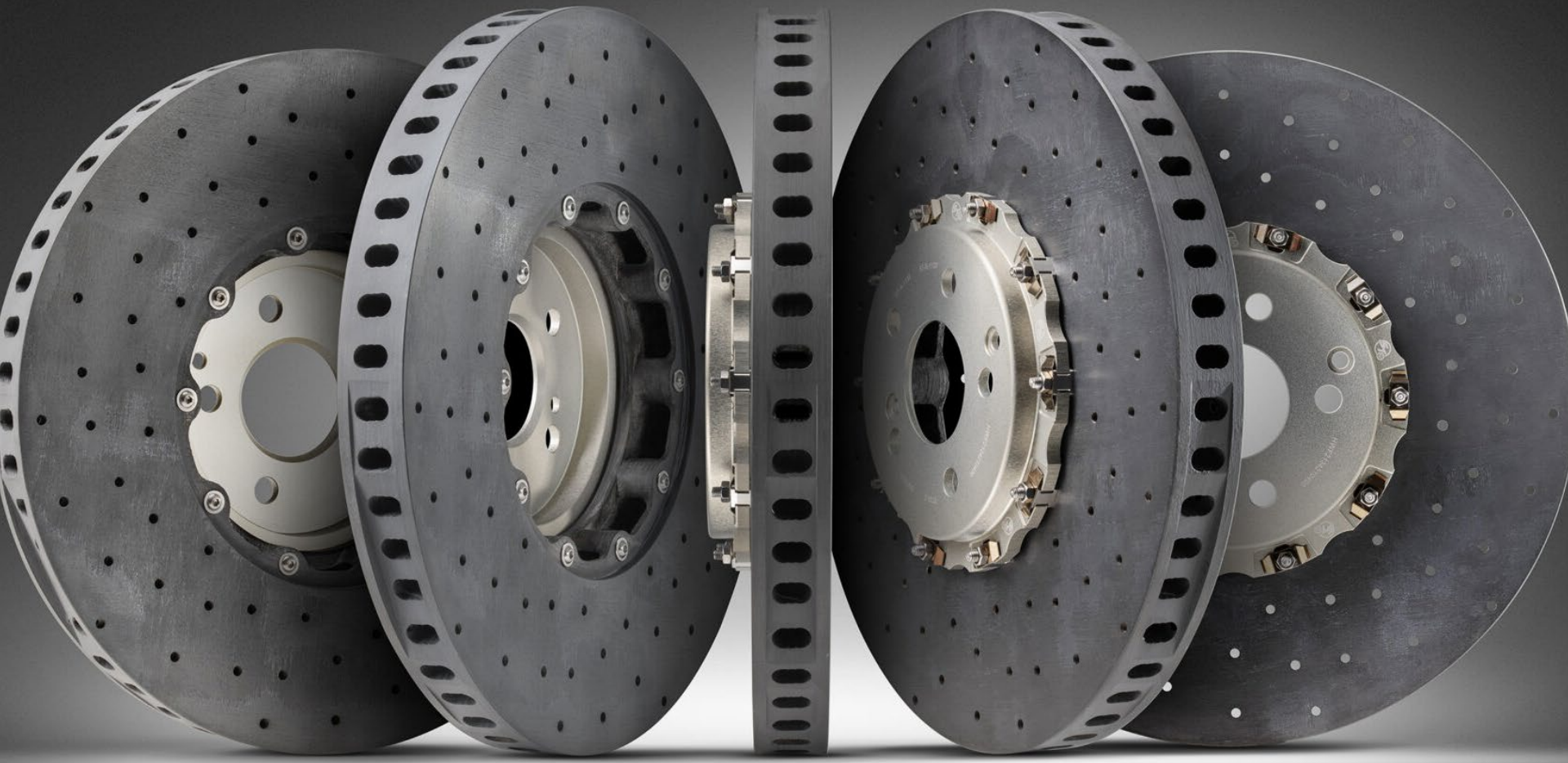
SURFACE TRANSFORMS

OCTOBER 2022



David Bundred - Chairman
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Introduction to Surface Transforms

Automotive brake discs

- Brake components installed on all four wheels of the car
- Key safety and performance feature of the vehicle
- Integrated complex system
- Braking achieved by the caliper pressing the brake pads against the brake disc
- **Carbon ceramic discs** are a replacement technology for grey cast iron

A leading supplier of carbon ceramic brake discs

- Premium product with proprietary technology[1]
- Advanced manufacturer with significant expansion opportunity[2]
- High growth with contracted models worth £190m and PCP of £400m[3]
- Expanded facility capable of delivering £150m[5] capacity revenue by 2026 with profitability & free cash flow to support future growth
- £2b/yr[4] addressable market

1 In terms of heat management and lifetime

2 Directors' belief based on the proprietary technology of the Company and current customer demands and prospective contract pipeline

3 PCP – prospective contract pipeline, this is based on the directors' expectations, their understanding of the relevant OEMs production plans and an assumed disc demand

4 This is based on the directors' expectations and their understanding of the relevant OEM's production plan and estimated demand for discs

5 Based on management's estimates of sales proceeds from expected production volumes.

Project Beech

Proposed £16m placing + £3m open offer

- £10m capital equipment - assisting a £40m manufacturing capex out to 2026
- £5m working capital supporting growth

Profitability through series production

- 3 contracted models entered multi year revenue generation phase
- Moving the Company into profitability

Manufacturing capacity reserved for existing contracts

- 10 contracted models across 6 OEM customers
- Contracts valued at over £190m[1]

Prospective contract pipeline (PCP) requires new capacity

- Growing and accelerating demand with our existing OEM customers[2]
- PCP lifetime value over £400m[1]

Additional manufacturing capacity needed to support growth

- Currently funded to achieve £50m/yr in 2023[3]
- Build a revenue manufacturing capacity of £150m/yr by 2026[3]
- Enables the Company to get ahead of the demand curve

