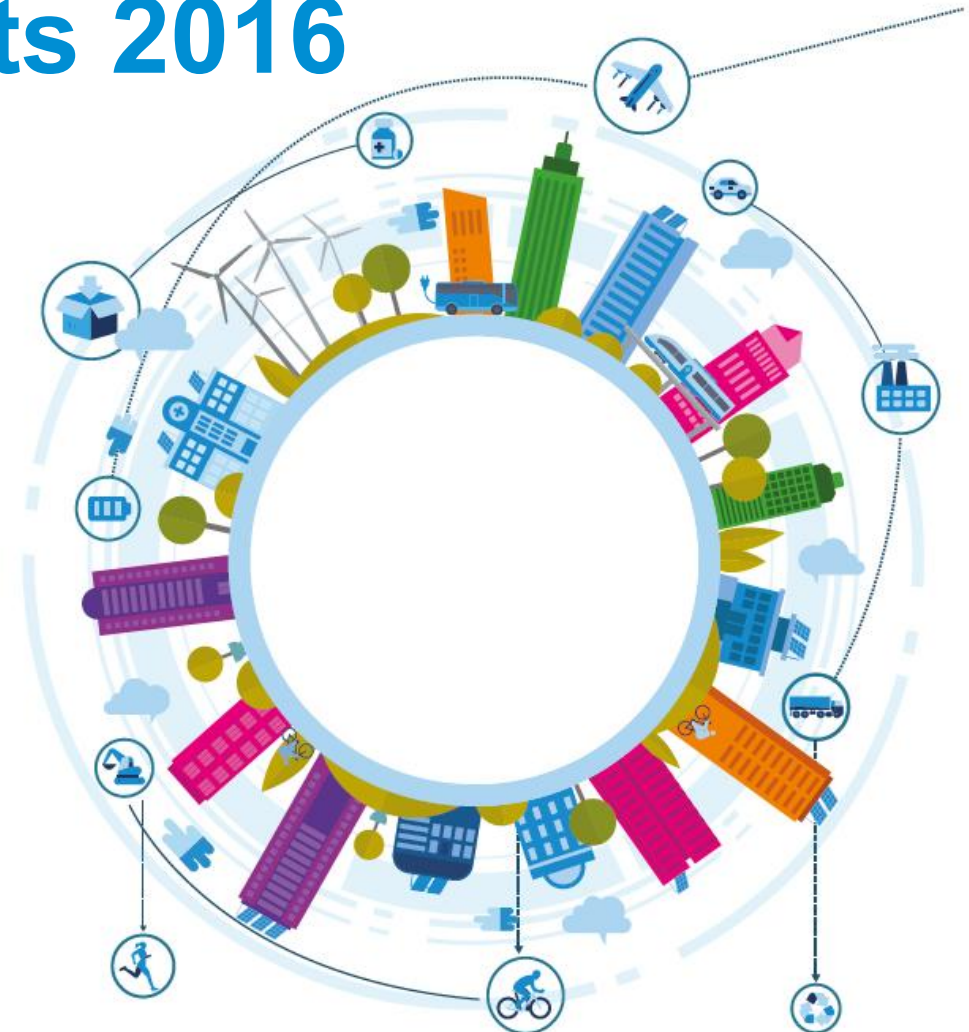


# Preliminary Results 2016

David Stirling: Group CEO  
Gary McGrath: Finance Director



14 March 2017

AZOTE®

ZOTEK®

T-FIT®

MUCELL®

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# Introduction



ZOTEFOAMS

# Zotefoams' Strategy

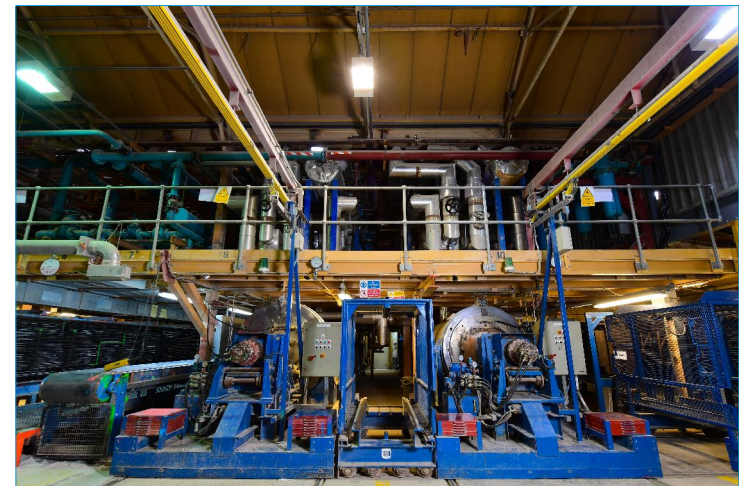


*“We intend to be the world leader in cellular materials technology in our chosen markets”*

*We deliver stakeholder value by using **unique technology** to create a portfolio of **differentiated products**.*

*We **focus resources** primarily on markets where we are, or have the potential to be, a **market leader**.*

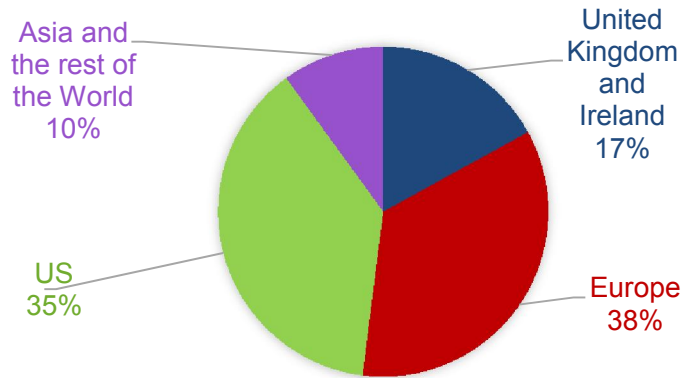
*We intend to develop our business **through sustained high levels of organic growth** and, where appropriate, through partnerships or acquisitions.*



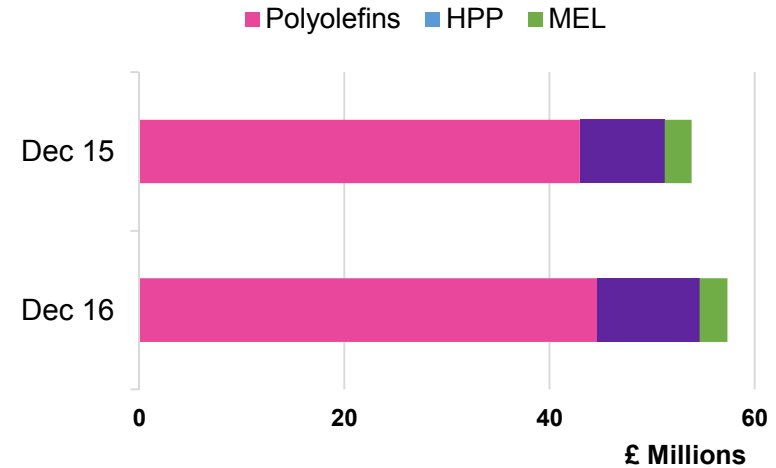
- **Strong currency benefits enabled continued investment in operating cost base to support future growth whilst growing earnings**
  - Full capacity during Q1 and Q4, but soft mid-year conditions in European AZOTE® markets. Inventory adjustment at a key HPP customer
  - Revenues up 7% to £57.38m (2015: £53.87m)
  - Reported PBT before exceptional item up 20% to £7.23m (2015: £6.01m)
  - SGA cost increase of £1.95m
  - Reported EPS up 19% to 13.25p, Dividend up 3% to 3.90p (full year up 3% to 5.75p)
- **Solid progress in delivering strategy**
  - Kentucky investment scheduled to start up around mid year, bringing c20% extra AZOTE® foam capacity
  - Good progress in HPP to establish business in sports, leisure and automotive
  - Successful business start-ups in China (T-FIT®) and Tulsa, USA (AZOTE®)
  - Technical advances in 3d foaming
  - MuCell a partner in product development as well as a foaming technology expert

