HALF YEAR RESULTS

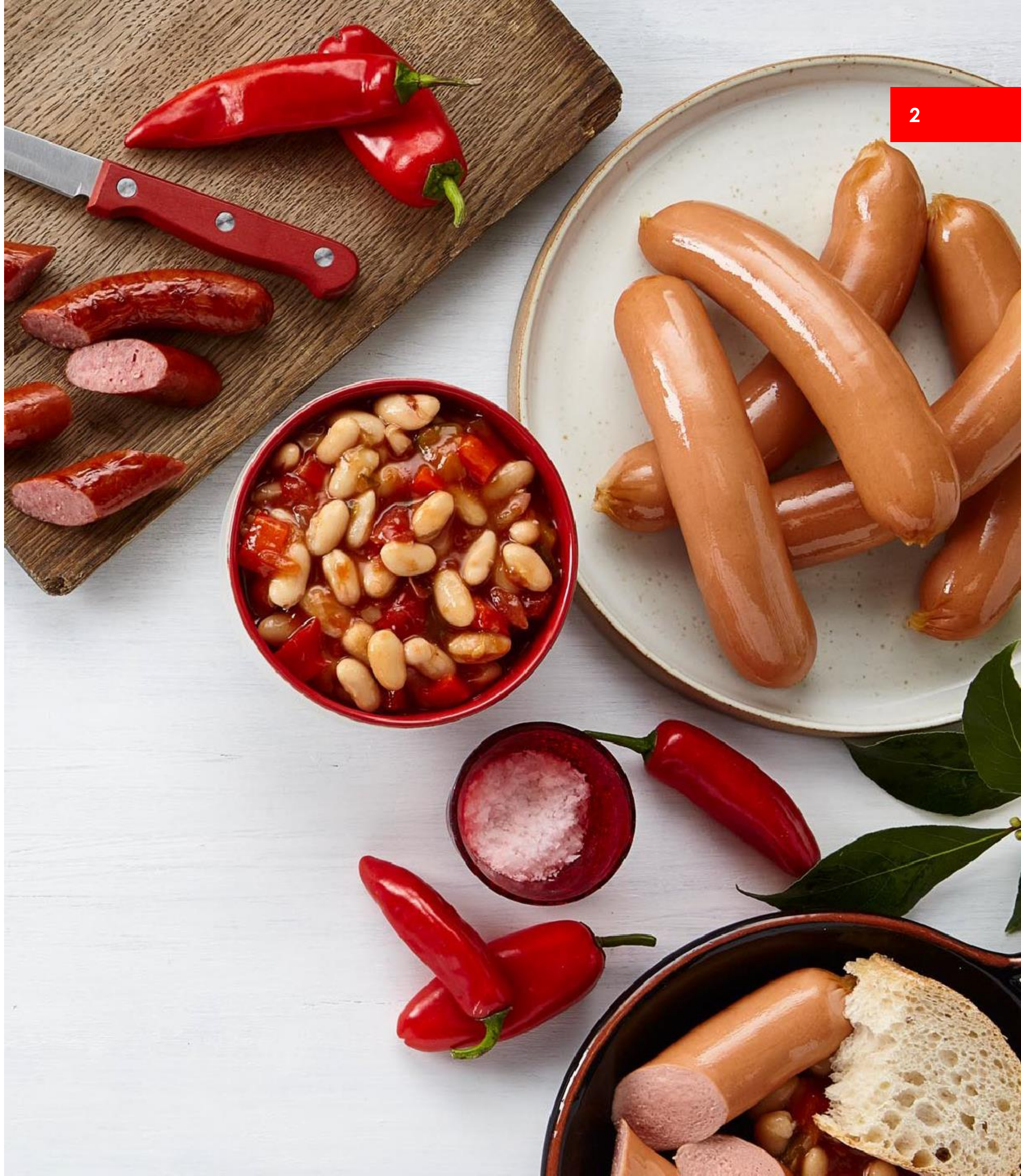
FOR THE SIX MONTHS ENDED 30 JUNE 2019

DEVRO

HIGHLIGHTS

- H1 results in line with Board's expectations
  - After slower start sales gaining momentum with 1% growth February to June period
  - Operating profit* before non-recurring items £17.8m (H1 2018: £18.8m)
  - Profit before tax* £14.9m (H1 2018: £14.3m)
  - Improved free cash flow £4.3m (H1 2018: £-0.2m)
- Good progress on strategic priorities
- Full year outlook unchanged

