



DEVRO

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## INVESTMENT PROGRAMME UPDATE

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# IMS / TRADING UPDATE

- Revenue grows / volumes unchanged
  - Emerging markets growing strongly
  - Developed markets mixed
- Trading profits and margins improved as new capacity has come on stream
- Hide price increases have been slowing down
- Currency movements are expected to impact 2014 results by £3m – primarily yen 20% devaluation
- 2013 outlook – given the flat volumes we expect profits to be towards the lower end of market expectations
- £40m investment has now been approved to build a new factory in USA

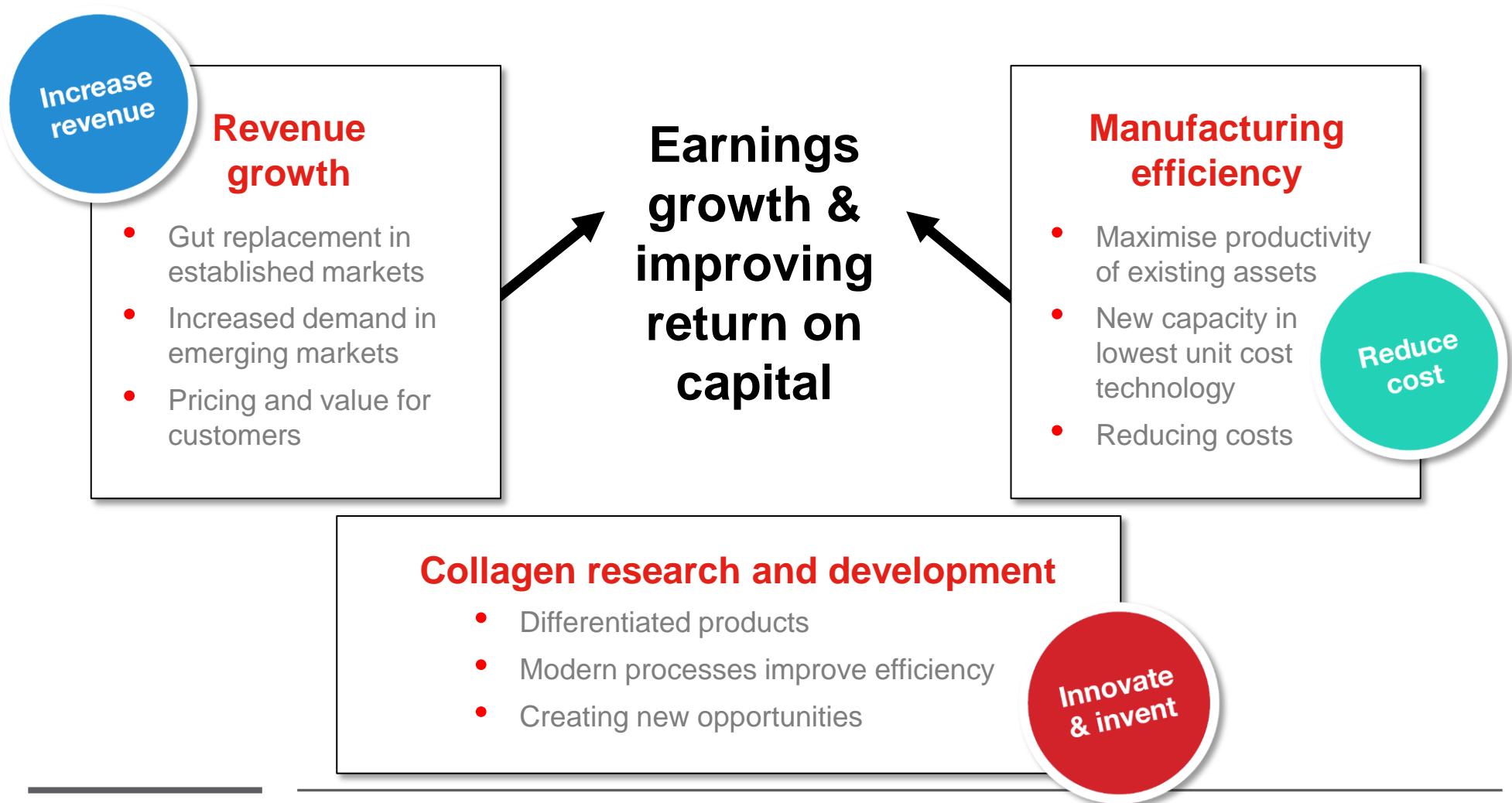


**DEVRO**

## **CAPITAL INVESTMENTS**



# OUR THREE PART STRATEGY



# DEVRO'S RECENT CAPITAL INVESTMENT PROGRAMME

|                |  |  |   |      |      |      |      |      |
|----------------|--|--|---|------|------|------|------|------|
| Czech Republic | <ul style="list-style-type: none"><li>• New hall construction</li><li>• New lines installed</li><li>• Food safety and environmental upgrades</li></ul> | <ul style="list-style-type: none"><li>• Additional lines installed in new hall</li><li>• Closed Korenov – added lines to Jilemnice</li></ul> | <ul style="list-style-type: none"><li>• Replaced old lines for new in older hall to increase capacity and reduce costs</li></ul>                                  |      |      |      |      |      |
|                |  |  | <ul style="list-style-type: none"><li>• New technology development line</li></ul>   |      |      |      |      |      |
|                |  |  | <ul style="list-style-type: none"><li>• Bellshill: New for old replacements added capacity and products</li><li>• Moodiesburn: Continuing line upgrades</li></ul> |      |      |      |      |      |
|                |  |  | <ul style="list-style-type: none"><li>• Upgrades and renewal added capacity for <i>Select</i></li></ul>   |      |      |      |      |      |
| USA            |  | <ul style="list-style-type: none"><li>• Co-extrusion gel capacity and quality</li></ul>  |   |      |      |      |      |      |
