Scapa Group plc

Preliminary Results FY17

Investor Presentation

Scapa Group plc

Scapa is a global supplier of bonding solutions and manufacturer of adhesive-based products for the Healthcare and Industrial markets.

Healthcare

£108.7m Revenue

15.3% margin

7 locations

611 employees

Industrial

£170.9m Revenue

10.4% margin

16 locations

645 employees

Financials

- Revenue up 13.3% (1.7% constant fx)
- Trading profit increased 37.1% (18.2% constant fx)
- Trading profit margin up to 10.4%
- Adjusted earning per share up 39.6%
- Dividend increased 14.3% to 2.0p
- Net debt of £16.1m after paying US$35m (£28.3m) for the acquisition of EuroMed, Inc.

Operational Highlights

Healthcare

- Revenue increased 16.5% to £108.7m; 5.0% constant fx
- Trading profit increased 18.6% to £16.6m; 4.4% constant fx
- FY margins at 15.3%; H2 margins 16.3%
- Healthcare acquisition of EuroMed, Inc.; fully integrated
- Three-year contracts renewed with two key OEMs
- £200m of revenue contracted

Industrial

- Trading profit increased 66.4% to £17.8m; 45.9% constant fx
- Margins increased to 10.4%
- Swiss facility closed on time and on budget; delivered £1.0m profit benefit in H2 and expect to deliver additional £1.0m in H1 FY18
- Sale of Swiss land and building progressing; proceeds should exceed initial estimates
- Exiting Korean production

FY17 Financial Summary

	2017 March £m	2016 March £m	Increase	Constant FX Increase
Revenue	**279.6**	246.7	+ 13.3%	+1.7%
Trading profit	**29.2**	21.3	+37.1%	+18.2%
PBT	**21.8**	9.8	+122.4%	+84.7%
Adjusted EPS	**14.8p**	10.6p	+39.6%	+18.4%
Dividend	**2.0p**	1.75p	+14.3%	N/A
ROCE %	**17.0%**	15.7%		
Net Debt / EBITDA	**0.5x**	0.1x		

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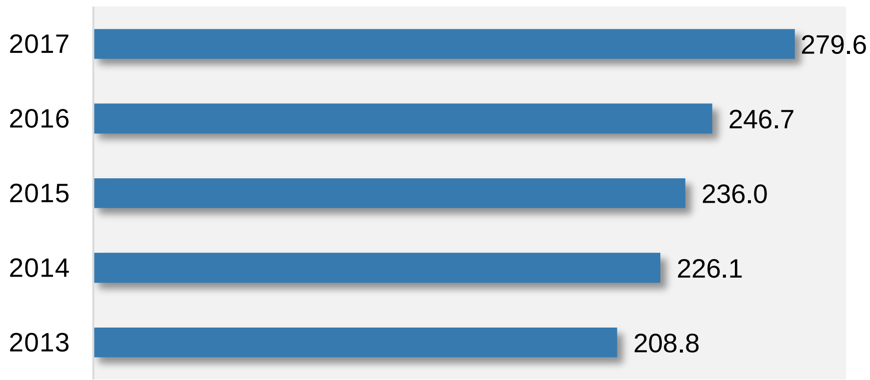
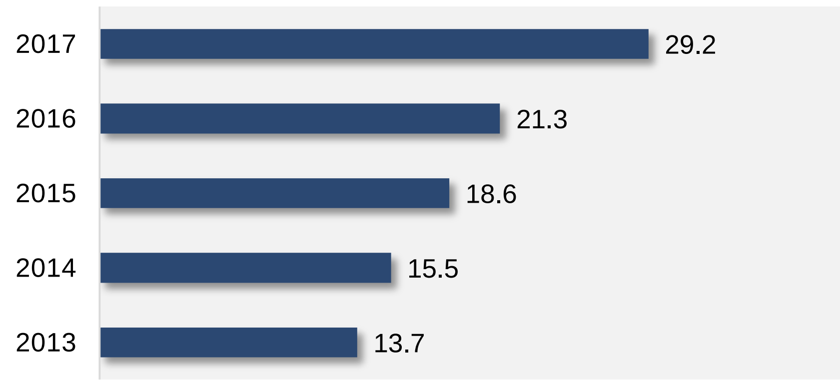
Financial Progress

