

2020 was a challenging but overall a positive year for Devro. The COVID-19 pandemic and our management of it quickly became our priority, which continued throughout the year and into 2021. We were also successful in leveraging recent investments in our structure, processes and competencies to make good progress on both our strategic and financial priorities.

The pandemic impacted all aspects of our lives however the Company performed well and demonstrated its robustness and flexibility in the most challenging of conditions. I am proud that we delivered on all of our COVID-19 related priorities, as well as making significant progress with both our trading performance and strategic priorities. This is testament to our people, and I would again like to put on the record my gratitude for all their selfless hard work and commitment.





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RUTGER HELBING
CHIEF EXECUTIVE OFFICER



COVID-19

The initial impact of the pandemic was felt during Q1 2020 in our Chinese business and manufacturing site, and we took our best practice learnings and rolled these out across the Group as necessary as the virus spread.

We immediately established three clear priorities ensuring the health and safety of our colleagues and communities; continuing to contribute in a positive way to the food supply chain and maintaining a robust financial position.

We responded to the pandemic swiftly and effectively, introducing precautionary health and safety measures which, as a minimum, were based on government guidelines but in many cases applied more stringent measures. These measures were maintained throughout the year and served us well. As a principal, we aimed to be 'ahead of the curve' in the introduction of precautionary measures and 'behind the curve' in terms of their relaxation. This approach helped us to maintain our operational performance throughout the year ensuring a good service to our customers and fulfilling our role in the food supply chain. Whilst we were successful in maintaining the continuity of our operations, this was not without challenges. In the second quarter of 2020, we faced issues securing hide supplies, a key raw material, but our close relationship with key suppliers allowed us to navigate this potential problem. We also had to manage periods where many colleagues had to self-isolate, and our teams have shown great flexibility to manage through this successfully. In the second half of the year our sites set up 'track and trace' processes which have been very effective in reducing the spread of the virus.

In some of our markets sales were impacted by COVID-19. We saw an uptick in retail driven end customer volumes (e.g. supermarkets) which contrasted to those volumes into the food service industry (e.g. hotels, educational facilities, sporting events) that were severely adversely affected. We estimate that the net impact of this, based on our geographical exposure, particularly in some important mature markets, was of circa 2% on edible casing volumes in 2020. Adjusting for this impact we would have delivered Group volume growth within our targeted long-term range of 2-4%.

BUSINESS PERFORMANCE

Despite the COVID-19 challenges, which we estimate had a net 2% adverse impact on our edible collagen ('EC') volumes, total EC volumes grew 1% in the year, driven by strong growth in emerging markets (+13%) and offset by a decline in mature markets (-5%) mainly due to the COVID-19 impact and distributor de-stocking in Continental Europe. Overall Group revenue was marginally down (-1%) but underlying operating profit was up 4% driven by strong margins resulting from significant supply chain savings. Underlying basic earnings per share increased by 9% to 16.5 pence (2019: 15.2 pence) further supported by lower finance costs. Despite higher exceptional items, related to the Bellshill closure, cash generation was also strong and net debt ended the year at £110 million, an improvement of almost £15 million in the year and the covenant ratio improved to 1.8 times net debt to EBITDA. The delayed final 2019 dividend was paid in October 2020 and the 2020 interim dividend was paid in January 2021 maintaining our long-term track record of distributions.

EMERGING MARKETS

Devro's growth ambition is based on delivering growth in emerging markets of between 6-10% per annum. In H2 2019 we saw an acceleration of growth in emerging markets and this momentum continued throughout 2020. Emerging markets growth was 13% with all sales areas contributing, except for the Middle East and Africa region, where sales were adversely impacted by COVID-19. Throughout the year we saw exceptional growth in Latin America (+76%), driven by new customer gains, as well as good growth in South East Asia (+14%) and Russia and East (+16%). China sales grew moderately at +3% partly impacted by COVID-19 but also due to a strong comparator in H2 2019. Emerging markets represented 28% of the Group revenue, a 300 bps increase year on year.

Business Review (continued)

MATURE MARKETS

Devro has strong market positions in mature markets. We continue to see growth opportunities in these markets mainly through gut conversion and the snacking category with an overall expectation, on average, of growth between 0-2% per annum. In 2020 we experienced two specific challenges, namely food service declines due to COVID-19 lockdowns across several important markets and the anticipated distributor partner de-stocking in H1 2020 in Continental Europe. Overall edible casing volumes in mature markets were down 5%, but with an improvement seen in the trend during H2 2020 (-6% H1 and -3% H2). Edible casing volumes grew strongly in North America (+9%) and were in positive territory in Australia & NZ (+2%) and Japan (+1%), but this was offset by lower volumes in Continental Europe (-16%), where sales were impacted by distributor de-stocking and a more general collagen casings market weakness in the UK and Ireland (-9%). In both of these areas volumes were also impacted by COVID-19 related declines in foodservice.

OUTLOOK

The progress we have made in all areas of our 3Cs strategy in 2020 provides a strong foundation for further strategic improvements in 2021. Encouragingly, the year has started positively but many of the COVID-19 related challenges experienced in 2020 remain providing a level of caution. Despite this we expect to make further progress in 2021 driven by our sales pipeline actions, solid underlying demand and the ongoing benefits of operational improvements including the Bellshill site closure. We would also expect another year of good free cash generation. Devro is well positioned for the future.

