



DEVRO

MARCH 2014

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RESULTS FOR YEAR ENDED  
31 DECEMBER 2013

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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: 2013 HIGHLIGHTS

- Revenue and operating profit (before exceptionals) maintained
- Earnings per share (excluding exceptionals) up 7%
- Capacity expanded with the completion of the Czech upgrade
- Good progress made on investment programme in USA
- Investment plan for China announced today
- Recommended dividend increase of 4% for full year



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GROUP FINANCE DIRECTOR

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SIMON WEBB

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# FINANCIAL HIGHLIGHTS: FOR THE YEAR ENDED 31 DECEMBER 2013

	<b>2013</b> <b>£m</b>	<b>2012</b> <b>restated*</b> <b>£m</b>	<b>Increase</b> <b>%</b>
Revenue	<b>242.7</b>	241.1	+ 0.7
EBITDA**	<b>60.6</b>	58.4	+ 3.7
Operating profit (EBIT)**	<b>42.1</b>	42.4	-0.9
Earnings per share**	<b>20.8</b>	19.4	+7.2
Cash generated from operations**	<b>43.8</b>	48.1	-8.9
Dividend (pence)	<b>8.8p</b>	8.5p	+3.5

- Growth in Revenue and EBITDA
- Operating profit was relatively flat although EPS grew

\*2012 results restated for new pension accounting rules (IAS19R) / \*\*Before exceptional items

# INCOME STATEMENT: FOR THE YEAR ENDED 31 DECEMBER 2013

	<b>2013</b>	<b>2012</b>
	<b>£m</b>	<b>restated*</b>
	<b>£m</b>	<b>£m</b>
Revenue	242.7	241.1
Operating profit before exceptional items	42.1	42.4
Exceptional items	(1.3)	-
Operating profit after exceptional items	40.8	42.4
Net finance costs	(1.1)	(1.0)
Net finance cost on pension assets/liabilities	(2.2)	(2.1)
Profit before tax	37.5	39.3
Tax	(3.9)	(7.3)
Profit after tax	33.6	32.0

\*2012 results restated for new pension accounting rules (IAS19R)



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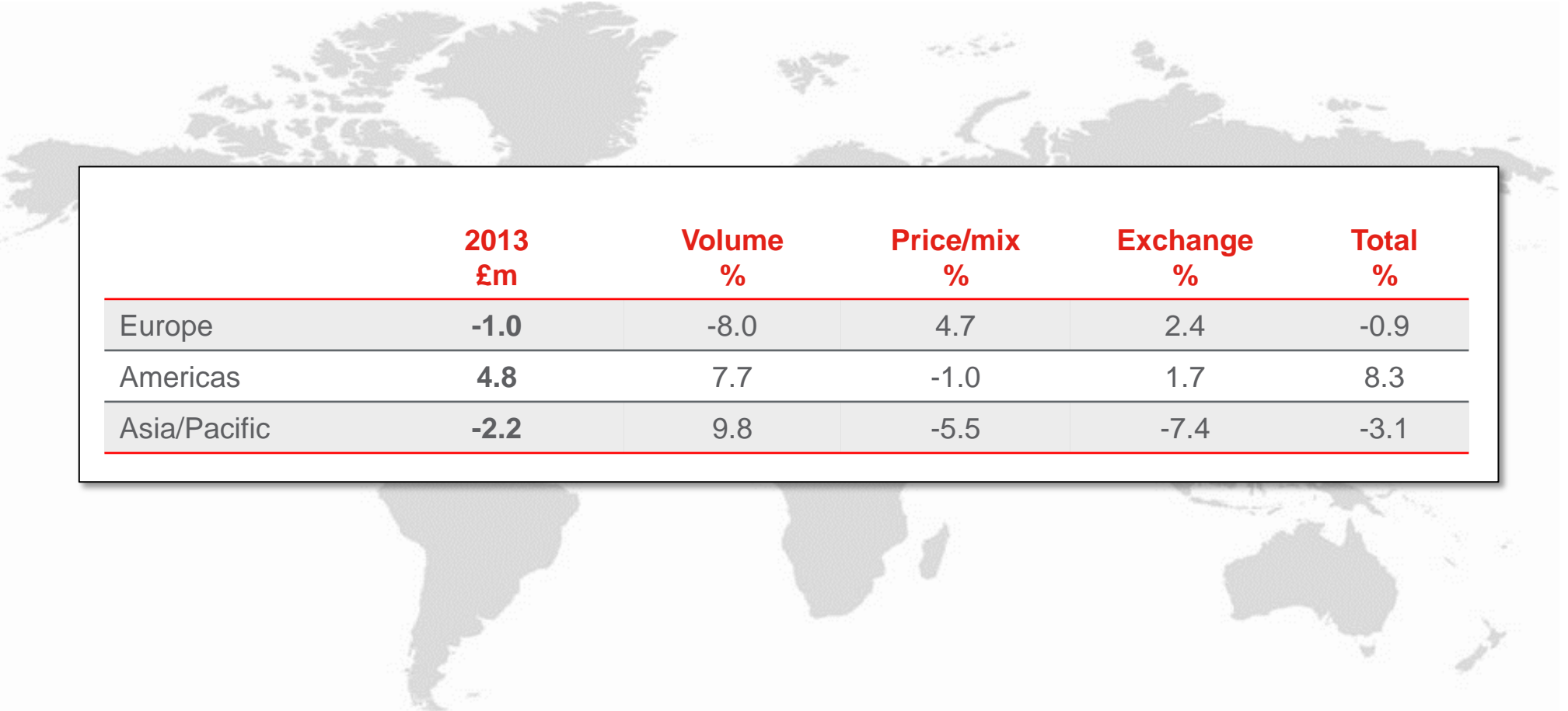
# INCOME STATEMENT: FOR THE YEAR ENDED 31 DECEMBER 2013

