

SYNTHOMER PLC

INTERIM RESULTS – 6TH AUGUST 2020

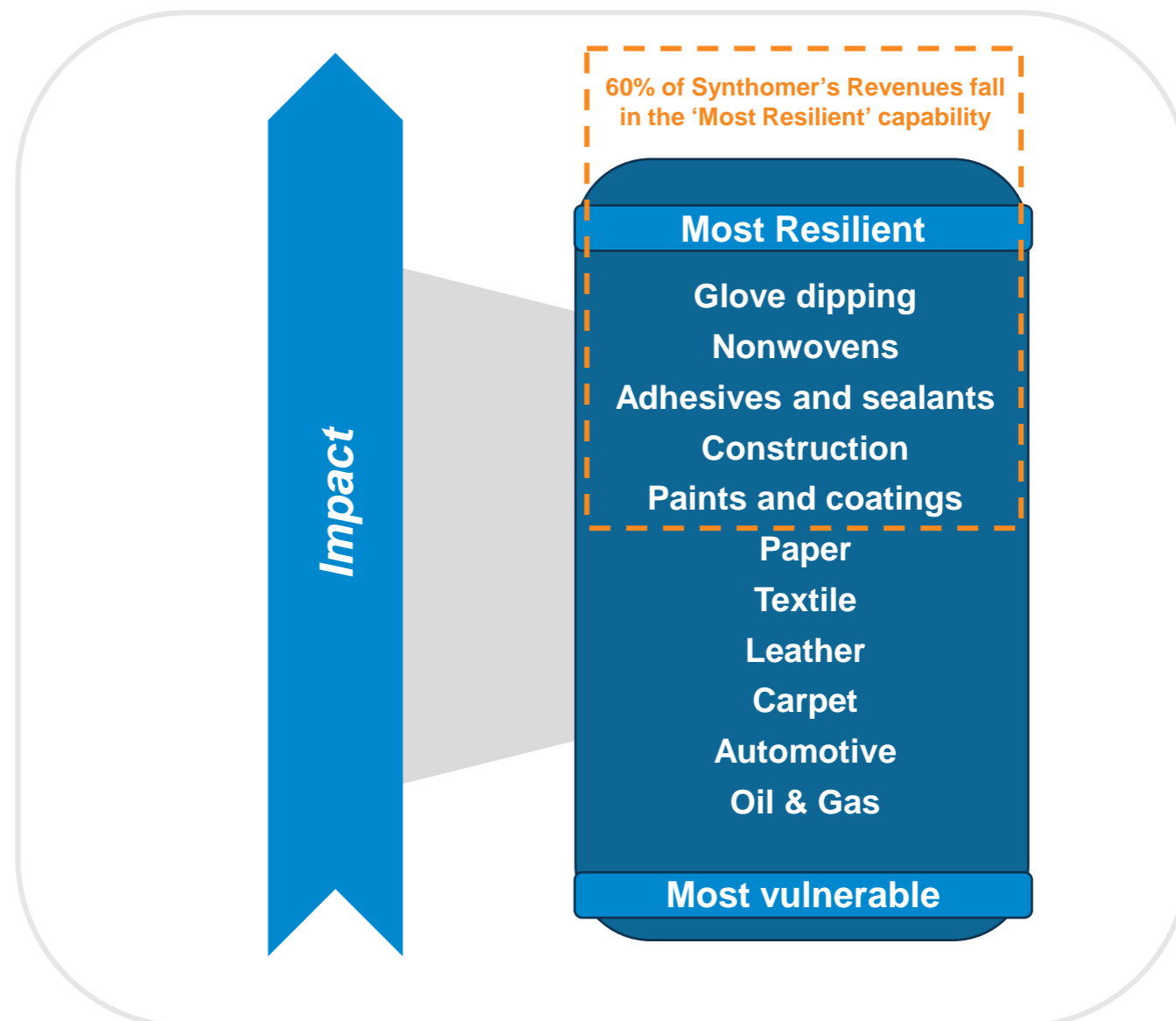


Diversity and Differentiation underpin robust H1

- **Resilient performance through COVID-19 pandemic:**
 - Global network of 38 sites operated safely and effectively during Q2
- **H1 2020 EBITDA of £100.2m in line with 2019 (£99.7m):**
 - Robust heritage Synthomer £92.3m (2019 £99.7m) with OMNOVA Q2 EBITDA £7.9m
- **Strong balance sheet supported by Q2 free cash flow of £104.2m:**
 - Post acquisition net debt reduced to £575.5m with proforma leverage steady at 2.5x
 - 5-year bond issued eliminates bridging risk
 - Significant liquidity at circa. £500m with long term capital structure in place to 2024
- **OMNOVA integration synergy target increases to \$40m:**
 - Now expect \$20m run rate by end of 2020 (\$15m)
 - \$40m run rate by end of 2022 (\$30m)
- **Strategic review of European SBR network subject to consultation:**
 - Intention to consult with employees at Oulu (Finland) and Marl (Germany)
- **Actions taken on cost and cash preservation:**
 - Capex reduced from £90m 2019 to £50m in 2020
 - 2019 final dividend suspended
 - Fixed cost reduction programme ongoing
- **2020 guidance reinstated and expect to pay 2020 final dividend:**
 - Expect FY 2020 EBITDA to be broadly in line with current consensus
 - Expect to pay 2020 final dividend

Impact of COVID-19

- Diversified end markets and increasing differentiation mitigate impact of COVID-19
- Synthomer geographic, chemistry and end market diversification:
 - All 38 sites operated during Q2
 - No overall significant end market exposure
 - Glove dipping - upside
 - Oil & Gas – downside
- April/May sales activity circa 20% lower than comparative period with June flat on prior year
- H1 sales volume +2% as OMNOVA add 9% to offset Synthomer reduction of 7%
- Synthomer - Healthcare (gloves) 18%, Nonwovens and Adhesives 11%, Construction and Coatings 31%
- Return to more normalised trading has continued through July but will vary by sector
- Subject to continued progress expect a Group return to more normalised EBITDA in H2



