

# Preliminary Results

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# Positioning & Strategy



# Business Overview

## AUTOCLAVE TECHNOLOGY

### POLYOLEFINS

#### AZOTE®

**Premium, durable, foams**  
Ultra durable, highly heat and impact resistant foam. These foam sheets and blocks are manufactured from common polymers using our unique nitrogen-expansion process.

##### Key markets served

Automotive  
Aviation  
Construction  
Industrial  
Marine  
Military  
Packaging  
Sport and leisure

##### Key market drivers

1. Light weighting
2. High-technology insulation
3. Durability
4. Fire safety
5. Reduced toxicity

### HPP

#### ZOTEK®

**Lightweight technical foams**  
Uniformly dense foam sheets and blocks with a consistent cell structure. ZOTEK is manufactured from engineering polymers using our unique nitrogen-expansion process.

##### Key markets served

Automotive  
Aviation  
Athletic footwear  
Construction  
Packaging

##### Key market drivers

1. Light weighting
2. Personal safety
3. High-technology insulation
4. Durability
5. Fire safety
6. High-technology insulation
7. Reduced toxicity

#### 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 served

Food and personal care manufacturing  
High temperature processing environments  
Pharmaceutical cleanrooms

##### Key market drivers

1. Aging population
2. Durability
3. Reduced toxicity

## EXTRUSION TECHNOLOGY

### MEL

#### MuCell®

**Innovative and accessible technology for greener, lower cost plastic products**  
This pioneering licensed technology injects gas into plastics during the manufacturing process to create micro-bubbles – the end product uses 15-20% less material than similar plastics but delivers equally high performance.

##### Key markets served

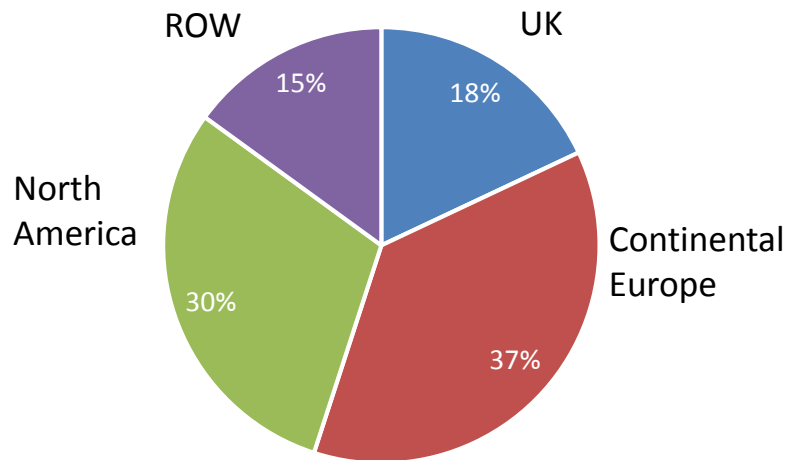
Automotive  
Consumer packaging

##### Key market drivers

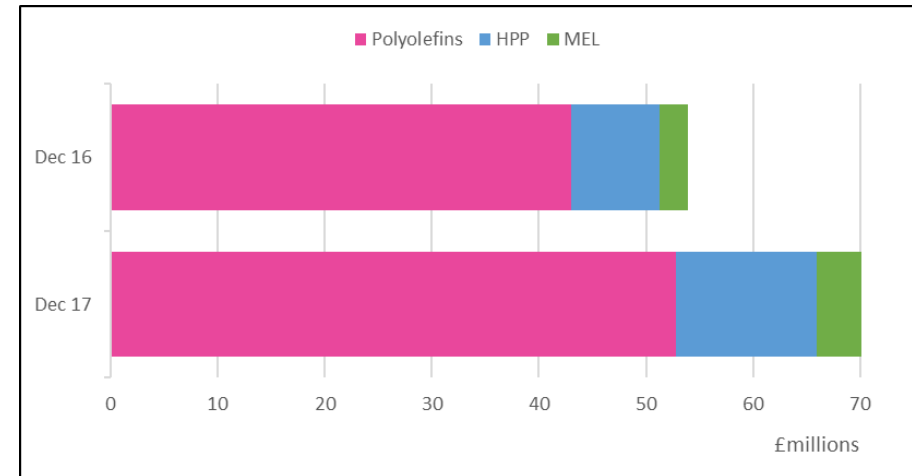
1. Light weighting
2. High-technology insulation
3. Durability
4. Reduced toxicity

# Segment Overview

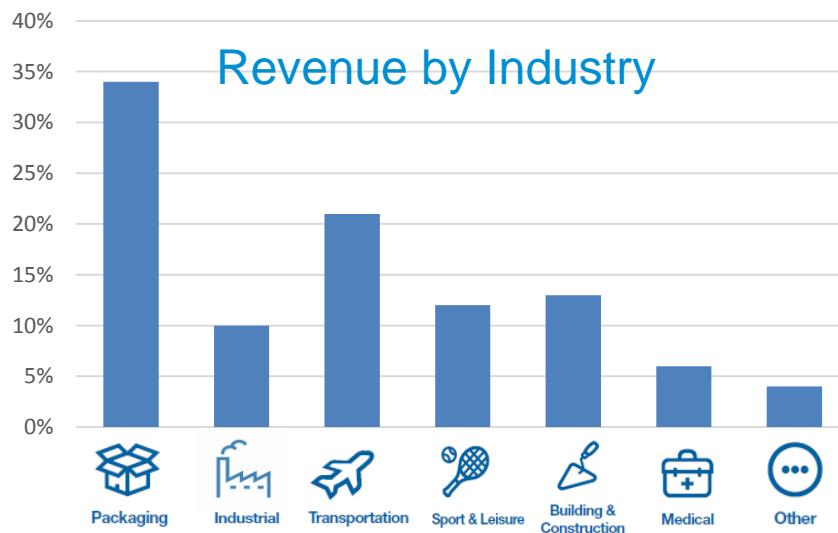
## Revenue by Geography



## Revenue by Business Unit



## Revenue by Industry



A well balanced geographical and industrial spread, with improving mix of higher value HPP business



# 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.*



# The Year



# Main achievements in period

- ✓ 7% volume growth though improved utilisation of existing assets
- ✓ Double-digit growth in all business units
- ✓ Completed major US capacity expansion investment, now producing high-quality foam and providing 20% increased global capacity
- ✓ Strategic partnership with Nike to develop footwear technology and supply materials, augmenting HPP growth prospects
- ✓ Captured market share and improved mix benefits in important German market following switch to direct supply into a larger number of customers
- ✓ Launched brand extension of T-FIT<sup>®</sup> insulation, using a lower-cost manufacturing process targeted at food, dairy and general process industries
- ✓ Increased number of machines in production using MuCell<sup>®</sup> technology by 46%

## Achievements vs strategic objectives



AZOTE<sup>®</sup> polyolefin foams  
up 18%



Operating margins stable at 13.4%,  
aggregate segment margins up  
50bps to 17.3%



HPP & MEL 25% of Group  
revenue, up 37%



Return on capital (over our investment  
cycle) up 157 bps to 15.5%



# Strong results

## Revenue

£70.15m

**+ 22%**

*reported*

**+ 17%**

*constant currency*

## Adjusted Operating Profit

£9.70m

**+ 20%**

*before exceptional  
item*

**+ 15%**

*constant currency*

## Gross Margin

35.3%

**+ 90bps**

*reported*

## Business Units

AZOTE® +18%

HPP +32%

MuCell® +56%

## Adjusted EPS

16.64p

**+14%**

*before  
exceptional item*

## Full Year Dividend

5.93p

**+3.1%**

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

## Revenue

- Croydon at full capacity
- 7% volume growth
- 6% price increases and mix improvements
- 5% tailwind through FX
- Market share capture in Germany through successful direct approach to market
- Growth across all regions