	H1			H2			FY		
	2013	2012 restated*	Change %	2013	2012 restated*	Change %	2013	2012 restated*	Change %
Revenue (£m)	118.9	115.4	+3.1	123.8	125.7	-1.5	242.7	241.1	+0.7
EBIT (£m)**	17.9	20.5	-12.8	24.2	21.9	+10.3	42.1	42.4	-0.9
Margin (%)**	15.0	17.7		19.6	17.5		17.3	17.6	

- Second half profits helped by increased production output

\*2012 results restated for new pension accounting rules (IAS19R) / \*\*Before exceptional items

## REGIONAL SALES BY DESTINATION: CHANGE FOR THE YEAR ENDED 31 DECEMBER 2013 VS 2012



	<b>2013 £m</b>	<b>Volume %</b>	<b>Price/mix %</b>	<b>Exchange %</b>	<b>Total %</b>
Europe	-1.0	-8.0	4.7	2.4	-0.9
Americas	4.8	7.7	-1.0	1.7	8.3
Asia/Pacific	-2.2	9.8	-5.5	-7.4	-3.1



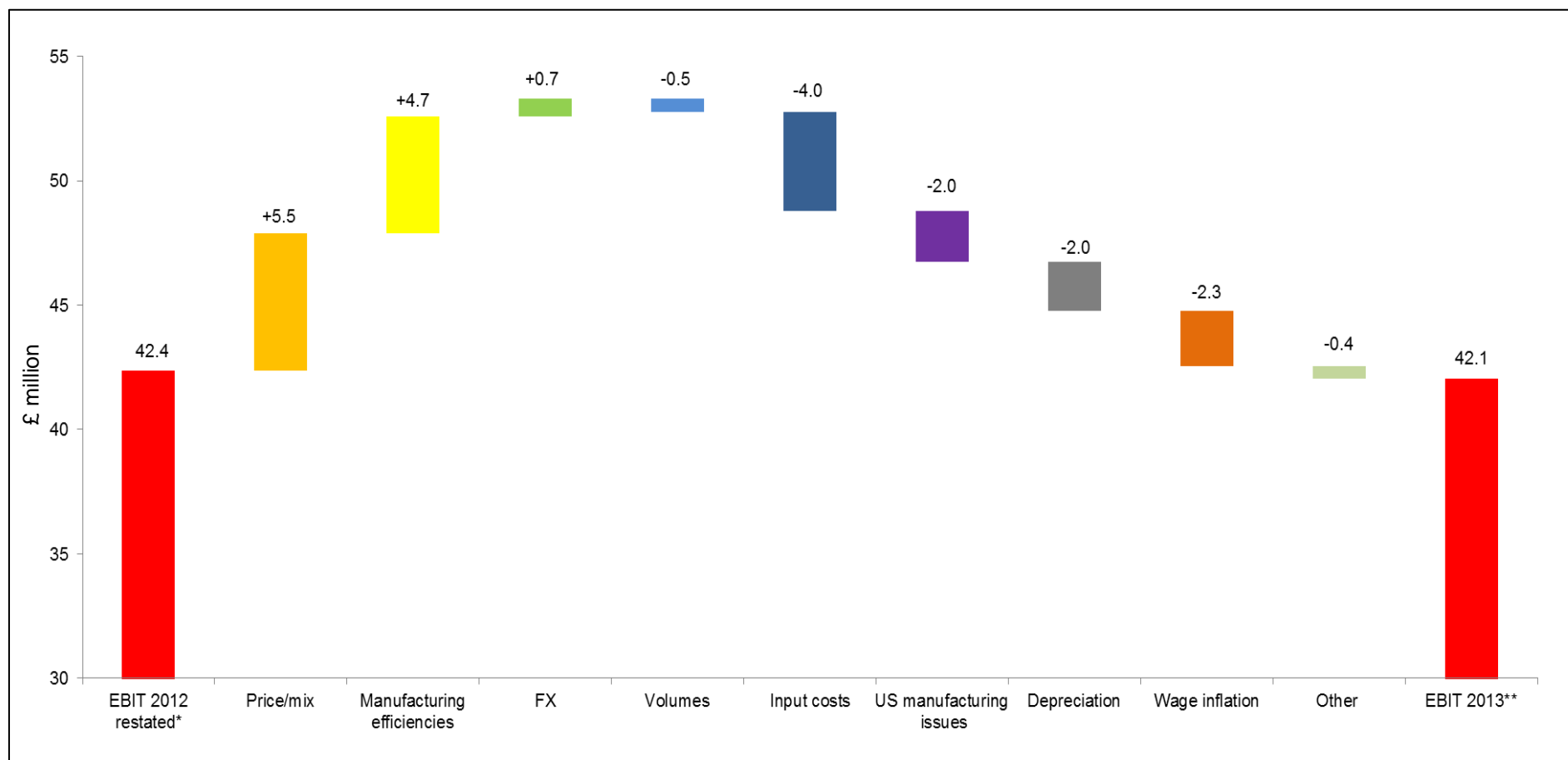
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## SALES BY MARKET: FOR THE YEAR ENDED 31 DECEMBER 2013

	<b>2013 £m</b>	<b>2012 £m</b>	<b>Change %</b>
Emerging markets	100.5	92.0	+9.2
Developed markets	142.2	149.1	- 4.6
	<b>242.7</b>	<b>241.1</b>	

- Emerging markets now account for 41% of total revenues (2012: 38%)

# EBIT BRIDGE: FOR THE YEAR ENDED 31 DECEMBER 2013 (VS 2012)



\*2012 results restated for new pension accounting rules (IAS19R) / \*\*Before exceptional items



