



# Scapa Group plc

Preliminary Results 2015

Investor Presentation

Scapa is a leading global manufacturer of bonding solutions and adhesive components for applications in the healthcare and industrial markets.

- Market leading developer and manufacturer of bonding materials and solutions
- Sales and manufacturing facilities throughout Europe, North and South America and Asia
- +1,200 employees in 11 countries and 20 locations
- Established in 1927 as Scapa Dryers Limited



## FINANCIAL HIGHLIGHTS

- Revenue grew 8.3%† to £236.0m
- Trading profit\* increased 27.4%† to £18.6m
- Trading profit\* margins continued to improve to 7.9% (2014: 6.9%)
- Underlying earnings per share increased 26.4% to 9.1p (2014: 7.2p)
- Final dividend increased 50% to 1.5p (2014: 1.0p)
- Net debt of £3.4m after the acquisition of First Water Limited for £11.2m

## OPERATIONAL HIGHLIGHTS

- Growth across all geographies and market segments
- Continued investment in Healthcare, including acquisition of First Water Limited
- Launch of MEDIFIX Solutions™ to address the wearable medical market
- Healthcare margins increased to 15.0% (2014: 14.7%)
- Manufacturing footprint optimisation commenced through consolidation of our French facilities
- Initiated consultation with employees on the proposed closure of the Swiss facility
- Industrial margins increased to 6.0%
- Electronics revenue grew by 28.6% with a margin of 7.6%
- Reorganised into two separate and stand-alone business units
- Continue to embed 'The Scapa Way' to drive an entrepreneurial culture

•Before amortisation of intangible assets, exceptional items and legacy pension costs and finance charges

†At constant exchange rates

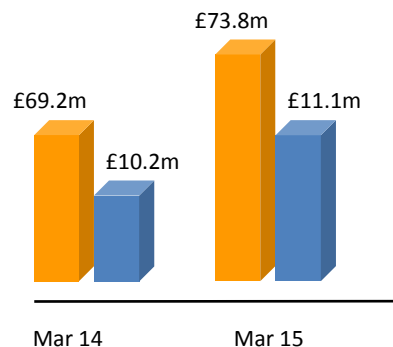
# Income statement

	2015	2014	
	£m	£m	
<b>Revenue</b>	<b>236.0</b>	226.1	▪ Growth across all segments and regions
<b>Trading profit</b>	<b>18.6</b>	15.5	▪ Revenue up +4.4% or 8.3% at constant fx
<b>Margin %</b>	<b>7.9%</b>	6.9%	▪ Trading profit up 20% or 27.4% at constant fx
Amortisation of intangibles	(1.4)	(1.5)	▪ Trading profit margin increased to 7.9%
Exceptional items	(0.5)	0.2	▪ Exceptional costs – First Water acquisition
Pension administration costs	(0.7)	(0.8)	▪ 2016 future earnout – post combination expense
Interest payable - cash	(0.7)	(0.6)	▪ Cash interest on £40m facility
Interest payable - non cash	(1.6)	(1.6)	▪ Reduction in effective tax rate to 25.1%
Taxation on operating activities	(4.5)	(4.4)	▪ Adjusted EPS increased 26.4%
Taxation on exceptional items	0.3	(13.5)	▪ 50% increase in final dividend to 1.5p
<b>Profit/(Loss) for the year</b>	<b>9.5</b>	(6.7)	
Basic EPS (p)	<b>6.5p</b>	(4.6p)	
<b>Adjusted EPS (p)</b>	<b>9.1p</b>	7.2p	
<b>Dividend (p)</b>	<b>1.5p</b>	1.0p	

## Reconciliation of adjusted EPS

	2015	2014
	£m	£m
Trading profit	18.6	15.5
Cash interest payable	(0.7)	(0.6)
Tax on operating activities	(4.5)	(4.4)
Adjusted profit after tax	13.4	10.5
Shares in issue	146.8	146.4
Adjusted EPS	9.1p	7.2p

## HEALTHCARE

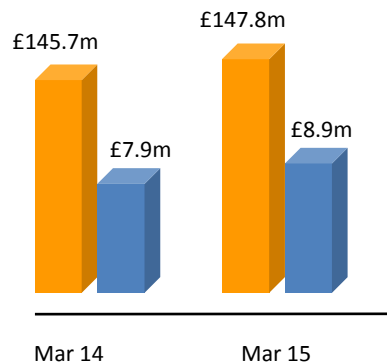


**Revenue split** 31.3%  
2014 30.6%

**Margin** +15.0%  
2014 14.7%

- Revenue growth of +6.6%, constant fx 7.9%
- Revenue increased to 31.3% of Group
- Trading profits increased +8.8%, constant fx 11.0%
- Margins improved to +15.0%
- Accounts for 59.7% of trading profits
- Acquisition of First Water Limited