# Segment overview

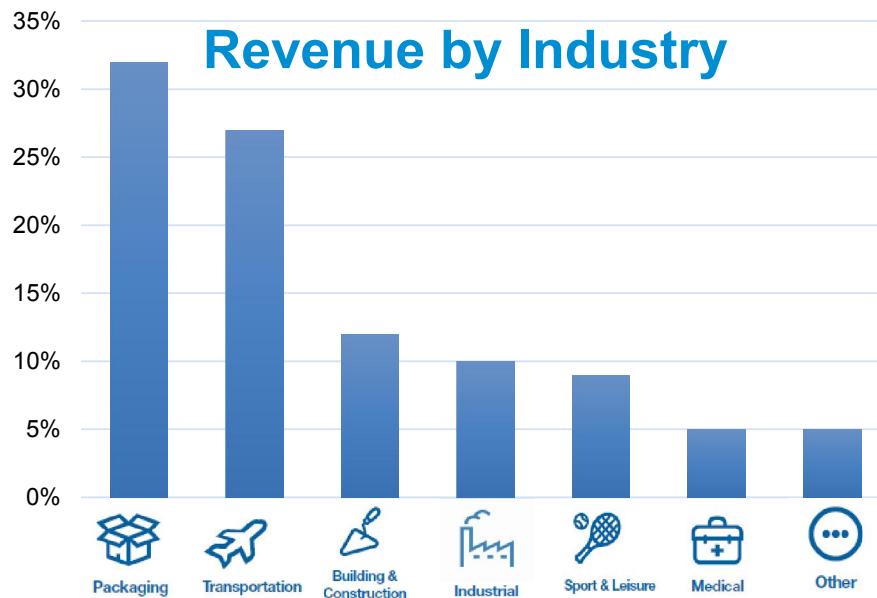
## Revenue by Geography



## Revenue by Business Unit



## Revenue by Industry



- A well balanced geographical and industrial spread
- Improving mix of higher value HPP business

# Financial Review



ZOTEFOAMS

# Financial Highlights



£ million	Dec 16	Dec 15	% Change Reported
Group Revenue	57.38	53.87	6.5%
Gross Profit	20.54	17.27	19.0%
Gross Profit Margin	35.8%	32.1%	
Adjusted Operating Profit <sup>1,2</sup>	8.11	6.68	21.5%
Adjusted Profit after Tax <sup>1,2</sup>	6.36	5.15	23.5%
Adjusted EPS (p)	14.31	11.82	21.1%
Return on Capital Employed <sup>3</sup>	15.4%	14.4%	
Final Proposed DPS	3.90p	3.80p	2.7%

- Group revenue benefits from weaker sterling, with 80% of revenues derived mainly from US dollar and euro
- Mid-year polyolefin demand weakness sandwiched between near full capacity start and end of year
- 2015 gross margin includes £2.26m of costs reclassified from Cost of Sales to SGA
- 2016 operating profit includes £1.95m of operating cost investments to support strategic growth plan
- US expansion plan holding back ROCE by approx. 4% margin until fully operational
- Proposed dividend per share takes full year to 5.75p (2015: 5.60p)

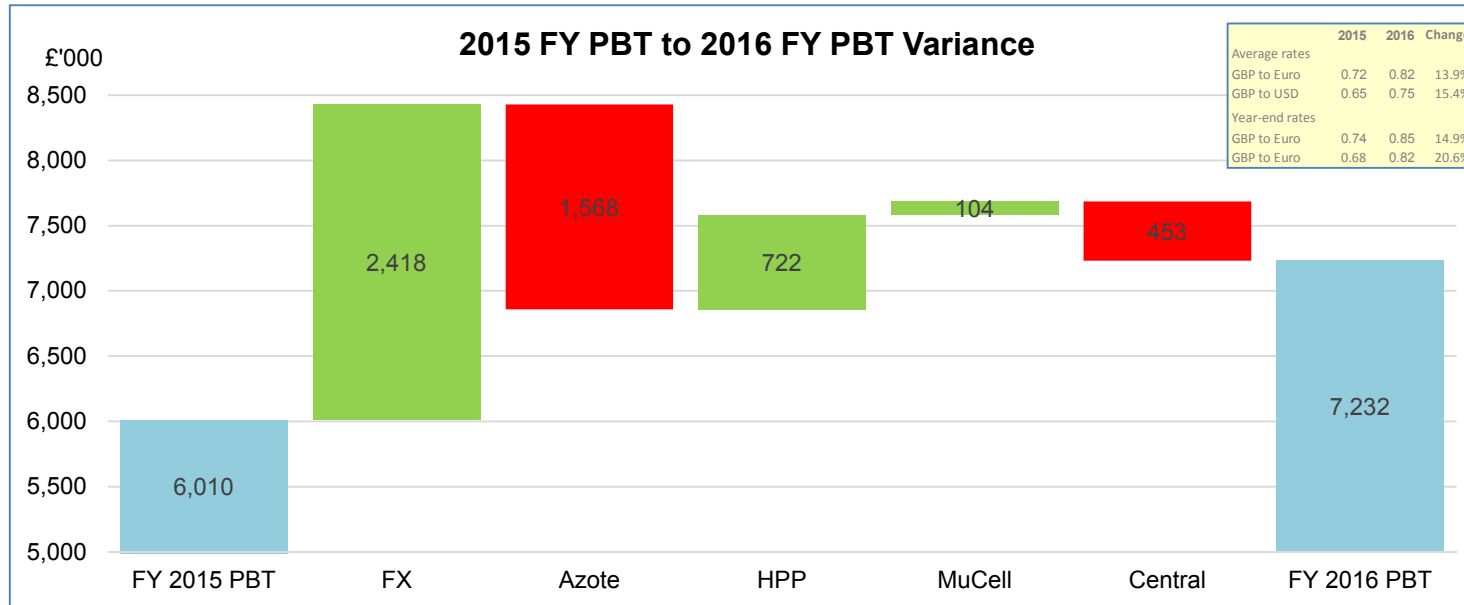
<sup>1</sup> Before exceptional items

<sup>2</sup> Excludes amortisation costs of acquired intangible assets

<sup>3</sup> Ex US investment expansion, 2016: 19.3% (2015: 15.5%)



# Profit Bridge



- FX gain used to finance £1.95m additional investment in resources to develop and support the changing size and nature of the Zotefoams business. Of this, £1.49m is included within the business segment variances above
- HPP profitability almost doubled, with growth in non-PVDF segments
- AZOTE® polyolefin foam volume impacted by mid-year demand fall in Europe

