27 FEBRUARY 2018

DEVRO

FULL YEAR RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2017

DEVRO

THE COLLAGEN CASING COMPANY

Global Leader

- One of the world's leading providers of collagen casings for the processed meats sector
- Supplies 1,000 customers in 100 countries worldwide
- Provides technical support to food manufacturers

Global Operations

2,000+
staff across the world

6
manufacturing operations in Scotland, Australia, the Czech Republic, the USA, the Netherlands and China

Collagen

- Main raw material taken from the hide of carefully selected animals certified for food use
- A complex naturally-occurring polymer with unique characteristics
- Dedicated food grade sourcing arrangements

Technology

- Differentiation through product development
- Enhanced manufacturing performance and increased capacity
- Close matching of product design to customer needs and market requirements

OVERVIEW

Financial Results

- Underlying EBITDA up 9% on prior year
  - Reflects strong progress in underlying business
- Sales volumes increased 7%
  - Most notably in China, SE Asia and Russia
- Strong operating cash flow*
  - Up £19.7m on 2016
- Improved covenant ratio**
  - Now 2.1 times
- Final dividend maintained
  - At 6.1p per share

Devro 100

- Programme to accelerate the next stage of strategic development
- Initiated in Q4 2016 and progressing well
- Sales volume growth achieved in almost all markets during 2017
- £7 million manufacturing cost savings realised in 2017
  - Ahead of expectations
- New Fine Ultra casings introduced in H2 as planned

* Before pension deficit funding ** Covenant ratio = net debt (including derivative liabilities) / underlying EBITDA

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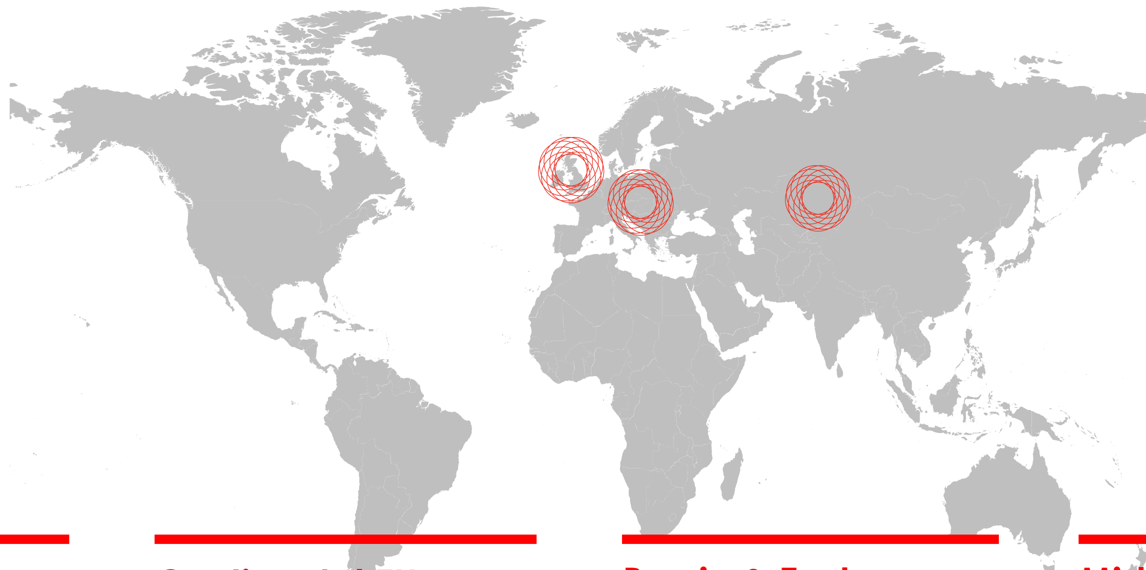
COMMERCIAL REVIEW

REVENUE: EUROPE



UK & Ireland

- 2% increase in volume and gains for market share
- 2% improvement on pricing attributable to success of *Select Fresh*

Continental EU

- Excellent H2 + 13% volume growth
- Effective positioning of Devro offer and sales management

Russia & East

- Adapted the product range to meet market requirements
- +21% volume as local customers grow volumes and Devro share recovered

Middle E & Africa

- Small proportion of total business
- Stronger development in South Africa with focus on gut displacement

Edible collagen casings only

REVENUE: AMERICAS

North America

- +3% volumes reflects continued growth in beefstick category
- Continued consolidation of key accounts and leading brands provides opportunities for long-term partnerships

Latin America

- Impacted by change in sourcing of products away from old USA plant
- 25% decline in volumes attributed to prior year changes
- Q4 stabilised
- Opportunities to regain market share in the region

