



**ZOTEFOAMS**

# Interim results 11 August 2020

**ZOTEK®**

**AZOTE®**

**MuCell®**

**T-FIT®**

**David Stirling** Group CEO  
**Gary McGrath** Group CFO



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# Introduction



AZOTE® / ZOTEK® / T-FIT® / MuCell®



### TRADING

- Q1 – challenging market conditions following slowdown in H2:2019
- Q2 – subdued demand, high levels of uncertainty and rapid response times required
- Effective operational response with facilities operational and inbound supply chains uninterrupted
- Proactive commercial response including specification in substantial UK Government PPE contract awarded to largest UK customer
- Specific drivers underpin a significant increase in expected H2:2020 revenues:
  - PPE contract
  - Previously flagged step up in footwear volumes
  - Strong T-FIT momentum
- Poland available in Q4 to respond to any acceleration in recovery

### LIQUIDITY

- 30 June 2020:
  - Net debt under bank definitions of £35.4m (Dec 19: £30.7m)
  - Liquidity headroom of £18.8m (Dec 19: £24.5m)
  - Leverage ratio 2.6x (against short term covenant of 4.0x)
  - Operating cash inflow £6.0m before capex of £7.4m
- Cost and capital management measures successful; government support repaid in Q3
- £3.4m of remaining capex to complete the Group's recent capacity expansion programme
- Leverage ratio expected to fall after reaching peak this reporting period
- Confidence to reinstate the interim dividend



### AUTOCLAVE TECHNOLOGY

### EXTRUSION TECHNOLOGY

#### POLYOLEFINS

##### AZOTE®

###### Premium durable foams

Uniformly dense foam sheets with a consistent cell structure. These foam sheets and blocks are manufactured from common polymers using our unique nitrogen-expansion process.

###### Key Markets

Automotive / Aviation  
Construction / Industrial / Marine / Military / Product Protection / Sport and leisure

###### Key Market Drivers

Lightweighting  
Durability  
Fire safety  
Reduced toxicity

#### HPP

##### ZOTEK®

###### Lightweight technical foams

Ultra durable, highly heat and impact-resistant foam. ZOTEK® foams are manufactured from engineering polymers using our unique nitrogen-expansion process.

###### Key Markets

Automotive / Aviation  
Athletic footwear / Construction

###### Key Market Drivers

Lightweighting  
Personal safety  
Durability  
Fire safety  
Energy management

##### T-FIT®

###### Technical insulation for industry

A range of bacteria-resistant insulation products manufactured from high-grade polymers using our unique nitrogen-expansion process. T-FIT® products are purpose designed to perform in demanding environments.

###### Key Markets

Food and personal care manufacturing  
High-temperature processing environments  
Pharmaceutical, biotech and semiconductor clean rooms

###### Key Market Drivers

Aging population  
Demographic changes  
Reduced toxicity

#### MEL

##### MuCell®

###### Innovative and accessible technology for greener, lower cost plastic products

This pioneering technology injects gas into plastics during the manufacturing process to create micro-bubbles and is licensed to customers manufacturing plastic parts. The end product uses 15 - 20% less material. ReZorce® mono-material designed to be completely recyclable.

###### Key Markets

Automotive  
Consumer packaging

###### Key Market Drivers

Environmental benefit  
Lower cost

# Strategy



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“Our ambition is to be the **world leader in cellular materials** technology in our chosen markets”

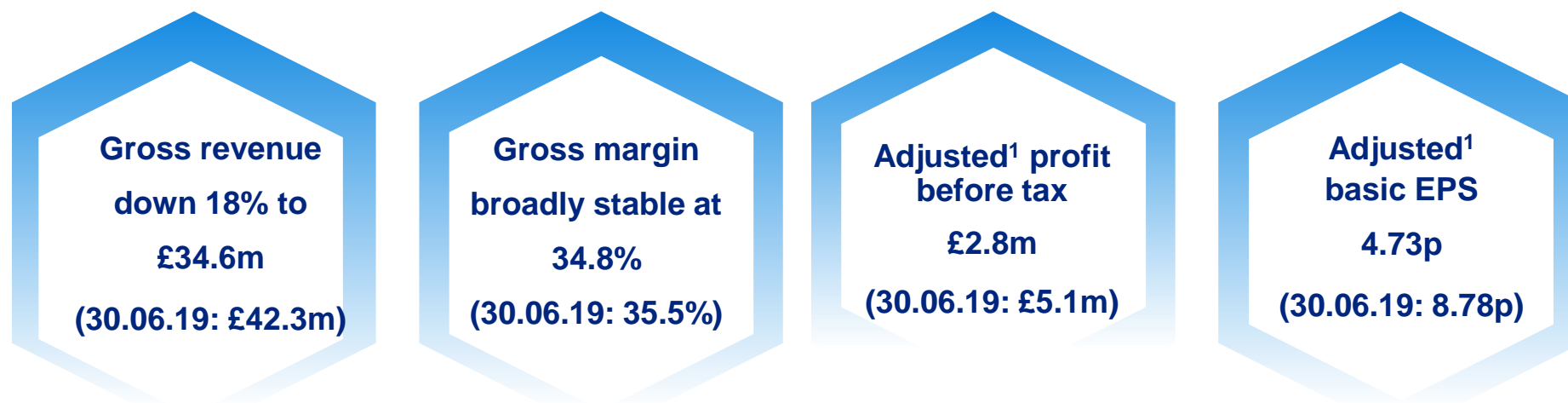
We intend to develop business **through sustained high levels of organic growth** and through partnerships or acquisitions

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

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

Zotefoams remains well positioned competitively and environmentally. Our core materials offer improved product performance using less material and MEL licenses technology specifically to reduce polymer usage

# Key points on H1:20 trading



- Period severely impacted by the COVID-19 pandemic
- Polyolefin sales, 64% of Group revenue, declined 23% vs the comparative period
- Higher margin HPP 34% of Group revenue (30.06.19: 30%), down 7% vs the comparative period
- Cost management held gross profit margin broadly stable at 34.8% (30.06.19: 35.5%) with manufacturing costs and lower raw material prices reducing the impact of a reduced sales
- SG&A costs excluding FX movements reduced by 9% vs comparative period
- Structural growth factors generated good momentum in late Q2 and are expected to underpin significant increase in second half revenues
- PPE supply to major UK customer from June demonstrates Zotefoams' flexibility and resilience
- Interim dividend of 2.03p (30.06.19: 2.03p), reflecting confidence in business prospects

