


Scapa Group plc

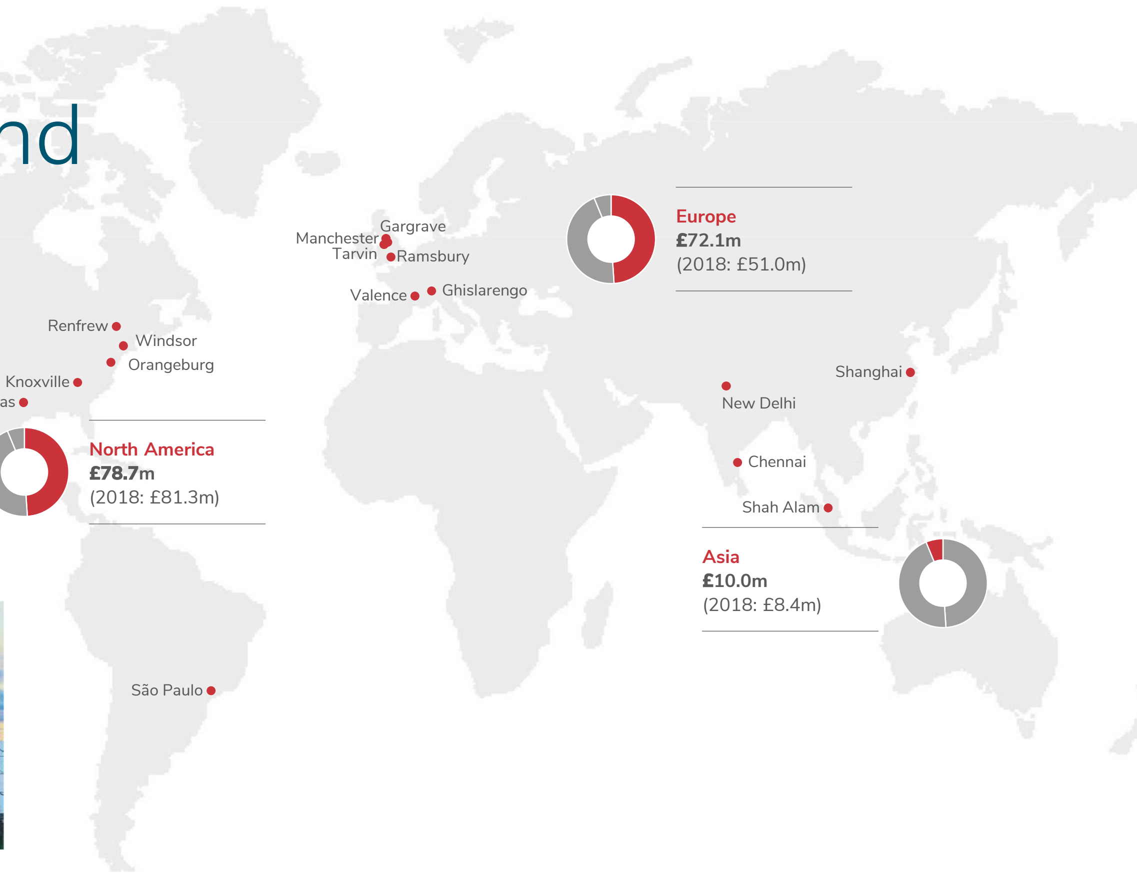
Interim Results Presentation – September 2019




Released: 19 November 2019

Scapa Group at a glance

Business continues to expand



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.

Locations	Number of employees
8	875

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.

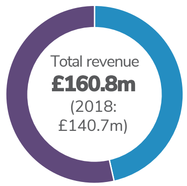
Our Commercial Products business includes the Construction and Consumer segments, both market environments with shorter lead times within a demand-driven supply chain.

Locations	Number of employees
9	637

Revenue by division

Healthcare
£74.7m
(2018: £57.8m)

Industrial
£86.1m
(2018: £82.9m)



Trading profit[1] by division

Healthcare
£6.6m
(2018: £8.2m)

Industrial
£10.2m
(2018: £11.0m)

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

* Trading profit for the Group is £14.2m after charging £2.6m (2018: £2.1m) of corporate costs.

Strategic priorities

1. Significant customer engagement

2. Drive top-line growth:

Healthcare – expand the addressable markets we serve

- Further grow relationships with current customers
- Develop new products and services
- Identify new tech transfer opportunities
- Complete judicious M&A

Industrial – grow and gain market share in the niche markets we serve

- Leverage network to further grow customer relationships
- Provide new, innovative and niche products

3. Improve efficiency:

Healthcare – increase capacity utilisation

- Site optimisation
- Conversion of rich pipeline of opportunities
- Acquisitions
- Continued commitment to quality

Industrial

- Increase volumes
- Deliver on new product opportunities

Interim results

Resilient financial result, in line with Board expectations

Group financial highlights

- Revenue grew 14.3% to £160.8m (2018: £140.7m); 10.4% on a constant currency basis[1]
- Trading profit[2] fell 17.0% to £14.2m (2018: £17.1m); 20.7% on a constant currency basis[1], representing a trading profit margin reduction to 8.8% (2018: 12.2%); reported operating profit fell to £0.1m (2018: £10.5m); reflecting the impact of the loss of the ConvaTec contract
- Adjusted earnings per share[3] decreased 15.7% to 7.0p (2018: 8.3p)
- Underlying cash flow from operations improved to £18.9m (2018: £13.4m)
- Net debt of £69.7m (31 March 2019: £55.7m) includes IFRS 16 impact of £8.6m
- Pension deficit reduced to £6.4m (31 March 2019: £8.4m)
- Scapa was successful in its motion to dismiss ConvaTec's claim filed in May 2019, in New Jersey federal Court. Scapa's claim against ConvaTec in Connecticut for damages in excess of US$83m has been filed

Healthcare

- Revenue increased 29.2% to £74.7m (2018: £57.8m); 22.7% on a constant currency basis[1]
- On a continuing basis[4] revenue increased 23.0% to £71.1m (2018: 57.8m); 16.7% on a constant currency basis[1]
- Trading profit[2] decreased 19.5% to £6.6m (2018: £8.2m); 24.1% reduction on a constant currency basis[1] reflecting the loss of the ConvaTec contract
- Trading profit margins at 8.8% (2018: 14.2%)
- Continued realisation of synergies across the division, to optimise its assets and enhance its capabilities, as well as to meet the demands and expectations of its customers, including the integration of Gargrave and the preparations in Knoxville
- Over 100 programmes in the development pipeline, many of which are expected to come to market in the near to medium term
- New technology transfer agreement strengthens relationship with existing leading consumer healthcare customer