## Costs and Margin

- Euro-denominated LDPE relatively stable
- Labour cost increases modest
- Segment margins up 168bps through price & mix improvement and benefit of operational gearing

Polyolefin Foams	Dec-17 £m	Dec-16 £m	% Change
Group revenue	52.82	44.73	18%
Segment profit pre amortisation	10.29	8.00	29%
Segment profit post amortisation	10.29	7.96	29%
Segment profit margin	19%	18%	

- Sales through local channel partners who promote and convert foams
- Mainly a local market due to channel partner profile and transport cost
- Capacity investment on existing site in Walton, KY balances global supply with local demand
- US investment (HP1) completed in February 2018, adding over 20% annualized global capacity
- Board has approved \$9m investment to commission HP2 and ancillary equipment

## Revenue

- Further 22 lines installed at licensees, bringing total installed base to 133
- Completion of largest contract in MuCell® history, representing 25% of equipment revenue in year
- Licence and royalty income up 19% to £1.01m
- 46% increase in number of machines in production to 83

## Costs and Margin

- Lower initial margin on equipment revenue, followed by higher margin “licence fee” contract
- Planned investment in people, including dedicated IP Manager
- £0.29m write-down of history as a result of superseded machinery developments

MEL	Dec-17 £m	Dec-16 £m	% Change
Group revenue	4.25	2.73	56%
Segment loss pre amortisation	(1.03)	(0.40)	(158%)
Amortisation	(0.33)	(0.42)	-
Segment loss post amortisation	(1.36)	(0.82)	(66%)

- Expected present value of contracts
  - A key management measure of long-term value creation
  - Increased significantly in the year
- Focus in specific markets
  - Thermoformed sheet (e.g. yoghurt pots)
  - Blow-moulded packaging
  - Film
- Strong IP pipeline

# High-Performance Products (HPP)

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

## T-FIT® high-performance insulation

ZOTEK® F fire, smoke, chemical performance foams  
ZOTEK® N high-temperature polyamide (nylon) foams  
ZOTEK® PEBA excellent kinetic-energy management  
T-FIT® technical insulation products

### Revenue

- 32% revenue growth, particularly from:
  - ZOTEK® PEBA in footwear
  - T-FIT® Clean in biotech and pharma markets
  - Offset by reduction in ZOTEK® F aviation destocking
- HPP, which offers the potential for accelerated growth and higher margins, now represents 19% of Group Revenue

### Costs and Margin

- Clear strategy to invest in opportunity for future growth and both R&D and sales development costs reflect this

HPP	Dec-17 £m	Dec-16 £m	% Change
Group revenue	13.15	9.99	32%
Segment profit pre-amortisation	3.16	2.48	27%
Segment profit post amortisation	3.16	2.48	27%
Segment profit margin	24%	25%	

- Portfolio of products, including early-stage developments (new and range extensions)
- T-FIT® product-line extensions launched, using a low-cost manufacturing process, targeting food, dairy and general process industries
- Successful progress on 3-D foaming

# HPP: a growth portfolio



## Technical Development of 3D foaming

- Capability to create solid 3D shape and retain this shape through the foaming process
- Large-scale plant trials ongoing with key sponsor
- Potentially applicable to all product lines but HPP gives clear benefit with less material to make final product

## T-FIT® technical insulation

- Development of product portfolio covering technical insulation requirements in regulated industries
- Local manufacturing strategy being developed
- KZKL in China operational

## Footwear

- Strategic partnership with Nike
- Investment in Croydon site to support demand expectations
- High level of resource, including R&D. Investment and alignment

# Global Capacity



# Capacity Development



## Global capacity management for local and global markets

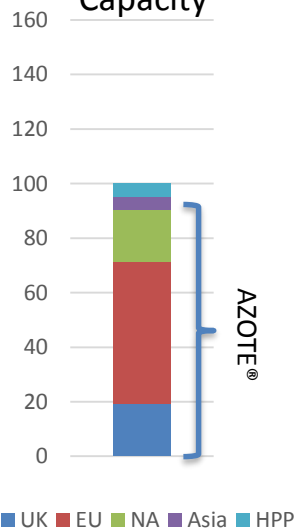
- 2017 : operating at capacity
- 2018 : USA "HP1" investment commissioned Q1
- 2019 : USA "HP2" investment expected to commission H2
- 2019 : UK "High-Temp LPs" expected to commission Q1-2