# Free Cash Flow and Net Debt

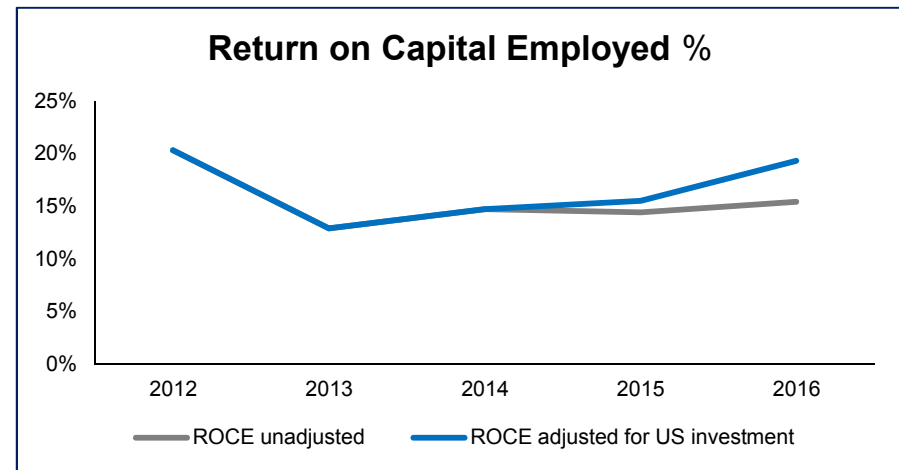
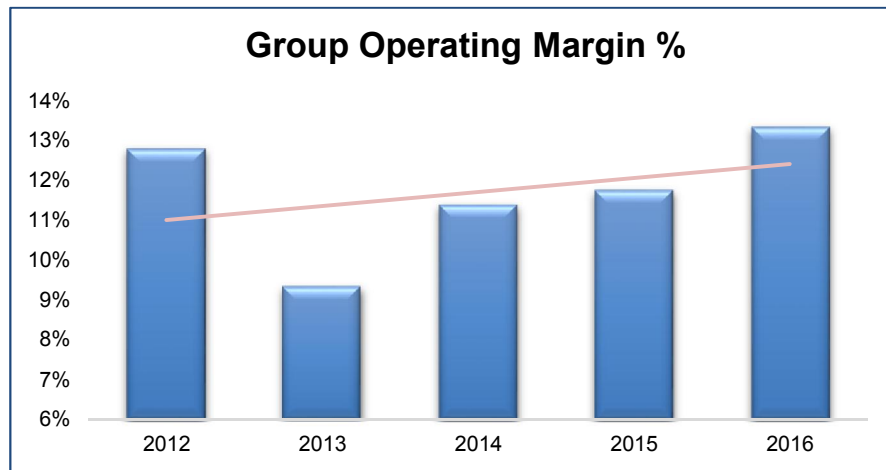
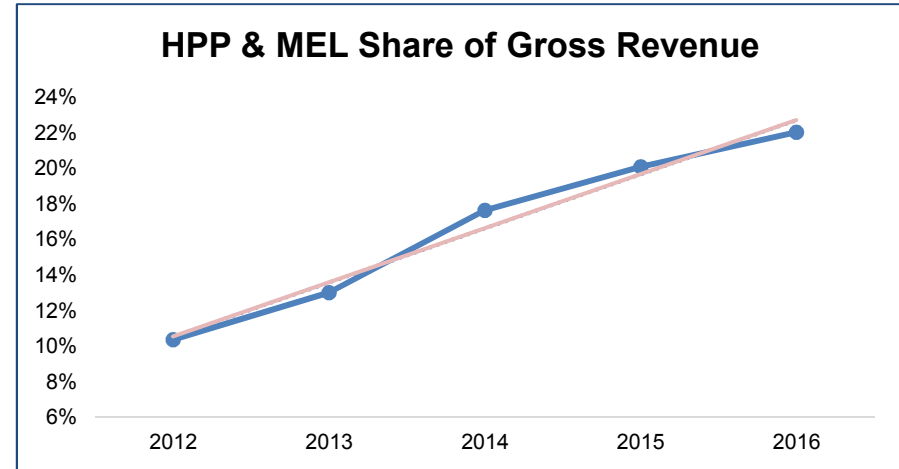
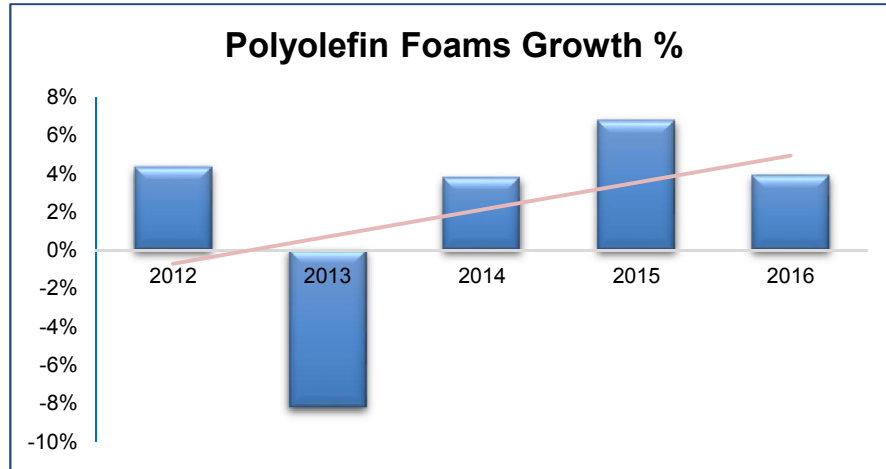


£ million	Dec-16	Dec-15
Operating profit	7.40	6.33
Depreciation & amortisation	3.60	3.48
<b>Underlying EBITDA</b>	<b>11.00</b>	<b>9.81</b>
Working Capital	(4.23)	(0.95)
Other	(0.41)	(0.45)
<b>Cash generated from operations</b>	<b>6.36</b>	<b>8.41</b>
Income tax and interest paid	(1.19)	(0.88)
Net capital expenditure	(12.78)	(9.10)
<b>Free cash flow</b>	<b>(7.61)</b>	<b>(1.57)</b>
Net movement in borrowings	6.60	4.62
Dividends paid	(2.47)	(2.40)
Other	-	0.15
<b>Free cash (out)/inflow</b>	<b>(3.48)</b>	<b>0.80</b>

- Working capital investment reflects inventory build in HPP and new businesses, together with high year end sales
- Capital expenditure is driven by US investment of £6.90m, bringing total project investment to £16.64m, some two-thirds complete, and UK investment in laboratory facilities and ZOTEK® foam-driven capacity expansion. Also includes investments in new subsidiaries and the purchase of our Chinese partner shareholding in T-FIT®
- Net borrowings movement reflects penultimate year of sterling mortgage repayment, offset by drawing down of multi-currency revolver

£ million	Dec-16	Dec-15
<b>Net debt</b>	<b>12.56</b>	<b>1.59</b>

# Key Performance Metrics



# Performance and Outlook



ZOTEFOAMS

Common polymers made extraordinary by Zotefoams' unique process, creating premium, durable, consistent materials

## Revenue

- 4% sales growth due to favourable FX rates
- Operating close to capacity early and late 2016, with mid-year softness in UK and continental Europe
- North America solid growth and added value of Zotefoams MidWest
- Volume & constant FX revenue 5% decline
- German route to market restructured

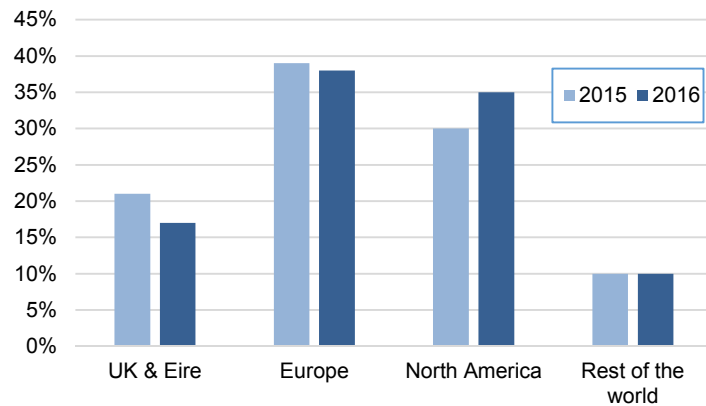
## Costs and Margin

- Euro-denominated LDPE relatively flat
- H1 LDPE *force majeure* impact c£0.4m
- “Exceptional restructure” to improve cost base through operational efficiency
- Segment margins stable at 18%