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# SUMMARY CASH FLOW: FOR THE YEAR ENDED 31 DECEMBER 2013

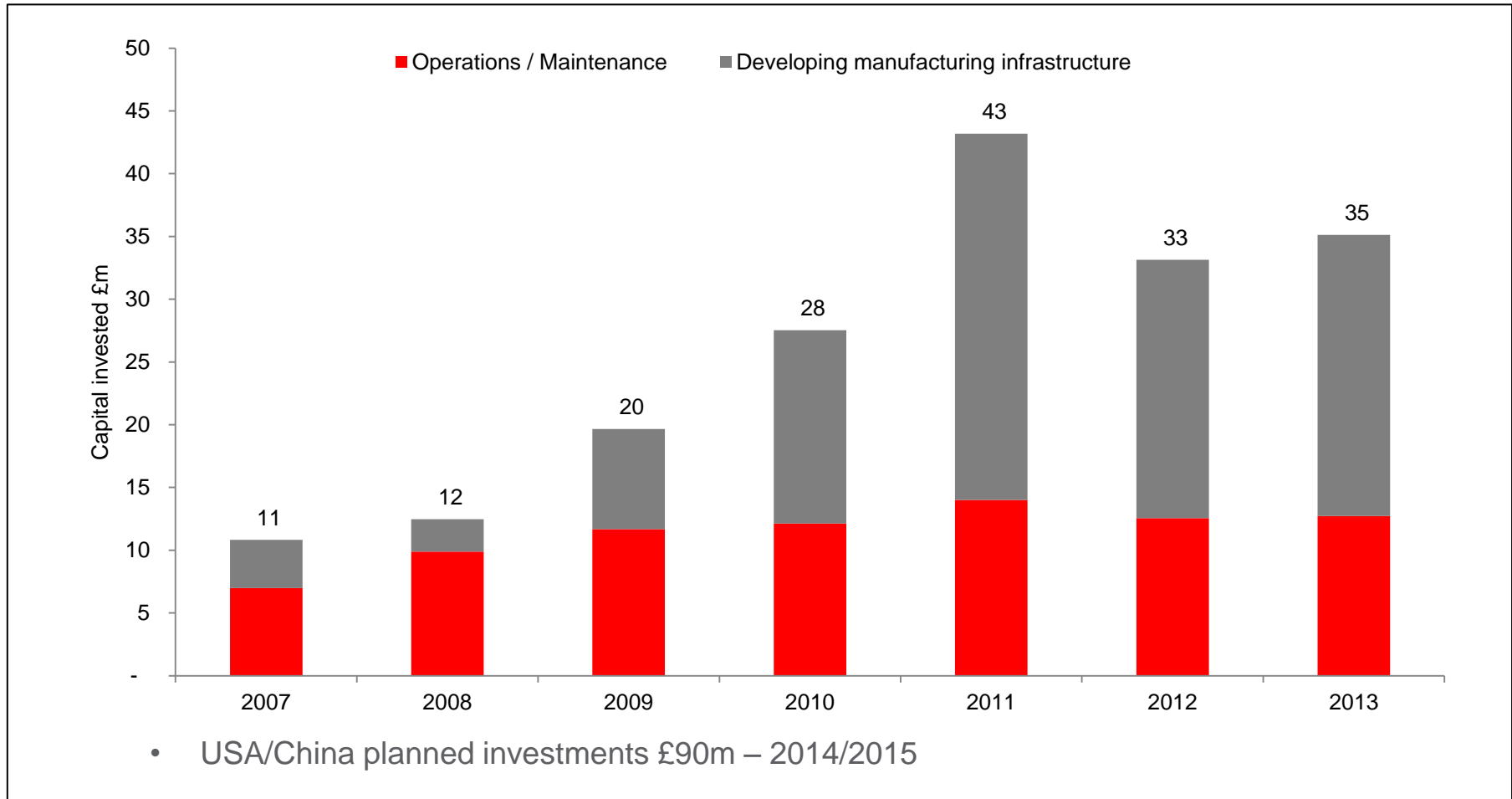
	2013 £m	2012 restated* £m
Operating profit**	42.1	42.4
Depreciation, amortisation and loss on disposal**	18.5	16.0
Movement in working capital	(13.1)	(6.0)
Other	0.9	0.7
<b>Operating cash flow before additional pension contributions**</b>	<b>48.4</b>	<b>53.1</b>
Exceptional items (cash outflow)	(1.1)	-
Pension contributions to fund deficit	(4.6)	(5.0)
Capital expenditure	(36.8)	(34.5)
Interest/tax	(5.0)	(5.3)
Dividends	(14.2)	(13.4)
Other	3.6	1.7
<b>Increase in net debt</b>	<b>(9.7)</b>	<b>(3.4)</b>

\*2012 results restated for new pension accounting rules (IAS19R) / \*\*Before exceptional items



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# INVESTING FOR THE FUTURE



## DEBT & KEY BANKING COVENANTS

	2013	2012
Net debt	£35.8m	£26.1m
Gearing	22.7%	17.8%

- During the year the current revolving facilities were extended to £61m from £51m

	Covenant	Actual
Net debt / EBITDA	<3 times	0.6 times
EBITDA / Net finance costs	>4 times	55 times

