

## **ACCELERATING VALUE**

Leo Quinn Overview of De La Rue

29 September 2008



## **Agenda**

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0800 0830 0930 1015	Overview of De La Rue Introduction to Currency Currency: Customer Relationships & Innovation Coffee Break	Leo Quinn James Hussey Mark Crickett
1030	Currency: Performance & Productivity	Mark Jeffrey
1115	Tour 1	,
1245	Buffet Lunch	
1315	Tour 2	
1415	Introduction to Identity Systems	James Thorburn
1500	Introduction to Security Products	Keith Brown
1545	Procurement and Supply Chain	Andrew Vaughan
1630	Concluding Remarks	Leo Quinn
1640	Bus Departing	

#### The new De La Rue



## De La Rue Plc

Currency James Hussey	Sales: Operating margin: Headcount:	£316.7m 25.1% 2,134
Security Products Keith Brown	Sales: Operating margin: Headcount:	£74.8m 13.1% 673
Identity Systems James Thorburn	Sales: Operating margin: Headcount:	£26.5m 17.4% 84
Cash Processing Solutions Kevin Freeguard	Sales: Operating margin: Headcount:	£58.4m 1.7% 822

## What was De La Rue's starting point, in 2004?



- Pursuit of growth through acquisition, but lack of execution/integration resulted in value destruction
  - £46m goodwill write offs, £67m restructuring costs
  - Earnings volatility and profit warnings
- ... but some formidable strengths in the core, on which to build
  - Powerful global brand : market-leading positions
  - Long term customer relationships
  - Experienced, knowledgeable employees
  - Strong balance sheet

## In 2004, a very mixed portfolio



## ...17 businesses, of which the top 9 generated 85% of revenues and 95% of profits – led by

#### Strong Currency franchise

- Customer focussed
- Strongly vertically integrated
- Clear accountable structure
- Successful model of integrating UK SPW
- Stable industries; growth pockets
- Strong presence in developing markets

Good businesses with potential to be great

#### ...contrasted with Cash Systems

- Lack of customer focus
- High cost base
- Complex matrix structure
- Poor acquisition record
- Excess manufacturing capacity and inefficient supply chain
- Cyclical market
- Heavy exposure to mature markets

Fragmented businesses needing integration and focus on execution

## From 2004, we drove the core hard to build value



## Currency

**Optimise** earnings

- Focus on market leadership
  - Support brand strength
  - Nurture customer relationships
- Invest in technology and upgrade production assets
- Extract ongoing productivity gains
- Drive continued cash generation

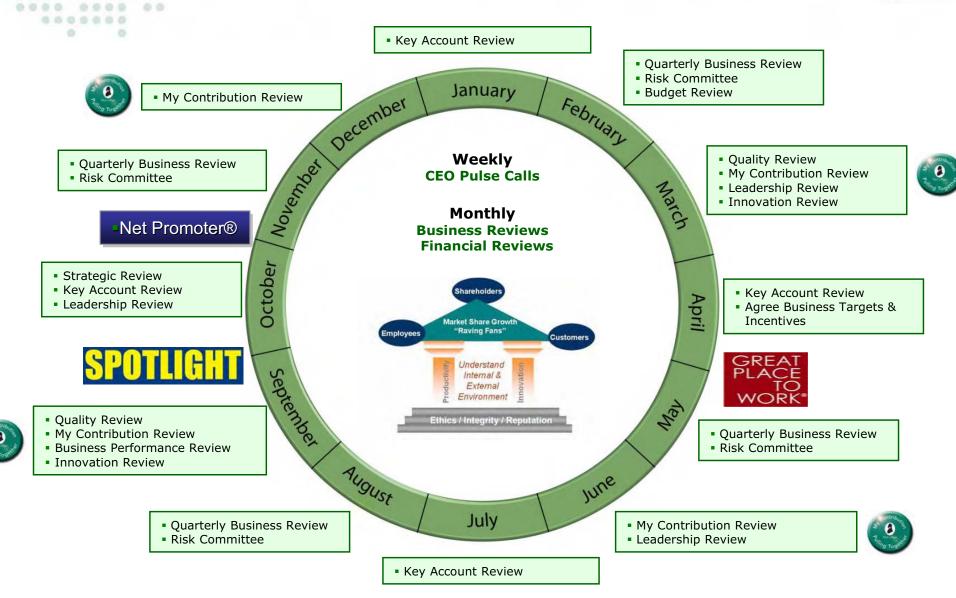
## **Security Products**

**Improve** quality of earnings

- Extract benefits from recent restructuring - factory closure
- Exit from low margin products and contracts
- Leverage technology from Currency IP
- Focus on retaining/broadening customer base, e.g. brand protection
- Invest in developing growth opportunities in target markets
  - fiscal stamps / government revenues
  - ePassports this factory
  - authentication labels

## Processes to drive innovation, talent and accountability





## A continuous improvement culture...



Invigorate management and employee throughout the Group to build new culture

- My Contribution established as the engine for continuous improvement
- Productivity teams and performance measurement matrix established
  - Manufacturing
  - Supply chain and inventory
  - Procurement
  - Service
  - Growth opportunities
  - Pricing

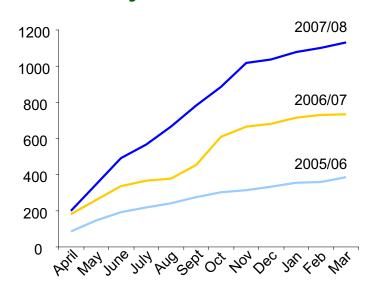


Value £'s 7,200

Projects delivered 1,131

2007 gross value - £32m

#### **Projects delivered**



Culminates in Spotlight recognition

## ...creating the platform for acceleration, by 2008



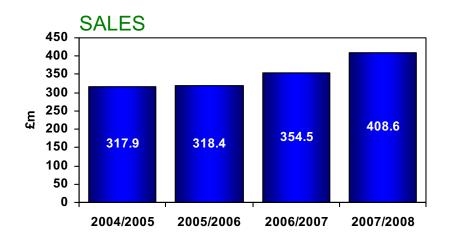
Our 2008 strategy review confirmed that we had two market-leading divisions; but minimal opportunity for synergies:

- Decision to crystallise investment created in Cash Systems since 2004
- Enhance quality of earnings of "new" De La Rue
  - better margins with strong cash conversion
  - fundamentally stable markets with underlying growth drivers
  - includes retained interest in Camelot, UK lottery operator
- Eliminate excess central cost attached to Cash Systems over 18 months

Dividend rebased to 1.75 cover; modest debt on balance sheet

## ...with a strong track record and clear synergies







- Vertical integration
- Shared IP developments
- Common customer base and route to markets
- Single strong brand
- Flexible operational assets to serve the Group



# James Hussey Introduction to Currency

29 September 2008



## **Currency overview**



## De La Rue Plc

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## For the past 10 years, we have focussed on building resilience



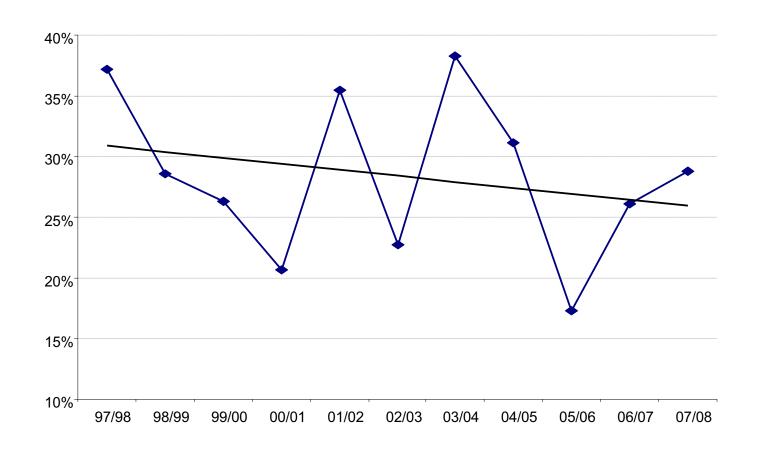
Improving control and visibility to improve quality of earnings

- Mitigating key exposures
- Upgrading professionalism
- Ensuring long term sustainable growth

## Revenues: diminished reliance on banknotes overspill



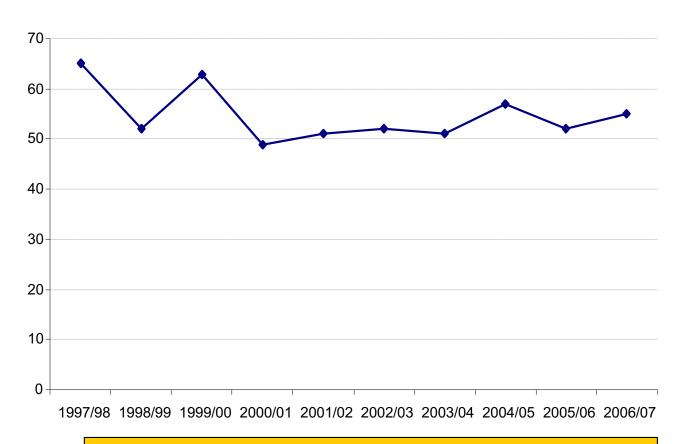
### Overspill as % of total banknote volume



