



DeLaRue

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# De La Rue plc

**Interim Results  
24 November 2009**

# Introduction

**James Hussey**  
Chief Executive

# Interim Results 2009/10

## AGENDA

- Headlines
- Financial Results
- Business Overview
- Q&As

# Headlines

- Group revenue\* up 3% to £252.2m
- Operating profit\* up 17% to £51.0m
- Operating profit margin up 2.4% points to 20.2%
- Headline EPS\* up 48% to 35.1p based on 98.2m shares
- Interim dividend up 3% to 14.1p in line with declared policy
- Secured £400m UK Passport contract
- These results reflect the elimination of central costs which have now been fully achieved

\*Group revenue, operating profit and headline earnings per share is reported for continuing operations and before exceptional items

# Financial Results

**Simon Webb**  
Finance Director

NB: All 2008/09 financials restated to exclude discontinued operations

# Financial Results

Half Year ended 26 September 2009

	First Half 2009/10 £m	First Half 2008/09 £m	
Revenue	252.2	244.7	3.1%
Operating profit before exceptional items	51.0	43.5	17.2%
Share of profits of associated companies	2.6	4.9	
Interest - on net cash balances	(2.5)	2.3	
- retirement benefit obligation	(3.1)	(0.9)	
Profit before tax and exceptional items	48.0	49.8	(3.6)%

# Group Earnings

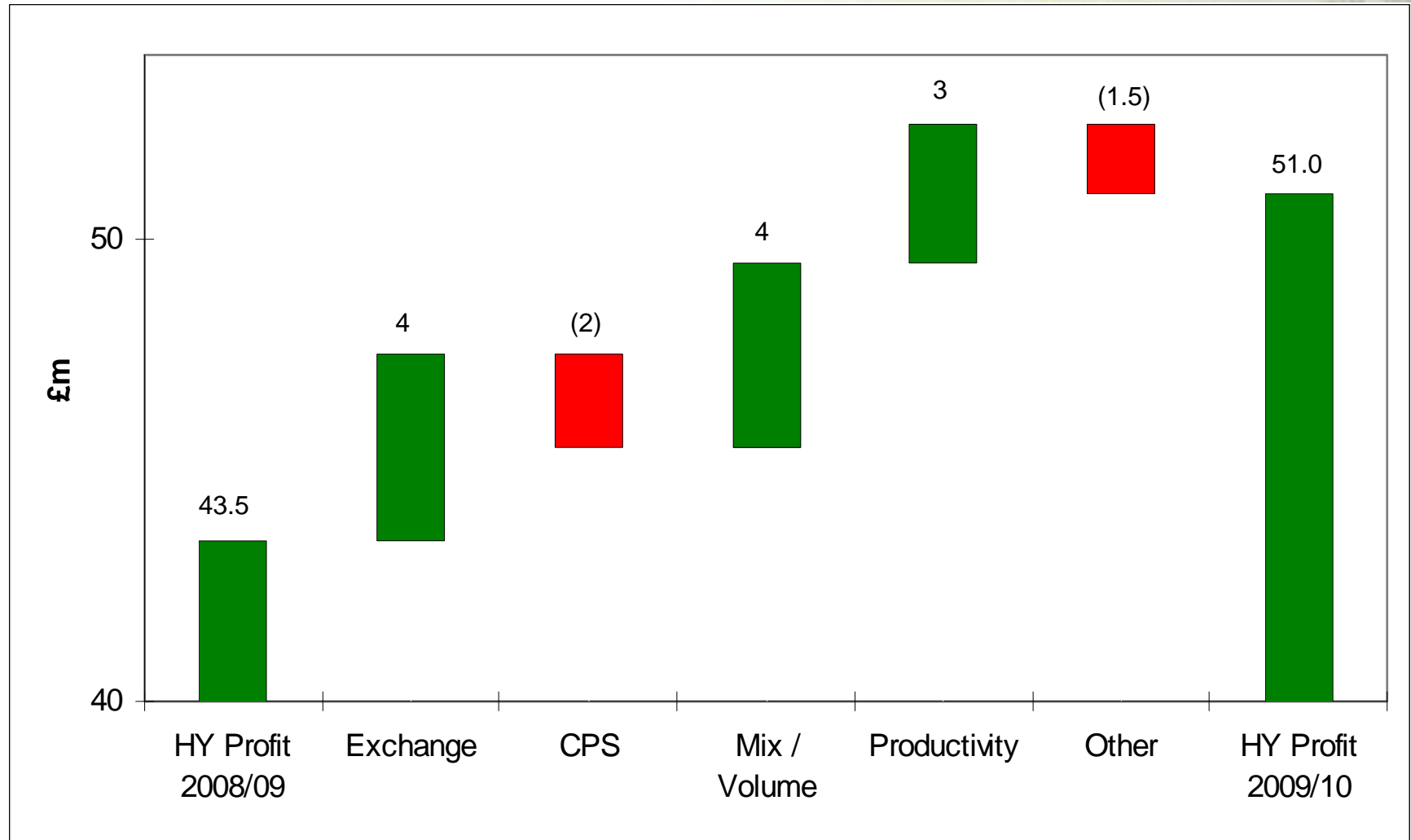
**Half Year ended 26 September 2009**

	<b>First Half 2009/10 £m</b>	<b>First Half 2008/09 £m</b>	
PBT (pre-exceptional items)	<b>48.0</b>	49.8	(3.6)%
Exceptional items	<b>(3.8)</b>	(2.6)	
	<b>44.2</b>	47.2	
Taxation (continuing activities)	<b>(12.8)</b>	(14.2)	
Minority interests	<b>(0.3)</b>	(0.4)	
Earnings – continuing operations	<b>31.1</b>	32.6	(4.0)%
Headline EPS	<b>35.1p</b>	23.7p	48.1%