Profits fund future growth & capacity

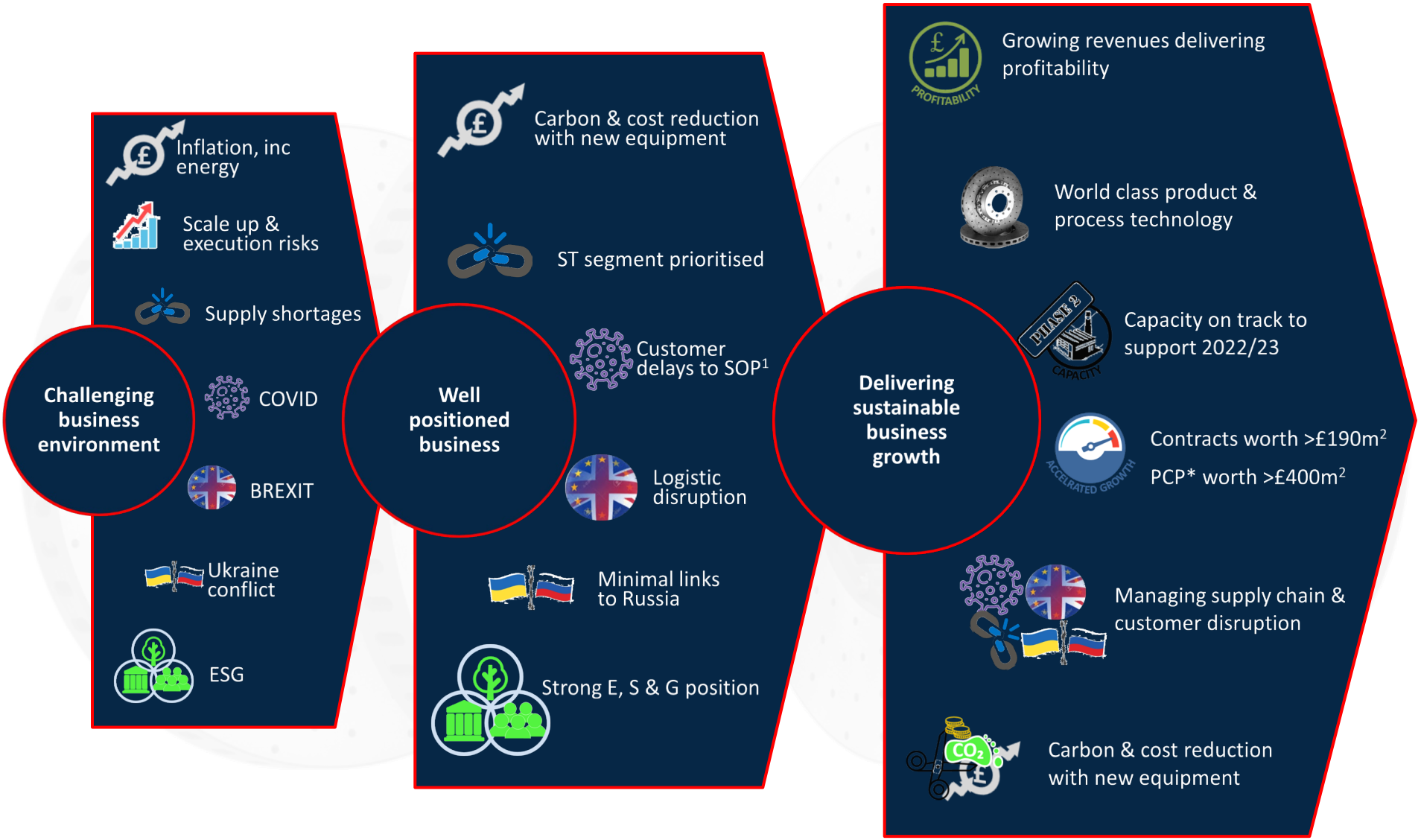
- Free cash flow funds factory capacity

1 This is based on the directors' expectations, their understanding of the relevant OEMs production plans and an assumed disc demand

2 This is based on the directors' experience and understanding of the market

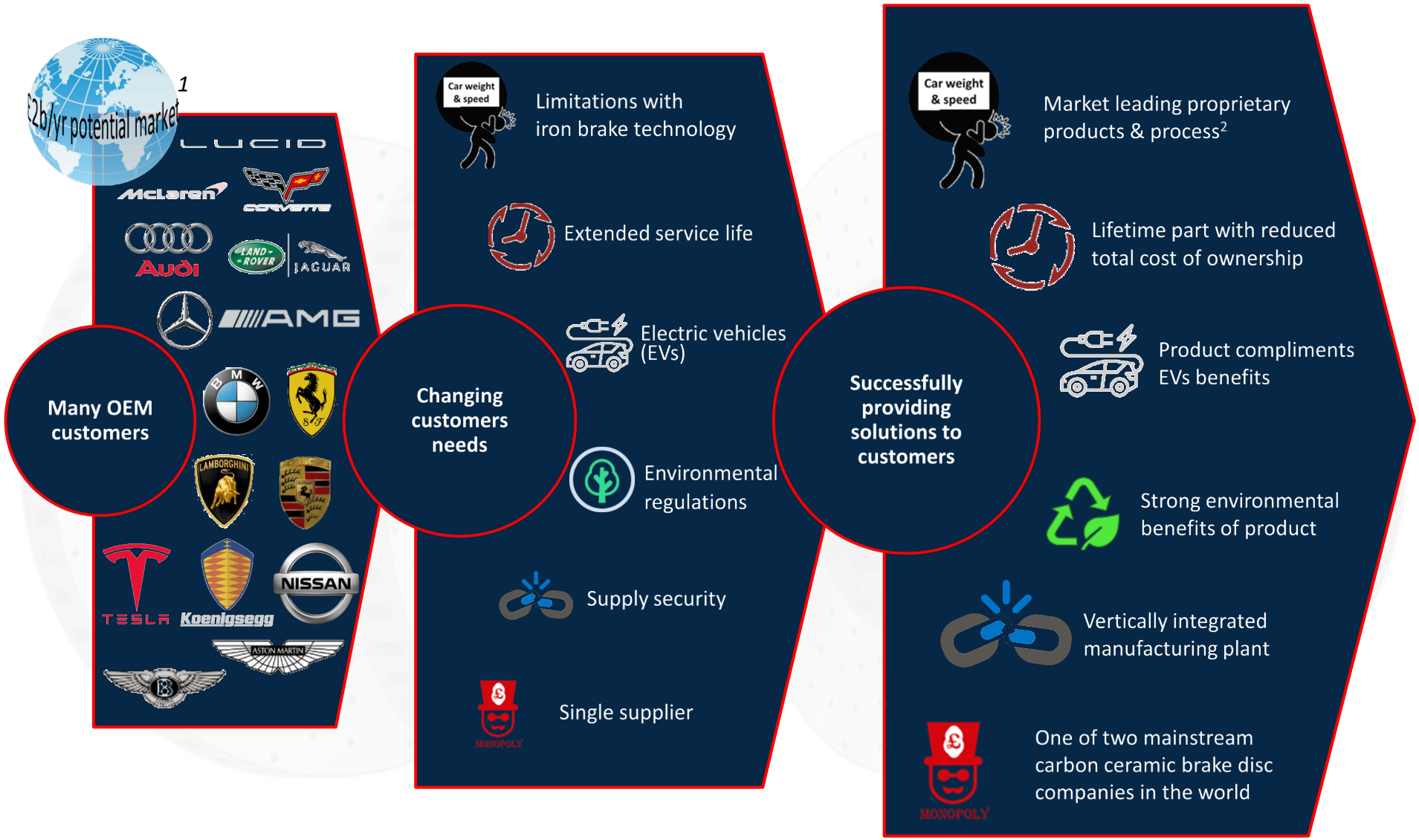
3 Based on management's estimates of sales proceeds from expected production volumes.