# PENSIONS:

## GROUP DEFINED BENEFIT PENSION SCHEMES

	2013 £m	2012 £m
Net pension deficit	46.1	59.3

- Reduction in overall deficit due to increase in discount rates

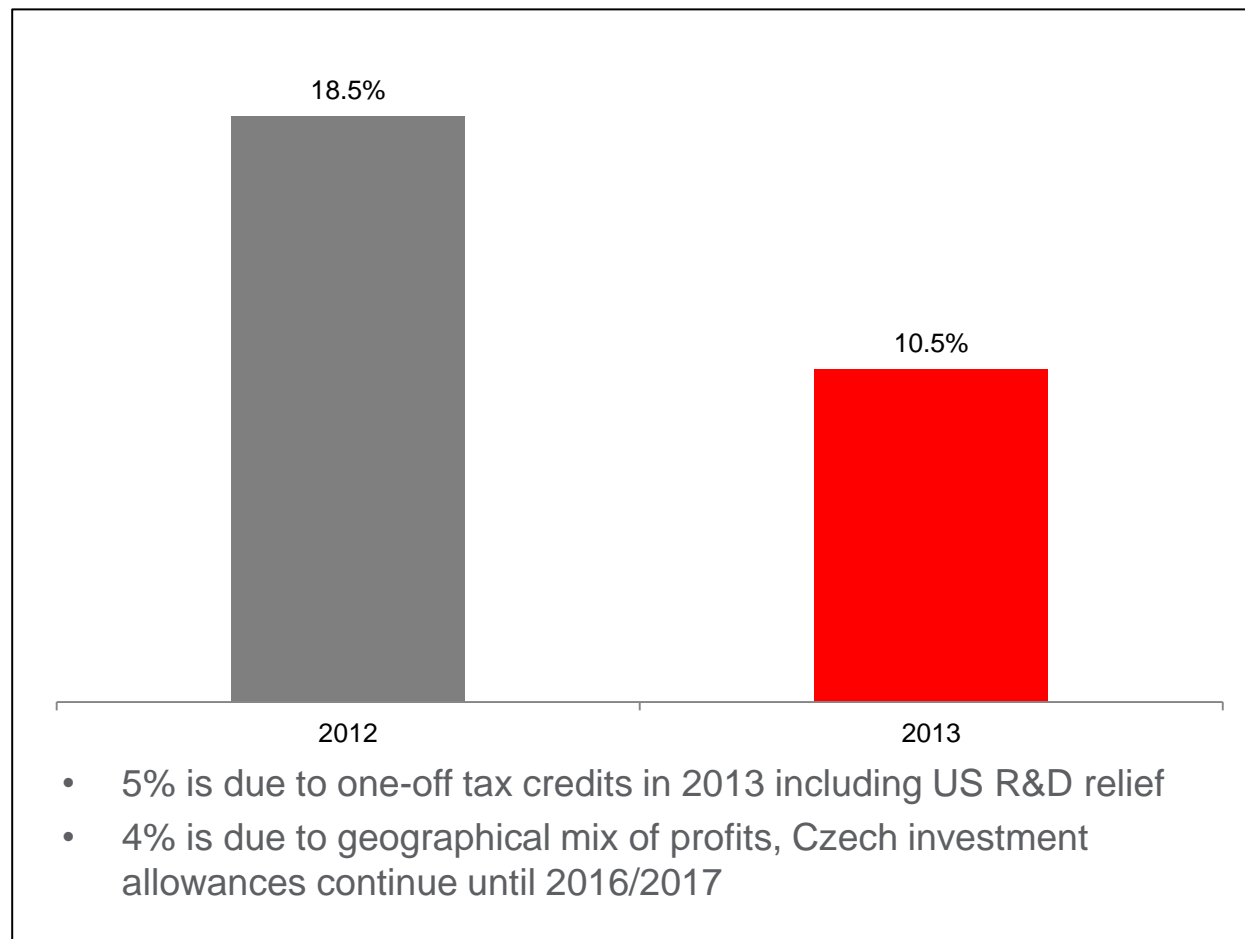
	2013 £m	2012 restated* £m
Net pension interest cost	2.2	2.1

\*2012 results restated for new pension accounting rules (IAS19R)

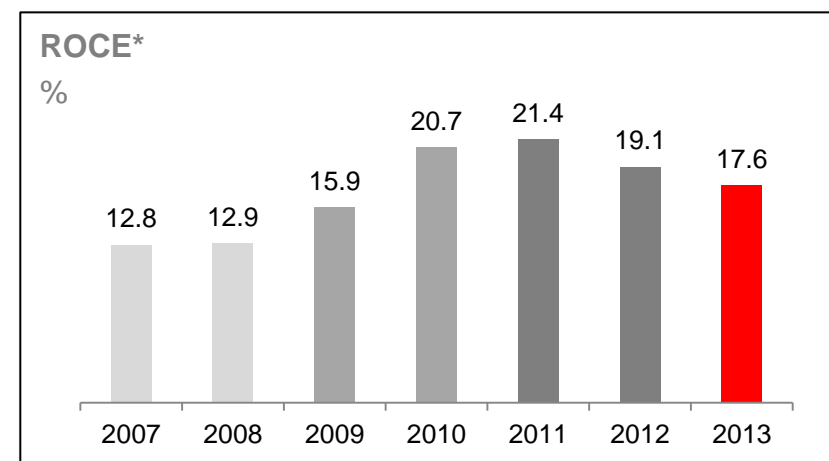
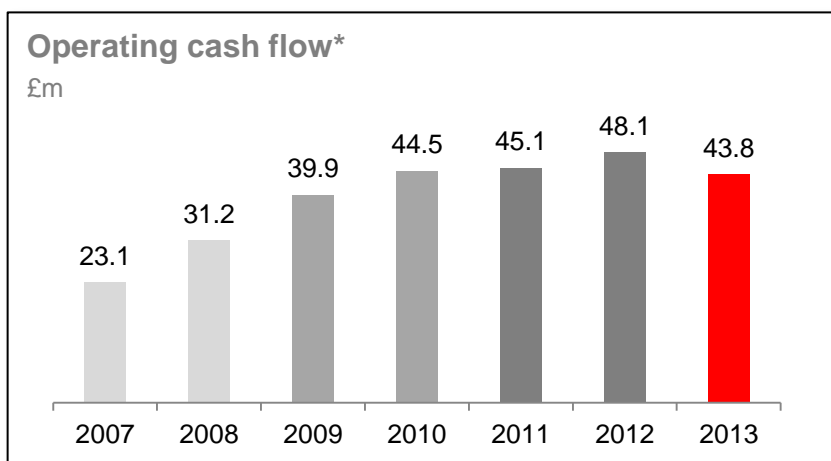
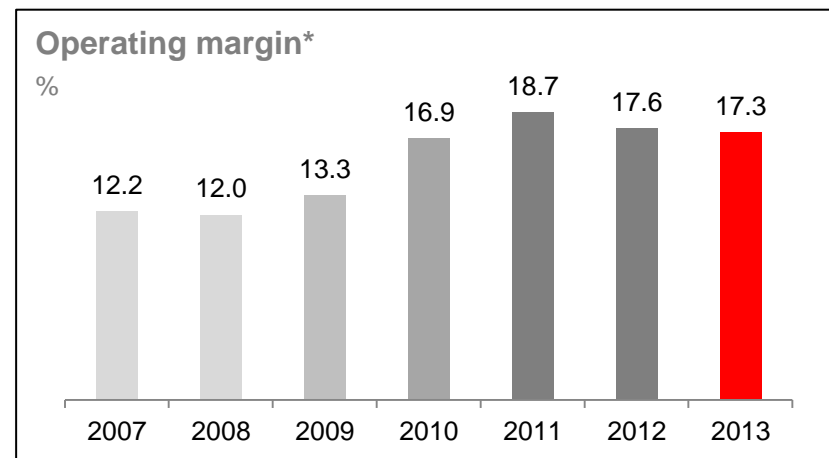
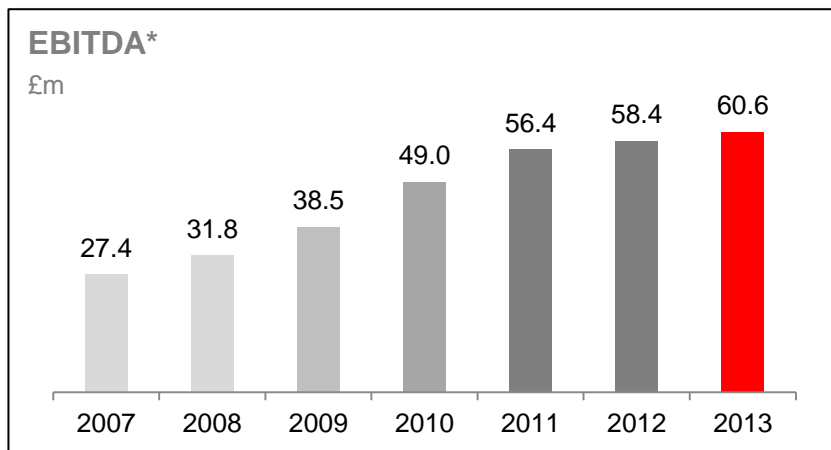