Bottleneck capacity increased by 45% over 2 years

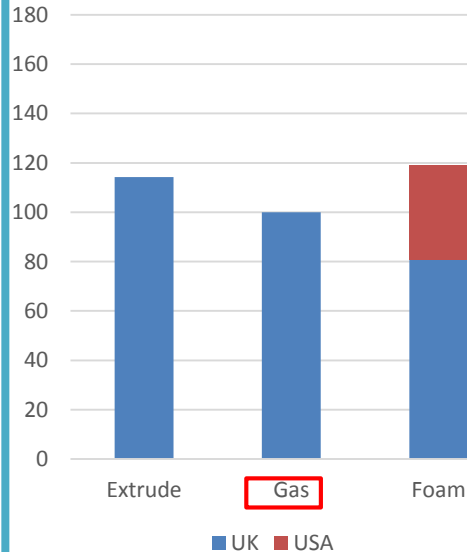
## Geographic markets for Block Foams



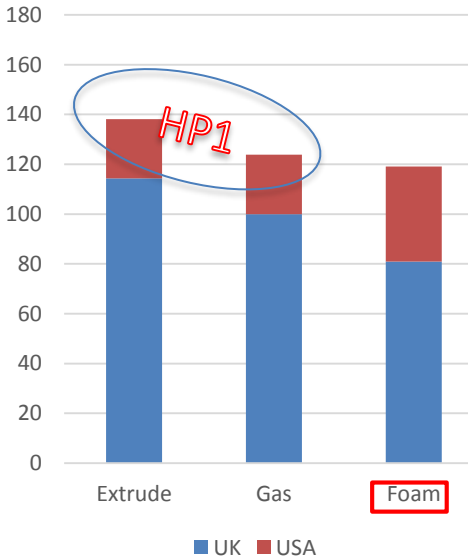
### 2017: Use of Capacity



2017

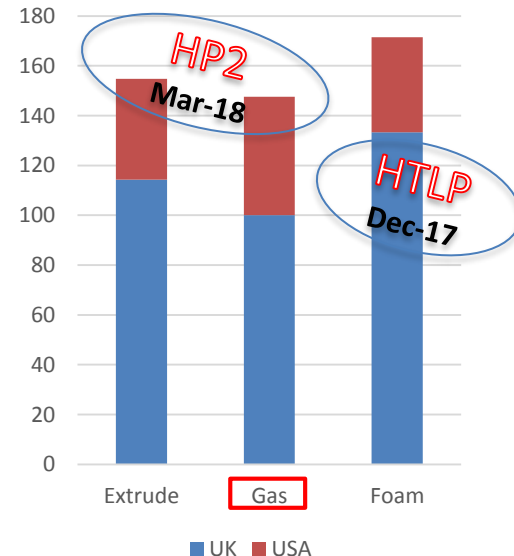


2018



2019

+35% +45% +45%



Global Capacity Trend : annualised, indexed to 2017 bottleneck

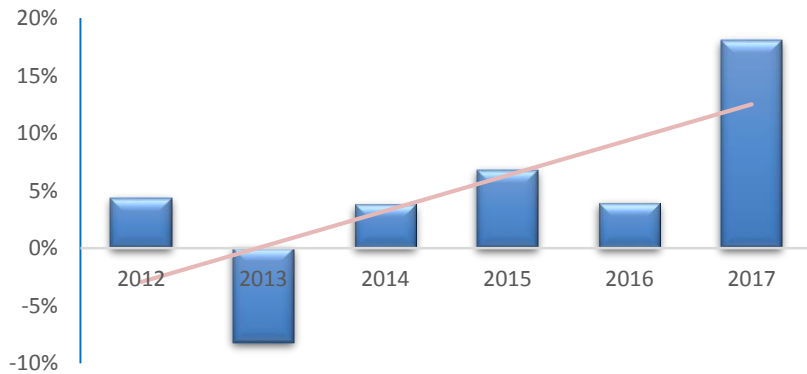


# Financial Review

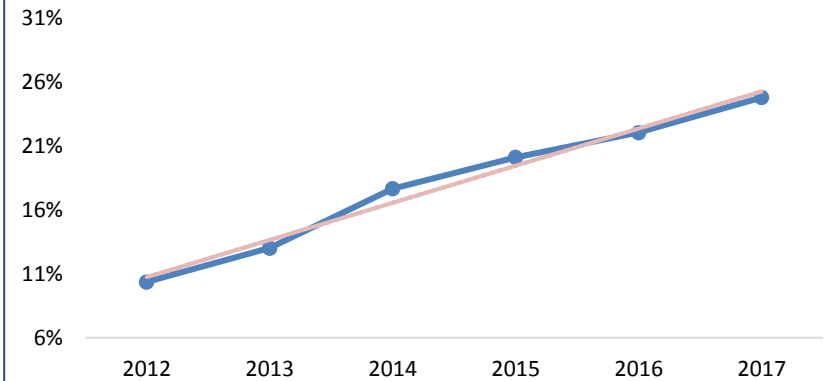


# Key Performance Metrics

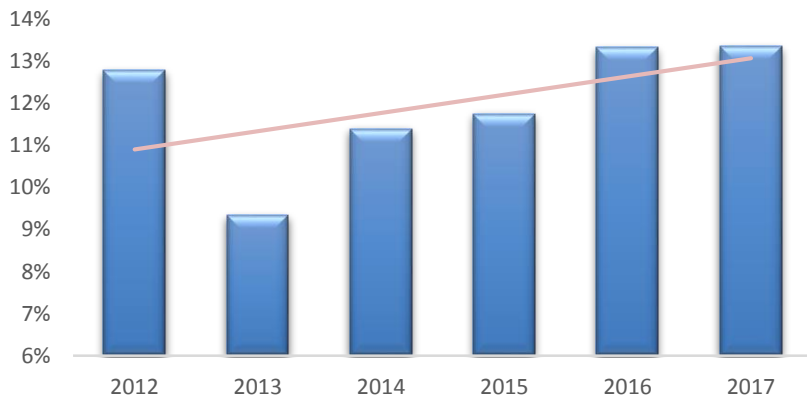
## Polyolefin Foams Growth %



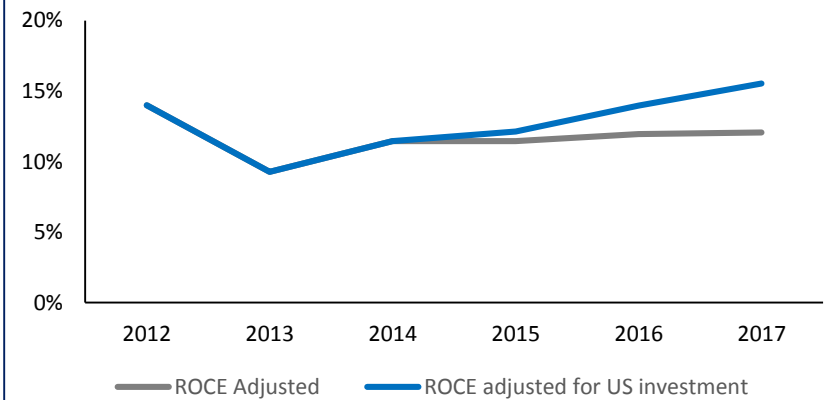
## HPP & MEL Share of Gross Revenue



## Group Operating Margin %



## Return on Capital Employed %



# Income Statement

£million		Dec-17	Dec-16	% Change Reported
Group Revenue		70.15	57.38	22.3%
Group Profit		25.49	20.34	25.3%
Gross Profit Margin		36.3%	35.4%	
Adjusted Operating Profit	<sup>1,2</sup>	9.70	8.11	19.6%
Adjusted Profit before Tax	<sup>1,2</sup>	9.14	7.70	18.7%
Tax Charge		1.54	1.29	19.0%
Adjusted Profit after Tax	<sup>1,2</sup>	7.60	6.41	18.7%
Effective Tax Rate		20.4%	18.5%	
Adjusted EPS (p)	<sup>1,2</sup>	16.64	14.55	14.4%
Return on Capital	<sup>1,3</sup>	15.5%	14.0%	
Final Proposed DPS (p)		4.02	3.90	3.1%
Exceptional item		1.27	0.24	

- Exceptional item of £1.27m, following legal advice related to the effective closing of the scheme to future accrual of salaries.
- Effective tax rate above the Corporate rate of 19.25% due mainly to changes in US tax rates impacting losses carried forward
- Including the US investment assets not commissioned at 31.12.17, the return on capital increased from 11.94 to 12.07%