#### Revenues: stable and diverse customer base



#### Number of banknotes customers



160 customers: 85% in developing nations

## Revenues: we have built other revenue streams for our business



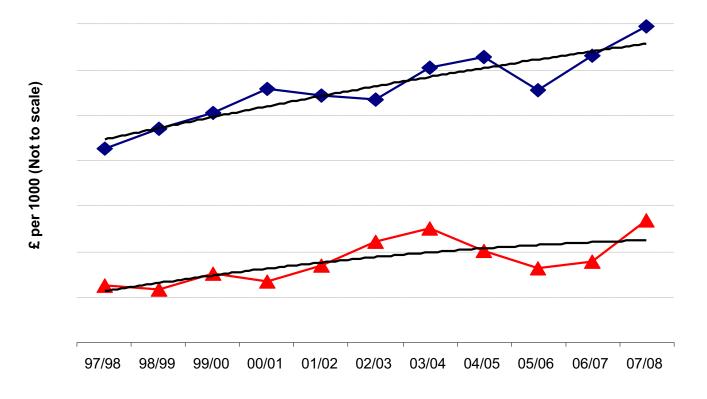
- Thread, paper
- IP
- Technical services
- SPW (inc. Debden)



Today, these revenue streams represent 35% of Currency revenues



## Closing order book revenues and contribution trends





Technology content drives value

## Costs: we now control more of our inputs

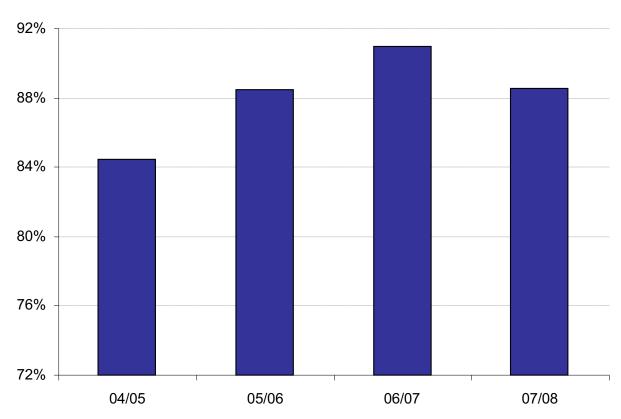


Thread	Paper	Print	- Banknote
	Others	Others	Others
Others	Chemicals	Chemicals	Other Security Feature
Labour	Power	Other Security Features	Power
Chemicals	Labour	Labour	Chemicals
			Polyester
	Cotton		
		Paper	Cotton
Polyester			
	Thread		Labour

62% of costs are now in house

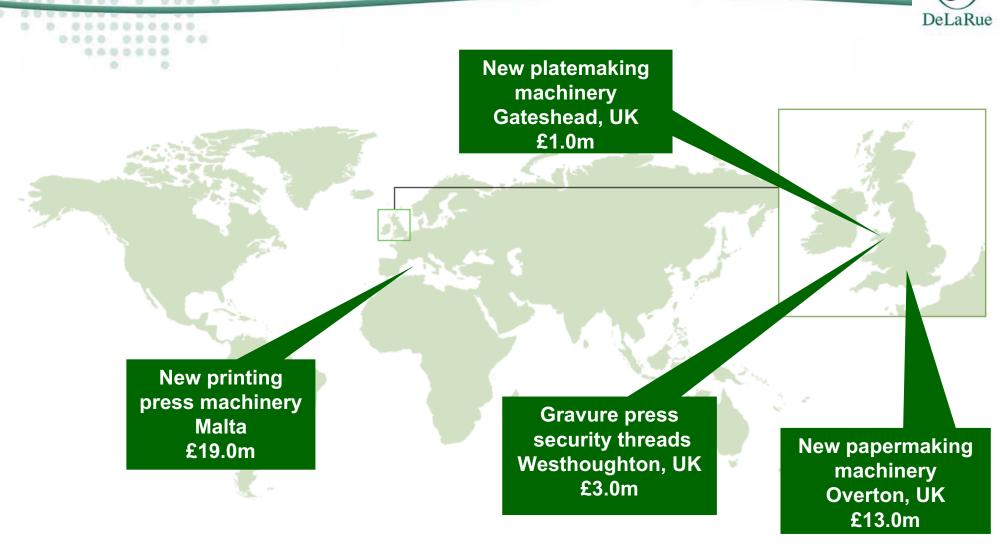


## **Annual renewal as % of Currency revenues**



## **Assets: investment for capability**





Since 2004, ongoing upgrade of Currency's assets



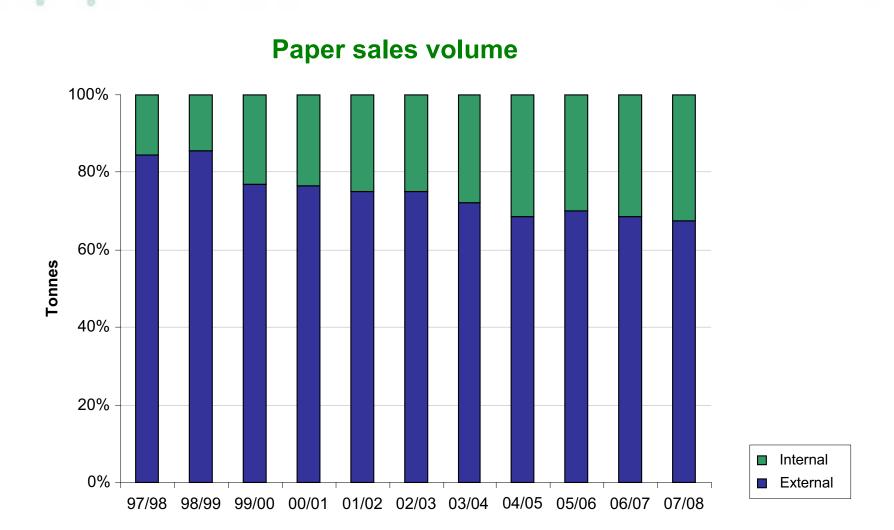
## The Debden example

- When we bought Debden in 2003, the manufacturing site was 100% geared towards the Bank of England with three lines of equipment
- Key actions:
  - Produce export work at Debden to maximise utilisation of capacity
  - Utilise Debden for certain processes that other manufacturing sites cannot perform
  - Mitigate Malta capex

Change in Debden's output profile

Mitigating Assets: in paper, we are able to flex DLR volume to capitalise on efficiencies





Copyright De La Rue 2008 Source: De La Rue 2008

#### **Professionalism**

## We have turned intuition into knowledge



- Increased role of marketing and of market forecasting
  - Macro-economics trends
  - Five year forecasting model
- Active sales pipeline management, two year prospect funnel
  - Annual sales plan
  - Quarterly review
- Strengthened manufacturing process
  - "Manufacturing" vs. "banknotes" specialists
  - Six key KPIs monitored in manufacturing
  - My Contribution

## We monitor and protect the brand



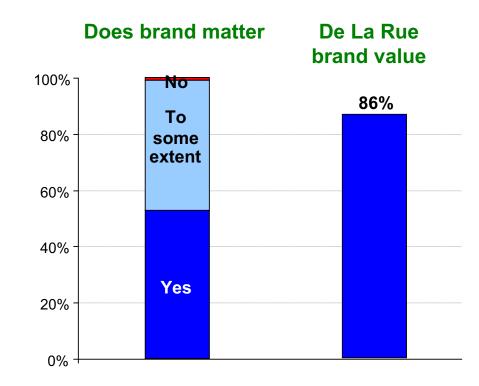
## Brand study in June 2007 confirmed that De La Rue brand had a real strength and depth in Central Banks

- Brand does make a difference 'We look for good brands more than price' (Central Bank, Asia)
- 86% of market rated Currency brand very highly

'With comparable tenders, the De La Rue name would be decisive' (African government)

 Our brand is recognised for embedding Security, Integrity, Trust. De La Rue rated highly on these attributes by 83% of the market

> 'They definitely live those values – that just about sums up what they're all about' (Central Bank, Americas)



The brand is greater than the individual

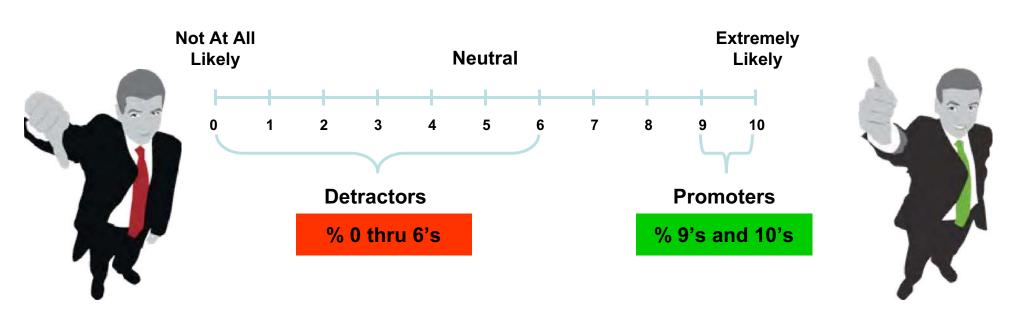
Source: De La Rue 2008

#### The customer is our measure



#### How likely would you be to recommend De La Rue to a colleague?

#### Promoters % minus Detractors % = NET PROMOTER %



Currency in top quartile of companies surveyed

Source: Satmetrix Benchmark Data

Copyright De La Rue 2008

#### A driven culture



## Every year, we carry out the Great Place to Work survey

81% participation rate



High scores on performance and accountability with the following agreement rates:

<b>90%</b>	"It matters that we meet our deadlines and commitments"
<b>85</b> %	"We give extra when necessary to get the job done"
<b>83</b> %	"Delivering results really matters here"
<b>80%</b>	"I ensure my work objectives are clear"