# Operating profit grew by £7.5m



# Associates

	<b>First Half 2009/10 £m</b>	<b>First Half 2008/09 £m</b>
Profit before tax	<b>3.6</b>	7.0
Tax	<b>(1.0)</b>	(2.1)
Profit after tax	<b>2.6</b>	4.9

- 20% holding in Camelot
- Licence effective from 1 February 2009

# Exceptional items

	<b>First Half 2009/10 £m</b>	<b>First Half 2008/09 £m</b>
Central cost elimination	-	(2.6)
Legacy overseas indirect tax	<b>(2.5)</b>	-
CPS reorganisation	<b>(1.3)</b>	-
<b>Total exceptional items</b>	<b>(3.8)</b>	<b>(2.6)</b>

- Central cost elimination completed ahead of schedule
- Cost of CPS reorganisation (£5m for the full year)

# Taxation

	First Half 2009/10 £m		First Half 2008/09 £m	
Continuing operations				
- Tax on operating profits	13.2	27.5%	13.9	28.0%
- Tax on exceptional items	(0.4)	-	0.3	-
	12.8	29.0%	14.2	30.0%

- Effective tax rate of 27.5% expected for the full year

# Earnings per share

	First Half 2009/10	First Half 2008/09	
Headline earnings (pre exceptional items)	<b>£34.5m</b>	£35.5m	(2)%
Average number of shares	<b>98.2m</b>	150.0m	
Headline EPS	<b>35.1p</b>	23.7p	48%
Basic EPS (including exceptional items)	<b>31.7p</b>	21.8p	45%

- Headline EPS benefits from the effect of the return of capital

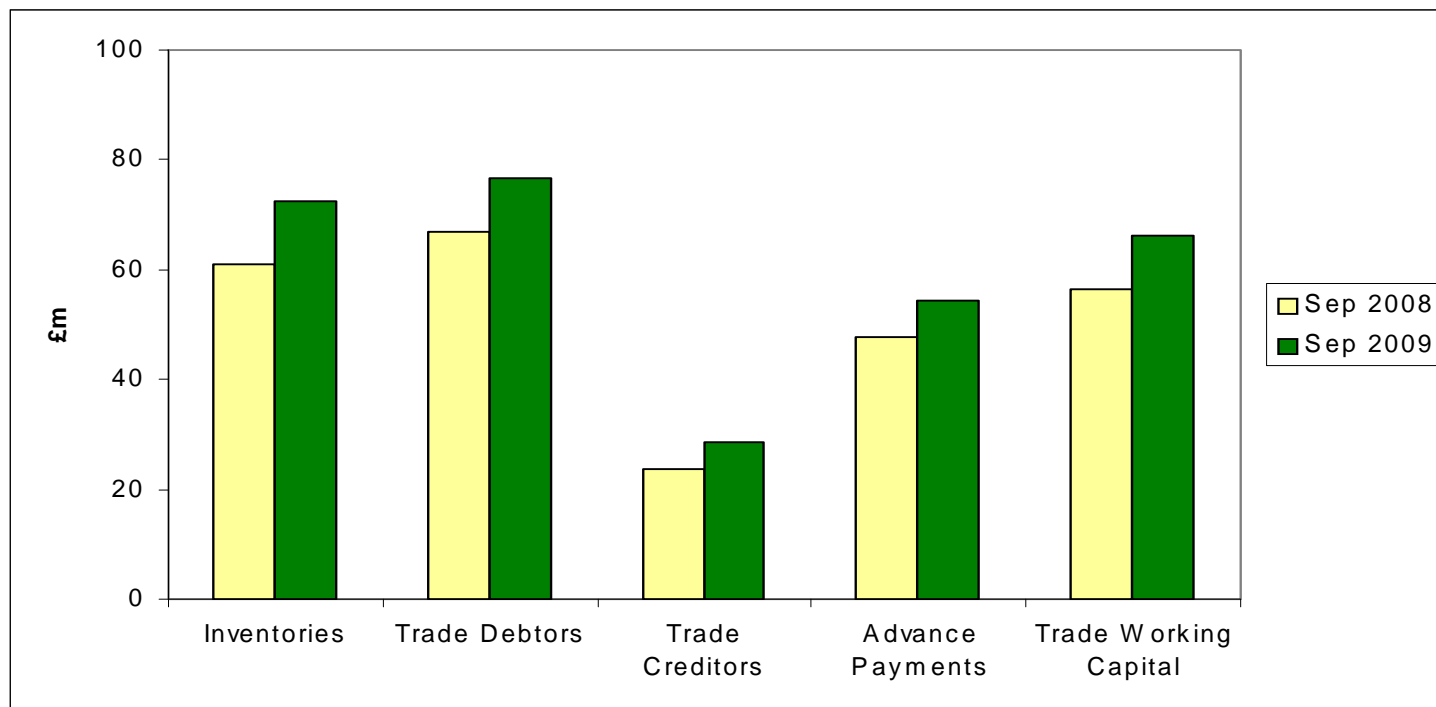
# Operating Cash Flow

	<b>First Half 2009/10 £m</b>	<b>First Half 2008/09 £m</b>
Operating profit pre-exceptional items	<b>51.0</b>	43.5
Depreciation	<b>11.3</b>	10.4
Working capital	<b>(24.9)</b>	(16.5)
Pension fund contribution	<b>(5.0)</b>	*(20.0)
Other	<b>(0.2)</b>	(4.4)
<b>Cash flow from operating activities</b>	<b>32.2</b>	*13.0