## INDUSTRIAL



**Revenue split** 62.6%  
2014: 64.4%

**Margin up to** +6.0%  
2014 5.4%

- Revenue growth of +1.4%, constant fx 6.6%
- Trading profit increased +12.7%, constant fx 21.9%
- Margins improved to +6.0%
- Clear definition of opportunity
- Automotive sector double digit growth
- Construction growth - market share gain
- Commenced optimisation of manufacturing footprint

- Revenue grew +28.6% to £14.4m, trading profit £1.1m and margin increased to 7.6%

# Balance sheet

	2015	2014
	£m	£m
Goodwill and int'gble assets	39.5	27.5
Fixed assets	42.0	35.7
Working capital	38.1	32.9
Other	(19.3)	(16.3)
Tax	(2.3)	(3.3)
Deferred Tax	2.6	2.9
Pension deficit	(39.8)	(40.0)
Deferred tax on pensions	4.4	2.9
Net pension deficit	(35.4)	(37.1)
Net cash	(3.4)	5.4
Net assets	61.8	47.7

- Change in goodwill and intangible assets driven by First Water, acquired on 27 February 2015
- Increase in fixed asset balance is all due to Capex in the year and foreign exchange movements
- Stock and debtors have increased in line with the growth of the business. Working trading capital at 16.1% (2014: 14.5%)
- 'Other' relates to provisions and other non-trade creditors
- Gross pension deficit reduced owing to good asset performance and management of liabilities
- We closed the year with net debt of £3.4m after the acquisition of First Water Limited

# Strong cash generation from operations

	2015	2014	
	£m	£m	
<b>Trading profit</b>	<b>18.6</b>	15.5	■ Group remains highly cash generative, net cash from operations +110% of operating profit
Depreciation	<b>5.2</b>	5.2	■ Full cost of First Water acquisition £11.2m
<b>EBITDA</b>	<b>23.8</b>	20.6	■ Pension payments – UK asset backed arrangement providing certainty over future payments
Working / other capital	<b>(3.1)</b>	(1.2)	■ Tax paid €1m higher than prior year, capital gains on disposal of French site in 2015
Pensions	<b>( 5.0)</b>	(5.3)	■ Capex slightly higher than prior years, costs associated with building the extensions at new French site
Tax, interest & dividend	<b>(6.0)</b>	(3.9)	■ Working capital increase includes £1.8m on provisions with £0.5m being settlement of Columbine Street (Legacy property cost)
Acquisitions	<b>(11.0)</b>	(2.2)	
Capex	<b>(7.5)</b>	(4.9)	
Cash flow	<b>(8.8)</b>	3.2	



# Tax and pensions

## TAXATION

	2015 £m	2014 £m
Underlying ETR(%)	<b>25.1%</b>	29.3%
Cash tax paid (£m)	<b>£3.9m</b>	£2.7m
Cash tax rate (%)	<b>21.8%</b>	18.0%

## PENSION LIABILITY

	2015 £m	2014 £m
Pension deficit	<b>(39.8)</b>	(40.0)
Cash to fund admin costs	<b>(0.7)</b>	(0.8)
Cash to fund pension	<b>(4.3)</b>	(4.5)

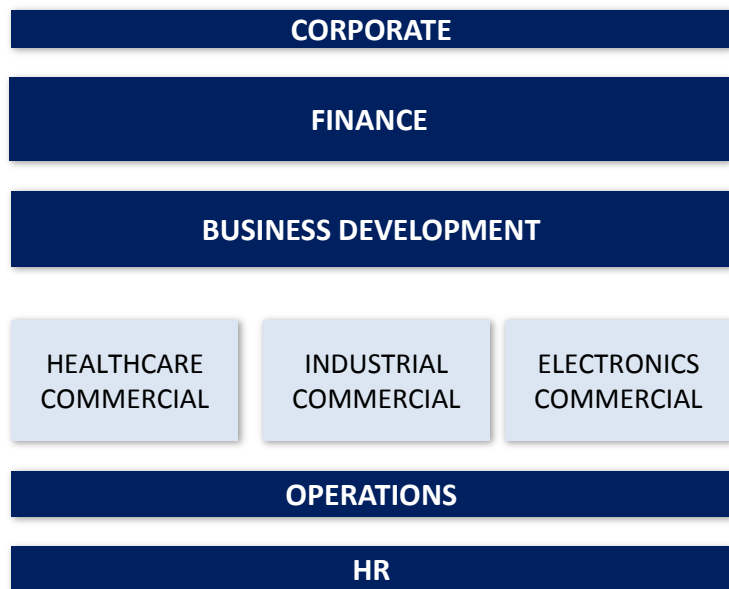
- Underlying ETR continues to fall - tax strategy, and impact of increasing profitability in previously loss-making entities
- The low rate of UK corporate tax will assist in further reducing the overall ETR over future years
- Tax audits in Europe concluded during the year, with only minor cash tax payable
- Cash tax to increase - increasing profitability and utilisation of brought forward tax losses

