



AZOTE®

ZOTEK®

T-FIT®

MUCELL®

# Half Year Results 2016

David Stirling: Group CEO  
Gary McGrath: Finance Director



**ZOTEFOAMS**

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**Six months to  
30 June 2016**

**Summary**

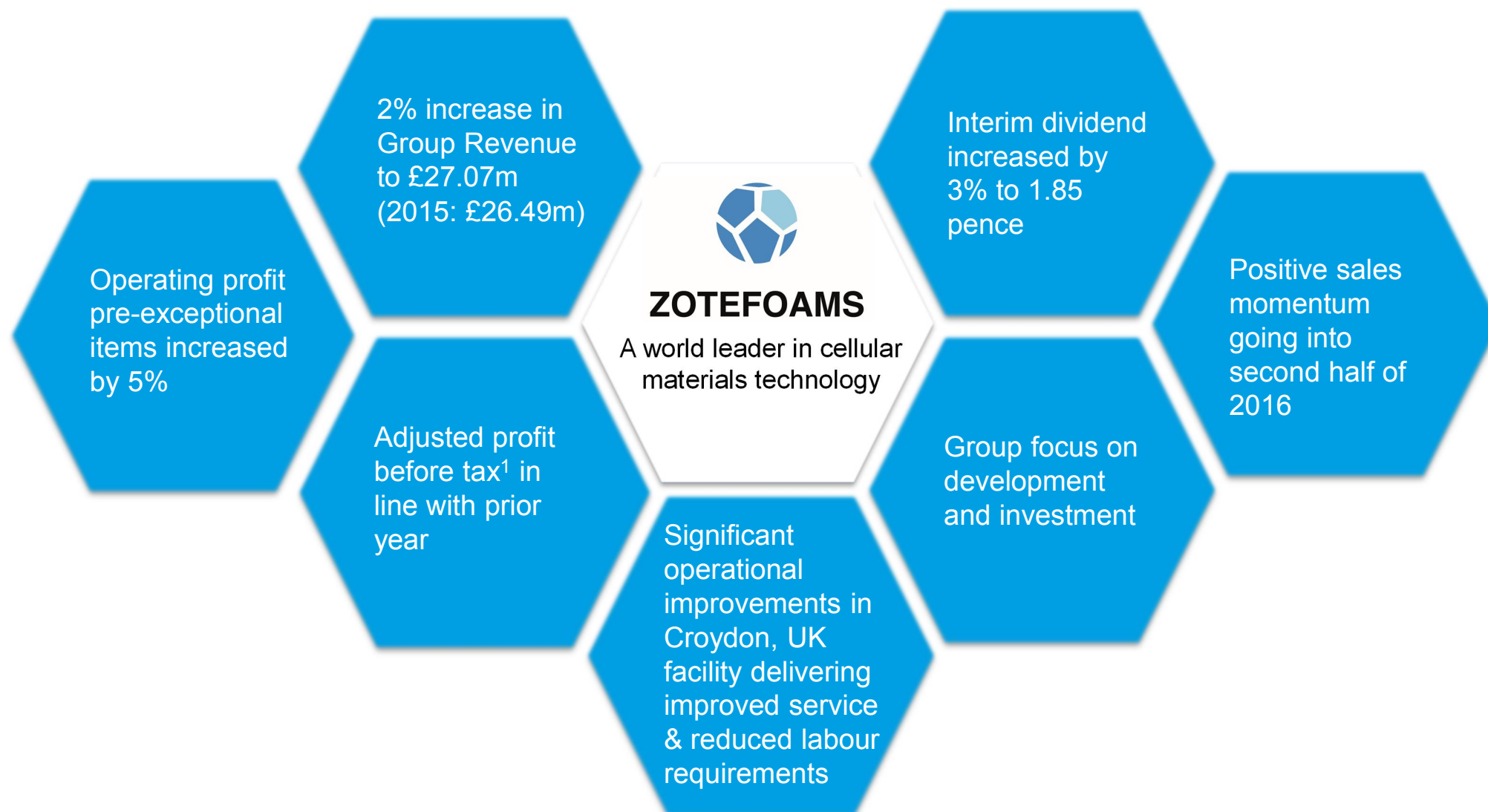


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# Highlights



**ZOTEFOAMS**



<sup>1</sup> Before amortisation of acquired intangible assets and exceptional items



*Zotefoams is a world leader in cellular materials technology. Using a unique manufacturing process with environmentally friendly nitrogen gas expansion, Zotefoams produces lightweight foams in UK and USA for diverse markets worldwide. Zotefoams also owns and licenses patented MuCell® microcellular foams technology from a base in Massachusetts, USA to customers worldwide and sells T-FIT® advanced insulation.*

