

Full year results and strategic review



Group Headlines

Full year results in line with expectations, reflecting challenging markets

Risk of short term volatility remains

New management team

New organisational structure

Clear and achievable strategy for long term growth



Financial Results



Financial results

	2014/15 £m	2013/14 £m	Change
Revenue	472.1	513.3	(8%)
Underlying operating profit*	69.5	89.3	(22%)
Underlying operating margin*	14.7%	17.4%	
Underlying profit before tax*	57.7	77.3	
Taxation	(11.1)	(16.1)	
Underlying profit after tax*	46.6	61.2	
Underlying earnings per share	45.3p	60.7p	
Dividend per share	25.0p	42.3p	
Print volumes (notes)	6.5bn	6.2bn	5%
Paper volumes (tonnes)	9,400	9,600	(2%)
Group 12 month order book**	243	307	(21%)

* Before exceptional items

** Calculated on a revised basis to include estimated call-off orders for material contracts



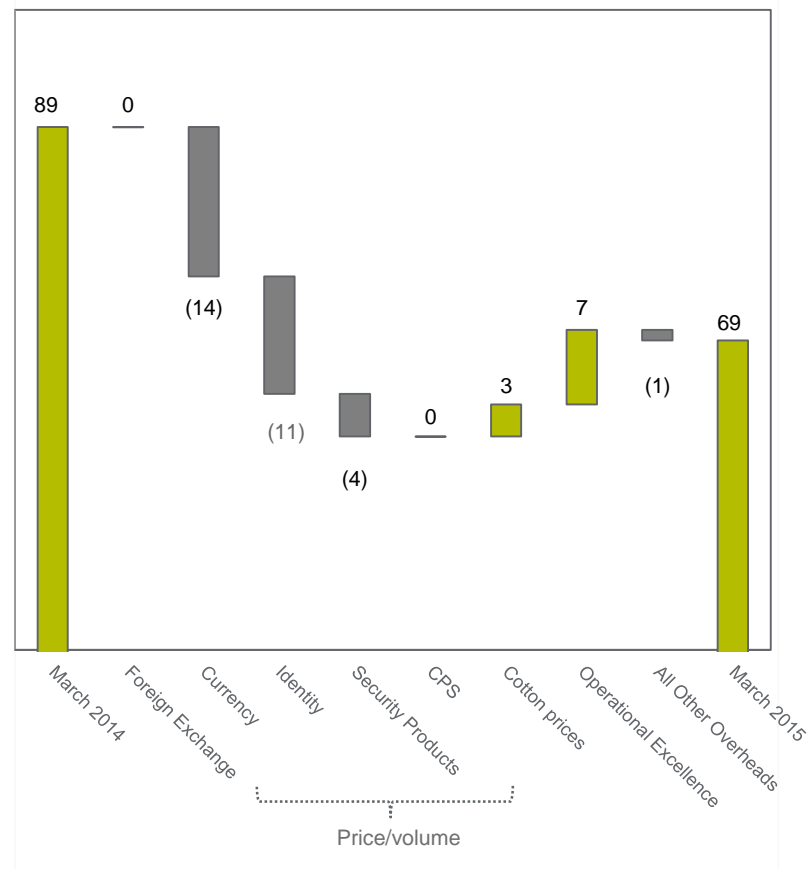
Revenue and Operating Profit

	Revenue*		Operating Profit**	
	2014/15 £m	2013/14 £m	2014/15 £m	2013/14 £m
Currency	317	341	50	61
Identity	69	77	11	22
Security Products	37	42	8	10
CPS	49	53	-	(4)
Total	472	513	69	89

* After intra-group eliminations

** Before exceptional items

2013/14 → 2014/15: Operating Profit Trail**



Cash Flow and Net Debt

	2014/15 £m	2013/14 £m
Underlying operating profit	69.5	89.3
Depreciation	24.8	28.3
Working Capital	(8.7)	(18.5)
Underlying operating cash flow	85.6	99.1
Capital Expenditure	(28.8)	(34.9)
Special pension fund contributions	(18.6)	(11.5)
Net cash cost of exceptional items	(6.6)	(4.0)
Tax, interest and dividend	(50.9)	(58.0)
Other	(1.8)	(3.9)
Net cash flow	(21.1)	(13.2)

