De La Rue plc
2017/18 Full Year Results
9am, 30 May 2018

Attendance List:	Martin Sutherland – Chief Executive Officer Helen Willis – Chief Financial Officer

Martin

Good morning, everybody. Thanks for coming to our Full Year Results presentation. I'm going to take us through the headlines. I'm going to ask Helen, our Interim CFO, to cover off the finances for us, and then we're going to come back to me. We're going to take a look at our progress against the strategy and also review operational performance in the year.

So, first of all then, just the headlines. Whilst the headline performance was not what I want it to be, we have delivered another year of good progress against our strategy. The Group revenues are up 7% year-on-year, whilst headline profit is down 11%. But actually if we look at this business excluding paper, which we sold during the course of the year, revenues are up 4% and profits are up 7%.

As I've just mentioned, we sold a 90% stake in our paper business, removing exposure to a volatile market whilst maintaining surety supply of a key raw material. Our balance sheet is stronger now than it has been for years due to good cash management during the course of the year, the proceeds of the paper sale, and the reduction of the pension deficit.

We have good forward momentum in our growth businesses, polymer volumes have doubled during the course of the year, and we saw the ID and the product authentication product lines enjoy order intake growth of approximately 100%. The Invest and Build product lines now contributes more than a third of the Group revenue and half of the profit.

I'll hand over to Helen.

Helen

Thank you, Martin. Good morning, everyone. First of all, I'd like to take you through the key points on the income statement. The full year revenue grew by 7% compared to the same period last year, at £493.9 million. Adjusted operating profit was down 11%, at £62.8 million, and adjusted EPS was down 9%, at 42.9 pence. However, excluding the exited paper business, the Group adjusted operating profit increased by 7% and margin percent was marginally up from last year.

The reported operating profit benefits from exceptional items in the year, largely an 80.5 million gain on the evaluation of the pension scheme deficit, partially offset by an impairment loss relating to the disposal of the paper business. I'll take you through a bit more detail on that later.

The effective tax rate of 15.5% was consistent with prior year, and the proposed final dividend of 16.7 pence results in a full year dividend of 25 pence, unchanged from last year. The order book is up 6%, excluding the paper business.

This is a complex slide, so I'm going to walk you through how it flows. This is showing segmental revenue and operating profit following the exit from the paper business. So what we're showing is the Group excluding paper, getting to the underlying performance of the business.

Reading across the page, the columns represent the segments and Group results for FY18 and then FY17. Going down the page, the first block of data gives the revenue and the second block shows adjusted operating profit. And with those blocks then you see a row of reported, then paper, and hence, the third row of each of those blocks shows the performance of the Group excluding the paper business.

On a standalone basis, the paper business made a profit of £5.9 million in FY18, lower than the £10 million previously communicated in February when we announced the sale of the business. The difference is primarily due to a one-off quality issue costing £3.1 million, and that was excluded from the operating profit for the purposes of the transaction.

Year-on-year the paper business increased revenue by £14 million, however, decreased adjusted operating profit by £11.5 million, and that's an illustration of the volatility in this business.

The conclusion to take away from this slide is that the Group, excluding the exited paper business, increased revenues by 4%, to £426.4 million, increased adjusted operating profit by 7%, to £56.9 million, and maintained a stable adjusted operating margin at just over 13%.

Moving on to the revenue bridge, again, just to explain the construct, the two outer bars show our reported revenues, and that's the 7% growth year-on-year. The two inner bars then pull out the paper revenue, and the volumes there at 12,200 tonnes are 4% higher than last year. The block in the centre is our ongoing shape, the Group excluding paper, and that increased by 4% due to volume increases in all segments.

Banknote print volumes of 7.3 billion notes were up 3% from last year. Polymer volumes of 810 tonnes in the year were 113% greater than the total volumes of polymer last year, and we've more than doubled the volumes.

Identity revenues were up 4% to £76.4 million, and Product Authentication revenues increased 31% to £38 million following the acquisition of DuPont Authentication Solutions.