1. Group Overview
2. Results
3. Business Review

Appendices



# Group Overview - Locations



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

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

**Zotefoams Plc**  
Croydon UK  
**AZOTE® and ZOTEK®**  
block foam manufacturing  
site

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


**AZOTE Asia Limited**  
Hong Kong  
Sales Joint Venture

**Kunshan ZOTEK KingLai**  
Co Ltd.  
Kunshan, PRC  
**T-FIT®** products  
manufacturing site

**Zotefoams Operations**  
Limited  
Phuket, Thailand  
**T-FIT®** Global Sales Office

## Key

Sales Office 

Manufacturing  
Site 

**AZOTE®**

**ZOTEK®**

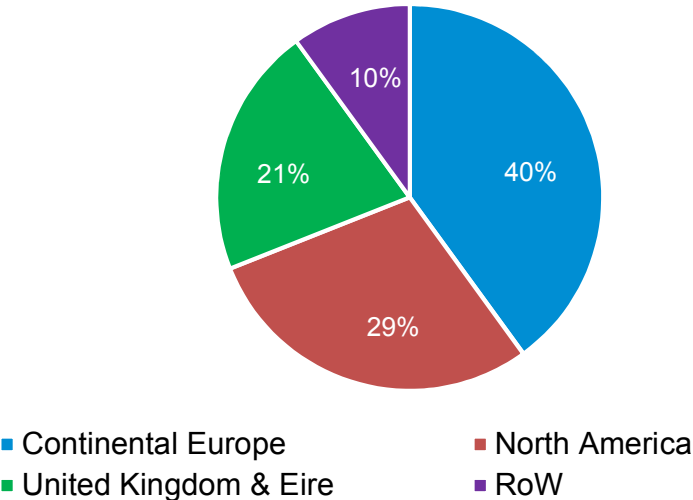
**T-FIT®**

**MUCELL®**

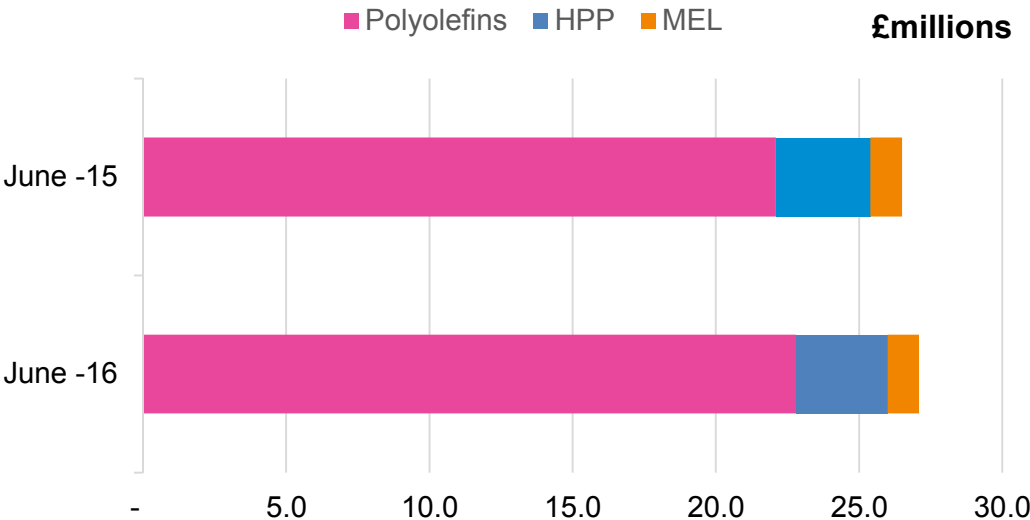
# Group Overview



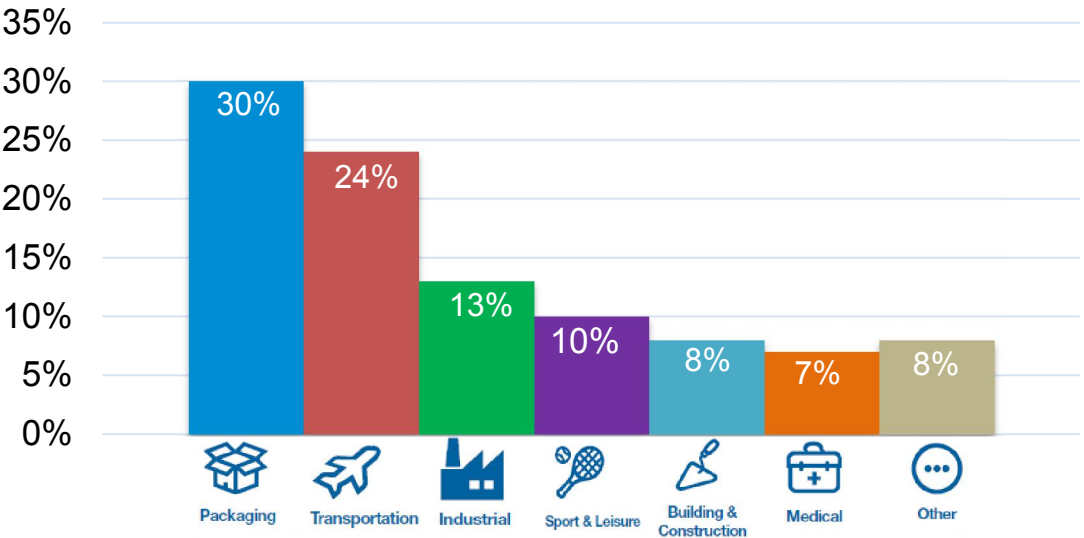
### Revenue by Geography



### Revenue By Business Unit



### Revenue by Industry



### Business Units

- AZOTE®** Polyolefin Foams
- ZOTEK®** High Performance Products
- MUCELL®** Extrusion LLC technology licensing

# Zotefoams' Strategy



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Zotefoams' strategy is to expand through a combination of profitable organic growth of our **AZOTE®** and **HPP** foams businesses, new customers for our **MuCell®** extrusion-technology licensing business, and through partnerships or acquisitions in related technologies, products or markets.



## Objective:

Improve our return on capital employed

## Outcome:

An efficiency improvement programme at our Croydon, UK factory has increased effective capacity and will reduce operating costs in the future. Levels of capital employed will increase with the investment in our KY, USA site planned for commissioning in H1:2017



## Objective:

Improve our operating margin

## Outcome:

Operating margin, excluding exceptional items, increased to 12.3% (2015: 12.0%)

## Objective:

Develop a HPP portfolio and MEL customer base to deliver enhanced margins

## Outcome:

Sales strongly second-half weighted, gross margins held back by our investment for longer-term growth



## Objective:

Sales growth in our polyolefin business to exceed twice the average rate of global GDP growth

## Outcome:

Underlying growth, excluding customer destocking, estimated at 4%







1. Group Overview
- 2. Results**
3. Business Review

Appendices

# Income Statement



**ZOTEFOAMS**

£ million	June-16	June-15	% Change
<b>Group Revenue</b>	<b>27.07</b>	<b>26.49</b>	<b>2%</b>
<b>Gross Profit</b>	<b>8.14</b>	<b>7.94</b>	<b>2%</b>
Distribution and admin expenses <sup>1</sup>	(5.31)	(4.33)	(23%)
FX translation gains/(losses)	0.51	(0.44)	
<b>Operating Profit before exceptional item</b>	<b>3.33</b>	<b>3.17</b>	<b>5%</b>
Net Interest/Joint Venture Loss	(0.31)	(0.16)	
<b>PBT before exceptional item</b>	<b>3.03</b>	<b>3.01</b>	<b>0%</b>
<b>PBT after exceptional item</b>	<b>2.77</b>	<b>3.01</b>	<b>(8%)</b>
Tax	(0.52)	(0.62)	15%
<b>Profit after tax</b>	<b>2.24</b>	<b>2.40</b>	<b>(6%)</b>
Earnings per share (p)	5.18	5.50	(6%)
Adjusted profit before tax <sup>2</sup>	3.21	3.19	1%

- Gross margin of 30.1% in line with prior year (2015: 30.0%)
- Exceptional item relates to restructuring costs at the Croydon plant
- Effective tax rate of 19% (2015: 20.5%), both in line with statutory rates

## Notes

<sup>1</sup> Excludes FX translation gains/losses and exceptional item <sup>2</sup> Excludes amortisation costs of acquired intangible assets and exceptional item

# Polymer (LDPE) Prices



- P&L impact up 15% Y-on-Y at the half year

# Free Cash Flow



**ZOTEFOAMS**

£ million	June-16	June-15
<b>Operating profit (pre exceptional item)</b>	<b>3.33</b>	<b>3.17</b>
Depreciation, impairment & amortisation	1.78	1.73
Working capital	0.34	0.28
Pension contributions	(0.33)	(0.33)
Other	(0.18)	0.14
<b>Cash generated from operations</b>	<b>4.93</b>	<b>4.99</b>
Tax & interest paid	(0.82)	(0.41)
Net capital expenditure	(8.00)	(3.37)
<b>Free cash (out)/inflow</b>	<b>(3.89)</b>	<b>1.22</b>

- Continued strong cash generation from operations
- High capital expenditure focused on capacity increase and new business opportunities



# Cash Flow and Net Debt



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£ million	June-16	June-15
<b>Free cash (out)/inflow</b>	<b>(3.89)</b>	<b>1.22</b>
Repayment of borrowings	(0.46)	(0.38)
Dividends	(1.66)	(1.62)
Other	0.29	(0.14)
<b>Net cash used</b>	<b>(5.59)</b>	<b>(0.92)</b>
Net cash at 1 <sup>st</sup> January	5.27	4.63
<b>Net (debt)/cash at 30<sup>th</sup> June</b>	<b>(0.32)</b>	<b>3.71</b>

£ million	June-16	June-15
<b>Net (debt)/cash</b>	<b>(0.32)</b>	<b>3.71</b>
<b>Borrowings</b>	<b>(6.91)</b>	<b>(1.85)</b>
<b>Net (debt)/cash</b>	<b>(7.23)</b>	<b>1.86</b>

- Net debt increase in line with expectations, US expansion planned to be completed H1 2017

# Balance Sheet



£ million	June-16	June-15
Investments in joint venture	0.16	0.34
Intangible assets	7.22	6.79
Tangible assets	41.98	29.78
Net working capital	16.91	16.50
Retirement benefit obligations	(7.62)	(5.91)
Deferred tax, net	0.17	(0.40)
Tax payable	(0.44)	(0.49)
Net (debt)/cash	(7.23)	1.86
<b>Total shareholders' equity</b>	<b>51.15</b>	<b>48.47</b>

- Pension liability increased by £2.4m, following actuarial guidance to reflect current market conditions
- Return on capital employed, including Kentucky investment, 13.9% (2015: 14.9%)



