De La Rue 2018/19 Half Year Results

27 November 2018

DeLaRue

Agenda

Overview
Martin Sutherland

Financial Performance
Helen Willis

Operational Review
Martin Sutherland

Strategy Update
Martin Sutherland

Q&A

Overview

Strong order book gives good visibility of revenue and profitability for H2; expectations for FY18/19 unchanged

Good L4L revenue* growth; profit impacted by a less favourable mix of orders and adverse foreign exchange movements

- Group revenue +9% to £242.0m; Currency revenue +11% to £182.5m
- Adjusted operating profit -31% to £17.0m
- Interim dividend maintained at 8.3p

Solid operational progress

- Banknote print volumes +3%; relationship agreement with Portals De La Rue working well
- Polymer volumes continue to build – BoE trials successfully completed & £20 production underway
- Agreed UK passport preliminary transition timeline – expect to deliver two thirds of the contract's annualised revenue and profit in FY19/20
- Strong momentum in PA&T – secured two significant GRS contracts; expect the business to double in size within three years

* Like for Like revenue is adjusted for the impact on our results of exiting the paper business. In H1 2018/19 this excludes pass through revenues on paper contracts yet to be novated. In H1 2017/18 this excludes the results of the exited paper business and treats all previous internal revenue of Security Features as sales to an external customer, consistent to the treatment in H1 2018/19

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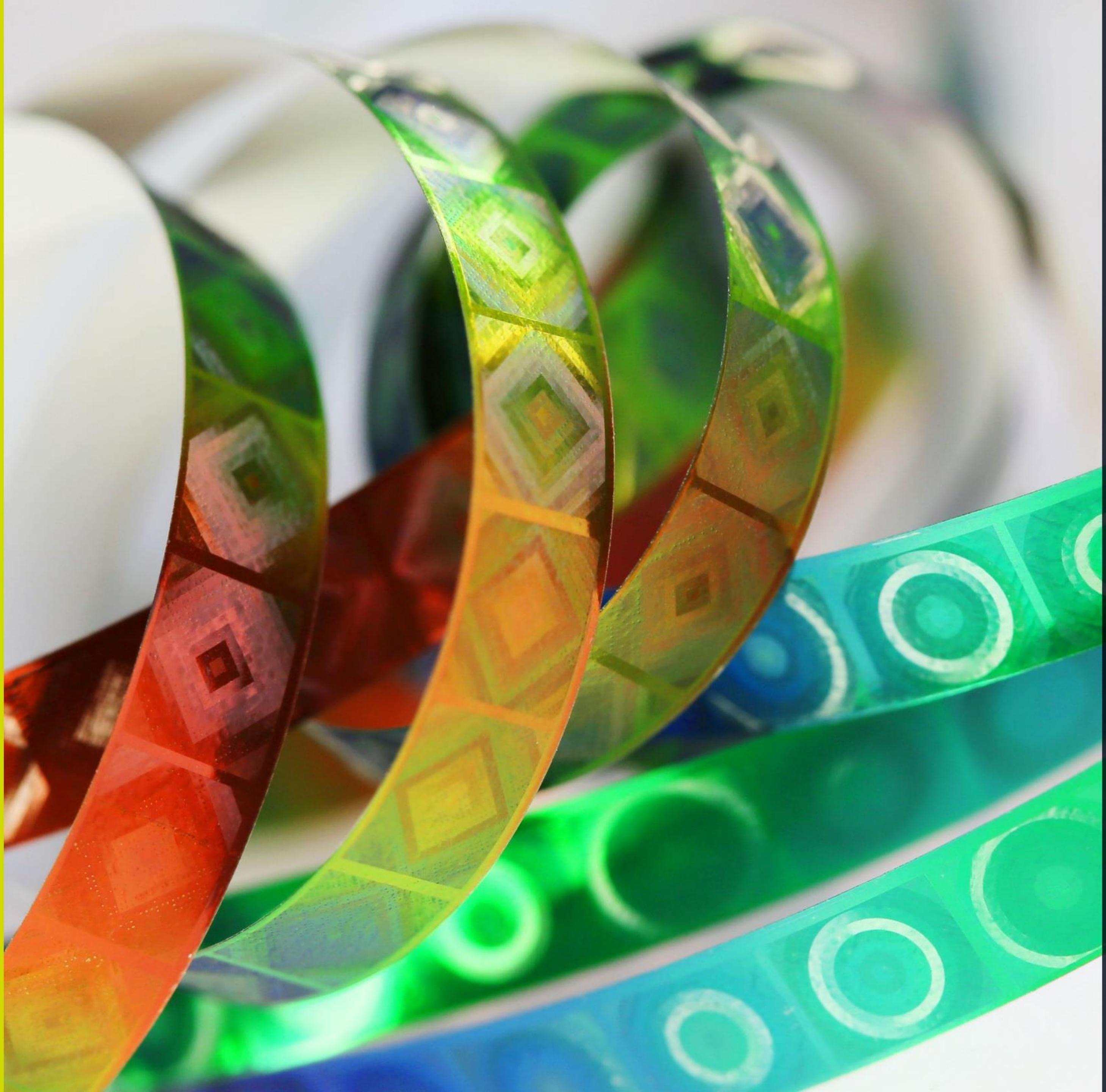

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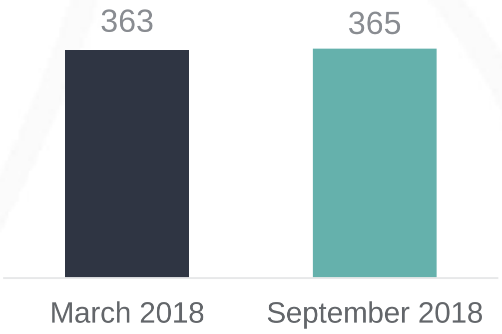
Income statement

