3 AUGUST 2016

DEVRO

RESULTS FOR SIX MONTHS

ENDED 30 JUNE 2016

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

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OVERVIEW

Operating profit

- Ahead of prior year
- Improved input costs, manufacturing efficiencies and FX benefits
- Partially offset by reduced sales volumes

Transformation programme

- Now in final phase
- Production commenced in both new plants & now qualifying products with customers
- Old US plant now closed
- Complex transition
- Exceptional items for the full year approximately £20m

Outlook

- Demanding market conditions, but still good opportunities for differentiation and service
- Board's expectations for full year underlying operating profit unchanged
- Greater stability in the business as the transformation projects conclude

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GROUP FINANCE DIRECTOR

RUTGER HELBING

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FINANCIAL SUMMARY

Revenue

- Unchanged year on year
- FX offsetting volume reduction

Profit

- Underlying operating profit up £2.4m on prior year
- Reported operating profit lower due to higher exceptional items

Cash flow

- Continued strong underlying cash generation
  - Utilised (as planned) for transformation programme
- Maintained interim dividend at 2.7p

Net debt

- Increased in H1 (as expected), although partly due to weakening of GBP post EU Referendum vote
- Within covenants

Exceptional items

- Related to transformation programme
- Increase due to longer transition period in US

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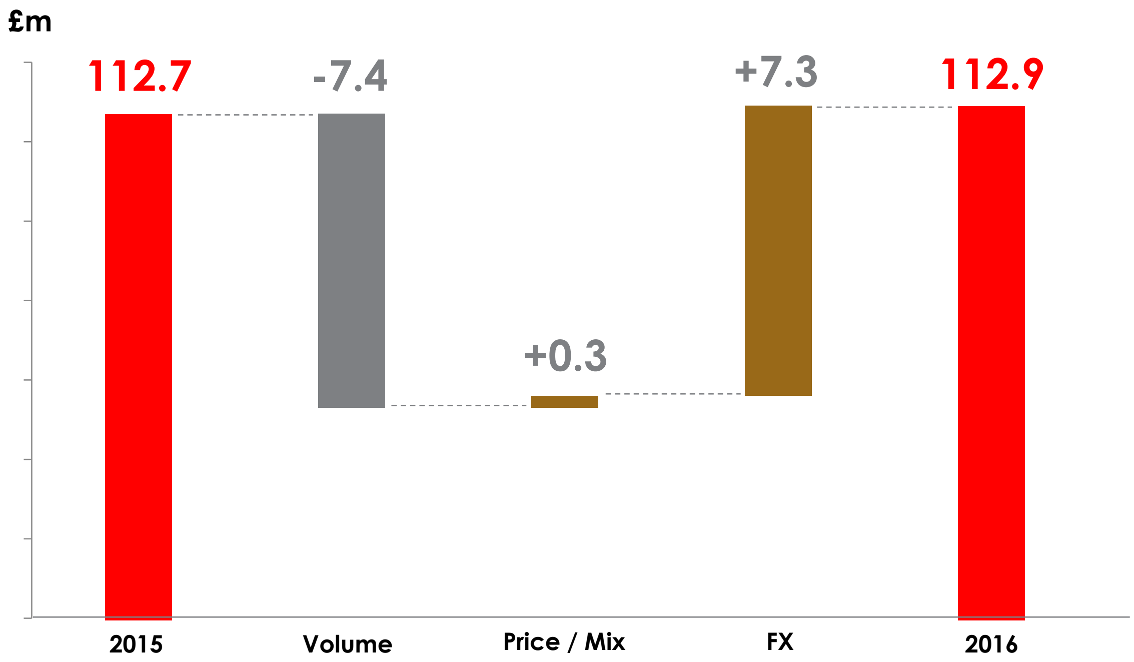
GROUP REVENUE