Bank Facility

- RCF amended and extended:
 - Increased by £50m to £250m
 - Extended to December 2019
 - Covenants unchanged

	2014/15 £m
Opening net debt	(89.9)
Net cash flow	(21.1)
Closing net debt	(111.0)

Exceptional Items

	2014/15 £m	2013/14 £m
Site relocation and restructuring	(4.7)	(3.5)
Legacy indirect tax issue	-	(2.2)
Gain on sale of fixed assets	-	4.5
Asset impairment	(3.8)	(14.2)
Invocation of guarantees	(13.3)	-
Warranty provisions	3.0	-
Other	-	(2.1)
Total exceptional items	(18.8)	(17.5)
Tax credit on exceptional items		
Credit in period	2.6	0.9
Prior year tax credits	4.7	3.3
Total tax on exceptional items	7.3	4.2

	2015/16 £m
Overton land sale	9.0

Market conditions remain challenging

Foreign exchange headwind

Ongoing benefits from Operational Excellence

Maintain dividend at 2014/15 level



Operational Review



Tough environment

- Market conditions have not improved for Currency
 - Oversupply in Paper
 - Pricing pressures in Print
- Identity international business underperformed: lower than expected volumes, and some tenders delayed
- Poor quality of earnings needs to be improved:
 - Over-reliance on a few big contracts
 - Lumpy orders

... but journey to better performance has begun

- Bank of England 10 year banknote contract won
- Safeguard® issued in 7 countries
- 20 millionth UK passport issued
- Introduced eID card scheme in Malta
- Operational Excellence benefits: delivered £7m of cost savings
- CPS returned to underlying profitability
- Increased number of patent applications
- 6 new products launched in FY2015
- New CEO, new management team

Strategic Review



Engagement

- Customers
- Shareholders
- Employees

Strategic review

- No stone left unturned, no sacred cows
- Full assessment of all strategic options
- Clear vision of a sustainable future for the industry, and of bright prospects for De La Rue
- Clear roadmap of journey to get there

Implementation Underway

Exposed to growth markets

Powerful brand and reputation

Leading market positions

Longstanding customer relationships

World leading design capabilities

Coherent portfolio that meets our customers' changing needs

Proven track record in delivering operational efficiencies



...but we need to adapt (and also, do better)

Customer trends

- More formal procurement processes
- Increasing focus on technology
- Disaggregation of banknotes
- Demand for end-to-end Authentication solutions – not just the physical token

Market dynamics

- Competition from state manufacturers
- Continued over capacity in Paper and Print
- Pricing pressure, and FX movements

What we will do better

- Clear strategic direction
- Realise full potential in the market
- Company culture: dynamism, accountability, performance