- Small reduction in scheme deficit despite negative bond market movement
- Continued commitment to address the pension issues and eliminate volatility
- UK schemes merged into a single scheme in 2014
- Admin cost reductions reflecting the benefits of merger, £0.7m saving
- FRO project completed over year end. +100 members and ~£12m liabilities removed
- Project pipeline exists for on going liability management

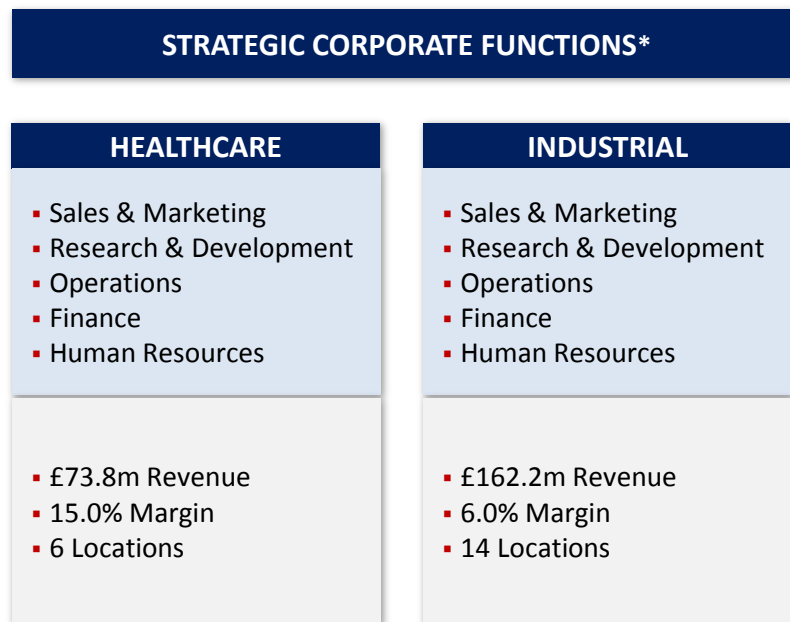
# Market Review

## Two distinct, stand alone businesses

2015



2016



- B2B partnership strategy
- Turn-Key solution capabilities
- Rapid speed to market
- Broad technology portfolio
- Vertical integration and strong manufacturing know-how
- Single supplier, dual source
- Trusted quality



