July 2013

# DEVRO PLC

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

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# Devro: The collagen casing company

**Global Leader**

- One of the world's leading providers of collagen casings to the food industry
- Provides technical support to food manufacturers

**Global Operations**

- Over 2,200 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**

- Significant investment in the latest processes funded from internal cash generation
- Improved manufacturing performance and increased capacity

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# Devro: 2013 first half highlights

- Edible sales volume growth of 1.0%, revenues up 3.1%
- *Select* volume grew by 4.4%, and revenues now account for 8.5% of group sales
- Operating profit of £17.9m impacted by input cost increases and temporary manufacturing issues in the USA which have now been resolved
- Czech investment roll out ahead of schedule
- A stronger outlook for the second half


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# Simon Webb

GROUP FINANCE DIRECTOR

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# Financial highlights

## For the six months ended 30 June 2013

| | **2013 1st half £m** | 2012 1st half £m (restated) | Increase % |
|---|---|---|---|
| Sales | **118.9** | 115.4 | +3.1% |
| EBITDA | **26.6** | 28.2 | -5.7% |
| Operating profit | **17.9** | 20.5 | -12.8% |
| PBT excluding net finance cost on pensions | **17.3** | 19.9 | -13.1% |
| EPS excluding net finance cost on pensions | **8.7p** | 9.7p | -10.3% |
| Dividend per share | **2.70p** | 2.65p | 1.9% |

2012 results restated for new pension accounting rules (IAS19R)

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# Income statement

## For the six months ended 30 June 2013

| | 2013 1st half £m | 2012 1st half £m (restated) |
|---|---|---|
| Sales | **118.9** | 115.4 |
| Operating profit | **17.9** | 20.5 |
| Operating margin % | **15.0%** | 17.7% |
| Net finance cost | **(0.6)** | (0.6) |
| Net finance cost on pensions | **(1.1)** | (1.0) |
| Profit before taxation | **16.2** | 18.9 |
| Taxation | **(2.6)** | (3.7) |
| Profit after taxation | **13.6** | 15.2 |

2012 results restated for new pension accounting rules (IAS19R)

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# Regional sales by destination

## Six months ended 30 June 2013 (change vs. H1 2012)

| | 2013<br>£m | Volume<br>% | Price/mix<br>% | Exchange<br>% | Total<br>% |
|---|---|---|---|---|---|
| Europe | **2.2** | (3.5) | 6.6 | 1.1 | 4.2 |
| Americas | **2.1** | 4.8 | (0.5) | 3.1 | 7.4 |
| Asia/Pacific | **(0.8)** | 1.2 | (0.3) | (3.4) | (2.5) |

