De La Rue
2019 / 20
Half Year Results

26 November 2019

DeLaRue

Agenda

Overview

Clive Vacher

Financial Performance

Helen Willis

Operational Review

Clive Vacher

Business Update

Clive Vacher

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Overview

Rapid and material changes in Currency market during H1 2019/20 which will take time to normalise partially offset by strong growth in Authentication

Reduction in Group profitability for H1 2019/20; cost saving programme begun in H1 2019/20 and will benefit H2 FY 2019/20

- Adjusted revenue[(1)] down 14.9% to £205.9m (Currency adjusted revenue down 29.5% to £128.7m; PA&T adjusted revenue up 70.1% to £33.0m)
- Adjusted operating profit[(2)] down 87.1% to £2.2m
- Future dividends to be suspended

Business update

- Significant management changes
- Reorganisation into Authentication and Currency on 4 November 2019
- Reporting for FY 2019/20 year end will reflect new organisation and internal reporting structure
- International Identity Solutions sale completed 14 October 2019
- Turnaround plan review underway and expect to complete by March 2020 with focus on cash

[(1)] Adjusted revenue is a non-IFRS measure and excludes revenue from non-novated paper contracts of £26.4m (H1 2018/19: £15.6m).
[(2)] Adjusted operating profit is a non-IFRS measure and excludes amortisation of acquired intangibles of £0.4m (H1 2018/19: £0.3m) and exceptional item net charges of £11.0m (H1 2018/19: £6.6m)

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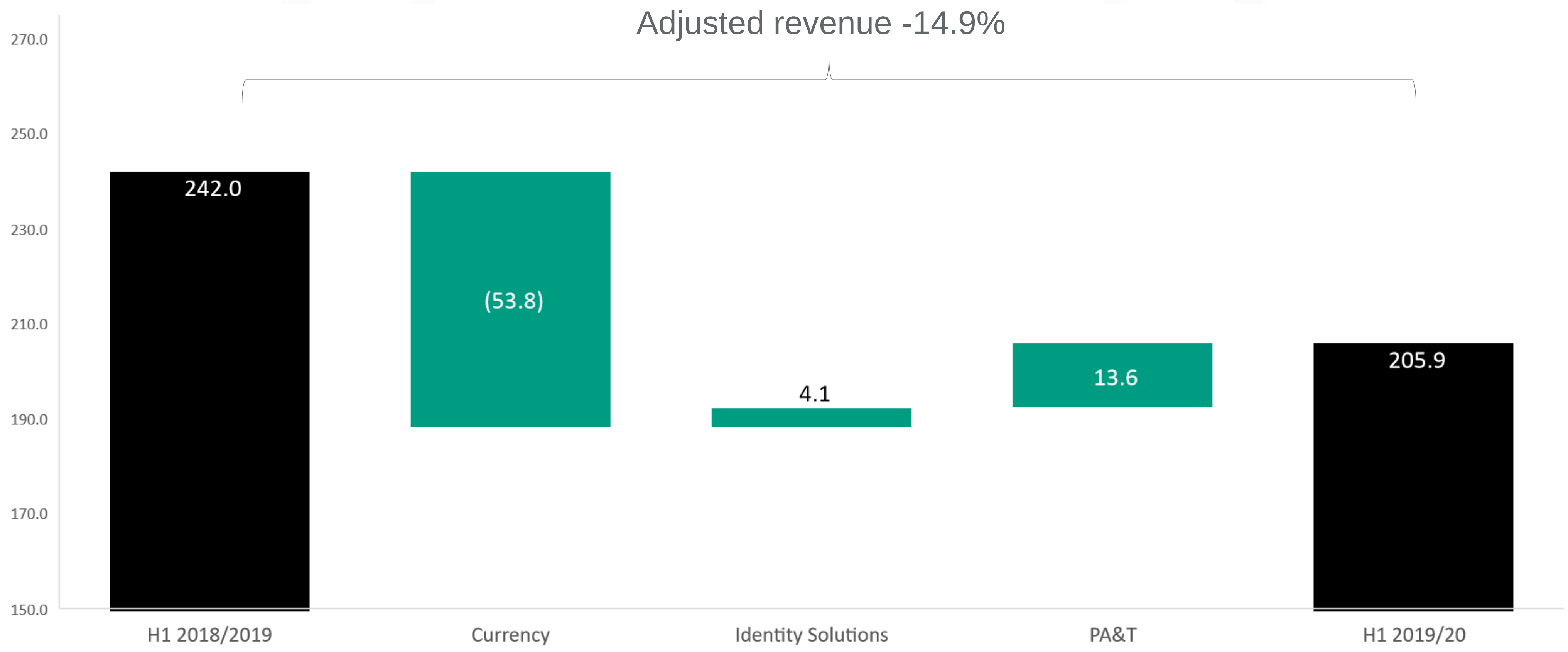
Income Statement