Industrial

- Revenue increased 3.9% to £86.1m (2018: £82.9m); 1.5% on a constant currency basis[1], despite major market headwinds
- Trading profit[2] decreased 7.3% to £10.2m (2018: £11.0m); 9.7% decrease on a constant currency basis[1]
- Trading profit margins reduced to 11.8% (2018: 13.3%); largely due to product mix and increased overhead charges
- 17% growth in Asia, driven by Consumer and Specialty
- Growth in foundational portfolio; premium PVC, polyethylene adhesives, double-sided tapes, thin-gauge coated adhesives and mats

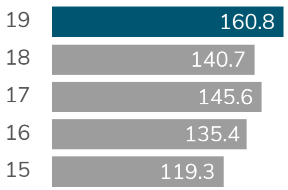
[1] Prior year results translated at current year's average exchange rates
[2] Trading profit is before exceptional items, acquisition costs, amortisation of intangible assets and legacy pension costs
[3] Adjusted earnings per share is calculated by dividing the trading profit, less cash interest, less tax on operating activities by the weighted average number of ordinary shares in issue during the year
[4] Excluding IFRS 15 provision release. A contract liability provision was created as a result of the acquisition of Systagenix in line with the requirements of IFRS 15 and this is excluded on a 'continuing' basis as it represents a non-cash item. This provision will be released on a straight-line basis over a five-year period, in line with the exclusive supply contract

Income statement

Strong revenue growth driven by Healthcare

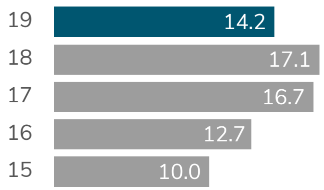
Group revenue (£m)

£160.8m



Trading profit (£m)

£14.2m

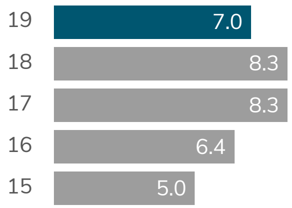


Margin (%)

8.8%

Adjusted earnings per share (p)

7.0p



	30 Sept 2019 £m	30 Sept 2018 £m
Revenue	**160.8**	140.7
Trading profit	**14.2**	17.1
Margin %	***8.8%***	*12.2%*
Amortisation of intangibles	**(3.0)**	(2.3)
Exceptional items	**(10.6)**	(4.1)
Acquisition costs	**(0.1)**	–
Pension administration costs	**(0.4)**	(0.2)
Operating profit	**0.1**	10.5
Finance costs	**(1.1)**	(0.8)
(Loss)/profit before tax	**(1.0)**	9.7
Taxation	**–**	(3.1)
(Loss)/profit for the period	**(1.0)**	6.6
Basic EPS (p)	**(0.6)**	4.3
Adjusted EPS (p)	**7.0**	8.3

On a continuing basis		
Revenue	**157.2**	140.7
Trading profit	**10.6**	17.1
Adjusted EPS (p)	**4.6**	8.3

