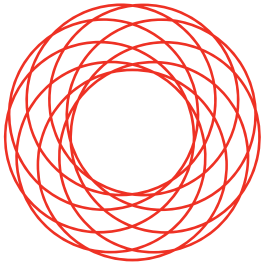


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6 MARCH 2017

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**DEVRO**

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# BUSINESS UPDATE

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## Today's presenters

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**Peter Page**

Chief Executive



**Rutger Helbing**

Group Finance Director



**Michael Lauesgaard**

Group Business Development Director

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## Devro – 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 £13-16m
- **Devro has a modern asset base**
  - With capacity to support growth
- **Targeting year-on-year growth with attractive financial returns**

# Today's agenda

## **Context**

Peter Page

## **Industry Model & Market Dynamics**

Michael Lauesgaard

## **China**

Peter Page

## **Devro 100 – Our Plan For Growth**

- Revenue growth – Peter Page
- Product differentiation – Michael Lauesgaard
- Manufacturing efficiencies – Rutger Helbing

## **Outlook, Q&A and Conclusion**

Peter Page and Rutger Helbing

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# CONTEXT

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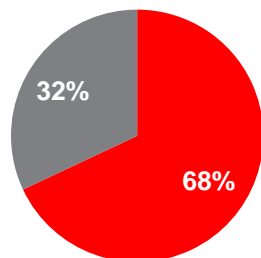
# Devro, 60 years of leadership in collagen casings



Devro has a global presence in diverse markets, supplying 1000 customers in 100 countries

