Scapa Group plc

Interim Results Presentation – September 2020

Released: 17 November 2020

Scapa Group

AT A GLANCE

Scapa is a diversified Healthcare and Industrial group focused on bringing best-in-class innovation, design and manufacturing solutions to its customers.

Scapa has a market-leading depth of technical competence and expertise accrued with years of manufacturing experience.

HEALTHCARE

Scapa Healthcare is the trusted strategic partner of choice for the world's leading companies in Advanced Wound Care, Consumer Wellness and Medical Device Fixation. We partner with market leaders to design, develop and manufacture innovative medical device fixation and topical solutions to improve people's lives.

Our team of dedicated experts and full range of turn-key capabilities enable us to rapidly take a product from concept to market faster than many of our partners can do internally.

INDUSTRIAL

Scapa Industrial manufactures an extensive portfolio of adhesive bonding solutions, supplying a diverse range of market segments throughout Europe, North and South America and Asia.

Our **Engineered Products** business provides solutions for global customers in the Automotive, Cable and Specialty Products segments where demand is driven by approvals, specifications, localisation and technical solutions.

Our **Commercial Products** business includes the Construction and Consumer segments, both market environments with shorter lead times within a demand-driven supply chain.

GROUP REVENUE

£122.0m

(2019: £160.8m)

TOTAL TRADING PROFIT*

£5.5m

(2019: £14.2m)

REVENUE BY DIVISION

Healthcare

£55.1m

(2019: £74.7m)

Industrial

£66.9m

(2019: £86.1m)

TRADING PROFIT[1] BY DIVISION

Healthcare

£1.3m

(2019: £6.6m)

Industrial

£6.1m

(2019: £10.2m)

* Trading profit is before exceptional items, acquisition costs, amortisation of intangible assets and legacy pension.

1 Trading profit for the Group is £5.5m after charging £1.9m (2019: £2.6m) of corporate costs.

REVENUE AND PROFITABILITY EXPECTED TO CONTINUE TO IMPROVE IN H2

Successfully navigated through COVID-19 environment

- Experienced significant drop in demand at the onset of the pandemic
- As a designated essential business, maintained operations throughout the pandemic
- Implemented measures to prioritise the health and safety of employees while protecting our assets, customers, suppliers and shareholders
- Continue to support our customers during the pandemic and benefited as demands return
- Acted swiftly to mitigate effects on profit and cash
- Implemented targeted cost savings and leveraged government subsidies
- Net debt reduced due to reduction of working capital and proceeds from equity placement

Resilient portfolio of businesses and poised for growth

- Return to pre-COVID-19 demand levels in Industrial and encouraging progress in Healthcare
- Embedded much of the restructuring and acquisitions in Healthcare; improved cost basis
- Leverage the newly acquired capabilities and assets to grow existing and new customers
- Significant customer engagement despite difficult COVID-19 circumstances
- Restructuring and emphasis on operational excellence is driving improved cost basis for Industrial
- Momentum of H1 is continuing into Q3 in Industrial
- Focus on market share gain to continue the momentum beyond the recovery

FIRST HALF AHEAD OF COVID-19 PLAN

GROUP FINANCIAL HIGHLIGHTS

- Revenue declined 24.1% to £122.0m (2019: £160.8m)
- Revenue improved 23.0% sequentially Q1 to Q2 as demand begins to return to prior year level
- Trading profit[1] of £5.5m (2019: £14.2m) impacted by reduced volumes but offset by targeted cost savings
- Net debt of £40.4m (31 March 2020: £74.6m) includes IFRS 16 impact of £18.6m
- Adjusted net debt[2] of £21.8m (31 March 2020: £54.4m) due to reduction of working capital and proceeds from the equity placement in May 2020 of £31.6m
- EBITDA[3] leverage ratio of 0.7x
- Basic loss per share improved to 0.2p (2019: loss of 0.6p)

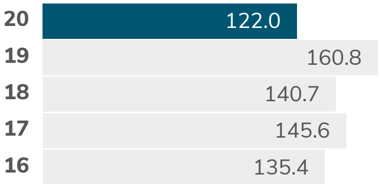
	30 Sept 2020		30 Sept 2019	
	Statutory Basis	Continuing Basis[4]	Statutory Basis	Continuing Basis[4]
Healthcare Revenue	**55.1**	**51.4**	74.7	71.1
Industrial Revenue	**66.9**	**66.9**	86.1	86.1
Scapa Group Revenue	**122.0**	**118.3**	160.8	157.2
Healthcare Trading Profit	**1.3**	**(2.3)**	6.6	3.0
Industrial Trading Profit	**6.1**	**6.1**	10.2	10.2
Corporate Costs	**(1.9)**	**(1.9)**	(2.6)	(2.6)
Scapa Group Trading Profit	**5.5**	**1.9**	14.2	10.6
Healthcare Trading Margin	**2.4%**	**(4.5)%**	*8.8%*	*4.2%*
Industrial Trading Margin	**9.1%**	**9.1%**	*11.8%*	*11.8%*

