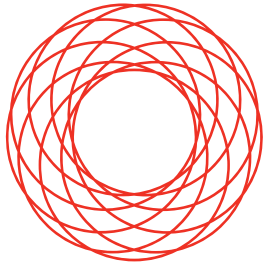


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26 FEBRUARY 2019

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# FULL YEAR RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2018

**DEVRO**

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SIGNIFICANT PROGRESS ON STRATEGIC  
PRIORITIES AND IMPROVED PROFIT MARGIN

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# 2018 HIGHLIGHTS

- **Continued progress on operational and strategic priorities**

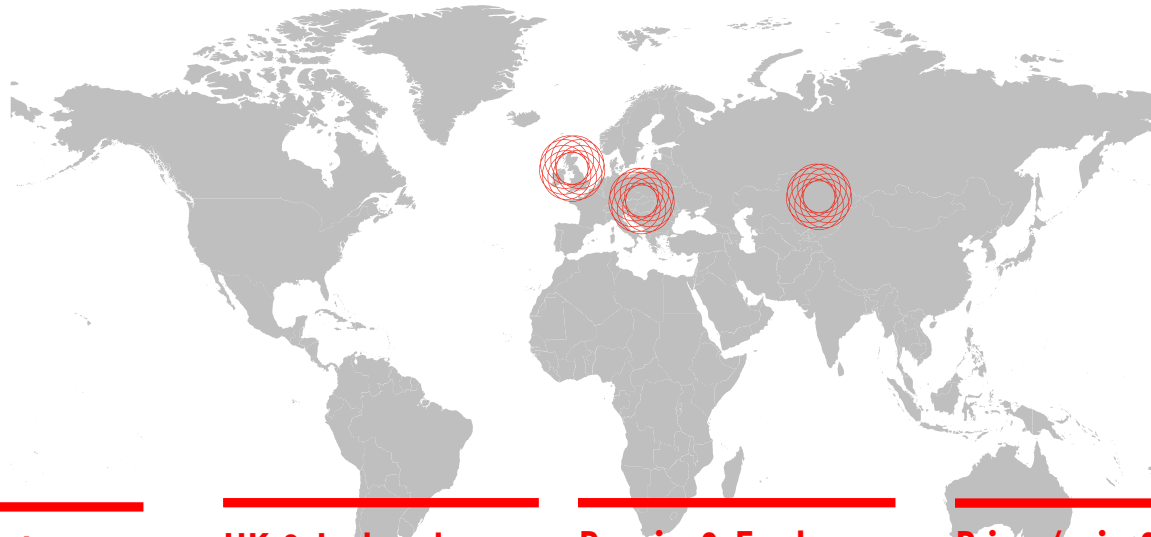
- Operational improvements across all manufacturing sites
- Substantially increased yields in the US
- Over-delivered Devro 100 savings £4.5m
- Launched Fine Ultra product platform in Japan, South East Asia and Europe – platform for growth
- China: updated commercial strategy and improved customer mix with ASP\* up 16%
- 3Cs strategy defined and being implemented: new operating model and now fully integrated global organisation

- **Constant currency revenue flat with improved profit margin**

- Edible casings group volumes flat due to market issues in Russia and Japan – excluding Russia and Japan 3% growth
- Growth in edible casings aligned with segmentation – revenue up 2% at constant currency due to country mix and in China customer mix
- Overall revenue in constant currencies flat with increases in edible casings offset by other products
- EBIT before exceptional and non-recurring items up 5% and margin up 100bps to 15.8%

\* ASP – Average Selling Price

# EUROPE



## Continental EU

- 2018 volume: + 4%
- Particularly strong growth in Germany and Portugal
- Growth drivers: snacking, gut conversion and fresh
- Fine Ultra product platform launched

## UK & Ireland

- 2018 volume: -3%
- Slight decline after strong 2017
- Continued (modest) opportunity for gut conversion

