Scapa

SCAPA GROUP PLC INTERIM REPORT 2018

CHALLENGE

ACCEPTED

Challenge accepted

Scapa Group is a leading global manufacturer of bonding products and adhesive components for applications in the Healthcare and Industrial markets.

RESULTS SUMMARY	**Half year ended 30 Sept 2018 £m**	Half year ended 30 Sept 2017 £m	Year ended 31 March 2018 £m
Revenue	**140.7**	145.6	291.5
Trading profit*	**17.1**	16.7	34.5
Operating profit	**10.5**	16.3	30.7
Net finance costs	**(0.8)**	(0.9)	(1.9)
Profit on ordinary activities before tax	**9.7**	15.4	28.8
Basic EPS (p)	**4.3p**	7.5p	15.4p
Adjusted EPS** (p)	**8.3p**	8.3p	18.2p

WHAT WE DO
Scapa Healthcare is a global strategic outsource partner of skin friendly turn-key solutions for the Advanced Wound Care, Consumer Wellness and Medical Device markets. We partner with market leaders to develop and manufacture innovative skin friendly medical supplies and devices. Our global footprint allows us to offer a full range of services that support customers around the world.

REVENUE
£57.8m
(2017: £57.7m)

WHAT WE DO
Scapa Industrial manufactures an extensive portfolio of adhesive bonding solutions in our key sectors of Cable, Automotive, Construction and Specialty products. We partner with leading companies with multiple and established paths to our select markets. We service our partners with our broad product portfolio, which accelerates our position as a leading provider of global solutions.

REVENUE
£82.9m
(2017: £87.9m)

Highlights

GROUP FINANCIAL HIGHLIGHTS

- Revenue decreased 3.4% to £140.7m (2017: £145.6m); 1.2% reduction at constant fx
- Trading profit* increased 2.4% to £17.1m (2017: £16.7m); 6.2% constant fx
- Trading profit* margins further improved to 12.2% (2017: 11.5%)
- Adjusted earnings per share** remained constant at 8.3p (2017: 8.3p)
- Basic earnings per share of 4.3p (2017: 7.5p)
- Net debt of £5.2m (31 March 2018: £3.8m); excludes £31.4m paid on 1 October 2018 for acquisition of the Systagenix manufacturing facility
- Pension deficit reduced to £9.8m (31 March 2018: £21.0m)

* Profit before tax, before net finance costs, amortisation of intangible assets, exceptional items and pension administration costs

** Adjusted earnings per share is calculated by dividing the trading profit less cash interest less tax on operating activities by the weighted average number of ordinary shares in issue during the year

TRADING PROFIT

£8.2m

(2017: £9.3m)

MARGIN

14.2%

(2017: 16.1%)

HIGHLIGHTS

- Revenue increased 0.2% to £57.8m (2017: £57.7m); 3.4% constant fx
- Trading margins at 14.2% (2017: 16.1%) in line with H2 FY18 margin
- Trading profit decreased 11.8% to £8.2m (2017: £9.3m); 8.9% reduction at constant fx, reflecting the incremental investment made to execute technology transfers
- Acquired in October 2018 the development and manufacturing assets of Systagenix from Acelity for £31.4m and entered an exclusive five-year development and supply agreement for Systagenix advanced wound care products to Acelity
- The three technology transfers completed in the last twelve months bring aggregate incremental annualised revenue exceeding £40m
- Announced the closure of the facility in Dunstable, UK
- BioMed, acquired in March 2018, has enhanced Healthcare's product portfolio and is performing in line with expectations
- Previously announced technology transfers and new programmes anticipated to start to benefit revenues in H2

TRADING PROFIT

£11.0m

(2017: £10.1m)

MARGIN

13.3%

(2017: 11.5%)

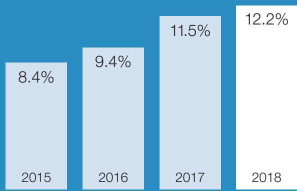
HIGHLIGHTS

- Revenue decreased 5.7% to £82.9m (2017: £87.9m); 4.2% reduction at constant fx
- Trading profit grew 8.9% to £11.0m (2017: £10.1m); 12.2% constant fx
- Margins increased to 13.3% (2017: 11.5%), on target to reach 15%
- Announced the closure of the facility in Liverpool, New York
- Revenue in India increased by 30.0% in local currency driven by consumer and automotive markets
- Integration of Markel is nearly complete, with synergy benefits anticipated to start in H2

KPIs

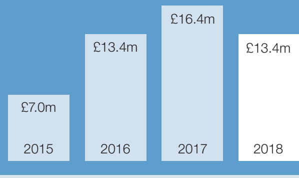
RETURN ON SALES

12.2%



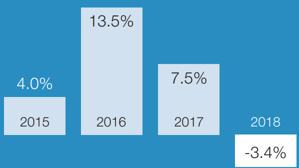
UNDERLYING CASH FLOW FROM OPERATIONS

£13.4m



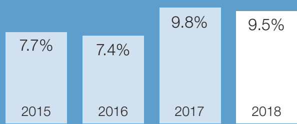
REVENUE GROWTH

-3.4%



ADJUSTED RETURN ON CAPITAL EMPLOYED

9.5%

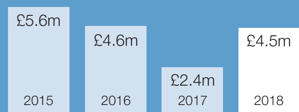


ADJUSTED EARNINGS PER SHARE

8.3p

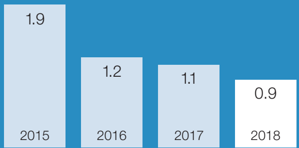
CAPITAL EXPENDITURE

£4.5m



LOST TIME INJURY FREQUENCY RATE (LTIFR)

0.9



For the full definition of KPIs please refer to pages 10 and 11 of the Annual Report, which is available at www.scapa.com. Certain KPIs are only considered meaningful on an annual basis and so are not reported in the interim results.