#### **Professionalism**

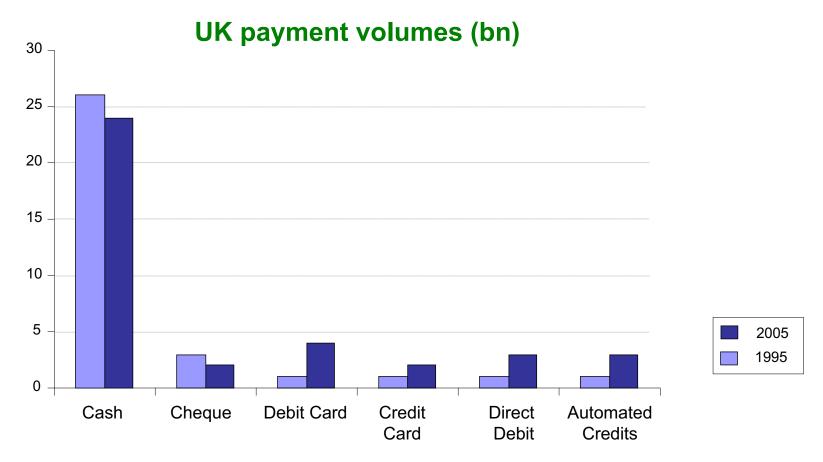
## **Manufacturing KPIs**



- Quality
  - Customer complaints
  - Spoil and waste levels
- Delivery time
  - Percentage delivered against agreed delivery commitment
- Health and Safety
  - RIR (Reportable Injury Rate)
  - LTD (Lost Time Days)
- Environment
  - Overton mill and conformance to Environmental Agency targets

#### Cash continues to dominate transaction volumes





"In 10, or maybe 50 years time, we will still be using cash but I don't think we will have plastic"

Anthony Jenkins, CEO Barclaycard (14/09/2008)

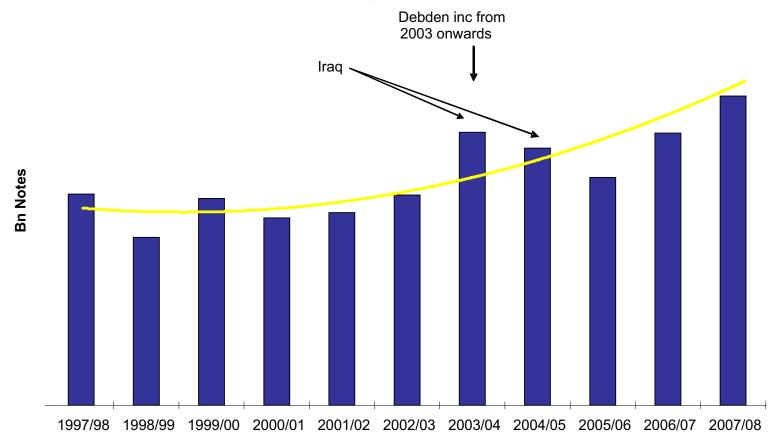
Source: APACS Copyright De La Rue 2008



## In print, volumes have grown c. 5% CAGR for 10 years



### De La Rue print volumes



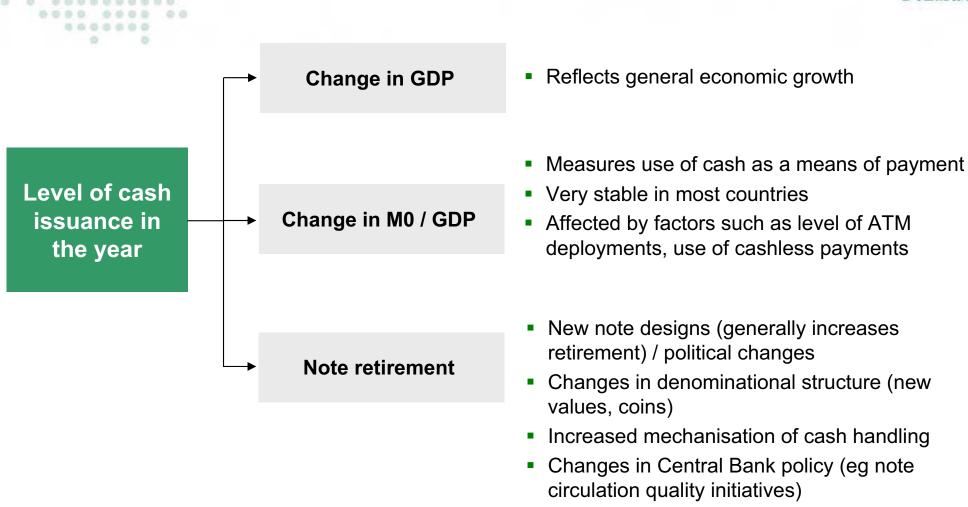


## What will be the drivers of growth in the future?



#### There are fundamental drivers of banknote demand...





Historically, cash issuance has grown at GDP+

#### Growth

## ...and we have identified growth opportunities for the next decade



0 0			World	lwide Banknotes Volum	ıes
Euro 2012		125,000		20,000 Million of Notes	
		115,000		Russia	
<ul><li>Procurement situation is changing</li></ul>		105,000		USA	
<ul> <li>Participated in Euro launch in</li> </ul>		95,000			
2001; still printing for 1 National	S	85,000		China	
Central Bank	Note	75,000			
<ul> <li>Participate in European Central</li> </ul>	Millions of Notes	65,000		SPWs Euro zone	)
Bank technical dialogue	Millio	55,000			
<ul> <li>Preparing appropriate capability and configuring our manufacturing</li> </ul>		45,000		SPWs (other)	
		35,000		or me (suisi)	
for opening of the market		25,000			
■ Domestic Produc	ction	15,000		Overspill	
<ul><li>Overspill</li><li>Commercial</li></ul>		5,000		Commercial	

Source: De La Rue 2008

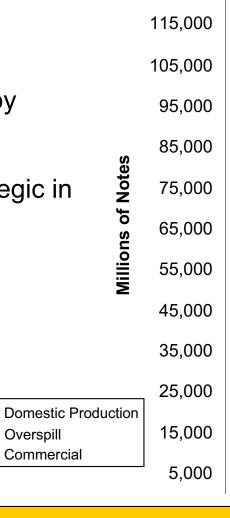
#### Growth

## ...and we have identified growth opportunities for the next decade



### Services to SPWs

- C. 15% of market is served by commercial printers
- Banknotes printing less strategic in the medium term



125,000





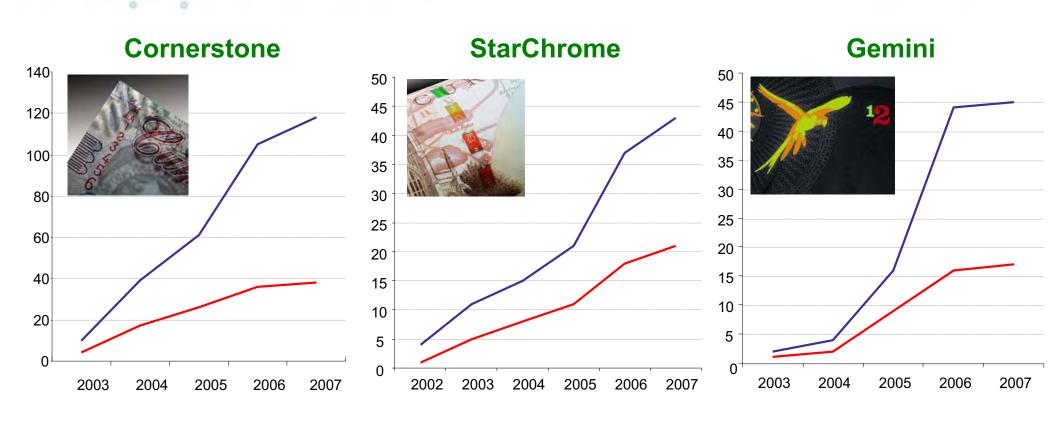
Long term play from our IP

Overspill Commercial

Copyright De La Rue 2008 Source: De La Rue 2008

## Our investment in IP fuels both growth and profitability





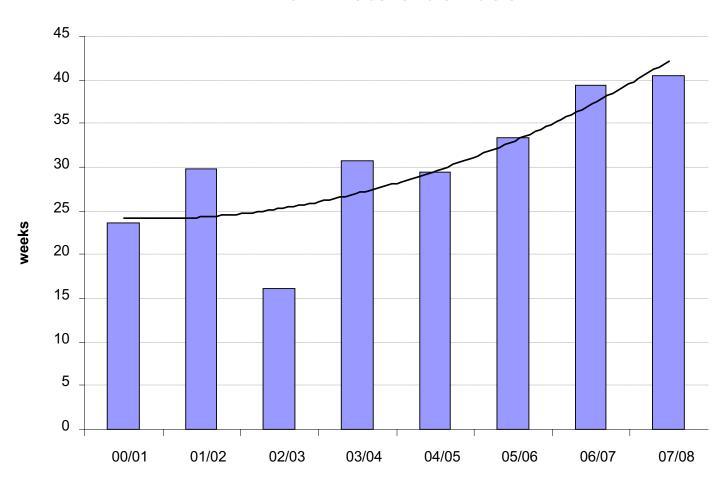
Cumulative number of denominationsCumulative number of countries



## Planning = Visibility = Efficiency



#### **Banknote order book**



Source: De La Rue 2008

## Planning = Performance = Relationship



## The Iraq example (2004)



## Today – a well managed business with long term growth potential



#### When I joined, what kept me awake at night was

- Lack of process, corporate knowledge, data, culture of "gifted amateur"
- Lack of growth prospects / chasing volume
- Lack of control over volatility

#### Today what keeps me awake at night is

- Environment, Health and Safety (always)
- Security
- Managing a dual culture professionalism <u>and</u> entrepreneurial ambition



# Mark Crickett Customer Relationships and Innovation

29 September 2008



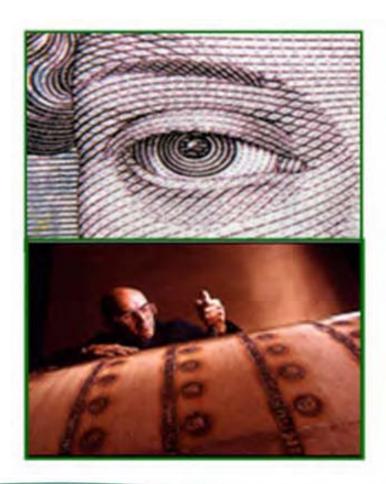
#### **Currency – products and services**