Reported revenue

Unchanged year on year with volume offsetting FX

Volumes

Down 7% versus stronger H1 2015
Key drivers China, Russia and Latin America

Momentum

Improved in Q2 vs Q1

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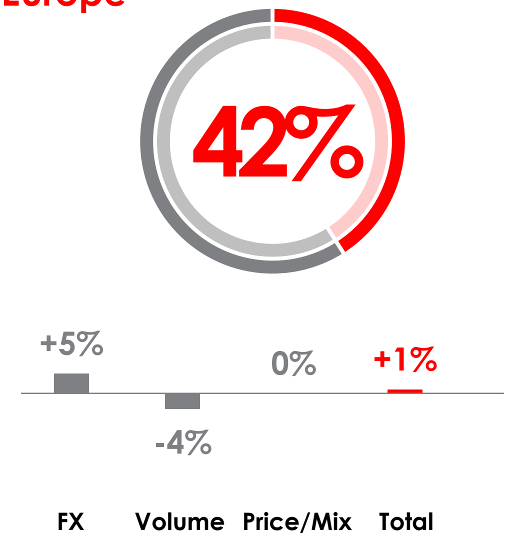
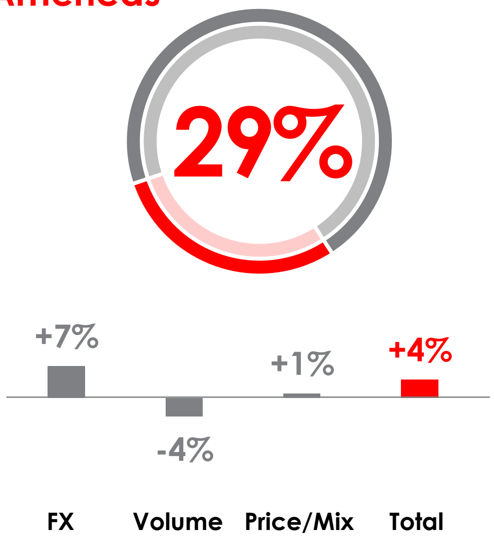
REVENUE DEVELOPMENT

Europe



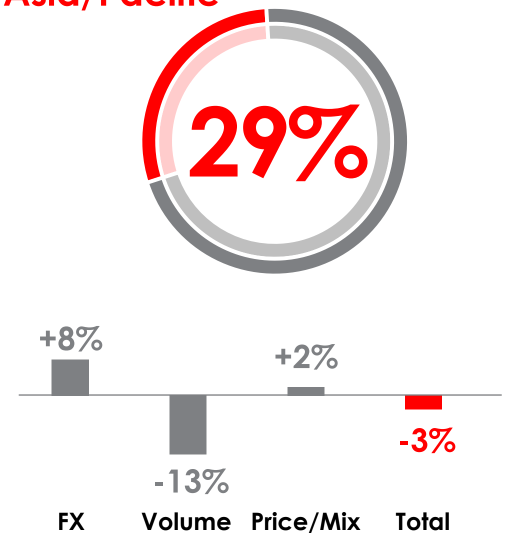
Revenue
- Russia impacted by local economic environment
- Some increased competitive pressure
- Benefitted from 2015 aquisition

Americas



Revenue
- North America unchanged in local currency
- Latin America impacted by transformation programme

Asia/Pacific



Revenue
- China majority of volume shortfall
- Average selling price benefitted from country mix

