
February 2013

DEVRO PLC

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012



DEVRO

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

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



Devro: 2012 highlights

- Strong sales growth, revenues up 5.9% (constant currency up 8.1%)
- Operating profit up 1.3%, despite higher input costs (constant currency up 5.2%)
- Increasing demand for *Select* which now accounts for 8.4% of group sales
- Investment programme progressing – an additional 7.1% output
- New senior management appointments
- Recommended dividend up for the full year by 6.3%



Simon Webb

GROUP FINANCE DIRECTOR

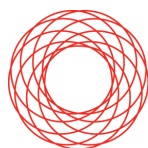


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Financial highlights

FOR THE YEAR ENDED 31 DECEMBER 2012

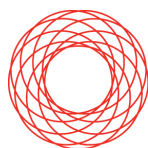
Continuing operations	2012 £m	2011 £m	Increase %
Revenue	241.1	227.7	+ 5.9%
EBITDA	59.1	56.5	+ 4.7%
Operating profit (EBIT)	43.2	42.7	+ 1.3%
Earnings per share excluding net finance (cost)/income on pension	20.7p	20.2p	+ 2.2%
Cash generated from operations	48.1	45.1	+ 6.7%
Dividend	8.5p	8.0p	+ 6.3%



Income statement

FOR THE YEAR ENDED 31 DECEMBER 2012

Continuing operations	2012 £m	2011 £m	Increase %
Revenue	241.1	227.7	+ 5.9%
Operating profit	43.2	42.7	+ 1.3%
Operating margin	17.9%	18.7%	
Net finance costs	(1.0)	(0.9)	
Net finance (cost)/income on pension assets/liabilities	(1.4)	1.2	
Profit before tax	40.8	43.0	
Tax	(7.7)	(8.8)	
Profit after tax	33.1	34.2	



Summary results

EXCLUDING IMPACT OF EXCHANGE RATES

Continuing operations – constant currency	2012 £m	2011 £m	Increase %
Revenue	246.2	227.7	+8.1%
Operating profit	44.9	42.7	+5.2%
Operating margin	18.2%	18.7%	

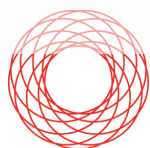
Exchange rates vs Sterling	Average 2012	Current* 2013
Czech Koruna	31.0	29.3
Euro	1.23	1.15
Japanese Yen	128.0	141.4
Australian Dollar	1.54	1.47
US Dollar	1.59	1.51



Regional sales by destination 2012

CHANGE vs 2011

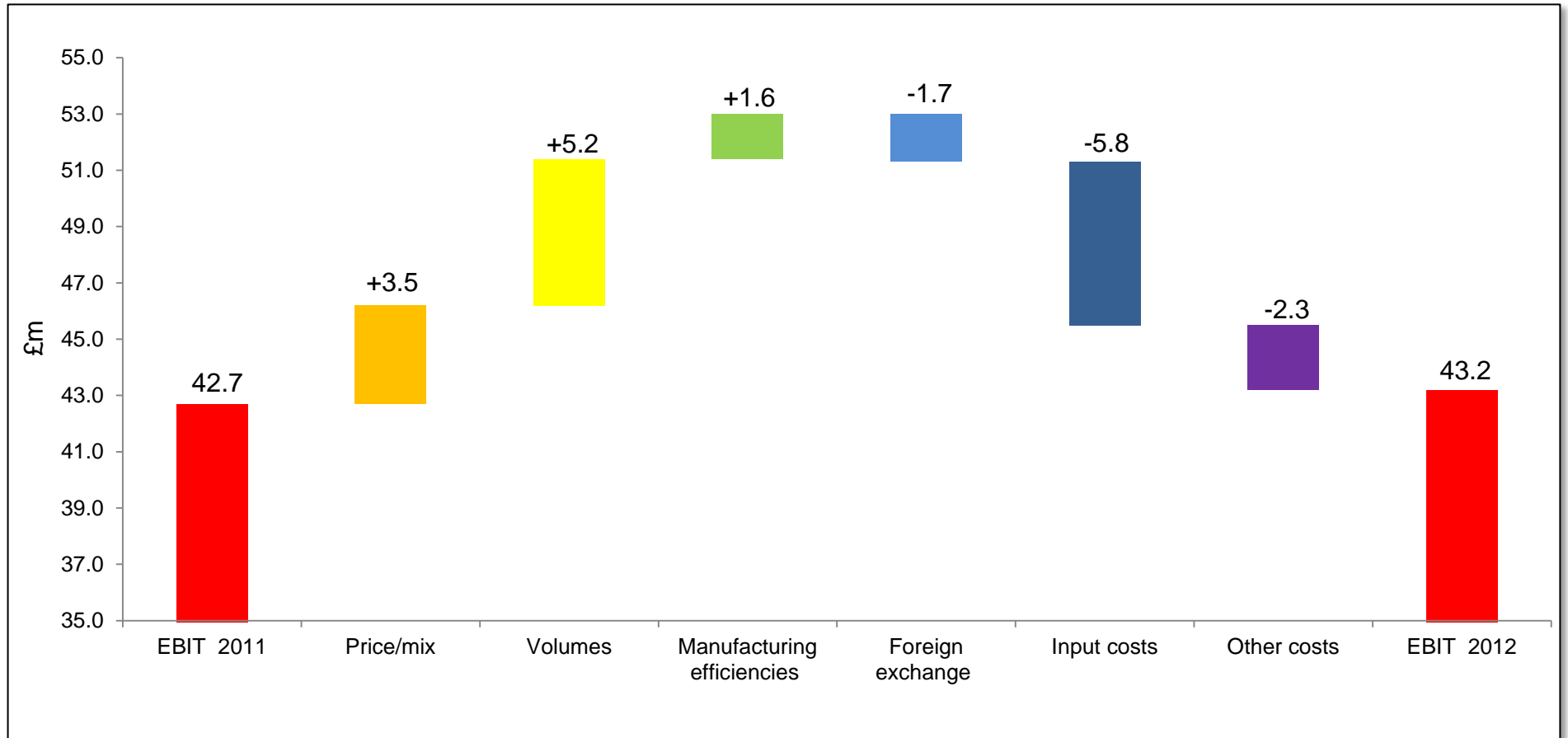
	2012 £'m	Volume %	Price/mix %	Exchange %	Total %
Europe	(3.5)	(0.8)	2.7	(4.9)	(3.0)
Americas	8.5	15.1	1.2	0.8	17.1
Asia/Pacific	8.3	12.1	1.2	0.3	13.6