	Reported			Excluding Paper*		
	H1 2018/19 £m	H1 2017/18 £m	Change %	**H1 2018/19 £m**	H1 2017/18 £m	Change %
Revenue	**257.6**	244.7	+5%	**242.0**	221.7	+9%
Adjusted operating profit**	**17.0**	26.6	-36%	**17.0**	24.7	-31%
Adjusted operating margin**	**6.6%**	10.9%	-430bpts	**7.0%**	11.1%	-410bpts
IFRS operating profit	**10.1**	24.6	-59%	**10.1**	22.7	-56%
Adjusted profit before tax**	**14.0**	20.9	-33%			
IFRS profit before tax	**7.1**	18.9	-62%			
Effective tax rate	**16.7%**	16.4%	+30bpts			
Adjusted basic earnings per share**	**11.2p**	16.6p	-33%			
IFRS basic earnings per share	**5.1p**	14.8p	-66%			
Dividend per share	**8.3p**	8.3p	0%			

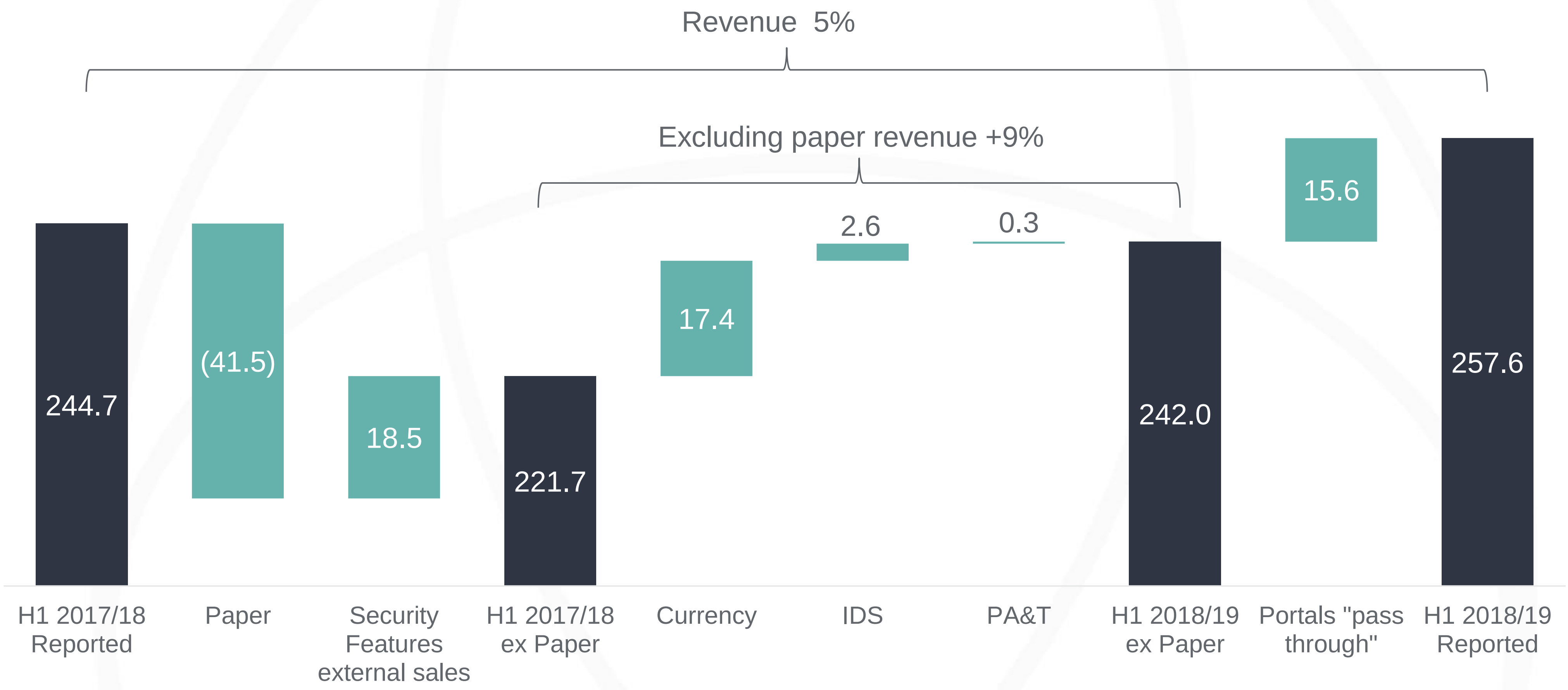
Group 12 month order book (£m)



* Excluding Paper adjusted for the impact on our results of exiting the paper business. In H1 2018/19 this excludes pass through revenues on paper contracts yet to be novated. In H1 2017/18 this excludes the results of the exited paper business and treats all previous internal revenue of Security Features as sales to an external customer, consistent to the treatment in H1 2018/19

