more weighted towards the second half of the year.

In April 2024, Zotefoams announced an exclusivity agreement with Design Blue Limited for high performance impact protection solutions using ZOTEK® N, our nylon-based foam. These products will sell under the D3O and Delta Three Oscar brands and be used for the defence and law enforcement sectors. In the period, sales grew to £0.4m (HY 2023: £0.1m).

T-FIT insulation is made using Zotefoams' own HPP products and is designed for clean processing environments such as in pharmaceutical, biotech and food and drink manufacture. Sales grew 23% in the period to £2.7m (HY 2023: £2.2m), with a stronger European and US performance offsetting weakening China pharma demand. T-FIT's sales are also weighted more towards the second half of the year.

A significant milestone in the period was the signing of a global alliance agreement with Suzhou Shincell New Materials Co, Ltd (“Shincell”) in May. The alliance consists of agreements on technology licensing from Shincell to Zotefoams, development and market co-operation, and regional product distribution agreements, where certain products from Shincell's unique technology will be marketed alongside Zotefoams' existing and future product range. This alliance combines our century of experience in nitrogen-expanded foams with Shincell's innovations in foaming technology. It extends our technical capabilities, enabling us to get closer to our key customers, offer a wider scope of

products and enhance our growth potential in both new and existing markets. Our collaboration has begun at pace, with several visits already to the China facilities. This alliance is accounted for under IFRS 16 as a right-of-use asset, being depreciated over a period of ten years in line with the Group's assessment of useful life, and as a liability, being paid down over five years. Given the payment term, it has been discounted using the Group's incremental rate of borrowing.

The segment profit in HPP reflects a mix of products and markets at different stages of development. Segment profit in HPP increased by 42% to £10.2m (HY 2023: £7.2m), yielding a profit margin of 28% (HY 2023: 27%), driven primarily from the growth in Footwear. At constant currency, segment profit was £10.9m. Most HPP sales are in US dollar, while costs are in a mixture of sterling, US dollar and euro, so the weakening US dollar during the period had a £0.7m negative impact on profitability, before Group hedging.

#### *MuCell Extrusion LLC ("MEL")*

MEL, which develops and licenses microcellular foam technology and sells related machinery, accounted for 1% (HY 2023: 1%) of Group revenue in the period, with segment revenue of £0.6m (HY 2023: £0.6m). In the past two years, we have prioritised investment in ReZorce® barrier packaging technology over our traditional MEL polymer-reduction technology.

ReZorce is a mono-material, and hence fully recyclable, solution for packaging consumer products. Importantly, it is also "circular" as it uses post-consumer recycled content from similar packaging in its production. Our target market is liquid paperboard (LPB) cartons, where an estimated 300 billion cartons are currently made globally per annum. An LPB carton is made using a combination of different materials, with most using a combination of wood products, aluminium and plastic in the pack construction (known as composite packaging) and with almost no recycled content in their manufacture. LPB cartons cannot be easily recycled due to their composite structure. Most are not recycled, with a minority being "downcycled" into lower-grade products, and none are recycled back into other cartons. ReZorce, therefore, offers an improvement in both carbon footprint and recyclability to a global industry.

To facilitate adoption, we are developing a complete "end-to-end" solution to demonstrate the commercial viability of the product to customers and potential strategic partners. Our pilot-scale facility in Denmark manufactures a ReZorce substrate which is then converted into a printed sheet along with the creasing needed to fold into a carton. This is the product which would be sold to a global industry using specialist machinery to fill with liquid such as juice in a sterile environment. Our development has extended into this filling and packaging process to ensure our ReZorce product is compatible with existing machinery with as few modifications as possible, in order to allow the use of existing installed infrastructure for commercial scale-up. Post consumer-use product recycling depends on local facilities, but in the UK and in much of continental Europe the ReZorce product can be recycled in common kerbside/domestic recycling streams.

We have made further progress in the first six months of this year, and in May announced Refresco, the world's largest independent packager of beverages, as our joint development partner. At this time, we also held a media launch event which generated significant positive commentary from European and North American packaging publications, leading to increased commercial interest globally.

Much of our technical focus at this time is on refining our product and production processes to ensure the consistency required for the production of millions of packs through machinery which has been adapted to run LPB cartons. As expected, this is an iterative process with good progress in all production steps. The key remaining technical stage of the development process will be a trial of approximately 150,000 sterile juice cartons on shelf in western Europe.

Given the significant market opportunity of this disruptive technology, we are seeking a strategic investor to facilitate the scale-up and delivery of the ReZorce solution globally and have a number of ongoing engagements in this regard. This process, which is being managed and advised by Mazzone & Co, a US-based specialist in packaging M&A, is expected to run through the second half of 2024, with further updates to be provided later in the year.

While our planned investment in ReZorce impacts short-term profitability and consumes cash, we believe it has the potential to position the Group well for future growth in sustainable packaging

solutions. There remains further work to do to demonstrate the commercial viability of the product, but we remain confident in its potential to create value for shareholders and contribute to a more sustainable future, particularly if we can identify the right partner to support realisation.

MEL reported a segment loss after amortisation costs of £2.2m (HY 2023: loss £2.0m) as investment continued into ReZorce. In May 2024, we reached agreement with Censco LLC that will have them supply and service much of the machinery for the business activity that we engaged in prior to embarking on the ReZorce project, operating under license to manufacture proprietary gas injection technology that was previously produced in-house at MEL's USA location. This will allow the MEL team to dedicate themselves fully to ReZorce. The agreement includes a sale of inventory which completed in July and simplifies our MEL operations. During the period, we capitalised £2.6m in the period, split £1.8m (HY 2023: £0.8m) in intangible development costs, that mostly reflect the team of industry experts delivering this opportunity, and £0.8m (HY 2023: £0.2m) in tangible assets that mostly represent payments on the machinery required to achieve end-to-end production capability. Since the inception of this initiative, the Group has capitalised a total of £10.2m (31 December 2023: £7.6m).

The net book value of MEL's tangible and intangible fixed assets at 30 June 2024 is £13.2m (31 December 2023: £11.0m; 30 June 2023: £9.7m). This includes intangible assets of £10.6m (31 December 2023: £8.9m; 30 June 2023: £7.5m), including £3.2m of goodwill and technology that arose on the acquisition of MEL (31 December 2023: £3.3m; 30 June 2023: £3.4m). It also includes £2.6m (31 December 2023: £2.1m; 30 June 2023: £2.2m) of tangible assets. While MEL has historically been loss making, we consider that no impairment is needed at this stage, based on the size and potential of the opportunity that the ReZorce technology offers, the Board's ongoing commitment to funding the project and the progress made to date and expected in the second half of the year.

