

HALF YEAR RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

29 JULY 2021

H1 HIGHLIGHTS

- Growth momentum continuing
 - 3.1% constant currency revenue growth
 - 4.2% edible casings volume growth
 - 1% mature markets
 - 10% emerging markets
- Underlying operating profit of £20.3m up 10% on prior year, benefiting from revenue growth, improving price/mix and ongoing cost savings
- Underlying basic earnings per share up 21% to 8.7p
- Improved free cash flow generation of £9.4m, up 31%
- Covenant net debt of £103.1m, 15% improvement, representing covenant net debt to EBITDA of 1.6x (H1 2020: 1.9x, FY 2020: 1.8x). Further progress expected in H2 2021
- The Board has declared an increased interim dividend of 2.8p, up 4%



SUSTAINABLE GROWTH – BETTER PLANS AND PROCESSES SUPPORTING OUR PEOPLE TO DELIVER

PLANS

-  3 Year Commercial Plans for all Sales Areas
-  Go-to-Market plans for key countries **In progress**
-  Clear category and product development plans for Processed, Snacking and Fresh

PROCESS

-  Integrated Business Planning
-  Sales cycle
-  Pricing management
-  Stage Gate product development

PEOPLE

-  Commercial training program **In progress**
-  Additional resources in sales, technical service and product development **ongoing**
-  Completed journey from Regional to Global with Global commercial organisation
-  Targeted capability upgrades across the organisation

DELIVERING GROWTH



*Volume: June 19 to June 21

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- Total volume has grown by 4% despite COVID-19 impact with limited recovery but potential upside going forward
- Emerging markets have grown significantly in the last 2 years +27%
- Mature markets stabilised in H2 2020 and returned to modest growth in H1 2021
- Devro continues to be more exposed to mature markets but emerging markets share of total volume has increased from 30% to 37% in the last 2 years on a rolling 12 months basis

* 12 months rolling

STRONG VOLUME GROWTH OF 10% IN EMERGING MARKETS

Strong growth in line with 3Cs strategy

- Growth in all markets (except Russia and East)

South East Asia up 28%

- Strong growth in Indonesia and Thailand coupled with new business wins

China up 18%

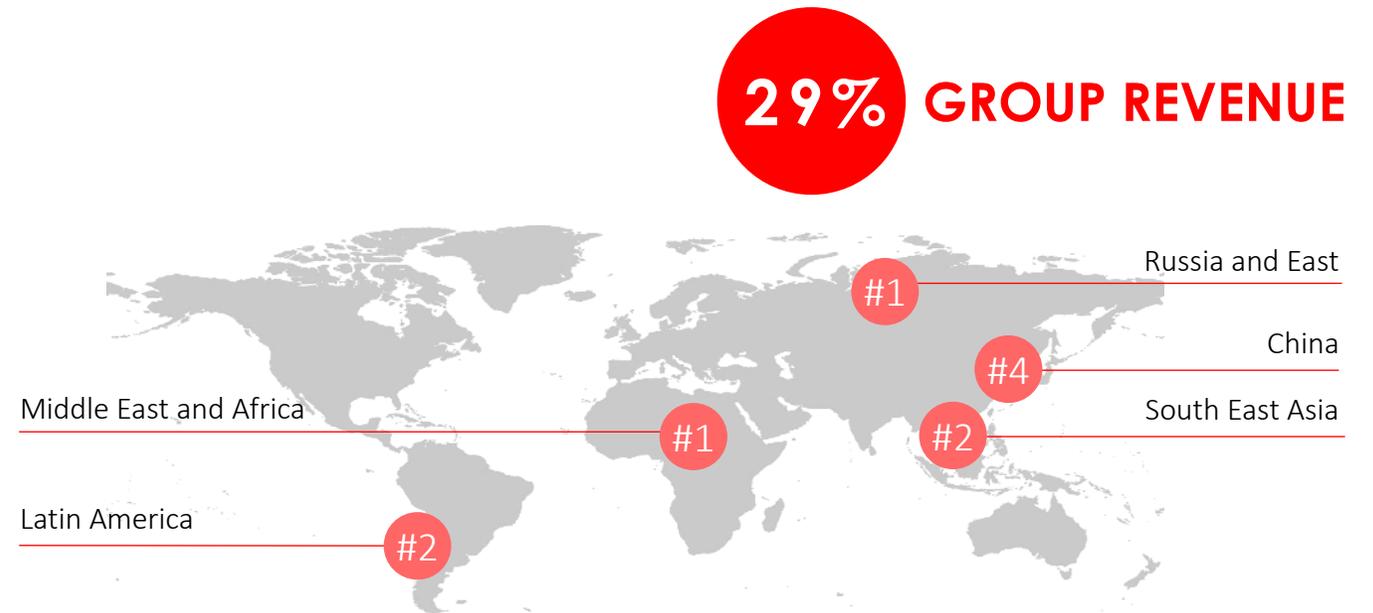
- Post COVID-19 recovery

Latin America up 8%

- New business wins coupled with annualised benefit from existing customers

Russia and East down 21%

- FX headwinds impacted our competitiveness



VOLUME

- Volume: +10%

PRICE/MIX & FX

- Price/mix: -5%
- FX: -3%

MODEST VOLUME GROWTH OF 1% IN MATURE MARKETS

Growth in line with 3Cs strategy

- Strong growth in North America

North America up 19%

- Continued growth from snacking and incremental business with existing customers