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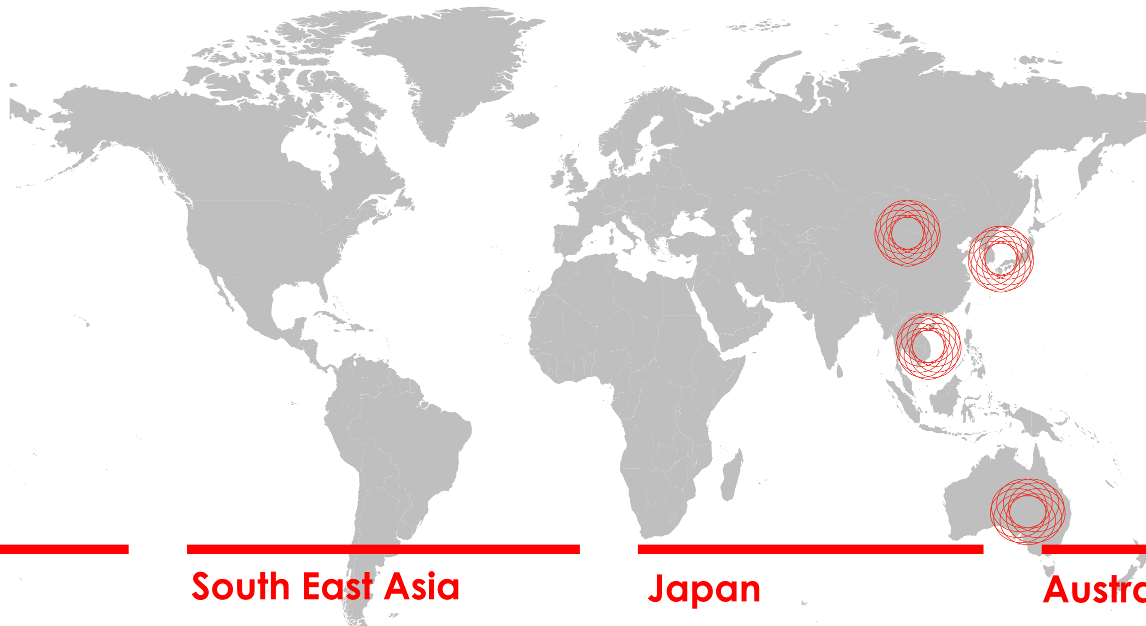
REVENUE: ASIA / PACIFIC



China

- +69% volume growth as capacity and product from new plant supply the market
- Pricing consistent with prior year
- Premium segments being developed

South East Asia

- +29% volume overall
- Strongest advances in Thailand

Japan

- Continued growth in savoury snack and confectionery products
- New *Fine Ultra* casings introduced

Australia & NZ

- Mature market
- Overall consumption lower
- Volumes adversely impacted by customer manufacturing changes

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MARKET DYNAMICS

Regional mix

- Growing volume in Europe and USA where markets are consolidating with pressure on leading brands
- Regained share in important markets of Russia and SE Asia
- Gaining share in China during a period of local oversupply
- Latin America decline due to change in Devro's product sourcing
- Devro continues to hold share in mature markets with historic high market shares, particularly UK

Pricing

- Devro remains price leader in most markets and accounts
- Increasing number of price-driven tenders following acquisitions, and consolidation among customers, impacting market dynamics; providing opportunity for long term supply contracts
- New business and regained share achieved in a number of markets
- Holding price in many markets and accounts where Devro is long established and fully valued as a partner

Short-term / medium-term

- Global demand growth estimated at 7% for 2017
- Global industry capacity coming into balance
- Devro has greater capacity available at lower unit cost following major capital investment programme
- Devro continues to seek revenue growth in all areas, focussing on the most profitable market opportunities, with an emphasis on growing market share in developing economies

MANUFACTURING & OPERATIONS

Established manufacturing plants in UK (Scotland), Czech Republic and Australia:

- Benefiting from operating in a single global supply chain organisation
- Achieving improved productivity levels compared with prior year
- Stable raw material and input costs

Following major investments, two new plants in operation throughout 2017:

- Nantong, China: performed particularly strongly, with high levels of productivity and efficiency, with sales matching output in latter part of the year.
- South Carolina, USA: making progress with specialist snack stick casing, actual output lower than anticipated, priority for management in 2018 as further progress will release more capacity for sales.

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DEVRO 100

OUR PLAN FOR GROWTH

DEVRO'S THREE PART STRATEGY

ACCELERATING DELIVERY THROUGH...

Revenue growth

- Gut replacement in developed markets
- Increased demand in emerging markets
- Pricing and value for customers

Manufacturing efficiency
Reduce cost

- Maximise productivity of existing assets
- New capacity in lowest unit cost technology
- Reducing costs

Collagen research and development
Innovate & invent

- Differentiated products
- Modern processes improve efficiency
- Creating new opportunities