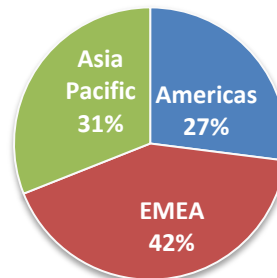


Developed and emerging markets sales

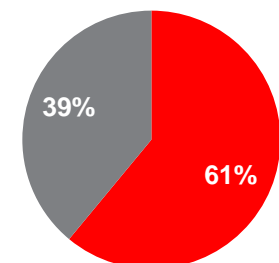


■ Developed ■ Emerging

Devro's sales by region



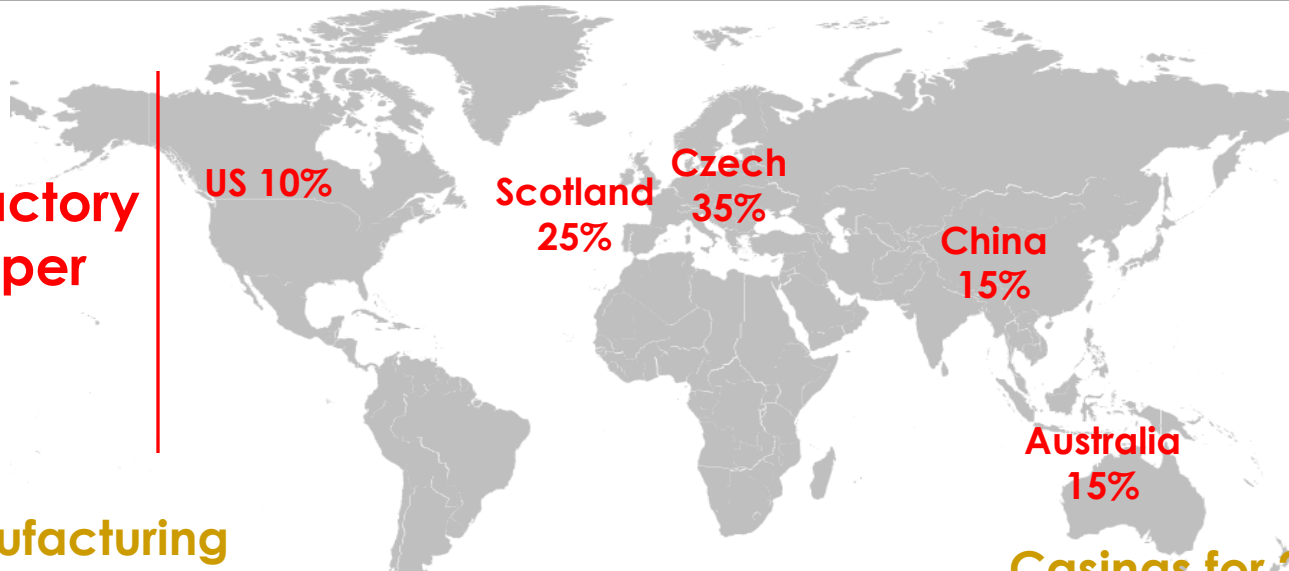
Direct sales and distributor



■ Direct Sales ■ Distributor Sales

....with manufacturing assets located for growth

**Devro's factory capacity per location**



**2000 manufacturing employees**



+



**1 million cattle hides**

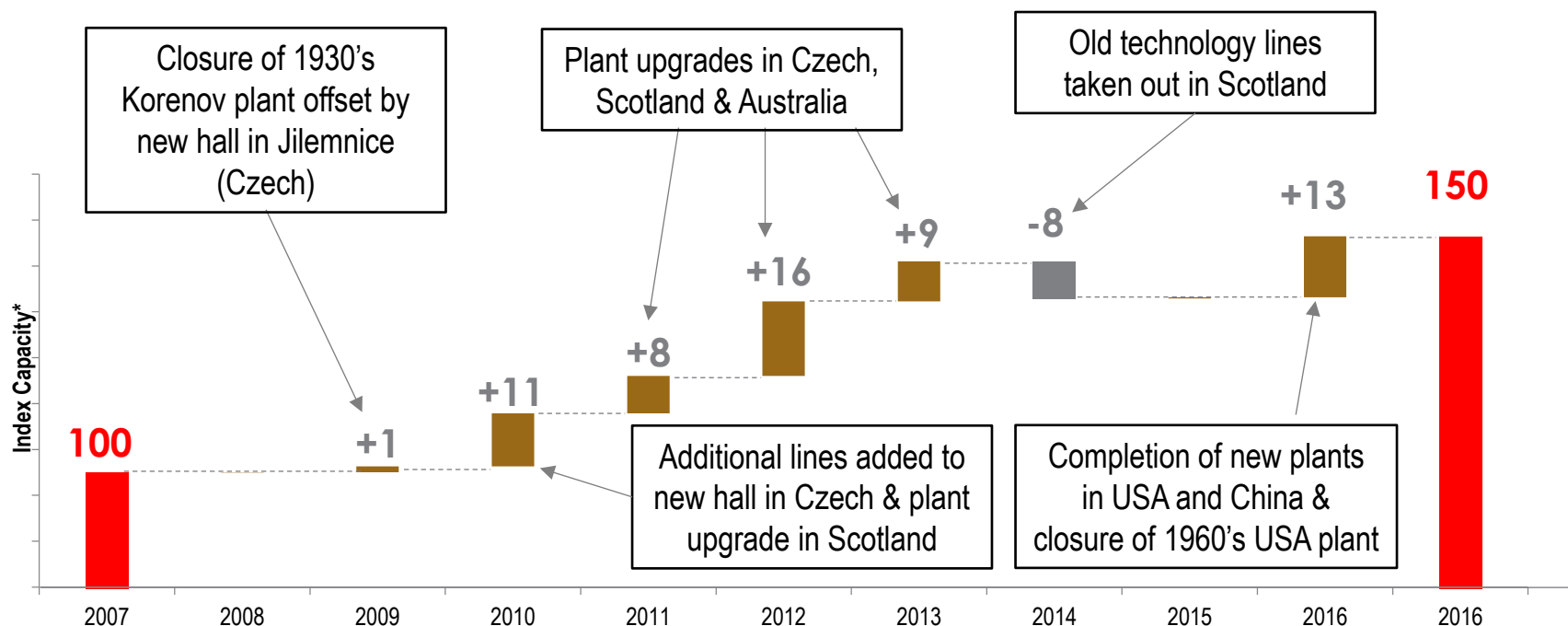
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**Casings for 25 billion sausages per year**





