2 AUGUST 2017

DEVRO

HALF YEAR RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 operating profit in line with 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 £7.6m on 2016
- Improved covenant ratio**
  - ➢ Now 2.4 times
- Interim dividend maintained
  - ➢ At 2.7p per share

Devro 100

- Programme to accelerate profit growth initiated in H2 2016 progressing well
- Sales volume growth achieved in a range of markets during H1 2017
- £3 million cost savings realised in H1 2017

Outlook

- Global market continues to grow at long-term average rate of 2-4% per year
- Good opportunities for Devro to increase revenue from new manufacturing plants
- Continued progress in reducing unit costs within the business
- New product introductions during H2 2017 will support longer-term growth ambitions

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

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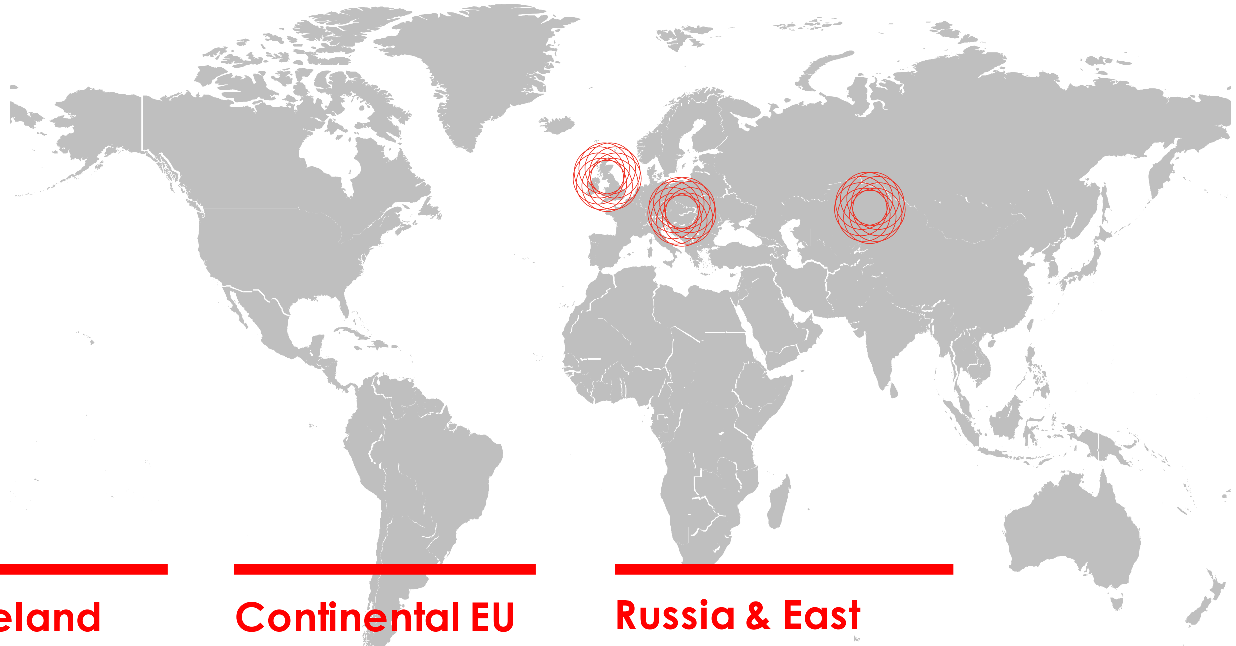
COMMERCIAL REVIEW

REVENUE: EUROPE



UK & Ireland

- Volumes: +6%
- Increased market share for Devro and long-established customers
- Continued progress with Select F premium products

Continental EU

- Volumes: unchanged
- Share gains in 2017 have recovered losses from 2016
- Devro returning to a stronger commercial position

Russia & East

- Volumes: +19%
- Share gains and increased output by key customers
- Expanded product range for the region

REVENUE: AMERICAS

North America

- Volumes: unchanged
- Market consolidating with competitive pressure on leading brands
- Successful development of growth opportunities in gel continues