## **Environmental, Social and Governance ('ESG')**

The Board understands that embedding ESG in our business creates sustainable long-term value for stakeholders. Zotefoams' purpose, to provide "optimal material solutions for the benefit of society" reflects our belief that plastics, when used appropriately, are frequently the best solution for the sophisticated, long-term applications typically delivered by our customers. We are making good progress on our ESG plans including reducing energy and polymer usage, minimising waste and developing new products which use recycled materials. A full ESG report was published in the 2023 Zotefoams Annual Report, setting out the Group's ESG management framework, goals and performance to date. This will be updated in the next Annual Report to be published in April 2025.

## **Employees and talent management**

Hiring and retaining employees with the right skills and managing and further developing these talented people, is very important to Zotefoams as it grows and evolves globally. We have a wide scope of opportunities and need to identify and develop the right people to define and deliver our potential. We have a global workforce (fulltime equivalent) of 632 people (HY 2023: 580 people), 45% (HY 2023: 43%) of whom are located outside the UK.

On behalf of the Board, we would like to thank all our employees for their continued contributions and commitment to Zotefoams.

## **First thoughts from Ronan Cox, new Group CEO**

### **First impressions**

Joining Zotefoams presented an irresistible opportunity. The company's unique position, built on proprietary cellular materials technology refined over a century, provides an exceptional foundation for growth. This longevity demonstrates not just resilience, but also Zotefoams' capacity for innovation and adaptation.

What particularly excites me is the diversity of our market presence. Serving nearly 20 different end markets offers stability and significant growth potential, both with our existing foam customers and within downstream applications. This wide-ranging engagement opens doors for innovation in both

our products and processes, allowing us to build upon our solid foundation and push the boundaries of what is possible in cellular materials.

Coupled with a strong balance sheet, we have the flexibility to pursue a range of growth and innovation avenues at any time. The potential of projects like ReZorce further underscores our commitment to sustainable solutions. This blend of established strength and future potential, underpinned by unique technology and a diverse market presence, presents an exceptional opportunity to drive sustainable growth and create substantial value for our stakeholders.

### **A focus on growth**

Since becoming Group CEO just over 11 weeks ago, my focus has been on refining Zotefoams' strategic direction to optimise the Group's long term growth potential. Central to this effort will be a market-focused organisational structure, ensuring Zotefoams is best able to serve its markets while maintaining operational excellence across the Group.

Our strategy will centre around a focus on key markets that offer the greatest potential for growth and profitability. By concentrating our efforts in this way, we aim to deepen Zotefoams' market penetration, foster stronger customer relationships, and drive innovation tailored to specific industry needs. Our aim will be to reach new customers and markets as effectively as possible, thereby ensuring we capture more value across the supply chain.

Innovation has been a key component of Zotefoams' success and will remain at the heart of our strategy. We will seek to align this innovation approach to our market strategy, with the aim of ensuring that Zotefoams remains at the forefront of cellular materials technology, continually pushing the boundaries of what is possible in our industry.

Our recent technology partnership with Shincell opens up exciting possibilities, particularly in strengthening Zotefoams' relationship with key customers like Nike. Our aims are to leverage this new technology, to increase the flexibility in our manufacturing model and bring us physically closer to customers' innovation centres and manufacturing partners, fostering more collaborative and responsive product development.

Alongside a refined commercial strategy, we also believe that opportunities exist to accelerate our strategic ambition through investment, benefiting from the Group's cash generative model.

By pursuing a multifaceted strategy, we aim to generate a wealth of opportunities that will drive the long-term growth of our business. I believe this approach will allow Zotefoams to capitalise on its strengths, explore new avenues for expansion, and create substantial value for our stakeholders.

We look forward to sharing more details about our strategic plans in the coming months.

### **Financial review**

#### *Currency review*

As a predominantly UK-based exporter, and with the Group's fast-growing HPP business invoiced almost entirely in US dollars, approximately 90% of Zotefoams' sales are denominated in currencies other than sterling, mostly the US dollar and euro. Most costs are incurred in sterling, other than the main raw materials processed at the Croydon, UK site, which are in euros, and the operating costs of the Group's North American activities, which are in US dollars. As a result, movements in these foreign exchange rates can have a significant impact on the Group's results. The Group also incurs operating costs at the Poland facility in Polish zloty and operating costs at its China T-FIT processing plant in Chinese yuan but any fluctuations here are immaterial to the Group.



The exchange rates used to translate the key flows and balances were:

	6 months to 30 Jun 24	6 months to 30 Jun 23	12 months to 31 Dec 23
Euro to GBP – period average	1.167	1.141	1.150
Euro to GBP – period-end spot	1.182	1.164	1.150
USD to GBP – period average	1.264	1.233	1.243
USD to GBP – period-end spot	1.264	1.263	1.271

The Group uses forward exchange contracts to hedge its foreign currency transaction risk and hedges its exposure to foreign currency denominated assets, where possible, by offsetting them with same-currency liabilities, primarily through borrowing in the relevant currency. These foreign currency denominated assets, which are translated on a mark to market basis every month with the movement being taken to the income statement, include loans made by the Company to, and intercompany trading balances with, its overseas subsidiaries, the effect of which is cash neutral. They also include non-sterling accounts receivable held on the Company's balance sheet, which mostly relate to the Group's HPP sales, where further hedging activities are taken although their accuracy is subject to the timing of customer receipts. The Group does not currently hedge for the translation of its foreign subsidiaries' assets or liabilities. This policy is kept under regular review and is formally approved by the Board on an annual basis.

In the period, net FX movements had a negative impact on sales and profitability. Reported net sales were £1.8m below those adjusted at constant currency (HY 2023: £3.3m above). The net profit effect of this on the Group, prior to any hedging activity, was unfavourable by approximately £0.9m (HY 2023 gain: £1.5m). Offsetting this, and included in administrative expenses, was a gain of £0.5m (HY 2023 loss: £0.2m) from transactional hedging via forward exchange contracts, which mostly occurs on USD-denominated footwear receivables. The combined unfavourable impact of movements in foreign currency on profitability in the period was £0.3m (HY 2023: favourable impact £1.1m).

#### *Gross profit*

Gross profit increased by £2.4m or 11% in the period to £23.6m (HY 2023: £21.2m), on increased sales of £6.4m. Margin benefitted from improved sales and mix but was offset by underlying annual pay increases of £0.5m across the Group and investment in headcount of £0.8m, most notably in staff to support growth at our Poland and USA operations. Raw material and energy prices impacts were modest versus the prior period comparative. The Group was negatively impacted by £1.1m of currency impact (HY 2023: benefitted from £1.8m of favourable currency impact) before hedging, which is disclosed separately under administrative expenses. The net impact of these movements was an improvement in gross profit margin to 33.2% (HY 2023: 32.8%).

