6 MARCH 2017

DEVRO

FULL YEAR RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2016

DEVRO

THE COLLAGEN CASING COMPANY

Global Leader

- One of the world's leading providers of collagen casings for the processed meats sector
- 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

Technology

- Differentiation through product development
- Improved manufacturing performance and increased capacity

OVERVIEW

Results

- Underlying operating profit ahead of prior year
  - Improved input prices and FX benefits
  - Partially offset by 6.6% reduction in sales volumes
- Sales volumes performance due to series of region-specific factors

Transformation programme

Capital investment projects

- Now complete:
  - Production commenced in both new plants
  - Old USA plant now closed
- Complex transition, especially sourcing changes in Latin America where there is more work to do
- Exceptional items for the full year of £21m, as expected

Devro 100

- Programme to accelerate profit growth
- Actions being taken to ensure a return to revenue growth in 2017/2018
- Structured plans in place to deliver manufacturing efficiency cost savings in 2017/2018
- On track to commence launch of next generation of products into specific regions in 2017

OUR THREE-PART STRATEGY

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

PETER PAGE

COMMERCIAL REVIEW

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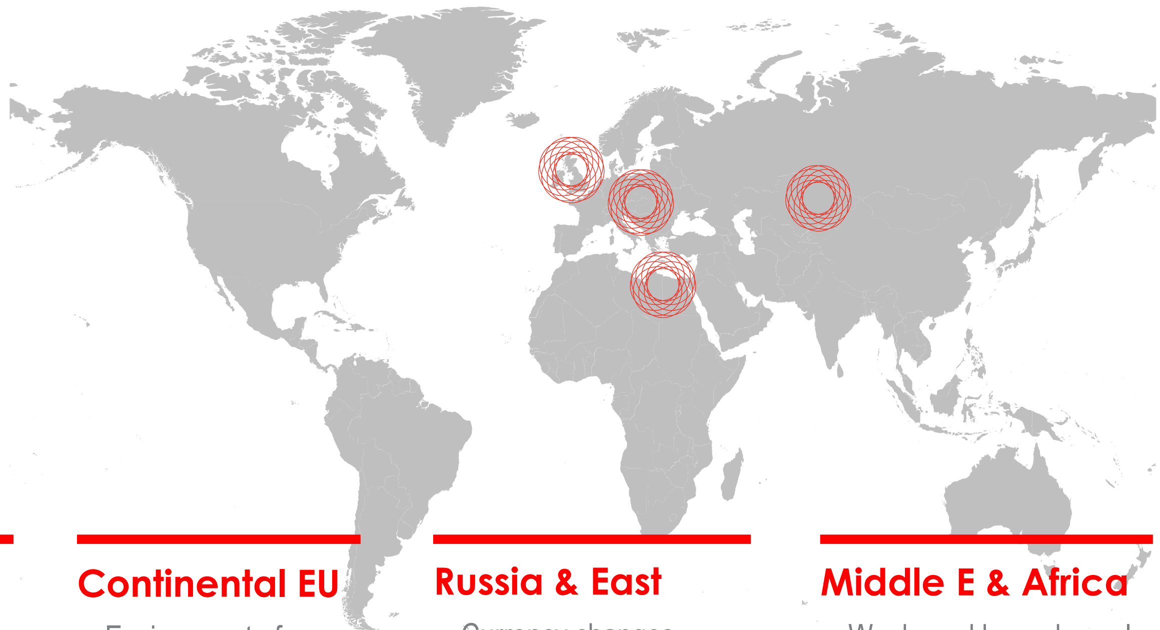
REVENUE: EUROPE



UK & Ireland

- Increased market share following transfers of volume between sausage manufacturers
- Continued progress on pricing

Continental EU

- Environment of increased competition
- Includes Devro BV (acquired H2 2015)

Russia & East

- Currency changes making imports expensive
- New product package developed to meet economic conditions

Middle E & Africa

- Weak rand has adversely affected sales to South Africa
- Growing levels of interest from new markets

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REVENUE: AMERICAS

North America

- Continued growth in beefstick category
- Decline in final quarter due to one key account reducing inventories to manage working capital

Latin America

- Impacted by change in sourcing of products away from old USA plant
- Product re-design and re-qualifying product with customers a key area of focus

