



DEVRO

JULY 2014

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INTERIM RESULTS FOR SIX  
MONTHS ENDED  
30 JUNE 2014

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# 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

- Over 2,000 staff across the world
- 5 manufacturing sites in Scotland, Australia, the Czech Republic and the USA

## 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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# DEVRO: 2014 H1 PERFORMANCE IN LINE WITH EXPECTATIONS

- Strong growth in key markets
- Sales volumes maintained
- Manufacturing footprint transformation progressing well
  - Major investment programmes in USA & China on schedule
  - Action taken to decommission older, less efficient technology
- Actively managing cost base





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GROUP FINANCE DIRECTOR

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SIMON WEBB

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# FINANCIAL HIGHLIGHTS:

## FOR SIX MONTHS ENDED 30 JUNE 2014

	<b>2014 H1 £m</b>	<b>2013 H1 £m</b>	<b>Change %</b>	<b>Constant currency Change %</b>
Sales	109.7	118.9	-8	-
EBITDA*	23.0	26.6	-13	-2
Operating profit (EBIT)*	14.1	17.9	-21	-9
EPS*	6.6p	8.2p	-20	-6
Operating cash flow**	18.1	18.3	-1	+11
Dividend per share	2.7p	2.7p	-	-

\*Before exceptional items \*\*Before exceptional items and pension deficit funding



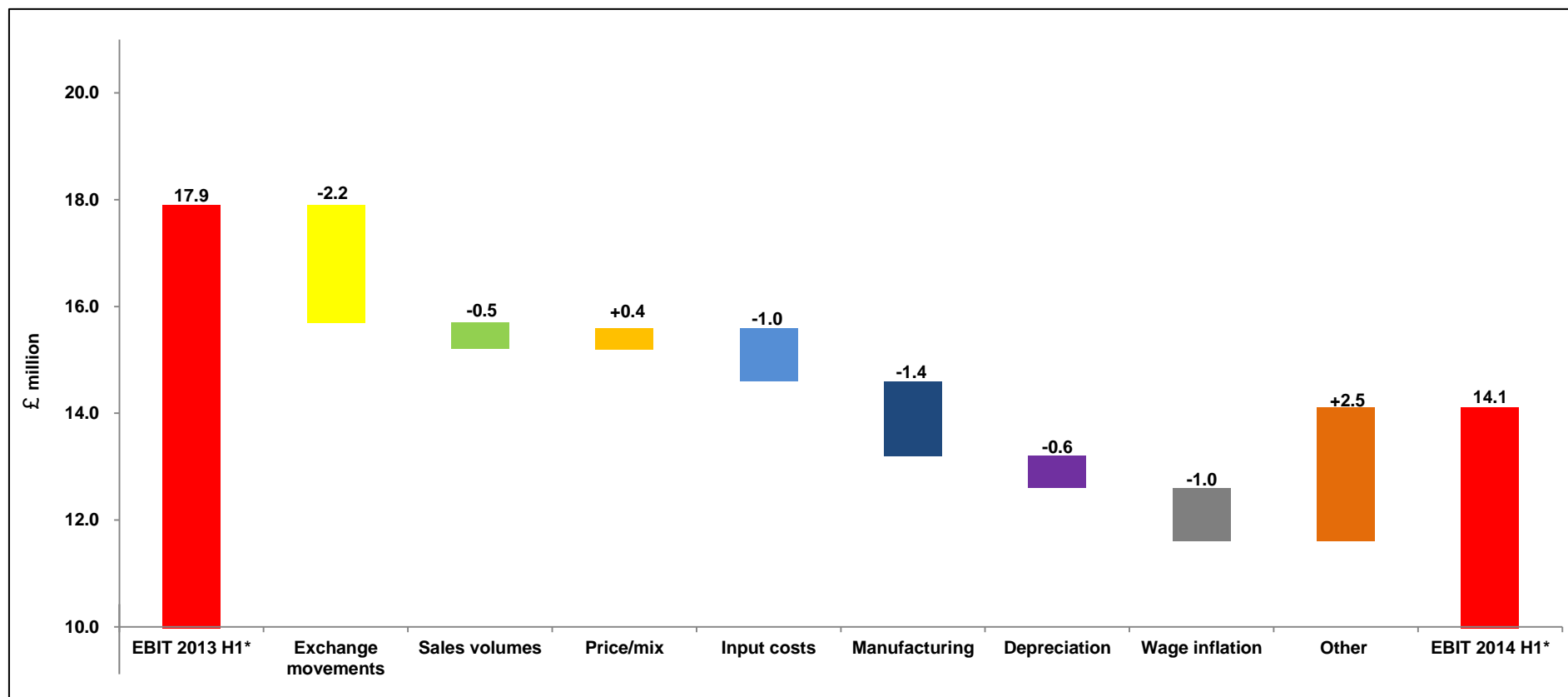
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## REGIONAL SALES BY DESTINATION: FOR SIX MONTHS ENDED 30 JUNE 2014 (CHANGE VS H1 2013)