The Journey from Today to De La Rue 2020

Outcome

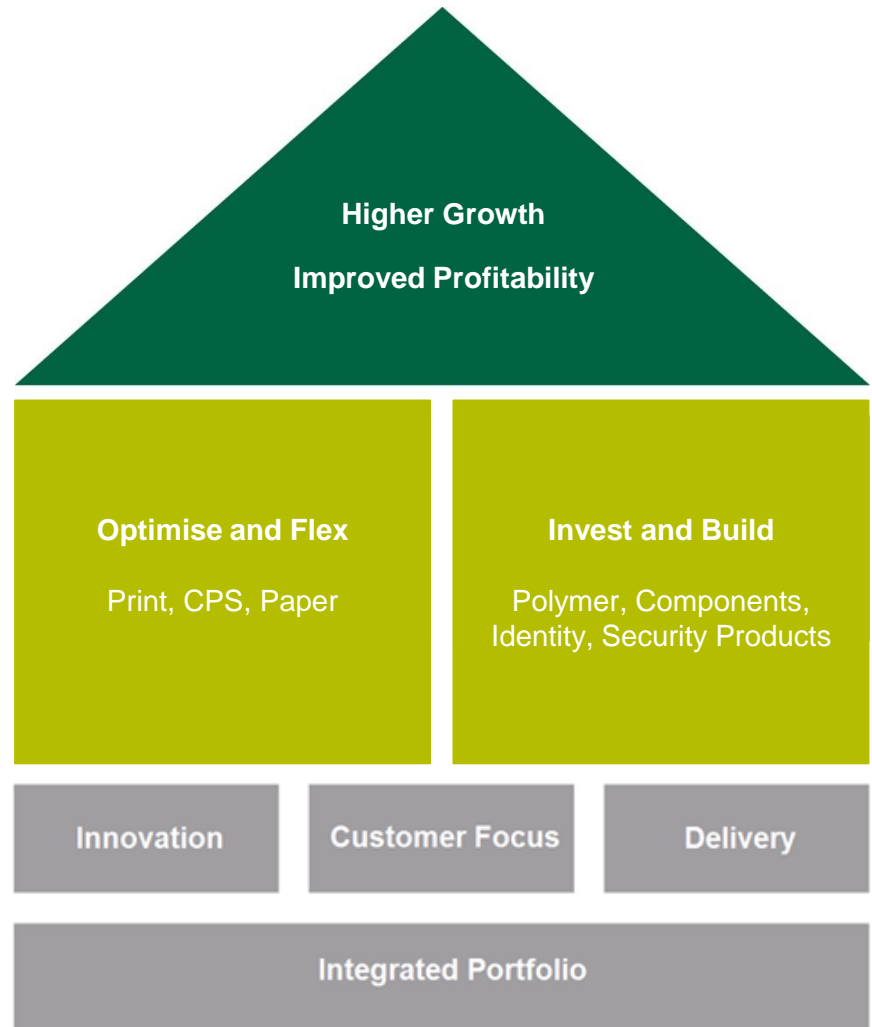
- Capital employed better, focused on higher growth and higher margin areas
- Improved performance and efficiency
- Higher, less volatile, profits

Strategy

- Optimise the business lines challenged by pricing:
 - Modernise capability
 - Operational cost savings identified
 - Flex capacity in line with demand
- Invest in business lines exposed to growth markets
 - New capabilities and technologies
 - Dedicated and focused sales resources

Foundations

- Current portfolio makes sense
 - Maximise benefits of integrated portfolio
- Financing in place to execute strategy: revenue investments more than covered by identified operational cost savings



Solid analysis and strong belief that an integrated portfolio is valuable

- Technology: invest once, sell many times (e.g. material science, software/systems)
- Customers: common across the product lines
- Delivery: expertise in design and production

Opportunity to better capture this synergy potential

De La Rue Integrated Portfolio

		Print	Cash Processing Systems	Paper	Polymer	Components	Authentication	
							Identity	Security Products
Technology	Material Science	✓	✓	✓	✓	✓	✓	✓
	Software / Systems		✓				✓	✓
Common Customers		✓	✓	✓	✓	✓	✓	✓
Design and Production		✓	✓	✓	✓	✓	✓	✓

Current situation

- World's largest commercial banknote printer
- Core to our brand
- Platform for our higher growth product lines

Market dynamics

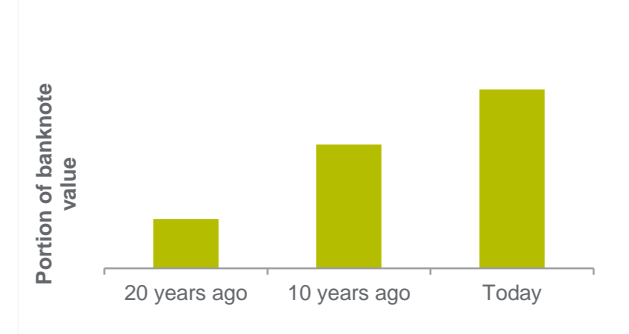
- Demand increasing over time, but lumpy year on year
- Overcapacity
- Pricing pressure