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EBITDA* MOVEMENT

Variable costs

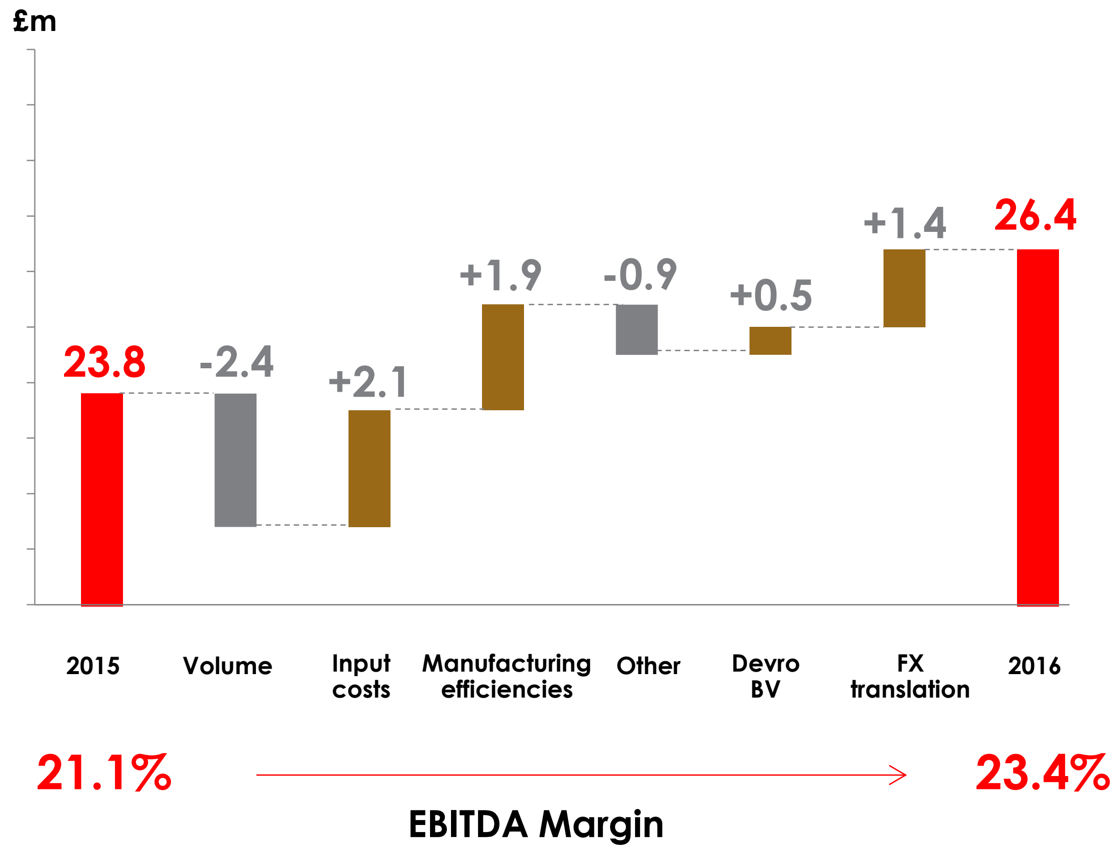
- Benefitted from lower input costs and improved manufacturing efficiencies in Scotland and Australia

Other

- Mainly underlying cost inflation

EBITDA*

- 11% up on prior year
- Excluding acquisition and FX up £0.7m
- Margin up 2.3 ppts



*Shown on underlying basis (before exceptional items)