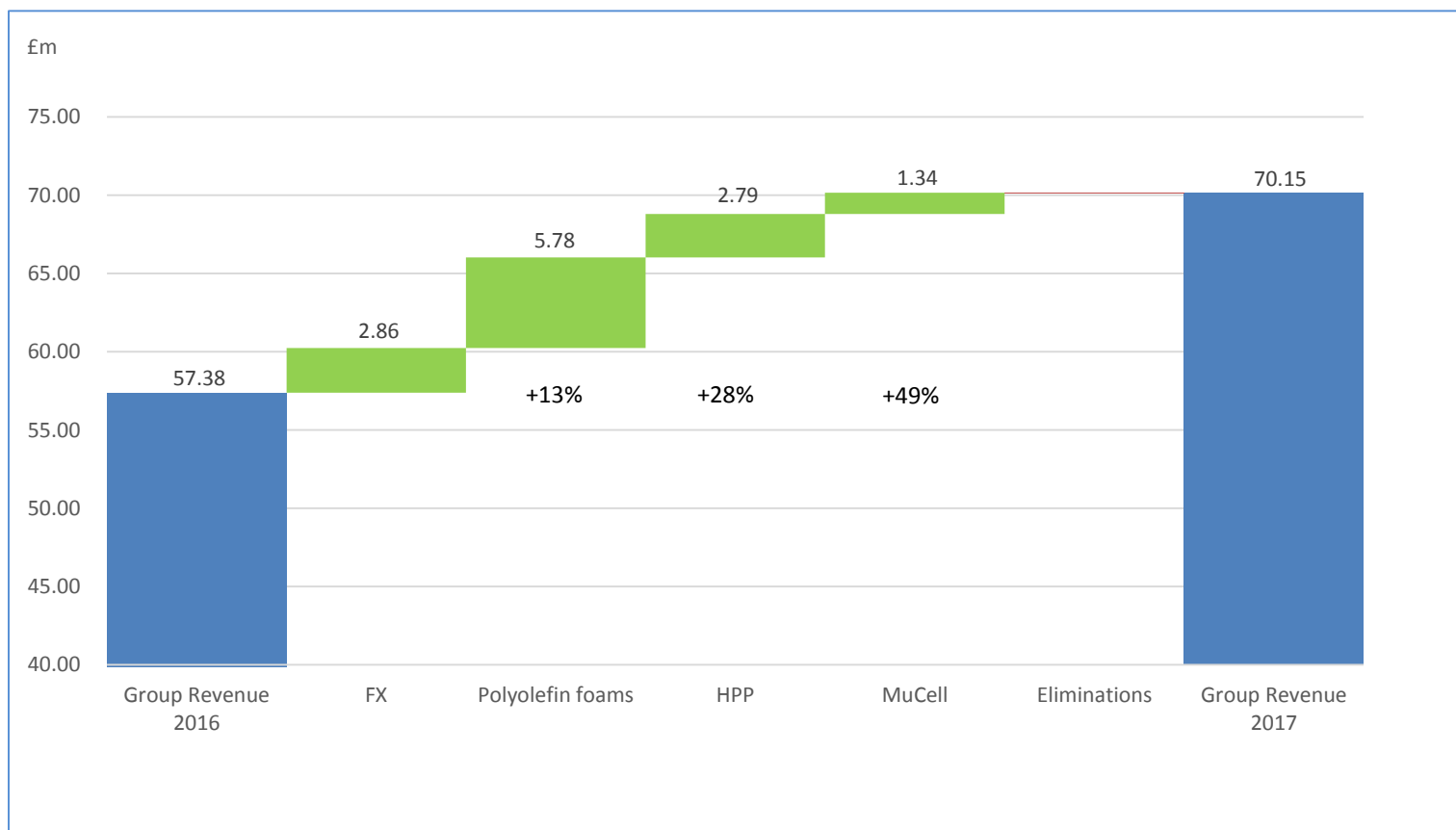
<sup>1</sup> Before exceptional items

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

<sup>3</sup> Ex US investment expansion

# Revenue Bridge

- 22% increase in revenue on a reported basis, 17% in constant currency
- Growth across all business units

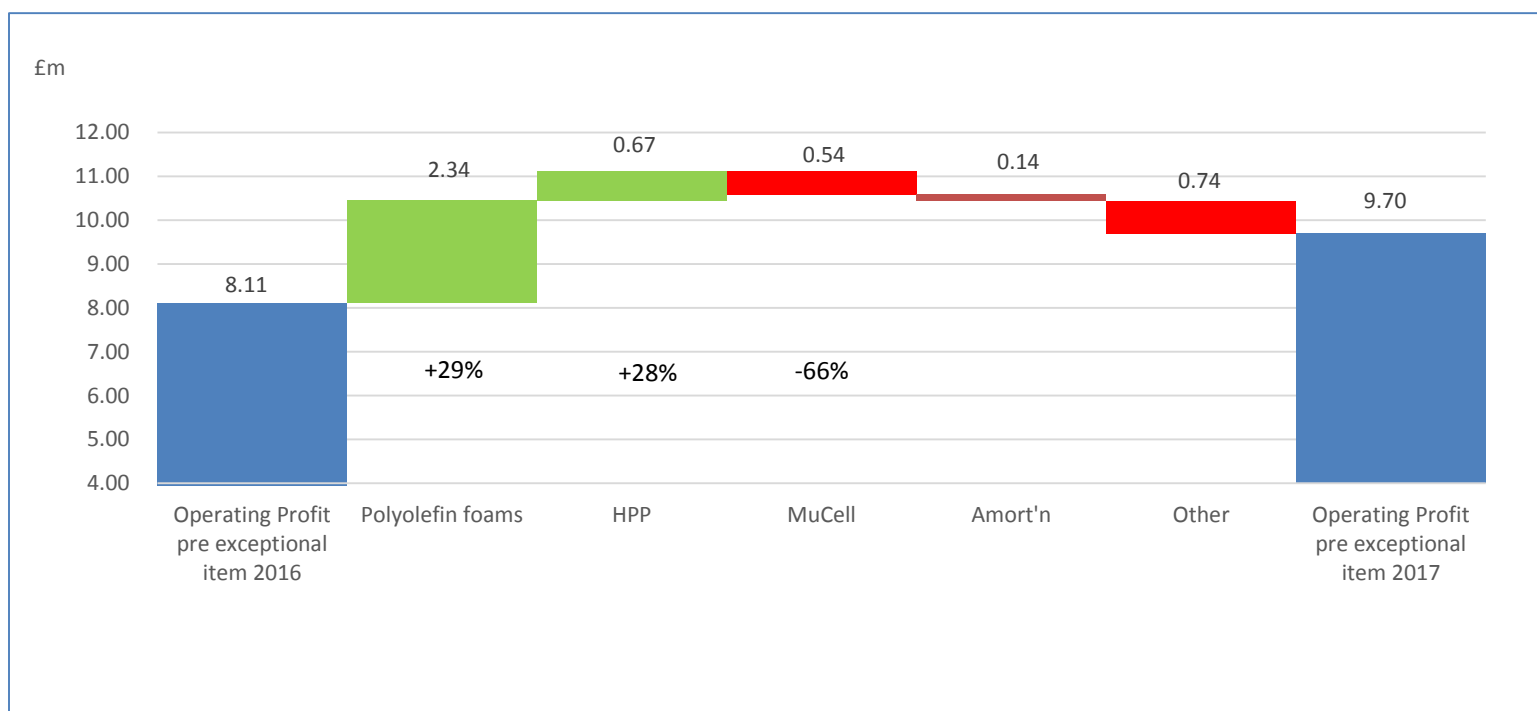


# Adjusted Operating Profit Bridge



ZOTEFOAMS

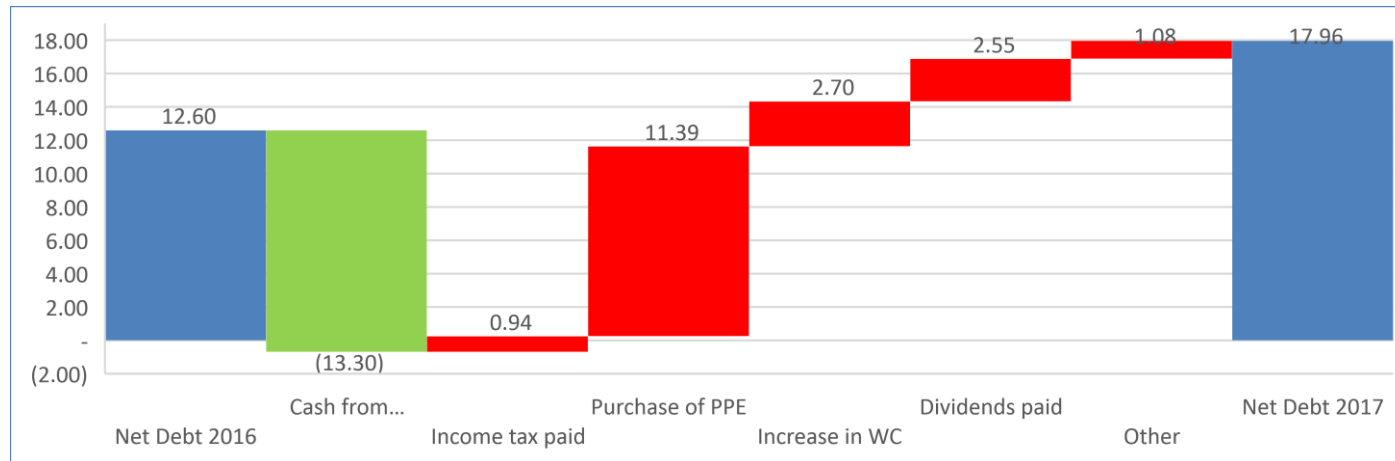
- Foreign exchange impact £0.4m
- £3.4m of increased overhead to support pursuit of expansion strategy