ADVANCED WOUND CARE



MEDICAL DEVICES



CONSUMER WELLNESS



DRUG DELIVERY

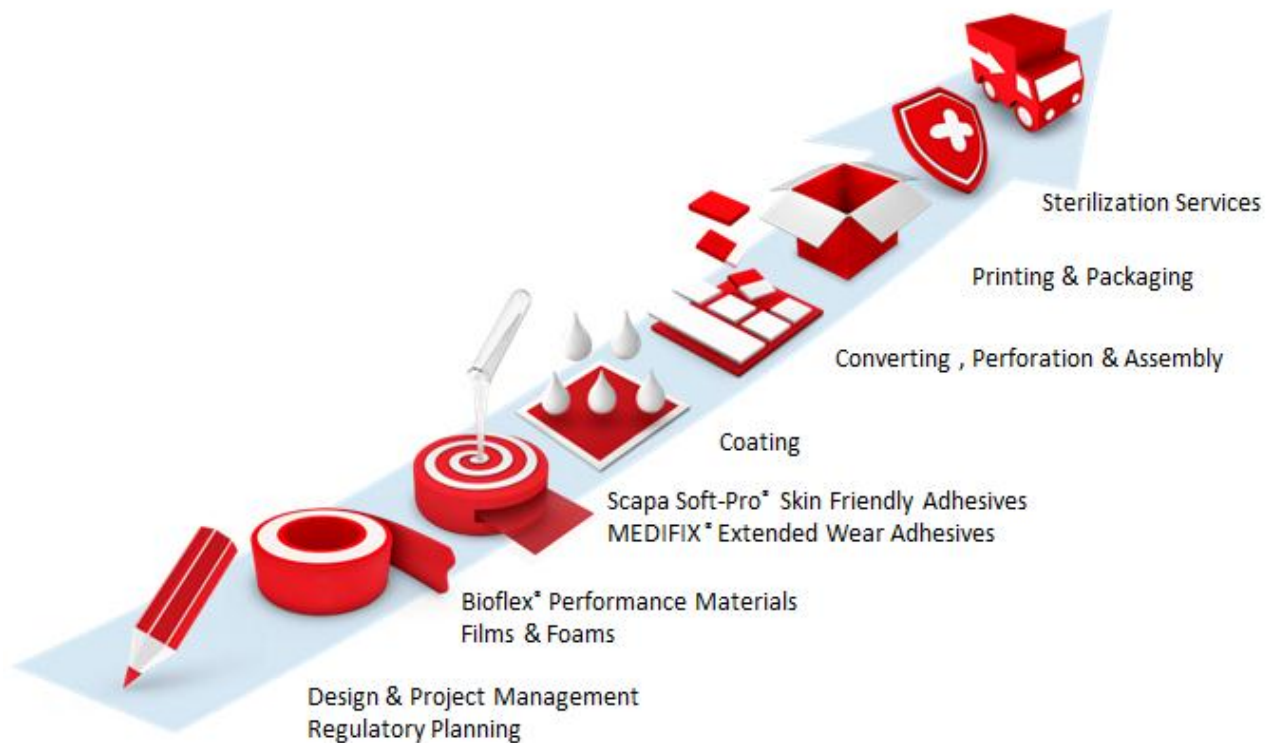
# Target markets

Strategic markets



# Move up the value chain

Skin friendly turn-key solutions



- Ramsbury, UK (Southern England)
- Employees: 55
- Established in 1995, to develop and manufacture skin conductive adhesive hydrogels
- Registered with BSI, ISO 13485 and 21 CFR part 820 compliant Quality Management System
- Novel hydrogels identified in Espicom market report as shift in technology
- **Twenty years of history, knowledge and IP**





# First Water Operations



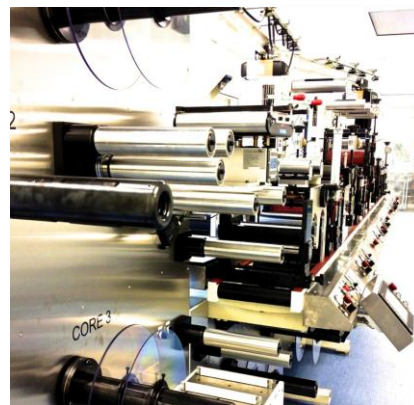
## R&D

- In-house analytical capabilities include HPLC, GC, rheometry and DCA
- Fluid handling and ion exchange analysis using Dynamic Wound Model



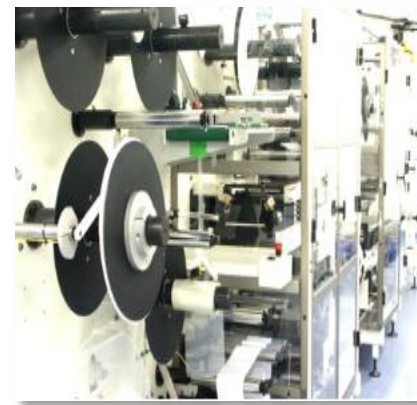
## MIXING / COATING

- Purpose-built purified water
- Custom mixing vessels developed with Cranfield University
- Custom-built dispensing and weighing systems
- 2 coating lines
- Class 7 clean rooms



## CONVERSION

- Prototyping Cell
- Slitting machine
- In-house printing of flexible substrates
- 5 high-speed dressings lines
- In-line pouching on 4 machines



## PRINTING /PACKAGING

- Packaging Operation newly enlarged following extension to manufacturing facility in 2011



- **Biocompatible multi-functional polymers**
- Patented core polymer technologies
- Pro-ionic Matrix patented biomimetic copolymer
- Flexible and diverse range of attributes
  - Significantly increasing polymer's ability to absorb wound moisture
  - Provides cooling effect, comfortable
  - Speeds healing
  - Absorbs planktonic bacteria
  - Fights biofilm build-up (absorbs ions)