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EXCEPTIONAL ITEMS

	2016			2015
	US £m	China £m	Total £m	Total £m
Exceptional items	9.5	3.9	13.4	4.0

US

- Operational since Feb 2016
  - Complex transition
- Now scaling up production

China

- Operational since May 2016
  - Ahead of schedule
- Now scaling up production

Full year guidance

- Expected to be approximately £20m
- Reflecting longer transition period in US

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FINANCE COSTS*

Capitalisation

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

Net debt

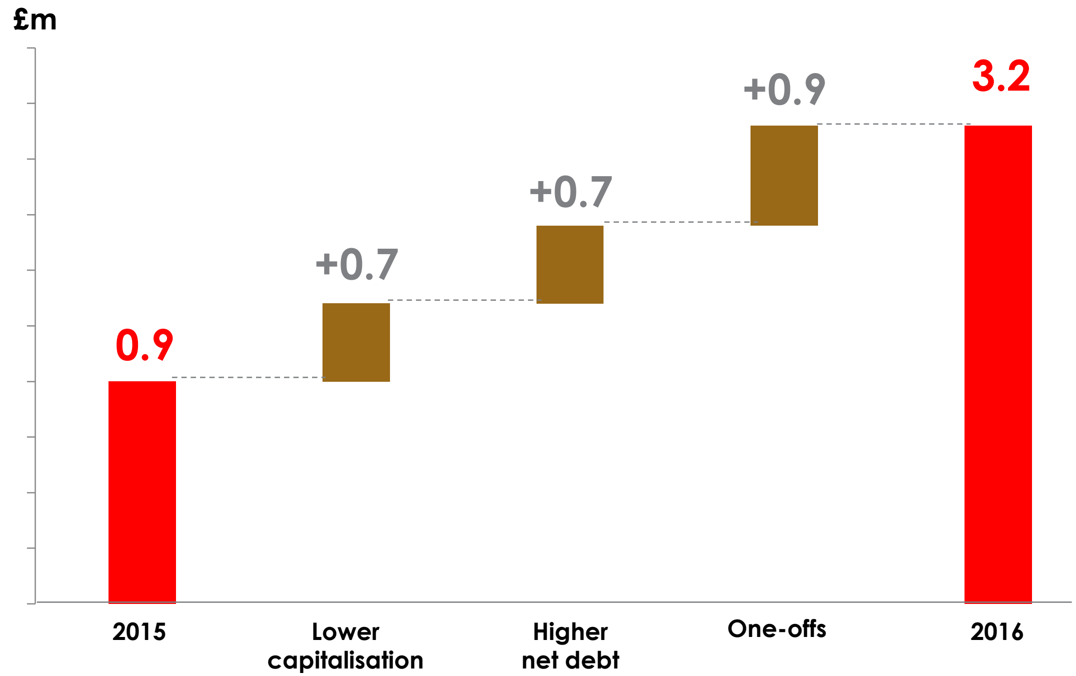
- Impacting both absolute interest increase as well as higher pricing

One-offs

- Costs related to close out of financial instruments

Full year

- Expected to be £6-7m (excluding pensions)



*Excluding net finance cost on pensions

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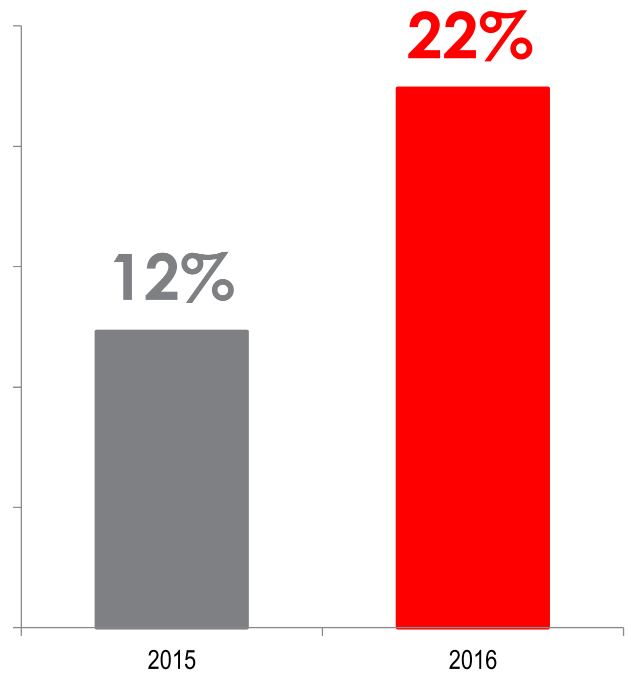
TAX RATE

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
EBIT*	18.0	15.6	+15%
EBIT margin*	15.9%	13.8%	+2.1 ppts
Profit before tax*	13.7	13.6	+1%
Profit after tax*	10.6	11.5	-8%
EPS*	6.3p	6.9p	-9%
Interim dividends per share	2.7p	2.7p	-
Reported profit after tax	(1.2)	7.3	
Reported EPS	(0.7p)	4.4p	

*Shown on underlying basis (before exceptional items)