Revenue £m



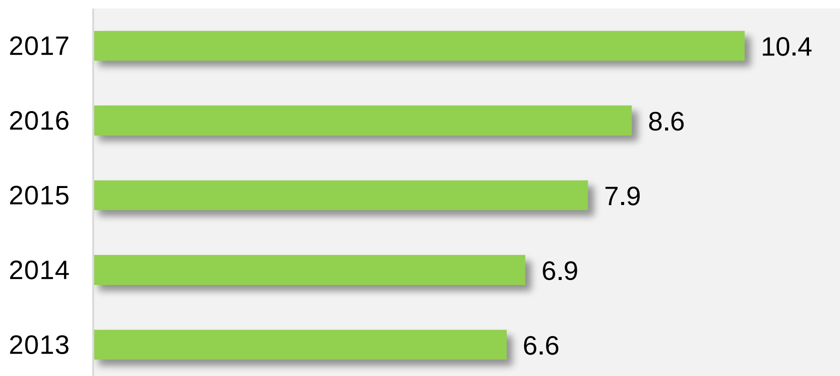
2017: 13.3%

Trading Profit £m



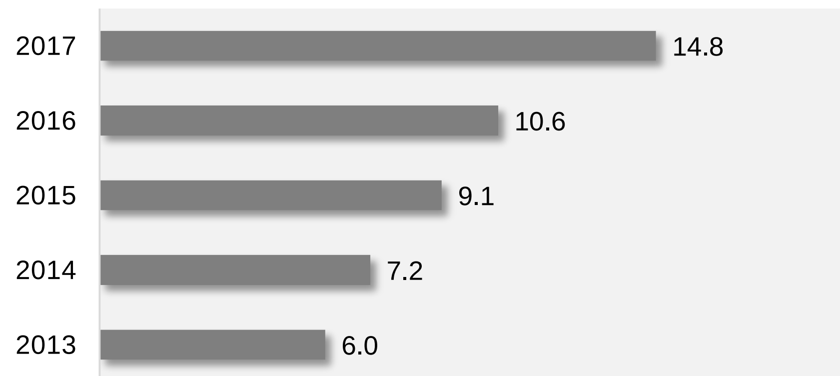
2017: 37.1%

Trading Profit Margin %



2017: 180bps

Adjusted EPS (p)