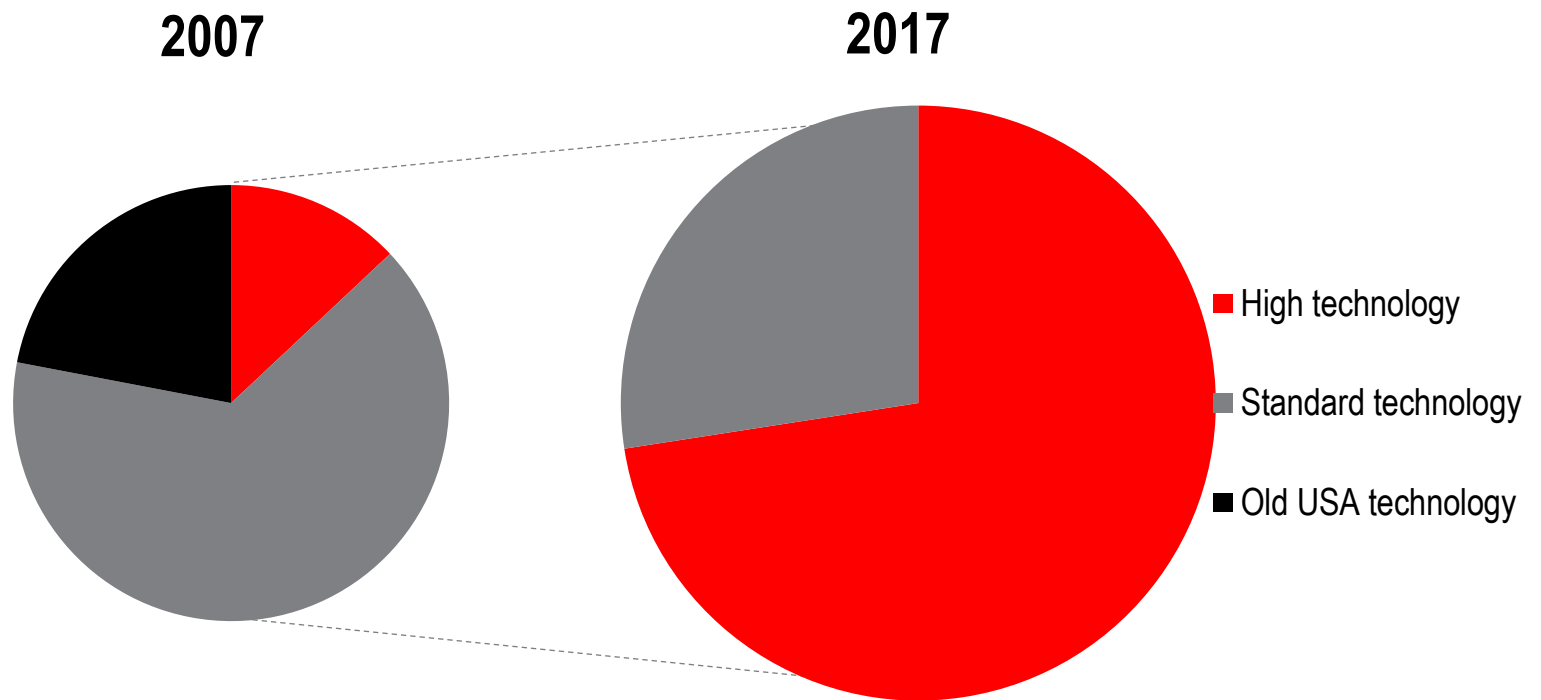
# 10 years of investing in efficiency and capacity has transformed Devro's ability to compete.....



\* Capacity shown using index of 100 for 2007

.....with technology designed to supply growth markets

### Devro capacity by technology





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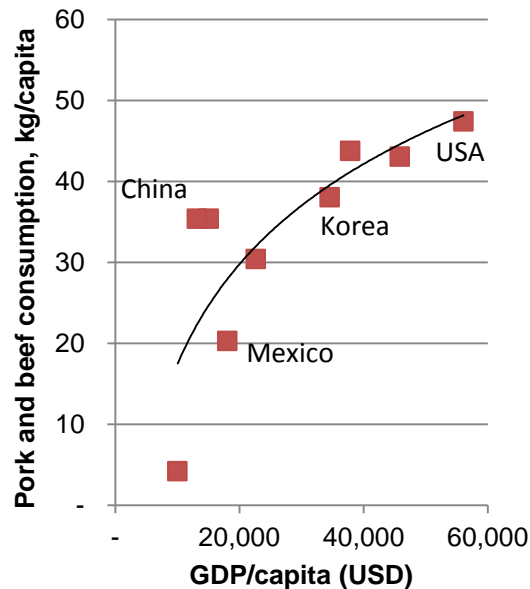
# INDUSTRY MODEL & MARKET DYNAMICS