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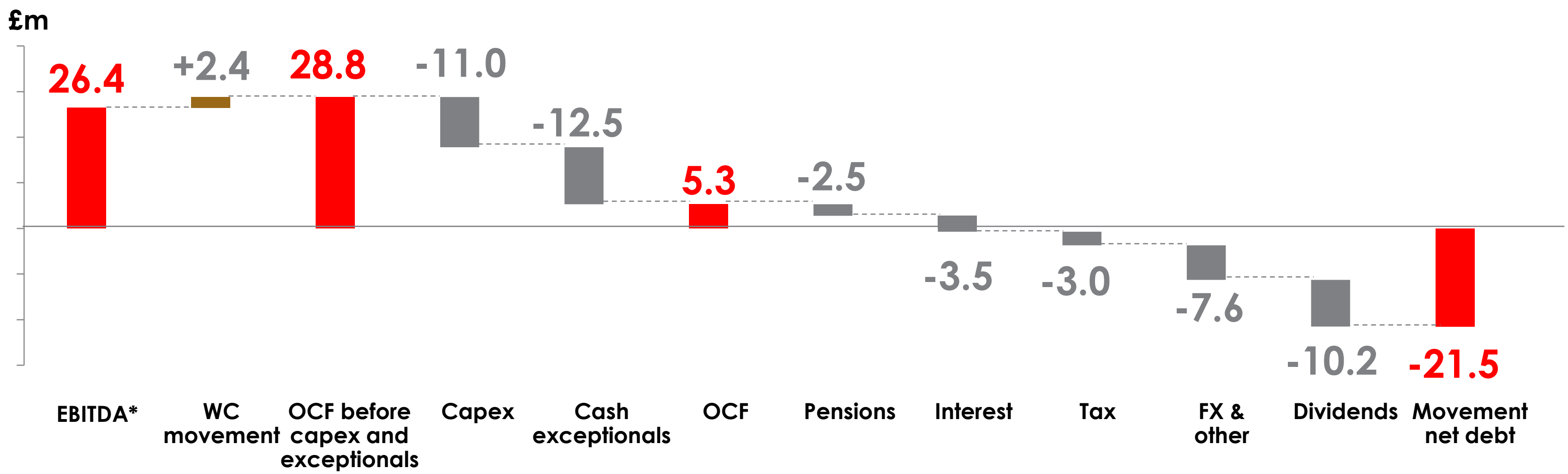
CASH FLOW H1 2016



2015:

23.8	-4.6	19.2	-33.7	-6.3	-20.8	-2.2	-2.3	-2.3	+1.4	-10.2	-36.4

Operating cash flow

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

Movement net debt

- Dividend maintained
- Impact of weakened GBP after EU Referendum vote (-£10m)
- Net debt increased as expected

*Shown on underlying basis (before exceptional items)

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NET DEBT AND KEY BANKING COVENANTS

	Jun 2016 £m	Dec 2015 £m	Covenant
Net debt	147.0	125.5	
Net debt / EBITDA* ratio	2.9 times	2.6 times	<3.25 times
EBITDA* / Net finance costs ratio	9 times	11 times	>4 times

Covenants

- Net Debt for covenant calculations purposes include financial derivatives (£6m at Jun 2016)
- Within covenants for both ratios

*Shown on underlying basis (before exceptional items)

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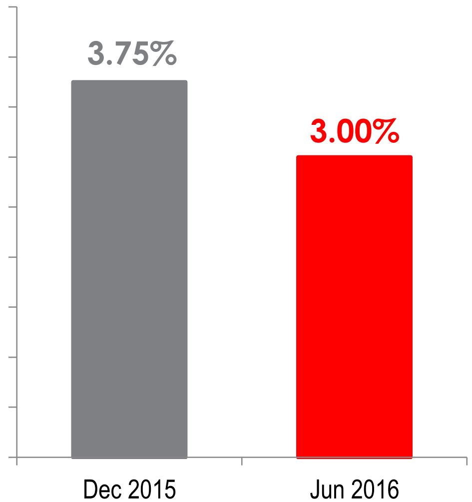
PENSIONS