Interim Management Report

GROUP RESULTS

Scapa has delivered a solid first half performance, driven by revenue growth in Healthcare (up 3.4% at constant currency) and continued margin improvement in Industrial. Group trading profit[1] for the period increased 2.4% to £17.1m (2017: £16.7m), increasing the overall Group trading margins to 12.2% (2017: 11.5%). Group revenue for the period decreased 3.4% to £140.7m (2017: £145.6m), primarily reflecting adverse currency movements. Adjusting for the effects of exchange rates, revenue decreased 1.2% (2017: 1.6% increase) and trading profit increased 6.2% (2017: 21.9%).

Operating profit for the period decreased to £10.5m (2017: £16.3m) and profit before tax decreased to £9.7m (2017: £15.4m). Taxation charges for the period were £3.1m (2017: £3.9m), with the underlying effective tax rate[2] for the period at 23.0% (2017: 21.1%). The basic earnings per share was 4.3p (2017: 7.5p). When adjusted for exceptional items, pension administration costs, amortisation and non-cash interest, earnings per share was 8.3p (2017: 8.3p).

Exceptional items (note 4) in the period totalled £4.1m (2017: gain of £1.4m); £2.2m related to the expected closure of the Dunstable UK manufacturing site and £1.9m for acquisition related costs for the acquisition of Systagenix Wound Management Manufacturing Limited which completed on 1 October 2018.

The results include the impact of Markel Industries (acquired in August 2017) and BioMed Laboratories (acquired in March 2018).

STRATEGIC PRIORITIES AND BUSINESS OBJECTIVES

Scapa is organised into two business units serving the Healthcare and Industrial markets, primarily in Europe and North America. Each business unit has a specific strategy that it follows:

- Healthcare continues to build its relationships with key market leading customers as the turn-key partner of choice, as it leverages its know-how in development and manufacturing processes together with materials expertise, in a market with favourable demographic and outsourcing trends. Healthcare remains Scapa's primary acquisition focus.
- Industrial has further opportunities to drive improved margins through consolidation and efficiency, also focused on growth in selected areas where it has a competitive advantage.

MARKETS

Healthcare

Six months ended	30 Sept 2018	30 Sept 2017
Revenue (£m)	**57.8**	57.7
Trading profit (£m)	**8.2**	9.3
Trading margin (%)	**14.2%**	16.1%

The strategy of our Healthcare business is to continue to be the trusted strategic turn-key partner of choice for the world's leading companies in advanced wound care, consumer wellness and medical devices.

Scapa has evolved from a roll stock supplier to a manufacturer of turn-key products with full capabilities all the way from design through manufacturing to distribution. The business expects to benefit from the continued outsourcing trend and the favourable demographics in healthcare.

Revenue grew 0.2% to £57.8m (2017: £57.7m); at constant exchange rates the growth in revenue improved to 3.4%. Healthcare trading profit decreased 11.8% to £8.2m (2017: £9.3m); at constant exchange the profit decreased 8.9% mainly due to lower volumes as a result of the continuing soft demand within the wound management market and some delays in new product roll-out as a result of delays in customer driven launches; shipments of these products have commenced since the period end. The division delivered trading margin at 14.2% (2017: 16.1%).

[1] Profit before tax, before net finance costs, amortisation of intangible assets, exceptional items and pension administration costs

[2] Adjusting operating profit and taxation for exceptional items, pension administration costs, amortisation and non-cash interest

Interim Management Report continued

Scapa anticipates that the technology transfers and new programmes previously announced will start to benefit revenues during the second half of the year and that, as the proportion of turn-key business increases over the medium term, margins should improve to c.20%.

The acquisition in October 2018, by way of technology transfer, of the R&D and manufacturing assets of Systagenix and the exclusive five-year development and supply agreement for Systagenix advanced wound care products to Acelity is a milestone in Scapa's development, completing our Healthcare journey from a roll stock supplier to a fully integrated healthcare company with extensive technologies and capabilities in the market we serve. The acquisition positions Scapa as one of the leading B2B manufacturers of advanced wound care products in the world. The transaction is expected to be modestly earnings dilutive in the current year and materially accretive from FY20 onwards.

We have now completed three technology transfers in the last twelve months with an aggregate annualised revenue exceeding £40m. We believe that further opportunities to partner with our healthcare customers exist as the medical device sector undergoes disruption.

The integration of BioMed Laboratories, acquired in March 2018, has proceeded to plan. BioMed has enhanced Healthcare's offering beyond the adhesive value chain into formulations, liquids, powers and gels and enables us to address the ostomy segment of our customers as well as the OTC and health and beauty aisles of our consumer product customers. We expect this acquisition to be earnings enhancing in the current financial year.

Following a consultation process during September, the closure of the Dunstable UK manufacturing site was announced in October; the closure of the site will generate operational efficiencies through the consolidation of Healthcare's manufacturing footprint. Likewise, construction of our new facility in Knoxville, Tennessee, will complete by the end of the year, enabling us to integrate the site's three existing buildings into a single site of operation with significantly increased capacity.