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# Underlying sausage market growth factors remain positive

1

## Meat consumption grows with GDP/capita



Source: FAO/OECD/IMF  
Top meat consuming countries

2

## Continued growth in sausage demand supported by food trends

**Convenience**

**Snacking**

**Eating out**

**Authenticity**

**Low cost foods**

Source: Mintel, Innova

3

## Urbanisation and population growth

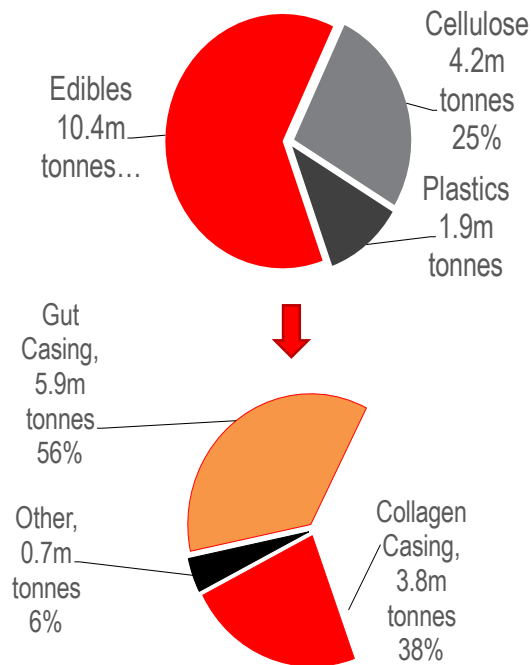
Overall population growth expected at **1.5% pa.**

Urbanisation as % of population expected to grow at **1.8% pa.**

Source: World Bank

# Collagen casings growth case confirmed

## 1 Continued opportunity for gut conversion...



Source: Devro plc Market Intelligence

## 2 ...with savings offered by collagen solutions...

# 15-20% savings from conversion

*Savings potential for sausage manufacturers at current gut market price (Feb 2017)*

Source: Devro plc Market Intelligence

## 3 ...and continued drive for efficiencies at food manufacturers

Global meat production has increased circa 1% year-on-year 2012 -2016, indicating **continued investments by meat processors in yield improvement and efficiencies**. This helps drive continued growth in collagen casings

Source: USDA, CAGR 2012-16

# Collagen for food: a positive market outlook

## - Devro well placed to capture growth opportunities

Long term market **growth outlook** for collagen casings and gel volumes  
**2-4% pa.** global growth