Net pension deficit

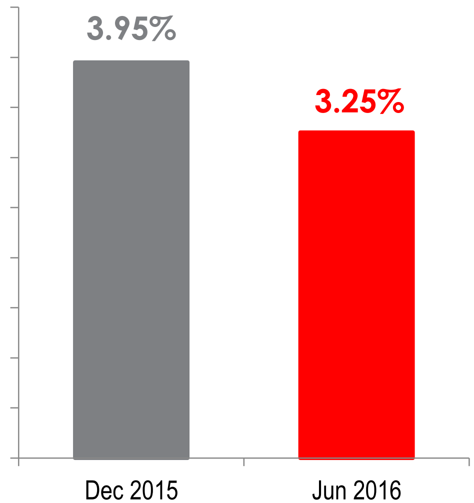
- Increase due to fall in discount rates
- Partially offset by investement returns

	Dec 2015 £m	Jun 2016 £m
Net pension deficit	56.4	77.9

UK discount rate



US discount rate



FINANCIAL SUMMARY

Results

- Reported revenue unchanged with underlying EBITDA up £2.6m
- Underlying EPS down due to higher finance costs and tax
- Dividend maintained
- Net debt ratios within covenant

Full year

Exceptional items

- Expected to be around £20m for the year

Finance costs

- Expected to be £6-7m for the year

Effective Tax rate

- Expected to be around 22%

CHIEF EXECUTIVE

PETER PAGE

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

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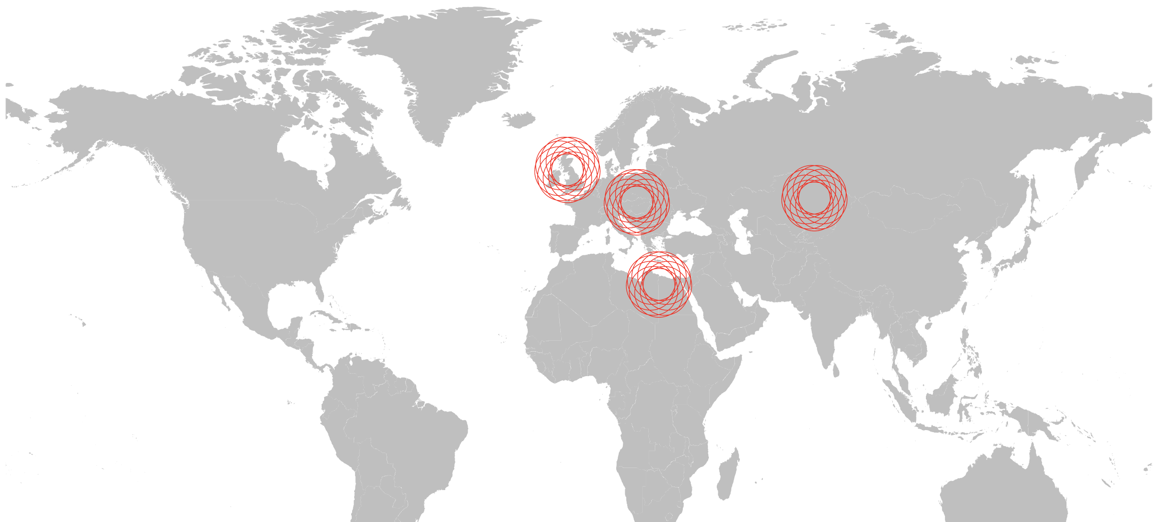
REVENUE: EUROPE



UK

- Continued growth in Select Fresh product range

Continental EU

- Price pressure in some markets
- Higher weekly sales rate in second quarter
- 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 form new markets

REVENUE: AMERICAS

North America

- Continued growth in beefstick category

Latin America

- Impacted by manufacturing and product sourcing changes

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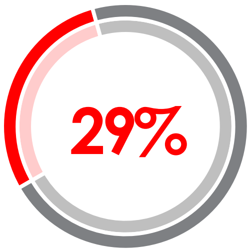
REVENUE: ASIA / PACIFIC



% group revenue

China

- Oversupply in the low price segment
- Currently qualifying products from new plant with target customers in premium sector
- Increasingly discerning market provides an opportunity to regain share