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## EFFECTIVE TAX RATE



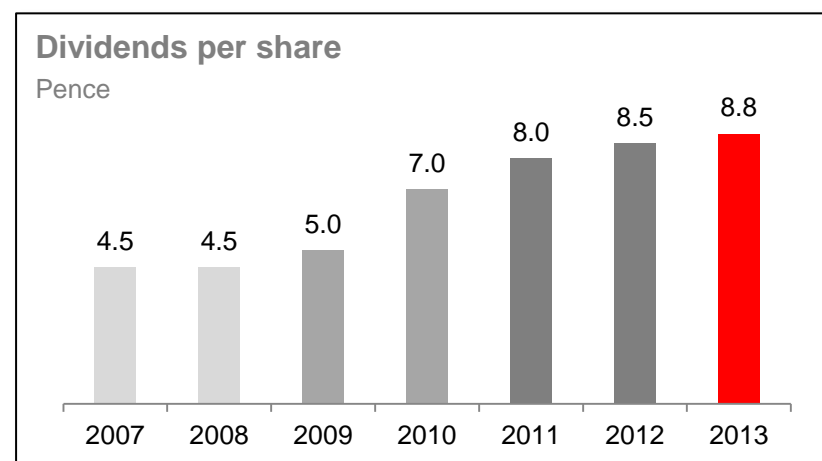
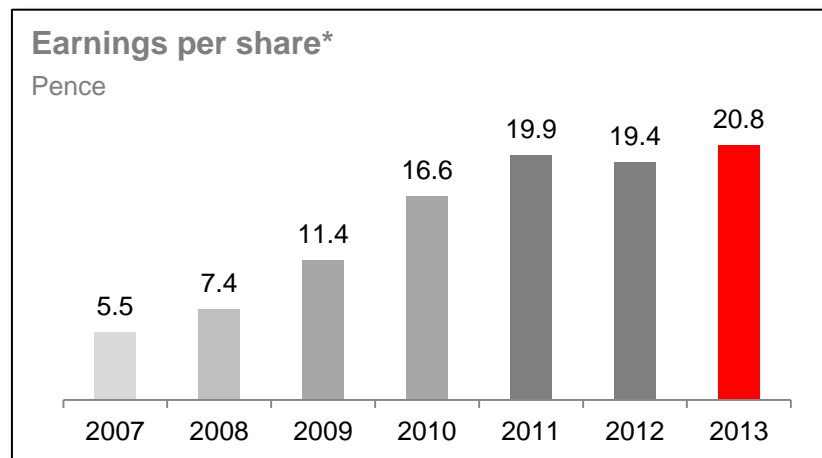
# KEY FINANCIAL INDICATORS



\*All figures relate to continuing operations and are stated before exceptional items. Figures for 2007 to 2012 have been restated for new pension accounting rules (IAS19R)



