



DeLaRue

2016/17 Half Year Results

De La Rue plc
22 November 2016

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Agenda

Overview
Martin Sutherland

Financial performance
Jitesh Sodha

Operational and strategic update
Martin Sutherland

Q&A



Overview

- **Solid performance underpinned by good volumes and strong order book**
 - Group revenue flat yoy¹, underlying operating profit +2% yoy¹
 - Banknote Print volumes +22% yoy, Banknote Paper volumes +8% yoy
 - Product Authentication and Traceability revenue +10% yoy, underlying operating profit +24% yoy
 - Group 12 month order book remained strong at £409m

- **Good strategic progress**
 - Restructuring of manufacturing footprint progressing well
 - Agreement to enter into 60/40 JV with Government of Kenya
 - Good momentum in Polymer – second significant volume customer win
 - Secured two multi-year Identity Solutions contracts

- **Interim dividend maintained at 8.3p**

1. Continuing operations only

Agenda

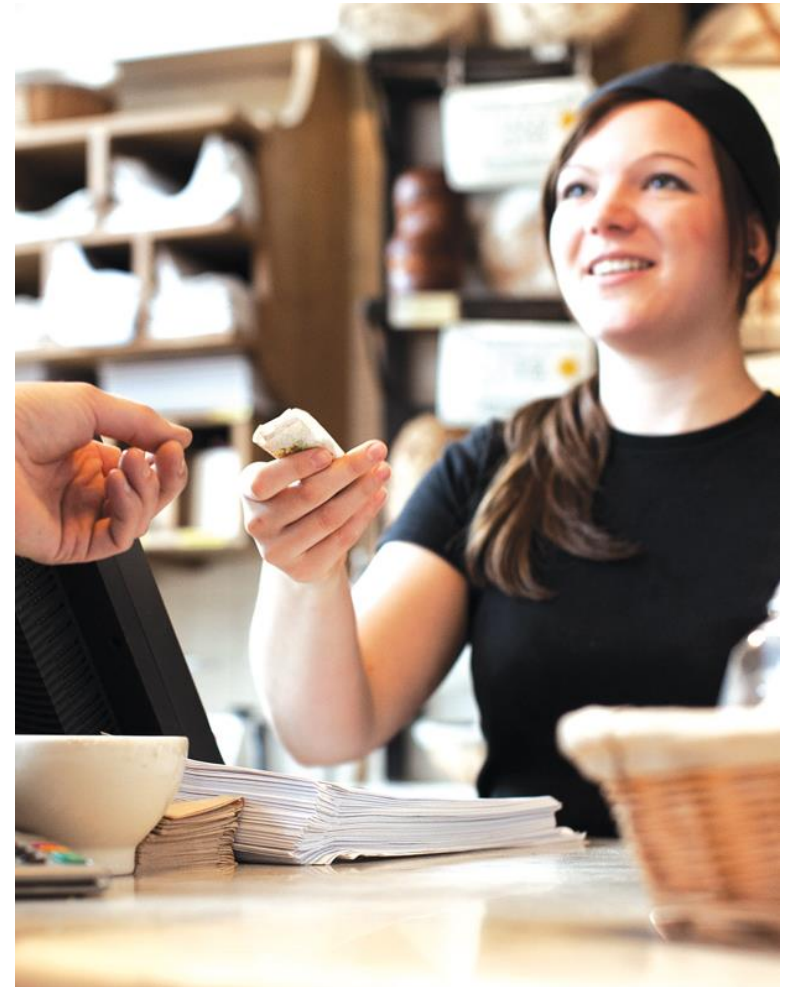


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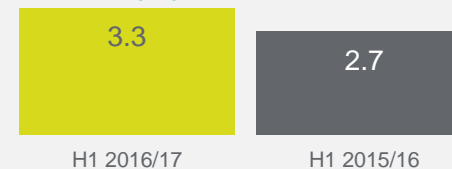


Financial overview

	H1 2016/17* £m	H1 2015/16* £m	Change %
Revenue	189.5	188.7	0%
Underlying operating profit**	24.0	23.6	2%
Underlying operating margin**	12.7%	12.5%	20bpts
Underlying profit before tax**	18.2	17.6	3%
Taxation before exceptionals	(2.9)	(2.0)	-
Underlying profit after tax**	15.3	15.6	(2%)
Underlying earnings per share**	14.0p	14.6p	(4%)
Reported earnings per share	13.2p	25.0p	(47%)
Dividend per share	8.3p	8.3p	0%

Banknote volumes (bn notes)

+22% yoy

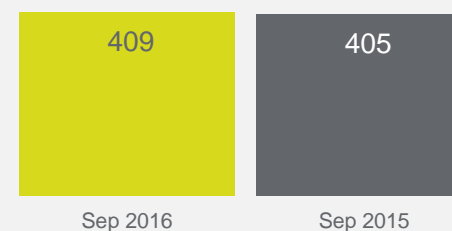


Paper volumes (tonnes)