Strategic actions

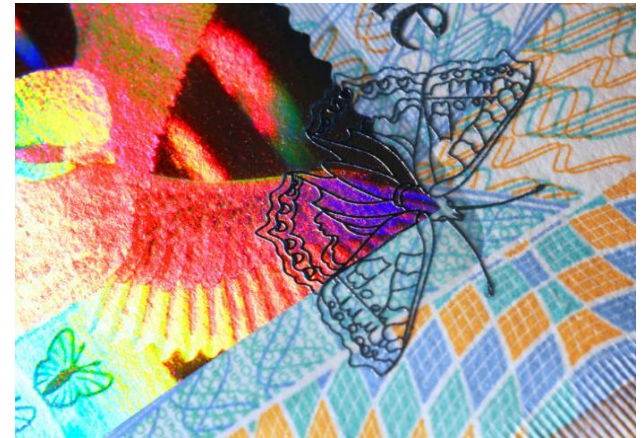
- Improve profitability and cash flows through:
 - Further modernisation: enhance capability and reduce costs
 - Optimisation of footprint
 - Increased flexibility: partner to access surge capacity
- Maximise internal synergies with CPS through a comprehensive currency service

Value shifting into Components

Component value within printed banknotes (illustrative)



Source: De La Rue analysis



Current situation

- Returned to underlying profitability
- New desktop sorter range, with manufacturing outsourced to third party
- Launch of Enterprise Cash Management (ECM) software on web platform

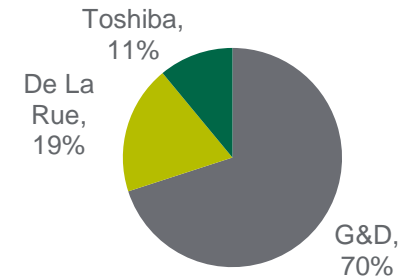
Market dynamics

- One of three providers in the high speed sorter market, of which two are integrated (CPS + Print)
- Customers increasingly focused on:
 - Optimisation of cash cycle
 - Reduced cost of ownership

Strategic actions

- Improve profitability and cash flows :
 - Realise new product portfolio in the market
 - Pursue third party manufacturing opportunities
- Maximise internal synergies
- Create a comprehensive currency service model

High speed sorter market share (by installed base)



Source: De La Rue analysis



Optimise and Flex Paper

Current situation

- Paper remains very important
- Dominant substrate for Print customers
- Route to market for Components

Market dynamics

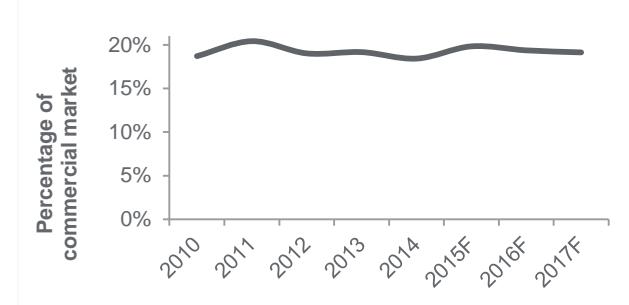
- Continued over capacity
- Pricing pressure

Strategic actions

- Improve returns and cash flows through:
 - Further reduction of costs through our proven Operational Excellence programme
 - Smarter deployment of capital

Over capacity in paper market

Historic and forecasted percentage of over capacity in the commercial paper market



Source: De La Rue analysis



Invest and Build Polymer

Attractive market

- Polymer market growing faster than the paper market
- Customers seeking a second source supplier