#### *Distribution and administrative costs*

Included within distribution expenses in the Group's income statement are sales, marketing, despatch and warehousing costs. These costs increased 15% to £4.6m (HY 2023: £4.0m), led by salary inflation, headcount investment in the USA and global marketing.

Included within administrative expenses are technical development, finance, information systems and administration costs as well as the impact of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. In the period, these costs increased 6% to £9.3m, (HY 2023: £8.8m). Stripping out FX hedging movements, costs increased 18% to £9.9m (HY 2023: £8.4m), largely reflecting salary inflation and headcount additions, increased variable pay accruals and Board changes. See the currency review for further details of FX-related variances.

#### *Net finance costs*

Net finance costs increased to £1.4m (HY 2023: £1.1m) and included interest income of £0.1m (HY 2023: £0.1m). Within the interest charge, £0.05m (HY 2023: £0.05m) relates to the Company's Defined Benefit Scheme pension obligation and £0.1m (HY 2023: nil) relates to the interest charge on the capitalised cost of the Shincell global alliance agreement. The remaining increase relates to the increasing debt level and increase in lending rates in the US dollar and euro, the currencies of the primary borrowings of the Group.

### *Taxation and earnings per share*

The income tax expense for the period increased 11% to £2.0m (HY 2023: £1.8m). The tax charge is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. Zotefoams' estimated average annual tax rate used for the period to 30 June 2024 is 24.21% (estimated average annual tax rate for the year used at 30 June 2023: 24.38%).

Basic earnings per share was 12.89p (HY 2023: 11.53p) an increase of 12%, while diluted earnings per share was 12.63p (HY 2023: 11.28p), also an increase of 12%.

### *Cash flow*

Cash generated from operations was £8.5m (HY 2023: £5.8m). Included in this was a net increase in working capital in the period of £5.9m (HY 2023: net increase of £6.5m). Accounts receivable increased £3.3m in the period (HY 2023: increased £2.8m), reflecting higher revenues and the timing of collections on some accounts. Inventories increased £5.1m in the period (HY 2023: increased £4.0m), almost half of which relates to Footwear products to meet expected Q3 demand and closely followed by higher ZOTEK® inventory in line with agreed purchase requirements as well as following a doubling of the purchase price, as highlighted in the 2023 Annual Report. Together, these two product lines account for 80% of the increase and 49% of the period-end inventory holding. Accounts payable increased £2.5m (HY 2023: increased £0.3m) on increased activity and similar terms.

Capital expenditure in the period was £8.1m (HY 2023: £2.6m), of which £2.0m (HY 2023: £1.0m) related to intangibles, mostly arising from the capitalisation of ReZorce development costs. The rate of capital expenditure across the Group is expected to accelerate in H2 2024 as the Group acquires two major pieces of equipment for its ReZorce opportunity and makes progress on its second low-pressure vessel installation in the USA. Lease payments increased in the period, driven by the first payment to Shincell (£0.6m), and a final dividend of £2.4m (HY 2023: £2.2m) was paid during the period.

### *Net debt and covenants*

The Group's gross finance facility, held with our partner banks Handelsbanken and NatWest, comprises a £50m multi-currency revolving credit facility with a £25m accordion and has an end term date of March 2027. It includes an interest rate ratchet linked to leverage on a six-monthly basis and has a small element related to the achievement of annual sustainability targets.

Net debt (cash less bank borrowings and lease liabilities) increased by £13.0m from the start of the period to £44.6m at 30 June 2024 (31 December 2023: £31.6m; 30 June 2023: £28.3m). Under the bank covenant definition of net debt, which adjusts for the impacts of IFRS 16, most notably the Shincell lease liability of £7.1m, net debt increased by £4.9m in the six months to £35.1m (31 December 2023: £30.2m, 30 June 2023: £26.7m), as a result of the investment in working capital and fixed assets as noted in the section "Cash flow" above. Headroom, which we define as the combination of amount undrawn on the bank facility and cash and cash equivalents disclosed on the Statement of Financial Position, amounted to £14.6m at 30 June 2024 (31 December 2023: £19.4m).

The Group remained comfortably within its banking covenants, which are tested semi-annually, throughout the first half of the year. As at 30 June 2024, the multiple of EBITDA to net finance charges on a rolling 12-month basis was 9.4 (31 December 2023: 11.2; 30 June 2023: 12.8), against a covenant minimum of 4.0, and the multiple of net borrowings to EBITDA (leverage) on a rolling 12-month basis was 1.4 (31 December 2023: 1.2; 30 June 2023: 1.1), against a covenant maximum of 3.5.

These covenant measures, which are not UK-adopted IAS, are defined in the following table:

**Net debt to EBITDA ratio (Leverage)**

<b>£m</b>	<b><u>12 months to 30 June 2024</u></b>	<b><u>12 months to 30 June 2023</u></b>	<b>£m</b>	<b><u>At 30 June 2024</u></b>	<b><u>At 30 June 2023</u></b>
Profit after tax	9.9	11.0	Net debt per IFRS	44.6	28.3
<i>Adjusted for:</i>			IFRS 16 leases	<b>(9.5)</b>	<b>(1.6)</b>
Depreciation and amortisation	8.2	8.5			
Net finance costs	2.7	2.0	<b>Net debt per bank</b>	<b>35.1</b>	26.7
Share of result from joint venture	<b>(0.1)</b>	(0.0)			
Equity-settled share-based payments	1.3	1.2			
Taxation	3.8	2.9			
<u>Roundings</u>	<u>0.1</u>	<u>0.0</u>			
<b>EBITDA</b>	<b>25.9</b>	25.6	<b>Leverage per bank</b>	<b>1.4</b>	1.1

**EBITDA to net finance charges ratio**

<b>£m</b>	<b><u>12 months to 30 June 2024</u></b>	<b><u>12 months to 30 June 2023</u></b>	<b>£m</b>	<b><u>12 months to 30 June 2024</u></b>	<b><u>12 months to 30 June 2023</u></b>
<b>EBITDA</b> , as above	<b>25.9</b>	25.6	<b>Finance costs</b>	<b>2.9</b>	2.1
			Finance income	<b>(0.2)</b>	<b>(0.1)</b>
<b>EBITDA to net finance charges</b>	<b>9.4</b>	12.8	<b>Net finance charges</b>	<b>2.7</b>	2.0

*Post-employment benefits*

The last full actuarial valuation of the DB Scheme, closed to new members since 2001, took place as at 5 April 2023 in line with the requirement to have a triennial valuation. On a Statutory Funding Objective basis, a deficit was calculated for the DB Scheme of £2.9m (previous triennial valuation: £7.7m). As a result, the Company agreed with the Trustees to continue to make contributions to the DB Scheme of £643,200 per annum to meet the shortfall by 31 July 2028. In addition, the Company pays the ongoing DB Scheme expenses of £216,000 per annum to cover death-in-service insurance premiums, the expenses of administering the DB Scheme and Pension Protection Fund levies.