Latin America

- Volumes: -35% following change in sourcing of products in 2016
- Product design and development with customers will continue to be a key area of focus in H2

REVENUE: ASIA / PACIFIC

China

- Volumes: +125%
  (HY 2016: -51%)
- Casings from new plant performing well
- Demand growing, but market oversupplied

South East Asia

- Volumes: +40%
- Strong growth in consumption across all categories

Japan

- Volumes: +5%
- Continued growth in savoury snack products
- Growth in non-meat food categories

Australia & NZ

- Volumes: -3%
- Mature market
- Overall consumption lower

MARKET DYNAMICS

Regional mix

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

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
- 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 anticipated at 2-4% p.a.
- Global industry capacity expected to come 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 with an emphasis on growing market share in developing economies

RUTGER HELBING

FINANCIAL REVIEW

FINANCIAL SUMMARY

Revenue

- Increased 11% year-on-year to £125.2m
- Volume gains of 7% plus further 10% from FX benefits
- Partially offset by -6% price/mix, including increased volumes in China

Profit

- Underlying operating profit of £18.1m; in line with prior year
  - ➢ Volume gains, cost savings and FX, offset by full costs from new plants
- Reported operating profit of £15.0m; higher than prior year due to reduced exceptional items

Exceptional items

- Related to Devro 100 programme
- Total of £3.1m for H1 2017
  - ➢ In line with expectations

Cash flow

- Continued strong cash generation, with operating cash flow* of £23.9m
  - ➢ Improved EBITDA
  - ➢ Lower capital expenditure and exceptional spend

Covenant ratio

- Key covenant ratio** improved to 2.4 times, as planned
  - ➢ Due to increased underlying EBITDA and slightly lower net debt

Dividend

- Interim dividend maintained at 2.7p 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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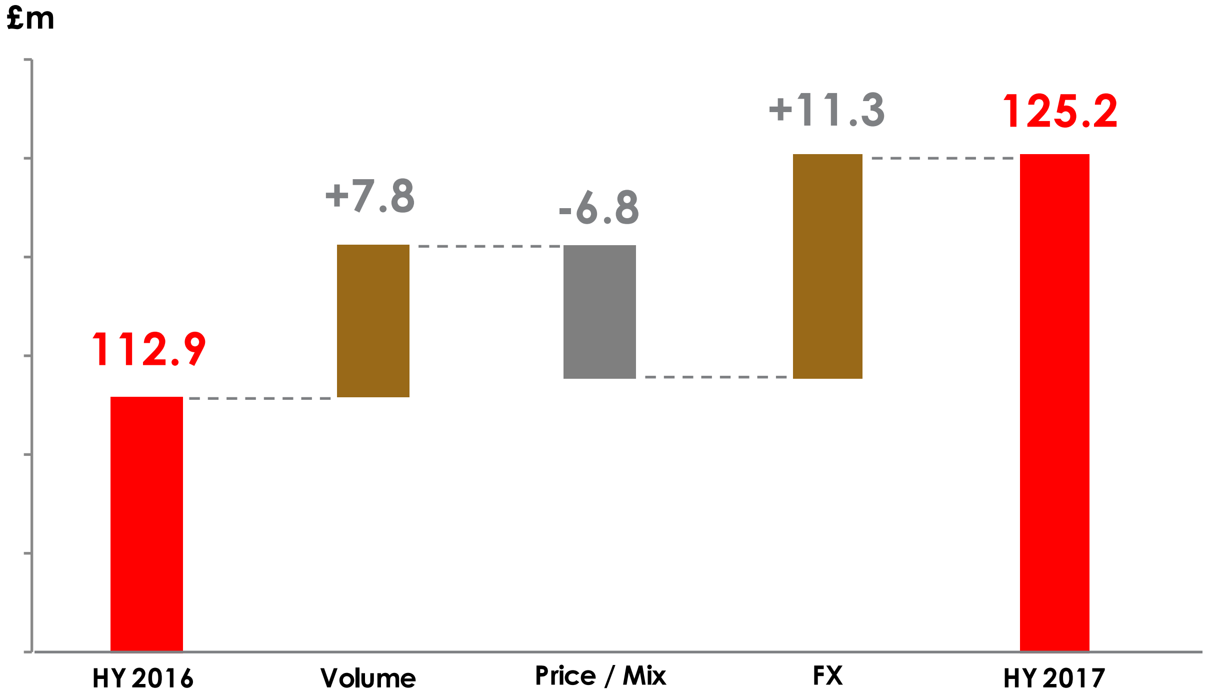
GROUP REVENUE