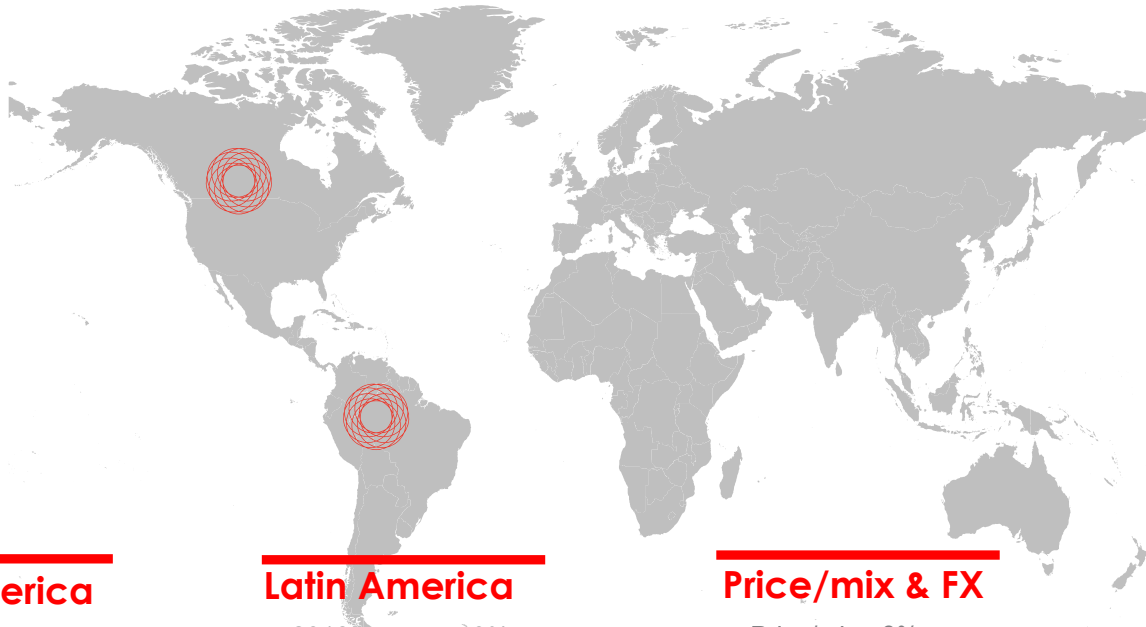
## Russia & East

- 2018 volume: -12%
- Volumes sensitive to FX movements – adverse in 2018

## Price/mix & FX

- Price/mix: +0.5%
- FX: +1% due to weakening GBP against EUR and CZK

# AMERICAS



## North America

- 2018 volume: +8%
- Continued market growth – driven by protein snacking
- Improved US operational efficiencies underpinning share growth

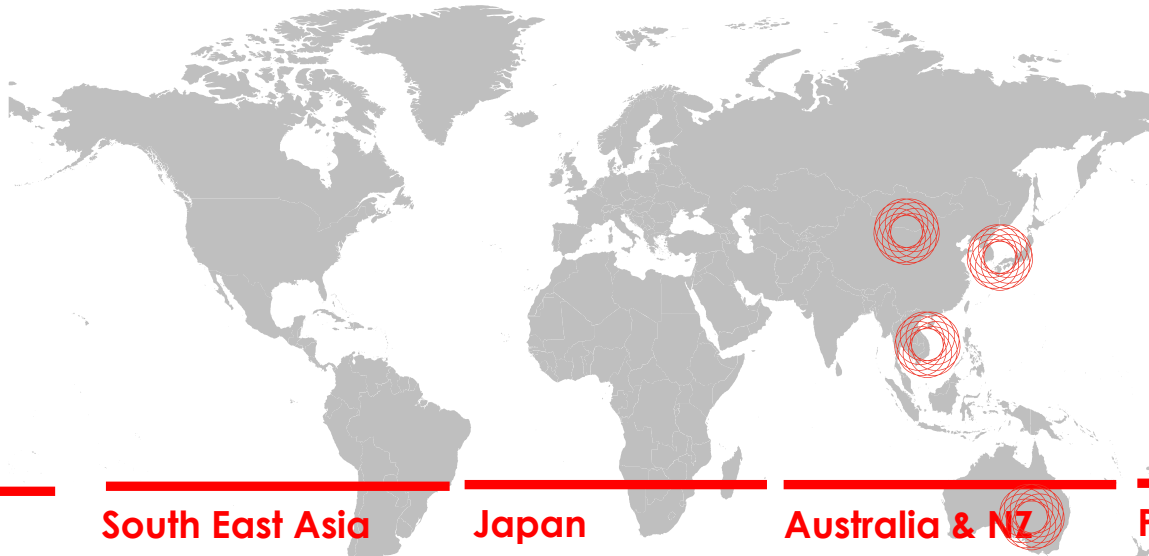
## Latin America

- 2018 volume: +9%
- Strong growth in Brazil
- Fine Ultra product platform further tested with customers
- Outlook impacted by Brazil market volatility