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EBIT bridge

DECEMBER 2011 EBIT TO DECEMBER 2012 EBIT



Summary cash flow

Continuing operations	2012 £m	2011 £m
Operating profit	43.2	42.7
Depreciation	16.0	13.9
Movement in working capital	(6.1)	(6.9)
Operating cash flow before additional pension contributions	53.1	49.7
Pension contributions to fund deficit	(5.0)	(4.6)
Capital expenditure	(34.5)	(38.7)
Interest/tax	(5.3)	(6.5)
Dividends	(13.4)	(12.2)
Other	1.7	1.8
Movement in net debt	(3.4)	(10.5)



Debt

	2012	2011
Net debt	£26.1m	£22.7m
Gearing	17.8%	16.2%

- Debt levels continue to be low and well within the current revolving facility of £51m



Pensions

GROUP DEFINED BENEFIT PENSION SCHEMES

	2012	2011
	£m	£m
Net pension deficit	59.3	46.2

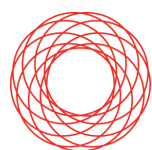
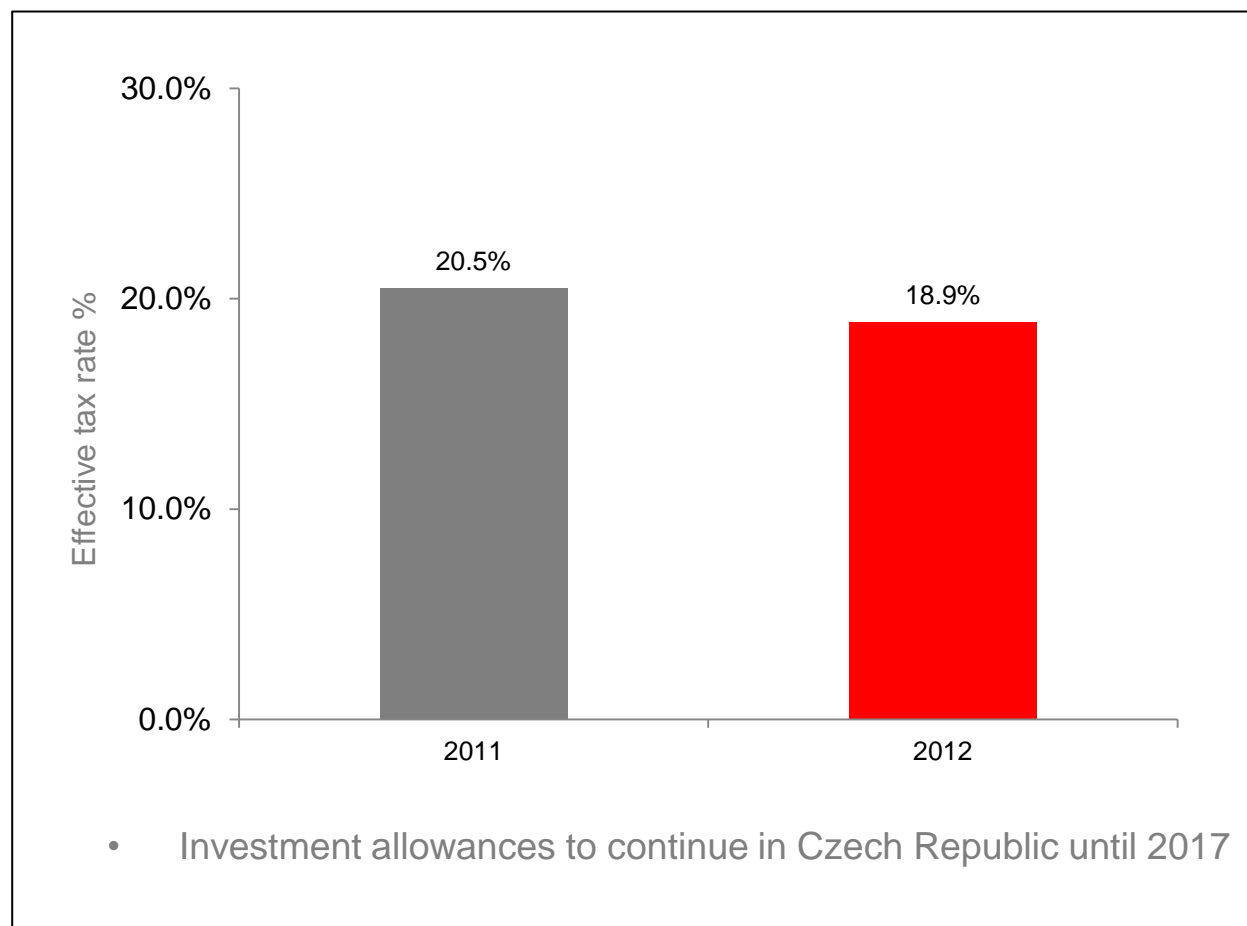
- Net deficit primarily relates to schemes in the UK and US where discount rates continue to fall