Moving on to the operating profit bridge, again, the same sort of construct, and you'll see here that the paper business reduced its profits by £11.5 million, even though it had increased revenues.

As I mentioned earlier, the ongoing business grew year-on-year, with operating profit increasing 7%, and that's explained as follows. Currency profits were up 11% due to the increased volumes I just mentioned, with lower margin due to the product mix and increased raw material costs. Identity Solutions' profit was up by 21%, with adjusting for the UK passport bid. Product Authentication performed well, with operating profit up 16%, excluding paper. Margin decreased by 300 basis points, as we further increased investment in R&D and sales and marketing. Sales exceeded plan in the first full year since acquisition.

Overall, R&D increased 13% year-on-year to £11.8 million, and Martin will take you through this in a bit more detail later. We plan to continue to invest in our growth businesses in the next financial year.

Exceptional items. Now, just to take you through each of the key numbers here, there's a net gain in the period of £60.9 million compared to a net charge of £0.4 million last year. We've previously announced a change in indexation method from RPI to CPI for the UK defined benefit scheme. This change became effective in April 2018, and the subsequent revaluation of the scheme has resulted in a gain of £79.5 million, net of the million of costs incurred.

There was an exceptional charge of £14.4 million relating to the sale of the paper business, which comprised an impairment loss of £9.3 million, and charges of £5.1 million being professional advisor fees and other transaction-related costs.

There were £4 million of site relocation and restructuring costs in the year, a £1.8 million net charge relating to the manufacturing footprint review, and use of compensation payments, training, and dual running costs between Gateshead and Malta, and £2.2 million on costs relating to the upgrade of our finance system. Exceptional items for the current year are anticipated to be minimal.

The balance sheet. As Martin mentioned, there's been very much better working capital management through the year, and that's helped to reduce net debt. The figures here are the balance sheet balances for trade working capital, not to be confused with cash flow. So, the trade working capital, as shown here, reduced by £70.1 million to £40.7 million, and £26.9 million of this reduction resulted from the sale of the paper business.

The decrease in working capital for the remaining business was primarily driven by inventory and trade receivables. The reduction in inventory of £14.7 million marks the structural change. This has been achieved by both investment in and focus on inventory management. Supply chain managers have been appointed at each site, and given a single point of inventory accountability. Replenishment strategies have been defined for raw materials, and WIP controls are now in place to better manage customer and production requirements. We expect this level of inventory to be sustained. We are driving for further improvement, but a sustained level is certainly achievable.

Accounts receivable has reduced significantly following a renewed focus on cash collection, particularly on overdue debts, through the second half of last year. Trade payables have also improved, with a more proactive approach to our vendor management and renegotiation of terms.

The UK's defined benefit pension scheme deficit has reduced significantly, from £237 million last year, to £87.6 million this year, a decrease of £149.4 million. This is primarily driven by the £80.5 million gain on revaluation I mentioned earlier, as well as from re-measurement of pension obligations.

We continue to work constructively with the pension trustees to effectively manage the pension deficit. The triennial valuation process started in April this year, and until the conclusion of this process the payment plan agreed in June 2016 remains in place, with payment for the current year agreed at £20.5 million, and £21.3 million the following year. The valuation process will not conclude until next year.

Net debt was reduced significantly by £70 million, to £49.9 million. This is largely due to the proceeds from the sale of the paper business, but importantly, a significant part of this improvement has resulted from much stronger working capital management, as I mentioned just now. There's significant headroom on the financial covenants.

Cash flow was a net cash inflow of £4.2 million for the year, and net debt, as I already mentioned, improved by £71 million. Working capital inflow of 17.8 resulted primarily from better management, particularly of inventory and receivables. Dividend outflow was £25 million, consistent with the previous year. Capex spend was £24 million, which is below expectations of £30 million, with some projects delayed into the current year.