Continental Europe up 1%

- Benefitting from a weaker comparator and limited COVID-19 recovery

UK and Ireland down 13%

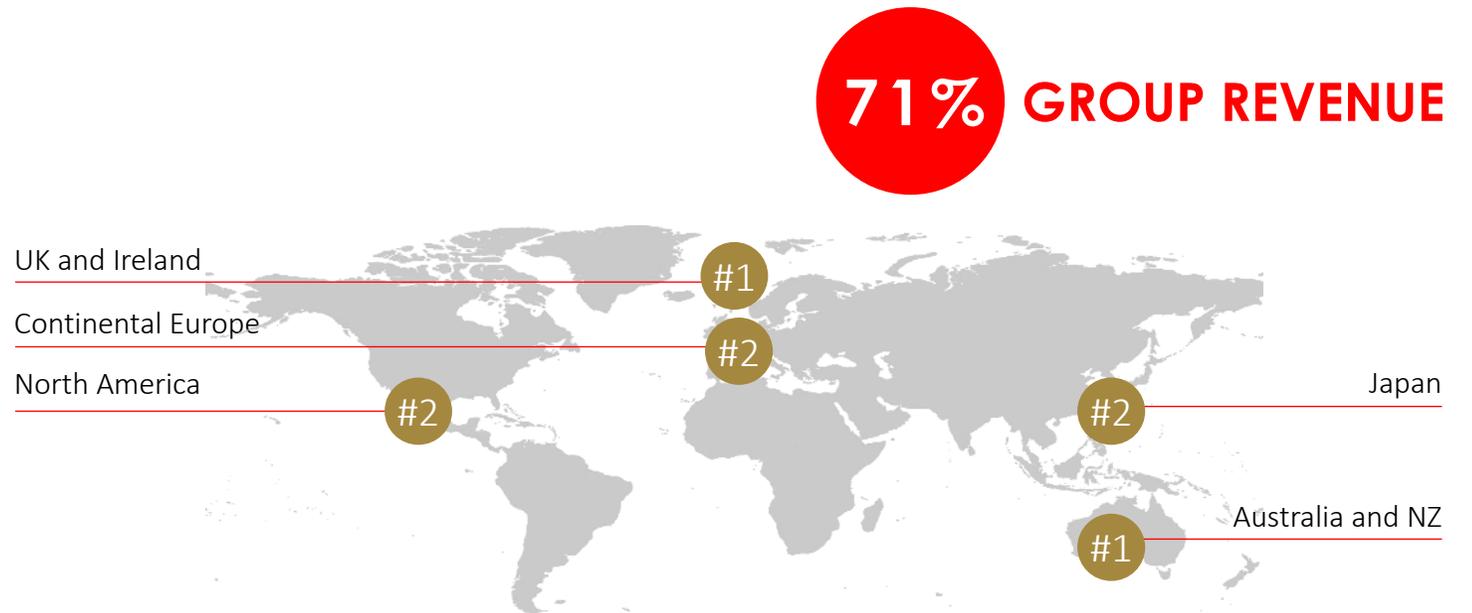
- Weak collagen market conditions and continued adverse COVID-19 impact on food service channels

Australia and New Zealand down 7%

- Weak collagen market conditions

Japan up 1%

- Positive COVID-19 impact coupled with promotional activities from customers



VOLUME

- Volume: +1%

PRICE/MIX & FX

- Price/mix: +2%
- FX: -2%

AND WE CAN CONTINUE TO CAPTURE THE BENEFITS FROM THE LONG-TERM GROWTH DRIVERS

**GDP/Capita
Urbanisation**



**Emerging
markets growth**



- Investment in go-to-market resources
- Targeted innovation projects
- Category plans and go-to-market plans

**Cost pressure
Labour shortages**



**Gut
conversion**



- Category and go-to-market plans
- Targeted innovation projects
- Opportunity pipeline management through sales cycle and IBP

**Convenience
Healthy snacking**



**Snack
sticks growth**



- Category and go-to-market plans
- Targeted innovation projects
- Leverage in depth knowledge of North America and Japan snack markets

CASE STUDY – KEY SOUTH EAST ASIA (SEA)

GROWTH FOCUS IN SEA

BACKGROUND

- Our SEA area is characterised by countries with a growing middle-class, urbanisation, 'westernisation' of food habits and convenience
- The leading companies in our target markets expect high quality products supported by our technical and customer service teams
- Different markets have different sausage applications, for example:
 - In Thailand and Philippines, sausages are often fried, deep fat fried or shallow fried
 - In Korea sausages are often cooked in hot pot or Korean barbeque
 - In Taiwan and Singapore main consumption is Chinese and Western style sausages

WHAT WE DO

- Devro has sales, technical and customer service locally - closely collaborating with our key distribution partners. We work to understand our customers' requirements in terms of product performance to meet consumer trends
- As well as continuing to increase our business in our traditional SEA country markets, we are working to geographically expand with Devro personnel working alongside our distribution partners
- An example would be in Vietnam where we are leveraging our knowledge of similar sausage applications from other countries

OUTCOMES

- We grew volume by 28% in H1.
- We outperformed market growth in key markets and segments via new customer wins in Thailand and South Korea and gaining share in Indonesia and South Korea
- 9% CAGR in sales from 2016 to 2020 – market growth combined with increased market share
- The growth rewards the focus Devro is putting into this important market
- We continue to see this as a longer term growth area



FINANCIAL REVIEW

CONTINUED STRONG MOMENTUM

01

Constant currency revenue
up 3.1% at £122.7m

Reported revenue of £119.9m
up 1% vs H1 2020

02

Underlying operating
profit up 10% to £20.3m

Operating margin +140bps to 16.9%
benefitting from ongoing cost savings

03

Underlying profit
before tax up 20%

Underlying basic EPS up 21%
to 8.7p (H1 2020: 7.2p*)

04

Strong cash delivery

Free cash flow £9.4m
(H1 2020: £7.2m)

05

Covenant net debt £103.1m
(H1 2020: £121.5m)