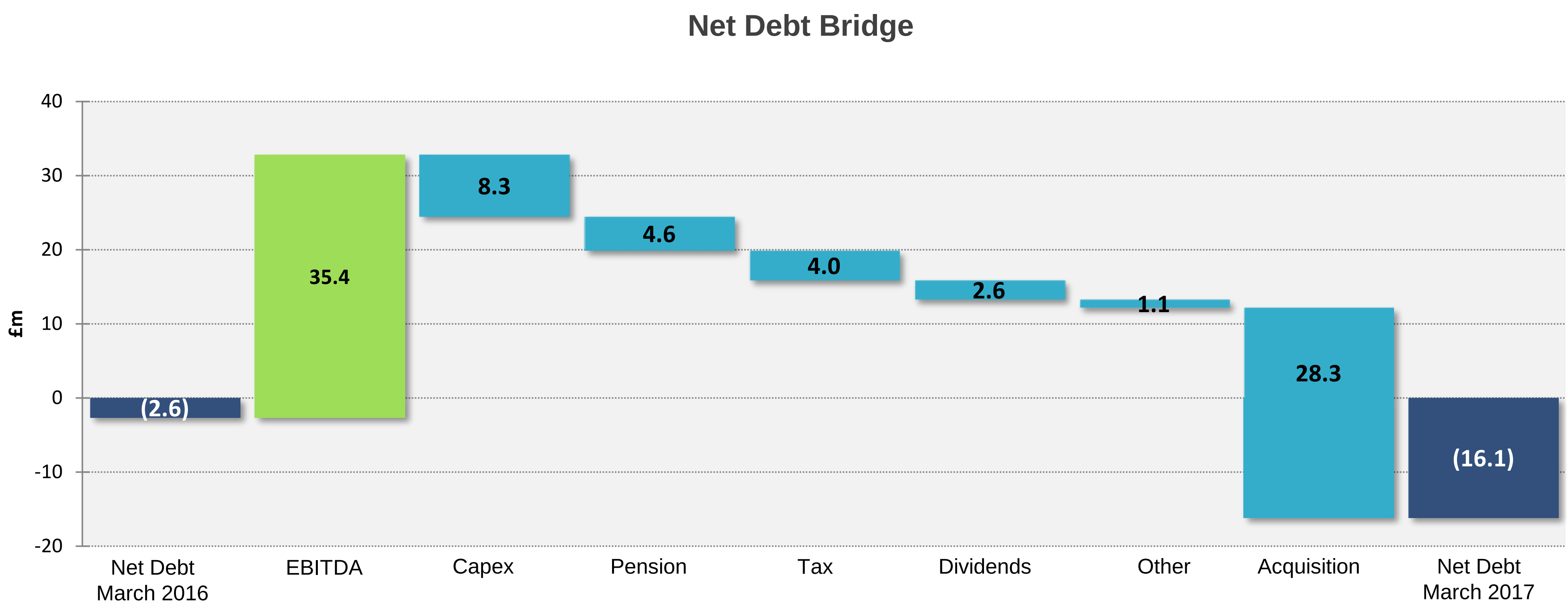


2017: 39.6%

Income Statement

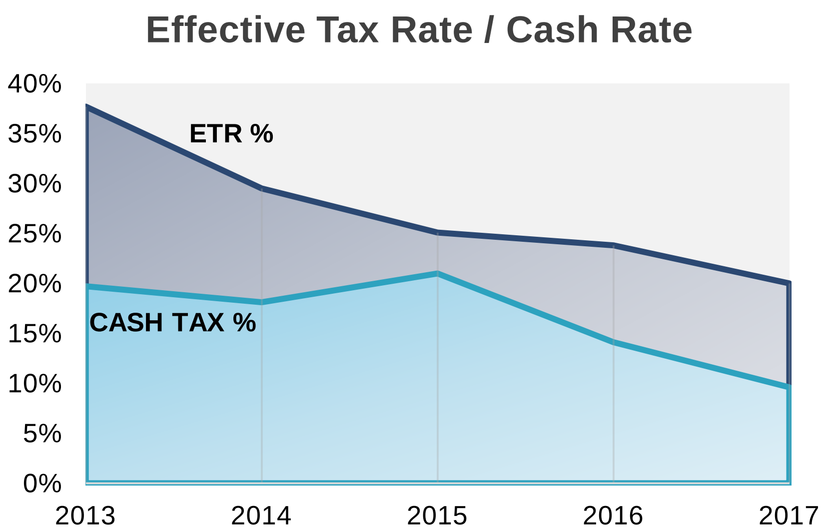
	2017 March £m	2016 March £m	
Revenue	**279.6**	246.7	○ Revenue increased 13.3% (1.7% constant fx)
Trading profit	**29.2**	21.3	○ Trading profit increased 37.1% (18.2% constant fx)
Margin %	**10.4%**	8.6%	○ Trading margins increased by 180bps
Amortisation of intangibles	**(3.7)**	(2.3)	○ Amortisation includes EuroMed intangible assets from May 2016
Exceptional items	**(1.0)**	(6.6)	○ Exceptionals: Costs £0.6m EuroMed acquisition and £0.7m Swiss closure, offset by £0.3m Pension gain
Pension administration costs	**(0.7)**	(0.7)	
Interest payable - cash	**(1.2)**	(0.7)	○ EuroMed borrowings increased interest cost
Interest payable - non cash	**(0.8)**	(1.2)	○ Non-cash interest (IAS 19R) decreased – lower discount rate
Taxation	**(4.2)**	(3.7)	
Profit for the period	**17.6**	6.1	
Basic EPS (p)	**11.6p**	4.1p	
Adjusted EPS (p)	**14.8p**	10.6p	○ Adjusted EPS increased 39.6%
Dividend	**2.0p**	1.75p	○ Dividend increased by 14.3%

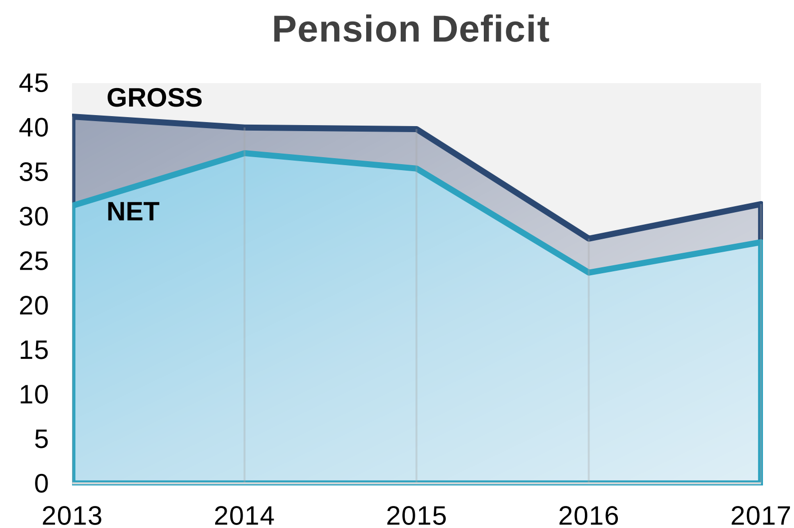
Cash Flow



- Strong cash generation
- Net debt of £16.1m (<0.5x EBITDA).
- Banking facilities of £60m to be reviewed in H1 FY18

Tax and Pensions





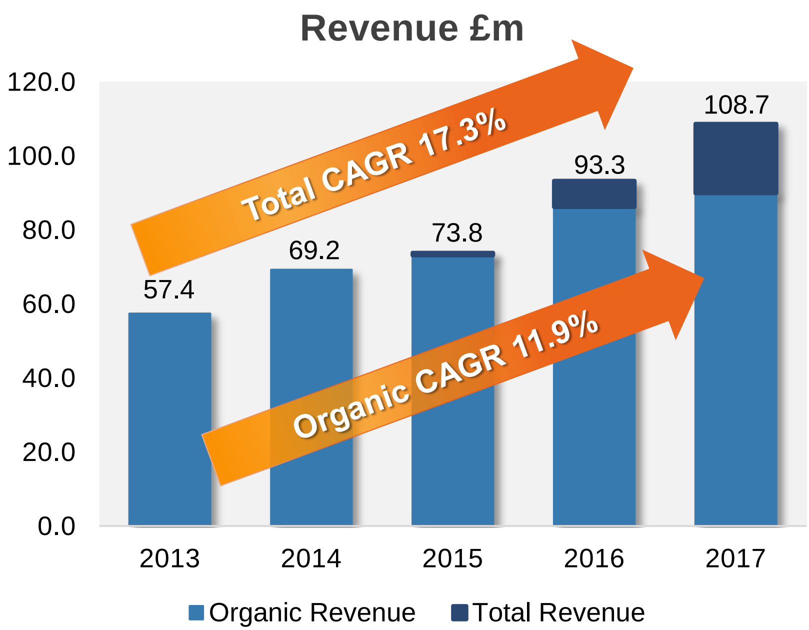
- The period benefitted from strong UK trading, which allowed a greater utilisation of carried forward UK losses. UK losses will continue to give benefits for the foreseeable future
- Tax planning remains conservative with no use of hybrid entities or tax havens
- Further work planned to update transfer pricing and franchise fee models
- ETR expected to be maintained at c.20%