Net proceeds from the sale of the paper business of £55.8 million represent the proceeds less the cash disposed. There's a payment to the defined benefit pension scheme of £13.5 million, as agreed in the repayment plan, as I referred to earlier. We now have a strong and flexible funding position.

So, to summarise, we've improved the quality of the business. For the Group, excluding paper, revenues were up, adjusted operating profit was up, and operating margin percent was stable. The order book is up 6%. Net debt was reduced by over half, the pension deficit was reduced very significantly, and as a result the balance sheet is much stronger than it was a year ago.

With that, I'll hand back to Martin.

Martin

Thank you, Helen. Full year profit performance was not quite as we wanted it to be, and so I'd like to review progress against our strategy of becoming a less capital intensive, more technology led business. I think it's time to pause and reflect and ensure that we're heading in the right direction.

Back in 2015, whilst there are many strengths to this business, we also needed to ensure that we addressed some of the issues. We were carrying too much banknote print capacity, the CPS and the paper businesses were both challenged, and were not adding to the Group, our R&D and product management were lagging behind the market, our balance sheet was stretched, with poor cash generation in recent years and a large pension deficit. The strategy we embarked upon sought to address all of these issues, whilst also creating new growth opportunities in Polymer, Security Features, Identity, and Product Authentication.

We've made real progress in the last few years. We sold the CPS business and we've now sold the paper business, reducing volatility and exposure to a paper market, whilst maintaining surety of supply. We reduced capacity in banknote print and increased flexibility. We've established a good position in the polymer market. Polymer is growing at over 100% year-on-year. We acquired the DuPont Authentication Solutions business, our first acquisition in 14 years, bringing new security feature technology to the business and access to the brand protection market.

We've delivered good growth in our Invest and Build portfolio, with CAGRs of 8% and 11% in revenue and profit, respectively over the past three years. The balance sheet is much stronger. We reduced net debt to below 50 million through much improved cash management, and reduced the pension deficit to below 90 million, all whilst maintaining a dividend. Frankly, we have become a less capital intensive business.

Whilst we've achieved a lot, and underlying performance is strong, our potential is not yet reflected in the earnings headlines, so I thought we should, therefore, look at the progress made against our strategic priorities of Invest and Build and Optimise and Flex. In particular, I'd like to address the key questions of, have our investments driven growth in the key areas that we're focused upon, and have we addressed the lumpiness within our business.

Let's look at Invest and Build first. The first question is, are we getting the growth in the areas that we want? The Group revenues have grown over the past three years consistently at a CAGR of about 5%. As you're all aware, when we embarked upon the strategy in May 2015 one of the issues that we faced was customer concentration. Unfortunately, a £30 million revenue Security Features contract came to an end in financial year '15/'16, something we then had to replace in the following year. Single digit revenue growth, in this context, I think is a good result.

Our order book has also materially strengthened, up 79% from three years ago, giving much better visibility of the business as we move forward, however, the key question is, where is the earnings growth, as the headline level of profits have been reasonably flat over the past few years. That's because we've embarked upon a plan to strengthen the business for the long term, and we're investing in sales and marketing and product management and research and development. Both of these areas were in much need of additional focus, and will drive growth as we move forward.

If we look at the business on an underlying basis, excluding CPS and paper, the sold businesses, we've already achieved good profit growth in Currency, Identity, and Product Authentication over the past three years in spite of the concluded Security Features contract. We have also had, in this financial year, the one-off bid costs associated with the UK passport contract impact on the P&L.

Investing for long-term growth. We have three areas to focus our investment programme: product management and R&D, sales and marketing, and new manufacturing capabilities. I'll expand on each of these areas a little in the coming slides.

Let's dig into the R&D investments first. We said as part of the May 2015 strategy that we wanted to double R&D investments over a five year period, and as I've mentioned this was much needed additional capital to create products to underpin our differentiation in the market. We set up a new product management function to ensure the work of the R&D team was effectively and efficiently turned into viable products brought to market in a timely fashion. Hopefully, the stats on the slide speak for themselves; we filed 107 patents over the past three years, and we've been granted 94.