Earnings growth & improving return on capital

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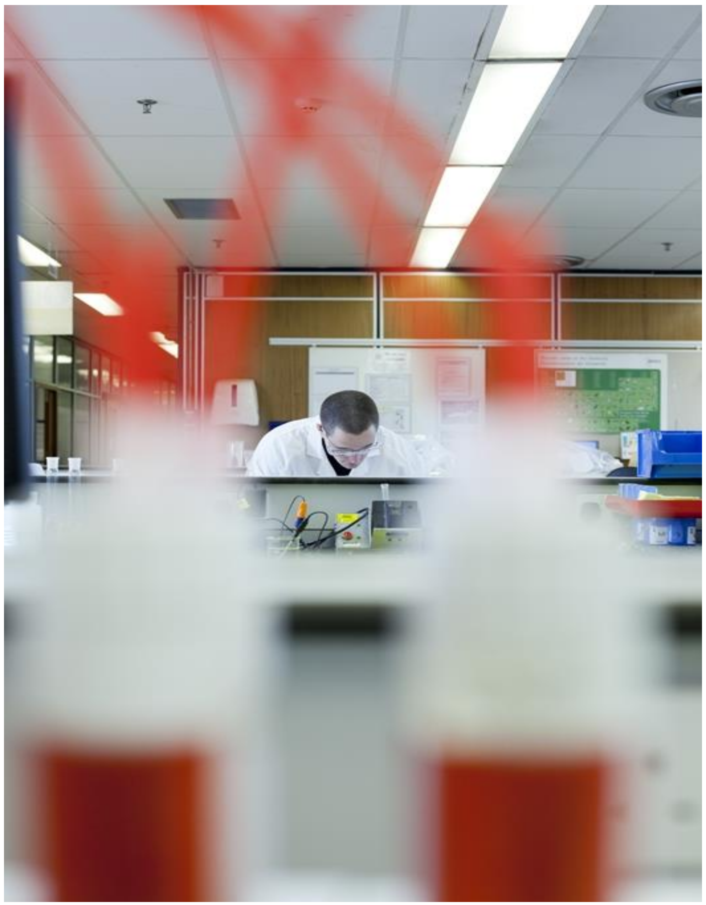
…THE DEVRO 100 PROGRAMME



Revenue growth

- Focus on improved sales capabilities

Revenue growth

Next generation of differentiated products

- To deliver a step change in product attributes and performance

Product differentiation

Improving manufacturing efficiency

- Using single global supply chain organisation to:
  - Maximise productivity of existing assets
  - Reduce unit cost

Unit cost reduction

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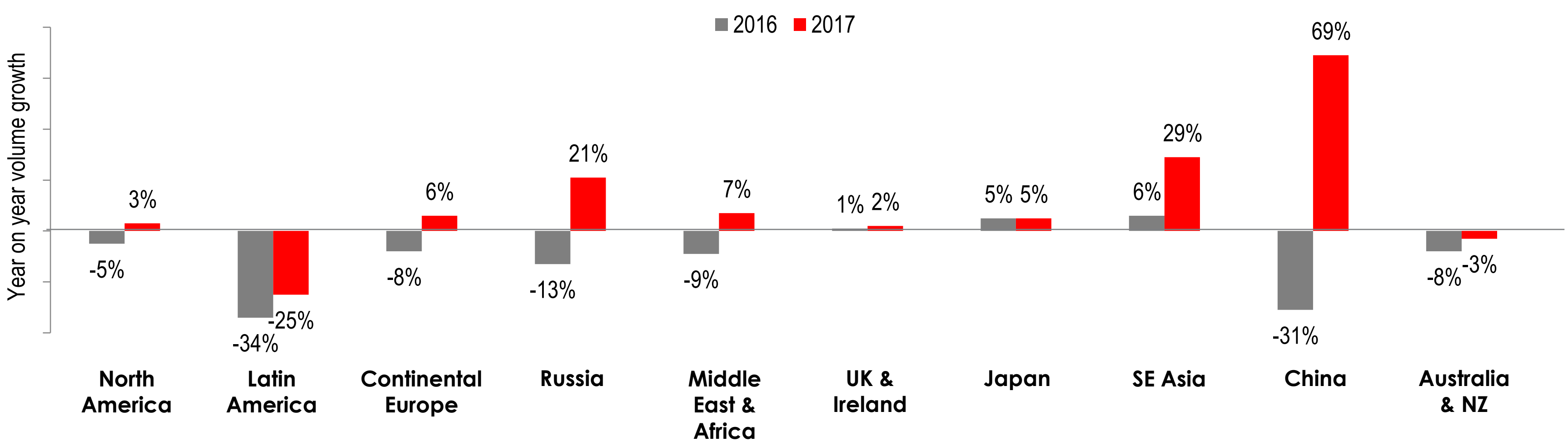
REVENUE GROWTH

Actions & achievements in 2017

- Volume growth of 8% for edible collagen casings
- Focus on target markets and customers
- Extension of sales capability training
- Co-ordinated global tendering and pricing at all accounts



Revenue growth

Product differentiation

Unit cost reduction

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NEXT GENERATION OF DIFFERENTIATED PRODUCTS

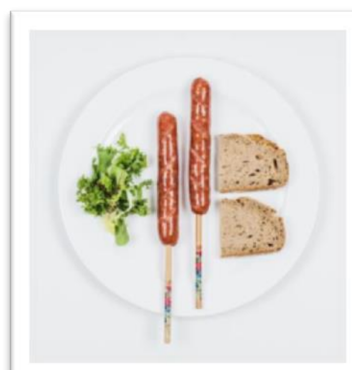
FINE ULTRA

Introduced as planned in two variants in H2 2017, tailored to deliver unique characteristics for our customers

Targeting major markets for processed sausages in Europe and Asia

For consumers:
Improved pan and deep frying

For manufacturers:
Increased robustness during filling



Revenue growth

Product differentiation

Unit cost reduction

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IMPROVING MANUFACTURING EFFICIENCY

Actions & achievements in 2017

- New supplier contracts agreed based on global purchase requirements
- *Global Best Practice* teams established for each stage of production process
- Standardised operations blueprint implemented with conversion cost reduction following redundancies
- Energy savings through investing in more efficient technologies
- Operating cost savings achieved through standardisation and simplification of organisation structure and processes