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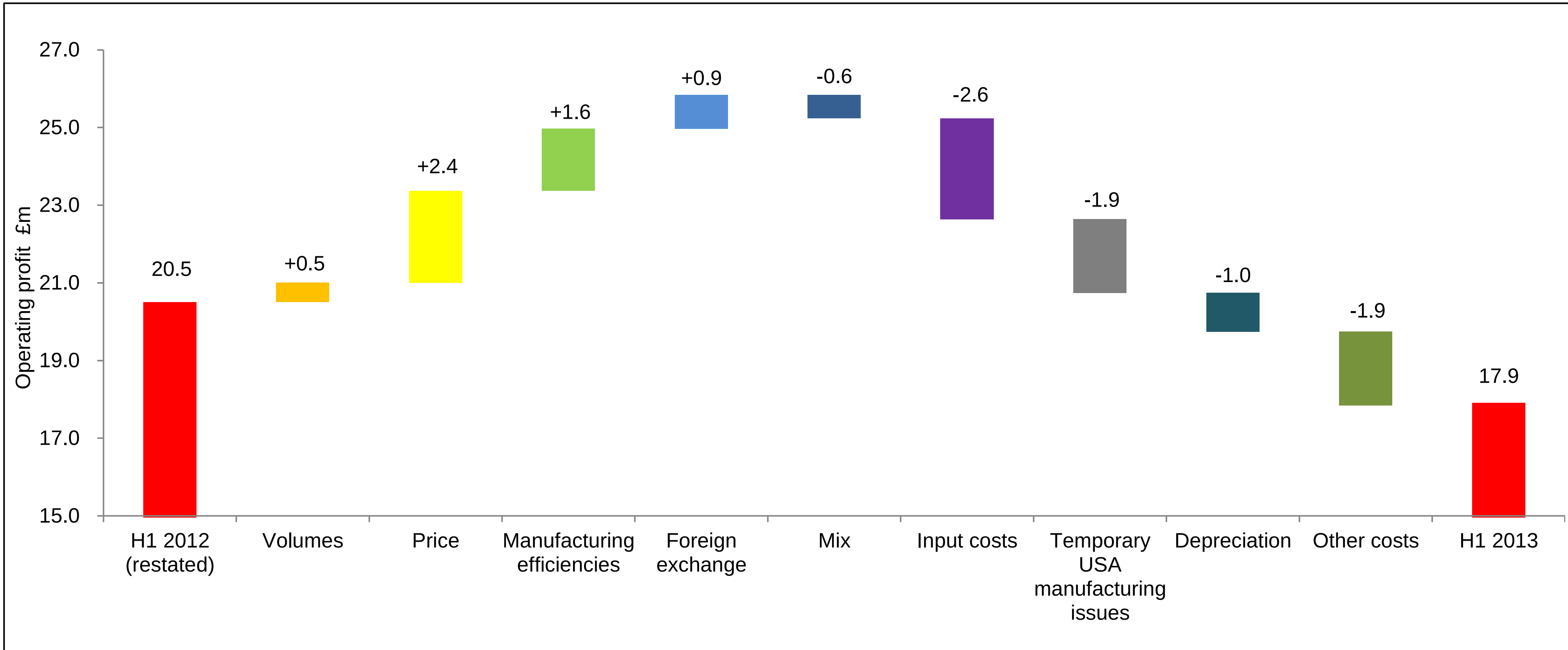
# Operating profit bridge

## Six months ended 30 June 2013 (change vs. H1 2012)

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# Summary cash flow

| | 2013 1st half £m | 2012 1st half £m (restated) |
|---|---|---|
| Operating profit | **17.9** | 20.5 |
| Depreciation | **8.7** | 7.7 |
| Movement in working capital | **(8.5)** | (6.6) |
| Operating cash flow before additional pension contributions | **18.1** | 21.6 |
| Pension contributions to fund deficit | **(2.6)** | (2.4) |
| Capital expenditure | **(19.1)** | (16.2) |
| Interest/tax | **(2.6)** | (2.4) |
| Dividends | **(9.7)** | (9.1) |
| Other | **1.1** | (0.2) |
| Movement in net debt | **(14.8)** | (8.7) |
| Net debt | **(40.9)** | (31.4) |

2012 results restated for new pension accounting rules (IAS19R)

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# Pensions

**Group defined benefit pension schemes**

| | **June 2013 £m** | Dec 2012 £m | June 2012 £m |
|---|---|---|---|
| Net pension deficit | **47.4** | 59.3 | 51.5 |

- Discount rates have risen during 2013
- Continue to fund the pension deficit by £5m per year

