

Half year results and update on strategic progress



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Overview

Martin Sutherland

Operational and financial highlights

Jitesh Sodha

Strategic update

Martin Sutherland

Q&A



Group headlines

Half year results ahead of expectations

Strengthening of order book gives confidence and visibility for full year

Good early progress on Strategy implementation

CPS performance poor – ‘root and branch’ review underway

Market remains volatile

Interim dividend maintained at 8.3p



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Operational highlights



DeLaRue

OPTIMISE AND FLEX

Print
Paper
CPS

- Print and Paper volumes better than expected - Print volume flat and Paper volume up 9% yoy
- Success in winning significant overspill orders
- Working with partners to access surge capacity
- Production of new BoE £5 banknote has commenced
- Manufacturing footprint review near completion with expected savings >£13m p.a. from FY19
- CPS 'root and branch' review underway

37%

Growth in Group order book

9%

Increase in Paper volume

0%

Increase in Print volume

INVEST AND BUILD

Polymer
Components
Identity
Security
products

- Good progress on Polymer marked by significant three year contract
- Launched Active™ security thread, first customer secured
- Launched DLR Certify™, first orders won
- Launched DLR Identify™, first order delivered
- UK passport launched with new Continuous Bio-Data Page™ feature
- Patent applications more than doubled in H1 compared with FY14/15

Financial results



	H1 2015/16 £m	H1 2014/15 £m	Change %
Revenue	204.8	214.9	(5%)
Underlying operating profit*	18.9	26.6	(29%)
Underlying operating margin*	9.2%	12.4%	
Underlying profit before tax*	12.8	20.6	(38%)
Taxation	(2.5)	(4.0)	(38%)
Underlying profit after tax*	10.3	16.6	(38%)
Underlying earnings per share	9.5p	15.9p	(40%)
Reported earnings per share	19.2p	13.5p	42%
Dividend per share	8.3p	8.3p	0%
Print volumes (notes)	2.7bn	2.7bn	0%
Paper volumes (tonnes)	4,900	4,500	9%
Group 12 month order book	405	296	37%

* Before exceptional items

Revenue and operating profit by business unit

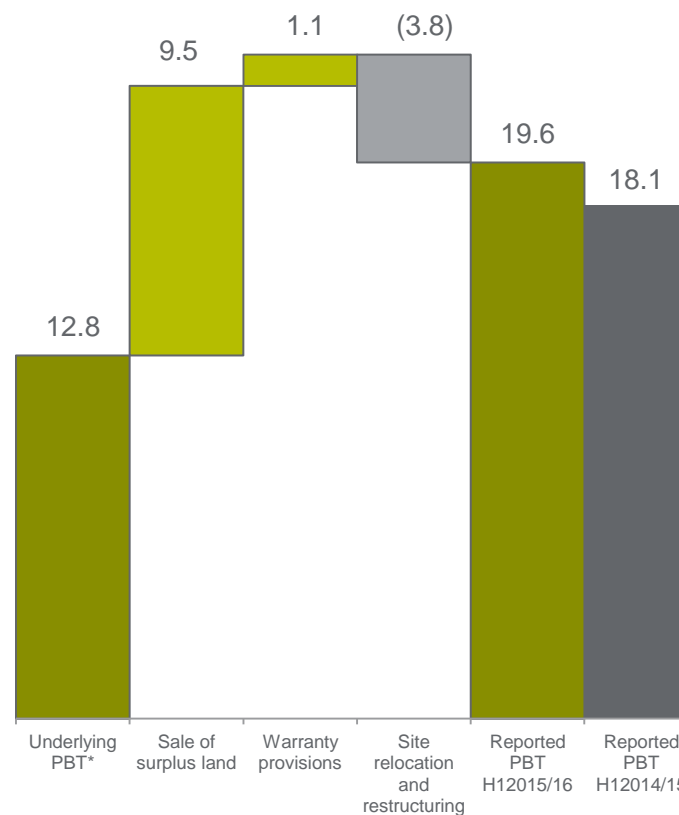
	Revenue			Operating profit*			Operating margin*	
	H1 2015/16 £m	H1 2014/15 £m	Change %	H1 2015/16 £m	H1 2014/15 £m	Change %	H1 2015/16 %	H1 2014/15 %
Currency	139.8	136.8	2%	13.9	17.2	(19%)	9.9%	12.6%
Identity	31.5	34.0	(7%)	4.6	5.9	(22%)	14.6%	17.4%
Security Products	19.6	20.8	(6%)	5.1	4.5	13%	26.0%	21.6%
CPS	16.1	25.5	(37%)	(4.7)	(1.0)	(370%)	-	-
Intra group eliminations	(2.2)	(2.2)						
Total	204.8	214.9	(5%)	18.9	26.6	(29%)	9.2%	12.4%

