



Scapa Group plc

2008/2009 Preliminary Results

Analysts' Presentation
28 May 2009

World Class Tape Solutions



Summary

- Trading loss of £1.0m driven by 9% fall in underlying annual revenues
- Major restructuring programme put in place at an exceptional cost of £5.2m
- Substantial investment in production equipment and systems - total expenditure £8.9m
- Annual savings from restructuring and investments approx £8.0m
- Strong cash focus with a year end net cash balance of £6.8m and £13.0m of unused committed facilities
- New strategic plan completed with OneScapa change programme under way

"The two halves of the year were remarkably different with a strong first six months followed by a second six where we experienced the full effects of the worldwide recession. The Group has taken prompt action to address the substantial volume shortfall in our markets by the introduction of a major restructuring programme and tightening already well-established cash controls."



Profit and loss account

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Sales	184.3	170.1	174.0
Trading Profit/(Loss) ⁽¹⁾	7.0	9.5	(1.0)
Exceptional items	8.7	(0.3)	(5.9)
Operating Profit/(Loss)	15.7	9.2	(6.9)
Bank interest and finance costs	(2.8)	(1.8)	(2.4)
Profit/(Loss) before tax	12.9	7.4	(9.3)
Tax credit/(charge)	0.4	(2.9)	20.2
Profit after tax	13.3	4.5	10.9
ROS (Trading Profit/(Loss) ⁽¹⁾ /Sales)	3.8%	5.6%	(0.6%)
Headline EPS (before exceptionals)	1.1p	3.3p	(1.2)p

⁽¹⁾ 'Trading Profit/(Loss)' is the Operating Profit/Loss before exceptional items



Profit and loss account

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Reported Sales	184.3	170.1	174.0
Impact of Disposals	(18.1)	-	-
Impact of FX	20.7	21.7	-
Underlying ⁽²⁾ Sales	<u>186.9</u>	<u>191.8</u>	<u>174.0</u>
Reported Trading Profit/(Loss) ⁽¹⁾	7.0	9.5	(1.0)
Impact of Disposals	(0.9)	-	-
Impact of FX	1.8	1.8	-
Underlying ⁽²⁾ Trading Profit/(Loss) ⁽¹⁾	<u>7.9</u>	<u>11.3</u>	<u>(1.0)</u>
Underlying ⁽²⁾ Return on Sales (%)	<u>4.2%</u>	<u>5.9%</u>	<u>(0.6%)</u>

⁽¹⁾ 'Trading Profit/(Loss)' is the Operating Profit/Loss before exceptional items

⁽²⁾ 'Underlying' adjusts for impacts of disposals and currency movements



Profit and loss account

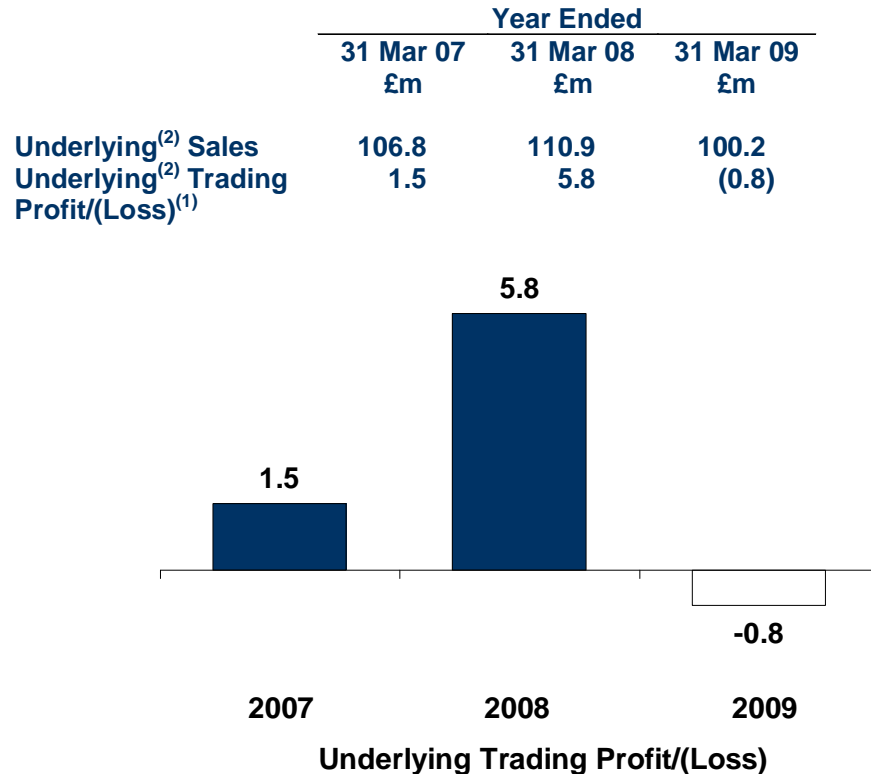
- Underlying sales contracted 9% in the year, with all of this contraction in the latter part of the year when volumes were 20% down on prior year
- Substantial exceptional items in this year's P&L:-
 - Charges of £5.2m in respect of restructuring costs and the closure of our Bellegarde site in France
 - Credits of £16.8m in respect of the recognition of deferred tax assets which the Group now expects to utilise following improved performance and outlook for UK trading and changes to internal capital structures
- Weaker markets included Automotive (10% of total revenues) which saw a 28% fall in the year (approx 50% in H2) and Industrial (38% of total revenues) which saw a 9% fall in the year (approx 15% in H2)
- Some markets showed more strength and resilience with Cable (9% of total revenues) and Sports (5% of total revenues) both increasing year-on-year by 6%
- Medical and Construction, almost 30% of our business, were flat year-on-year
- Group positioned to return to positive net cash flow on a steady state basis if volume continues 20% down