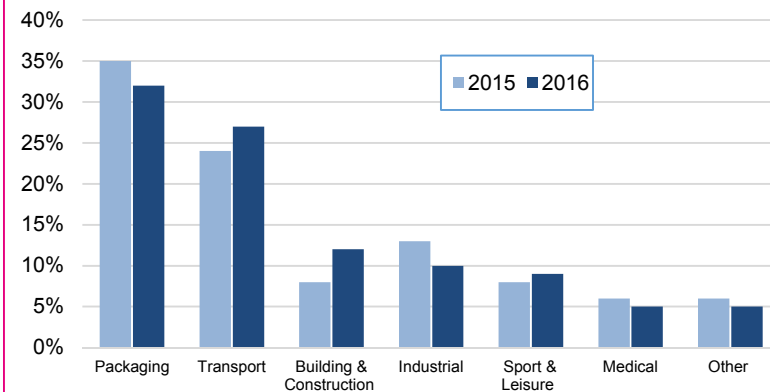
Polyolefin Foams	Dec-16 £m	Dec-15 £m	% Change
Group revenue	44.73	43.04	4
Segment profit pre amortisation	8.00	7.60	5
Segment profit post amortisation	7.96	7.55	5
Segment profit margin	18%	18%	

- Market approach and positioning varies by geography and transport cost
- Kentucky facility releases UK capacity
- Sales typically in functional currency of customer (with Asia mainly USD) allowing focus on business development
- No major list-price increases in 2016 but due in 2017

## Revenue: Geographical Analysis



## Revenue: Segment Analysis



## Revenue: Key Drivers

- Lightweight and environmentally friendly
- Regulation, demographics & environmental trends all positive

## Outlook

- Tight capacity situation currently
- Expected to relieve mid 2017 with commissioning of +20% capacity in USA

**ZOTEK<sup>®</sup> foams: retaining the attributes of high-performance polymers with the added benefits of (consistent) foaming T-FIT<sup>®</sup> high-performance insulation**

## Revenue

- Revenues increase 21% with underlying growth despite aviation inventory correction
- H2 revenue more than double H1, up 40% on H2: 2015
- First significant sales from sports & leisure, with ZOTEK<sup>®</sup> PEBA foams the fastest growing product

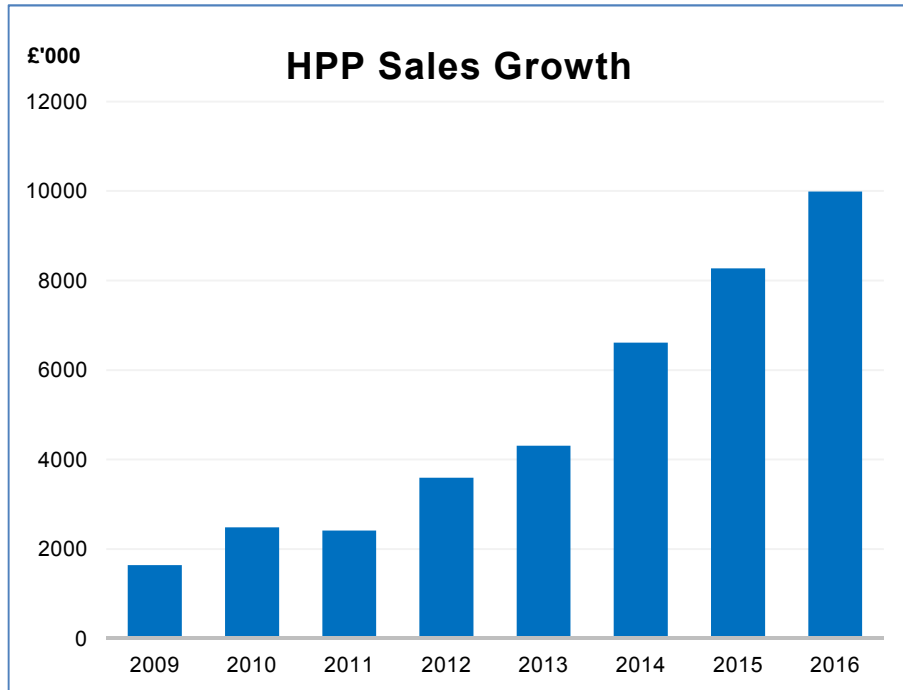
## Costs and Margin

- Constant FX margin doubled
- Cost increases in T-FIT<sup>®</sup> insulation due to delayed start-up in China and extension of product range
- Portfolio of products, including early-stage developments (new and range extensions)

HPP	Dec-16 £m	Dec-15 £m	% Change
Group revenue	9.99	8.27	21
Segment profit pre-amortisation	2.48	0.82	204
Segment profit post amortisation	2.48	0.82	204
Segment profit margin	25%	10%	

- ZOTEK<sup>®</sup> F fire, smoke, chemical performance foams
- ZOTEK<sup>®</sup> N high-temperature polyamide (nylon) foams
- ZOTEK<sup>®</sup> PEBA excellent kinetic-energy management performance using PEBAX<sup>®</sup> resin

# HPP: a growth portfolio



Product portfolio with unique attributes from defensible technology:

- ZOTEK® F fluoropolymer foams: fire, smoke, chemical resistance
- ZOTEK® N nylon foams: high temperature performance
- ZOTEK® PEBA foams: excellent kinetic energy return
- T-FIT® technical insulation products

- Aviation
- Automotive
- Industrial Insulation (currently clean-room)
- Sports & Leisure

Grow by **creation** or **re-definition** of markets

- Penetration rate, not market share
- Regulatory or performance drivers
- Value-added materials, so positioning in supply chain is critical



# MuCell Extrusion: Results

MUCELL®

## Revenue

- Further 22 lines installed at licensees, bringing total installed base to 111
- 2016 “consolidation of technology” focus
- Record order intake, with large project partial deferral of revenue into 2017
- Underlying royalty and license income increase, offset by large customer rebasing payment terms

MEL	Dec-16 £m	Dec-15 £m	% Change
Group revenue	2.73	2.62	4%
Segment loss pre amortisation	(0.40)	(0.50)	20%
Amortisation	(0.42)	(0.30)	-
Segment loss post amortisation	(0.82)	(0.80)	(3%)

## Costs and Margin

- Similar outcome to 2015
- Development of the MuCell Extrusion technology as a “product”
- Organisational alignment to this approach

- “Consolidation of technology” in 2016:
  - Standardisation of (next generation) equipment
  - Deeper understanding of customer conversion challenges and therefore closer to being a solution provider
  - A small number of (potentially scalable) major projects

2017 focus on:

- Speed to market for the licensee

# Coveris and MuCell® Technology



MuCell Extrusion in partnership with a leading international manufacturing company who produce polystyrene-free packaging

NEOCELL® PP+ has been developed as a “breakable” Polypropylene “Form Fill Seal” sheet