### Americas 1-3% pa

Continued good growth in snack and premium segments as well as co-ex gel

### EMEA 0-2% pa.

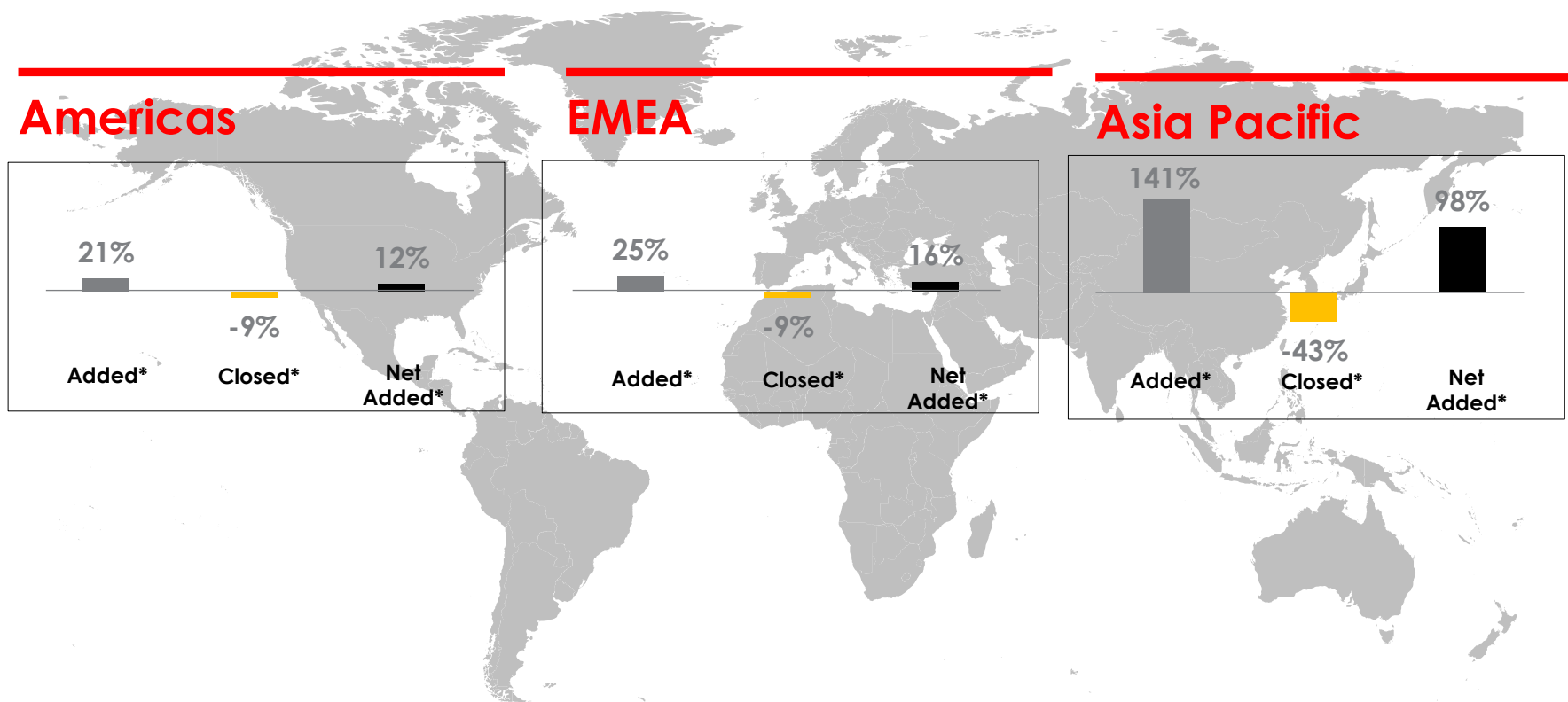
Sausage consumption expected to continue growth but strong health movement and negative focus on meat can limit growth

### Asia Pacific 3-5% pa.

Overall strong growth in all major markets, however some volatility in China due to consumption patterns