**DESIGN, DEVELOP AND MANUFACTURE ADVANCED DRESSINGS**

# Platform development map

Combination products drive growth

## Scapa Healthcare Platforms

Films  
(Hydro-  
phobic)

Foams

Silicone

Poly-  
Urethane

Acrylic

## First Water Platforms

Hydrogel

Hydro-  
colloid Gel

Fibre  
Composite

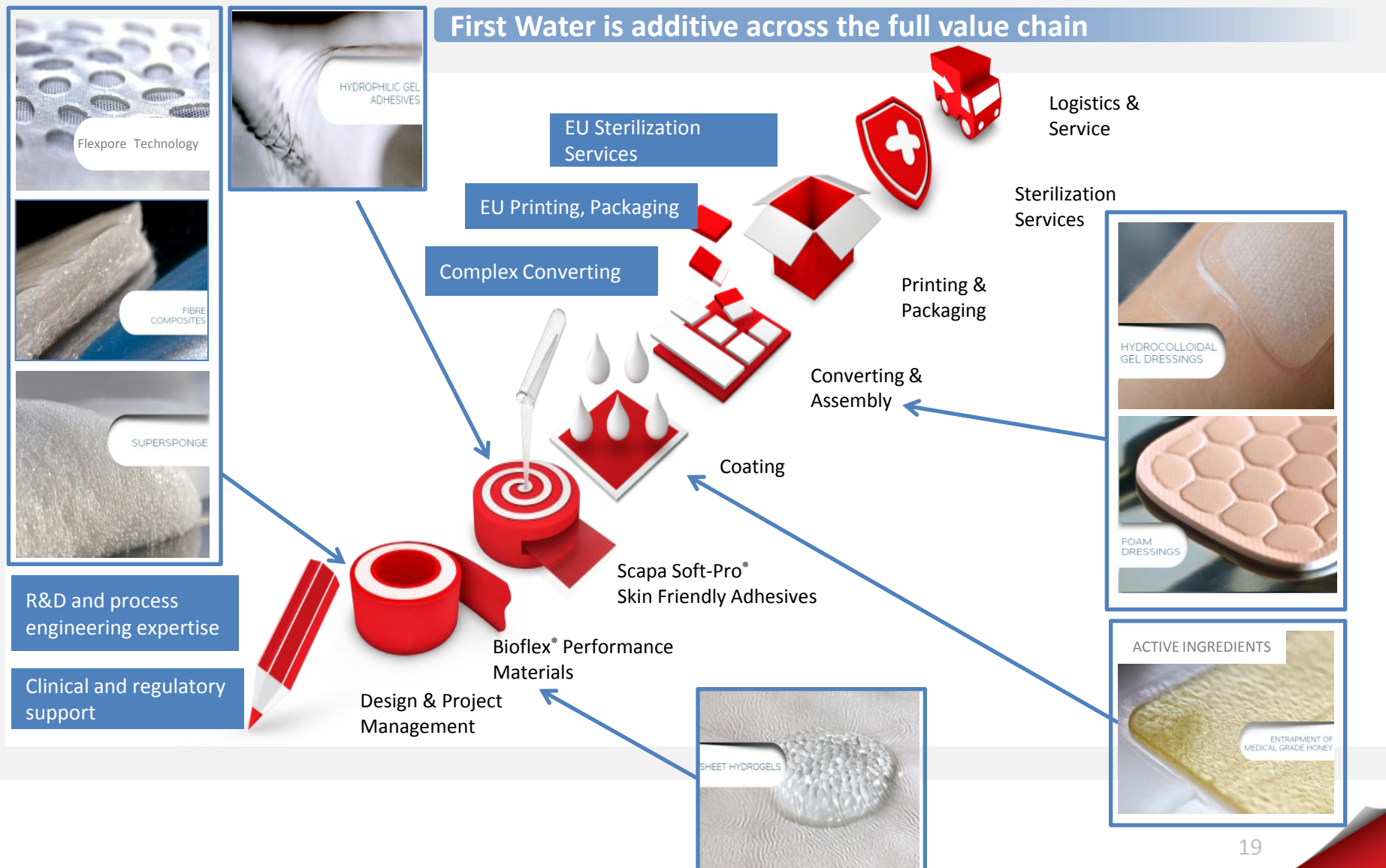
Foams  
(Hydro-philic)