- HP1 in Kentucky, USA (previously a site with one low-pressure vessel), \$33m
  - Includes infrastructure and ancillary equipment for 3 high-pressure vessels
  - Includes 2 extrusion lines
  - Includes a 1<sup>st</sup> high-pressure vessel
  - Includes a 2<sup>nd</sup> high-pressure vessel to be commissioned when the Board considered appropriate
  - Adds over 20% global capacity
- HP2 in Kentucky, USA, \$9m
  - Includes ancillary equipment for 2<sup>nd</sup> high-pressure vessel
  - Includes an additional extrusion line
  - Adds over 20% global capacity
- High-temperature, low-pressure vessels in Croydon, £12m
  - Includes buildings and infrastructure, plus 2 vessels
  - Increases existing HPP capacity by a factor of six

# Net Debt & Covenants

- Net debt up £5.4m to £18.0m, vs £12.6m at Dec 2016
  - Net cash inflow from operations of £9.98m (up 57% vs 2016) used to support £11.4m of investment in property, plant, equipment and intangibles
- Net debt/EBITDA of 1.4 and interest cover 29x (as measured by banking agreement definitions)



- Zotefoams increasing growth expectations translate into capacity and working capital needs
- Close management of facilities and ratios to maintain strong balance sheet while supporting Zotefoams' growth strategy
- Zotefoams has increased its facilities to support growth during the period:
  - Lombard term loan of £7.5m, £4.5m drawn down at 31.12.17
  - Barclays RCF of £2.0m in March 2017, taking RCF to £10m
  - Barclays new term loan of £10m in March 2018
- In addition, Zotefoams has a fixed rate USD term loan of \$8m with Heritage Bank, USA



# Key Messages & Outlook



## **Another record year for sales and profits**

- 22% increase in Group revenue to a record £70.15m (2016: £57.38m)
  - 18% up in AZOTE® foams, with strong market mix improvements
  - 32% up in High-Performance Products (HPP)
  - 56% up in MuCell Extrusion
- 17% increase in Group revenue in constant currency
- 22% increase in reported PBT and exceptional items to a record £8.81m (2016: £7.23m)
- 8% increase in reported PBT after exceptional items to £7.55m (2016: £6.99m)

## **An important period in the delivery of our strategy**

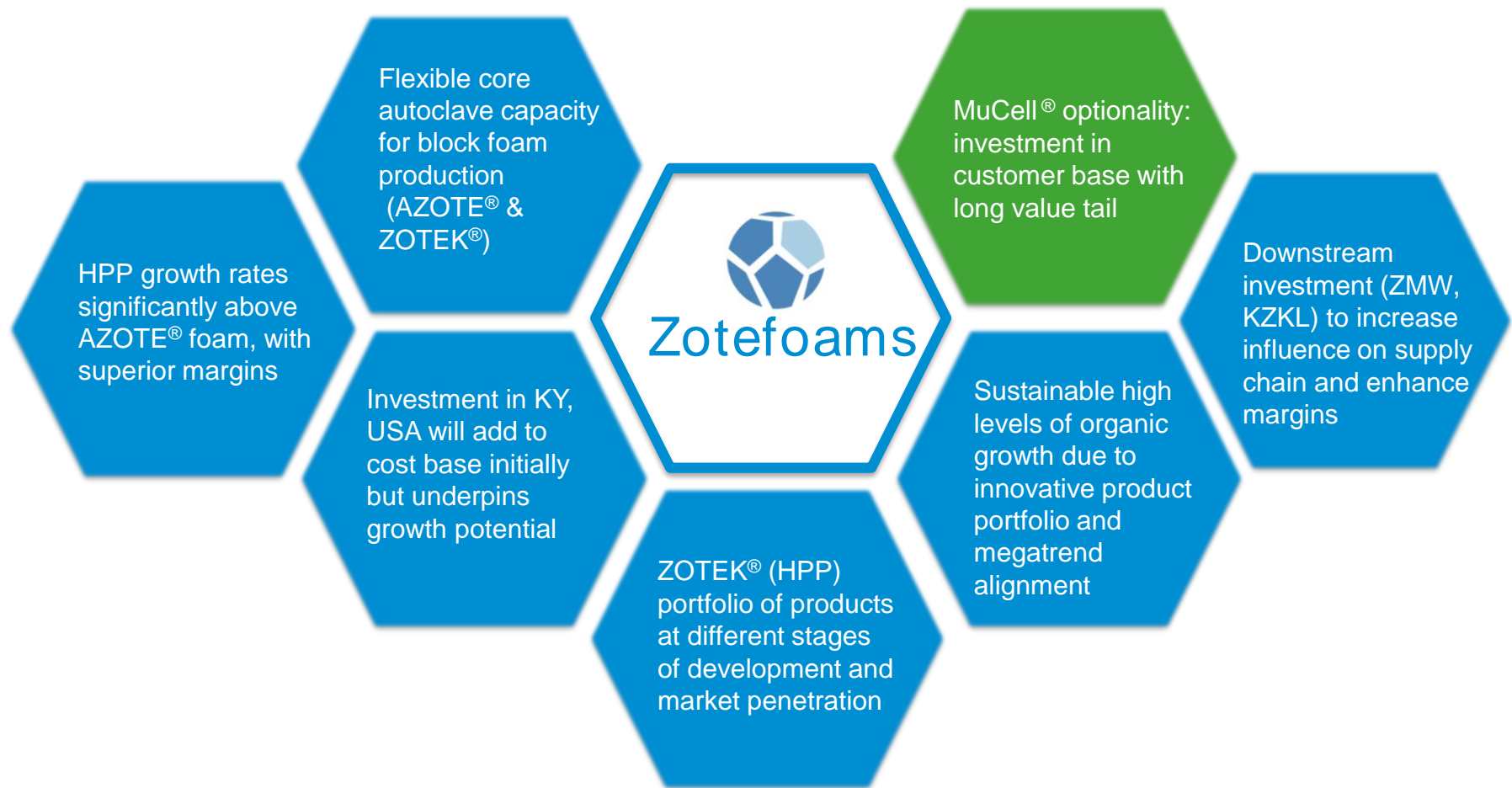
- Completed US capacity expansion investment, which is now producing high-quality foam
- Entered into a strategic partnership with Nike, augmenting growth prospects in HPP
- Significant expenditure to deliver capacity for expected future growth
  - Commenced £12m low-pressure capacity investment in the UK
  - Approved further investment of \$9m to double high-pressure autoclave capacity in Kentucky, USA

**Outlook:** The year has started positively, with first quarter order volumes 8% higher than 2017 and an increased proportion of higher value HPP sales