Volumes

- Increased 7% year on year

Price/mix

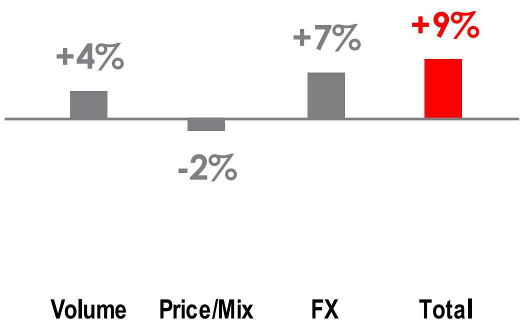
- Adverse by 6%
- Country mix (e.g. China)

FX

- Benefit of 10% for H1 2017

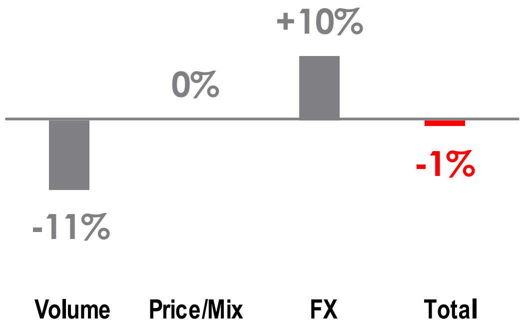
REVENUE DEVELOPMENT

Europe
(41% total revenue)



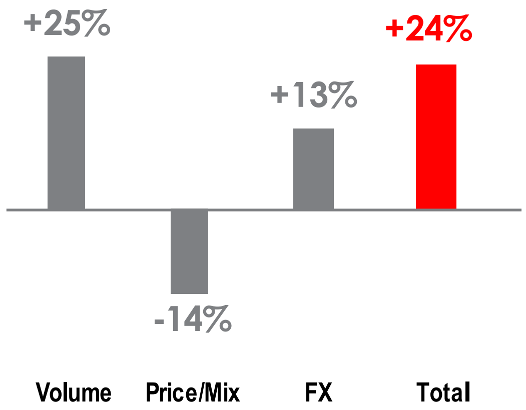
Revenue
- Volume – growth in Russia and UK/Ireland, with Continental Europe stabilised
- FX – sterling weaker vs euro

Americas
(26% total revenue)



Revenue
- Volume – as expected Latin America below prior year for H1; North America in line with prior year
- 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