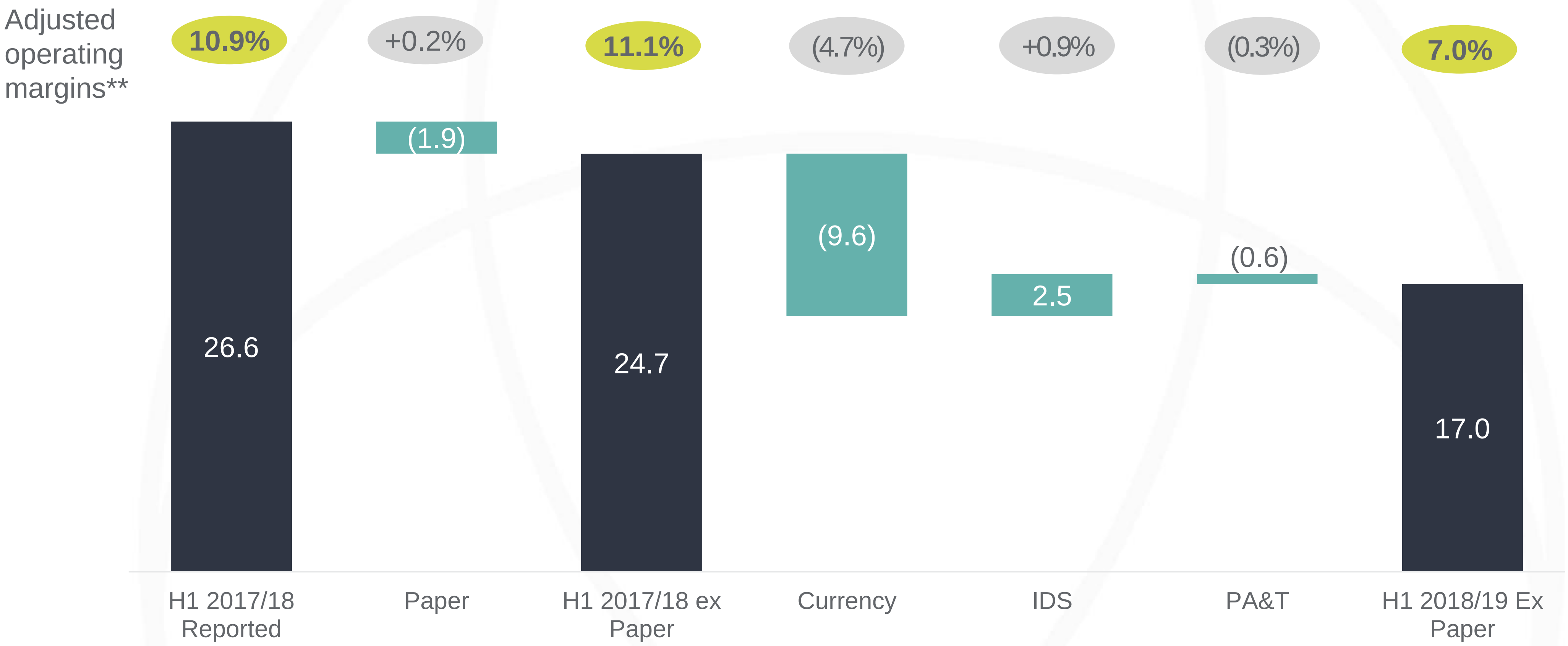
** Before exceptional items and amortisation of acquired intangible assets. This is a non-IFRS measure. See slide 35 for further details

Revenue bridge



- Portals “pass through” revenue of £15.6m relates to the paper contracts that were unable to be novated to Portals (zero margin)

Adjusted operating profit bridge



*Continuing operations only

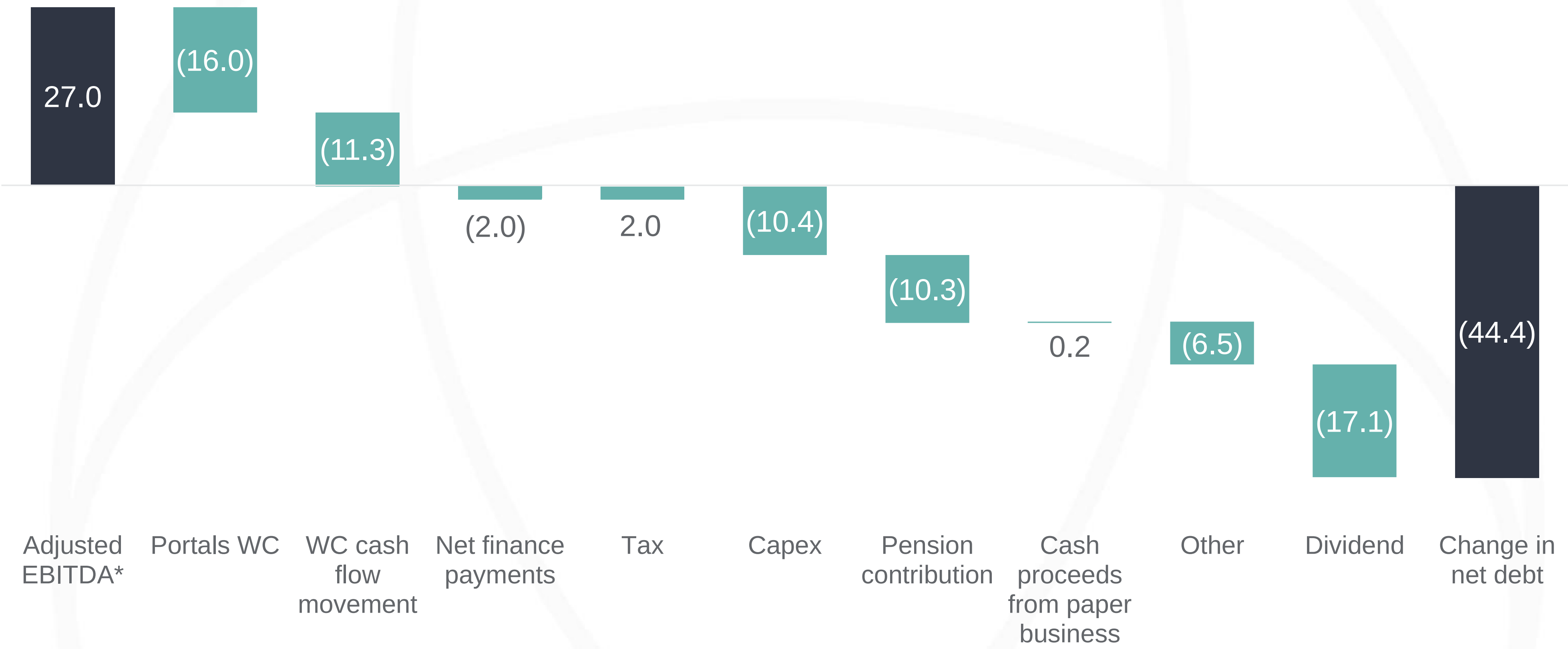
**Before exceptional items and amortisation of acquired intangible assets. This is a non-IFRS measure. See slide 35 for more details