[1]Profit before net finance costs, exceptional items, amortisation of intangible assets, acquisition costs and legacy pension costs
[2]Adjusted net debt excludes lease liabilities
[3]EBITDA comprises trading profit before depreciation for the last 12 months
[4]Group results before the impact of IFRS 15 provision release for the Systagenix acquisition

TRADING PROFIT IMPACTED BY LOWER VOLUMES

Group revenue (£m)

£122.0m

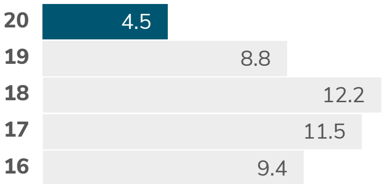


Trading profit (£m)

£5.5m

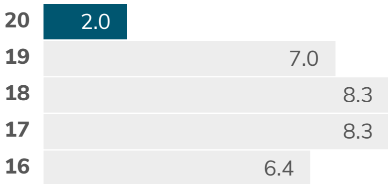
Margin %

4.5%



Adjusted earnings per share (p)

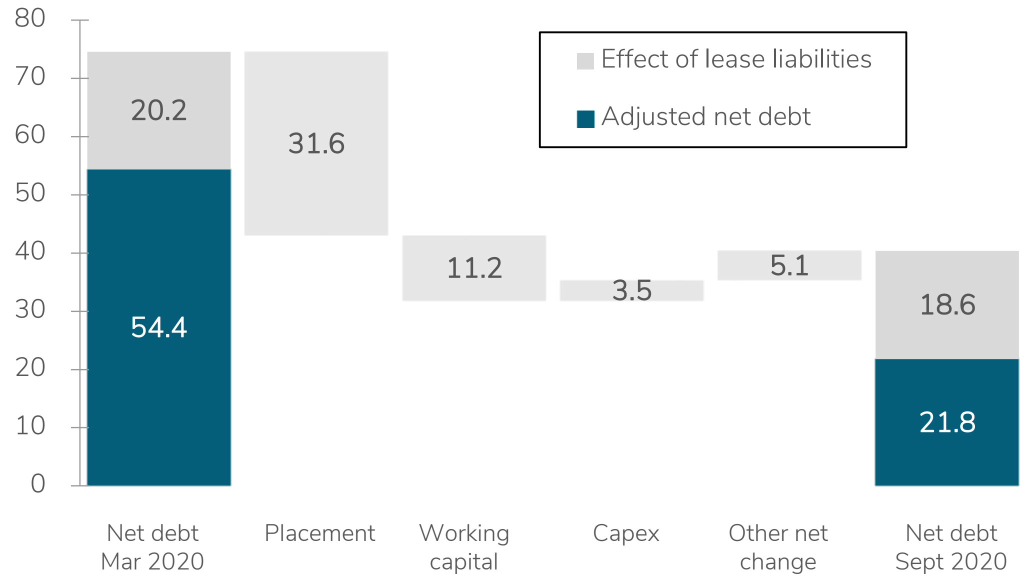
2.0p



	30 Sept 2020 £m	30 Sept 2019 £m
Revenue	**122.0**	160.8
Trading profit	**5.5**	14.2
Margin %	**4.5%**	8.8%
Amortisation of intangibles	**(1.4)**	(3.0)
Exceptional items	**(2.8)**	(10.6)
Acquisition costs	**-**	(0.1)
Pension administration costs	**(0.3)**	(0.4)
Operating profit	**1.0**	0.1
Finance costs	**(1.5)**	(1.1)
Loss before tax	**(0.5)**	(1.0)
Taxation	**0.1**	-
Loss for the period	**(0.4)**	(1.0)
Basic EPS (p)	**(0.2)**	(0.6)
Adjusted EPS (p)	**2.0**	7.0
On a continuing basis		
Revenue	**118.3**	157.2
Trading profit	**1.9**	10.6
Adjusted EPS (p)	**(0.1)**	4.6

NET DEBT IMPROVEMENT DRIVEN BY PLACEMENT, CAPEX AND WORKING CAPITAL MANAGEMENT

Net debt bridge (£m)



Cash from operations (£m)

	30 Sept 2020 £m	30 Sept 2019 £m
Operating profit	**1.0**	0.1
Depreciation and amortisation	**7.4**	8.7
Working capital movement	**11.2**	8.2
Other non cash items including impairment	**(1.7)**	4.2
Free cash flow	**17.9**	21.2
Pensions	**(2.6)**	(2.3)
Exceptionals	**(6.0)**	(5.4)
Net cash flow from operations	**9.3**	13.5