| Scotland       |  | <ul style="list-style-type: none"><li>• Moodiesburn: Line upgrades improved yield and speed</li></ul>  |   |      |      |      |      |      |
| Australia      |  |  |   |      |      |      |      |      |
|                | 2006   | 2007   | 2008  | 2009 | 2010 | 2011 | 2012 | 2013 |

# DEVRO'S GLOBAL MANUFACTURING ASSETS



## Sandy Run, South Carolina, USA

- Established 1977, acquired 1996
- Chemical-based process, unique clarity products
- Investments to improve efficiency and unit costs: 2014-2016

## Moodiesburn, Glasgow, Scotland

- Established 1964 J&J/Devro process
- Fresh sausage products
- Investments 2010-2013 improve efficiency and yields

## Bellshill, Glasgow, Scotland

- Established 1976 J&J/Devro process
- Porcine, *Select* and FINE products
- New lines partly-replaced old technology in 2011
- Further investment would continue 'new for old' replacements

## Jilemnice, Czech Republic

- Established 1963. Improved technology from Korenov, *Cutisin* textile process
- Fine and *Select* products
- Investments 2005-2011: construction of new hall, additional capacity, replacement capacity for Korenov for cost savings
- Investments 2011-2013: replace all lines in old hall, additional capacity and cost reduction

## Korenov, Czech Republic

- Established 1930's *Cutisin* textile process
- Precision mechanical engineered process, edible and non-edible casings
- Non-compliant with EU, Food Safety and environmental regulations
- Closed 2009 – cost saving

## Bathurst, New South Wales, Australia

- Established 1979, J&J/Devro process
- Processed and fresh sausage, *Select* products
- Investments 2011-2013: increase output for *Select*, improved efficiency and yields



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# INVESTING IN THE CZECH REPUBLIC

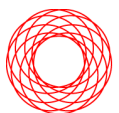


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# JILEMNICE PLANT UPGRADE COMPLETED IN 2013

- Designed in 2009
- Complete modernisation of a manufacturing hall first built in the 1970's
- Planning and implementation from early 2011 to September 2013
- Involved upgrade to entire building infrastructure, phased removal of old lines and replacement with modern lines, whilst maintaining output