⁽¹⁾ *'Trading Profit/(Loss)' is the Operating Profit/Loss before exceptional items*

⁽²⁾ *'Underlying' adjusts for impacts of disposals and currency movements*



Segmental - Europe



- Underlying sales contracted by 9% - all of the contraction was in H2 with H1 sales being 2% above prior year
- Automotive 52% reduction in H2 sales and Industrial Assembly 20% reduction in H2
- Trading loss of £0.8m direct result of volume decline
- **Actions taken:-**
 - H2 restructuring has taken 81 staff out of the cost base, saving approx £3.0m p.a.
 - Bellegarde site to close in July 2009 with ~60 staff exiting the business, saving approx £3.0m p.a.
 - Working capital managed down aggressively to release £4.0m of cash

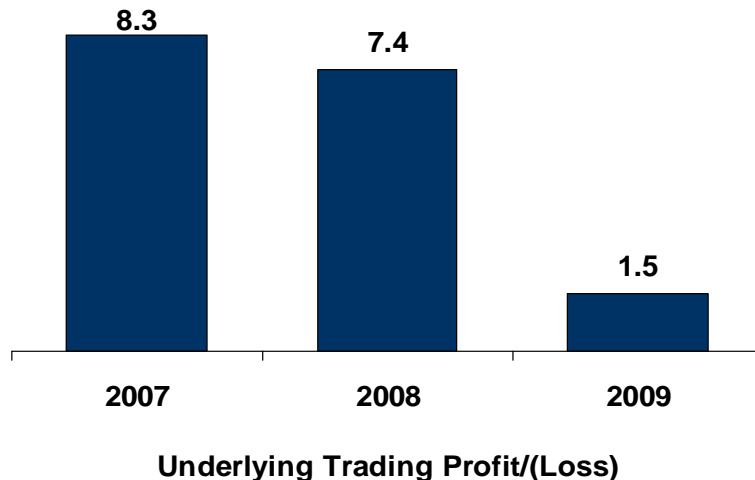
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⁽²⁾ 'Underlying' adjusts for impacts of disposals and currency movements



Segmental – North America

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Underlying ⁽²⁾ Sales	71.8	72.2	64.3
Underlying ⁽²⁾ Trading Profit/(Loss) ⁽¹⁾	8.3	7.4	1.5



⁽¹⁾ 'Trading Profit/(Loss)' is the Operating Profit/Loss before exceptional items

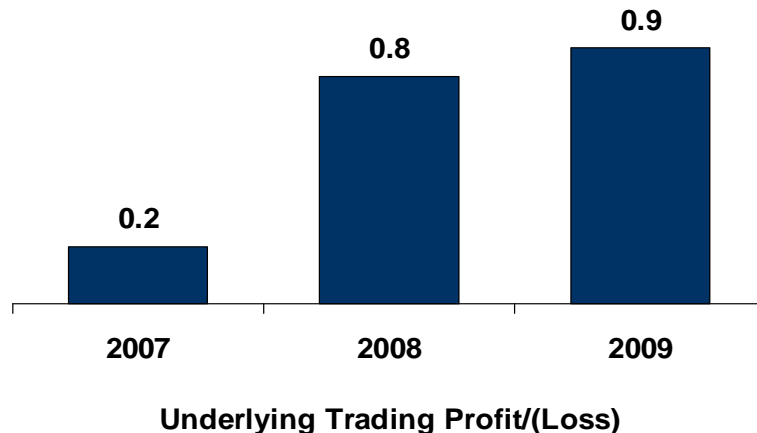
⁽²⁾ 'Underlying' adjusts for impacts of disposals and currency movements