	2012	2011
	£m	£m
Net pension interest (cost)/income	(1.4)	1.2

- Not the cash or economic cost to the business



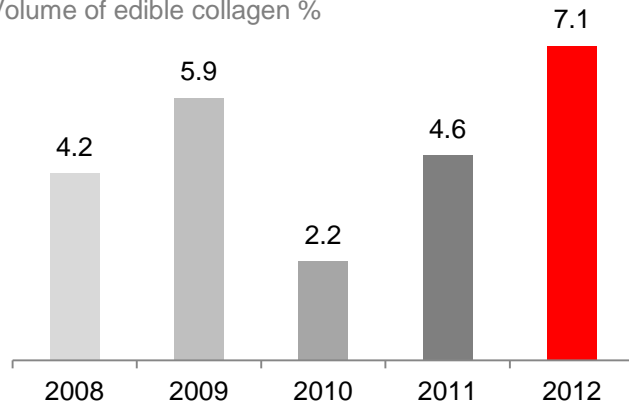
Effective tax rate



Key performance indicators

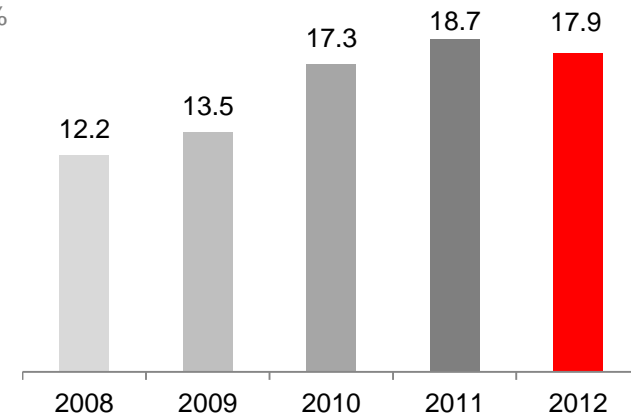
Sales growth

Volume of edible collagen %



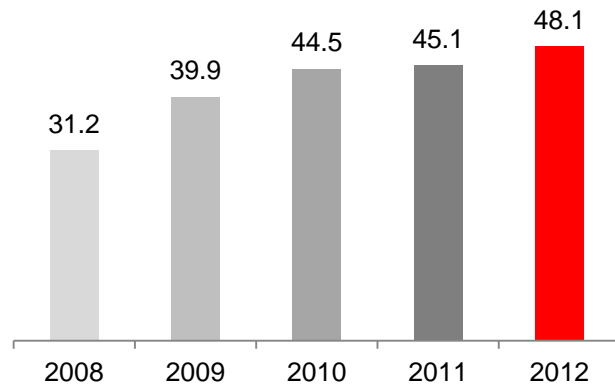
Operating profit margin*

%



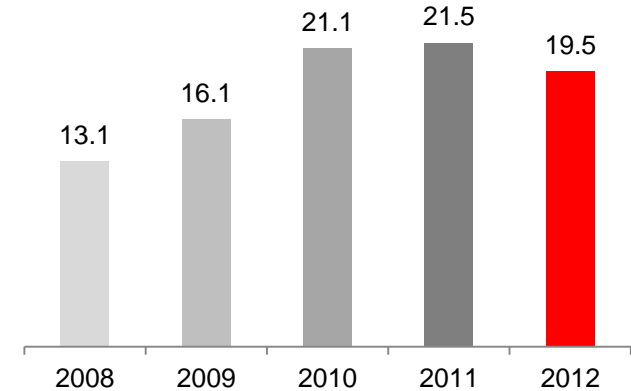
Operating cash flow*

Cash generated from operations £m



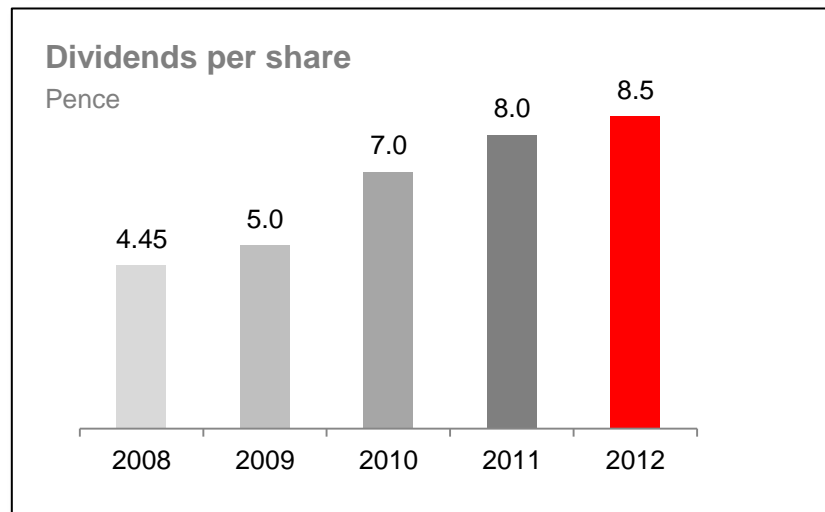
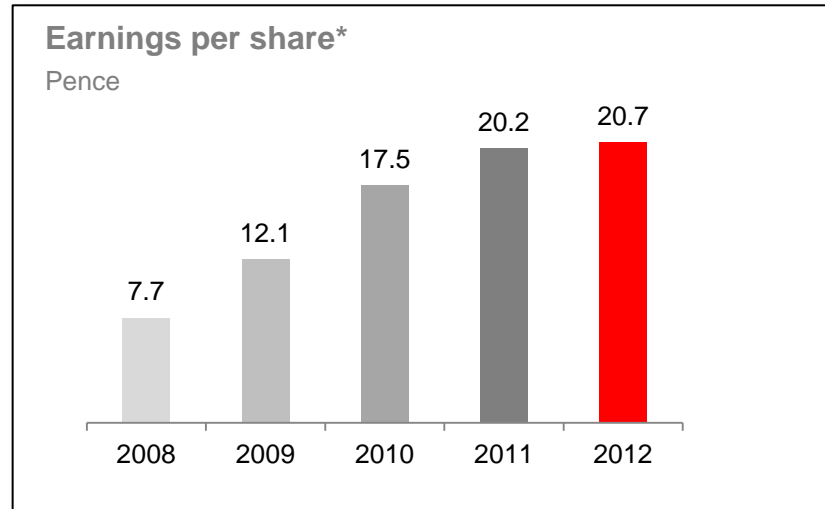
Return on capital employed*