\* Includes £15m contribution related to sale of Cash Systems

# Working capital

	Sep 2008	Sep 2009
Stock days	62	66
Debtor days	42	42



# Movement in Net Debt

	£m
Opening Net Debt (27/3/2009)	(33.1)
Cash flow from operating activities	32.2
Interest and tax	(8.5)
Capital expenditure	(16.3)
Ordinary dividend	(27.2)
Associates	3.1
Other	(3.6)
Closing Net debt (26/9/2009)	(53.4)

- Cash held of £37m
- Gross debt of £90m



# UK Pension Scheme

- Increase in IAS19 balance sheet deficit to £152.5m (March 09: £68m)
  - mainly reflects the drop in the discount rate from 6.8% to 5.5%
- Result of triennial valuation due Q1 2010

# Key Priorities

- Focus on cash
- Drive through cost reduction programmes
- Continue productivity initiatives

# Business Overview

**James Hussey**  
Chief Executive



# DE LA RUE plc

## Currency

## Cash Processing Solutions

## Security Products

## Identity Systems

### First Half 2009/10

Revenue	£181.2m
Operating Profit	£44.7m
Operating Margin	24.6%

Revenue	£28.4m
Operating Profit	-£1.6m
Operating Margin	-5.6%

Revenue	£38.0m
Operating Profit	£7.0m
Operating Margin	18.4%

Revenue	£13.0m
Operating Profit	£0.9m
Operating Margin	6.9%



# Currency – First Half 2009/10

- Demand drivers unchanged - no impact from global economic decline
- Margin improvement reflects unusually favourable sales mix, productivity improvements and foreign exchange
- Increased paper output achieved by enhanced productivity

	<b>First Half 2009/10 £m</b>	First Half 2008/09 £m
Revenue	<b>181.2</b>	167.6
Operating profit	<b>44.7</b>	36.6
<i>Operating profit margin</i>	<b>24.6%</b>	21.8%

# Cash Processing Solutions – First Half 2009/10

- Difficult trading conditions resulting in delayed demand for sorters
- Rationalisation of product and manufacturing base will lower the breakeven cost base
- Exceptional reorganisation cost of £5m this year with a payback within 2 years

	<b>First Half 2009/10 £m</b>	First Half 2008/09 £m
Revenue	<b>28.4</b>	31.3
Operating profit	<b>(1.6)</b>	0.1
<i>Operating profit margin</i>	<b>(5.6)%</b>	0.3%

# Security Products – First Half 2009/10

- Continued good performance
- Maintaining focus on productivity improvements and cost control
- Further growth in internal component revenue
- Brand licensing model affected by global recession

	<b>First Half 2009/10 £m</b>	First Half 2008/09 £m
Revenue	<b>38.0</b>	34.8
Operating profit	<b>7.0</b>	5.5
<i>Operating profit margin</i>	<b>18.4%</b>	15.8%

# Identity Systems – First Half 2009/10

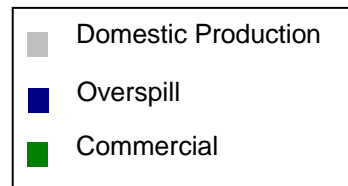
- Deliveries weighted towards the second half
- Good order book visibility for the full year
- UK Passport contract on schedule - £400m over 10 yrs from 2010/11

	<b>First Half 2009/10 £m</b>	First Half 2008/09 £m
Revenue	<b>13.0</b>	16.0
Operating profit	<b>0.9</b>	1.3
<i>Operating profit margin</i>	<b>6.9%</b>	8.1%

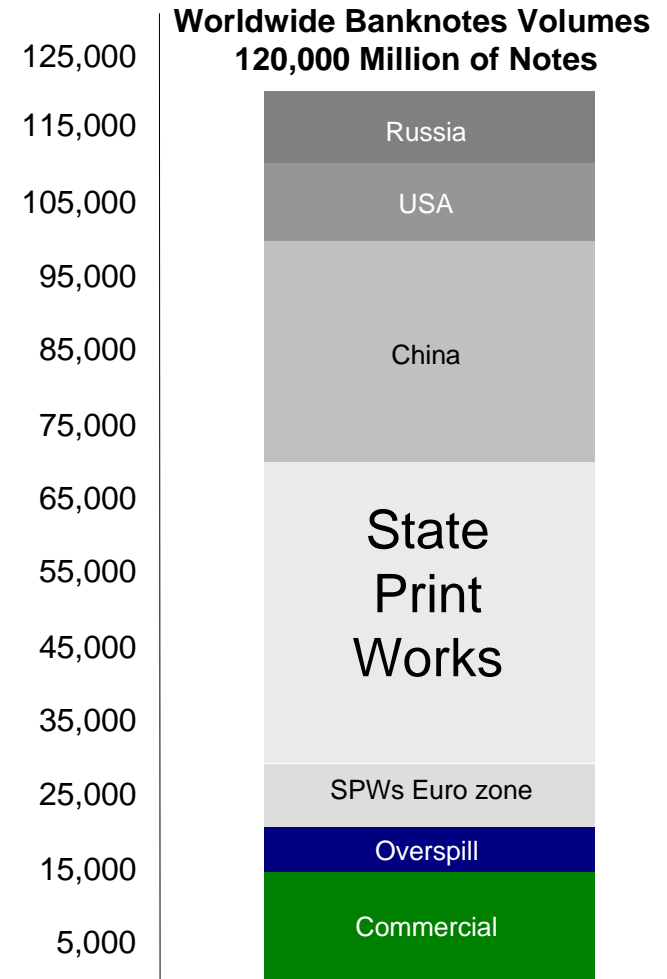


# Currency Market - Long term volume drivers

- 1) Underlying Banknote market long term volume growth  
c2-3% pa
- 2) Migration of State Print Works in last 25 years from public to private sector has grown available market from c8% of world volume to c15% today
- 3) Central Bank policy