- Underlying sales fell by 11% compared to prior year with H1 5% down and H2 18% down
- Trading profit again directly impacted by lower volumes
- **Actions taken:-**
 - Major cost reduction programme with 46 staff exiting, saving approx £2.0m p.a.
 - Investments in SAP and production equipment completed which enabled some of the cost reductions
 - Changes to shift patterns and plant manning levels
 - Working capital managed down in H2 with £1.8m of cash released



Segmental - Asia

	Year Ended		
	31 Mar 07	31 Mar 08	31 Mar 09
	£m	£m	£m
Underlying ⁽²⁾ Sales	8.3	8.7	9.5
Underlying ⁽²⁾ Trading Profit/(Loss) ⁽¹⁾	0.2	0.8	0.9



- 9% growth in underlying sales (H2 growth 6%, H1 was 12%)
- Trading profit up £0.1m (12.5%) with ROS maintained at 10%
- **Actions taken:-**
 - Additional resources allocated to permit further growth in China and India – the only areas increasing headcount
 - Moved to new expanded premises in Shanghai Free Trade Zone to further capitalise on growth opportunities
 - New R&D resource added to specifically support Asian opportunities

⁽¹⁾ 'Trading Profit/(Loss)' is the Operating Profit/Loss before exceptional items

⁽²⁾ 'Underlying' adjusts for impacts of disposals and currency movements



Interest, tax and earnings

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Interest receivable/(payable)	(0.5)	0.6	0.3
IAS 19 financing charge	(1.9)	(2.0)	(2.3)
Discount on provisions	(0.4)	(0.4)	(0.4)
Net financing charge	<u>(2.8)</u>	<u>(1.8)</u>	<u>(2.4)</u>
Tax (charge)/credit	<u>0.4</u>	<u>(2.9)</u>	<u>20.2</u>
Headline ⁽³⁾ EPS	<u>1.1p</u>	<u>3.3p</u>	<u>(1.2p)</u>

- Interest receivable down due to lower average cash balance and lower interest rates
- IAS 19 pensions financing charge consistent with higher discount rate
- Significant tax credit arising from first time recognition of deferred tax assets in the UK (£16.8m) in respect of future pension deficit contributions, accumulated trading losses and accelerated capital allowances
- Recognition of these assets is due to improved UK trading performance (and outlook) and previous changes to internal capital structures. These assets are now being utilised
- No expectation of a UK cash tax charge, however, for some significant time to come

⁽³⁾ *Headline EPS excludes the impact of exceptional items*



Cash flow

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Trading Profit/(Loss) ⁽¹⁾	7.0	9.5	(1.0)
Depreciation	5.0	4.3	4.8
Change in working capital	(1.3)	(0.4)	5.9
Exceptionals	(1.7)	(0.4)	(1.8)
Other	1.5	1.3	0.3
Cash flow from operating activities	10.5	14.3	8.2
Interest	0.5	0.6	0.3
Tax	(1.3)	(1.9)	(1.4)
Capital investment	(2.8)	(3.7)	(8.9)
Dividend	-	-	(1.1)
	6.9	9.3	(2.9)
Sale of business	23.1	-	-
Pensions	(5.7)	(5.5)	(6.3)
Asbestos	(0.5)	(0.6)	(0.7)
	23.8	3.2	(9.9)
Net cash	11.2	14.8	6.8

- Business operations generated £8.2m of cash despite the decline in trading profit and £1.8m of exceptional costs
- Tight management of working capital released £5.9m of cash
- Operating cash flows and cash reserves were used to fund:-
 - Capital expenditure of £8.9m
 - Pension contributions of £6.3m; £0.7m non-recurring increase due to 2 years PPF and Canada buy-out
 - Cash tax of £1.4m - will all be reclaimed in 2009/10
- Final s75 payment re the Irish subsidiary disposal was made early April 2009 (£0.7m)
- Asbestos litigation continues at low level

⁽¹⁾ 'Trading Profit/(Loss)' is the Operating Profit/Loss before exceptional items



Balance sheet

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Goodwill	9.8	9.7	13.5
Fixed assets	33.5	35.6	44.8
Operating working capital	26.0	27.7	28.6
Other provisions	(3.2)	(2.9)	(7.0)
Tax	2.1	0.8	26.4
	<u>68.2</u>	<u>70.9</u>	<u>106.3</u>
Provisions for asbestos litigation	(6.8)	(6.4)	(8.5)
Waycross deposit (\$10m)	5.1	5.0	7.0
Pension deficit	(58.3)	(43.1)	(49.3)
Net cash	11.2	14.8	6.8
Net assets	<u>19.4</u>	<u>41.2</u>	<u>62.3</u>
Net assets per share (p)	<u>13.4</u>	<u>28.5</u>	<u>43.0</u>

- Significant change in the Group's net asset position
- Impact of FX in the year £17.1m, with overseas assets and goodwill increasing in value, particularly fixed assets
- Deferred tax has been recognised for a number of assets – predominantly due to the improvement in the UK business and changes to internal capital structures
- Increase in pension deficit due to falling asset values outweighing reductions in liabilities