De La Rue well placed

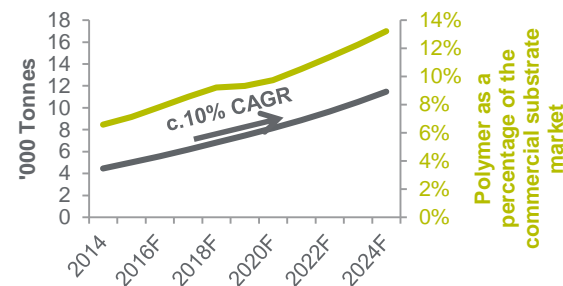
- Technology investments complete
- Development of Polymer security features
- First polymer banknote to be issued in Great Britain uses De La Rue's Safeguard® (Clydesdale £5)
- High level of enquiries from other potential customers

Drive growth by:

- Dedicated sales force for Polymer
- Increasing investment into development of next generation security features

Excellent growth prospects

Polymer market growth forecast



Source: De La Rue analysis



Invest and Build Components

Attractive market

- Accesses the state manufacturing market
- Customers increasingly specifying individual components
- Highest return part of the value chain

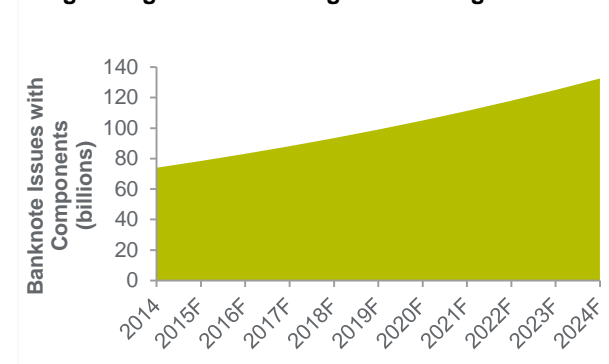
De La Rue well placed

- Synergies across De La Rue product portfolio: invest once, sell many times
- Good pipeline of innovation:
 - Active™ thread launched in May 2015
 - More to come

Drive growth by:

- Establishing product management under new CTO function
- Accelerating R&D: double investment in R&D over the next five years
- Dedicated sales force for Components
- Collaborating with customers and partnering with third parties

Long term growth for the right technologies



Source: De La Rue analysis



Kinetic StarChrome®
banknote thread



Holographic patch



Active™ thread

Invest and Build Identity

Attractive market

- Increased government focus on population authentication and border security
- Large and growing passport market
- Opportunity to expand into large adjacent eID market

De La Rue well placed

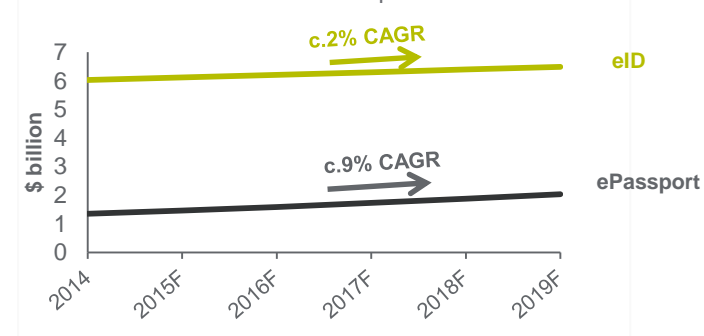
- World's largest commercial producer of passports
- Proven capability of managing large scale Identity projects:
 - UK passports
 - Bangladesh passports
 - Malta eID

Drive growth by:

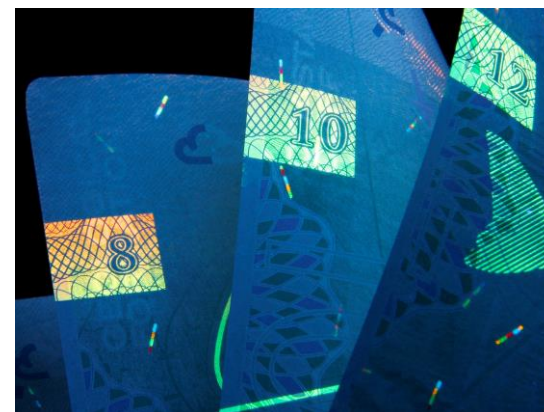
- Optimising sales synergies
- Maximising technology synergies: invest once in Components, sell across the Product Lines
- Accelerating development of software solutions
 - Launch of DLR Identify later in 2015

