



ZOTEFOAMS

Zotefoams plc

Interim results presentation

August 2014

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In constant currency:

- Total Revenue¹ increased by 12%
- High-Performance Products revenue growth of 51%
- Profit before tax and exceptional items up 28%

Other:

- MuCell[®] technology adopted by Unilever
- Interim dividend increased by 3% to 1.75 pence

¹ Total Revenue consolidates all external sales made by the joint ventures as well as those made by Zotefoams plc and its subsidiaries



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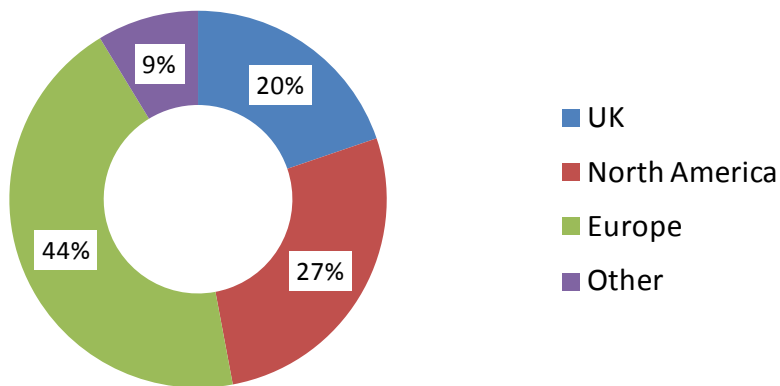
1. Group Overview
2. Zotefoams' Strategy
3. Interim Results
4. Business Review
5. Outlook

Appendices

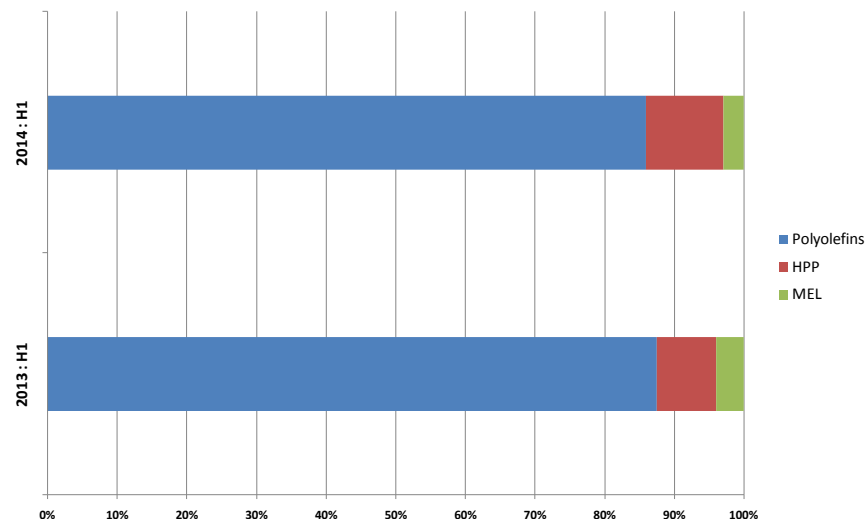


Group Overview

Revenue by Geography

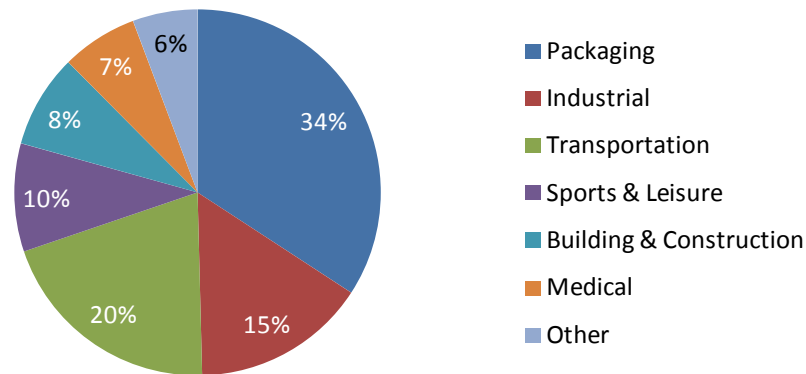


Revenue by Segment



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-Tubes[®] advanced insulation.

Revenue by Application





Zotefoams' strategy

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

AZOTE[®] SALES

Objective: Sales growth in our polyolefin business to exceed twice the average rate of GDP growth.
Outcome: Total Revenue from polyolefin foams grew by 4%, (9% in constant currency)
CAGR since 2009 is 7%

HPP SALES

Objective: Develop a HPP portfolio to deliver enhanced margins.
Outcome: HPP sales grew by 51% in constant currency with the segment delivering operating profit of £0.69m. Operating profit margin of 25%

GROUP MARGIN

Objective: Improve our operating margins.
Outcome: Group operating margins increased to 12.1% (H1:2013 : 11.5%) before exceptional items

GROUP ROCE

Objective: Improve our return on capital employed.
Outcome: Pre-tax return on average capital employed, before exceptional items and excluding intangible assets and their amortisation costs, increased to 17.7% (H1:2013 17.3%)