Exceptional items

	H1 2018/19 £m	H1 2017/18 £m
Loss on disposal of the paper business	**(2.9)**	-
Costs associated with disposal of the paper business	**(0.4)**	-
Site relocation and restructuring	**(3.3)**	(1.8)
Exceptional items in operating profit	**(6.6)**	(1.8)
Total tax credit on exceptional items	**0.6**	0.2

Cash payments for exceptional items in H1 2018/19 was £4.4m (H1 2018/19 £1.0m).

Cash flow



*Before exceptional items and amortisation of acquired intangible assets. This is a non-IFRS measure. See slide 35 for more details

Working capital movement

	H1 2018/19 £m	FY 2017/18 (restated) £m	Movement £m
Net trade receivables	111.1	66.6	47.8
Inventories	40.6	34.1	3.6
Trade payables	(67.8)	(59.6)	(8.2)
Advanced payments	(48.9)	(29.7)	(19.2)
Total	**35.0**	**11.4**	**24.0**

- Trade receivables have increased reflecting the timing of shipments in H1
- Inventories are higher due to a build of inventory levels in anticipation of higher H2 orders
- Trade payables have increased mostly driven by the timing of creditor payments at the end of the half year

Balance sheet – pension and net debt

Pension

- H1 2018/19 special contributions to pension scheme increased to £10.3m (H1 2017/18: £4.2m)
- FY 2018/19 special contributions will be £20.5m (FY 2017/18: £13.5m)
- Funding plan agreed in June 2016 will remain in place until the conclusion of the new triennial valuation which commenced in April 2018
- Net UK defined benefit pension liability was £77.2m at 29 September 2018 (March 2018: £87.6m)
- Net finance cost on pension liability reduced to £1.1m in H1 (H1 2017/18: £3.2m), reflecting the significant reduction in the net pension liability following the indexation change effective in H2 2017/18

Net debt

1.37x

Net debt/EBITDA ratio*
FY 2017/18: 0.66x
Covenant: ≤3.0x

13.8x

EBIT/net interest ratio*
FY 2017/18: 14.0x
Covenant: ≥4.0x

	H1 2018/19 £m	FY 2017/18 £m
Gross debt	**(104.1)**	(65.4)
Cash and cash equivalents	**9.8**	15.5
Net debt	**(94.3)**	(49.9)

*Adjusted EBIT/net interest and net debt/EBITDA ratio as per covenant definition

Capital allocation priorities

1

Organic growth investments
capital projects, investment in R&D and sales

2

Dividend
aim to at least maintain dividend per share in the short to medium term

3

Mergers and acquisitions
explore value enhancing opportunities

4

Leverage
not exceeding 1.5x net debt/EBITDA (ex pension deficit)

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Banknote Print

Volumes +3% to 3.6bn

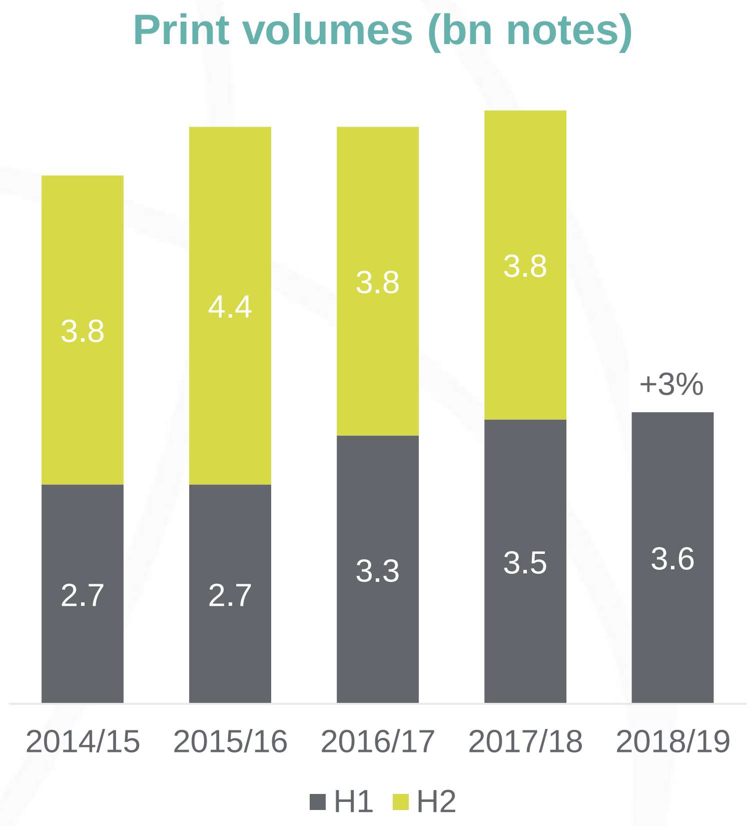
- Supported by flexible production arrangement – working with four outsource partners in H1

Good progress in contract wins – improving revenue visibility

- Secured a 3 year contract with Sveriges Riksbank – producing Swedish Krona outside Sweden for the 1st time

Operational focus

- Portals De La Rue – transition completed
- Strong order book provides full coverage for FY, focus on delivery in H2