The preferred partner of Central Banks for banknotes and paper world-wide, exploiting our technology, service and quality, tailored to meet their individual needs

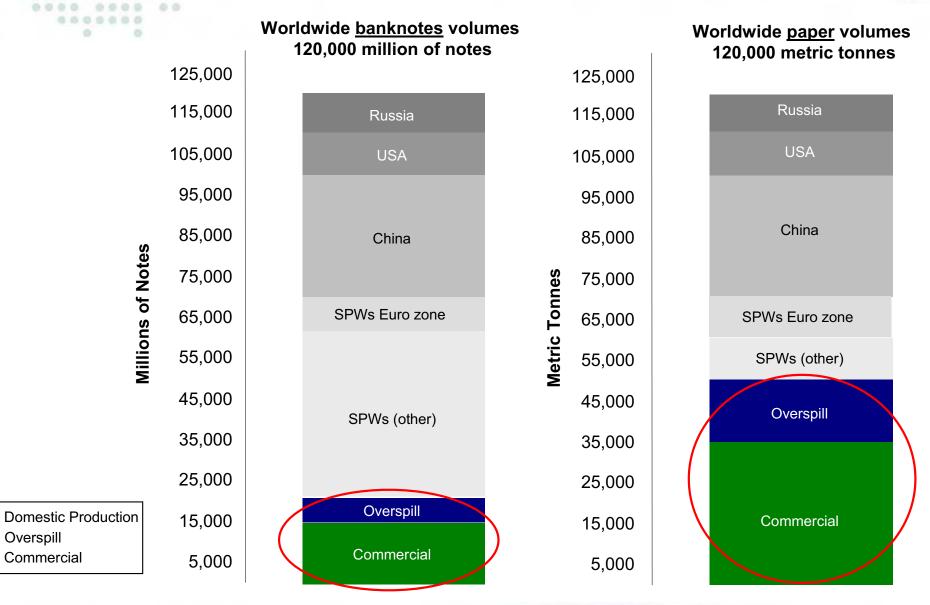
Customer base of around 160 countries worldwide

- Banknote paper
- Banknote design and printing
- Security threads
- Currency technology
- Manufacturing consultancy
- Counterfeit analysis
- Currency forecasting services



### Available market: 20bn notes for print and 50,000 tonnes for paper





Source: De La Rue 2008 Copyright De La Rue 2008

#### Long established, rational competitive structure



- Commercial banknote printers
  - Well established (typically over 100 years old)
  - Experience and understanding of the market
  - Majority are family owned / controlled European companies

#### SPWs

- National customer always takes priority over export
- Not geared up for service and support of other customers
- Opportunistic approach to the market driven by level of domestic demand
- Potential political risk for customer Central Banks

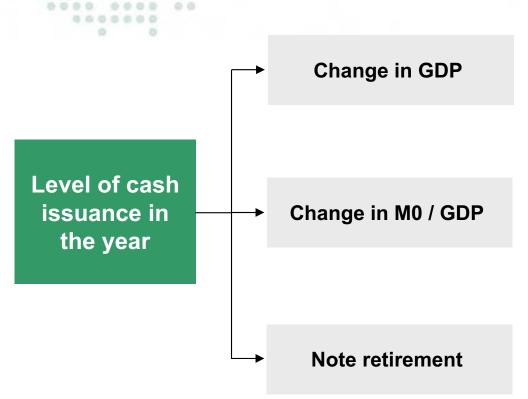
#### Lack of new entrants

- Requirement for brand/customer credibility
- Need sales network and access to technology
- Capital equipment is highly specialised
- Limited number of suppliers (ink, printing presses)

De La Rue, the market leader in the commercial sector

#### **Drivers of banknote demand**



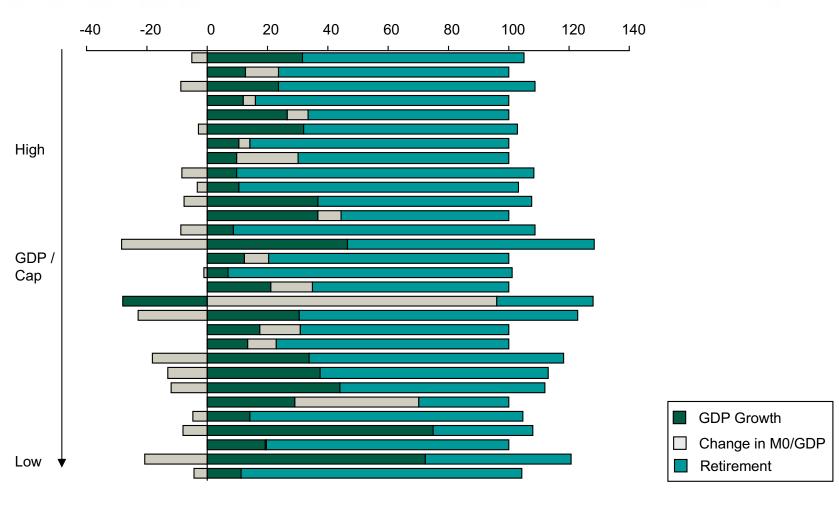


- Reflects general economic growth
- Measures use of cash as a means of payment
- Very stable in most countries
- Affected by factors such as level of ATM deployments, use of cashless payments
- New note designs (generally increases retirement) / political changes
- Changes in denominational structure (new values, coins)
- Increased mechanisation of cash handling
- Changes in Central Bank policy (eg note circulation quality initiatives)

## In any single year, issuance of new notes is dominated by replacement of existing notes



#### Issuance in 2005 (% of total issuance)



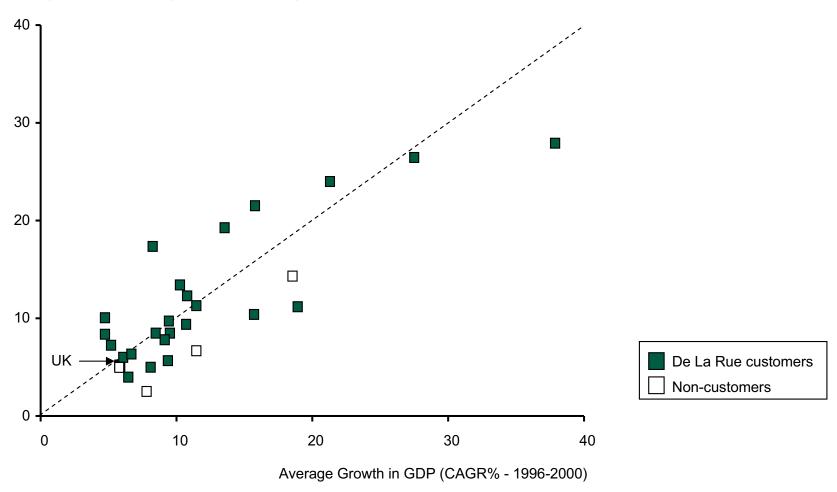
Representative sample of 30 countries

## No significant change in GDP growth rates between 1996-2000 and 2001-2005



#### **Drivers of issuance growth – change in GDP growth**

Average Growth in GDP (CAGR% - 2001-05)



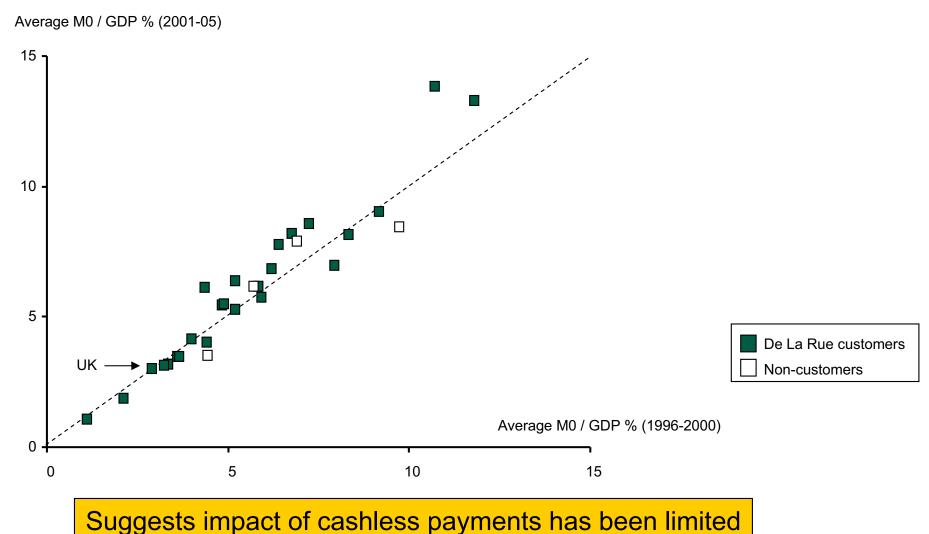
Source: De La Rue 2008

Copyright De La Rue 2008

## M0/GDP ratios remarkably stable over 1996 to 2005 time period



#### Drivers of issuance growth – change in M0 / GDP



Source: De La Rue 2008

Copyright De La Rue 2008

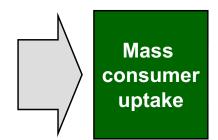
## Cashless payment: 'critical mass' effects are central to new payment technology take-up



#### Critical elements and dependencies for a new payment system

#### Strong consumer proposition

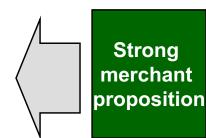
- Merchant acceptance at regular points of purchase
- Consumers have to find the payment form relatively attractive ...
- ... so payments should be free, very fast and relatively secure



 Wide-reaching distribution and a credible backing organisation are also likely to be required



 As for consumers, requires differentiated proposition and likely to require wide distribution and a credible backing organisation



- Existing consumer demand is important to justify the investment cost
- Ongoing costs to merchants have to be low
- Transaction speed and convenience can create high perceived value

Contactless ("Wave n' Pay") technology could offer strong consumer and merchant propositions, but uptake will depend on infrastructure development

Source: De La Rue 2008 Copyright De La Rue 2008

#### **Emerging non-cash technologies**





Mobile 'All-in-One' device



MasterCard, Visa & Amex



Mobile Operators as Banks? Customer ownership



Technology Hopping Mobile pener

Increasing complexity, tends to self-cannibalise



Home **Payments** 



Transport Oyster, Octopus, Parking etc...