Our material scientists ensure that the patents will protect the future security features relevant to all of our markets, banknotes, identity, and product authentication. Software is now a key part of our business, as will become clear in the operational review later on, but we now have many contracts that are dependent on our software and services capabilities.

And we're focused on partnerships. We don't need to invent everything in-house. If we can find a quicker route to market through partnership we will take it, and we've signed six partnerships in the past 18 months.

The increased focus on product management has started to also pay off. We've launched 11 new products, including four software and services solutions in the past three years, against an historic average of about one to two per year. It's not just about the number of products that we bring to market, clearly, it's about the portfolio that we provide to our customers; it needs to be compelling for them and it also has to meet their needs.

We now consider the product management life cycle far more closely, far more analytically, if you like, than we used to. Products take a long time to reach their potential in our markets, buying cycles are long and adoption of new technology is not rapid, it can take many years. As such, we always need a mix of products that are new to the market that are in the growth phase, like polymer is for us today, and that are mature.

Turning your attention to sales and marketing. This function has been transformed in the past three years. We've increased our investments here, but more than that we've professionalised the way that the team work. Firstly, we created a marketing team not previously seen within De La Rue, to focus on front end lead generation through conferences, increased use of online and social media campaigns.

We've invested in training for the team, with all sales professionals now using a standard sales methodology. We've replaced 50% of the team with a new incentive structure introduced three years ago, giving renewed focus on a high-performing sales culture. We are also less dependent on third-party sales agents, having established our own sales hubs in the Middle East, Asia, and Latin America.

The overall order intake and an order win rate of 71% during the past year demonstrates that these investments are paying off. The international Identity business and the Product Authentication business order intake grew by approximately 100% year-on-year, whilst the Security Features order intake grew at 60%.

And then finally in terms of investments, we've also invested in enhanced manufacturing capabilities. Our footprint review was focused on reducing capacity in banknote print, but also in ensuring that we have the right capabilities to underpin our chosen growth areas. A significant proportion of our capex each year has been focused on efficiencies and on new capabilities, not just maintenance. We spent £50 million of capex on making our Malta plant a centre of excellence for Identity and for Product Authentication.

We introduced a new polycarbonate line for the passport data pages and ID cards, a new security print line for the product authentication market, allowing more efficient production of security labels. Then more recently we've added a varnishing capability to our banknote plant in Kenya, giving us greater flexibility across our footprint to manufacture a broader set of specifications in all of our locations.

Now, I'll turn your attention to Optimise and Flex. This part of our strategy sought to address the downside risks in our business, such as overexposure to the paper market, and to reduce volatility in the business.

Perhaps the most significant factor driving volatility in De La Rue in recent years has been our paper business. The sale of this business really is a significant step forward for us. The banknote paper market is oversupplied, and from our analysis will remain so for the foreseeable future. The business was characterised by high fixed overheads, pricing that is commoditised and also highly variable based on order volumes, which themselves are also unpredictable. All of these factors combined to drive volatility of earnings in the paper business, as we heard earlier from Helen.

We've now removed our exposure to this market volatility. We've also put in place a ten year supply agreement, with defined volumes and pricing, which gives us surety of supply within our supply chain and certainty of costs of a key raw material moving forward.

More broadly, outside of paper, but in the currency market, demand for commercial banknote printers is known to be lumpy. This is driven by two dynamics. Firstly, the timing of orders placed by central banks doesn't correlate with the underlying demand growth; and then, secondly, overspill from the state sector tends to be unpredictable.

The chart on the left of this slide shows the difference between the number of notes issued by the Bank of England and the number of notes produced by us for the bank, with significant volatility year-on-year. The chart on the right-hand side shows the overspill orders, orders from central banks that ordinarily print their own notes in-house but are buying them from the commercial market, also varies enormously year-on-year.