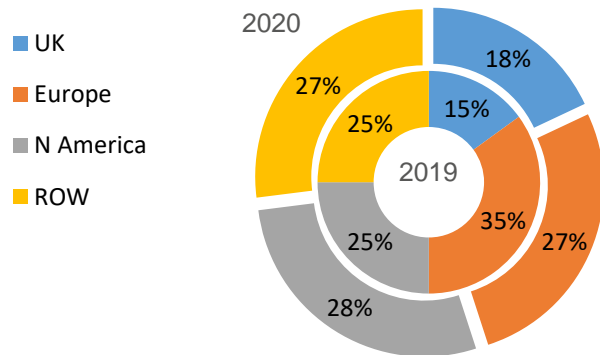
**AZOTE® / ZOTEK® / T-FIT® / MuCell®**

<sup>1</sup> before amortisation of acquired intangibles

# Segment overview

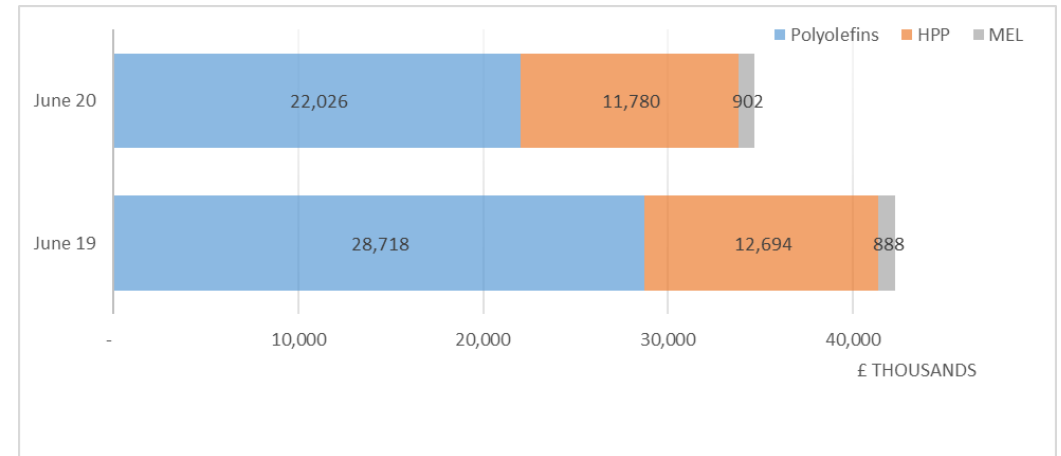
## Revenue by geography

Six months to 30 June



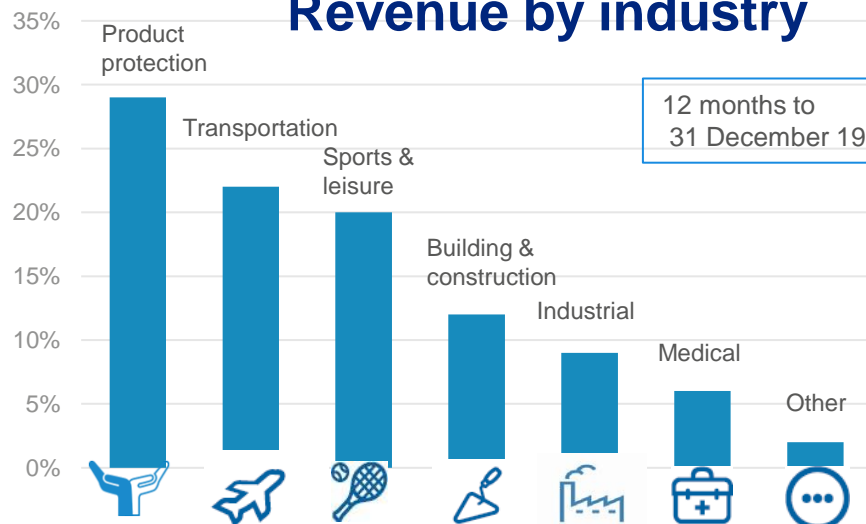
## Revenue by Business Unit

Six months to 30 June



## Revenue by industry

12 months to 31 December 19



**A well-balanced geographical and industrial spread**

**Improving mix of higher value HPP business**





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# Financial review



# Key points on H1:20 financial position



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## Cash generation

- Cash generated from operations £6.0m (30.06.19: £5.2m), before capex, mostly Poland, of £7.4m
- Working capital increase of £2.7m includes £2.9m of FX uplift on receivables balance and £6m of inventory build, mostly related to anticipated increase in H2 demand

## Liquidity headroom

- As at 30 June 2020 the Group has liquidity headroom of £18.8m

## Covenants (two)

- Net debt to EBITDA (leverage) ratio of 2.6x at 30 June 2020 (covenant: 4.0x, will revert to 3.0x at 31 December 2020)
- EBITDA to net finance charges ratio of 23x at 30 June 2020 (covenant: 4x)
- Leverage position expected to improve further in H2 and beyond:
  - Expected strong EBITDA from increase in second half revenues
  - Focus on cash generation with committed capex lower at £3.4m for Poland plant
  - Major capacity investment complete by year end will support long term de-leveraging

# Abbreviated income statement



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£million	Jun-20	Jun-19	Change
Group revenue	34.63	42.30	(18%)
Gross profit	12.04	15.03	(20%)
Gross profit margin	34.8%	35.5%	
Adjusted operating profit	3.26	5.22	(38%)
Adjusted profit before tax	2.82	5.07	(44%)
Tax expense	0.54	0.83	(35%)
Adjusted profit after tax	2.29	4.24	(46%)
Effective tax rate	19.9%	16.8%	
Adjusted EPS (p)	4.73	8.78	(46%)
Interim dividend DPS (p)	2.03	2.03	0%

Adjusted: before amortisation of acquired intangibles

# Statement of financial position, free cash flow and net debt



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## Statement of financial position

£million	Jun-20	Jun-19	Change
Intangible assets	6.81	6.50	5%
Tangible assets	95.62	80.16	19%
Net working capital	36.58	33.92	8%
Retirement benefit oblig	(9.15)	(7.80)	17%
Net debt	(36.23)	(23.36)	55%
Other	(1.71)	(1.74)	
<b>Total net assets</b>	<b>91.92</b>	<b>87.69</b>	5%
Issued share capital	2.43	2.42	1%
Share premium	44.18	44.18	0%
Translation reserve	5.57	4.30	30%
Retained earnings	40.35	37.16	9%
Other	(0.61)	(0.37)	
<b>Total equity</b>	<b>91.92</b>	<b>87.69</b>	5%