## Price/mix & FX

- Price/mix: -2%
- FX: -3% due to stronger GBP against USD

# ASIA PAC



## China

- 2018 volume: -8%
- Underlying volume +5%
- Improved customer mix – ASP\* up by 16%

## South East Asia

- 2018 volume: +6%
- Growth driven by Indonesia and Philippines markets
- Fine Ultra product platform for growth in DFF\*\* segment

## Japan

- 2018 volume: -7%
- Despite decline in collagen casings market – share gains
- Further share opportunity with Fine Ultra product platform in DFF\*\* segment

## Australia & NZ

- 2018 volume: +3%
- Market share gains and category growth in snacking

## Price/mix & FX

- Price/mix: +3%, driven by focus on China
- FX: -3% GBP stronger against several key currencies

\* ASP – Average Selling Price

\*\* DFF – Deep Fat Frying

# COMMERCIAL OUTLOOK

- Markets underpinned by structural growth drivers
  - Growth in last two years of c. 3% p.a. (excluding China) and c. 7% p.a. (including China)
  
- Continued focus on profitable growth expected to result in modest volume growth
  - Growth mainly driven by snacking and Fine Ultra
  - Growth H2 weighted

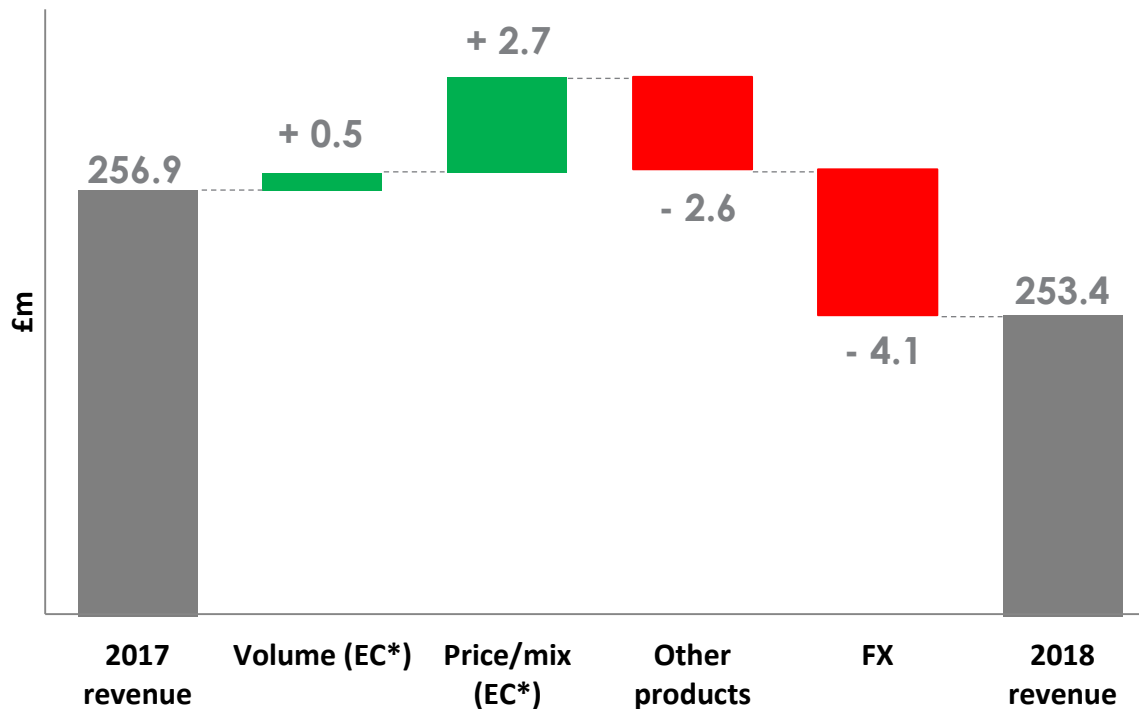
# FINANCIAL REVIEW

## FINANCIAL REVIEW – KEY HIGHLIGHTS

- Underlying operating profit before non-recurring items £40.0m, up 5%
- EBIT margin (before non-recurring items) 15.8% up 100bps