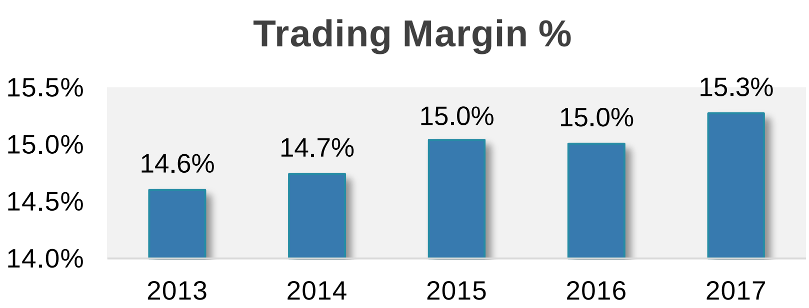
- Change in discount rate increased liabilities by £24.6m in the year, offset by strong investment returns of £22.2m from our Liability Matching investments
- Ongoing liability management remains a priority, PIE project in H2 gave a £0.3m benefit and further derisked the scheme
- Triennial valuation to be updated as of 1/4/17 – UK deficit reduced from £35.5m to £23.8m since last valuation
- MUMS and Buy-in projects under consideration for FY18

Market Review

Scapa Healthcare

Healthcare Market Analysis





- Revenue growth of 16.5%; constant fx 5.0%
- Acquisition of EuroMed in May 2016 for US$35m
- EuroMed fully integrated; H2 profit ahead of expectation
- Organic growth 5.8%; constant fx (4.6)%, against strong comparator of 17.9% in 2016
- Normalisation of two large product launches and cost down on contract extension
- Trading profit increased 18.6%; 4.4% constant fx
- Margin increased to 15.3%
- H2 Margins at 16.3% which should be sustained
- Three-year contracts renewed with two key OEMs
- £200m of revenue contracted

Scapa Healthcare

Healthcare Highlights

- Launched Acne Dots in Health & Beauty category with global brand leader
- Signed three-year contract extension with leading global brand
- Substantial growth from key customer in foot care category
- Granted EU design patent for treatment of dry/cracked skin on heels
- Leveraging expertise in advanced wound care into consumer market

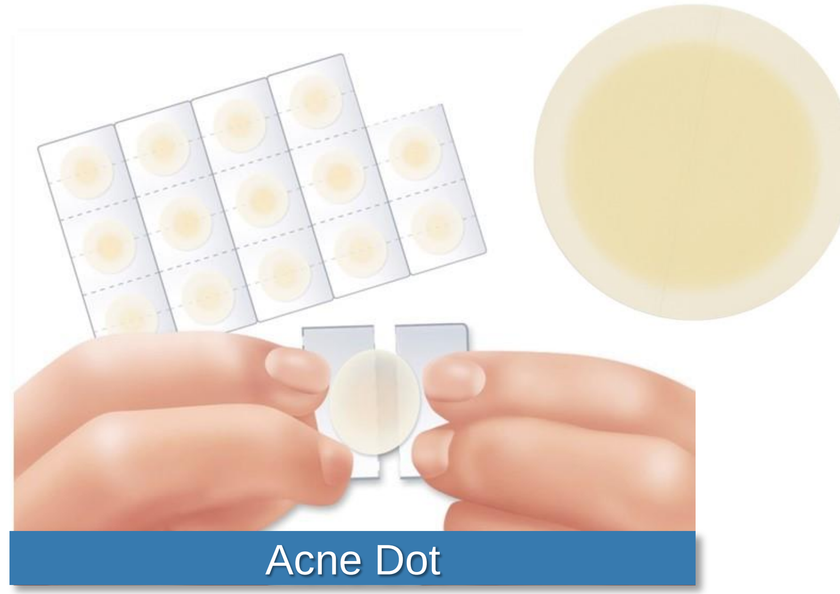
- Signed three-year agreement with long standing partner
- Developed Regulatory Services business supporting increased speed to market for customers
- Specified silicone gel adhesive for new neonatal sensor
- Multiple Day Wear Study completed under MEDIFIX Solution™ platform
- Significant growth in adhesive patch for closed loop insulin delivery system
- Advanced bolus injector program with market launch planned for mid-2018

- Developed wound care film with key partner – furthering turn-key solutions
- Expanded portfolio in Negative Pressure Wound Therapy with key partners – delivering larger portion of the value chain
- Generated development revenue for new product launches in FY18

Scapa Healthcare

EuroMed Integration

- EuroMed integration completed successfully
- Commercial and operational management fully integrated
- Revenue on track and profit ahead of expectation
- Significant cross selling activities
- Launched acne dot solution based on EuroMed IP in Health & Beauty category with leading global brand
- Granted European design patent for treatment of dry/cracked skin on heels