Industrial

Six months ended	30 Sept 2018	30 Sept 2017
Revenue (£m)	**82.9**	87.9
Trading profit (£m)	**11.0**	10.1
Trading margin (%)	**13.3%**	11.5%

The strategy of our Industrial business to focus on maximising ROCE has enabled Scapa to continue to deliver strong results despite the volatile market environment. Revenue decreased 5.7% to £82.9m (2017: £87.9m), mainly the result of the new programme delays experienced by its customers. Trading profit for the period was £11.0m (2017: £10.1m), an increase of 8.9% over the prior period with the trading margin increasing to 13.3% (2017: 11.5%). After adjusting for the effect of exchange rates, revenue decreased by 4.2% and trading profit increased 12.2%, reflecting the improvement in operational efficiency as a result of our footprint consolidation.

Our small India operation continues to perform well, benefiting from the Chennai facility built last year. Revenues grew by 30.0% in local currency, primarily driven by consumer and automotive markets.

The integration of Markel Industries, acquired in August last year, is nearly complete and we anticipate that the synergy benefits will come through in the second half of the year. Following the exit from our Korean factory and rationalisation of our Asian cost base last year, we announced in October the closure of our manufacturing facility in Liverpool NY, reflecting continued delivery of our self-help agenda in Industrial.

Balance sheet

Net assets at 30 September 2018 increased by £19.5m to £138.4m (31 March 2018: £118.9m). Positive movements included profit after tax of £6.6m, actuarial movements of £9.0m, foreign exchange movements of £6.4m and tax items booked directly into reserves of £0.2m. Movements in equity that related to share issues, dividends and options reduced shareholders' funds by £2.7m. The Group net debt balance was £5.2m (31 March 2018: £3.8m) reflecting the strong trading cash generation.

Pensions

The pension deficit decreased to £9.8m (31 March 2018: £21.0m). This decrease in the deficit is partly owing to gains achieved in the UK scheme following the Triennial valuation from 1 April 2017 that was finalised within the period plus a modest improvement in the discount rate applied to the long-term liabilities together with the regular company contribution.

Cash resources

Net cash generated from operations was £13.1m (2017: £14.0m) which increases to £13.4m (2017: £16.4m) before exceptional items. Capital expenditure in the period was £4.5m (2017: £2.4m). Pension payments in excess of operating charge were £2.6m (2017: £2.3m) and represent the deficit repair payments and contributions to scheme expenses. Tax and interest outflows were £5.2m (2017: £2.8m), with the increase being mainly tax associated with the prior year sale of the Swiss property. After dividends of £3.7m (2017: £3.0m), closing net debt was £5.2m, less than 0.3x EBITDA[3] (31 March 2018: £3.8m net debt). Since the period end, the Group has paid the £31.4m cash consideration for the acquisition of Systagenix.

Dividend

A final dividend for the year ended 31 March 2018 of 2.4p per share was paid on 17 August 2018 to all shareholders registered on 20 July 2018. In line with last year, the Board does not propose an interim dividend but intends to maintain a progressive dividend policy.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that these principal risks and uncertainties have changed since publication of the annual report for the year ended 31 March 2018.

Going concern

As stated in note 1 to these condensed financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

Summary and outlook

Scapa has again delivered a solid first half performance with growth in trading profit and margins. There are further significant opportunities for both business units to improve both sales and margin performance through rigorous execution of the strategy, in both the short and longer term. The Board remains confident of delivering its full year expectations and in the Company's ability to drive shareholder value.

L C Pentz
Chairman

20 November 2018

[3] Net debt to EBITDA comprises net debt divided by trading profit before depreciation for the six months ended 30 September 2018

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	note	**Half year ended 30 Sept 2018 £m**	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Revenue	2	**140.7**	145.6	291.5
Operating profit	2	**10.5**	16.3	30.7
Trading profit*		**17.1**	16.7	34.5
Amortisation of intangible assets		**(2.3)**	(1.5)	(3.3)
Exceptional items	4	**(4.1)**	1.4	0.1
Pension administration costs		**(0.2)**	(0.3)	(0.6)
Operating profit	2	**10.5**	16.3	30.7
Net finance costs	7	**(0.8)**	(0.9)	(1.9)
Profit on ordinary activities before tax		**9.7**	15.4	28.8
Taxation charge	8	**(3.1)**	(3.9)	(5.3)
Profit for the period		**6.6**	11.5	23.5
Weighted average number of shares (m)		**153.7**	152.5	153.1
Basic earnings per share (p)		**4.3**	7.5	15.4
Diluted earnings per share (p)		**4.2**	7.3	14.8
Adjusted earnings per share (p)		**8.3**	8.3	18.2

* Profit before tax, before net finance costs, amortisation of intangible assets, exceptional items and pension administration costs

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Half year ended 30 Sept 2018 £m	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Profit for the period	**6.6**	11.5	23.5
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translating foreign operations	**6.4**	(6.0)	(9.8)
Actuarial gain	**9.0**	7.3	6.6
Items that will not be reclassified subsequently to profit and loss:			
Deferred tax on actuarial gain	**0.2**	–	(0.7)
Other comprehensive income/(expense) for the period	**15.6**	1.3	(3.9)
Total comprehensive income for the period	**22.2**	12.8	19.6

The notes on pages 10 to 20 form an integral part of this interim financial report.

CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2018 (UNAUDITED)

	note	**Half year ended 30 Sept 2018 £m**	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Assets				
Non-current assets				
Goodwill		**71.4**	57.5	67.2
Intangible assets		**9.4**	7.0	11.0
Property, plant and equipment		**48.5**	46.6	45.6
Deferred tax asset		**5.0**	6.8	5.2
Other receivables		**0.2**	0.2	0.2
		134.5	118.1	129.2
Current assets				
Inventory		**39.2**	33.2	35.0
Trade and other receivables		**54.8**	51.4	58.8
Current tax asset		**0.1**	0.9	0.2
Cash and cash equivalents	13	**12.8**	23.0	18.1
		106.9	108.5	112.1
Liabilities				
Current liabilities				
Financial liabilities:				
– Borrowings and other financial liabilities		**(1.0)**	(1.3)	(1.0)
Trade and other payables		**(52.4)**	(49.8)	(57.2)
Deferred consideration		**(3.1)**	–	(2.9)
Current tax liabilities		**(0.2)**	(1.4)	(2.7)
Provisions	12	**(3.9)**	(3.7)	(2.2)
		(60.6)	(56.2)	(66.0)
Net current assets		**46.3**	52.3	46.1
Non-current liabilities				
Financial liabilities:				
– Borrowings and other financial liabilities		**(17.6)**	(24.9)	(21.5)
Trade and other payables		**(0.1)**	(0.2)	(0.1)
Deferred consideration		**(3.8)**	–	(3.5)
Deferred tax liabilities		**(5.2)**	(6.8)	(4.5)
Non-current tax liabilities		**(2.9)**	(2.9)	(2.9)
Retirement benefit obligations	11	**(9.8)**	(22.0)	(21.0)
Provisions	12	**(3.0)**	(2.5)	(2.9)
		(42.4)	(59.3)	(56.4)
Net assets		**138.4**	111.1	118.9
Shareholders' equity				
Ordinary shares		**7.7**	7.7	7.7
Share premium		**0.9**	0.4	0.4
Retained earnings		**100.0**	75.8	87.4
Translation reserve		**29.8**	27.2	23.4
Total shareholders' equity		**138.4**	111.1	118.9

The notes on pages 10 to 20 form an integral part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	Share capital £m	Share premium £m	Translation reserves £m	Retained earnings £m	Total equity £m
Balance at 31 March 2017	7.6	0.4	33.2	59.2	100.4
Employee share option scheme – value of employee services	–	–	–	0.9	0.9
Equity-settled share based payments	–	–	–	(0.1)	(0.1)
Dividends	–	–	–	(3.0)	(3.0)
Issue of shares	0.1	–	–	–	0.1
	0.1	–	–	(2.2)	(2.1)
Currency translation differences	–	–	(6.0)	–	(6.0)
Actuarial gain on pension schemes	–	–	–	7.3	7.3
Net income/(expense) recognised directly in equity	–	–	(6.0)	7.3	1.3
Profit for the period	–	–	–	11.5	11.5
Total comprehensive income/(expense)	–	–	(6.0)	18.8	12.8
Balance at 30 September 2017	7.7	0.4	27.2	75.8	111.1
Employee share option scheme – value of employee services	–	–	–	1.0	1.0
	–	–	–	1.0	1.0
Currency translation differences	–	–	(3.8)	–	(3.8)
Actuarial loss on pension schemes	–	–	–	(0.7)	(0.7)
Deferred tax on actuarial gain	–	–	–	(0.7)	(0.7)
Net income recognised directly in equity	–	–	(3.8)	(1.4)	(5.2)
Profit for the period	–	–	–	12.0	12.0
Total comprehensive income/(expense)	–	–	(3.8)	10.6	6.8
Balance at 31 March 2018	7.7	0.4	23.4	87.4	118.9
Employee share option scheme – value of employee services	–	–	–	0.5	0.5
Dividends	–	–	–	(3.7)	(3.7)
Issue of shares	–	0.5	–	–	0.5
	–	0.5	–	(3.2)	(2.7)
Currency translation differences	–	–	6.4	–	6.4
Actuarial gain on pension schemes	–	–	–	9.0	9.0
Deferred tax on actuarial gain	–	–	–	0.2	0.2
Net income recognised directly in equity	–	–	6.4	9.2	15.6
Profit for the period	–	–	–	6.6	6.6
Total comprehensive income	–	–	6.4	15.8	22.2
Balance at 30 September 2018	**7.7**	**0.9**	**29.8**	**100.0**	**138.4**

The notes on pages 10 to 20 form an integral part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 30 SEPTEMBER 2018 (UNAUDITED)

	note	**Half year ended 30 Sept 2018 £m**	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Cash flows from operating activities				
Net cash flow from operations	13	**13.1**	14.0	31.1
Cash generated from operations before exceptional items	13	**13.4**	16.4	34.7
Cash outflow from exceptional items	13	**(0.3)**	(2.4)	(3.6)
Net cash flow from operations		**13.1**	14.0	31.1
Net interest paid		**(0.6)**	(0.6)	(1.3)
Income tax paid		**(4.6)**	(2.2)	(2.8)
Net cash generated from operating activities		**7.9**	11.2	27.0
Cash flows (used in)/from investing activities				
Acquisition of subsidiary, net of cash acquired		**–**	(7.3)	(20.5)
Purchase of property, plant and equipment		**(4.5)**	(2.4)	(6.4)
Purchase of capitalised development costs		**(0.1)**	–	(0.2)
Proceeds on disposal of available-for-sale assets*		**–**	13.6	13.3
Net cash (used in)/generated from investing activities		**(4.6)**	3.9	(13.8)
Cash flows (used in)/generated from financing activities				
Issue of shares		**0.5**	–	–
Dividends		**(3.7)**	(3.0)	(3.0)
Increase in borrowings		**15.4**	16.6	34.8
Repayment of borrowings		**(21.4)**	(16.9)	(38.1)
Net cash (used in)/generated from financing activities		**(9.2)**	(3.3)	(6.3)
Net (decrease)/increase in cash and cash equivalents		**(5.9)**	11.8	6.9
Cash and cash equivalents at beginning of the period		**18.1**	12.1	12.1
Exchange gains/(losses) on cash and cash equivalents		**0.6**	(0.9)	(0.9)
Total cash and cash equivalents at end of period	13	**12.8**	23.0	18.1

* Gain on disposal treated as exceptional item

The notes on pages 10 to 20 form an integral part of this interim financial report.