South East Asia

- Good growth in some markets with new products
- Strengthening market links through local distributors

Japan

- Continued growth in savoury snack and confectionery products

Australia & New Zealand

- Mature market
- Overall consumption lower

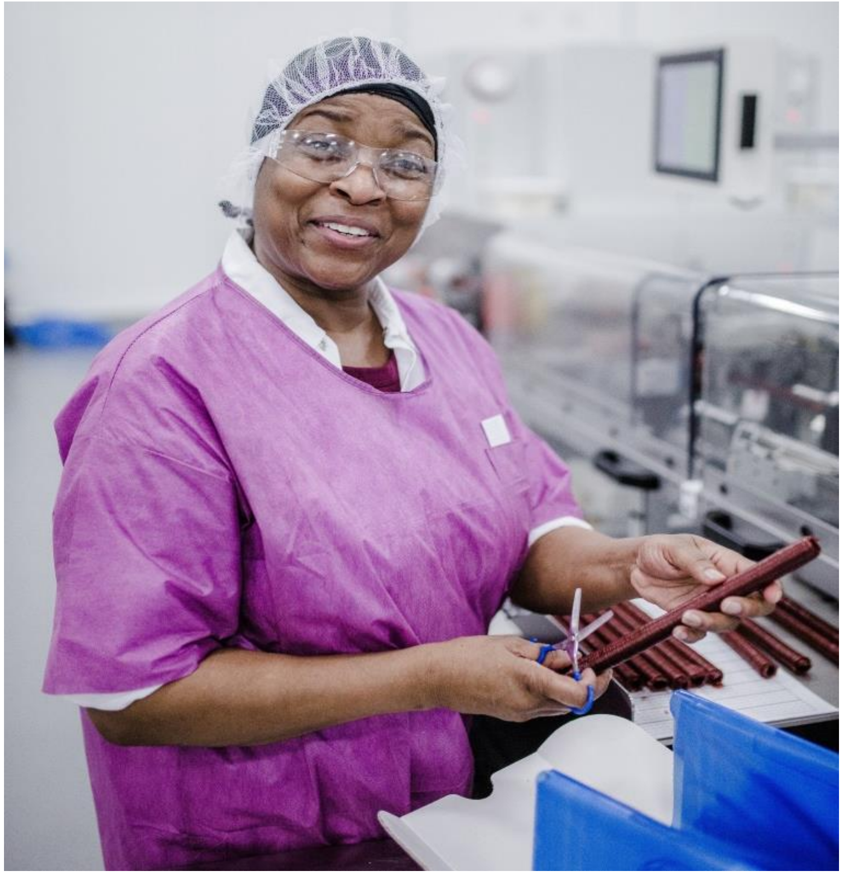
USA INVESTMENT
COST REDUCTION & SECURING MARKET POSITION IN USA

Replaced old process with new highly-efficient factory

Invested £50m over two years: completing 2016

Update

- Product development complete
- Production started in new plant
- Old factory now completely closed
- Customer transition in progress
- Annualised cost savings of approximately £8m



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CHINA INVESTMENT

CAPACITY EXPANSION & POSITIONING IN THE WORLD'S LARGEST MARKET

Establishing low-cost capacity to serve the world's largest market

Invested £60m in full manufacturing operation completing 2016

Update

- Product development complete
- Production started ahead of plan with proven manufacturing competence
- Customer testing and market introduction in progress
- Annualised benefits of approximately £6m

PRIORITIES 2016 OUTLOOK

Priorities

Sales
Realising sales opportunities in all regions

Production
Rapid build-up at new manufacturing plants

Customer transition
Complete transition of customers to new sources

Investments
Deliver return on investments from new plants

Outlook

"The Board's expectations for the full year underlying operating profit remain unchanged."

2017 AND BEYOND

"The transformation programme has reached its final phase. The next stage of strategic development will focus on growing sales through improved commercial capabilities, introducing the next generation of differentiated products and further improving manufacturing efficiencies."

Capital Markets Day
2 November 2016
please save the date

DEVRO

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