What have we done to address these two issues? Our first response to this volatility in demand was to address the supply side of the equation, to make our own manufacturing base more flexible. As part of our footprint review, we reduced capacity in the business from 8 billion banknotes per annum to 7 billion to ensure that the capacity that we have is better utilised. By renegotiating terms and conditions to give us more flexibility in shift pounds and by enhancing the capabilities of equipment in many sites, we've also managed to create more flexibility.

We've started to work more closely with outsource partners, who when demand peaks can pick up additional volumes on our behalf. We still have more to do here. We don't yet have the complete flexibility that I would want between our sites to manufacture any note in all of our locations, but we're making headway and we will review options on an ongoing basis.

On the demand side of the equation, we've been working closely with central banks to help them better understand the dynamics of their currency in circulation. De La Rue Analytics, a service that we launched a little over a year ago, is now in use in 70 countries around the world, which is nearly half of all central banks. A third of these central banks are new customers to De La Rue.

But perhaps more importantly, the ability for central banks to compare the usage patterns of their own notes with other countries is completely new to and unique within the sector. Our client-based software and associated services gives central banks real insight into banknote demand, and therefore, insight into their forecast for new notes. Working more closely with central banks like this has helped us to build more long-term relationships with our customers than the rest of the industry put together. It will, over time, enable us to move to a more predictable set of buying behaviours within our customer base.

And then if I think more broadly outside of currency, so outside of paper and outside of banknotes, outside of currency, across the Group we've also focused on reducing our customer concentration, also potentially helpful in addressing volatility. As I highlighted earlier, our Invest and Build portfolio has grown revenues by 8% CAGR over the past three years on an underlying basis, excluding the concluded Security Features contract. Our customer concentration has reduced. Our top five customers now account for 40% of revenue, down from 50% just a couple of years ago, and the number of customers with revenues above £10 million has doubled over the same period. With the exception of the UK passport contract and the Bank of England, three of our top five customers are different within each year, or from year to year. We have a more balanced business now than we did three years ago, and our revenues are more diversified.

So, that was it on the strategic progress, and I thought now I'd just quickly turn our attention to operational highlights in the year just closed. Within the currency market, as I've already highlighted on an earlier slide, new note issuance continues to grow. Global banknotes in circulation is rising at about 3% to 4% year-on-year, however, if we look at the performance of our banknote print revenues over the past three years, we've actually grown ahead of the market, delivering a 6% CAGR from an historical norm of being approximately flat.

This is partly driven by overspill, but it's also the renewed focus of our sales team. The investments I mentioned earlier in training, sales methodology, and frankly, performance management, are starting to pay off in terms of taking market share.

So, whilst underlying demand for banknotes remains strong, we, as I say, are taking more than our fair share of the market. But the sales focus is more than just winning in competitive tenders, it's also about building closer and long-term relationships with our customers. During the course of the last year we renewed two long-term agreements and we also added a new one. Our footprint programme continues, with a print line upgrade in Kenya and Sri Lanka ongoing, and the addition of a new varnishing capability within Kenya.

As we move forward, we will continue to ensure that we move to best-in-class manufacturing capabilities. With this in mind, we're already working on options to improve efficiency, reduce cost of quality, and improve automation of finishing.

And then outside of our own footprint, we now have established good working relations with a number of third-party printers, who we outsourced just over 100 million banknotes to during the course of the last year. And we note that one of our competitors has recently announced the closure of a print line in Sweden, reducing capacity in the industry as a whole.

Turning our attention to polymer. As I mentioned earlier, our momentum in the polymer market continues, with volumes more than doubling year-on-year. Polymer now makes up about 4% of the global substrate market, but continues to grow. It's up 3% from a few years ago. We remain with only two suppliers of banknote polymer to the market. Having come second to market, we've now established a market share of approximately 11%, adding 11 new customers across 22 denominations in the past 12 months, including the Bank of England, Botswana, who have recently converted to polymer, and one of the African state print works.