+8% yoy



12 month order book (£m)



* Continuing operations only

**Before exceptional items

Revenue and operating profit



	Revenue*			Operating profit*		
	H1 2016/17 £m	H1 2015/16 £m	Change %	H1 2016/17 £m	H1 2015/16 £m	Change %
Currency	136.4	139.8	(2%)	14.3	13.9	3%
Identity Solutions	33.5	31.5	6%	3.4	4.6	(26%)
PA&T	21.5	19.6	10%	6.3	5.1	24%
Intra group eliminations	(1.9)	(2.2)				
Total	189.5	188.7	0%	24.0	23.6	2%

* Continuing operations only and before exceptional items

Cash flow and net debt

	H1 2016/17 £m	H1 2015/16 £m
Underlying operating profit	21.7	18.9
Depreciation	13.5	12.9
Working capital	(10.2)	29.3
Underlying operating cash flow	25.0	61.1
Capital expenditure	(8.8)	(10.8)
Special pension fund contributions	(4.2)	(8.4)
Net cash cost of exceptional items	(2.4)	(10.8)
Tax and interest	(2.8)	(2.7)
Dividend	(16.9)	(16.9)
Other	0.7	(3.1)
Net cash flow	(9.4)	7.7

	24 Sept 2016 £m
Opening net debt	(106.1)
Net cash flow	(9.4)
Closing net debt	(115.5)

*All numbers stated above include discontinued operations

Other finance matters

- Exceptional costs of £1.0m
- Effective tax rate for 2016/17 expected to be c16%
- Foreign exchange impact
 - Hedged all committed orders – little impact in FY2016/17
 - 80% of sales are export – sustained weakness in Sterling provides competitive advantage
- Pension
 - Post tax pension deficit increased by £130m to £297.7m, reflecting a decrease in the discount rate
 - Triennial valuation completed in June 2016
 - Extended funding schedule to 2028, reduced pre-tax cash contributions for the next two years

Year ended 31 March	2017	2018	2019	2020	2021	2022	2023-2028
Cash contribution* (£m)	13.0	13.5	20.5	21.3	22.2	23.1	23.0 p.a.

*Exclude £1.6m administration fee per annum

- Interim dividend maintained at 8.3p

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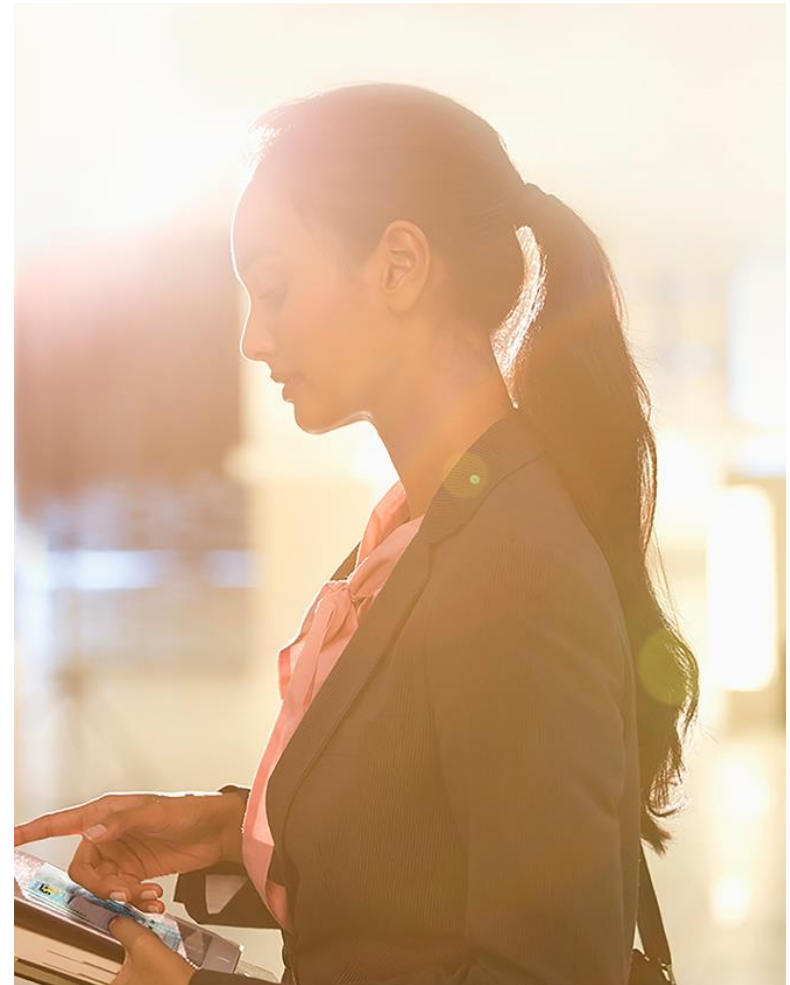


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Five year journey

2015-17

Phase 1: Set foundations

- Address material issues
- Optimise manufacturing footprint and create operational flexibility
- Reduce costs
- Increase R&D investment and introduce product management
- Reorganisation & drive culture change
- Focus on cash management



2017-19

Phase 2: Accelerate transformation

- Accelerate product development
- Continue to invest in new capabilities
- Broaden customer base
- Formulate digital strategy
- Strengthen partnerships
- Continue culture change
- Improve cash flow



2019-20

Phase 3: Establish leading positions

- Balanced business portfolio
- Attractive and sustainable financial returns
- Dynamic and high performing culture
- Cash positive
- Cement No. 1 position in Currency
- Become one of the major players in our chosen markets for IDS and PA&T



Phase 1: Set foundations – how are we doing?