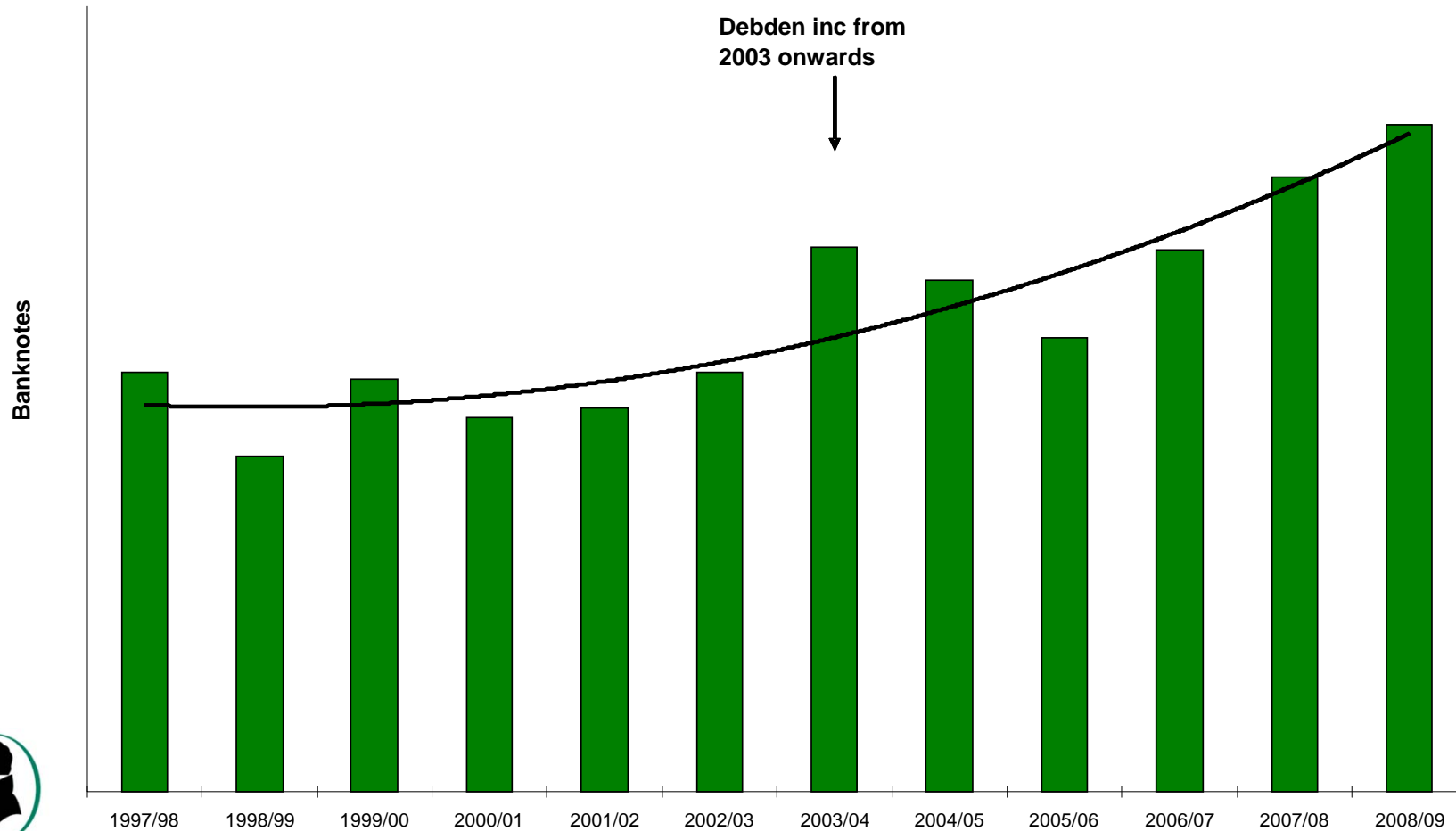


High barriers to market entry for new competitors



# De La Rue 4% CAGR over the long term

## De La Rue print volumes

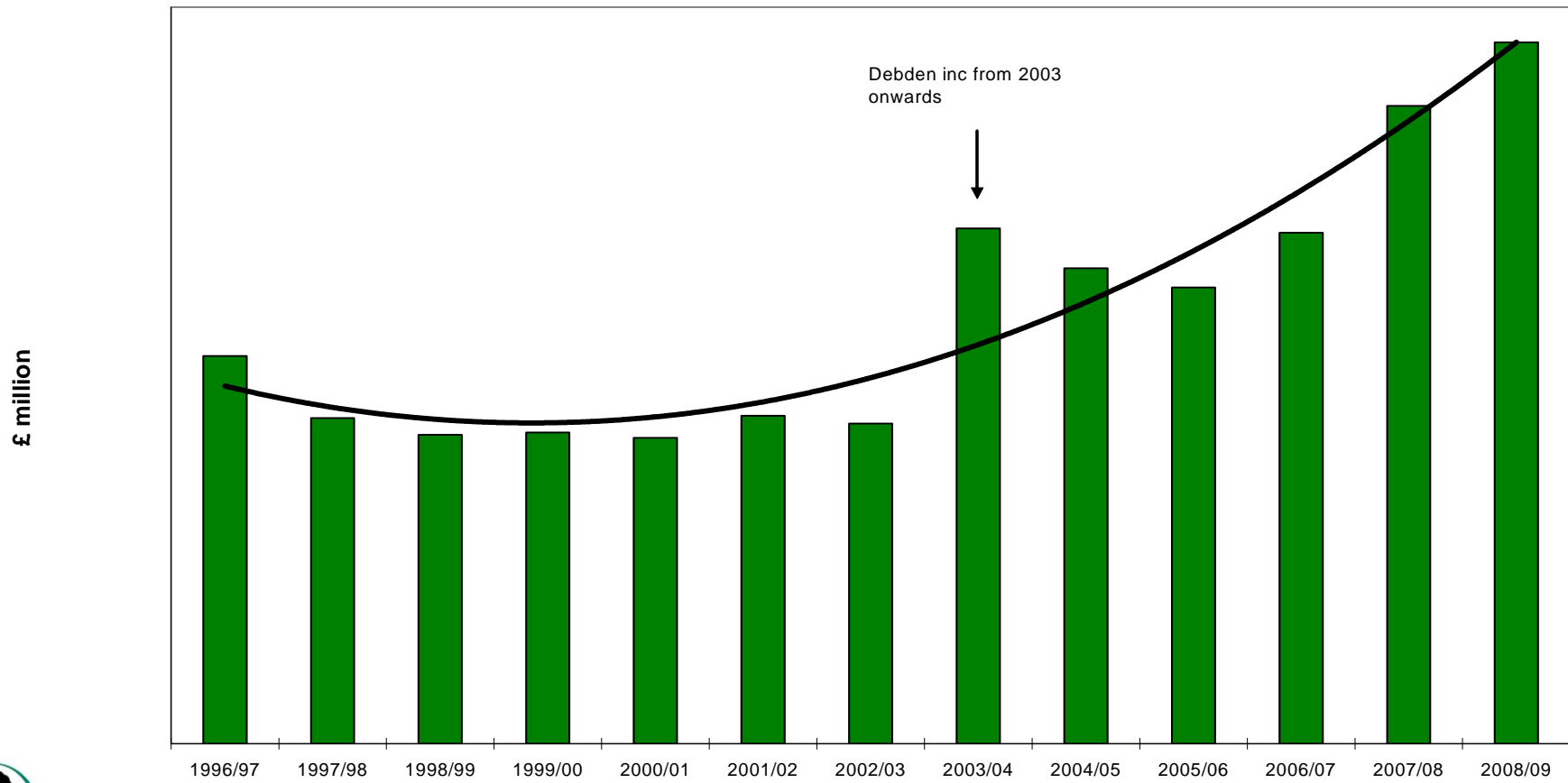


# Central Bank Policy – Volume and Value Drivers

- **New note design**