At the previous year-end of 31 December 2023, the IAS19 deficit disclosed in the Company accounts was calculated to be £2.7m. Over the period to 30 June 2024, the Scheme's invested assets have reduced by around £0.1m while the liabilities have reduced by around £1.3m due to the increase in long dated corporate bond yields. After taking these factors into account, the IAS19 deficit is estimated to have reduced by around £1.2m (i.e. from £2.7m as at 31 December 2023 to around £1.5m as at 30 June 2024).

*Going Concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report of the 2023 Annual Report on pages 1 to 77 and the section entitled Risk management and principal risks on pages 45 to 58. This Interim Report provides information on business and financial performance for the six months to 30 June 2024.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performance and considering the existing banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months following the date of approval of this Interim Report. The Directors continue to draw upon the experiences of 2020 and the Group's success in reacting to the challenges of COVID-19 through its safety protocols and cost and cash management, all of which could be replicated in a similar scenario. After due consideration of the range and likelihood of potential outcomes, the Directors continue to adopt the going concern basis of accounting in preparing these interim financial statements.

## **Dividend**

An interim dividend of 2.38p per share (HY 2023: 2.28p per share) will be paid on 7 October 2024 to shareholders on the Company's register at the close of business on 6 September 2024.

## **Principal risks and uncertainties**

Zotefoams' business and share price may be affected by a number of risks, not all of which are within its control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Risk Management and Principal Risks section, pages 45 to 58, of the 2023 Annual Report.

In the opinion of the Board, the specific principal risks (which could impact Zotefoams' sales, profits and reputation) and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed significantly since the publication of the last Annual Report, which was four months prior to this Interim Report. Our investment in ReZorce technology remains high risk and high potential reward and is subject to regular and direct Board oversight. Detailed explanations of the Group's principal risks can be found in the 2023 Annual Report. Broadly, we list these as operational disruption, sustainability and climate change, global capacity management, technology displacement, scaling-up international operations, loss of a key customer and external.

## **Outlook**

We enter the second half with positive momentum and with the expectation that market trends seen in H1 will remain largely consistent going into the latter part of the year. Footwear demand is expected to normalise over the coming months, as some of the near-term factors benefiting H1 work through, which will free up capacity to supply markets in both North America and Europe. We will continue to focus on cost efficiency, supported by a stable outlook for energy and polymer input prices.

The Board is delighted with the Group's continued progress, with the benefits of our diverse market profile providing both stability and opportunities to unlock growth in a mixed economic backdrop. We remain confident that the Company will deliver a full year performance in line with market expectations, underpinned by the strong first half performance, and optimistic that we will continue our positive momentum in the medium term.

L Drummond  
Chair  
6 August 2024

R Cox  
Group CEO  
6 August 2024

ZOTEK®, AZOTE®, ReZorce® and T-FIT® are registered trademarks of Zotefoams plc.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the United Kingdom and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Zotefoams plc are listed on the Zotefoams plc website: [www.zotefoams.com](http://www.zotefoams.com).

By order of the Board:

L Drummond  
Chair  
6 August 2024

R Cox  
Group CEO  
6 August 2024

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED  
30 JUNE 2024**

	Notes	Six months ended		Year
		30-Jun-24 (Unaudited) £'000	30-Jun-23 (Unaudited) £'000	Ended 31-Dec-23 (Audited) £'000
<b>Revenue</b>	6	<b>71,060</b>	64,631	126,975
Cost of sales		<b>(47,490)</b>	(43,404)	(85,920)
<b>Gross profit</b>		<b>23,570</b>	21,227	41,055
Distribution costs		<b>(4,568)</b>	(3,977)	(7,927)
Administrative expenses		<b>(9,340)</b>	(8,774)	(17,993)
<b>Operating profit</b>		<b>9,662</b>	8,476	15,135
Finance costs		<b>(1,554)</b>	(1,218)	(2,540)
Finance income		<b>122</b>	104	191
Share of profit from joint venture		<b>59</b>	32	54
<b>Profit before income tax</b>		<b>8,289</b>	7,394	12,840
Income tax expense	7	<b>(2,006)</b>	(1,803)	(3,598)
<b>Profit for the period/year</b>		<b>6,283</b>	5,591	9,242
Profit attributable to:				
Equity holders of the Company		<b>6,283</b>	5,591	9,242
		<b>6,283</b>	5,591	9,242
<b>Earnings per share:</b>				
<b>Basic (p)</b>	9	<b>12.89</b>	11.53	19.00
<b>Diluted (p)</b>	9	<b>12.63</b>	11.28	18.55

The notes below form an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2024**

	<b>Six months ended</b>		Year ended
	<b>30-Jun-24</b>	30-Jun-23	31-Dec-23
	<b>(Unaudited)</b>	(Unaudited)	(Audited)
	<b>£'000</b>	£'000	£'000
<b>Profit for the period/year</b>	<b>6,283</b>	5,591	9,242
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gains/(losses) on defined benefit pension schemes	<b>768</b>	200	(88)
Tax relating to items that will not be reclassified	<b>(192)</b>	(50)	22
<b>Total items that will not be reclassified to profit or loss</b>	<b>576</b>	150	(66)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange translation losses on translation of foreign operations	<b>(94)</b>	(1,844)	(1,885)
Change in fair value of hedging instruments	<b>(411)</b>	307	1,712
Hedging gains reclassified to profit or loss	<b>(501)</b>	186	(192)
Tax relating to items that may be reclassified	<b>297</b>	595	(575)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(709)</b>	(756)	(940)
<b>Other comprehensive expense for the period/year, net of tax</b>	<b>(133)</b>	(606)	(1,006)
<b>Total comprehensive income for the period/year</b>	<b>6,150</b>	4,985	8,236
<b>Profit attributable to:</b>			
Equity holders of the Company	<b>6,150</b>	4,985	8,236
<b>Total comprehensive income for the period/year</b>	<b>6,150</b>	4,985	8,236