Exceptional and adjusted items

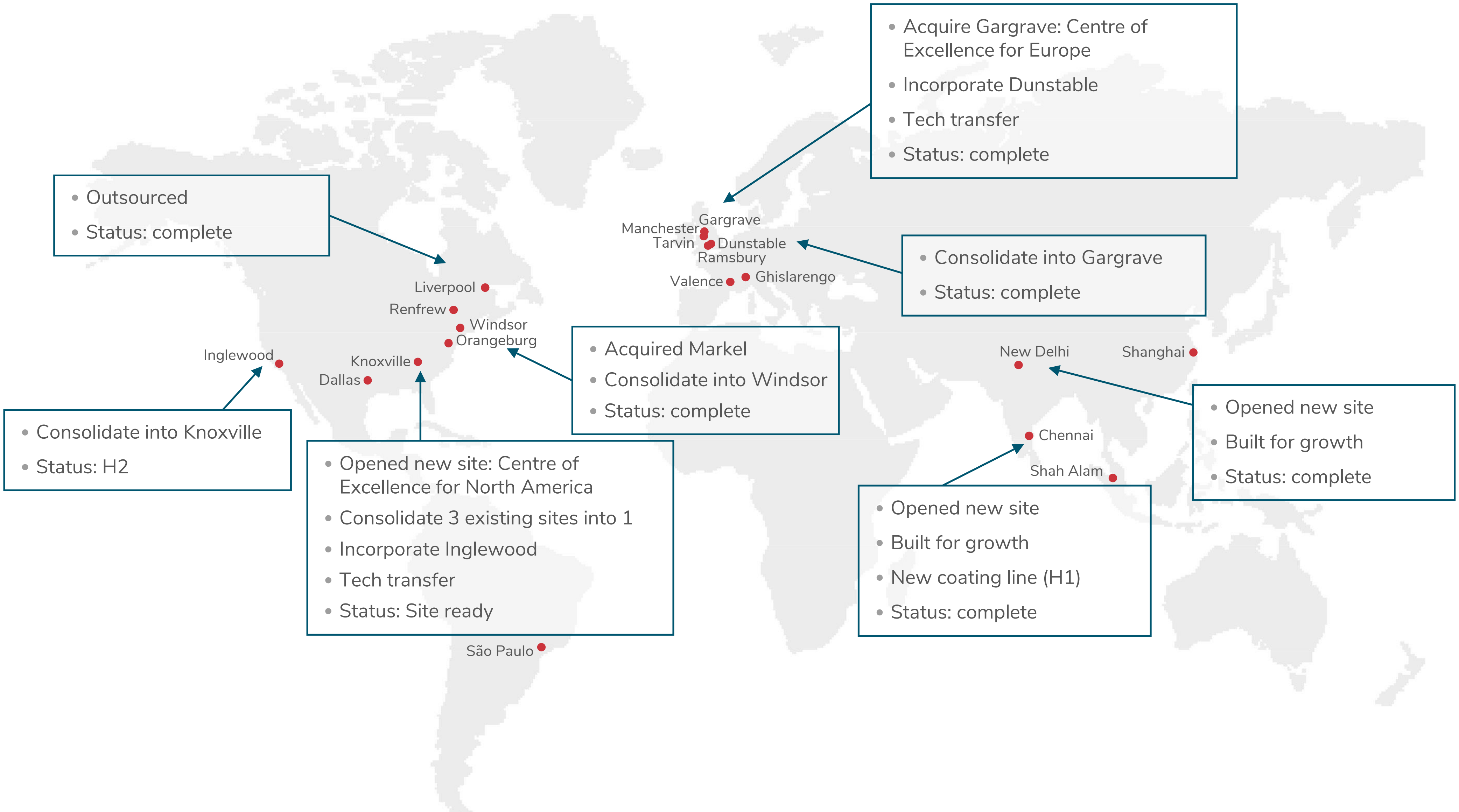
Impact of loss of contract

	30 Sept 2019 £m	30 Sept 2018 £m	31 March 2019 £m
Operating income			
BioMed deferred consideration adjustment	**–**	–	6.8
Total operating income	**–**	–	6.8
Operating expense			
Site closure costs	**(0.8)**	(2.2)	(11.7)
Asset write-offs and accelerated depreciation	**–**	–	(2.3)
Loss of major contract	**(6.0)**	–	–
Goodwill impairment	**(3.2)**	–	(4.6)
Abortive project costs	**(0.6)**	–	–
Pension GMP equalisation	**–**	–	(1.0)
Acquisition costs	**–**	(1.9)	–
Total operating expense	**(10.6)**	(4.1)	(19.6)
Net exceptional items	**(10.6)**	(4.1)	(12.8)

	30 Sept 2019 £m
Inventory write-offs	**(4.6)**
Legal costs	**(1.0)**
Severance costs	**(0.1)**
Asset write-offs and accelerated depreciation	**(0.3)**
Total cost	**(6.0)**

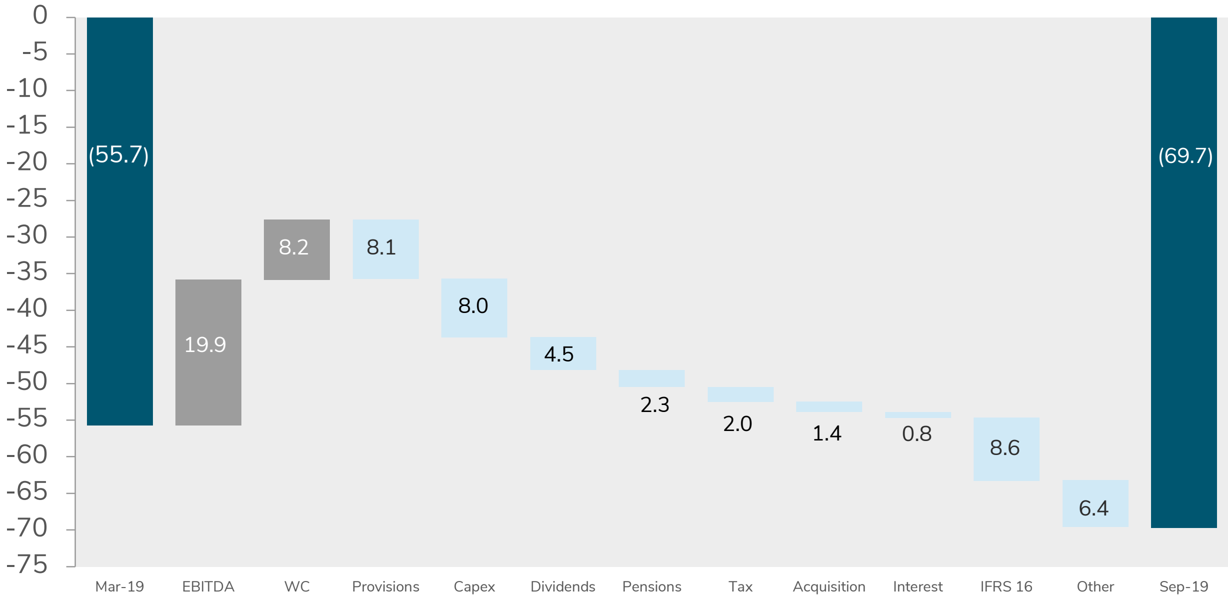
Operational excellence

Operational footprint on track



Strong cash flow – funding investment for the future

Net debt bridge (£m)



Cash from operations

	30 Sept 2019 £m	30 Sept 2018 £m
Operating profit	**0.1**	10.5
Depreciation and amortisation	**8.7**	5.5
Working capital movement	**8.2**	(1.7)
Other	**4.2**	1.7
Free cash flow	**21.2**	16.0
Pensions	**(2.3)**	(2.6)
Exceptionals	**(5.4)**	(0.3)
Net cash flow from operations	**13.5**	13.1

In summary

- The net debt includes £12.1m for a temporary finance lease for the new Knoxville site and impact of IFRS 16
- Provision movements of £8.1m include site closure costs provided for at 31 March 2019
- Adjusted net debt is £49.0m which is 1.08x of EBITDA
- IFRS 16 lease impact of £8.6m at 30 September 2019

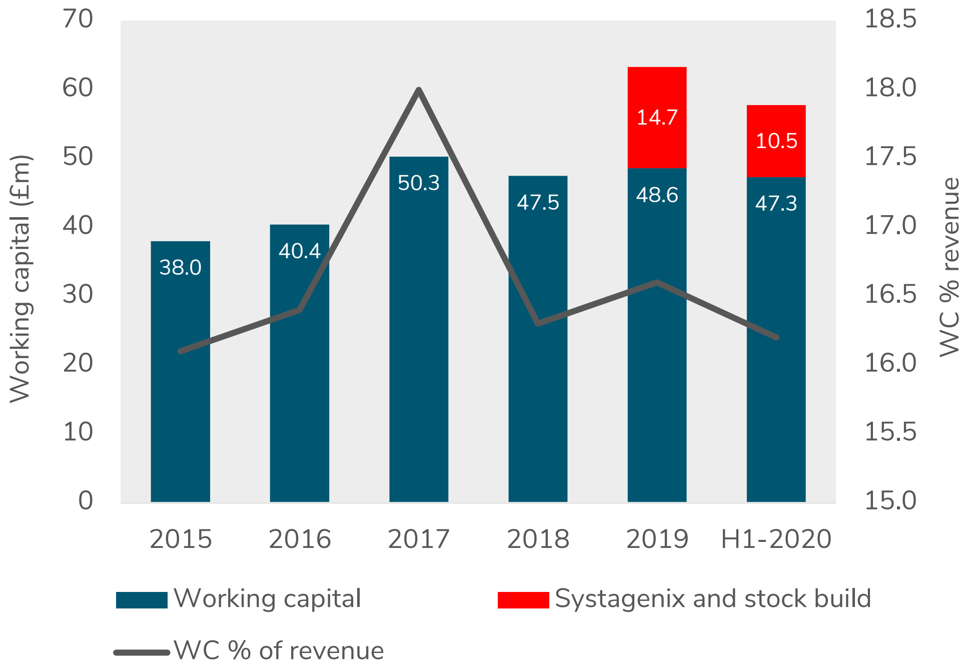
In summary

- Strong cash generation for the business at £13.5m
- Includes increased working capital movement following the acquisition of Systagenix and the exceptional expenditure for the various site closures as part of the ongoing move to our regional Centres of Excellence for Healthcare