Micro

Macro

Payment Handling



Near Field Communication

Copyright De La Rue 2008 Source: De La Rue 2008

#### De La Rue customers



- Central Banks
  - Printing
  - Counterfeit analysis
  - Currency management services
- State Printing Works (SPWs)
  - Paper
  - Overspill printing
  - Manufacturing consultancy
- State paper mills
  - Security threads
- Commercial printers and papermakers
  - Paper
  - Security Threads
  - Holograms

Our customers attach importance to:

Performance Relationship Technology

'Good customer care, reliable product, innovation, continued support even after delivery of order/product' Central Bank, Africa

> 'I'm proud of working with them for such a long period' Central Bank, Asia

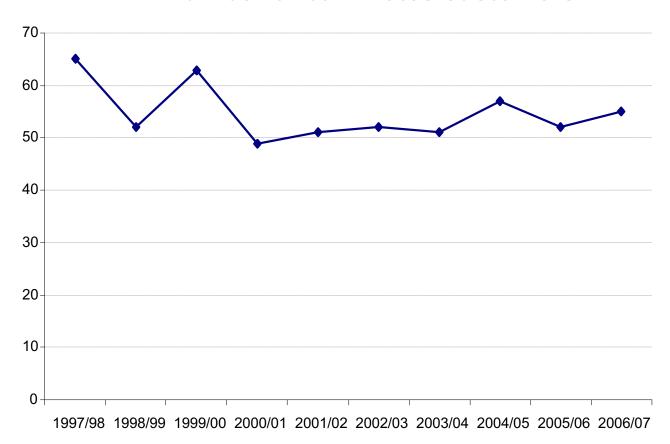
'For its high level of professionalism and technical leadership in the currency industry, as well as being highly responsive and flexible in its conduct of business' Issuing Authority, Far East

Source: De La Rue 2007 Copyright De La Rue 2008

#### Between 50 and 60 countries order banknotes every year



#### Number of banknotes customers



Source: De La Rue 2008

#### Closely monitored customer satisfaction





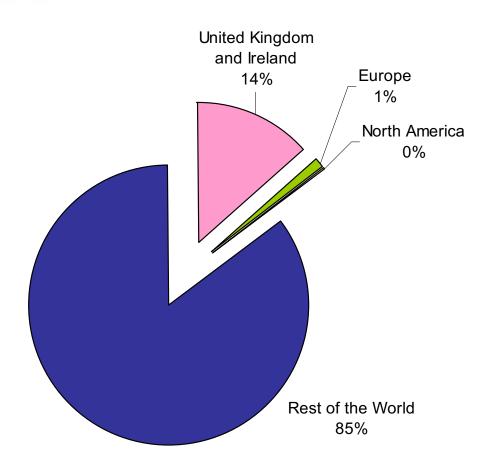
Importance
Satisfaction

High scores on all criteria

Source: De La Rue 2007 Copyright De La Rue 2008

#### **Geographical spread of Currency's customers**





85% in developing countries

Source: De La Rue 2008

Copyright De La Rue 2008

#### Maintaining a strong long term relationship



#### **Central Bank**

Governor

Deputy Governor Executive Directors

Head of Issue

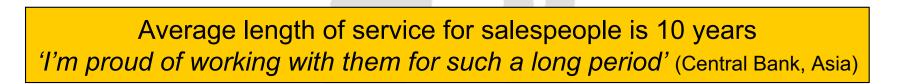
#### De La Rue

**Managing Director** 

**Director of Sales** 

**Area Sales Director** 

Regional Manager



#### The importance of innovation



#### The nature of counterfeiting has changed over last ten years

- Development of sophisticated and low cost digital reproduction technology (eg PC-based colour scanners & printers)
- Counterfeiters willing to undertake additional processes beyond replication of the printed image

However, cash remains more secure than cards and this is partly due to the industry's effort to constantly bring new security features to the market

- In 2007, the Bank of England took out of circulation 290,000 counterfeit banknotes with a total face value of £5.8 million<sup>1</sup>. In comparison, total card fraud in the UK reached £535 million in the same year<sup>2</sup>.
- A 2006 pan-European consumer survey reveals that 11% of adults polled across eight key European countries have had their card details stolen or used without their permission. This equates to around 22.8 million people, or the combined populations of Belgium and Sweden<sup>3</sup>.

Source:

1: Bank of England

2: APACS

3: ESTA (European Security Transport Association)

#### **Market leading security features**







#### Strong IP together with world class design



#### **Awards**

- April 2008: Bank of Scotland (BoS) awarded the International Banknote Society banknote of the year award for the £50 note
- May 2007: The National Bank of Kazakhstan won the International Association of Currency Affairs Award for the De La Rue designed and printed new family
- April 2007: Queen's Award for Enterprise: Innovation for StarChrome® security feature

# THE QUEEN'S AWARDS FOR ENTERPRISE: INNOVATION 2007

#### **Patents**

- 104 patent families relating to security document technology
- Typically c.13 new filings per annum

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# optiks



# Mark Jeffery Performance and Productivity

29 September 2008



#### **Currency: performance and productivity**



Our manufacturing strategy is key to our #1 position in the market

We continually upgrade our security, operational processes, assets and talent in order to create

- Security and Environmental Health
- New capacity through ongoing productivity
- New capability through ongoing investment

#### Security: core to our business strategy



- Formal security structure fundamentally reviewed and reports to newly appointed Divisional Security Director
- Physical site security upgrade programme underway
- Regular formal site audit programme upgraded
- Adoption of ECB and BoE compliance measures
- Enhanced global shipping security risk management process implemented

Security, Integrity and Trust

#### Capacity: a flexible factory portfolio



Westhoughton - 2003 Security Thread



Overton - 1995 Banknote Paper



Debden - 2003 Export & Local Print



Gateshead - 1964 Export & UK Print



Malta - 1975 Export Print



Sri Lanka - 1986 Export & Local Print



Kenya - 1994 Export & Local Print



#### Capacity: structured processes drive productivity



#### **KEY ACTIONS**

- Reduced make ready and change over times
- Reduced waste and spoilage
- Improved machine running speeds
- Introduction of structured operational processes



## Increase in productivity per employee 2003 vs. 2008

Kenya	+290%
Sri Lanka	+46%
Debden	+34%
Overton	+13%
Malta	+11%
Gateshead	+10%

#### Capacity: asset utilisation through structural change



#### **Typical process machinery running hours**

	2003	2008
Westhoughton		
Overton		
Gateshead		
Malta		
Sri Lanka		
Kenya		
Debden		

~76% utilisation in print

#### **KPIs drive the business**



- OEE (Overall Equipment Effectiveness)
  - Shows efficiency of plant utilisation
  - Encompasses uptime, quality and running speeds
- Quality
  - Customer complaints
  - Spoil and waste levels
- Delivery time
  - Percentage delivered against agreed delivery commitment (OTIF)
- Health and Safety
  - RIR (Reportable Injury Rate)
  - LTD (Lost Time Days)
- Environment
  - Overton mill and conformance to Environmental Agency targets

#### Case Study: Overton PM2 & PM3





£40m capital avoidance through productivity improvements on PM2 and PM3

#### Productivity is core to the culture of our company





Number
1,146

(incl. requests)

Projects being delivered

203 (approved projects)

Part 1 1
The Tracker

Part 2
The Funnel

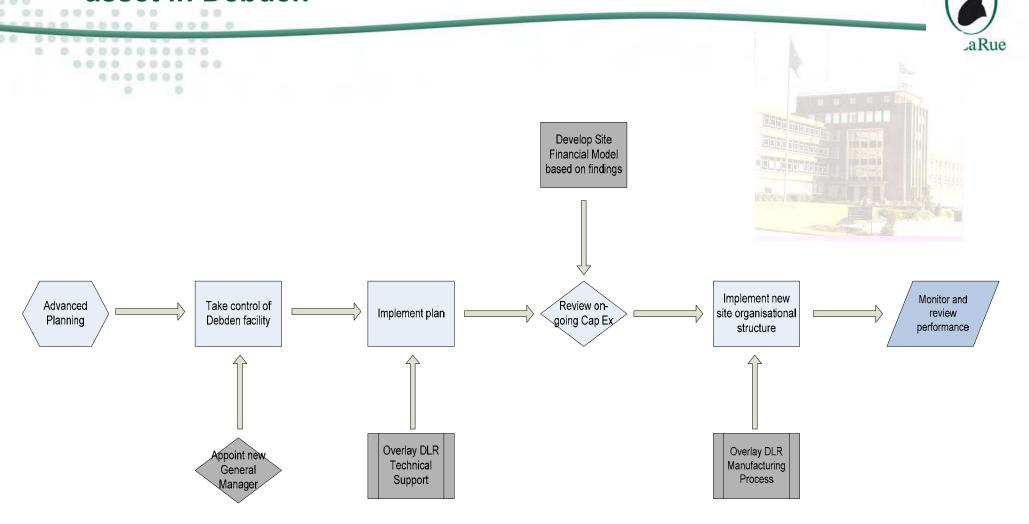
Value realised



Part 3
Celebrating Success
at Spotlight



## Case Study: 2003 acquisition of the Bank of England asset in Debden



Key elements were advanced planning, appropriate capital investment and rigorous implementation of standardised and proven De La Rue practices