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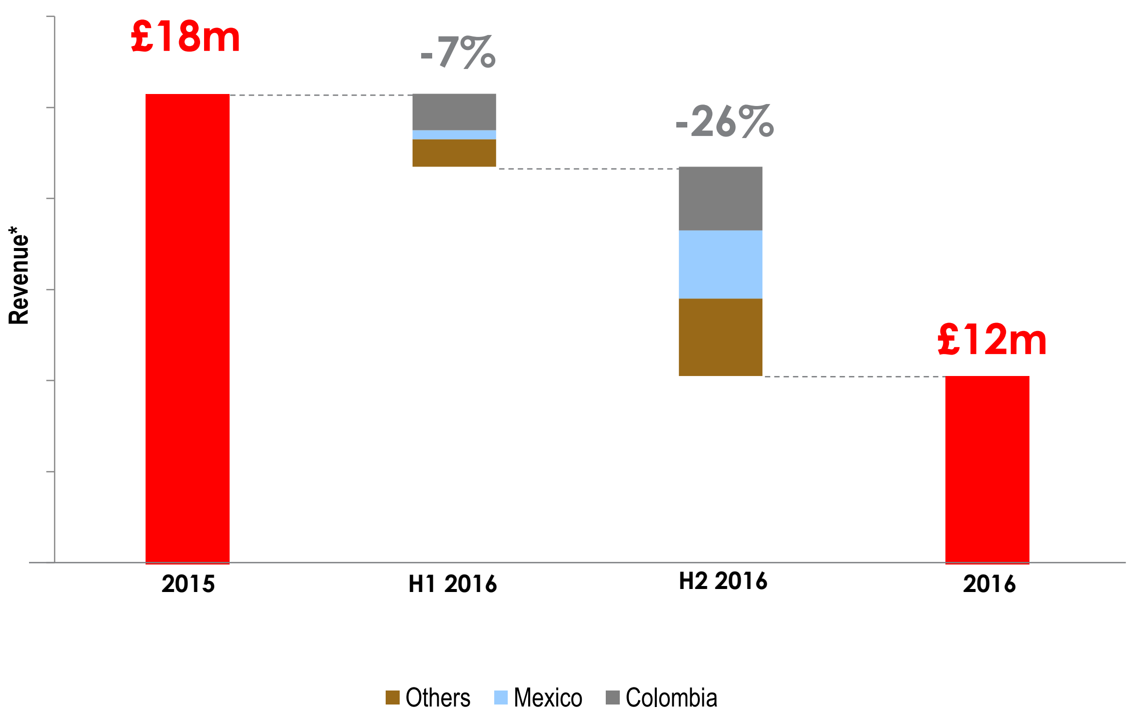
LATIN AMERICA



Issue

Demanding applications in this market. Re-designed products not currently meeting customer needs

Actions

Product development to address issues underway and continues to be a priority in 2017

Outlook – H1 2017

Further reduction

- full year effect of volumes lost in H2 2016

Outlook – H2 2017

Start to recover volumes in Colombia

Mexico will take longer

* Revenue shown in constant currency (using 2015 average exchange rates)

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REVENUE: ASIA / PACIFIC

China

- Oversupply in the low price segment
- Products from new plant now qualified with customers
- Casings from new plant performing well
- Returned to revenue growth in final quarter

South East Asia

- Strong recovery in Korea
  - new product developed to meet local requirements

Japan

- Continued growth in savoury snack and confectionery products

Australia & New Zealand

- Mature market
- Overall consumption lower

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RUTGER HELBING

FINANCIAL REVIEW

FINANCIAL SUMMARY

Revenue

- Increased 4.7% year-on-year to £241.1m
- FX more than offsetting volume reduction of 6.6%

Profit

- Underlying operating profit of £38.1m; up £4.8m on prior year
  - Benefits of input prices and FX more than offsetting volumes
- Reported operating profit of £15.4m; lower than prior year due to increased exceptional items

Exceptional items

- Related to transformation programme; £22.7m for year (in line with expectations)
- Capital investment projects - now complete; no further costs
- Devro 100 programme – further amounts expected in 2017/2018

Cash flow

- Continued strong cash generation, with underlying operating cash flow* of £64.4m
  - Utilised (as planned) for transformation programme

Dividend

- Total dividend maintained at 8.8p per share, in line with prior year
- Includes final dividend of 6.1p per share for 2016

Net debt

- Increased (as expected) to £153.6m, although partly due to weakening of sterling (+£19m)
- Key covenant ratio at 2.7 times