Address material issues

- Sold CPS
- Banknote paper strategic partnership discussions ongoing

Optimise footprint & create operational flexibility

- Manufacturing footprint implementation making good progress – cost saving on track
- Continue to work with and explore deepening relationships with outsource partners

Reduce costs

- Operational Excellence programme continues
- Fixed cost reduction progressing well – 14% total headcount reduction in last 12 months

Increase R&D & introduce product management

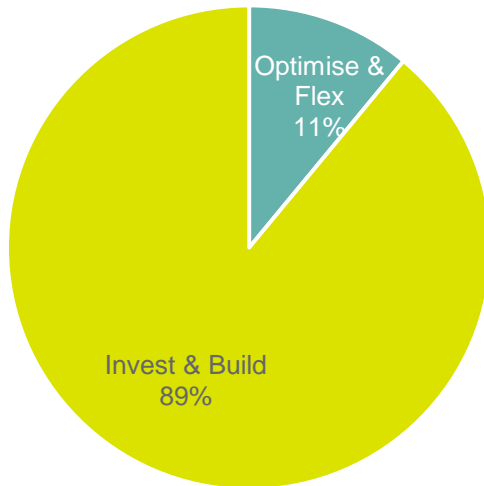
- ‘Pathfinder’ – initiated digital strategy
- New product managers in place across Currency, IDS and PA&T
- Double R&D investment in the years to 2020 – on track

Re organisation & culture change

- Re organisation completed in Oct 2015, significantly strengthened senior leadership team
- Strengthened sales – Miller Heiman training roll-out completed
- Culture change programme ongoing – revised incentive scheme, implemented performance management, launched leadership programme

Increase R&D investment and introduce product management

Projects by product category – H1 2016/17



- Product management fully established
- On track to double R&D investment in the years to 2020 - resource focuses on key growth areas
- Initiated digital strategy

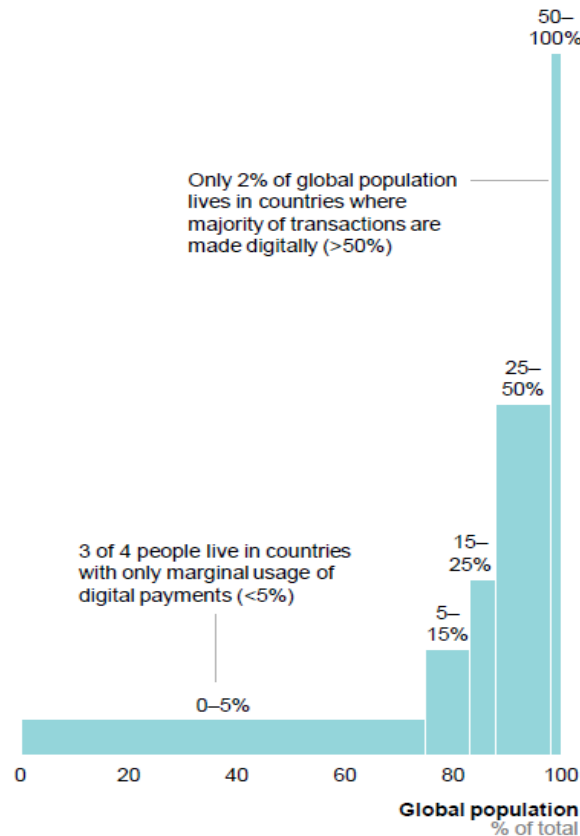


Banknote Print

3 of 4 people globally live in countries with only marginal usage of digital payments (<5%)...