- **Increased security features**
- **Change in denominational structure**
- **Increased mechanisation of cash handling**
- **Change of policy on note cleanliness**

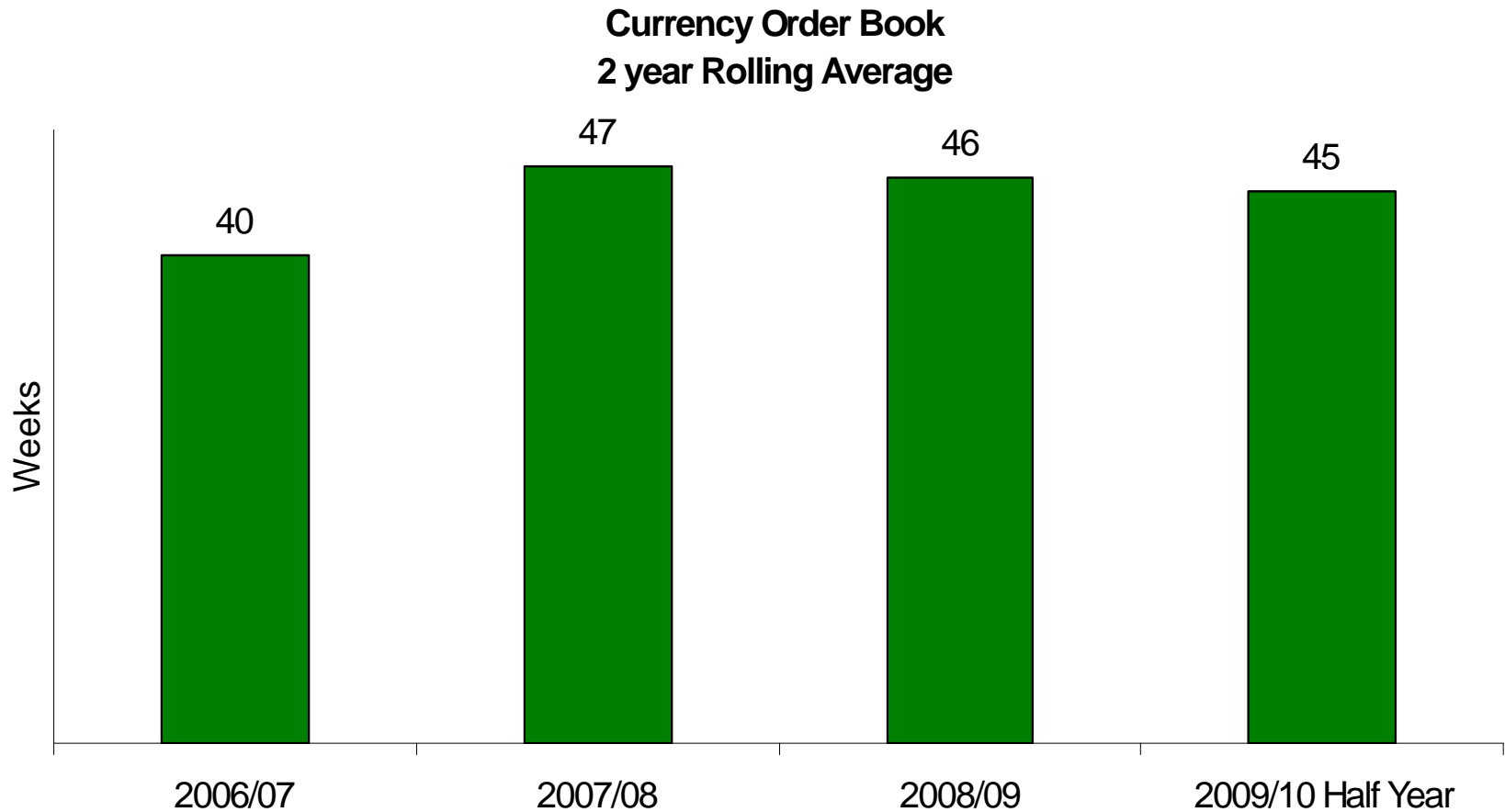
We estimate that over 80% of short to medium-term banknote demand comes from Central Bank policy