* Shown on underlying basis before exceptional items and net finance cost on pensions



EMEA

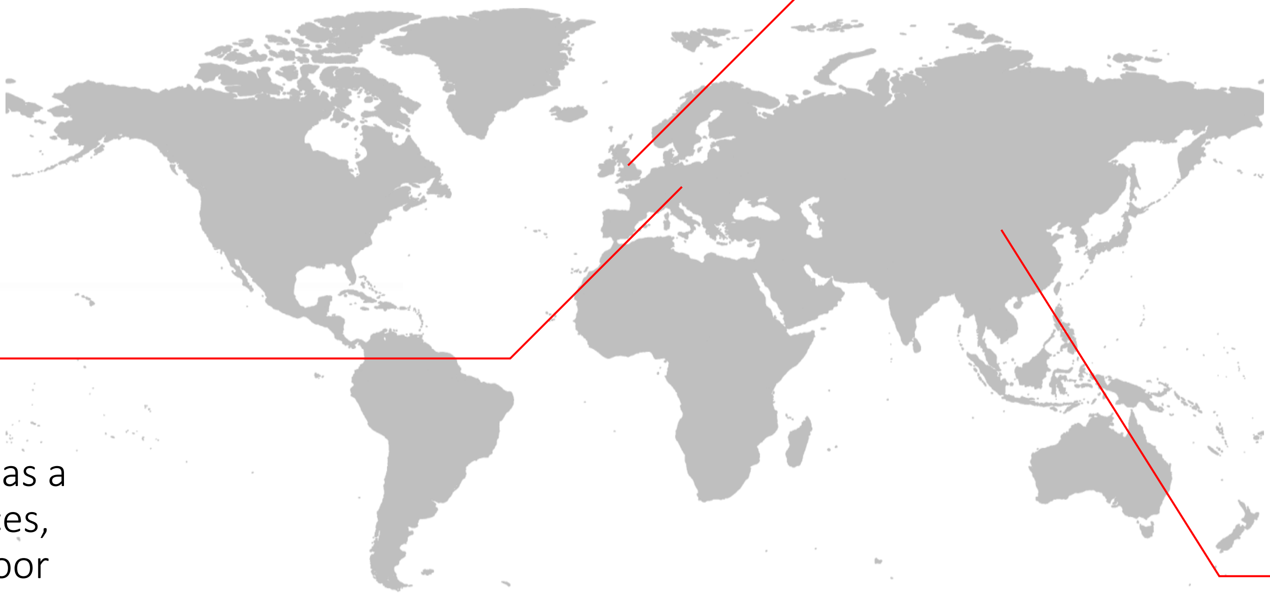
44% GROUP REVENUE

PRICE/MIX & FX

- Price/mix: flat
- FX: flat

CONTINENTAL EU*

- H1 2019 volume: flat
- Some weaker sentiment as a result of higher pork prices, Brexit de-stocking and poor weather in May
- Fine Ultra product platform launched successfully



UK & IRELAND

- H1 2019 volume: -3%
- Slight decline driven by customers losing business to their competition and poor weather in May

RUSSIA & EAST

- H1 2019 volume: -9%
- Volumes in line with expectations - tough H1 2018 comparatives

* Including Middle East & Africa

AMERICAS

24% GROUP REVENUE

PRICE/MIX & FX

- Price/mix: -1%
- FX: +7% due to weaker GBP vs USD

NORTH AMERICA

- H1 2019 volume: +10%
- Continued market growth driven by protein snacking
- Successful product development driving increased volumes