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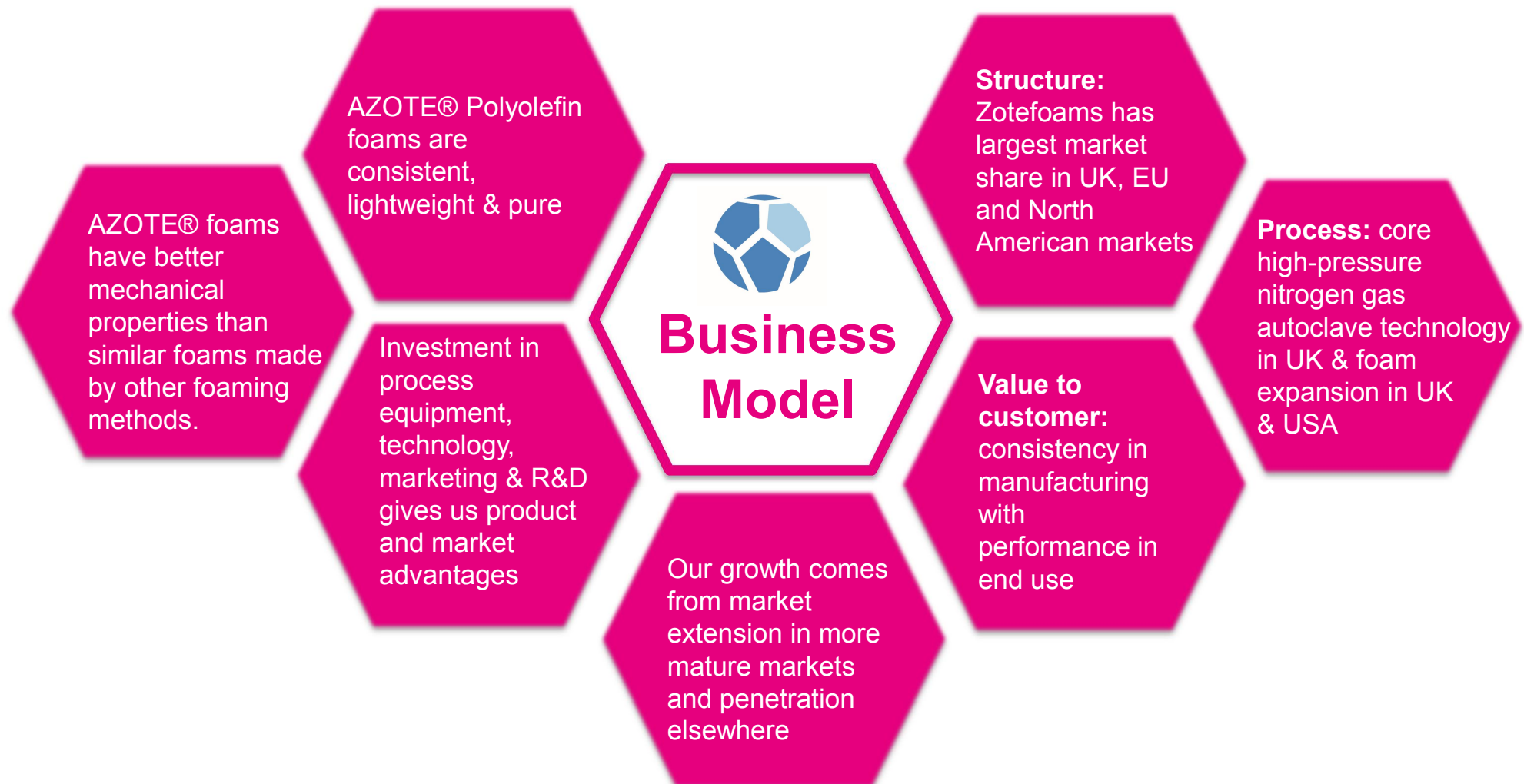
**AZOTE®**



**ZOTEFOAMS**



**High quality foams** from a variety base polymers all manufactured using the same **nitrogen expansion process**



**High quality foams** from a variety of base polymers all manufactured using the same **nitrogen expansion process**



# AZOTE® Polyolefin Foams: Results



## Revenue

- Underlying volume estimated +4% offset by customer destocking
- Strong performance in UK +9%
- Continental EU volumes -5%
- Asia volumes -25%
- North America +9% volume with added benefit of Zotefoams Midwest
- Positive currency impact

Polyolefin Foams	June-16 £m	June-15 £m	% Change
Group Revenue	22.79	22.09	3%
Segment profit pre amortisation	3.83	4.10	(7%)
Segment profit post amortisation	3.81	4.08	(7%)
Segment profit margin	17%	18%	

## Costs

- Euro-denominated LDPE +12%
- *Force majeure* impact estimated £0.4m
- Operational efficiency improving service levels and cost base