- Positive price/mix benefits on the average selling price
- £4.5m Devro 100 cost savings
- Disciplined cost control in operating expenses
- Inflationary pressures and adverse FX more than offset by above factors
- Underlying basic EPS 14.6p (2017: 14.2p\*)
- Proposed total dividend per share 9.0p (2017: 8.8p)



# GROUP REVENUE



## Volume

- Strong growth in North America +8%, Latin America +9% and SE Asia +6%
- Offset by market conditions in Russia and Japan, and one-off events in China

## Price/mix

- China ASP\*\* up 16%
- Sales area mix

## Other products

- Co-ex gel

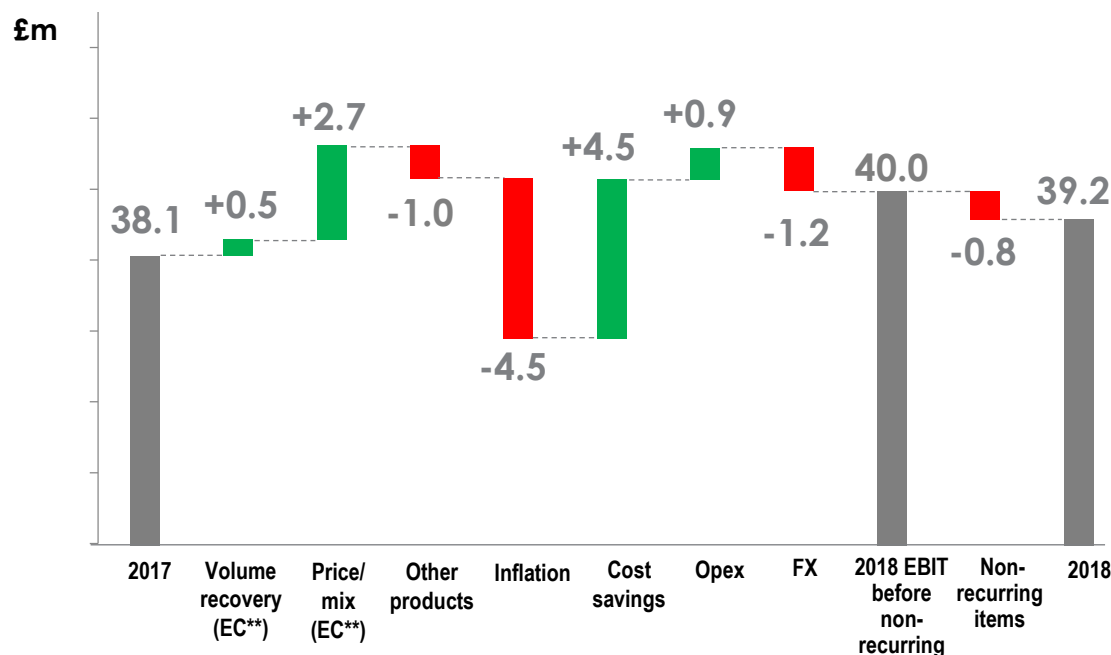
## FX

- Strengthening GBP against major currencies except EUR and CZK

\* EC – Edible Collagen

\*\* ASP – Edible Average Selling Price

# EBIT\* - IMPROVED MARGIN



## Volume

- Improved yields

## Price/mix

- China ASP\*\*\* up 16% and sales area mix

## Other products

- Lower co-ex gel sales

## Inflation

- Energy and salary inflation in line with guidance

## Cost savings

- Over delivery of Devro 100 savings

## Opex

- Disciplined cost management

## FX

- Strengthening of GBP against major currencies except EUR and CZK

## Non-recurring items

- 2018 Board changes

14.8%	EBIT* margin before non-recurring	15.8%	EBIT* margin	15.5%
25.0%	EBITDA* margin before non-recurring	25.9%	EBITDA* margin	25.6%