## Net debt reconciliation

£million	Jun-20	Jun-19
Cash & cash equivalents	12.21	6.51
Loans (short term)	(27.87)	(5.90)
Loans (long term)	(19.54)	(22.60)
Lease liability	(1.03)	(1.38)
<b>Net debt</b>	<b>(36.23)</b>	<b>(23.36)</b>

## Statement of cash flows

£million	Jun-20	Jun-19
Profit before tax	2.70	4.93
Depreciation	3.16	2.87
Net exchange differences	2.50	0.00
Other	0.66	0.49
<b>Operating profit before movements in W/C</b>	<b>9.01</b>	<b>8.29</b>
Movement in receivables	0.98	(0.87)
Movement in inventory	(5.96)	(0.94)
Movement in payables	2.30	(0.90)
Pension contributions	(0.35)	(0.38)
<b>Cash (used)/generated from operations</b>	<b>5.98</b>	<b>5.20</b>
Interest & Income tax paid	(0.24)	(1.50)
<b>Net cash flows from operating activities</b>	<b>5.74</b>	<b>3.69</b>
Net cash used in investing activities	(7.75)	(10.89)
Repayment of borrowings	(3.80)	(0.75)
Proceeds from borrowings	11.43	9.44
Dividend paid	0.00	(2.00)
Other	(0.20)	(0.07)
<b>Cash flows from financing activities</b>	<b>7.43</b>	<b>6.62</b>
<b>Net movement in cash and equivalents</b>	<b>5.42</b>	<b>(0.57)</b>
<b>Cash and cash equivalents at period start</b>	<b>6.66</b>	<b>7.07</b>
FX	0.13	0.01
<b>Cash and cash equivalents at period end</b>	<b>12.21</b>	<b>6.51</b>



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# Business review



AZOTE® / ZOTEK® / T-FIT® / MuCell®



### Markets & programmes

- Q1: 2020 saw continuation of subdued demand from 2019 in general with some encouraging signs of improvement in certain segments
- COVID-19 effect from late Q1 materially impacted our major volume markets including industrial protection, automotive, aviation and marine, which have all seen declines in excess of 30% in the period
- Growth in specific areas, e.g. T-FIT<sup>®</sup> insulation and, late in Q2, footwear and PPE
- Focus on new opportunities and market share gain

### Segments

- Polyolefin Foams sales down 23% to £22.0m, with some major volume markets down over 30%
- High-Performance Products sales down 7% to £26.5m
- MuCell Extrusion sales up 1%, with business development highly impacted by travel restrictions

# Polyolefin Foams results



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

## Revenue

- Sales down 23% against a strong 2019 comparative
- A continuation of weak market demand seen in H2:2019 early in the period exacerbated in Q2 by COVID-19 disruption across many volume markets
- PPE sales commenced in June

## Costs and margin

- Segment profit impacted by operational gearing
- Improved operational efficiencies and lower LDPE polymer costs only partly offset the burden of fixed costs on a lower sales base

Polyolefin Foams	June 20 £m	June 19 £m	Change
Segment revenue	22.0	28.7	(23%)
Segment profit	2.0	4.7	(57%)
Segment profit margin	9%	16%	

The commercial focus of our AZOTE® business is to grow revenues through closer collaboration with end users and channel members, to continually enhance our product range and deliver capacity and efficiency improvements from production

Clear performance advantage of Plastazote® offers ability to develop new markets, as demonstrated by the PPE supply contract awarded to UK customer



**ZOTEK®**

ZOTEK® foams: retaining the attributes of high-performance polymers with the added benefits of consistent foaming

**T-FIT®**

T-FIT® high-performance insulation

### Revenue

- Sales down 7%, significant growth expected in H2
- Footwear, largest application area, slower H1 as expected but improved late in Q2, with this rate expected to continue through H2
- Aviation performed well in Q1 before declining significantly in Q2, expected to remain subdued
- T-FIT® insulation products grew strongly but was slowed by COVID-19 logistics restrictions, mainly in India

### Costs and margin

- Investment halted in H1 to manage cost amid market uncertainty, restarting in H2 in anticipation of future opportunities

HPP	June 20 £m	June 19 £m	Change
Segment revenue	11.8	12.7	(7%)
Segment profit	2.8	2.8	0%
Segment profit margin	23%	22%	

HPP remains an aggregation of products and markets at different stages of development

- 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



## MuCell<sup>®</sup> microcellular technology

### Revenue & growth

- Equipment sales and related license and royalty income
- Licensing and royalty growth in line with management expectations, equipment sales impacted by COVID-19 travel restrictions

### Costs and margin

- Lower expenditure from COVID-19 travel restrictions
- MEL remains below critical mass and business administration and development costs are not yet carried by gross profit

MEL	June 20 £m	June 19 £m	Change
Segment revenue	0.9	0.9	2%
Segment loss pre amortisation	(0.6)	(1.0)	38%
Amortisation	(0.1)	(0.1)	-
Segment loss post amortisation	(0.7)	(1.1)	34%

- Growth potential significantly enhanced with development of ReZorce<sup>®</sup> mono-material barrier packaging
- Investment of \$1m in pilot line to accelerate growth by delivering development capability for key products

# Poland facility: Completing our planned capacity program



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Croydon, UK



Walton, USA



Brzeg, Poland



- +60% Group capacity vs end 2017
- well invested to support growth
- £3.4m capital in H2:2020 to complete Poland
- capital spend returns to lower levels in line with depreciation