	2014 £m	Volume %	Price/mix %	Exchange %	Total %
Europe	(5.1)	(7.0)	1.2	(3.2)	(9.0)
Americas	(2.9)	(1.9)	1.0	(8.7)	(9.6)
Asia/Pacific	(1.2)	13.3	(1.6)	(15.6)	(3.9)

- Excluding exchange total revenue is unchanged
- Q2 recovery in total volumes

# OPERATING PROFIT BRIDGE: FOR SIX MONTHS ENDED 30 JUNE 2014 (VS 2013)



\*Before exceptional items

# INCOME STATEMENT: FOR SIX MONTHS ENDED 30 JUNE 2014

	2014 £m	2013 £m
Revenue	109.7	118.9
Operating profit before exceptional items	14.1	17.9
Exceptional items	(10.8)	-
Operating profit after exceptional items	3.3	17.9
Net finance costs	(0.7)	(0.6)
Net finance cost on pensions	(1.0)	(1.1)
Profit before taxation	1.6	16.2
Tax	0.7	(2.6)
Profit after tax	2.3	13.6



# EXCEPTIONAL ITEMS: FOR 2014

	H1 £m	Projected FY £m
<b>Investment projects</b>		
Cash	0.8	2.0
Non-cash	0.4	1.0
	<b>1.2</b>	<b>3.0</b>
<b>Restructuring</b>		
Cash	6.3	8.0
Non-cash	3.3	12.0
	<b>9.6</b>	<b>20.0</b>
	<b>10.8</b>	<b>23.0</b>

- Annualised benefits from restructuring £5 million

# SUMMARY CASH FLOW: FOR SIX MONTHS ENDED 30 JUNE 2014

	2014 £m	2013 £m
Operating profit*	14.1	17.9
Depreciation, amortisation and loss on disposal*	8.9	8.7
Movement in working capital	(5.1)	(8.4)
Other	0.2	0.1
<b>Operating cash flow before pension deficit funding*</b>	<b>18.1</b>	<b>18.3</b>
Exceptional items (cash outflow)	(1.6)	-
Pension deficit funding	(2.4)	(2.6)
Capital expenditure	(19.9)	(19.1)
Interest/tax	(2.3)	(2.6)
Dividends	(10.2)	(9.7)
Other	0.9	0.9
<b>Movement in net debt</b>	<b>(17.4)</b>	<b>(14.8)</b>

- Constant currency operating cash flow improved by 11%
- Inventories peaked in March



# DEBT & KEY BANKING COVENANTS

	<b>June 2014</b>	<b>December 2013</b>
Net debt	£53.2m	£35.8m
Gearing	37.5%	22.7%

- Long term funding now in place for investment projects
- US Private Placement now completed for US \$100 million