\* Shown on underlying basis (before exceptional items)

\*\* EC – Edible Collagen

\*\*\* ASP – Average Selling Price

# FINANCIAL SUMMARY - IMPROVED PROFIT MARGIN

	Underlying*			Statutory		
	2018 £m	2017** £m	Change	2018 £m	2017 £m	Change
Revenue	253.4	256.9	-1%	253.4	256.9	-1%
EBIT (before non-recurring)	40.0	38.1	+5%	-	-	-
EBIT margin (before non-recurring)	15.8%	14.8%	+100bps	-	-	-
EBIT (after non-recurring)	39.2	38.1	+3%	26.9	33.0	-18%
EBIT margin (after non-recurring)	15.5%	14.8%	+70bps	10.6%	12.8%	-220bps
Finance costs	-7.1	-8.6	-17%	-9.4	-11.4	-18%
Tax charge	-7.7	-5.8	+33%	-5.0	-6.0	-17%
Profit after tax	24.4	23.7	+3%	12.5	15.6	-20%
Basic EPS	14.6p	14.2p	+0.4p	7.5p	9.3p	-1.8p
Dividend per share	9.0p	8.8p	+0.2p	9.0p	8.8p	+0.2p

\* Underlying figures are stated before exceptional items and net finance cost on pensions

\*\* Underlying figures for the year ended 31 December 2017 have been restated to exclude net finance costs on pensions

## DEVRO 100 BENEFITS – AT TOP END OF THE RANGE

Devro 100	Benefits Year-on-year £m
Total (original forecast)	£13m - £16m
2017 (actual)	£7.0m
2018 (actual)	£4.5m
2019 (forecast)	£4.5m

- £2m - £4m additional operating cost savings over 2019/2020
- No further P&L exceptional costs in relation to Devro 100
- £6m of 2018 exceptional cost will be paid (cash impact) in 2019

# CASH FLOW

	2018 £m	2017 £m	Change £m
EBITDA*	64.8	64.1	+0.7
Working capital/other	-7.3	+2.8	-10.1
Operating cash flow	57.5	66.9	-9.4
Capital expenditure	-12.2	-12.5	+0.3
Cash exceptional items	-6.5	-5.7	-0.8
Pension deficit funding	-4.9	-3.0	-1.9
Interest	-7.6	-8.3	+0.7
Tax	-12.5	-11.9	-0.6
Other	-2.6	+0.9	-3.5
Free cash flow	11.2	26.4	-15.2
Dividends	-14.7	-14.7	-
FX	-3.2	+7.0	-10.2
<b>Movement in net debt</b>	<b>-6.7</b>	<b>18.7</b>	<b>-25.4</b>

- Working capital impacted by higher inventory levels (as a result of normalisation, Brexit build), increased receivables and bonus payments
- Cash exceptional items includes Devro 100 and global operating model
- Pensions deficit funding increased in line with guidance to £4.9m
- Interest decreased due to debt restructuring
- Tax payments higher due to timing
- 2018 net debt movement impacted by adverse FX of £3.2m, compared with benefits of £7.0m during 2017

\* Shown on underlying basis (before exceptional items)

# NET DEBT

	<b>Dec 2018</b> £m	<b>June 2018</b> £m	<b>Dec 2017</b> £m	<b>Current covenant</b>
Net debt	141.6	147.3	134.9	
Net debt** / EBITDA* ratio (times)	2.2	2.3	2.1	<3.0
EBITDA* / Net finance costs ratio (times)	9	7	8	>4

- Net debt/EBITDA\* at the end of 2018 increases to 2.2x from 2.1x at the end of 2017. Up slightly from prior year due to working capital requirements and adverse FX on translation of foreign-denominated debt
- New revolving credit facilities negotiated during H1. Average term increased from 1 to 5 years

\* Shown on underlying basis (before exceptional items)

\*\* Includes derivative liabilities prior to Jun 2018 (Dec 2017: £0.4m; Jun 2017: £0.2m)