**North America 28%  
of Revenue**

**UK & Europe 45%  
of Revenue**

**ROW 27%  
of Revenue**



# Key messages & outlook



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## KEY MESSAGES

Effective response to COVID-19 with good cash and cost management

Demonstrated our adaptability and commercial effectiveness

Structural growth potential in the HPP portfolio

New capacity in Q4 ensures we are able to respond strongly to a wider recovery

Sufficient confidence to pay interim dividend

## OUTLOOK

Visible drivers behind record half year sales expected H2

General market conditions assumed to be subdued but stable

Continued focus on cost management but with growth investment resumed in HPP

Expect leverage position to improve further in H2 with lower capital expenditure



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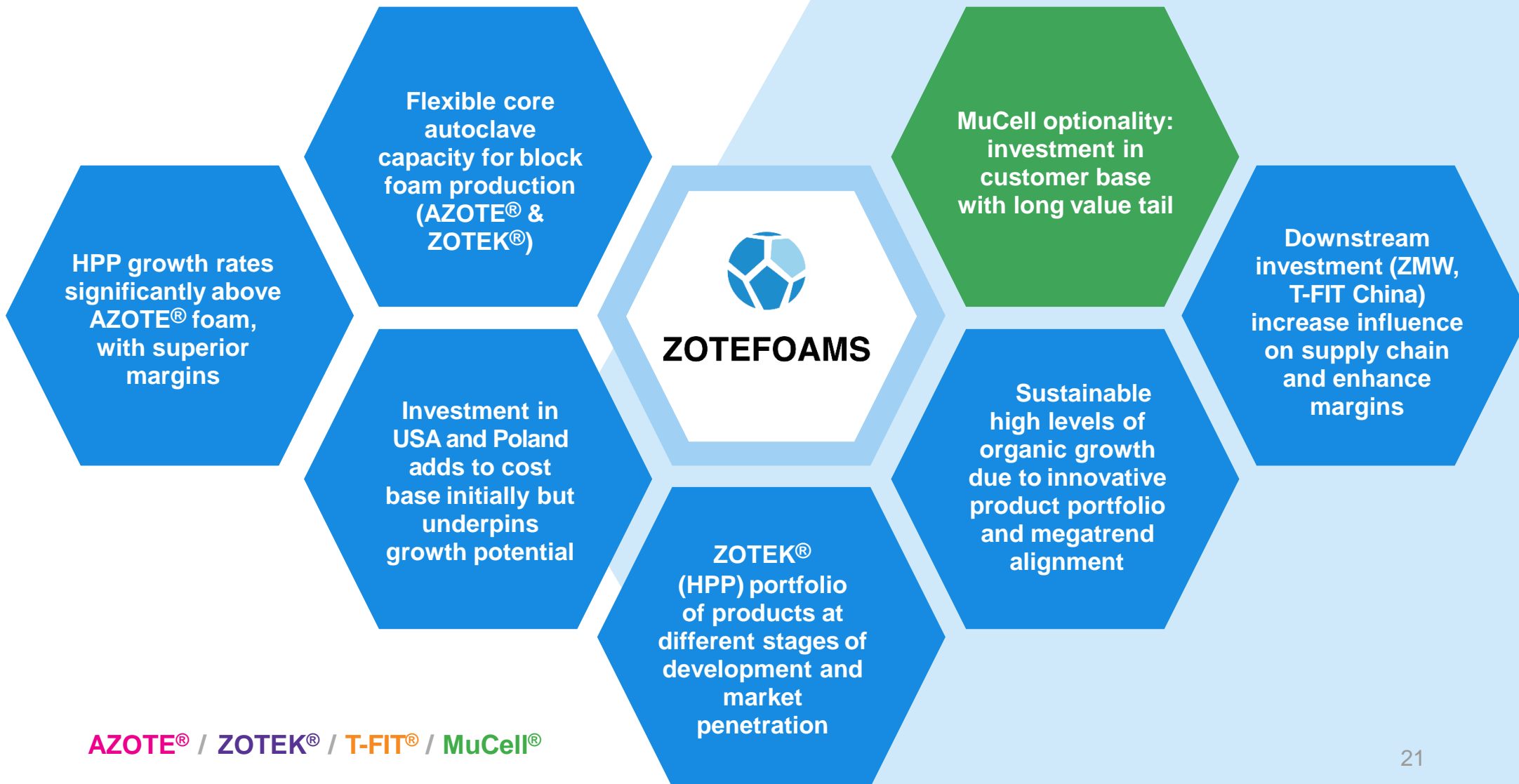
# Appendices