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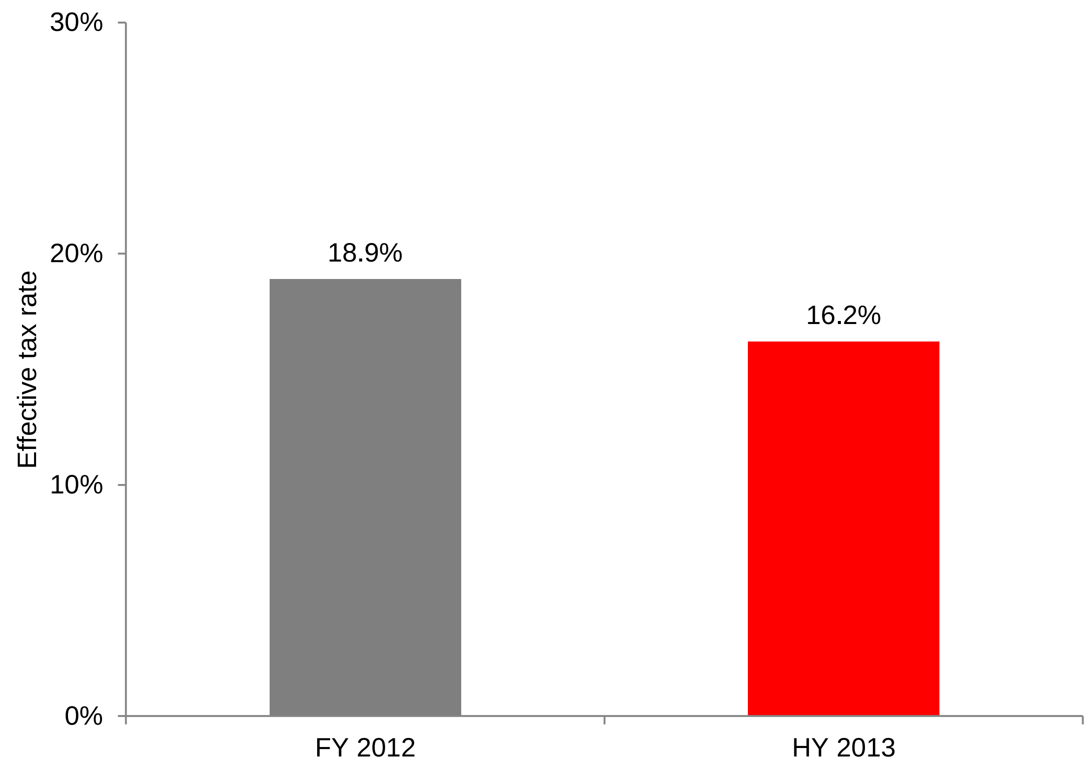
# Tax rate




- Investment allowances to continue in Czech Republic until 2017

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# Key performance indicators

| | **2013 1st half** | 2012 1st half (restated) |
|---|---|---|
| Sales | **£118.9m** | £115.4m |
| EBITDA | **£26.6m** | £28.2m |
| EPS excluding net finance cost on pensions | **8.7p** | 9.7p |
| ROCE | **16.8%** | 20.2% |
| Interim dividend per share | **2.70p** | 2.65p |

2012 results restated for new pension accounting rules (IAS19R)

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# A stronger second half

- Sales expected to grow more strongly
- Manufacturing performance running well at all sites
- Czech Republic additional output is due to come on stream in August
- Hide costs are stabilising

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# Peter Page

CHIEF EXECUTIVE OFFICER

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# Our three part strategy

Increase revenue

## Revenue growth

- Gut replacement in established markets
- Increased demand in emerging markets
- Pricing and value for customers

## Earnings growth & improving return on capital

## Manufacturing efficiency

- Maximise productivity of existing assets
- New capacity in lowest unit cost technology
- Reducing costs

Reduce cost

## Collagen research and development

- Differentiated products
- Modern processes improve efficiency
- Creating new opportunities

Innovate & invent

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# Sales

- Total revenues + 3.1%
- Volumes of edible collagen + 1.0%
- *Select* now 8.5% of total sales revenues and continuing to grow
- Pricing up by +2%