Market conditions



1 SOP - start of production, PCP – prospective contract pipeline
2 This is based on the directors' expectations and their understanding of the relevant OEM's production plan and estimated demand for discs

Automotive market drivers



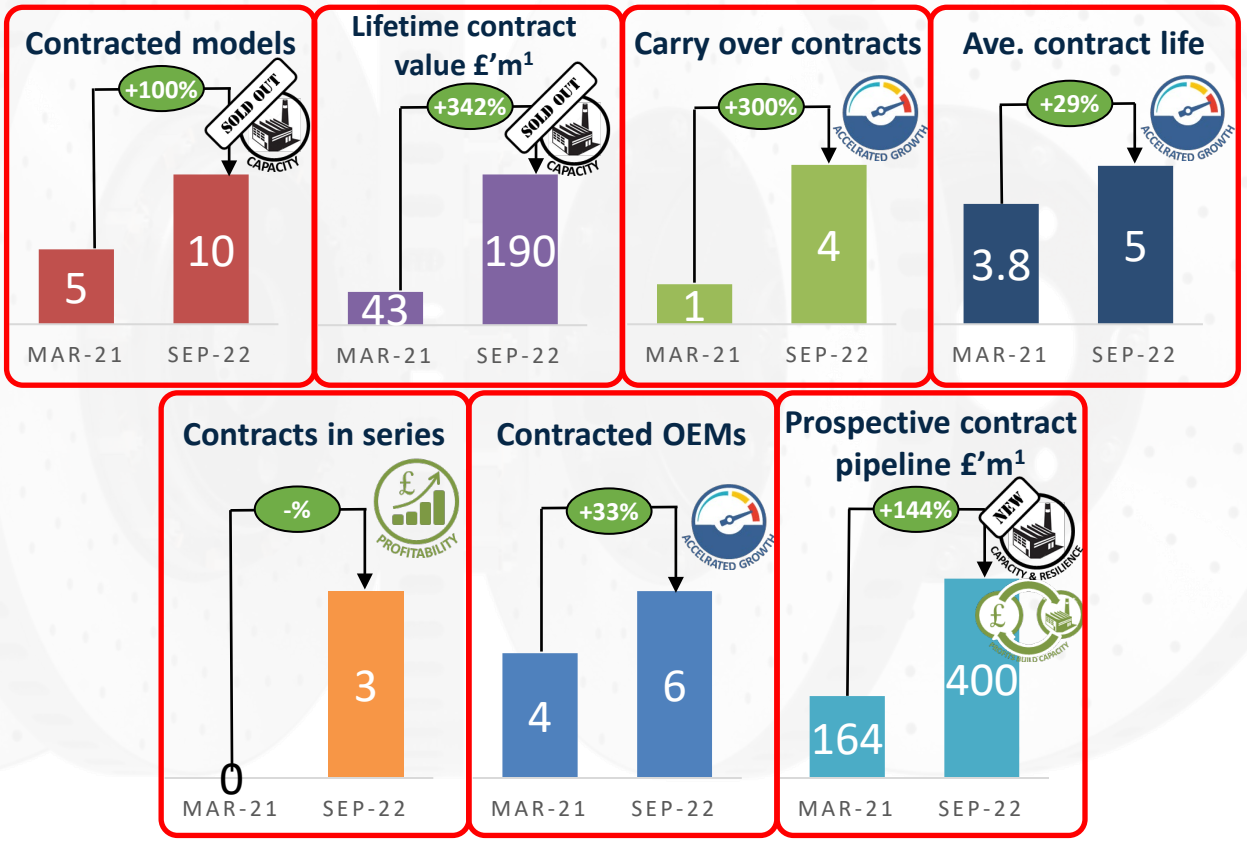
1 This is based on the directors' expectations and their understanding of the relevant OEM's production plan and estimated demand for discs
2 This is based on the directors' experience and understanding of the market

Business development KPIs

Solid strategic progress over last 18 months

- Contracts in series delivering profitability
- Contracted models & contract life providing sustained, high growth over next 3 years
- Broader customer base & follow on contracts accelerating demand and expanding PCP
- Model launch timing remain uncertain & requires risk management through SOP timing contingency

OEM 5	German car manufacturer
OEM 6	British performance car manufacturer
OEM 7	Swedish performance car manufacturer
OEM 8	Global car manufacturer
OEM 9	New car manufacturer
OEM 10	US car manufacturer
Other OEMs	Engaged in numerous sourcing discussions



1 This is based on the directors' expectations and their understanding of the relevant OEM's production plan and estimated demand for discs