# Currency Sales 5% CAGR over the long term



VOLUME x VALUE

# Currency Order Book



# Driving for high margins and cost management

## KEY ACTIONS

- Reduced “make ready” and change over times
- Reduced waste & spoilage
- Improved machine running speeds
- Adherence to standard operating procedures (SOPs) to eliminate process variability



## Increase in banknote productivity per employee 2004 to 2009

Print	+21%
Paper	+36%

Driving productivity is in our DNA

# Continue to invest in capability and innovation

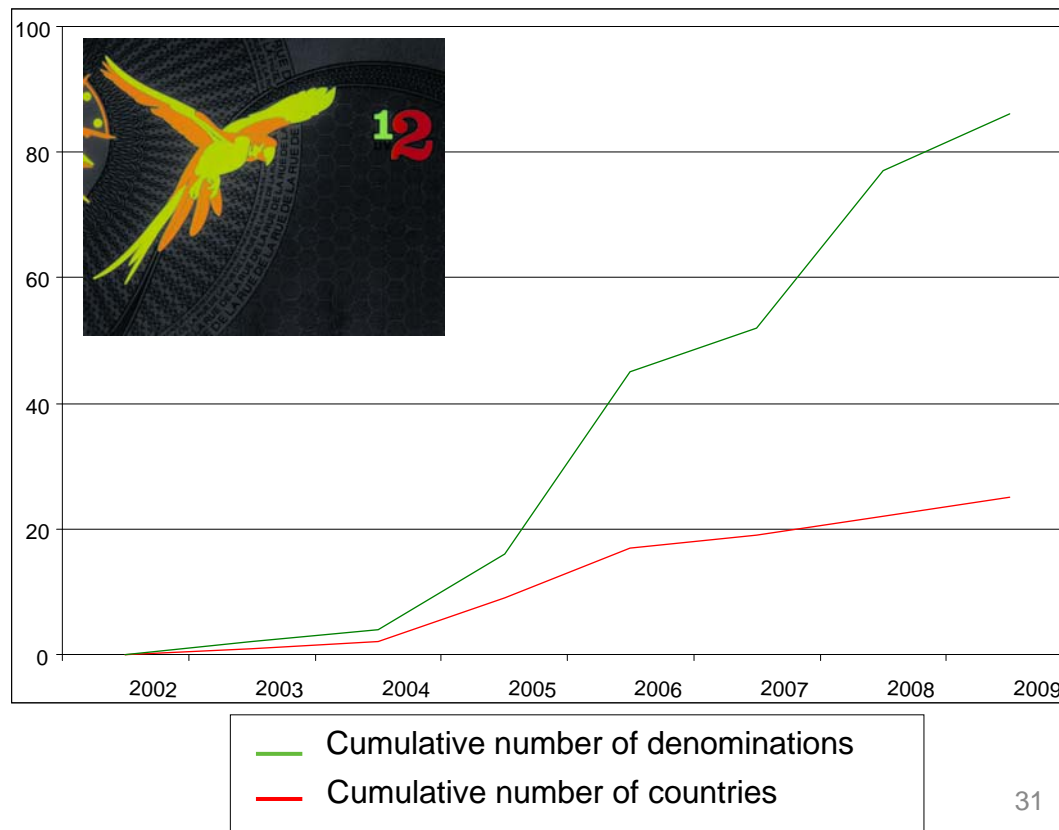
## Capex

- to build capability, not capacity
- approximates long term depreciation

## Innovation: 3% of revenue

- drives value
- IPR and licensing agreements

## Gemini™



# Security Products Growth and Margin Drivers

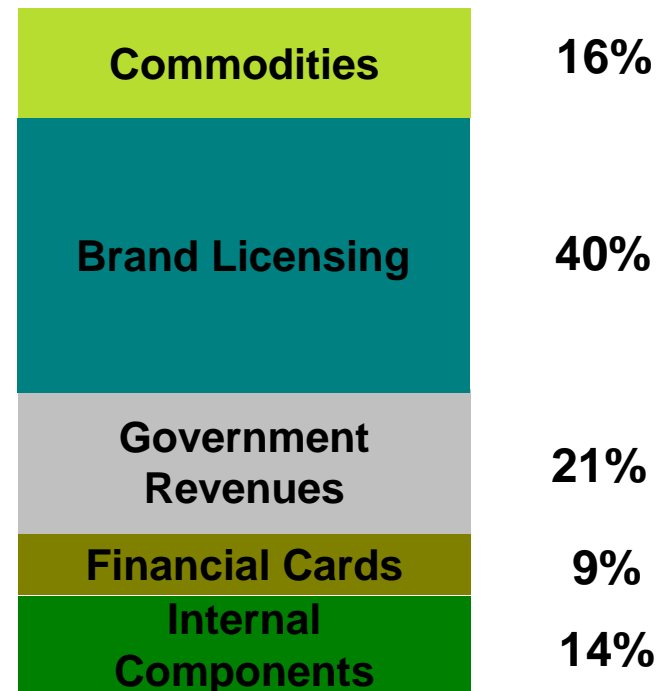
## Main Drivers

- Shared innovation
- Productivity

## Growth Drivers

- Threat of counterfeiting
- Protection of brand and Government revenue

## SP Revenue 2008/09



One De La Rue: shared innovation, factories and sales



# Identity Growth Drivers

## Key drivers of market growth

- Cross border and internal security