# JILEMNICE BEFORE AND AFTER

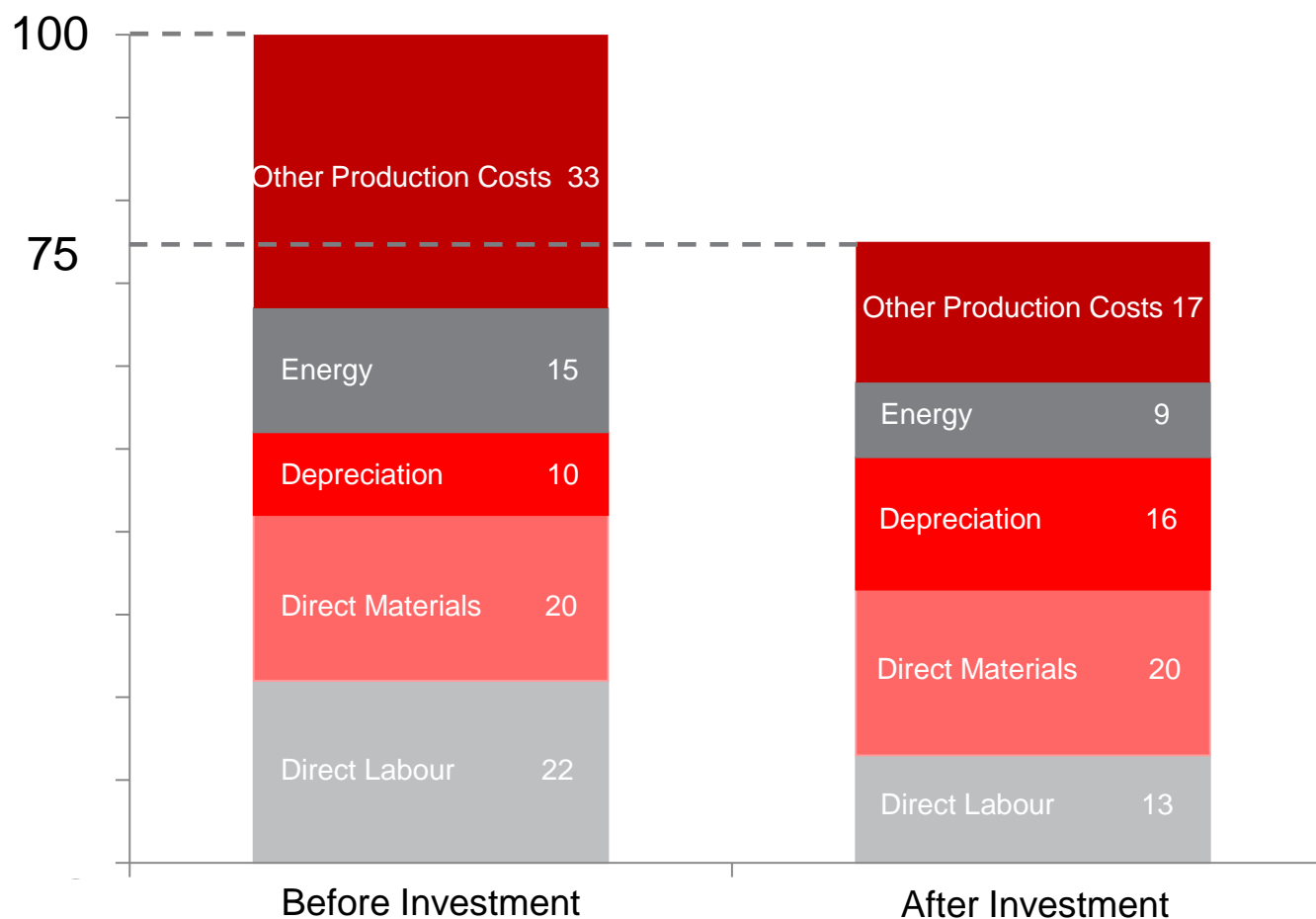


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# FAST PAYBACK FROM JILEMNICE PLANT UPGRADE

- Total project cost £25m
- Added capacity
  - 9% to total group capacity
  - 32% to Czech capacity
- Cost reduction
  - 25% savings on unit cost of production in new hall
- Return on project
  - 26%
- Payback 4 years
- This attractive return was only possible because considerable investments in infrastructure had already been completed: waste water treatment, new boiler, water supply