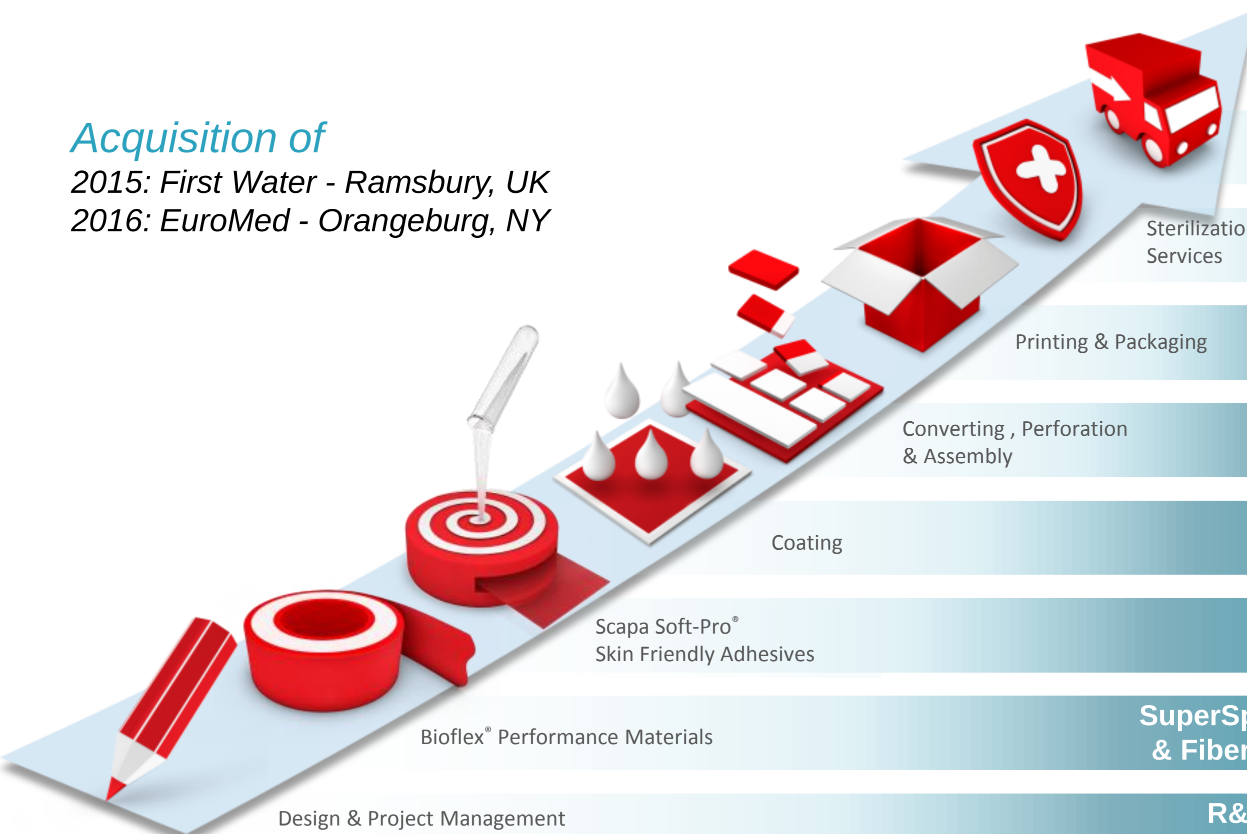


Strengthening Healthcare Value Proposition

Acquisition of

2015: First Water - Ramsbury, UK

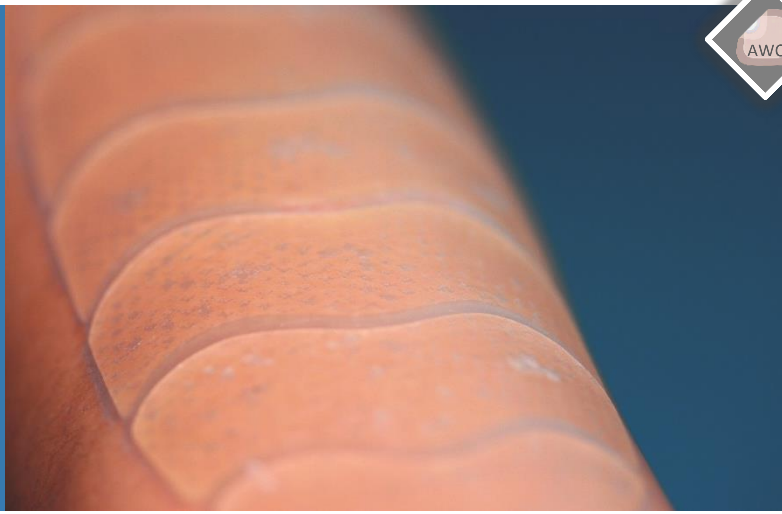
2016: EuroMed - Orangeburg, NY



Logistics & Service	**Ship direct to customer**	**Ship direct to customer**
Sterilization Services	**Outsourced Sterilization**	**Outsourced Sterilization**
Printing & Packaging	**EU Printing & Packaging**	**Finished Product Packaging**
Converting , Perforation & Assembly	**Flexpore & Flexcore**	**Extrusion & Die-cutting**
Coating	**Additives**	**Aloe, Shea Butter & Salicylic Acid**
Scapa Soft-Pro® Skin Friendly Adhesives	**Hydrogels**	**Hydrocolloids**
Bioflex® Performance Materials	**SuperSponge, Foams & Fiber Composites**	**HydroSoft™**
Design & Project Management Regulatory Planning	**R&D, Regulatory & Unique IP**	**R&D, Regulatory Experts & Unique IP**