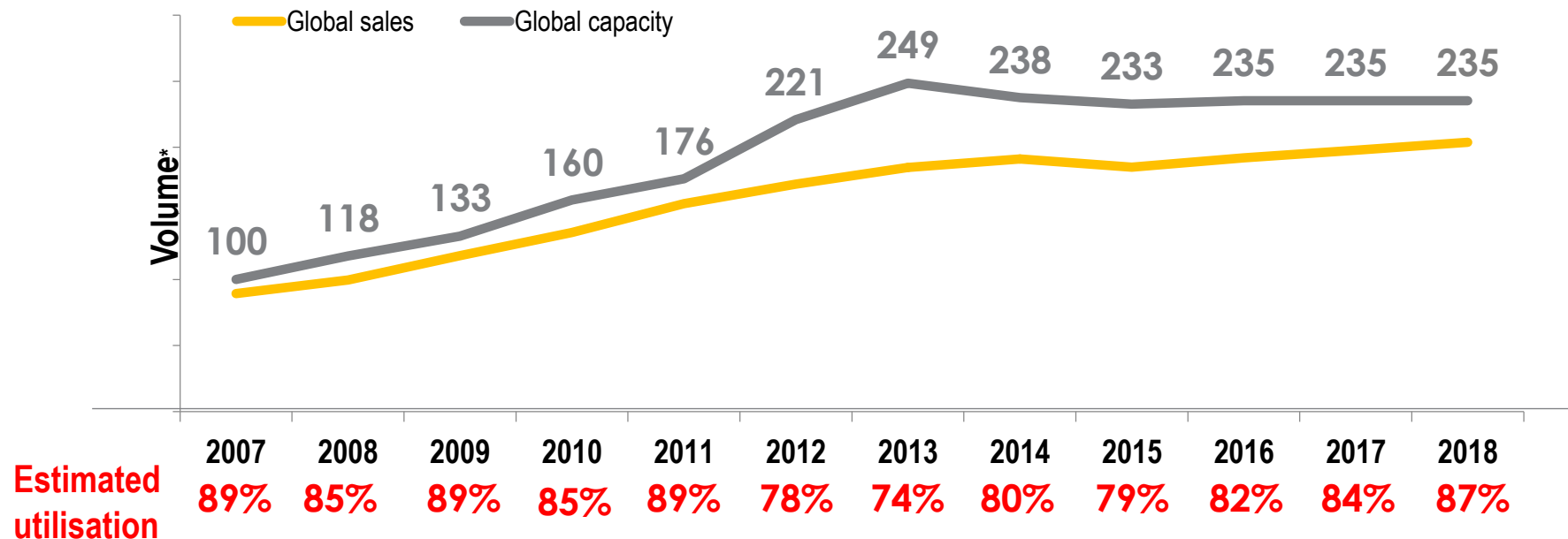
Source: Devro estimates

## Collagen casing industry has invested £500+ million over 10 years

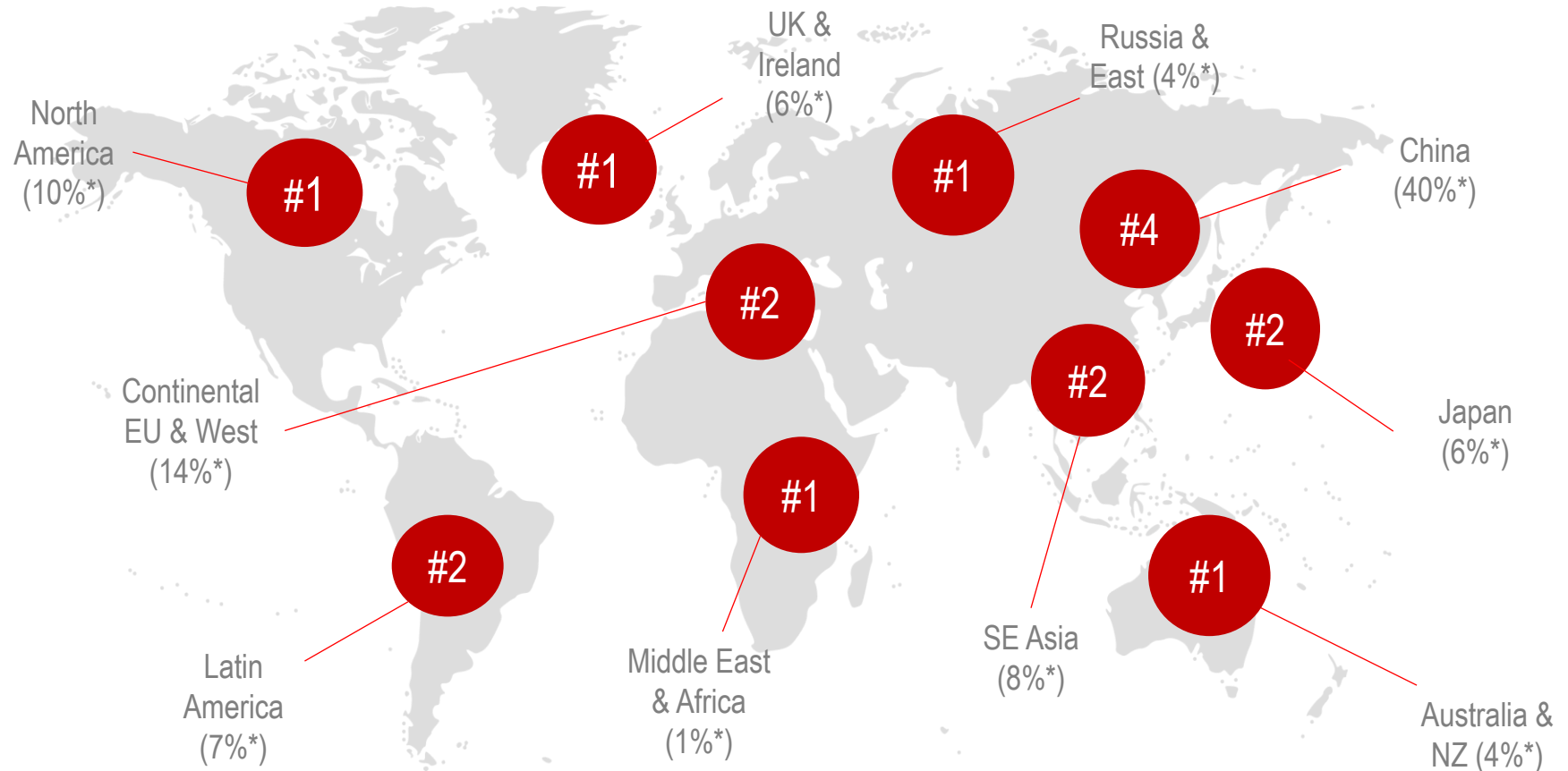




## 2017-2018 projections indicate global utilisation returning to historic levels



## Devro market position a good starting point for further growth...



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# CHINA

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# China

– a changing market with plenty opportunities for Devro

## ***“Overall consumption growth slowing....***

2017-2020 growth forecasts are  
<1% vol. p.a. in pork and poultry

## ***....reflecting changing consumer demographics....***

- Urbanisation
- Middle-class
- Westernisation

## ***... but demand for processed chilled meats (value-added convenience foods) will accelerate”....***

CAGR	CHILLED	AMBIENT
2010-2015	+6.3%	+3.7%
2016-2020	+9.8%	+3.5%

## ***... and industry factors***

- Consolidation
- Trusted brands
- Food safety
- Environmental compliance

## Devro's path to success in China - the foundations are in place

Local manufacturing	<input checked="" type="checkbox"/>
Traceable raw materials	<input checked="" type="checkbox"/>
Safe and secure manufacturing and products	<input checked="" type="checkbox"/>
Global reputation	<input checked="" type="checkbox"/>
Consistent quality	<input checked="" type="checkbox"/>
ISO 9001 and FSSC 2200 accreditation	<input checked="" type="checkbox"/>
Products designed for local market conditions in retail and food service sector	<input checked="" type="checkbox"/>
Products from new plant qualified with customers	<input checked="" type="checkbox"/>

## Devro in China – our strategy for premium

- Proven, imported known raw materials
- Devro Ultra new product introduction
- Dedicated product development kitchen
- Global sales network support
- Technical knowledge transfer
- Targeted partnering with leading brands