	<b>Covenant</b>	<b>Actual</b>
Net debt / EBITDA	<3 times	0.9 times
EBITDA / Net finance costs	>4 times	47 times

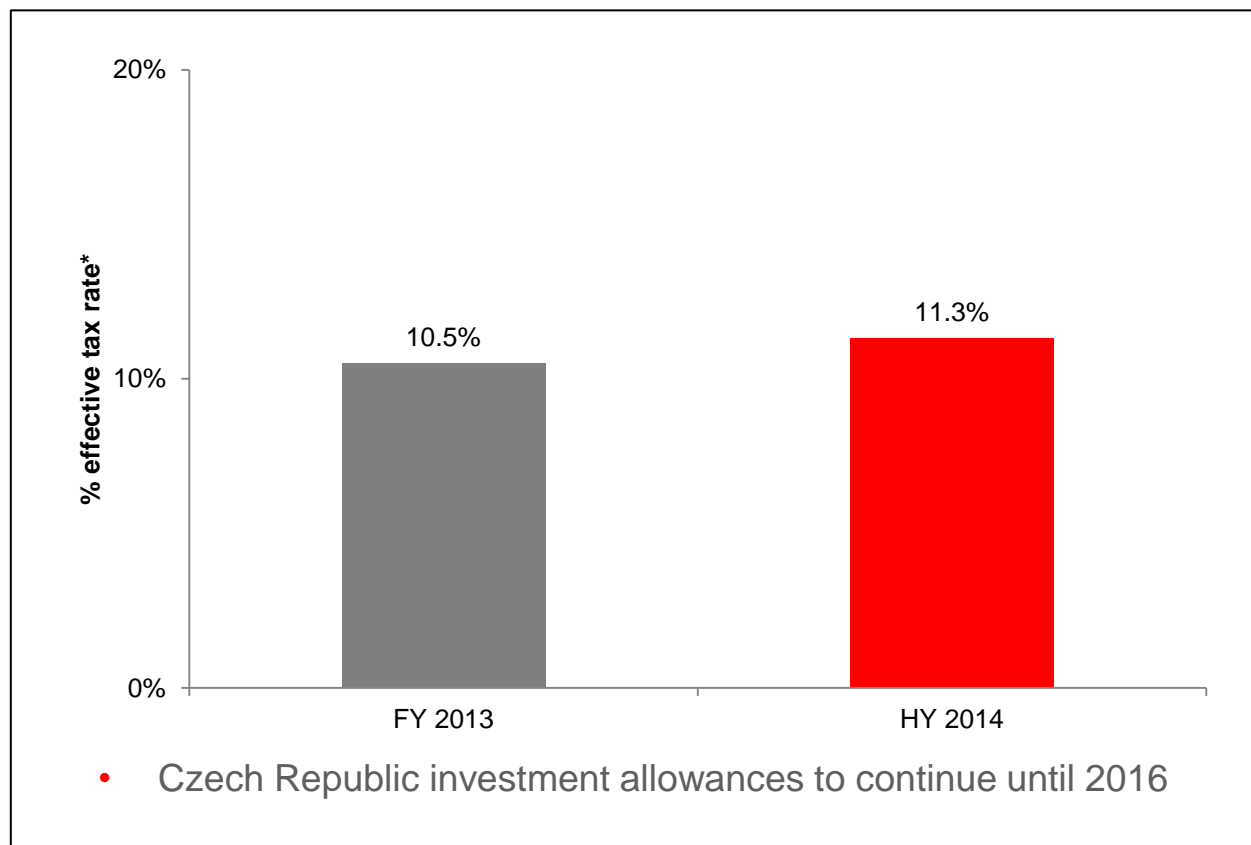
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# PENSIONS: GROUP DEFINED BENEFIT PENSION SCHEMES

	June 2014 £m	December 2013 £m
Net pension deficit	53.5	46.1

- Restructuring costs of £2.8m included in liability
- Fall in discount rates increased liability by £6m
- Triennial valuation underway