Global share of digital payments, 2014

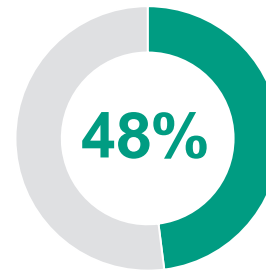
% of transactions by volume



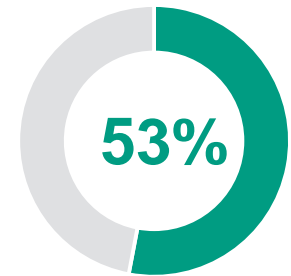
Source: McKinsey Global Payments Map

...even in the UK, cash is still the primary payment mechanism, with over 18 billion payments made in cash, worth c£250 billion in 2014

By value

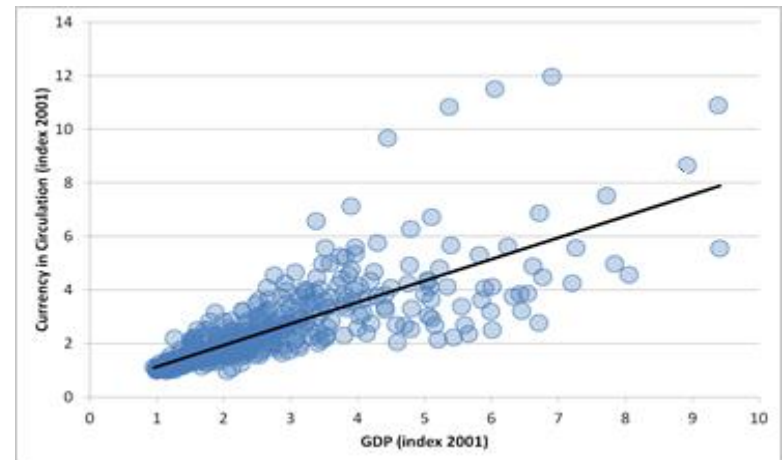


By transaction



Source: Payments UK

There is a clear correlation between cash in circulation and GDP growth across the world



Source: The World Bank, IMF

Optimise & Flex

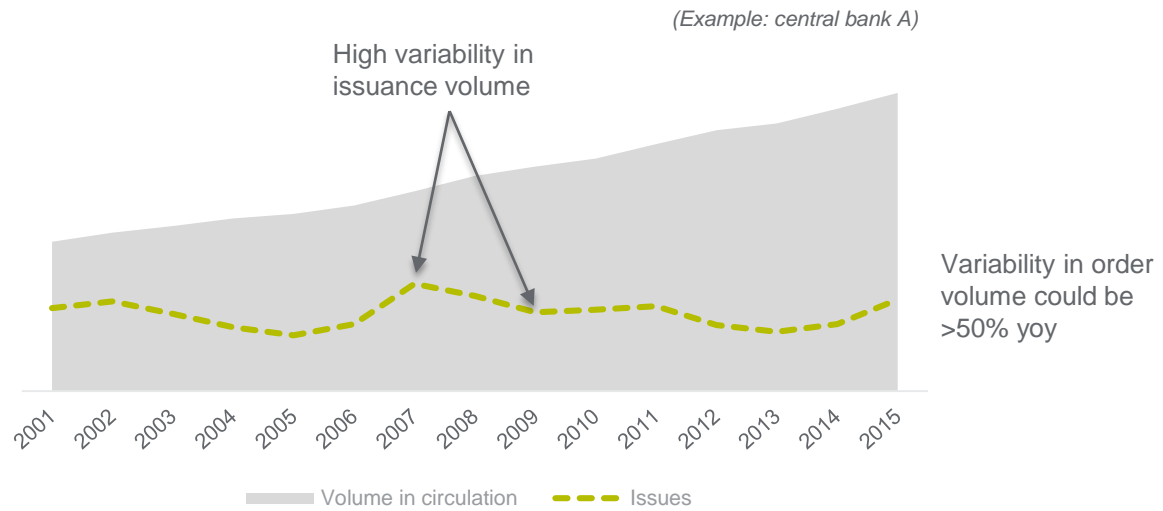
Invest & Build

Banknote Print

Optimise
& Flex

Invest
& Build

While volume and value of notes in circulation increase steadily, issuance and order of notes are less predictable



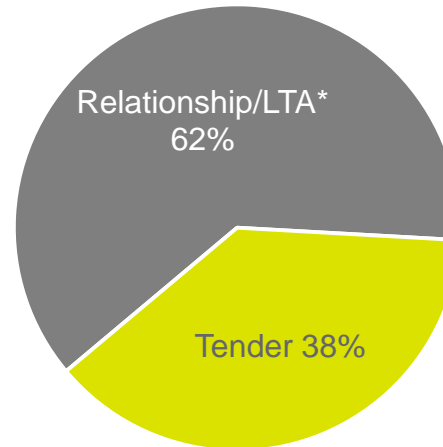
- Flexible capacity – manufacturing footprint restructure progressing well
 - Changed working practices to provide greater flexibility
 - Machine re-deployment and engineering works continue to plan across all sites
 - Refined implementation plan
 - Continue to work with and explore deepening relationships with outsource partners
- Developing analytics and forecasting tools to work with customers to smooth demand