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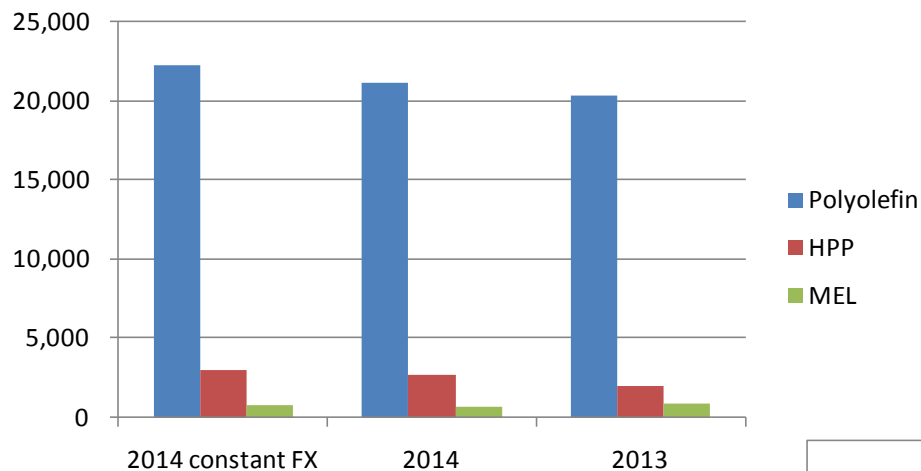
Income statement (excluding exceptional)

	2014 £m	2013 £m	Change	Constant Currency Change
Total revenue	24.70	23.22	6%	12%
Group revenue	24.65	23.22	6%	12%
Gross profit	6.73	6.22	8%	21%
<i>Gross margin</i>	<i>27%</i>	<i>27%</i>		
Operating profit	3.00	2.68	12%	25%
Net interest/joint venture loss	(0.13)	(0.16)		
Profit before tax	2.87	2.52	14%	28%
Tax	(0.58)	(0.53)	11%	
<i>Effective tax rate</i>	<i>20%</i>	<i>21%</i>		
Profit after tax	2.29	1.99	15%	
Eps (p)	5.8	5.1	14%	
Adjusted profit before tax (Excludes amortisation costs)	3.02	2.68	13%	27%



Segmental Analysis

Sales by Segment : £000s



Sales and Margin growth in line with long-term strategy of the Group

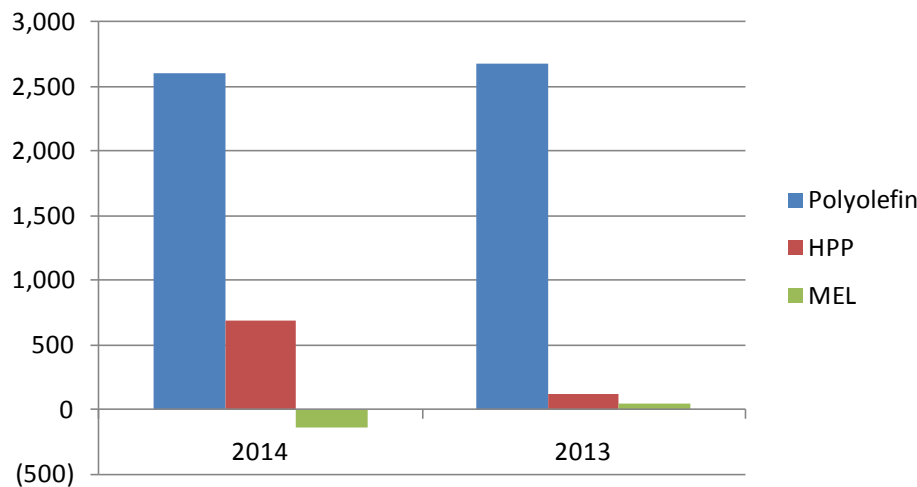
MEL an early stage growth business

Adverse currency impact¹:

- on sales : £1.30m = 6% of reported
- on PBT : £0.36m = 13% of reported

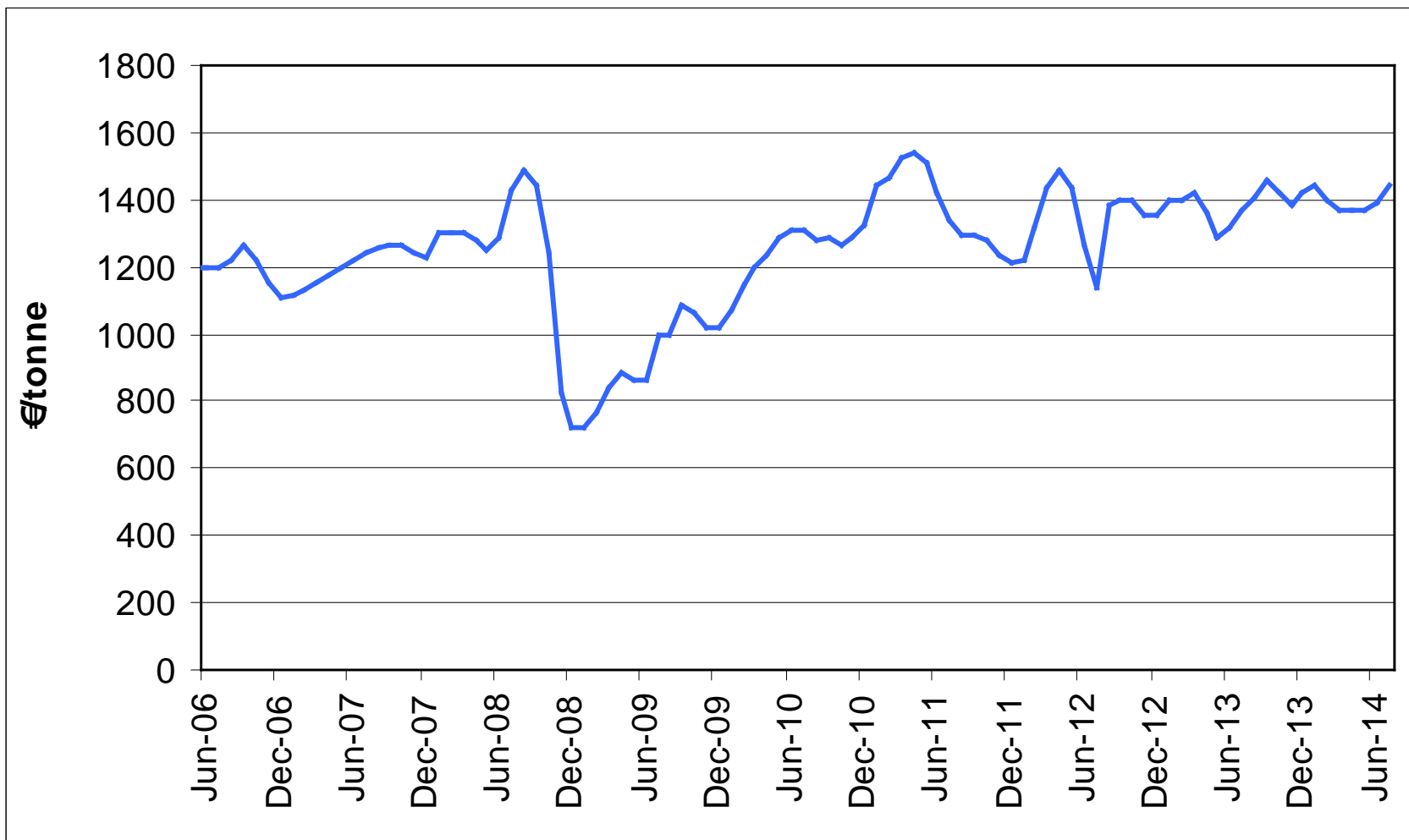
¹ before exceptional items

Result by Segment : £000s





Polymer (LDPE) Prices



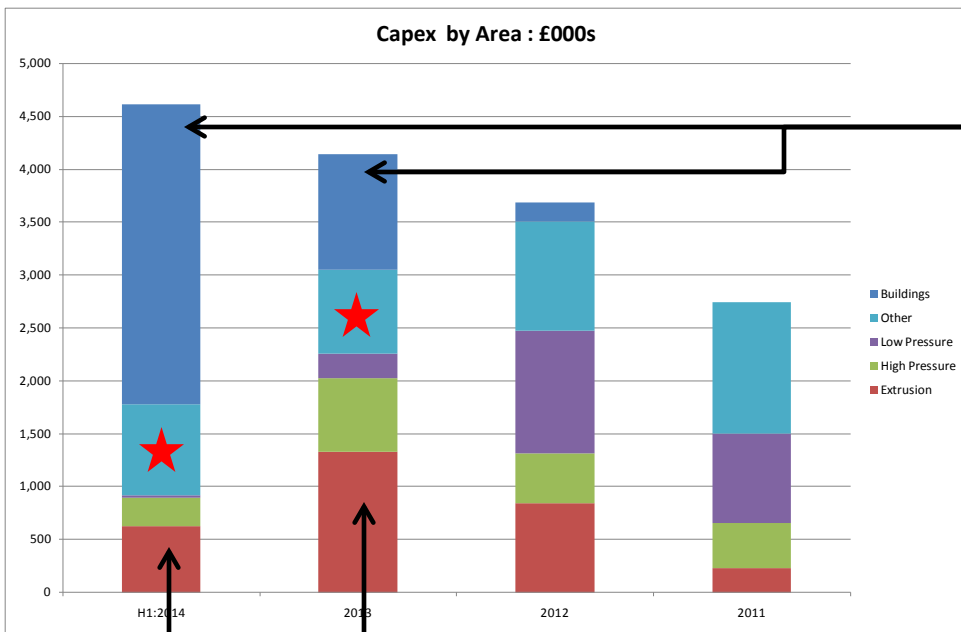


Cash Flow

	2014 £m	2013 £m
Operating profit (after exceptional items)	1.73	2.68
Depreciation, impairment & amortisation	3.04	1.75
Working capital	(1.12)	(0.98)
Pension contributions	(0.33)	(0.33)
Share options charge	0.09	0.22
Cash generated from operations	<u>3.40</u>	<u>3.34</u>
Tax paid	(0.34)	(0.54)
Capital expenditure	(4.61)	(1.54)
Other	(0.25)	0.03
Dividends	(1.42)	(1.38)
Net debt movement	<u>(3.22)</u>	<u>(0.08)</u>
Net (debt)/funds brought forward	(1.12)	(0.62)
Exchange adjustments/roundings	0.07	(0.07)
Net debt	<u>(4.26)</u>	<u>(0.78)</u>