* Before exceptional items

Exceptional items

	H1 2015/16 £m	H1 2014/15 £m
Gain on sale of surplus land	9.5	-
Release of warranty provisions	1.1	-
Site relocation and restructuring	(3.8)	(2.5)
Total exceptional items	6.8	(2.5)
Tax credit on exceptional items		
Credit in period	0.6	0.1
Prior year tax credits	2.5	-
Total tax on exceptional items	3.1	0.1

Exceptional net gain resulted in reported PBT growth



* Before exceptional items

Cash flow and net debt

	H1 2015/16 £m	H1 2014/15 £m
Underlying operating profit	18.9	26.6
Depreciation	12.9	12.4
Working Capital	29.3	(13.6)
Underlying operating cash flow	61.1	25.4
Capital Expenditure	(10.8)	(13.1)
Special pension fund contributions	(8.4)	(7.7)
Net cash cost of exceptional items	(10.8)	(2.7)
Tax, interest and dividend	(19.6)	(36.0)
Other	(3.8)	(2.8)
Net cash flow	7.7	(36.9)

	September 2015 £m
Opening net debt	(111.0)
Net cash flow	7.7
Closing net debt	(103.3)

Net debt/EBITDA* 1.2x vs. ≤3.0x covenant

EBIT/net interest** 12.7x vs. ≥4.0x covenant

* Adjusted Net debt/EBITDA

**Adjusted EBIT/net interest

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Objective

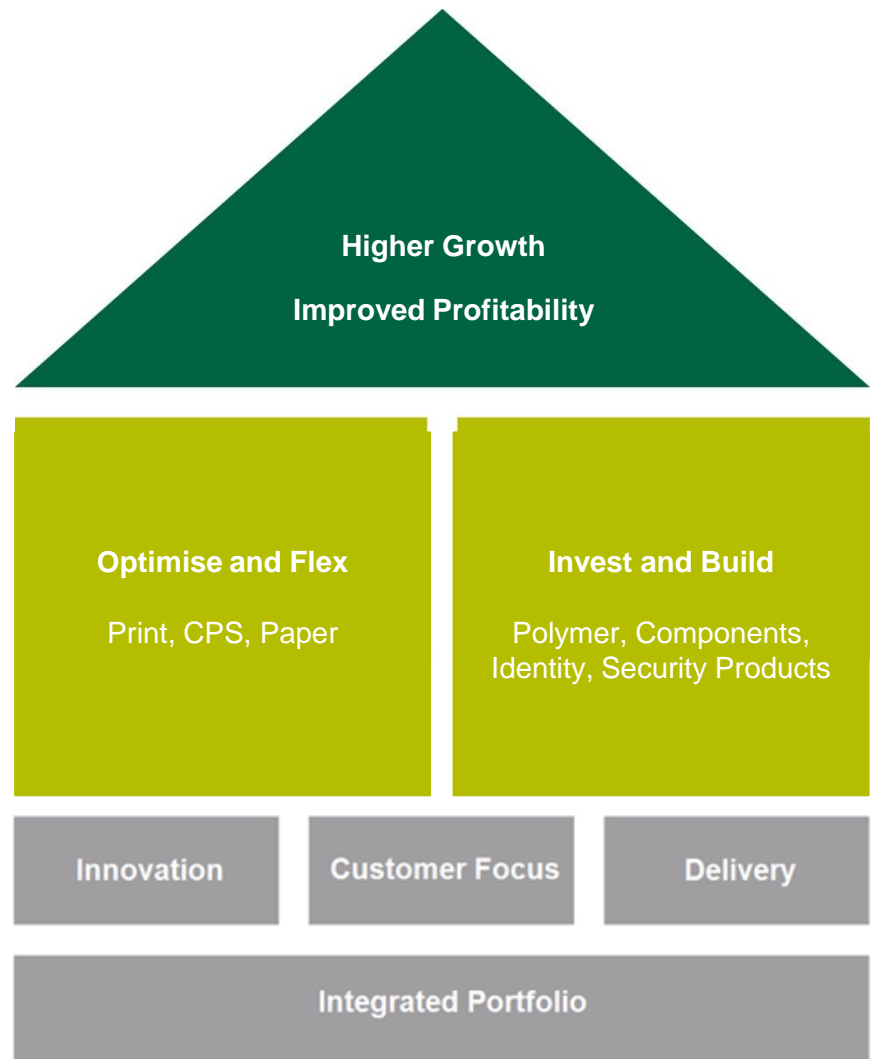
- Capital better employed, focused on higher growth and higher margin activities
- Improved performance and efficiency
- Higher, less volatile, profits