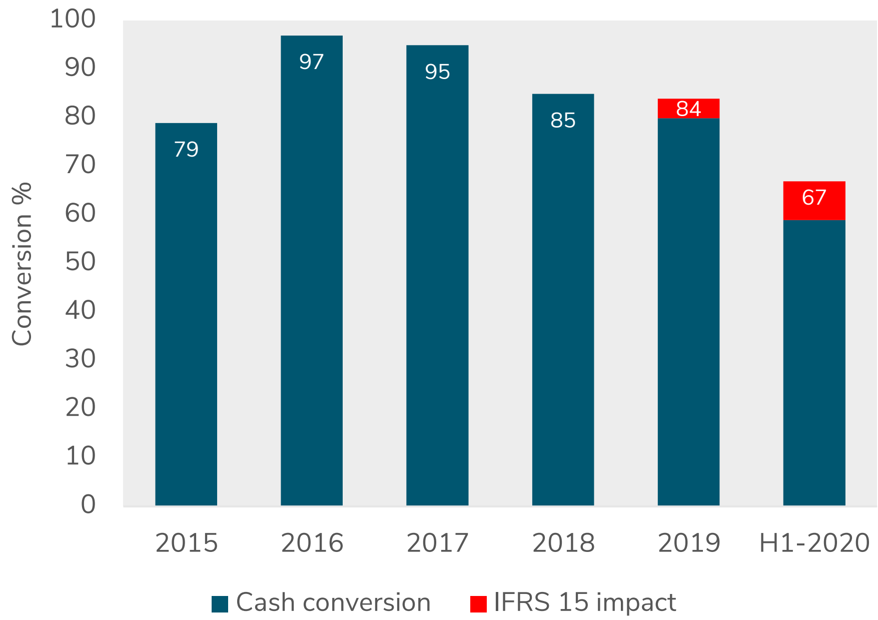
Working capital and cash conversion

Working capital improvement, cash conversion in line with expectations

Working capital[1]



Cash conversion[2]

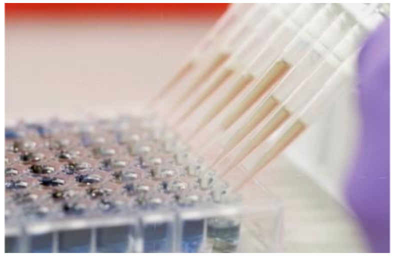


[1] Excluding Systagenix and stock build, working capital in line with historical levels

[2] 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 H1-2020 cash conversion of 67%

Our divisions

Healthcare

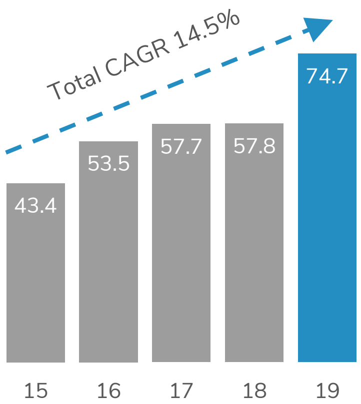


Healthcare – **Analysis**

Focus on revenue growth

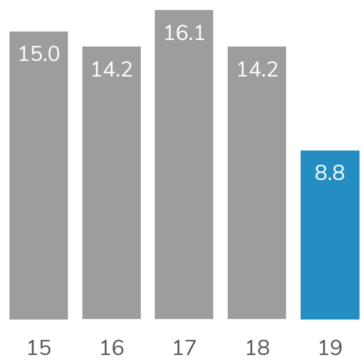
Revenue (£m)

£74.7m

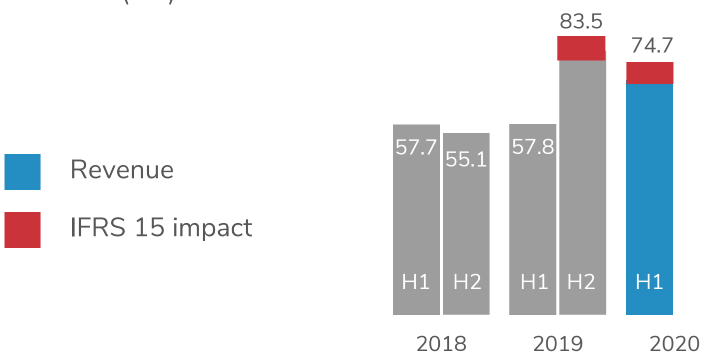


Trading profit margin (%)

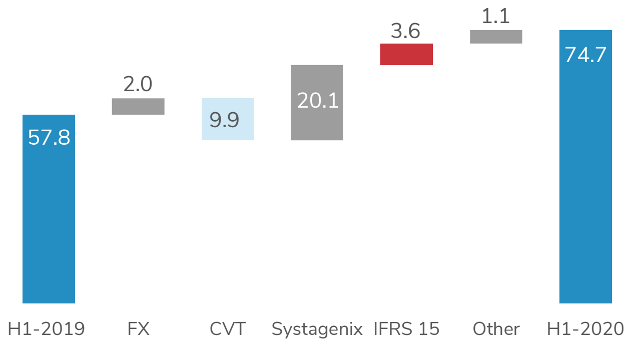
8.8%



Revenue (£m)



H1 Revenue Bridge (£m)



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- On a continuing basis revenue increased 23.0% to £71.1m (2018: £57.8m); 16.7% on a constant currency basis
- Trading profit decreased 19.5% to £6.6m (2018: £8.2m); 24.1% reduction on a constant currency basis, reflecting the loss of the ConvaTec contract
- Trading profit margins at 8.8% (2018: 14.2%)
- Continued realisation of synergies across the division to optimise its assets and enhance its capabilities, as well as to meet the demands and expectations of its customers, including the integration of Gargrave and the preparations in Knoxville
- New technology transfer agreement strengthens relationship with existing leading consumer healthcare customer
- Strong pipeline of opportunities