Polymer

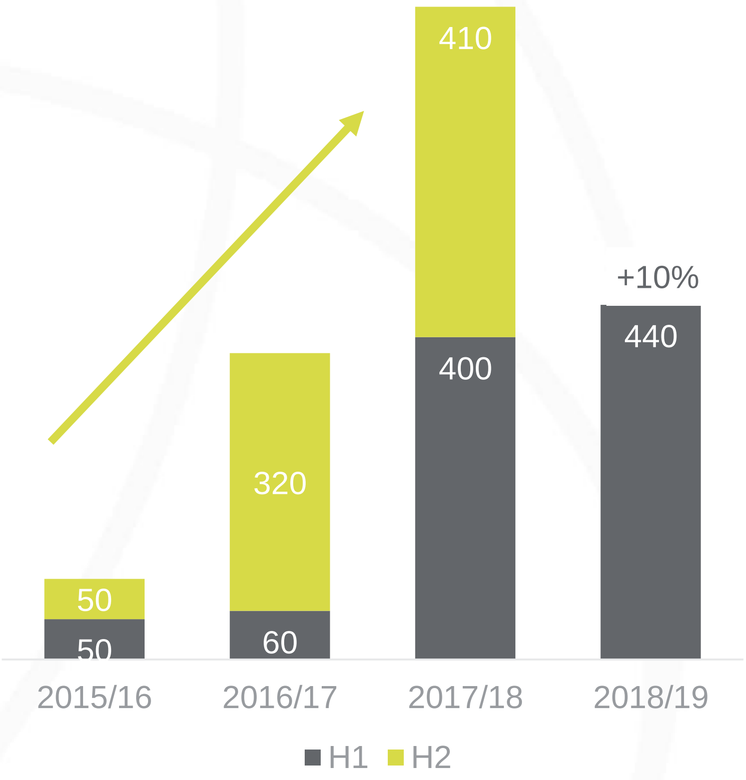
Continue to build scale

- Volume +10% to 440 tonnes
- BoE trials for new £20 polymer substrate completed, production for initial 520 tonnes over two years underway

Solid progress in gaining market share

- 26 note issuing authorities across 60 denominations (vs. 24 note issuing authorities and 50 denominations in FY2017/18)
- In progress to qualify for major polymer notes issuers
- Building technical service offering, helping SPWs to transition to polymer

Polymer volumes (tonnes)



Security Features

Strong growth in H1

- Benefiting from new customers as well as higher volumes from existing customers
- Secured 1st customer for holographic thread PureImage™ launched in May 2018

Continue to expand product portfolio through R&D and partnerships

- Focus on maximising synergies by exploiting existing technology platforms
- Launched two new features for ID

PhotocolourUV™

A print feature that combines the best of security design and the vibrant full colour UV inks to create a life-like 3D effect imagery

MyImage™

A polycarbonate feature jointly developed by De La Rue and its strategic partner Opalux, which enables personalisation of passports and IDs by using standard laser engraving systems

Identity Solutions

Polycarbonate data page design and development for Australia next generation passport with NPA ongoing

Good order intake in international ID

- Qatar ePassport
- New customer – Libya diplomatic passport

UK passport – agreed preliminary transition plan with HMPO

- Service transfer starts from Oct 2019; TUPE (Transfer of Undertakings Protection of Employment) to be agreed
- Expect to deliver around two thirds of annualised contract revenue and profit in FY19/20
- Brexit contingency plan under discussion

Product Authentication and Traceability

Progress in brand protection continues

- Multiple wins - two new contracts for pharmaceutical products
- Engaged in multiple contract negotiations in vaping and high end consumer electronics industries

Significant wins in GRS in last 12 months provide good foundation and references for expansion

- UAE tobacco tax stamp scheme (£25m over 5 years) won in May – on track for rolling out in early 2019
- Secured two strategically important tax stamp contracts, providing full track and trace solutions
- Expect strong growth in tax stamp market driven by regulations

Expect PA&T business to double within three years

Tobacco tax stamp market expects strong growth in the next 5 years driven by regulatory changes demanding the authentication and full traceability of each pack of cigarette.

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Where we are – context for our business today

Delivering on our strategy

Strategic priorities	Progress
Optimise & Flex	**Optimise & Flex**
➢ Divest non core business ➢ Limit exposure to paper market volatility ➢ Improve predictability and competiveness in banknote print	✓ Sold Cash Processing Solutions ✓ Sold Paper – reduced exposure to volatility to the paper market ✓ Reduced capacity in print and increased flexibility
Invest & Build	**Invest & Build**
➢ Grow Group revenue by mid-single digit CAGR 2015-20 ➢ Diversify revenue stream by growing IDS and PA&T	✓ Group revenue +5% CAGR FY15-FY18 ✓ Established good position in polymer market ✓ Acquired DuPont Authentication
Strengthen balance sheet	**Strengthen balance sheet**
➢ Improve cash flow ➢ Reduce pension deficit	✓ Reduced net debt to £49.9m and improved working capital ✓ Reduce pension deficit to £87.6m
Drive culture change	**Drive culture change**
➢ Dynamic, high performing culture ➢ Diverse and skilled workforce with high ethical standards	✓ Restructured and streamlined the business ✓ Changed incentive plan and introduced performance management

Continuing to deliver on our strategy – we are a more streamlined business post CPS and paper disposals

UK passport contract – a setback for our ID business but we are addressing it

Change in market dynamics – regulatory developments, industry consolidation, and technology advancement present risks
as well as opportunities

Where are we – a strong platform to build on

Leading position in our chosen markets with high barriers to entry

#1 Banknote printing
#3 Security features
#2 Polymer substrate
#2 Tax stamp solutions

Established innovator and world class security design capability

- 123 patents granted & 127 patents filed in 4 years
- 14 international design awards in 10 years; designed 36% of total denominations in circulation

Respected and trusted brand with longstanding customer relationships

2/3 of our customers have Long Term Agreements or relationships

Long term growth potential

In growing markets (CAGR 2017-22):