# EFFECTIVE TAX RATE



\*Before exceptional items

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# DEVRO: PROGRESS IN SECOND QUARTER

- Trading is in line with what we communicated in April
- Good progress on manufacturing footprint transformation
  - Decommissioning older capacity
  - Investing in new technology
  - Actively managing cost base
- Managing inventory levels down
- Long term funding in place





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CHIEF EXECUTIVE

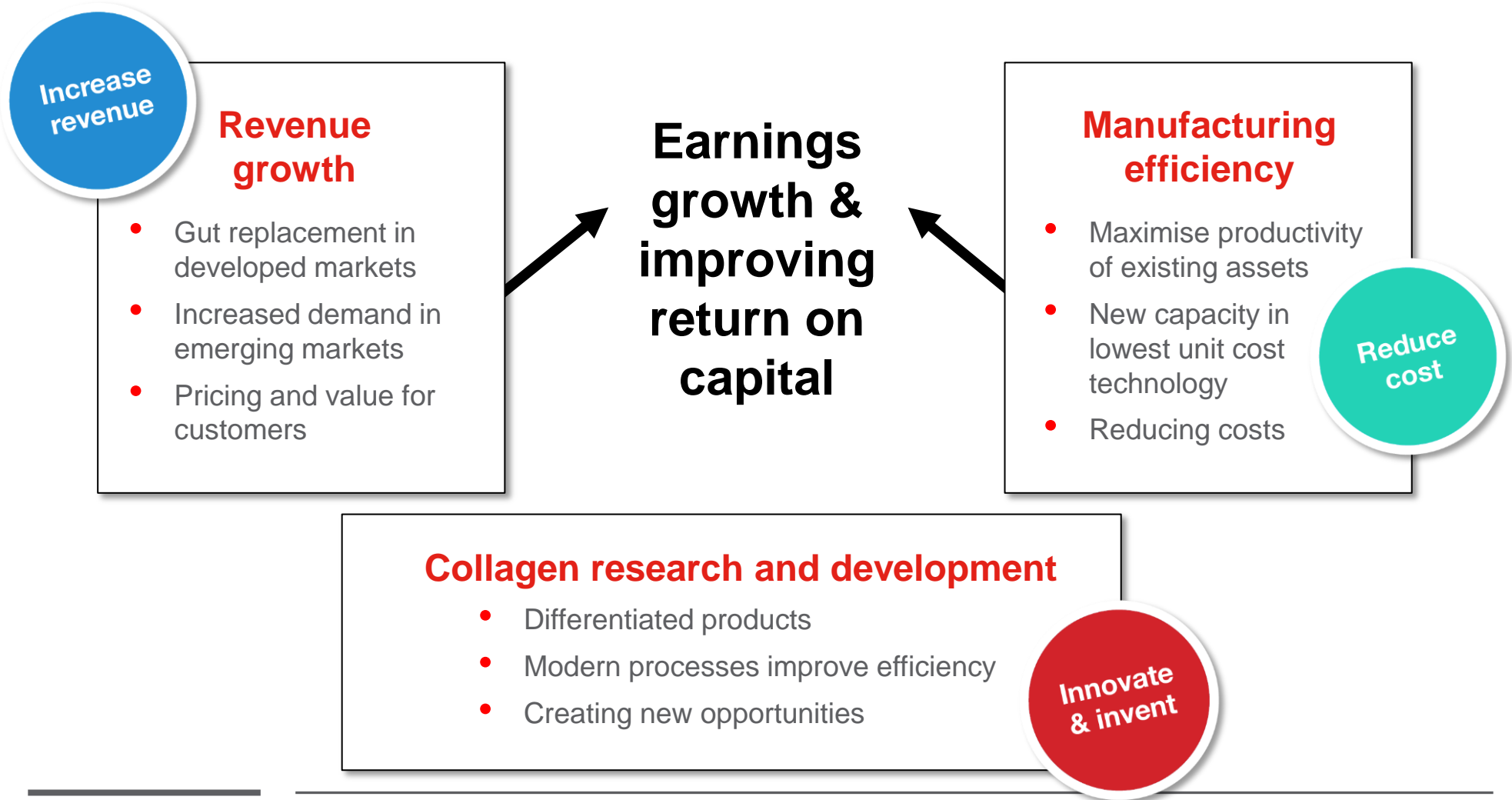
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PETER PAGE