Manufacturing Strategy – Phase 2

Fully funded

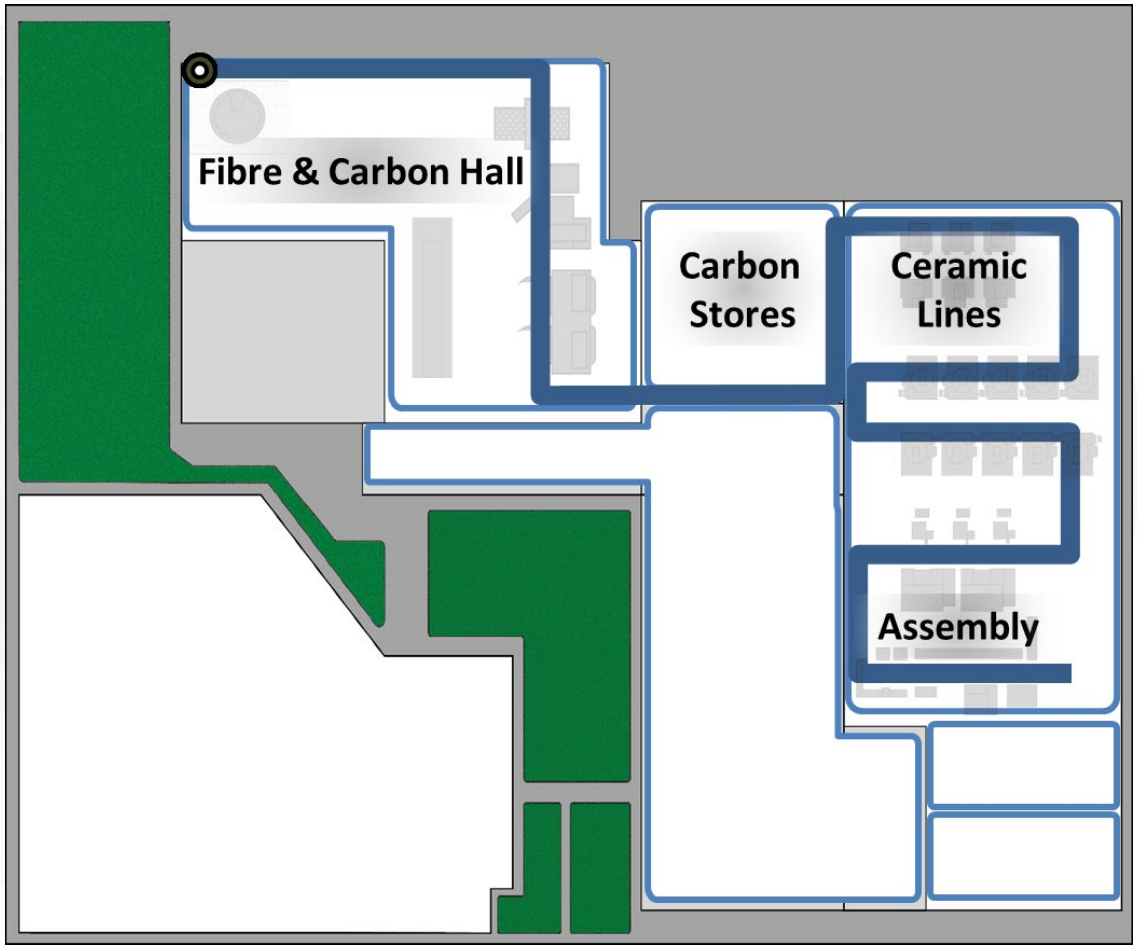
PHASE 2
2022/2023

Phase 2 - £50m/yr capacity[1]

- **Plant flow strategy – 2022/23**
  - Doubled revenue manufacturing capacity to an additional £30m/yr with no additional investment
  - Reduced disruption during expansion
  - Reduced lead-time to deploy to 18 months
  - Significant reduction in carbon footprint through environmentally friendly furnace technology and scale
  - Improved material flow
  - Improved process efficiencies
  - Improved labour efficiencies
  - Reduced lead time to deploy
- **Capital investment c. £10m**
  - Cumulative capital investment c. £20m
  - Payback c. <12 months (at full capacity)

Challenges to manufacturing strategy

- **Scale up**
- **Introduction of new equipment technologies**
- **Supply chain disruptions**



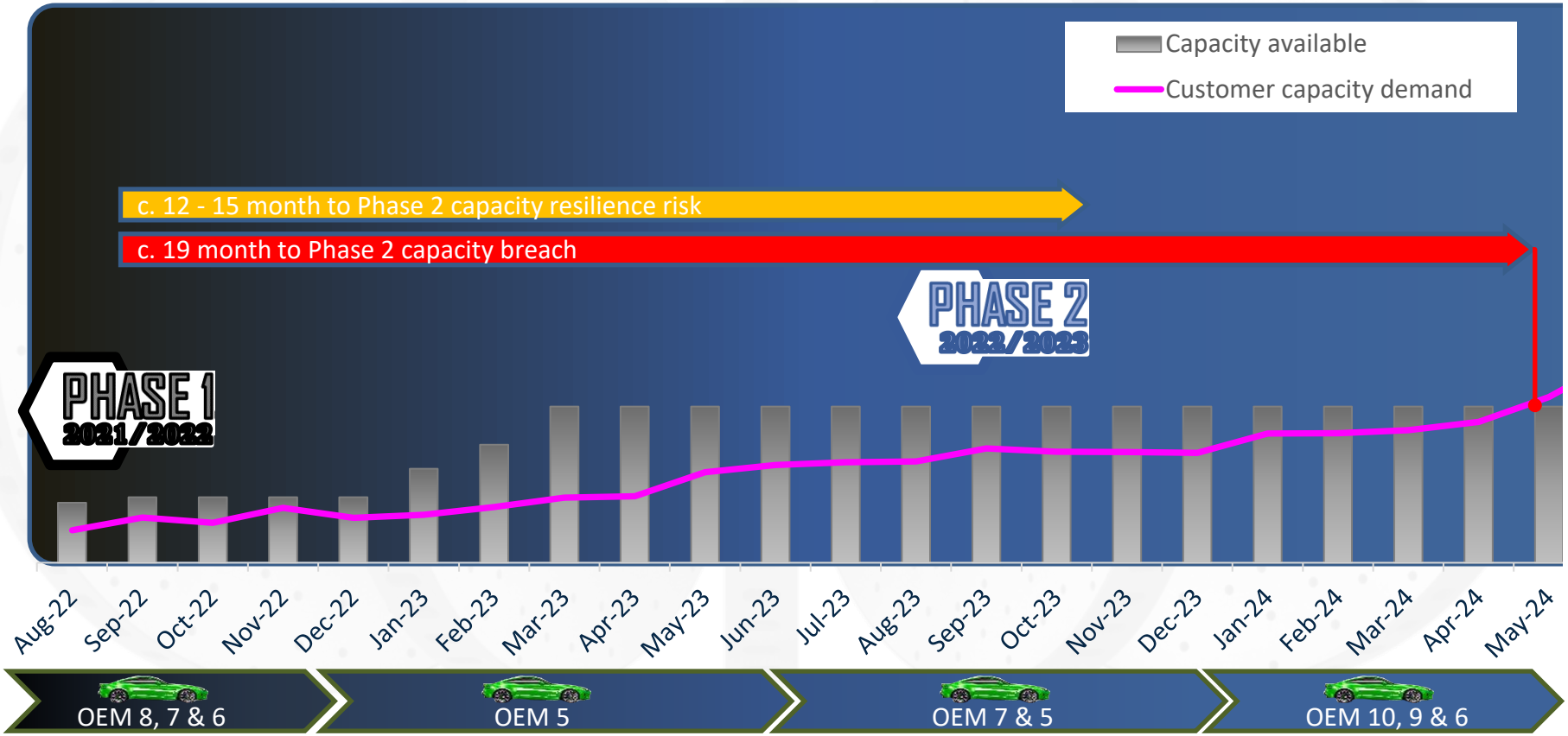
1 Based on management's estimates of sales proceeds from expected production volumes.