	2017 savings	Total 2019 benefit range
Material costs	£1.4m	£3.5m-£4m
Conversion costs	£5.6m	£7.5m-£9m
Production costs	**£7.0m**	**£11m-£13m**
Operating costs	£0.7m	£2m-£3m
Total costs	**£7.7m**	**£13m - £16m**

Revenue growth

Product differentiation

Unit cost reduction

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RUTGER HELBING

FINANCIAL REVIEW

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FINANCIAL SUMMARY

Revenue

- Increased 7% year-on-year to £256.9m
- Volume gains of 7% plus further 4% from FX benefits
- Partially offset by -4% price/mix, including increased volumes in China

Profit

- Underlying operating profit of £38.1m; in line with prior year
  - ➢ Volume gains, cost savings and FX, offset by full costs from new plants & price/mix
- Reported operating profit of £33.0m, increased from £15.4m in 2016
- Underlying EPS 12.5p (2016: 13.3p)

Exceptional items

- Related to Devro 100 programme
- Total of £5.1m for 2017
  - ➢ Lower than expectations
  - ➢ Expectations for total programme unchanged at £10-12m

Cash flow

- Continued strong cash generation, with operating cash flow* of £61.2m
  - ➢ Improved EBITDA
  - ➢ Lower capital expenditure and exceptional spend

Covenant ratio

- Key covenant ratio** improved to 2.1 times
  - ➢ Due to increased underlying EBITDA and lower net debt

Dividend

- Final dividend maintained at 6.1p per share, in line with prior year

* Shown before pension deficit funding ** Covenant ratio = net debt (including derivative liabilities) / underlying EBITDA

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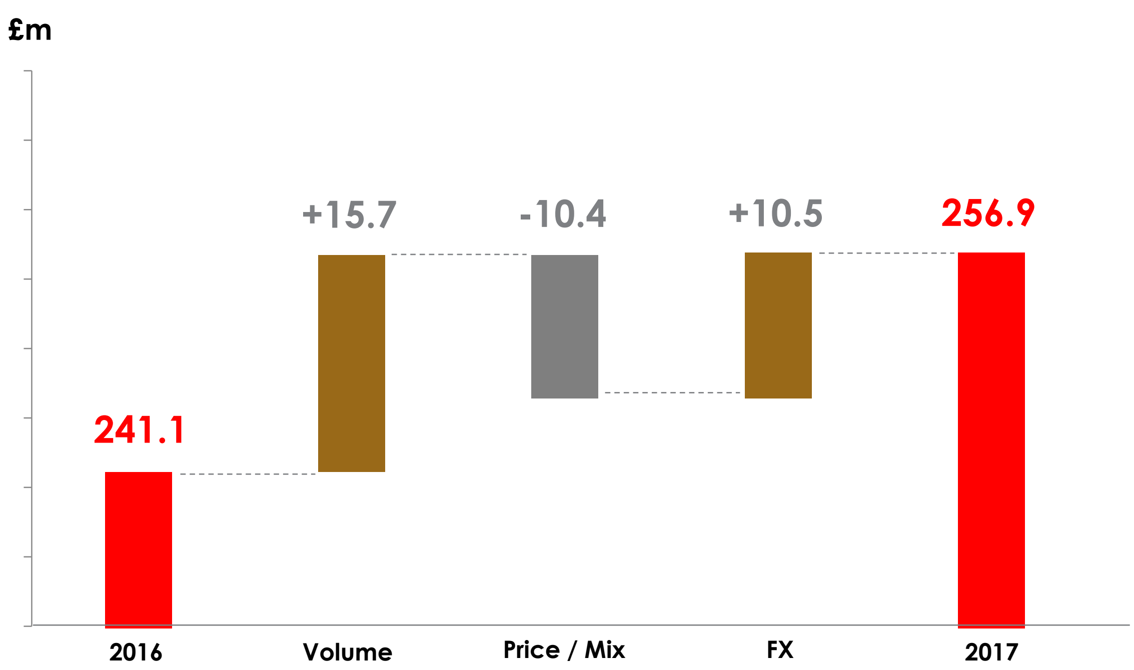
GROUP REVENUE



Volumes

- Increased 7% year on year

Price/mix

- Adverse by 4%
- Country mix (e.g. China)

FX

- Benefit of 4% for 2017

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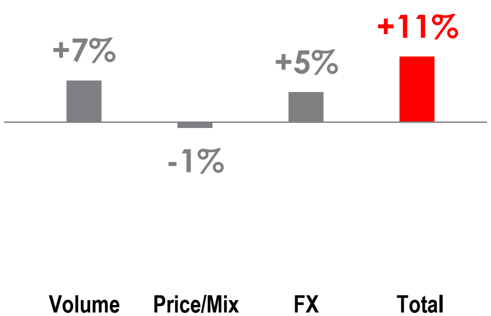
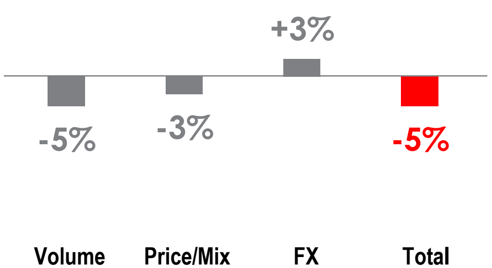
REVENUE DEVELOPMENT

Europe
(43% total revenue)