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# OUR THREE-PART STRATEGY





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# SALES: FOR SIX MONTHS ENDED 30 JUNE 2014

- Sales volumes maintained
- Revenue unchanged in constant currency
- Building up in sales to China in preparation for new plant
- Continued growth in Germany
- Volume growth in Japan with innovative new applications for collagen
- Development of new *Select* products leading to gut conversions in UK & Ireland



# DEVELOPED MARKETS: EDIBLE COLLAGEN

## USA & Canada

- Volume +6%
- Revenue (LC) +7%
- Continued growth in beefstick sector
- Co-ex gel sales resilient

## UK

- Volume -7%
- Revenue (LC) -5%
- Reduction in retail sales volumes
- *Fresh Select* well received by traditional butchers

## Western Europe

- Volume +29%
- Revenue (LC) +44%
- Strong sales development in Germany

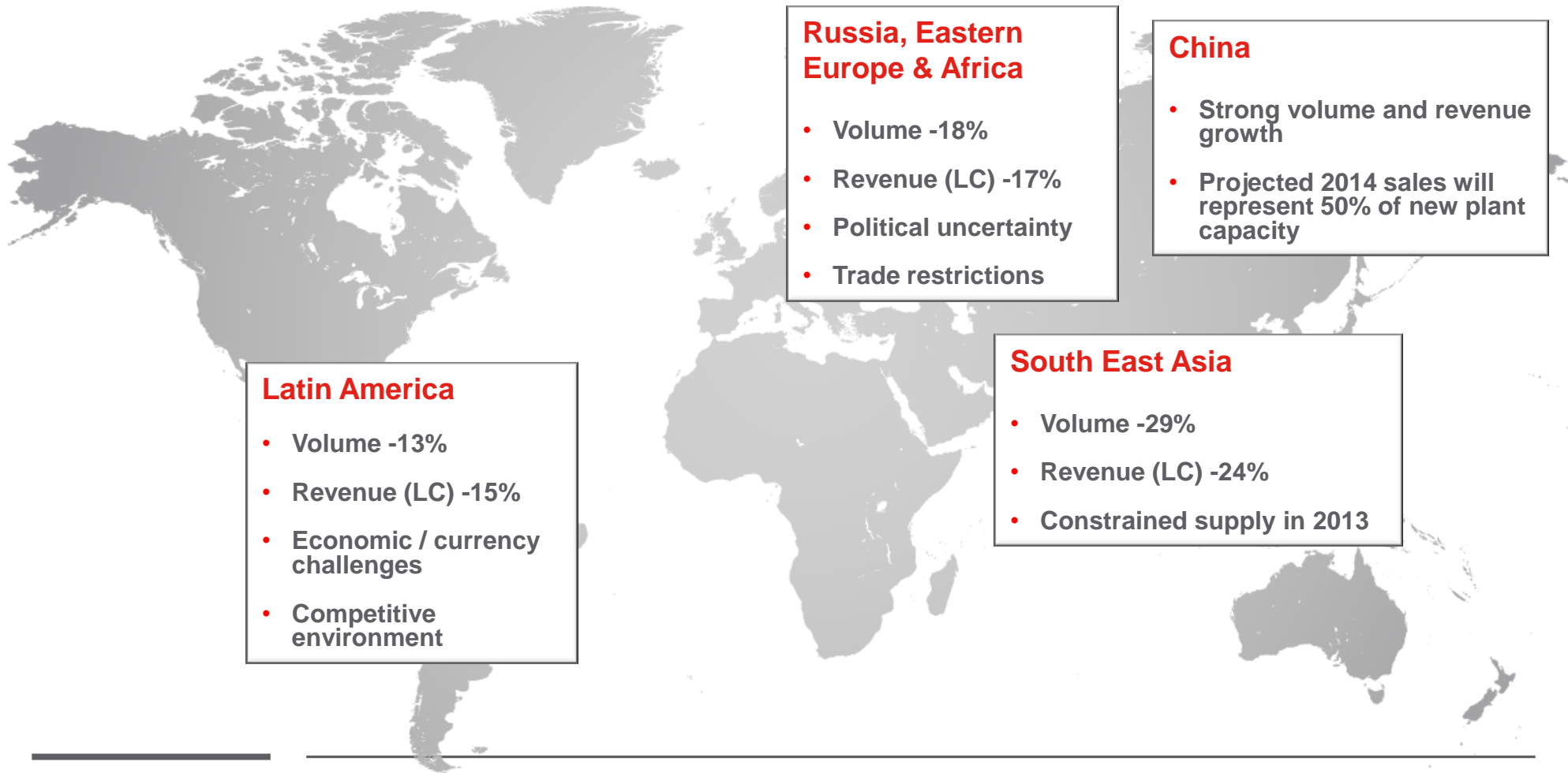
## Japan

- Volume +16%
- Revenue (LC) +16%
- Growth in snack products
- Innovative new customer products

## Australia & New Zealand

- Volume -3%
- Revenue (LC) +2%
- Challenging trading for customers

# EMERGING MARKETS: EDIBLE COLLAGEN





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## GLOBAL MANUFACTURING FOOTPRINT

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# USA PROGRESS

- Investing £40 million over two years – completing 2016
- Replacing old inefficient plant with new high technology plant on existing site



- Building structure complete
- Plant and equipment installation commencing
- Product validation started
- Global project team drawing on expertise from other plants

# CHINA PROGRESS

- Investing £50 million in full manufacturing operation – completing 2016
- Establishing local production capacity to serve the growing market



- Land secured in long-established industrial development park
- Site cleared / prepared and building construction scheduled to start in Q3
- Plant and equipment specified
- Experienced local management team supported by global project team