Capital Expenditure & Capacity

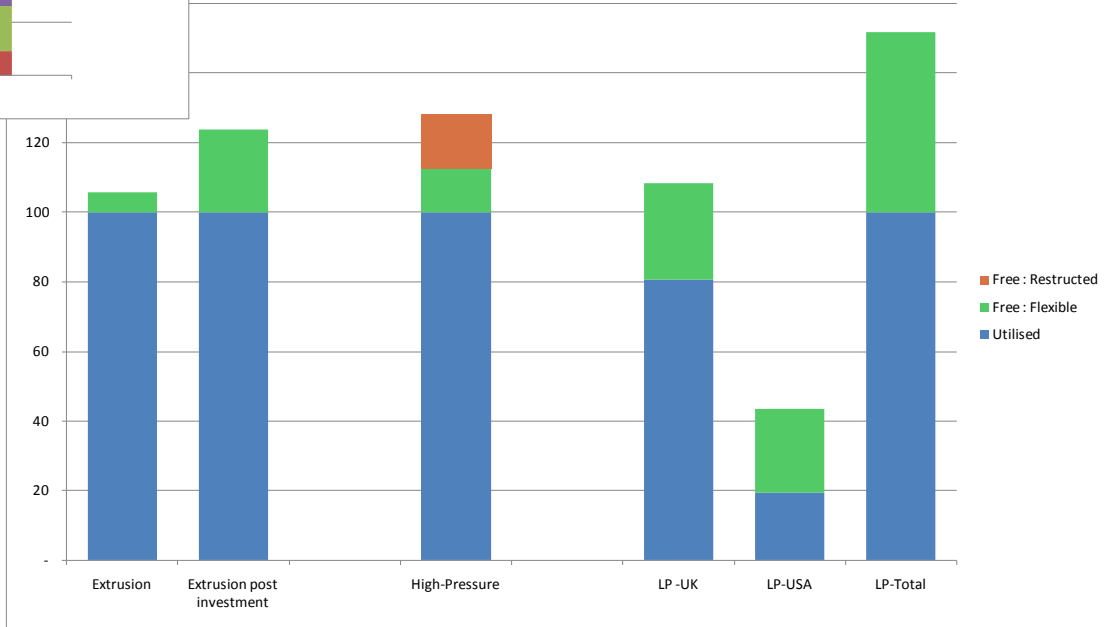


Building investment increases Croydon factory area by 13% to allow for future investment in extrusion and technical services

ERP System to enhance service capability & effectiveness. Previous system installed in 2002

Extrusion investment initiated in 2013 & delayed due to supplier problems

Capacity by major process
Indexed to current annual sales volume





Balance Sheet

	2014	2013
	£m	£m
Investments in joint ventures	0.22	-
Intangible assets	4.64	5.45
Tangible assets	28.56	26.13
Net working capital	14.81	14.08
Retirement benefit obligations	(4.05)	(7.00)
Deferred tax, net	(0.59)	(0.19)
Tax payable	(0.66)	(0.73)
Net debt	(4.26)	(0.78)
Total shareholders' equity	<u>38.68</u>	<u>36.96</u>
Gearing	11%	2%



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Polyolefin Foams

Business Model

- Azote® polyolefin foams are more consistent, lighter, purer and have better mechanical properties than similar foams made by other foaming methods.
- Investment in process equipment, technology, marketing and R&D gives us distinct advantages in both product and market presence
- Process : core high-pressure Nitrogen gas autoclave technology in UK and foam expansion in UK and USA
- Value to customer : consistency in manufacturing with performance in end-use
- Structure : Zotefoams have largest market share in UK, EU and North American markets. Our growth comes from market extension here and penetration elsewhere

Strategy

- Product line extension in specific sub-segments where Zotefoams has a lower market share and/or can increase our competitive advantage and margin
- Increased participation (with sales through channel partners) in end-use markets, such as:
 - Construction
 - Automotive
 - Sports & leisure
- Increased presence geographically
 - 50:50 Sales and Manufacturing JV in Asia signed July 2013
 - Medium-term increased exposure in South America, India, Middle East
- Investment to deliver quality, service and capacity improvements
- Price increases based on comparative advantage



Polyolefin Foams : Results

- NARRATIVE THROUGH THE PERIOD
 - Strong demand from all areas
 - Supply curtailed due to intermittent extruder failure. Now operating satisfactorily
- INVESTMENT IN CROYDON SITE INFRASTRUCTURE
 - Factory expansion complete
 - ERP system phase 1 from Q4:2014
 - Improved service capability for AZOTE®
- INVESTMENT IN CAPACITY
 - Planned extrusion investment expected in Q1:2014 further delayed until Sep/Oct due to supplier difficulties. Adds c 17% to extrusion capacity
 - High Pressure Gas Services : ancillary investment to increase capacity ongoing
 - Further high-pressure gassing investment under consideration

	Polyolefin	
	2014	2013
	£000's	£000's
Total Revenue	21,217	20,325
Segment Result	2,599	2,678
Constant Currency	2,833	

- TOTAL REVENUE
 - Gain of 4% in value, 9% in volume
 - Constant Currency growth
 - North America 11%
 - Europe 12%
 - UK ~
 - Asia 36%
- COSTS
 - LDPE pricing slightly adverse in euros but beneficial in GBP
- PRICING
 - No significant change in the period

Business Model

- ZOTEK® HPP foams are manufactured from raw materials offering enhanced properties, such as being fire retardant or stability at high-temperature. With additional value added and existing installed capacity these foams generate higher margins
- Portfolio of products at different stages of development and market penetration (against foam and non-foam solutions) in this segment
- Process : core high-pressure Nitrogen gas autoclave technology in UK
- Value to customer : superior technical performance, often replacing “multi-material” composite systems
- Structure : HPP foams are redefining markets with significant opportunity across a variety of segments. Timing and extent of penetration can be difficult to predict