Large, growing market

Global forecast for eID and ePassport



Source: De La Rue analysis



Attractive market

- Core tobacco tax stamp market to grow strongly driven by tobacco control legislation (FCTC*)
- Additional opportunities in adjacent government markets
- Longer term potential in the commercial market

De La Rue well placed

- Strong market share in tax stamps
- Well positioned with our customers to develop an FCTC* compliant solution

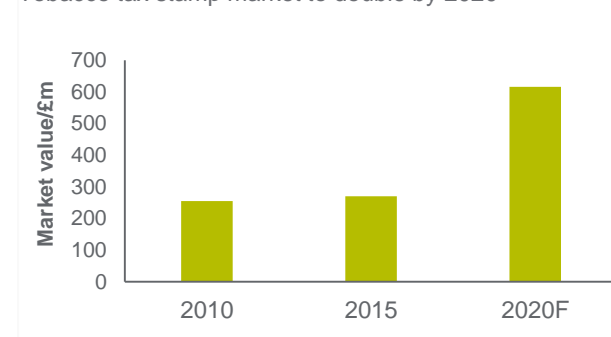
Drive growth by:

- Focusing sales capability on key market opportunities
- Accelerating development of software solutions
 - Launched first generation software platform (DLR Certify) in May 2015
- Partnering with third parties