The notes below form an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	30-Jun-24 (Unaudited) £'000	30-Jun-23 (Unaudited) £'000	31-Dec-23 (Audited) £'000
<b>Non-current assets</b>				
Property, plant and equipment	10	93,347	90,525	91,743
Right-of-use assets	11	9,883	1,477	1,272
Intangible assets		11,111	8,022	9,418
Investments in joint venture		266	185	207
Trade and other receivables	14	40	110	70
Deferred tax assets		350	434	435
<b>Total non-current assets</b>		<b>114,997</b>	<b>100,753</b>	<b>103,145</b>
<b>Current assets</b>				
Inventories		36,970	29,664	31,904
Trade and other receivables	14	36,315	32,009	33,002
Derivative financial instruments	14	331	1,431	1,264
Cash and cash equivalents		7,942	8,518	6,294
<b>Total current assets</b>		<b>81,558</b>	<b>71,622</b>	<b>72,464</b>
<b>Total assets</b>		<b>196,555</b>	<b>172,375</b>	<b>175,609</b>
<b>Current liabilities</b>				
Trade and other payables		(14,917)	(13,818)	(12,953)
Derivative financial instruments	14	(286)	(117)	(28)
Current tax liability		(2,528)	(1,875)	(1,078)
Lease liabilities	11	(1,934)	(607)	(507)
Interest-bearing loans and borrowings	12	(43,055)	(35,254)	(36,527)
<b>Total current liabilities</b>		<b>(62,720)</b>	<b>(51,671)</b>	<b>(51,093)</b>
<b>Non-current liabilities</b>				
Lease liabilities	11	(7,536)	(941)	(827)
Deferred tax liabilities		(4,529)	(4,092)	(5,270)
Post-employment benefits		(1,506)	(2,714)	(2,656)
<b>Total non-current liabilities</b>		<b>(13,571)</b>	<b>(7,747)</b>	<b>(8,753)</b>
<b>Total liabilities</b>		<b>(76,291)</b>	<b>(59,418)</b>	<b>(59,846)</b>
<b>Total net assets</b>		<b>120,264</b>	<b>112,957</b>	<b>115,763</b>
<b>Equity</b>				
Issued share capital		2,442	2,431	2,442
Share premium		44,178	44,178	44,178
Own shares held		(12)	(3)	(12)
Capital redemption reserve		15	15	15
Translation reserve		3,930	4,065	4,024
Hedging reserve		45	803	660
Retained earnings		69,666	61,468	64,456
<b>Total equity</b>		<b>120,264</b>	<b>112,957</b>	<b>115,763</b>

The notes below form an integral part of these condensed consolidated interim financial statements.



**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2024**

	Six months ended		Year ended
	30-Jun-24 (Unaudited) £'000	30-Jun-23 (Unaudited) £'000	31-Dec-23 (Audited) £'000
<b>Cash flows from operating activities</b>			
Profit for the period/year	6,283	5,591	9,242
Adjustments for:			
Depreciation and amortisation	4,154	4,145	8,217
Disposal of assets	68	12	4
Finance costs	1,432	1,114	2,349
Share of profit from joint venture	(59)	(32)	(54)
Net exchange differences	236	(548)	(641)
Equity-settled share-based payments	672	677	1,335
Taxation	2,006	1,803	3,598
<b>Operating profit before changes in working capital and provisions</b>	<b>14,792</b>	<b>12,762</b>	<b>24,050</b>
(Increase) in trade and other receivables	(3,292)	(2,758)	(3,774)
(Increase) in inventories	(5,094)	(4,041)	(6,279)
Increase/(decrease) in trade and other payables	2,494	292	(1,027)
Employee defined benefit contributions	(430)	(430)	(859)
<b>Cash generated from operations</b>	<b>8,470</b>	<b>5,825</b>	<b>12,111</b>
Interest paid	(1,283)	(1,016)	(2,082)
Income taxes paid	(1,103)	(914)	(2,248)
<b>Net cash flows generated from operating activities</b>	<b>6,084</b>	<b>3,895</b>	<b>7,781</b>
<b>Cash flows from investing activities</b>			
Interest received	122	104	191
Purchases of intangibles	(1,970)	(959)	(2,739)
Purchases of property, plant and equipment	(6,120)	(1,622)	(5,744)
<b>Net cash used in investing activities</b>	<b>(7,968)</b>	<b>(2,477)</b>	<b>(8,292)</b>
<b>Cash flows from financing activities</b>			
Proceeds from options exercised and issue of share capital	60	-	-
Repayment of borrowings	-	(802)	(1,231)
Proceeds from borrowings	6,750	-	1,609
Lease payments	(1,003)	(352)	(753)
Dividends paid	(2,382)	(2,243)	(3,350)
<b>Net cash used in financing activities</b>	<b>3,425</b>	<b>(3,397)</b>	<b>(3,725)</b>
Net increase/(decrease) in cash and cash equivalents	1,541	(1,979)	(4,236)
<b>Cash and cash equivalents at start of period/year</b>	<b>6,294</b>	<b>10,594</b>	<b>10,594</b>
Exchange gains/(losses)	107	(97)	(64)
<b>Cash and cash equivalents at end of period/year</b>	<b>7,942</b>	<b>8,518</b>	<b>6,294</b>

Cash and cash equivalents comprise cash at bank and short-term highly liquid investments with a maturity date of less than three months.

The notes below form an integral part of these condensed consolidated interim financial statements.

The net exchange differences of £236k (June 2023: £548k, December 2023: £641k) within operating activities relate to the foreign exchange movement on borrowings.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2024**

	Share capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance as at 1 January 2024</b>	<b>2,442</b>	<b>44,178</b>	<b>(12)</b>	<b>15</b>	<b>4,025</b>	<b>660</b>	<b>64,455</b>	<b>115,763</b>
Foreign exchange translation losses on investment in subsidiaries	-	-	-	-	(94)	-	-	(94)
Change in fair value of hedging instruments recognised in other comprehensive income	-	-	-	-	-	(411)	-	(411)
Reclassification to income statement - administrative expenses	-	-	-	-	-	(501)	-	(501)
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling	-	-	-	-	-	297	-	297
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	768	768
Tax relating to actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	(192)	(192)
Profit for the period	-	-	-	-	-	-	6,283	6,283
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(94)</b>	<b>(615)</b>	<b>6,858</b>	<b>6,149</b>
<b>Transactions with owners of the Parent:</b>								
Options exercised	-	-	-	-	-	-	62	62
Equity-settled share-based payments net of tax	-	-	-	-	-	-	672	672
Dividends paid	-	-	-	-	-	-	(2,382)	(2,382)
<b>Total transactions with owners of the Parent</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,648)</b>	<b>(1,648)</b>
<b>Balance as at 30 June 2024 (Unaudited)</b>	<b>2,442</b>	<b>44,178</b>	<b>(12)</b>	<b>15</b>	<b>3,931</b>	<b>45</b>	<b>69,665</b>	<b>120,264</b>