# SHAREHOLDER RETURNS



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CHIEF EXECUTIVE

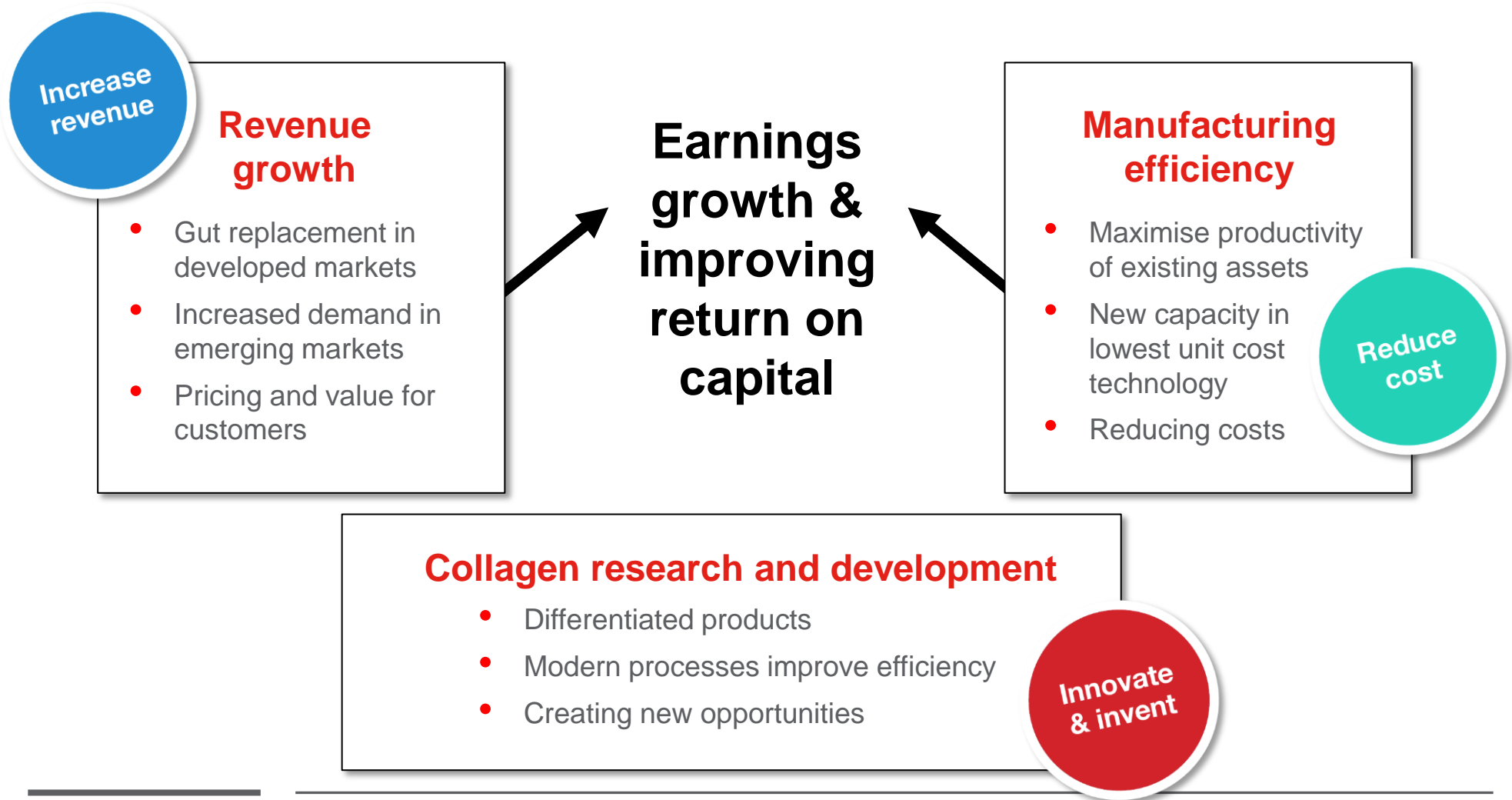
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# OUR THREE-PART STRATEGY



# REVENUE GROWTH SHIFTING TO EMERGING MARKETS

- Total revenues £243m
- Emerging markets volumes +6%, revenue +9%
- Revenue in Japan +6% (LC)
- Revenue in Germany +30% (LC)
- *Select* 8% of total revenue
- Gut conversion continues to support volume growth in developed markets



# STRONG PRESENCE IN DEVELOPED MARKETS

## USA & Canada

- Volume -6%
- Revenue (LC) -4%
- Opportunities particularly in the beefstick sector
- Strong demand for collagen gel replacing cellulose
- Manufacturing challenges restricted capacity

## UK

- Volume -6%
- Revenue (LC) -3%
- Price increases to maintain margin

## Western Europe

- Volume -7%
- Revenue (LC) -3%
- Strong growth in Germany
- Price increases recovered input costs