Super  
Sponge

Technology platforms complementary and applicable across market segments

Capability and Platform Expansion

# Enhanced Turn-Key solution capabilities



## Strategic partnership

- Engaged at Senior level/President of Consumer Healthcare
- Established **Strategic Alliance** as part of J&J “*Partner Enabled Development*” initiative
- Partnership aligned to deliver:
  - Multi-year launch pipeline
  - Cross-category portfolio of materials and finished goods
  - Accelerated front-end innovation and launch of first-in-class products
  - Global opportunity and support



J&J and Scapa Healthcare staff celebrate the launch of **SHOWER CARE™** at the Scapa Healthcare Knoxville plant

## Product innovation

- **SHOWER CARE™** Bandage Protector
- Shower guard; waterproof cover for patients post surgery
- Extension of J&J Red Cross Brand line
- First in multi-program pipeline to deliver next generation innovation



- April 2014 – initial joint concept meeting
- January 2015 – product approval
- Concept-to-launch requirement = 11 months, delivered in 9 months
- March 2015:
  - 1<sup>st</sup> Launched Product On Shelf
  - J&J Band-Aid SHOWER CARE™ Bandage Protector

## Focused market segments



# Customer centric strategy

## Automotive

- Focus on wiring harness, protection, assemblies and seat heating
- Maximise our current market and design position at 20 OEMs including Peugeot, Renault, GM, Audi, and Chrysler
- Focus on product development aligned with fast changing design requirements
- Focus on strategic solutions selling through a dedicated global organisation aligned with our customers' footprints

## Specialty

- Address broad and fragmented market with many applications
- Niche markets with market leading positions; hockey, ski, smart card, graphics, electronics
- Focus on areas where we have critical mass and competitive positioning
- Maximise profitability through product portfolio management and operational efficiency

## Cable

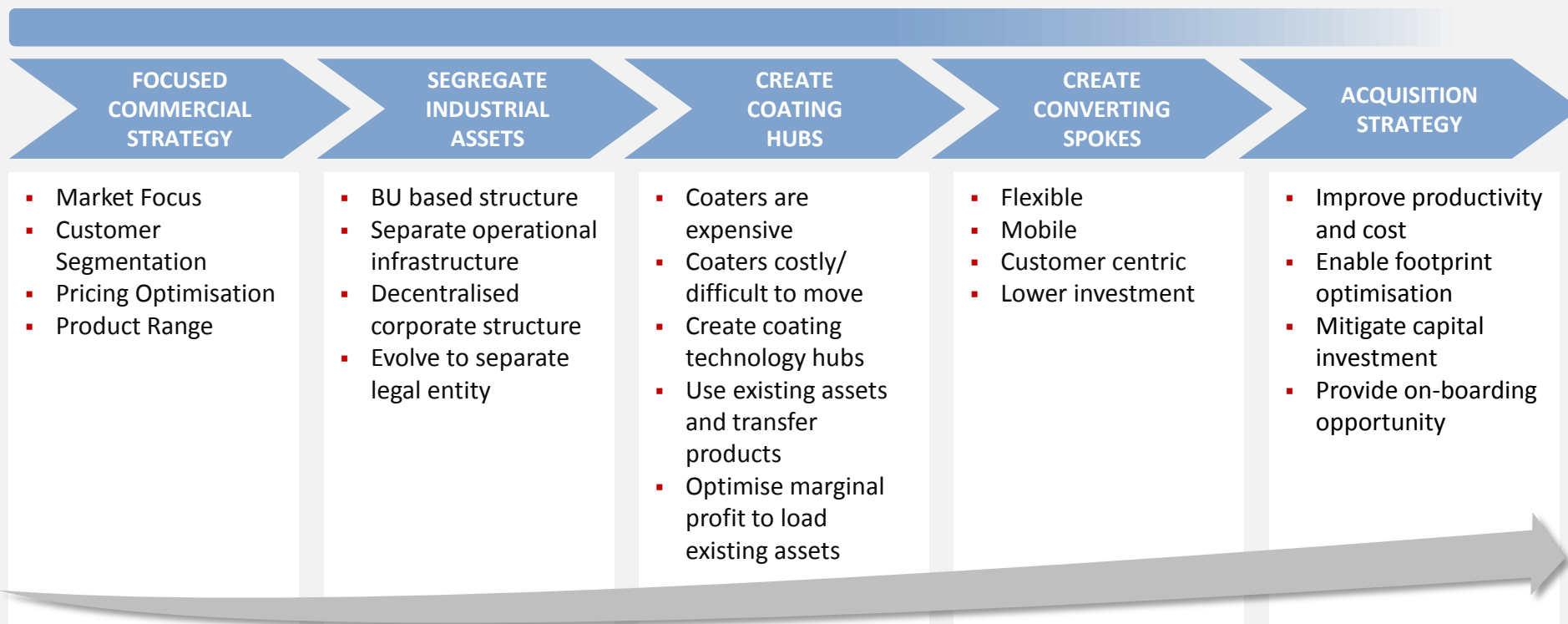
- Focus on submarine, high voltage and fibre optics segments of the market which require high reliability and carry significant cost of failure
- Leverage strong reputation and market position in a very niche and concentrated customer base and competitive landscape
- Leverage global footprint to service global supply chain
- Focus on strategic solution selling through dedicated global organisation
- Broaden product and service offerings to offer one stop solution