#### Capability: capital investment has enhanced our capability



Location	Benefit
Westhoughton	✓ Process efficiency and enhanced features and products
Overton	✓ Durable papers, foils and iridescence features
Gateshead	<ul> <li>✓ Pre press efficiency and enhanced features</li> <li>✓ Process efficiency and new features</li> </ul>
Malta	✓ Print design capability ✓ Durable banknotes ✓ Features

We need the assets to be in line with our IP innovation



# James Thorburn Introduction to Identity Systems

29 September 2008



#### **Identity Systems overview**



#### De La Rue Plc

CurrencySales:<br/>Operating margin:<br/>Headcount:£316.7m<br/>25.1%

Security Products
Keith Brown

Sales: £74.8m
Operating margin: 13.1%
Headcount: 673

Identity SystemsSales:£26.5mJames ThorburnOperating margin:17.4%Headcount:84

Cash Processing Solutions
Kevin Freeguard

Sales: £58.4m
Operating margin: 1.7%
Headcount: 822

#### What does IDS do?



- Passports
- National ID cards
- Driving licences









- Implementation and support
- Data capture, personalisation and issuance systems (MIDIS<sup>TM</sup>, SIPS<sup>TM</sup>)
- Consumables laminates, inks
- Training

#### **Drivers affecting our market**



#### Double digit growth in the market

#### **Drivers of growth in identity market**

- Increased mobility and changing cross-border security environment (immigration, increasing mobility, terrorism)
- Continued drive to "e" and uptake of new "e"-technologies
- Social programmes large scale national ID card / driver's licence and healthcare programmes
- Voter registration
- Access control
- Identity fraud

#### **Potential Inhibitors**

- C Privacy concerns could cause backlash
- Interoperability
- Speed of introduction too fast for developing infrastructure?
- Growth of cards being used regionally in place of passports
- Costs of large ID initiatives (esp. biometrics)

#### What it takes to be successful in our markets





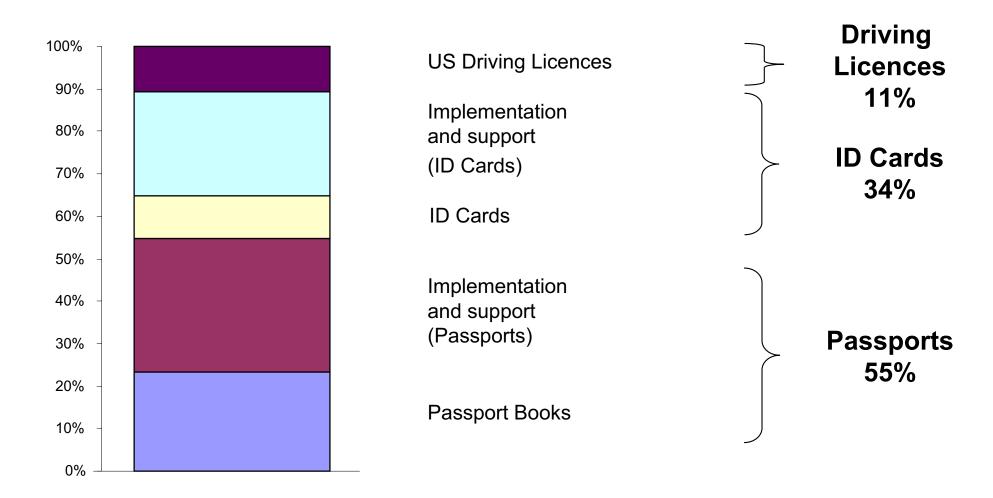
#### **Competitive success factors in identity market**

- 1. Brand and reputation
- 2. Local presence and representation
- 3. Right partners
- 4. Breadth of proposition and capability
- 5. Competitive pricing
- 6. Technologically up-to-date

Increasing importance



#### Breakdown of IDS 2007 revenues by category

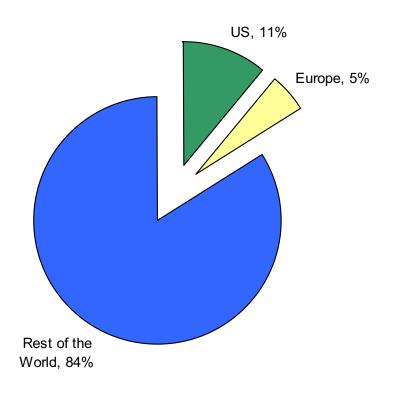


Source: De La Rue 2007 Copyright De La Rue 2008

## Where we sell our products



### Breakdown of IDS 2007 revenues by region



IDS focuses on 2<sup>nd</sup> and 3<sup>rd</sup> world countries which suit its core skills and make best use of Group capabilities

Source: De La Rue 2008 Copyright De La Rue 2008

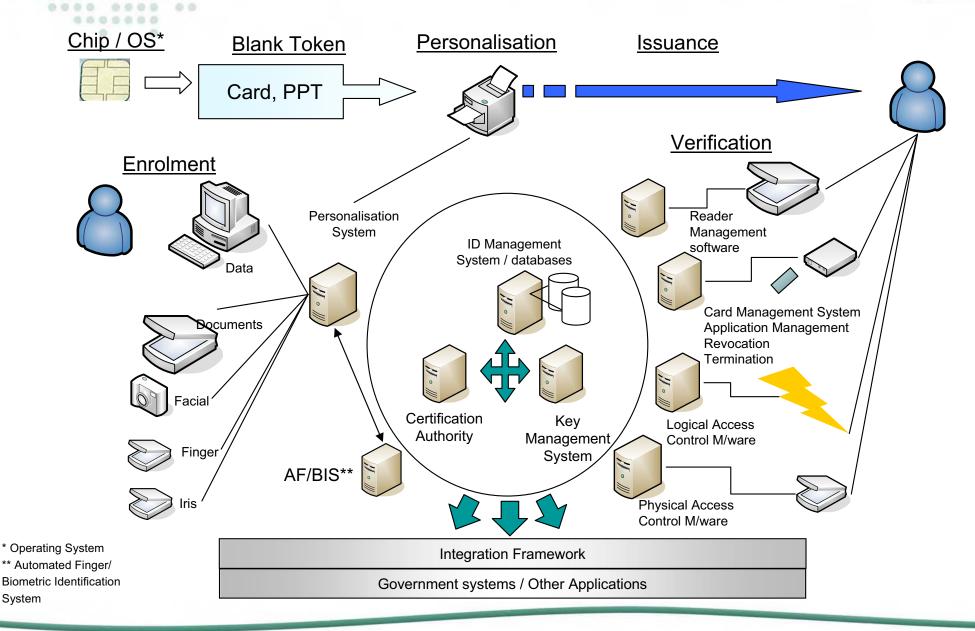
#### How we work with the rest of De La Rue



- Sales networks
- Manufacturing efficiencies and economies
- Materials sciences competence in security features
- Branding
- Group central resources

#### "Identity" is more than just a document





Source: De La Rue 2008 Copyright De La Rue 2008

#### Our focus is on creating a stable platform for growth



- Upgrading talent and increasing professionalism
- Strengthening leadership team
- Securing renewal of key contracts
- Driving innovation
- Developing operational resilience
- Investment in Malta
- Positioning for transition to ePassports and eID cards
  - Strong position in machine readable passports 35% share of "available" passport print market
- Developing ID card capability and proposition
- Developing service and implementation proposition

Copyright De La Rue 2008

### **NEW WIN: Complete identity solution offering for Malta**





- IDS' first complete integrated Passport and ID card solution
- Enhanced revenue stream secured for seven years
- European reference site
- Industry-leading EAC implementation

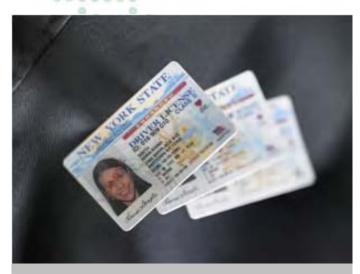
- Customer: Maltese government
  - Part of the Maltese e-Government National Identity Management System (NIDMS)
- Products:
  - ePassports and ePassport enrolment, personalisation and issuance
  - Biometric data capture
  - PKI (Public Key Infrastructure) solution
  - Border control system
  - Database integration into the Maltese e-Government framework

Go live: 1st October

End date: 2015

# NEW WIN: New York State driving licence contract renewal





- IDS innovation creating new solution to meet customer needs
- Enhanced revenue stream secured until 2013
- First chipped ID card developed in-house

- Customer: New York dept of motor vehicles
- Products:
  - Standard driving licences
  - New enhanced driving licence to meet the new Western Hemisphere Travel Initiative ("WHTI") requirements
  - Data capture and processing at 120 sites
  - Personalisation and issuance bureau
  - MIDIS software platform managing entire application, personalisation and issuance process
- Go live: 16<sup>th</sup> September
- Volumes: 5m documents per annum
- End date: 2013