Pensions

	Year Ended		
	31 Mar 07 £m	31 Mar 08 £m	31 Mar 09 £m
Group deficit	<u>(58.3)</u>	<u>(43.1)</u>	<u>(49.3)</u>
UK deficit payment	3.3	3.4	3.5
S75 contribution	0.7	0.7	0.7
Admin & PPF (UK)	1.1	0.8	1.3
Overseas	0.6	0.6	0.8
	<u>5.7</u>	<u>5.5</u>	<u>6.3</u>

- IAS 19 deficit increased to £49.3m, an increase of £6.2m from prior year. Falls in asset values of £10.2m outweighed lower liabilities (£4.0m lower)
- Management continue to use a conservative discount rate which tends to track in the lower quartile of the market (0.1% change in discount rate affects deficit by £1.6m)
- Final s75 payment in the UK of £0.7m was paid in April 2009
- Total cash costs £0.8m higher than prior year due to additional PPF levy (2 years paid this year), Canada buy-out and RPI increases in contributions. £0.7m of this is non-recurring
- The new Triennial Review is now under way with a valuation date of 1 April 2009. The Company and Trustees are aligned on the Pensions Regulator's Guidance that a strong sponsoring employer, and hence the issue of affordability, is a key criterion in assessing future contributions



Asbestos litigation

	Year Ended		
	31 Mar 07	31 Mar 08	31 Mar 09
Cases outstanding	<u>19,313</u>	<u>18,360</u>	<u>14,234</u>
Provision for legal costs	<u>£6.8m</u>	<u>£6.4m</u>	<u>£8.5m</u>
Cash costs	<u>£0.5m</u>	<u>£0.6m</u>	<u>£0.7m</u>

- Over 4,000 cases dismissed this year, down from a peak of around 34,000 in 2004. Many cases now considered 'dormant'
- No cases settled by Scapa/Insurers (3 cases at appeal stage)
- Robust defence continues - next court case expected in autumn 2009
- Various insurances in place in the event of a settlement
- Agreement with insurers meant Scapa funded 25% of legal costs for the last three years (had been 50/50 share). Discussion under way to continue this arrangement
- Provision is for anticipated legal costs over the next 10+ years



Current trading

Markets

- Evidence of levelling off in activity - Automotive and Industrial
- Some sectors remain solid such as Cable, Medical and Asia generally
- It is still a challenging market and uncertain outlook set to remain that way for at least the first half of the year

Margins

- Oil prices more stable after the extreme volatility in 2008
- Overhead absorption and impact on operational gearing putting margins under pressure

Operations

- Bellegarde closure should be fully complete and savings realised by July 2009
- Capex investments should reap cost saving benefits in the year with savings budgeted and clearly targeted
- Production capacity now sized for current market volumes with scope for growth when market conditions improve



Summary

- Full impact of current world recession visible in 2008/09 performance
- Major restructuring programme put in place and this, together with recently completed investments gives a strong operational base
- Substantial cash reserves available to both weather the ongoing challenging market situation and provide a foundation for growth once business conditions improve

"Our new Vision, Values, and Strategic Plan are now in the process of being implemented throughout Scapa. These will be critical in the successful development of the Group over the next five years and give additional clarity and direction at this time of major challenge throughout the world economy. As we start the new financial year, the business outlook in most of our markets remains uncertain but we are confident that we will come through this with a stronger business for the future"



Scapa Group plc 2008/2009 Preliminary Results

Vision and Strategy Update

World Class Tape Solutions



Vision and Strategy

World class, inspired, market driven team, focused on optimising customer & shareholder value through responsible, agile delivery of specialist tape solutions



Vision and Strategy

We have a long term strategic plan in place to deliver our Vision. Examples of key initiatives already under way are set out below:

- **Commercial:**

- Implementing a Customer Relationship Management system (CRM)
- Sales excellence training rolling out to all sales staff
- Re-allocating resources to key focus markets such as Cable and Medical

- **Operations:**

- Lean disciplines being piloted in 3 sites, full roll out H2 2009/10. Focus is on waste using data sources now available from worldwide SAP platform
- Six Sigma methodology to start roll out in H2 2009/10. Initial emphasis will be on control and replicability of production processes



Vision and Strategy

Further initiatives include:

- **Technology:**
 - Investigating new technology platforms for new products
 - Re-allocation of R&D resource towards key focus markets
- **People:**
 - Performance Management and Appraisal system being implemented to allow total alignment of personal and Group objectives
 - In-depth 360 degree feedback and training being implemented for 50 senior managers

All of the initiatives above are being managed on a Group-wide basis in a Change Programme referred to as **OneScapa** – reflecting the integration and leverage of strengths across the various parts of the Group