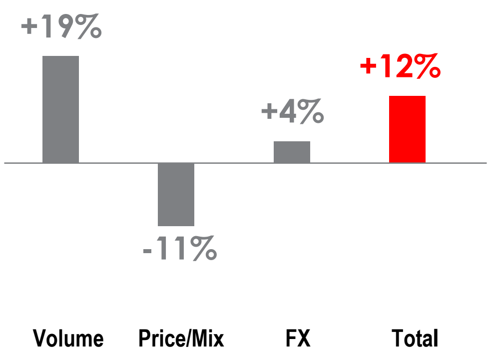
Revenue
- Volume – growth in all sales areas; particularly strong in Russia
- FX – sterling weaker vs euro

Americas
(24% total revenue)



Revenue
- Volume – growth in North Amercia; offset by expected reduction in Latin America, which had stablised by Q4
- FX – sterling weaker vs US dollar

Asia-Pacific
(33% total revenue)



Revenue
- Volume – increase in China sourced from new plant; significant growth in SE Asia
- Price/mix – mainly country mix from China
- FX – sterling weaker against several key currencies

Edible collagen casings only

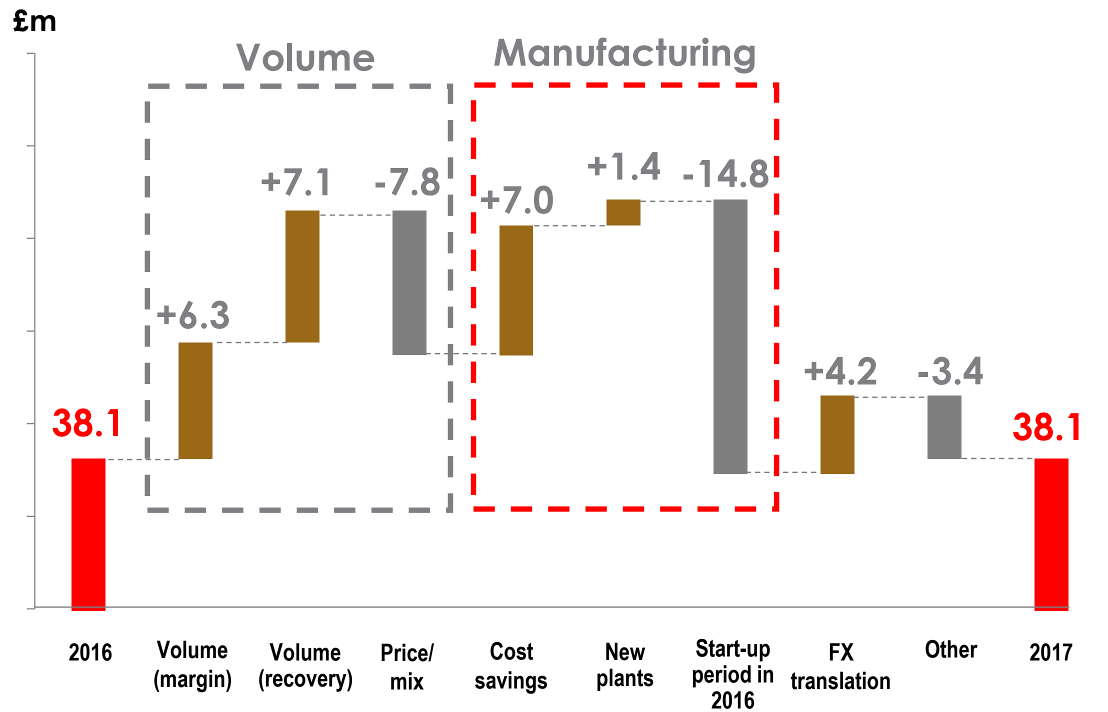
EBIT* MOVEMENT

Volume
- Higher sales volumes contributed gross margin and overheads recovery, offset by price/mix

Cost savings
- Result of actions taken as part of the Devro 100 programme

New plants
- Remaining savings from replacement of old US plant, less remaining costs for new China plant

Start-up period
- Start-up period** of new plants in 2016 (when capacity not available) lowered costs in 2016



15.8%	EBIT margin*	14.8%
24.4%	EBITDA margin*	25.0%

*Shown on underlying basis (before exceptional items) ** Incremental costs included in exceptional items

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EXCEPTIONAL ITEMS

	2017 £m	2016 £m
Devro 100	5.1	2.0
Investment projects	-	20.7
Total exceptional items	5.1	22.7

Devro 100

- Final stage of six year transformation of business
- Major programme focussed on:
  - Acceleration of revenue growth
  - Substantial improvement in manufacturing efficiencies
  - Introduction of next generation of differentiated products

Investment projects

- Completed in 2016
- No further exceptional items in 2017

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EXCEPTIONAL ITEMS - DEVRO 100 GUIDANCE

	Cash costs		Benefits
	Exceptional items £m	Capex £m	Year-on-year £m
Total	£10m-£12m	£7m-£8m	£13m-£16m
2017 (actual)	£5m	£2m	£7m
2018	£5m-£7m	£5m-£6m	£3m-£4m
2019	-	-	£3m-£5m

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FINANCE COSTS*

Higher loan balance

- Relates to RMB loans to fund investment in China, which on average increased over 2017