Strategy

- Optimise the business lines challenged by pricing:
 - Modernise capability
 - Identify operational cost savings
 - Flex capacity to match demand
- Invest in business activities exposed to growth markets
 - New capabilities and technologies
 - Dedicated and focused sales resources

Foundations

- New organisation structure supports delivery of strategy
- Maximise benefits of an integrated portfolio
- External partnerships provide greater flexibility

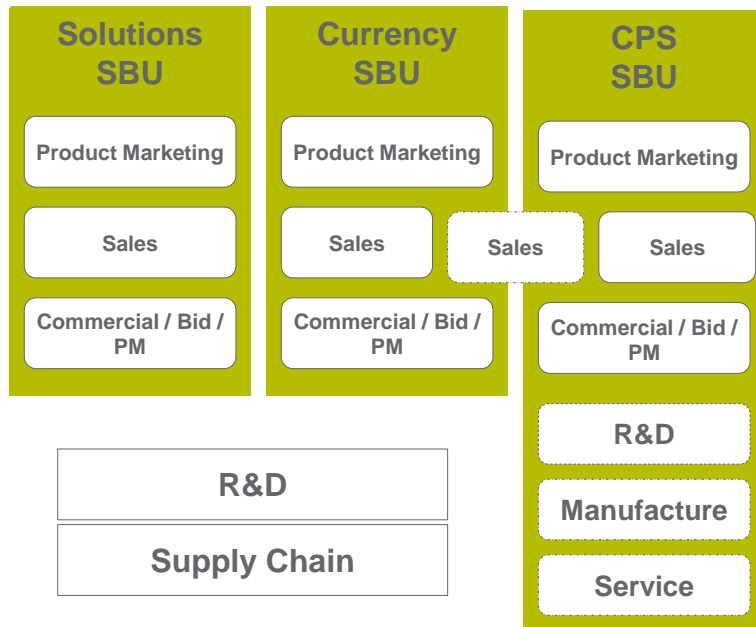




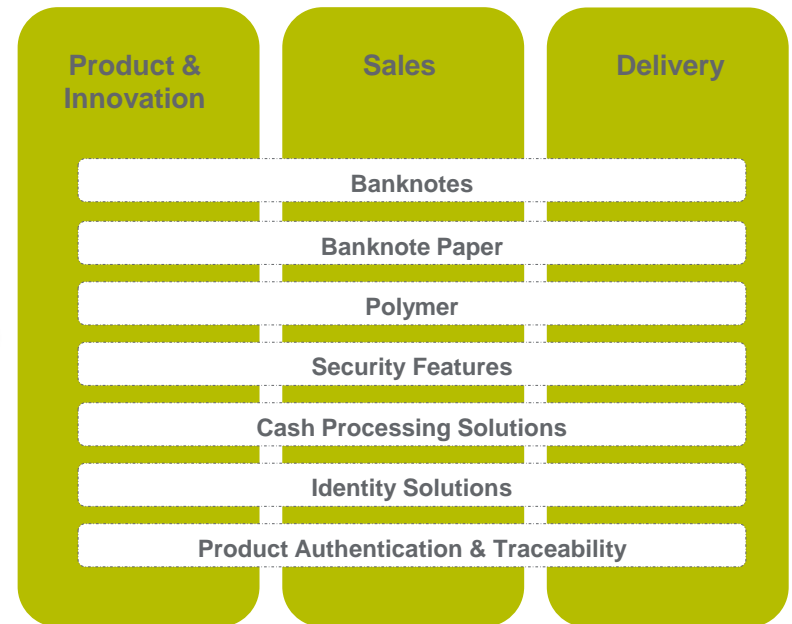
Building foundations to support delivery of strategy

- Management team complete, with new CFO on board
- New structure focusing on key strategic themes
- Functional structure encouraging greater collaboration and internal synergies
- Culture change programme well underway

Old divisional structure



New functional structure





Strategic focus

- Improve profitability and cash flows through:
 - Optimisation of footprint: modernise capability and reduce costs
 - Increased flexibility: partner to access surge capacity and standardise operating process