Currency **+4%**

Personal ID **+6%**

Brand protection **+9%**

Tax stamps **+12%**

Source: The Future of Global Security Printing to 2022, Smithers Pira,

A clear strategy to deliver shareholder value

Optimise & Flex

65% of Group revenue*
50% of Group profit*

To become a world class security printing manufacturer

- Optimising manufacturing
- Creating operational efficiency and flexibility

Invest & Build

35% of Group revenue*
50% of Group profit*

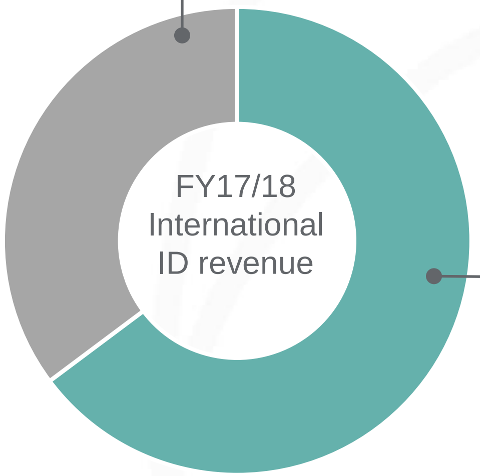
Drive organic growth

- Redirecting growth in identity business to security features and components
- Investing in R&D and sales
- Accelerating growth through M&A

*FY17/18 figures

Invest & Build – Identity Solutions
Current situation

- UK passport contract ends in FY19/20
- International ID continues to grow strongly



	What we currently offer	Market trends	Our capability
System & Service	• Software solutions • Integration • Support services	• Solutions market has consolidated; now dominated by two major players • Bespoke solutions require ongoing investment	• Existing software solution – DLR Identify™ • Lacking broader system components
Identity documents	• Printed books • ID cards • Security components i.e. laminates & polycarbonate • Intellectual property	• Identity market grows at c6% p.a. • Fragmented market with dozens of pure play and integrated suppliers • Polycarbonate data page driven by e-Passport transition • Value of personal ID remains in security components	• Material science technology platforms • Product and process IP • Polycarbonate line

Invest & Build – Identity Solutions

Refocus IDS from solutions sales to higher margin security features & components

Strategy to date

Target end-to-end solution sales by leveraging existing relationships and build up components and security features

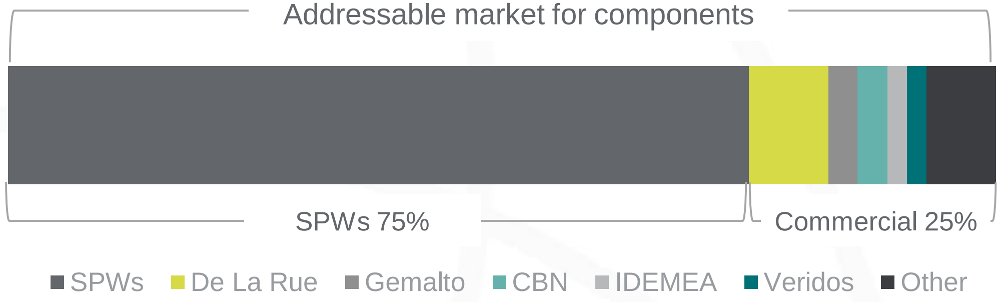
New priority

Focus on higher margin security features and components such as polycarbonate data page where we can differentiate

Going forward

Assessing all options for the prime system integration business to maximise shareholder value

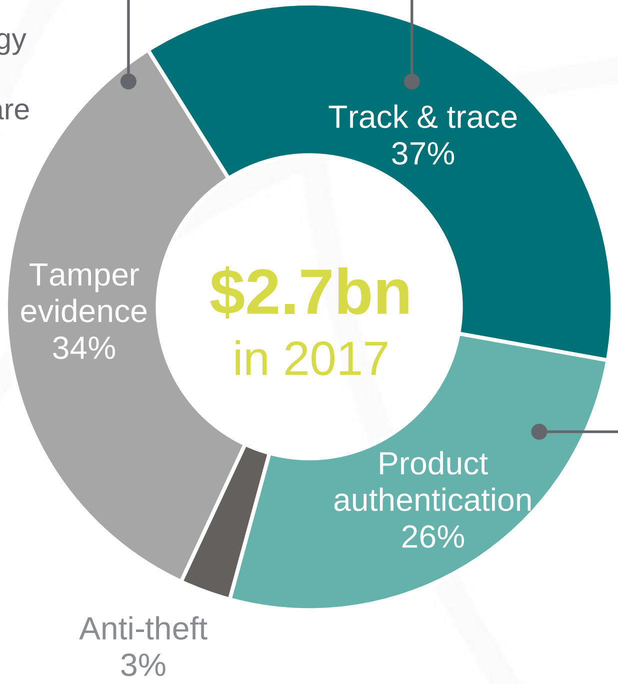
c165m passports issued in 2017, growing at 8% a year. The addressable market for security components includes the larger SPW market



Invest & Build – Product Authentication & Traceability

Large market with good growth potential

Global brand protection market by technology



Tamper evidence

Tamper evident technology including seals, marking, film wrappers, foils, that are integrated into product packaging to reveal any interference with the contents

Product traceability

Track and trace solutions capturing and reporting the origin and movements of products by unique identifier (such as QR codes or serial number through the supply chain)

Supply chain focus
Software enabled

	Size
Government Revenue Protection	£320m
Serialisation & Product Coding	£3.1bn
Enterprise Track & Trace	£772m

Product authentication

Physical labels containing multi-layered overt and covert features such as hologram and UV inks to help authorities and consumers to confirm the authenticity of the products