Higher interest rates

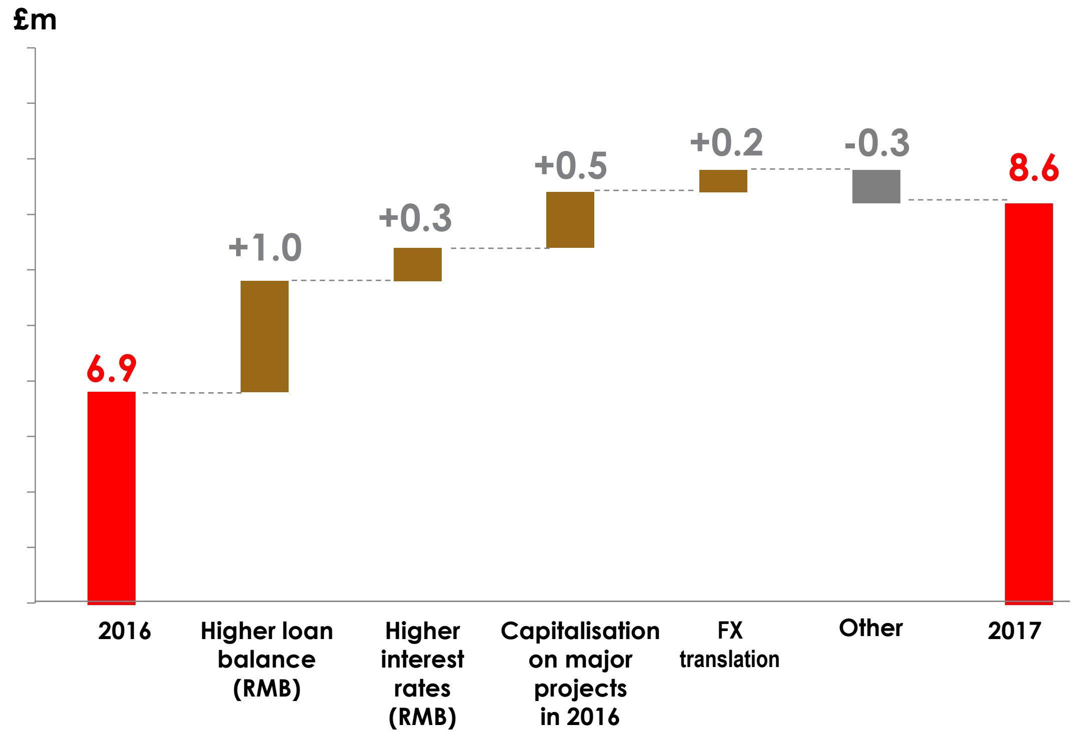
- Also relates to RMB loans; interest rates increased in 2017 vs 2016

FX

- Sterling weakened against key currencies (including USD and RMB)

Capitalisation

- Ceased in 2016 once new plants started-up



* Excluding net finance cost on pensions

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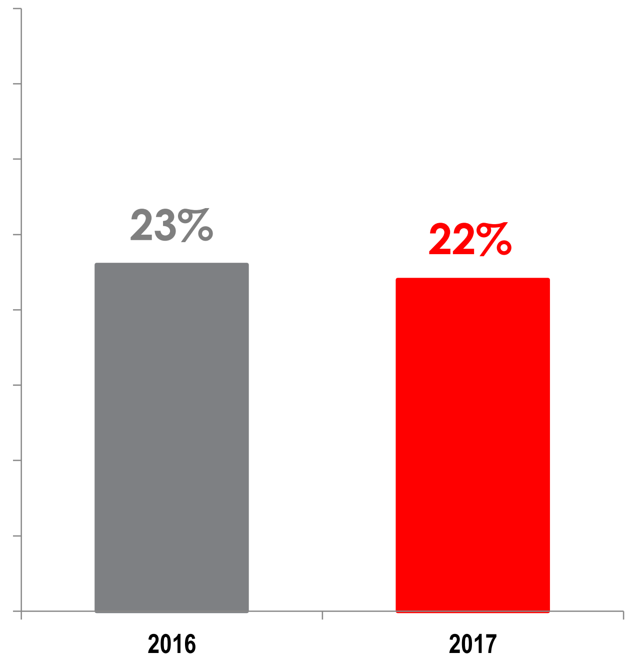
TAX RATE