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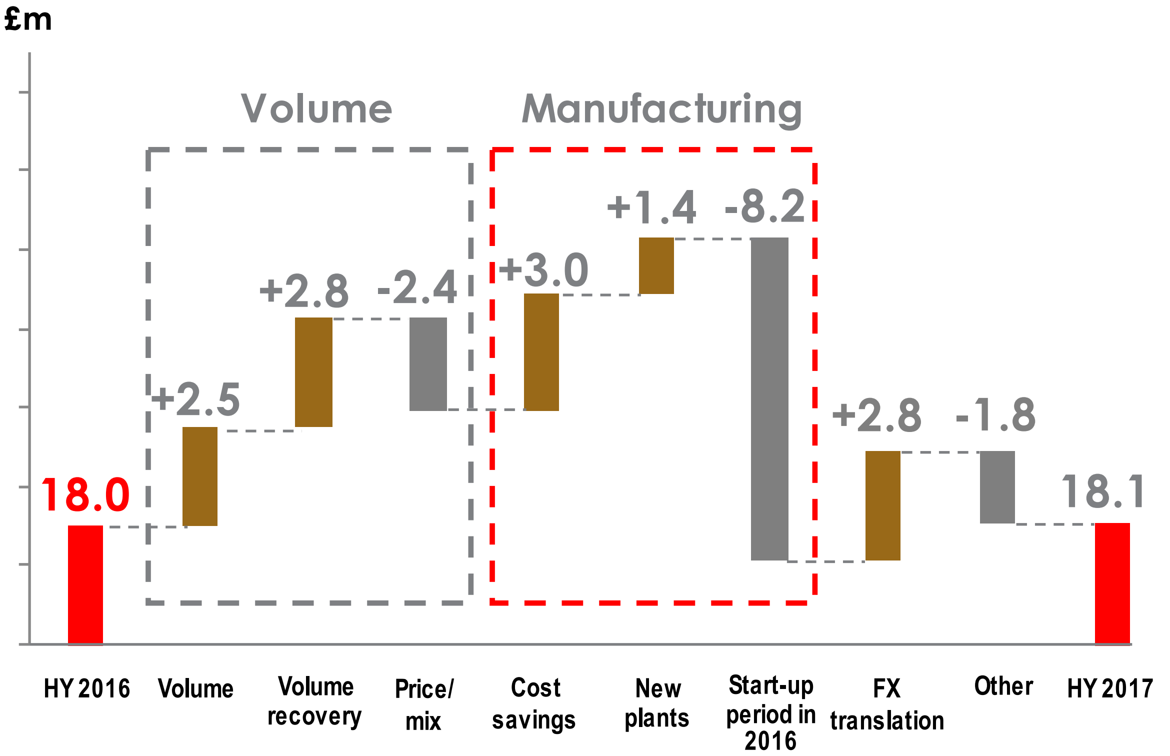
EBIT* MOVEMENT

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



15.9%	EBIT margin*	14.5%
23.4%	EBITDA margin*	24.6%

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

EXCEPTIONAL ITEMS

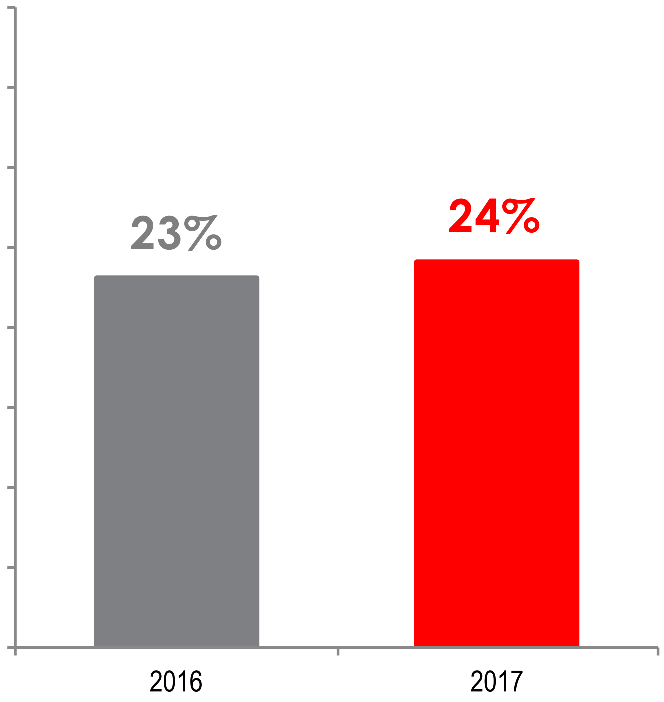
	HY 2017 £m	HY 2016 £m
Devro 100	3.1	-
Investment projects	-	13.4
Total exceptional items	3.1	13.4

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

TAX RATE

Effective tax rate*
- Broadly in line with 2016
- Reflects mix of profits in different tax jurisdictions across the group



* Shown on underlying basis (before exceptional items)

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INCOME STATEMENT

	HY 2017 £m	HY 2016 £m	Change
EBITDA*	30.8	26.4	+17%
EBIT*	18.1	18.0	+1%
Profit after tax*	10.0	10.6	-6%
EPS*	6.0p	6.3p	-5%
Reported profit after tax	9.3	(1.2)	
Reported EPS	5.5p	(0.7p)	