In summary

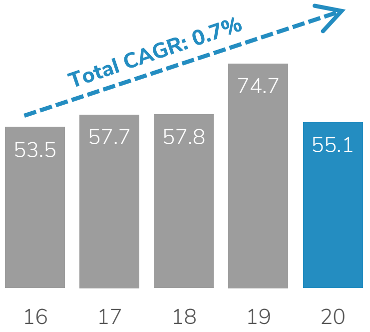
- Net debt improvement of £34.2m includes the net proceeds from the placement of £31.6m and strong working capital management
- Capex spend reduced to £3.5m in the first half of the year with some delays due to the impact of the pandemic
- Other net changes include £2.2m for the UK CAR pension payment

HEALTHCARE

EMBEDDED THE RESTRUCTURING AND ACQUISITIONS

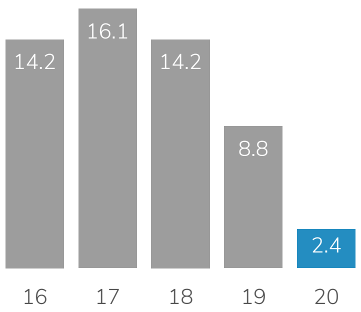
Revenue (£m)

£55.1m

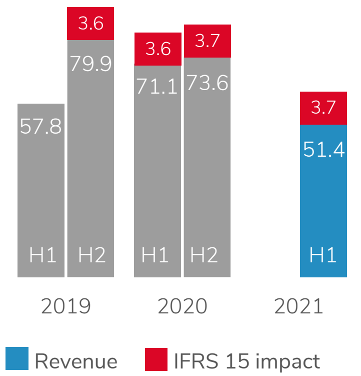


Trading margin (%)

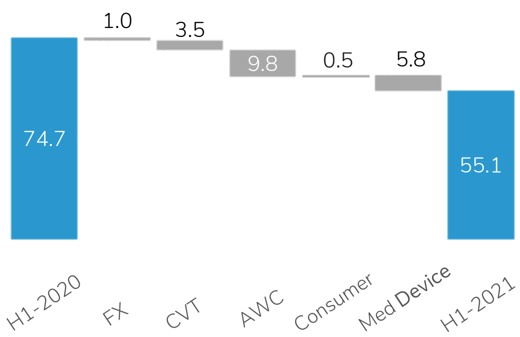
2.4%



Revenue (£m)



Revenue Bridge (£m)



- Revenue decreased 26.2% to £55.1m (2019: £74.7m) with declines seen in Wound Care and Medical Devices
- Consumer grew 2.9% driven by two technology transfers completed in Q3
- Demand across the segments has been impacted by the postponement of elective surgeries and reduced footfall across the retail channels;
- Early signs of improvement in Q3, albeit cautious given the recent resurgence of COVID-19
- Trading profit decreased to £1.3m (2019: £6.6m); impact of lower volume offset by targeted cost control and government subsidies
- Closures of Dunstable and Inglewood completed; cost benefit from right-sizing and the closures expected in H2

FOCUS ON EFFICIENCY AND INVESTMENT

- Embed restructuring
  - Finalised two tech transfers into Knoxville
  - Closure and transfer of Dunstable and Inglewood completed
  - Normalised demand profile expected in H2
  - H1 demand impacted by safety stock in the supply chain during the restructuring and a major customer's destocking
  - TSA related to the Gargrave acquisition essentially completed; IT systems transitioned to SAP
  - Upgraded BioMed quality system
  - Restarted Ramsbury transfer
  - Right-sizing completed along with realignment of the organisation to drive focused execution
  - New leadership team delivering operational excellence

- Reignite profitable growth
  - Leverage the newly acquired capabilities and assets to grow existing and new customers
  - Focus on expanding into Class III products (e.g., hemostatics and implantables)
  - Leverage full service offerings and capacity (e.g. Quality & Regulatory and Sterilisation)
  - Actively marketed through digital tools and social media
  - Held numerous virtual innovation sessions yielding four new development opportunities
  - Robust customer engagement and quotes including tech transfers
  - Building pipeline of corporate development opportunities focusing on enhancing scale, technical capabilities, innovation and IP