	Reported		
	H1 2019/20	HY 2018/19*	Change
Adjusted Revenue(1)	205.9	242.0	-14.9%
IFRS Revenue	232.3	257.6	-9.8%
Adjusted operating profit(2)	2.2	17.0	-87.2%
Adjusted operating margin(3)	1.1%	7.0%	-590bps
IFRS operating (loss) / profit	(9.2)	10.1	-191%
Adjusted basic earnings per share(4)	1.5p	11.2p	-12.7p
IFRS basic earnings per share	10.7p	5.1p	-15.8p
Dividend per share	0p	8.3p	-8.3p

(1) Adjusted revenue is a non-IFRS measure and excludes revenue from non-novated paper contracts of £26.4m (H1 2018/19: £15.6m).
(2) Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £11.0m (H1 2018/19: net charges of £6.6m), amortisation of acquired intangible assets of £0.4m (H1 2018/19: £0.3m)
(3) Adjusted operating margin is a non-IFRS measure and excludes exceptional items net charges of £11.0m (H1 2018/19: net charges of £6.6m), amortisation of acquired intangible assets of £0.4m (H1 2018/19: £0.3m)
(4) Adjusted basic earnings per share is a non-IFRS measure and excludes exceptional item net charges net of tax of £9.2m (H1 2018/19: net charges of £6.0m) and amortisation of acquired intangible assets net of tax of £0.3m (H1 2018/19: £0.3m)
*Comparative figures have not been restated for the impact of IFRS 16 which resulted in a benefit to adjusted and IFRS operating profit of £0.2m, offset by and increase in interest charges of £0.2m resulting in no overall benefit to profit before tax or EPS.

Adjusted Revenue*



*Adjusted revenue is a non-IFRS measure and excludes revenue from non-novated paper contracts of £26.4m (H1 2018/19: £15.6m).

Adjusted operating profit bridge*

*Adjusted operating profit is a non-IFRS measure and excludes exceptional items net charges of £11.0m (H1 2018/19: net charges of £6.6m), amortisation of acquired intangible assets of £0.4m (H1 2018/19: £0.3m).

Cash flow

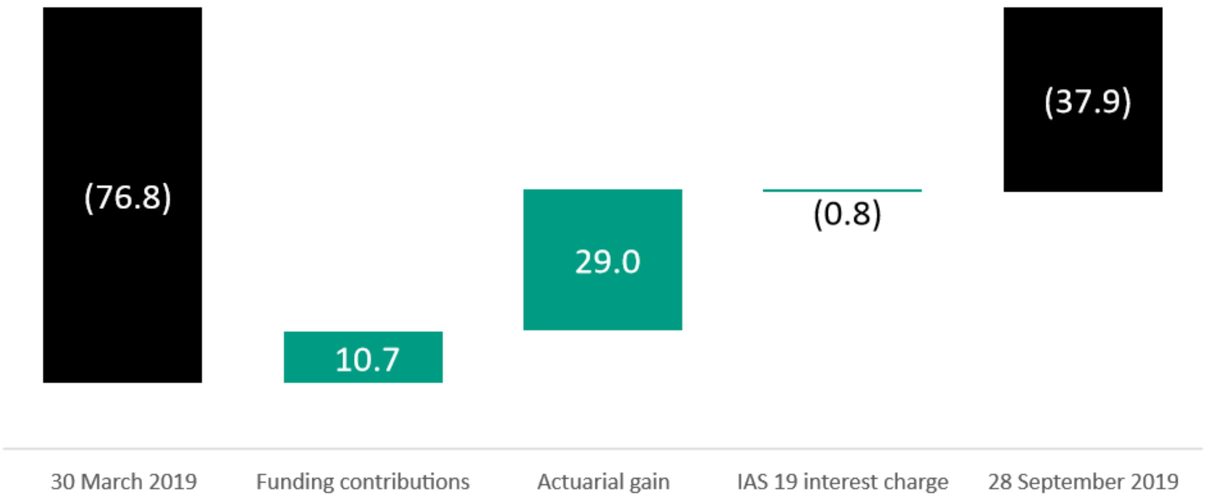
(1) Excludes amortisation of acquired intangibles of £0.4m.
(2) Includes working capital movement on Receivable, Inventory and Payable adjusted to exclude any impact of the transfer to Held for Sale relating to the IDS disposal.