* Shown before pension deficit funding

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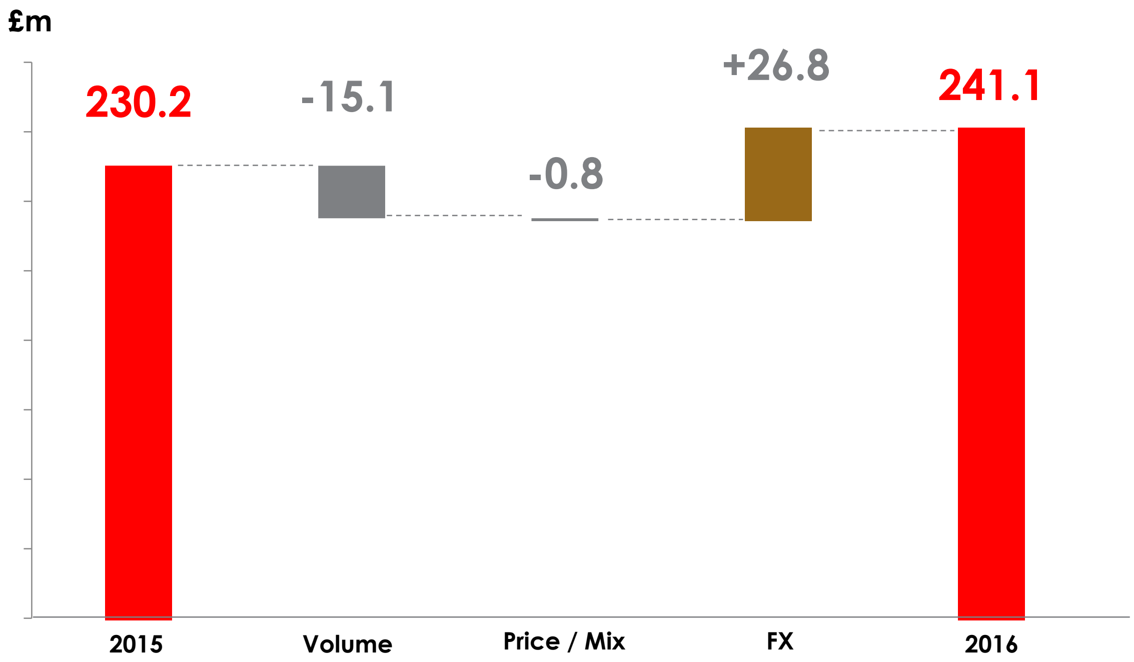
GROUP REVENUE



Reported revenue

4.7% year on year increase with FX offsetting volume

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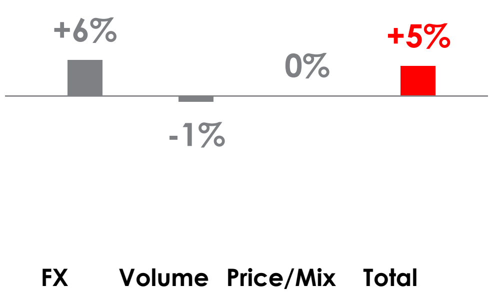
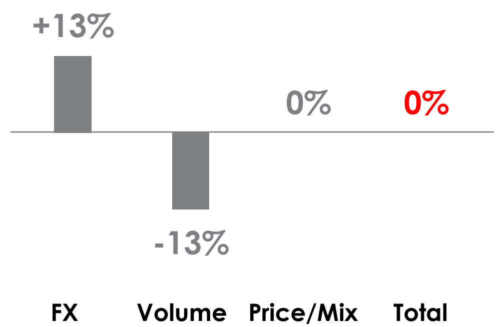
REVENUE DEVELOPMENT

Europe
(42% total revenue)



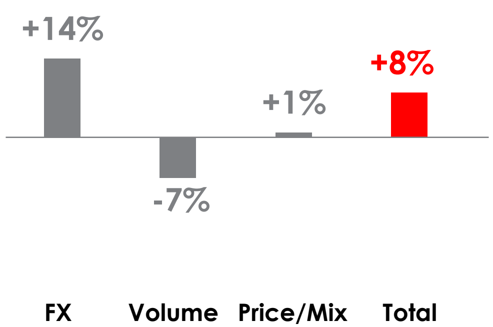
Revenue
- FX - sterling weaker vs euro
- Volume – reductions primarily in Continental Europe and Russia

Americas
(27% total revenue)



Revenue
- FX – sterling weaker vs US dollar
- Volume – significant reductions in Latin America related to changes in sourcing away from old USA plant

Asia/Pacific
(31% total revenue)