AZOTE® / ZOTEK® / T-FIT® / MuCell®

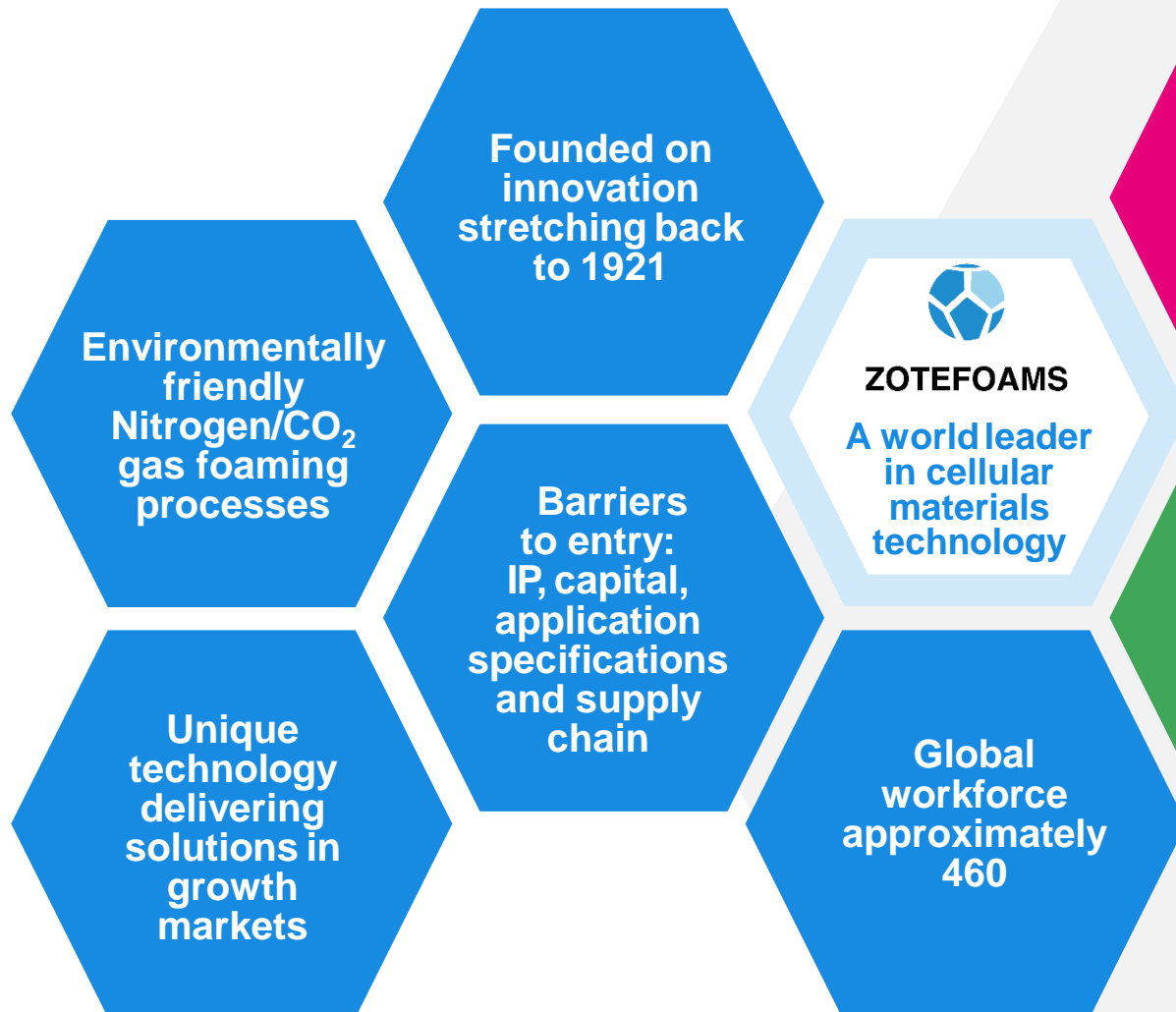


### Sustained high levels of organic growth with margin enhancement through product mix and operational gearing

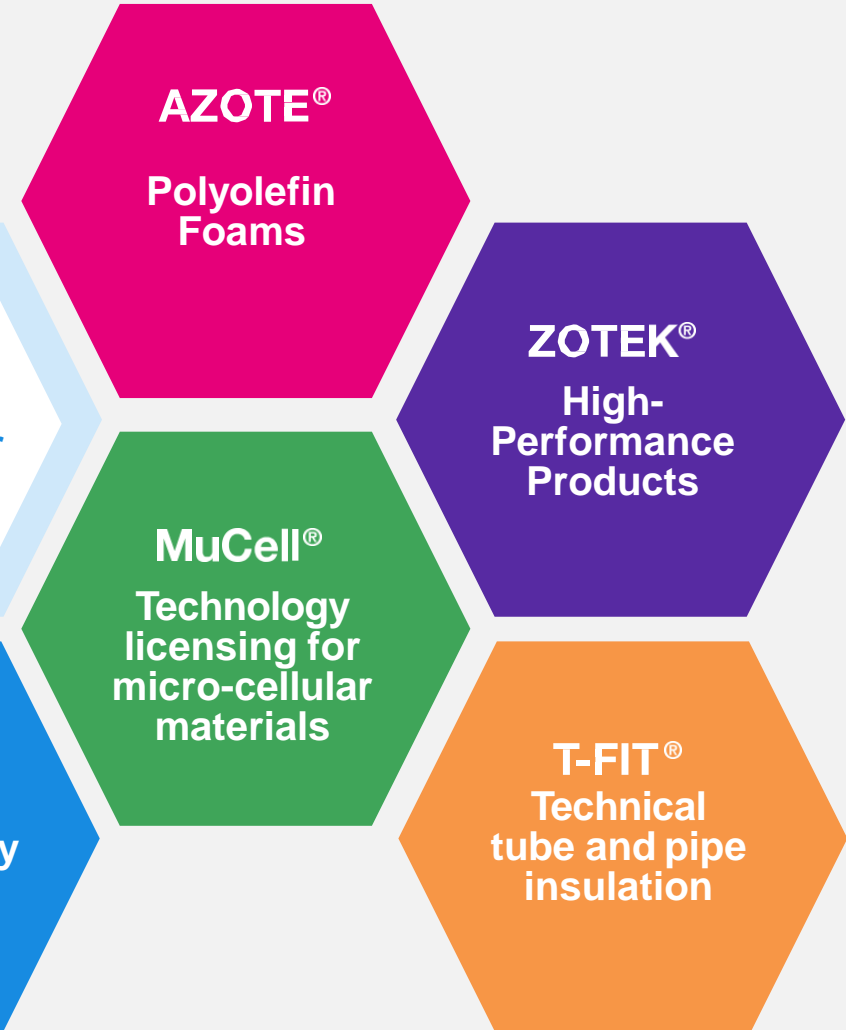




### Organisation



### Products



# Group overview - locations



**ZOTEFOAMS**

**MuCell Extrusion HQ**  
Woburn, MA, USA  
licenses MuCell®  
technology to end  
users

**Zotefoams plc**  
Croydon UK  
block foam main  
manufacturing site

**Zotefoams T-FIT**  
Material Technology  
(Kunshan) Co. Ltd,  
China  
T-FIT® products  
manufacture

**Zotefoams Inc,**  
Walton, KY, USA  
AZOTE® block foam  
manufacture

**Zotefoams Poland,**  
SP z.o.o., Brzeg  
foam manufacture  
(H2 2020)

**Zotefoams Midwest,**  
Tulsa, OK, USA  
foam cutting

**T-FIT Insulation**  
Solutions Pvt Ltd.  
Ahmedabad, India  
T-FIT® sales  
operation

**AZOTE® Asia Limited**  
Hong Kong  
Sales joint venture

# Main markets & typical applications



## Product Protection



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

## Industrial



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

## Building & construction



**AZOTE® ZOTEK® MuCell®**  
Roof & wall insulation  
District heating pipe spacers  
Seals and gaskets, acoustic  
dampening  
Piping, signage and insulation