## Construction

- Leverage strong brands and market position
- Sell through builders merchants and distributors
- Expand additional POS across geography and categories
- Expand the product range beyond core tapes to adjacent items to increase our shelf space



# ROCE Optimisation



**Roadmap to industry average margins**

## Our stated priorities

### Healthcare

- Solidify our first mover advantage as a strategic outsourcing partner in our chosen markets
- Further acquire capabilities organically and through acquisition to enhance our value proposition

### Industrial

- Continue to deliver performance ahead of the macro through focused approach to markets and customers
- Drive ROCE by optimising our capital asset allocation and deployment

### Outlook

- We are confident in our strategy and expect to make further progress in the year ahead



# Appendix

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

# Impact of FX

	% Revenue	Average rate	Average rate	Currency Effect	Devaluation
		Prior Year	Half Year	Half Year	
	2013/14	2013/14	2014/15	30/04/2015	
Euro	34%	1.19	1.243	-4.5%	-1.5%
USD\$	51%	1.59	1.67	-5.0%	-2.6%
CAD\$	4%	1.68	1.83	-8.9%	-0.4%
				<b>Weighted impact</b>	<b>-4.4%</b>

	% Revenue	Average rate	Average rate	Currency Effect	Devaluation
		Prior Year	Full year	Full year	
	2013/14	2013/14	2014/15	30/04/2015	
Euro	34%	1.19	1.28	-7.6%	-2.6%
USD\$	51%	1.59	1.61	-1.3%	-0.6%
CAD\$	4%	1.68	1.84	-9.5%	-0.4%
				<b>Weighted impact</b>	<b>-3.6%</b>

## Finance costs

	2015 £m	2014 £m
Cash interest payable	(0.7)	(0.6)
IAS 19R finance costs	(1.6)	(1.6)
Total finance costs	(2.3)	(2.2)

## Analysis of facilities and headroom

	2015	2014
	£m	£m
Net cash	<b>(3.4)</b>	5.4
Committed facilities	<b>40.0</b>	40.0
Overdrafts/other	<b>1.6</b>	1.6
Total headroom	<b>38.2</b>	47.0
Net debt/EBITDA	<b>0.1x</b>	n/a
EBITDA interest cover	<b>34x</b>	34x
Drawn debt	<b>(20.1)</b>	(8.5)

## Reconciliation of tax change

	2015 £m	2014 £m
Profit before tax	13.7	11.2
Theoretical UK tax (21%/20%)	(2.9)	(2.6)
Effect of overseas tax rates <small>(Includes CVAE, IRAP and US capital tax)</small>	(1.7)	(1.6)
Tax on exceptional items	0.3	(11.7)
Other items	0.1	(2.0)
Tax charge for the year	(4.2)	(17.9)

## Reconciliation of Effective Tax Rate

	2015 £m	2014 £m
Profit before tax	13.7	11.2
Tax charge	(4.2)	(17.9)
Headline effective tax rate	30.6%	159.8%
Trading Profit	18.6	15.5
Cash interest	(0.7)	(0.6)
Adjusted PBT	17.9	14.9
Tax on operating activities	(4.5)	(4.4)
Adjusted effective tax rate	25.0%	29.5%

## Reconciliation of cash from operations

	2015 £m	2014 £m
Operating profit	16.0	13.4
Depreciation and amortisation	6.6	6.7
Working capital movement	(1.2)	(2.1)
Deferred consideration	-	(2.2)
Other	1.1	(0.9)
'Free cash flow'	22.5	14.9
Pensions	(4.2)	(4.8)
Exceptionals	(0.7)	0.2
	17.6	10.3