Revenue
- FX – sterling weaker against several key currencies, in particular the Japanese yen
- Volume – reductions in China & Australia partially offset by growth in Japan & SE Asia

OPERATIONAL GEARING - ILLUSTRATION

Materials costs

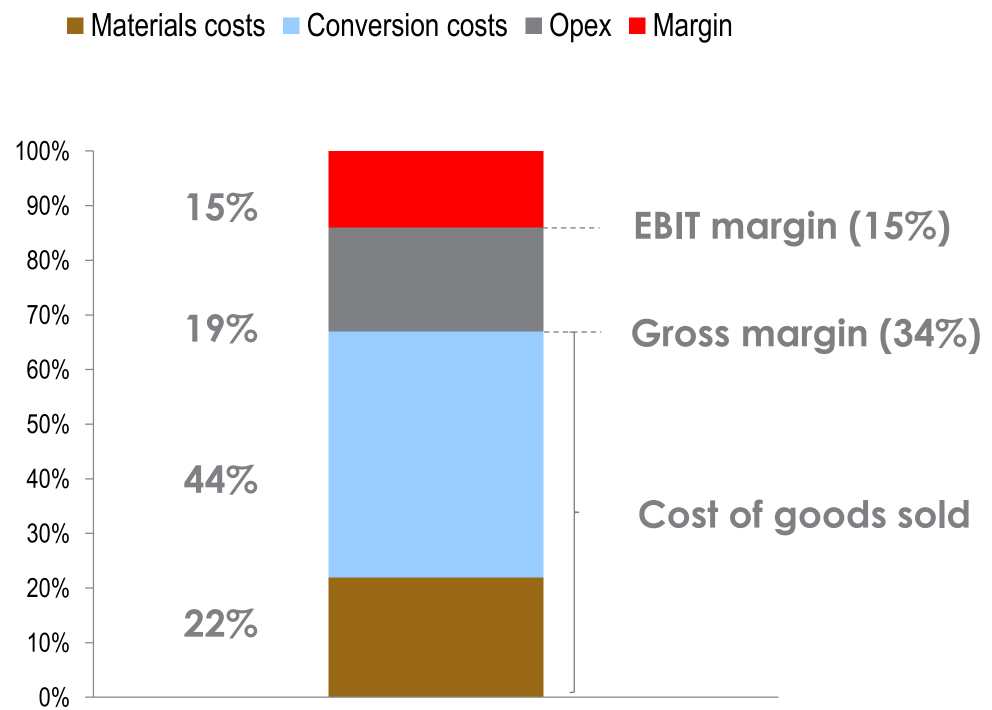
- Includes hides, chemicals and packaging costs
- Variable cost

Conversion costs

- Costs of converting materials to finished goods (labour & overheads)
- Largely inflexible in short term