Healthcare – Systagenix update

Gargrave integration on track

- Performance in line with expectation with revenue growth of 5.2% over H2 FY19
- Cost out of £1.4m achieved so far in FY20 with the restructuring of footprints likely to generate a further £3.6m saving by the end of the year
- Some headwinds with operating costs particularly for depreciation with the increased levels of investments in the site
- Strong pipeline of commercial activities for the site

	Statutory basis			Continuing basis			Cumulative
	FY19 H2	FY20 H1	Cumulative 12mths	FY19 H2	FY20 H1	Cumulative 12mths	Target 12mths
Revenue							
Sales	19.1	20.1	39.2	19.1	20.1	39.2	30.0
IFRS 15 provision release	3.6	3.6	7.2	–	–	–	–
Total revenue	**22.7**	**23.7**	**46.4**	**19.1**	**20.1**	**39.2**	**30.0**
Operating costs	22.8	23.5	46.3	22.8	23.5	46.3	37.7
Cost-out/efficiency/leverage	(3.6)	(1.4)	(5.0)	(3.6)	(1.4)	(5.0)	(5.0)
Total operating expenses	**19.2**	**22.1**	**41.3**	**19.2**	**22.1**	**41.3**	**32.7**
Profit/(loss)	**3.5**	**1.6**	**5.1**	**(0.1)**	**(2.0)**	**(2.1)**	**(2.7)**
Margin %	15.4%	6.8%	11.0%	(0.5%)	(10.0%)	(5.4%)	(9.0%)

Healthcare – North America centre of excellence

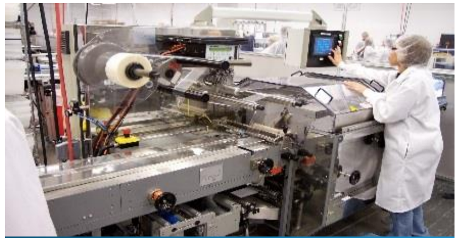
Knoxville state-of-the-art site prepared for growth

- 117 employees

- 152,000 ft^2 Manufacturing
- 13,000 ft^2 Class 8 Clean Room

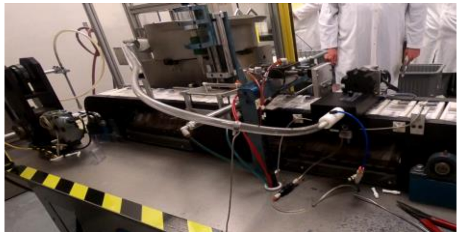
- ISO 9001
- ISO 13485
- FDA Registered for Med Devices & OTC Drug
- ANVISA GMP Clearance