Cash flow - working capital movements

	HY 2019/20 £m
Inventories	(21.8)
Trade and other receivables	(5.8)
Trade and other payables	(7.5)
Total cash flow working capital movement	**(35.1)**

- Increased inventories relating primarily to the build of finished goods within Currency which was attributable to changes in production schedules by customers;
- Increased trade and other receivables due to growth in PA&T volumes, and higher receivables in Currency on the timing of receipts, a proportion of which have already been paid in H2 2019/20; and
- Decreased trade and other payables resulting from a net reduction in advanced payments and settlement of year end employee related accruals, partially offset by timing of trade creditor payments.

Pension – UK retirement benefit obligations



- Reduction in pension liability since 30 March 2019 reflects:
  - Positive asset performance in H1 2019/20 resulting in an actuarial gain of £29.0m.
  - Pension funding contributions of £10.7m.

- Under IAS 19 there was a finance charge of £0.8m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (H1 2018/19: £1.1m).

- Cash contributions to the Scheme will be £21.3m for FY 2019/20. The triennial funding valuation was due as at on 5 April 2018 and discussions with the Trustees are continuing.

Net debt

2.72x

Net debt/EBITDA ratio[1]
FY 2018/19: 1.46x
Covenant: ≤3.0x

9.9x

EBIT/net interest ratio[1]
FY 2018/19: 12.9x
Covenant: ≥4.0x

	H1 2019/20 £m	FY 2018/19 £m
Gross debt	**(177.8)**	(118.8)
Cash and cash equivalents	**7.1**	11.3
Net debt[2]	**(170.7)**	(107.5)

1) Adjusted net debt/EBITDA and adjusted EBIT/net interest ratio as per covenant definition
2) Net debt is a non-IFRS measure

The net debt position does not include the benefit of proceeds of £42m from the sale of International Identity Solutions which were received after the end of the reporting period.

The Board has reviewed a budget and plan for FY 2019/20 that indicates that the Group will operate within its banking covenants.

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Operational Review

Currency

Significant changes in market

- Impacted by rapid changes in overspill market
- Volatile buying patterns
- Some offset with growth in polymer revenue

Operational focus to manage market challenges

- Divisional structure to increase focus and accountability
- New security feature Ignite™ to our first customer during calendar 2020
- Adjust footprint and costs to match environment
- Aim to reduce costs of goods sold

Operational Review

Product Authentication & Traceability

- Contracts ongoing with UAE and Kingdom of Saudi Arabia
- Ongoing sales to current customers

Operational progress

- Distribution agreement with KushCo. Holdings
- Continue to invest in R&D capabilities
- Transfer from Gateshead to Malta complete

Identity Solutions

- Growth in volumes in HMRC Passport contract
- International Identity Solutions sale completed October 2019

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Company Turnaround

Group reorganisation and transformation into two divisions on 4 November 2019; aim to optimise operations and accountability

Management review of operations underway and expect to complete during calendar Q1 2020

Future dividends to be suspended

Immediate actions

- Reduction in discretionary spend;
- Deeper control of cash items;
- Acceleration of restructuring plan;
- Risk-reducing in H2 2019/20;
- Right leadership.

Company Turnaround

Turnaround plan

- Market position and sales strategy;
- R&D projects;
- Site footprint;
- Supply chain;
- Contract bid strategy.

Review aims

- Accelerate cost savings beyond £20m plan;
- Bring targeted set of security features to market;
- Enhance efficiency and reliability;
- Grow Authentication.