Banknote Print

**Optimise
& Flex**

**Invest
& Build**

Customer segmentation by number of customers



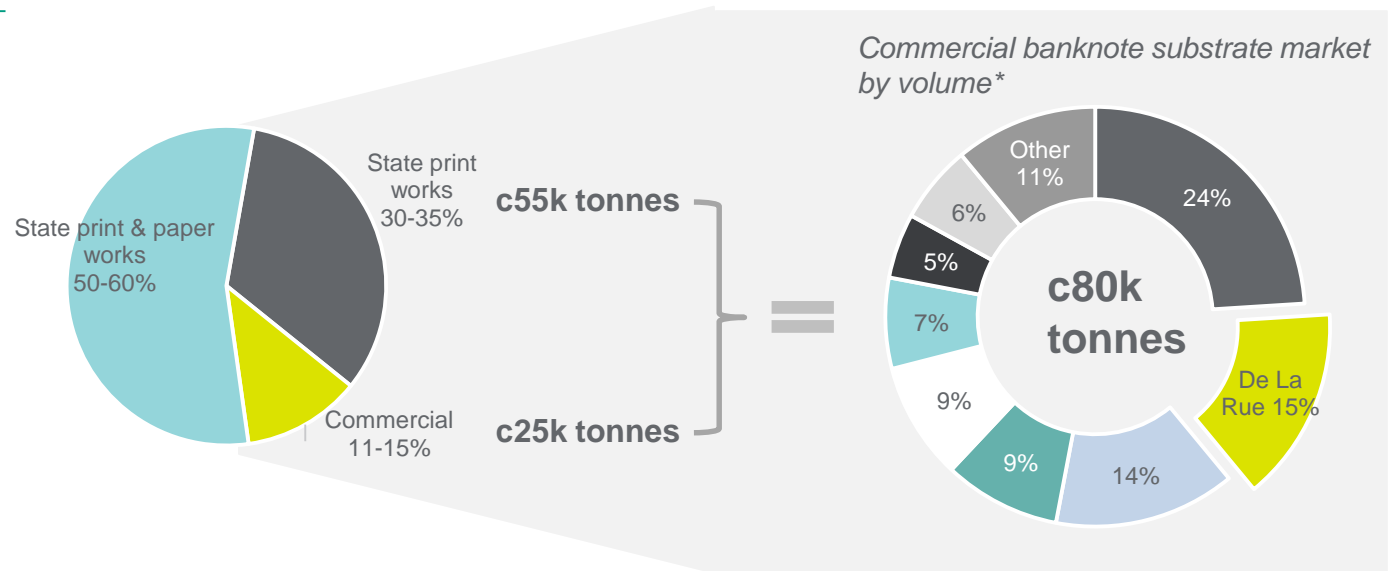
- Focus on developing more long term relationships
- Smooth demand through working with our customers
- Agreement to 60/40 JV with Kenya – leverage longstanding relationship to create a currency and security solutions supply hub for the country and East Africa
- Successful in winning tender and relationship contracts – order book has strengthened during H1

* Long term agreement

Banknote Paper

**Optimise
& Flex**

**Invest
& Build**



- Explore strategic relationship
 - JV discussions continue with a number of parties
 - Sales to new commercial printers established during H1
- Maximise potential in State Print Works
- Continue operational excellence programme