*FCTC: WHO Framework Convention on Tobacco Control

Core market driven by FCTC*

Tobacco tax stamp market to double by 2020



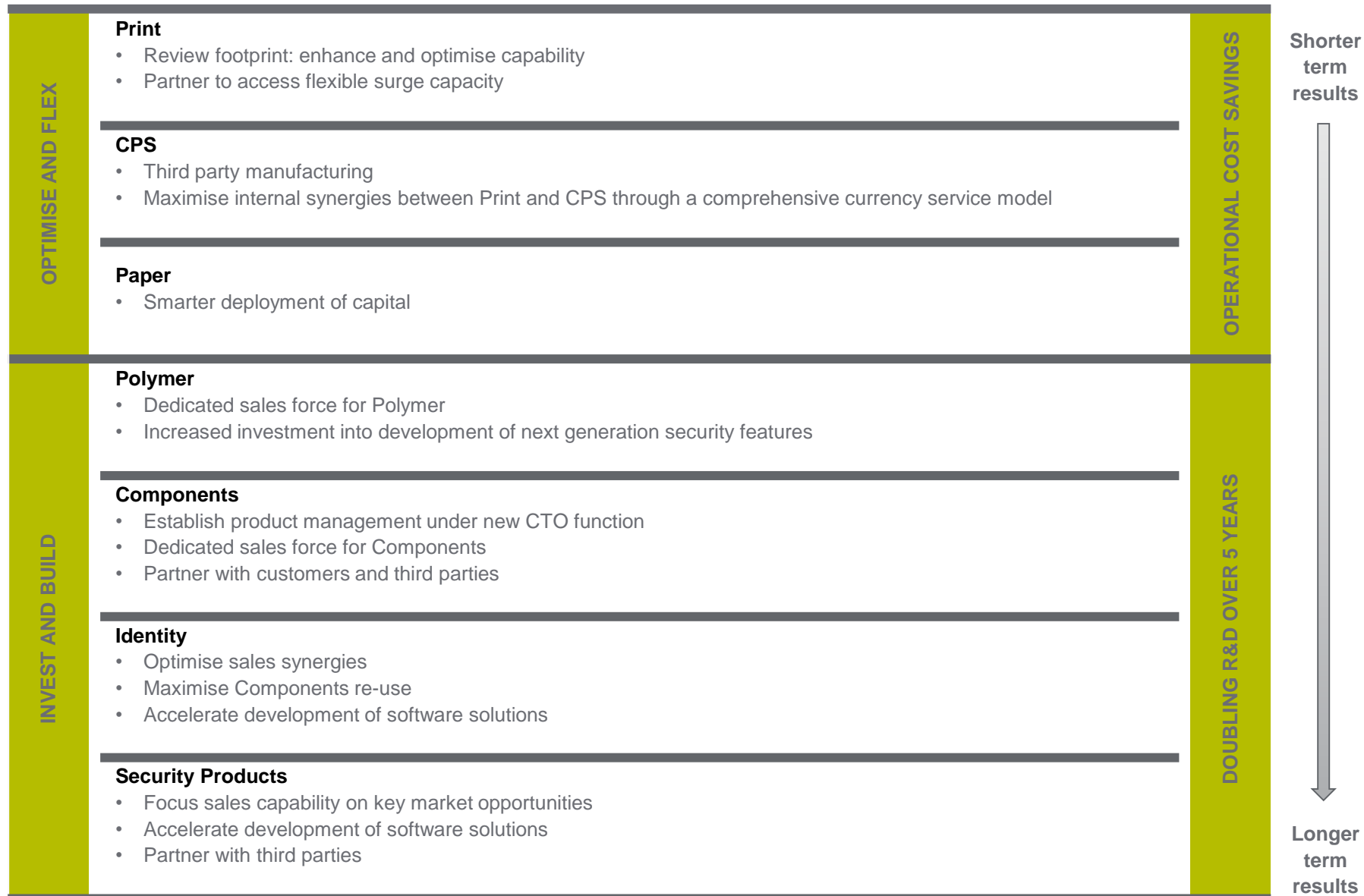
Source: De La Rue analysis



Summary of our new direction



DeLaRue



The Journey Has Started



DeLaRue

Organisation aligned to Strategy

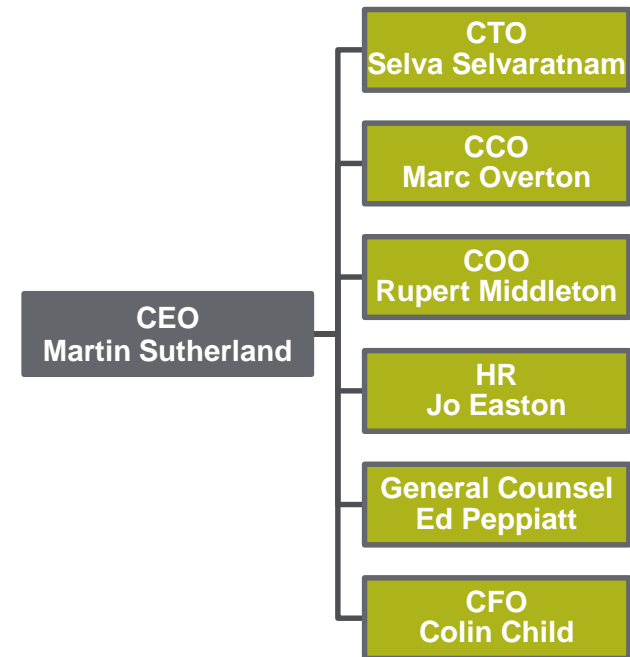
- New management team in place
- Group reorganised to provide required focus
 - Technology
 - Commercial
 - Delivery
- Culture change programme underway
- New incentivisation schemes being implemented

Investment in Innovation

- Increase IP filings and bring new products to market
- Third party partnership discussions underway
 - Components
 - Software
- Increased investment in R&D for FY2016

Continue the Operational Excellence drive

- Cost saving opportunities identified
- Footprint review underway
- Third party partnership discussions underway
 - Print surge capacity
 - CPS manufacturing



Conclusions

Great business, with great assets

Risk of short term volatility remains

Clear strategic plan to deliver long term growth and improved profitability

Detailed roadmap, new leadership team in place