NOTES

1. GENERAL INFORMATION

Scapa Group plc ('the Company') and its subsidiaries (together 'the Group') manufacture bonding products and adhesive components for applications in the healthcare and industrial markets. The Group has manufacturing plants around the world and sells mainly in countries within Europe, North America and Asia.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is 997 Manchester Road, Ashton-under-Lyne, Greater Manchester OL7 0ED. The Company has its listing on the Alternative Investment Market.

The financial information for the period ended 30 September 2018 and similarly the period ended 30 September 2017 has been neither audited nor reviewed by the auditor. The financial information for the year ended 31 March 2018 has been based on information in the audited financial statements for that period.

The interim condensed financial statements for the period ended 30 September 2018 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 March 2018 has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

Basis of preparation

The consolidated financial statements for Scapa Group plc are prepared in accordance with IFRSs as adopted by the European Union. AIM listed companies are not required to issue IAS 34 compliant interim reports. Scapa Group plc complies with the majority of IAS 34 but does not produce a number of disclosures that are not considered significant.

Accounting policies

As at 1 April 2018, the Group adopted IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'. Apart from these standards, the same accounting policies, presentation and methods of computation are followed in the interim condensed financial statements as applied in the Group's latest annual audited financial statements.

No new or revised standards adopted in the current period have had a material impact on the Group's financial statements.

Critical accounting estimates, judgements and risks

The preparation of the interim condensed financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

The notes on pages 10 to 20 form an integral part of this interim financial report.

1. GENERAL INFORMATION CONTINUED

A summary of the principal risks and uncertainties is below and a more detailed explanation and how the Group seeks to mitigate the risks can be found on pages 12 to 18 of the Annual Report, which is available at www.scapa.com.

Health and safety – failure to work safely could result in significant injury or loss of life, damage the reputation of the Group and incur regulator intervention or fines

Acquisitions – poor decision-making on acquisitions could adversely affect the Group's results, weakening shareholder value

Business strategy – development of the wrong strategy by the Board or the failure to implement its strategy effectively could negatively impact on the Group's long-term growth prospects

Global economic and political environment – political and economic uncertainty e.g. Brexit which affects market and financial stability could adversely affect the Group's performance

Financial and treasury – the Group has significant operations outside the UK and as such is exposed to movement in exchange rates

Pensions – retirement liabilities fluctuate with changes in life expectancy, inflation, asset performance and discount rate assumptions

Customers – the Group benefits from good commercial relationships with a number of key customers. Damage to these relationships could have a direct, detrimental effect on the Group's results

Raw material pricing – Group margin is susceptible to supplier price increases

Human resources – availability of sufficient, skilled resource may impact on our ability to achieve sustainable growth

ICT systems and infrastructure – the Group is reliant on ICT systems in the effective planning and manufacture of product. Significant disruption can interrupt manufacturing and support process and potentially impact sales

Product quality – the Group is exposed to financial risk around product liability, customer returns and ultimately customer trust in Scapa as a supplier

Environment – failure to mitigate environmental impacts could damage the reputation of the Group and result in the financial loss associated with clean-up, fines and sanctions

Going concern

The Directors are satisfied that the Group's forecasts and projections show that the Group should be able to operate within its banking facilities and comply with its banking covenants. The Group is exposed to a number of significant risks and uncertainties, which could affect the Group's ability to meet its banking covenants. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed financial statements.

The notes on pages 10 to 20 form an integral part of this interim financial report.

2. SEGMENTAL REPORTING

The Group operates two standalone business units: Healthcare and Industrial, supported by a strategic Corporate function. All inter-segment transactions are made on an arm's length basis.

The Board rely primarily on turnover and trading profit to assess the performance of the Group and make decisions about resources to be allocated to each segment; assets and liabilities are looked at geographically. Trading profit is reconciled to operating profit on the face of the Income Statement.

The Board reviews the performance of the business using information presented at constant exchange rates. The prior year results have been restated at constant currency as shown on the following pages.

Segment results – 30 September 2018

The segment results for the half year ended 30 September 2018 are as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	57.8	82.9	–	140.7
Trading profit/(loss)	8.2	11.0	(2.1)	17.1
Amortisation of intangible assets	(2.0)	(0.3)	–	(2.3)
Exceptional items	(4.1)	–	–	(4.1)
Pension administration costs	–	–	(0.2)	(0.2)
Operating profit/(loss)	2.1	10.7	(2.3)	10.5
Net finance costs				(0.8)
Profit on ordinary activities before tax				**9.7**
Tax charge				(3.1)
Profit for the period				**6.6**

The revenue analysis below is based on the location of the customer as follows:

	Europe £m	N America £m	Asia £m	Other £m	Group £m
External revenue – 30 Sept 2018	51.6	70.9	10.2	8.0	140.7
External revenue – 30 Sept 2017	50.6	76.4	8.9	9.7	145.6
External revenue – 31 Mar 2018	111.2	141.8	20.4	18.1	291.5

The revenue based on the location of the selling company is as follows:

	Europe £m	N America £m	Asia £m	Other £m	Group £m
External revenue – 30 Sept 2018	49.9	81.3	8.4	1.1	140.7
External revenue – 30 Sept 2017	53.8	82.1	8.5	1.2	145.6
External revenue – 31 Mar 2018	110.5	162.7	15.8	2.5	291.5

The notes on pages 10 to 20 form an integral part of this interim financial report.