We continue to work with Canada, Australia, and New Zealand to qualify our substrate for their central banks. And whilst we haven't quite hit the volumes to allow us to break-even, we can see a path to getting there and are working hard to reduce our cost base as well as to grow our volumes moving forward.

Turning our attention to security features. You'll remember that this time last year we launched a number of new features to the market, in addition to the new premium feature launched in 2014 called Kinetic StarChrome. We've seen good traction for these new features in the market, with Kinetic StarChrome already in use across a number of denominations, this in the context, as I said earlier, of long sale cycles for new banknote designs.

I'm also pleased with the performance of Kinetic StarChrome Portrait, a variant on the previous feature, which has already secured its first customer since its launch in the year. And our Enhanced Gemini feature, which is an ultraviolet ink feature, which is also already embedded in the Botswana 10 Pula note.

We continue to bring new security features to market. At the recent banknote conference concluded just last week, we launched Ignite, the premium end of the thread market, and pure image, a machine readable hologram.

Outside of currency we introduced a new holographic laminate for use on passport data pages, which actually is already in use in the UK passport, and a new form factor for Lippmann holograms from DAS called Blulock, which is targeted at the brand section market.

So, our identity solutions. I'm going to talk about the UK passport contract in a moment, but I thought first let's consider the rest of our identity business. We introduced a now polycarbonate capability in Malta during the course of the year, and have already secured sales for this product into the Kenyan passport. We've seen very strong order intake growth in our international ID business during the course of the year, up over 100%.

We secured an extension to the Bangladesh contract for 5 million passports, a new electronic identity card system for Malta, a new e-passport in an East African country, the design of the next generation passport for Australia, and a design contract for the Dominican Republic, so good progress.

More and more of our identity business is now characterised by software and services, as well as the production of the physical passport itself. Outside of the UK, software and services now makes up 30% of our identity business, an increase of 28% year-on-year.

We also signed a deal with Opalux during the course of the year to gain exclusive use of their personalisable security feature aimed at the identity market, which is expected to launch in the coming financial year.

The overseas identity business is progressing really well, however, of course the loss of the UK contract from mid-financial year '19/'20 onwards, clearly gives us cause to pause, reflect, and review our identity ambitions.

Firstly, we're going to learn the lessons that we need to from the bidding process, asking ourselves, is this a one-off situation, or are there insights applicable to the international market. We need to ensure that we remain competitive, that we have the right cost base, and that our offering is compelling to our customers.

And then finally, the Product Authentication business. Our Product Authentication business addresses two markets: government tax stamps and brand protection. The government market for tax stamps is growing at about 13% per annum. There are a number of initiatives in the market that make it attractive to us moving forward.

Firstly, there's the EU Tobacco Products Directive, which is driving increased adoption of tax stamps across Europe, and the GCC region in the Middle East is also moving towards taxation of tobacco products for the first time, and the taxation of sugary drinks.

We secured a five-year contract with the UAE last financial year for £25 million, and are bidding for additional contracts in the GCC region. A combination of track and trace software, as well as the stamps themselves, this contract is completely aligned to our technology focused strategic direction of travel.

In brand protection, DAS is performing ahead of our original acquisition case. We signed a strategic partnership with Optel during the course of the year, who will bring intelligent supply chain expertise to our security printing capabilities. So, the combination of the two gives us an enhanced proposition to our clients.

In summary then, behind the headlines, the underlying performance of this business is strong. Excluding paper, our revenues and profits are up year-on-year. We've made further progress in the year to become a less capital intensive technology led business. Our balance sheet has significantly strengthened, giving flexibility for investments to drive future growth.

Looking ahead, the strong 12-month order book gives good revenue coverage for the year ahead. Profit for the '18/'19 financial year is expected to be in line with last year, as we're continuing to invest in R&D and sales to drive long term sustainable growth.

Thank you. We'll take any questions.

Alex Mees — Thank you. Good morning, Martin. Good morning, Helen. It's Alex Mees here from JP Morgan. I've got a few. Maybe if I just tell you what they are and then we can go from there.