Covenant net debt / EBITDA ratio
1.6x (H1 2020: 1.9x)

06

Interim dividend 2.8p
an increase of 4%

* H1 2020 numbers have been restated to include net finance cost on pensions as an underlying item

**DEVRO**

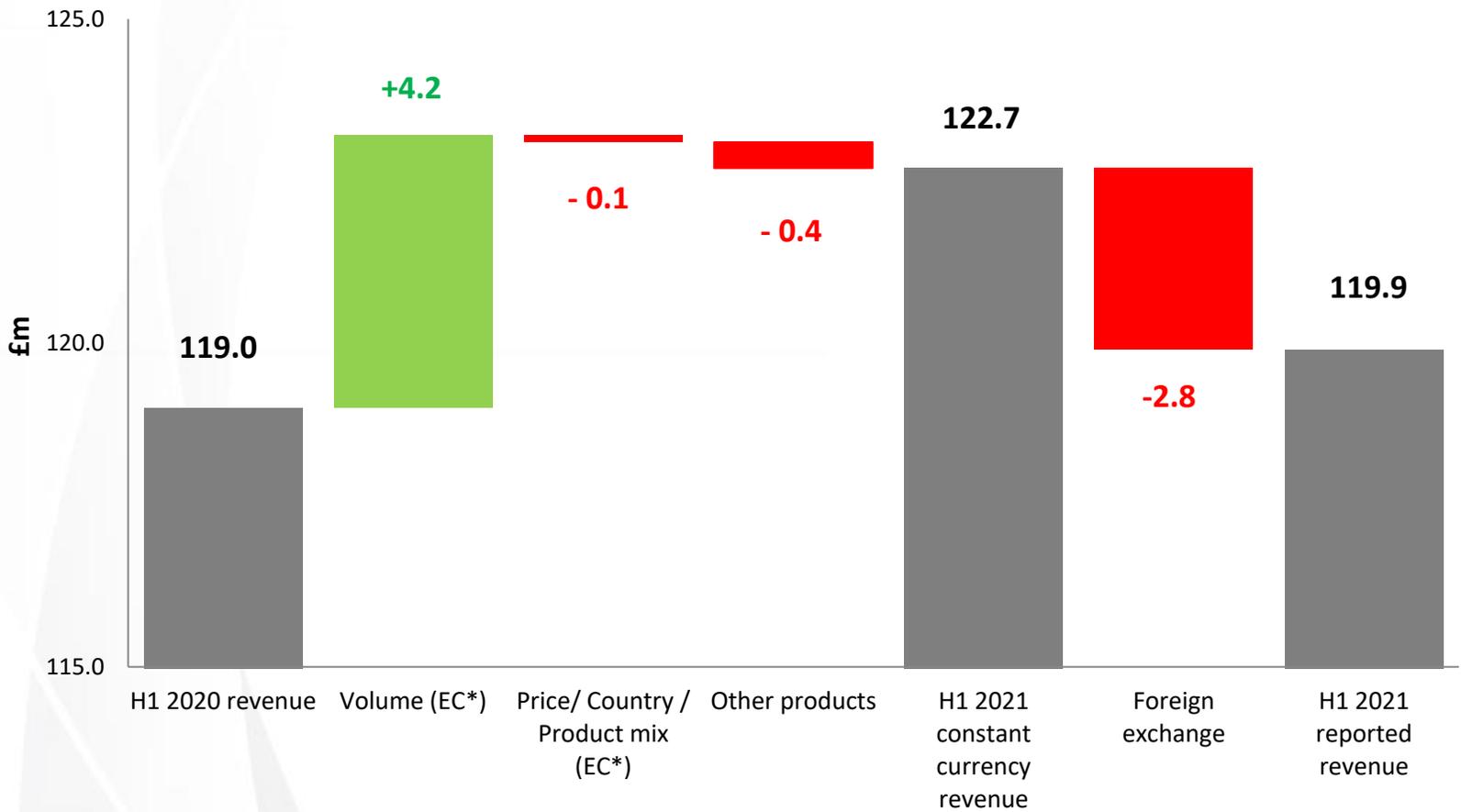
FINANCIAL SUMMARY

	UNDERLYING			STATUTORY		
	H1 2021 £M	H1 2020* £M	Change	H1 2021 £M	H1 2020 £M	Change
Revenue	119.9	119.0	+1%	119.9	119.0	+1%
Operating profit	20.3	18.5	+10%	21.0	17.2	+22%
Operating profit margin (%)	16.9%	15.5%	+140bps	17.5%	14.5%	+300bps
Total finance cost	-2.6	-3.7	+30%	-2.6	-3.7	+30%
Profit before tax	17.7	14.8	+20%	18.4	13.5	+36%
Tax charge	-3.1	-2.8	-11%	-2.9	-2.4	-21%
Profit after tax	14.6	12.0	+22%	15.5	11.1	+40%
Basic EPS (pence)	8.7p	7.2p	+21%	9.3p	6.6p	+41%
Interim dividend per share (pence)	2.8p	2.7p	+4%	2.8p	2.7p	+4%
Final dividend per share (pence)		6.3p			6.3p	

* H1 2020 numbers have been restated to include net finance cost on pensions as an underlying item



GROUP REVENUE



*EC – Edible Collagen

Volume

- Overall collagen casing volume growth 4.2%

Price/Country/Product Mix

- Mix driven by slightly negative geographical mix as emerging markets are growing faster than mature markets