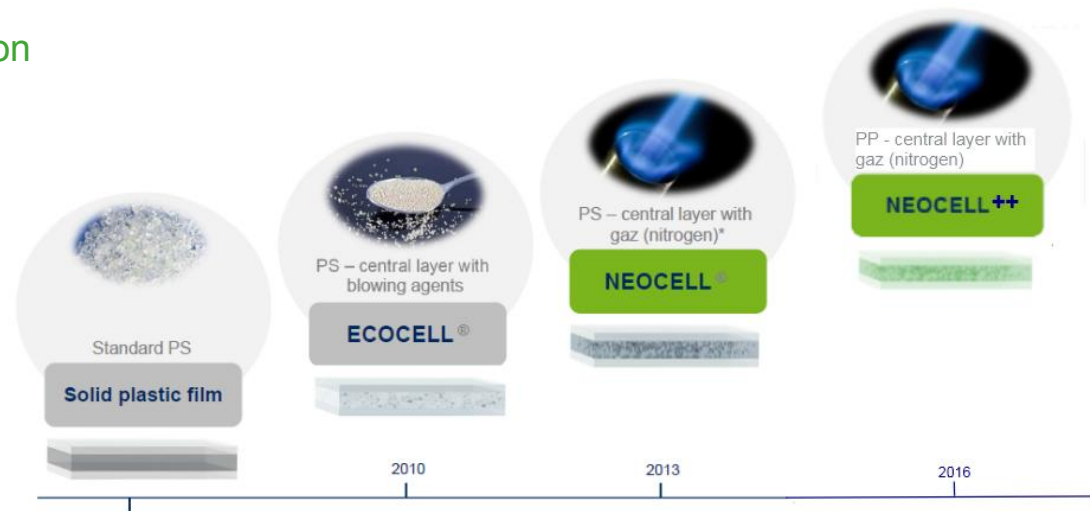


NEOCELL® PP+ → eliminates the need for chemical foaming agents by using MuCell®  
→ 26% reduction in product compared to solid PS



Significant carbon footprint reduction

Ideal use in fruit / natural yoghurt pots / fat dairy products



\*Optional with additional strengthened, mineral loaded external layers

AZOTE®

ZOTEK®

T-FIT®

MUCCELL®

# Significant USA Investment



Walton Kentucky facility

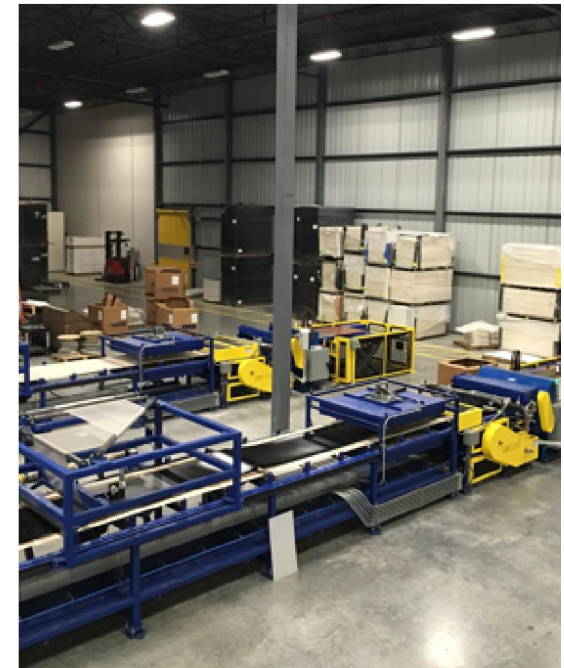
- \$31 million investment in existing Kentucky site
- Extrusion and high-pressure autoclave
- Autoclave suitable for AZOTE® and ZOTEK® foams
- A 2<sup>nd</sup> autoclave included in investment sum
- Commissioning around the middle of 2017



Autoclave: Internal boring



Autoclave: Arrival at Walton facility



New extrusion lines

# Key Messages & Outlook

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## 2016

- Strong currency benefits enabled continued investment in operating cost base to support future growth whilst growing earnings
- HPP growth, with first significant sales of ZOTEK® PEBA energy foams
- Solid progress in delivering strategy

## 2017

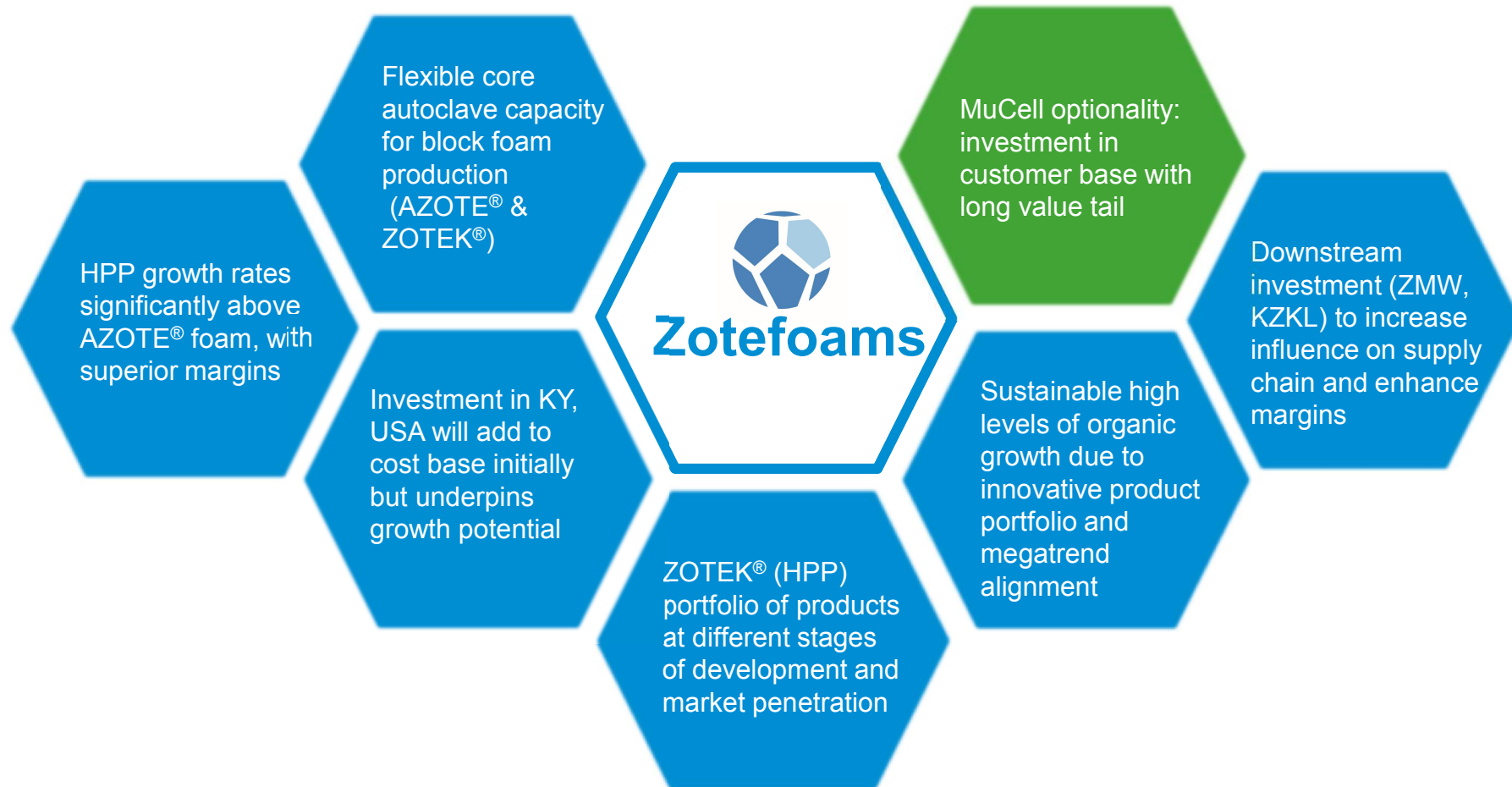
- Operating close to capacity
- Polyolefin sales volumes started broadly similar to 2016
- Walton production expected mid 2017
  - Effective commissioning and transition of production critical
  - Increased overhead in the short-term
- Good growth in HPP with further traction in non-aviation business