Scapa Proprietary & Innovation Driven Solutions

Flexcore Dressing

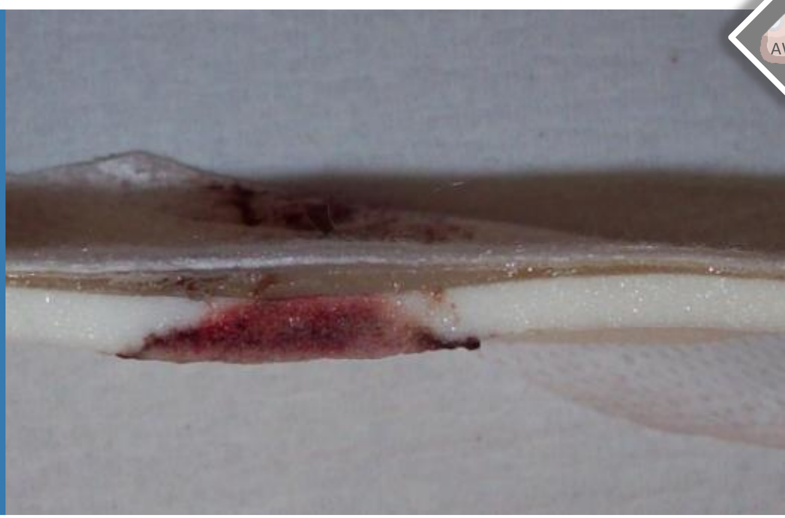


Set of absorbent hydrogel islands positioned on a highly breathable adhesive for Advanced Wound Care

Cracked Heel Treatment

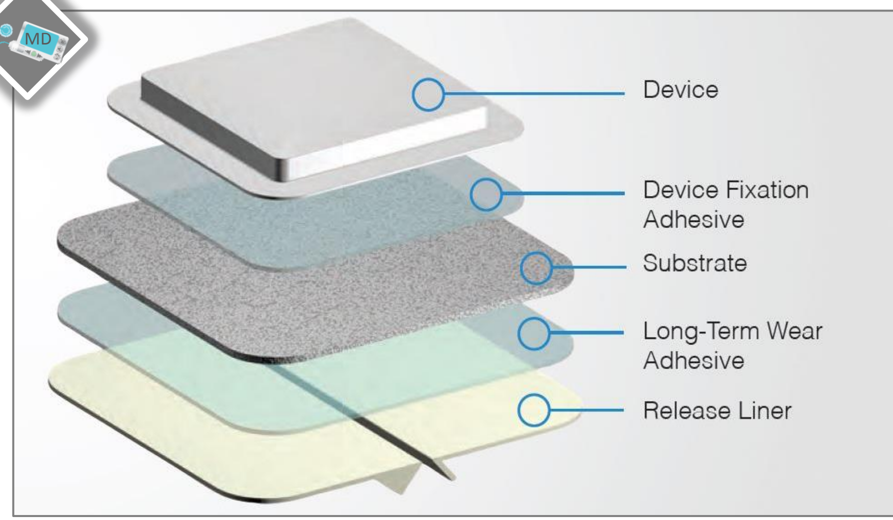
Proprietary and patented overnight hydrocolloid treatment for dry and cracked heels designed to protect, restore and soften heels

Super Foam Dressing



Proprietary, patented design and superabsorbent gel layered into a composite dressing for Advanced Wound Care

MEDIFIX Solutions TM



Custom adhesives patches for Medical Device fixation utilizing high performance substrates and adhesives for wear time >16 days

Acquisitions: Scale and Scope

Mergers and acquisitions are a key part of our strategy to continue to build our market leading position by broadening our offerings and capabilities.

Investment Criteria

- Strategic fit
- Valuation multiple
- Accretive
- Leverage <3X
- Discounted cash flow
- WACC at 10%

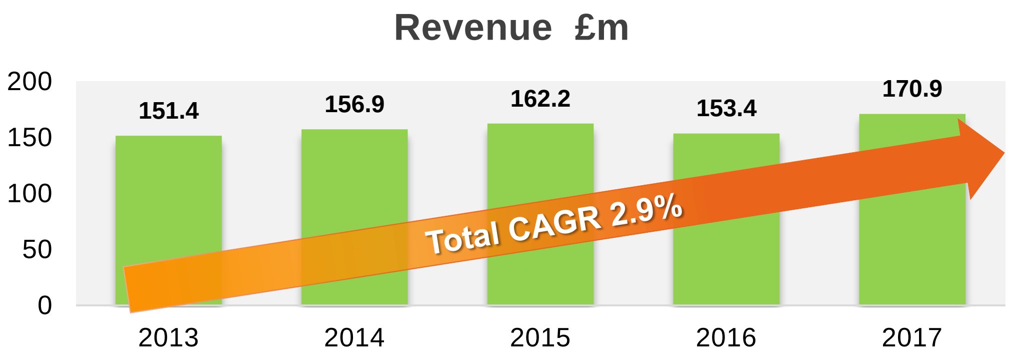
Bolt-Ons	New Growth Platform	Customers' Assets
• Similar to First Water and EuroMed • Add-ons to adhesive value chain • Smaller scale • Independent • Division of conglomerate	• New value chain • Larger in scale • New technologies/ capabilities • High valuation	• Non-core • Under-utilised • Strategic decision • Supply agreement • Few to no precedents • Proprietary deals