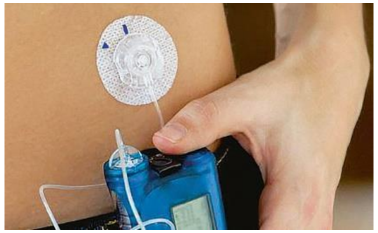
SEGMENT HIGHLIGHTS

ADVANCED WOUND CARE

- Declined 37% driven by postponement of elective surgeries and safety stock adjustment at 3M
- Excluding the impact of ConvaTec, revenue declined 31%
- Insourced a Class III active pharmaceutical component for key product range further strengthening our relationship with a key customer
- Awarded development contract for a range of active superabsorbent products for a major OEM/ distributor
- Awarded development contract for two new professional skin care products for a major OEM/ distributor
- Launched new anti-microbial active wound gel product

CONSUMER WELLNESS

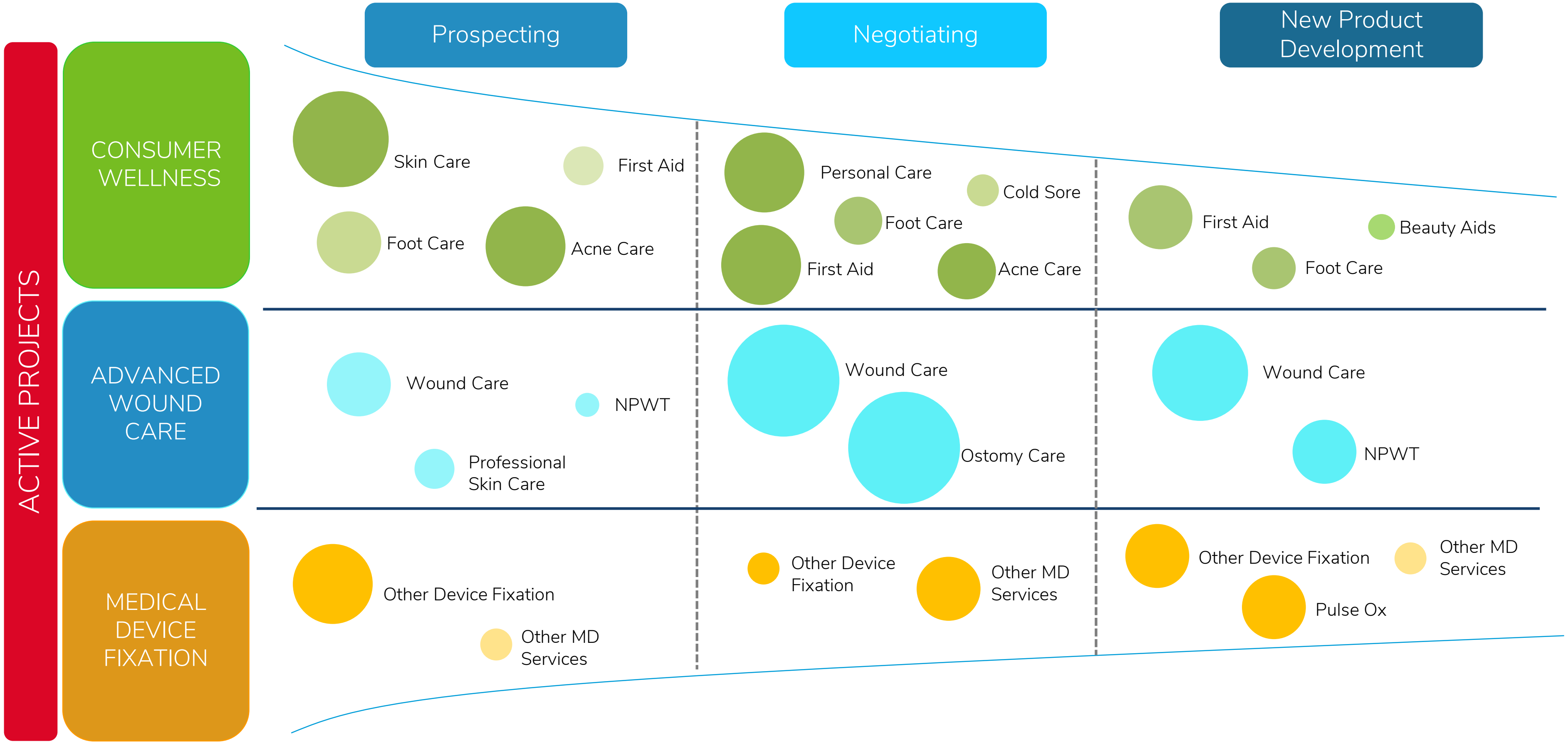
- Grew 3% despite the reduction of footfall in the retail channels driven by two tech transfers
- Excluding the impact of the tech transfers, revenue declined 6%
- Embedded two tech transfers from major consumer OEMs
- Robust customer engagements as many brand portfolios are reviewed by global consumer companies
- Launched product line expansion into major US retailer for OEM customer
- Launched private label product line expansion for customer with major e-commerce platform