LATIN AMERICA

- H1 2019 volume: -30%*
- Volatility in Brazil and Chile (distributors reducing inventory levels)
- Focus on improved H2 performance through new business in Brazil
- Further opportunities with new product developments continuing to be tested

* Latin America represents less than 4% of total Group H1 2019 volumes

ASIA PACIFIC

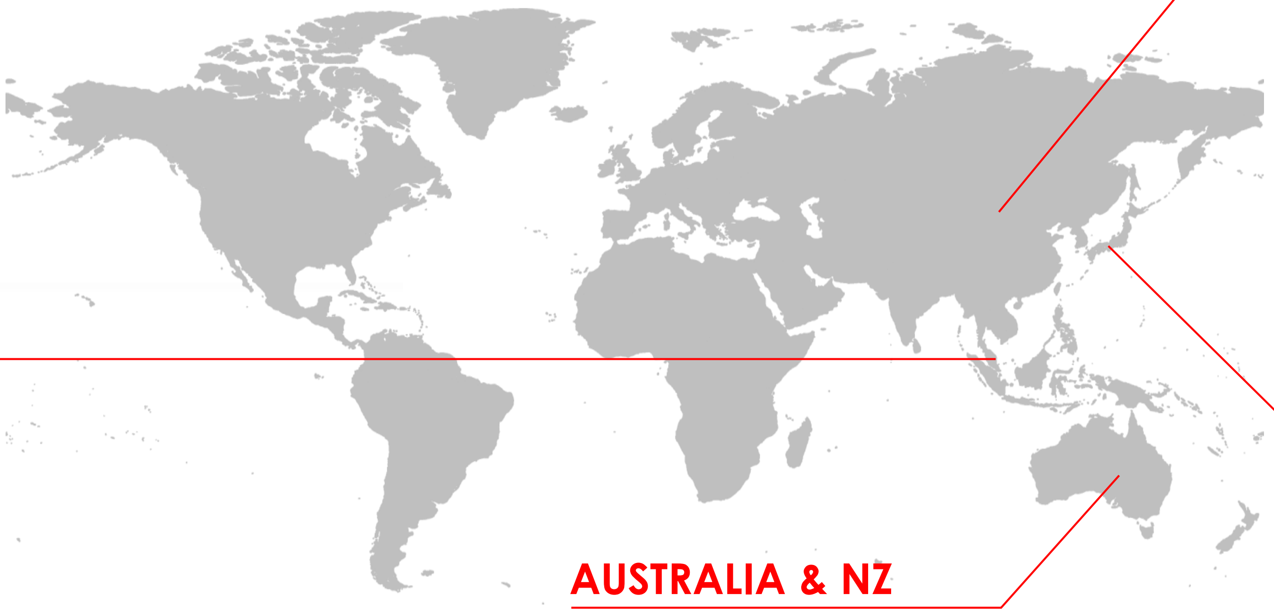
32% GROUP REVENUE

PRICE/MIX & FX

- Price/mix: -2%
- FX: +3% due to weaker GBP vs several key currencies

SOUTH EAST ASIA

- H1 2019 volume: -2%
- Volatility in quarterly shipments
- Modest full year growth expected



CHINA

- H1 2019 volume: +19%
- ASP*: +2%
- New customer wins
- Continue to build new categories

JAPAN

- H1 2019 volume: -3%
- Impact of lower sheep gut pricing in Q1, stabilised in Q2
- Further share opportunity with Fine Ultra product platform in DFF** segment

AUSTRALIA & NZ

- H1 2019 volume: -7%
- Isolated loss of a customer related to pricing

* ASP – Average Selling Price
** DFF – Deep Fat Frying

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H1 - GOOD PROGRESS ON STRATEGIC PRIORITIES

Win with the winning Customers	"For revenue growth"	New Commercial organisation embedded Growth accelerators in place and driving H2 volumes Fine Ultra product platform rollout progressing well Continuing to develop new categories in China
Focus on Core profitability drivers	"For margin improvement"	US plant speed improvement D100 cost savings expected to exceed previously stated targets Pilot project for phased capacity increases on track Further supply chain capacity efficiencies under review
Strengthen Competencies	"For long-term competitiveness"	Integrated Business Planning implementation on track Good progress on employee engagement with a number of actions underway Initial work started on defining longer-term vision – beyond mid-term ambition