COMPOUNDING & BLENDING



PRECISION CONVERTING

KIT ASSEMBLY



AEROSOL HANDLING & PACKAGING

IN-HOUSE PROGRAM MANAGERS

PRINTING

EXPANDED PACKAGING

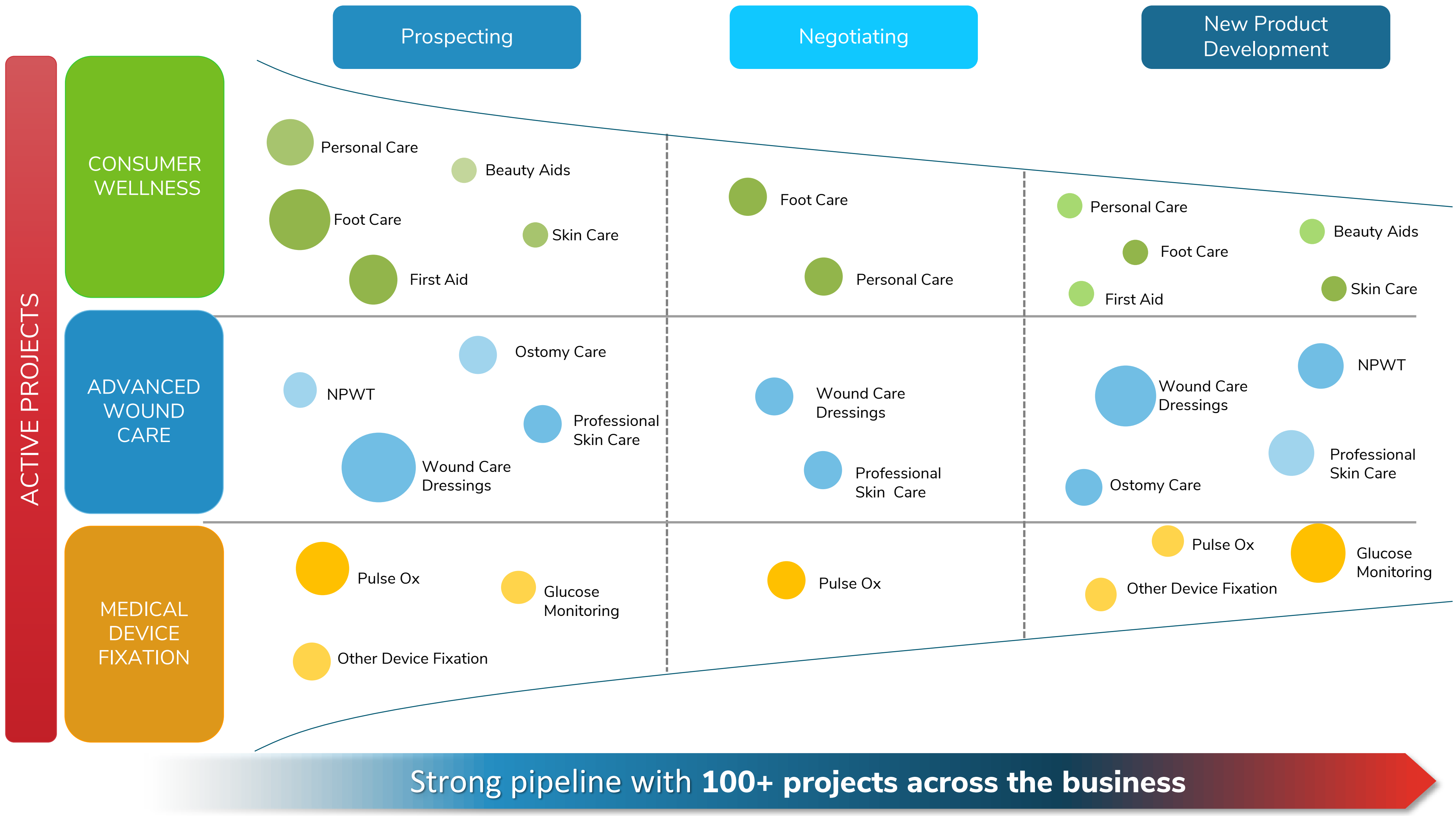
R&D AND ANALYTICAL LAB

REGULATORY SERVICES

Foundation for further growth

Healthcare – Highlights

Organic growth supported by solid pipeline



Our divisions

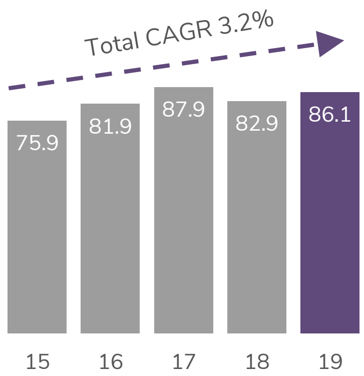
Industrial

Industrial – Poised for growth

Solid revenue growth despite market headwinds

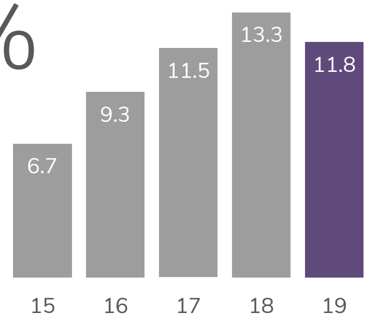
Revenue (£m)

£86.1m

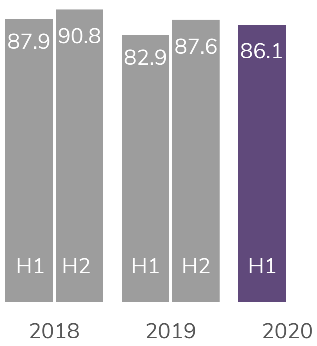


Trading profit margin (%)

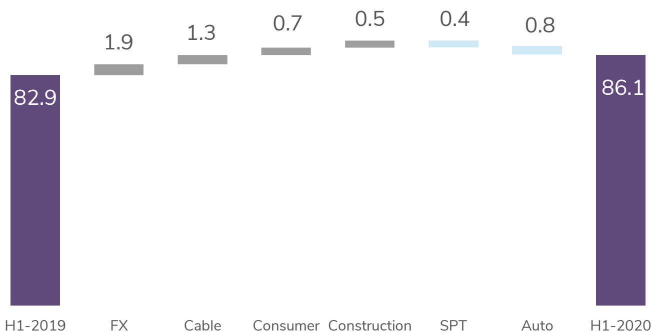
11.8%



Revenue (£m)



H1 Revenue Bridge (£m)



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- Trading profit decreased 7.3% to £10.2m (2018: £11.0m); 9.7% decrease on a constant currency basis
- Trading profit margins reduced to 11.8% (2018: 13.3%); largely due to product mix and increased overhead charges
- 17% growth in Asia, driven by Consumer and Specialty
- Growth in foundational portfolio; premium PVC, polyethylene adhesives, double-sided tapes, thin-gauge coated adhesives and mats
- 4% growth in North America, with Cable, Construction and Specialty primary drivers
- 6% of European and North American revenue delivered from new business
- New site opened in Delhi, India, which is in addition to the previously announced site in Chennai

Industrial – Highlights

Automotive

- New OEM approvals secured at VW and Audi
- Expanded reach into engine assemblies
- Gasket bonding materials qualified in redesigned Corvette
- EU & ROW in line with macro market performance

Cable

- Double-digit growth in both EU and NA businesses
- Qualifications in new data centre cable designs to support 5G
- Continued strength and expansion in European and Asian accessories businesses
- Benefiting from higher demand in legacy loose tube designs to support regional infrastructure upgrades

Construction

- Strong North American rebound driven by Polyflex® demand
- Double-digit growth in double-sided technologies for multiple applications and regions
- Expanded demand in premium electrical PVC in Asia, North America, and Europe

Consumer

RENFREW PRO™
Hockey Tape

BARNIER®
www.barnierpro.com

- 5th straight half of double-digit growth in Indian paint and accessories business
- Solid Barnier® performance in French and German markets
- Renfrew alliances expanded to Boston Bruins
- Continued European category extension activities across wipes, gloves, and other safety products

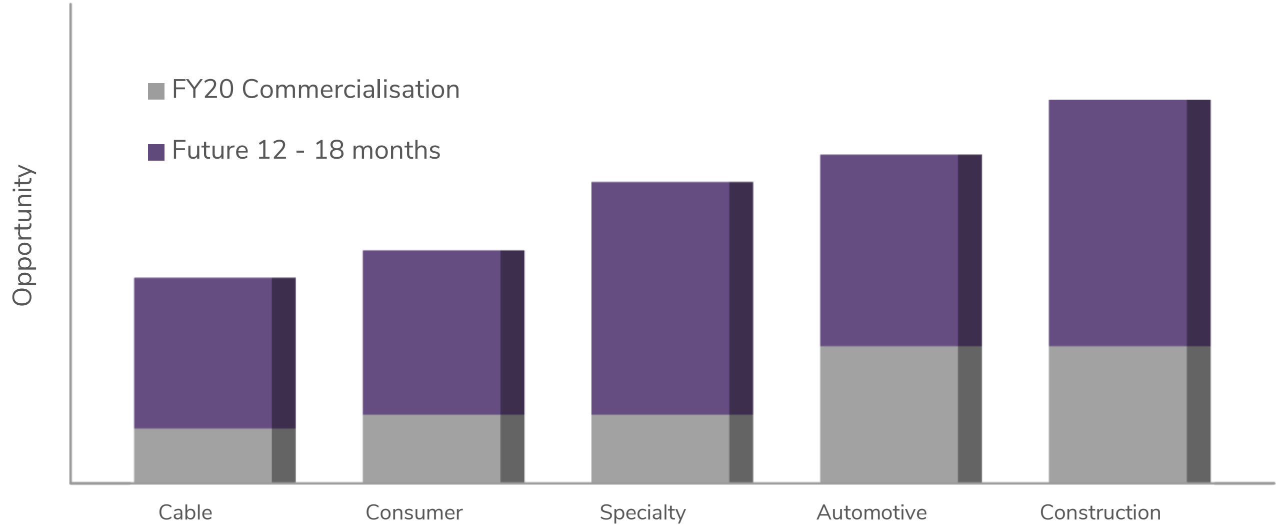
Speciality

- 20% surge in Markel business
- Continued strength in fastening and military product offerings.
- Expanded product offerings launched in performance textiles
- Expanded Exafit® reach in North America
- Softer EU demand offset stronger North American performance