## Japan

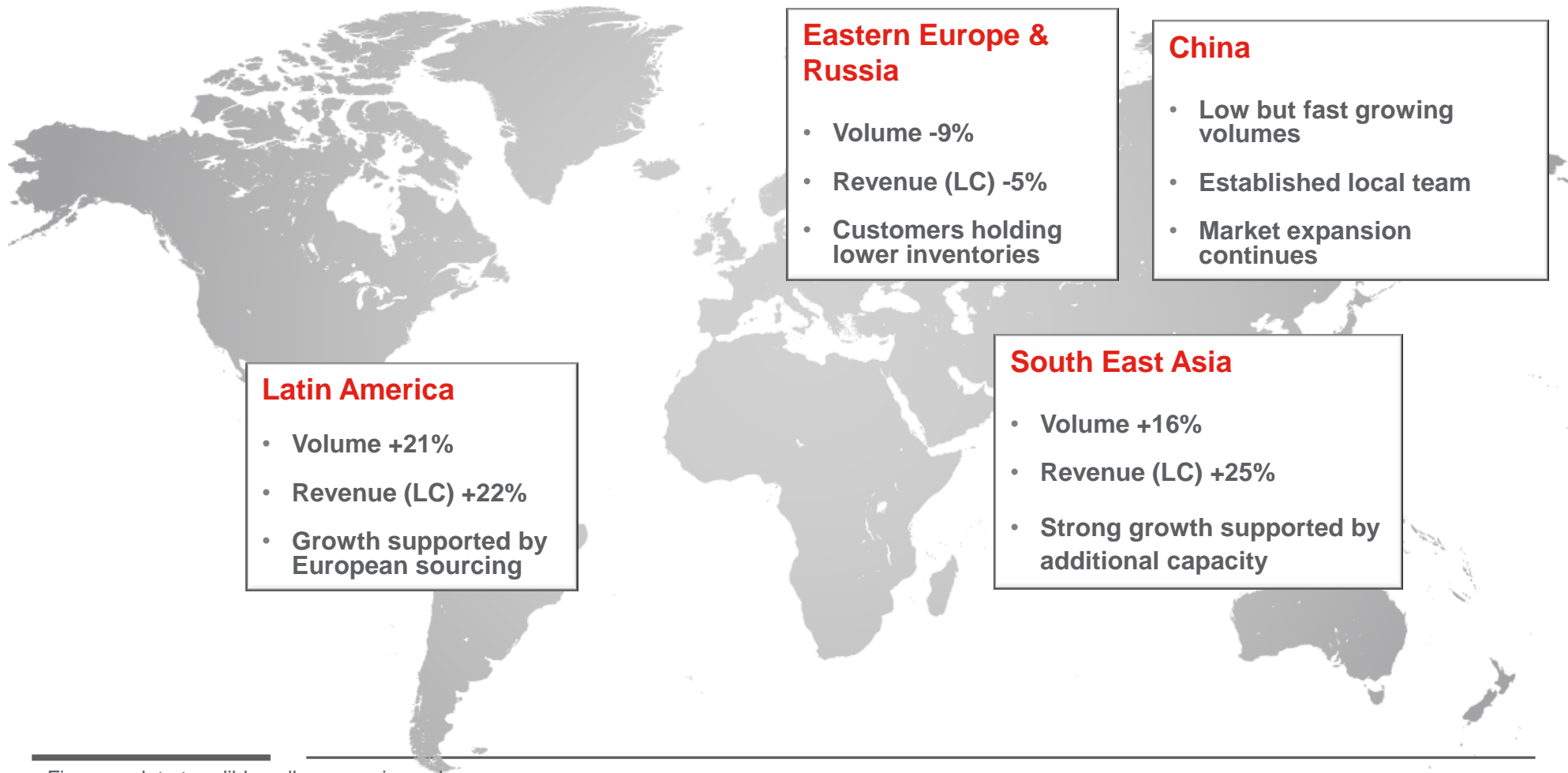
- Volume +6%
- Revenue (LC) +6%
- Increased capacity from Australia
- Strengthened Devro's position in the market

## Australia & New Zealand

- Volume -9%
- Revenue (LC) -8%
- Difficult trading conditions

Figures relate to edible collagen casing only

# GROWING DEMAND IN EMERGING MARKETS



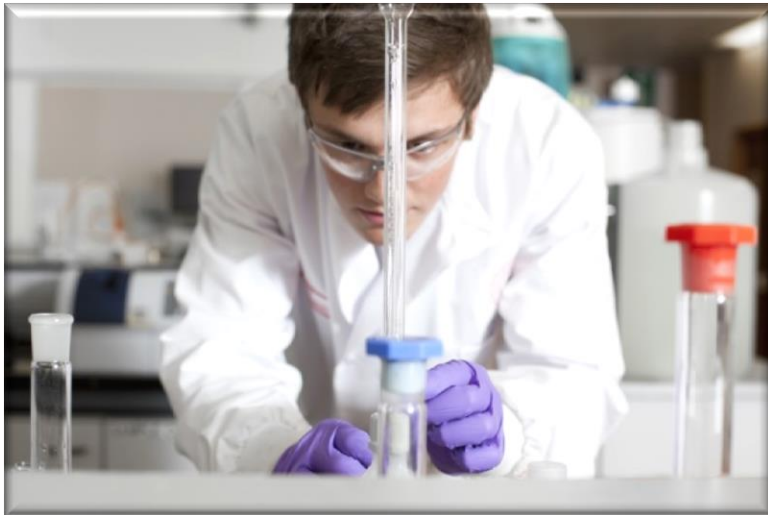
Figures relate to edible collagen casing only



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# INDUSTRY LEADERS THROUGH RESEARCH & DEVELOPMENT



- Substantiating the Devro brand through innovation and product differentiation
- Established a single, global R&D team from existing resources of knowledgeable and experienced managers
- *Fresh Select* to be introduced to UK market in 2014

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## MEETING CUSTOMER NEEDS - *FRESH SELECT*



- Based on successful *Select* technology
- High levels of clarity and translucency
- High elasticity and wall strength for cooking
- Thin-wall gives light bite
- Significant interest from customers



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# TRANSFORMING AND MODERNISING THROUGH CAPITAL INVESTMENTS

## **Three year capacity expansion phase now complete**

- Invested £70m in upgrading technology and creating 20% additional capacity
- Completed upgrade project in Czech Republic in 2013 on time and on budget
  - £25m investment
  - Adds 9% to group capacity
  - 25% reduction in unit costs of products in new hall

## **Embarking on new investment phase to reduce manufacturing cost per unit**

- Good progress made on £40m investment in USA (announced November 2013)