Depreciation & amortisation

- Underlying depreciation & amortisation increased £4.3m year-on-year, reflecting start up on new plants in 2016

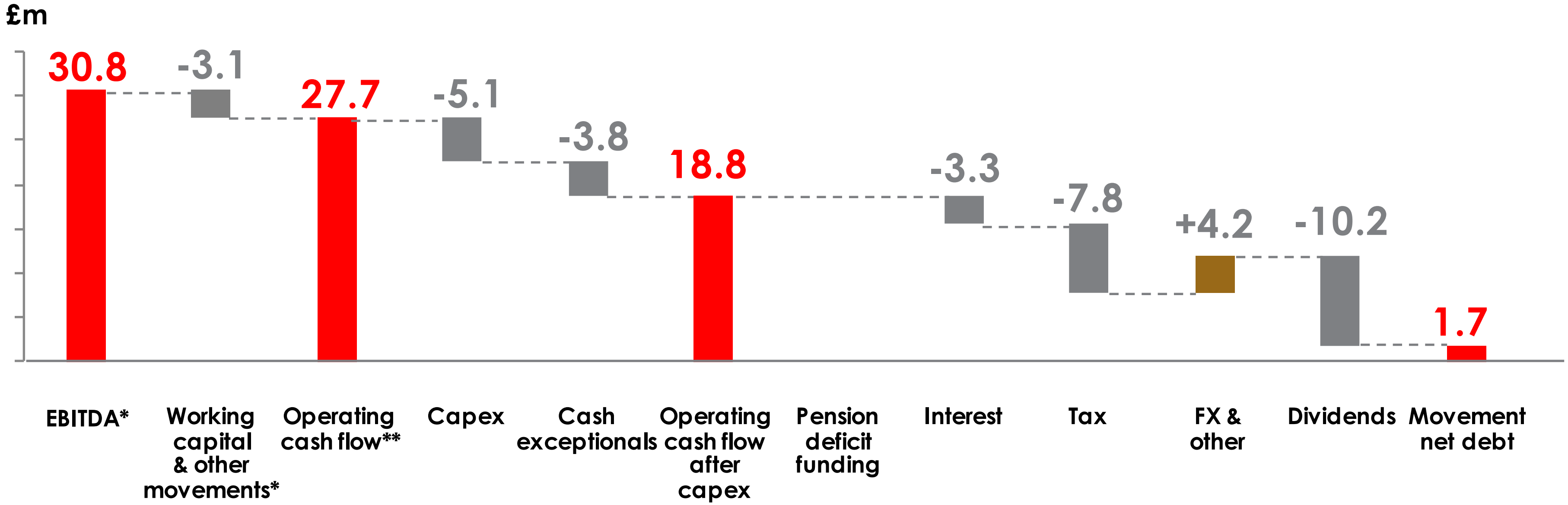
EPS (year-on-year change)

- EBIT* per share +0.1p
- Finance cost per share -0.4p
- Tax* per share -

- EPS* -0.3p

* Shown on underlying basis (before exceptional items)

CASH FLOW HY 2017



HY 2016:	26.4	+2.4	28.8	-11.0	-12.5	5.3	-2.5	-3.5	-3.0	-7.6	10.2	-21.5

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 £4m
- 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

NET DEBT AND KEY BANKING COVENANTS

	Jun 2017 £m	Dec 2016 £m	Jun 2016 £m	Current covenant
Net debt	151.9	153.6	147.0	
Net debt** / EBITDA* ratio	2.4 times	2.7 times	2.9 times	<3 times
EBITDA* / Net finance costs ratio	9 times	8 times	9 times	>4 times