OMNOVA ahead of schedule on synergies and timing



→ **OMNOVA is an excellent strategic fit for Synthomer**

→ **Integration ahead of schedule**

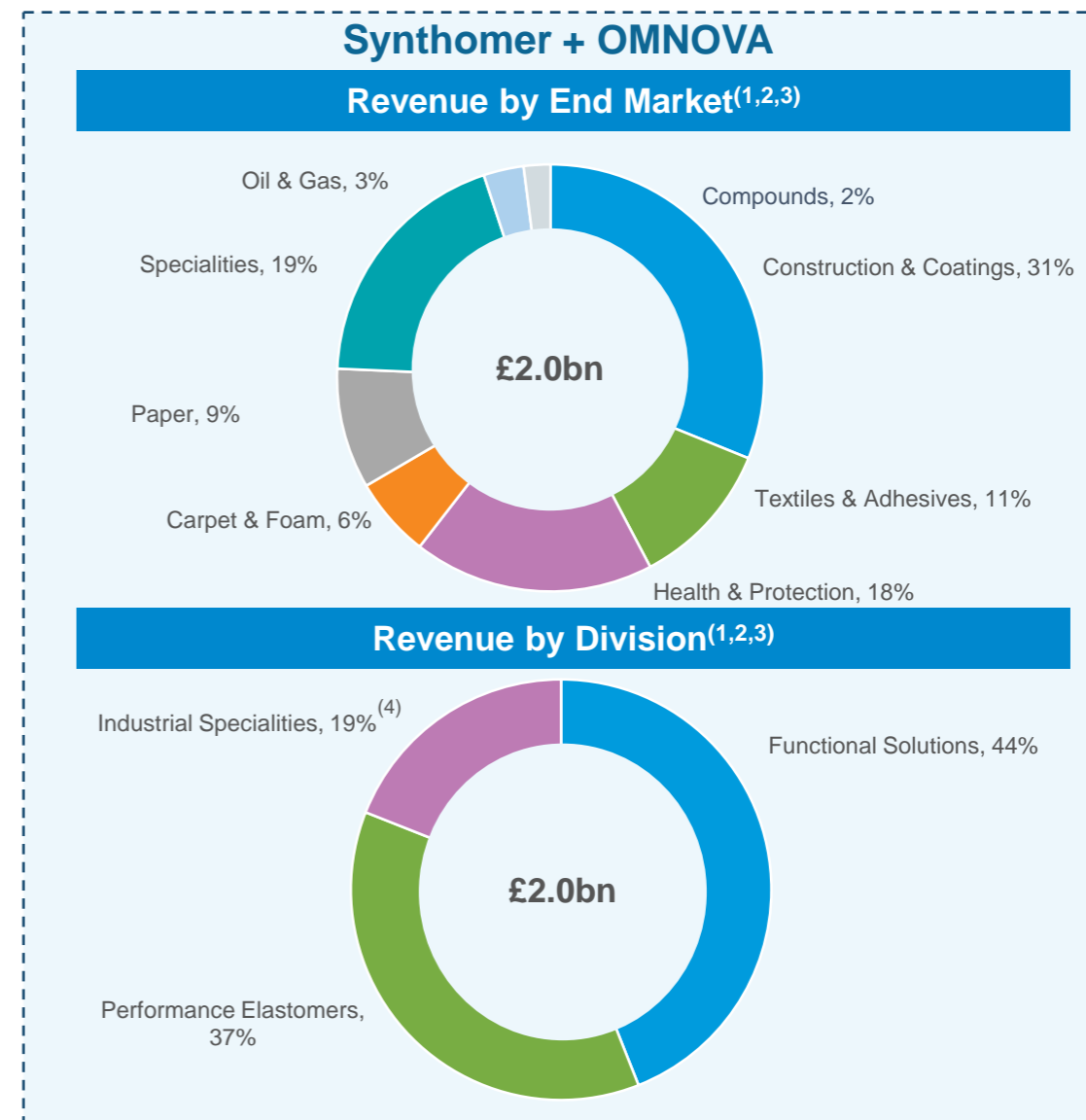
- Cut and carve complete
- De-listed
- Management organisation complete
- Strong cultural overlap provides confidence

→ **Process has identified other areas for efficiencies**

- Headcount reduction
- Organisational changes
- Procurement overlaps

→ **Higher synergy targets**

- \$40m annual pre-tax synergy savings
- \$20m run rate end of 2020
- \$35m one-off implementation costs



Strategic review of European SBR network

→ **Positioning and footprint:**

- Synthomer is the No1 Producer of SBR in Europe
- SBR is supplied into paper, carpet, foam, footwear and construction markets
- Synthomer manufactures at 4 sites in Germany, Italy, Finland and Austria
- Paper and carpet markets impacted in Q2

→ **Strategic review reaching its conclusion:**

- Intention to enter consultation in Oulu (Finland) and Marl (Germany)
- Announcements on outcome of consultations will be made in next few months
- Synthomer remains committed to SBR markets
- Potential to utilise for additional NBR capacity



Financials

EBITDA resilient and in line with H1 2019



→ EBITDA:

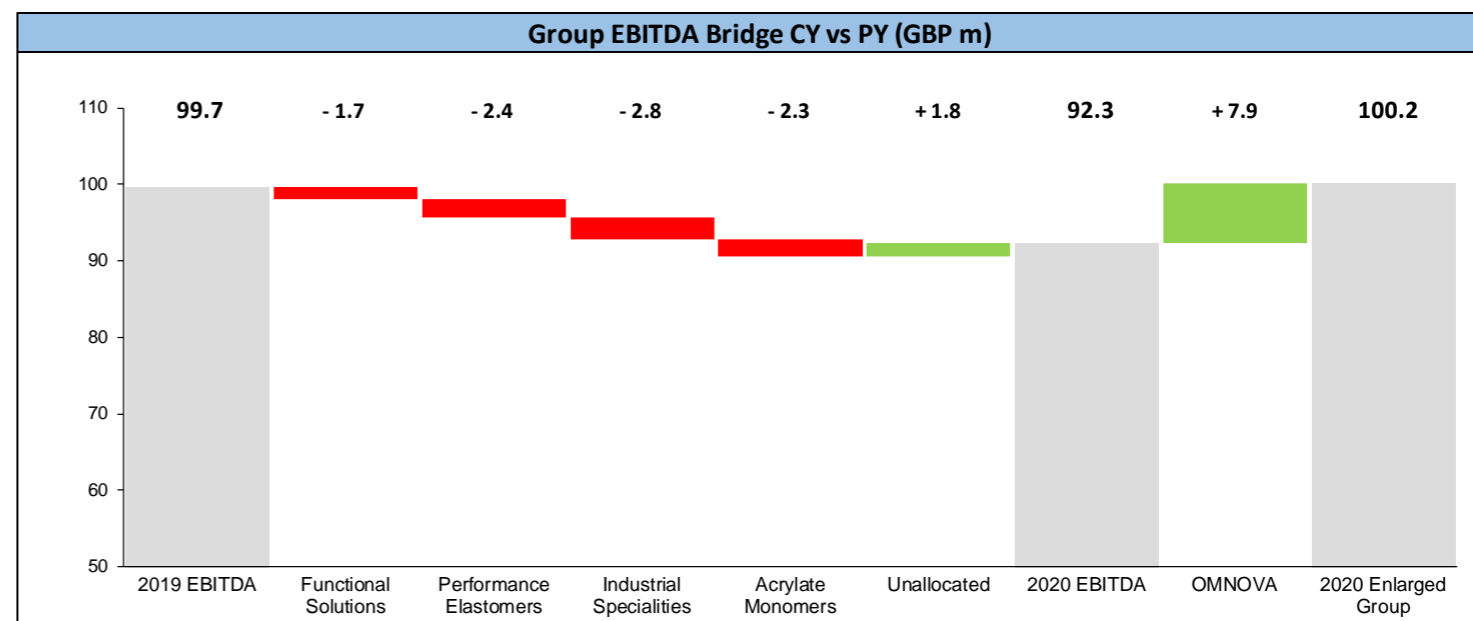
- Heritage group and OMNOVA pre-COVID-19 Q1 up on comparative period
- Enlarged Group H1 at £100.2m in line with H1 2019 at £99.7m
- Heritage group robust at £92.3m vs £99.7m
- OMNOVA contribution £7.9m

→ Interest:

- £10.2m including OMNOVA acquisition financing for Q2 relative to £4.5m in comparative period

→ Effective Tax Rate at 22% (2019: 14%) consistent with:

- Guidance provided on Malaysian Pioneer Status - ended February 2020
- COVID-19 impact on geographic profits mix and prior year items



	H1 2020	H1 2019	% Change	% Constant FX
Volumes (ktes)	762.4	750.8	1.5	
Revenue (£m)	733.7	762.7	(3.8)	(4.0)
EBITDA (£m)	100.2	99.7	0.5	0.5
EBIT (£m)	68.6	74.7	(8.2)	(8.0)
Interest (£m)	(10.2)	(4.5)	(126.7)	(128.9)
PBT (£m)	58.4	70.2	(16.8)	(16.8)

Functional Solutions



→ EBITDA:

- £46.4m ~ 19% ahead of H1 2019
- Heritage group resilient at £37.3m and OMNOVA Q2 contribution £9.1m

→ Volumes:

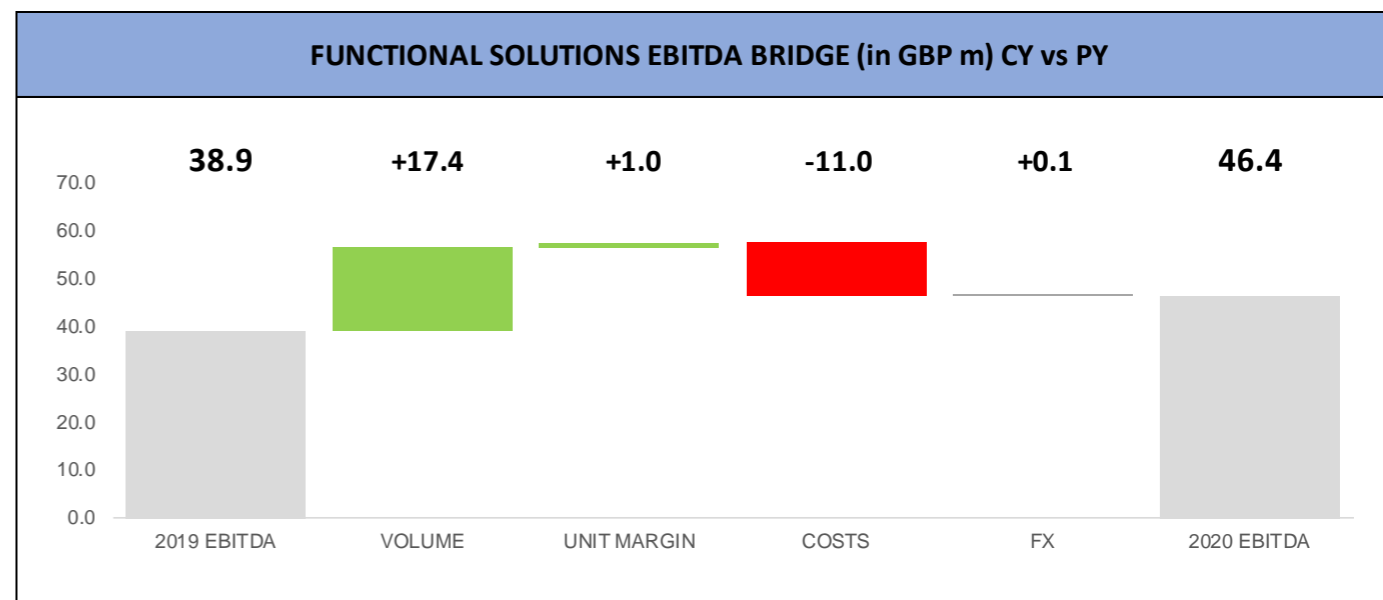
- Volumes up 3% reflecting OMNOVA volumes as offset by COVID-19 impact on Q2
- Volumes returning to more normalised levels in June and July

→ Unit margins:

- Improvement in margins across most end markets
- Product mix and lower raw material prices

→ Costs:

- OMNOVA cost base
- Mindset and COVID-19 cost control initiatives



	H1 2020	H1 2019	% Change	% Constant FX
Volumes (ktes)	266.5	258.4	3.1	
Revenue (£m)	301.3	327.6	(8.0)	(8.4)
EBITDA (£m)	46.4	38.9	19.3	19.0
EBIT (£m)	34.8	30.8	13.0	13.0

Performance Elastomers



→ EBITDA:

- £47.6m ~ 11% behind H1 2019
- Heritage group solid at £51.0m and OMNOVA Q2 SBR contribution -£3.4m

→ Volumes:

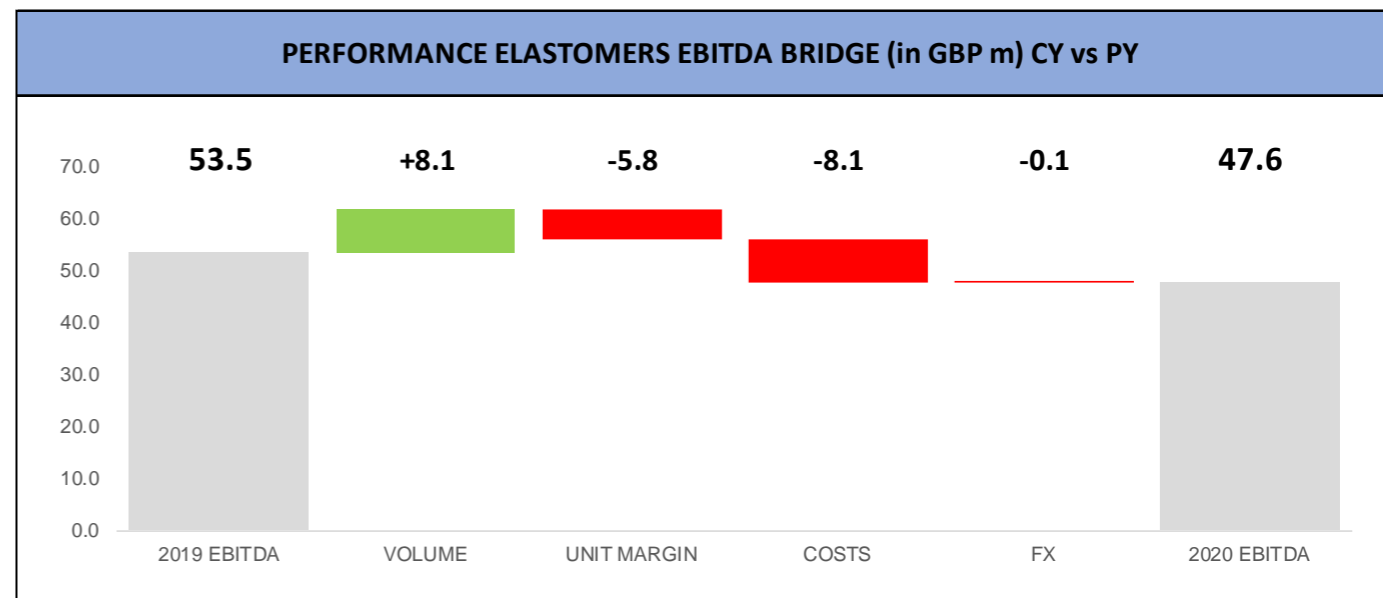
- Record NBR latex volume (+16%) supported by 90ktes capacity expansion in Pasir Gudang
- SBR latex volumes lower mainly driven by COVID-19 impact offsetting incremental OMNOVA volumes

→ Unit margins:

- NBR margins lower but firming through H1 reflecting falling raw material prices
- SBR margins lower driven by overcapacity in European production and COVID-19 impact

→ Costs:

- OMNOVA cost base
- Mindset and COVID-19 cost control initiatives



	H1 2020	H1 2019	% Change	% Constant FX
Volumes (ktes)	424.6	425.7	(0.3)	
Revenue (£m)	293.9	317.1	(7.3)	(7.5)
EBITDA (£m)	47.6	53.5	(11.0)	(10.8)
EBIT (£m)	34.9	41.0	(14.9)	(14.6)

Industrial Specialities



→ EBITDA:

- 14% ahead of H1 2019
- Heritage group pre-COVID-19 Q1 up on comparative period
- Heritage group H1 ~ £10m and OMNOVA Laminates & Films and Coated Fabrics Q2 contribution £4.6m

→ Volumes:

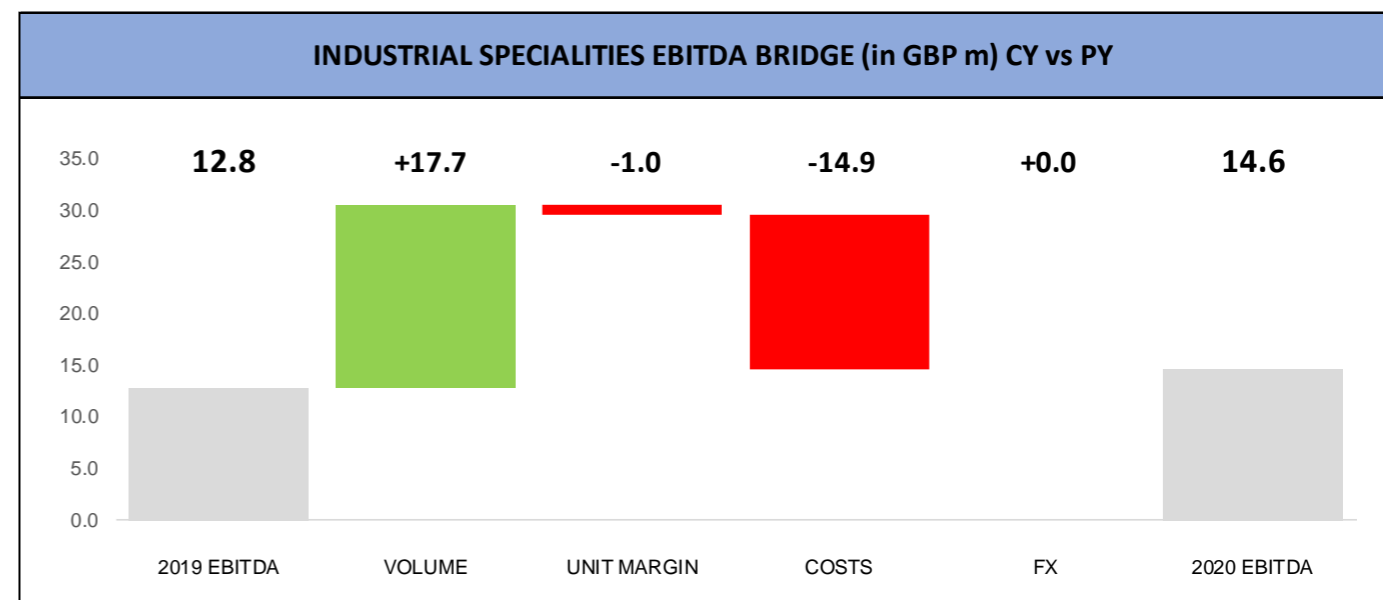
- Volumes up 17% - reflecting OMNOVA volumes as offset by COVID-19 impact on Q2

→ Unit margins:

- Heritage average unit margins ahead of prior year

→ Costs:

- OMNOVA cost base
- Mindset and COVID-19 cost control initiatives



	H1 2020	H1 2019	% Change	% Constant FX
Volumes (ktes)	41.5	35.4	17.2	
Revenue (£m)	112.4	83.8	34.1	34.0
EBITDA (£m)	14.6	12.8	14.1	14.1
EBIT (£m)	9.8	10.2	(3.9)	(3.9)

Strong free cash flow generation



→ Q2 free cash flow £104.2m:

- Lower raw material prices Q2
- Lower activity levels April and May
- Post acquisition OMNOVA working capital inflow
- Remains circa 10% of sales

→ Capital expenditure:

- Capex at £26.7m (2019: £28.4m)
 - In line with guidance ~ £50m for full year 2020
 - Substantially lower than ~ £90m proforma combined 2019
- Job 6, Asian Innovation Centre and Pathway

→ Cash tax:

- Higher cash tax in Malaysia

→ Pensions:

- Increase in line with combined UK and US annual deficit contributions of £16m and \$6m respectively

£m	2020	2019
Underlying EBITDA	100.2	99.7
JVs	(0.7)	(0.6)
Underlying EBITDA (excluding joint ventures)	99.5	99.1
Working capital	10.1	(41.4)
Capital expenditure	(26.7)	(28.4)
Interest	(6.4)	(3.9)
Tax	(10.2)	(7.3)
Pensions	(11.0)	(8.5)
Other	0.9	2.0
Free cash flow	56.2	11.6