MEDICAL DEVICE FIXATION

- Declined 37% driven by the safety stock in the supply chain from the closure of Inglewood
- Adjusting for safety stock builds for the transfer, revenue declined 9%
- Completed qualification product builds for final stage clinical evaluation trials for new pulse oximetry product

ROBUST PIPELINE DURING COVID-19 PANDEMIC



Comments:

- £12.9m annualised revenues generated from NPD initiatives
- We are seeing an increase in the number of opportunities; we are quoting across all categories led by Consumer Wellness
- Managing extended NPD delays through customers' clinical trials; we are seeing clinical trials coming back in H2
- Onshoring opportunities in early stages of formation; we anticipate this trend to pick up in the near term


Professionals
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des professionnels
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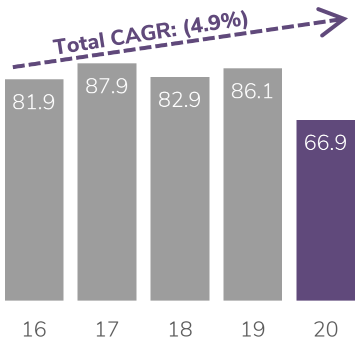
INDUSTRIAL

REINVIGORATED OUR SELF-HELP AGENDA

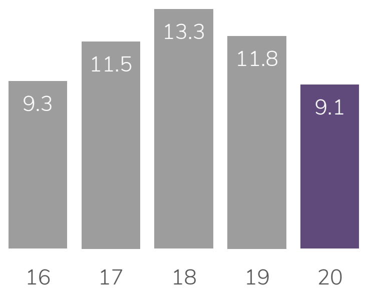
Revenue (£m)

£66.9m

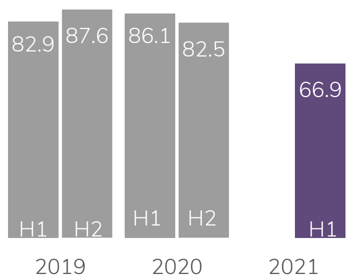


Trading margin (%)

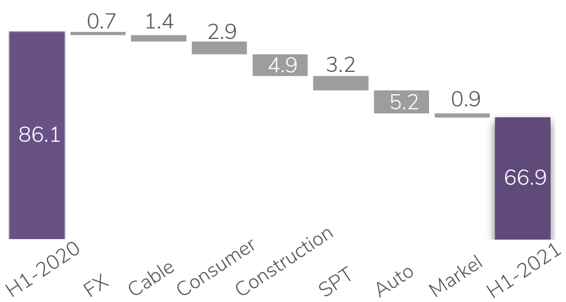
9.1%



Revenue (£m)



Revenue Bridge (£m)



- Revenue decreased 22.3% to £66.9m (2019: £86.1m); demand has recovered to pre-COVID-19 levels at the end of Q2
- The recovery from Q1 has been seen across all segments and geographies, particularly in Construction and Automotive
- Trading profit decreased to £6.1m (2019: £10.2m)
- Trading margins reduced to 9.1% (2019: 11.8%); impact of lower volume offset by focused cost control, portfolio management and positive product mix
- New programme wins in Automotive, Cable and Consumer
- Expanding beyond tapes including facemasks, antibacterial wipes and eco-friendly roofing solutions

REALIGN TO THE COVID-19 WORLD AND POSITION FOR RECOVERY

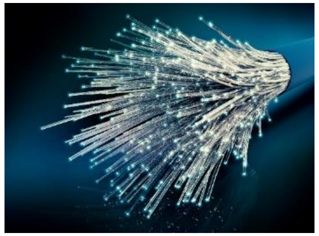
- Back to self-help
  - Streamline organisation
  - Targeted cost and cash control
  - Drive operational and supply chain excellence
  - Emphasis on specific geographies and markets to drive margin improvement
  - Portfolio and pricing review
  - Improved cost basis and margin profile

- Customer engagement
  - Drive digital engagement – e-campaigns, social media, webinars
  - Active and localised engagement during lockdown
  - Proactive supply chain management in the recovery of demand
  - Expand beyond core offerings
  - Increase market share within existing customers
  - Focus on market share gain to continue the momentum beyond the recovery

SEGMENT HIGHLIGHTS

AUTOMOTIVE

- Q1 revenue down 72% during lockdown
- Strong recovery in Q2
- New platform wins contributing to above last year recovery
- Design wins at Opel platforms leveraging the relationship with PSA
- Approvals with major OEMs for India manufactured products



CABLE

- Relatively stable demand during H1
- Expect pick-up as five major offshore projects are expected to start in H2
- New fire retardant product range launches for Construction Product Regulation (CPR) market across Europe
- Developed low temperature insulation and protection tapes for Cable accessory market
- Ten new approvals with key OEM partners in new projects
- Ramping resources to support our partners' expansion in USA given the anticipated focus on renewable energy