DRIVING OUR AMBITION AND VISION

COMMERCIAL OUTLOOK H2

EMEA

Modest growth

- Delivery of selected growth projects
- Offset by weaker market sentiment (particularly Continental EU and UK & Ireland)

AMERICAS

Accelerated growth

- Continued snacking growth
- Opportunities from product development work in Latin America

ASIA PACIFIC

Accelerated growth

- Continued growth in China
- Fine Ultra product platform penetration in Japan and South East Asia

FINANCIAL REVIEW

FINANCIAL REVIEW – KEY HIGHLIGHTS

01

Operating profit* before non-recurring items
£17.8m

02

Operating profit* before non-recurring items impacted by lower volumes, negative country/product mix and other products

03

Cost saving projects expected
to exceed previously stated targets

04

Inflationary pressures more than offset
by cost savings

05

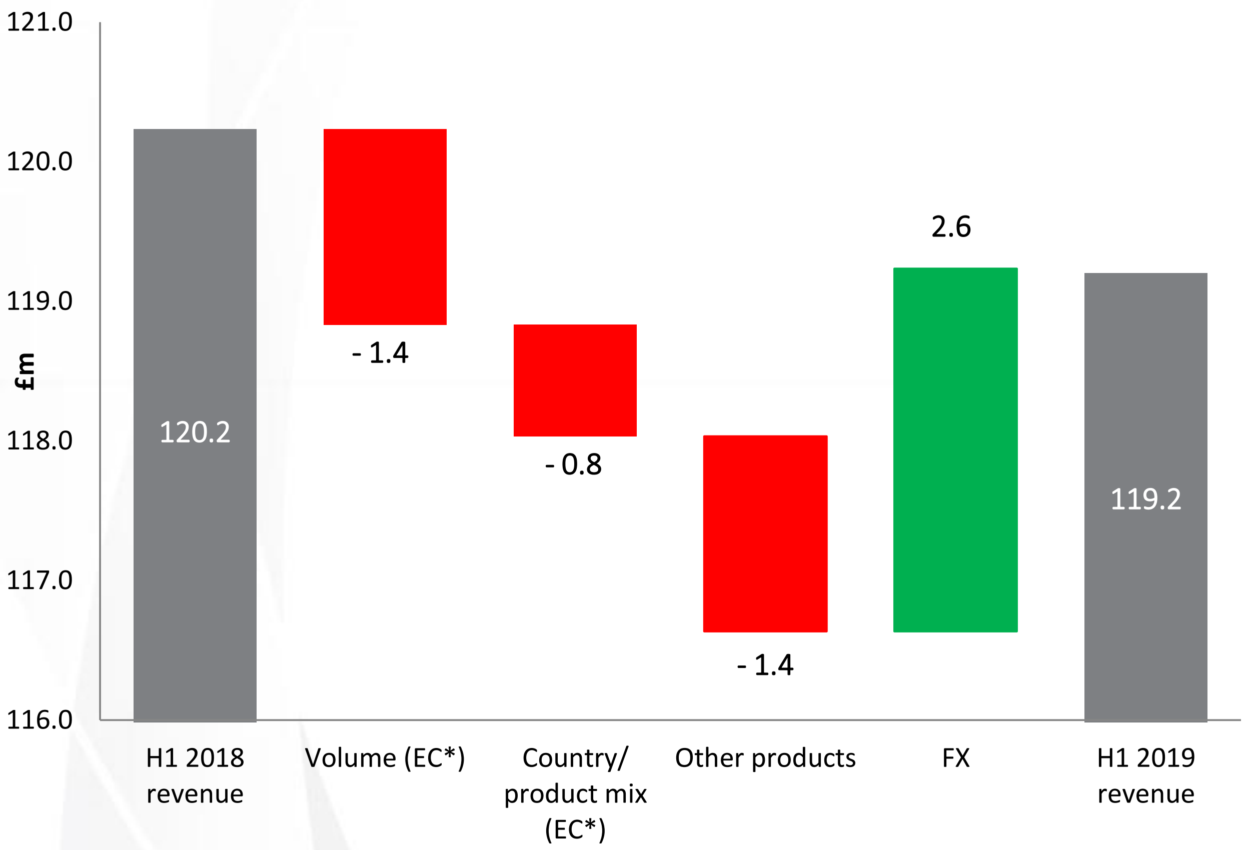