2. SEGMENTAL REPORTING CONTINUED

The segment results for the half year ended 30 September 2017 are as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	57.7	87.9	–	145.6
Trading profit/(loss)	9.3	10.1	(2.7)	16.7
Amortisation of intangible assets	(1.4)	(0.1)	–	(1.5)
Exceptional items	(1.0)	2.6	(0.2)	1.4
Pension administration costs	–	–	(0.3)	(0.3)
Operating profit/(loss)	6.9	12.6	(3.2)	16.3
Net finance costs	–	–	–	(0.9)
Profit on ordinary activities before tax				**15.4**
Tax charge				(3.9)
Profit for the period				**11.5**

The Board reviews the performance of the business using information presented at constant exchange rates. The prior half year results have been restated using this year's exchange rates as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	57.7	87.9	–	145.6
Foreign exchange	(1.8)	(1.4)	–	(3.2)
External revenue at constant exchange rates	**55.9**	**86.5**	**–**	**142.4**
Trading profit/(loss)	9.3	10.1	(2.7)	16.7
Foreign exchange	(0.3)	(0.3)	–	(0.6)
Trading profit/(loss) at constant exchange rates	**9.0**	**9.8**	**(2.7)**	**16.1**

Segment results – 31 March 2018

The segment results for the year ended 31 March 2018 are as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	112.8	178.7	–	291.5
Trading profit/(loss)	17.4	22.5	(5.4)	34.5
Amortisation of intangible assets	(2.9)	(0.4)	–	(3.3)
Exceptional items	(1.5)	1.8	(0.2)	0.1
Pension administration costs	–	–	(0.6)	(0.6)
Operating profit/(loss)	13.0	23.8	(6.2)	30.7
Net finance costs				(1.9)
Profit on ordinary activities before tax				**28.8**
Tax charge				(5.3)
Profit for the year				**23.5**

The notes on pages 10 to 20 form an integral part of this interim financial report.

NOTES CONTINUED

2. SEGMENTAL REPORTING CONTINUED

The Board reviews the performance of the business using information presented at constant exchange rates. The prior year results have been restated using this year's exchange rates as follows:

	Healthcare £m	Industrial £m	Head office £m	Group £m
External revenue	112.8	178.7	–	291.5
Foreign exchange	(0.6)	(1.1)	–	(1.7)
External revenue at constant exchange rates	**112.2**	**177.6**	**–**	**289.8**
Trading profit/(loss)	17.4	22.5	(5.4)	34.5
Foreign exchange	(0.1)	(0.2)	–	(0.3)
Trading profit/(loss) at constant exchange rates	**17.3**	**22.3**	**(5.4)**	**34.2**

3. SEGMENT ASSETS AND LIABILITIES

The Board does not review assets and liabilities by business unit but by geographical area as reporting entity balance sheets cannot be split accurately by business unit. The assets and liabilities at 30 September 2018 and capital expenditure for the period then ended can be analysed into geographical segments as follows:

	Europe £m	N America £m	Asia £m	Head office £m	Group £m
Non-current assets*	31.3	96.3	1.3	0.6	129.5
Inventory	16.4	20.2	2.6	–	39.2
Trade receivables (net)	19.8	27.7	1.9	–	49.4
Trade payables	(20.5)	(14.8)	(1.3)	(0.7)	(37.3)
Cash	3.9	5.6	3.2	0.1	12.8
Additions of property, plant and equipment	1.8	2.3	0.2	0.2	4.5

* Non-current assets excluding deferred tax assets

The assets and liabilities at 30 September 2017 and capital expenditure for the period then ended were as follows:

	Europe £m	N America £m	Asia £m	Head office £m	Group £m
Non-current assets*	30.9	77.2	2.6	0.6	111.3
Inventory	14.0	17.0	2.2	–	33.2
Trade receivables (net)	19.8	26.1	1.9	–	47.8
Trade payables	(20.3)	(12.0)	(0.7)	(0.5)	(33.5)
Cash	15.4	5.7	1.9	–	23.0
Additions of property, plant and equipment	1.5	0.6	0.2	0.1	2.4

* Non-current assets excluding deferred tax assets

The notes on pages 10 to 20 form an integral part of this interim financial report.

3. SEGMENT ASSETS AND LIABILITIES CONTINUED

The assets and liabilities at 31 March 2018 and capital expenditure for the year then ended were as follows:

	Europe £m	N America £m	Asia £m	Head office £m	Group £m
Non-current assets*	30.8	91.5	1.2	0.5	124.0
Inventory	14.9	17.9	2.2	–	35.0
Trade receivables (net)	23.5	27.0	1.8	–	52.3
Trade payables	(23.3)	(14.6)	(0.7)	(1.2)	(39.8)
Cash	6.6	8.6	2.9	–	18.1
Additions of property, plant and equipment	3.1	3.0	0.2	0.1	6.4

* Non-current assets excluding deferred tax assets

Unallocated head office items relate to assets and liabilities incurred in the normal course of business for the Parent Company.