Significant liquidity and covenant headroom



→ **€520m acquisition bridge financing facility refinanced 25 June 2020:**

- 5 year unsecured 3.875% high yield bond 2025
- Strong support in volatile market
- Eliminated refinancing risk

→ **Substantial liquidity:**

- New facilities ~ £1,080m committed unsecured
- Net debt circa £575m
- Liquidity circa. £500m
- Subject to one leverage ratio maintenance covenant

→ **Significant covenant headroom:**

- Leverage ratio 2.8x vs covenant 4.25x
- Covenant 2020 and 2021 at 4.25x and 4.0x respectively
- Leverage ratio 2.5x inclusive of proforma OMNOVA investment case synergies (consistent with Bond Offering Memorandum)

→ **Assured going concern**

Facilities	Available Facilities	Expiry
Multi currency revolving facilities	€460m	July 2024
Term loan	\$260m	July 2024
Bond 3 7/8%	€520m	July 2025

£m	H1 2020	H1 2019
Covenant EBITDA	204.9	182.3
Covenant Net Debt	(572.0)	(207.5)
Net debt/EBITDA	2.8x	1.1x
Covenant	4.25x	3.25x

Covenant net debt at average FX rates 1 July 2019- 30 June 2020

→ Pensions:

- Pensions liability at 30 June 2020 mainly comprises funded closed defined benefit pension schemes in UK and US (OMNOVA) amounting to £62m and £77m respectively, and customary unfunded defined benefit pension scheme in Germany £81m
- 2020 deficit recovery payments in respect of UK and US circa £16m and \$6m respectively.
 - UK triennial valuation due 2021
 - US annual 2019 valuation due September 2020

→ Interest cost:

- Interest cost comprises commitment/utilisation/interest costs on €460m RCF, \$260m TL, €520m 3.875% high yield bond, debt issuance costs, interest rate fix swap, IAS 19 pension interest and IFRS 16 lease interest cost (and for the period from 1 April to 25 June 2020 interest on €520m bridge finance facility)
 - Indicative interest charge 2020 and 2021 of £30m and £40m respectively

→ Tax:

- 2020 ETR at 22% (2019: 14%)
 - Pre-announced end to Malaysian Pioneer Status in February 2020 – Malaysian tax rate 25%
 - COVID-19 impact of geographic profit mix
 - Revised ETR guidance 22%

Technical Guidance



→ Intangible assets:

- Intangible assets (customer lists) and goodwill of £330m and £170m respectively – overall total in line with guidance
- Intangible assets will be amortised over periods from 9 to 15 years
- Initial annual amortisation charge £30m per annum

→ FX translation exposure – EBITDA impact:

Currency	Movement	Translation sensitivity £m
EUR	€0.01	£0.5m
USD	\$0.01	£0.2m
MYR	MYR 0.01	£0.2m
CNY	CNY 0.1	£0.1m

Currency	H1 2019 Average	H1 2020 Average	4 th August
EUR	1.15	1.14	1.11
USD	1.30	1.26	1.31
MYR	5.33	5.35	5.52
CNY	8.77	8.89	9.12



Building Global Differentiation

Our investment case



Summary and Outlook



→ **Resilient performance through COVID-19 pandemic:**

- Solid Q1 with sequential improvement in demand from May
- H1 volume +2% as OMNOVA contribute from 1st April
- H1 unit margins higher on improved mix and greater differentiation

→ **Confident of making further progress in 2020:**

- Nitrile demand remains strong and offsets impact from more affected markets such as Automotive, Oil & Gas and Paper
- Strong balance sheet supported by strong free cash flow
- Subject to continued progress, confident that H2 will see sustained return to normalised Group EBITDA levels
- Increased synergies from OMNOVA
- 2020 guidance reinstated and expect to pay 2020 final dividend