Manufacturing Strategy – Phase 2

Existing contracted models reserve Phase 2 capacity by 2024

PHASE 2 2022/2023

- Phase 2 capacity on budget with key furnaces expected Q3/Q4 2022
- Slight delay to delivery of furnaces due to supply chain constraints – within contingency plan
- On track to delivery against 2023 capacity requirement
- Demand breaches Phase 2 capacity with additional capacity need with the next 12-18 months



Resilience and capacity breach with contracted models by 2024

* The above graph is based on the directors' expectations, their understanding of the relevant OEMs production plans and an assumed disc demand

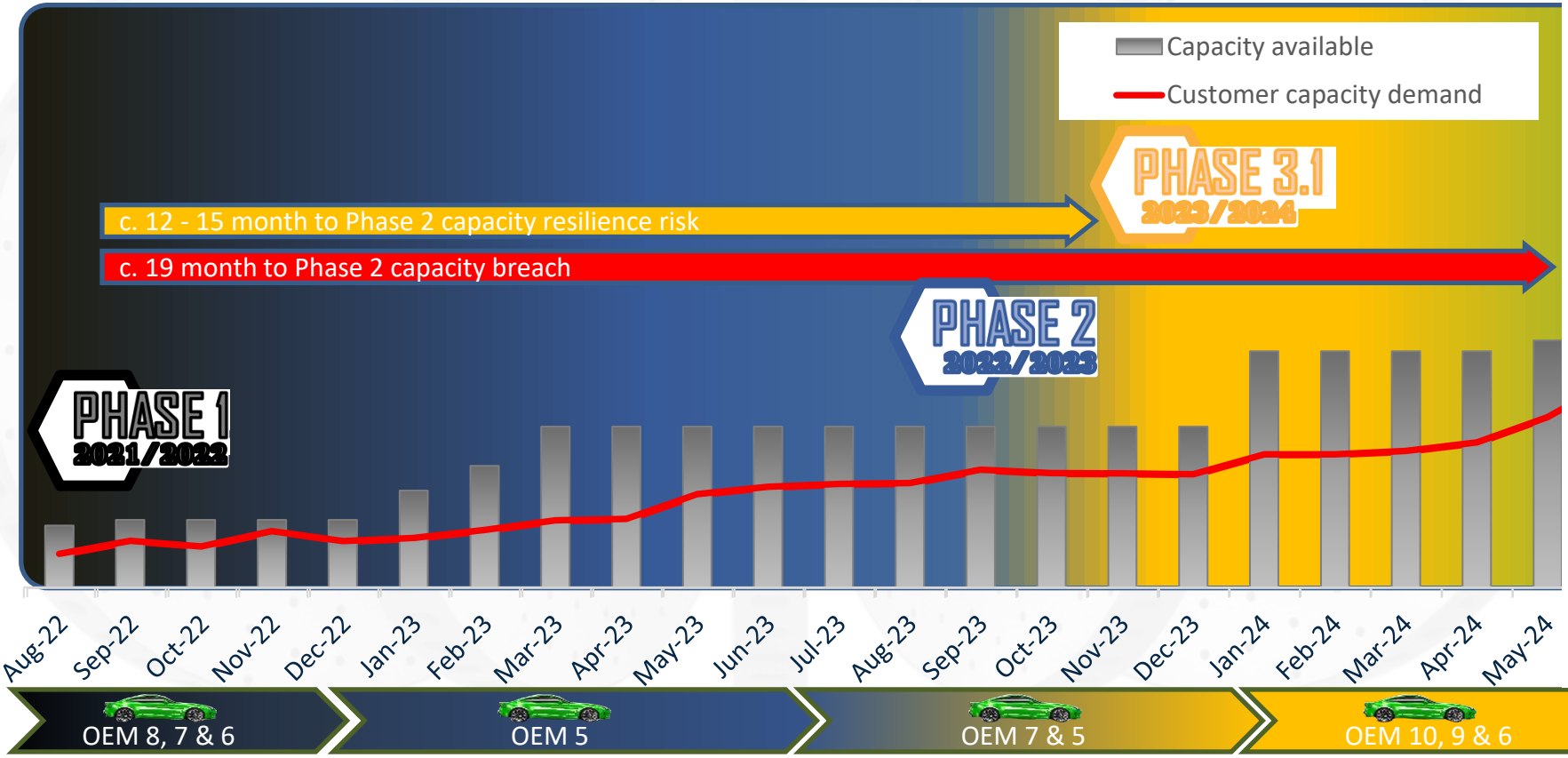
Contracted model

Capacity planning for 2023/24

Existing contracted models require Phase 3.1 for resilience

PHASE 3.1
2023/2024

- Contracts have reserved Phase 2 capacity by 2024
- Utilise site's remaining floor space to reach £75m/yr capacity[1]
- Phase 3.1 – fully equipped factory for start of 2024



* The above graph is based on the directors' expectations, their understanding of the relevant OEMs production plans and an assumed disc demand