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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

Revenue growth

### Next generation of differentiated products

- To deliver a step change in product attributes and performance

Product differentiation

### Improving manufacturing efficiency

- Leverage new global supply chain organisation to:
  - Maximise productivity of existing assets
  - Reduce unit cost

Unit cost reduction

... and our new global organisation structure



## Revenue growth - 2017 priorities

### **Sales capabilities**

- After assessment, training and tool creation now embedding new practices and feeding customer needs and insights into the organisation

### **Key 2017 growth opportunities**

- China
- South East Asia
- Regain momentum in Continental EU and Australia

## Improving product differentiation - short term and long term



**New launches 2017**



**Reshaping R&D efforts**

Revenue growth

Product differentiation

Unit cost reduction

## Launching a new product platform H2 2017 - targeting key manufacturer and consumer needs

### FINE ULTRA

to be launched in several variants in H2 2017, fitting regional market conditions



Targeting major markets for processed sausages in Europe and Asia



For consumers: Improved pan and deep frying



For manufacturers: Increased robustness during filling



Aiming for 10-15% of group revenue

Revenue growth

Product differentiation

Unit cost reduction

# Collagen research and development - building the platforms for future growth



## Immediate priorities

- Next generation Fine products targeting Asia and European applications
- New products for growth in Latin America



## Mid to long term priorities

- Fundamental research enhancing the knowledge of collagen in cooking and during processing
- Applied research forming the foundation for product development projects in/outside casings for meat applications
- Exploration of alternative collagen sources