Strong global and sector diversification

Industrial – **Highlights**

Significant pipeline



Leveraging Our Foundational Portfolio

Automotive

Focus Areas

- German OEM approvals
- New truck/SUV platform builds in North America
- Qualification of Scapa India PVC portfolio
- New platform builds at top 4 EU Tier partners
- Butyl product line for NA and Asia

Cable

Focus Areas

- Waterblocking platform expansion for HVDC cable designs
- Conductive & semi-conductive expansion in Asia
- Insulative replacement materials for armouring

Construction

Focus Areas

- Premium PVC partners
- Fire retardant portfolio expansion across EU/NA partners
- Masking pull through into North America

Consumer

Focus Areas

- German market partners
- Expanded cold-weather product reach
- EU safety accessory line expansions
- High performance athletic tape for NA and Asia

Specialty

Focus Areas

- Continued expansion of Global Exafit ® partners
- Growth in composite/ assembly portfolio
- Next generation SIM card bonding
- Expanded athletic and military textile product range
- White goods approvals in Asia and NA

Outlook

Significant opportunities for growth

We have a clear strategic blueprint for both businesses. Short-term focus on revenue growth

Healthcare

- Strong pipeline of opportunities
- Maximise the synergy from Systagenix transaction
- Significant opportunities for further technology transfers
- Play across the full outsourced spectrum
- Drive turn-key solutions pipeline
- Technology transfer trend increasing

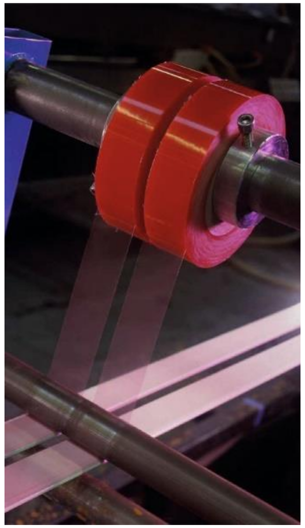
Industrial

- Strong global and sector diversification
- Drive growth in the niche markets where we have a competitive advantage
- Expand foundational products into new applications
- Continue to optimise digital platforms to accelerate access to new markets
- Deliver operational synergies from Markel

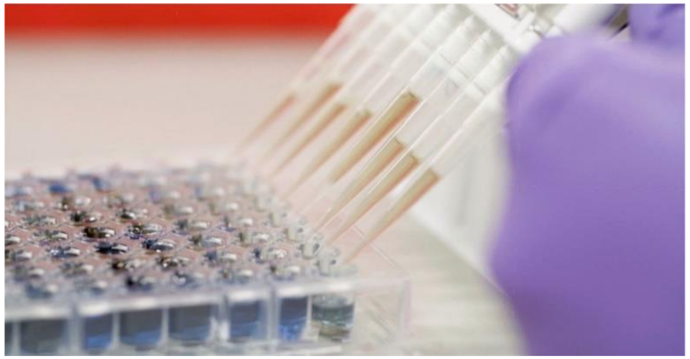
Outlook

- Build on The Scapa Way to ensure that we continue to focus on value creation underpinned by integrity and compliance
- Earnings target for the year in line with expectations

Q&A



Appendices



Business model

Resources and relationships

- Financial discipline
- Strategic assets
- Partnerships
- Employees
- Synergies

The Scapa Way

Healthcare

Our targeted segments

- Advanced Wound Care
- Consumer Wellness
- Medical Device Fixation

Industrial

Our targeted segments

- Automotive
- Cable
- Specialty
- Construction
- Consumer

Our goal
To expand our addressable market by enhancing our value chain and technologies

How we will succeed
We will partner with our customers to continue to drive technology transfers, become an integrated part of their product life cycles and build a platform to play across the full outsourced spectrum

Challenge the Status Quo

Challenge Ourselves

Challenge Sufficiency

Our goal
To grow and gain market share in the niche markets where we have a competitive advantage

How we will succeed
We will concentrate on core markets with differentiated application solutions, increasing revenue to our key customers by introducing additional products and technologies, as well as pursuing cross-selling opportunities in adjacent markets

Stakeholder values

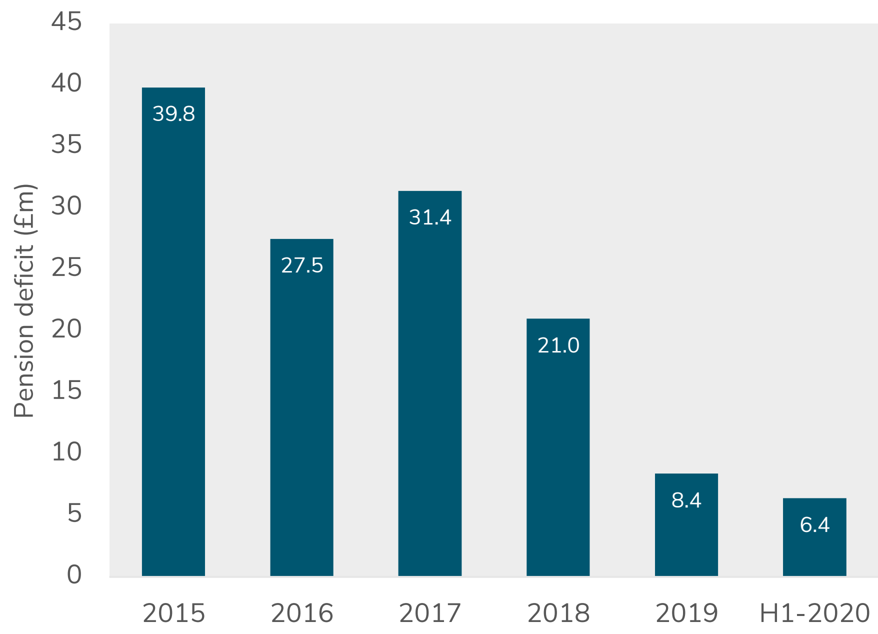
- Shareholders
- Customers
- Employees
- Community