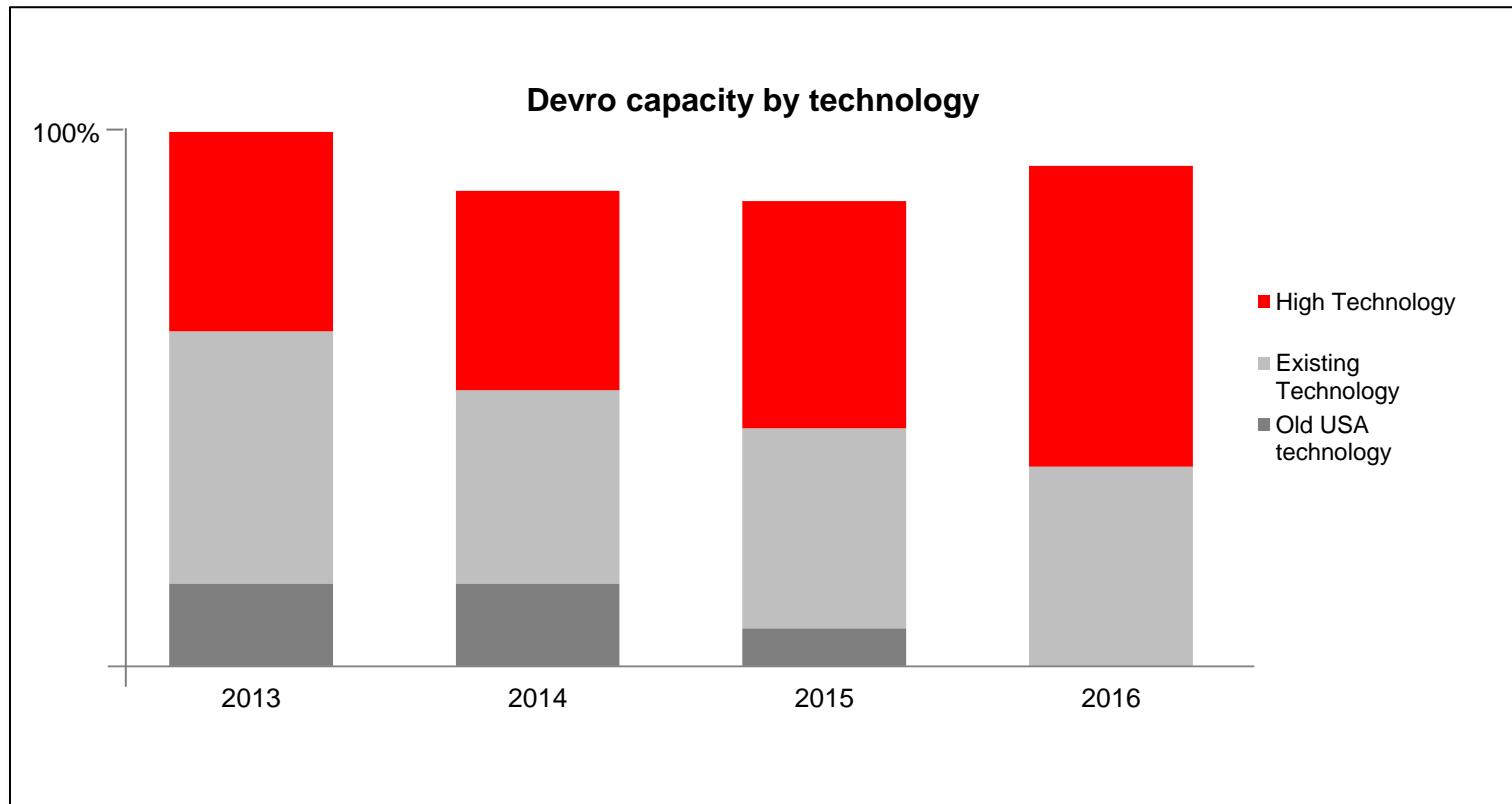
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# RESTRUCTURING IN SCOTLAND

- Announced in April
- 130 redundancies agreed following consultation
- Decommissioning of oldest, least efficient capacity will be completed by Q1 2015
- Annualised cost savings of £4 million



# IMPROVING MANUFACTURING EFFICIENCY



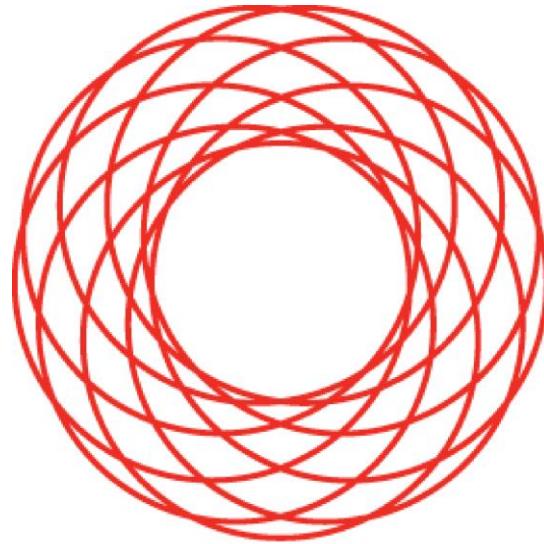


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# OUTLOOK

- Trading is in line with expectations
- Market demand remains positive
- Full year sales similar to prior year
- Manufacturing transformation benefits in 2015 and 2016





**DEVRO**  
**THANK YOU**