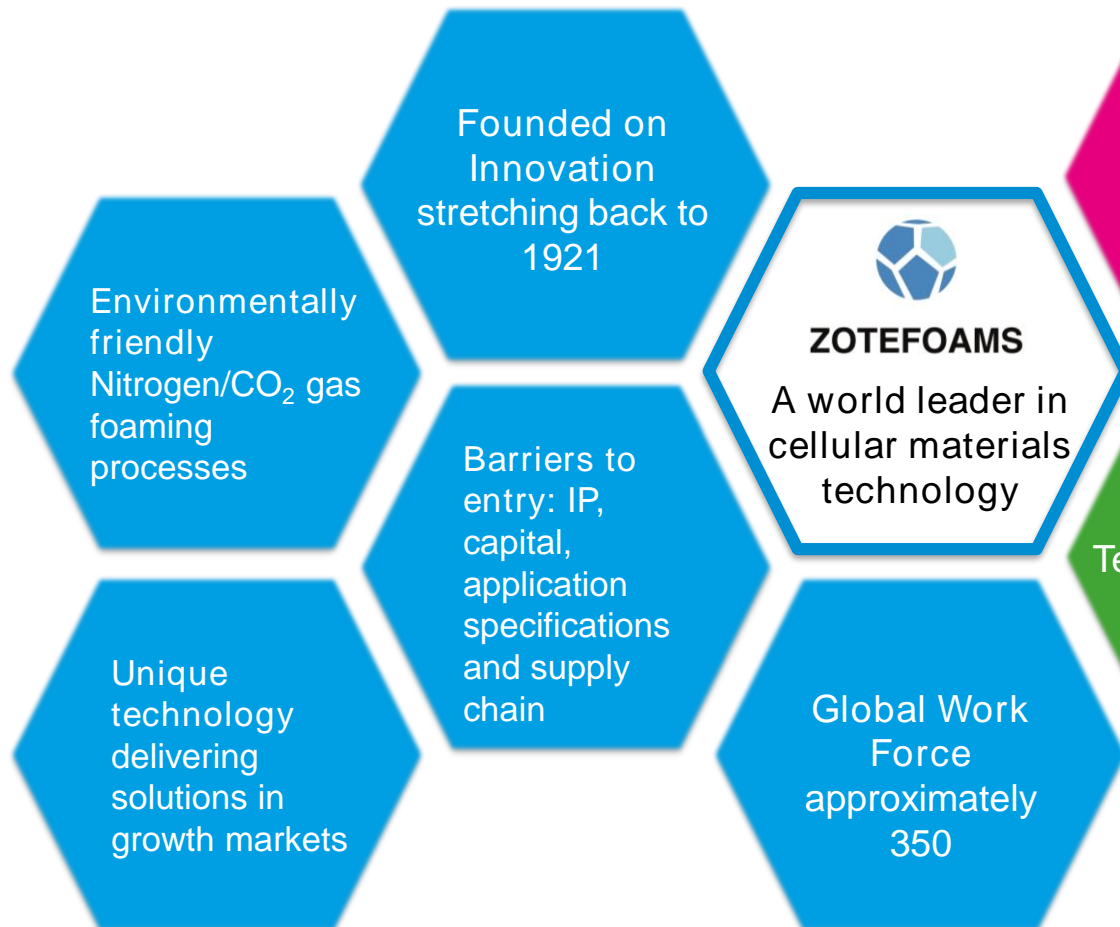
# Appendices



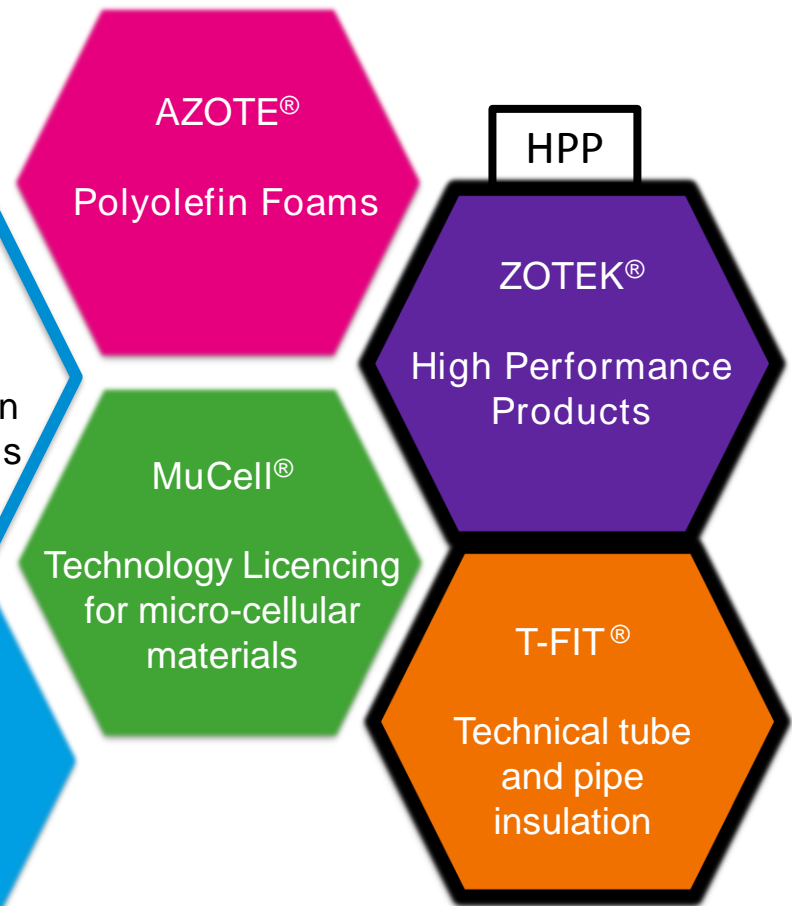
Sustained high levels of organic growth with margin enhancement through product mix and operational gearing