# Appendices



ZOTEFOAMS

## Sustained high levels of organic growth with margin enhancement through product mix and operational gearing

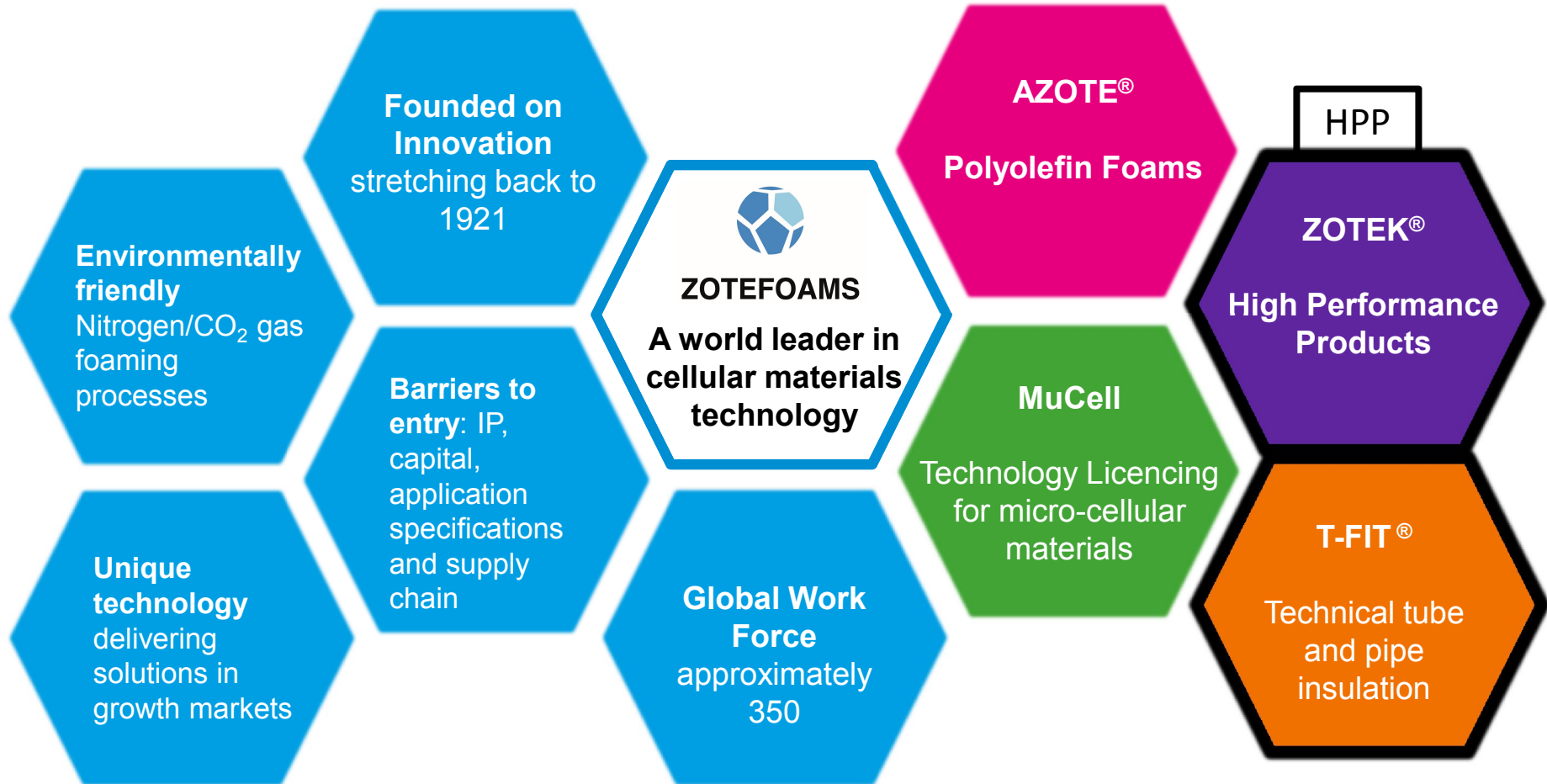


# Overview

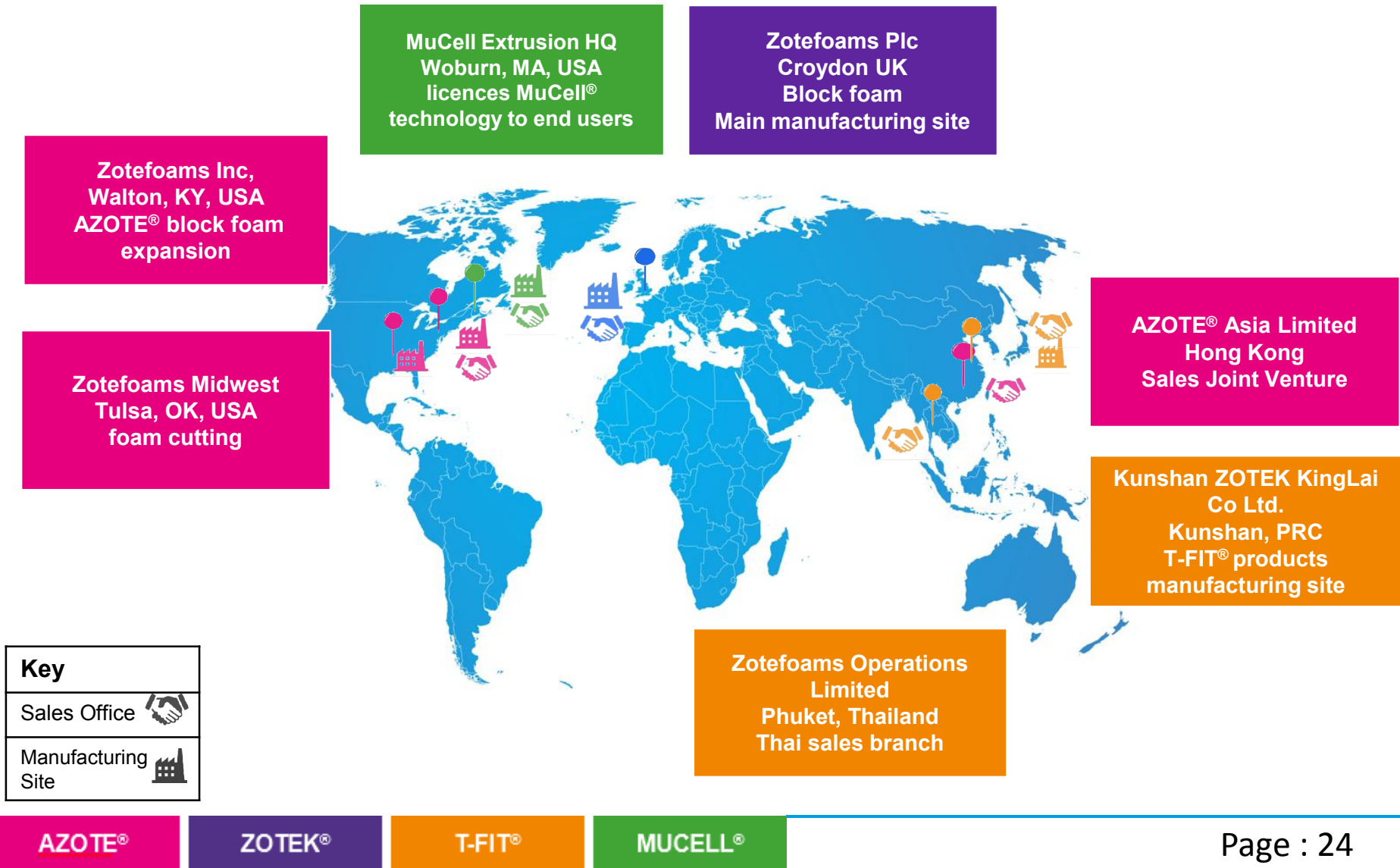


## Organisation

## Products



# Group Overview - Locations





# Main markets & typical applications



## Packaging



AZOTE® ZOTEK® MuCell

Luxury, fine art and museum  
 Industrial protective and transit  
 Aviation & aerospace  
 Electronics  
 Space station transit pods  
 Consumer (food and household)