	Share capital £'000	Share premium £'000	Own shares held £'000	Capital redemption reserve £'000	Translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance as at 1 January 2023</b>	<b>2,431</b>	<b>44,178</b>	<b>(5)</b>	<b>15</b>	<b>5,909</b>	<b>(285)</b>	<b>57,295</b>	<b>109,538</b>
Foreign exchange translation losses on investment in subsidiaries	-	-	-	-	(1,844)	-	-	(1,844)
Change in fair value of hedging instruments recognised in other comprehensive income	-	-	-	-	-	307	-	307
Reclassification to income statement - administrative expenses	-	-	-	-	-	186	-	186
Tax relating to effective portion of changes in fair value of cash flow hedges, net of recycling	-	-	-	-	-	595	-	595
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	200	200
Tax relating to actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	(50)	(50)
Profit for the period	-	-	-	-	-	-	5,591	5,591
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,844)</b>	<b>1,088</b>	<b>5,741</b>	<b>4,985</b>
<b>Transactions with owners of the Parent:</b>								
Options exercised	-	-	2	-	-	-	(2)	-
Equity-settled share-based payments net of tax	-	-	-	-	-	-	677	677
Dividends paid	-	-	-	-	-	-	(2,243)	(2,243)
<b>Total transactions with owners of the Parent</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,568)</b>	<b>(1,566)</b>
<b>Balance as at 30 June 2023 (Unaudited)</b>	<b>2,431</b>	<b>44,178</b>	<b>(3)</b>	<b>15</b>	<b>4,065</b>	<b>803</b>	<b>61,468</b>	<b>112,957</b>

During the six months ended 30 June 2024, 103,401 shares vested (June 2023: 48,995) and were issued from the Zotefoams Employee Benefit Trust ('EBT') following the exercise of these options.

During the six months ended 30 June 2024, 418,894 Long Term Incentive Plan awards (June 2023: 382,464), 75,340 Deferred Bonus Share Plan awards (June 2023: 52,447) and 9,537 share options (June 2023: 8,121) were granted.

The notes below form an integral part of these condensed consolidated interim financial statements.

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2024**

### **1. GENERAL INFORMATION**

Zotefoams plc ('the Company') and its subsidiaries and joint venture (together, 'the Group') manufacture and sell high-performance foams and license related technology for specialist markets worldwide. The Group has manufacturing sites in the UK, USA, Poland and China. The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2024 were authorised for issue in accordance with a resolution of the directors on 5 August 2024.

The Company is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of the registered office is 675 Mitcham Road, Croydon, CR9 3AL.

These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2023 were approved by the Board of Directors on 5 April 2024 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

These condensed consolidated interim financial statements have been reviewed, not audited.

These condensed consolidated interim financial statements for the six months ended 30 June 2024 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the United Kingdom. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2023, which have been prepared in accordance with UK adopted international accounting standards (IAS).

#### *Forward-looking statements*

Certain statements in this condensed set of consolidated interim financial statements are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. As these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

## **2. BASIS OF PREPARATION**

### **ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of new standards effective as of 1 January 2024 as disclosed in Note 17. The Group has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2024, but do not have an impact on the interim condensed consolidated financial statements of the Group. Taxes on income in the interim condensed consolidated financial statements are accrued using the tax rate that would be applicable to the expected full financial year results for the Group.

### **GOING CONCERN**

The Group has prepared the financial statements on the basis that it will continue to operate as a going concern.

The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performance and considering the existing banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months following the date of approval of the interim report. The Directors have also drawn upon the experiences of reacting to the challenges of COVID-19 through its safety protocols and cost and cash management, all of which could be replicated in a similar scenario. After due consideration of the range and likelihood of potential outcomes, the Directors continue to adopt the going concern basis of accounting in preparing these interim financial statements.

### **3. ESTIMATES AND JUDGEMENTS**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, 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 that applied to the consolidated financial statements for the year ended 31 December 2023 with the exception of changes in estimates that are required in determining the provision for income taxes.

### **4. FINANCIAL RISK MANAGEMENT**

There have been no changes in any risk management policies since the year-end.

### **5. SEASONALITY OF OPERATIONS**

The seasonality of the Group's business differs by business unit, although it not highly seasonal. The Polyolefin Foams business generally experiences a stronger H1, as in H2 many customers shut down for summer vacation, the manufacturing sites shut down for annual planned maintenance and much of the business closes for the period between Christmas and New Year. Sales in the Footwear part of the High-Performance Products ('HPP') business tends not to be seasonal, while the ZOTEK® technical foams and T-FIT® businesses tend to be skewed more towards H2, based on customer ordering patterns. The mix of these business units in a year will impact the seasonality of the Group's sales performance. Additionally, there remains an underlying cyclical nature of our markets, over the longer macroeconomic business cycle, as the Group sells into a wide variety of business segments, many of which are themselves cyclical.

## 6. SEGMENT REPORTING

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group Chief Executive Officer, Ronan Cox, who is considered to be the 'chief operating decision maker' for the purpose of evaluating segment performance and allocating resources. The Group Chief Executive Officer primarily uses a measure of profit for the year before tax and exceptional items to assess the performance of the operating segments.

The Group manufactures and sells high-performance foams and licenses related technology for specialist markets worldwide. Zotefoams' activities are categorised as follows:

- Polyolefin Foams: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is polyethylene.
- High-Performance Products ('HPP'): these foams exhibit high performance on certain key properties, such as improved chemical, flammability or temperature performance or energy management performance. Turnover in the segment is currently mainly derived from products manufactured from three main polymer types: PVDF fluoropolymer, polyamide (nylon) and thermoplastic elastomer. Foams are sold under the brand name ZOTEK® while technical insulation products manufactured from certain materials are branded as T-FIT®.
- MuCell Extrusion LLC ('MEL'): licenses microcellular foam technology and sells related machinery. Recently, a variation of this technology has been used to create ReZorce®, a recyclable, mono-material barrier packaging solution.