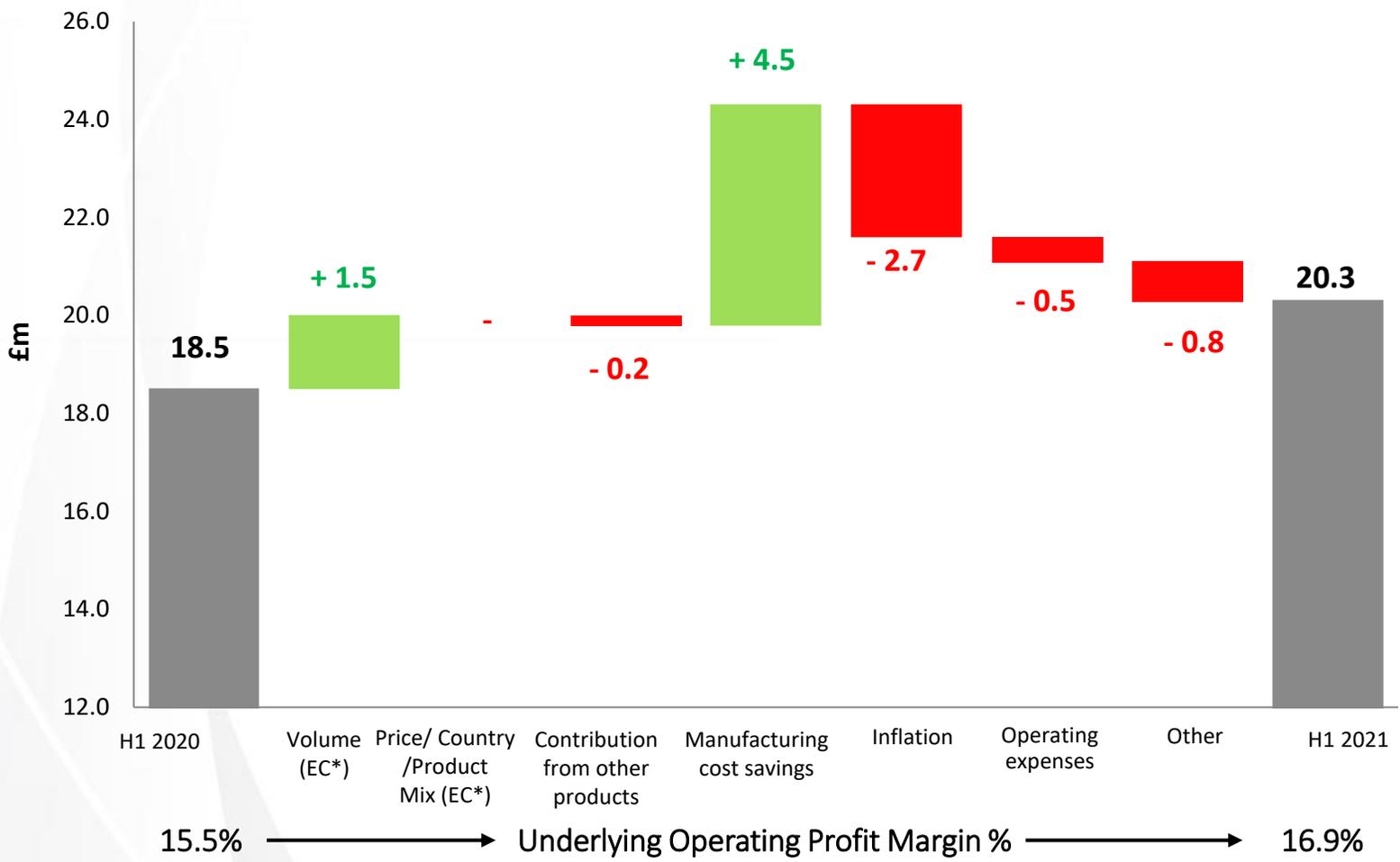
Other products

- Weaker sales in collagen extrusion gel in Europe

Foreign exchange

- Strengthening of Sterling vs US Dollar and the Japanese Yen

UNDERLYING OPERATING PROFIT



Volume, Price/Country/Product Mix, Contribution from other products

- Refer to previous slide

Manufacturing cost savings

- Includes Bellshill related savings and ongoing supply chain cost savings initiatives

Cost inflation

- Inflation represents an increase in salary costs, raw materials and other manufacturing costs