4. EXCEPTIONAL ITEMS

	Half year ended 30 Sept 2018 £m	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Operating income:			
Swiss land and buildings sale	**–**	7.4	6.9
Operating expenses:			
Site closure costs	**(2.2)**	(3.2)	(2.9)
Asset write-offs and accelerated depreciation	**–**	(1.2)	(1.8)
Reorganisation costs	**–**	(1.0)	(1.1)
Abortive acquisition costs	**–**	(0.2)	(0.2)
Acquisition costs	**(1.9)**	(0.4)	(0.8)
	(4.1)	1.4	0.1

Exceptional operating income

The prior year exceptional operating income related to the closure of the Rorschach site in Switzerland in 2016. The land and buildings were sold on the 20 July 2017 for an amount of £13.3m, resulting in an exceptional gain for this disposal of £6.9m.

Exceptional operating expenses

The Dunstable manufacturing facility in the UK entered a formal closure consultation process following the initial closure announcement in September 2018 and the closure was confirmed in October 2018 following the consultation period. Whilst the closure had not been formalised at the balance sheet date of 30 September 2018, a provision for the potential closure of £2.2m was booked in line with the accounting standard requirement, albeit no formal agreement was reached until October 2018.

The notes on pages 10 to 20 form an integral part of this interim financial report.

NOTES CONTINUED

4. EXCEPTIONAL ITEMS CONTINUED

The Group has also incurred one-off acquisition costs of £1.9m during the first half of the year, related to the acquisition of Systagenix Wound Management Manufacturing Ltd which was announced in September 2018 and completed on 1 October 2018.

The prior year exceptional operating expenses included the exit of production in Korea which was announced on 23 May 2017. The costs of the closure and associated transfer costs amounted to £2.9m with an additional £1.8m for the impairment of assets that were not being transferred as part of the closure. £1.1m related to the reorganisation of a UK-based manufacturing site for employee-related severance costs. Acquisition costs directly related to the acquisition of Markel Industries and BioMed Laboratories LLC of £0.8m, with a further £0.2m of abortive acquisition costs also being charged where potential acquisitions did not progress to completion.

5. KEY MANAGEMENT COMPENSATION AND DIRECTORS' REMUNERATION

	Half year ended 30 Sept 2018 £m	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Short-term employment benefits	**1.5**	2.6	5.0
Post-employment benefits	**0.1**	0.1	0.2
Share-based payments (including share incentive plan)	**0.4**	0.7	1.5
	2.0	3.4	6.7

Key management is considered by the Group to be the Executive Team, which comprises certain senior employees, as defined in the annual financial statements. The short-term employment benefits include wages and salaries, bonuses, social security contributions and non-monetary benefits.

6. RELATED PARTY TRANSACTIONS

The pension schemes are related parties to the Group. There were no contributions outstanding at the period end.

7. NET FINANCE COSTS

	Half year ended 30 Sept 2018 £m	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Interest payable on bank loans and overdrafts	**(0.6)**	(0.6)	(1.2)
Interest income on pension scheme assets less interest on scheme liabilities	**(0.2)**	(0.3)	(0.7)
Net finance costs	**(0.8)**	(0.9)	(1.9)

The notes on pages 10 to 20 form an integral part of this interim financial report.

8. TAXATION

	Half year ended 30 Sept 2018 £m	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Current tax:			
Tax on trading activities – current period	**(2.3)**	(2.1)	(4.5)
Tax on trading activities – prior period	**–**	0.2	(0.1)
Tax on non-trading items	**0.2**	(1.0)	(1.0)
Total current tax	**(2.1)**	(2.9)	(5.6)
Deferred tax:			
Tax on trading activities – current period	**(0.6)**	(1.5)	(0.7)
Tax on trading activities – prior period	**(0.9)**	–	(0.1)
Tax on non-trading items	**0.5**	0.5	1.1
Total deferred tax	**(1.0)**	(1.0)	0.3
Tax charge on trading activities	**(3.8)**	(3.4)	(5.4)
Tax (charge)/income on non-trading activities	**0.7**	(0.5)	0.1
Tax charge for the period	**(3.1)**	(3.9)	(5.3)

9. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. Diluted earnings per share has been calculated on share options in existence at 30 September 2018.

Adjusted

Adjusted earnings per share is calculated by dividing the trading profit less cash interest less tax on operating activities by the weighted average number of ordinary shares in issue during the period.

	Half year ended 30 Sept 2018	Half year ended 30 Sept 2017	Year ended 31 Mar 2018
Profit attributable to equity holders of the Company (£m)	**6.6**	11.5	23.5
Weighted average number of ordinary shares in issue (m)	**153.7**	152.5	153.1
Basic earnings per share (p)	**4.3**	7.5	15.4
Weighted average number of shares in issue, including potentially dilutive shares (m)	**158.7**	158.0	158.3
Diluted earnings per share (p)	**4.2**	7.3	14.8
Adjusted earnings per share (p)	**8.3**	8.3	18.2

The notes on pages 10 to 20 form an integral part of this interim financial report.

NOTES CONTINUED

10. DIVIDENDS

A final dividend for the year ended 31 March 2018 of 2.4p per share was approved by shareholders at the 2018 AGM and was paid on 17 August 2018 to shareholders registered on 20 July 2018.

