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
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
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

27% Group revenue
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)
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

31% Group revenue
FINANCIAL REVIEW
## FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th><strong>Revenue</strong></th>
<th><strong>Profit</strong></th>
<th><strong>Exceptional items</strong></th>
</tr>
</thead>
</table>
| • Increased 4.7% year-on-year to £241.1m | • 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 | • 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 |
| • FX more than offsetting volume reduction of 6.6% | | |

<table>
<thead>
<tr>
<th><strong>Cash flow</strong></th>
<th><strong>Dividend</strong></th>
<th><strong>Net debt</strong></th>
</tr>
</thead>
</table>
| • Continued strong cash generation, with underlying operating cash flow* of £64.4m  
  – Utilised (as planned) for transformation programme | • Total dividend maintained at 8.8p per share, in line with prior year  
  • Includes final dividend of 6.1p per share for 2016 | • 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
GROUP REVENUE

Reported revenue
4.7% year on year increase with FX offsetting volume
REVENUE DEVELOPMENT

Europe
(42% total revenue)

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

-1% 0% +5%

Americas
(27% total revenue)

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

0% 0% +13%

Asia/Pacific
(31% total 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

0% +1% +8%
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

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![Graph showing cost structure]

- **Materials costs**: 22%
- **Conversion costs**: 44%
- **Opex**: 19%
- **EBIT margin (15%)**: 15%
- **Gross margin (34%)**:
- **Cost of goods sold**:
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**

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment projects (£m)</td>
<td>20.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Devro 100 (£m)</td>
<td></td>
<td>22.7</td>
</tr>
<tr>
<td>Total (£m)</td>
<td></td>
<td>14.1</td>
</tr>
</tbody>
</table>

### 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
## EXCEPTIONAL ITEMS - DEVRO 100 GUIDANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>Exceptional items £m</th>
<th>Capex £m</th>
<th>Year-on-year £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£10m-£12m</td>
<td>£7m-£8m</td>
<td>£13m-£16m</td>
</tr>
<tr>
<td>2017</td>
<td>£6m-£7m</td>
<td>£4m-£4.5m</td>
<td>£3m-£4m</td>
</tr>
<tr>
<td>2018</td>
<td>£4m-£5m</td>
<td>£3m-£3.5m</td>
<td>£5m-£6m</td>
</tr>
<tr>
<td>2019</td>
<td>-</td>
<td>-</td>
<td>£5m-£6m</td>
</tr>
</tbody>
</table>
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)
## INCOME STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>2016 £m</th>
<th>2015 £m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA*</td>
<td>58.8</td>
<td>49.7</td>
<td>+18%</td>
</tr>
<tr>
<td>EBIT*</td>
<td>38.1</td>
<td>33.3</td>
<td>+14%</td>
</tr>
<tr>
<td>Profit after tax*</td>
<td>22.2</td>
<td>25.6</td>
<td>-13%</td>
</tr>
<tr>
<td>EPS*</td>
<td>13.3p</td>
<td>15.4p</td>
<td>-14%</td>
</tr>
<tr>
<td>Reported profit after tax</td>
<td>2.2</td>
<td>14.6</td>
<td></td>
</tr>
<tr>
<td>Reported EPS</td>
<td>1.3p</td>
<td>8.8p</td>
<td></td>
</tr>
</tbody>
</table>

### 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)
**CASH FLOW 2016**

<table>
<thead>
<tr>
<th>£m</th>
<th>EBITDA*</th>
<th>Working capital &amp; other movements*</th>
<th>Operating cash flow**</th>
<th>Capex exceptional</th>
<th>Operating cash flow after capex</th>
<th>Pension deficit funding</th>
<th>Interest</th>
<th>Tax</th>
<th>FX &amp; other***</th>
<th>Dividends</th>
<th>Movement net debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>58.8</td>
<td>+5.6</td>
<td>64.4</td>
<td>-24.0</td>
<td>-22.9</td>
<td>17.5</td>
<td>-2.5</td>
<td>-7.7</td>
<td>-5.8</td>
<td>-14.9</td>
<td>-14.7</td>
</tr>
</tbody>
</table>

**2015:**

| £m  | 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
# NET DEBT AND KEY BANKING COVENANTS

<table>
<thead>
<tr>
<th></th>
<th>Dec 2016 £m</th>
<th>Dec 2015 £m</th>
<th>Current covenant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>153.6</td>
<td>125.5</td>
<td></td>
</tr>
<tr>
<td>Net debt** / EBITDA* ratio</td>
<td>2.7 times</td>
<td>2.6 times</td>
<td>&lt;3 times</td>
</tr>
<tr>
<td>EBITDA* / Net finance costs ratio</td>
<td>8 times</td>
<td>11 times</td>
<td>&gt;4 times</td>
</tr>
</tbody>
</table>

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

Net pension deficit
- Increase due to discount rates
- Partially offset by investment returns

<table>
<thead>
<tr>
<th></th>
<th>Dec 2015 £m</th>
<th>Dec 2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net pension deficit</td>
<td>56.4</td>
<td>96.0</td>
</tr>
</tbody>
</table>

UK discount rate
- 3.75% (Dec 2015)
- 2.60% (Dec 2016)

US discount rate
- 3.95% (Dec 2015)
- 3.85% (Dec 2016)
## KEY FINANCIAL INDICATORS

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA* (£m)</th>
<th>Earnings per share* (pence)</th>
<th>Operating cash flow** (£m)</th>
<th>Dividends per share (pence)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>27.4</td>
<td>5.5</td>
<td>26.1</td>
<td>4.5</td>
</tr>
<tr>
<td>2008</td>
<td>31.8</td>
<td>7.4</td>
<td>34.1</td>
<td>4.5</td>
</tr>
<tr>
<td>2009</td>
<td>38.5</td>
<td>11.4</td>
<td>43.6</td>
<td>5.0</td>
</tr>
<tr>
<td>2010</td>
<td>49.0</td>
<td>16.6</td>
<td>47.5</td>
<td>7.0</td>
</tr>
<tr>
<td>2011</td>
<td>56.4</td>
<td>19.9</td>
<td>49.7</td>
<td>8.0</td>
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<tr>
<td>2012</td>
<td>58.4</td>
<td>19.4</td>
<td>53.1</td>
<td>8.5</td>
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<td>20.8</td>
<td>52.1</td>
<td>8.8</td>
</tr>
<tr>
<td>2014</td>
<td>47.7</td>
<td>13.7</td>
<td>53.1</td>
<td>8.8</td>
</tr>
<tr>
<td>2015</td>
<td>49.7</td>
<td>15.4</td>
<td>64.4</td>
<td>8.8</td>
</tr>
<tr>
<td>2016</td>
<td>58.8</td>
<td>13.3</td>
<td></td>
<td>8.8</td>
</tr>
</tbody>
</table>

* 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