CONSTRUCTION

- After initial lockdown, demand has been robust
- Both Europe and North America returned to prior year demand towards the end of Q2
- Developed eco-friendly roofing system solution
- Introduced range of COVID-19 safety products
- Expansion of flame retardant tape products into Construction applications
- Growth in Construction sheeting products in North America

CONSUMER

- Barnier® in France recovered strongly in Q2 after drop-off during first lockdown
- Continued expansion of Beyond Tapes including antibacterial wipes and facemasks
- Consumer in India resumed late Q2 after lockdown
- Introduced range of locally manufactured PVC products in India
- Received commitment to supply a major retailer in North America with Renfrew™ hockey products
- Official supplier to NHL for 2020 Stanley Cup playoffs
- Expanding into athletic tapes beyond hockey

SPECIALTY

- Revenue declined 21% driven by downturn in skis and print & graphics markets
- Focus on arts and crafts market with our range of transfer and gaffer products
- Repositioning Markel as antibacterial products for medical markets

GROUP

FIRST HALF RESULTS AHEAD OF EXPECTATION

Revenue and profitability expected to continue to improve in the second half

HEALTHCARE

- Embedded restructuring and acquisitions
- Right-sizing completed along with realignment of the organisation to drive focused execution
- New leadership team delivering operational excellence
- Leverage the newly acquired capabilities and assets to grow existing and new customers
- Robust customer engagement and quotes including tech transfers
- Building pipeline of corporate development opportunities

INDUSTRIAL

- Resilient portfolio of businesses
- Excellent operational focus to mitigate volatility
- Leverage the expertise in unique adhesive technologies and excellent market position
- Focus on market share gain to continue the momentum beyond recovery
- New programme wins reflect the opportunities

OUTLOOK

- Return to pre-COVID-19 demand levels in Industrial and encouraging progress in Healthcare are driving further sequential momentum in Q3
- Whilst uncertainty remains given the recent global resurgence of COVID-19 infections, revenue in both divisions in H2 is expected to exceed H1, with earnings benefitting from additional volumes and cost improvement programmes already implemented in H1
- As a result of this momentum, we continue to track ahead of our COVID-19 plan

Q&A

APPENDICES

Balance sheet

	30 Sept 2020 £m	30 Sept 2019 £m
Goodwill and intangible assets	**61.4**	119.7
Fixed assets	**92.3**	95.4
Working capital	**42.5**	57.8
Other	**(2.1)**	(10.3)
Provisions	**(28.6)**	(39.5)
Tax	**(3.3)**	(5.1)
Pension deficit	**(5.8)**	(6.4)
Deferred tax on pensions	**1.6**	1.3
Net pension deficit	**(4.2)**	(5.1)
Net debt	**(40.4)**	(69.7)
Net assets	**117.6**	143.2

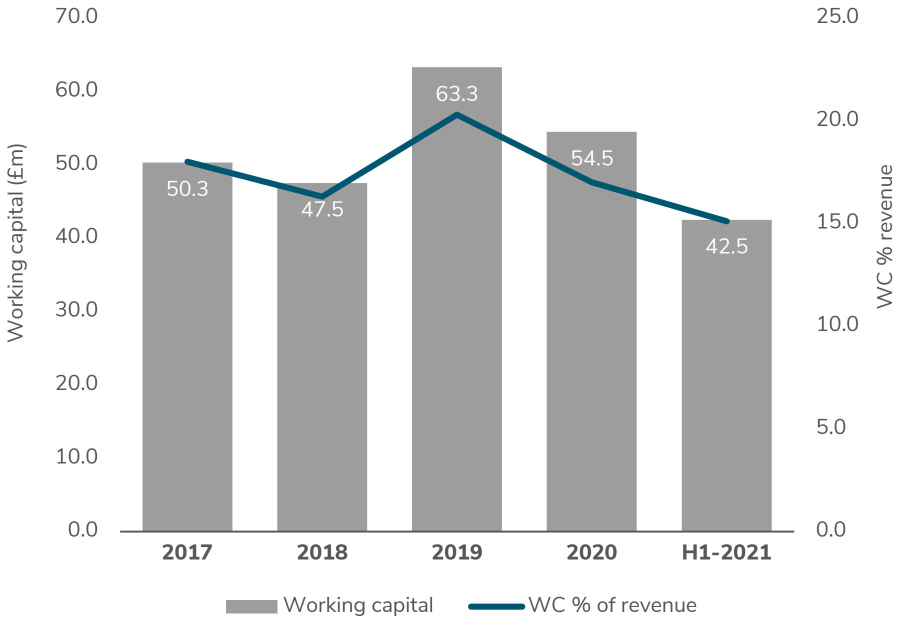
- Goodwill and intangible assets reduced following the impact of impairments booked in March 2020 (£54.3m) and annual intangible amortisation (£5.8m)
- Fixed asset decrease due to write-offs at 31 March 2020 of £0.3m and annual depreciation charge of £6.0m
- Working capital reduction as a response to the COVID-19 pandemic and the focus on strong cash management
- Net debt includes lease liabilities of £18.6m for IFRS16