Strategy

- ZOTEK® F fluoropolymer foams for aviation remains the largest market and medium-term offers the largest opportunity for growth.
 - Increased content per plane in USA
 - EU and Asia with OEMs
 - Aftermarket and completion centres with “specified products”
- T-Tubes®
 - Resource focused on Asia and India
 - Product-line extension into industrial areas
- ZOTEK® N nylon foams
 - End-user focus in multiple markets including construction, composites and automotive, sports
- Pebafam
 - Sports mainly & some industrial markets



HPP : Results

• REVENUE

- Growth of 51% in constant currency
- CAGR 36% from 2009 based on reporting currency year to June
- HPP represents 11% of group sales
- ZOTEK[®]F fluoropolymer foam is the largest part, with growth mainly from aviation
- Other HPP products sales vs 2013 H1
 - T-Tubes[®] > 200%
 - Nylon > 300%

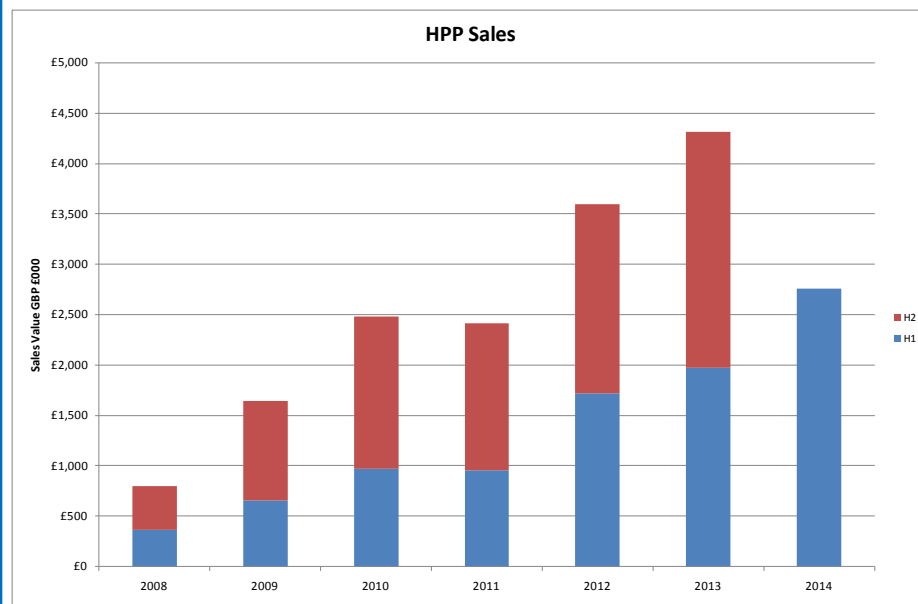
• COSTS

- Well invested in sales and development
- Manufacturing costs increased in line with revenue
- Further investment identified to maintain growth

• MARGIN

- 25% operating margin

	HPP	
	2014	2013
	£000's	£000's
Revenue	2,757	1,973
Segment Result	688	118



Business Model

- MEL licenses technology for continuous foaming
- Process : easy to retrofit to existing equipment. Uses CO₂ or Nitrogen inert, environmentally friendly gases
- Value to licensee : saving of material cost and environmental benefits (less plastic, fully recyclable, no chemical additives) for their customers
- Payment model : MEL takes a share of savings over the life of the contract
- Market size : very large
- Intellectual property : developed internally and licensed-in where appropriate. Portfolio of patents and know how

Strategy

- Focus of activities within segments with high potential, mainly in consumer packaging
 1. thin film
 2. plastic sheet
 3. extrusion blow moulded packaging
- Leverage : addressing markets through channel partners where possible, e.g.;
 - Automotive blow moulding : signed global agreement with Kyoraku of Japan
 - Thin films : MuCell® capability installed at Dow Chemical global technical centres (Switzerland, Singapore, Texas)
- Machinery sales are enabling technology
 - Further development of capability outside existing supplier base
 - Internally developed 1000barG gas unit
- IP : develop IP “ecosystem” with licensees



MuCell Extrusion: Results

- REVENUE

- Lower than 2013 mainly due to currency and timing of equipment sales
- Expected equipment shipments for Q3:2014 more than double H1:2014 (i.e. >\$0.9m)
 - Equipment revenue H2:2013 : £0.64m

- COSTS

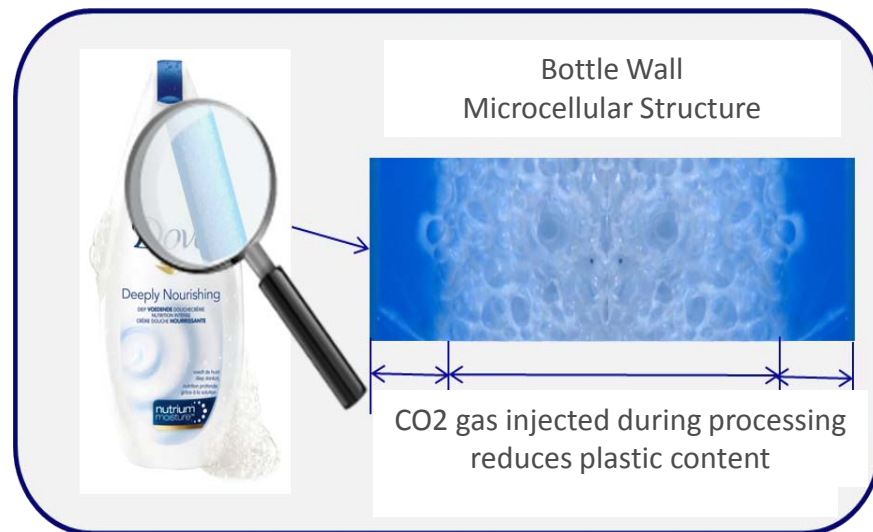
- Investment to support growth
- All cost increases per business plan