## Transport



AZOTE® ZOTEK®

Galley areas / window seals  
 ECS (air ducting)  
 Soft touch trim / close outs  
 Composites panels  
 Aircraft seats, seals  
 Automotive seals, gaskets

## Industrial



AZOTE® T-FIT®

Seals and gaskets  
 Marine hoses and fenders  
 Clean room environments  
 High heat up to 205°C including  
 food processing & personal care  
 plants

## Sports & leisure



AZOTE® ZOTEK®

Athletic shoes, impact pads  
 Impact protection padding  
 Life jackets, swim floats,  
 Paddle boards, sports turf underlay

## Building & construction



AZOTE®

Roof & wall insulation  
 District heating pipe spacers  
 Seals and gaskets, acoustic  
 dampening

## Medical

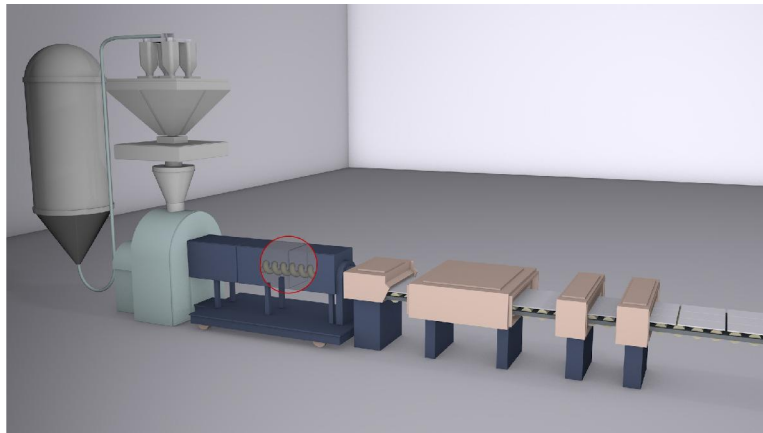


AZOTE®

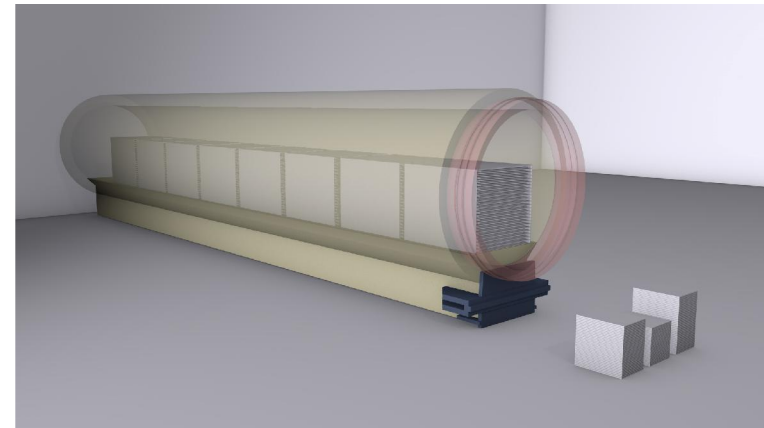
Packaging  
 Prosthetics / orthoses  
 Buoyancy aids  
 Pads, seats and cushions

# Technology Block Foams

What sets us apart from competition is a unique, environmentally friendly process that uses nitrogen gas to produce a range of uniform closed-cell cross-linked foams.

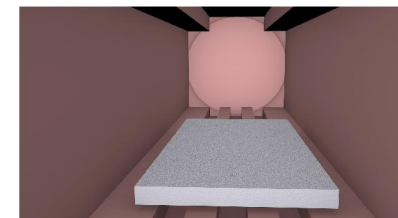
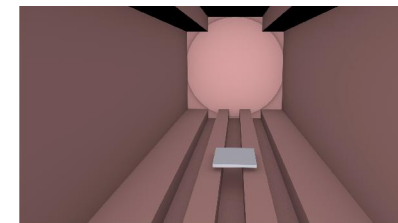
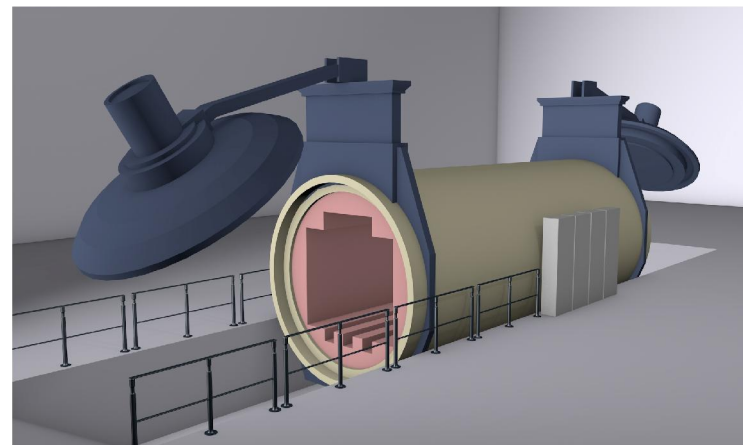


Stage 1: High quality extrusion and cross-linking of solid polymeric sheet



Stage 2: Impregnation and saturation

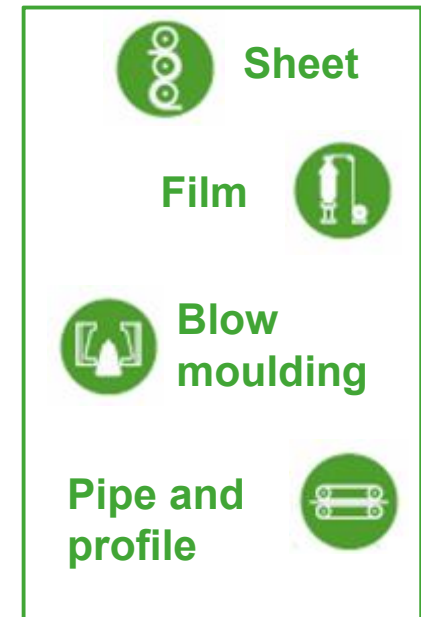
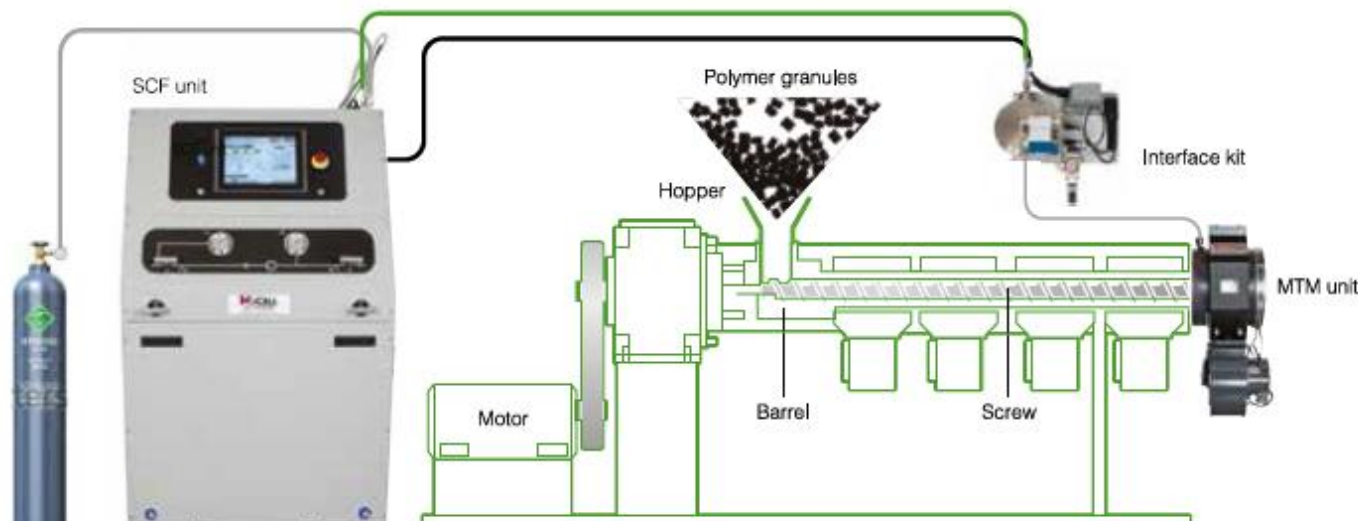
Stage 3: Expansion