Product focus
Material science enabled

	Size
Security Holograms	£338m
Other Security Devices	£931m
Brand Enhancement Foils	£971m
IP & Brand Protection Services	£157m

*De La Rue estimate

Source: The Future of Anti Counterfeiting, Brand Protection and Security Packaging to 2022, Smithers Pira,

Invest & Build – Product Authentication & Traceability

Well positioned in both government and commercial markets

Government

End market

- Tobacco products
- Alcohol drinks
- Sugary and energy drinks

Authentication

Tax stamps
- Print features
- Information code
- Tracking code

Traceability

DLR Certify™
- Order management
- Serialisation
- Mobile app for enforcement verification

Enterprise

End market

- Consumer electronics
- Luxury goods
- Wine and spirits
- Industrial products

Authentication

Secure labels
- Print security
- Easy to recognise features
- Design aligned with brand
- Consumer engagement

Traceability

Traceology®
- Order management
- Serialisation
- Mobile app
- Consumer verification

Summary

1

- Good revenue growth across all segments
- Profit impacted by order mix and adverse FX movements

2

- Significant wins in Currency and PA&T underpin future revenue and give us confidence of delivering our strategic goals

3

- Strategy reaffirmed
- Refined priorities for identity business

4

Outlook:

Strong order book provides good visibility of revenue and profitability for H2, FY18/19 expectations unchanged

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Appendices

Consolidated income statement – continuing operations

	H1 2018/19	H1 2017/18
	£m	£m
Revenue	**257.6**	**244.7**
Adjusted operating profit*	**17.0**	**26.6**
Exceptional items	(6.6)	(1.8)
Amortisation of acquired intangibles	(0.3)	(0.2)
IFRS operating profit	10.1	24.6
Net finance cost	(3.0)	(5.7)
Adjusted profit before tax**	14.0	20.9
IFRS profit before tax	7.1	18.9
Taxation	(1.7)	(3.1)
Adjusted profit after tax**	11.6	17.6
IFRS profit after tax	5.4	15.8
Adjusted basic EPS*	11.2p	16.6p
Adjusted diluted EPS*	11.1p	16.4p
IFRS basic EPS	5.1p	14.8p
IFRS diluted EPS	5.1p	14.7p

* Excludes exceptional net charges of £6.6m (H1 2017/18: £1.8m) and amortisation of acquired intangible assets of £0.3m (H1 2017/18: £0.2m)

** Excludes exceptional charges net of tax credit £6.0m (H1 2017/18: £1.6m), amortisation of acquired intangible assets net of tax credit of £0.2m (H1 2017/18: £0.2m)

"Adjusted" measures are not on an IFRS basis. For further explanations and reconciliations to equivalent IFRS measures see slide 35

Segmental revenue and operating profit excluding paper

	H1 18/19 £m					H1 17/18 £m				YoY change %			
	Currency	ID	PA&T	Portals Pass Through	Group	Currency	ID	PA&T	Group	Currency	ID	PA&T	Group
Revenue													
Reported	182.5	40.1	19.4	15.6	257.6	185.1	39.4	20.2	244.7	-1%	2%	-4%	5%
Paper						(37.1)	(3.2)	(1.2)	(41.5)				
Portals Pass Through				(15.6)	(15.6)								
Security Features external sales						17.2	1.3		18.5				
Excluding Paper	**182.5**	**40.1**	**19.4**	-	**242.0**	**165.1**	**37.5**	**19.1**	**221.7**	**11%**	**7%**	**2%**	**9%**
Adjusted Operating Profit *													
Reported	6.5	6.9	3.6	-	17.0	16.6	5.4	4.6	26.6	-61%	28%	-21%	-36%
Paper	-	-	-	-	-	(0.5)	(1.0)	(0.4)	(1.9)				
Excluding Paper	**6.5**	**6.9**	**3.6**	-	**17.0**	**16.1**	**4.4**	**4.2**	**24.7**	**-60%**	**57%**	**-13%**	**-31%**
Adjusted Operating Margin													
Reported	3.6%	17.2%	18.6%	0.0%	6.6%	9.0%	13.7%	22.8%	10.9%	-5.4%	3.5%	-4.2%	-4.3%
Paper	-	-	-	-	-	1.9%	-1.6%	-0.8%	1.3%	-1.9%	1.6%	0.8%	-1.3%
Portals Pass Through	-	-	-	-	0.4%	-	-	-	0.0%	-	-	-	0.4%
Security Features external sales	-	-	-	-	-	-1.1%	-0.6%	-	-1.0%	1.1%	0.4%	-	1.0%
Excluding Paper	**3.6%**	**17.2%**	**18.6%**	**0.0%**	**7.0%**	**9.8%**	**11.7%**	**22.0%**	**11.1%**	**-6.2%**	**5.5%**	**-3.4%**	**-4.1%**

* Before exceptional items and amortisation of acquired intangible assets. This is a non-IFRS measure. See slide 35 for more details

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.

Adjusted operating profit

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

	H1 2018/19 £m	H1 2017/18 £m
Operating profit from continuing operations on an IFRS basis	**10.1**	24.6
- Amortisation of acquired intangible assets	**0.3**	0.2
- Exceptional items – operating	**6.6**	1.8
Adjusted operating profit from continuing operations	**17.0**	26.6
- Depreciation and amortisation	**10.0**	13.2
Adjusted EBITDA	**27.0**	39.8

Excluding paper figures

Figures reported on the “excluding paper” basis have been adjusted to exclude revenue from non-novated contracts in H1 2018/19. In H1 2017/18 “excluding paper” figures exclude the results of the paper business. In addition Security Feature sales, which would have previously been treated as internal, have been added back to present the comparative numbers in 2017/18 on a basis consistent with the IFRS accounting treatment applied in H1 2018/19.