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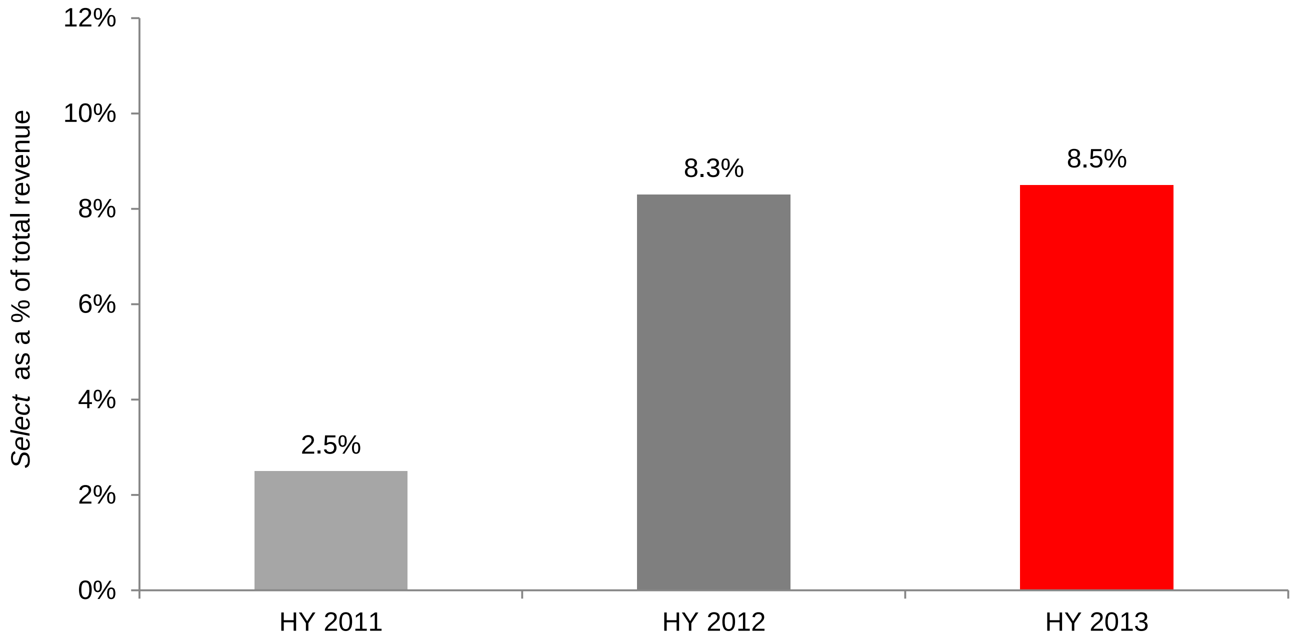
# *Select* casings progressing well




- *Select* is designed to displace high quality sheep gut, so all sales expand the total market for collagen
- Close to 3.4 billion sausages have been manufactured in *Select* casing since its introduction in May 2010

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# *Select* products



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# Developed markets: edible collagen

## USA & Canada

- Volume -1%
- Revenue (LC) +0%
- Growth in beefstick sector
- Increased demand for collagen gel

## UK

- Volume -7%
- Revenue (LC) -2%
- Period of market restructuring
- Price increases balance volumes

## Western Europe

- Volume -4%
- Revenue (LC) +3%
- Select volumes growing
- Price increases recovering higher input costs