# MuCell® Process Technology

MUCELL® technology produces foam that performs like solid plastic. It creates microbubbles in the centre of plastic extrusions by injecting gas into the melt during manufacture.

- Lighter
- Greener
- Lower cost



- Sheet
- Film
- Blow moulding
- Pipe and profile



Consumer



Automotive



Packaging



Medical

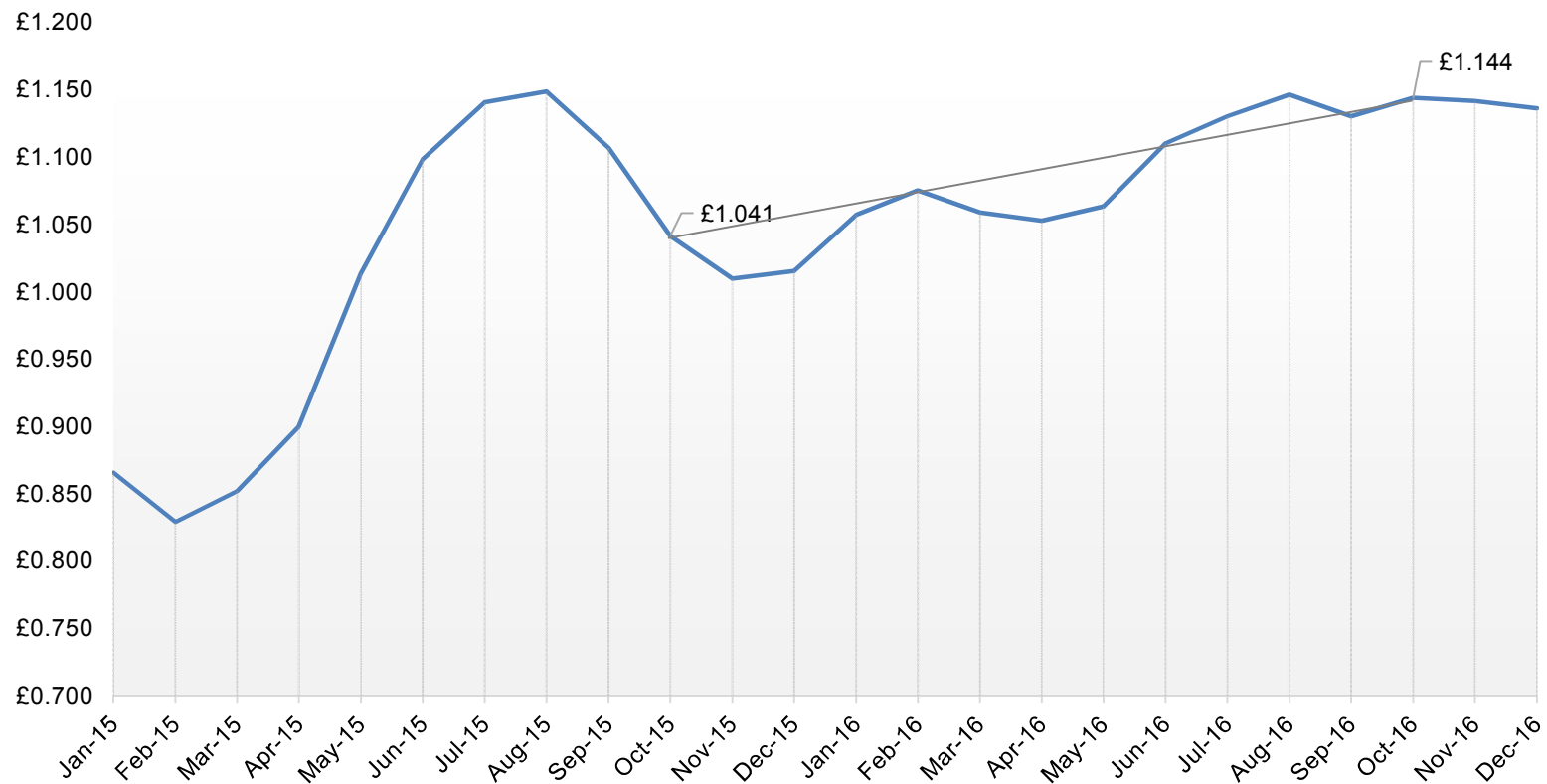


Industrial



Aerospace

# Polymer (LDPE) Prices



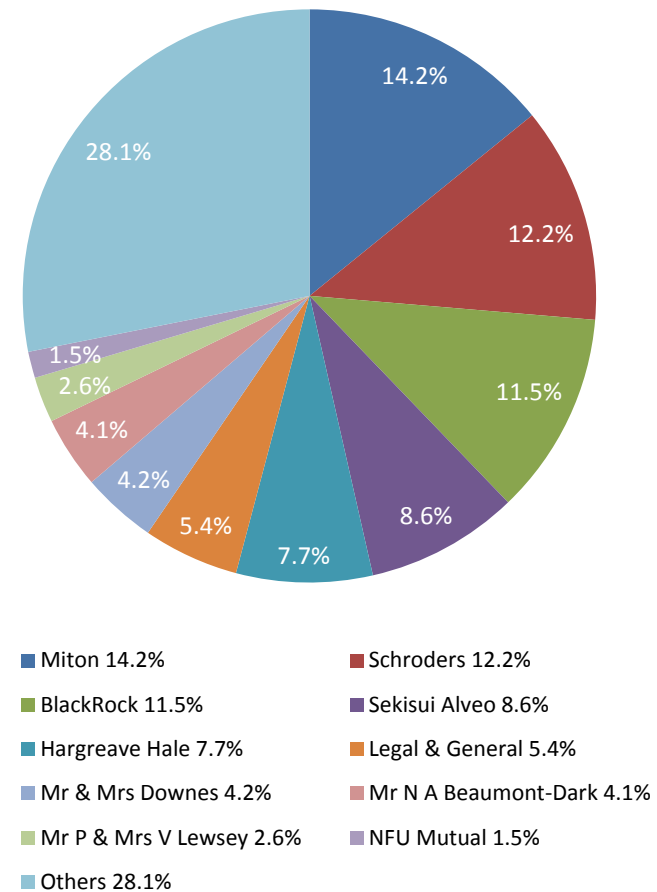
# Market Information



Share price 298.0p (08/03/17)  
 Market Main Market  
 Ticker ZTF.L  
 Market cap. £132.4m  
 Ord. shares in issue 44,414,442



## Shareholder Profile\*



\* Source: Investec Investor Relations (31/12/16)