Operating expenses

- Increase due to investment in growth

*EC – Edible Collagen



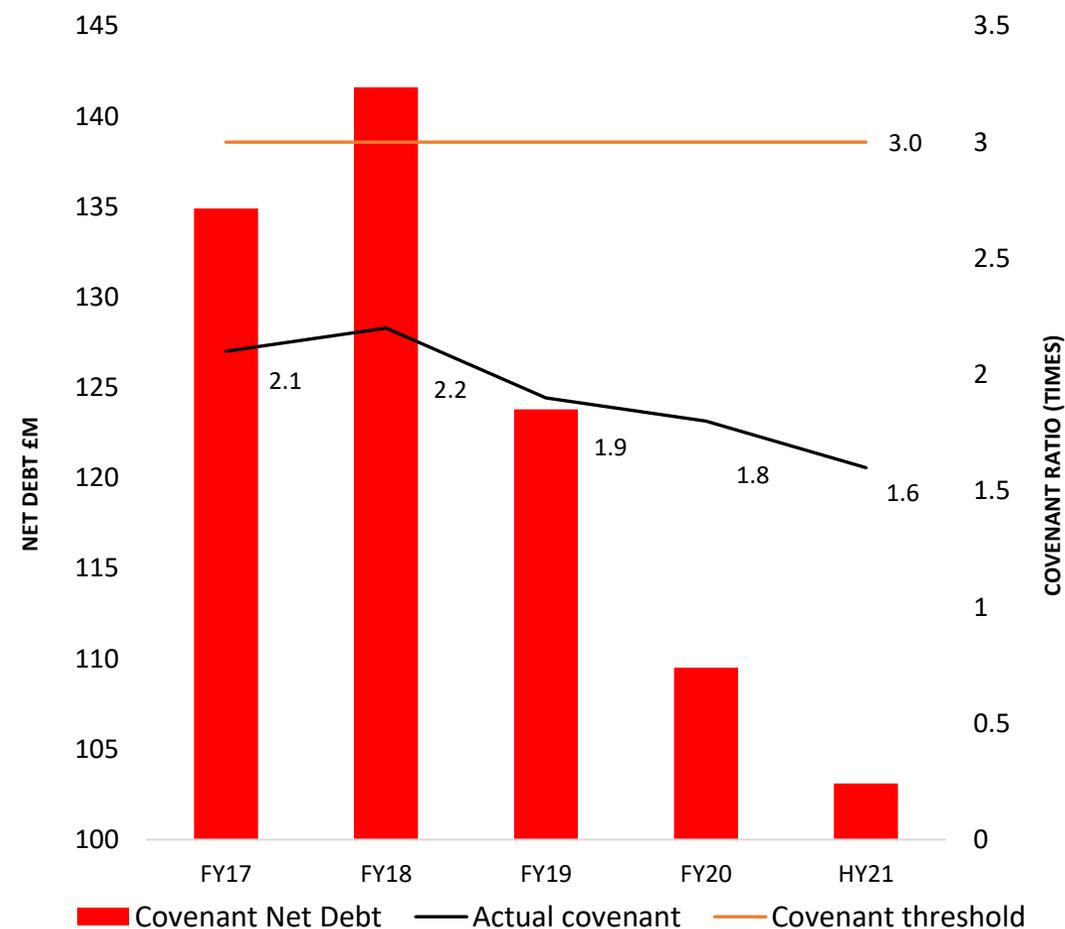
STRONG FREE CASH FLOW

	H1 2021 £M	H1 2020 £M	Change £M
Underlying EBITDA	31.0	29.5	1.5
Working capital/other	-6.4	-6.9	0.5
Underlying operating cash flow	24.6	22.6	2.0
Capital expenditure	-7.6	-6.3	-1.3
Cash exceptional items	2.8	-1.5	4.3
Pension deficit funding	-1.7	-0.6	-1.1
Interest	-2.3	-2.8	0.5
Tax	-5.4	-3.4	-2.0
Other	-1.0	-0.8	-0.2
Free cash flow	9.4	7.2	2.2
Dividends	-4.5	-	-4.5
Foreign exchange	0.7	-4.7	5.4
Movement in net debt	5.6	2.5	3.1

- As usual in the first half of the year the Group's working capital increased by £6.4m (H1 2020: £6.9m)
- Cash exceptional item: sale of the Bellshill site
- Timing of pension payments: H1 2020 US pension deficit funding was deferred to H2
- Tax payments higher due to timing of payments
- 2020 interim dividend paid in H1 2021
- FX impact on retranslation of USD denominated debt

IMPROVED BALANCE SHEET LEVERAGE – NET DEBT

	June 2021 £M	Dec 2020 £M	June 2020 £M	Banking covenant threshold
Net debt	104.4	110.0	122.1	
Covenant net debt	103.1	109.5	121.5	
Covenant net debt / EBITDA ratio	1.6x	1.8x	1.9x	<3.0x
Covenant EBITDA / Net interest payable ratio	14x	12x	11x	>4.0x



SIGNIFICANT PROGRESS MADE ON REDUCING THE PENSION DEFICIT

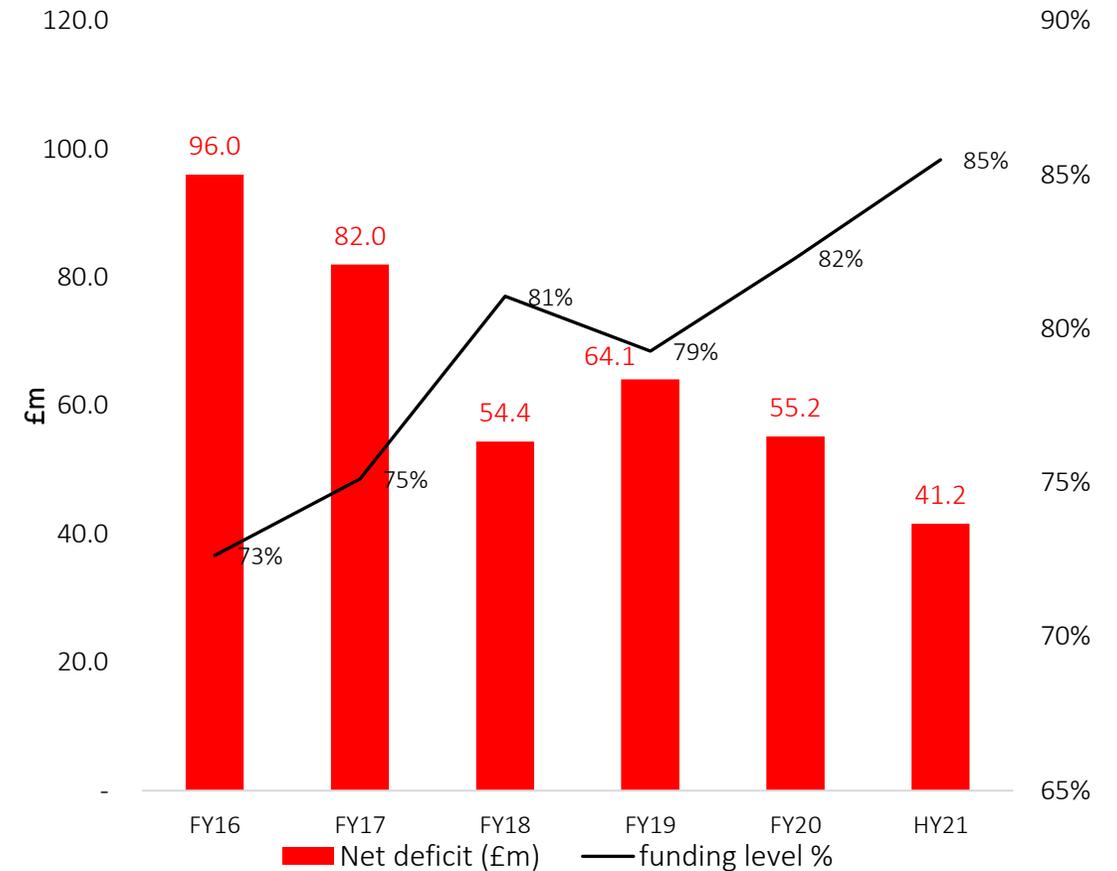
	June 2021 £M	Dec 2020 £M
Net pension deficit	41.2	55.2

