

CHAIRMAN'S STATEMENT

AS THE NEW CHAIR, I HAVE INHERITED A GROUP WITH A CLEAR STRATEGY THAT FOCUSES ON PROFITABLE, CASH GENERATIVE GROWTH.

STEVE GOOD
CHAIRMAN

INTRODUCTION

Since becoming Chair in June 2019, I have visited many of our sites around the world, meeting our people and engaging with the management team and my fellow Directors. The Group has a long and proud history with people all around the world who are hardworking, talented, and enthusiastic about the Group and its prospects. I have found the Group to be well managed with a clear strategy for growth as set out in our 3Cs strategy, defending and building on its strong positions in mature markets and targeting to increase its share in emerging markets. In support of this, during the last two years, the Group has undergone a significant organisational change to build the structures, capabilities and competencies necessary to successfully execute its growth plans. This has been a major undertaking and these important building blocks are now largely in place across the Group.

FINANCIAL HIGHLIGHTS

Group volumes for the year were flat, with modest edible collagen volume growth from the second quarter onwards after a slower start to the year. Emerging markets^{1 2} growth for the year was strong at 7%, offset by decline in the mature markets³ of 3% where demand was weak.

Underlying operating profit for the year of £39.1 million was marginally below 2018, with the benefit of cost savings and FX offset by the impact of less favourable country mix and sales from other products.

Free cash flow generation for the year was strong and the net debt to EBITDA covenant ratio improved materially and finished the year at 1.9x. Underlying basic earnings per share increased by 4% to 15.2 pence.

On a statutory basis we recorded an operating loss of £14.0 million (2018: £26.9 million profit), largely as a result of the review of the global manufacturing footprint which led to the decision to close Bellshill, and the related non-cash accounting impairment of the Group's manufacturing assets in US and China.

DIVIDEND

The Board is proposing a final dividend of 6.3p per share (2018: 6.3p) bringing the total for the year to 9.0p per share (2018: 9.0p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 7 May 2020, to those shareholders on the register at 27 March 2020.

RETAINING OUR FOCUS



GOVERNANCE AND BOARD

The Board leads an ongoing programme to ensure the highest standards of corporate governance and integrity across the Group. We regard this as critical to the Group's success and viability. Since I joined the Board the interactions and communication flows between Executives and Non-Executive Directors have been excellent and as a result the Board is well placed to challenge, guide and support the Executives in the delivery of the 3Cs strategy. The Board considers that it has fully applied the principles of the UK Corporate Governance Code during 2019.

During the fourth quarter of the year we conducted a Board evaluation. The result was positive. An important output from the review was a requirement to refresh the Board during 2020 given the long tenure of two Board members and to ensure that the Board has the appropriate mix of skills and experience to both challenge and support the development and execution of the Group's growth strategy. The recruitment programme is well underway.

PEOPLE

Our employees are at the heart of delivering our plans and are key to our success. In 2019 we continued to see the organisation develop. We embedded our new global commercial structure, made the changes necessary to deliver our cost savings programmes and established new ways of working, particularly associated with our new Integrated Business Planning process. All employees are contributing to making these important changes happen and to deliver our results and, on behalf of the Board, I would like to thank each and every employee for their commitment and professionalism.

SUMMARY

As the new Chair, I have inherited a Group with a clear strategy that focuses on profitable, cash generative growth. Following a period of transformation, including significant progress this year, the necessary structures, capabilities and competencies have been built, and the Group is well placed to capitalise on its strong position in the growing edible casings market with profitable revenue growth at the top of the Group's agenda.

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- 1 During 2019 and in prior periods the Board has reviewed the Group's revenues and edible collagen volumes on a geographical segment basis splitting the business into three operating segments (Americas, Asia Pacific and EMEA). As we go forward we will also analyse Group revenues and edible collagen volumes between emerging markets and mature markets as this categorisation reflects our strategy of defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. For segmental purposes we continue to report on a regional basis.
- 2 Devro emerging markets include: Latin America, Russia & East, Middle East & Africa, South East Asia and China.
- 3 Devro mature markets include: North America, Continental EU, UK & Ireland, Japan, Australia & NZ.