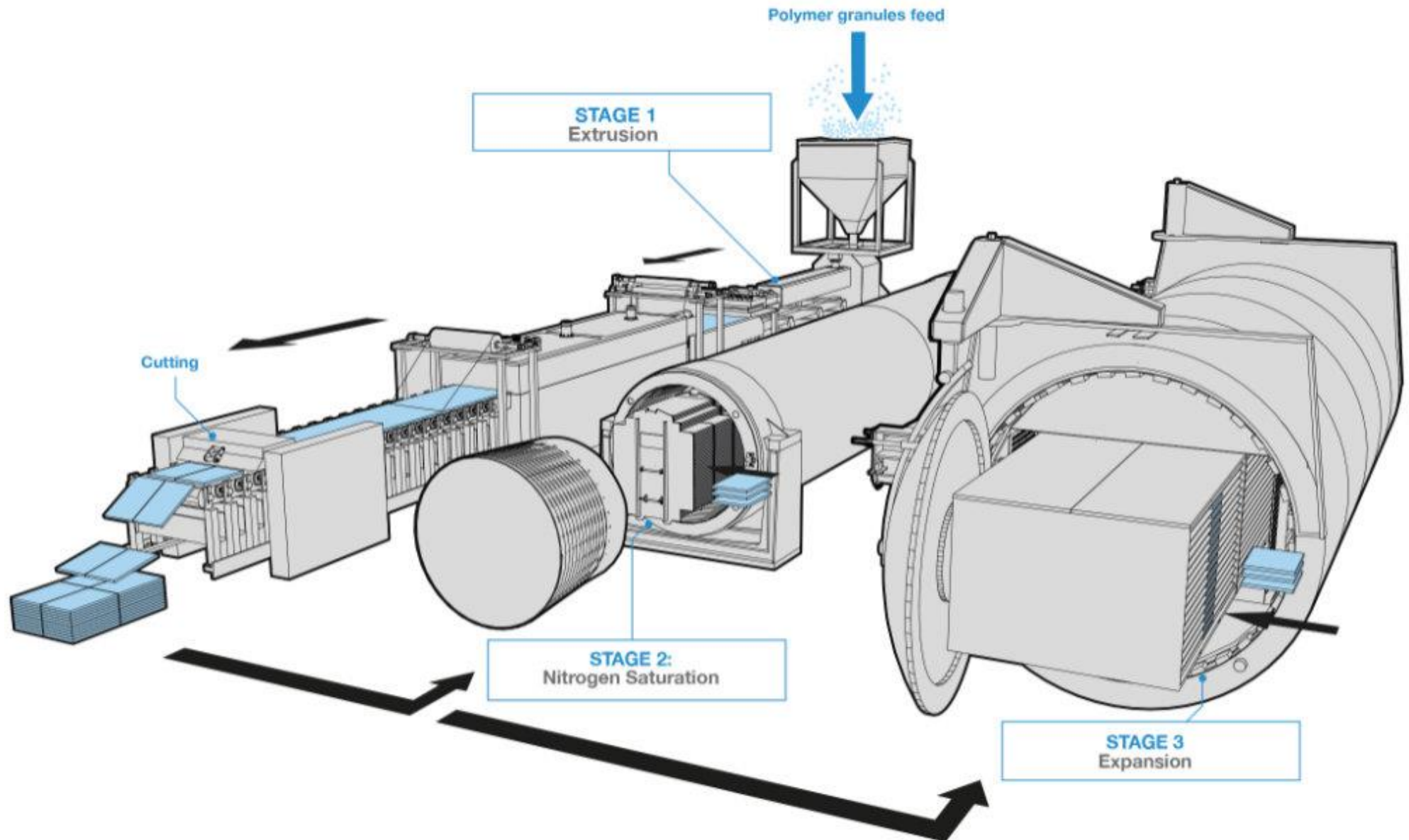
## Medical



**AZOTE®**  
Product protection  
Buoyancy aids  
Prosthetics / orthoses  
Pads, seats and cushions



# Three stage process

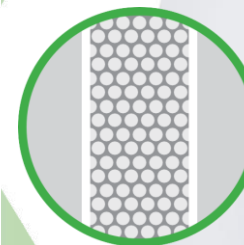
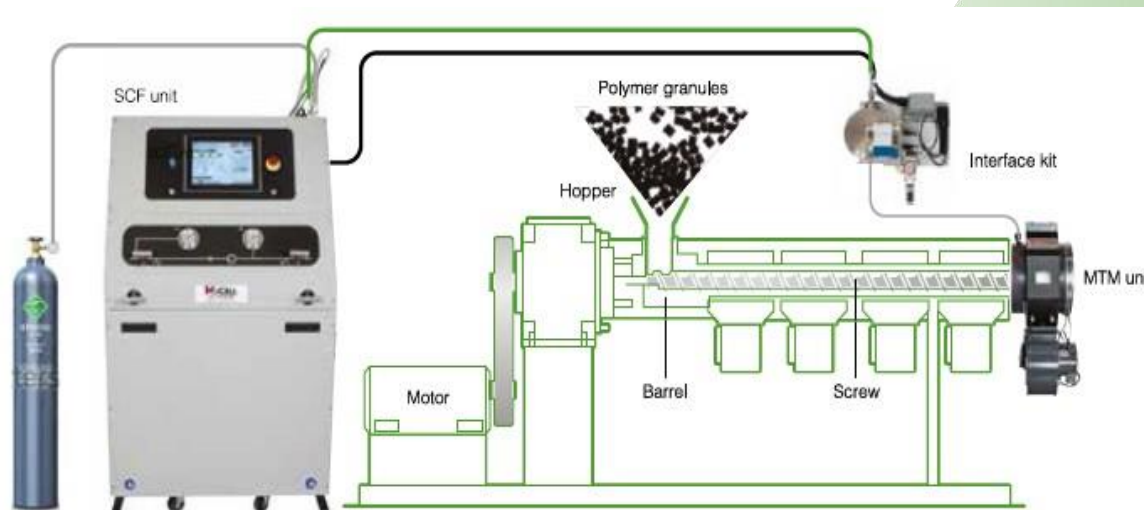


# MuCell® process technology



**MuCell® technology produces foam that performs like solid plastic. It creates micro-bubbles in the centre of plastic extrusions by injecting gas into the melt during manufacture.**

Lighter · Greener · Lower cost





### Pure Performance

Our core AZOTE® and ZOTEK® foams are expanded using pure nitrogen only. The air we breathe is 78% nitrogen



### Supply chain savings

MuCell® technology enables manufacturers to use 15-20% less raw material. Some 22,000 tonnes of plastic have been saved by just 10 customers – that's the equivalent of 4 billion plastic bags!

### Lighter from the outset

Our foams are typically 15-20% less dense than any competing foam for comparable applications.

