Chairman's Statement

Devro made significant progress on its strategic priorities in 2018 and, in tandem, improved its underlying profit margins.

Operational improvements were made across all our manufacturing sites.

Progress at our US plant was particularly good, with production yields now amongst the highest across the group. The focus into 2019 is on increasing production line speeds to further improve output from the plant.

Our key focus in 2018 for China was on improving the average selling price and, in this regard, we achieved double digit percentage growth in the year.

Following a period of commercial testing, the launch of the new Fine Ultra product platform for Continental Europe, Japan and South East Asia delivered modest sales volumes in the second half of 2018. We anticipate a marked increase in volumes in 2019 and this will be a key driver for growth going forward.

Devro's edible collagen revenue grew 2% on a constant currency basis with positive pricing/mix, particularly in China, and flat volumes. This reflected strong volume growth in North America, Latin America and South East Asia, offset by declines in Russia (due to weakening of the rouble against the euro) and in Japan (due to ongoing challenging market conditions).

The group's manufacturing performance continued to improve as we implemented best practice across all our sites. The Devro 100 programme achieved cost reductions ahead of plan of £4.5 million and this, combined with our discipline around operating costs, more than offset the ongoing inflationary pressures on the group.

Financial highlights

Underlying operating profit before non-recurring items was £40.0 million (2017: £38.1 million), due to the impact of positive price/mix on the average selling price, Devro 100 cost savings and tight cost management, partly offset by inflationary pressure on utilities costs and wages and adverse foreign exchange.

Operating profit was £26.9 million (2017: £33.0 million), impacted primarily by non-recurring items related to the 2018 Board changes of £0.8 million (2017: £nil) and higher exceptional items of £12.3 million (2017: £5.1 million) relating to the Devro 100 programme and restructuring as part of the alignment of the operating cost base to the new global model. From 2019 no further exceptional items will be recognised in relation to the Devro 100 programme (although approximately £6.0 million relating to 2018 will be paid out in cash in H1 2019). A more detailed explanation of the group's financial performance is set out in the Financial Review on pages 20 to 25.

In 2018 several factors caused a modest increase in net debt to £141.6 million (2017: £134.9 million). The main driver was lower underlying operating cash flow, but there were also increased pension deficit contributions and adverse movements in foreign exchange. Reducing the levels of net debt back to historic levels continues to be an area of strategic focus.

The group's net pension obligations reduced significantly from £82.0 million at 31 December 2017 to £54.4 million at 31 December 2018. This reduction primarily reflects gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase in discount rates in the UK and US.

Board

At the end of February 2018, Rutger Helbing (previously the Group Finance Director) succeeded Peter Page as Chief Executive Officer of the group. Since his appointment, Rutger has accelerated the group's transition away from operating on a regional basis towards operating as a fully integrated global business. The final steps of this process were completed with the appointment of a single Global Commercial Director and restructuring of the group's operating cost base to better align with its global footprint. Rutger has also refocused the group's mid-term strategy on 3Cs – win with the winning Customers; focusing on the Core profitability drivers; and strengthening Competencies.

On 1 May 2018, the Board was further strengthened with the appointment of Jackie Callaway as Group Chief Financial Officer. Jackie was most recently Group Financial Controller of Brambles Limited, the ASX top 20 supply chain logistics company, where she led Brambles' global finance transformation programme. Jackie brings broad financial, business and international experience.

Employees

In 2018, as part of the implementation of the new global operating model, changes were made at all levels of the organisation, and in all locations, affecting many of our colleagues. Through this evolution we have seen increasing levels of engagement and involvement from our people in all areas of the business. All employees have contributed to the 2018 results and on behalf of the whole Board, I am most grateful for their commitment and professionalism.

Dividend

The Board is proposing an increased final dividend of 6.3p per share (2017: 6.1p) bringing the total for the year to 9.0p per share (2017: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 10 May 2019, to those shareholders on the register at 29 March 2019.

Retirement

In November 2018, I announced my intention to retire as Chairman and Director at the conclusion of the Annual General Meeting on 25 April 2019. I joined the Board as a Director in July 2013 and became Chairman in May 2014. Having overseen the implementation of the recent capital investment programme, recruitment of a new senior management team and the establishment of a new global organisational structure, I believe it is the right time for a new Chair to oversee the next stage of Devro's development.

I would like to take this opportunity to thank everyone I have worked with over the last six years and wish the Board, management team and employees every success in the future.

Outlook

We continued to make significant progress on our strategic priorities in 2018, delivering manufacturing efficiency improvements, in particular at our US plant, driving average selling price improvements in China and establishing the building blocks for future growth supported by our new Fine Ultra product platform. We over-delivered on our Devro 100 cost savings programme and, in addition, we increased margins.

Looking ahead, we expect to grow revenue (weighted towards the second half) supported by an overall growing market and the continued rollout of the Fine Ultra product across a number of markets; to leverage our leading position in the fast growing protein sticks market; and to continue to convert customers from gut to collagen. We will also focus on delivering margin expansion and generating cash to reduce net debt.

Despite ongoing pressures from input cost inflation, principally salary and utility costs and exchange rate volatility, at this early stage of the year the Board believes that Devro is well placed to make good progress in 2019.

Gerard Hoetmer
Chairman