# JILEMNICE - 25% UNIT COST REDUCTION IN NEW HALL



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## INVESTING IN THE USA



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# AMERICAS PLANT UPGRADE 2014 - 2016

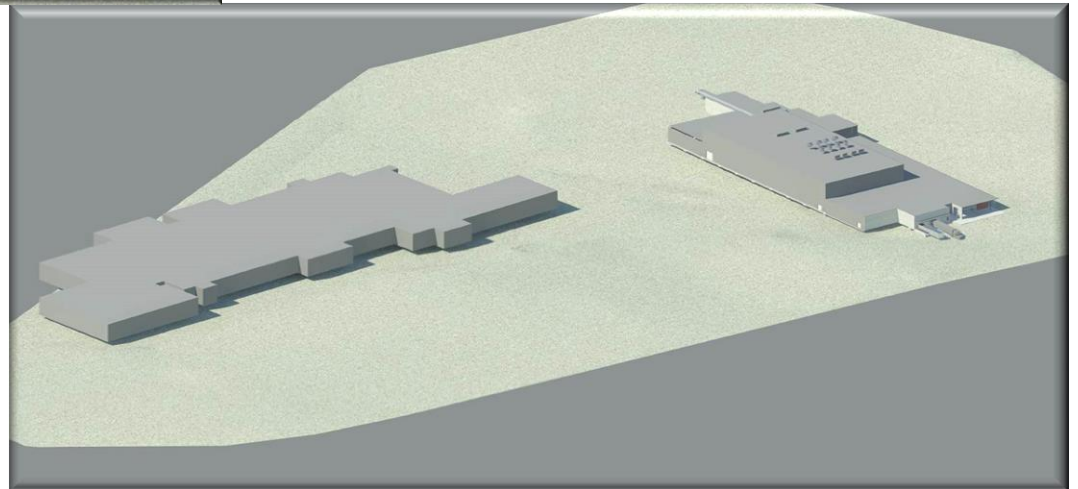
- Existing plant built in 1977, with little modernisation since and no scope for a Czech and UK style line by line replacement – all or nothing
- Complex infrastructure for chemical processes with high overhead costs
- Development line installed in 2011 and trialled throughout 2012 to ensure that the technology is feasible in the South Carolina climate – high temperature and high humidity

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# CREATING THE MARKET LEADING SUPPLIER

- Devro Board has now approved capital expenditure for the full project
- Starting January 2014, with full production from Q1 2016
- Involves construction of new building on existing site, adjacent to current facility, and installation of all new plant & equipment
- New building will have space for further phased expansion in future
- Significantly reduced need for waste treatment and support processes

# AMERICAS PLANT UPGRADE



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# AN AMERICAN PLANT FOR THE US MARKET

- Benefits of having a well-invested plant in the USA market, using local raw materials, benefitting from low gas prices, participating in renewal of USA manufacturing, and in a flexible, low cost, business- friendly state
- To be implemented by a combination of local and group engineering and project management resources
- Enhanced products to meet local requirements