- Identity theft
- Social Services initiatives, eg, health cards
- E Government

## IDS Revenue 2008/09

Driver Licences	9%
ID Card Implementation & Support	28%
ID Cards	13%
Passport Implementation & Support	28%
Passports	22%

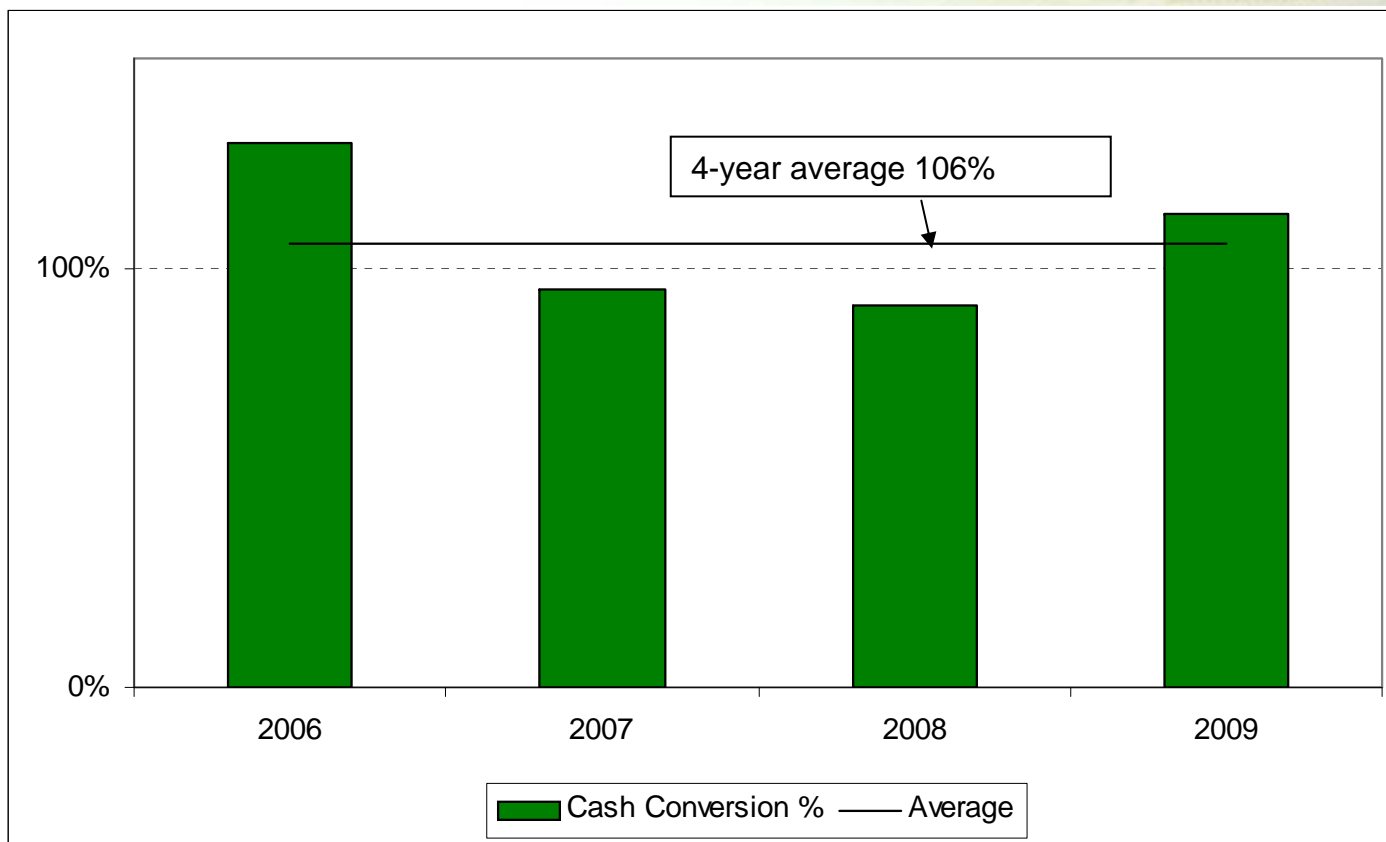
Identity market is growing at 10 – 15% pa driven by Government security and border concerns

# UK Passport Contract

- Understanding what was required
- Excellent internal team and right partners
- Breadth of proposition and capability
- Leading edge technology
- Reputation

Success factors which are repeatable

# Superior cash conversion



Basis: SPPD management accounts operating cash flow, includes capex, excludes advance payments

# Outlook

The Board remains confident in the outlook for the full year. Looking forward at this stage into the new financial year, the Board believes that banknote volumes should remain at similar levels but the unusually strong margin mix in Currency may not be repeated. It is expected that this will be offset by productivity gains, cost reduction and improved trading in other parts of the business.