Reduction in pension deficit driven by contributions and an increase in discount rates in both the UK and US

The UK triennial review is completed with no change in contributions

Significant progress has been made in improving the pension deficit and pension funding levels since 2016

Given the current level of funding at c£7m per annum we expect to close the deficit within the next 5 years, subject to market conditions



FY 2021 MODELLING GUIDANCE

CAPEX

Around D&A annual cost while investing in future growth

EXCEPTIONAL ITEMS

c£2.8m cash driven by Bellshill sale proceeds
No further exceptional items expected

EFFECTIVE TAX RATE

c20% after the one off benefit of revaluation of UK deferred tax asset, excluding the one off benefit 22-25% range still relevant

NET DEBT/ EBITDA RATIO

c1.5x 31 December 2021

PENSION DEFICIT FUNDING PAYMENTS

Triennial UK valuation and negotiations have concluded
Total funding payments will be c£7m after FX fluctuations on the US payments

COMMODITY COST AND COST SAVINGS

Commodity cost inflation largely offset by efficiency cost savings and c+£3.0m Bellshill savings

FOREIGN EXCHANGE

Current foreign exchange rates would present a headwind to our FY21 reported results



Purpose & ESG

TAKING THE NEXT STEP IN DEVRO'S JOURNEY



2018

Building firm foundations for sustainable growth



2021



Embed and accelerate growth

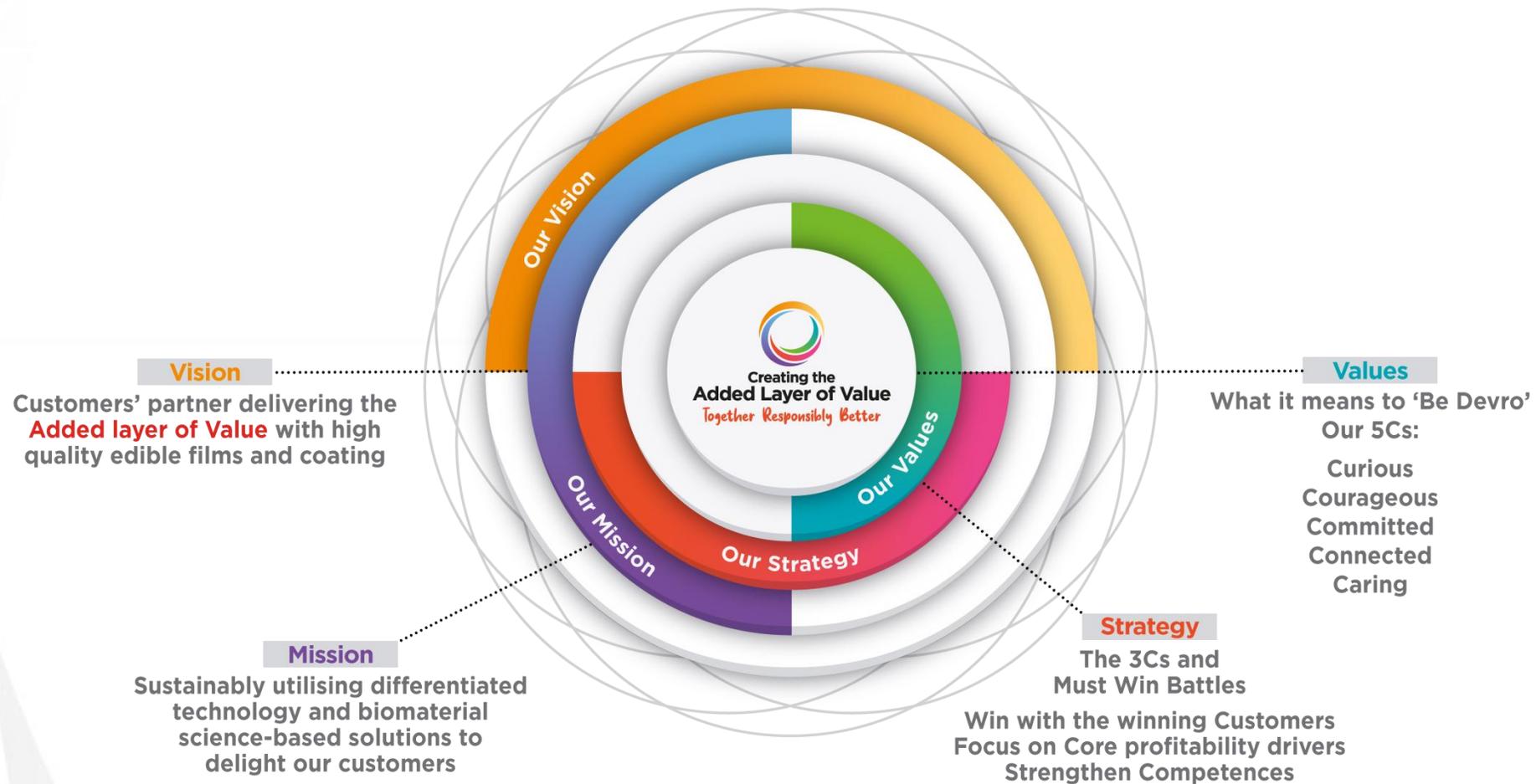
Live Purpose and values

ESG

Investing in product development for alternative technologies and markets

Future

MORE TO COME ON PURPOSE AND ESG IN SEMINAR BUT AS A TEASER...