Operating profit/average capital employed %



*All figures relate to continuing operations and are stated before exceptional items and excluding pension interest

Key performance indicators



*All figures relate to continuing operations and are stated before exceptional items and excluding pension interest

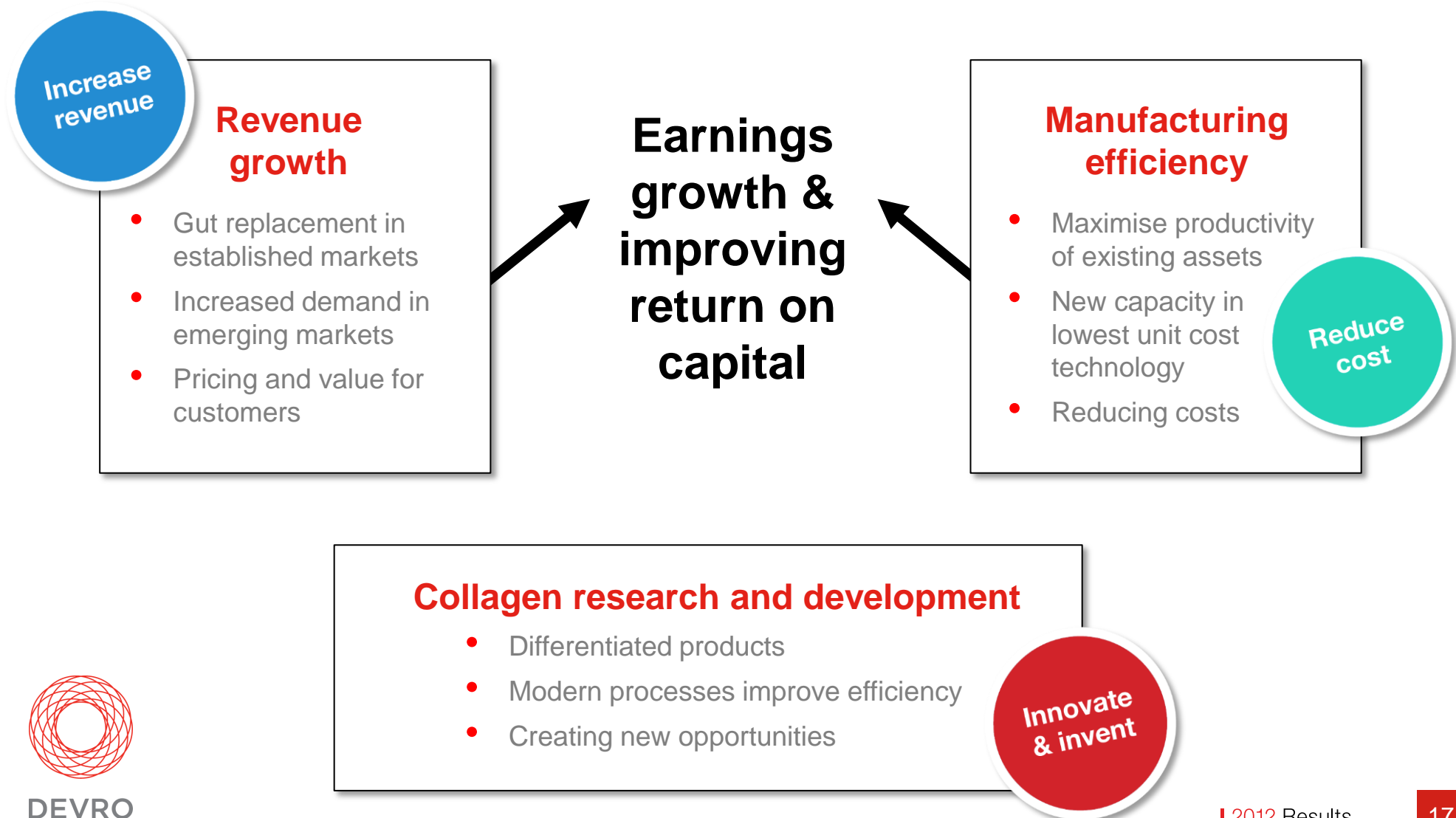
Peter Page

CHIEF EXECUTIVE OFFICER



DEVRO

Our three-part strategy

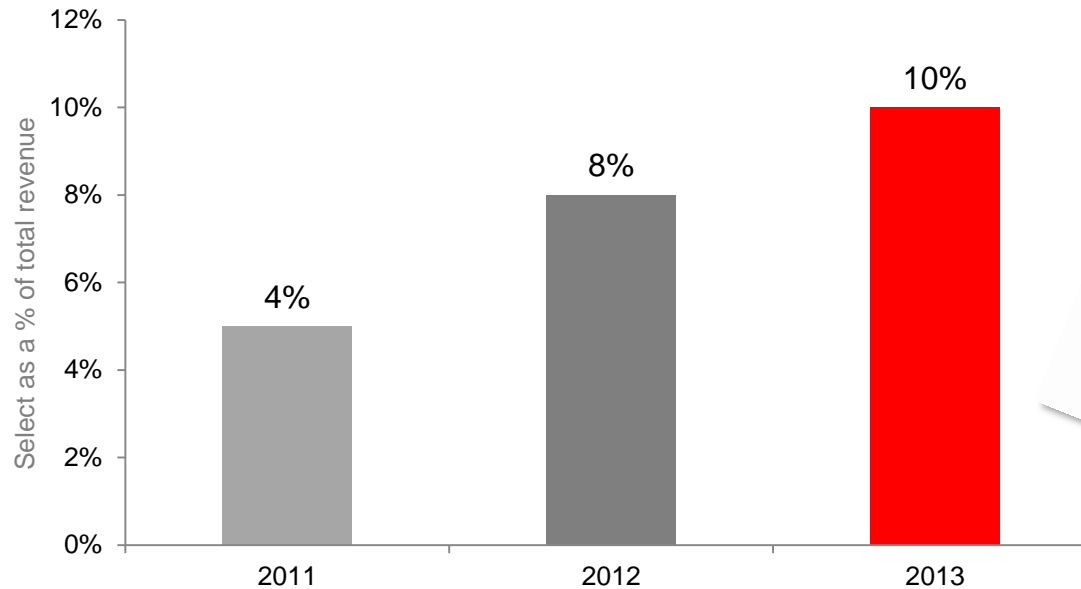


Revenue growth achieved

- Total revenues increased 5.9% (constant currency up 8.1%)
- Edible collagen sales volumes 7.1% higher
- Edible collagen revenue 8.0% higher
- *Select* now 8.4% of all revenues
- Revenue in Japan increased 46%
- Revenue in Germany increased 30%
- Average sales price per kilometre increased 2.8% (constant currency)
- Edible collagen casings account for over 87% of all sales revenue