## Japan

- Volume +4%
- Revenue (LC) +4%
- Growth in both Select and snack casings

## Australia & New Zealand

- Volume -10%
- Revenue (LC) -10%
- Challenging trading conditions for customers

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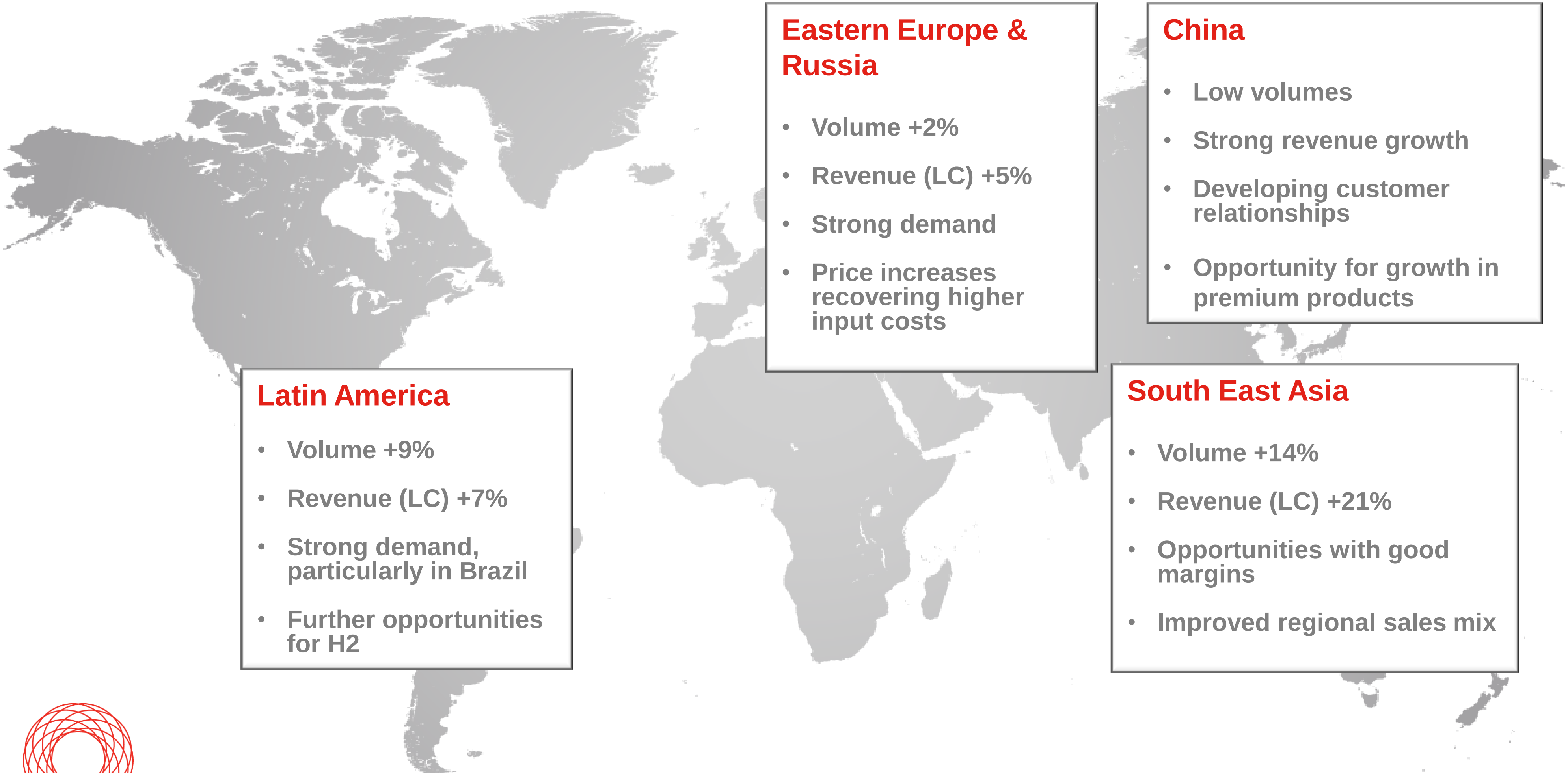
# Emerging markets: edible collagen



### Eastern Europe & Russia

- Volume +2%
- Revenue (LC) +5%
- Strong demand
- Price increases recovering higher input costs

### China

- Low volumes
- Strong revenue growth
- Developing customer relationships
- Opportunity for growth in premium products

### Latin America

- Volume +9%
- Revenue (LC) +7%
- Strong demand, particularly in Brazil
- Further opportunities for H2

### South East Asia

- Volume +14%
- Revenue (LC) +21%
- Opportunities with good margins
- Improved regional sales mix

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# Capital investments

**Three year capacity expansion programme will be completed in 2013**

- 20% additional capacity (2010-2014)
- Multimillion investments over 3 years
- Final phase with additional capacity in Czech Republic completing in second half of 2013

**Embarking on new programme to reduce manufacturing cost per unit**

- Evaluation of investment options for USA plant progressing well
- Design and feasibility assessments underway for manufacturing operation in China

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# Outlook

| Opportunities | Challenges |
|---|---|
| • Strong demand for collagen casings in emerging markets | • Subdued demand in Australia and UK |
| • Additional capacity coming on stream in Czech Republic | • Recent input cost increases |
| • Price and product mix strengthening | • Investment costs of people and infrastructure ahead of future developments |
| • *Select* volume growth in developed markets | |

## Well positioned for the future

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