# LOCAL PRODUCTS

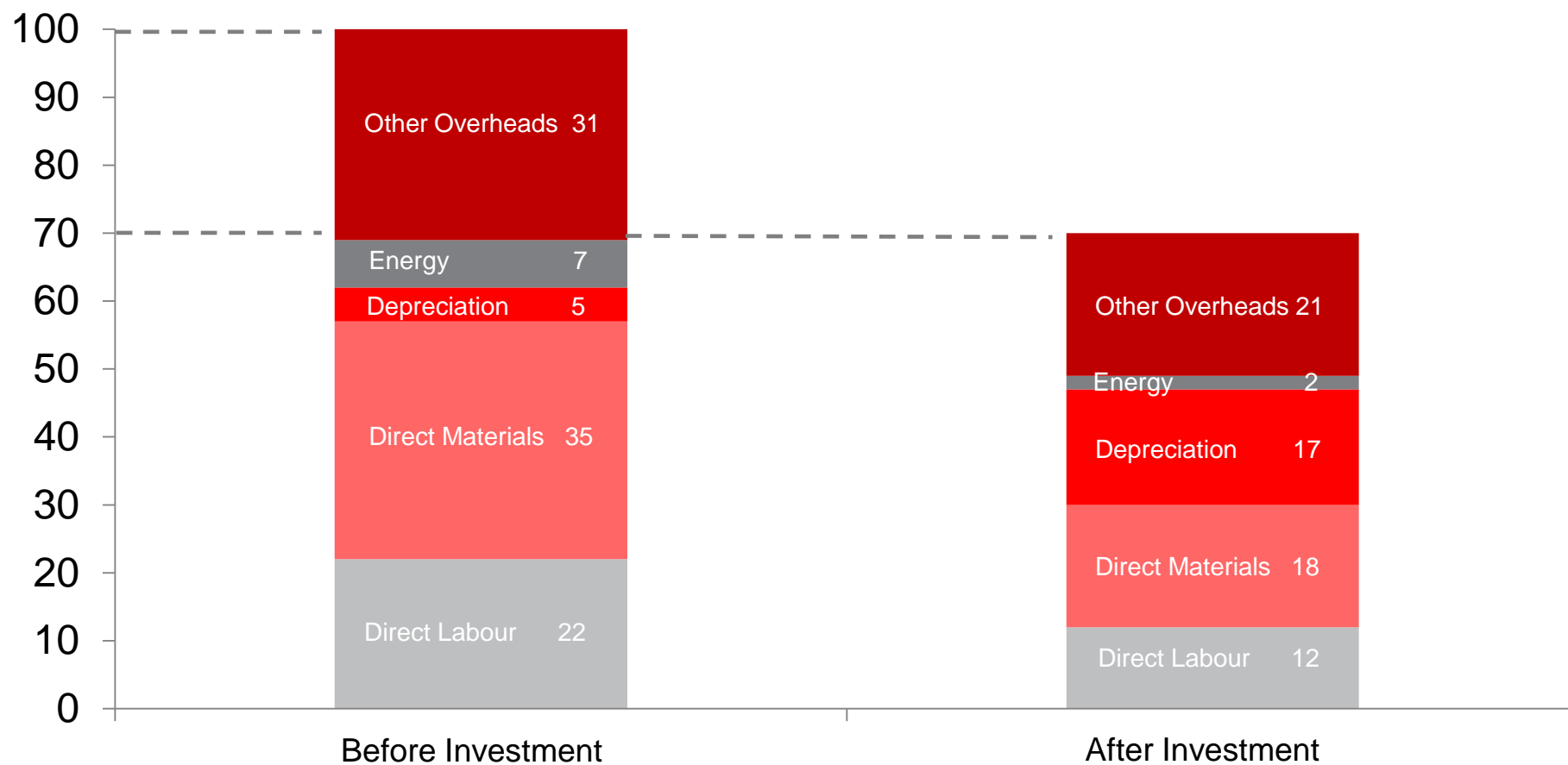


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# REDUCING COSTS FOR THE LONG TERM IN THE USA

- Cost reduction rather than capacity increase
- Part of manufacturing improvement programme
- Option to expand output if required
- Total project expenditure £40m over two years
- Unit cost reduction of manufactured product 30%
- Future cost savings expected to be £8m pa
- Payback 5 years
- Earnings enhancing by 2016
  - 50% of benefits expected in 2016
  - 2017 full benefits