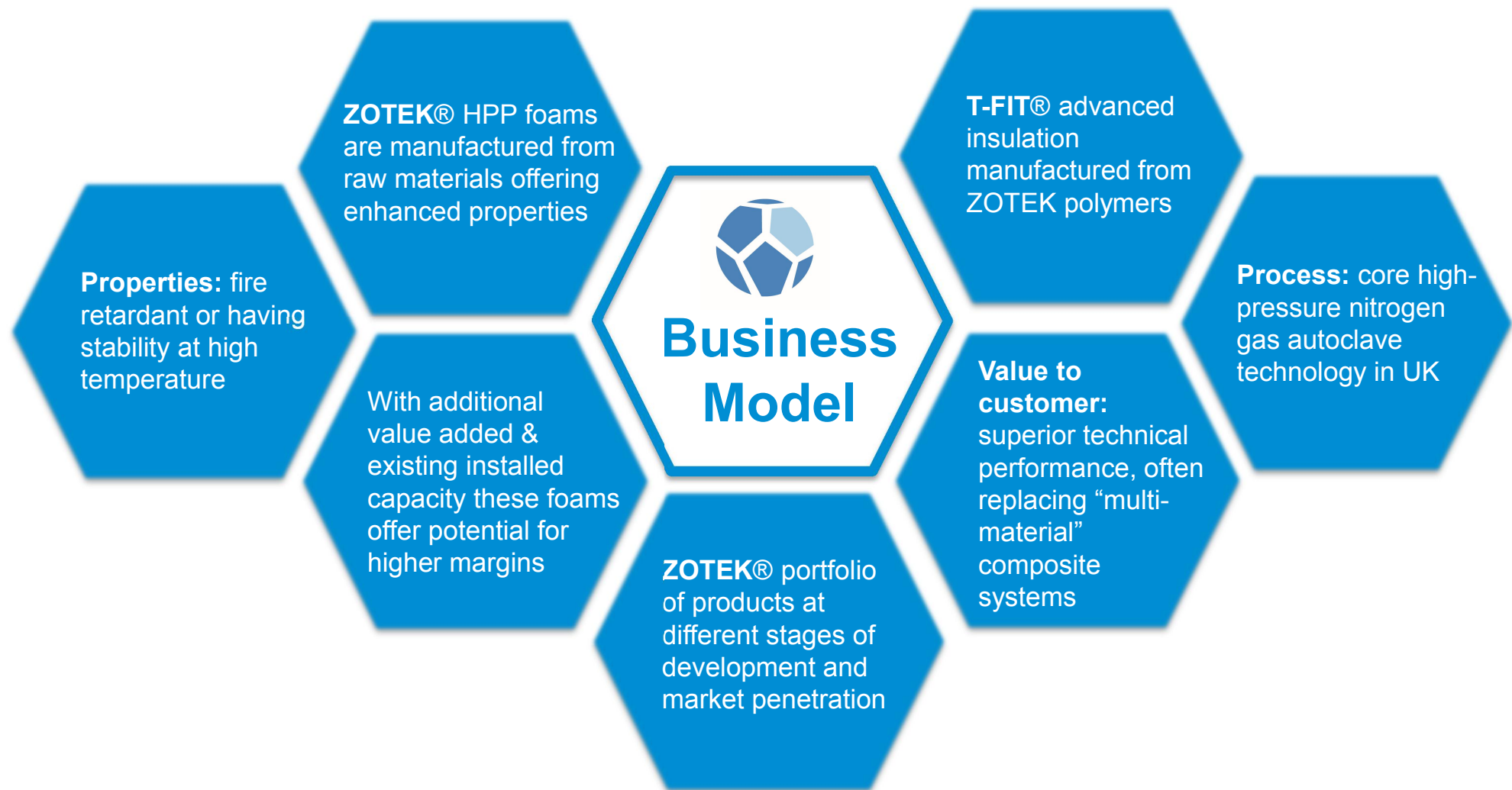
**HPP**



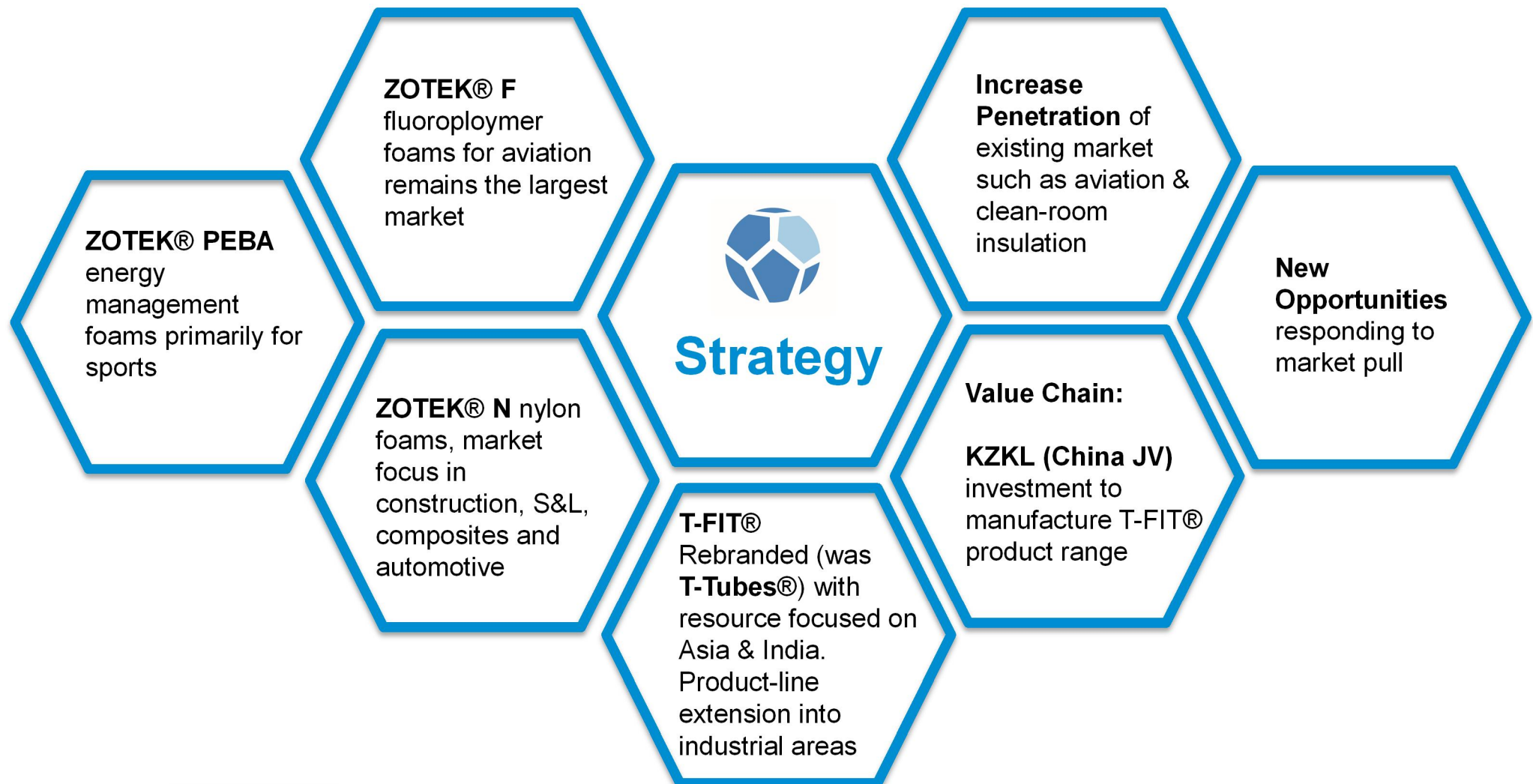
**ZOTEFOAMS**



## High performance foams manufactured from advanced materials



## High performance foams manufactured from advanced materials

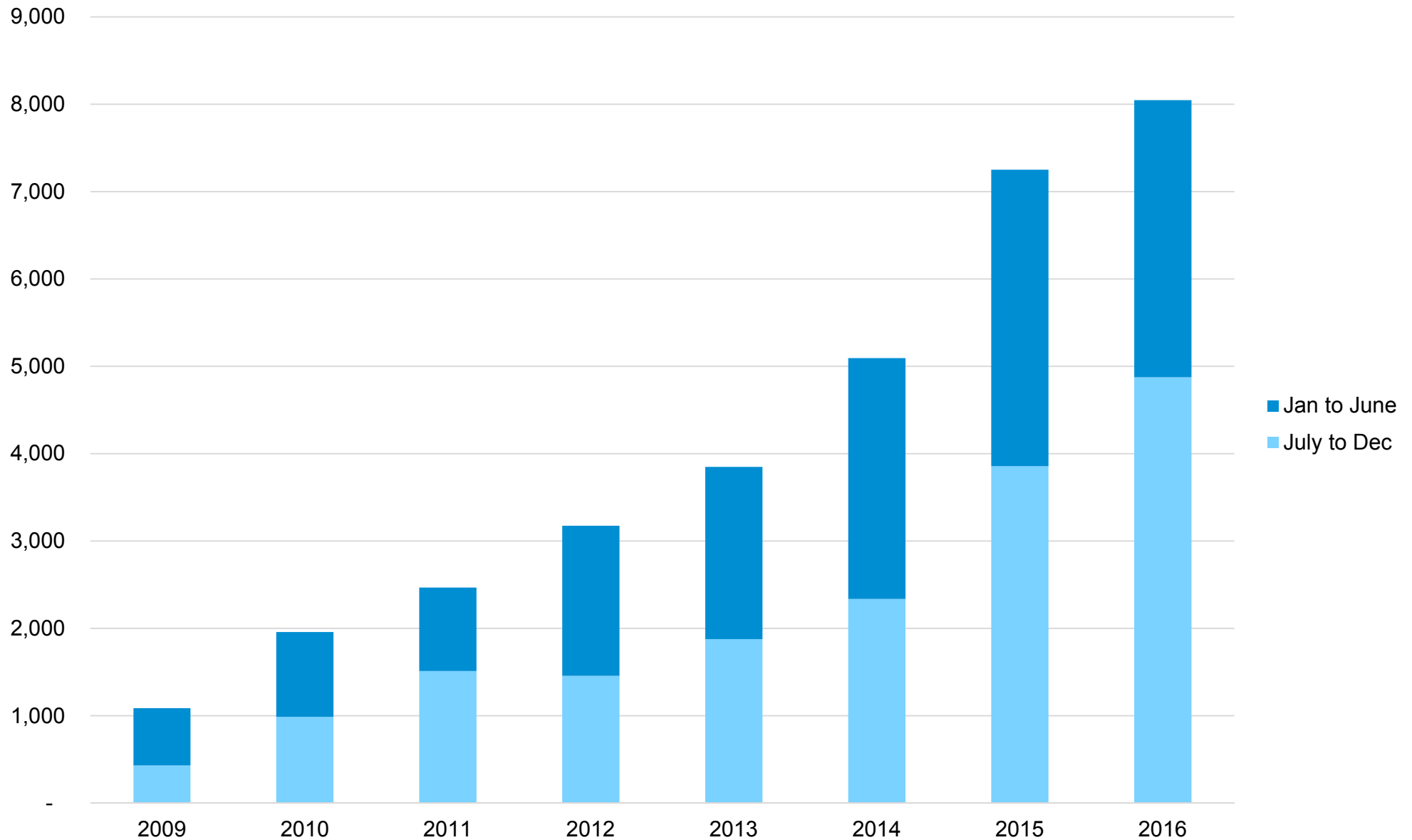


# HPP Results: Sales History

## 12 months ended 30 June



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# HPP Results



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## Revenue

- H1:2016 sales impacted due to timing
- 12 months to 30 June 2016 2016 £8,046k (2015: £7,251k), 11% growth
- Strong second half with full year 2016 “orders + invoiced to date” for ZOTEK® technical foams ahead of 2015
- Very encouraging initial orders from sports & leisure

HPP	June-16 £m	June-15 £m	% Change
Group Revenue	3.17	3.39	(7%)
Segment profit pre-amortisation	0.30	0.67	(55%)
Segment profit post amortisation	0.30	0.67	(55%)
Segment profit margin	9%	20%	

## Costs

- Fixed costs increased to support sales opportunity
- Cost increases in T-FIT® insulation due to delayed start-up in China and extension of product range

## Margin

- HPP is a portfolio of products, some of which are below break-even revenue
- Cost growth ahead of anticipated revenue growth later in the year