1 Based on management's estimates of sales proceeds from expected production volumes.

Contracted model

Capacity planning for 2023/24

Phase 3.1 – full factory capacity

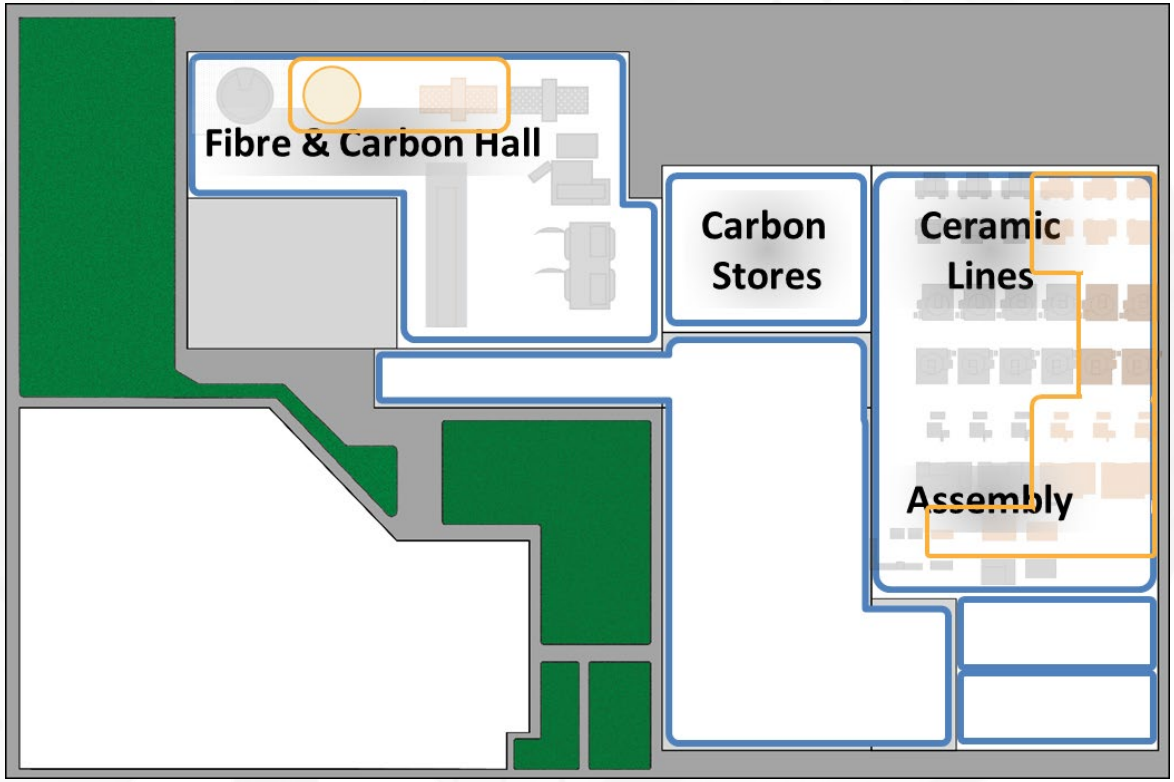
PHASE 3.1
2023/2024

Phase 3.1 - £75m/yr capacity[1]

- **Full site capacity**
  - Adding to existing plant flow
  - Utilising established supply chain
  - No scale up or new equipment technologies
  - Reduced lead time to deploy
- **Capital investment c. £10m**
  - Cumulative capital investment c. £30m

Challenges to manufacturing strategy

- **Reaches limit of current site capacity**
- **Phase 3.1 kick off prior to Phase 2 series production**



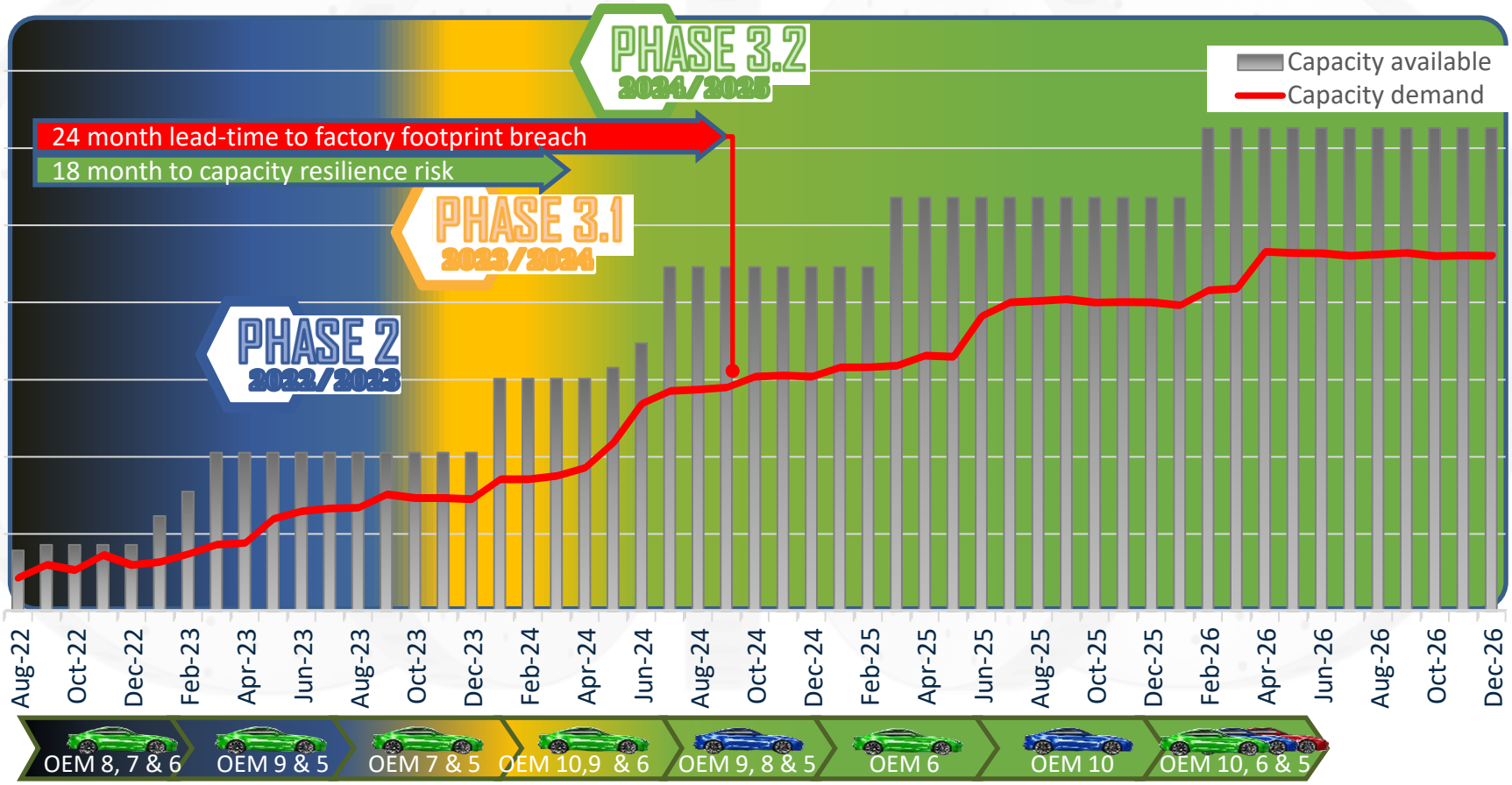
1 Based on management's estimates of sales proceeds from expected production volumes.