Select casings continue to increase share of sales



- *Select* replicates the characteristics of top quality sheep gut, so all sales expand the total market for collagen
- Four sausage products made in *Select* casing achieved DLG Gold Medal Status (Deutsche Landwirtschafts-Gesellschaft)
- Close to 3 billion sausages have been manufactured in *Select* casing since its introduction in May 2010



Developed markets – volume growth from market leading casings

USA & Canada

- Volume +13%
- Revenue (LC) +13%
- Growth in beefstick sector
- Broader demand for collagen gel

UK

- Volume -8%
- Revenue (LC) -7%
- Period of market restructuring
- Lower margins

Western Europe

- Volume +13%
- Revenue (LC) +15%
- *Select* volumes growing
- Decline in non-edible collagen

Japan

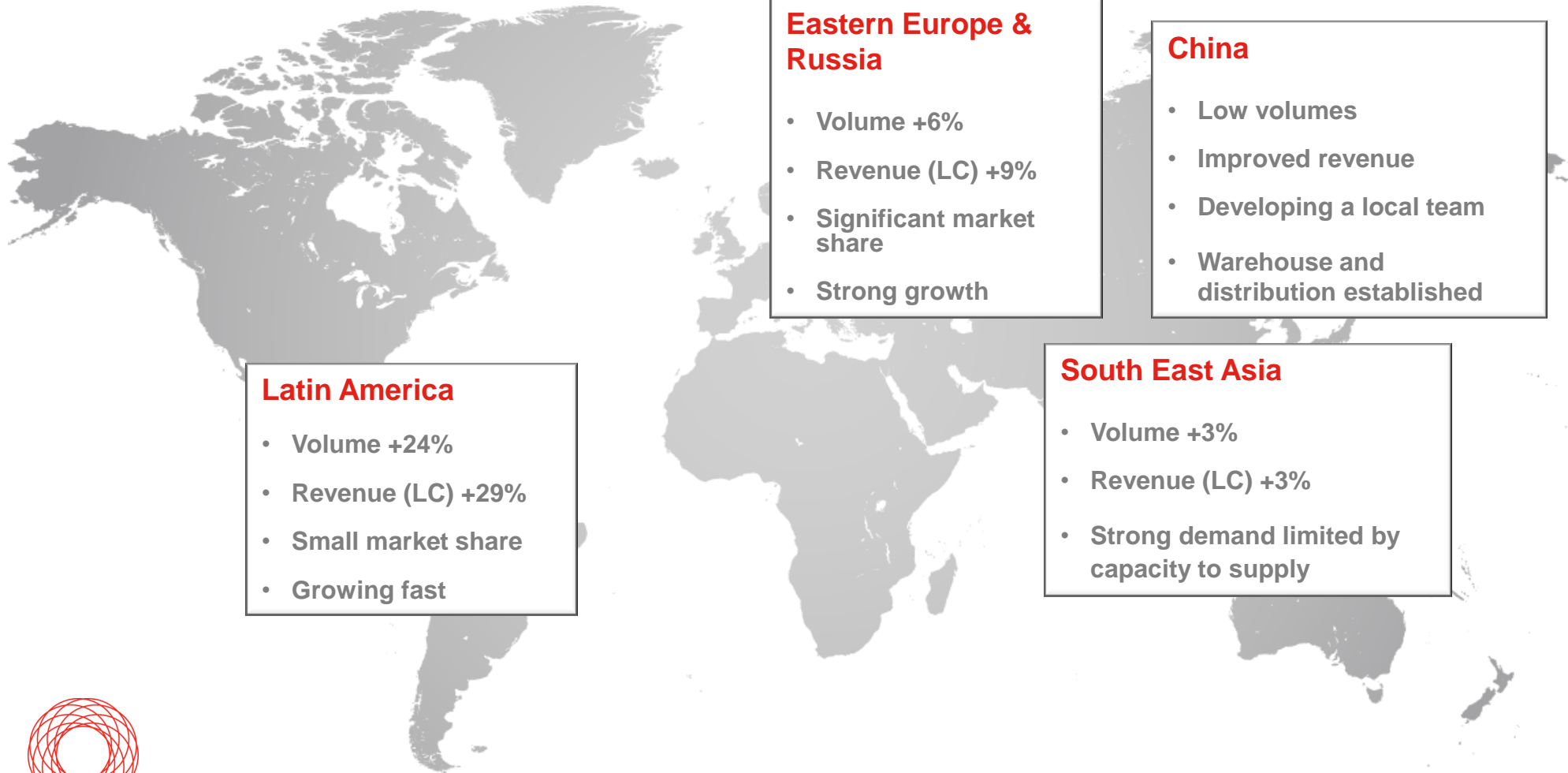
- Volume +47%
- Revenue (LC) +49%
- *Select* and snack stick casings