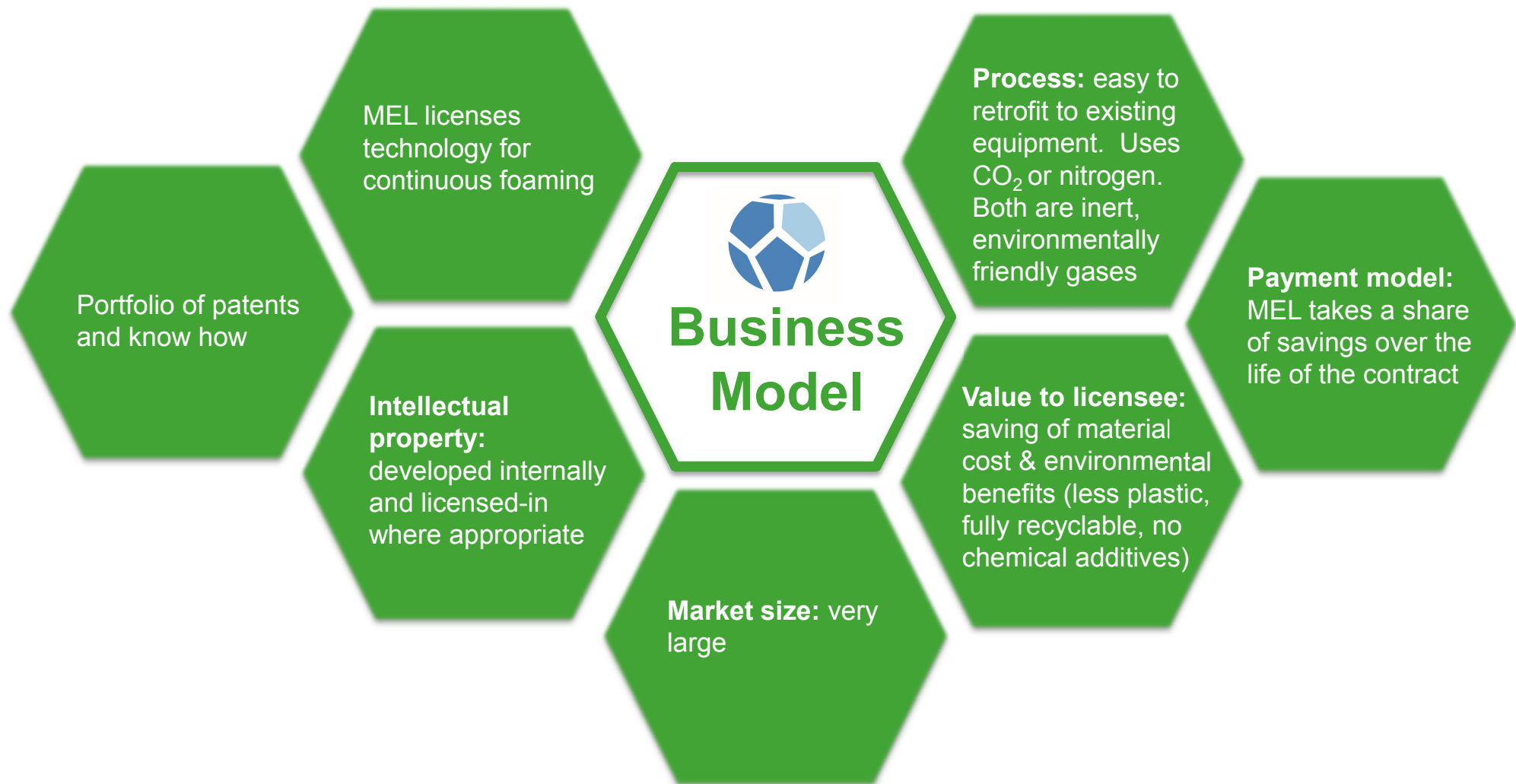
**MUCELL®**



**ZOTEFOAMS**



**MUCELL®** technology is a remarkable patented process that creates “micro-bubbles” in the core of plastic parts or products



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# MuCell Extrusion: Results



**ZOTEFOAMS**

## Revenue

- Further 11 lines installed at licensees bringing total installed base to 99
- Co-operation with The Dow Chemical Company related to 2016 Rio Olympic Games
- Strong order book for H2:2016 buoyed by largest ever single order in excess of £1m for Japanese customer

## Costs

- Investment maintained to support growth
- Development of technology continues to be a priority

MEL	June-16 £m	June-15 £m	% Change
Group Revenue	1.11	1.01	10%
Segment loss pre amortisation	(0.24)	(0.22)	(9%)
Amortisation	(0.16)	(0.15)	(6%)
Segment loss post amortisation	(0.40)	(0.37)	(8%)

## Growth Potential is a function of

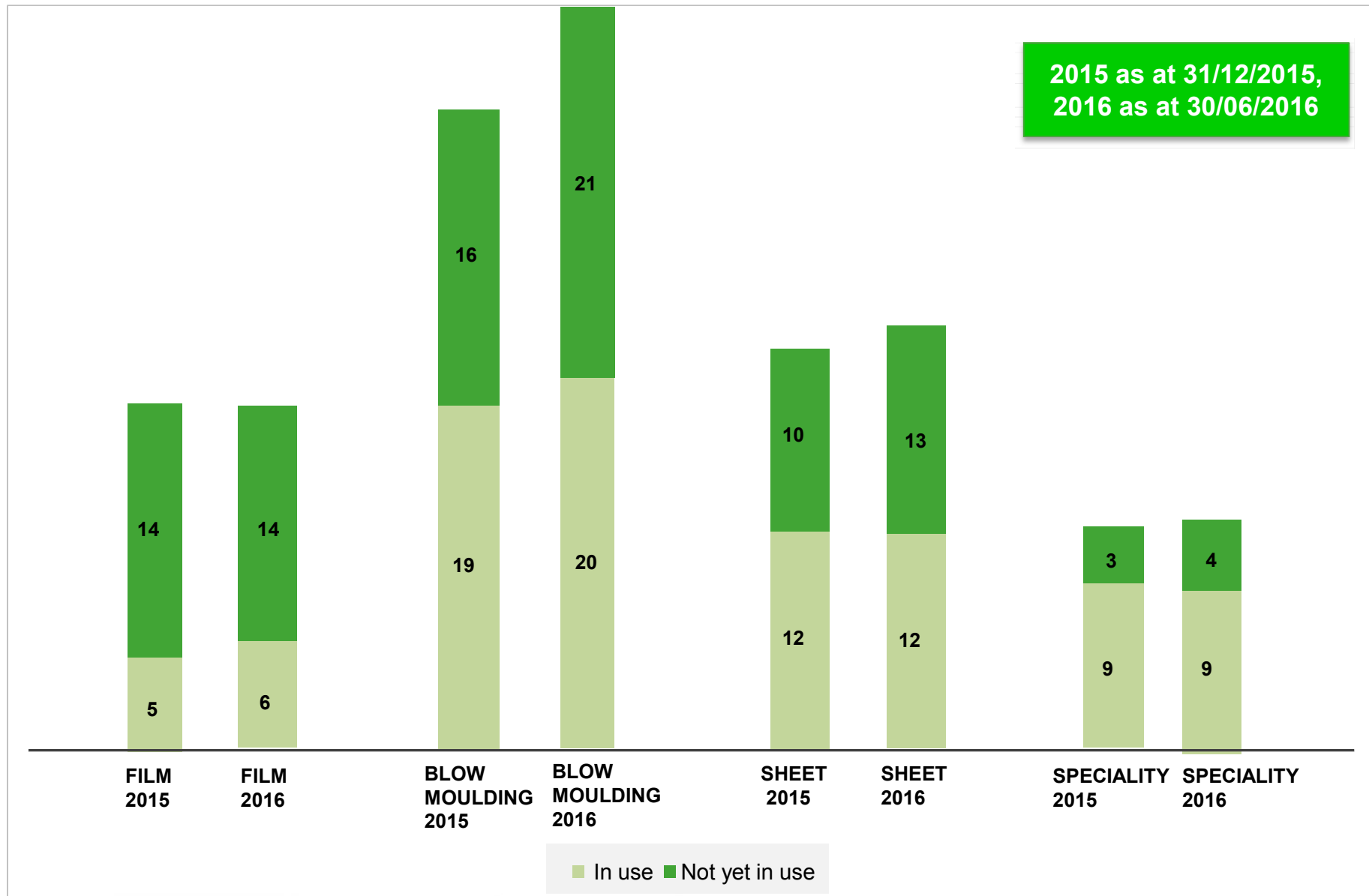
- Number of lines
- Category
- Timing
- Utilisation factor

# MuCell Extrusion: Equipment Base



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2015 as at 31/12/2015,  
2016 as at 30/06/2016



**Business Review : Other**



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# Group Investment

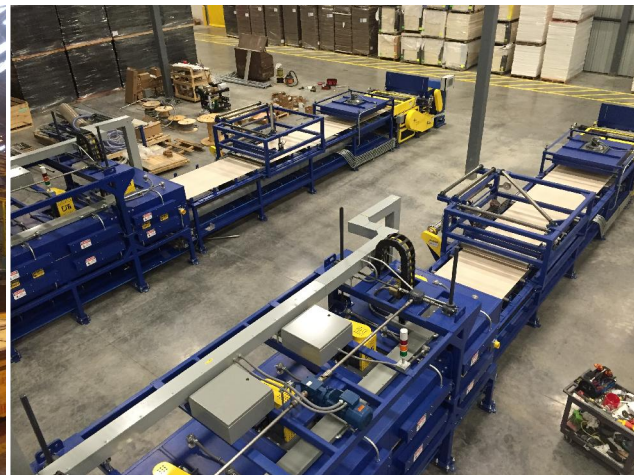


Autoclave technology used for both **AZOTE®** and **ZOTEK®** foams.  
Investment in Kentucky & Croydon capacity based on demand expectations.