Capacity planning 2024 & beyond

Phase 3.2 – additional premises

PHASE 3.2
2024/2026

- Phase 3.1 ‘fully equipped factory’ capacity breached within 18-24 months
- Additional capacity needed within 6 months of Phase 3.1 completion
- Site extension required – Phase 3.2
- Phase 3.2 will replicate ‘full factory’ over 2024 & 25 to provide capacity that supports the conversion of the PCP



* The above graph is based on the directors’ expectations, their understanding of the relevant OEMs production plans and an assumed disc demand

Contracted model Carry over Prospective contracts

Liverpool site extension

PHASE 3.2
2024/2026

- Site extension defined
- Construction plan agreed
- 9-12 months to build
- Additional 60k sq ft footprint

PHASE 3.1
2023/2024

- Existing 55k sq ft footprint

Manufacturing strategy – Phase 3.2

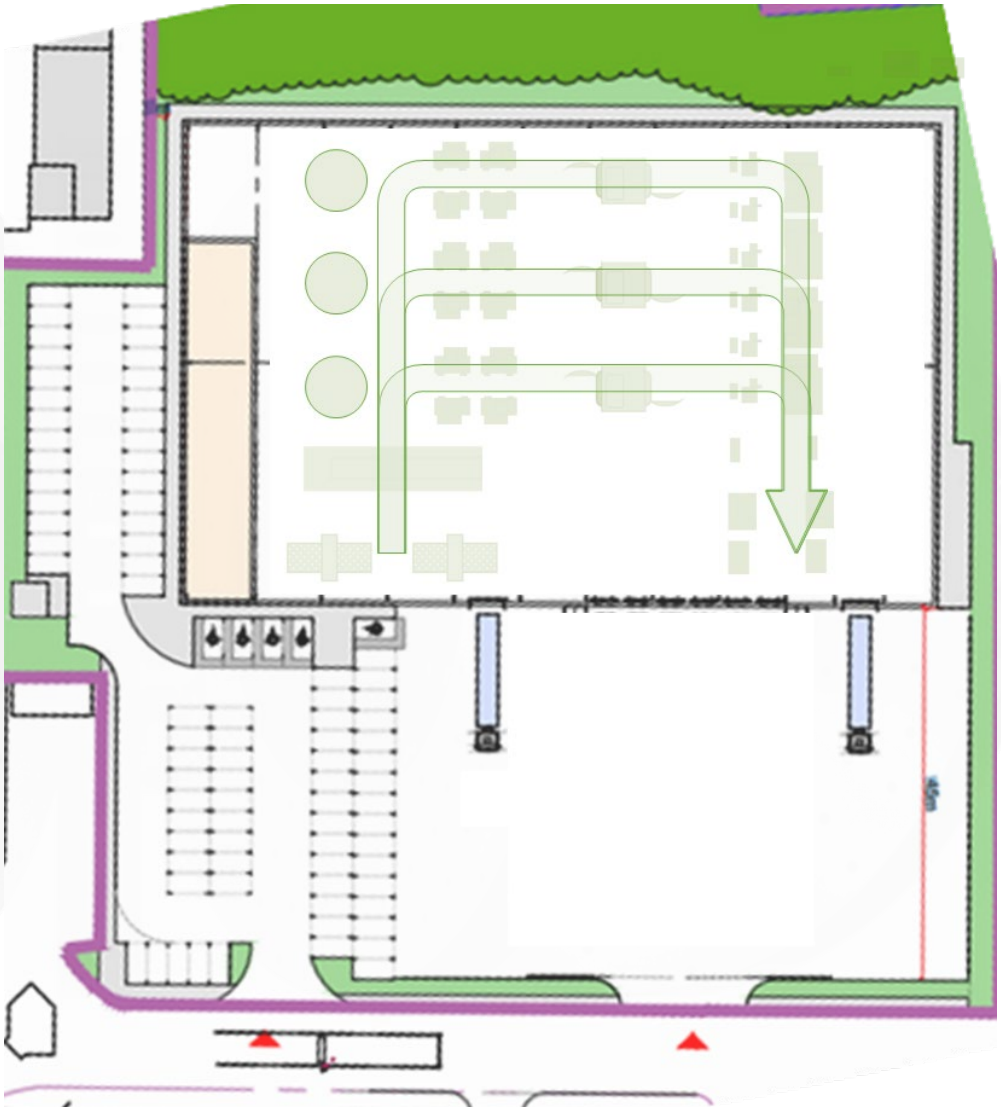
PHASE 3.2
2024/2026

Phase 3.2 - £150m/yr capacity total[2]

- **Site extension capacity £75m/yr[2]**
  - Maintained plant flow
  - Improved material flow
  - No scale up or new equipment technologies
- **Capital investment c. £30m**
  - Maintain efficiency of investment capital
  - Cumulative capital investment c. £60m

Challenges to manufacturing strategy

- Provide £30m investment capital
- Requires 18 months lead-time to bring on stream[1]



1 Based on directors' experience of lead time for construction, delivery and commissioning of furnaces to make the plant operational.

2 Based on management's estimates of sales proceeds from expected production volumes.

H1 Financial performance

Developing and launching model contracts

Revenue
£2.9m
+137%[1]

Gross profit
£1.7m
+129%[1]

Loss after tax
(£2.2m)
-13%[1]

Net cash[2]
£5.5m

Gross cash
£6.7m
of which £3.1m held in letters of credit

EPS
(1.1p)

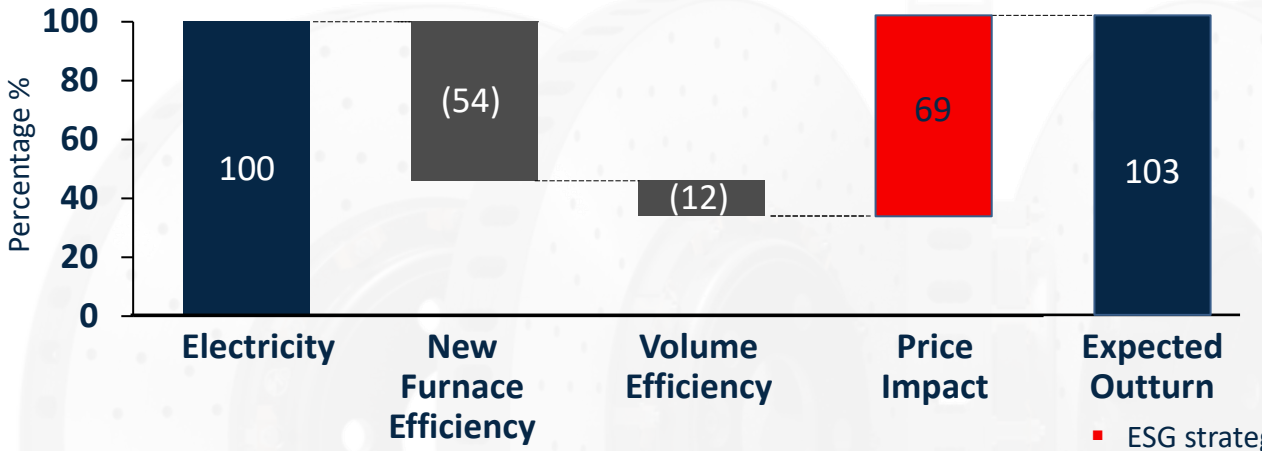
1 Compared to H1-2021
2 Cash less borrowings, excluding IFRS16 right of use lease liabilities