	Polyolefin Foams		HPP		MEL		Consolidated	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
Six months ended (Unaudited)	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group revenue	<b>34,448</b>	37,657	<b>36,058</b>	26,380	<b>554</b>	594	<b>71,060</b>	64,631
Segment profit/(loss) pre-amortisation of acquired intangibles	<b>3,216</b>	4,985	<b>10,209</b>	7,196	<b>(2,038)</b>	(1,845)	<b>11,387</b>	10,336
Amortisation of acquired intangible assets	-	-	-	-	<b>(126)</b>	(131)	<b>(126)</b>	(131)
Segment profit/(loss)	<b>3,216</b>	4,985	<b>10,209</b>	7,196	<b>(2,164)</b>	(1,976)	<b>11,261</b>	10,205
Foreign exchange gains/(losses)	-	-	-	-	-	-	<b>565</b>	(360)
Unallocated central costs	-	-	-	-	-	-	<b>(2,164)</b>	(1,369)
Operating profit							<b>9,662</b>	8,476
Financing costs	-	-	-	-	-	-	<b>(1,432)</b>	(1,114)
Share of loss from joint venture	<b>59</b>	32	-	-	-	-	<b>59</b>	32
Profit before taxation	-	-	-	-	-	-	<b>8,289</b>	7,394
Taxation	-	-	-	-	-	-	<b>(2,006)</b>	(1,803)
Profit for the period	-	-	-	-	-	-	<b>6,283</b>	5,591
Depreciation and Amortisation:								
Depreciation	<b>2,496</b>	2,647	<b>663</b>	503	<b>266</b>	257	<b>3,426</b>	3,407
Allocated depreciation of right-of-use assets	<b>199</b>	231	<b>54</b>	41	<b>100</b>	104	<b>354</b>	376
Unallocated depreciation of right-of-use assets	-	-	-	-	-	-	<b>129</b>	-
Amortisation	<b>90</b>	145	<b>49</b>	54	<b>173</b>	163	<b>312</b>	362
Capital expenditure:								
Property, plant and equipment (PPE)	<b>4,187</b>	1,334	<b>550</b>	334	<b>792</b>	205	<b>5,529</b>	1,873
Intangible assets	<b>79</b>	41	<b>46</b>	17	<b>1,846</b>	902	<b>1,971</b>	960

Unallocated assets and liabilities are made up of corporation tax and deferred tax assets, together with the recent addition Shincell, which offers opportunities across both the Polyolefin and HPP businesses.

	Polyolefin Foams		HPP		MEL		Consolidated	
	30-Jun-24	31-Dec-23	30-Jun-24	31-Dec-23	30-Jun-24	31-Dec-23	30-Jun-24	31-Dec-23
Six months ended (Unaudited)	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Segment assets	115,897	110,374	55,996	50,456	16,688	14,344	188,581	175,174
Unallocated assets	-	-	-	-	-	-	7,974	435
Total assets							196,555	175,609
Segment liabilities	(45,029)	(37,631)	(21,389)	(14,363)	(1,565)	(1,504)	(67,983)	(53,498)
Unallocated liabilities	-	-	-	-	-	-	(8,307)	(6,348)
Total liabilities							(76,290)	(59,846)

### Geographical segments

Polyolefin Foams, HPP and MEL are managed on a worldwide basis but operate from the UK, Europe, USA and Asia locations. In presenting information on the basis of geographical segments, segmental revenue is based on the geographical location of customers. Segment assets are based on the geographical location of assets.

	United Kingdom (Unaudited) £'000	Europe (Unaudited) £'000	North America (Unaudited) £'000	Rest of World (Unaudited) £'000	Total (Unaudited) £'000
<b>For the period ended 30 June 2024</b>					
Group revenue from external customers	5,934	16,121	13,214	35,791	71,060
Non-current assets	51,855	20,941	41,990	211	114,997
Capital expenditure - PPE	1,430	1,106	2,993	-	5,529
<b>For the period ended 30 June 2023</b>					
Group revenue from external customers	6,586	17,740	13,666	26,639	64,631
Non-current assets	41,762	20,454	38,233	304	100,753
Capital expenditure - PPE	1,157	197	519	-	1,873

### Major customers

Revenues from one customer of the Group located in "Rest of World" contributed £31,068k (2023: £22,271k) to the Group's revenue.

### Analysis of revenue by category

Breakdown of revenue by products and services for the Group:

	Six months ended	
	30-Jun-24 (Unaudited) £'000	30-Jun-23 (Unaudited) £'000
Sale of foam	70,505	64,037
Sale of equipment	406	433
Licence and royalty income	149	161
<b>Group Revenue</b>	<b>71,060</b>	<b>64,631</b>

## 7. INCOME TAX EXPENSE

	Six months ended	
	30-Jun-24 (Unaudited) £'000	30-Jun-23 (Unaudited) £'000
UK corporation tax	2,447	2,076
Overseas tax	107	149
Total current tax	2,554	2,225
Deferred tax	(548)	(422)
Income tax expense	2,006	1,803

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period to 30 June 2024 is 24.21% (the estimated average annual tax rate for the period ended 30 June 2023 was 24.38%).

## 8. DIVIDENDS

A dividend of £2,382k (2023: £2,243k) that relates to the period to 31 December 2023 was paid in June 2024.

An interim dividend of 2.38 pence per share was approved by the Board of Directors on 5 August 2024 (2023: 2.28 pence per share). It is payable on 7 October 2024 to shareholders who are on the register at 6 September 2024. This interim dividend, amounting to £1,163k (2023: £1,109k), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2024.

## 9. EARNINGS PER SHARE

Earnings per ordinary share is calculated by dividing the consolidated profit after tax attributable to equity holders of the Parent Company of £6,283k (2023: £5,591k) by the weighted average number of shares in issue during the period, excluding own shares held by employee trusts which are administered by independent trustees. The number of shares held in the trust at 30 June 2024 was 139,332 (30 June 2023: 58,135). Distribution of shares from the trust is at the discretion of the trustees. Diluted earnings per ordinary share adjusts for the potential dilutive effect of share option schemes in accordance with IAS 33 Earnings per share.

	Six months ended	
	30-Jun-24 (Unaudited)	30-Jun-23 (Unaudited)
Weighted average number of ordinary shares in issue <sup>1</sup>	48,735,829	48,472,869
Deemed issued for no consideration	1,022,777	1,082,961
Diluted number of ordinary shares issued	49,758,606	49,555,830

<sup>1</sup> Own shares held by employee trusts have already been deducted.