# Build on our strengths to capitalise on opportunities in the identity market

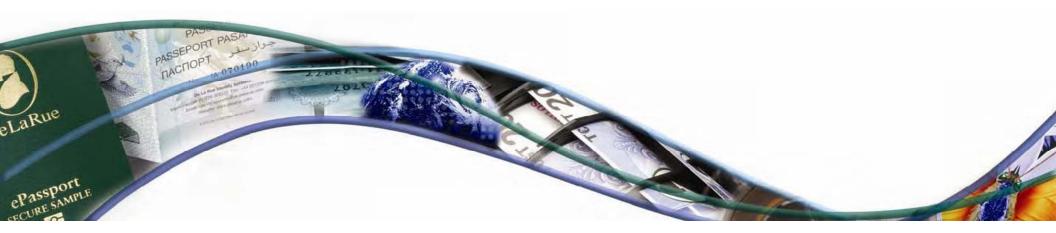


- Build on our core strengths
  - Our brand for security
  - Existing customer base
  - Growing market capabilities
  - Second and Third World sales networks
- To steadily capitalise on a growing market
  - Growth in e-Identity
- By
  - Developing sales channels
    - Position for e-Growth by winning MRP and ID sales
  - Innovating and developing our proposition
    - Material science innovation, leveraging Group R&D capability
    - Develop ePassport implementation capabilities
    - Develop ID card capabilities
  - Customer-focussed operational excellence
    - Quality and supply chain



# Keith Brown Introduction to Security Products

29 September 2008



### **Security Products overview**



## De La Rue Plc

Currency
James Hussey

Sales: £316.7m Operating margin: 25.1% Headcount: 2,134

Security Products
Keith Brown

Sales: £74.8m
Operating margin: 13.1%
Headcount: 673

Identity Systems
James Thorburn

Sales: £26.5m Operating margin: 17.4% Headcount: 84

Cash Processing Solutions
Kevin Freeguard

Sales: £58.4m Operating margin: 1.7% Headcount: 822

### **Security Products – what we do**



- The largest commercial security printer
- Brand licensing solutions and authentication labels
- Government documents
- Financial card holograms
- Internal components
- Travellers cheques
- Postage stamps
- Cheques



#### End user markets have distinct characteristics



- Customer groups
  - Governments
  - Multinational commercial organisations (software vendors, governing bodies, commercial banks)
- Growth trends

• (5-10% growth) Emerging segments: e.g. brand licensing

(5% growth)
 Growing segments: authentication labels, financial

cards, internal components

• (Up to 10% decline) Mature segments: travellers cheques and postage

stamps and cheques

Geographic markets

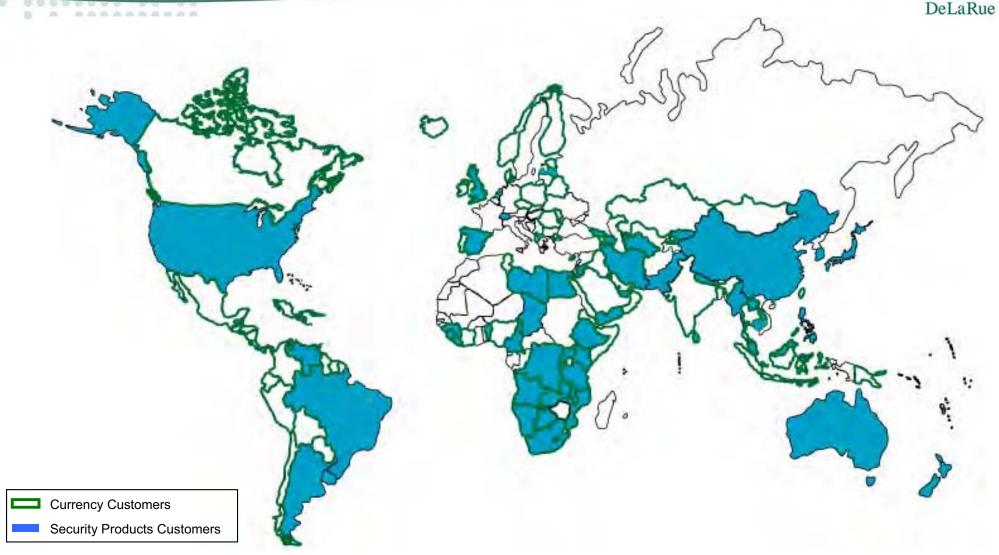
Developed Mainly commercial

Emerging Mainly government

Commonality: lumpy, "sticky", long term call-off contracts

#### Where we are





Further scope to leverage Currency customer base

#### Fragmented competition



- State printing works
- Traditional banknote players

Commercial printers

 New entrants, mainly around the track and trace technology

- Compete in own markets
- Wide range of technologies
- Global presence
- Lack of focus on non-banknote
- Cost competitive
- Lack the technology
- Local, trying to go regional
- Diverse component makers to IT providers
- None have the whole offer

No dominant competitor emerging

#### 2004 - 2007 phase 1: mitigation



#### Priority was rationalisation and cost reduction

Getting benefit from factory closures
 High Wycombe, Peterborough,

West Byfleet

Relocating strategic product lines
 Vouchers and internal components

to Nairobi

Reducing overhead costs
 Matrix to SBU structure

Exiting low margin / low growth business UK cheques, Irish JV

Improving operational effectivenessMy Contribution

Focus has been on sorting the business

### Impact of phase 1



#### Then:

UK centric site structure

- Wide product range, long tail, reliance on mature markets
- Uncertain future
- Loss making

#### Now:

- Facilities more evenly spread internationally; UK, US, Africa, Asia
- More focussed product range, weighted to growth markets
- Core business with clear growth strategy
- Profitable

Security Products has been turned around

### 2008 - 2012 phase 2: upgrading and targeting growth



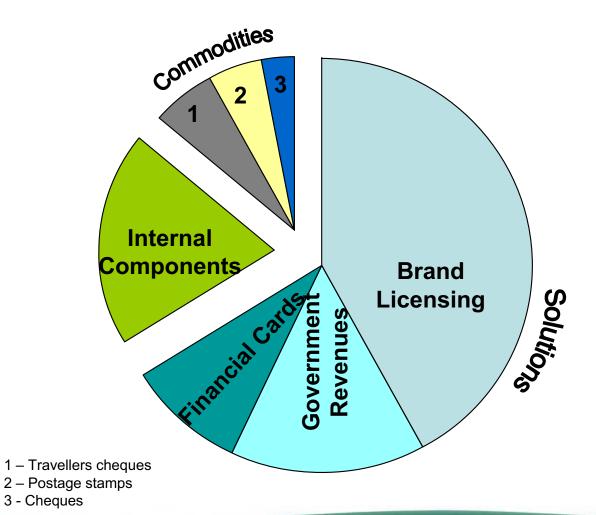
- The business is changing gear
  - From " grow profit by improving productivity"
  - To "grow profit by increasing sales"
- We have a number of target growth segments
  - Authentication labels and the related area of brand licensing
  - Government revenues, leveraging Currency
  - Component sales for internal use, including banknote holograms
- We will continue to upgrade capability
  - Invest in new technology to improve differentiation
  - Build service model, with long term contracts
  - Enhance workforce skills through training and selective recruitment
- We have ample scope for further productivity improvements
  - Leverage Group assets
  - Continue to reduce the cost of quality and deliver My Contribution savings

Well founded growth strategy

# Three activities – paper, print and holographics – focussed on a number of end markets



#### **End market split**



#### Market trends and drivers



### Government drivers



- Shift of taxation from direct to indirect
- Developing world markets catching up
- Identity and financial fraud affecting attitudes towards secure documents
- Local printers attempting to evolve into regional security players

#### **Commercial drivers**



- Diversion and counterfeiting activity in virtually all sectors
- Needs driven mainly by revenue losses, but also supply chain efficiencies
- Emergence of solutions providers



- •£300m available market growing 3% p.a.
- Fragmented market with no dominant player
- Increased growth comes from upgrades, new schemes and service contracts



- •£200m available market growing 3% p.a.
- De La Rue 12% share
- Signs that market is beginning to emerge

Commonality: the threat of counterfeit

#### **Product into solutions: brand licensing**



- Brand owners have concerns about counterfeit issues, collection of royalties and grey market trading
- Authentication labels brand owner controls the supply chain
  - Targeted at the counterfeit issue
- Brand licensing brand owner has outsourced or open supply chain
  - Targeted at the collection of royalties and / or countering grey market
  - Implementation can be at no cost to brand owner
- Brand licensing is the broader concept delivering
  - Authentication label
  - Tightly controlled supply chain
  - Tracking systems
  - Reporting tools



Business model has scope for rapid growth and wide application

### **Major synergies with Group**



- Brand
- Cross selling opportunities
- Internal component sales
- Intellectual property
- Footprint
- Processes

**Building on Group strengths** 

#### **Our future focus**



Today, Security Products has an efficient, profitable platform from which to exploit identified growth opportunities

- Building authentication labels and developing brand licensing
- Growing the government revenues business
- Leveraging our internal components opportunities

Security Products is now in the growth phase



# Andrew Vaughan Procurement and Supply Chain

29 September 2008



### De La Rue procurement strategy

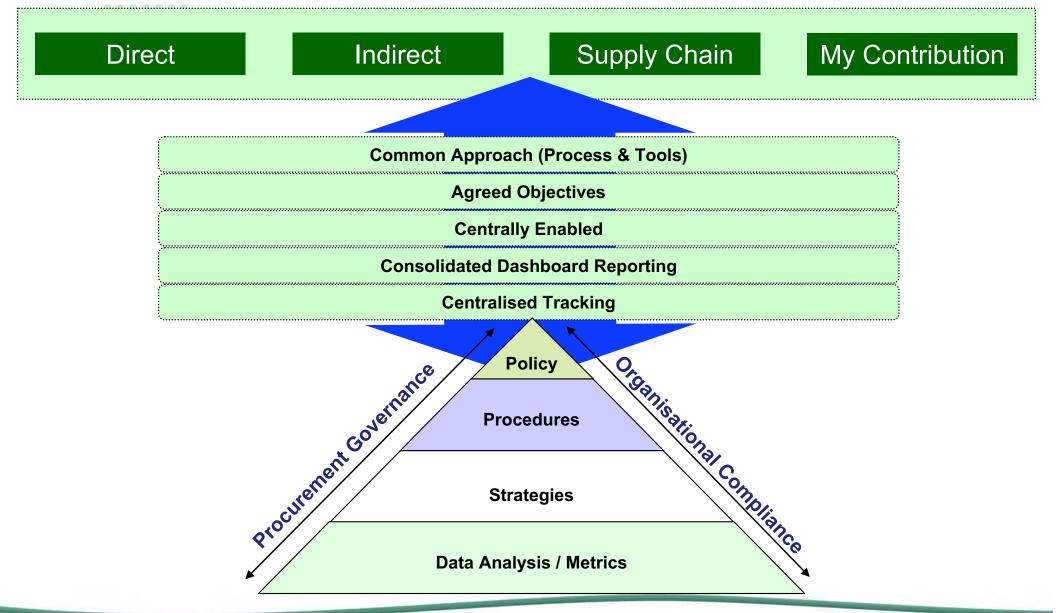


#### A dedicated procurement organisation with a well trained team:

- ✓ Aligned with the business needs
- ✓ Senior level support
- ✓ A strong productivity culture
- ✓ Activities conducted in a fair, objective and transparent manner
- ✓ A robust governance model ensuring spend is managed in a controlled manner compliant to the procurement policy
- ✓ Delivering the best possible cost of ownership to De La Rue