Kentucky, USA investment in capacity  
scheduled for commissioning H1:2017

New sites in Oklahoma, USA operational.  
Kunshan, PRC expected to be operational  
from Q3:2016



Committed further specific investment in  
Croydon, UK, low-pressure autoclaves  
linked to expected growth in ZOTEK®  
foams



## FLEXIBLE AND EFFICIENT TECHNOLOGY FOR HIGH-VOLUME 3D SHAPES

### UNIQUE TECHNOLOGY ENHANCEMENT

- 3D foaming of the initial non-foamed shape allows efficient utilisation of raw materials and reduction (or elimination) of processing after the foaming step.
- Particularly suited to higher-cost polymers with complex 3D foam shapes where material yield loss is high value on conversion from cuboid sheet.
- Currently under development with pull-through from specific market opportunities.



## GLOBAL CAPACITY EXPANSION ON EXISTING FREEHOLD SITE

### FURTHER INVESTMENT & REAFFIRMATION OF PLANNED START-UP

Project scale extension by adding a second high-pressure autoclave

- Underpins investment in KY site
- Ability to deliver additional core gassing capacity at relatively short notice
- On-site in KY mid-year 2017 but no plans to commission at this stage

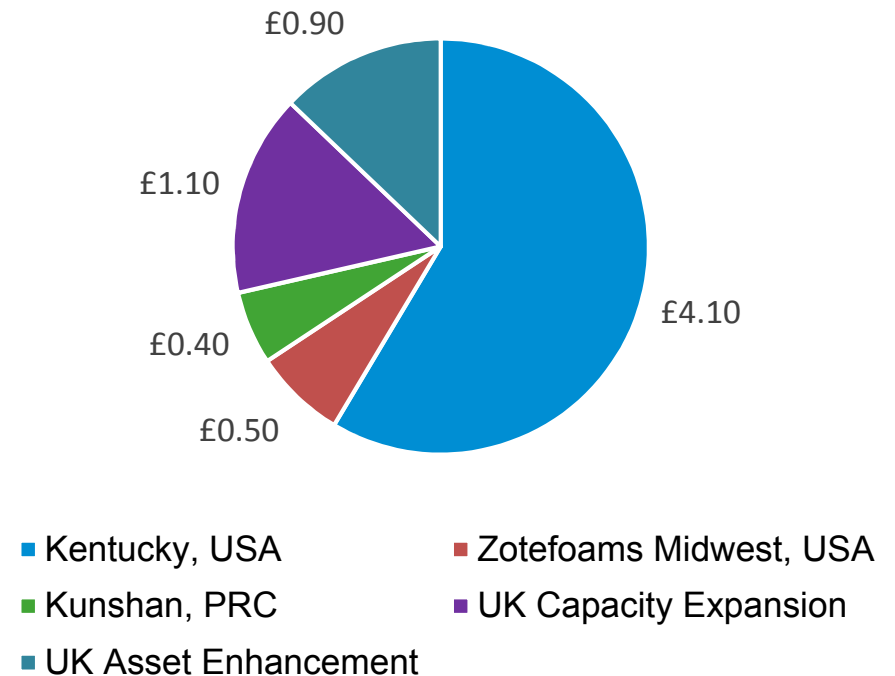
Increased Investment

- Capital Investment in this project now expected to be c\$30m
- Increased expenditure mainly due to second autoclave but with some impact due to delayed start-up

An international business delivering significant growth through organic expansion and leverage of our unique technologies

## INVESTMENT TO SUPPORT GROWTH

- Investment over 4 sites globally
- Kentucky, USA main focus
- Two business start ups
- UK balance of capacity increase and asset enhancement (capability, safety, replacement, environment)



All figures in GBP millions



In our **AZOTE®** Polyolefin foams business, where customers are predominantly based in the UK and continental Europe, the softening of orders experienced in June 2016 has continued into July 2016, whereas demand for August 2016 looks strong by comparison to previous years. The recent devaluation of Sterling against both the USD and Euro is positive for the business, as approximately 80% of our revenues are denominated in these currencies, however most raw materials are bought in Euros and our US operational costs are in USD, therefore giving a partial natural hedge. The trading impact of Sterling devaluation will benefit us a little for the remainder of this year, with a more significant positive impact during 2017 when our financial hedges at higher rates have expired. We expect the costs of LDPE for the remainder of the year to be at a similar level to the first six months. In our **HPP** business, orders plus invoiced sales for **ZOTEK®** technical foams currently exceed 2015 sales. In **T-Fit®** insulation products, where the order book is typically shorter, we anticipate growth in the second half of the year from a strong pipeline of bids. In **MEL** we have a record order book by value and a significant number of quotations out to potential customers, but the number of machines currently on order is below the record levels seen at this time last year.

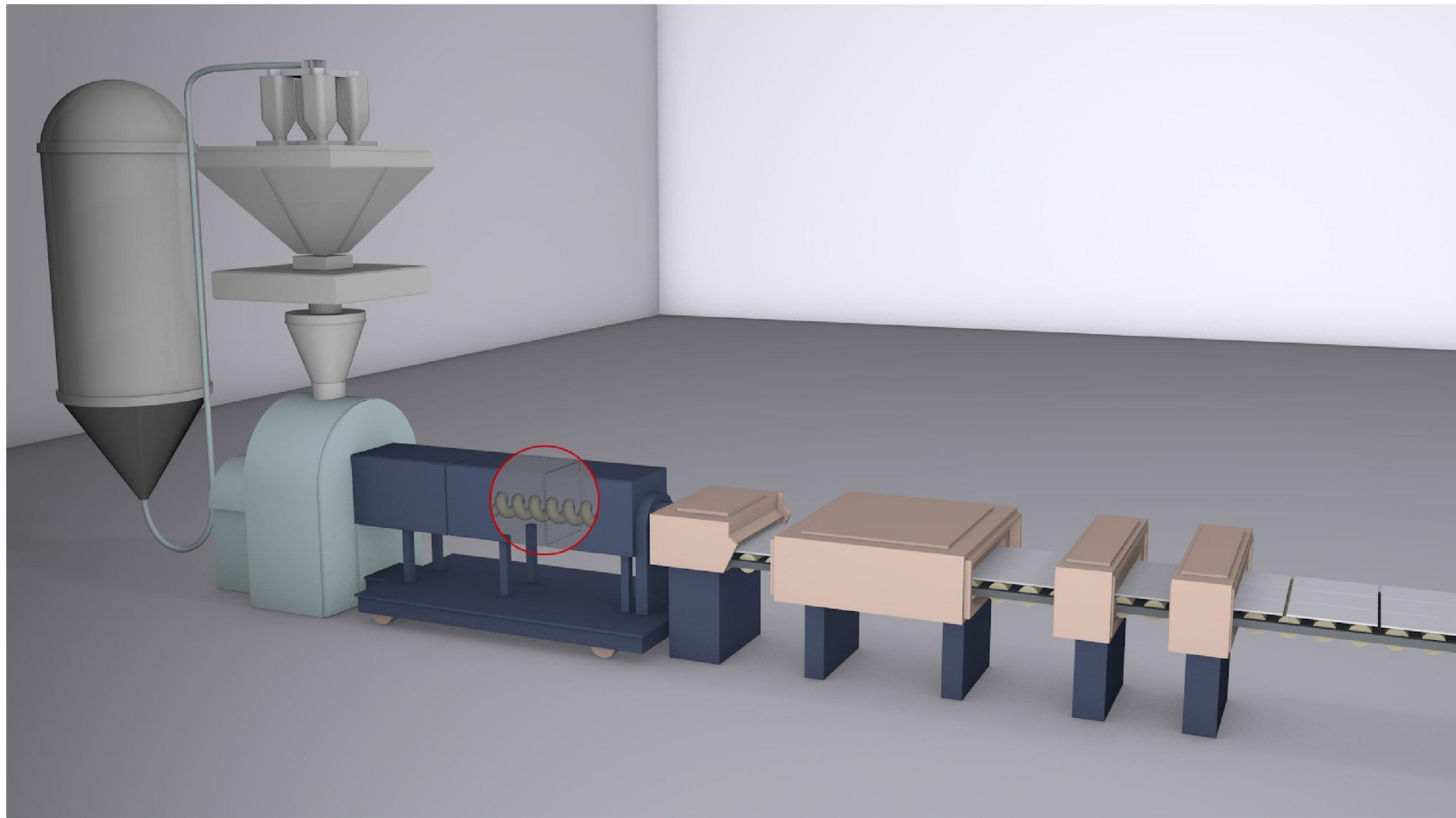
We enter the second half of the year with a good order book, a strong product portfolio, growth expectations in all business units and the benefits of the weaker Sterling. Whilst recognising the significant uncertainty resulting from the macro-economic backdrop, the Board remains confident in the prospects for the business.