Non-IFRS measures

Adjusted earnings per share	**H1 2018/19 £m**	H1 2017/18 £m
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	**5.2**	15.1
- Amortisation of intangible assets	**0.3**	0.2
- Exceptional items – operating	**6.6**	1.8
- Tax on amortisation of acquired intangibles	**(0.1)**	-
- Tax on exceptional items	**(0.6)**	(0.2)
Adjusted profit attributable to equity shareholders of the Company from continuing operations	**11.4**	16.9
Weighted average number of ordinary shares for basic earnings	**102.6**	101.8

	H1 2018/19 £m	H1 2017/18 £m
Basic earnings per ordinary share continuing operations on an IFRS basis (pence per share)	**5.1**	14.8
Adjusted basic per ordinary share for continuing operations	**11.2**	16.6

Impact of sale of the paper business

Income Statement (relating to sale of finished banknotes)

	Previous	Ongoing
Sale of Security Features	**Internal** between Security Features and Paper businesses	**External** to 3rd party paper manufacturer (Portals)
Sale of Paper	**Internal** between Paper and Banknote Print businesses	**External** purchased from 3rd party paper supplier (Portals)
Sale of Banknotes	**External** to customers	**External** to customers

From 1 April 2018 we no longer recognise revenue and profits on the sale of paper, within our Currency (banknote paper) and both our IDS and PA&T (security paper) businesses. We now recognise revenues on the sale of Security Features to 3rd parties in our results.

The excluding paper analysis with these results are all on a like-for-like basis taking these factors into account.

Balance Sheet

All assets relating to paper business, including working capital, were disposed of on the sale on 31 March 2018.

Different working capital and asset base going forwards – one strategic rationale for sale of the paper business was to become less capital intensive.

We have seen a one-off impact to our cash flows as we have transitioned to and embedded the workings of the new relationship agreement with Portals De La Rue. Underlying, and ongoing, we will reflect an improved working capital cash movement under the terms of this relationship agreement.

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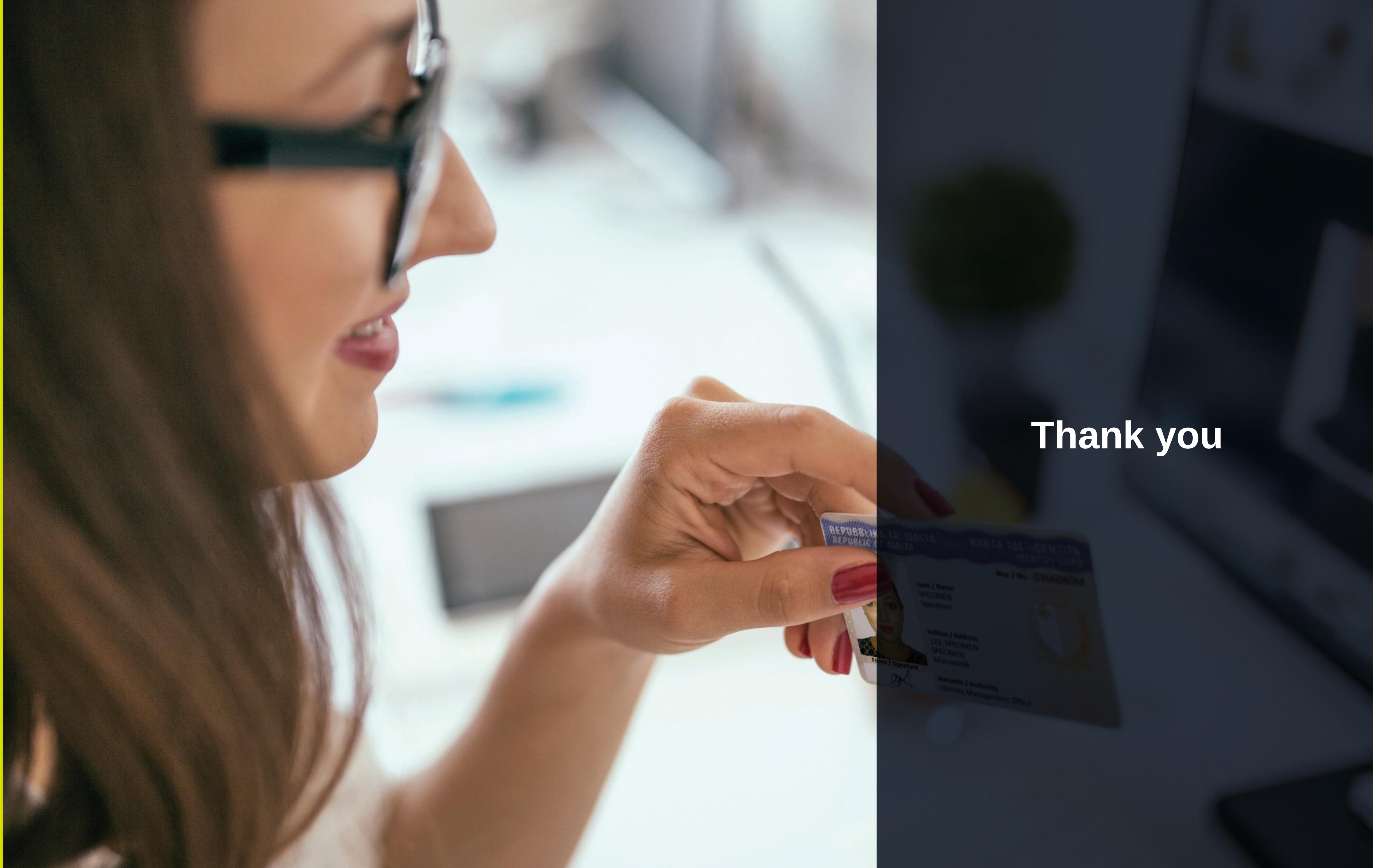

Thank you