Australia & New Zealand

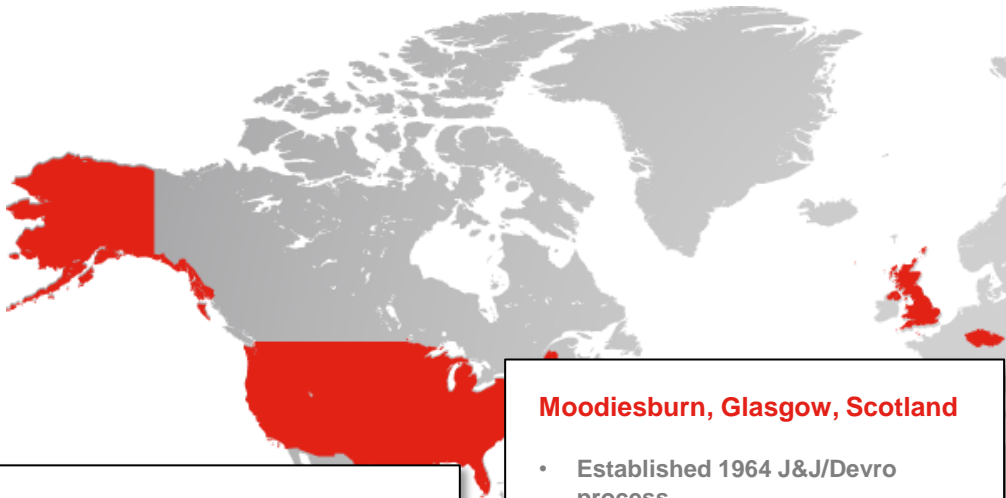
- Volume +0%
- Revenue (LC) +1%
- High market share in market with high collagen share