Revenue growth

Product differentiation

Unit cost reduction

## Cost reduction - benefits summary

### How

- Procurement leverage in targeted areas
- Best Practice teams
- Devro operations blueprint – standardise and simplify manufacturing operating model
- Opex savings through standardising and simplifying processes
- Supported by external resources if and when appropriate

### What

- 10% of savings targeted

	Benefit range
Material costs	£3.5m-£4m
Conversion costs	£7.5m-£9m
Opex	£2m-£3m
<b>Total</b>	<b>£13m - £16m</b>

Revenue growth

Product differentiation

Unit cost reduction

## Cost reduction - implementation costs and phasing

- Full benefits in 2019
  - Incremental savings over next three years split approximately 30/35/35%
- 75% of 2017 targeted savings actioned
- Costs will be incurred over next two years (2017/2018)

	Estimated costs
Exceptional items	£10m-£12m
Capital expenditure	£7m-£8m
<b>Total</b>	<b>£17m-£20m</b>

Revenue growth

Product differentiation

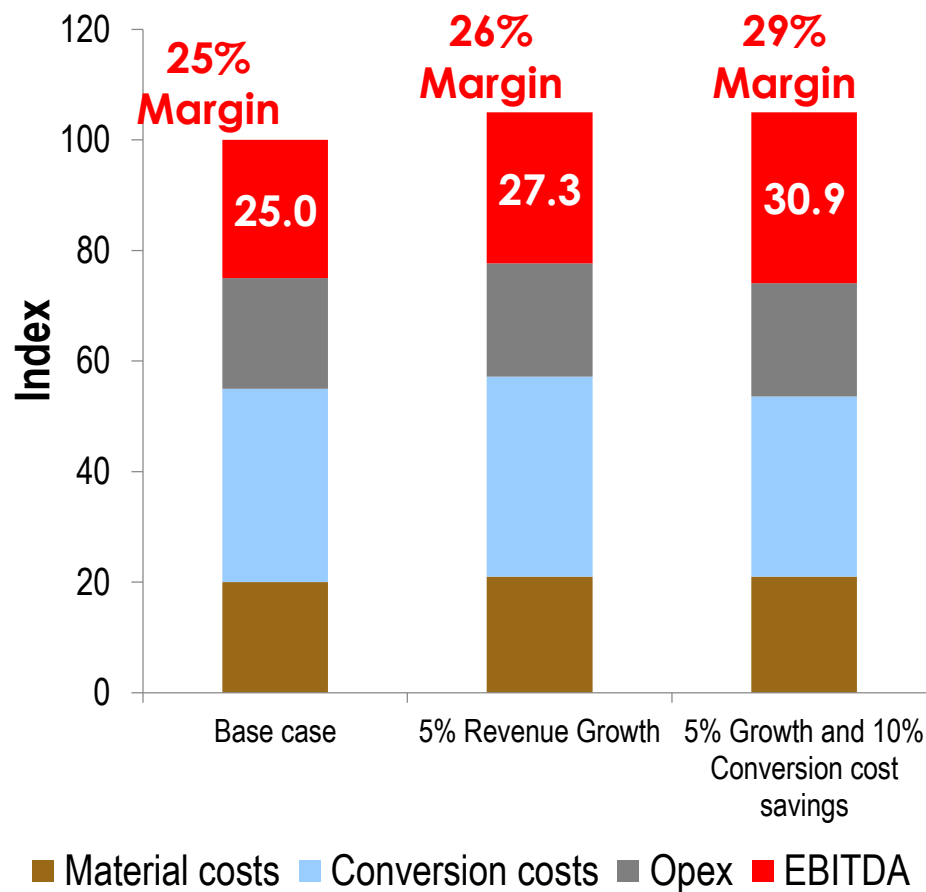
Unit cost reduction



# Savings and operational gearing as a driver of profit growth

## Illustration

- Strong operational gearing - 5% volume growth delivering almost 10% of profit growth and 1%-point increase in EBITDA margin
- Volume growth combined with 10% savings will deliver >20% of profit growth and almost 4%-point increase in EBITDA margin



Revenue growth

Product differentiation

Unit cost reduction

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# DEVRO – THE OUTLOOK

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## Devro – the outlook

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**DEVRO**

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