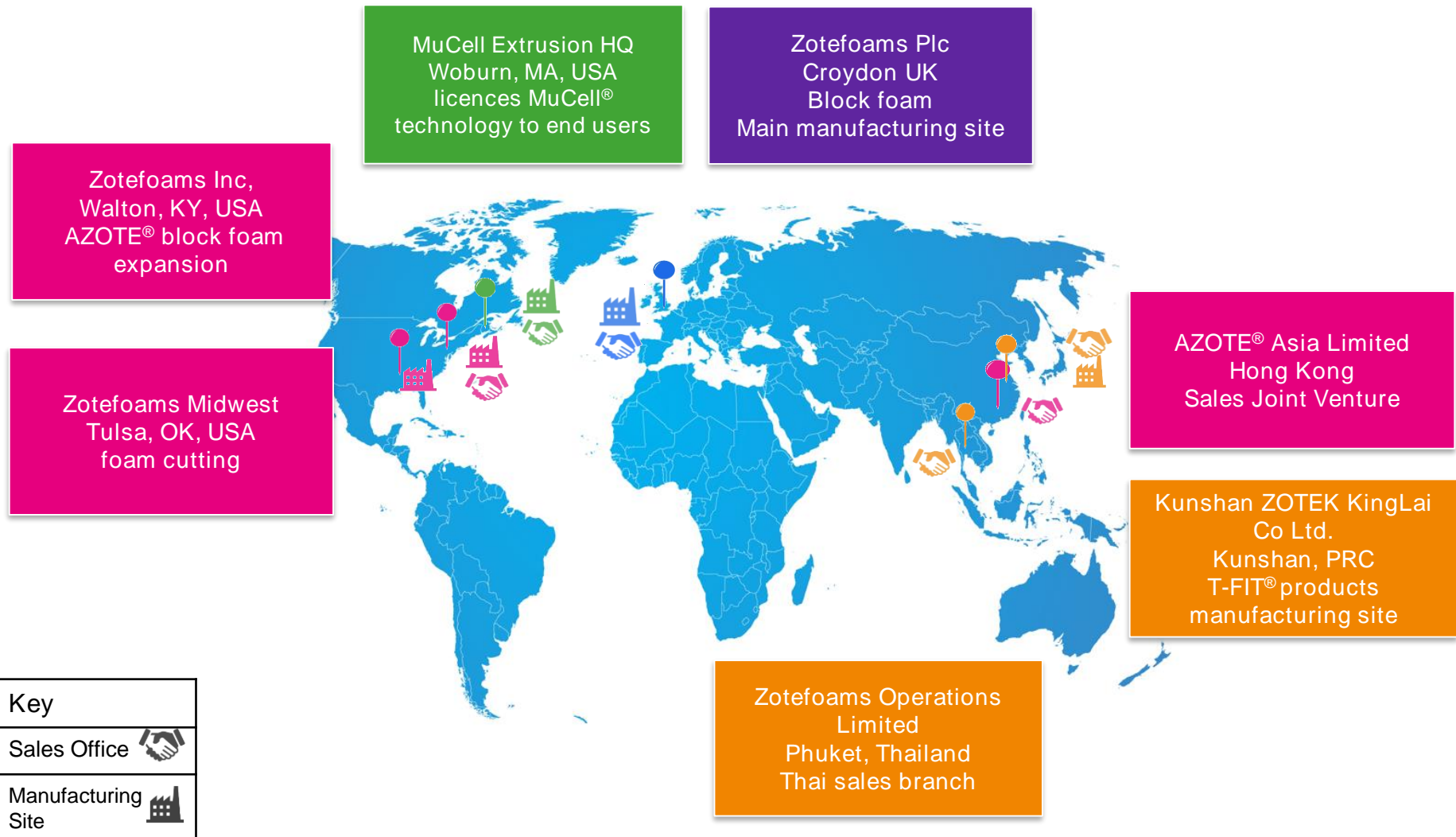
## Organisation



## 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



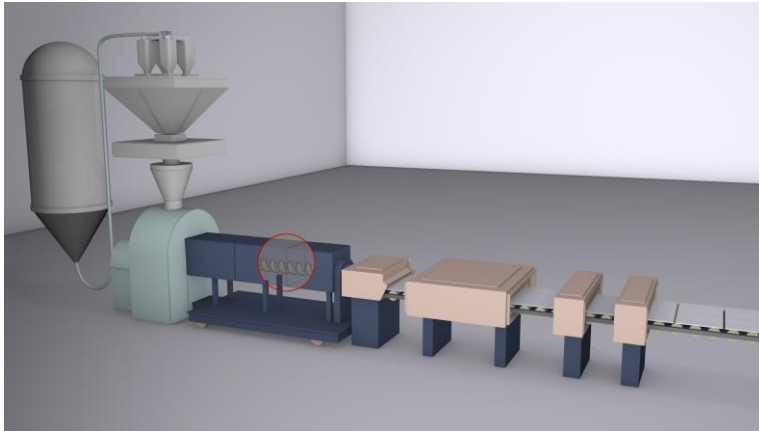
AZOTE®

Packaging  
Prosthetics / orthoses  
Buoyancy aids  
Pads, seats and cushions

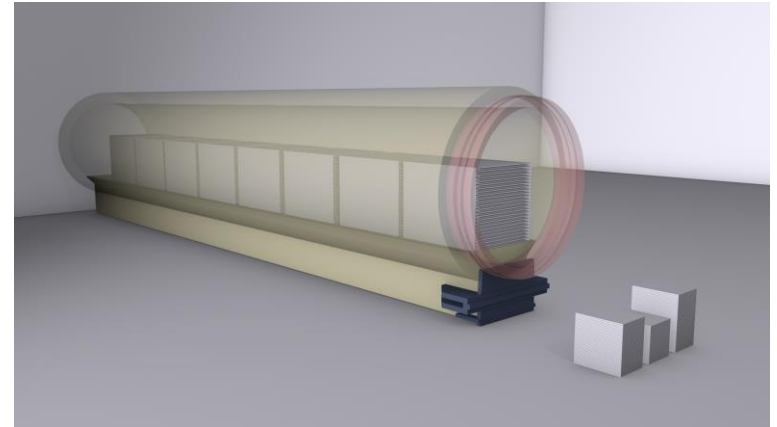


# Technology Block Foams

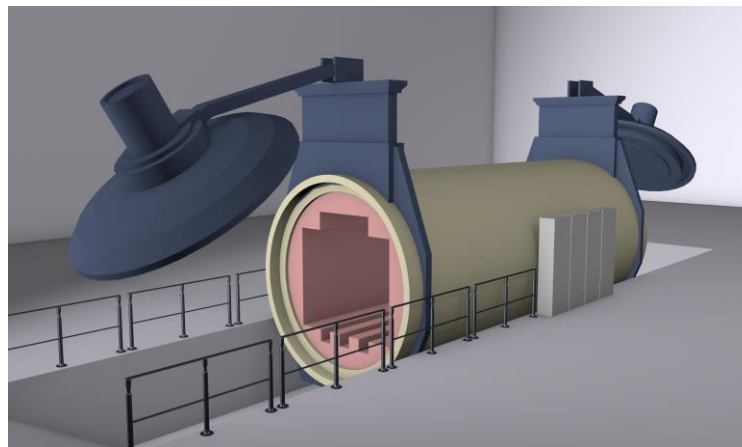
What sets us apart from competition is a unique, environmentally friendly process that uses nitrogen gas to produce a range of uniform closed-cell cross-linked foams.



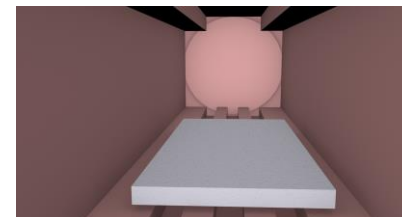
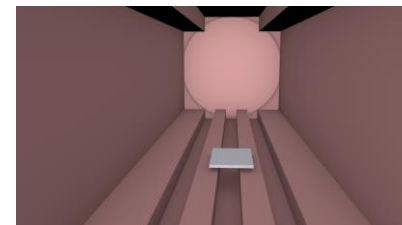
Stage 1: High quality extrusion and cross-linking of solid polymeric sheet



Stage 2: Impregnation and saturation



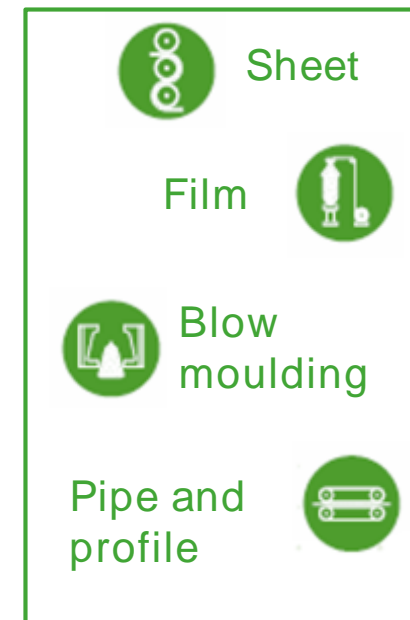
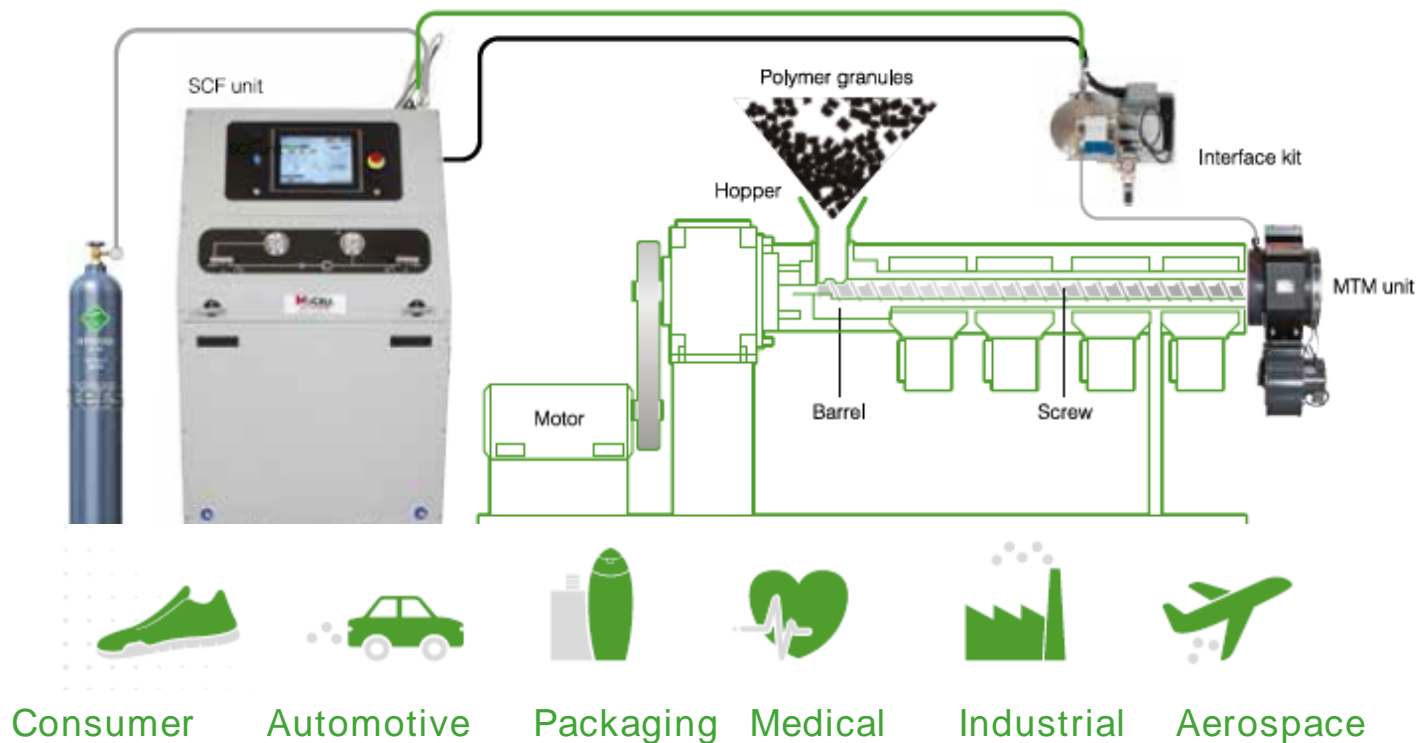
Stage 3: Expansion