Profit
before tax*
£14.9m

06

Net debt** / EBITDA*** ratio
2.3x

* Shown on underlying basis before exceptional items and net finance cost on pensions
** Net debt shown before the impact of IFRS 16 (June 2019: £1.0m)
*** Shown on underlying basis (before exceptional items) and before the impact of IFRS 16 (H1 2019: £0.3m)

GROUP REVENUE



VOLUME

- Strong growth in North America +10% and China +19%
- Offset as expected by weaker performances in Russia (-9%) and Japan (-3%) along with volatility in Latin America (-30%)

COUNTRY/PRODUCT MIX

- Negative country (China) and product (small calibre) mix

OTHER PRODUCTS

- Collagen gel and non-edible casings

FX

- Primarily weakened GBP vs USD

* EC – Edible Collagen Casings

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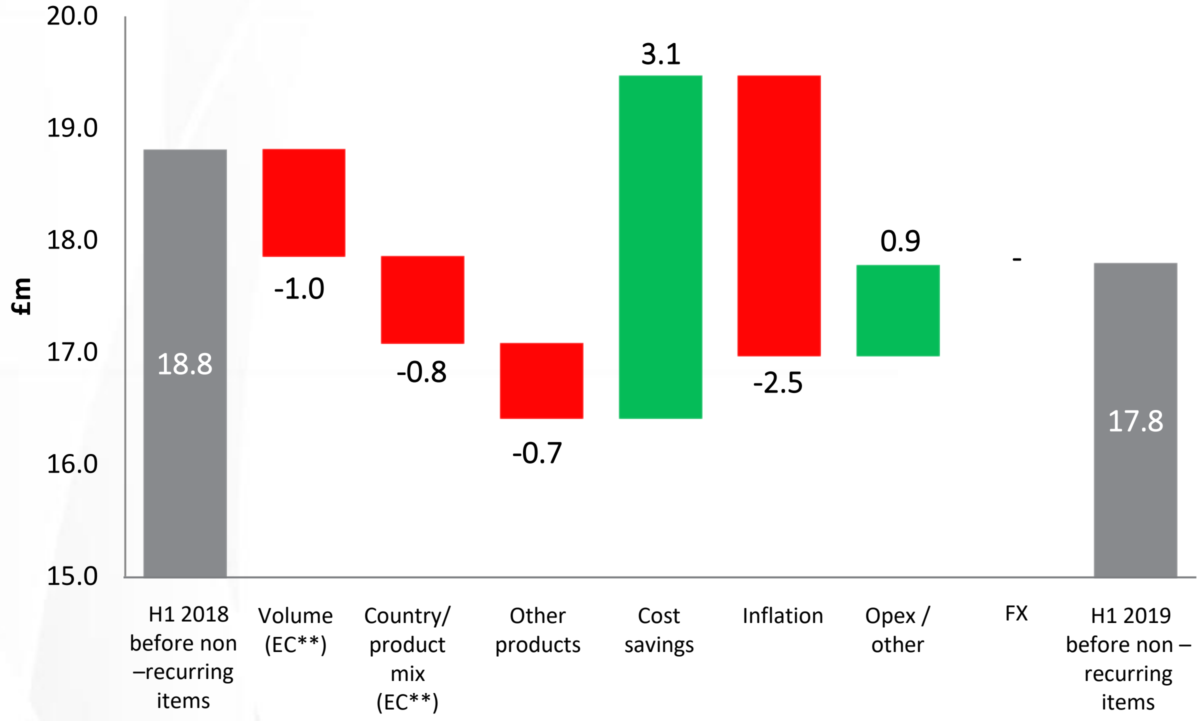
OPERATING PROFIT*