Emerging markets – volume growth through distributors



Capital investment – creating capacity and controlling costs



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

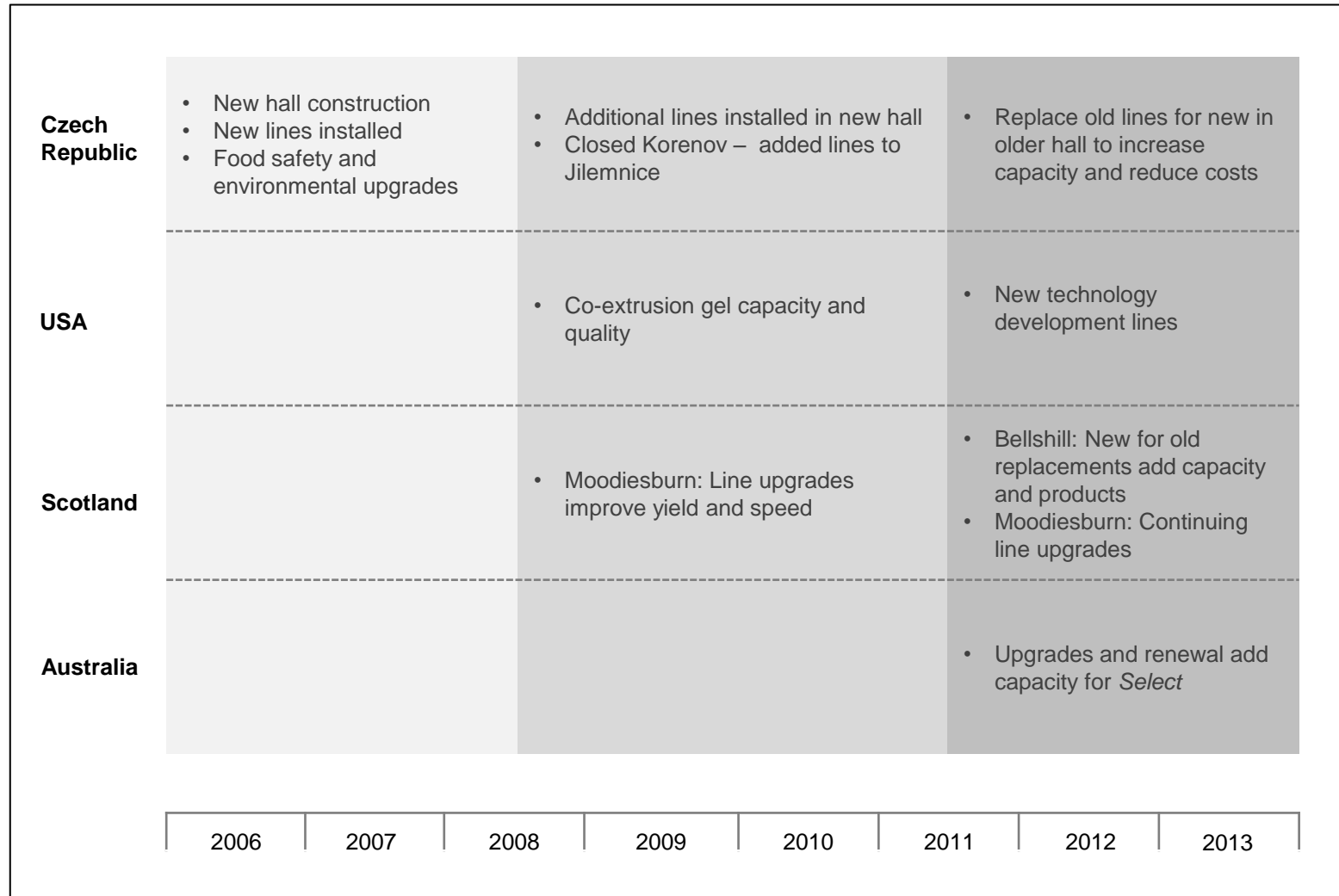
- Established 1930's *Cutisin* textile process
- Precision mechanical engineered process, edible and non-edible casings
- Non-compliant with EU, Food Safety and environmental regulations
- Closed 2009 – cost saving

Bathurst, New South Wales, Australia

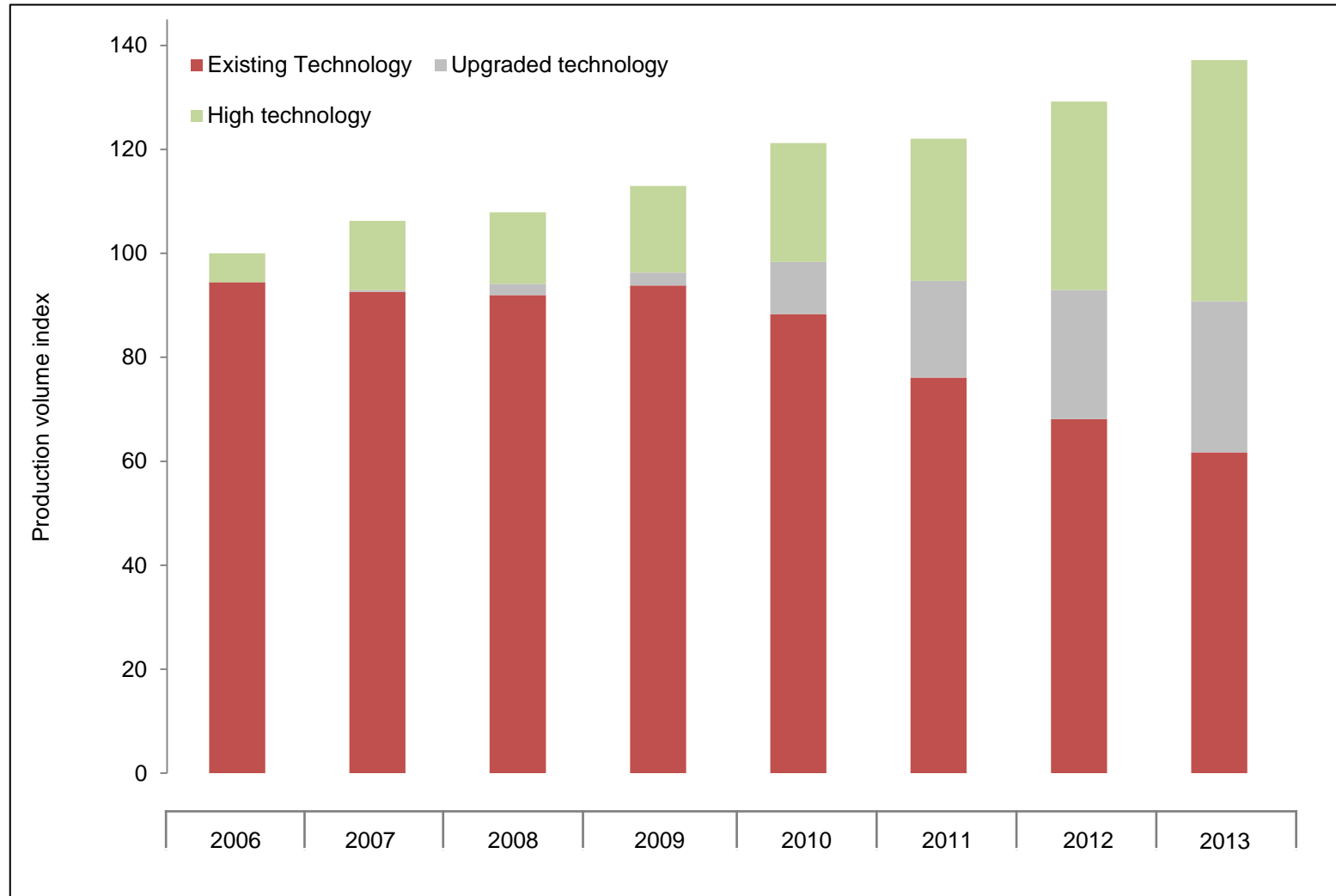
- Established 1979, J&J/Devro process
- Processed and fresh sausage, *Select* products
- Investments 2011-2013: increase output for *Select*, improved efficiency and yields