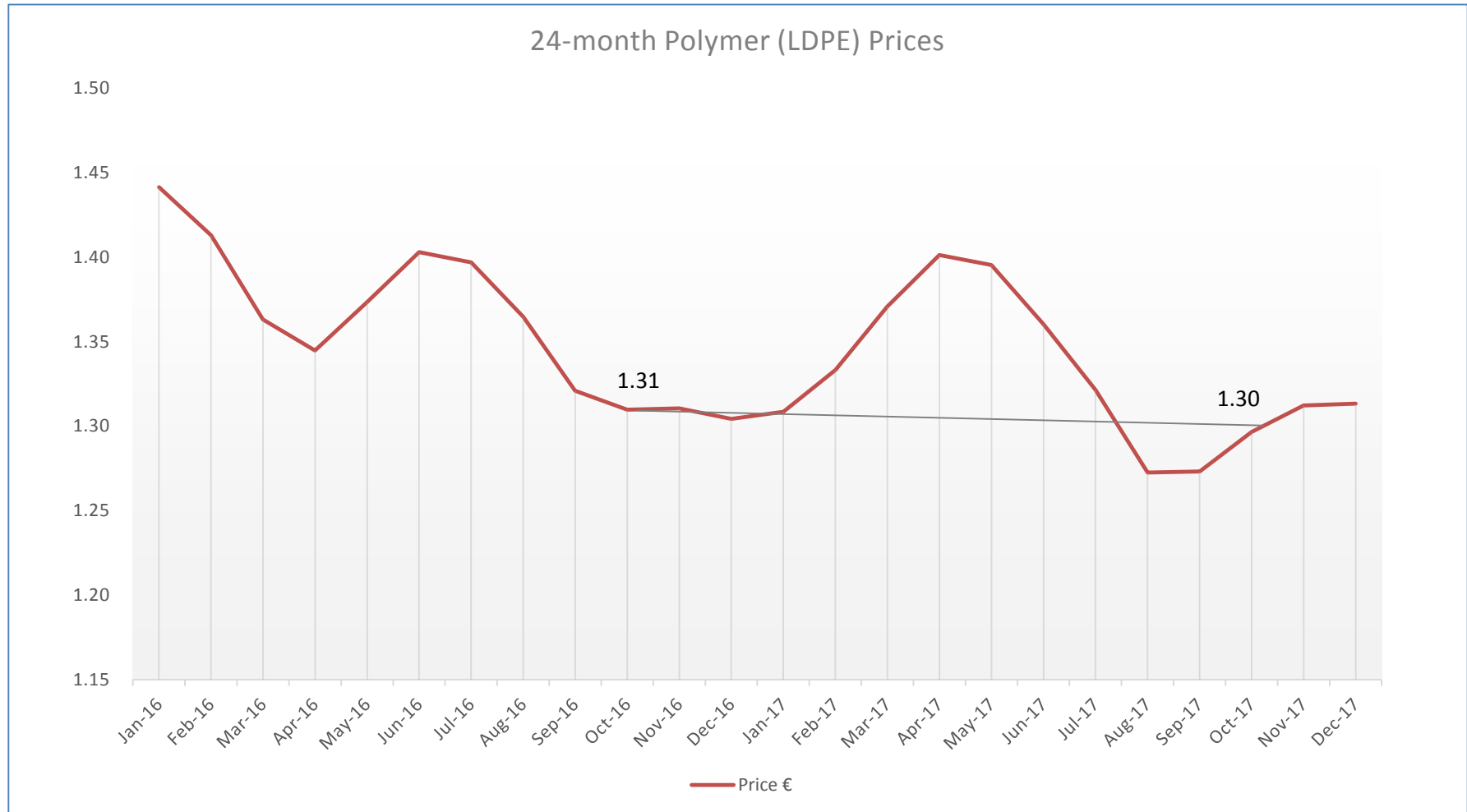
# MuCell® Process Technology

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



# Polymer (LDPE) Prices

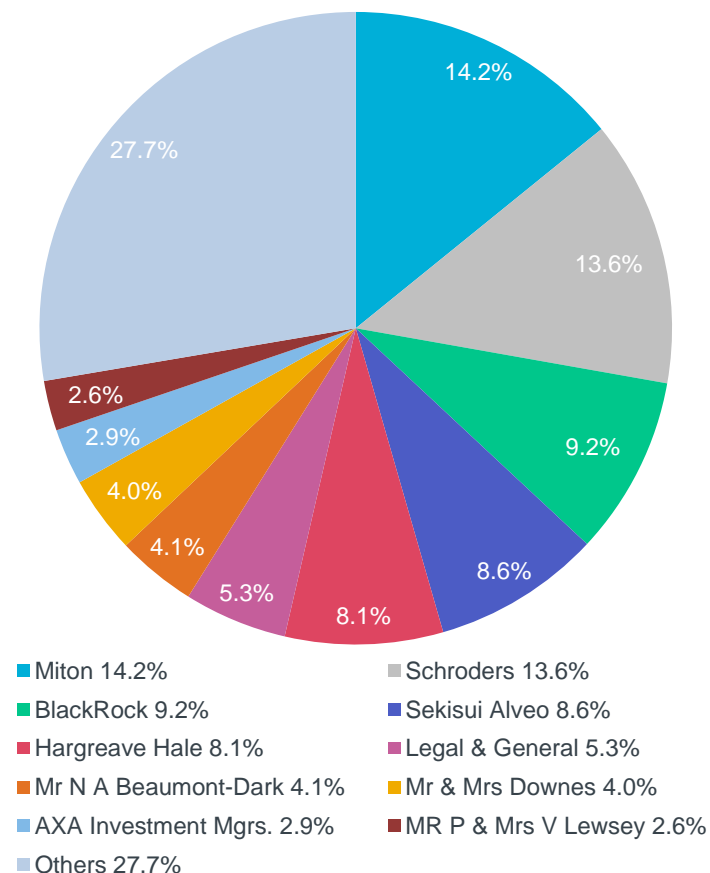


# Market Information

Share price 495p (07/03/18)  
 Market Main Market  
 Ticker ZTF.L  
 Market cap. £220.0m  
 Ord. shares in issue 44,414,442



## Shareholder Profile\*



\* Source: Company Share Register (29/12/17)