* De La Rue estimates. De La Rue share includes internal and external sales

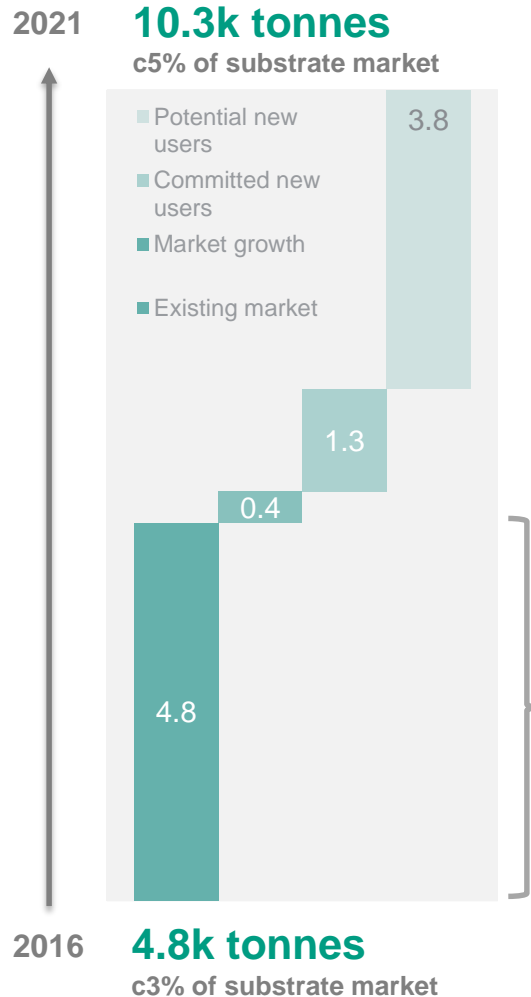
Polymer



Optimise & Flex

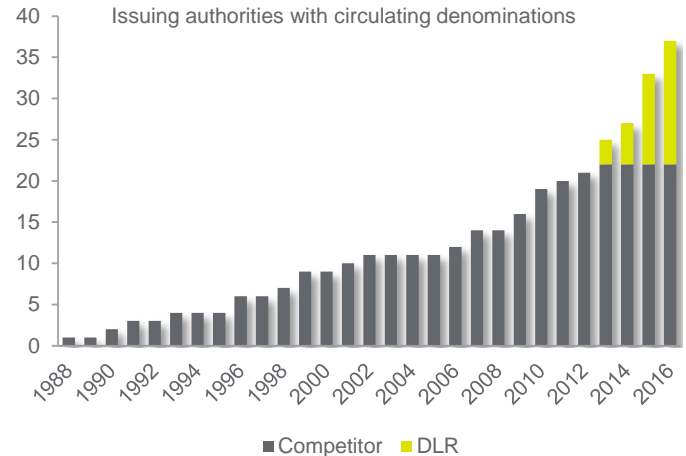
Invest & Build

Market expected to double in 5 years*



- 15 issuing authorities and growing market share
- Secured 2nd volume customer during H1
- All three Scottish notes on Safeguard[®] now in circulation
- Well invested production facilities
- The only vertically integrated polymer supplier and design know-how

De La Rue has been gaining market share since launch in 2012



* De La Rue estimates

Security Features

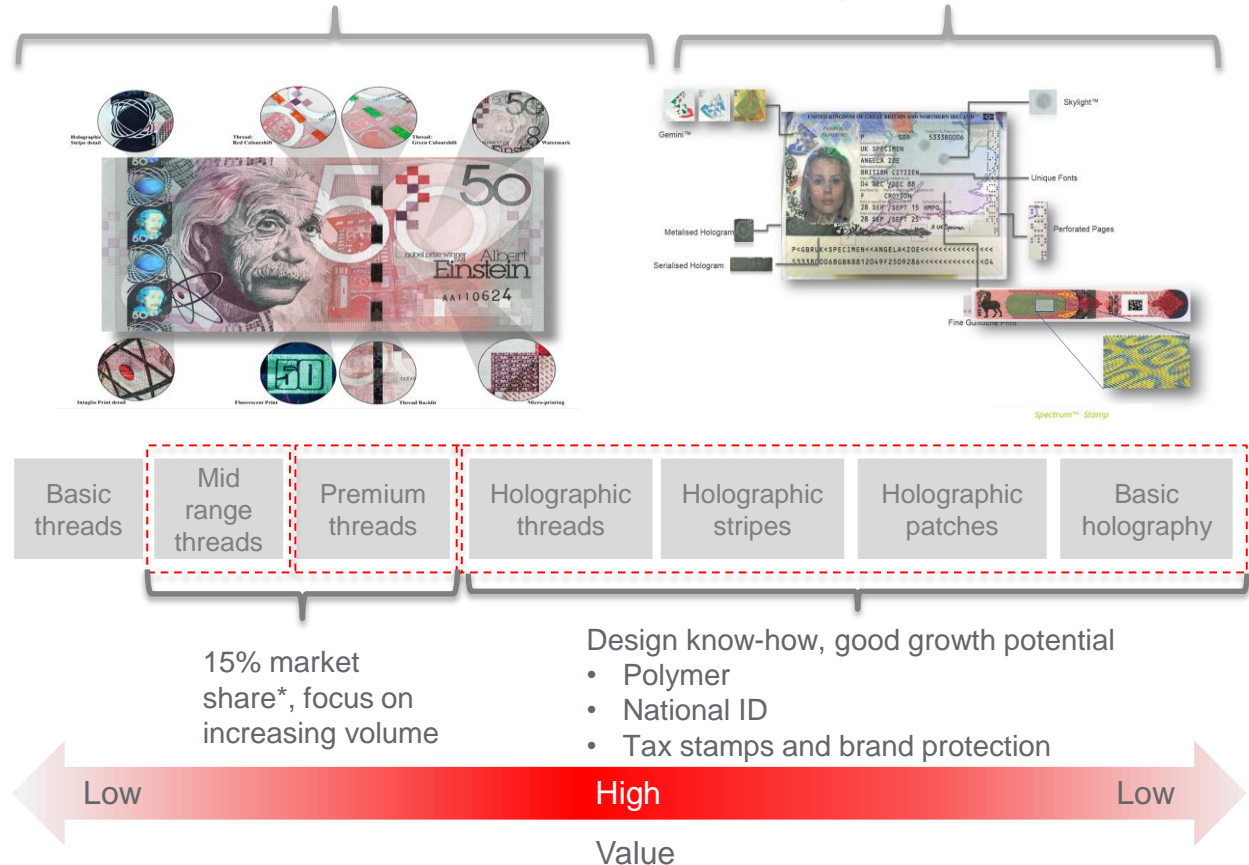
Optimise & Flex

Invest & Build

Our portfolio allows us to invest once in technology platforms that address multiple markets