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

LIST OF ACTIVITIES

Reporting

- Website and annual report ESG reporting improvement – **complete**
- Materiality assessment – **complete**
- Preparation for TCFD requirements
 - Gap analysis - **complete**
 - Reporting adjustment - **underway**

Climate Impact

- Baseline Global Carbon utilisation – **complete**
- Product Lifecycle Analysis (Carbon and Water) - **underway**



FOCUS AREAS

Together

- Global employee workshops using UN SDGs, EMT and investor priorities – **identified ESG focus areas**
- Climate, Water, Waste, People and Communities
- Assigned lead responsibilities and identified projects



Better

- Agreed short (2025), medium (2030) and long term (2050) ESG targets for carbon, water and waste
- Identified where we initially focus, the tools to get there and reapply where it works



Responsibly

- Agreed governance, identified risks and opportunities and develop strategy and plans





CONCLUDING COMMENTS

CLOSING REMARKS

Momentum building, driving long term growth

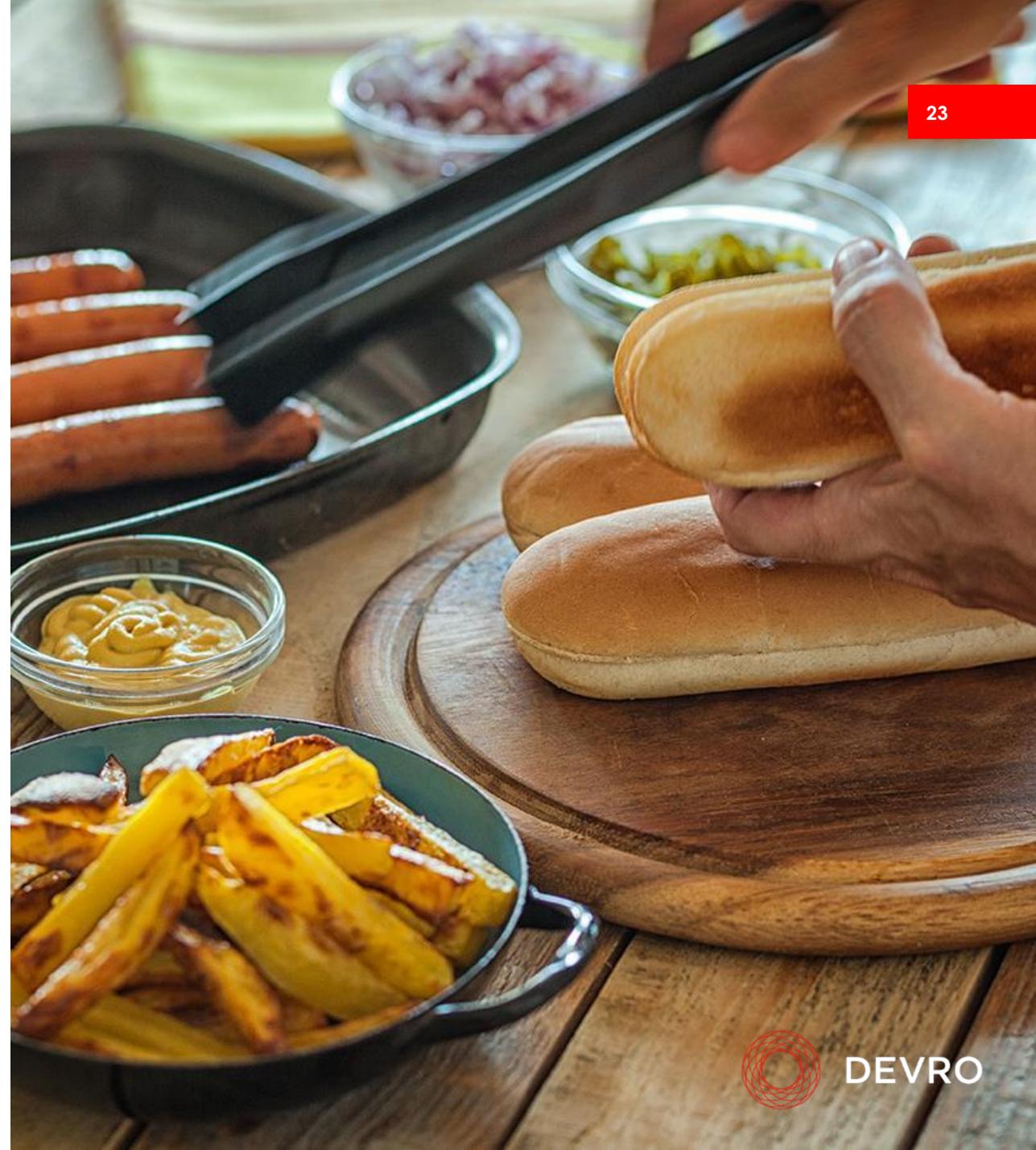
Strong financial position

- Underlying operating profit margin c17%
 - Net debt/EBITDA well below 2x and reducing fast
-