The first one is with regard to the paper quality issue that you mentioned. I know it's ancient history now, but I just wondered what that was about. It doesn't seem to have affected the cash receipts for the sale of that business, but I just wondered if there's any further cash flows.

The second one is, what should R&D be as a proportion of revenue over the medium term, and should we expect to see further capitalisation as a proportion of the overall R&D spent in the future?

Thirdly, what was the overspill experience in 2018, and what should we expect in 2019?

Fourthly, sorry, the balance sheet looks pretty strong. I wonder if you could just mention your priorities for the use of your cash, whether you intend to be thinking about capital management dividends or R&D.

And finally, I promise, IAS 15—

Martin — You're only allowed one question.

Alex Mees	IAS 15, have you given some thought to potential impact in 2019? Thank you.
Martin	Okay. So, let's take those in order. I think the first one was the paper quality issue. When we announced the sale of the paper business, we said that the profits for the year would be £10 million. Actually, the full year return is £5.9m, and broadly the difference between the two is because of a one-off provision because of a quality issue on one contract. I think it speaks a little bit to one of the reasons why we might have thought about selling that business, the volatility of earnings from that business over the last five years is actually quite high, and some of that is driven by some of those sorts of one-off quality provisions. I think when you think about the valuation of that business in terms of the multiple we got on it when we sold it, it's appropriate to take out that quality provision. It is a one-off. So, I think the 10 million number is the right number to think about, but the headline result, if you like, is 5.9. I don't know if you want to add anything to that.
Helen	No, think that's very complete.
Martin	Okay. Is that—
Alex Mees	It didn't affect the purchase price at all?
Martin	No, it's only purchase price and valuation of the business and cash purchase, etc., exactly as we presented. You asked about R&D as a proportion of revenue. Off the top of my head I'm not entirely sure what it would be as a proportion of revenue. I know what we said in the strategy in 2015 was we wanted to double the R&D investment over a five year period. The pure R&D investment in '15 was £10 million including CPS, but actually, I think about that in broader terms. I think about it in terms of R&D and the broader product management group that sit around R&D, and that number is up 74% over the last three years. We're basically tracking to the original plan that we set out in '15. Overspill in '18, and what do we think about in '19. Off the top of my head, I don't have the overspill numbers. I mean, we can obviously get them to you in slower time. There are, I think already in the public domain, Venezuela, is one of the overspill customers that we have had. Their volumes have been kind of up and down actually a little bit over the last two years. Last year a little bit less than the prior year and the year before. The other state print works, which is consistently buying in the commercial market at the moment is the Philippines. Those two. I don't think that our overspill volumes are particularly abnormal, but the point that I was making on the slide, actually, is that they do kind of come and go so there is some volatility in that. Maybe we can give you a bit more colour on that off line, if that's helpful. Have you got anything to add on overspill?

Helen | No.

Martin | Balance sheet strength. What was your question on balance sheet?

Helen | Priorities for the use of cash.

Martin | Oh, that's right. Priorities for the use of cash. So, we're not going to give it back to shareholders, and we're not going to hopefully give it to pension trustees. What we'd like to do is use the proceeds of the paper sale and the good cash management, i.e. strength in balance sheet, to drive strategic growth moving forward. So, we could either use it for organic investments, and if the right opportunity comes along, inorganic investments. So, we see it really as something to help strengthen growth moving forward.

And then I—

Helen | IAS 15, I'll take that one.

Martin | That sounds like one for the vote.

Helen | Yes, we have considered it. It's not particularly significant for us, but we have factored that into our thinking for obviously next year and the year we just closed.

Martin | Okay, don't feel like you need to ask more questions. Don't try and beat five.

Thomas Rands | Thomas Rands from Investec. Alex asked quite a few of my questions, but there's quite a lot of talk about sales changes and marketing changes. How far through that process now do you think you are? Have you made all the changes and now we're waiting for that new team to fully deliver? Question one.