# Six steps to value

- Focus on currency, security, identity and authentication systems
- Drive for high margins and cost management
- Maintain superior cash conversion
- Continue to invest in capability and innovation
- Actively manage the balance sheet
- Return surplus cash to shareholders





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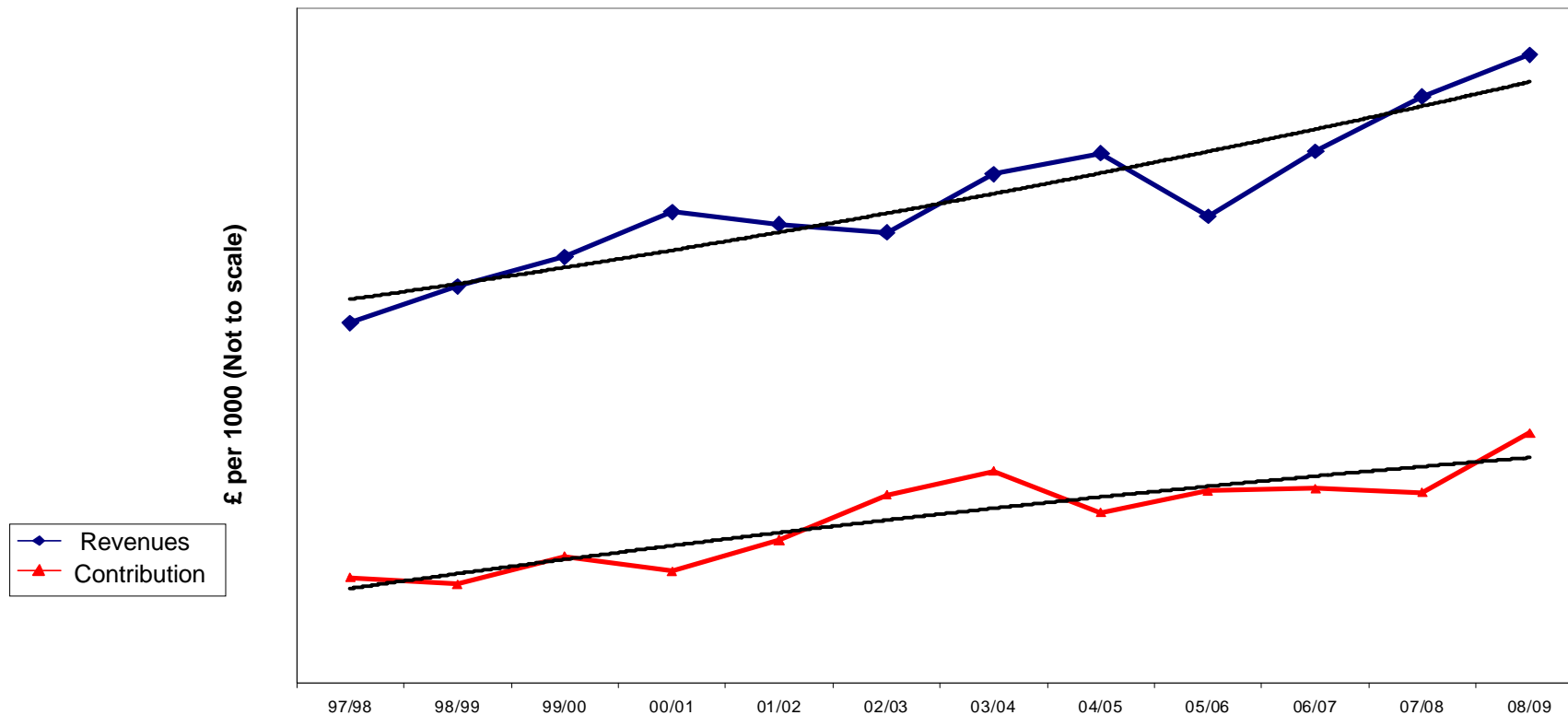
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# SUPPLEMENTARY SLIDES



# Revenue and Contribution Trends

## Banknote closing order book revenues and contribution trends



**Long term sustainable growth; value driven by innovation  
No clear correlation between revenue and contribution**



# “One De La Rue” – all elements contributing

	GROWTH DRIVER	CONTRIBUTION TO ONE DE LA RUE	GAME CHANGER
CURRENCY	Evolving Central Bank policy	Engine of the De La Rue brand	SPW privatisation <b>Euro 2012</b>
CPS	Customer productivity in cash handling	Capitalise on Currency offering	15 year service model
SECURITY PRODUCTS	Threat of counterfeiting	Capitalising on IP and internal sales	Replicate brand licensing model
IDENTITY SYSTEMS	Growth of e-identity	Reputation and relationships	Capitalise on ID authentication growth <b>UK Passport</b>

# Overspill as percentage of banknote volume