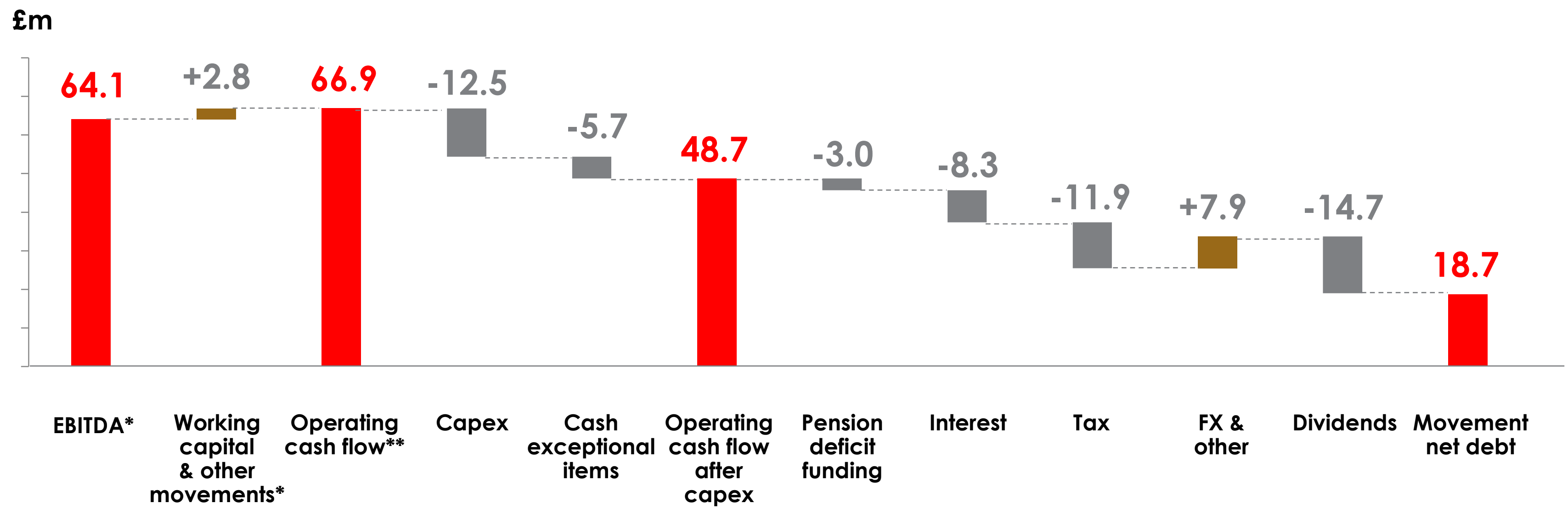
Effective tax rate*

- Broadly in line with 2016
- Reflects mix of profits in different tax jurisdictions across the group
- Charge of £4.2m related to US tax reforms reported in exceptional items
- Review of internal funding structure helping to manage future impacts of US tax reforms and other changes



* Shown on underlying basis (before exceptional items)

CASH FLOW 2017



2016:	58.8	+5.6	64.4	-24.0	-22.9	17.5	-2.5	-7.7	-5.8	-14.9	-14.7	-28.1

Operating cash flow after capex

- Strong growth due to improved EBITDA, and lower capex and exceptional spend

Movement net debt

- Dividend maintained
- Strengthening of sterling reduced net debt by £7m
- Higher tax payments related to increased tax rate in 2016

* Shown on underlying basis (before exceptional items) ** Shown on underlying basis and before pension deficit funding

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NET DEBT AND KEY BANKING COVENANTS

	Dec 2017 £m	Jun 2017 £m	Dec 2016 £m	Current covenant
Net debt	134.9	151.9	153.6	
Net debt** / EBITDA* ratio	2.1x	2.4x	2.7x	<3x
EBITDA* / Net interest payable ratio	8x	9x	8x	>4x

* Shown on underlying basis (before exceptional items) ** Includes derivative liabilities of £0.4m (Jun 2017: £0.2m; Dec 2016: £2.6m)

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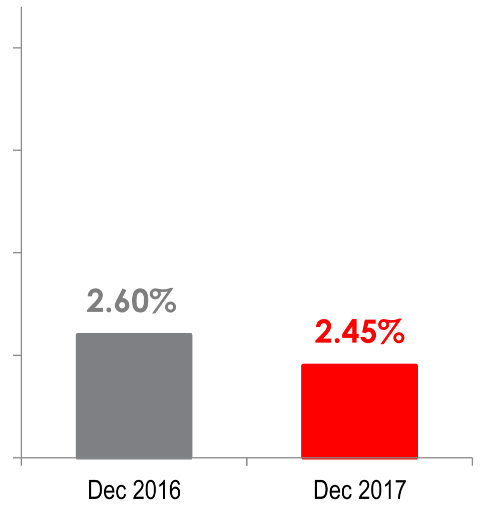
PENSIONS

Net pension deficit

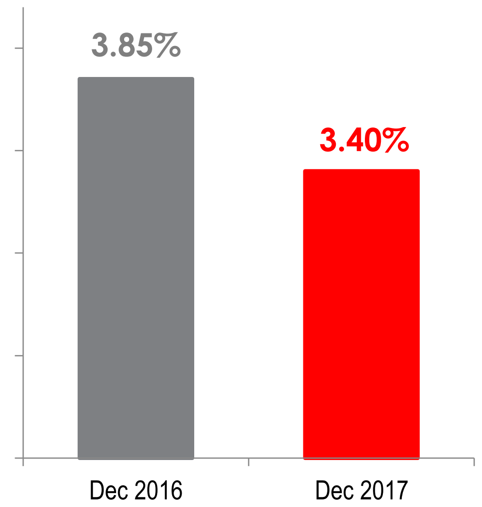
- Triennial valuation of UK scheme completed with no increase in deficit funding contributions
  - Shortened recovery plan
- Reduced net deficit primaily due to updated mortality assumptions for UK scheme
- Partially offset by reduced discount rates in UK and US

	Dec 2017 £m	Dec 2016 £m
Net pension deficit	82.0	96.0

UK discount rate



US discount rate



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THE OUTLOOK

- **Global demand growth projections 2-4% pa**
- **Devro 100 programme underpins the 3-part strategy**
  - Improved sales capability
  - Next generation of differentiated products
  - Unit cost reduction savings of £13m-£16m
- **Devro has a modern asset base**
  - With capacity to support growth
- **Targeting year-on-year growth with attractive financial returns**