- ACTIVITY LEVEL

- Existing licensees rolling-out technology
- Enquiry activity very high for new licensees
- Focus on limited segments delivers known capability and fast development, but every licence requires negotiation
- IP development accelerating

MEL

	2014 £000's	2013 £000's
Revenue	724	920
Constant Currency	790	920
Segment Result	(139)	46



Unilever “Dove®” body wash range packaging using MuCell® technology launched in Europe



Demand remains strong in our Azote® Polyolefin foams business and we expect that this, along with some inventory increases at customers, will result in volume growth in all major regions in the second six months of the year. The price of LDPE, which has been relatively stable this year, has increased in July reacting to short-term supply constraints. However we expect the Euro prices for the remainder of the year to be relatively similar to 2013 unless driven by changes in the price of crude oil. In our HPP business sales grew by 51% in constant currency due to uses in aviation, clean-room insulation and general industrial markets and applications in these areas provide a solid base for second half sales to exceed those of the first six months. MEL's record order book also provides a leading indicator of strong future growth justifying our continued investment in this business. Foreign exchange rates are currently unfavourable for our business and, if they remain at the current levels, we expect second half sales to be adversely impacted by approximately 4% compared to exchange rates for the same period in 2013.

In the first half of 2014 we delivered a constant currency increase of 12% in Total Revenue and made significant capital investments to support our medium and longer-term growth potential. We enter the second half of the year with a good order book across all segments of our business and a strong portfolio of products to deliver further organic growth. Zotefoams continues to maintain a consistent strategy and approach while being mindful of economic uncertainty and the impact of foreign exchange in particular. We therefore remain confident in the long-term prospects for the business.



Appendices



Group Business Model

Our business model is designed to harness our unique manufacturing technologies and intellectual property to produce added value products that meet or anticipate market requirements.

INVEST

People

Products

Processes

We ensure Zotefoams’ investment is balanced across people, products and business processes (“PPP”). Investment, or the lack of it, in plant and equipment is easy to see while our PPP investment is less visible. Profitable and sustainable growth relies on the number and quality of our people, the range and differential advantage of our products and the robustness of our processes.

CREATE

Defensible technology leadership

Market position

Unique attributes

By investing in our technology, usually as an extension of our existing knowledge, we can differentiate from our competitors. Our market position is based around the uniqueness of our products and the advantages that brings to our customers. We are active in many markets, both geographical and across industries, and are well positioned to identify and deliver these benefits for users of Zotefoams products and technology. This is particularly important for MuCell Extrusion who license our patents and know-how.