Energy pricing

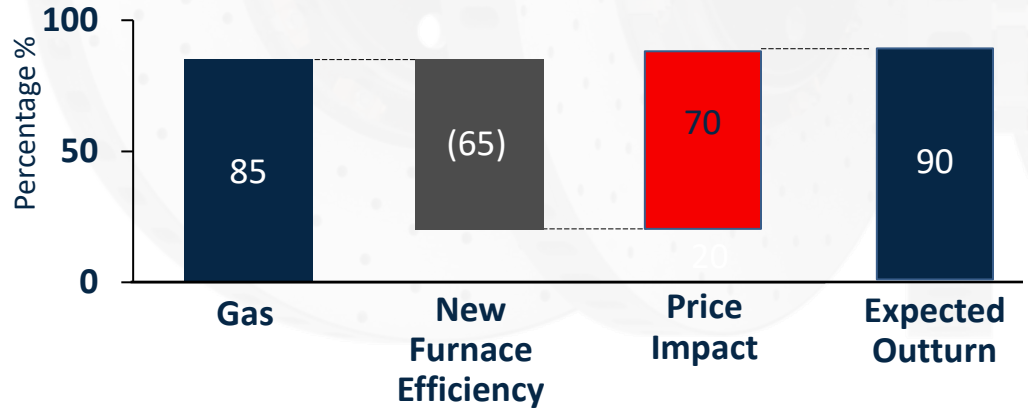
Phase 2: carbon & cost reduction

- Indexed pricing used – due to commercial sensitivity

Electricity



Gas

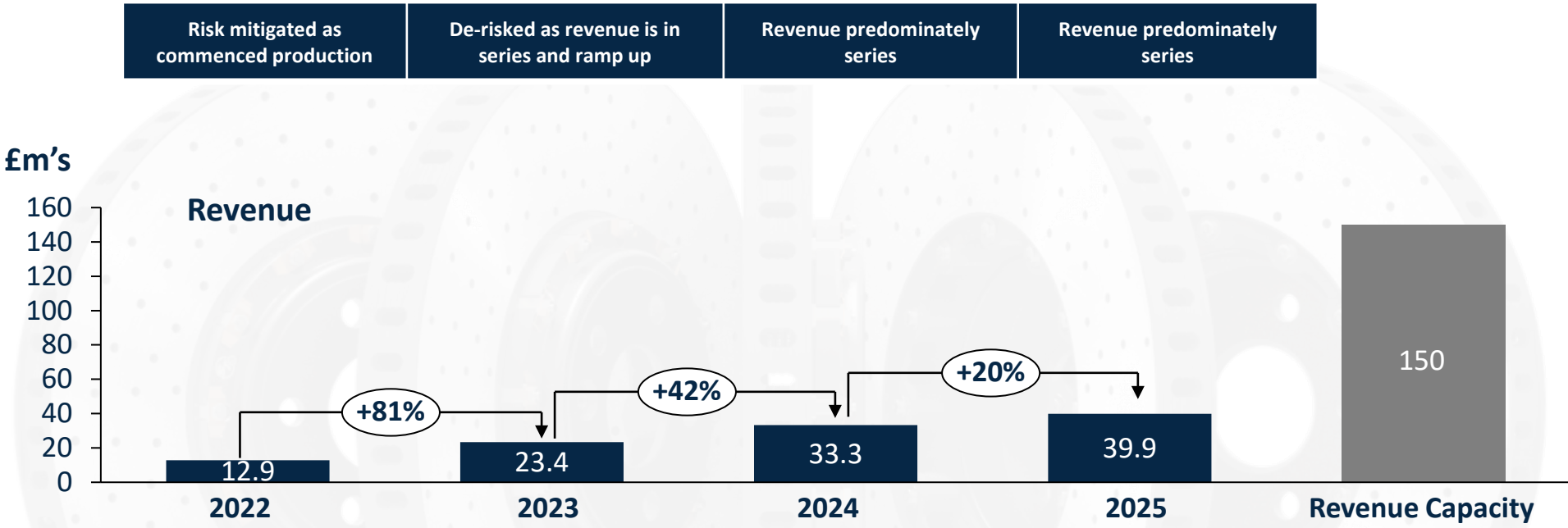


- ESG strategy is targeting carbon and cost reductions through new furnace technology
- Energy markets price increases will wipe out cost reductions with overall impact of +0.3% increase in COS[1]
- Other inflation impacts – labour & raw material estimated at 0.8% increase in COS[1]
- Timing risks
  - Electric fixed price contract until December 2022
  - Gas fixed price contract until March 2023
- As energy market cools cost reductions will return
- Benefit of planned cost reductions were not previously included in market guidance

1 Figures for power usage have been forecasted based on directors' discussions with the Company's energy broker and its landlord.

Revenue outlook[1]

Growth with timing contingency on model launches



- Risk profile after 2022 diminishes due to OEM 8 already in production
- Multi year fixed price contracts
- Diversification of customer base through forecast period, de-risking customer reliance

1 The assessment of the risk to revenue is based on the directors' experience to date and their understanding of OEMs' tendency to commit to a specific volume for the lifetime of a particular model of the vehicle to be produced.

Investment summary

- **Contracted models for OEM 6, 7 & 8 all in series supply**
  - Growing revenues with good margins delivering profitability

- **Capacity reserved for existing contracts**
  - Phase 2 – £50m/yr on track to support existing customer demand through 2022/23

- **Follow on contracts in prospective contract pipeline accelerating growth**
  - 10 contracted models valued at over £190m from 6 OEMs awarded
  - Prospective project pipeline in excess of £400m

- **Building further resilient manufacturing capacity needed**
  - Phase 3.1 – fully equip factory to £75m/yr
  - Phase 3.2 – replicate current factory doubles capacity to £150m supporting growth and creating resilience

- **Proposed £16m equity placing**
  - Funds working capital for growth and additional capacity
  - £40m capital expenditure programme supported with free cash flow

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