Operating profit* margin before non-recurring

15.6% → 14.9%

EBITDA* margin

25.9% → 25.7%

VOLUME
- Reduced sales volume overall

COUNTRY/PRODUCT MIX
- Negative country (China) and product (small calibre) mix

OTHER PRODUCTS
- Lower collagen gel and non-edible casings sales

COST SAVINGS
- Devro 100 savings; expected to exceed previously stated targets in 2019

INFLATION
- Energy and salary inflation

OPEX
- Savings from new global operating model

FX
- Primarily weakened GBP vs USD, offset by hedging losses

* Shown on underlying basis before exceptional items
** EC – Edible Collagen Casings

FINANCIAL SUMMARY

	UNDERLYING*			STATUTORY		
	H1 2019 £M	H1 2018 £M	Change	H1 2019 £M	H1 2018 £M	Change
Revenue	119.2	120.2	-1%	119.2	120.2	-1%
Operating profit before non-recurring items**	17.8	18.8	-5%	-	-	-
Operating profit margin before non-recurring items**	14.9%	15.6%	-70bps	-	-	-
Operating profit after non-recurring items	17.8	18.4	-3%	17.4	16.2	+7%
Operating profit margin after non-recurring items	14.9%	15.3%	-40bps	14.6%	13.5%	+110bps
Finance costs	-2.9	-4.1	+29%	-3.8	-5.3	+28%
Profit before tax	14.9	14.3	+4%	13.6	10.9	+25%
Tax charge	-3.2	-3.3	+3%	-2.8	-3.0	+7%
Profit after tax	11.7	11.0	+6%	10.8	7.9	+37%
Basic EPS	7.0p	6.6p	+0.4p	6.5p	4.7p	+1.8p
Interim dividend per share	2.7p	2.7p	-	2.7p	2.7p	-

* Underlying figures are stated before exceptional items and net finance cost on pensions
** Non-recurring items relate to Board changes costs of £nil (H1 2018: £0.4m)