Impact of FX

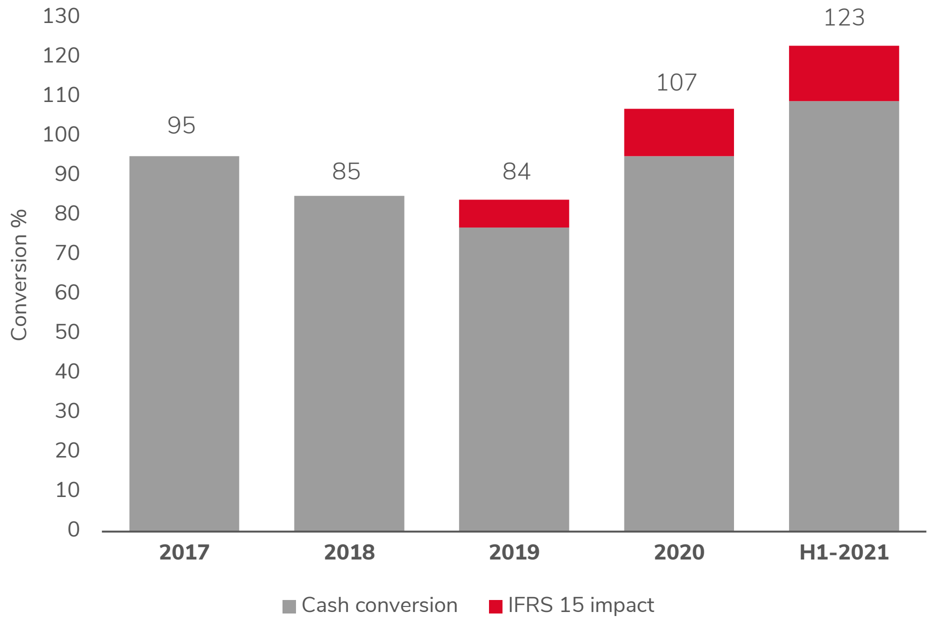
	% Revenue	Average Rate H1-2021	Average Rate H1-2020	Currency Effect
EURO	22%	**1.11**	1.13	2.0%
USD$	35%	**1.26**	1.26	-
CAD$	10%	**1.72**	1.68	(2.3)%
Group				(0.4)%

Working capital and cash conversion

Working capital



Cash conversion[1]



Bank covenants[2]

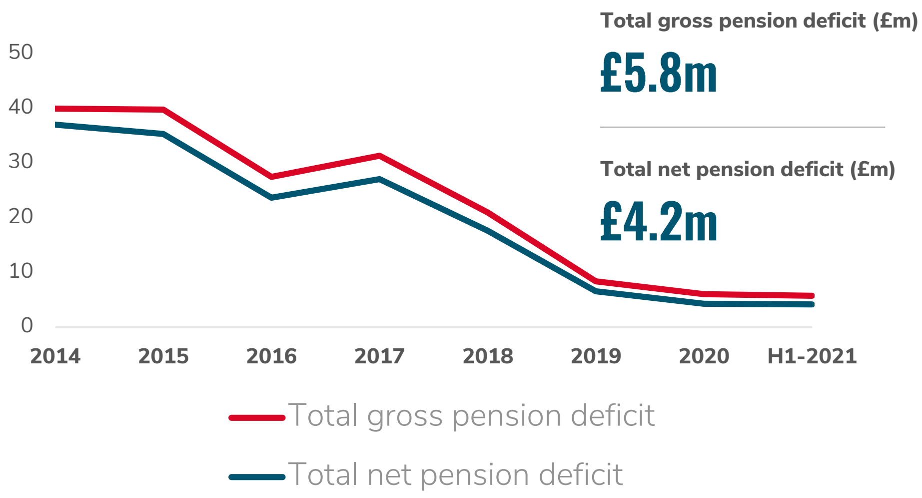
	Covenant	30 Sept 2020
Interest cover	> 4:1	18.9
Net debt/EBITDA	< 3:0	0.7
Minimum EBITDA	> £13.5m	£31.3m
Liquidity	> 1.5x	16.6

[1] Cash conversion defined as net cash flow from operations before exceptional items, divided by EBITDA. EBITDA is calculated on a continuing basis resulting in an adjusted H1-2021 cash conversion of 123%.