DELIVER

Customer value

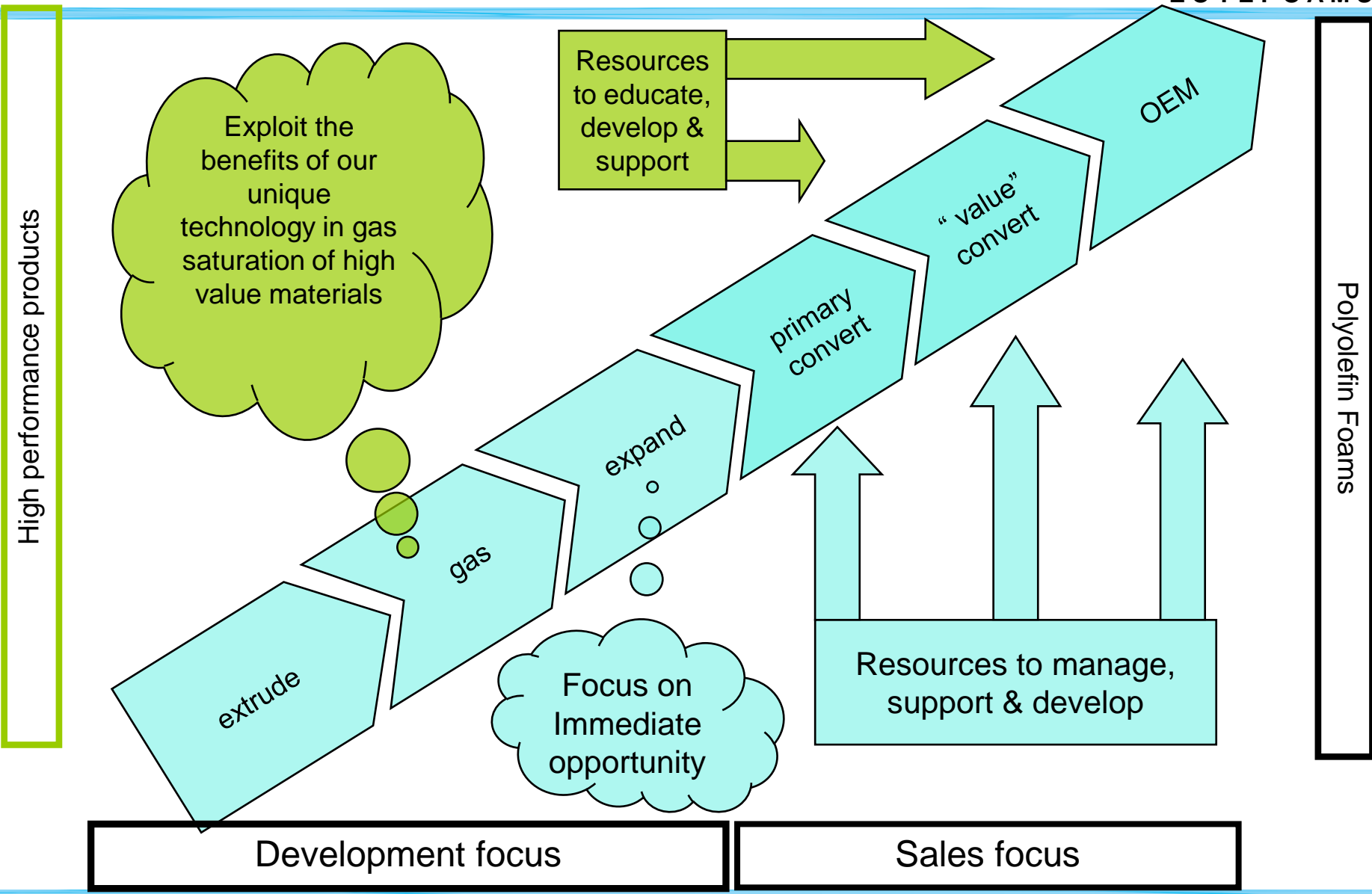
Sustainable margin

Accelerated growth

The delivery of customer value is at the heart of our business. Creating this value and charging the right price gives us sustainable margin. Over 80% of our business is with customers we were supplying five years ago and these customers are the bedrock of our success. Accelerated growth comes from continuing to deliver value on core products augmented by success in new and innovative areas.



Value Chain / Strategy



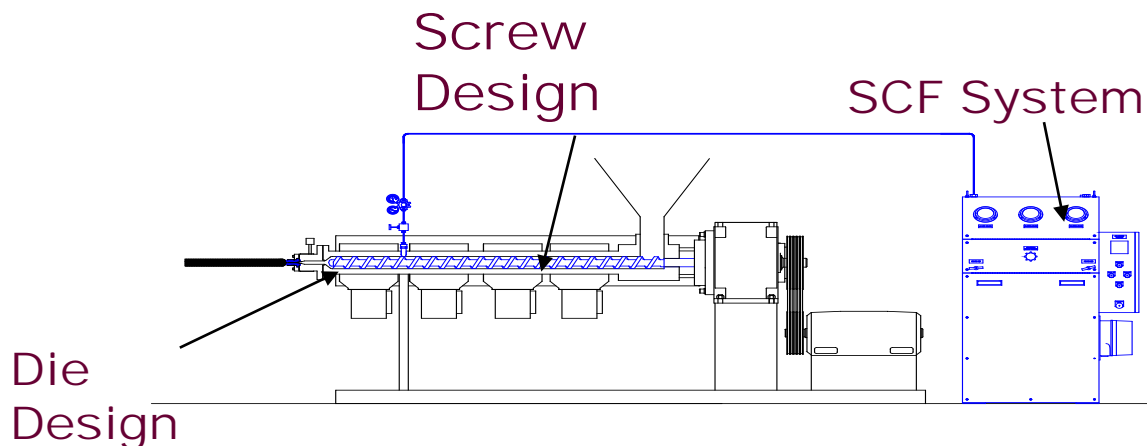


Financial History

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	2013	2012	2011	2010	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Sales	44.6	47.2	44.2	39.9	31.8	34.8	31.6	30.1	28.0
Sales growth	-5%	7%	11%	25%	-9%	10%	5%	7%	11%
PBT (excl exceptionals)	3.9	5.8	5.5	4.7	3.2	3.9	3.4	2.7	1.8
Exceptionals	0.0	0.0	0.0	0.6	(0.5)	0.0	0.0	(1.1)	1.5
PBT (incl exceptionals)	3.9	5.8	5.5	5.3	2.7	3.9	3.4	1.6	3.3
Cash generated from operations	6.6	6.3	6.1	7.2	7.0	5.8	4.8	4.7	4.1
Capex	4.1	3.7	2.7	2.7	3.4	1.4	2.7	2.6	1.1
Net (funds)/debt	1.1	0.6	(1.9)	(1.9)	0.4	1.2	1.7	1.4	1.1
Gearing	3%	2%			2%	4%	6%	6%	4%
Basic eps (excl exceptionals)	8.0p	11.8p	11.8p	10.2p	6.8p	8.3p	8.0p	5.4p	3.5p
Dividends	5.30p	5.20p	4.90p	4.65p	4.50p	4.50p	4.50p	4.50p	4.50p