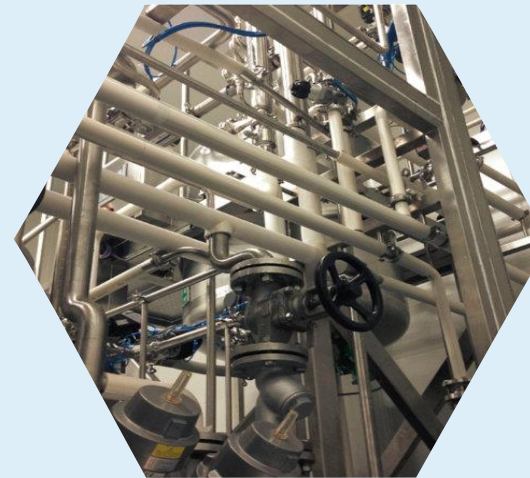
It all adds up

The replacement of traditional materials with lightweight fire-retardant ZOTEK® F can offer significant weight savings for aircraft operations:  
window seals/ ducting = 120kg less per plane  
Composite panels = 1.6kg less per seat



### Durable for a decade

A decade ago, one of the largest biotech plants in the world chose T-FIT® for cleanroom insulation. With a service life that extends far beyond competing products, the original material is still in place saving time, cost and waste.



### Identifying efficiencies

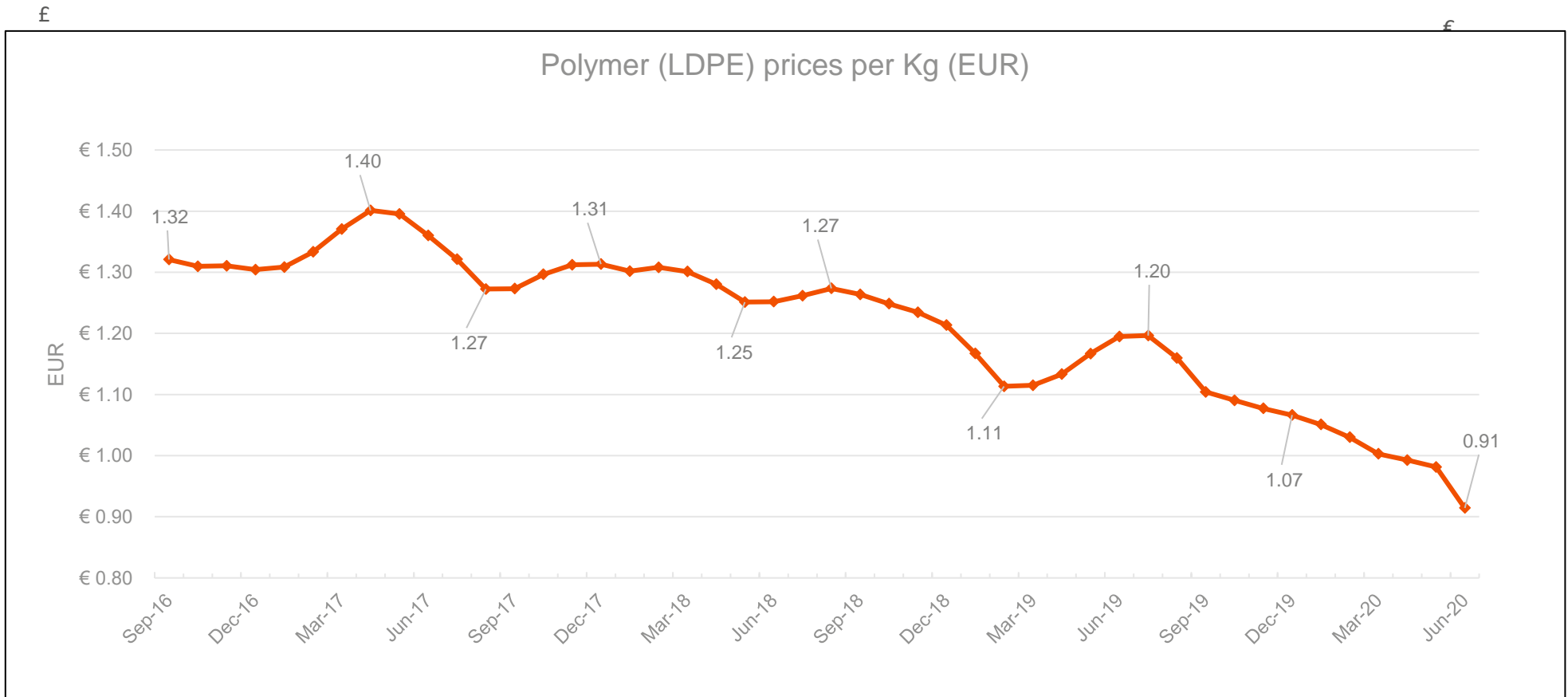
We strive for efficiency improvements in our production processes. Our newest low-pressure autoclaves are around 5% more efficient than older models



### Watchful on waste

Waste from our USA plants is now collected for re-use in applications such as underlay for sports pitches. Investing in a baler to compact waste has significantly reduced transport costs through reduced volume and lower fuel usage