# Appendices



ZOTEFOAMS

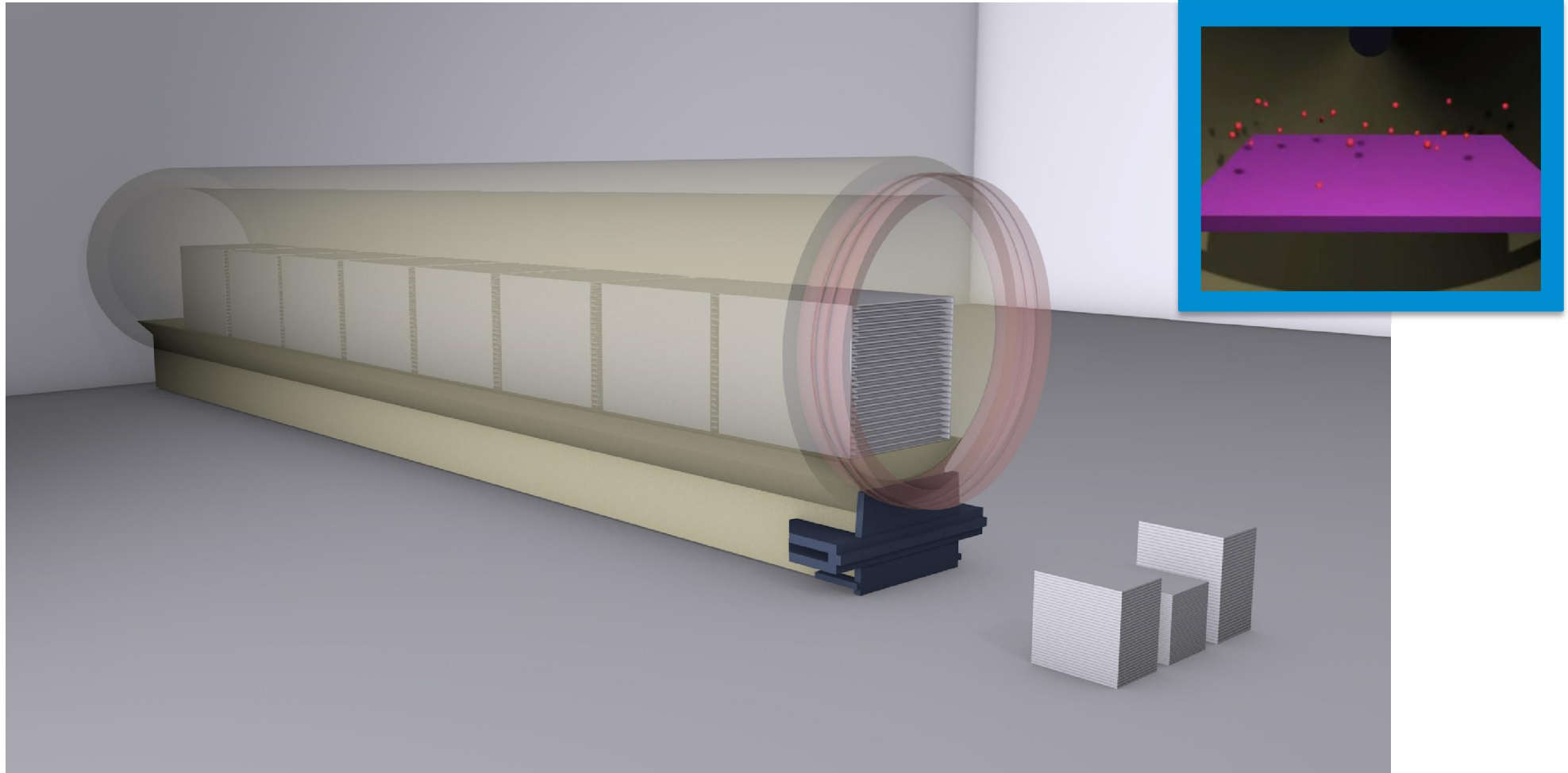
## Stage 1: High quality extrusion and cross-linking of solid polymeric sheet



Base resin and additive ingredients are fed into an extruder. This produces a wide, continuous sheet of crosslinked plastic, from which precise size slabs are cut.



## Stage 2: Impregnation and saturation

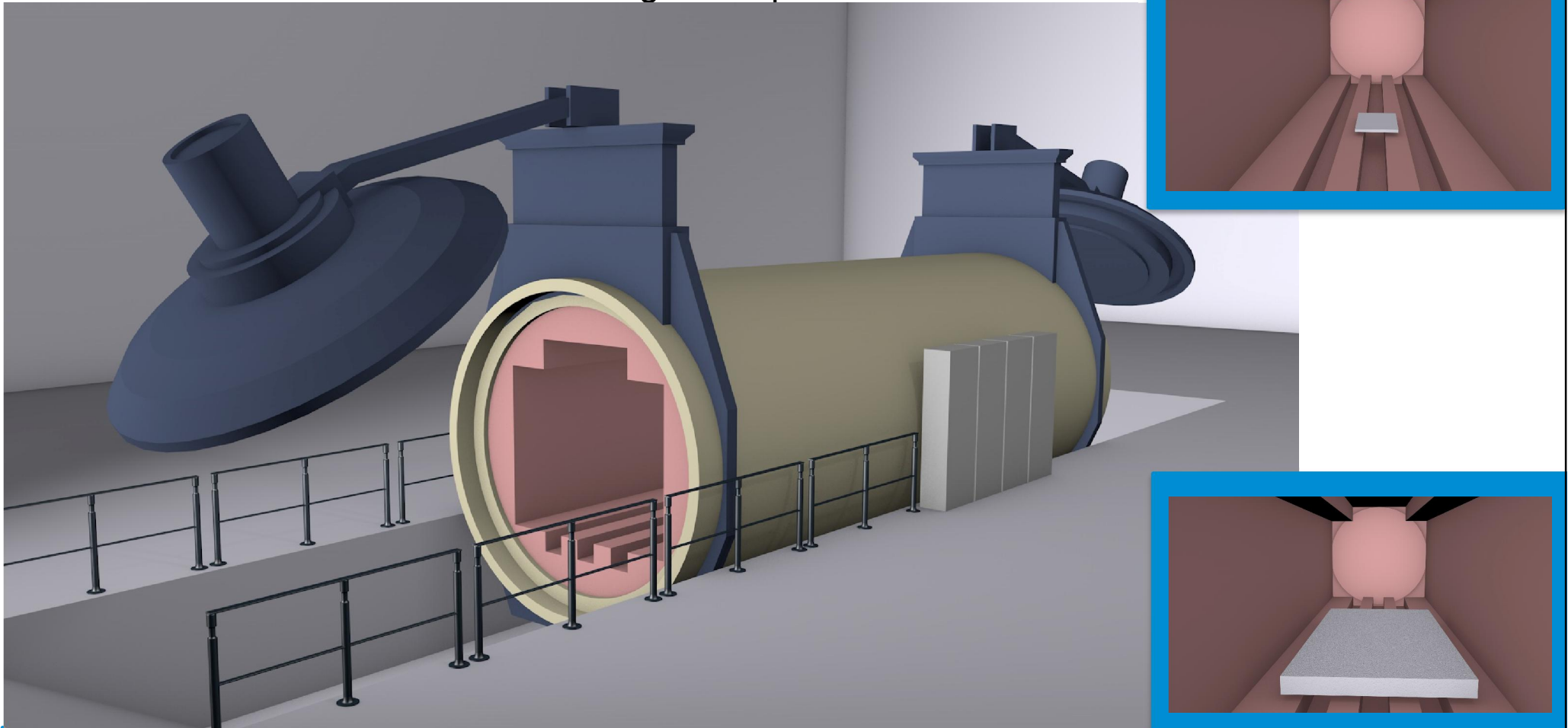


The extruded slabs are loaded into a high pressure autoclave. The plastic is heated above its softening temperature and subjected to a high pressure dose of pure nitrogen.