Cost structure

- Given the structure of the group there is significant operational gearing



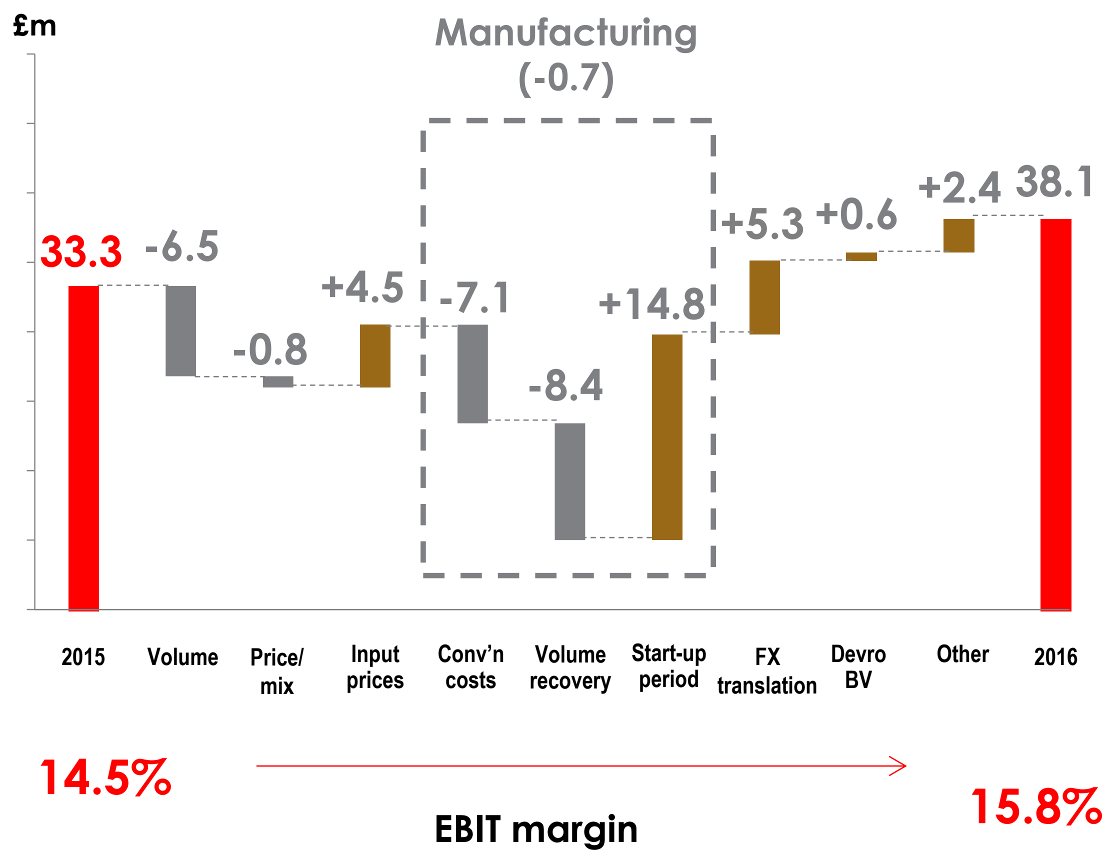
EBIT* MOVEMENT

Input prices
- Benefited from lower hide prices and energy prices

Conversion costs
- Increase related to new China plant plus inflation, partially offset by old USA plant closure savings

Volume recovery
- Lower sales volumes reduced recovery of conversion costs

Start-up period
- Capacity from new plants not available during start-up period**



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

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EXCEPTIONAL ITEMS

	2016			2015
	Investment projects £m	Devro 100 £m	Total £m	Total £m
Exceptional items	20.7	2.0	22.7	14.1

Investment projects

- Construction and commissioning of new plants in USA and China now complete
- Incremental costs incurred prior to commencement of normal production

Devro 100

- Major programme to accelerate delivery of profit growth:
  - Improved sales capabilities
  - Improved manufacturing efficiencies
  - Next generation of differentiated products

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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	£6m-£7m	£4m-£4.5m	£3m-£4m
2018	£4m-£5m	£3m-£3.5m	£5m-£6m
2019	-	-	£5m-£6m

FINANCE COSTS*

Capitalisation

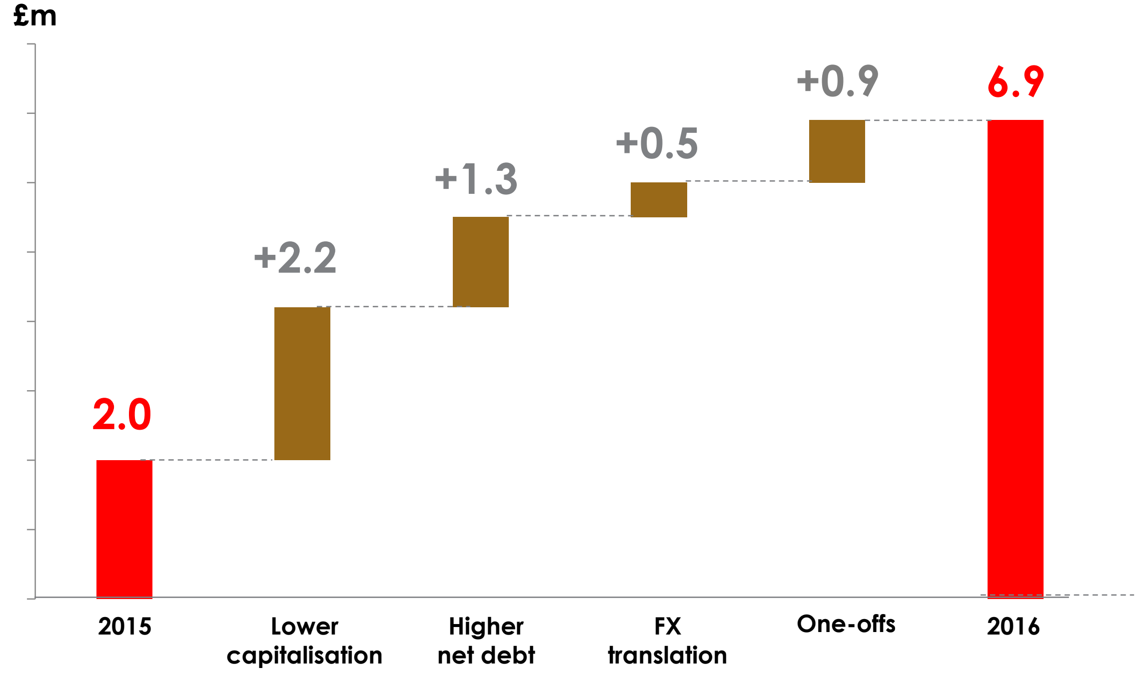
- Lower capitalisation of interest due to completion of construction of new plants in H1 2016