## 10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £'000 (Unaudited)	Plant and equipment £'000 (Unaudited)	Fixtures and fittings £'000 (Unaudited)	Under construction £'000 (Unaudited)	Total £'000 (Unaudited)
<b>Cost</b>					
At 1 January 2024	46,613	115,276	3,388	9,118	174,395
Additions	18	731	19	4,761	5,529
Disposals	-	(147)	-	-	(147)
Transfers	1,853	2,679	382	(4,972)	(58)
Effect of movement in foreign exchange	(288)	(9)	1	(19)	(315)
<b>At 30 June 2024</b>	<b>48,196</b>	<b>118,530</b>	<b>3,790</b>	<b>8,888</b>	<b>179,404</b>
<b>Accumulated depreciation</b>					
At 1 January 2024	17,059	62,872	2,721	-	82,652
Depreciation charge	724	2,554	148	-	3,426
Disposals	-	(79)	-	-	(79)
Transfers	-	-	-	-	-
Effect of movement in foreign exchange	7	47	4	-	58
<b>At 30 June 2024</b>	<b>17,790</b>	<b>65,394</b>	<b>2,873</b>	<b>-</b>	<b>86,057</b>
<b>Net book value</b>					
At 31 December 2023	29,554	52,404	667	9,118	91,743
<b>At 30 June 2024</b>	<b>30,406</b>	<b>53,136</b>	<b>917</b>	<b>8,888</b>	<b>93,347</b>



## 11. LEASES

(i) Amounts recognised in the statement of financial position relating to leases:

### Right-of-use assets

	<b>Group</b>	
	<b>30-Jun-24</b>	31-Dec-23
	<b>£'000</b>	£'000
	<b>(Unaudited)</b>	(Unaudited)
Property	775	940
Equipment	1,484	332
Licences	7,624	-
<b>Total right-of-use assets</b>	<b>9,883</b>	1,272

### Lease Liabilities

	<b>Group</b>	
	<b>30-Jun-24</b>	31-Dec-23
	<b>£'000</b>	£'000
	<b>(Unaudited)</b>	(Unaudited)
Lease liability falls due within 1 year	1,934	507
Lease liability falls due within 3 years	4,433	797
Lease liability falls due in more than 3 years	3,103	30
<b>Total lease liabilities</b>	<b>9,470</b>	1,334

Additions to the right-of-use assets during the financial year were £9,099k (2023: £1,098k) for the Group. Within additions £7,752k related to licences (£0k in 2023).

(ii) Amounts recognised in the income statement relating to leases:

	<b>Group</b>	
	<b>30-Jun-24</b>	30-Jun-23
	<b>£'000</b>	£'000
Property	175	187
Equipment	179	179
Licences	129	-
<b>Total</b>	<b>483</b>	366
Interest expenses (included in finance costs)	113	38
Expense relating to short-term leases (included in cost of sales and administrative expenses)	62	44
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	32	32
<b>The total cash outflow</b>	<b>1,003</b>	364

Within interest expenses £73k related to licences (£0k in 2023), and within total cash outflow £611k related to licences (£0k in 2023).

## 12. INTEREST-BEARING LOANS AND BORROWINGS

	<b>30-Jun-24</b>	31-Dec-23
	<b>(Unaudited)</b>	(Audited)
	<b>£'000</b>	£'000
Current bank borrowings	<b>43,055</b>	36,527
<b>Total</b>	<b>43,055</b>	36,527

In March 2022, the Group completed a debt refinancing and selected Handelsbanken and NatWest, the incumbents, to continue as its lenders. Under the terms of the new facility, secured against the property, plant and equipment and trade receivables, the Group's gross finance facility consists of a £50m multi-currency revolving credit facility with a £25m accordion. With a 4+1 tenor, the extending year option was taken up in January 2023.

At 30 June 2024, the Group has utilised £43.1m (31 December 2023: £36.5m) of its multi-currency revolving credit facility of £50m. The total amount of £43.1m, repayable on the last day of each loan interest period, which is either of a 3- or 6-month duration, is net of £0.3m origination fees paid up front and being amortised over 4 years.

The interest rate on the debt facility ranged between 5.00% and 6.68% in H1 2024 (FY 2023: between 3.70% and 6.60%).

## 13. RELATED PARTY TRANSACTIONS

There were no material related party transactions requiring disclosure for the periods ended 30 June 2024 and 30 June 2023.

## 14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2024 and 31 December 2023:

	Level 1 (Unaudited) £'000	Level 2 (Unaudited) £'000	Level 3 (Unaudited) £'000	Total (Unaudited) £'000
<b>30-Jun-24</b>				
<b>Assets</b>				
Forward exchange contracts	-	331	-	331
<b>Total assets</b>	-	331	-	331
<b>Liabilities</b>				
Forward exchange contracts	-	(286)	-	(286)
<b>Total liabilities</b>	-	(286)	-	(286)

	Level 1 (Unaudited) £'000	Level 2 (Unaudited) £'000	Level 3 (Unaudited) £'000	Total (Unaudited) £'000
<b>31-Dec-23</b>				
<b>Assets</b>				
Forward exchange contracts	-	1,264	-	1,264
<b>Total assets</b>	-	1,264	-	1,264
<b>Liabilities</b>				
Forward exchange contracts	-	(28)	-	(28)
<b>Total liabilities</b>	-	(28)	-	(28)

The forward exchange contracts have been measured at fair value using forward exchange rates that are quoted in an active market.

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to measure an instrument at fair value are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

### Group's valuation process

Derivative financial instruments are valued using Handelsbanken and NatWest mid-market rates (2023: Handelsbanken and NatWest mid-market rates) at the Statement of Financial Position date.

The Group also has a number of financial instruments which are not measured at fair value in the Statement of Financial Position. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature. The fair value of the following financial assets and liabilities approximate to their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

### Financial assets and liabilities measured at amortised cost

The fair value of borrowings is as follows:

	<b>30-Jun-24</b>	31-Dec-23
	<b>(Unaudited)</b>	(Unaudited)
	<b>£'000</b>	£'000
Current	<b>43,055</b>	36,527
<b>Total</b>	<b>43,055</b>	36,527

The fair value of financial assets excluding cash and cash equivalents is as follows:

	<b>30-Jun-24</b>	31-Dec-23
	<b>(Unaudited)</b>	(Unaudited)
	<b>£'000</b>	£'000
Non-current trade receivables	<b>40</b>	70
Trade receivables	<b>36,315</b>	33,002
<b>Total</b>	<b>36,355</b>	33,072

### 15. CAPITAL COMMITMENTS

Capital expenditure commitments of £4,993k (31 December 2023: £2,309k) and £7,143k (31 December 2023 £nil) have been contracted for at the end of the reporting period but not yet incurred, and are in respect of property, plant and equipment and right-of-use assets respectively.

### 16. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There are no material events occurring after the reporting period.

## 17. STANDARDS ISSUED BUT NOT EFFECTIVE

### i) New standards and amendments – applicable 1 January 2024

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2024:

	Effective for accounting periods beginning on or after	Expected Impact
Amendments to IFRS 16: Lease Liability in a Sale and Leaseback	1 January 2024	None
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1 January 2024	See below
Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7	1 January 2024	None

#### **Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require reclassification.

### ii) Forthcoming requirements

As at 30 June 2024, the Group has not adopted early any standard, interpretation or amendment that has been issued but is not yet effective.