# Zotefoams Process



## Stage 3: Expansion

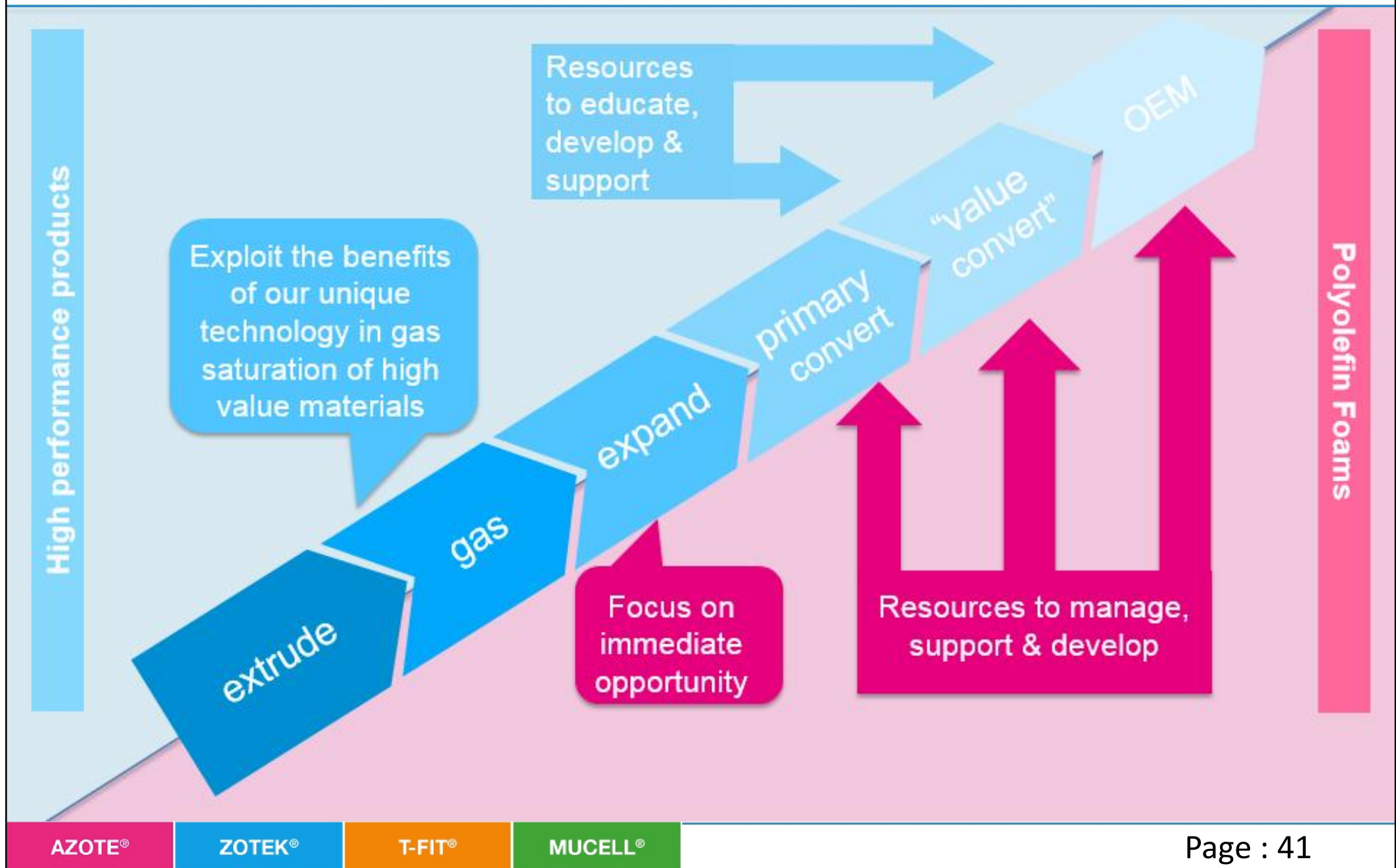


The nitrogen charged slabs are loaded into a low pressure autoclave. The material is again heated above its softening temperature under a moderate air pressure; then the pressure is removed. Without the pressure, the nitrogen expands, physically foaming the soft plastic in a uniform fashion.

# Value Chain / Strategy



ZOTEFOAMS



# Financial History



**ZOTEFOAMS**

£million	Actual 2015	Actual 2014	Actual 2013	Actual 2012	Actual 2011	Actual 2010	Actual 2009	Actual 2008	Actual 2007	Actual 2006
Group Revenue	53.9	48.9	44.6	47.2	44.2	39.9	31.8	34.8	31.6	30.1
Revenue Growth	10%	10%	(6%)	7%	11%	25%	(9%)	10%	5%	7%
PBT (excl exceptionals)	6.0	5.3	3.9	5.8	5.5	4.7	3.2	3.9	3.4	2.7
Exceptionals	-	(1.3)	-	-	-	0.6	(0.5)	-	-	(1.1)
PBT (incl exceptionals)	6.0	4.0	3.9	5.8	5.5	5.3	2.7	3.9	3.4	1.6
Cash generated from operations	8.4	6.0	6.6	6.3	6.1	7.2	7.0	5.8	4.8	4.7
Capex (incl intangibles)	9.1	7.6	4.2	3.7	3.1	2.7	3.4	1.4	2.7	2.6
Net (funds)/debt	1.6	(2.4)	1.1	0.6	(1.9)	(1.9)	0.4	1.2	1.7	1.4
Gearing	3%	-	3%	3%	-	-	2%	4%	6%	6%
Basic eps (excl exceptionals)	11.1p	10.7p	8.0p	11.8p	11.8p	10.2p	6.8p	8.3p	8.0p	5.4p
Dividends (incl proposed)	5.60p	5.45p	5.30p	5.20p	4.90p	4.65p	4.50p	4.50p	4.50p	4.50p

# Market Information



ZOTEFOAMS

Share price 265.0p (29/07/16)

Market Main Market

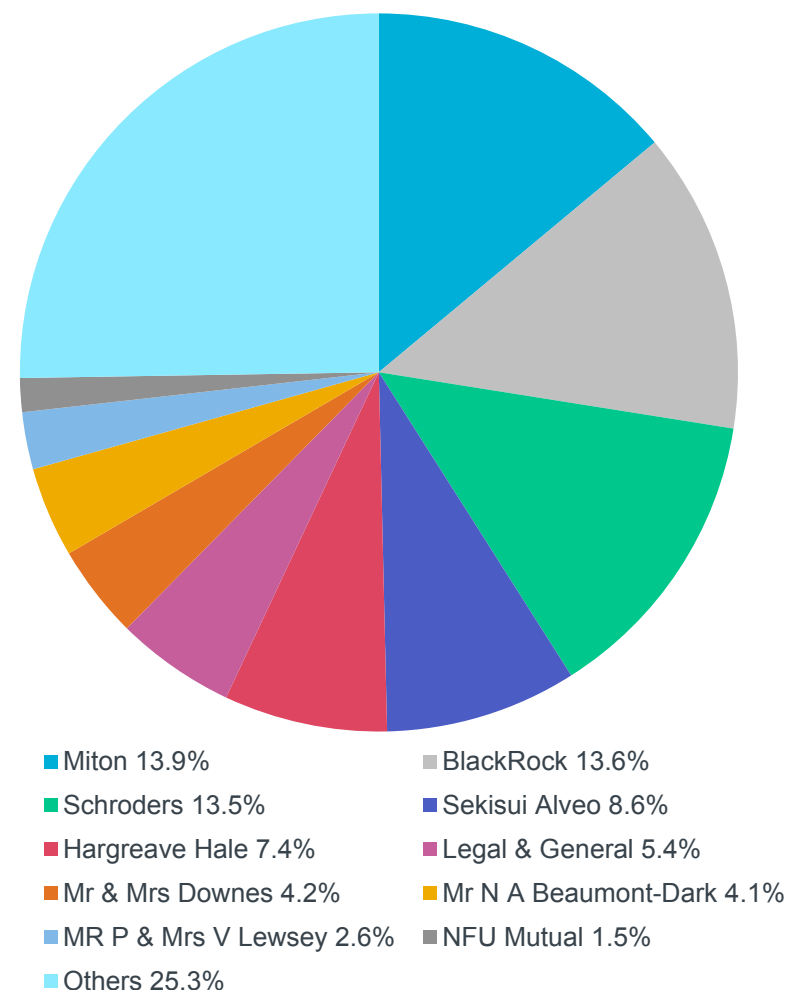
Ticker ZTF.L

Market cap. £117.7m

Ord. shares in issue 44,414,440



## Shareholder Profile\*



\* Source: Investec Investor Relations (30/06/16)