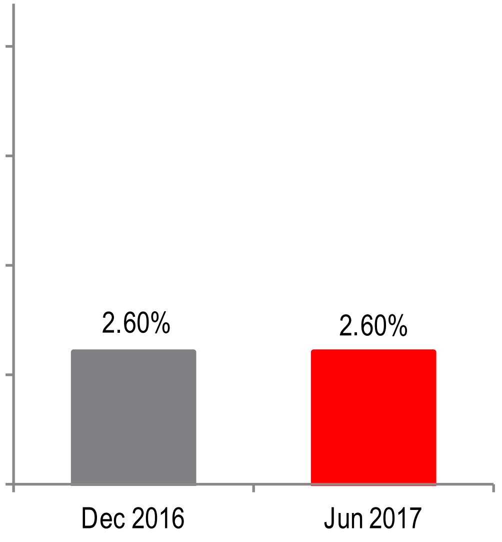
* Shown on underlying basis (before exceptional items) ** Includes derivative liabilities of £0.2m (Dec 2016: £2.6m; Jun 2016: £5.9m)

PENSIONS

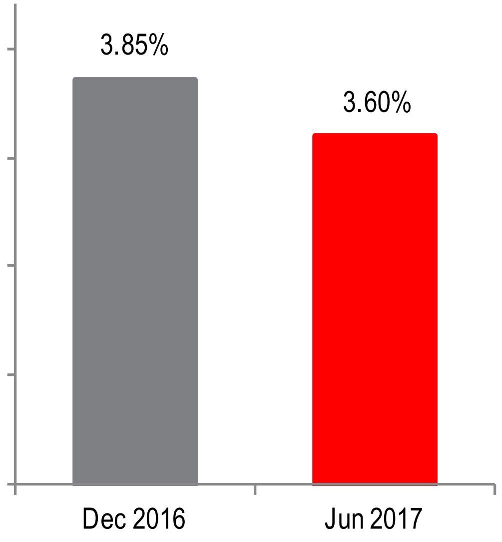
Net pension deficit
- Decrease due to inflation rate in UK and FX
- Partially offset by discount rate in US

	Dec 2016 £m	Jun 2017 £m
Net pension deficit	96.0	91.8

UK discount rate



US discount rate



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FINANCIAL SUMMARY

Results

- Revenue increased 11%
- Underlying EBITDA increased by 17%; underlying EBIT in line with H1 2016
- Underlying EPS down due to higher finance costs
- Dividend maintained
- Net debt ratios improved since December 2016

Full year expectations remain unchanged

Devro 100 cost savings

- Expected to be around £6m of savings for the year

Exceptional items

- Expected to be around £7m of costs for the year

Effective tax rate

- Expected to be around 24% for the year

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DEVRO 100

OUR PLAN FOR GROWTH

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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

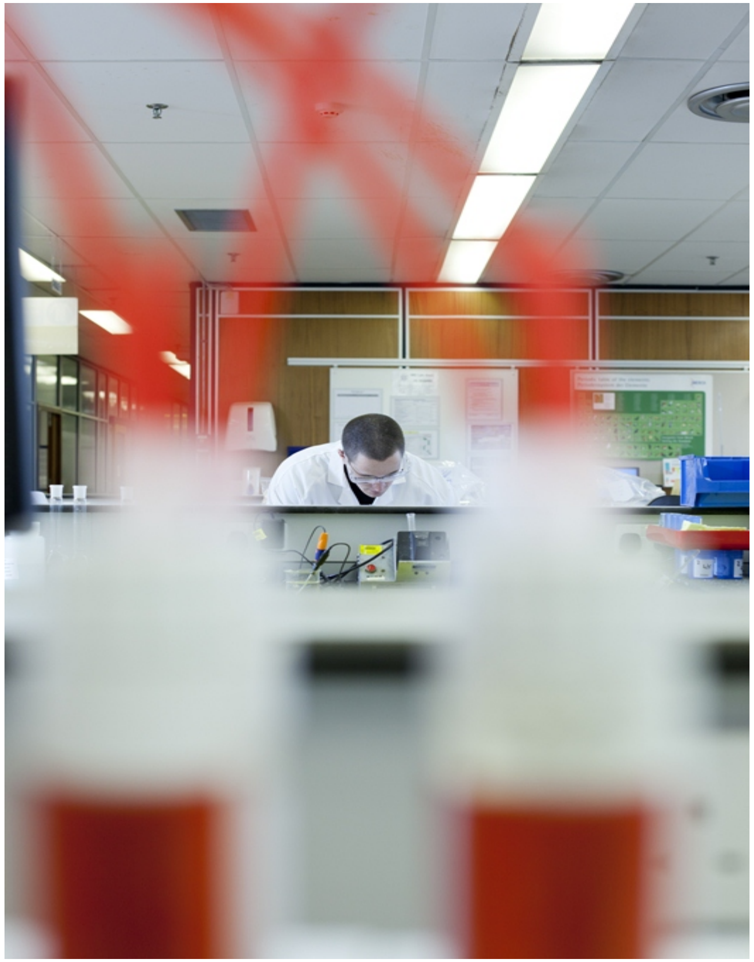
- Maximise productivity of existing assets
- New capacity in lowest unit cost technology
- Reducing costs