Well positioned in core Currency market

Growth potential in IDS and PA&T



* De La Rue estimates. Exclude ZSST which produces for China domestic market only

Security Features

Grow core currency market

- Gaining traction with new features



Holographic foil for polymer launched with Gibraltar £100



Active™ security thread in full circulation with Bahamas \$10



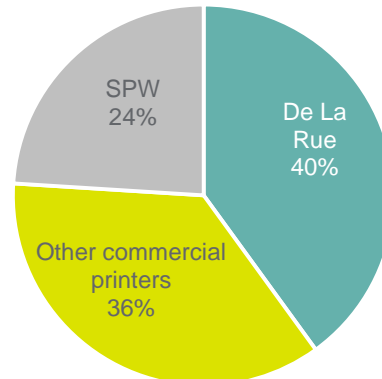
Kinetic Starchrome® specified in top 3 denoms in volume issuing customer

Optimise & Flex

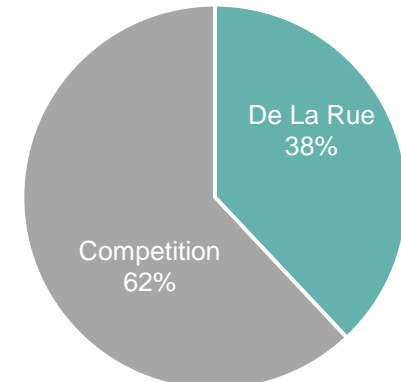
Invest & Build

- World class award winning design team - 13 banknotes awards since 2007
- c40% of all new banknotes issued in 2015 were designed by De La Rue
- 13 new patents filed in H1

Banknotes in circulation by designer



Features on new banknotes issued January 2015 – September 2016



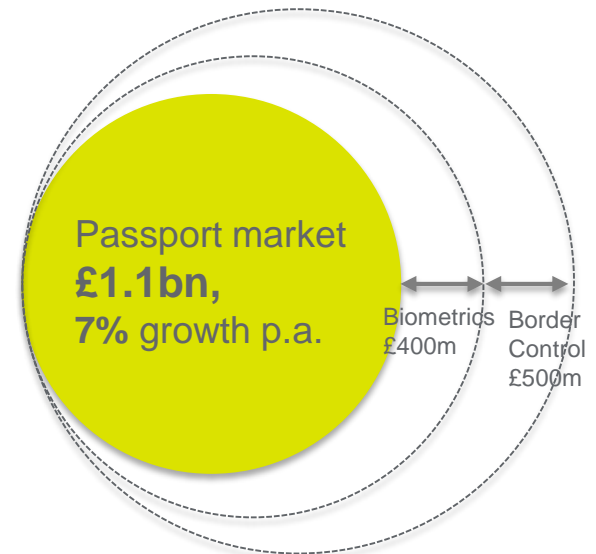
Identity Solutions

Extend our offering from passport books to full solutions



ePassport solution market £2bn, 2016

- Grow passport sales
 - Added three new passport customers
- Built long term recurring revenues
 - Secured two multi-year service contracts: Qatar and Barbados
- Extend offering to full ePassport solutions with third parties



Optimise
& Flex

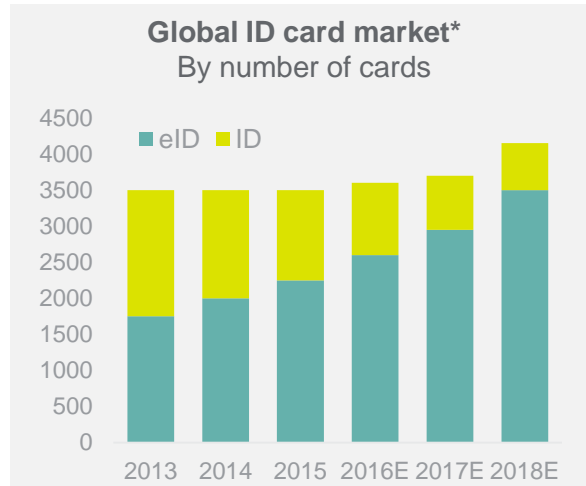
Invest
& Build

Identity Solutions

Optimise
& Flex

Invest
& Build

Expand into ID market



- Planned new capability in Malta progressing well
- 60/40 JV agreement in Kenya to create a supply hub for the country and the region
- Launched DLR Identify™ CRVS – civil registration module, focusing on winning reference customers

Build wholesale offering



- Expand addressable market to SPWs – added three SPW customers in H1
 - IP licensing/security features
 - Passport paper
 - Customised design
- Maximise use of assets and reduce tender volatility