Pension deficit further reduced

In summary

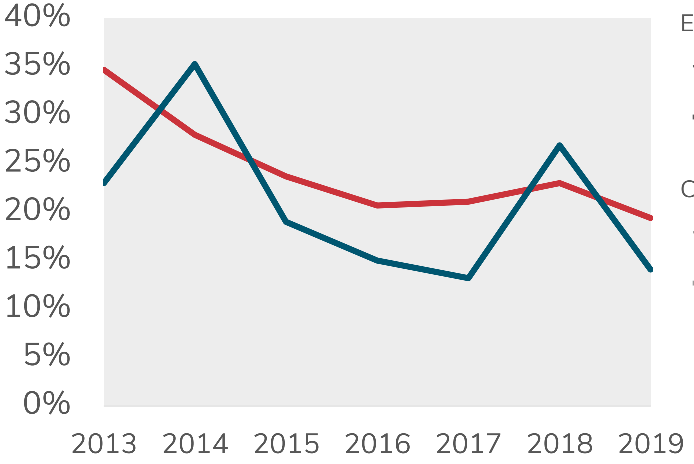
- Pension deficit reduced to £6.4m from £8.4m at the end of March 2019
- The UK defined benefit pension scheme has now reduced to £Nil (2018: £2.2m deficit)
- The remaining deficit of £6.4m relates to schemes in France, Italy and the USA
- One of the USA schemes is currently being wound up via a buy-out process and is expected to complete by March 2020
- Certainty over cash payments to UK scheme with CAR arrangement from 2013

Pension deficit trend



Tax and pensions

Effective tax rate/cash tax



Effective tax rate (%)

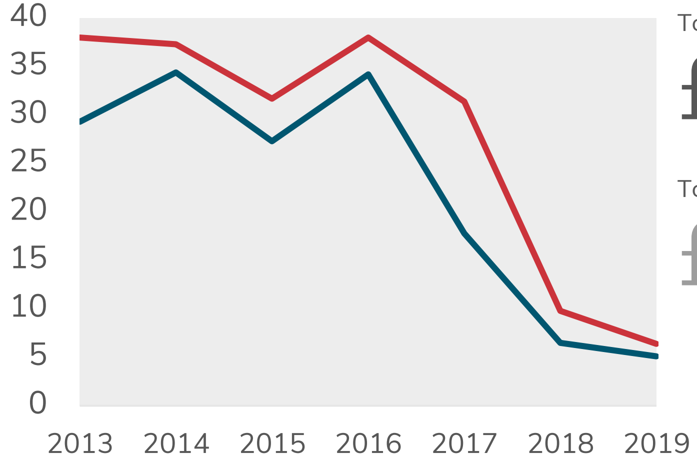
19.4%

Cash tax (%)

14.1%

- Adjusted ETR of 19.4% (2018: 23.0%) as a result of the spread of country-specific tax rates
- We expect the future ETR to remain between 20%-24%, and is likely to be dependent upon profit mix, particularly the UK % where we have unrecognised tax losses

Total pension deficit



Total gross pension deficit (£m)

£6.4m

Total net pension deficit (£m)

£5.1m

- Continued improvement in the overall deficit reducing from £8.4m at 31 March 2019 to £6.4m at 30 September 2019
- The UK scheme has reduced to £Nil (2018: £2.2m deficit)
- The £6.4m relates to French and Italian statutory schemes plus some defined benefit schemes in the USA, one of which is currently being wound up

Balance sheet

	30 Sept 2019 £m	30 Sept 2018 £m
Goodwill and intangible assets	**119.7**	80.8
Fixed assets	**95.4**	48.5
Working capital	**57.8**	51.3
Other	**(10.3)**	(17.1)
Provisions	**(39.5)**	(6.9)
Tax	**(5.1)**	(6.5)
Pension deficit	**(6.4)**	(9.8)
Deferred tax on pensions	**1.3**	3.3
Net pension deficit	**(5.1)**	(6.5)
Net debt	**(69.7)**	(5.2)
Net assets	**143.2**	138.4

- Goodwill and intangibles increase due to Systagenix and Crawford acquisitions
- Fixed asset increase as a result of the Systagenix acquisition, strong capital investment in the business, plus the IFRS 16 leases impact
- Provision movements include the £35.8m contract liability provision for the IFRS 15 provision release following the acquisition of Systagenix
- Net debt of £69.7m includes the cash consideration of £34.0m for Systagenix, the finance lease of £12.1m for the new Knoxville Centre of Excellence site and the impact of IFRS 16 leases of £8.6m

Impact of FX

	% Revenue	Average Rate H1-2020	Average Rate H1-2019	Currency Effect
EURO	21%	**1.13**	1.13	0.0%
USD$	40%	**1.26**	1.34	6.3%
CAD$	9%	**1.68**	1.74	3.6%
Group				**3.4%**

Effective tax rate

	30 Sept 2019 £m	30 Sept 2018 £m
(Loss)/profit before tax	**(1.0)**	9.7
Tax charge	**–**	(3.1)
Headline effective rate	**0.0%**	32.9%
Trading profit	**14.2**	17.1
Cash interest	**(0.8)**	(0.6)
Adjusted profit before tax	**13.4**	16.5
Tax on operating activities	**(2.6)**	(3.8)
Underlying effective rate	**19.4%**	23.0%

In summary

- The effective tax rate is in line with that of previous years, and reflects tax on profits generated in key territories and utilisation of unrecognised tax losses in the UK

Adjusted EPS

	30 Sept 2019 £m	30 Sept 2018 £m
Trading profit	**14.2**	17.1
Cash Interest	**(0.8)**	(0.6)
Tax on trading activities	**(2.6)**	(0.6)
Adjusted profit after tax	**10.8**	12.7
Shares in issue (no.)	**155.0**	153.7
Adjusted EPS (p)	**7.0**	8.3

Tax charge

	30 Sept 2019 £m	30 Sept 2018 £m
(Loss)/profit before tax	**(1.0)**	9.7
Tax at 19%	**0.2**	(1.8)
Movements in unprovided deferred tax	**0.8**	–
Effect of overseas tax rates	**(0.5)**	(0.6)
Change in tax rate	**(0.1)**	–
Other items	**(0.4)**	(0.7)
Tax charge	**–**	(3.1)

In summary

- The tax charge of £Nil (2018: £3.1m) benefits from the mix of overseas tax rates
- The zero tax charge overall reflects the tax credit received in the US in respect of exceptional costs incurred, principally in relation to the loss of the ConvaTec contract

In summary

- Adjusted EPS reduced 15.7% in the period to 7.0p (2018: 8.3p) largely due to the loss of the ConvaTec contract