## **And entering new markets**

- Major £50m investment plan in China

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# USA INVESTMENT PROGRAMME PROGRESSING ACCORDING TO PLAN

Site works started this month



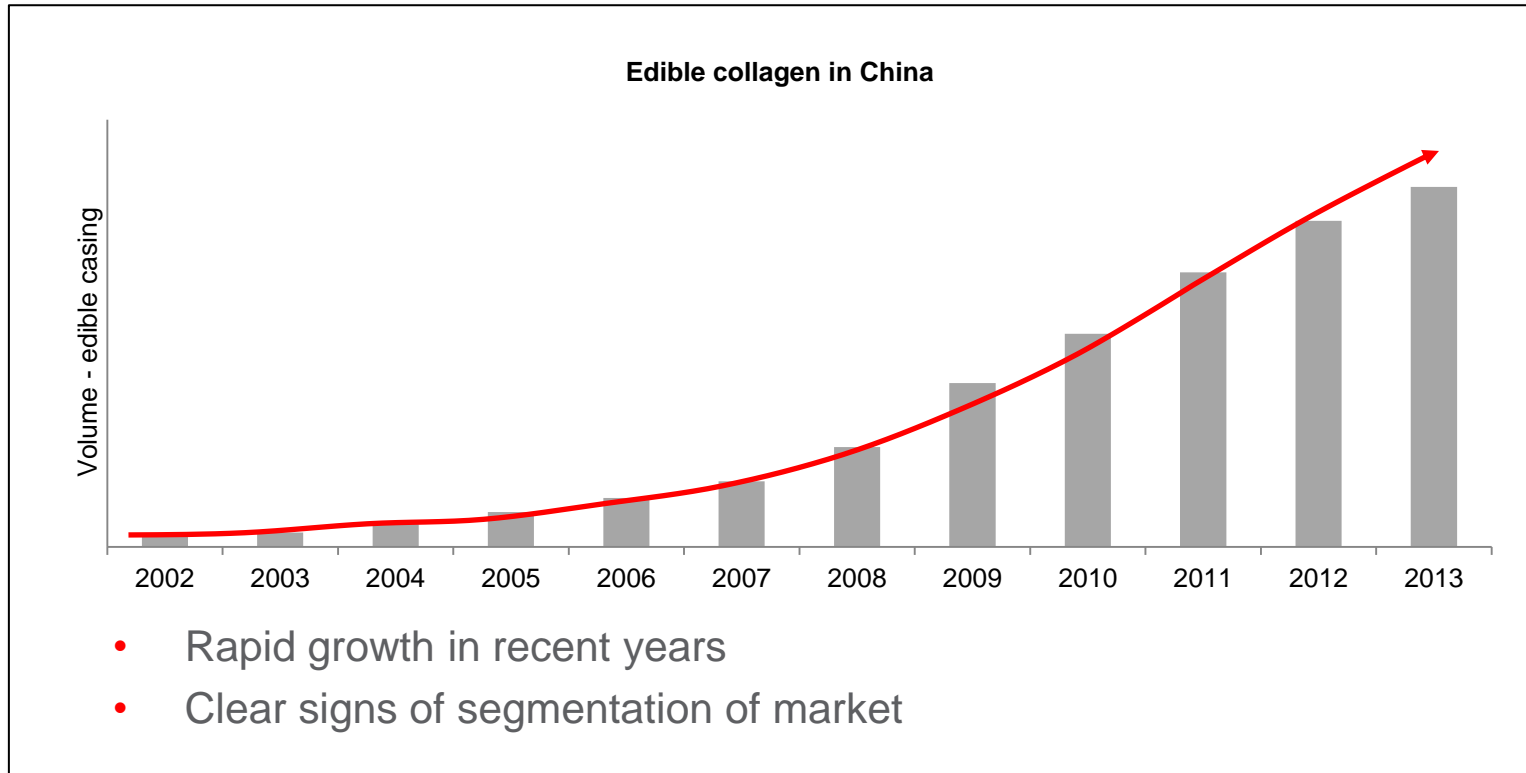
- Global project team established
- Permits successfully obtained
- Contracts for the civil work now signed
- Will break ground on site works this month



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## INVESTMENT PLANS FOR CHINA

# CHINA IS THE FASTEST GROWING COLLAGEN MARKET



Source: Internal company estimates



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# CHINA...

## **...has a bright future**

- By 2015, China will account for c.50% of the world's collagen casing consumption
- Consumption of protein generally, and sausages in particular, is expected to continue growing
- Major food manufacturers developing trusted brands
- Category segmentation creating opportunities

## **...and Devro**

- Beijing and Hong Kong sales teams have already developed strong customer relationships
- Sales volumes growing in 2013 & 2014
- In 2013 established a local management team for manufacturing, finance and HR
- Licence approved for a China manufacturing company in December 2013
- Co-operation agreement signed with economic development authority



# A strategic step for revenue growth and manufacturing efficiency

- £50m investment in a full manufacturing operation
- Construction and commissioning 2014-2015
- Phased introduction of capacity
- Managed by a group project team
- Fully operational in 2016
- IRR 13% pa with long term opportunity for improvement



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# STRATEGIC PROGRESS CONTINUES

## Summary

- Developed markets growth through gut conversion
- Emerging markets growth reflects scale of opportunities
- Manufacturing investments in Czech & USA reducing costs of manufacturing
- Planned investment in China adds capacity for emerging market growth
- R&D developments to bring differentiated products to market

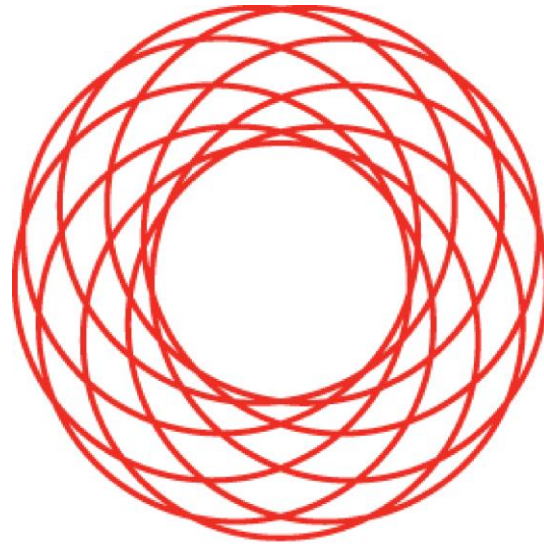
## Outlook

### Short term:

- Growing sales
- Manage production levels to balance supply with demand
- Adverse currency movements

### Long term:

- USA/China investments
  - Reduced production costs
  - Opportunities to meet growing demand in China



**DEVRO**  
**THANK YOU**