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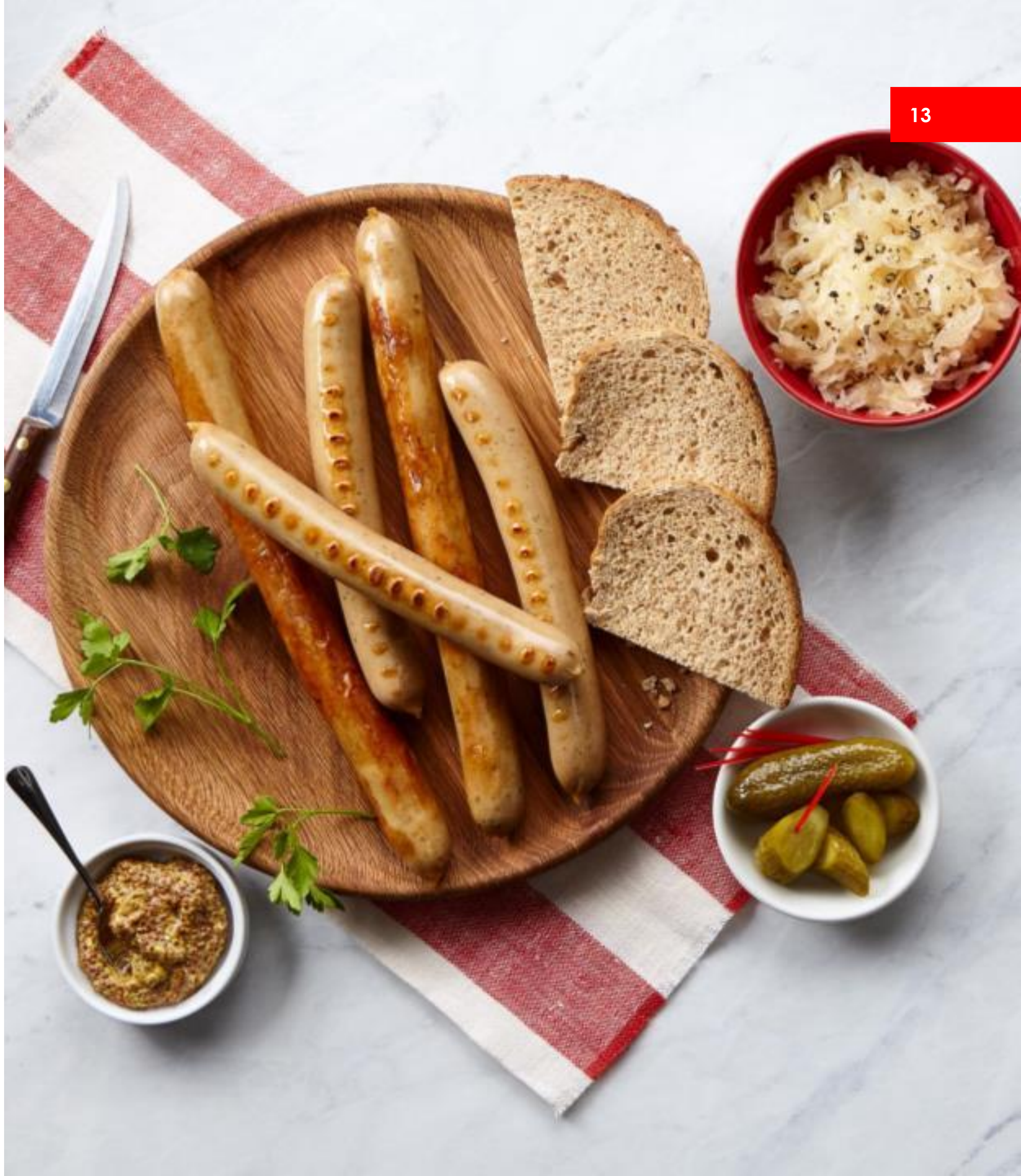
ADDITIONAL SAVINGS

	YEAR-ON-YEAR £M
DEVRO 100	
Total (original forecast)	13.0 – 16.0
2017 (actual)	7.0
2018 (actual)	4.5
2019 (original forecast)	*4.5*
2019 (updated forecast)	5.5
Total DEVRO 100	17.0
GLOBAL OPERATING MODEL	
2019 (forecast)	1.5
TOTAL 2019 SAVINGS (FORECAST)	7.0



IMPROVED FREE CASH FLOW

	H1 2019 £M	H1 2018 £M	Change £M
EBITDA*	30.6	31.1	-0.5
Working capital/other	-6.9	-10.6	3.7
Operating cash flow**	**23.7**	**20.5**	**3.2**
Capital expenditure	-5.9	-5.0	-0.9
Cash exceptional items	-4.0	-2.2	-1.8
Pension deficit funding	-1.1	-0.9	-0.2
Interest	-2.7	-4.5	1.8
Tax	-5.0	-5.7	0.7
Other	-0.7	-2.4	1.7
Free cash flow	**4.3**	**-0.2**	**4.5**
Dividends	-10.5	-10.2	-0.3
FX	-0.4	-2.0	1.6
Impact of IFRS 16 (Leases)	-1.0	-	-1.0
Movement in net debt	**-7.6**	**-12.4**	**4.8**

* Shown on underlying basis before exceptional items
** Shown on underlying basis (before exceptional items) and before pension deficit funding

- Working capital movement in H1 2019 impacted primarily by higher inventory levels (seasonality in anticipation of H2 2019 sales growth, further Brexit build)
- Cash exceptional items includes implementation of new global operating model
- Pensions deficit funding expected to be £5m for FY 2019
- Interest decreased due to RMB debt restructuring in H1 2018
- Tax payments lower in H1 2019 due to timing of payments
- Smaller FX impact on H1 2019 net debt movement compared with adverse FX of £2m during H1 2018