# AMERICAS - 30% UNIT COST REDUCTION



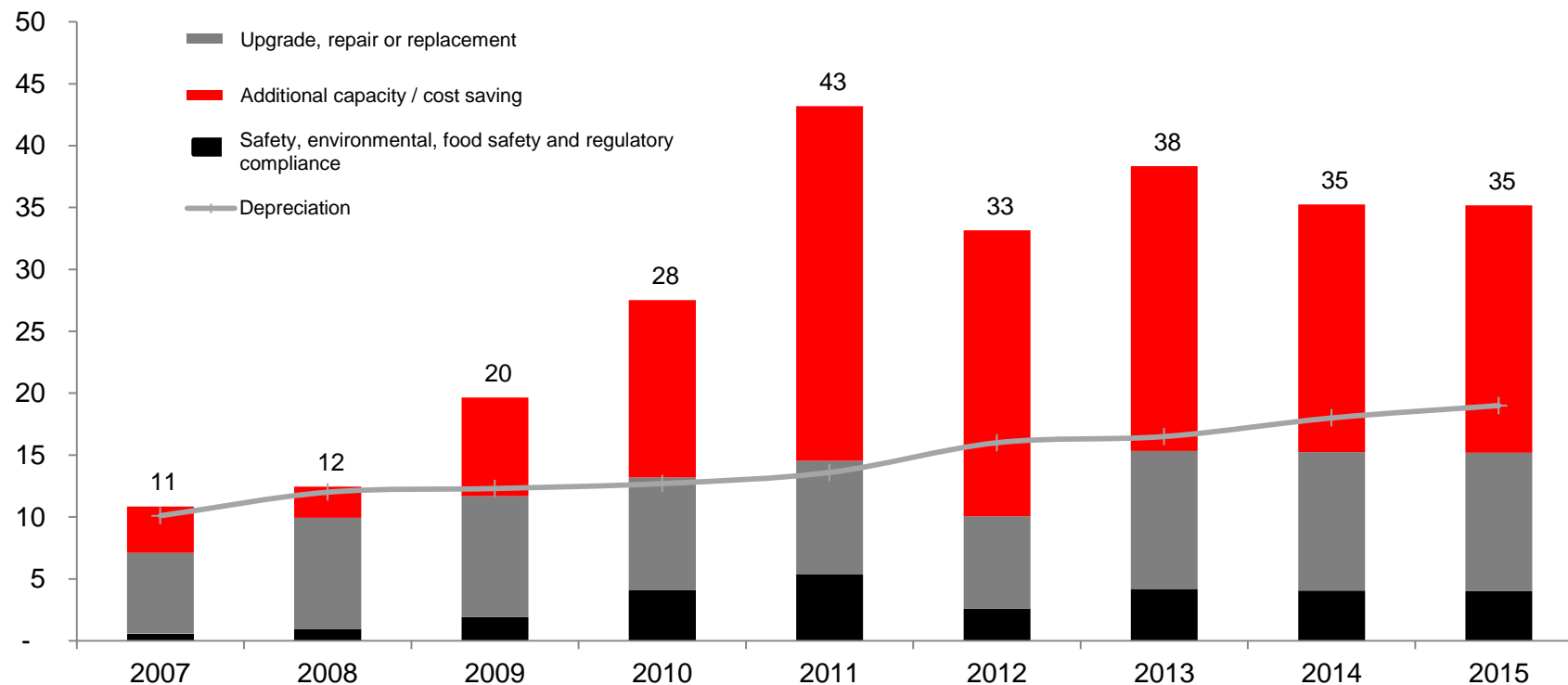
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# FUNDING THE US INVESTMENT PROJECT