# Polymer (LDPE) prices/kg

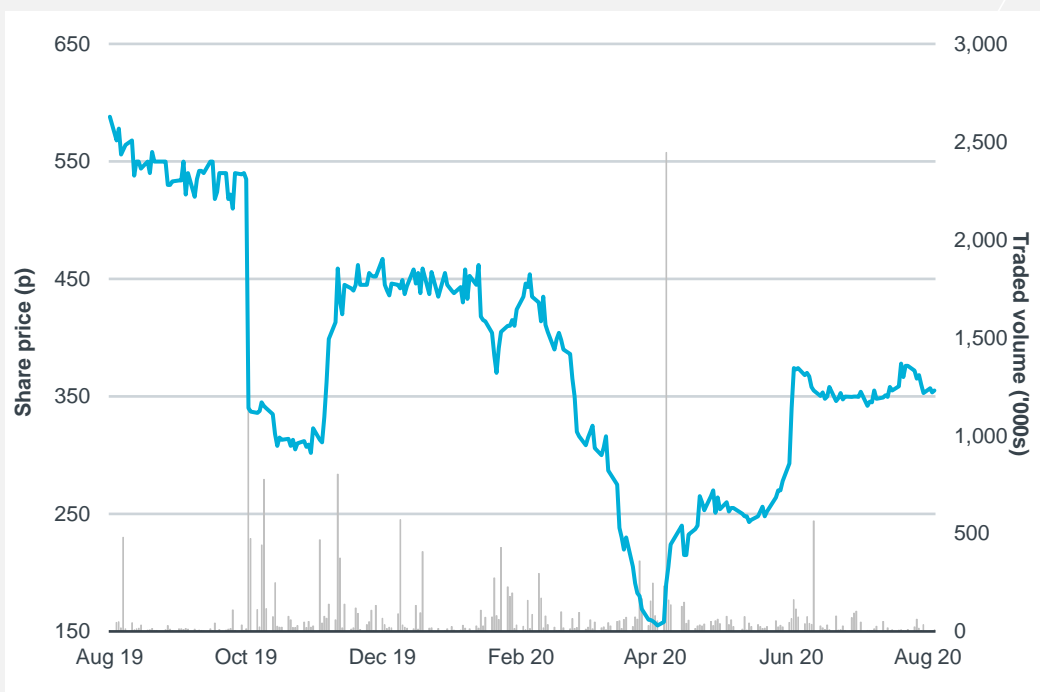


# Market information



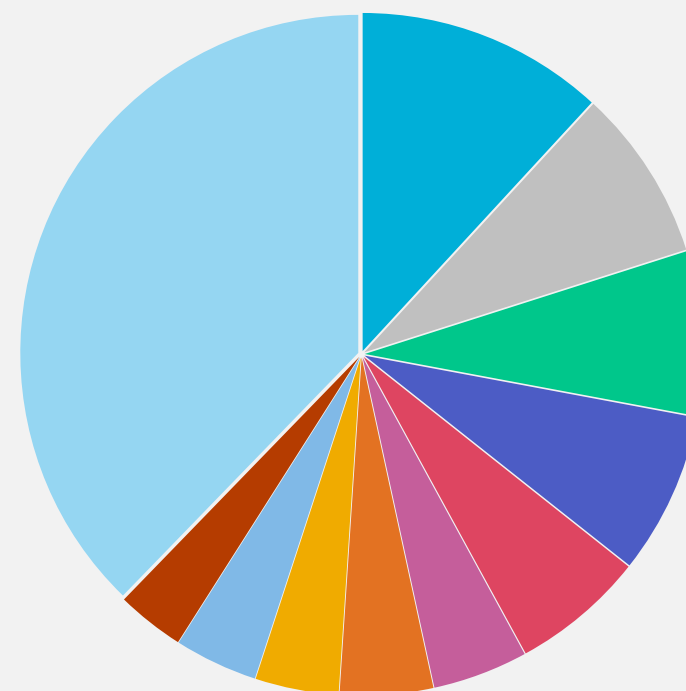
ZOTEFOAMS

Share price	354p (05/08/20)
Market	Main Market
Ticker	ZTF.L
Market cap.	£171m
Ord. shares in issue	48,621,234



Source: Factset

## Shareholder Profile\*



- Schroders 11.9%
- Sekisui Alveo 7.9%
- Miton 6.4%
- Highclere 4.5%
- Mr Marc & Mrs Claire Downes 4.0%
- Mr Nicholas Beaumont-Dark 4.0%
- Invesco 8.2%
- Canaccord 7.7%
- Legal & General 4.6%
- AXA 3.2%
- Others 37.7%

\*Source: Company Share Register (30/06/2020)

# Board of Directors



**ZOTEFOAMS**



## **Steve Good** Non-Executive Chairman

(Chair of the Nomination Committee and a member of the Remuneration Committee)

Appointed to the Board in October 2014 as a Non-Executive Director and became Chairman on 1 April 2016. Steve was Chief Executive of Low & Bonar plc between September 2009 and September 2014. Prior to that role, he was Managing Director of its technical textiles division between 2006 and 2009, Director of new business between 2005 and 2006, and Managing Director of its plastics division between 2004 and 2005. Prior to joining Low & Bonar he spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. He is a Chartered Accountant.



## **Dr Alison Fielding** Non-Executive Director

(Chair of the Remuneration Committee and member of the Audit and Nomination Committees)

Appointed to the Board in May 2020. Alison spent 13 years with IP Group plc as Chief Technology Officer, Chief Operating Officer and latterly as Director of Strategy and IP Impact, and brings extensive investment, strategy development and execution experience in fast-growing, science-based businesses. Alison has a PhD in Organic Chemistry from Glasgow University



## **Jonathan Carling** Non-Executive Director

(Member of the Audit, Nomination and Remuneration Committees)

Appointed to the Board in January 2018. Jonathan is the CEO of Tokamak Energy, a technology business developing a faster route to fusion power. He was previously COO, Civil Large Engines at Rolls-Royce plc, COO at Aston Martin Lagonda Limited, and Chief Engineer with Jaguar Land Rover Limited. Jonathan has extensive engineering, operational and business experience. He was also a Non-Executive Director of Aga Rangemaster Group plc between 2011 and 2015.



## **David Stirling** Group CEO

Joined Zotefoams plc in September 1997 as Finance Director. Appointed Group CEO in May 2000. David started his career with KPMG in Scotland, where he qualified as a Chartered Accountant. He has worked for Price Waterhouse in the USA and Poland and with BICC plc. David is a graduate of Glasgow University and has an MBA from Warwick University and an MSc in Finance from London Business School.



## **Doug Robertson** Non-Executive Director

(Chair of the Audit Committee and member of the Nomination and Remuneration Committees)

Appointed to the Board in August 2017. Doug was Group Finance Director of SIG plc until his retirement in January 2017. Prior to joining SIG, Doug had been Group Finance Director of Umeco plc and Seton House Group Limited, having spent his early career with Williams plc in a variety of senior financial and business roles.



## **Gary McGrath** Group CFO

Joined Zotefoams plc in December 2015 and was appointed Group CFO on 1 February 2016. Gary is a Chartered Accountant, qualifying with Arthur Andersen. He spent 11 years with RMC Group plc before joining Koch Industries Inc, where he spent several years in various positions, including Global Finance Director of INVISTA Apparel and EMEA Vice President of Finance, Planning and Analysis at Georgia Pacific. Before joining Zotefoams, Gary was CFO of GC Aesthetics Limited. He has worked across public, private and private equity environments in the UK, Belgium, Germany, the USA and the Republic of Ireland.



## **Catherine Wall** Non-Executive Director

(Member of the Audit, Nomination and Remuneration Committees)

Appointed to the Board in May 2020. Catherine has 30 years' experience in the private equity industry, primarily with Equistone Partners Europe, where she led numerous management buy-outs and later became UK Portfolio Partner supervising the management of all the business' UK investments. Catherine also has extensive industrial markets and Non-Executive Director experience, working with and helping many management teams to deliver ambitious growth plans.