APPENDICES

INCOME STATEMENT

	Underlying*			Statutory		
	2017 £m	2016 £m	Change	2017 £m	2016 £m	Change
Revenue	256.9	241.1	+7%	256.9	241.1	+7%
EBITDA	64.1	58.8	+9%			
EBIT	38.1	38.1	-	33.0	15.4	+114%
Finance costs**	(8.6)	(6.9)	+25%	(8.6)	(6.9)	+25%
Tax charge	(5.8)	(6.7)	-13%	(6.0)	(4.0)	+50%
Profit after tax	20.9	22.2	-6%	15.6	2.2	+609%
EPS	12.5p	13.3p	-0.8p	9.3p	1.3p	+8.0p

Depreciation & amortisation

- Underlying depreciation & amortisation increased £5.3m year-on-year, reflecting start up on new plants in 2016

EPS (year-on-year change)

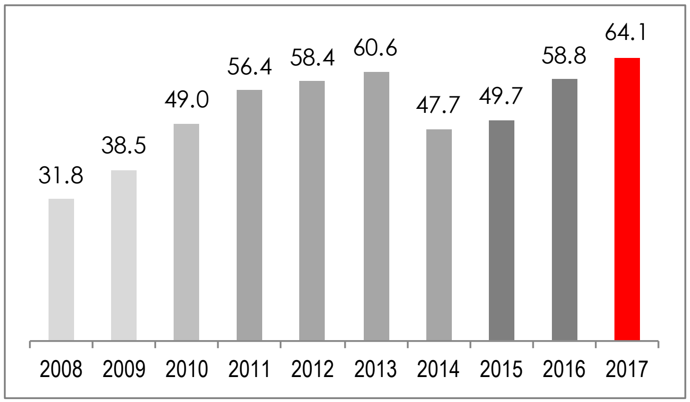
- EBIT* per share -
- Finance cost per share -1.0p
- Tax* per share 0.2p

- EPS* -0.8p

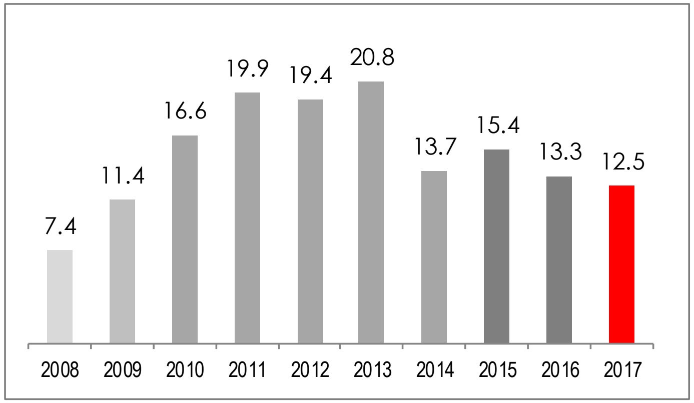
* Underlying figures are stated before exceptional items ** Excludes net finance cost on pensions

KEY FINANCIAL INDICATORS

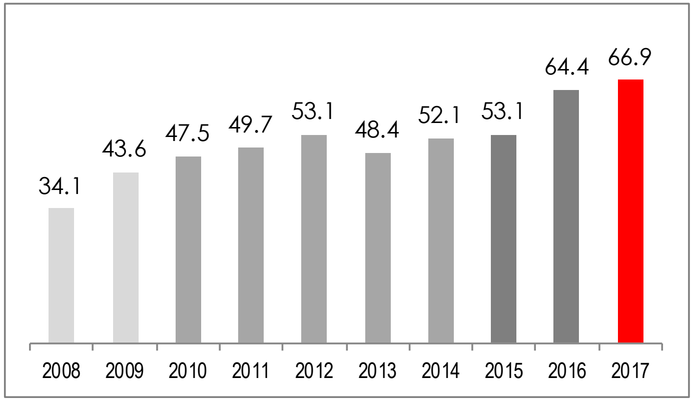
EBITDA* (£m)



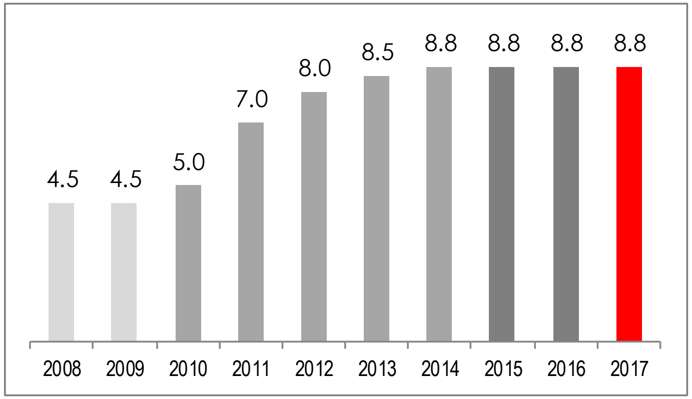
Earnings per share* (pence)



Operating cash flow (£m)**



Dividends per share (pence)



* All figures relate to continuing operations and are shown on underlying basis (before exceptional items). Figures for 2007 to 2012 have been restated for revised pension accounting rules (IAS19R) ** Shown on an underlying basis and before pension deficit funding

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