Net debt

- Higher levels of net debt increased interest

One-offs

- Costs related to close out of financial instruments

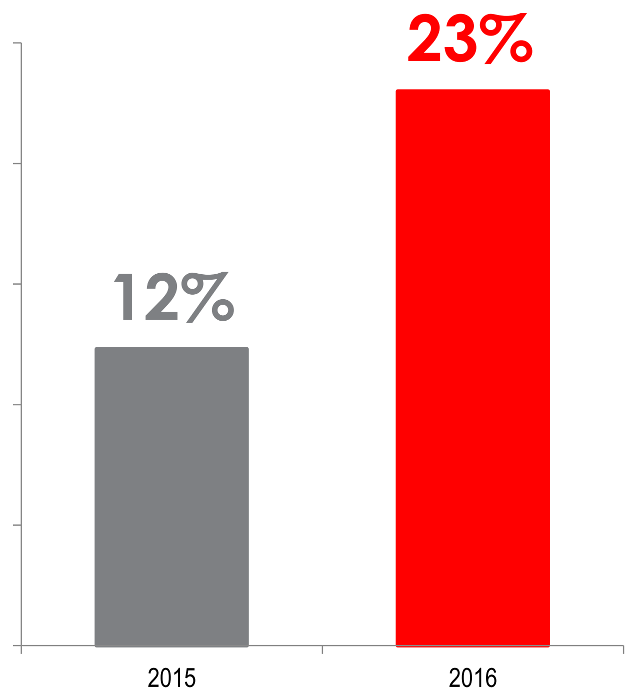


* Excluding net finance cost on pensions

TAX RATE

Effective tax rate*

- Underlying effective tax rate increasing
  - Investment allowances in Czech Republic fully utilised in 2015
- Now closer to longer term trend



* Shown on underlying basis (before exceptional items)

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INCOME STATEMENT

	2016 £m	2015 £m	Change
EBITDA*	58.8	49.7	+18%
EBIT*	38.1	33.3	+14%
Profit after tax*	22.2	25.6	-13%
EPS*	13.3p	15.4p	-14%
Reported profit after tax	2.2	14.6	
Reported EPS	1.3p	8.8p	

Depreciation & amortisation

- Underlying depreciation & amortisation increased £4.3m year-on-year, including £2.0m of FX
- Exceptional items include £2.3m of depreciation & amortisation (2015: £1.2m)

EPS (year-on-year change)

- EBIT* per share +2.9p
- Interest per share -3.1p
- Tax* per share -1.9p

- EPS* -2.1p

* Shown on underlying basis (before exceptional items)