Progress to date

- Manufacturing footprint review nearly concluded
 - >£13m annual cost savings from FY19
 - <£30m investment on capabilities and £8m restructuring cost over two years
 - Modernise current banknote print capability to improve efficiency and productivity
 - Target print capacity of 6bn banknotes, with ability to flex up to 7bn
 - Working with external partners to access surge capacity



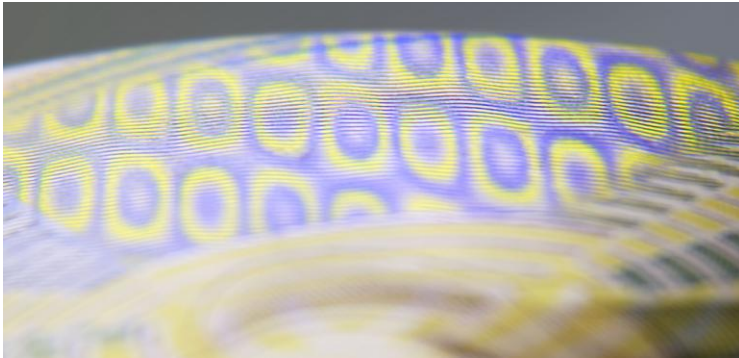
Strategic focus

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



Progress to date

- 'Root and branch' review underway



Strategic focus

- Improve returns and cash flows through
 - Further reduction of costs through our proven Operational Excellence programme
 - Smarter deployment of capital
- Maximise utilisation through growing direct sales



Progress to date

- Operational excellence journey continues: good progress made on cost per tonne reduction plan
- Capacity sharing partnership options being considered

Invest and Build Polymer



Strategic focus

- Increase DLR share of the Polymer market
- Secure new IP through security feature development
- Dedicated sales force

Progress to date

- Significant three year Polymer contract with a major customer
- Secured all Scottish note issuing banks on Safeguard® substrate
- Increased investment into development of security features for Polymer
- Sales team reorganisation complete, with dedicated team for direct Polymer sales

Invest and Build Components



Strategic focus

- Accelerating R&D: double investment in R&D over the next five years
- Collaborating with customers and partnering with third parties
- Dedicated sales force for Components
- Replacing important concluding contract



Progress to date

- Launched new Active™ security feature
- Sales team reorganisation complete, with dedicated team for direct Components sales
- Increased number of patent applications year-on-year
- Working with key customers on new components
- In exploratory discussions with potential technology partners and universities
- Visibility of new replacement business

Invest and Build Identity



Strategic focus

- Focus on winning new passport contracts in the immediate term
- Build capabilities of software and services to supplement production of the physical token
- Target adjacent markets for ID cards

Progress to date

- Pipeline conversion a key focus for remainder of the year
- DLR Identify™ platform launched in June, first order delivered
- Laminates partnership with Dai Nippon established
- Planned investment to access adjacent markets



Strategic focus

- Leverage stamp production capability and customer base to position DLR as a credible supplier of FCTC compliant solutions
- Accelerating development of software solutions
- Partnering with third parties






Progress to date

- DLR Certify™ platform launched, first customers secured
- Focused on a few material new market opportunities in the short term
- Initiated early discussions with potential next generation technology partners

Summary of strategic progress



OPTIMISE AND FLEX	Print <ul style="list-style-type: none"> Review footprint: enhance and optimise capability Partner to access flexible surge capacity 	Review near completion Discussions initiated
	CPS <ul style="list-style-type: none"> Third party manufacturing Maximise internal synergies between Print and CPS through a comprehensive currency service model 	Discussions initiated 'Root and branch' review underway
	Paper <ul style="list-style-type: none"> Smarter deployment of capital 	In progress
INVEST AND BUILD	Polymer <ul style="list-style-type: none"> Dedicated sales force for Polymer Increased investment into development of next generation security features 	 In progress
	Components <ul style="list-style-type: none"> Establish product management under new CTO function Dedicated sales force for Components Collaborating with customers and third parties 	 Discussions initiated
	Identity <ul style="list-style-type: none"> Optimise sales synergies Maximise Components re-use Accelerate development of software solutions 	In progress In progress In progress
	Security Products <ul style="list-style-type: none"> Focus sales capability on key market opportunities Accelerate development of software solutions Partner with third parties 	 In progress Discussions initiated

Current trading and outlook

Market conditions expected to remain volatile

Increased order book

An important contract concludes in H2 as expected

Outlook unchanged



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