Martin | So, as we said in the presentation, we've made significant changes in sales and marketing. We set up an e-marketing function over the last couple of years. We've replaced about 50% of the sales force during the last few years. So, we kind of refreshed talent in there, if you like. We put a structured training programme in place, and we've adopted a consistent sales methodology so that everybody's kind of working with the same approach.

We've also embarked on a programme of moving away from third-party sales agents to our own localised and indigenised sales force. So, as I said again in my presentation, we've set up sales hubs in LATAM, in the Middle East, and in Asia, where we're hiring local people on our payroll to replace third party agents. I personally think it's very important that we represent ourselves to our customers, as opposed to doing it through somebody else. So, all that programme is very much underway.

	I think the order intake stats that we've talked about during the course of the presentation signal that those changes and those investments are already paying off. Order intake growth is up in ID and Product Authentication by over 100%, and Security Features is up by 60%. The order book is very strong, giving us good visibility going into the coming year. So, actually I think we're starting to already see the fruits of our labour there.
Thomas Rands	Good, thank you. And just on the R&D, and this may be a question more for Helen. You're increasing the R&D investment from the 15 base. It sounds like there's more investment to come in. Do you know what roughly the incremental R&D investment will be in '19 over where you were in '18, just thinking about the base profitability and what is going to be incremental for '19?
Helen	We don't normally give out that specific information, but it's safe to say it's a fairly consistent increase from the last couple of years.
Thomas Rands	Okay, thank you. And the last question, capex, in the statement it talks about £25 million to £30 million of capex, is there any particular projects within that which are driving that number going forward—
Helen	Yes. We're expecting it to be about £30 million in the current year, so there are about £4 million of projects brought forth from last year, as I mentioned, is the delay there, half a million in R&D, and the footprint programme is continuing. And then there's an ongoing programme with improvements in things like facilities, HSE, and quality, so it's across the piece.
Thomas Rands	Thank you.
Martin	Thank you.
Derek Terrington	Good morning. Derek Terrington from Hardman & Co. Just one question relating to the loss of the contract. What does that tell you about international pricing of your banknote products? It seems to imply that there must be some material surplus of capacity still, and I just wondered if you had a view on the global operating rate, as it were, and what sort of further adjustments might be needed within the industry. Do you think there's a large surplus capacity, and do you think that price was a commercial price? That would be interesting.
Martin	Okay. If I just understand the question correctly, you're asking about the loss of the UK passport contract?
Derek Terrington	Yes. I'm sorry.
Martin	Which doesn't relate to banknotes.
Derek Terrington	I'm mixing the two up. I beg your pardon.

Martin Do you want to clarify that? I could talk about both issues, banknote capacity and—

Derek What I would like you to do, talk about the passport and the currency balance.

Martin Okay. As I said again in the statement, the UK passport contract loss is a unique situation. It is something that we need to understand and learn some lessons from, so we have already kicked off a review to look at what lessons we can learn from the bidding process.

Does it imply anything about competitive pricing in the international market? I'll draw your attention to the fact that in the international identity market in the past year our order intake has grown by 100% year-on-year, and we've won a number of contracts, which are a mix of software, technology, and production of the passports themselves. So, actually, the momentum in our international business is going well, which might lead me to conclude that we're pretty competitive and we've got a compelling solution for our clients. But we're going to take the UK passport contract loss seriously and we'll kind of review what we think we can learn from that.

On the second point around banknote capacity, again, as I mentioned in the presentation, one of our competitors has removed and ceased production in Sweden. That was a single print line with about a billion banknote capacity, so that has been taken out of the commercial market. Broadly, I think supply and demand in the banknote printing sector is broadly aligned, and particularly that change, that will be helpful for us. We've taken some capacity out, our German competitors took a little bit of capacity out a couple of years ago, now there's this closure of a line in Sweden, so I think overall the industry is behaving sensibly.

Any more? No? Okay. In that case, thank you very much.

[END OF CALL]