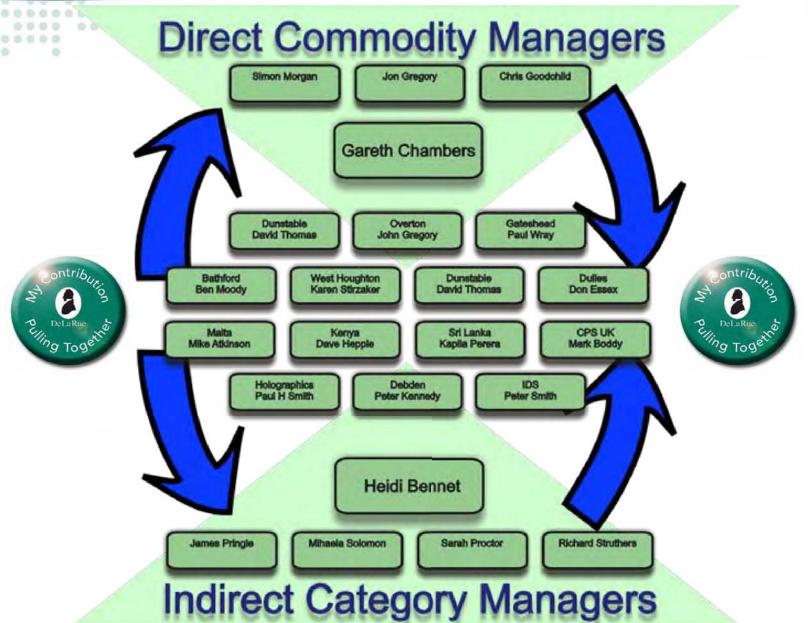
#### Governance: structure drives success





#### **Procurement Operating Model**





### Data availability: making "fast paced decisions"



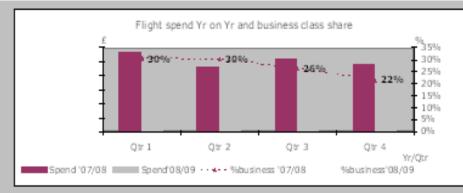


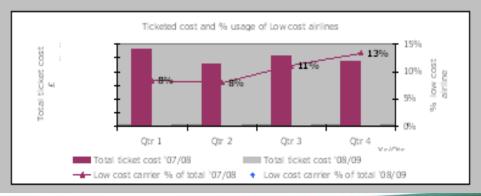
### Managing compliance: Travel dashboard



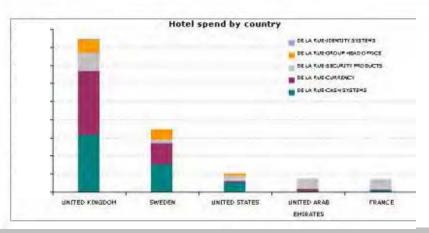
#### DOMESTIC / INTERNATIONAL

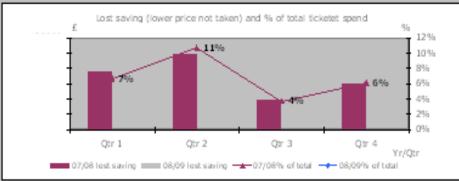
Domestic/ International	Business Unit Name	Hotel Room Nights	Hotel Booked Amount	Avg. room cost (GBP)	% of total hotel spend
DOMESTIC	DE LA RUE-CASH SYSTEMS	260			7%
	DE LA RUE-CURRENCY	215			8%
	DE LA RUE-GROUP HEAD OFFICE	49			2%
	DE LA RUE-IDENTITY SYSTEMS	6			0%
	DE LA RUE-SECURITY PRODUCTS	89			3%
DOMESTIC Total		619			19%
EUROPEAN	DE LA RUE-CASH SYSTEMS	107			4%
	DE LA RUE-CURRENCY	223			4%
	DE LA RUE-GROUP HEAD OFFICE	18			0%
	DE LA RUE-SECURITY PRODUCTS	201	-		7%
EUROPEAN Total		549			15%
INTERNATIONAL	DE LA RUE-CASH SYSTEMS	736	16		2196
	DE LA RUE-CURRENCY	775			22%
	DE LA RUE-GROUP HEAD OFFICE	223			6%
	DE LA RUE-SECURITY PRODUCTS	499			15%
INTERNATIONAL Total Grand Total		2,233			100%





#### **GEOGRAPHY**







#### **Spend Analysis**

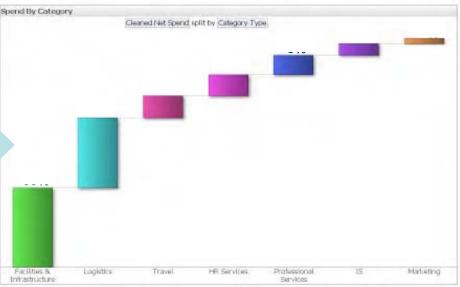


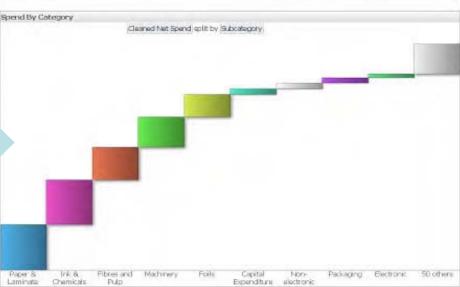
#### Indirect

- Ongoing identification and delivery of projects key to success
- Tailoring tools to deliver auctions, negotiation, tender, leverage
- Stakeholder engagement essential
- Supplier rationalisation and collaboration
- Internal back office process improvement

#### **Direct**

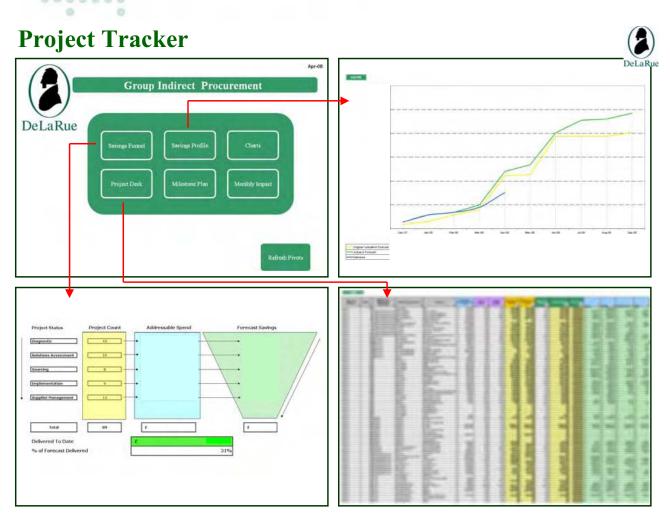
- Product quality
- Material availability driving on time delivery key to success
- Strategic relationships with key suppliers
- Ethical and social accountability control
- Effective commodity management





### **Maintaining the momentum**



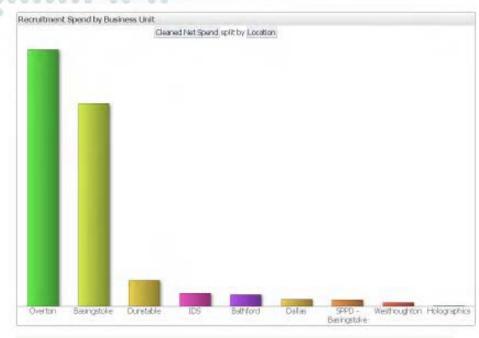




- Processes all the projects that are currently underway or planned
- Gives visibility to line managers

### Case Study – Recruitment





#### Procurement - eAuction driving best value



#### **Procurement Case Study**

- Spend includes permanent, temporary and executive search
- The eAuction delivered over 15% saving achieved through margin reduction
- Standard terms have been implemented across the supply base
- Spend compliance to the preferred suppliers is being measured
- Performance tracking dashboard to ensure the correct talent is available is also in place





## **WINNERS!**

Most Improved
Purchasing Operation Start-up

Chartered Institute of Purchasing and Supply Awards 2008







# Leo Quinn Summary and concluding remarks

29 September 2008



#### A clear route to further value 2009+



De La Rue will build on its position as the global #1 manufacturer and supplier of banknote printing and banknote paper to become a market leader in security features and authentication systems and products in payment and identity transactions for central banks, Governments and international corporations

#### Our six steps to value

- focus on security and authentication systems
- drive for high margins
- maintain superior cash conversion
- target related growth opportunities
- actively manage the balance sheet
- return surplus cash to shareholders