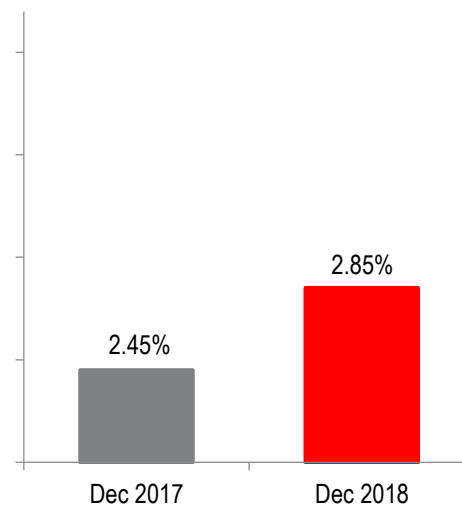
# SIGNIFICANT REDUCTION IN PENSION DEFICIT

## Net pension deficit

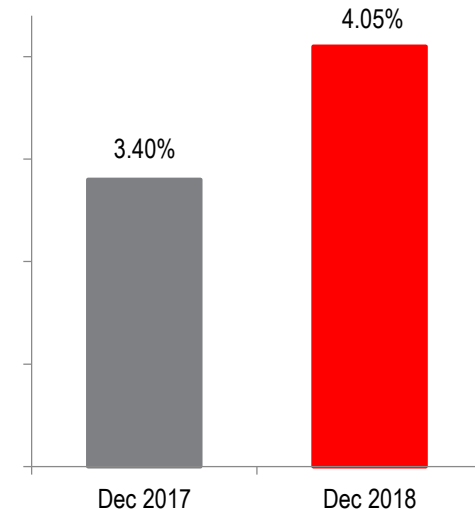
- Decrease due to change in assumptions in UK plan along with increase in discount rates in both UK and US
- Pension deficit funding payments expected to be £5m in 2019
- Next triennial review of UK plan 2020

	Dec 2018 £m	Dec 2017 £m
Net pension deficit	54.4	82.0

## UK discount rate



## US discount rate



# 2019 MODELLING GUIDANCE

## Forecast

➤ Capex	£15m (depreciation £25m)
➤ Interest	£6m
➤ Pension deficit funding payments	£5m
➤ Cash exceptional items	£6m
➤ Inflation – salaries and energy	Similar levels to 2018
➤ Devro 100 cost savings	£4.5m
➤ Volume	Growth H2 weighted
➤ Cash flow	Debt reduction H2 weighted
➤ Net debt/ EBITDA* ratio	2.0x by 31 December 2019

\* Shown on underlying basis (before exceptional items)



# CEO REFLECTIONS

# CEO 2018 REFLECTIONS (I)

Good progress on operational and strategic priorities

- People, organisation and culture
  - Strengthened and streamlined executive leadership team:
    - Jackie Callaway – CFO
    - Peter Whitmore – Global Commercial Director
  - ‘Blue chip’ experience in the team – 5 out of 7 joined after 2016
  - Committed team to deliver strategy
  - Now a fully integrated global business

## CEO 2018 REFLECTIONS (II)

➤ Developed 3Cs strategy to provide focus for mid-term delivery – sustainable growth in cost effective way:

- Win with the winning **Customers** – Profitable revenue growth
- Focus on **Core** profitability drivers – Margin growth
- Strengthen **Competencies** – Competitiveness



Progress and plans update at Capital Markets event

# CAPITAL MARKETS EVENT 19 MARCH 2019

- Event – hosted at Investec Bank plc (30 Gresham Street)
- Registration from 1.45pm, starts at 2pm, finishes at 5pm with drinks afterwards
- Executive leadership team in attendance

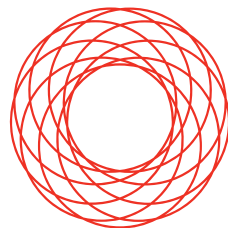
# OUTLOOK

- Focus on:
  - Profitable growth
  - Optimising operational performance
  - Tightly managing costs
  - Improving cash generation
- Board believes Devro is well placed to make good progress in 2019 with management expectations unchanged
- Next trading update - 25 April 2019

# APPENDIX

## FOREIGN CURRENCY PROFILE FOR REVENUE

<b>% of total 2018</b>	<b>Revenue</b>
US dollar	24%
Euro	25%
Australian dollar	11%
Sterling	12%
Japanese yen	11%
Other	17%
<b>Total</b>	<b>100%</b>



**DEVRO**

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