*De La Rue estimates

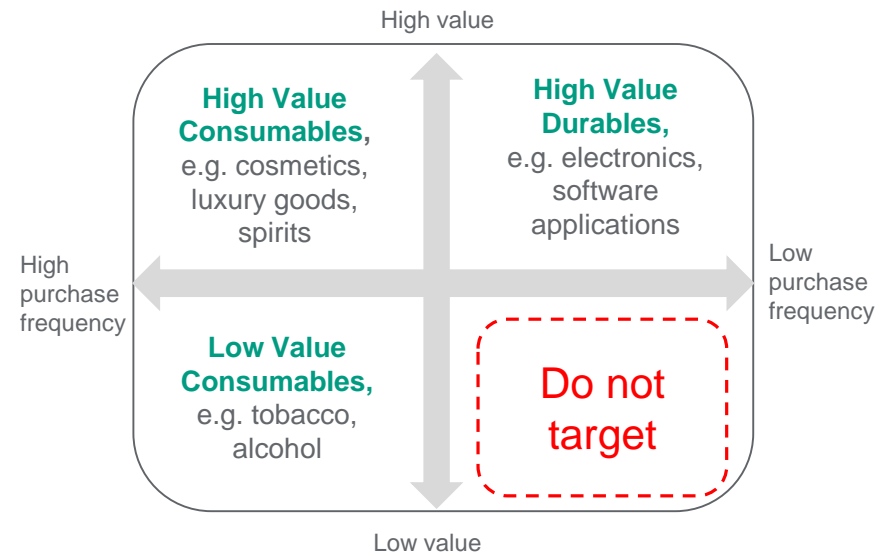
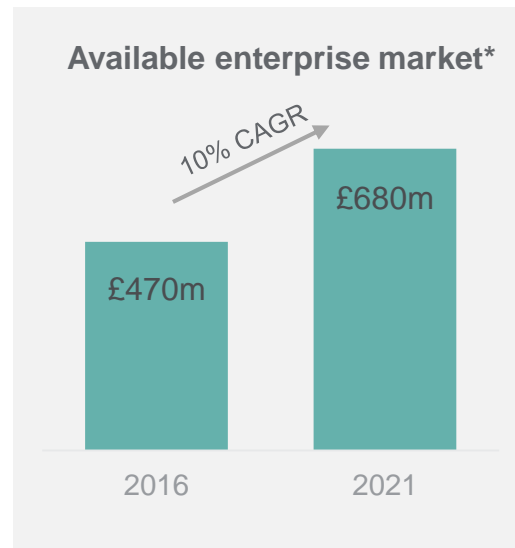
Product Authentication & Traceability

Optimise
& Flex

Invest
& Build

Brand protection

- Enterprise market - fast growing, but highly fragmented
- DLR Certify™ track & trace solution - target international brands with complex supply chains and distribution network
- Bespoke offering - Initiated a number of joint projects with key customers on specific product requirements



*De La Rue estimates

Product Authentication & Traceability

Optimise & Flex

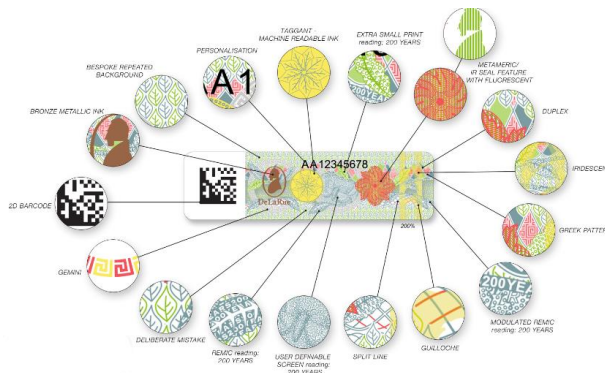
Invest & Build

Tax revenue protection

- Government market - leverage existing relationships
- Strengthen position in tax stamp market
 - Planned Centre of Excellence in Malta
- Expand into full track and trace solutions
 - DLR Certify™ successfully deployed in an African nation
 - Potential partnerships with other commercial printers



Build wholesale offering



- Expand addressable market to SPWs
 - IP licensing/security features
 - Security paper
 - Customised design

*De La Rue estimates

Summary

- H1 performance in line with expectations, underpinned by good volumes and strong order book

- Good strategic progress
 - Optimise & Flex: on track to deliver operational flexibility and planned cost savings
 - Invest & Build: good momentum in our growth segments

- Outlook
 - 12 month closing order book of £409m provides confidence for the future
 - Full year outlook unchanged

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DeLaRue

Appendices

Exceptional items

Continuing operations	H1 2016/17 £m	H1 2015/16 £m
Gain on sale of surplus land	0.1	9.5
Release of warranty provision	0.5	1.1
Site relocation and restructuring	(1.6)	(3.1)
Total exceptional items on continuing operations	(1.0)	7.5
Total exceptional items on discontinued operations	(3.1)	(0.7)
Net cash cost of exceptional items for continuing operations	(2.4)	(10.8)

Tax credit on exceptional items for continuing operations	H1 2016/17 £m	H1 2015/16 £m
Credit in the period	0.2	0.4
Prior year tax credit	—	2.6
Total tax credit on exceptional items	0.2	3.0