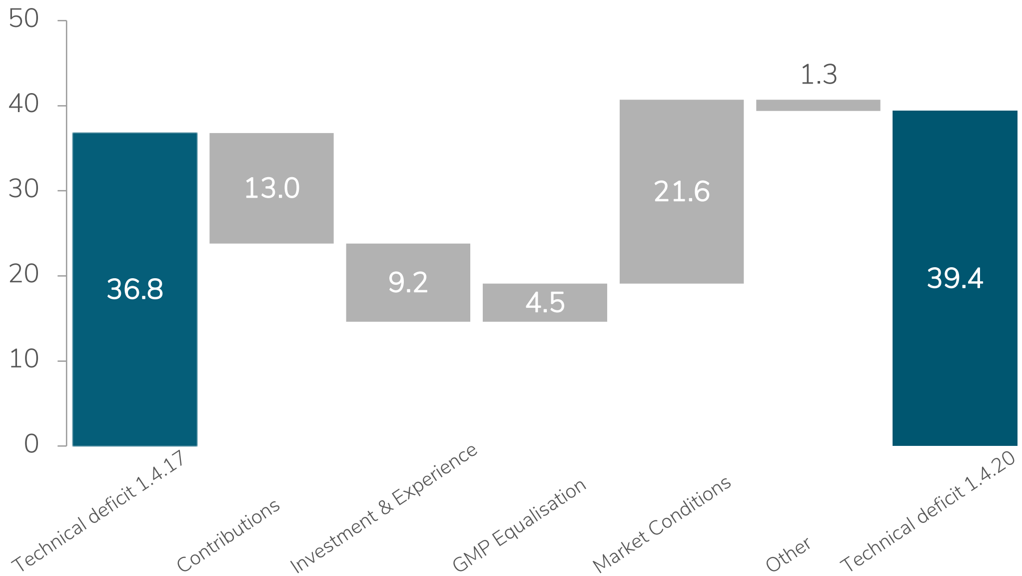
[2] Bank covenants on frozen GAAP

Pensions

Total pension deficit (£m)



Draft triennial valuation – UK Pension Scheme (£m)



- Continued improvement in the overall deficit reducing from £6.1m at 31 March 2020 to £5.8m at 30 September 2020
- The March 2020 CAR contribution payment of £2.0m was deferred following agreement from the UK Trustee and has been paid into the scheme in October 2020; the usual contribution of £2.2m was paid to the UK scheme in September 2020

- The triennial valuation for the UK scheme was due on 1 April 2020 – given the considerable deterioration in market conditions on 1 April 2020 due to COVID-19, a higher technical provisions calculation is likely. The draft valuation result is a technical provisions deficit of £39.4m, a deterioration of £2.6m which given the significant market movements is a good result overall

Effective tax rate

	30 Sept 2020 £m	30 Sept 2019 £m
Loss before tax	**(0.5)**	(1.0)
Tax credit	**0.1**	-
Headline effective rate	**20.0%**	0.0%
Trading profit	**5.5**	14.2
Interest on bank borrowings	**(0.8)**	(0.8)
Adjusted profit before tax	**4.7**	13.4
Tax on operating activities	**(1.2)**	(2.6)
Underlying effective rate	**25.5%**	19.4%

Tax charge

	30 Sept 2020 £m	30 Sept 2019 £m
Loss before tax	**(0.5)**	(1.0)
Tax at 19%	**0.1**	0.2
Movements in unprovided deferred tax	**(0.4)**	0.8
Effect of overseas tax rates	**(0.4)**	(0.5)
Change in tax rate	**-**	(0.1)
Other items	**0.8**	(0.4)
Tax credit	**0.1**	-

In summary

- The underlying effective tax rate of 25.5% is a blended rate resulting from the mix of profits in the major territories in which we operate – principally the US, Canada, France and UK
- This blended rate tends to be higher when profits are concentrated in Canada (headline tax rate c.30%) and France (28%), and lower when profits are predominantly in the US (21%) and UK (19%). This is particularly the case given the availability of unrecognised tax losses in the UK
- Our tax strategy is designed to both enhance shareholder value whilst at the same time ensuring that we do not enter into arrangements that are artificial in nature. We also take advantage of any in-country tax incentives, and file R&D tax credit claims in the UK, US and France

Adjusted EPS

	30 Sept 2020 £m	30 Sept 2019 £m
Trading profit	**5.5**	14.2
Interest on bank borrowings	**(0.8)**	(0.8)
Tax on trading activities	**(1.2)**	(2.6)
Adjusted profit after tax	**3.5**	10.8
Shares in issue (no.)	**179.3**	155.0
Adjusted EPS (p)	**2.0p**	7.0p