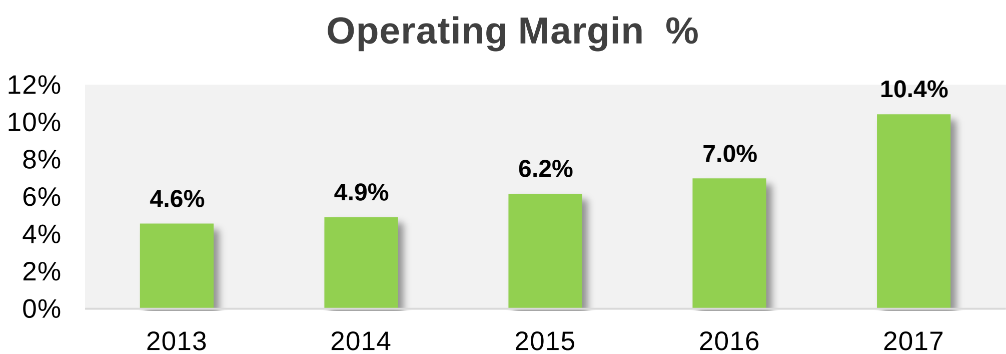
Scapa Healthcare

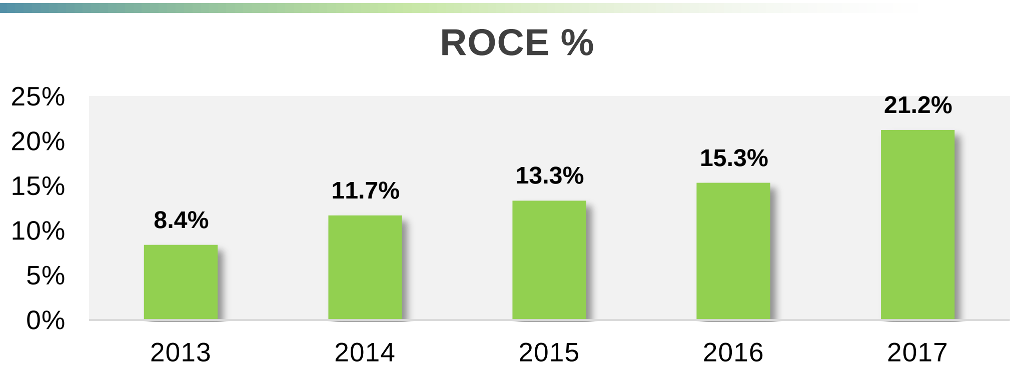
Market Review

Scapa Industrial

Industrial Market Analysis







- Revenue growth of 11.4%; constant fx (0.3)%
- Trading profit grew 66.4% to £17.8m; constant fx 45.9%
- Margins increased to 10.4%; exceeded the strategic target of double-digit margin
- Improvement in profit driven by:
  - Operational efficiency
  - Lower input costs
  - Initial benefit from closure of the Swiss facility
- Swiss facility closed on time and on budget
- Delivered £1m profit benefit in H2 and expect to deliver an additional £1m in H1 of FY18
- Exiting Korean production

Scapa Industrial

Industrial Highlights

- Margin improvement through repositioning of product portfolio
- 25 new products qualified
- Growth in new water-based products driven by environmental requirements
- Capital investment to drive efficiencies and cost outs
- Strong performance in Europe and India

- Strong growth driven by design-win in water blocking foam products for fiber optic company
- Contract wins by European customers on infrastructure projects
- New product launches including fire retardant and anti-rodent products
- Strong pipeline of new projects

- Strong growth across all geographies including France
- Above market growth
- Expanding product portfolio beyond tape to safety products
- Initial success in Indian decoration market
- Strong brand promotion to leverage 100 year anniversary of Barnier

- Majority of products from Switzerland
- Product rationalisation focused on margin
- Significant margin improvement

Footprint Consolidation

Switzerland: Successfully completed

- Announced in April 2015
- Completed November 2016
- Closure and transfer on time and on budget
- Delivered £1m in profit benefit and expect to deliver additional £1m in H1 FY18
- Total cost £5.8m
- Sale of Swiss land and building progressing and proceeds expected to exceed initial estimates of £5-7m

South Korea: Announced

- Manufacturing site in Cheongyang
- R&D office in Seoul
- Coating lines and associated mixing technologies
- One coating line will be transferred and repurposed for Healthcare
- Remaining equipment will be positioned at locations closer to end customers
- 30 employees

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Continued Focus to Drive ROCE