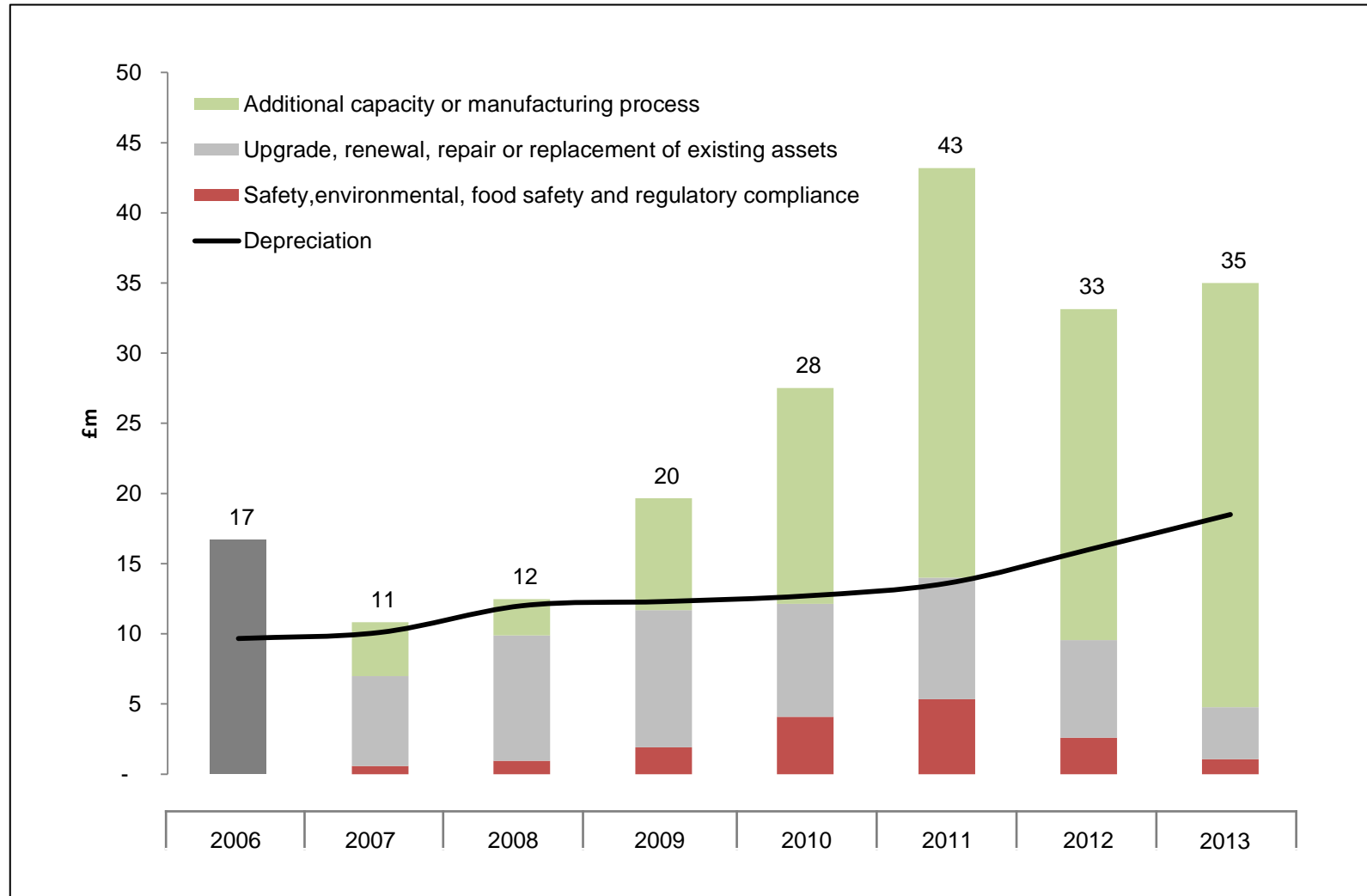
Capital investment - creating capacity and controlling costs



Capital investment - creating capacity and controlling costs



Capital investment - creating capacity and controlling costs



Market situation

- Global consumption of protein and processed meats continues long-term growth trend
- Demand for collagen casings increased by over 10% in 2012: 60% of growth came from China, 40% of growth from other markets
- Hide raw material costs have risen: fewer hides available and strong demand from China for gelatine manufacture
- Customers' input costs under pressure due to corn and soya price increases
- Availability of Grade A quality sheep gut has stabilised at levels lower than previously, but not declining



2013 outlook

Opportunities

- Strong demand for collagen casings
- Additional capacity coming on stream at three sites
- Price and product mix
- *Select* volume growth

Challenges

- Input costs
- Maintaining operations during capital investment period
- Increasing costs as we invest in people and infrastructure ahead of future developments

Well positioned for the future



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