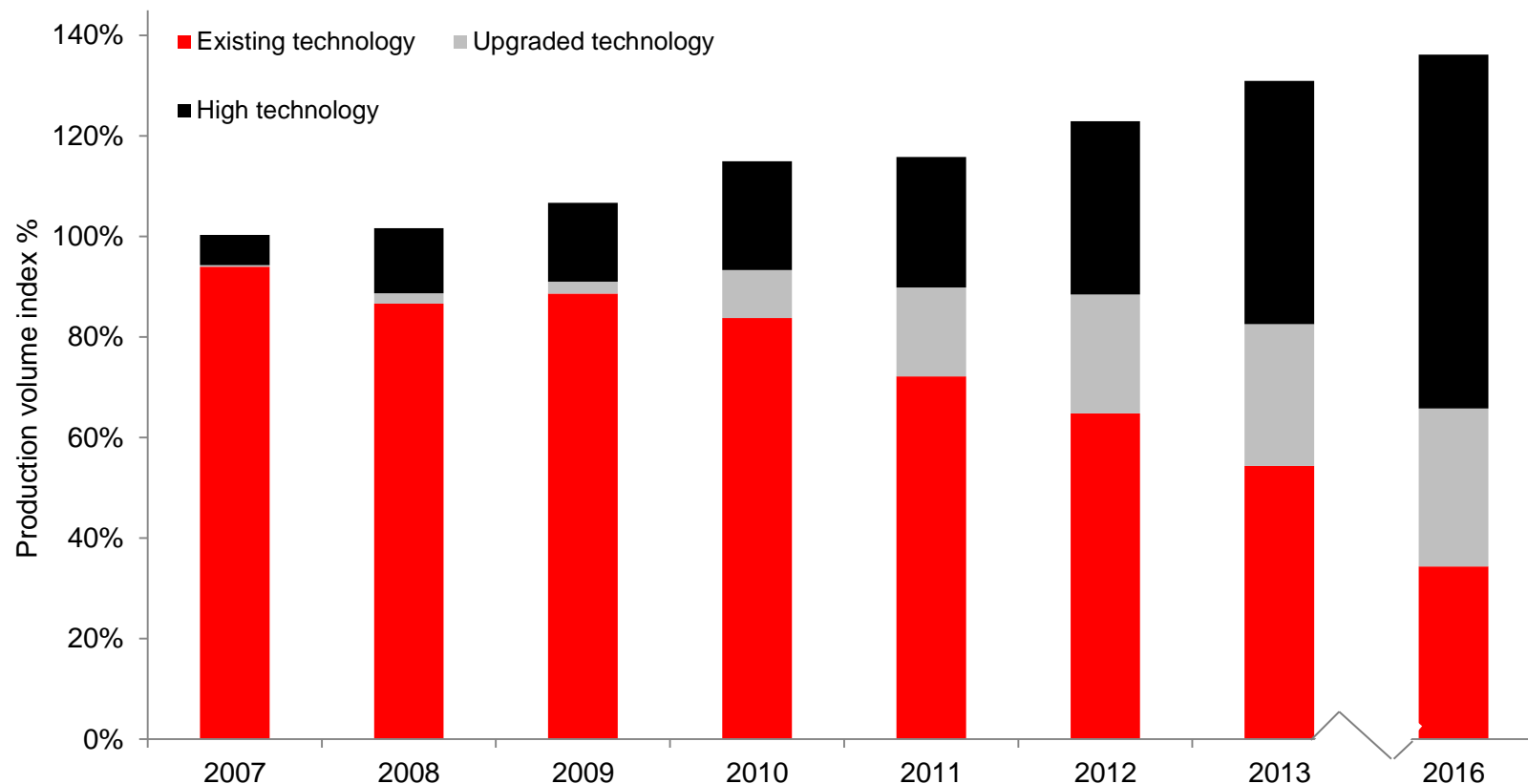
- Business can broadly fund £35m capital expenditure per annum through internally generated funds
- On going maintenance spend approximately £15m pa