Core markets growth drivers still in place +2% to +4% growth per annum

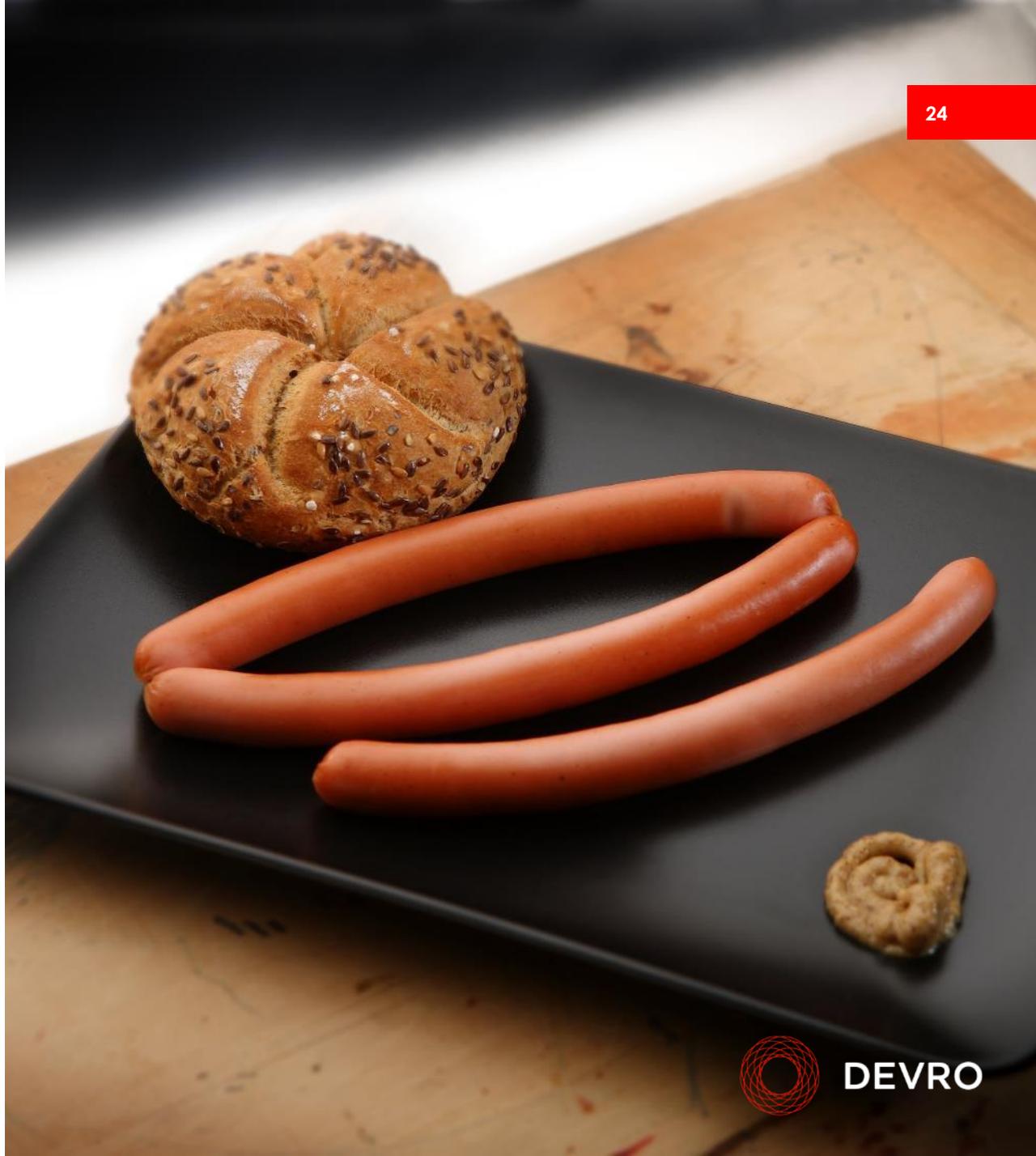
Whilst continuing embedding sustainable growth we have started the next step in our journey

- Meaningful Purpose, Vision, Mission and Values to guide us in the journey
- ESG at the heart of it



OUTLOOK 2021

“Devro’s constant currency revenue growth has accelerated and has driven significant profit growth in the first half, demonstrating the successful execution of the strategy, and we enter the second half with good momentum across the business, and confidence in our future prospects. In the shorter term, for the second half we expect the strong underlying performance to continue, however reflecting the uncertainties relating to COVID-19 pandemic and foreign exchange headwinds, the Board’s full year expectations are unchanged. The Board’s confidence in the Group’s prospects and the continued strengthening of the balance sheet has resulted in an increase in the dividend for the first time in four years, as well as an incremental increase in investments required to facilitate the sustainable growth we foresee based on underlying market dynamics, as well as our targeted sales actions.”





APPENDIX



FOREIGN CURRENCY PROFILE FOR REVENUE

% OF TOTAL FOR HALF YEAR 2021	REVENUE
US Dollar	38%
Euro	25%
Australian Dollar	6%
Sterling	10%
Japanese Yen	10%
Other	11%
Total	100%

GLOSSARY OF TERMS

Covenant net debt

Net debt before the impact of IFRS 16 Leases of H1 2021: £1.3m, H1 2020: £0.6m

Covenant EBITDA

EBITDA on underlying basis (before exceptional items) and before the impact of IFRS 16 of H1 2021: £0.2m, H1 2020: £0.3m

Underlying operating profit

Operating profit before exceptional items

Underlying profit before tax

Profit before tax and exceptional items

Underlying EBITDA

Underlying EBITDA is defined as underlying operating profit excluding depreciation and amortisation





CONTACT

INVESTORRELATIONS@DEVRO.COM
WWW.DEVRO.COM
+44 20 3865 7634