Outlook FY 2019/20

Banknote print market and security features market has seen significant changes

Continuing growth in Authentication

Cost savings in H2 2019/20

Expect FY 2019/20 adjusted operating profit of between £20m and £25m

Stabilisation of management and operational structure with focus on cash

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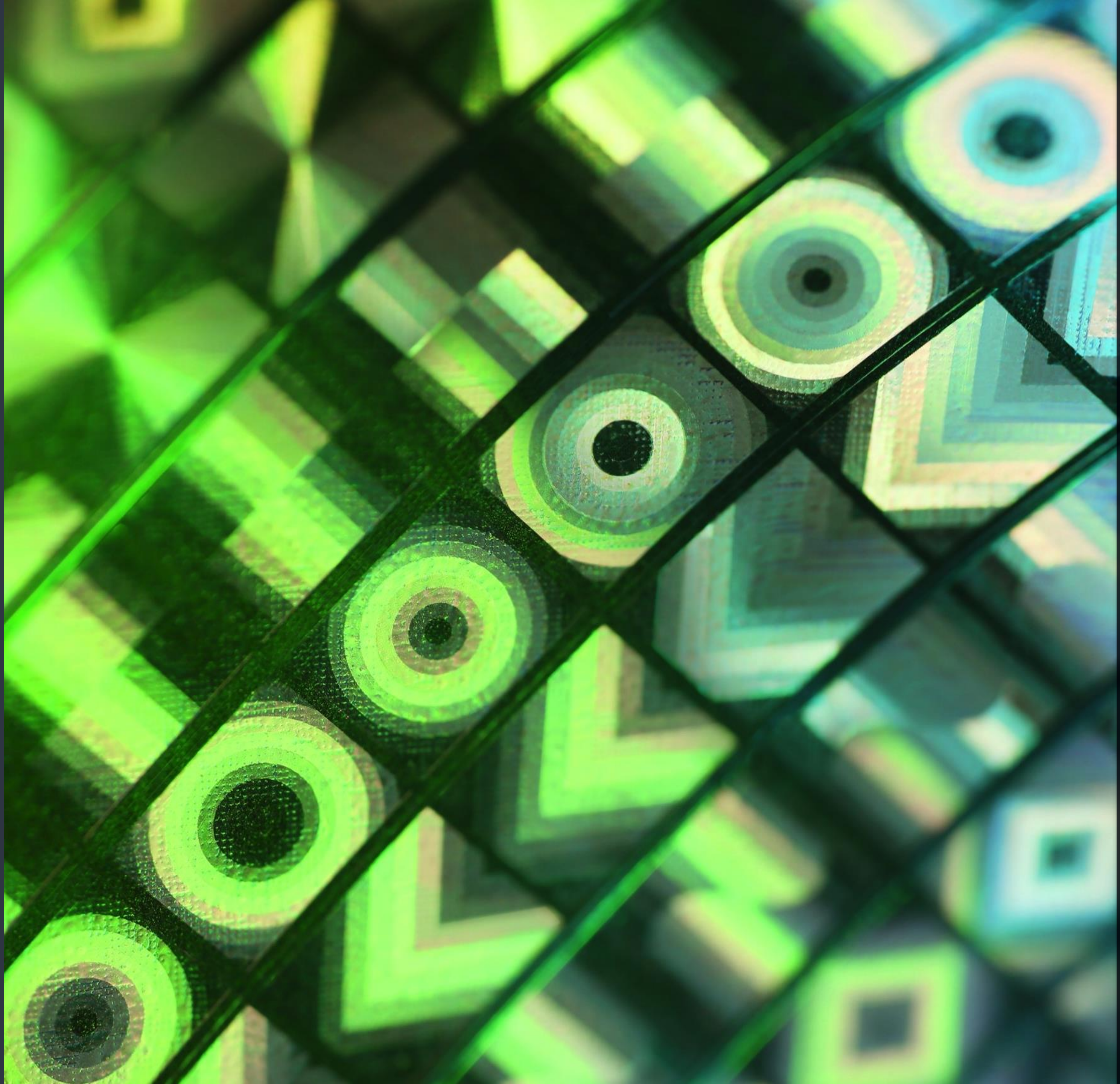