RUTGER HELBING

CHIEF EXECUTIVE OFFICER



STRATEGIC PROGRESS

Despite the challenges presented by COVID-19 we made very good progress on our strategic priorities in the year. After the introduction of the 3Cs strategy in 2018, considerable progress has been made to further strengthen the foundation of the business with, amongst others, the implementation of our global operating model and supporting processes like Integrated Business Planning and introduction of the sales cycle. The focus in 2020 shifted from building and designing those to using them to drive our growth agenda.

WIN WITH THE WINNING CUSTOMERS

In 2020 the focus was on delivering the first year of the three-year commercial plans for each of our sales areas. A key part of these plans is to identify growth opportunities and manage the delivery of those growth opportunities through our sales cycle management, for the current year, as well as setting-up further growth opportunities for the following year. We had notable successes in 2020, which was reflected in strong volume growth of 13% in our emerging markets and of almost 10% in North America. We continued to cultivate our sales pipeline in 2020 which we believe bodes well for future growth.

Delivering volume growth is supported by focused investment in both people and product. Given our ambition to grow between 6 to 10% per annum on average in emerging markets, we invested particularly in those sales areas. Across the Group we increased our commercial headcount by approximately 10%, the majority of which are focused on emerging markets. In addition, we upgraded our capabilities in five of our key commercial roles through a mixture of internal promotions and external recruitment. Further recruitment is planned for 2021.

In 2020 we again reviewed our route to market strategy for our different sales areas to be able to deliver our growth agenda more effectively in the future.

The Group continued to focus, accelerate, and expand its product development activities. In 2020 there were three main priorities. First, supporting our near-term growth opportunities as customers take our product to market. Second, the product development team helped support the transfer of production to the Czech site from Bellshill. The third important priority to ensure our long-term success was to drive our new category plans relating to the opportunities in gut conversion, snacking and emerging market growth, amongst other areas such as new technologies.

FOCUS ON THE CORE PROFITABILITY DRIVERS

In 2019 we announced the intention to close our Bellshill site in Scotland. This action targeted £5 million of annualised costs savings to be fully realised in 2021, and aimed to enhance the agility and flexibility of the Group's supply chain. As planned, on 30 June 2020 we closed the Bellshill site transferring some of the production lines to our largest site in Czech. The first tranche of savings were realised in H2 2020 with the 2020 cash costs well within our original guidance of £9 million. The new Czech lines will be commissioned in Q1 2021 with full year annualised savings still estimated to be £5 million. We are pleased with the delivery of the overall programme given the challenges posed by COVID-19.

Whilst 2019 was the last year of our D100 savings programme, the business continued to deliver ongoing cost savings in 2020, with a focus on efficiency gains in maintenance and automation, amongst other areas. The efforts delivered total supply chain savings (including Bellshill savings) well ahead of our original guidance, and

also an improvement from the stated H1 position. The savings were partially offset by the unexpected, temporary costs due to COVID-19, including higher hide prices, as well as ongoing inflationary pressures driving net cost savings of £6.0 million¹.

To support our growth ambition we continued to focus on increasing capacity from our existing production lines, and in 2020, both overall yields and line speeds increased through our strategic capacity enhancement initiatives such as 'Stable Ops'. We have many opportunities which we can apply our cost effective capacity enhancement programme, which we piloted for the first time in 2019 in our US plant, and have incorporated it in the transferred lines from Bellshill to our Czech site. This programme allows for increased capacity within our existing footprint without the requirement for significant capital expenditure based on our medium-term growth plans.

STRENGTHENING COMPETENCIES

In our journey from a regional to a global business the Integrated Business Planning process ('IBP') has been crucial in linking our global functional organisation together and to delivering the 3Cs strategy. In 2020 after designing the process in 2019, we started to embed IBP and I am pleased with the progress we have made during the year. At the core of IBP is continuous improvement, which we will continue to focus on, but with IBP and our 36 months rolling financial forecast we already have a much better longer-term view which enables us to more effectively align our resources towards the most promising growth opportunities.

Devro takes its Environmental, Social and Governance ('ESG') responsibilities seriously, and in H2 2020 we began a Group wide programme to enhance our ambition, disclosure and performance including, as an initial step, engaging with our stakeholders. Whilst we already have, for some years, a significant Sustainability commitment, we started to define our longer-term ambitions. With the help of our colleagues and other stakeholders we use the UN Sustainable Development Goals to review our commitments and decided to focus our ambition and resources on Climate, Water, Waste and People & Our Communities with targets and priority projects to be finalised in H1 2021. We will communicate this further in H2 2021.

Now that we are globally managed, aided by the 3Cs strategy, it is the right time to redefine Devro's **Purpose**. We engaged with our workforce to help in the process and in the later part of the year over 33% of our workforce participated in workshops and webinars. Based on this work we will redefine Devro's Purpose, Mission and Vision in H1 2021 and start 'living' and communicating this both internally and externally in 2021.

Engagement continues to be high on our agenda. As part of our 3Cs strategy in 2018 we started with our first Group wide engagement survey and in 2020 we completed our third 'TellDev!' survey. I am pleased that 73% of our colleagues participated in the survey and our overall engagement increased by five percentage points, with higher scores, despite all the COVID-19 related challenges we faced. One of the areas we particularly focused on in 2020 was to significantly increase our internal communications efforts utilising our intranet. This has been well received. Our managers now have access to their team's engagement feedback and will decide, as they did in 2020, on the areas they specifically need to focus on to further increase engagement and contentment in the workforce.

¹ Refer to page 29 for breakdown of cost savings.