# INVESTING TO SUPPLY A GROWING MARKET

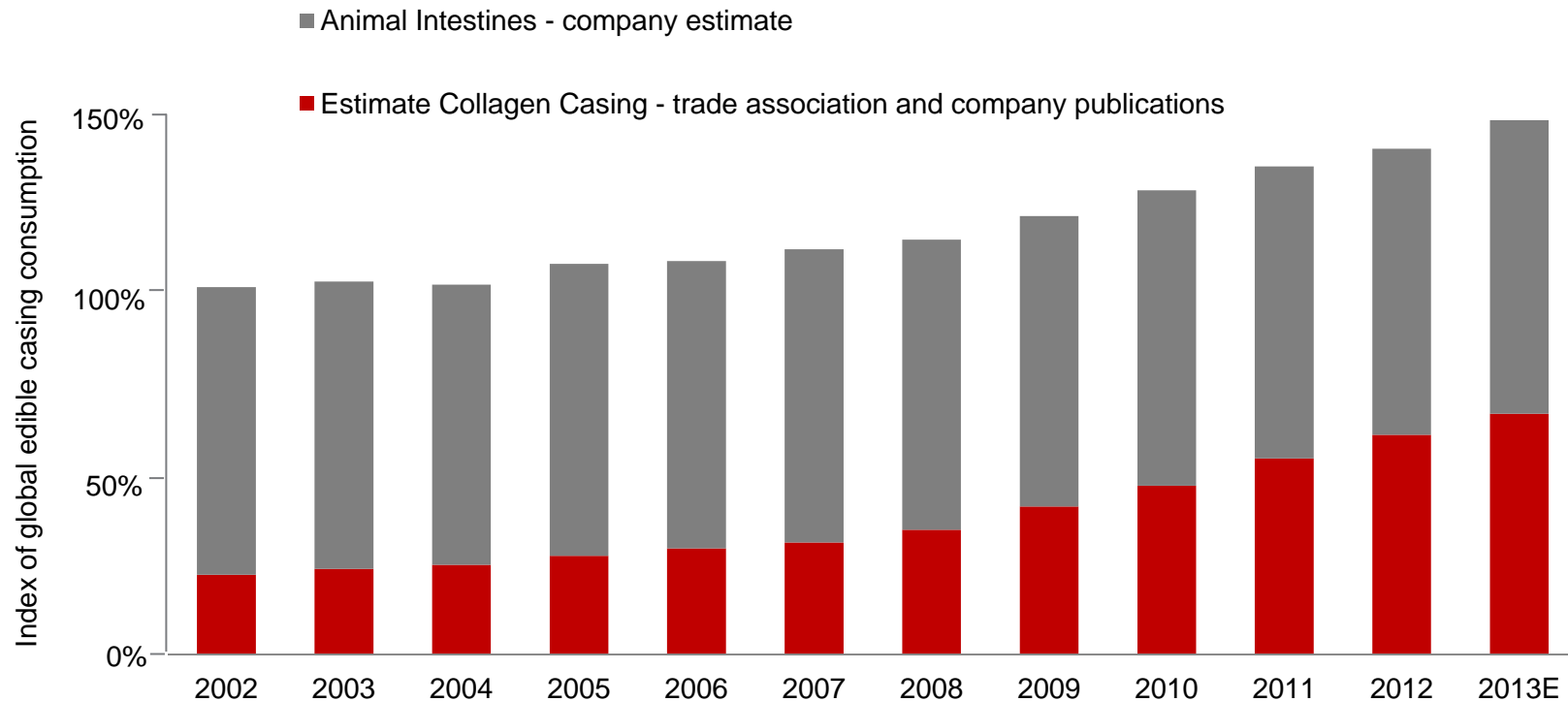
Capital Expenditure £m



# TRANSFORMING DEVRO'S MANUFACTURING ASSETS



# GROWING DEMAND IN A GLOBAL MARKET

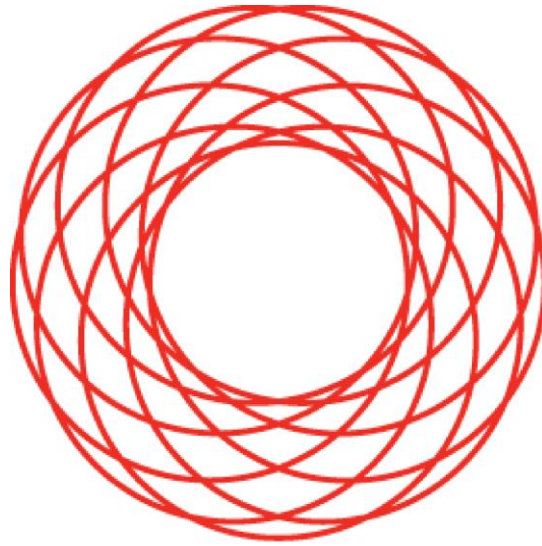


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# INVESTMENTS CREATE CAPACITY AND REDUCE COSTS

- Invested £70m over 3 years in upgrading technology and creating additional capacity
- Generated £8m of manufacturing efficiencies in existing capacity
- Increased total capacity by over 20%
- Demand continues to rise steadily
- US investment gives us the opportunity to reduce cost of manufacturing further

**The best investment we can make is in our own technology**



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## QUESTIONS & ANSWERS

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