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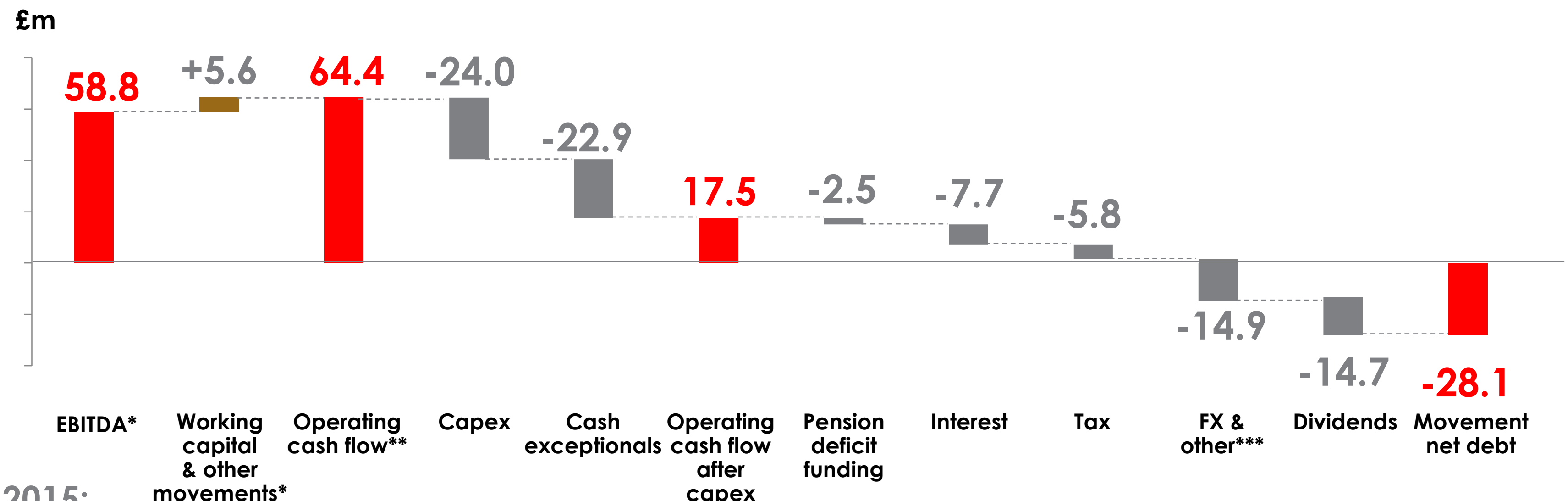
CASH FLOW 2016



2015:

49.7	+3.4	53.1	-55.3	-15.5	-17.7	-3.2	-4.4	-4.0	-12.3	-14.7	-56.3

Underlying operating cash flow

- Cash generated mostly utilised for transformation programme related to capex and exceptional items

Movement net debt

- Dividend maintained
- Impact of weakened sterling after EU Referendum vote (-£19m)
- Net debt increased (as expected)

* Shown on underlying basis (before exceptional items) ** Shown on underlying basis and before pension deficit funding
*** Other (for 2015) includes £8.8m outflow for acquisition of Devro BV

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NET DEBT AND KEY BANKING COVENANTS

	Dec 2016 £m	Dec 2015 £m	Current covenant
Net debt	153.6	125.5	
Net debt** / EBITDA* ratio	2.7 times	2.6 times	<3 times
EBITDA* / Net finance costs ratio	8 times	11 times	>4 times

* Shown on underlying basis (before exceptional items) ** Includes derivative liabilities of £2.6m (2015:£2.3m)

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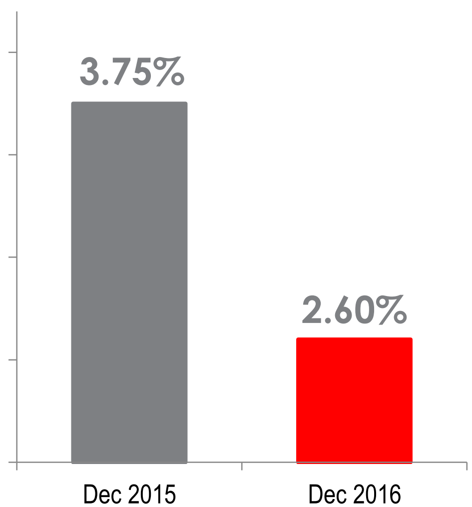
PENSIONS

Net pension deficit

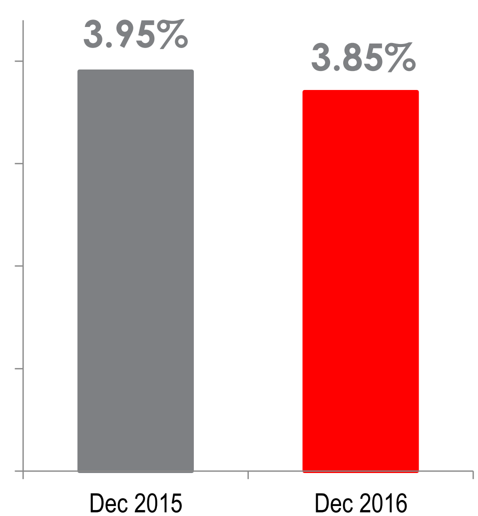
- Increase due to discount rates
- Partially offset by investment returns