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NET DEBT*

	June 2019 £M	Dec 2018 £M	June 2018 £M	Current covenant
Net debt*	148.2	141.6	147.3	
Net debt* / EBITDA** ratio	2.3x	2.2x	2.3x	<3.0x
EBITDA** / Net finance costs ratio	10x	9x	7x	>4x

Net debt*/ EBITDA** in line with June 2018. Slightly up from year-end due to seasonality of cash flows

* Net debt shown before the impact of IFRS 16 (June 2019: £1.0m)
** Shown on underlying basis (before exceptional items) and before the impact of IFRS 16 (H1 2019: £0.3m)

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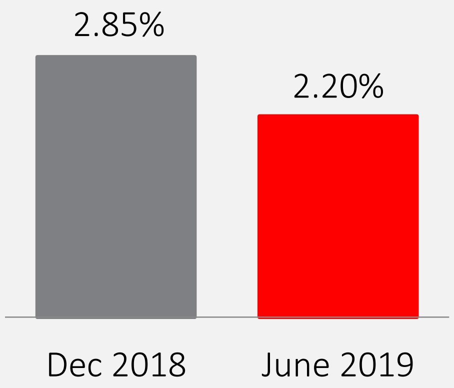
PENSION DEFICIT

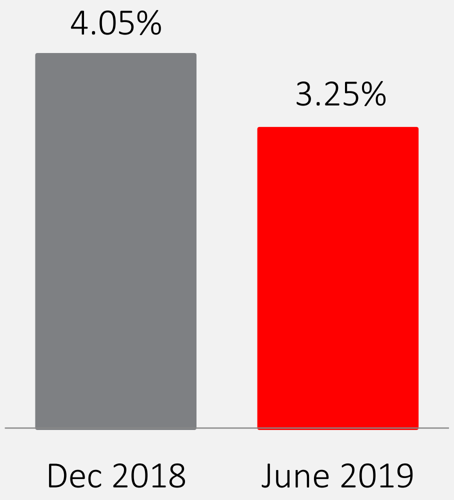
- Increase due to change in discount rates in both UK and US
- Pension deficit funding payments expected to be £5m for FY 2019
- Next triennial review of UK plan in 2020

	June 2019 £M	Dec 2018 £M
Net pension deficit	60.5	54.4

UK DISCOUNT RATE



US DISCOUNT RATE



FY 2019 MODELLING GUIDANCE (APPROXIMATIONS)

CAPEX	INTEREST	PENSION DEFICIT FUNDING PAYMENTS
£15m (depreciation £25m)	£6m	£5m
CASH EXCEPTIONAL ITEMS	**INFLATION – SALARIES AND ENERGY**	**COST SAVINGS**
£6m	£5m	£7m***
VOLUME	**CASH FLOW**	**NET DEBT*/ EBITDA** RATIO**
Growth H2 weighted	H2 improved EBITDA and working capital	c. 2.0x by 31 December 2019

* Net debt shown before the impact of IFRS 16 (June 2019: £1.0m)
** Shown on underlying basis (before exceptional items) and before the impact of IFRS 16 (H1 2019: £0.3m)
*** Consists of £5.5m D100 cost savings and £1.5m global operating model cost savings

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OUTLOOK

Continued focus on:

- H2 volume and revenue growth
- Commercial initiatives to accelerate growth and the continued rollout of Fine Ultra product platform
- Optimising operational performance
- Total cost savings programme to exceed our previously stated target
- Improving cash generation

Despite weaker market sentiment in some mature markets and ongoing pressures from input cost inflation, the Board believes that Devro continues to be well placed to make good progress in 2019 and the full year outlook remains unchanged.

APPENDIX

FOREIGN CURRENCY PROFILE FOR REVENUE

% OF TOTAL FOR FULL YEAR 2018	REVENUE
US dollar	24%
Euro	25%
Australian dollar	11%
Sterling	12%
Japanese yen	11%
Other	17%
Total	**100%**

CONTACT

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