Collagen research and development
Innovate & invent

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

Earnings growth & improving return on capital

…THE DEVRO 100 PROGRAMME



Revenue growth

- Focus on improved sales capabilities

Next generation of differentiated products

- To deliver a step change in product attributes and performance

Improving manufacturing efficiency

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

Revenue growth

Product differentiation

Unit cost reduction

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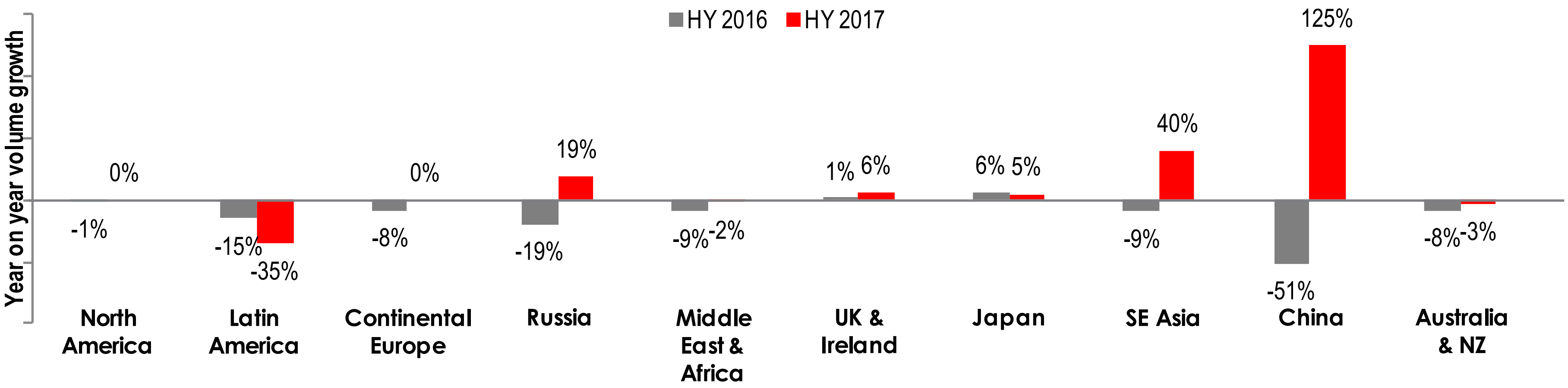
REVENUE GROWTH

Actions & achievements in H1 2017

- Volume growth of 7%
- 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

to be introduced in several variants in H2 2017, designed for market requirements

Targeting major markets for processed sausages in Europe and Asia

For consumers: Improved pan and deep frying

For manufacturers: Increased robustness during filling

Long-term aim for 10-15% of group revenue

Revenue growth

Product differentiation

Unit cost reduction

DEVRO

IMPROVING MANUFACTURING EFFICIENCY

Actions & achievements in H1 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
- Operating cost savings achieved through standardisation and simplification of organisation structure and processes

	HY 2017 savings	Total 2019 benefit range
Material costs	£0.8m	£3.5m-£4m
Conversion costs	£2.2m	£7.5m-£9m
Production costs	**£3.0m**	**£11m-£13m**
Operating costs	£0.2m	£2m-£3m
Total costs	**£3.2m**	**£13m - £16m**

Revenue growth

Product differentiation

Unit cost reduction

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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**

DEVRO

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