Simplify Business Structure

- Footprint consolidation
- Focus on core:
  - Customers
  - Markets
  - Technologies
  - Geographies

Portfolio Management

- Product line simplification
- Focus on gross margin improvement
- Performance critical components
- Direct strategic engagement with OEMs
- Optimise manufacturing capabilities
- Leverage brand to expand range

Prepare for Growth

- Simplified focus
- Optimise existing business
- Differentiated solutions
- Focus on 20% of customers that drive 80% of opportunities
- Focused acquisitions

15% Margin

Rigorous application of Pareto analysis (80/20 Rule)

Delivering the Full Potential

Healthcare

- Maximise the opportunity driven by accelerating trends toward outsourcing by our customers
- Deliver double-digit growth organically and through acquisitions
- Maintain the margin improvement achieved in H2 of 16.3%; target of 20%
- Expand scale and scope beyond adhesive based value chain

Industrial

- Continue to focus on business structure simplification
- Drive ROCE through further optimisation of the asset base
- Improve quality of product portfolio
- Optimise the existing business to achieve 15% margin
- Position the business to grow

Outlook

- Much more potential remains to be fulfilled in both Healthcare and Industrial
- Have set goals for the next phase
- Strong team with a track record of delivery
- Well positioned to leverage the recent accomplishments and continue to make further progress

Appendix

Definitions

Term	Definition
Adjusted profit after tax	Trading profit, less cash interest payable, less tax on trading activities
Adjusted profit before tax	Trading profit, less cash interest payable
Exceptional items	Items which are both material and non-recurring
Trading margin	Trading profit divided by turnover
Trading profit	Operating profit before exceptional items, amortisation of intangibles and pension administration costs
Trading working capital	Trade debtors, plus stock, minus trade creditors
Underlying earnings per share	Adjusted profit after tax divided by the number of shares in issue
Effective tax rate	Tax charge on trading activities divided by trading profit less cash interest

Balance Sheet

	2017 March £m	2016 March £m
Goodwill and intangible assets	**63.0**	38.1
Fixed assets	**49.3**	46.1
Working capital	**50.2**	40.4
Other	**(9.2)**	(11.0)
Provisions	**(3.7)**	(5.4)
Tax	**(6.0)**	(4.2)
Pension deficit	**(31.4)**	(27.5)
Deferred tax on pensions	**4.3**	3.8
Net pension deficit	**(27.1)**	(23.7)
Net debt	**(16.1)**	(2.6)
Net assets	**100.4**	77.7

Impact of FX

	% Revenue	Average Rate Full Year 2016/17	Average Rate Full Year 2015/16	Currency Effect
EURO	24%	1.20	1.36	13.3%
USD$	44%	1.32	1.50	13.6%
CAD$	9%	1.72	1.97	14.5%
Overall				**11.4%**

Reconciliation of Adjusted EPS

	2017 March £m	2016 March £m
Trading profit	**29.2**	21.3
Cash interest payable	**(1.2)**	(0.7)
Tax on trading activities	**(5.6)**	(4.9)
Adjusted profit after tax	**22.4**	15.7
Shares in issue	**151.1**	148.3
Adjusted EPS	**14.8p**	10.6p

Reconciliation of effective tax rate

	2017 March £m	2016 March £m
Profit before tax	**21.8**	9.8
Tax charge	**(4.2)**	(3.7)
Headline effective tax rate	**19.3%**	37.8%
Trading profit	**29.2**	21.3
Cash interest	**(1.2)**	(0.7)
Adjusted PBT	**28.0**	20.6
Tax on operating activities	**(5.6)**	(4.9)
Underlying effective tax rate	**20.0%**	23.8%

Reconciliation of tax charge

	2017 March £m	2016 March £m
Profit before tax	**21.8**	9.8
UK tax @ 20% on trading activities	**(4.4)**	(2.0)
Effect of overseas tax rates (Includes CVAE, IRAP and US capital tax)	**(1.5)**	(1.7)
Other items	**1.7**	-
Tax charge for the period	**(4.2)**	(3.7)

Reconciliation of cash from operations

	2017 March £m	2016 March £m
Operating profit	**23.8**	11.7
Depreciation and amortisation	**9.9**	7.5
Working capital movement	**(1.7)**	(1.2)
Other	**5.0**	5.4
‘Free cash flow’	**37.0**	23.4
Pensions	**(4.3)**	(4.4)
Exceptionals	**(3.6)**	(2.5)
Net Cash Flow from Operations	**29.1**	16.5

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Analysis of trading working capital

	2017 March £m	2016 March £m
Trade debtors	**51.9**	43.3
Stock	**30.6**	27.1
Trade creditors	**(32.3)**	(30.0)
	50.2	40.4
Sales (12mth calendar)	**279.6**	246.7
	18.0%*	16.4%

** EuroMed 10 months sales*

Legacy pension cash flows and funding

	2017 March £m	2016 March £m
Cash contributions: UK	**3.7**	3.7
Cash contributions: Overseas	**0.9**	1.0
Pension admin costs	**0.7**	0.7
Total cash (deficit, operating and admin)	**5.3**	5.4

Disclaimer

This document contains certain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements.

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