# Analysis of Trading Working Capital

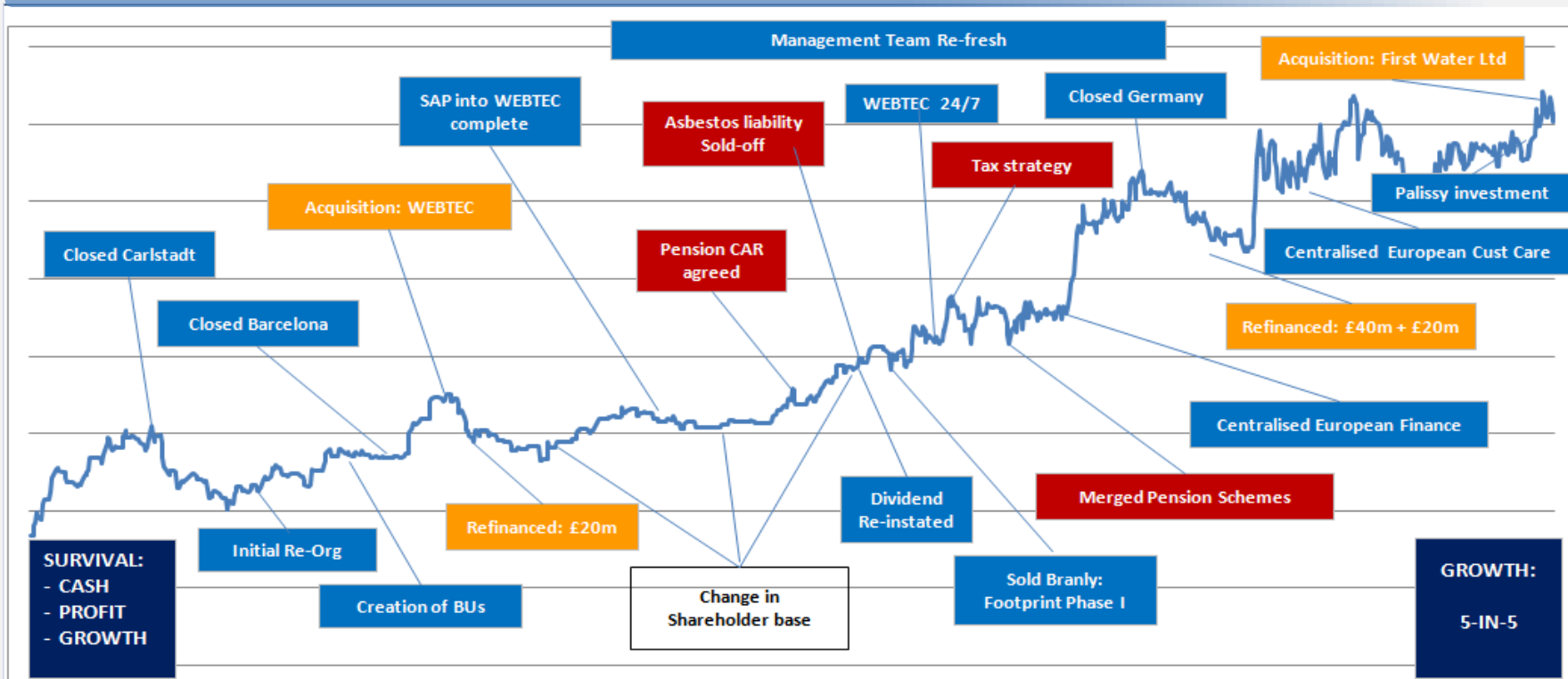
	2015	2014
	£m	£m
Trade debtors	42.8	39.4
Stock	24.8	24.1
Trade creditors	(29.5)	(30.6)
	<hr/>	
	38.1	32.9
Sales	236.0	226.1
	16.1%	14.5%

# Legacy pension cash flows and funding

	2015	2014
	£m	£m
Cash contributions: UK	3.5	3.7
Cash contributions: UK catch up 2013	-	0.6
Cash contributions: Overseas	0.8	0.8
Operating costs & settlement gains	-	(0.3)
<b>Cash flow in excess of P&amp;L charge</b>	<b>4.3</b>	<b>4.8</b>
Pension admin costs	0.7	0.8
<b>Total cash (deficit, operating and admin)</b>	<b>5.0</b>	<b>5.9</b>
Prior year catch-up	-	(0.6)
<b>Total / underlying cash flows</b>	<b>5.0</b>	<b>5.3</b>

# Value creation through delivery

## 2015 RESULTS



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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