	Dec 2015 £m	Dec 2016 £m
Net pension deficit	56.4	96.0

UK discount rate



US discount rate



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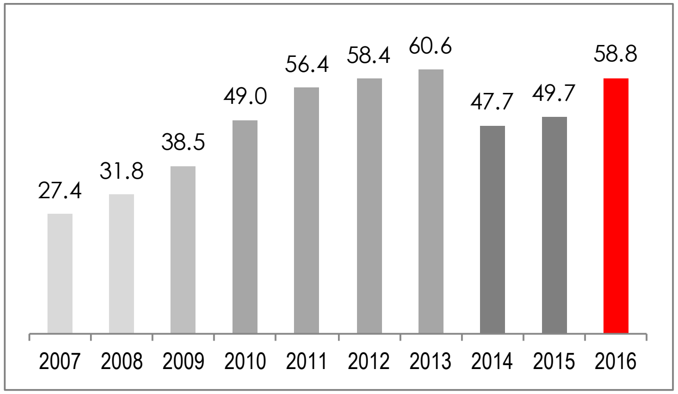
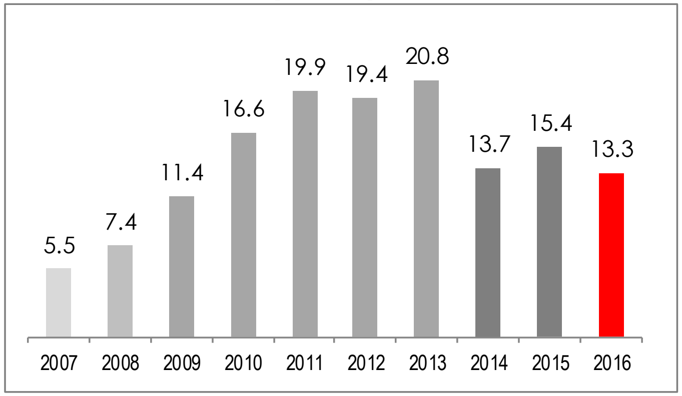
KEY FINANCIAL INDICATORS

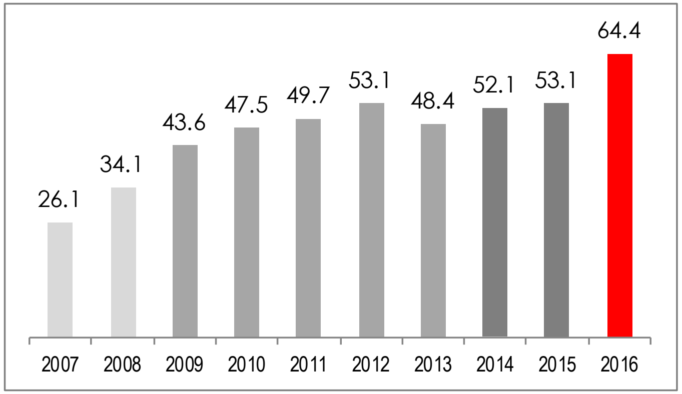
EBITDA* (£m)



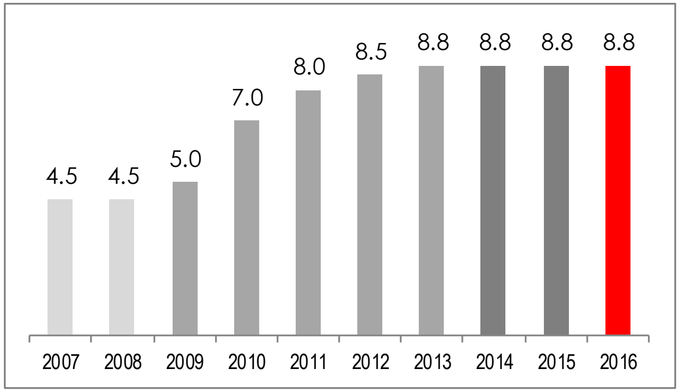
Earnings per share* (pence)



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

GUIDANCE FOR 2017 & BEYOND

- **Attractive global market**
  - ➢ Expected to grow 2-4% pa
- **Devro 100 will support return to sales growth**
  - ➢ Improved sales capability
  - ➢ Next generation of differentiated products
- **New plants now integrated into global asset base**
  - ➢ Capacity to support growth
  - ➢ Additional conversion costs associated with new plants; full year impact in 2017
- **Devro 100 will deliver unit cost reduction savings of £13-16m**
  - ➢ Expected over next 3 years
- **Strong cash generation will enable net debt reduction**
  - > Closer to historic levels

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Contact

investorrelations@devro.com
www.devro.com
+44 20 3865 7637