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Appendices

Consolidated Income Statement

	H1 2019/20 Group Total £m	H1 2018/19*** Group Total £m
IFRS Revenue	232.3	257.6
Adjusted operating profit*	2.2	17.0
Exceptional items	(11.0)	(6.6)
Amortisation of acquired intangibles	(0.4)	(0.3)
IFRS profit/(loss)	(9.2)	10.1
Net finance cost	(2.9)	(3.0)
(Loss)/Profit before tax	(12.1)	7.1
Taxation	2.0	(1.7)
IFRS profit/(loss) after tax	(10.1)	5.4
(Loss) from discontinued operations	(0.7)	(0.5)
(Loss)/Profit for the period	(10.8)	4.9
Adjusted basic EPS**	(1.5p)	11.2p
IFRS basic EPS	Loss 10.7p	5.1p
IFRS diluted EPS	Loss 10.7p	5.1p

*Excludes exceptional items net charge of £11.0m (H1 2018/19:£6.6m) and amortisation of acquired intangible assets of £0.4m (HY19: £0.3m).

** Excludes exceptional items net charge net of tax of £9.2m (H1 2018/19:£6.0m) and amortisation of acquired intangible assets of £0.4m (H1 2018/19: £0.3m).

***Comparative figures have not been restated for the impact of IFRS 16. The adoption of IFRS 16 resulted in a benefit to adjusted and IFRS operating profit of £0.2m, offset by an increase in interest charges of £0.2m resulting in no overall benefit to profit before tax or EPS.

"Adjusted" measures are not on an IFRS basis. For further explanations and reconciliations to equivalent IFRS measures see slide 20.

Exceptional items

	H1 2019/20 £m	H1 2018/19 £m
Site relocation and restructuring	(8.2)	(3.3)
Costs associated with disposal of subsidiary	(2.0)	(0.4)
Pension underpin costs	(0.5)	-
Costs associated with the close out of hedge positions relating to the Venezuela contract	(1.0)	-
Gain/(Loss) on disposal	0.7	(2.9)
Venezuela credit loss provision	-	-
Acquisition related	-	-
Guaranteed minimum pension adjustment (GMP)	-	-
Total exceptional items – (charge)/credit	(11.0)	(6.6)
Exceptional items – tax credit/(charge)	1.8	0.6

Non-IFRS measures

De La Rue plc publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business and use these internally for assessing the business performance. The Directors are of the opinion that these measures give a better understanding of the underlying performance of the business. Amortisation of acquired intangible assets is a non-cash item and by excluding this from the adjusted operating profit metrics this is deemed to be a more meaningful metric of the contribution from the underlying business. The measures the Group uses along with appropriate reconciliations where applicable are shown below.

Non-IFRS measures have not been restated for the impact of the adoption of IFRS 16. The key non-IFRS financial profit measure used by management to assess business performance is adjusted operating profit. The impact of the adoption of IFRS 16 is £0.2m and it has therefore not had a significant impact on this key measure.

Adjusted revenue

Adjusted revenue excludes “pass-through” revenue relating to non-novated paper business contracts where the Group earns nil margin. During HY 2019/20 pass through revenue amounted to £26.4m (HY 2018/19: £15.6m).

Adjusted operating profit

Adjusted operating profit represents earnings from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

	H1 2019/20 £m	H1 2018/19 £m
Operating profit from continuing operations on an IFRS basis	(9.2)	10.1
- Amortisation of acquired intangible assets	0.4	0.3
- Exceptional items – operating	11.0	6.6
Adjusted operating profit from continuing operations	2.2	17.0

Non-IFRS measures

Adjusted Earnings Per Share

Adjusted earnings per share represents earnings from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

	H1 2019/20 £m	H1 2018/19 £m
(Loss)/ Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	(11.1)	5.2
- Amortisation of acquired intangible assets	0.4	0.3
- Exceptional items	11.0	6.6
- Tax on exceptional items	(1.8)	(0.6)
- Tax on amortisation of aquired intangibles	(0.1)	(0.1)
Adjusted profit attributable to equity shareholders of the Company from continuing operations	(1.6)	11.4
Weighted average number of ordinary shares for basic earnings	103.9	102.6
	pence per share	**pence per share**
Basic earnings per ordinary share for continuing operations on an IFRS basis	Loss 10.7	5.1
Adjusted basic earnings per ordinary share for continuing operations	Loss 1.5	11.2

Net debt is a non-IFRS measure. See Slide 11 for details on how net debt is calculated