11. RETIREMENT BENEFIT SCHEMES

Defined benefit schemes

The defined benefit obligation as at 30 September 2018 has been updated for the results of the 1 April 2017 valuation which was signed off in June 2018 by the Scheme Actuaries, and it has also been adjusted for movements in contributions, financial and demographic assumptions over the period.

The defined benefit plan assets have been updated to reflect their market value at 30 September 2018. The change in the expected return on assets has been recognised as an actuarial gain or loss in the Statement of Comprehensive Income in accordance with the Group's accounting policy.

12. PROVISIONS

	Reorganisation and leasehold commitments £m	Environmental £m	Total £m
At 31 March 2017	3.3	0.4	3.7
Exchange differences	0.1	–	0.1
Charged in the period	4.4	–	4.4
Utilised in the period	(1.8)	(0.2)	(2.0)
At 30 September 2017	6.0	0.2	6.2
Exchange differences	(0.1)	–	(0.1)
Charged in the period	0.9	–	0.9
Utilised in the period	(1.9)	–	(1.9)
At 31 March 2018	4.9	0.2	5.1
Charged in the period	2.9	–	2.9
Released in the period	(0.6)	–	(0.6)
Utilised in the period	(0.5)	–	(0.5)
At 30 September 2018	**6.7**	**0.2**	**6.9**
Analysis of provisions:			
Current	3.8	0.1	3.9
Non-current	2.9	0.1	3.0
At 30 September 2018	**6.7**	**0.2**	**6.9**

The notes on pages 10 to 20 form an integral part of this interim financial report.

13. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW AND RECONCILIATION OF NET CASH

	Half year ended 30 Sept 2018 £m	Half year ended 30 Sept 2017 £m	Year ended 31 Mar 2018 £m
Operating profit	**10.5**	16.3	30.7
Adjustments for:			
Depreciation and amortisation	**5.5**	4.7	9.6
Profit on disposal of land and buildings	**–**	(7.4)	(6.9)
Impairment of tangible fixed assets	**–**	1.2	1.8
Pensions payments in excess of charge	**(2.6)**	(2.3)	(4.4)
Share options charge	**0.5**	0.9	1.9
Grant Income released	**–**	–	(0.1)
Changes in working capital:			
Inventories	**(3.0)**	(3.3)	(4.5)
Trade debtors	**4.9**	3.5	(2.0)
Trade creditors	**(3.6)**	1.4	8.0
Changes in trading working capital	**(1.7)**	1.6	1.5
Other debtors	**1.4**	0.2	(2.0)
Other creditors	**(2.3)**	(3.6)	(2.3)
Deferred consideration	**–**	(0.1)	(0.1)
Net movement in environmental provisions	**–**	(0.2)	(0.2)
Net movement in reorganisation provisions and leasehold commitments	**–**	0.9	0.4
Net movement in other provisions	**1.8**	1.8	1.2
Cash generated from operations	**13.1**	14.0	31.1
Cash generated from operations before exceptional items	**13.4**	16.4	34.7
Cash outflows from exceptional items	**(0.3)**	(2.4)	(3.6)
Cash generated from operations	**13.1**	14.0	31.1

Analysis of cash and cash equivalents and borrowings

	At 1 April 2018 £m	Cash flow £m	Exchange movement £m	**At 30 Sept 2018 £m**
Cash and cash equivalents	18.1	(5.9)	0.6	**12.8**
Borrowings within one year	(1.0)	0.1	(0.1)	**(1.0)**
Borrowings after more than one year	(20.9)	5.9	(2.0)	**(17.0)**
Total borrowings	(21.9)	6.0	(2.1)	**(18.0)**
Total	(3.8)	0.1	(1.5)	**(5.2)**

The notes on pages 10 to 20 form an integral part of this interim financial report.

14. POST BALANCE SHEET EVENT

On 1 October 2018 the Group acquired the share capital of Systagenix Wound Management Manufacturing Limited from Acelity for £31.4m. This includes a 5 year exclusive development and supply agreement between Scapa and Acelity for the supply of Systagenix wound care products that are currently manufactured in the acquired Gargrave facility.

The notes on pages 10 to 20 form an integral part of this interim financial report.

COMPANY INFORMATION

KEY DATES

Next year end (to be reported)	31 March 2019
Next preliminary announcement	21 May 2019
Next annual report due	June 2019
Next Annual General Meeting	23 July 2019
Next interim results	19 November 2019

SHAREHOLDER INFORMATION

Shareholder enquiries should be directed to the Company's registrars, Link Asset Services, at their Customer Support Centre, details as follows:

By phone: UK – 0871 664 0300, from overseas call +44 (0) 871 664 0300 – calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 09:00 to 17:30, Monday to Friday, excluding public holidays in England and Wales.
By email: enquiries@linkgroup.co.uk
By post: Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Further information regarding the various services offered by Link Asset Services, including the Share Portal and Share Dealing Service, can be obtained from the above or directly from Link's website www.signalshares.com or www.linksharedeal.com

Scapa Group plc
Manchester Road
Ashton-Under-Lyne
Greater Manchester OL7 0ED
United Kingdom
T +44 (0)161 301 7400
F +44 (0)161 301 7597
www.scapa.com

Scapa UK
T +44 (0) 161 301 7400

Scapa France
T +33 (0) 475 44 80 00

Scapa Italy
T +39 0161 867 311

Scapa Asia
T +852 2439 4330

Scapa North America
T +1 860 688 8000

Scapa South America
T +55 11 2589 6003