MuCell® Technical & Business Process



Technical Process : Key items

Know How

- Material Formulation
- Processing

Patent Coverage

- Method & Apparatus
- Articles

Business Process

Trials

Machinery rental

Licence Negotiation

Licence finalisation

Machinery purchase and install

Application development

Application sales

Revenue basis

engineering support

rental fees

-

annual licence fee *

equipment sale

-

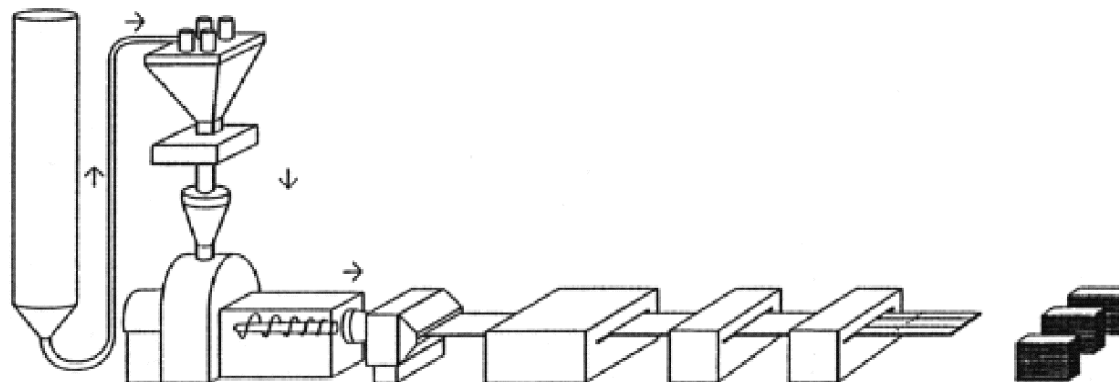
royalty (net of annual licence fee)



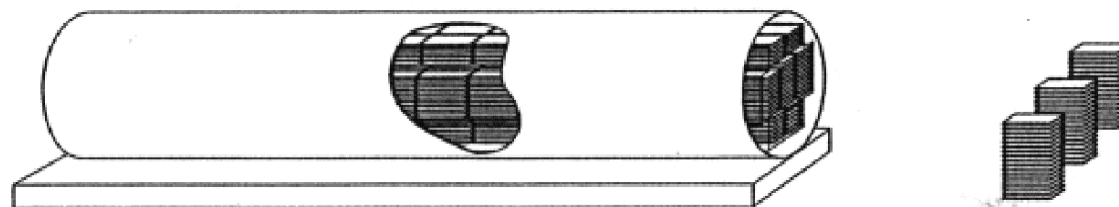
Zotefoams Process

Zotefoams Plc process

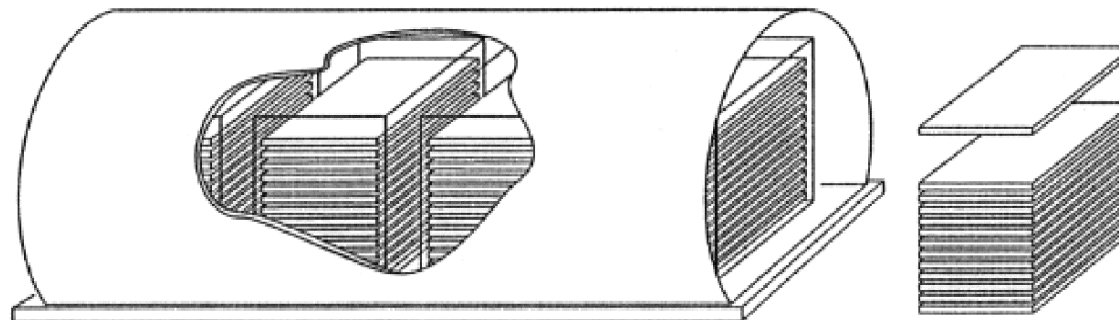
mixing and
extrusion



impregnation



expansion



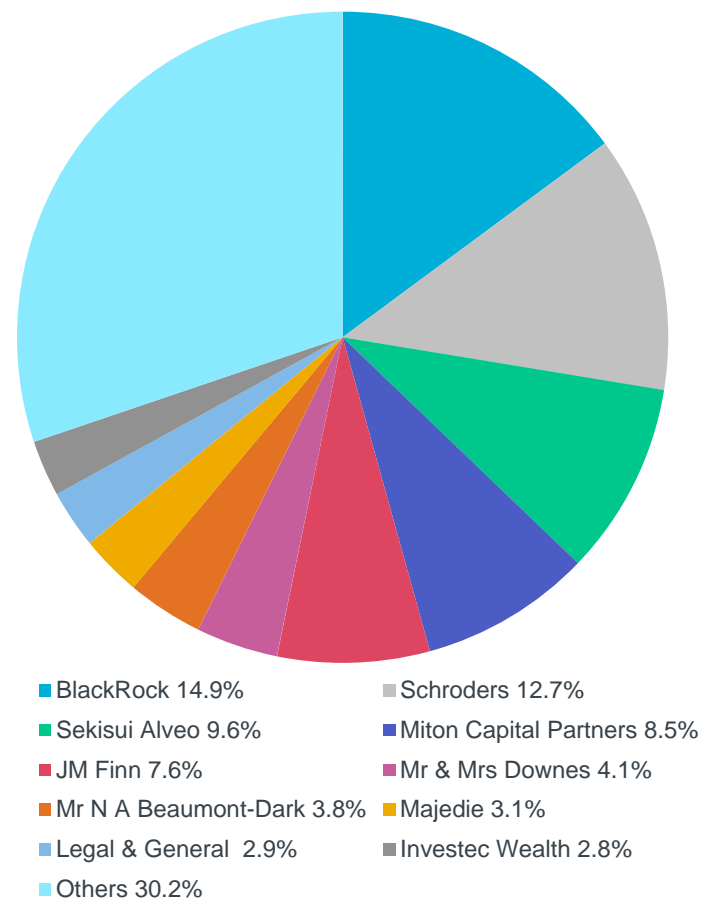


Key Information

- Share price 225p (08/08/14)
- Market Main Market
- Ticker ZTF.L
- Market cap. £89.6m
- Ord. shares in issue 39,831,312



Shareholder profile*



* Source: Investec Investor Relations (30/06/14)

Trademarks



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